RAYMOND JAMES

# Freedom market commentary

Q1 2022

In addition to the challenges of navigating economic recovery during a global pandemic, geopolitical tensions perplexed investors during a volatile first quarter of 2022. Both equity and bond markets declined – a rare occurrence.

Uncertainty around tight supply chains, above-average inflation, hawkish monetary policy decisions and fighting in Ukraine took capital markets on a bumpy ride. In January, the prospect of rising interest rates to combat high inflation sent ripples through the bond and equity markets. In February, equity markets got a shock from Russia's invasion of Ukraine. By late March, equity investors seemed to settle in a bit. Bonds, however, experienced one of the worst starts to a year since 1980. Through this fitful moment in the ongoing recovery, U.S. markets led the world.

## EQUITY

U.S. large-cap equity returned -4.6% for the quarter, as measured by the S&P 500 TR index. After dipping into correction territory – on March 14, the index was down roughly 12% from its previous high – large caps rallied in the final weeks of the quarter as it became apparent that economic sanctions levied against Russia for its actions in Ukraine would be felt primarily in Europe and emerging economies that rely more heavily on Russian oil, gas and food exports.

By comparison, international equity lagged. Non-U.S. developed markets equity returned -5.9%, as measured by the MSCI EAFE NR USD index, and emerging markets returned -7.0%, as measured by the MSCI Emerging Markets NR USD index. A strengthening U.S. dollar also ate into returns for U.S. investors relative to local currencies.

## FIRST QUARTER HIGHLIGHTS

- Equity and bond markets decline
- Central banks turn more hawkish
- U.S. markets lead the world

## INVESTING INSIGHTS

### INTEREST RATES AND INFLATION

Facing persistently high inflation, the U.S. Federal Reserve (Fed) plans to raise interest rates in small increments throughout the year to bring inflation closer to its annual target of 2%. Established to foster economic prosperity – stable prices and maximum employment – the Fed uses interest rates as its primary tool for managing inflation. Interest rates tend to follow the direction of inflation – up when inflation is high, down when deflation occurs. Raising interest rates increases the cost of borrowing, which cools the purchasing power of businesses and consumers for large items that typically require financing, such as houses and cars. With demand reduced, prices naturally follow.

Though much of the world is emerging from pandemic-related restrictions, consumers flush with cash continue to focus on goods rather than services such as travel, dining and other forms of entertainment. This increased demand comes while supply chains are still constrained – a combination that fuels inflation.

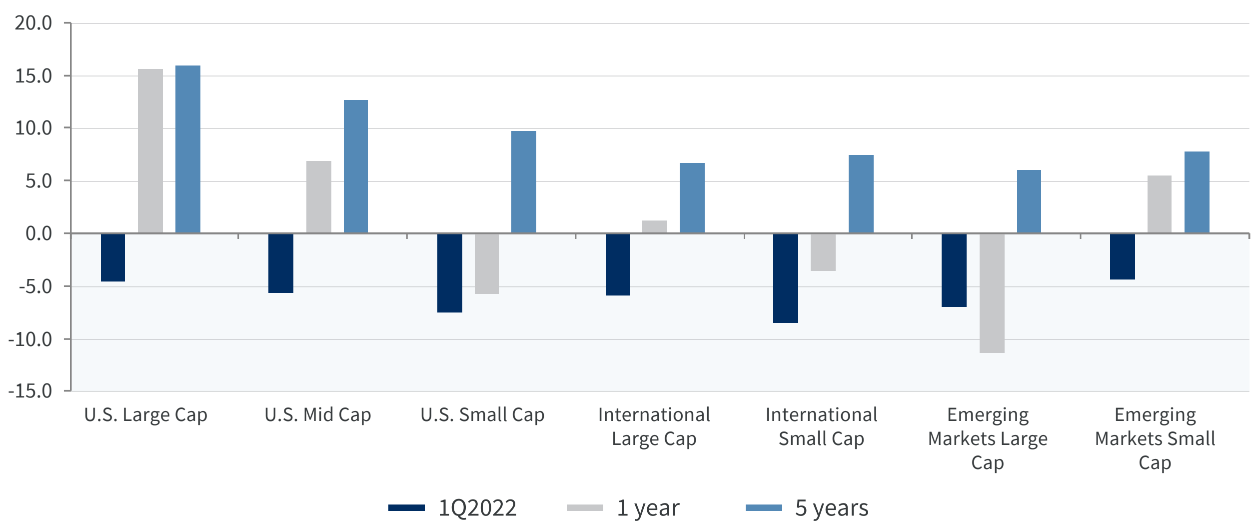
## EQUITY POSITIONING IN FREEDOM PORTFOLIOS

The Asset Management Services (AMS) Investment Committee, which oversees Freedom portfolios, has a positive view of equity based on the outlook for continued economic growth. As such, portfolios aligned with objectives that focus on capital appreciation – balanced, balanced with growth, growth and global – are overweight equity. Within equity allocations, all Freedom portfolios are overweight U.S. equity, primarily large caps, based on the committee's belief the United States is better positioned than the rest of the world for steady growth.

The committee has a cautious view of non-U.S. developed markets equity, where the pandemic remains disruptive and the effects of sanctions limiting Russian imports are being felt. The committee has a neutral view of emerging markets equity, where recent underperformance could make additional exposure more attractive.

## EQUITY RETURNS

Source: Morningstar as of 03/31/2022



## FIXED INCOME

Core fixed income returned -5.9% for the quarter, as measured by the Bloomberg U.S. Aggregate Bond TR index – among its worst first-quarter performances in decades. Where the equity markets have the ability to digest monetary policy decisions and move on, bond prices are tied closely to interest rate movements. And when rates go up, prices go down.

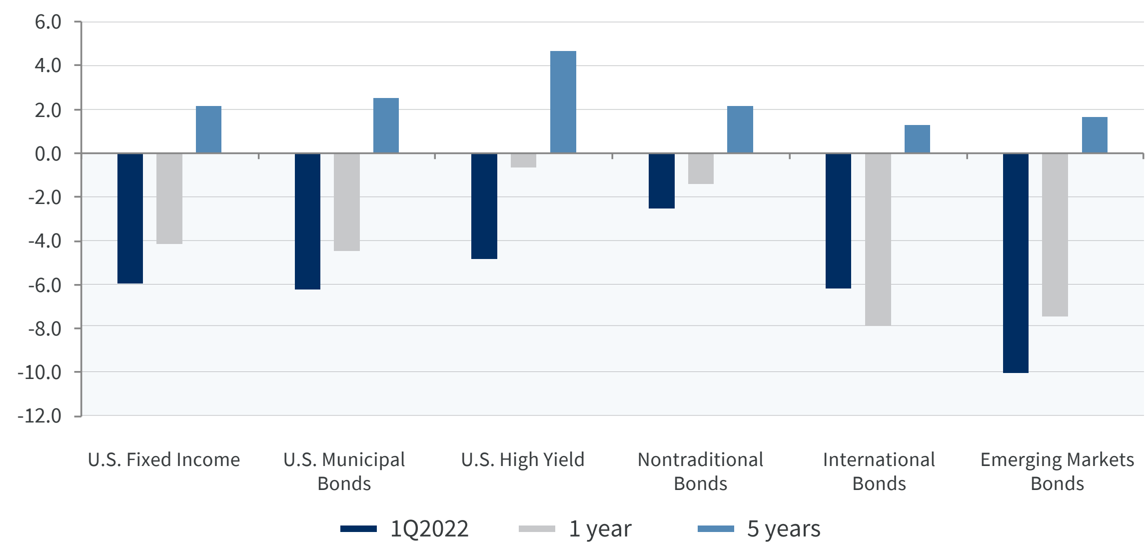
In March, the U.S. Federal Reserve (Fed) implemented the first of several forecasted rate hikes – a 0.25% increase that brought the federal funds rate to a range of 0.25% to 0.50%. The Fed plans to take a methodical approach to raising rates – five or six increases of 0.25% during the year – but could bump to 0.50% if warranted.

## FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

The AMS Investment Committee holds a cautious view of fixed income, believing the equity markets offer better opportunities. Bonds, however, continue to have value for their ability to mitigate risk during an equity downturn.

### FIXED INCOME RETURNS

Source: Morningstar as of 03/31/2022



## ALTERNATIVES

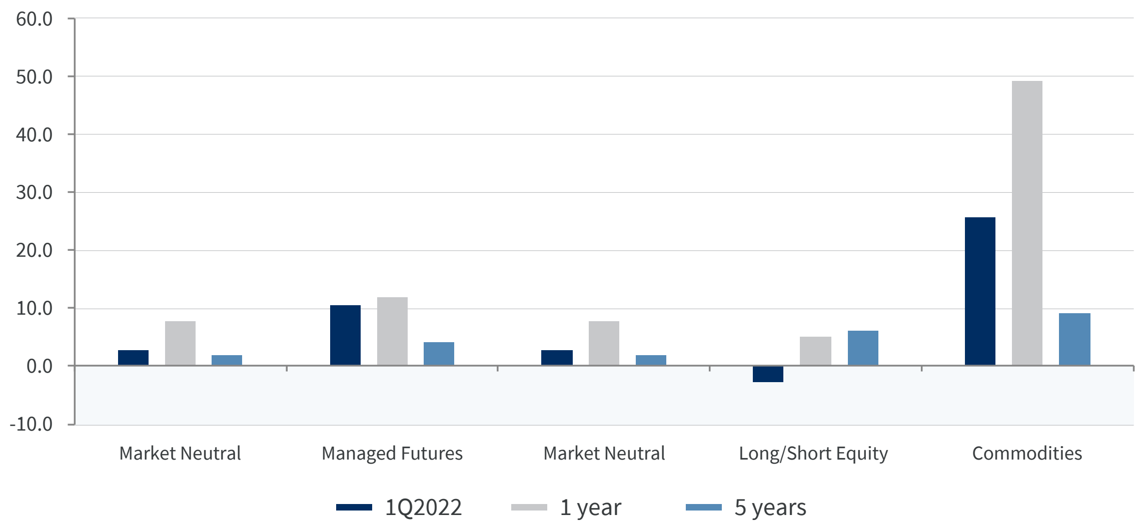
Alternative investments returned -1.2% for the quarter, as measured by the U.S. Fund Multistrategy peer group. This asset class, valuable for its ability to provide diversification, outperformed equities and core fixed income, as would be expected when returns for both are negative.

## ALTERNATIVES POSITIONING IN FREEDOM PORTFOLIOS

The AMS Investment Committee holds a cautious view of alternative investments, which are utilized for diversification purposes.

### ALTERNATIVE INVESTMENTS RETURNS

Source: Morningstar as of 03/31/2022




## OUTLOOK

The outlook for U.S. economic growth remains positive, though the pace of growth is expected to slow relative to the boom of 2021. Corporate balance sheets appear strong, along with the labor market. For international markets, the outlook is less certain, likely more dependent on the course of events in Ukraine and economic sanctions against Russia, as well as the pandemic.

As the Fed takes a more hawkish approach to monetary policy, a number of rate hikes are projected for 2022. The federal funds rate will likely close the year 0.25% or 0.50% higher than previously expected, but inflationary pressures are expected to ease, which will help stabilize housing and rent costs and allow strained supply chains an opportunity to catch up.

While volatile markets can be stressful, they also present opportunities. The AMS Investment Committee evaluates Freedom portfolios on a continuous basis, and any changes would be in an attempt 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, 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 United States. 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, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

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.

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.

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