

REWIRING
GROWTH

— OUTLOOK **2026** —

STIFEL

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A LETTER FROM OUR CHIEF INVESTMENT OFFICER



Michael P. O'Keeffe, CFA
Chief Investment Officer
Stifel

My team and I are very pleased to share our **Outlook 2026: Rewiring Growth**. This year's outlook is framed by a big question investors are being forced to answer in real time: *How quickly will artificial intelligence become a measurable driver of productivity gains and earnings growth?*

As always, we begin by reflecting on the past year. **2025 in Review** examines the economic and market developments that defined the year, a process that helps set the stage for this year's outlook.

Our theme for 2026 – **Rewiring Growth** – captures the idea that the drivers of economic expansion are being reconfigured, not only by technology, but also by policy choices, financing conditions, and a shifting global backdrop.

Artificial Intelligence: Runway for Growth examines how AI is moving from excitement to implementation, manifesting in capital spending plans, competitive strategy, and early, though uneven, efficiency gains.

With major policy debates converging and a midterm election approaching, our **Washington in a Midterm Election Year** features insights from Stifel's Chief Washington Policy Strategist, Brian Gardner, on the evolving policy environment and its potential market implications.

We also take a deeper look at a long-run constraint that's increasingly shaping the investing environment with **Fiscal Trajectory: Borrowed Time**. This article examines the scale of U.S. government deficits and debt, the growing sensitivity of the fiscal outlook to interest costs, and the range of plausible paths forward – from gradual policy adjustments to more disruptive outcomes that could influence growth, inflation, and market volatility.

In addition, we share several foundational perspectives including:

- An overview: **Our Investment Management Process**;
- An important foundation: **Stifel's Approach to Asset Allocation**; and
- Where to find our work: **Stifel Guidance**.

Finally, we present our **2026 Outlook**, offering three possible scenarios for the year ahead. Our base case is constructive for both the economy and the markets, supported by easing inflation, a supportive policy backdrop, and sustained investment tied to innovation, including AI. We also consider more optimistic and cautious scenarios, exploring how AI monetization, the consumer, and policy may shape the year ahead. **Allocation Insights: Building Resilient Portfolios** translates these views into portfolio guidance.

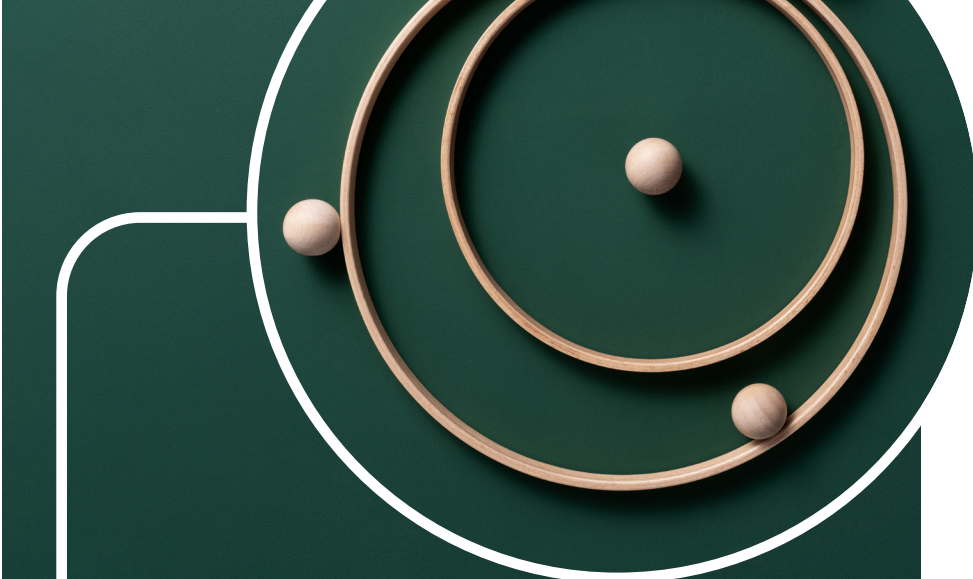
We hope you find our **Outlook 2026: Rewiring Growth** informative and helpful. We welcome, as always, your thoughts, observations, and comments. ■

A stylized, handwritten signature in black ink, appearing to read 'M. O'Keeffe'.

Michael P. O'Keeffe, CFA | Chief Investment Officer

AT A GLANCE: **OUR OUTLOOK REPORT**

- After several years of macro volatility, the global economy enters 2026 with a broad rewiring of growth underway. Growth is increasingly shaped by how capital is deployed, where production occurs, and how policy, technology, and geopolitics intersect.
- Artificial intelligence stands as the defining force of the decade, driving a powerful capital expenditure cycle that extends beyond technology into the physical economy.
- These investments are starting to recalibrate productivity assumptions, influence labor dynamics, and reshape earnings growth, while introducing new constraints around power, data, and infrastructure.
- The U.S. economy is on solid footing. Inflation has continued to cool, the labor market is normalizing, and the Federal Reserve is easing policy.
- Consumer resilience and sustained AI-driven investment underpin our base case outlook for continued expansion, with U.S. GDP growth expected to range from 1.75%-2.5%.
- AI remains a double-edged sword: a major source of upside through productivity gains, rising capital investment, and earnings growth, but also a key macro risk should adoption falter or the investment cycle slow materially.
- The U.S. consumer should continue to support economic growth in the year ahead, though spending is likely to remain segmented as the labor market softens modestly and unemployment drifts higher while remaining below recessionary thresholds.
- Policy and geopolitics remain critical swing factors. Trade, industrial policy, fiscal deficits, and leadership changes at the Fed all introduce uncertainty as the 2026 midterm elections approach. While headline volatility may fade from 2025 levels, policy execution will play a central role in shaping economic and market outcomes.
- We forecast a total return of approximately 10% for the S&P 500. The central narrative shifts from valuation expansion to earnings growth, as operating leverage improves and earnings broaden beyond the mega cap AI leaders.
- We expect rates to stabilize and the yield curve to modestly steepen as front-end rates decline. We expect the 10-year Treasury yield, which closed 2025 at 4.17%, to hold within a 4.0%-4.5% range.
- Rising government debt and interest costs are narrowing the margin for policy error. While a near-term crisis remains unlikely, the range of future outcomes — from gradual adjustment to more disruptive scenarios — reinforces the importance of diversification and disciplined portfolio construction.
- In a world defined by structural change — not a single macro inflection point — we believe diversified portfolios anchored to clear goals, quality assets, and thoughtful rebalancing are best positioned to navigate volatility while participating in long-term growth. ■



2025 IN REVIEW

The year began with big changes in D.C., as sweeping presidential executive orders and new policy directives tested investor sentiment.

Tension peaked during the short-lived tariff “Liberation Day” selloff, which briefly pushed equities to the edge of a bear market. Yet, as we had anticipated, the widely expected downturn never materialized. Instead, markets rebounded quickly and reached new all-time highs, supported by fresh trade agreements, growing optimism around artificial intelligence, and an improving earnings backdrop.

With inflation largely contained and the labor market steadily normalizing, the Federal Reserve continued its gradual rate-cutting cycle. Taken together, 2025 offered the clearest signs yet that a soft landing may finally be taking shape.

GRAVITY TAKES HOLD

Economic growth eased back toward a sustainable pace, with real GDP rising an estimated 2.0%-2.5%.

Consumer spending remained resilient, even as lower- and middle-income households grew more value conscious. The labor market continued to normalize, with unemployment drifting up to 4.6% from 4.1%, still low by historical standards. Job openings declined and wage growth decelerated toward a sustainable 3.5% pace. Business investment was mixed, tempered in traditional sectors but buoyed by ongoing investment in artificial intelligence infrastructure, which helped offset persistent weakness in housing.

THE MONETARY PIVOT

Tariffs dominated much of the economic debate. The average effective tariff rate jumped to 17% from just 2% at the end of 2024, but fears of inflation reigniting proved overstated.

Consumer prices rose 2.8%, above the Fed’s 2% target but below the anticipated 3%. Economists estimate that companies absorbed roughly two-thirds of the added costs while profit margins expanded to 12.9% from 12.3% a year ago. Businesses adapted by restructuring supply chains, automating logistics through AI, and selectively reducing headcount.

Against this backdrop, the Fed cut rates by 75 basis points to help steady growth and maintain momentum, shifting its focus toward the labor side of its dual mandate.

POLICY RECALIBRATION

President Trump signed more than 140 executive orders in his first 100 days, with roughly a quarter focused on protectionism or securing strategic resources – reinforcing an increasingly fractured geopolitical landscape.

The administration secured its first major legislative victory with the One Big Beautiful Bill Act (OBBBA), a comprehensive package spanning tax, trade, and infrastructure. Meanwhile, the longest government shutdown in U.S. history created a temporary economic data blackout, forcing investors to navigate without key indicators for several weeks.

Internationally, a Gaza ceasefire took effect, France’s prime minister resigned, and Japan appointed its first female prime minister. Meanwhile, nine of 10 G10 central banks cut rates, with the Bank of Japan as the lone exception.

DIVERSIFICATION DELIVERS

Volatility picked up, but diversified investors should be pleased with overall market performance. U.S. equities delivered their third consecutive year of double-digit gains. While the “Magnificent Seven” (M7) – Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla – continued to drive returns, 2025 also saw a resurgence in international equity markets. The bellwether 10-year Treasury yield drifted toward 4% on softer economic data and falling inflation expectations, even as Moody’s downgraded the U.S. credit rating.

- The S&P 500 gained 17.9% while the equal-weighted benchmark rose 11.4%.
- M7 stocks, now representing approximately 38% of market capitalization, were up 29%.
- S&P 500 earnings are estimated to have grown 12.3%.
- Non-U.S. equities rallied 32.4% in U.S. dollar terms.
- The Bloomberg U.S. Aggregate advanced 7.3%.
- Gold prices surged 64%, topping \$4,300 per ounce to end the year.



EVENTS THAT SHAPED THE YEAR

JANUARY 20 | *Inauguration Day*

President Trump starts his second term in office.

JANUARY 27 | *DeepSeek*

An open-source Chinese model that rivals top Western large language models is released.

FEBRUARY 21 | *America First Investment Policy*

The Trump administration issues a memorandum promoting investment in the U.S.

APRIL 2 | *Liberation Day*

President Trump announces reciprocal tariffs.

APRIL 9 | *The Pause*

A 90-day pause is enacted on certain reciprocal tariffs except China.

APRIL 14 | *\$500 Billion Commitment*

Nvidia announces plans to produce \$500 billion of AI infrastructure within the U.S. over four years.

MAY 12 | *China Negotiation*

A 90-day agreement to reduce reciprocal tariffs on China is announced.

MAY 16 | *The Downgrade*

Moody’s downgrades U.S. credit rating to Aa1.

JULY 4 | *OBBBA*

President Trump signs the One Big Beautiful Bill Act into law.

AUGUST 6 | *\$600 Billion Expansion*

Apple increases U.S. investment commitment.

AUGUST 22 | *The Stake*

Federal government announces a 10% stake in Intel.

SEPTEMBER 17 | *The Pivot*

The Fed delivers its first 25-basis-point cut of the year.

OCTOBER 8 | *The Plan*

Gaza ceasefire agreement plan is signed.

NOVEMBER 12 | *The Reopening*

Government shutdown ends after 43 days.

The background of the entire page is a composite image. It features a night view of a city with a prominent bridge, likely the Akashi Kaikyo Bridge, spanning a body of water. The city lights are visible in the distance. Overlaid on this image is a complex digital network of glowing blue nodes connected by thin lines, suggesting a global or technological theme. The title text is centered in the upper half of the image.

ARTIFICIAL INTELLIGENCE: **RUNWAY FOR GROWTH**

November 2022 marked a key inflection point in the history of artificial intelligence, and arguably for the global economy, when OpenAI launched ChatGPT, putting the power of a large language model into everyday users' hands. Since then, the rise of generative AI has redefined corporate priorities and become a dominant driver of market returns.

Companies building this new ecosystem have driven a substantial share of the S&P 500's capital investment, earnings growth, and gains, cementing AI as perhaps the defining theme of the decade. Yet we believe the true power of this transformation extends beyond markets to a technological revolution that will reshape how people work, create, and invest, unlocking a supercycle of productivity with multitrillion-dollar effects on global GDP.

The question is no longer if AI will change our world, but by how much – and how soon?

ARTIFICIAL INTELLIGENCE: RUNWAY FOR GROWTH

AI: A BUBBLE OR A RUNWAY FOR GROWTH?

Major studies are forecasting sizable global GDP gains from AI over the next couple of decades. McKinsey estimates the lift from generative AI could average \$2.6 trillion to \$4.4 trillion per year through 2040, while PwC projects global GDP could be approximately 14% higher by the early 2030s as adoption accelerates.

These gains are expected to materialize in two ways:

- Boosting productivity as AI automates tasks and augments workers, and
- Catalyzing new consumption and product innovation as personalized offerings reshape demand and open new markets.

Translating that potential into measured outcomes will take time. Thus far, the macro impact has been modest. While enthusiasm and investment have surged, monetization has lagged the headlines. Enterprise adoption remains nascent and uneven, with fewer than one in 10 firms reporting mature implementation. And broad productivity data show limited effects so far. Even so, some estimates suggest U.S. hyperscalers could invest up to approximately \$3 trillion cumulatively in AI infrastructure by the end of the decade.

This disconnect between soaring valuations versus still-early deployment raises a critical question: Are we in a bubble or on a runway for growth?

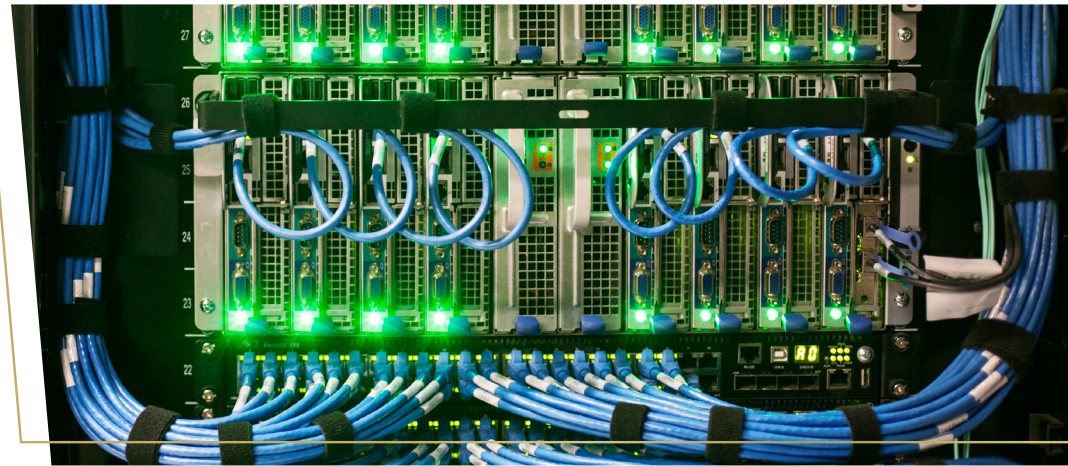
WHY WE SEE A RUNWAY FOR GROWTH

Like the internet and mobile computing before it, AI's emergence is being met with both enthusiasm and skepticism. There will be winners and losers, and not every early investment will succeed. Yet, unlike past innovation cycles, today's leaders generate substantial earnings and free cash flow and are funding investment largely with internally generated cash and strong balance sheets, not speculative debt.

Investments in AI infrastructure – compute (chips and systems), data centers, and power (generation and grid) – are laying the groundwork for innovation and growth over the coming decades.

History shows that even when early expectations overshoot, foundational investments often prove transformative. During the dot-com era, for example, fiber optic networks were vastly overbuilt, but that excess capacity later became the backbone of the internet and enabled cloud computing.

For AI, the challenge may be the opposite, as current infrastructure likely falls short of future demand. ChatGPT serves hundreds of millions of weekly users, with usage on a path to reach billions over time, and surveys show a large majority of employers expect AI to reshape their businesses by 2030. While some valuations may prove inflated, the broader AI ecosystem is anchored in a once-in-a-generation technological shift.



BUILDING THE BACKBONE

As we look ahead, leading model families (OpenAI's ChatGPT, Google's Gemini, Anthropic's Claude, Microsoft's Phi, Mistral AI, xAI's Grok, and Meta's Llama) are shaping the next phase of innovation. Building, training, and operating these systems requires extraordinary computing power, driving record demand for chips, data centers, and power.

ARTIFICIAL INTELLIGENCE: RUNWAY FOR GROWTH

Delivering AI at scale is a massive physical buildout:

- Training frontier models takes weeks to months, processing trillions of tokens across tens of thousands of high-performance processors.
- Once deployed, serving real-time requests for millions of users compounds the compute and power needs.
- A single AI query can consume ten times more power than a traditional web search.
- A single hyperscale data center can draw hundreds of megawatts – comparable to the power needs of a small city.

Power is the binding constraint in several markets. Without a foundational buildout of compute, data centers, and power capacity, the productivity and economic gains AI promises cannot be realized at scale.

2026: THE ACCELERATION PHASE BEGINS

Looking ahead to 2026, capital spending on infrastructure is poised to accelerate as companies race to secure the computing power required for increasingly advanced models.

However, with valuations of the mega cap tech leaders (the “Magnificent Seven”) near cycle highs, the risk of some disappointment is rising. Elevated expectations and concentrated investor positioning in certain areas can create vulnerabilities. Execution risks – such as earnings misses, deployment delays, slower enterprise adoption, or power constraints – may potentially trigger a market correction. We would view such a pullback as a healthy reset and an opportunity to add exposure to durable AI enablers.

AI ADOPTION: EARLY WINS, LONG RUNWAY

The near-term impact of AI will show up as productivity gains and cost efficiencies as organizations adopt a fast-improving generative AI toolset.



Early gains are emerging in software development, customer service, marketing, design, and back-office workflows, as AI automates repetitive work and augments human creativity.

For many, it’s still difficult to imagine AI’s full potential beyond chatbots and image generators. But AI’s impact will expand to touch every major sector, transforming how industries operate, compete, and create value. Below is a glimpse of how AI is set to reshape business models and give rise to new products and services.



Healthcare

- **Drug Discovery:** AI analyzes molecular data, predicts drug efficacy, and optimizes clinical trials, opening new frontiers in drug research.
- **Personalized Medicine:** AI analyzes massive genomic and health data sets to predict disease risk and recommend individualized treatments.
- **Robotic Surgery:** AI enhances precision in the operating room by analyzing real-time data to guide instruments and optimize movements.

ARTIFICIAL INTELLIGENCE: RUNWAY FOR GROWTH



Financials

- **Credit Scoring:** AI models evaluate vast and unconventional data to enable more accurate risk scoring.
- **Fraud Detection:** AI analyzes transaction patterns to spot irregularities, minimizing false positives and preventing losses.
- **Portfolio Optimization:** AI provides portfolio guidance in response to market conditions, optimizing allocations, managing risk, and potentially enhancing long-term returns.



Real Estate

- **Listing Descriptions:** AI creates optimized property listings by analyzing data, trends, and buyer preferences to attract the right audience.
- **Tenant Screening:** AI integrates credit, rental, and behavioral data to assess tenant reliability and risk with greater accuracy and consistency.
- **Virtual Staging:** AI design tools create lifelike renderings and virtual environments, helping buyers and investors experience spaces digitally and reduce staging costs.



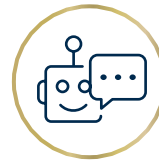
Consumer Discretionary

- **Forecasting:** AI models synthesize vast, real-time data to forecast demand more accurately, helping optimize inventory, pricing, and supply chain decisions.
- **Hyper-Personalized Commerce:** AI-driven insights where every shopper sees customized pricing, products, and experiences.
- **Customer Service:** AI-powered chatbots resolve issues, recommend products, and improve satisfaction while reducing service costs.



Industrials

- **Quality Control:** AI-driven computer vision systems detect manufacturing defects faster and with higher accuracy than manual inspection.
- **Robot-Assisted Assembly:** AI-guided robots perform complex assembly tasks, improving precision, speed, and safety across factory floors.
- **Predictive Maintenance:** AI models analyze sensor data to forecast potential failures, minimizing costly downtime and extending asset lifespans.



Information Technology

- **AI Agents:** AI accountants, lawyers, doctors, educators, and travel agents.
- **Software Development:** Generative AI writes and debugs code, accelerating release cycles and innovation.
- **Cybersecurity:** AI-powered security systems detect, predict, and neutralize threats in real time.

AI is becoming the foundation of a new economic era. The buildout of compute, data centers, and power is enabling breakthroughs across every sector, from healthcare and finance to real estate and industrials. As AI integrates deeper into the global economy, its impact will extend far beyond productivity, fueling innovation, accelerating scientific discovery, and transforming how businesses create value. Over the next decade, the focus will shift from merely enhancing efficiency to harnessing AI's transformative potential, unlocking new frontiers of growth, reshaping industries, and pushing the boundaries of human potential. ■

OUR FIVE LONG-TERM INVESTMENT THEMES

Anticipating the megatrends influencing the economy and markets is a cornerstone for successful investing. Our major investment themes are **five interrelated megatrends that are likely to influence the direction of the economy and markets longer term**. These themes impact all aspects of our world, including shaping the way we live, interact with each other, and consume goods and services.



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

Continental Shift



SHIFTING DEMOGRAPHICS

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

Millennials

Global Middle Class

Longevity Leap

Future of Health



THE NEW CONSUMER

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

Reimagined Convenience

Digitalization of Human Connectivity

Future of Finance

Future of Leisure



PRODUCTIVE COMPETITION

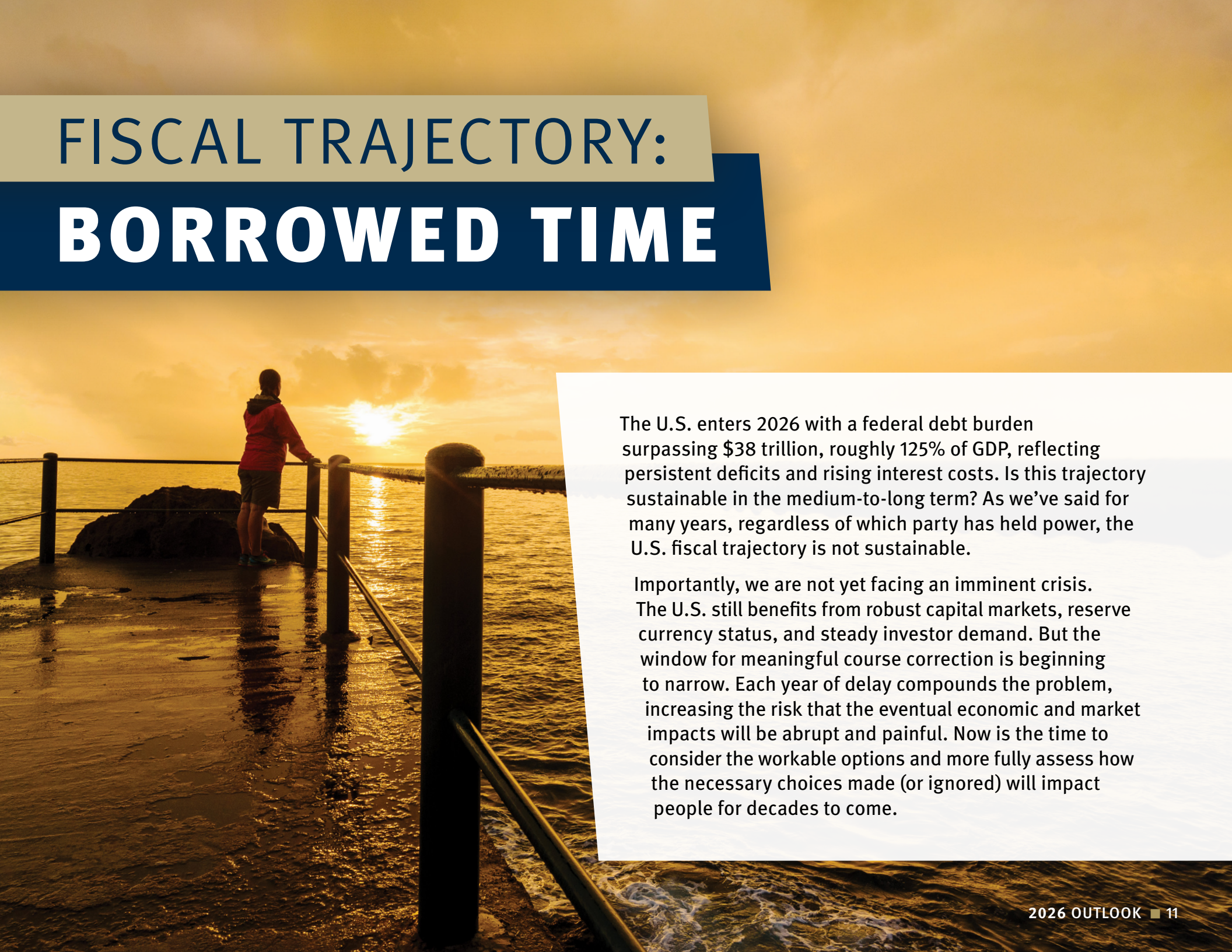
Rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy.

Geopolitical Tensions

Defense Modernization

Space Race

Transforming Business Models

A person in a red jacket stands on a pier, looking out at the ocean during a sunset. The sun is low on the horizon, casting a golden glow over the water and sky. The pier has a metal railing, and the water is calm with some ripples.

FISCAL TRAJECTORY: **BORROWED TIME**

The U.S. enters 2026 with a federal debt burden surpassing \$38 trillion, roughly 125% of GDP, reflecting persistent deficits and rising interest costs. Is this trajectory sustainable in the medium-to-long term? As we've said for many years, regardless of which party has held power, the U.S. fiscal trajectory is not sustainable.

Importantly, we are not yet facing an imminent crisis. The U.S. still benefits from robust capital markets, reserve currency status, and steady investor demand. But the window for meaningful course correction is beginning to narrow. Each year of delay compounds the problem, increasing the risk that the eventual economic and market impacts will be abrupt and painful. Now is the time to consider the workable options and more fully assess how the necessary choices made (or ignored) will impact people for decades to come.

FISCAL TRAJECTORY: **BORROWED TIME**

THE STATE OF THE FISCAL UNION

The U.S. has carried public debt since its founding. Debt from the Revolutionary War, borrowed to finance the fight for independence, totaled about \$75 million.

After World War II, the debt load declined for decades. From the late 1940s through the 1970s, strong postwar growth, low interest rates, moderate inflation, and restrained budgets steadily reduced the debt-to-GDP ratio from over 100% to roughly 25%.

That trend reversed in the 1980s as tax cuts, higher defense spending, and slower growth produced persistent deficits that were modest by today's standards. The nation entered the new millennium with about \$5.7 trillion in debt – roughly 57% of GDP, a workable level, in our view. Since then, outsized government support after the Great Recession and the pandemic has been a primary driver of today's record deficit and debt levels, with other factors, including increased military spending and rising entitlement costs, adding to the upward trend.

When is government debt “sustainable?” In principle, sustainable debt means the economy can continue to grow while the government services its obligations – paying interest and principal – without eroding economic growth, long-term stability, or investor confidence.

While specific levels are always subject to debate, some studies outline sustainable debt and deficit levels as a share of GDP, generally targeting a reduction in U.S. debt to 60%-80% of GDP and a deficit at or below 3% of GDP. To review, the current debt sits at 125% of GDP, and deficits have been averaging 6% of GDP since 2009. We have a long way to go.



FORCES SHAPING THE PATH AHEAD

The path ahead will be influenced by the strength or weakness of economic growth, interest rate levels, inflation, and the will of elected officials from both parties to summon the political courage to cut spending and selectively raise taxes.

Strong growth can ease fiscal strain, while slower expansion magnifies it. Higher interest rates increase debt servicing costs, and inflation – though it can erode debt in real terms – risks undermining credibility. Above all, political cohesion will determine whether reform occurs through leadership or market pressure.

Taken together, these factors will set the course for whether the nation can gradually restore balance or drift toward a more disruptive adjustment. While many outcomes are possible, we've outlined four representative scenarios that illustrate how different combinations of growth, inflation, interest rates, and policy choices could influence the nation's trajectory.

BASELINE DRIFT: *MANAGED IMBALANCE*

In this scenario, the U.S. continues to operate under a state of managed imbalance: persistent large deficits and limited reform, but ongoing market tolerance. Policymakers defer substantive fiscal adjustments, relying instead on steady economic growth, moderate inflation, and continued global demand for Treasuries to finance large deficits. Debt rises gradually, yet markets remain largely undisturbed.

The economy grows near its long-term trend, supported by resilient consumption and private investment. However, higher structural deficits leave the government with less room to respond to future shocks. Any downturn or recession would constrain its ability to issue additional debt without risking a sharper rise in yields or political friction over borrowing limits.

Interest costs continue to climb as rates normalize above pre-pandemic levels, consuming a larger share of the budget and crowding out discretionary spending. Still, the dollar's reserve currency status and the depth of U.S. capital markets sustain investor confidence, postponing the need for immediate consolidation. The result is a slow-burn fiscal trajectory – a gradual erosion of flexibility that leads to a sharper reckoning down the road.

DISCIPLINED STABILIZATION: *REFORM BY NECESSITY*

A period of market volatility and rising borrowing costs delivers a wake-up call to Washington. Market pressure and voter concern make inaction untenable, compelling politicians to act. The result is not austerity by choice, but reform by necessity – adjustment undertaken to preserve credibility and restore confidence in U.S. policy.

Under this scenario, politicians implement a mix of targeted spending restraints and moderate tax increases to slow the debt trajectory. Entitlement reforms are incremental but credible, helping to stabilize debt near current levels over the medium term. After a period of increased volatility and fear, fiscal adjustment improves investor confidence as markets calm, rewarding discipline with lower risk premiums and steadier yields.

Economic growth softens initially as stimulus wanes, but private investment and improving productivity help the economy recover to its long-term trend. The political narrative shifts from crisis avoidance to restoring stability – a recognition that gradual repair is preferable to forced correction.



FISCAL TRAJECTORY: **BORROWED TIME**



CRISIS SPIRAL: DISCIPLINE THROUGH SHOCK

In this most severe scenario, fiscal and political pressures converge to trigger a full loss of market confidence. Persistent deficits, rising interest costs, and years of gridlock lead to investors losing faith in U.S. fiscal policy. Treasury issuance outpaces demand, yields spike, and risk premiums surge, forcing an abrupt tightening of financial conditions.

The economy slips into a deep recession – potentially even a depression – as higher borrowing costs, contracting credit, and collapsing confidence feed a downward spiral. Unemployment rises sharply, business investment stalls, and asset prices decline. The fiscal imbalance begins to correct only through painful adjustment. Markets impose the discipline that policymakers could not, driving forced austerity and emergency monetary intervention.

Structural headwinds amplify the downturn. Protectionism and geopolitical tensions constrain trade, while an aging population reduces labor supply and increases the burden on the remaining workforce. Productivity gains from artificial intelligence and automation soften the blow but fall short of offsetting the magnitude of contraction. The U.S.’s role as a global anchor is challenged by rising powers and the dollar’s safe-haven status is at serious risk.

GROWTH RENAISSANCE: A PRODUCTIVE ESCAPE

The most durable and least disruptive path to fiscal stability is one powered by sustained growth and innovation, coupled with fiscal discipline. Years of investment in artificial intelligence, automation, and advanced manufacturing lifts productivity across the economy, setting the stage for lasting improvements in potential growth. As these technologies are deployed further, firms produce more with less effort, expanding capacity and raising efficiency.

A small productivity gain – comparable to the digital revolution of the 1990s – could lift long-term GDP growth from roughly the currently forecasted rate of 1.8% to the 2.5%-3.0% range. The fiscal implications of such a shift are profound. According to a May 2025 analysis by the Congressional Budget Office, a sustained 0.5 percentage point increase in annual productivity growth would cause federal debt in 2055 to fall to 113% of GDP, a dramatic improvement from the baseline projection of 156%.

This “productive escape” reflects an economy adjusting through growth more than austerity. Rising investment, reshoring, and innovation support real income growth and competitiveness, while efficiency gains help anchor inflation near the Fed’s target and renew confidence in U.S. leadership.

Still, even under this favorable scenario, stronger growth alone would not return public finances to fully sustainable levels. It would move the nation toward a more reasonable and manageable fiscal position, but lasting sustainability would also require the political will to enact structural change – balancing taxation and spending, with the potential for entitlement reforms.

FISCAL TRAJECTORY: **BORROWED TIME**

WHAT CAN INVESTORS DO?

Market turning points, especially those driven by an unknown or troublesome fiscal trajectory, are difficult to time. Yet their portfolio impact can be swift, making diversification paramount.

Three of the four scenarios present varying degrees of downside risk, underscoring the importance of asset allocation. We believe investors should focus on diversification, quality investments, and prudent risk management. Equities with strong balance sheets and durable cash flows, fixed income tilted toward higher-quality issuers, and selective real assets and alternatives can all help navigate shifting policy environments.

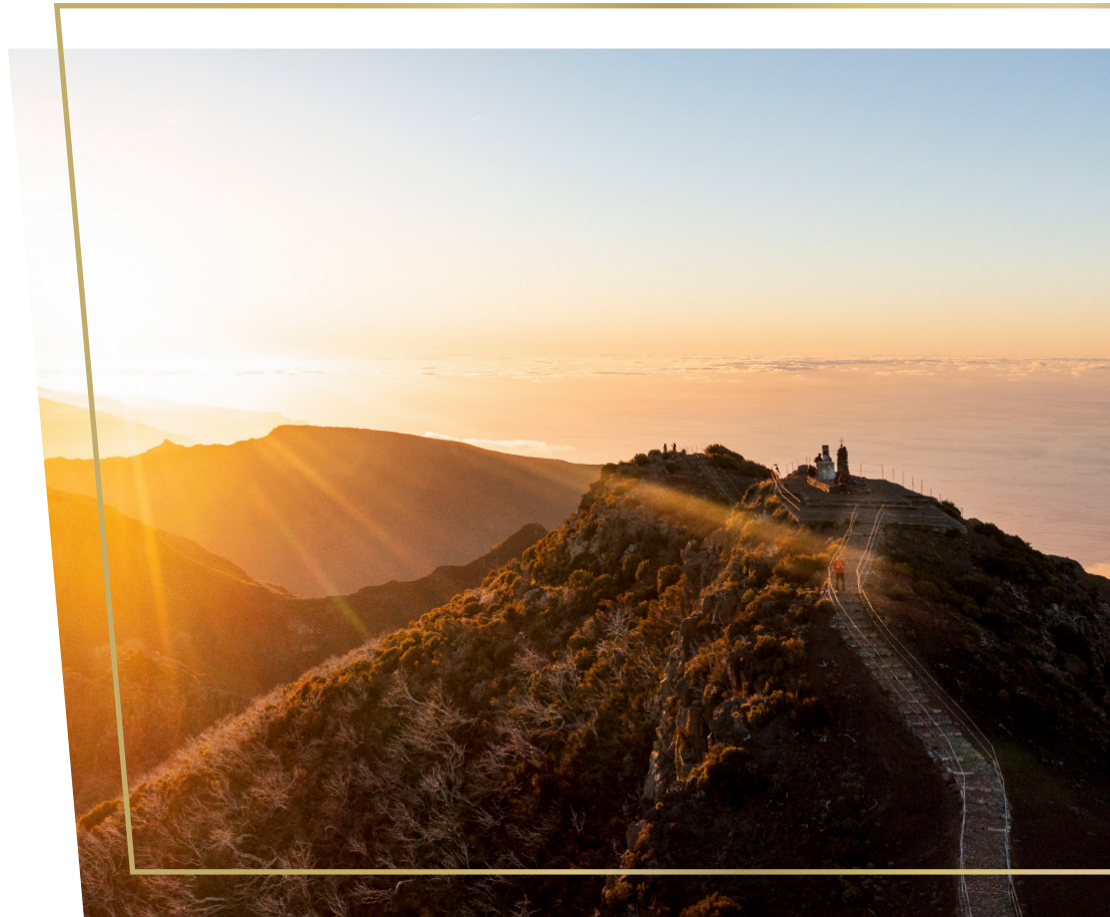
Given the wide range of possible fiscal outcomes, now may be an appropriate time to reassess your risk tolerance and ensure your allocation aligns with your long-term objectives. If you hold strong views on which scenario is more likely or want to understand how each path could affect your portfolio, speak with your Stifel Financial Advisor about whether adjustments or rebalancing are appropriate. A well-constructed, goals-aligned allocation remains the most effective way to endure volatility while staying positioned for opportunity.

WHAT HAPPENS NEXT

A disorderly fiscal crisis remains unlikely in the near term, but debt management continues to matter. The U.S. can fund large deficits as long as investors maintain confidence, yet that confidence is not guaranteed. A higher term premium on Treasuries and a more volatile cost of capital are the natural byproducts of this developing environment. Over time, some combination of tighter fiscal policy, reforms, higher growth, or higher inflation will be needed to restore equilibrium.

That said, there are still reasons for cautious optimism. Long-term sustainability depends less on short-term deficits than on the economy's

capacity to grow. Technological progress, particularly in artificial intelligence, automation, and energy innovation, could lift productivity and broaden the base of taxable growth. If the U.S. maintains its lead in these areas, the adjustment to a better, more sustainable state could be gradual rather than abrupt. ■





WASHINGTON IN A MIDTERM ELECTION YEAR

Contributed by Brian Gardner | Chief Washington Policy Strategist

As investors look ahead to 2026, policy uncertainty will remain an important driver of economic outcomes and market sentiment. With midterm elections approaching and several major policy debates converging, Washington is likely to exert an outsized influence on markets in the coming year.

GEOPOLITICAL RISKS AND THE 2026 MIDTERM ELECTIONS

Geopolitical risks and the 2026 midterm elections are likely to influence policy and financial markets in the coming year. The former, a constant factor for markets, will share many characteristics with 2025, though the focus may shift from announcing new tariffs to enforcing – and in some cases adjusting – them.

The emerging Trump doctrine could cast the review of the U.S.-Mexico-Canada Agreement (USMCA) in a new light. Affordability will be a frequent theme as the midterms approach, though questions remain about how political messaging will translate into policy. While stimulus will feature in the affordability debate, midterm dynamics will make passing a large package difficult. More broadly, the legislative window ahead of the elections will likely be short, placing greater responsibility for policy implementation on the Fed and the Trump administration rather than Congress.

AFFORDABILITY AND THE ECONOMY

Concerns about the cost of living were a key driver in the 2025 state and local elections, where Democrats scored significant victories. Voters' dissatisfaction with affordability has resonated with the Trump administration and congressional Republicans, who are likely to address the issue ahead of the 2026 midterms. However, despite the rhetoric, Republicans have limited tools with which to materially improve affordability.

WASHINGTON IN A MIDTERM ELECTION YEAR

Voters are also concerned about the broader economy, and Republicans may propose stimulus measures, though these will be difficult to enact. Still, we expect some stimulus in 2026 stemming from actions taken in 2025 under the One Big Beautiful Bill Act.

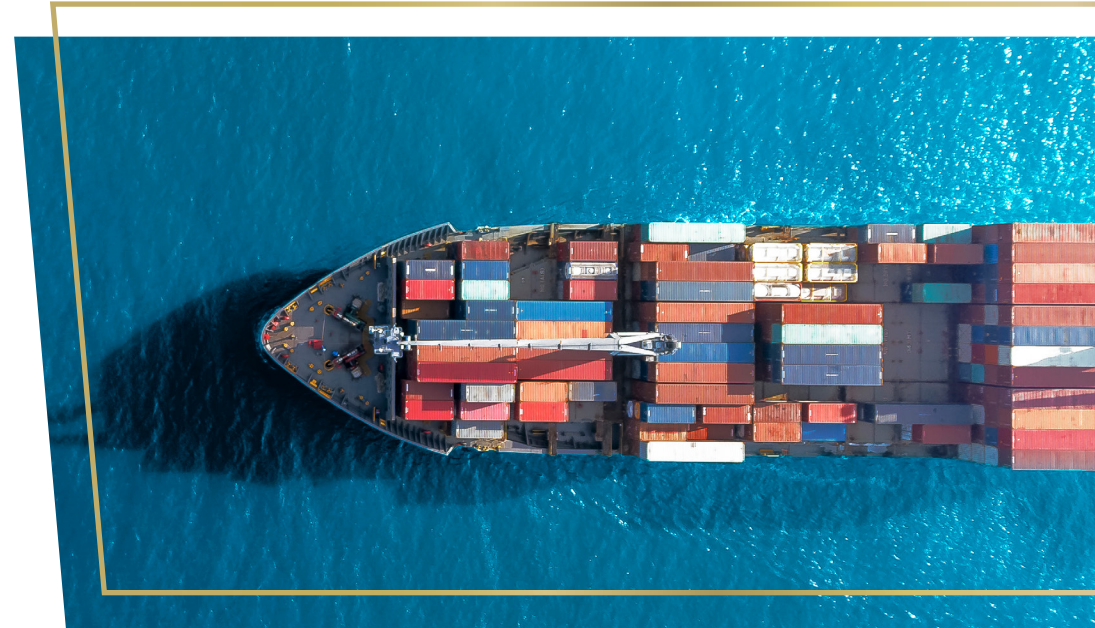
President Trump recently reduced tariffs on some food imports, and similar actions could follow in 2026 if voter frustration over living costs persists. Housing affordability remains another major concern, but beyond monetary policy, federal actions are likely to have limited impact. Housing affordability is largely a supply issue driven by state and local zoning and land use regulations. While the administration could propose selling federal land for residential development, most federal holdings are in sparsely populated areas and would have little effect on prices.

Although Washington has limited ability to influence supply, it could pursue demand-side policies. For example, Trump has previously proposed using tariff revenue to fund rebate checks. The administration explored ways to do this without congressional approval but appears to have concluded it is not feasible. Passing such a stimulus package would be difficult, as Republican budget hawks oppose the idea and Democratic support in an election year is uncertain.

That said, provisions of the OBBBA take effect in 2026 and could provide meaningful stimulus. Beginning in January, the law eliminates taxes on tips and certain overtime income, increases the standard deduction for seniors, expands deductions for state and local taxes, and introduces new R&D and expensing rules that should support growth.

Infrastructure Bill Reauthorization

Authorizations under the Bipartisan Infrastructure Bill of 2021 expire on September 30, 2026. Congress is likely to attempt a new five-year reauthorization, though election politics could complicate the effort. Republicans will likely push for greater emphasis on highway spending and less on urban transit and green energy than in the 2021 law. Democrats, however, may prefer to defer negotiations if they believe they could gain leverage by flipping the House in the midterms.



If Congress cannot reach a bipartisan agreement, it will likely pass a short-term extension and postpone a longer-term deal until 2027.

TRADE AND TARIFFS

While it would be difficult to match the trade policy volatility of 2025, 2026 is still likely to be a consequential year for U.S. trade policy.

USMCA

The USMCA is scheduled for review in 2026, potentially leading to its continuation, modification, or termination. In its National Security Strategy, the Trump administration emphasized restoring American preeminence in the Western Hemisphere, making outright termination unlikely despite ongoing disputes with Canada and Mexico. Instead, the administration will likely seek modifications that raise tariffs on select imports while strengthening regional partnerships, particularly by tightening rules of origin to limit China's influence. Nearshoring is likely to remain a central theme.

WASHINGTON IN A MIDTERM ELECTION YEAR

China

U.S.-China relations remain difficult to assess due to competing factions within the administration. Allies from Silicon Valley have appealed to Trump's transactional instincts, resulting in approval of some AI-related chip sales despite opposition from China hawks. Still, the National Security Strategy suggests continued efforts to further decouple economically.

Talks between the two countries have followed an on-again, off-again pattern, which we expect to continue as each side seeks to expand influence while constraining the other. While both recognize ongoing interdependence in the near term, implementation of the current one-year framework, which expires in November 2026, will shape future negotiations. Regardless of near-term outcomes, we believe the longer-term objective remains decoupling, though major strategic shifts may be left to the next administration

Supreme Court

The Supreme Court could rule as early as January on the reciprocal tariffs imposed under the International Emergency Economic Powers Act. Our base case is that the Court strikes them down, concluding that the president exceeded his authority in announcing the tariffs on April 2 ("Liberation Day").

Even if the administration loses the case, it retains other legal avenues to impose tariffs and could pivot quickly. Countries that have already reached trade agreements with the U.S. are unlikely to abandon them and risk worse outcomes under alternative trade laws.

A ruling against the tariffs could prompt a positive market reaction, particularly among importers whose stocks fell after Liberation Day. However, such optimism may be premature. Many recent agreements impose higher tariffs, and unless trading partners withdraw from them, expectations for large refunds may be misplaced.

CHANGES AT THE FED

Fed Chair Jerome Powell's term ends in May 2026, though he can remain on the Fed's Board of Governors until 2028. President Trump is likely to nominate a successor in early 2026. Since Powell is not required to leave the board, it is more likely that Trump first fills the seat of Governor Stephen Miran, whose term expires in January, with that appointee eventually elevated to chair.

If Powell resigns his board seat, as has typically occurred in past transitions, another vacancy will open. A third seat could become available if the Supreme Court rules that the president can remove Governor Lisa Cook. This would give the administration greater latitude to reshape the Fed in a more dovish direction.

Trump has indicated that National Economic Council Director Kevin Hassett and former Fed Governor Kevin Warsh are leading candidates, though he could ultimately surprise markets. While Treasury Secretary Scott Bessent has denied interest, we would not entirely dismiss the possibility.



WASHINGTON IN A MIDTERM ELECTION YEAR



SECTOR-SPECIFIC CONSIDERATIONS

In addition to the macro trends discussed above, several sector-specific policy developments bear watching.

Artificial Intelligence

President Trump recently issued an executive order effectively preempting state regulation of artificial intelligence. We see constitutional questions regarding his authority and expect states to challenge the order as federal agencies move to implement it. In the meantime, state-level AI regulations are likely to remain in place.

Congress has clear authority to preempt the states, but efforts to do so in the OBBBA and the National Defense Authorization Act failed. Democrats, whose support is essential, remain wary that the administration's objective is deregulation rather than effective oversight. While interest in regulating AI is growing, there is little consensus on how to proceed. We view the chances of passing AI-related legislation in 2026 as low.

Cryptocurrency

After passing stablecoin legislation in 2025, Congress is now considering the CLARITY Act, which would establish a broader regulatory framework for digital assets. The House passed its version earlier in the year, and Senate consideration will continue into 2026.

Although Democrats have become more supportive of the crypto industry following crypto's backing of Republican candidates in 2024, concerns about the president's personal ties to the sector, and opposition from traditional financial institutions complicate the outlook. Given the narrow legislative window, prospects for passing comprehensive cryptocurrency market structure legislation are fading. If the Senate has not acted by spring, the bill's chances in 2026 will diminish sharply.

Energy

Efforts to pass energy permitting reform fell short in 2024 but laid the groundwork for renewed action in 2026. The House recently passed the Standardizing Permitting and Expediting Economic Development (SPEED) Act, which would streamline approvals for energy, pipeline, transmission, and mining projects. The House bill garnered only 11 Democratic votes as Democrats protested the Trump administration's cancellation of five offshore wind projects as well as changes to the bill that would give additional advantages to oil and gas over clean energy.

Whether similar legislation in the Senate can attract sufficient Democratic support in that chamber to pass remains uncertain. Still, despite the narrow legislative window, we believe the odds of passing energy permitting reform are better than they have been in some time. One of the potential catalysts for passing permitting reform legislation is electricity costs in various areas. As electricity demand, driven by AI and data centers, continues to increase and put upward pressure on energy prices, voters might demand action.

CONCLUSION

Taken together, the intersection of geopolitical risk, election-year politics, and evolving policy priorities suggests that 2026 will be a consequential year for markets. While headline volatility may ebb relative to 2025, the underlying policy decisions around trade, monetary leadership, regulation, and fiscal support will shape the economic and market backdrop well beyond the midterm elections. Investors should expect continued uncertainty, but also greater clarity as policy paths begin to solidify. ■

GEOPOLITICAL DASHBOARD: A FRAGMENTED WORLD

The world is shifting from an era of globalization to one marked by increased localization and protectionism, increasing geopolitical risks, and uncertainty. The Stifel Geopolitical Dashboard aims to identify and assess the likelihood and investment considerations of key geopolitical risks and events that have the potential to create market volatility over the next three to five years.

LEGEND	■ Certain	Expected to occur; strong evidence or clear trends already in motion	■ Unlikely	Possible; there are some signals, but it's not expected
	■ Highly Likely	Strong possibility; multiple indicators suggest it will occur	■ Highly Unlikely	Very rare; little to no evidence to suggest occurrence
	■ Likely	Reasonable chance of happening; emerging signals present, uncertainty remains		

RISK	HOW IT COULD UNFOLD	LIKELIHOOD (3–5 YEARS)	INVESTMENT CONSIDERATIONS
U.S.-China Competition	Strategic competition for global leadership intensifies across various fronts, including technological, economic, and social influence.	Certain	Tariffs, trade restrictions, and protectionist policies will challenge companies reliant on China for supply chains and revenue. India and Mexico may benefit.
Cyberattack(s)	A major cyberattack on the world's leading companies, government agencies, or infrastructure that paralyzes an entire industry or sector.	Highly Likely	Cybersecurity firms stand to benefit as demand for robust data protection and security measures rises. Increasing focus on and awareness of data privacy.
Escalating Cold War(s)	Emergence of competing geopolitical blocs and tensions rise through increasingly hostile actions, sanctions, or military posturing.	Highly Likely	Defense and cybersecurity companies may benefit from increased militarization and higher defense spending, while some corporations might deem certain regions as not investable.
U.S. Financial Instability	Rising debt levels and higher interest costs accelerate the <i>Fiscal Transition</i> , weakening confidence in U.S. creditworthiness and financial markets.	Likely	Diminished confidence in U.S. Treasuries and the U.S. dollar, both of which are pillars of global capital markets. Likely sharp economic and market downturn.
Climate Policy Error	Net-zero commitments and regulations without economic and societal readiness spark inflation and an economic slowdown.	Likely	Look for companies focused on energy efficiency and innovative solutions for potential opportunities. Nuclear power is an example.
Structurally Higher Inflation	A combination of deglobalization, supply chain reconfiguration, and labor shortages keep inflation above the Federal Reserve's 2% target for a prolonged period of time.	Likely	Consider sectors and companies with strong pricing power and the ability to pass on costs or asset classes that can provide a diversification benefit or hedge against inflation.
European Fragmentation	Disagreements on key political and policy issues lead to a withdrawal from the European Union by a member nation.	Unlikely	Increased market volatility. Likely weakness in the euro as well as sectors impacted by trade disruptions.
Aging Population Strain	Longer lifespans drive up healthcare demand and cost, placing added pressure on budgets and economic stability.	Unlikely	Focus on investment opportunities arising from an aging population, including the increased demand for healthcare, leisure and travel, and financial services.
Introduction of BRICS Currency	Brazil, Russia, India, China, and South Africa (BRICS) establish a new reserve currency backed by a basket of their respective currencies.	Unlikely	Potential decline in demand for U.S. dollars and a weakening of its value. Consider diversifying in markets outside the U.S.

MILITARY CONFLICTS

RISK	HOW IT COULD UNFOLD	LIKELIHOOD (3–5 YEARS)	INVESTMENT CONSIDERATIONS
South China Sea Military Conflict	Competing claims over territory escalate into military confrontation, drawing U.S. involvement.	Likely	More than \$3 trillion worth of global trade, or a third of maritime trade, passes through the South China Sea annually. A conflict would severely disrupt supply chains.
Middle East War	While other regional conflicts are possible, a primary risk is that Israel and Iran enter into a full-scale aerial war.	Likely	Global oil market will be disrupted, driving up energy prices and impacting global supply chains. Defense and energy sectors would likely benefit.
Militarization of Space	Nations deploy technologies designed to disable or disrupt rival satellites, increasing the risk of space becoming an active conflict zone and threatening commercial networks.	Likely	Defense and aerospace contractors will likely outperform. Commercial satellite operators may face soaring insurance costs while global logistics would be severely disrupted.
Venezuela/ Caribbean Escalation	U.S. involvement in Venezuela expands beyond isolated strikes, or pressure broadens to other regional actors (e.g., Cuba, Colombia), increasing the risk of spillover tensions and episodic regional instability.	Unlikely	Energy price and inflation risk sensitivity rise. Episodic "risk-off" bids may favor quality balance sheets and defensives; elevated dispersion across emerging markets credit/equities.
Russia-NATO Confrontation	An accidental strike, miscalculation, or aggressive interference by Russia triggers direct engagement with NATO.	Unlikely	This will likely lead to a spike in oil prices. Perceived safe-haven assets such as gold, U.S. Treasuries, and the U.S. dollar may benefit.
Indian-Pakistan Tensions	The fragile ceasefire breaks down and the two countries enter into a war, disrupting regional stability and drawing in international powers.	Unlikely	A nuclear war is the worst-case scenario. India, the world's most populous country, is emerging as a "swing state" in the context of geopolitics.
China Invades Taiwan	China asserts its claim over Taiwan and attempts to achieve "reunification," triggering a major geopolitical crisis.	Unlikely	Severe disruption in global trade, potentially crippling the semiconductor industry given Taiwan's central role in chip production.
North Korea War	A provocation, miscalculation, or perceived threat leads North Korea or South Korea toward direct military conflict.	Highly Unlikely	War remains unlikely given the Kim regime's priority on preserving the dynasty and the overwhelming military disparity favoring the U.S.-South Korea alliance. Investors should monitor deepening Russia-North Korea ties as a potential destabilizer.

LEGEND

■ Certain	Expected to occur; strong evidence or clear trends already in motion	■ Unlikely	Possible; there are some signals, but it's not expected
■ Highly Likely	Strong possibility; multiple indicators suggest it will occur	■ Highly Unlikely	Very rare; little to no evidence to suggest occurrence
■ Likely	Reasonable chance of happening; emerging signals present, uncertainty remains		

REWIRING GROWTH

OUTLOOK **2026**

The global economy enters 2026 as a broad rewiring of growth has begun. After several years of macroeconomic volatility, the mechanisms that generate economic expansion are beginning to be reconfigured. Growth is increasingly shaped by how capital is deployed, where production occurs, and how policy, technology, and geopolitics intersect.

Artificial intelligence sits at the center of this transformation. It is beginning to rewire macroeconomic dynamics, corporate behavior, and policy priorities at the same time. What began as experimentation is moving into an early phase of scaled deployment, driving a powerful capital expenditure cycle that extends well beyond technology and into the physical economy. These investments are beginning to recalibrate productivity assumptions, influence labor dynamics, and reshape earnings growth, while introducing new constraints around energy, data, and infrastructure.

Beyond technology, industrial policy, trade, and geopolitics are being rewired as well. Governments are playing a more active role in shaping economic outcomes, while firms and nations redesign supply chains around resilience and strategic alignment rather than pure cost efficiency. As a result, capital flows and production networks are increasingly determined by regional partnerships and policy frameworks.

As monetary policy becomes more predictable and inflation pressures gradually ease, these other structural forces move to the forefront. 2026 is less about crossing a single inflection point and more about operating within a growth framework that is just starting to be rewired in meaningful ways — a framework where AI adoption, industrial policy, geopolitical alignment, and capital deployment jointly determine the durability of the expansion and the distribution of opportunity across sectors and markets.

U.S. ECONOMIC OUTLOOK

With Fed easing underway, fiscal support from the One Big Beautiful Bill Act set to flow into the economy, and a powerful AI-driven capital expenditure cycle continuing, the U.S. enters 2026 with conditions in place for continued economic resilience. At the same time, these tailwinds are increasingly offset by countervailing forces, including still-restrictive real interest rates, a more uneven consumer backdrop, and growing policy and fiscal constraints. We expect economic momentum to continue as rate cuts take hold, tax rebates reach households, and the next phase of the AI buildout expands beyond hyperscalers and into the broader economy. Under this baseline, we forecast U.S. GDP growth of 1.75%-2.5% in 2026, with the final outcome dependent on the trajectory of AI spending and monetization as the year progresses.

AI as the Growth Engine

Artificial intelligence is a dominant force shaping the 2026 economic outlook, with the U.S. still in the early stages of a multiyear capital expenditure supercycle. We expect hyperscalers to sustain record investment across data centers, semiconductors, power infrastructure, and model development, while enterprise adoption continues to broaden into workflows, automation, and productivity tools across a growing range of industries.

This surge in private sector capex is becoming a significant driver of GDP growth and a key pillar of corporate earnings momentum. Yet AI remains a double-edged sword: a major source of upside through productivity gains, rising capital investment, and earnings growth, but also a key macro risk should adoption falter or the investment cycle slow meaningfully.

The Divergent Consumer

We expect the U.S. consumer will continue to support economic growth in the year ahead, though spending will likely remain segmented. Middle- and higher-income households are likely to drive the majority of consumption, supported by elevated asset prices and related wealth effects. In contrast, lower-income households still face tighter credit and lingering price pressures, but should receive a temporary lift from OBBBA tax rebates early in the year.

AI-driven automation is beginning to create more pockets of employment pressure across operational and professional roles as certain tasks are automated. However, we expect labor market adjustment to occur primarily through slower hiring, role reallocation, and productivity gains rather than broad-based layoffs. As a result, in our base case we anticipate the labor market will soften modestly, with unemployment drifting higher but remaining well below recessionary thresholds.

OUTLOOK 2026

Inflation Softening

Inflation is expected to continue trending lower, though its drivers are being rewired — shifting from demand-led pressures to more structural forces. Nearshoring, ongoing investment demand, and geopolitical fragmentation may keep inflation hovering above the Fed's 2% target even as cyclical pressures fade. Tariff-related inflation risks appear overstated, as most firms have absorbed much of the higher costs or adjusted supply chains and pricing strategies.

As inflation gradually cools and the labor market softens modestly, we expect the Fed to cut rates one or two times in 2026, moving policy closer to its long-run neutral level. In our view, measured easing should support the economy and the consumer without reigniting the inflation pressures of prior years.

Policy Drives Outcomes

Policy remains a key wild card for 2026, with the potential to drive both upside and downside surprises as growth becomes increasingly policy sensitive. While some of last year's turbulence has faded, uncertainty persists around tariffs, immigration, and the administration's industrial, energy, and regulatory agenda ahead of the midterm elections. OBBBA incentives, tax rebates, and elevated defense spending should support growth, but persistent deficits and elevated Treasury issuance keep pressure on long-term rates. Geopolitical uncertainty, including U.S.-China tensions and global conflicts, adds another layer of volatility. Ultimately, macro outcomes in the coming year will hinge on how policy is executed.

2026 FORECAST

U.S. Real GDP	1.75% – 2.5%
Core PCE Inflation (4Q/4Q)	2.25% – 2.75%
Federal Funds Rate (Upper Bound)	3.25% – 3.5%

ASSET CLASS FORECASTS

Stocks

We expect U.S. equities to deliver another year of positive returns in 2026. The central narrative shifts from valuation expansion to profit growth, as operating leverage improves and earnings broaden beyond the mega cap AI leaders. Elevated starting valuations and continued policy uncertainty suggest periodic pullbacks are likely, and this would be consistent with an ongoing bull market rather than a change in trend.

Earnings remain the primary driver of equity returns. Consensus expectations call for solid 15% earnings growth for the S&P 500, supported by AI-driven productivity gains, continued capital investment, and resilient corporate balance sheets. Importantly, earnings growth is expected to broaden beyond mega cap technology, as the investment cycle extends into more capital-intensive, domestically oriented areas of the market. This broadening should help reduce concentration risk and support more balanced leadership.

Valuations remain elevated relative to history, reflecting strong recent performance and the dominance of the largest technology companies. The S&P 500 currently trades at a 25.4 trailing price-to-earnings multiple, above long-term averages, leaving limited room for further expansion. As a result, equity returns in 2026 are likely to be driven more by earnings growth than valuation gains. Assuming double-digit earnings growth and some normalization in multiples, we forecast a 10% total return for U.S. equities, implying a year-end S&P 500 target of 7,450.

* The Stifel CIO Office issues a Market Pulse publication when the S&P 500 closes up or down by at least 2% on a given day.

** bps is basis points.

2026 FORECAST

S&P 500	7,450
10-Year Treasury (%)	4.0% – 4.5%
Market Pulse Publications*	15
Investment-Grade Spreads**	100 – 150 bps
High-Yield Spreads	325 – 375 bps

Bonds

Our view is that starting yields remain attractive. We expect rates to stabilize and the yield curve to modestly steepen as front-end rates decline. We expect the 10-year Treasury yield, which closed 2025 at 4.17%, to hold within a 4.0%-4.5% range, supported by a higher-for-longer neutral rate and persistent fiscal deficits that limit the scope for a sustained long-end rally. Forward rates currently price the 10-year Treasury in the 4%-5% range for much of the next two decades, reflecting investor demands for greater term compensation amid fiscal concerns and the government's ongoing need to finance structural deficits.

Credit spreads enter the year historically tight. While investment-grade fundamentals remain solid, valuations offer limited room for further compression. High yield appears more vulnerable. Although overall credit quality has improved, the high-yield universe is increasingly skewed toward traditional cyclicals and lower-quality issuers – more exposed to AI-driven disruption and capex realignment – raising the risk of spread widening as the cycle matures.

In this environment, we expect income rather than price appreciation to drive fixed income returns. Overall, we continue to view fixed income as a source of durable carry, diversification, and portfolio ballast as monetary policy gradually eases.

SCENARIOS: BULL/BEAR CASE

Predicting what may happen over the next year remains challenging, and point forecasts are almost never the final result. As seen above, we sometimes offer range forecasts in our “base case” view. But to help understand uncertainty further, we complement this “base case” scenario with a more positive “bull case” scenario and a more negative “bear case” one. We ask ourselves “*How might we be wrong?*” – helping us identify the forces most likely to shift outcomes. This year we see those forces as AI monetization, the consumer, and policy, and we've assigned probabilities of 60% to the base case, 15% to the bear case, and 25% to the bull case.

We explore how our bull and bear scenarios differ across these three forces influencing outcomes.



OUTLOOK 2026

AI MONETIZATION

AI investment is surging, but the payoff path remains uncertain. When and whether AI delivers broad-based productivity gains, or falls short of its promise, will be a decisive swing factor for growth, earnings, and market leadership in 2026.

WIRES CROSSED | BEAR CASE

AI adoption and monetization disappoint, with productivity gains confined to select sectors. Overbuilding of data centers and chips leads to a sharp capex pullback and a valuation reset. Power constraints limit deployments, margins compress, and layoffs increase in the tech sector.

WIRES CONNECTED | BULL CASE

AI adoption broadens rapidly, delivering measurable productivity gains and accelerating earnings growth across the economy. AI monetization improves, infrastructure bottlenecks prove manageable, and robust capex persists, propelling a more productive, innovation-driven phase of economic growth.

THE CONSUMER

Consumption makes up about two-thirds of U.S. GDP, making household behavior a critical determinant of economic outcomes in the year ahead.

WIRES CROSSED | BEAR CASE

Job losses rise and wage growth slows. Squeezed budgets and spending fatigue hit even higher-income consumers and trigger a sharp pullback in demand, undermining the U.S. economy's core growth engine and heightening the risk of recession.

WIRES CONNECTED | BULL CASE

Inflation eases faster than expected and rising real incomes strengthen confidence and demand. AI accelerates job retraining, keeping unemployment low. The economy grows above our base case range.

POLICY PATH

The interplay between Fed policy, the administration's agenda, and fiscal policy forces will ultimately determine whether policy acts as a stabilizing force for growth or amplifies volatility across markets and the broader economy.

WIRES CROSSED | BEAR CASE

Policy missteps emerge as labor market softening accelerates and the Fed responds too slowly, undermining confidence. The administration's policies reintroduce uncertainty, while budget and fiscal policy execution falters through gridlock or shutdown risk, weighing on business and consumer sentiment.

WIRES CONNECTED | BULL CASE

Inflation cools while labor softening remains orderly, giving the Fed room to ease policy more than expected without stress. The administration's fiscal, industrial, and trade initiatives prove more growth-supportive than anticipated, improving policy clarity and confidence.

ALLOCATION INSIGHTS

BUILDING RESILIENT PORTFOLIOS

Gains since the 2022 bear market have been significant, with a disproportionate share driven by a narrow group of stocks. While rewarding for many investors, this period has also shifted the composition and risk profile of many investment allocations.

As a new year begins, it's an opportune time to step back and ensure your investments remain aligned with their intended purpose. Before focusing on "what's next" for markets, the most important question is still the simplest one: *What is this portfolio meant to do for you and your family?*

Over time, priorities, time horizons, and comfort with risk naturally evolve. A periodic review conducted thoughtfully with your Stifel Financial Advisor helps keep your strategy anchored to long-term objectives rather than short-term market noise.

BUILDING RESILIENT, DIVERSIFIED PORTFOLIOS

Structural forces are reshaping the economy, with artificial intelligence influencing productivity, capital investment, and market leadership. As leadership evolves and potentially broadens, diversification across regions, sectors, and styles becomes increasingly important.

Strong equity performance in recent years has led many portfolios to drift from their intended stock-bond mix, often increasing risk more than investors realize. Periodic rebalancing can help restore portfolios to their target allocations, managing risk while maintaining alignment with long-term objectives.

A resilient portfolio is built to participate in long-term growth while remaining balanced through periods of volatility. Achieving this typically requires measured, incremental adjustments – not wholesale changes – to remain positioned for the crosscurrents of the decade ahead.

ALLOCATION **INSIGHTS**

BUILDING RESILIENT PORTFOLIOS



BALANCING OPPORTUNITY IN EQUITY MARKETS

Today, the Magnificent Seven represent roughly 38% of the S&P 500's market cap. For investors holding individual stocks, risk management involves periodically reviewing – and where appropriate trimming – outsized positions to help manage risk and address underweights ahead of broader market participation.

U.S. equities remain a core allocation, but global diversification can help expand opportunity and manage risk. The appropriate balance between U.S. and non-U.S. exposure is best decided in the context of your goals, with our strategic asset allocation framework serving as a helpful starting point.

Across equity markets, we emphasize quality – businesses with strong balance sheets, durable cash flows, and disciplined management. Periods of innovation and optimism often increase dispersion between winners and losers, making fundamentals increasingly important.

THE ROLE OF FIXED INCOME

Fixed income plays a central role in portfolio construction by providing income and helping stabilize overall returns. The return of yield has meaningfully improved bonds' ability to generate income while also serving as a diversifier during periods of equity market stress.

Within credit markets, opportunities remain attractive but increasingly differentiated by sector and issuer. Higher leverage and refinancing needs favor careful issuer selection and prudent active management. For investors holding elevated cash balances, current yields may also present an opportunity to thoughtfully extend duration and lock in today's yields.

ALLOCATION **INSIGHTS**

BUILDING RESILIENT PORTFOLIOS

ALTERNATIVES AS A SELECTIVE CONSIDERATION

For qualified investors, alternative investments can provide additional diversification and differentiated sources of return. Private markets remain central to early-stage innovation, including areas such as artificial intelligence and infrastructure. Hedged strategies may also help manage volatility.

Alternatives should be evaluated carefully, considering liquidity, risk tolerance, and time horizon. When used selectively, they can complement a well-diversified portfolio.

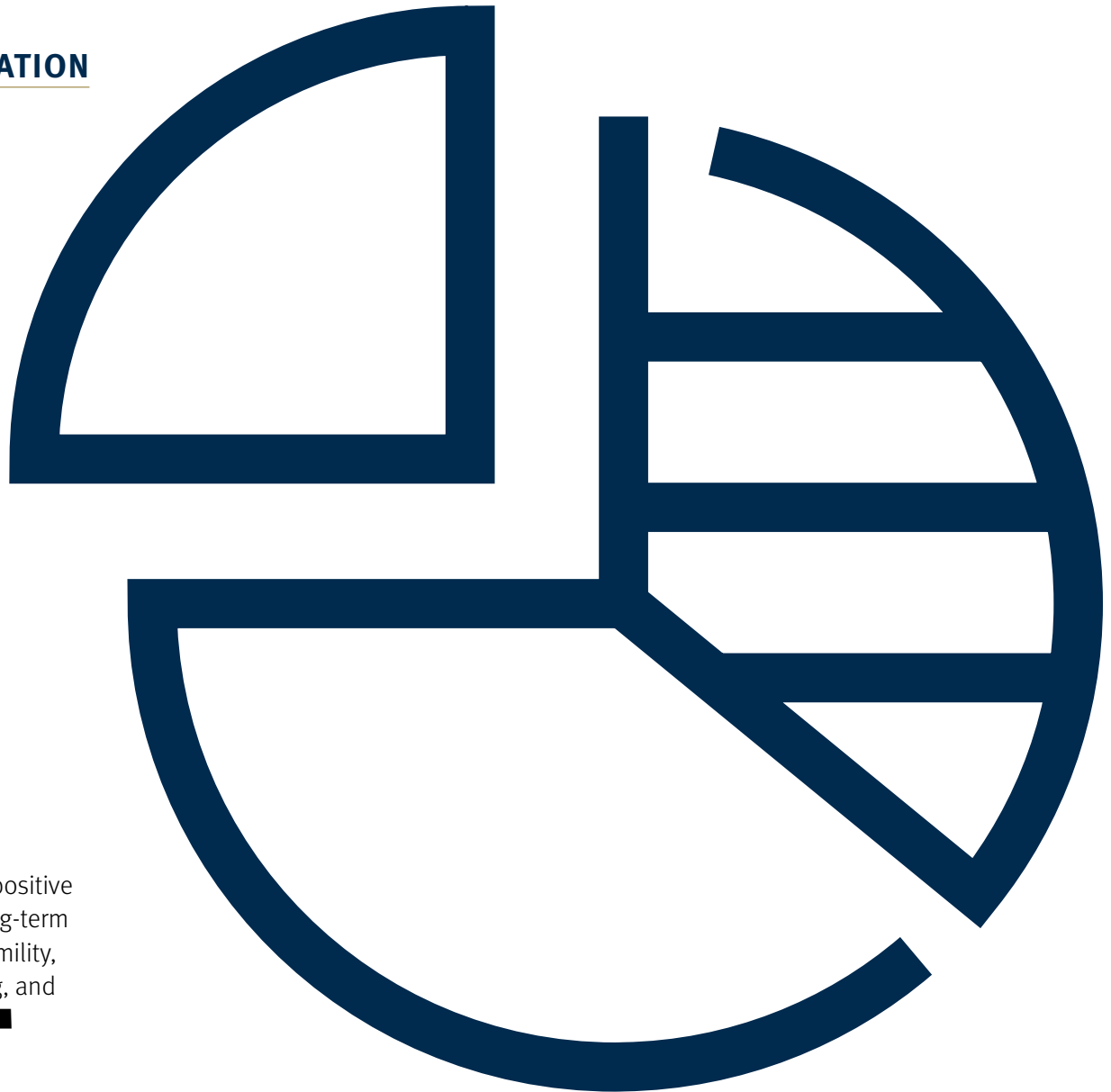
A TIME FOR REVIEW, NOT REINVENTION

Markets and technologies will continue to evolve, but the most durable portfolios are grounded in clear objectives, diversified by design, and refined as circumstances change.

This is a good moment to review positioning, confirm alignment, and make thoughtful refinements, not because something is broken, but because staying aligned matters.

ALLOCATION INSIGHTS

As we head into 2026, market dynamics and transformative forces are creating investment opportunities. We remain in a positive economic environment, and we expect innovation to drive long-term opportunities. We approach dynamic asset allocation with humility, recognizing the difficulty of short-term market calls and timing, and making dynamic shifts only when we have strong conviction. ■



ALLOCATION **INSIGHTS**

DYNAMIC ASSET ALLOCATION

VIEW LEGEND

U
N
O

Underweight Neutral Overweight

	ASSET CLASS	VIEW			COMMENTS
U.S. Equity	U.S. Large Cap Equity		N		While easing policy supports small caps, higher absolute rates and weaker earnings visibility offset the case; large caps offer greater earnings durability, supporting a neutral, quality-focused stance.
	U.S. Small Cap Equity		N		
	U.S. Large Cap Growth Equity		N		We believe investors should remain diversified across both growth and value styles. Rather than a wholesale style rotation, we expect leadership to broaden gradually.
	U.S. Large Cap Value Equity		N		
Regional Equity Views	U.S. Equity		N		U.S. equities continue to benefit from resilient economic growth and innovation-led earnings. Elevated valuations and market concentration increase sensitivity to earnings execution.
	Non-U.S. Equity		N		Attractive valuations outside the U.S. are tempered by slower growth, policy divergence, and elevated geopolitical risk.
	Europe	U			Renewed fiscal stimulus and accommodative monetary policy is supportive, but growth remains uneven and policy uncertainty persists, warranting selectivity rather than broad exposure.
	Japan			O	Improving growth, rising capex, and corporate governance reforms continue to support relative outperformance despite near-term volatility.
	Emerging Markets		N		Select opportunities are supported by a weaker U.S. dollar and supply chain realignment linked to AI investment and evolving U.S. trade policy.
	China	U			Valuations are low, but policy uncertainty, weak consumer confidence, and structural headwinds continue to weigh on earnings visibility.

ALLOCATION **INSIGHTS**

DYNAMIC ASSET ALLOCATION

	ASSET CLASS	VIEW			COMMENTS
Fixed Income	Treasuries	U			While Treasuries remain an important source of liquidity and portfolio ballast, heavy issuance, persistent fiscal deficits, and a higher-for-longer or volatile rate environment limit their return potential.
	Investment-Grade Credit			O	A resilient economy and strong corporate fundamentals support investment-grade corporates as a high-quality income source.
	Mortgage-Backed Securities			O	Agency MBS provide higher income and wider spreads than Treasuries, while offering comparable risk and stronger yields than most credit sectors.
	High Yield		N		Credit fundamentals remain solid, but spreads are tight. High yield offers income but less margin for error if growth slows. Neutral positioning reflects a preference for selectivity over beta exposure.
Alternatives	Private Assets		N		For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of alternatives can be considered as part of a diversified portfolio.
	Hedge Funds		N		

VIEW LEGEND

U Underweight
 N Neutral
 O Overweight

HOW WE INVEST: OUR INVESTMENT MANAGEMENT PROCESS

As you review this 2026 Outlook report, you may be wondering how this work influences our investment guidance and discretionary portfolios. While we offer forecasts for the coming year and discuss possible scenarios, when issuing investment guidance or managing our portfolios, we often take a longer-term view, looking beyond the near-term changes in market and economic conditions.

1

We routinely analyze the current **macroeconomic environment** as an input into our short-, medium-, and long-term views. From time to time, we identify investment themes and **megatrends** that influence the direction of the economy and the markets longer term.

2

Based on our assessment of the economic cycle, major investment themes, and other structural forces, **we formulate long-term capital market assumptions (CMAs)**, which are long-term expected return, standard deviation, and correlation estimates for various asset classes.

We use CMAs to build portfolios and develop our asset allocation models.

Stifel's Wealth Planning Department incorporates our asset allocation models and CMAs to create a financial plan that's custom to you.

3

MANAGER SELECTION

Each manager recommendation is unique, but we use a framework as a general guide. We ask ourselves:

- Does the investment management firm have a strong business?
- Does the firm provide strong support for this specific product?

We may also consider the following:

- **Experience of the investment team:** Include managers that are substantively resourced and have a long tenure working together.
- **Investment philosophy:** Include managers with a well-articulated, stable, and consistent philosophy.
- **Investment process:** Include managers with a process that's repeatable and aligned with the investment philosophy and expertise.
- **Past performance:** Include managers whose performance and risk characteristics are consistent with philosophy, process, and portfolio construction guidelines.
- **Fees and other costs:** Include managers with appropriate and competitive fees given the nature of the investment strategy.

4

STOCK SELECTION

While our analysis for each security decision is unique, we use a framework as a general guide. We ask ourselves:

- Does the company align with our themes and economic trends?
- Is the company a potential disruptor in its industry? Is it competitive? Is it resilient?

We may also consider the following:

- **Strength of the management team:** Include companies with proven leaders, smart deployment of capital, and a sound strategic vision.
- **Economic moat:** Include companies with wide and stable economic moats, such as industry leaders, innovators, or disruptors with unique products or services.
- **Pricing power and profitability:** Include companies that can command a premium for their product or service.
- **Financial strength:** Include companies with solid balance sheets and the ability to generate strong free cash flow.
- **Growth potential:** Include companies with the potential to maintain or capture sizeable market share.

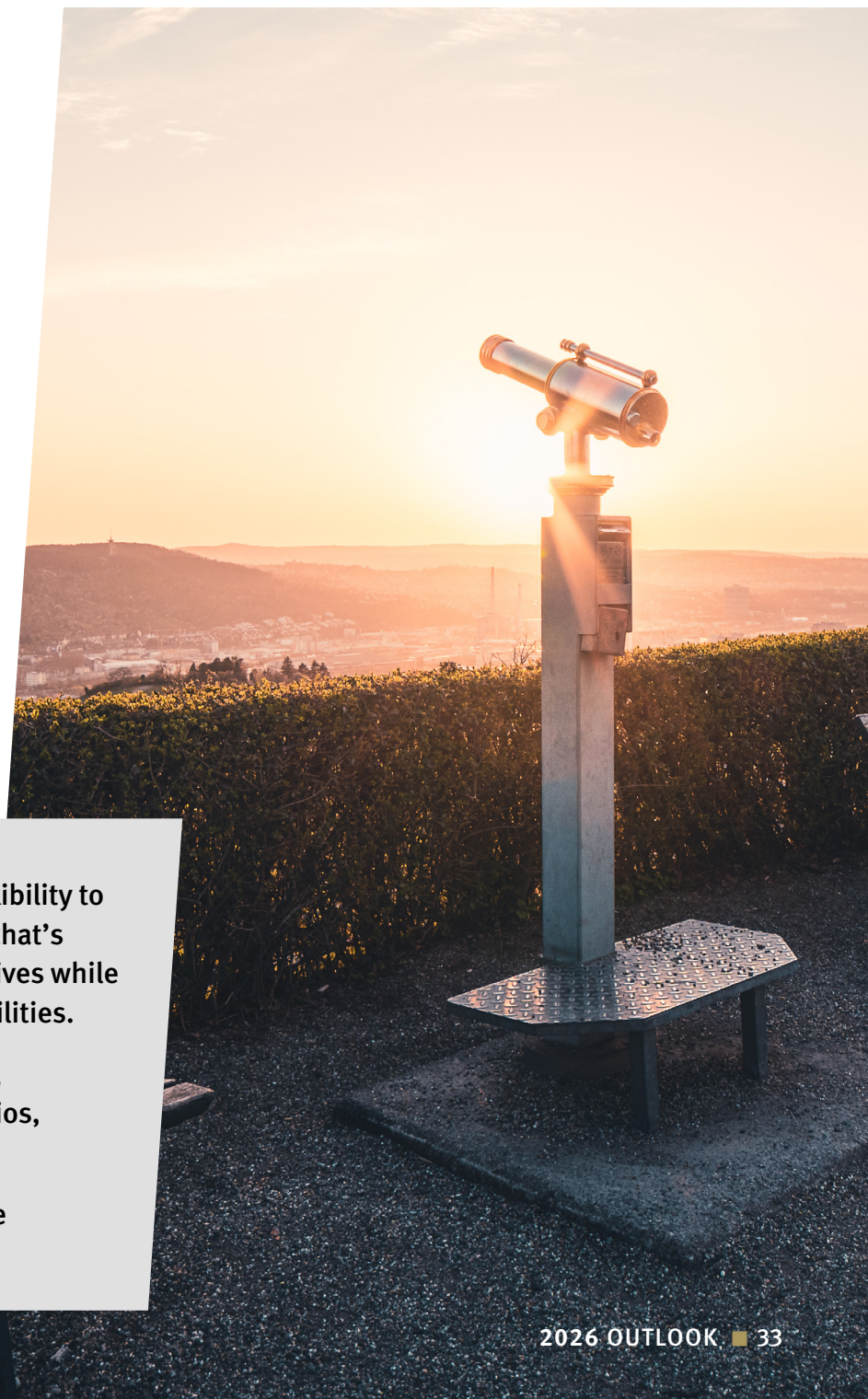
STIFEL CHOICE PORTFOLIOS



Stifel Choice Portfolios offer you the flexibility to implement an asset allocation strategy that's tailored to your unique goals and objectives while drawing on Stifel's resources and capabilities.

You can invest in one, or several, of our mutual fund, exchange traded fund, or direct equity portfolios, or in one of our turnkey multi-asset class portfolios, which are based on your risk profile.

To learn more about Stifel Choice Portfolios and whether they are appropriate for your personal financial goals, contact your Stifel Financial Advisor.



Typically, your Stifel Financial Advisor will work with you to develop an asset allocation mix strategy based on your unique objectives. Behind the scenes, he or she will consult with us – the CIO Office – to help refine the investment mix that is appropriate for you. The following describes an asset allocation framework we provide to your Financial Advisor.

First, your Financial Advisor will work with you to identify an appropriate risk profile, ranging from conservative to aggressive. Then three other important choices are discussed: the equity strategy, the fixed income strategy, and liquidity preferences.

U.S.-Focused Versus Global Equity: We provide two choices for the asset mix equity strategy. The U.S.-Focused offering is designed for clients who prefer to balance their non-U.S. equity exposure with a preference for U.S. stocks. In this case, the U.S./non-U.S. mix is approximately 70%/30%. For clients who prefer more global exposure, we seek to align the U.S. exposure with the U.S. market capitalization in the global equity market, resulting in an approximate U.S./non-U.S. mix of 55%/45%.

Taxable Versus Tax-Sensitive Fixed Income: We provide two choices for the asset mix fixed income strategy. The Taxable offering invests in taxable bonds and is most often used by entities that do not pay income taxes, such as private foundations. The Tax-Sensitive offering assumes the investor is paying income taxes and therefore focuses the majority of its fixed income exposure in tax-advantaged bonds like municipals.

Liquidity Tiers: We offer three liquidity tiers in our asset allocation guidance offering.

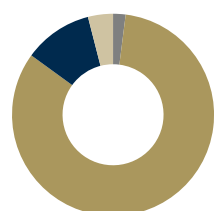
The most liquid tier, **tier one**, includes investment exposure to publicly traded markets that can generally be sold, if needed, and excludes alternative investments.

Our **second liquidity tier** exposes a small percentage of the portfolio to hedge funds, products sometimes available in a limited partner (LP) format. These funds sometimes require a one-year lock-up, usually with quarterly redemption terms after that. In any case, redeeming such an LP position requires advance notice and is subject to general redemption terms of the specific LP.

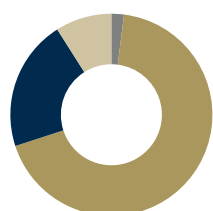
Our **third liquidity tier**, often most appealing to institutional or ultra-high-net-worth investors with less need for liquidity, builds up the allocation to alternative investments by adding positions in the private markets, such as private equity, private debt, or private real estate. Such investments usually require a lock-up of the invested capital.

And finally, your Financial Advisor can work with you to elect to invest in a Strategic Asset mix, designed as a diversified strategy for the long term. Or, you can choose to invest in our Dynamic Asset mix guidance, where we will adjust our strategic leanings in consideration of shorter-term views.

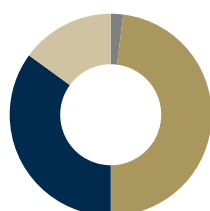
RISK PROFILE CHART LEGEND



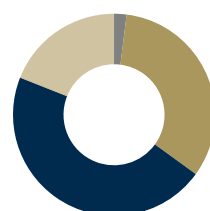
Conservative



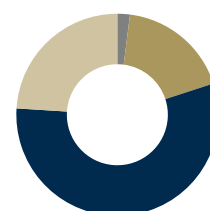
Moderately Conservative



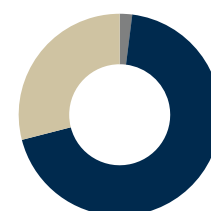
Moderate



Moderate Growth



Moderately Aggressive



Aggressive Growth

6

Risk
Profiles

2

Time
Frames

Strategic
(Long Term)

Dynamic
(Near Term)

3

Levels of
Liquidity

Tier 1

Tier 2

Tier 3

2

Equity Choices

2

Fixed Income
Choices

U.S.-Focused

Global

Tax-Sensitive

Taxable

WHERE TO FIND STIFEL GUIDANCE

The Stifel CIO Office develops economic and market analysis, and corresponding investment guidance, for the benefit of Stifel clients. You can find all of our Stifel guidance at:

stifelinsights.com

STIFEL | Insights

Home

OUTLOOK 2026
Rewiring Growth

The report and video will be available on January 7, 2026.

Join us for a webinar on January 14, 2026, at 2:00 p.m. Eastern as Stifel Chief Investment Officer, Michael O'Keefe, and Stifel Chief Washington Policy Strategist, Brian Gardner, will discuss our market, economic, and political outlook for the year.

[JOIN US](#)

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Investment Strategy Brief

AI at Home and at Work: Signs of Real Impact
Market Sight|Lines

The Fed Cuts Rates... and Signals a Possible Pause
Market Sight | Lines

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CIO OFFICE



Michael O'Keeffe, CFA
Chief Investment Officer
michael.okeeffe@stifel.com



Contributing author:

Brian Gardner
Chief Washington
Policy Strategist
bgardner@stifel.com

Sujeet Banerjee
Director of
Investment Analytics
banerjees@stifel.com

Celia Charlton
Investment Strategy Analyst
Inv. Management & Guidance
charltonc@stifel.com

Nik Eftimov, CFA
Director of
Inv. Management & Guidance
nik.eftimov@stifel.com

Kian Homayoonfar, CFA
Director of
Manager Research
homayoonfark@stifel.com

Chloe Mauceri
Specialist
Manager Research
mauceric@stifel.com

Michael Niemeier, CFA
Senior Analyst
Manager Research
niemeierm@stifel.com

John Wichlenski
Analyst
Manager Research
wichlenskij@stifel.com

Jonathan Brandt, CFP®
Senior Specialist
Client Engagement
brandtjo@stifel.com

Mariana Chu
Senior Investment Strategist
Inv. Management & Guidance
chum@stifel.com

Hezel Gadzikwa
Investment Strategist
Inv. Management & Guidance
gadzikwah@stifel.com

Alec Hubbard, CFA, CAIA®, CFP®
Senior Specialist
Client Engagement
hubbarda@stifel.com

Carlos Mieles, CFA
Senior Investment Strategist
Inv. Management & Guidance
mielesc@stifel.com

Reagan Raley
Investment Strategist
Inv. Management & Guidance
raleyr@stifel.com

Kevin Zawodniak, CFP®
Senior Analyst
Manager Research
zawodniakk@stifel.com

Bill Bridge, CIMA®
Senior Analyst
Manager Research
bridgew@stifel.com

Sophia DiMartini
Investment Strategy Analyst
Inv. Management & Guidance
dimartinis@stifel.com

Mitchell Greenblatt
Senior Specialist
Client Engagement
greenblattm@stifel.com

Brian Klos, CFA, CAIA®
Senior Analyst
Manager Research
klosb@stifel.com

David Motsonelidze, CFA
Director of
Macro Strategy
david.motsonelidze@stifel.com

Arnez Rodriguez
Investment Strategist
Macro Strategy
rodriguezar@stifel.com

Dan Brown, CFA
Senior Analyst
Manager Research
browndan@stifel.com

Colleen Dunaway
Specialist II
Client Engagement
dunawayc@stifel.com

Charles Hackett
Investment Strategist
Investment Analytics
hackettc@stifel.com

Bobby Lewit
Investment Strategy Analyst
Inv. Management & Guidance
lewitrob@stifel.com

Kurt Muller
Director
Client Engagement
mullerk@stifel.com

Dori Schwartz
Economist — Sr. Analyst
Inv. Management & Guidance
schwartzd@stifel.com

INDEX DESCRIPTIONS

The **Standard & Poor's 500 Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq.

The **Bloomberg U.S. 1000 Total Return Index** is a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies.

The **Bloomberg U.S. 1000 Growth Total Return Index** is a float market cap-weighted benchmark comprised of those companies in the Bloomberg U.S. 1000 Total Return Index with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth.

The **Bloomberg U.S. 2000 Total Return Index** is a float market cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index.

The **Bloomberg U.S. 2500 Total Return Index** is a float market cap-weighted benchmark of the lower 2,500 in capitalization of the Bloomberg U.S. 3000 Index.

The **Bloomberg U.S. Micro Cap Total Return Index** is a float market-cap-weighted benchmark of those securities in the U.S. Aggregate Equity Index with a market capitalization ranking of lower than 2,500.

The **Dow Jones U.S. Select Dividend Index** aims to represent the U.S.'s leading stocks by dividend yield.

The **S&P 500 Dividend Aristocrats®** measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The **S&P 500 Health Care Index** comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

The **Euro STOXX 50® Index** represents the performance of the 50 largest companies among the 19 supersectors in terms of free-float market capitalization in 11 Eurozone countries.

The **Nikkei 225 Index** is a price-weighted index of the 225 top Japanese companies listed in the Tokyo Stock Exchange.

The **MSCI EAFE Index** (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The **MSCI EM (Emerging Markets) Europe, Middle East, and Africa Index** is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East, and Africa.

The **MSCI China Index** captures large and mid-cap representation across China A, H, and shares, Red chips, P chips, and foreign listings (e.g. ADRs). With 741 constituents, the index covers about 85% of this China equity universe.

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

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

The **MSCI ACWI ex USA Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the U.S.) and 25 Emerging Markets (EM) countries.

The **Bloomberg U.S. Treasury Bills Index** includes U.S. Treasury Bills that have a remaining maturity from one month up to (but not including) 12 months. It excludes zero coupon strips.

The **Bloomberg Global Aggregate Index** is market value-weighted inclusive of accrued interest and covers the most liquid portion of the global investment-grade fixed-rate bond market, including government, credit, and collateralized securities.

The **Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related, and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and nonagency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

The **Bloomberg U.S. Government/Credit Index** is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

The **Bloomberg Mortgage-Backed Securities Index** is a measurement of the movement of the 15- and 30-year fixed rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). All returns are market value-weighted inclusive of accrued interest.

The **Bloomberg U.S. Corporate High-Yield Bond Index** covers the U.S. dollar-denominated, non-investment-grade, fixed rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging markets debt. The U.S. Corporate High-Yield Bond Index is part of the U.S. Universal and Global High-Yield Indices.

The **Bloomberg U.S. Municipal Bond Index** covers the U.S. dollar-denominated long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

The **Credit Suisse Leveraged Loan Index** tracks the investable market of the U.S. dollar-denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

The **Dow Jones U.S. Select REIT Index** intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The **BofA Merrill Lynch Adjustable Rate Preferred Securities Index** tracks the performance of U.S. dollar-denominated investment-grade floating rate preferred securities publicly issued in the U.S. domestic market. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P, and Fitch) and must have an investment-grade-rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long-term sovereign debt ratings).

The **BofA Merrill Lynch Core Plus Fixed Rate Preferred Securities Index** tracks the performance of fixed rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market. Qualifying securities must be rated at least B3 (based on an average of Moody's, S&P, and Fitch) and must have an investment grade-rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long-term sovereign debt ratings).

The **Zillow Observed Rent Index (ZORI)** is a smoothed measure of the typical observed market rate rent across a given region. ZORI is a repeat-rent index that is weighted to the rental housing stock to ensure representativeness across the entire market, not just those homes currently listed for-rent. The index is dollar-denominated by computing the mean of listed rents that fall into the 40th to 60th percentile range for all homes and apartments in a given region, which is once again weighted to reflect the rental housing stock. Details available in ZORI methodology.

The **BofA Merrill Lynch U.S. High Yield Master II Index** is a market value-weighted index of all domestic and Yankee (bonds denominated in U.S. dollars and issued in the U.S. by foreign entities) high-yield bonds, including deferred interest bonds and payment-in-kind securities.

The **Bloomberg Commodity Index** (“BCOM” or the “Index”) is designed to be a highly liquid and diversified benchmark for commodity investments.

The **HFRI Fund Weighted Composite Index** is an equal-weighted index utilized by numerous hedge fund managers as a benchmark for their own hedge funds. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite Index, which accounts for over 2,200 funds listed on the HFR database. Funds included in the index must report monthly returns, report net of all fees returns, report assets in U.S. dollars, and have at least \$50 million under management or have been actively trading for at least 12 months.

Cash & Cash Equivalents 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. Gov’t 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.

DISCLOSURES

ASSET CLASS RISKS AND DESCRIPTION OF TERMS

Bonds – Bonds are subject to market, interest rate, and credit risk. Prices on bonds and other interest rate-sensitive securities will decline as interest rates rise. Municipal bonds may be subject to state and alternative minimum taxes, and capital gains taxes may apply. High yield bonds have greater credit risk than higher quality bonds. Bond laddering does not assure a profit or protect against loss in a declining market. Yields and market values will fluctuate, and if sold prior to maturity, bonds may be worth more or less than the original investment.

Cash Equivalents – Portfolios that invest in very short-term securities provide taxable or tax-advantaged current income, pose little risk to principal, and offer the ability to convert the investment into cash quickly. These investments may result in a lower yield than would be available from investments with a lower quality or longer term.

Core Personal Consumption Expenditures (PCE) – The PCE Price Index excluding volatile food and energy prices, revealing underlying inflation trends.

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.

Equities – Portfolios that emphasize stocks may involve price fluctuations as stock market conditions change. Small and mid capitalization stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

Generative AI – Generative AI is a type of artificial intelligence that can produce content such as audio, text, code, video, and images.

International/Global Investing/Emerging Markets – There are special considerations associated with international and global 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.

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 Russell 1000 Index, comprised of 1,000 of the largest U.S. securities based on a combination of their market cap and current index membership.

U.S. SC (Small Cap) equities is represented by the Russell 2000 Index, comprised of 2,000 of the smallest U.S. securities based on a combination of their market cap and current index membership.

Dev Int’l Equities is represented by the MSCI EAFE Index, comprised of equity securities that belong to markets outside of the U.S. and Canada.

EM 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. Government/Credit Index).

Indices are unmanaged, do not reflect fees and expenses, and you cannot invest directly in an index.

Past performance is no guarantee of future results. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees.

Alternative Investments or Non-Traditional Assets – Alternative investments involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing tax information, are not subject to the same regulatory requirements as more traditional investments, and often charge high fees, which may erode performance. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

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.

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.

Mutual Funds and Exchange Traded Funds – The investment return and principal value of an investment in funds will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. ETFs trade like a stock and may trade for less than their net asset value. There will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account.

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.

Volatility – Volatility is measured by calculating the standard deviation of the annualized returns over a given period of time.

RISK PROFILES

RP 1 Conservative – A conservative investor values protecting principal over seeking appreciation. This investor is comfortable accepting lower returns in exchange for a higher degree of liquidity and/or stability. Typically, a Conservative investor primarily seeks to minimize risk and loss of principal.

RP 2 Moderately Conservative – A moderately conservative investor values principal preservation, but is comfortable accepting a small degree of risk and volatility to seek some degree of appreciation. This investor desires greater liquidity, is willing to accept lower returns, and is willing to accept minimal losses.

RP 3 Moderate – A moderate investor values reducing risks and enhancing returns equally. This investor is willing to accept modest risks to seek higher long-term returns. A moderate investor may endure a short-term loss of principal and lower degree of liquidity in exchange for long-term appreciation.

RP 4 Moderate Growth – A moderate growth investor values higher long-term returns and is willing to accept considerable risk. This investor is comfortable with short-term fluctuations in exchange for seeking long-term appreciation. The moderate growth investor is willing to endure larger short-term losses of principal in exchange for the potential of higher long-term returns. Liquidity is a secondary concern to a moderate growth investor.

RP 5 Moderately Aggressive – A moderately aggressive investor primarily values higher long-term returns and is willing to accept significant risk. This investor believes higher long-term returns are more important than protecting principal. A moderately aggressive investor may endure large losses in favor of potentially higher long-term returns. Liquidity may not be a concern to a moderately aggressive investor.

RP 6 Aggressive – An aggressive investor values maximizing returns and is willing to accept substantial risk. This investor believes maximizing long-term returns is more important than protecting principal. An aggressive investor may endure extensive volatility and significant losses. Liquidity is generally not a concern to an aggressive investor.

IMPORTANT NOTES AND DISCLOSURES

The recommendations made for your actual portfolio will differ from any asset allocation or strategies outlined in this document. The model portfolios are not available to investors since they represent investment ideas, which are general in nature, and do not include fees. Your asset allocation will be customized to your preferences and risk tolerance, and you will be charged fees. You should ensure that your portfolio is updated or redefined when your investment objectives or personal circumstances change.

Diversification and asset allocation do not ensure a profit or guarantee against losses. Investing involves risk, including the possible loss of principal. Any data on past performance contained herein is no indication as to future performance. The value of any investment may fluctuate as a result of market changes. The information in this document is not intended to predict actual results, and no assurances are given with respect thereto.

Assumptions are estimates based on historic performance and an evaluation of the current market environment. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy, nor should they be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. The assumptions are subjective estimates based on circumstances and events that may not occur. Further, any valuations given in this document may not accurately reflect the values at which investments may actually be bought or sold, and no allowance has been made for taxation.

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Investing in securities involves risk. Stifel does not guarantee favorable investment outcomes, nor does it provide any guarantee against investment losses. You are urged to review all prospectuses and other offering information prior to investing. Past performance is not a guarantee of future performance. Rebalancing may have tax consequences, which you should discuss with your tax advisor.

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Led by Stifel Chief Investment Officer Michael O'Keefe, the Stifel CIO Office is comprised of several investment professionals. The team works collaboratively with other Stifel professionals to develop macroeconomic analysis, market analysis, strategic and dynamic asset allocation guidance, applied behavioral finance, and specific investment solutions for advisors and clients.

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One Financial Plaza | 501 North Broadway | St. Louis, Missouri 63102 | (314) 342-2000
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Investment Services Since 1890

One Financial Plaza | 501 North Broadway | St. Louis, Missouri 63102
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