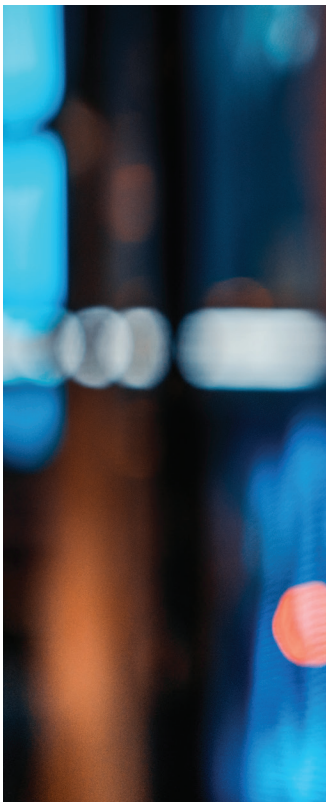
QUARTERLY 2Q21

TACTICAL ASSET ALLOCATION



- Vaccines Spur Growth Rebound
- U.S. Profits Recover to Pre-Pandemic Levels
- High U.S. Savings to Fuel Growth
- Stronger Dollar Favors Domestic Tilt
- Valuations, Rates, and Taxes are Risks

Much has changed in the past quarter. A new administration and new congressional leadership has emerged in Washington. Meanwhile, a COVID-19 vaccination rollout is accelerating throughout the United States and some other parts of the world. Speculative fervor has rippled through some parts of equity markets while bond investors fret about rising interest rates. This quarter we address how these changes are shaping the environment, creating challenges and opportunities for tactical investing along the way.

Stock prices surged from year-ago levels. Through March 31, 2021, the S&P 500 is up 54% year-over-year, with U.S. value surpassing $47 trillion. Almost everywhere we look, trends point to rebounding growth. Last week the International Monetary Fund (IMF) raised its 2021 global growth forecast to 6%, with the United States growing 6.5%. A weekly gauge of economic activity from the New York Federal Reserve is surging (chart, top-right). As vaccines are rolled out, the economy is rebounding sharply.

Profits are rebounding too. Analysts expect S&P 500 profits to reach pre-pandemic levels in the year ahead (chart, middle-right). Foreign profits are also up, but not back to pre-pandemic levels. Rebounding profits strengthen the bull case for equities.

Surging earnings are only part of what is driving stocks. Valuations are also rising. Stocks now trade at 22x expected earnings, 37% higher than the 16x multiple a year ago. An initial plunge in Treasury yields, followed by a surge in investor risk appetite, fueled this value re-appraisal. Thus two-thirds of the stock market's 54% gain over the past year can be attributed to rising valuations.

Awash in Savings

The personal savings rate averaged 17% over the past year. Bank deposits rose $3.4 trillion (25%) during the pandemic to a record $16.7 trillion. Thus, there is plenty of dry powder in excess savings to further fuel growth in the months ahead. Also, the March employment report showed 916,000 people found jobs during the month, the most since last summer. More private-sector jobs could go a long way to sustain growth.

What Could Go Wrong?

The run-up in stocks and historically low yields may limit gains from here. At 21.8x forward earnings, multiples for domestic stocks are high relative to normal levels (16x is about average). Further, it should be noted that high multiples are not a result of depressed earnings. As mentioned earlier, earnings forecasts are at record highs, having recovered fully from year-ago lows.

We also see inflation and bottlenecks in many industries becoming an increasing challenge. Inflation pressures are likely to mount, and interest rates could rise further. In turn, these factors could challenge today's elevated market valuations. Similarly, continued high deficits are likely to lead to calls for higher taxes, which could lower expected after-tax corporate earnings.

Additionally, the dollar has stopped falling and is firming against some currencies (chart, bottom-right). The strong dollar can be tied to three factors:

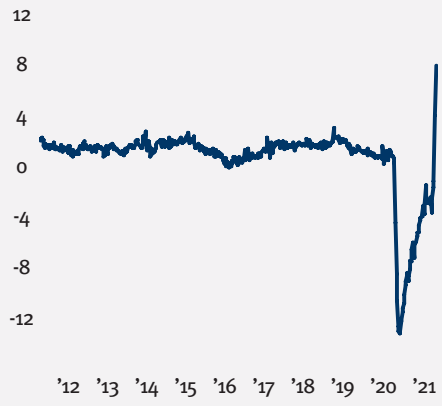
1. Rising real (inflation-adjusted) U.S. interest rates;
2. Faster expected U.S. growth; and
3. Slower vaccine roll-out in many other parts of the world

A stronger dollar poses problems for highly indebted emerging markets, in particular. These economies may struggle with falling commodity prices, heavier debt burdens, and higher inflation.

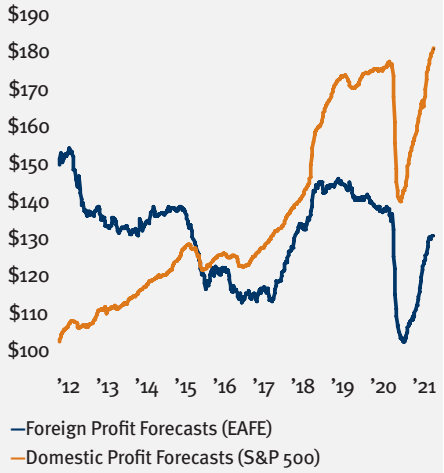
Tactical Posturing

Entering the second quarter, we make a few tactical adjustments to reflect changing conditions. While we remain overweight stocks versus bonds, a greater focus is placed on the U.S. versus foreign markets. Emerging market exposure is moved to neutral. The value equity style tilt is increased relative to the growth style. Lastly, gold exposure is cut to underweight.

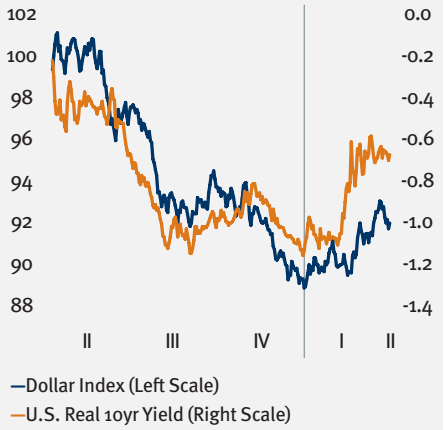
WEEKLY ECONOMIC INDEX SURGES
Source: New York Federal Reserve



PROFIT FORECASTS JUMP
Source: Bloomberg



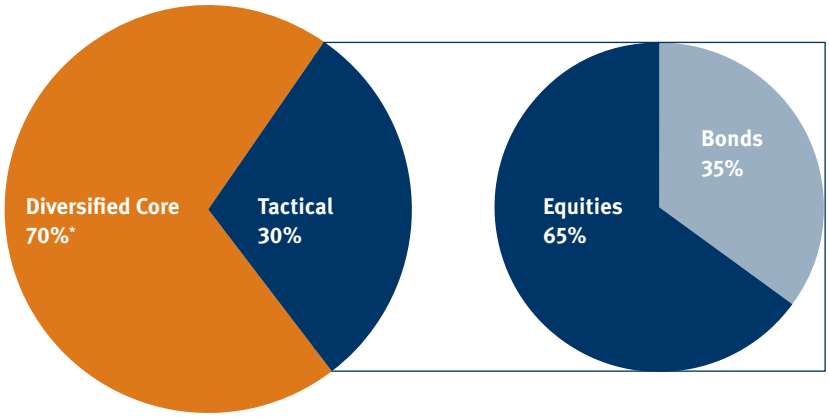
DOLLAR FIRMS AS REAL YIELDS RISE
Source: Bloomberg



PORTFOLIO STRUCTURE

DIVERSIFIED CORE
Longer-Term Focus

SATELLITE
Shorter-Term Focus



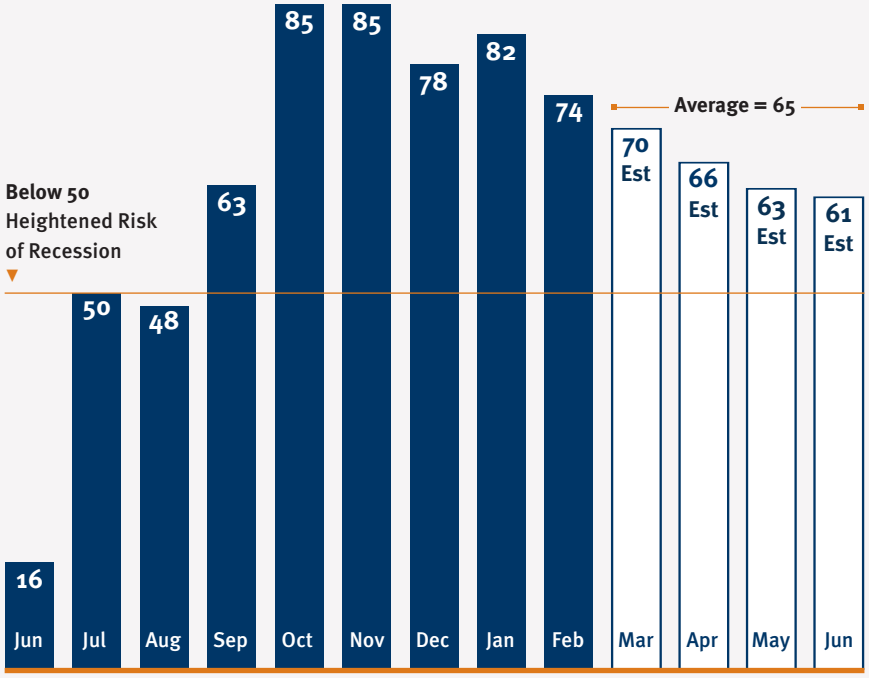
COMBINING LONGER- AND SHORTER-TERM PERSPECTIVES IN ONE ACCOUNT

We think of portfolios as having two parts. At the "core" of the portfolio is a diversified equity and diversified bond allocation. The forecasts, valuations, and trends on page 4 guide these allocations. Because these factors are longer term, changes in the core tend to be slower than the satellite, reducing turnover.

The smaller 30% (blue circle) is the "satellite." As fundamental conditions change, shorter term "tactical" tilts between stocks and bonds are implemented here.

SATELLITE POSITIONING: SHORTER-TERM FOCUS

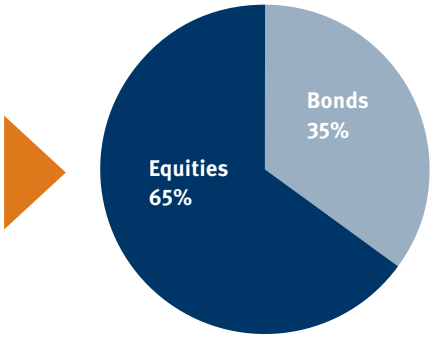
WCA FUNDAMENTAL CONDITIONS BAROMETER



We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

SATELLITE
Shorter-Term Focus

The equity allocation is tactically adjusted to align with the forecast barometer (see chart left).



As of March 31, 2021.

ASSET CLASS	RETURN	10-YEAR VIEW Y/Y CHANGE	VOLATILITY	WEIGHT vs. BENCHMARK UNDER	NEUTRAL	OVER	MOMENTUM
BOND ASSUMPTIONS							
Core Bonds	1.90	0.20	3.00				↓
1-3 Year Treasury Bond	1.90	0.00	0.80				—
Mortgage-Backed Securities	2.20	0.20	2.10				↑
Intermediate Government/Credit	2.00	-0.10	2.20				↑
20+ Year Treasury Bond	1.80	1.80	12.70				↓
Investment-Grade Corporate Bonds	2.10	-1.20	6.00				—
High-Yield Corporate Bonds	4.00	-1.30	7.00				—
EQUITY ASSUMPTIONS							
Equity	3.10	-4.10	14.10				↑
Domestic Large Cap Value	4.60	-4.20	14.40				↑
Domestic Large Cap Growth	1.70	-4.10	14.30				↓
Foreign Developed Equity Markets	5.40	-2.10	15.10				—
Foreign Emerging Equity Markets	6.20	-1.20	17.50				—
Gold	2.40	-0.30	16.30				↓
REITs	5.80	-2.90	15.30				—

As of March 31, 2021. Past performance does not guarantee future results.

■ Core ■ Satellite

CORE POSITIONING: LONGER-TERM FOCUS	
EQUITY vs. FIXED	**Overweight stocks versus bonds on improving conditions**
FOREIGN vs. DOMESTIC	**Closing out tilt toward foreign over domestic**
EMERGING vs. DEVELOPED	**Move to a neutral allocation from overweight developed**
GROWTH vs. VALUE	**Increasing tilt to value over growth**
CREDIT vs. SOVEREIGN	**Increase sovereign versus high grade corporate bonds**
SHORT vs. LONG DURATION	**Shortened duration in fixed income allocation**
NON-CORRELATED ASSETS	**Reduce gold versus high yield; remain neutral on REITs**

These views are provided by Washington Crossing Advisors, LLC. Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. Volatility refers to an expected standard deviation of returns, a measure of uncertainty around our estimate. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. These forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so. In addition, Washington Crossing used historic index returns in evaluating past return relationships. This information was gathered from third-party sources we deem reliable, but no independent verification has been undertaken. Actual returns could be higher or lower than shown herein. Opinion subject to change without notice.
* Including stocks, bonds, and other assets.

About Washington Crossing Advisors

Washington Crossing Advisors, LLC ("WCA") is an SEC registered investment advisor and wholly owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $6 billion in assets under advisement for individuals and institutions.

The team is managed by Kevin R. Caron, CFA and Chad A. Morganlander, who were among the founding members of Washington Crossing Advisors.

Washington Crossing Advisors' views on investing and markets are regularly sought by national media outlets, including *CNBC*, *Bloomberg*, *Fox Business News*, *The Wall Street Journal*, *Forbes*, and *Reuters*.

Philosophy and Process

We believe that investments should be selected only after clear and quantified measures of value, risk, and potential reward have been made. Our investment approach combines top-down analysis of the macro economy with fundamentally rooted, bottom-up security analysis.

Description of Indices and Terms Description of Indices and Terms: All performance calculations of indices are calculated on a total return basis (reflecting reinvestment of dividends and other earnings). Indices are unmanaged, are not available for direct investment, and have no associated management fees.

Bloomberg Barclays Aggregate Bond Index: A composite of the Bloomberg Barclays Gov't/Corp Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are investment grade or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

S&P 500 Index: Capitalization-weighted composite of 500 stocks traded on the NYSE, AMEX, and NASDAQ; not the largest 500 stocks in U.S., but rather a blend of leading companies in leading industries in the U.S. economy; index comprised of 10 broad industrial sectors.

Dow Jones U.S. Select REIT: The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.

The ICE U.S. Treasury 1-3 Year Bond Index is a market value weighted index designed to measure the performance of U.S. dollar-denominated, fixed rate U.S. Treasury securities with minimum term to maturity greater than one year and less than or equal to three years.

Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.

Moody's Baa Corporate Bond Index—An index comprised of industrial bonds rated Baa by Moody's with a minimum maturity of 20 years.

Consumer Price Index—A measure of the average change in prices over time for a basket of consumer goods.

Asset Allocation—Asset allocation does not ensure a profit or protect against loss.

The FTSE Developed All Cap ex U.S. Index is part of a range of indices designed to benchmark international investments. The index comprises large, mid and small cap stocks from developed markets excluding the U.S.

The FTSE Emerging Markets All Cap China A Inclusion Index is a market-capitalization weighted index representing the performance of large, mid and small cap stocks in Emerging markets. The index is comprised of approximately 3350 securities from 21 countries.

International and Emerging Markets Investing—There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Bonds and High Yield Bonds—When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High yield bonds have greater credit risk than higher quality bonds.

Commodities and Futures—The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Real Estate—When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Opportunity Disclosure: The Washington Crossing Advisors, LLC Stifel Conquest and Conquest Alternatives Portfolios require a $25,000 minimum investment. More information on the Stifel Opportunity Program is included in the Stifel Consulting Services Disclosure Brochure and Part II of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Opportunity Program and these strategies are appropriate for their needs.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index is a value-weighted average that seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas. The index is a composite of single-family home price indices for the nine U.S. Census divisions.

This commentary often expresses opinions about the direction of market, investment sector, and other trends. The opinions should not be considered predictions of future results. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete.

All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

Any projections, targets, or estimates in this report are forward looking statements and are based on WCA's research, analysis, and assumptions made by the Adviser. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this commentary.

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