Insights from Stifel's CIO Office

September 2024

# INVESTMENT STRATEGY BRIEF:

## Headwinds and Tailwinds

Watch

Listen

Read

STIFEL

# TABLE OF CONTENTS

# Economy

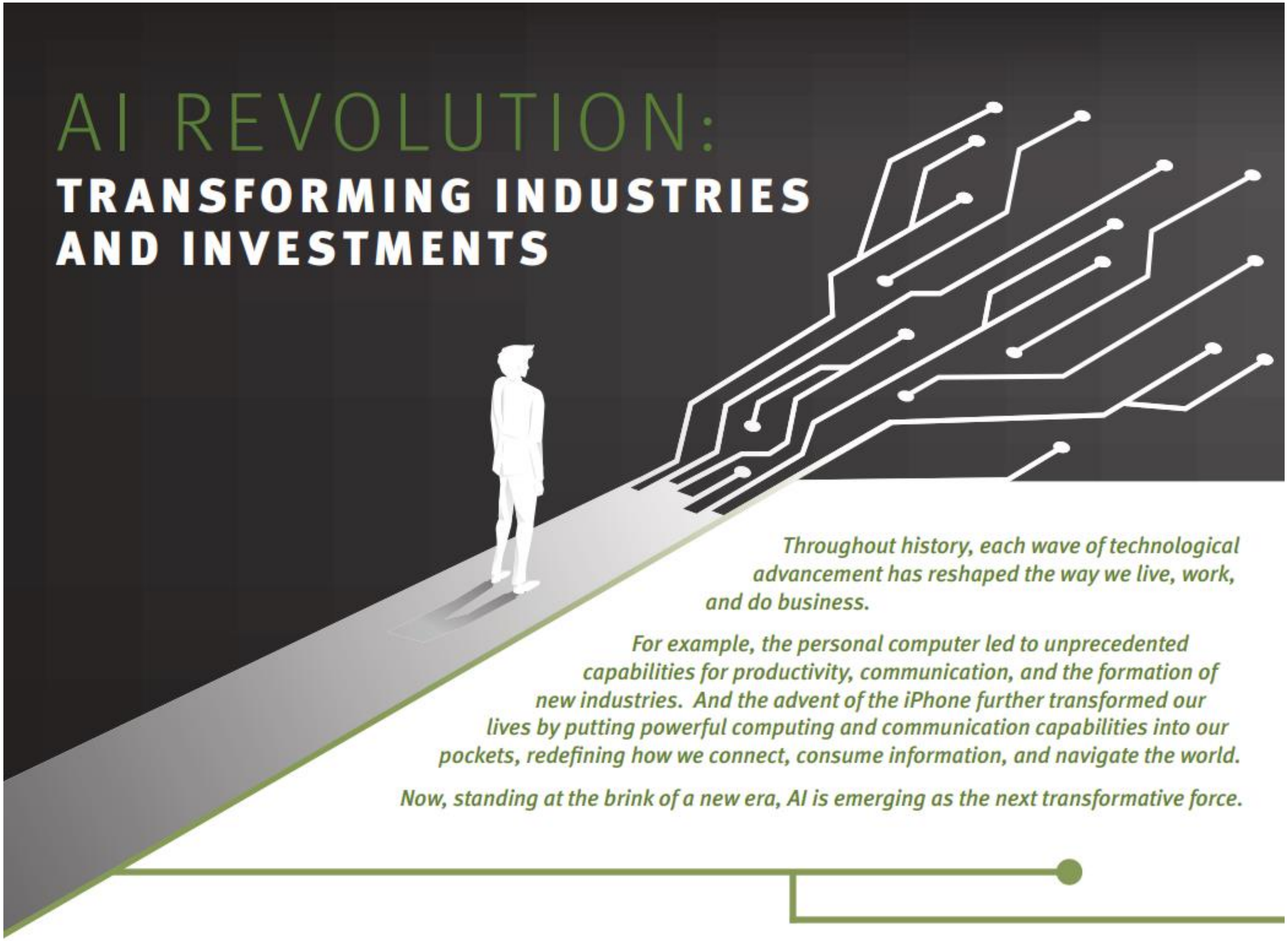
STIFEL

# LONG-TERM INVESTMENT THEMES

## THE FIVE THEMES

| FOURTH INDUSTRIAL REVOLUTION | SECURING STRATEGIC RESOURCES | SHIFTING DEMOGRAPHICS | THE NEW CONSUMER | PRODUCTIVE COMPETITION |
|---|---|---|---|---|
| Technological innovation has broken down the boundaries between the physical, digital, and biological worlds. | Companies and governments are prioritizing the development and protection of critical industries, resources, and services. | Changes in global population dynamics will bring about challenges and opportunities. | Consumer preferences, expectations, and behavior are altering business models and corporate strategies. | Rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy. |
| *Data as an Asset* | *Food and Water Security* | *Millennials* | *Reimagined Convenience* | *Power Play* |
| *Enhanced Computing* | *Modern Energy Systems* | *Global Middle Class* | *Digitalization of Human Connectivity* | *Geopolitical Tensions* |
| *Smart World* | *New Materials* | *Aging Population* | *Future of Finance* | *Space Race* |
| *Workforce Optimization* | *Circular Economy* | *Future of Health* | *Future of Leisure* | *Transforming Business Models* |

Get to Know Our Long-Term Investment Themes



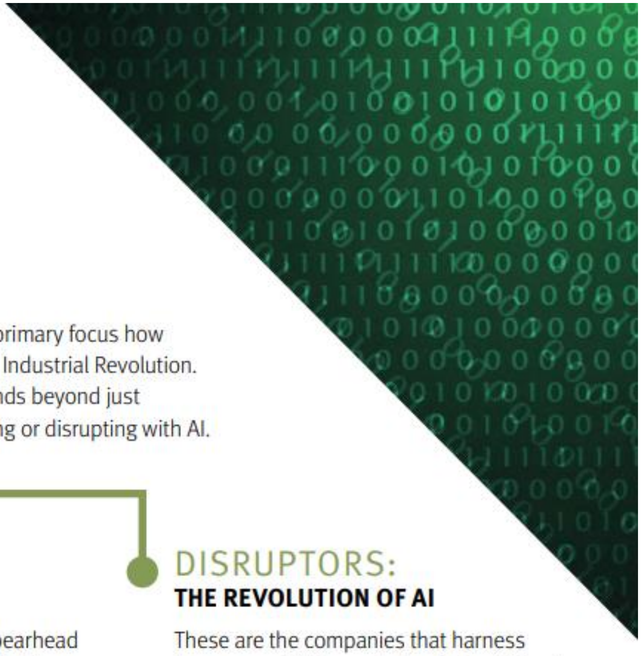
# AI REVOLUTION:
## TRANSFORMING INDUSTRIES AND INVESTMENTS

*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.*

2024 OUTLOOK ■ 28



## 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.

STIFEL

# AI OPTIMISM/POTENTIAL USE CASES

| Media and Entertainment | Financials | Healthcare | Real Estate | Consumer Experience | Logistics |
|---|---|---|---|---|---|
| Automated content creation | Market analytics | Illness detection | Listing descriptions | Travel agents | Traffic analysis |
| AI generated media (ex: music and video) | Credit scoring improvements | Genomic data analysis | Aerial property surveys | Self service technology | Route optimization |
| Audience analytics | Fraud detection algorithms | Drug development | Dynamic pricing strategies | Smart shopping | Drone and robot deliveries |
| Automated subtitles and captioning | New investment product offerings | Medical image interpretation | Property valuation models | Anticipate needs and potential issues | Autonomous fleet |
| Video game design | Portfolio optimization tools | Medical record analytics | Tenant screening | | Warehouse space utilization |
| Editing software | Predictive loan analytics | Nurse bots | Virtual property staging and tours | | Demand forecasting |
| Targeted advertisements | Debt management | Robotic surgery | Automated property appraisals | | |

| Education | Industrials | Retail | Agriculture | Technology | Customer Service |
|---|---|---|---|---|---|
| Intelligent tutoring | Robot assisted assembly | Personalized shopping experience | Autonomous tractors | AI-related consulting | Insurance claims |
| Test grading systems | Digital twins | Automated checkout process | Crop and soil analytics | Automated back-office tasks | Complaint resolution |
| Language learning | Quality control automation | Inventory management | Water use efficiency | Automated report generation | Voice recognition systems |
| Curriculum optimization | Predictive maintenance | Fashion recommendations | Pest identification and control | Cybersecurity threat detection | Workflow automation |
| Secure online assessments | Demand forecasting | Pricing optimization | Weed detection | Data analysis | Product sentiment analysis |
| | Supply chain optimization | Fit and sizing recommendations | Satellite imagery | Software development | Language translation |
| | | Visual search capabilities | | Predictive maintenance | |

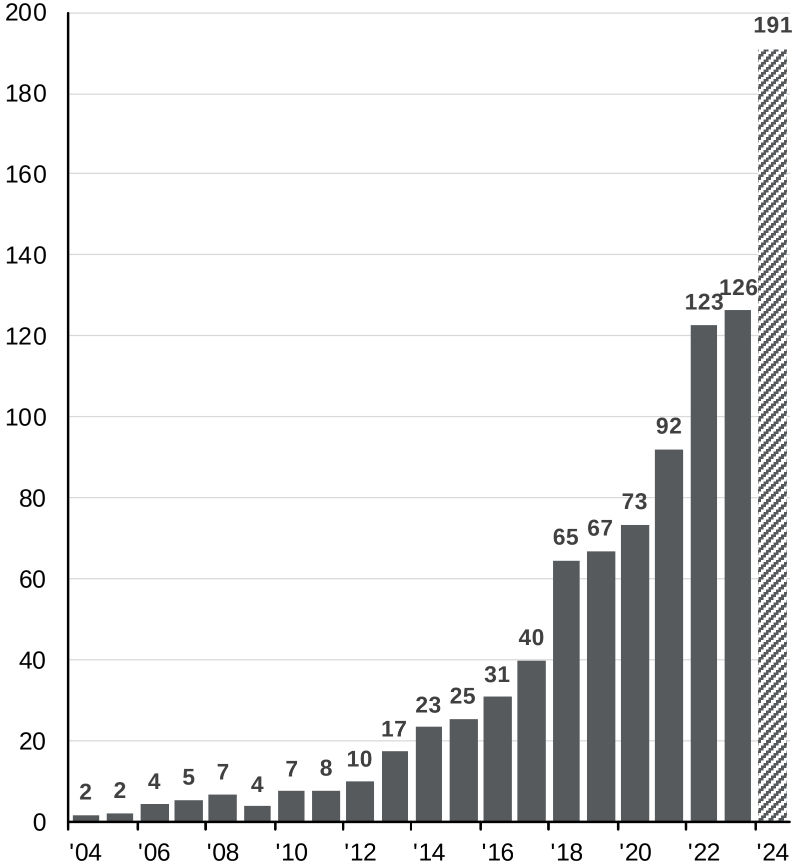


Sources: Stifel CIO Office, JPMorgan, Morgan Stanley, McKinsey, PwC

Economy

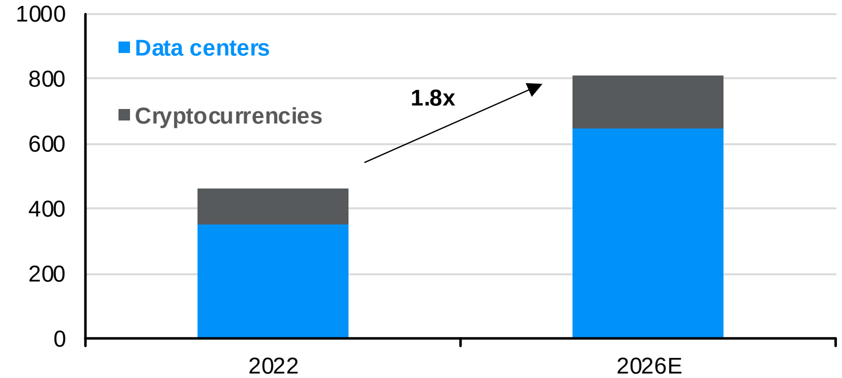
**Capex from the major AI hyperscalers***

USD billions



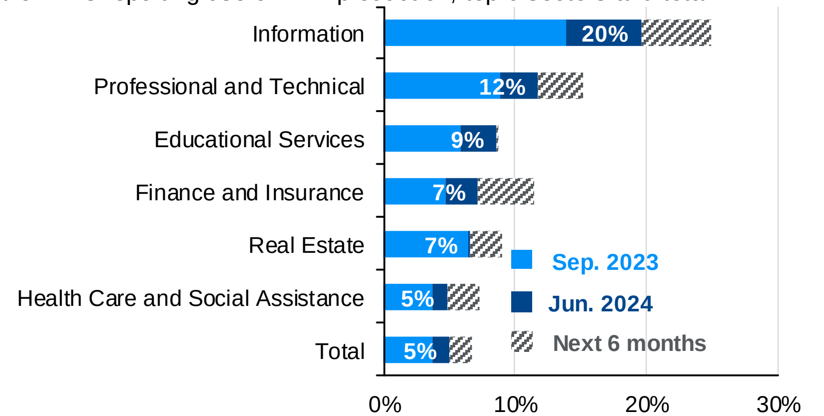

**Global electricity demand from data centers and crypto**

Terawatt-hour (TWh), 2022-2026**




**AI adopters**

% of firms reporting use of AI in production, top 6 sectors and total

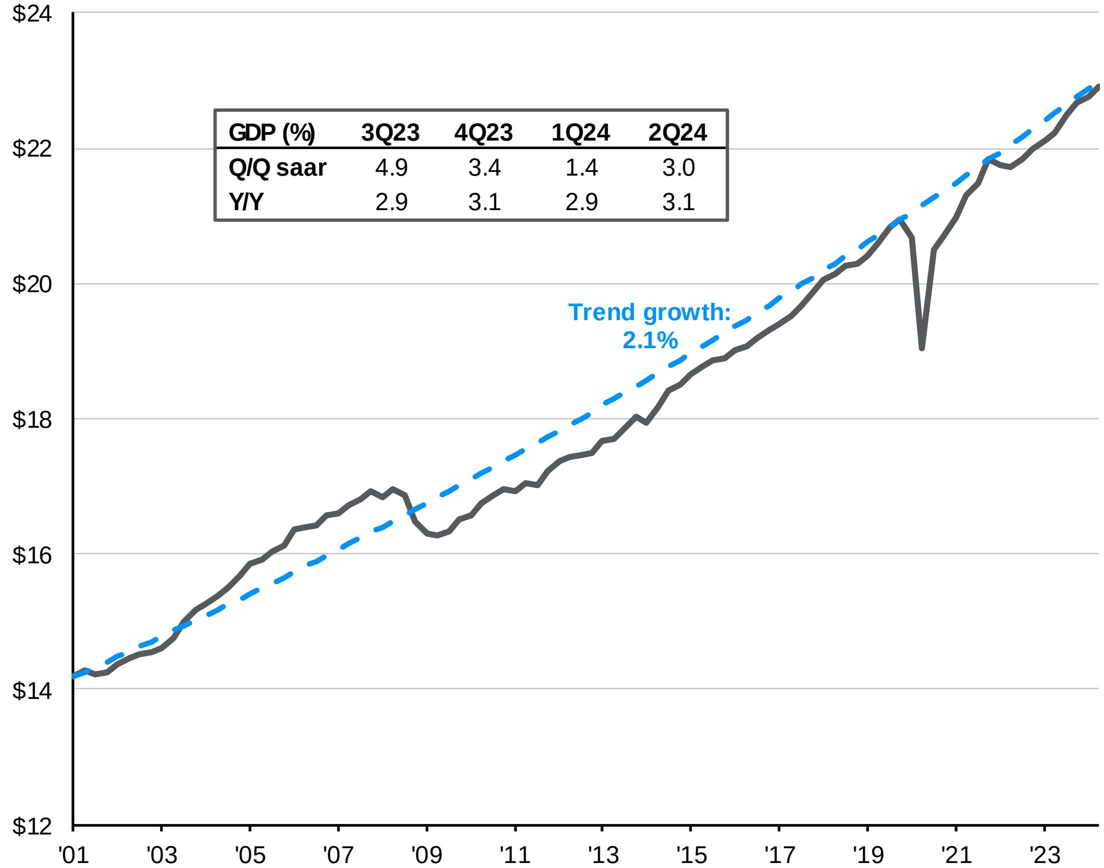



Source: J.P. Morgan Asset Management; (Left) Bloomberg (Top right) IEA; (Bottom right) Census Business Trends and Outlook Survey (AI Supplement). *Hyperscalers shown are Microsoft (Azure), Meta, Amazon (AWS), Oracle and Alphabet (Google Cloud). Data for 2024 reflects consensus estimates. For Amazon, capex for AWS from 2004 to 2012 are J.P. Morgan Asset Management estimates and 2012-Current are Bloomberg consensus estimates. **Estimates are from the IEA Electricity 2024 Analysis and forecast to 2026. Data centers include both traditional and AI dedicated data centers.

Guide to the Markets – U.S. Data are as of September 17, 2024.

## Real GDP

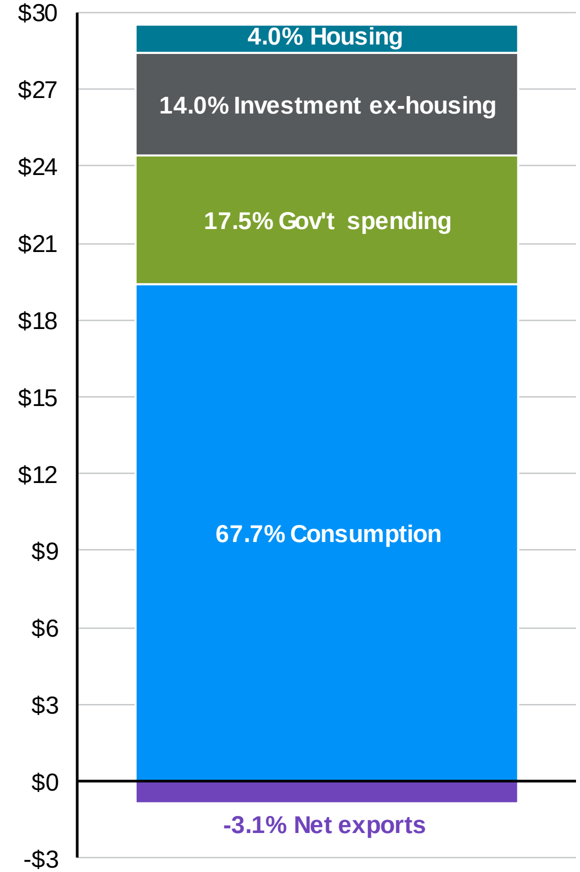
Trillions of chained (2017) dollars, seasonally adjusted at annual rates




| GDP (%) | 3Q23 | 4Q23 | 1Q24 | 2Q24 |
|---|---|---|---|---|
| Q/Q saar | 4.9 | 3.4 | 1.4 | 3.0 |
| Y/Y | 2.9 | 3.1 | 2.9 | 3.1 |

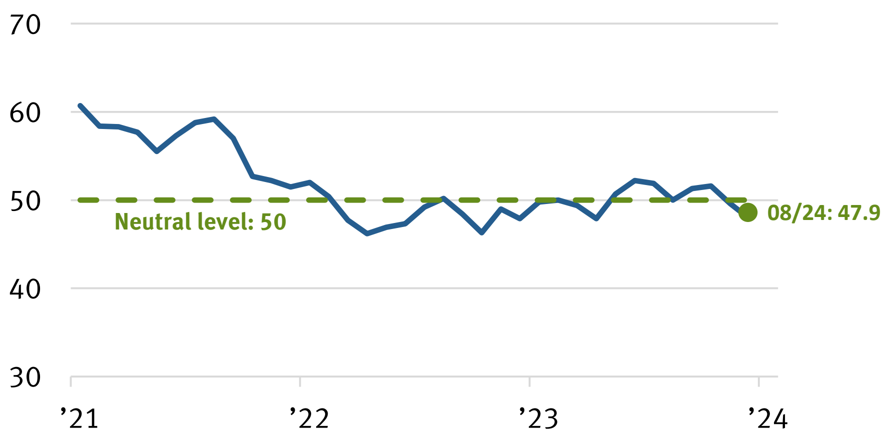
## Components of GDP

2Q24 nominal GDP, USD trillions

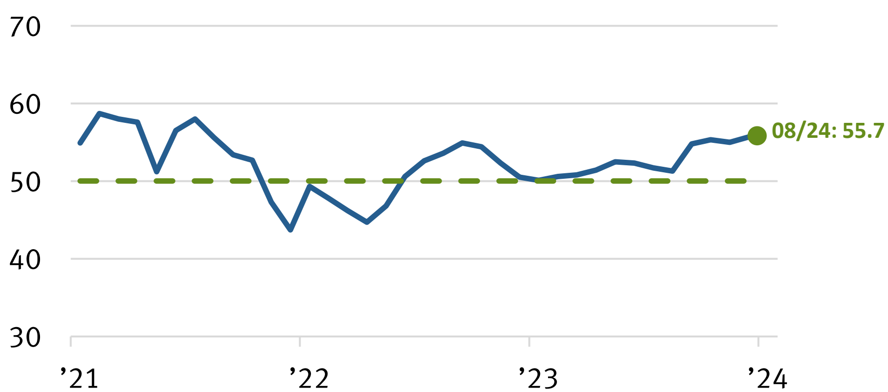



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q 2001 to business cycle peak 4Q 2019.
*Guide to the Markets – U.S.* Data are as of September 17, 2024.

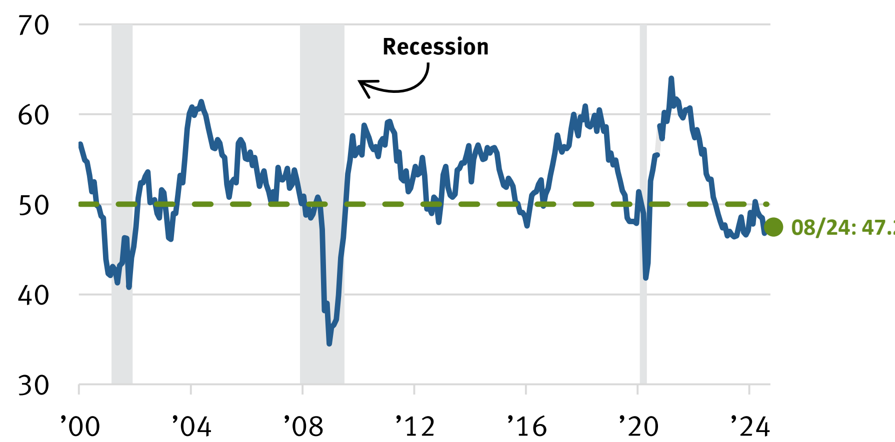
### S&P Global Manufacturing PMI
Monthly, Seasonally Adjusted



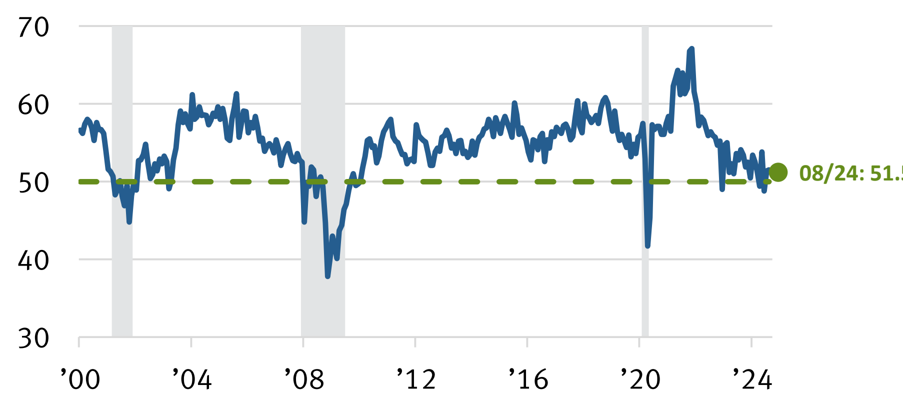

### S&P Global Services PMI
Monthly, Seasonally Adjusted




### ISM Manufacturing PMI
Monthly, Seasonally Adjusted




### ISM Services PMI
Monthly, Seasonally Adjusted




*Source: Stifel CIO Office and Bloomberg, as of September 17, 2024 * PMI = Purchasing Managers Index *PMI reading over 50 represents growth/expansion within manufacturing/service sector of the economy. A reading under 50 represents contraction.

# CONSUMER SPENDING: EARNINGS SEASON

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

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

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

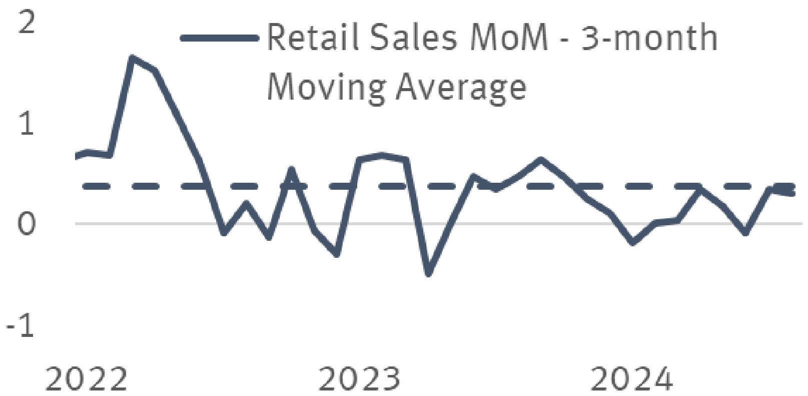
"The reduction of excess savings, interest rates, and inflation are **pressuring consumers' ability to spend**. Consumers are purchasing lower-priced items, buying less, and focusing on essentials... they are **more cautious with their spending**."
– Kroger Co. CEO Rodney McMullen (September 12)

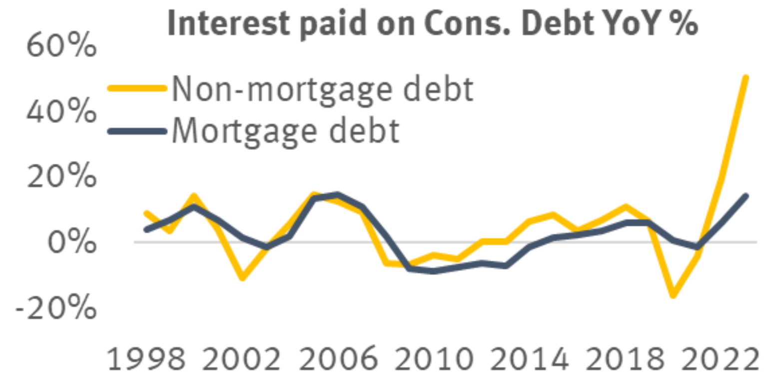
"**Customers continue to trade down on price when they can.** Larger purchases, like computers and televisions, are growing more slowly than we see in a more robust economy."
– Amazon CEO Andy Jassy (August 1)

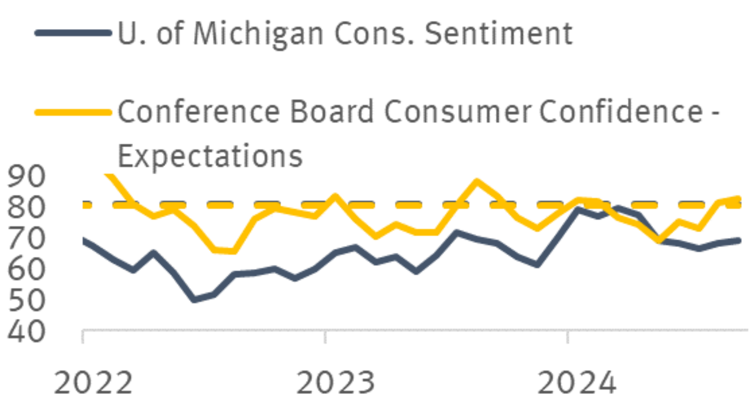
Higher interest rates and greater macroeconomic uncertainty **pressured consumer demand**, resulting in weaker spend across home improvement projects. There was also continued softness in spring projects.
– Home Depot CEO Edward Decker (August 13)

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

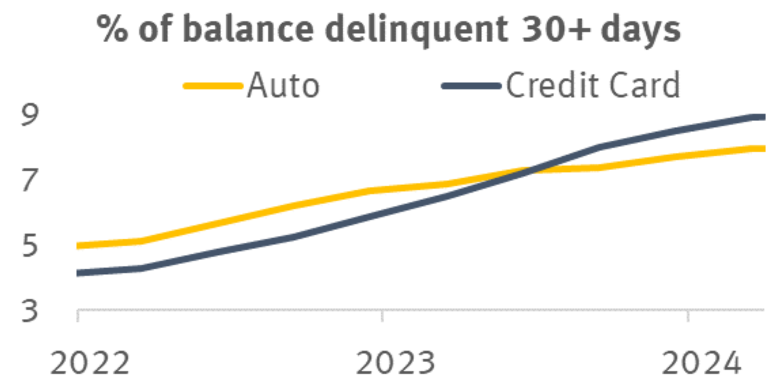
"We experienced **more cautious consumer spending** during the second quarter. We are seeing a more **value-seeking customer** now versus our prior expectations."
– Bath & Body Works CEO Gina Boswell (August 28)



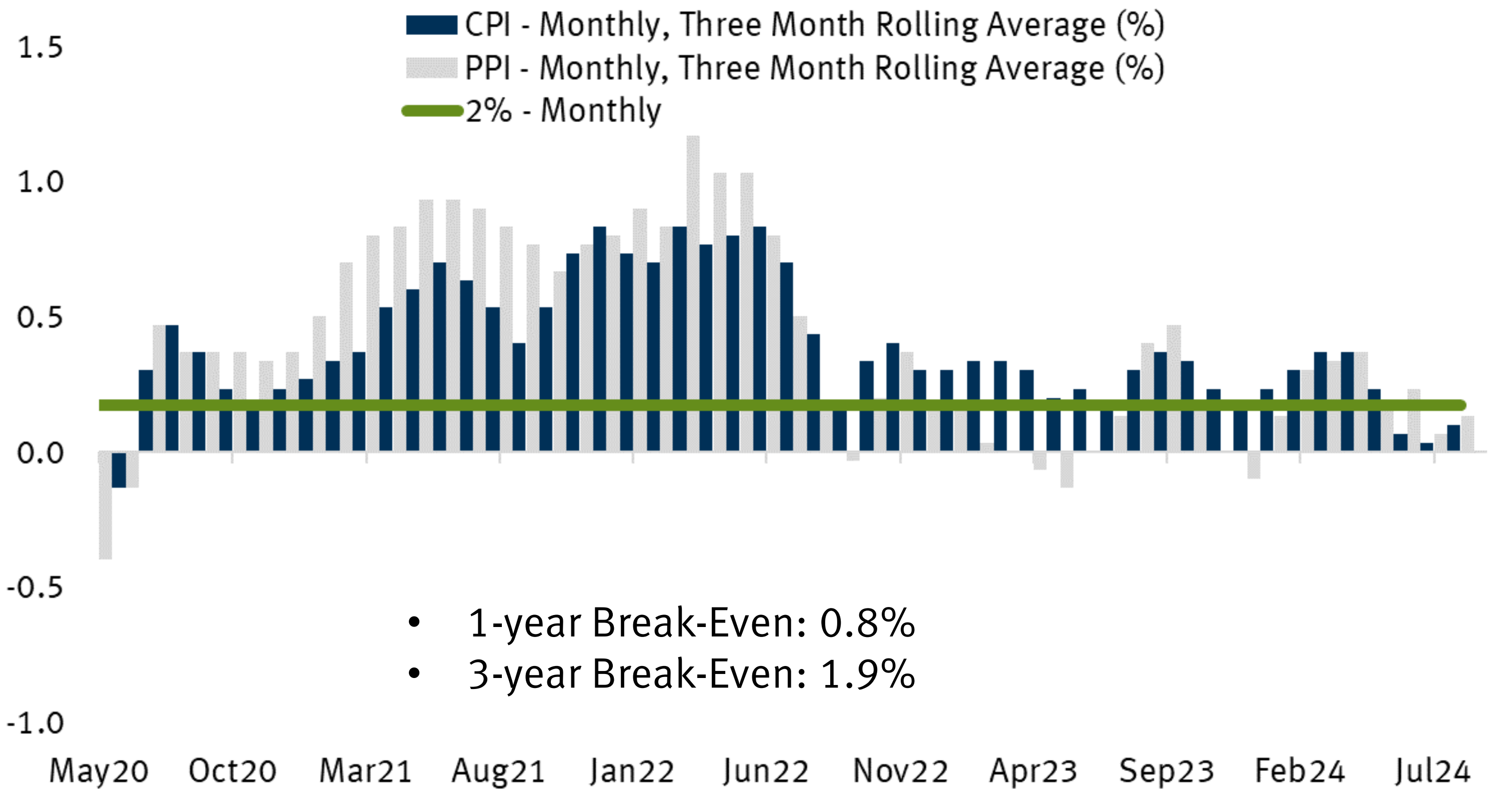




University of Michigan Consumer Sentiment




Source: Stifel CIO Office via Bloomberg, Bureau of Economic Analysis, and *The Wall Street Journal* as of September 17, 2024; Dashed lines represent historic averages except for Conf. Board Cons. Confidence Expectations. MoM = Month Over Month. YoY = Year Over Year; For interest paid on Consumer Debt, annual values are shown.




- 1-year Break-Even: 0.8%
- 3-year Break-Even: 1.9%

Source: Stifel CIO Office via Bloomberg, as of September 20, 2024
CPI = Consumer Price Index
PPI = Producer Price Index

## Dovish Action – 0.5% cut

### From the Statement

- “The Committee has gained greater confidence that inflation is moving sustainably toward 2%, and judges that the risks to achieving its employment and inflation goals are roughly in balance.”
- “In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.”

### From the Press Conference

- “We now see the risks to achieving our employment and inflation goals as roughly in balance.”
- “Our patient approach over the past year has paid dividends: Inflation is now much closer to our objective, and we have gained greater confidence that inflation is moving sustainably toward 2%.”
- “We are not on any preset course. We will continue to make our decisions meeting by meeting.”

### Latest Summary of Economic Projections (SEP)

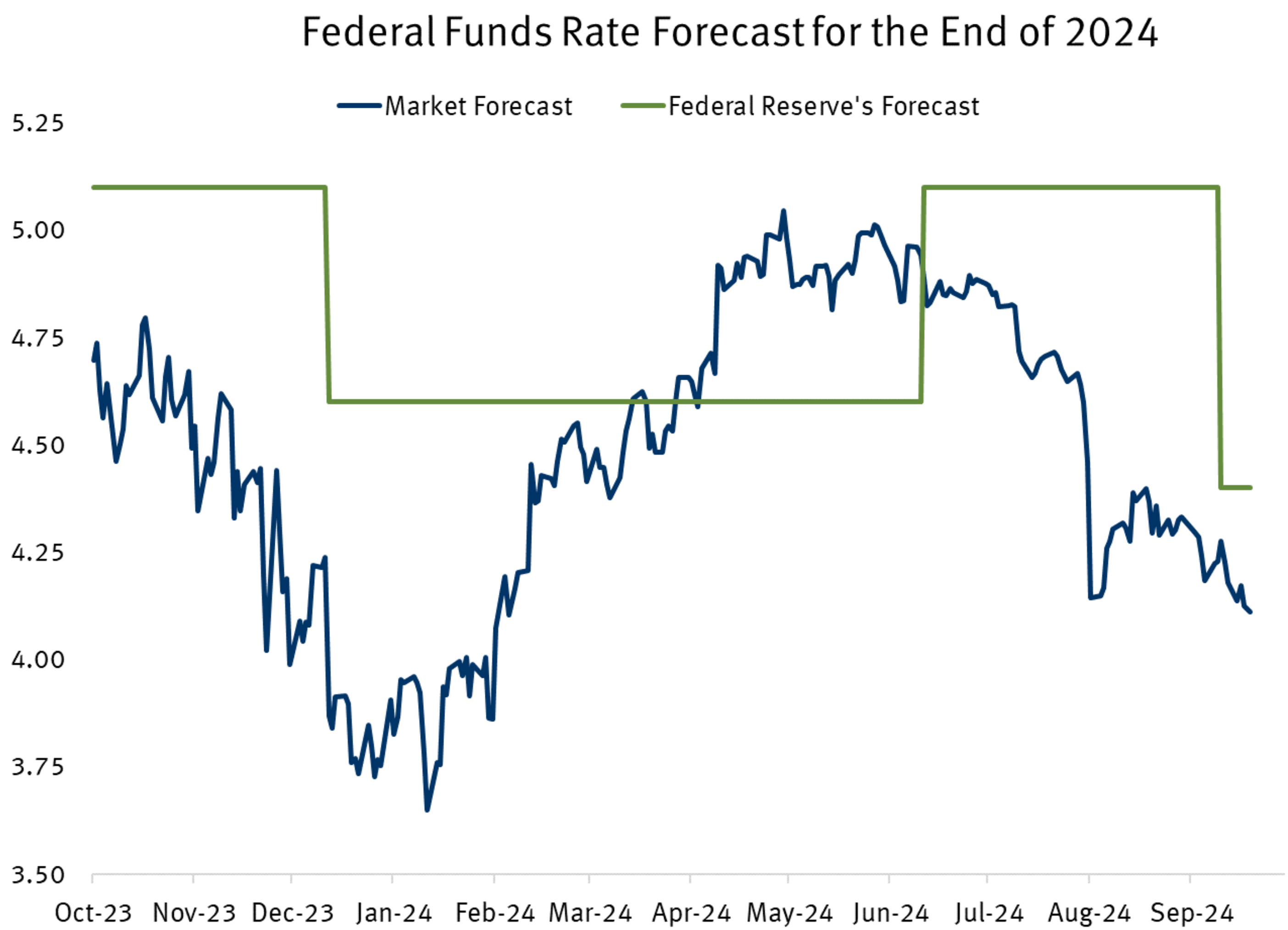
| | PCE Inflation | | Fed Funds | | Real GDP | |
|---|---|---|---|---|---|---|
| | 2024 | 2025 | Rate | Long Run | 2024 | 2025 |
| June 24 | 2.6% | 2.3% | 5.1% | 2.8% | 2.1% | 2.0% |
| September 24 | 2.3% | 2.1% | 4.4% | 2.9% | 2.0% | 2.0% |
| **Change** | **-0.3%** | **-0.2%** | **-0.7%** | **0.1%**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

### SEP Key Points:

- The median expectations for the funds rate reflect two more 0.25% cuts this year and four next year.
- The median projection shows a GDP growth rate of 2.0%, above the 1.8% long-term projection.
- The median expected unemployment rate is 4.4% at the end of this year and next.
- The median Core PCE Inflation projection is 2.6% for 2024, but 2.2% for 2025 and 2% for 2026.

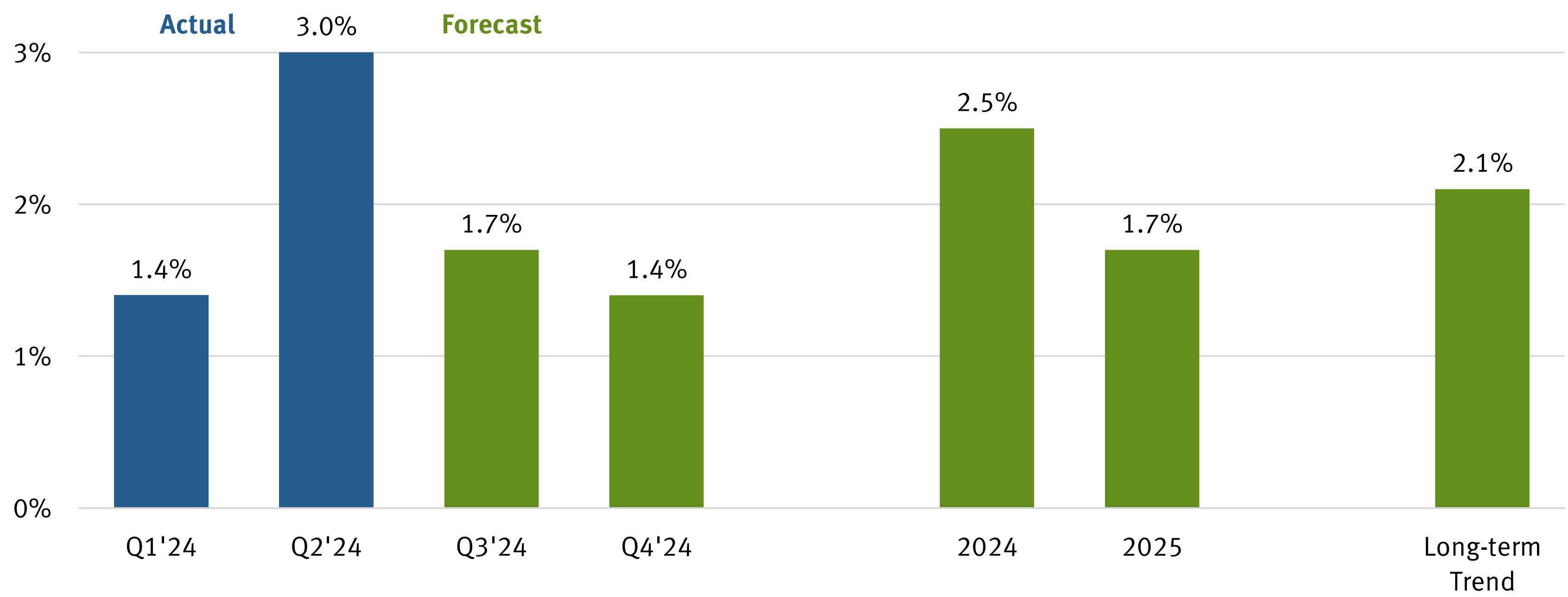
FOMC = Federal Open Market Committee
PCE = Personal Consumption Expenditures

Source: Stifel CIO Office

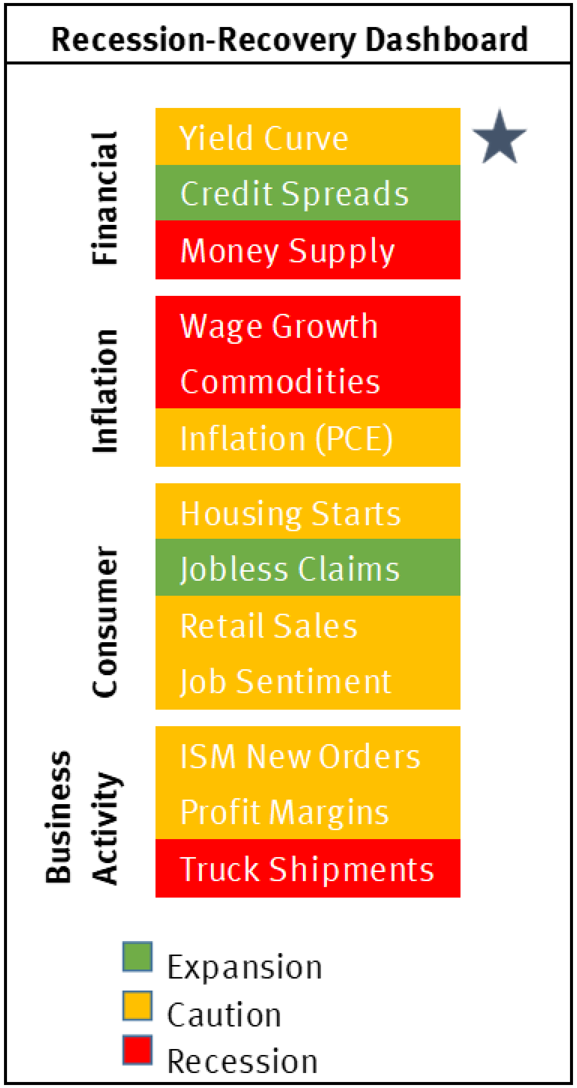



Source: Stifel CIO Office via Federal Reserve and Bloomberg data, as of September 20, 2024

**Consensus GDP Estimates**




Source: Stifel CIO Office via Bloomberg, as of September 16, 2024.



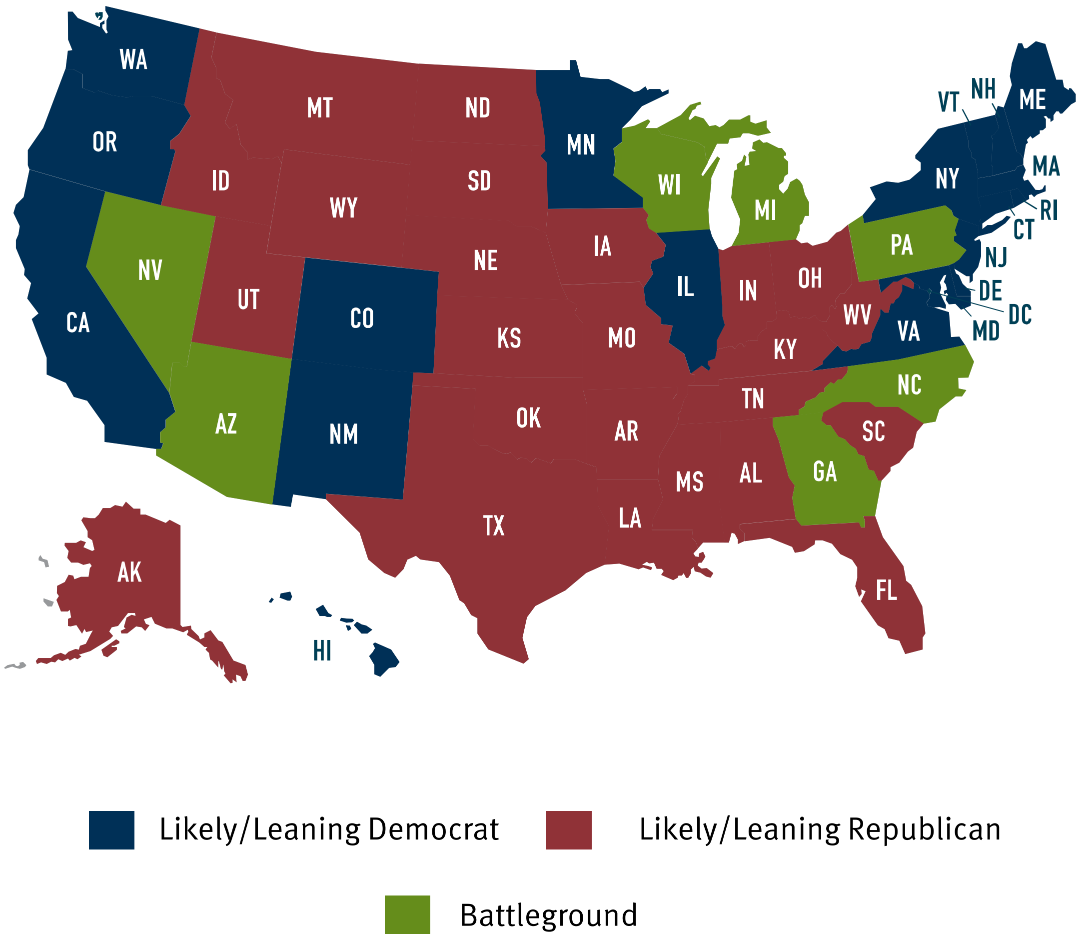

- **Yield curve** has a modestly positive slope, suggesting a lower probability of recession.
- **Credit spreads** have started to slowly widen, but remain low.
- **Money supply** levels peaked in April 2022, but remain historically high.
- **Wage growth** continues to slow, but remains inflationary.
- **Commodity** prices are elevated relative to pre-pandemic levels, but normalizing.
- **Inflation** shows modest progress as it moves closer to the Federal Reserve's 2% target.
- **Housing starts** activity still depressed amid higher rates.
- **Jobless claims** show no early signs of labor market softening.
- **Retail sales** show resilient consumer spending growth, while households remain vulnerable to higher rates and a rundown of excess savings.
- **Job sentiment** shows confidence in the labor market is eroding.
- **ISM New Orders** remain range-bound as companies continue to adapt to high rates.
- **Profit margins** have stabilized but risks remain.
- **Truck shipments** have been falling on low demand as profitability becomes an issue.

★ *Previously in recessionary territory.*

Source: Stifel CIO Office via Bloomberg, as of September 9, 2024

# Elections

## WHITE HOUSE




## CONGRESS

### HOUSE OF REPRESENTATIVES

**211** Seats

**220** Seats

4 Vacant

All 435 seats up for re-election

### SENATE

**47** Seats

**49** Seats

**23** Up for Re-election

**11** Up for Re-election

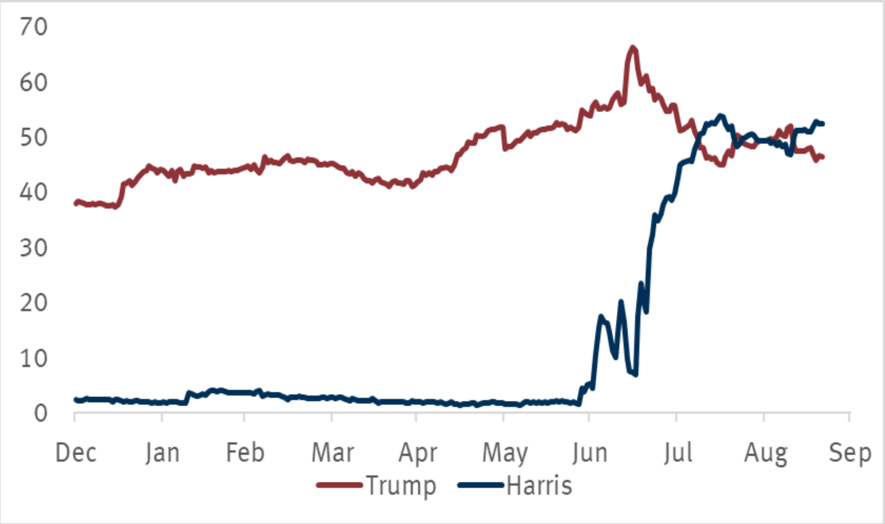
*Note: there are 4 independent Senators that caucus with the Democratic Party.*

## What's the Most Important Issue to You?

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

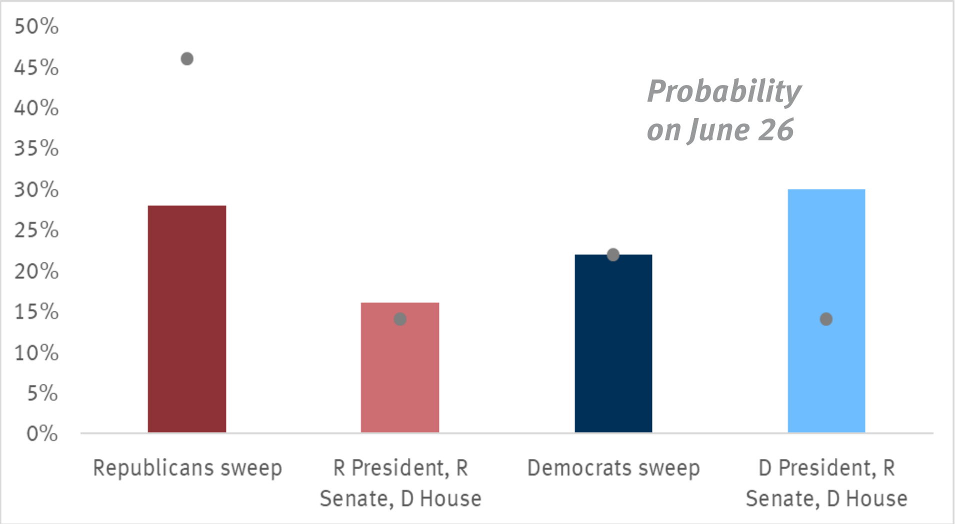
source: The Economist/YouGov and Stifel Washington Policy Strategy

### *Prediction market probabilities of 2024 presidential election winner*




Source: RealClearPolitics via Bloomberg, Stifel CIO Office as of September 20, 2024

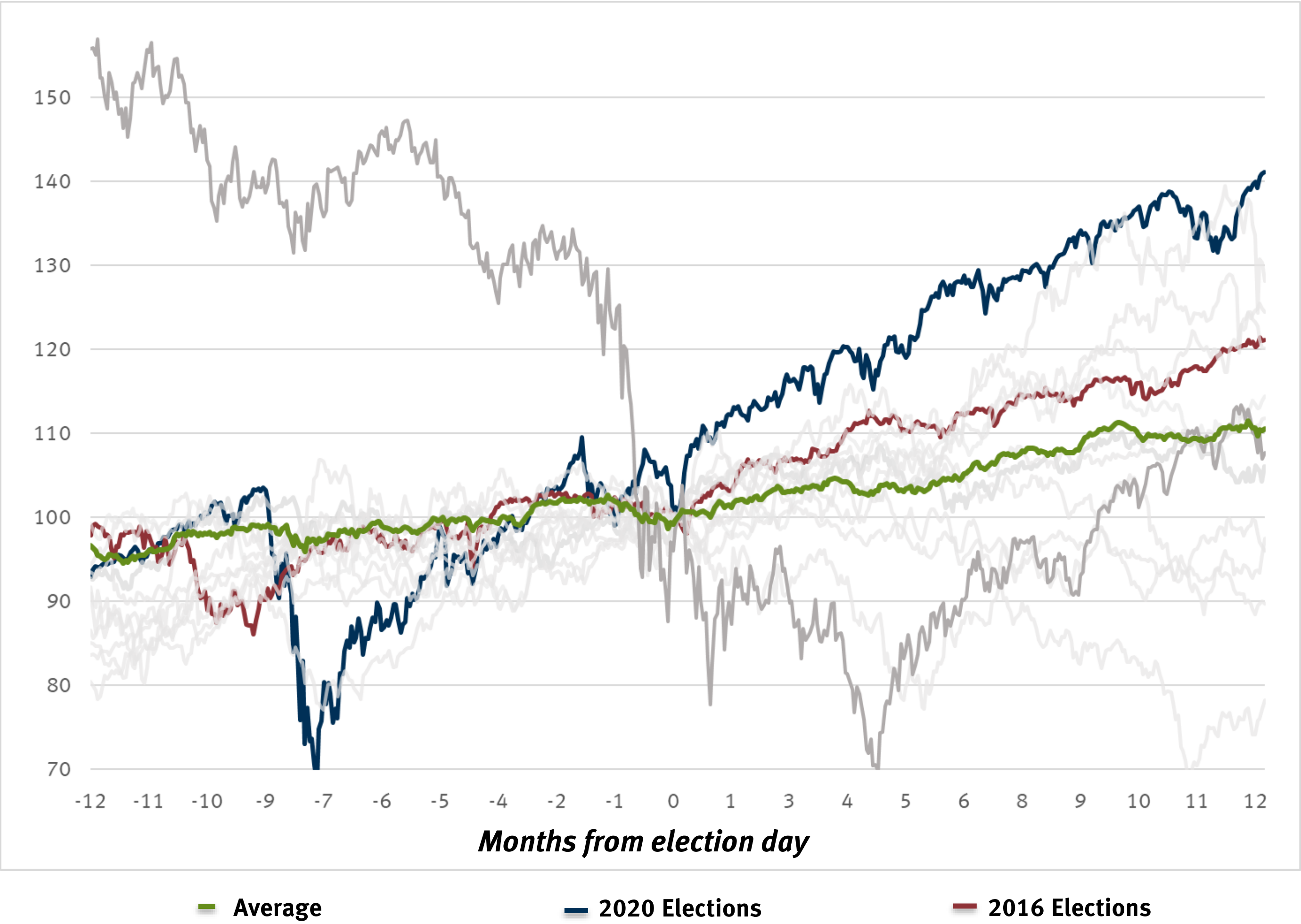
### *Prediction market odds of various presidential and congressional outcomes*




Source: Stifel CIO Office via Polymarket, as of September 20, 2024
Sum may not total 100% due to rounding.

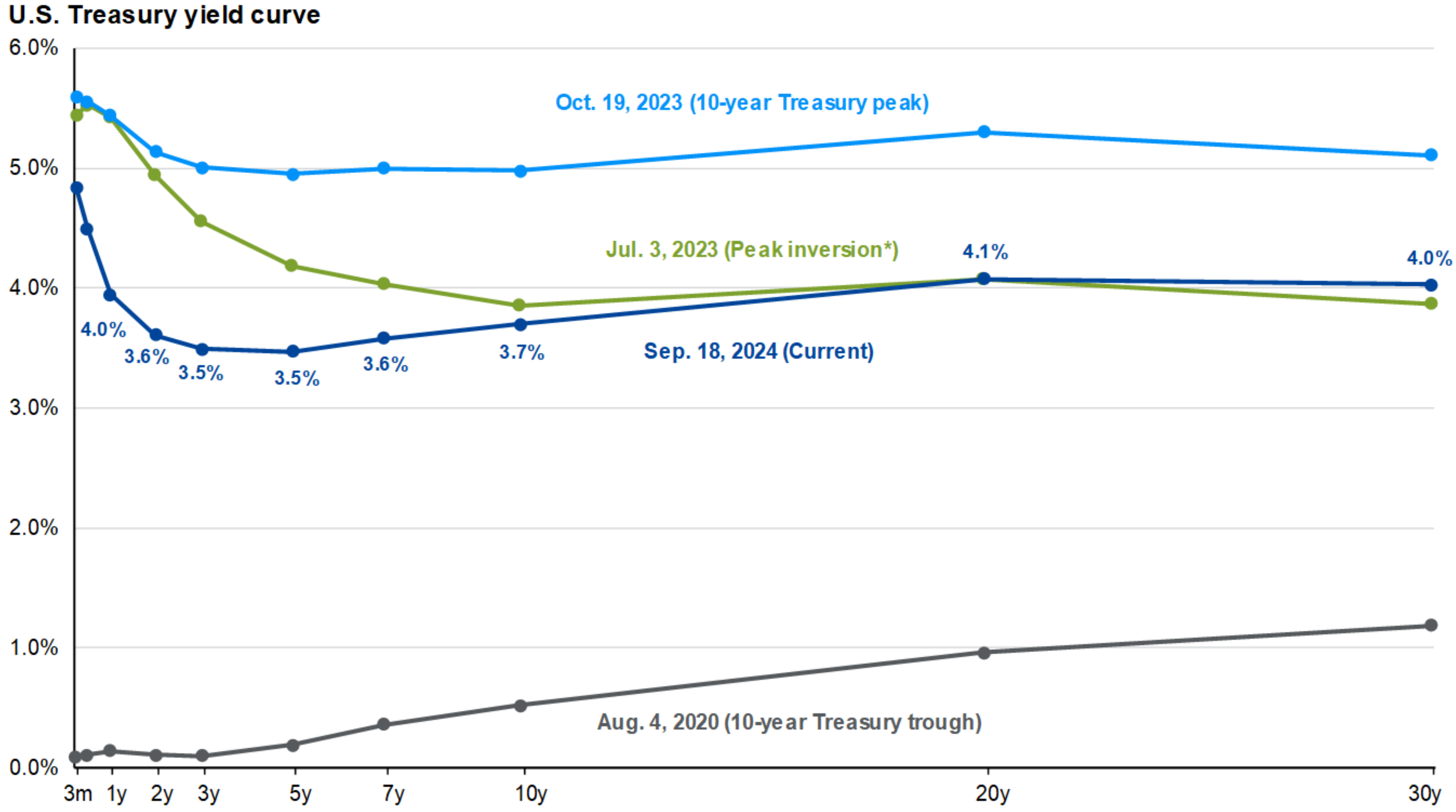
| | Trump | Harris |
|---|---|---|
| **Potential Tailwinds** | **Financials and Energy**: weaker regulation<br><br>**Defense:** increase in spending<br><br>**Domestic producers/small business**: higher tariffs, onshoring | **Renewable and Clean Energy:** stronger regulations to reduce greenhouse gas emissions<br><br>**Electric Vehicles:** government subsidies<br><br>**Industries reliant on immigration:** increased immigration should keep wage inflation low |
| **Potential Headwinds** | **Companies with China revenue:** higher tariffs<br><br>**Renewable & Clean Energy:** reversing restrictions on greenhouse gas emissions | **Financials:** increased regulation and potential for higher capital requirements for banks<br><br>**Technology:** continued scrutiny of M&A deals |

## S&P 500 in the 12 months before and after election day




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.

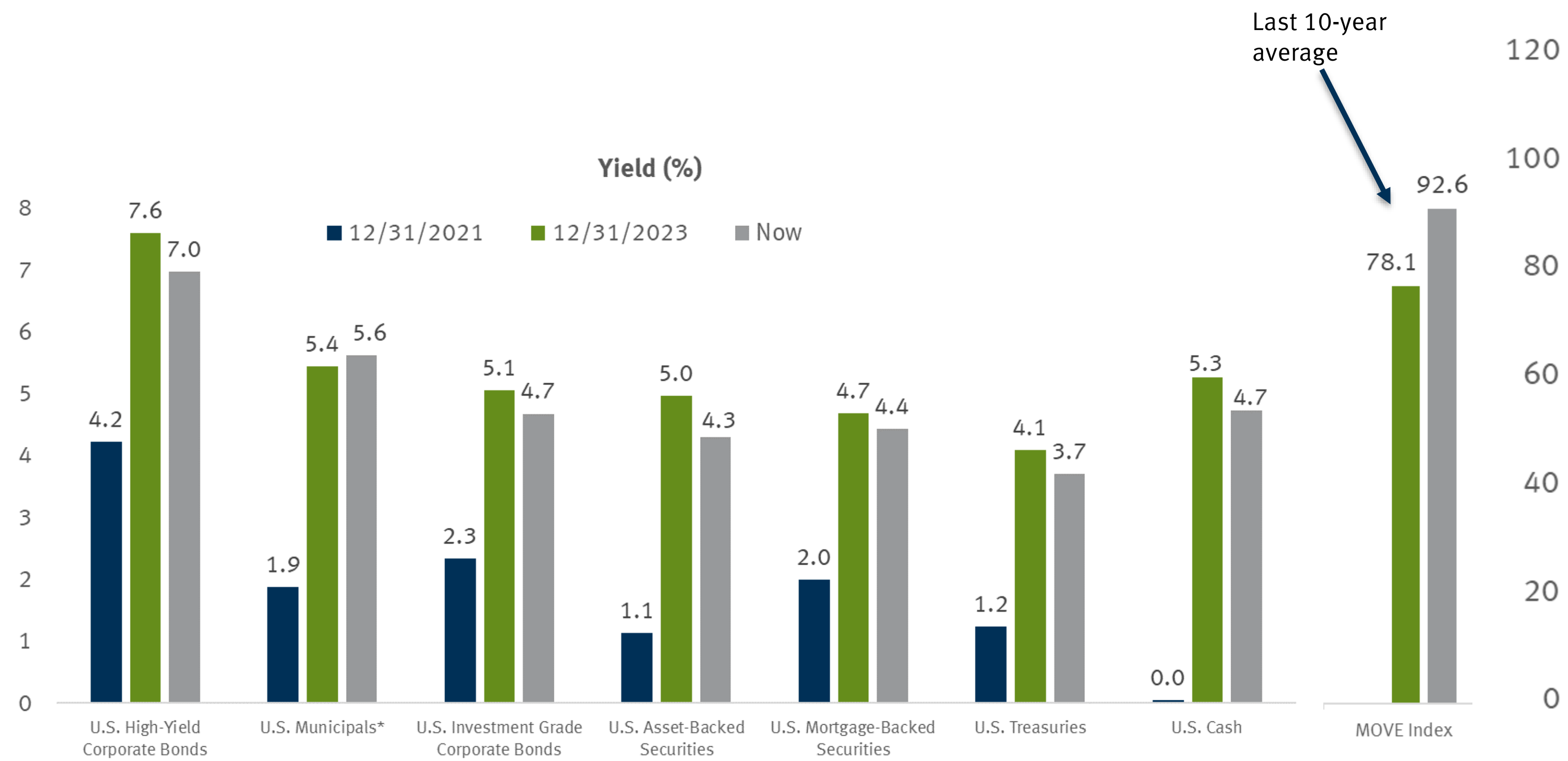
# Markets




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

*Guide to the Markets – U.S.* Data are as of September 18, 2024.

# BOND YIELDS




**Based on taxable equivalent yield. Taxable equivalent yield assumes a 37% federal tax and 3.8% net investment income tax.*
*Move Index is shown on right-hand scale.*

Source: Stifel CIO Office via Bloomberg, as of September 19 , 2024

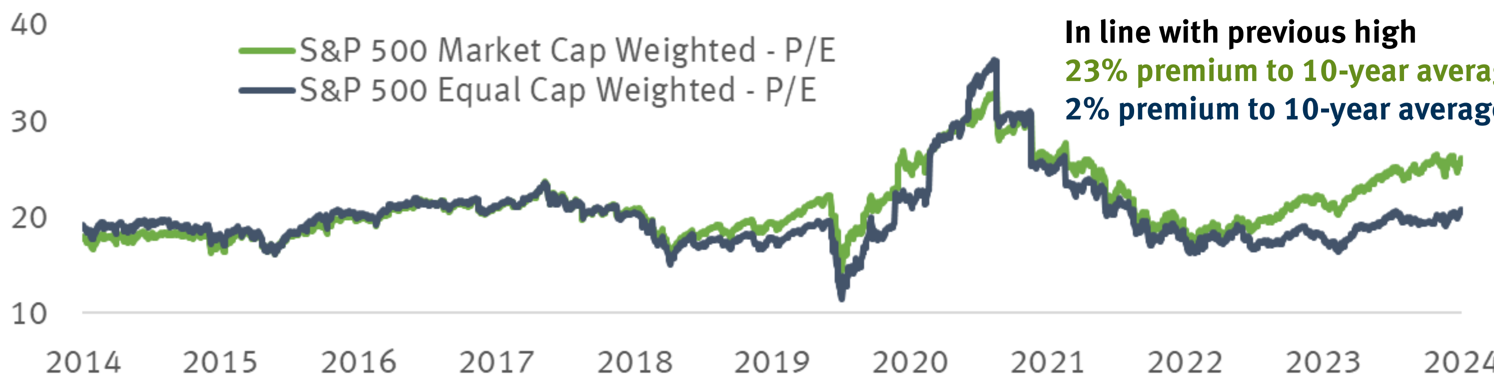
# NEAR-TERM RISKS AND OPPORTUNITIES

Current S&P 500 Index Level

Consensus 2025 EPS

Consensus 2024 EPS

| EPS | EPS Forward P/E | | | | | | |
|---|---|---|---|---|---|---|---|
| | 18x | 19x | 20x | 21x | 22x | 23x | 24x |
| $285 | 4,845 | 5,130 | 5,415 | 5,878 | 5,985 | 6,270 | 6,768 |
| $277 | 4,709 | 4,986 | 5,263 | 5,714 | 5,817 | 6,094 | 6,578 |
| $268 | 4,556 | 4,824 | 5,092 | 5,528 | 5,628 | 5,896 | 6,364 |
| $259 | 4,403 | 4,662 | 4,921 | 5,342 | 5,439 | 5,698 | 6,151 |
| $250 | 4,250 | 4,500 | 4,750 | 5,157 | 5,250 | 5,500 | 5,937 |
| $241 | 4,090 | 4,331 | 4,571 | 4,963 | 5,053 | 5,293 | 5,714 |
| $230 | 3,910 | 4,140 | 4,370 | 4,744 | 4,830 | 5,060 | 5,462 |



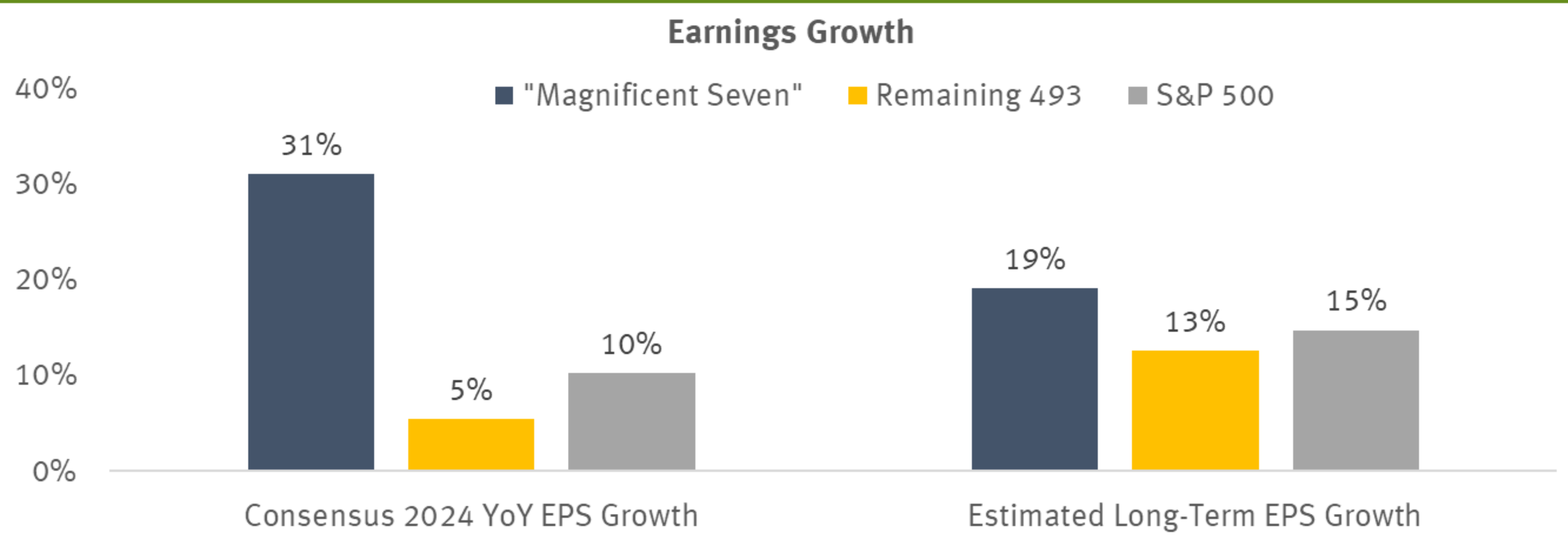

**In line with previous high**
**23% premium to 10-year average**
**2% premium to 10-year average**

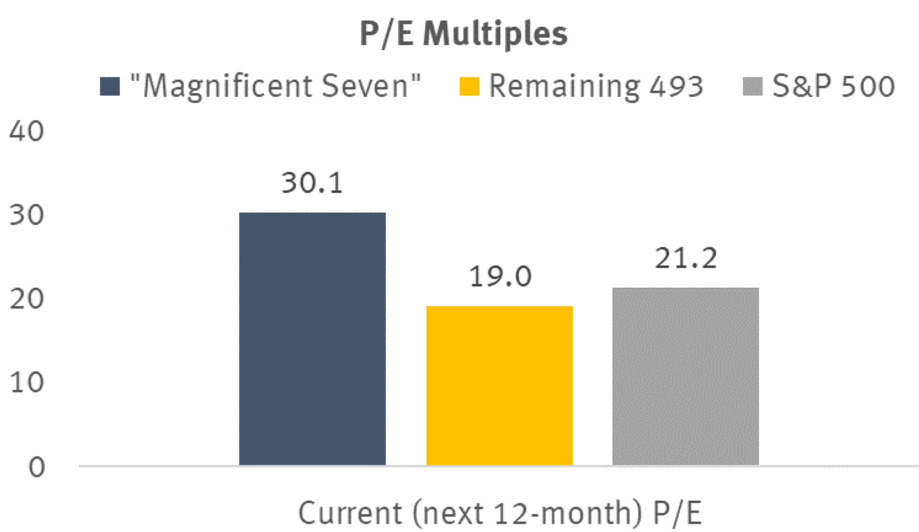
**Since 12/31/22:**

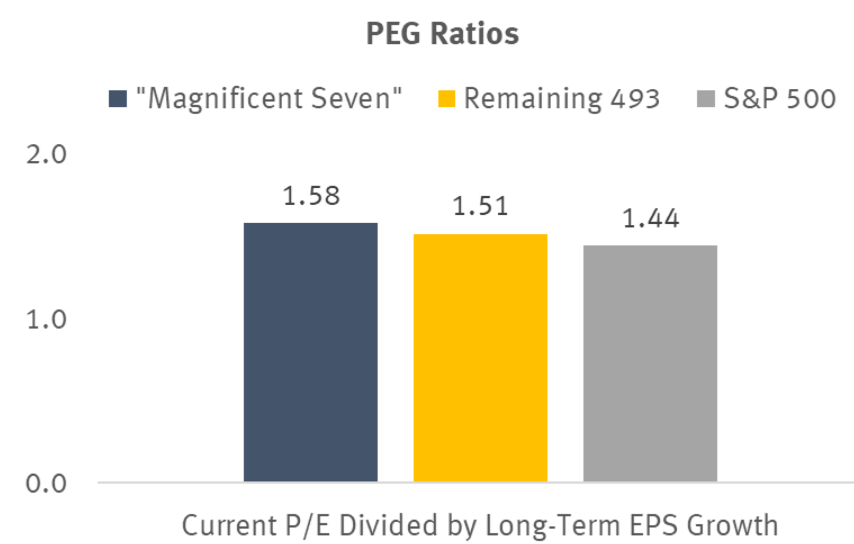
- **Chip maker Nvidia is up 707%, now approximately 6% of the cap-weighted S&P 500 and 15% of the index return.***

EPS = Earnings Per Share

*Source: Stifel CIO Office and Bloomberg, as of September 19, 2024




Source: Stifel CIO Office via FactSet, as of September 20, 2024

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

| | Weight* | FY25 |
|---|---|---|
| Tech. | 31% | 20% |
| Financials | 13% | 9% |
| Health Care | 12% | 21% |
| Cons. Disc. | 10% | 14% |
| Comm. Services | 9% | 17% |
| Industrials | 8% | 16% |
| Cons. Staples | 6% | 7% |
| Energy | 3% | 12% |
| Utilities | 3% | 9% |
| Materials | 2% | 19% |
| Real Estate | 2% | 5% |
| S&P 500 | | 15% |

*S&P 500 sector weights are shown.
Source: Stifel CIO Office via FactSet, J.P. Morgan Asset Management, as of September 19, 2024

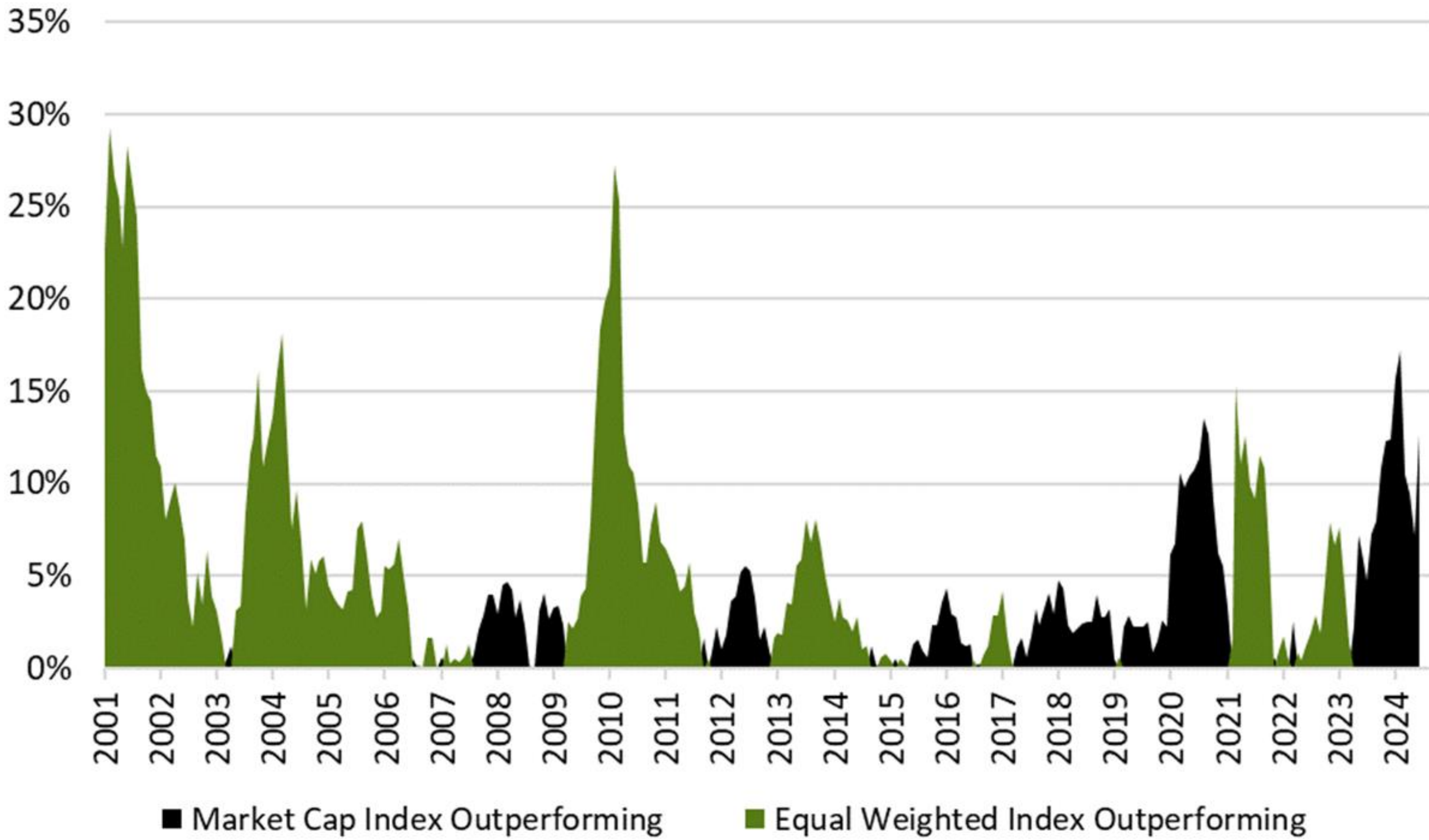
# MARKET PERFORMANCE

| Index | 2021 | 2022 | 2023 | Dec 31 23 – Jul 10 24 | Jul 10 24 – Sep 19 24 |
|---|---|---|---|---|---|
| S&P 500 Index | 28.7% | -18.1% | 26.3% | 19.0% | 1.7% |
| S&P 500 Eq. Weight. | 29.6% | -11.5% | 13.8% | 5.7% | 7.9% |
| S&P 500 Financials | 34.9% | -10.6% | 12.1% | 12.3% | 9.1% |
| KBW Reg. Banking | 36.7% | -6.9% | -0.4% | -6.9% | 18.0% |
| Bloomberg U.S. 1000 Value | 28.6% | -2.5% | 9.4% | 7.6% | 7.0% |
| Bloomberg U.S. 1000 Growth | 26.1% | -27.5% | 36.1% | 22.2% | 0.1% |
| Bloomberg Magnificent 7 | 51.5% | -45.3% | 107.0% | 51.1% | -6.2% |
| NYSE FANG+ Index | 17.7% | -40.0% | 96.4% | 40.8% | -6.1% |
| Bloomberg U.S. 2000 | 18.6% | -20.1% | 17.1% | 0.8% | 10.6% |
| MSCI EAFE Index | 11.3% | -14.5% | 18.2% | 7.8% | 3.4% |
| MSCI EM Index | -2.5% | -20.1% | 9.8% | 10.3% | -0.5% |
| Bloomberg U.S. Agg | -1.5% | -13.0% | 5.5% | 0.1% | 4.7% |

Source: Stifel CIO Office via Bloomberg, as of September 19, 2024

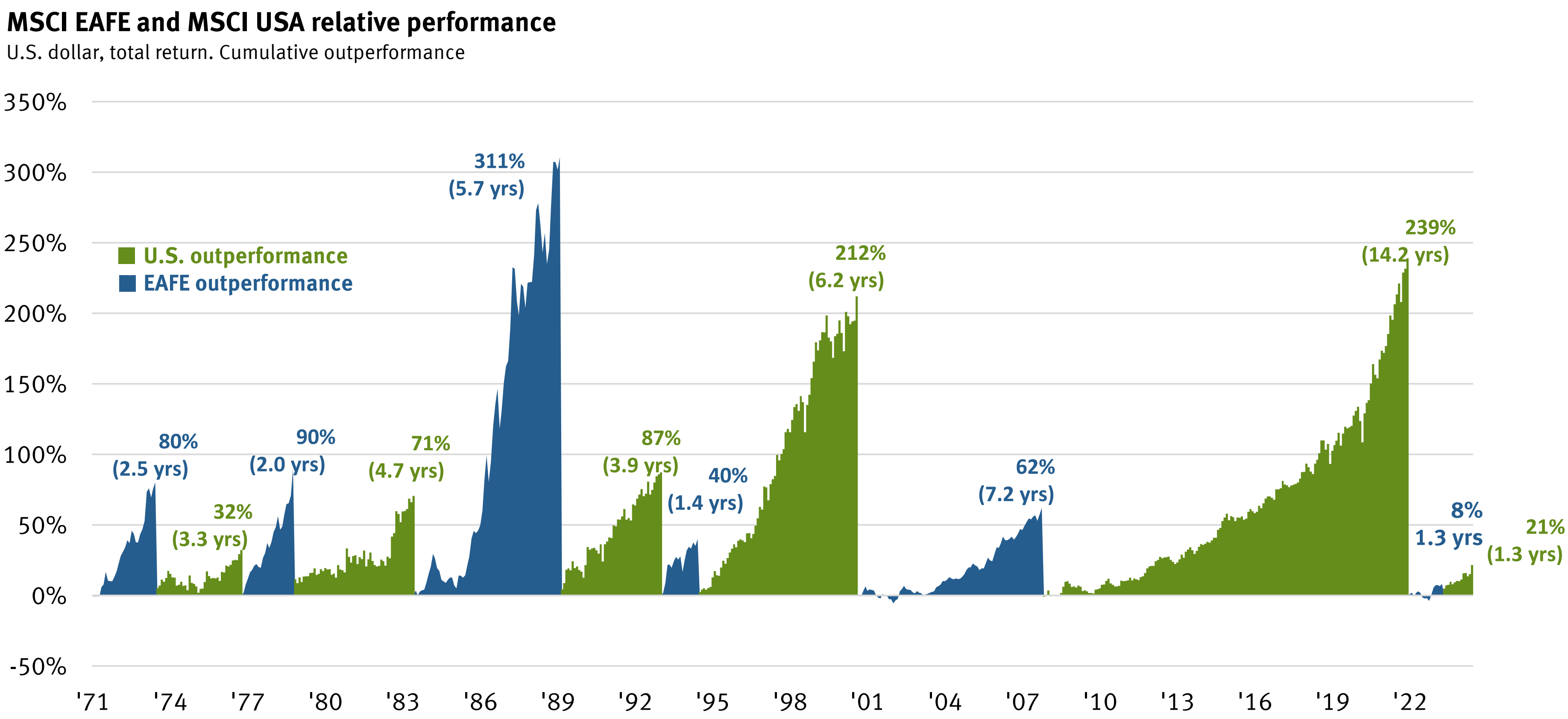
**S&P 500 Market Cap versus Equal Weight Relative Performance**

***Rolling monthly year-over-year total returns***




Source: Stifel CIO Office via Bloomberg, as of September 19, 2024

# CYCLES OF U.S. EQUITY OUTPERFORMANCE




 Source: Stifel CIO Office via Bloomberg as of September 18, 2024 

# Looking Forward

# NAVIGATING KEY DATES

| September | |
|---|---|
| 6 | Employment |
| 11/27 | Inflation |
| 13/27 | Consumer Sentiment |
| 17 | Retail Sales |
| 18 | Fed Policy Decision |
| 25 | Housing |

| October | |
|---|---|
| 4 | Employment |
| 9 | Federal Open Market Committee (FOMC) Minutes |
| 10 | Inflation |
| 11/25 | Consumer Sentiment |
| 17 | Retail Sales |
| 24 | Housing |

| November | |
|---|---|
| 1 | Employment |
| 7 | Fed Policy Decision |
| 11/22 | Consumer Sentiment |
| 13/27 | Inflation |
| 15 | Retail Sales |
| 21 | Housing |

| December | |
|---|---|
| 6 | Employment |
| 6/20 | Consumer Sentiment |
| 11/20 | Inflation |
| 17 | Retail Sales |
| 18 | Fed Policy Decision |
| 25 | Housing |

## Sources of Potential Volatility

- Macroeconomic Conditions
  - Economy
  - Inflation
  - Monetary Policy
  - Market Valuations

- Geopolitical Tensions
  - Russia – Ukraine
  - Israel – Hamas
  - Red Sea
  - South China Sea

- Global Election Supercycle
  - 40 major elections worldwide
  - U.S. Elections

- Fiscal Transition
  - Regional Bank Stress
    - Commercial Real Estate Loans
  - Corporate Refinancing
  - Government Debt
  - Consumer Spending

# 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***

MARKET SIGHT|LINES

**Will Rate Cuts Be Enough to Sustain the Bull Market, or Is a Bear Market Inevitable?**

We consider if Federal Reserve (Fed) rate cuts likely starting next week will be enough to prevent a recession and sustain the bull market, or whether a recession or a bear market is on the near-term horizon.

Watch | Listen

READ


**Allocation Insights**

Q3 2024

U.S. economic indicators signal ongoing expansion, yet a rise in the unemployment rate coupled with a more discerning consumer, has raised worries that the economy may be slowing faster than anticipated and that the Federal Reserve (Fed) may be behind on lowering rates.

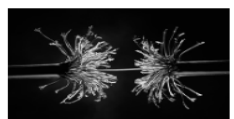
READ


**From Vision to Value: Our Long-Term Investment Themes**

*Long-Term Investment Themes*

Anticipating the megatrends influencing the economy and markets is a cornerstone for successful investing. That's why our long-term investment themes consider how megatrends such as artificial intelligence, geopolitical tensions, and an aging population are presenting value-creation opportunities for long-term investors.

READ



**Reprise: Get Ready for Market Volatility, In One Direction or the Other**

*Market Sight|Lines*

Recently we've seen an increase in market volatility, triggered by elevated valuations, election uncertainty, a slowdown in manufacturing, a weaker jobs market, geopolitical unrest, an increased focus on when AI capital spending will translate to AI earnings, and worries about Federal Reserve policy error. We revisit the topics of increasing market volatility and the prospect of a breakout market, in one direction or the other.

READ

*Popular insights from Stifel's CIO Office include:*



WEEKLY | MONTHLY | QUARTERLY





VIDEO | PODCAST | NEWSLETTER

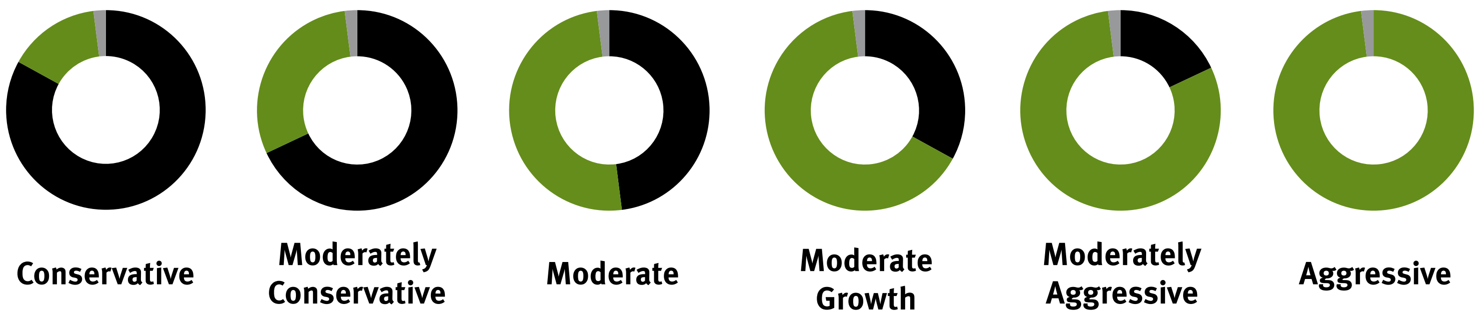


VIDEO | PODCAST | NEWSLETTER


# Dynamic leanings

## 144 ASSET ALLOCATION MODELS FOR YOUR SELECTION

**6**
**Risk Profiles**




**2**
**Time Frames**

- Strategic (Long Term)
- Dynamic (Near Term)

**3**
**Levels of Liquidity**

- Tier 1
- Tier 2
- Tier 3

**2**
**Equity Choices**

- U.S. Focused
- Global

**2**
**Fixed Income Choices**

- Tax Sensitive
- Taxable

## DYNAMIC LEANINGS

Underweight | Neutral | Overweight

EQUITY

| ASSET CLASS | CURRENT: Underweight | CURRENT: Neutral | CURRENT: Overweight | COMMENTS |
|---|---|---|---|---|
| **U.S. Equity vs. Non-U.S. Equity** | | ■ | | We remain neutral between U.S. and non-U.S. equity. Our base case calls for a soft landing in the U.S., but we believe valuations have priced in this scenario and the consensus earnings outlook is too optimistic. We recognize, however, that momentum is strong and the eventual Fed easing should be supportive of U.S. stocks. Non-U.S. equity valuations are attractive; however, growth trends are diverging and Europe and China face headwinds. We guide investors to consider active management. |
| **U.S. Large Cap vs. U.S. Small Cap** | ■ | | | Small cap equity valuations remain attractive and reflect worries about an economic downturn and the greater vulnerabilities from higher financing costs. We have a preference for quality companies with strong balance sheets regardless of market capitalization. We believe there is opportunity within small cap for skilled active investors. |
| **U.S. Large Value vs. U.S. Large Growth** | | ■ | | We believe in this new regime investors should be diversified across both value and growth styles. Within U.S. large cap, we expect returns to broaden out and have a preference for quality companies and those that are expected to benefit from our long-term investment themes such as AI and the Fourth Industrial Revolution. |
| **Non-U.S. Developed Markets vs. Emerging Markets** | | ■ | | Both developed and emerging markets remain vulnerable to idiosyncratic risks and headwinds stemming from geopolitical tensions and a slowing global economy. China is facing structural headwinds, and investors are worried about policy uncertainty and possible stresses in its property sector. |
| **Europe vs. Japan** | ■ | | | Japan was a solid performer in 2023, but we believe there is still the potential for relative outperformance. Japan's economic growth remains positive, and corporate governance reform is likely to enhance shareholder value in the medium to long term. In Europe, weaker Chinese growth and the Russia-Ukraine war remain headwinds for the growth outlook. |

## DYNAMIC LEANINGS

| | ASSET CLASS | CURRENT: Underweight | CURRENT: Neutral | CURRENT: Overweight | COMMENTS |
|---|---|---|---|---|---|
| FIXED INCOME | U.S. Investment Grade vs. U.S. High Yield | | | ■ | 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. |
| FIXED INCOME | Corporates vs. Government vs. Agency MBS | ■ | | | 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. |
| FIXED INCOME | **Duration** | | ■ | | We view duration as a diversifier in a multi-asset class portfolio given the macroeconomic uncertainty and volatility in yields, and so we remain neutral on duration as compared to the overall market. |
| ALTERNATIVES | Private Assets | | ■ | | 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. |
| ALTERNATIVES | Hedge Funds | | ■ | | 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. |

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.

Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VIX Index shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com
3 Bryant Park | 1095 Avenue of the Americas | New York, New York 10036

0924.7035278.1