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FAVORITE 15

June 2023

Insights From Stifel's CIO Office

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THE BULL AND BEAR HAVE FAT TAILS

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INFLATION	MONETARY POLICY	EARNINGS
Given elevated levels over the last couple of years, the path of inflation will greatly influence Fed policy, economic activity, earnings, and market performance.	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.	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: Inflation remains stubbornly high. The Fed continues hiking, consumer spending deteriorates, company earnings turn negative, and we enter a deep recession.	***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).	***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: Inflation recedes quickly toward 2%, allowing the Fed to ease policy. Economic growth resumes, company earnings growth is positive, and equity markets recover.	***Bull case:*** The lagged effect of cumulative tightening stomps out inflation, and the Fed stops rate hikes and eases policy sooner than anticipated.	***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.

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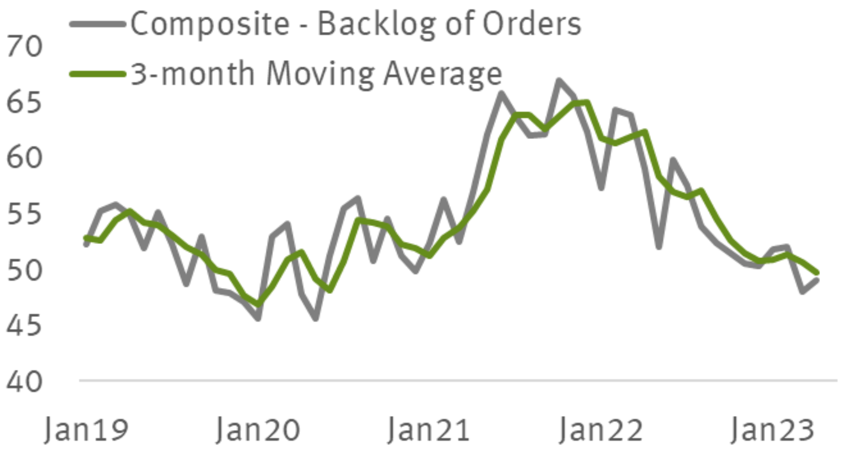
INFLATION FORCES: SUPPLY AND DEMAND

Institute of Supply Management (ISM) – Backlog of Orders



Retail Sales % – MoM - 3-month Moving Average

Global Supply Chain Pressure Index

Excess Savings (Trillions)

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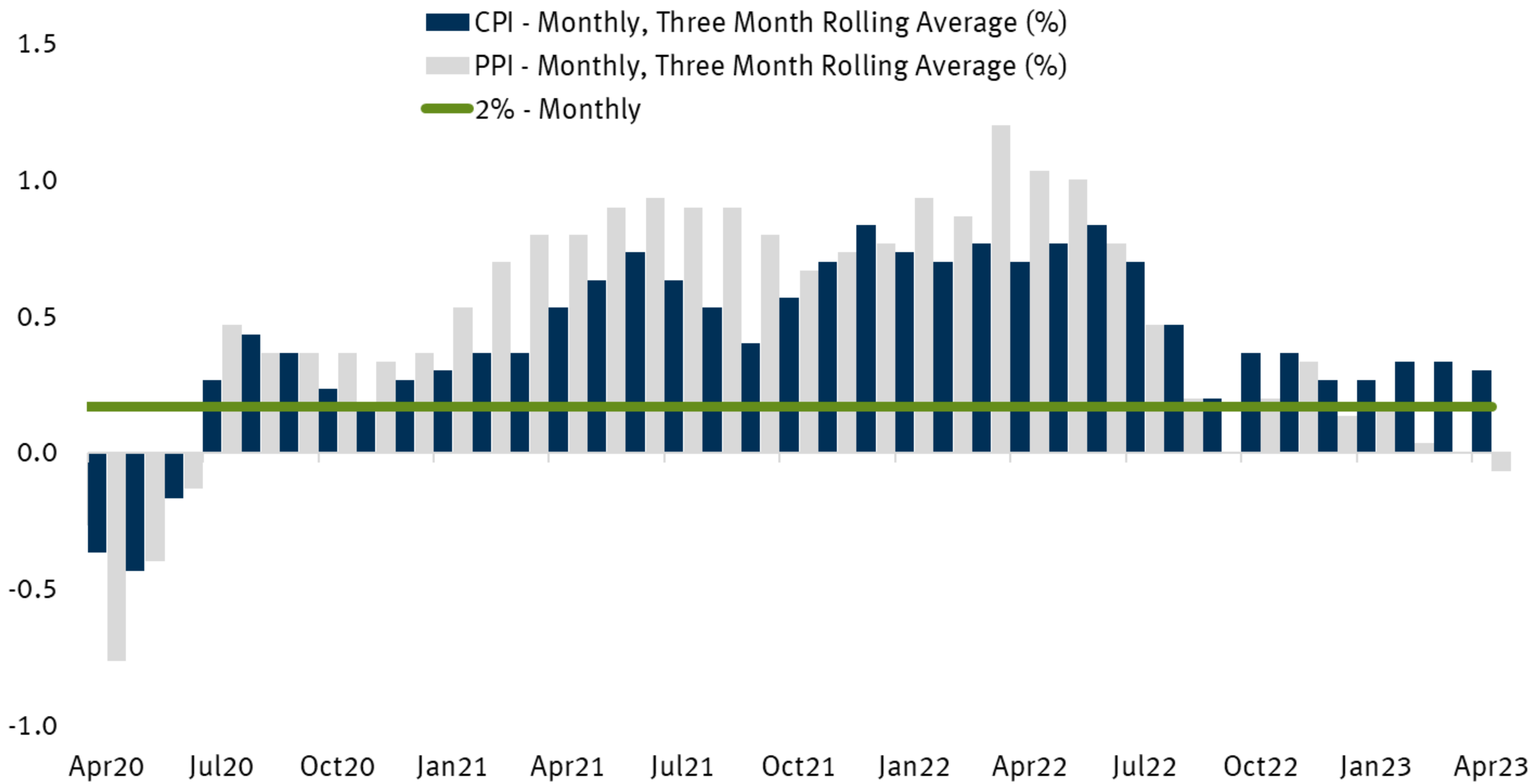
Source: Stifel CIO Office via Bloomberg, Strategas Research Partners, as of May 12, 2023

RECENT INFLATION TRENDS



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Source: Stifel CIO Office via Bloomberg, as of May 12, 2023
PPI = Producer Price Index

WHEN CAN THE FED SHIFT POLICY?

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 Consumer Price Index (CPI) trends lower
- Monthly Personal Consumption Expenditures (PCE) trends lower

Maximum Employment

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

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Latest Developments

May 2-3 Fed Meeting

- Hiked rates by 0.25%, **signaled a pause**
- Removed "**additional policy firming may be appropriate**" from statement
- **Tighter credit conditions** "are likely to weigh on economic activity"…impact **"remains uncertain"**
- **"Data-dependent"** approach…taking into account the "**cumulative tightening** of monetary policy"
- Fed participants have **different perspectives…**
  - Broadly, the forecast is for a **mild recession later this year**
  - **Powell:** "it's possible **this time is really different…** there's so much **excess demand in the labor market**"

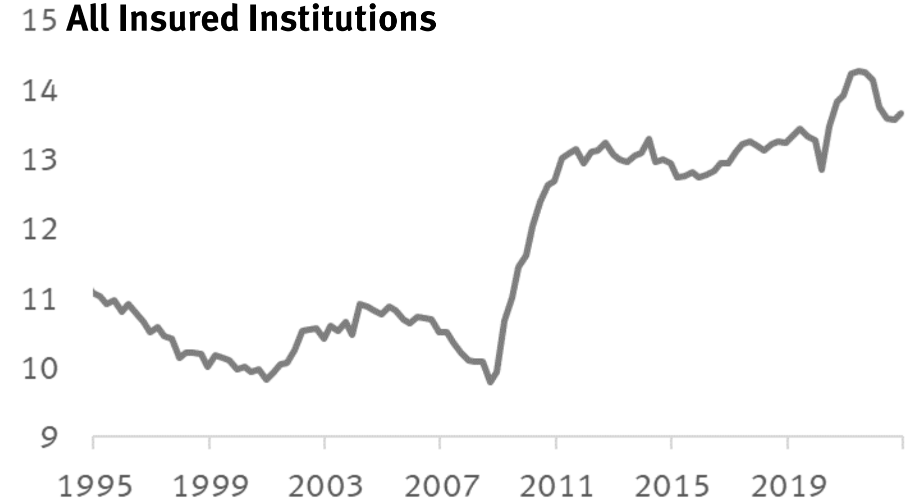
Post-Meeting Fed Speak

- **Rates:**
  - **Bullard (5/5)** Need "meaningful declines in inflation"…**higher rates are likely**
  - **Williams (5/9):** inflation still too high, **no reason to cut**
  - **Bowman (5/12):** Not clear if Fed **policy is restrictive enough**
- **Recession:**
  - **Bullard (5/5): "not the base case"**
  - **Jefferson (5/9):** "economy will have the opportunity to **continue to expand**"
- **Credit Conditions:**
  - **Jefferson (5/9):** tightening a **"natural part"** for where we are in economic cycle
  - **Williams (5/9):** credit contraction will affect **economic growth**

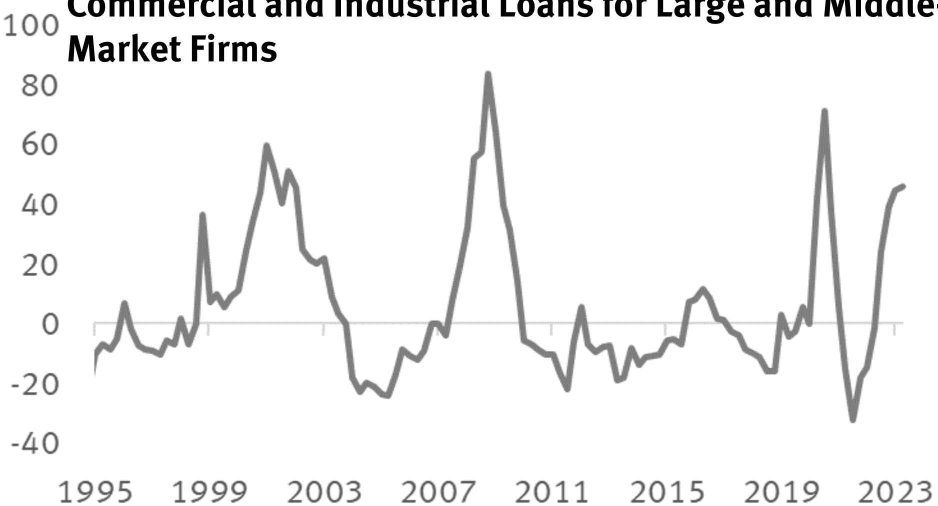
Source: Stifel CIO Office

"The U.S. banking system is sound and resilient" – FOMC Statement

FDIC Tier 1 Risk-Based Capital Ratio – All Insured Institutions



Net % of Banks Tightening Lending Standards - Commercial and Industrial Loans for Large and Middle-Market Firms



Learnings From Fed Financial Stability Report

- Banks in the aggregate "well capitalized"
- Overall vulnerability to future credit losses is moderate
- Lending standards for bank commercial and industrial loans have tightened
- Common equity Tier 1 (CET1) – close to median of its range since the end of the Financial Crisis
- Survey of salient risks to financial stability
    1. Persistent inflation and monetary tightening
    2. Stress in banking sector
    3. Commercial real estate
    4. Geopolitical risks
    5. Debt limit

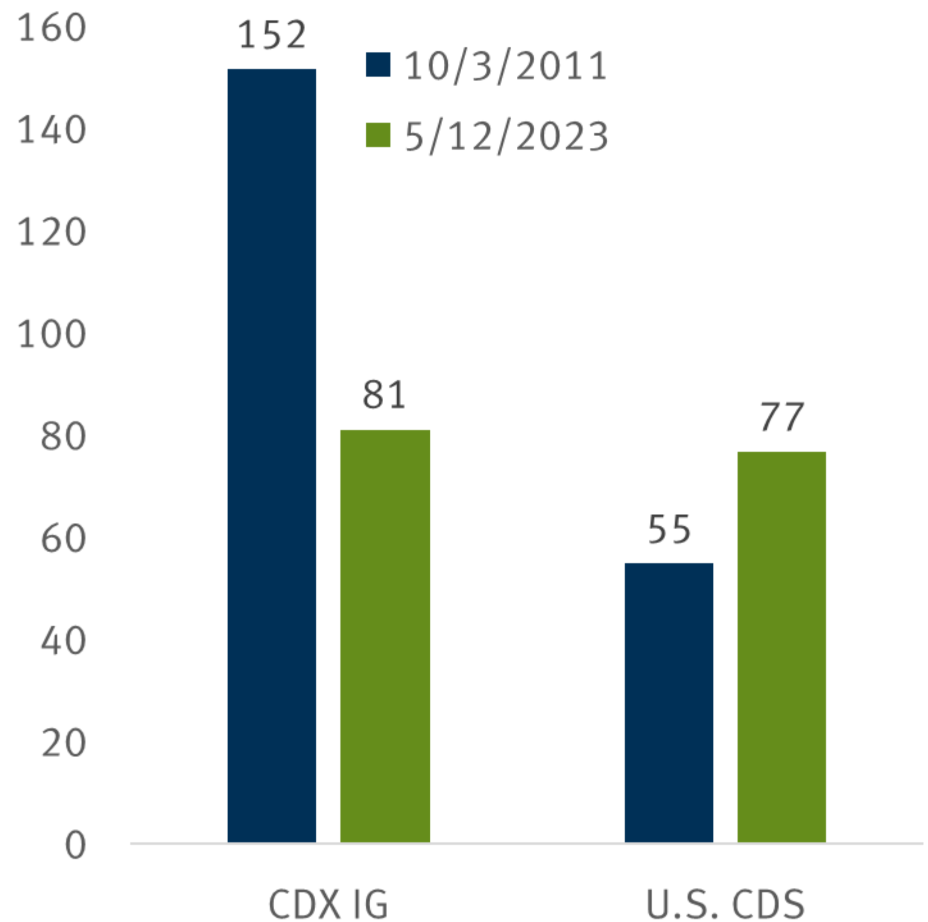
Source: Stifel CIO Office via Bloomberg, as of May 11, 2023

Debt Ceiling

Latest Views from Brian Gardner – Stifel's Chief Washington Policy Strategist

- How serious is the risk of default?
    - Technical default - fairly high; Actual default – low
    - Expect no default on U.S. Treasuries even if "X-Date" is reached without an agreement
- Other payments (Social Security checks, veterans and soldiers wages, etc.) may get delayed
    - Politicians will not want this and a "face saving" deal will be made relatively quickly
- **Bottom line: a deal will most likely lean more toward the Democrat proposal – cuts won't be as steep as what House Republicans proposed**

Current U.S. 5-Year Credit Default Swap (CDS) spreads are much wider than the 2011 debt ceiling crisis, indicating greater investor anxiety



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Source: Stifel CIO Office via Bloomberg, as of May 12, 2023 (intra-day)

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A WIDE RANGE OF VIEWS: RECESSION

"While we do not believe a recession is imminent, we do expect credit conditions to tighten further and slow economic growth" - *UBS*

"A downturn, or an outright technical recession, is not a foregone conclusion" – *Dr. Lindsey Piegza Ph.D. Stifel's Chief Economist*

"Nearly all the survey-based evidence now points to…a shallow recession beginning soon" – *Capital Economics*

"…We are seeing economic damage emerge…this all reinforces our recession view "- *BlackRock*

"Based on our views, it is only by late-2023 that we will become more concerned"- *Barry Bannister, Stifel's Chief Equity Strategist*

"Our judgmental 12-month recession probability [is] at a well-below-consensus 35%." – *Goldman Sachs*

"A greater than 50% chance of [the economy] tipping into a recession by the end of this year" – *J.P.Morgan*

"Interest rates…are likely to remain below an inflation rate still stuck on the 4% to 5% plateau – and therefore much too low to precipitate a U.S. recession" – Gavekal

"The risk of economic recession has increased modestly in 2023" – *Morgan Stanley*

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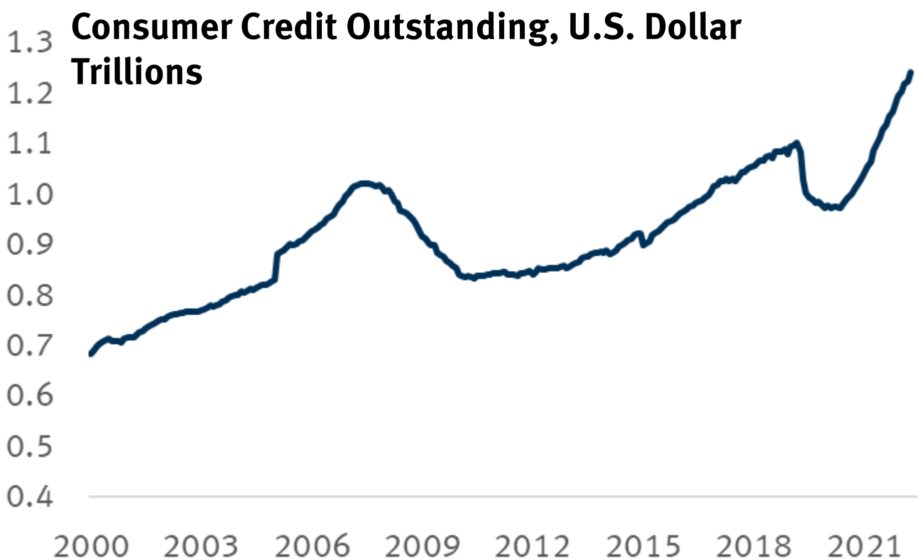
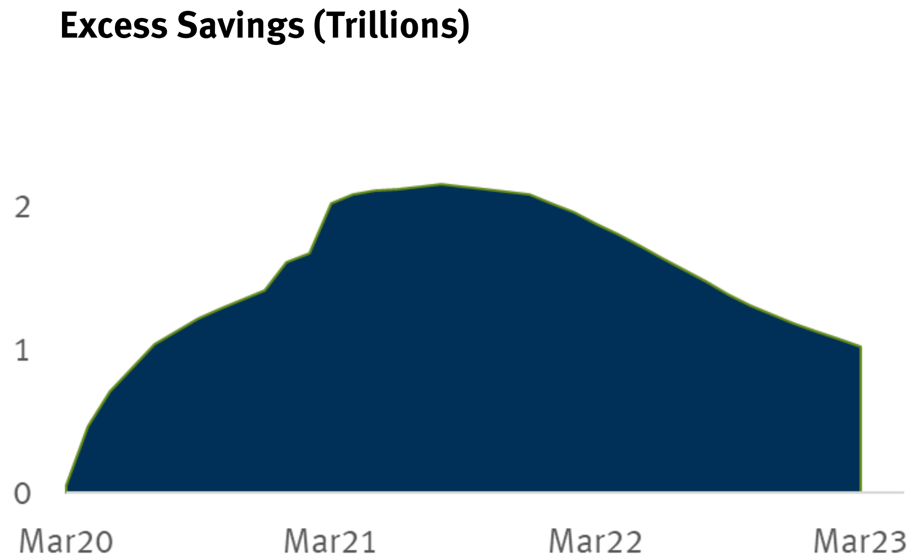
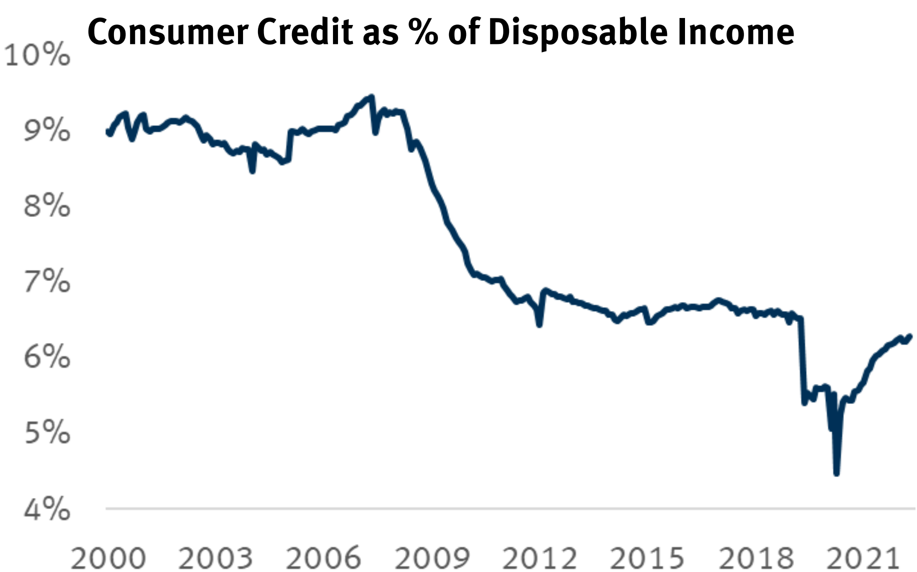
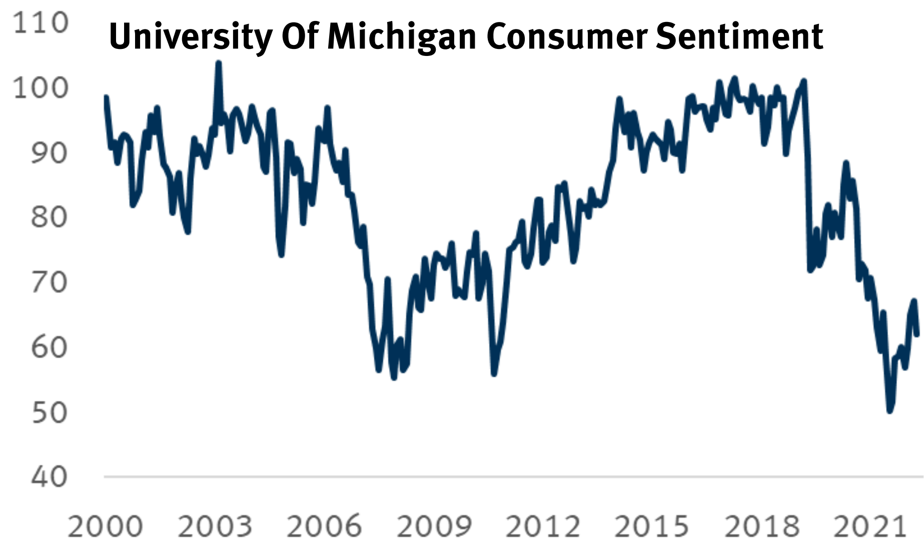
CONSUMER ACTIVITY



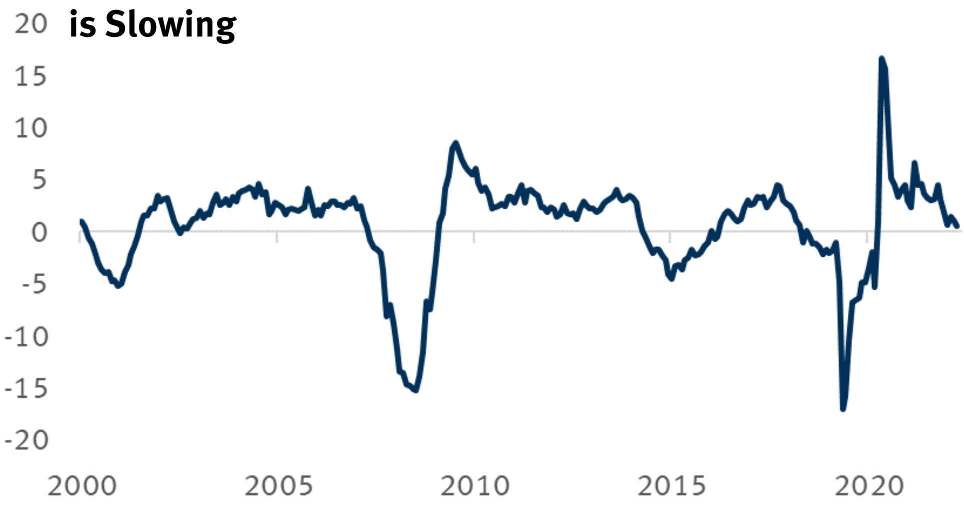




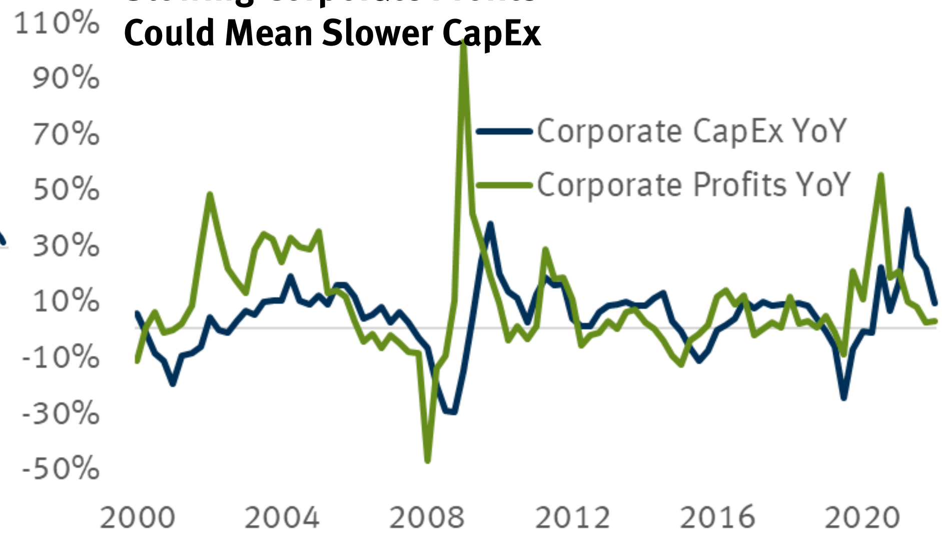


Source: Stifel CIO Office via Bloomberg and Strategas Research Partners, as of May 11, 2023

Industrial Production Year Over Year (YoY) is Slowing



Slowing Corporate Profits Could Mean Slower CapEx

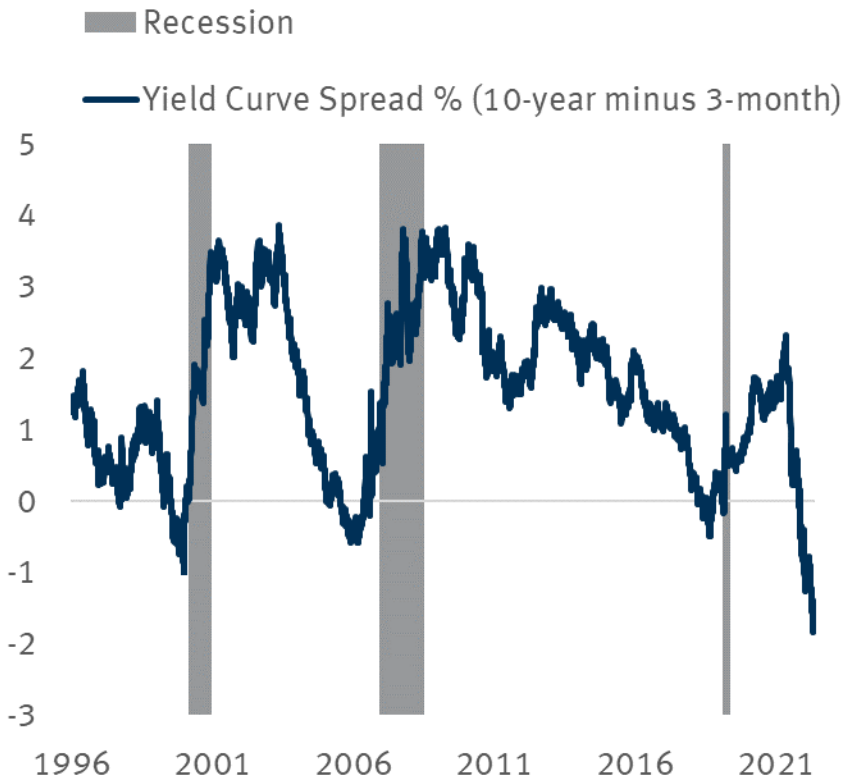


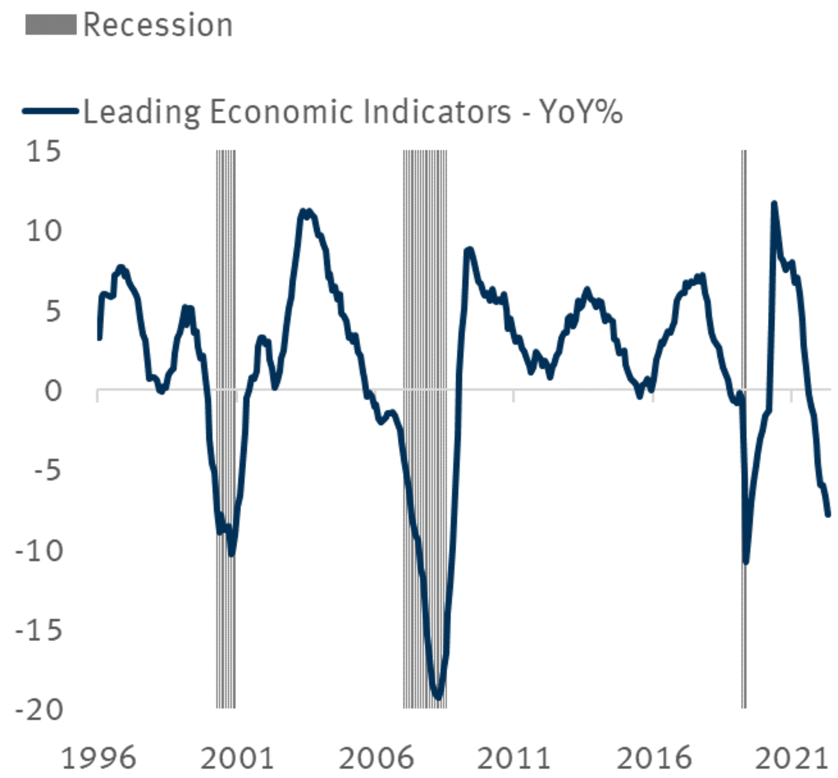
Factory Orders (YoY) are Slowing

NFIB Small Business Sentiment at Lows

Source: Stifel CIO Office via Bloomberg, as of May 11, 2023

Some traditional recession signals are pointing to a recession





Source: Stifel CIO Office via Bloomberg, as of May 11, 2023

U.S. GDP	Date of Estimate	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2022	2023	2024
Consensus Estimates	**5/10/2023**	**2.6**	**1.1**	**0.1**	**-0.9**	**-0.3**	**2.1**	**1.1**	**0.8**
Stifel*	2/1/2023			-1.8	0.3	-0.9		-0.7	1.6
Goldman Sachs	5/10/2023			1.8	0.6	0.9		1.6	1.5
Capital Economics	4/28/2023			0.0	-2.0	-0.6		0.7	0.6
Strategas	5/8/2023			0.5	1.0	-0.5		1.3	0.3
UBS	5/5/2023			-0.9	-1.8	-1.4		0.8	0.4
Wells Fargo	4/21/2023			1.3	-0.9	-2.7		1.2	0.2
Bloomberg Economics	4/21/2023			0.5	-1.3	-0.9		1.3	0.3
Barclays	5/5/2023			0.5	-0.5	-1.5		1.1	-0.1
JPMorgan Chase	5/5/2023			1.0	0.5	-0.5		1.3	0.4
Bank of America ML	5/5/2023			0.5	-1.0	-2.0		1.0	-0.1
Federal Reserve**	3/22/2023							0.4	1.2

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 May 11, 2023. Federal Reserve estimates are as of March 22, 2023. Figures in grey areas under "Consensus Estimates" represent reported results

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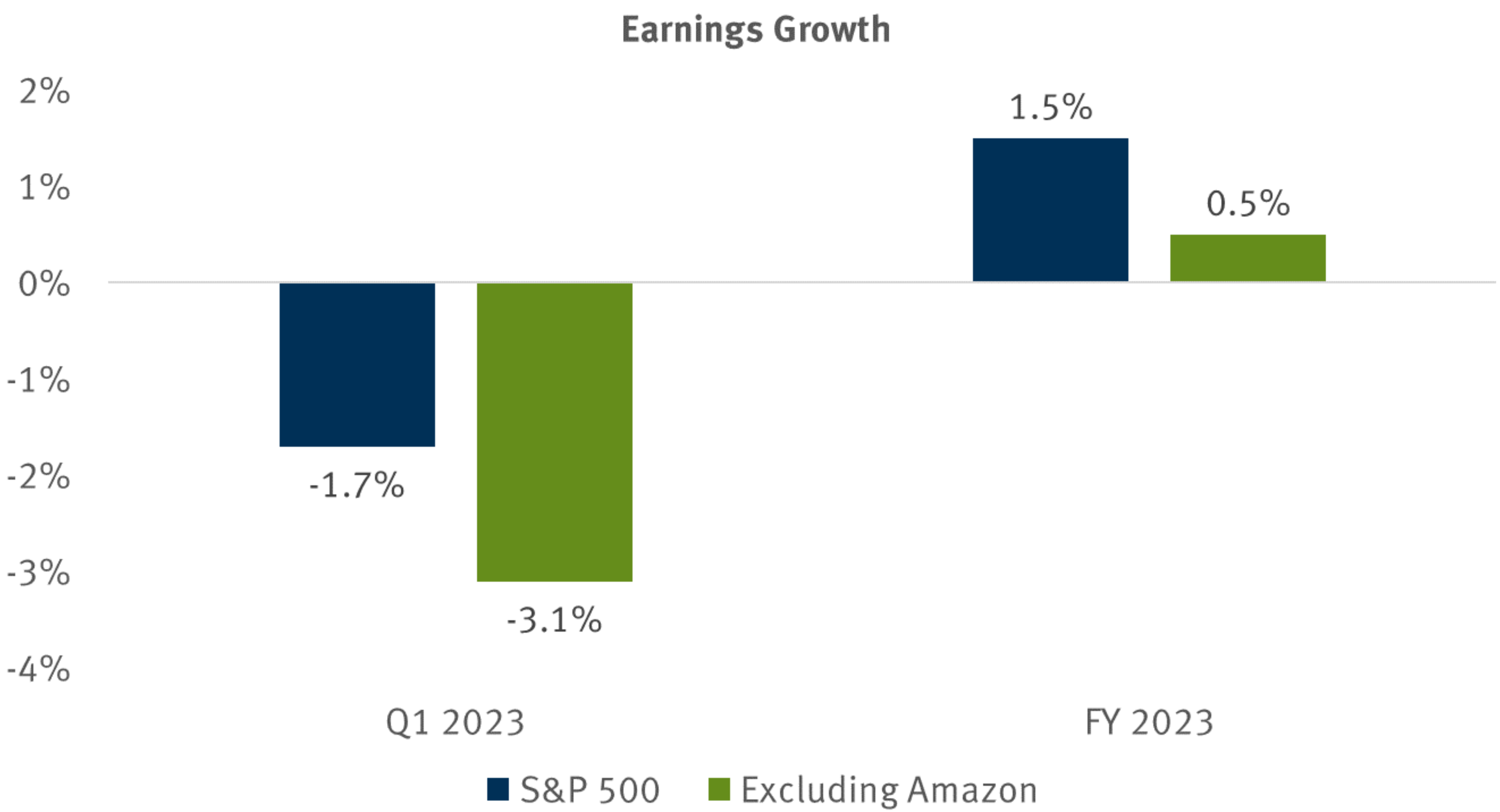
BIG COMPANIES DRIVING RESULTS



Big companies have been significant contributors to the decrease in the earnings decline for the S&P 500

- Amazon reported EPS of $0.31 vs. $0.21 consensus for Q1 2023
- Microsoft reported EPS of $2.45 vs. $2.24
- Apple reported EPS of $1.52 vs. $1.43

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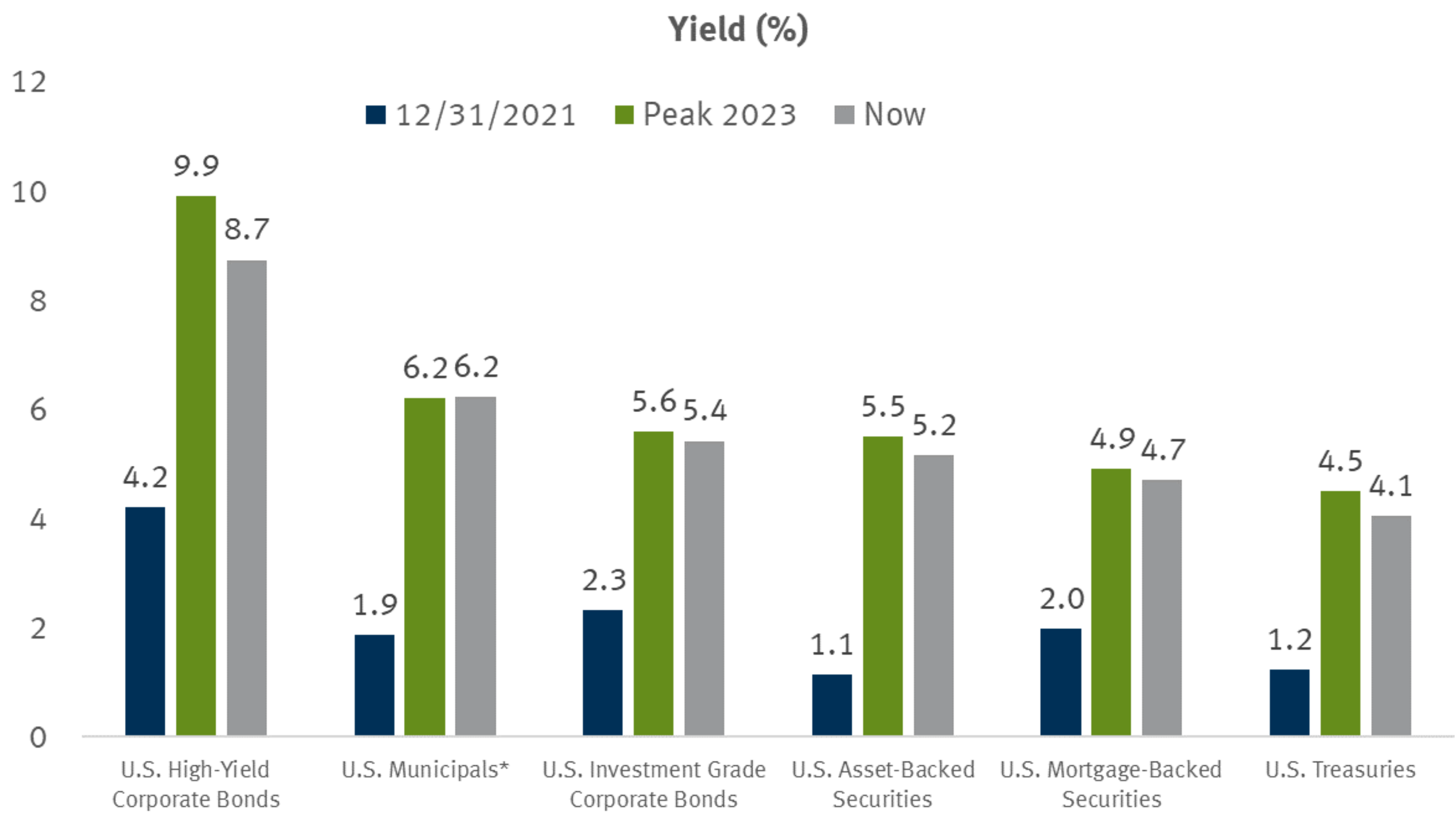
Source: Stifel CIO Office via FactSet, as of May 11, 2023

BOND YIELDS



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

Source: Stifel CIO Office via Bloomberg, as of May 23, 2023

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SIGNPOSTS FOR FINDING BALANCE

SIGNPOSTS

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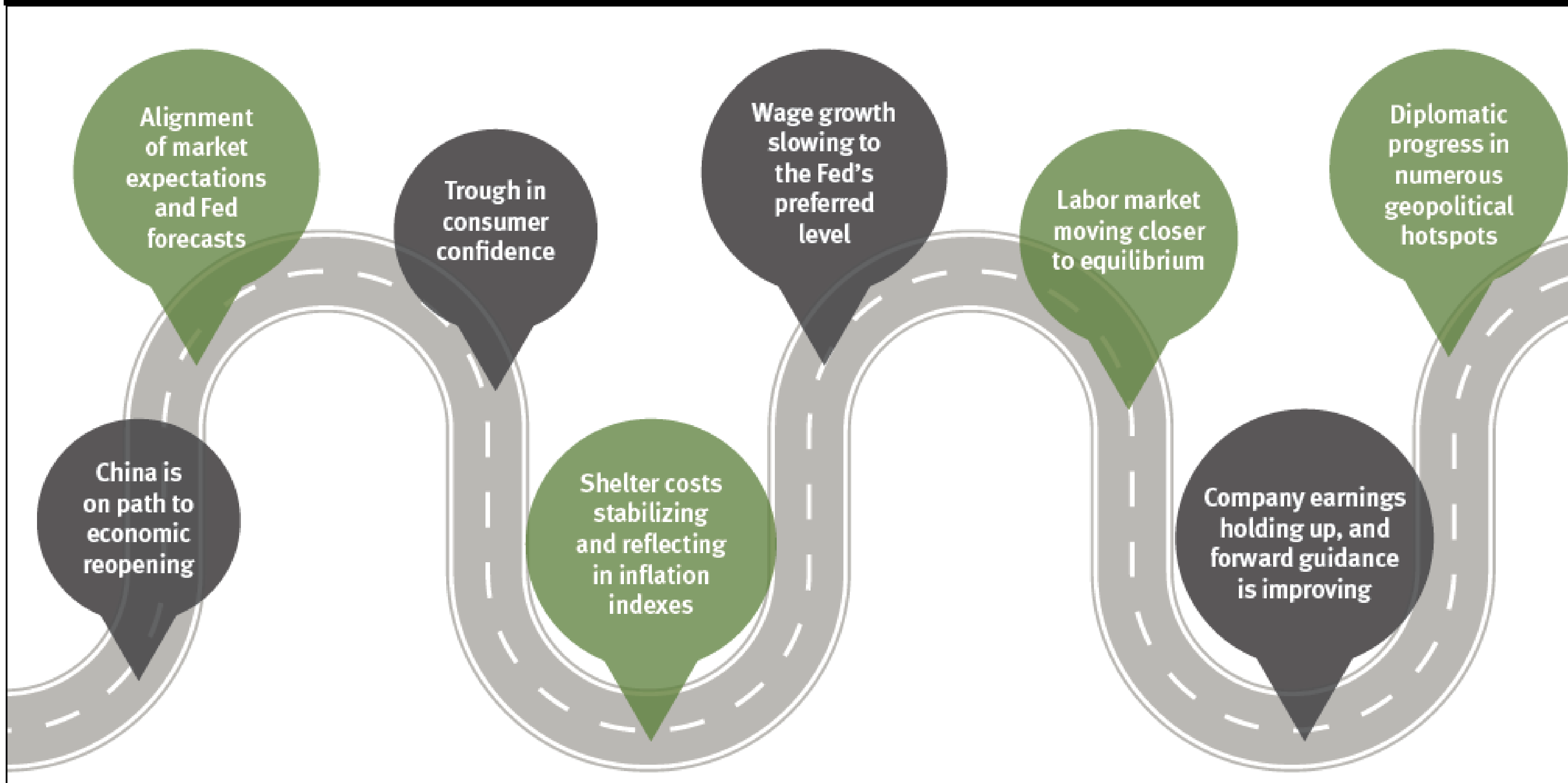

INDEX DESCRIPTIONS

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.

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. 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 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.

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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