# FAVORITE 15

## December 2023

Insights From Stifel's CIO Office

# TABLE OF CONTENTS

## Latest Developments

### Federal Reserve (Fed) Statement

- Fed funds rate **unchanged** at 5.25-5.50%
- Will continue to shrink its securities holdings
- Economy is slowing
- Inflation has eased
- Softened potential for policy firming

### Press Conference

- *"Added the word 'any' as an acknowledgement that we believe that we are **likely at or near the peak rate for this cycle**."*
- "*…when…to **begin dialing back**…policy restraint…*"
- "No one is declaring victory."
- Remains data-dependent and will balance risks.
- Labor market in better balance.

### SEP: Year-End 2024

| | PCE Inflation | Fed Funds Rate | Real GDP 2023 | Real GDP 2024 |
|---|---|---|---|---|
| September | 2.5% | 5.1% | 2.1% | 1.5% |
| December | 2.4% | 4.6% | 2.6% | 1.4% |
| **Change** | **-0.1%** | **-0.5%** | **0.5%** | **-0.1%** |

All 19 members see the current rate as peak

### Market Implications

- Markets responded positively:
  - 2024 futures: six rate cuts, up from four
  - 10-year yield now under 4%
  - Equity market close to peak

SEP = Summary of Economic Projections

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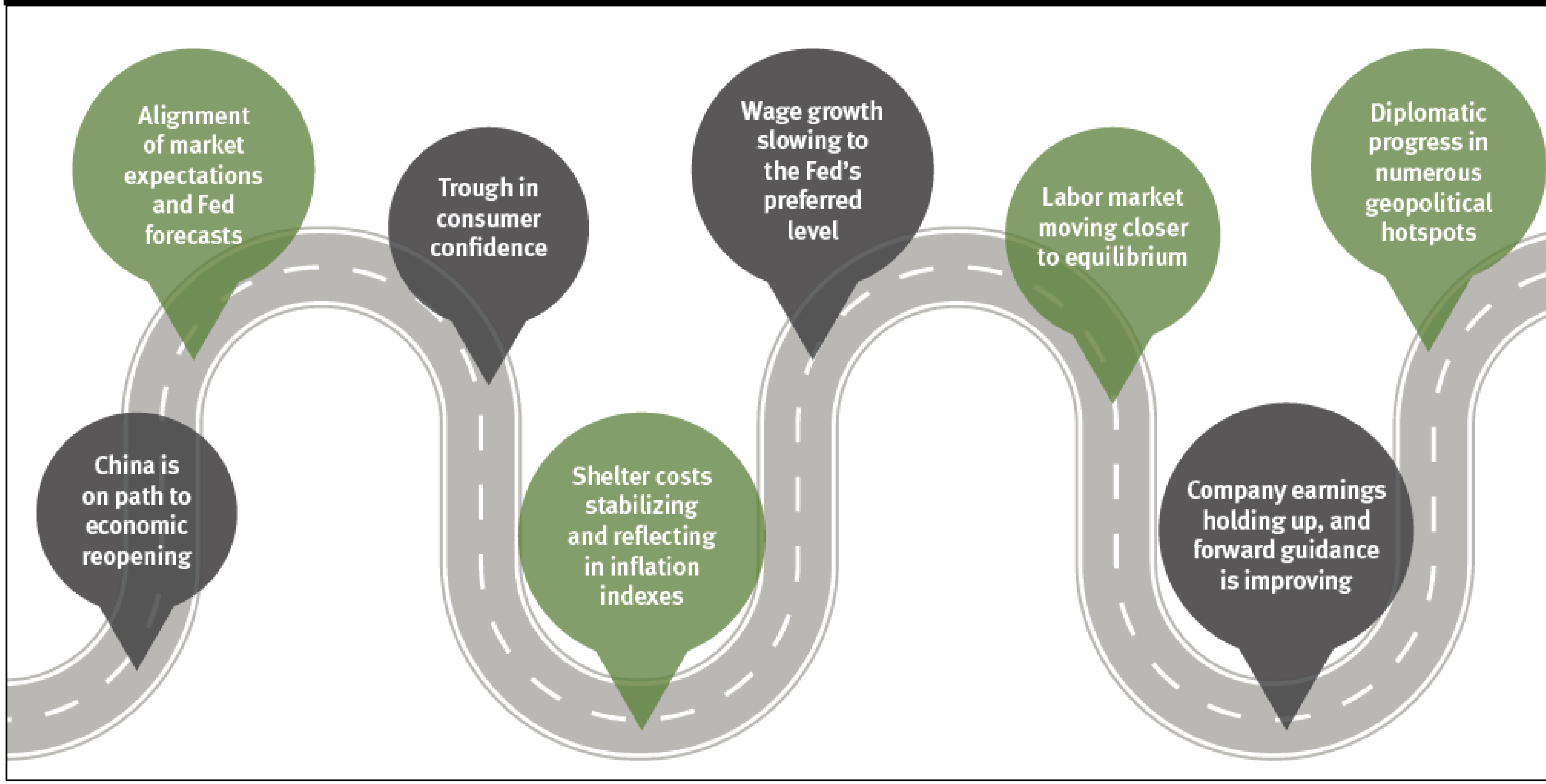
Source: Stifel CIO Office

# SIGNPOSTS TO FINDING BALANCE

## SIGNPOSTS



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# GEOPOLITICAL RISK DASHBOARD

| **Deglobalization** *Increased localization and protectionism* | **Multipolarity** *A more divided world* |
|---|---|

| EVENT | LIKELIHOOD | MARKET IMPACT |
|---|---|---|
| U.S. - China Competition | 10 | 7 |
| The New Cold War | 8 | 7 |
| Emerging Market (EM) Political Uncertainty | 7 | 5 |
| Cyberattacks | 7 | 5 |
| **Middle East Tensions** | **7** | **5** |
| Washington D.C. Gridlock | 6 | 6 |
| Climate Change Stalemate | 6 | 4 |
| Major Terror Attacks | 6 | 4 |
| South China Sea Military Conflict | 5 | 7 |
| European Fragmentation | 5 | 6 |
| North Korea Conflict | 5 | 3 |
| Structurally Higher Inflation | 4 | 8 |
| Russia - West Conflict | 4 | 8 |

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# ISRAEL – HAMAS WAR: LEFT-TAIL RISKS

| | Scenario 1<br>War Limited to Gaza | Scenario 2<br>Multi-Front War (Hezbollah) | Scenario 3<br>War Expands to Region (Iran) | Scenario 4<br>Great Power Conflict (China) |
|---|---|---|---|---|
| **Likelihood** | **Most Likely** | **Somewhat Likely** | **Small Likelihood** | **Remote** |
| **Global Economic Impact** | Limited and fades quickly | Limited and fades quickly | • Inflation rises as a result of oil supply disruption<br>• Recession likely<br>• Potential for long-lasting impact to local markets | • Decoupling of U.S. - China relations (deglobalization)<br>• Global recession |
| **Global Market Impact** | Limited and fades quickly | Limited and fades quickly | • Risk-off sentiment and volatility increases<br>• Sell-off in global stocks, potentially U.S. stocks<br>• Yields decline | • Risk-off sentiment and volatility increases<br>• Bear market (stocks)<br>• Monetary policy easing and yields falling sharply |
| **Investment Implications** | • Prevailing macroeconomic conditions continue to warrant an emphasis on quality for investor portfolios<br>• Diversify across and within asset classes, consider rebalancing to target asset allocation<br>• The ongoing geopolitical uncertainty reinforces this view | | | |

**Sight | Lines:** Troubling Forces Converge: We're Headed to a Fiscal Transition

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# 10-YEAR TREASURY YIELD

Decade ***prior*** to the GFC **5%**

Decade ***after*** the GFC **2%**

During Pandemic **1.2%**

2020 ↔ 2021

Now **3.9%**

10 Years Forward **4.6%**

20 Years Forward **3.4%**

2023 — 2033 — 2043

**Sight|Lines:** A New Market Rate Regime? Data and Sentiment Say Yes.

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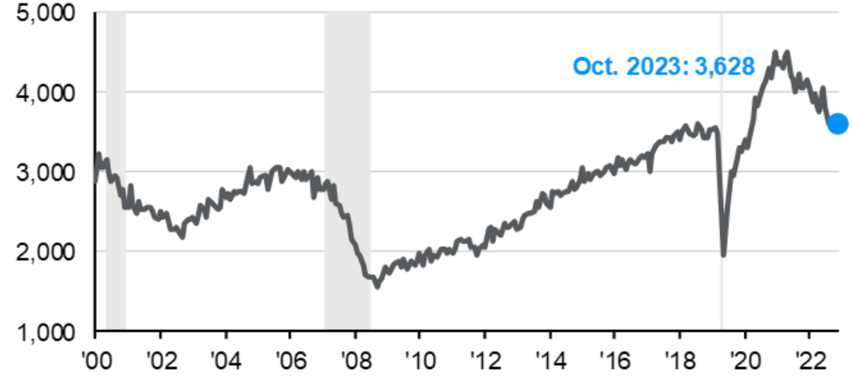
**JOLTS job openings***

Total job openings, thousands, seasonally adjusted


**JOLTS quits**

Total nonfarm quits, thousands, seasonally adjusted




**JOLTS layoffs**

Total nonfarm layoffs, thousands, seasonally adjusted


Source: U.S. Department of Labor, J.P. Morgan Asset Management. *Job Openings and Labor Turnover Survey (JOLTS) job openings from February 1974 to November 2000 are J.P. Morgan Asset Management estimates. Guide to the Markets – U.S. Data are as of December 21, 2023.

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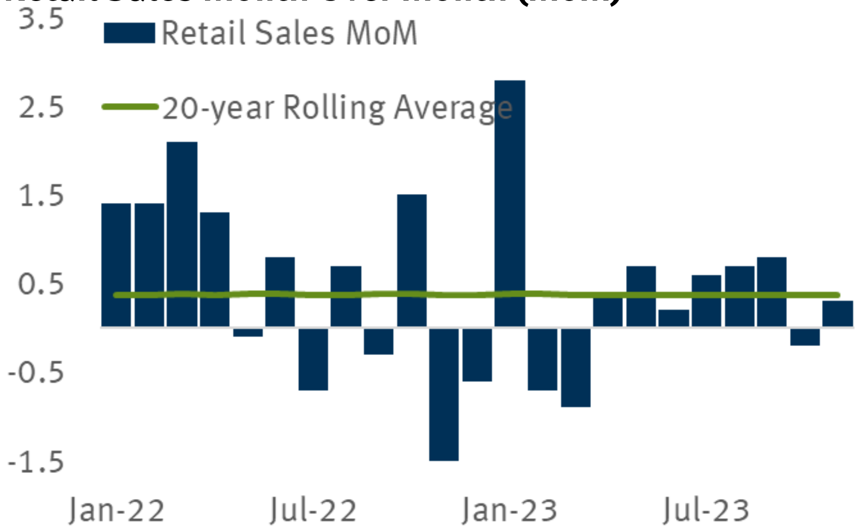
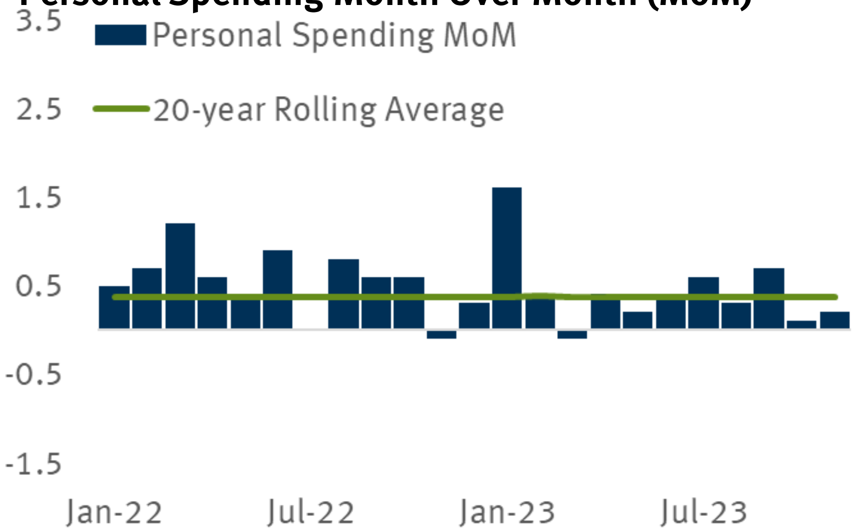
# CONSUMER ACTIVITY

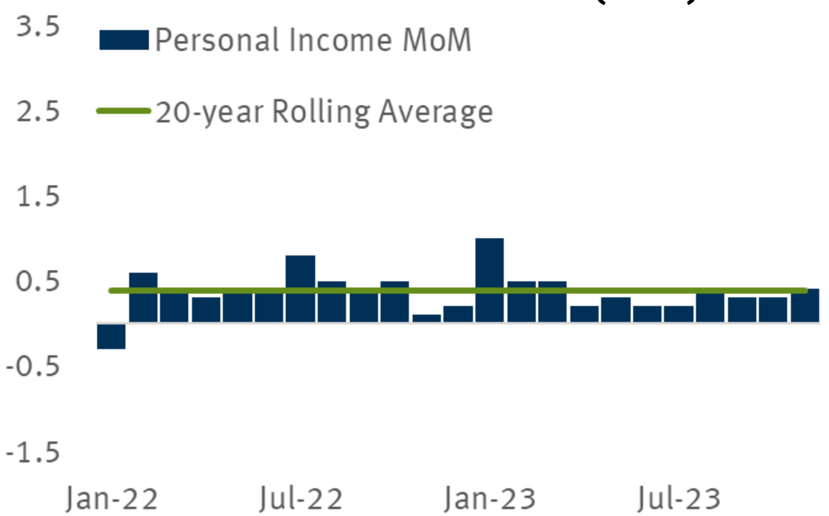
## Retail Sales Month Over Month (MoM)




## Personal Spending Month Over Month (MoM)




## Personal Income Month Over Month (MoM)




## University Of Michigan Consumer Sentiment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Source: Stifel CIO Office via Bloomberg, as of December 26, 2023

# INFLATION EXPECTATIONS

***Investors*: Breakeven Inflation Rates**

**2.01%**
*1-Year Treasury*

**2.15%**
*5-Year Treasury*

**2.17%**
*10-Year Treasury*

**2.19%**
*5-year, 5-year forward Treasury*

***Consumers*: Surveys**

**3.1%**
*University of Michigan 1-year*

**3.2%**
*University of Michigan 5-10 year*

**5.7%**
*Conference Board 1-year*

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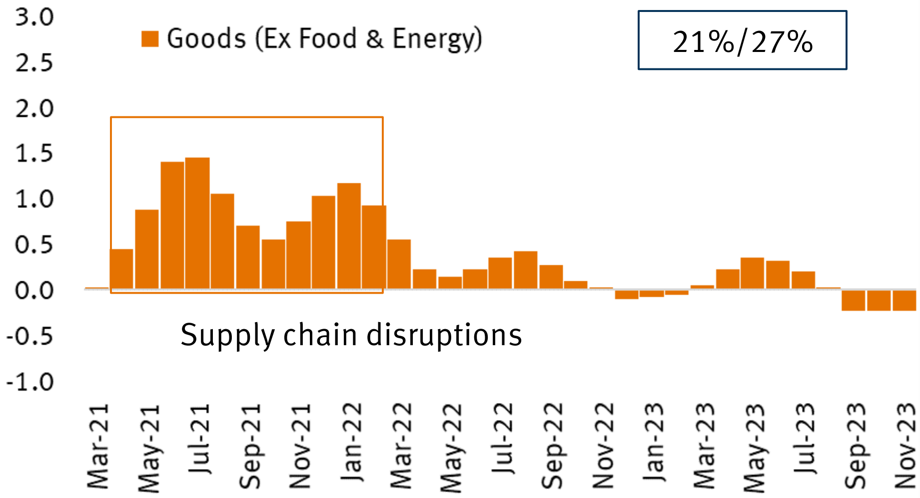
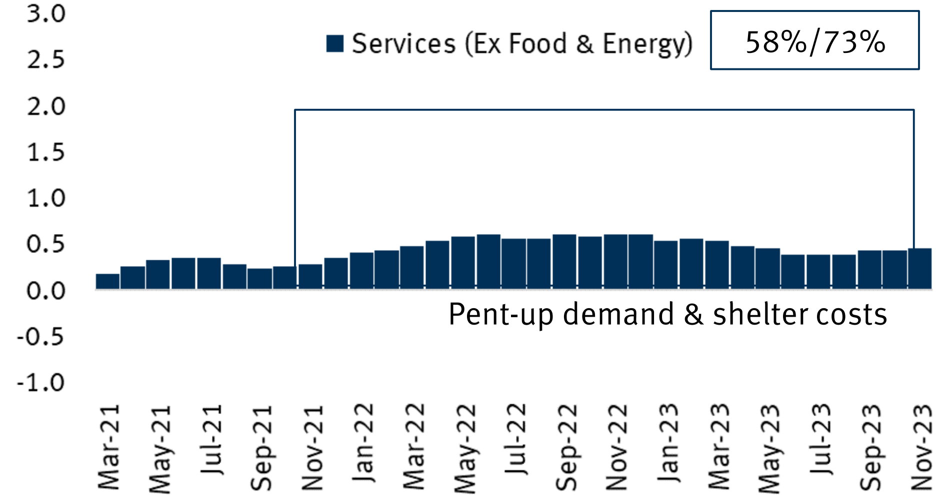
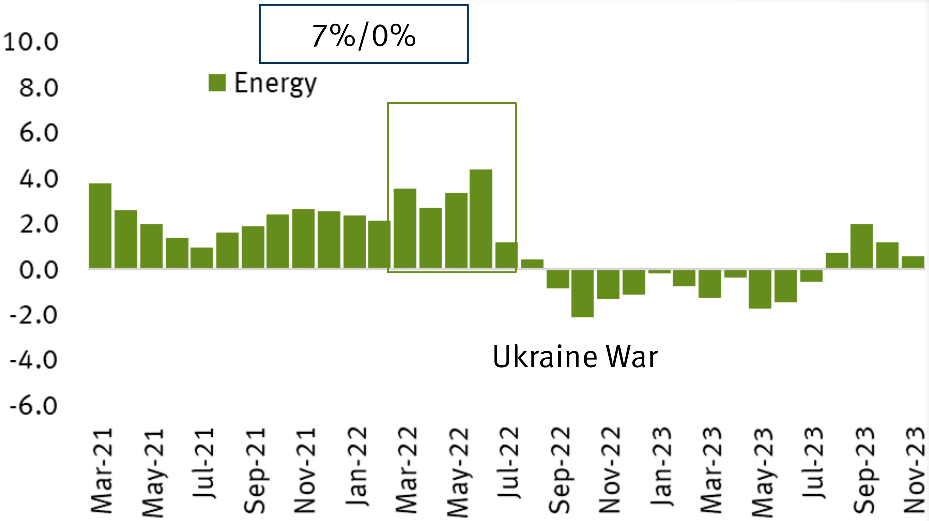
Source: Stifel CIO Office via Bloomberg, as of December 26, 2023

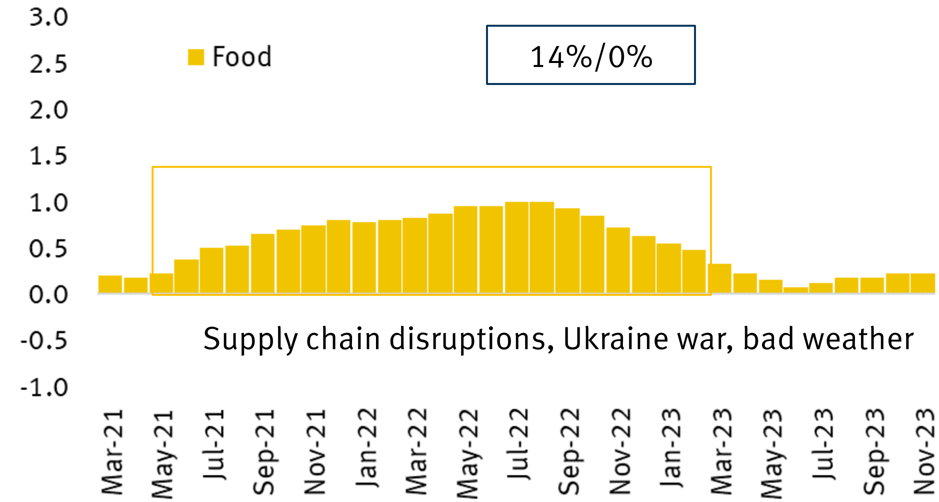
# RECENT INFLATION TRENDS

**Monthly, three-month rolling average shown below**

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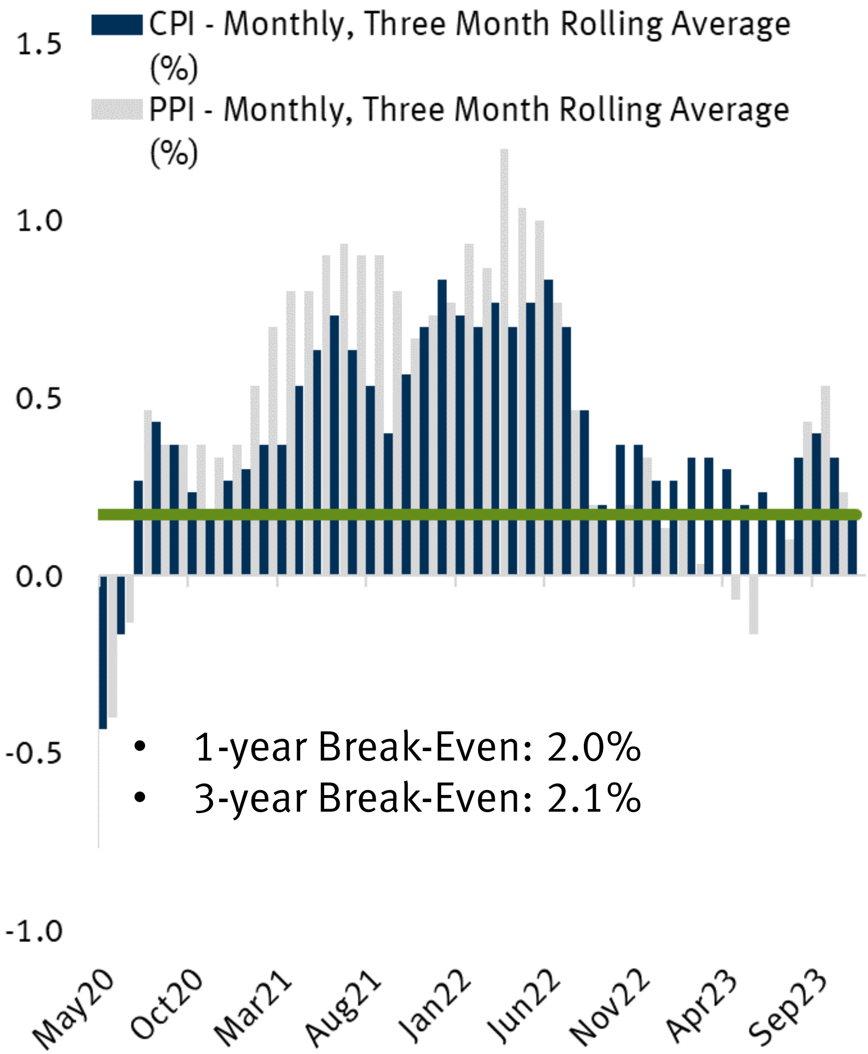
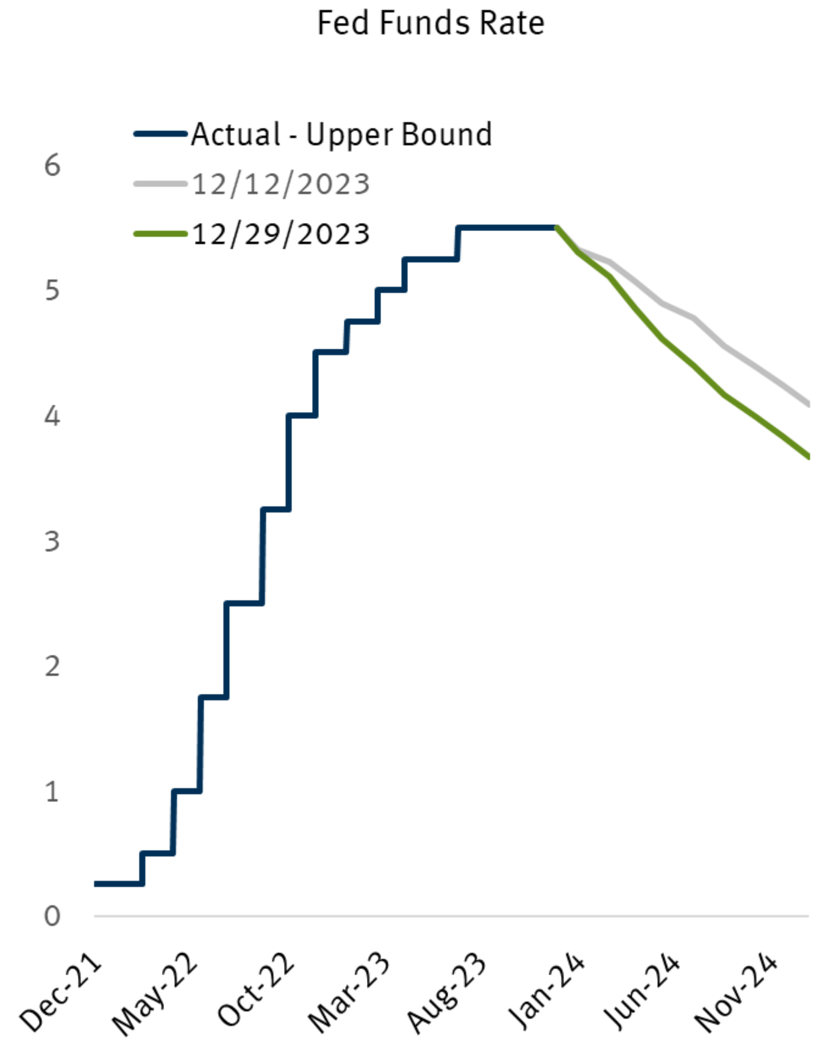
Source: Stifel CIO Office via Bloomberg, as of December 26, 2023

# INFLATION AND FED POLICY




- 1-year Break-Even: 2.0%
- 3-year Break-Even: 2.1%

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Source: Stifel CIO Office via Bloomberg, as of December 29, 2023

PPI = Producer Price Index
CPI = Consumer Price Index

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# MARKET PERFORMANCE

| Index | 2021 | 2022 | YTD – July 31 2023 | July 31– October 27 2023 | October 27 – December 29 2023 | YTD – December 29 2023 |
|---|---|---|---|---|---|---|
| S&P 500 Index | 28.7% | -18.1% | 20.6% | -9.9% | 16.2% | 26.3% |
| S&P 500 Eq. Weight. | 29.6% | -11.5% | 10.7% | -13.3% | 18.5% | 13.8% |
| S&P 500 Financials | 34.9% | -10.6% | 4.3% | -10.6% | 20.2% | 12.1% |
| KBW Reg. Banking | 36.7% | -6.9% | -8.4% | -19.1% | 34.4% | -0.4% |
| Russell 1000 Value | 25.1% | -7.6% | 8.8% | -11.5% | 15.7% | 11.4% |
| Russell 1000 Growth | 27.6% | -29.1% | 33.4% | -9.3% | 17.9% | 42.7% |
| NYSE FANG+ Index | 17.7% | -40.0% | 80.9% | -10.9% | 21.8% | 96.4% |
| Russell 2000 Index | 14.8% | -20.5% | 14.7% | -18.0% | 24.3% | 16.9% |
| MSCI EAFE Index | 11.3% | -14.5% | 15.3% | -11.0% | 15.3% | 18.2% |
| MSCI EM Index | -2.5% | -20.1% | 11.4% | -11.7% | 11.7% | 9.8% |
| Bloomberg U.S. Agg | -1.5% | -13.0% | 2.0% | -4.4% | 8.2% | 5.5% |

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Source: Stifel CIO Office via Bloomberg, as of December 29, 2023

## P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months, 1996 - present


| | Current | Average | % of avg. |
|---|---|---|---|
| Top 10 | 27.2x | 20.3x | 134% |
| Remaining stocks | 18.4x | 15.8x | 117% |
| S&P 500 | 19.5x | 16.5x | 118% |

## Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500


## Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings


Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. As of 11/30/2023, the top 10 companies in the index were MSFT (7.3%), AAPL(7.3%), AMZN (3.5%), NVDA (3.0%), GOOGL (2.1%), META (1.9%), GOOG (1.8%), TSLA (1.7%), BRK.B (1.7%), UNH (1.3%) and LLY (1.2%). The remaining stocks represent the rest of the 494 companies in the S&P 500.
Guide to the Markets – U.S. Data are as of December 21, 2023.

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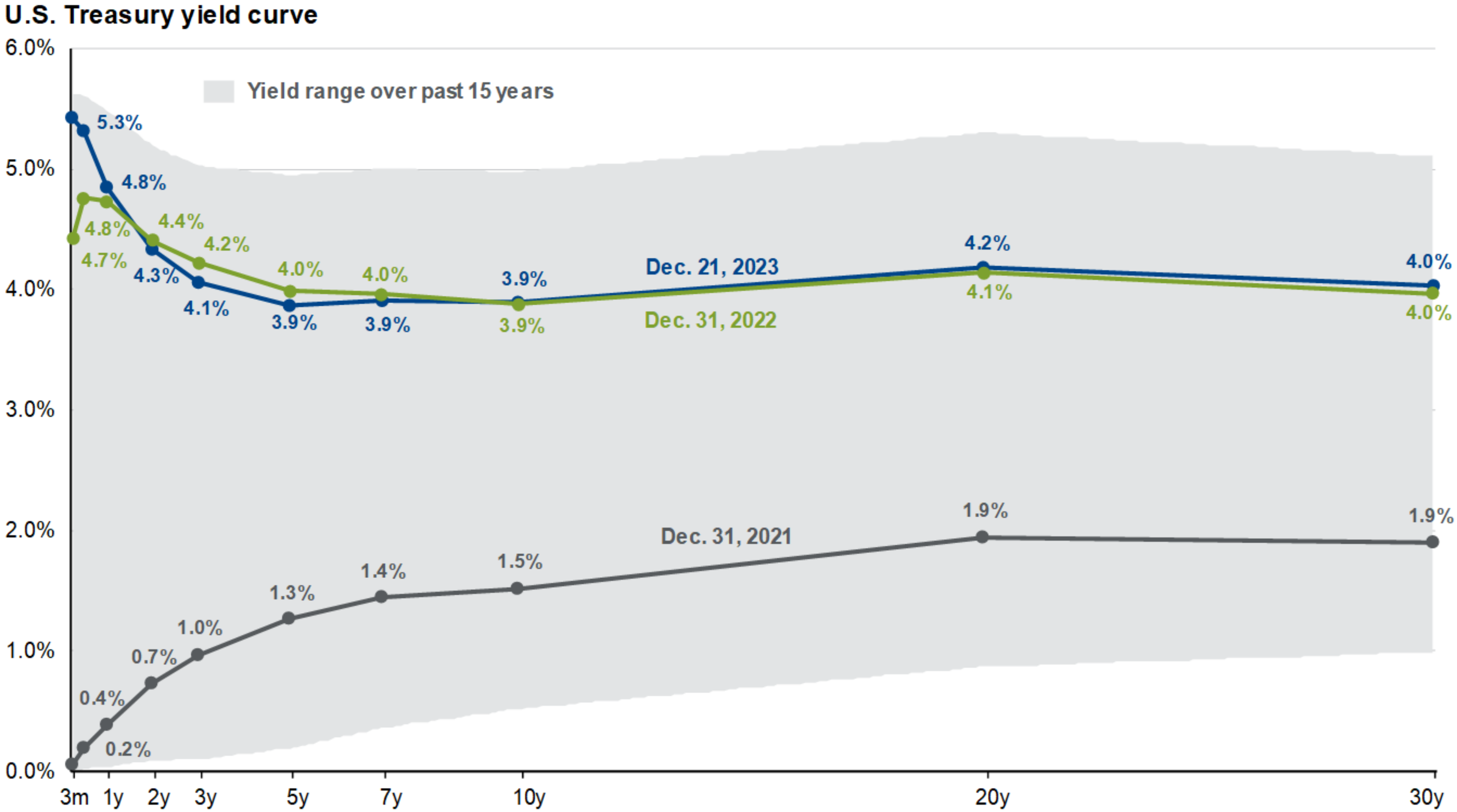


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
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# BOND YIELDS


**Based on taxable equivalent yield. Taxable equivalent yield assumes a 37% federal tax and 3.8% net investment income tax.*

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Source: Stifel CIO Office via Bloomberg, as of December 29, 2023

## *Getting Ready: The 2024-U.S. Presidential Election*

**Our approach on preparing for the election:**

- Understanding the 4 phases of the election
    1. Early primary
    2. Late primary
    3. General election
    4. Post-election
- Anticipating each candidate's impact on businesses and markets
- Understanding each candidate's chances of winning
- Assessing any possible changes in congressional control

## CONGRESS

### HOUSE OF REPRESENTATIVES

213 Seats

221 Seats

1 Vacancy

All 435 seats up for re-election

### SENATE

48 Seats

49 Seats

23 Up for Re-election

10 Up for Re-election

3 Independent

## INDEX DESCRIPTIONS

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 Financial Select Index includes all companies in the S&P 500 Index classified under the GICS® Financial sector.

U.S. LC (Large Cap) equities is represented by Russell 1000 Index, comprised of 1,000 of the largest U.S. securities based on a combination of their market cap and current index membership.

U.S. SC (Small Cap) equities is represented by the Russell 2000 Index, comprised of 2,000 of the smallest U.S. securities based on a combination of their market cap and current index membership.

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

EM 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. Aggregate Government/Credit Bond Index).

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 of investment-grade, dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

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), and ABS and CMBS (agency and nonagency).

Russell 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

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

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.

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

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

## DISCLOSURES

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.

## DISCLOSURES CONTINUED

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.

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