RAYMOND JAMES

# FREEDOM MARKET COMMENTARY

Asset Management Services // Q3 2020

## THIRD QUARTER HIGHLIGHTS

- Equity markets around the world rally
- Economic data sees positive trends
- Central banks remain supportive
- U.S. economy expanded

## MARKET UPDATE

Equity markets around the world rallied during the third quarter of 2020. While the market bounce that occurred during the second quarter was driven largely by a handful of large technology companies, the third-quarter rally was a bit broader as U.S. businesses reopened and workers returned to their jobs from pandemic lockdowns. Jobless claims in the United States remained higher than normal, but were down substantially from their pandemic peak. Likewise, the U.S. economy expanded. Partisanship prevented Congress from moving forward on a new stimulus package, but central banks, including the U.S. Federal Reserve, pledged long-term support. Around the world, even with concern for a second wave of COVID-19, businesses and consumers found ways to adapt and move forward.

### INTEREST RATES AND INFLATION

To support economic recovery, the U.S. Federal Reserve has pledged to keep short-term interest rates low, likely through 2022. For many, that may sound familiar – the Fed lowered interest rates after the 2009 financial crisis and rates remained historically low for several years. The difference this time is the Fed intends to break from its past practice of raising interest rates to keep inflation from exceeding a 2% target. Instead, a flexible average will be used, making the decision to raise interest rates less formulaic and more subjective. This policy shift allows for the possibility that interest rates may stay lower for even longer.

## EQUITY

U.S. large-cap equity returned 8.9% for the quarter, as measured by the S&P 500 TR index, and reached a new all-time high in early September. U.S. small- to mid-cap equity returned 5.9% for the quarter, as measured by the Russell 2500 TR index. Relative to the spring bounce, positive performance in the third quarter was more broad-based. Growth-oriented technology companies continued to dominate – even with a late-quarter pullback in growth stocks – but value and dividend investments contributed, too. Cyclical sectors, such as materials and industrials, joined consumer discretionary in driving performance as economists pointed to record gross domestic product (GDP) growth. Still lagging was the energy sector, where demand for oil remained reduced with fewer people traveling or commuting to work.

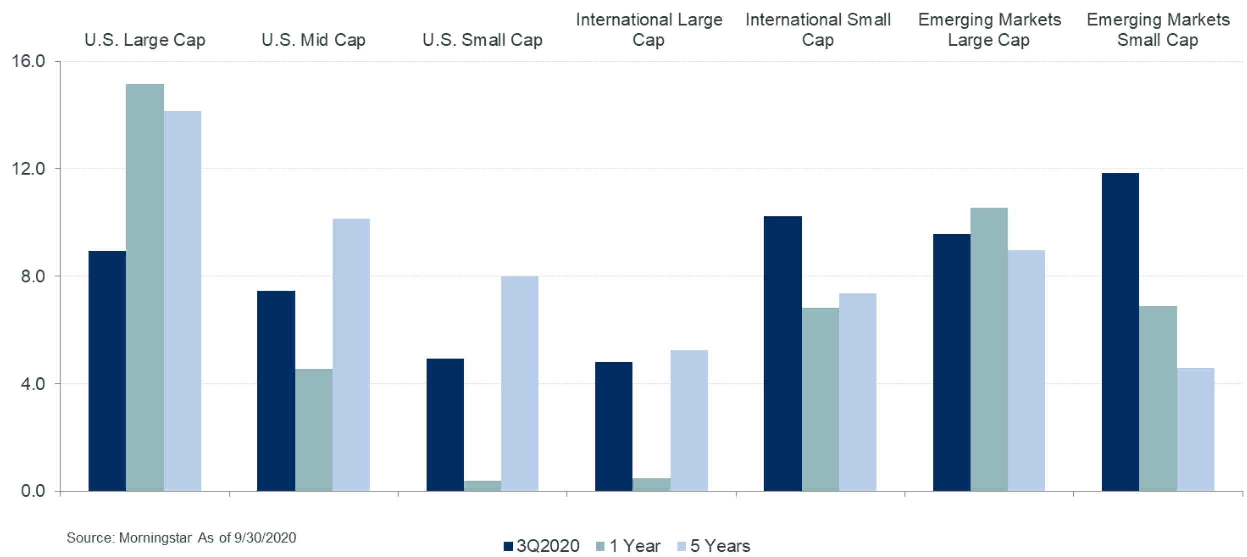
International equity markets saw strong performance, as well. Developed markets large-cap equity returned 4.8% for the quarter, as measured by the MSCI EAFE NR USD index, though nearly two-thirds of the return was attributable to a decline in the value of the dollar relative to other currencies, including the euro. Emerging markets equity returned 9.6% for the quarter, as measured by the MSCI Emerging Markets NR index, with currency exchange rates less of a factor. China led the way among still-developing economies.

### EQUITY POSITIONING IN FREEDOM PORTFOLIOS

The AMS Investment Committee holds a positive view of domestic equity, believing the U.S. market offers greater growth prospects relative to the rest of the world. Within U.S. equity, the preference is for large caps over small. Recognizing the potential for elevated volatility, the AMS IC has increased exposure to lower volatility U.S. stocks.

The AMS IC holds an unfavorable view of international developed markets equity, believing the recovery in Europe and other regions may be more prolonged. The AMS IC has a neutral view of emerging markets, where attractive valuations and an improving global outlook may provide opportunities to increase exposure.

**EQUITY RETURNS**




Source: Morningstar As of 9/30/2020

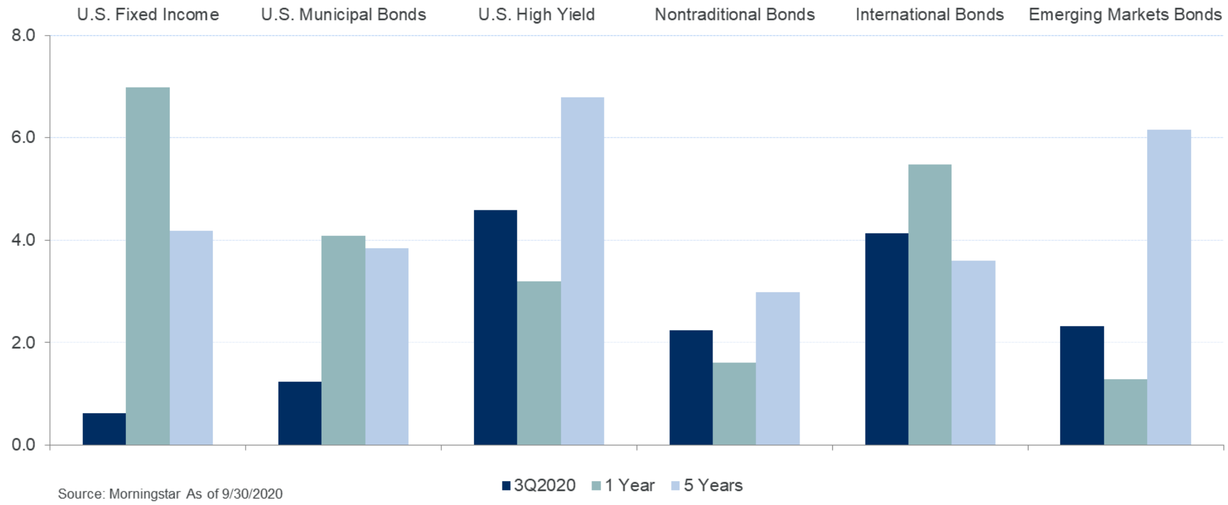
## FIXED INCOME

Core fixed income returned 0.6% for the quarter, as measured by the Bloomberg Barclays U.S. Aggregate Bond TR index. High-quality bond yields remained low with near-zero interest rates, and bond prices are typically driven down when equities rally. The U.S. Federal Reserve has pledged to keep interest rates low to support economic recovery.

### FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

The AMS IC holds a neutral view of fixed income, valuing its potential to mitigate risk during an equity downtown. Recognizing the widening difference between spreads for Treasuries and high yield bonds, exposure to high yield bonds has been increased.

**FIXED INCOME RETURNS**




Source: Morningstar As of 9/30/2020

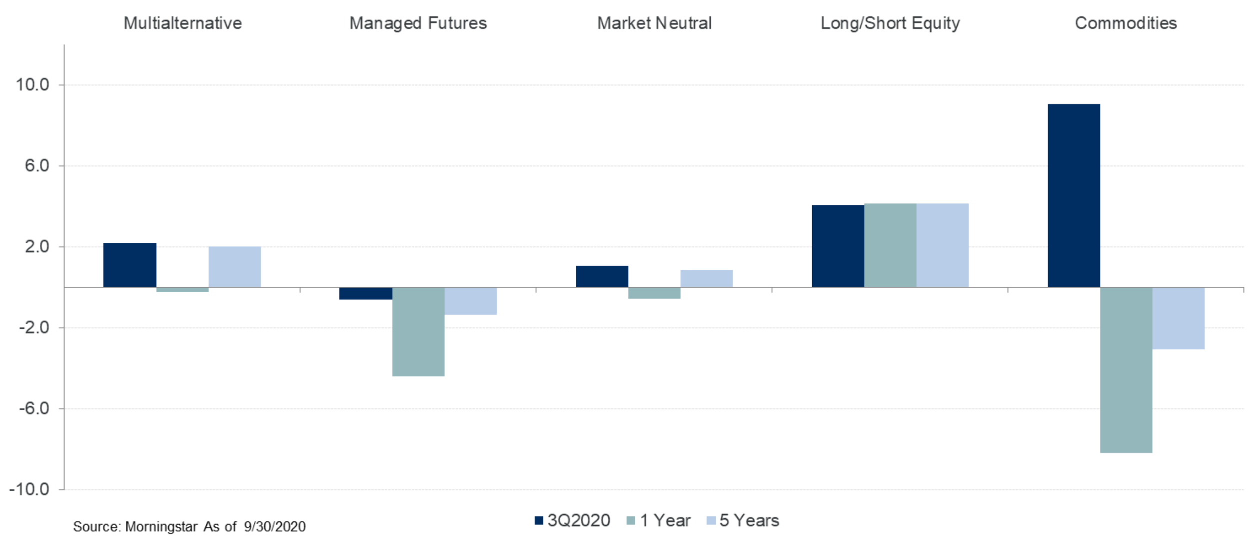
## ALTERNATIVES

Multialternative investments returned 2.0% 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.

**ALTERNATIVE INVESTMENTS RETURNS**




Source: Morningstar As of 9/30/2020

## OUTLOOK

Even as the COVID-19 pandemic continues to affect the ways people live and work, the U.S. economy is growing. Major gains made in employment and GDP in recent months, however, will likely give way to a more measured pace of growth going forward. Given the low starting yields of bonds during a low-interest-rate environment, fixed income returns are likely to match their current yields. As such, the AMS IC expects equities to outperform bonds, with the U.S. economy positioned more strategically for growth than foreign economies. The volatility equity markets experienced in September may continue amid concern for a second wave of infections and news about vaccine trials. Central banks around the world, including the U.S. Federal Reserve, remain supportive. And lawmakers have the ability to provide additional fiscal stimulus. Though economic recovery may take time, employment and growth trends appear positive.

Freedom portfolios are currently risk neutral, aligned with AMS IC policy in their allocations to equity and fixed income. The AMS IC 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.

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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.

**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.

**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.



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