



INVESTMENT STRATEGY BRIEF

A Mid-Summer Update: The Middle East, AI, Fed Policy, Earnings, and Market Dynamics

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A Middle East Update

GEOPOLITICAL DASHBOARD: A FRAGMENTED WORLD

The world is shifting from an era of globalization to one marked by increased localization and protectionism, increasing geopolitical risks, and uncertainty. The Stifel Geopolitical Dashboard aims to identify and assess the likelihood and investment considerations of key geopolitical risks and events that have the potential to create market volatility over the next three to five years.

LEGEND	Certain	Expected to occur; strong evidence or clear trends already in motion	Unlikely	Possible; there are some signals, but it's not expected
	Highly Likely	Strong possibility; multiple indicators suggest it will occur	Highly Unlikely	Very rare; little to no evidence to suggest occurrence
	Likely	Reasonable chance of happening; emerging signals present, uncertainty remains		

RISK	HOW IT COULD UNFOLD	LIKELIHOOD (3-5 YEARS)	INVESTMENT CONSIDERATIONS
U.S.-China Competition	Strategic competition for global leadership intensifies across various fronts, including technological, economic, and social influence.	Certain	Tariffs, trade restrictions, and protectionist policies will challenge companies reliant on China for supply chains and revenue. India and Mexico may benefit.
Cyberattack(s)	A major cyberattack on the world's leading companies, government agencies, or infrastructure that paralyzes an entire industry or sector.	Highly Likely	Cybersecurity firms stand to benefit as demand for robust data protection and security measures rises. Increasing focus on and awareness of data privacy.
Escalating Cold War(s)	Emergence of competing geopolitical blocs and tensions rise through increasingly hostile actions, sanctions, or military posturing.	Highly Likely	Defense and cybersecurity companies may benefit from increased militarization and higher defense spending, while some corporations might deem certain regions as not investable.
U.S. Financial Instability	Rising debt levels and higher interest costs accelerate the <i>Fiscal Transition</i> , weakening confidence in U.S. creditworthiness and financial markets.	Likely	Diminished confidence in U.S. Treasuries and the U.S. dollar, both of which are pillars of global capital markets. Likely sharp economic and market downturn.
Climate Policy Error	Net-zero commitments and regulations without economic and societal readiness spark inflation and an economic slowdown.	Likely	Look for companies focused on energy efficiency and innovative solutions for potential opportunities. Nuclear power is an example.
Structurally Higher Inflation	A combination of deglobalization, supply chain reconfiguration, and labor shortages keep inflation above the Federal Reserve's 2% target for a prolonged period of time.	Likely	Consider sectors and companies with strong pricing power and the ability to pass on costs or asset classes that can provide a diversification benefit or hedge against inflation.
European Fragmentation	Disagreements on key political and policy issues lead to a withdrawal from the European Union by a member nation.	Unlikely	Increased market volatility. Likely weakness in the euro as well as sectors impacted by trade disruptions.
Aging Population Strain	Longer lifespans drive up healthcare demand and cost, placing added pressure on budgets and economic stability.	Unlikely	Focus on investment opportunities arising from an aging population, including the increased demand for healthcare, leisure and travel, and financial services.
Introduction of BRICS Currency	Brazil, Russia, India, China, and South Africa (BRICS) establish a new reserve currency backed by a basket of their respective currencies.	Unlikely	Potential decline in demand for U.S. dollars and a weakening of its value. Consider diversifying in markets outside the U.S.

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GEOPOLITICAL DASHBOARD: A FRAGMENTED WORLD

MILITARY CONFLICTS

RISK	HOW IT COULD UNFOLD	LIKELIHOOD (3-5 YEARS)	INVESTMENT CONSIDERATIONS
South China Sea Military Conflict	Competing claims over territory escalate into military confrontation, drawing U.S. involvement.	Likely	More than \$3 trillion worth of global trade, or a third of maritime trade, passes through the South China Sea annually. A conflict would severely disrupt supply chains.
Middle East War	While other regional conflicts are possible, a primary risk is that Israel and Iran enter into a full-scale aerial war.	Likely	Global oil market will be disrupted, driving up energy prices and impacting global supply chains. Defense and energy sectors would likely benefit.
Militarization of Space	Nations deploy technologies designed to disable or disrupt rival satellites, increasing the risk of space becoming an active conflict zone and threatening commercial networks.	Likely	Defense and aerospace contractors will likely outperform. Commercial satellite operators may face soaring insurance costs while global logistics would be severely disrupted.
Venezuela/Caribbean Escalation	U.S. involvement in Venezuela expands beyond isolated strikes, or pressure broadens to other regional actors (e.g., Cuba, Colombia), increasing the risk of spillover tensions and episodic regional instability.	Unlikely	Energy price and inflation risk sensitivity rise. Episodic "risk-off" bids may favor quality balance sheets and defensives; elevated dispersion across emerging markets credit/equities.
Russia-NATO Confrontation	An accidental strike, miscalculation, or aggressive interference by Russia triggers direct engagement with NATO.	Unlikely	This will likely lead to a spike in oil prices. Perceived safe-haven assets such as gold, U.S. Treasuries, and the U.S. dollar may benefit.
Indian-Pakistan Tensions	The fragile ceasefire breaks down and the two countries enter into a war, disrupting regional stability and drawing in international powers.	Unlikely	A nuclear war is the worst-case scenario. India, the world's most populous country, is emerging as a "swing state" in the context of geopolitics.
China Invades Taiwan	China asserts its claim over Taiwan and attempts to achieve "reunification," triggering a major geopolitical crisis.	Unlikely	Severe disruption in global trade, potentially crippling the semiconductor industry given Taiwan's central role in chip production.
North Korea War	A provocation, miscalculation, or perceived threat leads North Korea or South Korea toward direct military conflict.	Highly Unlikely	War remains unlikely given the Kim regime's priority on preserving the dynasty and the overwhelming military disparity favoring the U.S.-South Korea alliance. Investors should monitor deepening Russia-North Korea ties as a potential destabilizer.

LEGEND

 Certain	Expected to occur; strong evidence or clear trends already in motion	 Unlikely	Possible; there are some signals, but it's not expected
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The motivations and goals of four distinct parties will define the timing and shape of an off-ramp.

- *How quickly does this move to an off-ramp?*
- *What factors are driving this timing?*
- *What are the near-, medium-, and long-term implications for the global economy and markets?*

MANAGED OFF-RAMP

(50% Probability)

- **Timeline:** Resolved within weeks.
- **Action:** All parties accept a “face-saving” stand-down.
- **Market:** Oil prices recede and shipping normalizes quickly.

SHADOW WAR

(25% Probability)

- **Timeline:** Persists for months.
- **Action:** U.S./Israel declare victory; Iran continues proxy/intermittent attacks.
- **Market:** Ongoing volatility as markets remain “shaken” by friction.

SEVERE TAIL

(15% Probability)

- **Timeline:** Prolonged for many months.
- **Action:** Blockade of Strait of Hormuz and defense system depletion.
- **Market:** Inflation spikes alongside supply disruption; potential deflation.

REGIME CHANGE

(10% Probability)

- **Timeline:** Long-term (many months).
- **Action:** U.S./Israel focus explicitly on toppling the regime.
- **Market:** Sustained high inflation; remote chance of internal uprising.

Coercive diplomacy blends escalation and negotiation: force, sanctions, and the threat of more are used to shape the terms of an eventual deal – likely Trump’s playbook with Iran.

The strategy: pressure is a negotiating tactic

- Military, economic, and maritime pressure are meant to improve U.S. terms in talks.
- Trump’s deliberate ambiguity keeps it unclear whether the next step is negotiation or renewed escalation.

Where we stand: a paused, unstable off-ramp

- A Managed Off-Ramp briefly emerged with the June 17 memo (14 points, 60 days), then broke down.
- Strikes have paused, but the blockade, constrained Hormuz traffic, and proxy activity keep escalation risk elevated.

Four scenarios (defined in March) still frame the range

- Managed Off-Ramp 50% | Shadow War 25% | Severe Tail 15% | Regime Change 10%.
- We now see a less than smooth off-ramp with the environment sometimes seeming like Shadow War / Severe Tail.

Why an off-ramp still leads: “munitions, markets, and midterms”

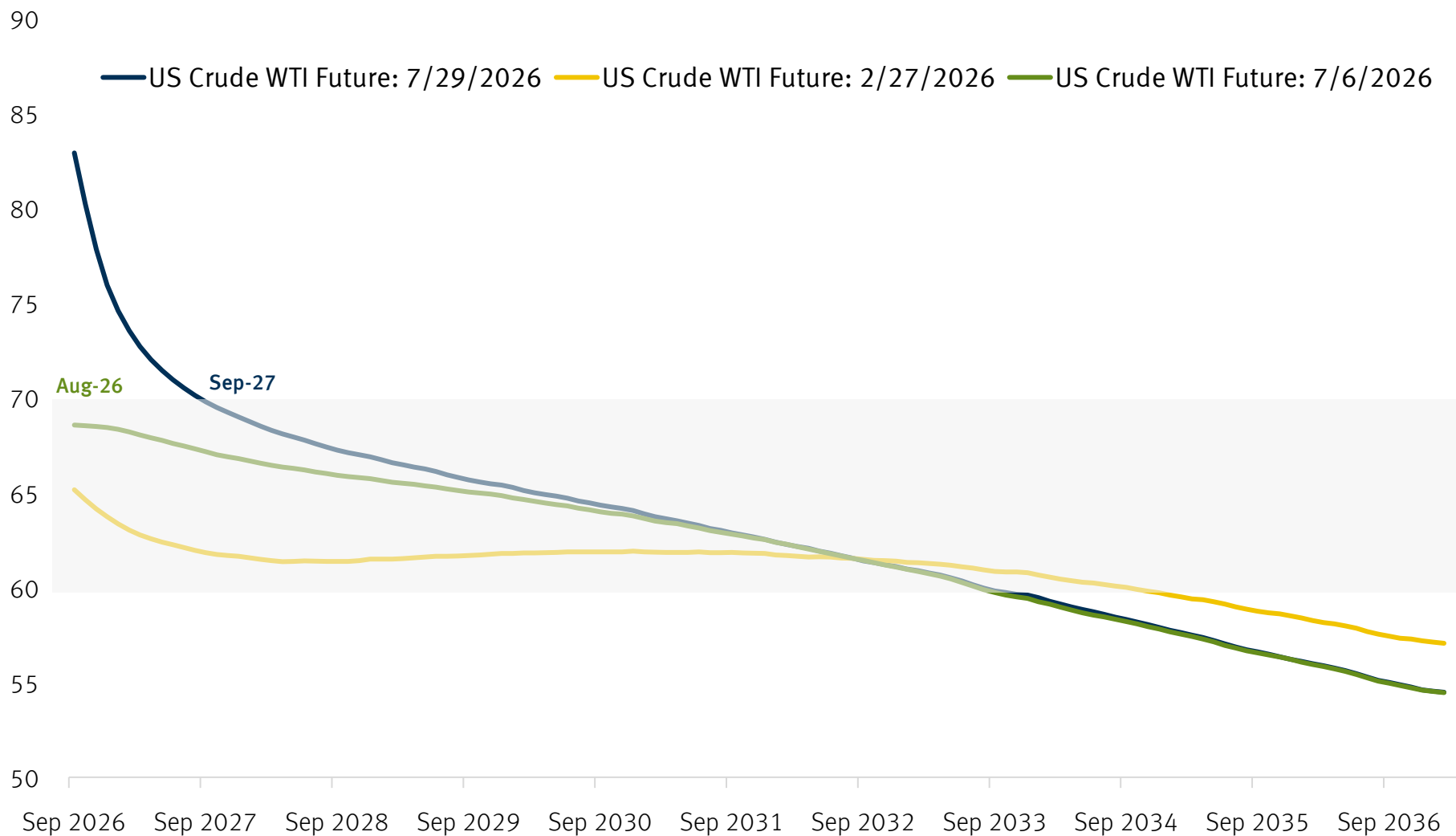
- Depleted munitions, energy/inflation risk, and pre-midterm politics all favor an eventual deal.
- But Iran, Israel, and proxies have different aims; Tuesday’s Trump – Netanyahu meeting is a key signal.

What we think

- The Managed Off-Ramp remains the most likely outcome, anchored in U.S. incentives and Iran’s need for sanctions relief and oil exports.
- The pause is fragile and other parties can disrupt it; miscalculation could tip toward a Shadow War or Severe Tail – watching oil, inflation, rates, growth, and volatility.

SightLines: [Coercive Diplomacy: The Managed Off-Ramp Is Proving Bumpy](#)

The oil futures curve has deepened its inversion since the war began.



Source: Stifel CIO Office via Bloomberg, as of July 29, 2026. (Intra-Day)

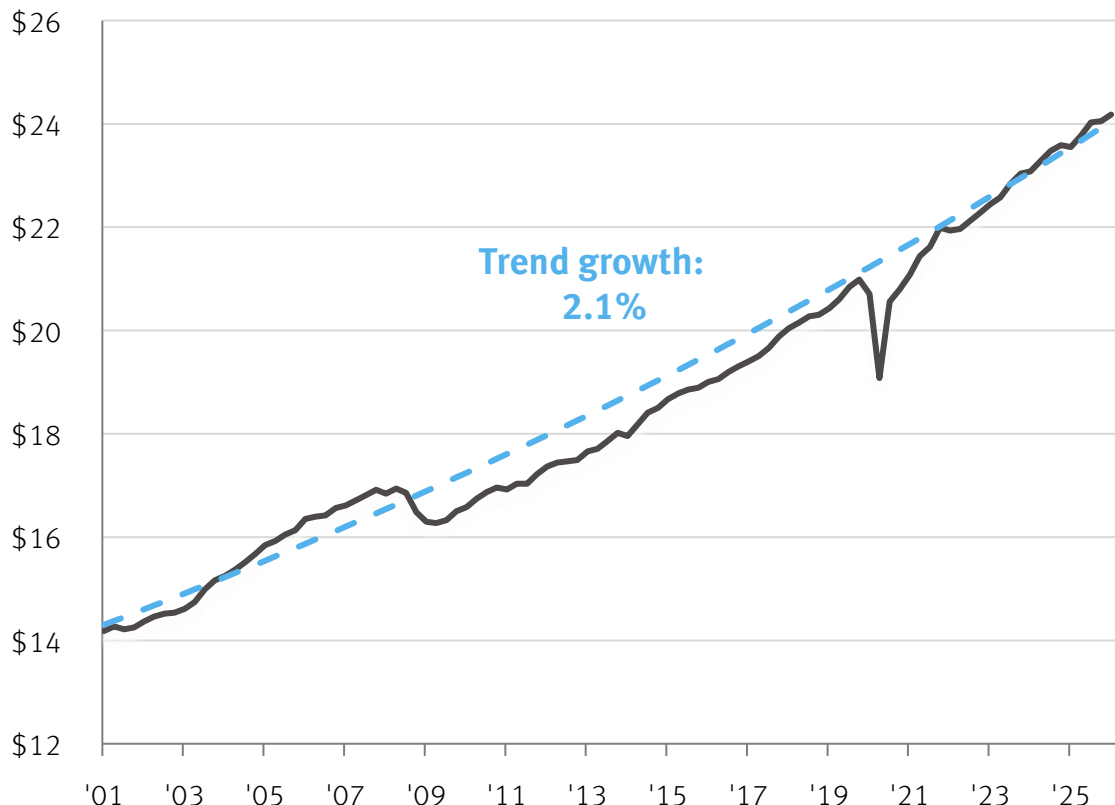
Category	Description	Change Since the War Began	Change Since Mar 30 (Bottom)	Change Since Jun 12 Peace Agreement	Change Since Jul 8, End of Peace Agreement
Energy	Natural Gas	From \$2.85 to \$2.63	From \$2.89 to \$2.63	From \$3.12 to \$2.63	From \$3.21 to \$2.63
	Oil, WTI	From \$67 to \$83	From \$103 to \$83	From \$85 to \$83	From \$74 to \$83
Market Volatility	VIX Index	-7.0%	-39.7%	4.5%	9.3%
	MOVE Index	3.7%	-29.8%	9.7%	5.1%
Fixed Income Markets	Bloomberg U.S. Agg	-1.8%	0.2%	-0.4%	-0.1%
	Bloomberg U.S. HY	1.0%	2.8%	0.0%	-0.3%
Equity Markets	S&P 500	8.5%	17.5%	0.1%	-0.7%
	Bloomberg Mag 7	3.6%	14.8%	-2.4%	-4.0%
	MSCI EAFE	-0.7%	11.2%	0.4%	0.7%
	MSCI Japan	-3.3%	9.2%	-1.7%	-2.7%
	MSCI EM	-0.7%	13.0%	-7.5%	-5.6%
Category	Description	% Feb 27 Level	% Mar 30 Level	% Jun 12 Levels	% Current Levels
Breakevens	1-Year Breakeven	3.8%	5.3%	2.3%	1.8%
	2-Year Breakeven	2.8%	3.3%	2.4%	2.1%
	1-year, 1-year Forward	1.8%	1.3%	2.6%	2.5%
Rates	10-year	3.9%	4.3%	4.5%	4.6%

Source: Stifel CIO Office via Bloomberg, as of July 29, 2026. (Intra-Day)

Economy: Resilient Despite Risks

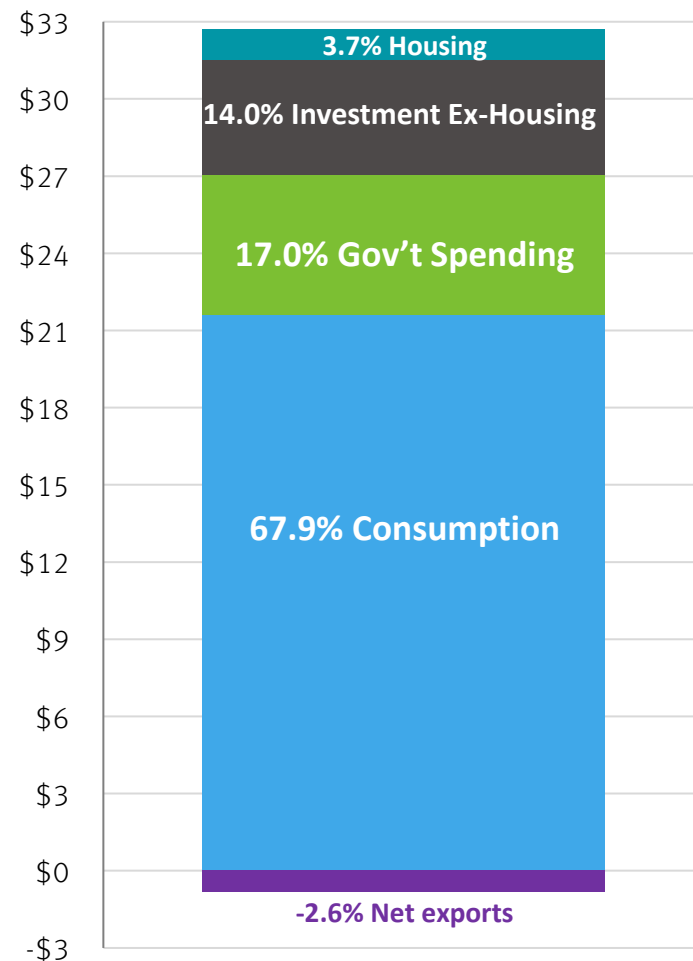
Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



Components of GDP

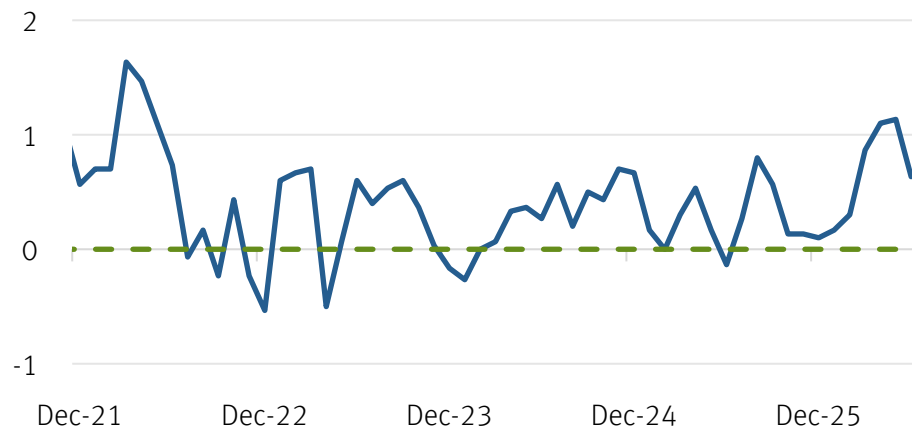
1Q26 nominal GDP, USD trillions



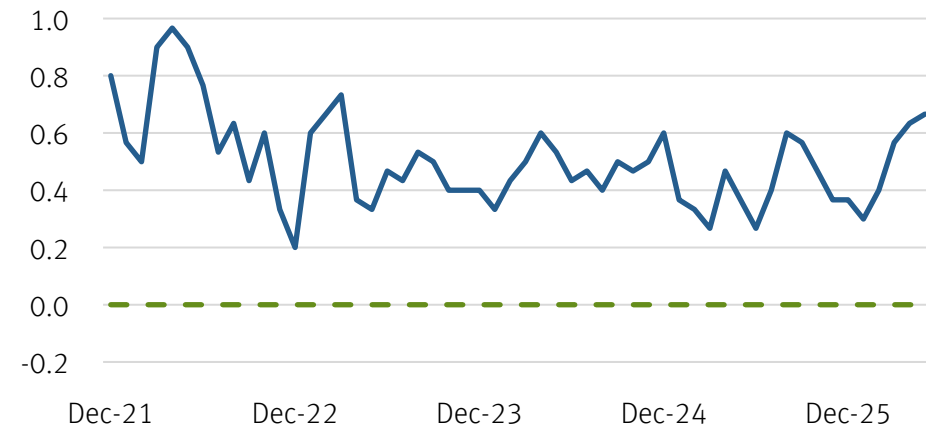
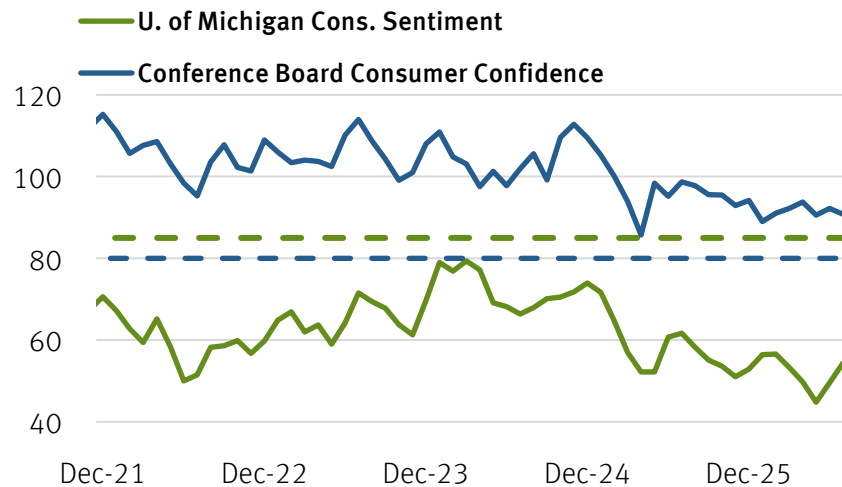
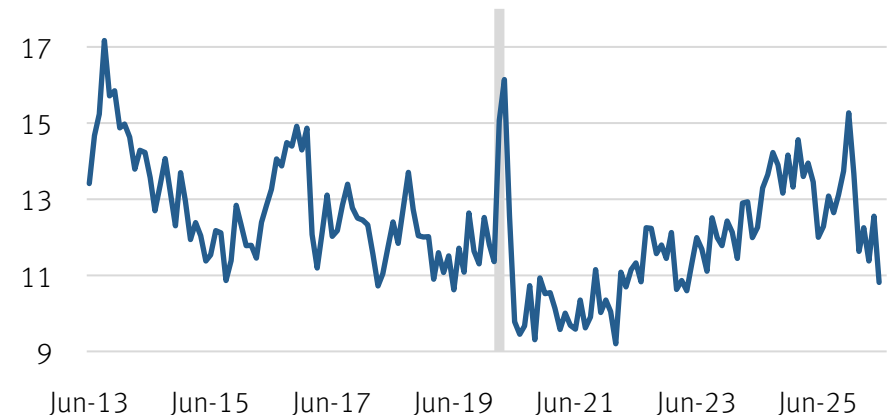
Source: Stifel CIO Office via Bloomberg, as of July 28, 2026.

Retail Sales

Month-over-Month, 3-month Moving Average

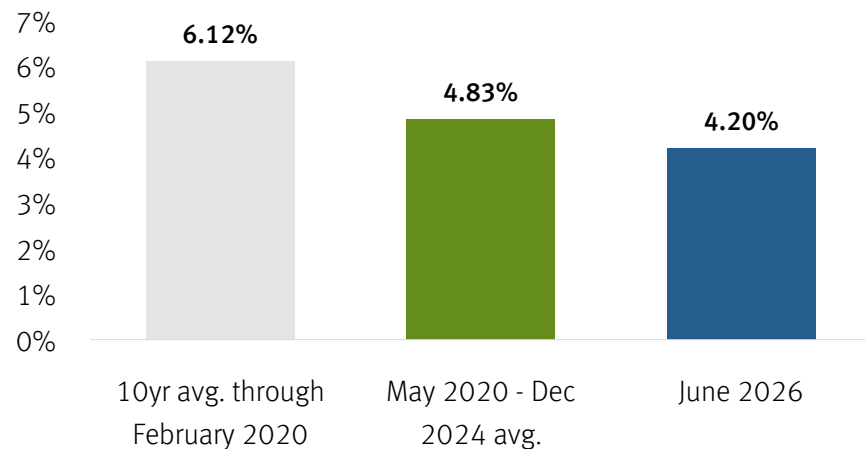
**Personal Consumption MoM**

Month-over-Month, 3-month Moving Average

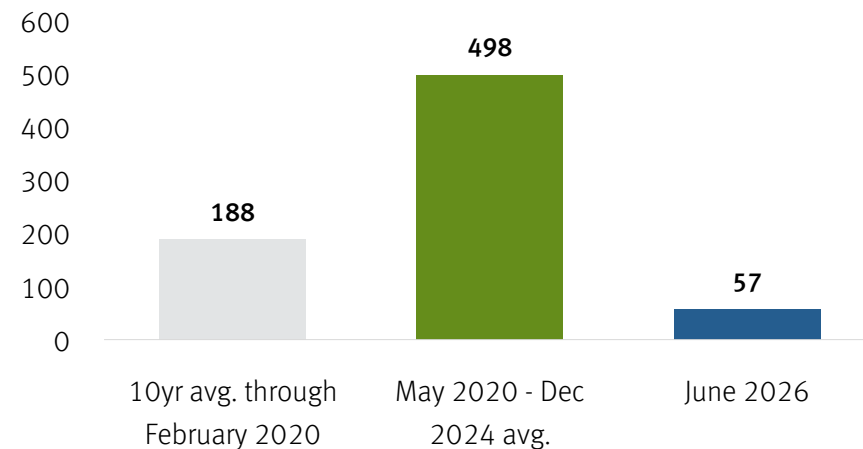
**Consumer Confidence and Sentiment****Mean probability of missing minimum debt payment over the next 3 months (%)**

Unemployment Rate

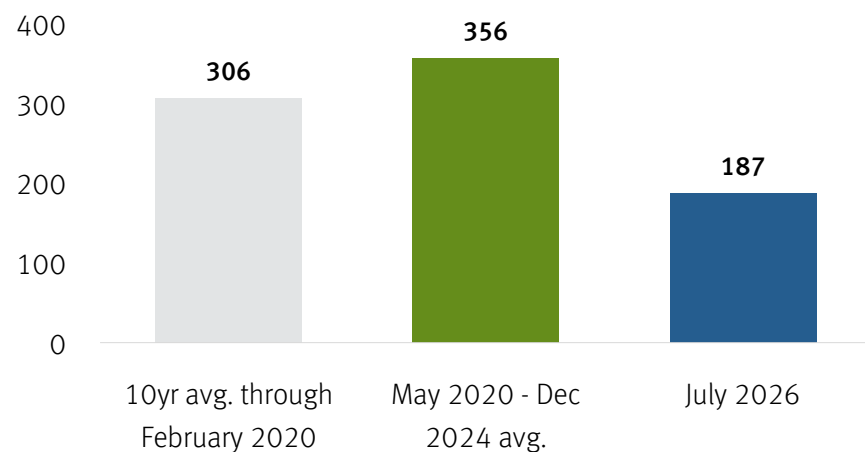
Monthly

**Nonfarm Payrolls**

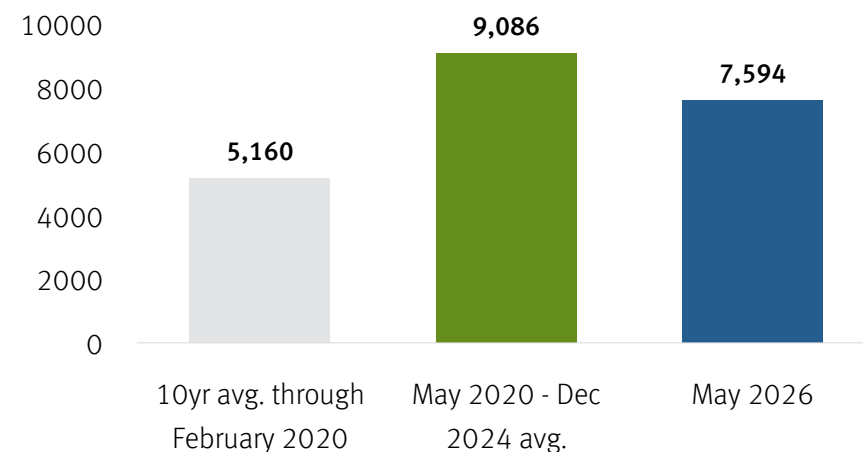
Monthly, thousands

**Jobless Claims**

Weekly, thousands

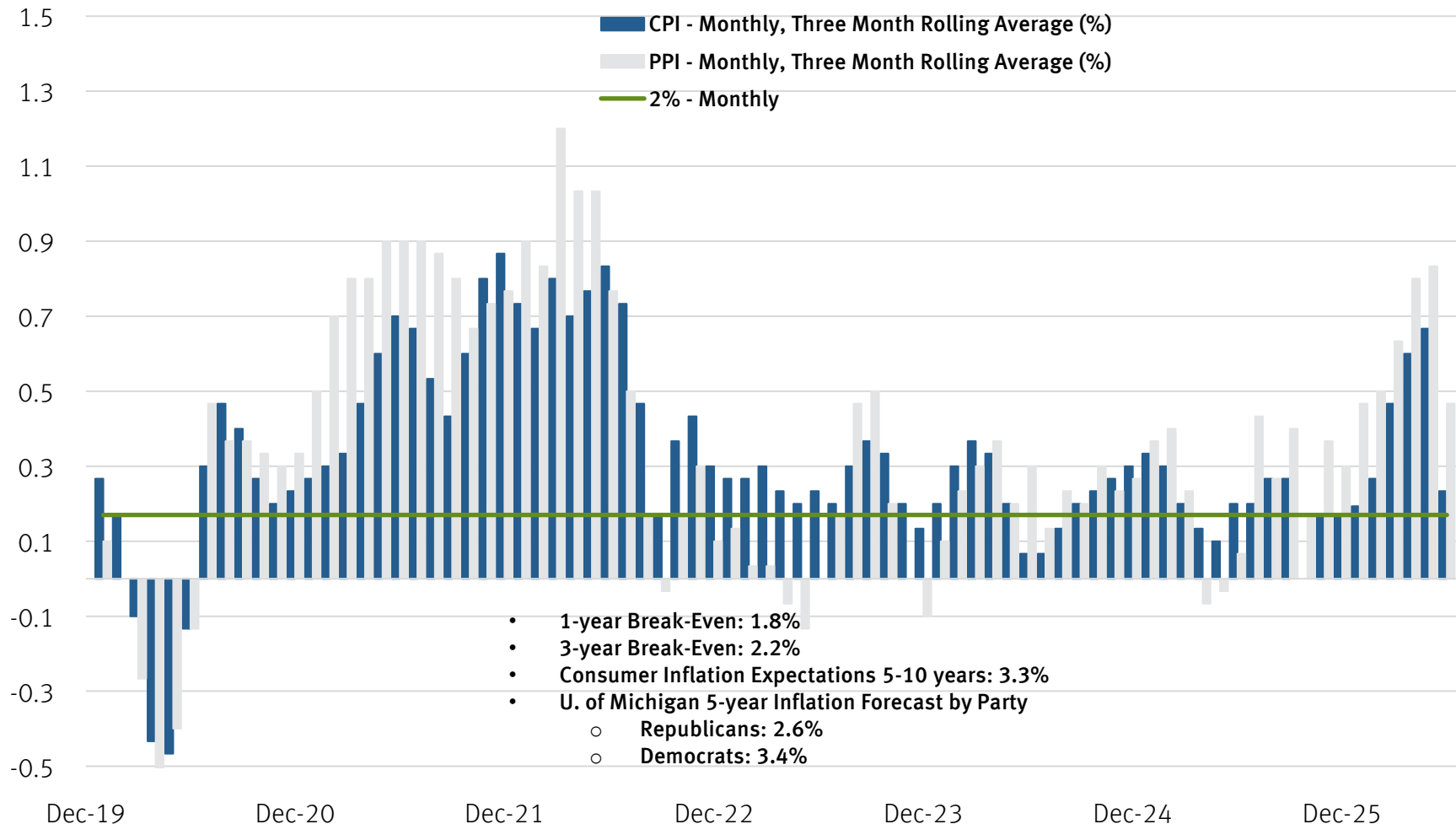
**JOLTS - Job Openings**

Thousands



Source: Stifel CIO Office via Bloomberg, as of July 28, 2026. JOLTS = Job Openings and Labor Turnover Survey

Monthly Inflation Trends



Source: Stifel CIO Office via Bloomberg, as of July 28, 2026.

CPI = Consumer Price Index

PPI = Producer Price Index

Fed July 2026 FOMC Preview – A Hawkish Hold

Base Case – A Hawkish Hold

- Consensus: **Hold at 3.50%-3.75%** (steady since Mar 2026).
- Markets price only **about a one-in-three** chance of a hike.
- **No SEP or dot plot**; statement seen little changed from June.

What the Market Is Watching

- **Dissents:** Still a real chance of hike votes, but less so with oil pulling back.
- **Warsh's tone:** Watch for any acknowledgment of geopolitical easing – even a subtle dovish tilt would reprice September.
- **September optionality:** A hold keeps a later-2026 hike live; a de-escalating oil backdrop gives the Fed more flexibility to wait and reassess.

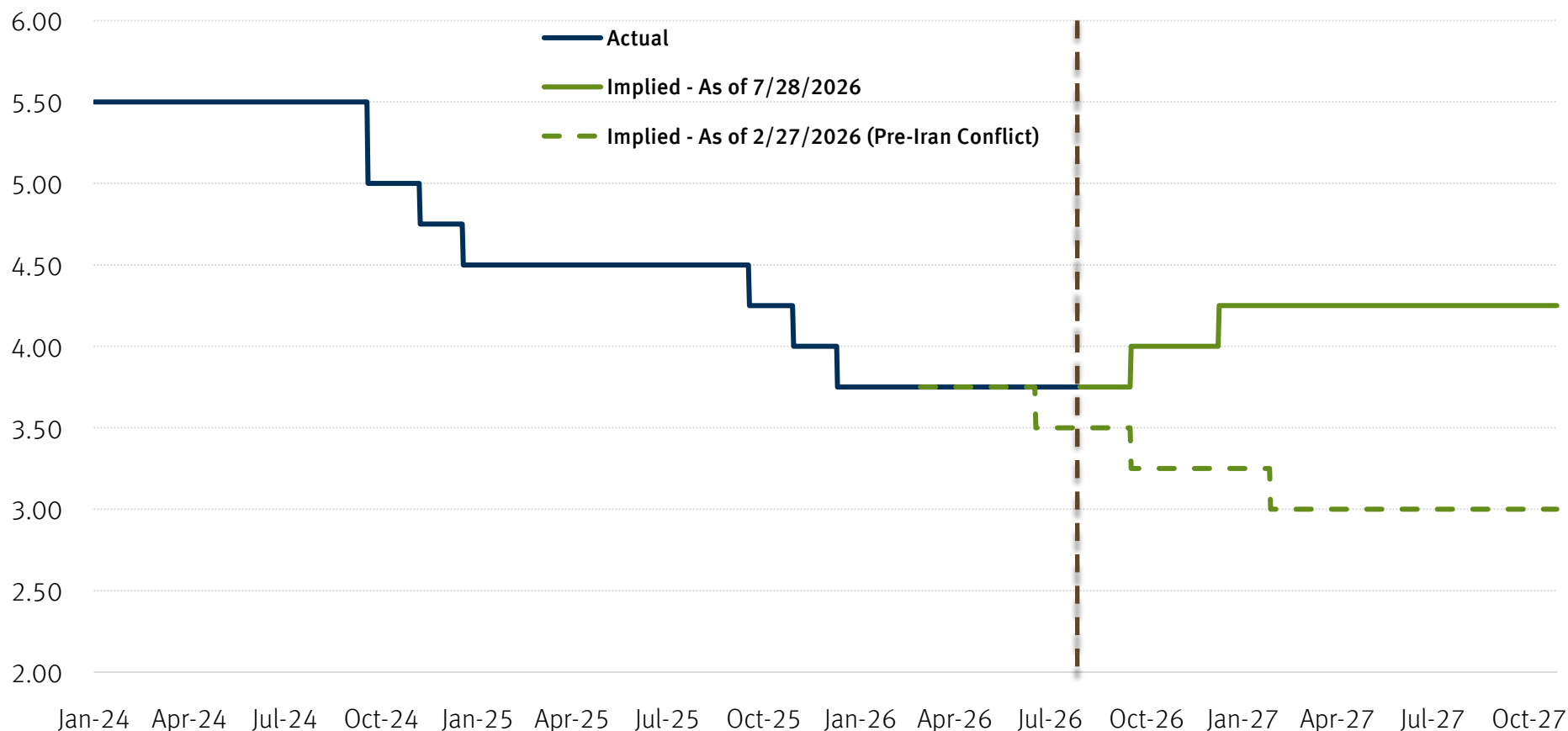
Macro Backdrop

- **Inflation re-accelerated:** CPI at 3.5%, and PCE at 4.1% (vs. 2% target).
- **Labor market resilient:** Unemployment rate at 4.2%.
- **Oil-price volatility reduced:** WTI at \$83 per barrel – the key pillar lifting hike odds has weakened.

Bottom line: Hawkish pause — watch dissents, tone, and September.

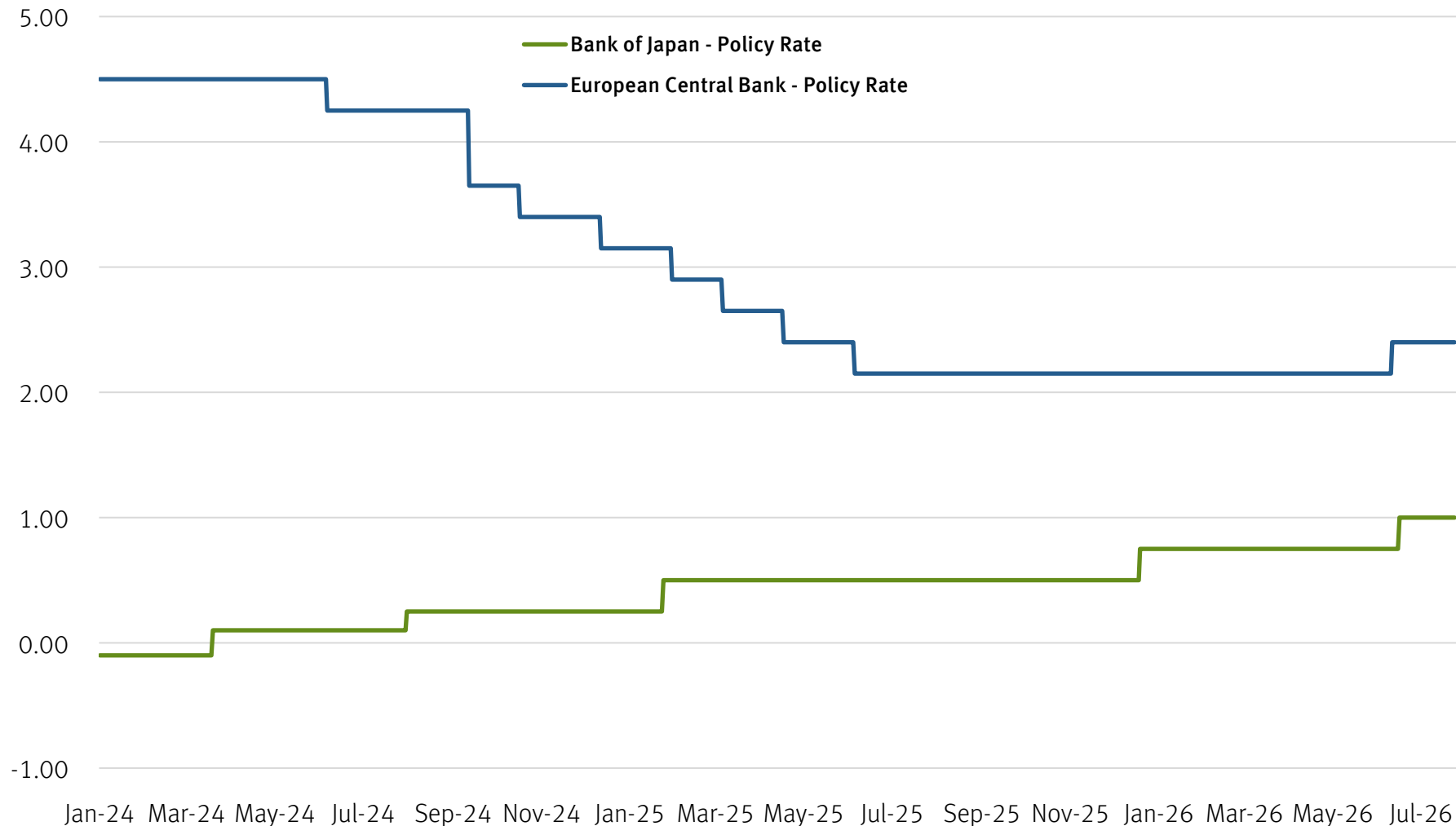
FOMC = Federal Open Market Committee

Fed Funds Target Rate - Upper Bound



Source: Stifel CIO Office via Bloomberg, as of July 28, 2026.

Global Central Bank Policy Rates



Source: Stifel CIO Office via Bloomberg, as of July 28, 2026.

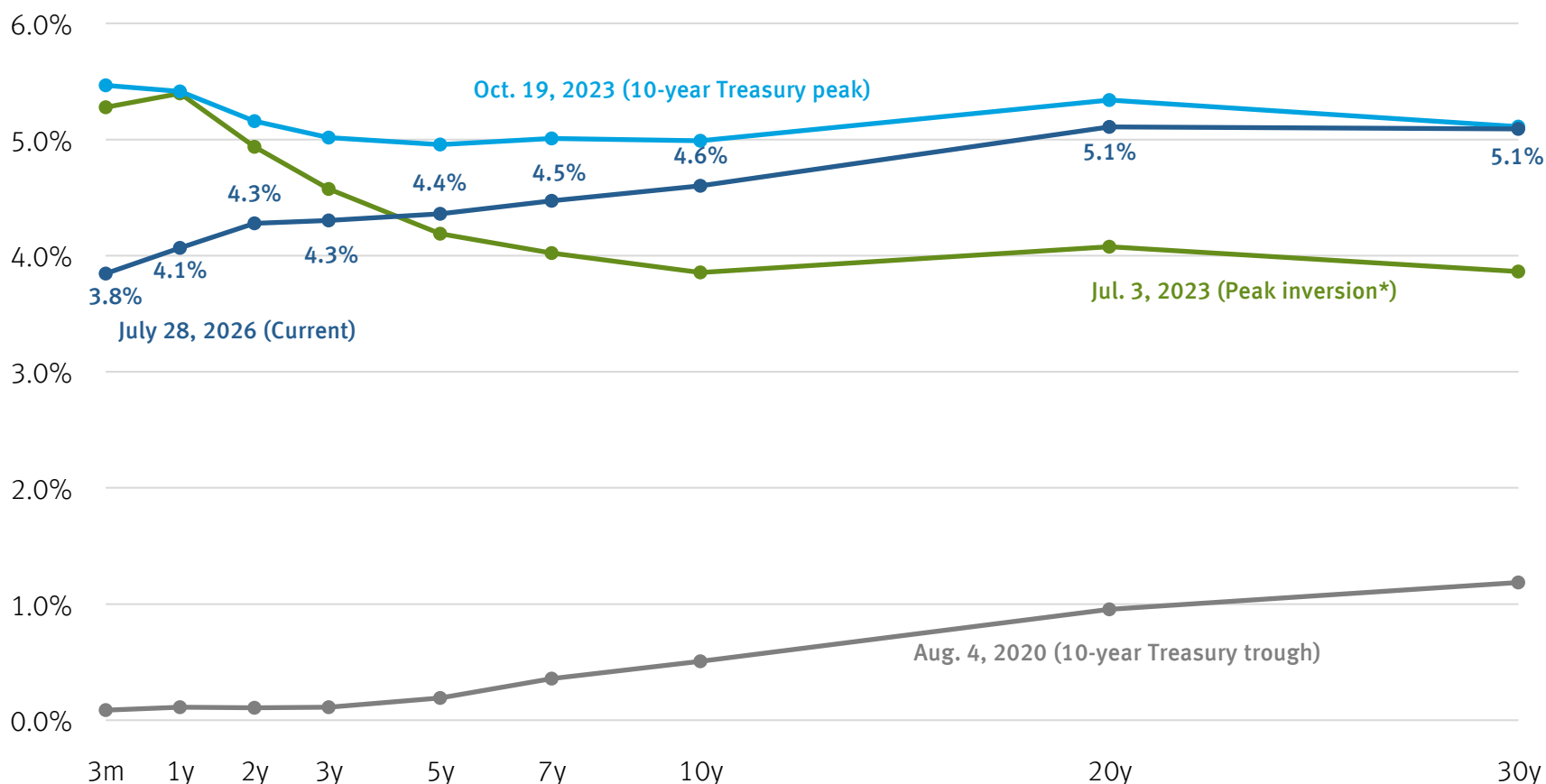
	Date of Estimate	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	2026	2027
Actual		2.1	3.8	4.4	0.5	2.1							
January Consensus		2.0	2.0	2.0	1.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consensus	7/27/2026						2.2	2.0	2.0	2.0	2.2	2.2	2.1
Stifel	7/23/2026	2.3	0.6	3.2	4.1	2.2	1.8	2.2	2.5	3.2	2.8	2.2	3.0
Goldman Sachs	7/27/2026	2.2	2.7	3.5	1.6	3.5	2.6	2.1	2.0	2.0	2.1	2.3	2.1
Capital Economics	7/24/2026	2.3	2.5	4.3	3.4	2.5	1.8	2.5	0.2	2.3	2.7	2.2	2.3
Strategas	7/27/2026	2.2	2.5	2.5	2.5	1.5	1.8	2.0	2.3	1.0	2.0	2.1	1.8
UBS	7/24/2026	2.2	2.5	2.7	2.4	2.2	1.7	2.5	2.0	1.9	2.0	2.1	2.1
Wells Fargo	7/16/2026	2.2	1.8	3.7	2.1	2.9	1.8	2.6	1.6	2.2	2.5	2.2	2.2
Bloomberg Economics	7/24/2026	2.3	2.6	3.2	2.5	1.9	2.0	2.1	2.8	2.4	2.6	2.2	2.4
Barclays	7/24/2026	2.2	1.5	2.5	2.0	2.5	2.5	2.5	2.0	1.5	1.5	2.3	1.8
JPMorgan Chase	7/24/2026	2.3	2.5	3.0	3.0	2.5	2.0	1.8	1.8	2.3	2.3	2.1	2.0
Morgan Stanley	7/27/2026	2.2	2.1	2.0	2.0	1.9	2.3	2.3	2.5	2.4	2.6	2.2	2.5
Federal Reserve**	6/17/2026	1.7										2.2	2.3

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. "Consensus Estimates" for time periods that have passed represent actual results and consensus estimates in grey shaded boxes represent first estimate of year.

Source: Stifel CIO Office via Bloomberg, as of July 27, 2026. Federal Reserve estimates are as of June 17, 2026.

Fixed Income & Rates: Higher for Longer

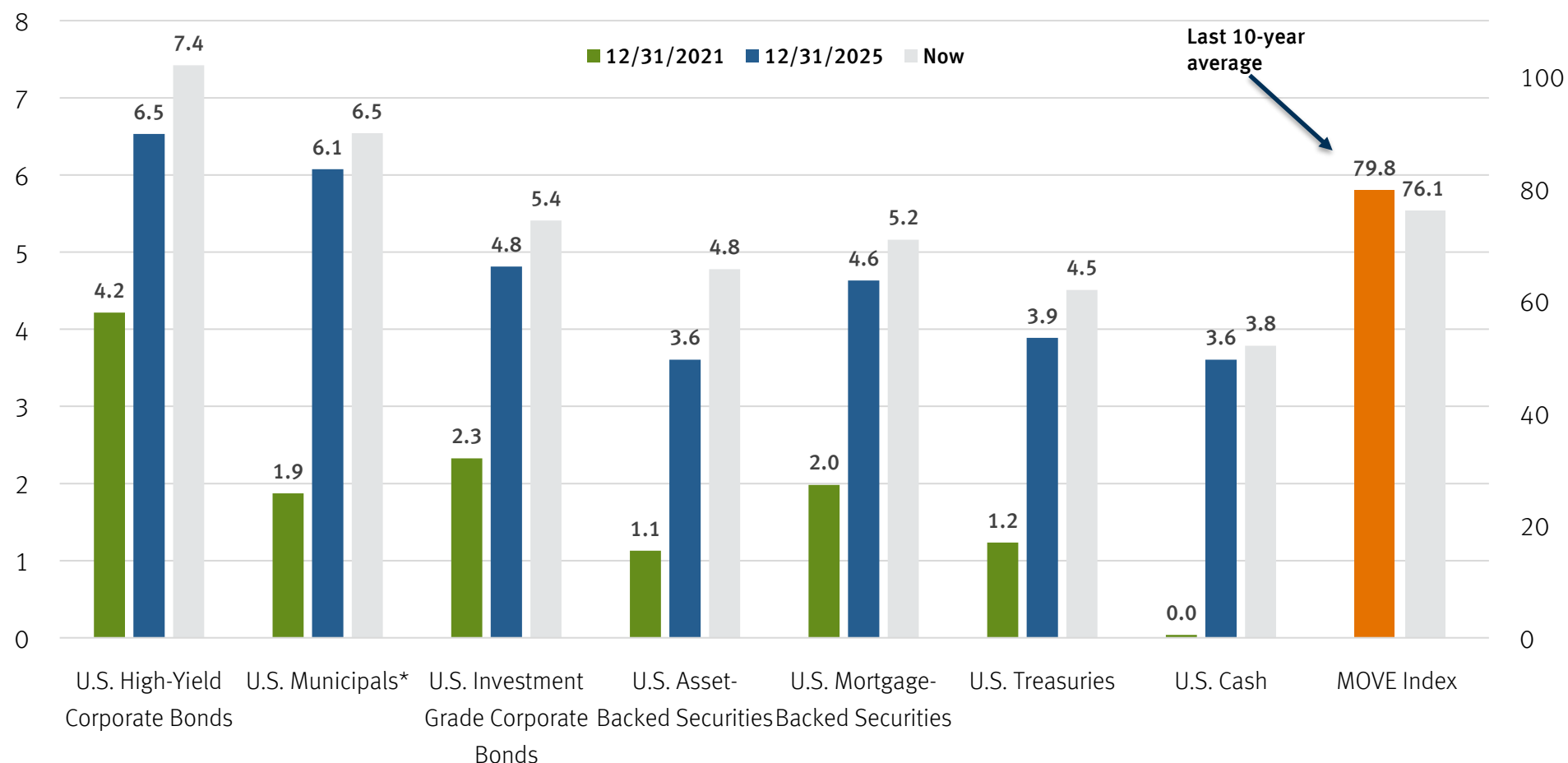
U.S. Treasury Yield Curve



*Peak inversion is measured by the spread between the yield on a 10-year Treasury and 2-year Treasury.

Source: Stifel CIO Office via Bloomberg, as of July 28, 2026.

Fixed Income Yield (Percentage)



*Based on taxable equivalent yield. Taxable equivalent yield assumes a 37% federal tax and 3.8% net investment income tax.
Move Index is shown on right-hand scale.

Source: Stifel CIO Office via Bloomberg, as of July 28, 2026.

In a higher rate regime, the cost of debt increases, especially as the debt levels keep growing for all segments of the economy: the consumer, business, and government.

Current Government Debt

2025 Deficit: \$1.8 trillion, 5.9% GDP

Current Debt: \$39 trillion, 125% GDP

2025 Estimated Net Interest:

16% revenue

12% spending

34% discretionary

Quotes

“The ... federal government’s fiscal path... is on an unsustainable path ... you’ve got a very large deficit ... So, it’s important ... they be dealt with. It is ultimately a threat to the economy ... ” – Jay Powell

“Any country can borrow money and drive growth, but it may not always lead to good growth, so I think America should be quite aware that we’ve got to focus on it more.” – Jamie Dimon

“We must work to get our fiscal house in order and adjust federal domestic discretionary spending that has grown by an astonishing 40 percent over the past four years.” – Scott Bessent

We remain optimistic that the U.S. will ultimately get through a fiscal transition stronger. But what are the possible scenarios?

FISCAL TRAJECTORY: BORROWED TIME

The U.S. enters 2026 with federal debt above \$38 trillion — 125% of GDP.

BASELINE DRIFT: MANAGED IMBALANCE

Persistent deficits and limited reform continue amid market tolerance, setting a slow-burn fiscal path toward a sharper future reckoning.

DISCIPLINED STABILIZATION: REFORM BY NECESSITY

Market pressure forces reform, prompting measured fiscal adjustment that stabilizes debt and gradually restores confidence and policy credibility.

CRISIS SPIRAL: DISCIPLINE THROUGH SHOCK

Fiscal and political failures trigger a loss of market confidence, forcing abrupt austerity, deep recession, and externally imposed discipline.

GROWTH RENAISSANCE: A PRODUCTIVE ESCAPE

Productivity-driven growth lifts potential output, easing fiscal pressures and improving debt dynamics without disruptive austerity.

FORCES OF **CHANGE**

Productivity

Interest Rates

Inflation

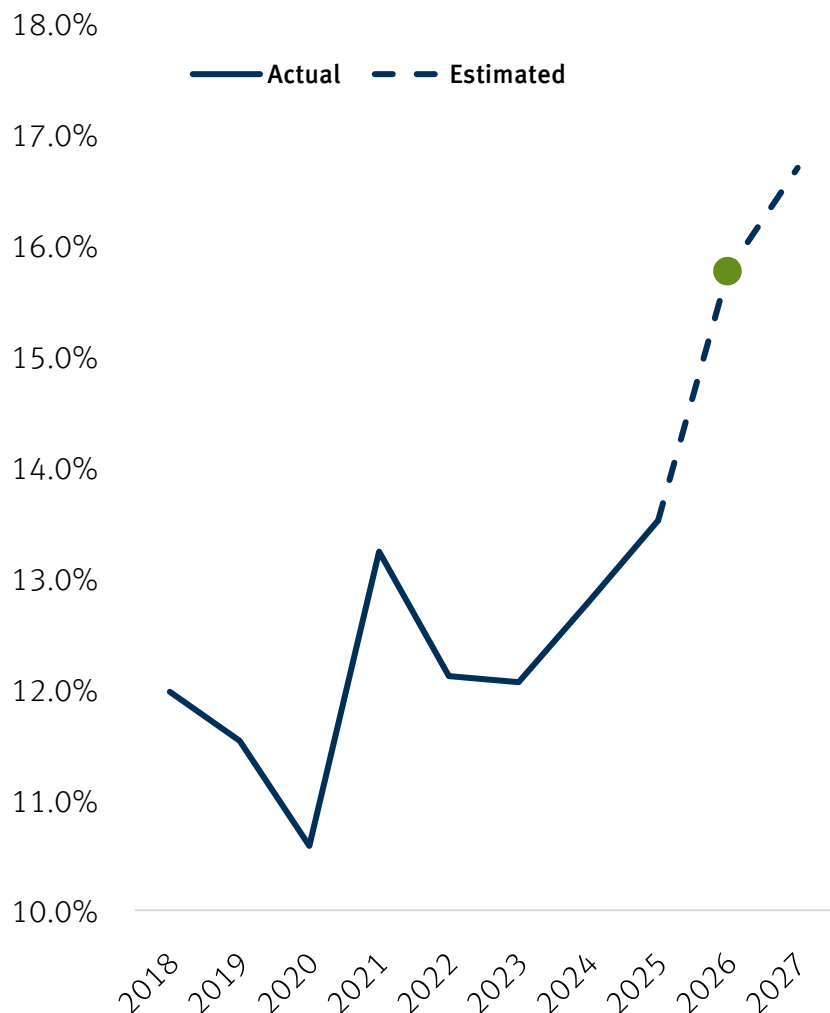
Political Will

STIFEL

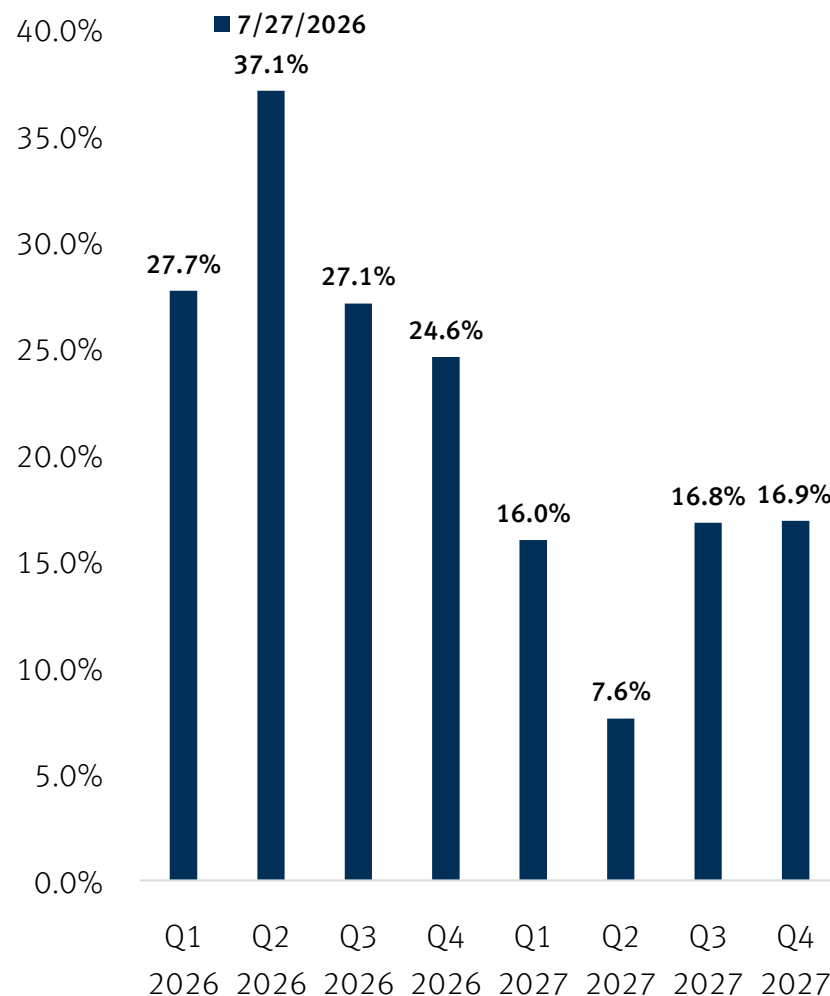
Index	2023	2024	2025	Since 2/28/26	Since 6/12/26	Year to Date
Bloomberg U.S. Agg	5.5%	1.3%	7.3%	-1.8%	-0.4%	-0.1%
Bloomberg U.S. HY Corp	13.4%	8.2%	8.6%	1.0%	0.0%	1.7%
Bloomberg U.S. IG Corp	8.5%	2.1%	7.8%	-1.8%	-0.9%	-0.3%
Bloomberg U.S. Securitized	5.1%	1.5%	8.5%	-1.6%	-0.4%	0.4%
Bloomberg U.S. Treasury	4.1%	0.6%	6.3%	-2.0%	-0.2%	-0.3%
Bloomberg U.S. Lev. Loan	12.8%	8.8%	5.5%	3.2%	1.0%	2.1%
Morningstar LSTA U.S. Lev. Loan	13.3%	9.0%	5.9%	3.2%	0.9%	2.1%

Equities: Valuation and Earnings in Focus

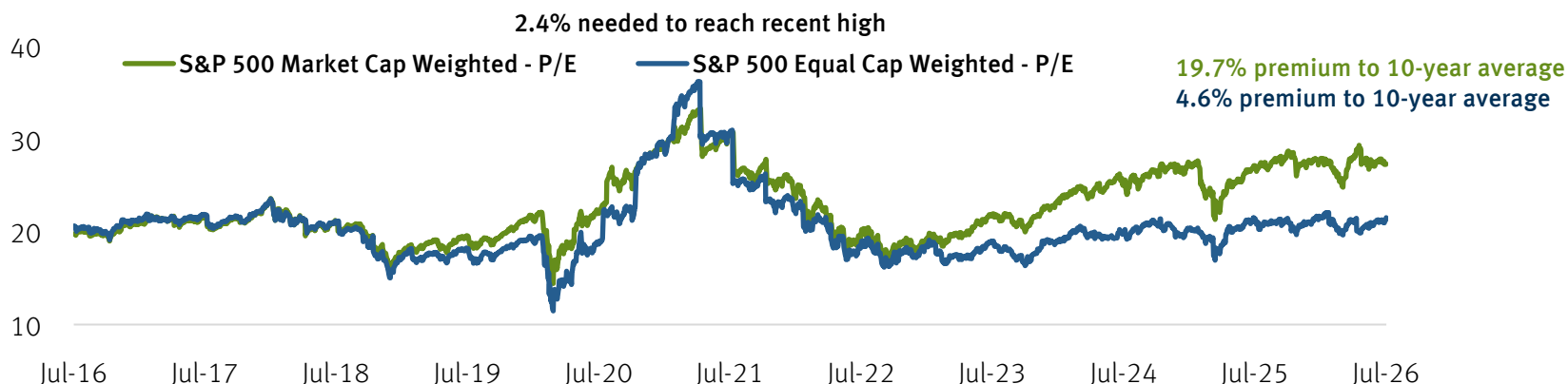
S&P 500 Profit Margin



S&P 500 EPS YoY %



	EPS	S&P 500 P/E						Current S&P 500 Index Level
		21x	22x	23x	24x	25x	26x	
Consensus 2026 EPS →	\$360	7,664	7,920	8,280	8,640	9,000	9,360	9,899
	\$349	7,429	7,676	8,025	8,374	8,723	9,072	9,594
	\$330	7,026	7,260	7,590	7,920	8,250	8,580	9,074
	\$315	6,706	6,930	7,245	7,560	7,875	8,190	8,661
	\$300	6,387	6,600	6,900	7,200	7,500	7,800	8,249
Consensus 2025 EPS →	\$285	6,068	6,270	6,555	6,840	7,125	7,410	7,837
	\$270	5,752	5,944	6,214	6,484	6,754	7,024	7,429



Earnings

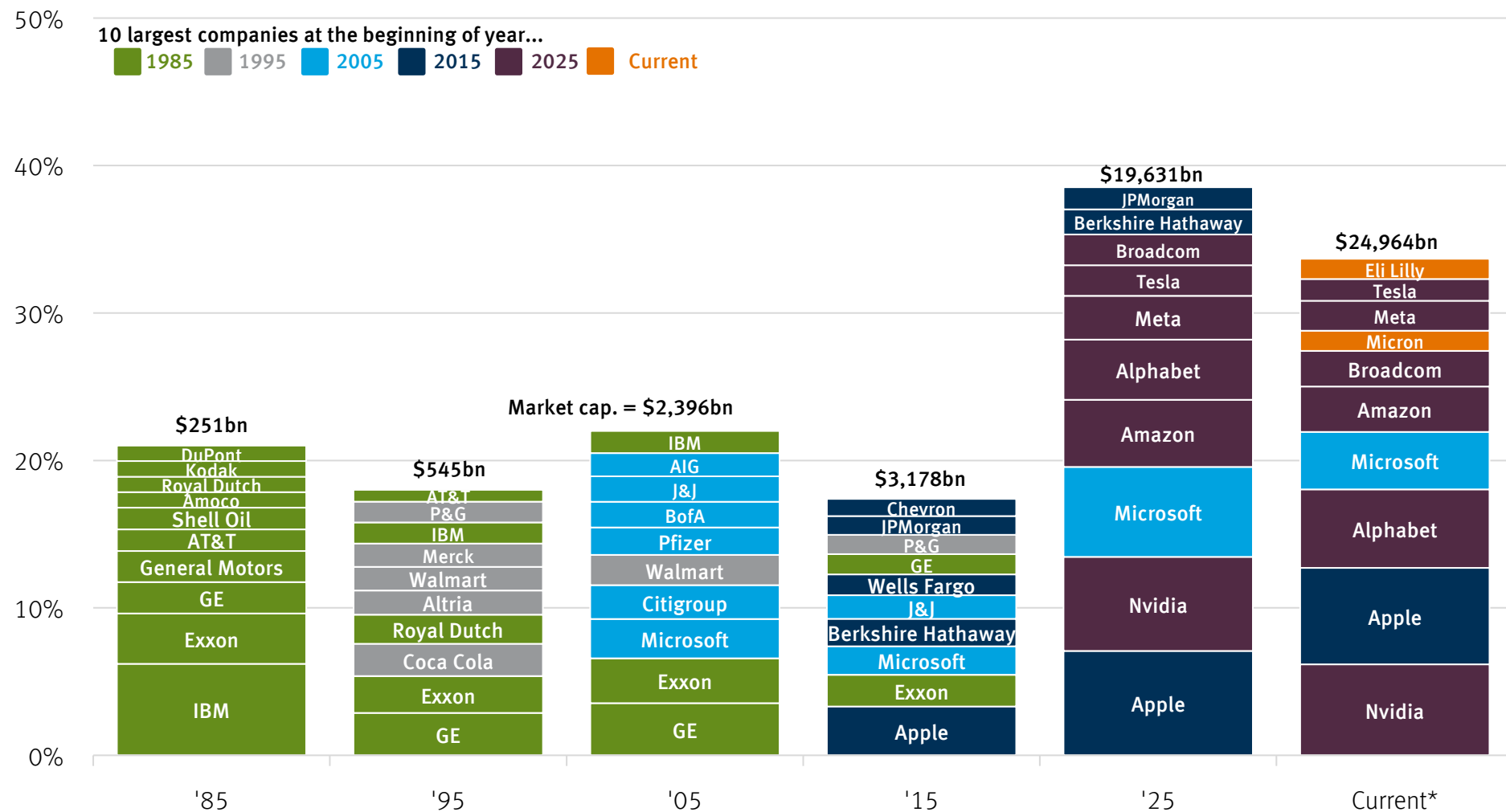
- For 2026, the forecast has been revised upward to 29.1%, compared to 15.2% at the beginning of the year.
- For 2027, the forecast has been revised downward to 14.4%, compared to 15.1% at the beginning of the year.

EPS = Earnings Per Share

*Source: Stifel CIO Office, FactSet, and Bloomberg, as of July 28, 2026.

Top 10 S&P 500 Companies by Market Capitalization

Percent of S&P 500 Float Market Capitalization as of the First Day of the Indicated Year

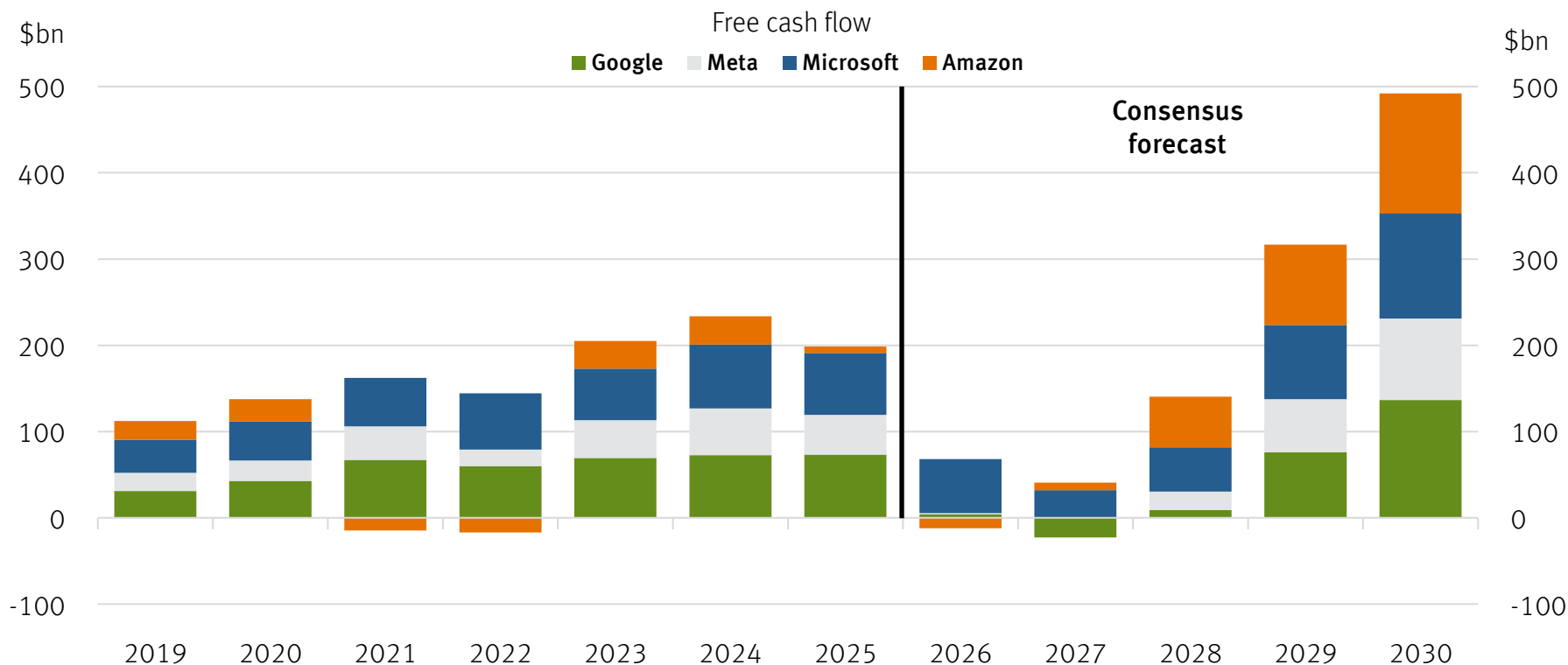


Source: Stifel CIO Office via Bloomberg, as of July 27, 2026. J.P. Morgan Asset Management.

*Current data are as of the most recent month end. Companies are organized from highest weight at the bottom to lowest weight at the top. Market weights are provided by Bloomberg through 2025 and FactSet thereafter.

Consensus has hyperscaler free cash flow more than doubling – a delayed payoff as today's investment equals tomorrow's cash flow

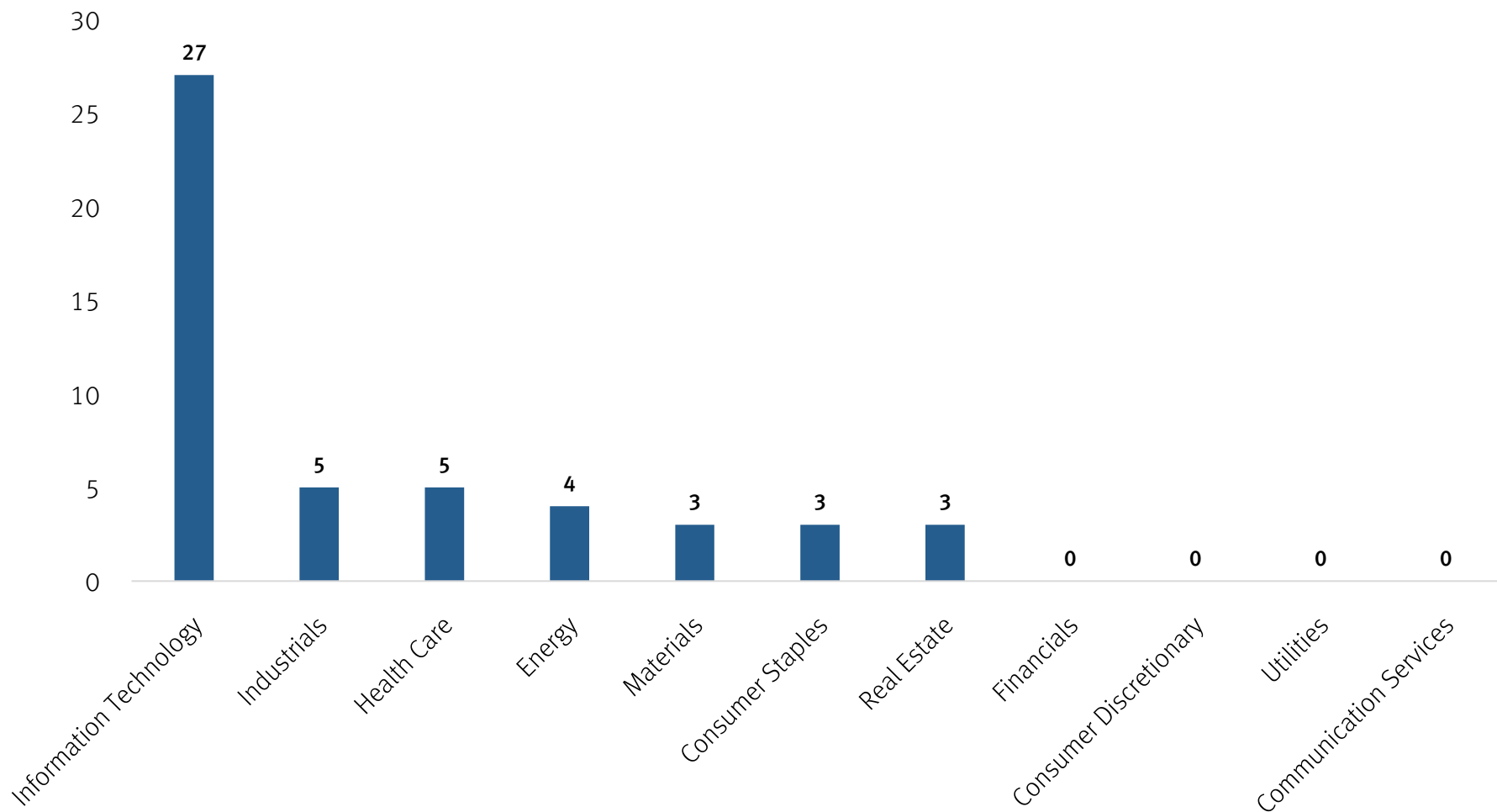
Consensus expects today's AI capex to translate into surging free cash flow by 2028



Source: Stifel CIO Office via Bloomberg, as of July 28, 2026. Apollo Global Management.

Top 50 performing S&P 500 companies by sector

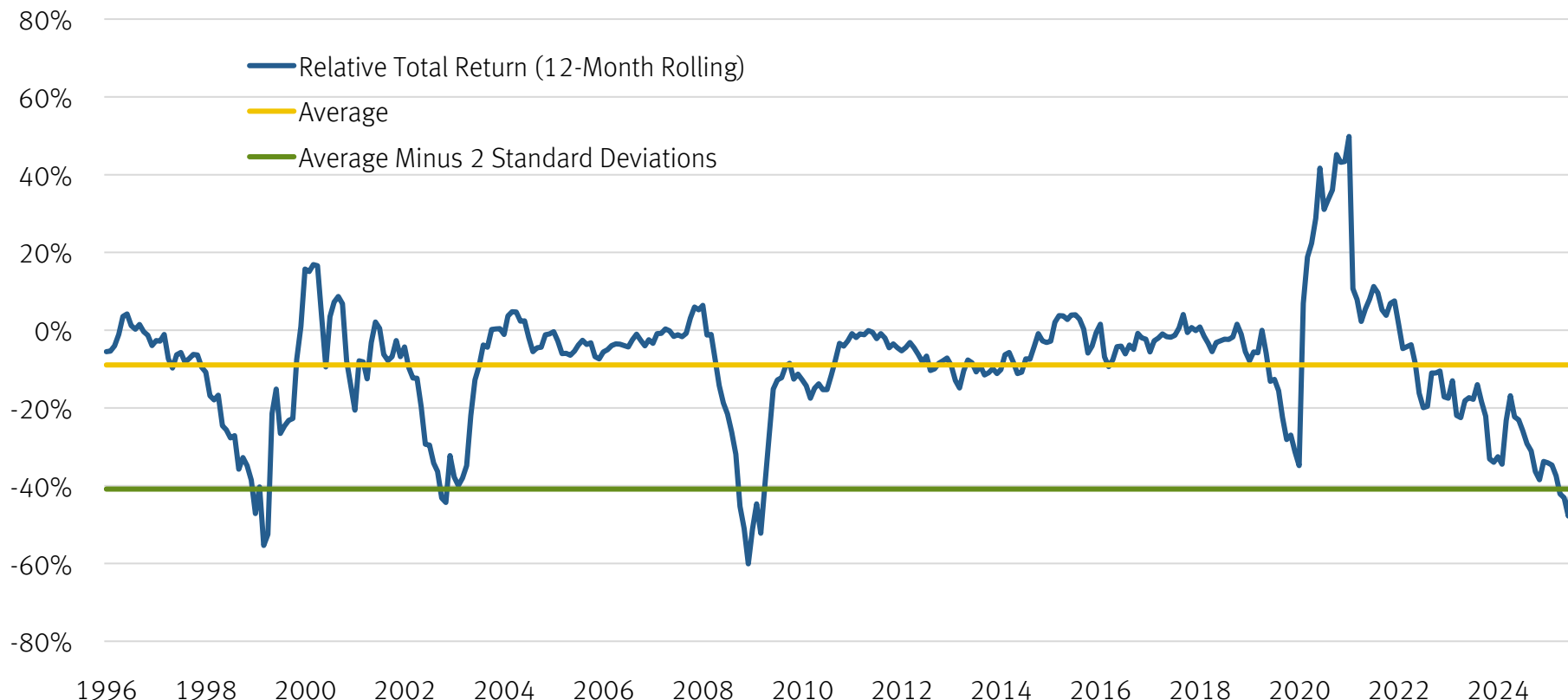
2026 YTD, number of companies



Source: Stifel CIO Office via Bloomberg, as of July 28, 2026.

Bloomberg 2000 Index Breakdown:

S&P 600 Members vs. All Other Constituents Performance



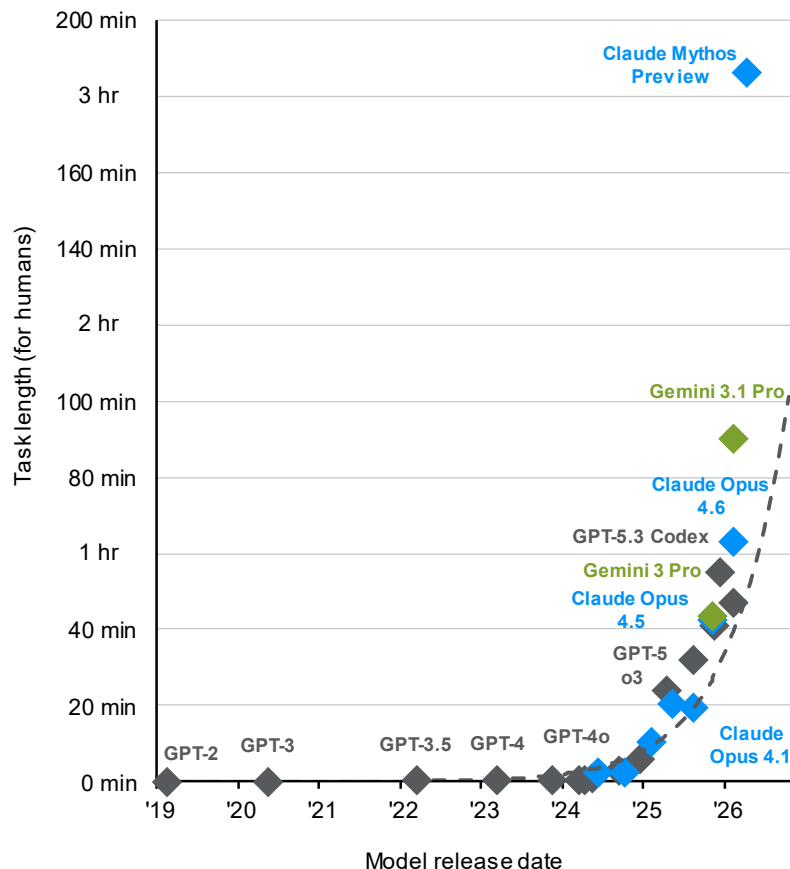
Index	2023	2024	2025	Since 2/28/26	Since 6/12/26	Year to Date
S&P 500 Index	26.3%	25.0%	17.9%	8.5%	0.1%	9.2%
S&P 500 Eq. Weight.	13.8%	13.0%	11.4%	7.1%	3.2%	14.7%
S&P High Dividend	5.5%	11.1%	3.3%	5.8%	6.2%	17.9%
S&P 500 Low Vol. High Div.	1.7%	18.3%	3.7%	4.4%	4.6%	15.0%
MSCI U.S. High Dividend	6.8%	11.7%	12.0%	5.5%	3.7%	17.0%
NASDAQ Composite Index	44.7%	29.6%	21.2%	10.0%	-3.9%	7.4%
S&P 500 Financials	12.1%	30.5%	15.0%	12.9%	8.3%	5.9%
KBW Reg. Banking	-0.4%	13.2%	6.5%	16.1%	4.8%	21.2%
Bloomberg U.S. 1000	26.7%	24.2%	17.5%	8.5%	0.0%	9.4%
Bloomberg U.S. 1000 Eq. Wt.	19.9%	13.1%	10.9%	6.9%	2.7%	12.5%
Bloomberg U.S. 1000 Value	9.4%	13.6%	16.5%	7.9%	2.9%	18.5%
Bloomberg U.S. 1000 Growth	36.1%	28.9%	17.9%	8.7%	-1.0%	6.2%
Bloomberg Magnificent 7	107.0%	67.3%	24.9%	3.6%	-2.4%	-3.4%
NYSE FANG+ Index	96.4%	51.0%	20.8%	16.2%	-0.7%	6.3%
S&P 600 Index	15.9%	8.6%	6.0%	13.3%	2.2%	22.4%
S&P 600 Quality Index	24.3%	7.8%	1.4%	8.9%	1.9%	14.4%
Bloomberg U.S. 2000	17.1%	12.0%	11.1%	11.9%	0.6%	18.9%
MSCI EAFE Index	18.2%	3.8%	31.2%	-0.7%	0.4%	9.3%
MSCI EM Index	9.8%	7.5%	33.6%	-0.7%	-7.5%	14.0%

S&P 500 Price Return							
Event	Start Date	One Week	1 Month	3 Months	6 Months	12 Months	Primary Trigger/Incident
Korean War	6/28/1950	-1.1%	-2.3%	5.7%	10.8%	17.6%	Initial North Korean invasion across the 38th Parallel
Suez Crisis	10/29/1956	2.6%	-4.2%	-4.1%	-1.4%	-12.3%	Israel occupies Egypt's Sinai Peninsula
1958 Lebanon Crisis	7/15/1958	2.9%	6.2%	14.4%	23.7%	32.8%	U.S. Marines land in Beirut (Operation Blue Bat)
Berlin Crisis	8/14/1961	1.0%	0.4%	5.2%	4.0%	-15.1%	Erection of the Berlin Wall begins
Cuban Missile Crisis	10/16/1962	-6.3%	5.1%	14.2%	21.0%	26.6%	President Kennedy informed of missile sites (start of "13 Days")
Vietnam (Tonkin)	8/3/1964	-1.5%	-0.8%	2.6%	5.5%	2.0%	Gulf of Tonkin naval engagement involving USS Maddox
India-Pakistan War	8/5/1965	0.7%	2.6%	7.6%	7.9%	-4.1%	Outbreak of hostilities following Operation Gibraltar
Six-Day War	6/5/1967	4.1%	3.3%	5.9%	7.5%	10.7%	Israel initiates Operation Focus airstrikes
Vietnam (Tet Offensive)	1/30/1968	-1.1%	-3.8%	4.9%	5.1%	10.2%	Surprise North Vietnamese offensive begins
Yom Kippur War	10/5/1973	1.4%	-2.5%	-9.1%	-14.1%	-42.2%	Egypt and Syria launch surprise attack
Fall of Saigon	4/30/1975	2.0%	4.4%	1.0%	2.8%	17.3%	Capture of Saigon; final U.S. evacuation
Iran Hostage Crisis	11/5/1979	1.7%	5.3%	12.3%	4.5%	24.0%	Storming of the U.S. Embassy in Tehran
Soviet-Afghan War	12/24/1979	0.1%	5.2%	-8.0%	6.1%	23.3%	Soviet tanks cross into Afghanistan
Iran-Iraq War	9/22/1980	-5.3%	1.2%	4.1%	4.1%	-10.2%	Full-scale Iraqi invasion of western Iran
Force in Lebanon	8/25/1982	0.6%	4.9%	13.1%	25.9%	39.8%	Multinational force including U.S. Marines lands in Beirut
Gulf War	8/2/1990	-3.3%	-8.2%	-13.5%	-4.4%	9.0%	Iraq invades Kuwait; defense forces overwhelmed
Croatian War	4/1/1991	2.0%	2.4%	1.8%	4.5%	9.8%	Plitvice Lakes incident; outbreak of independence war
Kosovo War	2/27/1998	0.6%	4.4%	4.6%	3.3%	21.2%	KLA escalates attacks; Serbian army responds
9/11 Terror Attacks	9/11/2001	-5.5%	0.4%	4.3%	6.7%	-18.2%	Coordinated terrorist attacks on WTC and Pentagon
Iraq War (Invasion)	3/20/2003	-0.8%	2.0%	15.4%	17.5%	26.1%	"Shock and Awe" coalition invasion begins
Madrid Bombing	3/11/2004	1.4%	2.9%	2.2%	1.3%	10.7%	Coordinated terrorist train bombings
Crimea Annexation	2/20/2014	0.8%	1.5%	2.6%	7.7%	14.0%	Russian aggression/illegal crossing of Ukrainian border
COVID-19 Crash	2/19/2020	-8.0%	-31.9%	-13.7%	-0.1%	16.2%	S&P 500 reaches peak before pandemic sell-off
Russia-Ukraine War	2/24/2022	1.7%	5.9%	-7.2%	-3.7%	-4.9%	Russia launches full-scale invasion of Ukraine
Israel-Iran War	4/12/2024	-3.0%	1.9%	9.0%	13.1%	-1.2%	Iran launches direct drone and missile attack on Israel
Median		0.6%	2.0%	4.3%	5.1%	10.7%	
Average		-0.5%	0.3%	3.0%	6.4%	8.1%	
Event	Start Date	One Week	1 Month	3 Months	5 Months	12 Months	
Iran Conflict	2/27/2026	-2.0%	-7.4%	9.3%	8.0%	N/A	The current open-ended military engagement in Iran

Long-Term Themes: Defining the Future

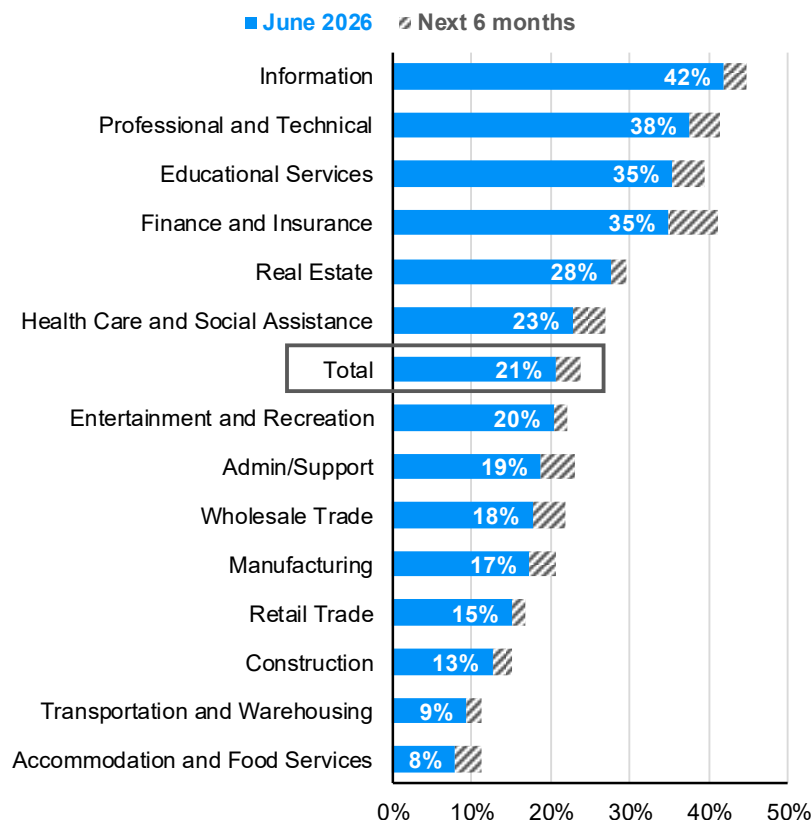
Length of tasks AI agents can autonomously complete

Time to complete tasks at 80% success, by model*



Businesses using AI in any business function

% of all firms reporting use of AI applications



Source: J.P. Morgan Asset Management; (Left) METR, “Measuring AI Ability to complete long tasks”; (Right) Census Business Trends and Outlook Survey. The length of tasks (measured by how long they take skilled human professionals) that generalist frontier model agents can complete autonomously with 80% reliability has been doubling approximately every 7 months for the last 6 years. *METR looks exclusively at multi-step software engineer, cybersecurity, general reasoning and machine learning tasks that require low or no prior context and are self-contained units of work.
Guide to the Markets – U.S. Data are as of July 27, 2026.

ARTIFICIAL INTELLIGENCE: RUNWAY FOR GROWTH

Artificial intelligence is reshaping how people work, create, and invest, unlocking a super-cycle of productivity with multitrillion-dollar effects on global GDP. AI's impact will expand to touch every major sector, transforming how industries operate, compete, and create value.

HEALTHCARE



- Drug Discovery
- Personalized Medicine
- Robotic Surgery

FINANCIALS



- Credit Scoring
- Fraud Detection
- Portfolio Optimization

REAL ESTATE



- Listing Descriptions
- Tenant Screening
- Virtual Staging

CONSUMER DISCRETIONARY



- Forecasting
- Hyper-Personalized Commerce
- Customer Service

INDUSTRIALS



- Quality Control
- Robot-Assisted Assembly
- Predictive Maintenance

INFORMATION TECHNOLOGY



- AI Agents
- Software Development
- Cybersecurity

STIFEL

Artificial intelligence is now showing up in capex, earnings, estimate revisions, markets, and GDP.

Investment is accelerating

- Hyperscalers* are spending aggressively on data centers, equipment, and software needed to support AI adoption – \$750 billion between 2023-2025

Earnings impact is real

- The Magnificent Seven** is projected to drive 37% of the S&P 500's earnings growth for the full year

AI is contributing to economic growth

- Spending on data centers, equipment, software, and R&D is visible in GDP data

Investor focus is shifting

- Moving from how much companies are spending to whether that spending produces revenue growth, margin expansion, productivity gains, and monetization

Bottom line

- AI remains one of the most important long-term investment themes

**Alphabet, Amazon, Meta, and Microsoft*

***Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla*

SightLines: [Artificial Intelligence From Promise to Measured Impact](#)

- Investors should maintain a disciplined process during bouts of volatility.
- When valuations are elevated, as they have been recently, downside volatility with select stocks, industries, or the market can be amplified when uncertainty rises.
- AI is broadly viewed as positive for productivity, but when a credible tool targets a specific workflow, that industry's stocks can fall as investors debate the implications.
- Recent “sell now, ask questions later” episodes remind us to “stay the course” on process – avoid indiscriminate selling, do the work, and reaffirm conviction ... or not.
- The work must be bottom-up: continue to assess each company's fundamentals, make a judgement about its role in this future AI-driven landscape, then make one of three decisions with conviction.
- Establish or expand a position as a buyer if selling is overdone, hold an existing position through this valuation reset, or sell and move on.
- In our view, much of the recent “sell now, ask questions later” behavior has been overdone.

SightLines: AI Optimism Abounds, but Some Industries Are Punished with Indiscriminate Selling

THE FIVE THEMES



FOURTH INDUSTRIAL REVOLUTION

Technological innovation has broken down the boundaries between the physical, digital, and biological worlds.

Data as an Asset
|
Enhanced Computing
|
Smart World
|
Workforce Optimization



SECURING STRATEGIC RESOURCES

Companies and governments are prioritizing the development and protection of critical industries, resources, and services.

Food and Water Security
|
Modern Energy Systems
|
New Materials
|
Continental Shift



SHIFTING DEMOGRAPHICS

Changes in global population dynamics will bring about challenges and opportunities.

Millennials
|
Global Middle Class
|
Longevity Leap
|
Future of Health



THE NEW CONSUMER

Consumer preferences, expectations, and behavior are altering business models and corporate strategies.

Reimagined Convenience
|
Digitalization of Human Connectivity
|
Future of Finance
|
Future of Leisure



PRODUCTIVE COMPETITION

Rivalry ultimately drives innovation, improves quality of life, and creates value for consumers and the economy.

Geopolitical Tensions
|
Defense Modernization
|
Space Race
|
Transforming Business Models

WHERE TO FIND STIFEL GUIDANCE

The Stifel CIO Office develops economic and market analysis, and corresponding investment guidance, for the benefit of Stifel clients. You can find all of our Stifel Guidance at:

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SIGHT | LINES

Our Second Half Outlook: The Rewiring of Growth Creates Some Heat

In this week's SightLines, we update our outlook for the remainder of the year. We keep the constructive base case from Outlook 2026 intact – a resilient economy and broadening artificial intelligence capex cycle still support growth and earnings – but raise our core PCE forecast to 2.75%-3.25% and our 10-year Treasury range to 4.25%-4.75% as we now expect the Federal Reserve under Chair Kevin Warsh to hold steady in a “Higher for Longer” environment.

READ

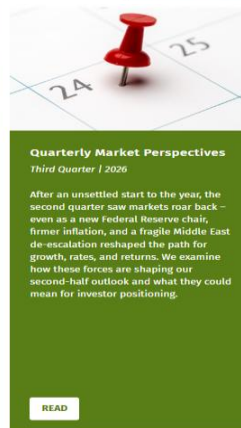


The Warsh Fed's Five Task Forces: A Balanced Review and Debate

Market SightLines

The Federal Reserve is taking a closer look at itself. Under new Chair Kevin Warsh, five task forces have been launched to review how the Fed measures the economy, manages its balance sheet, communicates with markets, and approaches inflation. In this SightLines, we explore what these reviews could mean for monetary policy and why changes to Fed communication may matter most for investors.

READ



Quarterly Market Perspectives

Third Quarter | 2026

After an unsettled start to the year, the second quarter saw markets roar back – even as a new Federal Reserve chair, former inflation, and a fragile Middle East de-escalation reshaped the path for growth, rates, and returns. We examine how these forces are shaping our second-half outlook and what they could mean for investor positioning.

READ



Stifel NextGen Voices: From Analyst to CEO – Lessons from a Decades Long Career

We sat down with Tom Michaud, President & CEO of KBW and Co-Head of Investment Banking at Stifel, for an exclusive conversation four decades in the making.

From how financial services has evolved, to why artificial intelligence will enhance – not replace – human judgment, Tom shares the lessons that have defined his career. His guidance: Invest in yourself and treat your career like a stock.

Whether you're just getting started or years into your career, this is a conversation worth watching.

WATCH

Popular insights from Stifel's CIO Office include:



WEEKLY | MONTHLY | QUARTERLY



VIDEO | PODCAST | NEWSLETTER



VIDEO | PODCAST | NEWSLETTER



DYNAMIC ASSET ALLOCATION

The following table summarizes our thinking across various asset classes and regions.

VIEW LEGEND

U

Underweight

N

Neutral

O

Overweight

	ASSET CLASS	CHANGE	VIEW	COMMENTS
U.S. Equity	U.S. Large Cap Equity	=	N	While easing policy supports small caps, higher absolute rates and weaker earnings visibility offset the case; large caps offer greater earnings durability, supporting a neutral stance.
	U.S. Small Cap Equity	=	N	
	U.S. Large Cap Growth Equity	=	N	We believe investors should remain diversified across both growth and value styles. Recent rotation has been swift, but we believe it supports broader leadership rather than a wholesale move away from growth.
	U.S. Large Cap Value Equity	=	N	
Regional Equity Views	U.S. Equity	=	N	While recent volatility has eased valuation pressure, market concentration and high earnings expectations still leave returns sensitive to earnings execution.
	Non-U.S. Equity	=	N	Attractive valuations outside the U.S. are tempered by slower growth, policy divergence, and elevated geopolitical risk.
	Europe	=	U	Fiscal support and an easier policy backdrop are helping, but growth remains modest and uneven, with continued sensitivity to energy and external shocks. We remain selective rather than broadly constructive.
	Japan	=	O	Japan remains supported by reflation, improving domestic growth, and ongoing corporate reform. Better capital spending, rising shareholder returns, and a constructive earnings outlook support our overweight stance.
	Emerging Markets	=	O	Strong earnings growth and attractive valuations make emerging markets compelling. A weaker U.S. dollar and exposure to AI supply chains, global capex, and reshoring trends further support the case versus developed markets.
	China	=	N	Early signs of consumer improvement are emerging, but weak confidence, property softness, and uneven earnings visibility keep us selective. Risk/reward is becoming more balanced.

DYNAMIC ASSET ALLOCATION

The following table summarizes our thinking across various asset classes and regions.

	ASSET CLASS	CHANGE	VIEW			COMMENTS
Fixed Income	Treasuries	=	U			While Treasuries remain an important source of liquidity and portfolio ballast, heavy issuance, persistent fiscal deficits, and a higher-for-longer or volatile rate environment limit their return potential.
	Investment-Grade Credit	=			O	A resilient economy and strong corporate fundamentals support investment-grade corporates as a high-quality income source.
	Mortgage-Backed Securities	=			O	Agency MBS provide higher income and wider spreads than Treasuries, while offering comparable risk and stronger yields than most credit sectors.
	High Yield	=		N		Credit fundamentals remain solid, but spreads are tight. High yield offers income but less margin for error if growth slows. Neutral positioning reflects a preference for selectivity over beta exposure.
Alternatives	Private Assets	=		N		For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of alternatives can be considered as part of a diversified portfolio.
	Hedge Funds	=		N		

VIEW LEGEND

U

N

O

Underweight

Neutral

Overweight



Past performance is no guarantee of future results.

Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees.

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

Investing involves risk, including the possible loss of principal. Asset allocation and diversification do not ensure a profit or protection against loss.

Neither Stifel nor its associates render legal or tax advice. Please consult with your legal and tax advisors regarding your particular circumstances.

Dollar-cost averaging does not assure a profit or protect against a loss. Investors should consider their ability to continue investing during periods of falling prices.

Rebalancing may have tax consequences, which you should discuss with your tax advisor.

Volatility is measured by calculating the standard deviation of the annualized returns over a given period of time.

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.*

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.

Structured Investments – Structured investments can be an integral part of a well-diversified portfolio and an important complement to traditional investments. Recommendations of structured investments are subject to alignment of the client's investing needs with the specific features offered and the client's ability and willingness to bear the liquidity and issuer-default risks that may be associated with a particular investment.

Bloomberg U.S. Treasury Bills 1-3 Months Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have \$250 million or more of outstanding face value.

Bloomberg U.S. Corporate IG Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Aggregate Corporate Index is an unmanaged index considered representative of fixed-rate investment-grade taxable bond debt.

Bloomberg U.S. Corporate High Yield is an unmanaged index considered representative of fixed-rate, noninvestment-grade debt.

Bloomberg U.S. Government Bond Index is an unmanaged index considered representative of fixed-rate, investment-grade U.S. Government debt.

Bloomberg Global Aggregate This index provides a broad-based measure of the global investment-grade, fixed-rate debt market.

DXY Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

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.

The **S&P 493 Index** refers to the S&P 500 index excluding the seven dominant tech giants (Apple, Microsoft, Amazon, Alphabet, Meta, Tesla, and Nvidia), often called the "Magnificent 7."

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 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

The **S&P 600 Index** is a capitalization-weighted index that represents the U.S. small capitalization market, including 600 domestic stocks chosen for market size, liquidity, and industry representation.

The **S&P SmallCap 600 Quality Index** is designed to measure the 120 highest-quality stocks in the S&P SmallCap 600 on the basis of their quality score, which is calculated using three fundamental measures: return on equity, accruals ratio, and financial leverage ratio.

Bloomberg U.S. 1000 Value Index provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Growth Index provides exposure to companies with superior growth factor scores based on their earnings yield, valuation, dividend yield, and growth.

Bloomberg U.S. 1000 Index is a float market-cap-weighted benchmark of the 1000 most highly capitalized U.S. companies.

Bloomberg U.S. 2000 Index is a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg U.S. 3000 Index.

The **MSCI ACWI ex USA High Dividend Yield Index** is based on MSCI ACWI ex USA, its parent index, and includes large and mid cap stocks across 22 Developed Markets (DM) and 25 Emerging Markets (EM) countries.

MSCI EAFE Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 914 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **MSCI Japan Index** is designed to measure the performance of the large and mid cap segments of the Japanese market.

Morgan Stanley Market implied pace of hikes index (MSPOKE) is the number of Fed rate hikes in the 12 months following the first rate hike implied by the Eurodollar interest rate futures market.

The **MSCI World Index** is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets.

The **NASDAQ Composite Index** is a capitalization-weighted index that is comprised of all stocks listed on the National Association of Securities Dealers Automated Quotation System stock market, which includes both domestic and foreign companies.

The **Bloomberg Magnificent 7 Total Return Index** is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS).

The **Economic Policy Uncertainty Index** quantifies the level of uncertainty surrounding economic policy decisions. It combines data from newspaper articles, federal tax code expirations, and forecasts from economic forecasters. A higher index value suggests greater economic risks due to policy ambiguity, potentially leading businesses and consumers to delay decisions.

Wilshire 5000 Index is a market-capitalization-weighted index of the market value of all stocks actively traded in the United States.

VIX Index shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. According to STOXX, its goal is "to provide a blue-chip representation of Supersector leaders in the Eurozone.

Cash & Cash Equivalent is represented by the Bloomberg U.S. Treasury 3-6 months Bill Index, comprised of treasury bills issued by the U.S. government with less than one year to maturity.

U.S. Government Bonds is represented by the Bloomberg U.S. Government Bond Index, comprised of the U.S. Treasury and U.S. Agency indexes.

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 the Bloomberg U.S. 1000 Index, comprised of a float market-cap-weighted benchmark of the 1000 most highly capitalized U.S. companies.

U.S. SC (Small Cap) equities is represented by the Bloomberg U.S. 2000 Index, comprised of a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg U.S. 3000 Index.

S&P 500 Quality High Dividend Index is designed to measure the performance of S&P 500 members that exhibit both high quality and high dividend yield characteristics.

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 investment grade, dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

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

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.

NCREIF Property Index is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only.

MOVE Index measures U.S. bond market volatility by tracking a basket of OTC options on U.S. interest rate swaps. The Index tracks implied normal yield volatility of a yield curve weighted basket of at-the-money one-month options on the 2-year, 5-year, 10-year, and 30-year constant maturity interest rate swaps.

National Federation of Independent Business Small Business Optimism Index measures the overall optimism and outlook of small business owners regarding the economic conditions, sales expectations, hiring plans, and capital expenditures. It provides valuable insights into the sentiment of small businesses, which are a vital component of the U.S. economy.

The **Michigan Consumer Sentiment Index (MCSI)** is a survey of consumer confidence conducted by the University of Michigan. The index is published monthly following a survey of fifty core questions conducted by phone interviews with at least 500 continental U.S. households.

Bloomberg HHI (Herfindahl-Hirschman Index) measures concentration and is calculated by summing the squared weights of each S&P 500 constituent.