RAYMOND JAMES

FREEDOM MARKET COMMENTARY

Asset Management Services // Q2 2020

SECOND QUARTER HIGHLIGHTS

- Equity markets bounce back, embrace risk
- Course of pandemic still uncertain
- Central banks provide support
- U.S. equity leads global rally

MARKET UPDATE

EQUITY MARKETS SURGE AS ECONOMIES REOPEN

The equity market followed one of its worst quarters with one of its best bounces, moving on quickly from the sharp selloff that occurred in February and March amid concern for the coronavirus pandemic and its effect on global economies. From its low on March 23, the S&P 500 index gained 31% over a 26-day period. Investors saw opportunity, reengaging with risk as the United States and other nations emerged from their coronavirus shutdowns, businesses began to reopen, fiscal stimulus packages took effect and central banks pledged support. And though volatility remained elevated throughout the second quarter, with stock prices rising and falling on the news of the day, most major asset classes posted significant returns for the quarter.

THE FED TAKES CHARGE

The U.S. Federal Reserve's response to the economic crisis caused by the coronavirus pandemic is unprecedented. It cut the short-term lending rate to nearly zero, infused the economy with cash and purchased debt. For the first time, it operated programs to purchase corporate debt and small-business loans. Bottom line: It appears the Fed is willing to do whatever it takes to stabilize the economy, including things it would not have done 30 or even 10 years ago. And while future growth prospects may be diminished, the Fed's actions seem to have averted catastrophe.

EQUITY

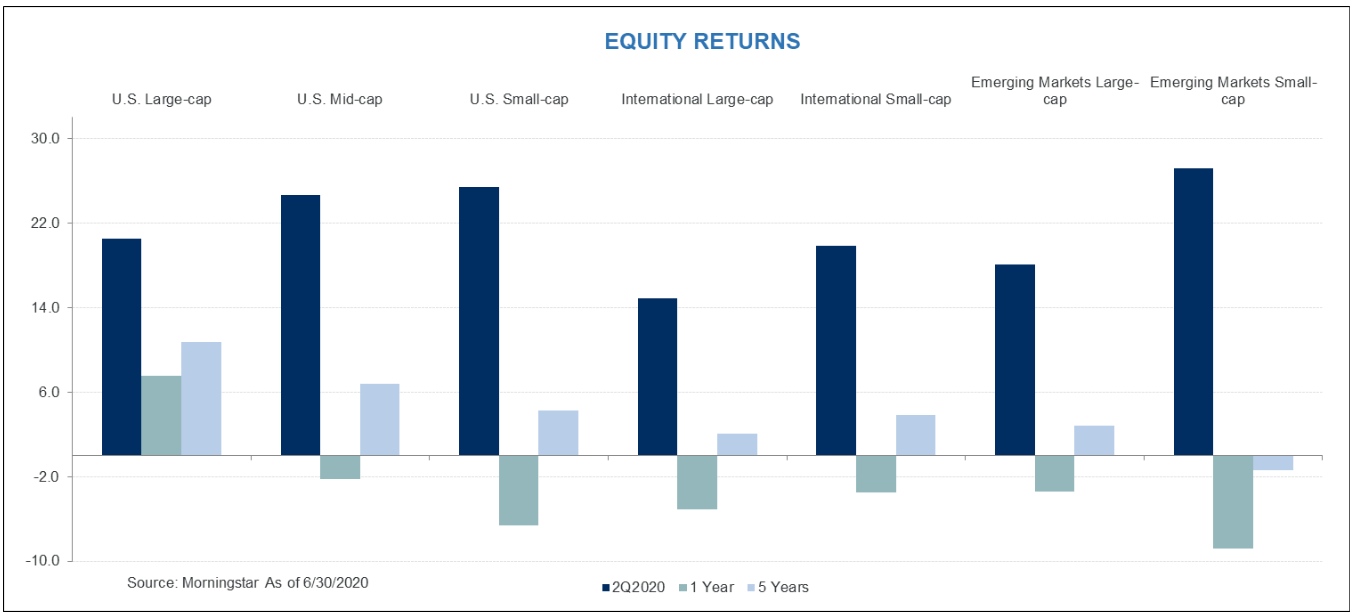
U.S. large-cap equity returned 20.5% for the quarter, as measured by the S&P 500 TR index, in regaining much of the previous quarter's losses. U.S. small- to mid-cap equity returned 26.6% for the quarter, as measured by the Russell 2500 TR index.

After the pullback, U.S. equity valuations were the most attractive they had been in years. And while second-quarter performance was driven by businesses that supported the sudden shift to remote work and online shopping, including an outsized contribution to return by the information technology sector, the attractive valuations represented an opportunity. This was especially true of small- to mid-cap equities. Considered riskier than large caps, companies with smaller capitalizations were among those hardest hit during the pullback. A focus of fiscal stimulus, including the Paycheck Protection Program, small businesses employed nearly 48% of the American workforce in 2018 and are often the lifeblood of local communities.

International equity markets saw strong performance in the second quarter, as well, though not as strong as domestic stocks. International developed markets large-cap equity returned 14.9% for the quarter, as measured by the MSCI EAFE NR USD index, while emerging markets equity returned 18.1% for the quarter, as measured by the MSCI Emerging Markets NR index.

EQUITY POSITIONING IN FREEDOM PORTFOLIOS

The AMS IC holds a slightly positive view of domestic equity overall, which became more attractive after the March downturn. Valuations for U.S. small- to mid-cap stocks, which were the hardest hit during the pullback, became more attractive than they had been in years, presenting the opportunity for reengagement. The AMS IC holds a slightly cautious view of international equity, anticipating that Europe and other regions may not emerge from the pandemic on the same trajectory for growth as when they entered.



FIXED INCOME

Core fixed income returned 2.9% for the quarter, as measured by the Bloomberg Barclays U.S. Aggregate Bond TR index. Yields continued to fall, pushing prices higher. Lower-quality bonds benefited from the risk-on environment, which also helped corporate and municipal bonds. Intermediate-term, investment grade bonds helped balance risk in diversified portfolios.

FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

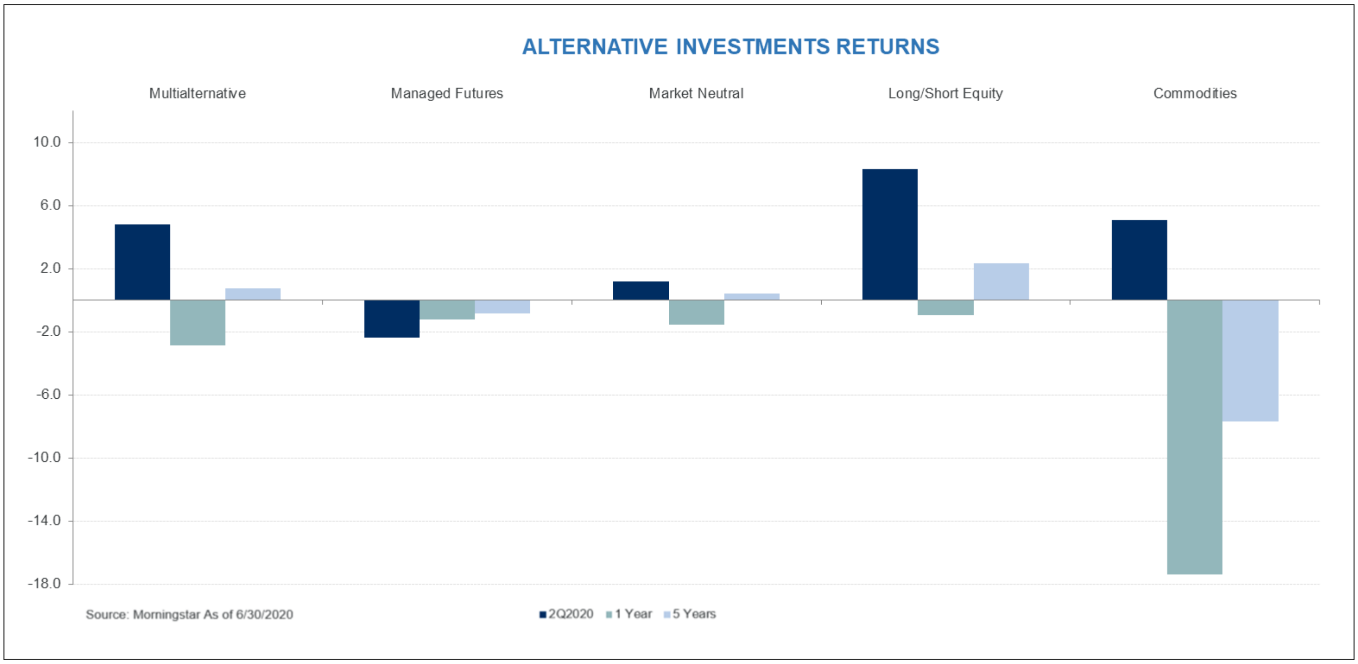
The AMS IC holds a neutral view of core fixed income, which has the potential to mitigate risk during an equity downturn. In a lower-for-longer interest rate environment, however, the overweight to high quality was reduced, given the low return potential. The AMS shifted from an underweight to a neutral view of high yield bonds, which appear more attractive after the downturn given the support provided to corporations by the U.S. Federal Reserve and the federal government as part of their pandemic relief efforts.

ALTERNATIVES

Multialternative investments returned 4.9% for the quarter, as measured by the U.S. Fund Multialternative peer group. This asset class, valuable for its ability to provide diversification, underperformed equities and outperformed core fixed income, as would be expected.

ALTERNATIVES POSITIONING IN FREEDOM PORTFOLIOS

The AMS IC holds a neutral view of alternative investments, which are utilized for diversification purposes.



OUTLOOK

Though the course of the pandemic remains uncertain – COVID-19 cases are decreasing in some of the hardest hits areas of the country and the world, yet increasing in others – global economies are striving to move forward after being thrown into unexpected recessions. While U.S. unemployment claims indicate there will be some pain to endure during what likely will be a lengthy recovery, the economy appears to have bottomed and be moving in the right direction. In Freedom portfolios that had been positioned more defensively prior to the pullback, the Asset Management Services (AMS) Investment Committee (IC) sought to move closer to its normal risk stance with recent trades. Exposures to U.S. small- to mid-cap equity and high yield bonds were increased, while exposures to international equity and core fixed income were decreased. The AMS IC believes the United States is positioned more strategically than international economies to emerge from the effects of the pandemic. And while core fixed income remains valuable for its ability to mitigate equity risk, the expectation interest rates will remain lower for longer makes other areas of the market more attractive. The AMS IC evaluates Freedom portfolios on a continuous basis, and any additional 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.

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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 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 & 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.

The MSCI USA Minimum Volatility Index aims to reflect the performance characteristics of a minimum variance strategy applied to the US large and mid cap equity universe. The index is calculated by optimizing the MSCI USA Index, its parent index, for the lowest absolute risk (within a given set of constraints).

Morningstar US OE Multialternative (Multialternative): These funds will use a combination of alternative strategies such as taking long and short positions in equity and debt, trading futures, or using convertible arbitrage, among others. Funds in this category have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes.

Russell 2500 (U.S. Small to Mid-Cap): A broad index featuring 2,500 stocks that cover the small and mid-cap market capitalizations. The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

S&P 500 Index (U.S. Large Cap): The index consists of 500 of the largest stocks in the U.S. stock market. A market value weighted index (stock price times number of shares outstanding after float adjustment), with each stock's weight in the index proportionate to its market value.

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, blue-chip companies.

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