

# STIFEL

**FAVORITE**

**15**

**February 3, 2023**

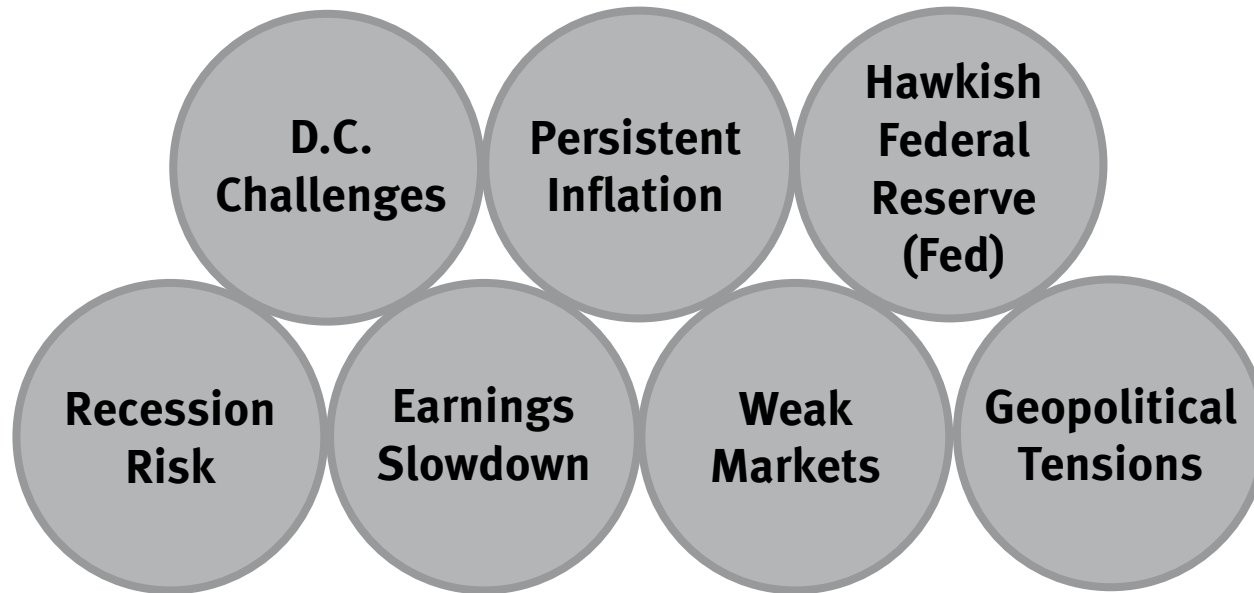
Insights From Stifel's CIO Office

STIFEL

OUTLOOK 2023

## FINDING BALANCE





### 2022 YEAR IN REVIEW

[VIEW REPORT](#)[VIEW VIDEO](#)

#### INFLATION

Consumer Price  
Index Inflation

**6.5%**

#### FED POLICY

Cumulative Fed  
Funds Rate Hike

**4.25%**

#### MARKETS

GDP  
growth

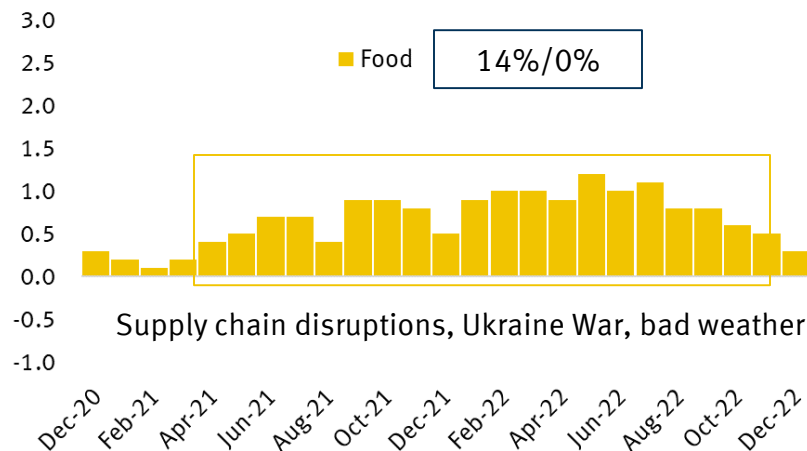
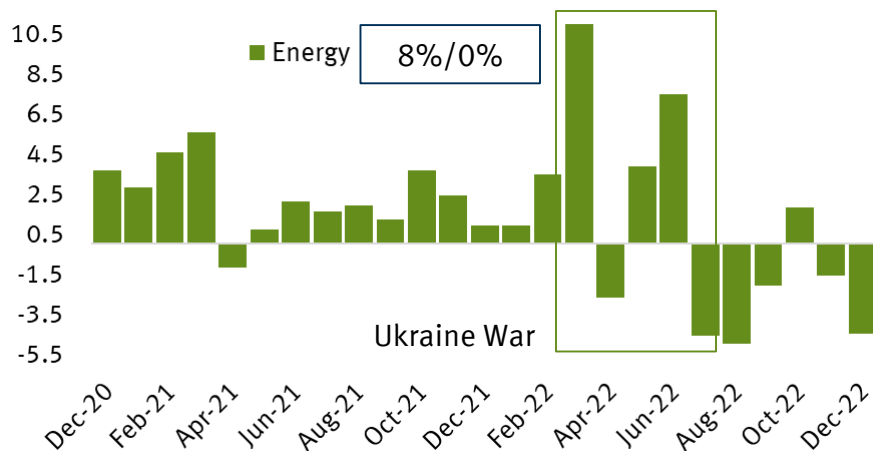
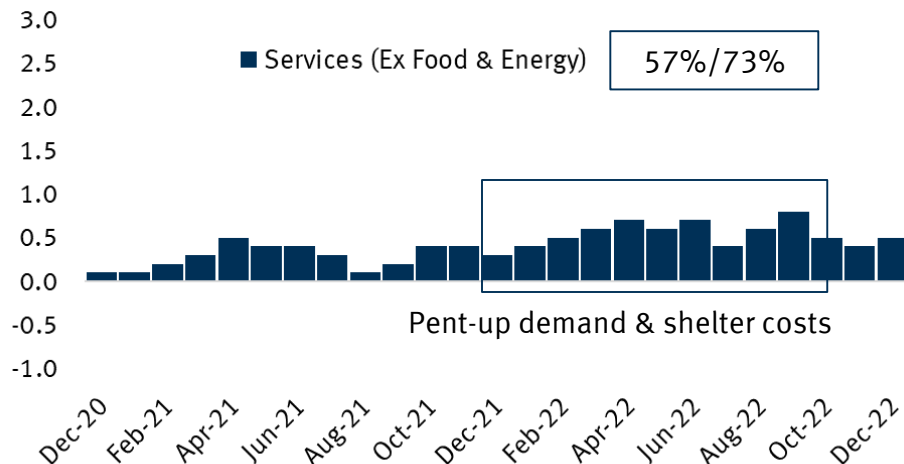
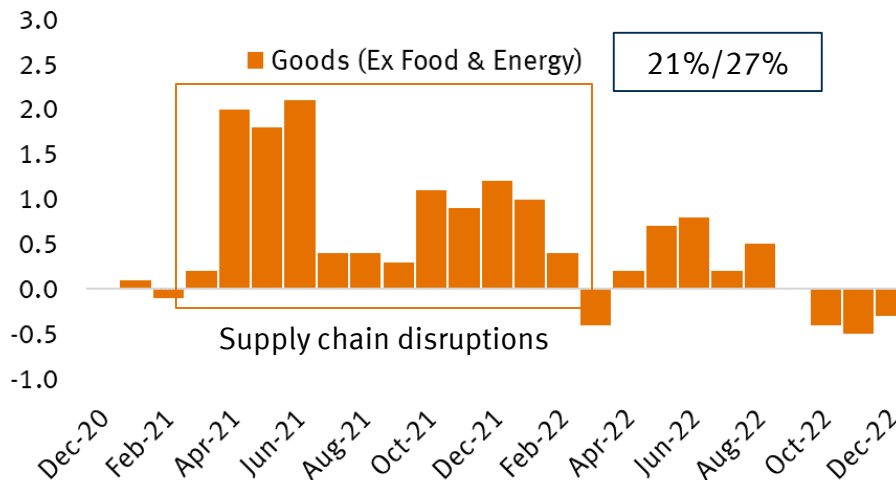
**2.1%**

S&P 500  
Return

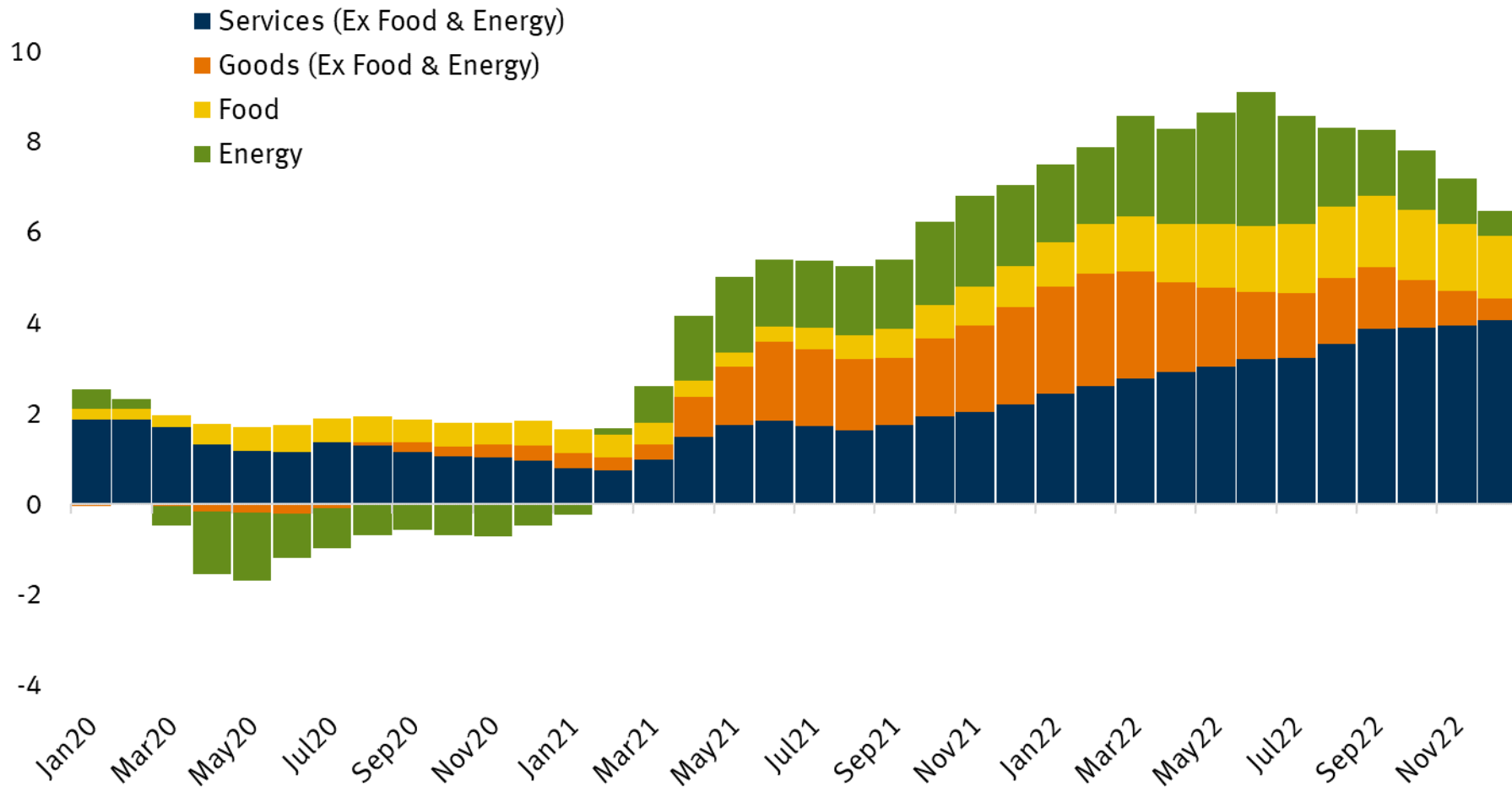
**-18.1%**



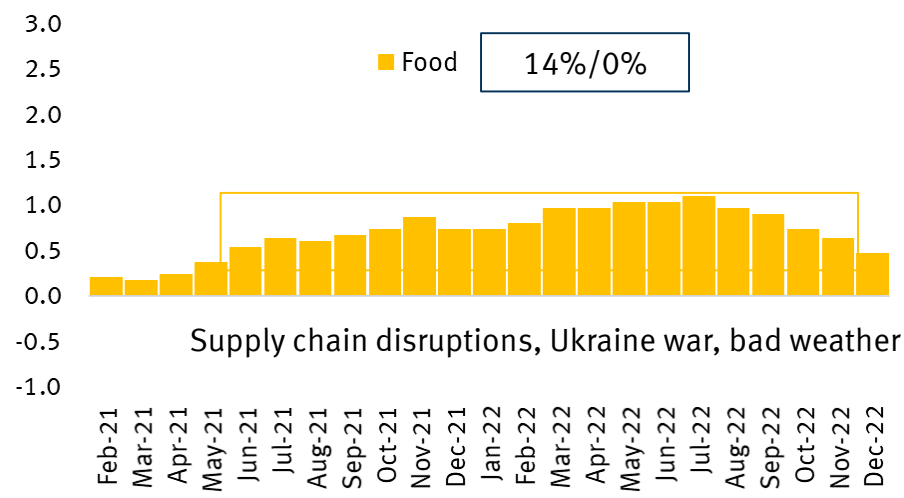
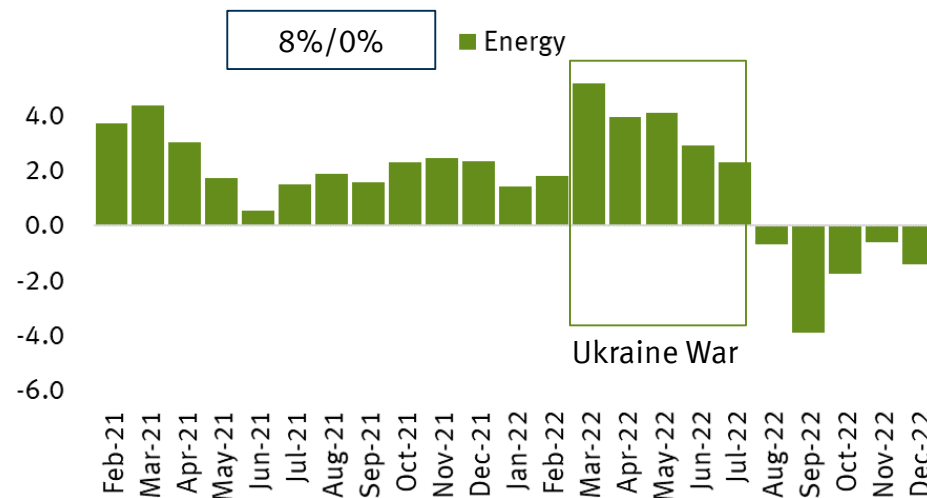
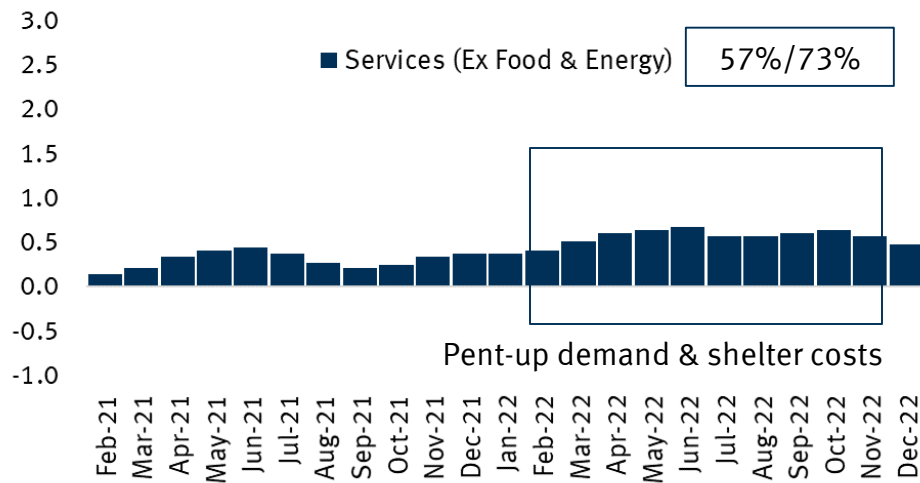
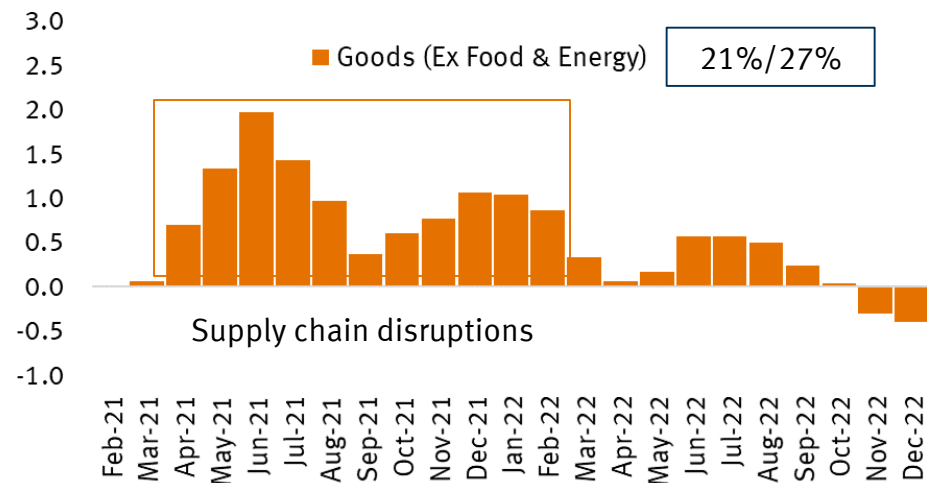
Month over Month % shown below

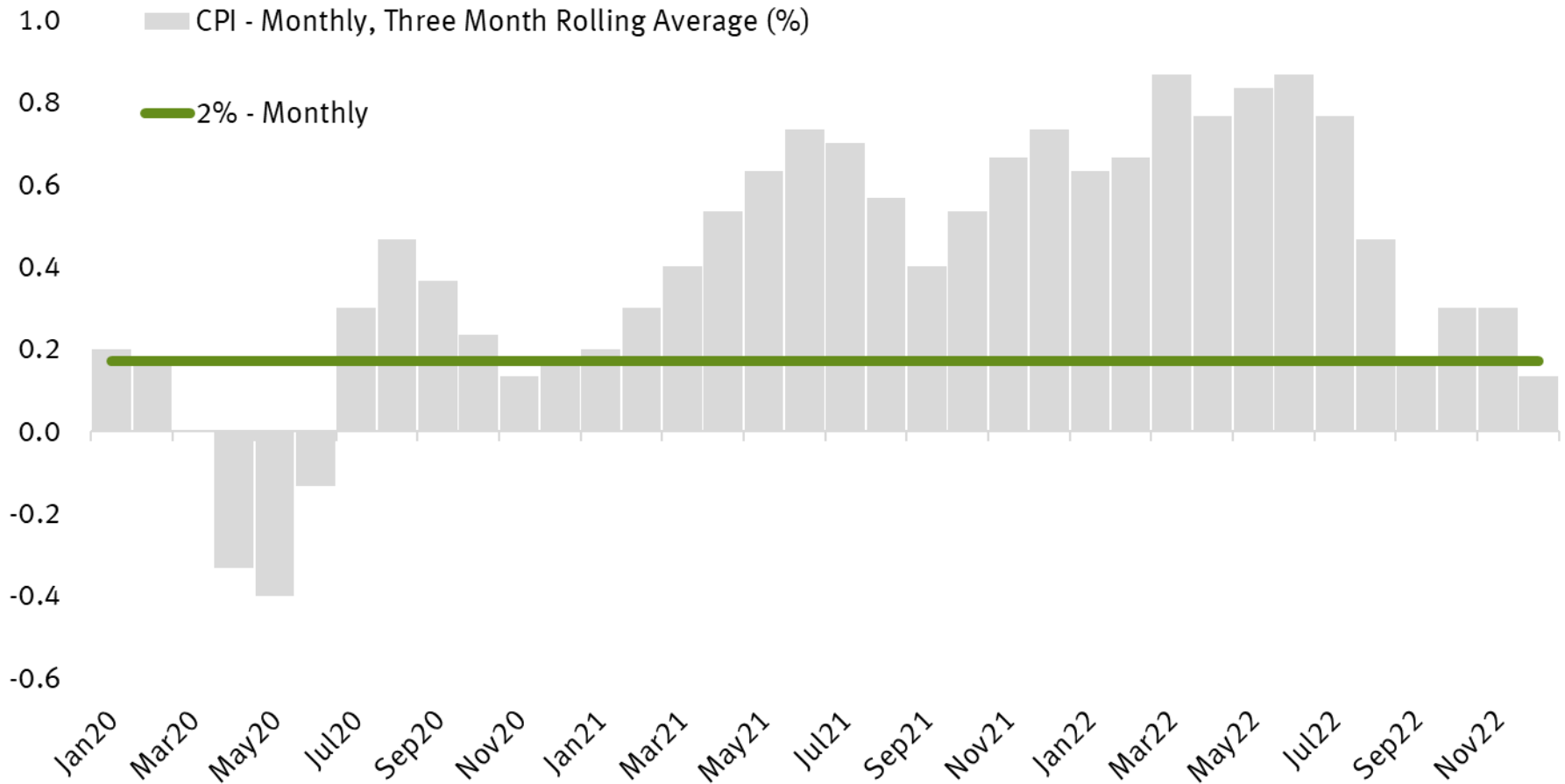


Year over Year % shown below



Monthly, three-month rolling average shown below







## 2023 OUTLOOK

[VIEW REPORT](#)[VIEW VIDEO](#)

	2023 FORECAST
U.S. Real GDP	-0.5%—+0.5%
Core PCE Inflation (4Q/4Q)	3.50%—3.75%
Federal Funds Rate	4.75%—5.00%

	2023 FORECAST
S&P 500	4,000
10-Year Treasury (%)	3.25%—3.75%
Market Pulse Publications*	25
Investment-Grade Spreads (bps)**	100 – 150 bps
High-Yield Spreads (bps)	450–500 bps

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

\*\* bps is basis points. 1 basis point is 0.01%.

## THE BULL AND BEAR HAVE FAT TAILS

[VIEW REPORT](#)[VIEW VIDEO](#)

## INFLATION

Given elevated levels over the last couple of years, the path of inflation will greatly influence Fed policy, economic activity, earnings, and market performance.

**Bear case:** Inflation remains stubbornly high. The Fed continues hiking, consumer spending deteriorates, company earnings turn negative, and we enter a deep recession.

**Bull case:** Inflation recedes quickly toward 2%, allowing the Fed to ease policy. Economic growth resumes, company earnings growth is positive, and equity markets recover.

## MONETARY POLICY

The Fed will try to set policy in response to the path of inflation going forward. This will influence economic activity, earnings, and market performance.

**Bear case:** The Fed commits a policy error by either overtightening (leading to recession) or stopping rate hikes too early (allowing inflation to become entrenched).

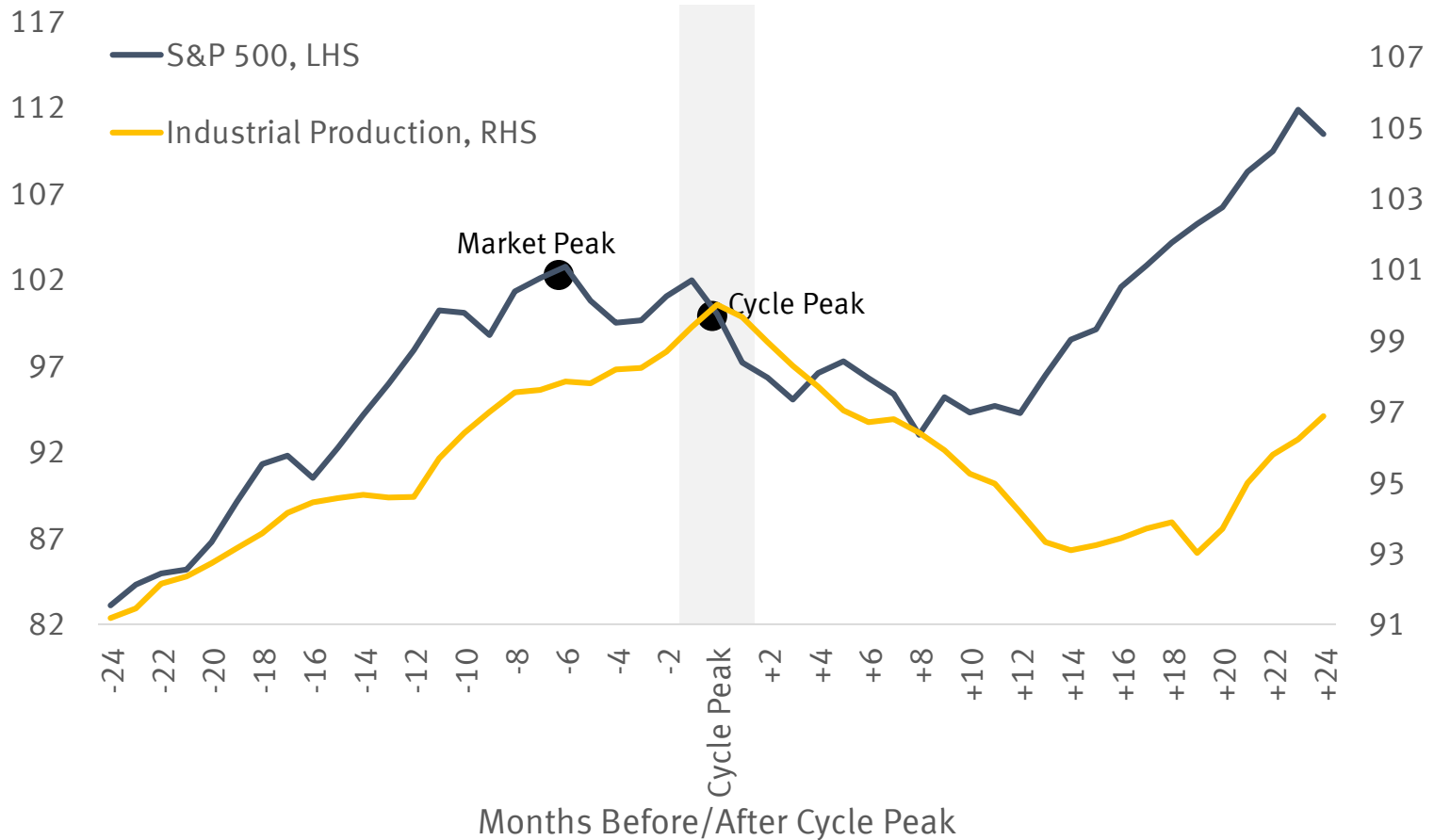
**Bull case:** The lagged effect of cumulative tightening stomps out inflation, and the Fed stops rate hikes and eases policy sooner than anticipated.

## EARNINGS

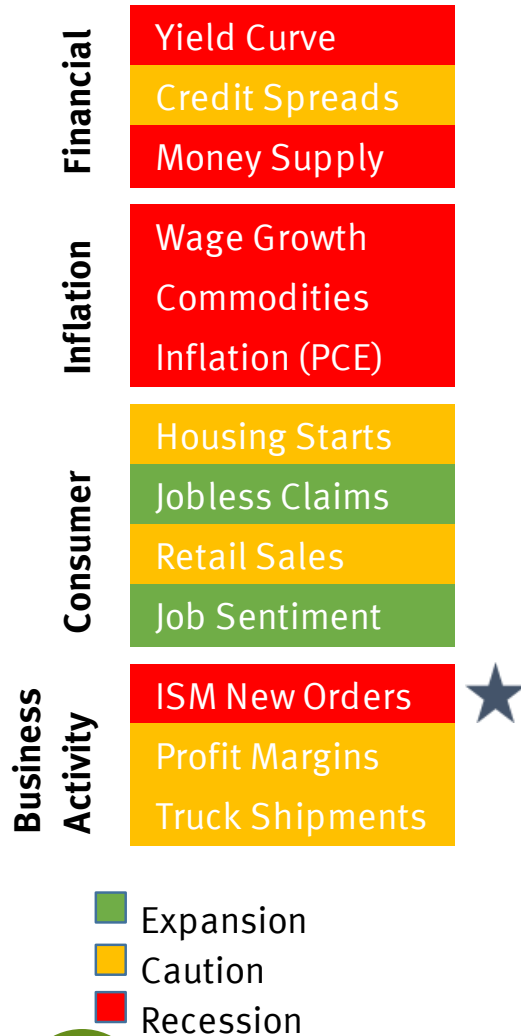
Once the path of inflation and Fed policy are better known, we'll be able to more confidently determine the direction of the economy and earnings, which will drive market performance.

**Bear case:** Economic slowdown is not fully priced in and reflected in company valuations and earnings forecasts. Earnings growth is negative, and markets retest lows.

**Bull case:** Earnings prove to be resilient as companies maintain margins. Earnings grow at high single digits, fueling the start of the next bull market.

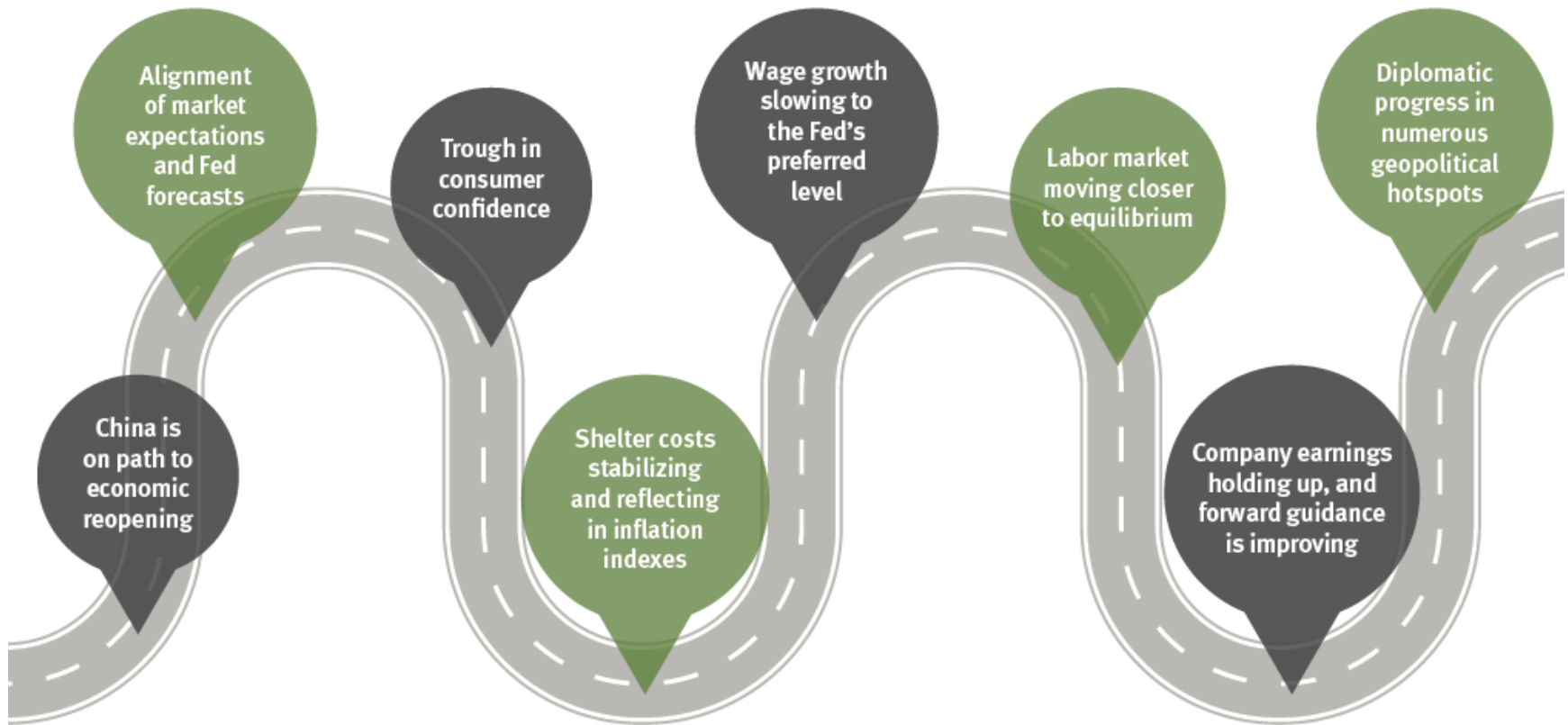


## Recession-Recovery Dashboard



- Various **yield curve** indicators suggest +50% probability of recession.
- **Credit spreads** are holding based on less worry looking forward.
- **Money supply** growth has declined on less accommodative policy and banks cautiousness about lending money.
- **Wage growth** is contributing to inflationary pressures.
- **Commodities** may have eased on global growth fears but with Russia cutting energy supply to Europe and China opening up, 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 and weak builder confidence.
- **Jobless claims** show no signs of labor market weakness.
- Overall **retail sales** remains supported by consumer spending.
- **Job sentiment** remains range-bound but shows some deceleration.
- **ISM New Orders** show contraction both for manufacturing and services sectors.
- **Profit margins** remain historically high, but risks are meaningful due to price pressures.
- **Truck shipments** indicate growth is slowing down.

## SIGNPOSTS

[VIEW REPORT](#)[VIEW VIDEO](#)

## JANUARY

4	Federal Open Market Committee (FOMC) Minutes
6	Employment
12/18	Inflation
17	Consumer Sentiment
18	Retail Sales
19	Housing

## FEBRUARY

1	Fed Policy Decision
3	Employment
10	Consumer Sentiment
14/16	Inflation
15	Retail Sales
16/21	Housing
22	Federal Open Market Committee (FOMC) Minutes
23	Fourth Quarter GDP (Adv Est.)

## MARCH

10	Employment
14/15	Inflation
15	Retail Sales
16/23	Housing
17	Consumer Sentiment
22	FOMC Economic Projections

## APRIL

7	Employment
12	Federal Open Market Committee (FOMC) Minutes
12/13	Inflation
14	Consumer Sentiment
14	Retail Sales
18/25	Housing

## OTHER IMPORTANT TOPICS

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

### **WASHINGTON POLICY** AND POLITICAL OUTLOOK

[VIEW REPORT](#)[VIEW VIDEO](#)

- 
- **Division in the GOP**
  - **Congressional Priorities**
  - **Regulatory Agenda**
  - **2024 Elections**

## GEOPOLITICAL TENSIONS

VIEW REPORT

VIEW VIDEO

EVENT	LIKELIHOOD	MARKET IMPACT
<b>U.S.-China Competition</b>	10	7
<b>The New Cold War</b>	8	7
Emerging Market (EM) Political Uncertainty	7	5
Cyberattacks	7	5
Middle Eastern Tensions	7	5
Washington D.C. Gridlock	6	6
Climate Change Stalemate	6	4
Major Terror Attacks	6	4
South China Sea Military Conflict	5	7
<b>European Fragmentation</b>	5	6
North Korea Conflict	5	3
<b>Structurally Higher Inflation</b>	4	8
Russia-West Conflict	4	8

- Increased Localization & Protectionism

- A More Divided World





## 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.

**Michael O’Keeffe, CFA**

*Chief Investment Officer*

**Evan Buenger**

*Investment Strategy Analyst*

**Nik Eftimov, CFA**

*Director, Investment Management  
& Guidance*

**Carlos Miele, CFA**

*Investment Strategist*

**Brian Moody**

*Investment Strategist*

**David Motsonelidze, CFA**

*Director of Macro Strategy*

**Arnez Rodriguez**

*Investment Strategist*

**Dori Schwartz**

*Economic Analyst*