

STIFEL

FAVORITE

15

May 2025

Insights From Stifel's CIO Office

1. *Washington, D.C. Transition:* President Trump, through his first 100 days, has issued 140+ executive orders, causing concern among business leaders and consumers about rising uncertainty, which may be dampening Animal Spirits and contributing to market volatility.
2. *Bear Scenario:* A 25% probability is assigned to the bear case, factoring in the erosion of investor confidence ("Animal Spirits"), risks of a global recession, and prolonged economic stagnation.
3. *Brian Gardner:* Stifel's Washington Policy Strategist analyzed the Supreme Court's ruling that the president can remove members of the National Labor Relations Board.
4. *Bull Scenario:* We have assigned a 15% probability to our bull case, considering factors such as deregulation, tax reforms, and lower energy costs.
5. *Economic Growth and the Composition of GDP:* Real GDP for 1Q 2025 fell an annualized 0.2% from the quarter prior, dragged down by a higher proportion of net exports.
6. *Small Businesses:* The NFIB Small Business Optimism Index and Chief Executive's CEO Confidence Survey readings have fallen significantly amid tariff news flow.
7. *Dr. Lindsey Piegza:* Stifel's Chief Economist, Dr. Lindsey Piegza, discussed notable disruptions in maritime trade affecting U.S. ports across the country due to higher levies.
8. *Inflation and Fed Policy:* Inflation expectations currently vary significantly based on political affiliation.
9. *The Fed Dual Mandate:* The Federal Reserve (Fed) faces challenges balancing its dual mandate of achieving maximum employment and maintaining stable prices amid economic uncertainty.
10. *Yield Curve:* The U.S. Treasury yield curve remains elevated and uninverted with a 60-basis-point spread between two-year and 10-year yields.
11. *Stock Market Downturn:* Equity markets began the year positively but encountered volatility following the tariff announcement. Equity markets have improved as the administration engages in negotiations over the next 90 days.
12. *Near-Term Risks and Opportunities:* The S&P 500 Index is trading at a 16% premium to the 10-year average P/E, while the S&P 500 Equal Weight Index is trading at a slight discount.
13. *Market Performance:* Major market indexes have largely recovered from the recent downturn, remaining below peak levels.
14. *U.S. Dollar:* More recently, the dollar has declined slightly after a period of strength.
15. *Understanding Volatility:* Large market drawdowns do not always lead to negative annual returns. Long-term investors are advised to stay diversified and remain invested, as timing market reentry is challenging.

President Trump is quickly implementing significant policy changes, increasing uncertainty, dampening Animal Spirits, and contributing to stock market weakness.

**Tariffs and
Trade Policy**

**Fiscal and
Tax Policy**

**Department of
Government Efficiency**

**Health and
Human Services**

**Immigration and
Border Security**

**Department of
Education**

Other anticipated changes include areas like the judiciary and the legal system, housing and urban development, and artificial intelligence and technology.

Roadblocks to Growth

PATH	DESCRIPTION	PROBABILITY
Erosion of Animal Spirits	Erratic policy shifts or poor communication about government policy can trigger an equity market correction or bear market.	15%
Global Recession	Positive U.S. economic forecasts may be undermined by foreign policy shifts, risking a global recession and bear market.	15%
Sustained Stagflation	If a recession occurs with persistent inflation, we risk sustained stagflation and a more severe bear market.	<5%
U.S. Fiscal Trajectory and Debt Mismanagement	Eroding investor confidence and the U.S. dollar losing its reserve status could trigger an economic depression and severe bear market.	<3%
Constitutional Unrest	Conflicts within the government, or even civil unrest, amplifies uncertainty and could disrupt the U.S. economy and markets.	<1%

Sight|Lines: [Putting Bear Case Scenarios in Focus: Investment Ideas for Times of Trouble](#)





May 23, 2025

The Supreme Court ruled Thursday that the President can remove members of the National Labor Relations Board (NLRB) and the Merit Systems Protection Board (MSPB), even though the statutes governing both agencies state that board members may only be removed for cause — and no such cause was given. The Court also ruled this power does not extend to the Federal Reserve (Fed) Board, because it is a quasi-private entity. The Court's decision clarified the question of Fed Governors, but did not resolve the issue of whether the President can fire the Fed Chairman (i.e. depose the Fed Chair, who would remain on the board).

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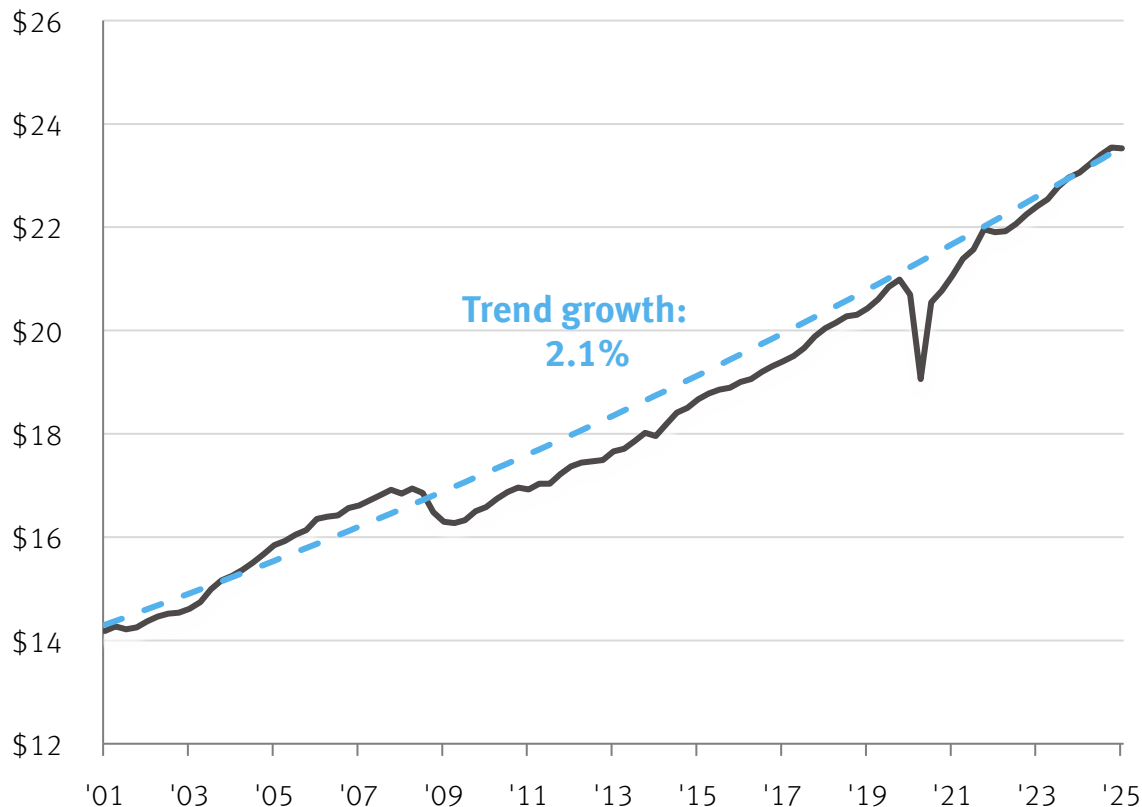
American Exceptionalism

Driver	DESCRIPTION
Deregulation	A rollback in regulations, especially in financial services, energy, and healthcare, could mean lower compliance costs, faster expansion, and higher corporate profits.
Tax Reforms	Lower corporate tax rates could increase after-tax profits, fueling expansion and hiring, while improved individual tax brackets may boost disposable income and spending.
Mergers and Acquisitions	The focus on antitrust will likely soften, with more strategic deals and faster approvals, potentially improving valuations and increased deal-making activity.
Strategic Trade and Manufacturing	If short-term tariffs lead to improved trade relations and more U.S. jobs, our manufacturing sector could become more competitive and experience growth.
Lower Energy Costs	Expansion of U.S. energy production, particularly in oil and gas, could mean lower production costs, stronger corporate profits, and easing inflationary pressures.
Improved Infrastructure	Investment in transportation, digital infrastructure, and energy networks could boost to jobs and consumer spending, driving long-term economic efficiency.
Government Efficiency and Fiscal Discipline	Although it will take some time, a tighter focus on spending could ease the debt burden, helping to stabilize our long-term fiscal health.

Sight | Lines: [Putting Our Bull Case Scenario in Focus: Investment Ideas for Optimistic Investors](#)

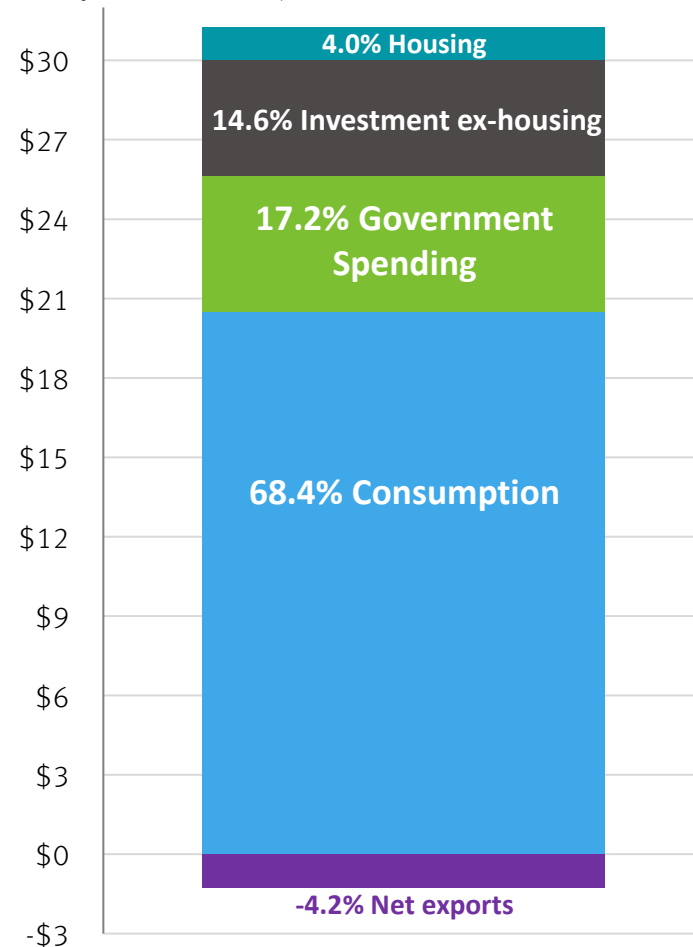
Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



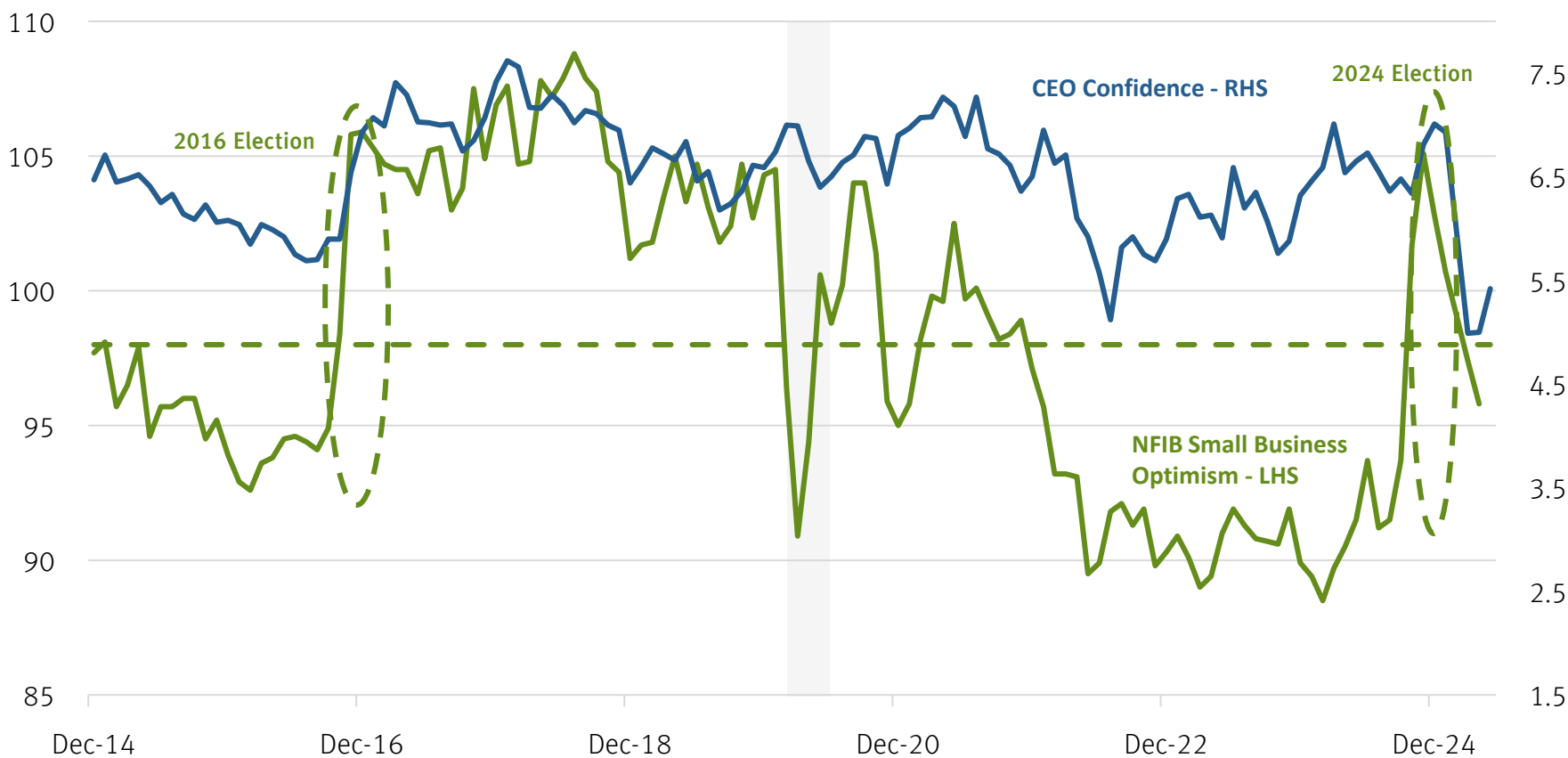
Components of GDP

1Q25 nominal GDP, USD trillions



NFIB Small Business Optimism CEO Confidence

Monthly



Chief Executive surveys CEOs each month to compile their CEO Confidence survey data. The CEO Confidence survey value is a rating from 1 to 10 of CEOs' expectations for overall business conditions. As such, it captures an accurate assessment of how confident CEOs are in the economy and prospects for business over the coming year. CEOs are guided by giving them the following word associations to each value: **10 = Excellent, 8 = Very Good, 6 = Good, 4 = Weak, 2 = Poor**. NFIB = National Federation of Independent Business

Source: Stifel CIO Office via Bloomberg, as of June 4, 2025.

Economic INSIGHT



June 2, 2025

Special Edition: Potential Impact of Tariffs on Consumers as it Relates to Food Consumption and Trade

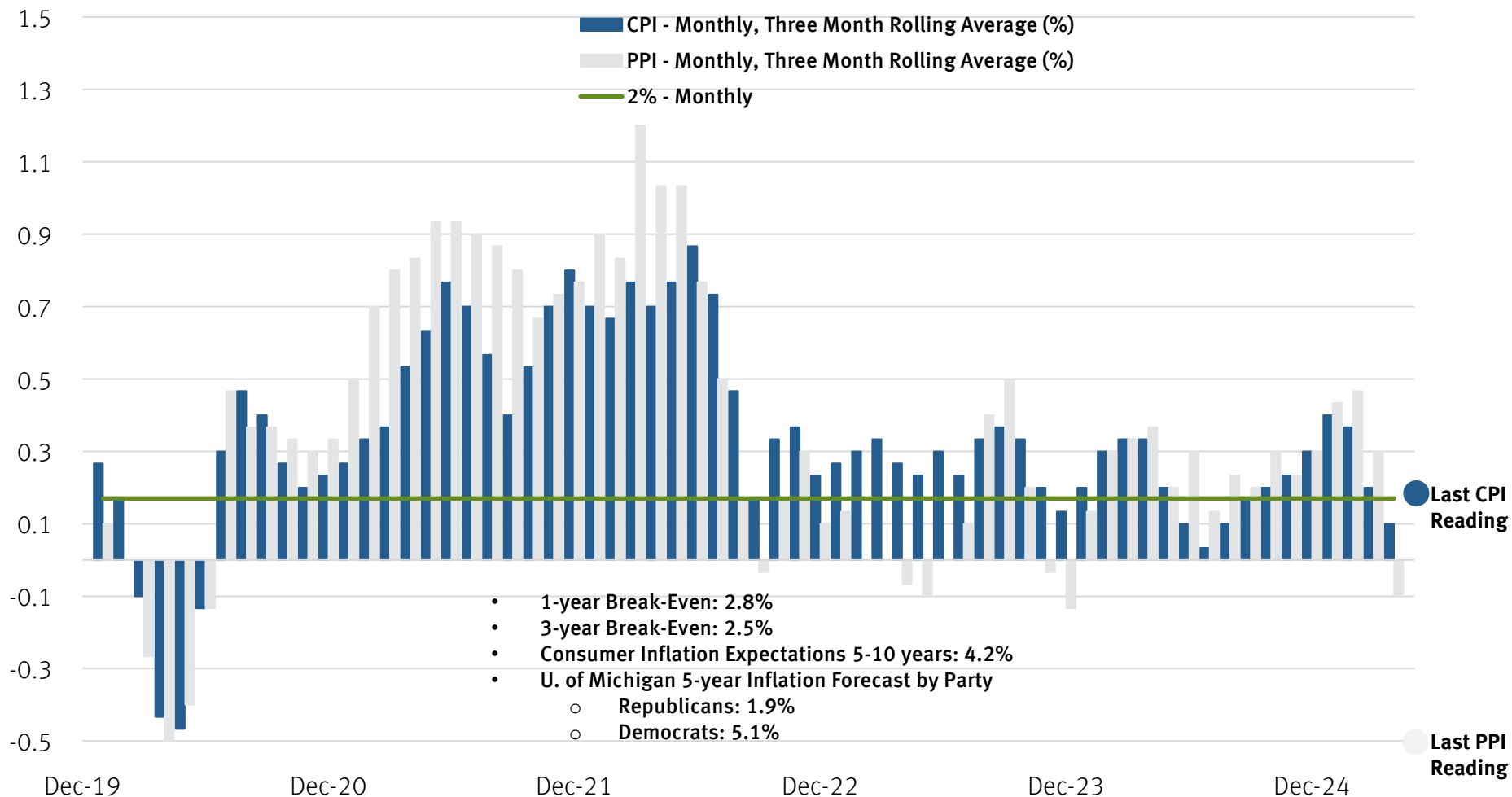
The impact of tariffs on the U.S. consumer has been relatively muted thus far, with recent data signaling cooling price pressures and a still-spendy consumer.

However, with a 10% tariff still in place on all imports, and the potential for higher tariffs following a 90-day pause, prices could track higher, particularly at grocery stores, which have become increasingly dependent on imported foods. While U.S. farmers would certainly welcome the increased focus on growing more food domestically, it remains to be seen whether the American consumer is willing – or even able – to stomach higher food prices.

This week, we take a closer look at the state of agricultural trade, the growing reliance on imports, and where food is sourced.

READ

Monthly Inflation Trends

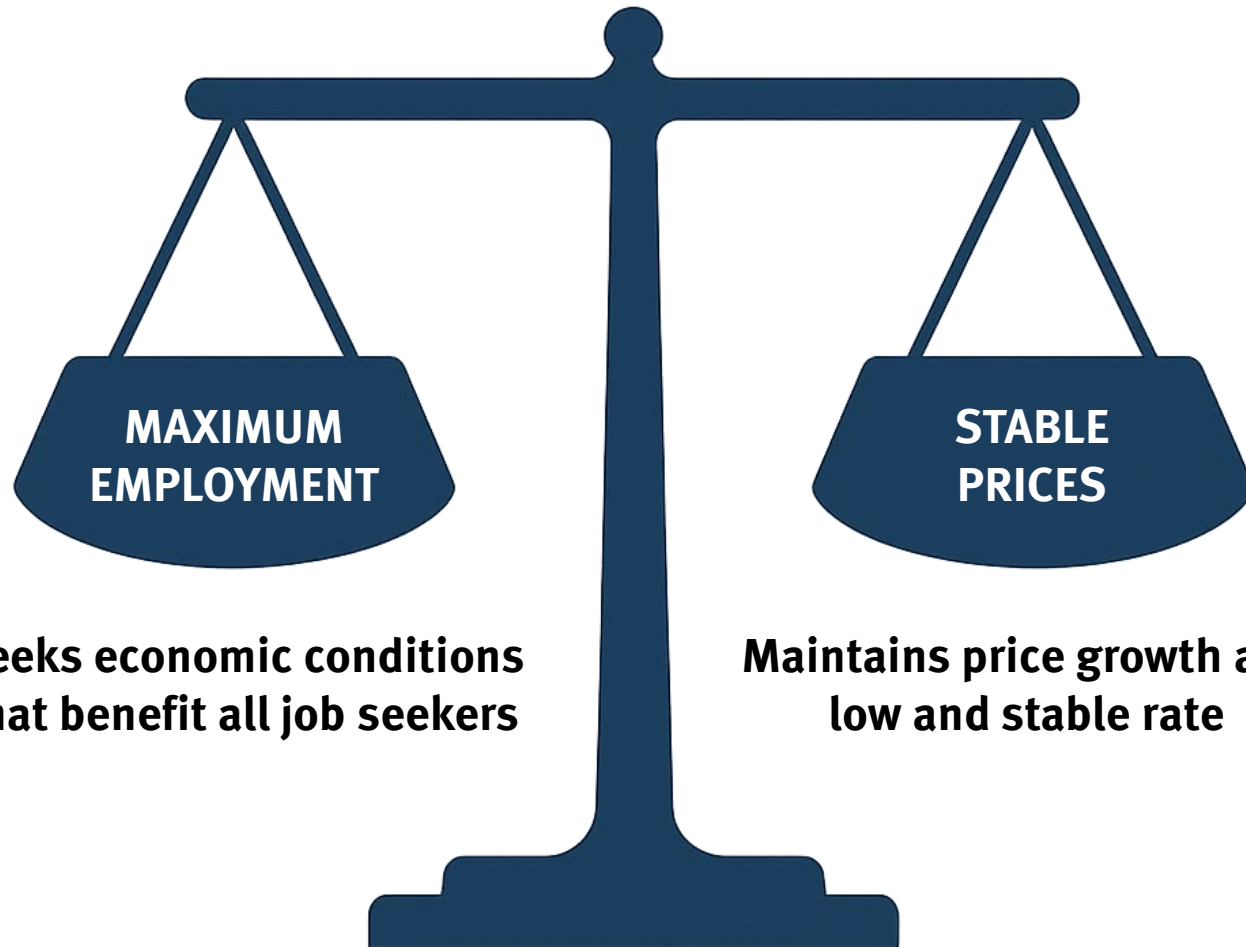


Source: Stifel CIO Office via Bloomberg, as of June 4, 2025

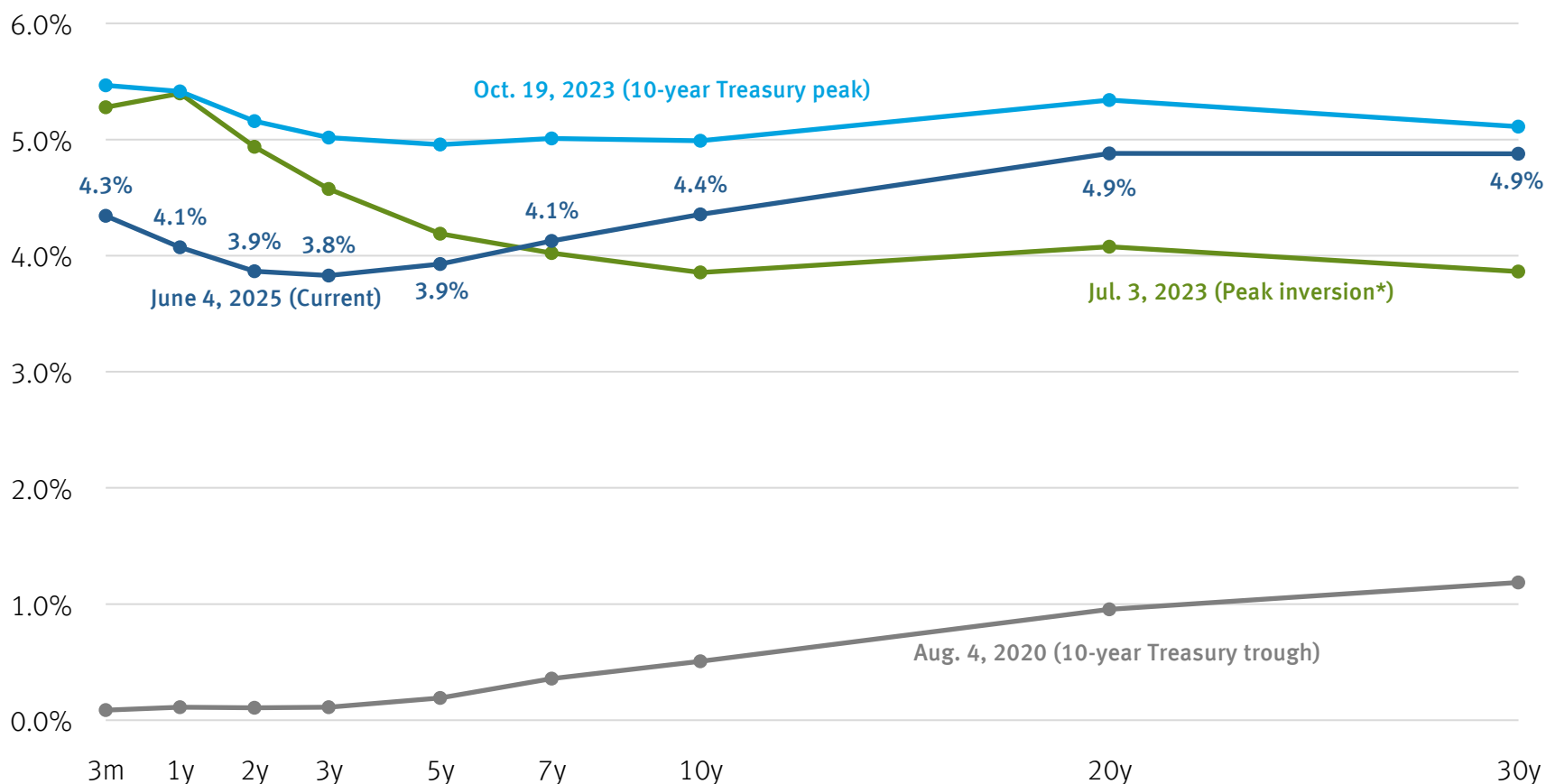
CPI = Consumer Price Index

PPI = Producer Price Index

The Federal Reserve aims to balance its dual mandate of



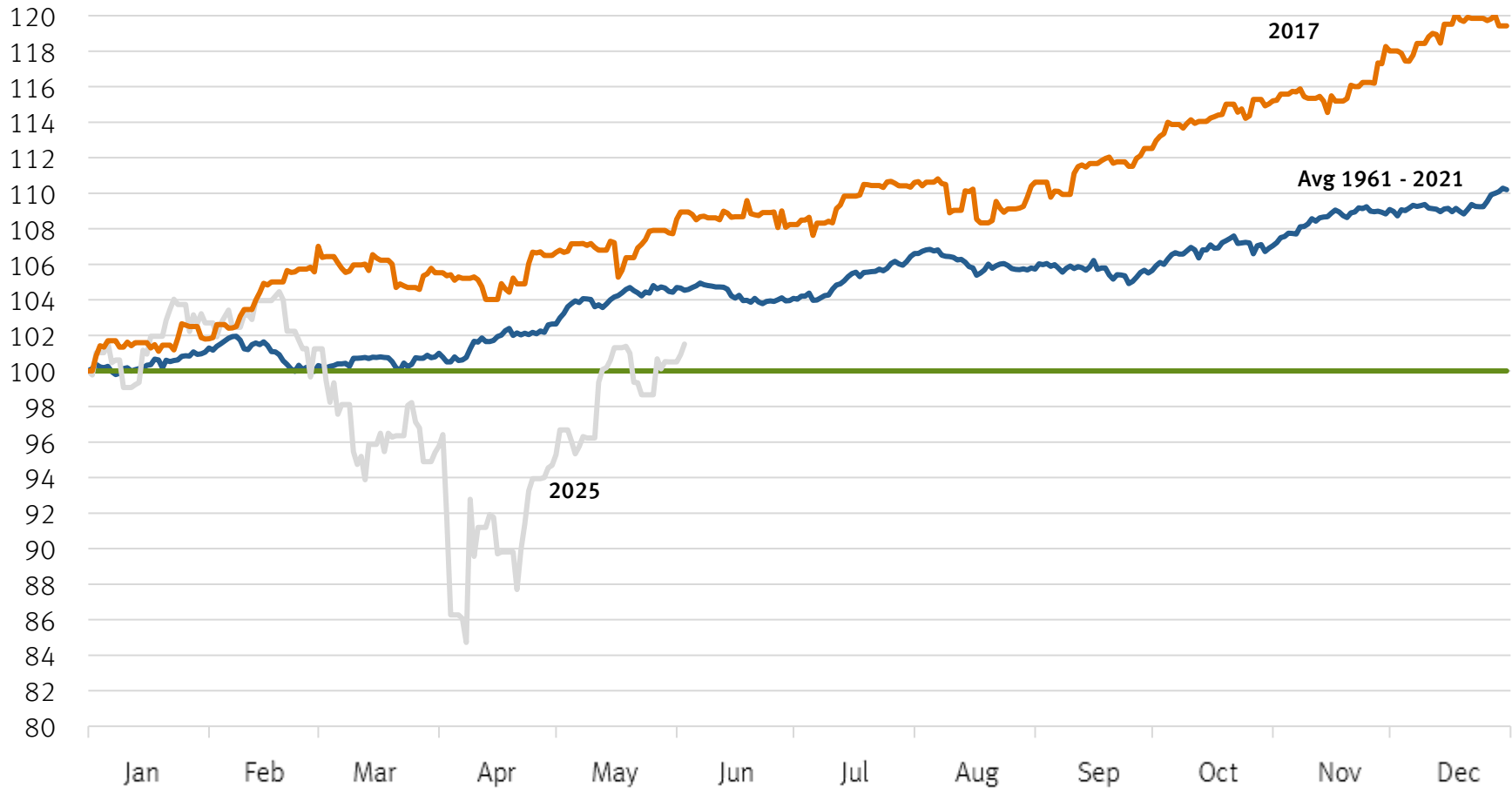
U.S. Treasury Yield Curve



*Peak inversion is measured by the spread between the yield on a 10-year Treasury and two-year Treasury.

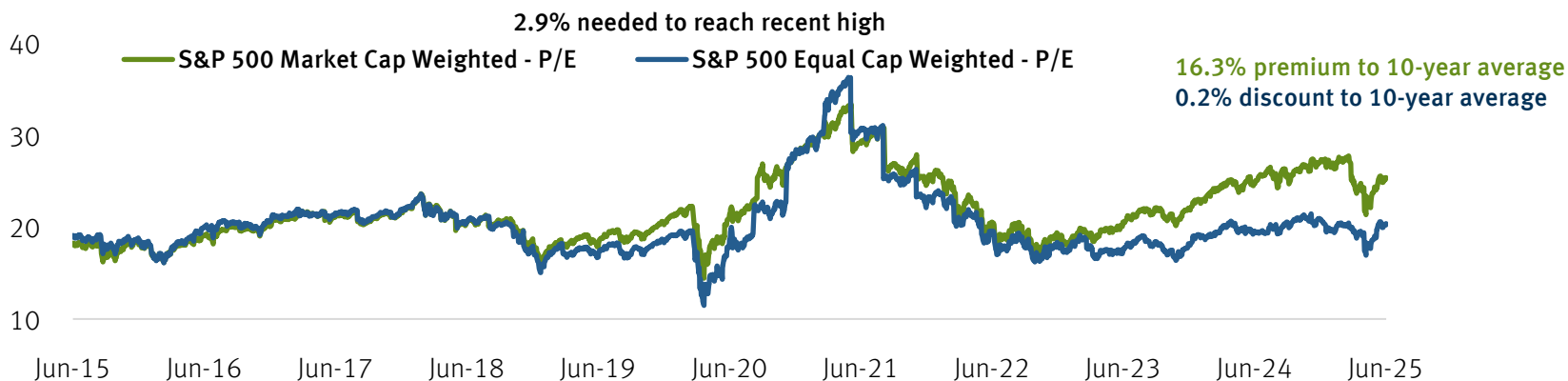
Source: Stifel CIO Office via Bloomberg, as of June 4, 2025 (intra-day)

S&P 500 Average Price Returns In First Year of Presidential Cycle



Source: Stifel CIO Office via Strategas Research Partners and Bloomberg, as of June 3, 2025.

	EPS	S&P 500 P/E						Current S&P 500 Index Level
		20x	21x	22x	23x	24x	25x	
Consensus 2025 EPS →	\$280	5,600	5,880	6,160	6,361	6,720	6,961	7,280
	\$270	5,400	5,670	5,940	6,133	6,480	6,712	7,020
	\$263	5,256	5,519	5,782	5,970	6,308	6,533	6,833
	\$260	5,200	5,460	5,720	5,906	6,240	6,463	6,760
Consensus 2024 EPS →	\$250	5,000	5,250	5,500	5,679	6,000	6,215	6,500
	\$240	4,803	5,044	5,284	5,456	5,764	5,970	6,244
	\$230	4,600	4,830	5,060	5,225	5,520	5,718	5,980



Earnings:

- 1Q year-over-year earnings growth tracking at 13.3%, about 7 percentage points above consensus expectations coming into the season.
- **94** companies in the index have issued EPS guidance for Q2 vs. **106** companies in the index this time last year

EPS = Earnings Per Share

*Source: Stifel CIO Office and Bloomberg, as of June 3, 2025.

Index	2022	2023	2024	2025 YTD	Peak to Date	Last Year
S&P 500 Index	-18.1%	26.3%	25.0%	2.1%	-2.4%	14.5%
S&P 500 Eq. Weight.	-11.5%	13.8%	13.0%	2.2%	-4.2%	9.9%
S&P Quality High Dividend	-0.3%	5.5%	11.1%	-1.9%	-7.8%	4.0%
S&P 500 Financials	-10.6%	12.1%	30.5%	6.1%	-0.9%	25.3%
KBW Reg. Banking	-6.9%	-0.4%	13.2%	-5.0%	-16.1%	20.7%
Bloomberg U.S. 1000 Value	-2.5%	9.4%	13.6%	2.9%	-4.2%	9.0%
Bloomberg U.S. 1000 Growth	-27.5%	36.1%	28.9%	1.7%	-2.2%	17.0%
Bloomberg Magnificent 7	-45.3%	107.0%	67.3%	-3.4%	-4.9%	27.6%
NYSE FANG+ Index	-40.0%	96.4%	51.0%	7.2%	N/A	35.6%
Bloomberg U.S. 2000	-20.1%	17.1%	12.0%	-6.2%	-13.8%	3.3%
MSCI EAFE Index	-14.5%	18.2%	3.8%	17.0%	-0.3%	12.6%
MSCI EM Index	-20.1%	9.8%	7.5%	8.8%	-1.3%	11.0%
Bloomberg U.S. Agg	-13.0%	5.5%	1.3%	2.2%	-1.7%	4.6%

Source: Stifel CIO Office via Bloomberg, as of June 3, 2025.

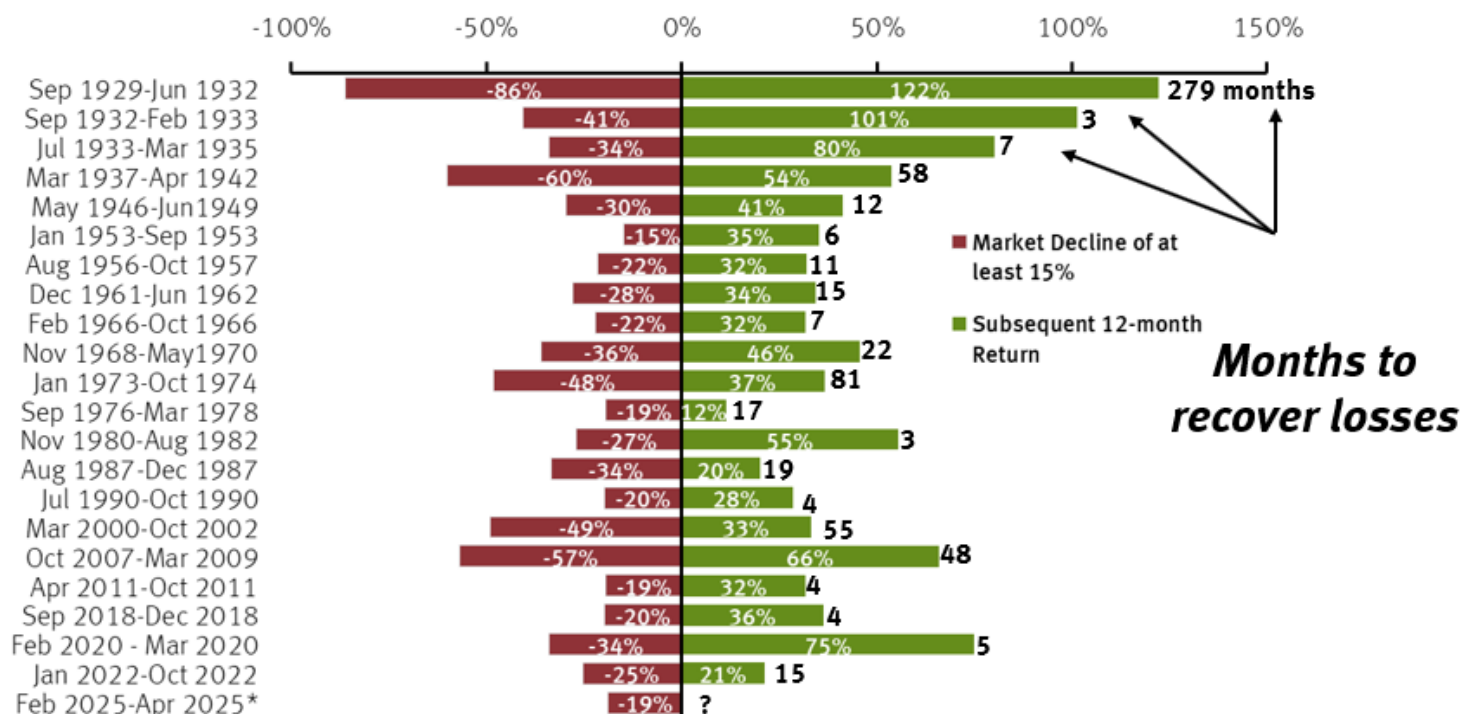
U.S. Dollar Index (DXY)



The U.S. Dollar Index (DXY) indicates the general international value of the USD. The DXY does this by averaging the exchange rates between the USD and major world currencies. Source: Stifel CIO Office via Bloomberg, as of June 4, 2025.

Market Declines and Subsequent Returns

Since 1929 there have been 21 instances where the S&P 500 declined more than 15% from its local peak (red bar), with an average decline of 35%. Equity returns, however, are often strong following sharp declines with the subsequent 12-month return (green bar) averaging 47%. That's why it's important for investors to maintain composure and stick to their investment plan.



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.

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

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.

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INDEX DESCRIPTIONS

Indices are unmanaged and are not available for direct investment. Past performance is no guarantee of future results. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees.

Bloomberg U.S. Treasury Bills 1-3 Months Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have \$250 million or more of outstanding face value.

Bloomberg U.S. Corporate IG Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Aggregate Corporate Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Corporate High Yield is an unmanaged index considered representative of fixed-rate, noninvestment-grade debt.

Bloomberg U.S. Government Bond Index is an unmanaged index considered representative of fixed-rate, investment-grade U.S. Government debt.

Bloomberg Global Aggregate This index provides a broad-based measure of the global investment-grade, fixed-rate debt market.

DXY Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

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 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

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

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

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

Bloomberg U.S. 2000 Index is a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg U.S. 3000 Index.

MSCI EAFE Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 914 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Morgan Stanley Market implied pace of hikes index (MSPOKE) is the number of Fed rate hikes in the 12 months following the first rate hike implied by the Eurodollar interest rate futures market.

MSCI World Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets.

Bloomberg Magnificent Seven Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of seven widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS).

S&P 500 Quality High Dividend Index is designed to measure the performance of S&P 500 members that exhibit both high quality and high dividend yield characteristics. **18**

INDEX DESCRIPTIONS

Wilshire 5000 Index is a market-capitalization-weighted index of the market value of all stocks actively traded in the United States.

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.

Cboe S&P 500 Dispersion Index (DSPXSM) measures the expected dispersion in the S&P 500® over the next 30 calendar days, as calculated from the prices of S&P 500 index options and the prices of single stock options of selected S&P 500 constituents, using a modified version of the VIX® methodology.

EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. According to STOXX, its goal is "to provide a blue-chip representation of Supersector leaders in the Eurozone.

Cash & Cash Equivalent is represented by the Bloomberg U.S. Treasury 3-6 months Bill Index, comprised of treasury bills issued by the U.S. government with less than one year to maturity.

U.S. Government Bonds is represented by the Bloomberg U.S. Government Bond Index, comprised of the U.S. Treasury and U.S. Agency indexes.

U.S. Corp IG Bonds is represented by the Bloomberg U.S. Corporate Bond Index, comprised of the investment grade, fixed-rate, taxable corporate bond market.

High-Yield Bonds is represented by the Bloomberg U.S. Corporate High Yield Bond Index, comprised of U.S. Dollar denominated, high-yield, fixed-rate corporate bond market securities.

U.S. LC (Large Cap) equities is represented by the Bloomberg U.S. 1000 Index, comprised of a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies.

U.S. SC (Small Cap) equities is represented by the Bloomberg U.S. 2000 Index, comprised of a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index.

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

Emerging Markets 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. Agg Gov/Credit).

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

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

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.

NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only.

National Federation of Independent Business Small Business Optimism Index measures the overall optimism and outlook of small business owners regarding the economic conditions, sales expectations, hiring plans, and capital expenditures. It provides valuable insights into the sentiment of small businesses, which are a vital component of the U.S. economy.

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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