S&P 500 in 2026 in a 6,500-7,500 corridor as macro uncertainty persists

Summary

With Stifel Strategy having fallen into a bear trap after the tariff pivot in April 2025, we approach 2026 in terms of upside potential versus downside risk. The corridor we calculate is 6,500 to 7,500 for the S&P 500 in 2026. The bull case for stocks is based on low-teens S&P 500 EPS growth and only one multiple of normal S&P 500 P/E compression as non-tech cyclical earnings, which have been under pressure, come through. The bull case in 2026 is thus just over +9% price, or around 7,500 for the S&P 500. The bear case remains potential macro trends, with pressure on real personal consumption (68% of GDP, too large be offset by AI capex) and risk for unemployment/recession if slowing labor demand exceeds what has been fortuitously slowing labor supply growth. Any flare-up for economic risk could result in corrections in 2026. As macro uncertainty persists, we recommend hedging existing "Big Tech" Cyclical Growth exposure with Defensive Growth and Defensive Value industry groups, and list Stifel analyst Buy-rated stocks in the latter two categories.

Key Points

S&P 500 6,850 (Intra-day Dec-9, 2025)

What is bull case? EPS +13% in 2026E with a small P/E pull-back is ~7,500 or +9% for S&P 500 (p. 2-7)

- We note that +9% is just the average annual S&P 500 price gain in the past 60 years (p. 3)
- "Don't fight the Fed" is true (but it does not work if the Fed *already* made a mistake) (p. 4)
- The 2025 tax law (even with tariffs) likely adds +50bps of padding to middle-2026 GDP (p. 5)
- Big Tech's massive economic profit has led to a completely different, concentrated S&P 500 (p. 6)
- Is it a Bubble? Not yet, the S&P 500 still 37% below its 2-century trend potential peak (p. 7)

What is bear case? Shaky consumer is 68% of GDP, a 25% recession probability is 6,500 (-5%) S&P 500 (p. 8-13)

- Fed is aware, but recessions are typically surprises and GDP has not escaped danger (p. 9)
- Labor looks tenuous in 2026 and AI capex is not enough to offset a consumer pull-back (p. 10)
- P/E doesn't matter…until it's only thing that matters; S&P 500 is expensive with a fat ERP tail (p. 11)
- Speculative & over-priced assets tend to lead the way down, and have already tumbled (p. 12)
- Hyperscaler's capex is eroding their cash flow, and turning to debt has pressured their P/E ratios (p. 13)

Tactical: Hedge Tech Cyclical Growth with Defensives amid slowdown risk and high cyclical optimism (p. 14-21)

- The AI-driven capex surge in 2025 massively boosted "Big Tech" within Cyclical Growth, generating substantial economic profits that are expected to carry over initially into 2026
- Given our concerns about a slowing economy and the unusually high Cyclical vs. Defensive divergence (Big Tech alone has propelled "Cyclicals") vs. GDP, we would hedge Cyclical Growth exposure with Defensives (e.g., Healthcare, Staples, gold, Waste, Software)

Appendices (p. 23-42):

1. Some analysts see a smooth hand-off to broad cyclical growth (we do not) (p. 23-27)
2. Near-term cautious signals are being sent by various *non*-equity assets (p. 28-32)
3. Inflation progress in 2026E only returns to post-Cold War, early-1990s levels (p. 33-37)
4. High deficits plus bottoming commodities signal pressure on Growth leadership (p. 38-42)

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In our view:

What is the Bull Case?

- **EPS +13% in 2026E with a small P/E pull-back is ~7,500 or +9% for S&P 500**
- **Note that +9% is just the *average* annual S&P 500 price gain *the past 60 years***
- **“Don’t fight the Fed” is true (but does not work if Fed *already* made a mistake)**
- **2025 tax law (even with tariffs) may add +50bps of padding to middle-‘26 GDP**
- **Big Tech’s *massive* economic profit[(1)] has led to *completely different* S&P 500**
- **Is it a *Bubble*? No, S&P 500 still 37% *below* its 2-century trend *potential* peak**

Source: Stifel Research.

(1) Economic profit is Return on Invested Capital (ROIC) minus Weighted Average Cost of Capital (WACC).

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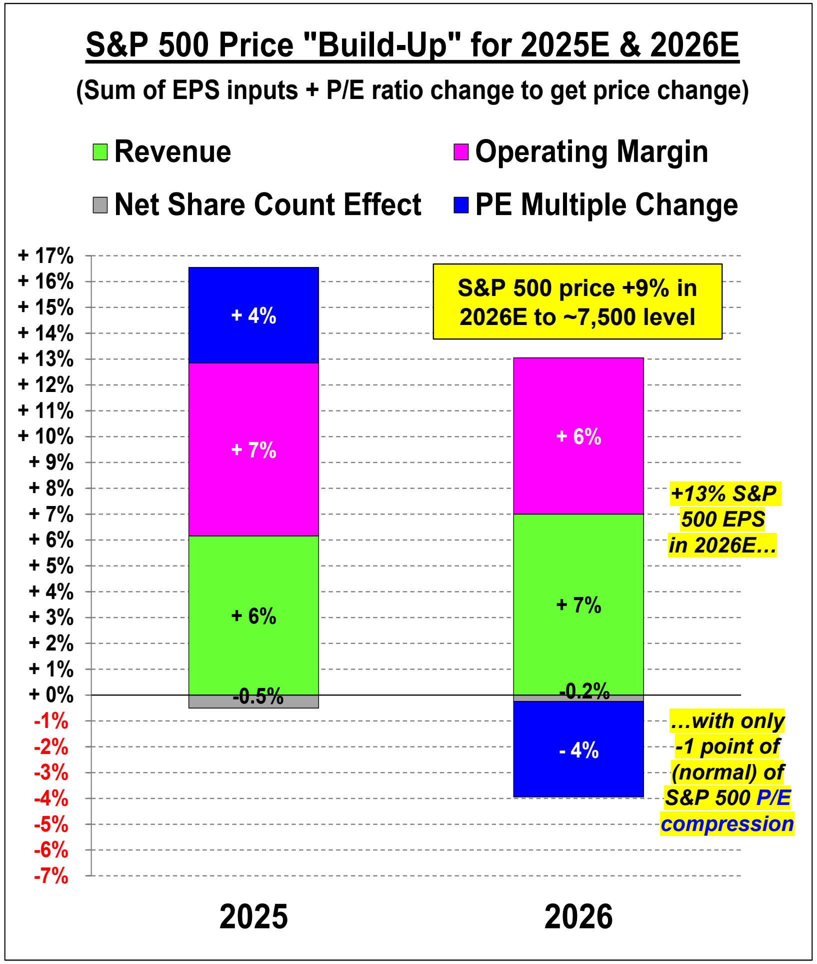
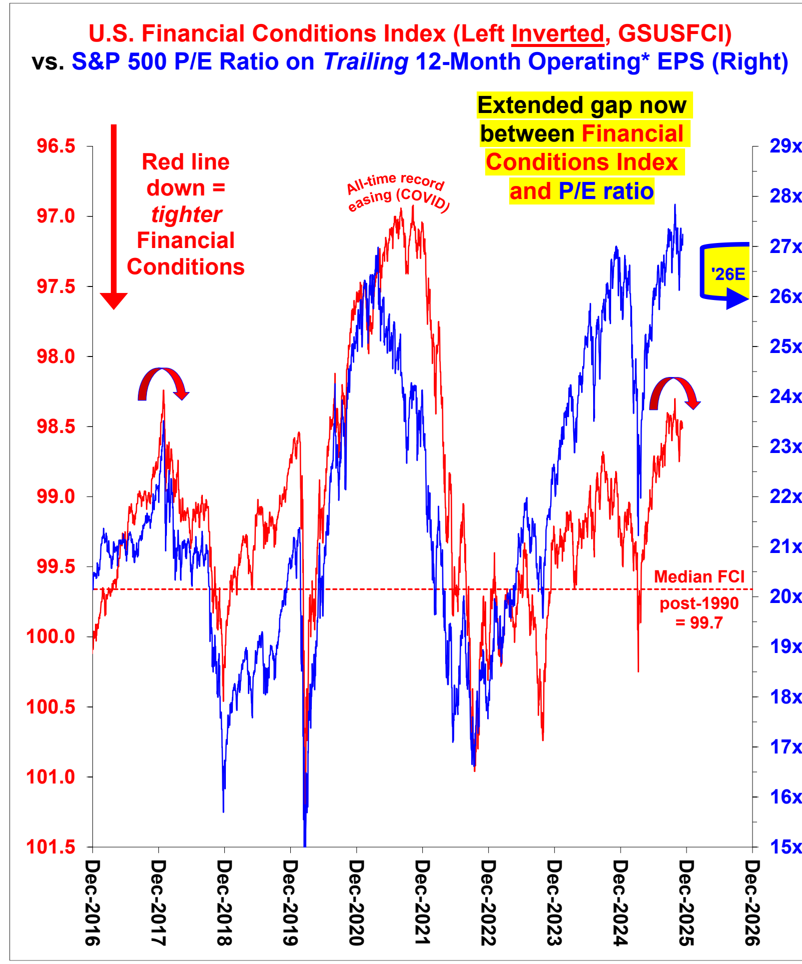
13% y/y EPS in 2026E with slight P/E compression as EPS broaden (as is normal) is 7,500 for S&P 500 in 2026 +9% y/y





Source: Bloomberg data, Stifel Research and forecasts.

(1) Financial Conditions TIGHTEN if: Baa spreads widen (Bloomberg LCB1OAS), if the 10Y yield rises [10y consists of 10Y TIPS real yield (USGGT10Y) and 10Y breakeven inflation (USGGBE10)], if the Broad Dollar rises (we use USTWBGD), if the Fed tightens (although futures matter more today than levels) and if S&P 500 CAPE P/E falls.

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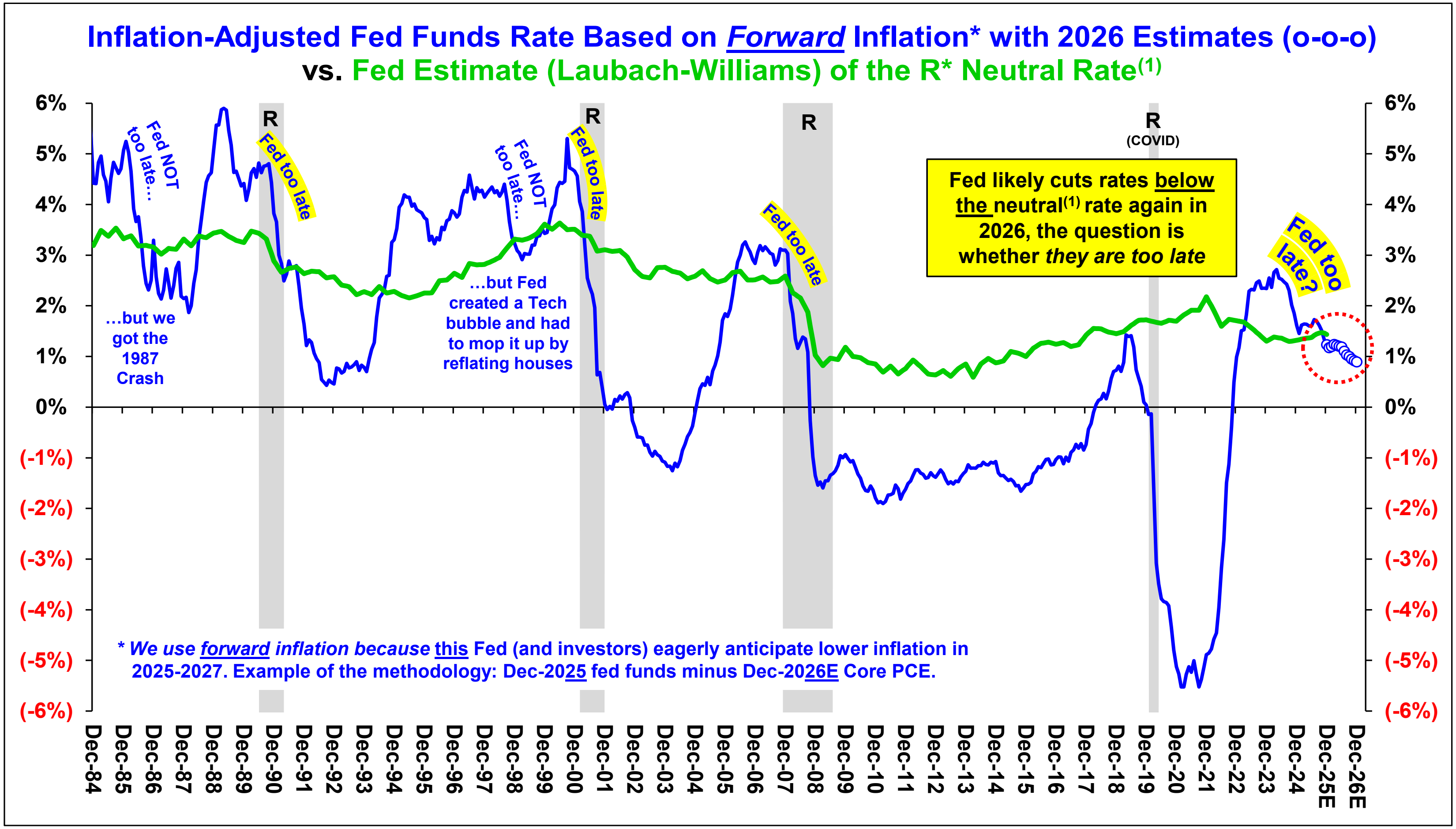
Old sayings like "stay invested until recession nears" and "don't fight the Fed" *assume Fed does not make a mistake*



Source: Bloomberg data, Stifel Research.

(1) **We depict the Laubach-Williams 1-sided estimate of the neutral rate (Bloomberg USNREST1)**. The Federal Reserve defines the natural rate of interest (also known as the neutral rate, or r*) as the real short-term interest rate that is consistent with an economy operating at full employment (or potential output) *with* stable inflation. **Although pricing money below neutral is bullish initially, a rate below neutral leads to booms/busts, asset bubbles, misallocation of capital and excessive credit.**

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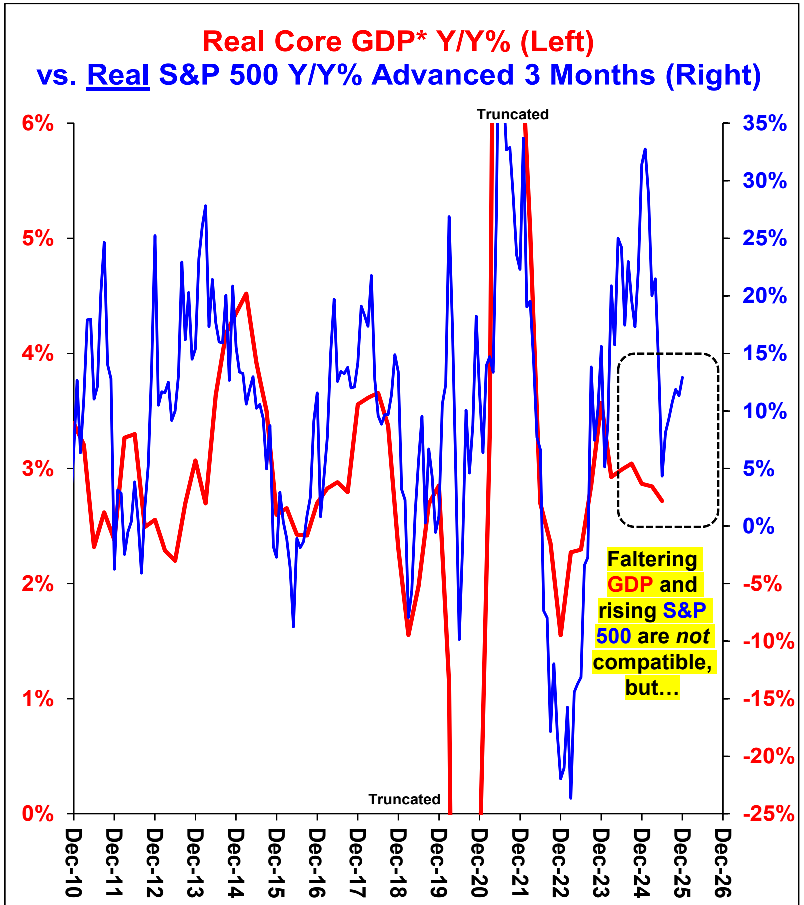
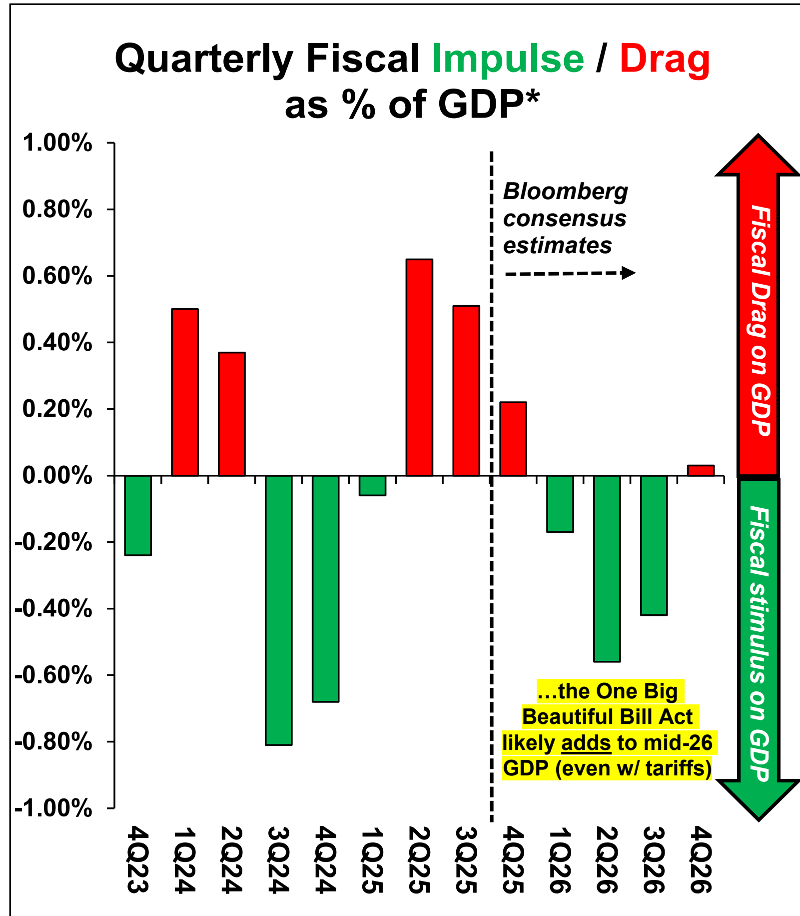
Faltering GDP and a rising S&P 500 are incompatible, but the 2025 tax cut does add to 20<u>26</u> GDP, even with the tariffs



* Core GDP: Real Final Sales Private Domestic Purchasers is real GDP excluding net exports, government spend on goods & services, and inventory change.



* Quarterly change in budget deficit

Source: Bloomberg terminal data, Stifel Research.

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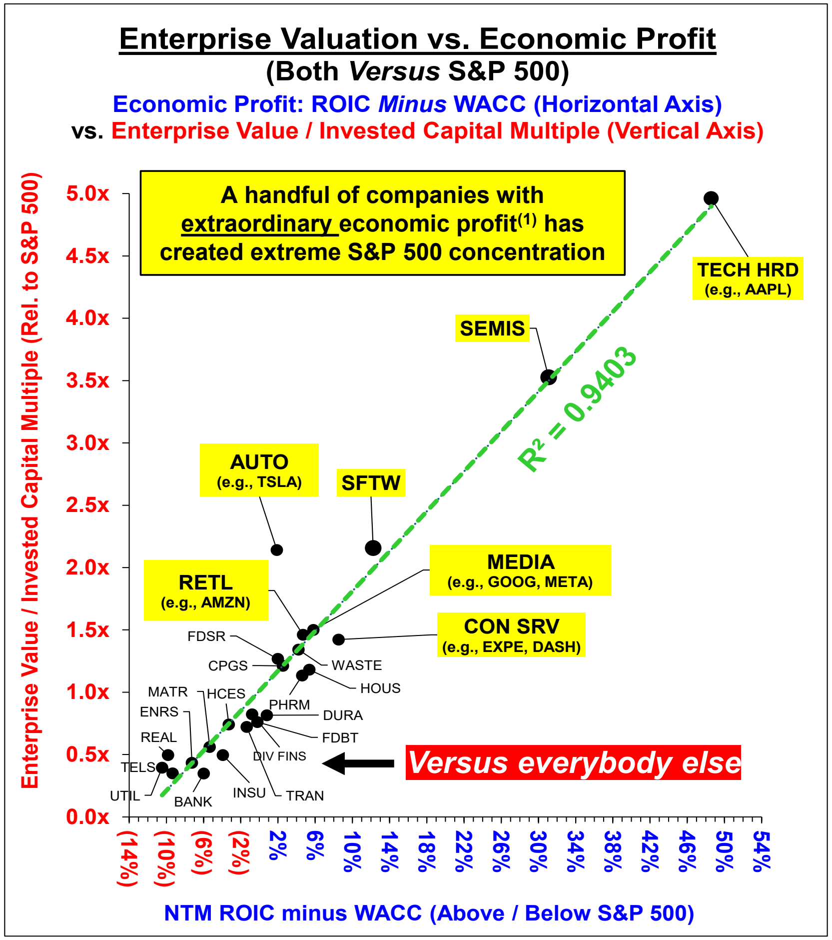
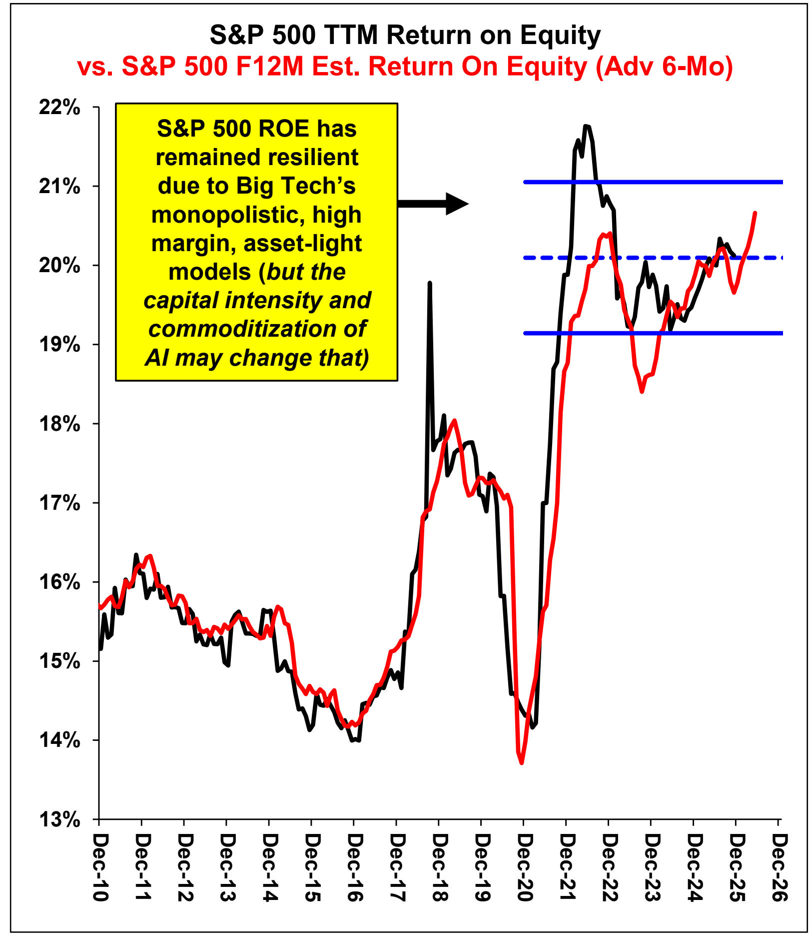
A handful of monopolistic Tech companies with extraordinary economic profit[1] have completely altered the S&P 500





Source: Bloomberg data, Stifel Research.

(1) **Economic Profit** is ROIC minus WACC. In our calculations, **Enterprise Value** = Market Cap Equity - Cash & Equiv. + Preferred Equity + Minority Interest + Total Debt (Short & Long-Term). Our **Invested Capital** = Net Debt/Share (Tot. Debt - Cash) + Preferred Stock + Total Equity (book equity, not market cap). **WACC** = Ce * Equity/Assets + Cd * Debt/Assets *(1-Tax) and Ce = chalk CAPM. RF = 10Y Treasury ; **ERP** = (EY - Rf), Cd = Rf (10Y Treasury) + OIS sector specific spread.

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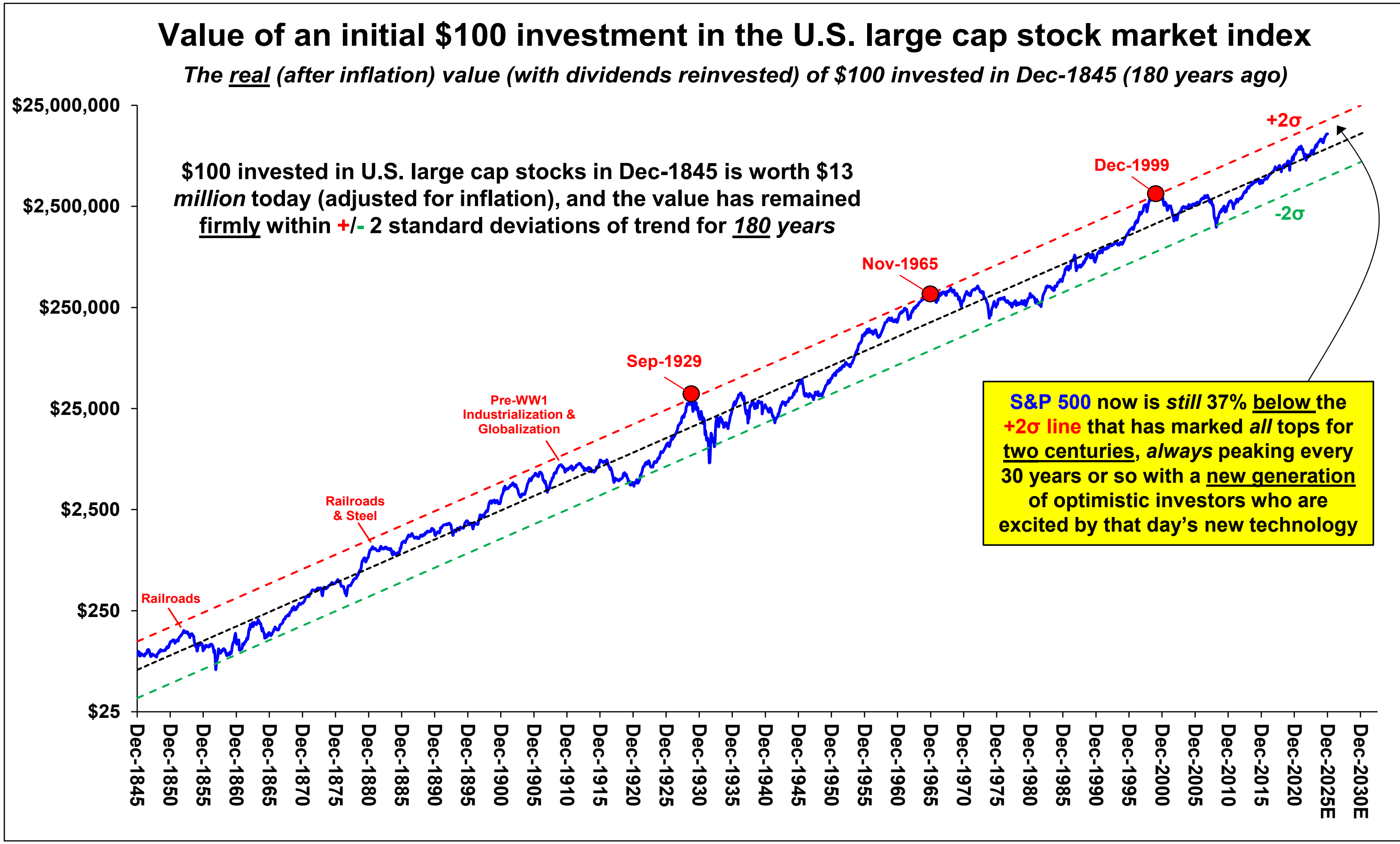
A "bubble top"? Not yet, that is a ways off, as the S&P 500 is *still* 37% below the +2σ line that has marked *all* major tops



Source: Stock real total return (price + reinvested dividend minus headline inflation) Dec-1845 to Dec-1871 NBER Working Paper #2985 G. William Schwert and Dec-1871 to present large cap or S&P 500 from Robert Shiller, Yale University, with consumer price deflator from CPI (Bloomberg) or U.S. Census Bureau Historical Statistics of the U.S., Stifel Research.

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In our view:

What is the Bear Case?

- **Fed is easing, but recession risk (with a fast -20% S&P 500 decline) is not trivial**
- **Recession chance of ~25% times -20% S&P 500 drop is a weighted -5% S&P 500**
- **The U.S. consumer (68% of GDP) and a sudden lift-off for unemployment are risks**
- **P/E doesn't matter…until it's *only* thing that matters, and S&P 500 is *expensive***
- **Speculative & over-priced assets tend to lead the way down, and *already* tumbled**
- **Hyperscaler capex is eroding cash flow, and turning to debt has pressured P/E**

Source: Stifel Research.

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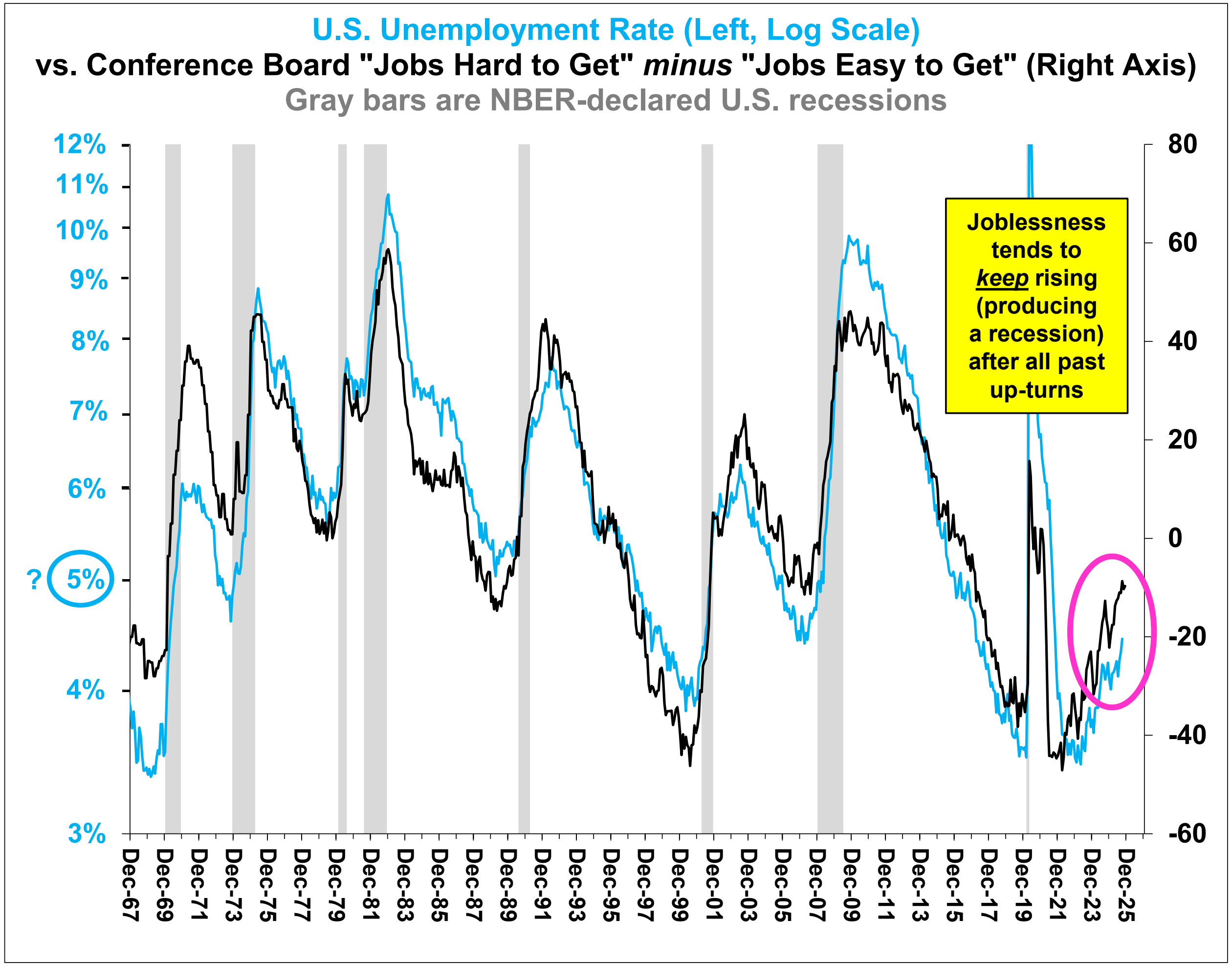
The Fed is aware of the risk, but recessions are typically surprises and U.S. GDP has not escaped danger…'*far from it*'



S&P 500 decline from the start* of all (12) post-WW2 *declared* recessions to the final bear market low

Declared Recessions (starting month)	S&P 500 Bear Market (peak-to trough) prompted by recession (%)
Nov-48	-19%
Jul-53	-6%
Aug-57	-18%
Apr-60	-6%
Dec-69	-26%
Nov-73	-42%
Jan-80	-9%
Jul-81	-21%
Jul-90	-17%
Mar-01 **	-22%
Dec-07	-54%
Feb-20	-31%

Post-WW2 AVERAGE	-23%
TRIMMED MEAN (ex-high & low)	-21%
Post-WW2 MEDIAN	-20%

* Bloomberg S&P 500 price the 1st of the month for NBER-declared "official" recession starting months since 1947 (recessions are declared after they have begun). The S&P 500 low is the recession-prompted price bottom before any counter-trend inflation-adjusted rally of 20% or more.

** Sep-21, 2001 initial recession S&P 500 low is shown in table. The further 1/4/02 to 10/9/02 was outside the NBER-declared recession.

Source: Bloomberg data, FRED, Stifel Research.

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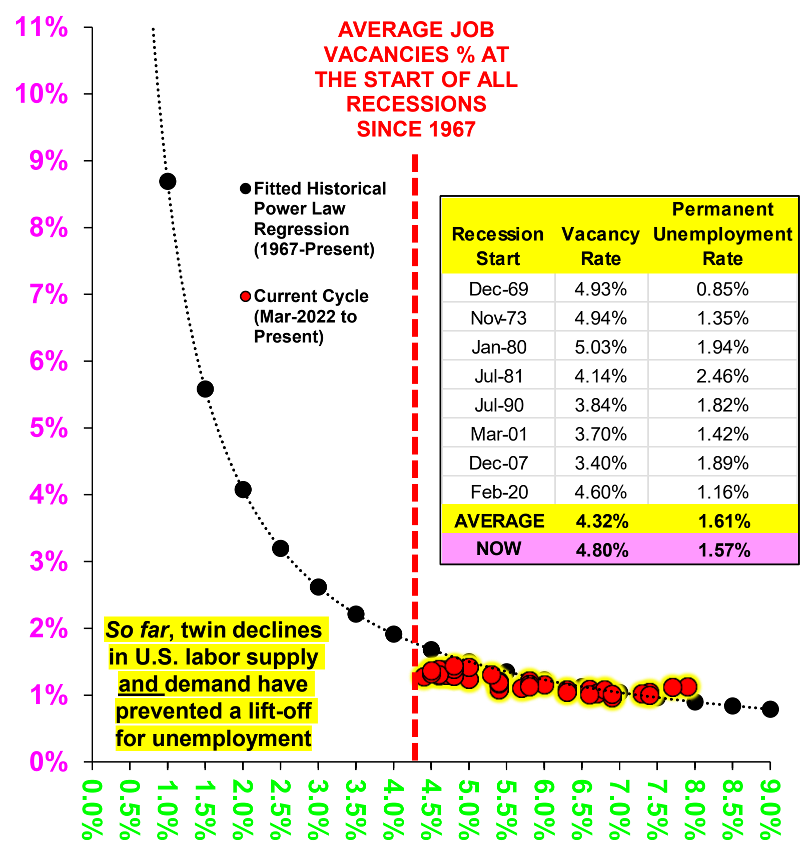
The 2026 outlook for labor is still tenuous, and AI capex won't be enough *if Personal Consumption (68% of GDP) slows*

Beveridge Curve (Vacancies vs. Unemployed)

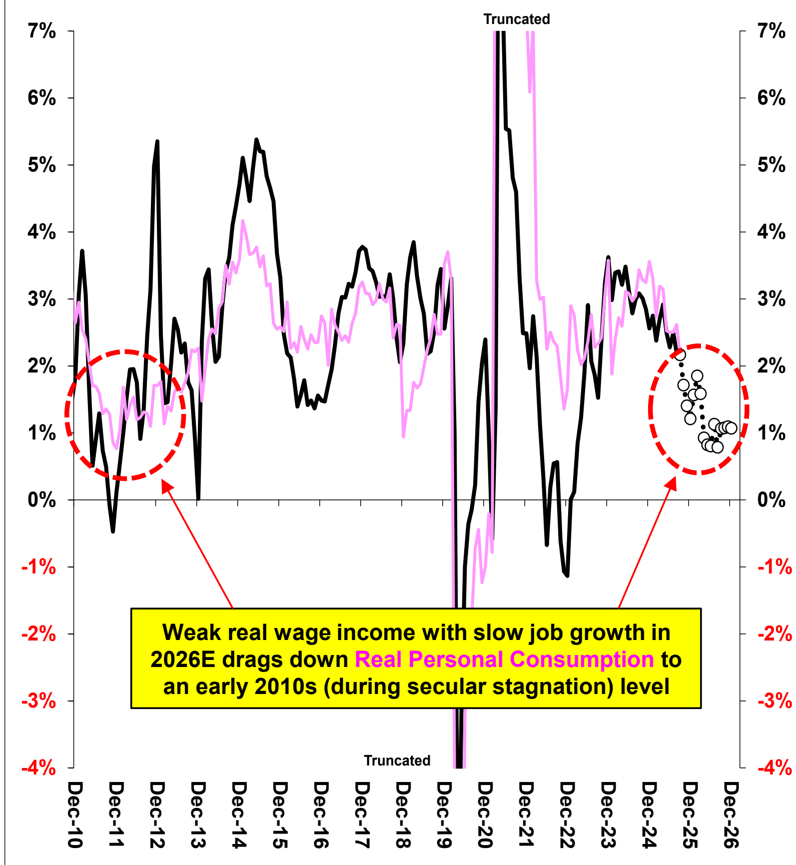
Private Job Vacancy Rate (Horizontal Axis)
vs. Permanent Unemployment Rate (Vertical Axis)



Recession Start	Vacancy Rate	Permanent Unemployment Rate
Dec-69	4.93%	0.85%
Nov-73	4.94%	1.35%
Jan-80	5.03%	1.94%
Jul-81	4.14%	2.46%
Jul-90	3.84%	1.82%
Mar-01	3.70%	1.42%
Dec-07	3.40%	1.89%
Feb-20	4.60%	1.16%
AVERAGE	**4.32%**	**1.61%**
NOW	**4.80%**	**1.57%**

Real Personal Income from Wages Y/Y%

with Stifel Estimates (-o-o-o-)
vs. Real Personal Consumption Expenditures Y/Y%



Source: Bloomberg data, Stifel Research and forecasts.

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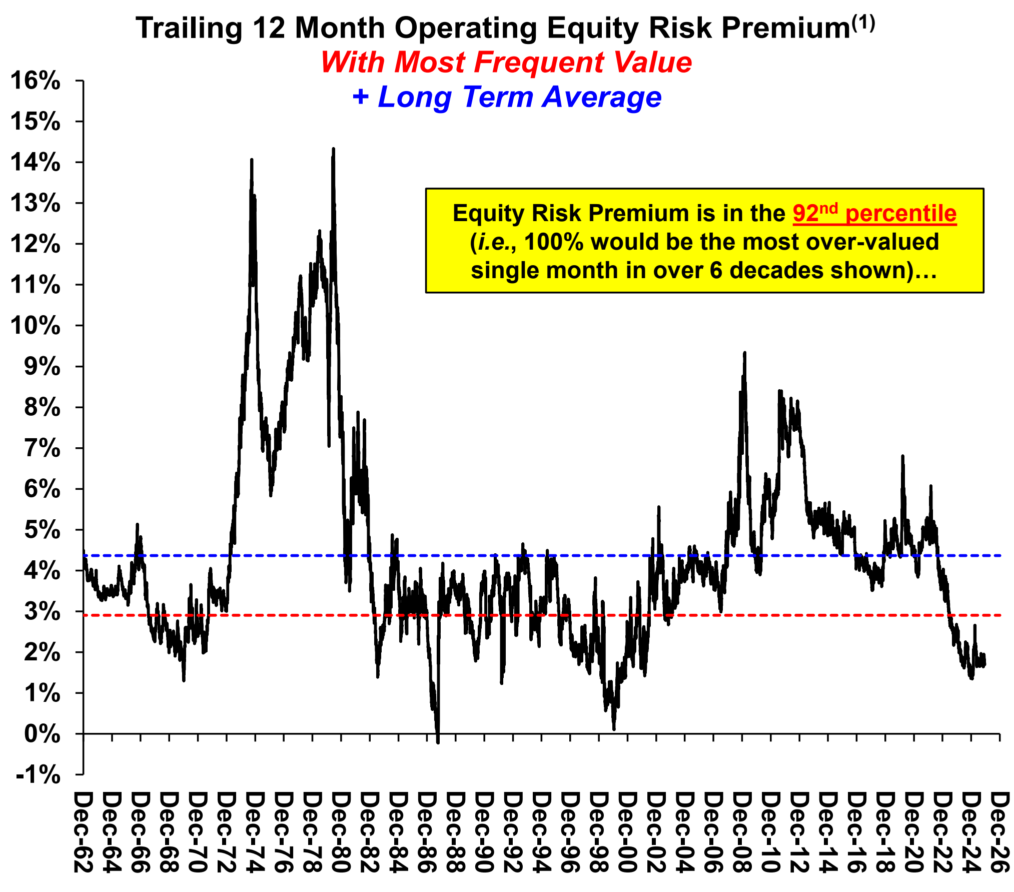
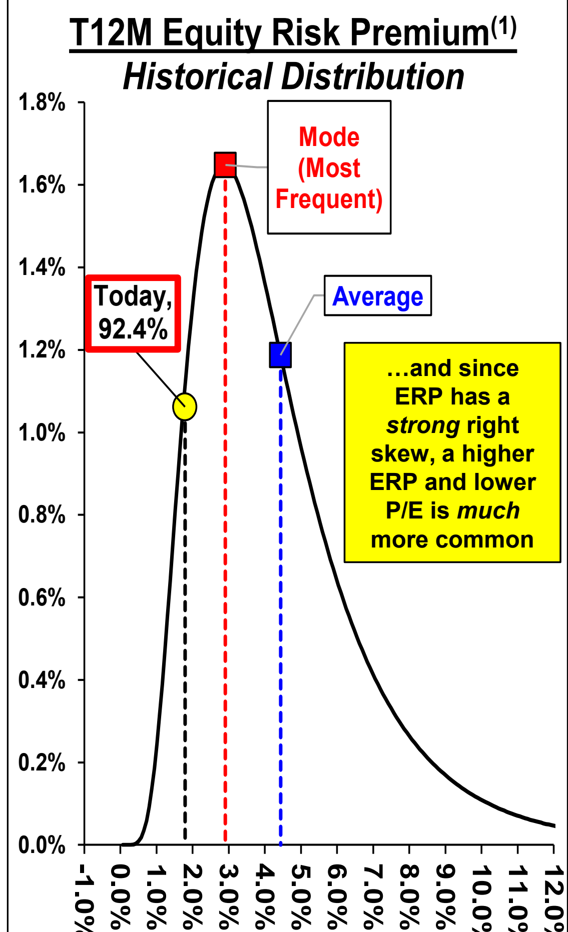
The elevated S&P 500 P/E has "fat tail" risk due to Equity Risk Premium being in 92nd percentile of the past 65 years

Equity Valuation = Risk Premium (ERP) + Interest Rates (10Y TIPS)





Source: Bloomberg data, Stifel Research.

(1) We calculate Equity Risk Premium as the T12M Positive Operating Earnings Yield *Minus* the U.S. 10Y TIPS Yield. For TIPS, we splice 3 series: 1962-1981 we subtract Nominal 10Y yields minus Stifel calculated Breakeven 10Y Inflation, 1981-2004 we subtract nominal 10Y minus Cleveland Fed estimates of breakeven 10Y inflation, 2004-Present we used market observed 10Y TIPS (USGGT10Y).

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It is intuitive that speculative or over-priced assets will crack *before* the S&P 500, and that is what is happening *now*

In the Dot-Com Bubble Era

Our "Sizzling 7" Index (Left) & S&P 500 (Right)

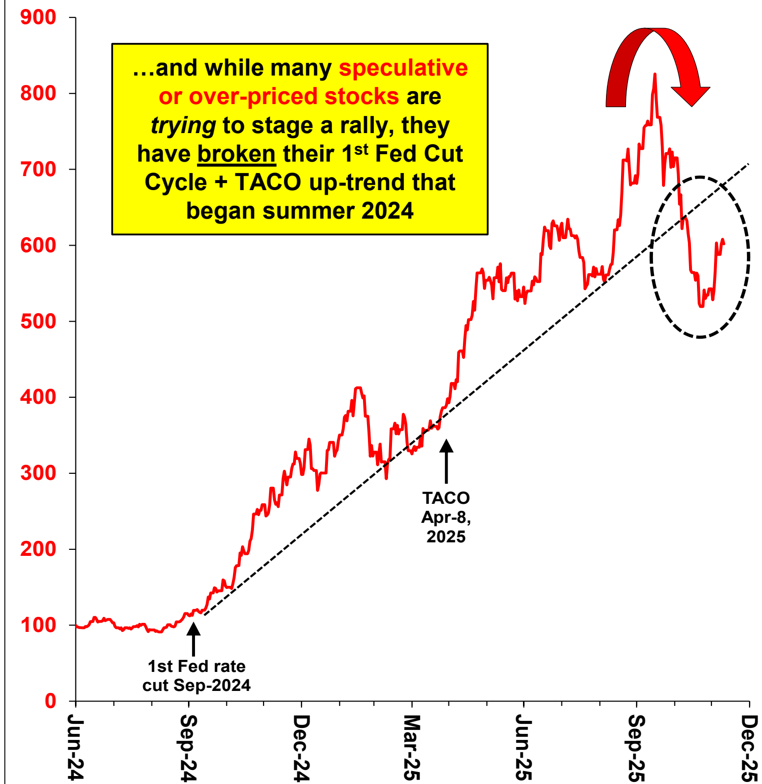
Sizzling 7 Index = Equal-weighted: Pets.com, Webvan, eToys, DrKoop.com, 360networks Inc., Global Crossing, Level 3 Comm.

In the Current Era

(Left Holding the) Bag-7 relative to S&P 500

Equal-weighted index of: MSTR, RKLB, PLTR, QBTS, OKLO, HIMS, GME all relative to the S&P 500

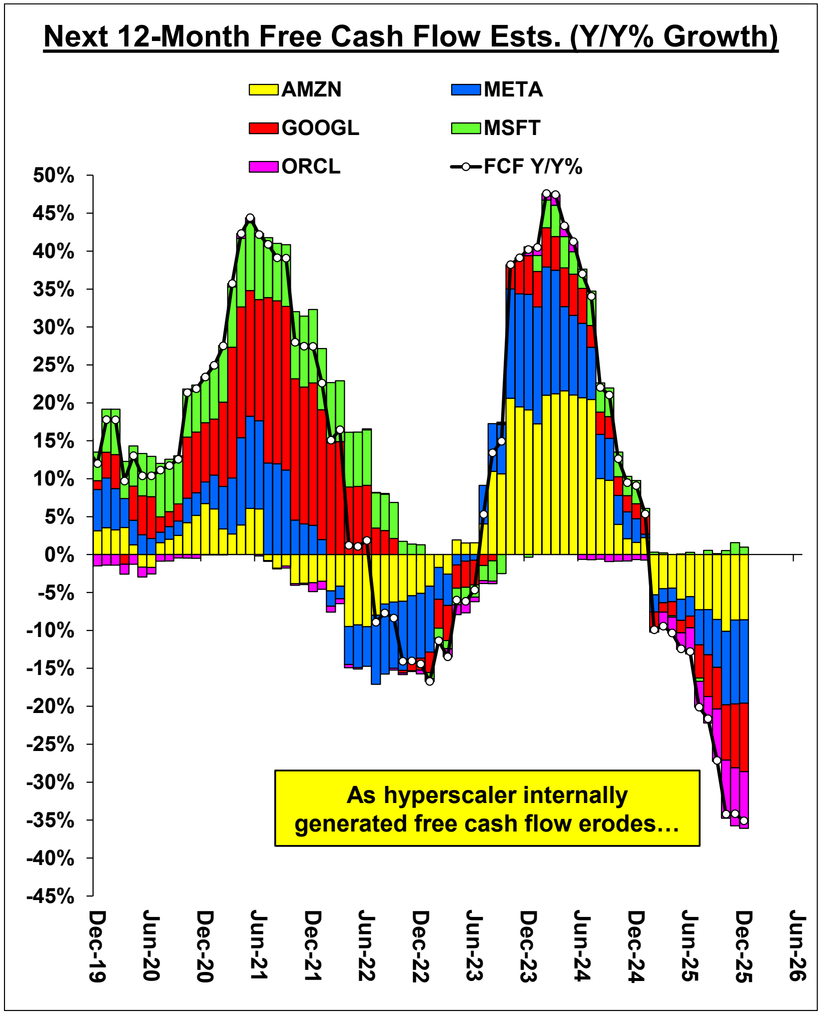
Indexed to June 30, 2024 = 100

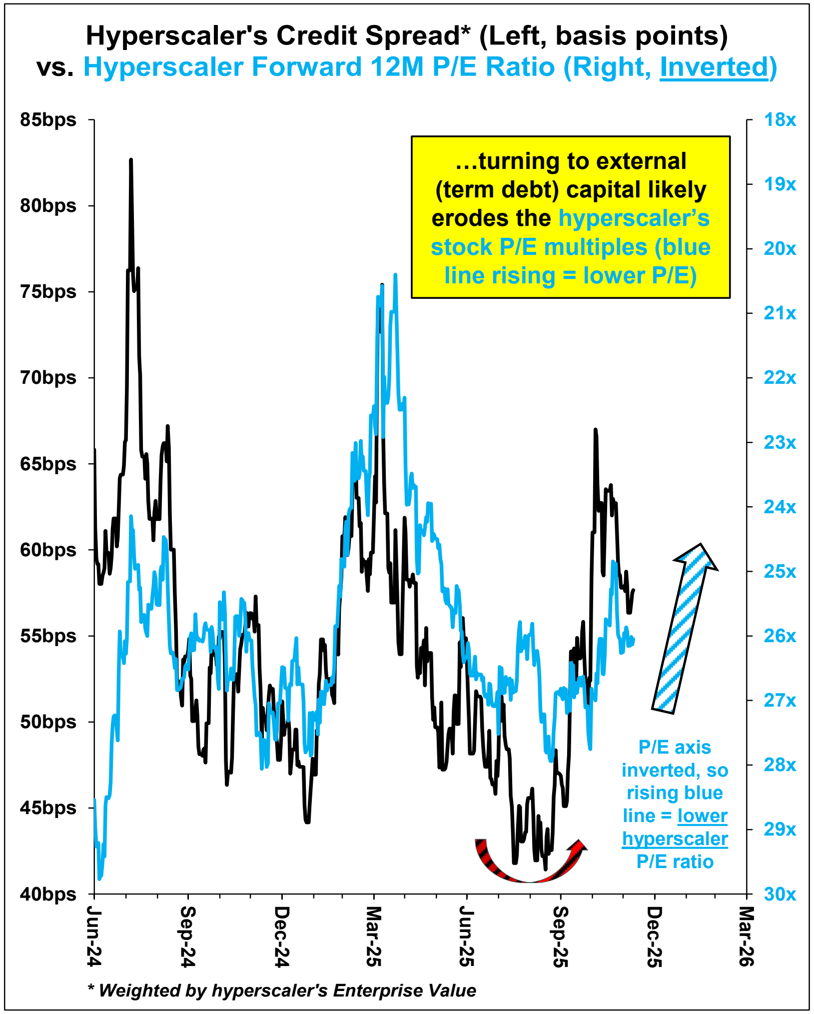


Source: Bloomberg historical data, Stifel research.

December 11, 2025 *Barry B. Bannister, CFA BBBannister@Stifel.com and Thomas R. Carroll, CFA CarrollT@Stifel.com – Stifel Equity Strategy*

Cracks are appearing in the A.I. trade as well, with the new capital intensity of hyperscalers eroding their FCF (and P/E)





Source: Bloomberg data, Stifel Research and forecasts.

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In our view:

Tactical Outlook

1. **The AI-driven capex surge in 2025 massively boosted "Big Tech" within Cyclical Growth[1], generating substantial economic profits that are expected to carry over initially into 2026**

2. **Given our concerns about a slowing economy and the unusually high Cyclical vs. Defensive divergence vs. GDP (Big Tech alone has propelled "Cyclicals"), we would hedge Cyclical Growth exposure with Defensives[2]**

Source: Stifel Research.

(1) Cyclical Growth is an equal-weighted average of the cap-weighted S&P Groups: Semiconductors & Equipment (includes NVDA), Technology Hardware & Equipment (includes AAPL), Media Internet & Entertainment (includes META, GOOG) and Autos & Components (~88% is TSLA).

(2) Defensives is an equal-weighted average of the cap-weighted S&P Groups: Utilities, Pharma Biotech Life Science, Healthcare Equipment & Services, Household Products, Commercial & Professional Services, Staples Retail, Software, Telecommunication, Retailing, and Durables & Apparel.

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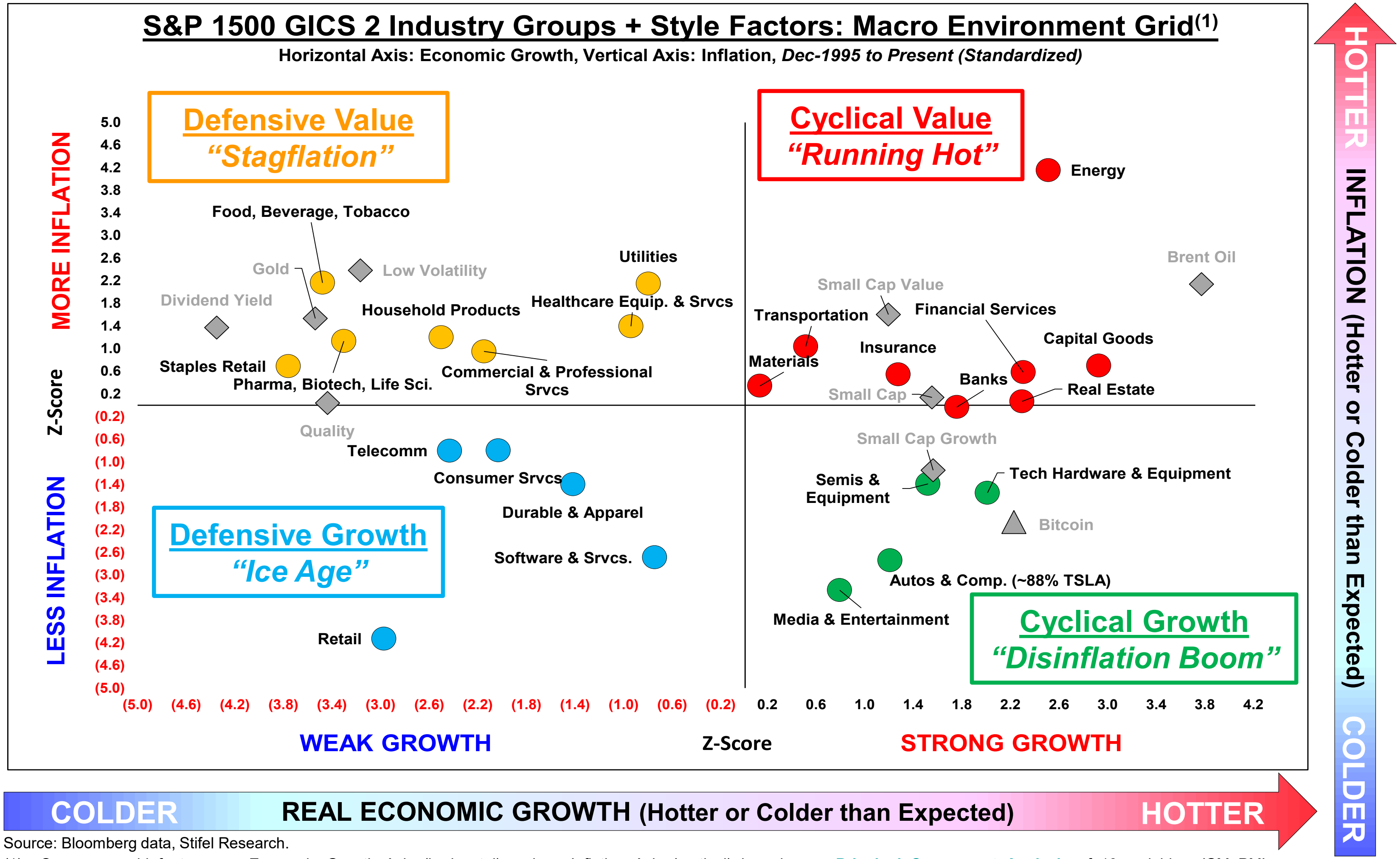
Economic growth vs. inflation drives performance; we map industries and factors by their relative sensitivities to each



Source: Bloomberg data, Stifel Research.

(1) Our macro-grid features an Economic Growth Axis (horizontal) and an Inflation Axis (vertical) based on a **Principal Component Analysis** of 10 variables: ISM PMI Manufacturing, CPI, U.S.$ (DXY), Baa Spreads, GS Financial Conditions, Commodity Index (BCOM), S&P 500 ÷ BCOM, 10Y Yield, 10Y TIPS Yield, and 10Y Breakeven inflation.

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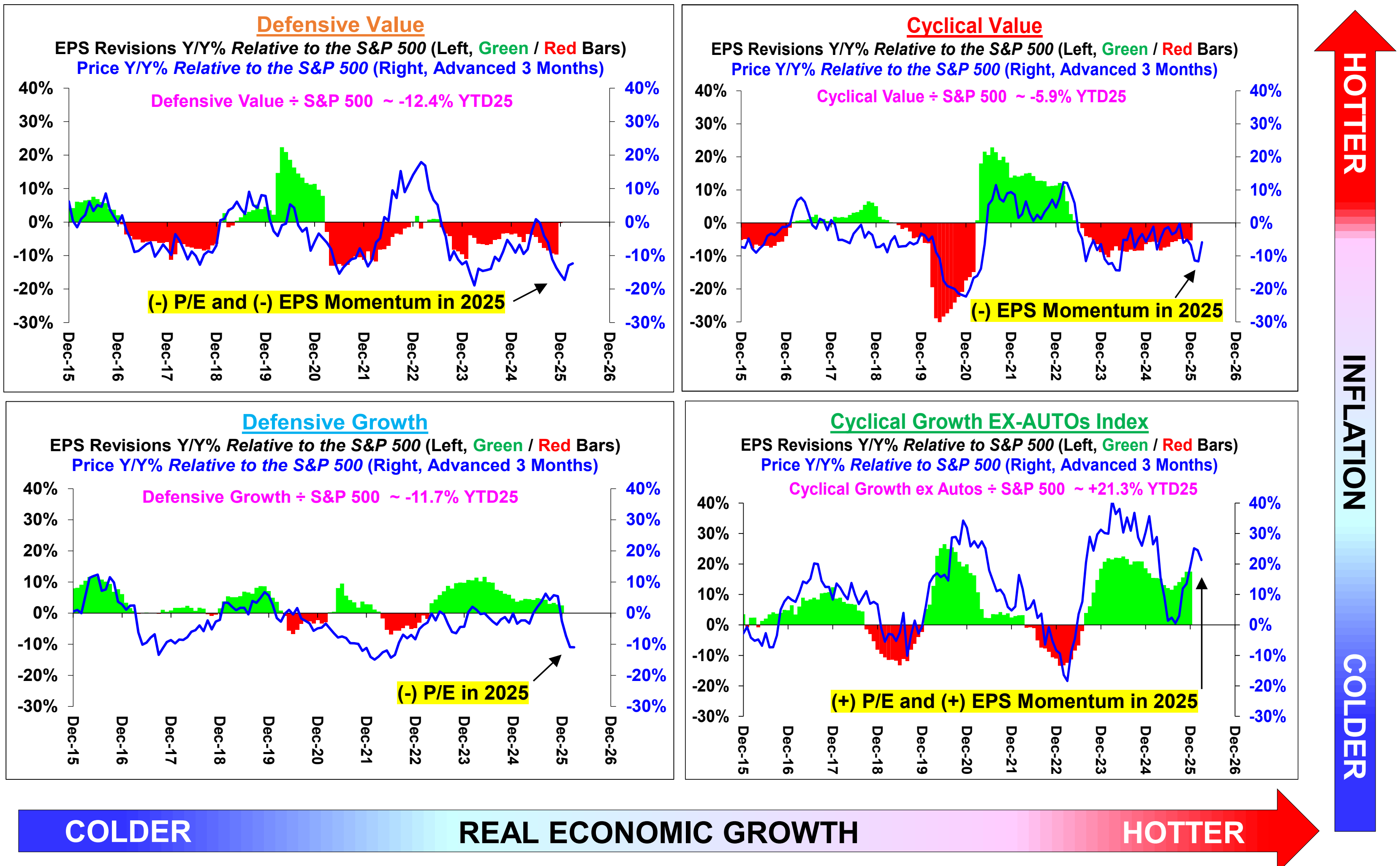
Cyclical Growth continued its outperformance in 2025 due to a combination of strong EPS revisions and P/E expansion



Source: Bloomberg data, Stifel Research. **The equal-weighted average of performance for the GICS2 Groups listed (which are cap-weighted) is shown.**

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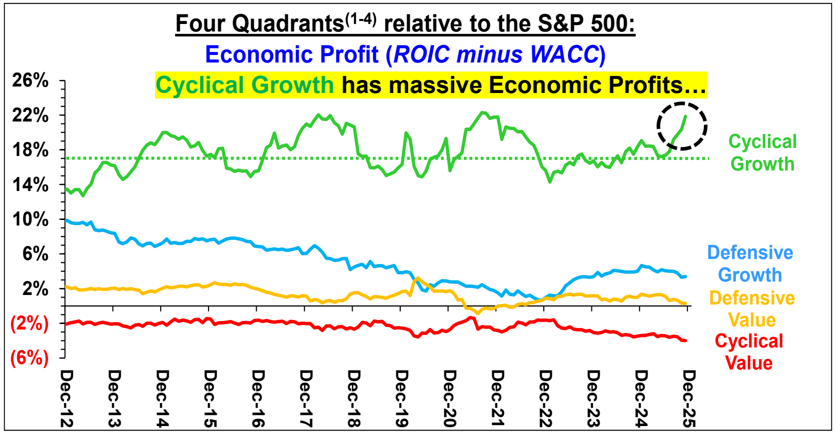
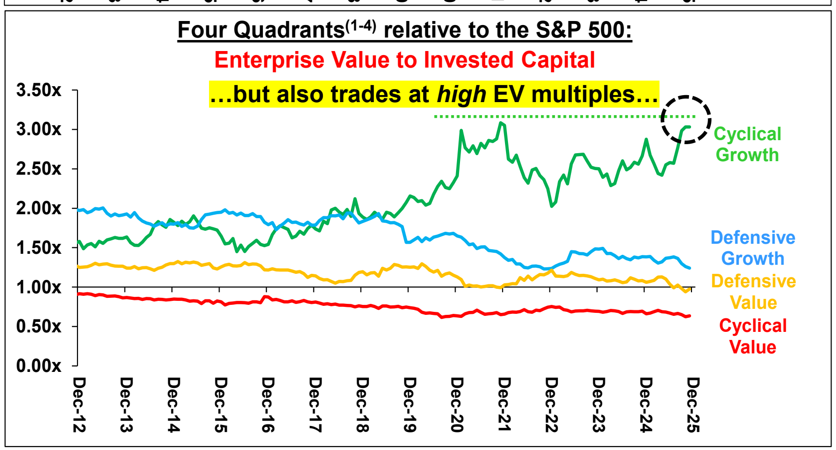
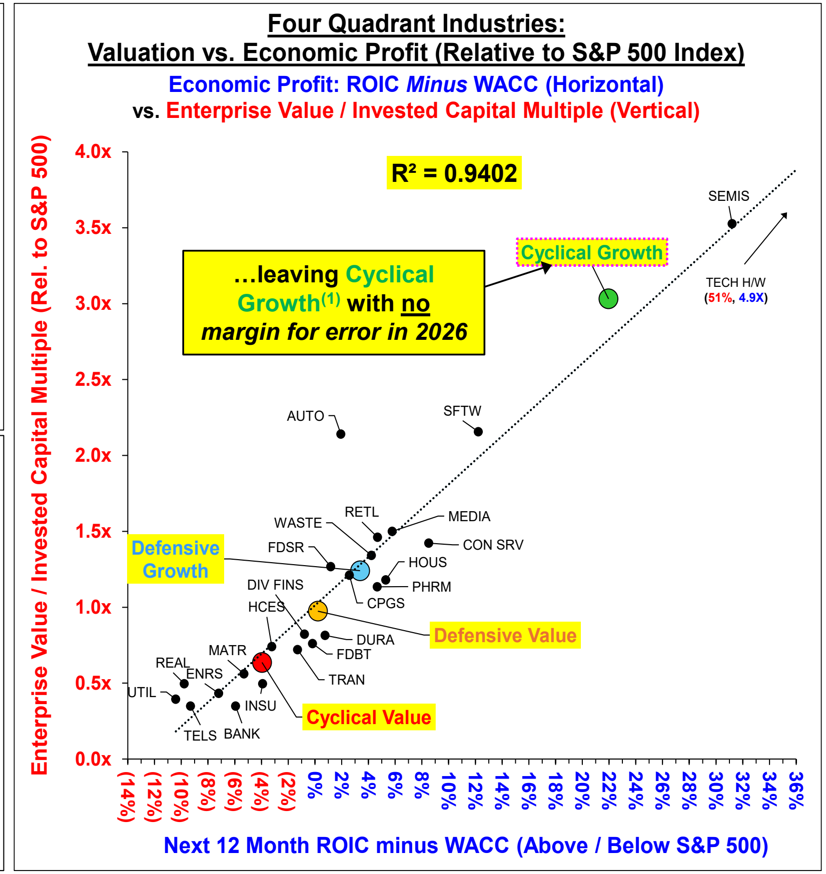
Cyclical Growth dominates markets due to outsized Economic Profit, but at peak multiples there is *no margin for error*







Source: Bloomberg data, Stifel Research.

(1) **Cyclical Growth** is Technology Hardware & Equipment, Media & Entertainment, Semiconductors, Autos & Components (88% is TSLA).
(2) **Cyclical Value** is Banks, Insurance, Capital Goods, Materials, Real Estate, Financial Services, Transportation, Energy
(3) **Defensive Growth** is Consumer Services, Telecommunications, Software & Services, Retail.
(4) **Defensive Value** is Healthcare Eq. & Svcs., Commercial & Prof'l. Svcs., Household Prods., Pharma, Biotech, & Life Science, Staples Retail, Food, Beverage, & Tobacco.
(5) **Economic Profit** is ROIC minus WACC. In our calculations, **Enterprise Value** = Market Cap Equity - Cash & Equiv. + Preferred Equity + Minority Interest + Total Debt (Short & Long-Term). Our **Invested Capital** = Net Debt/Share (Tot. Debt - Cash) + Preferred Stock + Total Equity (book equity, not market cap). **WACC** = Ce * Equity/Assets + Cd * Debt/Assets *(1-Tax) and Ce = chalk CAPM. RF = 10Y Treasury ; **ERP** = (EY - Rf), Cd = Rf (10Y Treasury) + OIS sector specific spread.

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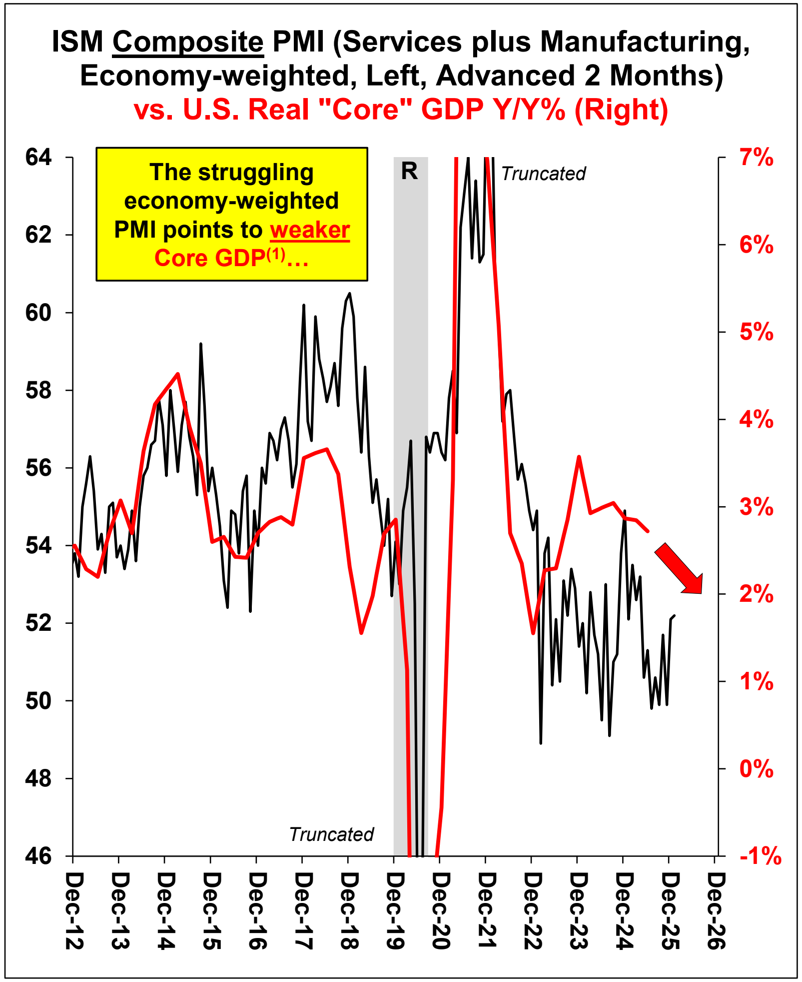
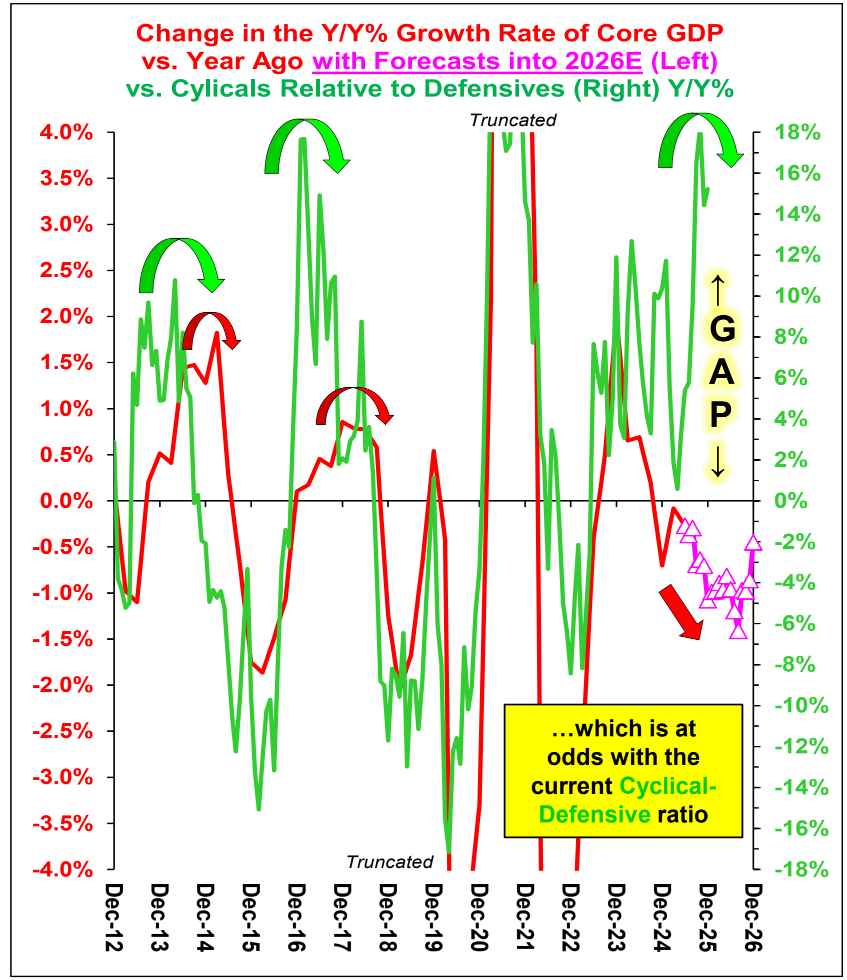
Our primary 2026 sector concern is the widening gap between the Core GDP[(1)] trend and Cyclical vs. Defensive returns





Source: Bloomberg terminal data, Stifel Research.

(1) **Core GDP** is “Real Final Sales to Private Domestic Purchasers” and is real GDP excluding net exports, government spend on goods & services, and inventory change.

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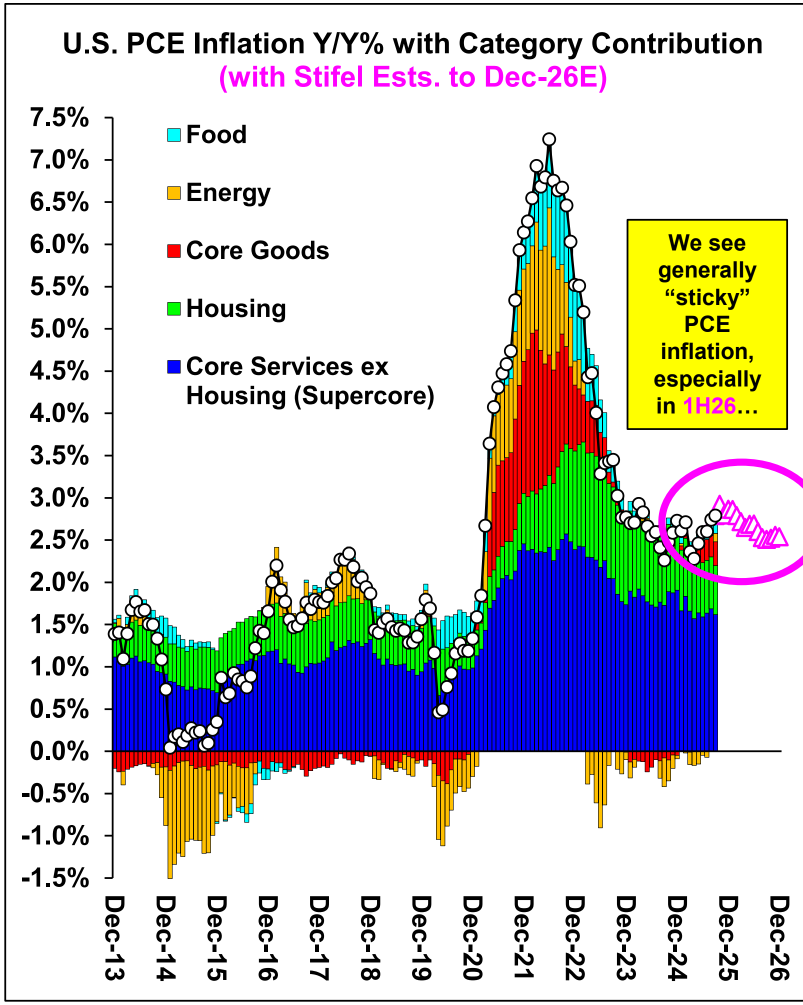
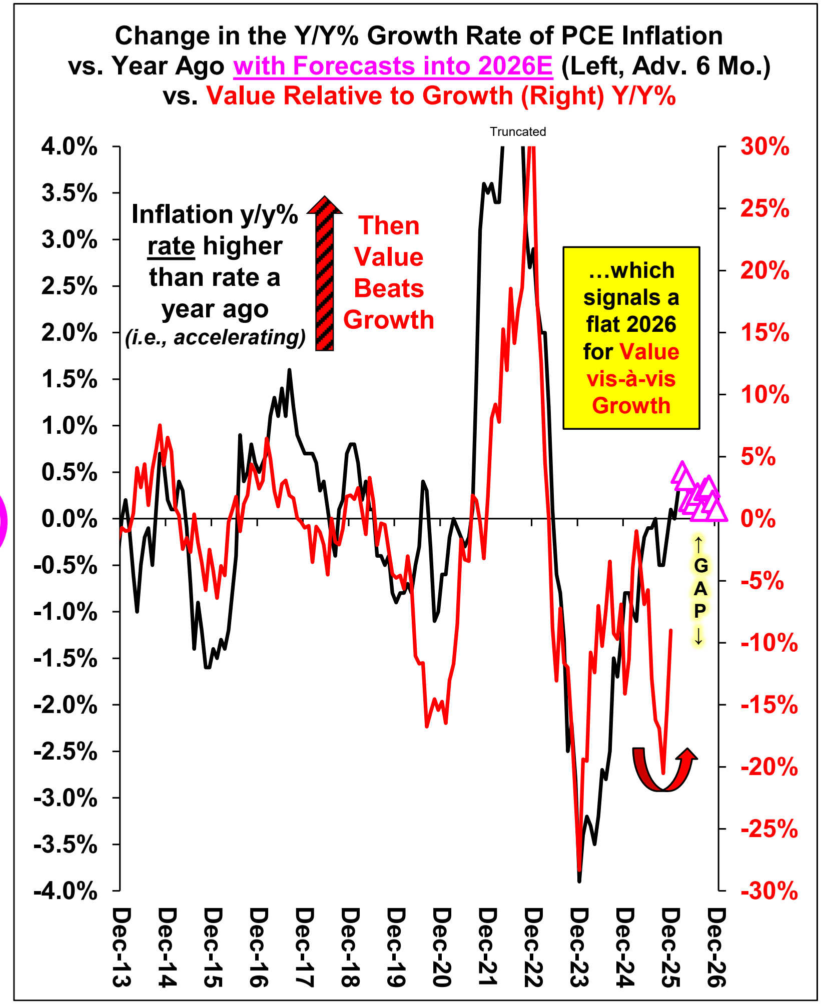
We do not see a major 2026 inflation impulse…just a "sticky" PCE (~2.7%) that rebalances Value vs Growth upward





Source: Bloomberg terminal data, Stifel Research and forecasts.

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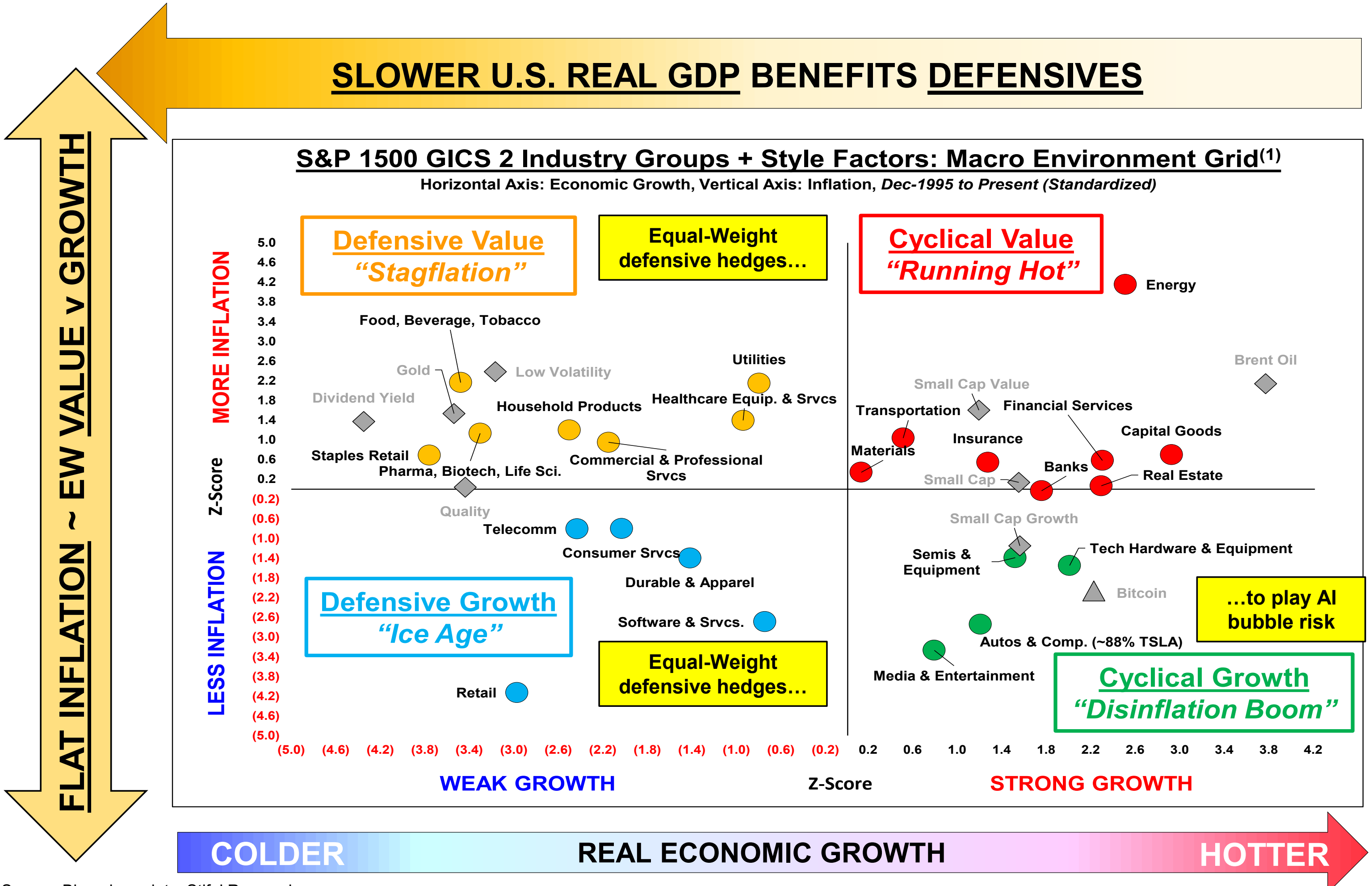
We recommend hedging over-owned AI-driven Cyclical Growth stocks with Defensives (Value & Growth) in 2026



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December 11, 2025

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We list below the 50 largest market cap Buy-rated Defensive Industry stocks that are covered by Stifel U.S. analysts

Stifel Financial Universe Defensive Buy-Rated Stocks

Description						Upside %			Metrics			Returns %	
Rank	Ticker	Security	Industry	SF/KBW	Analyst	Current Price	Target Price	% Upside	MARKET CAP	P/E Ratio	ROIC	TRR_1 Month	TRR_1 Year
1	MSFT US	Microsoft Corp	Software	Stifel	Brad Reback	$491	$640	30.4%	$3,646.46	29.5	25.3%	-1.0%	10.9%
2	AMZN US	Amazon.com Inc	Broadline Retail	Stifel	Mark Kelley	$228	$295	29.2%	$2,204.23	24.2	13.5%	-6.6%	1.0%
3	ORCL US	Oracle Corp	Software	Stifel	Brad Reback	$220	$350	58.8%	$371.54	31.1	14.2%	-7.9%	16.9%
4	IBM US	International Business Machine	IT Services	Stifel	David Grossman	$311	$325	4.4%	$290.63	25.7	6.1%	2.2%	38.9%
5	CRM US	Salesforce Inc	Software	Stifel	J Parker Lane	$262	$300	14.7%	$237.65	20.7	9.4%	9.0%	-25.1%
6	PM US	Philip Morris International In	Tobacco	Stifel	Matthew Smith	$151	$180	19.5%	$234.18	18.5	19.5%	-1.8%	21.4%
7	TMO US	Thermo Fisher Scientific Inc	Life Sciences Tools & Services	Stifel	Daniel Arias	$565	$583	3.1%	$212.17	23.5	8.1%	-1.2%	5.6%
8	ABT US	Abbott Laboratories	Health Care Equipment & Suppli	Stifel	Frederick Wise	$122	$145	19.3%	$207.92	22.0	21.5%	-3.8%	7.9%
9	ISRG US	Intuitive Surgical Inc	Health Care Equipment & Suppli	Stifel	Frederick Wise	$563	$670	19.0%	$198.02	60.8	15.0%	0.6%	4.5%
10	INTU US	Intuit Inc	Software	Stifel	Brad Reback	$653	$800	22.5%	$177.66	27.1	16.4%	0.7%	1.7%
11	NOW US	ServiceNow Inc	Software	Stifel	Brad Reback	$853	$1,150	34.8%	$176.67	43.9	11.0%	-1.0%	-23.9%
12	ACN US	Accenture PLC	IT Services	Stifel	David Grossman	$269	$315	16.9%	$166.99	19.5	22.9%	9.7%	-23.4%
13	DHR US	Danaher Corp	Life Sciences Tools & Services	Stifel	Daniel Arias	$224	$260	15.9%	$144.60	27.7	5.6%	6.9%	-4.3%
14	ADBE US	Adobe Inc	Software	Stifel	J Parker Lane	$345	$450	30.3%	$144.35	15.2	34.9%	5.7%	-37.0%
15	BSX US	Boston Scientific Corp	Health Care Equipment & Suppli	Stifel	Frederick Wise	$93	$125	34.4%	$137.65	28.1	9.7%	-7.0%	4.9%
16	PANW US	Palo Alto Networks Inc	Software	Stifel	Adam Borg	$195	$225	15.6%	$134.45	49.4	14.7%	-8.3%	0.1%
17	CRWD US	Crowdstrike Holdings Inc	Software	Stifel	Adam Borg	$521	$600	15.2%	$127.11	114.9	-9.1%	-3.5%	47.3%
18	SYK US	Stryker Corp	Health Care Equipment & Suppli	Stifel	Frederick Wise	$351	$440	25.3%	$122.60	24.2	8.5%	-1.4%	-7.0%
19	MO US	Altria Group Inc	Tobacco	Stifel	Matthew Smith	$58	$72	23.2%	$97.94	10.6	40.8%	0.7%	12.2%
20	SBUX US	Starbucks Corp	Hotels, Restaurants & Leisure	Stifel	Christopher O'Cull	$83	$105	26.8%	$94.00	34.9	10.7%	-2.5%	-14.4%
21	CDNS US	Cadence Design Systems Inc	Software	Stifel	Ruben Roy	$335	$395	18.0%	$90.85	43.5	14.4%	3.0%	8.1%
22	SNPS US	Synopsys Inc	Software	Stifel	Ruben Roy	$464	$550	18.5%	$85.83	35.6	4.1%	18.0%	-8.7%
23	WM US	Waste Management Inc	Commercial Services & Supplies	Stifel	Shlomo Rosenbaum	$210	$236	12.5%	$84.34	26.1	11.4%	4.3%	-2.1%
24	SNOW US	Snowflake Inc	IT Services	Stifel	Brad Reback	$222	$280	26.4%	$70.31	150.9	-28.5%	-15.7%	22.6%
25	MDLZ US	Mondelez International Inc	Food Products	Stifel	Matthew Smith	$54	$70	29.0%	$69.80	17.9	7.6%	-5.1%	-9.1%
26	ADSK US	Autodesk Inc	Software	Stifel	Adam Borg	$302	$375	24.4%	$63.78	27.1	24.5%	1.5%	-2.3%
27	NET US	Cloudflare Inc	IT Services	Stifel	Adam Borg	$208	$275	32.4%	$61.22	184.4	-3.4%	-10.8%	82.4%
28	RCL US	Royal Caribbean Cruises Ltd	Hotels, Restaurants & Leisure	Stifel	Steven Wieczynski	$249	$400	60.5%	$59.70	14.4	16.6%	-2.7%	2.0%
29	IDXX US	IDEXX Laboratories Inc	Health Care Equipment & Suppli	Stifel	Jonathan Block	$705	$775	9.9%	$55.74	50.2	40.3%	-0.5%	56.5%
30	ALNY US	Alnylam Pharmaceuticals Inc	Biotechnology	Stifel	Paul Matteis	$416	$508	19.0%	$54.73	47.5	10.0%	-6.0%	62.6%
31	BDX US	Becton Dickinson & Co	Health Care Equipment & Suppli	Stifel	Frederick Wise	$190	$210	10.7%	$54.06	12.8	5.0%	7.3%	-13.1%
32	MNST US	Monster Beverage Corp	Beverages	Stifel	Matthew Smith	$74	$78	5.8%	$51.17	34.0	23.8%	5.7%	38.5%
33	EW US	Edwards Lifesciences Corp	Health Care Equipment & Suppli	Stifel	Frederick Wise	$84	$100	19.4%	$48.46	30.4	11.4%	0.4%	18.1%
34	ROP US	Roper Technologies Inc	Software	Stifel	Brad Reback	$443	$550	24.2%	$47.50	20.8	5.7%	-0.9%	-18.7%
35	CMG US	Chipotle Mexican Grill Inc	Hotels, Restaurants & Leisure	Stifel	Christopher O'Cull	$34	$50	47.2%	$44.59	29.2	18.1%	11.1%	-47.4%
36	RSG US	Republic Services Inc	Commercial Services & Supplies	Stifel	Shlomo Rosenbaum	$210	$251	19.7%	$41.83	29.4	11.1%	2.0%	-0.2%
37	INSM US	Insmed Inc	Biotechnology	Stifel	Stephen Willey	$195	$212	8.9%	$41.16	#N/A N/A	-77.6%	2.7%	167.6%
38	A US	Agilent Technologies Inc	Life Sciences Tools & Services	Stifel	Daniel Arias	$142	$170	19.9%	$39.97	23.9	13.3%	-3.4%	-0.7%
39	GEHC US	GE HealthCare Technologies Inc	Health Care Equipment & Suppli	Stifel	Frederick Wise	$83	$90	8.1%	$36.73	17.3	13.9%	14.0%	1.9%
40	IQV US	IQVIA Holdings Inc	Life Sciences Tools & Services	Stifel	Shlomo Rosenbaum	$220	$254	15.2%	$36.30	17.5	8.3%	4.7%	6.8%
41	VEEV US	Veeva Systems Inc	Health Care Technology	Stifel	David Grossman	$233	$320	37.5%	$34.84	28.0	10.9%	-21.1%	-5.4%
42	FLUT US	Flutter Entertainment PLC	Hotels, Restaurants & Leisure	Stifel	Jeffrey Stantial	$215	$330	53.4%	$33.88	30.4	-0.3%	-3.6%	-20.8%
43	MDB US	MongoDB Inc	IT Services	Stifel	Brad Reback	$417	$450	7.9%	$32.90	76.4	-3.3%	15.6%	19.2%
44	ALC US	Alcon AG	Health Care Equipment & Suppli	Stifel	Thomas Stephan	$80	$85	7.1%	$32.05	24.3	4.4%	8.7%	-15.7%
45	MTD US	Mettler-Toledo International I	Life Sciences Tools & Services	Stifel	Daniel Arias	$1,377	$1,600	16.2%	$28.04	30.9	38.6%	-4.3%	7.5%
46	CCL US	Carnival Corp	Hotels, Restaurants & Leisure	Stifel	Steven Wieczynski	$25	$38	49.3%	$27.24	10.9	10.7%	-4.8%	0.2%
47	BIIB US	Biogen Inc	Biotechnology	Stifel	Paul Matteis	$178	$202	13.6%	$26.04	13.3	7.7%	14.4%	13.7%
48	DXCM US	Dexcom Inc	Health Care Equipment & Suppli	Stifel	Jonathan Block	$65	$85	29.9%	$25.40	27.5	11.7%	19.0%	-16.5%
49	EFX US	Equifax Inc	Professional Services	Stifel	Shlomo Rosenbaum	$209	$253	20.9%	$25.38	24.9	8.0%	1.1%	-20.3%
50	ZS US	Zscaler Inc	Software	Stifel	Adam Borg	$243	$320	31.8%	$24.85	62.2	-2.4%	-24.1%	17.8%

Source: Bloomberg terminal data. Pricing as of 12/10/25 intra-day.

STIFEL

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In our view:

Appendices on Current Topics

1. **Some analysts see a smooth hand-off to broad cyclicals (we don't)**
2. **Near-term cautious signals are being sent by various *non*-equity assets**
3. **Inflation progress in 2026E only returns to the sticky pre-2008 GFC levels**
4. **High deficits + bottoming commodities = pressure on Growth leadership**

Source: Stifel Research.

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In our view:

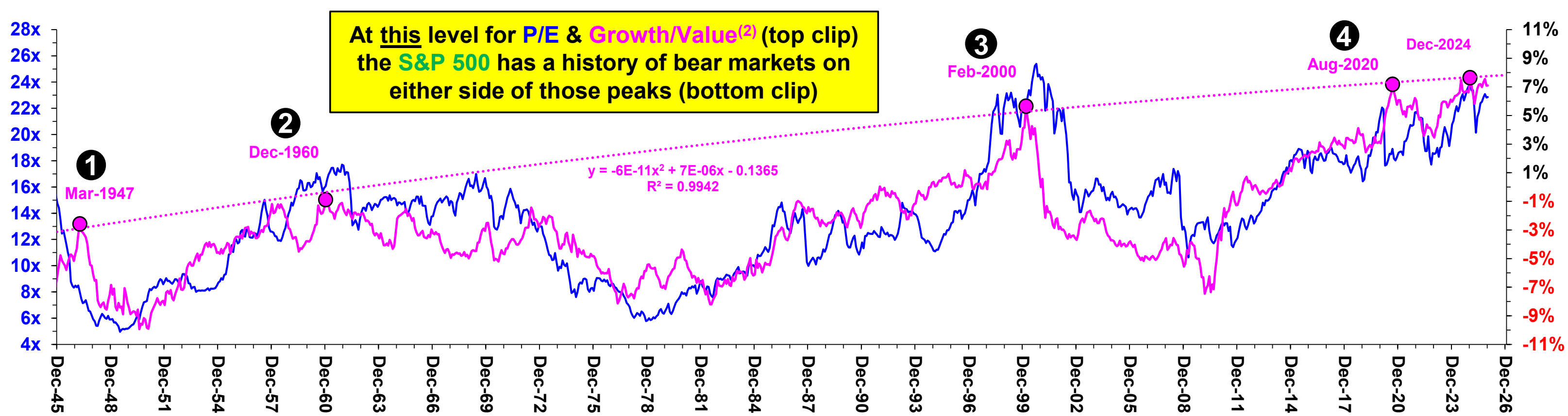
Some strategists expect an easy hand-off from Tech-led Growth to broad cyclical strength (we don't)

Source: Stifel Research.

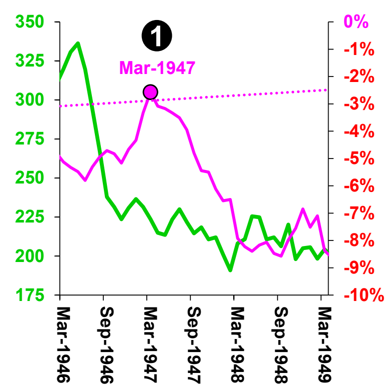
Barry B. Bannister, CFA BBBannister@Stifel.com and Thomas R. Carroll, CFA CarrollT@Stifel.com – Stifel Equity Strategy

A smooth Growth to Value stock hand-off has never occurred at <u>this</u> *starting level* for the P/E and Growth vs. Value

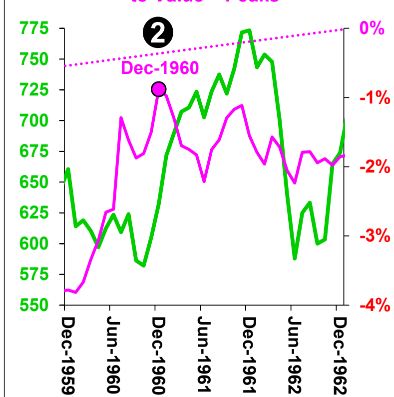
S&P 500 P/E on Trailing 12M Operating EPS(1) (Left) vs. Large Cap Growth vs. Value(2) (10-Yr. CAGR G/V, Right, with Polynomial Line)



Inflation-Adjusted S&P 500 Before & After Large Cap Growth Relative to Value(2) Peaks



Inflation-Adjusted S&P 500 Before & After Large Cap Growth Relative to Value(2) Peaks



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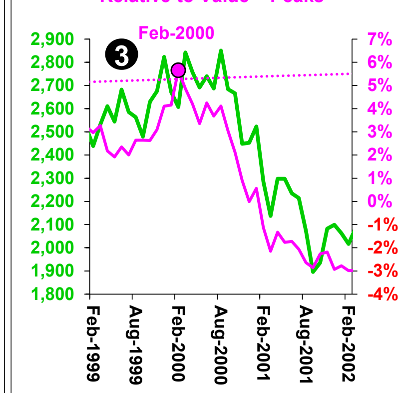
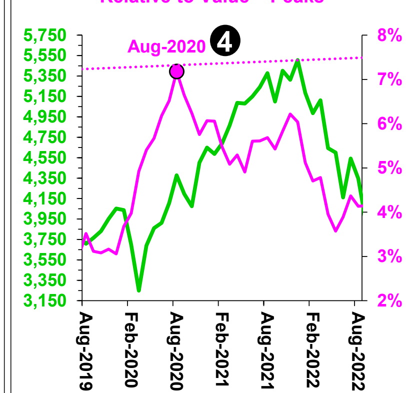


Inflation-Adjusted S&P 500 Before & After Large Cap Growth Relative to Value(2) Peaks



Source: Bloomberg data, Stifel Research.

(1) We use S&P 500 Operating EPS not GAAP (Bloomberg 1980+, pre-1980 we is Shiller/S&P GAAP EPS data increased by 12.2%, the 45-yr. avg. Operating vs. GAAP premium).
(2) Value & Growth are French (data) 1978 and earlier, and Bloomberg terminal data thereafter. The pink line is 10-yr. CAGR of Growth to Value annualized relative total return.

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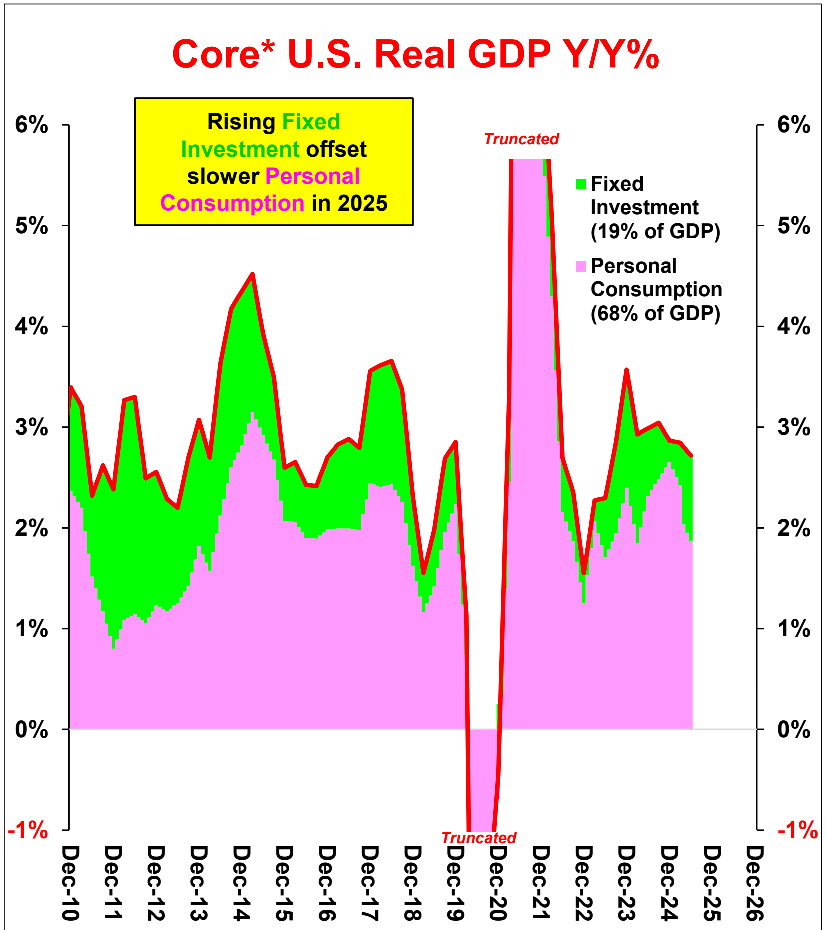
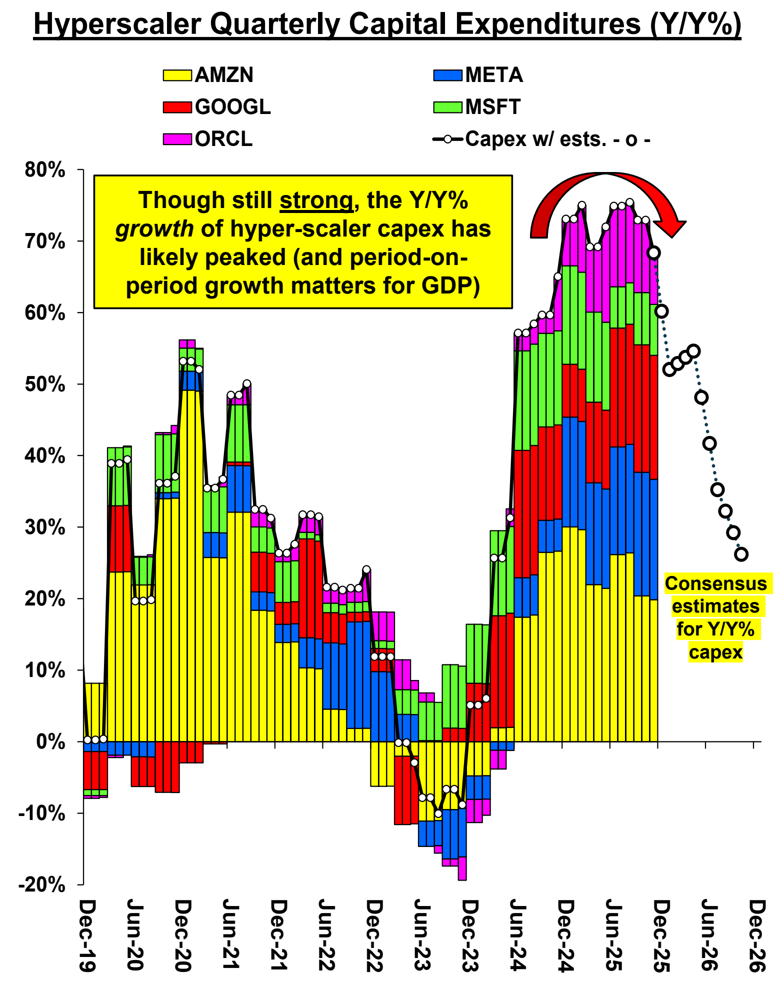
Hyperscaler capex offset slower personal consumption in 2025, but hyperscaler capex *rate of change* has peaked



* Core GDP: Real Final Sales Private Domestic Purchasers is real GDP excluding net exports, gov't spend on goods & services, and inventory change.



Source: Bloomberg data, Stifel Research and forecasts.

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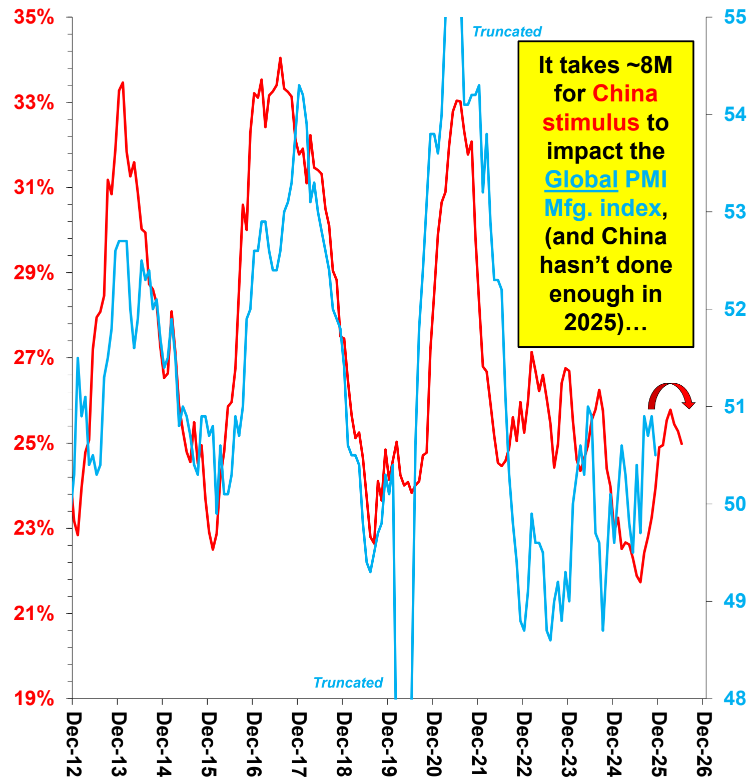
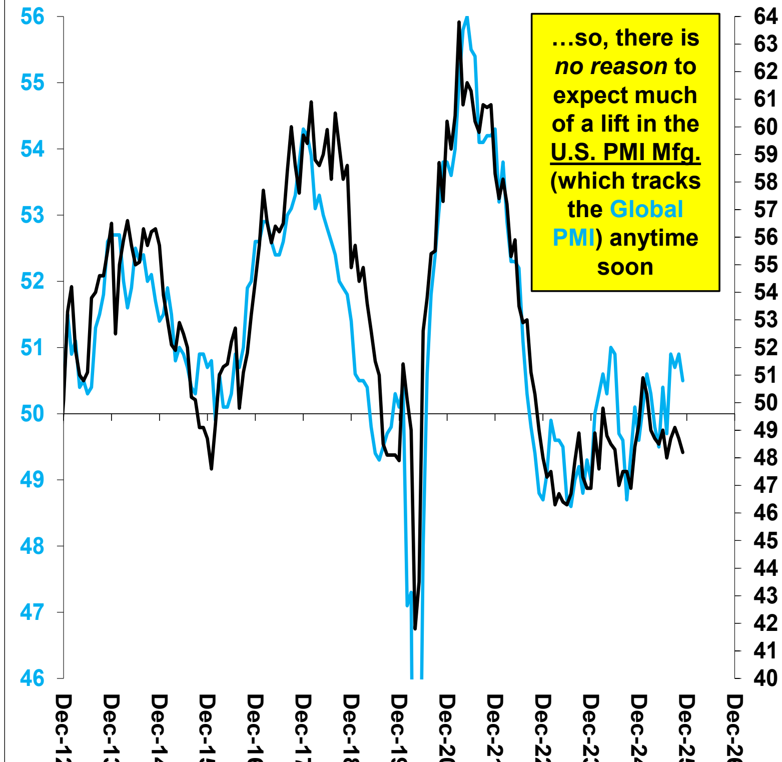
Some expect a broad 2026 cyclical recovery, but we see *little lift* for U.S. PMI Manufacturing without *"more China"*

Chinese Stimulus(1) as a % of Chinese Nominal GDP Advanced 8 months (Left Axis) vs. the Global Manufacturing Purchasing Manager's Index (Right Axis)



Global Manufacturing Purchasing Manager's Index (Left) vs. Institute for Supply Management U.S. Manufacturing PMI (Right)



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

(1) "Chinese Stimulus" (red line chart above left, advanced 8 months into the future) is the one-year change (in Chinese currency CNY) of the aggregate stock of all Chinese Credit (BBRG Ticker: CNFGASF) which is then divided by Chinese Nominal GDP (BBRG Ticker: CNNGPQ$). Chinese Credit Stimulus is all bank & non-bank lending, plus all government bonds. Government bonds are Local Government Financing Vehicles, other Local Government Bonds and Central Government Bonds.

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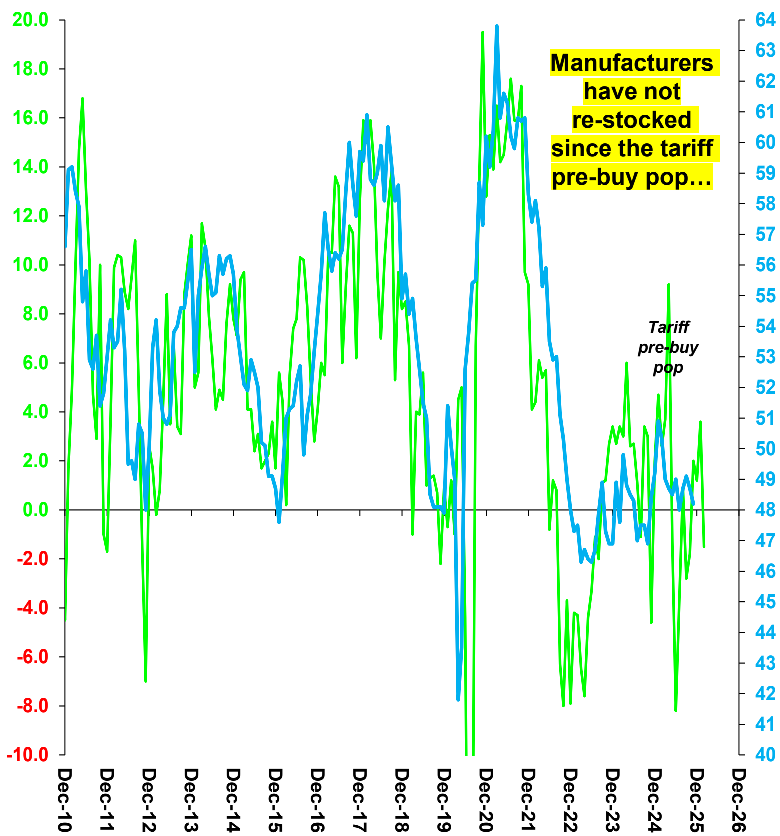
There have also been *no positive signals* from inventory re-stocking, either from U.S. manufacturers or their customers

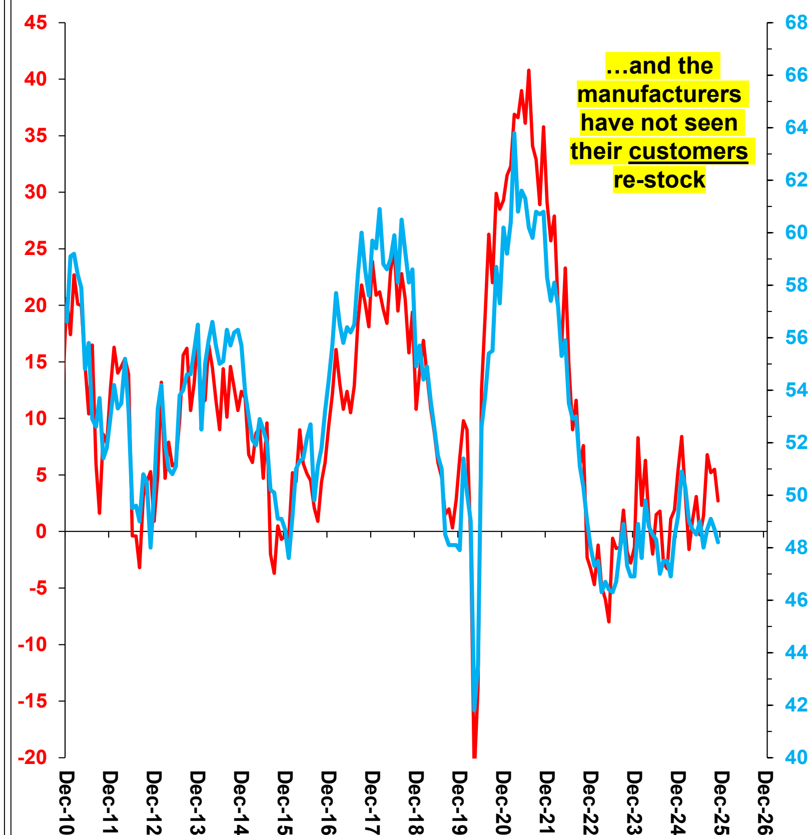
U.S. ISM PMI Mfg. has had no lift since the pre-tariff surge

New Orders Minus Manufacturer's Inventories (Left, Adv. 3 Months) vs. ISM Manufacturing PMI (Right Axis)



Stronger ISM PMI Mfg. needs *customers* to re-stock

New Orders Minus Customer's Own Inventories (Left Axis) vs. ISM Manufacturing PMI (Right Axis)



Source: Bloomberg data, Stifel Research.

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In our view:

Near-term cautious signals are coming from other, non-equity assets

Source: Stifel Research.

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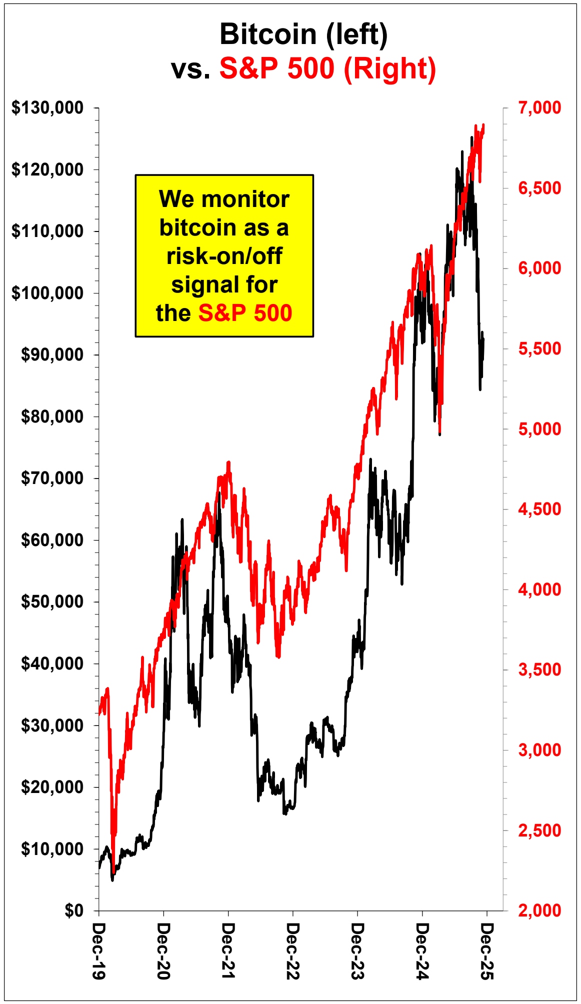
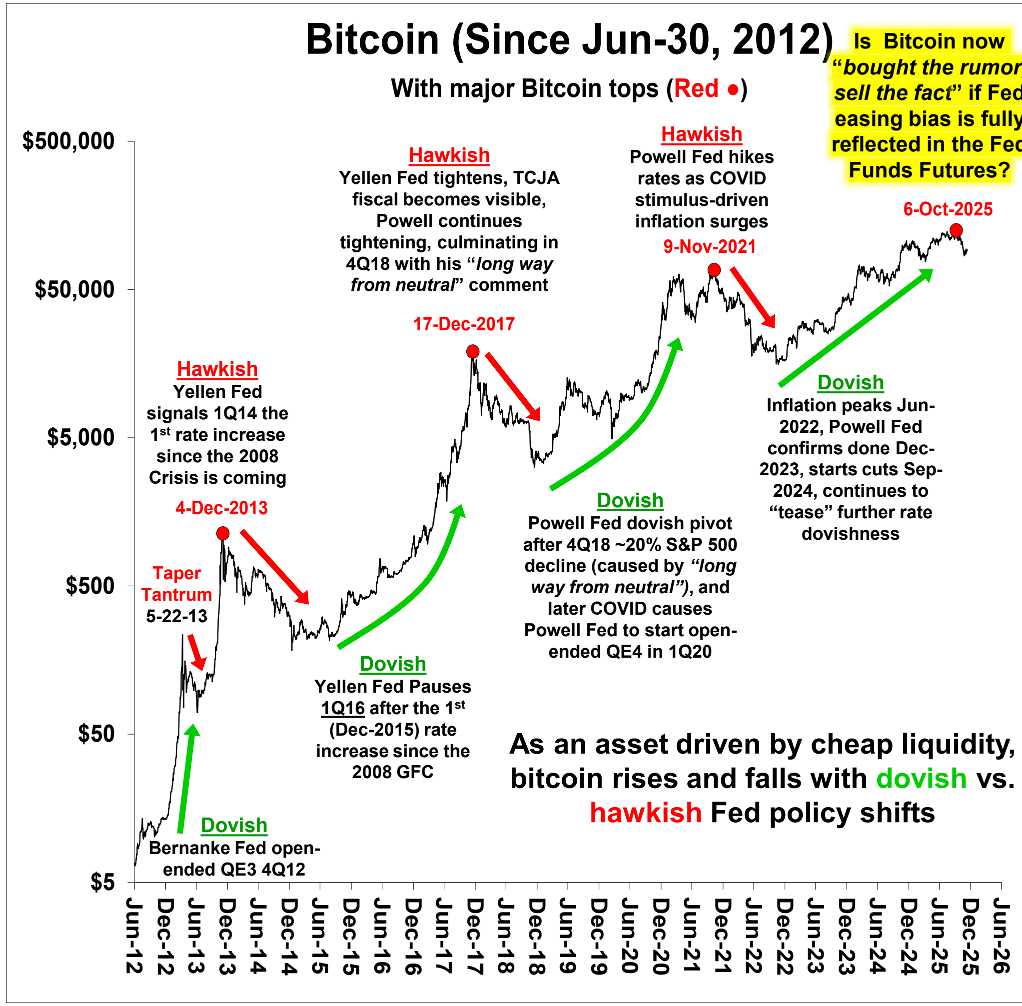
Bitcoin moves with Fed policy, and if the extent of Fed easing is *already* discounted Bitcoin *and* the S&P 500 may top





Source: Bloomberg data, Stifel research.

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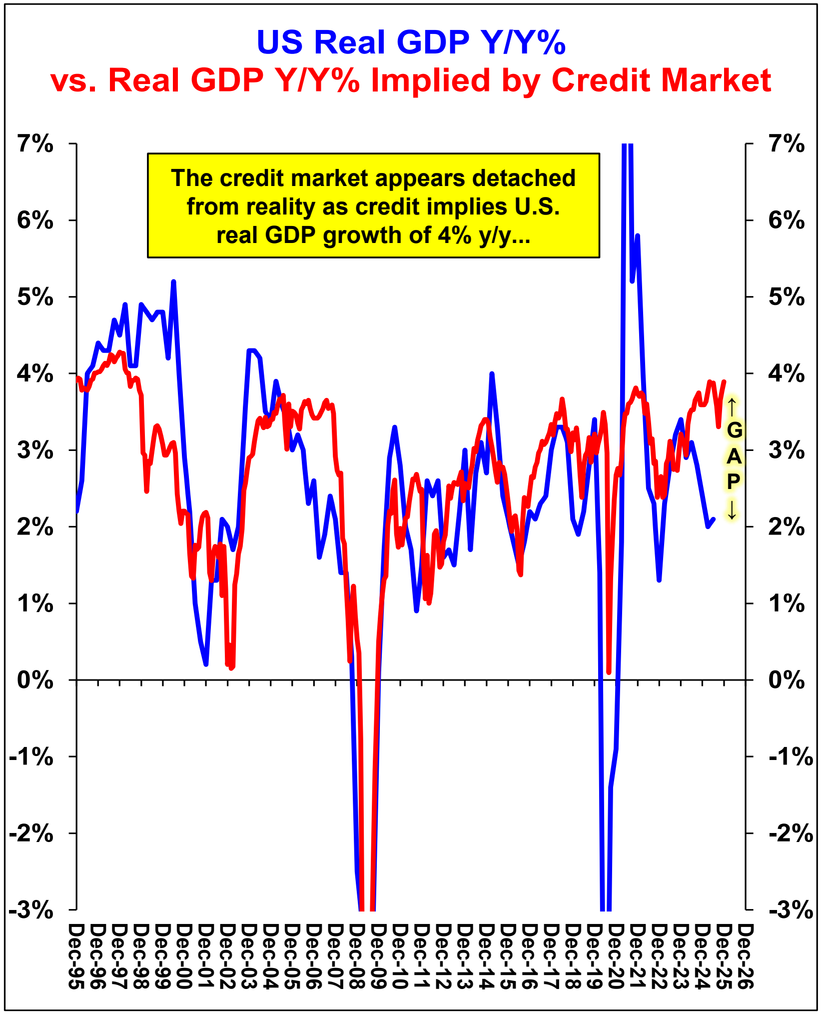
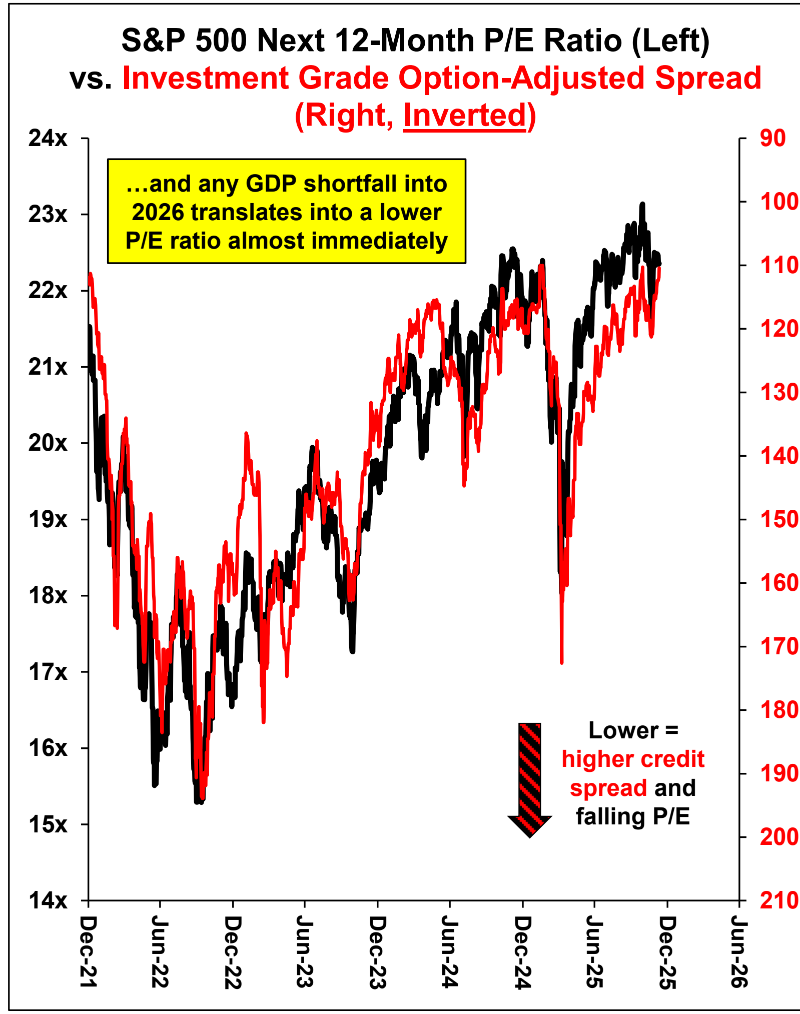
Frothy credit implies real GDP near 4% Y/Y (looks unlikely); and if GDP weakens spreads widen and S&P 500 P/E falls





Source: Bloomberg data, Stifel Research and forecasts.

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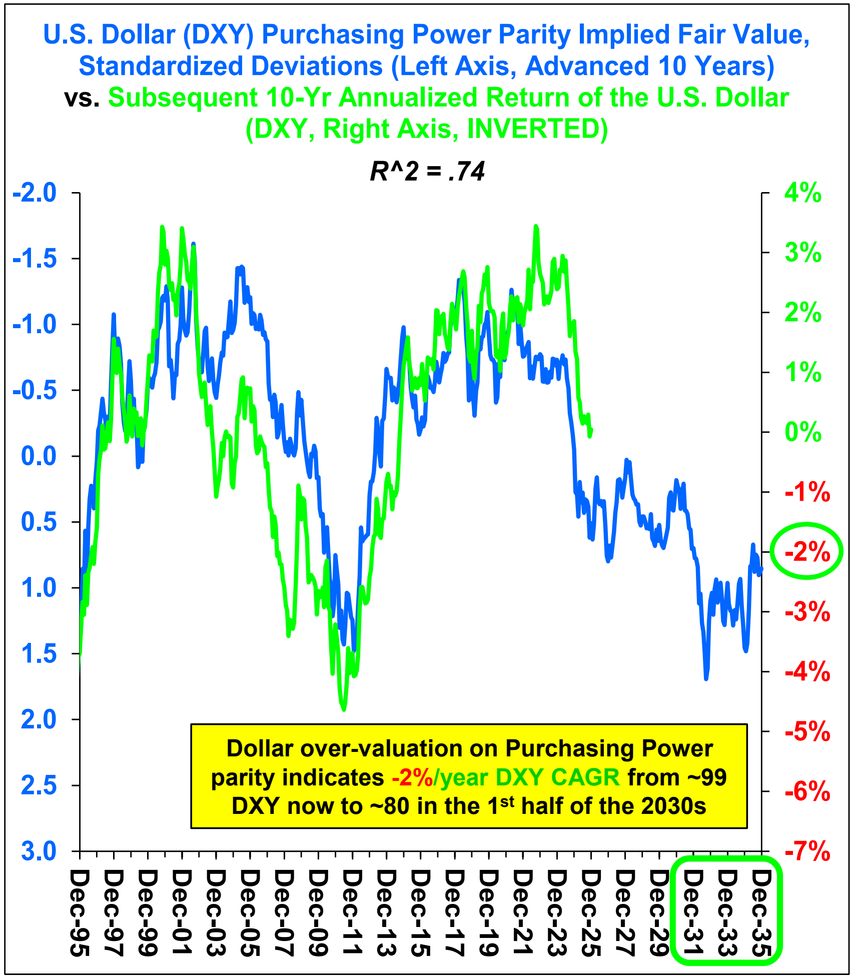
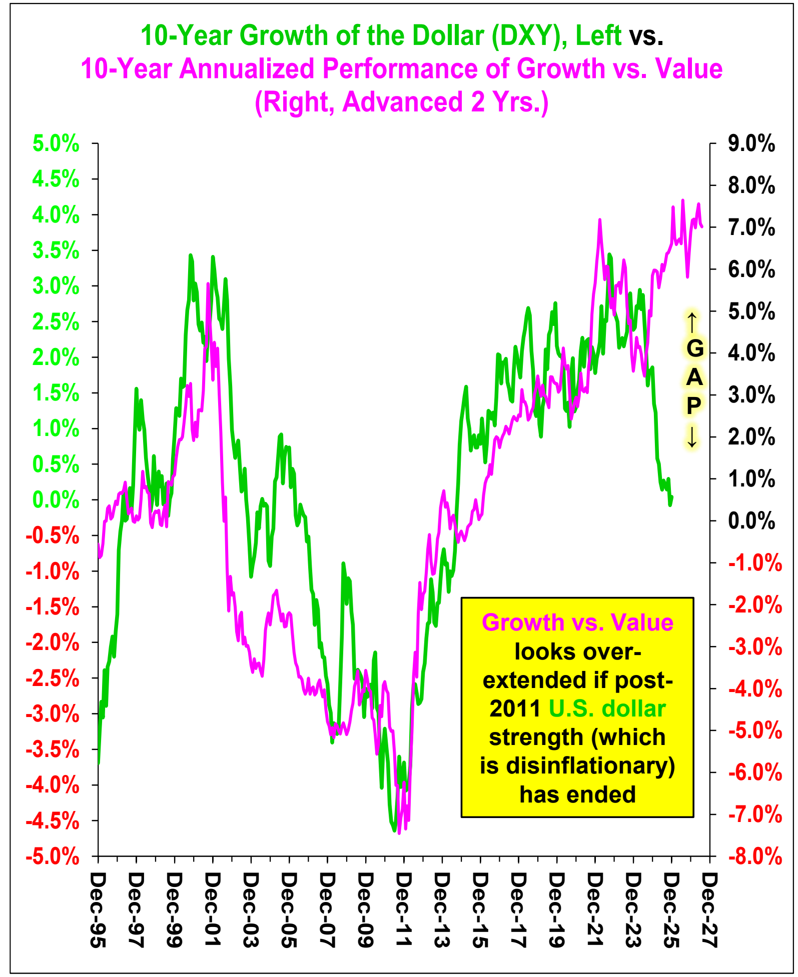
The slow, prolonged dollar weakness we see 2025-35E resembles 2000-2010, a possible negative for Growth vs. Value





Source: Bloomberg terminal data, FRED data, Stifel Research.

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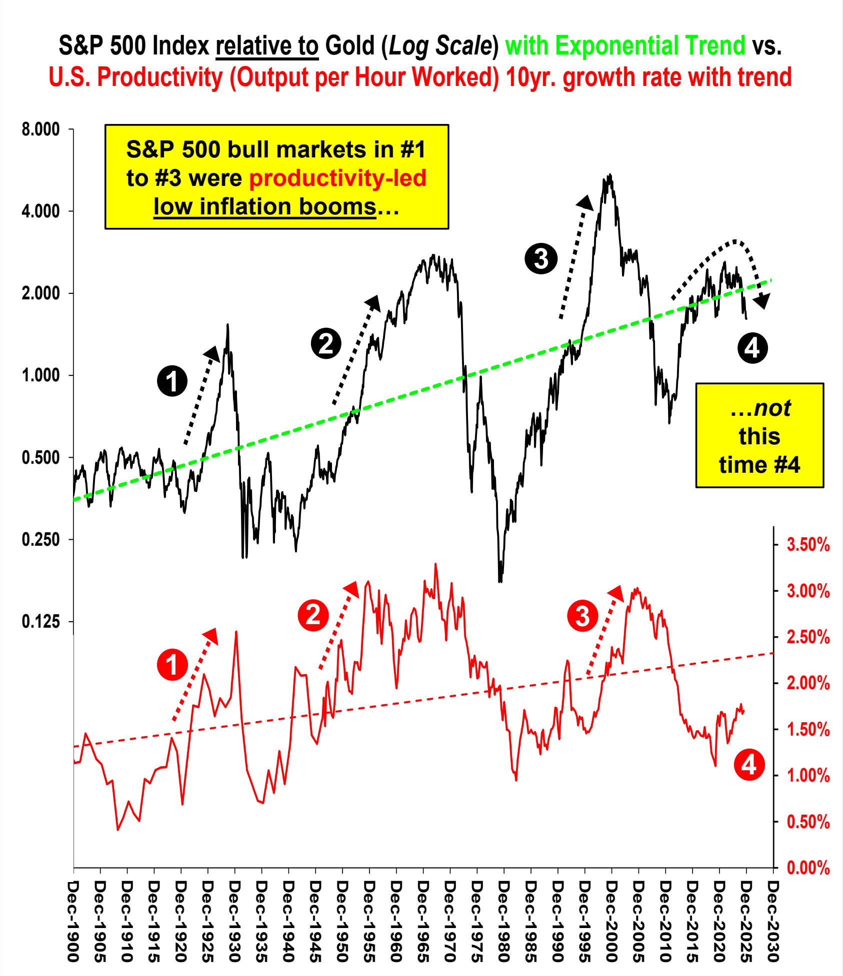
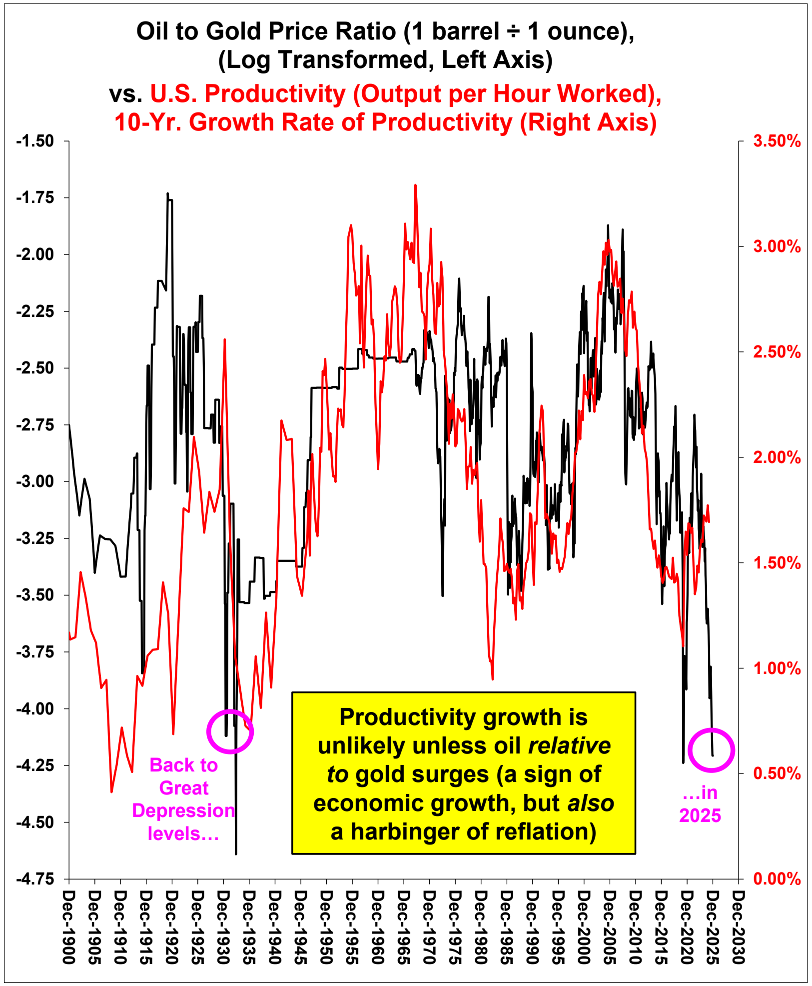
S&P 500 vs. gold as well as oil vs. gold *do not* indicate a productivity-led disinflationary boom of the sort AI promises





Source: Bloomberg data, World Gold Council, Stifel Research.

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In our view:

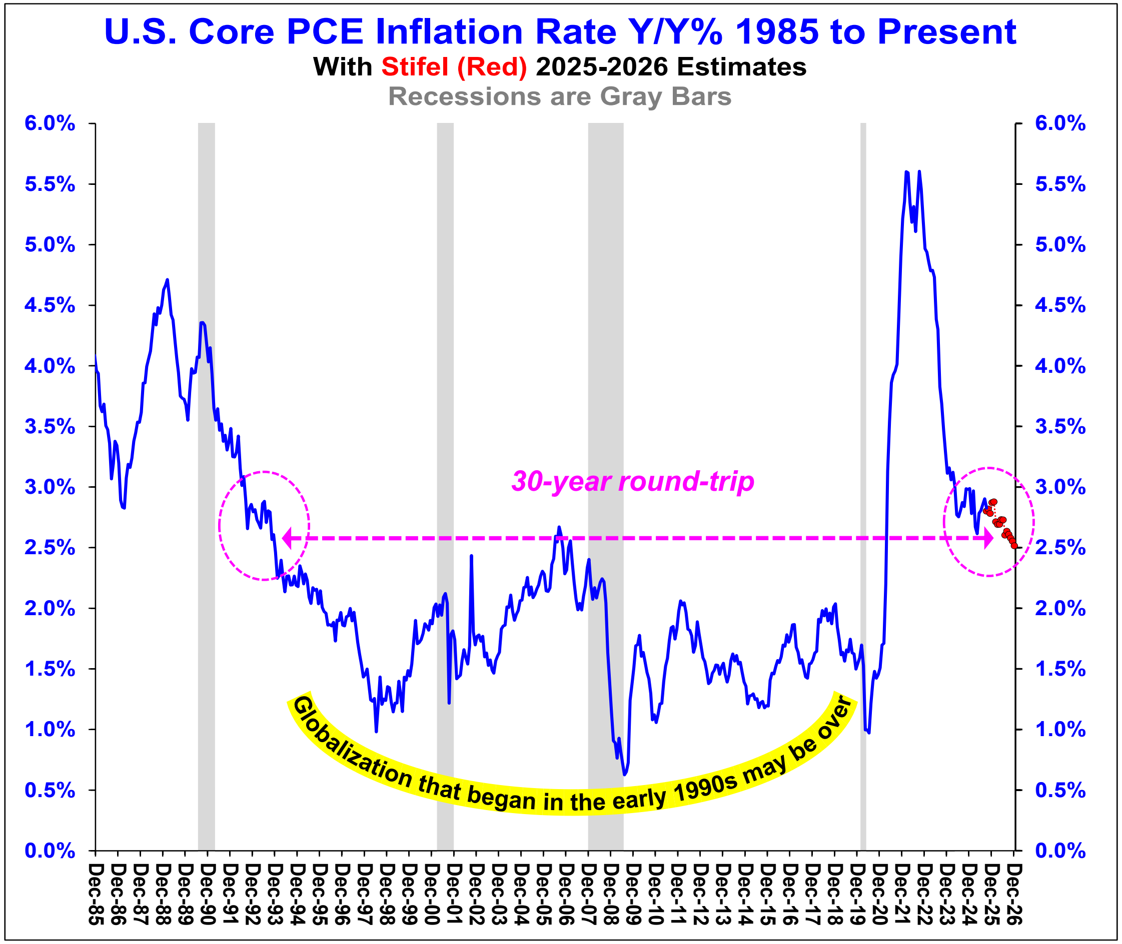
Inflation in 2026E *only* pulls back to the pre-Globalization early 1990s levels, not to the 2% target the Fed often references

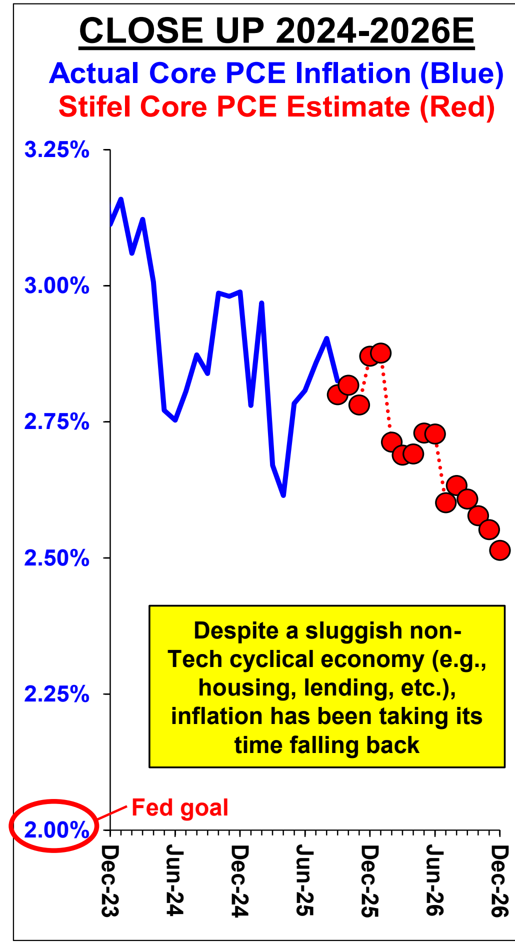
Source: Stifel Research.

December 11, 2025

Barry B. Bannister, CFA BBBannister@Stifel.com and Thomas R. Carroll, CFA CarrollT@Stifel.com – Stifel Equity Strategy

Despite investor confidence in low inflation, Core PCE(1) y/y% has only returned to the pre-Globalization level of ~1993





Source: Bloomberg data, Stifel Research and forecasts.

(1) Our **inflation model** is 65% Unit Labor and 35% Unit Non-Labor Costs. ULC is Aggregate Hours Worked x Avg. Hourly Earnings ÷ Nonfarm Output. Unit **Non**-Labor Costs are the annual change in PCE Goods inflation, which we forecast with a combination of NY Fed Supply Chain Index and PPI Finished Goods ex. Food & Energy. Our **sum-of-parts model** is a weighted combination of indicators for the four parts of Core PCE (Core Services ex-Housing, Housing, Core Durable & Non-Durable Goods).

December 11, 2025

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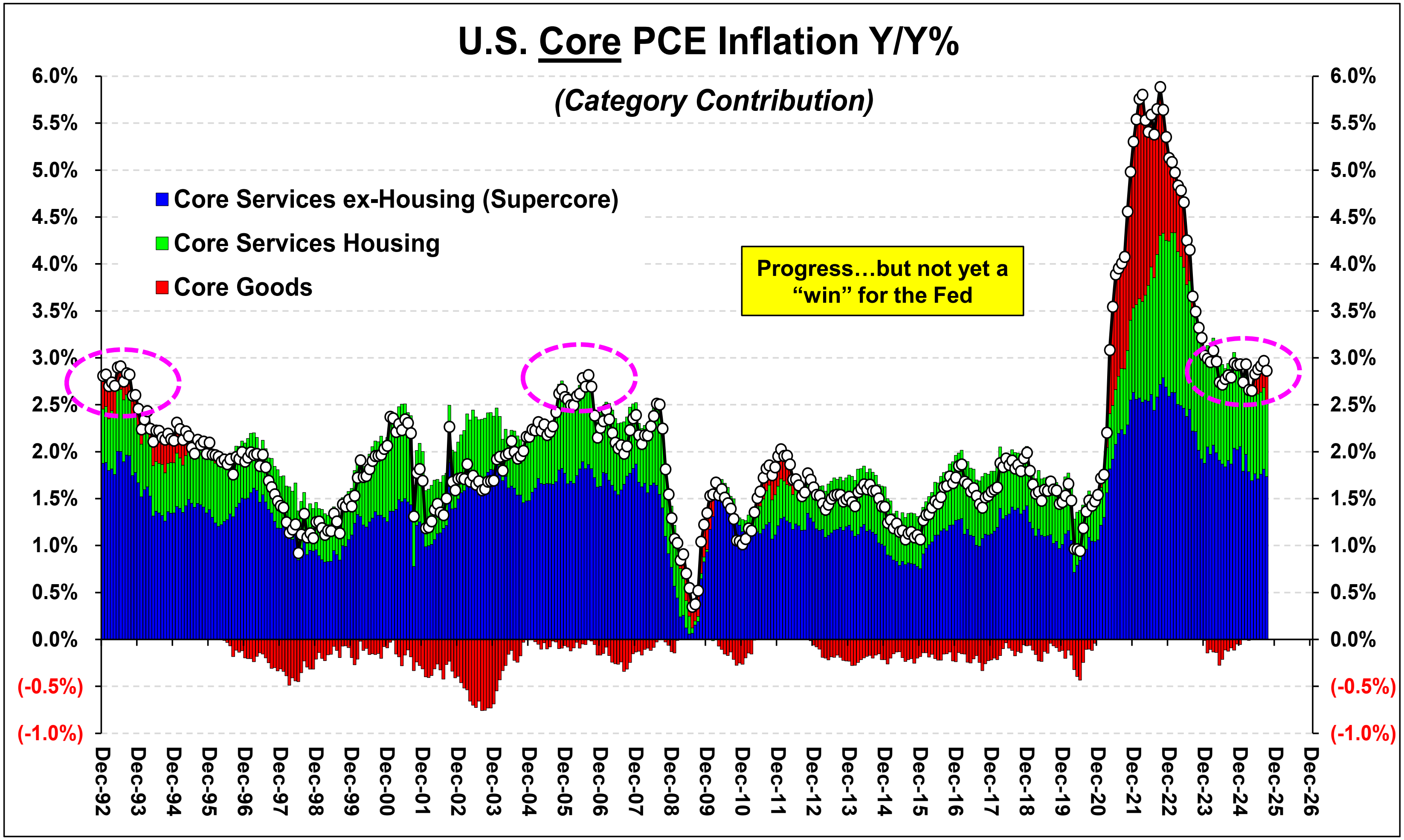
Fed is aware Core PCE inflation has only returned to levels existing pre-Globalization (early-90s) and pre-GFC (2007)



Source: Bloomberg terminal data, Stifel estimates.

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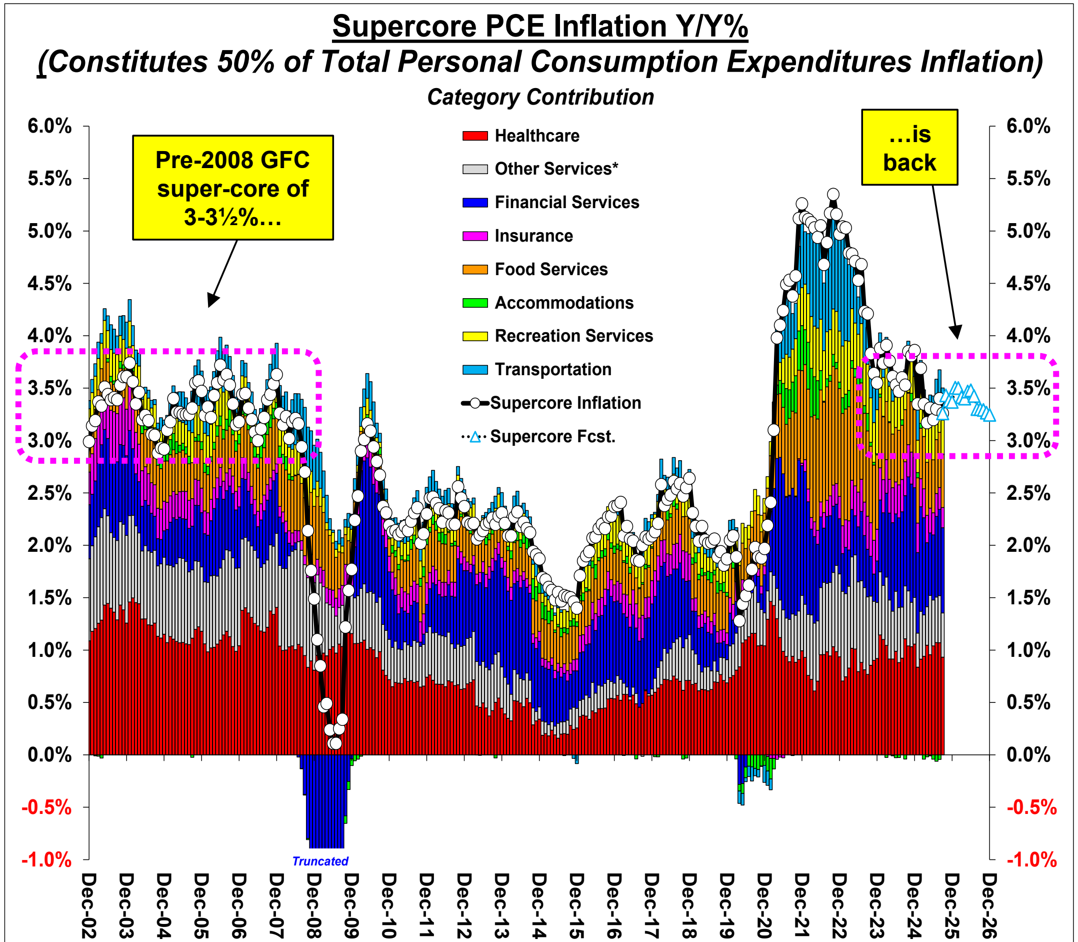
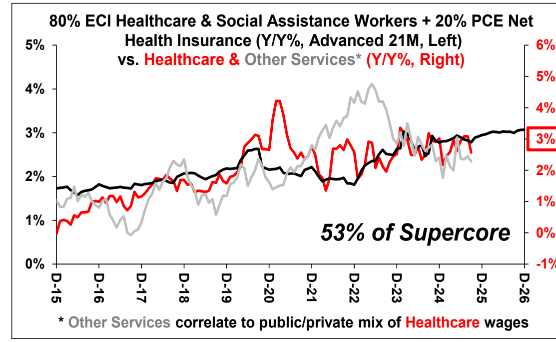
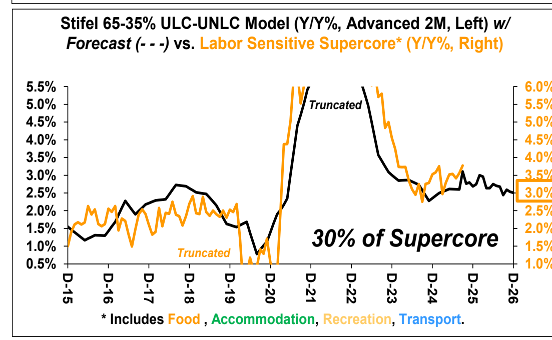
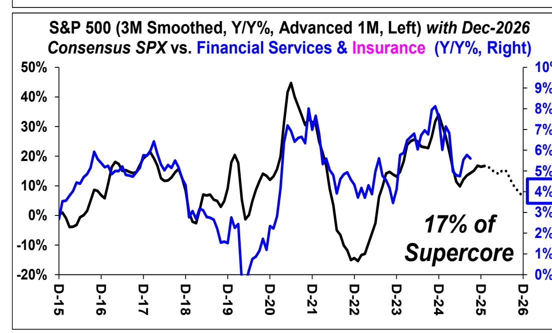
Supercore (core services ex-housing, which is half of total inflation), is critical in a service economy *and proving sticky*



** Other services includes: communication, education, professional, personal care, social services, etc.*
The largest source of relative "Other Services" inflation has been professional & personal care services.



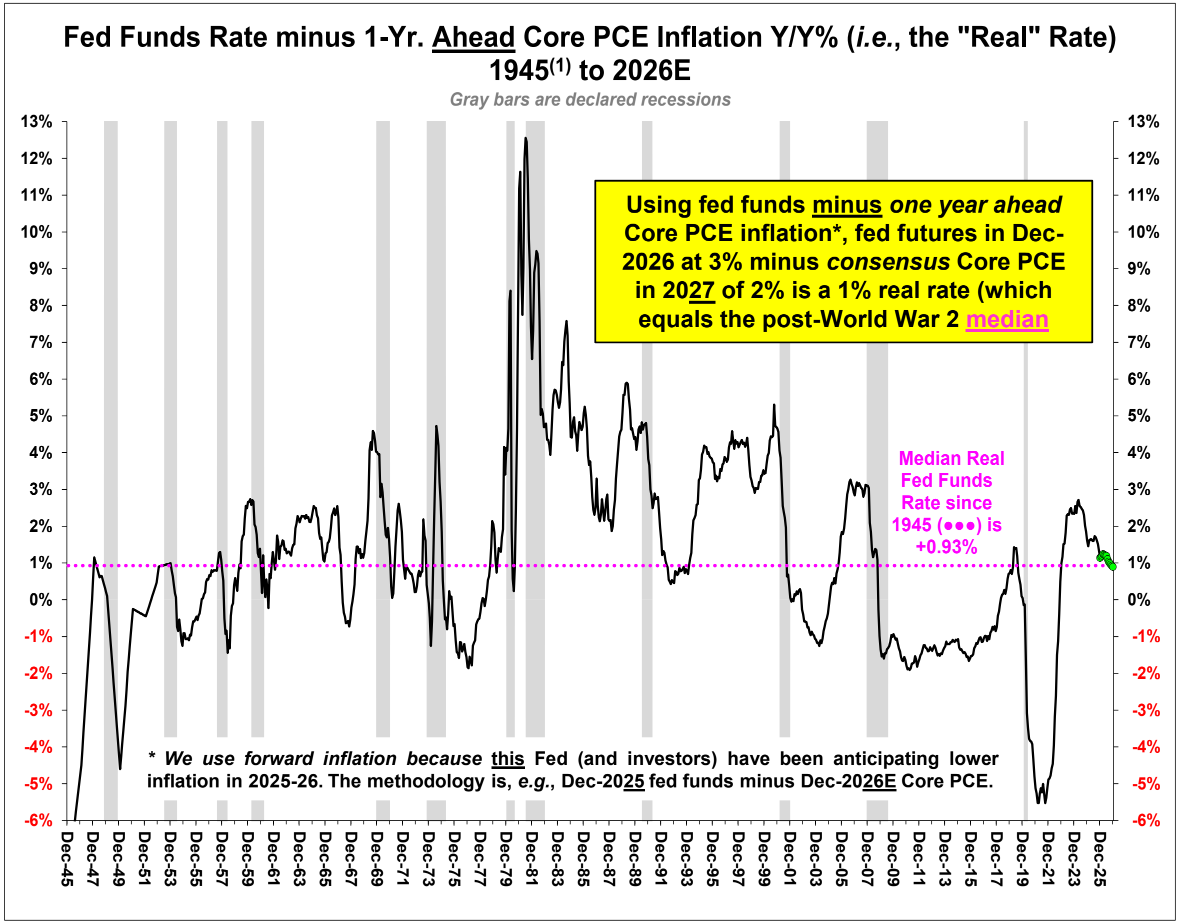


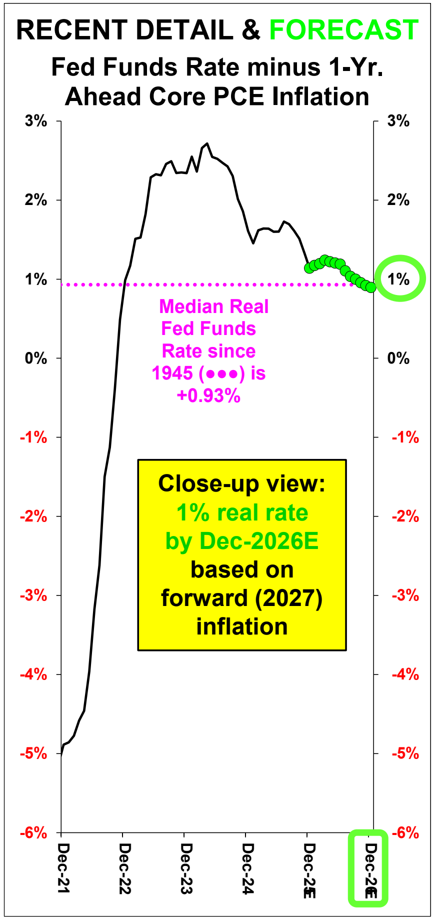


Source: Bloomberg data, Stifel Research and forecasts.

Barry B. Bannister, CFA BBBannister@Stifel.com and Thomas R. Carroll, CFA CarrollT@Stifel.com – Stifel Equity Strategy

If Fed cuts rates to 3% in Dec-26 futures, they will need 2% inflation in 2027 to justify the real rate they would create





Source: Bloomberg data, FRED, Stifel Research.

(1) Although the Fed has at times emphasized different monetary tools and variables than rates (e.g., reserves, RRR, monetary aggregates, QE), the Fed short-term interest rate adequately captures policy stance. We use NY Fed Discount Rate 1945 to Jun-54 and fed funds Jul-54 to present. Annual Core PCE inflation data pre-Jan-1960 is interpolated from annual Core PCE inflation data from FRED, and Bloomberg monthly BEA Core PCE data post-Jan-1960.

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In our view:

High fiscal deficit (money creation) and bottoming commodities indicate long lasting pressure on today's high P/E, Growth-led stock market

Source: Stifel Research.

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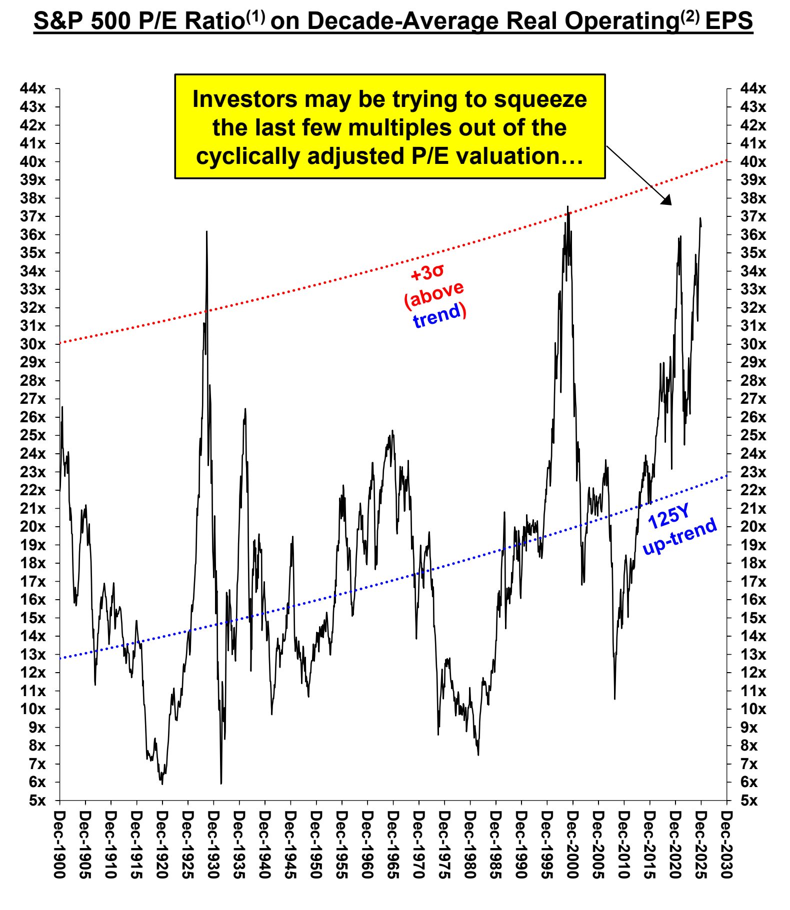
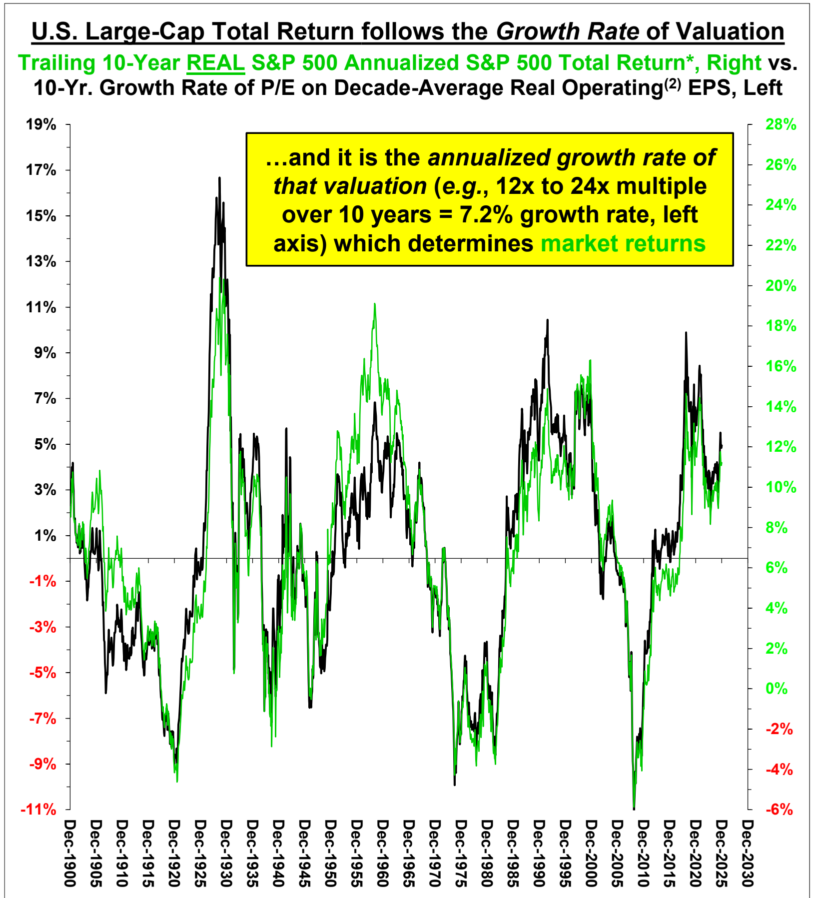
S&P 500 valuation on cyclically adjusted[(1)] *operating* EPS[(2)] is shown to be nearly 3 standard deviations over-heated





** Total return is price change plus dividends reinvested when paid.*

Source: Bloomberg data, Stifel Research.

(1) Cyclically Adjusted P/E (Shiller CAPE) on *Operating* EPS. The inflation-adj. total return S&P 500 divided by trailing 10-yr. avg. of inflation-adjusted total return Operating EPS.

(2) "S&P 500 Operating EPS" is Bloomberg 1980-present and pre-1980 we increase Shiller/S&P GAAP EPS data by 12.2% (the 45-yr. average Operating vs. GAAP premium).

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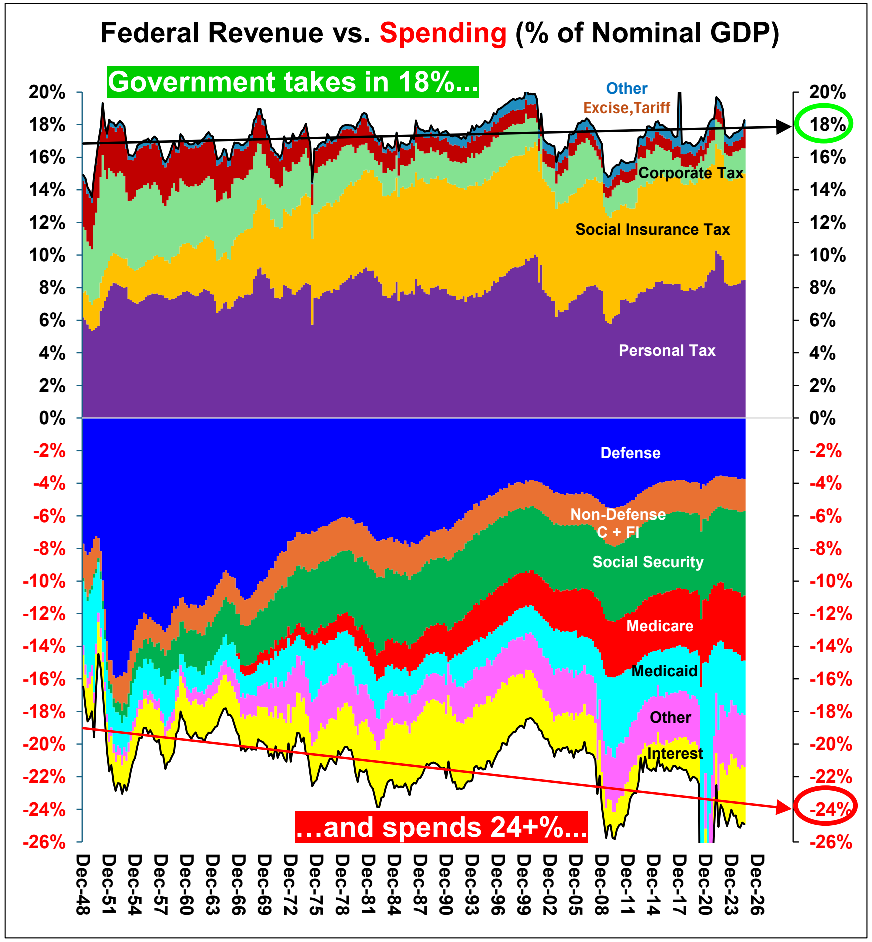
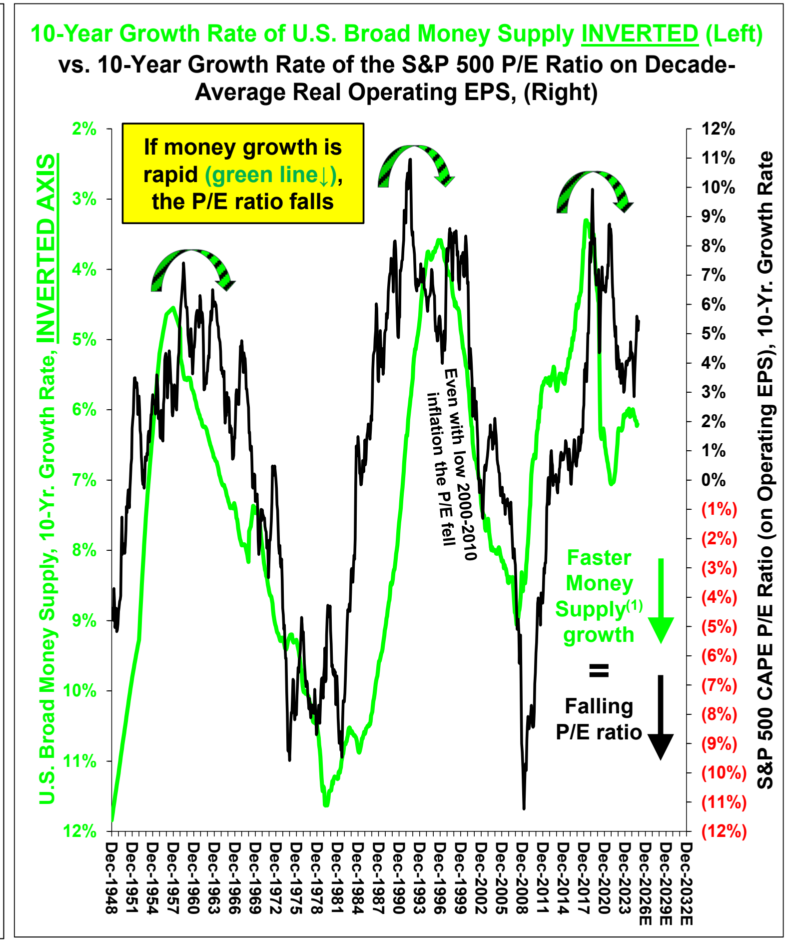
U.S. *structural* 6+% fiscal deficits, though good for *profits*, create money supply[(1)] which tends to lower the P/E in waves





Source: Bloomberg, FRED, Stifel Research.

(1) For Broad Money Supply we use the M3 Series: 1938-1958 from U.S. Census - Historical Statistics of U.S., M3 Money Supply), the **Fed provided M3 1959-2005** and **post-2006 we recompile M3** by adding to M2 large time deposits >$100k, institutional money funds *(Fed 2005-21, ICI after 2021)*, repos and estimated eurodollars.

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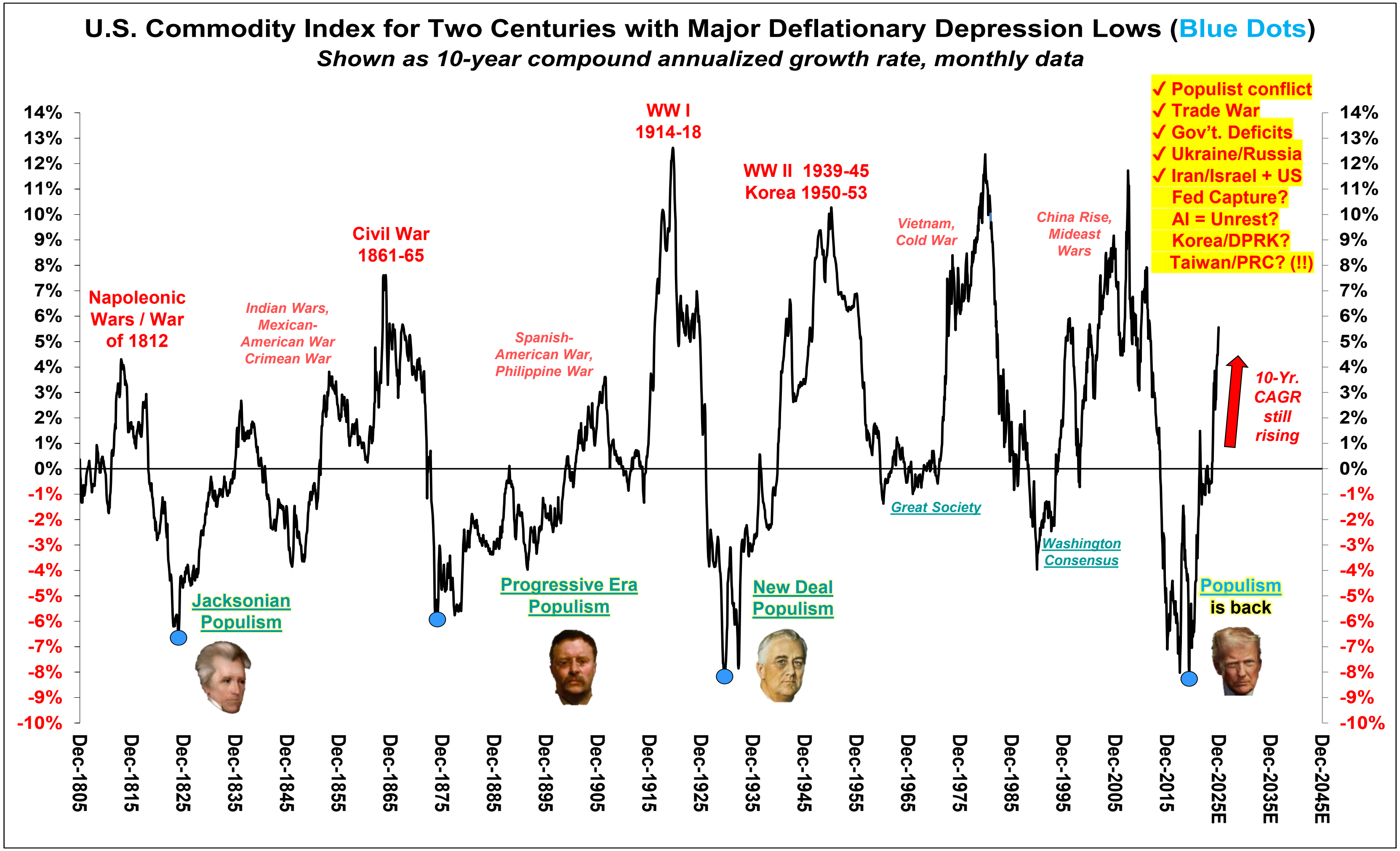
Though tough to time, Populism *always* follows commodity lows (●), precedes conflicts and is largely investor-unfriendly



Source: Census - Historical Statistics of the U.S. (1795-1904), Fed - Ind'l. Commodities (1904-1956), FTSE/CRB (1956-94) and (1994+), White House museum, Stifel Research.

STIFEL

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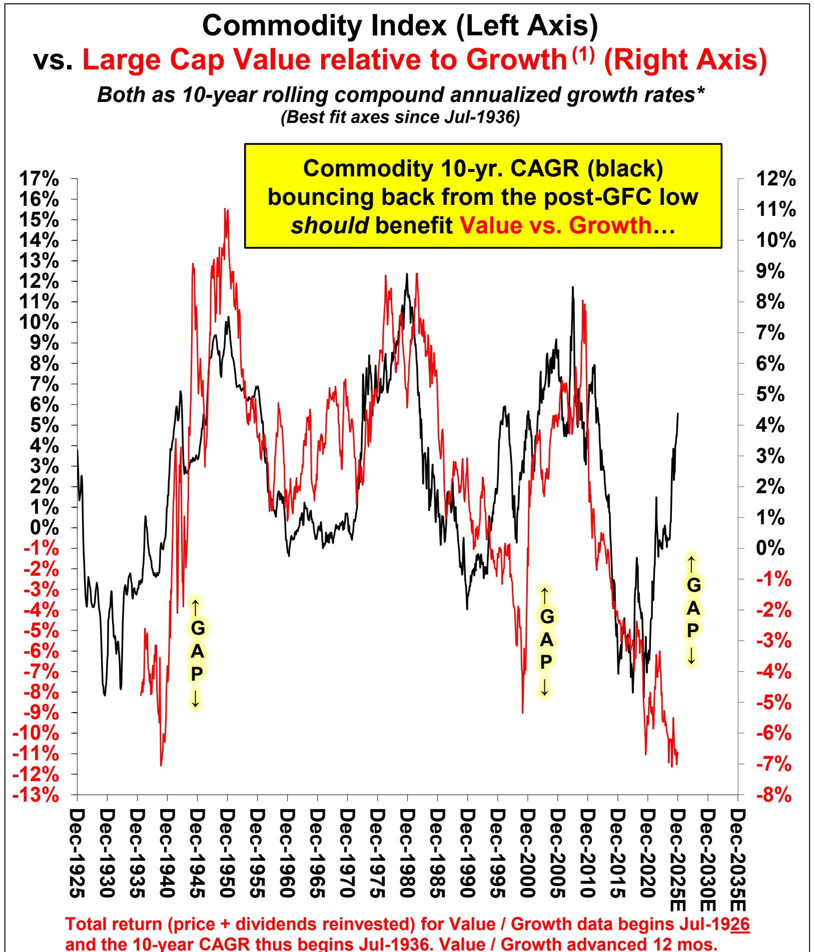
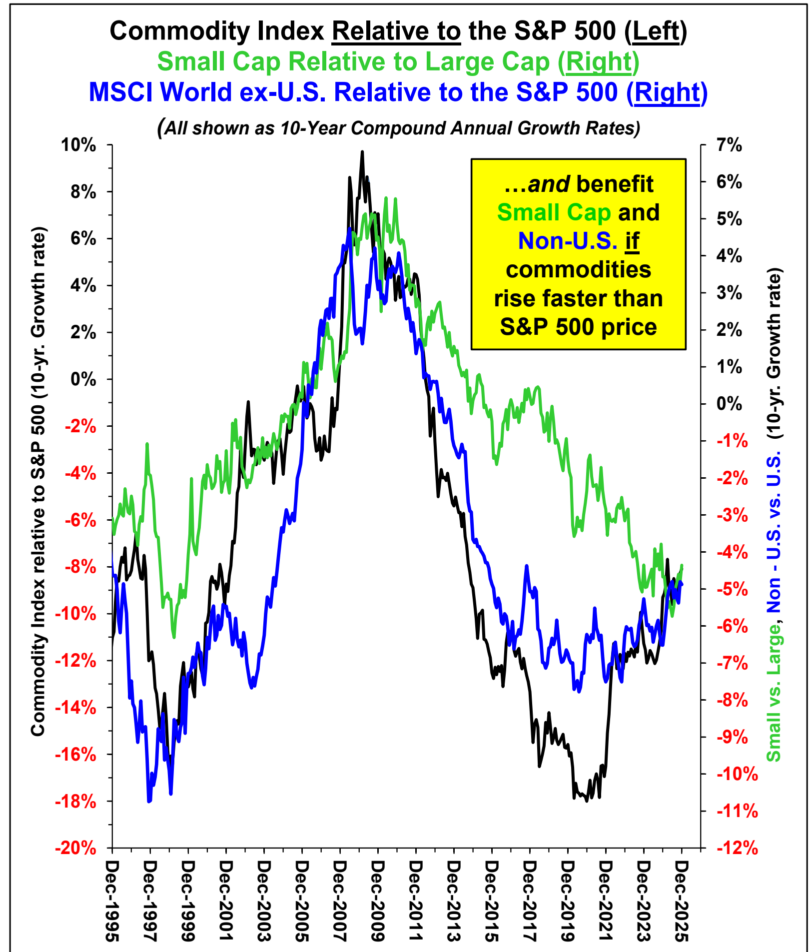
Commodity prices reviving in the 2025-2035E period (prior page) benefits Value v. Growth[(1)], Small Cap, and Non-U.S.





Source: U.S. Census - Historical Statistics of the U.S. (1795-1904), U.S. Fed Data - Industrial Commodities (1904-1956), FTSE/CRB Indices (1956-1994) and (1994+), Stifel Research.

(1) Value vs. Growth is French (Data) 1926-78 and Bloomberg terminal data 1978-present.

STIFEL

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Primary Role – Macro Strategy

- **Chief Equity Strategist for Stifel Institutional Equity Division 2011 → Present**
- **Sell-side Capital Goods & Engineering analyst 1992-2010, Buy-side analyst 1987-1992**

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- **Stifel/Legg Mason Capital Markets (LMCM a predecessor firm), Baltimore MD 1998 → Now**
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- **Two buy-side investment management firms, 1987-1992**

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- **Stifel Financial, New York City 2023 → Present**

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