STIFEL

FAVORITE 15

October 2023

Insights From Stifel's CIO Office

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1. Geopolitical Tensions: *Risks have flared up in the Middle East following the Hamas terrorist attack in Israel.*
2. Geopolitical Risk Dashboard: *Middle East Tensions is just one of the 13 events that we are tracking which might lead to further uncertainty and market volatility.*
3. Israel – Hamas War: Left-Tail Risks: *We believe the most likely outcome is that the conflict stays limited to Gaza, but there is the potential for "left tail" risks that could lead to increased market volatility.*
4. In Focus: *We're focused on the consumer's willingness and ability to continue spending, which will be a function of the labor market and the impact from tighter monetary policy.*
5. Post Great Financial Crisis Environment: *Household, corporate, and government debt has increased by ~$37 trillion since 2007. In a higher rate regime, the cost of debt will increase going forward.*
6. Post Great Financial Crisis Environment: *The Federal Reserve (Fed) is likely at the end of its hiking cycle, but is expected to keep the federal funds rate higher for longer.*
7. 10-Year Treasury Yields: *We may be entering into a new market rate regime with higher yields, similar to the period prior to the Great Recession.*
8. Fiscal Transition: *More debt and higher rates means fiscal discipline is needed for consumers, businesses, and government.*
9. Consumer Activity: *Consumers have nearly exhausted their excess savings, but spending remains a positive contributor to economic growth.*
10. Labor Market: *The job market remains tight, as evidenced by nonfarm payrolls, job openings, and jobless claims, keeping wage growth elevated.*
11. Economic Forecasts: *The U.S. economy has defied expectations for a slowdown, and economists have revised upward their economic growth projections for this year with the consensus view of no recession.*
12. Market Performance: *Despite volatility increasing in recent weeks, equity markets are still posting strong year-to-date performance.*
13. Near-Term Risks and Opportunities: *The S&P 500 is trading a bit higher compared to its 10-year average, but the equal-weighted index is still at a discount.*
14. Earnings: *The consensus is forecasting earnings to grow next year.*
15. Bond Yields: *Yields in fixed income are the highest they've been in over a decade.*

GEOPOLITICAL TENSIONS

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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 War Limited to Gaza	Scenario 2 Multi-Front War (Hezbollah)	Scenario 3 War Expands to Region (Iran)	Scenario 4 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 • Recession likely • Potential for long-lasting impact to local markets	• Decoupling of U.S. - China relations (deglobalization) • Global recession
Global Market Impact	Limited and fades quickly	Limited and fades quickly	• Risk-off sentiment and volatility increases • Sell-off in global stocks, potentially U.S. stocks • Yields decline	• Risk-off sentiment and volatility increases • Bear market (stocks) • Monetary policy easing and yields falling sharply
Investment Implications	• Prevailing macroeconomic conditions continue to warrant an emphasis on quality for investor portfolios • Diversify across and within asset classes, consider rebalancing to target asset allocation • The ongoing geopolitical uncertainty reinforces this view			

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

1 ECONOMY

Recession expectations pushed out, economy to slow

3 things we're focused on:

- Consumer spending
- Labor market
- Lag effects

2 INFLATION

Significant progress, final 1% drop may take longer

3 things we're focused on:

- Shelter prices
- Supercore services
- Inflation expectations

3 MARKETS

Returns broadening out, volatility to increase

3 things we're focused on:

- Company earnings
- Profit margins
- Capital expenditures

POST-GREAT FINANCIAL CRISIS ENVIRONMENT

Household, corporate, and government debt increased significantly post-GFC
In a higher rate regime, the cost of debt will increase going forward

$5.2 trillion
Increase in
U.S. household debt
2023 vs. 2007

$23.4 trillion
Increase in
U.S. federal debt
2023 vs. 2007

~$37 trillion increase in debt

$7.0 trillion
Increase in
U.S. non-financial corporate debt
2023 vs. 2007

$1.3 trillion
Increase in
U.S. private debt
2023 vs. 2007

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

Source: Stifel CIO Office, as of August 30, 2023; data via St. Louis Federal Reserve (FRED), New York Federal Reserve, Strategas

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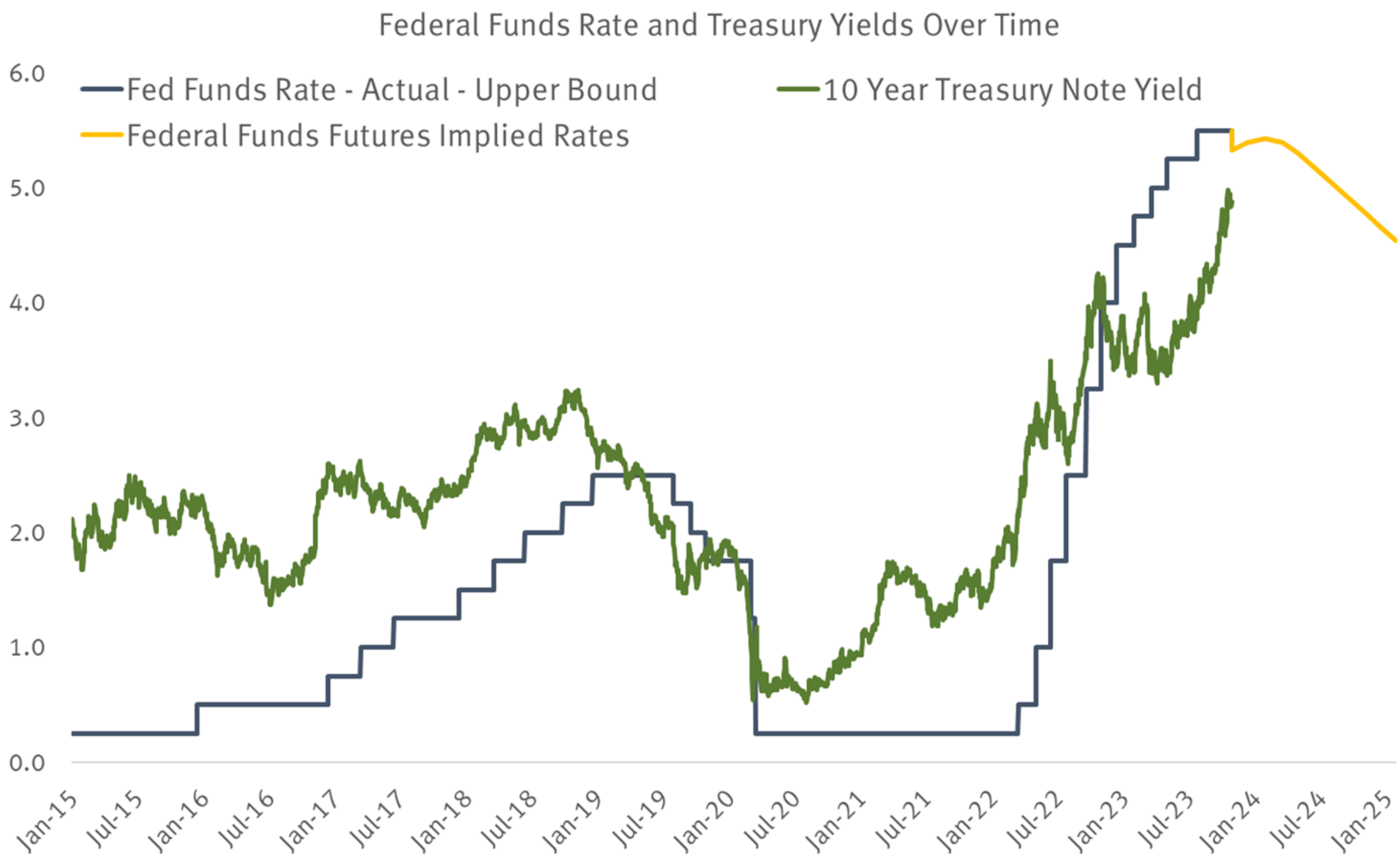
POST-GREAT FINANCIAL CRISIS ENVIRONMENT



Source: Stifel CIO Office via Bloomberg, as of October 31, 2023

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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	10 Years Forward	20 Years Forward
4.9%	**5.7%**	**4.2%**
2023	2033	2043

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

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GFC: Global Financial Crisis

In a higher rate regime, the cost of debt will increase going forward

Consumers must manage debt more carefully, in a possibly slowing economy, and defaults and bankruptcies could increase

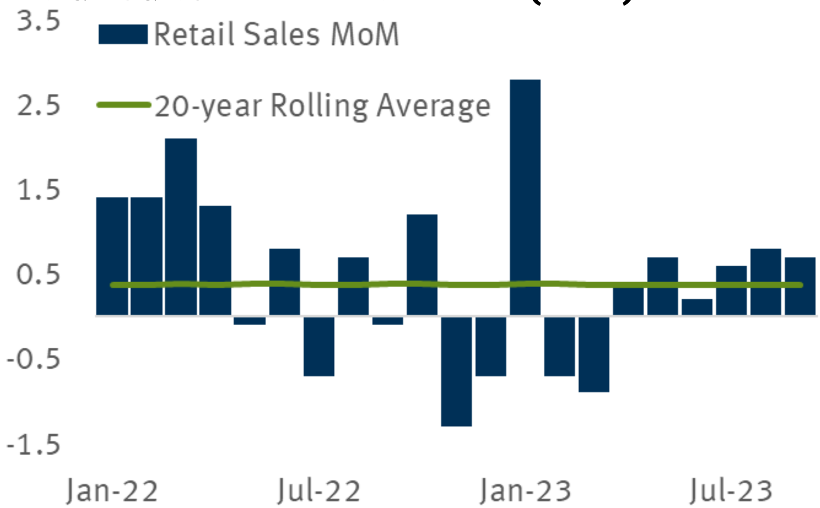
Businesses will adjust how they manage debt, with some companies unable to handle increased debt costs and failing

Government spending, deficits, and debt will come more into focus as the cost of our debt rises and attention turns to fiscal discipline

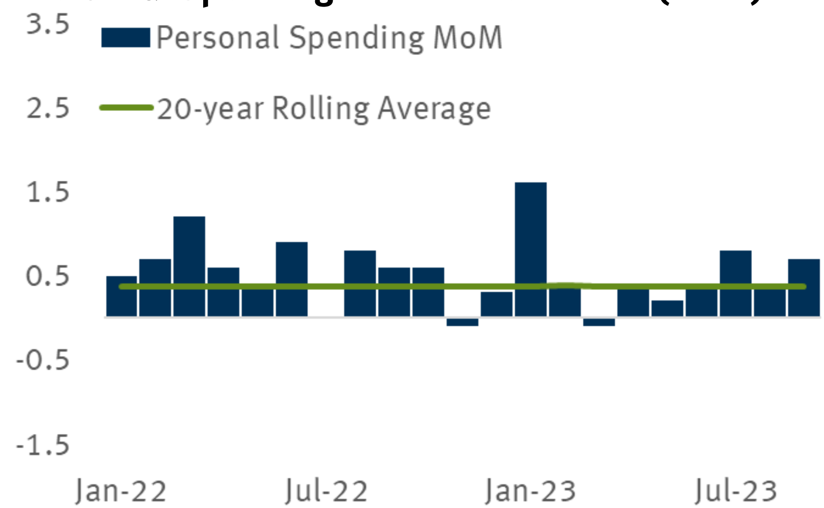
We remain optimistic that, as a country, we'll get through this fiscal transition stronger. But how much pain will we experience through the process, and when?

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

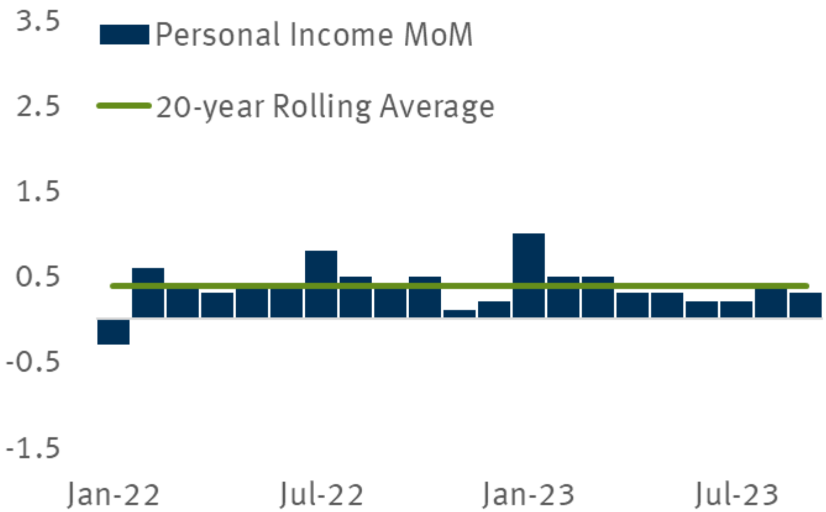
Retail Sales Month Over Month (MoM)



Personal Spending Month Over Month (MoM)



Personal Income Month Over Month (MoM)

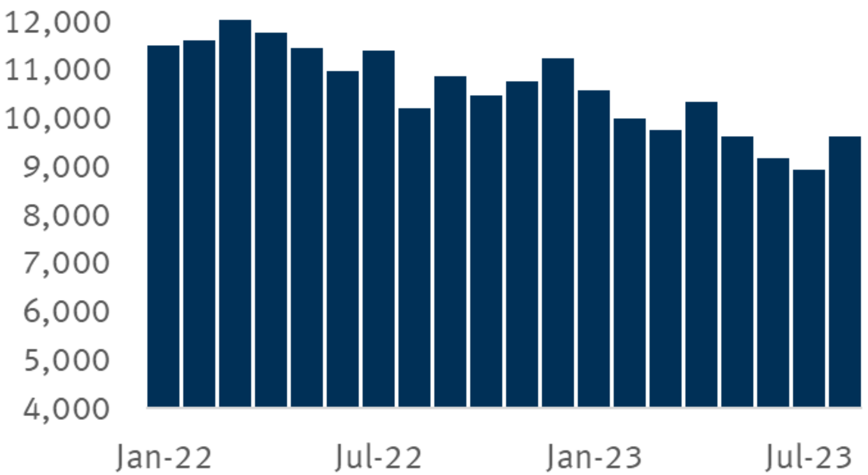


University Of Michigan Consumer Sentiment

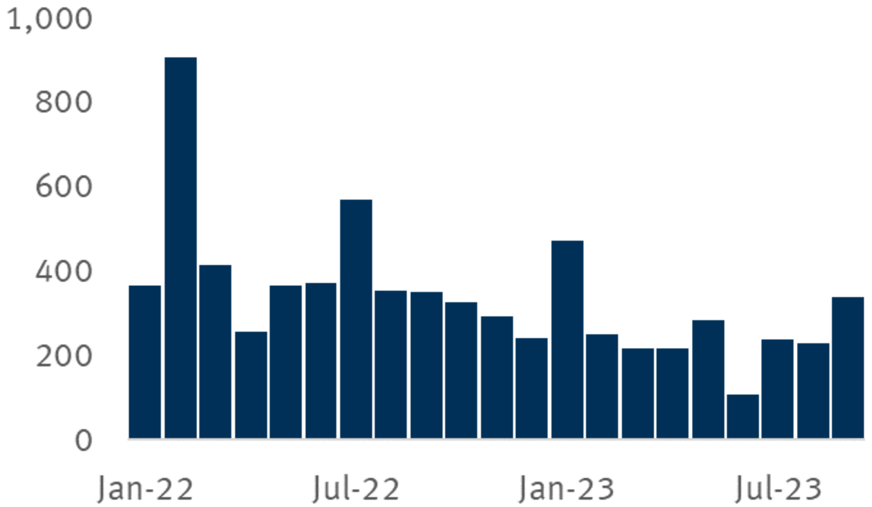
Source: Stifel CIO Office via Bloomberg, as of October 30, 2023

LABOR MARKET

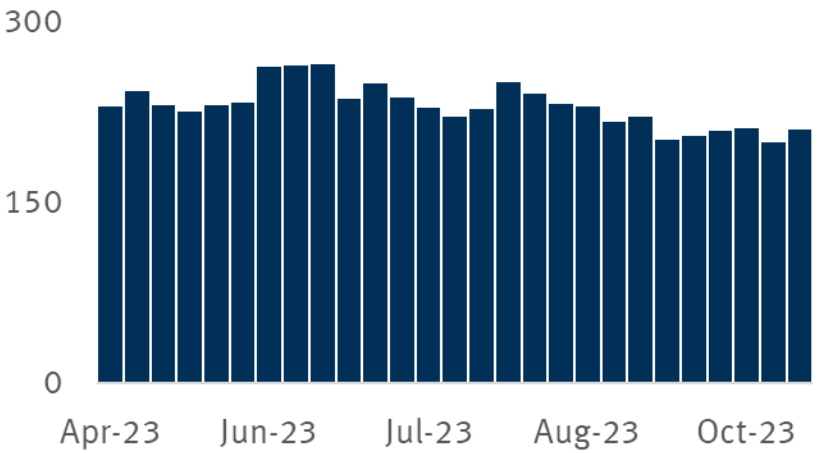
JOLTs - Job Openings (000s)



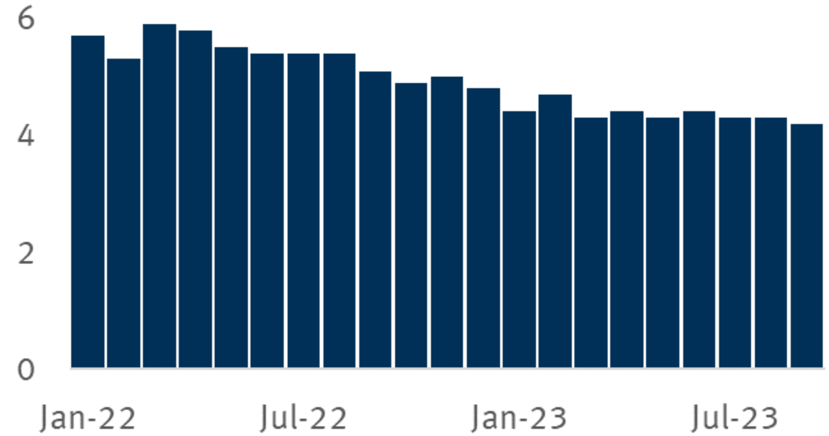
Nonfarm Payrolls (000s)



Jobless Claims (000s)



Wage Growth - Hourly Earnings (%)



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Source: Stifel CIO Office via Bloomberg, as of October 30, 2023

U.S. GDP	Date of Estimate	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	2022	2023	2024
Consensus Estimates	**10/27/2023**	**2.2**	**2.1**	**4.9**	**0.8**	**0.2**	**0.5**	**1.9**	**2.2**	**1.0**
Consensus Estimates	*1/3/2023*	*0.1*	*-0.6*	*0.0*	*0.9*	*1.5*	*1.8*	*1.9*	*0.3*	*1.3*
Stifel	10/2/2023	1.2	1.8	2.6	1.5	0.9	1.8	0.5	2.1	1.7
Goldman Sachs	10/27/2023	1.5	2.5	4.6	1.6	1.7	1.9	2.0	2.4	2.2
Capital Economics	10/27/2023	1.2	1.4	3.5	0.5	-0.3	-0.6	2.0	2.3	0.8
Strategas	10/19/2023	1.0	1.6	3.0	-0.5	-1.5	1.0	2.0	2.1	0.6
UBS	10/27/2023	1.5	1.6	4.7	1.4	1.3	-0.8	2.0	2.5	1.2
Wells Fargo	10/20/2023	0.6	0.9	4.7	0.9	0.7	-0.3	2.1	2.4	0.8
Bloomberg Economics	10/24/2023	1.2	1.5	4.9	-0.3	-0.2	0.4	2.0	2.3	1.0
Barclays	10/20/2023	1.5	1.5	5.0	2.0	0.5	-0.5	2.0	2.5	1.0
JPMorgan Chase	10/27/2023	1.1	1.7	4.3	1.5	0.5	0.5	2.1	2.4	1.4
Federal Reserve**	9/20/2023							**0.9**	2.1	1.5

Annualized percent change from prior quarter and year-over-year change are shown for quarterly and yearly periods, respectively. Stifel estimates based on Stifel sell-side Economics department estimates.

**Percent change from fourth quarter to fourth quarter one year ago.

Source: Stifel CIO Office via Bloomberg, as of October 31, 2023. Federal Reserve estimates are as of September 20, 2023. Figures in grey areas under “Consensus Estimates” represent reported results

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MARKET PERFORMANCE

Index	2020	2021	2022	YTD – June 1 2023	June 1 – October 30 2023	YTD – October 30 2023
S&P 500 Index	18.4%	28.7%	-18.1%	10.7%	-0.7%	10.0%
S&P 500 Eq. Weight.	12.8%	29.6%	-11.5%	0.1%	-3.3%	-3.2%
S&P 500 Financials	-1.8%	34.9%	-10.6%	-5.7%	0.6%	-5.1%
KBW Reg. Banking	-8.7%	36.7%	-6.9%	-25.9%	1.5%	-24.8%
Russell 1000 Value	2.8%	25.1%	-7.6%	-0.7%	-2.1%	-2.8%
Russell 1000 Growth	38.5%	27.6%	-29.1%	22.2%	0.4%	22.7%
NYSE FANG+ Index	103.1%	17.7%	-40.0%	64.5%	-0.7%	63.4%
Russell 2000 Index	19.9%	14.8%	-20.5%	1.0%	-6.3%	-5.3%
MSCI EAFE Index	7.8%	11.3%	-14.5%	8.3%	-5.0%	2.9%
MSCI EM Index	18.3%	-2.5%	-20.1%	1.4%	-2.8%	-1.4%
Bloomberg U.S. Agg	7.5%	-1.5%	-13.0%	2.7%	-5.2%	-2.7%

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Source: Stifel CIO Office via Bloomberg, as of October 30, 2023

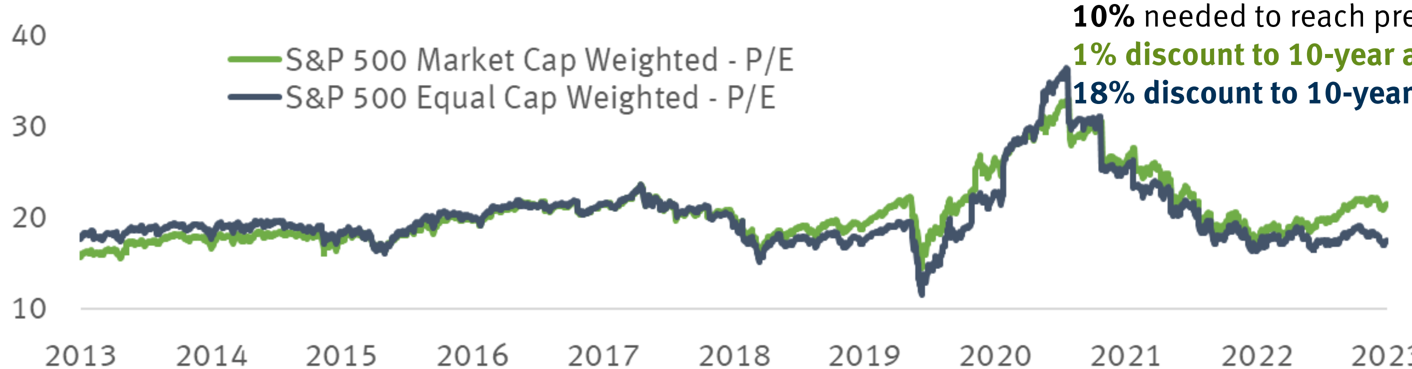
NEAR-TERM RISKS AND OPPORTUNITIES

Current S&P 500 Index Level

EPS	EPS Forward P/E					
	16x	17x	18x	19x	20x	21x
$255	4,080	4,337	4,582	4,852	5,126	5,355
$250	4,000	4,252	4,492	4,757	5,025	5,250
$245	3,920	4,167	4,402	4,662	4,925	5,145
$240	3,840	4,082	4,312	4,566	4,824	5,040
$230	3,680	3,912	4,132	4,376	4,623	4,830
$219	3,504	3,725	3,935	4,167	4,402	4,599
$210	3,344	3,555	3,755	3,977	4,201	4,389

Consensus 2024 EPS ($245)

Consensus 2023 EPS ($219)



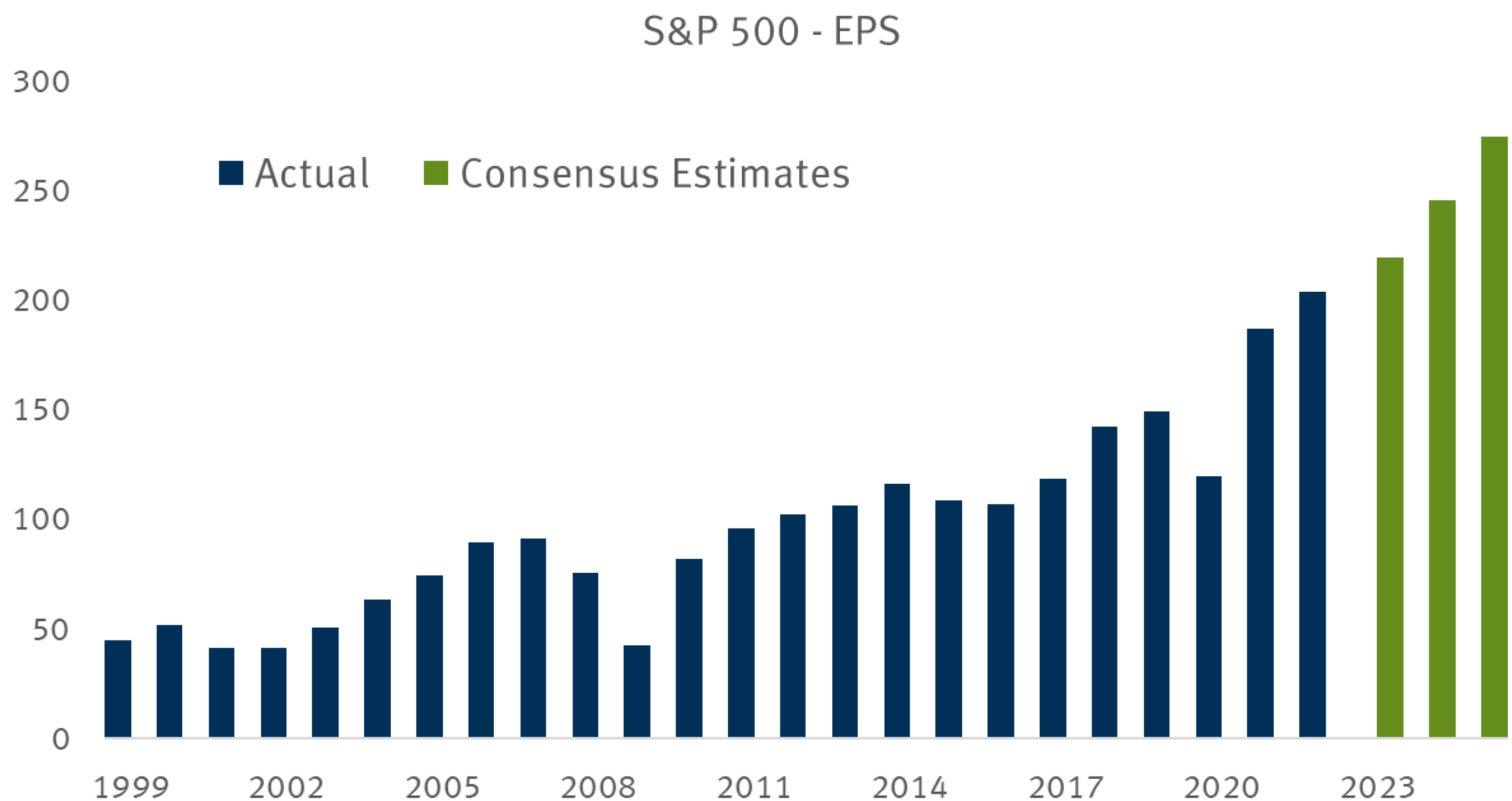
10% needed to reach previous S&P 500 high

1% discount to 10-year average

18% discount to 10-year average

Source: Stifel CIO Office via Bloomberg, as of October 30, 2023

EPS = Earnings Per Share



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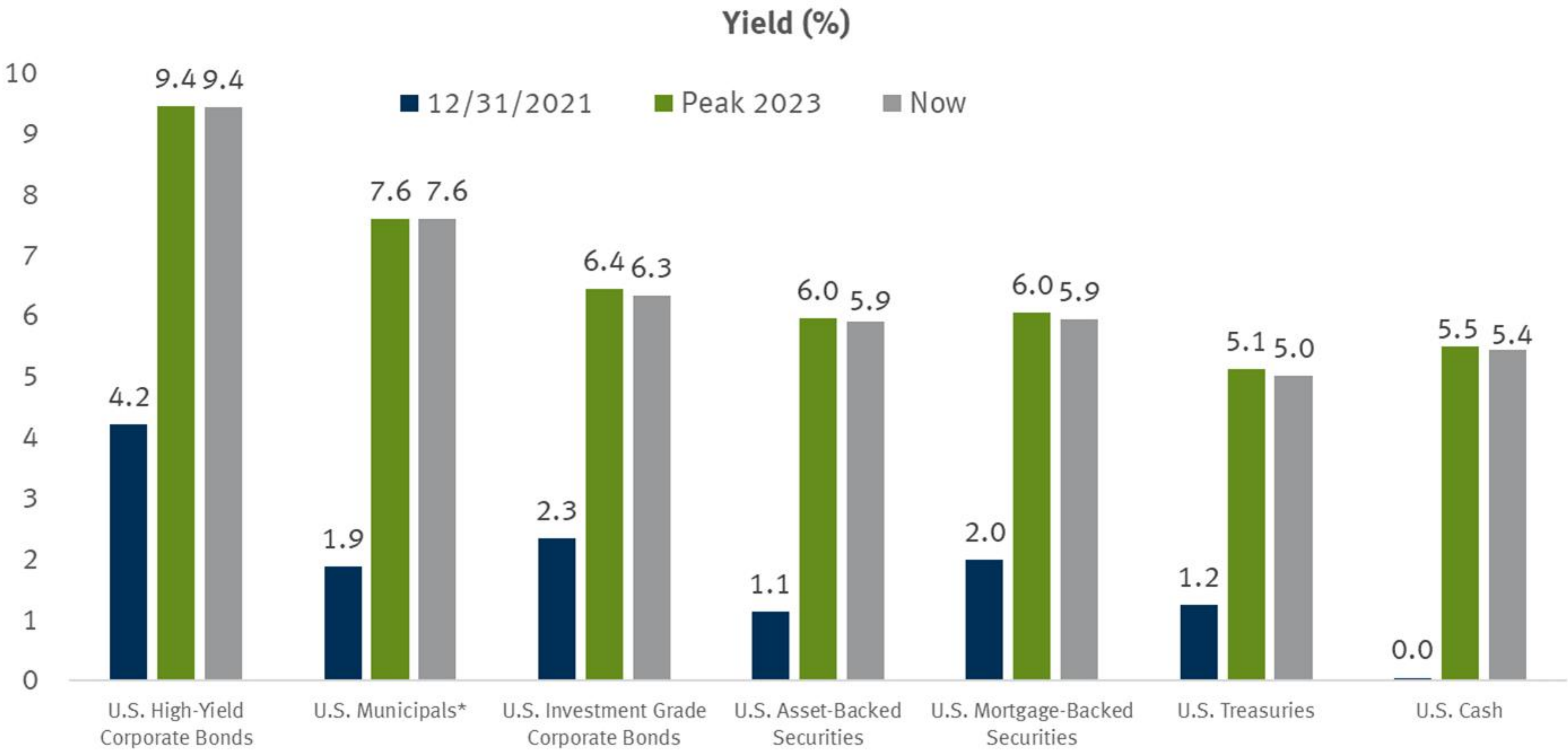
Source: Stifel CIO Office via FactSet, as of October 30, 2023

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 October 30, 2023

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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