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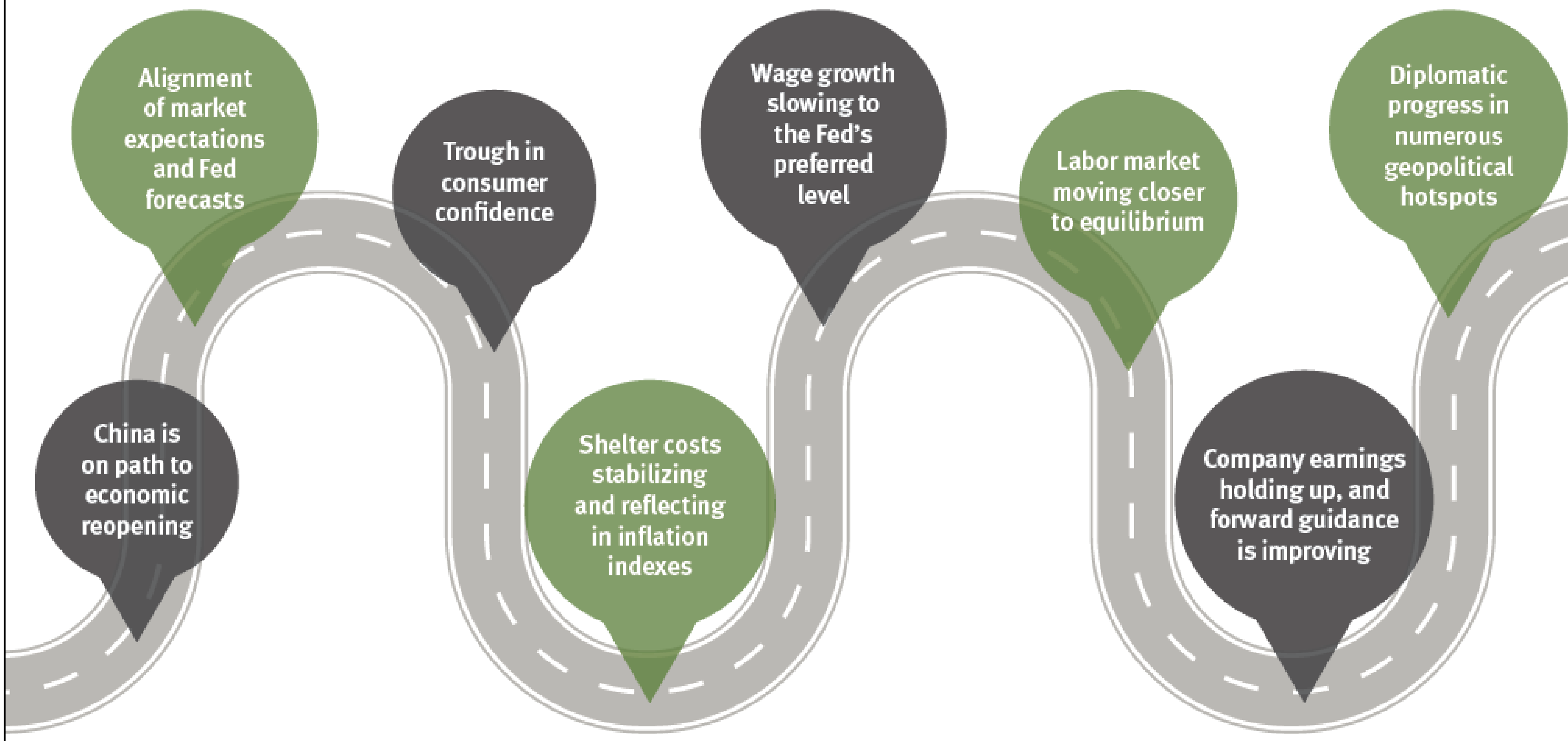
May 2023

Insights From Stifel's CIO Office

SIGNPOSTS

VIEW REPORT

VIEW VIDEO



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CHINA: REOPENING, RECOVERY, RISKS

- **<u>REOPENING</u> – end of "zero-COVID" policy**
  - Gradually **eased restrictions in late 2022**, announced full **reopening** in **March**
  - Mobility not back to pre-COVID levels, yet
    - Domestic **air travel at 92%** of pre-COVID levels
    - **Restaurants at 81%**
    - **Traffic** congestion in major cities **at 76%**

- **<u>RECOVERY</u> – economic growth accelerating**
  - Real **GDP** forecasted to grow **5.3% in 2023** vs. 3.0% in 2022 – boosting global growth
  - **Retail sales grew 3.5%** year-over-year during first two months vs. 1.8% contraction in December
  - **Service and manufacturing sectors diverging**, similar to U.S. experience following lockdowns

- **<u>RISKS</u> – geopolitical tensions intensify**
  - **Chinese spy balloons** – attempting to collect intelligence on U.S. military basis and national security interests
    - U.S. Secretary of State Blinken canceled visit to Beijing
  - **Concerns** over China providing lethal aid to **Russia**, **Taiwan**'s President visits U.S., **Tik Tok** privacy
  - China reasserting itself as a global power
    - Brokered **Iran-Saudi Arabia** pact
    - Released 12-point **peace framework for Russia-Ukraine war**
    - **Hosted French President and Brazilian President**
  - **Two themes** reflected in our **geopolitical dashboard**:
    - **Increased localization and protectionism**
    - **A more divided world**

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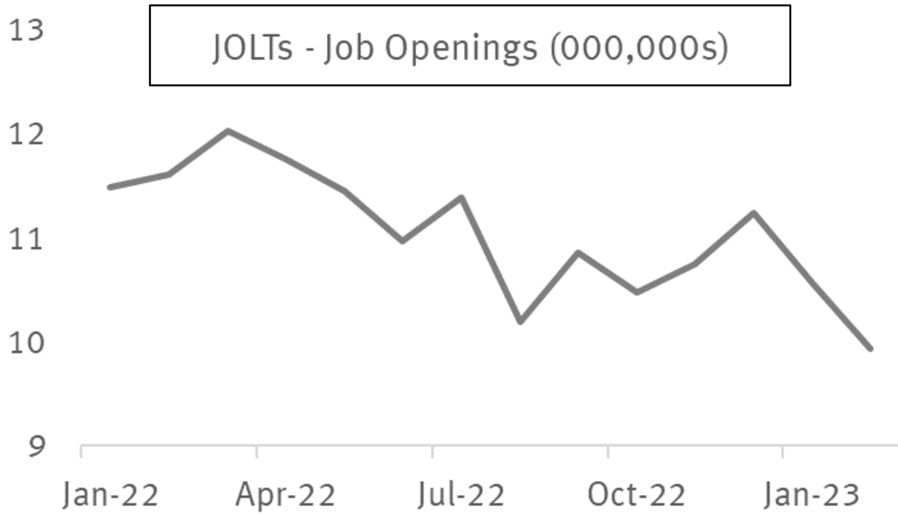
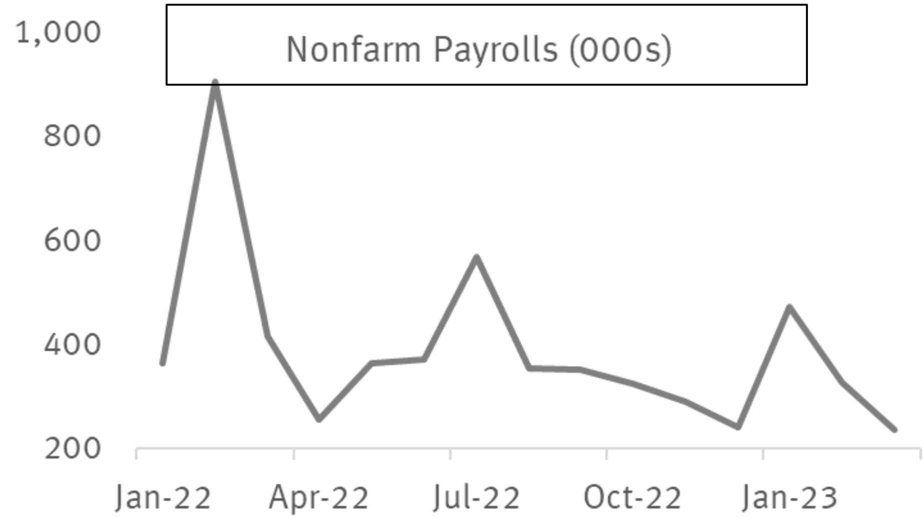
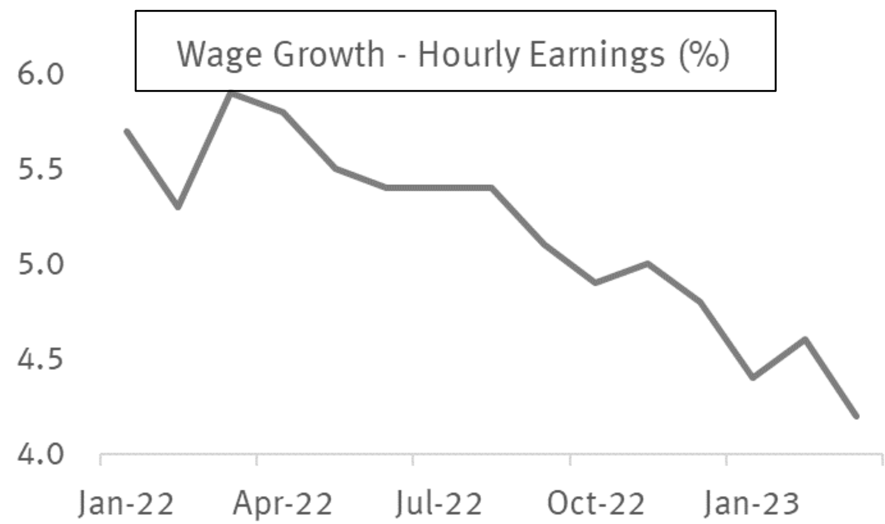
Source: Stifel CIO Office, Bloomberg, Goldman Sachs







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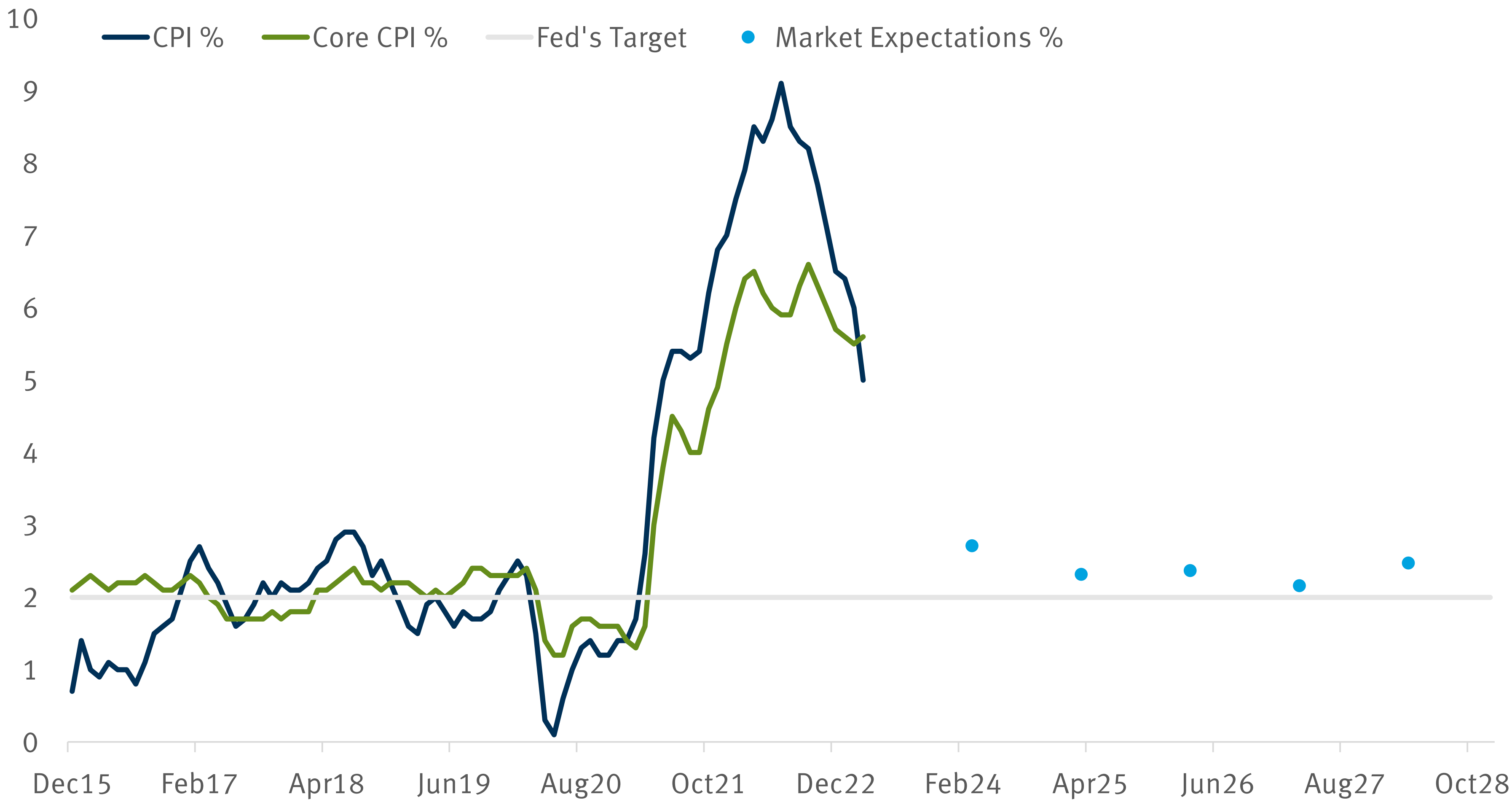
Source: Stifel CIO Office via Bloomberg, as of April 13, 2023

INFLATION



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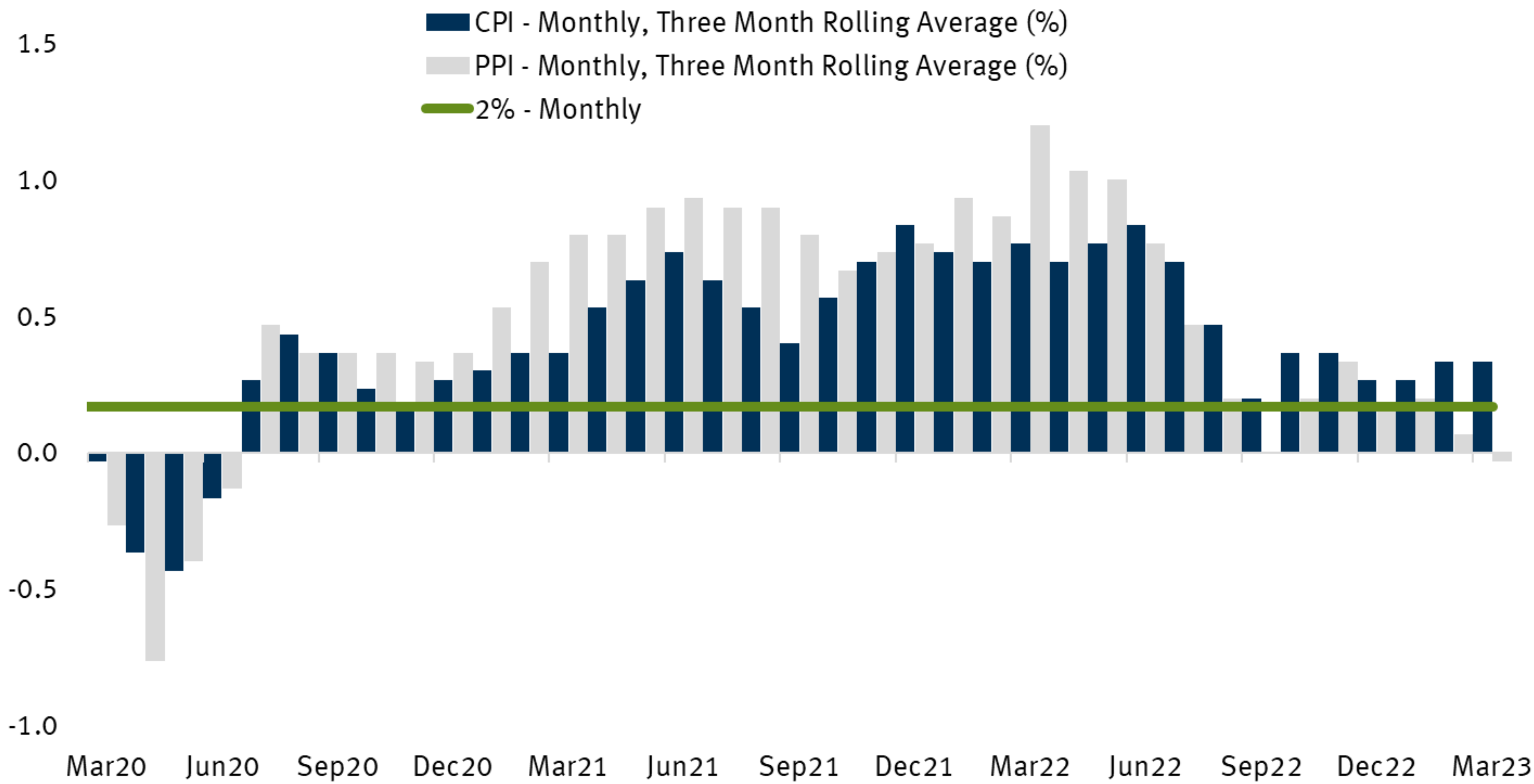
Source: Stifel CIO Office via Bloomberg, as of April 17, 2023 (intra-day)
CPI = Consumer Product Index

RECENT INFLATION TRENDS



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Source: Stifel CIO Office via Bloomberg, as of April 13, 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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March 21/22 Fed Meeting and Minutes

Summary of Fed Meeting

- The Fed hiked rates by 0.25%, signaled more **may** be appropriate. Important to focus on the words **“may” and “some”** rather than **“ongoing.”**
- Fed **Summary of Economic Projections** (SEP) were **roughly unchanged**, signaling one more 0.25% move in 2023.
- Noted the **labor market** remains **“robust”** and **inflation elevated**.
- “Recent developments are likely to result in **tighter credit conditions for households and businesses** and to weigh on economic activity, hiring, and inflation.”
- Noted **strong capital and liquidity levels** of the **banking sector**.

Highlights from Federal Open Market (FOMC) Minutes

- Fed staff expects a “**mild recession starting later this year**, with a recovery over the subsequent two years”…as a result of the banking-sector developments
- “**All participants**” agreed that a **25basis point (bps) hike was appropriate**…“several” **considered holding rates unchanged**, and “some” had **considered a 50 bps hike** absent the banking crisis
- “In light of the highly uncertain economic outlook, participants underscored the importance of **closely monitoring incoming information** and assessing the implications for future monetary policy decisions.”
- **Inflation remains elevated and unacceptably high**.

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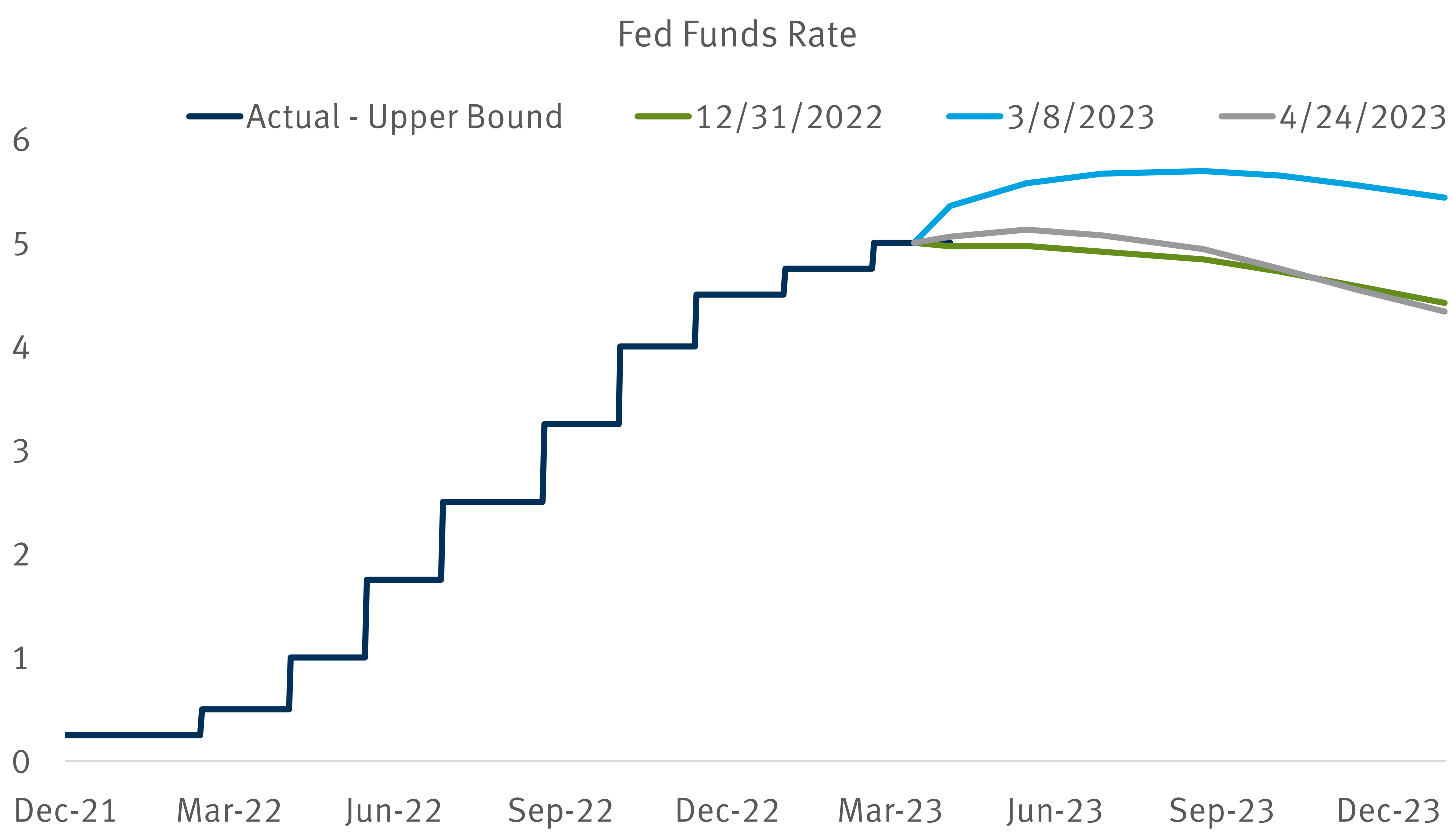
Source: Stifel CIO Office

FED FUNDS RATE



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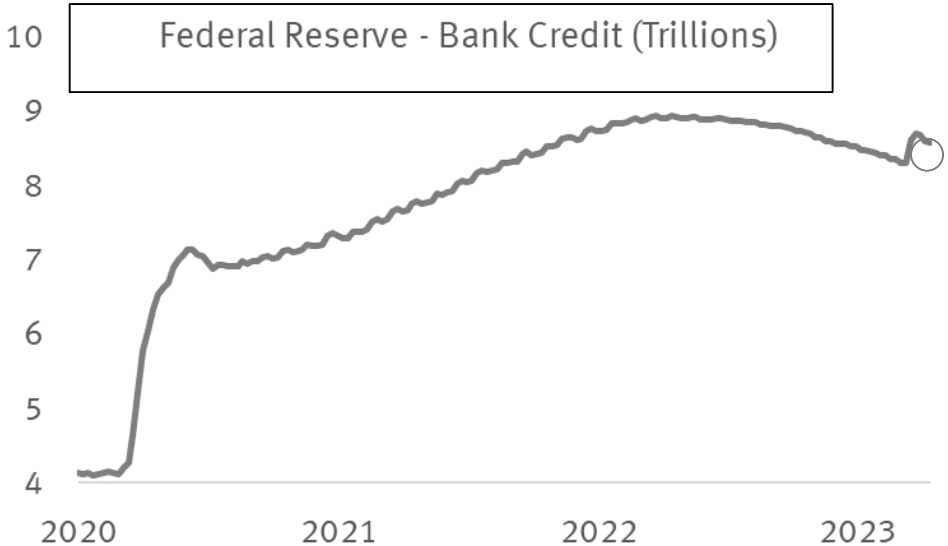
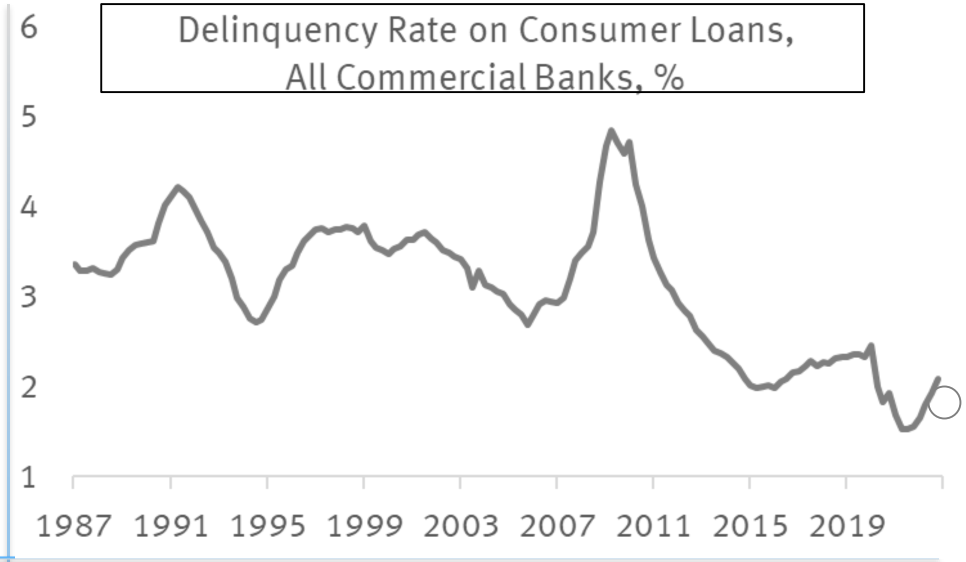
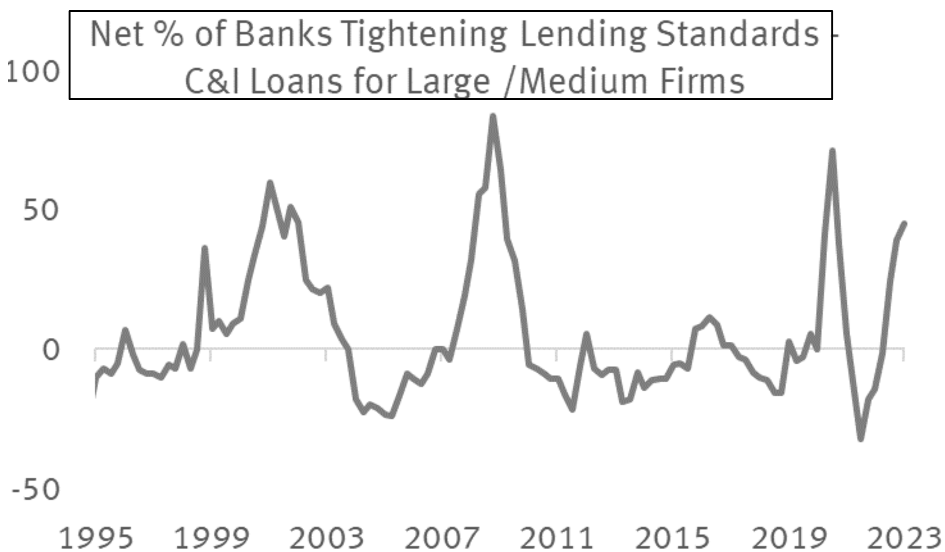
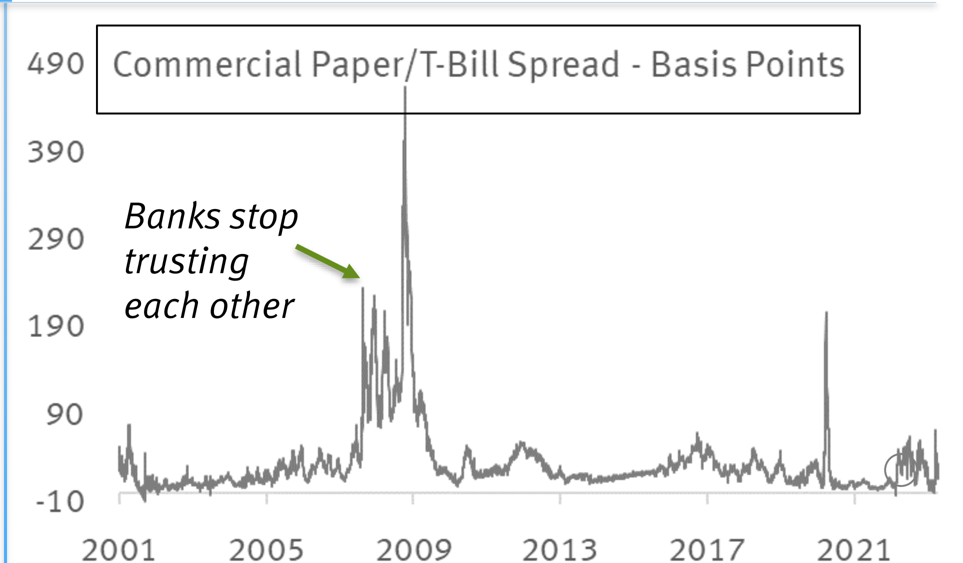
Source: Stifel CIO Office via Bloomberg, as of April 24, 2023 (intra-day)









Source: Stifel CIO Office via Bloomberg and Federal Reserve, as of April 13, 2023

- **Increased the risk of a recession, primarily as a result of tighter lending**
  - Total domestic deposits have declined by $131 billion since 3/8 (-0.8%)
    - Balances appear to be stabilizing – evidence that the initial panic has subsided
  - The pace of borrowing has slowed considerably, particularly at the small banks

- **Short-term impact**
  - 1Q23 earnings: expect relative stock performance to be dictated by balance sheet trends (deposits, liquidity, and capital)

- **Medium/Long-term impact**
  - Increased regulations, particularly for non-GSIBs (Global Systematically Important Banks)
  - Fed's Tailoring Rule likely to experience meaningful reconstruction
    - Asset thresholds moving lower and more onerous regulatory requirements
  - Increased liquidity requirements
  - Mark-to-market of securities will be built into capital requirements for non-GSIBs
  - Possibly reduced overall Bank lending activity
  - Higher FDIC insurance expense
  - Likely safer, but less profitable banks

- Each crisis is different, but ultimately solved…takes time and usually means greater regulation

  - **S&L Crisis (1982-1994)** — Banks declined 45% with ›2,300 bank failures. Took 1.5 years to reach pre-crisis peak.

  - **Global Financial Crisis (2007-2009)** — KBW Bank Index (BKX) -85%
    - ›500 bank failures. Took BKX 12 years to reach pre-crisis peak and KRX 8 years.

  - **Current Troubles (2023)** — Since SIVB failure, BKX -25%

KBW KEEFE, BRUYETTE & WOODS
A Stifel Company

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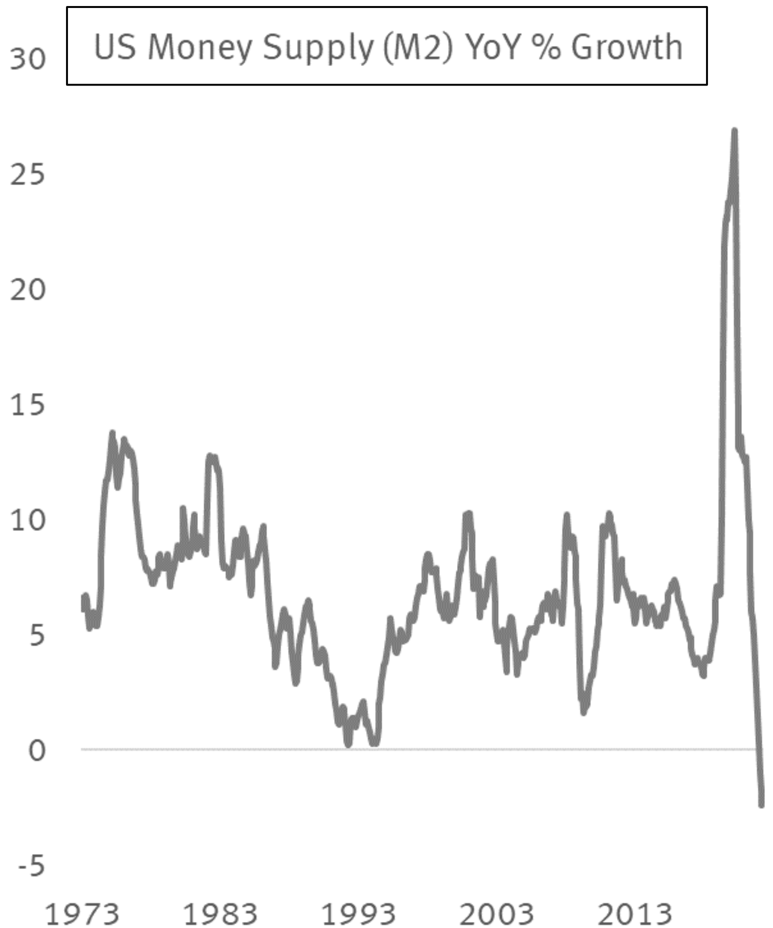
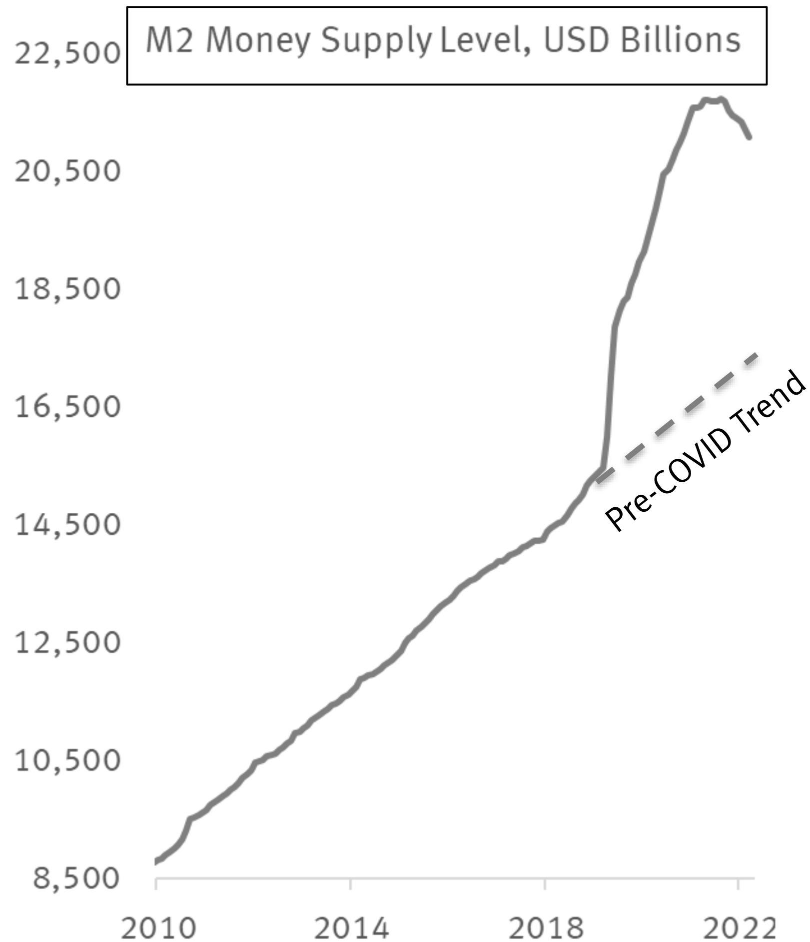
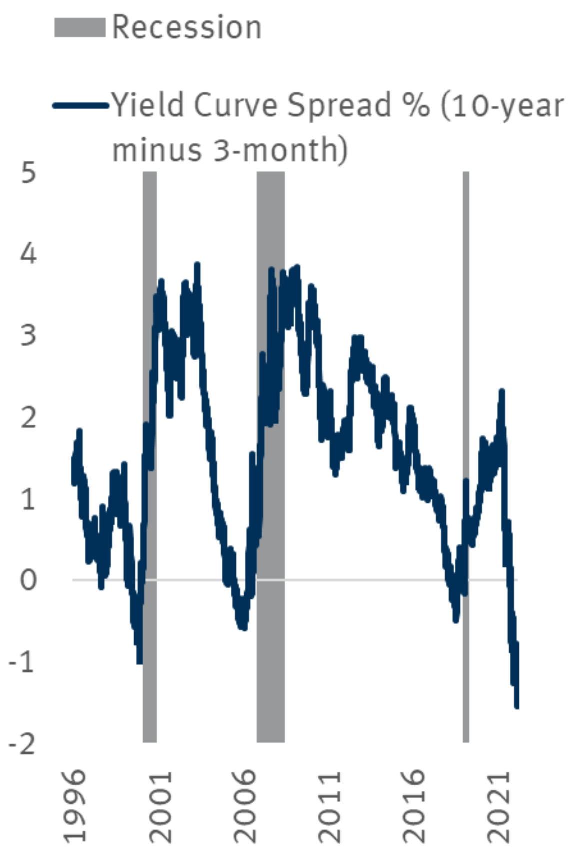
MONEY SUPPLY

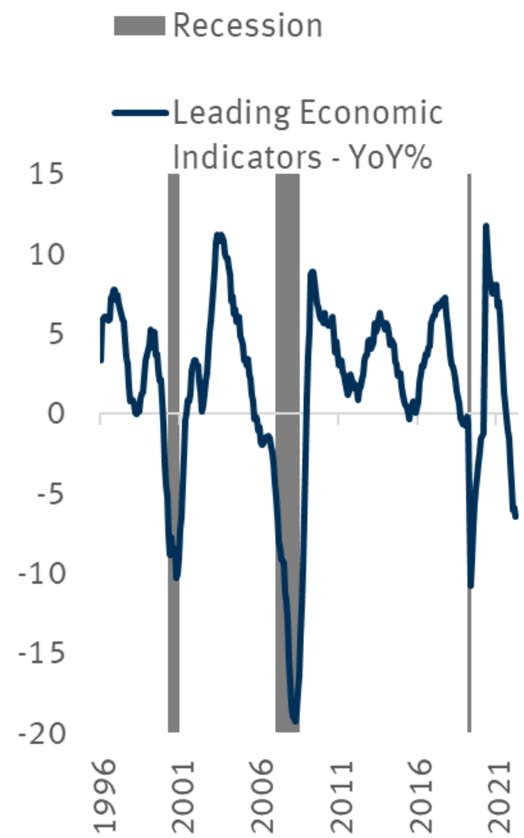


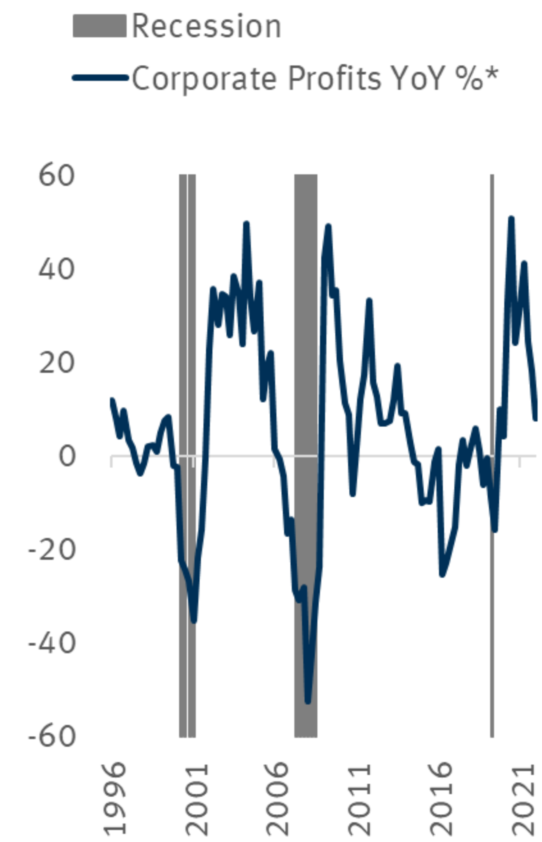


Source: Stifel CIO Office via Bloomberg, as of April 13, 2023

KEY ECONOMIC INDICATORS







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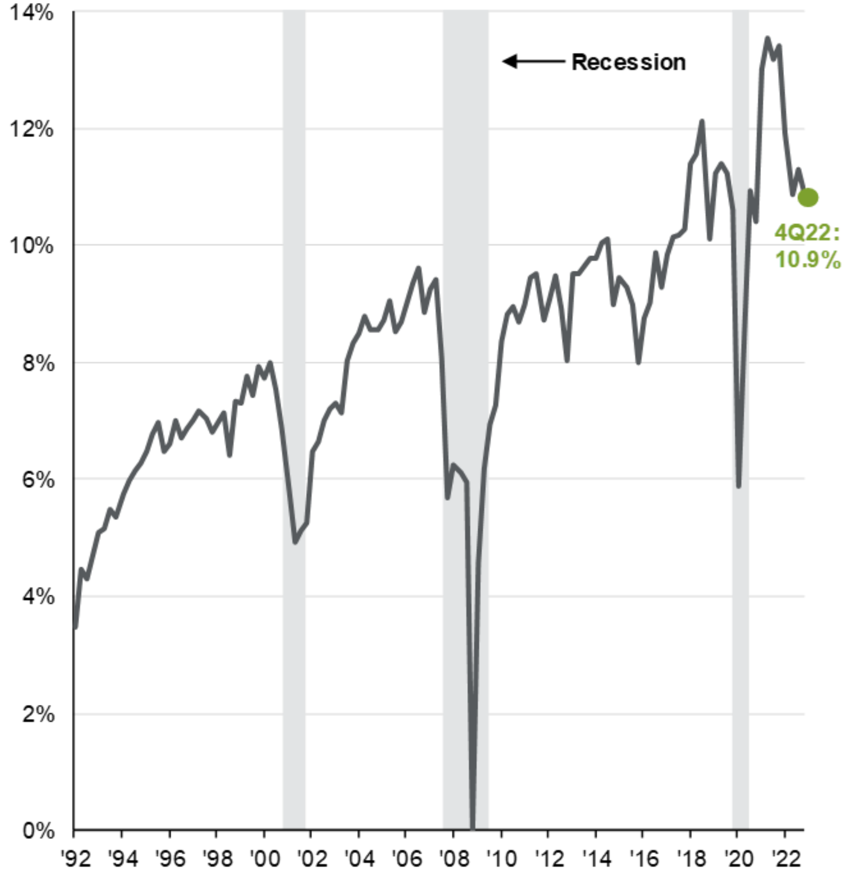
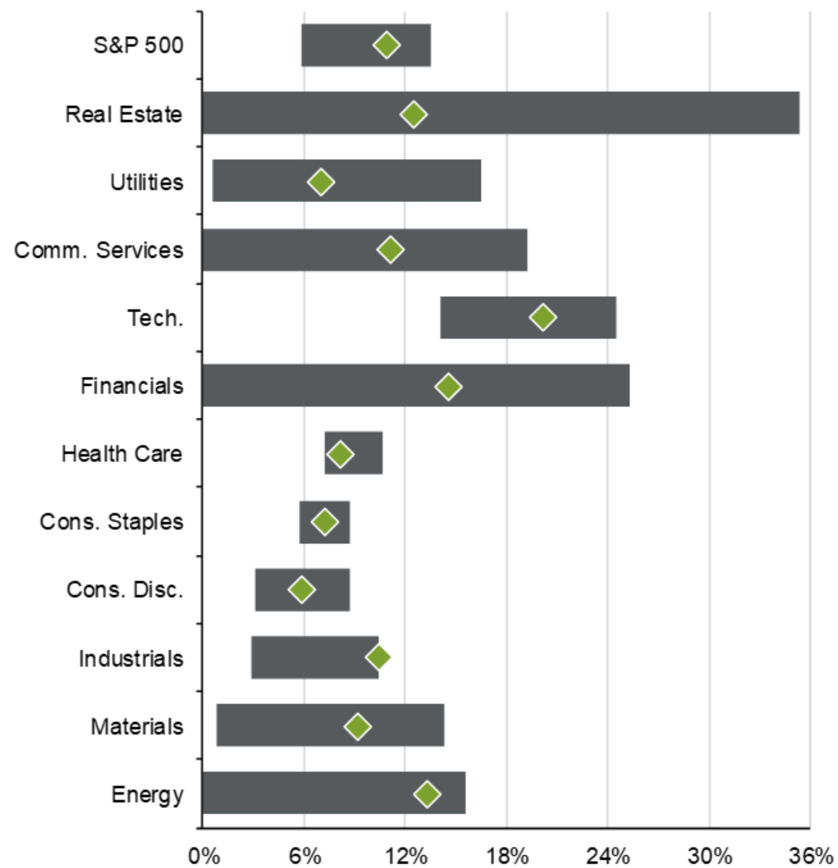
Source: Stifel CIO Office via Bloomberg, as of April 13, 2023; *Corporate profits with capital consumption and inventory valuation adjustment used.

S&P 500 profit margins
Quarterly operating earnings/sales



S&P 500 operating margins by sector
Current operating margins versus historical range*



Source: Compustat, FactSet, NFIB, Standard & Poor's, J.P. Morgan Asset Management. Past performance is not indicative of future returns. *Quarters with negative operating margins are not shown, with zero set as the lower bound for troughs.
Guide to the Markets – U.S. Data are as of April 12, 2023.

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MARKET PERFORMANCE

Index	2020	2021	2022	Jan 2023	Feb 2023	Feb 28 – Mar 8 2023	Mar 8 – Apr 21 2023
S&P 500 Index	18.4%	28.7%	-18.1%	6.3%	-2.4%	0.6%	3.7%
S&P 500 Financials	-1.8%	34.9%	-10.6%	6.9%	-2.3%	-2.1%	-4.5%
KBW Regional Banking	-8.7%	36.7%	-6.9%	2.9%	0.5%	-5.0%	-19.5%
Russell 1000 Value	2.8%	25.1%	-7.6%	5.2%	-3.5%	-0.1%	0.9%
Russell 1000 Growth	38.5%	27.6%	-29.1%	8.3%	-1.2%	1.2%	5.4%
NYSE FANG+ Index	103.1%	17.7%	-40.0%	18.7%	3.8%	0.6%	7.8%
Russell 2000 Index	19.9%	14.8%	-20.5%	9.7%	-1.7%	-0.9%	-4.5%
MSCI EAFE Index	7.8%	11.3%	-14.5%	8.1%	-2.1%	0.3%	5.0%
MSCI EM Index	18.3%	-2.5%	-20.1%	7.9%	-6.5%	1.5%	0.6%
Bloomberg U.S. Agg	7.5%	-1.5%	-13.0%	3.1%	-2.6%	-0.5%	2.8%

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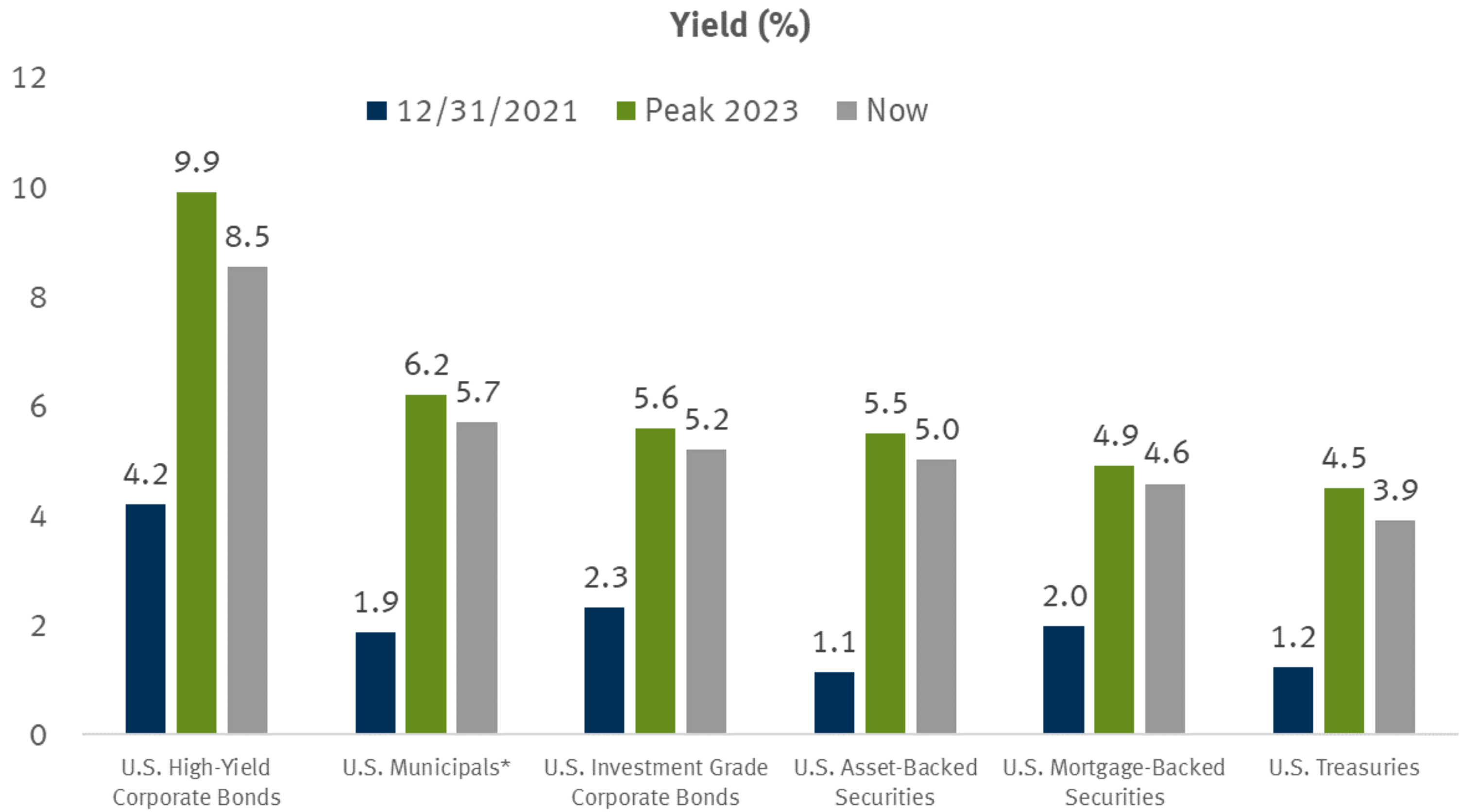
Source: Stifel CIO Office via Bloomberg, as of April 21, 2023

BONDS YIELDS



**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 April 21, 2023

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.

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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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