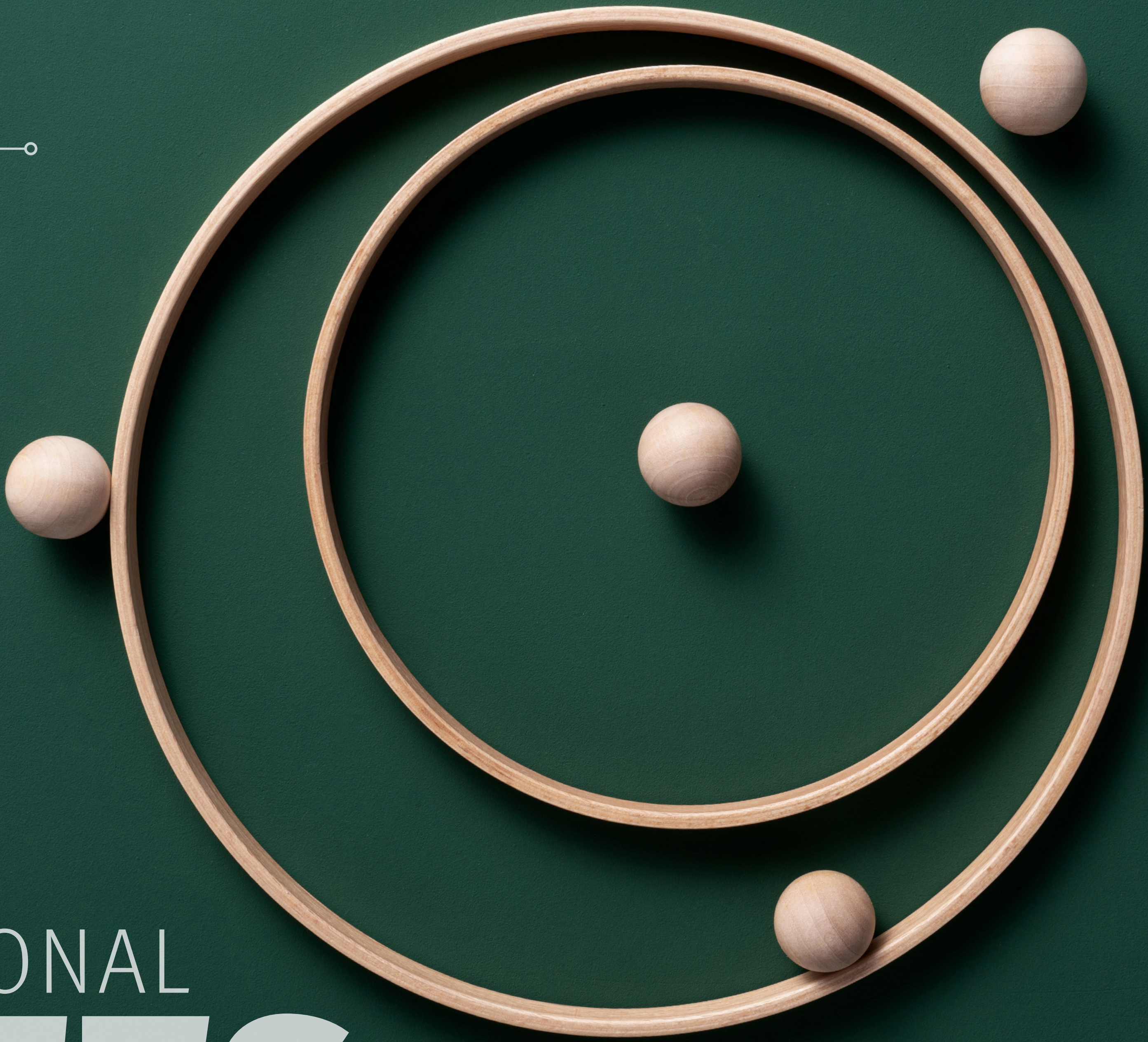
STIFEL

OUTLOOK 2025



GRAVITATIONAL SHIFTS

TABLE OF CONTENTS

A LETTER FROM OUR
CHIEF INVESTMENT OFFICER

My team and I are very pleased to share our ***Outlook 2025: Gravitational Shifts.***

In many ways, this year marks a turning point. We are halfway through a decade that began with a pandemic, an economic shutdown, and a rocky reopening. We are also halfway to 2050, a milestone often associated with technological transformation and optimism. *The World in 2035: From Vision to Value* draws upon our long-term themes to profile several exciting innovations we might see in the next 10 years.

2024 Year in Review analyzes what happened last year, setting the stage for this year's outlook.

In 2025, we focus on *Gravitational Shifts*, drawing an analogy to a pendulum. Trends such as government policies or market dynamics swing into favor, reach an extreme, and then are overcome by gravity, shifting back in the other direction. For example, Republicans will take control of a unified government this year, with investors signaling optimism about the business and market implications of these changes. Our *Washington Policy and Political Outlook* provides insights into this transition from Stifel's Chief Washington Policy Strategist, Brian Gardner.

We revisit our focus on geopolitics with *Crossroads: Four Ways Forward,* which offers a framework to explore possible outcomes of the intense U.S.-China competition as part of our Geopolitical Risk Dashboard. This framework presents four scenarios in a 2x2 grid, each dimension exploring the future trajectories of the U.S. and China: leadership or decline. The driving forces behind each scenario include Innovation, Global Trade, Domestic Policy, and Foreign Policy.

We also share again these other insights for 2025:

- An overview: *Our Investment Management Process;*
- An important foundation: *Stifel's Approach to Asset Allocation;* and
- Where to find our work: *Stifel Guidance.*

Finally, we present our 2025 Outlook, offering views on three possible scenarios for the year ahead. Our base case is positive for both the economy and the markets, driven by investor optimism about a more business-friendly environment in Washington, and continued prospects for innovation, such as artificial intelligence (AI). We also address more optimistic and cautious scenarios, providing guidance on portfolio positioning and dynamic leanings. *Allocation Insights* offers our investment guidance in consideration of our outlook for this year.

We hope you find our ***Outlook 2025: Gravitational Shifts*** informative and helpful. As always, we welcome your thoughts, observations, and comments. ■

Michael P. O'Keeffe, CFA | *Chief Investment Officer*

A BRIEF SUMMARY:
OUR OUTLOOK REPORT

- Last year, investors embraced change: The S&P 500 gained 25.0% (total return), the U.S. economy grew 2.7%, the Federal Reserve (Fed) cut rates 100 basis points (bps), and Republicans won big in the U.S. elections.
- Entering 2025, several *Gravitational Shifts* signal a return to better balance across markets, the economy, and policy.
- These shifts include a broader distribution of returns beyond mega cap tech stocks, a normalization of monetary policy toward a more predictable environment, and a shift back to business-friendly policies in Washington.
- Despite longer-term risks, most notably the U.S. fiscal deficit, we anticipate a positive economic and market environment in 2025, supported by the business-friendly policy backdrop, resilient consumer spending, and robust capital investment.
- Our base case outlook calls for U.S. GDP growth of 1.5% to 2.5%, reflecting a positive but slower pace of economic growth compared to last year.
- Core personal consumption expenditure inflation is expected to run modestly above 2%, giving the Fed room to slow its rate cut cycle given the strength of the economic backdrop.
- We anticipate one to two quarter-point rate cuts during the year. We forecast a total return of approximately 7% for the S&P 500, assuming a modest contraction in P/E ratios and/or more tempered earnings growth, but anticipate increased volatility and periodic market weakness.
- Bond yields should stabilize at more normalized long-term levels. We expect that the 10-year Treasury yield, which ended 2024 at 4.57%, will remain range-bound between 4.25% and 4.75%.
- The overall theme for 2025 in Washington will be deregulation and less government. Investors should prepare for policy debates around tax negotiations, tariffs, budget changes, and antitrust enforcement.
- Congress will seek to extend most of the sunsetting provisions of the Tax Cut and Jobs Act, although thin majorities in Congress will mean prolonged negotiations are expected.
- Geopolitical tensions, including the U.S.-China rivalry and U.S.-Russia tensions, will remain a key influence on global markets and broader economic growth, shaping bilateral relations and the broader global order.
- The rapid advancement of AI and related technologies is driving transformative innovation. Over the next decade, we could see significant breakthroughs, including the emergence of quantum computing, advancements in bionics, the rise of vertical farming, new ways to combat cancer, and an increase in nuclear power utilization.
- This is a year to lean into the changes underway and position portfolios to capitalize on these transformative shifts. Broadening exposure beyond the "Magnificent Seven" (M7) – Google parent Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla – focusing on quality, taking advantage of attractive bond yields, and considering innovative alternative investment products, will help investors navigate a potentially volatile yet promising market environment. ■

2024
YEAR IN REVIEW

The U.S. economy and markets have consistently outperformed expectations this decade. Since the end of 2019, the U.S. economy has grown by 15% (real GDP), and equity markets have surged 97% (total return), despite unprecedented pandemic lockdowns, soaring inflation, aggressive monetary policy tightening, a short recession, and a bear market. This exceptional growth persisted into 2024, as investors embraced the evolving landscape.

The U.S. economy performed well, buoyed by resilient consumer spending and easing inflation. This favorable economic environment enabled the Fed to begin cutting rates. Equity markets reached all-time highs, driven by investor enthusiasm for artificial intelligence and stellar earnings from the M7. Additionally, a Republican sweep in the elections further boosted market momentum, with anticipated policy shifts having the potential to strengthen economic tailwinds.

MACROECONOMIC OVERVIEW

U.S. economy leads the way.

The economy is estimated to have grown by 2.7% last year, surpassing the 1.3% forecast at the start of 2024. Consumer spending was the main driver, supported by a still tight yet softening labor market and rising real wages. The unemployment rate averaged around 4.0% in 2024, peaking at 4.3% in July. Strong business investment, particularly in technology, bolstered growth, alongside continued government spending. The housing market remained weak, constrained by elevated mortgage rates and limited supply.

Inflation "obsession" no more.

Over the past two years, the market narrative has been dominated by concerns over inflation and the Fed's ability to achieve a "soft landing." Inflation has been on a bumpy path toward the Fed's 2% target, with consumer prices falling below 3% annually for the first time since 2021. This progress, along with a cooling labor market, gave the Fed the confidence to initiate its rate-cutting cycle after raising rates by 5.25% between March 2022 and July 2023. Analyzing company earnings call transcripts, fewer companies mentioned inflation compared to two years ago. During the second quarter earnings season, 235 companies in the S&P 500 cited the term "inflation," down from 411 in Q2 2022.

Republicans win big in 2024 elections.

In 2024, more than 40% of the world's population participated in 40 national elections. A significant shift occurred as every governing party in developed countries facing elections lost voter share, including the U.S. American voters reelected Donald Trump as president, and Republicans are set to take control of both the Senate and the House of Representatives. Equity markets rallied and bond yields rose, driven by expectations that the Trump administration's policies may be inflationary but also boost the economy, corporate profits, and consumer confidence.

CAPITAL MARKETS

American exceptionalism on full display.

The U.S. stock market posted another strong year, buoyed by continued optimism around AI. The M7 surged in the first half of 2024, rising 37.0%, while the S&P 500 rose 15.3%.

In the second half of the year, returns broadened beyond the M7, with a rotation from big tech into more rate-sensitive and cyclical sectors as inflation continued its descent and investors began questioning big spending on AI and the path to monetization. Earnings for the S&P 500 are estimated to have grown 9.5% for the year. The S&P 500 ended the year up 25.0% while its equal-weighted counterpart rose 13.0%.

Non-U.S. markets post positive, but lukewarm returns.

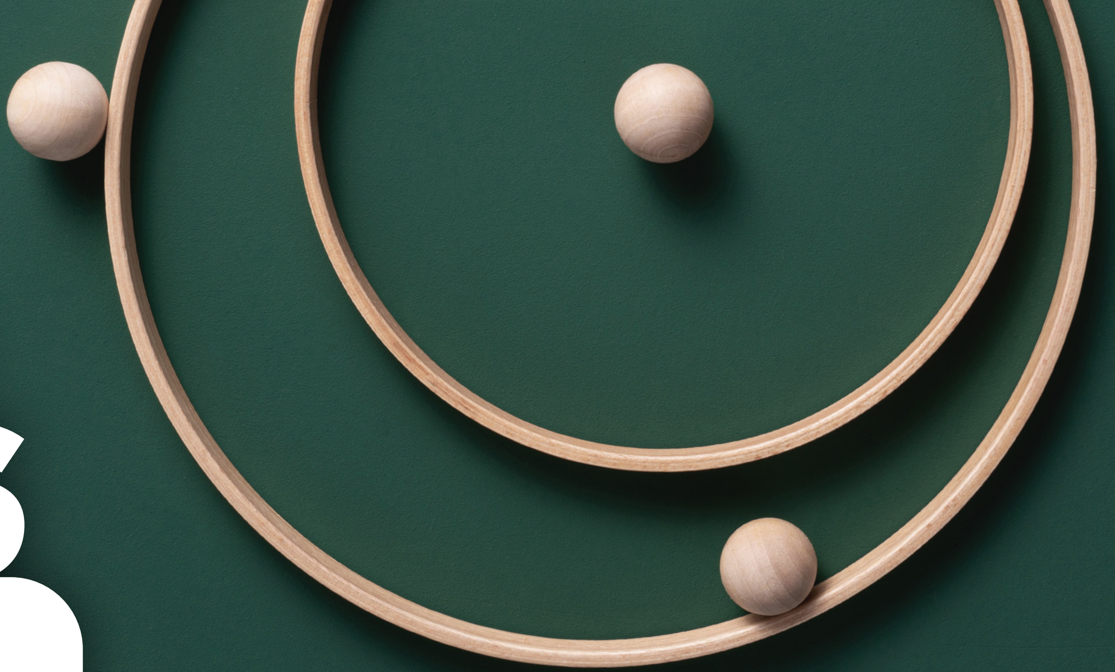
International markets faced challenges due to lackluster economic growth, weaker earnings, and geopolitical tensions. The broader non-U.S. equity complex, as measured by the MSCI All Country ex USA Index, ended the year up 5.5% (USD), lagging behind U.S. stocks. European stocks rose just 1.8% (USD) amid muted external demand, while Japanese stocks increased by 8.3%. The MSCI China Index climbed 19.4% as China's government introduced new stimulus measures aimed at reigniting growth to achieve its 5% target.

Bond yields continue to signal investor focus on *Fiscal Transition*.

The yield on the benchmark 10-year U.S. Treasury fluctuated, but averaged above 4.0% for the year, well above the 2.4% average in the 10 years prior to the pandemic. Higher yields reflected the potential for stronger economic growth, but also the risk of higher inflation and possible concerns about the nation's fiscal trajectory. As a result, we expect greater focus from our political and corporate leaders on a *Fiscal Transition* to more carefully manage our federal deficit and debt going forward.

The Bloomberg U.S. Aggregate Index returned 1.3% while the Bloomberg U.S. Municipal Bond Index returned 1.1%. High-yield bonds, as measured by the Bloomberg Corporate High Yield Index, were up 8.2%. ■

GRAVITATIONAL SHIFTS



As we step into 2025, a milestone year marking the halfway point of the decade, we reflect on our vision set forth in 2020 – a decade of productive competition – now reshaped by significant shifts in policy, technology, and global dynamics that continue to redefine our path forward.

When investors consider what drives the economy and markets, we often think of a pendulum. Certain forces come into favor, only to be overcome by gravity, causing the pendulum to shift back in the other direction. In 2025, we expect these *Gravitational Shifts* to play out, with returns set to broaden beyond just the mega cap tech stocks to a more balanced sector participation. Similarly, the normalization of monetary policy marks a recalibration from the extremes of ultra-low rates and subsequent aggressive hikes to a more predictable environment for growth and capital allocation.

This dynamic around *Gravitational Shifts* extends to Washington, where voters have expressed a preference for a shift back to business-friendly policies, a focus on government efficiencies, and the hope for moderating inflation after years of elevated spending and pandemic-era distortions. As a result, investors have increased attention to key transitions underway and their potential to influence both the near-term and longer-term trajectory of the U.S. economy and markets.

The "America First" agenda is set to drive reforms in taxes, regulation, and infrastructure investments. Advancements in AI are set to transform industries and the economy while creating new frontiers for investments.

While we see longer-term risks to our outlook, most notably the U.S. fiscal deficit, we anticipate a positive economic and market environment in 2025, supported by a business-friendly policy backdrop, resilient consumer spending, and robust capital investment.

MACROECONOMIC OVERVIEW

Boosting Businesses

Government reforms under the Trump administration's "America First" agenda are expected to contribute to economic growth through looser regulations, lower taxes, and continued focus on critical infrastructure. These initiatives are creating a supportive backdrop for businesses while laying the foundation for longer-term economic strength. Further normalization of monetary policy should be supportive of both businesses and consumers.

The Enduring Consumer

The U.S. consumer remains a key pillar of economic activity, contributing to over two-thirds of GDP. Although inflation has moderated, it still exceeds the Fed's 2% target, exerting pressure on consumers, especially those in lower income brackets. We anticipate a continued gradual cooling in the labor market, but this is unlikely to significantly weaken consumer spending. With a healthy job market, rising real incomes, and the wealth effect from elevated asset prices, the consumer is expected to continue supporting economic growth in the coming year.

Capital Investment and Accelerating Innovation

Business investment is set to accelerate in 2025, fueled by favorable economic conditions and renewed confidence. A significant driver of this surge is the continued advancement of AI and related technologies that are accelerating innovation. Companies are expected to increase capital expenditures to upgrade equipment for new factories, integrate AI into their operations, and capitalize on reshoring initiatives. Additionally, greater policy certainty should encourage further expansion and innovation across industries.

Monetary Policy: A Return to Normal

In recent years, monetary policy has swung between extremes. During the pandemic, the Fed implemented extremely loose monetary policy, followed by an aggressive rate-hiking campaign to combat surging inflation. As we enter 2025, the Fed is navigating a recalibration phase, gradually normalizing rates to balance economic growth and price stability. We expect inflation will run modestly above 2%, which the Fed is likely to tolerate given the strength of the economic backdrop. In our base case, we anticipate one to two quarter-point rate cuts during the year.

OUTLOOK **2025** *(continued)*

The Wild Card

The new administration's policy shifts introduce a level of unpredictability that could impact the economy and markets in 2025. Key areas to monitor include tariffs, immigration, and the administration's ability to deliver on campaign promises such as revitalizing domestic manufacturing and improving government efficiency. While deregulation and tax cuts are expected to provide positive momentum, permanent tariffs and immigration restrictions could have adverse effects. The outcome will depend on how these policies are implemented, but we believe that the net result will ultimately be positive for both the economy and markets.

The Bottom Line

The U.S. economy remains on solid footing. A healthy labor market, stable prices, and rising real incomes are expected to sustain consumer spending. A business-friendly environment could unlock pent-up demand for business capital expenditures, driving additional momentum. We forecast U.S. GDP growth of 1.5% to 2.5%, reflecting a positive but slower pace of economic growth compared to last year. Whether growth exceeds or falls below the long-term trend of 2.1% will depend on the extent and pace of changes in government policies and the continued return to normal across multiple dimensions.

ASSET CLASS FORECASTS

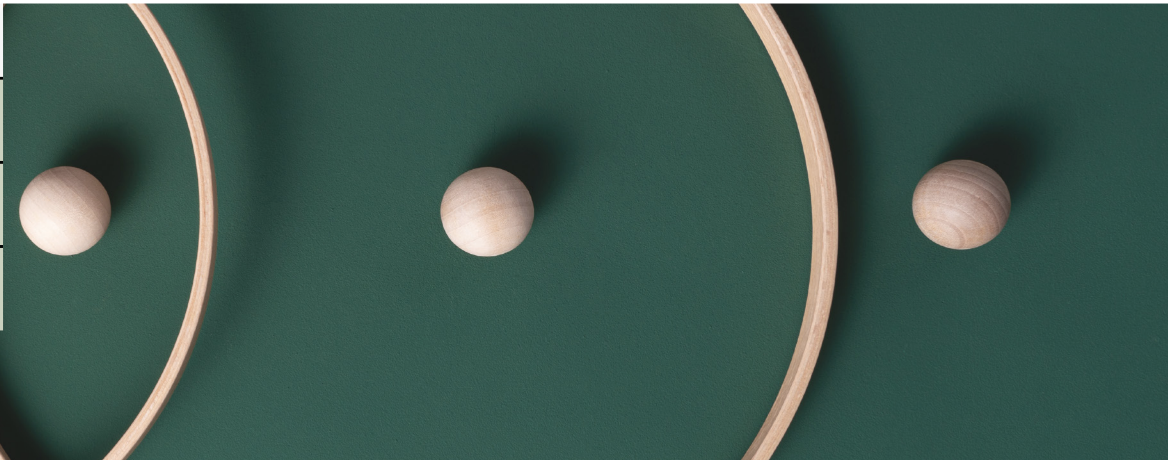
Stocks

We anticipate another positive year for stocks. However, stock market volatility is likely to rise compared to last year due to elevated starting valuations, policy shifts in Washington, and global geopolitical tensions. Periodic market weakness or even a correction wouldn't be surprising.

Earnings are the fundamental driver of returns, and the consensus bottom-up earnings growth forecast for the S&P 500 is a robust 14.5%. Importantly, all sectors are expected to see earnings growth, which should translate to a broadening of returns beyond the mega cap technology stocks. This shift would reduce the concentration of leadership in the M7 and promote more balanced sector participation.

The S&P 500 ended 2024 with strong returns, leaving valuation levels elevated. The forward price/earnings (P/E) ratio is now at 21.5 times earnings, bolstered by the earnings and stock performance of the M7.

If the P/E ratio remains constant and earnings grow by 15%, prices will also have to rise by 15%. Adding in dividends would imply a total return of over 16%. We see this as too optimistic. Instead, we forecast a total return of approximately 7%, assuming a modest contraction in P/E ratios and/or more tempered earnings growth. This outlook results in a year-end S&P 500 target of 6,200.



	2025 FORECAST
U.S. Real GDP	**1.5% – 2.5%**
Core PCE Inflation (4Q/4Q)	**2.5%**
Federal Funds Rate (Upper Bound)	**4.00% – 4.25%**

Bonds

Our view on 2025 is that bond yields will continue to stabilize at more normalized long-term levels. We expect that the 10-year Treasury yield, which ended 2024 at 4.57%, will remain range-bound between 4.25% and 4.75%.

Borrowers are still learning to accept that our "normal" interest rate environment will no longer be the low-rate regime orchestrated by the Fed after the Great Recession and amplified during the pandemic. There's a consensus building that the Fed's neutral rate, the rate at which policy is neither stimulative nor restrictive, will settle at a much higher 3.75% compared to the post-Great Recession environment.

On a related note, the yield curve reflects forward rates on the 10-year Treasury of about 4%-5% over the next two decades. This reflects, in part, investors' demand for higher yields as the U.S. government works to improve its fiscal trajectory.

Corporate bond spreads, which represent the extra yield investors demand for credit risk, ended 2024 historically tight for both investment-grade and high-yield debt, reflecting investor confidence in the current and future business environment. We expect spreads to remain tight given our view of continued economic growth, but widen some as investors focus further on the uncertainties of the current environment.

	2025 FORECAST
S&P 500	6,200 | 6.7% (Total Return)
10-Year Treasury (%)	4.25% – 4.75%
Market Pulse Publications*	25
Investment-Grade Spreads**	100 bps – 150 bps
High-Yield Spreads	300 bps – 350 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.*

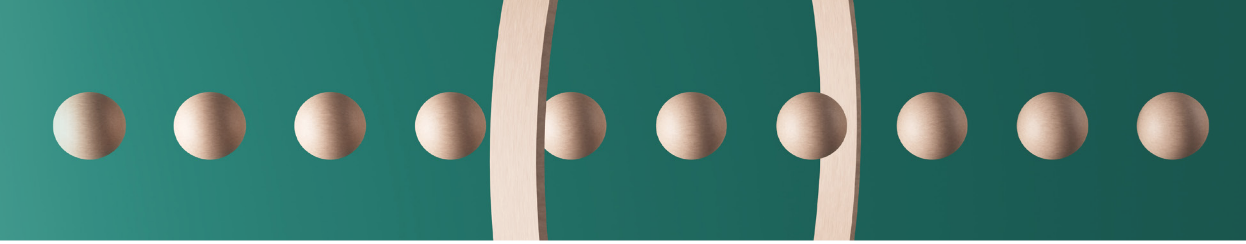
*** bps is basis points.*

FISCAL TRANSITION

In the wake of the Great Recession, the lower interest rate environment motivated borrowers across the economy, including the U.S. government, to increase debt. The 2024 deficit is forecast to be $1.8 trillion, and we've ended the year with over $36 trillion in government debt. The debt service – interest on the debt – is estimated to account for over a third of our discretionary spending.

In a higher rate regime, the cost of debt will increase going forward for all segments of the economy: the consumer, business, and the government. Corporate leaders and government officials alike have drawn focus to this issue, describing our fiscal trajectory as "unsustainable."

As a result, we see our economy, and especially the U.S. government, needing to go through a *Fiscal Transition* to reduce our deficit spending and debt overall. We remain optimistic that the U.S. will ultimately get through this *Fiscal Transition* stronger. But how much pain will we experience through the process, and when? We're encouraged by the new administration's focus on government efficiency and the stated goals of Treasury Secretary nominee Scott Bessent.



SCENARIOS: BULL/BEAR CASE

Predicting what may happen in 12 months is difficult, as most forecasts, especially point estimates, are almost always wrong to some degree. In response, we have a practice of developing three scenarios – our "base case," as discussed earlier, a more positive "bull case," and a more negative "bear case." We do this to better understand what might happen and answer the question, "What if we are wrong?"

We also try to gauge the likelihood of these upside and downside scenarios. We've assigned a 60% probability to our base case, a 25% probability to the bear case, and a 15% probability to the bull case. We often discuss "animal spirits," or how emotions drive behavior. Interestingly, when it comes to experiencing the positive bull or negative bear scenarios, animal spirits can be influenced by, and influence, these positive or negative trends.

Let's run through how our scenarios differ across three key considerations looking forward: government policy execution, the consumer, and corporate earnings:

GOVERNMENT POLICY EXECUTION

Investors are signaling optimism about the incoming administration and the Fed's ability to continue rate cuts. How well the government executes these policies will influence the economy and markets.

***Bear Case* | Roadblocks to Growth**

Narrow majorities in Congress and government bureaucracy limit changes in Washington. Excessive fiscal spending in late 2024 reignites inflation, requiring the Fed to maintain or even raise rates.

***Bull Case* | American Exceptionalism**

Real progress is made on government efficiency, lower taxes, and improved foreign relations benefitting the U.S. Inflation declines faster than expected, allowing for faster rate cuts that fuel further job growth and economic expansion.

THE CONSUMER

Consumption makes up about two-thirds of U.S. GDP, so how consumers behave during the year will greatly influence outcomes.

***Bear Case* | Roadblocks to Growth**

Frustration with Washington gridlock, a weakening job market, and higher inflation shake the consumer, slowing spending as caution grows.

***Bull Case* | American Exceptionalism**

Excitement builds as the job market improves even more, even as inflation falls further. The Fed is able to lower rates at a brisker pace, reducing the cost of debt for consumers.

CORPORATE EARNINGS

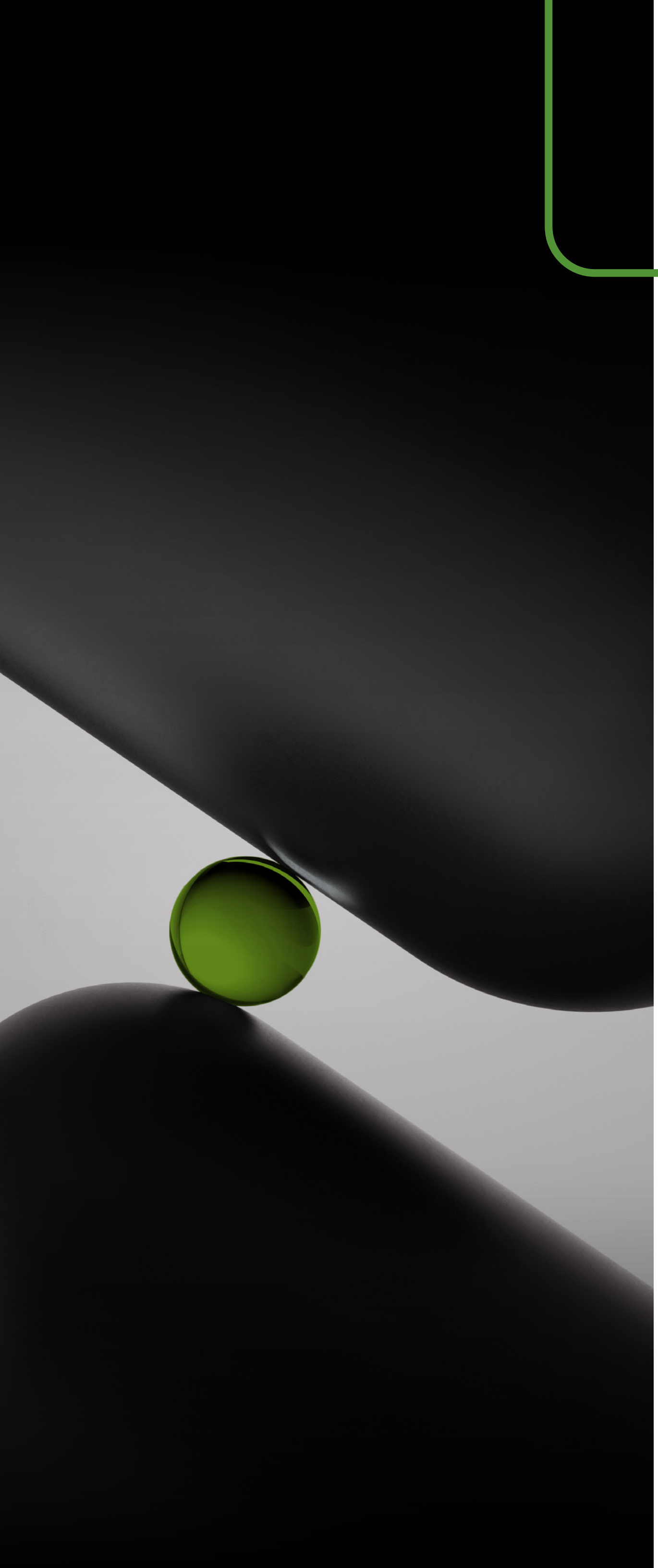
Actual earnings and views about future earnings will continue to drive market performance.

***Bear Case* | Roadblocks to Growth**

Headwinds like inflation, higher rates, permanent tariffs, and increasing debt burdens cause earnings to fall well short of the optimistic forecasts in place as we started the year.

***Bull Case* | American Exceptionalism**

A shift from government to private sector spending results in even better than expected economic growth and earnings, with the prospect of transformative changes from technological advances.



ALLOCATION INSIGHTS

TRANSFORMATIVE SHIFTS CREATE OPPORTUNITIES

The investment landscape is rife with opportunities. We remain in a positive economic environment, returns are set to broaden, and we expect innovation to drive long-term opportunities. This is a year to lean into the changes underway and position portfolios to capitalize on these transformative shifts.

Our neutral stance with a focus on quality last year helped us navigate a period of concentrated market leadership and heightened uncertainty. Now, with markets expected to normalize and the policy backdrop improving, we see compelling reasons to rebalance portfolios and consider diversification strategies to benefit from broadening markets.

Given the environment, we continue to embrace three principles of our investment philosophy:

1. ***A Long-Term Focus:***

   Our investment approach is anchored in a long-term view, and we believe a portfolio aligned with our strategic asset allocation is well positioned for that extended investment horizon.

2. ***Deliberate Neutrality:***

   Each of our decisions to remain aligned with a strategic allocation is an active choice, informed by our macroeconomic and market analysis.

3. ***Humility in Asset Allocation:***

   We approach dynamic asset allocation with humility, recognizing the difficulty of market calls and timing, and making dynamic shifts only when we have strong conviction.

ALLOCATION **INSIGHTS** *(continued)*

EMBRACING OPPORTUNITIES

As we head into 2025, market dynamics and transformative forces create investment opportunities. Keeping a long-term view, rebalancing back to targets, celebrating higher bond yields, and exploring new asset classes will help investors manage through change. Our key allocation insights as we start the year include:

1 KEEP A LONG-TERM VISION

We keep a long-term vision while investing for clients as anticipating the megatrends influencing the economy and markets is a cornerstone for successful investing. AI is woven through our long-term themes, five megatrends we see influencing the direction of the economy and markets longer term. However, our focus extends beyond just technology companies. We see opportunity in enablers (companies building and supporting AI infrastructure), innovators (businesses integrating AI to enhance operations), and disruptors (companies redefining industries and business models).

The ripple effects extend to our Modern Energy Systems theme, as increasing power demand and grid modernization fuels growth opportunities for utilities and industrials, for example. Meanwhile, an “America First” policy focus in Washington should create shifts, including accelerating the reshoring initiatives already underway. Disruption in the near term should set up for a stronger business environment in the U.S. over the longer term.

2 BROADEN THE BASE

While the M7 stocks have led the U.S. market to new highs over the past couple of years, we anticipate 2025 to be a year of broader market participation, with other segments of the market beyond the M7 also performing well. This broadening of returns will be supported by earnings growth, with all 11 sectors of the S&P 500 projected to see earnings increase. In fact, the current consensus forecasts that the other 493 companies in the S&P 500 will see earnings rise 13%, compared to just 4.2% in 2024.

We are guiding clients to rebalance their portfolios, celebrating gains from last year’s winners and filling in underweights to prepare for the broader market participation. Our strategic asset allocation approach, which includes diversified exposure to small U.S. equities and non-U.S. equities, is intended to serve investors over the long term.

We see this environment as still favoring companies with strong balance sheets and manageable debt, while skilled active managers will see rich opportunities to create relative value.

ALLOCATION **INSIGHTS** *(continued)*

3

BONDS IN ANY SCENARIO

Bond yields remain attractive, continuing to make a strong case for their role in a diversified portfolio, including the well-known 60/40 stock-bond portfolio. Bonds serve two important roles in a diversified long-term investment strategy: income and stability.

First, with many clients drawing upon their investment assets for their needs, the bond component provides coupon payments, a source of cash flow for spending.

Second, should a bear scenario unfold in the equities markets, bonds provide diversification and dampen overall portfolio volatility, helping us weather the challenges and remain invested for the recovery that follows.

For investors holding cash, this is an opportune time to consider extending duration to lock in these attractive yields. With the U.S. in a *Fiscal Transition* and higher rates likely to persist, bonds should provide both a defensive anchor and a reliable source of income.

4

THE DEMOCRATIZATION OF ALTERNATIVES

Qualified investors may explore “alternative investments” as an added layer of diversification and new sources of return. Notably, industry innovations are providing the democratization of alternatives, delivering these strategies in products available to a broader base of investors at lower minimums.

Private asset strategies offer a growing opportunity set as more companies choose to delay going public or avoid listing altogether, creating unique access to high-growth sectors and structural trends like cybersecurity, fintech, and more. Hedged strategies like structured investments and hedge funds further enhance diversification and risk management, especially during periods of volatility. ■

ALLOCATION **INSIGHTS** *(continued)*

DYNAMIC LEANINGS

⬛ Underweight ▨ Neutral 🟩 Overweight

	ASSET CLASS	⬛	▨	🟩	COMMENTS
EQUITY	**U.S. Equity vs. Non-U.S. Equity**		▨		We guide investors to diversify between U.S. and non-U.S. equity, maintaining a neutral allocation versus our SAA. U.S. equities benefit from strong economic growth and innovation, but starting valuations may pose a headwind if company earnings underwhelm. Outside the U.S., attractive valuations are offset by geopolitical tensions and sluggish economic growth, softening their appeal.
	U.S. Large Cap vs. U.S. Small Cap	⬛			Large cap companies offer stability and earnings resilience but face valuation pressures after strong performance in mega cap tech. Small caps are more vulnerable to higher-for-longer interest rates, which challenge companies reliant on financing or carrying significant debt. However, a favorable economic backdrop and an earnings recovery still present opportunities within small cap for skilled active investors.
	U.S. Large Value vs. U.S. Large Growth		▨		We believe investors should be diversified across both value and growth styles. We expect returns to broaden out beyond the M7 and have a preference for quality companies and those that are expected to benefit from our long-term investment themes. Value offers attractive relative valuations and benefits from higher yields, while growth continues to gain support from innovations like AI.
	Non-U.S. Developed Markets vs. Emerging Markets		▨		Both developed and emerging markets remain vulnerable to idiosyncratic risks and headwinds from geopolitical tensions, economic challenges, and an "America First" agenda from the incoming Trump administration. Despite ongoing stimulus, China continues to grapple with structural challenges stemming from its high debt levels and aging population, compounded by persistent issues in its real estate market.
	Europe vs. Japan	⬛			Japanese equities have given back some of their gains recently, but we believe there is still the potential for relative outperformance. Japan's domestic reflation along with corporate governance reform are likely to enhance shareholder value in the medium-to-long term. In Europe, policy uncertainty in France and Germany, weaker Chinese growth, and the Russia-Ukraine war remain headwinds for the growth outlook.

ALLOCATION **INSIGHTS** *(continued)*

DYNAMIC LEANINGS

■ Underweight ▨ Neutral 🟩 Overweight

	ASSET CLASS	■	▨	🟩	COMMENTS
FIXED INCOME	U.S. Investment Grade vs. U.S. High Yield		▨		We recently moved to neutral between investment-grade and high-yield bonds. High-yield corporate spreads are tight, leaving little margin for error, but corporate fundamentals remain strong, and the rate-cutting cycle should mitigate some of the downside risks. In investment grade, we expect returns to be primarily driven by carry, offering steady income in a stable rate environment.
	Corporates vs. Government vs. Agency MBS		▨		We remain neutral within the fixed income super sectors but believe there is opportunity within the asset class for active management. Asset-backed and mortgage-backed securities are attractive with 30-year mortgage rates remaining elevated, tempering prepayment risks.
	Duration		▨		We view duration as a diversifier in a multi-asset class portfolio given the macroeconomic uncertainty and volatility in yields, and so we remain neutral on duration as compared to the overall market. Investors holding cash should consider extending duration.
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.
	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.

WASHINGTON POLICY AND POLITICAL OUTLOOK

Contributed by Brian Gardner | Chief Washington Policy Strategist

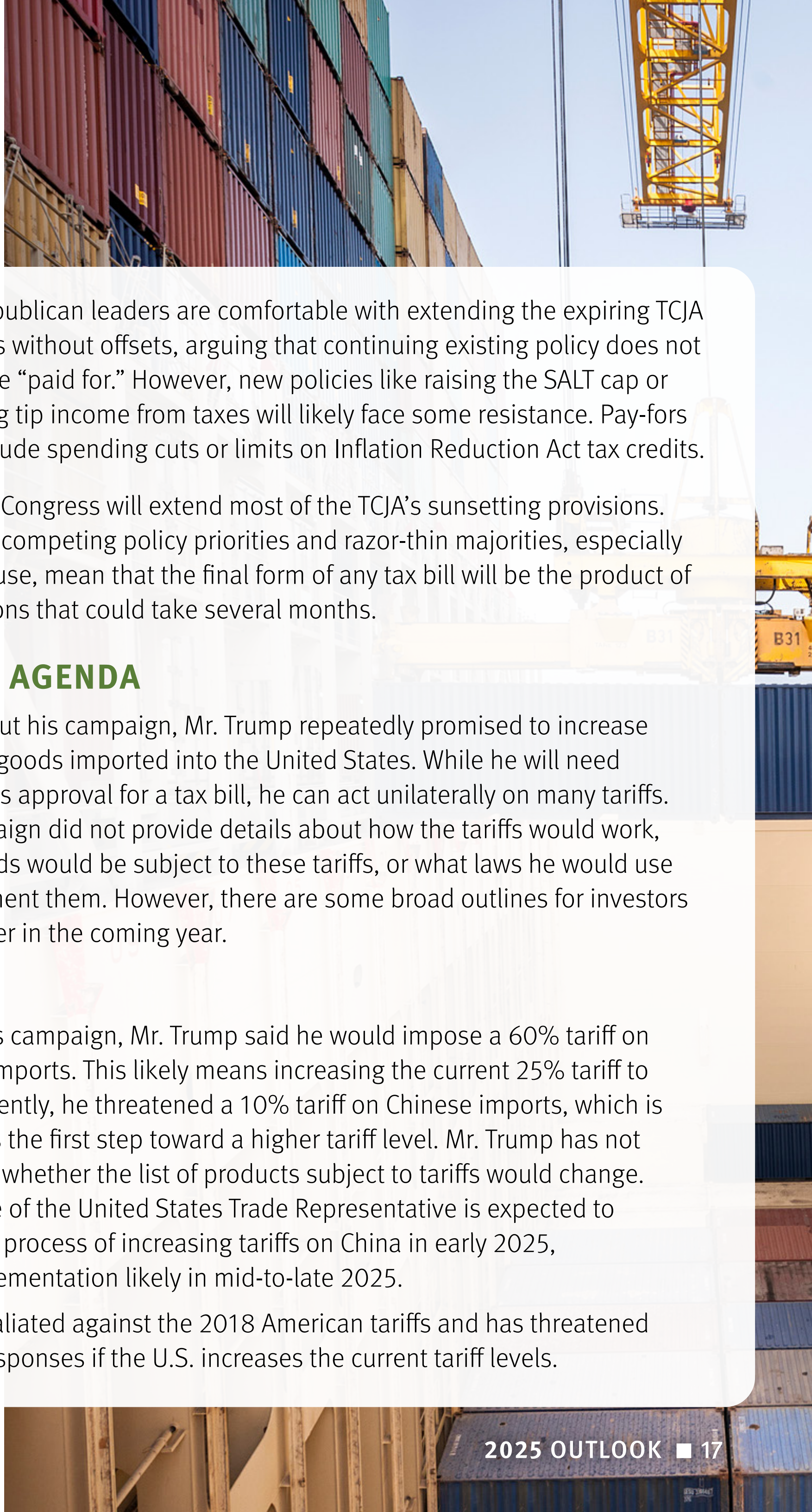
A new presidential administration typically arrives in Washington with fanfare and high expectations, and 2025 will be no different. President-elect Donald Trump and congressional Republicans are planning an ambitious policy agenda that will have implications for investors. Parts of the Trump agenda can be implemented more easily than others.

We look ahead to the coming year, assessing which parts of Mr. Trump's economic plan are most likely to be enacted and which ones might face opposition, helping investors plan accordingly. Investors should remember that the euphoria winning political parties feel after an election does not always translate into policy wins.

The overall theme for 2025 in Washington will be less government and deregulation. Under Mr. Trump's leadership, regulatory agencies are likely to govern with a lighter touch. However, the incoming administration will deviate from Republican orthodoxy by pursuing tariffs on imports, a departure from the party's historic position on free trade, and adopting a different stance on antitrust policy compared to the party's hands-off approach of the past 50 years. The Republican Party's base has become more working class, and policies will reflect that shift. The Trump administration is likely to be friendlier to labor and less deferential to capital than what is typical for Republican governments.

WASHINGTON POLICY AND POLITICAL OUTLOOK

(continued)



EXTENDING THE TCJA

Parts of the Tax Cuts and Jobs Act (TCJA) of 2017 are set to expire after 2025. The sunsetting provisions include:

- Lower individual income tax rates
- Relief from the alternative minimum tax
- The $10,000 cap on the state and local tax (SALT) deduction
- A higher exemption from the estate tax
- The Sec. 199A qualified business income deduction (for pass-through entities)

In addition to these expiring items, Mr. Trump has proposed eliminating taxes on tips, overtime pay, and Social Security benefits.

Republicans will try to extend the sunsetting provisions but face several hurdles. To overcome the Senate filibuster, Republicans will use the “budget reconciliation” process, which allows a bill to pass the Senate with a simple majority rather than the usual 60 votes. However, the Senate might not be the GOP’s biggest challenge. In the House, Republicans will hold a slim 220-215 majority. With three vacancies, they will only have 217 members in early 2025, leaving no room for defections. By comparison, there were 239 House Republicans in 2017 when the TCJA was passed, and even then, two Republicans voted against the bill. There is no room for such defections this time.

Republicans from high-tax states want relief from the SALT cap, but restoring full SALT deductibility would add approximately $1.2 trillion to the national debt over 10 years, according to the Center for a Responsible Federal Budget. Budget hawks will be concerned about the overall price tag. According to the Congressional Budget Office, extending all the sunsets for 10 years would add approximately $4.6 trillion to the national debt. This figure does not include the Trump promises to eliminate tax on tips, overtime pay, and Social Security benefits.

Some Republican leaders are comfortable with extending the expiring TCJA provisions without offsets, arguing that continuing existing policy does not need to be “paid for.” However, new policies like raising the SALT cap or exempting tip income from taxes will likely face some resistance. Pay-fors could include spending cuts or limits on Inflation Reduction Act tax credits.

It is likely Congress will extend most of the TCJA’s sunsetting provisions. However, competing policy priorities and razor-thin majorities, especially in the House, mean that the final form of any tax bill will be the product of negotiations that could take several months.

TARIFF AGENDA

Throughout his campaign, Mr. Trump repeatedly promised to increase tariffs on goods imported into the United States. While he will need Congress’s approval for a tax bill, he can act unilaterally on many tariffs. His campaign did not provide details about how the tariffs would work, what goods would be subject to these tariffs, or what laws he would use to implement them. However, there are some broad outlines for investors to consider in the coming year.

China

During his campaign, Mr. Trump said he would impose a 60% tariff on Chinese imports. This likely means increasing the current 25% tariff to 60%. Recently, he threatened a 10% tariff on Chinese imports, which is viewed as the first step toward a higher tariff level. Mr. Trump has not indicated whether the list of products subject to tariffs would change. The Office of the United States Trade Representative is expected to begin the process of increasing tariffs on China in early 2025, with implementation likely in mid-to-late 2025.

China retaliated against the 2018 American tariffs and has threatened further responses if the U.S. increases the current tariff levels.

WASHINGTON POLICY AND POLITICAL OUTLOOK

(continued)

Global

Mr. Trump has proposed a 10%-20% baseline tariff on all imports. It is unclear which trade law he would use to implement this proposal. Section 122 of the Trade Act of 1974 allows a president to impose an additional 15% tariff in cases of a “persistent” balance of payments deficit, but this authority lasts only 150 days and must be reauthorized by Congress. Alternatively, Mr. Trump might declare a national emergency and use powers granted under the International Emergency Economic Powers Act. However, this law has typically been used for specific countries, not globally. Courts generally defer to presidents on national emergencies, but it is unclear whether the courts would allow a president to declare a national emergency with respect to the entire world.

North America

Mr. Trump has also proposed a 25% tariff on imports from Canada and Mexico. Some of these tariffs might violate the United States-Mexico-Canada Agreement (USMCA), which he negotiated during his first term. This proposal might be an opening bid in the 2026 USMCA review, which is over a year away. A lot can change between now and then, but we think the Trump administration is going to push for new “country of origin” rules on Mexico in order to prevent China from circumventing tariffs via Mexico. It is possible Mr. Trump could withdraw the U.S. from the USMCA and seek a bilateral trade deal with Canada, which could disrupt Latin American trade.

BUDGET AND DOGE

The incoming Trump administration has announced a Department of Government Efficiency (DOGE), an advisory committee led by Elon Musk and Vivek Ramaswamy. DOGE has no real authority beyond making recommendations. For instance, it might suggest eliminating agencies like the Department of Education or the Consumer Financial Protection Bureau. However, given Republicans’ narrow majorities in Congress, such proposals are unlikely to pass.

Congress might attempt to reduce spending, but narrow majorities and the limited presence of programs with bipartisan support will make significant budget cuts difficult. Treasury Secretary nominee Scott Bessent’s goal of reducing federal budget deficits to 3% is ambitious. Entitlement programs and interest payments on the debt make up 70% of federal spending, and Mr. Trump won’t consider changes to Social Security and Medicare. Half of the remaining 30% of the budget is dedicated to defense, an area for which the administration will seek large increases. While Republicans will look to the remaining 15% of the budget for savings, especially from Medicaid, we doubt Congress will cut too deeply into programs that are mostly popular.

We expect the DOGE will achieve some symbolic budget savings, but we are skeptical that it will have a material impact on the trajectory of federal spending.

WASHINGTON POLICY
AND POLITICAL OUTLOOK

(continued)

REGULATORY

The Trump administration is expected to pursue a deregulatory agenda benefiting key sectors such as energy and financials. Unlike tax policy and the budget, which require congressional approval, the administration has more flexibility here.

However, not all sectors will benefit equally. The administration is likely to deviate from traditional Republican thinking in areas such as antitrust enforcement. Populist Republicans, led by Vice President-elect J.D. Vance, are skeptical about consolidation, particularly in technology and healthcare. The administration is expected to continue ongoing antitrust enforcement actions in the tech sector. While we think there could be an increase in merger activity under the incoming administration, we are not as sanguine as others about the magnitude of potential increased activity given the shift in thinking on antitrust policy among some key Republicans. This group, which will have influence in the new administration, is not as deferential to the private sector as past Republican administrations.

MONETARY POLICY

Fed Chairman Jerome Powell is expected to remain until his term ends in early 2026. While Mr. Trump has previously considered firing Powell, we believe he lacks the authority to do so without cause. Furthermore, Trump is likely wary of spooking financial markets by taking such an action. Proposals to alter the Federal Reserve Board's composition would require legislation, which is unlikely to pass.

IMMIGRATION

A centerpiece of the Trump campaign was a promise to implement mass deportations of illegal immigrants. Such a policy could negatively affect industries reliant on low-skill, undocumented workers and pose logistical challenges. While we do not dismiss the possibility that the Trump administration could pursue across-the-board deportations of illegal immigrants, we expect it will initially target illegal immigrants who have criminal backgrounds either here in the U.S. or in their home countries. A rolling implementation of the policy (targeting immigrants with criminal backgrounds) could delay the economic impact.

Successful implementation of Trump's immigration policy could pave the way for broader immigration reform, potentially increasing visas for highly skilled workers. However, this would likely require addressing the issue of illegal immigration first.

CONCLUSION

The Trump administration's ambitious policy agenda for 2025 will face both opportunities and challenges. Investors should prepare for a landscape shaped by tax policy negotiations, increased tariffs, modest budget changes, deregulation, and shifts in antitrust enforcement. While some proposals may face resistance, others could be implemented swiftly. Understanding these dynamics will be critical for navigating the economic and investment environment in the year ahead. ■

GEOPOLITICAL DASHBOARD

LEGEND

■	**Certain**	Expected to happen; strong evidence or clear trends
■	**Highly Likely**	Very probable; significant indicators suggest it will occur
■	**Likely**	Reasonable chance of happening; emerging signals present, uncertainty remains
■	**Unlikely**	Uncommon; there are some signals, but it's not expected
■	**Highly Unlikely**	Very rare; little to no evidence to suggest occurrence

The world is shifting from an era of globalization to one marked by increased localization and protectionism, increasing geopolitical risks, and uncertainty. The Stifel Geopolitical Risk Dashboard aims to identify and assess the likelihood and investment considerations of key geopolitical risks and events that have the potential to create market volatility over the next three to five years.

RISK	DESCRIPTION	LIKELIHOOD (3–5 YEARS)	INVESTMENT CONSIDERATIONS
U.S.-China Competition	Strategic competition for global leadership intensifies across various fronts, including technological, economic, and social influence.	Certain	Tariffs, trade restrictions, and protectionist policies will challenge companies reliant on China for supply chains and revenue. India and Mexico may benefit.
Escalating Cold War(s)	Emergence of competing geopolitical blocs with increasingly hostile actions, pushing tensions close to open conflict.	Highly Likely	Defense and cybersecurity companies may benefit from increased militarization and higher defense spending, while some corporations might deem certain regions as not investable.
Cyberattack(s)	A major cyberattack on the world's leading companies, government agencies, or infrastructure that paralyzes an entire industry or sector.	Highly Likely	Cybersecurity firms stand to benefit as demand for robust data protection and security measures rises. Increasing focus on and awareness of data privacy.
U.S. Financial Instability	Rising debt levels and higher interest rates trigger a painful *Fiscal Transition* and a sharp economic downturn.	Likely	Poor fiscal management may lead to diminished confidence in U.S. Treasuries and the U.S. dollar, both of which are pillars of global capital markets.
Climate Policy Error	Net zero commitments and regulations without economic and societal readiness spark inflation and an economic slowdown.	Likely	Look for companies focused on energy efficiency and innovative solutions for potential opportunities. Nuclear power is an example.
Structurally Higher Inflation	The Fed accepts inflation running hotter than its 2% target for a prolonged period of time.	Likely	Consider sectors and companies with strong pricing power and the ability to pass on costs or asset classes that can provide a diversification benefit or hedge against inflation.
Introduction of BRICS Currency	Brazil, Russia, India, China, and South Africa (BRICS) establish a new reserve currency backed by a basket of their respective currencies.	Unlikely	Potential decline in demand for U.S. dollars and a weakening in its value. Consider diversifying in markets outside the U.S.
European Fragmentation	Disagreements on key political and policy issues lead to a withdrawal from the European Union by a member nation.	Unlikely	Increased market volatility. Likely weakness in the euro as well as sectors impacted by trade disruptions.
Aging Population Strain	Longer lifespans drive up healthcare demand and cost, placing added pressure on budgets and economic stability.	Unlikely	Focus on investment opportunities arising from an aging population, including the increased demand for healthcare, leisure and travel, and financial services.

GEOPOLITICAL DASHBOARD

(continued)

LEGEND

🟩	**Certain**	Expected to happen; strong evidence or clear trends
🟩	**Highly Likely**	Very probable; significant indicators suggest it will occur
🟩	**Likely**	Reasonable chance of happening; emerging signals present, uncertainty remains
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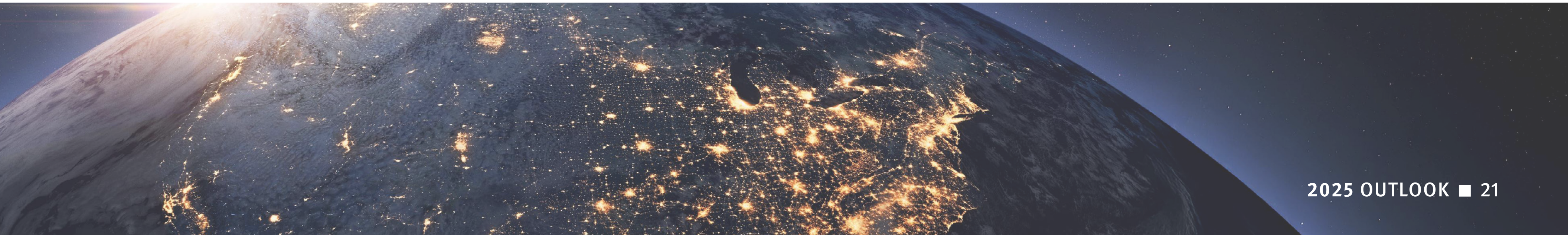
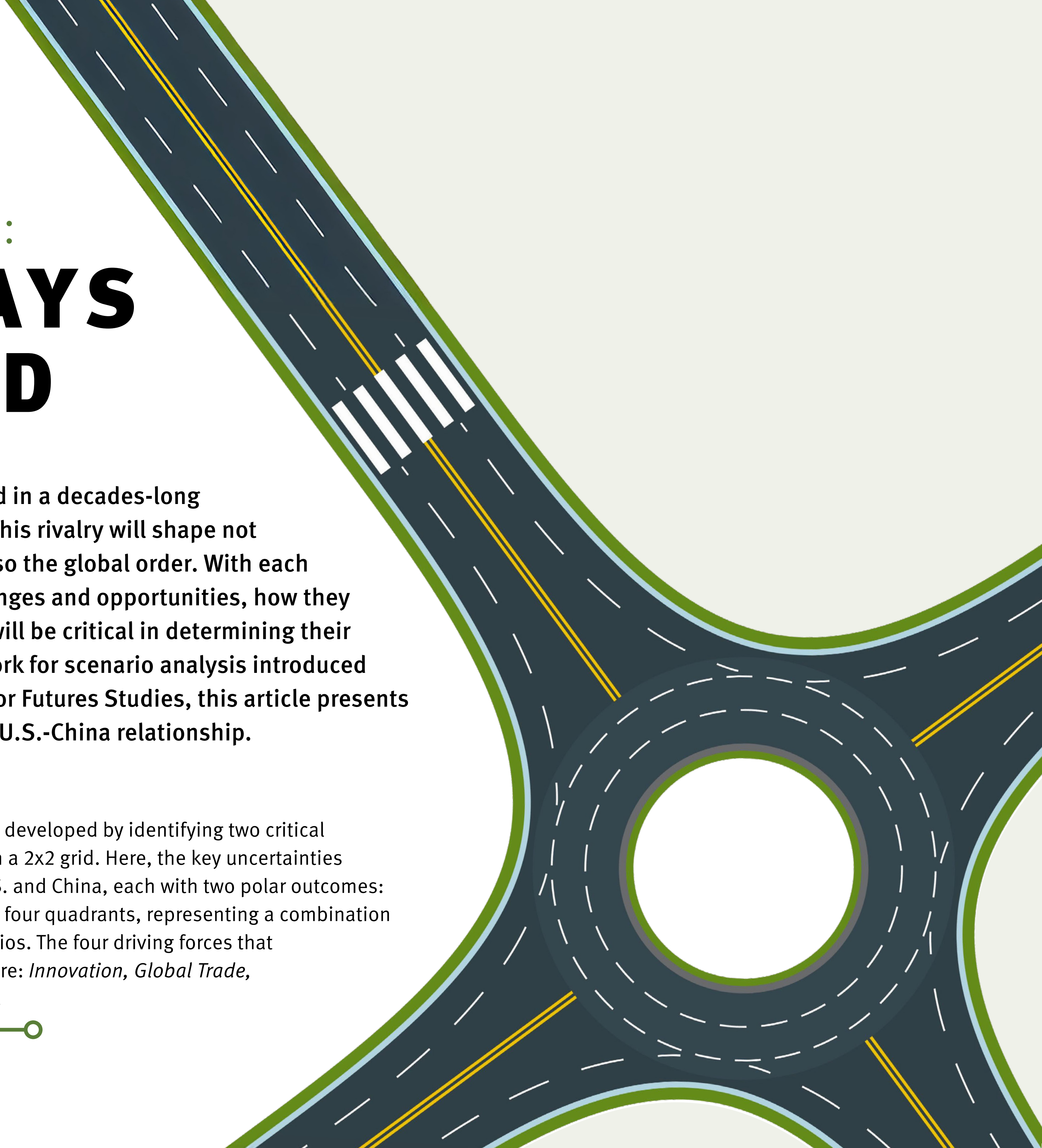
Military Conflicts

RISK	DESCRIPTION	LIKELIHOOD (3–5 YEARS)	INVESTMENT CONSIDERATIONS
South China Sea Military Conflict	Competing claims over territory escalate into military confrontation, drawing U.S. involvement.	Likely	More than $3 trillion worth of global trade, or a third of maritime trade, passes through the South China Sea annually. A conflict would severely disrupt supply chains.
Middle East War	Israel and Iran conflict escalates from retaliatory strikes into full-scale war, forcing the U.S. to get involved.	Likely	Global oil market will be disrupted, driving up energy prices and impacting global supply chains. Defense and energy sectors would likely benefit.
Russia-NATO Confrontation	Accidental strike on a NATO member or Russia's interference in NATO countries provokes the alliance into a direct conflict.	Unlikely	This will likely lead to a spike in oil prices and a recession in Europe. Perceived safe-haven assets such as gold, U.S. Treasuries, and the U.S. dollar may benefit.
Indian-Pakistan Tensions	India and Pakistan tensions escalate into military conflict, disrupt regional stability, and draw in international powers.	Unlikely	A nuclear war is the worst-case scenario. India, the world's most populous country, is emerging as a "swing state" in the context of geopolitics.
China Invades Taiwan	China asserts its claim over Taiwan and attempts to achieve "reunification."	Unlikely	Severe disruption in global trade, potentially crippling the semiconductor industry given Taiwan's central role in chip production.
North Korea War	South Korea strikes preemptively, or North Korea becomes emboldened with support from Russia and/or China.	Highly Unlikely	There are several reasons why we think this is unlikely, including North Korea's lack of military capabilities and the focus on preserving the current Kim dynasty.



CROSSROADS:
FOUR WAYS FORWARD



As the U.S. and China remain locked in a decades-long competition for global leadership, this rivalry will shape not only their bilateral relations, but also the global order. With each nation facing a unique set of challenges and opportunities, how they respond to these forces of change will be critical in determining their future trajectories. Using a framework for scenario analysis introduced to us by the Copenhagen Institute for Futures Studies, this article presents four possible versions of the future U.S.-China relationship.

SETTING THE STAGE

The scenarios in this framework are developed by identifying two critical uncertainties and mapping them on a 2x2 grid. Here, the key uncertainties are the future trajectories of the U.S. and China, each with two polar outcomes: leadership or decline. The resulting four quadrants, representing a combination of these outcomes, form the scenarios. The four driving forces that we've identified for each scenario are: *Innovation, Global Trade, Domestic Policy, and Foreign Policy.*

CROSSROADS:
FOUR WAYS FORWARD
(continued)

U.S. REENERGIZED

America experiences a resurgence as China's economic growth slows and its influence wanes. The U.S. leads in transformative technologies, further strengthening its innovation edge, while China struggles to keep pace. The U.S. diversifies its supply chain and trade partners to the detriment of the Chinese economy while China falls short in gaining trust for its high-end products. Domestically, China's efforts to transition to a consumption-based economy falter due to a shrinking workforce and an aging population. Meanwhile, the U.S. prioritizes reducing national debt and enacts growth-stimulating policies that reinforce its leadership, bringing a renewed sense of unity among citizens.

PRODUCTIVE COMPETITION

Both nations pursue economic strength and technological advancement, competing to maximize national wealth while seeking to avoid outright conflict. The U.S. and China recognize and accept their interdependencies, with China relying on the U.S. and allies to sustain growth while the U.S. remains dependent on China's supply chain. Strategic restraint is exercised, as each side accepts that deteriorating relations would bring significant risks. The U.S. and China, though cautious rivals, collaborate on shared global challenges, balancing cooperation with periodic flare-ups of tension.

FRAGMENTED WORLD

Both the U.S. and China face economic and political challenges that erode their global influence and deepen international divisions. China's economy stagnates under the weight of national debt, demographic pressures, and lagging technological innovation. Divisions within the Chinese Communist Party (CCP) emerge as leaders clash over economic and social policies. Meanwhile, the U.S. grapples with deepening polarization, fiscal strain, and uneven growth, weakening its role as a global leader. As both countries turn inward, global trade fractures, with nations prioritizing self-sufficiency and regional alliances. This shift creates opportunities for other countries to aspire for global leadership, creating an unpredictable landscape.

CHINA TAKES THE LEAD

China emerges as the dominant global power while the U.S. contends with challenges that reduce its influence and ability to project power. Successfully executing its plan for "the great rejuvenation of the Chinese nation," China leads in high-end manufacturing, AI, and other technologies, becoming the primary hub for global innovation and trade. Conversely, the U.S. faces economic stagnation, political polarization, and mounting debt, limiting its ability to respond effectively to global shifts. Although the U.S. economy still carries significant weight, nations increasingly view China as a strategic partner and ally, leaving the U.S. more isolated.

CROSSROADS: FOUR WAYS FORWARD *(continued)*

FORCES OF CHANGE

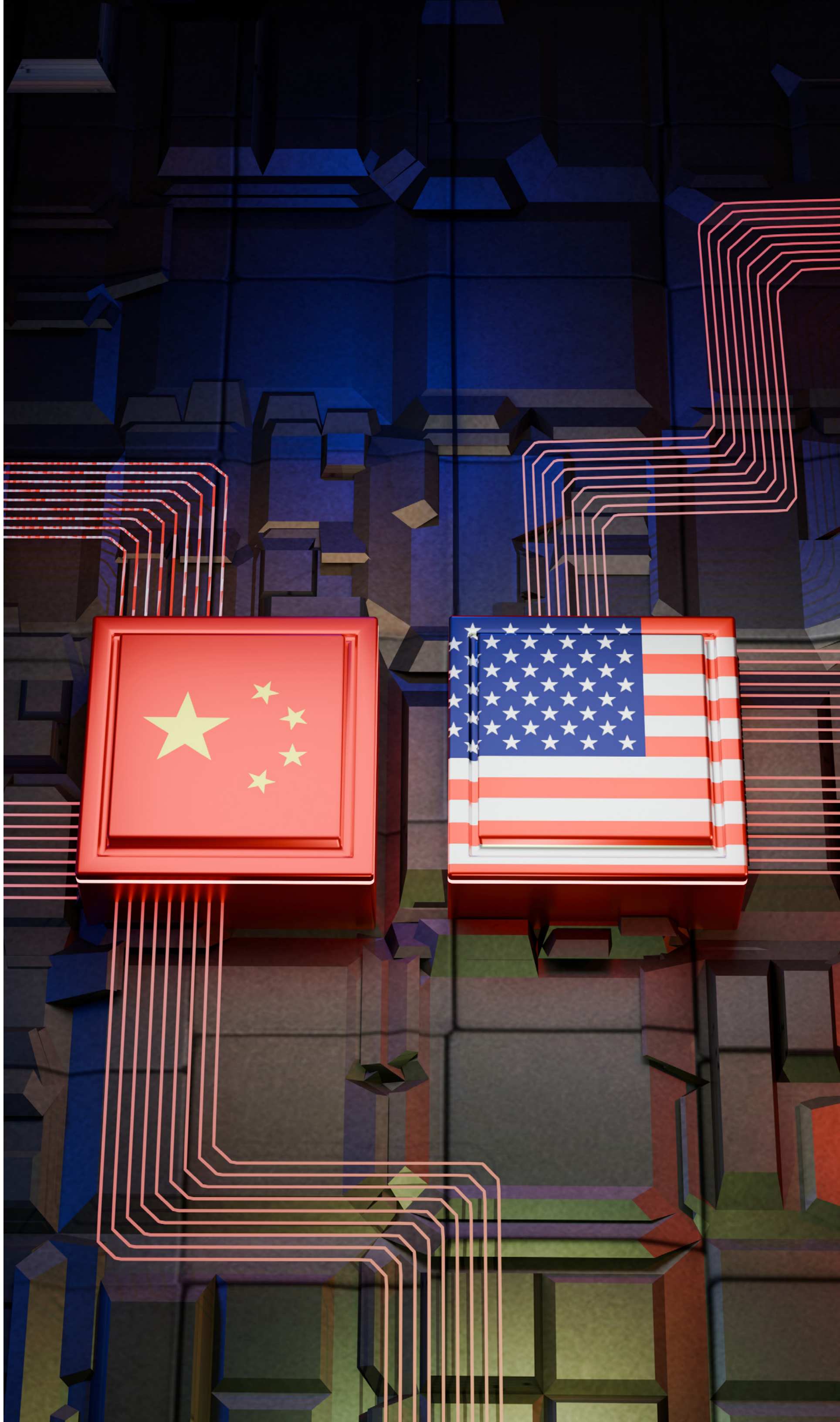
1

INNOVATION: THE GROWTH ENGINE

Innovation fuels economic growth, creates new industries, and improves quality of life. Research shows that up to 85% of America's long-term economic growth stems from advancements in science and technology. In the competition for global power, a central question is whether the U.S. or China will lead the next wave of innovation.

U.S. The U.S. has historically led in innovation, particularly in science and technology. Continued leadership in the next wave of transformative technologies like quantum computing, genetic engineering, and advanced manufacturing is pivotal for the U.S. maintaining its competitive advantage in global trade, security, and influence. Sustained investment in research, quality education, workforce development, and intellectual property protection is essential to achieving this goal.

China Through its "Made in China 2025" initiative, China has strategically prioritized increasing its share of manufactured products from low-cost goods to high-tech, innovative products across 10 key industries including aerospace, medical devices, and power equipment. Its goal is to reduce reliance on foreign technology while becoming an innovation hub with companies that can compete globally. To that end, Chinese leadership is focused on implementing regulatory change and setting policy that promotes innovation.



CROSSROADS:
FOUR WAYS FORWARD *(continued)*

2

FORCES OF CHANGE

GLOBAL TRADE: THE BARGAINING CHIP

As nations develop transformative technologies, their exports gain global value, offering diplomatic leverage. The U.S. and China's choice on how to engage in trade will redefine the global balance.

U.S. The M7 are a symbol of America's economic power and global influence. Concerns over the cost of free trade — job losses, outsourcing of critical industries, and national security —are prompting a shift in trade policy. Supply chain vulnerabilities, unfair trade practices, and ongoing intellectual property theft by China have intensified bipartisan calls to reshape U.S.-China trade dynamics. Through export controls, sanctions, nearshoring initiatives, and a move to bilateral agreements, the U.S. aims to bolster domestic manufacturing and curb China's technological advancements. However, the U.S. must balance protectionist measures with access to China and other markets, which remain vital for American businesses aiming to compete globally. For many countries, the most attractive aspect of trading with the U.S. is the opportunity to sell their goods. If this dynamic changes, the U.S. could lose significant political leverage.

China Since joining the World Trade Organization in 2001, China has become the world's largest exporter, leveraging both scale and sometimes controversial trade practices. Now, China aims to reduce reliance on foreign markets by boosting domestic demand and shifting from low-cost production to high-value, technology-driven exports. However, much of the demand needed to sustain such exports would still rely on Western and U.S. markets, which are wary of Chinese influence in critical industries. The Belt and Road Initiative has strengthened China's presence in emerging market countries, but many of these nations lack the economic power to support high-value imports. Ultimately, China's trade leadership depends on the success of these initiatives, especially as the West tries to counter them.

3

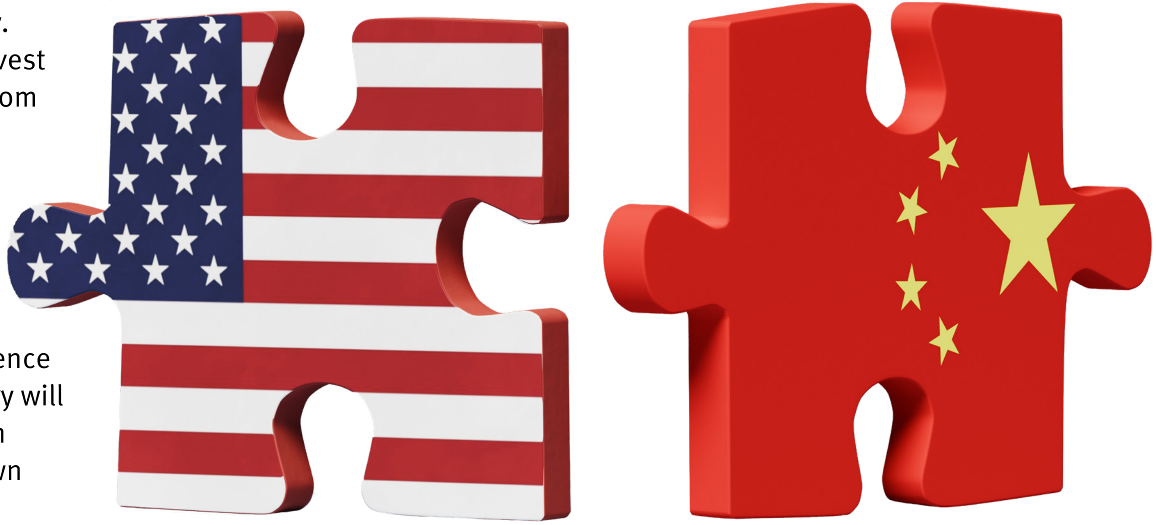
FORCES OF CHANGE

DOMESTIC POLICY: STRENGTH STARTS AT HOME

Effective domestic policy will promote economic stability and determine the capacity of each nation to engage globally. Strength at home sets a model that other nations will want to emulate. The economic success achieved by China's authoritarian regime is creating a clash of ideologies.

U.S. The U.S. faces domestic challenges that could impact its ability to engage effectively on the global stage, including elevated debt levels, political polarization, and demographic shifts. Failure to address the debt problem could restrict funding for innovation and defense, key areas that uphold its global leadership position. Poor fiscal management may cause investors to question U.S. Treasuries as a perceived safe investment, lowering demand, causing interest rates to rise, and eroding investor confidence in our capital markets. Strengthening the middle class through strategic investments and reform in areas like education, healthcare, and immigration is important for reducing polarization in the country. Addressing an aging population, a shrinking workforce, and a skills gap through workforce development policies will also be important. A prosperous America with a strong economy and well-functioning society not only reinforces its own stability but also enhances its influence globally.

China China's domestic policy focuses on transitioning to a consumption-based economy while managing systemic risks from rapid credit expansion, particularly in the property sector. Its debt is concentrated in local governments and state-owned enterprises, which could impact economic stability if growth slows. Its shrinking workforce and aging population pose significant challenges to productivity and economic stability. To remain competitive, China must invest in workforce development, pivoting from manufacturing-heavy industries to technology and services. However, its authoritarian regime may limit true innovation. In addition, regulatory unpredictability and political controls create challenges for foreign investors, affecting confidence in China's capital markets. The country will have to balance economic reform with political stability as it navigates its own set of domestic challenges.



CROSSROADS: FOUR WAYS FORWARD *(continued)*

4

FORCES OF CHANGE

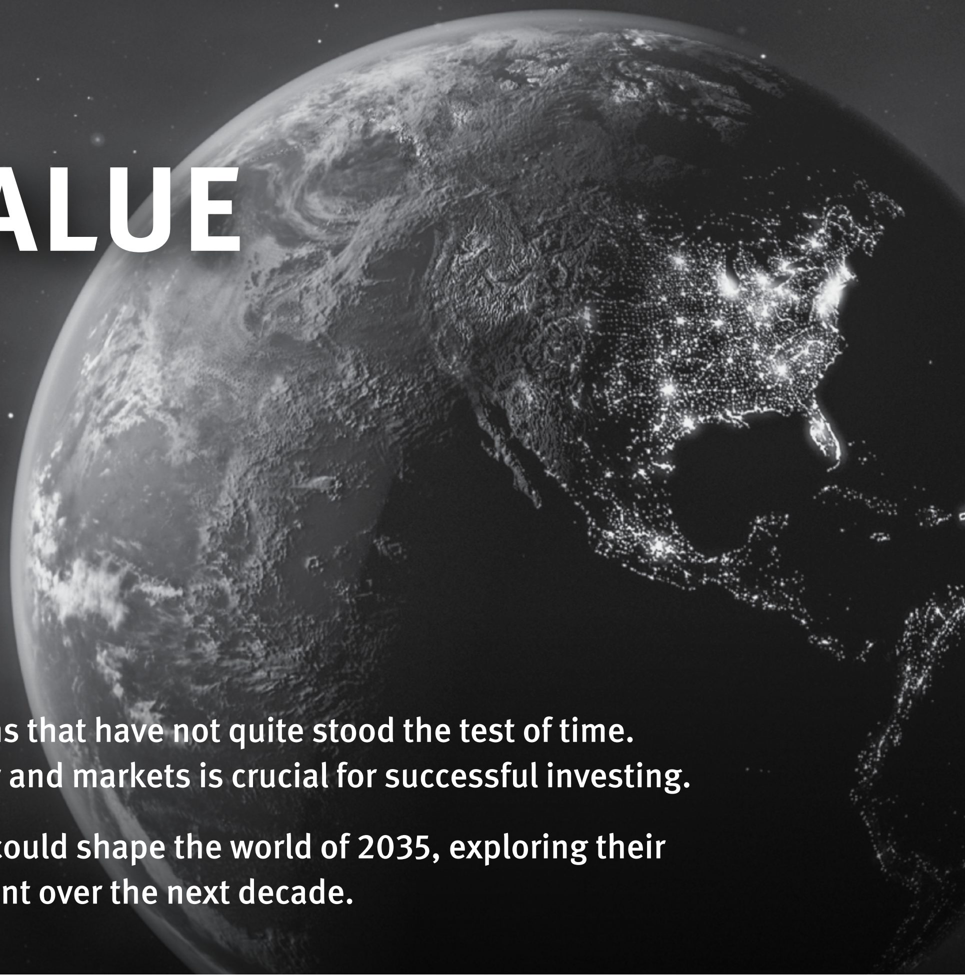
FOREIGN POLICY: THE STRATEGIC COMPASS

Global divisions are deepening. How each nation chooses to engage with the world and project power will shape alliances, and determine which values and systems dominate the international order.

U.S. Following the collapse of the Soviet Union, the U.S. emerged as the sole superpower, shaping the global order by promoting democracy and open markets, and intervening in conflicts to uphold stability and its strategic interests. As domestic attitudes are shifting to an “America First” approach, U.S. officials are contending with several pressing questions. Should the U.S. scale back military commitments or maintain a strong presence worldwide? What role should the U.S. play in global conflicts, transnational challenges, and economic aid? And, as China expands its influence and becomes more assertive, how should the U.S. counter its influence?

China China has been increasingly assertive in its foreign diplomacy, focusing on mediating conflicts like the war in Ukraine and brokering a Saudi Arabia-Iran deal, while also investing heavily in Latin America, Asia, and Africa. By successfully doing so, China creates allies that align with its interests on geopolitical issues and allow it to establish a military presence in those countries in the future. When it comes to disputes such as Taiwan and the border with India, China faces critical decisions. It can choose to intimidate and escalate militarily, destabilize, or engage in diplomatic negotiations. Each approach carries significant implications.

THE WORLD IN 2035:
FROM VISION TO VALUE



> *“Mark my word: A combination airplane and motorcar is coming.”*
>
> *– Henry Ford, 1940*

> *“By 2005 or so, it will become clear that the internet’s impact on the economy has been no greater than the fax machine’s.”*
>
> *– Paul Krugman, Nobel Prize-Winning Economist, 1998*

Throughout history, even the most brilliant minds have made predictions that have not quite stood the test of time. Yet, for investors, anticipating the megatrends influencing the economy and markets is crucial for successful investing.

This year, we set out to imagine how our long-term investment themes could shape the world of 2035, exploring their transformative potential. Here are 10 ways how the world may be different over the next decade.

1

QUANTUM LEAPS

A more powerful type of computer is emerging: the quantum computer. While breakthroughs in hardware and software are still needed to scale quantum computing systems, by 2035 it may become one of the most influential technological advancements of mankind. These computers will tackle complex problems like analyzing compounds to create new drugs or analyzing matter to design new materials. Some studies show that this technology may generate as much as $2 trillion in value for businesses in finance, materials, life sciences, and mobility.

2

RISE OF BIONICS

The boundaries between humans and machines are expected to blur even further over the next decade. Significant progress has already been made in developing artificial limbs, implantable monitoring devices, brain chips, wearables, and organ engineering. In the coming decade, technological advances may lead to better integration of prosthetics with the nervous system, bioartificial organ manufacturing, and improved brain chips that could help disabled individuals regain lost senses or mobility. These advances have the potential to significantly improve the standard of living for millions of people worldwide.

THE WORLD IN 2035:
FROM VISION TO VALUE *(continued)*

3

FARM FIELDS GO VERTICAL

Indoor, high-tech farms stack crops in controlled environments, using advanced techniques and AI-driven systems to optimize growth year-round. While still costly, they offer significant benefits compared to traditional farming, including reduced water usage, land use, pesticides, and emissions. As the technology scales, cities grow, and arable land diminishes further, this approach could ensure food security and revolutionize how we feed the world. Although inroads have been made, traditional farming methods still dominate. So next time you drive past that empty strip mall and wonder what will become of it, don't be surprised if more of your produce comes from there over the next decade.

4

NUCLEAR WILL POWER THE U.S.

Our digitalized economy and the rise of generative AI are pushing our aging power infrastructure to the brink. The solution? More nuclear power. It's considered more reliable, scalable, and cleaner than most other renewable energy sources. Instead of traditional large-scale nuclear power plants, we expect innovation to come from small modular reactors (SMRs). Although their maximum power output is about 25%-30% less than that of large nuclear plants, these advanced reactors are much less expensive, can be constructed faster, and have diverse applications. Currently, only three SMRs are operational globally, but multiple projects are underway.

5

BEATING CANCER

Drug development is notoriously long and costly, with only 10%-20% of drug candidates successfully making it to market. On average, the process takes around 12 years from initial discovery to approval, and even longer – up to 30 years – for groundbreaking innovations like gene therapies. We expect AI will have a growing impact in clinical trials and drug discovery, significantly reducing timelines and costs while uncovering treatments for disease like cancer and exploring new frontiers in anti-aging and longevity.

6

MEET YOUR DIGITAL TWIN

Digital twins are virtual replicas of physical objects, processes, or systems, created with real-time data to deliver predictive insights through advanced simulation. Now imagine having a digital version of yourself – a "health twin" powered by AI and real-time data – designed to predict, prevent, and personalize your healthcare. By 2035, digital health twins could model your unique biology, enabling treatments tailored to your genetic makeup and lifestyle. From early disease detection to optimizing wellness plans, personalized medicine will transform healthcare into a proactive, precision-driven experience.

7

THE SKY'S THE LIMIT

Flying taxis, once a staple of science fiction, are now closer to becoming a reality. The Federal Aviation Administration has already recognized a new category of aircraft – electric-powered air taxis – and in 2024 finalized rules for training and certifying pilots. It's not far-fetched to imagine a near future where drones complete last-mile deliveries and air taxis take off, potentially transforming transportation. Travel time from Manhattan to JFK Airport could be cut from an hour and a half to just 10 minutes!

8

YOUR NEXT HIRE: AN AI AGENT

Chatbots often get a bad rap – frustrating, impersonal, and rigid, with pre-trained responses that leave you frantically trying to reach a human. But as AI technology advances, we expect the next generation of "bots" will be relatable, smarter, more intuitive, and capable of reasoning in ways that closely resemble human thought. These AI agents are poised to disrupt the services sector, becoming more common in everyday life. Imagine the future with AI accountants, lawyers, doctors, educators, and travel agents.

THE WORLD IN 2035:
FROM VISION TO VALUE *(continued)*

9

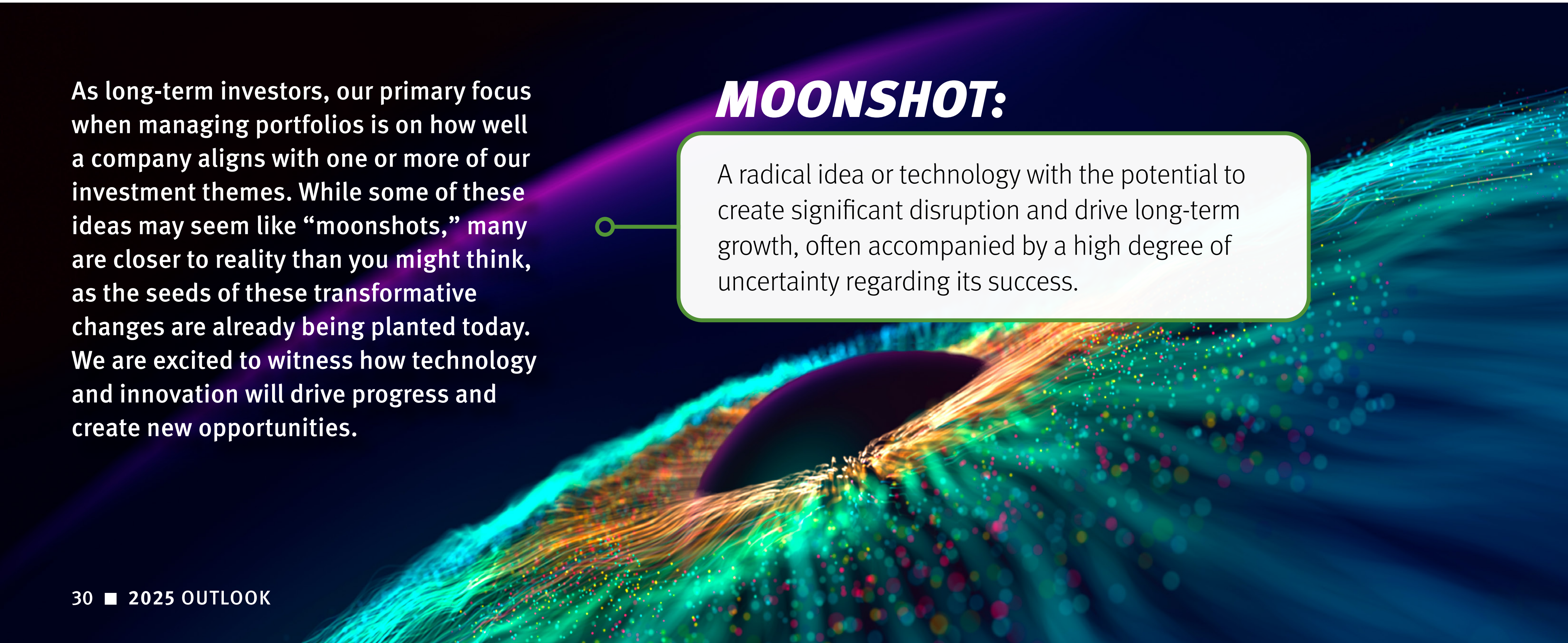
ADVANCED WARFARE: HUMANOID ROBOTS

Humanoid robots are set to become a standard feature on the battlefield, complementing the already operational unmanned aerial vehicles, drones, and robot dogs. These machines will not only reduce human casualties but also handle dangerous tasks such as bomb disposal, reconnaissance, and search and rescue missions. Retired Army General and former Chairman of the Joint Chiefs of Staff Mark Milley predicted that in 10-15 years, approximately one-fourth to a third of the U.S. military could be robotic.

10

SPACE MEANS BUSINESS

Our economy is already deeply reliant on space, with satellites enabling global communication, navigation, and weather forecasting. However, in the next decade, the space economy is expected to expand far beyond these foundational services. McKinsey & Co. predicts that the space economy will triple to become a $1.8 trillion industry by 2035. As humans push the boundaries, data centers in space, lunar mining for materials, missions to Mars, and private space tourism appear within reach.



As long-term investors, our primary focus when managing portfolios is on how well a company aligns with one or more of our investment themes. While some of these ideas may seem like "moonshots," many are closer to reality than you might think, as the seeds of these transformative changes are already being planted today. We are excited to witness how technology and innovation will drive progress and create new opportunities.

MOONSHOT:

A radical idea or technology with the potential to create significant disruption and drive long-term growth, often accompanied by a high degree of uncertainty regarding its success.

OUR FIVE INVESTMENT THEMES

FOURTH INDUSTRIAL REVOLUTION

Technological innovation has broken down the boundaries between the physical, digital, and biological worlds.

Quantum Leaps

|

Rise of Bionics

SECURING STRATEGIC RESOURCES

Companies and governments are prioritizing the development and protection of critical industries, resources, and services.

Farm Fields Go Vertical

|

Nuclear Will Power the U.S.

SHIFTING DEMOGRAPHICS

Changes in global population dynamics will bring about challenges and opportunities.

Beating Cancer

|

Meet Your Digital Twin

THE NEW CONSUMER

Consumer preferences, expectations, and behavior are altering business models and corporate strategies.

The Sky's the Limit

|

Your Next Hire: An AI Agent

PRODUCTIVE COMPETITION

Rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy.

Advanced Warfare: Humanoid Robots

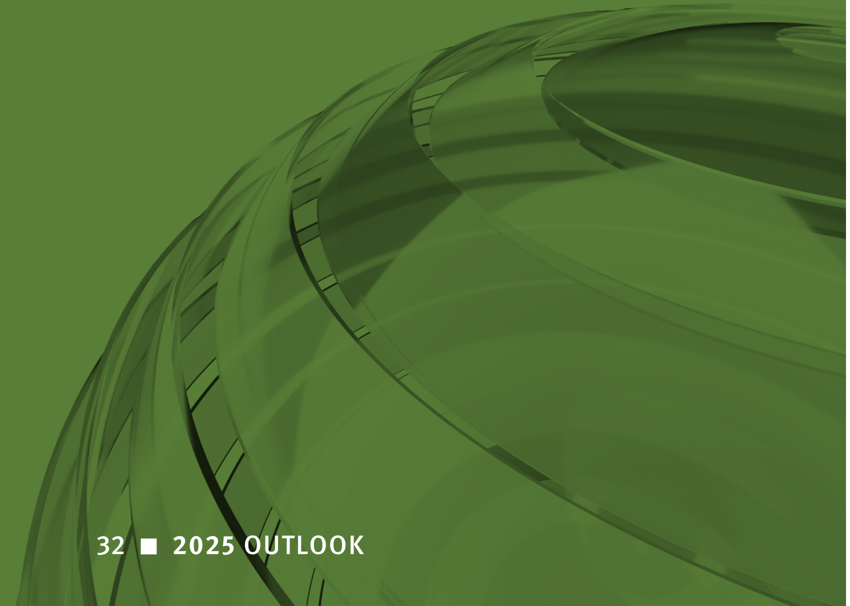
|

Space Means Business

HOW WE INVEST:

OUR INVESTMENT MANAGEMENT PROCESS

As you review this 2025 Outlook report, you may be wondering how this work influences our investment guidance and discretionary portfolios. While we offer forecasts for the coming year and discuss possible scenarios, when issuing investment guidance or managing our portfolios, we often take a longer-term view, looking beyond the near-term changes in market and economic conditions.



1

We routinely analyze the current **macroeconomic environment** as an input into our short-, medium-, and long-term views. From time to time, we identify investment themes and **megatrends** that influence the direction of the economy and the markets longer term.

2

Based on our assessment of the economic cycle, major investment themes, and other structural forces, **we formulate long-term capital market assumptions (CMAs)**, which are long-term expected return, standard deviation, and correlation estimates for various asset classes.

We use CMAs to build portfolios and develop our asset allocation models. **Stifel's Wealth Planning Department incorporates our asset allocation models and CMAs to create a financial plan that's custom to you.**

3

MANAGER SELECTION

Each manager recommendation is unique, but we use a framework as a general guide. We ask ourselves:

- Does the investment management firm have a strong business?
- Does the firm provide strong support for this specific product?

We may also consider the following:

- **Experience of the investment team:** Include managers that are substantively resourced and have a long tenure working together.
- **Investment philosophy:** Include managers with a well-articulated, stable, and consistent philosophy.
- **Investment process:** Include managers with a process that's repeatable and aligned with the investment philosophy and expertise.
- **Past performance:** Include managers whose performance and risk characteristics are consistent with philosophy, process, and portfolio construction guidelines.
- **Fees and other costs:** Include managers with appropriate and competitive fees given the nature of the investment strategy.

4 STOCK SELECTION

While our analysis for each security decision is unique, we use a framework as a general guide. We ask ourselves:

- Does the company align with our themes and economic trends?
- Is the company a potential disruptor in its industry? Is it competitive? Is it resilient?

We may also consider the following:

- **Strength of the management team:** Include companies with proven leaders, smart deployment of capital, and a sound strategic vision.
- **Economic moat:** Include companies with wide and stable economic moats, such as industry leaders, innovators, or disruptors with unique products or services.
- **Pricing power and profitability:** Include companies that can command a premium for their product or service.
- **Financial strength:** Include companies with solid balance sheets and the ability to generate strong free cash flow.
- **Growth potential:** Include companies with the potential to maintain or capture sizeable market share.

STIFEL CHOICE
PORTFOLIOS

Stifel Choice Portfolios offer you the flexibility to implement an asset allocation strategy that's tailored to your unique goals and objectives while drawing on Stifel's resources and capabilities.

You can invest in one, or several, of our mutual fund, exchange traded fund (ETF), or direct equity portfolios, or in one of our turnkey multi-asset class portfolios, which are based on your risk profile.

To learn more about Stifel Choice Portfolios and whether they are appropriate for your personal financial goals, contact your Stifel Financial Advisor.

STIFEL'S APPROACH TO ASSET ALLOCATION

Typically, your Stifel Financial Advisor will work with you to develop an asset allocation mix strategy based on your unique objectives. Behind the scenes, he or she will consult with us – the CIO Office – to help refine the investment mix that is appropriate for you. The following describes an asset allocation framework we provide to your Financial Advisor.

First, your Financial Advisor will work with you to identify an appropriate risk profile, ranging from conservative to aggressive. Then three other important choices are discussed: the equity strategy, the fixed income strategy, and liquidity preferences.

U.S.-Focused Versus Global Equity: We provide two choices for the asset mix equity strategy. The U.S.-Focused offering is designed for clients who prefer to balance their non-U.S. equity exposure with a preference for U.S. stocks. In this case, the U.S./non-U.S. mix is approximately 70%/30%. For clients who prefer more global exposure, we seek to align the U.S. exposure with the U.S. market capitalization in the global equity market, resulting in an approximate U.S./non-U.S. mix of 55%/45%.

Taxable Versus Tax-Sensitive Fixed Income: We provide two choices for the asset mix fixed income strategy. The Taxable offering invests in taxable bonds and is most often used by entities that do not pay income taxes, such as private foundations. The Tax-Sensitive offering assumes the investor is paying income taxes and therefore focuses the majority of its fixed income exposure in tax-advantaged bonds like municipals.

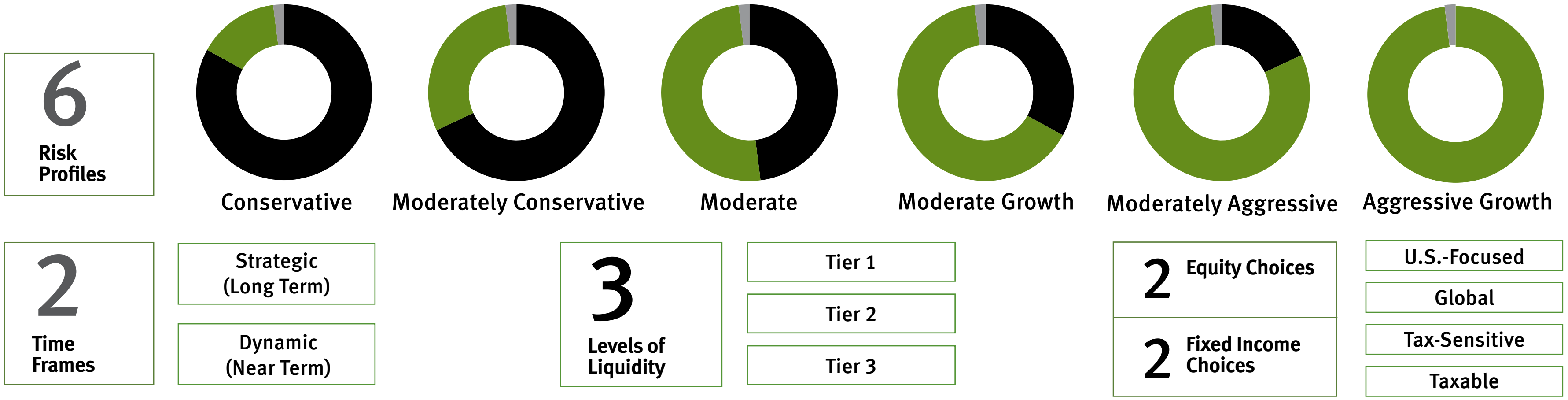
Liquidity Tiers: We offer three liquidity tiers in our asset allocation guidance offering.

The most liquid tier, **tier one**, includes investment exposure to publicly traded markets that can generally be sold, if needed, and excludes alternative investments.

Our **second liquidity tier** exposes a small percentage of the portfolio to hedge funds, products sometimes available in a limited partner (LP) format. These funds sometimes require a one-year lock-up, usually with quarterly redemption terms after that. In any case, redeeming such an LP position requires advance notice and is subject to general redemption terms of the specific LP.

Our **third liquidity tier**, often most appealing to institutional or ultra-high-net-worth investors with less need for liquidity, builds up the allocation to alternative investments by adding positions in the private markets, such as private equity, private debt, or private real estate. Such investments usually require a lock-up of the invested capital.

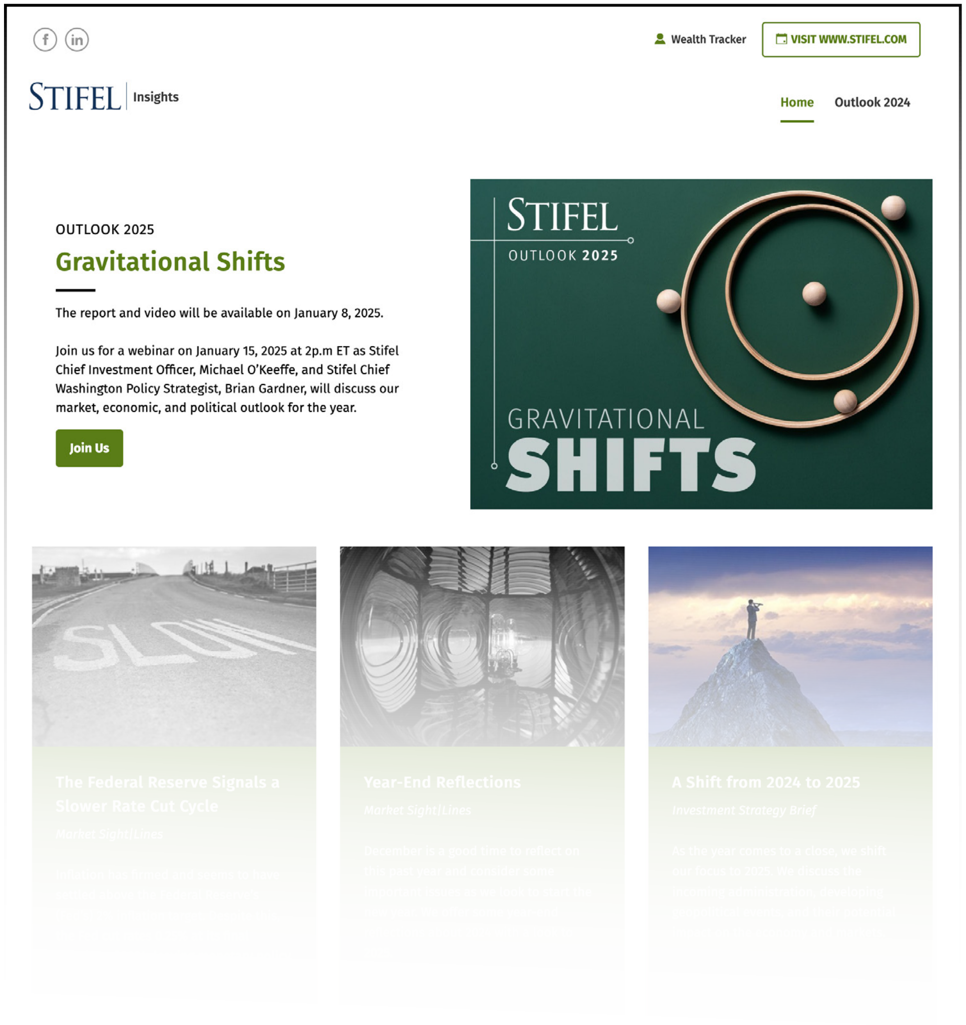
And finally, your Financial Advisor can work with you to elect to invest in a Strategic Asset mix, designed as a diversified strategy for the long term. Or, you can choose to invest in our Dynamic Asset mix guidance, where we will adjust our strategic leanings in consideration of shorter-term views.



WHERE TO FIND
STIFEL GUIDANCE

The Stifel CIO Office develops economic and market analysis, and corresponding investment guidance, for the benefit of Stifel clients. You can find all of our Stifel Guidance at:

stifelinsights.com



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Outlook 2024

OUTLOOK 2025

Gravitational Shifts

The report and video will be available on January 8, 2025.

Join us for a webinar on January 15, 2025 at 2p.m ET as Stifel Chief Investment Officer, Michael O'Keeffe, and Stifel Chief Washington Policy Strategist, Brian Gardner, will discuss our market, economic, and political outlook for the year.

Join Us

The Federal Reserve Signals a Slower Rate Cut Cycle

Market Sight|Lines

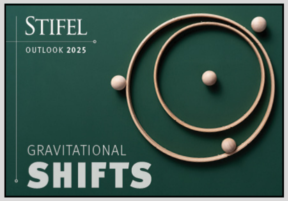
Year-End Reflections

Market Sight|Lines

A Shift from 2024 to 2025

Investment Strategy Brief

Popular insights from Stifel's CIO Office include:



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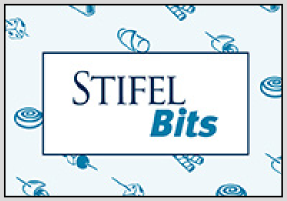

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INDEX DESCRIPTIONS

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

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **Bloomberg U.S. 1000 Total Return Index** is a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies.

The **Bloomberg U.S. 1000 Growth Total Return Index** is a float market cap-weighted benchmark comprised of those companies in the Bloomberg U.S. 1000 Total Return Index with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth.

The **Bloomberg U.S. 2000 Total Return Index** is a float market cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index.

The **Bloomberg U.S. 2500 Total Return Index** is a float market cap-weighted benchmark of the lower 2,500 in capitalization of the Bloomberg U.S. 3000 Index.

The **Bloomberg U.S. Micro Cap Total Return Index** is a float market-cap-weighted benchmark of those securities in the U.S. Aggregate Equity Index with a market capitalization ranking of lower than 2,500.

The **Dow Jones U.S. Select Dividend Index** aims to represent the U.S.'s leading stocks by dividend yield.

The **S&P 500 Dividend Aristocrats®** measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The **S&P 500 Health Care Index** comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

The **Euro STOXX 50® Index** represents the performance of the 50 largest companies among the 19 supersectors in terms of free-float market capitalization in 11 Eurozone countries.

The **Nikkei 225 Index** is a price-weighted index of the 225 top Japanese companies listed in the Tokyo Stock Exchange.

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 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 **MSCI China Index** captures large and mid-cap representation across China A, H, and shares, Red chips, P chips, and foreign listings (e.g. ADRs). With 741 constituents, the index covers about 85% of this China equity universe.

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

The **MSCI ACWI ex USA Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the U.S.) and 25 Emerging Markets (EM) countries.

The **Bloomberg U.S. Treasury Bills Index** includes U.S. Treasury Bills that have a remaining maturity from one month up to (but not including) 12 months. It excludes zero coupon strips.

The **Bloomberg Global Aggregate Index** is market value-weighted inclusive of accrued interest and covers the most liquid portion of the global investment- grade fixed-rate bond market, including government, credit, and collateralized securities.

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 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 Mortgage-Backed Securities Index** is a measurement of the movement of the 15- and 30-year fixed rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). All returns are market value-weighted inclusive of accrued interest.

The **Bloomberg U.S. Corporate High-Yield Bond Index** covers the U.S. dollar-denominated, non-investment-grade, fixed rate, taxable 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. The index excludes emerging markets debt. The U.S. Corporate High-Yield Bond Index is part of the U.S. Universal and Global High-Yield Indices.

The **Bloomberg U.S. Municipal Bond 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 pre-refunded bonds.

The **Credit Suisse Leveraged Loan Index** tracks the investable market of the U.S. dollar-denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

The **Dow Jones U.S. Select REIT Index** intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The **BofA Merrill Lynch Adjustable Rate Preferred Securities Index** tracks the performance of U.S. dollar-denominated investment-grade floating rate preferred securities publicly issued in the U.S. domestic market. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P, and Fitch) and must have an investment-grade-rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long-term sovereign debt ratings).

The **BofA Merrill Lynch Core Plus Fixed Rate Preferred Securities Index** tracks the performance of fixed rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market. Qualifying securities must be rated at least B3 (based on an average of Moody's, S&P, and Fitch) and must have an investment grade-rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long-term sovereign debt ratings).

The **Zillow Observed Rent Index (ZORI)** is a smoothed measure of the typical observed market rate rent across a given region. ZORI is a repeat-rent index that is weighted to the rental housing stock to ensure representativeness across the entire market, not just those homes currently listed for-rent. The index is dollar-denominated by computing the mean of listed rents that fall into the 40th to 60th percentile range for all homes and apartments in a given region, which is once again weighted to reflect the rental housing stock. Details available in ZORI methodology.

The **BofA Merrill Lynch U.S. High Yield Master II Index** is a market value-weighted index of all domestic and Yankee (bonds denominated in U.S. dollars and issued in the U.S. by foreign entities) high-yield bonds, including deferred interest bonds and payment-in-kind securities.

The **Bloomberg Commodity Index** ("BCOM" or the "Index") is designed to be a highly liquid and diversified benchmark for commodity investments.

The **HFRI Fund Weighted Composite Index** is an equal-weighted index utilized by numerous hedge fund managers as a benchmark for their own hedge funds. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite Index, which accounts for over 2,200 funds listed on the HFR database. Funds included in the index must report monthly returns, report net of all fees returns, report assets in U.S. dollars, and have at least $50 million under management or have been actively trading for at least 12 months.

Cash & Cash Equivalents 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. Gov't 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 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 Int'l 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. Government/Credit Index).

Indices are unmanaged, do not reflect fees and expenses, and you cannot invest directly in an index.

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.

DISCLOSURES

ASSET CLASS RISKS AND DESCRIPTION OF TERMS

Bonds – Bonds are subject to market, interest rate, and credit risk. Prices on bonds and other interest rate-sensitive securities will decline as interest rates rise. Municipal bonds may be subject to state and alternative minimum taxes, and capital gains taxes may apply. High yield bonds have greater credit risk than higher quality bonds. Bond laddering does not assure a profit or protect against loss in a declining market. Yields and market values will fluctuate, and if sold prior to maturity, bonds may be worth more or less than the original investment.

Cash Equivalents – Portfolios that invest in very short-term securities provide taxable or tax-advantaged current income, pose little risk to principal, and offer the ability to convert the investment into cash quickly. These investments may result in a lower yield than would be available from investments with a lower quality or longer term.

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.

Equities – Portfolios that emphasize stocks may involve price fluctuations as stock market conditions change. Small and mid capitalization stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

International/Global Investing/Emerging Markets – There are special considerations associated with international and global 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.

Alternative Investments or Non-Traditional Assets – 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.

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.

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.

Mutual Funds and Exchange Traded Funds – The investment return and principal value of an investment in funds will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. ETFs trade like a stock and may trade for less than their net asset value. There will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account.

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.

RISK PROFILES

RP 1 Conservative – A conservative investor values protecting principal over seeking appreciation. This investor is comfortable accepting lower returns in exchange for a higher degree of liquidity and/or stability. Typically, a Conservative investor primarily seeks to minimize risk and loss of principal.

RP 2 Moderately Conservative – A moderately conservative investor values principal preservation, but is comfortable accepting a small degree of risk and volatility to seek some degree of appreciation. This investor desires greater liquidity, is willing to accept lower returns, and is willing to accept minimal losses.

RP 3 Moderate – A moderate investor values reducing risks and enhancing returns equally. This investor is willing to accept modest risks to seek higher long-term returns. A moderate investor may endure a short-term loss of principal and lower degree of liquidity in exchange for long-term appreciation.

RP 4 Moderate Growth – A moderate growth investor values higher long-term returns and is willing to accept considerable risk. This investor is comfortable with short-term fluctuations in exchange for seeking long-term appreciation. The moderate growth investor is willing to endure larger short-term losses of principal in exchange for the potential of higher long-term returns. Liquidity is a secondary concern to a moderate growth investor.

RP 5 Moderately Aggressive – A moderately aggressive investor primarily values higher long-term returns and is willing to accept significant risk. This investor believes higher long-term returns are more important than protecting principal. A moderately aggressive investor may endure large losses in favor of potentially higher long-term returns. Liquidity may not be a concern to a moderately aggressive investor.

RP 6 Aggressive – An aggressive investor values maximizing returns and is willing to accept substantial risk. This investor believes maximizing long-term returns is more important than protecting principal. An aggressive investor may endure extensive volatility and significant losses. Liquidity is generally not a concern to an aggressive investor.

A NOTE ON RISK ASSESSMENTS

The Stifel Financial ID ("SFID") is a proprietary questionnaire which helps us understand an investor's attitudes toward and emotions about investing. We can use a client's Financial ID to help manage his/her/their investing experience. "Risk Attitude" is one of the six dimensions we measure. It is a behavioral assessment of the individual's feelings and appetite for risk. Separately, we use a dedicated Risk Assessment Questionnaire ("RAQ"), which is an industry-standard requirement, in the process of opening and maintaining any account here at Stifel. The RAQ results in a specific "Risk Tolerance" score based on such considerations as time horizon, income requirements, and liquidity a need, which is used to describe a specific account's investment objective and to determine the suitability of any given investment for that account. In the situations where a client's Risk Attitude and the Risk Tolerance for that client's account(s) is (are) different, it is important to review them both to determine whether changes in the management of the account are warranted.

IMPORTANT NOTES AND DISCLOSURES

The recommendations made for your actual portfolio will differ from any asset allocation or strategies outlined in this document. The model portfolios are not available to investors since they represent investment ideas, which are general in nature, and do not include fees. Your asset allocation will be customized to your preferences and risk tolerance, and you will be charged fees. You should ensure that your portfolio is updated or redefined when your investment objectives or personal circumstances change.

Diversification and asset allocation do not ensure a profit or guarantee against losses. Investing involves risk, including the possible loss of principal. Any data on past performance contained herein is no indication as to future performance. The value of any investment may fluctuate as a result of market changes. The information in this document is not intended to predict actual results, and no assurances are given with respect thereto.

Assumptions are estimates based on historic performance and an evaluation of the current market environment. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy, nor should they be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. The assumptions are subjective estimates based on circumstances and events that may not occur. Further, any valuations given in this document may not accurately reflect the values at which investments may actually be bought or sold, and no allowance has been made for taxation.

Dollar-cost averaging does not assure a profit or protect against a loss. Investors should consider their ability to continue investing during periods of falling prices.

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Investing in securities involves risk. Stifel does not guarantee favorable investment outcomes, nor does it provide any guarantee against investment losses. You are urged to review all prospectuses and other offering information prior to investing. Past performance is not a guarantee of future performance. Rebalancing may have tax consequences, which you should discuss with your tax advisor.

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