MARKET SIGHT LINES

Helpful Insights from Stifel's Blueprint Conference: The Economy, Markets, and Innovation

By Michael O'Keeffe, *Chief Investment Officer*

Each year at Stifel, we hold our Blueprint conference, where we come together with industry experts to discuss the environment and best practices for serving our clients. During the event, I had the distinct honor to host wide-ranging conversations with numerous thought leaders from both within and outside our firm. In this week's Sight|Lines, I share some helpful learnings from these discussions, including insights on the economy, the markets, and industry innovation.

THE TAKEAWAY: THE ECONOMY IS HOLDING UP, MARKETS ARE VOLATILE, AND FUTURE INNOVATION IS IMPORTANT FOR INVESTORS

Experts from within and outside our firm help us understand the environment and the future. In summary:

- Stifel's Brian Gardner shared insights on trade, taxes, and Washington policy.
- First Trust's Brian Wesbury was constructive on the economy but cautious on markets.
- Stifel's Lindsey Piegza called for muted growth and fewer Federal Reserve (Fed) cuts.
- Franklin Templeton's Sonal Desai discussed opportunities in the bond market, given the higher yields available.
- Numerous participants reinforced the view that bonds play a key role for diversified investors, citing that the classic "60/40" portfolio is working again.
- Confluence's Mark Keller reframed the concept of risk from volatility to permanent loss.
- Capital Group's Mike Gitlin explained how companies are seeking capital from both the public and private markets, creating opportunities for investors as providers of capital.
- BlackRock's Rich Kushel reinforced this view, adding his belief that we're in great need of improved infrastructure here and around the world, creating opportunities for investors.
- Bitwise's Matt Hougan discussed the benefits of blockchain technology and the growing interest in digital assets among investors.
- Stifel's Tom Roderick discussed the rapidly developing environment for AI, including various related investment opportunities.

IN-DEPTH: THE ECONOMY IS HOLDING UP OK THIS YEAR, BUT GIVEN UNCERTAINTY, MARKETS REMAIN VOLATILE … EVEN AS A FOCUS ON FUTURE INNOVATION WILL REMAIN IMPORTANT FOR INVESTORS

Experts from within and outside our firm really help us understand the economic and market environment as well as the kinds of innovation we may expect in the future. Going deeper, the following are their thoughts:

- Stifel Chief Washington Policy Strategist Brian Gardner shared his insights on Washington policy:
  - We should expect more trade deals soon, as well as an extension of the 90-day China tariff pause.
  - The focus is turning to taxes, with the 2017 cuts expected to be extended, and possibly more.
- First Trust Chief Economist Brian Wesbury was both constructive and cautious:
  - The economy should hold up, and the U.S. should be able to handle deficits and growing debt.
  - Despite a positive economy, market valuations are a headwind to strong, positive returns.
- Stifel Chief Economist Lindsey Piegza remains modestly positive, with some worry:
  - Positive economic growth will slow some, even as inflation rises and the labor market softens.
  - The Fed will only cut 1-2 times as risks on both sides of the dual mandate, price and jobs, rise.
- Franklin Templeton Fixed Income CIO Sonal Desai is embracing yield opportunities:
  - Bonds (municipal, traditional, and taxable) and high-yield/private market debt are all attractive.
  - She and others reinforced that higher yields may make the "60/40" strategy appealing again.
- Confluence CEO/CIO Mark Keller reframed the concept of risk:
  - Volatility includes upside moves, so a focus on a possible permanent loss of capital is helpful.
  - This can lead to a focus on high-quality, well-run businesses.
- Capital Group CEO Mike Gitlin explained private market investment opportunities, including debt:
  - Companies are seeking capital from both public and private sources, good for investors.
- BlackRock's Portfolio Management Group Head Rich Kushel reinforced this view and shared others:
  - There is a great need for improved infrastructure, creating opportunities for investors.
- Bitwise CIO Matt Hougan discussed the benefits of blockchain technology:
  - Digital assets are seeing increased interest from investors, reinforcing the importance of education.
- Stifel Co-Head of U.S. Equity Research Tom Roderick discussed artificial intelligence:
  - A key Investment focus – how AI is being used by new and traditional businesses.
  - Other opportunities include the infrastructure around AI, like power and cybersecurity.

CONCLUSION

Our Stifel Blueprint conference brings together firm and wider industry experts to discuss the environment and best practices, all to help us do an even better job serving our clients. I was so honored to host wide-ranging conversations with numerous thought leaders from both within and outside our firm, which helps me and all those attending do better work in this challenging environment. Through this, we developed more insights into the economy, the markets, and industry innovation.

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Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall.

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. 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. Investors should be aware that many digital assets lack the robust regulatory protections and market oversight that investors have under the federal securities laws. **While all investments have some risk, digital assets carry both traditional investing risks and additional unique risks and *should be considered highly speculative*.**

Investing involves risks, including the possible loss of principal invested. Past performance is no guarantee of future results.

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 DJIA was invented by Charles Dow back in 1896. 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. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees. The small business optimism index is compiled from a survey that is conducted each month by the National Federation of Independent Business (NFIB) of its members. The index is a composite of ten seasonally adjusted components based on questions on the following: plans to increase employment, plans to make capital outlays, plans to increase inventories, expect economy to improve, expect real sales higher, current inventory, current job openings, expected credit conditions, now a good time to expand, and earnings trend. Indices are unmanaged and are not available for direct investment.

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