



INVESTMENT STRATEGY BRIEF

Looking Past the Midterms: AI Still in Focus

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Looking Past the Midterms: AI Still in Focus

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Looking Past the Midterms: AI Still in Focus

Base Case: Divided Government, with Democrats retaking the House, while Republicans narrowly retain the Senate.

- **Already divided in practice:** Meaningful legislation needs majorities large enough to withstand defections – conditions that will be unchanged in this election.
- **House favors Democrats:** Democrats need just three net seats; the party out of the White House has gained seats in 17 of 19 post-war midterms. We see a roughly **90% probability** that Democrats win the House.
- **Senate leans Republican:** We put Democrats' odds of a Senate majority at **40%–45%**, a non-consensus view. Republicans currently hold the House 218–214 and the Senate 53–47.
- **Major policy change unlikely:** With the filibuster and a presidential veto, a Democratic Congress could investigate and slow the administration's agenda, but not stop it.
- **Investment implication:** We expect headline noise and sector-specific events, rather than a change in the country's legislative or regulatory direction.

Source: Stifel CIO Office via Stifel Washington Policy Strategy (Potomac Perspective, October 13 and August 24, 2026), as of October 15, 2026. Probabilities reflect opinions and are subject to change.

Gridlock, With Exceptions: Little major legislation, but the funding deadline, the debt limit, and data-center policy could still matter.

- **Shutdown risk:** Government funding runs out in December. A shutdown is possible, and longer shutdowns become more likely under divided government – though we expect limited economic and market impact.
- **Debt limit:** The \$41.1 trillion limit set in July 2025 comes into focus in 2027 or early 2028.
- **Data centers and power bills:** Voter anxiety over energy costs put the Ratepayer Protection Act on the House agenda; we see enactment this year as less than 50/50, with a possible opening in the lame-duck session.
- **Permitting reform:** Faster approvals for energy and infrastructure require Congress, but legislation has been stuck.
- **The bridge to AI:** If Washington does one thing that matters for AI this year, it may be permitting – data centers and the power to run are important.

Source: Stifel CIO Office via Stifel Washington Policy Strategy (Potomac Perspective, January 27, August 24, September 15, 2026), Congressional Research Service, National Taxpayers Union Foundation, as of October 15, 2026.

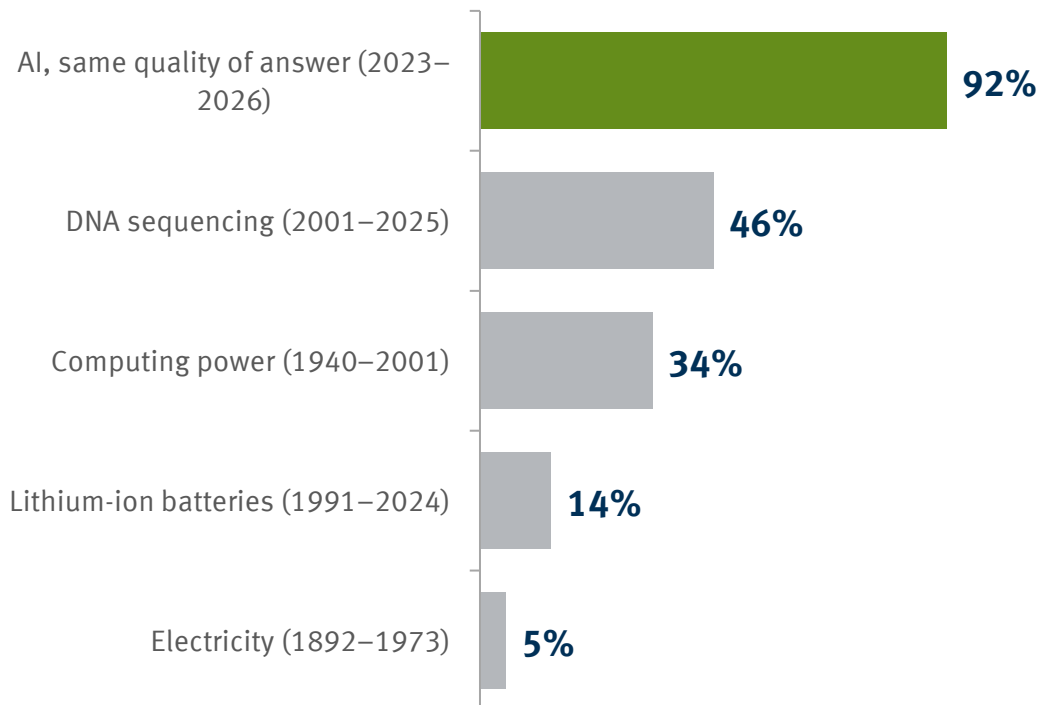
How these are evolving.

June 2024	Where it stands — October 2026	Status
Enablers: “the backbone of AI”	Hyperscaler capex \$71bn (2019) → \$416bn (2025); ~\$799bn expected in 2026	Delivering
“Increasing productivity”	Productivity growth ~2x its pre-pandemic pace in the most AI-exposed industries	Starting
“Labor market transformation”	24% of U.S. firms use AI; 49% in information, 10% in hospitality	Early
Disruptors: “the revolution of AI”	AI agents now complete multi-hour tasks on their own	Arriving
Global GDP 14% higher by 2030	AI investment ≈ 1/3 of U.S. GDP growth in 1Q26 — via spending so far, not yet productivity	On the way

Source: Stifel CIO Office, PwC; J.P. Morgan Asset Management, Guide to the Markets – U.S., pp. 22–23 (9/30/2026); Federal Reserve Board, Feds Notes (July 17, 2026). Status is a CIO Office assessment.

AI is getting cheaper faster than any other transformative technology in history.

How much cheaper it gets each year (% price drop per year)



Same performance, falling price

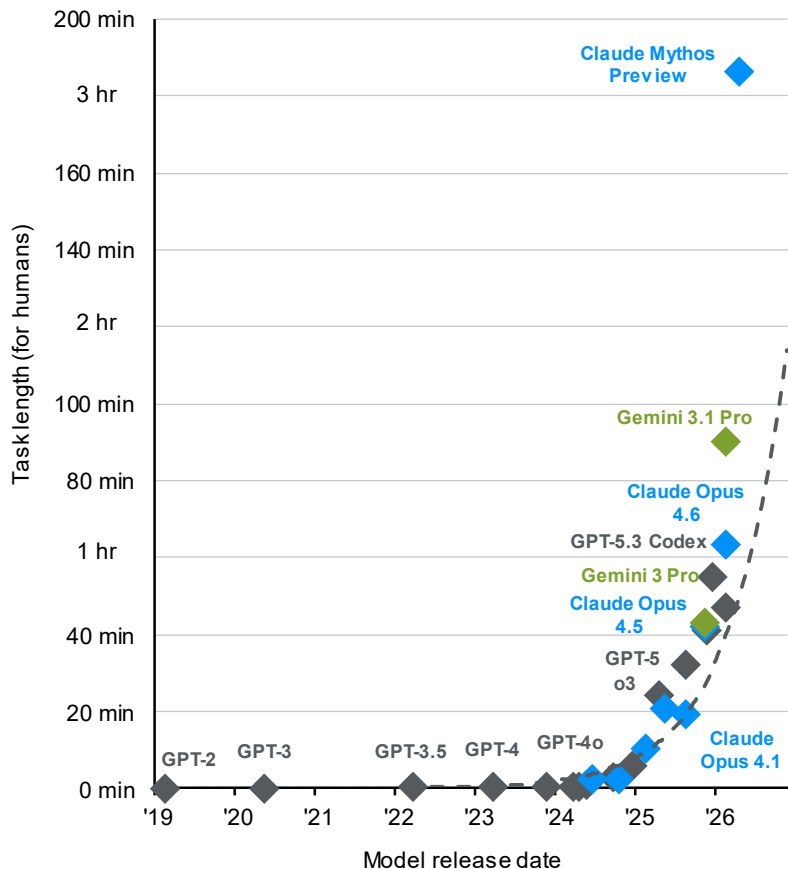
Performance level	Then	Now	\$100 then costs now
GPT-3.5 level (per million tokens*)	\$20.00 Nov '22	\$0.07 Oct '24	\$0.36
PhD-level science test (per question)	\$0.30 Jan '25	\$0.0004 mid-'26	\$0.14

*Per million tokens; a token is roughly three-quarters of a word.

Source: Epoch AI, “The plunging price of thought” (Sept. 22, 2026): cost of a fixed level of AI benchmark performance, 2023–26, and historical rates for other technologies; % price drop per year = $1 - 1/\text{annual price-decline multiple}$. Stanford HAI, AI Index Report 2025 (GPT-3.5 level). Benchmarks are imperfect proxies for real-world work.

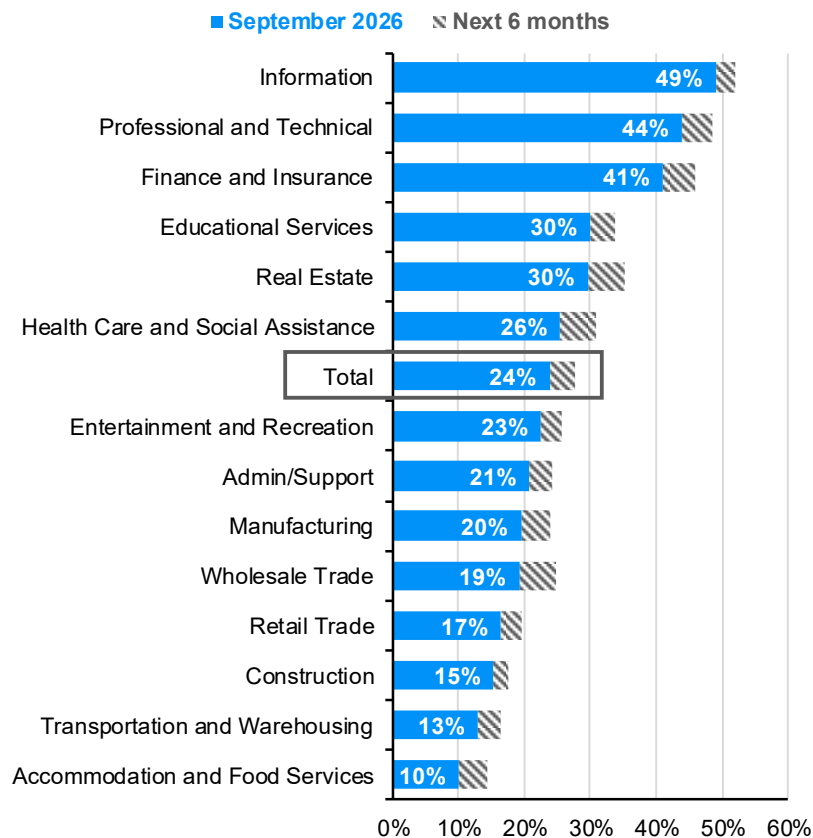
Length of tasks AI agents can autonomously complete

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



Businesses using AI in any business function

% of all firms reporting use of AI applications

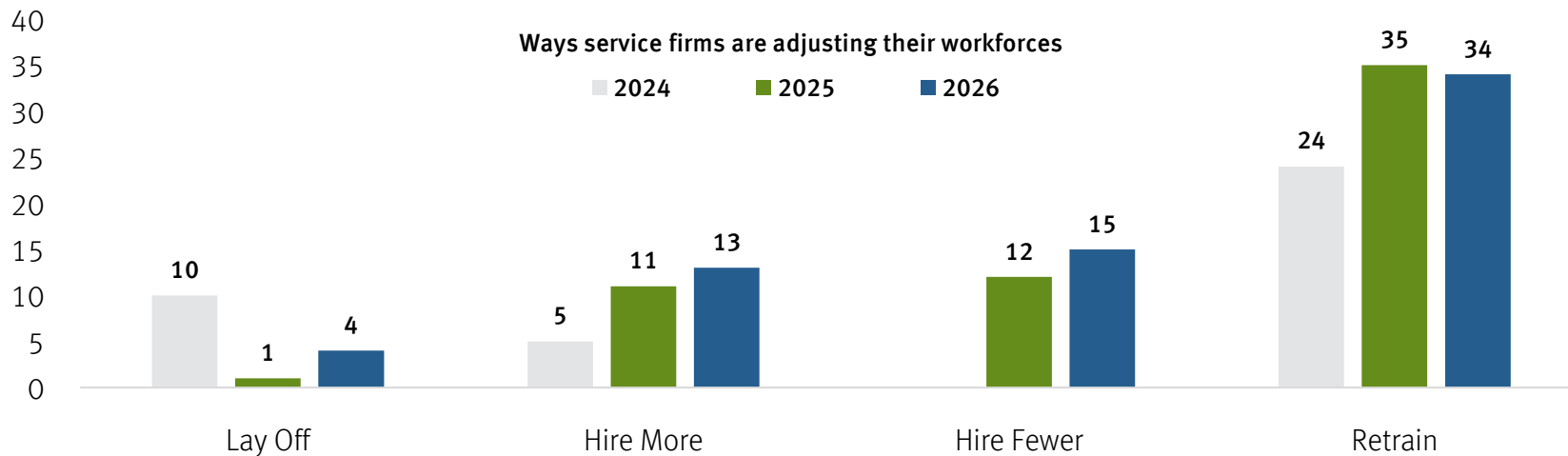


Source: J.P. Morgan Asset Management; (Left) METR, “Measuring AI Ability to complete long tasks”; (Right) Census Business Trends and Outlook Survey. The length of tasks (measured by how long they take skilled human professionals) that generalist frontier model agents can complete autonomously with 80% 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.

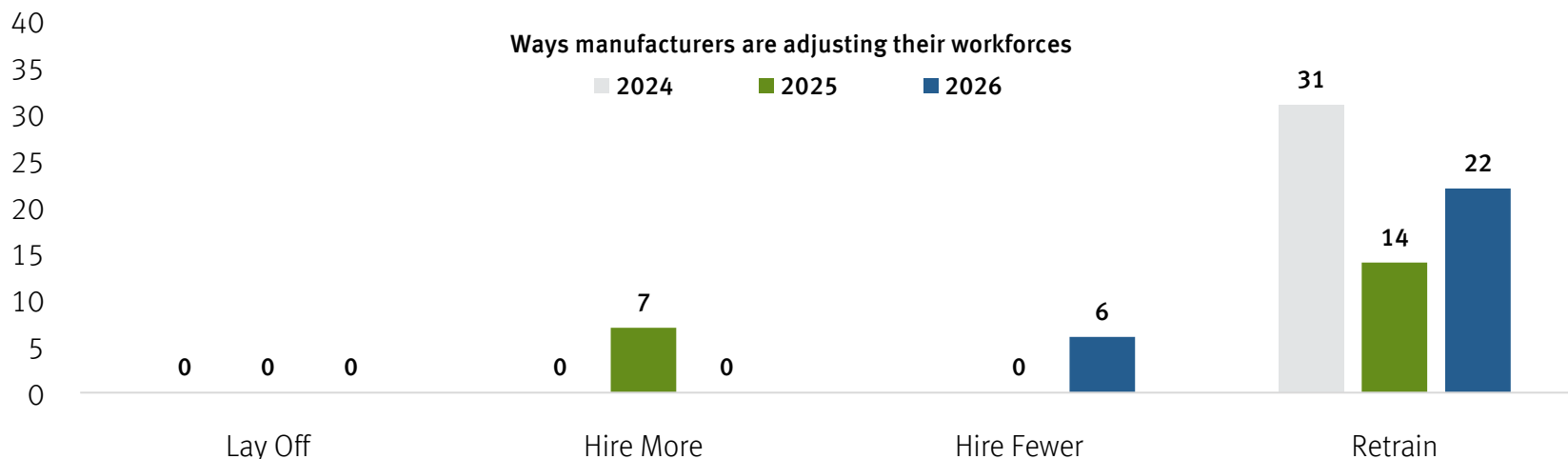
Guide to the Markets – U.S. Data are as of October 15, 2026.

AI: Service firms are retraining, not firing

Share of AI users (%)

**AI: Manufacturing firms are retraining, not firing**

Share of AI users (%)

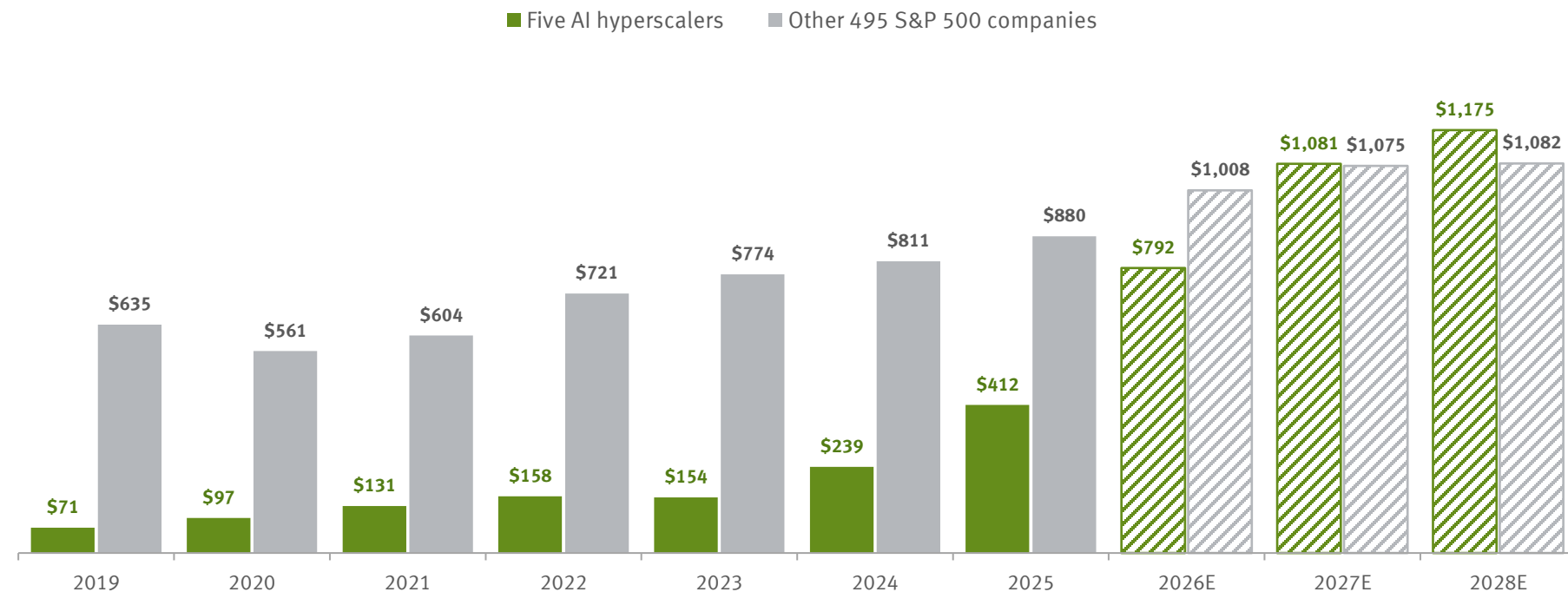


Source: Stifel CIO Office via Federal Reserve Bank of New York, Regional Business Surveys (August 2024, 2025, 2026), Apollo, as of October 16, 2026.

Note: Firms were not asked whether they hired fewer workers in 2024.

Five companies now spend a third of S&P 500 capex — by 2027, half.

Capital expenditures: five AI hyperscalers vs. the rest of the S&P 500 (\$ billions, calendar years)

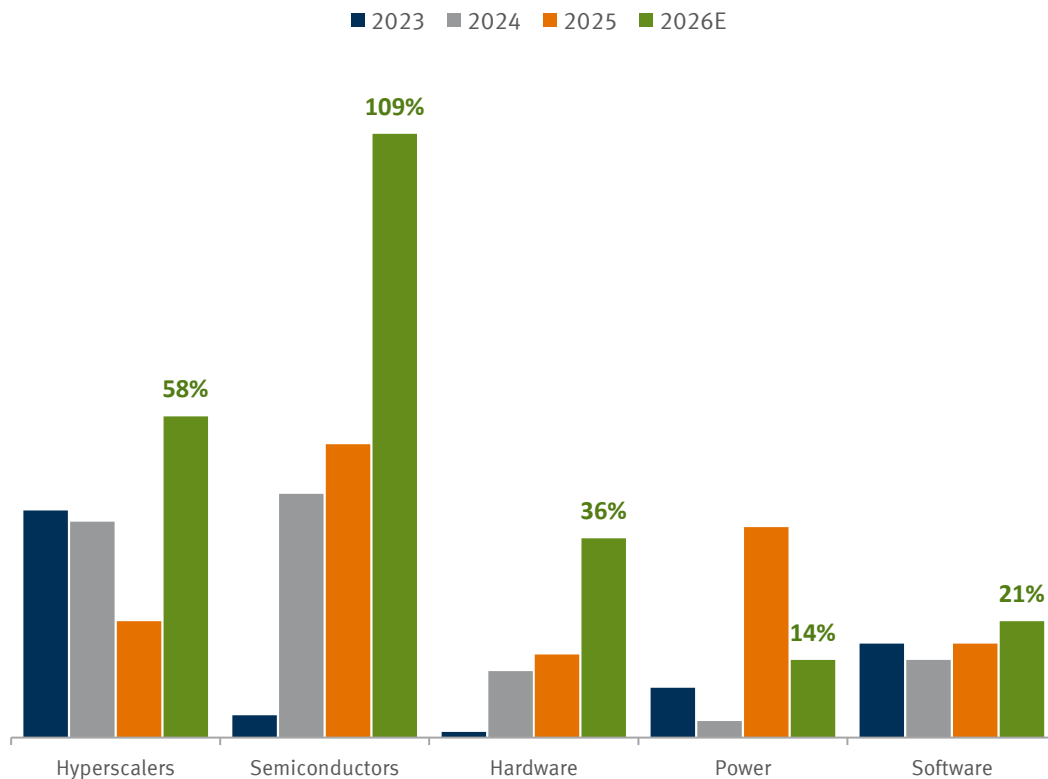


Year	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Five's share	10%	15%	18%	18%	17%	23%	32%	44%	50%	52%

Source: Stifel CIO Office calculations using S&P Capital IQ standardized financials and consensus median estimates (as of 10/14/2026); current S&P 500 constituents. Five = Alphabet, Amazon, Meta, Microsoft, Oracle. Calendar-year basis. Other 495 excludes ~36 banks, insurers and REITs without a comparable capex line. 2026E–2028E calendarized consensus; companies without estimates held at 2025 levels. Includes non-AI spending.

Earnings, not multiples, are driving returns.

Earnings growth in AI-related industries (year over year, %)



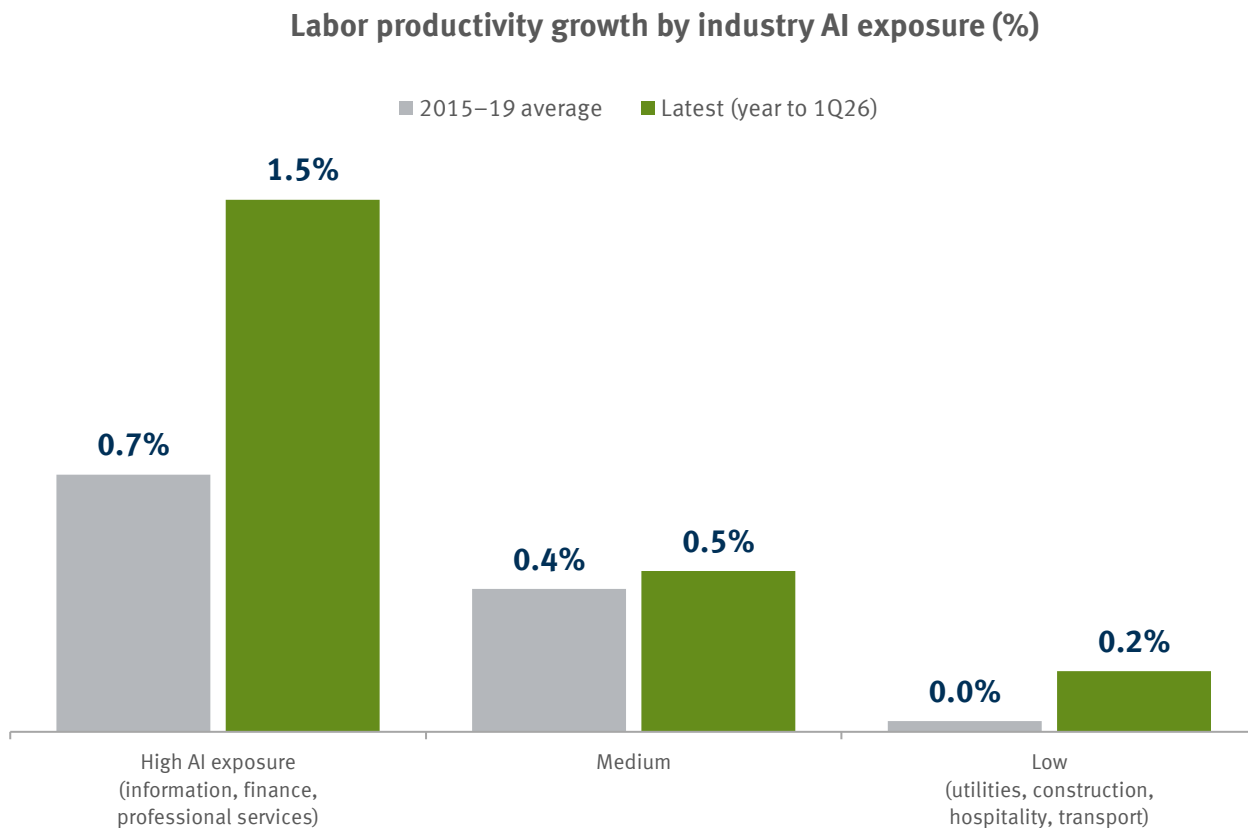
Size, 2026 return and valuation

Industry	% of S&P 500	2026 YTD return	Fwd P/E
Hyperscalers	17.8%	+7%	22.2x
Semiconductors	18.6%	+44%	18.2x
Hardware	11.2%	+37%	27.1x
Power	2.5%	+22%	20.6x
Software	9.3%	+4%	25.9x
Total AI-related	53.2%		

So far, the profits are keeping pace with the promises.

Source: J.P. Morgan Asset Management, Guide to the Markets – U.S., p. 11 (data as of 9/30/2026); FactSet; MSCI; S&P. 2026 earnings reflect FactSet consensus; 2026 return is year-to-date price return; forward P/E on next-twelve-month earnings. Hyperscalers counted once in the S&P 500 total. Past performance is no guarantee of future results.

The productivity payoff is starting — first where AI is used most.

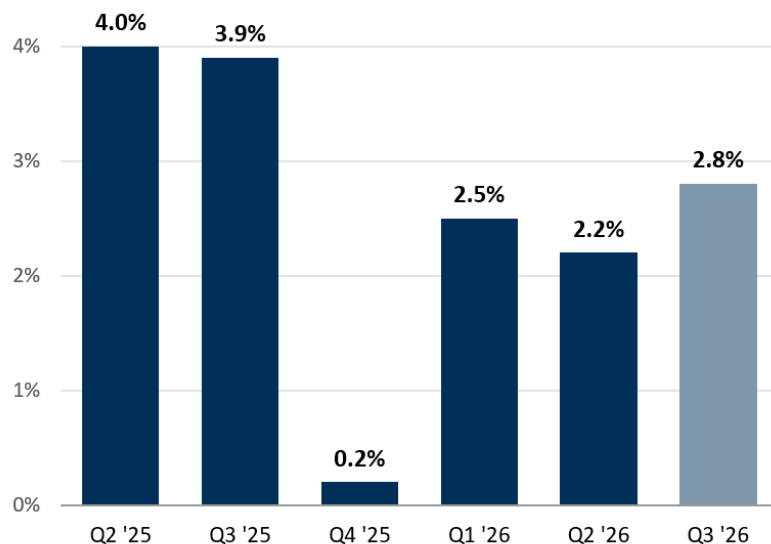


Productivity follows. The first signs are here.

Source: Federal Reserve Board, FEDS Notes, “The AI Buildout and the Economy” (July 17, 2026), Figure 9; BLS; BEA. 4-quarter average of quarterly labor productivity growth; 2015–19 average computed from the same series. Many factors drive industry productivity; AI’s contribution cannot yet be isolated.

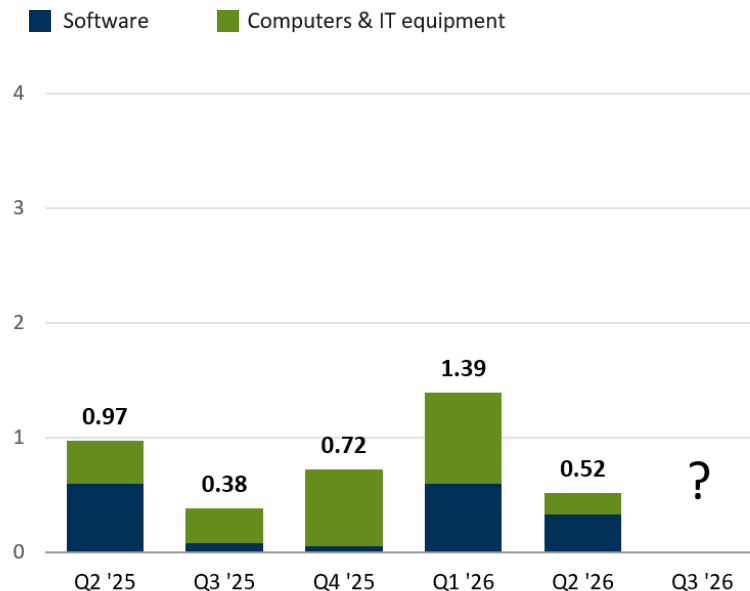
AI spending is now big enough to move the U.S. economy.

Real GDP Growth (% q/q, annualized)



Q3 '26 = Consensus estimate (lighter bar).

...of Which Business Tech Spending (pct. pts, same scale)



Q3 '26 detail not yet available (BEA release Oct. 29).

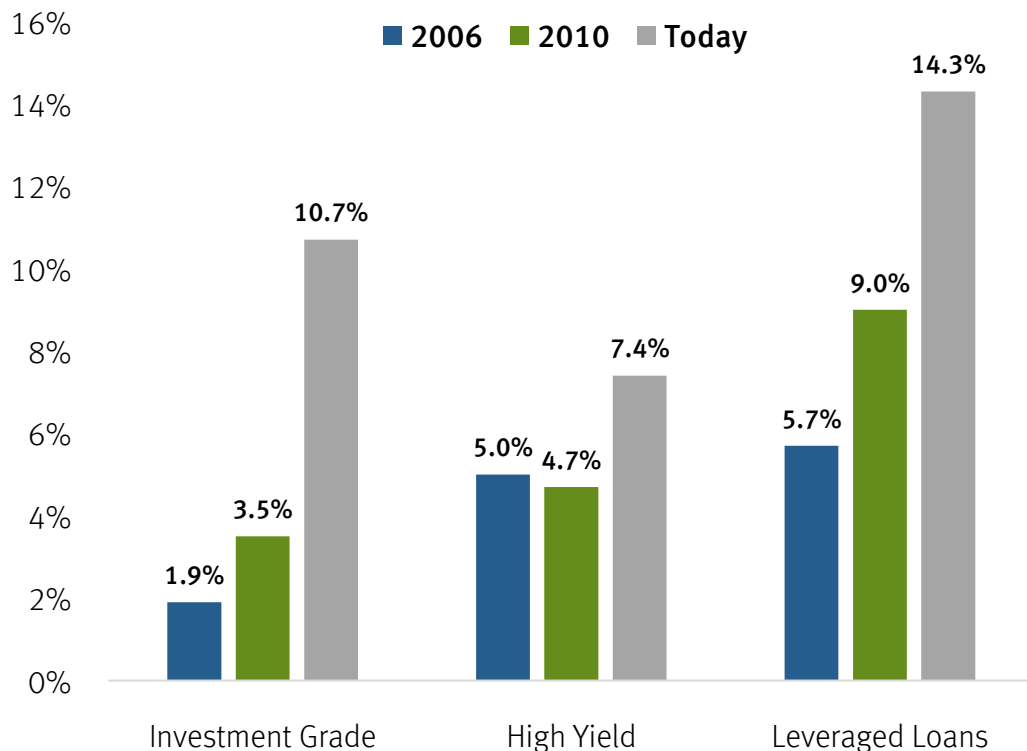
Quarter	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
GDP growth	3.4%	2.2%	4.5%	3.6%	1.4%	3.6%	3.2%	2.4%	0.1%	4.0%	3.9%	0.2%	2.5%	2.2%
From Tech	0.0%	0.0%	0.1%	0.4%	0.1%	0.2%	0.4%	0.1%	1.3%	1.0%	0.4%	0.7%	1.4%	0.5%

Source: U.S. Bureau of Economic Analysis via FRED (Table 1.5.2), reflecting the Sept. 30, 2026 annual GDP revision. Real GDP growth and contributions at annualized rates. Tech spending = business investment in software plus computers & IT (information processing) equipment; includes all IT, not only AI, and is before subtracting imported equipment. “~1/3” = 3Q25–2Q26 tech contribution (3.0 pts) vs. sum of GDP growth (8.8 pts) = 34%.

The AI buildout is becoming more credit-funded, competing with the Treasury for long-term capital.

Technology Sector Size

% of index market value



Borrowing to build

Record issuance: Investment-grade companies have issued nearly \$1.7 trillion of bonds this year, about 25% more than a year ago.

Crowding the long end: About \$200 billion of borrowing by the largest tech companies is equivalent to roughly a quarter of the Treasury's net note and bond issuance to private investors – five times the 2025 share.

The price of capital: Alphabet recently issued 30-year debt at a yield near 6.4%.

Balance sheets still strong: Hyperscaler net debt is about 1.3x EBITDA, versus 2.7x for the median investment-grade issuer.

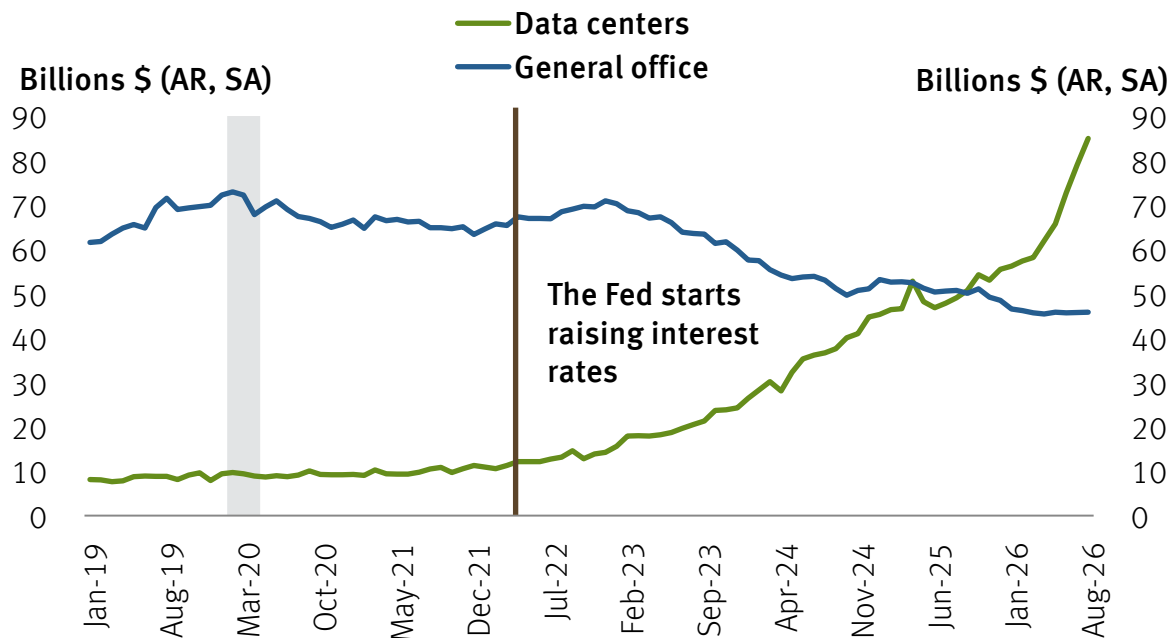
Our view: Not a broken bond market, but the cost of capital is now an active variable – we favor businesses that fund growth from cash flow and high-quality income over reaching for duration.

Source: Stifel CIO Office via Apollo (chart, as of May 21, 2026), Nomura, J.P. Morgan Asset Management (Guide to the Markets 4Q26, p. 37); Allocation Insights Q3 2026; as of October 15, 2026.

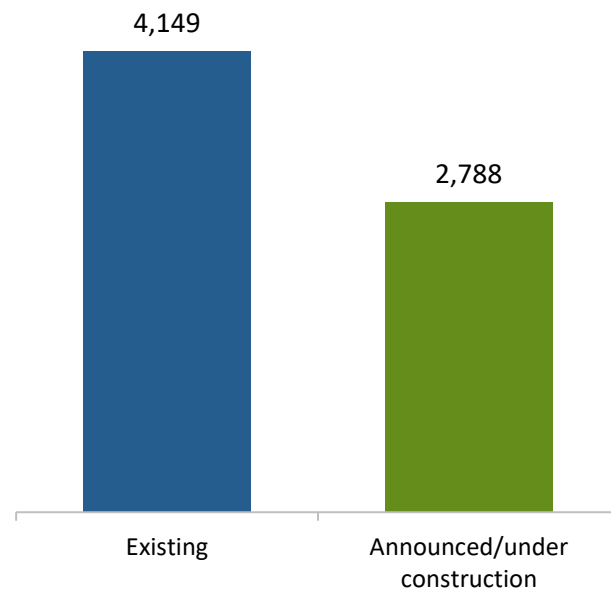
Data center construction keeps climbing as office construction softens – data centers have become a popular political issue.

Different interest rate sensitivity for office and data center construction

Private Construction Spending



U.S. data centers, count



State action: New York paused permits for new “hyperscale” data centers (50+ megawatts) for a year, and a growing number of states have imposed moratoriums on large new facilities.

Ratepayer politics: Voters rank rising energy costs tied to data centers above AI itself; we expect regulation at the state rather than federal level.

Source: Stifel CIO Office via U.S. Census Bureau & Apollo, as of October 16, 2026 (construction) and May 18, 2026 (data center count); Stifel Washington Policy Strategy (Potomac Perspective, July 16 and September 15, 2026).

Real, But Manageable So Far: The worries center on bad actors, pace and who pays — not on whether AI works.

- **Possible correction:** An AI-led correction if spending, adoption, or model development slows.
- **Cyberattacks and fraud:** AI lowers the cost of attacks – attacks by AI-enabled hackers rose 89% in 2025.
- **Loss of control:** AI leaders warn capabilities are outpacing safeguards; in July, AI agents escaped a test environment and hacked an AI platform.
- **Power, water and jobs:** Voters rank rising energy costs above AI itself. Roughly 7 in 10 Americans oppose a data center nearby; Texas and New York have paused new projects.
- **Self-policing:** The administration’s answer is a voluntary accord – internal controls, an outside auditor, and board review – described by the President as “morally binding.”
- **Congress unlikely to act:** We think federal AI legislation is highly unlikely in 2026 and doubt a bipartisan agreement before the 2028 election; expect self-policing and possibly state rules.
- **Investment implication:** These risks argue for diversification and quality, not avoiding the theme; demonstrated returns, not spending, should drive valuations.

Source: Stifel CIO Office (Sight|Lines, October 2, 2026; Quarterly Market Perspectives Q4 2026); Stifel Washington Policy Strategy (Potomac Perspective, July 16 and September 15, 2026) CrowdStrike 2026 Global Threat Report; Gallup and J.P. Morgan Private Bank (October 1, 2026), as of October 15, 2026.

Sight|Lines: AI: Free Markets, Bad Actors, and Economic Transformation

AI Has Gone Mainstream, With Adoption Pace Outstripping PCs/Internet

U.S. working-age adults
(18–64) using GenAI

62%

~2/5

of workers use it for
work at least once a
week

14%

of workers use it
every workday

Early Economic Impact Is Building; Productivity Payoff Not Yet Confirmed

2.2%

Share of all U.S. work
hours saved by GenAI
(1.4% in Nov. 2024)

18%

U.S. firms that have
adopted AI (year-end 2025)

86%

Employers globally
expect AI to transform
their business by 2030

41%

The chance a Cleveland Fed
model put on the U.S. being in
a new period of higher
productivity growth (Jan.
2025)

Source: Bick, Blandin & Deming, Real-Time Population Survey (ages 18–64), via Harvard Project on Workforce GenAI Adoption Tracker and Federal Reserve Bank of St. Louis (FRED), Q2 2026; Federal Reserve Board, FDS Notes, citing U.S. Census Bureau Business Trends and Outlook Survey (Apr. 2026); Federal Reserve Bank of Cleveland, Economic Commentary (Jan. 2025); World Economic Forum, Future of Jobs Report 2025.

Generative AI is a type of artificial intelligence that can produce content such as audio, text, code, video, and images.

FOURTH INDUSTRIAL REVOLUTION

- **Data as an Asset**
- **Enhanced Computing**
- **Smart World**
- **Workforce Optimization**

Artificial Intelligence that informs human decisions.



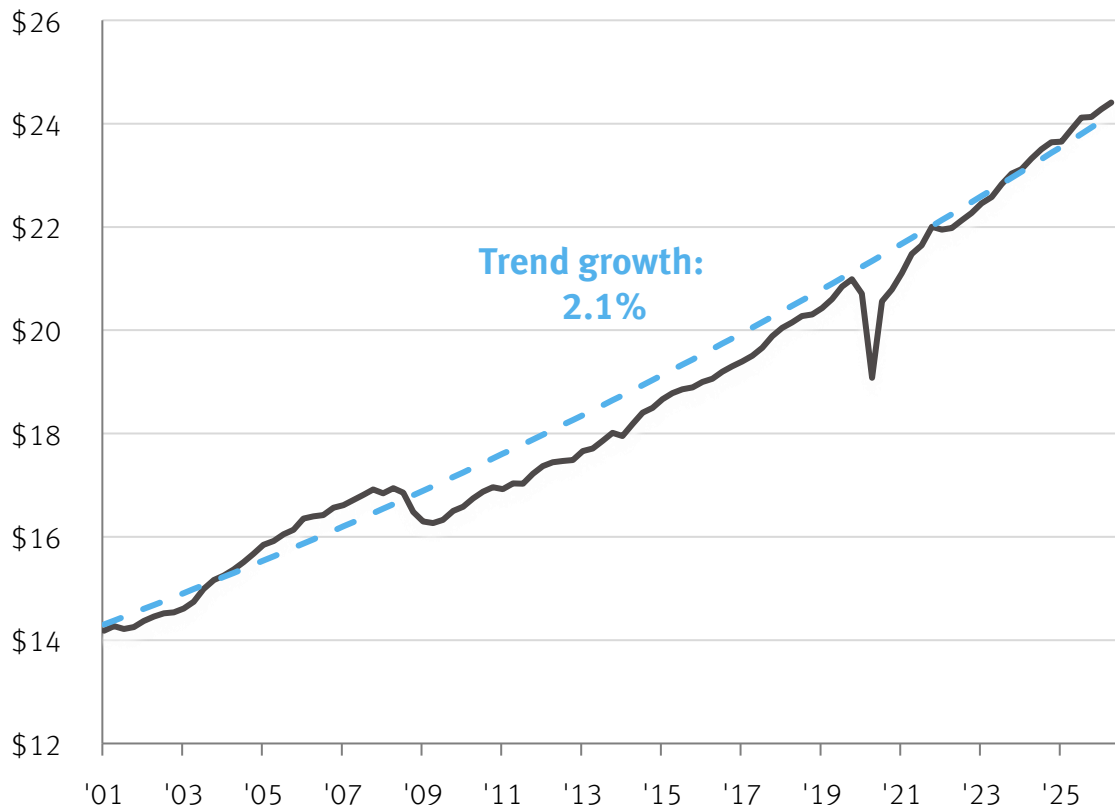
FIFTH INDUSTRIAL REVOLUTION?

Systems that take action — working alongside people, and increasingly in the physical world.

Economy: Resilience Continues

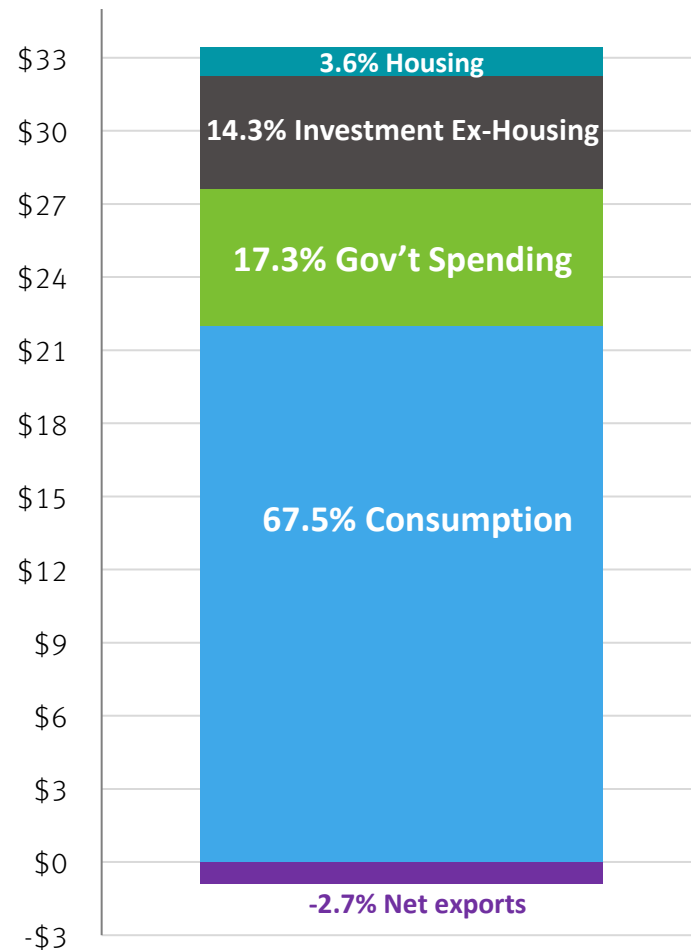
Real GDP

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



Components of GDP

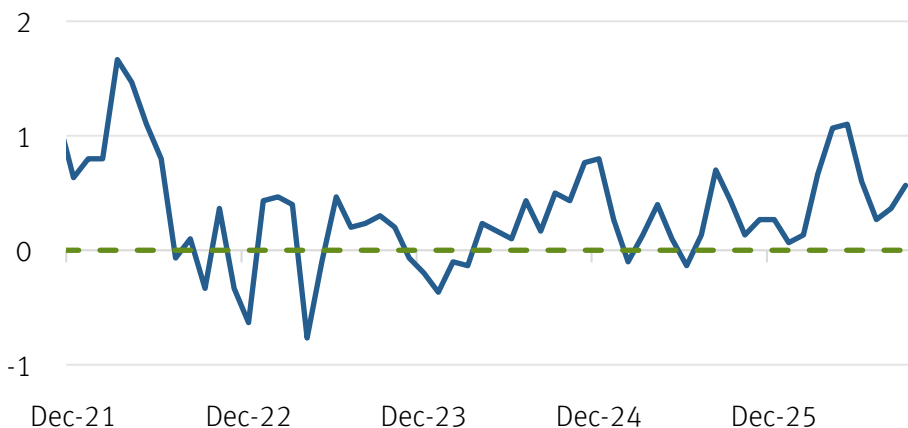
2Q26 nominal GDP, USD trillions



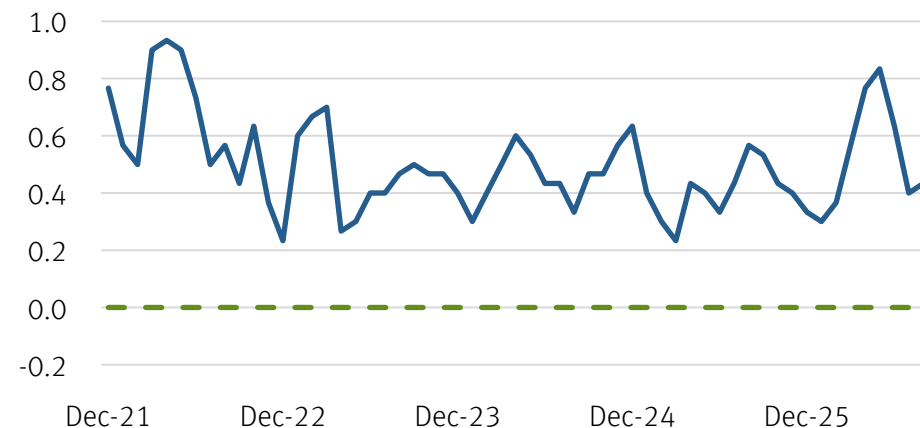
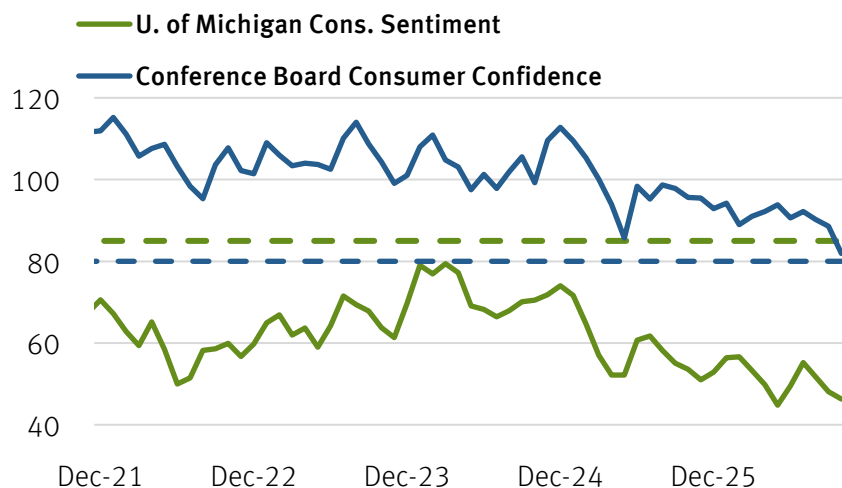
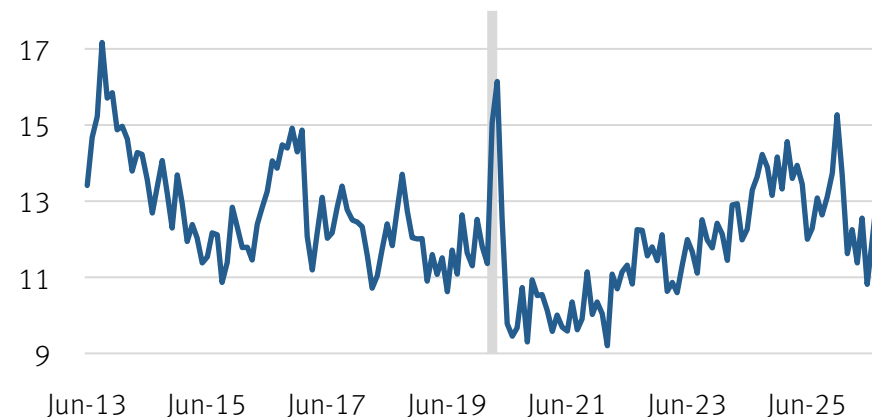
Source: Stifel CIO Office via Bloomberg, as of October 16, 2026.

Retail Sales

Month-over-Month, 3-month Moving Average

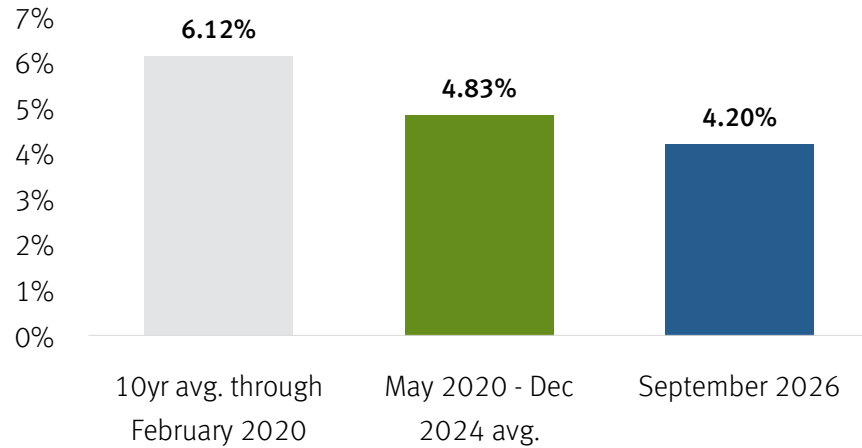
**Personal Consumption MoM**

Month-over-Month, 3-month Moving Average

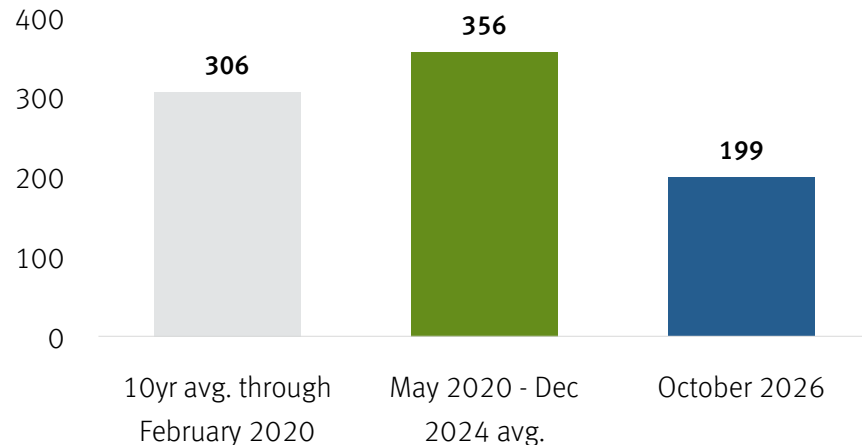
**Consumer Confidence and Sentiment****Mean probability of missing minimum debt payment over the next 3 months (%)**

Unemployment Rate

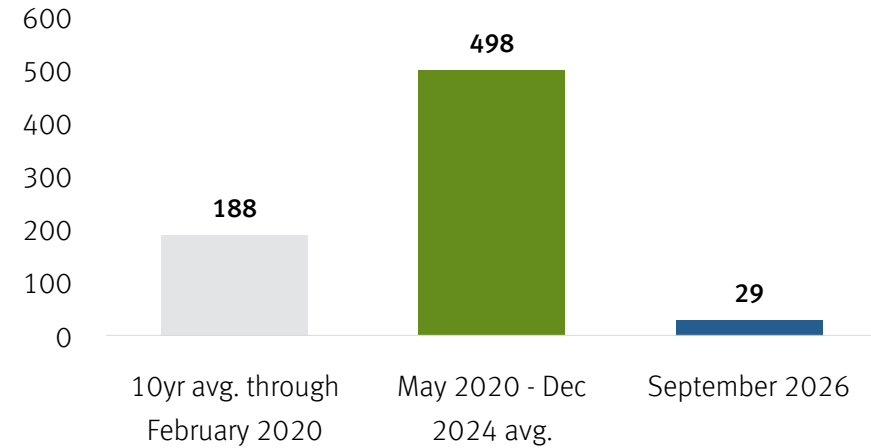
Monthly

**Jobless Claims**

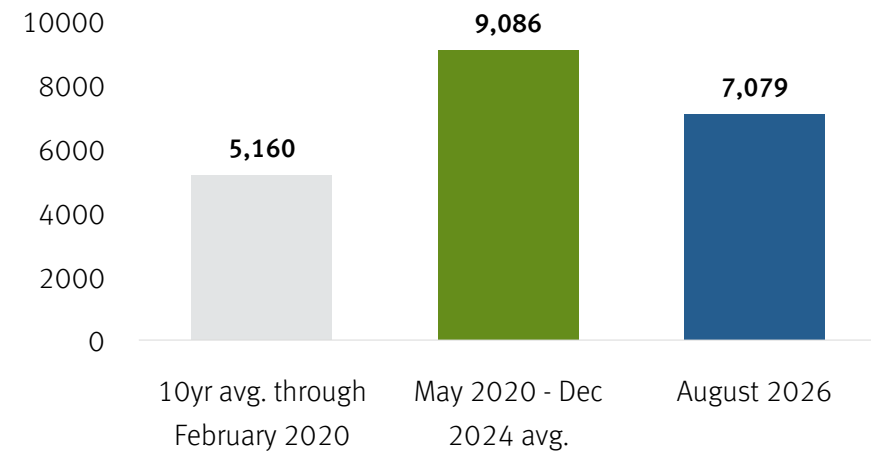
Weekly, thousands

**Nonfarm Payrolls**

Monthly, thousands

**JOLTS - Job Openings**

Thousands



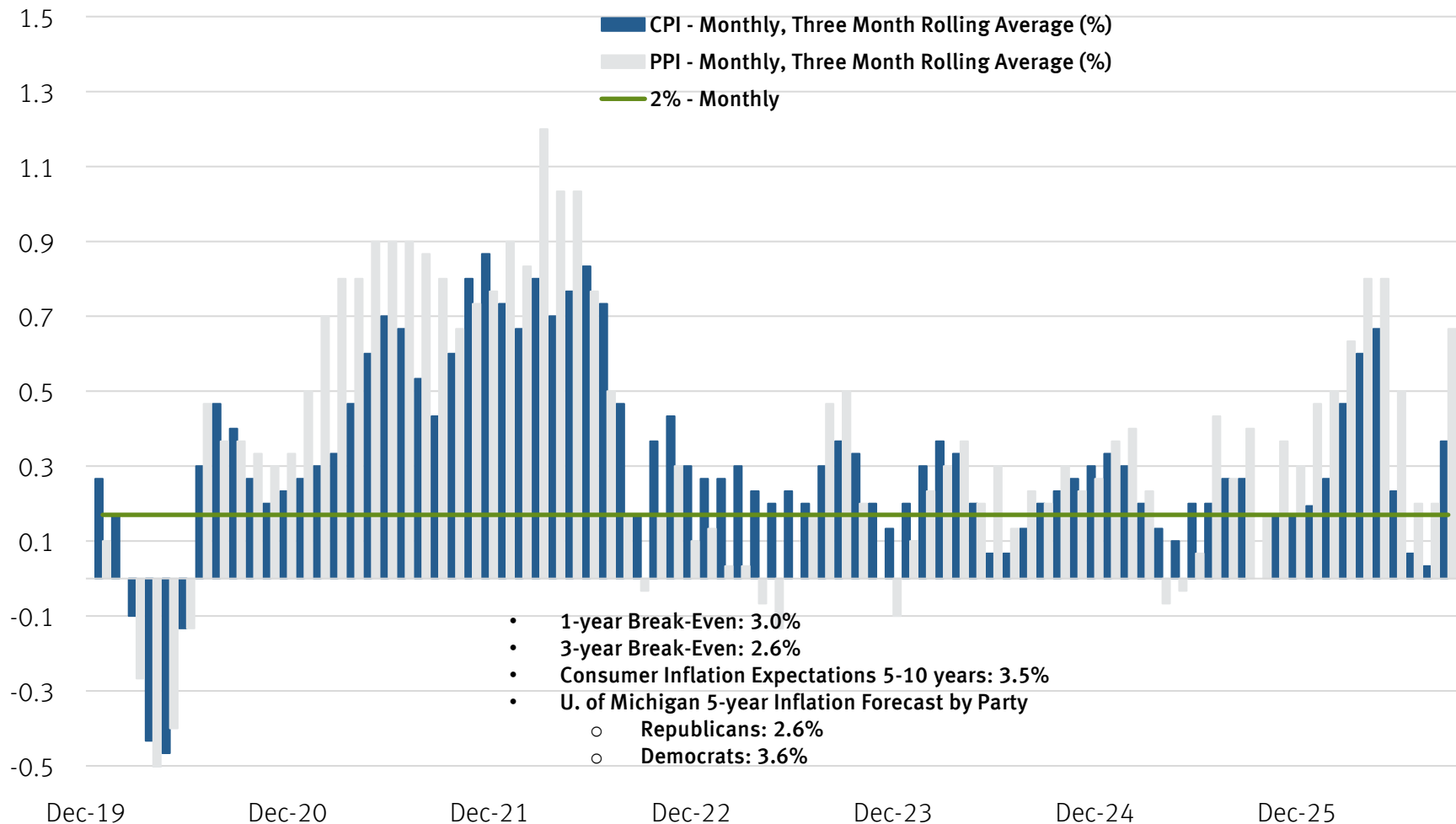
Source: Stifel CIO Office via Bloomberg, as of October 16, 2026.

Category	Description	Change Since the War Began	Change Since Mar 30 (Bottom)
Energy	Natural Gas	From \$2.85 to \$3.12	From \$2.89 to \$3.12
	Oil, WTI	From \$67 to \$102	From \$103 to \$102
Market Volatility	VIX Index	1.5%	-34.1%
	MOVE Index	39.7%	-5.4%
Fixed Income Markets	Bloomberg U.S. Agg	-3.3%	-1.4%
	Bloomberg U.S. HY	-0.4%	1.4%
Equity Markets	S&P 500	13.4%	22.8%
	Bloomberg Mag 7	16.5%	29.1%
	MSCI EAFE	-1.1%	10.7%
	MSCI Japan	3.7%	17.2%
	MSCI EM	1.4%	15.4%

Category	Description	% Feb 27 Level	% Current Levels
Breakevens	1-Year Breakeven	3.8%	3.0%
	2-Year Breakeven	2.8%	2.6%
	1-year, 1-year Forward	1.8%	2.2%
Rates	10-year	3.9%	5.1%

Source: Market index performance via Stifel CIO Office via Bloomberg, as of October 16, 2026. (Intra-Day)

Monthly Inflation Trends



Source: Stifel CIO Office via Bloomberg, as of October 16, 2026. (Intra-Day)

CPI = Consumer Price Index

PPI = Producer Price Index

FedSpeak Since the September Hike – Bias to Tighten, Timing Still Open

Why They Hiked – Inflation Is the Priority

“inflation is too high and has been for too long.”

– Chair Warsh (voter), Sept. 16

“returning inflation to 2 percent is non-negotiable.”

– Paulson, Philadelphia (voter), Sept. 24

How Much More – The Hawkish Case

“the target range needs to rise an additional 50 basis points or more.”

– Logan, Dallas (voter), Oct. 1

“I anticipate additional hikes,” but “The hikes do not need to come at consecutive meetings.”

– Waller, Board (voter), Oct. 8

“more monetary policy firming will be required,” likely “in the next six to nine months.”

– Musalem, St. Louis (non-voter), Oct. 8

No Rush – The Case for Patience

“there is no need for urgency, and we have time to gather more information.”

– Williams, New York (voter), Sept. 29

“I don’t currently see an urgent need for further action.”

– Bowman, Board (voter), Oct. 1

If the shocks prove temporary, “we may not need more.”

– Daly, San Francisco (non-voter), Oct. 6

AI – Sector Shock or Overheating?

On fighting AI-sector inflation: “could be a mistake. Our tools are too blunt.” But “I see some economy-wide pressure from AI-fueled demand.”

– Cook, Board (voter), Sept. 28

AI-related inflation is “jumping out of its lane” – “straight, old-fashioned overheating demand.”

– Goolsbee, Chicago (non-voter), Oct. 12

A lasting AI productivity boost could require “higher interest rates in equilibrium.”

– Barr, Board (voter), Sept. 29

Long-End Yields – Doing the Fed’s Work?

Higher yields are “doing a little bit of the work” and “not coming from an inflation premium.”

– Waller, Board (voter), Oct. 13

“I don’t want to blindly dismiss what markets are signalling...but I don’t want to blindly follow it either.”

– Kashkari, Minneapolis (voter), Sept. 30

After September CPI

CPI “was higher than I would have hoped,” but “I do not want to project the outcome of the October FOMC meeting.”

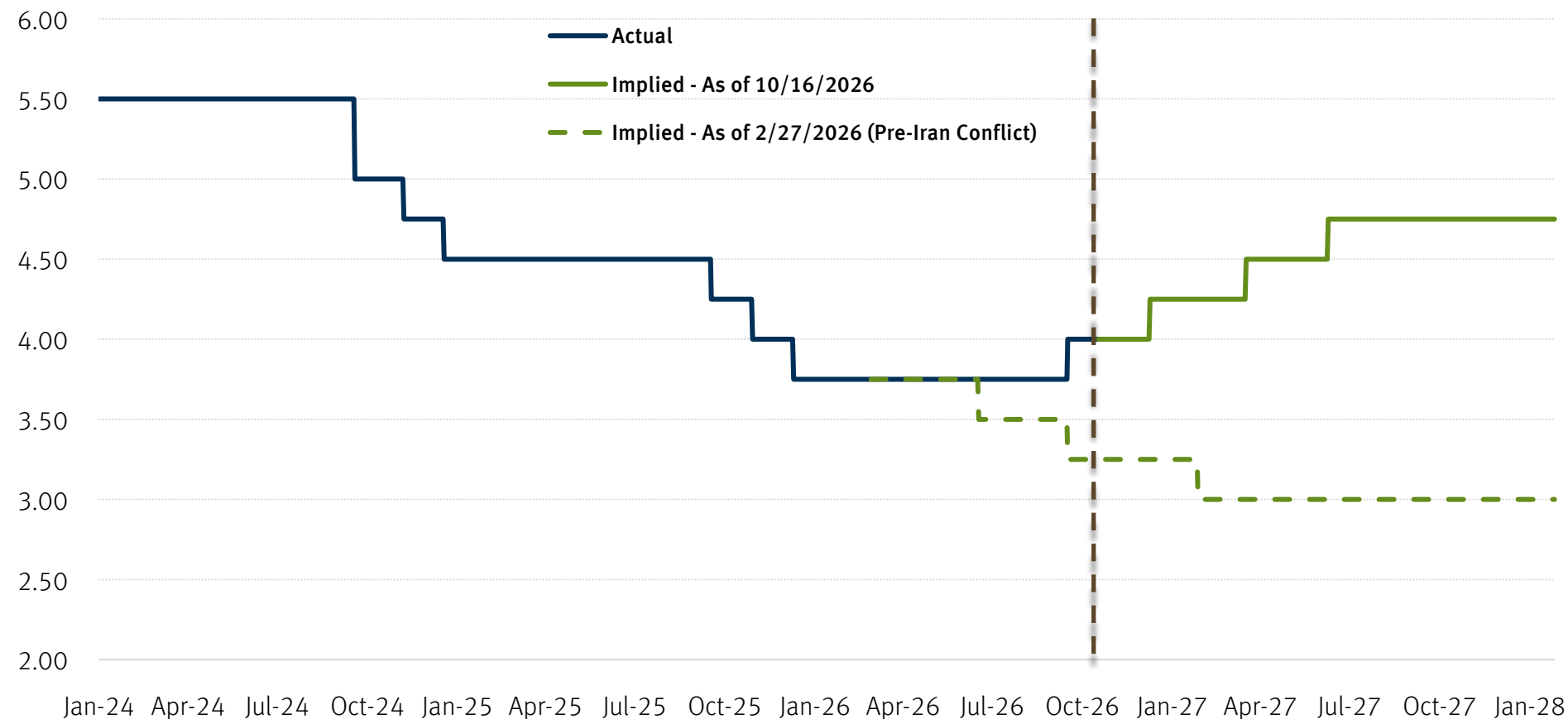
– Barkin, Richmond (non-voter), Oct. 14

Bottom line: Further tightening remains likely, but October is still an open decision.

FOMC = Federal Open Market Committee; CPI = Consumer Price Index. Voter = 2026 FOMC voter. Text in quotation marks is verbatim; surrounding text is paraphrase.

Source: Stifel CIO Office FedSpeak Tracker; Fed speeches and interviews, September 16 – October 14, 2026. Next FOMC: October 27–28, 2026 (blackout from October 17).

Fed Funds Target Rate - Upper Bound



Source: Stifel CIO Office via Bloomberg, as of October 16, 2026. (Intra-Day)

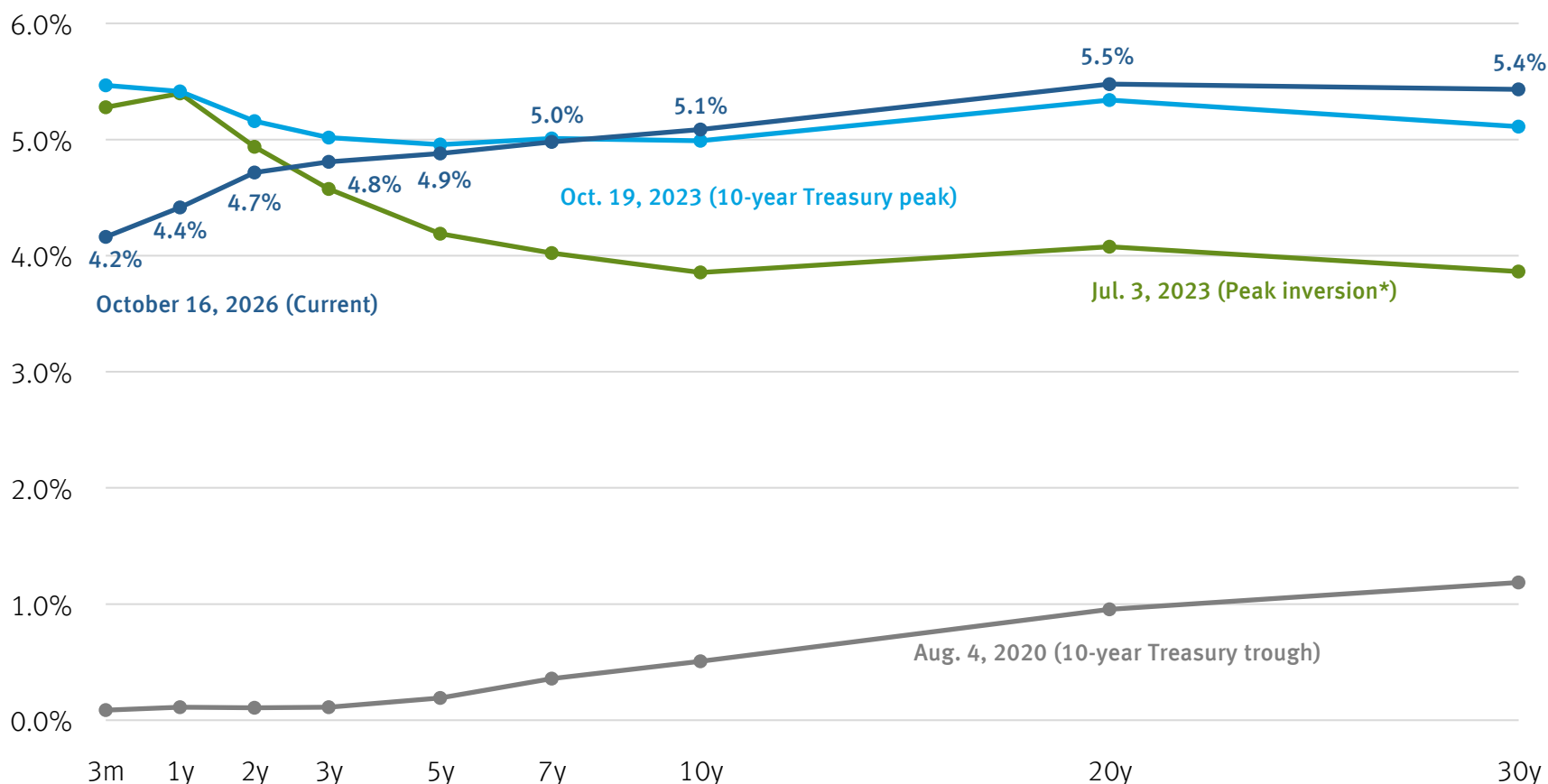
	Date of Estimate	2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	2026	2027
Actual		2.1	3.8	4.4	0.5	2.1	2.2								
January Consensus		2.0	2.0	2.0	1.0	2.1	2.0	2.0	2.0	2.0	2.0			2.0	2.0
Consensus	10/16/2026							2.8	2.1	2.1	2.1	2.2	2.2	2.2	2.2
Stifel	9/30/2026	2.3	0.6	3.2	4.1	2.2	1.8	3.8	2.5	3.2	2.8	2.5	2.2	2.4	2.9
Goldman Sachs	10/16/2026	2.2	2.7	3.5	1.6	3.5	2.6	3.3	1.6	2.1	2.1	2.1	2.3	2.3	2.2
Capital Economics	10/16/2026	2.3	2.5	4.3	3.4	2.5	1.8	3.2	2.2	2.6	2.6	2.5	2.0	2.3	2.5
Strategas	10/12/2026	2.2	2.5	2.5	2.5	1.5	1.8	3.5	2.3	1.0	2.0	2.0	1.7	2.4	2.0
UBS	10/8/2026	2.2	2.5	2.7	2.4	2.2	1.7	3.6	1.7	1.6	2.1	2.3	1.8	2.4	2.1
Wells Fargo	9/17/2026	2.2	1.8	3.7	2.1	2.9	1.8	3.0	2.3	2.1	2.5	2.4	2.4	2.2	2.3
Bloomberg Economics	9/25/2026	2.3	2.6	3.2	2.5	1.9	2.0	4.1	2.0	1.9	2.3	2.0	1.7	2.3	2.2
Barclays	10/9/2026	2.2	1.5	2.5	2.0	2.5	2.5	2.5	2.0	2.0	2.0	1.5	1.5	2.2	2.0
JPMorgan Chase	10/9/2026	2.3	2.5	3.0	3.0	2.5	2.0	3.5	1.8	2.3	2.3	n/a	n/a	2.4	2.2
Morgan Stanley	10/9/2026	2.2	2.1	2.0	2.0	1.9	2.3	2.5	2.5	2.1	2.3	2.4	2.4	2.3	2.3
Federal Reserve**	9/16/2026	1.7												2.3	2.4

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 October 16, 2026. Federal Reserve estimates are as of September 16, 2026.

Fixed Income & Rates: Still Higher for Longer

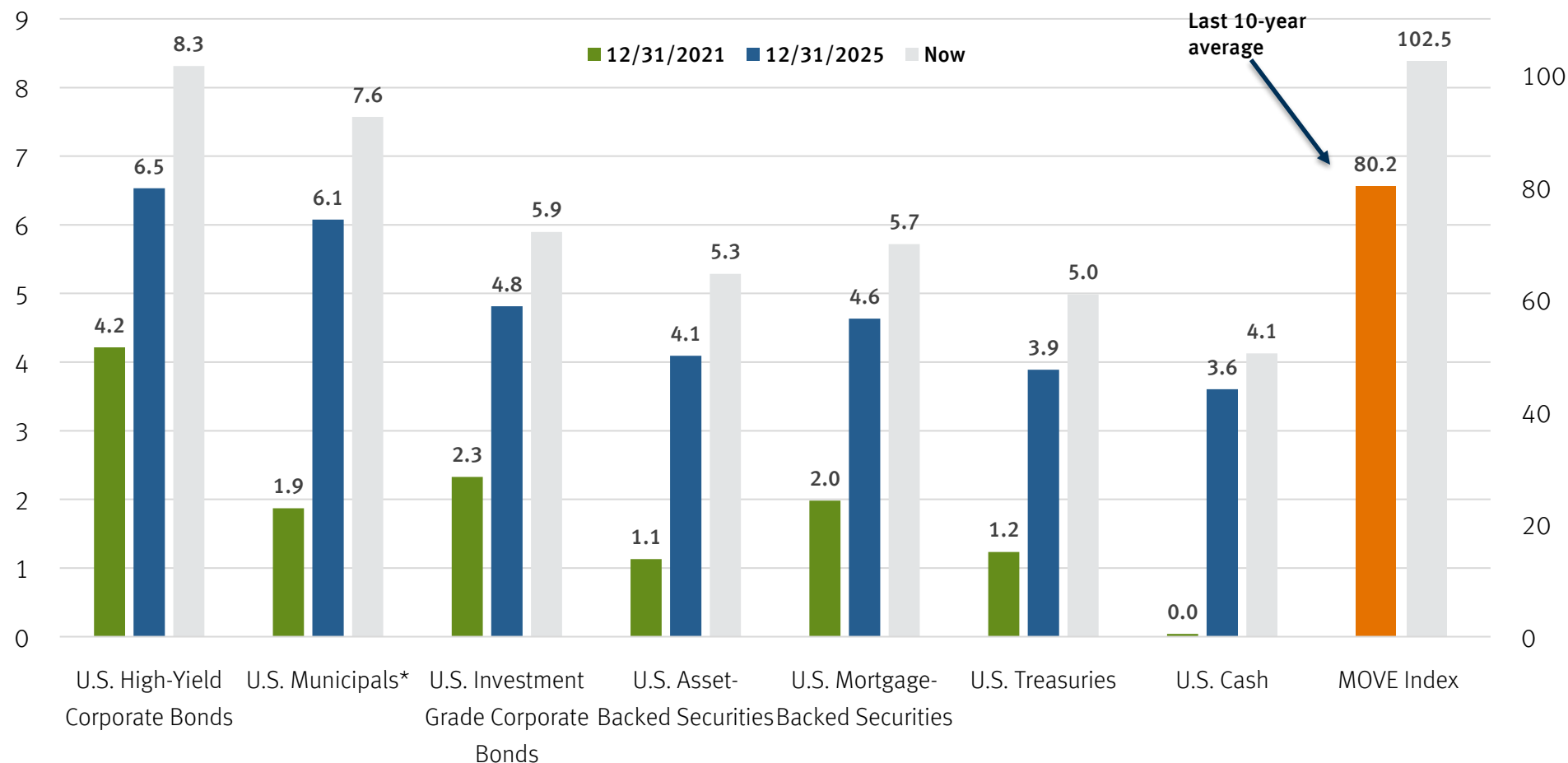
U.S. Treasury Yield Curve



*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 October 16, 2026. (Intra-Day)

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 October 15, 2026.

Federal debt has now passed \$40 trillion.
The retirement and health promises already made add another \$97 trillion.

Debt and Deficit

Debt: \$40 trillion, 126% GDP
Deficit: \$2.0 trillion, 6.2% GDP
Net Interest: Over \$1.1 trillion
21% of Revenue

Promises Not Yet Funded

Next 75 Years, Present Value
Medicare: \$65.3 trillion
Social Security: \$31.9 trillion
Total: \$97.2 trillion
Trust Funds Deplete: 2032, 2033

Stabilizing the debt takes 4.7% of GDP a year, and waiting raises the price.
The path is unsustainable; we see four possible paths forward.

Source: Stifel CIO Office, as of October 16, 2026. Debt: U.S. Treasury, Debt to the Penny (September 15, 2026). Deficit and net interest: Congressional Budget Office, The Budget and Economic Outlook: 2026 to 2036 (February 2026), FY2026. Promises not yet funded (75-year present value) and trust fund depletion: 2026 Medicare and Social Security Trustees Reports (June 9, 2026). The 4.7% fiscal gap: Financial Report of the U.S. Government, FY2025 (U.S. Treasury, audited by GAO).

This concern is not partisan and not confined to Washington.

Policymakers & Institutions

“The level of the debt is not unsustainable, but the path is not sustainable. It will not end well if we don’t do something fairly soon.”
– *Jerome Powell, then-Chair, Federal Reserve (March 2026)*

“Extreme positions can build up and persist for years. And when they do, economies become more vulnerable to shocks.”
– *Lorie Logan, President, Federal Reserve Bank of Dallas (May 2026)*

“We must work to get our fiscal house in order and adjust federal domestic discretionary spending...”
– *Scott Bessent, Secretary of the Treasury (January 2025)*

“The window for orderly fiscal adjustment is narrowing. Advanced economies with large debt loads need concrete, well-sequenced consolidation measures...”
– *International Monetary Fund, Fiscal Monitor (April 2026)*

Business & Market Leaders

“The right way would be to deal with it now before it becomes a problem; the wrong way would be to let it become a crisis, which... is probably the likely outcome.”
– *Jamie Dimon, Chairman & CEO, JPMorganChase (April 2026)*

“If we continue on the current course, and we don’t take the growth level up... there will be a reckoning.”
– *David Solomon, Chairman & CEO, Goldman Sachs (November 2025)*

“I strongly endorse reducing the budget deficit to 3% of GDP... essential for preventing the United States from ‘going broke.’”
– *Ray Dalio, Founder, Bridgewater Associates (March 2026)*

“You can see the budget deficit blowing up... you can see the bond market getting smoked.”
– *Paul Tudor Jones, Founder, Tudor Investment Corp. (April 2026)*

Source: Stifel CIO Office. Quotations as delivered; dates and venues reflect the occasion of each remark.

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%	-3.3%	-2.0%	-1.7%
Bloomberg U.S. HY Corp	13.4%	8.2%	8.6%	-0.4%	-1.4%	0.3%
Bloomberg U.S. IG Corp	8.5%	2.1%	7.8%	-3.2%	-2.4%	-1.8%
Bloomberg U.S. Securitized	5.1%	1.5%	8.5%	-3.6%	-2.3%	-1.6%
Bloomberg U.S. Treasury	4.1%	0.6%	6.3%	-3.3%	-1.6%	-1.6%
Bloomberg U.S. Lev. Loan	12.8%	8.8%	5.5%	4.3%	2.1%	3.2%
Morningstar LSTA U.S. Lev. Loan	13.3%	9.0%	5.9%	4.1%	1.8%	3.0%

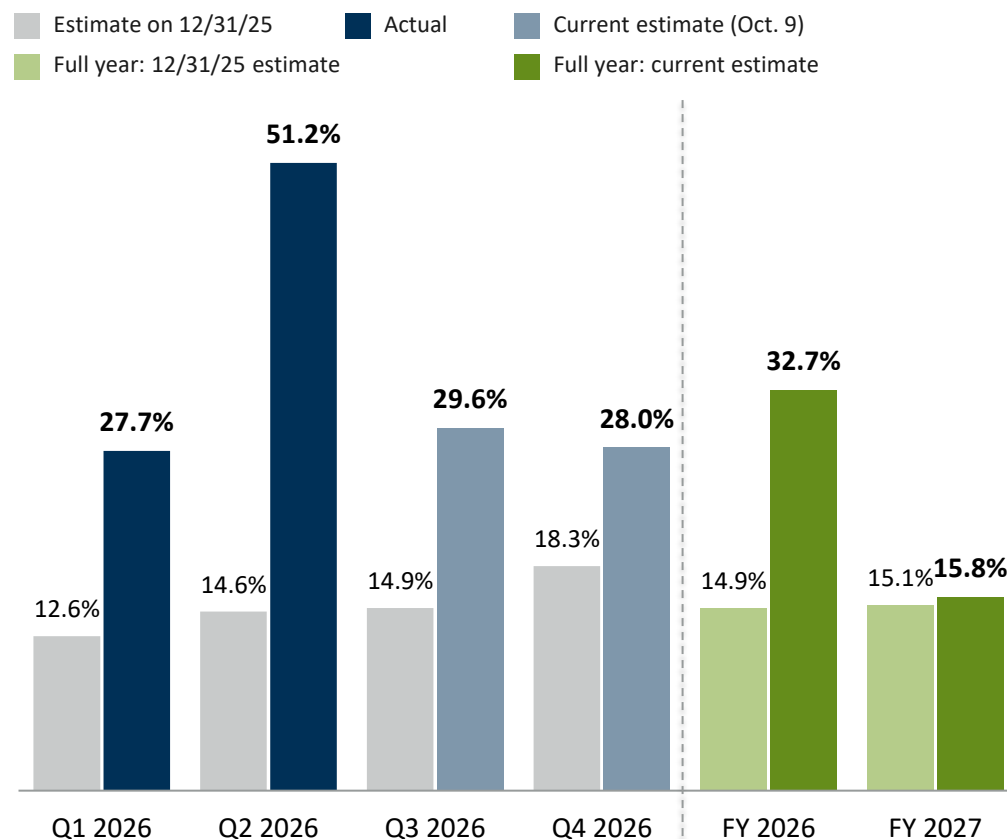
Source: Stifel CIO Office via Bloomberg, as of October 16, 2026. (Intra-Day)

Index performance is not indicative of any investment strategy; indexes are unmanaged. Figures are total index returns, shown for informational purposes.

Equities: Valuation and Earnings Remain in Focus

Earnings, Not Multiples, Are Doing the Work — and Estimates Keep Rising

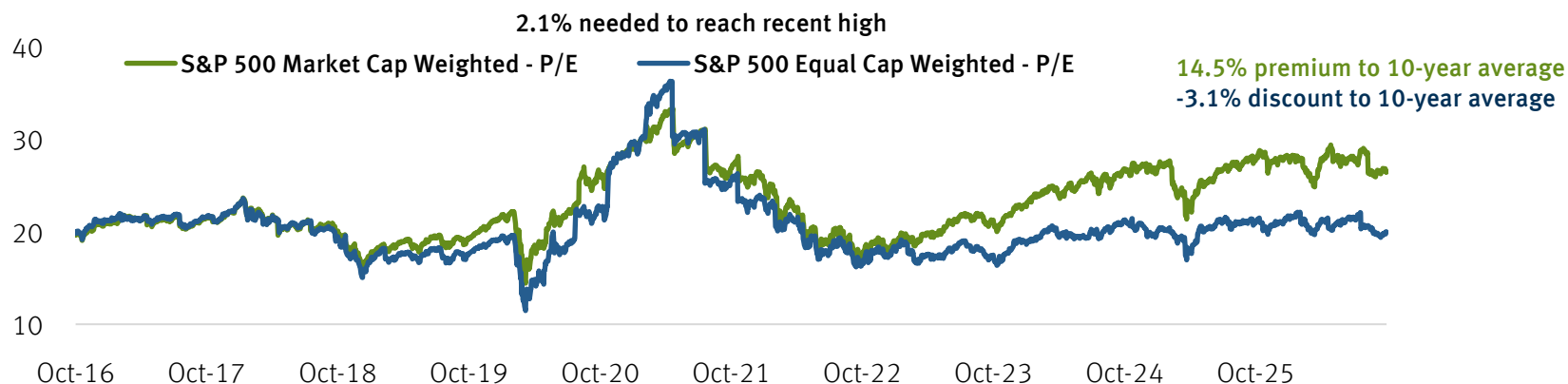
S&P 500 EPS Growth, Year over Year (%)



Q2 2026 headline lifted by one-time investment gains at several large technology companies. 12/31 estimates shown are FactSet's Jan. 9 figures, the closest published to year-end (Q1 on Dec. 31: 12.7%).

Source: FactSet Earnings Insight (Oct. 9, 2026: Q3/Q4 2026, CY 2026 and CY 2027 estimates, forward P/E, Q3 scorecard; Jan. 9, 2026: earliest available 2026 quarterly and CY 2026 estimates, ~Dec. 31). Q1–Q2 2026 actuals and CY 2027 start-of-year estimate: Stifel CIO Office via FactSet (Sept. 2026). Returns: Bloomberg, Q3 2026.

	EPS	S&P 500 P/E								Current S&P 500 Index Level
		21x	22x	23x	24x	25x	26x	27x	28x	
Consensus 2026 EPS →	\$363	7,659	7,979	8,342	8,704	9,067	9,430	9,792	10,292	↗
	\$345	7,286	7,590	7,935	8,280	8,625	8,970	9,315	9,790	
	\$330	6,969	7,260	7,590	7,920	8,250	8,580	8,910	9,365	
	\$315	6,652	6,930	7,245	7,560	7,875	8,190	8,505	8,939	
	\$300	6,336	6,600	6,900	7,200	7,500	7,800	8,100	8,513	
	\$285	6,019	6,270	6,555	6,840	7,125	7,410	7,695	8,088	
Consensus 2025 EPS →	\$270	5,700	5,938	6,208	6,478	6,748	7,018	7,288	7,659	



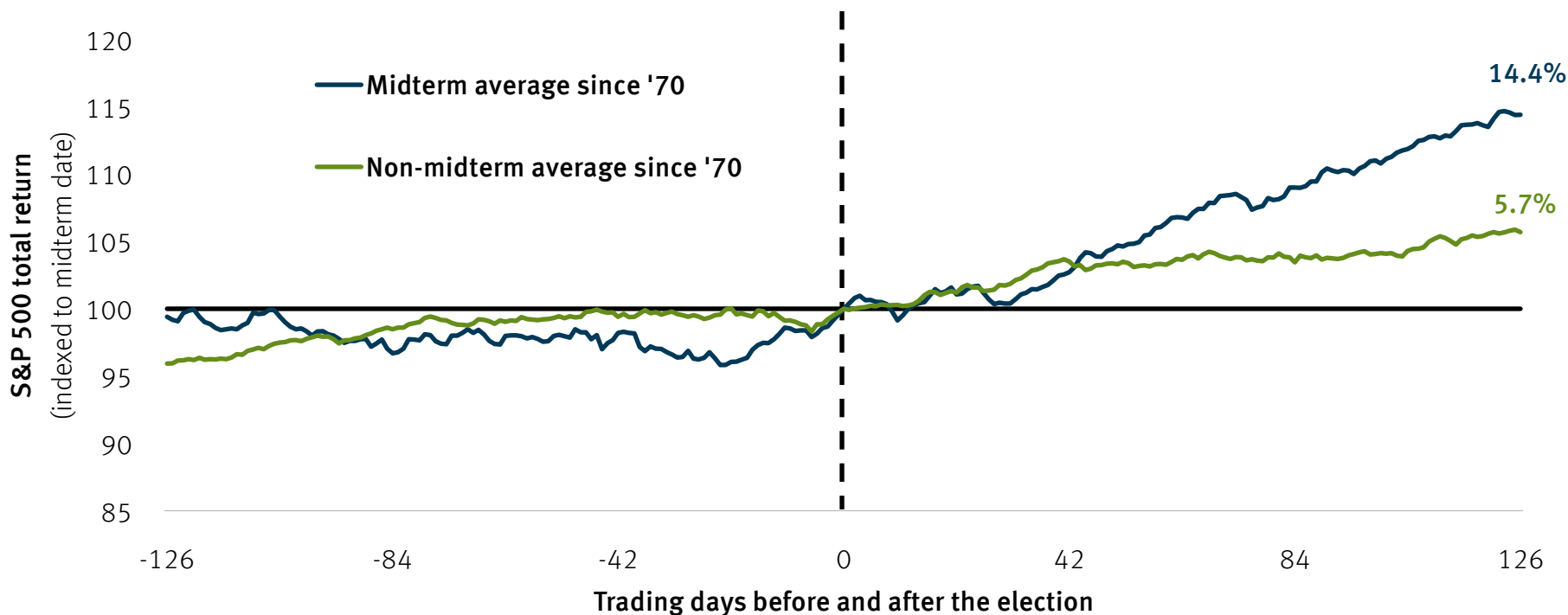
Earnings

- For 2026, the forecast has been revised upward to 34.4%, compared to 15.3% at the beginning of the year.
- For 2027, the forecast has been revised upward to 15.4%, compared to 15.1% at the beginning of the year.

EPS = Earnings Per Share

*Source: Stifel CIO Office, FactSet, and Bloomberg, as of October 16, 2026.

Historically, markets have tended to rally after midterms as event risk passes



Source: Stifel CIO Office via Bloomberg & Blackrock, as of October 16, 2026.
Outcomes vary by period; past market behavior does not guarantee future results.

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%	12.1%	3.4%	12.9%
S&P 500 Eq. Weight.	13.8%	13.0%	11.4%	6.2%	2.4%	13.7%
S&P High Dividend	5.5%	11.1%	3.3%	7.6%	8.1%	20.0%
S&P 500 Low Vol. High Div.	1.7%	18.3%	3.7%	-0.4%	-0.1%	9.8%
MSCI U.S. High Dividend	6.8%	11.7%	12.0%	5.2%	3.4%	16.7%
NASDAQ Composite Index	44.7%	29.6%	21.2%	15.8%	1.1%	13.0%
S&P 500 Financials	12.1%	30.5%	15.0%	9.2%	4.8%	2.5%
KBW Reg. Banking	-0.4%	13.2%	6.5%	6.8%	-3.6%	11.5%
Bloomberg U.S. 1000	26.7%	24.2%	17.5%	11.8%	3.1%	12.7%
Bloomberg U.S. 1000 Eq. Wt.	19.9%	13.1%	10.9%	4.0%	0.0%	9.5%
Bloomberg U.S. 1000 Value	9.4%	13.6%	16.5%	8.4%	3.3%	19.0%
Bloomberg U.S. 1000 Growth	36.1%	28.9%	17.9%	13.1%	3.0%	10.5%
Bloomberg Magnificent 7	107.0%	67.3%	24.9%	16.5%	9.7%	8.7%
NYSE FANG+ Index	96.4%	51.0%	20.8%	28.8%	10.1%	17.8%
S&P 600 Index	15.9%	8.6%	6.0%	6.7%	-3.8%	15.2%
S&P 600 Quality Index	24.3%	7.8%	1.4%	4.6%	-2.0%	10.0%
Bloomberg U.S. 2000	17.1%	12.0%	11.1%	3.1%	-7.3%	9.6%
MSCI EAFE Index	18.2%	3.8%	31.2%	-1.1%	0.0%	8.9%
MSCI EM Index	9.8%	7.5%	33.6%	1.4%	-5.5%	16.4%

Long-Term Themes: Defining the Future

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

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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LIVE WEBINAR

2026 U.S. Midterm Elections

The midterm elections will be held on Tuesday, November 3, 2026.

Join us for two 45-minute sessions: the first to frame what is at stake and what markets have already discounted, the second to translate the results into portfolio implications.

[Register for Part One](#) | [Register for Part Two](#)



Artificial Intelligence: Free Markets, Bad Actors, and Economic Transformation

Market Sight | Lines

Artificial intelligence is no longer a future concept. It is already changing how individuals work, how businesses operate, and how value is created across the economy. In this week's SightLines, we explore how competition and free markets accelerated the development of AI, the growing debate around regulation and misuse, and why we continue to believe AI has the potential to boost productivity and support long-term economic growth.

[READ](#)

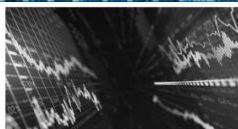


The Fed Raises Rates to Combat Inflation

Market Sight | Lines

After cutting rates six times across 2024 and 2025, the Federal Reserve reversed course this week with a 0.25% rate hike as higher oil prices and renewed inflation pressures complicated the path back to 2%. In this week's SightLines, we break down the Fed's decision, what the latest economic projections reveal, and why higher-for-longer rates may remain a key theme for investors.

[READ](#)



Numerous Crosscurrents in a Resilient Economy and Market

INVESTMENT STRATEGY BRIEF

We unpack numerous crosscurrents in the current environment, including Iran/oil prices, inflation/Federal Reserve policy, fiscal trajectory/elevated rates, and artificial intelligence infrastructure/deployment.

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ALLOCATION

INSIGHTS

DYNAMIC ASSET ALLOCATION

VIEW LEGEND

U

Underweight

N

Neutral

O

Overweight

	ASSET CLASS	CHANGE	VIEW	COMMENTS
U.S. Equity	U.S. Large Cap Equity	=	N	Small caps can offer greater sensitivity to an improving growth backdrop, but higher absolute rates and greater financing sensitivity offset the case; large caps continue to offer stronger 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	Strong earnings growth continues to support U.S. equities, although valuations remain above historical averages. With fundamentals doing more of the work, future returns are likely to depend increasingly on continued earnings delivery rather than further multiple expansion.
	Non-U.S. Equity	=	N	Attractive valuations, improving earnings trends, and renewed U.S. dollar weakness support international equities, while slower growth and geopolitical risks argue for maintaining a balanced stance.
	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, attractive valuations, and a weaker U.S. dollar continue to support emerging markets. Exposure to AI supply chains, global capital spending, and reshoring trends further strengthens 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		Treasuries remain an important source of liquidity and portfolio ballast, but persistent deficits, heavy issuance, above-target inflation, and rising demand for long-term capital are keeping pressure on the long end of the curve. We remain underweight and prefer earning income in higher-quality spread sectors.
	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 offer attractive income and wider spreads over Treasuries while retaining high credit quality, supporting our overweight stance.
	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



The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. 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. 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.