Insights from Stifel's CIO Office

January 2025

INVESTMENT STRATEGY BRIEF:

Outlook 2025: *Gravitational Shifts*

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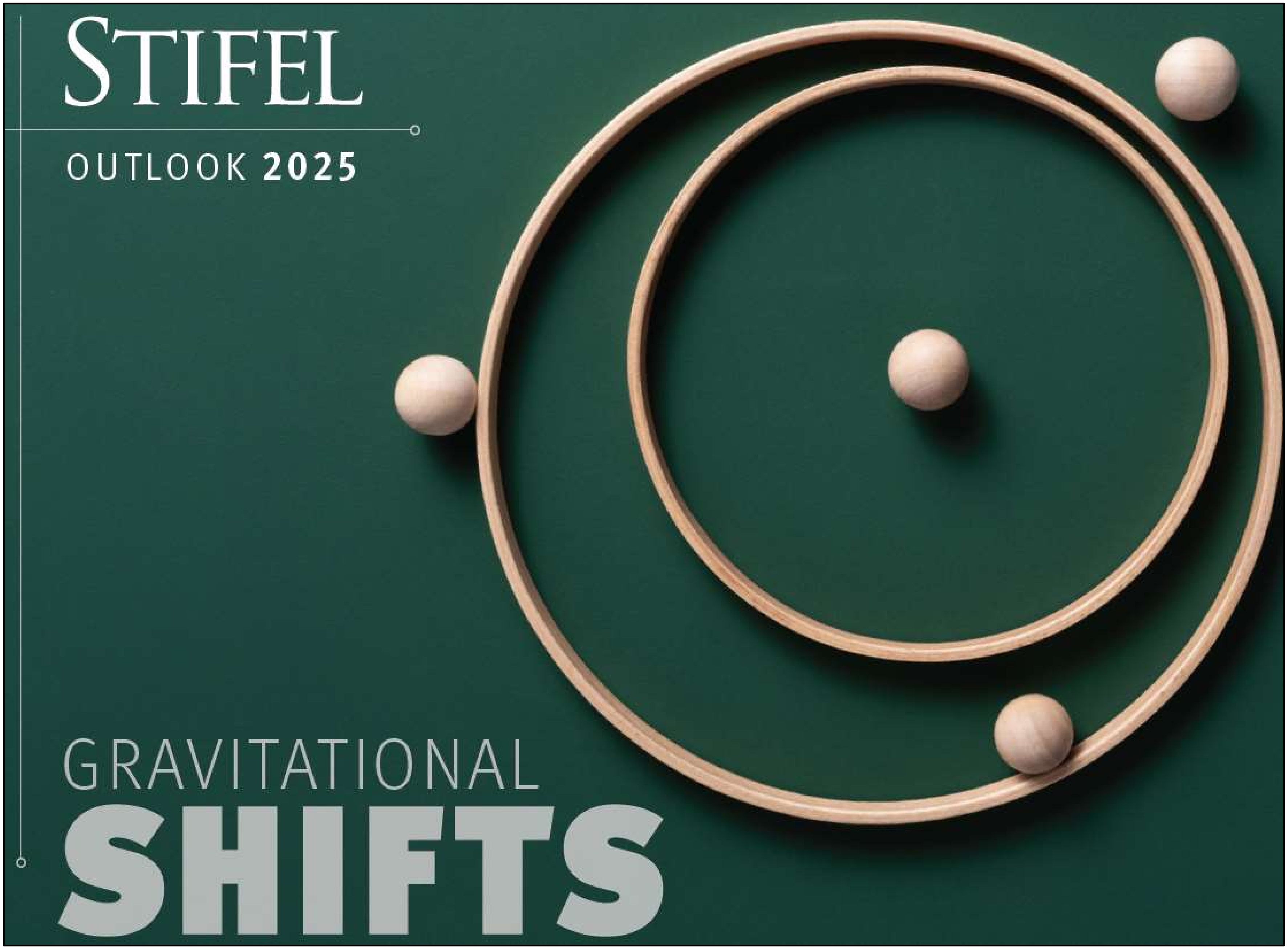
Outlook 2025: Gravitational Shifts



INVESTMENT STRATEGY BRIEF [Report] [Video] [Webinar]

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(Geo)Politics

WASHINGTON POLICY AND POLITICAL OUTLOOK

Contributed by Brian Gardner | Chief Washington Policy Strategist

A new presidential administration typically arrives in Washington with fanfare and high expectations, and 2025 will be no different. President-elect Donald Trump and congressional Republicans are planning an ambitious policy agenda that will have implications for investors. Parts of the Trump agenda can be implemented more easily than others.

We look ahead to the coming year, assessing which parts of Mr. Trump's economic plan are most likely to be enacted and which ones might face opposition, helping investors plan accordingly. Investors should remember that the euphoria winning political parties feel after an election does not always translate into policy wins.

The overall theme for 2025 in Washington will be less government and deregulation. Under Mr. Trump's leadership, regulatory agencies are likely to govern with a lighter touch. However, the incoming administration will deviate from Republican orthodoxy by pursuing tariffs on imports, a departure from the party's historic position on free trade, and adopting a different stance on antitrust policy compared to the party's hands-off approach of the past 50 years. The Republican Party's base has become more working class, and policies will reflect that shift. The Trump administration is likely to be friendlier to labor and less deferential to capital than what is typical for Republican governments.

Topics	Observations
Deregulation	We expect to see a significant rollback in Biden administration regulations, especially related to financial services, climate initiatives and energy. M&A activity is expected to increase as a result.
Taxes	The Trump administration will try to make good on election promises, but meaningful change, including the extension of the 2017 tax cuts, requires support from Congress, making Republican's house margin crucial.
Healthcare	A focus on deregulation will seek to increase competition and efficiency, and a leading role for Robert F. Kennedy (RFK) Jr. means potentially more dramatic change.
Military and Defense	We expect support of a strong military, changes to the legacy military leadership, and potential peace negotiations in Russia/Ukraine and Israel/Hamas.
Foreign Policy	An "America First" approach will be pursued with both U.S. allies and China, with tariffs imposed as a first big step toward aggressive negotiations.
Energy	An increased scrutiny and reduced tax credits on alternative energy, like wind and solar, will be offset with renewed support and deregulation for oil and gas and a growing focus on nuclear energy.
The Federal Reserve (Fed)	Like many presidents before him, President Trump will lobby for a more accommodative Fed, but we expect the Fed to maintain independence.
Government Spending	The focus on government efficiency is real and should result in reduced discretionary spending, with limited fiscal spending legislation.
Animal Spirits	Markets rallied on an uncontested election and optimism about deregulation and government efficiency, but we expect some volatility going forward.

GEOPOLITICAL DASHBOARD

LEGEND

Certain	Expected to happen; strong evidence or clear trends
Highly Likely	Very probable; significant indicators suggest it will occur
Likely	Reasonable chance of happening; emerging signals present, uncertainty remains
Unlikely	Uncommon; there are some signals, but it's not expected
Highly Unlikely	Very rare; little to no evidence to suggest occurrence

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

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

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GEOPOLITICAL **DASHBOARD**

(continued)

LEGEND

Certain	Expected to happen; strong evidence or clear trends
Highly Likely	Very probable; significant indicators suggest it will occur
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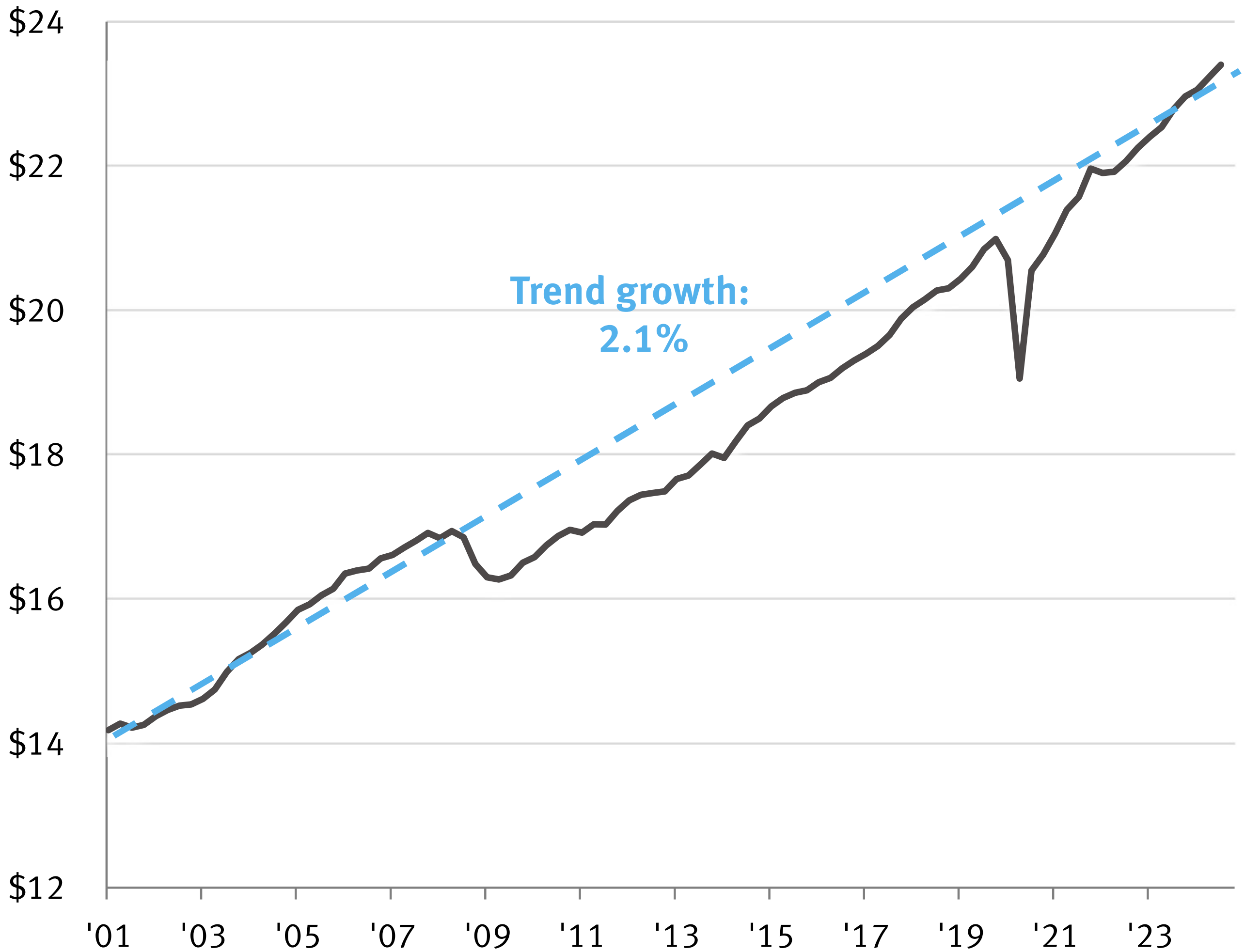
Military Conflicts

RISK	DESCRIPTION	LIKELIHOOD (3–5 YEARS)	INVESTMENT CONSIDERATIONS
South China Sea Military Conflict	Competing claims over territory escalate into military confrontation, drawing U.S. involvement.	Likely	More than $3 trillion worth of global trade, or a third of maritime trade, passes through the South China Sea annually. A conflict would severely disrupt supply chains.
Middle East War	Israel and Iran conflict escalates from retaliatory strikes into full-scale war, forcing the U.S. to get involved.	Likely	Global oil market will be disrupted, driving up energy prices and impacting global supply chains. Defense and energy sectors would likely benefit.
Russia-NATO Confrontation	Accidental strike on a NATO member or Russia's interference in NATO countries provokes the alliance into a direct conflict.	Unlikely	This will likely lead to a spike in oil prices and a recession in Europe. Perceived safe-haven assets such as gold, U.S. Treasuries, and the U.S. dollar may benefit.
Indian-Pakistan Tensions	India and Pakistan tensions escalate into military conflict, disrupt regional stability, and draw in international powers.	Unlikely	A nuclear war is the worst-case scenario. India, the world's most populous country, is emerging as a "swing state" in the context of geopolitics.
China Invades Taiwan	China asserts its claim over Taiwan and attempts to achieve "reunification."	Unlikely	Severe disruption in global trade, potentially crippling the semiconductor industry given Taiwan's central role in chip production.
North Korea War	South Korea strikes preemptively, or North Korea becomes emboldened with support from Russia and/or China.	Highly Unlikely	There are several reasons why we think this is unlikely, including North Korea's lack of military capabilities and the focus on preserving the current Kim dynasty.

Economy

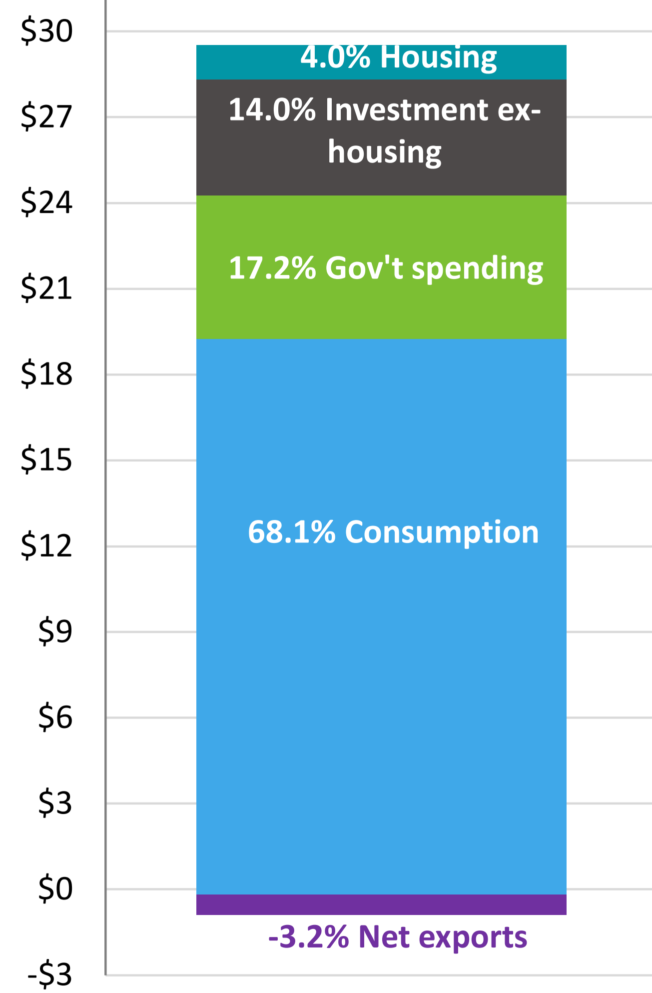
Real GDP

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



Components of GDP

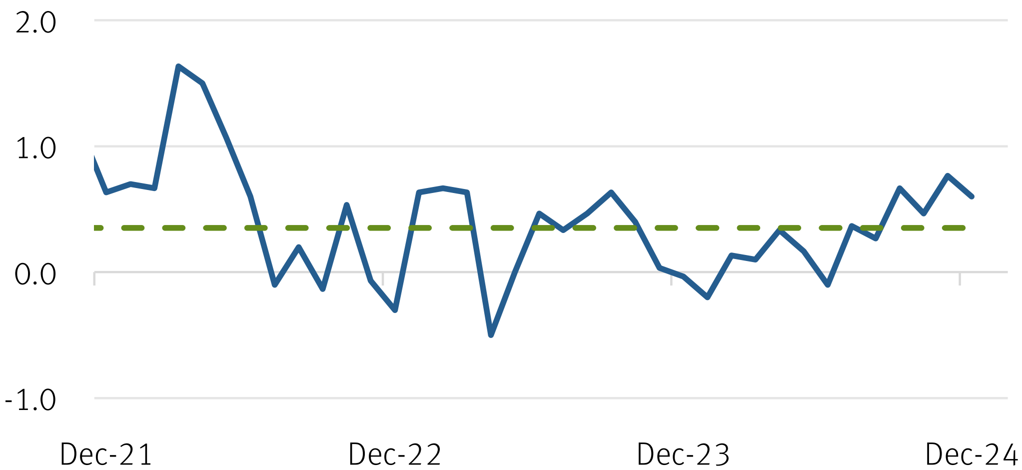
3Q24 nominal GDP, USD trillions



Source: Stifel CIO Office via Bloomberg, as of January 15, 2025.

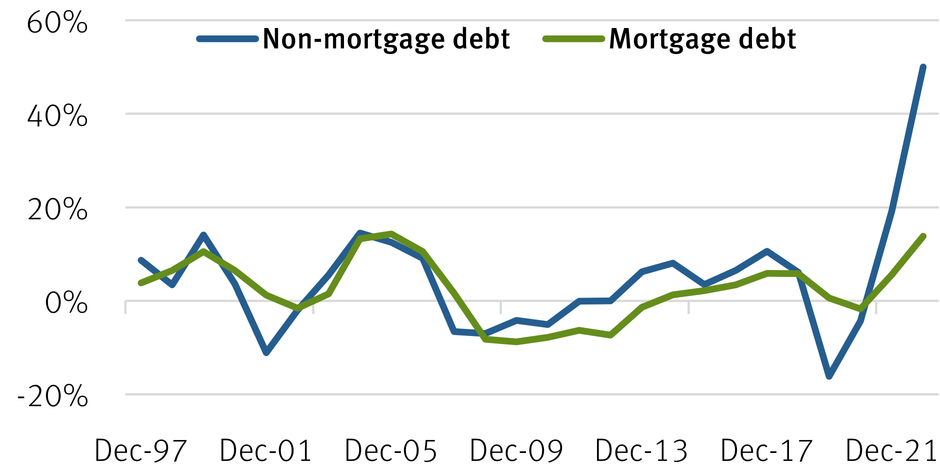
Retail Sales

Month over Month - 3-month Moving Average

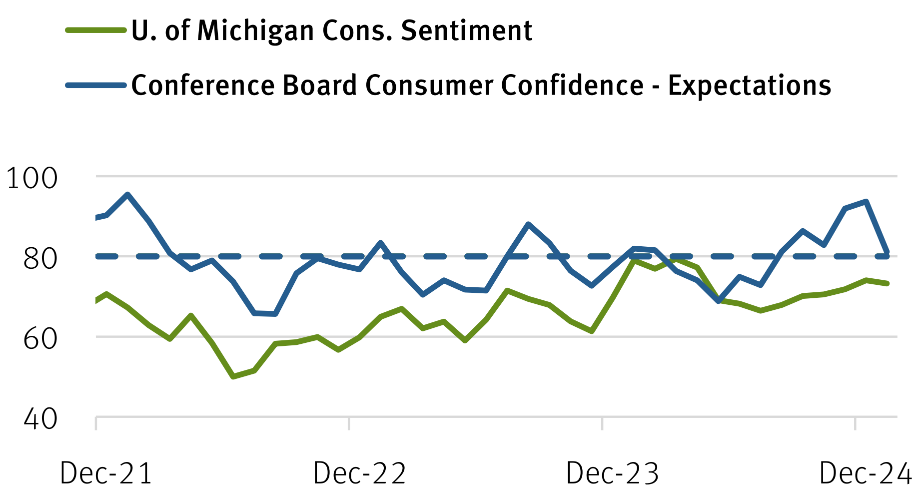


Interest paid on Consumer Debt

Year-over-Year %

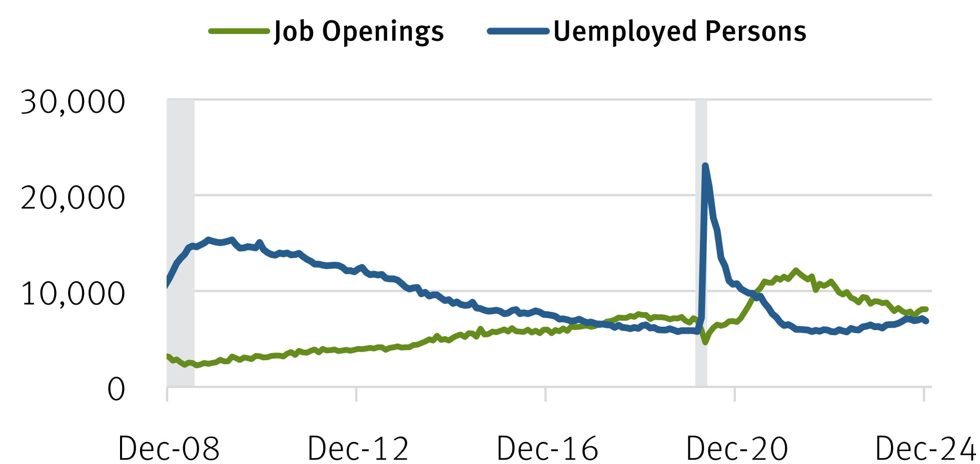


Consumer Confidence and Sentiment



Job Openings and Unemployed Persons

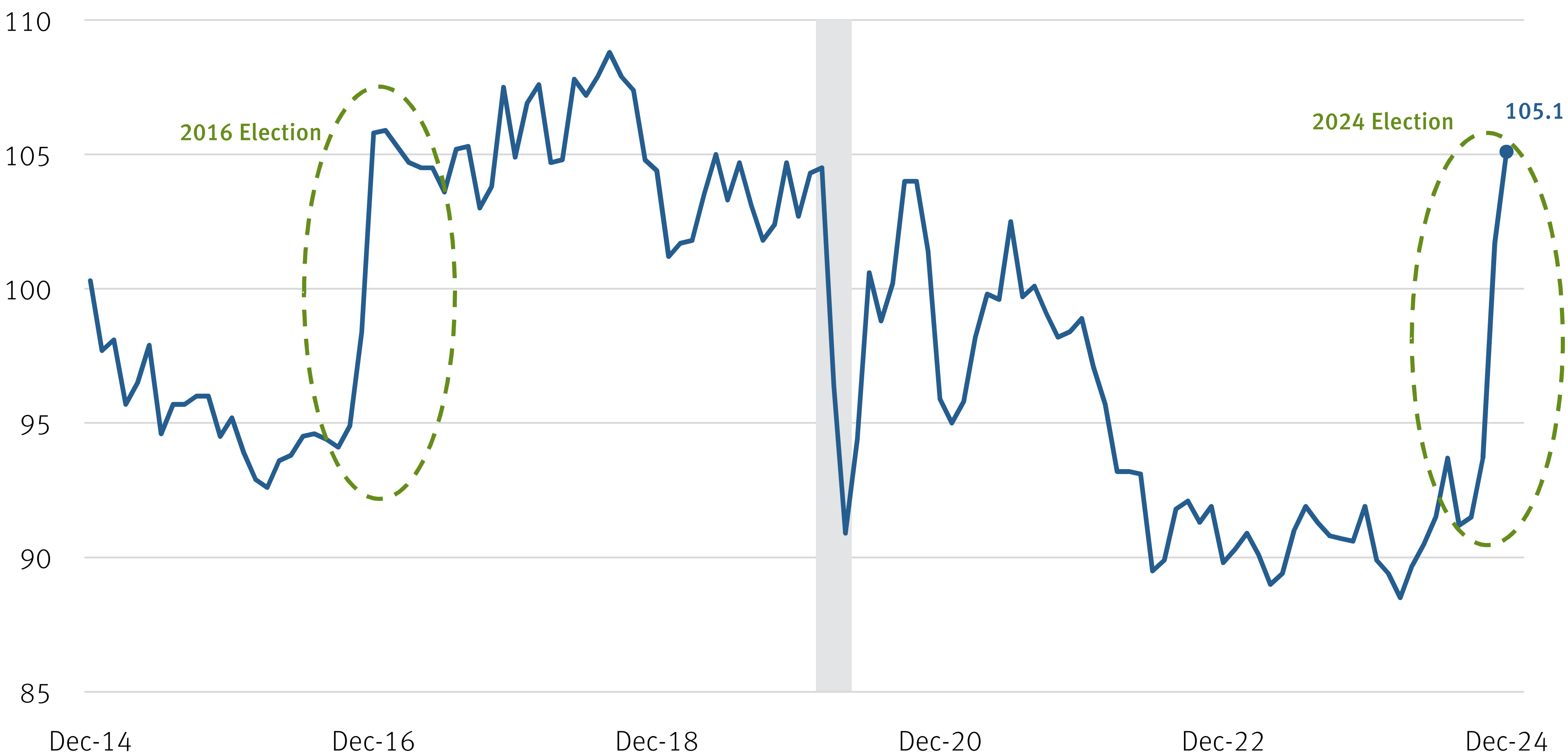
Monthly, in millions



Source: Stifel CIO Office via Bloomberg, as of January 16, 2025.

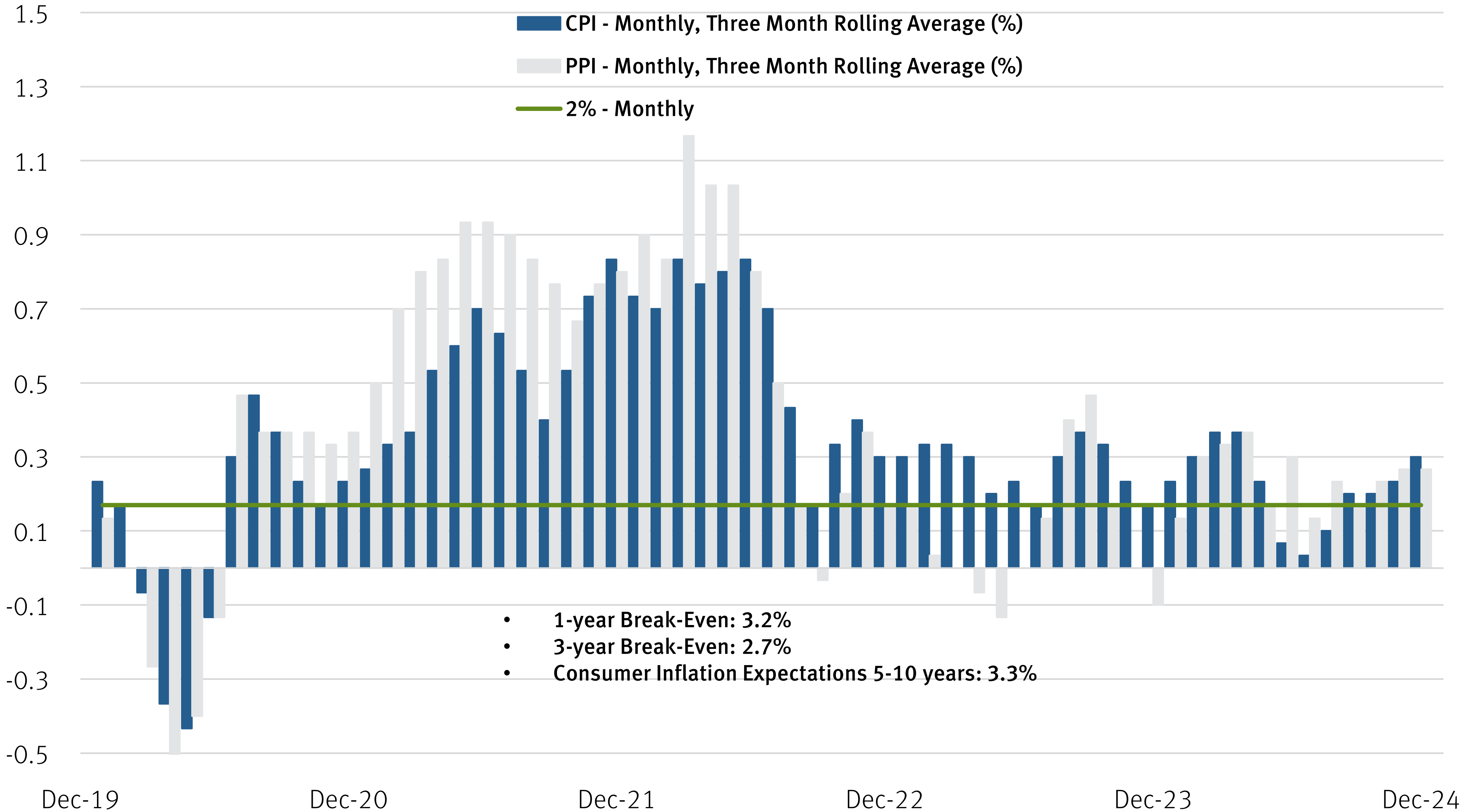
National Federation of Independent Small Business Optimism Index

Monthly



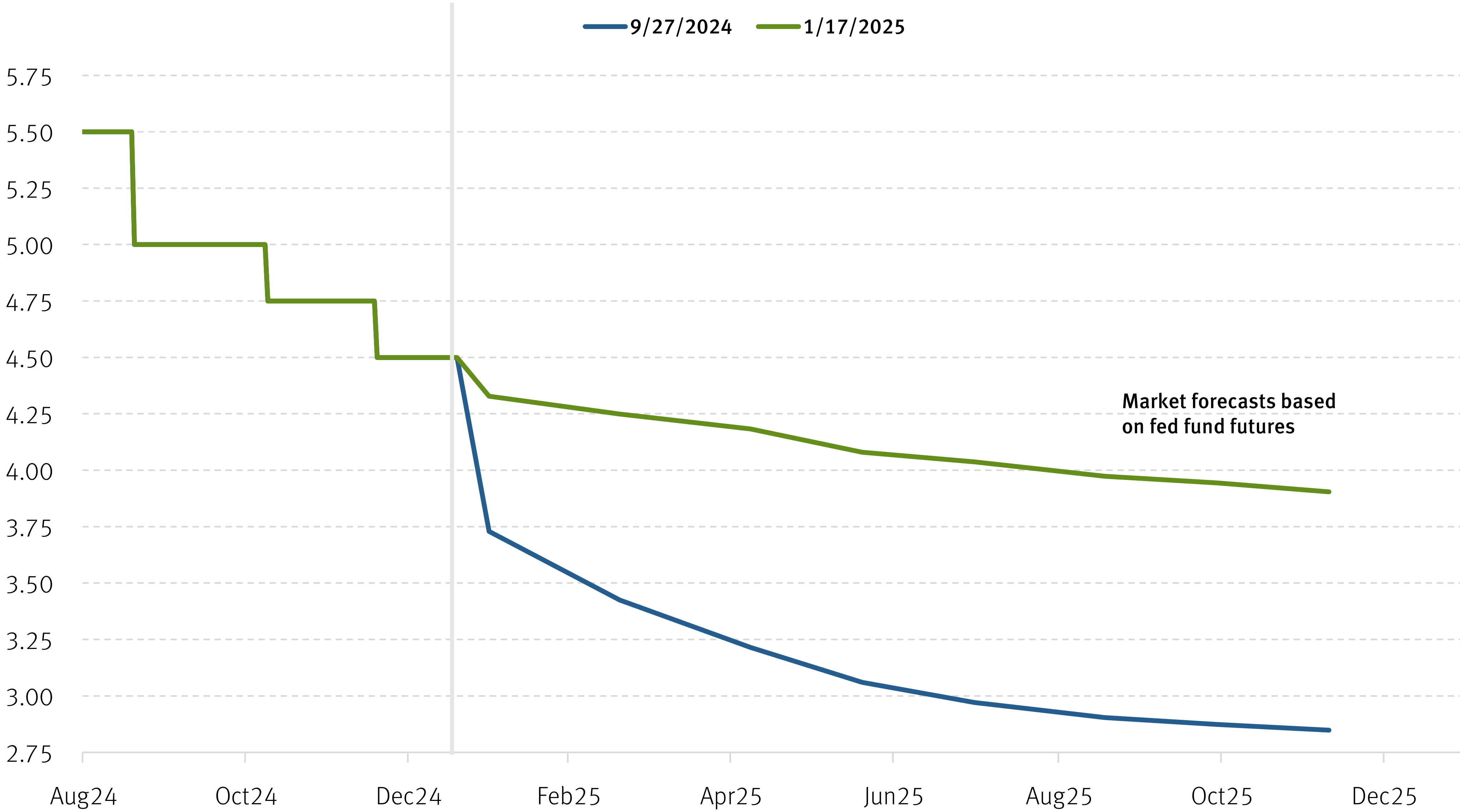
Source: Stifel CIO Office via Bloomberg, as of January 14, 2025.

Monthly Inflation Trends



Source: Stifel CIO Office via Bloomberg, as of January 17, 2025
CPI = Consumer Price Index
PPI = Producer Price Index

Fed Funds Target Rate - Upper Bound



Source: Stifel CIO Office via Bloomberg, as of January 17, 2025

Debt Added Since GFC

Households	**$5.6 trillion**
Corporate	**$8.5 trillion**
Federal	**$27.0 trillion**

10-year Treasury Yield

Now	**4.6%**
10 Years Forward	**5.3%**
20 Years Forward	**4.5%**

In a higher rate regime, the cost of debt will increase going forward for all segments of the economy: The Consumer, Business, Government

Current Government Debt

2024 Deficit: $1.9 trillion
Total Debt: $36 trillion
Net Interest:
16% revenue
12% spending
35% discretionary

CBO Forecast 2034

2034 Deficit: $2.8 trillion
Total Debt: $57 trillion
Net Interest:
19% revenue
14% spending
43% discretionary

Quotes

"The…federal government's fiscal path…is on an unsustainable path…you've got a very large deficit…So, it's important…they be dealt with. It is ultimately a threat to the economy …" – Jay Powell

"Any country can borrow money and drive growth, but it may not always lead to good growth, so I think America should be quite aware that we've got to focus on it more." – Jamie Dimon

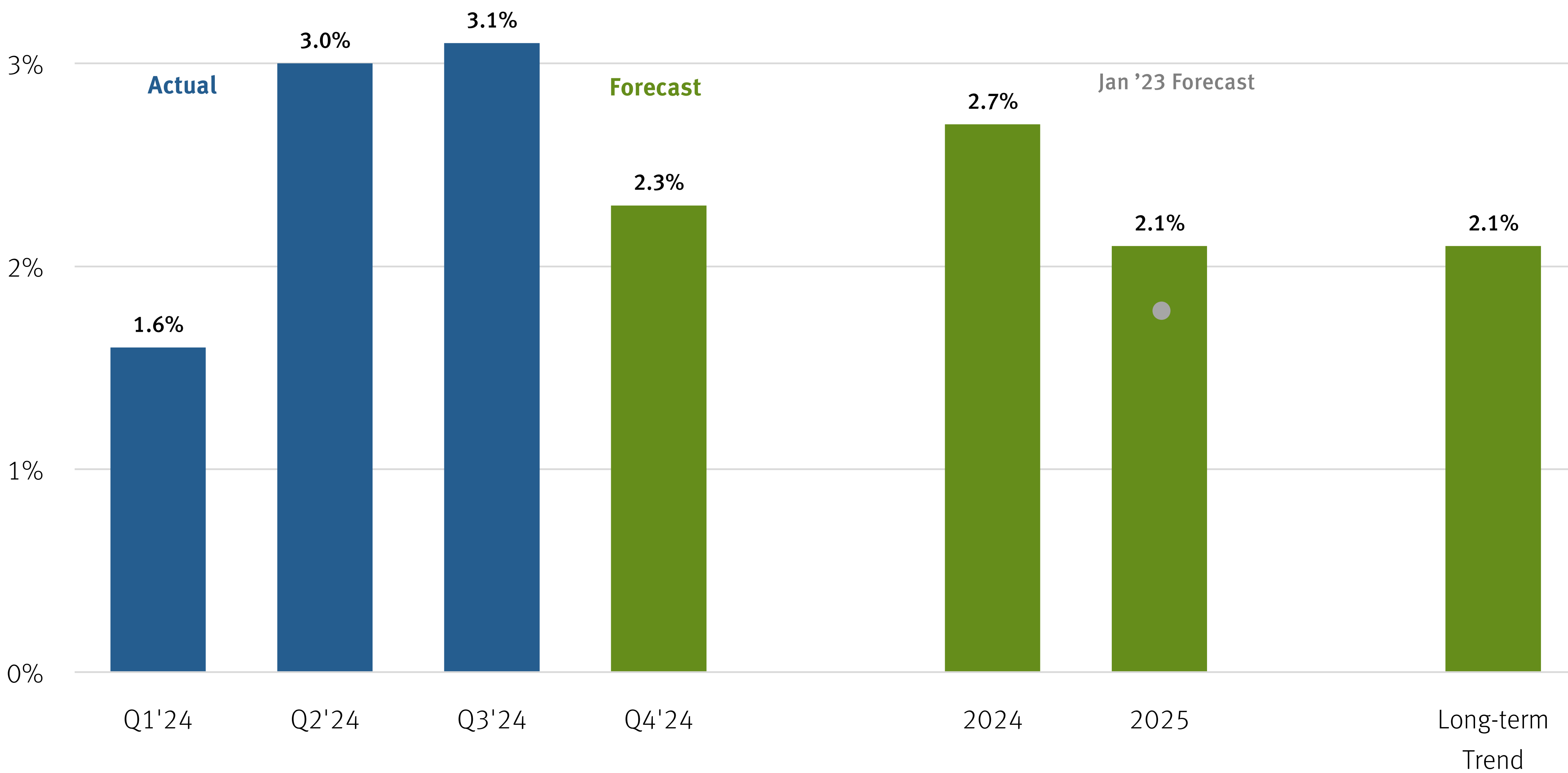
"Policymakers need to put greater focus on the ballooning debt and deficit. The government's ability to spend without constraint is not unlimited."– David Solomon

We remain optimistic that the U.S. will ultimately get through this fiscal transition stronger. But how much pain will we experience through the process, and when?

Source: Stifel CIO Office, as of January 17, 2025; data via Bloomberg, St. Louis Federal Reserve (FRED), New York Federal Reserve, Strategas

GFC = Great Financial Crisis
CBO = Congressional Budget Office

Consensus GDP Estimates



Source: Stifel CIO Office via Bloomberg, as of January 17, 2025.

OUTLOOK 2025 *(continued)*

The Wild Card

The new administration's policy shifts introduce a level of unpredictability that could impact the economy and markets in 2025. Key areas to monitor include tariffs, immigration, and the administration's ability to deliver on campaign promises such as revitalizing domestic manufacturing and improving government efficiency. While deregulation and tax cuts are expected to provide positive momentum, permanent tariffs and immigration restrictions could have adverse effects. The outcome will depend on how these policies are implemented, but we believe that the net result will ultimately be positive for both the economy and markets.

The Bottom Line

The U.S. economy remains on solid footing. A healthy labor market, stable prices, and rising real incomes are expected to sustain consumer spending. A business-friendly environment could unlock pent-up demand for business capital expenditures, driving additional momentum. We forecast U.S. GDP growth of 1.5% to 2.5%, reflecting a positive but slower pace of economic growth compared to last year. Whether growth exceeds or falls below the long-term trend of 2.1% will depend on the extent and pace of changes in government policies and the continued return to normal across multiple dimensions.

ASSET CLASS FORECASTS

Stocks

We anticipate another positive year for stocks. However, stock market volatility is likely to rise compared to last year due to elevated starting valuations, policy shifts in Washington, D.C., and global geopolitical tensions. Periodic market weakness or even a correction wouldn't be surprising.

Earnings are the fundamental driver of returns, and the consensus bottom-up earnings growth forecast for the S&P 500 is a robust 14.5%. Importantly, all sectors are expected to see earnings growth, which should translate to a broadening of returns beyond the mega cap technology stocks. This shift would reduce the concentration of leadership in the M7 and promote more balanced sector participation.

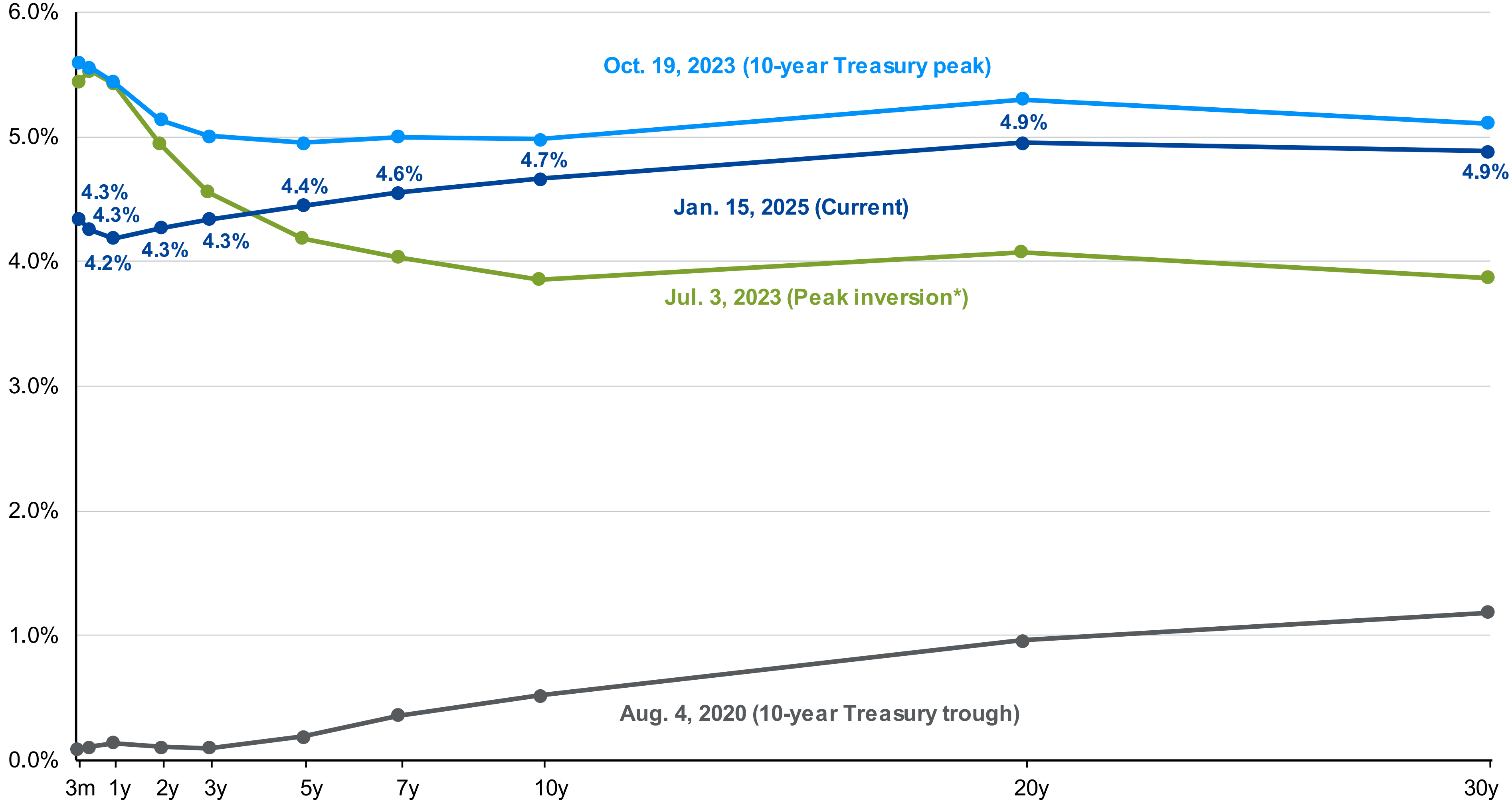
The S&P 500 ended 2024 with strong returns, leaving valuation levels elevated. The forward price/earnings (P/E) ratio is now at 21.5x times earnings, bolstered by the earnings and stock performance of the M7.

If the P/E ratio remains constant and earnings grow by 15%, prices will also have to rise by 15%. Adding in dividends would imply a total return of over 16%. We see this as too optimistic. Instead, we forecast a total return of approximately 7%, assuming a modest contraction in P/E ratios and/or more tempered earnings growth. This outlook results in a year-end S&P 500 target of 6,200.

	2025 FORECAST
U.S. Real GDP	1.5% – 2.5%
Core PCE Inflation (4Q/4Q)	2.5%
Federal Funds Rate (Upper Bound)	4.00% – 4.25%

Markets

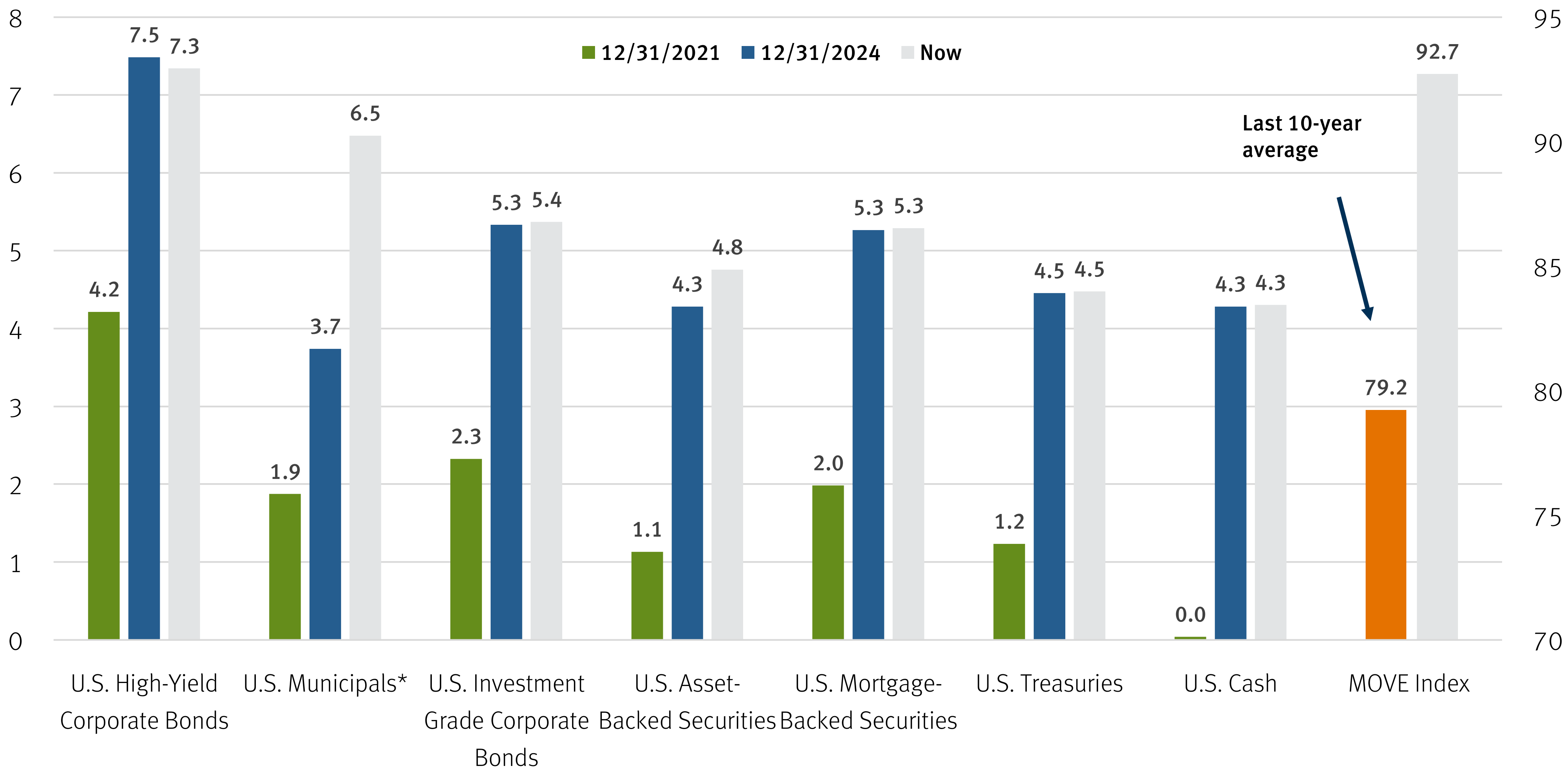
U.S. Treasury yield curve



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 January 15, 2025.

Fixed Income Yield (Percentage)



*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 January 16, 2025

NEAR-TERM RISKS AND OPPORTUNITIES

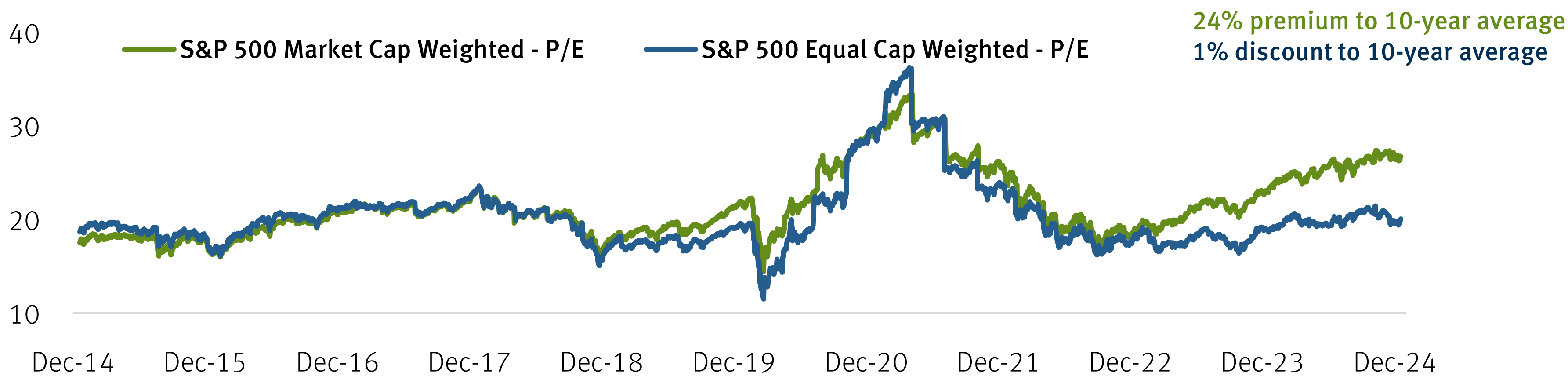
EPS	EPS Forward P/E						
	19x	20x	21x	22x	23x	24x	25x
$285	5,415	5,700	5,985	6,198	6,555	6,840	7,110
$273	5,187	5,460	5,733	5,937	6,279	6,552	6,810
$268	5,092	5,360	5,628	5,829	6,164	6,432	6,686
$259	4,921	5,180	5,439	5,633	5,957	6,216	6,461
$250	4,750	5,000	5,250	5,437	5,750	6,000	6,237
$238	4,522	4,760	4,998	5,176	5,474	5,712	5,937
$230	4,370	4,600	4,830	5,002	5,290	5,520	5,738

Consensus 2025 EPS

Consensus 2024 EPS

Current S&P 500 Index Level

3% needed to reach recent high



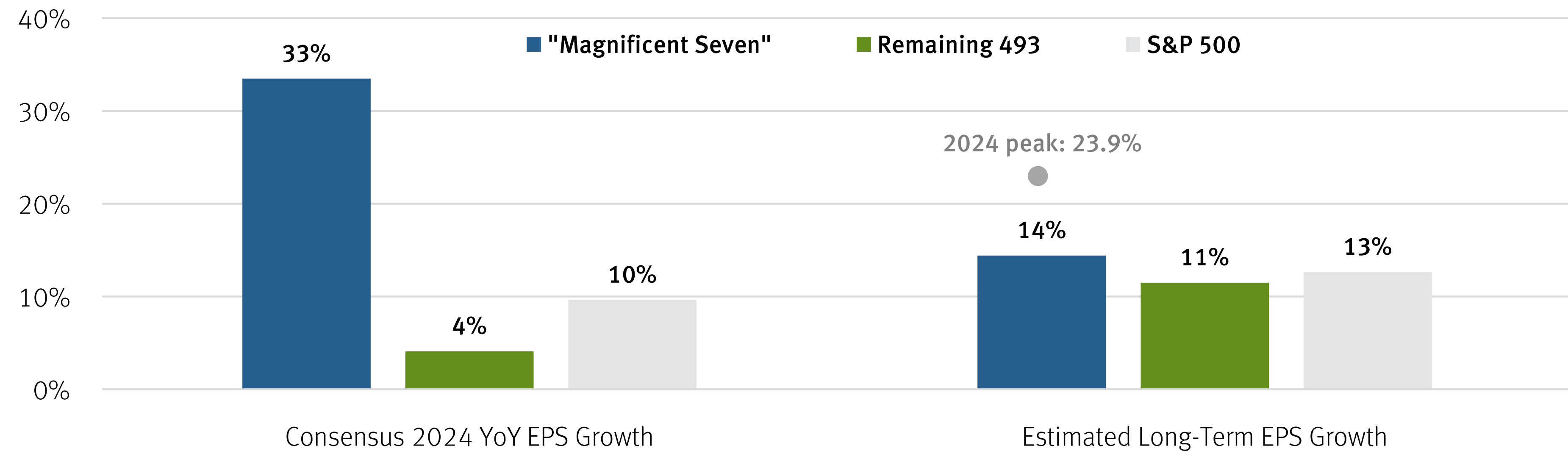
In 2024:

- **The Magnificent Seven Stocks are together up 60%, now approximately 31% of the cap-weighted S&P 500 and over 53% of the index return.***

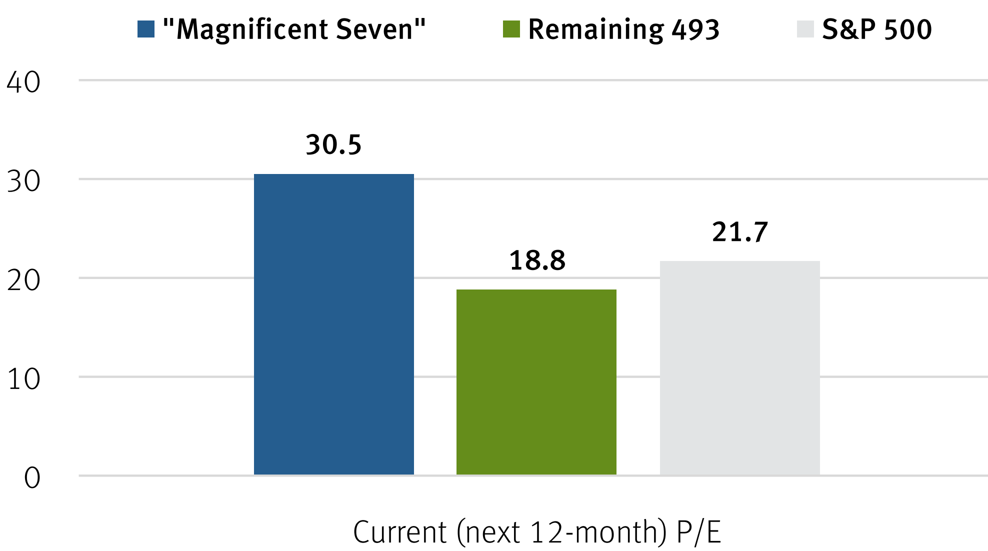
EPS = Earnings Per Share

*Source: Stifel CIO Office and Bloomberg, as of January 16, 2025

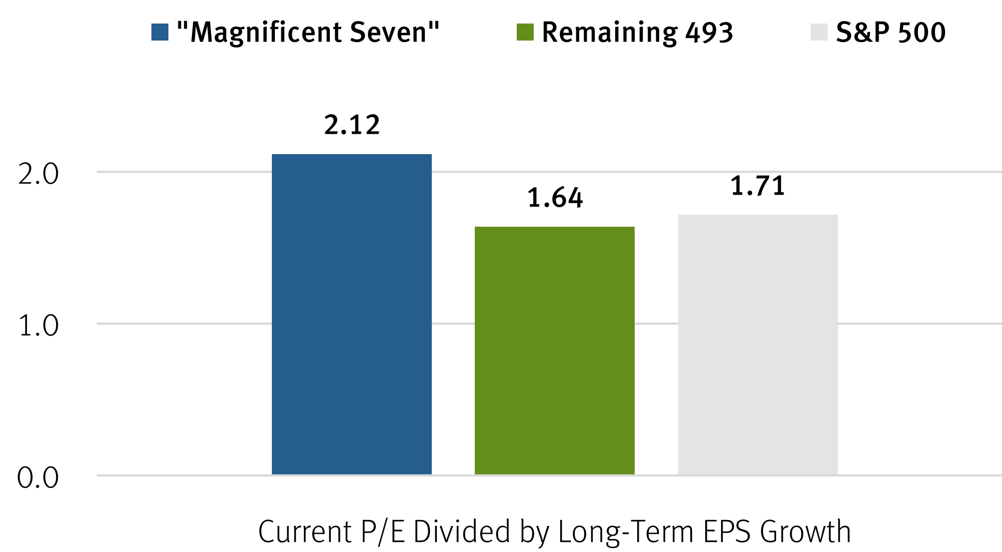
Earnings Growth



P/E Multiples



PEG Ratios



Source: Stifel CIO Office via FactSet, as of January 17, 2025

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

	Weight*	FY25
Tech.	32%	22%
Financials	14%	10%
Health Care	10%	20%
Cons. Disc.	11%	12%
Comm. Services	9%	15%
Industrials	8%	18%
Cons. Staples	5%	5%
Energy	3%	4%
Utilities	2%	9%
Materials	2%	16%
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 January 17, 2025

CONTRIBUTION TO INCOME

	Sector Weight	Income Weight
Tech.	12%	8%
Financials	14%	20%
Health Care	10%	10%
Cons. Disc.	5%	6%
Comm. Services	3%	2%
Industrials	8%	9%
Cons. Staples	5%	7%
Energy	3%	6%
Utilities	2%	3%
Materials	2%	2%
Real Estate	2%	1%
Mag 7	34%	25%

*S&P 500 sector weights are shown.
Source: Stifel CIO Office via Strategas, as of January 8, 2025

Index	2022	2023	2024	Nov 05 24 – Dec 31 24	2025 YTD
S&P 500 Index	-18.1%	26.3%	25.0%	1.9%	1.0%
S&P 500 Eq. Weight.	-11.5%	13.8%	13.0%	-1.6%	2.3%
S&P 500 Financials	-10.6%	12.1%	30.5%	3.8%	3.1%
KBW Reg. Banking	-6.9%	-0.4%	13.2%	2.8%	2.3%
Bloomberg U.S. 1000 Value	-2.5%	9.4%	13.6%	-2.1%	2.8%
Bloomberg U.S. 1000 Growth	-27.5%	36.1%	28.9%	3.6%	0.7%
Bloomberg Magnificent 7	-45.3%	107.0%	67.3%	14.2%	0.1%
NYSE FANG+ Index	-40.0%	96.4%	51.0%	10.4%	-0.3%
Bloomberg U.S. 2000	-20.1%	17.1%	12.0%	-0.4%	1.7%
MSCI EAFE Index	-14.5%	18.2%	3.8%	-3.6%	1.0%
MSCI EM Index	-20.1%	9.8%	7.5%	-5.4%	-0.7%
Bloomberg U.S. Agg	-13.0%	5.5%	1.3%	-0.8%	0.0%

Source: Stifel CIO Office via Bloomberg, as of January 16, 2025

Bonds

Our view on 2025 is that bond yields will continue to stabilize at more normalized long-term levels. We expect that the 10-year Treasury yield, which ended 2024 at 4.57%, will remain range-bound between 4.25% and 4.75%.

Borrowers are still learning to accept that our "normal" interest rate environment will no longer be the low-rate regime orchestrated by the Fed after the Great Recession and amplified during the pandemic. There's a consensus building that the Fed's neutral rate, the rate at which policy is neither stimulative nor restrictive, will settle at a much higher 3.75% compared to the post-Great Recession environment.

On a related note, the yield curve reflects forward rates on the 10-year Treasury of about 4%-5% over the next two decades. This reflects, in part, investors' demand for higher yields as the U.S. government works to improve its fiscal trajectory.

Corporate bond spreads, which represent the extra yield investors demand for credit risk, ended 2024 historically tight for both investment-grade and high-yield debt, reflecting investor confidence in the current and future business environment. We expect spreads to remain tight given our view of continued economic growth, but widen some as investors focus further on the uncertainties of the current environment.

	2025 FORECAST
S&P 500	6,200 | 6.7% (Total Return)
10-Year Treasury (%)	4.25% – 4.75%
Market Pulse Publications*	25
Investment-Grade Spreads**	100 bps – 150 bps
High-Yield Spreads	300 bps – 350 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.

OUTLOOK **2025** *(continued)*

FISCAL TRANSITION

In the wake of the Great Recession, the lower interest rate environment motivated borrowers across the economy, including the U.S. government, to increase debt. The 2024 deficit is forecast to be $1.8 trillion, and we've ended the year with over $36 trillion in government debt. The debt service – interest on the debt – is estimated to account for over a third of our discretionary spending.

In a higher rate regime, the cost of debt will increase going forward for all segments of the economy: the consumer, business, and the government. Corporate leaders and government officials alike have drawn focus to this issue, describing our fiscal trajectory as "unsustainable."

As a result, we see our economy, and especially the U.S. government, needing to go through a *Fiscal Transition* to reduce our deficit spending and debt overall. We remain optimistic that the U.S. will ultimately get through this *Fiscal Transition* stronger. But how much pain will we experience through the process, and when? We're encouraged by the new administration's focus on government efficiency and the stated goals of Treasury Secretary nominee Scott Bessent.

2025 OUTLOOK ■ 9

OUTLOOK **2025**

BULL/BEAR CASE

Government Policy Execution	The Consumer	Corporate Earnings
Investors are optimistic about the incoming administration and the Fed's rate cuts, so how well these policies are executed will influence the economy and markets.	Consumption makes up about two-thirds of U.S. GDP, so how consumers behave during the year will greatly influence outcomes.	Actual earnings and views about future earnings will continue to drive market performance.
Roadblocks to Growth Narrow majorities in Congress and government bureaucracy limit changes in Washington. Inflation reignites requiring the Fed to maintain or even raise rates.	**Roadblocks to Growth** Frustration with Washington gridlock, a weakening job market, and higher inflation shake the consumer, slowing spending as caution grows.	**Roadblocks to Growth** Inflation, higher rates, permanent tariffs, and increasing debt burdens cause earnings to fall well short of forecasts.
American Exceptionalism Progress on government efficiency and lower taxes. Inflation declines, allowing for faster rate cuts that fuel further job growth and economic expansion.	**American Exceptionalism** Job market improves even more, even as inflation falls further. The Fed is able to lower rates at a brisker pace.	**American Exceptionalism** Better than expected economic growth and earnings, with the prospect of transformative changes from technological advances.

4

STIFEL

Looking Forward


THE WORLD IN 2035: FROM VISION TO VALUE
OUR FIVE INVESTMENT THEMES
FOURTH INDUSTRIAL REVOLUTION
Technological innovation has broken down the boundaries between the physical, digital, and biological worlds.
Quantum Leaps
Rise of Bionics
SECURING STRATEGIC RESOURCES
Companies and governments are prioritizing the development and protection of critical industries, resources, and services.
Farm Fields Go Vertical
Nuclear Will Power the U.S.
SHIFTING DEMOGRAPHICS
Changes in global population dynamics will bring about challenges and opportunities.
Beating Cancer
Meet Your Digital Twin
THE NEW CONSUMER
Consumer preferences, expectations, and behavior are altering business models and corporate strategies.
The Sky's the Limit
Your Next Hire: An AI Agent
PRODUCTIVE COMPETITION
Rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy.
Advanced Warfare: Humanoid Robots
Space Means Business
9
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January	
10	Employment
6/20	Consumer Sentiment
15/31	Inflation
16	Retail Sales
29	Fed Policy Decision
27	Housing

Feburary	
7	Employment
6/20	Consumer Sentiment
12/28	Inflation
14	Retail Sales
26	Housing

March	
7	Employment
12/28	Inflation
14/28	Consumer Sentiment
14	Retail Sales
19	Fed Policy Decision
25	Housing

April	
4	Employment
10/30	Inflation
11/25	Consumer Sentiment
16	Retail Sales
23	Housing

Sources of Potential Volatility

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

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

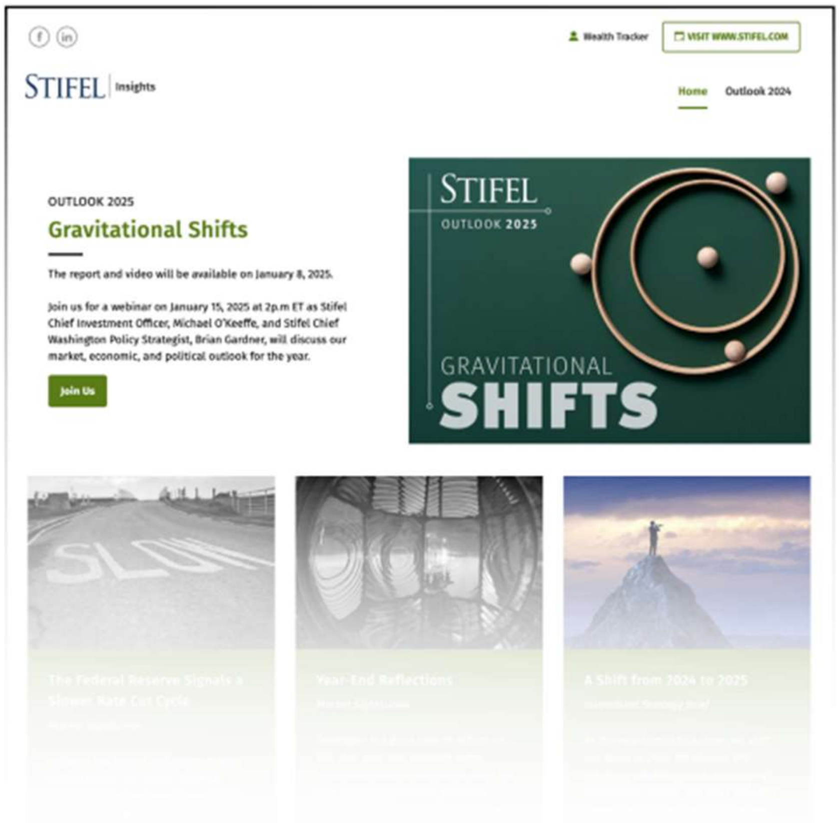
- Global Election Supercycle
  - 40 major elections worldwide
  - U.S. Elections

- 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



Popular insights from Stifel's CIO Office include:

WEEKLY | MONTHLY | QUARTERLY

VIDEO | PODCAST | NEWSLETTER

VIDEO | PODCAST | NEWSLETTER

Dynamic leanings

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Fixed Income Choices

- Tax Sensitive
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DYNAMIC LEANINGS

Underweight | Neutral | Overweight

	ASSET CLASS	Underweight	Neutral	Overweight	COMMENTS
EQUITY	U.S. Equity vs. Non-U.S. Equity		■		We guide investors to diversify between U.S. and non-U.S. equity, maintaining a neutral allocation versus our SAA. U.S. equities benefit from strong economic growth and innovation, but starting valuations may pose a headwind if company earnings underwhelm. Outside the U.S., attractive valuations are offset by geopolitical tensions and sluggish economic growth, softening their appeal.
EQUITY	U.S. Large Cap vs. U.S. Small Cap	■			Large cap companies offer stability and earnings resilience but face valuation pressures after strong performance in mega cap tech. Small caps are more vulnerable to higher-for-longer interest rates, which challenge companies reliant on financing or carrying significant debt. However, a favorable economic backdrop and an earnings recovery still present opportunities within small cap for skilled active investors.
EQUITY	U.S. Large Value vs. U.S. Large Growth		■		We believe investors should be diversified across both value and growth styles. We expect returns to broaden out beyond the M7 and have a preference for quality companies and those that are expected to benefit from our long-term investment themes. Value offers attractive relative valuations and benefits from higher yields, while growth continues to gain support from innovations like AI.
EQUITY	Non-U.S. Developed Markets vs. Emerging Markets		■		Both developed and emerging markets remain vulnerable to idiosyncratic risks and headwinds stemming from geopolitical tensions, economic challenges, and an “America First” agenda from the incoming Trump administration. Despite ongoing stimulus, China continues to grapple with structural challenges stemming from its high debt levels and aging population, compounded by persistent issues in its real estate market.
EQUITY	Europe vs. Japan	■			Japanese equities have given back some of their gains recently, but we believe there is still the potential for relative outperformance. Japan’s domestic reflation along with corporate governance reform are likely to enhance shareholder value in the medium-to-long term. In Europe, policy uncertainty in France and Germany, weaker Chinese growth, and the Russia-Ukraine war remain headwinds for the growth outlook.

DYNAMIC LEANINGS

Underweight | Neutral | Overweight

	ASSET CLASS	Underweight	Neutral	Overweight	COMMENTS
FIXED INCOME	U.S. Investment Grade vs. U.S. High Yield		■		We recently moved to neutral between investment-grade and high-yield bonds. High-yield corporate spreads are tight, leaving little margin for error, but corporate fundamentals remain strong, and the rate-cutting cycle should mitigate some of the downside risks. In investment grade, we expect returns to be primarily driven by carry, offering steady income in a stable rate environment.
FIXED INCOME	Corporates vs. Government vs. Agency MBS		■		We remain neutral within the fixed income super sectors but believe there is opportunity within the asset class for active management. Asset-backed and mortgage-backed securities are attractive with 30-year mortgage rates remaining elevated, tempering prepayment risks.
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. Investors holding cash should consider extending duration.
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

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