

Q4 | 2024

Allocation Insights



MACROECONOMIC OVERVIEW

- The U.S. economy continues to show resilience despite higher prices, still-high borrowing costs, and a cooling labor market. Economic data suggests growth was above 2% (annualized) in the third quarter, and economists expect a similar run rate in the fourth quarter.
- The Federal Reserve (Fed) began its monetary easing cycle with a 50-basis-point cut in September, potentially mitigating some of the downside risks that have been building in recent months.
- Inflation has been gradually decelerating on an annual basis with the consumer price index (CPI) falling to 2.4% in September, its lowest level since 2021, suggesting the Fed is close to orchestrating a soft landing for the economy.
- U.S. equity markets have reached new all-time highs, while Treasury yields have climbed back to levels last seen in August, in part due to renewed optimism on the strength of the U.S. economy.
- As we look forward, our base case view remains that of moderating growth and cooling inflation. Recession risk or a period of subtrend growth remains plausible, especially given the heightened **geopolitical risks** and the potential for inflation to get stuck at current levels, or even reaccelerate. To learn more about our latest views, click [here](#) to watch our October Investment Strategy Brief, or check out stifelinsights.com.



PORTFOLIO CONSTRUCTION IMPLICATIONS

- While macroeconomic risks remain, we have growing confidence that U.S. economic growth will continue, extending the current business cycle. As the Fed progresses with its rate cuts, we expect market leadership to continue to broaden beyond big tech. We expect increased market volatility into and through the November U.S. elections, and we're mindful of building global risks.
- Within U.S. equities, this backdrop continues to support our preference for quality companies. We maintain our tilt toward companies with strong earnings, solid free cash flow, and the ability to grow dividends. Small cap equity valuations remain attractive, but we continue to guide investors to implement a dynamic overweight with active management.
- Outside the U.S., we maintain a preference for Japanese equities within developed markets given the country's corporate governance reform and return to economic growth. We maintain an underweight to China relative to the rest of emerging markets.
- Within fixed income, we move to neutral (versus our strategic asset allocation) between investment-grade and high-yield bonds and have closed our overweight to government securities relative to investment-grade corporate bonds. Corporate fundamentals remain strong, and relative yields are attractive.

CLEAR FOR LANDING?

Following the pandemic, the Fed embarked on one of its most aggressive interest rate hiking cycles in decades to combat inflation, raising the federal funds rate by 525 basis points between March 2022 and July 2023 as CPI peaked at 9.1% in June 2022. Through this cycle, the concept of a *soft landing* versus a *hard landing* has been in sharp focus as investors debate whether the Fed can **thread the needle** between high inflation and recession risks. Now that inflation has fallen closer to the Fed's 2% target and the labor market is in better balance, the Fed has begun cutting rates in order to support a soft landing in the economy. Let's briefly review these concepts and whether the market believes we are headed to a soft landing, hard landing, or no landing?

Soft Landing: An economic scenario in which the economy slows to below trend without a recession, or inflation falls with no significant weakening in the labor market.

Hard Landing: Fed tightening becomes too restrictive, and the economy experiences a sharp decline in economic activity, rising unemployment, and a recession.









No Landing: The economy continues to grow despite the Fed's restrictive monetary policy, and inflation may not fully reach the Fed's 2% target.

The current consensus is that we are headed for a soft landing, with economists forecasting real GDP growth of 2.6% this year and 1.8% in 2025. Similarly, the median forecast in the Fed's latest Summary of Economic Projections (SEP) projects GDP to grow 2.0% annually through 2027 as inflation and the federal funds rate continue to come down. Our base case calls for a soft landing, but we acknowledge that the tail risks still remain elevated.

INVESTMENT THEMES

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
















 Underweight
  Neutral
  Overweight

| | | ASSET CLASS | CHANGE | CURRENT | 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. Non-U.S. equity valuations remain attractive, while the combination of resilient economic growth, cooling inflation, and continued earnings strength supports U.S. equity markets. |
| | | U.S. Large Cap vs. U.S. Small Cap | = |  | Small cap stocks have struggled to maintain momentum as optimism around a soft landing and a rate cutting cycle has been offset by concerns of an economic slowdown and interest rates remaining higher for longer. 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 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 | = |  | Japanese equities have given back some of their gains recently, but we believe there is still the potential for relative outperformance. Japan's corporate governance 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. |

INVESTMENT THEMES (CONTINUED)

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

 Underweight
  Neutral
  Overweight

| | ASSET CLASS | CHANGE | CURRENT | COMMENTS |
|--------------|---|--------|---|--|
| FIXED INCOME | U.S. Investment Grade vs. U.S. High Yield | ← |    | We move to neutral between investment grade and high yield bonds. Spreads are tight, but corporate fundamentals remain strong and the start of the Federal Reserve's rate cutting cycle should mitigate some of the downside risks. |
| | Corporates Government/Agency MBS | → |    | We have closed our overweight to government securities relative to investment-grade corporate bonds, as we see corporate fundamentals remaining strong and the Fed's easing dampening downside risks. |
| | 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.

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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 Bloomberg U.S. 3000 Total Return Index is a float market-cap-weighted benchmark of the 3,000 most highly capitalized U.S. companies.

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 Bloomberg U.S. 1000 Total Return Index is a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies.

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

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

The Bloomberg U.S. 2000 Total Return Index is a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index.

The Bloomberg U.S. 2000 Growth Total Return Index is a float market-cap-weighted equity benchmark derived from membership of the Bloomberg U.S. 2000 Index.

The Bloomberg U.S. 2000 Value Total Return Index provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth.

The Bloomberg U.S. Micro Cap Total Return Index is a float market-cap-weighted benchmark of those securities in the U.S. Aggregate Equity Index with a market capitalization ranking of lower than 2,500.

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.

STIFEL

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 IndexSM (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 IndexSM (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 IndexSM 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 IndexSM (WLIQAEH), Wilshire Liquid Alternative Global Macro IndexSM (WLIQAGM), Wilshire Liquid Alternative Relative Value IndexSM (WLIQARV), Wilshire Liquid Alternative Multi-Strategy IndexSM (WLIQAMS), and Wilshire Liquid Alternative Event Driven IndexSM (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.