


ALLOCATION INSIGHTS

Q2 | 2026

MACROECONOMIC OVERVIEW

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- The U.S. economy expanded at a 2.0% annualized pace in Q1 2026, supported by resilient consumer spending and continued strength in **artificial intelligence-related investment**. Despite ongoing conflict in the Middle East and a sharp rise in crude oil prices since the start of the year, we expect full-year growth to remain within our initial 1.75%-2.50% range.
 - We expected inflation to hover above the Federal Reserve's 2% target this year as nearshoring, ongoing investment demand (AI), and geopolitical fragmentation pressure prices. The oil supply shock pushed year-over-year headline consumer price index to 3.8%. Futures markets have priced out any rate cuts by the Fed in 2026, with some investors now pricing in rising odds of a rate hike.
 - U.S. equity markets have rebounded to record highs following a near 10% drawdown at the onset of the Iran conflict. While easing tensions have supported sentiment, the primary driver remains strong fundamentals. Q1 earnings are tracking toward roughly 28% year-over-year growth, and with the S&P 500 approaching our 7,450 price target, we see potential for further upside as analysts revise earnings estimates higher.
 - Treasury yields remain elevated amid geopolitical uncertainty, a "higher-for-longer" Fed stance, and a deteriorating fiscal outlook. We continue to expect the 10-year Treasury yield to remain range-bound between 4.0% and 4.5%.

PORTFOLIO CONSTRUCTION IMPLICATIONS

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- While macro uncertainty remains elevated, the backdrop of resilient growth and strong earnings reinforces the importance of **staying invested**. We believe investors should remain anchored to their long-term objectives and, rather than making wholesale shifts, focus on incremental adjustments that align portfolios with evolving market leadership.
 - Mega cap technology remains central to the AI theme, but the opportunity set is expanding. As leadership evolves and broadens, diversification across the full AI ecosystem, including regions, sectors, and styles, is becoming increasingly important in order to capitalize on the AI supercycle.
 - With inflation remaining elevated and the Fed on hold, real cash yields are being eroded. Excess cash positions may represent an opportunity cost. In our view, long-term investors should view periodic weakness as an opportunity to dollar-cost average and add to their holdings.
 - Strong performance across international equity markets reinforces the importance of global diversification. We have moved to an overweight position in emerging market equities within our Dynamic Asset Allocation, supported by attractive valuations, a weaker U.S. dollar, solid earnings growth, and critical exposure to the global AI hardware supply chain.

MARKETS THROUGH GEOPOLITICAL SHOCKS

The **U.S./Israel-Iran conflict** has dominated headlines this quarter, driving a sharp spike in oil prices as disruptions in the Strait of Hormuz raise fears of a prolonged energy shock. While the initial market reaction has been swift, history suggests these events tend to have a temporary impact on asset prices.

Looking across more than two dozen **geopolitical shocks** since 1950, equity markets have typically recovered as uncertainty fades, with the S&P 500 delivering a median 12-month return of approximately 10.7%. In most cases, fundamentals, not headlines, ultimately determine market direction.

At the same time, today's energy backdrop is meaningfully different from prior cycles. With the U.S. now a leading energy producer, the global system is less reliant on any single region. The **UAE's decision to exit OPEC** underscores a longer-term shift in global energy power, as the cartel's influence has steadily declined alongside the rise of U.S. production.

This evolution reinforces one of our key long-term themes: Securing Strategic Resources. As demand for energy rises – driven in part by AI and increased electrification – access to reliable, domestic supply is becoming increasingly important.

Periods of geopolitical stress can be unsettling, but they also tend to be short-lived. For long-term investors, we believe maintaining focus on earnings, innovation, and structural trends remains the more durable strategy.

ALLOCATION INSIGHTS

DYNAMIC ASSET ALLOCATION

VIEW LEGEND

U

N

O

Underweight Neutral 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.

ALLOCATION **INSIGHTS**

DYNAMIC ASSET ALLOCATION

	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	

Arrows indicate a change in position

VIEW LEGEND

U Underweight
 N Neutral
 O Overweight

DISCLOSURES

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within.

Diversification and asset allocation do not ensure a profit or protect against loss. Rebalancing may have tax consequences, which you should discuss with your tax advisor. Any data on past performance contained herein is no indication as to future performance. The value of any investment may fluctuate as a result of market changes. The information in this document is not intended to predict actual results, and no assurances are given with respect thereto. The products mentioned in this document may not be suitable for all types of investors.

Led by Stifel Chief Investment Officer Michael O’Keeffe, the Stifel CIO Office is comprised of several investment professionals. The team works collaboratively with other Stifel professionals to develop macroeconomic analysis, market analysis, strategic and tactical asset allocation guidance, applied behavioral finance, and specific investment solutions for advisors and clients.

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.

Past performance is not indicative of future results.

ASSET CLASS RISK

Bonds – Bonds are subject to market, interest rate, and credit risk. Prices on bonds and other interest rate-sensitive securities will decline as interest rates rise. Municipal bonds may be subject to state and alternative minimum taxes, and capital gains taxes may apply. High yield bonds have greater credit risk than higher quality bonds. Yields and market values will fluctuate, and if sold prior to maturity, bonds may be worth more or less than the original investment.

Equities – Portfolios that emphasize stocks may involve price fluctuations as stock market conditions change. Small and mid capitalization stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

International/Global/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.

Alternative Investments – Alternative investments involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing tax information, are not subject to the same regulatory requirements as more traditional investments, and often charge high fees, which may erode performance. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, and Hedge Funds. **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.

INDEX DESCRIPTIONS

The Bloomberg U.S. 3000 Total Return Index is a float market-cap-weighted benchmark of the 3,000 most highly capitalized U.S. companies.

The Standard & Poor’s 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The Standard & Poor’s/TSX Composite Index is the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange with about 250 companies included in it.

The Bloomberg U.S. 1000 Total Return Index is a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies.

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

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

The Bloomberg U.S. 2000 Total Return Index is a float market-cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index.

The Bloomberg U.S. 2000 Growth Total Return Index is a float market-cap-weighted equity benchmark derived from membership of the Bloomberg U.S. 2000 Index.

The Bloomberg U.S. 2000 Value Total Return Index provides exposure to companies with superior value factor scores based on their earnings yield, valuation, dividend yield, and growth.

The Bloomberg U.S. Micro Cap Total Return Index is a float market-cap-weighted benchmark of those securities in the U.S. Aggregate Equity Index with a market capitalization ranking of lower than 2,500.

The MSCI World ex USA All Cap Index captures large, mid, small, and micro cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

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

The MSCI Pacific Index captures large and mid cap representation across five Developed Markets (DM) countries in the Pacific region. With 470 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. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Europe, Middle East and Africa Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East, and Africa.

The 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), ABS, and CMBS (agency and nonagency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

The Bloomberg U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The U.S. Treasury Index is a component of the U.S. Aggregate, U.S. Universal, Global Aggregate, and Global Treasury Indices.

The Bloomberg U.S. Treasury U.S. TIPS index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

The Bloomberg U.S. Municipal Index covers the U.S. dollar-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Bloomberg U.S. Credit Index measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals, and local authorities.

The Bloomberg U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg Global Aggregate Bond Index is a flagship measure of global investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes U.S. dollar-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The Wilshire U.S. REIT Index is a float-adjusted market capitalization-weighted index that measures U.S. publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITs, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITs, and companies that have more than 25% of their assets in direct mortgage investments.

The Wilshire ex U.S. Real Estate Investment Trust IndexSM (Wilshire ex U.S. REIT) measures global publicly traded real estate investment trusts, less all U.S. securities. The Wilshire ex U.S. REIT is a subset of the Wilshire ex U.S. Real Estate Securities IndexSM (Wilshire ex U.S. RESI).

The Wilshire Global REIT Index is a float-adjusted, market capitalization-weighted index that measures global publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITs, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITs, and companies that have more than 25% of their assets in direct mortgage investments.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted two-thirds by trading volume and one-third by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the sixth to the tenth business day based on the roll schedule.

The S&P GSCI Crude Oil Index is a sub-index of the S&P GSCI Commodity Index. The production-weighted index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract.

The Wilshire Liquid Alternative IndexSM measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge IndexSM (WLIQAEH), Wilshire Liquid Alternative Global Macro IndexSM (WLIQAGM), Wilshire Liquid Alternative Relative Value IndexSM (WLIQARV), Wilshire Liquid Alternative Multi-Strategy IndexSM (WLIQAMS), and Wilshire Liquid Alternative Event Driven IndexSM (WLIQAED).

The 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.

Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

Magnificent Seven includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.