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Greetings,

My team and I are pleased to share with you 2020 Outlook: A Decade of Productive Competition. Over the last decade, investors were focused on the recovery from the financial crisis, monitoring the economy, the Fed’s monetary policy, and corporate earnings. As we look forward, we see the 20s as a decade of productive competition, such as U.S. versus China, capitalism versus socialism, innovation versus tradition, and globalism versus protectionism. Why “productive” competition? We believe the way in which the U.S. responds to the challenges of this competition will make our system and our economy better in the long run.

Coming off a weak 2018, stock markets rebounded in 2019. And, seemingly more than ever before, geopolitics are in play, with risks, policy shifts, and programs greatly influencing the global economy and markets. So, when we set our 2019 outlook a year ago, we made four predictions that unfolded over the course of the year: (1) a more accommodative Federal Reserve, (2) a resolution to Brexit, (3) a U.S.-China trade deal, and (4) some degree of bipartisanship in D.C. Through the ebbs and flows of these resolutions, stock markets were at times volatile in 2019, but posted very good returns for the year.

We provide a more detailed look back in our A Year in Review: 2019. Take, for example, the S&P 500. Let’s first consider history. Of the last 84 years, 12 showed returns above 2019’s return of 31.5%. We can also look forward. In our planning, we assume an average annual return of 7.75% for large cap U.S. equities over the next 20+ years. We couple this with a risk estimate — a return standard deviation of 14.25% — to account for market swings. By these measures, we estimate there is a 5% chance of a return of 31% or better in any year. That means that in roughly one out of every 20 years, we’ll experience a return like 2019 or better.

As mentioned, geopolitics are in play. With that in mind, we provide some further context for 2019’s results as well as our 2020 Outlook by sharing The Growing Role of Geopolitics.

One example we’ve been focused on is U.S.-China trade. Trade tensions between the two nations were a key driver of 2019 equity volatility. U.S. stocks fell in May, triggered by escalating trade tensions, which grew into a full-fledged trade war. While the U.S. originally pursued a comprehensive deal, the parties ultimately designed a multi-phase approach, separating and deferring the most complex issues. In late 2019, a Phase One deal was announced. Even with a trade deal in place, we see more competition between the U.S. and China going forward, sharing perspective in Beyond the Trade War: Future U.S.-China Competition.

Another major geopolitical focus in 2020: the U.S. presidential election. Without question, the anticipation of election results, and the final results themselves, will drive market direction and volatility. We share Getting Ready: The 2020 Presidential Election to help you assess how the election is unfolding, measure the likelihood of different results, and gauge the corresponding impact on the economy and markets.

Finally, we share content you can use. First and foremost is our 2020 Outlook. It includes our views on three possible scenarios for the coming year, with a base case that is modestly positive, as well as guidance on portfolio positioning and dynamic leanings. Second, we offer two brief points of guidance for your ongoing consideration: Stifel’s Approach to Asset Allocation shares the tenets of our asset allocation approach, and Stifel Guidance explains where and when to get our work.

Happy New Year!

Michael P. O’Keeffe, CFA
Chief Investment Officer
The fourth quarter surpassed the 10th anniversary of the current economic expansion. In an effort to prolong the expansion and manage downside risks, the Federal Reserve cut rates three times in 2019. Trade disputes and geopolitics remain top of mind for investors, but the U.S. economy continues to show its resilience. The unemployment rate is at 3.5%, its lowest level since 1969. Personal income is rising, consumer spending is robust, and GDP, while slowing, still remains above the long-term trend potential.

As part of our work, we monitor a proprietary checklist of market and economic data to look for signs of a recession. Out of 13 measures, just three show caution: (1) a flat-to-inverted yield curve, which often precedes a recession, (2) higher wage growth, which sometimes precedes higher inflation, and (3) decreasing truck shipments, which may be a sign of a business slowdown. But the other ten measures, like credit spreads, money supply, jobless claims, and job sentiment, point to expansion.

With 2019 defined by the resolution of some key geopolitical risks and supportive monetary policy surprises, we see a shift in 2020 to fundamentally driven growth and the possibility of further fiscal policy support. One significant geopolitical risk – the uncertainty of the 2020 presidential election – will drive volatility and direction.

We view our base-case scenario as the most likely outcome. However, we also review the possible upside and downside risks to our view.

**Bull Case (25% probability):**
When we ask ourselves about possible drivers for better-than-expected economic and market results, we focus on three factors: a speedy resolution to the U.S.-China Trade War, a business-friendly presidential candidate emerging as the clear front runner, and a strong recovery in manufacturing. These greatly reduce uncertainty, and business spending increases. Productivity and wage growth also increase, further supporting the consumer. Current monetary policy provides stimulus, and we return to synchronized global growth. Fixed income markets benefit from a modest compression in spreads. Company earnings grow more than our base case, and equity market returns move even higher.

**Bear Case (15% probability):**
In turn, when we ask ourselves about possible drivers for economic and market results worse than we expect, we focus again on three possible topics: geopolitical risks resurface, a business-unfriendly candidate is the lead 2020 U.S. presidential candidate, and, despite rising inflation, global growth slows, leading to a recession. The U.S. and China trade talks break down and tariffs are again reinstated, resulting in falling consumer and business confidence. Central banks are limited in their ability to prop up the economy. As a result, company earnings fall and stock returns are negative.

The consensus is currently forecasting 1.8% GDP growth for 2020, and our view of the economy is also constructive. Our base case (60% probability) reflects a modestly positive outlook for next year and is predicated on the following assumptions:

- **Economic growth may slow further, but continue.** The Fed’s rate cuts from the prior year should support the economy, allowing the U.S. to have another year of above-trend growth. A compromise on U.S.-China trade and reduced uncertainty should aid recovery in manufacturing, allowing global economic growth to stabilize.

- **Earnings growth muted, but positive.** With the economy growing, earnings are also expected to grow in the low to mid-single digits as a tighter labor market and subsequent wage growth puts pressure on profit margins.

- **Fiscal support will come into focus.** Central banks will remain data dependent, monitoring domestic and international stresses, but their toolkit is more limited. We, in turn, expect some fiscal impulse to provide an incremental boost to the global economy.

- **The presidential election, while a source of volatility, will support markets.** Our base case assumes the election of a business-friendly president.
## 2020 OUTLOOK

### MACRO VIEWS

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2020 Target</th>
<th>Our View</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core PCE Inflation</strong></td>
<td>2.00% - 2.25%</td>
<td>Stable</td>
<td>Inflation seems to be approaching the Fed's target but may drift modestly higher due to three rate cuts in 2019 and late cycle pressures such as low unemployment.</td>
</tr>
<tr>
<td><strong>Real GDP</strong></td>
<td>2.00% - 2.25%</td>
<td>Close to trend</td>
<td>GDP growth is slowing around trend led by consumer spending, housing, and capital expenditure.</td>
</tr>
<tr>
<td><strong>Stock Market Volatility</strong></td>
<td>-</td>
<td>A little higher</td>
<td>Volatility was subdued last year on resolutions of key risks and additional accommodative monetary support. 2020 volatility is likely to be influenced by U.S. presidential elections and uncertainty around the next wave of unresolved global trade issues.</td>
</tr>
</tbody>
</table>

### EQUITY

<table>
<thead>
<tr>
<th>Equity Category</th>
<th>Return</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Equities Large Cap (S&amp;P 500)</strong></td>
<td>5%</td>
<td>Positive returns close to or slightly lower than our long-term capital market assumptions</td>
</tr>
<tr>
<td><strong>U.S. Equities Small Cap (Russell 2000)</strong></td>
<td>5%</td>
<td>Positive returns close to or slightly lower than our long-term capital market assumptions</td>
</tr>
<tr>
<td><strong>Developed Markets (MSCI EAFE)</strong></td>
<td>8%</td>
<td>Positive returns close to or slightly lower than our long-term capital market assumptions</td>
</tr>
<tr>
<td><strong>Emerging Markets (MSCI EM)</strong></td>
<td>7%</td>
<td>Positive returns close to or slightly lower than our long-term capital market assumptions</td>
</tr>
</tbody>
</table>

2019 saw resolutions on key topics including restrictive Fed policy, U.S. China trade tensions, Brexit uncertainty, and D.C. gridlock, which resulted in multiple expansion for global and U.S. equity markets. 2020 is likely to be driven more by fundamentals and earnings growth, supported by continued economic growth.

### FIXED INCOME

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Range</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Funds Rate</strong></td>
<td>1.50% - 1.75%</td>
<td>We anticipate that the Fed keeps monetary policy unchanged, while remaining data dependent. The balance sheet expansion is likely to continue.</td>
</tr>
<tr>
<td><strong>10-Year Yield</strong></td>
<td>2.0% - 2.75%</td>
<td>Higher</td>
</tr>
<tr>
<td><strong>Investment-Grade Credit (OAS)</strong></td>
<td>110 - 135</td>
<td>Slight widening</td>
</tr>
<tr>
<td><strong>High-Yield Credit (OAS)</strong></td>
<td>400 - 450</td>
<td>Slight widening Spreads compressed in 2019 as investors demanded less for taking on credit risks. Spreads are likely to widen just modestly from current levels, still supported by the continued economic expansion.</td>
</tr>
</tbody>
</table>
Our portfolio recommendations continue to be anchored in our long-term outlook, with a focus on diversification both across and within asset classes. Our dynamic leanings are against our long-term strategic asset allocation (SAA) and result from our short- to medium-term views. Below is a table capturing our current views. We acknowledge that this table can sometimes be difficult to translate to a holistic portfolio allocation, so here is our explanation.

Between equity, fixed income, and alternative investments, our dynamic asset allocation (DAA) is equal to our strategic asset allocation (SAA) that corresponds to each risk profile.

Within equity, we make several decisions, one of which is how to dynamically allocate between U.S. and non-U.S. equity. Our current leaning is to overweight non-U.S. equity, both developed and emerging markets, versus U.S. equity.

Investors should also consider investments across market capitalization (large cap, mid cap, and small cap) and style (value versus growth). In the U.S., we are neutral between U.S. large cap and U.S. small cap, but we are defensively positioned with our continued overweight allocation to U.S. large cap value.

Outside the U.S, we are neutral between developed and emerging markets equities and recommend a diversified approach to both. Within developed markets, we maintain our overweight allocation to Europe.

Within fixed income, we are neutral between U.S. investment grade and U.S. high yield. Within investment grade, we’ve brought our overweight position to corporates back to neutral, meaning equal to our long-term allocation.

We continue to suggest a shorter maturity structure to soften interest rate risk and an overweight to short-dated Treasury inflation-protected securities (TIPS).

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>PREVIOUS</th>
<th>CURRENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td></td>
<td>▼</td>
<td>We recommend a diversified approach to investing in U.S. and non-U.S. equity. When investing dynamically versus our Strategic Asset Allocation (SAA), our current dynamic leaning is to underweight U.S. equity relative to non-U.S. equity.</td>
</tr>
<tr>
<td>U.S. Large Cap*</td>
<td></td>
<td>▼</td>
<td>Global economic growth stabilization is likely to provide a boost to large cap company earnings. A tight labor market and rising cost pressures may challenge profit margins. Even though valuations have risen, they are not at excessive levels. Note, our neutral is within U.S. equity and relative to U.S. small cap.</td>
</tr>
<tr>
<td>Large Value versus Large Growth</td>
<td>▲</td>
<td>▲</td>
<td>We have a preference for value over growth due to value’s more defensive nature during the late stages of the business cycle.</td>
</tr>
<tr>
<td>U.S. Small Cap</td>
<td></td>
<td>▼</td>
<td>U.S. economic growth may slow further, but it’s likely to continue. This is supportive of small cap company earnings. However, a tight labor market and rising wage pressures may especially challenge company profit margins. Note, our neutral is within U.S. equity and relative to U.S. large cap.</td>
</tr>
<tr>
<td>Small Value versus Small Growth</td>
<td>▼</td>
<td>▼</td>
<td>We recommend a diversified approach, investing in both small cap value and growth.</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td></td>
<td>▲</td>
<td>We recommend a diversified approach to investing in U.S. and non-U.S. equity. When investing dynamically versus our Strategic Asset Allocation (SAA), our current dynamic leaning is to overweight non-U.S. equity relative to U.S. equity.</td>
</tr>
<tr>
<td>Europe versus Asia</td>
<td>▲</td>
<td>▲</td>
<td>Europe’s economic growth has decelerated, but we think the region has the tools to stimulate growth. The European Central Bank remains accommodative, and countries with a budget surplus could provide a fiscal boost. Political concerns related to Brexit and tariffs have receded.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td></td>
<td>▼</td>
<td>A compromise on U.S.-China trade and reduced uncertainty should provide some recovery in the manufacturing sector, allowing for global economic growth to stabilize. This is supportive of company earnings. China is a key driver for this market, and we expect its economy to be a meaningful contributor to this region’s growth. A combination of a patient Fed, accommodative EM central banks, and a stable/slightly lower dollar is positive for emerging economies. Note, our neutral is within non-U.S. equity and relative to non-U.S. developed markets.</td>
</tr>
</tbody>
</table>

*Our U.S. Large Cap Equity guidance is based on the Russell 1000 Index, which includes the Russell Top 200 and Russell Midcap Indices.

(Continued on next page.)
## ASSET CLASS PREVIOUS CURRENT COMMENTS

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>PREVIOUS</th>
<th>CURRENT</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Investment Grade</td>
<td>□</td>
<td>□</td>
<td>We have a preference for shorter duration. Note, our neutral is within fixed income and relative to U.S. high yield.</td>
</tr>
<tr>
<td>Corporates</td>
<td>▲</td>
<td>▼</td>
<td>We favor a diversified, market type approach that balances the allocation to corporates, government/agency, and mortgage-backed securities (MBS).</td>
</tr>
<tr>
<td>Government/Agency</td>
<td>▼</td>
<td>▼</td>
<td></td>
</tr>
<tr>
<td>MBS</td>
<td>▼</td>
<td>▼</td>
<td></td>
</tr>
<tr>
<td>Inflation Protected</td>
<td>▲</td>
<td>▲</td>
<td>Inflation is modest and around the Fed's 2% target. Other inflation measures, such as trimmed inflation, show inflation is picking up. Short-dated TIPS offer protection if inflation accelerates.</td>
</tr>
<tr>
<td>Duration</td>
<td>▼</td>
<td>▼</td>
<td>We expect rates will continue to rise, albeit at a slower pace. We recommend maintaining a shorter duration than the benchmark.</td>
</tr>
<tr>
<td>U.S. High Yield</td>
<td>□</td>
<td>□</td>
<td>Economic data remains positive. Default rates are low, but have recently increased modestly. We believe spreads will be stable, but may rise modestly. Consider higher credit quality. Note, our neutral is within fixed income.</td>
</tr>
<tr>
<td><strong>ALTERNATIVES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Assets</td>
<td>□</td>
<td>□</td>
<td>For investors interested in alternative investments and able to handle illiquidity, exposure to some combination of private equity, private debt, and/or private real estate can be considered as part of a diversified portfolio.</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>□</td>
<td>□</td>
<td>For investors who are interested in alternative investments, are able to handle less liquidity, and have conviction about manager skill, exposure to hedge funds can be a helpful part of a diversified portfolio. This is especially true in volatile, low-return environments.</td>
</tr>
</tbody>
</table>

▲ Overweight ▼ Underweight □ Neutral
At the start of 2019, our positive outlook on the economy and capital markets was anchored on resolutions of some of the stresses that prevailed in 2018, including: Federal Reserve policy, recession fears, and the U.S.-China trade war. Throughout the year, these three themes drove markets to record highs, but with intermittent volatility.

**Global Macro Backdrop**
As we predicted, economic growth slowed in 2019. The U.S. economy is estimated to have grown 2.3%, above the longer-term estimate of 1.8% - 2.0% but slower than the 2.9% growth in 2018. Global growth slowed to 3.0% from 3.6% in the prior year. In an effort to prolong the economic expansion, the Fed effectively shifted its hawkish stance and for months telegraphed its first rate cut since the 2008-09 financial crisis. While at the start of the year, many expected the Fed to hike rates three times, ultimately it cut rates three times in 2019.

While some sectors of the U.S. economy weakened, manufacturing in particular, the overall U.S. economy showed resilience. The unemployment rate remains at historic lows, but more generally, employment growth has slowed, consistent with a tight labor market. This, in turn, has led to continued wage gains and robust consumer spending. For example, wages were up 3.1% and consumer spending is estimated to have increased 2.6% year over year.

The ISM manufacturing purchasing managers’ index (PMI) fell below the all-important level of 50, indicating contraction in the manufacturing sector. The August PMI reading of 49.1% ended a 35-month expansion period in which the index averaged 56.5%. The contraction was, in part, attributable to the ongoing trade uncertainty and softening economic growth outside the U.S. Given the reduced role of manufacturing in the U.S. economy and the strength in other areas, we guided investors to not yet worry about a recession. At the end of the year, evidence of stabilization in the industrial sector outside the U.S. began to emerge, increasing investor hopes that the global economy may be starting to reaccelerate.

**Geopolitics**
It seems that at times this year, geopolitics, from a U.S.-China trade deal to Brexit to unrest from Italy to Hong Kong, trumped economic fundamentals. Accordingly, this year we began an even more formal process of identifying and tracking these geopolitical risks.

We entered the year optimistic on U.S.-China trade, believing a deal would get done. However, the U.S.-China “trade conflict” evolved into a “trade war” in 2019,
with both parties escalating both potential and executed threats truly harmful to the global economy. And with this, the idea of trade uncertainty entered the narrative of investors and central banks alike. The trade war was part of the rationale for the Fed’s policy adjustment. At the time of this writing, trade talks have resumed and a preliminary Phase One deal has been agreed upon with expectations that it will be signed in early 2020. However, as discussed in this year’s publication and as shown on our dashboard, we believe that a trade deal will not mark an end to the long-term competition between the two economies.

The original deadline of March 2019 for the UK to leave the European Union was not met, and Brexit was delayed. Through nine months of negotiations, further delays, a new prime minister, and a general election, a Brexit Withdrawal Agreement Bill passed through the UK Parliament in December 2019. The UK is expected to formally leave the EU on January 31, 2020.

Our target returns for the year, like those of many analysts, were surpassed in the first quarter as the S&P 500 staged its best first quarter performance in 21 years.

Equity Recap
Our target returns for the year, like those of many analysts, were surpassed in the first quarter as the S&P 500 staged its best first quarter performance in 21 years. For the full year, the S&P 500 was up 31.5%, mainly on apparent progress in U.S.-China trade negotiations and the Fed’s pivot to a more dovish monetary stance. Growth stocks continued to outperform value stocks, up 36.4% versus 26.5%. Information technology stocks performed best, up 48.0%, while energy stocks performed worst on a relative basis, up 7.7%. Small cap stocks, as represented by the Russell 2000 Index, underperformed large caps, but were up 25.5% for the year.

Non-U.S. markets also had strong returns, but generally weaker than those of U.S. equities. For the year, the MSCI EAFE Index, representing non-U.S. developed markets, was up 22.0%. In the eurozone, economic data deteriorated and the uncertainty related to trade affected the manufacturing sector. Germany barely avoided a recession. The European Central Bank responded to the economic slowdown by lowering interest rates further into negative territory. In addition, the ECB restarted quantitative easing on November 1, buying 20 billion euros of securities per month until inflation returns to its 2% target.

Emerging markets, as measured by the MSCI EM Index, were up 18.4%. A relatively stronger dollar and trade tensions remained headwinds for these markets. China’s economy slowed further with measures such as industrial production, manufacturing, and retail sales all decelerating.

Fixed Income Recap
The 10-year Treasury yield was at 2.69% at the start of 2019 and declined through the year, settling at 1.92% on December 31. The spread between the two-year and 10-year Treasuries narrowed over the past year, turning briefly negative in August for the first time since the financial crisis, but steepening in the fourth quarter.

The 10-year Treasury yield fell to as low as 1.47%, and the 30-year hit a record low before rising in September on account of reduced uncertainty. The U.S. and China moved to de-escalate trade tensions, a new government was formed in Italy, and the chances of a no-deal Brexit lessened. All of this led to a rise in yields at the end of the year.

An inversion in the spread between the two-year and 10-year Treasuries often indicates recession and/or market downturn. Shorter maturity yields moved lower as a result of the Fed’s rate cut in July, but longer rates also fell as trade tensions escalated and investors grew concerned about the global growth outlook.

The Bloomberg Barclays Aggregate Index, representing investment-grade taxable bonds, returned 8.7% for the year. The Bloomberg Barclays Municipal Bond Index, representing investment-grade municipal bonds, returned 7.5%. High-yield bonds, as measured by the BofA ML U.S. High Yield Master II Index, were up 14.4%, correlated with the positive equity performance.
Without question, a major geopolitical focus this year will be the U.S. presidential election. As market participants anticipate election results and the election unfolds, markets will react.

**President Trump’s First Term**

Historically, the chances of a sitting U.S. president winning re-election depend a lot on the state of the economy and how it’s performed during the previous four years. Since 1900, of 19 presidents who ran for re-election, just four have lost (George H.W. Bush lost to Bill Clinton, Jimmy Carter lost to Ronald Reagan, Herbert Hoover lost to Franklin D. Roosevelt, and William Taft lost to Woodrow Wilson). The common thread in these losses: an intervening economic recession or downturn in the economy. Here are some statistics on the performance of the U.S. economy, since the end of 2015, under President Trump:

- U.S. GDP per capita is estimated to be $65.11 thousand at the end of 2019, up from $56.79 thousand.
- Unemployment has fallen to 3.5% from 5.3%.
- Labor force participation (ages 25 to 54) has risen to 82.8% from 81%.
- Average hourly wages have grown to 3.1% from 2.5%.
- The S&P 500 has risen to 3,231 from 2,044, a 58% increase.

If the U.S. economy remains resilient going into the election and history serves as guide, then President Trump’s chances of being re-elected remain favorable.

So how do we prepare for the election? Our approach focuses on: (i) understanding the four phases the election, (ii) anticipating each candidate’s impact on businesses and the markets, (iii) understanding each candidate’s chance of winning, and (iv) assessing any possible changes in congressional control.

**The Four Phases of the Election**

So let’s start with the phases of the election, which we first shared in [The Calculus of the 2020 Presidential Election](#).

**Early Primary:** We’re late in the early primary season, as evidenced by the 14 candidates still formally running in the Democratic primary. At this stage, there are a high number of candidates offering a wide range of positions on a wide range of issues creates uncertainty. For the Democrats,
views range from moderate to more extreme on topics like healthcare, big tech, climate change, and education reform.

**Late Primary:** The late primary season will be defined by a narrowing of candidates and greater confidence in a few that could win the primary. We’re quickly approaching this late primary phase, with candidates dropping out and others emerging as front-runners. Currently, these include Joe Biden, Elizabeth Warren, and Bernie Sanders. And Michael Bloomberg’s campaign throws new uncertainty into the mix. As we get further into this phase, uncertainty will lessen. Yet changes in candidate popularity along the way may drive market volatility.

The Democratic presidential candidate will emerge from the Democratic National Convention being held July 13-16.

**General Election:** President Trump won in 2016 as a candidate perceived to be outside of D.C. politics. His base continues to believe he will drive change that is more supportive of America, and they remain suspicious of career politicians. Many of his supporters are private about their support, so polls leading into the 2016 election were misleading, and there is some chance that polls today are similarly less reliable.

The general election will, of course, be further defined by the Democratic candidate. For example, Biden or Bloomberg each offer a moderate platform, more similar to President Trump’s positions, as compared to less moderate candidates like Warren or Sanders. Some political strategists believe that President Trump is more likely to win against a less moderate candidate.

Once our next president is elected, we move into the fourth phase: post-election.

**Post-Election:** Once a candidate wins the election, as investors we must more fully assess the proposed platform and policies of the incoming administration. If they align with the views developed by investors during the general election and there are no surprises, the election will likely have a muted effect on the markets. If the general election results are a surprise, markets may react. From this view, a Sanders or Warren win would likely have a negative effect on the markets. The impact of the remaining candidates is less clear, and results could range from positive to negative.

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### Candidates’ Chances of Winning

The following table shows the chances for each of the top six Democratic candidates, and each one’s chance of beating President Trump in the general election.

<table>
<thead>
<tr>
<th>CANDIDATE</th>
<th>PRIMARY CHANCES</th>
<th>VS. TRUMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biden</td>
<td>38%</td>
<td>+4.5%</td>
</tr>
<tr>
<td>Sanders</td>
<td>24%</td>
<td>+2.6%</td>
</tr>
<tr>
<td>Warren</td>
<td>13%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Buttigieg</td>
<td>13%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Yang</td>
<td>10%</td>
<td>N/A</td>
</tr>
<tr>
<td>Bloomberg</td>
<td>9%</td>
<td>+0.3%</td>
</tr>
</tbody>
</table>

Source: Stifel Investment Strategy via predictit.org and RealClearPolitics

So, for example, presently there is a 38% chance Biden will win the Democratic nomination, and if he does, polls show he has +4.5% better chance of winning versus Trump. On a more general level, odds are showing a 52% chance of the Democrats winning the presidency.

**Congressional Control**

Odds are currently showing a 55% chance of no change in control of Congress in the 2020 election. But the implication is there is a 45% chance of some kind of change, equally split for each party taking full control.

**Conclusion**

The 2020 election results remain uncertain. As we make our way through 2020, we will use the framework to assess the changing landscape and the corresponding potential impact on business, the economy, and the markets. ◇
### Candidates: Economic and Market Impact

The table below offers an assessment of the business “friendliness” of the top six Democratic candidates.

<table>
<thead>
<tr>
<th>Democratic Candidate</th>
<th>Business Friendly?</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joe Biden</td>
<td>Neutral to No</td>
<td>On Silicon Valley, has suggested an in-depth look at breaking up big tech and tax breaks. Would annul Trump’s tax cuts to reduce wealth gap. Favors equal access to quality education, healthcare, and housing.</td>
</tr>
<tr>
<td>Bernie Sanders</td>
<td>No</td>
<td>Wants a new tax on Wall Street transactions and to use proceeds to cancel student debt and make public college free. Wants to break up big tech and review all mergers under the Trump administration. Criticized companies for paying low taxes, and wants steep taxes on billionaires.</td>
</tr>
<tr>
<td>Elizabeth Warren</td>
<td>No</td>
<td>Wants to break up big tech and limit companies’ ability to own and participate in their marketplace. Would unwind mergers. Sponsoring an “Ultra-Millionaire Tax” to generate $2.75 trillion over 10 years for student debt forgiveness or universal childcare. Wants more Wall Street regulations.</td>
</tr>
<tr>
<td>Andrew Yang</td>
<td>Neutral to No</td>
<td>Former CEO of a startup. Less focus on big tech breakup. A focus: implications from jobs automation and legally controlling artificial intelligence companies. His universal basic income views are less business-focused and would mean tax hikes.</td>
</tr>
<tr>
<td>Pete Buttigieg</td>
<td>Yes</td>
<td>Some support from tech firms and Wall Street. Reluctant to break up big tech but supports the protection of individual data rights. Favors decreasing the cost of college with a focus on affordability for students from low-income households.</td>
</tr>
<tr>
<td>Michael Bloomberg</td>
<td>Yes</td>
<td>Critical of financial industry regulation. Supports Wall Street. Opposes wealth tax. Supports “Medicare for all for people that are uncovered.” Viewed to have business-friendly views on economic issues.</td>
</tr>
</tbody>
</table>

Sources:
THE GROWING ROLE OF GEOPOLITICS

As mentioned throughout this year’s report, geopolitics play an increasingly critical role in markets as new global trends shift the landscape. With issues like increased nationalism, cyberattacks, nuclear conflicts, and global leadership, we now live in an era defined by geopolitics. While markets may not be directly linked to some of these topics, the uncertainty around them can sometimes trigger investor anxiety. In turn, this can result in market sell-offs, even with no change in company or market fundamentals. In this article, we highlight some of the key geopolitical concerns weighing on investor mindset going into 2020.

Let’s consider a few risks that dominated headlines in 2019 and may continue to do so in 2020: China trade tariffs, no-deal Brexit, and Gulf tensions.

China Trade Tariffs
The trade war between the U.S. and China dominated the news in 2019. Most recently, the two countries agreed to a preliminary Phase One trade deal, which is expected to be signed in January. While full details have not been released, both sides held press conferences to confirm some terms. The deal supposedly has four components: tariffs, Chinese purchase commitments, structural reform, and currency.

For example, the U.S. did not impose tariffs on $160 billion of Chinese goods on December 15. The tariffs on $120 billion of Chinese goods imposed on September 1 will drop to 7.5% from 15%. And the 25% tariffs imposed on about $250 billion on Chinese shipments to the U.S. will stay in place.

China is set to increase imports from the U.S. to $200 billion, up from $130 billion in 2017. Should China not make the agreed-upon purchases, the U.S. could reimpose tariff rates – what some are calling a “snapback” provision. Other terms include improved intellectual property protection, the opening of the Chinese financial services market, and the prevention of Chinese currency manipulation.

Once the Phase One deal is signed, the parties will shift their focus to a Phase Two agreement, which will address more challenging topics such as forced technology transfer.

No-Deal Brexit
Brexit was big news in 2019, beginning with former UK Prime Minister Theresa May attempting to get her withdrawal agreement through Parliament. After failing to do so and a few deadline extensions later, she resigned and was replaced by Boris Johnson. He took the job with one goal in mind: to leave the European Union no matter what, even if it was without a deal. The uncertainty of the UK potentially leaving the EU without a deal kept markets on edge.

Following months of negotiations, Johnson reached a deal with the EU, but once again faced pushback from the UK Parliament. Parliament wanted more time to review the agreement and ultimately forced Johnson to seek an extension, so uncertainty remained.

With issues like increased nationalism, cyberattacks, nuclear conflicts, and global leadership, we now live in an era defined by geopolitics.
After asking for the extension, Johnson called for an early, “snap” election, which was approved by the House of Commons. Going into the December 12 election, polls showed the Conservative Party with a 10% lead over the Labour Party. The Conservative Party won decisively, 365 seats to the Labour Party’s 203. 326 seats were needed for majority power in Parliament, so this really was a resounding win for the Conservative Party.

Johnson put forward his Brexit agreement to UK Parliament. The deal was approved with a majority of 124 votes and without any amendments. Included in the deal were clauses that:

- Made it illegal for the transition period to extend past 2020
- Removed Parliament’s oversight of negotiations with the EU
- Eliminated the promise to preserve EU requirement for workers’ rights

The Brexit process moves to a transition period, where a full trade agreement between the EU and the UK, will be developed. Johnson has made a commitment to get it done in 2020.

In May 2018, President Trump withdrew the U.S. from a multilateral nuclear deal. Since then, there has been a deterioration in relations. The U.S. issued sanctions on Iran, and the president also labeled Iran’s elite Revolutionary Guard Corps (IRGC) as a “terrorist” group.

In May and June 2019, oil tankers off the coast of the United Arab Emirates were hit by explosives, and the U.S. immediately pointed to Iran as the responsible party. Then the IRGC said it shot down a U.S. drone over the Strait of Hormuz, saying the U.S. violated Iranian airspace.

The EU eventually tried to deescalate tensions, with French President Emmanuel Macron leading the effort. Talks between the U.S. and Iran were scheduled to take place at the United Nations, but never materialized.

At the end of the year, tensions eased and both countries surprisingly cooperated on the release of a U.S. citizen imprisoned in Iran in exchange for an Iranian scientist held in the U.S. This was seen as a positive signal that both sides could potentially work on other outstanding issues. But then tensions escalated quickly at the end of December and early January. Supporters of an Iran-backed Shiite militia tried to storm the U.S. Embassy in Baghdad. The U.S. conducted an airstrike on a road near Baghdad International Airport in Iraq, killing Maj. Gen. Qassem Soleimani, the leader of the foreign wing of Iran’s Islamic Revolutionary Guard Corps. The U.S. announced that Gen. Soleimani and his forces were responsible for the deaths of hundreds of American and coalition service members, and planning more. Abu Mahdi al-Mohandes, deputy leader of the Popular Mobilization Forces, an umbrella group that led the embassy attack, was also killed.

We expect tensions between the U.S. and Iran to remain elevated for the foreseeable future. Any further military conflict may not benefit President Trump in the upcoming 2020 presidential elections.

**Conclusion**

Over the next decade, we expect geopolitics to play an even bigger role as the world becomes more interconnected. We will continue to monitor, assess, and evolve our list of geopolitical risks, sharing updates on a regular basis. ◆
THE GROWING ROLE OF GEOPOLITICS

Dashboard
In 2019, we developed a geopolitical dashboard to serve as a framework for identifying and tracking risks, such as the key drivers of economic competition and market volatility. Presented below is our dashboard, which depicts each event sorted by their likelihood of occurring and potential market impact with a brief description of the event and/or our view.

<table>
<thead>
<tr>
<th>EVENT</th>
<th>LIKELIHOOD</th>
<th>MARKET IMPACT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>No-Deal Brexit</td>
<td>1</td>
<td>5</td>
<td>Base case: Transition period will be completed in 2020. Expect volatility in the transition process.</td>
</tr>
<tr>
<td>Business-Unfriendly U.S. President</td>
<td>3</td>
<td>8</td>
<td>Volatility will likely increase as a result of greater uncertainty around what might happen in the election.</td>
</tr>
<tr>
<td>China Trade Tariffs</td>
<td>3</td>
<td>9</td>
<td>Base case: A broader trade deal is likely to happen. Interim news and tariffs will drive market volatility.</td>
</tr>
<tr>
<td>D.C. Gridlock</td>
<td>4</td>
<td>6</td>
<td>Base case: Drug pricing and internet regulation a focus for both parties; expect some compromise.</td>
</tr>
<tr>
<td>U.S.-Europe Relations</td>
<td>5</td>
<td>7</td>
<td>Still a strategic ally, however, relationship occasionally challenged via NATO and tariffs.</td>
</tr>
<tr>
<td>North Korea Conflict</td>
<td>6</td>
<td>3</td>
<td>Denuclearization still in the works. China remains a liaison between U.S. and North Korea.</td>
</tr>
<tr>
<td>LatAm Populism</td>
<td>6</td>
<td>3</td>
<td>Populism remains driver in Latin America; anti-establishment policies may impact investor confidence.</td>
</tr>
<tr>
<td>South China Sea Conflict</td>
<td>6</td>
<td>4</td>
<td>China expands activity on Spratly Islands, a crucial international shipping route. Potential for military clash with U.S.</td>
</tr>
<tr>
<td>Major Terror Attacks</td>
<td>6</td>
<td>4</td>
<td>Terrorist attacks are unpredictable events that may pose disruption.</td>
</tr>
<tr>
<td>Russia-West Relations</td>
<td>7</td>
<td>4</td>
<td>Russia and U.S. appear to be co-existing but continue to fight for power through proxies.</td>
</tr>
<tr>
<td>Cyberattacks</td>
<td>7</td>
<td>4</td>
<td>As society becomes more digitized, the world is more prone to attacks via hacking.</td>
</tr>
<tr>
<td>Italy Populism</td>
<td>7</td>
<td>5</td>
<td>Populism present, but Salvini’s position has weakened. Expect Italy to challenge EU budget rules and institutions.</td>
</tr>
<tr>
<td>Gulf Tensions</td>
<td>8</td>
<td>4</td>
<td>Tensions in the Gulf region will likely not subside in 2020.</td>
</tr>
<tr>
<td>Hong Kong Tensions</td>
<td>8</td>
<td>5</td>
<td>Tensions between Hong Kong and China have risen significantly since the summer. Likely to remain elevated.</td>
</tr>
<tr>
<td>U.S.-China Competition</td>
<td>10</td>
<td>6</td>
<td>Competition for global leadership will impact markets. Tech will continue to play important role.</td>
</tr>
</tbody>
</table>
The U.S.-China trade war was one of the main factors affecting markets in 2019. While progress has been made and both sides may eventually reach a compromise, we believe that there are other deeply rooted forces in play that will challenge relations between the two countries in the decades to come.

The 2017 National Security Strategy\(^1\) and the 2018 National Defense Strategy\(^2\) reports identify “inter-state strategic competition” as the primary concern to U.S. national security. The Department of Defense views long-term strategic competition with China and Russia as one of its “principal priorities.” China is seen as a challenger to “American power, influence, and interests, attempting to erode American security and prosperity.” With the U.S. wanting to maintain its global status and China aspiring to become a world economic power, the competition for leadership will remain intense and lead to periods of market volatility.

**China’s Expanding Economic Footprint**

Since World War II, the U.S. has been the preeminent superpower and leader of the international order. However, China’s economic rise over this period has been remarkable. For example, since 1992, China’s real GDP grew at an average annual rate of 9.6%.

China’s rise has been a long time coming. Four years after the founding of the People’s Republic of China in 1949, China’s Central Government introduced its first five-year plan, inspired by the Soviet Union, which outlined targets for a variety of high-priority industries. The goal of this five-year plan was to emphasize the development of heavy industry and technology rather than agriculture, which had previously been the country’s main focus. Since 1953, China has continuously implemented a series of five-year plans, some of which also set long-term targets for social and developmental initiatives. We wrote about China’s five-year plans in [China’s Accelerating Role in The Global Economy](https://www.ft.com/content/7f700ab4-306d-11e9-80d2-7b637a9e1ba1).

China’s entry into the World Trade Organization in 2000 resulted in more economic success. Its WTO membership gave foreign companies better access to its market and resulted in additional foreign direct investment in the country. China’s economy has become the second largest in the world and is eight times larger than it was in 2001.

Economists predict that China will surpass the U.S. and become the world’s biggest economy. Estimates of when this will happen range from 2030 to 2040, depending on the level of GDP growth being assumed.\(^3\)

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\(^3\) [https://www.ft.com/content/7f700ab4-306d-11e9-80d2-7b637a9e1ba1](https://www.ft.com/content/7f700ab4-306d-11e9-80d2-7b637a9e1ba1)
BEYOND THE TRADE WAR: FUTURE U.S./CHINA COMPETITION

Where and How Will the Two Countries Compete
A superpower is generally viewed as a state with the ability to exert influence through economic and military power, technological advancements, and cultural exports on a global scale. Today, the U.S. is the world’s largest economy, has eight of the ten world’s most valuable brands, and leads in R&D spending. The World Economic Forum ranked the U.S. second (down from first in 2018) in terms of competitiveness based on 12 metrics, including macroeconomic stability, innovation capability, and labor skills. China ranked 28th, unchanged from the previous year.4

Economic and Cultural Influence
As one of the most developed nations, the United States has long provided financial assistance to other countries. In 2016, the U.S. spent approximately $49 billion in foreign aid (1.2% of the federal budget).5 President Trump has sought to reduce foreign aid, saying that “moving forward, we are only going to give foreign aid to those who respect us and, frankly, are our friend.” On the other hand, China has outlined an ambitious $1 trillion project called the “Belt and Road Initiative,” designed to strengthen links related to trade, infrastructure, and investment between China and 65 other countries, which, together, represent 30% of global GDP and 62% of the world’s population. Longer term, China hopes this will strengthen its economic and strategic partnerships, allow for greater cultural influence, and perhaps sway some U.S. allies in its favor.

Technology
U.S. companies dominate the world’s use of technology. And from the U.S.’s perspective, the trade war has partly focused on American companies’ intellectual property rights and forced technology transfer, the involuntary sharing of strategically important technology. The U.S. Trade Representative conducted an investigation and concluded that the Chinese government uses a variety of tools “to require or pressure the transfer of technologies and intellectual property to Chinese companies.”6

U.S. companies want to do business with China, and technology transfer is often required by China. If a company declines to share, it then stands to lose market share to a rival. In a way, this is to be expected, as “among all major economies, the United States has the highest concentration of knowledge- and technology-intensive industries as a share of total economic activity. And in high-tech manufacturing, the United States leads the world with a global share of production of 29%, followed by China at 27%.”7 This includes the ever more important area of artificial intelligence, for which China has aggressively developed its talent pool to be competitive with the U.S.

As a result, the issue of forced technology transfer and intellectual property rights will be a point of contention and likely continue for years to come.

### World’s Largest Technology Companies by Market Capitalization

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Capitalization (Trillions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>1.24</td>
</tr>
<tr>
<td>Microsoft</td>
<td>1.20</td>
</tr>
<tr>
<td>Alphabet</td>
<td>0.93</td>
</tr>
<tr>
<td>Amazon.com</td>
<td>0.89</td>
</tr>
<tr>
<td>Facebook</td>
<td>0.59</td>
</tr>
<tr>
<td>Alibaba</td>
<td>0.57</td>
</tr>
<tr>
<td>Tencent</td>
<td>0.46</td>
</tr>
<tr>
<td>Samsung Electronics</td>
<td>0.28</td>
</tr>
<tr>
<td>Intel</td>
<td>0.26</td>
</tr>
<tr>
<td>Cisco Systems</td>
<td>0.20</td>
</tr>
</tbody>
</table>

Source: Stifel Investment Strategy via Bloomberg, as of December 23, 2019

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5https://www.cfr.org/backgrounder/how-does-us-spend-its-foreign-aid
6https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF
7https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF
Healthcare
The U.S. has been the leader in medical research and development, providing a better quality of life for its citizens and the world. The U.S. leads in terms of R&D spending, spending approximately $550 billion (2.9% of GDP). China’s R&D spending is approximately $480 billion (2.0% of GDP).

However, the Chinese government is committed to developing the pharmaceutical and medical devices industries. China’s global share of investment in pharmaceutical R&D is expected to go from 8.9% to 18.3% in 2021. This is an example of healthy competition, where both sides are “competing” to develop a cure for diseases and make advances in medicine that will ultimately benefit society as a whole.

Capital Markets
China’s capital markets continue to increase in significance and have shown a great capacity for growth. In fact, China’s corporate bond market is now the third largest in the world. Chinese bonds have been incorporated into several indices. China’s equity markets have equally witnessed great progress and are now the second largest in the world. The China A-shares market has been added to indexes provided by FTSE Russell, S&P, Dow Jones, and MSCI.

In addition, market valuations of Chinese tech companies, such as Alibaba and Tencent, have been catching up with their U.S. peers.

Conclusion
Current and future U.S. administrations are expected to maintain a focus on China, especially as it relates to future dominance of global leadership. While the U.S. and China are likely to agree to a trade deal over multiple phases, competition will remain. And China has emerged as a meaningful competitor by focusing on key areas such as technology and healthcare. U.S.-China competition will drive market volatility and opportunity for years to come.

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STIFEL’S BEHAVIORAL FINANCE

Stifel's behavioral finance capabilities synthesize academic insights from behavioral finance, representing practical applications to help clients have a comfortable investment journey, despite market uncertainties and periods of heightened volatility.

The Stifel Financial ID (SFID) is a simple questionnaire that enables us to build a highly detailed profile of your decision-making preferences and attitudes to risk. SFID’s six key indicators reveal how you think and feel about investing. Understanding them can help you make better investment decisions.

To learn more about the Financial ID and our behavioral finance capabilities, speak with your Stifel Financial Advisor.
STIFEL’S APPROACH TO ASSET ALLOCATION

Typically, your Stifel Financial Advisor will work with you to develop an asset allocation mix strategy based on your unique objectives. Behind the scenes, he or she will consult with us – the Investment Strategy Team – to help refine the investment mix that is appropriate for you. The following describes an asset allocation framework we provide to your Financial Advisor.

First, your Financial Advisor will work with you to identify an appropriate risk profile, ranging from conservative to aggressive. Then three other important choices are discussed: the equity strategy, the fixed income strategy, and liquidity preferences.

U.S.-Focused Versus Global Equity: We provide two choices for the asset mix equity strategy. The U.S.-Focused offering is designed for clients who prefer to balance their non-U.S. equity exposure with a preference for U.S. stocks. In this case, the U.S./non-U.S. mix is approximately 70%/30%. For clients who prefer more global exposure, we seek to align the U.S. exposure with the U.S. market capitalization in the global equity market, resulting in an approximate U.S./non-U.S. mix of 55%/45%.

Taxable Versus Tax-Sensitive Fixed Income: We provide two choices for the asset mix fixed income strategy. The Taxable offering invests in taxable bonds and is most often used by entities that do not pay income taxes, such as private foundations. The Tax-Sensitive offering assumes the investor is paying income taxes, and therefore focuses the majority of its fixed income exposure in tax-advantaged bonds like municipals.

Liquidity Tiers: We offer three liquidity tiers in our asset allocation guidance offering.

The most liquid tier, tier one, includes investment exposure to publicly traded markets that can generally be sold, if needed, and excludes alternative investments.

Our second liquidity tier exposes a small percentage of the portfolio to hedge funds, products sometimes available in a limited partner (LP) format. These funds sometimes require a one-year lock-up, usually with quarterly redemption terms after that. In any case, redeeming such an LP position requires advance notice and is subject to general redemption terms of the specific LP.

Our third liquidity tier, often most appealing to institutional or ultra-high-net-worth investors with less need for liquidity, builds up the allocation to alternative investments by adding positions in the private markets, such as private equity, private debt, or private real estate. Such investments usually require a lock-up of the invested capital.

And finally, your Financial Advisor can work with you to elect to invest in a Strategic Asset mix, designed as a diversified strategy for the long term. Or, you can choose to invest in our Dynamic Asset mix guidance, where we will adjust our strategic leanings in consideration of shorter-term views.
The Stifel CIO Office develops economic and market analysis, and corresponding investment guidance, for the benefit of Stifel clients. Below is a brief overview of our work, along with some helpful links.

**DAILY**

Through our affiliation with iHeartRadio, we broadcast **Stifel Investor Insights**, offering perspectives each day.

**WEEKLY**

**Market Sight|Lines** is a weekly note designed to help clients and colleagues focus on key insights amid the roar of market noise. We also share a corresponding video summary and a podcast available here: **Spotify, Apple, Omny, Google**.

**Market Pulse** provides an update shortly after the market close on days the S&P 500 Index moves up or down 2%.

**ADDITIONAL RESOURCES**

**Stifel’s Approach to Asset Allocation** summarizes our asset allocation approach and provides a catalogue of various recommended asset mix models.

**WEEKLY, MONTHLY, AND QUARTERLY**

The **weekly, monthly,** and **quarterly Market Perspectives** provide a recap of the most recent period’s global market results.

**MONTHLY**

The monthly **Favorite 15** shares useful information from our favorite 15 slides for the month.

**QUARTERLY**

Stifel’s **Allocation Insights** provides our thinking on our dynamic asset allocation leanings given the current economic and market environment.

**ANNUAL**

**Stifel Outlook** provides our views for the year ahead and related articles.

The Stifel **Financial ID video series** provides an overview of our work in behavioral finance and the related Stifel Financial ID model.
INDEX DESCRIPTIONS

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

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The Russell 1000 is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The Russell 2500 Index measures the performance of the 2,500 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The Russell Microcap is defined as a capitalization-weighted index of 2,000 small cap and micro cap stocks that captures the smallest 1,000 companies in the Russell 2000, plus 1,000 smaller U.S.-based listed stocks.

The Dow Jones U.S. Select Dividend Index aims to represent the U.S.’s leading stocks by dividend yield.

The S&P 500 Dividend Aristocrats measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The S&P 500 Health Care Index comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

The Euro STOXX 50® Index represents the performance of the 50 largest companies among the 19 supersectors in terms of free-float market capitalization in 11 Eurozone countries.

The FTSE 100 Index measures the average share prices of the 100 largest companies listed on the London Stock Exchange.

The Nikkei 225 Index is a price-weighted index of the 225 top Japanese companies listed in the Tokyo Stock Exchange.

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

The MSCI AC World Index is comprised of equity securities belonging to 23 developed markets and 24 emerging markets countries.

The Bloomberg Barclays U.S. Treasury Bills Index includes U.S. Treasury Bills that have a remaining maturity from one month up to (but not including) 12 months. It excludes zero coupon strips.

The Bloomberg Barclays Global Aggregate Index is market-value-weighted inclusive of accrued interest and covers the most liquid portion of the global investment-grade fixed-rate bond market, including government, credit, and collateralized securities.

The Bloomberg Barclays U.S. Government/Credit Index includes all bonds that are in the Barclays Government Bond Index and the Barclays Credit Bond Index. The Barclays Government Bond Index is a measurement of all publicly issued debt securities issued by the U.S. government or its agencies, as well as quasi-federal corporations or corporate debt guaranteed by the U.S. government. The Barclays Credit Bond Index includes all publicly issued, fixed rate, nonconvertible investment-grade, dollar-denominated, SEC-registered corporate debt.

The Bloomberg Barclays Mortgage-Backed Securities Index is a measurement of the movement of the 15- and 30-year fixed rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). All returns are market-value-weighted inclusive of accrued interest.

The Bloomberg Barclays U.S. Corporate High-Yield Bond Index covers the U.S. dollar-denominated, non-investment-grade, fixed rate, taxable 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. The index excludes emerging markets debt. The U.S. Corporate High-Yield Bond Index is part of the U.S. Universal and Global High-Yield Indices.

The Bloomberg Barclays U.S. Municipal Bond 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 pre-refunded bonds.

The Credit Suisse Leveraged Loan Index tracks the investable market of the U.S. dollar-denominated leveraged loan market. It consists of issues rated “SB” or lower, meaning that the highest rated issues included in this index are Moody’s/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs or REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The BofA Merrill Lynch Adjustable Rate Preferred Securities Index tracks the performance of U.S. dollar-denominated investment-grade floating rate preferred securities publicly issued in the U.S. domestic market. Qualifying securities must have an investment-grade rating (based on an average of Moody’s, S&P, and Fitch) and must have an investment-grade-rated country of risk (based on an average of Moody’s, S&P, and Fitch foreign currency long-term sovereign debt ratings).

The BofA Merrill Lynch Core Plus Fixed Rate Preferred Securities Index tracks the performance of fixed rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market. Qualifying securities must be rated at least B3 (based on an average of Moody’s, S&P, and Fitch) and must have an investment grade-rated country of risk (based on an average of Moody’s, S&P, and Fitch foreign currency long-term sovereign debt ratings).
The **BofA Merrill Lynch U.S. High Yield Master II Index** is a market value-weighted index of all domestic and Yankee (bonds denominated in U.S. dollars and issued in the U.S. by foreign entities) high-yield bonds, including deferred interest bonds and payment-in-kind securities.

The **Bloomberg Commodity Index** ("BCOM" or the "index") is designed to be a highly liquid and diversified benchmark for commodity investments.

The **HFRI Fund Weighted Composite Index** is an equal-weighted index utilized by numerous hedge fund managers as a benchmark for their own hedge funds. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite Index, which accounts for over 2,200 funds listed on the HFR database. Funds included in the index must report monthly returns, report net of all fees returns, report assets in U.S. dollars, and have at least $50 million under management or have been actively trading for at least 12 months.

**Cash & Cash Equivalents** is represented by the Bloomberg Barclays 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. Gov’t Bonds** is represented by the Bloomberg Barclays 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 Barclays U.S. Corporate Bond Index, comprised of the investment grade, fixed-rate, taxable corporate bond market.

**High Yield Bonds** is represented by the Bloomberg Barclays U.S. Corporate High Yield Bond Index, comprised of U.S. dollar-denominated, high yield, fixed-rate corporate bond market securities.

**U.S. LC (Large Cap) equities** is represented by Russell 1000 Index, comprised of 1,000 of the largest U.S. securities based on a combination of their market cap and current index membership.

**U.S. SC (Small Cap) equities** is represented by the Russell 2000 Index, comprised of 2,000 of the smallest U.S. securities based on a combination of their market cap and current index membership.

**Dev Int’l Equities** is represented by the MSCI EAFE Index, comprised of equity securities that belong to markets outside of the U.S. and Canada.

**EM Equities** is represented by the MSCI EM Index, comprised of equity securities that belong to emerging markets.

**Moderate Bench** stands for moderate benchmark portfolio return, which is a blended portfolio of stocks (60% weight, represented by MSCI AC World Index) and bonds (40% weight, represented by Bloomberg Barclays U.S. Government/Credit Index).

Indices are unmanaged, do not reflect fees and expenses, and you cannot invest directly in an index.
Asset Class Risks and Description of Terms

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. Bond laddering does not assure a profit or protect against loss in a declining market. Yields and market values will fluctuate, and if sold prior to maturity, bonds may be worth more or less than the original investment.

Cash Equivalents – Portfolios that invest in very short-term securities provide taxable or tax-advantaged current income, pose little risk to principal, and offer the ability to convert the investment into cash quickly. These investments may result in a lower yield than would be available from investments with a lower quality or longer term.

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.

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 Investing/Emerging Markets – There are special considerations associated with international and global 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 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, Private Equity, 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.

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.

Mutual Funds and Exchange Traded Funds – The investment return and principal value of an investment in funds will fluctuate, so that an investor’s shares, when redeemed, may be worth more or less than their original cost. ETFs trade like a stock and may trade for less than their net asset value. There will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account.

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.

Risk Profiles

RP 1 Conservative – A conservative investor values protecting principal over seeking appreciation. This investor is comfortable accepting lower returns in exchange for a higher degree of liquidity and/or stability. Typically, a conservative investor primarily seeks to minimize risk and loss of principal.

RP 2 Moderately Conservative – A moderately conservative investor values principal preservation, but is comfortable accepting a small degree of risk and volatility to seek some degree of appreciation. This investor desires greater liquidity, is willing to accept lower returns, and is willing to accept minimal losses.

RP 3 Moderate – A moderate investor values reducing risks and enhancing returns equally. This investor is willing to accept modest risks to seek higher long-term returns. A moderate investor may endure a short-term loss of principal and lower degree of liquidity in exchange for long-term appreciation.

RP 4 Moderate Growth – A moderate growth investor values higher long-term returns and is willing to accept considerable risk. This investor is comfortable with short-term fluctuations in exchange for seeking long-term appreciation. The moderate growth investor is willing to endure larger short-term losses of principal in exchange for the potential of higher long-term returns. Liquidity is a secondary concern to a moderate growth investor.

RP 5 Moderately Aggressive – A moderately aggressive investor primarily values higher long-term returns and is willing to accept significant risk. This investor believes higher long-term returns are more important than protecting principal. A moderately aggressive investor may endure large losses in favor of potentially higher long-term returns. Liquidity may not be a concern to a moderately aggressive investor.

RP 6 Aggressive – An aggressive investor values maximizing returns and is willing to accept substantial risk. This investor believes maximizing long-term returns is more important than protecting principal. An aggressive investor may endure extensive volatility and significant losses. Liquidity is generally not a concern to an aggressive investor.

A Note on Risk Assessments

The Stifel Financial ID (“SFID”) is a proprietary questionnaire which helps us understand an investor’s attitudes toward and emotions about investing. We can use a client’s Financial ID to help manage his/her investing experience. “Risk Attitude” is one of the six dimensions we measure. It is a behavioral assessment of the individual’s feelings and appetite for risk. Separately, we use a dedicated Risk Assessment Questionnaire...
(`RAQ`), which is an industry-standard requirement, in the process of opening and maintaining any account here at Stifel. The RAQ results in a specific "Risk Tolerance" score based on such considerations as time horizon, income requirements, and liquidity a need, which is used to describe a specific account’s investment objective and to determine the suitability of any given investment for that account. In the situations where a client’s Risk Attitude and the Risk Tolerance for that client’s account(s) is (are) different, it is important to review them both to determine whether changes in the management of the account are warranted.

**Important Notes and Disclosures**

The recommendations made for your actual portfolio will differ from any asset allocation or strategies outlined in this document. The model portfolios are not available to investors since they represent investment ideas, which are general in nature, and do not include fees. Your asset allocation will be customized to your preferences and risk tolerance, and you will be charged fees. You should ensure that your portfolio is updated or redefined when your investment objectives or personal circumstances change.

Diversification and asset allocation do not ensure a profit or guarantee against losses. Investing involves risk, including the possible loss of principal. 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.

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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 dynamic asset allocation guidance, applied behavioral finance, and specific investment solutions for advisors and clients.

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