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# FAVORITE 15

## August 2023

Insights From Stifel's CIO Office

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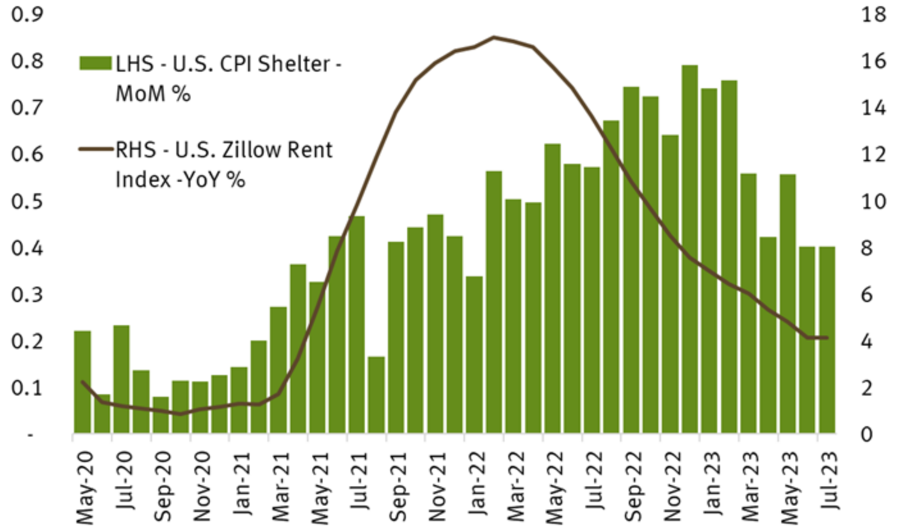
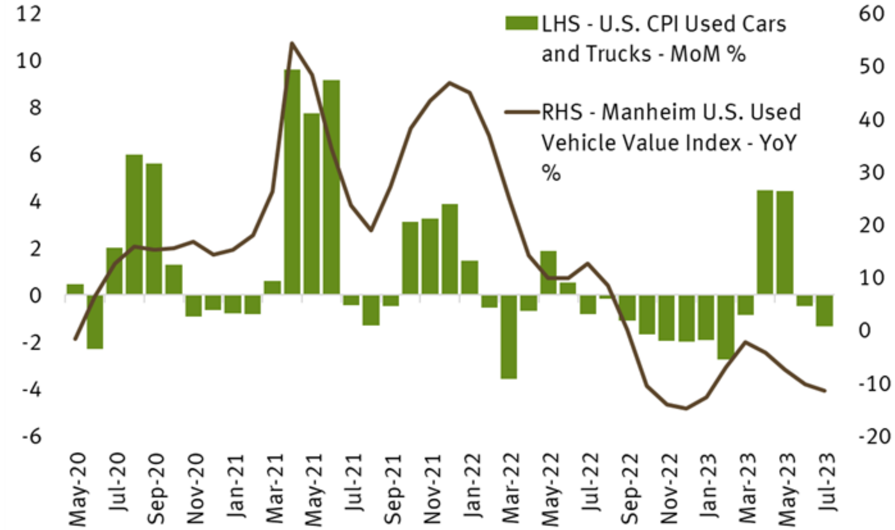
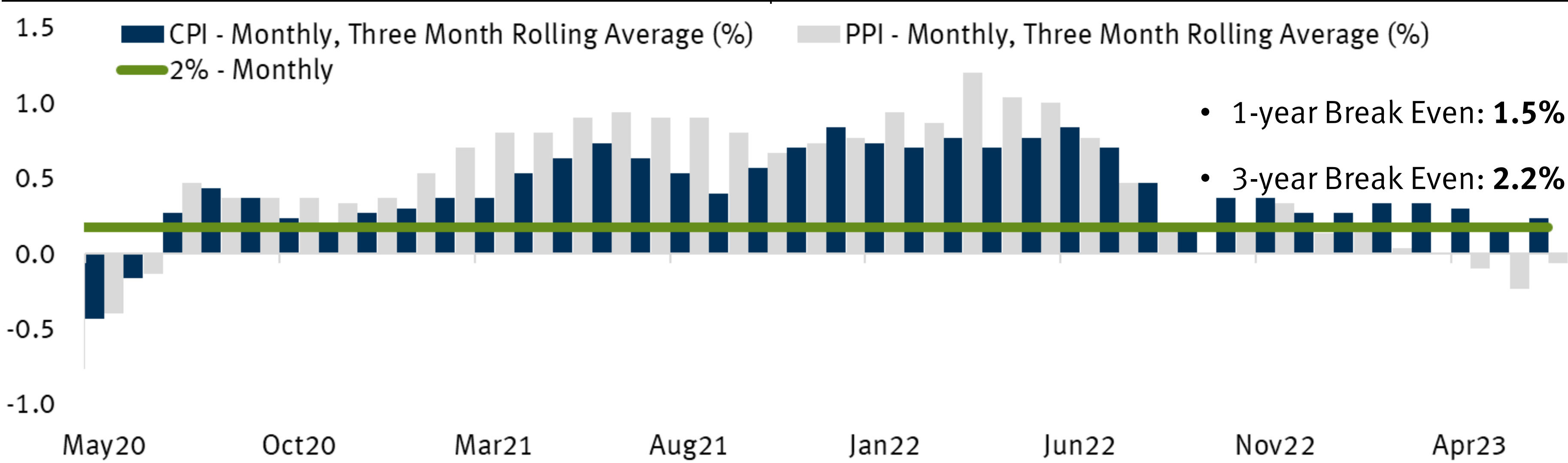
## Real-time inflation data vs. Consumer Price Index (CPI)




- 1-year Break Even: **1.5%**
- 3-year Break Even: **2.2%**

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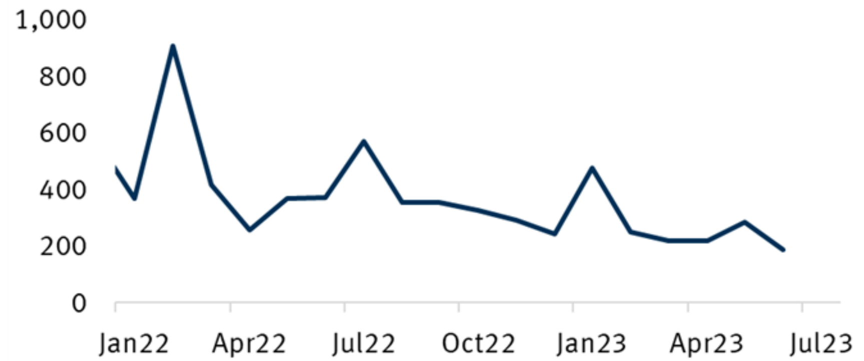
Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

PPI = Producer Price Index
MoM = Month Over Month
YoY = Year Over Year

## JOLTs - Job Openings (000,000s)


## Nonfarm Payrolls (000s)




## Jobless Claims (000s)


## Wage Growth - Hourly Earnings (%)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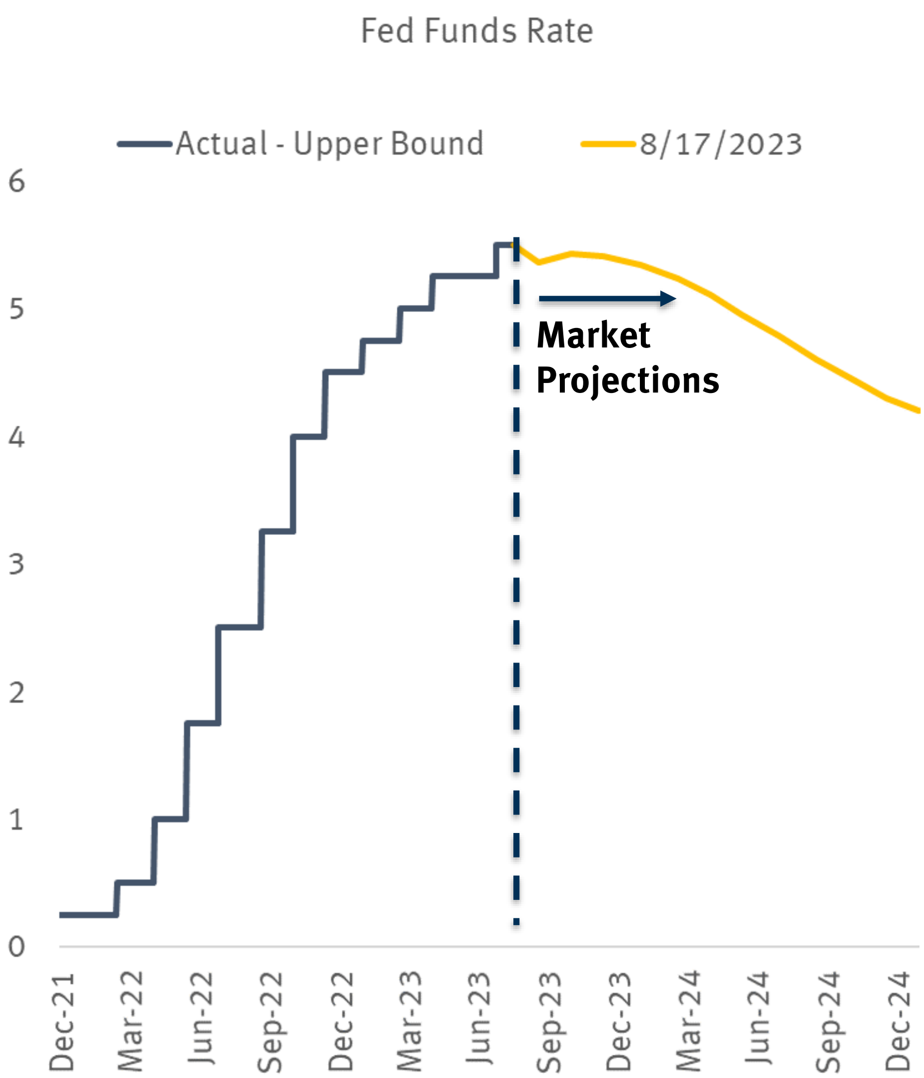
Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

# INFLATION AND FED POLICY




## Learnings From the Fed Meeting

- Raised rates **by 25 basis points (bps) to 5.25-5.50%**
- Statement little changed: economy expanding at a **"moderate"** rate vs. **"modest"** in last statement.
- Fed staff **no longer forecasting** a recession – Powell still believes in soft landing
- **Balance sheet reduction** could continue even while cutting the funds rate
- No clear signal for **September meeting**

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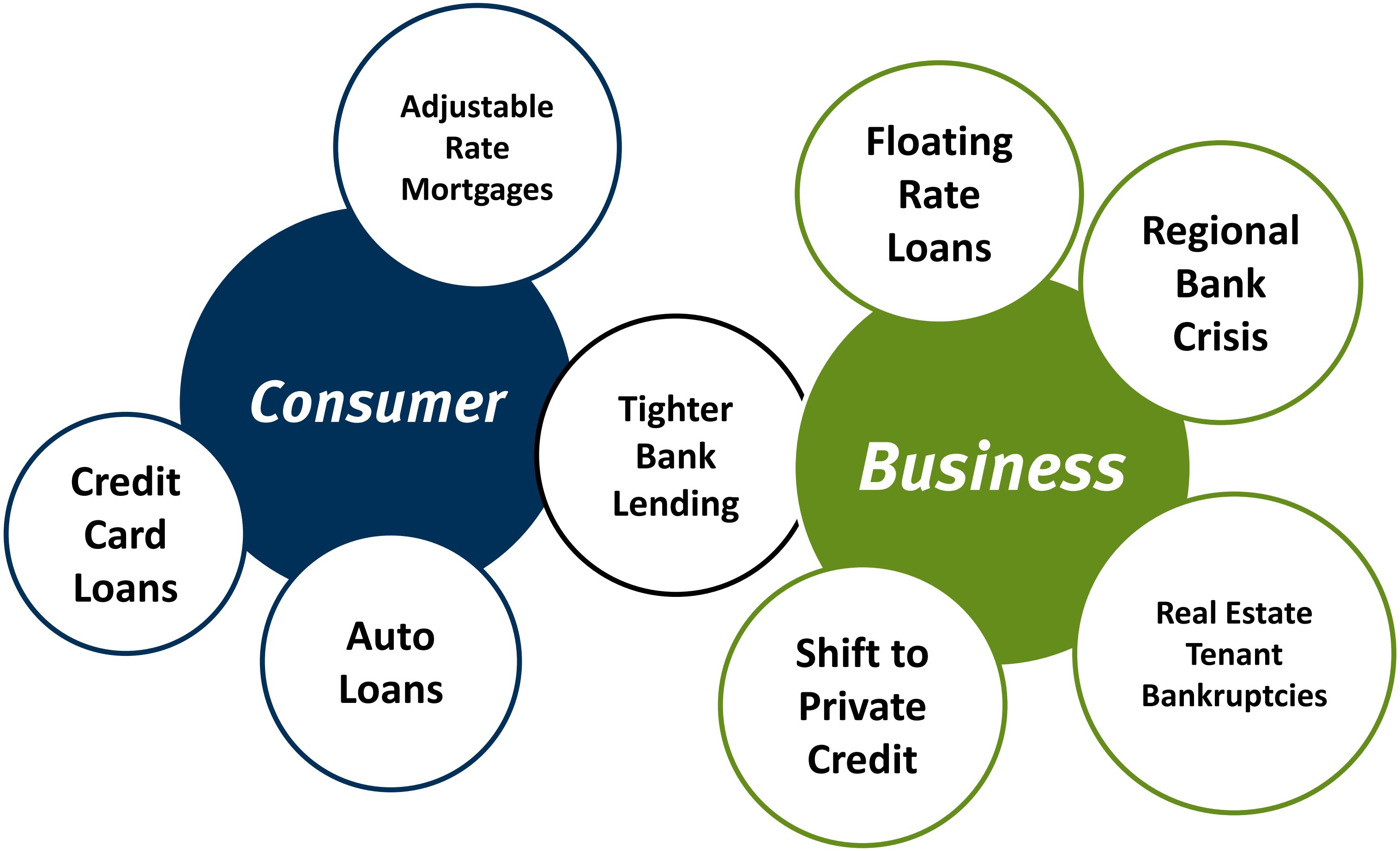
Source: Stifel CIO Office via Bloomberg, as of August 17, 2023 (intra-day)

# HIGHER RATES PRESENT CHALLENGES

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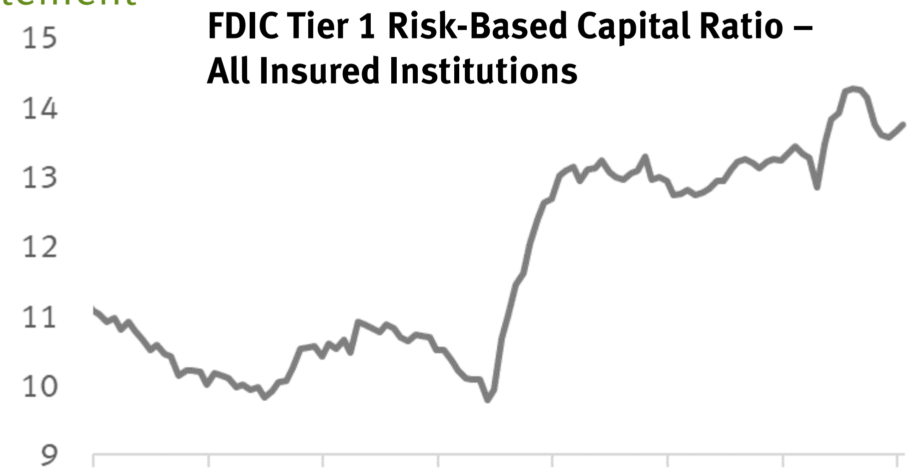
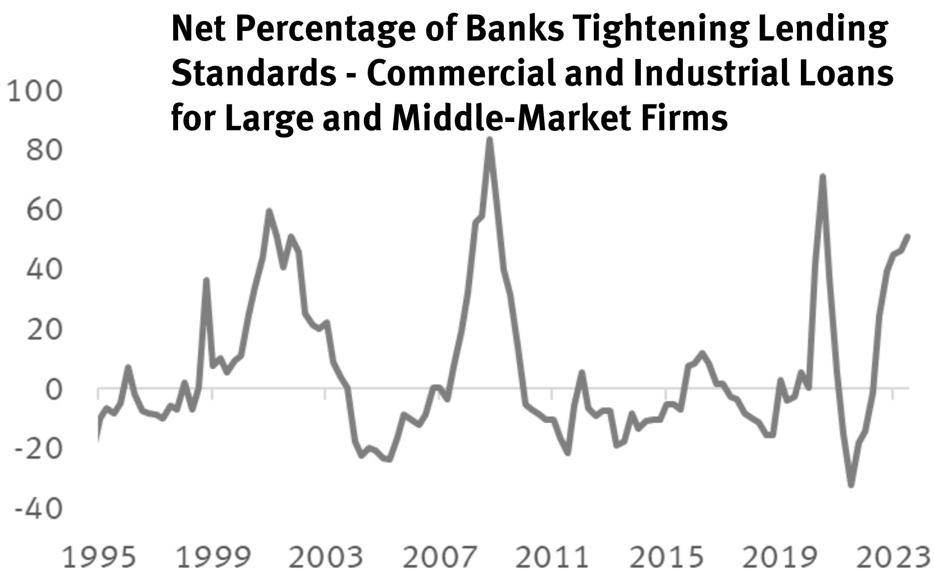
Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

## "The U.S. banking system is sound and resilient" – Federal Open Market Committee (FOMC) Statement




Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

### Bank 2Q 2023 earnings insights from KBW

- Banking environment stabilized as banks returned to trading on fundamentals rather than sentiment
- Bar for 2Q results was reduced significantly pre-earnings, but banks so far have exceeded these low expectations
- Focus is now on 2024 earnings and profitability
- Non-interest bearing (NIB) deposits continued to shrink in 2Q2023 (6% quarter over quarter decline)
    - Most banks messaged that additional downward pressure was likely in second half 2023
- Is the worst of the decline in NIB behind us?
    - Investors need greater confidence in assessing downside risk to Net Interest Income/Earnings Per Share (EPS) before sustained interest in the group occurs

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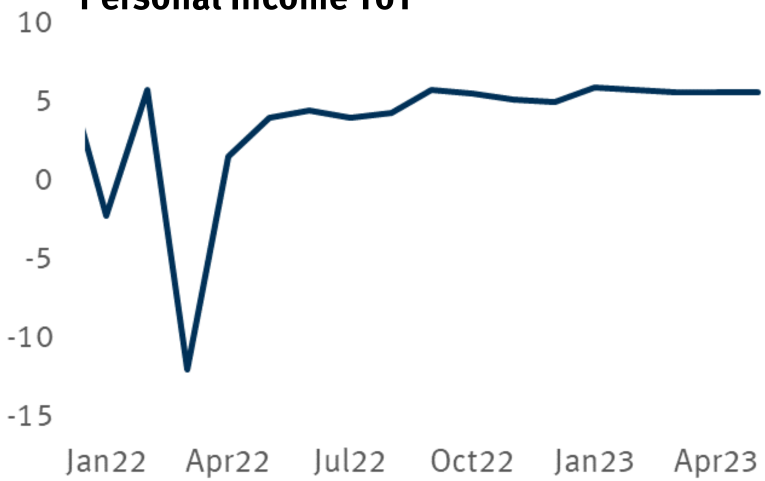
# CONSUMER ACTIVITY

## Retail Sales Year Over Year (YoY)


## Personal Spending YoY


## Personal Income YoY




## University Of Michigan Consumer Sentiment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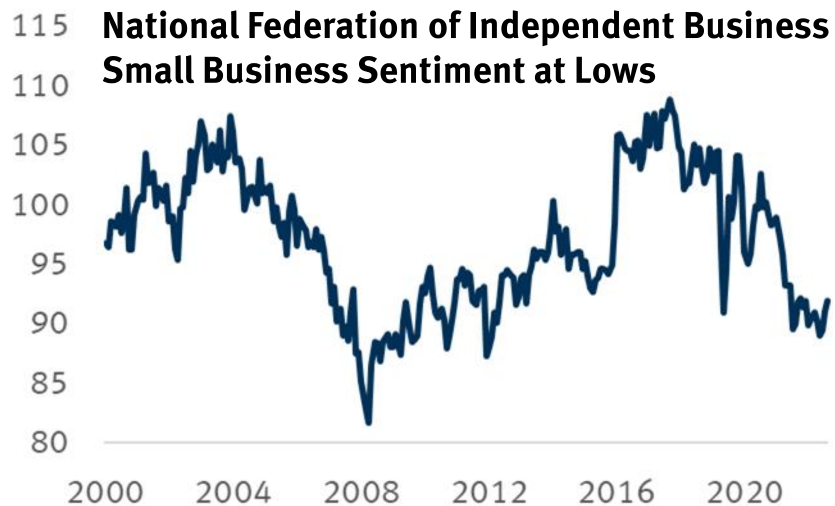
Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

## Industrial Production YoY is Slowing


## Slowing Corporate Profits Could Mean Slower


## Factory Orders YoY are Slowing


## National Federation of Independent Business Small Business Sentiment at Lows

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Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

# ECONOMIC FORECASTS

| U.S. GDP | Date of Estimate | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | Q1 2024 | Q2 2024 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Consensus Estimates** | **7/21/2023** | **2.0** | **1.5** | **0.4** | **-0.4** | **0.3** | **1.2** | **2.1** | **1.5** | **0.6** |
| Stifel | 7/15/2023 | | 1.8 | 0.3 | -0.6 | 1.8 | 0.3 | | 0.9 | 1.4 |
| Goldman Sachs | 7/21/2023 | | 2.5 | 1.0 | 1.0 | 1.9 | 1.9 | | 2.0 | 1.6 |
| Capital Economics | 7/14/2023 | | 1.4 | -1.5 | -1.5 | 0.5 | 1.8 | | 1.3 | 0.4 |
| Strategas | 7/17/2023 | | 1.6 | 1.5 | -0.5 | -1.5 | 1.0 | | 1.8 | 0.4 |
| UBS | 7/21/2023 | | 1.6 | -0.7 | -1.9 | -1.3 | 2.0 | | 1.4 | 0.1 |
| Wells Fargo | 7/21/2023 | | 0.9 | 1.7 | 0.2 | -1.4 | -1.8 | | 1.7 | 0.1 |
| Bloomberg Economics | 7/7/2023 | | 1.5 | 0.5 | -1.2 | -1.1 | 0.9 | | 1.6 | 0.2 |
| Barclays | 7/21/2023 | | 1.5 | 0.0 | -0.5 | -1.0 | -0.5 | | 1.6 | -0.2 |
| JPMorgan Chase | 7/21/2023 | | 1.7 | 0.5 | -0.5 | -0.5 | 0.5 | | 1.7 | 0.4 |
| **Federal Reserve**** | 6/14/2023 | | | | | | | **0.9** | 1.0 | 1.1 |

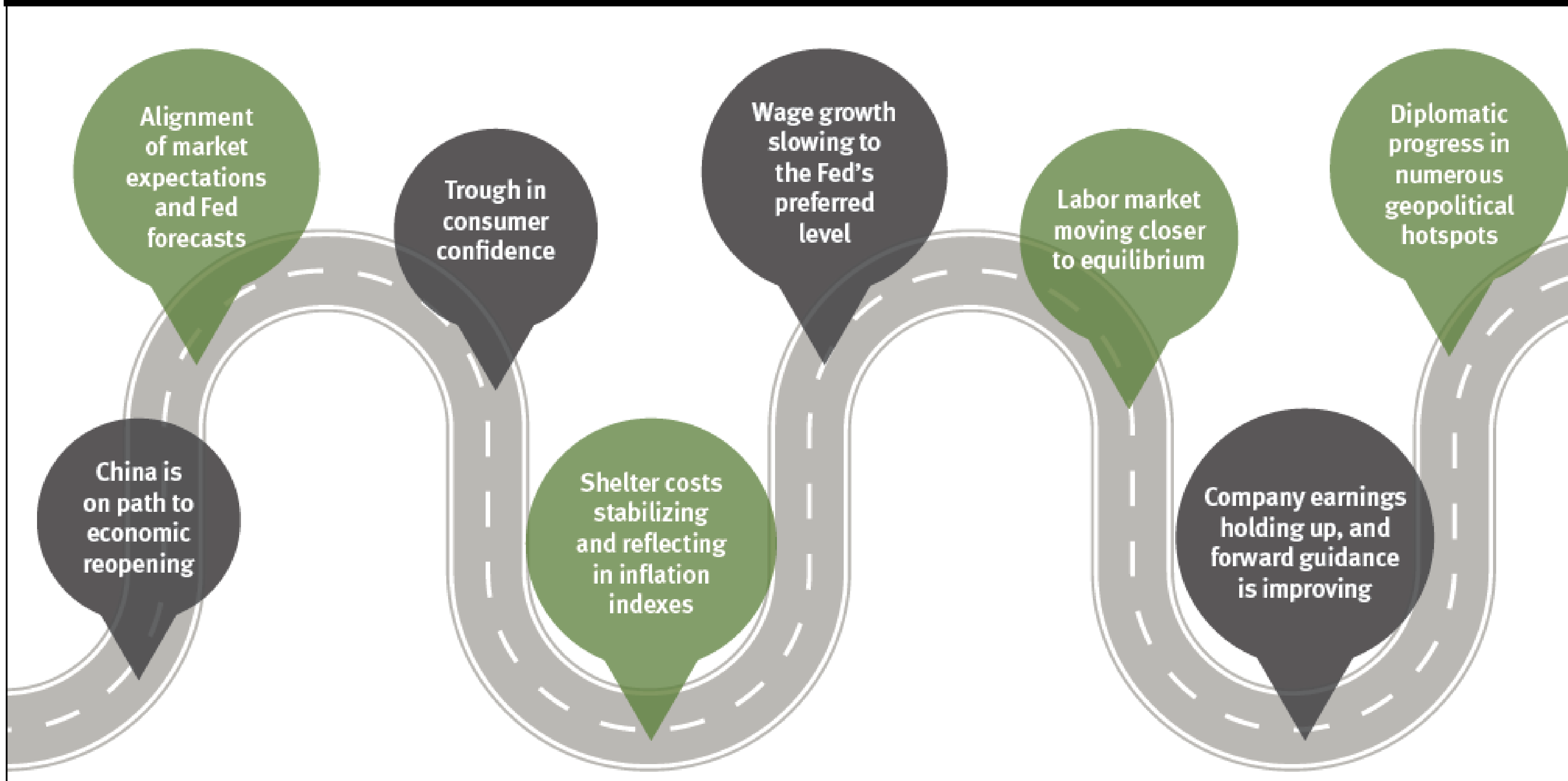
Annualized percent change from prior quarter and year-over-year change are shown for quarterly and yearly periods, respectively. Stifel estimates based on Stifel sell-side Economics department estimates.

**Percent change from fourth quarter to fourth quarter one year ago.

Source: Stifel CIO Office via Bloomberg, as of July 21, 2023. Federal Reserve estimates are as of June 14, 2023. Figures in grey areas under “Consensus Estimates” represent reported results

# SIGNPOSTS TO FINDING BALANCE

## SIGNPOSTS

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# MARKET PERFORMANCE

| Index | 2020 | 2021 | 2022 | YTD - Mar 8 2023 | Mar 8 – June 1 2023 | June 1– August 21 2023 | YTD – August 21 2023 |
|---|---|---|---|---|---|---|---|
| S&P 500 Index | 18.4% | 28.7% | -18.1% | 4.3% | 6.2% | 4.6% | 15.8% |
| S&P 500 Eq. Weight. | 12.8% | 29.6% | -11.5% | 3.9% | -3.6% | 5.1% | 5.3% |
| S&P 500 Financials | -1.8% | 34.9% | -10.6% | 2.2% | -7.7% | 6.2% | 0.1% |
| KBW Reg. Banking | -8.7% | 36.7% | -6.9% | -1.7% | -24.6% | 12.7% | -16.5% |
| Russell 1000 Value | 2.8% | 25.1% | -7.6% | 1.3% | -2.0% | 5.2% | 4.4% |
| Russell 1000 Growth | 38.5% | 27.6% | -29.1% | 8.3% | 12.8% | 4.2% | 27.4% |
| NYSE FANG+ Index | 103.1% | 17.7% | -40.0% | 24.0% | 32.7% | 2.7% | 69.1% |
| Russell 2000 Index | 19.9% | 14.8% | -20.5% | 6.9% | -5.6% | 5.3% | 6.4% |
| MSCI EAFE Index | 7.8% | 11.3% | -14.5% | 6.1% | 2.0% | -0.3% | 7.9% |
| MSCI EM Index | 18.3% | -2.5% | -20.1% | 2.4% | -1.0% | 0.9% | 2.3% |
| Bloomberg U.S. Agg | 7.5% | -1.5% | -13.0% | -0.1% | 2.8% | -2.9% | -0.3% |

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Source: Stifel CIO Office via Bloomberg, as of August 21, 2023

# NEAR-TERM RISKS AND OPPORTUNITIES

| 2023 EPS | EPS Forward P/E | | | | | | |
|---|---|---|---|---|---|---|---|
| | 19x | 20x | 21x | 22x | 23x | 24x | 25x |
| $240 | 4,560 | 4,800 | 5,051 | 5,280 | 5,520 | 5,760 | 6,000 |
| $230 | 4,370 | 4,600 | 4,840 | 5,060 | 5,290 | 5,520 | 5,750 |
| $220 | 4,180 | 4,400 | 4,630 | 4,840 | 5,060 | 5,280 | 5,500 |
| $219 | 4,161 | 4,380 | 4,609 | 4,818 | 5,037 | 5,256 | 5,475 |
| $210 | 3,990 | 4,200 | 4,419 | 4,620 | 4,830 | 5,040 | 5,250 |
| $200 | 3,800 | 4,000 | 4,209 | 4,400 | 4,600 | 4,800 | 5,000 |
| $190 | 3,610 | 3,800 | 3,999 | 4,180 | 4,370 | 4,560 | 4,750 |
| $180 | 3,420 | 3,600 | 3,788 | 3,960 | 4,140 | 4,320 | 4,500 |

Consensus 2023 EPS

Current S&P 500 Index Level

| 2024 EPS | EPS Forward P/E | | | | | |
|---|---|---|---|---|---|---|
| | 17x | 18x | 19x | 21x | 22x | 23x |
| $255 | 4,335 | 4,590 | 4,773 | 5,355 | 5,610 | 5,865 |
| $250 | 4,250 | 4,500 | 4,679 | 5,250 | 5,500 | 5,750 |
| $245 | 4,165 | 4,410 | 4,585 | 5,145 | 5,390 | 5,635 |
| $240 | 4,080 | 4,320 | 4,492 | 5,040 | 5,280 | 5,520 |
| $230 | 3,910 | 4,140 | 4,305 | 4,830 | 5,060 | 5,290 |
| $220 | 3,740 | 3,960 | 4,118 | 4,620 | 4,840 | 5,060 |
| $210 | 3,570 | 3,780 | 3,930 | 4,410 | 4,620 | 4,830 |

Consensus 2024 EPS

**+9%** needed to reach previous S&P 500 high

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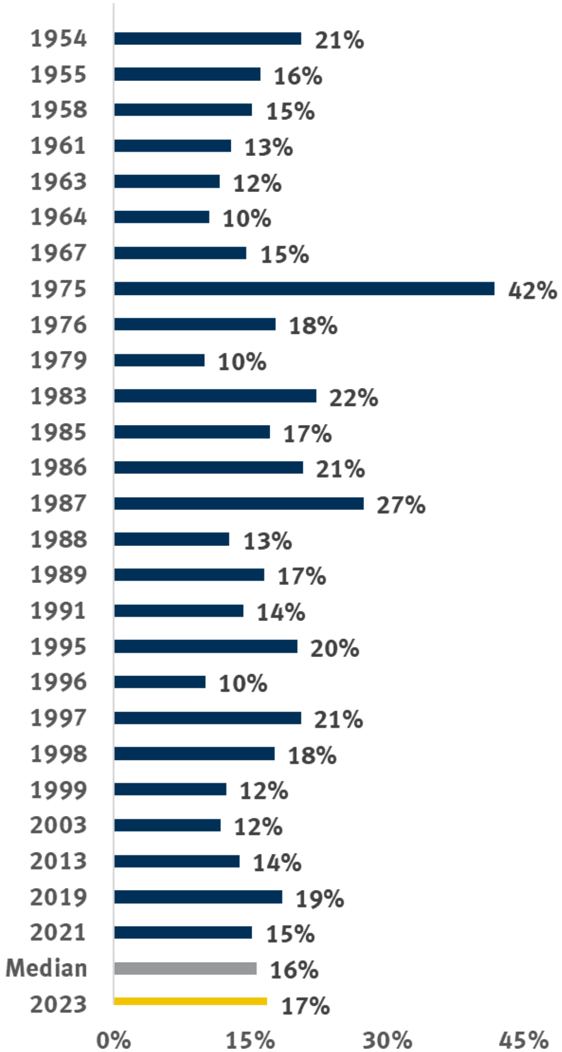
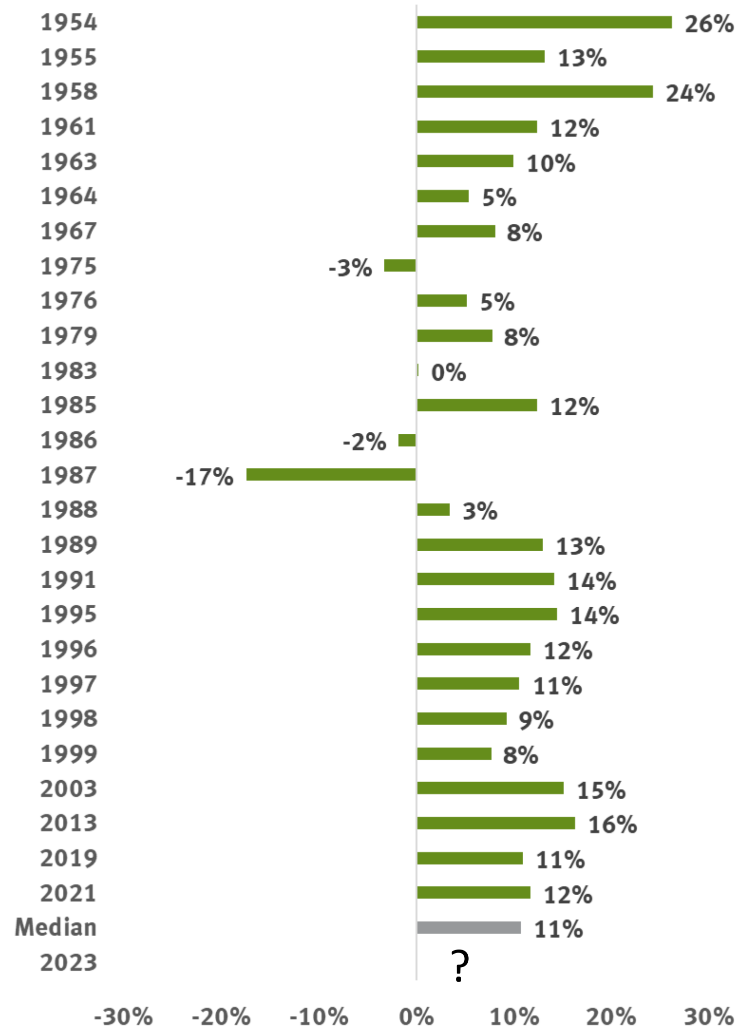
Source: Stifel CIO Office via Bloomberg, as of August 16, 2023

## S&P 500 Years With First Half Gains Greater Than 10%




## Second Half Performance

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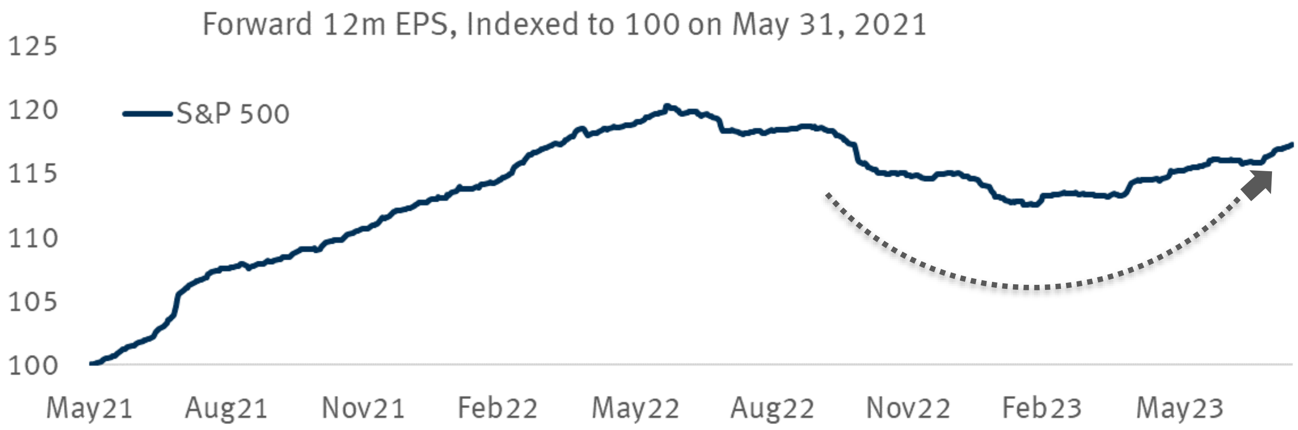
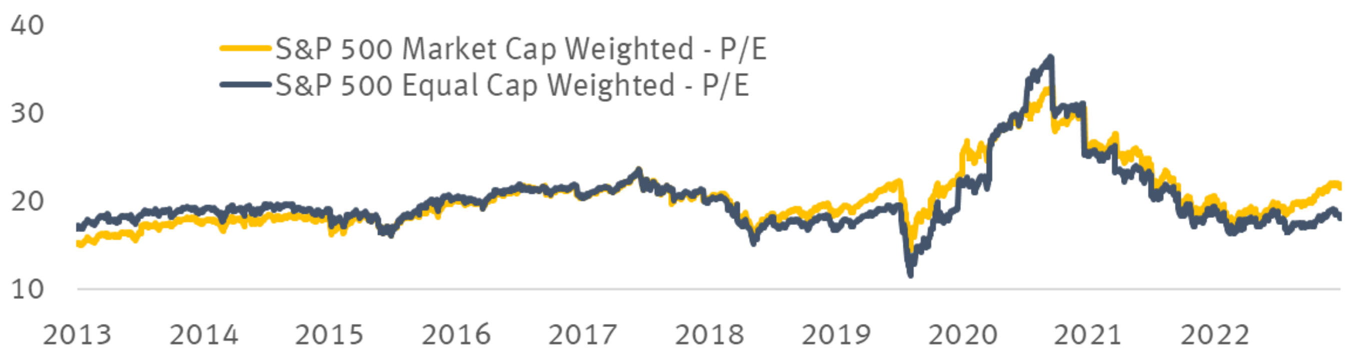
Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

# EARNINGS & MARKET VALUATIONS




**5% premium to 10-year average**

**11% discount to 10-year average**

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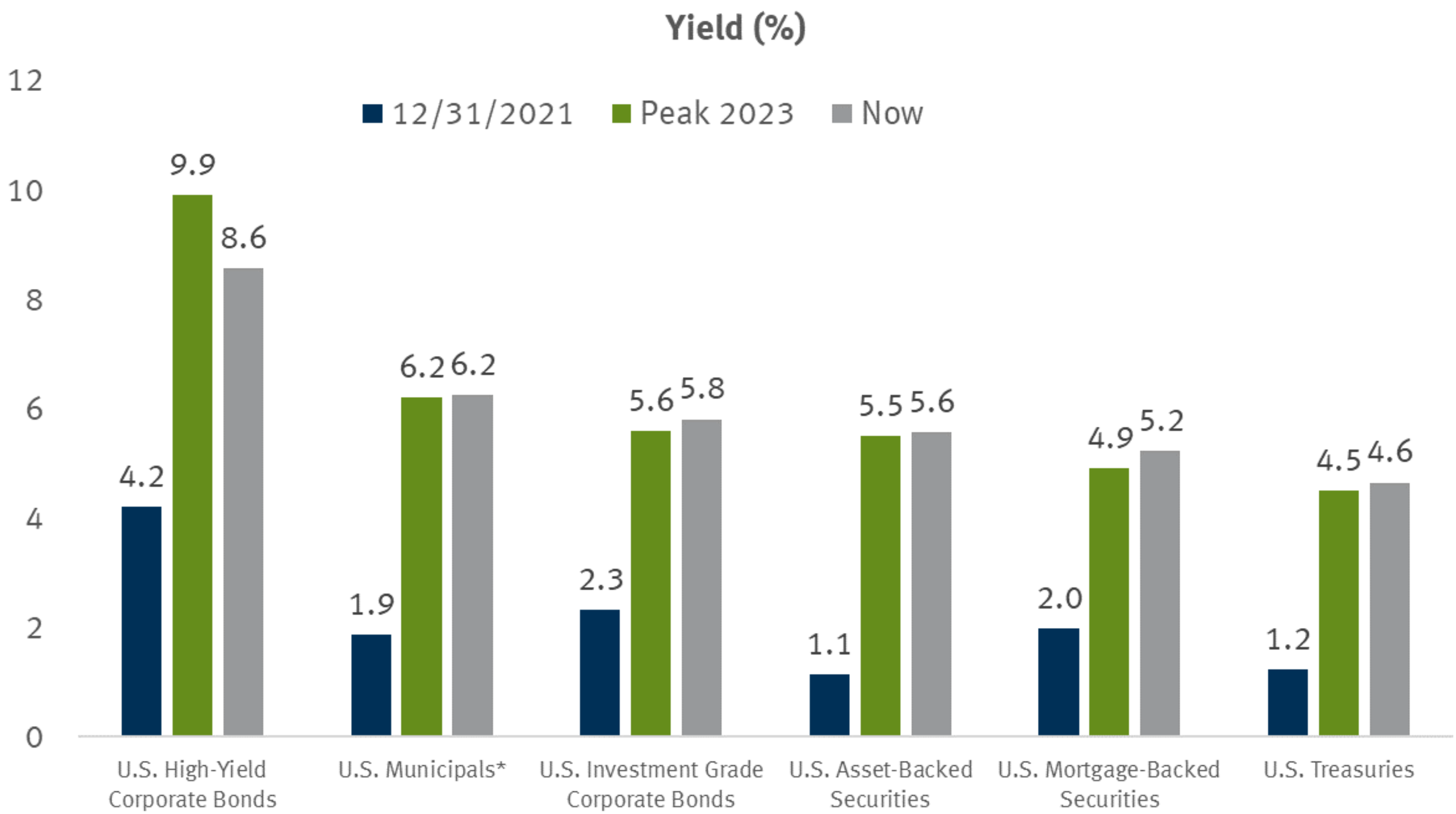
Source: Stifel CIO Office via Bloomberg, as of August 17, 2023

# NEAR-TERM RISKS AND OPPORTUNITIES




**Based on taxable equivalent yield. Taxable equivalent yield assumes a 37% federal tax and 3.8% net investment income tax.*

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Source: Stifel CIO Office via Bloomberg, as of August 16, 2023

## 1 ECONOMY *Recession expectations pushed out, economy to slow*

3 things we're focused on:

- Labor market
- Consumer spending
- Lag effects

## 2 INFLATION *Significant progress, final 1% drop may take longer*

3 things we're focused on:

- Shelter prices
- Supercore services
- Inflation expectations

## 3 MARKETS *Returns broadening out, volatility to increase*

3 things we're focused on:

- Company earnings
- Profit margins
- Capital Expenditures

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## INDEX DESCRIPTIONS

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.

S&P 500 Equal Weight Index is the equal-weight version of the widely regarded Standard & Poor's 500 Index, which is generally considered representative of the U.S. large capitalization market. The index has the same constituents as the capitalization-weighted S&P 500, but each company in the index is allocated a fixed weight of 0.20% at each quarterly rebalancing.

S&P Financial Select Index includes all companies in the S&P 500 Index classified under the GICS® Financial sector.

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. Aggregate Government/Credit Bond Index).

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.

Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), and ABS and CMBS (agency and nonagency).

Russell 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

NYSE FANG+ Index is an equal-dollar weighted index designed to track the performance of highly-traded growth stocks of technology and tech-enabled companies in the technology, media & communications and consumer discretionary sectors such as Facebook, Apple, Amazon, Netflix, and Alphabet's Google.

KBW Nasdaq Regional Banking Index seeks to reflect the performance of U.S. companies that do business as regional banks or thrifts.

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

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## 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.

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.

## DISCLOSURES CONTINUED

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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