FAVORITE 15

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Insights from Stifel's CIO Office

COVID-19

POLICY

MARKETS

Rise in consumer spending*
8.0%

Jobs created*
6 million

GDP growth*
5.6%

Core PCE inflation*
4.4%

**Numbers are estimates and do not yet reflect the final result.*

See our [Stifel Outlook 2022 report](), [video](), and client webinar [replay]().

A Changed World

A MORE DIGITAL WORLD

- E-Commerce
- Telehealth
- Extended Reality

INDUSTRIES DISRUPTED

- Labor Market
- Supply Chains
- Semiconductors

See our Stifel Outlook 2022 report, video, and client webinar replay.

Geopolitical Tensions

EVENT	LIKELIHOOD	MARKET IMPACT
European Fragmentation	4	5
D.C. Gridlock	4	6
North Korea Conflict	5	3
The New Cold War	5	8
Emerging Market Uncertainty	6	4
Post-Brexit Tensions	6	4
Climate Change Compromise	6	5
South China Sea Military Conflict	6	7
Coronavirus Resurgence	7	8
U.S.-China Competition	10	7

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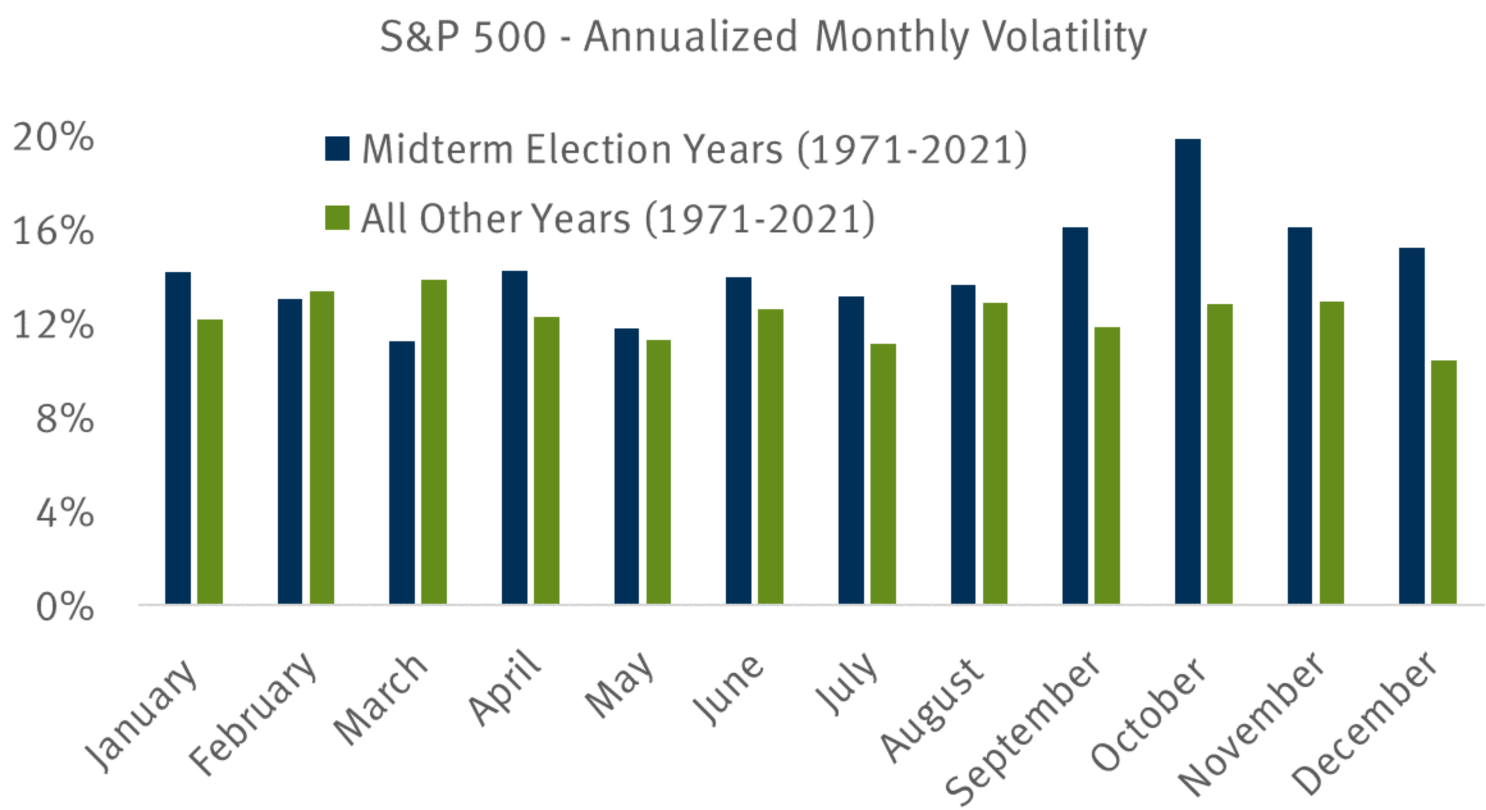

Source: Stifel Investment Strategy via Bloomberg, as of December 31, 2021
Volatility is calculated based on the standard deviation of daily returns for each individual month using 252 trading days a year. The median volatility for each month is displayed.

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2022 Outlook

	2021 RESULT	2022 FORECAST
U.S. Real GDP*	5.6%	3.5% - 4.0%
Core PCE Inflation (YoY)**	4.4%	2.5% - 3.0%
Federal Funds Rate	0% - 0.25%	0.75% - 1.0%

*2021 result based on latest Bloomberg consensus estimate.
**Based on the Fed's latest estimate.

	2021 RESULT	2022 FORECAST
S&P 500	4,766 28.7% (TR)	5,005 7% (TR)
10-Year Treasury (%)	1.52%	1.75% - 2.0%
Market Pulse Publications*	8	12
Investment-Grade Spreads (bps)	92	100 - 125
High-Yield Spreads (bps)	283	325 - 350

*The Stifel Investment Strategy team issues a Market Pulse publication when the S&P 500 closes up or down by at least 2% on a given day.

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Three Scenarios

CORONAVIRUS	INFLATION	FISCAL AND MONETARY POLICY
The trajectory of the virus will influence how quickly the supply chain imbalances resolve, consumer confidence improves, and pent-up demand is released.	The Fed has made a hawkish shift due to higher inflation, but the path of inflation through 2022 may cause the Fed to adjust its policy during the year.	In the wake of historical levels of policy support, any policy misstep could lead to periods of uncertainty, investor anxiety, and volatility in the markets.
Bear case: Cases surge, putting a strain on the healthcare system, and the virus mutates to evade vaccines. Consumer behavior is permanently changed, and the pent-up demand fades.	***Bear case:*** The Fed either tightens too quickly or is behind the curve. High inflation curbs consumer spending, impacts profit margins, and keeps economic and earnings growth lower.	***Bear case:*** The economy isn't able to "stand on its own." As policy support fades and current benefits like the child tax credits expire, consumers engage less, and businesses suffer.
Bull case: Future mutations are benign in severity, and global restrictions lift faster than expected. Animal spirits awaken, and the economy grows more quickly than expected.	***Bull case:*** Inflation falls more quickly than anticipated, proving more transitory than current forecasts so that the Fed can raise rates at a slower pace.	***Bull case:*** A Goldilocks scenario with balanced fiscal spending and an accommodative Fed unfolds. The economy grows well above trend, and markets deliver double-digit returns.

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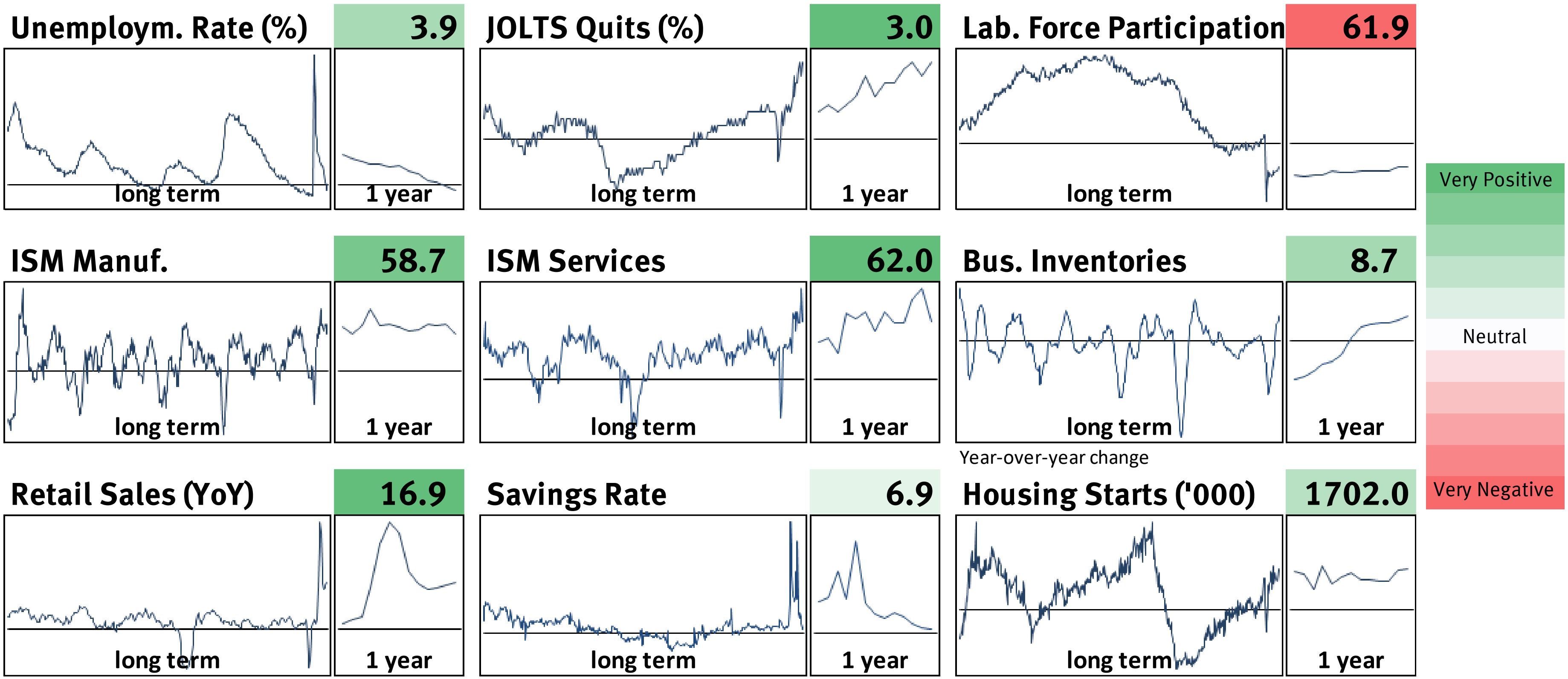
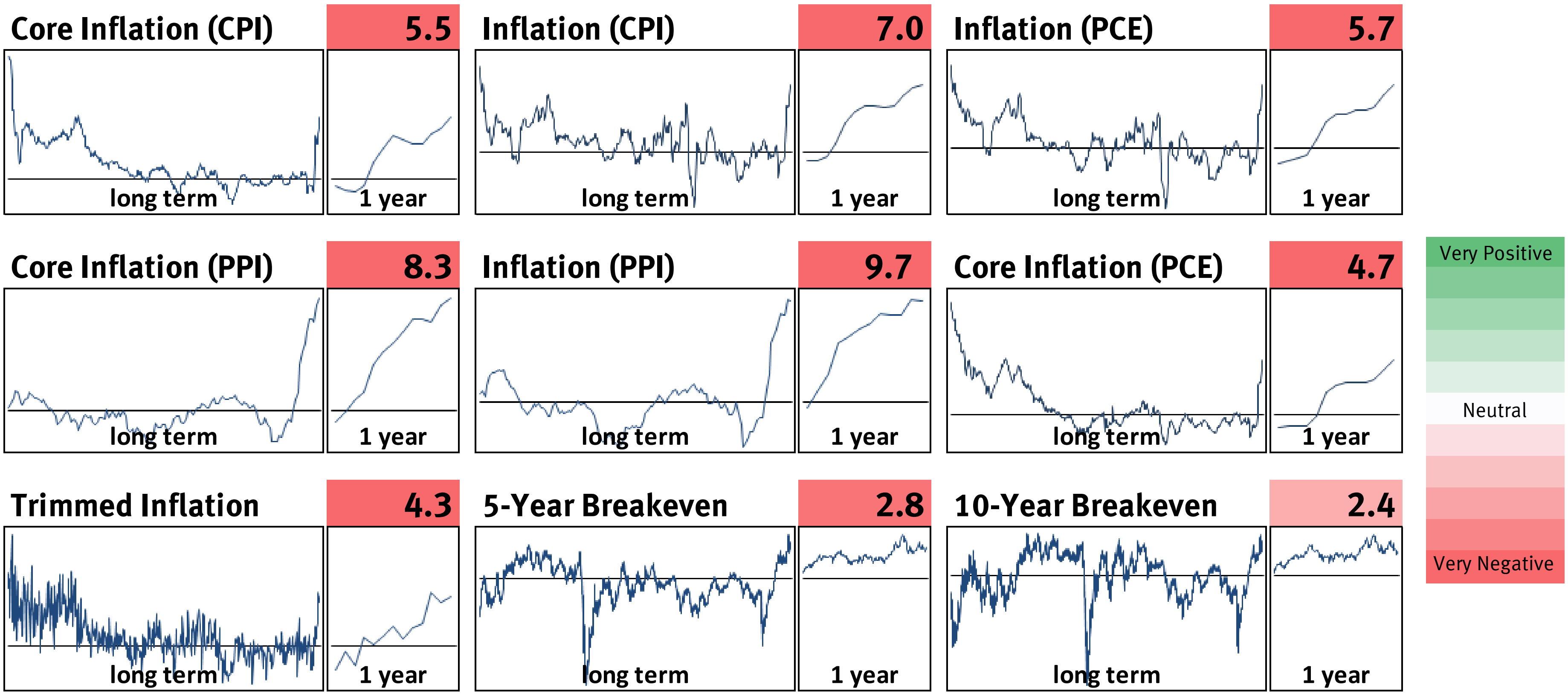
The Economy



Source: Stifel Investment Strategy via Bloomberg, as of January 26, 2022

Inflation



All Inflation numbers reflect percent year-over-year changes.

Source: Stifel Investment Strategy via Bloomberg, as of January 26, 2022

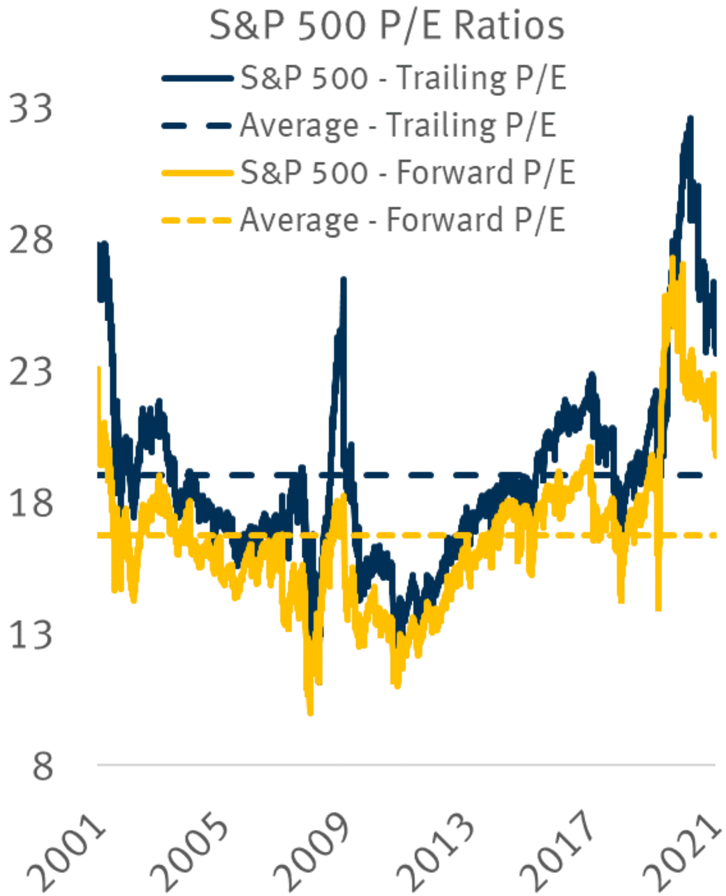
Monetary Policy

- 2022 a balancing act as the Fed tightens policy
- FOMC minutes indicate a more hawkish stance
  - Discussion around increasing rates sooner or at a faster pace
  - Balance sheet normalization (QT) closer to rate liftoff
- Fed's dual mandate: price stability and maximum employment
  - Unemployment at 3.9% - below long-term equilibrium rate
  - Core inflation (CPI) at 5.5%
  - Risk to monitor: Omicron's impact to economy
- Markets pricing in 5 rate hikes in 2022
- Equity market volatility to be elevated

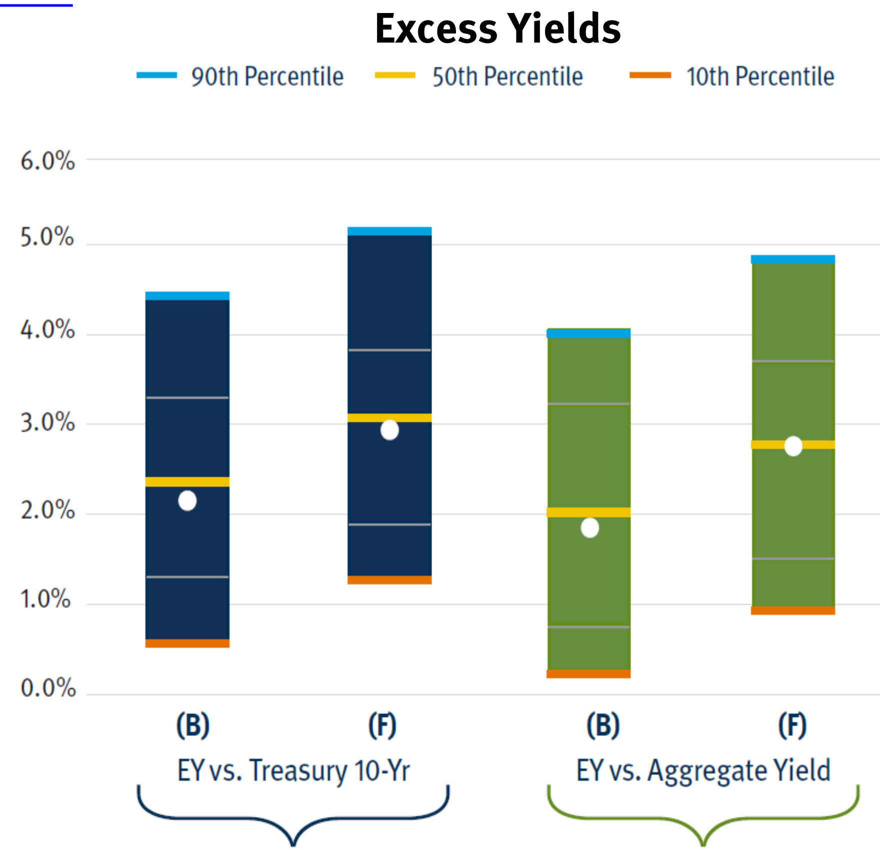
Government Spending – End of Fiscal Expansion

- Fiscal stimulus to decelerate in 2022, shift to regulatory focus
- Spending from bipartisan infrastructure bill will start
- Some programs in the American Rescue Program could end - esp. if BBB fails
- Build Back Better (BBB) – almost $1.75 Trillion (likely to be scaled back)
  - 3 paths forward
    - Smaller bill with some programs removed
    - Separating into numerous bills – climate breakout
    - No deal
- Passing of bill (or lack thereof) will have an impact on 2022 midterms

Market Sight|Lines – September 17, 2021



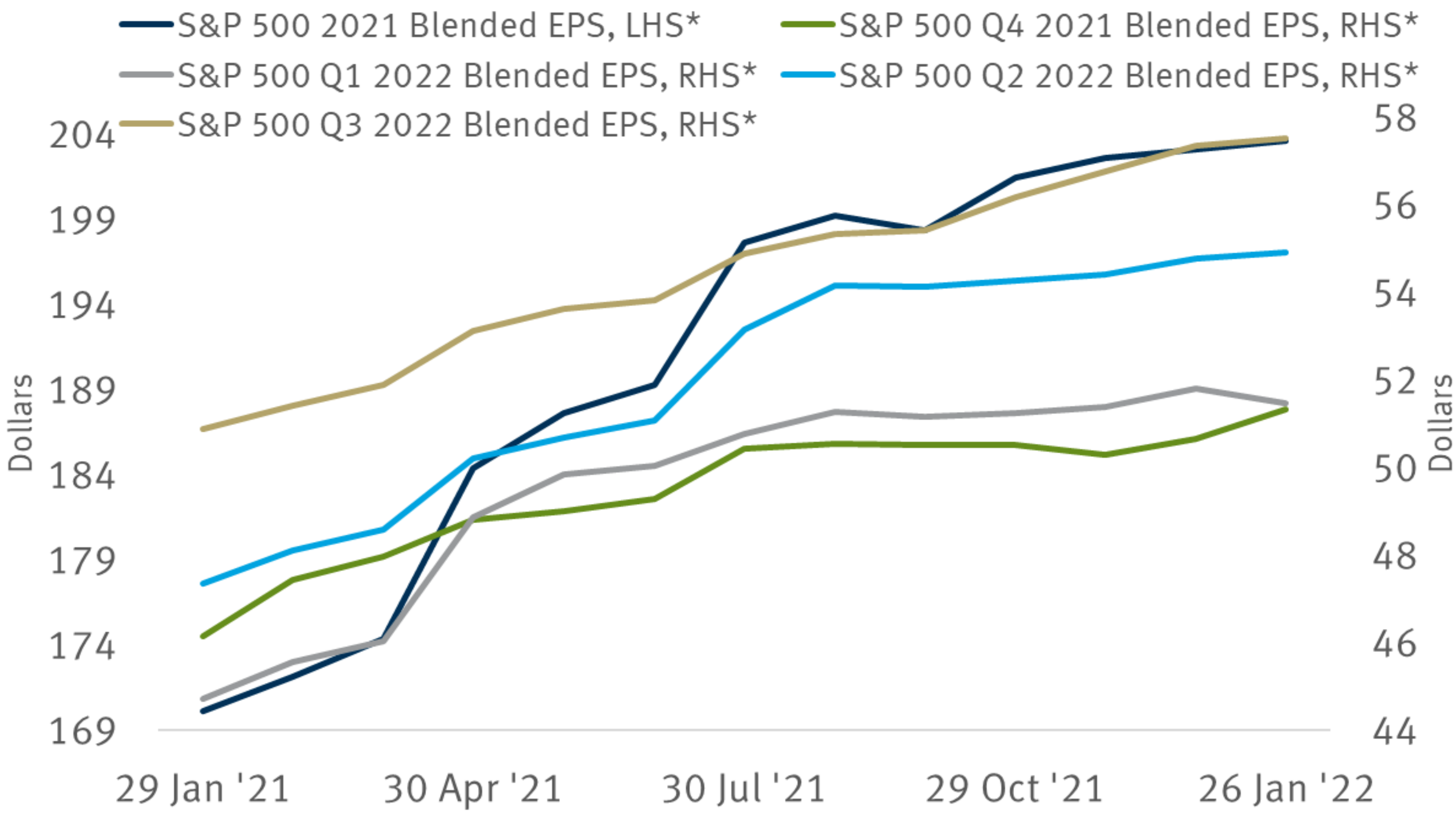
Source: Stifel Investment Strategy via Bloomberg, as of January 27, 2022



Source: Stifel Investment Strategy data via Bloomberg, as of January 14, 2022. EY – Earnings Yield, (B) – Backward-Looking, (F) – Forward-Looking. Dots represents current values. Aggregate Bond Index is the Bloomberg U.S. Aggregate Bond Index.

Earnings

S&P 500 Earnings

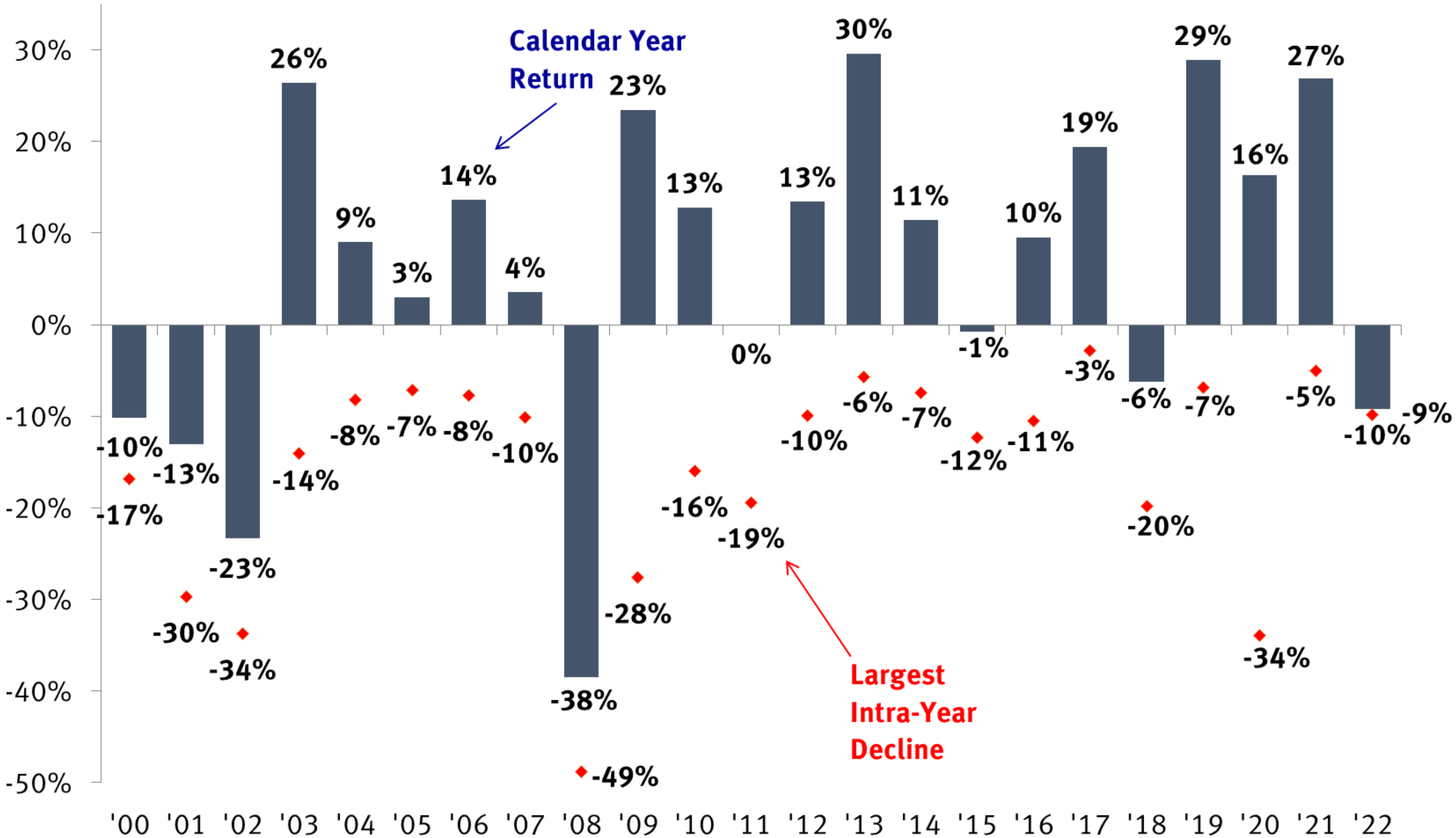


Source: Stifel Investment Strategy via FactSet, as of January 27, 2022; The blended rate combines actual results for companies that have reported and estimated results for companies that have yet to report.*LHS – left hand side, RHS – right hand side.

STIFEL

S&P 500 Calendar Year Returns vs. Intra-Year Declines

Despite frequent intra-year declines, returns are positive most of the time



Source: Stifel Investment Strategy via Bloomberg, as of January 27, 2022

EQUITY

ASSET CLASS	PREVIOUS	CURRENT	COMMENTS
U.S. Equity vs. Non-U.S. Equity	▼	▼	We continue to favor non-U.S. equity markets relative to the U.S. despite their underperformance in 2021. Non-U.S. equity valuations are attractive, and we expect the economic risks related to COVID-19 to recede, allowing the global economy to reopen further, which should be supportive of non-U.S. equity earnings. The external forces that contributed to the notably strong economic growth and equity markets in the U.S. will begin to fade in 2022, whereas many non-U.S. economies are expected to benefit from further fiscal stimulus.
U.S. Large Cap vs. U.S. Small Cap	▼	▼	A strong U.S. economy and seasonal factors are still supportive of small cap stocks, which derive most of their revenue domestically. Rising rates, a shortage of labor, and higher cost pressures may pose a challenge for smaller companies. Given our preference for strong fundamentals, we prefer to implement this overweight through active management as we progress through this economic cycle. For passive implementation, we suggest a neutral small cap position.
U.S. Large Value vs. U. S. Large Growth	▲	▲	We believe value, comprised of more cyclical sectors, should perform well. A strong economy, rising rates, and higher inflation are conditions that benefit this style. Within value, we have a preference for profitable companies with solid financials.
Non-U.S. Developed Markets vs. Emerging Markets	■	■	We are neutral within non-U.S. equity between developed and emerging markets, as we find the risks to be balanced between both. However, we maintain an overweight to non-U.S. equities, both developed and emerging, relative to U.S. stocks.
Europe vs. Japan	■	■	The European economy is more exposed to global trade, with public companies generating 50% of revenue outside of Europe. Fiscal stimulus in Europe is expected to continue, and permanent changes seem likely. Japan's ongoing structural and corporate reform is a tailwind for company earnings. However, both Europe and Japan face some challenges that keep us at neutral within developed markets, for now.

▲ Overweight ▼ Underweight ■ Neutral

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	ASSET CLASS	PREVIOUS	CURRENT	COMMENTS
FIXED INCOME	**U.S. Investment Grade vs. U.S. High Yield**	▼	▼	Within fixed income, we remain overweight to U.S. high yield relative to U.S. investment grade with the use of active management. Strong commodity prices have helped many companies shore up their balance sheets, and default rates have declined. While the impacts of COVID-19 will persist, we believe there is opportunity in certain cyclical sectors and the potential for yield enhancement in a low-yield environment.
FIXED INCOME	*Corporates Government/ Agency MBS*	■	■	We recommend a diversified approach to the full spectrum of investment-grade fixed income.
FIXED INCOME	*Inflation Protected*	▲	■	We have closed our overweight to U.S. Treasury inflation-protected securities (TIPS) as we see inflation falling in 2022 given the Fed's more hawkish stance and the prospect of improving supply chain conditions.
FIXED INCOME	**Duration**	■	■	Rates are expected to rise modestly in 2022, but we believe we remain in a lower-for-longer environment. We view duration as a diversifier in a multi-asset class portfolio and remain neutral to the overall market.
ALTERNATIVES	**Private Assets**	■	■	For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of private equity, private debt, and/or private real estate can be considered as part of a diversified portfolio.
ALTERNATIVES	**Hedge Funds**	■	■	For investors interested in alternative investments and able to handle less liquidity who have conviction about manager skill, exposure to hedge funds can be a helpful part of a diversified portfolio. This is especially true in volatile, low-return environments.

▲ Overweight ▼ Underweight ■ Neutral

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INDEX DESCRIPTIONS CONTINUED

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 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.