

STIFEL



Insights from Stifel's CIO Office

Dynamic Sector Leanings

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2020 Outlook: A Decade of Productive Competition

We see the '20s as a decade of *Productive Competition*. Examples:

- Economic: U.S. vs. China
- Political: capitalism vs. socialism
- Business: innovation vs. tradition
- Policy: globalism vs. protectionism

Why “Productive” Competition?

- We believe the challenges and friction created through this competition will make us stronger and better in the long run.

2020 Outlook: Three scenarios

Base Case: 60% Probability

- Economic growth may slow further, but continue.
- Earnings growth muted, but positive.
- Fiscal support will come into focus.
- The 2020 election, while a source of volatility, will support markets.

Bull Case: 25% Probability

- The U.S.-China Trade War sees a more speedy resolution.
- A business-friendly presidential candidate emerges as the front runner.
- Strong manufacturing recovery - productivity and wage growth increase.

Bear Case: 15% Probability

- Geopolitical risks resurface.
- A business-unfriendly candidate emerges as the front runner.
- Despite rising inflation, global growth slows leading to a recession.

Historical Sector Performance

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
-4.2% Cons. Staples	47.2% Info. Tech.	31.5% Energy	31.4% Energy	36.8% Comm. Serv.	35.3% Energy	-15.4% Cons. Staples	61.7% Info. Tech.	28.0% Real Estate	19.9% Utilities	28.7% Finan.	43.1% Cons. Disc.	29.0% Utilities	10.1% Cons. Disc.	27.4% Energy	38.8% Info. Tech.	6.5% Health Care	50.3% Info. Tech.
-5.5% Materials	38.2% Materials	24.3% Utilities	16.8% Utilities	36.8% Real Estate	22.4% Materials	-22.8% Health Care	48.6% Materials	27.7% Cons. Disc.	14.0% Cons. Staples	23.9% Cons. Disc.	41.5% Health Care	26.1% Real Estate	6.9% Health Care	23.5% Comm. Serv.	23.8% Materials	4.1% Utilities	32.7% Comm. Serv.
-11.2% Energy	37.4% Cons. Disc.	21.9% Real Estate	7.4% Real Estate	24.2% Energy	19.4% Utilities	-29.0% Utilities	41.3% Cons. Disc.	26.7% Industrials	12.7% Health Care	18.3% Comm. Serv.	40.6% Industrials	25.3% Health Care	6.6% Cons. Staples	22.7% Finan.	23.0% Cons. Disc.	0.8% Cons. Disc.	32.1% Finan.
-14.6% Finan.	32.2% Industrials	19.8% Comm. Serv.	6.5% Finan.	21.0% Utilities	16.3% Info. Tech.	-30.5% Comm. Serv.	20.9% Industrials	22.2% Materials	7.9% Real Estate	17.9% Health Care	35.6% Finan.	20.1% Info. Tech.	5.9% Info. Tech.	18.8% Industrials	22.1% Finan.	-0.3% Info. Tech.	29.3% Industrials
-15.1% Real Estate	31.0% Finan.	18.0% Industrials	6.5% Health Care	19.2% Finan.	14.2% Cons. Staples	-33.5% Cons. Disc.	20.8% Real Estate	20.4% Energy	6.3% Comm. Serv.	16.2% Real Estate	28.4% Info. Tech.	16.0% Cons. Staples	3.4% Comm. Serv.	16.7% Materials	22.1% Health Care	-2.2% Real Estate	29.0% Real Estate
-18.8% Health Care	26.2% Utilities	13.2% Cons. Disc.	4.4% Materials	18.6% Cons. Disc.	12.0% Industrials	-34.9% Energy	19.7% Health Care	19.0% Comm. Serv.	6.1% Cons. Disc.	15.3% Industrials	26.1% Cons. Staples	15.2% Finan.	1.2% Real Estate	16.3% Utilities	21.0% Industrials	-8.4% Cons. Staples	27.9% Cons. Disc.
-23.8% Cons. Disc.	25.6% Energy	13.2% Materials	3.6% Cons. Staples	18.2% Materials	11.9% Comm. Serv.	-39.9% Industrials	17.2% Finan.	14.1% Cons. Staples	4.7% Energy	15.0% Materials	25.6% Materials	9.8% Industrials	-1.6% Finan.	13.8% Info. Tech.	13.5% Cons. Staples	-12.5% Comm. Serv.	27.6% Cons. Staples
-26.4% Industrials	20.8% Real Estate	10.9% Finan.	2.3% Industrials	14.4% Cons. Staples	7.1% Health Care	-43.1% Info. Tech.	14.9% Cons. Staples	12.1% Finan.	2.4% Info. Tech.	14.8% Info. Tech.	25.0% Energy	9.7% Cons. Disc.	-2.6% Industrials	6.0% Cons. Disc.	12.1% Utilities	-13.0% Finan.	26.3% Utilities
-30.0% Utilities	15.1% Health Care	8.2% Cons. Staples	1.0% Info. Tech.	13.2% Industrials	-13.2% Cons. Disc.	-45.0% Real Estate	13.8% Energy	10.2% Info. Tech.	-0.6% Industrials	10.8% Cons. Staples	13.2% Utilities	6.9% Materials	-4.8% Utilities	5.4% Cons. Staples	10.9% Real Estate	-13.3% Industrials	24.6% Materials
-34.1% Comm. Serv.	11.6% Cons. Staples	2.5% Info. Tech.	-5.6% Comm. Serv.	8.4% Info. Tech.	-18.6% Finan.	-45.7% Materials	11.9% Utilities	5.5% Utilities	-9.8% Materials	4.6% Energy	11.5% Comm. Serv.	3.0% Comm. Serv.	-8.4% Materials	1.1% Real Estate	-1.0% Energy	-14.7% Materials	20.8% Health Care
-37.4% Info. Tech.	6.8% Comm. Serv.	1.7% Health Care	-6.4% Cons. Disc.	7.5% Health Care	-20.5% Real Estate	-55.3% Finan.	8.9% Comm. Serv.	2.9% Health Care	-17.1% Finan.	1.3% Utilities	-1.5% Real Estate	-7.8% Energy	-21.1% Energy	-2.7% Health Care	-1.3% Comm. Serv.	-18.1% Energy	11.8% Energy


















Source: Stifel Investment Strategy via Bloomberg as of December 31, 2019. Past performance is not a guarantee of future returns.

Our Perspective on the Business Cycle

	EARLY-CYCLE Acceleration in economic growth	MID-CYCLE Positive, but moderating growth	LATE-CYCLE Growth rate slows to stall speed	RECESSION Growth contracts
Outperform U.S. Equity Market	<ul style="list-style-type: none"> Consumer Discretionary Financials Information Technology Materials Real Estate 	<ul style="list-style-type: none"> Industrials Information Technology 	<ul style="list-style-type: none"> Consumer Staples Energy Health Care Materials Utilities 	<ul style="list-style-type: none"> Consumer Staples Health Care Comm. Services Utilities
Underperform U.S. Equity Market	<ul style="list-style-type: none"> Energy Comm. Services Utilities 	<ul style="list-style-type: none"> Utilities 	<ul style="list-style-type: none"> Consumer Discretionary Information Technology 	<ul style="list-style-type: none"> Consumer Discretionary Industrials Information Technology Real Estate

Note: This is a hypothetical illustration of a typical business cycle. There is not always a chronological progression in this order, and there have been and will be cycles when the economy has skipped a phase or retraced an earlier one. The sectors listed are generally expected to outperform or underperform, but this may not always be the case.

Dynamic Sector Leanings

Sector	Index Weight	Dynamic Weight	Note
 Communication Services	10.4%	 11.4%	A historically defensive sector which now includes growth names where some regulatory risk is priced in.
 Consumer Discretionary	9.8%	9.8%	Elevated valuations combined with healthy consumer. Risks are balanced.
 Consumer Staples	7.2%	 5.2%	Disconnect between valuations and declining profit margins and weaker earnings growth outlook.
 Energy	4.3%	4.3%	A slowing economy leads to lower demand, but increased geopolitical tensions can lead to supply shocks.
 Financials	13.0%	 15.0%	Valuations are attractive, consumer spending is still robust, and bank credit quality is strong.
 Healthcare	14.2%	14.2%	Headline risk going into elections keeps us on the sidelines, for now.
 Industrials	9.1%	9.1%	Weakening capital expenditure a headwind. Valuations are in-line.
 Information Technology	23.2%	23.2%	Strong balance sheets combined with higher-than-average valuations.
 Materials	2.7%	 3.7%	More sensitive to changes in economic growth. Trade uncertainty easing and global manufacturing bottoming.
 Real Estate	2.9%	 1.9%	Elevated valuations and a weakening cash flow profile due to falling capitalization rates.
 Utilities	3.3%	 2.3%	Stretched valuations with potential downside due to interest rates.

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

Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

Alternative Investments or Non-Traditional Assets – Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, Hedge Funds, Venture Capital, Limited Partnerships, etc.

Real Estate – When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Commodities and Futures – The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Hedge Funds – *Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.*

Venture Capital – Venture capital investments involve substantial risks. The risks associated with investing in companies in the start-up or expansion stages of development are greater than those of companies in later stages, because the companies' business concepts generally are unproven and the companies have little or no track record.

Limited Partnerships – Generally, limited partnership investments are suitable only for a narrow class of relatively sophisticated investors. Limited partnership investments may be speculative in nature and be subject to resale restrictions or illiquidity. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Bonds – When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds.

Duration – Duration is a measure of the sensitivity of the price -- the value of principal -- of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Standard Deviation – Standard deviation is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set.

International and Emerging Markets – There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Private Equity – Private equity funds are not appropriate for all investors. Investors should be aware that private equity funds may contain speculative investment practices that can lead to a loss of the entire investment. Private equity funds may invest in entities in which no secondary market exists and, as such, may be highly illiquid. The funds are not required to provide periodic pricing or valuation information to investors and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information.

Short Positions – The investor should note that when a short position moves in an unfavorable way, the losses are theoretically unlimited. The broker will demand more collateral and the manager might have to close out that short position at an inopportune time to limit any further losses.

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

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

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

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

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

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

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

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

S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 1000 Index represents approximately 1,000 of the largest companies in the U.S. equity markets, the Russell 1000 is a subset of the Russell 3000 Index. The Russell 1000 (maintained by the Russell Investment Group) comprises over 90% of the total market capitalization of all listed U.S. stocks and is considered a bellwether index for large cap investing.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index.

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

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

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

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.

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

VIX Index shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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

Cash & Cash Eq. is represented by the Bloomberg Barclays 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 Barclays 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 Barclays U.S. Corporate Bond Index, comprised of the investment grade, fixed-rate, taxable corporate bond market.

High-Yield Bonds is represented by the Bloomberg Barclays 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 Barclays U.S. Agg Gov/Credit).

MSCI AC World Index is comprised of equity securities belonging to 23 developed markets and 24 emerging markets countries.

Bloomberg Barclays U.S. Government/Credit Bond Index is comprised investment grade, dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.