QUARTERLY

MARKET PERSPECTIVES

Q4 2023

WEALTH MANAGEMENT INSIGHTS
FROM STIFEL'S CIO OFFICE

In a dynamic economic landscape, the U.S. economy remains resilient but not without challenges. While inflation is moderating, uncertainties linger. The strong labor market and consumer spending continue to drive economic growth, defying recession forecasts for 2023.

The outlook going forward depends largely on the consumer's willingness and ability to continue spending. Potential headwinds include a rising unemployment rate, the resumption of student loan payments, higher borrowing costs, and reduced savings. Despite these factors, a major economic downturn seems unlikely unless they all converge alongside lagged monetary tightening effects.

In equity markets, an early summer rally gave way to volatility. The S&P 500's price-to-earnings (P/E) ratio hints at subtle overvaluation, contrasting with opportunities at the individual stock level. Company earnings outperformed expectations, although investors seemed more interested in forward guidance than past results.

Fixed income markets experienced a surge in bond yields due to strong economic data and continued Federal Reserve (Fed) hawkishness. Oil prices rose, while the U.S. dollar gained amid expectations of elevated interest rates. In this uncertain environment, diversification and a focus on quality investments are prudent strategies.

MACROECONOMIC OVERVIEW

INFLATION ON DOWNWARD PATH, BUT FED OFFICIALS MINDFUL OF THE UPSIDE RISKS

Inflation has been gradually easing this year, but the August consumer price index (CPI) broke that trend, rising 0.6% over the prior month, the most in 14 months. Higher gas prices were mostly to blame. Core CPI, which excludes food and energy, has seen an average monthly rise of 0.3% this year, below the 0.5% average in 2022, but still exceeding the Fed's target.

At the press conference following the last Federal Open Market Committee (FOMC) meeting, Fed Chair Jerome Powell said the "process of getting inflation sustainably down to 2% has a long way to go." Shelter and services prices remain somewhat sticky. Despite this, the committee left its policy rate unchanged, acknowledging that inflation has moderated since last year and the full effects of tightening have yet to be felt in the U.S. economy. The Summary of Economic Projections (SEP) shows that the Fed may hike the funds rate again in 2023 and keep the rate elevated for longer, a function of its projection that inflation won't get to 2% until 2026.

IN THIS ISSUE:

STIFEL

STIFEL

SOFT LANDING VERSUS RECESSION DEBATE REIGNITED

The U.S. economy has continually defied expectations for a slowdown, prompting many economists and the Fed staff to drop their forecast for a recession this year. Consumer spending has remained strong, supported by a still-tight labor market. Business investment surprised to the upside after having detracted for four consecutive quarters, and government spending tied to infrastructure has provided an additional boost.

The economy is on track to grow 2.1% for 2023, a notable improvement from the 0.30% consensus forecast at the beginning of the year. As we look forward into the fourth quarter and early 2024, we anticipate a slowdown in the U.S. economy as the lag effects of prior monetary policy tightening become more evident. However, a recession is not inevitable. A tight labor market and a resilient consumer remain the economy's cornerstones and are likely to reduce the severity of a recession if we were to have one.

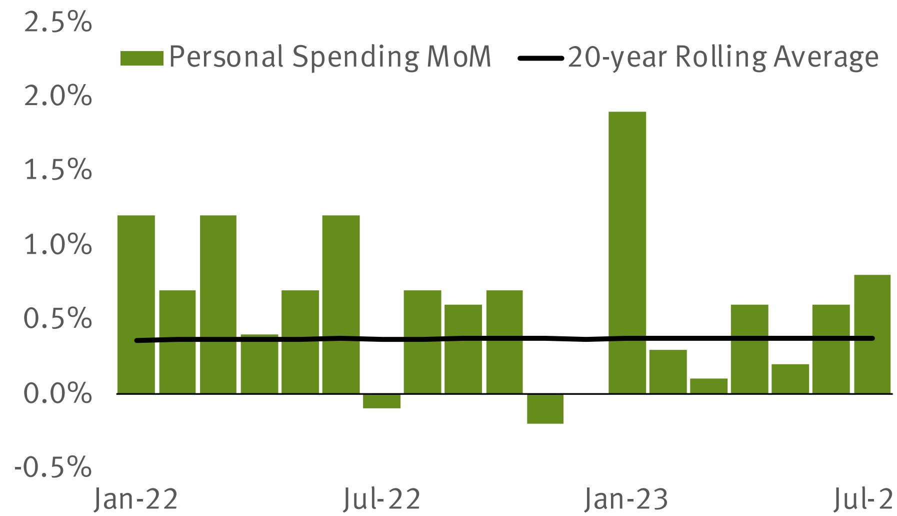
CONSUMER SPENDING REMAINS STRONG, BUT CHALLENGES LOOM AHEAD

The recent retail sales and consumer spending data provided evidence of an active and engaged consumer, with personal spending surging by 0.8% in July, the fastest pace since January. This optimism is further reflected in other spending and confidence indicators. However, questions are emerging regarding the sustainability of this trend. Rising real wages and a tight job market offer support for continued spending, but there are potential headwinds on the horizon.

For one, we see cracks emerging in the labor market that could test the resolve of the consumer. August saw the unemployment rate tick up to 3.8%, compared to July's 3.5%, and although nonfarm payrolls continue to expand, the pace has slowed in comparison to the previous 12 months.

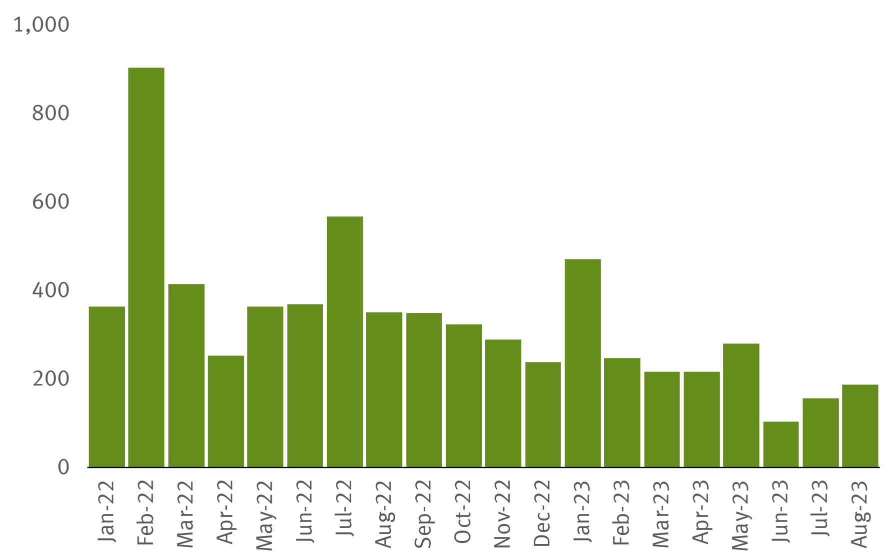
We are also watching for how the resumption of student loan payments, expiration of the childcare bill, increased borrowing costs, and depleted excess savings will impact future spending. None of these factors in isolation are likely to be a catalyst for a deeper economic downturn, but if several of them converge alongside the delayed ripple effects of monetary tightening, it could create a challenging combination of circumstances.

Figure 1. Personal Spending



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

Figure 2. Monthly Nonfarm Payrolls (000s)



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

STIFEL

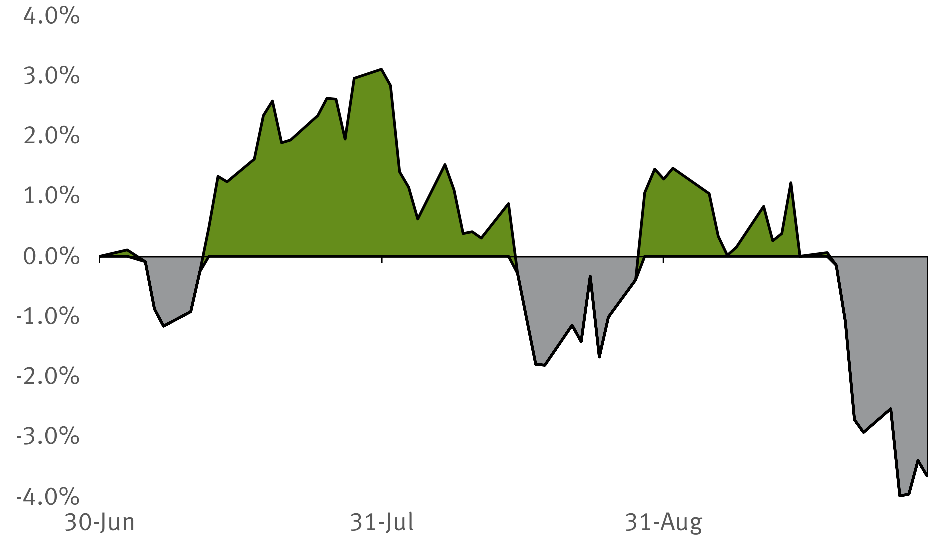
EQUITY MARKETS

AN EARLY SUMMER RALLY, ECLIPSED BY LATE QUARTER VOLATILITY

Equity markets posted strong gains in July as positive inflation and economic data increased investor optimism that the Fed will be able to orchestrate a "soft landing." This optimism faded as the summer progressed, mainly due to a continued hawkish tilt by the Fed and an emerging "higher for longer" narrative for Treasury yields, which put pressure on equity valuations. Weaker economic data out of China and renewed worries about the Chinese property market weighed on non-U.S. equity markets.

The S&P 500 was down 3.27% during the quarter, with July's 3.2% gain offset by declines in August and September. Small cap stocks, as measured by the Russell 2000, underperformed and were down 5.14% in the quarter. Technology stocks, as represented by the Nasdaq 100 Index, were down 2.86%, with the bulk of the decline coming in September.

Figure 3. S&P 500 3Q 2023 Performance



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

2Q 2023 EARNINGS RESULTS BETTER THAN THE HEADLINE WOULD SUGGEST

Second quarter earnings for the S&P 500 declined 4.1% on a year-over-year (YoY) basis. This was a notable improvement from the 7.0% decline analysts expected at the start of the quarter. Here are a few observations:

1) Three of the 11 S&P 500 sectors had a decline in YoY earnings: energy (-51.5%), materials (-29.0%), and health care (-27.2%). When removing the energy sector, the S&P 500 earnings growth rate for the second quarter increases to 3.0%.

2) The S&P 500 was trading at 21.0x trailing P/E multiple at the end of the quarter, marking a 4% premium to the 10-year average. This hints at a subtle overvaluation in the stock market. In contrast, the equal-weighted S&P 500 Index traded at a more modest P/E ratio of 17.4x, a 13% discount to its 10-year average. This suggests that at the individual stock level, opportunities may abound for long-term investors, especially among companies where valuations remain reasonable and strong fundamentals have yet to be adequately recognized by the market.

3) Investors didn't reward companies whose earnings results beat consensus estimates. Companies that reported a positive surprise saw an average price decrease of 0.5% in the two days before the earnings release through two days after the earnings release. This is below the five-year average price increase of 1.0%. We interpret this to be a signal that investors are focused on management's forward guidance. 116 companies in the S&P 500 have issued guidance, 74 of which have issued negative EPS guidance, which is above the five-year average of 59%.

STIFEL

FIXED INCOME

A SURGE IN BOND YIELDS

The yield on the 10-year U.S. Treasury rose by 73 basis points over the quarter to close at 4.57%, a level last seen prior to the Great Recession. While there's no clear catalyst for the rise, there are several factors at play: 1) economic data has been better than expected, 2) the Fed has maintained its hawkish tilt, suggesting rates will remain higher for longer, 3) the suspension of the debt ceiling has allowed the U.S. government to start issuing debt again, an estimated $1 trillion of bonds this past quarter, and 4) Fitch Ratings downgraded the U.S. government's credit rating from AAA to AA+, citing growing debt, higher interest costs, and a polarized political environment.

The Bloomberg U.S. Aggregate Index, representing investment-grade taxable bonds, returned -3.23% for the quarter. The Bloomberg U.S. Municipal Bond Index, representing investment-grade municipal bonds, returned -3.95%. As measured by the Bloomberg Corporate High Yield Index, high-yield bonds were up 0.46%, as better-than-expected earnings have supported credit quality.

A NEW REGIME FOR INTEREST RATES

The neutral interest rate, or r*, in theory represents the rate at which the economy operates at full employment and stable inflation with monetary policy neither restrictive nor accommodative. September's stock market volatility stemmed, in part, from investors grappling with equity valuations in a higher interest rate environment and whether this is the start of a new rate regime.

Market participants have seemingly accepted the shift, perhaps with a "neutral" 10-year Treasury rate similar to the period preceding the Great Recession, when it averaged approximately 5%. Present forward rates for the 10-year, spanning 10 and 20 years, stand at 4.68% and 4.71%, respectively. Although some attribute this to future inflation fears, breakeven rates hint at a return to the Fed's 2% target.

COMMODITIES

CRUDE AWAKENING

Oil prices rose 27% with the price per barrel of Brent crude oil, ending the quarter at $95.31. OPEC+ members announced in June that they would extend crude oil production cuts through 2024, limiting global crude oil supplies. In addition,

Figure 4. U.S. 10-Year Treasury Yield

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

Saudi Arabia announced it would extend its voluntary production cuts of 1 million barrels per day through the end of 2023. The U.S Energy Information Administration (EIA) estimates that OPEC crude oil production averaged 27 million barrels a day in August, the lowest in two years.

The continued production cuts, combined with still solid demand, will likely cause global oil inventories to fall and keep upward pressure on oil prices through the end of the year. The EIA now expects that Brent crude oil prices will average $93/barrel during 4Q23, up from $86/barrel in August.

DOLLAR DOMINANCE

The Bloomberg Dollar Spot Index, which tracks the performance of a basket of ten leading global currencies versus the U.S. dollar, rose 2.7% in the quarter. The expectation that the Fed will keep interest rates elevated has drawn non-U.S. investors as they seek to take advantage of higher rates relative to Europe and Asia.

STIFEL

PORTFOLIO CONSTRUCTION IMPLICATIONS

WHAT TO EXPECT FOR THE REMAINDER OF THE YEAR?

As we enter the final stretch of the year, we maintain a cautiously optimistic outlook and remain focused on the potential challenges. We believe equity market volatility will be elevated as investors continue to assess the prospect for a soft landing, the path of inflation, and future monetary policy. There is a strong possibility that the market will end the year lower from here, given the continued economic uncertainty. However, there are also some positive forces supportive of the equity market: momentum, broadening participation, and improving earnings. For all of our latest thinking, we invite you to visit www.stifelinsights.com. We anticipate publishing our 2024 Outlook during the first week of the new year.

REMAIN DIVERSIFIED WITH A CONTINUED FOCUS ON QUALITY

The prevailing macroeconomic conditions continue to warrant a neutral stance relative to our strategic asset allocation (SAA), with an emphasis on quality. Our preference lies with companies demonstrating strong fundamentals – sound balance sheets, steady earnings, and/or growing dividends, regardless of market capitalization, sector, or style.

Within fixed income, our focus on quality leads us to prefer the investment-grade market, which now offers better yields compared to the last decade. We advocate for diversification across and within asset classes and guide investors to consider rebalancing if strong market performance this year has resulted in concentrations or a sizeable shift in your overall allocation.

IS THE AI HYPE REAL?

The launch of ChatGPT, an AI-powered chatbot, has captured the public's interest and enamored investors with the technology sector. Notably, the term "AI" was mentioned on 110 earnings calls of S&P 500 companies between March 15 and May 25, well above the five-year average of 57 and the 10-year average of 34, according to FactSet. So is this investor enthusiasm warranted?

We think so, as AI has the potential to enhance productivity, a key pillar of economic growth, across numerous industries. However, our focus extends beyond just technology firms, as we carefully evaluate companies capable of integrating AI into their business models across industries like financial services, consumer retail, healthcare, and manufacturing. AI is a key element of our Fourth Industrial Revolution (4IR) theme. The 4IR is the idea that technological innovation has broken down the boundaries between the physical, digital, and biological worlds. Within this theme we identify, among others, Data as a Commodity, as a sub-trend. Data's ability to provide insights into consumer behavior, market trends, and operational efficiencies is valuable for decision-making. The size, speed, and complexity of the data we generate requires significant processing power, storage capabilities, and security.

Further insights can be found in our latest report, From Vision to Value: Our Long-Term Investment Themes.

STIFEL

DYNAMIC ASSET ALLOCATION

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

Underweight | Neutral | Overweight

	ASSET CLASS	CHANGE	CURRENT: Underweight	CURRENT: Neutral	CURRENT: Overweight	COMMENTS
EQUITY	**U.S. Equity vs. Non-U.S. Equity**	=		■		Returns are broadening out in the U.S. beyond mega cap as the economic data, so far, has been better than expected and inflation continues to cool. Volatility is likely to increase, but we recognize that momentum is strong in the near term. Non-U.S. equity valuations remain attractive; however, caution is warranted due to the prevailing economic and geopolitical headwinds. We remain neutral between U.S. and non-U.S. equity.
	U.S. Large Cap vs. U.S. Small Cap	=	■			Small cap equities have underperformed year to date as a result of the challenges faced by some regional banks, a large component of the small cap investment universe, and the continued rise in borrowing costs. We remain overweight to small cap equities but guide investors to consider active management. Skilled investors may be able to capitalize on the opportunities presented by lower valuations.
	U.S. Large Value vs. U. S. Large Growth	=		■		We believe investors should diversify across both value and growth styles. Within U.S. large cap, we have a modest overweight to dividend growth and quality companies, regardless of style, as these companies are typically better positioned to weather market volatility and a slowing economy.
	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's reopening momentum is fading, and investors are worried about policy uncertainty and possible stresses in its property sector.
	Europe vs. Japan	=		■		Japan's corporate governance reform is a positive and likely to enhance shareholder value in the medium to long term, but the 25% rally through July suggests near-term upside may be limited. Europe has proved to be more resilient thus far in the aftermath of the Ukraine war. The European Central Bank (ECB) remains more hawkish relative to other central banks.

(continued on next page)

STIFEL

DYNAMIC ASSET ALLOCATION (CONTINUED)

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

	ASSET CLASS	CHANGE	CURRENT			COMMENTS
			Underweight	Neutral	Overweight	
FIXED INCOME	**U.S. Investment Grade vs. U.S. High Yield**	=			■	We continue to favor a quality tilt. Investment-grade bond yields are the most attractive they have been in the last 10-15 years. Corporate high-yield default rates are increasing, but still at low levels as credit spreads remain well behaved.
FIXED INCOME	Corporates Government/Agency MBS	=		■		We remain neutral and diversified across fixed income supersectors given the wide range of economic and market scenarios.
FIXED INCOME	**Duration**	=		■		We view duration as a diversifier in a multi-asset class portfolio given the macroeconomic uncertainty and remain neutral 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.
ALTERNATIVES	**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.

STIFEL

FIGURE 4. CAPITAL MARKET RETURNS (AS OF SEPTEMBER 30, 2023)

NORTH AMERICAN EQUITY	MTD (%)	QTD (%)	YTD (%)	1 YEAR (%)	3 YEAR (%)*	5 YEAR (%)*
Russell 3000 Index	-4.76	-3.25	12.39	20.46	9.38	9.14
Standard & Poor's 500	-4.77	-3.27	13.07	21.62	10.15	9.92
Standard & Poor's/TSX (CAD)	-3.33	-2.20	3.38	9.54	9.88	7.27
U.S. EQUITY BY SIZE/STYLE						
Russell 1000 Index	-4.70	-3.15	13.01	21.19	9.53	9.63
Russell 1000 Growth Index	-5.44	-3.13	24.98	27.72	7.97	12.42
Russell 1000 Value Index	-3.86	-3.16	1.79	14.44	11.05	6.23
Russell 2000 Small Cap Index	-5.89	-5.13	2.54	8.93	7.16	2.40
Russell 2000 Small Cap Growth Index	-6.60	-7.32	5.24	9.59	1.09	1.55
Russell 2000 Small Cap Value Index	-5.21	-2.96	-0.53	7.84	13.32	2.59
Russell Microcap Index	-6.38	-7.93	-5.80	-1.35	4.85	0.23
INTERNATIONAL EQUITY (USD)						
MSCI AC World ex U.S.	-3.16	-3.77	5.34	20.39	3.74	2.58
MSCI EAFE	-3.42	-4.11	7.08	25.65	5.75	3.24
MSCI Europe	-3.97	-4.96	7.96	28.85	7.23	3.96
MSCI Pacific	-3.06	-4.75	-4.44	10.58	4.15	1.78
MSCI Japan	-2.10	-1.59	11.21	25.92	2.81	2.06
MSCI Emerging Markets	-2.62	-2.93	1.82	11.70	-1.73	0.55

FIGURE 4. CAPITAL MARKET RETURNS (AS OF SEPTEMBER 30, 2023)

U.S.FIXED INCOME	MTD (%)	QTD (%)	YTD (%)	1 YEAR (%)	3 YEAR (%)*	5 YEAR (%)*
Bloomberg U.S. Treasury Bills: 1-3 Months	0.45	1.34	3.70	4.62	1.75	1.71
Bloomberg U.S. Aggregate	-2.54	-3.23	-1.21	0.64	-5.21	0.10
Bloomberg Gov't/Credit	-2.34	-3.00	-0.85	0.93	-5.32	0.41
Bloomberg Treasury	-2.21	-3.06	-1.52	-0.81	-5.83	-0.07
Bloomberg U.S. TIPS	-1.85	-2.60	-0.78	1.25	-1.98	2.12
Bloomberg Municipal Bond Index	-2.93	-3.95	-1.38	2.66	-2.30	1.05
Bloomberg U.S. Credit	-2.60	-3.01	0.03	3.46	-4.83	0.86
Bloomberg Corporate High Yield	-1.18	0.46	5.86	10.28	1.76	2.96
REAL ESTATE/COMMODITIES/ALTERNATIVES						
Wilshire U.S. Real Estate Securities Index	-6.52	-6.42	-0.01	4.08	5.82	2.88
Wilshire Global ex U.S. Real Estate Securities Index	-4.06	-1.78	-4.03	7.85	0.00	-2.44
Wilshire Global Real Estate Securities	-5.88	-5.21	-1.17	5.10	4.09	1.22
Bloomberg Commodity Index	-0.69	4.71	-3.44	-1.30	16.23	6.13
S&P GSCI Commodity (S&P GSCI)	4.12	15.98	7.24	10.93	29.49	5.57
Wilshire Liquid Alternatives Index	-0.74	-0.20	2.39	4.21	1.85	1.41
Wilshire Liquid Alternative Equity Hedge Index	-1.66	-0.51	5.66	10.96	5.73	3.02
Wilshire Liquid Alternative Event Driven Index	0.24	1.94	2.14	2.96	1.62	2.07
Wilshire Liquid Alternative Global Macro Index	1.90	0.39	0.90	-3.79	5.31	3.52
Wilshire Liquid Alternative Multi-strategy Index	-0.01	0.95	3.58	6.15	2.22	0.96
Wilshire Liquid Alternative Relative Value Index	-1.24	-1.00	0.33	1.53	-1.34	0.08
Wilshire Focused Liquid Alternative Index	-0.60	-0.07	1.33	2.26	1.76	1.55

Source: Stifel Investment Strategy via Bloomberg as of September 30, 2023

**Represents annualized returns*

STIFEL

DISCLOSURE

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.

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 Index℠ (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 Index℠ (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 (formerly the Goldman Sachs Commodity Index) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. The index was originally developed by Goldman Sachs. In 2007, ownership transferred to Standard & Poor's, which currently owns and publishes it. Futures of the S&P GSCI use a multiple of 250. The S&P GSCI contains as many commodities as possible, with rules excluding certain commodities to maintain liquidity and investability in the underlying futures markets. The index currently comprises 24 commodities from all commodity sectors.

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

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $490 million, and the median market capitalization is approximately $395 million.

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

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

The Russell Microcap Index is a capitalization-weighted index of 2,000 small cap and micro cap stocks, including the smallest 1,000 companies in the Russell 2000 plus 1,000 smaller U.S. based listed stocks. Over-the-counter stocks and pink sheet securities are excluded.

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 Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $11 billion, and the median market capitalization is approximately $3.5 billion.

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

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

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The average market capitalization is approximately $4 billion, and the median market capitalization is approximately $700 million.

The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The S&P/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 Toronto Stock Exchange is made up of over 1,500 companies.

The Wilshire Focused Liquid Alternative Index℠ is a subset of the Wilshire Liquid Alternative Index℠ and measures the performance of a focused basket of mutual funds that provides risk adjusted exposure to equity hedge, global macro, relative value, and event driven alternative investment strategies.

High yield bonds have greater credit risk than higher quality bonds.

Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

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.

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.

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.

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.

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.

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.

Past performance is not indicative of future results.

One Financial Plaza | 501 North Broadway | St. Louis, Missouri 63102
Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com

1023.5995257.1