August 25, 2023

THOUGHTS OF THE WEEK

Larry Adam, Chief Investment Officer

Follow Larry Adam on Twitter: @LarryAdamRJ

WEEKLY HEADINGS

Key Takeaways

It's Premature To Call Off A Recession

Lower Shelter Costs Will Ease Inflationary Pressures

Treasury Supply Dynamics Caught The Market By Surprise

"Toto, I've a feeling we're not in Kansas anymore." This famous phrase from the Wizard of Oz, which coincidentally celebrates its 84th anniversary this week, echoes the prevailing sentiment in the bond market these days. Much like Dorothy, who was swept away in a tornado to a completely unfamiliar place, bond investors have been faced with a similar new reality after this year's surge in interest rates. The rapid rise in yields over the last 12 weeks, primarily led by longer-dated maturities, has been unnerving for investors.* After all, this is not how 2023 was supposed to go, particularly in an environment of slowing economic growth, disinflation and the Federal Reserve (Fed) nearing the end of its tightening cycle. So, what is behind the recent rise in Treasury yields? Here are four contributing factors driving the move, along with our outlook.

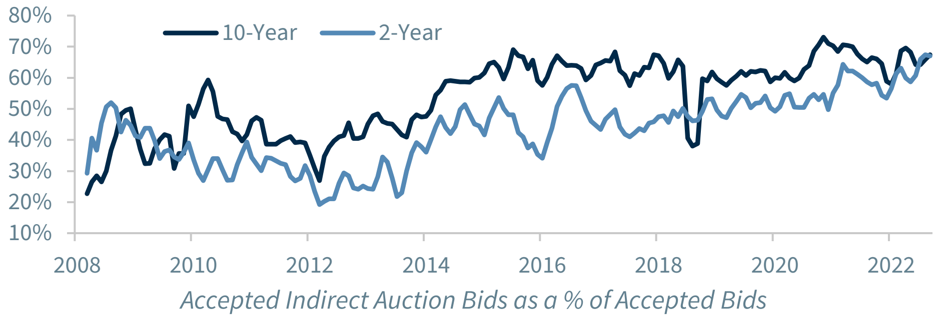
- **Positive Macro Surprise Fuels Higher Yields |** Despite consensus calls for a recession and a deeply inverted yield curve, economic growth has defied expectations. In fact, 1H23 economic growth was above potential at an ~2% annualized pace. And 3Q appears strong, with the Atlanta Fed GDP Now model predicting a robust 5.9% growth rate—a remarkable pace given the ~525 basis points of Fed tightening in the pipeline. This resilience has been a major factor driving the 10-year Treasury yield from a low of 3.3% in early April (when banking sector fears were elevated) to ~4.2% today. But as the consensus has shifted from a recession to 'soft landing' narrative, there are a number of headwinds (i.e., student loan repayments, higher borrowing costs, slowing job growth) that could turn the recent string of positive economic surprises in the opposite direction and serve as a catalyst to take yields lower. We think it's premature to call off a recession and expect the economy to experience a mild recession in 1Q24.
- **Inflation Uncertainty And Peak Disinflation |** Although inflation has decelerated from a peak of 9% to ~3%, the market remains fearful of a second wave. Concerns about the path of inflation in the medium term due to structural shifts (i.e., supply chains, rising labor strife, energy transition) are adding to the uncertainty. And with upside risks to inflation flagged in the July FOMC minutes, commodity prices (particularly oil) moving higher, and the favorable base effects (i.e., easy YoY comparisons) fading, inflationary fears have sent yields higher. We believe those fears are overblown as the disinflationary trend should continue as lower shelter costs begin to feed into the numbers. In fact, a recent NY Fed research paper surmised that shelter costs could turn negative by mid-2024. If correct, lower shelter costs should ease inflationary pressures further as they make up nearly one-third of the index. As inflation resumes its downward trend (after the recent temporary pause), yields should move lower as well.
- **Fiscal Dynamics Move To The Forefront |** Fitch's downgrade of the US government's credit rating last month reignited concerns that the federal deficit and the trajectory of the US government's debt (which we've flagged in the past) are on an unsustainable path. While the Fitch decision may have provided a catalyst for the recent sell-off, the government's larger than expected budget deficit (thanks to rising debt service costs, lower tax receipts and higher federal outlays) was likely a bigger factor. The Treasury Department's announcement of $1 trillion of new borrowing in 3Q and an additional $0.85 trillion in 4Q have likely been a root cause. While supply dynamics have historically taken a back seat to macro fundamentals, the prospect of persistently higher Treasury issuance caught the market by surprise. Historically, these concerns have proven temporary as long as demand for US Treasurys remains robust. And we have not seen demand wane in the recent auctions and do not expect to see a big drop-off going forward. As a result, a return to fundamentals (e.g., mild recession) should drive yields lower.
- **Bank of Japan's Yield Curve Tweaks |** The Bank of Japan took another step toward normalizing monetary policy, by relaxing the cap on its 10-year yield allowing it to trade in a range of 0.5% to 1.0%. The announcement pushed 10-year Japanese government bond yields 22 bps higher to 0.68%. This spilled over into the global bond markets, pushing G-10 yields sharply higher on fears that Japanese investors (our largest creditor) would sell US Treasurys and buy their own bonds. We think this knee-jerk explanation is an excuse to justify the recent sell-off. And while Japan's holdings of US debt has moderated over the last year, foreign appetite for US debt has not waned. In fact, the number of indirect bidders (foreign purchasers) has increased at recent auctions (from 58% five-years ago to 69%), suggesting that foreigners are not backing away from purchasing Treasurys.

Bottom Line | We remain optimistic that longer-maturity yields can move lower in the months ahead as the macro dynamics are set to become supportive of lower interest rates. However, to achieve our 3.25% 10-year Treasury yield 12-month forecast, we'll need to see economic data start to weaken and the Fed end its tightening cycle (which we believe is nearing an end). A capital gain opportunity will arise when the Fed starts to cut rates, which is possible in 2H24. But, with the 10-year Treasury yield now above 4%—the highest level in 16 years—Treasury yields (and high quality bonds in general) are attractive at current levels.

CHART OF THE WEEK

Foreign Demand for Treasuries Remains Strong

Despite concerns that the US debt downgrade would reduce the attractiveness of US debt, foreign demand for Treasurys remains near multi-year highs.



Source: FactSet

*See Charts of the week on page 3.

RAYMOND JAMES

ECONOMY

- New Home Sales increased 4.4% month-over-month (MoM), whereas Existing Home Sales declined 2.2% MoM.* This points to a clear preference for purchasing new homes. Those individuals who have the income to buy homes at current mortgage rates—which reached their highest (7.31%) since December 2000—are favoring the purchase of new homes rather than existing homes.
- New Orders for manufactured durable goods experienced its biggest plunge (-5.2% MoM) since the pandemic (April 2020).* However, this decline was driven by weaker transportation equipment orders and, if excluded, new orders were actually up 0.5% MoM.
- **Focus of the Week:** We dive into the world of employment next week, beginning with the Job Openings (and Labor Turnover & Separations) report on Tuesday followed by the employment report on Friday. We expect job openings to remain under 10 million while continuing its downward trend, and we similarly expect the downward trend in nonfarm payroll growth to continue. We expect the total number of nonfarm payrolls added to fall to 140,000 in August.

August 28 – September 1

MON		WED	GDP (2nd estimate) Pending Home Sales	FRI	Employment Report ISM Manufacturing
TUE	FHFA & SP/C-S Home Prices JOLTS Consumer Confidence	THU	Jobless Claims PCE Price Index	FUTURE EVENTS	9/4 Labor Day (*markets closed*) 9/5 Durable Orders 9/8 Wholesale Inventories

US EQUITY

- Negative news flow including weak economic data in China and yield curve control (YCC) adjustments in Japan put upward pressure on the 10-yr Treasury yield that negatively impacted equity valuations. This negative sentiment was briefly offset by AI optimism immediately following Nvidia's earnings report but fizzled as the S&P 500 and Nasdaq ran into a key level of resistance at their respective 50-day moving averages.
- The Technology sector, consisting of mostly long duration financial assets, has been thought of late to be highly sensitive to the movement in long-term interest rates. Investors may be surprised to learn that this is inconsistent with history as the Tech sector has historically outperformed the S&P 500 by ~13% on an annualized basis in a rising rate environment.* In the current rising rate environment (8/2020-8/2023), Tech has been the second best performing sector, outperforming the S&P 500 by ~4.3% annualized. We expect this to continue, as longer-term secular trends in the Tech space (e.g., AI) should outweigh the impact of higher rates.
- **Focus of the Week**: Looking ahead, markets will receive a flood of economic data including PCE, payrolls, and manufacturing ISM & PMI surveys. These data points will provide the market with clarity on the direction of the economy as well as interest rates. As the 2Q23 earnings season has mostly concluded, economic news flow will likely return as top of mind for investors around the world.

FIXED INCOME

- The bond market is anxiously awaiting any insights from Chair Powell and other central bank leaders (i.e., ECB President Christine Lagarde and the new Bank of Japan Chief Ueda) share at the Jackson Hole Economic Symposium this week. While the market's reaction is likely to be delayed as speeches will be ongoing throughout the weekend, we are expecting policymakers to reiterate their commitment to bringing inflation back down to target and steer the narrative from how much higher rates need to go from here to how long policymakers will need to maintain rates in restrictive territory. Historically at the end of tightening cycles, the average duration from the last rate hike to the first rate cut is roughly seven months.
- The latest backup in bond yields has caused the YTD performance of the 10-year Treasury (and other bond maturities and sectors) to once again dip into negative territory.* In fact, if 10-year Treasury yields close the month at current levels, the end of August will be the 36th month that the total return of the index has not hit a record high—its longest negative streak going back to the early 1980s.
- **Focus of the Week:** A number of high-profile economic reports come out next week; however, all eyes will be on the payroll report on Friday. We'll be looking for any signs of a slowdown in the pace of growth and whether there will be any further downward revisions to prior reports, particularly after the BLS preliminary benchmark revisions shaved off 306,000 jobs from the previously reported data. With Treasury supply remaining in focus, we'll be watching how much demand there is for 2-, 5- and 7-year Treasurys in next week's auctions.

POLITICS

- As the appropriations debate heats up in DC, we see a path towards an interim government funding deal. The House Freedom Caucus (HFC) outlined their conditions for a potential continuing resolution (CR, i.e., stopgap funding) in a position letter this week. The group signaled they will oppose unless it includes provisions on border security, addressing the federal justice system, and Pentagon social policies. The HFC will also "oppose any blank check for Ukraine" and elevated federal spending. A potential path could involve the House passing a CR containing the HFC policy riders, with the Senate then likely passing a 'clean' CR. A clean CR setup would then force House Republicans to decide on a shutdown (the HFC conditions are very unlikely to clear the Senate and there's potential for the HFC to use the CR as leverage) or on taking the debate to the year end, post-CR negotiations process. A key issue to watch will be how many of the individual appropriations bills pass the House (House leadership has committed to not passing an omnibus appropriations bill this year), with a greater number of bills signaling a stronger House negotiating position.

ENERGY

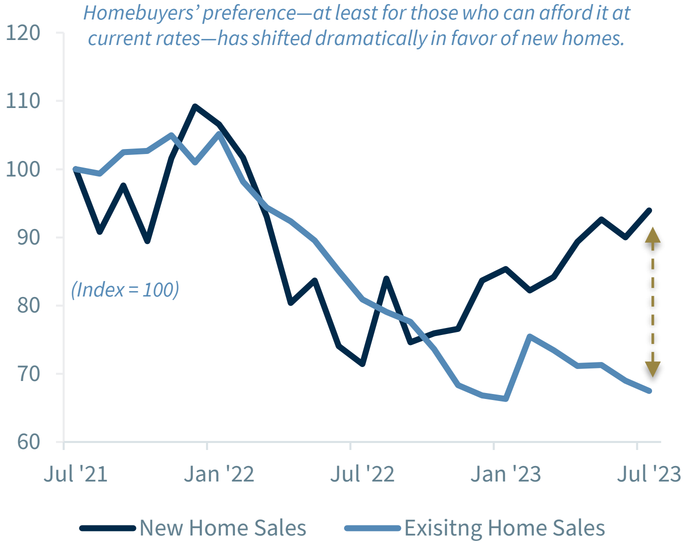
- In the first half of 2023, electric vehicles comprised approximately 30% of light-duty auto sales in China, 20% in Europe—but barely 8% in the US.* Why? American gasoline prices are lower than internationally, but public policy is also a factor. Case in point: this week, Texas legislators approved a $200 annual fee that must be paid by EV owners. The logic is that EV owners do not purchase gasoline and therefore do not contribute to the state fund that supports highway maintenance, and the fee is aimed at compensating for that. But these kinds of policies make EV economics less attractive for car buyers. That said, EVs may still make economic sense for the average car buyer, especially with the federal tax credit of up to $7,500.

 *See Charts of the week on page 3.

Charts of the Week

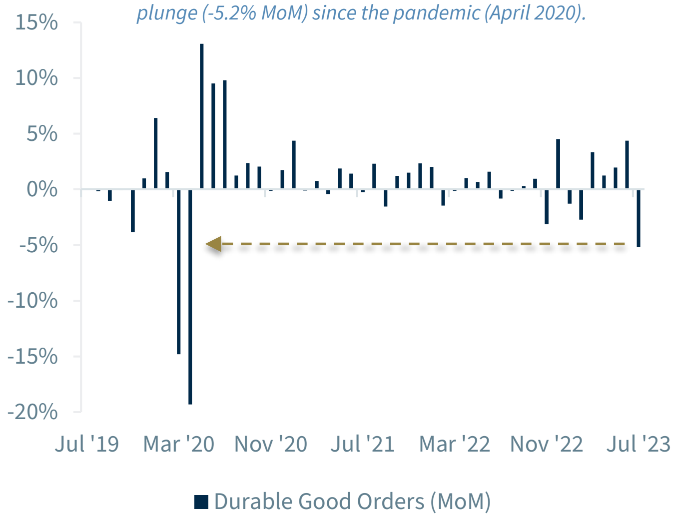
New Home Sales Outpacing Existing Homes Sales

Homebuyers' preference—at least for those who can afford it at current rates—has shifted dramatically in favor of new homes.



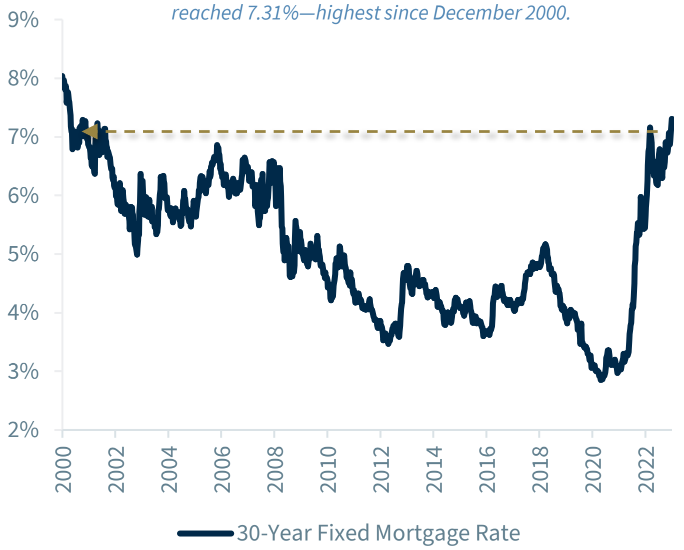
Durable Goods Orders Plunge

New Orders for durable goods experienced its biggest plunge (-5.2% MoM) since the pandemic (April 2020).



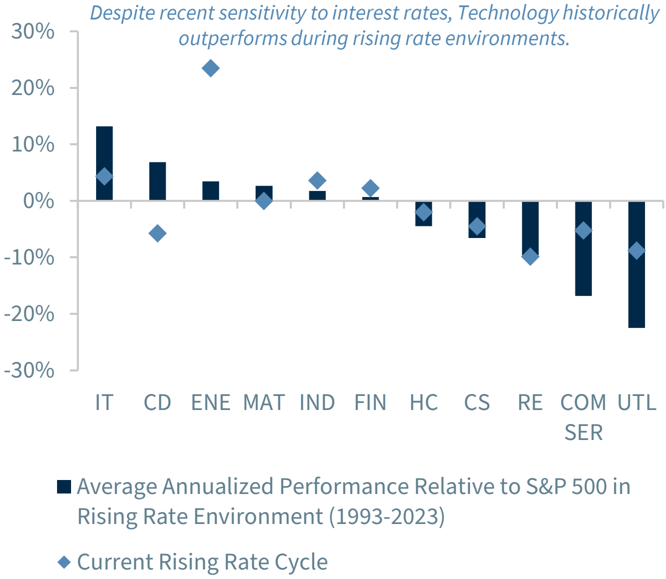
Mortgage Rates On The Rise

30-year fixed mortgage interest rates for the week ending 8/18 reached 7.31%—highest since December 2000.



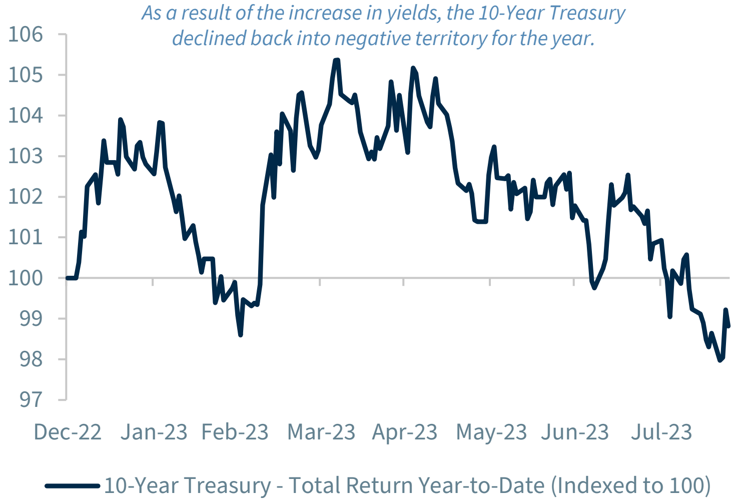
Technology Outperforms in Rising Rate Environment

Despite recent sensitivity to interest rates, Technology historically outperforms during rising rate environments.



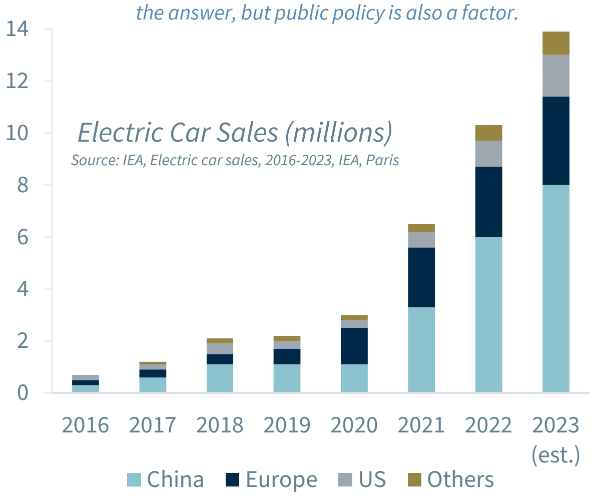
10-Year Treasury Gives Up Year-to-Date Gain

As a result of the increase in yields, the 10-Year Treasury declined back into negative territory for the year.



US Falling Behind In EV Adoption

The fact that US gasoline prices are relatively lower is part of the answer, but public policy is also a factor.



* Index definitions can be found on the disclosure pages

Asset Class Performance | Distribution by Asset Class and Style (as of August 24)**

Weekly Returns (as of August 24)

US Equities (Russell indices)	Value	Blend	Growth
Large Cap	-0.6%	0.2%	0.8%
Mid Cap	-0.3%	-0.1%	0.3%
Small Cap	-0.7%	-0.2%	0.4%

International Equities (MSCI indices)	Dev. Mkt	World	Emerg. Mkt
Large Cap	0.6%	0.3%	0.3%
Mid Cap	0.5%	0.1%	0.2%
Small Cap	0.1%	0.2%	1.1%

Fixed Income (Bloomberg indices)	1-3 YR	Medium	Long
Treasury	0.1%	0.2%	0.5%
Invest. Grade	0.1%	0.3%	0.6%
High Yield	0.2%	0.2%	0.2%

Year-to-Date Returns (as of August 24)

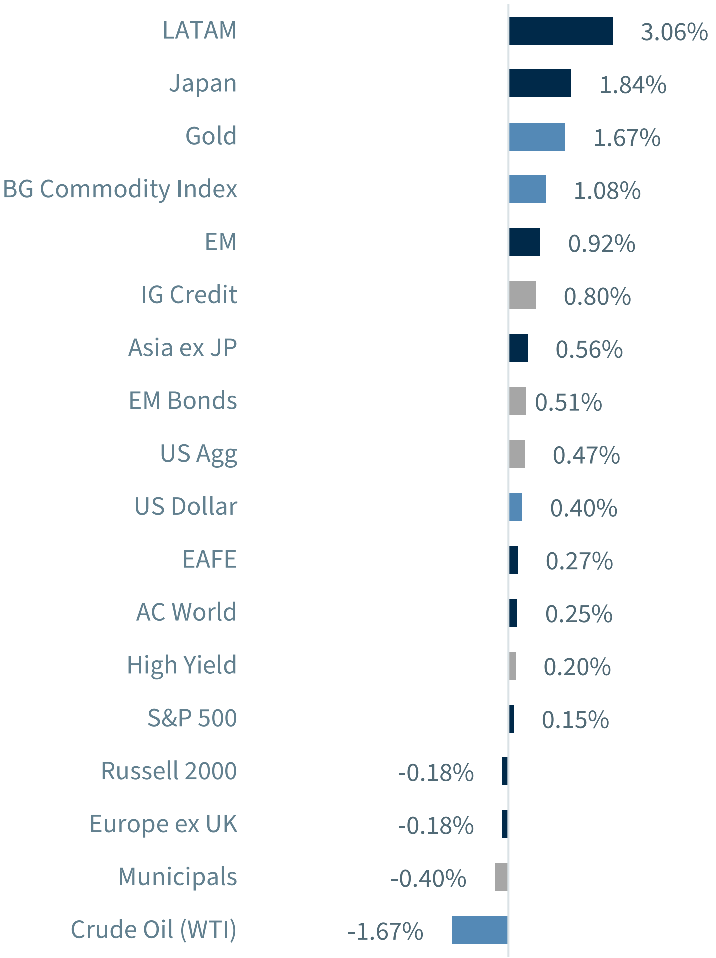
US Equities (Russell indices)	Value	Blend	Growth
Large Cap	3.8%	14.9%	26.8%
Mid Cap	3.3%	6.3%	11.3%
Small Cap	2.4%	5.8%	9.0%

International Equities (MSCI indices)	Dev. Mkt	World	Emerg. Mkt
Large Cap	10.6%	13.9%	5.6%
Mid Cap	10.3%	7.2%	9.4%
Small Cap	7.8%	8.4%	16.8%

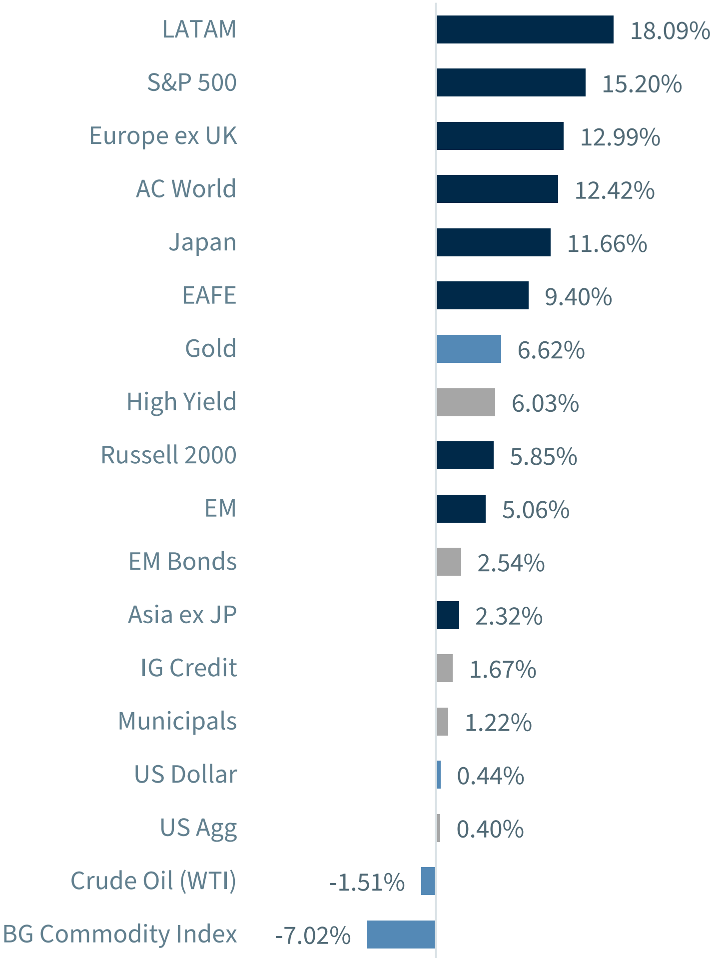
Fixed Income (Bloomberg indices)	1-3 YR	Medium	Long
Treasury	3.2%	0.0%	-1.2%
Invest. Grade	1.9%	2.0%	1.8%
High Yield	6.8%	6.1%	4.4%

Asset Class Performance | Weekly and Year-to-Date (as of August 24)**

Weekly***



Year-to-Date***



Commodities Equities Fixed Income

**Weekly performance calculated from Thursday close to Thursday close.

***Assumes all asset classes are priced in US dollars unless otherwise noted. Ranked in order of performances (best to worst).

Weekly Data**

Data as of August 24

US Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	4376.3	0.2	(4.5)	15.2	7.5	10.2	10.7	12.3
DJ Industrial Average	34099.4	(1.1)	(4.1)	2.9	3.4	6.4	5.7	8.6
NASDAQ Composite Index	13464.0	1.1	(6.1)	28.6	8.3	5.8	11.1	13.9
Russell 1000	4605.1	0.2	(4.8)	14.9	12.9	13.2	11.9	12.4
Russell 2000	4588.5	(0.2)	(7.7)	5.8	7.9	12.0	5.1	8.2
Russell Midcap	7295.5	(0.1)	(6.2)	6.3	8.7	11.8	8.8	10.1

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	506.6	(0.4)	(6.0)	4.7	4.4	10.7	8.7	9.2
Industrials	891.8	(0.4)	(4.3)	8.5	10.4	12.6	8.7	10.8
Comm Services	220.5	(0.2)	(4.4)	39.3	16.6	3.8	8.3	7.0
Utilities	319.2	(0.0)	(5.9)	(9.1)	(14.8)	5.0	6.7	9.0
Consumer Discretionary	1284.1	(0.3)	(5.7)	28.5	0.7	2.3	8.1	12.1
Consumer Staples	755.9	(0.9)	(4.7)	(1.4)	(1.5)	7.2	9.4	9.2
Health Care	1542.8	(0.8)	(1.2)	(1.6)	4.1	9.4	9.6	12.2
Information Technology	2971.5	1.9	(6.1)	37.7	19.5	13.5	19.3	20.7
Energy	659.1	(1.5)	(0.9)	0.5	8.5	39.4	8.3	4.7
Financials	562.1	(0.4)	(4.2)	(0.1)	1.0	13.1	6.0	9.8
Real Estate	227.3	0.7	(4.9)	(0.1)	(13.2)	3.8	5.2	7.8

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	5.4	0.1	0.4	3.1	4.3	1.6	1.6	1.0
2-Year Treasury (%)	5.0	(0.0)	0.1	0.9	0.2	(1.2)	0.7	0.6
10-Year Treasury (%)	4.2	0.5	(2.1)	(1.2)	(5.9)	(7.9)	(0.4)	0.9
Bloomberg US Corporate HY	8.7	0.2	(0.8)	6.0	4.3	1.6	3.1	4.4
Bloomberg US Aggregate	5.1	0.5	(1.6)	0.4	(2.5)	(4.8)	0.3	1.4
Bloomberg Municipals	--	(0.4)	(1.8)	1.2	1.0	(1.6)	1.4	2.8
Bloomberg IG Credit	5.8	0.8	(1.8)	1.7	(0.8)	(4.7)	1.1	2.5
Bloomberg EM Bonds	7.7	0.5	(1.9)	2.5	2.7	(4.2)	0.7	2.7

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	79.1	(1.7)	(3.4)	(1.5)	(16.7)	22.9	2.8	(2.9)
Gold ($/Troy Oz)	1947.1	1.7	(3.1)	6.6	10.5	0.1	9.9	3.4
Bloomberg Commodity Index	104.9	1.1	(2.3)	(7.0)	(15.9)	13.5	4.6	(2.1)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
US Dollar Index	104.0	0.4	2.1	0.4	(4.3)	3.7	1.8	2.5
Euro	1.1	(0.5)	(1.7)	1.6	8.5	(2.8)	(1.4)	(2.1)
British Pound	1.3	(0.9)	(1.7)	5.2	7.0	(1.1)	(0.3)	(2.1)
Japanese Yen	145.6	0.3	(2.4)	(9.4)	(6.1)	(10.1)	(5.2)	(3.8)

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	669.9	0.3	(5.1)	12.4	8.0	7.3	7.6	8.6
MSCI EAFE	2073.7	0.3	(5.5)	9.4	13.5	6.1	4.3	4.9
MSCI Europe ex UK	2325.1	(0.2)	(5.4)	13.0	20.3	6.8	5.8	5.8
MSCI Japan	3456.5	1.8	(4.3)	11.7	11.8	3.8	3.4	5.3
MSCI EM	982.3	0.9	(6.0)	5.1	2.8	(1.1)	1.5	3.4
MSCI Asia ex JP	621.0	0.6	(6.6)	2.3	1.4	(2.7)	1.3	4.8
MSCI LATAM	2401.4	3.1	(5.6)	18.1	15.6	14.7	4.8	1.5
Canada S&P/TSX Composite	14588.8	(0.2)	(4.1)	2.0	(1.2)	6.0	3.9	4.5

**Weekly performance calculated from Thursday close to Thursday close.

DISCLOSURES

All expressions of opinion reflect the judgment of the author(s) and the Investment Strategy Committee and are subject to change. This information should not be construed as a recommendation. The foregoing content is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. Past performance is not a guarantee of future results. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses that would reduce returns. No investment strategy can guarantee success. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Diversification and asset allocation do not ensure a profit or protect against a loss.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currency investing is generally considered speculative because of the significant potential for investment loss. These markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or bonds) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

CONSUMER PRICE INDEX | The Consumer Price Index (CPI) measures the overall change in consumer prices based on a representative basket of goods and services over time.

PRODUCER PRICE INDEX | The Producer Price Index (PPI) is a measure of wholesale inflation, while the Consumer Price Index measures the prices paid by consumers.

PERSONAL CONSUMPTION EXPENDITURE | Personal Consumption Expenditures (PCE) Personal consumption expenditures (PCE), also known as consumer spending, is a measure of the spending on goods and services by people of the United States.

ISM MANUFACTURING INDEX | The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

ISM NON-MANUFACTURING (SERVICES) INDEX | The ISM Non-Manufacturing, or Services Index, measures business activity for the overall economy; above 50 indicating growth, while below 50 indicating contraction. The index represents the economic activity of more than 15 industries, measuring employment, prices, and inventory levels.

NFIB SMALL BUSINESS INDEX | The National Federation of Independent Business (NFIB) Small Business Optimism Index is a composite of ten seasonally adjusted components. It provides a indication of the health of small businesses in the U.S., which account of roughly 50% of the nation's private workforce.

CITIGROUP ECONOMIC SURPRISE INDEX | The Citigroup Economic Surprise Index represents the sum of the difference between official economic results and forecasts

SENIOR LOAN OFFICER SURVEY | Survey of up to eighty large domestic banks and twenty-four U.S. branches and agencies of foreign banks. The Federal Reserve generally conducts the survey quarterly, timing it so that results are available for the January/February, April/May, August, and October/November meetings of the Federal Open Market Committee.

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER6 in the U.S.

Investments & Wealth Institute™ (The Institute) is the owner of the certification marks "CIMA" and "Certified Investment Management Analyst." Use of CIMA and/or Certified Investment Management Analyst signifies that the user has successfully completed The Institute's initial and ongoing credentialing requirements for investment management professionals.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

DATA SOURCE | FactSet, Bloomberg as of 8/24/2023

DOMESTIC EQUITY DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

NASDAQ COMPOSITE INDEX | The **Nasdaq Composite Index** is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

S&P 500 EQUAL WEIGHT INDEX | The **S&P 500 Equal Weight Index:** The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

MID GROWTH | **Russell Mid Cap Growth Total Return Index:** This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

MID BLEND | **Russell Mid Cap Total Return Index:** This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

MID VALUE | **Russell Mid Cap Value Total Return Index:** This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

COMMODITY INDEX DEFINITION

BLOOMBERG COMMODITY INDEX (BCOM) | The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

DUTCH TTF | The Dutch Title Transfer Facility is a virtual trading hub for gas in the Netherlands and is the primary gas pricing hub for the European gas market.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BLOOMBERG CAPITAL AGGREGATE BOND TOTAL RETURN INDEX | This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components).

BLOOMBERG EMERGING MARKET BOND INDEX | The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value-weighted index engineered to measure USD fixed-rate sovereign and corporate securities issued from emerging markets. The index includes both investment- grade and below-investment-grade securities.

GERMAN BUND | The German bund is a sovereign debt instrument issued by Germany's federal government to finance outgoing expenditures.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe.

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | MSCI Europe Ex UK Net Return Index: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

MSCI ACWI | The MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. The index is comprised of the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

CANADA S&P/TSX COMPOSITE | The S&P/TSX Composite Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange (TSX). It is the equivalent of the S&P 500 index in the United States, and as such is closely monitored by Canadian investors.

INTERNATIONAL DISCLOSURES

FOR CLIENTS IN THE UNITED KINGDOM | For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

FOR CLIENTS OF RAYMOND JAMES INVESTMENT SERVICES, LTD.: This document is for the use of professional investment advisers and managers and is not intended for use by clients.

FOR CLIENTS IN FRANCE | This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monetaire et Financier" and Reglement General de l'Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

FOR CLIENTS OF RAYMOND JAMES EURO EQUITIES | Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

FOR INSTITUTIONAL CLIENTS IN THE EUROPEAN ECONOMIC AREA (EE) OUTSIDE OF THE UNITED KINGDOM | This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

FOR CANADIAN CLIENTS | This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Investment Strategy

Lawrence V. Adam III, CFA, CIMA®, CFP®
Chief Investment Officer
T. 410.525.6217
larry.adam@raymondjames.com

Eugenio J. Alemán, PhD
Chief Economist
T. 727.567.2603
eugenio.aleman@raymondjames.com

Tracey Manzi, CFA
Senior Investment Strategist
T. 727.567.2211
tracey.manzi@raymondjames.com

Anne B. Platt, AWMA®, RICP, AIF®
Vice President, Investment Strategy
T. 727.567.2190
anne.platt@raymondjames.com

Matt Hanna, CFA, FRM, CAIA®
Director of Asset Allocation and Quant. Strategy
T. 727.567.4978
matt.hanna@raymondjames.com

Mike Payne
Investment Strategy Analyst
T 410.525.6232
mike.payne@raymondjames.com

Talley Léger
Senior Equity Strategist
T. 410.525.6234
talley.leger@raymondjames.com

Matt Barry, CFA
Investment Strategy Analyst
T. 410.525.6228
matt.barry@raymondjames.com

Giampiero Fuentes, CFP®
Economist
T. 727.567.5776
giampiero.fuentes@raymondjames.com

Matthew Ziyadeh, CFA, CIPM®
Investment Strategy Analyst
T. 727.567.8984
matthew.kurayaziyadeh@raymondjames.com

Lindsay Smith
Investment Strategy Analyst
T. 727.567.3335
lindsay.smith@raymondjames.com

RAYMOND JAMES

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

RAYMONDJAMES.COM