STIFEL

# FAVORITE 15

## May 5, 2022


**Michael O'Keeffe, CFA**
*Chief Investment Officer*

**Nik Eftimov, CFA**
*Director, Investment Management & Guidance*

**David Motsonelidze, CFA**
*Director of Macro Strategy*

**Dori Schwartz**
*Portfolio Solutions Specialist*

**Brian Moody**
*Investment Strategist*

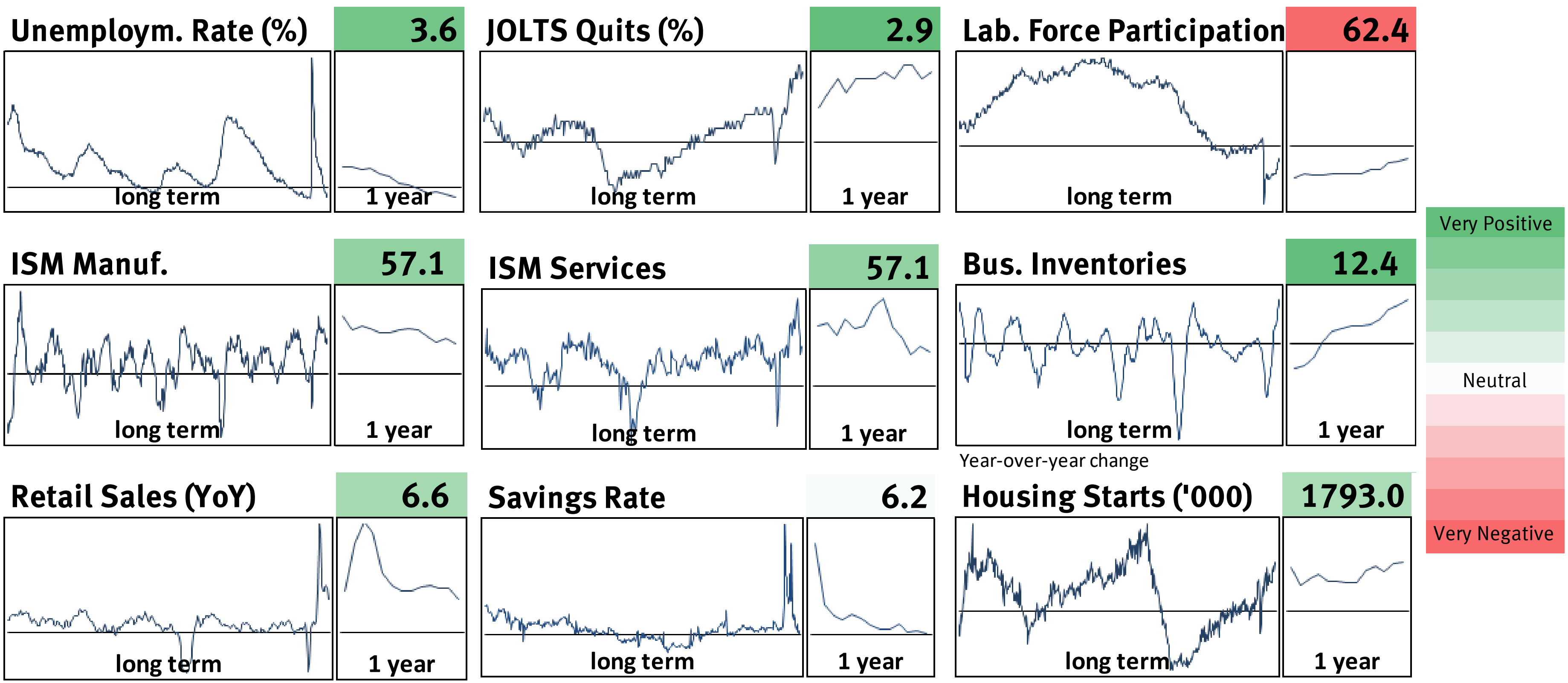
**Sneha Jose**
*Director of Behavioral Finance*

**Carlos Mieles, CFA**
*Investment Strategist*

**Arnez Rodriguez**
*Investment Strategist*


*Insights from Stifel's CIO Office*

## *The Economy*

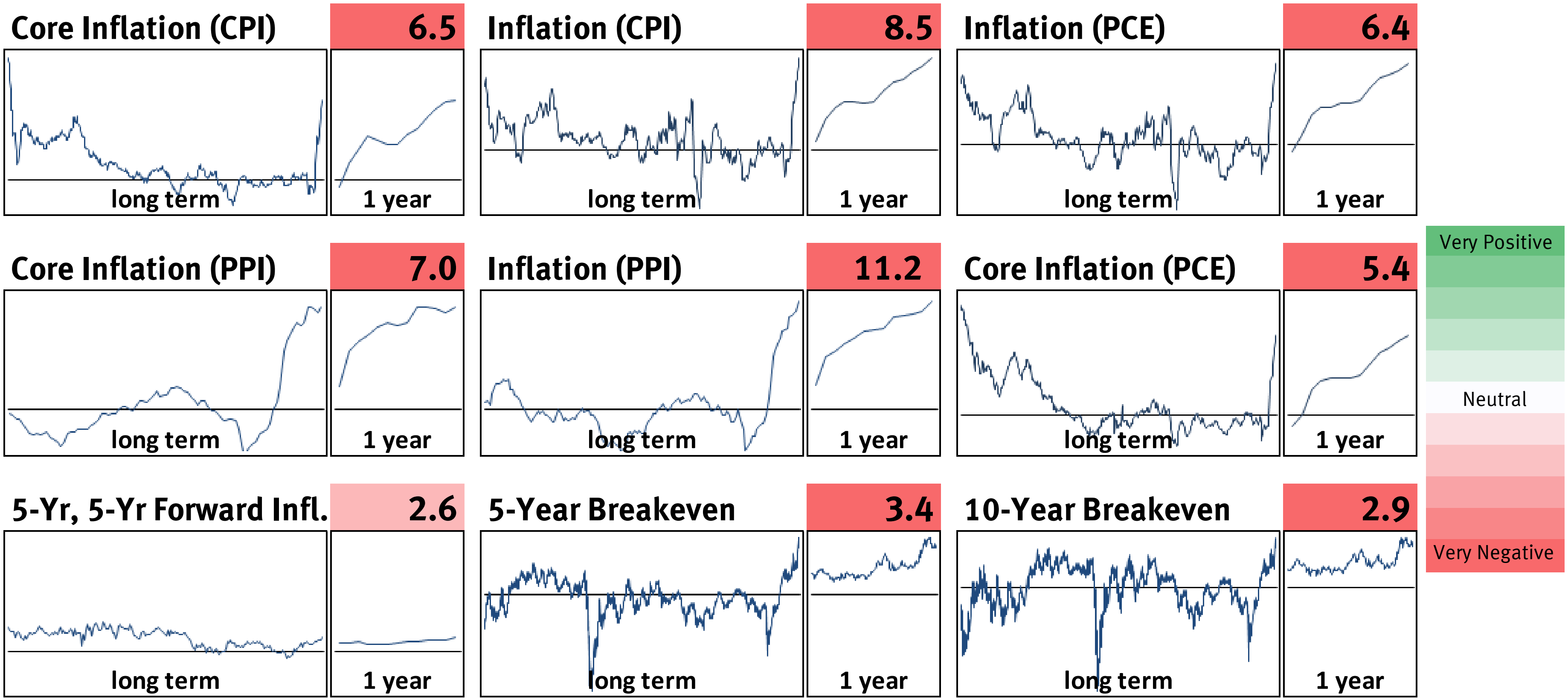



Based on a 3-month moving average

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

Source: Stifel Investment Strategy via Bloomberg, as of May 5, 2022

# Inflation




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

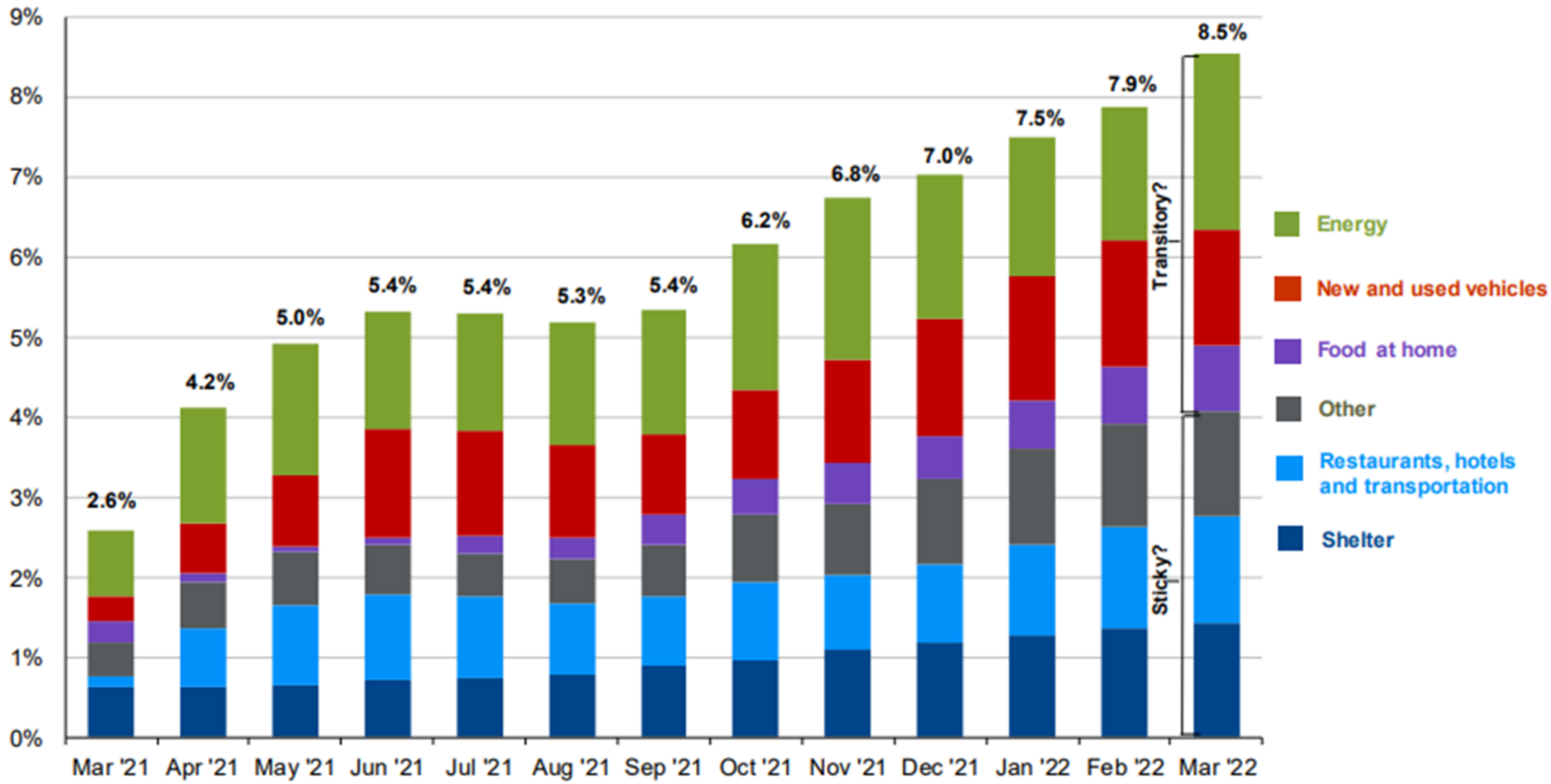
Source: Stifel Investment Strategy via Bloomberg, as of May 2, 2022

# Macro Environment: **Has Inflation Peaked?**

| Inflation IS Peaking | Inflation NOT Peaking |
|---|---|
| "Base Effect" | Tight Labor Market |
| Shortages/Supply Chains Easing | Shortages in Some Categories |
| Prices for Goods Moderating | War in Ukraine |
| Federal Reserve Policy | China's "Covid-Zero" Strategy |
| Breakeven Inflation | Expanded Balance Sheet |

**Contributors to headline inflation**

Contribution to y/y % change in CPI, non seasonally adjusted

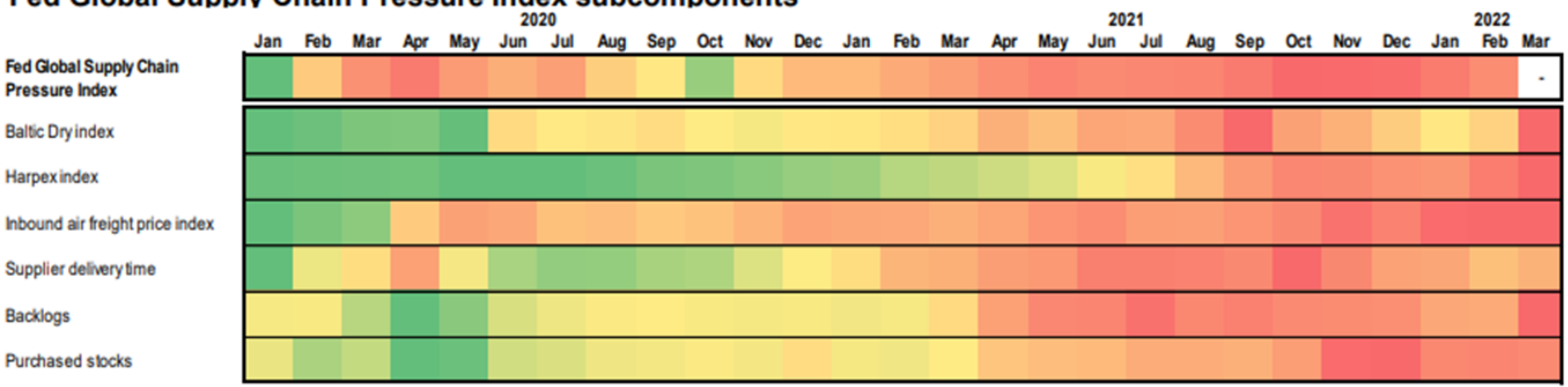



Source: BLS, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners equivalent rent and rent of primary residence. "Other" primarily reflects household furnishings, apparel and medical care services.
*Guide to the Markets – U.S.* Data are as of May 2, 2022.

## Fed Global Supply Chain Pressure Index*

Standard deviation from average value


## Fed Global Supply Chain Pressure Index subcomponents




Source: Federal Reserve Bank of New York, IHS Markit, J.P. Morgan Asset Management.
*The Federal Reserve Bank of New York bases its Global Supply Chain Pressure Index on the 25-year averages of the Baltic Dry Index (benchmark for the price of moving raw materials by sea), Harpex Index (benchmark for the rate liners pay to charter ships), BLS airfreight cost indices (benchmarks for measuring change in rates for air transpiration) and 3 PMI supply chain-related components: delivery times (the amount of time elapsed between the time an order is placed and the time it is shipped), backlogs (the volume of orders that a company has received, but not yet fulfilled) and purchased stocks (the level of inventory of materials purchased in the current month compared to the month prior) for manufacturing firms across seven interconnected economies: China, the euro area, Japan, South Korea, Taiwan, the United Kingdom and the United States. Heatmap colors determined by that month's level compared to 10-year average. Red = Very slow/constrained, Yellow = Average/moderate, and Green = Fast/least constrained.
*Guide to the Markets* – U.S. Data are as of May 2, 2022.

# Macro Environment: Recession Checklist

**Recession-Recovery Dashboard**

| | |
|---|---|
| Financial | Yield Curve |
| | Credit Spreads |
| | Money Supply |
| Inflation | Wage Growth |
| | Commodities |
| | Inflation (PCE) |
| Consumer | Housing Starts |
| | Jobless Claims |
| | Retail Sales |
| | Job Sentiment |
| Business Activity | ISM New Orders |
| | Profit Margins |
| | Truck Shipments |

Expansion
Caution
Recession

- Flatter yield curve often signals economic growth slowdown
- Rising but historically low credit spreads point to ongoing economic recovery
- Historically high money supply growth dropping
- Wage growth picking up on pent-up demand and labor market mismatches
- Commodity prices boosted by global demand, geopolitical risk premium, and relative demand/supply deficit
- Prices remain stubbornly high both due to structural and cyclical factors
- Housing starts are elevated on historically low real estate inventory and strong demand despite significant movement in mortgage rates
- Jobless claims remain subdued on strong hiring
- Growth in retail sector is normalizing after being boosted by policy support
- More people have been quitting jobs as leverage has shifted from employer to employees
- Key leading indicator ISM New Orders point to recovery in light of supply chain pressures dissipating
- Profit margins remain historically high as businesses manage to pass price increases to consumers
- Strong truck shipments indicate solid cyclical recovery



Source: Stifel Investment Strategy data via Bloomberg, as of April 14, 2022

# ECONOMIC CYCLES

| EARLY<br>Acceleration in economic growth | MID<br>Positive, but moderating growth | LATE<br>Growth rate slows to trend or below-trend | RECESSION<br>Growth contracts |
|---|---|---|---|
| Lower consumer spending | Recovering consumer spending | Strong consumer spending | Falling consumer spending |
| Credit creation low | Credit creation rising | Credit creation rising faster | Credit creation declining |
| Company profits recovering | Company profits peaking | Company profits under pressure | Company profits contracting |
| Fiscal/monetary policy accommodative | Fiscal/monetary policy shifting to neutral | Fiscal/monetary policy contractionary | Fiscal/monetary policy easing |

Source: Stifel Investment Strategy via Bloomberg, as of April 14, 2022

[Read more: First Quarter Comes to an End: Inflation is Raging]

## Inflation Breakevens

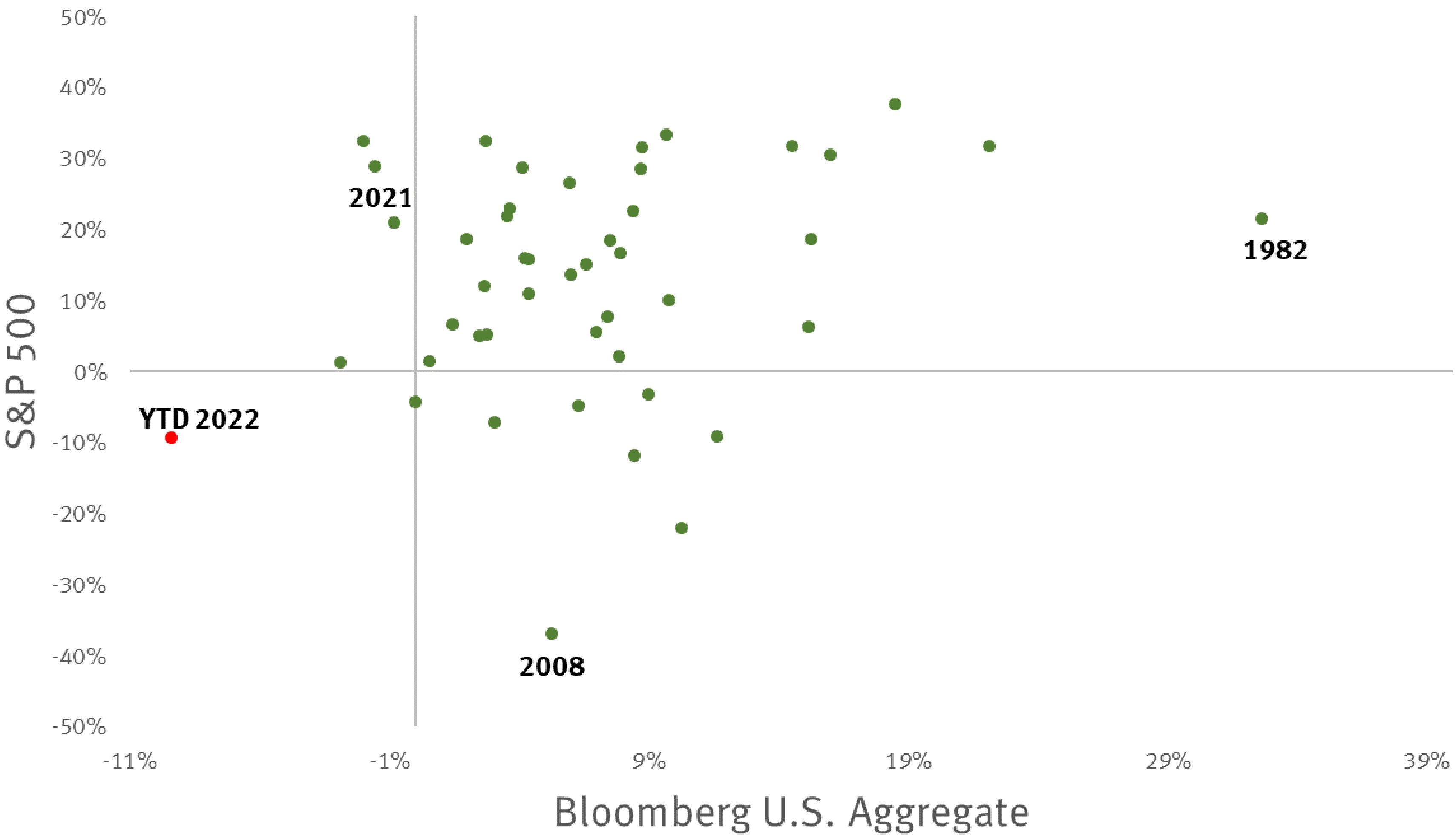
| Time Period | 1-year forward Inflation |
|---|---|
| One year from now | 3.4% |
| In Two Years | 2.9% |
| In Three Years | 2.5% |
| In Four Years | 2.4% |
| In Five Years | 2.7% |
| In Six Years | 2.4% |
| In Seven Years | 1.9% |
| In Eight Years | 2.5% |
| In Nine Years | 2.7% |

Source: Stifel Investment Strategy via Bloomberg, as of May 2, 2022

## *10-year Yield*

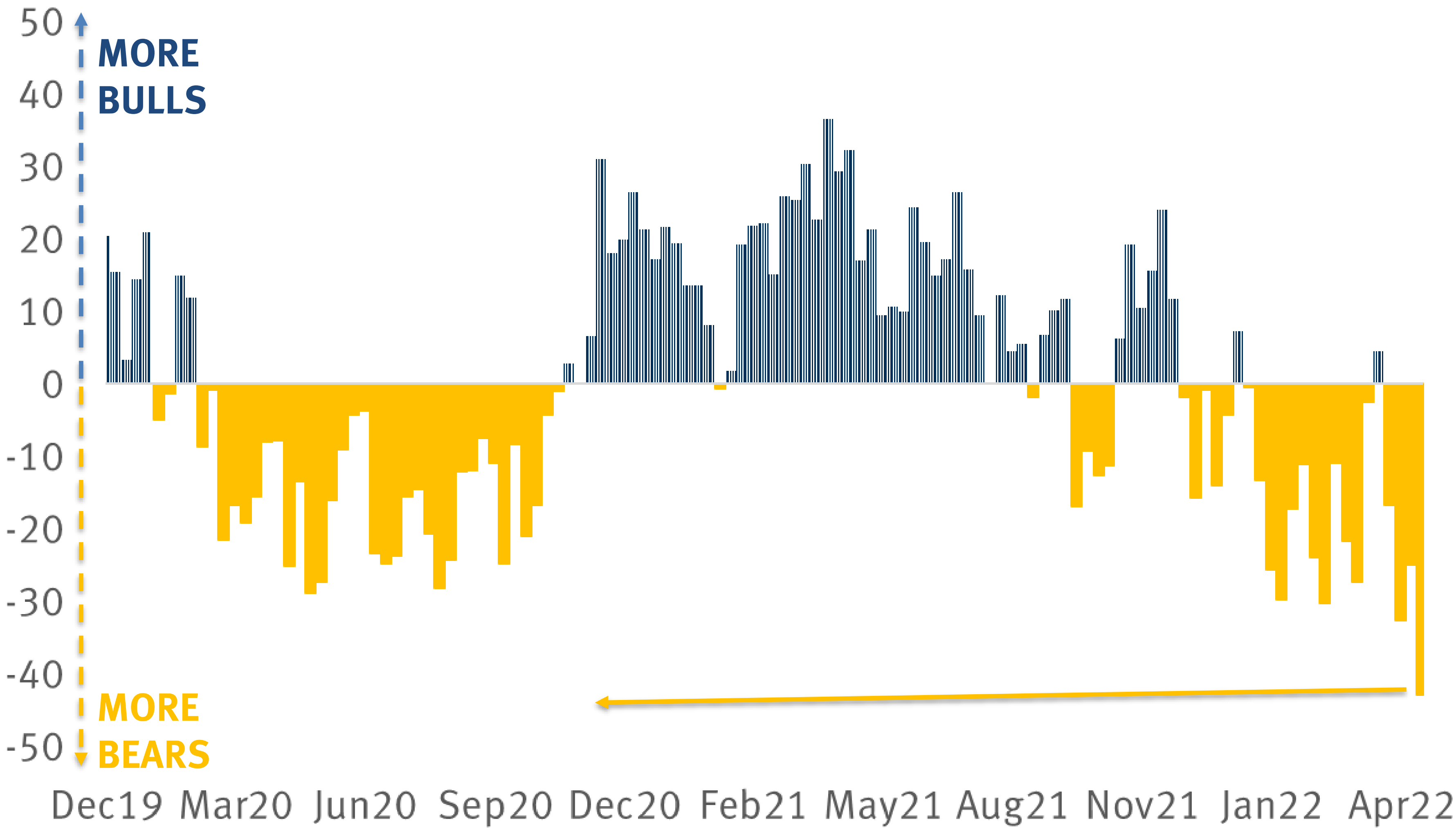

Source: Stifel Investment Strategy data via Bloomberg, as of May 5, 2022 (intra-day)

## [Read more: The "60/40" Portfolio Breaks Down: What Should Investors Do?]



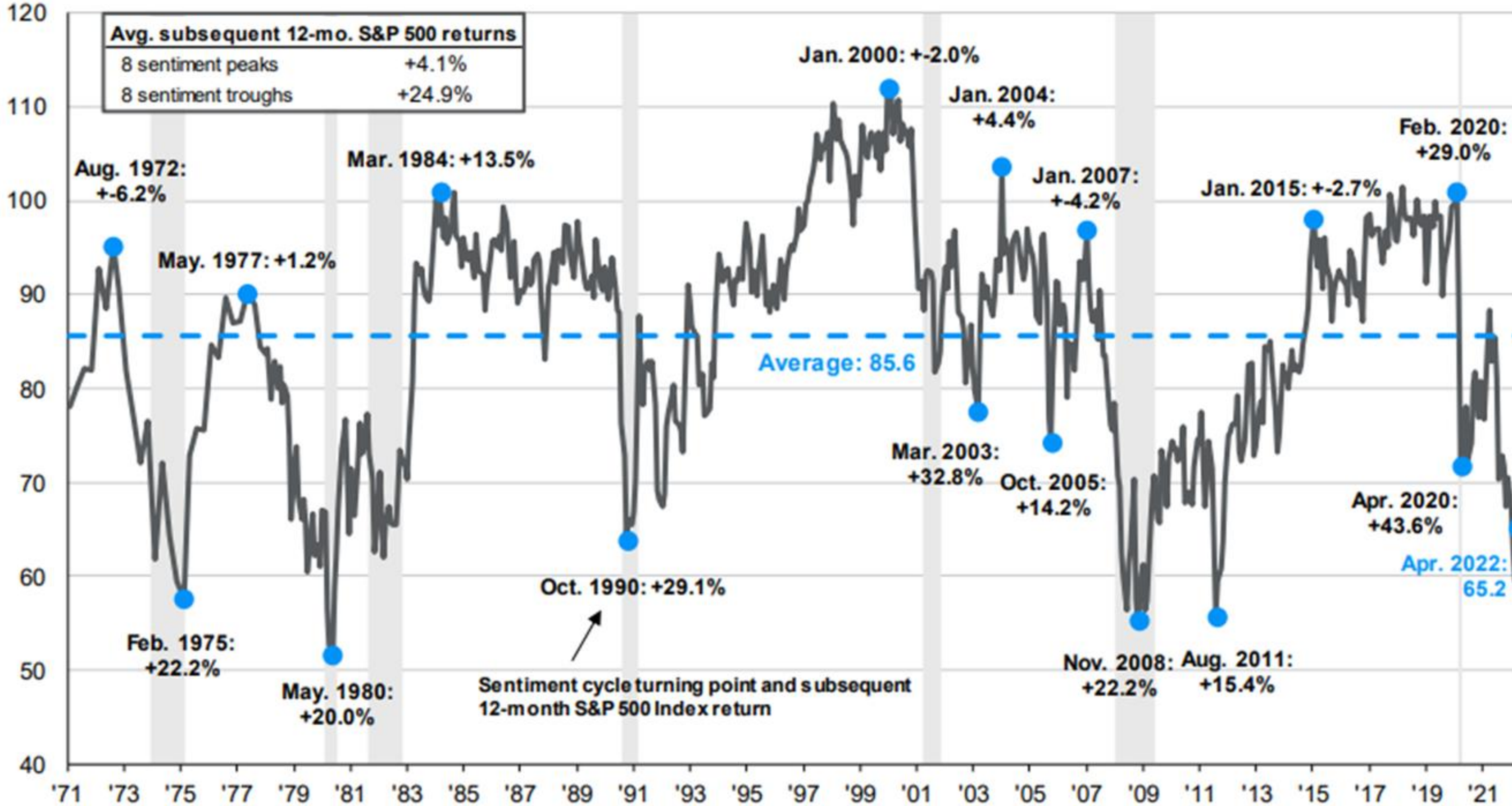

Source: Stifel Investment Strategy data via Bloomberg, as of May 4, 2022

## *Weekly, AAII % bulls less % bears*



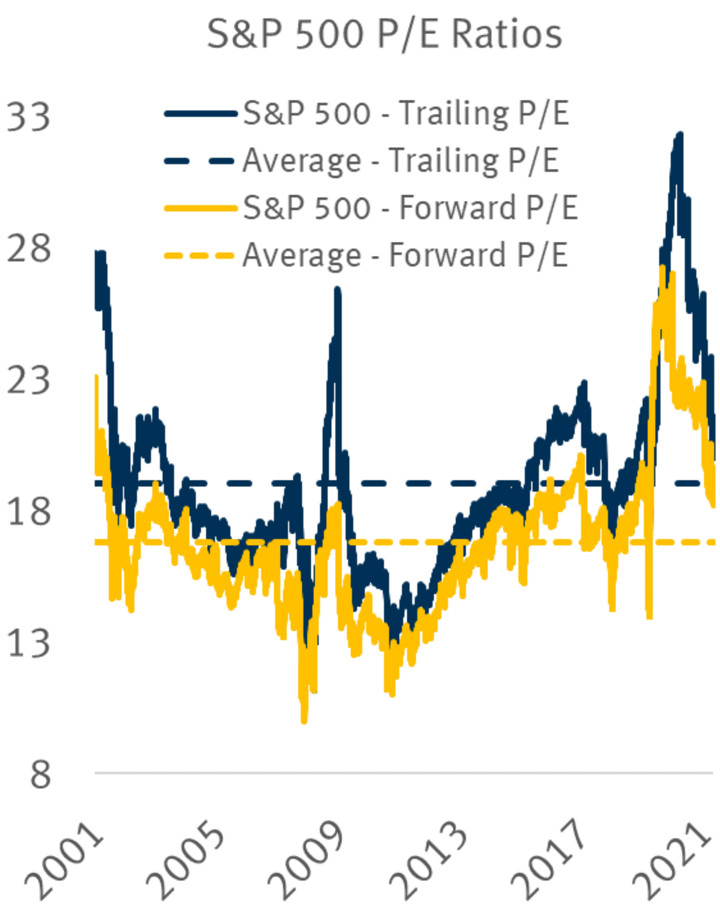

Source: Stifel Investment Strategy data via Bloomberg, as of May 2, 2022

## Consumer Sentiment Index and subsequent 12-month S&P 500 returns

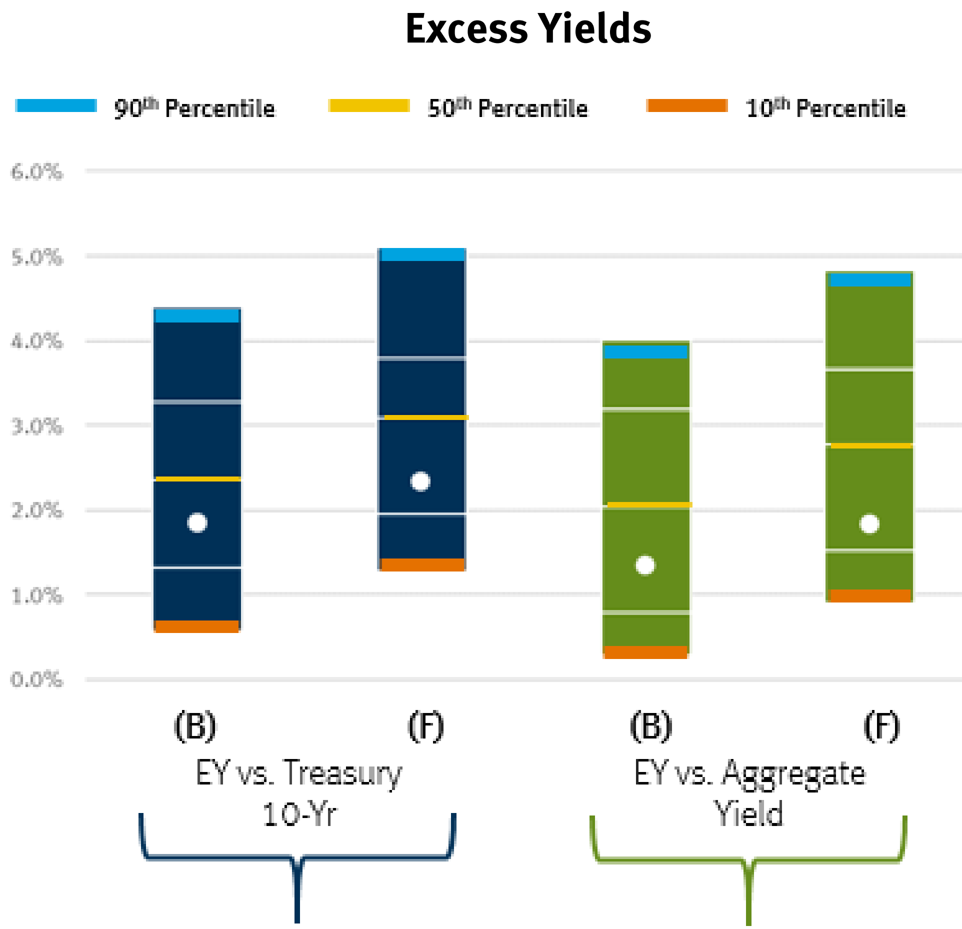



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.
*Guide to the Markets – U.S.* Data are as of May 2, 2022.

# Risks to the Stock Market



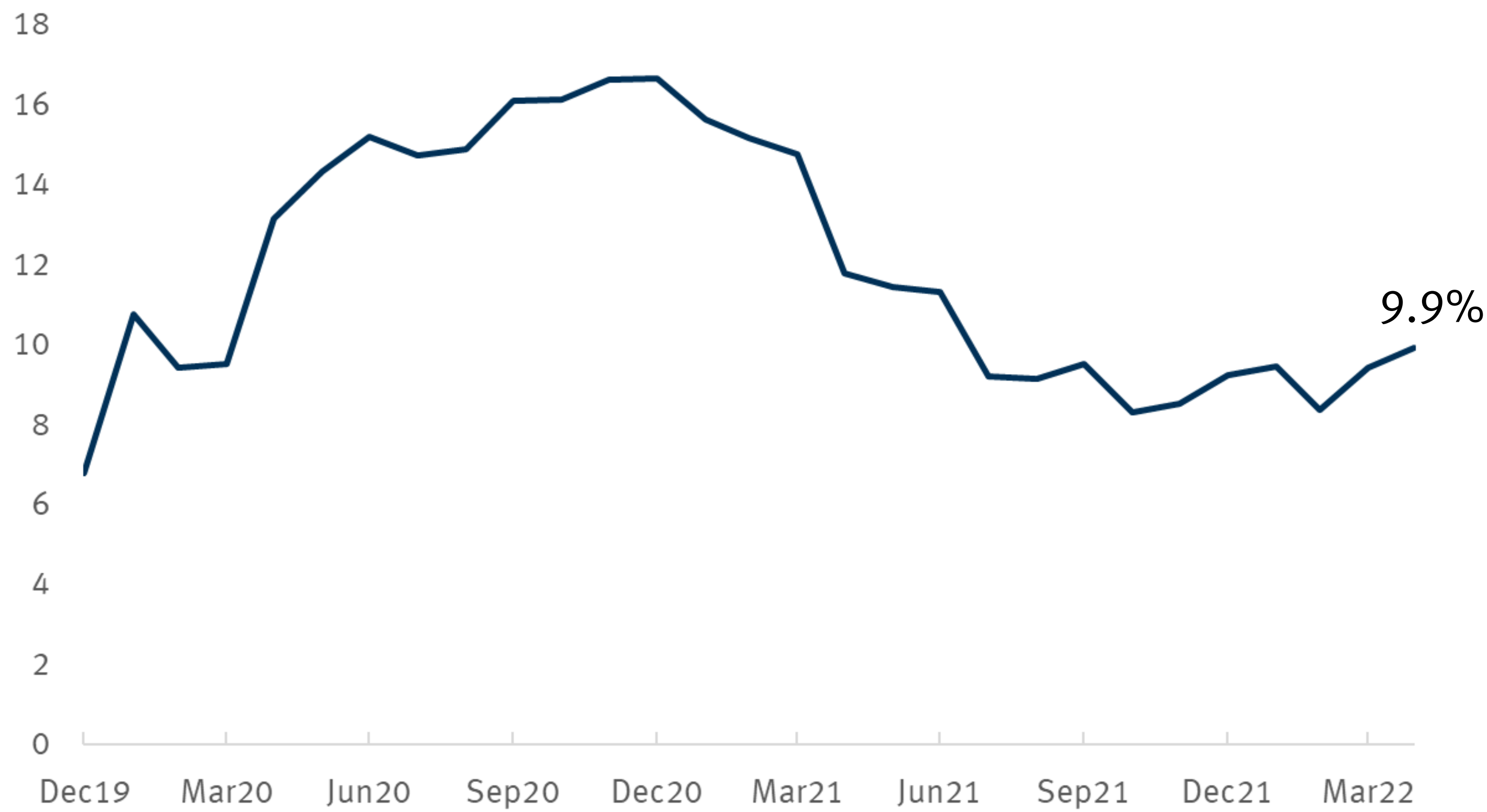

Source: Stifel Investment Strategy via Bloomberg, as of May 5, 2022 (intra-day)




Source: Stifel Investment Strategy data via Bloomberg, as of May 5, 2022 (intra-day)
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*

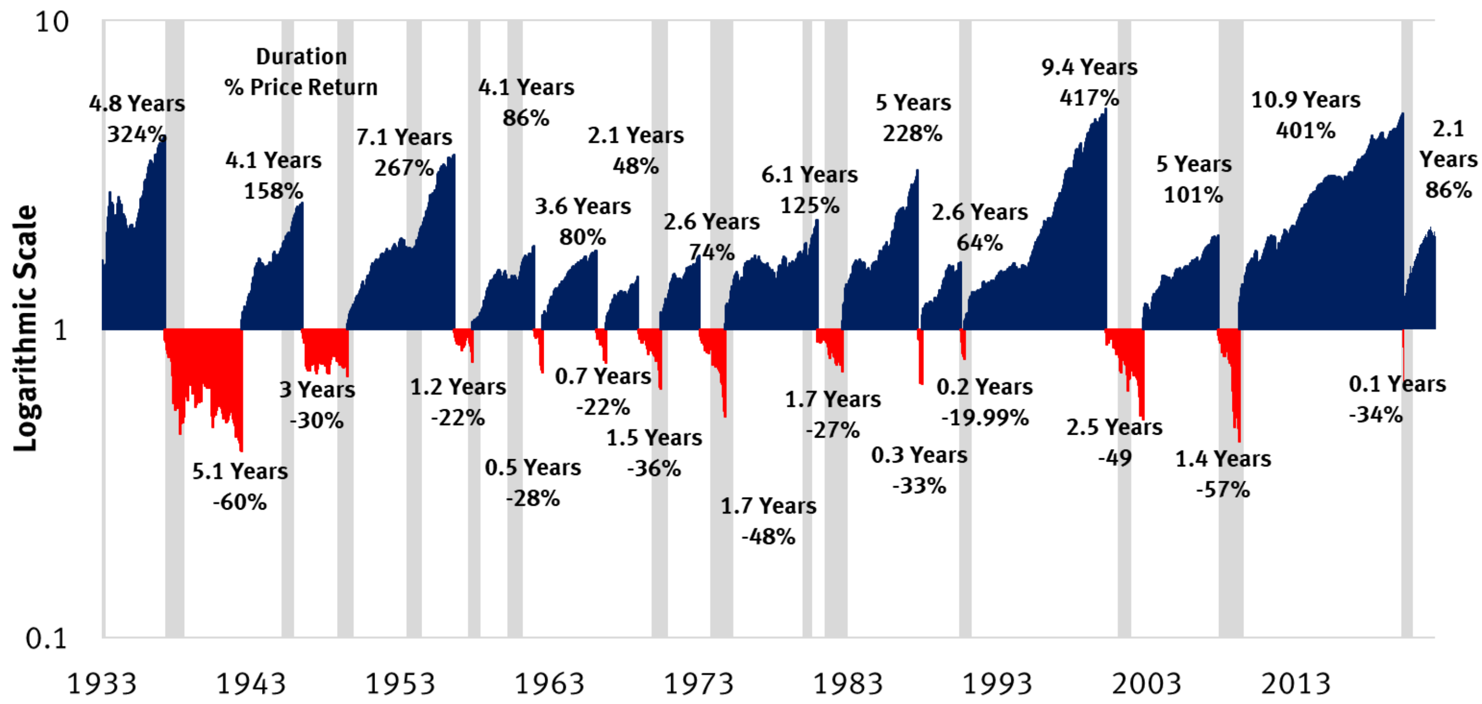
### S&P 500 2022 Consensus Earnings Growth YoY%




Source: Stifel Investment Strategy via FactSet, as of May 2, 2022

# Bull and Bear Markets Since 1932

The cycle of markets is inevitable, however, bull markets have historically lasted longer than bear markets and recessions.




Source: Stifel Investment Strategy data via Bloomberg, Strategas Research Partners, as of May 3, 2022 (intra-day)

## 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 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 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.