

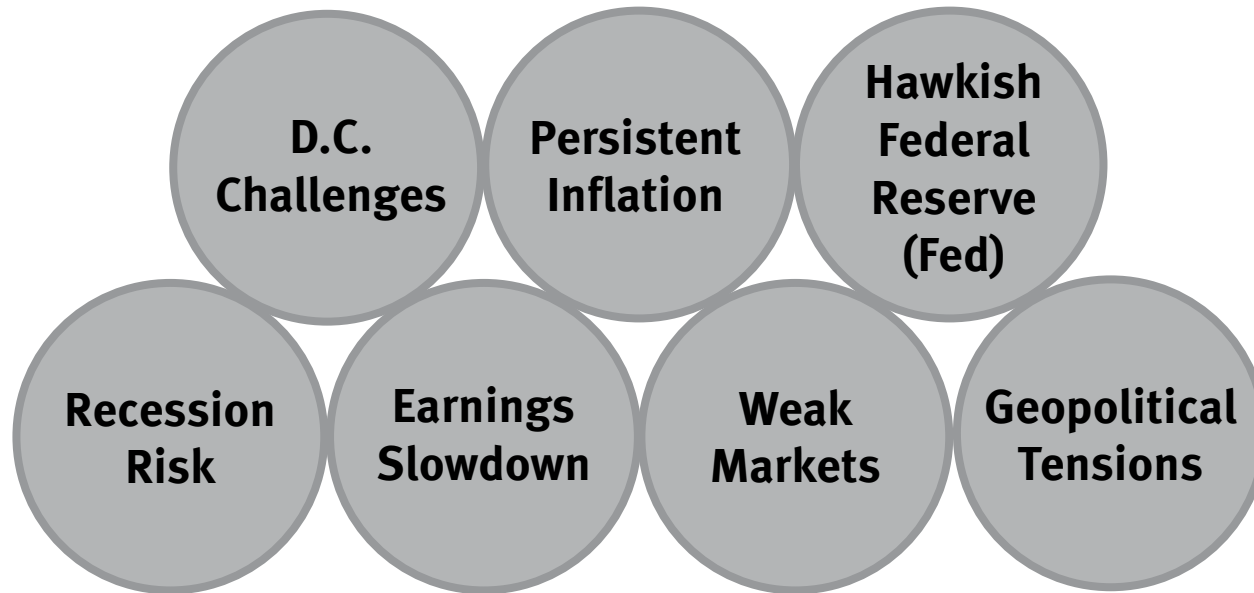
# STIFEL

**FAVORITE**

**15**

**November 3, 2022**

Insights From Stifel's CIO Office



### What's Being Decided and Main Takeaway

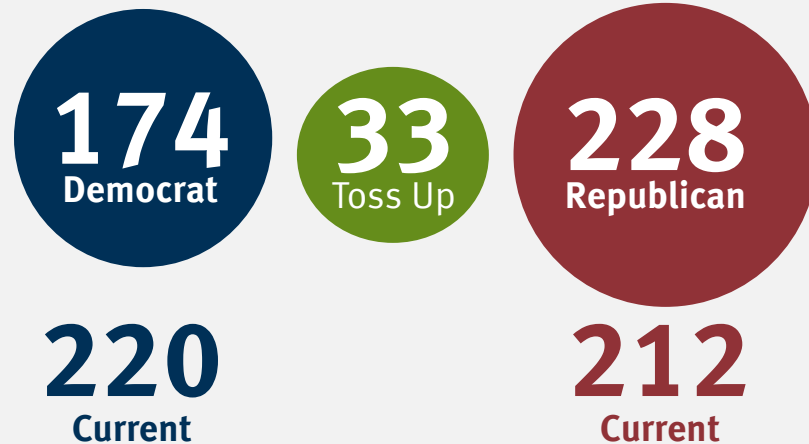
- **House:** all 435 seats.
- Current makeup: 220 Democrat (D) – 212 Republican (R) (2 vacancies)
  - Average gain for minority party is 27 seats
- **Senate:** 35 seats: 21 (R) -14 (D)
- Candidate quality and location matter – not always reflective of national trend
  - Ex. In 2018, Democrats gained 40 House seats but lost 2 Senate seats
- After a summer bounce for Democrats, red tide has been regaining strength
- GOP highly likely to flip the House; increasing chances of GOP takeover of the Senate

**Replay of our Client Webinar:**  
**2022 Midterm Elections Part 1 here**

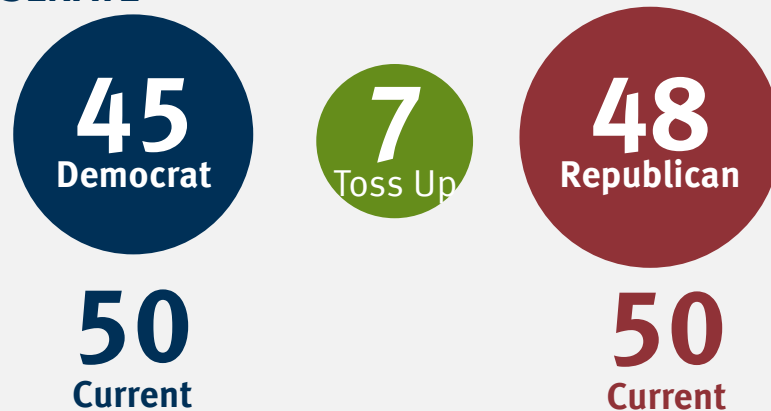


## CONGRESS

### HOUSE OF REPRESENTATIVES



### SENATE



Source: Stifel Investment Strategy via RealClearPolitics, as of October 31, 2022

### President Biden Job Approval

**42.7%**  
Approve

### Direction of Country

**25.9%**  
Right Direction

### 2022 Generic Congressional Vote

**48.0 Republicans**  
**45.1 Democrats**

### Voters' Priorities

#### Most Important Issues Facing the Country

|                           |     |
|---------------------------|-----|
| Price Increases/Inflation | 37% |
| Economy and Jobs          | 29% |
| Immigration               | 23% |

#### Importance of Issues in Your Vote in the Midterms

|             |     |
|-------------|-----|
| Inflation   | 96% |
| Crime       | 94% |
| Immigration | 90% |

### Voters' View of Their Personal Financial Situation

|                  |     |
|------------------|-----|
| Getting Worse    | 57% |
| Improving        | 23% |
| Just as well off | 20% |

Handicapping the Outcomes

| <u>House</u> | <u>Senate</u> | <u>Probability</u> |
|--------------|---------------|--------------------|
| Republican   | Democrat      | 50%                |
| Republican   | Republican    | 40%                |
| Democrat     | Democrat      | 10%                |
| Democrat     | Republican    | <1%                |

Source: Stifel Washington Policy Strategy

Four Races to Keep an Eye On

**Colorado** – Sen. Michael Bennet (D)  
v. Joe O’Dea (R) (Biden +13.5)

**Washington** – Sen. Patty Murray (D)  
v. Tiffany Smiley (R) (Biden +19.2)

**Connecticut** – Sen. Richard Blumenthal (D)  
v. Leora Levy (R) (Biden +20)

**Iowa** – Sen. Charles Grassley (R)  
v. Mike Franken (D) (Trump +8.2)

Four Republican Targets

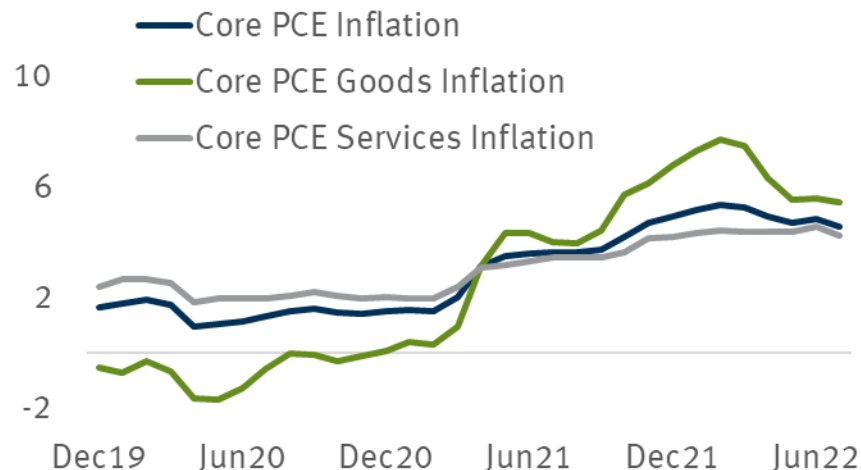
(seats currently held by Democrats)

- **Arizona** – Sen. Mark Kelly  
v. Blake Masters (toss up)
- **Georgia** – Sen. Raphael Warnock  
v. Hershel Walker (toss up)
- **Nevada** – Sen. Catherine Cortez-Masto  
v. Adam Laxalt (lean Republican)
- **New Hampshire** – Sen. Maggie Hassan  
v. Don Bulduc (lean Democrat)

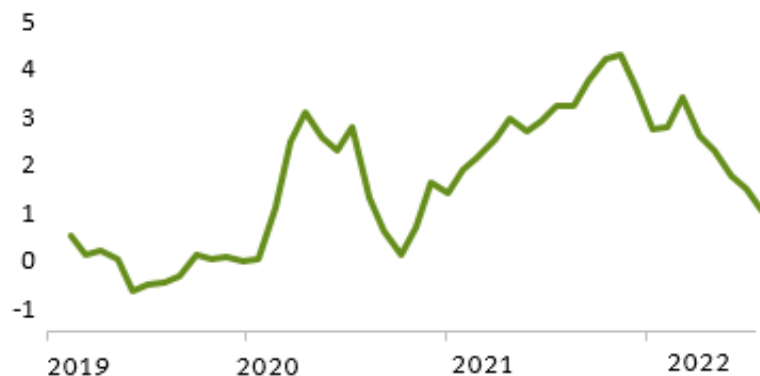
Four Democratic Targets

(seats currently held by Republicans)

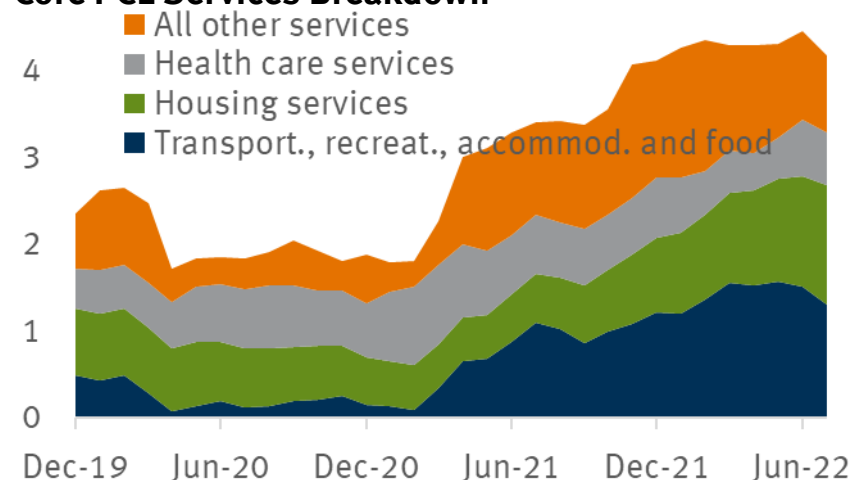
- **North Carolina** – Ted Budd  
v. Cheri Beasley (lean Republican)
- **Ohio** – J.D. Vance  
v. Tim Ryan (lean Republican)
- **Pennsylvania** – Dr. Mehmet Oz.  
v. John Fetterman (toss up)
- **Wisconsin** – Sen. Ron Johnson v.  
Mandela Barnes (lean Republican)



**Global Supply Chain Pressure Index**



**Core PCE Services Breakdown**



### *Investors:* Breakeven Inflation Rates

**2.76%**  
*1-Year*

**2.62%**  
*5-Year*

**2.48%**  
*10-Year*

**2.34%**  
*5-year, 5-year  
forward*

### *Consumers:* Surveys

**5.0%**

*University of Michigan  
1-year*

**2.90%**

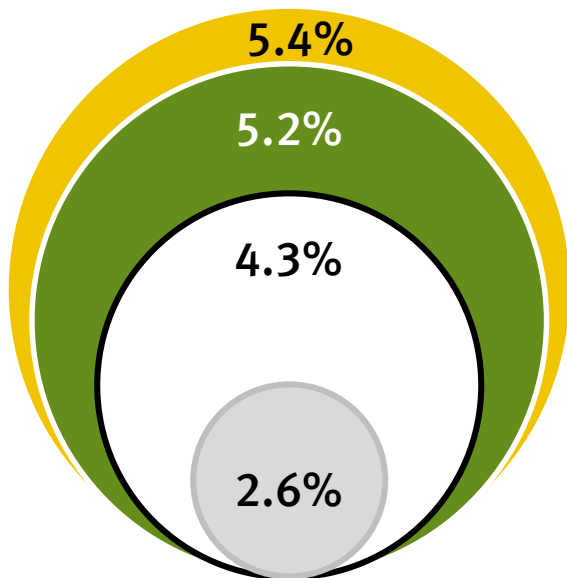
*University of  
Michigan 5-10  
year*

**7.0%**

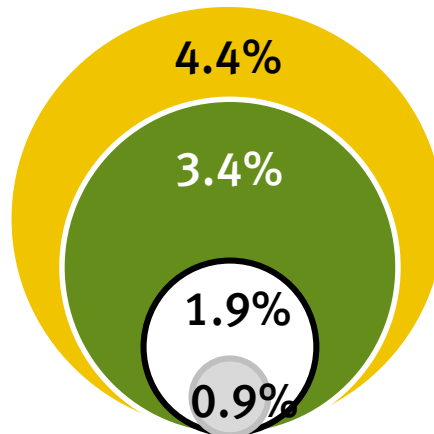
*Conference Board 1-year*

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

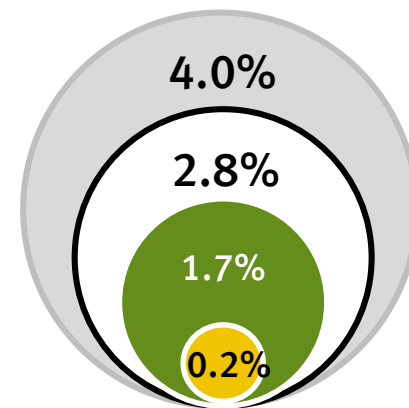
**PCE Inflation**  
(% Change 4Q/4Q)



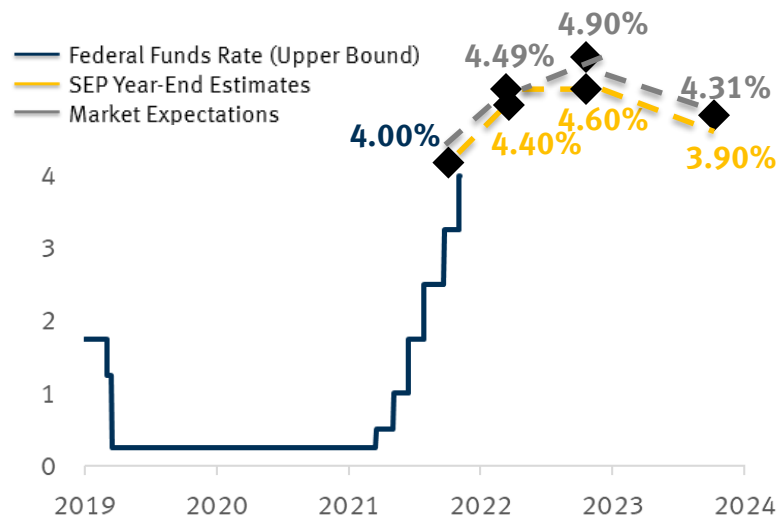
**Federal Funds Rate**



**Real GDP**  
(% Change 4Q/4Q)



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





## Fed's Dual Mandate

### Price Stability: 2%

- Wage pressures subside
- Food/shelter/core goods prices ease
- Supply chain pressures ease
- Inflation expectations fall towards 2%
- Monthly CPI trends lower
- Monthly PCE trends lower

### Maximum Employment

- Job quits slow
- Initial jobless claims rise
- Unemployment to job openings ratio declines
- Unemployment above 4.4%
- Deep recession
- Severe financial conditions

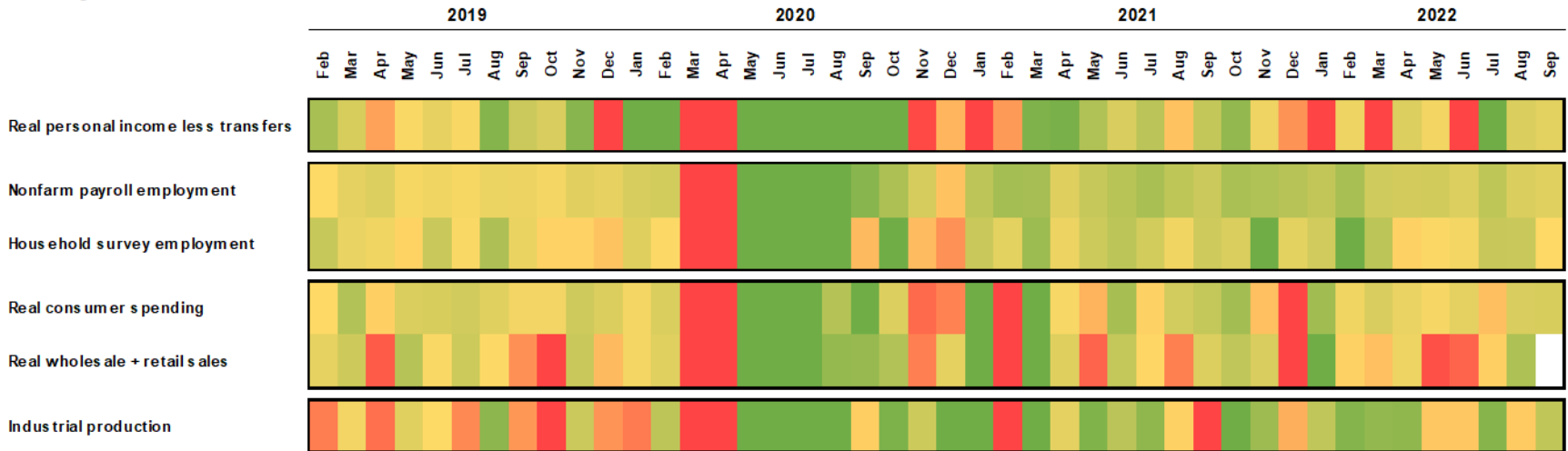
**1.0%****Consumers' Contribution  
to Q2 GDP***1 year ago: 2.0%***8.2%****Retail Sales***1 year ago: 14.5%***3.1%****Savings Rate***1 year ago: 7.9%***3.5%****Unemployment Rate***1 year ago: 4.7%*

Source: Stifel Investment Strategy data via Bloomberg, as of November 3, 2022

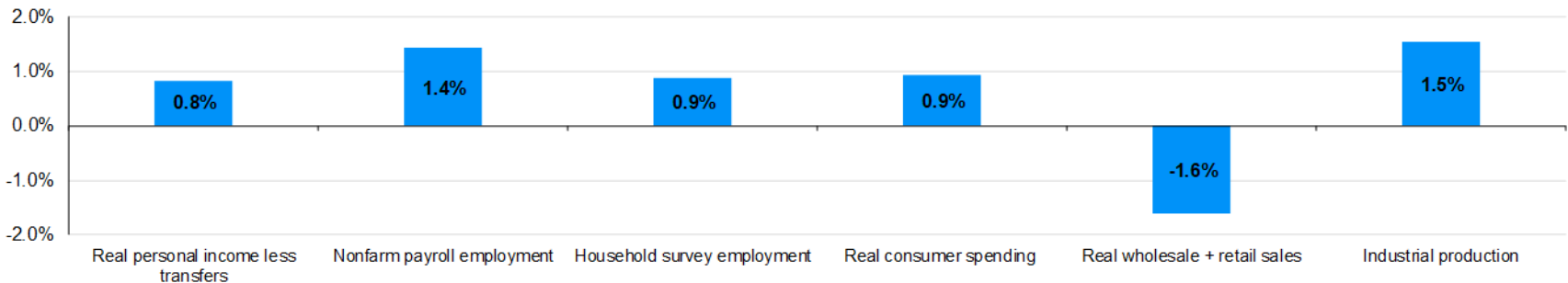


## Variables used by the NBER in making recession determination\*

% change month-over-month



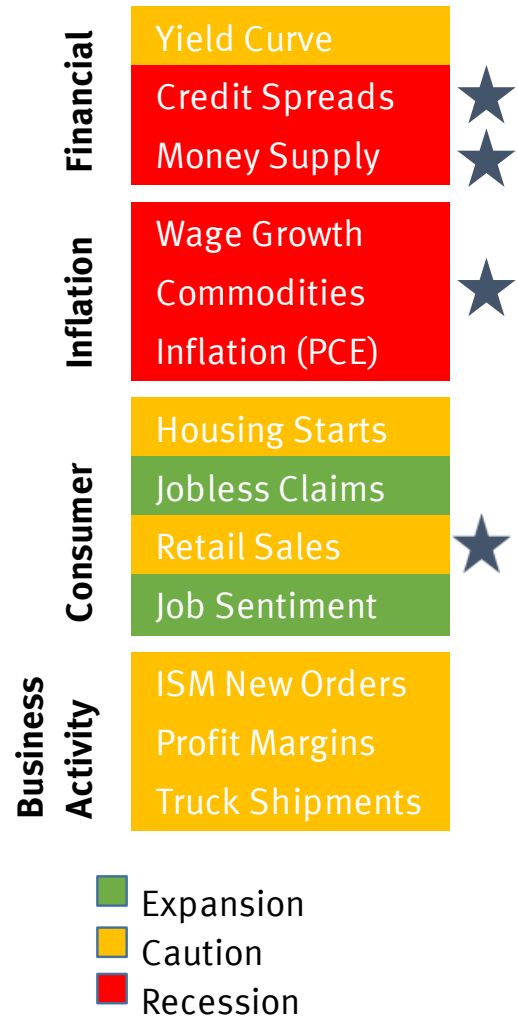
% change, last six months



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Federal Reserve of St. Louis, NBER, J.P. Morgan Asset Management. Heatmap shading reflects 10 years of data, with green and red reflecting a range of +/- 0.5 standard deviations from a baseline of 0% monthly growth. \*The NBER's definition of a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months. Because a recession must influence the economy broadly and not be confined to one sector, the committee emphasizes economy-wide measures of economic activity. Specifically, they consider real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, wholesale-retail sales adjusted for price changes and industrial production. There is no fixed rule about what measures contribute to the process or how they are weighted, but the committee notes that "in recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment."

Guide to the Markets – U.S. Data are as of November 1, 2022.

### Recession-Recovery Dashboard

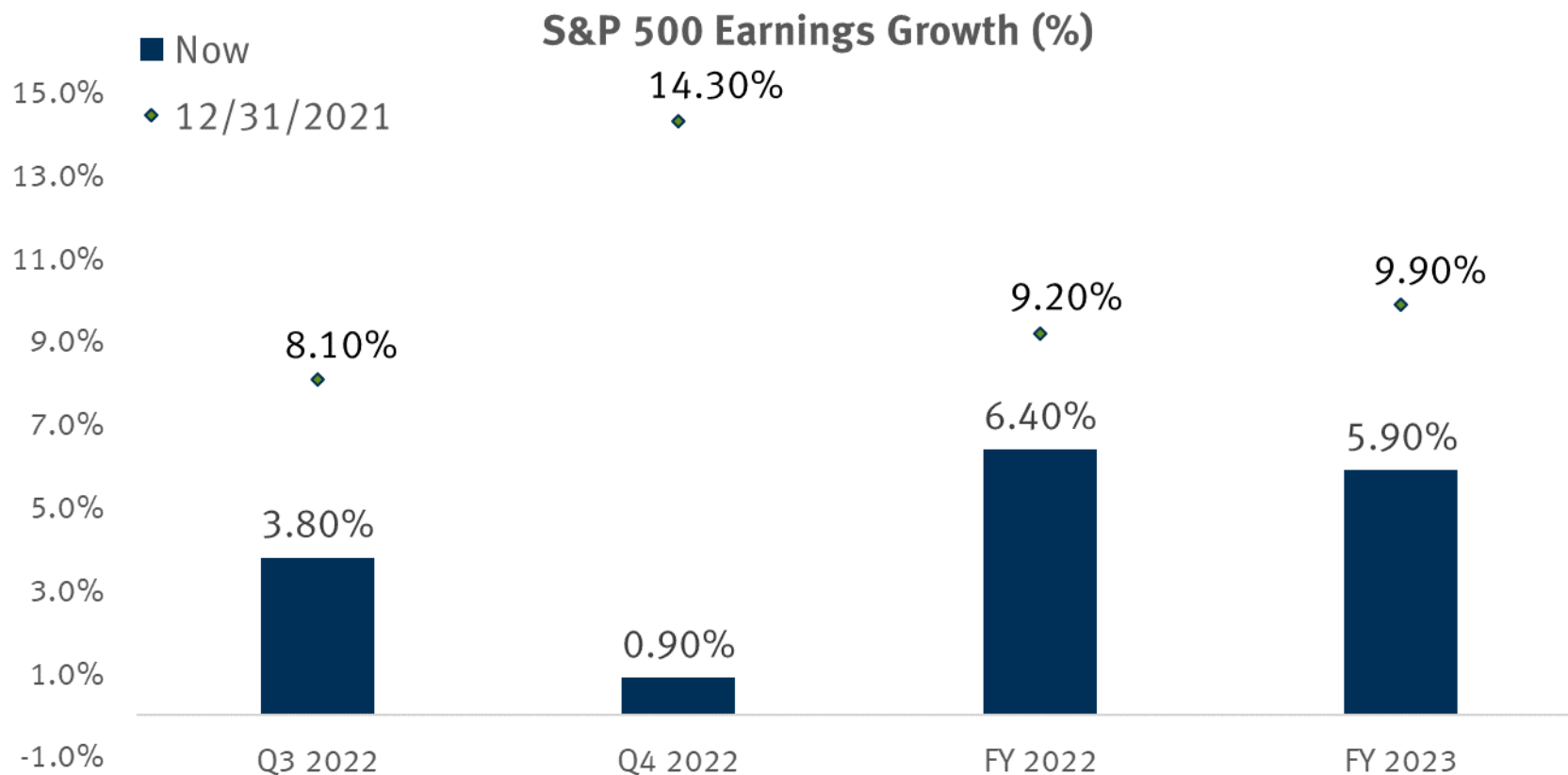


- Flatter **yield curve** indicates increased recession risk.
- **Credit spreads** continue to show increased risk of stress.
- **Money supply** growth has declined on normalized policy and banks cautiousness about lending money.
- **Wage growth is** contributing to inflationary pressures.
- **Commodity** 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** have slowed and shifted to necessities and away from discretionary spending as inflation impacts the consumer.
- More people have been **quitting** jobs as leverage has shifted from employers to employees.
- **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.

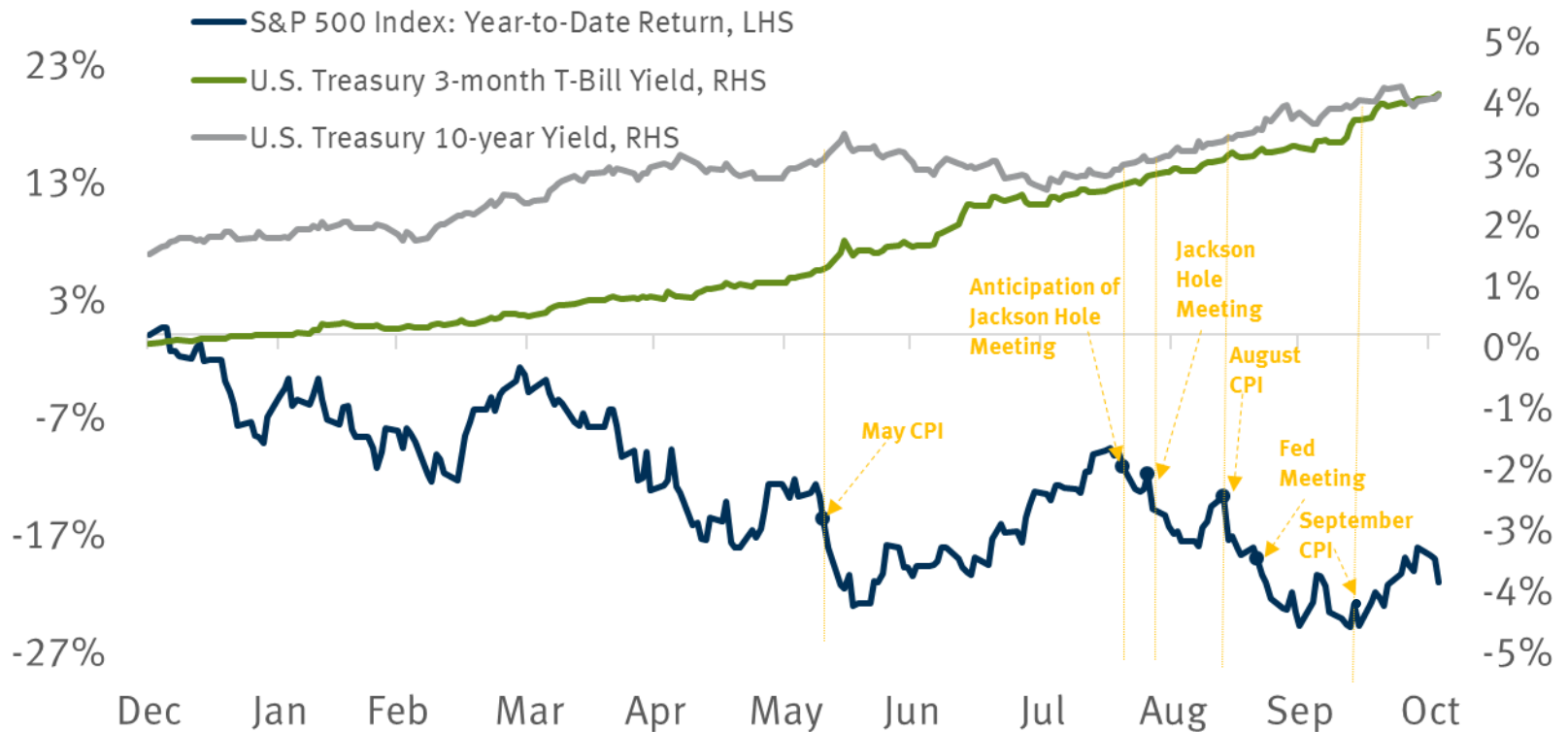


★ Previously in  
expansionary/cautionary  
territory.

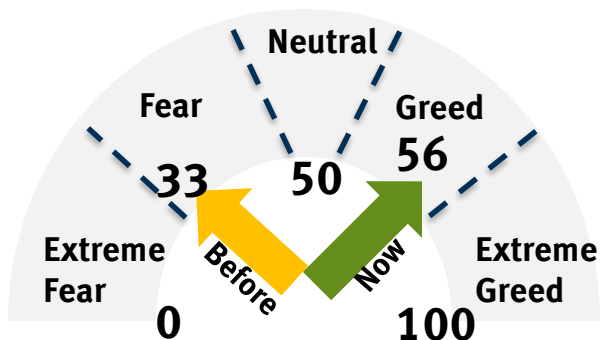
Many companies citing supply chain, inflation, and recession



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

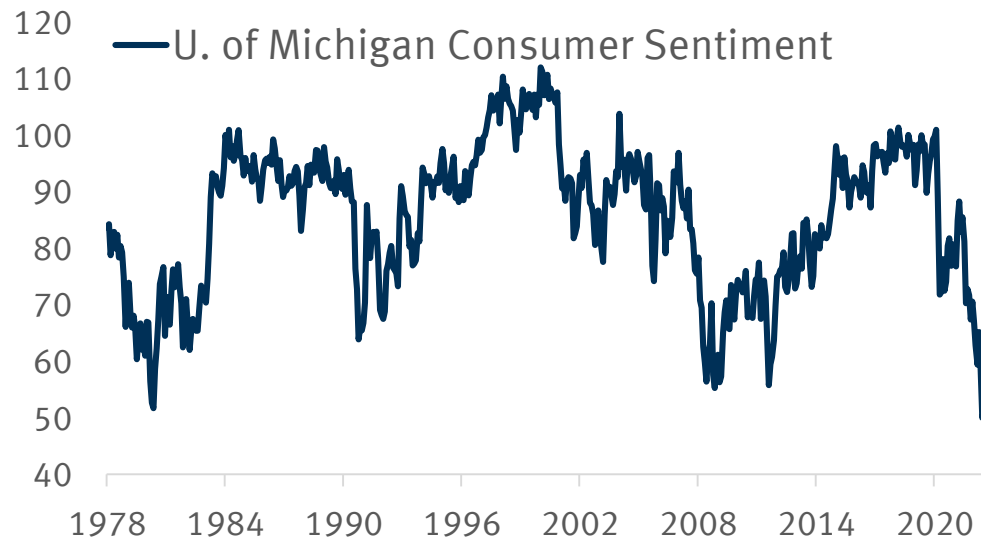


## CNN – Fear and Greed Index

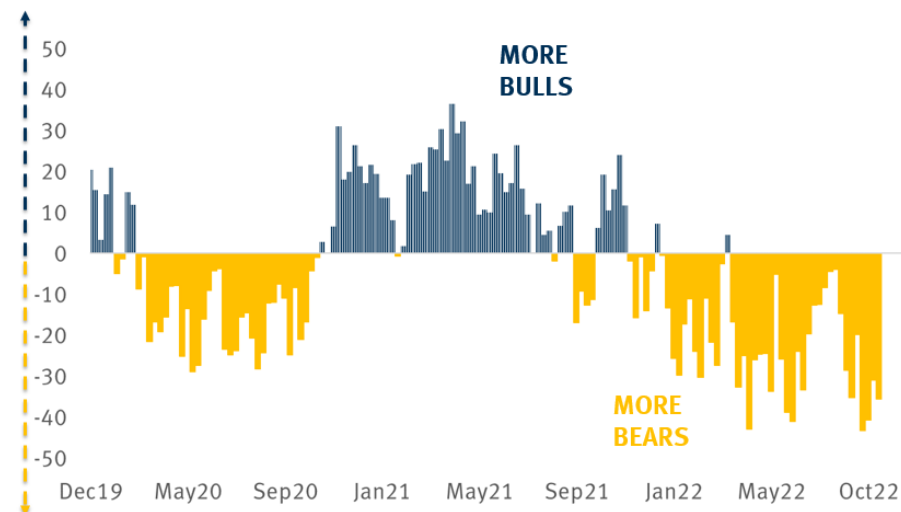


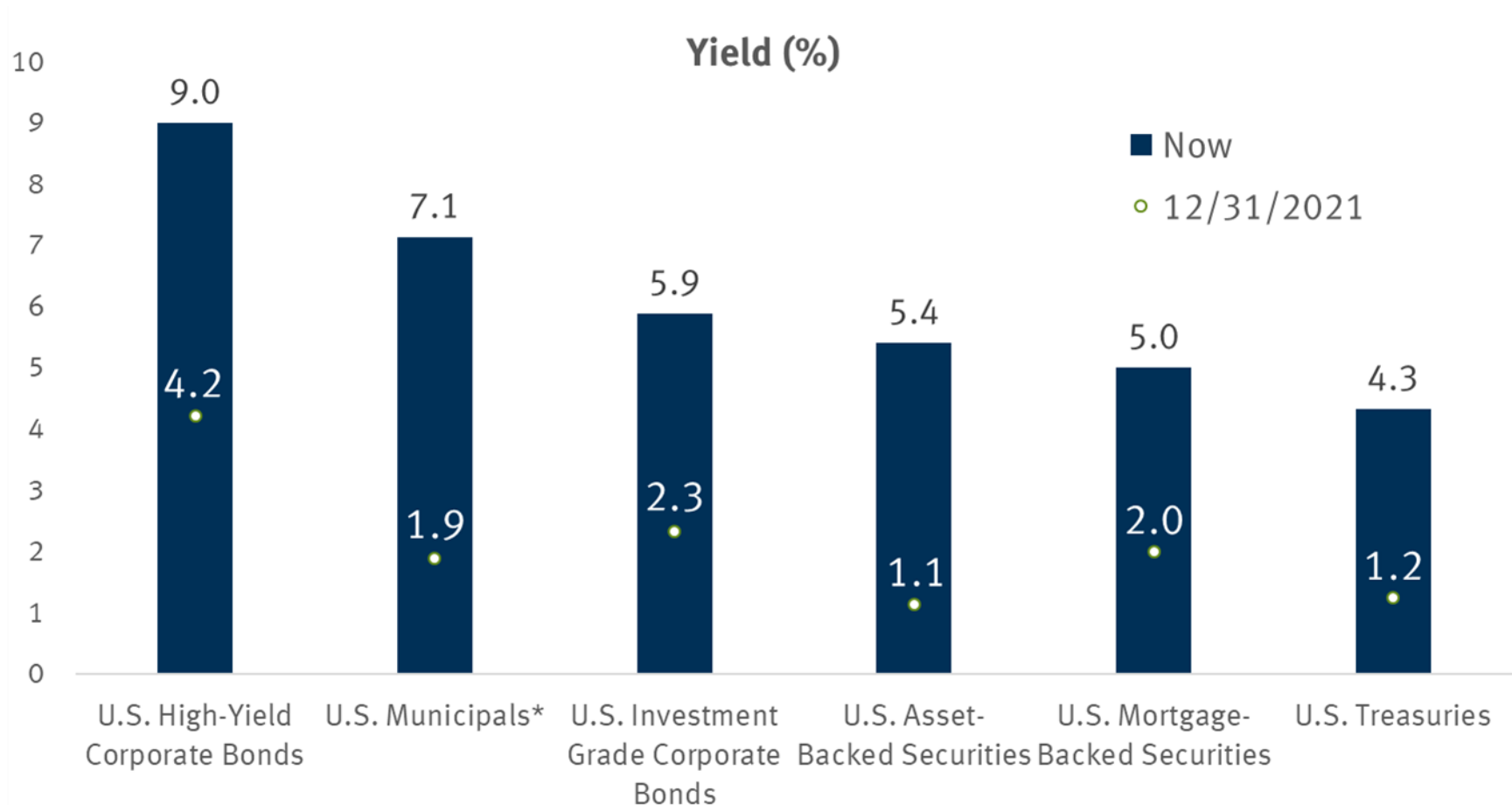
## Global Fund Manager Survey

**6.3%**  
Cash Allocation:  
The highest since 2001



*Weekly, AAI % bulls less % bears*









### 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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*Chief Investment Officer*

**Nik Eftimov, CFA**

*Director, Investment Management  
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