RAYMOND JAMES

Freedom market commentary

Q1 2024

A tight cadre of mega-cap technology stocks led a strong finish for equity as fixed income ended down following a choppy quarter amid headlines on inflation and the Fed.

FIRST QUARTER HIGHLIGHTS

- AI still soars
- Fed keeps rates steady but hint at lowering
- Elevated inflation stickier than expected likely keeping bond yields high for longer

The Federal Open Market Committee opted to maintain the level of interest rates at its first two gatherings of 2024, though post-meeting comments suggest their desire to start lowering rates sometime this year. The holdup? Persistent and still higher-than-targeted inflation.

After having made the hard decision to raise interest rates to combat inflation – and at a historically rapid pace – the Federal Reserve's messaging has consistently suggested that they remain patient for inflation to trend down consistently toward their 2% target before cutting rates, absent any meaningful decline in the U.S. economy.

INVESTING INSIGHTS

Between online work, online shopping and COVID-related urban flight, it should come as no surprise that the commercial real estate market has its challenges. For lenders that are big in commercial real estate, that means they have challenges, too.

New York Community Bancorp became the posterchild for this risk in light of larger-than-expected charge-offs and a credit downgrade to junk status in February. The bank has seemingly stabilized after actions by private investors, but the case has lowered confidence in a sector already shaky from 2023's bank failures.

We aren't likely to see a contagion of bank failures to follow, but risks to individual institutions and real estate investment trusts are worth considering, particularly for those whose ledgers are heavy in office, retail and multifamily residential, the most at-risk segments. (Hotel, industrial and data centers appear to be holding up well.) Roughly one-third of office loans will mature in 2024 and 2025, which presents a challenge as interest rates remain high. Profitability may continue to struggle as regional banks see decreased lending and increased regulatory costs, but their balance sheets are generally in good shape as the average loan loss reserves have increased to levels close to an expected 10% cumulative loss in the next few years, which is higher than realized during the last financial crisis.

Real estate, however, is a sector that defies broad strokes. Many regional bank lending skewed toward suburban areas and small professional service offices in secondary and tertiary markets. These loans are less impacted by remote work-related vacancy for offices in central business districts.

What does all this mean for investors? Simple: When looking for an opportunity, it pays to be selective.

Still, the Federal Reserve's accommodative tone, despite the steadfastness of its actions, was enough to provide a tailwind for stocks in the first quarter. Among fixed income markets, a hotter-than-expected January inflation report led an upward move in yields before the Federal Reserve's dovish language helped stabilize them.

EQUITY

First-quarter results fell into a now-familiar pattern:

U.S. stocks outperformed other developed economies. Developed economies outperformed emerging markets. Large-cap equity outperformed mid-cap which outperformed small-cap. Growth outperformed value. And at the top, AI remained the dominant mover even as the so-called "Magnificent 7" technology stocks narrowed to a "Fantastic 4."

Interestingly, the only near-peer to this elite set was in pharmaceuticals, with enthusiasm driven by the popularity of drugs that may aid in weight loss.

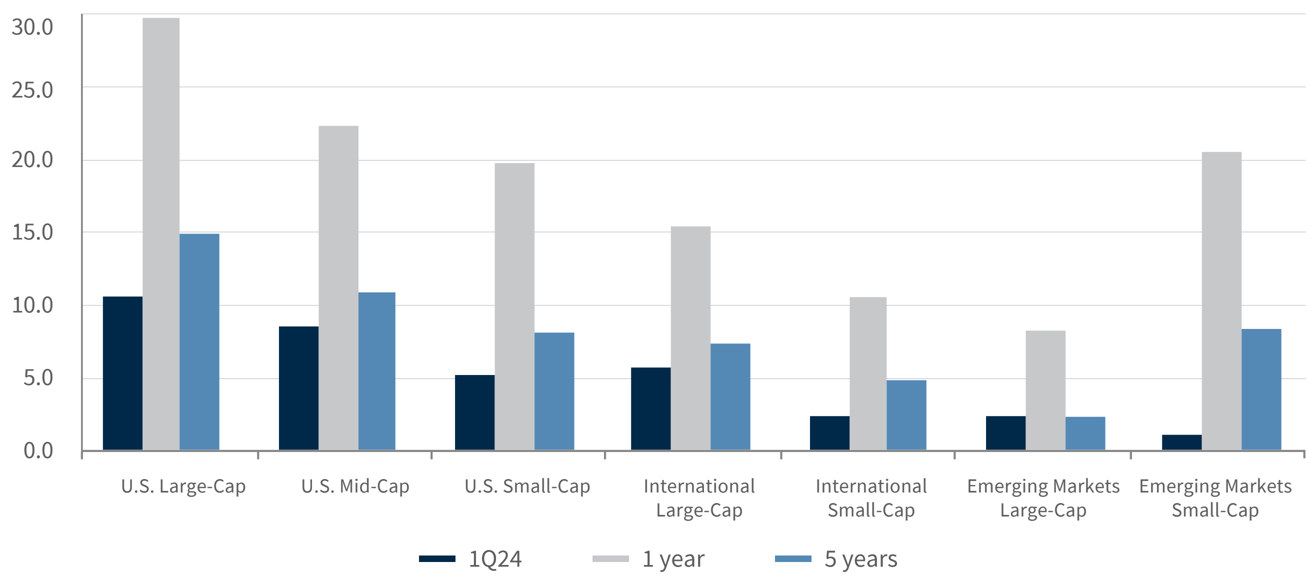
In time, the AI boost could broaden from mostly benefiting the "pick and shovel sellers" to a much wider set of "pick and shovel buyers," those firms that can use these technologies to create efficiencies and bring new products to market. Today, the global AI market is roughly $200 billion, with some estimates suggesting it could grow to $2 trillion within a decade. Investors are betting that AI will be more than iterative, but transformative, like other milestone-defining technologies throughout history like electricity and the internet.

At the final bell, U.S. large-cap equity finished the quarter up 10.56%, as measured by the S&P 500 Total Return index, while U.S. small-to-mid-cap equity returned 6.92%, as measured by the Russell 2500 Total Return index. Developed economies finished up 5.79%, as measured by the MSCI EAFE index, while the MSCI Emerging Market index tallied a finish up 2.37% for the quarter.

As has been the case for much of this AI-led period, the rally remained narrow, though not as narrow as it had been at times through the past year. Stocks throughout the spectrum of cap sizes, regions and sectors had reasons to celebrate. Small- and mid-cap stocks are seen as more reliant on loose financing conditions than their large-cap peers and performance lagged this quarter. For now, ownership of small- and mid-cap equity remains a potential boon-in-waiting as the Federal Reserve inclines to lower rates later in the year, providing a potential catalyst for the sector to catch up from the current depressed valuation levels relative to large cap stocks.

EQUITY RETURNS

Source: Morningstar as of 3/31/2024



EQUITY POSITIONING IN FREEDOM PORTFOLIOS

Freedom portfolios are slightly underweight equities and overweight fixed income relative to these portfolios' neutral objective positions based on the Asset Management Services (AMS) Investment Committee's expectation for the next couple years. Fixed income appears attractively priced to hedge the risk of slower growth while providing investors yields not seen since before the global financial crisis of 2008 and 2009.

Within equity, Freedom remains significantly overweight in U.S. large-cap stocks, reflecting the strength of both the domestic economy and resilient profitability of its important companies. Freedom is more modestly overweight in small- and mid-cap stocks, which the committee believes are underpriced – as the sector has been over-punished – due to their interest rate sensitivity. If interest rates are lowered, the committee expects these stocks to experience a significant rebound.

Freedom is significantly underweight in international equity. Within international equity, Freedom is significantly underweight in developed market equity, as British and European markets significantly lag the U.S. market in economic strength, have benefited less from companies with exposure to AI and are more exposed to energy uncertainty as net importers. The committee continues to monitor developed market equity for signs of stabilization, including positive movement in corporate earnings. Freedom has a more neutral position to emerging market equity, which may benefit from troughing conditions in China as the government continues their policy easing, as well as the continued improvements in India.

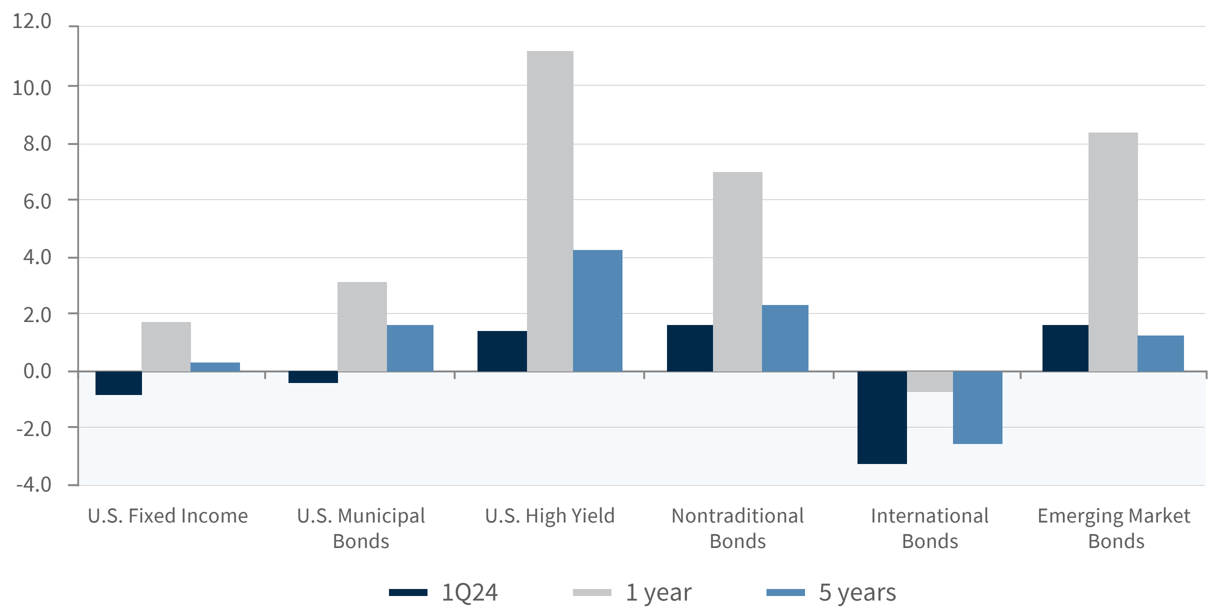
FIXED INCOME

Fixed income markets continued to pivot on monthly inflation reports through the first quarter. New issues saw a brief bump in yields in the wake of a January report that showed a slight uptick in inflation, month-to-month. By the end of the quarter, the Federal Reserve's accommodative tone helped quell yields once again. Despite this, fixed income markets ended the quarter slightly down across the board, generally, with some bright spots.

Core fixed income fell by 0.78% for the quarter, as measured by the Bloomberg U.S. Aggregate Bond Total Return index.

FIXED INCOME RETURNS

Source: Morningstar as of 3/31/2024



FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

Freedom remains slightly overweight in fixed income relative to equity, reflecting the AMS Investment Committee's goal to maximize risk adjusted returns given the higher starting yields in bonds. Within core fixed income, Freedom is overweight on intermediate term bonds and significant underweight on short- and long-term bonds. The committee expects bond yields to slowly decline over the next years as the Federal Reserve starts lowering interest rates. We believe intermediate-term debt then seems like the sweet spot between higher starting yields and long-term price appreciation.

Freedom portfolios are slightly underweight on non-core fixed income, remaining neutral on high-yield and emerging market debt relative to normal levels. The committee continues to look for more attractive entry points in these products but believes the additional compensation does not adequately address the risk imbedded at current levels.

ALTERNATIVES

Alternative investments returned 4.64% for the quarter, as measured by the Morningstar U.S. Fund Multistrategy peer group. This asset class serves a diversifying role within a portfolio.

Counter to their historical relationship, gold and the S&P 500 have both been hitting record highs. Typically, gold is strong when equity is weak, reflecting its popular role as a safe harbor amid economic trouble. Gold's recent performance is, in part, related to both central bank buying and retail hoarding. Particularly in Asia, gold is used as an informal reserve currency when populations are uncertain about the economic prospects and other asset appreciation potentials.

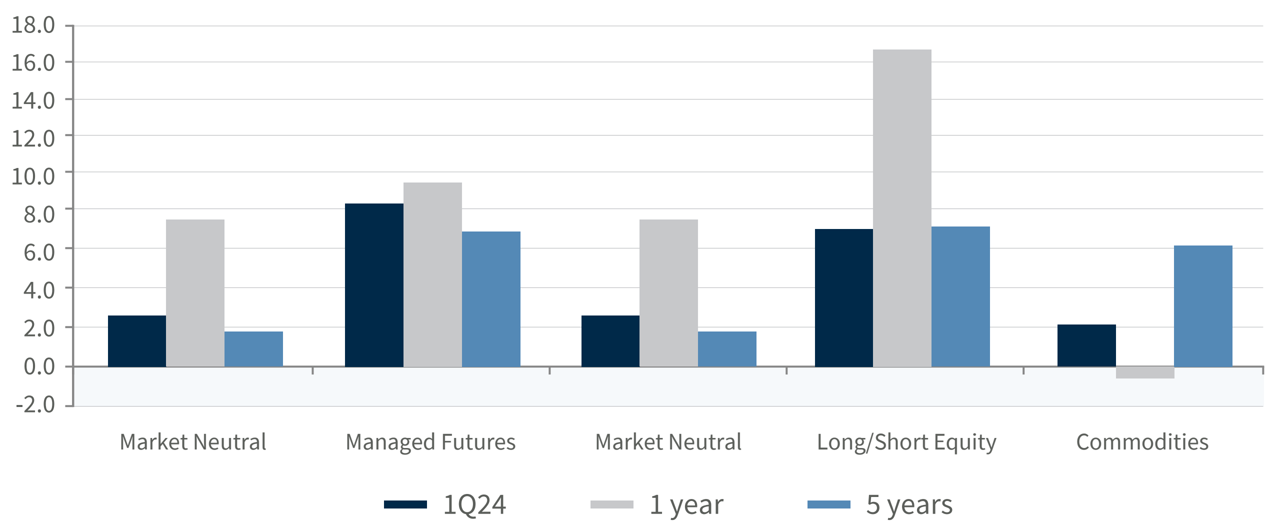
After hitting a low point in February, oil prices rebounded through March with more than 10% rally, along with the broad commodity complex measured by the Bloomberg Commodity index closing the first quarter slightly up, year to date. Shipping costs remain a source of volatility after coming back to pre-Covid levels, with Los Angeles-to-Shanghai prices doubling since the start of the year, according to WCI benchmark container rate index. They are far away from the heightened levels seen during pandemic era, but further geopolitical disruptions bear watching.

ALTERNATIVES POSITIONING IN FREEDOM PORTFOLIOS

Freedom portfolios have minimal exposure to alternatives, remaining slightly underweight to the neutral position.

ALTERNATIVE INVESTMENTS RETURNS

Source: Morningstar as of 3/31/2024



AMS INVESTMENT COMMITTEE OUTLOOK

As expected by the AMS Investment Committee, the Federal Reserve did not rush to lower rates at the first opportunity in 2024. Instead, the Federal Open Market Committee (FOMC) remained cautious on inflation – which remained higher and more persistent than the market expected – and held rates steady.

Based on Federal Reserve members' estimates, the AMS Investment Committee expects approximately three modest rate cuts by the end of the year. The committee then expects a slow path from the current 5.50% baseline rate to around 3.5%–3.75% in the intermediate term and gradually migrate towards a long-term policy rate of around 2.50%, barring a critical need for more aggressive action by the Federal Reserve.

The Federal Reserve has thus demonstrated a commitment to finishing its fight for price stability, so the committee expects members to closely watch core inflation, particularly for shelter and core services, before initiating rate cuts.

Presently, the AMS Investment Committee expects the first rate cuts to come during the summer, perhaps as early as June.

Freedom portfolios are overweight in small- and mid-cap equity, which the committee believes has been underpriced relative to its interest-rate-related risk. If the above outlined scenario takes place, with rates being lowered slowly over several years, the committee thinks these stocks will see meaningful appreciation as they benefit from the tailwind of easing borrowing conditions and accelerating economic growth overall.

In an alternative scenario, one where the Federal Reserve needs to take more aggressive action in lowering rates – perhaps in the case of a sharp recession – Freedom portfolios with their overweight in core, intermediate and high-quality bonds could see appreciation as interest rate decline and investor seek haven assets.

It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investors.

Additional risks may include:

- Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default or 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. Short-term bonds with maturities of three years or less will generally have lower yields than long term bonds which are more susceptible to interest rate risk.
- International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.
- Investing in emerging markets can be riskier than investing in well-established foreign markets. Emerging and developing markets may be less liquid and more volatile because they tend to reflect economic structures that are generally less diverse and mature and political systems that may be less stable than those in more developed countries.
- Investing in small-cap stocks generally involves greater risks, and, therefore, may not be appropriate for every investor. Stocks of smaller or newer or mid-sized companies may be more likely to realize more substantial growth as well as suffer more significant losses than larger or more established issuers.
- These portfolios may be subject to international, small-cap and sector-focus exposures as well. Accounts may have over weighted sector and issuer positions, and may result in greater volatility and risk.
- Alternative investments are generally considered speculative in nature and may involve a high degree of risk, particularly if concentrating investments in one or few alternative investments. These risks are potentially greater and substantially different than those associated with traditional equity or fixed income investments. The investment strategies used by certain funds may require a substantial use of leverage. The investment strategies employed and associated risks are more fully disclosed in each fund's prospectus, which is available from your financial advisor.
- Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of the fund's investments in commodities are cyclical economic conditions, sudden political events, changes in sectors affecting a particular industry or commodity, and adverse international monetary policies. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.
- Specific sector investing, such as real estate, can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.
- Companies in the technology industry are subject to fierce competition, and their products and services may be subject to rapid obsolescence.

INDEX AND PEER GROUP DESCRIPTIONS

These indices and peer groups are not available for direct investment. Any product which attempts to mimic the performance will incur expenses, such as management fees and transaction costs, that reduce returns.

Bloomberg U.S. Aggregate Bond Index (U.S. Fixed Income): 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.

MSCI EAFE Index (International Large Cap): A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States & Canada. The index consists of the following 21 developed market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets Index (Emerging Markets Equities): A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The index consists of the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

Morningstar US Fund Multistrategy: Funds in this category typically have a majority of their assets exposed to alternative strategies, but at a minimum, alternatives must comprise greater than 30% of the strategy's gross exposure. The category includes funds with static allocations to alternative strategies as well as those that tactically adjust their exposure to different alternative strategies and asset classes.

Russell 2500 Index (U.S. Small to Mid-Cap): This index is a capitalization weighted index comprised of the bottom 500 stocks in the Russell 1000 index and all of the stocks in the Russell 2000 index. This Index includes the effects of reinvested dividends.

S&P 500 Dividend Aristocrats TR: The S&P 500 Dividend Aristocrats Index is a list of companies in the S&P 500 with a track record of increasing dividends for at least 25 consecutive years. It tracks the performance of well-known, mainly large-cap, bluechip companies.

Bloomberg U.S. Government 1-3 Year: The index is composed of agency and Treasury securities with maturities of one to three years and includes the reinvestment of dividends.

Bloomberg U.S. Corporate High Yield 2% Issuer Capped: The index measures the performance of high yield corporate bonds, with a maximum allocation of 2% to any one issuer.

S&P 500 Index (U.S. Large Cap): This index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. It consists of 400 industrial, 40 utility, 20 transportation, and 40 financial companies listed on U.S. market exchanges. This is a capitalization-weighted calculated on a total return basis with dividends reinvested. The S&P represents about 75% of the NYSE market capitalization.

Bloomberg Commodity Index: The index tracks prices of futures contracts on physical commodities on the commodity markets. 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). The weightings for each commodity included in Bloomberg Commodity Index are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity. Annual rebalancing and reweighting ensure that diversity is maintained over time.

NOT Deposits • NOT Insured by FDIC or any other government agency
• NOT GUARANTEED by the bank • Subject to risk and may lose value

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM