RAYMOND JAMES

# Freedom market commentary

Q3 2023

The rapid rise of equities in the first half of 2023 hit a high-water mark at the end of July, blunting, but not erasing, strong year-to-date gains. In fixed income, higher yields have created opportunities unseen in more than 15 years.

## THIRD QUARTER HIGHLIGHTS

Treasury yields rise

Fed raises interest rates

Inflation remains elevated below highs

With domestic economic growth and the labor market continuing to prove resilient in the face of rising interest rates, the U.S. Federal Reserve can continue to take a more "hawkish" approach to quashing inflation without complicating its dual mandate to maintain price stability and full employment.

And so, it shall, the Federal Reserve's rate-setting committee communicated in the face of core inflation remaining persistently higher compared to targets. At its July meeting, the monetary policy body raised rates, then held the line in September, sinking the market's hopes for a rate cut by the end of the year. Rather, now, the Federal Reserve may make one more rate hike and then hold rates at a plateau until at least the latter half of 2024.

This news, in addition to other challenges – energy prices, inflation, low (but better than expected) corporate earnings, slower economic growth – drained enthusiasm from the markets, taking back some of the gains equities made in the first half of the year. It also pushed 10-year Treasury yields to a 15-year high, reflecting opportunity for fixed income strategies.

## INVESTING INSIGHTS

### THE INTERPLAY OF YIELDS AND PRICES

The face value – or par value – of a bond is the amount the issuer promises to pay to the buyer when the bond reaches maturity. Until then, the bond pays a coupon payment – effectively interest payments on the debt. The totality of those interest payments is known as the yield.

When yields increase, newly issued bonds become an attractive opportunity due to the increased interest rate. In turn, this erodes the market value of existing bonds. The inverse is also true, if yields decline, a secondary market buyer may pay a premium above the face value to get a piece of higher yields.

However, bonds issued in a higher yield environment can have strong market power for years to come – either as income or to earn a premium when resold. Dependent upon nvestors individual situations, this wave may signal a good opportunity to re-engage the market from cash positions, especially if yields eventually withdraw, but even if they stay higher for longer.

## EQUITY

U.S. large-cap equity returned -3.3% for the second quarter of 2023, as measured by the S&P 500 Total Return index, while U.S. small- to mid-cap equity returned -4.8%, as measured by the Russell 2500 Total Return index. Nine of 11 sectors posted negative returns. A supply-driven energy price surge dragged equities, on the whole, but rewarded the energy sector, which returned 12.2%, as measured by the S&P 500 Energy Total Return index. Small- and mid-cap stocks trailed the broad market in part for the greater impact higher rates for longer have on their profitability. With generally weaker balance sheets, debt and interest payment take a larger share of earnings in small- and mid-cap companies than their large-cap counterparts.

Non-U.S. developed markets large caps returned -4.1%, as measured by the MSCI EAFE Net Return index in dollars, underperforming U.S. large caps. The Bank of England held interest rates while the European Central Bank instituted another hike in the third quarter, both reflecting "higher for longer" strategies to combat inflation.

Emerging markets returned -2.9% as measured by the MSCI Emerging Markets Net Return index in dollars. India's 2.7% return for the quarter, as measured by the MSCI India Net Return index in dollars, could not make up for challenges elsewhere in the group. China, the largest emerging market constituent, returned -1.9% as measured by the MSCI China Net Return index in dollars.

## EQUITY POSITIONING IN FREEDOM PORTFOLIOS

Freedom portfolios are underweight equities and overweight fixed income based on the Asset Management Services (AMS) Investment Committee's expectation for bond yields to remain at elevated levels.

Within equity, Freedom remains overweight in the U.S. market based on the region's stronger fundamental positioning, resilience to inflation and the Federal Reserve's more aggressive stance on inflation compared to the European and U.K. central banks.

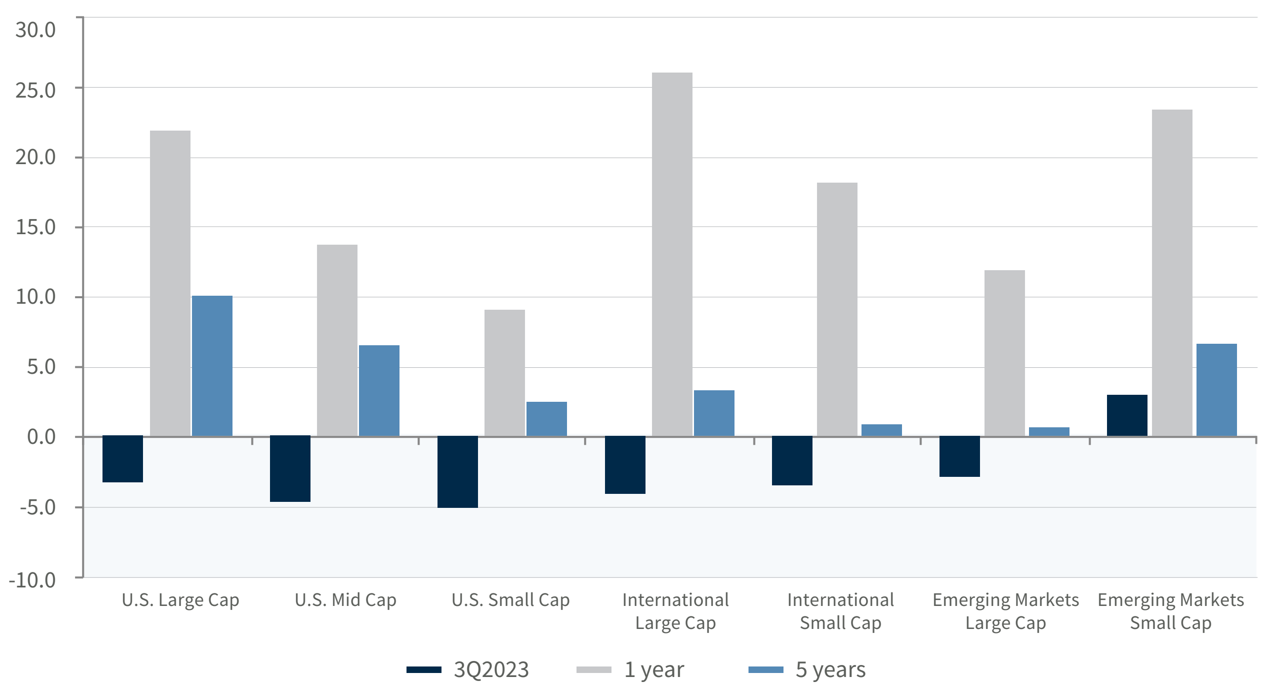
Freedom is overweight in large-cap equity and slightly overweight in small- and mid-cap, the former for the resilience against inflation and slowing economic growth, the latter for exposure to growth stocks, which have significantly outperformed value stocks throughout 2023.

Exposure to emerging market equity is at neutral levels as the Investment Committee expects China to revive its economy following a period of uncertainty, stringent COVID-19 controls, and lower consumer spending.

Freedom's overall underweight equity position is the result of underweight positions in defensive equity such as lower-volatility and high-dividend stocks, which have underperformed this year.

### EQUITY RETURNS

Source: Morningstar as of 9/30/2023



## FIXED INCOME

Core fixed income returned -4.0% for the quarter, as measured by the Bloomberg U.S. Aggregate Bond Total Return index. The Federal Reserve's decision to raise interest rates and then hold them at the current high level proved to be more hawkish than market's previous expectations, thus pushing yields higher. An increased risk for U.S. fiscal funding also added some technical factors for the substantial selloff in rates seen in this quarter.

### FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

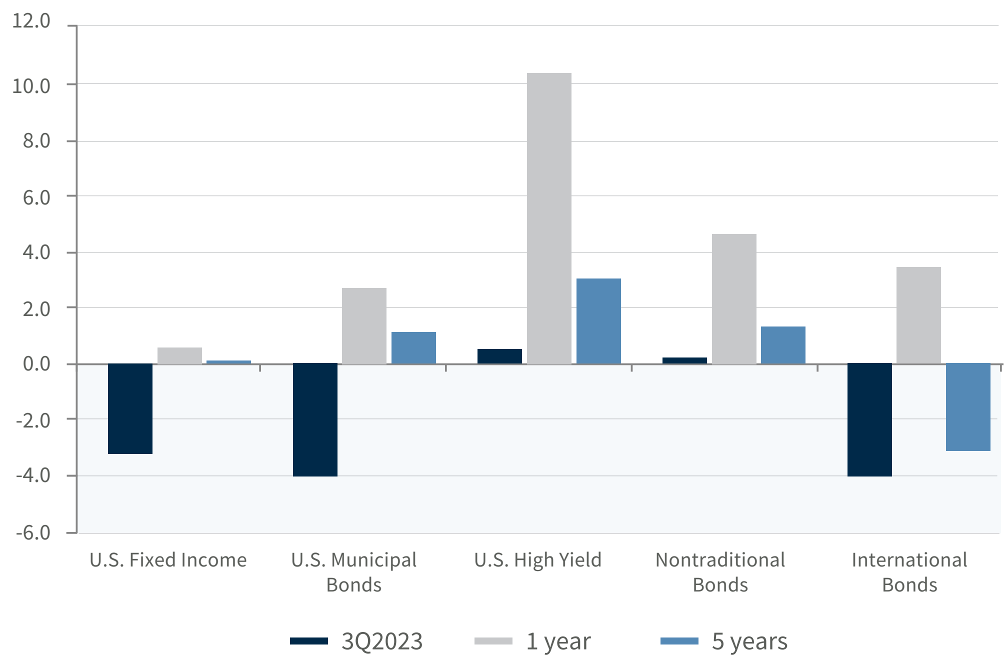
The AMS Investment Committee holds a positive view of fixed income, bolstered by weakness in equity markets as the Federal Reserve signaled its intention to hold interest rates higher for longer than was priced into the market. Yields are elevated, with 10-year Treasury yields reaching 15-year highs.

Freedom is overweight fixed income with positioning toward intermediate-maturity bonds after recently moving from an overweight position in short maturity securities.

Freedom positioning is overweight in high-quality bonds as the Investment Committee expects the traditional inverse relationship between stocks and bonds will return should we go through periods of substantial market volatility as economic growth slows. The Investment Committee views the high-quality bond market as more attractive on a risk-adjusted basis than at any point in the past decade.

FIXED INCOME RETURNS

Source: Morningstar as of 9/30/2023



## ALTERNATIVES

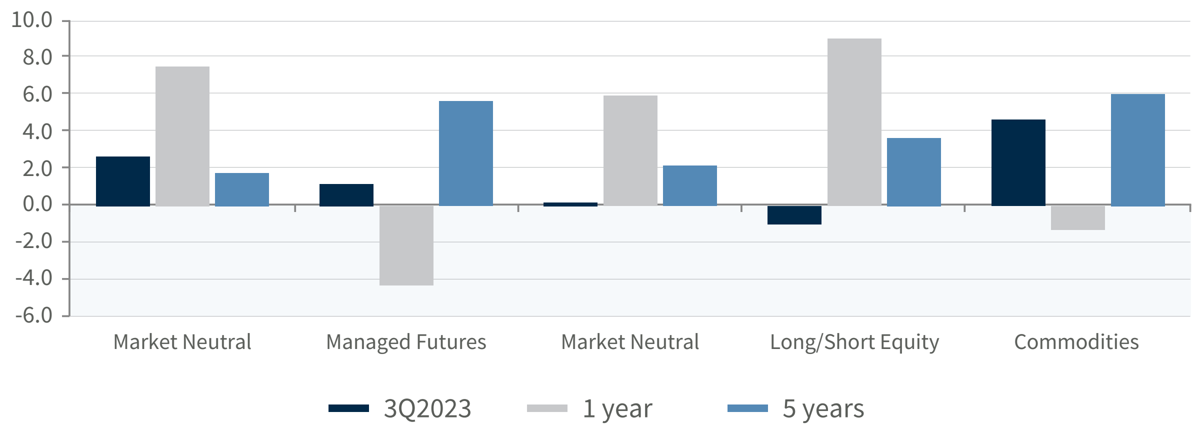
Alternative investments returned 0.2% for the quarter, as measured by the Morningstar U.S. Fund Multistrategy peer group. This asset class outperformed equities, demonstrating its diversifying role within a portfolio.

## ALTERNATIVES POSITIONING IN FREEDOM PORTFOLIOS

Freedom portfolios are slightly underweight alternatives while neutral in some growth objectives.

### ALTERNATIVE INVESTMENTS RETURNS

Source: Morningstar as of 9/30/2023




## OUTLOOK

In light of persistently high core inflation, the resilience of the U.S. economy and strength of the labor market have given the Federal Reserve the elbow room necessary to hold a strict line with its inflation-fighting, interest-rate raising program. As a result, the Investment Committee expects the Federal Reserve to raise the benchmark interest rate by another 0.25 percentage points by the end of the year, then hold at this plateau rate until at least the third quarter of 2024. At that point, limited rate cuts may be prescribed.

However, the committee expects relatively high inflation to persist above the Federal Reserve's target in the coming years, necessitating restrictive interest rates over the next year. Rates cuts would be further out on the horizon absent any systematic issues in the financial markets.

As a result, the Investment Committee expects fixed income yields will remain elevated, providing potential long-term performance enhancements, particularly against any rate cuts. The Investment Committee believes bond yields will lower over the next few years but could remain higher if economic activity remains strong. Alternatively, if the economy deteriorates rapidly in 2024, the likelihood of Federal Reserve cutting rates increases, which likely would provide a boost in bond prices.

U.S. equity remains favored by the Investment Committee compared to international markets. It expects volatility to continue, driven by low, but improving, corporate earnings, higher energy prices, higher inflation, interest rates and slower economic growth. It continues to have a negative view of lower volatility and dividend stocks in place of owning more high-quality U.S. bonds.

In international equity, developed economies face similar challenges to the U.S., but with a weaker economic position. Despite that, the Bank of England and European Central Bank signaled intentions to hold interest rates higher, which the Investment Committee expects to drag at those markets' performance. This supports the committee's continuing underweight position on non-U.S. developed equity. Among emerging equity markets, China is expected to slowly improve its currently diminished position.

Overall, we believe Freedom portfolios are well positioned to take advantage of higher bond yields, which could provide a long-term performance enhancer. Further, the committee continues to view market conditions as favorable to fixed income in light of volatility among equity markets.

The AMS Investment Committee evaluates Freedom portfolios on a continuous basis, and any changes would be intended to earn the best possible return for the amount of downside risk the committee is willing to tolerate, in alignment with portfolio objectives.

The foregoing content reflects the opinions of Raymond James Asset Management Services and 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. The charts and tables presented herein are for illustrative purposes only and should not be considered as the sole basis for your investment decision.

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. Asset allocation and diversification do not ensure a profit or protect against a loss. There is no assurance that any investment strategy will be successful.

***Further information on the funds selected for the Freedom portfolios is available by prospectus, which can be obtained through your financial advisor. Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds and exchange traded funds before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. All investments are subject to risk, including loss.***

You should understand that the annual advisory fee charged in these programs is in addition to the management fees and operating expenses charged by mutual funds and exchange traded funds, if applicable. These additional considerations, as well as the fee schedule, are listed more fully in the Client Agreement and Raymond James & Associate's Form ADV Part 2A.

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 overweighted 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 that attempts to mimic the performance will incur expenses such as management fees and transaction costs that reduce returns.

Bloomberg Barclays U.S. Aggregate Bond Index (U.S. Fixed Income): This index includes investment grade U.S. government bonds, corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the U.S. The securities in the index must have at least one year remaining to maturity.

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 U.S. and Canada. It consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index (Emerging Markets Equities): A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2009, the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 742 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

The MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market. With 122 constituents, the index covers approximately 85% of the Indian equity universe.

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: Based on a combination of their market capitalization and current index membership, this index is comprised of approximately 2,500 of the smallest securities from the Russell 3000. Measures the performance of the small to mid-cap (smid) segment of the U.S. equity universe.

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

The S&P 500® Ex-Energy is designed to measure the broad U.S. market, excluding members of the GICS® Energy sector.

S&P 500 Select Sector Indices: Following a modified market capitalization weight methodology, Select Sector Indices are calculated and maintained by S&P Dow Jones Indices. The constituents of each index are all members of the S&P 500, and each constituent of the S&P 500 is assigned to at least one Select Sector Index based on the constituent's classification under the Global Industry Classification Standard (GICS®). Most of the Select Sectors align in their membership with GICS sectors, with a few exceptions. The membership of Technology Select Sector combines constituents of the GICS Information Technology and Telecommunication Services sectors. The Financial Services Select Sector includes stocks from the GICS Financials sector excluding Real Estate but keeping Mortgage REITS, and the membership of Real Estate Select Sector includes constituents of the GICS Real Estate Industry Group, excluding Mortgage REITS.

S&P U.S. Treasury Bill 0-3 Month Total Return Index measures the performance of U.S. Treasury bills maturing in 0 to 3 months.

The MSCI All Country World Index (ACWI) is designed to track broad global equity-market performance.

The Bloomberg Municipal Index measures the performance of the Bloomberg U.S. Municipal bond market, which covers the USD- denominated Long-Term tax-exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.



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