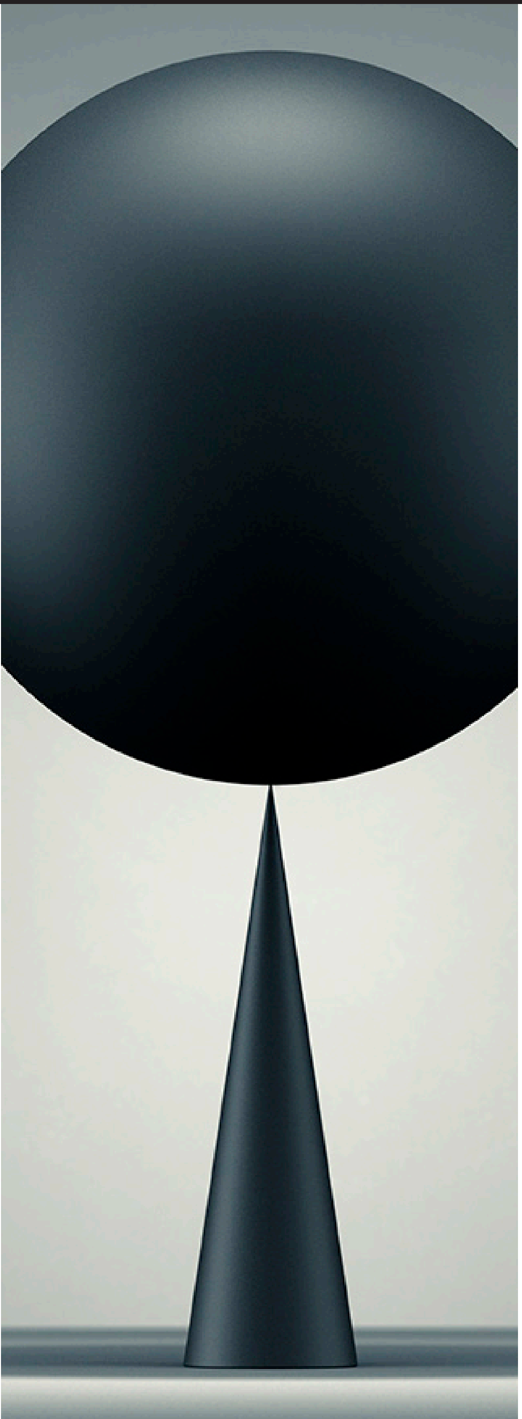
BALANCING ACTS

2022 OUTLOOK

STIFEL

TABLE OF CONTENTS



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A LETTER FROM OUR **CHIEF INVESTMENT OFFICER**

My team and I are very pleased to share our *2022 Outlook: Balancing Acts*.

Following a dramatic and ultimately positive year in 2020, markets took a pause in January 2021, with the S&P 500 falling 1.1% as investors digested a power shift in D.C., still uncertain COVID-19 vaccination programs, and worries about a slowdown in the reopening of the economy. But optimism ultimately took hold, given effective vaccines, supportive fiscal and monetary policy, and continued reopenings, driving the markets higher. The markets ended the year with some volatility given growing concerns about the omicron variant, but the S&P 500 had a total return of 28.7% in 2021, a solid year.

Early in 2021, as vaccines proved effective, the pace of vaccinations quickened. Vaccinations, coupled with further advances in therapeutics, dampened the impact of the virus, both in terms of contagiousness and severity. These were important, as two troublesome new variants, delta and omicron, proved to be more contagious than previous versions of the virus. Fortunately, vaccines proved still effective in lessening severe illness, and the U.S. has avoided further shutdowns.

We provide a more detailed look back in our *2021 Year in Review*. Take, for example, the S&P 500. We started the year with a forecasted return for large cap U.S. equities above our long-term assumption. With continued fiscal spending and the Federal Reserve (Fed)'s highly supportive policy, the S&P 500 was up 28.7% for the year, ahead of our forecast.

Of course, Democrats won Georgia's January runoff elections to take control of the Senate, completing the "blue wave" that started with Joe Biden winning the White House and Democrats keeping control of the House of Representatives, though with fewer seats. Focus turned to the balance of power within the Democratic Party, as progressives sought to advance their agenda and moderates held the line on spending and tax increases, at least to a degree. We share more in *Balance of Power: Washington Policy*.

As we've learned to live with the coronavirus and life returns toward normal, some changes from the pandemic are likely here to stay. We dive deeper into those changes with *In the Wake of the Pandemic: A Changed World*.

We also provide our views on other topics as we look into 2022:

- *Allocation Insights*
- *Geopolitical Tensions*
- *Our Investment Management Process: How We Invest*
- *Identifying and Overcoming Investor Biases*
- *Stifel's Approach to Asset Allocation*
- *Stifel Guidance*

Finally, we share our *2022 Outlook: Balancing Acts*, 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 see various "balancing acts" during the year, including Fed policy, government COVID regulations, and business strategy to deal with inflation. We also comment on more positive and negative scenarios, and, finally, we include our guidance on portfolio positioning and dynamic leanings.

We hope you find our *2022 Outlook: Balancing Acts* informative and helpful. As always, we welcome your thoughts, observations, and comments.

Michael P. O'Keeffe, CFA
Chief Investment Officer

2021 YEAR IN REVIEW

At the start of last year, we offered optimistic forecasts as we anticipated a strong recovery from the COVID-19 pandemic. The vaccine program in the U.S. proved to be largely successful, rebuilding consumer confidence and allowing businesses to reopen. Economic growth accelerated above its long-term trend, and equity markets had another strong year as company earnings rebounded sharply.

COVID-19: LEARNING HOW TO LIVE WITH THE VIRUS

Throughout the year, infections periodically flared up in different parts of the world, sometimes driven by seasonal factors and other times by virus mutation. However, each subsequent "wave" seemed to have less impact on consumer behavior and the overall economy, as vaccines proved largely effective and people realized COVID-19 isn't likely to disappear completely. Hospital capacity wasn't strained, helped by more people receiving at least one dose of the vaccine. Mobility data improved with individuals spending less time at home and gradually returning to normal activities, such as dining out and traveling. The omicron variant led to a record surge in COVID-19 cases as the year came to a close.

TRACKING ECONOMIC RECOVERY

The U.S. economy is estimated to have grown 5.6% in 2021. In the second half of the year, the spread of the delta variant and shortages due to supply chain frictions limited consumption in some industries.

THE CONSUMER REMAINS RESILIENT

Consumers spent more in 2021 due to pent-up demand and nearly doubled household savings. Even after expanded unemployment benefits expired in September, this positive trend continued. This higher spending was somewhat uneven through the year, as supply constraints, higher prices, and pandemic concerns dampened consumer confidence. Consumer spending is estimated to have risen 8.0% in 2021.

EMPLOYMENT IMPROVES

The U.S. economy added over 6 million jobs last year, many of which were in the hardest-hit industries, such as leisure and hospitality. Unemployment was at 4.2% in November, notably below the 6.1% average over the last 20 years. In fact, for the better part of the year, there were more jobs available than the number of people unemployed. The shortage of workers led, in part, to a sharp rise in wages for many industries.

2021 **YEAR IN REVIEW**

Rise in consumer spending*

8.0%

Jobs created*

6 million

GDP growth*

5.6%

Core PCE Inflation*

4.4%

Numbers are estimates and do not yet reflect the final result.

INFLATION HEATS UP

The combination of pent-up demand, supply chain issues, and a shortage of workers pushed prices higher in 2021. We saw the sharpest year-over-year price increases in pandemic-disrupted categories such as travel, car prices, and energy prices. However, some slower-moving categories like rent and wages also rose meaningfully, prompting the Fed to remove the "transitory" label for inflation. The Fed's estimate for the core personal consumption expenditures (PCE) index in 2021 is 4.4%.

TAKING AWAY THE **"PUNCH BOWL"**

MONETARY POLICY

The Federal Open Market Committee (FOMC) met eight times in 2021. Through most of the year, the committee carefully communicated that monetary policy would remain unchanged until it saw evidence of "substantial further progress" on its dual mandate of stable prices and maximum employment. Then following the September meeting, Fed Chair Jerome Powell said that for inflation, we have achieved "more than significant progress," and for employment, the test was "all but met." In December, the Fed began reducing its monthly bond purchases by $15 billion a month and then later in the month announced a faster bond-buying taper while the majority of Fed officials projected three rate hikes in 2022.

FISCAL POLICY

The unprecedented fiscal response to the pandemic continued in 2021. In March, President Biden signed the American Rescue Plan Act, a $1.8 trillion package providing, among other things, more support for individuals, state and local governments, and expanded unemployment insurance. Many of the provisions in this bill expired by the end of the year. However, Congress advanced other long-term spending and infrastructure bills during the year. These included the $1.2 trillion Infrastructure and Jobs Act and the $1.75 trillion Build Back Better spending bill covering areas like the climate crisis, child care/universal preschool, expanded Medicaid/Medicare benefits, in-home care, and affordable housing. The Infrastructure Jobs Act passed in 2021, but the Build Back Better spending bill did not, and will be taken up again in 2022.

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U.S. CAPITAL MARKETS REVIEW

EQUITY

U.S. equity markets reached record highs, with the S&P 500 finishing the year up 28.7% and the Russell 1000 returning 26.5% both on a total return basis. Markets rotated several times between cyclical and growth sectors given periodic worries about the longevity of the economic recovery, elevated inflation, and virus variants. Value stocks outperformed growth by over 10% in the first quarter, only to gradually give up the relative outperformance as the year progressed. Small cap stocks, as measured by the Russell 2000 Index, rallied in the first half of the year, up over 17% through June, but ended 2021 up 14.8%. Robust earnings growth (45%) and continued margin expansion contributed to U.S. equity market strength.

FIXED INCOME

The 10-year Treasury yield opened the year at 0.93% and ended at 1.52%. This, however, masks the intra-year high of 1.74% in March, which was sparked by investors' forward-looking expectations of stronger growth and higher inflation. As the year progressed, a combination of renewed growth worries, increased demand for Treasuries, and a tempering of long-term inflation expectations resulted in the 10-year drifting lower. In the fourth quarter, the Treasury curve flattened as the spread between the 2-year and 10-year narrowed, reflecting investor expectations that the Fed will raise short-term rates while economic growth eventually cools down to trend growth. The 2-year Treasury rose 45 basis points in the fourth quarter to end the year at 0.73%.

The Bloomberg U.S. Aggregate Index, representing investment-grade taxable bonds, returned -1.5% for the year. The Bloomberg U.S. Municipal Bond Index, representing investment-grade municipal bonds, returned 1.5%. As measured by the Bloomberg Corporate High Yield Index, high-yield bonds were up 5.3%.

NON-U.S. EQUITY MARKETS

Non-U.S. market returns were mixed and trailed those of the U.S. For the year, the MSCI EAFE Index, representing non-U.S. developed markets, was up 11.3%. The relatively slower rollout of vaccinations and renewed lockdowns drove Europe into a double-dip recession early in the year. As measured by the MSCI EM Index, emerging markets were down 2.5%, driven mainly by developments in China. The Chinese government increased regulatory scrutiny in several industries, and investors worried about contagion risks stemming from the potential default of one of China's largest real estate developers. The MSCI China Index was down 21.7% in 2021.

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2022 OUTLOOK: **BALANCING ACTS**

The external forces that contributed to the notably strong economic growth and equity markets over the past 18 months will begin to fade in 2022 in our view. As a result, individuals, businesses, and the economy overall will increasingly have to stand on their own. And while we anticipate continued economic growth and equity markets to go higher, the range of potential outcomes is wider.

bal·anc·ing act /'balansiNG akt/ noun
An attempt to handle or deal with two or more things at one time so as to satisfy often competing requirements.

We'll see balancing acts all around:

- The Fed will look to tighten just enough to rein in inflation without threatening recovery.
- Governments must balance the benefits of pandemic shutdowns with their economic and human costs.
- Companies must optimize pricing given increased production and wage costs while maintaining healthy profit margins.
- Our government will, at some point, have to weigh the short- and long-term debt costs with the benefits of fiscal spending and deficits.
- The U.S. and China will continue their strategic rivalry while also exploring ways to cooperate.

ECONOMY

Our 2022 forecast for gross domestic product (GDP) growth is 3.5%-4.0%, still well above the longer-term trend. **We view growth driven by a strong consumer, higher capital expenditures, and inventory rebuilding by businesses.** The consumer is at a much better place at this point of the recovery versus other recoveries, with household net worth reaching all-time highs and trillions of dollars sitting in savings. We expect some excess savings to be spent on deferred demand as supply/demand imbalances ease and consumer comfort levels improve.

INFLATION

We expect inflation to decrease gradually through the year and likely settle below 3% by the end of 2022. Inflation may well remain elevated in the first half of the year as economies move past the winter surge in coronavirus cases and supply chain disruptions take some time to resolve fully.

FEDERAL RESERVE POLICY

The Fed is in the delicate balancing act of trying to counter price pressures while continuing to support the economic recovery. In the last FOMC meeting of the year, the Fed forecasted three quarter-point increases in the federal funds rate in 2022. Our view aligns with the Fed's projections.

	2021 RESULT	2022 FORECAST
U.S. Real GDP*	5.6%	3.5% - 4.0%
Core PCE Inflation (YoY)**	4.4%	2.5% - 3.0%
Federal Funds Rate	0% - 0.25%	0.75% - 1.0%

**2021 result based on latest Bloomberg consensus estimate.*
***Based on the Fed's latest estimate.*

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FISCAL POLICY

The impact of the historic fiscal policy on economic recovery will fade in 2022, but we'll see an incremental boost if the Build Back Better bill passes.

COVID-19

Broader vaccine availability and continued medical innovation should allow us to make more progress toward the next normal. The coronavirus will not disappear completely, but in our base case scenario, we don't foresee a rise in cases next year curtailing economic activity to the same extent as in 2020 or early 2021.

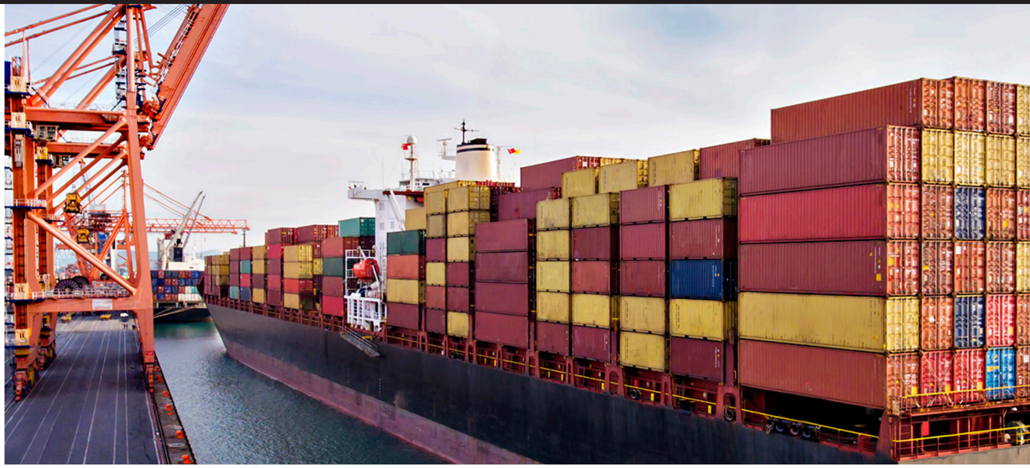
ASSET CLASS FORECASTS

STOCKS

We expect a strong economy supported by the consumer and high-single-digit earnings growth to lead to another year of modestly positive equity market returns. Profit margins are likely to remain elevated, but supply chain issues and rising wages may challenge individual companies and sectors. Any policy misstep, either fiscal or monetary, could lead to periods of uncertainty and investor fear. Volatility will likely be higher than in 2021, especially as the midterm elections approach. We may even see a correction, or multiple mini-corrections, during the year. Nevertheless, we believe we are still in the first half of a new economic cycle and forecast the S&P 500 to end the year at 5,005.

BONDS

We expect interest rates will rise in 2022 but remain near historic lows. Above-trend economic growth and inflation will likely provide upward pressure. Our year-end 2022 forecast for the 10-year Treasury yield is



1.75%-2.0%. Spreads are at historical lows, supported by unprecedented liquidity, low default rates, and higher commodity prices that have helped some companies shore up their balance sheets. We expect a modest spread widening as the credit cycle progresses.

	2021 RESULT	2022 FORECAST
S&P 500	4,766 28.7% (TR)	5,005 7% (TR)
10-Year Treasury (%)	1.52%	1.75% - 2.0%
Market Pulse Publications*	8	12
Investment-Grade Spreads (bps)	92	100 - 125
High-Yield Spreads (bps)	283	325 - 350

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

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WHAT IF WE'RE WRONG?

We view our base case scenario as the most likely outcome. However, given the balancing acts we are seeing all around, we also consider the possible risks that could lead to our bear case or bull case unfolding.

Factors like asset valuations, geopolitics, and even climate change can drive volatility. While we're mindful of these influences, **we see three main factors greatly influencing which scenario unfolds: 1) the coronavirus, 2) inflation, and 3) fiscal and monetary policy.**

CORONAVIRUS	INFLATION	FISCAL AND MONETARY POLICY
The trajectory of the virus will influence how quickly supply chain imbalances resolve, consumer confidence improves, and pent-up demand is released.	The Fed has made a hawkish shift due to higher inflation, but the path of inflation through 2022 may cause the Fed to adjust its policy during the year.	In the wake of historical levels of policy support, any policy misstep could lead to periods of uncertainty, investor anxiety, and volatility in the markets.
Bear case: Cases surge, putting a strain on the healthcare system, and the virus mutates to evade vaccines. Consumer behavior is permanently changed, and the pent-up demand fades.	***Bear case:*** The Fed either tightens too quickly or is behind the curve. High inflation curbs consumer spending, impacts profit margins, and keeps economic and earnings growth lower.	***Bear case:*** The economy isn't able to "stand on its own." As policy support fades and current benefits like the child tax credits expire, consumers engage less, and businesses suffer.
Bull case: Future mutations are benign in severity, and global restrictions lift faster than expected. Animal spirits awaken, and the economy grows more quickly than expected.	***Bull case:*** Inflation falls more quickly than anticipated, proving more transitory than current forecasts so that the Fed can raise rates at a slower pace.	***Bull case:*** A Goldilocks scenario with balanced fiscal spending and an accommodative Fed unfolds. The economy grows well above trend, and markets deliver double-digit returns.

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ALLOCATION INSIGHTS

For the past twelve months, we've guided investors to position their portfolios in assets and segments of the economy impacted early by the pandemic. Many of these assets have performed well, and we see the opportunity still for relative outperformance as we start the new year. We anticipate above-trend economic growth and continued pent-up demand for goods and services to support cyclical assets. However, as the economic cycle progresses and both fiscal and monetary policy support recede, investors should consider active management selectively, where managers can apply their skills to focus on traditional fundamentals and quality in this environment.

We continue to anchor our portfolio recommendations on our long-term outlook, focusing on diversification both across and within asset classes. Our dynamic leanings, set against our long-term strategic asset allocation (SAA), result from our short-to-medium-term views.

In the U.S., we believe value, comprised of more cyclical sectors, should perform well. A strong economy, rising rates, and higher inflation are conditions that benefit this style. Within value, we have a preference for profitable companies with solid financials.

In terms of size, large cap versus small cap stocks, we believe there is still an opportunity for a continued overweight to small caps. Given our preference for strong fundamentals, we prefer to implement this overweight using active management as we progress through this economic cycle. For passive implementation, we suggest a neutral small cap position.

Despite last year's relative underperformance, we continue to favor non-U.S. equity versus U.S. equity, both developed and emerging. Slower vaccination campaigns, renewed lockdowns, supply chain issues, and China's regulatory actions weighed on non-U.S. markets in 2021. However, we expect the economic risks related to COVID-19 to recede, allowing the global economy to reopen further, which should be supportive of non-U.S. equity earnings. In addition, non-U.S. valuations remain attractive, and some non-U.S. economies may benefit from further fiscal stimulus.

We remain overweight to actively managed U.S. high yield relative to U.S. investment grade within fixed income while being neutral for passively managed exposure.

Within investment-grade fixed income, we have closed our overweight to U.S. Treasury inflation-protected securities (TIPs), as we see inflation falling in 2022 given the Fed's more hawkish stance and the prospect of improving supply chain conditions. We are neutral between corporate, government, and securitized investment-grade bonds.

Lastly, while we expect rates to rise modestly, we remain neutral on duration to maintain fixed income's diversification benefits versus equities in multi-asset class portfolios.

We will revisit our dynamic leanings regularly, especially given this unprecedented environment, and we will consider changes as new information becomes available.

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ALLOCATION INSIGHTS

EQUITY

ASSET CLASS	PREVIOUS	CURRENT	COMMENTS
U.S. Equity vs. Non-U.S. Equity	▼	▼	We continue to favor non-U.S. equity markets relative to the U.S. despite their underperformance in 2021. Non-U.S. equity valuations appear to be attractive, and we expect the economic risks related to COVID-19 to recede, allowing the global economy to reopen further, which should be supportive of non-U.S. equity earnings. The external forces that contributed to the notably strong economic growth and equity markets in the U.S. will begin to fade in 2022, whereas many non-U.S. economies are expected to benefit from further fiscal stimulus.
U.S. Large Cap vs. U.S. Small Cap	▼	▼	A strong U.S. economy and seasonal factors are still supportive of small cap stocks, which derive most of their revenue domestically. Rising rates, a shortage of labor, and higher cost pressures may pose a challenge for smaller companies. Given our preference for strong fundamentals, we prefer to implement this overweight through active management as we progress through this economic cycle. For passive implementation, we suggest a neutral small cap position.
U.S. Large Value vs. U. S. Large Growth	▲	▲	We believe value, comprised of more cyclical sectors, should perform well. A strong economy, rising rates, and higher inflation are conditions that benefit this style. Within value, we have a preference for profitable companies with solid financials.
Non-U.S. Developed Markets vs. Emerging Markets	■	■	We are neutral within non-U.S. equity between developed and emerging markets, as we find the risks to be balanced between both. However, we maintain an overweight to non-U.S. equities, both developed and emerging, relative to U.S. stocks.
Europe vs. Japan	■	■	The European economy is more exposed to global trade, with public companies generating 50% of revenue outside of Europe. Fiscal stimulus in Europe is expected to continue, and permanent changes seem likely. Japan's ongoing structural and corporate reform is a tailwind for company earnings. However, both Europe and Japan face some challenges that keep us at neutral within developed markets, for now.

▲ Overweight ▼ Underweight ■ Neutral

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ALLOCATION INSIGHTS

	ASSET CLASS	PREVIOUS	CURRENT	COMMENTS
FIXED INCOME	**U.S. Investment Grade vs. U.S. High Yield**	▼	▼	Within fixed income, we remain overweight to U.S. high yield relative to U.S. investment grade with the use of active management. Strong commodity prices have helped many companies shore up their balance sheets, and default rates have declined. While the impacts of COVID-19 will persist, we believe there is opportunity in certain cyclical sectors and the potential for yield enhancement in a low-yield environment.
FIXED INCOME	*Corporates* *Government/Agency* *MBS*	■	■	We recommend a diversified approach to the full spectrum of investment-grade fixed income.
FIXED INCOME	*Inflation Protected*	▲	■	We have closed our overweight to U.S. Treasury inflation-protected securities (TIPS), as we see inflation falling in 2022 given the Fed's more hawkish stance and the prospect of improving supply chain conditions.
FIXED INCOME	**Duration**	■	■	Rates are expected to rise modestly in 2022, but we believe we remain in a lower-for-longer environment. We view duration as a diversifier in a multi-asset class portfolio and remain neutral to the overall market.
ALTERNATIVES	**Private Assets**	■	■	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**	■	■	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.

▲ Overweight ▼ Underweight ■ Neutral

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The Biden administration began 2021 with plans of significant fiscal expansion for COVID relief, infrastructure, and social spending. COVID relief and infrastructure spending both passed in 2021, but the fate of President Biden's social spending bill, Build Back Better (BBB), remains uncertain.

Contributed by Brian Gardner

THE END OF **FISCAL EXPANSION**

Congressional Democrats and the White House will start the year by attempting to revive the Build Back Better Act (BBB), which suffered a potentially fatal blow in late December when Senator Joe Manchin (D-W. Va.) announced he would oppose the current iteration. **Regardless of how investors view the merits of BBB, the bill's failure would negatively impact economic growth forecasts by delivering less spending than has been anticipated and by not extending some fiscal programs that began in 2021.**

The American Rescue Plan, the administration's COVID relief bill passed in March 2021, increased the child tax credit (CTC) by $1,000 to $1,600 per child (depending on the child's age). The enhanced CTC expired on December 31, 2021, and the current draft of BBB would extend it. The Joint Tax Committee scored the cost of the enhanced CTC at roughly $110 billion for 2021.

Furthermore, the suspension of student loan payments was extended until May 1. If the suspension expires at that point, it could result in the resumption of roughly $85 billion in loan payments in 2022. Related to the suspension of student loans, progressives have been pushing the Biden administration to forgive student loan debt of up to $50,000 per borrower. Despite the pressure from progressives, it seems unlikely the administration will agree to a forgiveness program of that scale although a smaller, more targeted student loan forgiveness program is possible.

Of course, BBB-related tax reform is in keen focus. The delay of BBB could push potential tax increases to the end of 2022 or beyond. It should be noted that some of the BBB tax proposals, such as the changes in small business stock gains exclusion rules, would have been made effective retroactively (to September 13, 2021, in this example). If BBB passes in 2022, these proposals will most likely take effect sometime during 2022 rather than the 2021 date.

BBB tax cuts will also be affected by the bill's delay. The House's BBB bill raises the state and local tax (SALT) deduction cap to $80,000 from the current $10,000, retroactive to 2021. The 2021 adjustment appears to be off the table, and any prospective adjustment in the SALT deduction remains in doubt. It is likely that BBB could still include some SALT adjustment, but it could be scaled back from the House's version. Also, if BBB fails, it seems unlikely that Congress would pass any SALT relief.

While additional fiscal support from the various COVID relief bills, such as aid to states, will continue in 2022, the amount of support will diminish, even as the omicron variant spreads across the country. Spending from the bipartisan infrastructure bill passed in November will kick in during 2022. However, about half of the $1.2 trillion package extends the spending from previous infrastructure legislation, and the other half, the "new" spending, will be spread out over eight years. So the 2022 economic "lift" from infrastructure spending is limited.

A SHIFT TO A **REGULATORY FOCUS**

Given a closely divided Congress and looming midterm elections, we expect limited legislative activity in 2022. Congress will continue to debate tech regulation, changes to antitrust laws, immigration, and supply chain resiliency, but gridlock will probably prevent Congress from reaching agreements on most high-profile issues. However, we expect the Biden administration to take policy action through regulatory agencies in 2022, on issues such as:

Antitrust – In July, President Biden issued an executive order on competition and antitrust. The EO highlighted agriculture, telecommunications, transportation, healthcare and pharmaceutical, and financial services. **The Department of Justice, the Federal Trade Commission, and other regulatory agencies have begun examining competition in various sectors and will likely intensify their work in the upcoming year.**

Bank mergers – We expect banking regulators to revise bank merger guidelines. Banks with more than $100 billion in assets could face additional scrutiny when seeking regulatory approval of a merger, with that scrutiny focused on the merger's competitive and financial stability implications. **The largest and most complex banks will experience the most scrutiny for proposed mergers, with smaller banks being subject to less scrutiny, comparatively.**

Capital markets – Gary Gensler, Chairman of the Securities and Exchange Commission, has signaled his intent to look at environmental, social, and governance (ESG) disclosures. We expect the SEC to intensify its oversight of how 1) public companies disclose ESG practices and risks and 2) ESG funds comply with their ESG investing mandates.

Tech/social media – Congressional efforts to revise antitrust and telecommunications laws will likely continue in 2022, but we doubt the two parties (or the two chambers) will agree to legislation. The Consumer Financial Protection Bureau (CFPB) recently began investigating how tech companies' payment platforms operate and use consumers' financial data. As the FTC and DOJ oversee tech firms, **we expect them to focus on data security and privacy.**

Cryptocurrency – Recently, the President's Working Group on Financial Markets (PWG) issued a report on stablecoins, a class of cryptocurrencies designed for price stability and backed by a reserve asset, such as the U.S. dollar or gold. While the report urges Congress to pass legislation to subject stablecoins to banking regulation, Congress will likely not be able or willing to take that step. **So, we may see action on cryptocurrencies from regulatory agencies, which will call into question their authority to do so.** For example, we expect the SEC and Commodities and Futures Trading Commission (CFTC) to continue their efforts to regulate cryptocurrency exchanges. Also, the Federal Reserve Board will further explore the creation of a central bank digital currency (CBDC), but this may take some time.

Supply chain – In recent years, supply chain policy has grown as a significant political issue, and Congress will likely focus there in 2022, due in part to how the COVID-19 pandemic has left global supply chains vulnerable, causing economic disruptions and inflation. Also, the Biden administration and Congress increasingly see supply chains as a national security matter for strategic industries. **While Congress will focus on supply chain resiliency and security in 2022, related legislative action seems like a long shot.**

TRADE AND FOREIGN RELATIONS: **STATUS QUO**

Trade disputes between the U.S. and key trading partners were on the back burner in 2021. While conflicts between the U.S. and Europe eased or resolved, trade tensions between the U.S. and China continue, and Trump-era tariffs remain in place.

In October, U.S. Trade Representative Katherine Tai announced the Biden administration would review U.S. trade with China. But the announcement was light on details and timing, and we expect little movement in 2022. For example, the current tariffs have bipartisan support, as both parties are in an interparty competition to show who can be tougher on China. Given China's military movements vis-à-vis Taiwan, actions taken in Hong Kong, and the treatment of Uyghurs in Xinjiang, the Biden administration lacks the political support to materially alter tariffs on China. Minor tweaks of certain tariffs in 2022 are possible, but wholesale changes remain unlikely.

In 2021, the U.S. and the European Union reached a temporary settlement regarding steel and aluminum tariffs and a five-year truce after an extended fight over aircraft subsidies. Relations between the two partners should remain generally positive in 2022, but disputes over digital taxes remain.

Following the UK's departure from the EU, the U.S. and the UK have held talks regarding a bilateral trade agreement. This discussion should continue throughout 2022 and could result in a future agreement. The exact timing of any deal remains unclear.

2022 MIDTERMS: **REPUBLICANS LIKELY TO CONTROL HOUSE, SENATE A TOSS-UP**

In November, all 435 House seats will be up for election and 34 Senate seats contested. States continue to redraw congressional district maps following the 2020 census, and some candidates are still deciding whether to run (and in which district). But even with these unknowns, the House will likely flip to Republican control in the 2022 midterms.

Republicans need to pick up just five seats to flip the House, and in the post-World War II era, the party of a first-term president has averaged a 26-seat loss in the president's first midterm election. **All signs point to significant Republican gains, so absent some considerable upheaval in U.S. politics, expect Republicans to retake the House in 2022.**

The Senate is a different story. Of the 34 Senate seats up for election in 2022, Republicans hold 20 and Democrats hold 14, so Republicans have fewer pick-up opportunities than do Democrats. Since the Senate terms are staggered, and only one-third of the Senate runs in each election, Senate elections results may not reflect national trends, compared to House results. For example, in 2018, a great year for Democrats, that party gained 41 House seats but lost two Senate seats.

While it is too soon to say how the Senate races will play out, it is conceivable that Democrats could gain one or two Senate seats while losing the majority in the House. At this point, the outcome in the Senate is a toss-up.

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IN THE WAKE OF THE PANDEMIC: A CHANGED WORLD

The coronavirus pandemic has impacted all aspects of social and economic life. In last year's publication, we offered a preliminary perspective of how the pandemic may affect, and in many cases accelerate, our major investment themes. **Now, two years into the pandemic, we consider what "normal" may look like, how the makeup of the economy may or may not change going forward, and related investment considerations.**

When we look at how traditional metrics like employment and GDP have recovered, we've gotten back to what many would view as normal. The U.S. economy is now larger than in 2019, and the current unemployment rate is below the 20-year average. But **just as we've used terms like "prewar" and "postwar" to delineate eras, the current pandemic will likely mark a shift to a new kind of normal.**

A MORE **DIGITAL WORLD**

E-COMMERCE: CAPTURING MORE MARKET SHARE

The shift toward online shopping was well underway before COVID-19. While some traditional brick-and-mortar retailers will find ways to entice customers back to their stores, we expect the convenience of online shopping experienced during the pandemic to have a lasting impact on consumer behavior.

Investment considerations: *Companies with strong brand loyalty and innovation, as well as delivery and logistics services, could benefit. Online advertising should continue to increase. And traditional brick-and-mortar retailers that embrace e-commerce may benefit as well.*

TELEHEALTH: GREAT FOR QUICK VISITS

Virtual doctor visits were a necessity at the height of the pandemic. We see patient adoption of this service now much higher than pre-pandemic. That said, we expect the practice may moderate some for high-impact office visits like specialists, pediatricians, etc.

Investment considerations: *Companies that provide doctors and patients digital technologies to manage and monitor their health.*

IN THE WAKE OF THE PANDEMIC: A CHANGED WORLD

ONLINE LEARNING: AN OPTION FOR HIGHER EDUCATION

At the pandemic's peak, over 90% of students globally were learning remotely. We see this trend essentially reversing for kindergarten, grade school, and high school students. However, we see a strong potential for increased online or hybrid learning for tutoring, higher education, professional development, and new trade skills.

Investment considerations: *Companies that provide or make available e-learning solutions, as well as companies embracing online technology for helping their employees reskill.*

EXTENDED REALITY: BLURRED LINES

The lockdowns and social distancing guidelines led us to resort to new forms of entertainment. We saw live events replaced by virtual events like concerts, museum visits, online gaming, and eSports, all made possible by augmented reality solutions. While we are already seeing a return to live in-person concerts and sporting events, the line between the real and virtual world will continue to blur.

Investment considerations: *Companies that make augmented/virtual technology available, as well as platforms.*

INDUSTRIES DISRUPTED

LABOR MARKET: HELP WANTED

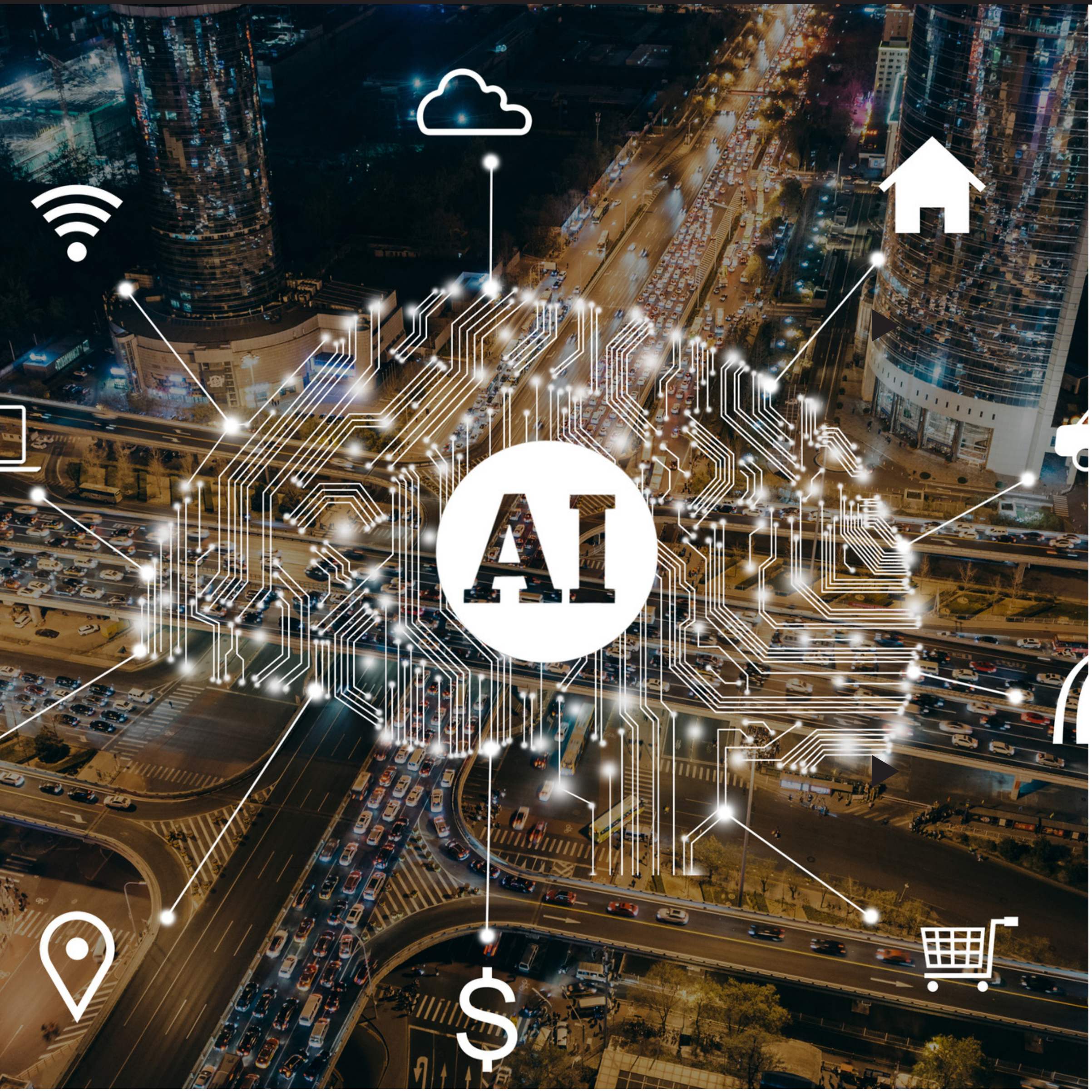
The size and productivity of the labor force are long-term drivers of economic growth. Since the start of the COVID-19 pandemic, the labor force participation rate has declined, partly due to 1) daycare facility and school closings and 2) a retirement surge in the 55+ cohort. A declining labor force can lead to imperfect job matches and prolonged shortages in some industries.

Investment considerations: *A company's ability to fill openings, reskill workers, and maintain profitability as wages rise.*

SUPPLY CHAINS: LOCALIZED

The pandemic has forced business leaders to reassess and better understand supply chain vulnerabilities. Before the pandemic, companies moved supply chains offshore as globalization took hold. Going forward, we see companies reshoring, diversifying, or localizing their supply chains.

Investment considerations: *Companies exposed to or benefiting from the build-out and/or reconfiguration of "smart" factories, including robotics, automation, and efficiency through digitization.*



SEMICONDUCTORS: THE NEW OIL

The pandemic highlighted the strategic importance of semiconductors. These chips enable our modern society to function, powering everything from cars to cell phones to washing machines. More importantly, semiconductors serve as the backbone for artificial intelligence, data centers, and wireless networks. The industry's future growth outlook is positive.

Investment considerations: *Asia manufactures close to 75% of the world's semiconductors, and China has set a goal for technology independence, with the semiconductor industry being central to its plan. The U.S. government and companies must continue to invest in our semiconductor industry in the years ahead to maintain our global competitiveness and innovation.*

HOSPITALITY: MORE LEISURE, LESS BUSINESS

We expect leisure travel to accelerate in the years ahead as more baby boomers retire and millennials prioritize travel more than previous generations. The business travel recovery is likely to be more uneven, with some companies opting to hold virtual meetings to lower costs and increase productivity.

Investment considerations: *Companies and sectors benefiting from the pent-up demand in travel and an increase in retirees.*

GEOPOLITICAL TENSIONS

A few years ago, we introduced the Stifel Geopolitical Dashboard to identify and track possible geopolitical risks and events facing the economy and markets. Within the dashboard, we assess the likelihood and potential market impact of each specified event or risk. And as with many aspects of our world, COVID-19 has intensified many of these risks. We're pleased to share an update to the Stifel Geopolitical Dashboard and discuss, in more detail, the topics below.

U.S.-CHINA COMPETITION: THE RIVALRY INTENSIFIES

U.S.-China competition has been in focus for years, as we believe this rivalry will shape the world over the next decade or more. In 2021, both sides used vaccine diplomacy to counter one another's global influence.

The U.S. and China are competing for influence and advancement of other political goals through vaccine donations, mainly to lower- and middle-income countries. Through the end of November, the U.S. donated more than 169 million doses, almost double the 85 million doses donated by China. However, both countries have pledged to donate more than a billion doses through 2023. Interestingly, most countries receiving doses from China are part of its Belt and Road Initiative, which aims to strengthen economic ties with 139 countries. This is in line with China similarly granting favorable trading terms to "allied" countries.

The U.S. and China are competing for technological leadership, and the pandemic has elevated the need for onshore semiconductor production. China's latest five-year plan focuses on building self-reliance and technology independence, with the semiconductor industry being central to that plan. The U.S. is also looking to boost its domestic semiconductor production and drive technological innovation through the U.S. Innovation and Competition Act, which would increase, for example, U.S. semiconductor production, scientific research, and the development of artificial intelligence. The bill passed the Senate with bipartisan support in June but has stalled in the House of Representatives.

THE NEW COLD WAR: A STRAINED BALANCE OF POWER

This year we are introducing a "New Cold War," which explores how the U.S.-China and U.S.-Russia strategic competition for economic and social influence may be evolving into hostile actions. Cybersecurity attacks, election meddling, corporate espionage, and military assertiveness are examples of this theme.

In 2021, the U.S. accused the Chinese government of supporting criminal hacking groups that breached Microsoft Exchange Servers. The hack impacted almost 250,000 organizations worldwide and allowed hackers to siphon off company e-mails, perhaps as a form of espionage. Similarly, the ransomware attack on the Colonial Pipeline prompted President Biden to warn Russian President Putin that the U.S. would not tolerate Russian-sponsored cyberattacks on 16 sectors designated as critical by the U.S. Homeland Security Department.

Some U.S. intelligence officials are also increasingly convinced that the Russian government is behind a mysterious illness called Havana Syndrome. More than 200 U.S. government officials, primarily based abroad, have

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fallen ill due to what some believe to be secret Russian microwave or sonic weapons. The CIA director recently warned Russian intelligence of "consequences" if this is proven to be the case.

SOUTH CHINA SEA CONFLICT: TROUBLED WATERS

The strategically important South China Sea is a critical commercial gateway for merchant shipping, accounting for almost one-third of global maritime trade. Related territorial disputes are ongoing. China has claimed sovereignty over close to 90% of the area, while other nations, including the Philippines, Singapore, and Taiwan, pursue natural resources and fishing stocks there. **The U.S. aims to counter Chinese military buildup in the region with upgrades to airfields and other strategic infrastructure in Guam and Australia.** We will continue to monitor any developments and their potential impacts on the markets.

CLIMATE CHANGE COMPROMISE: A POSSIBLE IMPASSE OVER COSTS

As climate change progresses and the global response evolves, **developed and emerging countries are at an impasse over who will ultimately pay for the proposed solutions.** On his first day in office, President Biden rejoined the Paris Agreement, an international treaty adopted in 2015 aimed at combating climate change. Then, to dampen the climate impact of coal, the G7 nations and China agreed to end financial support for unabated coal power plants by eliminating export credits. Some emerging countries may be challenged by this action, as they depend on coal and may not be able to afford to implement other energy sources.

In the fourth quarter, over 200 countries met at COP26, with lower-income countries urging wealthy nations to "at least double" their funding of adaptation projects aimed to stem the effects of climate change. While the resulting COP26 agreement was limited, it established new rules, holding governments accountable for their progress in combating climate change.

EUROPEAN FRAGMENTATION: ANY RESOLUTION ON THE HORIZON?

Relations between Germany, France, and their Mediterranean counterparts are likely to come into focus in 2022. **For example, we expect them to debate the European Union's debt and deficit rules thoroughly, and a balanced solution will be critical for optimal economic growth and fiscal stability.** The region will also address the growing refugee crisis, including trouble spots like migrant crossings of the English Channel and displaced individuals at the Poland-Belarus border.

EMERGING MARKET POLITICAL UNCERTAINTY: HERE TO STAY

While many nations have made meaningful progress vaccinating populations against COVID-19, many developing countries are lagging behind due to the cost of, and access to, vaccines. These challenges may further fuel the populist movements seen in the last several years. And the impact of the pandemic has affected economies, causing countries to respond with policy shifts, sometimes leading to market volatility. For example, Turkey's central bank policies resulted in a severe devaluation of its currency in 2021.

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GEOPOLITICAL DASHBOARD

EVENT	LIKELIHOOD	MARKET IMPACT	DESCRIPTION
European Fragmentation	4	5	While the pandemic provides nations with a common goal, fragmentation may increase amid EU debt and deficit talks as well as potential migrant crises.
D.C. Gridlock	4	6	The Democrats control the White House and Congress, but we expect the scope for significant legislative changes to be limited. Our focus in 2022 will also shift to the upcoming midterm elections.
North Korea Conflict	5	3	North Korea continues to demonstrate its military capabilities and develop its nuclear weapons program, despite calls for diplomacy by the Biden administration.
The New Cold War	5	8	U.S.-China and U.S.-Russia competition for influence has also crossed into parallel activity that is more hostile. Examples include cybersecurity attacks, election meddling, and corporate espionage.
Major Terror Attacks	6	4	Terrorist attacks are unpredictable events that may pose disruption.
Emerging Market Political Uncertainty	6	4	The economic recoveries have so far been asymmetrical. This can lead to idiosyncratic risks among countries, such as increased inequality, political interference, and the continued rise of populist ideas.
Post-Brexit Tensions	6	4	Following Brexit, tensions have increased between the EU and the UK as issues remain, including the continued refugee crisis and potential for tariffs.
Climate Change Compromise	6	5	Compromise and implementation risk remain as developed and emerging economies continue to debate who should pay for the necessary investments to fight climate change.
South China Sea Military Conflict	6	7	China maintains a strong aerial and naval presence in the area while the U.S. is countering with its own upgrades to airfields and other strategic infrastructure. There is potential for a military clash.
Cyberattacks	7	5	As society becomes more digitized, the world is more prone to cyberattacks.
Middle Eastern Tensions	7	5	Tensions in the region remain heightened, and there is always the potential for things to escalate quickly.
Coronavirus Resurgence	7	8	COVID-19 and mutations remain a threat, but we seem to be transitioning from a pandemic to an endemic state as vaccine distribution becomes more widespread.
Russia-West Relations	8	6	Russia and the U.S. appear to be coexisting but continue to fight for global influence via proxies. Tensions are unlikely to materially dissipate.
U.S.-China Competition	10	7	Competition for global leadership will impact markets; tech will continue to play an important role.

OUR INVESTMENT MANAGEMENT PROCESS: **HOW WE INVEST**

As you review this 2022 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 secular 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 secular 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.**

Our Major Investment Themes

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

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OUR INVESTMENT MANAGEMENT PROCESS: **HOW WE INVEST**

3

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
- Economic moat
- Pricing power/profitability
- Financial strength
- Growth potential

MANAGER SELECTION

As with our approach to stock 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
- Investment philosophy
- Investment process
- Past performance
- Fees and other costs

STIFEL CHOICE PORTFOLIOS

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

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IDENTIFYING AND OVERCOMING INVESTOR BIASES

Investing is an emotional practice, especially during volatile times. Throughout the pandemic, many investors have experienced a range of emotions, from euphoria to panic, often in quick succession. During such periods of uncertainty, the tendency to act on emotion is higher, potentially leading to investing missteps (for example, panic selling or trying to time the market). That's why it is important to examine your natural inclinations when formulating long-term plans or selecting investments.

While it is important to consider risk tolerance as you develop a financial plan and a related investment strategy, we often draw upon the Stifel Financial ID as a tool to help you recognize your behavioral traits and preferences. In doing so, you can better understand and address these ten common investor biases that might otherwise negatively impact your potential investment returns.

Loss Aversion. Investors have a natural aversion to losing money. But notably, studies indicate that losses have a much stronger impact on most investors' preferences than do gains. In other words, people care a lot more about losing a dollar than they do about making a dollar. Investors who are subject to this bias could panic sell during sharp market declines.

Herd Mentality. Investors subject to herd mentality tend to fall in with the views of the larger group with which they are associated. Rather than make their own choices, they end up "crowdsourcing" decisions due to, among other reasons, a wish to be accepted by the group, member influence (positive or negative), and the belief that the majority is always right.

Recency Bias. This is another common bias, one in which investor behavior is most strongly influenced by the most recent events. During volatile periods, such investors are vulnerable to short-term decision making that could undermine their long-term plans.

Mental Accounting. Mental accounting is a behavioral bias that occurs when investors subjectively compartmentalize their assets based on how they received the money (for instance a tax refund or a bonus) and how they plan to spend it (buying a house or funding a child's education).

IDENTIFYING AND OVERCOMING **INVESTOR BIASES**

Disposition Effect. This refers to investors' reluctance to sell assets that have lost value and a greater tendency to sell assets that have made gains.

Availability Bias. The more individuals see information repeated, the more they believe it to be true without reviewing other potential outcomes.

Anchoring Bias. Anchoring bias occurs when investors rely too much on the first information they encounter when making a decision. For instance, when they see the price of an item first, as opposed to its physical features or value, they will make their decisions based primarily on the price.

Hindsight Bias. Hindsight bias occurs when investors' regret at not having acted in advance of a market-moving event that could not have been reasonably foreseen leads them to overestimate their ability to accurately predict future market events, potentially leading to poor decision making in the future.

Overconfidence Bias. This is the tendency of lay investors to be overconfident in their own abilities, even though they are not experts in the field.

Framing Bias. Framing bias occurs when investors make a decision based on the way data or information is presented, as opposed to the actual data. For example, charts versus data presented in a table format, or calendar year versus annualized returns.

Investment objectives, risk tolerance, liquidity needs, and behavioral preferences can all play a role in developing a financial plan and related investment strategy. By becoming familiar with these ten common investor biases and using tools like the Stifel Financial ID, you may become better equipped to handle volatility and have a better overall investment journey.

STIFEL'S **BEHAVIORAL FINANCE**

Stifel's behavioral finance capabilities synthesize academic insights, representing practical applications to help you 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 toward 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 SFID 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.

6 Risk Profiles

Conservative | Moderately Conservative | Moderate | Moderate Growth | Moderately Aggressive | Aggressive Growth

2 Time Frames
- Strategic (Long Term)
- Dynamic (Near Term)

3 Levels of Liquidity
- Tier 1
- Tier 2
- Tier 3

2 Equity Choices
- U.S. Focused
- Global

2 Fixed Income Choices
- Tax Sensitive
- Taxable

STIFEL **GUIDANCE**

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.

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%.

MONTHLY

Investment Strategy Brief is a monthly **video series** sharing our thinking on the current economic and market environment, as well as related investment guidance. A slide deck is also provided, and the podcast is available here: **Spotify, Apple, Omny, Google.**

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

Chief Investment Officer Michael O'Keeffe sits down with leaders at Stifel and in the finance industry for thought-provoking discussions in the monthly podcast **Conversations with Michael O'Keeffe**.

QUARTERLY

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

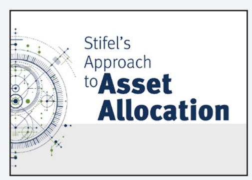
MARKET PERSPECTIVES

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

ANNUAL

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

ADDITIONAL RESOURCES



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

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

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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 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** 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 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 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.

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DISCLOSURES

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.

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DISCLOSURES

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.

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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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