

## Stifel Equity Strategy – Presentation to Naples FL CFA Society

The 9-month S&P 500 relief rally ended Jul-2023 and the 2<sup>nd</sup> half of 2023 will just end flat

---

### *In our view:*

- The “no-recession relief rally” ended July 2023, the S&P 500 is now flat through 2H23
  - Next 3-6 months we see Cyclicals beating Defensives, with a tilt to Value over Growth
  - This is only a trade, since the entire 2021 to 2031 decade is likely just flat, start vs. end
- 

Barry B. Bannister, CFA  
Managing Director, Institutional Equity Strategy  
[bbbannister@stifel.com](mailto:bbbannister@stifel.com) 443-224-1317

Thomas R. Carroll, CFA  
Associate Vice President, Institutional Equity Strategy  
[carrollt@stifel.com](mailto:carrollt@stifel.com) 443-224-1344

September 26, 2023  
S&P 500: 4,267  
*Intra-day*

Stifel does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision

All relevant disclosures and certifications appear on pages 56- 59 of this report

*In our view:*

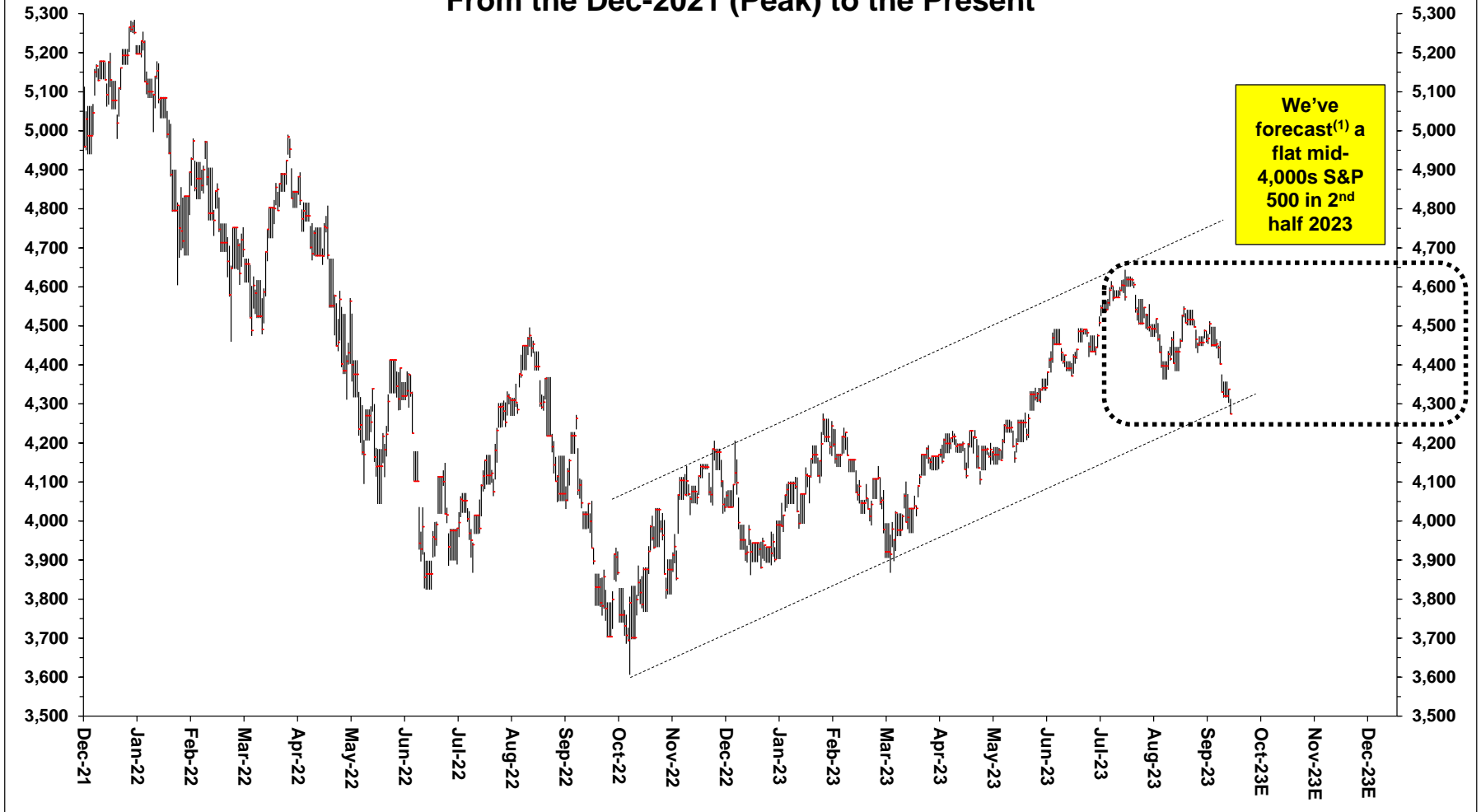
**In true “*buy the rumor sell the fact*” style...**

**...the 9 month long “no-recession relief rally” actually ended Jul-2023, and the S&P 500 is now flat/range-bound in 2<sup>nd</sup> half 2023**

Source: Stifel estimates.

Relief rally (disinflation, soft-landing) was 9 months Oct-2022 to Jul-2023 and we now forecast<sup>(1)</sup> a flat S&P 500 in 2H23

## S&P 500 CPI Inflation-Adjusted Price From the Dec-2021 (Peak) to the Present

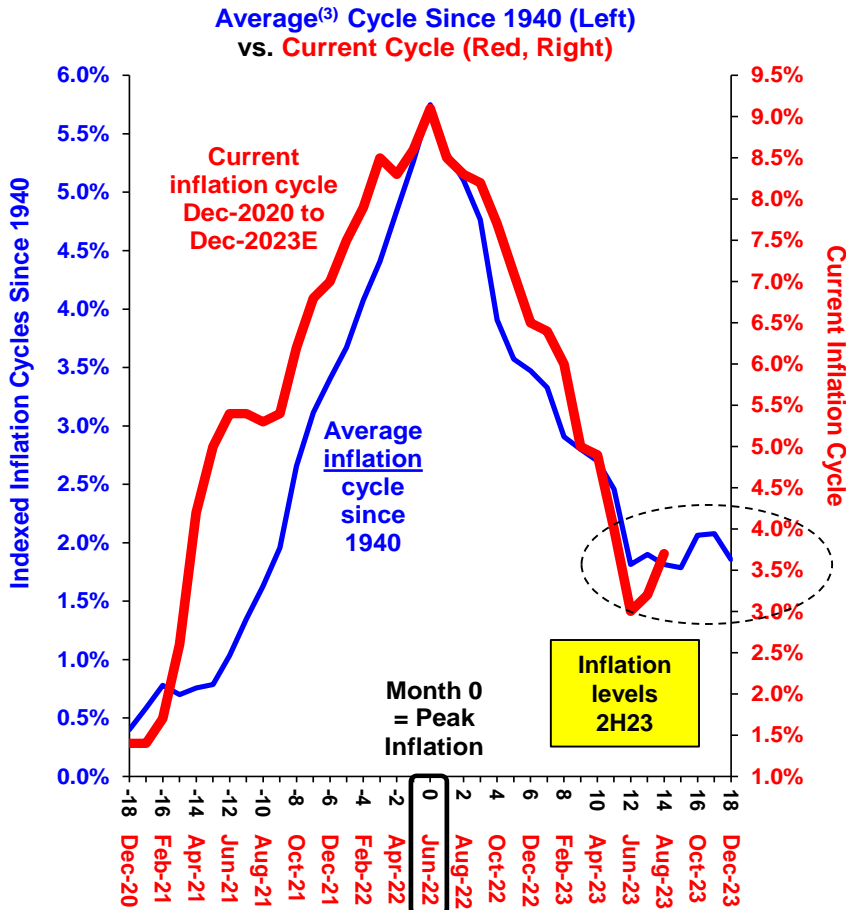


Source: Stifel estimates.

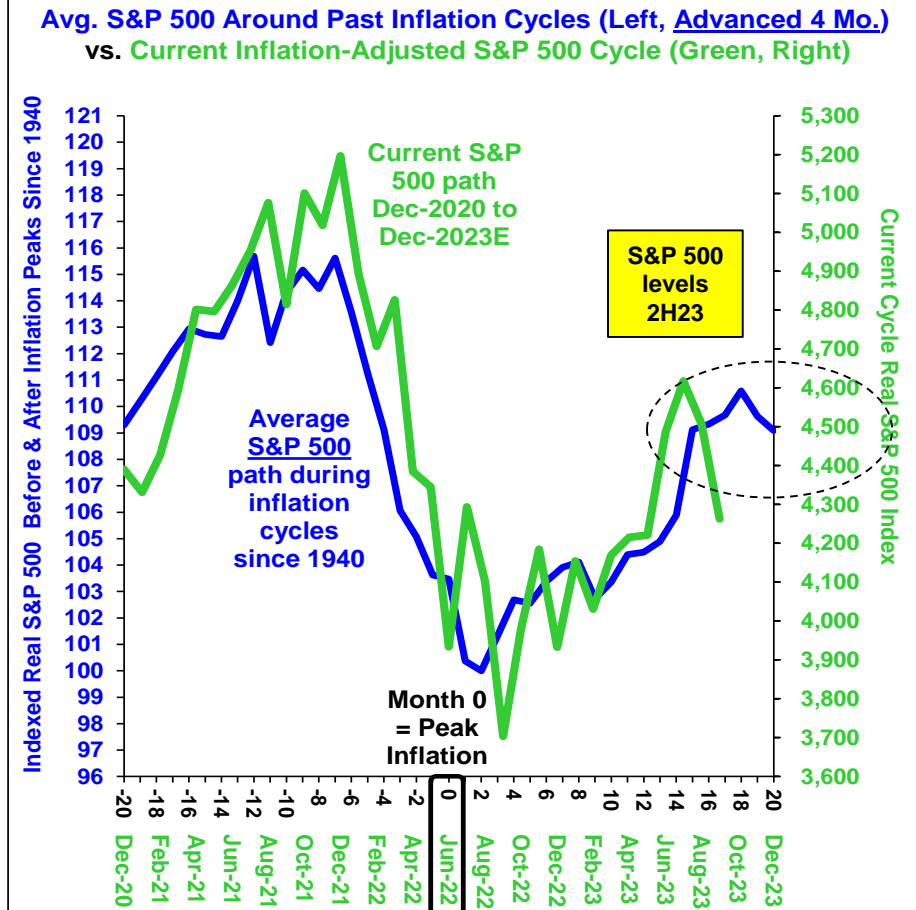
(1) Latest reports: Aug-9, 2023 (S&P 500 4,467) [The first half S&P 500 relief rally is over...and second half will just be flat](#) and Sep-5, 2023 (S&P 500 4,497) [A new high by year-end 2023 is exceptionally unlikely](#)

Inflation is *closely* following the average of 14 prior post-WW2 cycles<sup>(1)</sup> and the S&P 500 is following average inflation cycles

### Inflation is following the average post-WW2 cycle<sup>(2)</sup>...



### ...and the S&P 500 is following average inflation cycles

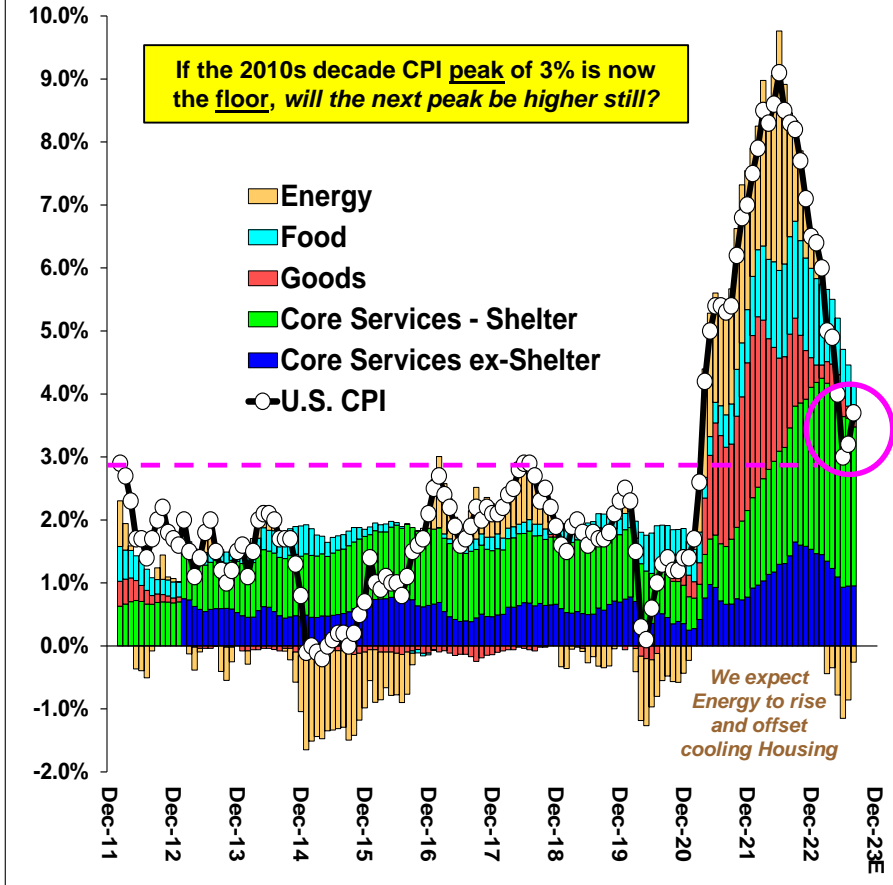


Source: Bloomberg data, Stifel estimates.

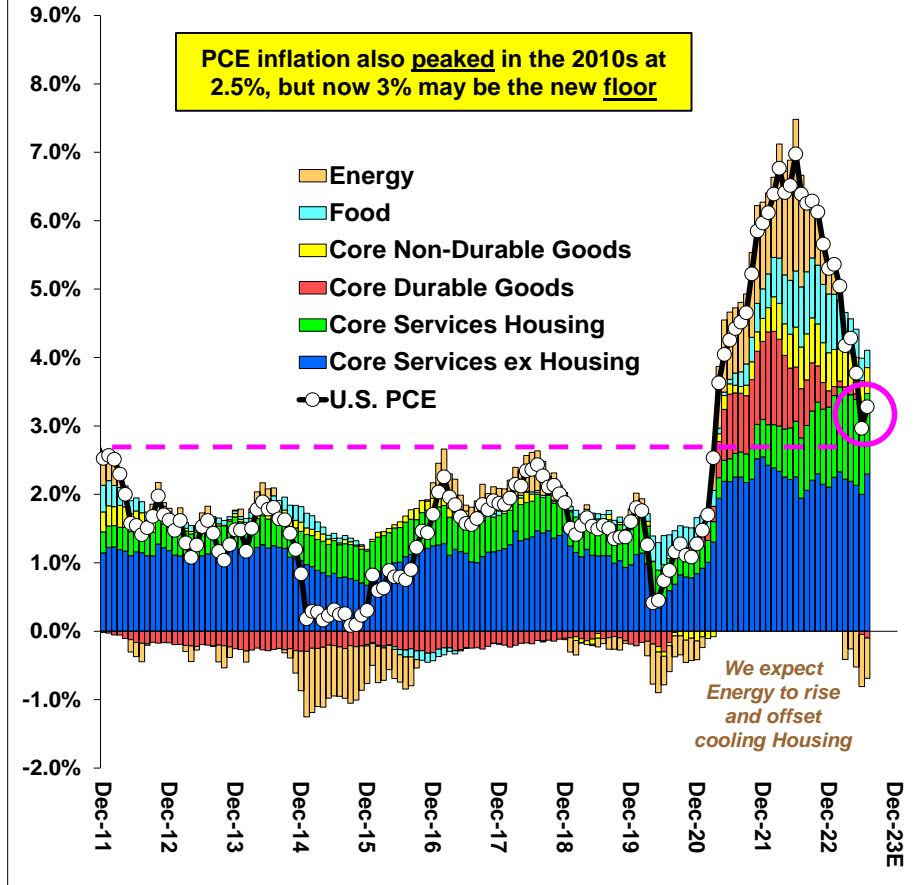
- (1) The average y/y headline CPI was 2.3% from Dec-1991 (the end of the Cold War) to Dec-2019 (just before COVID began in 1Q20), **but the monthly average since 1945 is 3.7%**.
- (2) There were 15 major CPI peaks since 1940 (including a 2022 CPI peak at 9.1% Jun-2022) based on z-scores around a CPI 10-yr. moving average. Pre-1980 inflation was higher than post-1980 (when the 1980 "Volcker Shock" lowered inflation), but inflation may be returning to pre-1980 cycles with the end of disinflationary factors that emerged in 1980.
- (3) We re-indexed and averaged the prior 14 inflation cycles since WW2 (left chart) to show the evolution of those cycles, and we then compare it to the current inflation cycle.

We believe the Fed is aware of the risk that the 2½-3% inflation ceiling of the 2010s decade may now be the inflation floor

## U.S. CPI Inflation Y/Y% Category Contribution<sup>(1)</sup>



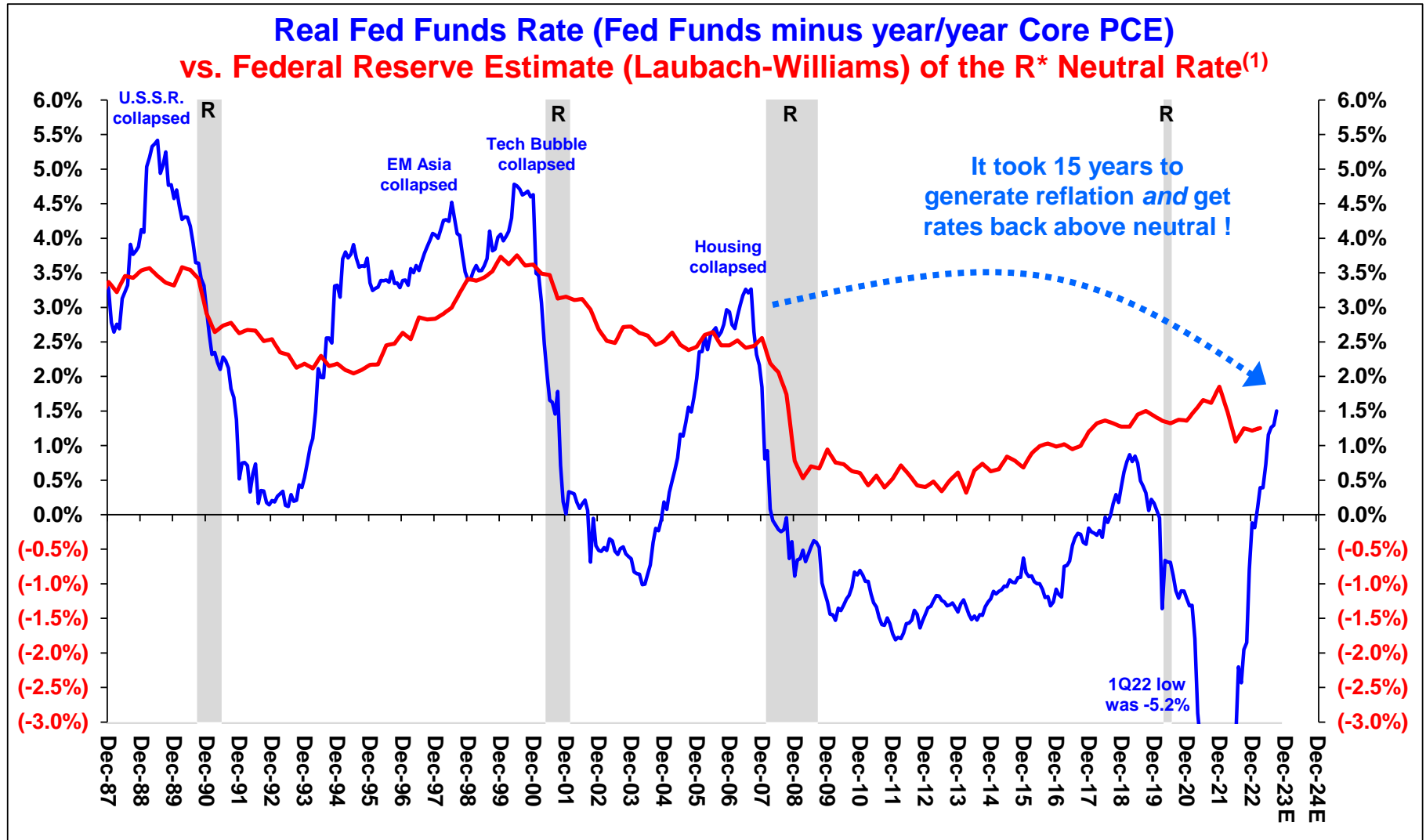
## U.S. PCE Inflation Year-over-Year Change (%) Category Contribution<sup>(1)</sup>



Source: Stifel format and estimates, Bloomberg data.

(1) To similarly categorize PCE & CPI, which are reported by separate government agencies using different methodologies, **we separated Food and Energy into their own categories and re-weighted the indices to equal 100%**. For the CPI we broke inflation into (5) categories: **Energy** (Energy commodities, e.g., gasoline & fuel oil, as well as utilities which we re-classify from Services to Energy); **Food** (Food at home and away from home, both excluding alcohol and tobacco); **Goods** (Goods less food & energy goods; i.e., vehicles, medical goods, alcohol/tobacco, other); and **Services** (non-energy services: shelter (OER, rent), medical, transport services and other).

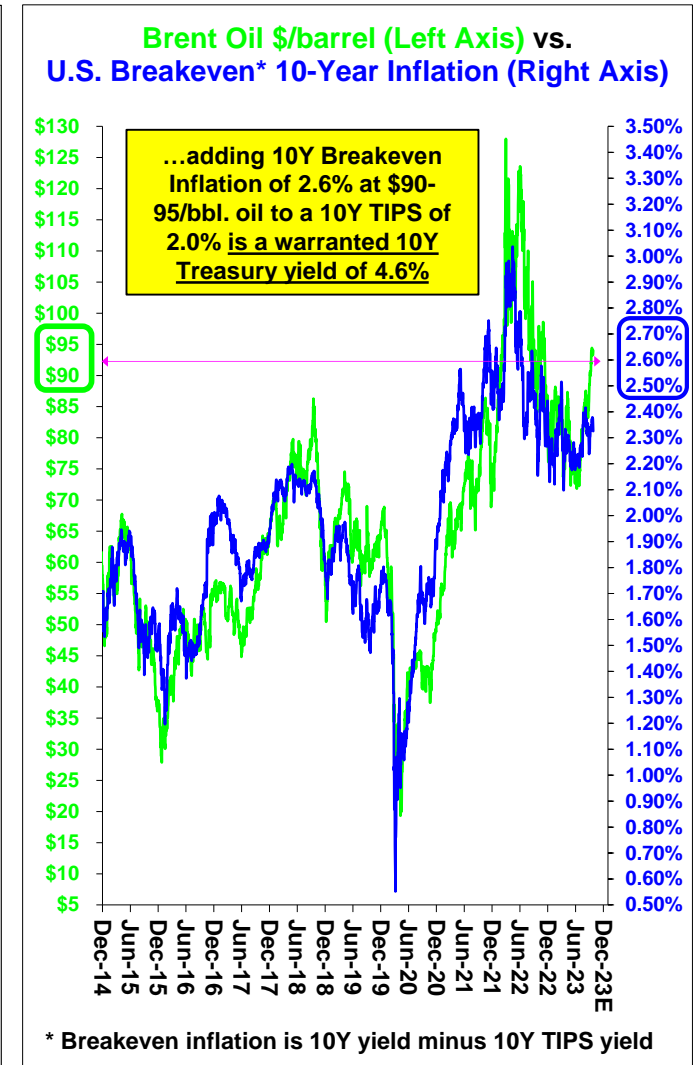
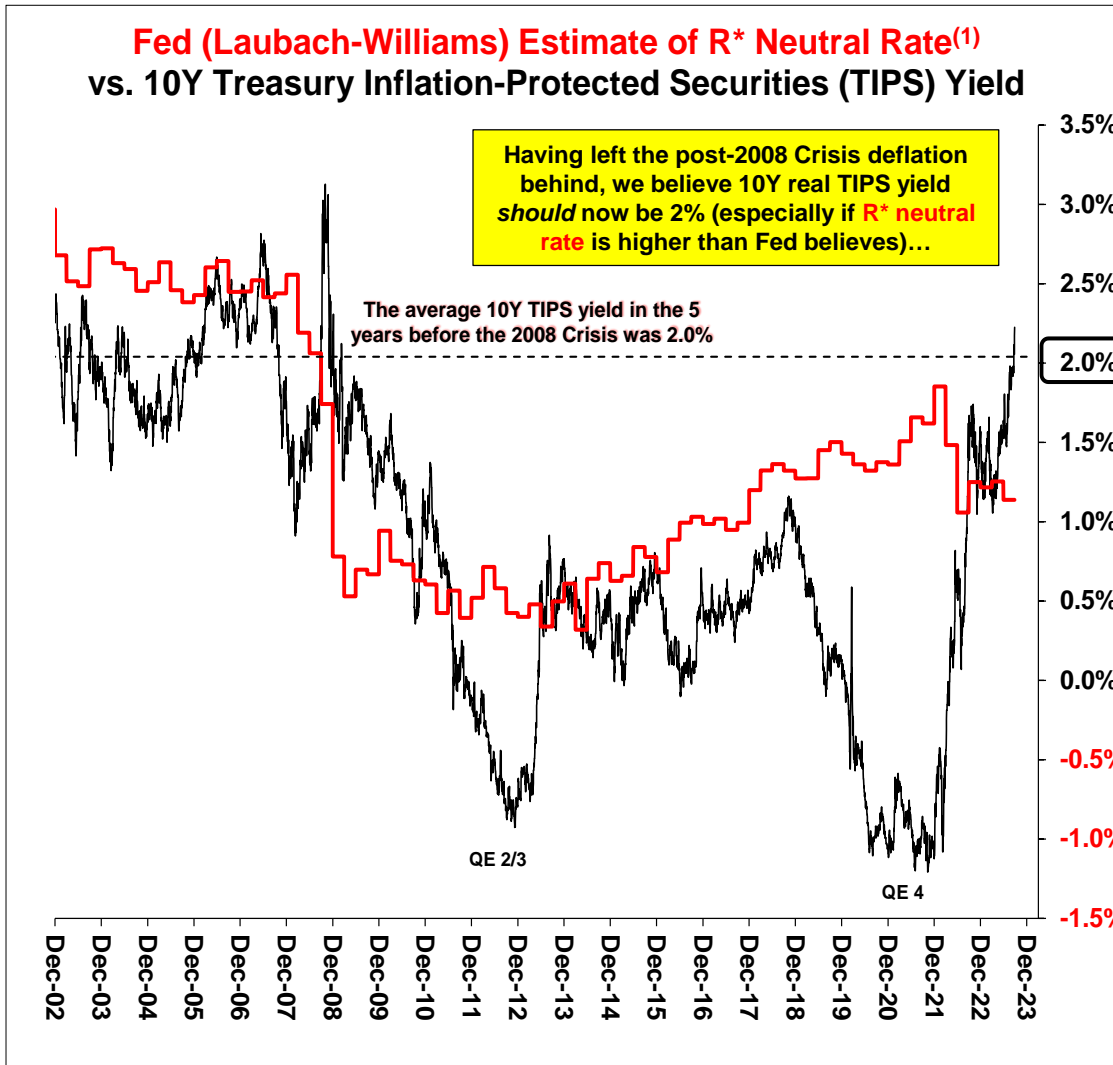
It took the Fed 15 years to put 2008 GFC deflation behind them and get rates above neutral<sup>(1)</sup> (they're *not* going to cut & run)



Source: Stifel format and estimates, Bloomberg data.

(1) R\* (called R-star) is a calculated real (after-inflation) rate that is the border-line between "tight" and "loose" Fed policy. In economic terms, it is the rate that equilibrates savings and investment at full employment. It is estimated by the NY Fed [here](#).

**Adding a warranted 10Y real TIPS yield of 2% to a warranted break-even inflation rate of 2.6% is a warranted 10Y yield of 4.6%**



Source: Bloomberg data, Stifel estimates.

(1) R\* (called R-star) is a calculated real (after-inflation) rate that is the border-line between “tight” and “loose” Fed policy. In economic terms, it is the rate that equilibrates savings and investment at full employment. It is estimated by the NY Fed [here](#).

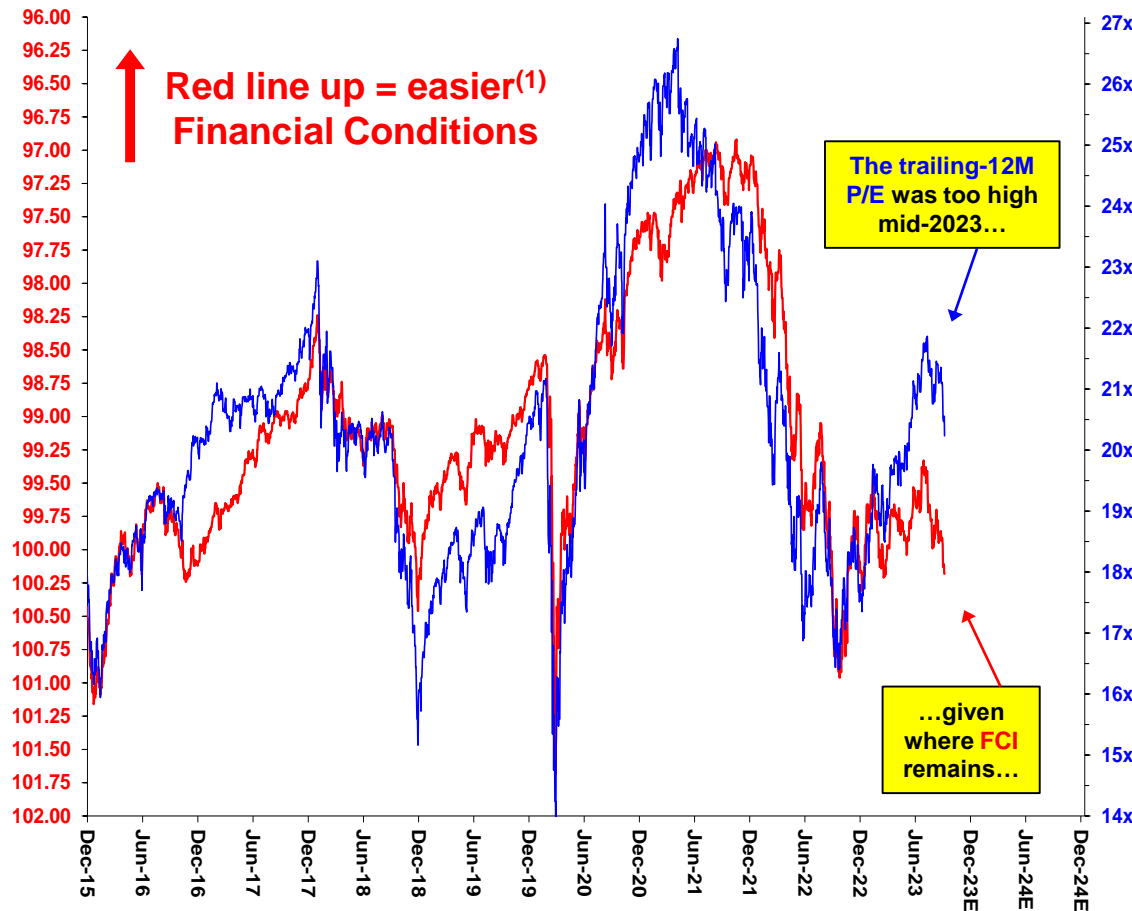
*In our view:*

**The S&P 500 P/E was too high mid-2024 because the EPS growth needed to justify that P/E ratio in 2024 likely *won't be there***

Source: Stifel estimates.

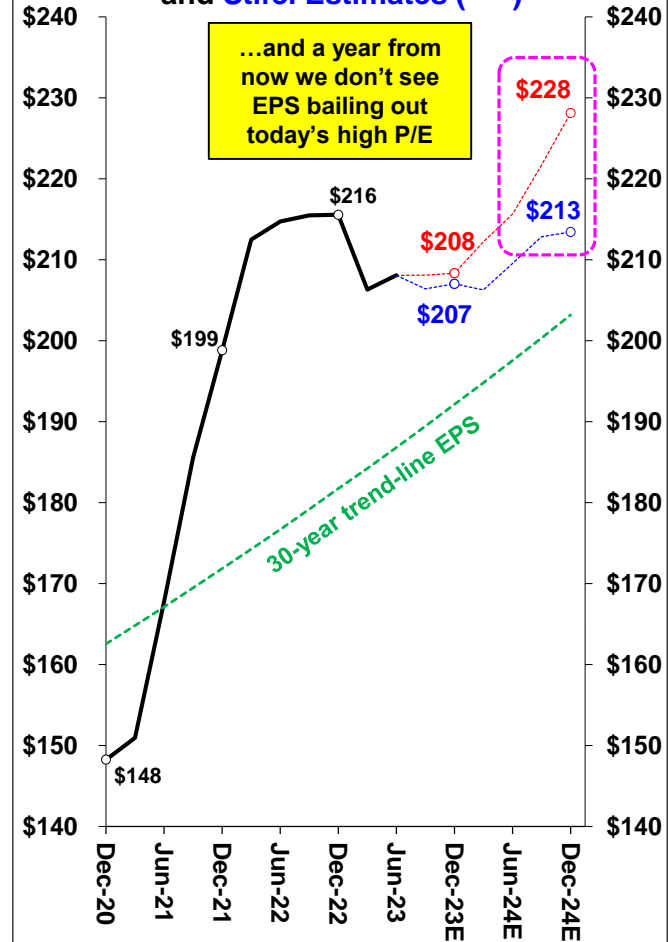
Forward EPS matter when P/E is high: we don't see EPS hitting the Street's 2024 estimate (but...EPS is needed to justify this P/E)

**U.S. Financial Conditions Index (GSUSFCI): Left**  
**vs. S&P 500 Trailing 12-Month P/E\* on Operating EPS, Right**



\* P/E ratio is based on Bloomberg Trailing 12M Diluted Positive EPS from Continuing Operations

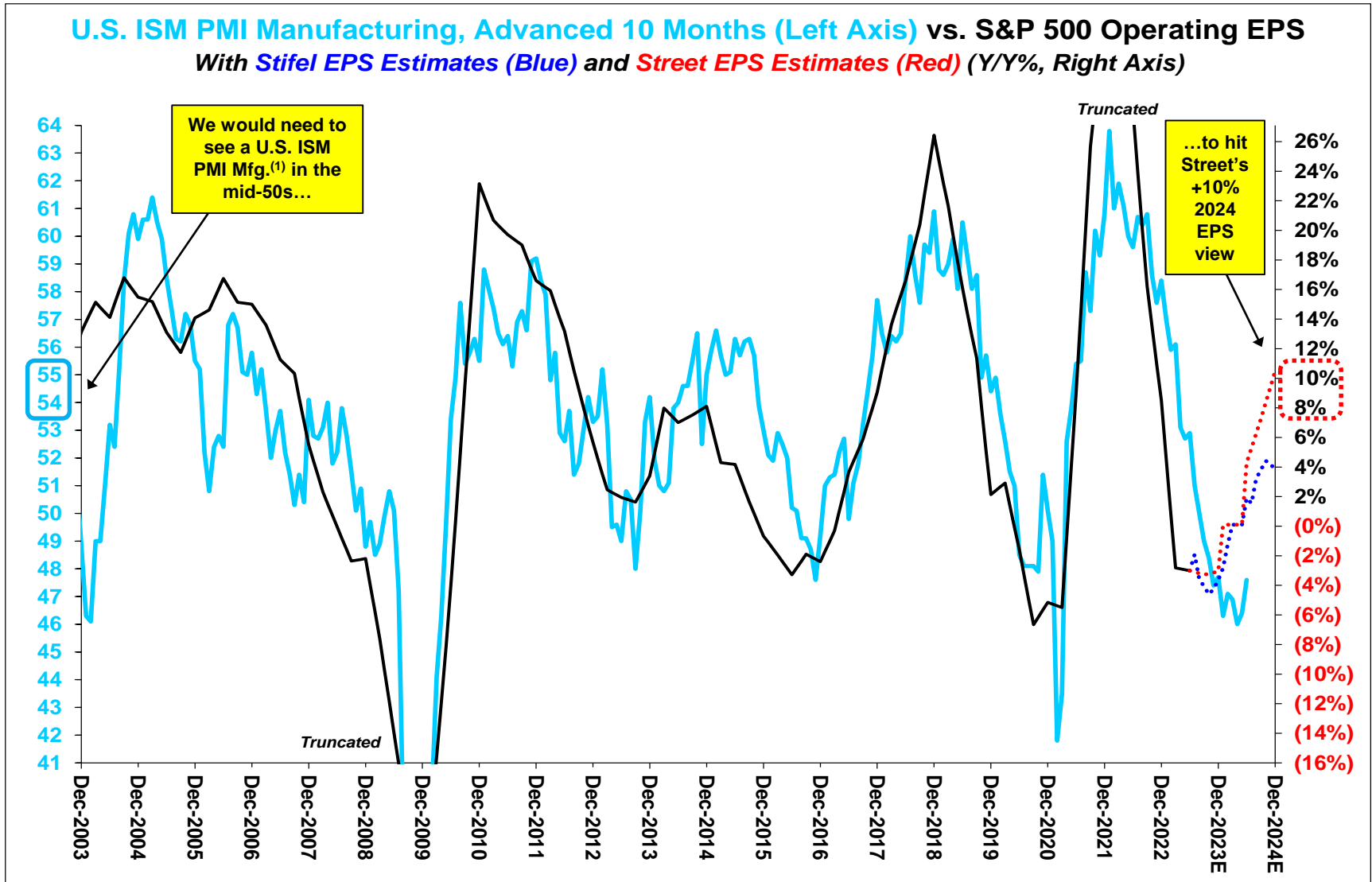
**S&P 500 Operating EPS**  
**with Consensus ( - - - )**  
**and Stifel Estimates ( - - - )**



Source: Bloomberg data, Stifel estimates.

(1) Financial Conditions ease if: the 10Y (TIPS) real U.S. Treasury yield (Bloomberg: USGGT10Y) falls, if Baa credit spreads (LCB10AS) narrow, if the Broad Dollar (JBDNUSD) falls, if the Fed eases, and if U.S. 10Y breakeven inflation (USGGBE10, which is 10Y yield minus 10Y TIPS real yield) falls.

We'd have to see a *robust* U.S. PMI Mfg.<sup>(1)</sup> recovery from the mid-40s now to the mid-50s to hit the Street's 2024 EPS

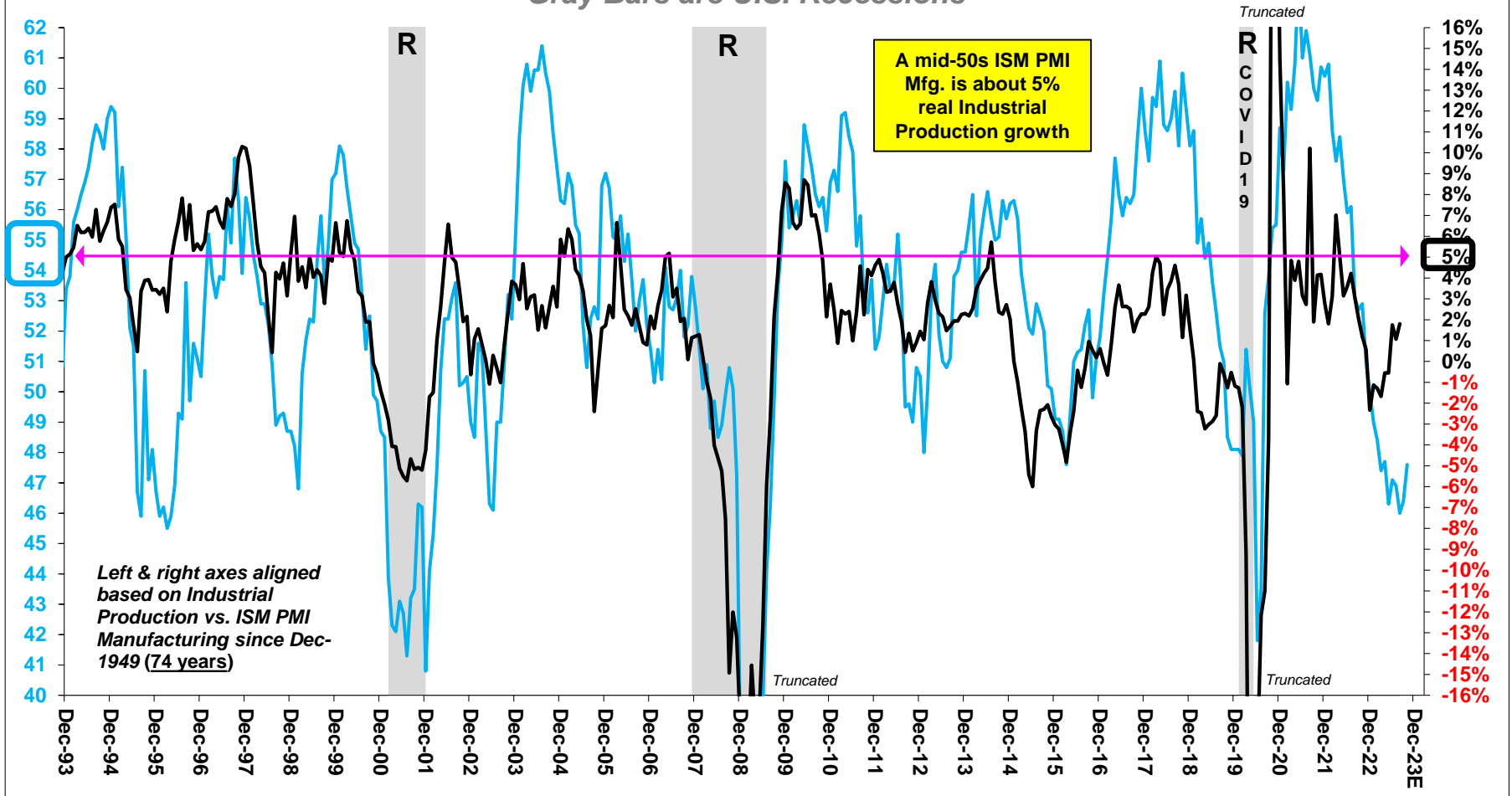


Source: Bloomberg data, Stifel estimates.

(1) The Purchasing Manager's Index (PMI) is a monthly survey-based diffusion index, so >50 means growth and <50 generally means contraction.

For ISM PMI Mfg to rebound to the mid-50s<sup>(1)</sup> likely requires Industrial Production to *fully* recover to 5% real output growth

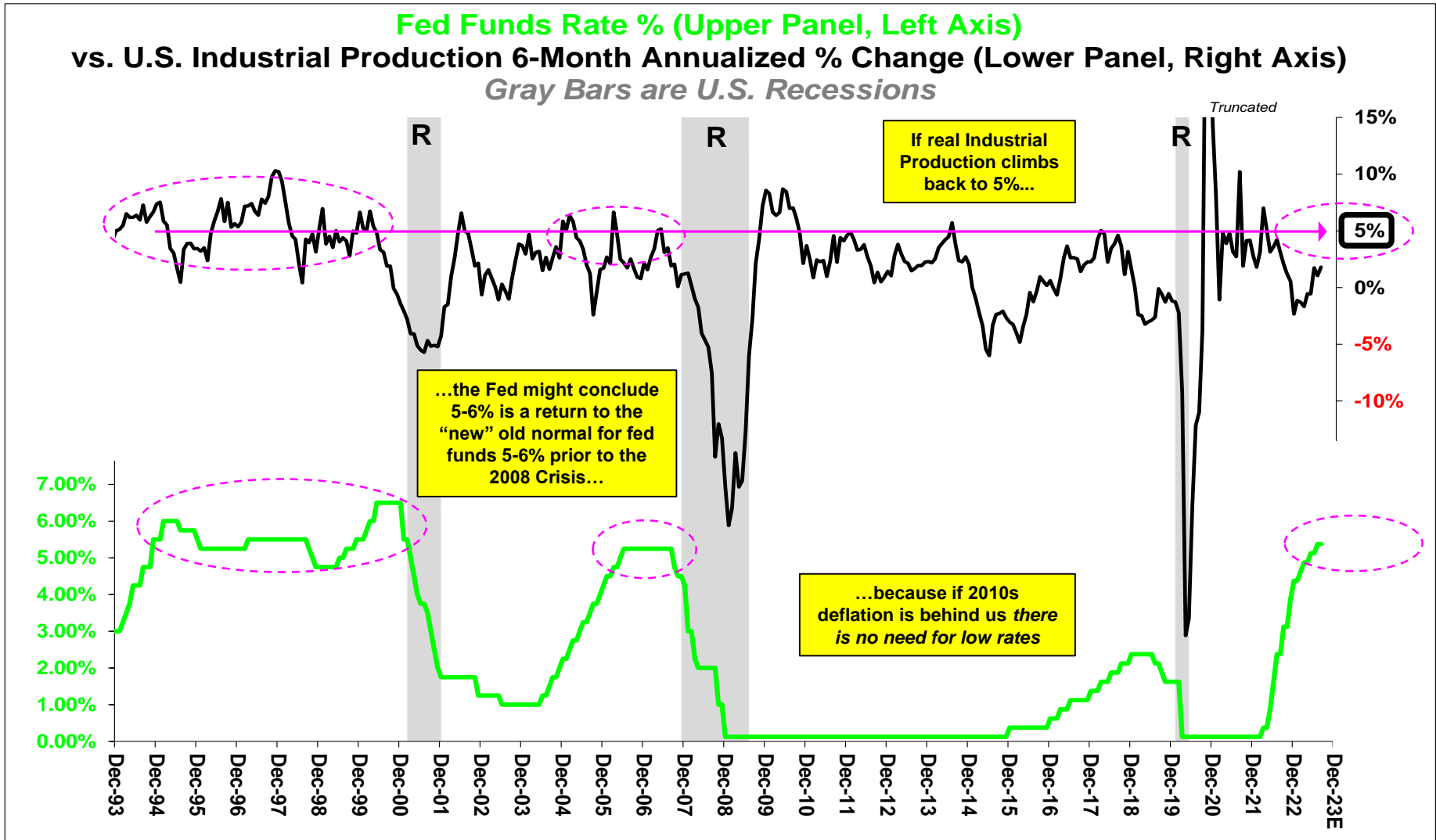
**ISM PMI for Manufacturing (Left, Advanced 2 Months)**  
**vs. U.S. Industrial Production 6-Month Annualized % Change (Right)**  
*Gray Bars are U.S. Recessions*



Source: Bloomberg data, Stifel estimates.

(1) The Purchasing Manager's Index (PMI) is a monthly survey-based diffusion index, so a reading >50 generally means growth and a reading <50 means contraction.

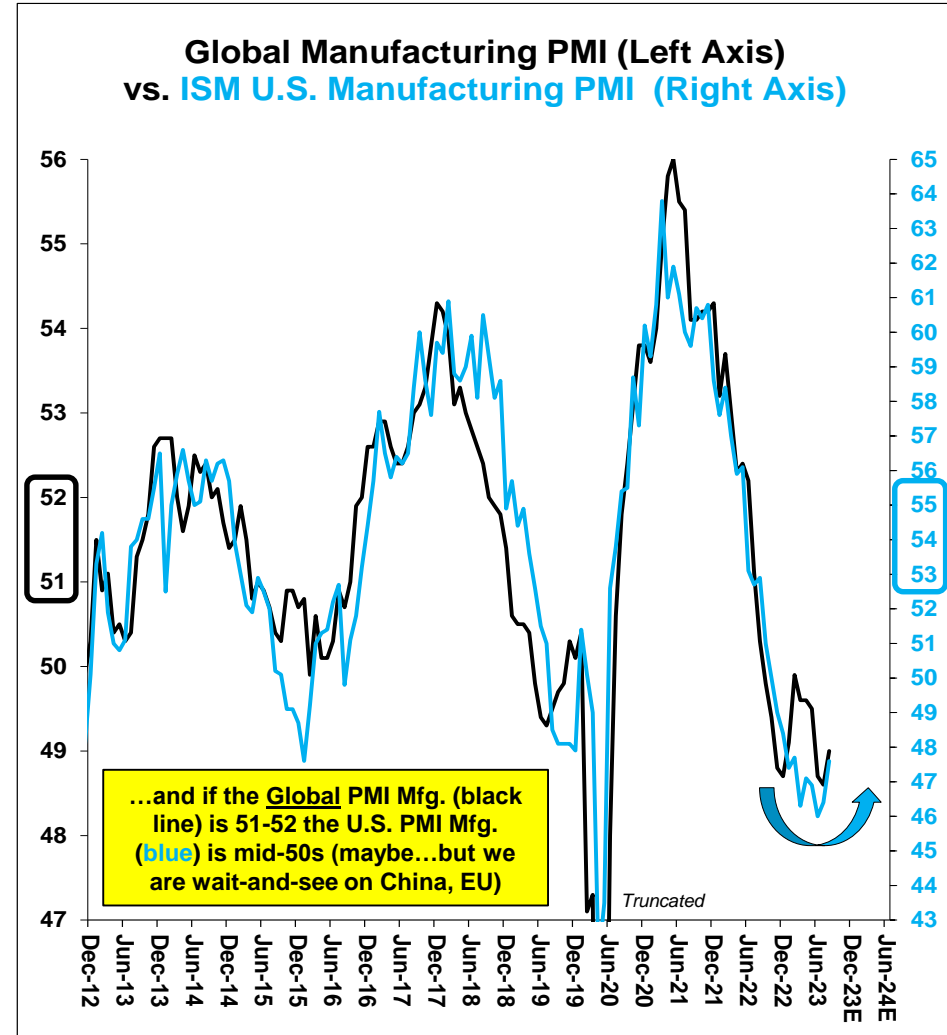
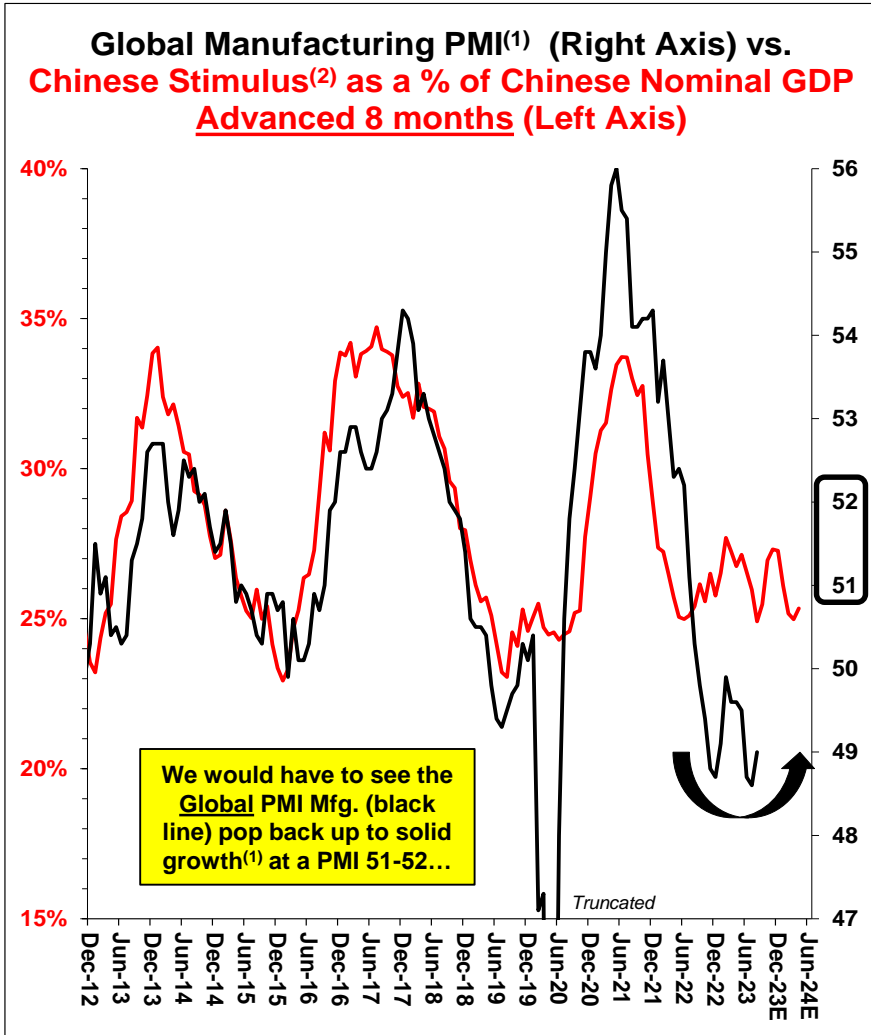
**But if U.S. Industrial Production were to *fully* recover to 5% real growth (prior page), the Fed would likely *keep* rates high**



Source: Bloomberg data, Stifel estimates.

(1) The Purchasing Manager's Index (PMI) is a monthly survey-based diffusion index, so a reading >50 generally means growth and a reading <50 means contraction.

**We're wait & see on mid-50s PMI (low 50s is possible) in mid-24: Street +10% 2024 EPS needs *much* better non-U.S. (China, EU)**



Source: China State Statistics, Bloomberg data, Stifel estimates.

(1) The Purchasing Manager's Index (PMI) is a monthly survey-based diffusion index, so a reading >50 generally means growth and a reading <50 means contraction.

(2) We calculate a "Credit Impulse" for Chinese economy by taking the aggregate balance (the "stock") of China's stimulus and the annual CNY currency change of that stock (i.e., the "flow" of new credit) and divide that by the rolling 4-quarter sum of China's reported Nominal GDP (the "flow" of the Chinese economy). Stimulus is bank & non-bank lending, plus all government bonds. Government bonds are Local Government Financing Vehicles, other Local Government Bonds and Central Government Bonds.

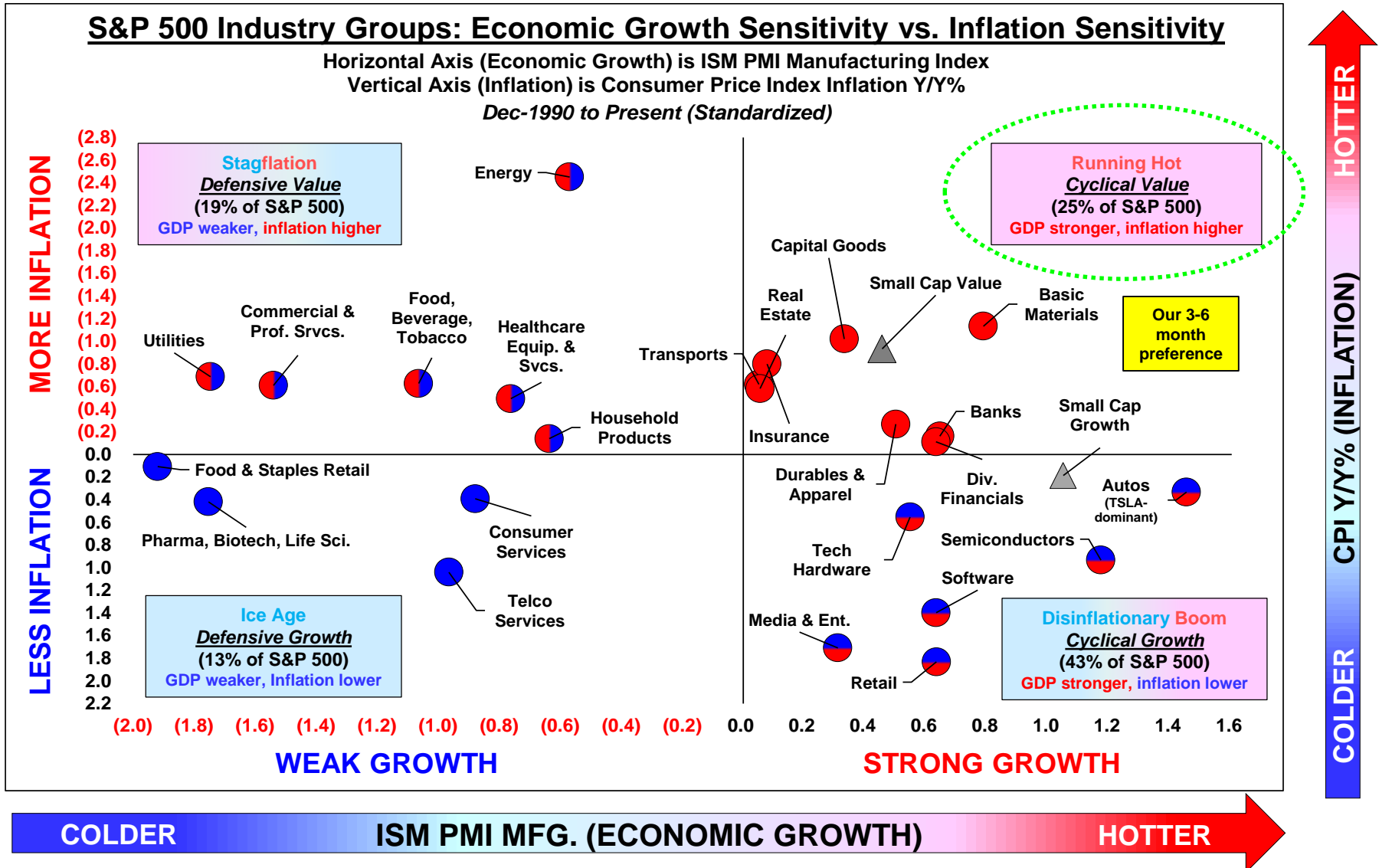
***In our view:***

**What we do see is a 3-6 month Cyclical Value<sup>(1)</sup> *catch-up rally* in response to a “no-landing” thesis, particularly since nostalgia for a repeat of the 2010s decade-long Bull Tech bull market (not going to happen) has reached its zenith**

Source: Stifel estimates.

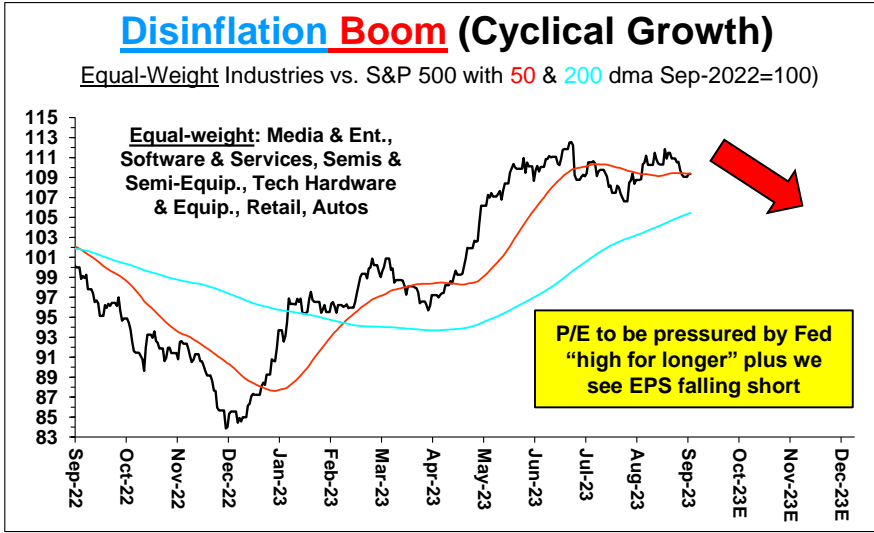
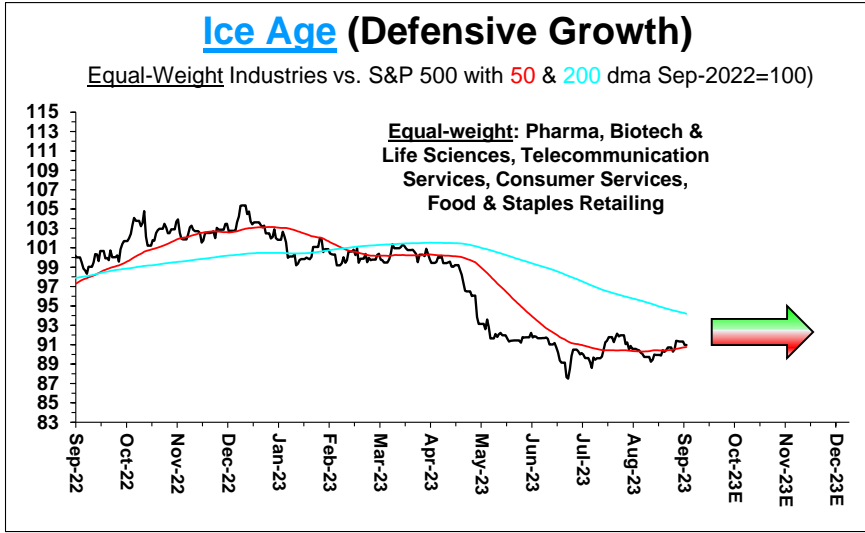
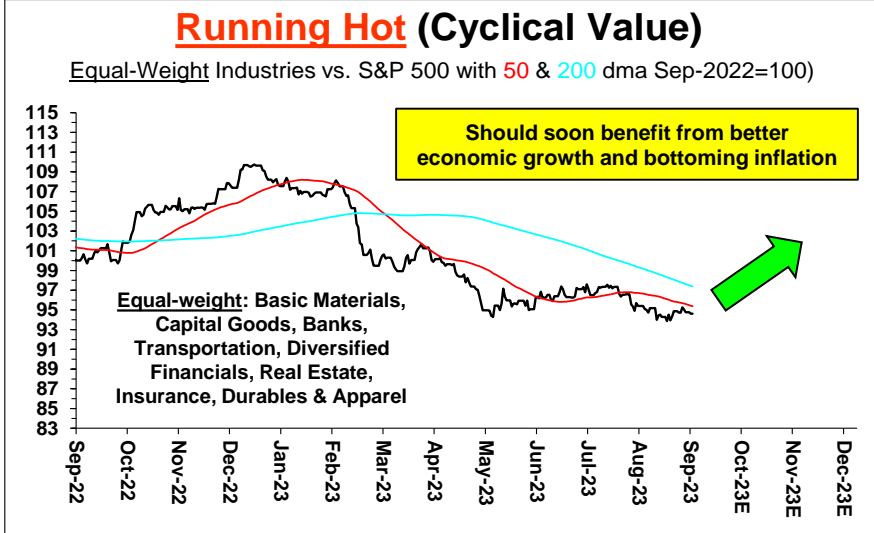
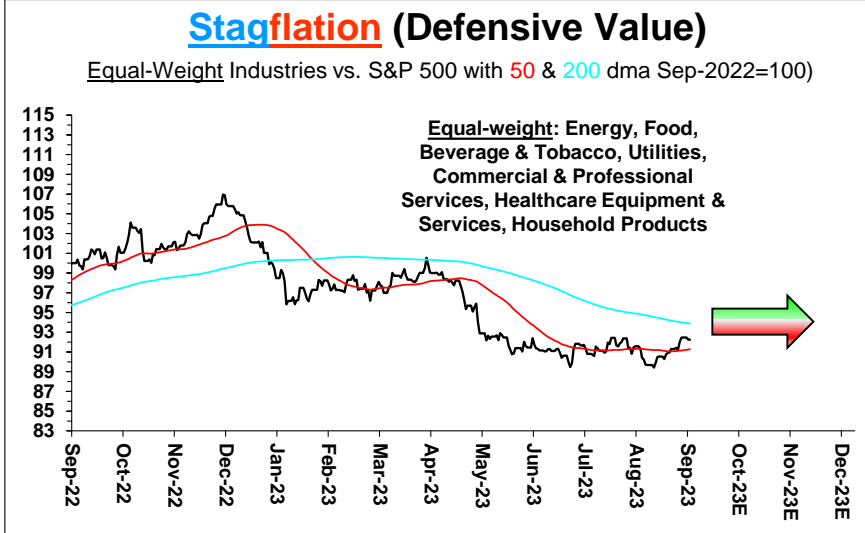
(1) [Cyclical Value](#) is Banks, Materials, Cap Goods, Transports, Div. Fins., Real Estate, Insurance, Durables, Small Cap Value and Energy.

For now, we're only talking about a modest PMI and CPI increase the next 3-6 months, enough to boost Cyclical Value



Source: Bloomberg data since Dec-1990, based on a cluster analysis model of [GICS-2](#) industry sensitivity since 1990 to both inflation and economic growth.

Below we show equal-weighted indices relative to the S&P 500 for the industries in each quadrant shown from the prior page



**COLDER** **ISM PMI Mfg. (ECONOMIC GROWTH)** **HOTTER**

**HOTTER**  
**(INFLATION)**  
**COLDER**

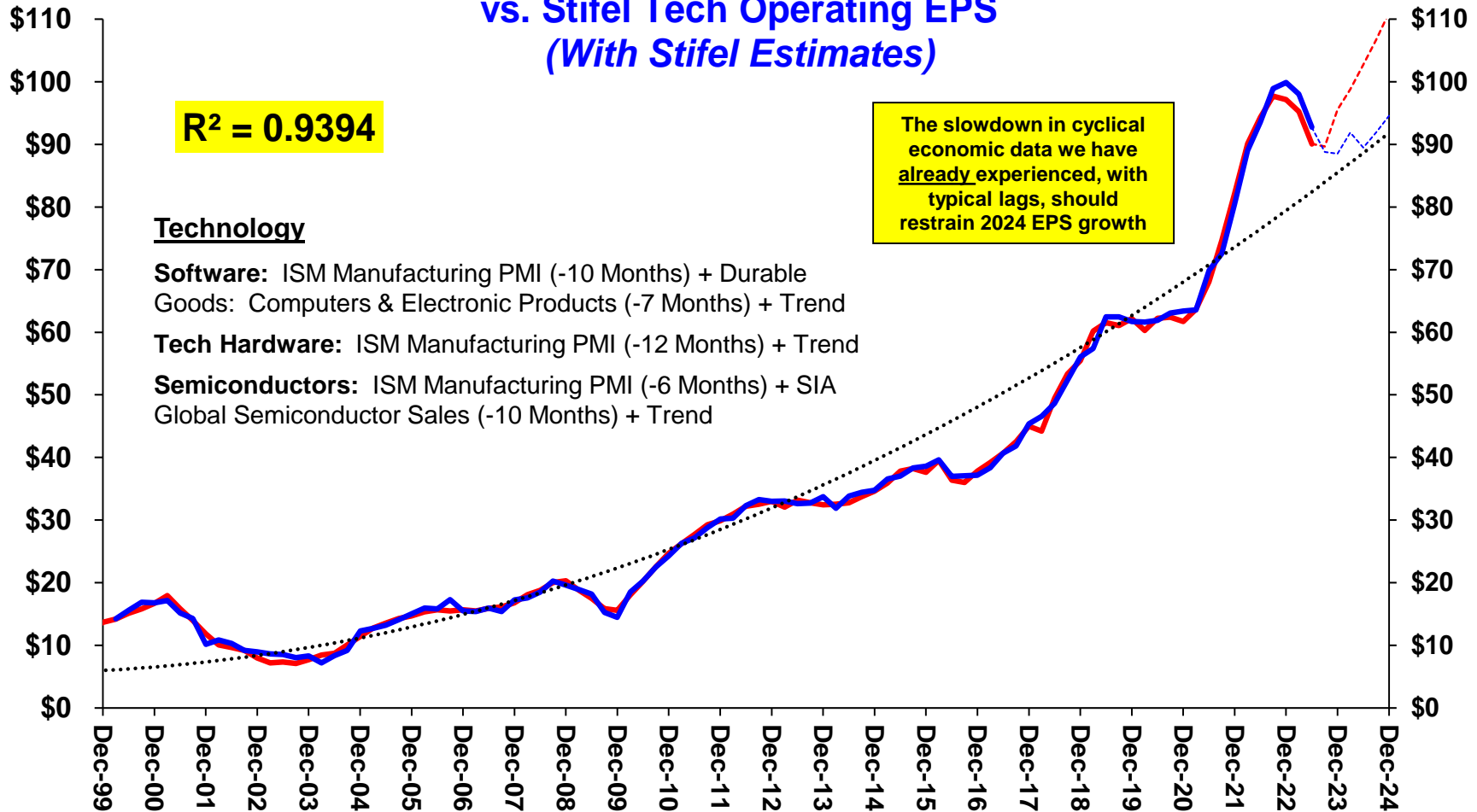
**Our S&P 500 earnings model is based on a multi-factor regression of industry-specific economic variables driving GICS Level 1 sectors or GICS- Level 2 industry group EPS since 1990; the trend-implied model is summed to an EPS estimate**

Name (Ticker)	EPS Wght. in S&P 500	EPS 2022 Act.	Street Estimates				Stifel Estimates				Stifel Above/(Below) Street (\$ EPS)	
			2023E		2024E		2023E		2024E		2023E	2024E
			FY	Y/Y%	FY	Y/Y%	FY	Y/Y%	FY	Y/Y%		
<b>S&amp;P 500 (SPX)</b>		<b>\$215.56</b>	<b>\$208.35</b>	<b>-3.3%</b>	<b>\$228.14</b>	<b>9.5%</b>	<b>\$207.35</b>	<b>-3.8%</b>	<b>\$213.78</b>	<b>3.1%</b>	<b>(\$0.99)</b>	<b>(\$14.36)</b>
<b>Cyclical Growth Sectors</b>												
<b>GICS 1 Information Technology (S5INFT)</b>	<b>16.9%</b>	<b>\$38.79</b>	<b>\$34.12</b>	<b>-12.1%</b>	<b>\$39.47</b>	<b>15.7%</b>	<b>\$31.92</b>	<b>-17.7%</b>	<b>\$33.95</b>	<b>6.4%</b>	<b>(\$2.20)</b>	<b>(\$5.52)</b>
GICS 2 Software (S5SFTW)	7.5%	\$15.00	\$12.55	-16.3%	\$14.74	17.5%	\$11.77	-21.5%	\$12.56	6.7%	(\$0.78)	(\$2.18)
GICS 2 Tech Hardware (S5TECH)	5.8%	\$13.93	\$13.48	-3.2%	\$13.50	0.1%	\$12.53	-10.0%	\$12.70	1.4%	(\$0.95)	(\$0.79)
GICS 2 Semiconductors (S5SSEQX)	4.0%	\$9.96	\$8.00	-19.7%	\$11.14	39.2%	\$7.54	-24.4%	\$8.61	14.2%	(\$0.46)	(\$2.53)
<b>GICS 1 Consumer Discretionary (S5COND)</b>	<b>15.6%</b>	<b>\$31.34</b>	<b>\$31.67</b>	<b>1.0%</b>	<b>\$37.89</b>	<b>19.6%</b>	<b>\$31.80</b>	<b>1.5%</b>	<b>\$36.68</b>	<b>15.3%</b>	<b>\$0.14</b>	<b>(\$1.21)</b>
GICS 2 Retail (S5RETL)	8.5%	\$14.58	\$13.38	-8.2%	\$16.87	26.1%	\$13.38	-8.3%	\$15.08	12.7%	(\$0.01)	(\$1.79)
GICS 2 Consumer Services (S5HOTR)	2.4%	\$4.54	\$6.78	49.2%	\$8.13	-19.9%	\$5.43	19.6%	\$5.59	2.8%	(\$1.34)	(\$2.54)
GICS 2 Automobiles & Components (S5AUCO)	2.3%	\$7.53	\$6.51	-13.5%	\$7.91	21.4%	\$8.09	7.4%	\$10.88	34.4%	\$1.58	\$2.97
GICS 2 Consumer Durables & Apparel (S5CODU)	2.6%	\$4.76	\$4.91	3.2%	\$4.89	-0.4%	\$4.82	1.2%	\$5.05	4.7%	(\$0.09)	\$0.16
<b>GICS 1 Communication Svcs. (S5TELS)</b>	<b>10.0%</b>	<b>\$17.90</b>	<b>\$17.99</b>	<b>0.5%</b>	<b>\$21.81</b>	<b>21.2%</b>	<b>\$17.99</b>	<b>0.5%</b>	<b>\$21.81</b>	<b>21.2%</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Cyclical Value Sectors</b>												
<b>GICS 1 Financials (S5FINL)</b>	<b>22.1%</b>	<b>\$35.28</b>	<b>\$36.72</b>	<b>4.1%</b>	<b>\$35.06</b>	<b>-4.5%</b>	<b>\$35.56</b>	<b>0.8%</b>	<b>\$36.67</b>	<b>3.1%</b>	<b>(\$1.16)</b>	<b>\$1.61</b>
GICS 2 Banks (S5BANKX)	9.4%	\$15.81	\$13.95	-11.8%	\$12.96	-7.1%	\$12.91	-18.3%	\$13.08	1.3%	(\$1.04)	\$0.13
GICS 2 Diversified Financials (S5DIVF)	9.2%	\$12.28	\$16.97	38.2%	\$15.26	-10.1%	\$17.05	38.8%	\$17.88	4.9%	\$0.08	\$2.63
GICS 2 Insurance (S5INSU)	3.9%	\$7.28	\$5.71	-21.5%	\$6.76	18.4%	\$5.51	-24.3%	\$5.61	1.8%	(\$0.20)	(\$1.15)
<b>GICS 1 Industrials (S5INDU)</b>	<b>7.4%</b>	<b>\$15.43</b>	<b>\$18.08</b>	<b>17.2%</b>	<b>\$20.28</b>	<b>12.2%</b>	<b>\$17.00</b>	<b>10.2%</b>	<b>\$17.76</b>	<b>4.4%</b>	<b>(\$1.07)</b>	<b>(\$2.52)</b>
GICS 2 Capital Goods (S5CPGS)	5.0%	\$10.15	\$12.01	18.3%	\$13.10	9.0%	\$10.87	7.1%	\$11.44	5.2%	(\$1.15)	(\$1.66)
GICS 2 Transportation (S5TRAN)	2.1%	\$4.19	\$4.31	3.0%	\$5.14	19.2%	\$4.42	5.4%	\$4.61	4.3%	\$0.10	(\$0.54)
GICS 2 Commercial & Professional Svcs. (S5COMS)	0.5%	\$1.13	\$1.70	51.2%	\$1.99	16.7%	\$1.67	48.7%	\$1.67	0.0%	(\$0.03)	(\$0.31)
<b>GICS 1 Materials (S5MATR)</b>	<b>3.0%</b>	<b>\$6.84</b>	<b>\$5.15</b>	<b>-24.7%</b>	<b>\$5.72</b>	<b>11.1%</b>	<b>\$5.69</b>	<b>-16.8%</b>	<b>\$5.00</b>	<b>-12.0%</b>	<b>\$0.54</b>	<b>(\$0.72)</b>
<b>GICS 1 Real Estate (S5RLST)</b>	<b>1.5%</b>	<b>\$4.05</b>	<b>\$2.88</b>	<b>-28.9%</b>	<b>\$3.25</b>	<b>13.0%</b>	<b>\$3.76</b>	<b>-7.2%</b>	<b>\$2.86</b>	<b>-23.8%</b>	<b>\$0.88</b>	<b>(\$0.39)</b>
<b>Defensive Growth Sectors</b>												
<b>GICS 1 Healthcare (S5HLTH)</b>	<b>12.9%</b>	<b>\$27.44</b>	<b>\$25.27</b>	<b>-7.9%</b>	<b>\$28.14</b>	<b>11.3%</b>	<b>\$26.75</b>	<b>-2.5%</b>	<b>\$28.12</b>	<b>5.1%</b>	<b>\$1.48</b>	<b>(\$0.02)</b>
GICS 2 Pharm, Biotech, & Life Sciences (S5PHRM)	8.2%	\$17.21	\$14.74	-14.4%	\$15.86	7.6%	\$15.60	-9.4%	\$15.91	2.0%	\$0.87	\$0.05
GICS 2 Health Care Equip. & Svcs (S5HCES)	6.0%	\$10.29	\$10.48	1.8%	\$12.21	16.5%	\$11.08	7.7%	\$12.14	9.6%	\$0.60	(\$0.07)
<b>GICS 1 Consumer Staples (S5CONS)</b>	<b>5.2%</b>	<b>\$10.80</b>	<b>\$12.81</b>	<b>18.6%</b>	<b>\$14.42</b>	<b>12.6%</b>	<b>\$11.33</b>	<b>4.9%</b>	<b>\$11.54</b>	<b>1.9%</b>	<b>(\$1.48)</b>	<b>(\$2.88)</b>
<b>Defensive Value Sectors</b>												
<b>GICS 1 Energy (S5ENRS)</b>	<b>3.1%</b>	<b>\$22.18</b>	<b>\$17.46</b>	<b>-21.3%</b>	<b>\$15.50</b>	<b>-11.2%</b>	<b>\$19.94</b>	<b>-10.1%</b>	<b>\$14.22</b>	<b>-28.7%</b>	<b>\$2.48</b>	<b>(\$1.28)</b>
<b>GICS 1 Utilities (S5UTIL)</b>	<b>2.5%</b>	<b>\$5.52</b>	<b>\$6.20</b>	<b>12.5%</b>	<b>\$6.59</b>	<b>6.3%</b>	<b>\$5.61</b>	<b>1.7%</b>	<b>\$5.16</b>	<b>-8.1%</b>	<b>(\$0.59)</b>	<b>(\$1.44)</b>

Source: Bloomberg data, Stifel estimates.

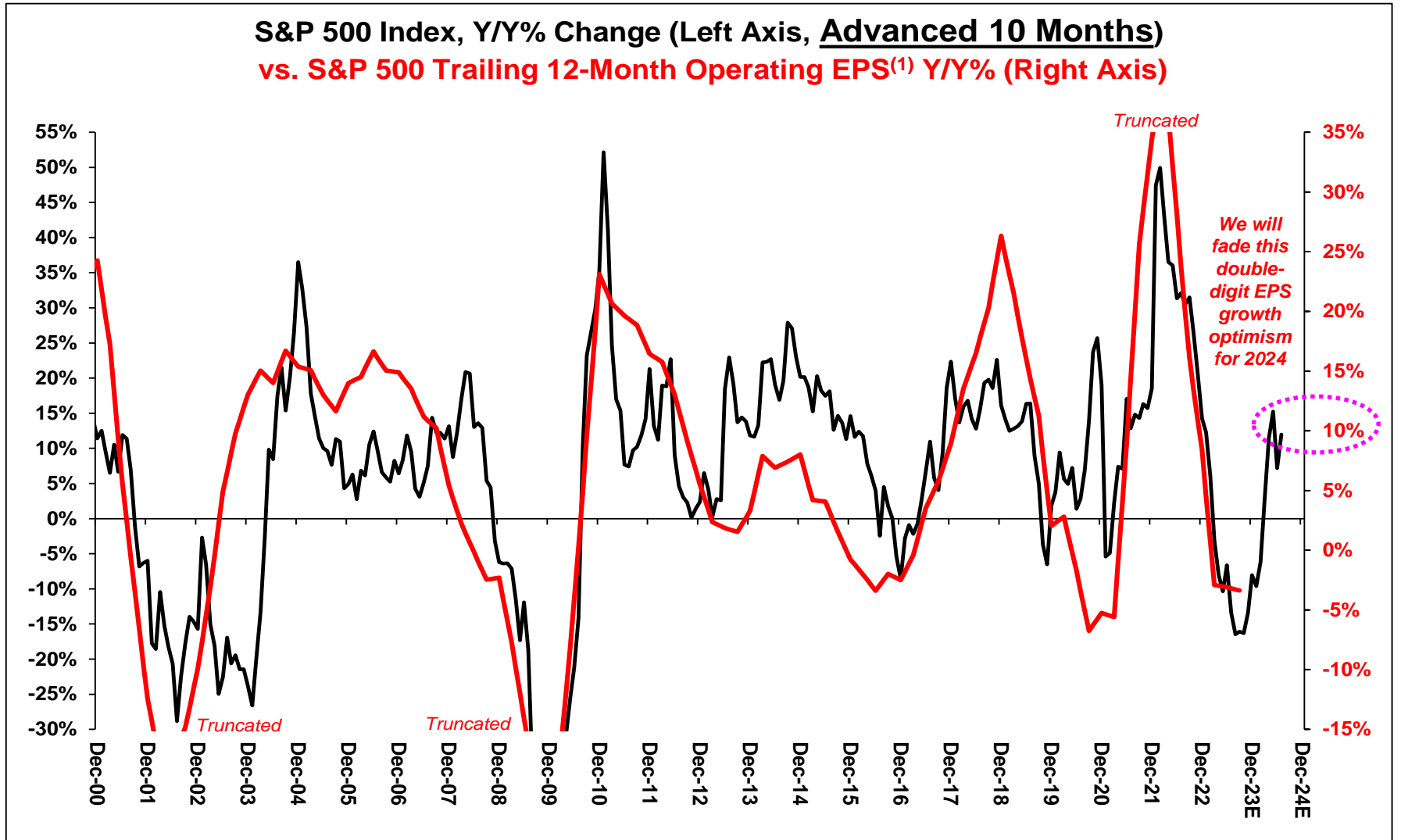
This is a sample page from our S&P 500 EPS model (S5TECH) – uses econ-variables optimized for best fit to EPS since 1999

## S&P GICS 1 Information Technology Operating EPS (With Consensus Estimates) per S&P vs. Stifel Tech Operating EPS (With Stifel Estimates)



Source: Bloomberg data, Stifel estimates.

The S&P 500 y/y% pushed forward 10 months (black line) implies solid EPS growth (red line) next year...we doubt that occurs



Source: Stifel estimates, Bloomberg and Standard & Poor's data.

(1) Our S&P 500 earnings model uses Positive EPS (Bloomberg data) for historical "Operating" EPS.

*In our view:*

**We see the S&P 500 P/E halving and real (inflation-adjusted) EPS doubling in 2020s, keeping the real S&P 500 flat<sup>(1)</sup> in 2031 versus the recent peak Dec-30, 2021**

*[ This is called a “Secular Bear Market” decade ]*

Source: Stifel

(1) It is not unprecedented for the S&P 500 to be flat for a decade; three prior occurrences were: 2000 to 2013, 1973 to 1982 and 1937 to 1950.

*In our view:*

## Part (1)

### *Anatomy of a Secular Bear Market*

- We see the S&P 500 P/E halving & real EPS doubling Dec-21 to Dec-31, so real S&P 500 is flat<sup>(1)</sup> point-to-point
- This is the 4<sup>th</sup> “Secular Bear Market” of the past century, all of which were mostly (but not always) Value-stock led

Source: Stifel

(1) The nominal S&P 500 peak was ~4,800 early Jan-2022, but inflation-adjusted it was ~5,300. It is not unprecedented for the S&P 500 to be flat point-to-point a decade between bull markets; three prior occurrences were: 2000 to 2013, 1973 to 1982 and 1937 to 1950.

For a few years<sup>(1)</sup> we have described a 10-year (Dec-2021 to 2031E) “secular bear market<sup>(2)</sup>” and this is our decade approach:

- Active (not broad passive) management within a range-bound 2020s decade for S&P 500
- Value vs. Growth Scale out of Growth-led S&P 500 rallies, accumulate Value on weakness
- Non-U.S. equity rise as the dollar weakens; also, non-U.S. markets are over-weight Value
- Small cap Small Cap Value in reflation/recovery, Small Cap Growth in disinflationary growth
- Defensive vs. Cyclical Defensives in recessions, Cyclicals when recession fear abates
- Hedge funds macro hedge funds, or market neutral long/short equity hedge funds
- Covered call option writing when the range-bound S&P 500 nears the top of its channel
- Alternative investment in Hard Assets e.g., hard assets, incl. prime real estate and CTAs
- A focus on cash-on-cash return with shorter term cash payback as a core VC requirement

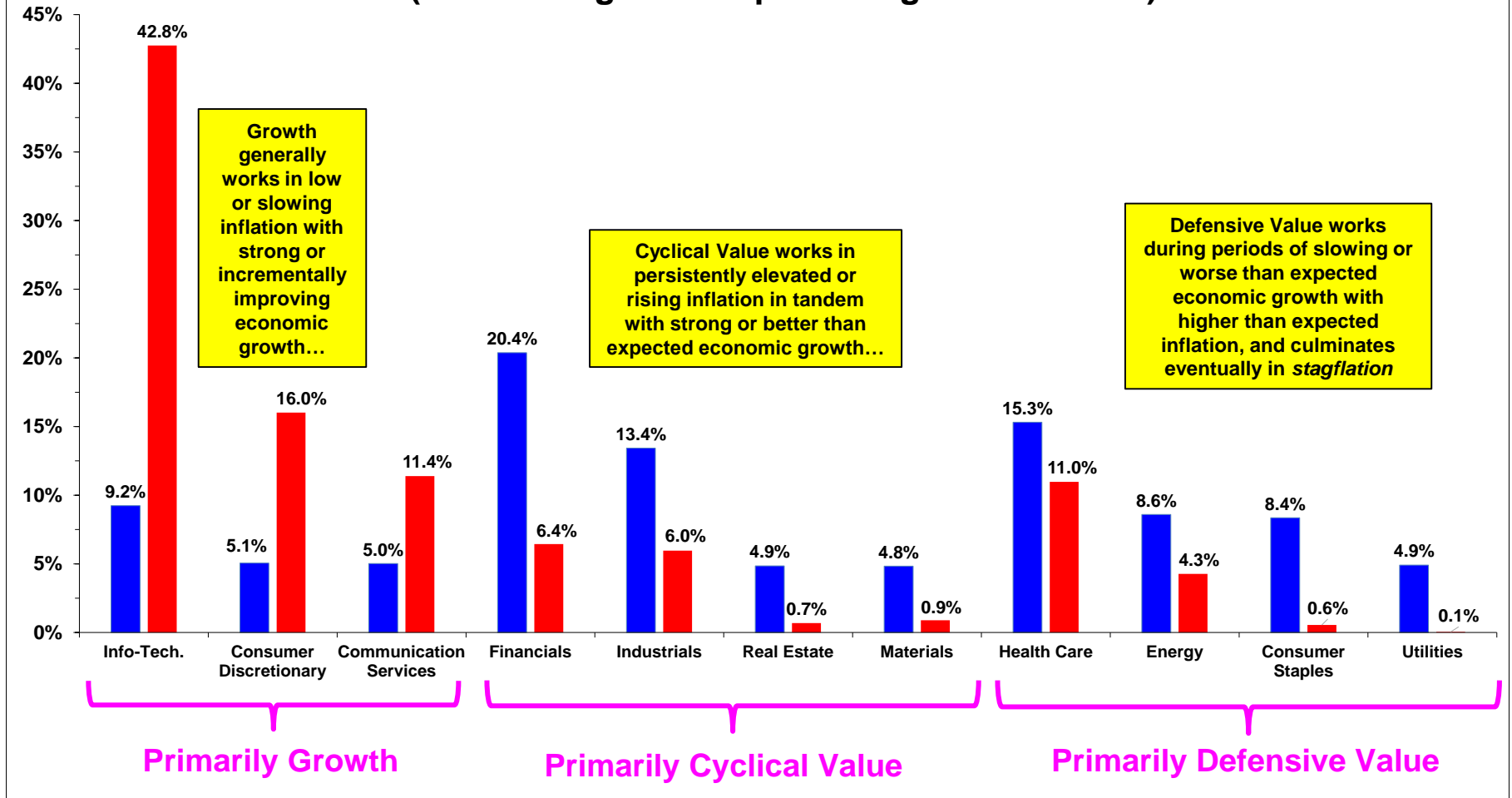
Source: Stifel.

(1) See our [Barron's 6/28/19](#) interview and our slide deck [Jun-1, 2022 - "A roadmap for investors in the 2020s" - pages 34-65](#).

(2) A Secular Bear Market is generally a flat/range-bound S&P 500 lasting well over a decade in real (CPI-adjusted) terms, although in nominal terms the index is typically flat/widely range-bound for “only” about a decade or less. Three prior occurrences (in CPI inflation-adjusted terms) for the S&P 500 and predecessor indices were: Mar-2000 to Feb-2015, Dec-1968 to Dec-1992 and Sep-1929 to Dec-1958.

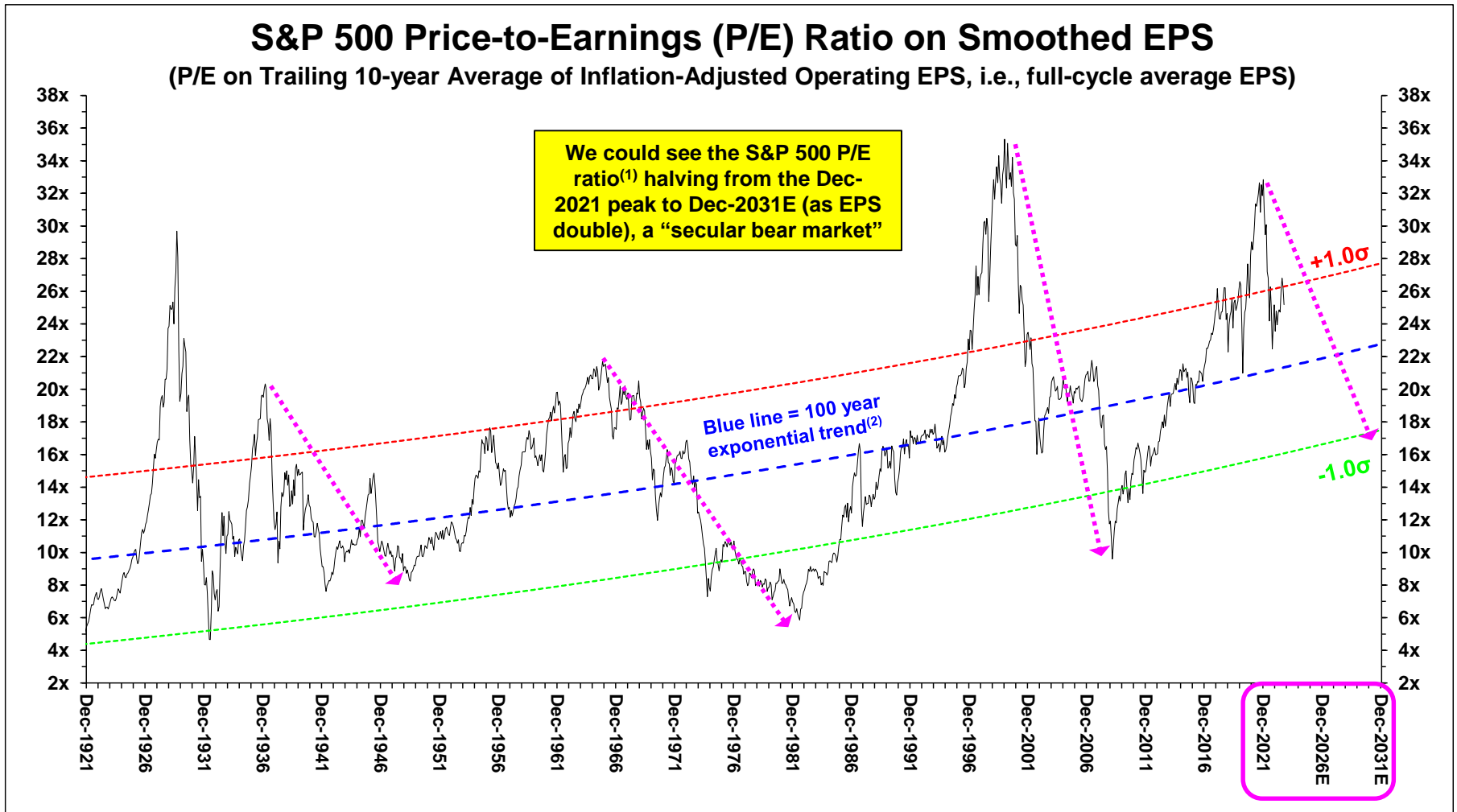
Dec-2021 to 2031 favors Value point-to-point: iShares large-cap Value ETF (IWD, blue) vs. Growth ETF (IWF, red) weights shown

## iShares Russell 1000 Value (IWD) & Growth (IWF) ETF (Sector weights as a percentage of each ETF)



Source: Bloomberg data, Blackrock iShares, Russell indices, Stifel estimates.

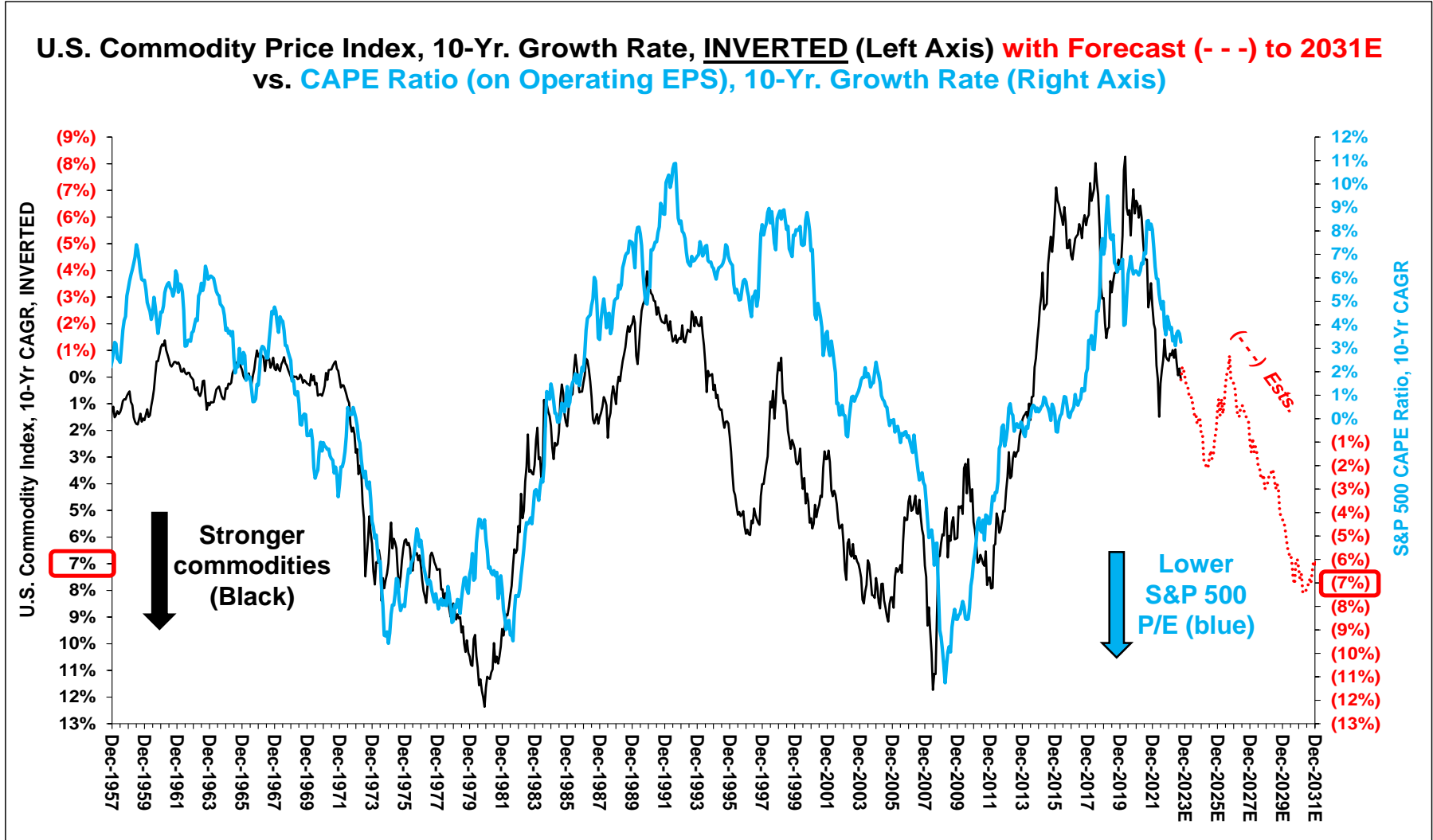
**EPS doubling (7.2% CAGR) and P/E halving from Dec-21 to Dec-31 is a “secular bear market” (S&P 500 is flat in 2031 vs. 2021)**



Source: Bloomberg S&P 500 operating EPS 1980-, and pre-1980 Shiller GAAP EPS [data](#) grossed up 12.2% to match historical Operating vs. GAAP, Stifel estimates.

- (1) The [CAPE](#) P/E shown is the inflation-adjusted price + the trailing 10-yr. avg. of inflation-adjusted EPS (we use Operating EPS as explained in the source line), and for CAPE Operating EPS we estimate: \$166 in 2022A and \$173 in 2023E.
- (2) The exponential CAPE (on Operating) up-trend above may be due to: the deflationary effect of debt (lowers yields), Fed backstop (prevents debt deflation with the benefit accruing to higher equity valuation), widening U.S. economic profit (ROIC minus Cost of Capital) attributable to a reserve currency and immigration (e.g., Technology talent).

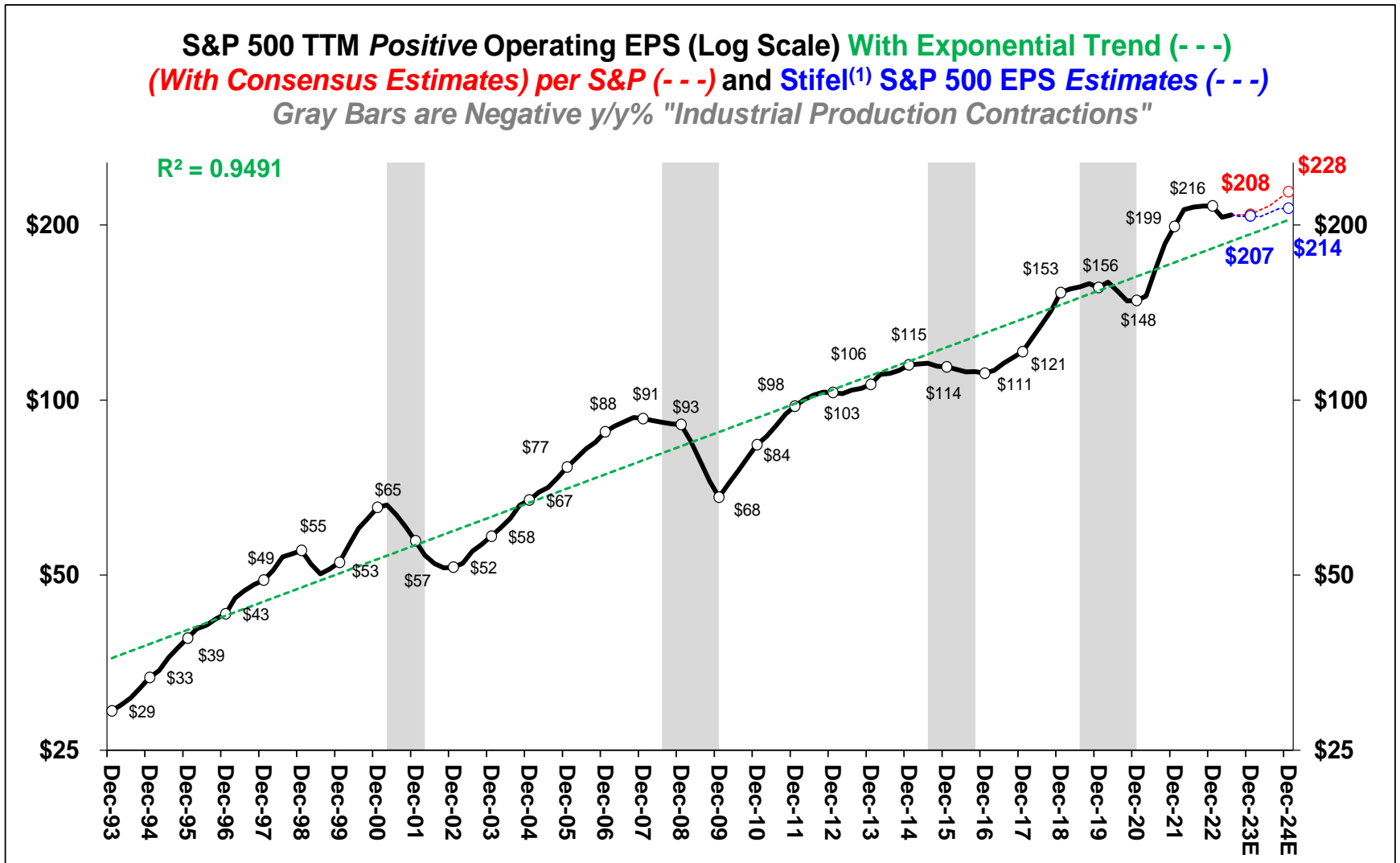
If commodities double 2021-31E (7.2% CAGR, inverted left axis), the P/E (CAPE<sup>(1)</sup>) on Operating EPS) may fall at a similar rate (right)



Source [U.S. Federal Reserve Economic Data - Industrial Commodity Prices \(1947 to 1956\)](#), Bloomberg commodity data [\(1956 to 1994\)](#) and [\(1994+\)](#), Shiller [data](#) (converted to a 10-year CAGR) and Stifel estimates as notated.

(1) The [CAPE](#) P/E is the S&P 500 inflation-adjusted price + trailing 10-yr. avg. of inflation-adjusted Operating EPS. Bloomberg provides S&P 500 operating EPS 1980-present, and for pre-1980 we utilize Shiller GAAP EPS [data](#) grossed up 12.2% to match the historical Operating/GAAP percentage differential.

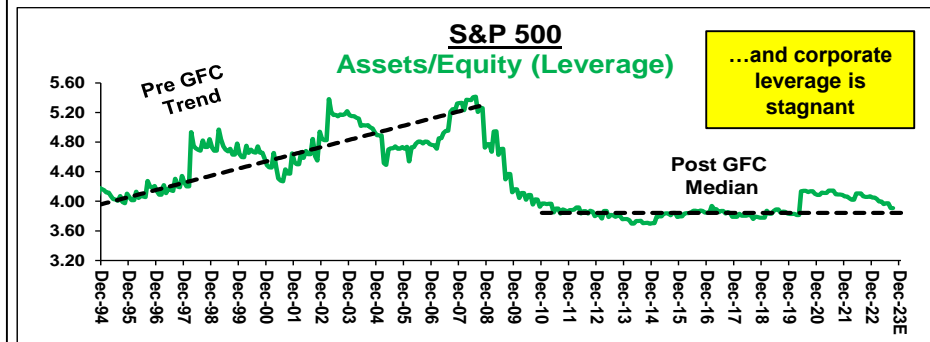
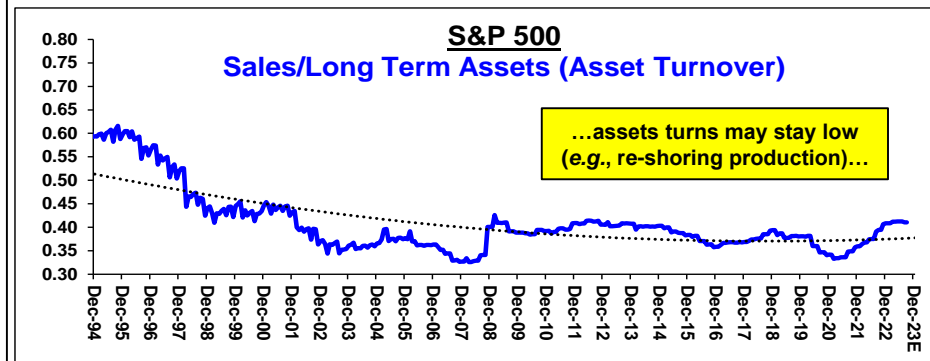
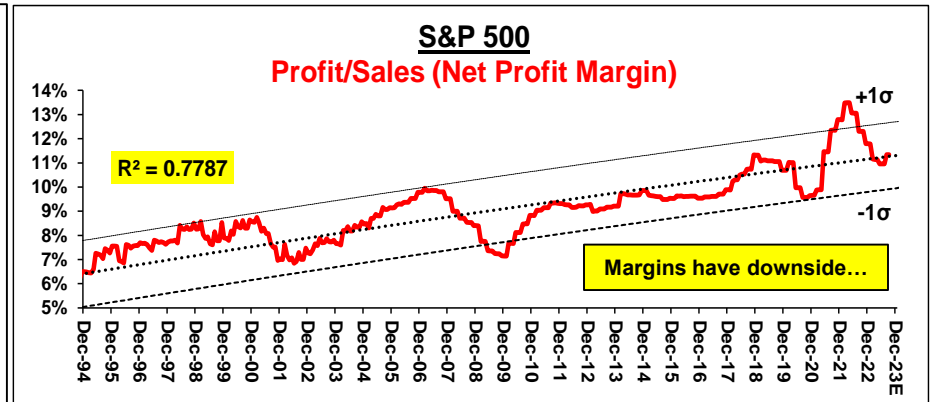
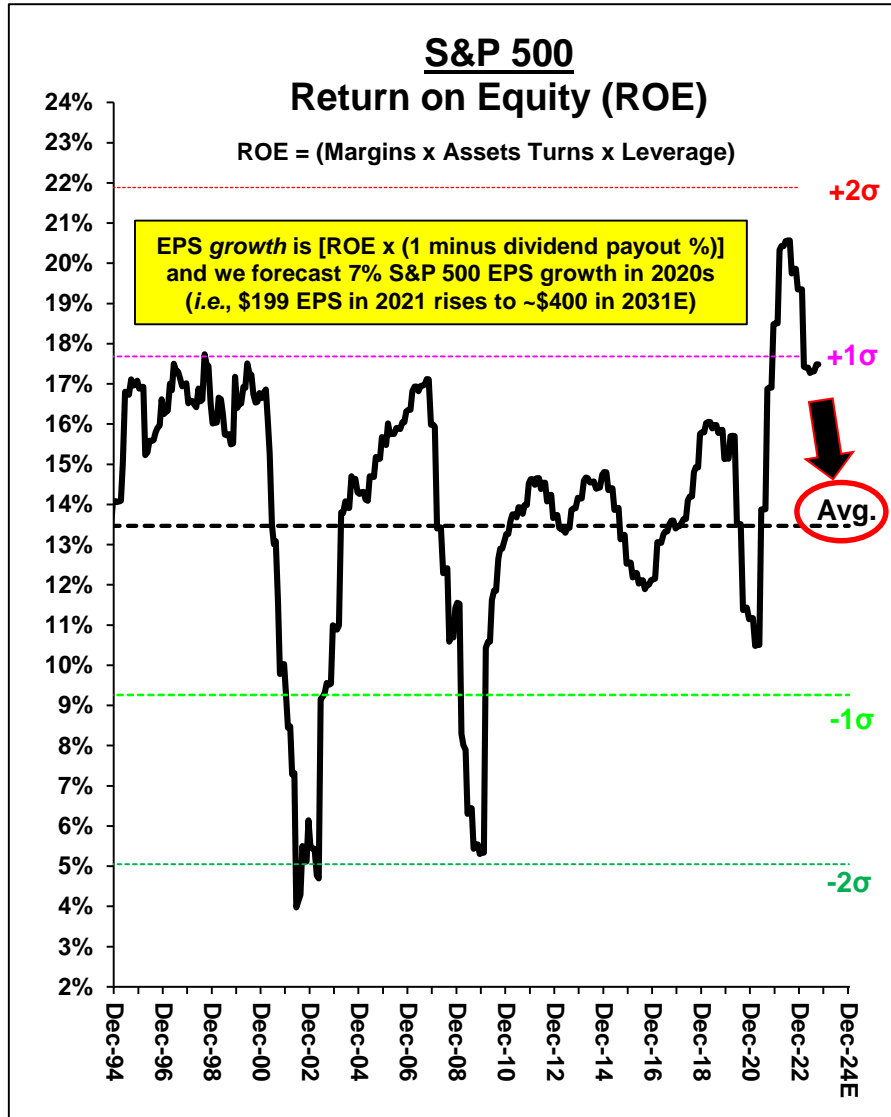
From Dec-21 to Dec-31 we forecast S&P 500 Operating EPS should at least double, albeit with a larger inflation component



Source: Stifel estimates, Bloomberg and Standard & Poor's data.

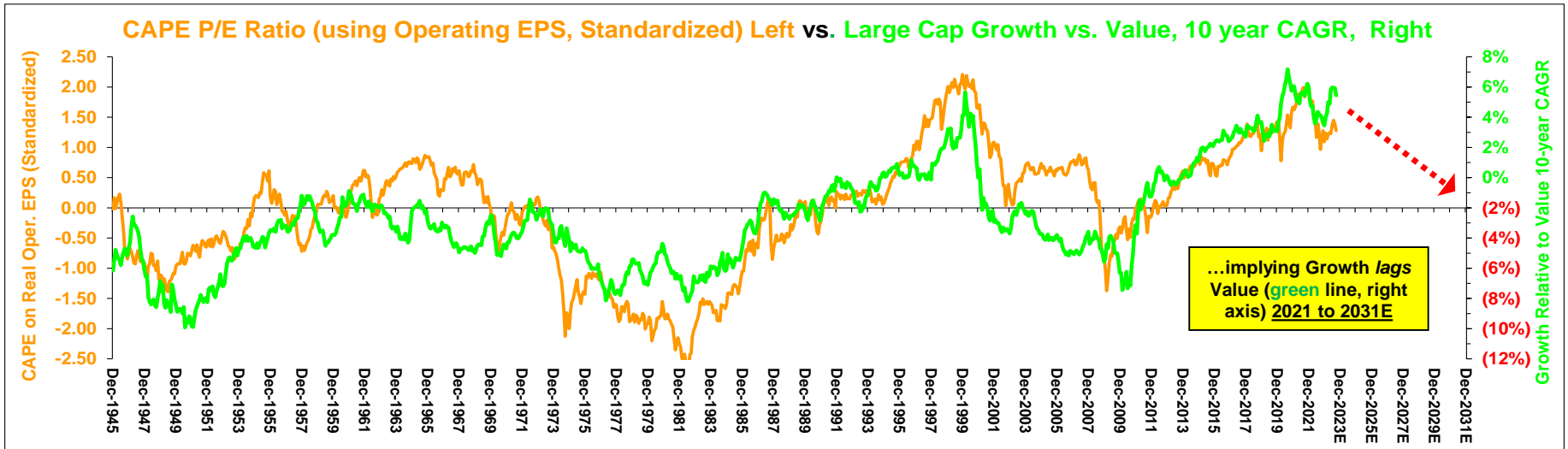
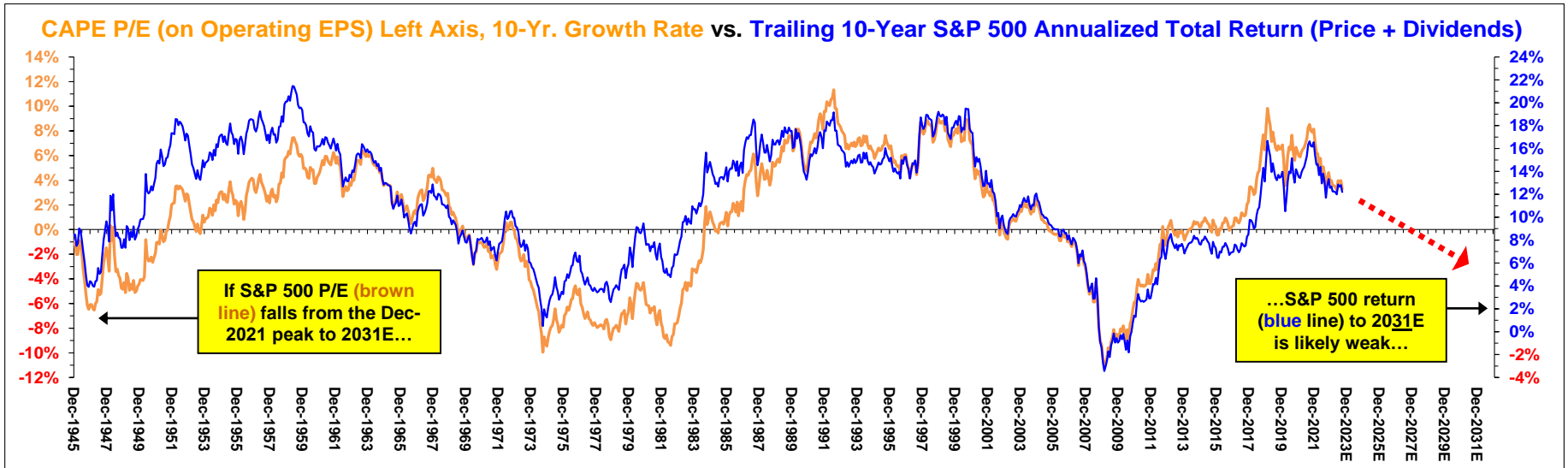
(1) Our S&P 500 earnings model is a multi-factor regression of industry-specific and economic variables against [GICS-1](#) sector or GICS-2 industry EPS since 1990. Leading Economic Indicators (LEI), Personal Consumption Expenditures (PCE), Purchasing Manager's Indices (PMI), commodity prices and industry data are used.

If S&P 500 ROE falls sharply to its 30y average of 13.5% that still supports 7%/year 2020s EPS growth (i.e., EPS doubling in 2020s)



Source: Bloomberg data, Stifel estimates.

If the growth rate of the **CAPE P/E<sup>(1)</sup>** on Operating EPS slows 2021-31E (prior page), then Growth *under-performs* Value 2021-31E

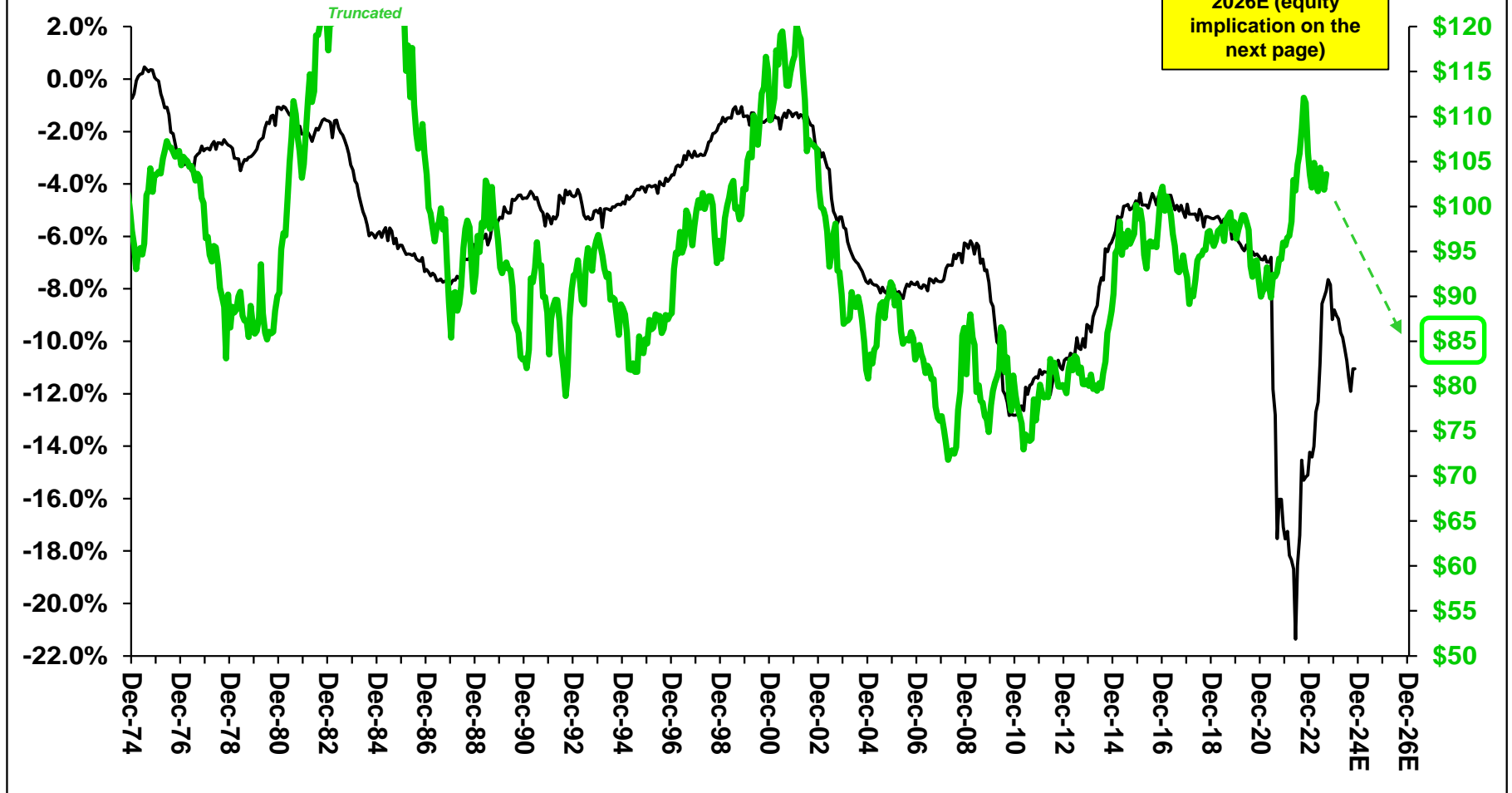


Source: Bloomberg data, Stifel estimates.

(1) The **CAPE P/E** is the S&P 500 inflation-adjusted price ÷ trailing 10-yr. avg. of inflation-adjusted EPS; we use Bloomberg S&P 500 operating EPS 1980-present, and pre-1980 we use Shiller GAAP S&P 500 EPS [data](#) grossed up by 12.2% to match the historical average difference between operating and GAAP. Growth vs. Value is Ken French [\(data\)](#), 1935-77 (standardized) and Bloomberg Large Capitalization Growth & Value total return 1978-present, with Stifel estimates to 2031E as notated.

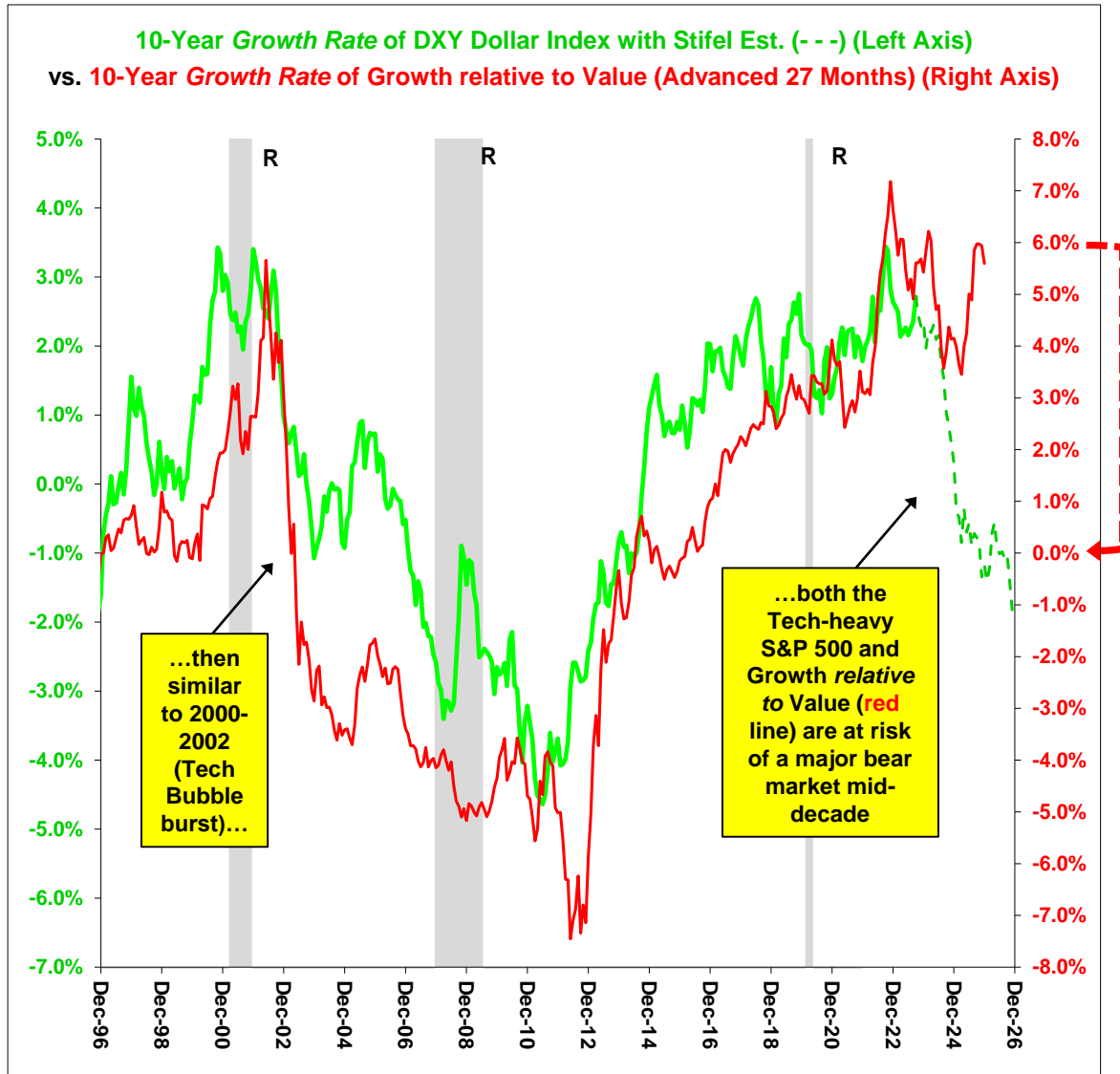
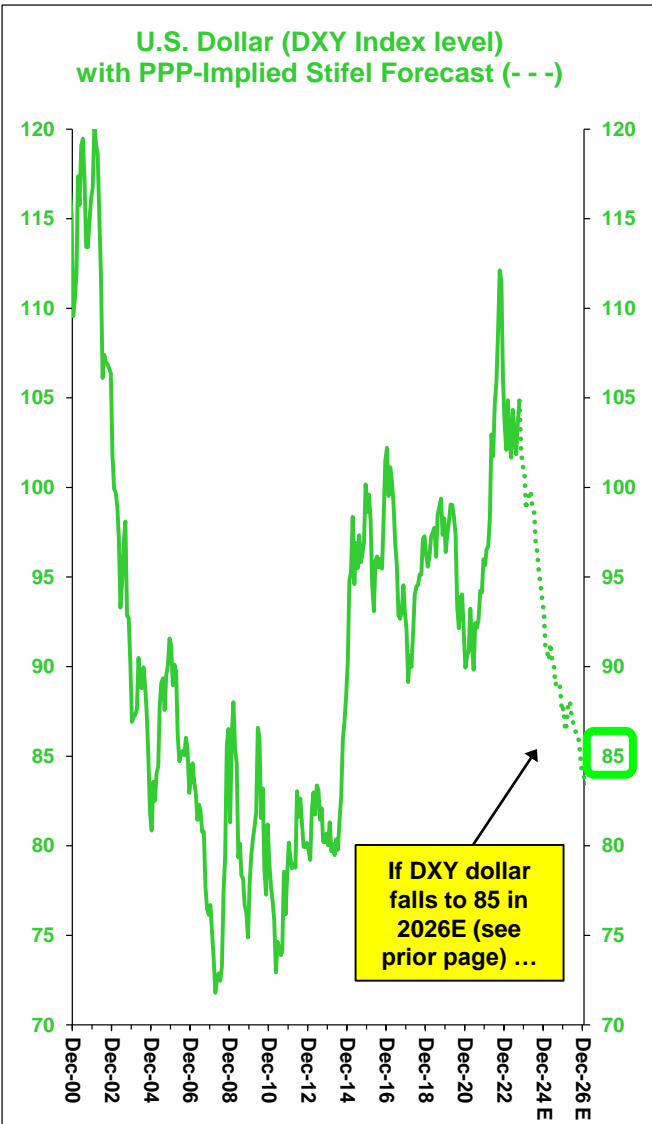
The dollar is Important for Value vs. Growth: Structural U.S. fiscal and trade deficits likely weaken the U.S. dollar in the future

### Sum of U.S. Current Account and Fiscal Balance (As a % of GDP, Left Axis, Advanced 24 Months) vs. U.S. Dollar Index (DXY, Right Axis)



Source: Bloomberg Data

**A weak dollar (prior page) implies large cap Growth under-performs Value, likely with a major S&P 500 bear market mid-2020s**



Source: Bloomberg Data; Russell 1000 large cap Growth total return relative to Russell 1000 large cap Value.

*In our view:*

## Part (2)

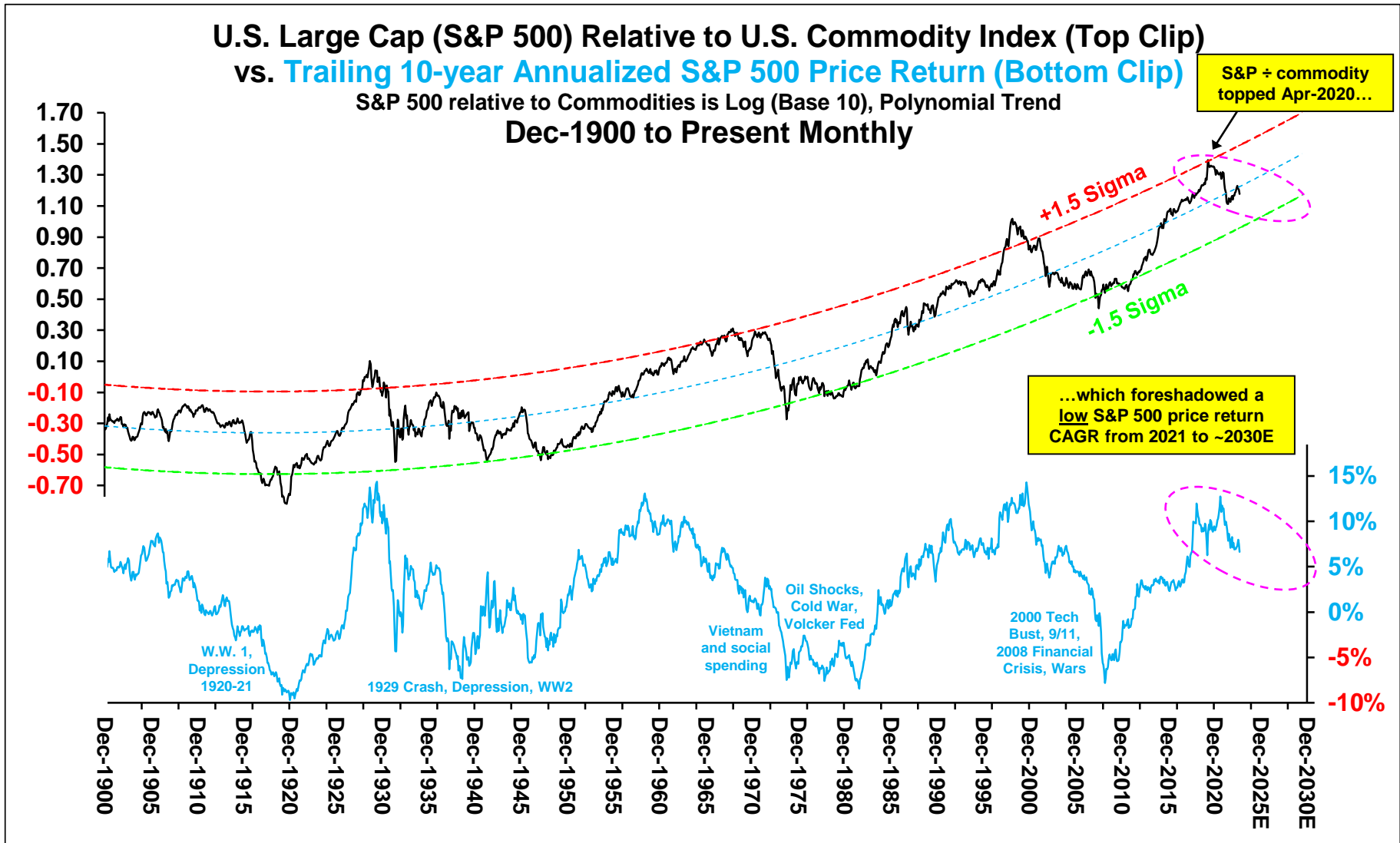
### ***A Secular Bear Market is a rotation from Paper to Hard Assets***

- **When commodity prices outperform the S&P 500 for a decade the S&P 500 has *always* been in a Secular Bear Market**
- **If the commodity lull<sup>(1)</sup> since Jun-22 turns back up by 2024 (as we expect), the Secular Bear Market resumes**

Source: Stifel

(1) All past commodity “secular bull markets” (10+ years) were “secular bear markets” for the S&P 500. If that reoccurs, we believe commodities would follow a typical 3-stage “secular bull market” decade jagged move higher at a rising cost to U.S. real GDP: Stage (1) - *Disbelief rally* (then a bear trap temporary pull-back, **which we believe characterizes the commodity drop since Jun-22**), Stage (2) - *Belief rally* (then a bull trap temporary pull-back) and lastly a Stage (3) *Greed rally* - the secular commodity top, often parabolic, followed by a value-trap in the early 2030s which should *not* be bought.

**Stronger commodities indicate weaker S&P 500 returns: the ratio of the S&P 500 ÷ commodities<sup>(1)</sup> peaked (for a decade?) in 2020**

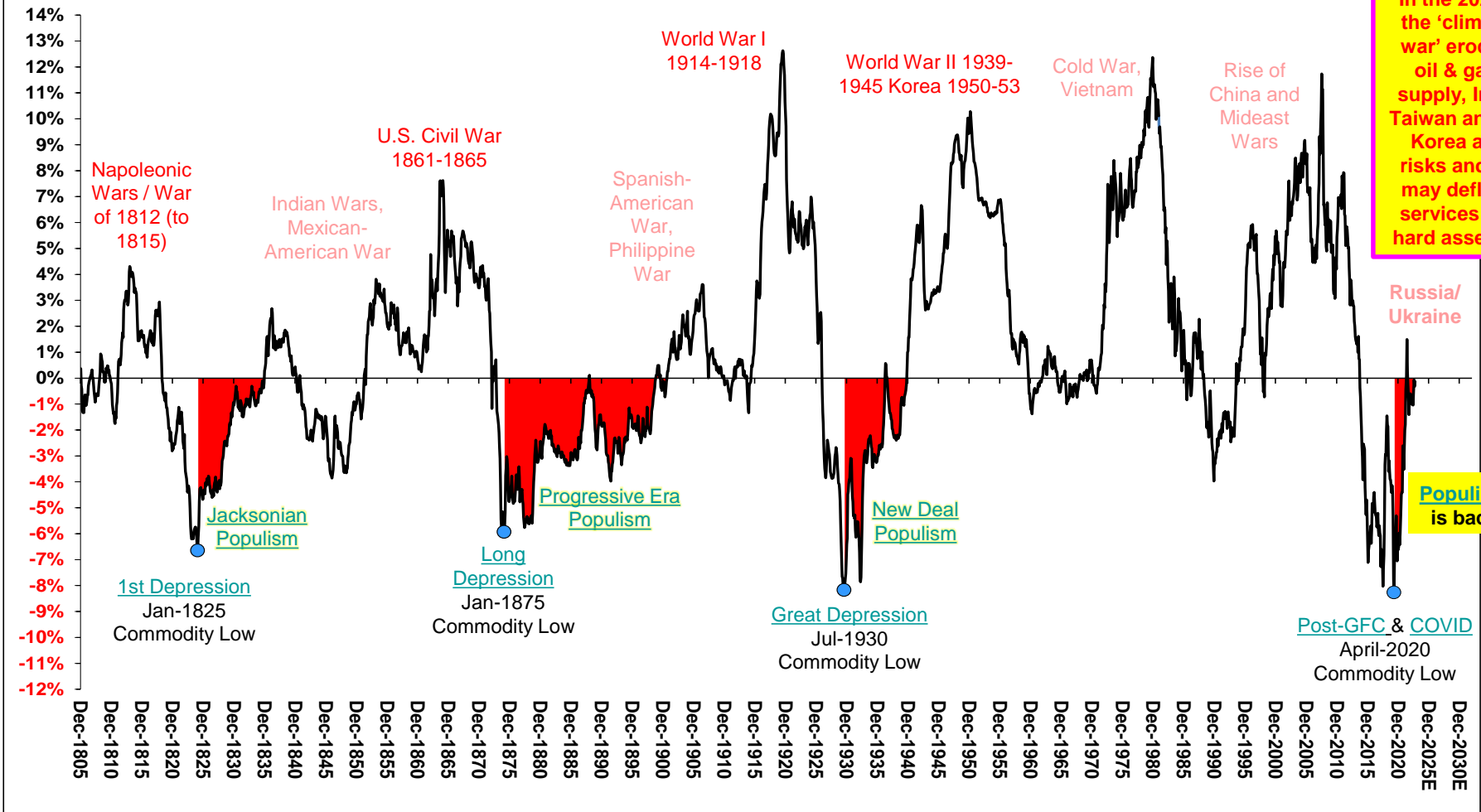


Source: [U.S. Census Bureau - Historical Statistics of the United States](#) (1890 to 1900), [U.S. Federal Reserve Economic Data - Industrial Commodity Prices](#) (1904 to 1956), Bloomberg commodity price data (1956 to 1994) and (1994+). Bloomberg and Shiller S&P 500 (and predecessor) price data.

(1) The S&P 500 divided by the U.S. broad commodity index ratio is called "[paper v. hard assets](#)" and its breakdown since 2020 may indicate a weak S&P 500 in the 2020s.

Commodity Depression → Populism → War: The 2020s have a West/East **Thucydides Trap**, U.S. populism and **eroding** Fed independence

## U.S. Commodity Price Index 10-Year Compound Annualized Growth Rate 1805 to Present (Blue dots are Depression lows)



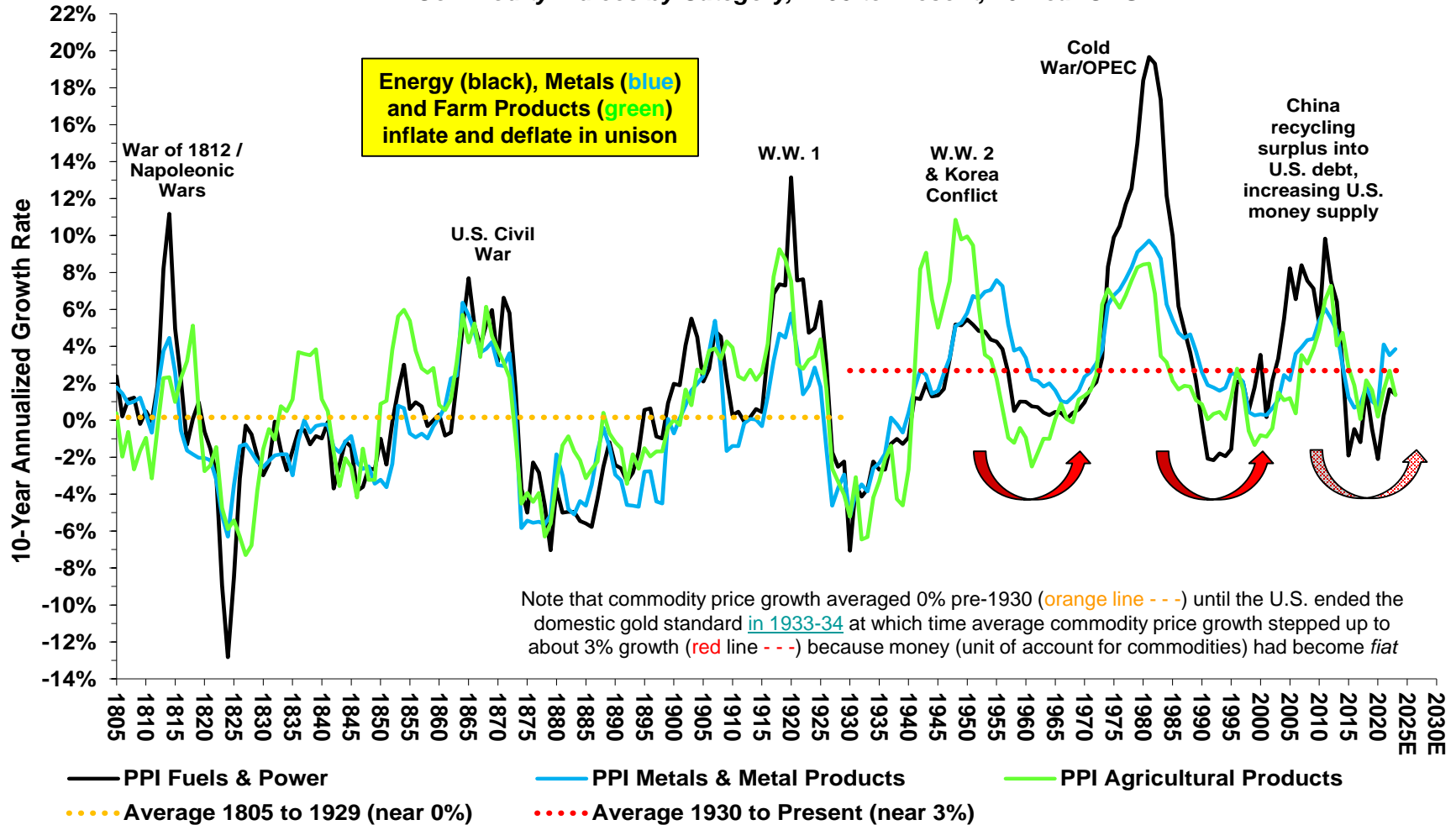
Source: [U.S. Census Bureau - Historical Statistics of the United States](#) (1795 to 1904), [U.S. Federal Reserve Economic Data - Industrial Commodity Prices](#) (1904 to 1956), Bloomberg commodity price data (1956 to 1994) and (1994+). Stifel estimates.

(1) Artificial Intelligence (AI) may lift services productivity, increasing the supply of services relative to hard assets (commodities/houses/gold), relatively inflating the latter.

Commodity prices rise in unison and if another commodity cycle has begun the implication (prior page) is that 10Y yields rise

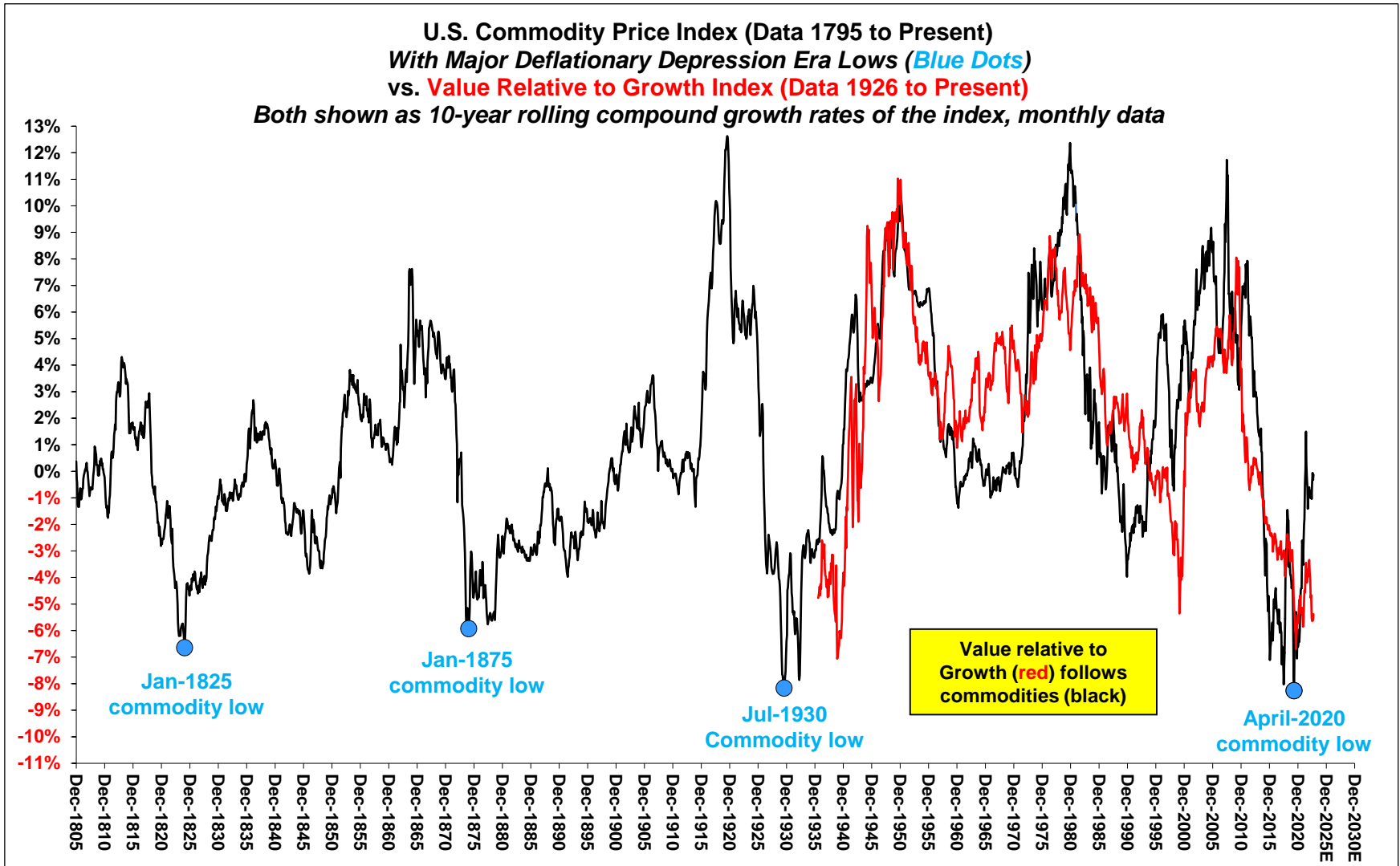
## Commodity Prices are Cyclical and Move in Unison

PPI Commodity Indices by Category, 1795 to Present, 10-Year CAGR



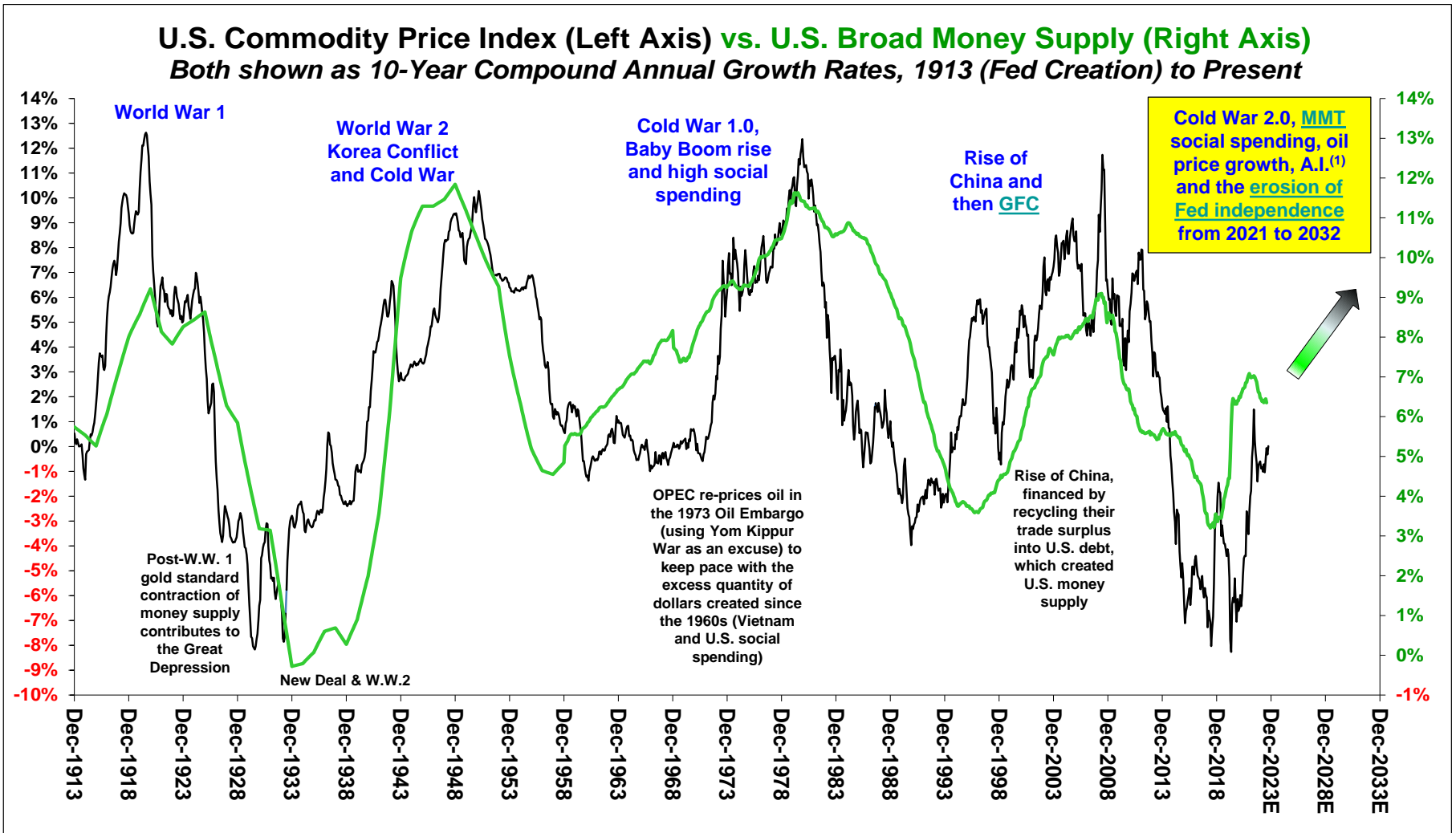
Source: Warren & Pearson Commodity Category Indices (10-yr. CAGR starts 1805, data [1795-1925](#)), PPI NSA categories: Energy [Bloomberg PPIJFAP], PPI Farm Products [Bloomberg PPIJFAPR] and PPI Metals [Bloomberg PCIMTOT] Ferrous & Non-Ferrous (excl.-precious metals) from U.S. BLS PPI, Bloomberg data, Stifel format.

Commodity cycles are inevitable: Commodities (black) align with Value relative to Growth (red), and both bottomed in 2020



Source: [U.S. Census Bureau - Historical Statistics of the United States](#) (1795 to 1904), [U.S. Federal Reserve Economic Data - Industrial Commodity Prices](#) (1904 to 1956), Bloomberg commodity price data (1956 to 1994) and (1994+), Value vs. Growth is the Ken French [\(Data\)](#) from 1926-77 and Bloomberg Growth and Value Total Return Indices (Russell 1000 large capitalization) 1978-present, Stifel estimates.

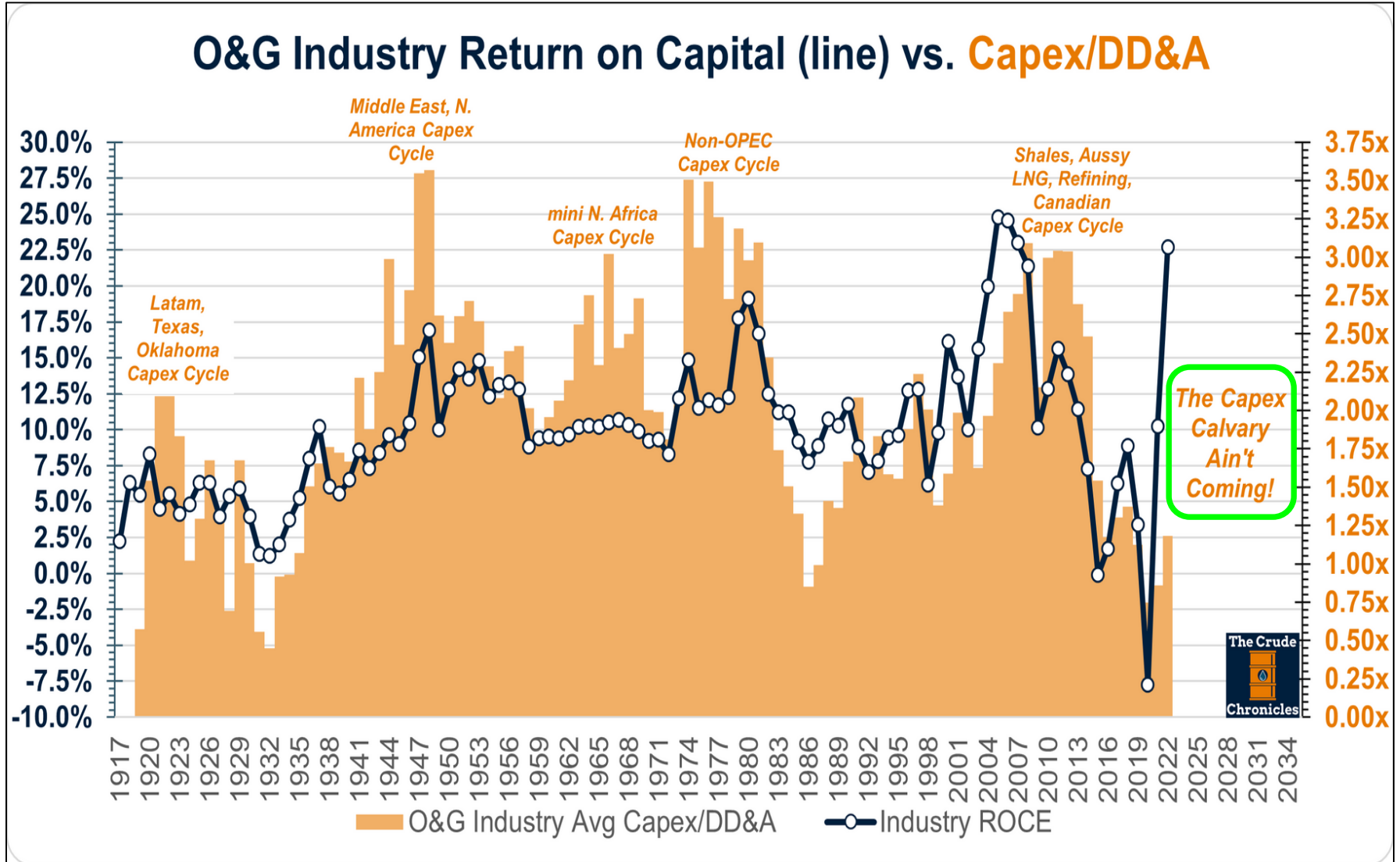
Another catalyst for commodities is fiat money growth (green line) amid conflicts and fiscal dominance attributable to Populism



Source: [U.S. Federal Reserve Economic Data - Industrial Commodity Prices \(1903 to 1956\)](#), Bloomberg commodity price data [\(1956 to 1994\)](#) and [\(1994+\)](#). For M3 money supply, 1903-1958 (1903 starts a 10-yr. CAGR beginning in 1913, the year of the Fed's creation) is from [U.S. Census Bureau - Historical Statistics of the United States - Money Supply](#) and the U.S. Fed provided M3 (1959-2005) and post-2006 **we recompile M3** by adding to M2 components of the former M3 series not in M2, which are: time deposits >\$100k, institutional money funds (*ICI data Post-Fed discontinuation 2021*), repurchase agreements and estimated eurodollars. Stifel estimates.

(1) Artificial Intelligence may lead to productivity, which increases the supply of goods & services relative to commodities/houses/gold, raising the relative price of the latter.

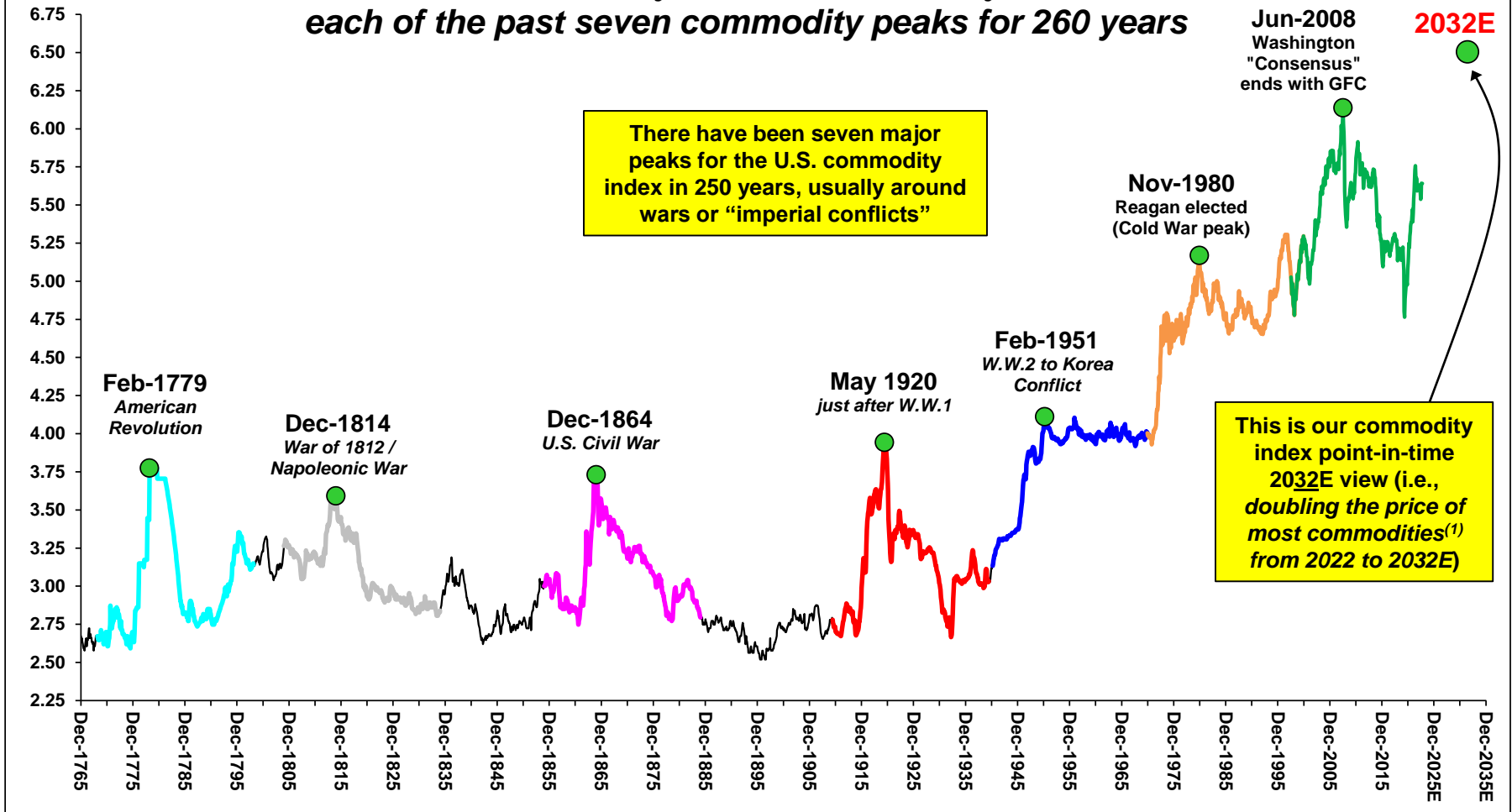
Perhaps ESG in the 2020s stands for “Energy Security & Guns?” Discouraging oil & gas capex only drives up *all* energy costs



Source [thecrudechronicles.substack.com](http://thecrudechronicles.substack.com) compiled from historical oil & gas company annual reports, used with permission.

Separating a commodity "super-cycle" (lasting 10+ years) vs. a shorter cyclical commodity rally requires a 250 year review

## U.S. Commodity Index 7 Prior Peaks (Log-Transformed) Color-coded the 10 years before and 20 years after each of the past seven commodity peaks for 260 years



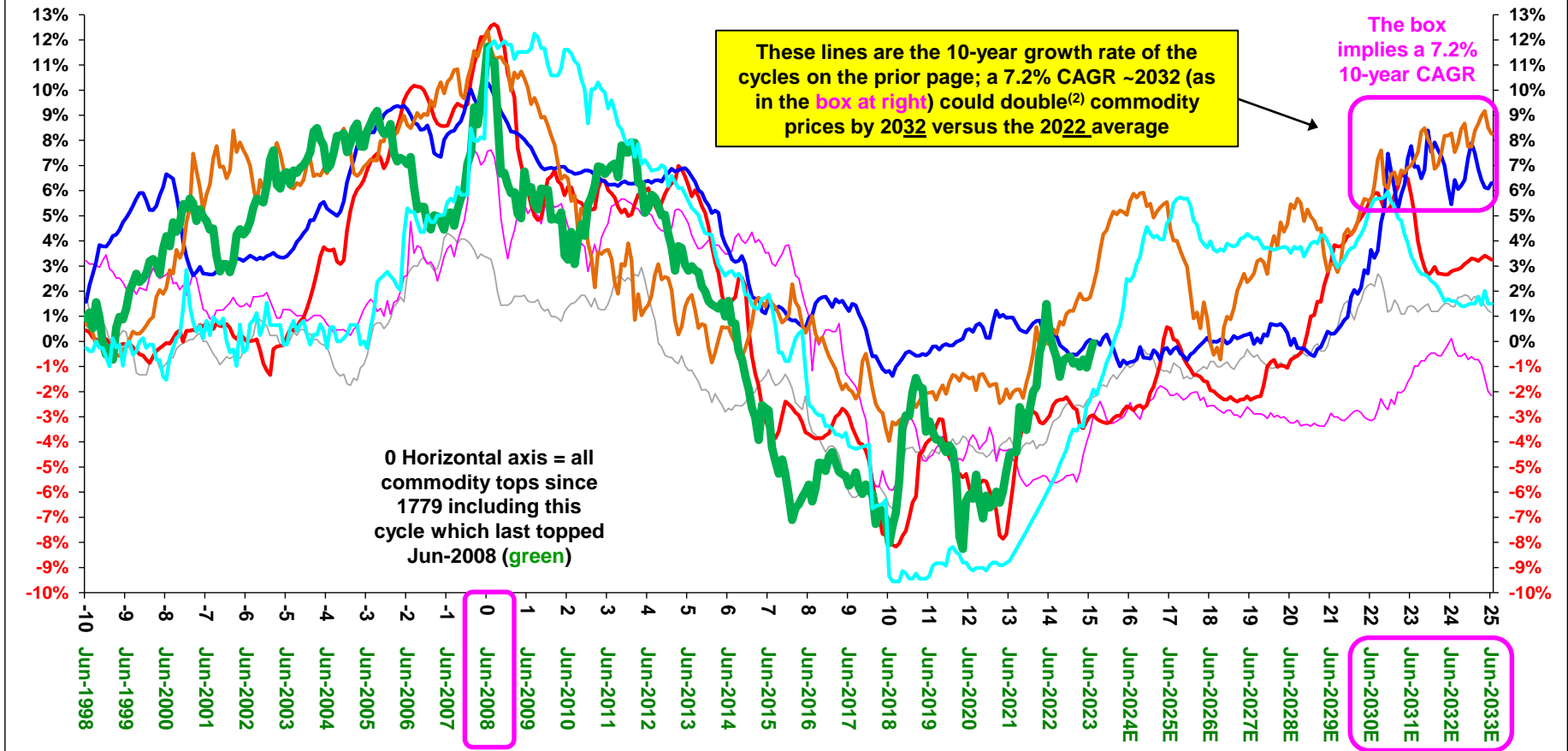
Source: [U.S. Census Bureau - Historical Statistics of the United States](#) (1795 to 1904), [U.S. Federal Reserve Economic Data - Industrial Commodity Prices](#) (1904 to 1956), Bloomberg commodity price data (1956 to 1994) and (1994+) and Stifel estimates to 2032E.

(1) If major commodity indices double from 2022 to 2032E (i.e., a 7.2% CAGR), then 2022 average prices (oil \$99/bbl., copper \$3.99/lb., gold \$1,802) may double by 2032E.

This commodity cycle since 1998 (green line) resembles those of the past 250 years, especially the ones featuring fiat money<sup>(1)</sup>

## Commodity 10-Yr. Growth Rate Before & After the 7 Prior Peaks

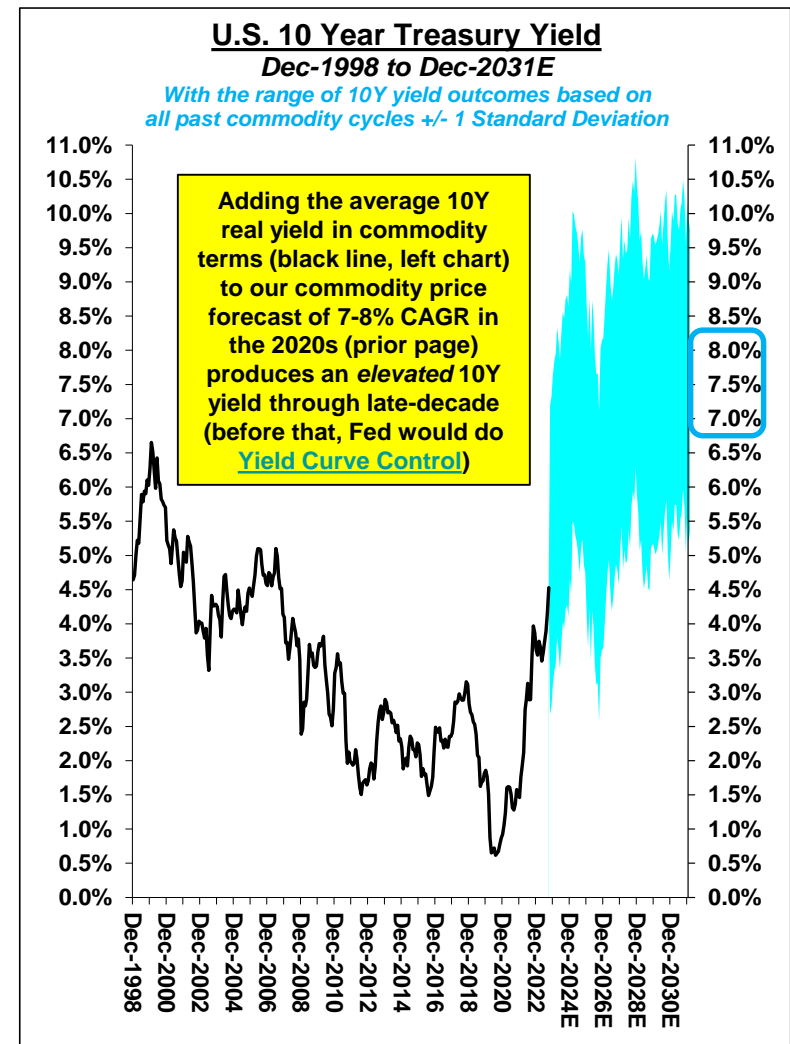
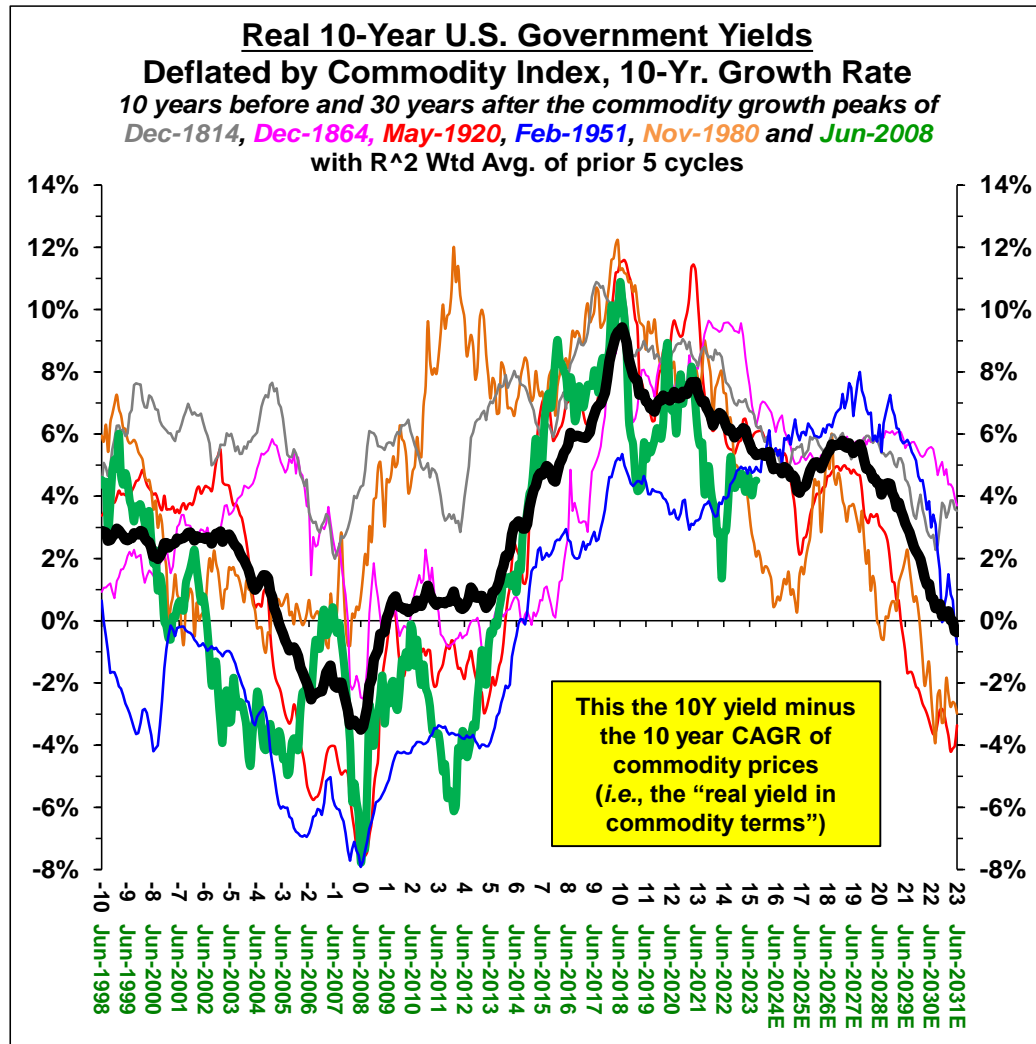
10 years before and 25 years after every commodity index peak in the past 250 years:  
 Feb-1779, Dec-1814, Dec-1864, May-1920, Feb-1951, Nov-1980 and Jun-2008



Source: [U.S. Census Bureau - Historical Statistics of the United States](#), [U.S. Federal Reserve Economic Data - Industrial Commodity Prices](#) (10-year CAGR starting 1904 continuing through 1956), Bloomberg commodity price data (1956 to 1994) and (1994+) and Stifel estimates as notated.

- (1) The cycles (all in the box) with fiat money were the late-1700s (Republic was new) and the three 20<sup>th</sup> Century cycles (after the U.S. left the 19<sup>th</sup> Century gold standard).
- (2) For example, 2022 prices for oil (which averaged \$99/bbl. in 2022), copper (\$3.99/lb. in 2022) and gold (\$1,802 in 2022) may all double by 2032E versus 2022 levels.

Commodities indicate a late-20s 10Y yield 7-8%; since Treasury can't afford that we expect Fed Yield Curve Control (equity bearish<sup>(1)</sup>)



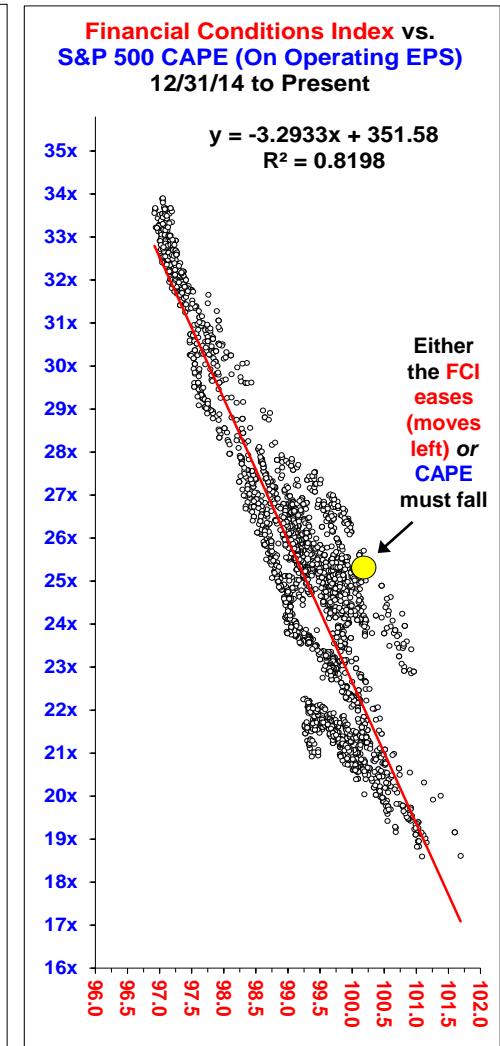
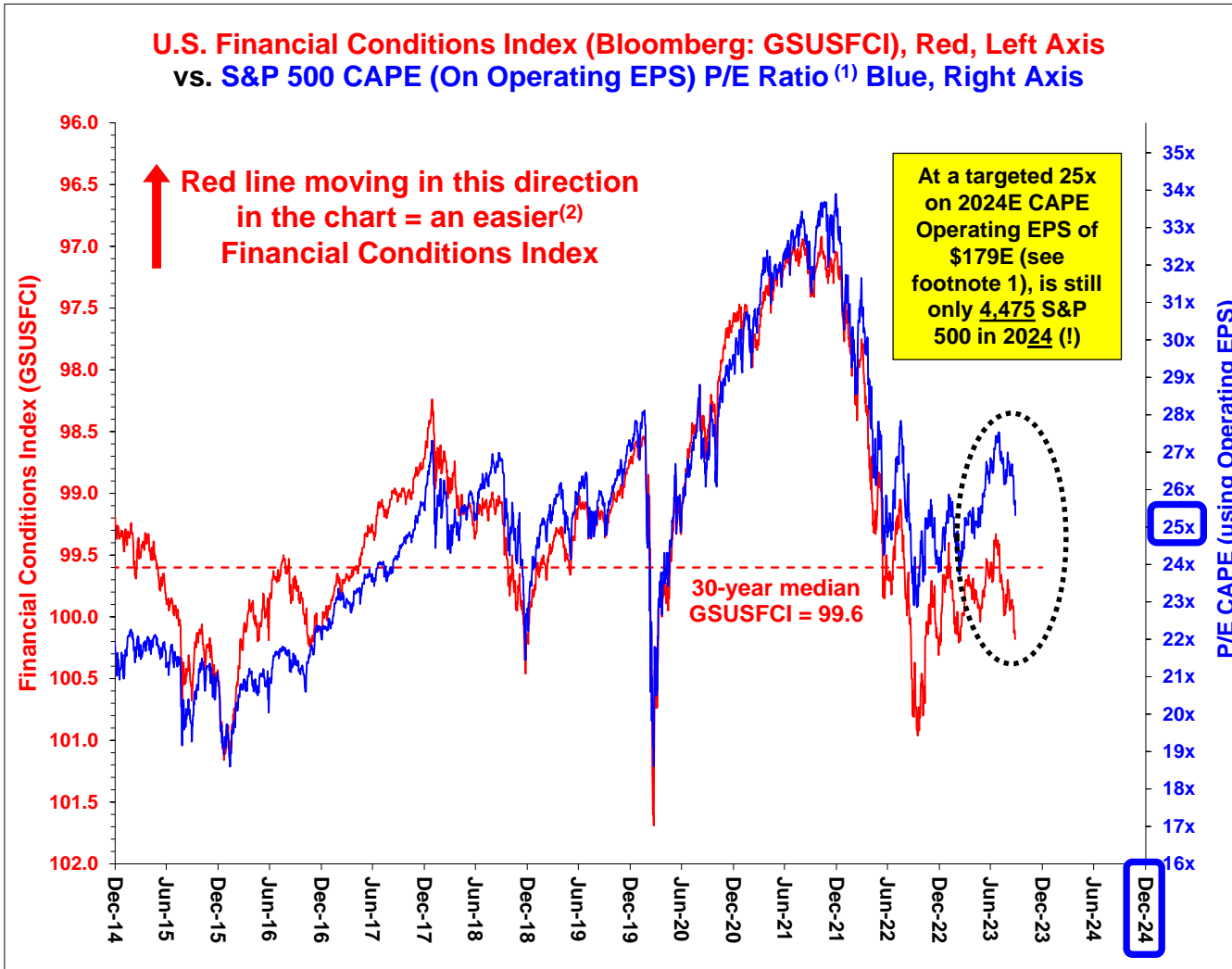
Source: Commodities are [U.S. Census Bureau - Historical Statistics of the United States](#), [U.S. Federal Reserve Economic Data - Industrial Commodity Prices](#) (10-year CAGR starting 1904 continuing through 1956), Bloomberg commodity price data (1956 to 1994) and (1994+). 10Y yield is [Historical Statistics of the United States \(Cambridge Press\)](#) 1804-1870 (major U.S. state bonds before the advent of "long-term" Treasury data, which was also before Federal income taxes), Shiller [data](#) 1871-1961, Bloomberg 1962-present.

(1) Our 12/11/22 report [The gradual then sudden 2020s erosion of Fed independence](#) described Yield Curve Control as negative for equities since it raises Equity Risk Premium.

## Addendum

### **Other Relevant Exhibits for Reference**

**A mid-4,000s S&P 500 may extend well into 2024! S&P 500 P/E is just too high versus the U.S. Financial Conditions Index**

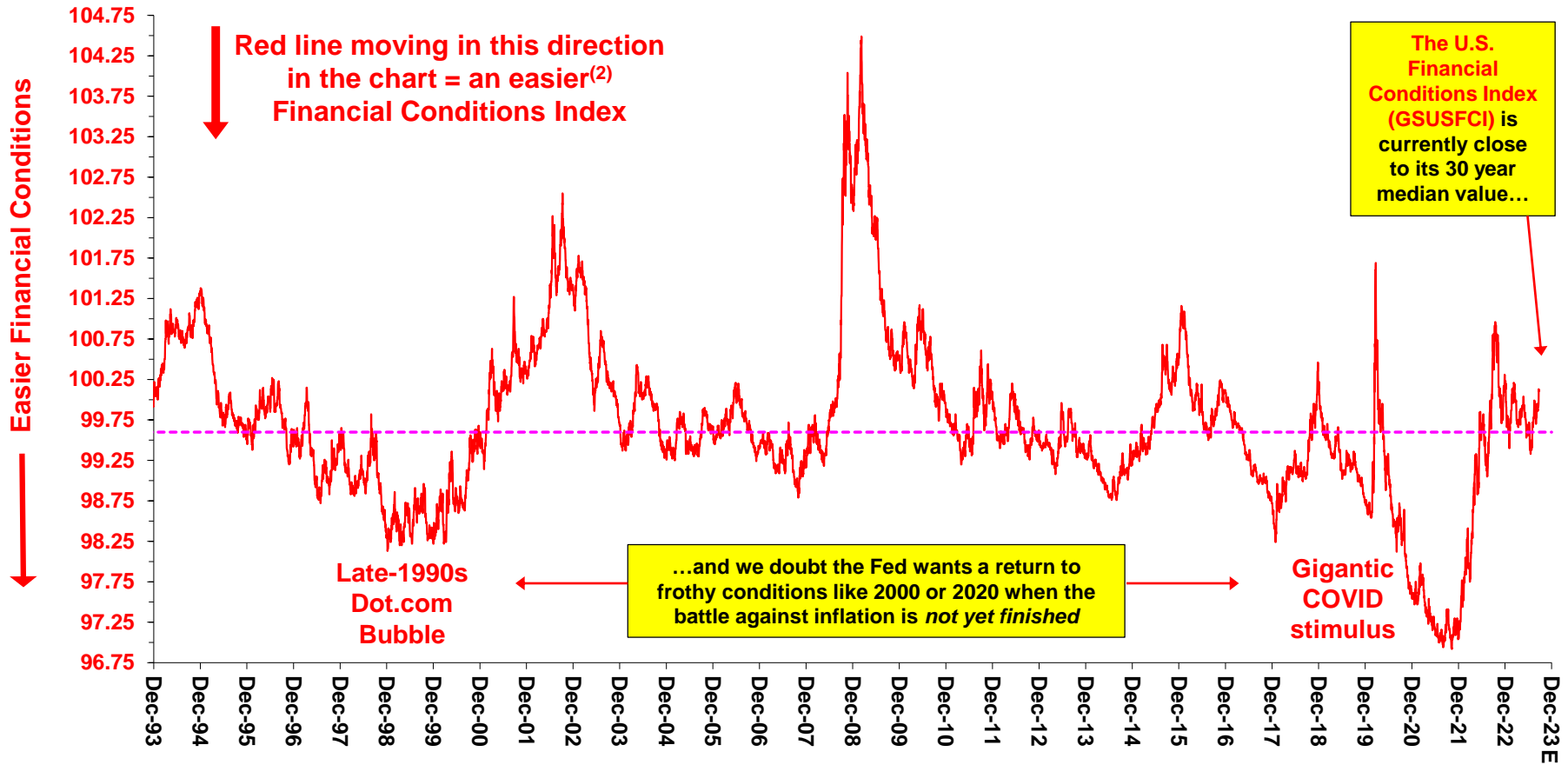


Source: Bloomberg data, Stifel estimates.

- (1) We show a modified CAPE, or inflation-adjusted daily S&P 500 price divided by trailing 10-yr. avg. inflation-adjusted Operating EPS [ \$165 in 2022A, \$173 in 2023E, **\$179 in 2024E** ], which has the highest r2 to forward 10 year total return.
- (2) Financial Conditions ease if: the 10Y (TIPS) real U.S. Treasury yield (Bloomberg: USGGT10Y) falls, if Baa credit spreads (LCB1OAS) narrow, if the Broad Dollar (JBDUSD) falls, if the Fed eases, and if U.S. 10Y breakeven inflation (USGGBE10, which is 10Y yield minus 10Y TIPS real yield) falls.

U.S. Financial Conditions Index (GSUSFCI) is currently near its 30 year median and we see *no reason* for FCI to ease<sup>(1)</sup> in 2H23

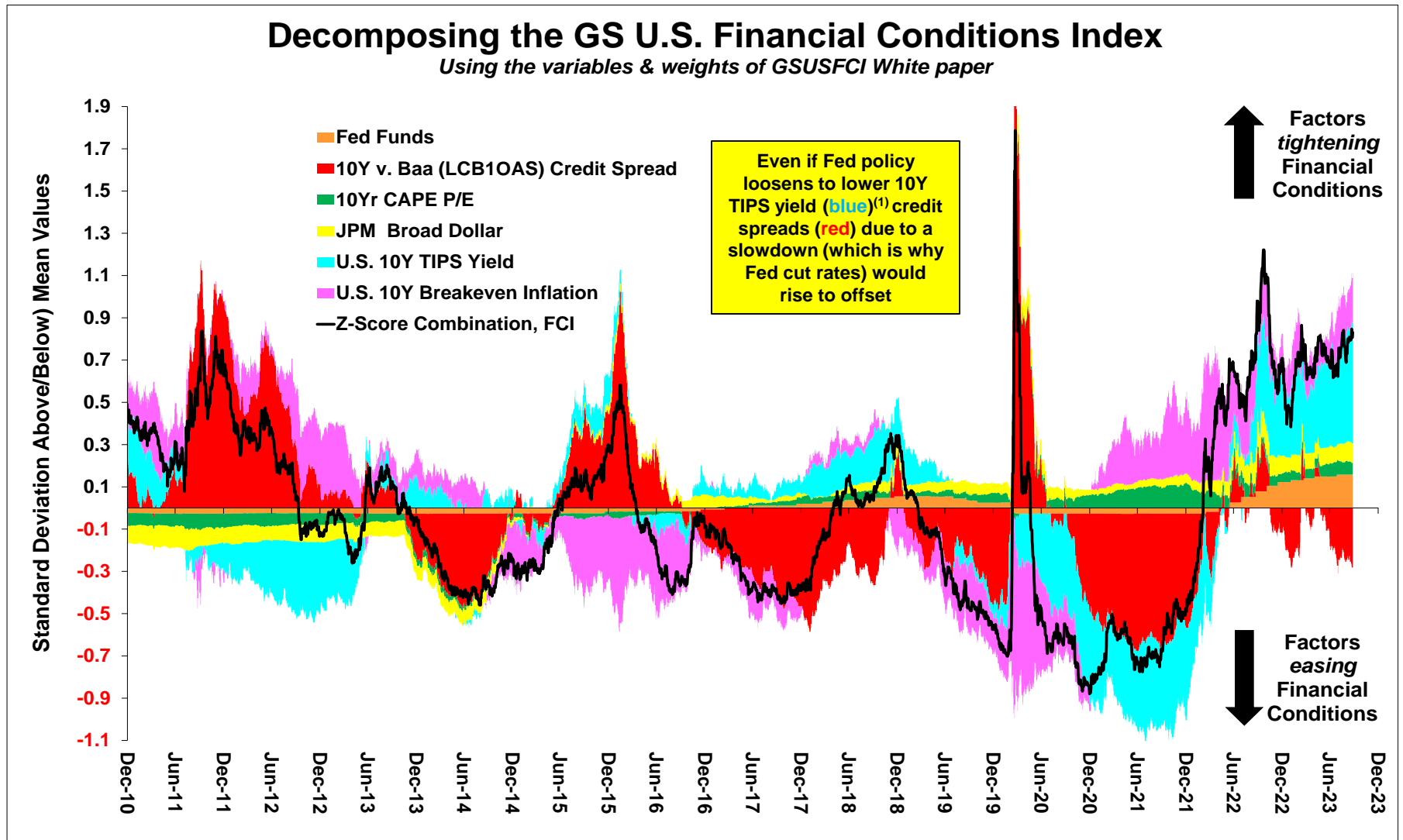
U.S. Financial Conditions Index "FCI" (Bloomberg GSUSFCI) since Dec-1993 (30 years)  
with 30 year median value 99.6 shown (- - -)



Source: Bloomberg data, Stifel estimates.

(1) Financial Conditions ease if: the 10Y (TIPS) real U.S. Treasury yield (Bloomberg: USGGT10Y) falls, if Baa credit spreads (LCB1OAS) narrow, if the Broad Dollar (JBDUSD) falls, if the Fed eases, and if U.S. 10Y breakeven inflation (USGGBE10, which is 10Y yield minus 10Y TIPS real yield) falls.

Why we don't see FCI easing: Even if Fed policy loosens to lower 10Y TIPS yield (blue)<sup>(1)</sup> credit spreads (red) would rise to offset

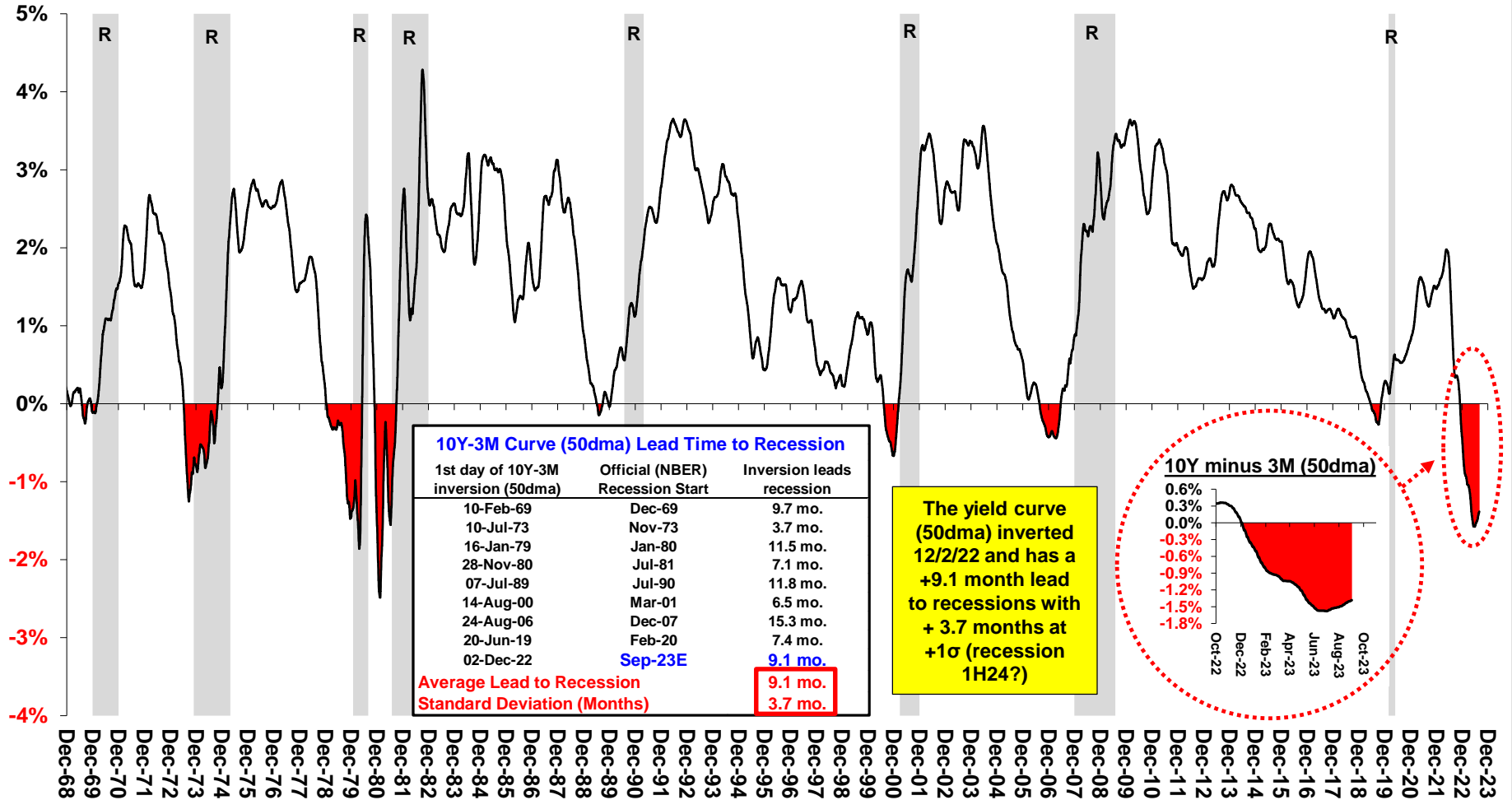


Source: Bloomberg, contributions based on GSUSFCI white paper, standardized (i.e., the number of standard deviations the measured category is above or below the mean).

(1) The average 10Y TIPS since trading began in 1997 is 1.44% (close to the current level) and given the changes to inflation we doubt the Fed seeks a lower 10Y real yield.

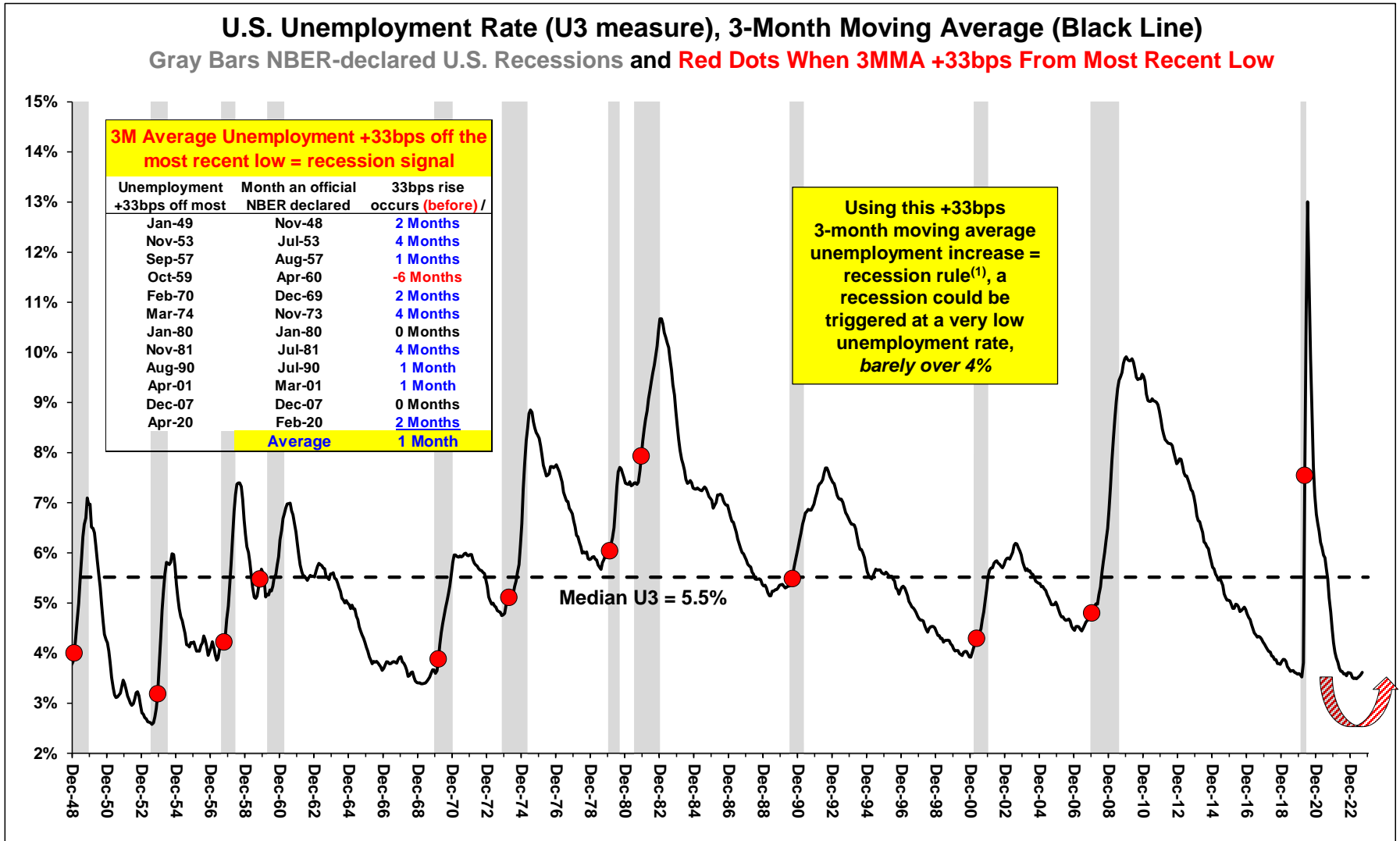
Looking to 2024, the 10Y-3M curve (50dma) inverted Dec-2022 and points to an economy that's on borrowed time to recession

## U.S. 10Y Treasury minus 3M T-Bill Yield Curve [Shown as a 50-day moving average]



Source: Bloomberg data, Stifel estimates.

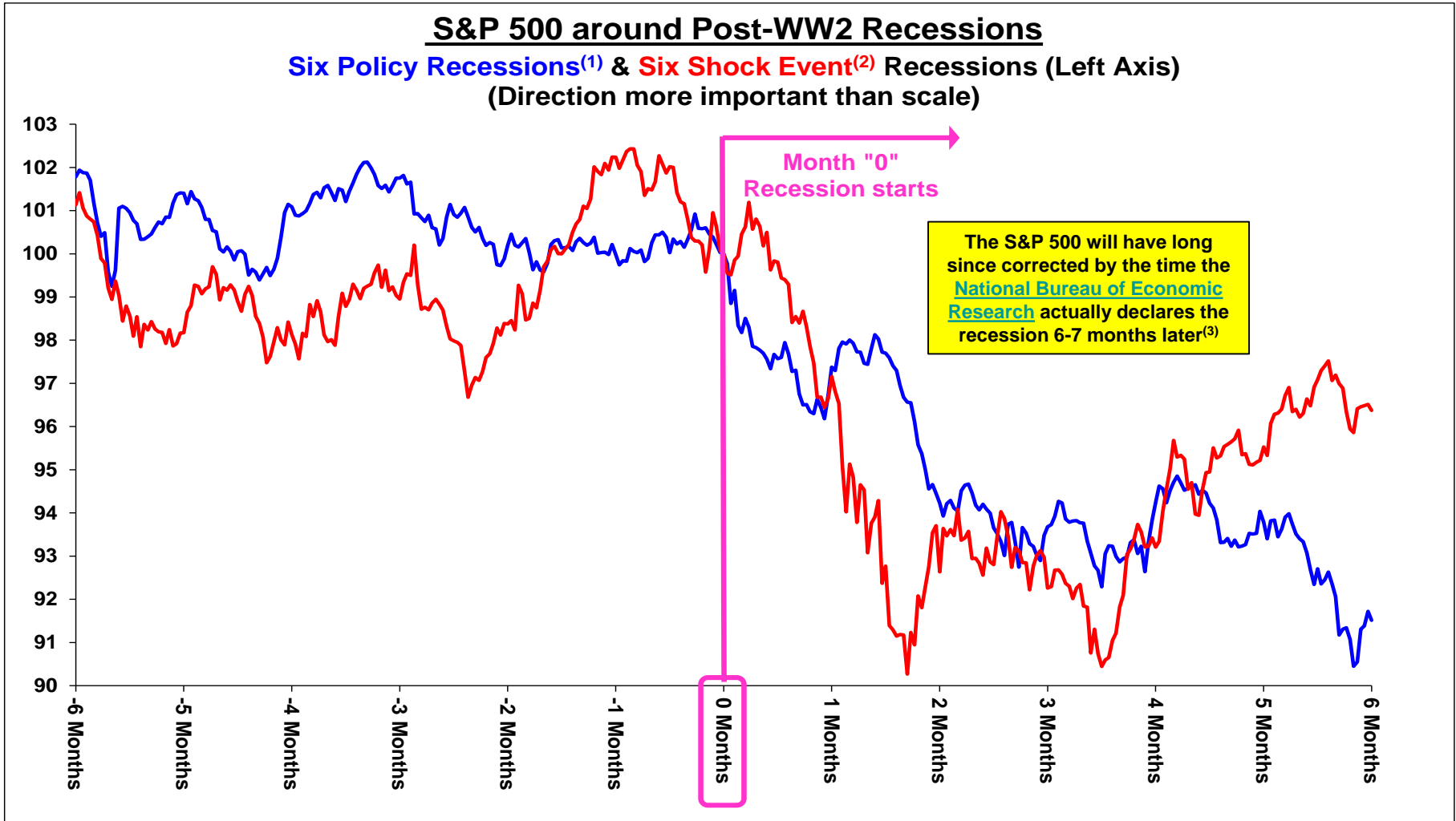
**Employment is the pillar of this economy, and a recession could begin at a very low unemployment rate, barely over 4%**



Source: Bloomberg data, Stifel.

(1) This is a Peter Berezin (BCA Research) modification of the [Sahm Rule](#), an indicator of recessions. Note that recessions are declared by the [National Bureau of Economic Research](#) an average of 6-7 months after they start (that is the average of the past 6 recessions).

Interpretations of a recession are a judgement call, but the market verdict is swift and final, the S&P *immediately* falls



Source: Bloomberg data, Stifel estimates.

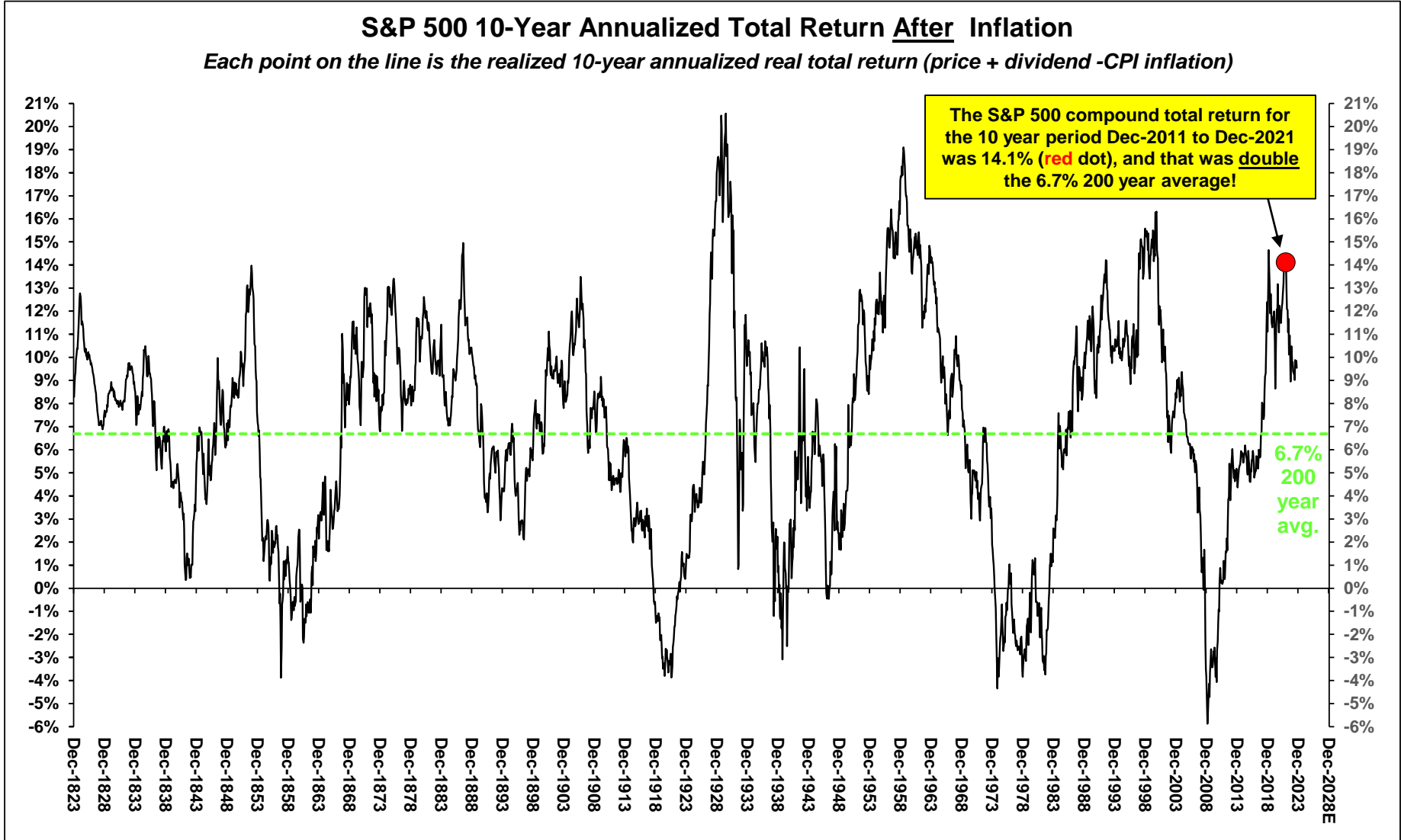
(1) Six Policy recessions: Nov-48, Jul-53, Aug-57 (policy, [1957-58 flu pandemic](#) had a role), Apr-60, Dec-69 (policy, [1968-69 flu pandemic](#) had a role) and Jul-81.

(2) Six Shock Event recessions: Nov-73 (OPEC Oil Embargo), Jan-80 (Iran Revolution 2<sup>nd</sup> oil shock significantly amplified the initial Volcker Policy Shock), Jul-90 (Iraq invaded Kuwait / Gulf War), Mar-01 (Tech Bubble Burst, weakening corporate capex), Dec-07 (Global Financial Crisis) and Feb-20 (COVID-19).

(3) On average since 1980 (6 recession), the NBER lags the start of recession by 6-7 months.



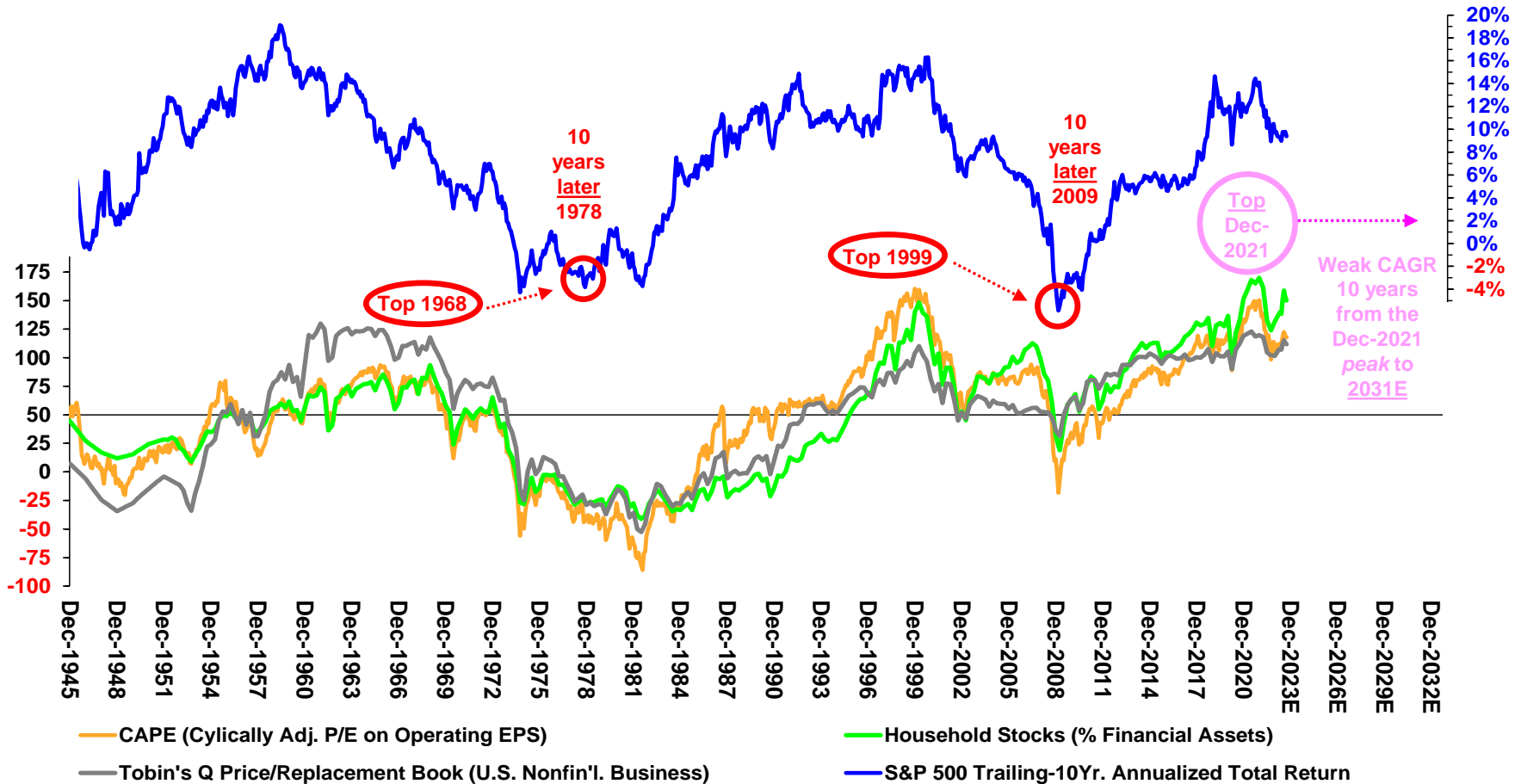
Each point along the line is the stock market annualized return over the prior decade (with dividends reinvested, after inflation)



Source: Stocks Dec-1822 to Dec-1871 [NBER Working Paper #2985](#) G. William Schwert and Jan-1871 to present large cap/S&P 500 price & dividend indices and consumer prices from [Robert Shiller, Yale University](#) and [U.S. Census Bureau Historical Statistics of the United States](#).

Valuation + widespread equity ownership indicate a low S&P 500 return in the 2020s decade, echoing our Barron's 6/28/19 interview

**Forecasting U.S. Large-Cap Total Return: CAPE Ratio (on Operating EPS), Household Stocks (% Household Financial Assets) and Tobin's Q Price/Replacement Book Value (Left Axis, Standardized and Indexed to 50) vs. Trailing 10-Year S&P 500 Annualized Real Total Return [Price + Dividend] (Right Axis), 1945 to Present**



Source: A "flow" variable (CAPE on Operating EPS 1980-present, and pre-1980 Shiller GAAP EPS data grossed up 12.2% to match the historical Operating/GAAP differential), a "stock" variable (Tobin's Q) and a "sentiment" variable (Household stocks, Flow of Funds [b.101.h](https://www.federalreserve.gov/releases/b101/h)) forecast S&P 10 years ahead, Stifel estimates.

## CYCLICAL VALUE (Top 10 market cap each industry)

We're often asked "What stocks dominate Cyclical Value?" ...these are the largest Cyclical Value stocks

S&P 500 Diversified Financials				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
BRK/B UN Equity	BERKSHIRE HATH-B	352.89	\$770	28.7%
V UN Equity	VISA INC-CLASS A	242.03	\$506	18.9%
MA UN Equity	MASTERCARD INC-A	400.34	\$377	14.1%
MS UN Equity	MORGAN STANLEY	83.14	\$138	5.1%
SPGI UN Equity	S&P GLOBAL INC	389.92	\$124	4.6%
AXP UN Equity	AMERICAN EXPRESS	158.94	\$117	4.4%
GS UN Equity	GOLDMAN SACHS GP	320.19	\$109	4.1%
SCHW UN Equity	SCHWAB (CHARLES)	57.50	\$105	3.9%
BLK UN Equity	BLACKROCK INC	673.98	\$101	3.8%
PYPL UW Equity	PAYPAL HOLDINGS	61.98	\$68	2.5%

S&P 500 Capital Goods				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
CAT UN Equity	CATERPILLAR INC	271.34	\$138	6.5%
BA UN Equity	BOEING CO/THE	229.39	\$138	6.5%
HON UW Equity	HONEYWELL INTL	187	\$124	5.9%
RTX UN Equity	RTX CORP	85.85	\$125	5.9%
DE UN Equity	DEERE & CO	388.29	\$114	5.4%
GE UN Equity	GENERAL ELECTRIC	112.98	\$123	5.8%
LMT UN Equity	LOCKHEED MARTIN	453.23	\$114	5.4%
ETN UN Equity	EATON CORP PLC	220.31	\$88	4.1%
ITW UN Equity	ILLINOIS TOOL WO	238.80	\$72	3.4%
NOC UN Equity	NORTHROP GRUMMAN	434.42	\$66	3.1%

S&P 500 Banks				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
JPM UN Equity	JPMORGAN CHASE	146.63	\$426	37.8%
BAC UN Equity	BANK OF AMERICA	28.285	\$225	19.9%
WFC UN Equity	WELLS FARGO & CO	41.32	\$152	13.4%
C UN Equity	CITIGROUP INC	40.98	\$79	7.0%
USB UN Equity	US BANCORP	35.92	\$56	5.0%
PNC UN Equity	PNC FINANCIAL SE	119.36	\$48	4.2%
TFC UN Equity	TRUIST FINANCIAL	28.29	\$38	3.3%
MTB UN Equity	M&T BANK CORP	125.91	\$21	1.9%
FITB UW Equity	FIFTH THIRD BANC	25.04	\$17	1.5%
RF UN Equity	REGIONS FINANCIA	18.63	\$17	1.6%

S&P 500 Transportation				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
UPS UN Equity	UNITED PARCEL-B	168.69	\$144	24.1%
UNP UN Equity	UNION PAC CORP	222.02	\$135	22.6%
FDX UN Equity	FEDEX CORP	258.13	\$65	10.8%
CSX UW Equity	CSX CORP	30.76	\$62	10.3%
NSC UN Equity	NORFOLK SOUTHERN	209.52	\$48	7.9%
ODFL UW Equity	OLD DOMINION FRT	405.85	\$44	7.4%
DAL UN Equity	DELTA AIR LI	41.81	\$27	4.5%
JBHT UW Equity	HUNT (JB) TRANS	189.71	\$20	3.3%
LUV UN Equity	SOUTHWEST AIR	31.51	\$19	3.1%
EXPD UW Equity	EXPEDITORS INTL	114.22	\$17	2.8%

S&P 500 Materials				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
LIN UN Equity	LINDE PLC	377	\$184	19.9%
SHW UN Equity	SHERWIN-WILLIAMS	272.61	\$70	7.6%
APD UN Equity	AIR PRODS & CHEM	283.76	\$63	6.8%
FCX UN Equity	FREEMPORT-MCMORAN	39.24	\$56	6.1%
ECL UN Equity	ECOLAB INC	180.57	\$51	5.6%
NUE UN Equity	NUCOR CORP	168.12	\$42	4.5%
CTVA UN Equity	CORTEVA INC	48.82	\$35	3.8%
DOW UN Equity	DOW INC	53.24	\$37	4.1%
PPG UN Equity	PPG INDS INC	138.19	\$33	3.5%
NEM UN Equity	NEWMONT CORP	39.16	\$31	3.4%

S&P 500 REITs				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
PLD UN Equity	PROLOGIS INC	122.5	\$113	13.2%
AMT UN Equity	AMERICAN TOWER C	177.83	\$83	9.7%
EQIX UW Equity	EQUINIX INC	762.84	\$71	8.3%
PSA UN Equity	PUBLIC STORAGE	277.53	\$49	5.7%
CCI UN Equity	CROWN CASTLE INC	99.3	\$43	5.0%
WELL UN Equity	WELLTOWER INC	80.62	\$42	4.9%
O UN Equity	REALTY INCOME	56.77	\$40	4.7%
SPG UN Equity	SIMON PROPERTY	111.63	\$37	4.3%
DLR UN Equity	DIGITAL REALTY	124.89	\$39	4.5%
VICI UN Equity	VICI PROPERTIES	30.53	\$31	3.6%

S&P 500 Insurance				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
MMC UN Equity	MARSH & MCLENNAN	191.19	\$94	12.0%
CB UN Equity	CHUBB LTD	200.11	\$82	10.5%
PGR UN Equity	PROGRESSIVE CORP	130.15	\$76	9.7%
AON UN Equity	AON PLC-CLASS A	325.84	\$66	8.4%
MET UN Equity	METLIFE INC	61.25	\$46	5.9%
AJG UN Equity	ARTHUR J GALLAGH	224.62	\$48	6.2%
AFL UN Equity	AFLAC INC	73.15	\$43	5.5%
AIG UN Equity	AMERICAN INTERNA	57.23	\$41	5.2%
TRV UN Equity	TRAVELERS COS IN	160.60	\$37	4.7%
PRU UN Equity	PRUDENTL FINL	90.42	\$33	4.2%

S&P 500 Consumer Durables & Apparel				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
NKE UN Equity	NIKE INC -CL B	97.37	\$149	17.2%
DHI UN Equity	DR HORTON INC	118.70	\$40	4.6%
LEN UN Equity	LENNAR CORP-A	117.65	\$33	3.8%
NVR UN Equity	NVR INC	6181.87	\$20	2.3%
GRMN UN Equity	GARMIN LTD	103.74	\$20	2.3%
PHM UN Equity	PULTEGROUP INC	80.85	\$18	2.0%
TPR UN Equity	TAPESTRY INC	33.25	\$8	0.9%
HAS UW Equity	HASBRO INC	67.03	\$9	1.1%
RL UN Equity	RALPH LAUREN COR	112.88	\$7	0.8%
WHR UN Equity	WHIRLPOOL CORP	134.90	\$7	0.9%

## CYCLICAL GROWTH

(Top 10 market cap each industry)

These are the largest  
Cyclical Growth stocks

S&P 500 Media & Entertainment				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
GOOGL US Equity	ALPHABET INC-A	132.62	\$1,677	55.9%
GOOG US Equity	ALPHABET INC-C	133.34	\$1,677	55.9%
META US Equity	META PLATFORMS-A	294.64	\$758	25.3%
NFLX US Equity	NETFLIX INC	433.65	\$192	6.4%
CMCSA US Equity	COMCAST CORP-A	45.51	\$188	6.3%
DIS US Equity	WALT DISNEY CO/T	86.25	\$158	5.3%
ATVI US Equity	ACTIVISION BLIZZ	91.60	\$72	2.4%
CHTR US Equity	CHARTER COMMUN-A	413.45	\$72	2.4%
EA US Equity	ELECTRONIC ARTS	120.94	\$33	1.1%
WBD US Equity	WARNER BROS DISC	12.69	\$31	1.0%

S&P 500 Semiconductors & Semiconductor Equipment				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
NVDA UW Equity	NVIDIA CORP	466.92	\$1,153	42.0%
AVGO UW Equity	BROADCOM INC	873.75	\$361	13.1%
AMD UW Equity	ADV MICRO DEVICE	108.89	\$176	6.4%
TXN UW Equity	TEXAS INSTRUMENT	168.77	\$153	5.6%
INTC UW Equity	INTEL CORP	33.80	\$142	5.2%
QCOM UW Equity	QUALCOMM INC	111.20	\$124	4.5%
AMAT UW Equity	APPLIED MATERIAL	147.91	\$124	4.5%
ADI UW Equity	ANALOG DEVICES	176.67	\$88	3.2%
LRCX UW Equity	LAM RESEARCH	678.25	\$90	3.3%
MU UW Equity	MICRON TECH	64.38	\$71	2.6%

S&P 500 Software & Services				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
MSFT UW Equity	MICROSOFT CORP	328.28	\$2,439	57.1%
ORCL UN Equity	ORACLE CORP	120.04	\$326	7.6%
ADBE UW Equity	ADOBE INC	527.36	\$240	5.6%
CRM UN Equity	SALESFORCE INC	209.85	\$204	4.8%
ACN UN Equity	ACCENTURE PLC-A	313.3	\$198	4.6%
INTU UW Equity	INTUIT INC	497.2	\$139	3.3%
IBM UN Equity	IBM	142.71	\$130	3.0%
NOW UN Equity	SERVICENOW INC	572.75	\$117	2.7%
PANW UW Equity	PALO ALTO NETWOR	236.87	\$72	1.7%
SNPS UW Equity	SYNOPSIS INC	445.62	\$68	1.6%

S&P 500 Consumer Discretionary Distribution & Retail				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
AMZN UW Equity	AMAZON.COM INC	134.89	\$1,392	61.8%
HD UN Equity	HOME DEPOT INC	326.02	\$326	14.5%
LOW UN Equity	LOWE'S COS INC	226.07	\$132	5.8%
TJX UN Equity	TJX COS INC	89.67	\$103	4.6%
ORLY UW Equity	O'REILLY AUTOMOT	943.12	\$57	2.5%
AZO UN Equity	AUTOZONE INC	2456.16	\$45	2.0%
ROST UW Equity	ROSS STORES INC	121.37	\$41	1.8%
TSCO UW Equity	TRACTOR SUPPLY	213.32	\$23	1.0%
EBAY UW Equity	EBAY INC	43.86	\$23	1.0%
ULTA UW Equity	ULTA BEAUTY INC	428.16	\$21	0.9%

S&P 500 Technology Hardware & Equipment				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
AAPL US Equity	APPLE INC	181.16	\$2,832	82.6%
CSCO US Equity	CISCO SYSTEMS	55.67	\$227	6.6%
ANET US Equity	ARISTA NETWORKS	188.4	\$58	1.7%
APH US Equity	AMPHENOL CORP-A	86.2	\$51	1.5%
MSI US Equity	MOTOROLA Solutio	277.3	\$46	1.4%
TEL US Equity	TE CONNECTIVITY	128.46	\$40	1.2%
HPQ US Equity	HP INC	30.96	\$31	0.9%
KEYS US Equity	KEYSIGHT TEC	129.476	\$23	0.7%
GLW US Equity	CORNING INC	32.055	\$27	0.8%
CDW US Equity	CDW CORP/DE	203.25	\$27	0.8%

S&P 500 Automobiles & Components				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
TSLA UW Equity	TESLA INC	234.34	\$744	85.63%
F UN Equity	FORD MOTOR CO	11.88	\$48	5.47%
GM UN Equity	GENERAL MOTORS C	33.08	\$46	5.24%
APTIV UN Equity	APTIV PLC	96.51	\$27	3.14%
BWA UN Equity	BORGWARNER INC	39.53	\$9	1.07%

## DEFENSIVE VALUE

(Top 10 market cap each industry)

These are the largest  
Defensive Value stocks

S&P 500 Health Care Equipment & Services				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
UNH UN Equity	UNITEDHEALTH GRP	485.08	\$449	21.7%
ABT UN Equity	ABBOTT LABS	100.8	\$175	8.4%
SYK UN Equity	STRYKER CORP	290.38	\$110	5.3%
MDT UN Equity	MEDTRONIC PLC	79.92	\$106	5.1%
ELV UN Equity	ELEVANCE HEALTH	449.83	\$106	5.1%
ISRG UW Equity	INTUITIVE SURGIC	299.45	\$105	5.1%
CVS UN Equity	CVS HEALTH CORP	65.42	\$84	4.1%
CI UN Equity	THE CIGNA GROUP	281.28	\$83	4.0%
BSX UN Equity	BOSTON SCIENTIFC	53.94	\$79	3.8%
BDX UN Equity	BECTON DICKINSON	267.10	\$77	3.7%

S&P 500 Utilities				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
NEE UN Equity	NEXTERA ENERGY	66.16	\$134	14.8%
SO UN Equity	SOUTHERN CO	67.28	\$73	8.1%
DUK UN Equity	DUKE ENERGY CORP	89.54	\$69	7.6%
SRE UN Equity	SEMPRA	70.58	\$44	4.9%
EXC UW Equity	EXELON CORP	40.65	\$40	4.5%
AEP UW Equity	AMERICAN ELECTRI	77.27	\$40	4.4%
D UN Equity	DOMINION ENERGY	46.10	\$39	4.3%
PCG UN Equity	PG&E CORP	16.87	\$35	3.9%
CEG UW Equity	CONSTELLATION EN	108.96	\$35	3.9%
XEL UW Equity	XCEL ENERGY INC	56.69	\$31	3.4%

S&P 500 Energy				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
XOM UN Equity	EXXON MOBIL CORP	114.19	\$457	26.4%
CVX UN Equity	CHEVRON CORP	166.92	\$312	18.0%
COP UN Equity	CONOCOPHILLIPS	121.87	\$146	8.4%
SLB UN Equity	SCHLUMBERGER LTD	60.98	\$87	5.0%
EOG UN Equity	EOG RESOURCES	131.81	\$77	4.4%
MPC UN Equity	MARATHON PETROLE	150.46	\$60	3.5%
OXY UN Equity	OCCIDENTAL PETE	64.59	\$57	3.3%
PXD UN Equity	PIONEER NATURAL	239.2	\$56	3.2%
PSX UN Equity	PHILLIPS 66	118.87	\$53	3.1%
HES UN Equity	HESS CORP	158.51	\$49	2.8%

S&P 500 Commercial Professional Services				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
ADP UW Equity	AUTOMATIC DATA	250.47	\$103	19.9%
WM UN Equity	WASTE MANAGEMENT	156.60	\$63	12.3%
CTAS UN Equity	CINTAS CORP	497.53	\$51	9.8%
RSG UN Equity	REPUBLIC SVCS	146.70	\$46	9.0%
PAYX UN Equity	PAYCHEX INC	120.20	\$43	8.4%
CPRT UN Equity	COPART INC	44.59	\$43	8.2%
VRSK UN Equity	VERISK ANALYTI	245.71	\$36	6.9%
EFX UN Equity	EQUIFAX INC	202.24	\$25	4.8%
BR UN Equity	BROADRIDGE FINL	187.34	\$22	4.3%
ROL UN Equity	ROLLINS INC	36.00	\$18	3.4%

S&P 500 Food, Beverage & Tobacco				
Ticker	Company	Price	Market Cap (\$ Blns)	Weight
KO UN Equity	COCA-COLA CO/THE	58.53	\$253	19.5%
PEP UW Equity	PEPSICO INC	176.37	\$243	18.7%
PM UN Equity	PHILIP MORRIS IN	93.24	\$145	11.2%
MDLZ UN Equity	MONDELEZ INTER-A	70.03	\$95	7.4%
MO UN Equity	ALTRIA GROUP INC	43.62	\$77	6.0%
MNST UN Equity	MONSTER BEVERAGE	56.685	\$59	4.6%
STZ UN Equity	CONSTELLATION-A	259.28	\$48	3.7%
KDP UN Equity	KEURIG DR PEPPER	33.295	\$47	3.6%
HSY UN Equity	HERSHEY CO/THE	209.2	\$43	3.3%
ADM UN Equity	ARCHER-DANIELS	78.17	\$42	3.2%

## DEFENSIVE GROWTH (Top 10 market cap each industry)

These are the largest  
Defensive Growth stocks

### S&P 500 Pharmaceutical Biotech & Life Sciences

Ticker	Company	Price	Market Cap (\$ Blns)	Weight
LLY UN Equity	ELI LILLY & CO	573.65	\$545	18.3%
JNJ UN Equity	JOHNSON&JOHNSON	160.51	\$385	12.9%
MRK UN Equity	MERCK & CO	107.82	\$274	9.2%
ABBV UN Equity	ABBVIE INC	148.67	\$262	8.8%
TMO UN Equity	THERMO FISHER	532.14	\$205	6.9%
PFE UN Equity	PFIZER INC	34.23	\$193	6.5%
DHR UN Equity	DANAHER CORP	255.49	\$189	6.3%
AMGN UW Equity	AMGEN INC	254.22	\$136	4.6%
BMY UN Equity	BRISTOL-MYER SQB	60.00	\$125	4.2%
GILD UW Equity	GILEAD SCIENCES	74.02	\$92	3.1%

### S&P 500 Household & Personal Products

Ticker	Company	Price	Market Cap (\$ Blns)	Weight
PG UN Equity	PROCTER & GAMBLE	153.82	\$363	62.2%
CL UN Equity	COLGATE-PALMOLIV	73.70	\$61	10.5%
EL UN Equity	ESTEE LAUDER	155.74	\$56	9.6%
KMB UN Equity	KIMBERLY-CLARK	127.29	\$43	7.4%
CHD UN Equity	CHURCH & DWIGHT	96.56	\$24	4.1%
CLX UN Equity	CLOROX CO	156.29	\$19	3.3%

### S&P 500 Food Staples & Retailing

Ticker	Company	Price	Market Cap (\$ Blns)	Weight
WMT UN Equity	WALMART INC	163.1	\$439	50.2%
COST UW Equity	COSTCO WHOLESALE	548.56	\$243	27.8%
TGT UN Equity	TARGET CORP	124.37	\$57	6.6%
SYU UN Equity	SYSCO CORP	68.92	\$35	4.0%
KR UN Equity	KROGER CO	45.3	\$33	3.7%
DG UN Equity	DOLLAR GENERAL C	123.51	\$27	3.1%
DLTR UW Equity	DOLLAR TREE INC	116.16	\$26	2.9%
WBA UW Equity	WALGREENS BOOTS	21.995	\$19	2.2%

### S&P 500 Telecommunications

Ticker	Company	Price	Market Cap (\$ Blns)	Weight
TMUS UW Equity	T-MOBILE US INC	137.67	\$162	39.9%
VZ UN Equity	VERIZON COMMUNIC	33.83	\$142	35.0%
T UN Equity	AT&T INC	14.68	\$105	25.8%

### S&P 500 Consumer Services

Ticker	Company	Price	Market Cap (\$ Blns)	Weight
MCD UN Equity	MCDONALDS CORP	278.17	\$203	25.8%
BKNG UW Equity	BOOKING HOLDINGS	3120.69	\$111	14.2%
SBUX UW Equity	STARBUCKS CORP	95.33	\$109	13.9%
MAR UN Equity	MARRIOTT INTL-A	199.62	\$60	7.6%
CMG UN Equity	CHIPOTLE MEXICAN	1959.46	\$54	6.9%
HLT UN Equity	HILTON WORLDWIDE	147.98	\$39	4.9%
LVS UN Equity	LAS VEGAS SANDS	49.85	\$38	4.9%
YUM UN Equity	YUM! BRANDS INC	126.7	\$36	4.5%
RCL UN Equity	ROYAL CARIBBEAN	96.75	\$25	3.2%
CCL UN Equity	CARNIVAL CORP	15.26	\$19	2.4%



Barry B. Bannister, CFA  
 Chief Equity Strategist  
 Institutional Equity Division  
 Managing Director,  
 Equity Research, Stifel  
[bbannister@stifel.com](mailto:bbannister@stifel.com)

## Role

- Chief Equity Strategist for Stifel Institutional Equity Division 2011 → Present
- Sell-side Machinery and Engineering (E&C) industry analyst 1992-2010
- Buy-side equity analyst (Consumer Staples, Financials, Industrials) 1987-1992

## Firms

- Stifel / Legg Mason (a predecessor firm), Baltimore MD 1998 → Present
- UK/Swiss S.G. Warburg & Co. and Swiss Bank Corp. (now UBS), NY City 1992-1998
- Two separate buy-side investment management firms, 1987-1992

## Other

- 5x *Institutional Investor* magazine 'All Star' Analyst (Engineering or Machinery)
- 6x *Wall Street Journal* 'Best on the Street' award (Engineering or Machinery)
- 6x *Forbes / Financial Times / StarMine* 'All Star' Analyst award (Industrials)
- CFA 1991 (#14,119); Bachelor Science (1984), M.B.A. (1987) Emory Univ., Atlanta GA



Thomas R. Carroll, CFA  
 Institutional Equity Division  
 Associate Vice President,  
 Equity Research, Stifel  
[carrollt@stifel.com](mailto:carrollt@stifel.com)

## Role

- Associate Vice President, Institutional Equity Strategy 2018 → Present

## Firms

- Stifel Financial, New York City 2018 → Present

## Other

- CFA charter 2021 ; B.S. Finance, Wake Forest University (2018)

### Important Disclosures and Certifications

I, Barry Bannister, research analyst, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Barry Bannister, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Our European Policy for Managing Research Conflicts of Interest is available at [www.stifel.com/institutional/ImportantDisclosures](http://www.stifel.com/institutional/ImportantDisclosures).

The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

### Investment Rating System

Our investment rating system is defined as follows:

**Buy** - We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**Speculative Buy**<sup>1</sup> - We expect a total return of greater than 30% over the next 12 months, with total return equal to the percentage price change plus dividend yield, accompanied by substantially higher than normal risk including the possibility of a binary outcome.

**Hold** - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**Sell** - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Occasionally, we use the ancillary rating of **Suspended (SU)** to indicate a long-term suspension in rating and/or target price, and/or coverage due to applicable regulations or Stifel policies. Alternatively, **Suspended** may indicate the analyst is unable to determine a "reasonable basis" for rating/target price or estimates due to lack of publicly available information or the inability to quantify the publicly available information provided by the company and it is unknown when the outlook will be clarified. **Suspended** may also be used when an analyst has left the firm.

<sup>1</sup> This rating is only utilized by Stifel Canada.

Of the securities we rate, 54% are rated Buy, 1% are rated Speculative Buy, 24% are rated Hold, 1% are rated Sell and 20% are rated Suspended.

Within the last 12 months, Stifel or an affiliate has provided investment banking services for 14%, 4%, 7% and 4% of the companies whose shares are rated Buy (includes Speculative Buy), Hold, Sell and Suspended, respectively.

Within the last 12 months, Stifel or an affiliate has provided material services for 31%, 36%, 20%, 29% and 14% of the companies whose shares are rated Buy, Speculative Buy, Hold, Sell and Suspended, respectively.

The securities of the company or companies mentioned in this report may not be registered in certain states or other jurisdictions and as a result, the securities may not be eligible for sale in some states or jurisdictions. Additionally, the securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. The information contained herein is not an offer to sell or the solicitation of an offer to buy any security in any state or jurisdiction where such an offer or solicitation would be prohibited.

### Additional Disclosures

Please visit the Research Page at [www.stifel.com](http://www.stifel.com) for the current research disclosures and respective target price methodology applicable to the companies mentioned in this publication that are within the Stifel coverage universe. For a discussion of risks and changes to target price including basis of valuation or methodology please see our stand-alone company reports and notes for all stocks.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are as of the date of this publication and are subject to change without notice. These opinions do not constitute a personal recommendation and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of Stifel, or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed within. Stifel or any of its affiliates may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market or otherwise and may sell to or buy from customers such securities on a principal basis; such transactions may be contrary to recommendations in this report. Past performance should not and cannot be viewed as an indicator of future performance. Unless otherwise noted, the financial instruments mentioned in this report are priced as of market close on the previous trading day and presumed performance is calculated always over the next 12 months.

As a multi-disciplined financial services firm, Stifel regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as a placement agent in private transactions.

### Affiliate Disclosures

References to “**Stifel**” (collectively “Stifel”) refer to SFC and other associated affiliated subsidiaries including (i) Stifel, Nicolaus & Company, Incorporated (“**SNC**”); (ii) Keefe, Bruyette & Woods, Incorporated (“**KBWI**”), which are both U.S. broker-dealers registered with the United States Securities and Exchange Commission (“**SEC**”) and members of the Financial Industry National Regulatory Authority (“**FINRA**”), respectively; (iii) Stifel Nicolaus Canada, Incorporated. (“**Stifel Canada**”), which is authorised and regulated by the Canadian Investment Regulatory Organization (“**CIRO**”), and also trades under the names “**Stifel GMP**” and/or “**Stifel FirstEnergy**”; (iv) Stifel Nicolaus Europe Limited (“**SNEL**”), which is authorised and regulated by the Financial Conduct Authority (“**FCA**”) (FRN 190412) and is a member of the London Stock Exchange and also trades under the name Keefe, Bruyette & Woods Europe (“**KBW Europe**”); (v) Stifel Europe Bank AG (“**SEBA**”), which is regulated by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; “**BaFin**”) and is a member of Deutsche Boerse and SIX Swiss Exchange and (vi) Stifel Schweiz AG (“**STSA**”), which is representative of SEBA in Switzerland and regulated by the Eidgenössische Finanzmarktaufsicht (“**FINMA**”). SNEL, SEBA and STSA are collectively referred to as **Stifel Europe**.

**Registration of non-US Analysts:** Any non-US research analyst employed by Stifel contributing to this report is not registered/qualified as a research analyst with FINRA and is not an associated person of the US broker-dealer and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

**Global Research Notes:** Research analysts contributing content to these reports are subject to different regulatory requirements based on the jurisdiction in which they operate. Clients seeking additional information should contact the Stifel entity through which they conduct business.

**SEBA & STSA Sponsored research:** At SEBA & STSA, analysts may produce issuer paid research ('sponsored research'). This research is produced by analysts in accordance with local regulatory requirements relating to such research. In certain jurisdictions, this issuer paid research may be deemed to be independent research albeit not produced to the same conflicts of interest standards required by all jurisdictions for independent research. Where research has been paid for by an issuer, this will be clearly labelled. Please see our [European Policy for Managing Research Conflicts of Interest](#) for additional information.

### Country Specific and Jurisdictional Disclosures

**United States:** Research produced and distributed by Stifel Europe is distributed by Stifel Europe to "Major US Institutional Investors" as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended. SNC may also distribute research prepared by Stifel Europe directly to US clients, including US clients that are not Major US Institutional Investors. In these instances, SNC accepts responsibility for the content. Stifel Europe is a non-US broker-dealer and accordingly, any transaction by a US client in the securities discussed in the document must be effected by SNC. US clients wishing to place an order should contact their SNC representative.

**UK:** This report is distributed in the UK by SNEL, which is authorised and regulated by the Financial Conduct Authority (FCA). In these instances, SNEL accepts responsibility for the content. Research produced by Stifel Europe is not intended for use by and should not be made available to retail clients as defined by the FCA.

**European Economic Area (EEA):** This report is distributed in the EEA by SEBA, which is authorized and regulated by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; "BaFin"). In these instances, SEBA accepts responsibility for the content. Research produced by Stifel Europe is not intended for use by and should not be made available to retail clients as defined under MiFID II.

The complete preceding 12-month recommendations history related to recommendation(s) in this research report is available at <https://stifel2.bluematrix.com/sellside/MAR.action>

**Australia:** Research produced by Stifel is distributed by SNEL under the Australian Securities and Investments Commission ("ASIC") Class Order [CO 03/1099] exemption from the requirement to hold an Australian Financial Services Licence ("AFSL"). This research may only be distributed to a "Wholesale Client" within the meaning of section 761G of the Corporations Act 2001 (Cth).

**Brunei:** This document has not been delivered to, registered with or approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance or the Autoriti Monetari Brunei Darussalam. This document and the information contained within will not be registered with any relevant Brunei Authorities under the relevant securities laws of Brunei Darussalam. The interests in the document have not been and will not be offered, transferred, delivered or sold in or from any part of Brunei Darussalam. This document and the information contained within is strictly private and confidential and is being distributed to a limited number of accredited investors, expert investors and institutional investors under the Securities Markets Order, 2013 ("Relevant Persons") upon their request and confirmation that they fully understand that neither the document nor the information contained within have been approved or licensed by or registered with the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Autoriti Monetari Brunei Darussalam or any other relevant governmental agencies within Brunei Darussalam. This document and the information contained within must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the document or information contained within is only available to, and will be engaged in only with Relevant Persons.

**Canada:** Stifel Canada is a member of CIRO and a participant of the TSX, and TSX Venture Exchange. All relevant disclosures required by regulatory rules (including CIRO) and Stifel Canada's recommendation statistics and research dissemination policies can be obtained at [www.Stifel.com/Research](http://www.Stifel.com/Research) or by calling Stifel Canada's Compliance Department. Stifel Canada will provide, upon request, a statement of its financial condition and a list of the names of its Directors and senior officers. Research produced by Stifel Europe is distributed in Canada by Stifel Canada. This material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "permitted client" as defined under applicable Canadian securities laws. **58**

**Republic of South Africa:** Research produced by Stifel is distributed by SNEL to “Clients” as defined in FSCA FAIS Notice 20 of 2018 (the “FAIS Notice”) issued by the Financial Sector Conduct Authority. Research distributed by SNEL is pursuant to an exemption from the licensing requirements under Section 7(1) of the Financial Advisory and Intermediary Services Act, 2002.

In jurisdictions where Stifel is not already licensed or registered to trade securities, transactions will only be affected in accordance with local securities legislation which will vary from jurisdiction to jurisdiction and may require that a transaction is carried out in accordance with applicable exemptions from registration and licensing requirements. Non-US customers wishing to effect transactions should contact a representative of the Stifel entity in their regional jurisdiction except where governing law permits otherwise. US customers wishing to effect transactions should contact their US salesperson.

The securities discussed in this report may not be available for sale in all jurisdictions and may have adverse tax implications for investors. Clients are advised to speak with their legal or tax advisor prior to making an investment decision.

### **Additional Information Is Available Upon Request**

© 2023 Stifel. This report is produced for the use of Stifel customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Stifel.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. The most recent research and all applicable disclosures may be accessed by accessing Research Page at [www.stifel.com](http://www.stifel.com). Additional information available upon request.