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OUTLOOK 2023

FINDING BALANCE

with
Michael O'Keeffe
Chief Investment Officer

and
Brian Gardner
Chief Washington Policy Strategist

WEBINAR | JANUARY 11, 2023

2022 YEAR IN REVIEW

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INFLATION

FED POLICY

MARKETS

Consumer Price Index Inflation*	Cumulative Fed Funds Rate Hike	GDP Growth*	S&P 500 Return
8.0%	4.25%	1.9%	-18.1%

*Numbers are estimates and do not yet reflect the final result.

2023 OUTLOOK

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	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%.

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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 Federal Reserve (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.

ALLOCATION INSIGHTS

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DYNAMIC LEANINGS

■ Underweight ■ Neutral ■ Overweight

	ASSET CLASS	CURRENT (Underweight)	CURRENT (Neutral)	CURRENT (Overweight)	COMMENTS
FIXED INCOME	**U.S. Investment Grade vs. U.S. High Yield**			■	Bond yields are the most attractive they have been in the last 10–15 years, despite coming off of recent highs. Near-term volatility and an economic slowdown may exacerbate near-term price losses in high yield.
FIXED INCOME	Corporates/ Government/Agency MBS		■		While our base case is for Treasury yields and corporate spreads to remain range bound, we remain neutral and diversified across fixed income supersectors given the fat tail risks of our bear and bull scenarios.
FIXED INCOME	**Duration**		■		We view duration as a diversifier in a multi-asset class portfolio given the near-term uncertainty and remain neutral to the overall market.
ALTERNATIVES	**Private Assets**		■		For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of private equity, private debt, and/or private real estate can be considered as part of a diversified portfolio.
ALTERNATIVES	**Hedge Funds**		■		For investors interested in alternative investments and able to handle less liquidity who have conviction about manager skill, exposure to hedge funds can be a helpful part of a diversified portfolio. This is especially true in volatile, low-return environments.

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ALLOCATION INSIGHTS

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DYNAMIC LEANINGS

■ Underweight ■ Neutral ■ Overweight

EQUITY

ASSET CLASS	CURRENT: Underweight	CURRENT: Neutral	CURRENT: Overweight	COMMENTS
U.S. Equity vs. Non-U.S. Equity		■		While non-U.S. equity relative valuations remain attractive for longer-term investors, we remain neutral given the global economic and geopolitical headwinds. The strength of the U.S. consumer and corporate balance sheets put the U.S. on a stronger footing, but richer valuations mean near-term weakness is possible.
U.S. Large Cap vs. U.S. Small Cap	■			Small cap company valuations are providing an attractive entry point for skilled investors. Falling prices reflect, to a good degree, the concerns about higher interest rates and an economic slowdown. But lower valuations create opportunities. We guide investors to implement an overweight with active management.
U.S. Large Value vs. U.S. Large Growth		■		In this environment we believe investors should diversify across both value and growth styles. Within U.S. large cap, we have a modest overweight to dividend growth and quality companies, regardless of style.
Non-U.S. Developed Markets vs. Emerging Markets		■		Risks stemming from China and the war in Ukraine are each binary, meaning one or both could quickly dissipate, or get worse. Our team is closely following the developments in China and Europe, and we are prepared to act swiftly as we receive further clarity on the macroeconomic outlook.
Europe vs. Japan		■		We see investment opportunities across regions of the world. Japan's corporate governance reform is a positive and likely to enhance shareholder value in the medium-to-long term. Risks from the war in Ukraine are largely reflected in European stock valuations, and there is meaningful upside potential if and when we see a diplomatic resolution there.

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SIGNPOSTS

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- China is on path to economic reopening
- Alignment of market expectations and Fed forecasts
- Trough in consumer confidence
- Shelter costs stabilizing and reflecting in inflation indexes
- Wage growth slowing to the Fed's preferred level
- Labor market moving closer to equilibrium
- Company earnings holding up, and forward guidance is improving
- Diplomatic progress in numerous geopolitical hotspots

WASHINGTON POLICY AND POLITICAL OUTLOOK

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

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GEOPOLITICAL TENSIONS

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EVENT	LIKELIHOOD	MARKET IMPACT
U.S.-China Competition	**10**	**7**
The New Cold War	**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
European Fragmentation	**5**	**6**
North Korea Conflict	5	3
Structurally Higher Inflation	**4**	**8**
Russia-West Conflict	4	8

OTHER ARTICLES

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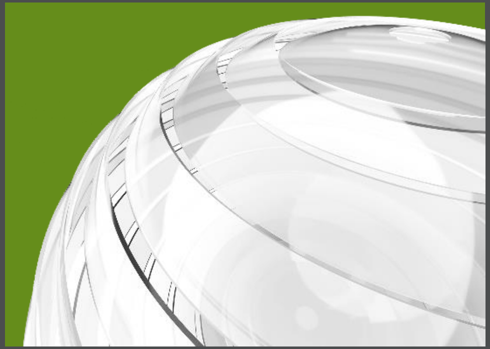
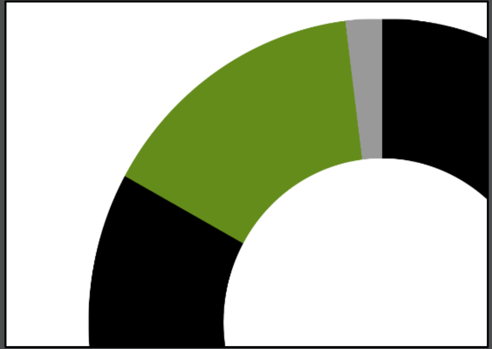
Five Tips to Navigate a Bear Market

Where to Find Stifel Guidance

stifelinsights.com



Our Investment Management Process



Stifel's Approach to Asset Allocation

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