STIFEL

OUTLOOK 2023

FINDING BALANCE

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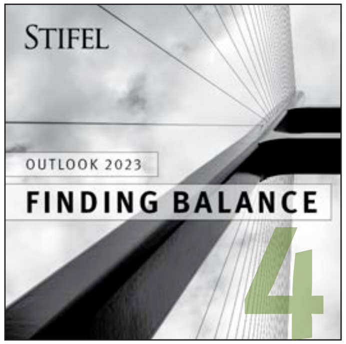

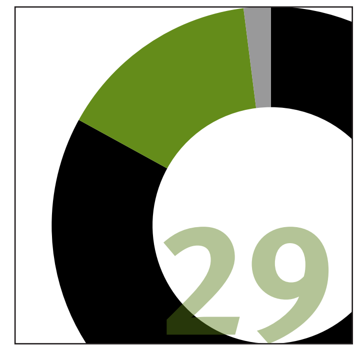

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A LETTER FROM OUR **CHIEF INVESTMENT OFFICER**

My team and I are very pleased to share our *Outlook 2023:* ***Finding Balance***.

The last few years have been quite challenging but ultimately positive for investors. Our outlook for 2020 anchored on us starting a "Decade of Productive Competition," focused on global relationships, tensions, and competition. Of course, 2020 was redefined in March of that year by the coronavirus pandemic, which triggered a recession, historic monetary and fiscal support, and a reopening where the markets roared back. U.S. GDP declined -2.8% in 2020, but the S&P 500 returned 18.4%, despite a brief bear market early in the year. In our outlook for 2021, we shared our "Reflections and a Way Forward" as we began a year in which government reopening support continued, life moved back toward normal, and both the economy and markets charged forward, with U.S. GDP growing 5.9%, and the S&P 500 up 28.7%.

For 2022 our outlook focused on "Balancing Acts" related to the pandemic, inflation, Federal Reserve (Fed) policy, and geopolitics, for example. These proved challenging as imbalances triggered by the war in Ukraine, kept inflation elevated, and led to an aggressively hawkish Fed policy. 2022 proved to be a tough year for markets. The U.S. economy is forecasted to have grown 1.9% for the full year, and both stock and bond markets fell, with the S&P 500 returning -18.1% for the year. We share in our *2022 Year in Review* that last year's results were driven by tighter financial conditions resulting from a more hawkish Fed policy, which slowed earnings growth and had investors worried about recession.

Interestingly, when we look longer term, specifically at the three-year returns from 2020–2022, the S&P 500 earned 7.7%, annualized, reminding us to look past any one year and to keep a long-term perspective.

The 2022 midterm elections reset the balance of power in Washington, D.C., with Republicans winning a slight majority in the House, but Democrats taking a 51/49 majority in the Senate. Legislative progress this past year was slow. As we look forward in 2023, the focus will be on routine legislation, like budgets, and a handful of potentially bipartisan topics like tech and cryptocurrency regulation. We share more in *Washington Policy and Political Outlook*.

We also share these other insights for 2023:

- *Geopolitical Risk Dashboard: Tensions Rising*
- *Five Tips to Navigate a Bear Market*
- *How We Invest: Our Investment Management Process*
- *Where to Find Stifel Guidance*

Finally, we share our *Outlook 2023:* ***Finding Balance***, again providing our views for three possible scenarios for the coming year. Our base case is modestly positive, informed by our view that we'll be seeing ways of "finding balance" during the year, including cooler inflation, a less hawkish Fed, a transition to a new cycle of slower growth, and a stock market in recovery. We also comment on more positive and negative scenarios, and we include our guidance on portfolio positioning and dynamic leanings.

We hope you find our *Outlook 2023:* ***Finding Balance*** informative and helpful. As always, we welcome your thoughts, observations, and comments.

Michael P. O'Keeffe, CFA
Chief Investment Officer

A BRIEF SUMMARY:
OUR OUTLOOK REPORT

- The paths for inflation, monetary policy, the economy, and markets remain uncertain, but we expect to find balance with these issues as the year progresses.
- We're anticipating modestly positive calendar year returns for stocks in 2023, but with continued volatility and market weakness in the near term.
- A soft landing is still possible and more likely if the Fed hikes rates by less than what Fed officials are currently forecasting. In our view, a soft landing would mean no Fed rate cuts in 2023, contrary to consensus expectations.
- We expect core PCE inflation to fall to 3.50%–3.75% by the end of 2023, modestly above the Fed's latest projections and consensus estimates. Wage pressures should gradually ease as the economy slows and unemployment rises, but not yet to a level to support 2% inflation.
- We expect economic growth to be muted in 2023. We see a reasonable chance of a soft landing (0.0% to 0.5% GDP growth), but a roughly equal chance of a mild recession (-0.1% to -0.5% GDP growth). The consumer will be a deciding factor.
- Given the narrow majorities in both the House and the Senate, legislation will likely be limited to a handful of "must-do" bills. And even then, the divided Congress will struggle to reach compromises to pass these critical bills.
- The federal government will reach the debt limit in mid- or late-2023, and Congress will need to approve an increase in the government's borrowing authority, or debt ceiling. Through this, Republicans may have leverage to pass some budget priorities. That said, we see the chances of major structural changes as low.
- Rising geopolitical risks continue to influence the global economy and financial markets, and the world is more divided. The pandemic has increased the focus on localization and protectionism. The war in Ukraine, and the heightened rivalry and conflict between the world's great powers, are leading to increased defense spending.
- Given the near-term uncertainty, we lean to a defensive stance in our portfolios as we start the year. We anticipate opportunities will emerge once inflation and the economy show signs of stabilizing and are prepared to take advantage of possible dislocations.
- We remain focused on quality. In equities, we have a preference for companies that have strong balance sheets, considerable pricing power, and the ability to grow dividends. Within fixed income, the investment-grade bond market offers attractive yields and valuations.

AN INITIAL 2022 FOCUS
BALANCING ACTS

We began 2022 with an outlook focused on Balancing Acts reflecting a wider range of potential outcomes.

These Balancing Acts included:

- Authorities and people worldwide worked to balance the reopening of the economy with a COVID-19 spike from the omicron variant;
- The Fed was facing down higher inflation, balancing a hawkish policy shift while managing to a "soft landing;"
- Global economic participants were dealing with supply chain challenges, trying to figure out alternatives that often included onshoring production and diversifying business strategies; and
- Businesses focused on all of these challenges to grow revenue while managing expenses effectively, seeking to grow earnings compared to 2021.

Considering all of this, consumers remained engaged, sustained – to a good degree – by excess savings acquired during the pandemic and a strong job market.

2022 YEAR IN REVIEW
(continued)

IMBALANCES CAUSE TROUBLE

As we made our way through the year, it became increasingly clear that a number of imbalances were driving higher inflation, volatility, and a bear market in equities.

While the omicron wave was significant, the fast-spreading variant faded pretty quickly, and the world's economy continued its reopening. The reopening, however, was tougher than expected. This was further aggravated when Russia invaded Ukraine on February 24. In addition to the human tragedy, the war sent energy and food prices higher.

China's pandemic troubles and tense relations with the U.S. aggravated supply chain issues further. China maintained a "zero-COVID" policy throughout the year, shutting down factories and other businesses when COVID cases appeared.

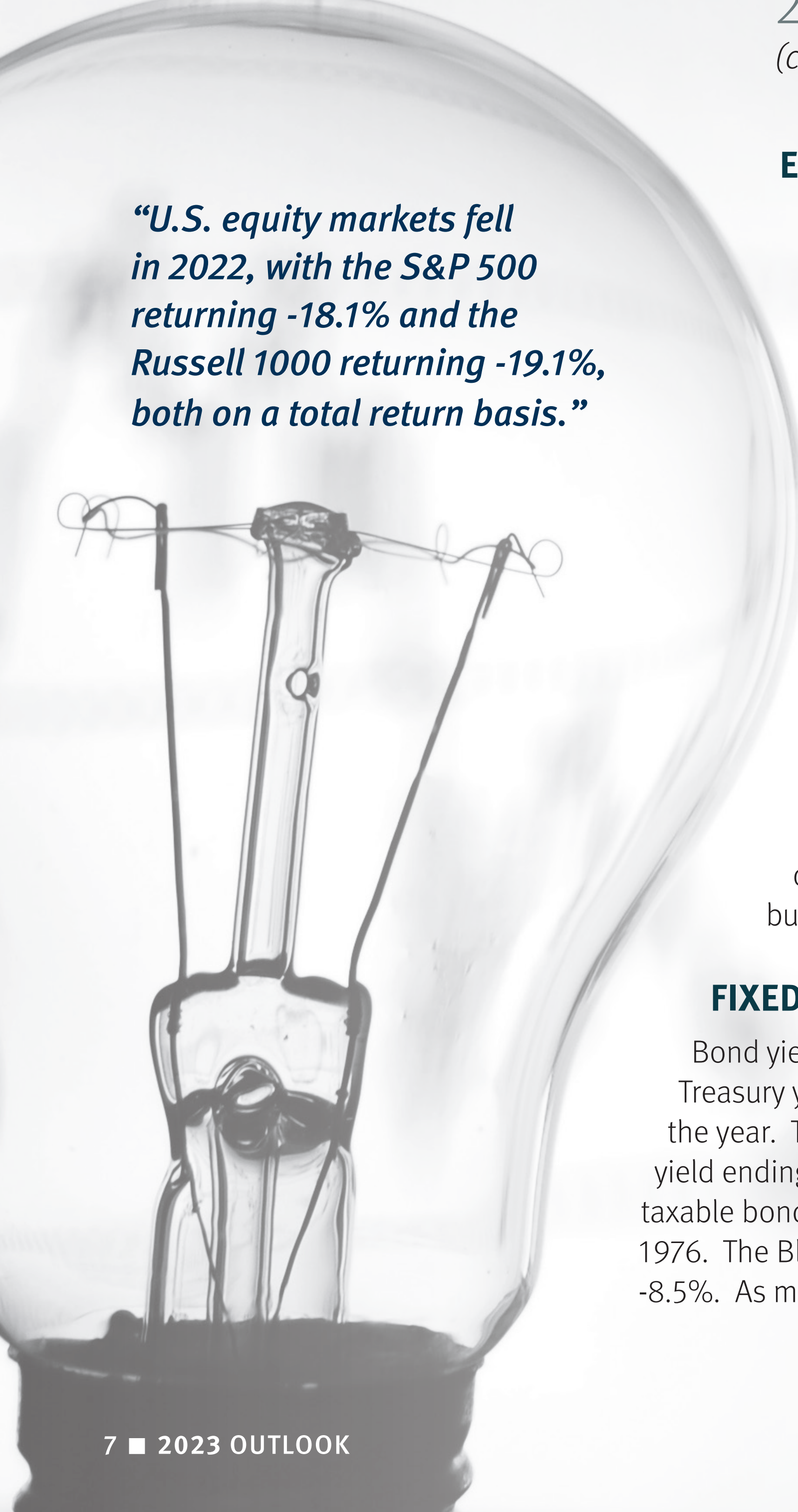
FED POLICY SEEKS A SOFT LANDING

"... despite negative GDP growth in the first half of the year, the economy is expected to have grown 1.9% in 2022 compared to 2021 and seems to have avoided a recession."

The Fed became increasingly hawkish through the year, increasing the fed funds rate from 0.00%–0.25% to 4.25%–4.50% and modestly reducing its balance sheet from almost $9 trillion to $8.6 trillion. The Fed's goal has been to bring down inflation while not severely impacting employment and the economy. And despite negative GDP growth in the first half of the year, the economy is expected to have grown 1.9% in 2022 compared to 2021 and seems to have avoided a recession.

The job market remained tight throughout the year. Unemployment sat at 4% in January, fell to a low of 3.5% in July, and rose to 3.7% in November. Wages grew 5.1% over the year ended November 2022 and are forecasted to have grown 5.2% for the full year.

Finally, the consumer was engaged despite a decline in sentiment. Retail sales were up 8.7% year-to-date through November. Interestingly, the consumer had over $2 trillion of excess savings at the beginning of the year, much the result of government stimulus and support, and is estimated to have spent down $1.2 trillion to end the year close to $0.9 trillion. So far, the Fed may be succeeding at a "soft landing."



"U.S. equity markets fell in 2022, with the S&P 500 returning -18.1% and the Russell 1000 returning -19.1%, both on a total return basis."

EQUITY

After a strong 2021 anchored on robust earnings growth (50% in 2021, compared to 2020), U.S. equity markets fell in 2022, with the S&P 500 returning -18.1% and the Russell 1000 returning -19.1%, both on a total return basis. With rising rates tied to tighter Fed policy, longer-duration equities, like tech stocks, experienced more severe losses. The tech-heavy Nasdaq Index was off -32.5% for the year, and the Russell 1000 Growth Index, which has a tech overweight compared to the broad market, returned -29.1%. Small cap stocks, as measured by the Russell 2000 Index, returned -20.4% for the year. With tighter Fed policy and higher rates, earnings growth slowed materially, forecasted to be only 5.1% for 2022 compared to 2021.

NON-U.S. EQUITY

Non-U.S. market returns were mixed but outperformed those of the U.S. For the year, the MSCI EAFE Index, representing non-U.S. developed markets, returned -14.5%. Europe's geographic proximity and greater economic ties to Russia, especially its reliance on energy, led to high inflation and a slowing economy. As measured by the MSCI EM Index, emerging markets returned -20.1%, driven mainly by developments in China. The Chinese government imposed zero-COVID policies throughout the year, also imposing regulations to limit the commercial reach of mainland tech companies. The MSCI China Index was down -21.9% in 2022, but rallied in the fourth quarter on signs that China is loosening its zero-COVID stance.

FIXED INCOME

Bond yields rose to their highest levels in more than a decade, driving prices lower. The 10-year Treasury yield opened the year at 1.51% and rose as high as 4.24% before settling at 3.87% at the end of the year. The aggressive monetary policy tightening led to an inverted curve, with the two-year Treasury yield ending the year at 4.43%. The Bloomberg U.S. Aggregate Index, representing investment-grade taxable bonds, returned -13.0% for the year, the lowest calendar year return since the index's inception in 1976. The Bloomberg U.S. Municipal Bond Index, representing investment-grade municipal bonds, returned -8.5%. As measured by the Bloomberg Corporate High Yield Index, high-yield bonds were down -11.2%.

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FINDING BALANCE
2023 OUTLOOK

The Balancing Acts we identified for 2022, most notably the Fed and its ability to rein in inflation without a recession, created significant volatility and made 2022 a challenging year for investors. The paths for inflation, monetary policy, and the economy remain uncertain, but we expect to find balance with these issues as the year progresses, initiating a transition to a new cycle of positive but lower economic growth and the next bull market.

INFLATION

Our outlook on inflation serves as an important input to our work assessing monetary policy, consumers, businesses, the economy, and markets. When it comes to inflation, the main question is: Will inflation cool enough to allow the Fed to claim victory and unwind its restrictive policy stance, or will price pressures persist, forcing the Fed to maintain that policy stance for longer?

We expect core PCE inflation to fall to 3.50%–3.75% by the end of 2023, modestly above the Fed's latest projections and consensus estimates. We expect housing prices to rise further, then begin to cool mid-year as the lagging effects of policy tightening take hold and existing lease renewals catch up to market rates.

The labor market remains extremely tight and out of balance, with demand for workers substantially exceeding the supply of those available. This imbalance translates to persistent wage pressures and has made the Fed's job more difficult. During 2023, we expect wage growth to normalize and fall closer to a level that's consistent with 2% inflation. This labor market balance should result from fewer job postings, an increase in

2023 **OUTLOOK**
(continued)

unemployment, and a slowing economy. However, this may take longer than consensus thinking, as structural forces like worker shortages and imperfect job matches put upward pressure on wages.

MONETARY POLICY

The Fed remains in a delicate balancing act of trying to reduce inflation without causing a recession. We believe a soft landing is still possible, but it will require a lower terminal rate than is currently forecasted by Fed officials and no rate cuts in 2023, contrary to consensus expectations. The Fed is likely to pause after an additional 50 basis points (0.50%) of tightening as policy reaches a sufficiently restrictive level, and the full effects of cumulative tightening have yet to show up in the economy.

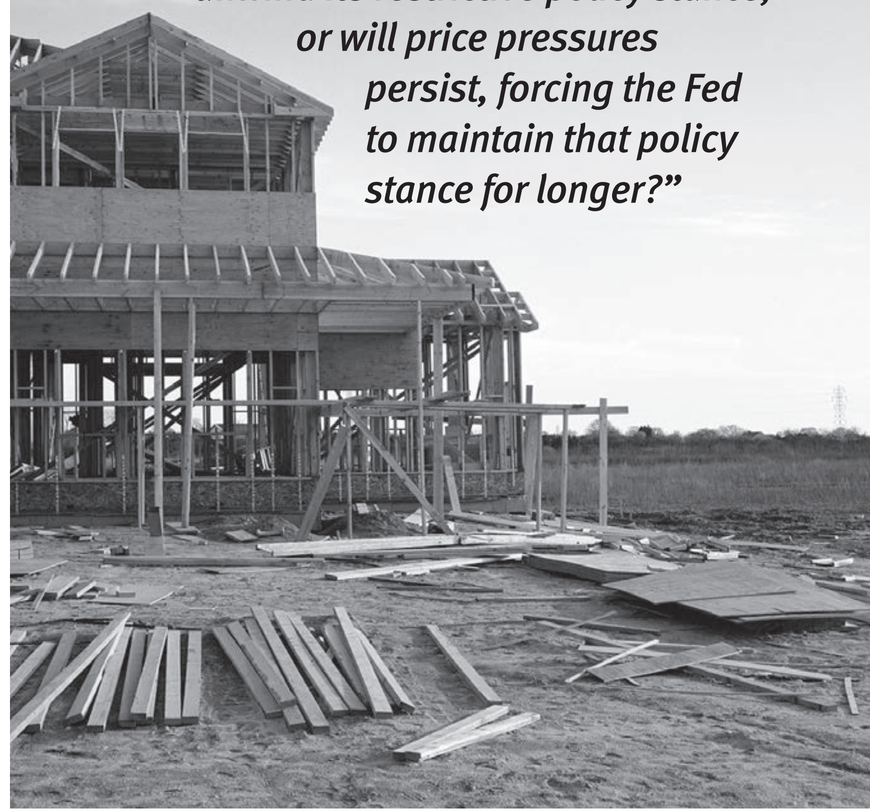
Many market participants project an easing in policy by the end of the year. We believe that this is too optimistic and unnecessary unless the economy enters a more severe recession. This is due, in part, to the labor market dynamics previously mentioned and the Fed's goal to ensure that inflation expectations do not become entrenched. Chair Powell has repeatedly stated that history cautions against premature policy easing and that policy will be restrictive "for some time."

The Fed's monetary policy will play a key role in direction of the economy going forward.

ECONOMY

Recession or not, we expect economic growth to be muted in 2023. We see a reasonable chance of a soft landing (0.0% to 0.5% GDP growth), but a roughly equal chance of a mild recession (-0.1% to -0.5% GDP growth). The consumer will be a deciding factor, especially the consumer's confidence and willingness to keep spending. Decelerating inflation and continued wage gains should improve real incomes, but a slowing economy and rising unemployment may erode consumer confidence and mute spending. There is still close to $900 billion in excess savings accumulated during the pandemic that could provide a cushion despite a slowing economy.

"When it comes to inflation, the main question is: Will inflation cool enough to allow the Fed to claim victory and unwind its restrictive policy stance, or will price pressures persist, forcing the Fed to maintain that policy stance for longer?"



	2023 FORECAST
U.S. Real GDP	-0.5%–+0.5%
Core PCE Inflation (4Q/4Q)	3.50%–3.75%
Federal Funds Rate	4.75%–5.00%

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STOCKS

We're anticipating modestly positive calendar year returns for stocks in 2023. But we will likely need to weather continued volatility and market weakness in the near term.

As we've been discussing for a number of months, we expect the environment to improve as investors (and the Fed) see inflation cool, leading to greater confidence in the Fed's ability and willingness to pause its rate hikes. Other resolutions, like China's effort to move away from its zero-COVID approach and diplomatic progress in the war in Ukraine, should help. As we find balance with these and other issues by mid-year, investors will sense relief, and we will transition to a new growth cycle, albeit a muted one, which should lead equity markets higher.

Of course, earnings play an important role. At present, the consensus bottom-up earnings growth forecast for the S&P 500 is 5.3%. We believe analysts continue to process and reflect the Fed's continued policy shift, and we expect earnings growth in the 0%–5% range for 2023. As unemployment moves higher and wage pressures slow, profit margins should somewhat stabilize. This, coupled with a modest price-earnings multiple expansion from the relief discussed above, leads us to a forecasted 2023 S&P 500 total return of roughly 6% and a related price target of 4,000 at year-end.

BONDS

2022 was a challenging year for bonds, causing investors to wonder if the downside risk will continue. We think not, based on our forward-looking views on interest rates, the shape of the yield curve, and credit spreads.

The 10-year Treasury yield ended last year at 3.87%. We expect this benchmark yield to remain range bound, ultimately ending the year at 3.25%–3.75%.

The three-month T-Bill and two-year Treasury had yields of 4.34% and 4.43%, respectively, at the end of the year, so the yield curve is inverted. As inflation cools and investors gain confidence in a Fed pause, we expect this inversion to diminish some, with shorter yields declining.

Credit spreads often widen out during a recession, putting downward pressure on bond prices. But given our view of muted economic growth instead of a deeper recession, we believe spreads will remain well-behaved, with investment-grade corporate spreads between 1.00% and 1.50% and below-investment-grade (high-yield) spreads ranging from 4.50% to 5.00%.

Given the higher yields on bonds as we start the year, these forces combine to an expectation for modestly positive bond market returns.

	2023 FORECAST
S&P 500	4,000
10-Year Treasury (%)	3.25%–3.75%
Market Pulse Publications*	25
Investment-Grade Spreads (bps)**	100–150 bps
High-Yield Spreads (bps)	450–500 bps

** The Stifel CIO Office issues a Market Pulse publication when the S&P 500 closes up or down by at least 2% on a given day.*

*** bps is basis points.*

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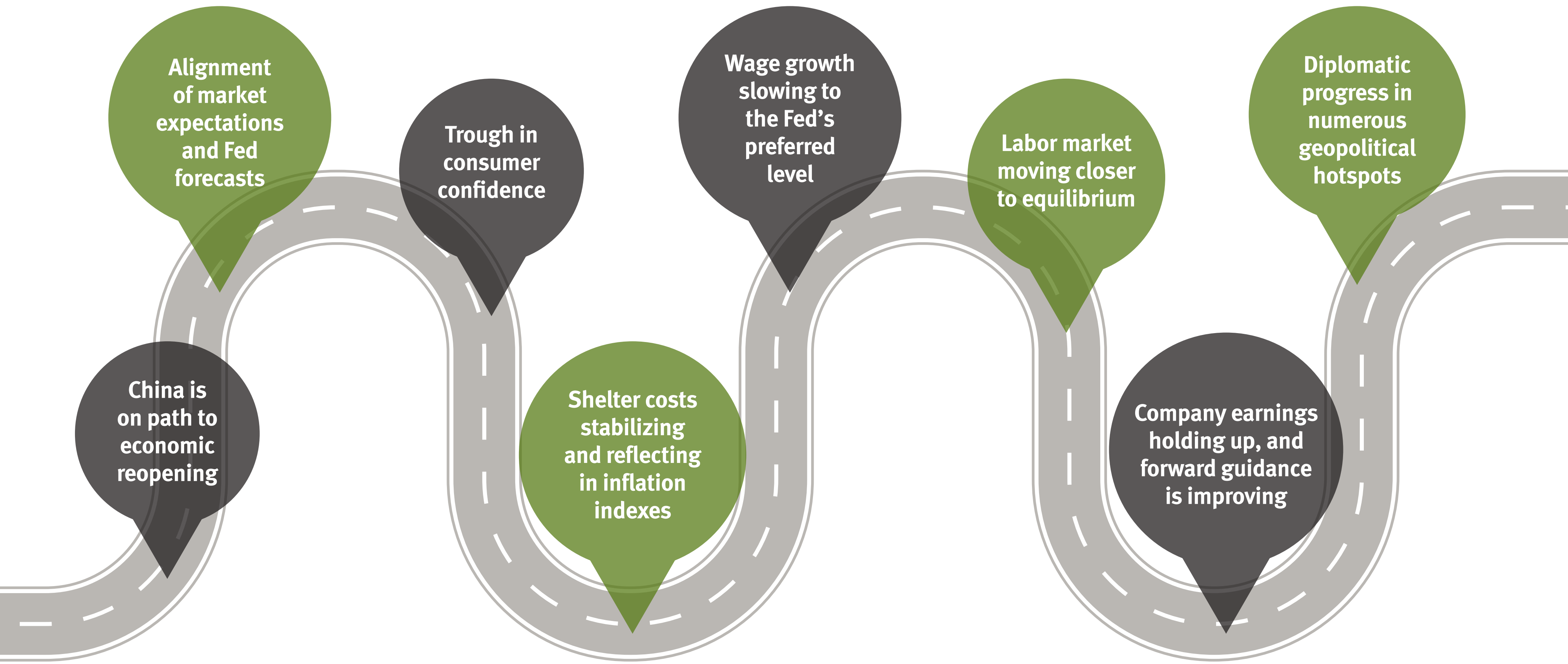
What are some of the signposts that will indicate we are on the path to Finding Balance?



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THE BULL AND BEAR HAVE FAT TAILS

Given that most forecasts, especially point forecasts, are almost always wrong to some degree, we apply a discipline of developing three scenarios: our "base case," as discussed above, a more positive "bull case," and a more negative "bear case." We do this to better understand what might happen and answer the question, "What if we are wrong?"

We also try to gauge the likelihood of these upside and downside scenarios. In risk analysis, upside and/or downside risk are said to have "fat tails" when the chances of them happening is increased. And we believe that is the case this year. We've assigned a 60% probability to our base case, a 25% probability to the bear case, and a 15% probability to the bull. These are fat tails.

Let's run through how our scenarios differ across three key considerations looking forward: inflation, Fed policy, and earnings.

INFLATION	MONETARY POLICY	EARNINGS
Given elevated levels over the last couple of years, the path of inflation will greatly influence Fed policy, economic activity, earnings, and market performance.	The Fed will try to set policy in response to the path of inflation going forward. This will influence economic activity, earnings, and market performance.	Once the path of inflation and Fed policy are better known, we'll be able to more confidently determine the direction of the economy and earnings, which will drive market performance.
Bear case: Inflation remains stubbornly high. The Fed continues hiking, consumer spending deteriorates, company earnings turn negative, and we enter a deep recession.	***Bear case:*** The Fed commits a policy error by either overtightening (leading to recession) or stopping rate hikes too early (allowing inflation to become entrenched).	***Bear case:*** Economic slowdown is not fully priced in and reflected in company valuations and earnings forecasts. Earnings growth is negative, and markets retest lows.
Bull case: Inflation recedes quickly toward 2%, allowing the Fed to ease policy. Economic growth resumes, company earnings growth is positive, and equity markets recover.	***Bull case:*** The lagged effect of cumulative tightening stomps out inflation, and the Fed stops rate hikes and eases policy sooner than anticipated.	***Bull case:*** Earnings prove to be resilient as companies maintain margins. Earnings grow at high single digits, fueling the start of the next bull market.

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ALLOCATION INSIGHTS

For the better part of six months, we've maintained a neutral stance in our dynamic asset allocation (DAA) versus our longer-term strategic asset allocation (SAA). Given the uncertain macroeconomic environment and wider range of potential outcomes, we did not have sufficient conviction to support dynamic allocation leanings. This somewhat unusual circumstance gives us the opportunity to reinforce two elements of our investment philosophy. First, our investment approach is anchored in a long-term view, and we believe a portfolio aligned with our SAA guidance is well positioned for that investment horizon. And second, our choice to be neutral on any DAA leaning is an active decision, informed by our macroeconomic and market analysis, whereby we choose to be neutral.

As we begin 2023, uncertainty persists, so our DAA guidance continues to reflect caution. As discussed in our Outlook, however, we anticipate an improving market environment over the course of the year as we see inflation fall and the Fed pause its rate hikes. We expect investment opportunities to emerge as we find balance on these and other issues and are prepared to take advantage of such possible dislocations.

Taking this into consideration, our key allocation insights as we start the year include:

- **Embrace Quality.** Focus on companies that exhibit quality fundamentals like healthy balance sheets, strong margins, stable earnings, and/or stable and growing dividends. We believe the market decline has presented compelling investment opportunities for long-term investors across market capitalization, sector, and style.

- **Celebrate Yield.** A higher level of predictable portfolio income helps in a volatile and uncertain environment. The reset in fixed income yields has created opportunities in bonds. Our focus on quality inspires in fixed income a focus on the investment-grade market, which is offering better yields today than has been the case for more than a decade prior to 2022.

- **Trust 60/40.** Both stocks and bonds were down last year. With yields now much higher and the global economy slowing, investors should have confidence that stocks and bonds, as reflected in the traditional 60/40 portfolio, will provide diversification for one another over the long term. We also guide investors to diversify both across and within asset classes. And the more sophisticated, qualified investor can look beyond "traditional" asset classes to what the industry has defined as "alternative investments."

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ALLOCATION **INSIGHTS**

DYNAMIC LEANINGS

Underweight | Neutral | Overweight

EQUITY

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

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ALLOCATION **INSIGHTS**

DYNAMIC LEANINGS

Underweight | Neutral | Overweight

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

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WASHINGTON POLICY AND POLITICAL OUTLOOK

Contributed by Brian Gardner

Divided government returns to Washington in 2023 as Republicans will have the majority in the House, while Democrats will retain the majority in the Senate. A split Congress typically complicates governing, and the situation in 2023 will be exceptionally complicated given the narrow majorities in both the House and the Senate. Legislation will likely be limited to a handful of "must-do" bills, and even then it will be difficult to reach compromises to pass critical bills. Regulatory action is where most policy changes will be enacted.

DIVISION IN THE GOP

2023 is likely to begin with drama and possibly chaos in the House. Republicans will hold a 222–212 majority (with one vacancy), and the GOP has nominated Representative Kevin McCarthy (R-California) to be Speaker of the House. The entire House votes on the Speaker, and a simple majority is required to be elected. If all 434 members vote for a specific candidate, then McCarthy must get at least 218 votes. As of this writing, a group of conservative Republicans has threatened to block McCarthy. There are various strategies for McCarthy to be elected Speaker, but none are easy given the opposition. McCarthy remains the favorite to be elected since his opponents lack a viable alternative. If the House rejects McCarthy, then Republicans would have to pursue Plan B, but there is no backup plan yet, and it could take several days for the House to elect a Speaker. The political chaos could negatively impact markets and be a sign of political strife for the year to come.

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WASHINGTON POLICY AND POLITICAL OUTLOOK
(continued)

CONGRESSIONAL PRIORITIES

Regardless of who is elected Speaker of the House, Congress will need to address several key issues in 2023. At some point in mid- or late-2023, the federal government will need to increase the debt limit in order to avoid a default on federal debt and to allow the government to continue to borrow. Republicans see the debt ceiling debate as leverage to pass some of their budget priorities. However, chances of major structural changes are low. As congressional Republicans hold out for a compromise on the debt ceiling, any resulting standoff could roil financial markets due to increased fears of a default of U.S. government debt. The prospects of a default are remote since Congress will eventually raise the debt ceiling, but there is headline risk associated with the debt limit debate.

Congressional Republicans, especially in the House, have recently expressed frustration with the annual appropriations process. While Republicans might try to pass appropriations bills via regular order instead of an omnibus appropriations bill as happened recently, Congress could struggle to meet this goal, which could result in a government shutdown in the fall of 2023.

With Republicans taking over the House, it is likely that Congress will look at social media companies and their protection under Section 230 of the Communications Decency Act. Both parties are interested in policy changes related to the technology sector. Republicans will look at allegations of the suppression of speech. Democrats will focus on platforms being used to spread disinformation. Both parties have varying degrees of interest in changes to antitrust laws as they apply to the technology sector. Although Congress was unable to pass tech-related antitrust legislation in 2022, it is expected to give this issue a second look in 2023.

Another issue that could receive bipartisan attention in 2023 is cryptocurrency regulation. A pair of bipartisan bills have been introduced in the Senate that would clarify how different types of digital assets are regulated. These bills are likely to be reintroduced in 2023. If Congress is unable to pass sweeping digital asset legislation next year, it might opt to pass narrower legislation that addresses the regulation of stablecoins but not other digital assets.

WASHINGTON POLICY **AND POLITICAL OUTLOOK**

(continued)

REGULATORY AGENDA

Given the potential for gridlock in Congress, the regulatory agenda will be key to policy changes in 2023.

The Department of Justice could make significant changes to its merger guidelines in its forthcoming proposal to amend its horizontal and vertical merger guidelines. A release is expected in early 2023. Similarly, banking regulators could propose changes to bank merger review guidelines. Such changes could impose new rules on market concentration, access to bank services, community lending rules, and the possible impact of mergers on banks' financial stability. Banks with more than $100 billion in assets will likely bear the brunt of any changes to bank merger rules. Related, banking regulators could propose higher bank capital rules, which would also impact the largest banks the most.

Early in 2023, the Biden administration is likely to conclude its review of Trump era tariffs on Chinese imports. The base-case expectation is that the administration will maintain most tariffs and eliminate or relax only a small portion of the existing tariffs.

2024 ELECTIONS

Despite just finishing the midterm elections, attention is already turning to the 2024 elections. It appears likely that President Joe Biden will run for reelection, and if he does then it is unlikely that any credible Democrat will oppose him. If Mr. Biden decides not to run, he might still wait to make an announcement lest he become a lame duck president. In this scenario, numerous Democrats would probably seek the nomination, including Vice President Kamala Harris, several U.S. senators, and a group of Democratic governors.

On the Republican side, former President Donald Trump has already announced his intent to run and is likely to be challenged by any number of governors, including Florida Governor Ron DeSantis, several Republican senators, and possibly former members of President Trump's administration. Campaigns will be active in organizing and fundraising throughout early 2023, especially for Republicans. Organizing among Democrats will depend on President Biden's decision.

GEOPOLITICAL RISK DASHBOARD: TENSIONS RISING

Geopolitical risks are rising and continue to influence the global economy and financial markets. The Stifel Geopolitical Dashboard identifies and assesses the likelihood and potential market impact of these geopolitical risks and possible events. Below we summarize two interconnected themes that are shifting the world order, provide an update on a few key geopolitical risks, and highlight potential opportunities that may result.

Just as we've used terms like "prewar" and "postwar" to delineate eras, the pandemic and the war in Ukraine are marking a shift to a more divided world with even more focus on localization and protectionism.

"... recent events are forcing companies and countries to rethink their supply chains, influenced further by national security and strategic interests."

TWO THEMES INFLUENCING OUR GEOPOLITICAL DASHBOARD

Increased Localization and Protectionism

With every major crisis, people seem quick to declare an end to globalization, but the world may well be too digital and interconnected to deglobalize. That said, recent events are forcing companies and countries to rethink their supply chains, influenced further by national security and strategic interests. According to a report from Deloitte, American firms are expected to have reshored almost 350,000 jobs in 2022, an increase of 25% from 2021. It's estimated that the move to reshore some production capacities could spur a 40% reduction in the share of shipments to the U.S. that originate from Asia by 2030.

A More Divided World

Around the globe there is a deepening divide between liberal democracies that align with the U.S. and more authoritarian nations that support Russia and China, solidifying alliances among competing geopolitical blocs. For instance, while the majority of countries voted in favor of a United Nations resolution condemning Russia's claims of annexation in Ukraine, five countries (Russia, Belarus, Nicaragua, North Korea, and Syria) voted no and 45 countries, including China and India, abstained or declined to vote.

GEOPOLITICAL DASHBOARD

New Cold War

Last year we introduced the "New Cold War" as a geopolitical risk. Following Russia's invasion of Ukraine, it is now more evident that we are in one. The U.S. and European allies imposed more than 2,700 sanctions in just 10 days and companies "self-sanctioned" by either suspending or fully withdrawing from Russia. President Vladimir Putin said the sanctions were "akin to a declaration of war."

GEOPOLITICAL RISK DASHBOARD: **TENSIONS RISING**

(continued)

China has been watching the Western allies' response carefully. Given the strong NATO unity during the coordinated response, China is less likely to initiate conflict in the South China Sea or Taiwan. China, however, has provided Russia economic support and this event, and the West's response, is likely strengthening that relationship.

European Fragmentation

European Union (EU) member states showed unprecedented solidarity and self-sacrifice at the onset of the war in Ukraine. For example, Germany, Russia's biggest EU trading partner, registered a 34% drop in exports to Russia in the first half of 2022 as a result of the sanctions.

The cold winter and energy crunch will likely cause local constituents to put pressure on their elected officials, leading to disagreements among EU members and a further test of European solidarity. There was disagreement on the level of Russian oil price caps as countries tried to balance putting short-term economic self-interest against longer-term mitigation of military aggression. Populism still remains a threat, most recently seen in Italy, where a right-wing coalition won the national election. Initial polls show that right-wing coalitions have a chance of gaining power in this year's elections in Spain, Finland, Belgium, and Poland.

U.S.-China Competition

The declassified 2022 U.S. National Defense Strategy identified China as the "most consequential strategic competitor for the coming decades." The rivalry shows no signs of easing. President Joe Biden and Secretary General Xi Jinping met to discuss bilateral relations and agreed to reopen dialog with an aim toward "responsible competition."

The U.S. is attempting to deter China's technological progress by announcing export bans on the technology, software, and equipment used in producing semiconductors. Last year's CHIPS and Science Act was designed to boost U.S. competitiveness and innovation by aiming to catalyze investment in the domestic semiconductor industry. Similar initiatives can be observed in the biotechnology, aircraft, and cybersecurity industries.

Structurally Higher Inflation

Structurally higher inflation is a new risk that we are introducing to our geopolitical dashboard. While our base case calls for inflation to moderate during the year, there is a risk that the effects of the pandemic, the war in Ukraine, U.S.-China competition, and the climate change fight can lead to a prolonged period of higher inflation.

The pandemic exposed the vulnerabilities of global supply chains. Governments and business are focusing on diversifying and reshoring some production over the longer term.

GEOPOLITICAL RISK DASHBOARD: **TENSIONS RISING**

(continued)

This, combined with a tight labor market and an aging workforce, increases the likelihood that wage inflation will be higher for an extended period.

Despite global monetary policy tightening, higher rates typically have less impact on food and energy prices, which are more susceptible to supply shocks. The war in Ukraine initially led to a major spike in energy prices. There are also other factors at play, such as chronic underinvestment in fossil fuel exploration and production since 2014, which may keep energy prices elevated for years.

Global food prices have moved higher in part due to the war's impact on Ukraine's agriculture industry. Higher fertilizer prices due to export quotas means less fertilizer can be purchased, which means lower crop yields. Ukraine has also seen a major decrease in wheat plantings due to destroyed fields and input shortages. Lastly, extreme weather events, such as the droughts experienced in 2022, have also driven prices higher.

INVESTMENT CONSIDERATIONS

The shifting geopolitical landscape may lead to investment opportunities. Increased localization and protectionism will require business logistics services and infrastructure development as companies build new factories and restructure their supply chains. The shifting workforce demographic trends are creating demand tailwinds for suppliers of industrial machinery, notably within automation and robotics.

The war in Ukraine and the heightened rivalry between the world's great powers is leading to increasing militarization and defense spending. We believe this will also translate into a greater need for self-sustainability and protection of critical industries like technology, manufacturing, agriculture, and energy. As an example, cybersecurity companies should benefit as cyberattacks become more widespread, sophisticated, and disruptive as the world becomes more digital.

GEOPOLITICAL DASHBOARD

EVENT	LIKELIHOOD	MARKET IMPACT	DESCRIPTION
U.S.-China Competition	10	7	Competition for global leadership will impact markets; tech will continue to play an important role. The U.S. Department of Defense sees China as the "most consequential strategic competitor."
The New Cold War	8	7	The Russia-Ukraine war is solidifying alliances among competing geopolitical blocs. U.S.-China and U.S.-Russia competition for influence are increasingly hostile.
Emerging Market (EM) Political Uncertainty	7	5	Many EM countries are facing COVID-related challenges, including higher food and energy prices. These can lead to increased inequality, political interference, and continued rise of populist ideas.
Cyberattacks	7	5	As society becomes more digitized, the world is more prone to cyberattacks. The risk of cyber warfare is increasing significantly.
Middle Eastern Tensions	7	5	Tensions in the region remain heightened. Iran nuclear talks are at a standstill, and the country is undermining stability by continuing to support terrorist groups and proxies.
Washington D.C. Gridlock	6	6	A divided Congress likely means limited prospects for significant legislation. The degree of political uncertainty may not be fully priced into markets.
Climate Change Stalemate	6	4	A U.N. climate agreement was reached where developed countries would pay for climate damage costs of developing nations. Still, major hurdles remain.
Major Terror Attacks	6	4	Unpredictable terrorist attacks may create disruption. The U.S. withdrawal from Afghanistan has amplified the risk of a resurgent terrorist threat.
South China Sea Military Conflict	5	7	China maintains a strong air and naval presence in the area, even as the U.S. upgrades airfields and other strategic infrastructure. There is potential for a military clash.
European Fragmentation	5	6	The energy crisis and resulting economic damage from the Ukraine war may test European solidarity. France and Germany are increasingly at odds on several key issues.
North Korea Conflict	5	3	North Korea continues to improve and expand its nuclear missile capabilities. In November, it test-fired an intercontinental ballistic missile (ICBM) with a range sufficient to reach the U.S. mainland.
Structurally Higher Inflation	4	8	The effects of the pandemic, the war in Ukraine, U.S.-China competition, and climate change could lead to a prolonged period of structurally higher inflation.
Russia-West Conflict	4	8	Russia has threatened retaliation in response to Western military support of Ukraine. Finland and Sweden have applied to join NATO, a potential doubling of the Russia-NATO land border.

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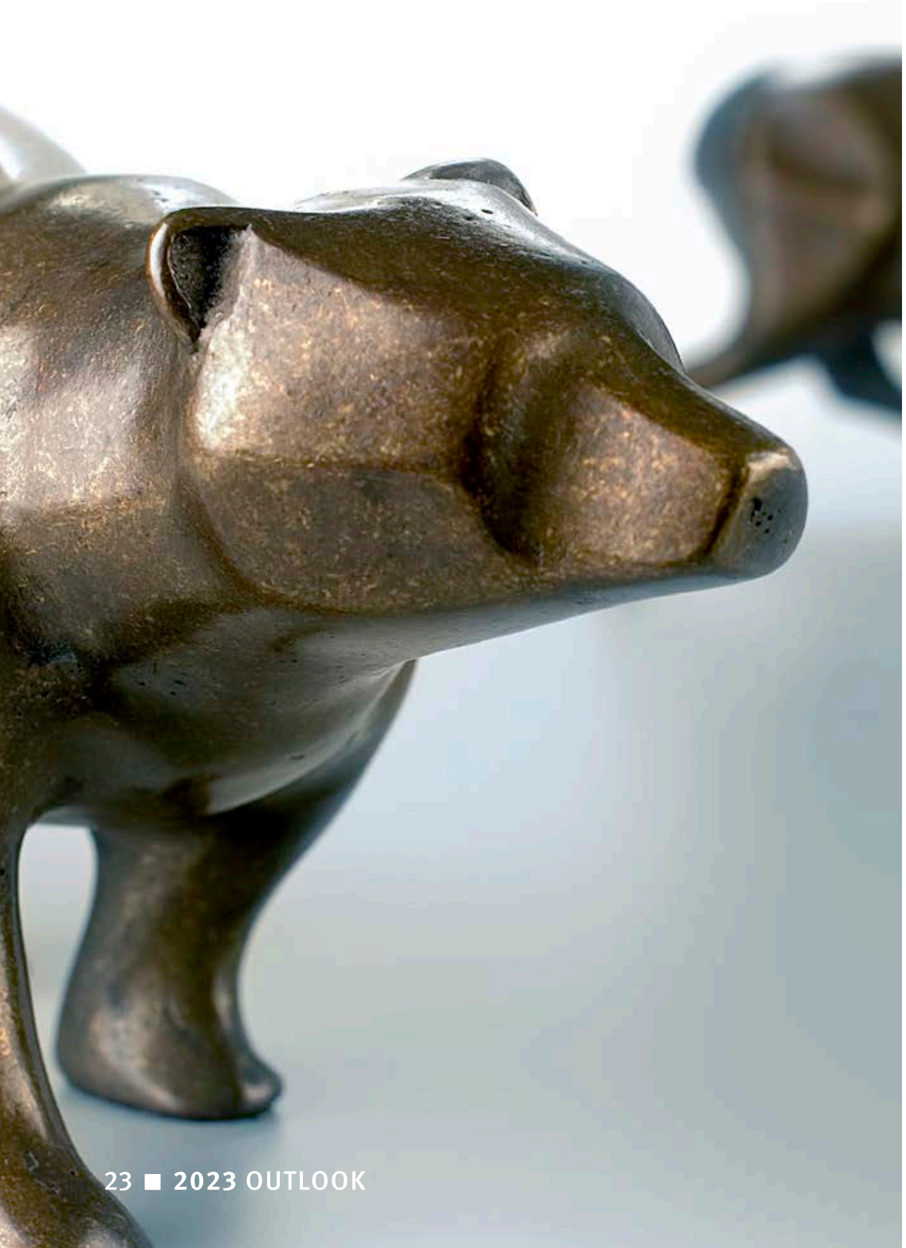
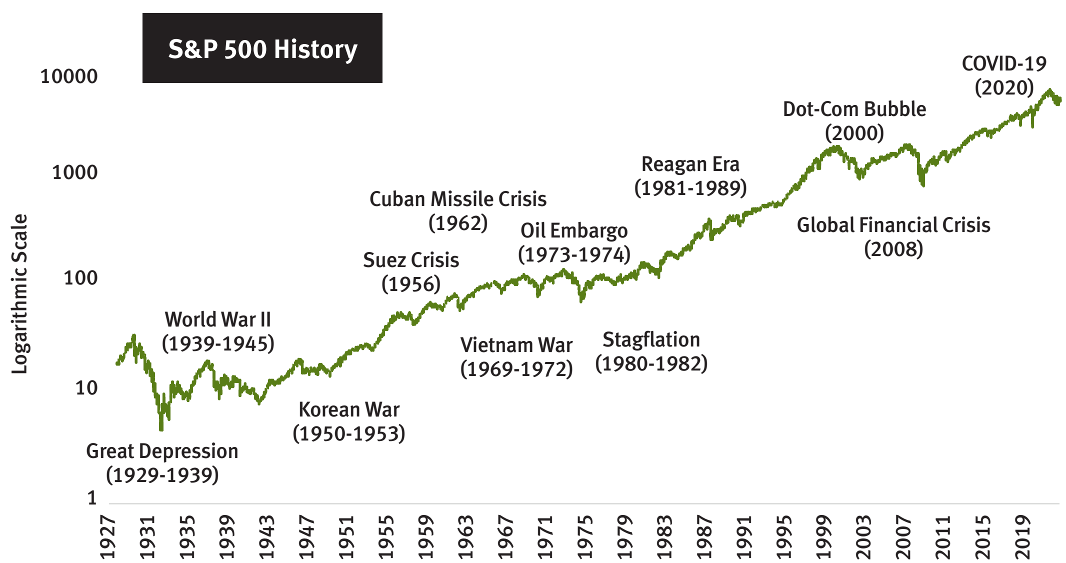
FIVE TIPS TO NAVIGATE A BEAR MARKET



When stocks enter a bear market, dropping more than 20% from their recent peak, losses may feel like they'll never end. Some investors even panic and make irrational investment decisions that may jeopardize long-term goals and objectives. Here are five tips to help you navigate a bear market.

1 MARKETS ARE RESILIENT: IT'S HAPPENED BEFORE

Short-term fluctuations shouldn't distract you from your long-term goals. After all, market volatility is a natural part of investing. In the last century, we've dealt with high inflation, pandemics, wars, and other geopolitical crises. In the moment, losses may feel like they will never end. ***However, markets have a history of rebounding from their downturns and growing to new heights over the long term.***



Source: Stifel Investment Strategy via Bloomberg, as of December 31, 2022.

"Markets inevitably decline at some point during a typical year, but some declines become bear markets, defined as a drop of 20% or more."

FIVE TIPS TO NAVIGATE A BEAR MARKET

(continued)

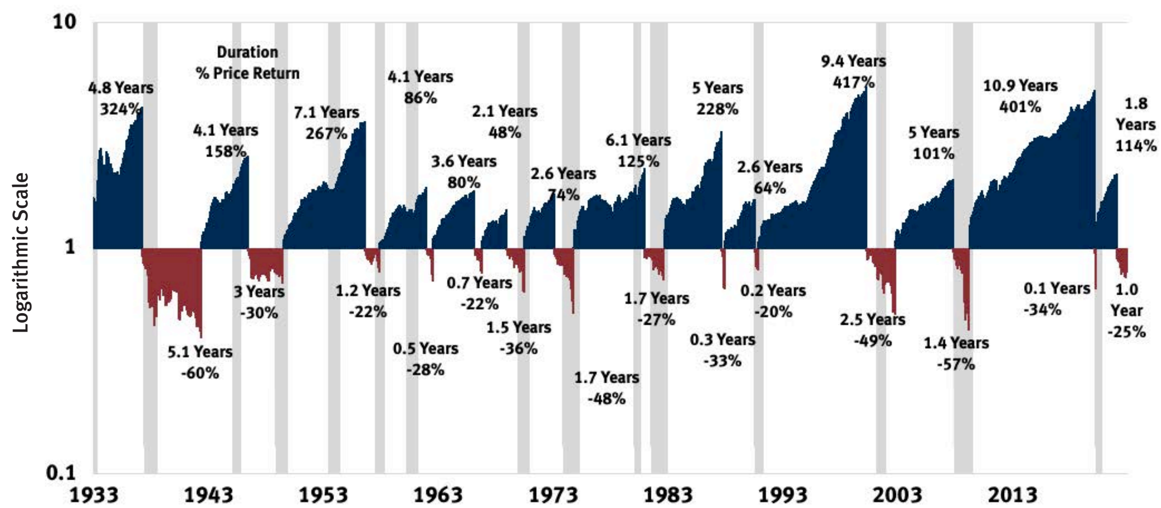
2 PUT IT IN PERSPECTIVE: THE BEAR CAN BE YOUR FRIEND

Markets inevitably decline at some point during a typical year, but some declines become bear markets, defined as a drop of 20% or more. Since 1932, the S&P 500 has experienced 14 bear markets.

The average cumulative loss during bear markets has been -35.1%, while the average bull market's return has been 177.6%. Bull market periods have also historically lasted longer than bear markets. On average, bull markets lasted 4.9 years while bear markets lasted 1.5 years.

Dollar-cost averaging may help turn a bear into your friend. ***By investing a fixed amount of money on a regular basis, you may be able to purchase more shares when markets are lower and potentially see price appreciation when the market rebounds.***

Bull and Bear Markets Since 1932



Source: Stifel Investment Strategy via Bloomberg, as of December 31, 2022.

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FIVE TIPS TO NAVIGATE A BEAR MARKET

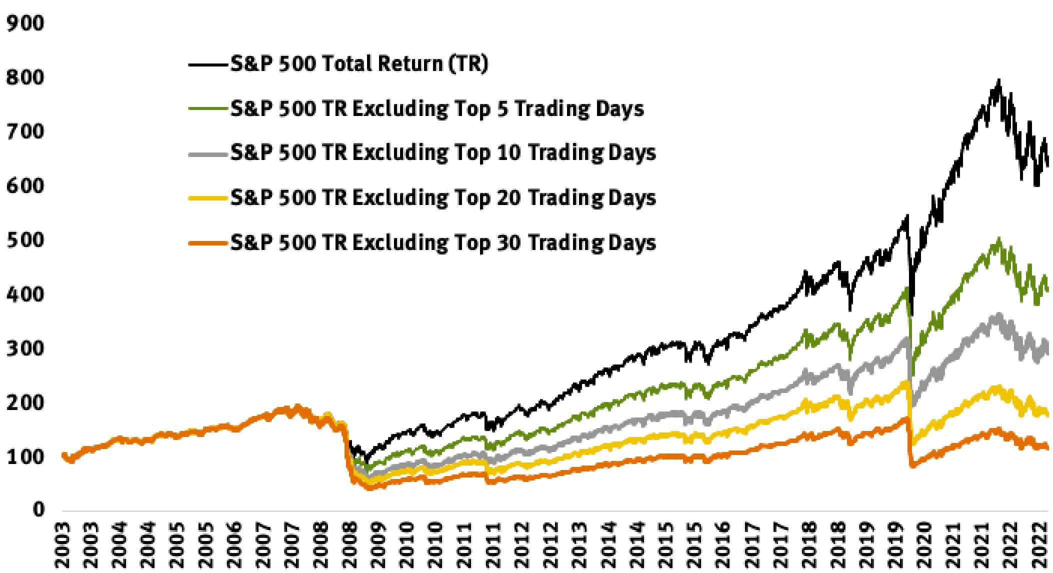
(continued)

3 AVOID QUICK REACTIONS: TIME IN, NOT TIMING, THE MARKET

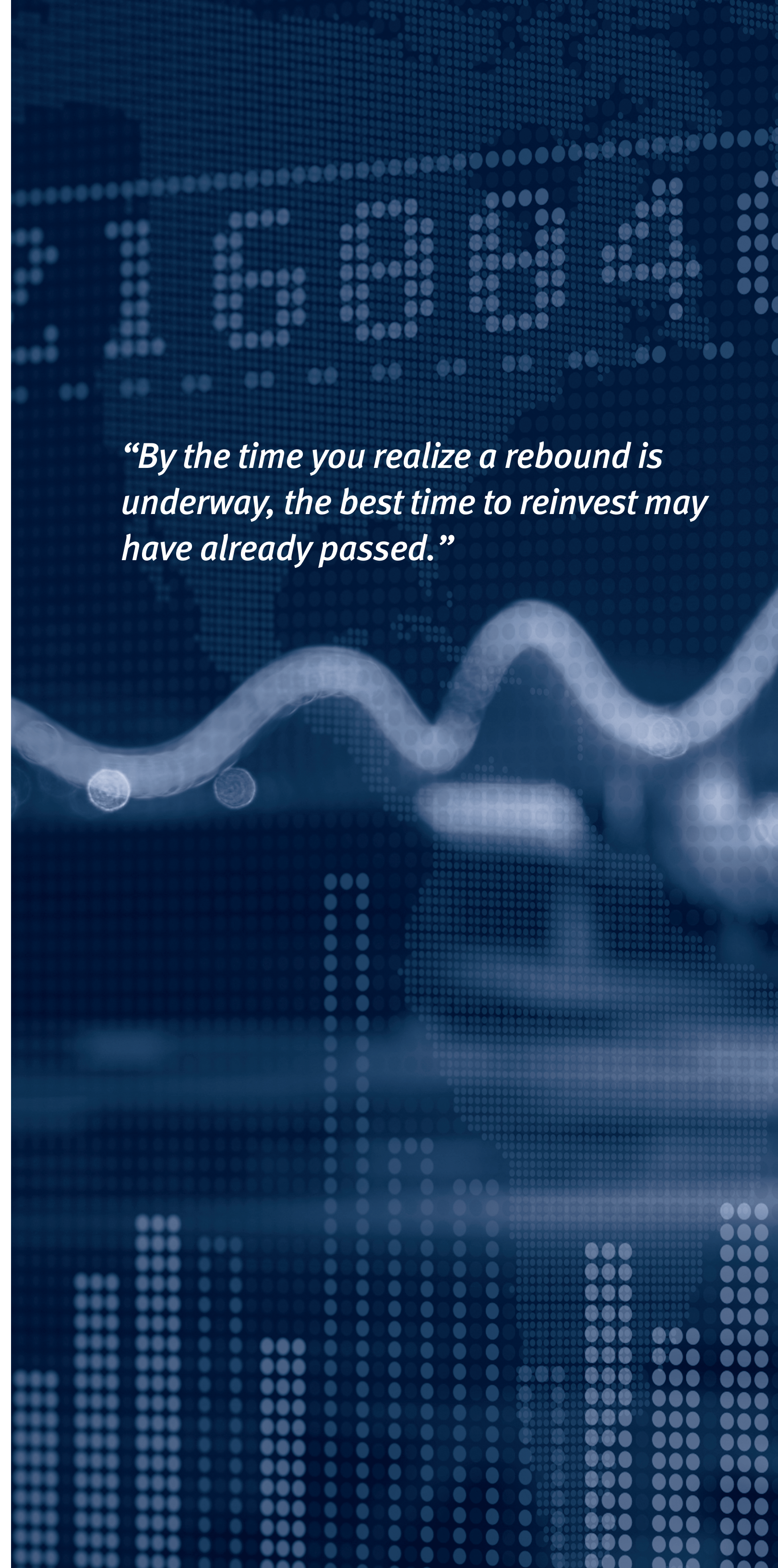
A decline in your portfolio can be painful. It may even tempt you to pull money out of the market to avoid further losses. While that may relieve the stress of the moment, it may actually jeopardize your chances of success, especially since ***some of the worst days in the equity markets have been followed by some of the best.***

By the time you realize a rebound is underway, the best time to get back into the market may have already passed. That's why staying invested is a better strategy than trying to time the markets. In fact, missing the 10 best trading days over the past 20 years would have reduced your annual returns by 4.2% (annualized).

Investing $100 in the S&P 500 (Total Return)



Source: Stifel Investment Strategy via Bloomberg, as of December 31, 2022.

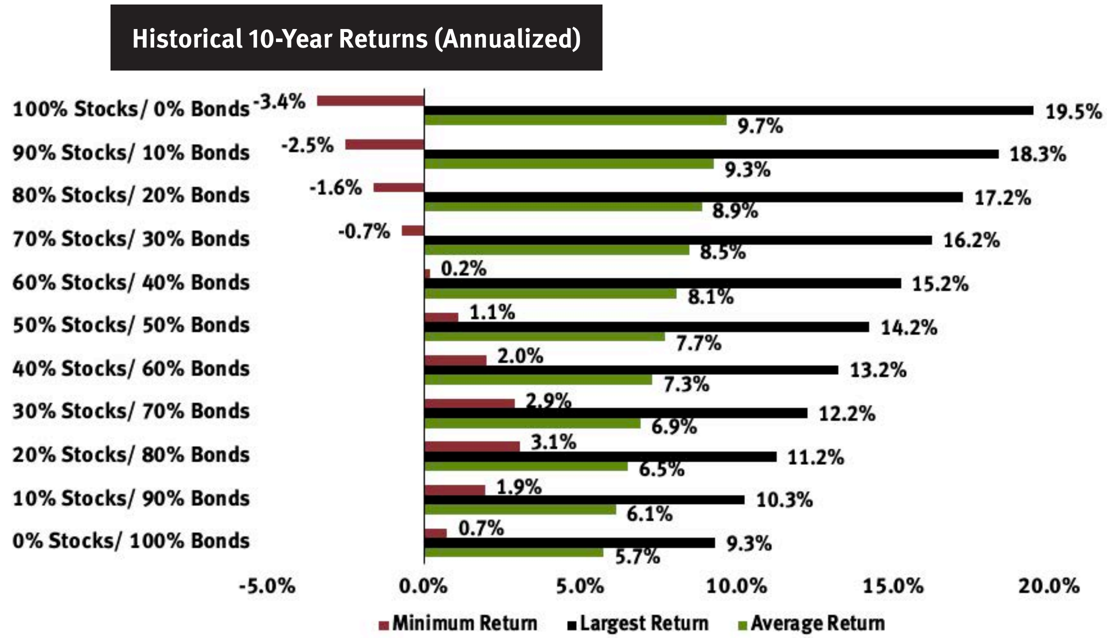


"By the time you realize a rebound is underway, the best time to reinvest may have already passed."

FIVE TIPS TO NAVIGATE A BEAR MARKET
(continued)

4 STAY DIVERSIFIED: TAKE ADVANTAGE OF DISLOCATIONS

No one can reliably predict the best nor the worst performing asset class from year to year. ***Bear markets may offer the opportunity to add exposure to certain asset classes at a more reasonable valuation.*** Your asset allocation – the selection of the appropriate mix of investments for your particular situation – is one of the most important decisions you can make. Using the opportunities presented by a bear market may further help you pursue your investment objectives.

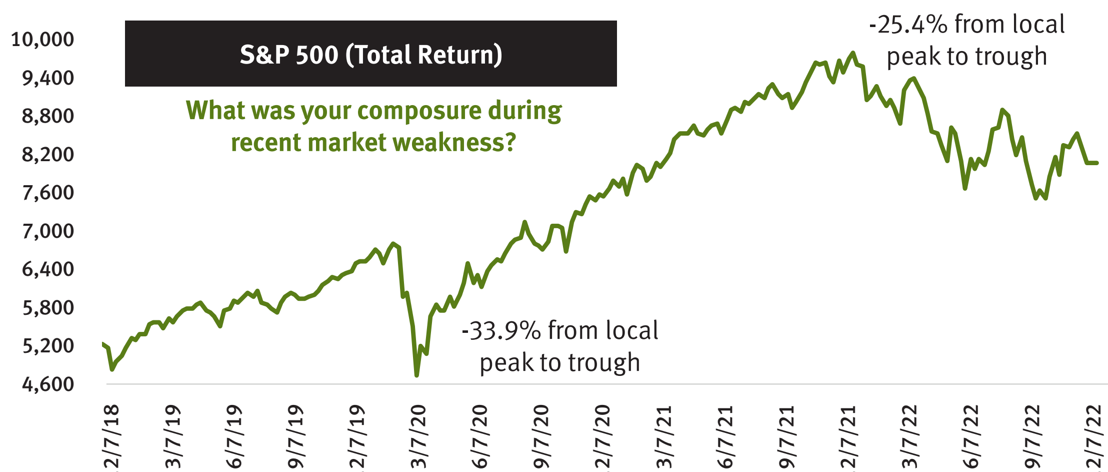


Source: Stifel Investment Strategy via Bloomberg, as of December 31, 2022.

5 MAINTAIN COMPOSURE: TURN OFF THE TV

The old adage that “no two people are alike” certainly holds true for investors. While some people may be less likely to worry about market fluctuations, others experience anxiety about short-term changes in their portfolio’s value. And that’s alright!

If emotions are getting the best of you, turn off the TV and consider reaching out to your Stifel Financial Advisor for professional advice. Your Financial Advisor may be able to use elements of behavioral finance to gauge your level of composure to fine-tune your asset allocation and help you navigate through tumultuous market periods.



Source: Stifel Investment Strategy via Bloomberg, as of December 31, 2022.

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HOW WE INVEST

OUR INVESTMENT MANAGEMENT PROCESS

As you review this 2023 Outlook report, you may be wondering how this work influences our investment guidance and discretionary portfolios. While we offer forecasts for the coming year and discuss possible scenarios, when issuing investment guidance or managing our portfolios, we often take a longer-term view, looking beyond the near-term changes in market and economic conditions.

1

We routinely analyze the current **macroeconomic environment** as an input into our short-, medium-, and long-term views. From time to time, we identify investment themes and **megatrends** that influence the direction of the economy and the markets longer term.

2

Based on our assessment of the economic cycle, major investment themes, and other structural forces, **we formulate long-term capital market assumptions (CMAs)**, which are long-term expected return, standard deviation, and correlation estimates for various asset classes.

We use CMAs to build portfolios and develop our asset allocation models. **Stifel's Wealth Planning Department incorporates our asset allocation models and CMAs to create a financial plan that's just right for you.**

3

a. Manager Selection

Each manager recommendation is unique, but we use a framework as general guide. We ask ourselves:

- Does the investment management firm have a strong business?
- Does the firm provide strong support for this specific product?

We may also consider the following:

- **Experience of the investment team:** Include managers that are substantively resourced and have a long tenure working together.
- **Investment philosophy:** Include managers with a well-articulated, stable, and consistent philosophy.
- **Investment process:** Include managers with a process that's repeatable and aligned with the investment philosophy and expertise.
- **Past performance:** Include managers whose performance and risk characteristics are consistent with philosophy, process, and portfolio construction guidelines.
- **Fees and other costs:** Include managers with appropriate and competitive fees given the nature of the investment strategy.

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HOW WE INVEST

OUR INVESTMENT MANAGEMENT PROCESS

(continued)

OUR MAJOR INVESTMENT THEMES INCLUDE:

- **Productive Competition**
- **Fourth Industrial Revolution**
- **Shifting Demographics**
- **Geopolitical Tensions and Protectionism**
- **Managing Through Economic Recovery**

3

b. Stock Selection

While our analysis for each security decision is unique, we use a framework as a general guide. We ask ourselves:

- Does the company align with our themes and economic trends?
- Is the company a potential disruptor in its industry? Is it competitive? Is it resilient?

We may also consider the following:

- **Strength of the management team:** Include companies with proven leaders, smart deployment of capital, and a sound strategic vision.
- **Economic moat:** Include companies with wide and stable economic moats, such as industry leaders, innovators, or disruptors with unique products or services.
- **Pricing power and profitability:** Include companies that can command a premium for their product or service.
- **Financial strength:** Include companies with solid balance sheets and the ability to generate strong free cash flow.
- **Growth potential:** Include companies with the potential to maintain or capture sizeable market share.

STIFEL CHOICE PORTFOLIOS

Stifel Choice Portfolios offer you the flexibility to implement an asset allocation strategy that's tailored to your unique goals and objectives while drawing on Stifel's resources and capabilities.

You can invest in one, or several, of our mutual fund, exchange traded fund (ETF), or direct equity portfolios, or in one of our turnkey multi-asset class portfolios, which are based on your risk profile.

To learn more about Stifel Choice Portfolios and whether they are appropriate for your personal financial goals, contact your Stifel Financial Advisor.

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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 CIO Office – 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.

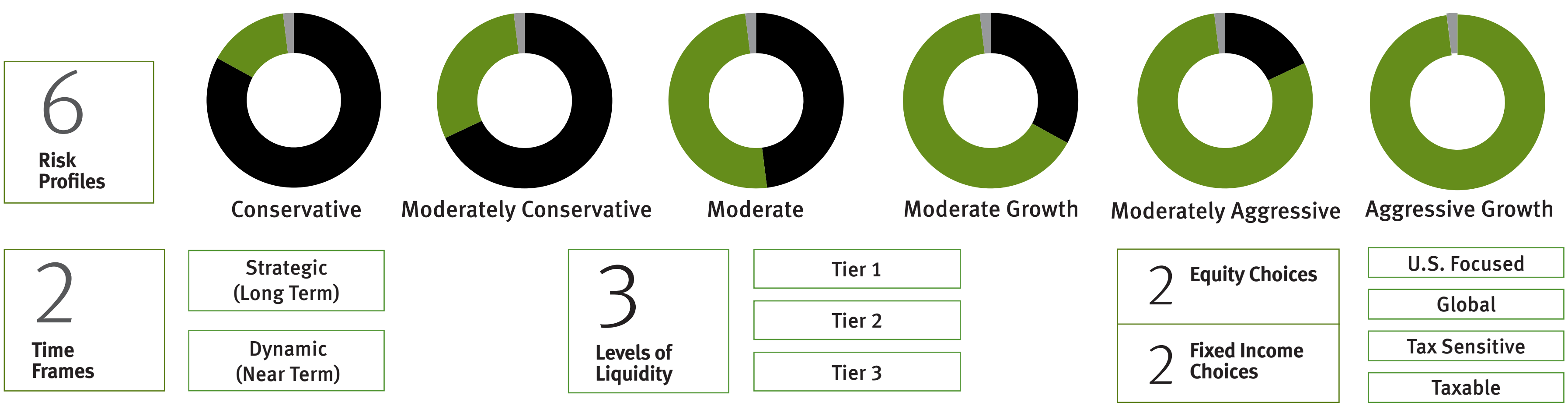
Liquidity Tiers: We offer three liquidity tiers in our asset allocation guidance offering.

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.

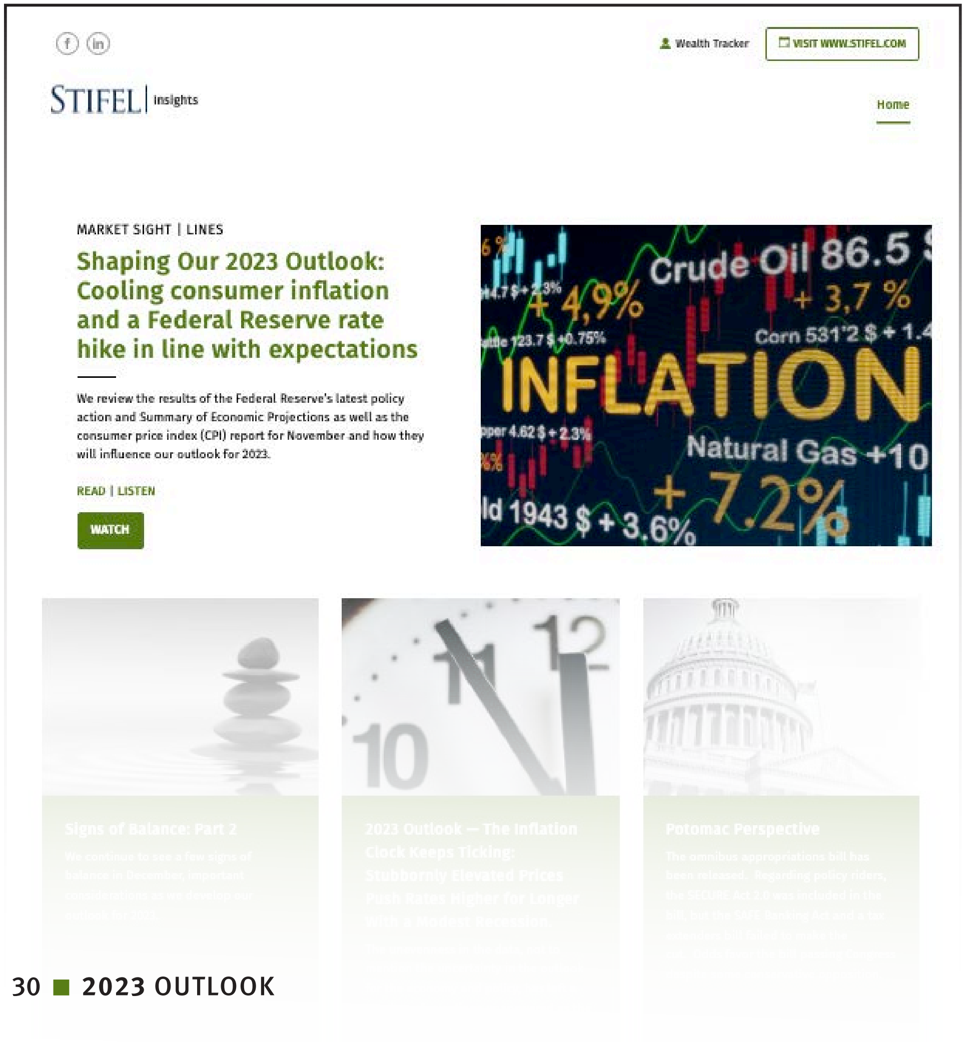
And finally, your Financial Advisor can work with you to elect to invest in a Strategic Asset mix, designed as a diversified strategy for the long term. Or, you can choose to invest in our Dynamic Asset mix guidance, where we will adjust our strategic leanings in consideration of shorter-term views.



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:

stifelinsights.com



Popular insights from Stifel's CIO Office include:

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VIDEO | PODCAST | NEWSLETTER

VIDEO | PODCAST | NEWSLETTER

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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 1000 Growth Index** measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

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 **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 China Index** captures large and mid-cap representation across China A, H, and shares, Red chips, P chips, and foreign listings (e.g. ADRs). With 741 constituents, the index covers about 85% of this China equity universe.

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 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 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 U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related, and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and nonagency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

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

The **Bloomberg 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 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 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 "5B" 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 and 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).

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INDEX DESCRIPTIONS

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 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 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 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 U.S. Government/Credit Index).

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

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DISCLOSURE

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.

DISCLOSURE

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/their 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.

Assumptions are estimates based on historic performance and an evaluation of the current market environment. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy, nor should they be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. The assumptions are subjective estimates based on circumstances and events that may not occur. Further, any valuations given in this document may not accurately reflect the values at which investments may actually be bought or sold, and no allowance has been made for taxation.

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.

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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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