

OUTLOOK 2024

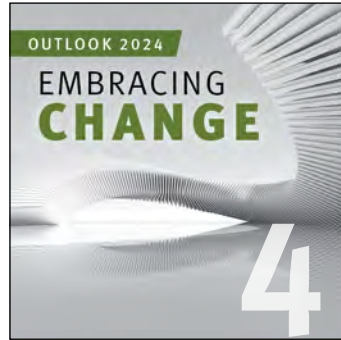
# EMBRACING **CHANGE**

STIFEL

# TABLE OF CONTENTS



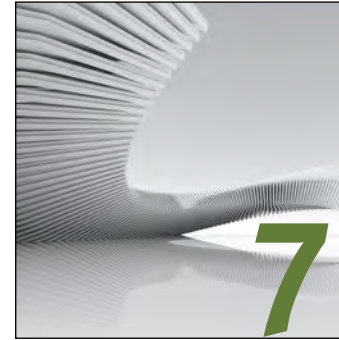
A Letter From Our Chief Investment Officer



A Brief Summary: Our Outlook Report



2023 Year in Review



Outlook 2024: Embracing Change



Allocation Insights



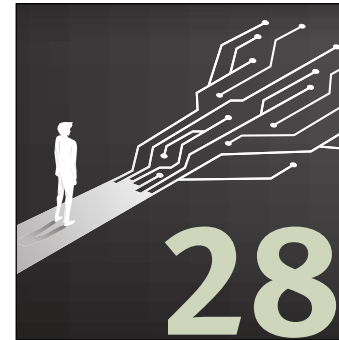
Washington Policy and Political Outlook



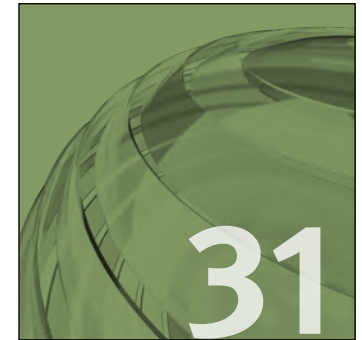
Geopolitical Risk Dashboard: A New World



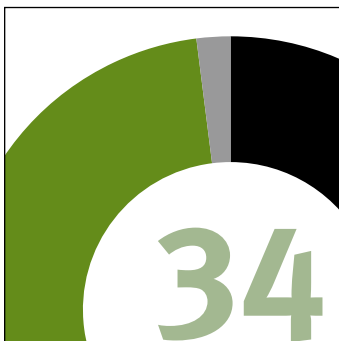
Investor's Handbook for Election Years



AI Revolution: Transforming Industries and Investments



How We Invest: Our Investment Management Process



Stifel's Approach to Asset Allocation



Where to Find Stifel Guidance



CIO Office Contacts



Index Descriptions



Disclosures



# A LETTER FROM OUR **CHIEF INVESTMENT OFFICER**

My team and I are very pleased to share our **2024 Outlook: Embracing Change**.

As has been our practice for the last few years, we find it helpful to review how our outlook themes each year have unfolded and how they relate to one another. Published before a new coronavirus emerged, our 2020 outlook centered on geopolitics with the theme “Decade of Productive Competition.” But the coronavirus pandemic caused us to refocus, and in our 2021 outlook we offered “Reflections and a Way Forward,” with a focus on reopening and moving life back toward normal.

For 2022 we identified “Balancing Acts” related to the challenges of reopening, like supply chain disruption, inflation, and geopolitical shifts being more permanent than first thought. Many issues remained unresolved as we entered last year, so our 2023 outlook centered on “Finding Balance” as we watched for cooler inflation, a less hawkish Federal Reserve (Fed), and equity market recovery. We analyze what happened last year in our article *2023 Year in Review*.

With all of this in mind, our outlook for 2024, “Embracing Change,” draws out the importance of accepting, and looking for opportunity in, how our world is rapidly changing. For example, *AI Revolution: Transforming Industries and Investments* shares how artificial intelligence will be used by individuals and companies today and into the future, changing lives and the way we do business. We revisit our focus on geopolitics with *A New World* – an update to our Geopolitical Risk Dashboard – and discuss how increasing protectionism is leading to policies aimed at safeguarding domestic industries.

We begin 2024 with tensions high in D.C., as Congress must first focus on two budget deadlines and a renewed risk of a government shutdown. And soon attention on the U.S. elections will build, with

the presidency, the House of Representatives, and 34 Senate seats up for grabs. *An Investor’s Handbook for Election Years* and *Washington Policy and Political Outlook* are provided to help us navigate the changes in D.C.

We also share again these other insights for 2024:

- 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 share our *2024 Outlook*, again providing our views for three possible scenarios for the coming year. Our base case is a bit more muted than in years past, informed by our view that the world is being transformed, with tailwinds like artificial intelligence and headwinds like the need for *Fiscal Transition* across our economy, given increased levels of debt and higher interest rates. We also comment on more positive and negative scenarios, and we include our guidance on portfolio positioning and dynamic leanings.

We hope you find our *2024 Outlook* informative and helpful. As always, we welcome your thoughts, observations, and comments. ■



**Michael P. O’Keeffe, CFA** | *Chief Investment Officer*



# A BRIEF SUMMARY: OUR OUTLOOK REPORT

- In 2023, the U.S. economy exceeded expectations, the S&P 500 gained 26.3%, and elevated bond yields marked the beginning of a *Fiscal Transition*.
- Entering 2024, we observe several enduring changes in the post-pandemic world that may well require a recalibration of market expectations.
- Long-term investors should benefit from confronting and assessing these changes, maintaining composure, and actively seeking ways to embrace the evolving landscape.
- We expect core Personal Consumption Expenditure (PCE) inflation to fall to 2.00%-2.25% by the end of 2024 and the Fed to potentially ease monetary policy with two or three 25-basis-point cuts in the second half of the year.
- Our base case outlook calls for a soft landing, but we acknowledge a reasonable chance of a mild recession. The consumer, who of late may well be “spending beyond their means,” will be an important factor.
- We’re anticipating positive calendar year returns for stocks (6.3%), but with increased volatility and market weakness at some points throughout the year. We believe consensus forecasts for earnings growth are too optimistic.
- We believe we are in a new interest rate regime and expect interest rates to remain well above their pre-COVID levels in this new business cycle. We expect the 10-year Treasury to be less volatile in 2024 and remain range-bound between 3.75%-4.25% for much of the year.
- Congress must confront several pressing items in January, including averting a government shutdown, addressing the debt ceiling, and passing a foreign aid supplemental package.
- The economy will be a key factor in the presidential election. Historically, a recession within two years of the election spells trouble for the incumbent, while sitting presidents during an expansion in those two years are typically reelected.
- Rising geopolitical risks continue to influence the global economy and financial markets, and the world is growing more divided.
- Our Geopolitical Risk Dashboard includes a new theme, *Financial Instability*, which contemplates how the significant buildup of debt since the Great Recession and higher rates could spell trouble for consumers, corporations, and governments.
- Artificial intelligence (AI) is emerging as the next transformative force with the potential to transform the labor market, increase productivity, and spur innovation.
- We remain focused on quality. In equities, we have a preference for companies that have strong balance sheets, considerable pricing power, and the ability to grow dividends. Within fixed income, the investment-grade bond market offers attractive yields and valuations. ■

# MACROECONOMIC OVERVIEW

## 2023 YEAR IN REVIEW

We anchored our 2023 outlook on us *Finding Balance* on the paths for inflation, monetary policy, and the economy, which we anticipated would initiate a new bull market and cycle of economic growth. We identified eight “signposts” for finding balance, many of which were met, including the labor market moving closer to equilibrium, consumer confidence troughing, and company earnings holding up.

Throughout the year, however, new risks and uncertainties emerged. Five U.S. banks failed, Treasury yields spiked, geopolitical tensions intensified, and there was political drama in D.C. This forced the Fed to maintain its delicate balancing act aimed at reining in inflation without triggering a recession. Despite this turbulence, the U.S. economy grew above its long-run trend and the S&P 500 ended the year with a 26.3% gain.

### **Soft landing hopes revived.**

The U.S. economy defied expectations for a slowdown, prompting the Fed and economists to drop their forecasts for a recession and reigniting investor hopes for a soft landing. Consumer spending was the main driver, supported in part by a still tight labor market and rising real wages. The unemployment rate averaged 3.6% throughout 2023, while real average hourly earnings grew 0.8% through November. The job market showed signs of loosening as the year progressed, with the number of job openings falling and jobless claims rising. The economy is estimated to have expanded 2.4%, meaningfully above the 0.3% consensus forecast at the start of the year.

### **Inflation eases, but challenges persist.**

The Fed’s aggressive tightening of monetary policy and easing supply chain pressures resulted in a gradual easing of inflation. The consumer price index (CPI) fell from its peak of 9.1% year over year in June 2022 to 3.1% in November, still above the Fed’s stated goal of 2% per year. Core services, which include housing, remained elevated, keeping the CPI above the Fed’s target. Real-time housing inflation measures, like the Zillow Rent Index, fell to pre-pandemic levels, suggesting the CPI component should eventually catch up.

### **Higher for longer, we mean it.**

Investors and the Fed remained in an ongoing wrestling match, grappling with the timeline for rate cuts. Contrary to consensus expectations, the Fed raised the federal funds rate 100 basis points to a target range of 5.25%–5.50%. Chair Jerome Powell stuck to the “higher for longer” message to prevent the entrenchment of inflation expectations and to keep the market from preemptively pricing in cuts. The December Fed meeting marked a turning point with Fed officials shifting the debate from how high to raise the policy rate to when to begin easing policy.



# CAPITAL MARKETS

## **An AI-fueled rally, a correction, and then a year-end rebound for U.S. stocks.**

Enthusiasm around AI propelled mega cap tech stocks, with seven companies making up 90% of the S&P 500's 16.9% surge in the first half of 2023. The equal-weighted S&P 500 saw a 7.0% gain through June, helped by moderating inflation and good economic data.

Renewed inflation concerns and Fed rate hike fears triggered a 10% dip from July to October. Markets recovered in the year's final months as inflation reports showed prices cooling again, culminating in full-year total returns of 26.3% for the S&P 500, 13.9% for the equal-weighted S&P, and 55.1% for the Nasdaq 100. Small caps, represented by the Russell 2000, returned 16.9%.

## **Non-U.S. markets were mixed as Japanese stocks outperformed while China weighed on emerging markets.**

The broader non-U.S. equity complex, as measured by the MSCI All Country ex USA Index, ended the year up 15.6% (USD), trailing U.S. stocks. Japan was a standout performer, gaining 20.3% (USD), as economic growth was robust and the country saw inflation after a prolonged period of deflation. China's economic recovery faltered, and renewed worries about its property market weighed on sentiment. The MSCI China Index declined 11.2%.

## **A surge in bond yields ushers in the start of a *Fiscal Transition*.**

The yield on the 10-year U.S. Treasury reached 5.0%, before ultimately ending the year at 3.9%, a level last seen prior to the Great Recession. While the **catalysts** for this rise could be debated, market participants seemingly accepted we are in a new regime for interest rates, with forward rates signaling the 10-year yield will remain above 4% for decades. This rise in rates spotlighted the significant increase in debt over the last 15 years, which, mixed with a higher rate regime, could spell trouble and put us on a course for a *Fiscal Transition*.

The Bloomberg U.S. Aggregate Index returned 5.5% while the Bloomberg U.S. Municipal Bond Index returned 6.4%. High-yield bonds as measured by the Bloomberg Corporate High Yield Index were up 13.5%. ■



# EMBRACING CHANGE

Entering 2024, the world appears to be normalizing from the pandemic imbalances as, with the benefit of time, we are beginning to discern the enduring transformations that have taken root. These changes indicate a shift into a new regime with evolving market and economic dynamics that require a recalibration of market expectations for the years ahead.

Higher rates are here to stay, initiating a *Fiscal Transition* for consumers, businesses, and governments. The pandemic and increasing protectionism are compelling countries and businesses to diversify supply chains, leading to elevated costs. Against the backdrop of escalating geopolitical tensions, over 40 percent of the global population, including the U.S., is set to head to the polls in 2024, potentially impacting domestic and foreign policy. Moreover, generative AI stands on the cusp of reshaping industries and the economy.

To successfully navigate these shifts, long-term investors must confront and comprehend these changes, maintain composure, and actively seek ways to embrace the evolving landscape, recognizing that “change is the only constant in life.”

## INFLATION – CLOSER TO TARGET

For the last two years, inflation’s trajectory has been the main variable influencing our view of monetary policy, consumers, businesses, the economy, and markets. While inflation uncertainties persist, risks are now more balanced. We anticipate core PCE inflation to decelerate, reaching 2.00%-2.25% by year-end, slightly below the Fed’s latest projections. We believe shelter prices will cool further as existing lease renewals continue to catch up to market rates and services price pressures ease as consumers dial back on spending.

The labor market remains tight, but labor supply and demand continues to come into better balance. We expect more progress in 2024 with wage growth ultimately falling to the Fed’s target range of 3.0%-3.5%, which is a level consistent with 2% inflation. This labor market balance should result from a slowing economy, layoffs, fewer job postings, and a requisite increase in unemployment.



We continue to monitor how companies may manage their workforce and margins amid increasing interest costs and capital spending for things like AI capabilities. We're also mindful of the potential for structural forces like worker shortages and imperfect job matches to continue to put upward pressure on wages.

## **MONETARY POLICY – A PIVOT TO EASING**

After years of being squarely focused on taming inflation, the Fed seems poised to shift its focus back to both sides of its dual mandate: price stability and maximum employment. In the final monetary policy meeting of the year, Fed Chair Powell reaffirmed the notion that inflation doesn't have to get to its target of 2% for the Fed to begin cutting rates. This allows the Fed to possibly orchestrate a soft landing for the economy, potentially bringing inflation down further without the large job losses that have been historically associated with high inflation and tightening cycles.

As a result, many market participants have interpreted this to mean that the Fed will begin easing policy as early as March. We continue to believe the consensus view is too optimistic, as the tight labor market, a strong economy, and the specter of resurging inflation will mean the Fed will stand pat on its current policy. We expect the Fed may begin to cut rates in the second half of 2024 for a total of 0.50% to 0.75% before year-end.

The Fed's monetary policy continues to play a key role in direction of the economy going forward.

## **ECONOMY – SLOWDOWN STILL TO COME**

Recession or not, as we push forward into 2024 we maintain our 2023 view that economic growth will be muted. We still see a reasonable chance of a soft landing (0.0% to 1.0% GDP growth), but acknowledge a reasonable chance of a mild recession (-0.1% to -0.5% GDP growth).

The consumer, who of late may well be "spending beyond their means," will be an important factor. Decelerating inflation would improve real incomes, but a slowing economy, rising unemployment, and diminished excess savings may erode consumer confidence and mute spending.

As mentioned, business activity will also be in focus as we monitor spending and how companies handle increasing debt costs and a decline in consumer activity.

	<b>2024 FORECAST</b>
<b>U.S. Real GDP</b>	0% – 1.0%
<b>Core PCE Inflation (4Q/4Q)</b>	2.00% – 2.25%
<b>Federal Funds Rate (Upper Bound)</b>	4.75% – 5.00%



## ASSET CLASS FORECASTS

### Stocks

We're anticipating muted but positive calendar year returns for stocks in 2024, helped in part by stabilizing interest rates. We will likely need to weather increased volatility and market weakness at various points as the year progresses, especially approaching the U.S. presidential election in November.

Of course, earnings always play an important role. Cooling inflation and wage pressures will help company profit margins, while advances in AI present efficiency opportunities. However, geopolitical tensions and shifting supply chains pose challenges. At present, the consensus bottom-up earnings growth forecast for the S&P 500 is 11.5%. We believe this is too optimistic, possibly influenced by recency bias with analysts focused on the strong economy in 2023.

We see earnings growth more in line with our long-term estimate of 6.5% as the lag effect of monetary policy kicks in and influences company results. This assumption, coupled with a modest price-earnings multiple reduction from elevated levels in late 2023, leads us to an S&P 500 forecasted 2024 total return of 6.3% and a related target of 5,000 at year-end.

### Bonds

We believe we are in a new interest rate regime and expect interest rates to remain meaningfully above their pre-COVID average in this new business cycle. We expect the 10-year Treasury to be less volatile in 2024 and remain range-bound, hovering much of the year between 3.75%-4.25%.

The 3-month T-bill and 2-year Treasury had yields of 5.3% and 4.3%, respectively, at the end of the year, so the yield curve remains inverted. As inflation cools further and investors gain more confidence in a

Fed pause and eventual easing later in the year, we expect the curve to flatten and possibly become positively sloped, driven by a decline in shorter yields.

As we've discussed, credit spreads often widen out during a recession, putting downward pressure on bond prices. But given our view of muted economic growth instead of a deeper recession, we believe spreads will remain reasonably well behaved, with investment-grade corporate spreads between 1.25%-1.75% and below-investment-grade (high-yield) spreads ranging from 4.00%-4.50%.

Given the higher yields on bonds as we start the year, these forces combine to an expectation for positive bond market returns. We see fixed income remaining an important part of an asset mix strategy for two reasons: 1) bonds generate reliable income, helpful to investors drawing on and spending portfolio income, and 2) the diversification benefits of bonds when combined with stocks, softening total portfolio volatility.

	2024 FORECAST
<b>S&amp;P 500</b>	5,000   6.3% (Total Return)
<b>10-Year Treasury (%)</b>	3.75% – 4.25%
<b>Market Pulse Publications*</b>	25
<b>Investment-Grade Spreads (bps)**</b>	125 – 175 bps
<b>High-Yield Spreads (bps)</b>	400 – 450 bps

\* 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.

## WHAT ARE SOME OF THE CHANGES IN THE WORLD CREATING OPPORTUNITY FOR INVESTORS TO **EMBRACE THIS TRANSFORMATION?**

**3** Higher debt and higher rates and the ensuing *Fiscal Transition* call for greater focus, and opportunities, in debt and equity investing.

*In focus:* Companies with prudent capital allocation and manageable debt burdens that are poised to successfully navigate higher debt and rising rates while potentially capturing market share from competitors.

**1** AI is rapidly changing how businesses improve processes and productivity.

*In focus:* Semiconductors, cloud computing, data storage, and cybersecurity companies driving AI advancements. Explore opportunities in AI applications within healthcare, industrials, finance, and retail.

**2** The structural effects of the pandemic highlight the need for new supply chain and infrastructure investments.

*In focus:* Companies in strategic industries prioritized amid rising geopolitical tensions and supply chain restructuring. Consider investments in logistics services and infrastructure development.

**4** The 2024 global election supercycle, with 40 major elections, may well transform the geopolitical landscape.

*In focus:* Remain diversified and stick to your long-term objectives. Be prepared for risks and opportunities that may arise based on potential policy changes stemming from the election supercycle.

**5** Increasing geopolitical tensions are amplifying further deglobalization.

*In focus:* In addition to being diversified, consider companies benefiting from increasing militarization and defense spending. Identify companies that are able to execute well globally and penetrate local markets.



## THE BULL AND BEAR STILL HAVE FAT TAILS

Predicting what may happen in 12 months is difficult, as most forecasts, especially point forecasts, are almost always wrong to some degree. In response, we have a practice of developing three scenarios – our “base case,” as discussed above, a more positive “bull case,” and a more negative “bear case.” We do this to better understand what might happen and answer the question, “What if we are wrong?”

We also try to gauge the likelihood of these upside and downside scenarios. In risk analysis, upside and/or downside risk are said to have “fat tails” when the chances of them happening are increased. And we believe that is the case again this year. We’ve assigned a 55% probability to our base case, a 25% probability to the bear case, and a 20% probability to the bull. These are fat tails, as was the case for our 2023 scenarios.

Let’s run through how our scenarios differ across three key considerations looking forward: the consumer, earnings, and animal spirits.

### Scenario Descriptions:

<h4>THE CONSUMER</h4> <p>Consumption makes up about two-thirds of U.S. GDP, so how the consumer behaves during the year will greatly influence outcomes.</p>	<h4>EARNINGS</h4> <p>Actual earnings and views about future earnings will continue to drive market performance.</p>	<h4>ANIMAL SPIRITS</h4> <p>Investors, the consumer, and business leaders are all affected by animal spirits, or how emotions drive behavior, including consumer confidence.</p>
<p><b>Bear case   Deep Recession</b></p> <p>The pain of higher rates, more layoffs and fewer jobs, and worries about geopolitical hotspots and the election causes the consumer to slow spending much more than expected.</p>	<p><b>Bear case   Deep Recession</b></p> <p>Higher rates illustrate the fiscal challenges facing companies in 2024, and this, combined with a much less engaged consumer, triggers an unexpected earnings recession.</p>	<p><b>Bear case   Deep Recession</b></p> <p>A slowdown in economic growth and global contagion greatly erode animal spirits, which would be magnified even more with a geopolitical shock, like the Israel-Hamas war expanding or conflict in Taiwan.</p>
<p><b>Bull case   Irrational Exuberance 2.0</b></p> <p>Higher rates and a slightly softer job market don’t discourage consumers, who continue “spending beyond their means.” Companies are reluctant to lay off workers as one of the lasting effects of the pandemic.</p>	<p><b>Bull case   Irrational Exuberance 2.0</b></p> <p>Businesses manage well through the start of the <i>Fiscal Transition</i> started by higher rates and increased debt, and this, combined with increased consumer demand, results in double-digit earnings growth.</p>	<p><b>Bull case   Irrational Exuberance 2.0</b></p> <p>2024 becomes a period of Irrational Exuberance 2.0, with businesses and consumers more confident than they probably should be, driving animal spirits higher.</p>

# ALLOCATION INSIGHTS

## NAVIGATING UNPREDICTABLE MARKET FORCES

For nearly two years, our dynamic asset allocation (DAA) has remained predominantly neutral versus our longer-term strategic asset allocation (SAA). This neutral stance, derived from a lack of conviction amid the extraordinary uncertainties and wide range of potential outcomes stemming from the pandemic, proved prudent.

The U.S. economy defied expectations for a slowdown, inflation continued to cool, and interest rates surged. Despite this being an environment that would traditionally favor value stocks, the dominant drivers of the S&P 500's return were seven mega cap technology stocks, emphasizing the unpredictable nature of market forces.

Outside the U.S., the consensus was weary of European equities given concerns over energy supply and positive on China due its economic reopening. Contrary to expectations, Europe performed relatively well while Chinese equities declined.

This circumstance underscores three key aspects of our investment philosophy:

**1. Long-term anchoring:**

Our investment approach is anchored in a long-term view, and we believe a portfolio aligned with our strategic asset allocation is well positioned for that investment horizon.

**2. Deliberate neutrality:**

Our neutrality reflects an active decision informed by our macroeconomic and market analysis.

**3. Humility in asset allocation:**

We approach asset allocation with humility, recognizing the difficulty of market calls and timing, so our dynamic shifts occur when we have strong conviction.





# ALLOCATION **INSIGHTS** *(continued)*

## ENTERING A NEW REGIME

As we step into 2024, a global shift is underway, accompanied by evolving market and economic dynamics. Investors should recalibrate their portfolios for a new era in which interest rates are higher, money has a cost again, and our economy will be facing headwinds related to a *Fiscal Transition*. Our key allocation insights as we start the year include:

### **1 EMBRACE THE UNPREDICTABLE**

One key lesson from the last few years is that anything can happen. And as we discuss in this report, there's no shortage of risks on the horizon, including the global election supercycle and the possibility of a recession. However, markets often prove to be resilient over the long term despite various shocks – whether it's inflation, recession, or geopolitical crisis.

In response, we feel an investor's strategy for long-term success is clear: embrace the unpredictable. Diversify your portfolio to soften the impact of the unforeseeable risks, and view uncertainty as opportunity. Avoid staying on the sidelines and devise a plan to deploy excess cash methodically with your long-term goals in mind.

### **2 BACK TO THE FUNDAMENTALS**

A new interest rate regime means rates will likely remain above levels we grew to expect in the years following the Great Recession. This brings into further focus the meaningful increase in debt over the last 15 years and the need for a more judicious approach to capital allocation.

We believe this is an environment where companies with strong balance sheets and manageable debt will likely outperform, and skilled active managers in both equity and fixed income will see more opportunity to create relative value.

### **3 STRENGTHEN YOUR FOUNDATION**

The case for a traditional 60/40 stock and bond portfolio is even stronger now than a year ago. With yields now much higher and the global economy slowing, bonds are better positioned to provide diversification and stability in a portfolio, which should boost investor confidence.













We continue to advocate for rebalancing even in volatile markets, and we recommend investors look to broaden equity exposure beyond mega cap technology stocks. Qualified investors may explore “alternative investments” as an added layer of diversification.

### **4 LONG-TERM IS NOT SO LONG**

AI is a key element of our Fourth Industrial Revolution theme, one of the five megatrends we see influencing the direction of the economy and markets longer term. Moreover, there's an abundance of opportunities emerging across all of our themes, including AI, as companies integrate and adapt disruptive technology into their business models.








*The future is now. ■*

# ALLOCATION **INSIGHTS** *(continued)*

DYNAMIC LEANINGS			 Underweight	 Neutral	 Overweight
ASSET CLASS	CURRENT			COMMENTS	
EQUITY					
	<b>U.S. Equity vs. Non-U.S. Equity</b>				
	<b>U.S. Large Cap vs. U.S. Small Cap</b>				
	<b>U.S. Large Value vs. U.S. Large Growth</b>				
	<b>Non-U.S. Developed Markets vs. Emerging Markets</b>				
<b>Europe vs. Japan</b>					



# ALLOCATION **INSIGHTS** *(continued)*

		<b>DYNAMIC LEANINGS</b>			<b>COMMENTS</b>	
		<b>Underweight</b>	<b>Neutral</b>	<b>Overweight</b>		
<b>ASSET CLASS</b>	<b>CURRENT</b>					
<b>FIXED INCOME</b>	<b>U.S. Investment Grade vs. U.S. High Yield</b>					We favor a quality tilt and prefer investment grade for passive investors. Spreads for high yield remain tight and do not appropriately reflect the increased risk of recession and credit deterioration, in our view.
	<b>Corporates vs. Government vs. Agency MBS</b>					We have a modest preference for government and mortgage-backed securities relative to investment-grade corporate bonds, which can be expressed with passive investments or may be implemented by active managers. Agency MBS spreads remain well above their 2021 lows, and both fundamental and technical factors are supportive of this sector. Treasury yields remain attractive and should provide an added diversification benefit if the economy deteriorates.
	<b>Duration</b>					
<b>ALTERNATIVES</b>	<b>Private Assets</b>					For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of private equity, private debt, and/or private real estate can be considered as part of a diversified portfolio.
	<b>Hedge Funds</b>					For investors interested in alternative investments and able to handle less liquidity who have conviction about manager skill, exposure to hedge funds can be a helpful part of a diversified portfolio. This is especially true in volatile, low-return environments.

# WASHINGTON POLICY AND POLITICAL OUTLOOK

Contributed by Brian Gardner | Chief Washington Policy Strategist

*The 2024 presidential election will, to a large extent, influence the congressional and regulatory agendas for the coming year. The following reviews Washington's agenda for next year and provides an early forecast for the 2024 elections.*

## A BUSY START TO 2024

In January, Congress must confront several pressing items, including averting a government shutdown and passing a foreign aid supplemental package.

Congress will face funding deadlines of January 19 and February 2, and as of this writing, negotiators have made little progress toward passing the related appropriations bills. If appropriations bills are not passed, then Congress may pass another short-term continuing resolution (CR) to buy more time to negotiate, or even pass a full-year CR. In the absence of passing funding bills, parts of the government will shut down.

Our base case is a partial government shutdown beginning in late January, especially given that Speaker of the House Mike Johnson (R-Louisiana) opposes another short-term CR.

Government shutdowns can be disruptive to government workers (including the military), who are not paid while their agencies are not funded, as well as companies relying on government services. For example, if unfunded, the Securities and Exchange Commission (SEC) would not be able to process registration statements, which could negatively impact the capital markets. Often, these impacts are short-lived and usually are reversed once the government reopens, so the long-term economic effects are minimal.

For this reason, markets often ignore government shutdowns. For example, during the 34-day shutdown that started in December 2018 and ended in January 2019, the S&P 500 rose by over 10%. Market and geopolitical factors may well continue to influence markets more than a shutdown.

Also, the Fiscal Responsibility Act (aka the debt ceiling deal) sets budget caps for discretionary spending. Unless Congress passes individual appropriations bills or waives the FRA caps as part of a CR (both unlikely), a sequestration is scheduled for April 30. If this occurs, defense spending would decrease to \$850 billion from the original cap of \$886 billion (and down from the fiscal year 2023 level of \$858 billion), and nondefense discretionary spending would increase to \$736 billion from the original cap of \$704 billion (but down from the fiscal year 2023 level of \$744 billion).

In early 2024, Congress might consider a foreign aid supplemental bill to provide additional assistance for Ukraine, Israel, and Taiwan. The Biden administration also requested additional funds for U.S. border security, but members of both parties are also pushing for changes in U.S. immigration policy. There has also been growing Republican opposition to additional

# WASHINGTON POLICY AND POLITICAL OUTLOOK

*(continued)*

aid to Ukraine, especially among House Republicans, who have leverage to extract concessions. At the same time, progressive Democrats oppose some of the immigration policy changes. With the foreign aid bill at risk, some may question America's commitment to international engagement, which may increase geopolitical risks over the long term.

## REGULATORS RACING TO BEAT THE ELECTION

The Biden administration will be racing to finish many outstanding regulatory proposals before the 2024 election. The Congressional Review Act (CRA) established a framework under which Congress can vote to block new regulations. Under the CRA, Congress has 60 legislative days to introduce legislation to block a rule. And if Congress adjourns before the end of the 60-day period, the clock partially resets. So the Biden administration will seek to finalize as many rules as possible to ensure the CRA occurs with the current Congress, lest Republicans sweep the 2024 elections and overturn proposed regulations that did not beat the CRA process.

Among the rules in focus:

- New bank capital rules for banks with more than \$100 billion in assets;
- Climate risk disclosure rules (SEC);
- Equity market structure rules (SEC); and
- Fiduciary rules for retirement accounts (Department of Labor).

In early 2024, we also expect the administration to finalize guidance on rules for tax credits that were part of the Inflation Reduction Act, including clean hydrogen tax credits. In addition, the SEC could announce its decision on whether to approve the first spot bitcoin ETF. Also, the Consumer Financial Protection Bureau is likely to release a final rule regarding credit card late fees.



## ELECTION 2024: THE RERUN NO ONE WANTS TO WATCH

### *Presidential Race*

Entering 2024, it appears highly likely that Donald Trump and Joe Biden will be renominated by their respective parties. In a replay of 2020, we currently view Mr. Trump as a slight favorite, but note this will likely change multiple times in the coming year.

Mr. Trump is the clear favorite to win the Republican nomination. He holds large leads nationally as well as in the key early states of Iowa and New Hampshire. While either Ron DeSantis or Nikki Haley could gain traction late, the chances of either candidate beating Mr. Trump seem remote especially in the wake of a recent ruling by the Colorado Supreme Court. That court ruled that Mr. Trump is ineligible to hold office because he violated the 14th Amendment's prohibition against insurrection and is thus ineligible to be on the state's primary ballot. Putting aside the constitutional issues of the case, the ruling is likely to create a backlash that benefits Mr. Trump and puts his Republican rivals at an enormous disadvantage.

On the Democratic side, President Biden's poll numbers are weak, and many Democrats have reservations about his ability to serve a second term. However, Mr. Biden is the overwhelming favorite to be the Democratic nominee. While there is a remote chance Mr. Biden will reverse course and decide not to run, he would likely wait until the last possible moment to forestall lame duck status as long as possible. If Mr. Biden withdraws, Vice President Kamala Harris has an advantage, but other Democratic candidates may emerge.



# WASHINGTON POLICY AND POLITICAL OUTLOOK

(continued)

A Biden/Trump rematch is unprecedented and unusual on many levels.

- Pending an appeal of the Colorado case to the U.S. Supreme Court, it is possible that Mr. Trump would not be on the ballot in every state.
- No major party candidate has run for election while under criminal indictment, much less multiple indictments.
- Biden and Trump represent the two oldest candidates ever to face each other.
- Not since 1892 has a president lost reelection and tried a comeback four years later, when Grover Cleveland was elected, the only former president to make such a successful comeback.
- Also, numerous third-party candidates could still have a material impact on election results.

The economy will be a key factor in 2024. Historically, a recession within two years of the election spells trouble for the incumbent, while sitting presidents during an expansion in those two years are typically reelected. With that said, Mr. Biden's approval rating on the economy is 37.3 percent according to the RealClearPolitics average, suggesting he is vulnerable on the economy unless his approval rating rises in 2024.

Mr. Biden trails Mr. Trump in most national polls and many key states, with historically strong support from key segments of the Democratic coalition (notably young voters, Black voters, and Hispanic voters) waning. For example, some polls show over 20 percent of Black voters would support Mr. Trump, but some may well "return home" to the Democratic Party and vote for Mr. Biden. Even if some disaffected Democratic voters ultimately vote for Biden, he risks losing key voters due to the lack of enthusiasm among his base. Finally, the Middle East conflict is also straining the Democratic coalition, with some sympathetic to Israel and others to Palestine. For example, Arab Americans, a key group in the swing state of Michigan, are unhappy with Mr. Biden's Middle East policy.

While Mr. Trump will campaign heavily on the economy (he scores higher than Mr. Biden with voters on the topic), the wild card(s) for Mr. Trump are the criminal prosecutions. While the prosecutions may rally Republican voters to Mr. Trump and help him win the GOP nomination, they could work against him in the general election. A recent *Wall Street Journal* poll showed Trump's national lead over Biden reversing if Mr. Trump were convicted in either the January 6 or classified documents case.



# WASHINGTON POLICY AND POLITICAL OUTLOOK

*(continued)*

As many as five third-party candidates may well influence the presidential election, perhaps by affecting the outcome in key states: Robert F. Kennedy, Jr. (independent), Jill Stein (Green Party), Cornel West (independent), a Libertarian Party candidate, and any candidate running under the No Labels banner, such as Joe Manchin or Liz Cheney. While it remains to be seen in which states these candidates will qualify for the ballot, on balance, according to a recent Bloomberg/Morning Consult poll, the third-party candidates may hurt Mr. Biden more than Mr. Trump.

2024 starts with Donald Trump as a slight favorite to win the presidency.

## ***Senate***

The 2024 Senate map favors Republicans slightly. Thirty-four Senate seats are up for election, with 23 defended by Democrats, some in highly competitive races. Republicans are heavily favored to win the West Virginia seat following Joe Manchin's retirement, and other competitive races are expected in Arizona, Michigan, Montana, Nevada, Ohio, and Pennsylvania. Republicans will defend 11 seats, with most considered "safe." Democrats' best chances to flip a Republican seat are still longshots in Florida and Texas.

A stronger-than-expected showing by Mr. Biden could limit Democratic losses, while a Trump win could mean additional GOP gains in the Senate.

## ***House***

Democrats could benefit from the redrawing of congressional maps in Alabama, Louisiana, South Carolina, and especially New York. Conversely, a new map in North Carolina could help Republicans, but on balance, maps where the courts have forced revisions should benefit Democrats. Even with the new maps in these five states, the House will likely follow the presidential election.

## **LOOKING TO 2025**

Although 2025 seems a long way away, investors should consider tax law changes that may occur following the presidential election. Key parts of the Jobs and Tax Cuts Act of 2017 will expire at the end of 2025, including:

- Lower individual income tax rates;
- Changes in the alternative minimum tax;
- A 10 percent cap on the state and local tax deduction;
- A framework for pass-through businesses; and
- An increase in the estate tax exemption.

Some estimate the cost to extend the expiring 2017 tax cuts could exceed \$3 trillion over 10 years. The topic may be included in the upcoming fiscal cliff and debt ceiling debates, and Congress could also consider raising revenue from other sources, including the corporate income tax, to offset revenue "lost" from extending some of the 2017 tax cuts. ■

# GEOPOLITICAL RISK DASHBOARD: A NEW WORLD



*The world has been shifting from an era of globalization to one marked by increased localization and protectionism, increasing geopolitical risks, and uncertainty. Recent events, such as Brexit, the pandemic, Russia’s invasion of Ukraine, the war in the Middle East, and U.S.-China competition, underscore this transition. The Stifel Geopolitical Risk Dashboard aims to identify and assess the likelihood and potential market impact of key geopolitical risks and events.*

*Below we discuss the interconnected themes that are shifting the world order, provide an update on some geopolitical risks to monitor in 2024, and highlight potential opportunities for investors.*

*The word “geopolitics” was mentioned in company earnings calls and filings nearly 12,000 times in 2023, almost three times as more than just two years ago.*

## THEMES INFLUENCING OUR GEOPOLITICAL DASHBOARD

### Increased Localization and Protectionism

Companies and countries continue to rethink their supply chains, evident in policies aimed at safeguarding domestic industries and controlling the flow of goods and services. A McKinsey survey of supply chain leaders found that almost two-thirds of respondents are currently regionalizing their supply chains, up even from the inflated 44 percent level in 2022. Emerging beneficiaries include Southeast Asia and Mexico, with the latter experiencing record foreign direct investment (FDI) in third quarter 2023, and a projected \$150 billion in FDI over the next decade.

### A More Divided World

Global divisions are deepening, with Western democracies aligning with the U.S. and authoritarian nations with Russia and China. Last year, the BRICS bloc of developing nations (Brazil, Russia, India, China, and South Africa) expanded its membership to include six new countries, including Saudi Arabia and Iran, while NATO welcomed Finland to the alliance. A Bloomberg Economics analysis found that close to \$180 billion in FDI shifted across geopolitical blocs from countries that declined to condemn Russia’s invasion of Ukraine to those that did. And the Israel-Hamas conflict may accelerate this theme.



# GEOPOLITICAL RISK DASHBOARD: A NEW WORLD

(continued)

The speed of information flow, with news available instantly on our mobile phones, may be deepening the divide, especially with social media and AI-driven feeds channeling content designed to excite and energize people on their favored topics. As a result, people may be “picking sides” more quickly and with greater emotion and conviction. In addition, AI enables bad actors to create inauthentic content intentionally designed to amplify their messages and deepen the divide even more.

*European Central Bank President Christine Lagarde declared that “we are witnessing a fragmentation of the global economy into competing blocs, with each bloc trying to pull as much of the rest of the world closer to its respective strategic interests and shared values.”*

## GEOPOLITICAL DASHBOARD

### Financial Instability

This year, our Geopolitical Risk Dashboard includes a new theme, *Financial Instability*, which contemplates how the significant buildup of debt since the Great Recession and higher rates are leading to a *Fiscal Transition* that could spell trouble for consumers, corporations, and governments. Consumers will be forced to manage debt more carefully, with the increase in loan defaults and individual bankruptcies causing pain for some individuals and potentially slowing the economy. Companies will have to adjust their capital allocation practices and

manage existing debt, with financially weak companies failing. And the political debate around topics like spending, deficits, and debt will come into greater focus. There are increasing risks that this *Fiscal Transition* could fuel severe economic and market pain both in the U.S. and elsewhere around the world.

### New Cold War

U.S.-China and U.S.-Russia strategic competition for economic and social influence have been evolving into hostile actions. Cybersecurity attacks, election meddling, corporate espionage, and military assertiveness are examples of this theme. The Russia-Ukraine war remains a focal point, with no signs of resolution while competing alliances are further solidifying. Russia has doubled down on its military partnership with North Korea and China, which could prolong the war in Ukraine and even increase the risk of provocations on the Korean Peninsula and in the South China Sea and Taiwan. Taiwan’s presidential election on January 13 could be a turning point for the nation, depending on the outcome. China calls the race a “choice between war and peace,” and the latest polls suggest that the pro-U.S. candidate has the advantage. We don’t see imminent conflict in any of these regions, but tensions and pressure may build as the year progresses.

### Middle East Conflict

Our base case scenario sees the Israel-Hamas conflict remaining contained with limited impact to global equity markets and oil prices. However, the longer the conflict goes on, the greater the risk that others will join the war. If Iran becomes more directly involved, any support from Russia or China, given recent cooperation, would lead to even wider geopolitical ramifications. Any escalation would disrupt the flow of oil and lead to higher inflation, while also likely putting at risk recently improving Israeli relations with some Arab states.

# GEOPOLITICAL RISK DASHBOARD: A NEW WORLD

(continued)

## U.S.-China Competition

The U.S. and China are locked in a great power struggle, with both nations aspiring for global dominance. While the U.S. aims to uphold its leadership, China seeks greater economic and geopolitical influence. To that end, the U.S. is focused on deterring China's technological progress and announced new export bans and restrictions on investments, prompting China to counter with limitations on rare earth mineral exports crucial for semiconductors and electric vehicles. China is also increasingly focused on swaying foreign diplomacy. Last year, for example, China outlined a peace proposal for Ukraine and brokered a Saudi Arabia-Iran deal. We expect the 2024 elections may intensify risks as both presidential candidates will take an aggressive stance on China, likely causing market volatility and potentially impacting the top and bottom lines of multinational corporations.

## INVESTMENT CONSIDERATIONS

The shifting geopolitical landscape is creating risks and opportunities. Investors should consider a diversified portfolio to better manage idiosyncratic risks. A portfolio that's diversified across and within asset classes and geographic regions would likely be less susceptible to geopolitical shocks. Increased localization and protectionism will require business logistics services and infrastructure development as companies build new factories and restructure their supply chains. This will create tailwinds for many industrial and technology companies.

Conflicts like the wars in Ukraine and Gaza, along with heightened rivalry between the world's great powers, are leading to increasing militarization and defense spending. We believe this will also translate into a greater need for self-reliance and protection of critical industries like technology, manufacturing, agriculture, and energy. Our major investment themes *Securing Strategic Resources* and *Productive Competition* take these forces into account as we develop our investment views and manage portfolios.

## GLOBAL ELECTION YEAR

*In 2024, more than 40% of the world's population will be voting in 40 national elections, including the U.S. This has the potential to reshape the geopolitical landscape, influencing policies, international relations, and the direction of many of our geopolitical risks.*



# GEOPOLITICAL DASHBOARD

EVENT	LIKELIHOOD	MARKET IMPACT	DESCRIPTION
U.S.-China Competition	10	7	Competition for global leadership will impact markets; tech will continue to play an important role. The U.S. Department of Defense sees China as the “most consequential strategic competitor.”
The New Cold War	8	8	The Russia-Ukraine war continues to solidify alliances and competing geopolitical blocs. U.S.-China and U.S.-Russia competition for influence is increasingly hostile.
Emerging Market (EM) Political Uncertainty	8	5	EM countries are still facing elevated inflation and political instability, potentially contributing to inequality, political interference, and populist ideas. Key elections in 2024 will shape the trajectory of these challenges.
Cyberattacks	8	5	Growing digitalization of our world heightens the risk of more sophisticated cyberattacks, which pose risks to individuals, organizations, and national security.
Washington, D.C. Gridlock	7	7	A divided Congress heading into the 2024 elections likely means the prospect for significant legislation remains limited. The repeated debt limit standoffs also add to uncertainty.
Financial Instability	7	7	The significant buildup of debt since the Great Recession and higher rates are leading to a <i>Fiscal Transition</i> , putting pressure on consumers, corporations, and governments.
Major Terror Attacks	7	4	Unpredictable terrorist attacks may create disruption. The various conflicts around the world have amplified the risk of a resurgent terrorist threat.
Climate Policy Error	6	7	Net zero commitments and regulation without economic and societal readiness risk triggering elevated spending, inflation, economic inequality, and a consequential economic slowdown.
South China Sea Military Conflict	6	7	China maintains a strong air and naval presence in the area, even as the U.S. upgrades airfields and other strategic infrastructure. There is potential for a military clash.
European Fragmentation	6	6	Europe’s solidarity since the pandemic is being tested again with regard to Ukraine funding, China relations, refugee migration, and fiscal rules.
Middle East Conflict	5	7	Elevated tensions in the region following the Israel-Hamas war raise the risk of conflict. There’s concern that other nations, notably Iran, may become involved, escalating the situation into at least a regional crisis.
North Korea Conflict	5	4	North Korea continues to improve and expand its nuclear missile capabilities. Military cooperation with Russia has strengthened, with some speculating North Korea has provided military equipment to Russia in exchange for advanced technologies.
Structurally Higher Inflation	5	8	The effects of the pandemic, the war in Ukraine, U.S.-China competition, shifting demographics, and climate change could lead to a prolonged period of structurally higher inflation.
Russia-West Conflict	4	8	Russia has repeatedly threatened retaliation for NATO’s supplying of military equipment to Ukraine. Ukraine and NATO funding will likely be politicized heading into 2024 elections.

\* Likelihood and Market Impact on scale of 1 to 10 with 1 being least likely/low market impact and 10 being most likely/high market impact.



# INVESTOR'S HANDBOOK FOR ELECTION YEARS

*In each election year, the prevailing narrative seems to suggest that our country stands at a crossroads with the potential for significant consequences. This often creates uncertainty for investors and leads to market volatility.*

*The temptation to react impulsively to political changes can be strong, but amid this uncertainty, a disciplined and long-term approach to investing becomes paramount. Here are some learnings from previous elections to help you navigate the upcoming 2024 election-year dynamics:*

## 1 MARKET BEHAVIOR WHAT TYPICALLY HAPPENS TO THE STOCK MARKET IN ELECTION YEARS?

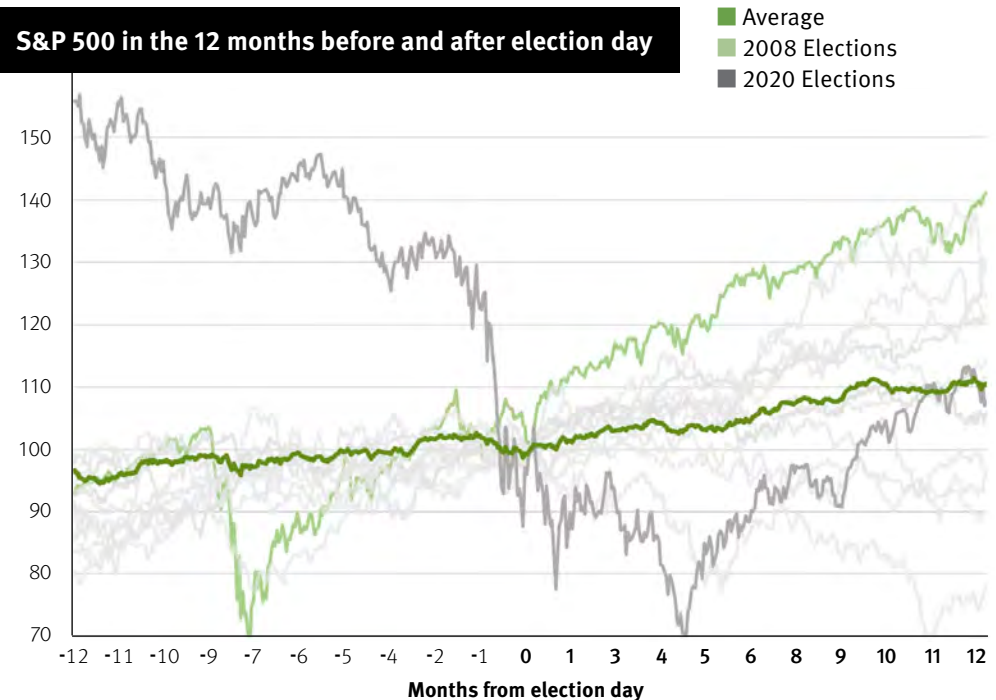
The uncertainty surrounding the winning candidate and potential policy changes often leads to more volatile markets. Volatility typically reaches its peak in November before subsiding to normal levels in the ensuing months as uncertainties fade. Examining the past eight election cycles reveals that, on average, the S&P 500 experienced a post-election rally of 14.5% in the 12 months following the election.

### KEY POINT:

***Expect increased volatility, but historical trends indicate that markets tend to move upward in the months following elections as easing uncertainty lowers volatility.***

Source: Stifel CIO Office, Bloomberg. Analysis as of December 8, 2023.

October 31 used as a proxy for each election date. Scaled to 100 on election date. Analysis is based on the 252 trading days before and 252 trading days after October 31 and includes the 1972-2020 elections. Past results are not predictive of results in future periods.



# INVESTOR'S HANDBOOK FOR ELECTION YEARS

(continued)

## 2 PARTY INFLUENCE

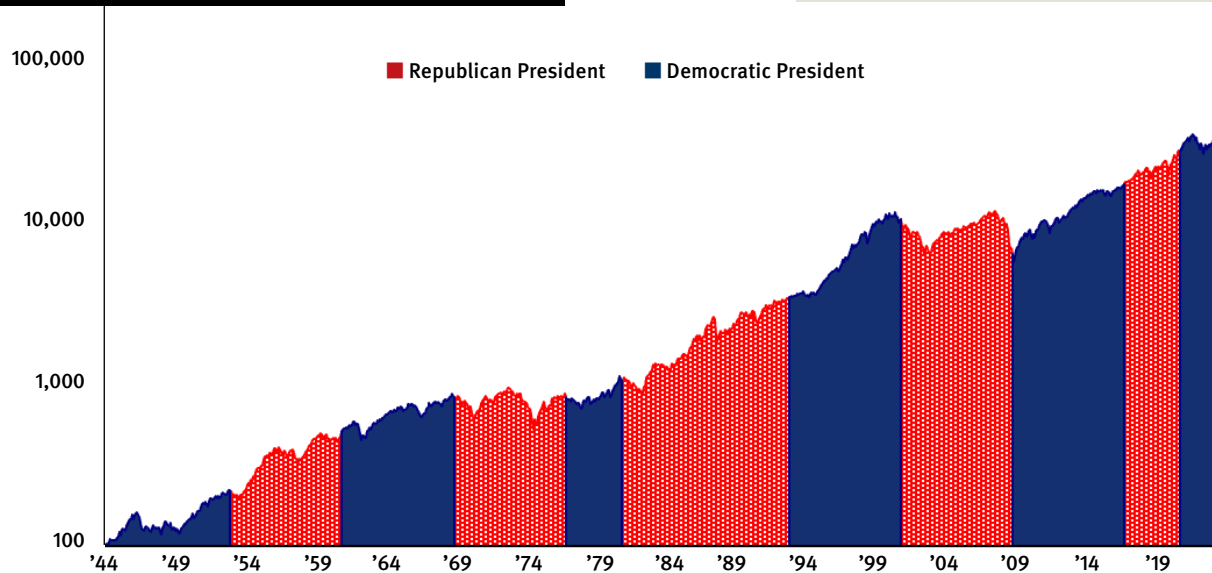
### WHICH POLITICAL PARTY IS BETTER FOR THE ECONOMY AND MARKETS?

Some studies suggest that stocks tend to do better when the government is divided. Regardless of the political party in power, factors such as the business environment and where we are in the economic cycle have a much stronger impact on markets than the elected presidents. Over time the stock market is resilient, usually rising irrespective of who is in office.

#### KEY POINT:

*The stock market's resilience and upward trend are predominantly influenced by the business environment and economic cycles, irrespective of the party of the sitting president.*

#### Markets trend higher, regardless of outcome



Source: Stifel CIO Office via Strategas Securities, LLC. The start date is December 29, 1944. Dates of party control are based on election dates. Values are based on total returns in USD. Shown on a logarithmic scale.

# INVESTOR'S HANDBOOK FOR ELECTION YEARS

(continued)

## 3 SECTOR PERFORMANCE

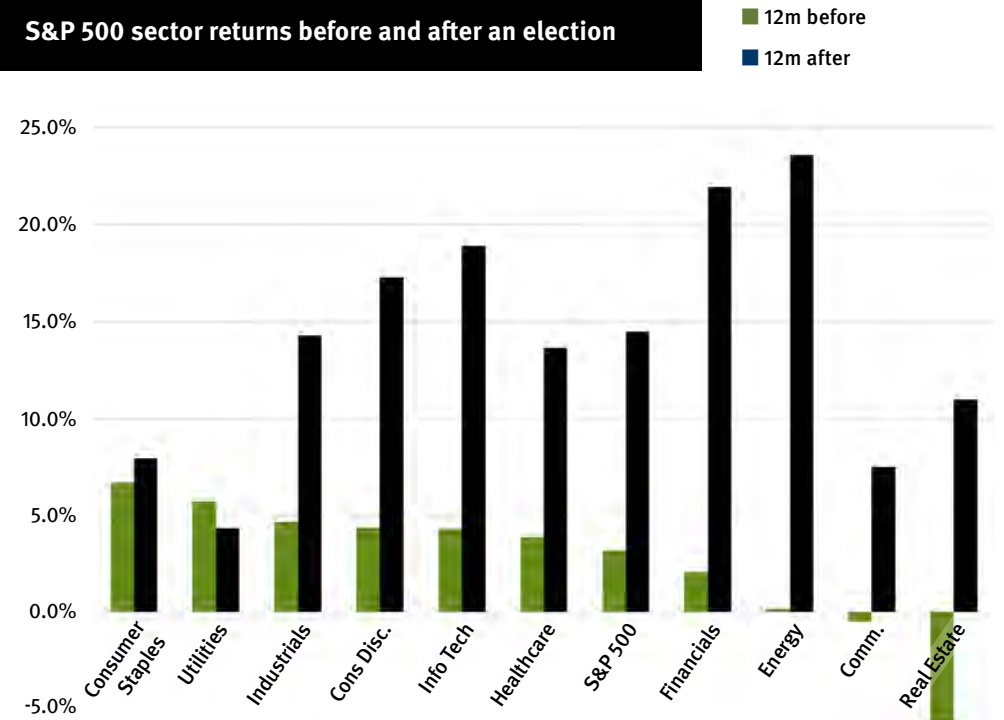
### ARE THERE SPECIFIC SECTORS THAT TEND TO OUTPERFORM OR UNDERPERFORM?

There's no "playbook" for predicting sector performance in election years. However, certain sectors may garner increased attention in the headlines, driven by the policy agenda of each candidate. Even then, not all policy proposals are approved, and it's rare that a president will eliminate a sector and the jobs that come with it.

#### KEY POINT:

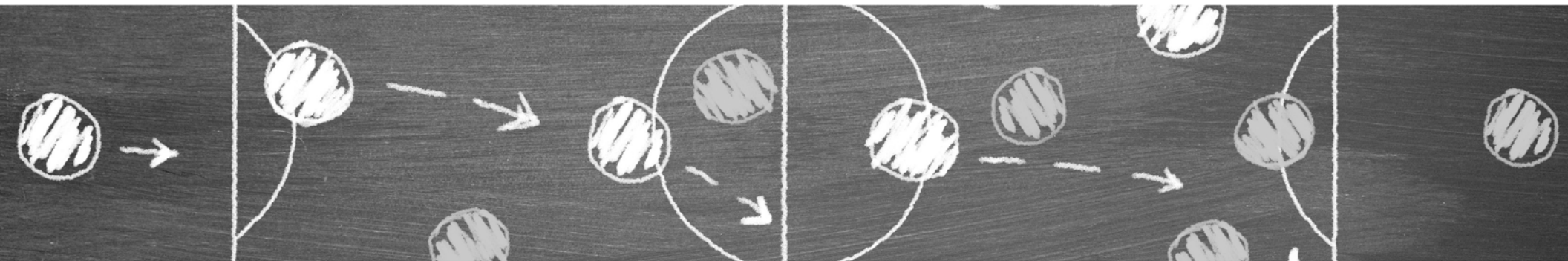
*Candidate policy agendas will create headline noise and volatility for some sectors, creating opportunity for long-term investors.*

S&P 500 sector returns before and after an election



Source: Stifel CIO Office, Bloomberg. October 31 used as a proxy for each election date.

Elections included are 1992-2020. Past results are not predictive of results in future periods.





# INVESTOR'S HANDBOOK FOR ELECTION YEARS

(continued)

## 4 WHAT SHOULD AN INVESTOR DO? MAINTAIN COMPOSURE.

Take a breath and acknowledge that volatility is a normal part of investing, especially in election years. If emotions are getting the best of you, turn off the TV and consider reaching out to your Stifel Financial Advisor. Your Financial Advisor may be able to use elements of behavioral finance to gauge your level of composure to fine-tune your asset allocation and help you navigate through tumultuous market periods.

### STAY INVESTED.

Trying to time the market in such a short period might not pay off and could hurt the long-term performance of your portfolio. Some of the worst days in the equity markets have been followed by some of the best. In fact, missing the 10 best trading days over the past 20 years would have reduced your annual returns by 4.2% (annualized).

### AVOID SITTING ON CASH.

Investors tend to be more conservative during an election year, investing more in money market funds. While cash equivalent yields above 5% may be attractive, they tend to lag stock and bond returns over the long term. If you've built up a sizable allocation to cash, we suggest working with your Stifel Financial Advisor to develop a plan to redeploy it.

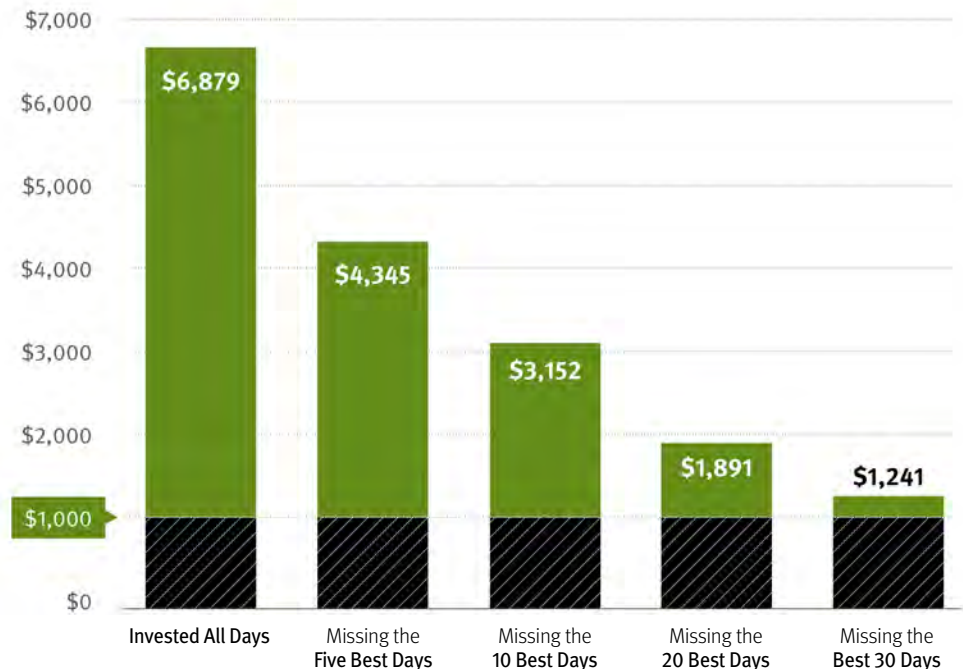
### BE DIVERSIFIED.

The best performing asset class often varies from year to year. Diversifying across asset classes ensures participation in the stronger ones while mitigating the impact of weaker performing classes.



## Time in the Market

The Value of \$1,000 Invested July 31, 2003 – July 31, 2023



Source: Stifel Investment Strategy via Bloomberg, as of July 31, 2023, based on the S&P 500 Total Return Index. Past performance is no guarantee of future results, and individual results will vary.

# AI REVOLUTION: TRANSFORMING INDUSTRIES AND INVESTMENTS



*Throughout history, each wave of technological advancement has reshaped the way we live, work, and do business.*

*For example, the personal computer led to unprecedented capabilities for productivity, communication, and the formation of new industries. And the advent of the iPhone further transformed our lives by putting powerful computing and communication capabilities into our pockets, redefining how we connect, consume information, and navigate the world.*

*Now, standing at the brink of a new era, AI is emerging as the next transformative force.*

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

## What Is AI?

AI is a machine's ability to perform tasks that typically require human intelligence, such as recognizing patterns, learning from experience, and solving problems. AI is part of our *Fourth Industrial Revolution* theme, which captures the idea that technological innovation has broken down the boundaries between the physical, digital, and biological worlds. For years, we've seen relatively simple examples, like IBM's "Big Blue" computer beating the reigning world chess champion, digital assistants like Siri and Alexa, or even robot vacuum cleaners.

## What Is ChatGPT?

With the 2022 release of ChatGPT, people can see and experience firsthand the power of generative AI. Many have referred to it as the "iPhone moment" for AI. ChatGPT is a chatbot launched by OpenAI that allows the user to ask for help like one would a human. For example, one can ask ChatGPT to explain regulations, draft an e-mail or social media post, write a paper, summarize a long article in a few words, build code, or write a novel.

## ECONOMIC IMPACTS

### LABOR MARKET TRANSFORMATION

AI has the potential to transform the labor market by creating and eliminating jobs across almost all industries. McKinsey estimates that by 2030, activities that make up almost one-third of the hours worked across the U.S. economy today could be automated. Some jobs like office administrative support, customer service, and food service may see openings decline as tasks become automated. Many other jobs may evolve with new requirements as AI will enhance the way STEM, creative, business, and legal professionals work.

### INCREASING PRODUCTIVITY

More than 35% of S&P 500 companies referenced AI during their Q2 2023 earnings calls. AI applications can automate tasks or aid in data analysis, leading to improved productivity and cost efficiency across industries. For example, the manufacturing industry can optimize production processes and improve quality control. In healthcare, AI applications can help with diagnostics and patient care, improving overall patient outcomes. This increased productivity may ultimately boost wages and corporate profits.

### PRODUCTIVE COMPETITION

One of our five long-term investment themes is *Productive Competition*, or the idea that rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy. Think about how the release of the iPhone formed new industries, disrupted others, and forced business across industries to transform their business models. Similarly, we expect individuals and companies to strategically adopt AI, reinforcing their competitive advantage, paving the way for innovative business models, and even driving the emergence of new industries.



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

## INVESTMENT OPPORTUNITY

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

### ENABLERS: THE BACKBONE OF AI

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

#### INVESTMENT CONSIDERATIONS

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

### INNOVATORS: THE EVOLUTION OF AI

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

#### INVESTMENT CONSIDERATIONS:

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

### DISRUPTORS: THE REVOLUTION OF AI

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

#### INVESTMENT CONSIDERATIONS:

Companies within healthcare, industrials, finance, and retail.

# HOW WE INVEST

## OUR INVESTMENT MANAGEMENT PROCESS

As you review this 2024 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 for you.**

3

### a. Manager Selection

Each manager recommendation is unique, but we use a framework as 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.

## 3 b. 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 (ETF), 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.





# OUR FIVE INVESTMENT THEMES



## FOURTH INDUSTRIAL REVOLUTION

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

- Data as a Commodity*
- |
- Enhanced Computing*
- |
- Workforce Optimization*
- |
- Future of Transportation*



## SECURING STRATEGIC RESOURCES

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

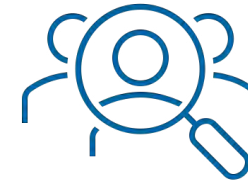
- Food and Water Security*
- |
- Net Zero Movement*
- |
- Renewable Energy*
- |
- Circular Economy*



## SHIFTING DEMOGRAPHICS

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

- Millennials*
- |
- Emerging Global Middle Class*
- |
- Aging Population*
- |
- Future of Health*



## THE NEW CONSUMER

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

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



## PRODUCTIVE COMPETITION

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

- The New Cold War*
- |
- Geopolitical Tensions*
- |
- Localization*
- |
- Transforming Business Models*

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.

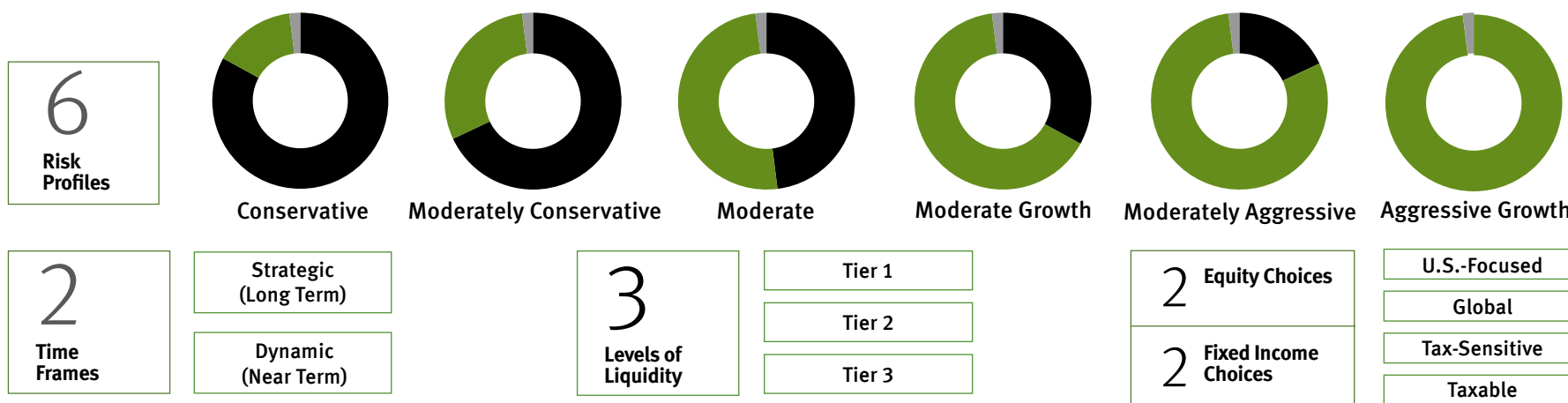
**Liquidity Tiers:** We offer three liquidity tiers in our asset allocation guidance offering.

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.

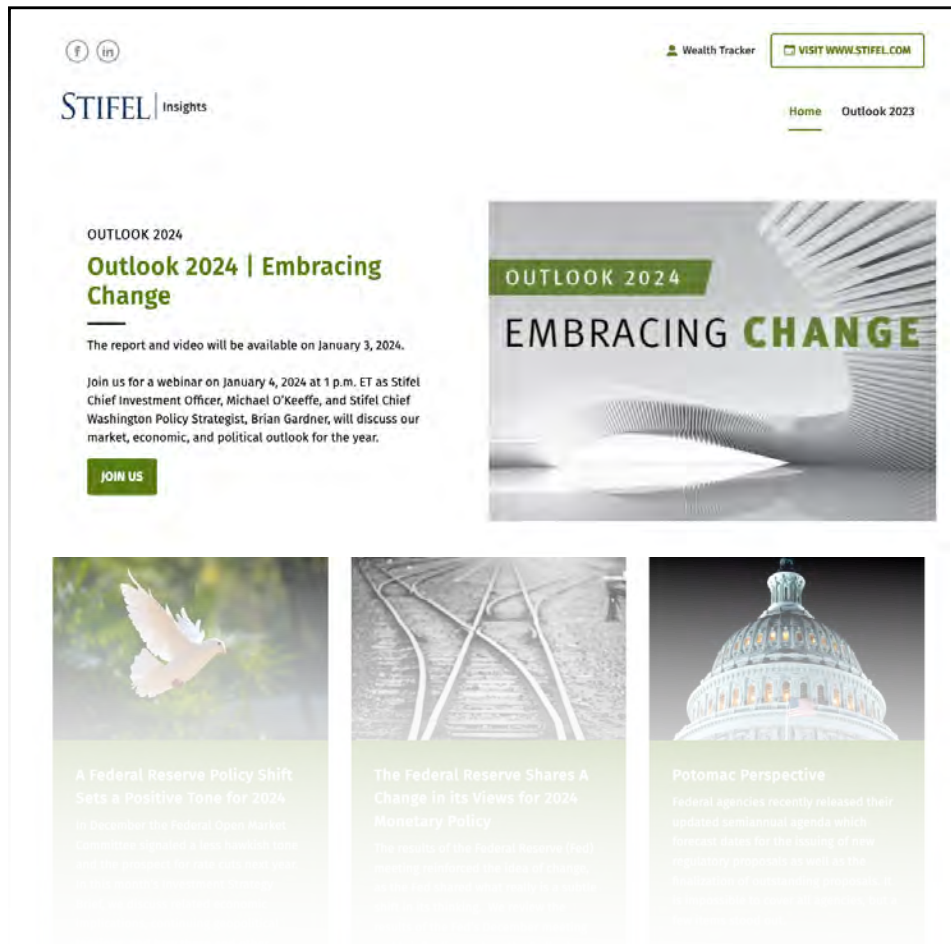
And finally, your Financial Advisor can work with you to elect to invest in a Strategic Asset mix, designed as a diversified strategy for the long term. Or, you can choose to invest in our Dynamic Asset mix guidance, where we will adjust our strategic leanings in consideration of shorter-term views.



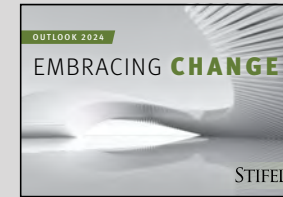
# WHERE TO FIND STIFEL GUIDANCE

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](https://stifelinsights.com)



Popular insights from Stifel's CIO Office include:



[WEEKLY](#) | [MONTHLY](#) | [QUARTERLY](#)



[VIDEO](#) | [PODCAST](#) | [NEWSLETTER](#)



[VIDEO](#) | [PODCAST](#) | [NEWSLETTER](#)





# CIO OFFICE



**Michael O'Keeffe, CFA**  
Chief Investment Officer  
(212) 328-1626  
michael.okeeffe@stifel.com

Contributing author:

**Brian Gardner**  
Chief Washington  
Policy Strategist  
bgardner@stifel.com  
(202) 756-7764

**Jonathan Brandt**  
Specialist II  
Client Engagement  
(314) 342-4203  
brandtjo@stifel.com

**Mariana Chu**  
Investment Strategist  
Inv. Management & Guidance  
(425) 637-3609  
chum@stifel.com

**Mitchell Greenblatt**  
Senior Specialist  
Client Engagement  
(314) 880-1089  
greenblattm@stifel.com

**Brian Klos, CFA, CAIA®**  
Senior Analyst  
Manager Research  
(314) 342-7478  
klosb@stifel.com

**David Motsonelidze, CFA**  
Director of  
Macro Strategy  
(212) 328-1624  
david.motsonelidze@stifel.com

**Reagan Raley**  
Investment Strategy Analyst  
Inv. Management & Guidance  
(212) 328-1517  
raleyr@stifel.com

**Dori Schwartz**  
Economist — Sr. Analyst  
Inv. Management & Guidance  
(212) 328-2327  
schwartzd@stifel.com

**Bill Bridge, CIMA®**  
Senior Analyst  
Manager Research  
(212) 328-1534  
bridgew@stifel.com

**Sophia DiMartini**  
Investment Strategy Analyst  
Inv. Management & Guidance  
(212) 328-2083  
dimartinis@stifel.com

**Charles Hackett**  
Quant Analyst  
Manager Research  
(314) 342-3020  
hackettc@stifel.com

**Chloe Mauceri**  
Specialist  
Manager Research  
(212) 328-1340  
mauceric@stifel.com

**Kurt Muller**  
Director  
Client Engagement  
(212) 328-1635  
mullerk@stifel.com

**Arnez Rodriguez**  
Investment Strategist  
Inv. Management & Guidance  
(212) 328-1070  
rodriguezr@stifel.com

**John Wichlenski**  
Specialist  
Manager Research  
(314) 342-8496  
wichlenskij@stifel.com

**Dan Brown, CFA**  
Senior Analyst  
Manager Research  
(314) 342-0166  
browndan@stifel.com

**Colleen Dunaway**  
Specialist II  
Client Engagement  
(314) 342-2924  
dunawayc@stifel.com

**Kian Homayoonfar, CFA**  
Director of  
Manager Research  
(314) 342-3051  
homayoonfark@stifel.com

**Carlos Mieles, CFA**  
Investment Strategist  
Inv. Management & Guidance  
(212) 328-1369  
mielesc@stifel.com

**Michael Niemeier, CFA**  
Senior Analyst  
Manager Research  
(314) 342-4591  
niemeierm@stifel.com

**Paul Ruppe, CFA, CPA**  
Senior Analyst  
Manager Research  
(314) 342-7426  
ruppep@stifel.com

**Kevin Zawodniak, CFP®**  
Senior Analyst  
Manager Research  
(314) 342-2843  
zawodniakk@stifel.com

**Evan Buenger**  
Investment Strategy Analyst  
Macro Strategy  
(314) 880-1044  
buengere@stifel.com

**Nik Eftimov, CFA**  
Director of  
Inv. Management & Guidance  
(212) 328-1638  
nik.eftimov@stifel.com

**Alec Hubbard, CFA, CAIA®, CFP®**  
Senior Specialist  
Client Engagement  
(314) 342-2979  
hubbarda@stifel.com

**Brian Moody**  
Investment Strategist  
Inv. Management & Guidance  
(212) 328-1376  
brian.moody@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 **Russell 1000** is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks.

The **Russell 1000 Growth Index** measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **Russell 2500 Index** measures the performance of the 2,500 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **Russell Microcap** is defined as a capitalization-weighted index of 2,000 small cap and micro cap stocks that captures the smallest 1,000 companies in the Russell 2000, plus 1,000 smaller U.S.-based listed stocks.

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 **HFRF 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 HFRF Index constituents are included in the HFRF 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.

**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.

**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.

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

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

**Commodities and Futures** – The risk of loss in trading commodities and futures can be substantial. You

**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.

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.

## 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.

## A NOTE ON RISK ASSESSMENTS

The Stifel Financial ID (“SFID”) is a proprietary questionnaire which helps us understand an investor’s attitudes toward and emotions about investing. We can use a client’s Financial ID to help manage his/her/their investing experience. “Risk Attitude” is one of the six dimensions we measure. It is a behavioral assessment of the individual’s feelings and appetite for risk. Separately, we use a dedicated Risk Assessment Questionnaire (“RAQ”), which is an industry-standard requirement, in the process of opening and maintaining any account here at Stifel. The RAQ results in a specific “Risk Tolerance” score based on such considerations as time horizon, income requirements, and liquidity a need, which is used to describe a specific account’s investment objective and to determine the suitability of any given investment for that account. In the situations where a client’s Risk Attitude and the Risk Tolerance for that client’s account(s) is (are) different, it is important to review them both to determine whether changes in the management of the account are warranted.

## 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.

Dollar-cost averaging does not assure a profit or protect against a loss. Investors should consider their ability to continue investing during periods of falling prices.

The products mentioned in this document may not be suitable for all types of investors. The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within.

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.

This material is provided by Stifel for information purposes only and does not constitute legal or tax advice. Neither Stifel nor its associates render legal or tax advice. Please consult with your legal and tax advisors regarding your particular circumstances.

Stifel Financial Corp. (NYSE: SF) is a financial services holding company headquartered in St. Louis, Missouri, that conducts its banking, securities, and financial services business through several wholly owned subsidiaries. Stifel’s broker-dealer clients are served in the United States through Stifel, Nicolaus & Company, Incorporated; Keefe, Bruyette & Woods, Inc.; Miller Buckfire & Co., LLC; and Stifel Independent Advisors, LLC, and in the United Kingdom and Europe through Stifel Nicolaus Europe Limited. The Company’s broker-dealer affiliates provide wealth management, investment banking, trading, investment advisory, and related financial services to individual investors, professional money managers, businesses, and municipalities.

Led by Stifel Chief Investment Officer Michael O’Keeffe, 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.

**Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | [www.stifel.com](http://www.stifel.com)  
One Financial Plaza | 501 North Broadway | St. Louis, Missouri 63102 | (314) 342-2000  
© Copyright 2024 Stifel.**



STIFEL

Investment Services Since 1890

One Financial Plaza | 501 North Broadway | St. Louis, Missouri 63102  
Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | [www.stifel.com](http://www.stifel.com)