Q4 | 2023

Allocation Insights

MACROECONOMIC OVERVIEW

- The U.S. economy remains resilient, with third quarter GDP growing 4.9% annualized, driven mostly by consumer spending. We anticipate the economy will slow in the coming months, but a recession isn't certain.
- Treasury yields have risen, and based on forward rates, the market expects the 10-year yield to be above 4% for the next three decades, signaling the strong potential for a new rate regime. We believe a Fiscal Transition is coming for consumers, businesses, and our government.
- The Fed is likely at the end of its hiking cycle, helped in part by higher bond yields. Markets interpreted the November Federal Reserve (Fed) meeting as slightly dovish and now see 1% of cuts next year, contrary to the Fed's messaging of higher for longer.
- As we end the year, the macroeconomic landscape remains largely unchanged. The two major uncertainties we highlighted at the start of the year remain unresolved – whether inflation would cool to a level for the Fed to claim victory and whether the U.S. will avoid a recession.

PORTFOLIO CONSTRUCTION IMPLICATIONS

- The prevailing macroeconomic conditions continue to warrant a neutral stance relative to our strategic asset allocation (SAA), with an emphasis on diversification and quality.
- Our preference lies with companies demonstrating strong fundamentals – sound balance sheets, steady earnings, and/or growing dividends, regardless of market capitalization, sector, or style.
- Within fixed income, our focus on quality leads us to prefer the investment-grade market, which offers better yields compared to the last decade.
- Cash yields may seem appealing, but we guide investors to develop a plan to redeploy excess cash with a systematic or opportunistic approach.
- We guide investors to consider rebalancing if market performance has resulted in concentrations or a sizable shift in their overall allocation.
- This circumstance underscores three key aspects of our investment philosophy: 1) our investment approach is anchored in a long-term view, and we believe a portfolio aligned with our SAA is well positioned for that investment horizon, 2) our neutrality reflects an active decision informed by our macroeconomic and market analysis, and 3) we approach asset allocation with humility, recognizing the difficulty of market calls and timing, so our dynamic shifts occur when we have strong conviction.

MIDDLE EAST TENSIONS BRING CONCERNS

Before we consider the market implications and investment risks from the war in the Middle East, we must acknowledge the unfolding humanitarian crisis. Our hearts go out to all of those experiencing loss, and we hope for the quick release of those taken hostage. Although the initial market reaction was muted, there are still worries about escalation, which would increase downside, or "left tail," risks materially. There is the potential for this conflict to escalate into a broader war, which may involve the Middle East as a whole, including Iran. An escalation involving Iran would decrease the supply of oil and push oil prices up, translating into higher inflation.

This war brings into light the reality of living in a multipolar world. With Iran and China having a friendly relationship and a cooperation agreement, Israel and its allies, most notably the U.S., will be actively monitoring China's response. While our base case is for the conflict to remain locally contained, understanding other scenarios remains imperative for positioning and investment strategies. The ongoing geopolitical uncertainty reinforces our view of focusing on diversification and quality.

STIFEL

INVESTMENT THEMES

The following table summarizes our thinking across various asset classes and regions.

Underweight | Neutral | Overweight

	ASSET CLASS	CURRENT: Underweight	CURRENT: Neutral	CURRENT: Overweight	COMMENTS
EQUITY	U.S. Equity vs. Non-U.S. Equity		■		Returns are broadening out in the U.S. beyond mega cap as the economic data, so far, has been better than expected and inflation continues to cool. Volatility is likely to increase, but we recognize that momentum is strong in the near term. Non-U.S. equity valuations remain attractive; however, caution is warranted due to the prevailing economic and geopolitical headwinds. We remain neutral between U.S. and non-U.S. equity.
EQUITY	U.S. Large Cap vs. U.S. Small Cap	■			Small cap equities have underperformed year to date as a result of the challenges faced by some regional banks, a large component of the small cap investment universe, and the continued rise in borrowing costs. We remain overweight to small cap equities but guide investors to consider active management. Skilled investors may be able to capitalize on the opportunities presented by lower valuations.
EQUITY	U.S. Large Value vs. U.S. Large Growth		■		We believe investors should diversify across both value and growth styles. Within U.S. large cap, we have a modest overweight to dividend growth and quality companies, regardless of style, as these companies are typically better positioned to weather market volatility and a slowing economy.
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 and a slowing global economy. China's reopening momentum is fading, and investors are worried about policy uncertainty and possible stresses in its property sector.
EQUITY	Europe vs. Japan		■		Japan's corporate governance reform is a positive and likely to enhance shareholder value in the medium to long term, but the 25% rally through July suggests near-term upside may be limited. Europe has proved to be more resilient thus far in the aftermath of the Ukraine war. The European Central Bank (ECB) remains more hawkish relative to other central banks.

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STIFEL

INVESTMENT THEMES (CONTINUED)

The following table summarizes our thinking across various asset classes and regions.

Underweight | Neutral | Overweight

	ASSET CLASS	CURRENT: Underweight	CURRENT: Neutral	CURRENT: Overweight	COMMENTS
FIXED INCOME	U.S. Investment Grade vs. U.S. High Yield			■	We continue to favor a quality tilt. Investment-grade bond yields are the most attractive they have been in the last 10-15 years. Corporate high-yield default rates are increasing, but still at low levels as credit spreads remain well behaved.
FIXED INCOME	Corporates/ Government/Agency MBS		■		We remain neutral and diversified across fixed income supersectors given the wide range of economic and market scenarios.
FIXED INCOME	Duration		■		We view duration as a diversifier in a multi-asset class portfolio given the macroeconomic uncertainty and remain neutral 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.

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DISCLOSURE

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.

Diversification and asset allocation do not ensure a profit or protect against loss. 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. The products mentioned in this document may not be suitable for all types of investors.

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 tactical asset allocation guidance, applied behavioral finance, and specific investment solutions for advisors and clients.

ASSET CLASS RISK

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. Yields and market values will fluctuate, and if sold prior to maturity, bonds may be worth more or less than the original investment.

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/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.

Alternative Investments – Alternative investments involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing tax information, are not subject to the same regulatory requirements as more traditional investments, and often charge high fees, which may erode performance. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, and Hedge Funds. 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.

INDEX DESCRIPTIONS

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The average market capitalization is approximately $4 billion, and the median market capitalization is approximately $700 million.

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

The Standard & Poor's/TSX Composite Index is the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange with about 250 companies included in it.

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $11 billion, and the median market capitalization is approximately $3.5 billion.

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 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower 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 average market capitalization is approximately $490 million, and the median market capitalization is approximately $395 million.

The Russell 2000 Growth Index measures the performance of those Russell 2000 index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Microcap Index is a capitalization-weighted index of 2,000 small cap and micro cap stocks, including the smallest 1,000 companies in the Russell 2000 plus 1,000 smaller U.S. based listed stocks. Over-the-counter stocks and pink sheet securities are excluded.

The MSCI World ex USA All Cap Index captures large, mid, small, and micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

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 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 Pacific Index captures large and mid cap representation across five Developed Markets (DM) countries in the Pacific region. With 470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

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 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 Bond 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 U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The U.S. Treasury Index is a component of the U.S. Aggregate, U.S. Universal, Global Aggregate, and Global Treasury Indices.

The Bloomberg U.S. Treasury U.S. TIPS index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

The Bloomberg U.S. Municipal 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 prerefunded bonds.

The Bloomberg U.S. Credit Index measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals, and local authorities.

The Bloomberg U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate 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. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg Global Aggregate Bond Index is a flagship measure of global investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes U.S. dollar-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The Wilshire U.S. REIT Index is a float-adjusted market capitalization-weighted index that measures U.S. publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

The Wilshire ex U.S. Real Estate Investment Trust Index℠ (Wilshire ex U.S. REIT) measures global publicly traded real estate investment trusts, less all U.S. securities. The Wilshire ex U.S. REIT is a subset of the Wilshire ex U.S. Real Estate Securities Index℠ (Wilshire ex U.S. RESI).

The Wilshire Global REIT Index is a float-adjusted, market capitalization-weighted index that measures global publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITS, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITS, and companies that have more than 25% of their assets in direct mortgage investments.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted two-thirds by trading volume and one-third by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the sixth to the tenth business day based on the roll schedule.

The S&P GSCI Crude Oil Index is a sub-index of the S&P GSCI Commodity Index. The production-weighted index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract.

The Wilshire Liquid Alternative Index℠ measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge Index℠ (WLIQAEH), Wilshire Liquid Alternative Global Macro Index℠ (WLIQAGM), Wilshire Liquid Alternative Relative Value Index℠ (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index℠ (WLIQAMS), and Wilshire Liquid Alternative Event Driven Index℠ (WLIQAED).

The 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.

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

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