

STIFEL

FAVORITE

15

December 1, 2022

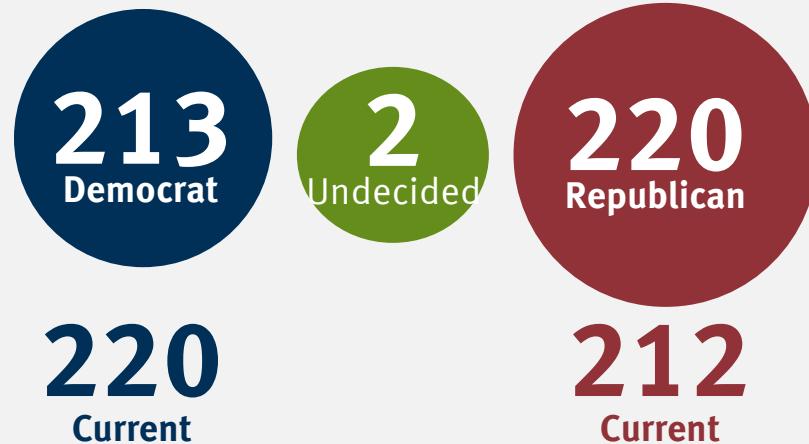
Insights From Stifel's CIO Office



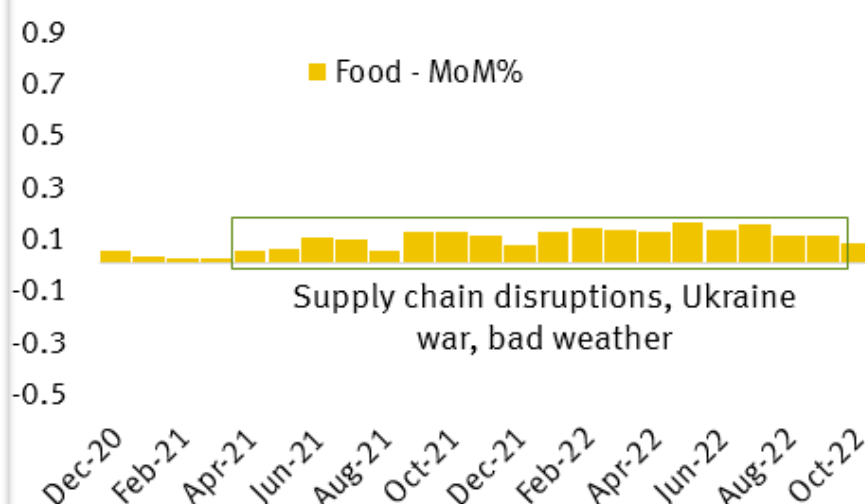
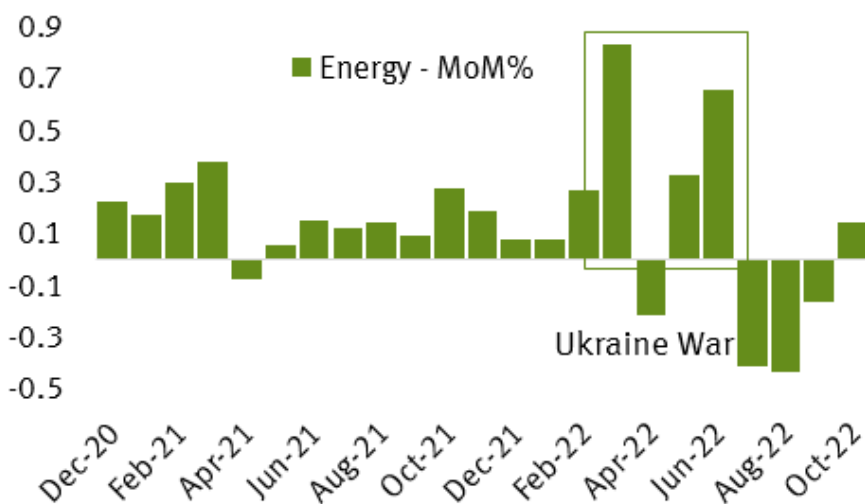
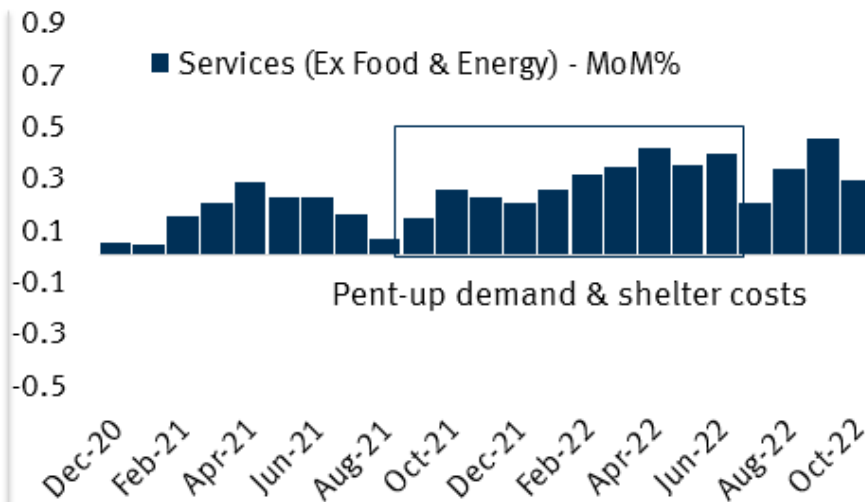
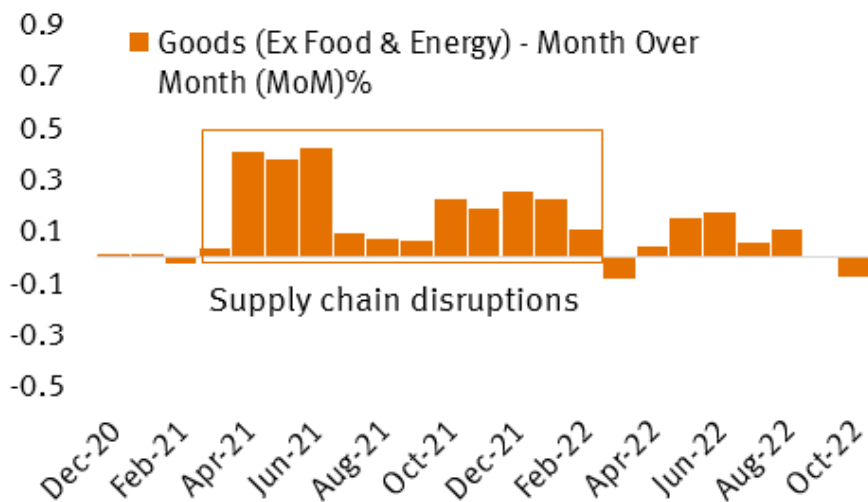
Midterm Elections:

- The anticipated “red wave” did not materialize, and Congress is divided with thin majorities.
- Gridlock is likely.
- Lame duck session focus:
 - Spending bill
 - National Defense Authorization Act
 - SAFE Banking Act
 - Tax extenders bill
- New Congress:
 - Topics of mutual interest to both parties such as, new regulations for tech companies and cryptocurrencies
 - Passing government spending bills and increasing the debt ceiling will be even more challenging

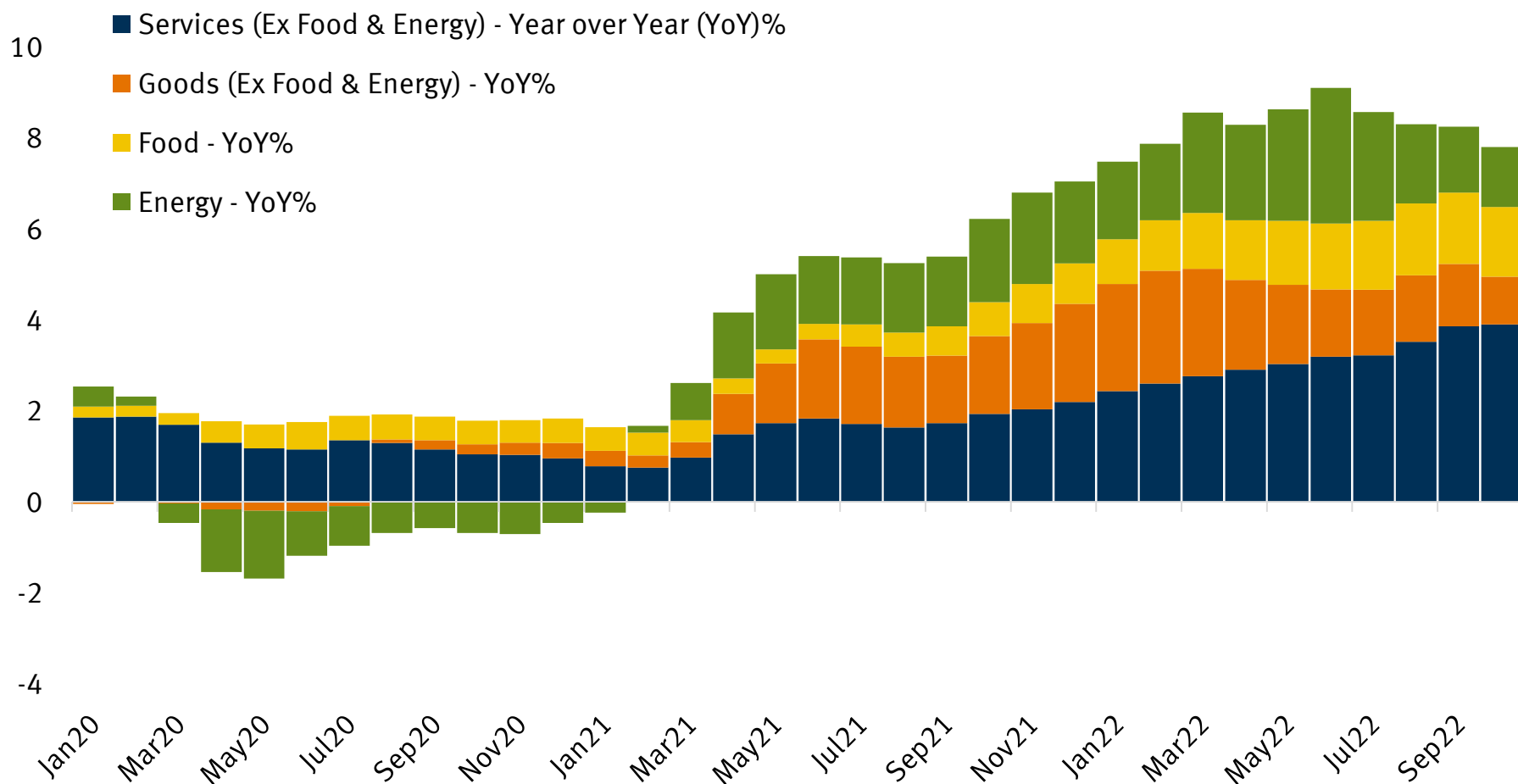
Replay of our Client Webinar:
2022 Midterm Elections Part 2 [here](#)

**CONGRESS****HOUSE OF REPRESENTATIVES****SENATE**

Source: Stifel Investment Strategy via WSJ, as of December 1, 2022

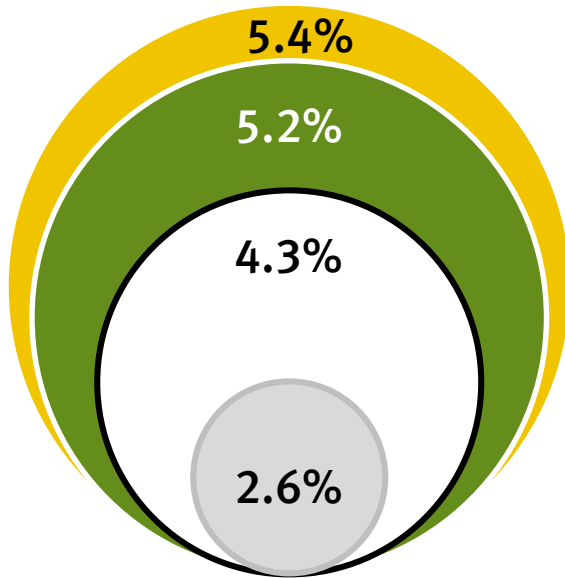


Source: Stifel Investment Strategy data via Bloomberg, as of November 17, 2022

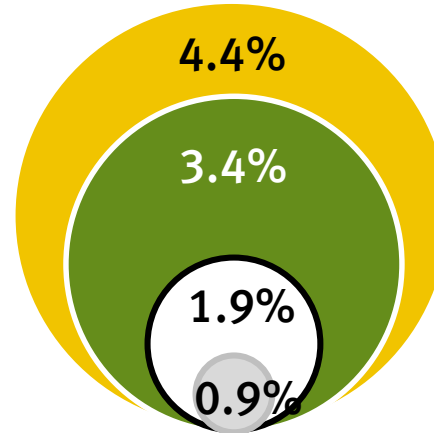


Market Sight/Lines - Federal Open Market Committee Update: Higher Rates for Longer

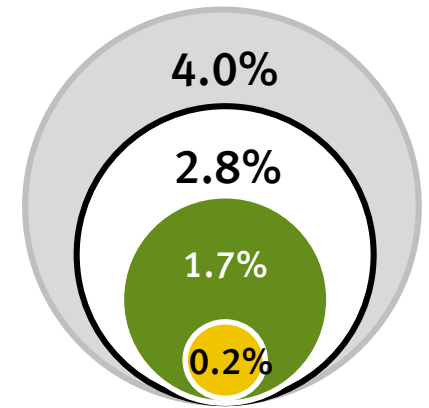
PCE Inflation
(% Change 4Q/4Q)



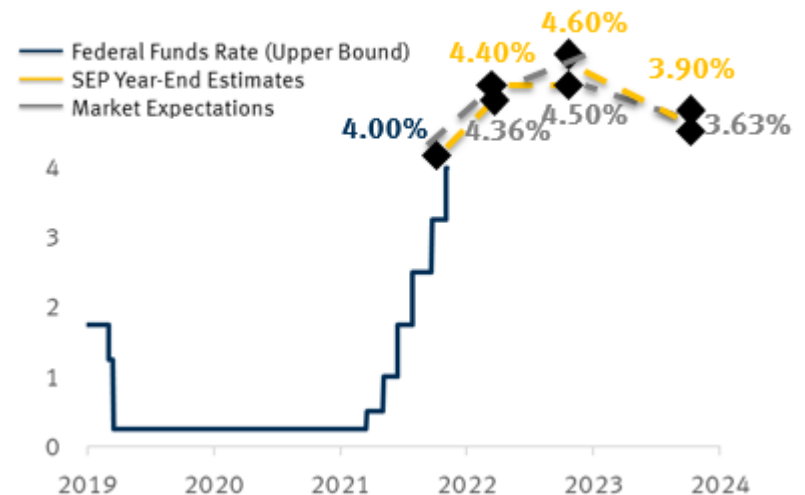
Federal Funds Rate



Real GDP
(% Change 4Q/4Q)



- December 2021 Projection
- March 2022
- June 2022
- September 2022



Fed's Dual Mandate

Price Stability: 2%

Wage pressures subside

- *"Wages aren't coming down, they're just moving sideways at an elevated level"*

Food/shelter/core goods prices ease

- *"Price pressures remain evident across a broad range of goods and services"* ★
- *"Core services inflation moving up"* ★
- *"There will come a point at which rent inflation will start to come down...well out from where we are now"*

Supply chain pressures ease ★

- *"Supply side problems have resolved themselves"*

Inflation expectations fall towards 2% ★

- *"Longer-term inflation expectations appear to remain well anchored"*

CPI/PCE trends lower ★

- *"Good evidence of that would be a series of down monthly readings"*

Maximum Employment

Job quits slow | Initial jobless claims rise ★

- *"We would love to see vacancies coming down, quits coming down. They are coming down...but not by as much as we thought"*

Unemployment to job openings ratio declines

- *"Job creation still exceeds, sort of the level that would hold the market where it is"*

Unemployment above 4.4%

- *"The labor market remains extremely tight"*
- *"Overheated labor market where demand substantially exceeds supply"*

Deep recession

- *"Here in the United States we have a strong economy"*
- *"No one knows whether there's going to be a recession or not, and if so, how bad that recession would be"*

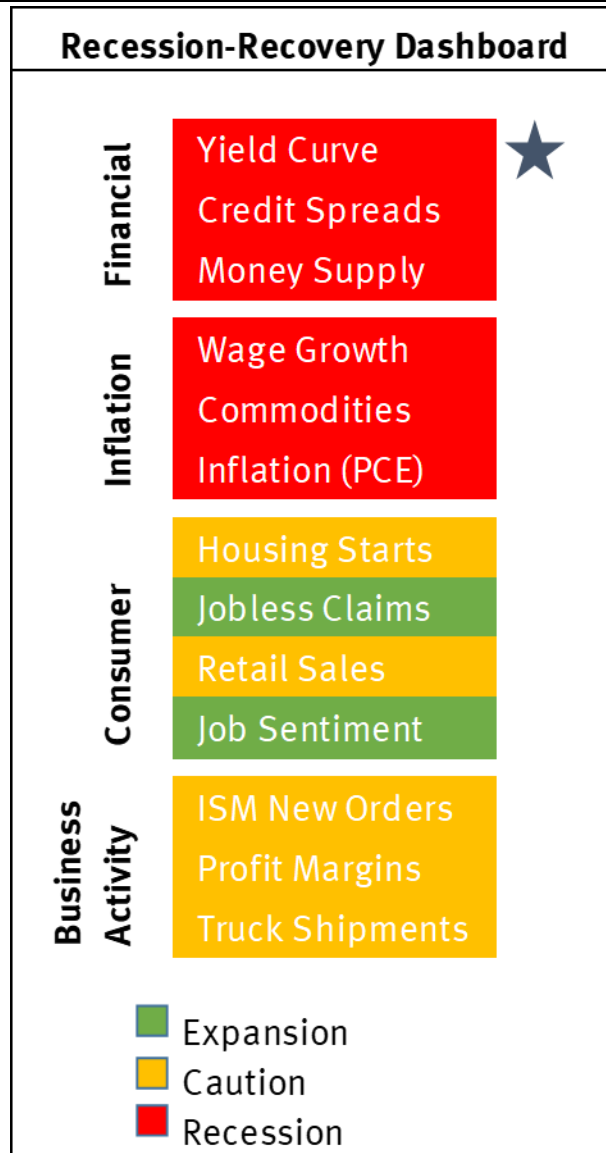
Severe financial conditions

- *"Financial conditions have tightened significantly in response to our policy actions"*

1.2%**Consumers' Contribution
to Q2 GDP***1 year ago: 2.0%***8.3%****Retail Sales***1 year ago: 16.6%***2.3%****Savings Rate***1 year ago: 7.3%***3.7%****Unemployment Rate***1 year ago: 4.6%*

Source: Stifel Investment Strategy data via Bloomberg, as of December 1, 2022



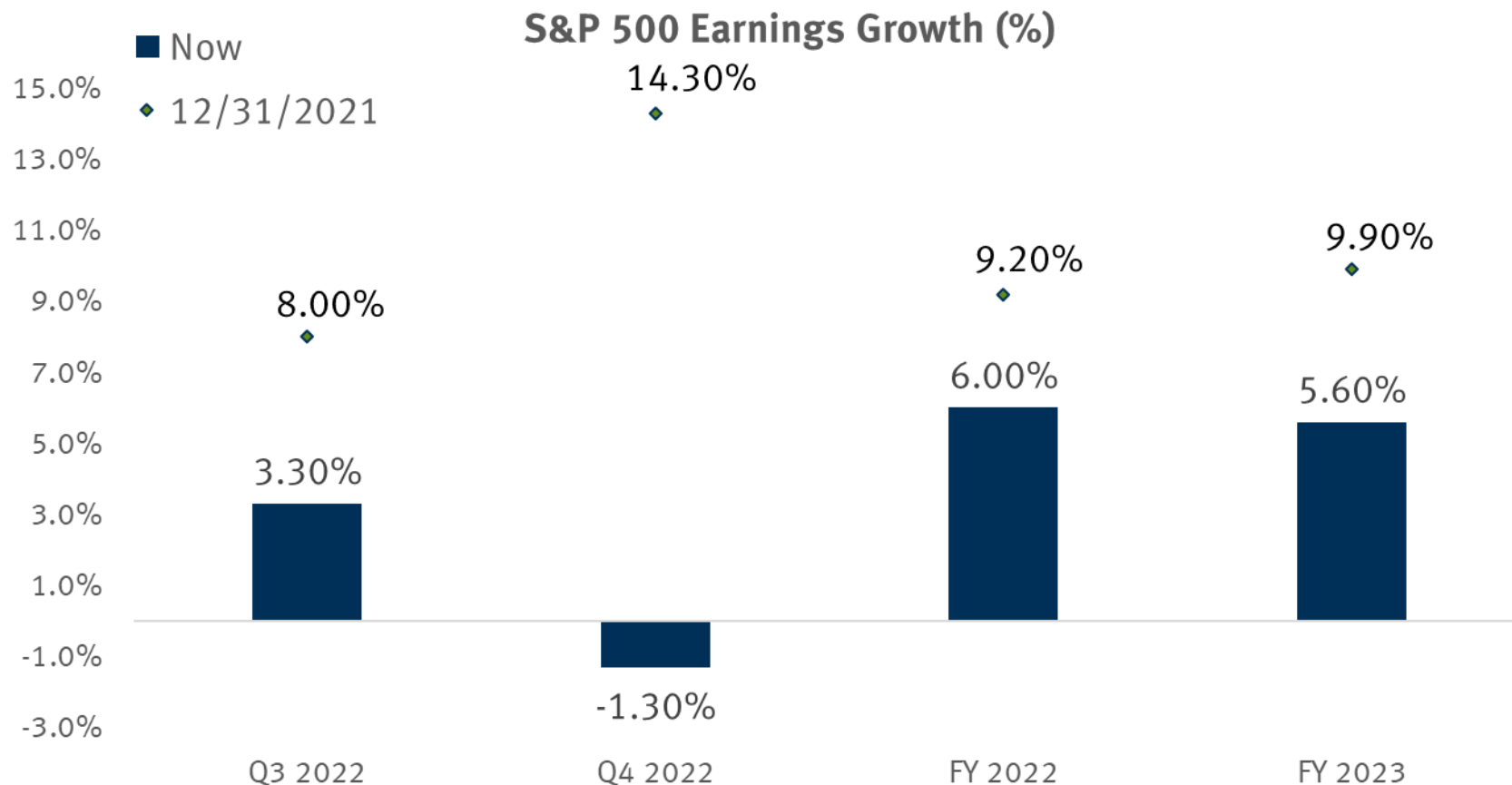


- Various **yield curve** indicators suggest +50% probability of recession.
- **Credit spreads** have repriced on rate uncertainty outlook.
- **Money supply** growth has declined on normalized policy and banks cautiousness about lending money.
- **Wage growth is** contributing to inflationary pressures.
- **Commodities** may have eased on global growth fears but with OPEC+ policy to cut output, this represents an upside risk to energy prices.
- With the Fed being laser focused on **inflation** by aggressively tightening monetary policy, the probability of recession has gone up.
- **Housing starts** have stalled on higher costs, chain supply issues, and weak builder confidence.
- **Jobless claims** have rolled-over on a solid labor market.
- Overall **retail sales** remains supported by consumer spending.
- **Job sentiment has stabilized** as quits rate has been range-bound.
- **ISM New Orders** show manufacturing contracting while service remains in expansion.
- **Profit margins** remain historically high but risks are meaningful due to price pressures.
- **Truck shipments** indicate growth is slowing down.

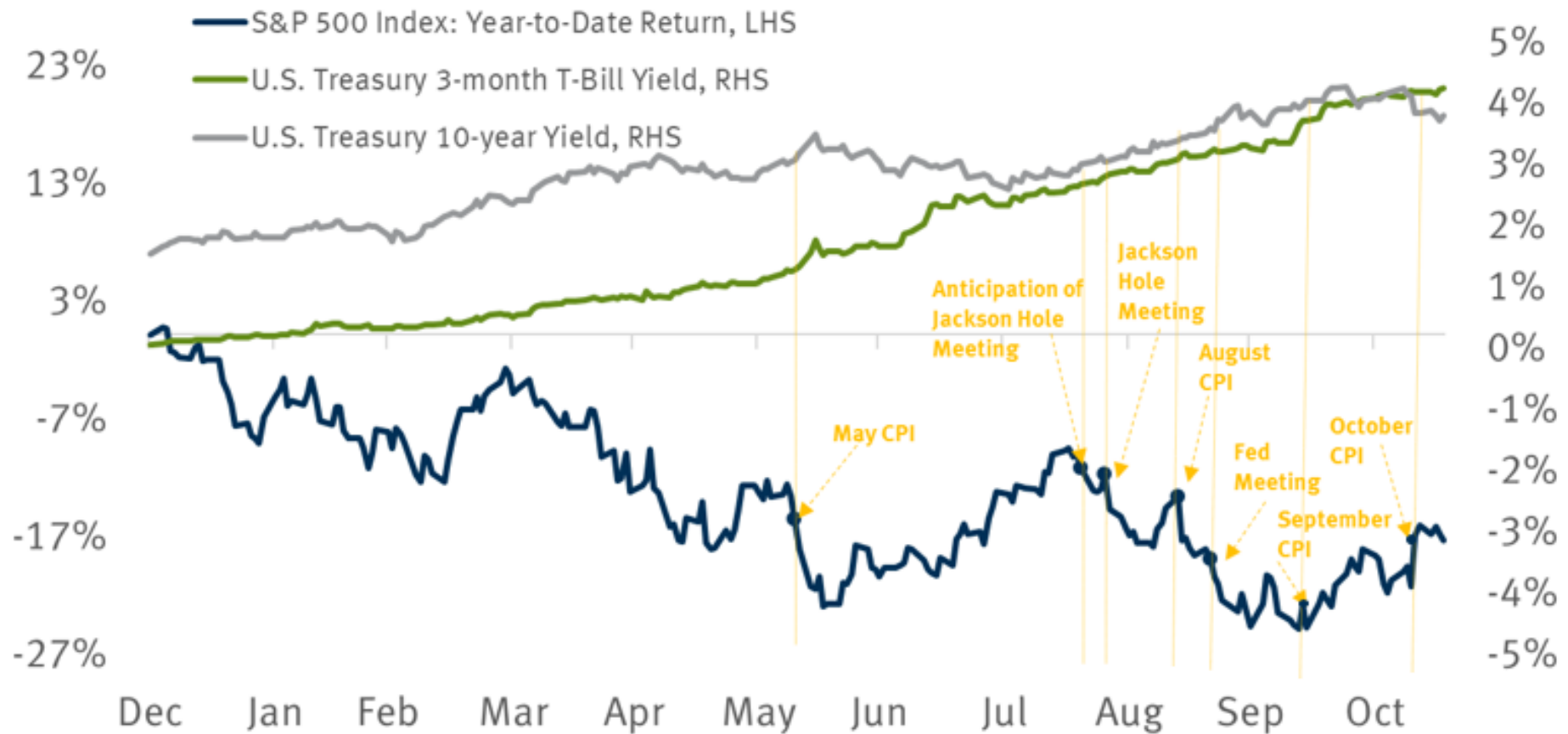


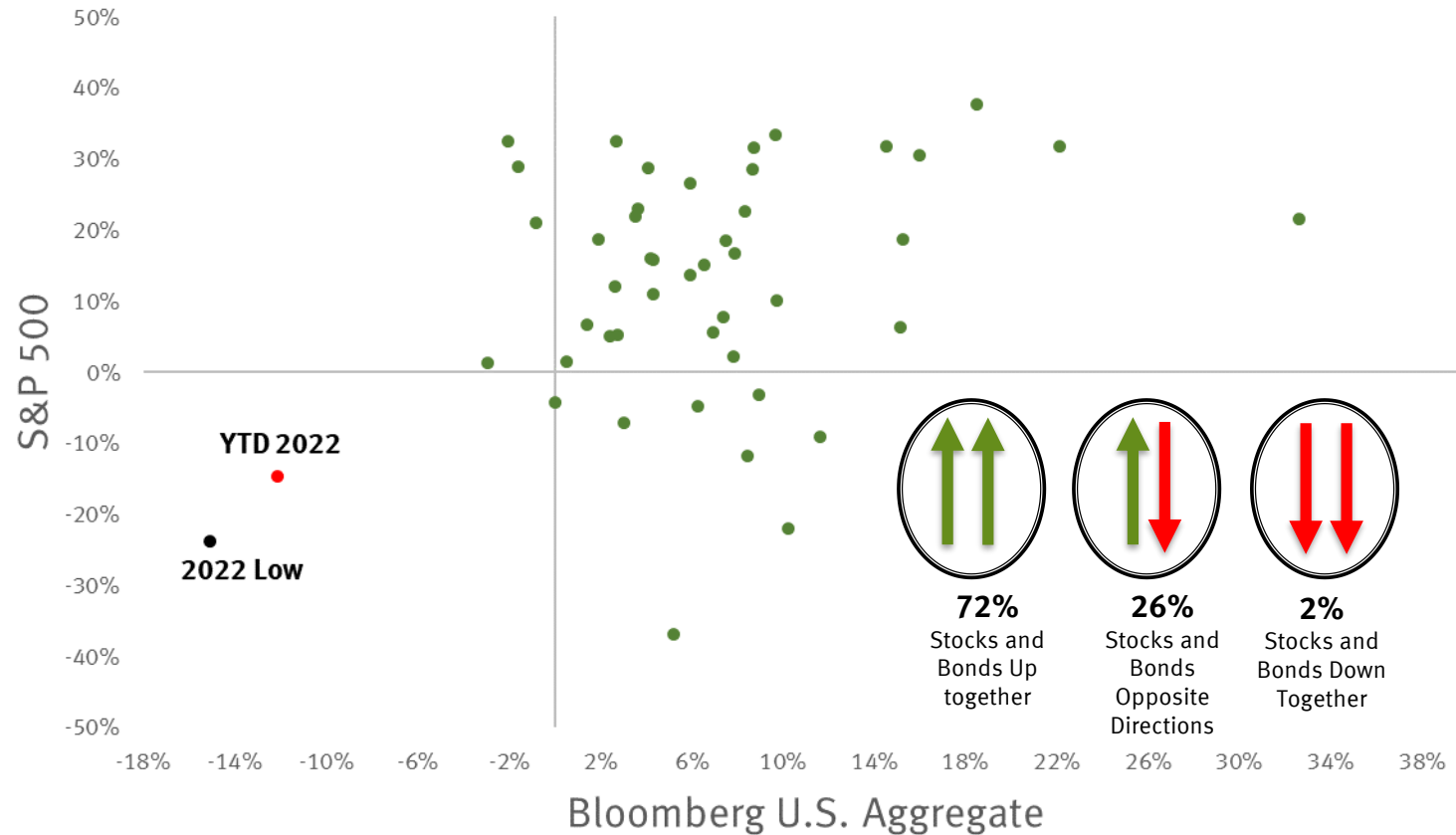
★ Previously in cautionary territory.

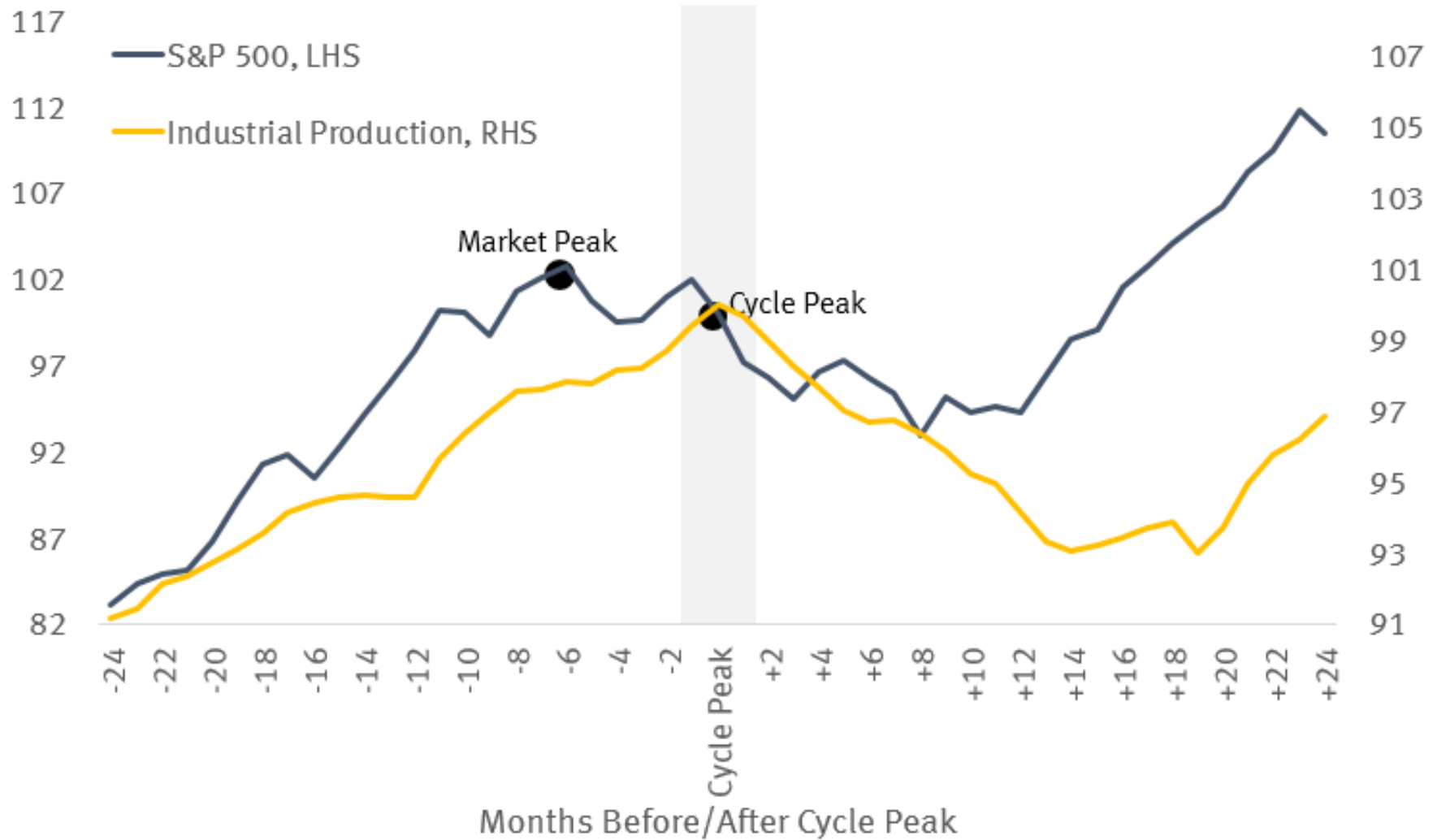
Many companies citing supply chain, inflation, and recession

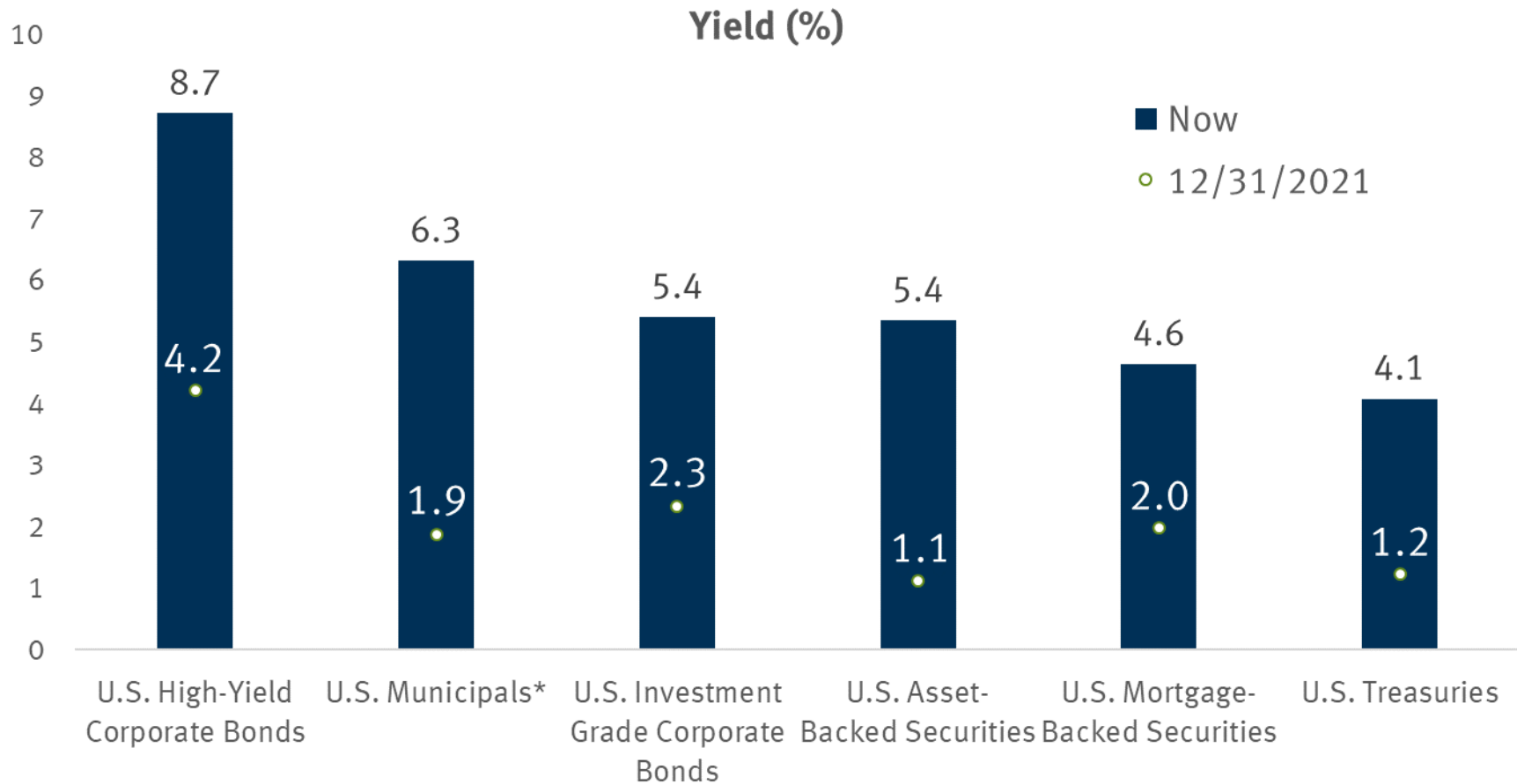


Source: Stifel Investment Strategy via FactSet, as of December 1, 2022











- G20 Summit: “Recover Together, Recover Stronger.”
- Ukraine detailed a 10-point peace plan to end Russia's invasion, with some signals of international support.
- President Biden met in person with President Xi for the first time since taking office, setting the stage for future negotiations in the near term.

SEPTEMBER

2	Employment
13/14	Inflation
15	Retail Sales
16	Consumer Sentiment
20/21	Housing
21	Fed Policy Decision
21	FOMC Economic Projections

OCTOBER

7	Employment
12	Federal Open Market Committee (FOMC) Minutes
13/14	Inflation
14	Retail Sales
14	Consumer Sentiment
19/20	Housing
27	Third Quarter GDP (Adv Est.)

OTHER IMPORTANT TOPICS

- Russia-Ukraine War
- China-Taiwan Tensions
- Progression of Earnings Forecasts
- Third Quarter Earnings Season
- Progression of PMI measures
- Business and consumer sentiment
- Global Inflation
- Global Central Bank Policy

NOVEMBER

2	Fed Policy Decision
4	Employment
8	Mid Term Elections
10	CPI/Core CPI
11	Consumer Sentiment
15	PPI/Core PPI
16	Retail Sales
17/18	Housing
23	FOMC Minutes

DECEMBER

2	Employment
9	Consumer Sentiment
9/13	Inflation
14	Fed Policy Decision
14	FOMC Economic Projections
15	Retail Sales
20/21	Housing

INDEX DESCRIPTIONS CONTINUED

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 International 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. Agg Gov/Credit).

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

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

KBW Restoration Index is composed of 13 high-frequency economic indicators. These indicators include those with longer histories (initial jobless claims, MBA mortgage applications, and steel production) along with newly developed gauges tracking mobility, dining reservations, and airport traffic, among others. KBW set each of the 13 indicators to 100 as of the end of February 2020, the official end of the longest economic cycle in U.S. history, and update the Index each week.

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

DISCLOSURES

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

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

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

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



DISCLOSURES CONTINUED

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.

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