

STIFEL

FAVORITE

15

February 2024

Insights From Stifel's CIO Office

1. Outlook 2024: Embracing Change: *The S&P 500 has passed our 5,000 price target for the year as a result of continued optimism around artificial intelligence.*
2. Outlook 2024: Embracing Change: *Our outlook focused on the changes in the world that we believe are creating opportunities for investors.*
3. Artificial Intelligence: *We see the AI revolution transforming industries and investments and see opportunity in enablers, innovators, and disruptors.*
4. Near-Term Risks and Opportunities: *The market cap weighted S&P 500 is trading at a premium to its historic 10-year average.*
5. S&P 500: Index concentration, valuations and earnings: *There is plenty of opportunity when we look beyond the largest 10 stocks by market cap.*
6. Magnificent Seven - Earnings: *The Magnificent Seven (M7) are expected to see earnings grow in 2024 by almost three times the rate of the remaining 493 stocks in the S&P 500.*
7. Magnificent Seven - Valuations: *When looking at other valuation metrics like price-to-earnings to growth, the M7 stocks are reasonably valued.*
8. Outlook 2024: Embracing Change: *Our economic forecast for this year sees the U.S. economy slowing, inflation cooling to at or slightly above the Fed's target, and two or three rate cuts in 2024.*
9. Inflation and Federal Reserve Policy: *The most recent consumer price index (CPI) report came in hotter than expected, shifting the consensus for the first rate cut in June with another three cuts through the rest of the year.*
10. Economic Forecasts: *Consensus economist forecasts for 2024 are somewhat more positive than our own.*
11. Market Momentum: *The S&P 500 has experienced 11 new highs following a 2022 bear market.*
12. Post-Great Financial Crisis Environment: *One of the risks we are monitoring looking forward is that in a higher rate regime, the cost of debt will increase.*
13. 10-Year Treasury Yield: *Data and sentiment suggest that we are in a higher rate regime, similar to the period prior to the Great Recession.*
14. Fiscal Transition: *More debt and higher rates mean fiscal discipline is needed for consumers, businesses, and government.*
15. Navigating Key Dates: *As we look forward, we will be navigating a variety of key dates surrounding the Federal Reserve (Fed), inflation, and the consumer.*

2024 Forecasts

	2024 FORECAST
S&P 500	5,000 6.3% (Total Return)
10-Year Treasury (%)	3.75% – 4.25%
Market Pulse Publications*	25
Investment-Grade Spreads (bps)**	125 – 175 bps
High-Yield Spreads (bps)	400 – 450 bps

* The Stifel CIO Office issues a Market Pulse publication when the S&P 500 closes up or down by at least 2% on a given day.

** bps is basis points.

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.

In focus: Semiconductors, cloud computing, data storage, and cybersecurity companies driving AI advancements. Explore opportunities in AI applications within healthcare, industrials, finance, and retail.

2 The structural effects of the pandemic highlight the need for new supply chain and infrastructure investments.

In focus: Companies in strategic industries prioritized amid rising geopolitical tensions and supply chain restructuring. Consider investments in logistics services and infrastructure development.

3 Higher debt and higher rates and the ensuing *Fiscal Transition* call for greater focus, and opportunities, in debt and equity investing.

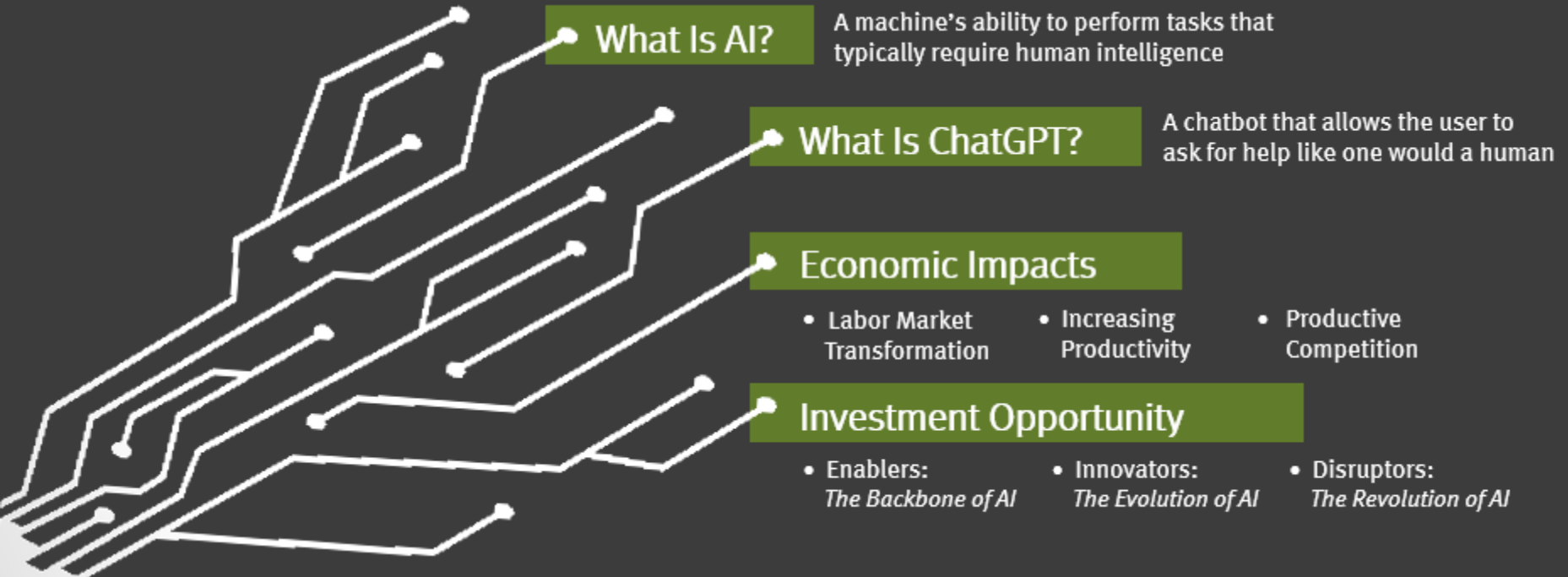
In focus: Companies with prudent capital allocation and manageable debt burdens that are poised to successfully navigate higher debt and rising rates while potentially capturing market share from competitors.

4 The 2024 global election supercycle, with 40 major elections, may well transform the geopolitical landscape.

In focus: Remain diversified and stick to your long-term objectives. Be prepared for risks and opportunities that may arise based on potential policy changes stemming from the election supercycle.

5 Increasing geopolitical tensions are amplifying further deglobalization.

In focus: In addition to being diversified, consider companies benefiting from increasing militarization and defense spending. Identify companies that are able to execute well globally and penetrate local markets.



2.5 billion gigabytes (GB)
of data are created each day.
That's equivalent to more than
19 million 128GB iPhones



By 2030

One-Third
of hours worked could be automated

In **200 seconds**, a quantum computer can solve a problem that the world's current **fastest computer** would need **10,000 years** to compute

Current
S&P 500 Index
Level

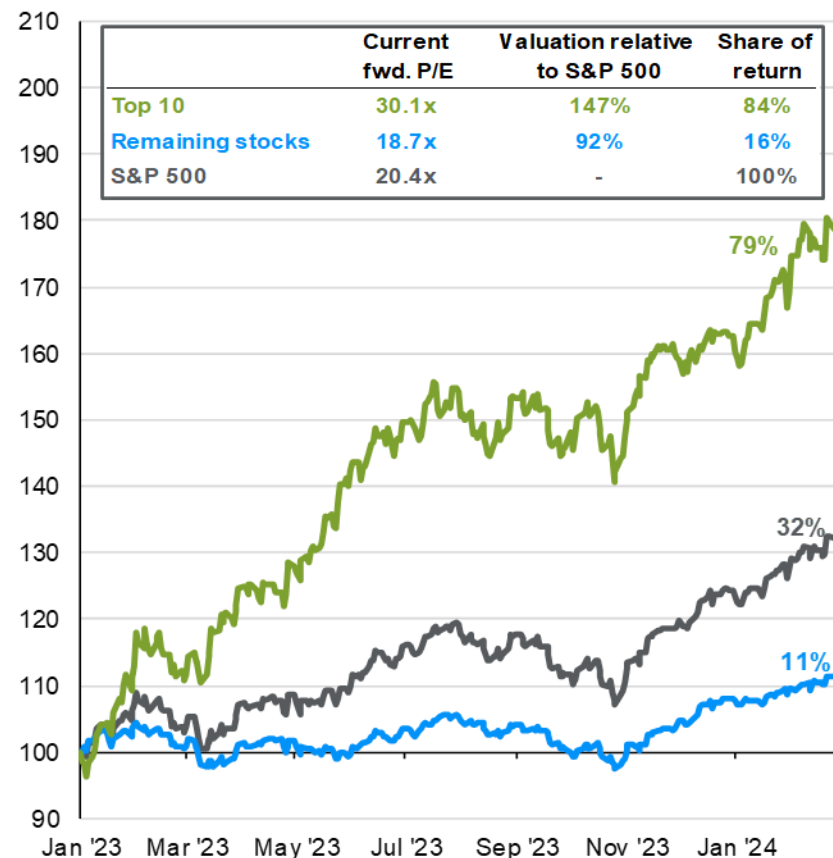
EPS	EPS Forward P/E						
	17x	18x	19x	20x	21x	22x	23x
\$255	4,335	4,590	4,845	5,100	5,355	5,610	5,865
\$250	4,250	4,500	4,750	5,000	5,250	5,500	5,750
Consensus 2024 EPS → \$242	4,114	4,356	4,598	4,840	5,070	5,324	5,566
\$240	4,080	4,320	4,560	4,800	5,040	5,280	5,520
\$230	3,910	4,140	4,370	4,600	4,830	5,060	5,290
Consensus 2023 EPS → \$219	3,723	3,942	4,161	4,380	4,599	4,818	5,070
\$210	3,570	3,780	3,990	4,200	4,410	4,620	4,830



Source: Stifel CIO Office via Bloomberg, as of February 26, 2024
EPS = Earnings Per Share

Performance of the top 10 stocks in the S&P 500

Indexed to 100 on 1/1/2023, price return, top 10 held constant



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

(Left) The top 10 companies used for this analysis are held constant and represent the S&P 500's 10 largest index constituents at the start of 2023.

The top 10 stocks are: AAPL, MSFT, AMZN, NVDA, GOOGL, BRK.B, GOOG, META, XOM, UNH, and TSLA. The remaining stocks represent the rest of the 494 companies in the S&P 500. (Right) The top 10 companies used for these two analyses are updated monthly and are based on the 10 largest index constituents at the beginning of each month. As of 12/31/2023, the top 10 companies in the index were AAPL (7.0%), MSFT (6.9%), AMZN (3.5%), NVDA (3.0%), GOOGL (2.1%), META (2.0%), GOOG (1.8%), TSLA (1.8%), BRK.B (1.6%), AVGO (1.2%) and JPM (1.2%).
Guide to the Markets – U.S. Data are as of February 26, 2024.

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

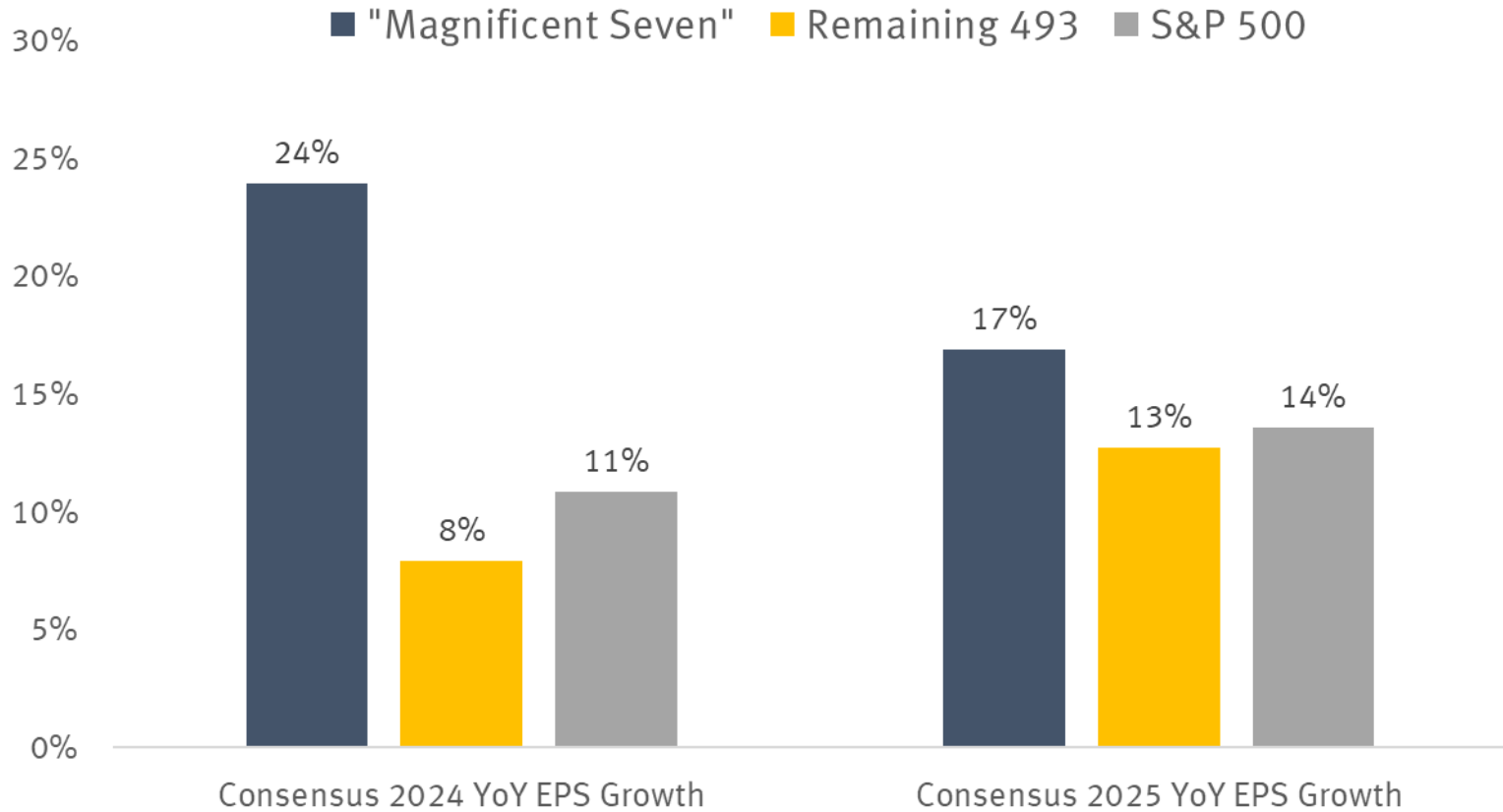
% of market capitalization of the S&P 500



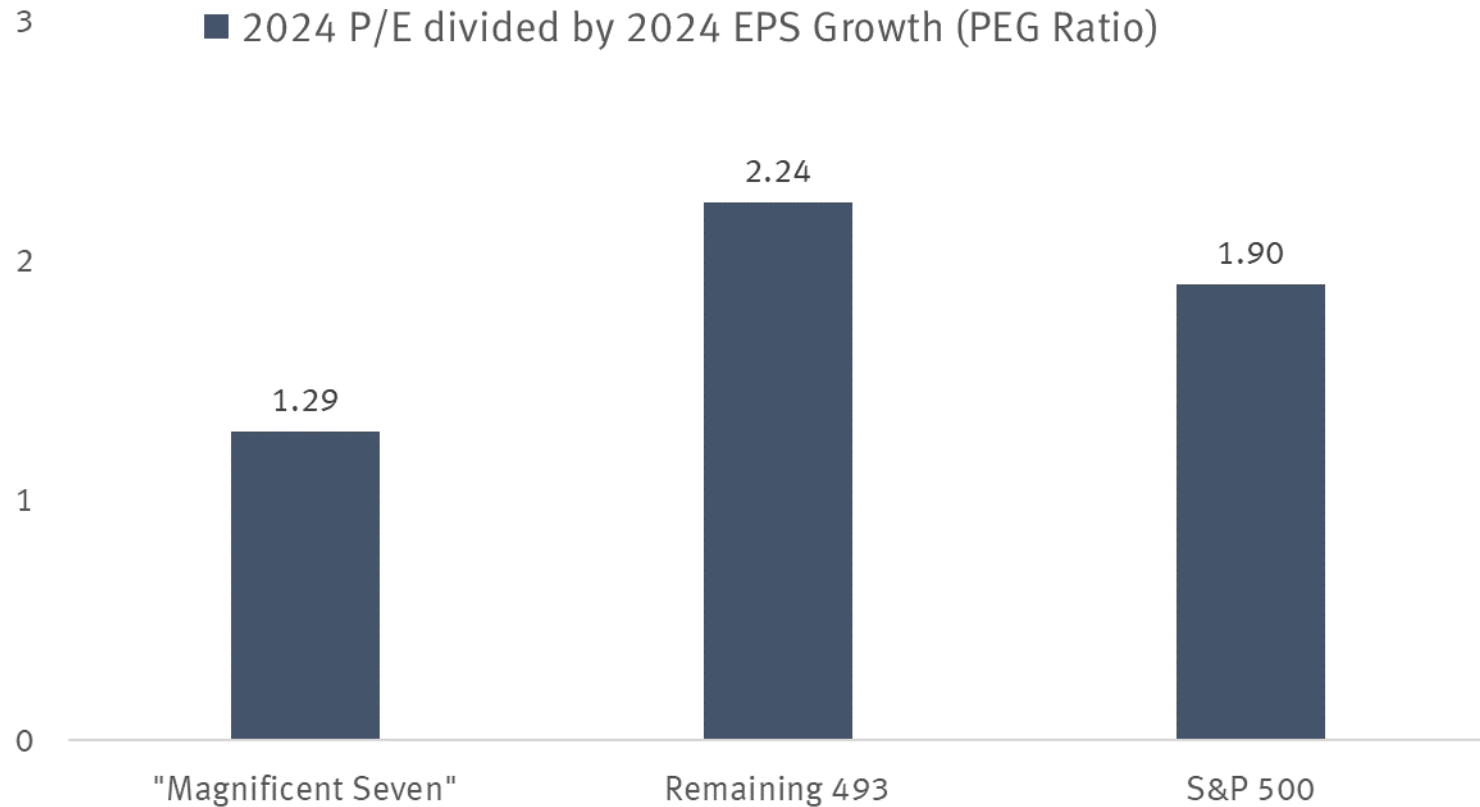
Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings





YoY = year over year
Source: Stifel CIO Office via FactSet, as of February 27, 2024

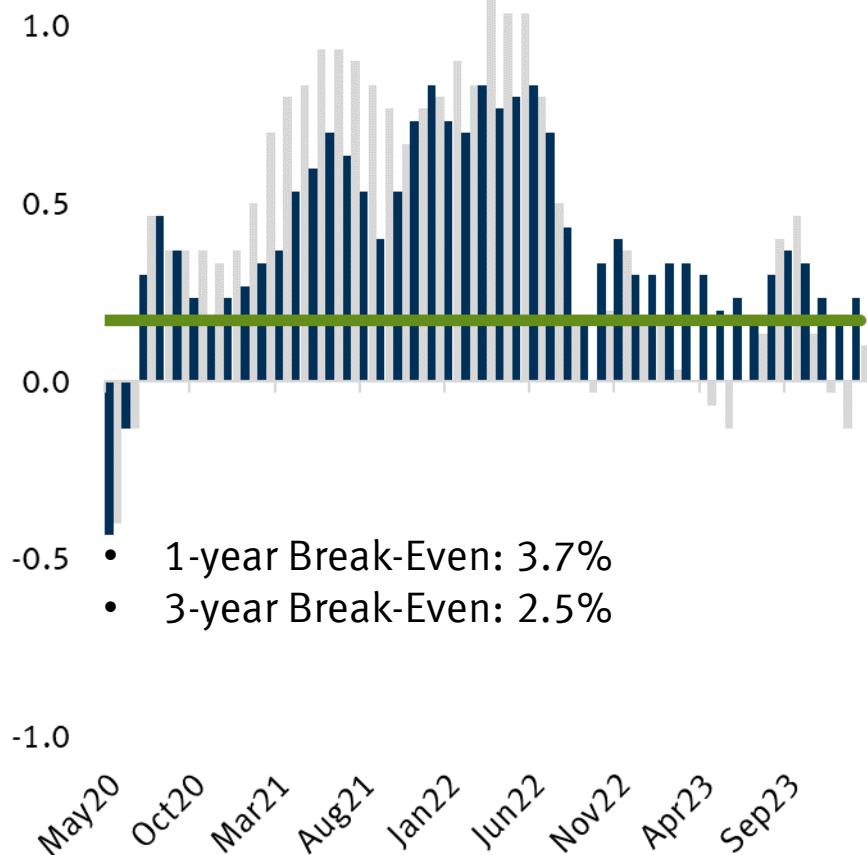


Source: Stifel CIO Office via FactSet, as of February 27, 2024

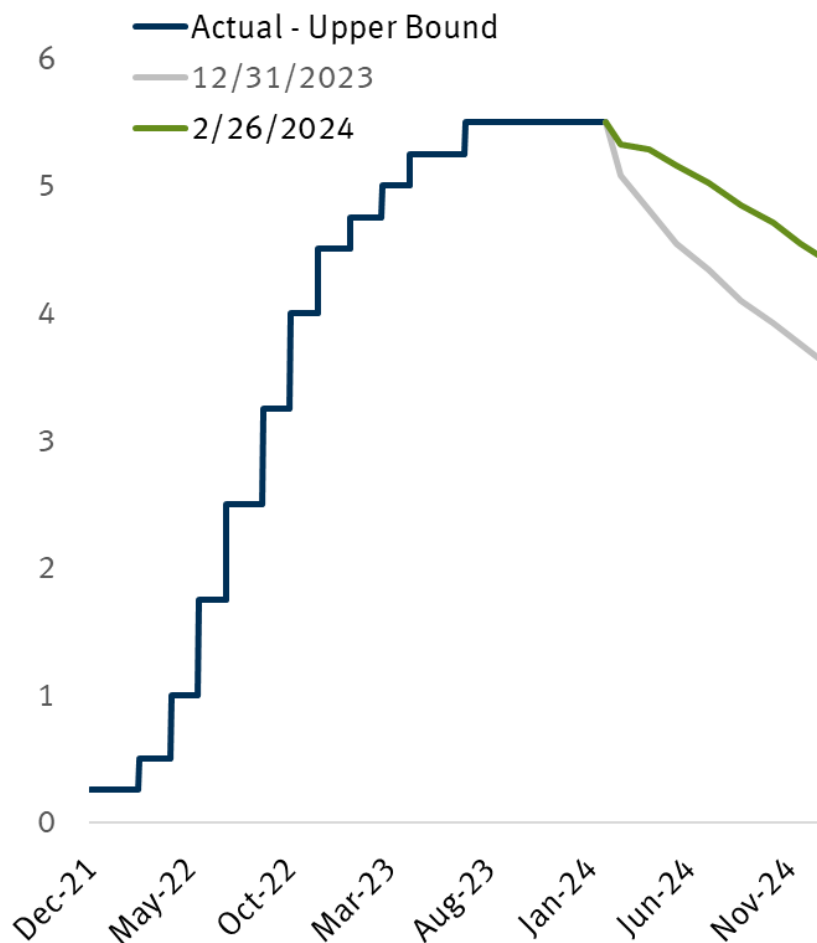
2024 Forecasts

	2024 FORECAST
U.S. Real GDP	0% – 1.0%
Core PCE Inflation (4Q/4Q)	2.00% – 2.25%
Federal Funds Rate (Upper Bound)	4.75% – 5.00%

■ CPI - Monthly, Three Month Rolling Average (%)
■ PPI - Monthly, Three Month Rolling Average (%)



Fed Funds Rate



PPI = Producer Price Index
CPI = Consumer Price Index
Fed = Federal Reserve

Source: Stifel CIO Office via Bloomberg, as of February 26, 2024

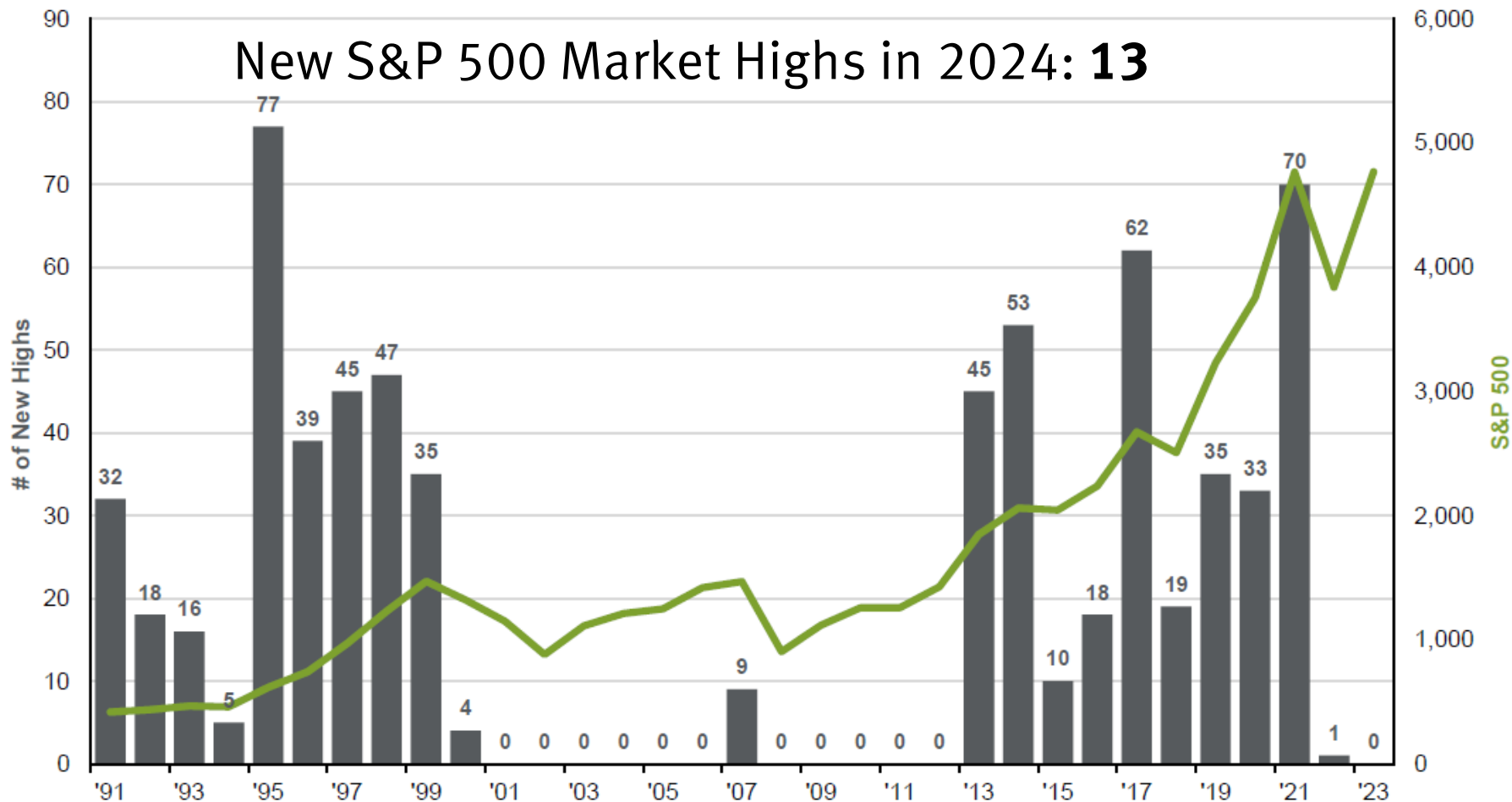
U.S. GDP	Date of Estimate	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2024	2025
Consensus Estimates	2/27/2024	2.2	2.1	4.9	3.3	2.5	1.6	1.1	1.1	1.5	2.0	1.7
Consensus Estimates	January	0.1	-0.6	0.0	0.9	0.3	1.5	1.8	1.0	1.6	1.3	1.7
Stifel	1/29/2024	1.2	1.8	2.6	1.9	2.8	1.9	2.4	2.2	1.8	2.7	2.2
Goldman Sachs	2/27/2024	1.5	2.5	4.6	2.1	2.8	2.4	2.6	2.3	2.0	2.9	2.1
Capital Economics	2/23/2024	1.2	1.4	3.5	1.9	2.4	2.0	1.4	1.6	1.9	2.4	2.0
Strategas	2/20/2024	1.0	1.6	3.0	2.0	2.4	2.0	1.8	2.0	2.0	2.5	1.9
UBS	2/26/2024	1.5	1.6	4.7	1.4	2.4	1.8	-0.7	-1.1	1.7	1.6	1.6
Wells Fargo	2/23/2024	0.6	0.9	4.7	1.7	2.4	2.4	1.3	1.0	1.1	2.4	1.7
Bloomberg Economics	2/5/2024	1.2	1.5	4.9	1.1	2.4	1.0	0.5	1.7	1.9	2.0	1.9
Barclays	2/23/2024	1.5	1.5	5.0	2.0	2.5	3.0	2.0	1.5	1.5	2.8	1.5
JPMorgan Chase	2/23/2024	1.1	1.7	4.3	2.0	2.5	1.8	0.5	0.5	0.8	2.0	1.5
Federal Reserve**	12/13/2023					2.6					1.4	1.8

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. "Consensus Estimates" for time periods that have passed represent actual results and consensus estimates in grey shaded boxes represent first estimate of year.

Source: Stifel CIO Office via Bloomberg, as of February 27, 2024. Federal Reserve (Fed) estimates are as of December 13, 2023.

New highs in an equity bull market tend to cluster together

S&P 500 price index and the number of new all-time highs ticked each year since 1991



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Guide to the Markets – U.S. Data are as of December 31, 2023.

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

\$5.1 trillion

Increase in
U.S. household debt
2023 vs. 2007

\$25.0 trillion

Increase in
U.S. federal debt
2024 vs. 2007

~\$39
trillion
increase
in debt

\$7.0 trillion

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

\$1.5 trillion

Increase in
U.S. private debt
2023 vs. 2007

Sight | Lines: [Troubling Forces Converge: We're Headed to a Fiscal Transition](#)

Decade *prior*
to the GFC

5%



Decade *after*
the GFC

2%

During
Pandemic

1.2%

2020



2021

Now

4.3%

2024

10 Years
Forward

4.9%

2034

20 Years
Forward

3.9%

2044

Sight | Lines: [A New Market Rate Regime? Data and Sentiment Say Yes.](#)

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](#)

FEBRUARY

2	Employment
2	Consumer Sentiment
13/29	Inflation
15	Retail Sales
16	Housing
21	Federal Open Market Committee (FOMC) Minutes

MARCH

1/15/28	Consumer Sentiment
8	Employment
12/28	Inflation
14	Retail Sales
19	Housing
20	Fed Policy Decision

APRIL

5	Employment
10	Inflation
10	Federal Open Market Committee (FOMC) Minutes
12/26	Consumer Sentiment
15	Retail Sales
23	Housing

MAY

1	Fed Policy Decision
3	Employment
10	Consumer Sentiment
15/31	Inflation
15	Retail Sales
22	Federal Open Market Committee (FOMC) Minutes
23	Housing

Sources of Potential Volatility

- Macroeconomic Conditions
 - Economy
 - Inflation
 - Monetary Policy
 - Market Valuations
- Geopolitical Tensions
 - Russia – Ukraine
 - Israel – Hamas
 - Red Sea
 - South China Sea
- Global Election Supercycle
 - 40 major elections worldwide
 - U.S. Presidential Election
- Fiscal Transition
 - Regional Bank Stress
 - Commercial Real Estate Loans
 - Corporate Refinancing
 - Government Debt
 - Consumer Spending

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.

ViX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

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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