The U.S. economy continued to grow in the second quarter of 2023, though at a slower pace – the intended effect of efforts to rein in inflation. The equity market extended its rally, fueling strong year-to-date returns.

SECOND QUARTER HIGHLIGHTS

Equity rallies  Fed raises interest rates  Inflation remains elevated

The resiliency of the U.S. economy halfway through the year makes it much less likely a recession will occur in 2023. Consumer spending, jobs growth, inflation and overall economic growth showed signs of weakening, but remained stronger than expected.

Likewise, the equity markets experienced a strong first half the year, rising more than 20% from October lows. The Asset Management Services Investment Committee, which oversees Freedom portfolios, is monitoring incoming data, looking for the improved earnings and stabilizing margins that would support a sustainable rally.

The year-to-date return of 15.9% for the S&P 500 index has pushed valuations up and equities have a high bar of earnings and profits to clear in the second half of 2023 and into 2024, as economic growth decelerates.

INVESTING INSIGHTS

THE CASH CONUNDRUM

With interest rates at their highest levels in years and the markets experiencing volatility, collecting 4% or possibly 5% interest on a large cash balance can seem like an attractive option. Cash, however, may not fuel the growth long-term goals require. There were five rate-hiking cycles between 1986 and 2018. As the chart below illustrates, from the month in which the U.S. Federal Reserve made its final rate increase, cash significantly underperformed a balanced portfolio of 60% of stocks (S&P 500) and 40% bonds (Bloomberg Barclays Agg Bond Index) over a five-year period. Longer duration municipal bonds and core bonds also outperformed cash, but fell short of the balanced portfolio.

Market commentary is generic in nature and not necessarily specific to the Freedom objective discussed herein but will include information material to the Freedom platform in general. Freedom commentary is generally written from a passive standpoint and there are limitations to this data as strategies include active management. Actively managed strategies and holdings may have reacted differently during the quarter than the market segments discussed herein. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index and peer group would incur fees and expenses, which would reduce returns. Asset allocation and diversification do not ensure a profit or protect against a loss. All investments are subject to risk, including a profit or a loss. There is no assurance that any investment strategy will be successful. Past performance is not a guarantee of future results. Dividends are not guaranteed and a company’s future ability to pay dividends may be limited.
EQUITY

U.S. large-cap equity returned 8.7% 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 5.2%, as measured by the Russell 2500 Total Return index. Nine of 11 sectors posted positive returns, with gains driven largely by growth-oriented stocks and the buzz around artificial intelligence.

Non-U.S. developed markets large caps returned 3.2%, as measured by the MSCI EAFE Net Return index in dollars, underperforming U.S. large caps. After a strong first-quarter, developed economies gave way to the United States based on the expectation central banks will need to do more to combat lingering high inflation.

Emerging markets returned 1.0% as measured by the MSCI Emerging Markets Net Return index in dollars. Though China’s reopening created early optimism, China was a drag on return at -9.8%, as measured by the MSCI China Net Return index in dollars.

EQUITY POSITIONING IN FREEDOM PORTFOLIOS

Freedom portfolios are slightly underweight equity after recent trades in which defensive equity was trimmed to add high-quality fixed income. After experiencing strong relative returns in 2022, defensive equity, such as low volatility stocks and higher dividend yielding stocks, has lagged the broader market in 2023. With bond yields at or nearing their peaks, bonds were the more attractive risk-adjusted choice as yields are expected to decline in the future.

Within the equity allocation, Freedom portfolios are overweight U.S. equity, primarily large caps, based on stronger fundamentals and improving relative economic conditions. As global growth decelerates, the committee believes the United States is positioned to hold up better than the rest of the world.

As such, the committee has a cautious view of non-U.S. developed markets equity based on risk concerns from persistently higher inflation and complications from the Russia-Ukraine war. The committee has a neutral view of emerging markets equity, where confirmation of growth reacceleration is needed.

EQUITY RETURNS

Source: Morningstar as of 6/30/2023

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<th>Equity Type</th>
<th>2Q2023</th>
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<td>Emerging Markets Small Cap</td>
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FIXED INCOME
Core fixed income returned -1.8% for the quarter, as measured by the Bloomberg U.S. Aggregate Bond Total Return index. The Federal Reserve’s decision to raise interest rates again pushed prices down slightly.

FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS
The AMS Investment Committee holds a positive view of fixed income. With bond yields at or approaching their high points, the risk-return characteristics of intermediate to longer-maturity bonds have improved, especially for investors who value their ability to mitigate risk associated with a downturn in the equity market. Longer term, bond prices stand to benefit when conditions support declining interest rates yet may be range bound in the near term.

FIXED INCOME RETURNS
Source: Morningstar as of 6/30/2023
**ALTERNATIVES**

Alternative investments returned 1.0% for the quarter, as measured by the Morningstar U.S. Fund Multistrategy peer group. This asset class, valuable for its ability to provide diversification, underperformed equities, as would be expected when equities rally.

### ALTERNATIVE INVESTMENTS RETURNS

![Alternative Investments Returns Chart](image)

**OUTLOOK**

The Investment Committee expects consumers to moderate spending but chug along for the remainder of 2023, given their residual excess savings and still-healthy household finances. We also expect the stickiness of core inflation and the resiliency of economic growth to warrant a higher-for-longer interest rate environment for the remainder of 2023.

Yields for short-term bonds may move slightly higher – the Fed will likely hike in July and possibly in September – but yields for medium- to longer-maturity bonds are nearing peak levels, with the bias toward meaningfully lower levels in the next 12-24 months as anticipated weakness starts to manifest in the economy and labor market.

U.S. equity markets remain the favored region, given stronger starting fundamentals, higher profitability and better inflation dynamics relative to places such as Europe and the United Kingdom. The United States has also been more aggressive with its monetary policy tightening, which is more effectively moderating inflation. The consensus estimate is for forward earnings to continue to improve from a very low 2023 level, which helped markets as the worst case was avoided.

This asset class, valuable for its ability to provide diversification, underperformed equities, as would be expected when equities rally.

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

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We expect developed international markets to lag as inflation proves to be more stubborn than estimated by central banks and economic growth underwhelms heading into the second half of the year. Valuations have risen after the recent rally and we believe are stretched, absent further improvement in earnings fundamentals.

Emerging markets continue to see depressed valuations, with the pickup in growth from China’s reopening turning out to be slower and smaller than expected. We expect more policy easing and gradual improvements in consumer and investor sentiment in the next 12-24 months.

Overall, Freedom portfolios are positioned more cautiously than a year ago – exposure to equity has decreased and exposure to fixed income has increased. Higher starting yields will continue to make the bond market attractive.

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.

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.

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.