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FAVORITE 15

September 2024

Insights From Stifel's CIO Office

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THE FIVE THEMES

FOURTH INDUSTRIAL REVOLUTION

Technological innovation has broken down the boundaries between the physical, digital, and biological worlds.

Data as an Asset
|
Enhanced Computing
|
Smart World
|
Workforce Optimization

SECURING STRATEGIC RESOURCES

Companies and governments are prioritizing the development and protection of critical industries, resources, and services.

Food and Water Security
|
Modern Energy Systems
|
New Materials
|
Circular Economy

SHIFTING DEMOGRAPHICS

Changes in global population dynamics will bring about challenges and opportunities.

Millennials
|
Global Middle Class
|
Aging Population
|
Future of Health

THE NEW CONSUMER

Consumer preferences, expectations, and behavior are altering business models and corporate strategies.

Reimagined Convenience
|
Digitalization of Human Connectivity
|
Future of Finance
|
Future of Leisure

PRODUCTIVE COMPETITION

Rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy.

Power Play
|
Geopolitical Tensions
|
Space Race
|
Transforming Business Models

Get to Know Our Long-Term Investment Themes

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[Full Report](#)

AI REVOLUTION:
TRANSFORMING INDUSTRIES AND INVESTMENTS *(continued)*

INVESTMENT OPPORTUNITY

As long-term investors seeking to identify investment opportunities, we have as a primary focus how well a company aligns with one or more of our themes. Consider AI and the Fourth Industrial Revolution. Of course, technology firms that enable AI come to mind. However, our focus extends beyond just technology as we carefully evaluate companies and industries capable of integrating or disrupting with AI.

ENABLERS:
THE BACKBONE OF AI

These companies provide the essential infrastructure, tools, and support systems that empower the development and widespread adoption of AI technologies. From hardware manufacturers to data storage solutions, enablers form the backbone of the AI ecosystem.

INVESTMENT CONSIDERATIONS

Companies tied to semiconductors and semiconductor equipment, cloud computing, data storage, and cybersecurity.

INNOVATORS:
THE EVOLUTION OF AI

These are the companies that spearhead groundbreaking advancements in AI applications. Whether through cutting-edge algorithms, novel use cases, or new and improved user experiences, innovators drive the evolution of AI technology, contributing to its transformative impact across various industries.

INVESTMENT CONSIDERATIONS:

Leading companies with wide moats in software, IT services, and technology hardware.

DISRUPTORS:
THE REVOLUTION OF AI

These are the companies that harness the power of AI to revolutionize traditional business models and establish new competitive moats within their market. As they redefine norms and introduce novel approaches, disruptors capitalize on AI's potential to establish or reaffirm their market leadership position.

INVESTMENT CONSIDERATIONS:

Companies within healthcare, industrials, finance, and retail.

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S&P Manufacturing PMI

Monthly, Seasonally Adjusted, Index Values

Neutral level: 50

09/24: 47

ISM Manufacturing PMI

Monthly, Seasonally Adjusted, Index Values

Recession

09/24: 47.2
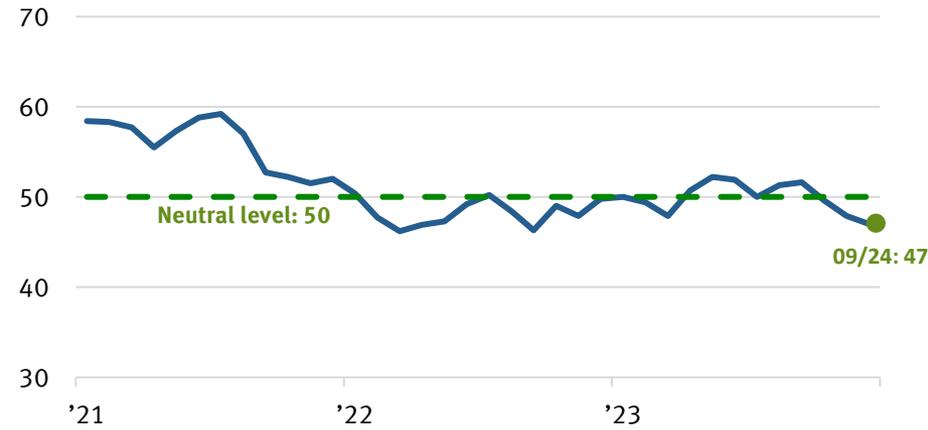
S&P Services PMI

Monthly, Seasonally Adjusted, Index Values

09/24: 55.4
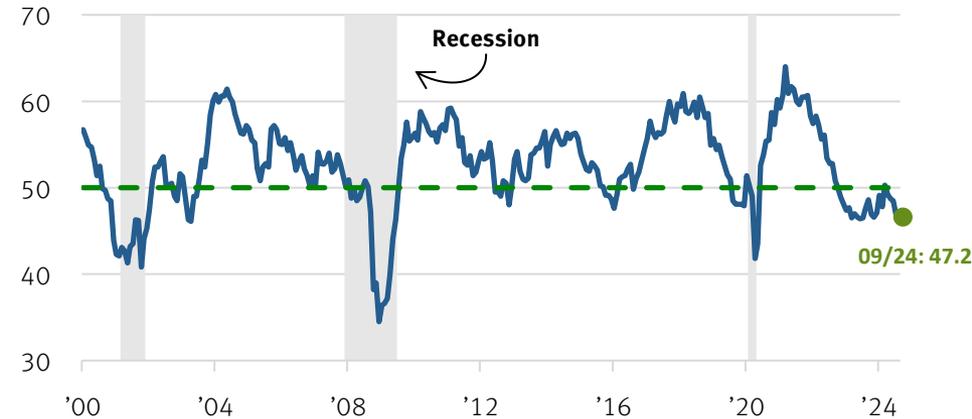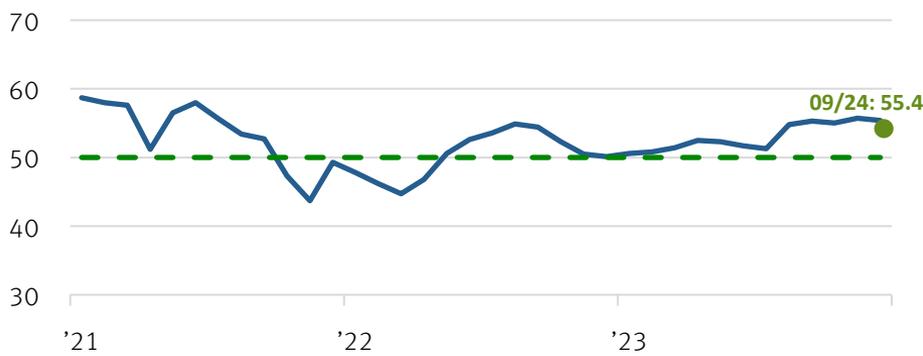
ISM Services PMI

Monthly, Seasonally Adjusted, Index Values

08/24: 51.5

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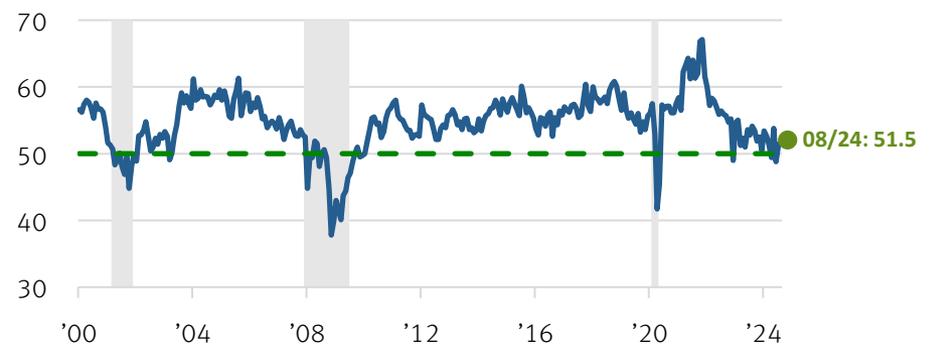
*Source: Stifel CIO Office and Bloomberg, as of September 27, 2024 * PMI = Purchasing Managers Index *PMI reading over 50 represents growth/expansion within manufacturing/service sector of the economy. A reading under 50 represents contraction.

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"The Uber **consumer is in great shape**. Our audience is spending on our services more frequently than ever. We **are not seeing softness or trading down** across any income cohort."
– Uber CEO Dara Khosrowshahi (August 6)

"Our core **consumer is financially strapped**. More consumers are resorting to credit cards for basic household needs, many of which anticipate missing a bill payment in the next six months."
– Dollar General CEO Todd Vasos (August 29)

"We have observed **a slowdown in consumer spending** this summer. Consumers may be **extending their budgets** and making choices around their spending habits."
– Church & Dwight CEO Matthew Thomas (August 2)

"The reduction of excess savings, interest rates, and inflation are **pressuring consumers' ability to spend**. Consumers are purchasing lower-priced items, buying less, and focusing on essentials… they are **more cautious with their spending**."
– Kroger Co. CEO Rodney McMullen (September 12)

"**Customers continue to trade down on price when they can.** Larger purchases, like computers and televisions, are growing more slowly than we see in a more robust economy."
– Amazon CEO Andy Jassy (August 1)

Higher interest rates and greater macroeconomic uncertainty **pressured consumer demand**, resulting in weaker spend across home improvement projects. There was also continued softness in spring projects.
– Home Depot CEO Edward Decker (August 13)

"We entered the second quarter with an expectation that discretionary spend would remain stable. As the quarter progressed, our **customer became more discriminating**, which we attribute to ongoing macroeconomic uncertainty and an increasingly complex news cycle."
– Macy's CEO Antony Spring (August 21)

"We experienced **more cautious consumer spending** during the second quarter. We are seeing a more **value-seeking customer** now versus our prior expectations."
– Bath & Body Works CEO Gina Boswell (August 28)

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Retail Sales MoM - 3-month Moving Average

Interest paid on Cons. Debt YoY %
- Non-mortgage debt
- Mortgage debt

- U. of Michigan Cons. Sentiment
- Conference Board Consumer Confidence - Expectations

University of Michigan Consumer Sentiment

% of balance delinquent 30+ days
- Auto
- Credit Card
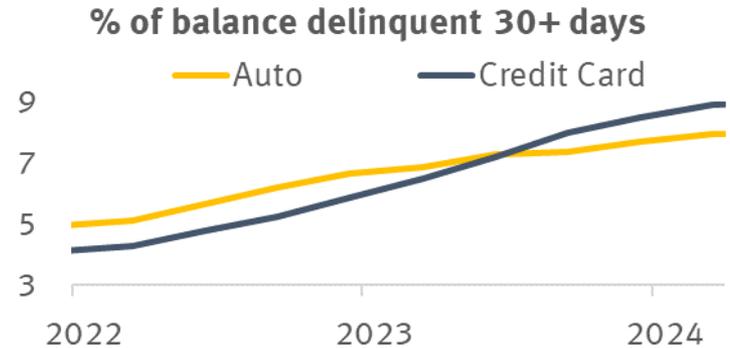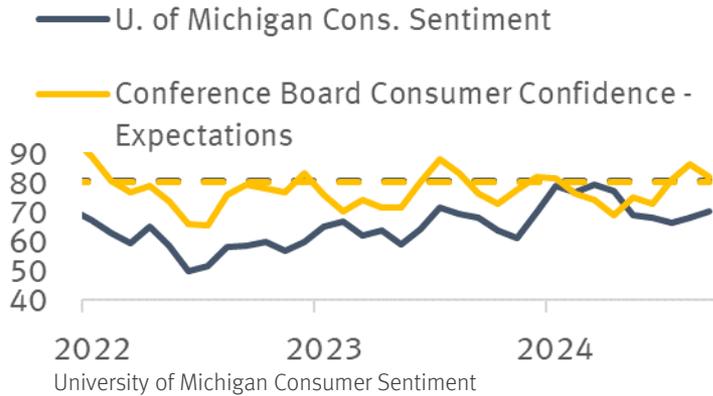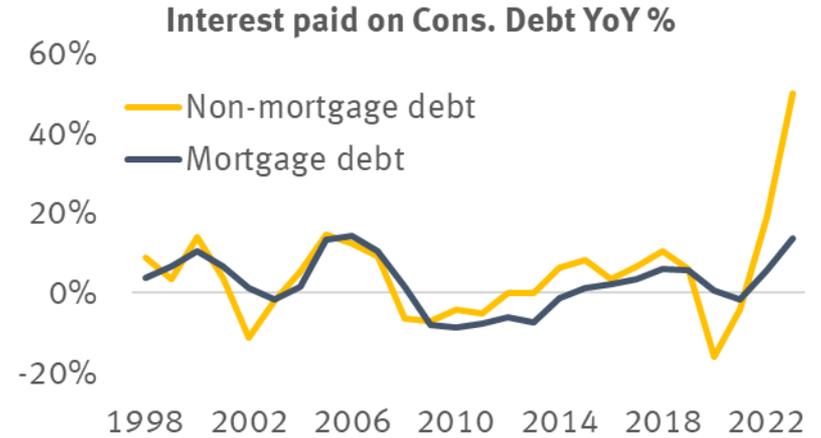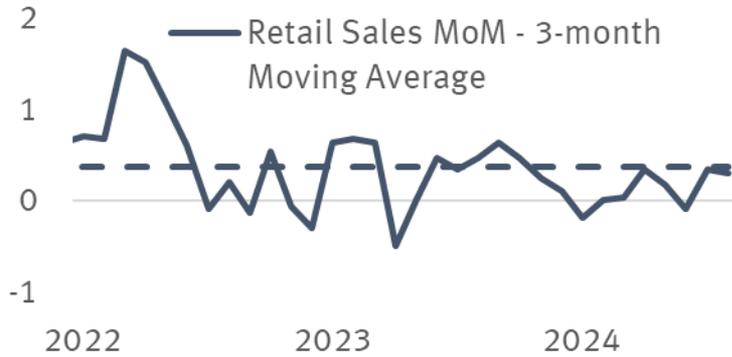
Source: Stifel CIO Office via Bloomberg, Bureau of Economic Analysis, and *The Wall Street Journal* as of September 27, 2024; Dashed lines represent historic averages except for Conf. Board Cons. Confidence Expectations. MoM = Month Over Month. YoY = Year Over Year; For interest paid on Consumer Debt, annual values are shown.

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- 1-year Break-Even: 0.8%
- 3-year Break-Even: 1.9%
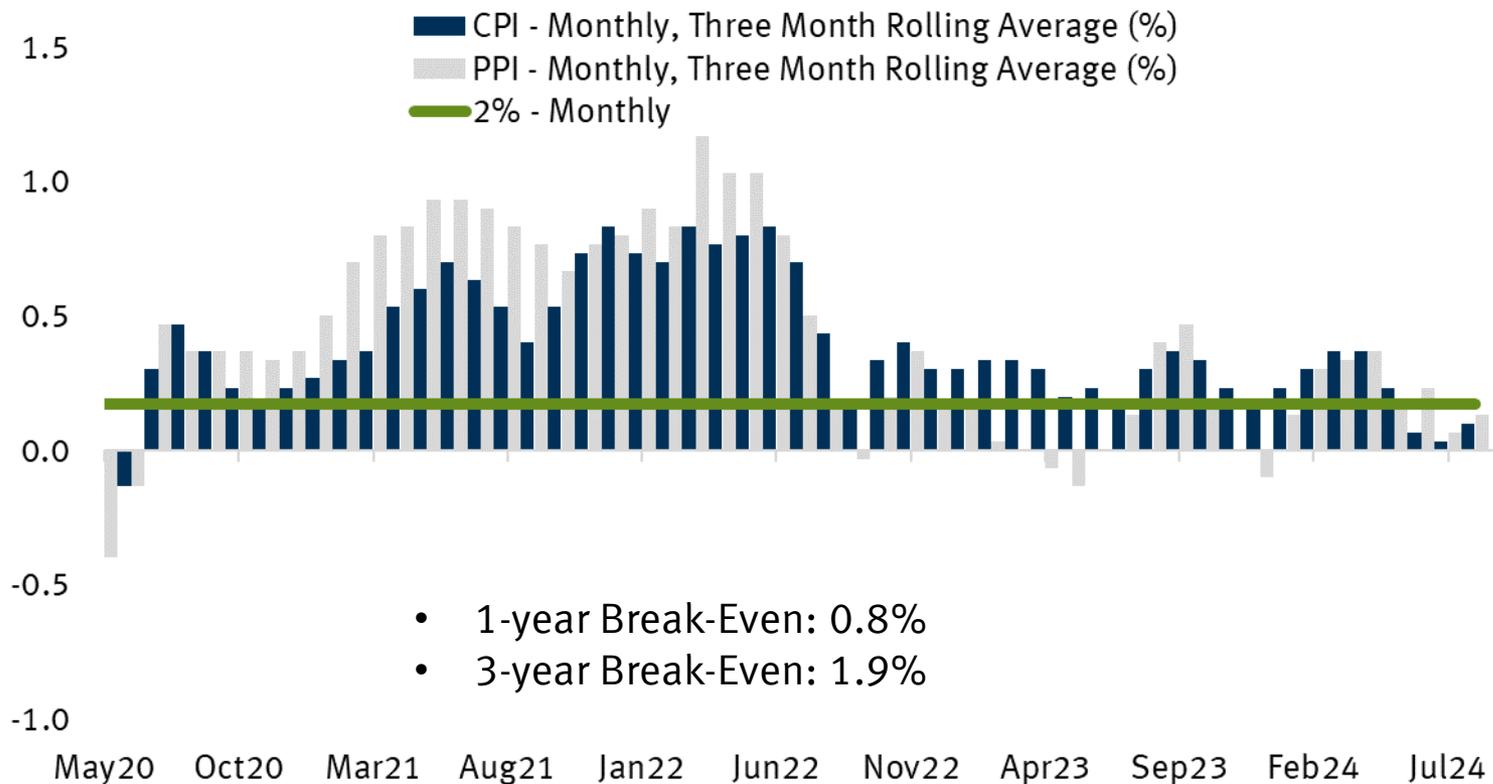
Source: Stifel CIO Office via Bloomberg, as of September 27, 2024
CPI = Consumer Price Index
PPI = Producer Price Index

Dovish Action – 0.5% cut

From the Statement

- "The Committee has gained greater confidence that inflation is moving sustainably toward 2%, and judges that the risks to achieving its employment and inflation goals are roughly in balance."

- "In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."

From the Press Conference

- "We now see the risks to achieving our employment and inflation goals as roughly in balance."

- "Our patient approach over the past year has paid dividends: Inflation is now much closer to our objective, and we have gained greater confidence that inflation is moving sustainably toward 2%."

- "We are not on any preset course. We will continue to make our decisions meeting by meeting."

Latest Summary of Economic Projections (SEP)

	PCE Inflation		Fed Funds		Real GDP	
	2024	2025	Rate	Long Run	2024	2025
June 24	2.6%	2.3%	5.1%	2.8%	2.1%	2.0%
September 24	2.3%	2.1%	4.4%	2.9%	2.0%	2.0%
Change	**-0.3%**	**-0.2%**	**-0.7%**	**0.1%**	**-0.1%**	**0.0%**

SEP Key Points:

- The median expectations for the funds rate reflect two more 0.25% cuts this year and four next year.

- The median projection shows a GDP growth rate of 2.0%, above the 1.8% long-term projection.

- The median expected unemployment rate is 4.4% at the end of this year and next.

- The median Core PCE Inflation projection is 2.6% for 2024, but 2.2% for 2025 and 2% for 2026.

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FOMC = Federal Open Market Committee
PCE = Personal Consumption Expenditures

Source: Stifel CIO Office

Federal Funds Rate Forecast for the End of 2024

Source: Stifel CIO Office via Federal Reserve and Bloomberg data, as of September 27, 2024

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Consensus GDP Estimates

Actual   3.0%   **Forecast**

1.4%	3.0%	1.7%	1.4%		2.5%	1.7%	2.1%
Q1'24	Q2'24	Q3'24	Q4'24		2024	2025	Long-term Trend

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What's the Most Important Issue to You?

	Total	"True" Independents
Inflation/prices	24%	34%
Jobs & the economy	13%	17%
Immigration	12%	5%
Health care	10%	9%
Abortion	7%	4%
Civil rights	6%	4%
Climate change/environment	6%	6%
Taxes and government spending	6%	4%
National security	3%	1%
Guns	3%	4%
Education	3%	4%
Crime	2%	5%
Civil liberties	2%	1%
Foreign policy	1%	1%
Criminal justice reform	1%	0%

source: The Economist/YouGov and Stifel Washington Policy Strategy

Prediction market probabilities of 2024 presidential election winner
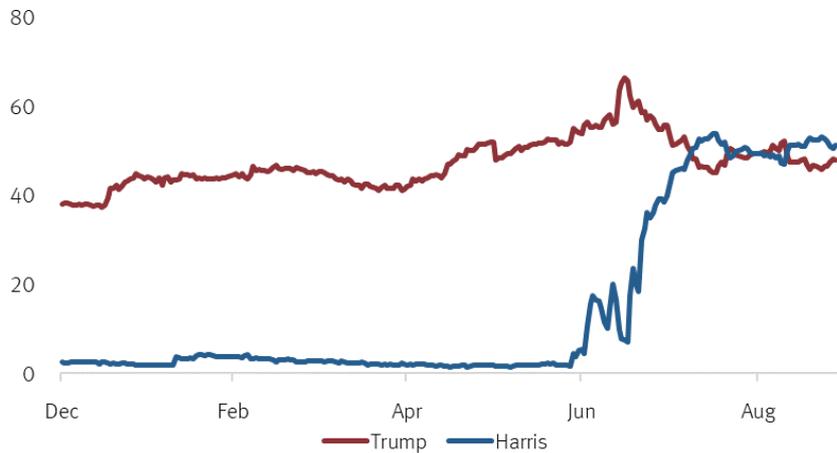
Source: RealClearPolitics via Bloomberg, Stifel CIO Office as of September 27, 2024

Prediction market odds of various presidential and congressional outcomes

Probability on June 26
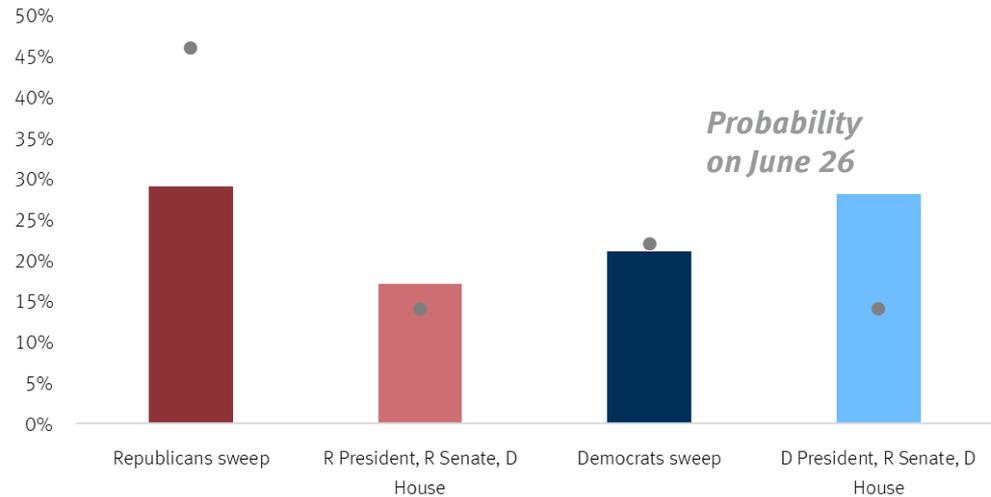
Source: Stifel CIO Office via Polymarket, as of September 27, 2024
Sum may not total 100% due to rounding.

U.S. Treasury yield curve

Oct. 19, 2023 (10-year Treasury peak)

Jul. 3, 2023 (Peak inversion*)

Sep. 25, 2024 (Current)

Aug. 4, 2020 (10-year Treasury trough)

4.2%   4.1%

3.9%
3.5%   3.5%   3.5%   3.7%   3.8%
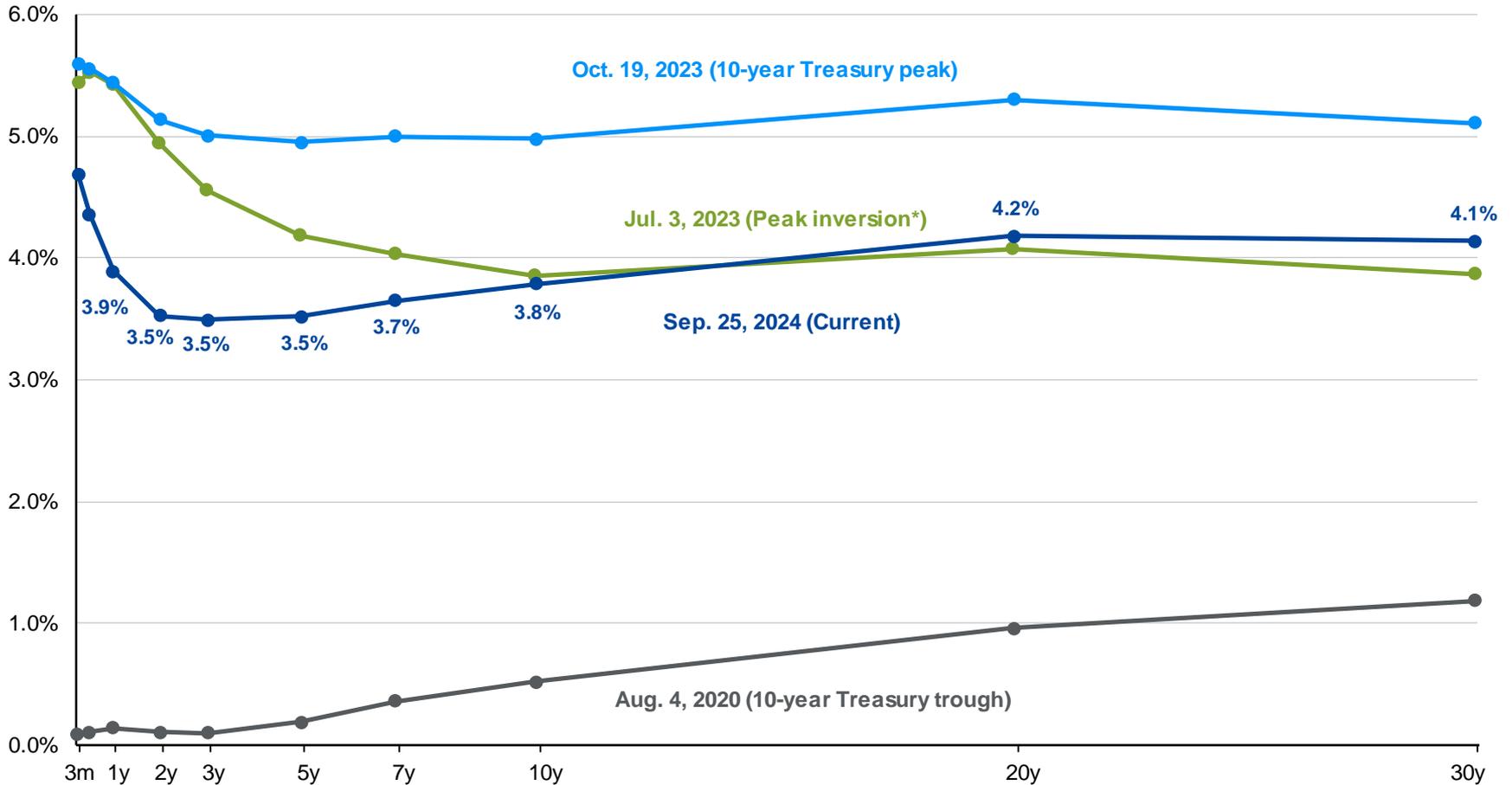
Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. Analysis references data back to 2020. *Peak inversion is measured by the spread between the yield on a 10-year Treasury and 2-year Treasury.

Guide to the Markets – U.S. Data are as of September 25, 2024.

S&P 500 Sector Weights and Estimated Earnings Growth YoY%

	Weight*	FY25
Tech.	**32%**	**20%**
Financials	**13%**	**9%**
Health Care	**12%**	**21%**
Cons. Disc.	**10%**	**14%**
Comm. Services	**9%**	**17%**
Industrials	**8%**	**16%**
Cons. Staples	**6%**	**7%**
Energy	**3%**	**12%**
Utilities	**3%**	**9%**
Materials	**2%**	**19%**
Real Estate	**2%**	**5%**
S&P 500		**15%**

*S&P 500 sector weights are shown. 4QF refers to the forecasted 2024 Q4 period.
Source: Stifel CIO Office via FactSet, J.P. Morgan Asset Management, as of September 27, 2024

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Index	2021	2022	2023	Dec 31 23 – Jul 10 24	Jul 10 24 – Sep 26 24
S&P 500 Index	28.7%	-18.1%	26.3%	19.0%	2.3%
S&P 500 Eq. Weight.	29.6%	-11.5%	13.8%	5.7%	8.4%
S&P 500 Financials	34.9%	-10.6%	12.1%	12.3%	7.8%
KBW Reg. Banking	36.7%	-6.9%	-0.4%	-6.9%	12.7%
Bloomberg U.S. 1000 Value	28.6%	-2.5%	9.4%	7.6%	6.9%
Bloomberg U.S. 1000 Growth	26.1%	-27.5%	36.1%	22.2%	0.8%
Bloomberg Magnificent 7	51.5%	-45.3%	107.0%	51.1%	-4.9%
NYSE FANG+ Index	17.7%	-40.0%	96.4%	40.8%	-6.6%
Bloomberg U.S. 2000	18.6%	-20.1%	17.1%	0.8%	8.6%
MSCI EAFE Index	11.3%	-14.5%	18.2%	7.8%	5.1%
MSCI EM Index	-2.5%	-20.1%	9.8%	10.3%	5.2%
Bloomberg U.S. Agg	-1.5%	-13.0%	5.5%	0.1%	4.3%

INDEX DESCRIPTIONS

Bloomberg U.S. Treasury Bills 1-3 Months Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have $250 million or more of outstanding face value.

Bloomberg U.S. Corporate IG Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Aggregate Corporate Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Corporate High Yield is an unmanaged index considered representative of fixed-rate, noninvestment-grade debt.

Bloomberg U.S. Government Bond Index is an unmanaged index considered representative of fixed-rate, investment-grade U.S. Government debt.

Bloomberg Global Aggregate This index provides a broad-based measure of the global investment-grade, fixed-rate debt market.

DXY Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

S&P 500 Equal Weight Index is the equal-weight version of the widely regarded Standard & Poor's 500 Index, which is generally considered representative of the U.S. large capitalization market. The index has the same constituents as the capitalization-weighted S&P 500, but each company in the index is allocated a fixed weight of 0.20% at each quarterly rebalancing.

S&P 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

Bloomberg U.S. 1000 Value Index provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Growth Index provides exposure to companies with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Index is a float market-cap-weighted benchmark of the 1000 most highly capitalized U.S. companies.

Bloomberg U.S. 2000 Index is a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg U.S. 3000 Index.

MSCI EAFE Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 914 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Morgan Stanley Market implied pace of hikes index (MSPOKE) is the number of Fed rate hikes in the 12 months following the first rate hike implied by the Eurodollar interest rate futures market.

MSCI World Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets.

Bloomberg Magnificent Seven Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS).

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INDEX DESCRIPTIONS

Wilshire 5000 Index is a market-capitalization-weighted index of the market value of all stocks actively traded in the United States.

VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

Cboe S&P 500 Dispersion Index (DSPX℠) measures the expected dispersion in the S&P 500® over the next 30 calendar days, as calculated from the prices of S&P 500 index options and the prices of single stock options of selected S&P 500 constituents, using a modified version of the VIX® methodology.

EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. According to STOXX, its goal is "to provide a blue-chip representation of Supersector leaders in the Eurozone."

Cash & Cash Equivalent is represented by the Bloomberg U.S. Treasury 3-6 months Bill Index, comprised of treasury bills issued by the U.S. government with less than one year to maturity.

U.S. Government Bonds is represented by the Bloomberg U.S. Government Bond Index, comprised of the U.S. Treasury and U.S. Agency indexes.

U.S. Corp IG Bonds is represented by the Bloomberg U.S. Corporate Bond Index, comprised of the investment grade, fixed-rate, taxable corporate bond market.

High-Yield Bonds is represented by the Bloomberg U.S. Corporate High Yield Bond Index, comprised of U.S. Dollar denominated, high-yield, fixed-rate corporate bond market securities.

U.S. LC (Large Cap) equities is represented by the Bloomberg U.S. 1000 Index, comprised of a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies.

U.S. SC (Small Cap) equities is represented by the Bloomberg U.S. 2000 Index, comprised of a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index.

Developed International Equities is represented by the MSCI EAFE Index, comprised of equity securities that belong to markets outside of the U.S. and Canada.

Emerging Markets Equities is represented by the MSCI EM Index, comprised of equity securities that belong to emerging markets.

Moderate Bench stands for moderate benchmark portfolio return which is a blended portfolio of stocks (60% weight, represented by MSCI AC World Index) and bonds (40% weight, represented by Bloomberg U.S. Agg Gov/Credit).

MSCI AC World Index is comprised of equity securities belonging to 23 developed markets and 24 emerging markets countries.

Bloomberg U.S. Government/Credit Bond Index is comprised investment grade, dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

KBW Nasdaq Regional Banking Index seeks to reflect the performance of U.S. companies that do business as regional banks of thrifts.

NYSE FANG+ Index is an equal-dollar weighted index designed to track the performance of highly-traded growth stocks of technology and tech-enabled companies in the technology, media & communications and consumer discretionary sectors such as Facebook, Apple, Amazon, Netflix, and Alphabet's Google.

NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only.

DISCLOSURES

Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

Alternative Investments or Non-Traditional Assets – Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, Hedge Funds, Venture Capital, Limited Partnerships, etc.

Real Estate – When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Commodities and Futures – The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Hedge Funds – Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

Venture Capital – Venture capital investments involve substantial risks. The risks associated with investing in companies in the start-up or expansion stages of development are greater than those of companies in later stages, because the companies' business concepts generally are unproven and the companies have little or no track record.

Limited Partnerships – Generally, limited partnership investments are suitable only for a narrow class of relatively sophisticated investors. Limited partnership investments may be speculative in nature and be subject to resale restrictions or illiquidity. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Bonds – When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds.

Duration – Duration is a measure of the sensitivity of the price – the value of principal – of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

Standard Deviation – Standard deviation is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set.

International and Emerging Markets – There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Private Equity – Private equity funds are not appropriate for all investors. Investors should be aware that private equity funds may contain speculative investment practices that can lead to a loss of the entire investment. Private equity funds may invest in entities in which no secondary market exists and, as such, may be highly illiquid. The funds are not required to provide periodic pricing or valuation information to investors and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information.

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DISCLOSURES CONTINUED

Short Positions – The investor should note that when a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker will demand more collateral and the manager might have to close out that short position at an inopportune time to limit any further losses.

Small Company Securities – Small company securities are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

Michael O'Keeffe, CFA
Chief Investment Officer

Sophia DiMartini
Investment Strategy Analyst

Nik Eftimov, CFA
*Director, Investment Management
& Guidance*

Bobby Lewit
Investment Strategy Analyst

Carlos Mieles, CFA
Senior Investment Strategist

Brian Moody
Senior Investment Strategist

David Motsonelidze, CFA
Director of Macro Strategy

Reagan Raley
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Arnez Rodriguez
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Dori Schwartz
Economist