

Q1 | 2024

# Allocation Insights



## MACROECONOMIC OVERVIEW

- In 2023, the U.S. economy exceeded expectations, growing 2.4%, the S&P 500 gained 26.3%, and elevated bond yields marked the beginning of a Fiscal Transition.
- Inflation eased as the consumer price index (CPI) fell from its peak of 9.1% year-over-year in June 2022 to 3.4% in December, still above the Federal Reserve's (Fed's) stated goal of 2% per year.
- Investors and the Fed remain in an ongoing wrestling match, grappling with the timeline for rate cuts. Traders of fed funds futures are pricing in six rate cuts this year, while the Fed's Summary of Economic Projections (SEP) forecasts three cuts.
- Recession or not, as we push forward into 2024 we maintain our 2023 view that economic growth will be muted. We still see a reasonable chance of a soft landing (0.0% to 1.0% GDP growth), but acknowledge a reasonable chance of a mild recession (-0.1% to -0.5% GDP growth).
- To learn more about our views for 2024, click [here](#) to read our **Outlook 2024: Embracing Change**. A [video summary](#) and [webinar replay](#) are also available.



## PORTFOLIO CONSTRUCTION IMPLICATIONS

- For nearly two years, our dynamic asset allocation (DAA) has remained predominantly neutral versus our longer-term strategic asset allocation (SAA). This neutral stance, derived from a lack of conviction amid the extraordinary uncertainties and wide range of potential outcomes stemming from the pandemic, proved prudent.
- As we step into 2024, a global shift is underway, accompanied by evolving market and economic dynamics. Investors should recalibrate their portfolios for a new era in which interest rates are higher, money has a cost again, and our economy will be facing headwinds related to a Fiscal Transition. Key allocation insights as we start the year include:
  - o *Embrace the unpredictable:* Diversify your portfolio to soften the impact of the unforeseeable risks, and view uncertainty as opportunity.
  - o *Back to the fundamentals:* Companies with strong balance sheets and manageable debt will likely outperform, and skilled active managers in both equity and fixed income will see more opportunity to create relative value.
  - o *Strengthen your foundation:* The case for a traditional 60/40 stock and bond portfolio is even stronger now than a year ago. We recommend investors look to broaden equity exposure beyond mega cap technology stocks.
  - o *Long-term is not so long:* There's an abundance of opportunities emerging across all of our long-term themes, including AI, as companies integrate and adapt disruptive technology into their business models.

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

1. AI is rapidly changing how businesses improve processes and productivity.
2. The structural effects of the pandemic highlight the need for new supply chain and infrastructure investments.
3. Higher debt and higher rates and the ensuing Fiscal Transition call for greater focus, and opportunities, in debt and equity investing.
4. The 2024 global election supercycle, with 40 major elections, may well transform the geopolitical landscape.
5. Increasing geopolitical tensions are amplifying further deglobalization.









Learn more in our [Outlook 2024: Embracing Change](#).

STIFEL

## INVESTMENT THEMES

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

 Underweight
  Neutral
  Overweight








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

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## INVESTMENT THEMES (CONTINUED)

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

 Underweight
  Neutral
  Overweight

	ASSET CLASS	CURRENT	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.
	Corporates/ Government/Agency MBS		We have a modest preference for government securities relative to investment-grade corporate bonds, which can be expressed with passive investments or may be implemented by active managers. Treasury yields remain attractive and should provide an added diversification benefit if the economy deteriorates.
	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.
	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.

## 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<sup>SM</sup> (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<sup>SM</sup> (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<sup>SM</sup> 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<sup>SM</sup> (WLIQAEH), Wilshire Liquid Alternative Global Macro Index<sup>SM</sup> (WLIQAGM), Wilshire Liquid Alternative Relative Value Index<sup>SM</sup> (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index<sup>SM</sup> (WLIQAMS), and Wilshire Liquid Alternative Event Driven Index<sup>SM</sup> (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.