



# CAPITAL MARKETS REVIEW

REVIEWING THE QUARTER ENDED SEPTEMBER 30, 2017

 McDevitt Weintraub  
WEALTH MANAGEMENT OF

**RAYMOND JAMES®**

### Economic Review... 3-9

- Gross Domestic Product
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- Foreign Exchange Rates
- Commodity Prices

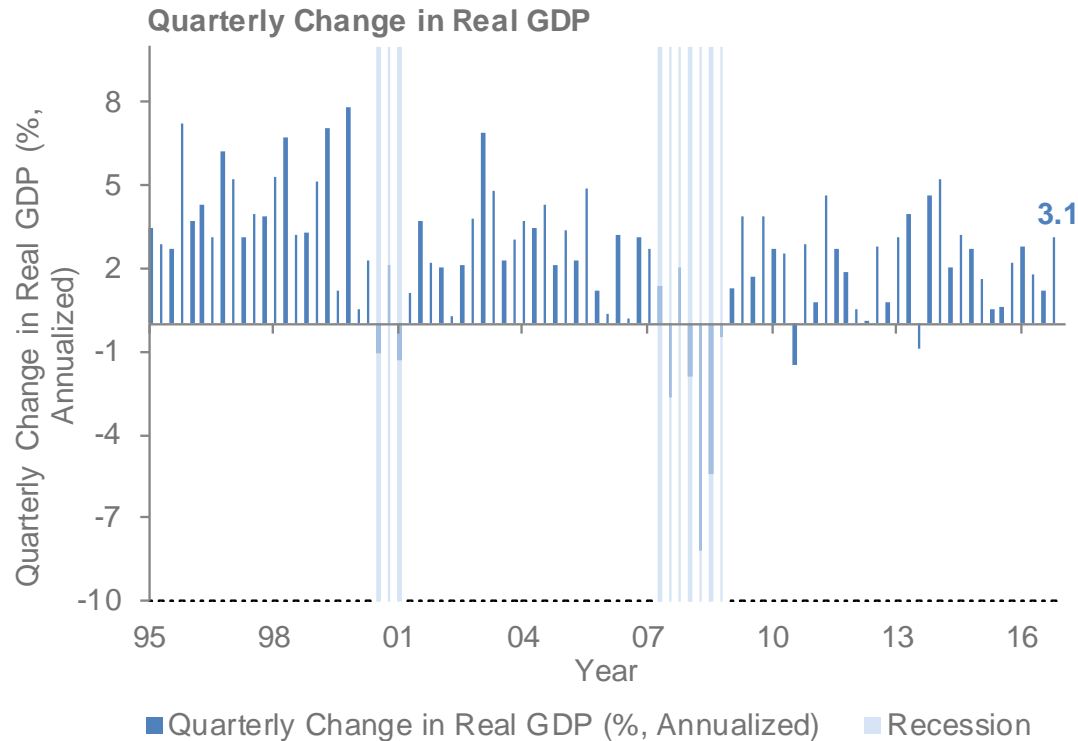
### Quarterly Themes... 22-23

- Low Volatility
- Company Consolidation
- Fixed Income
- Exchange Rates



# GROSS DOMESTIC PRODUCT

Real gross domestic product (GDP) increased at an annual rate of 3.1 percent in the second quarter of 2017, according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 1.2 percent.

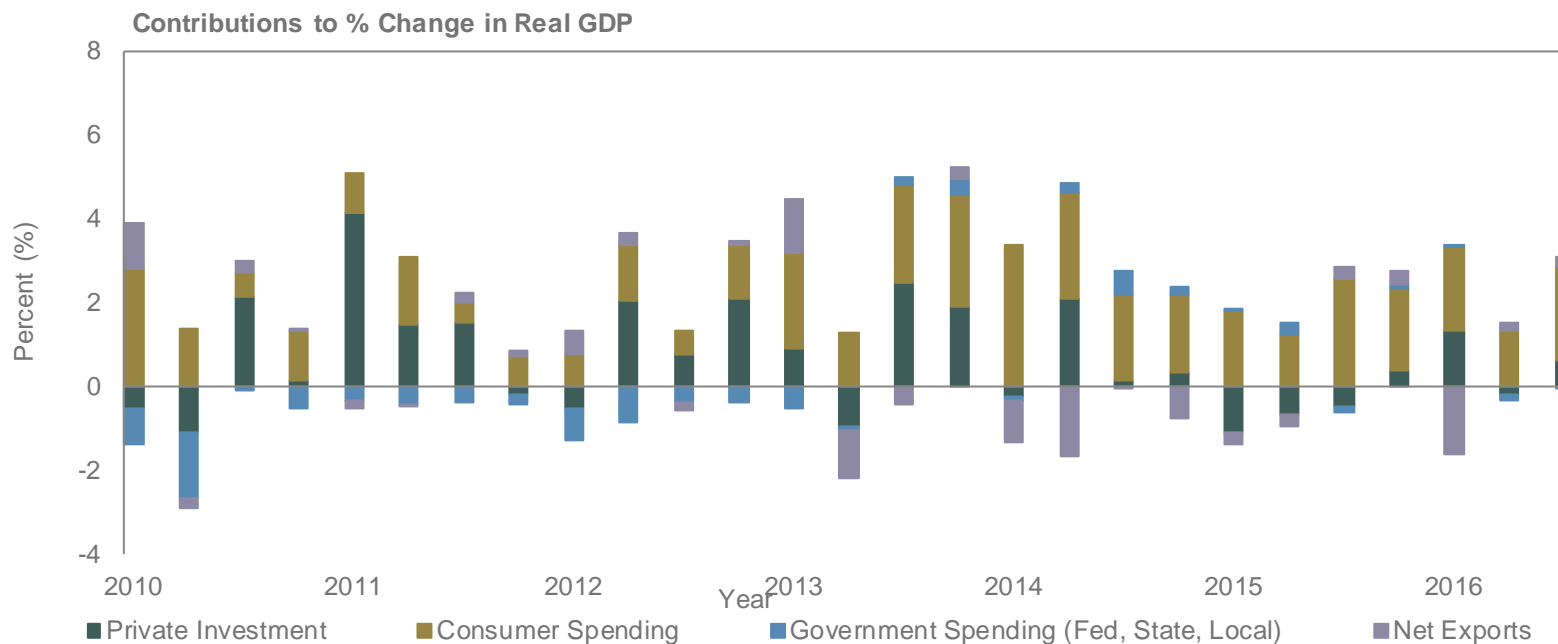


Source: Bloomberg, as of 6/30/2017



## CONTRIBUTIONS TO % CHANGE IN REAL GDP

The increase in real GDP in the second quarter primarily reflected positive contributions from consumer spending, nonresidential fixed investment, exports, federal government spending, and private inventory investment that were partly offset by negative contributions from residential fixed investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

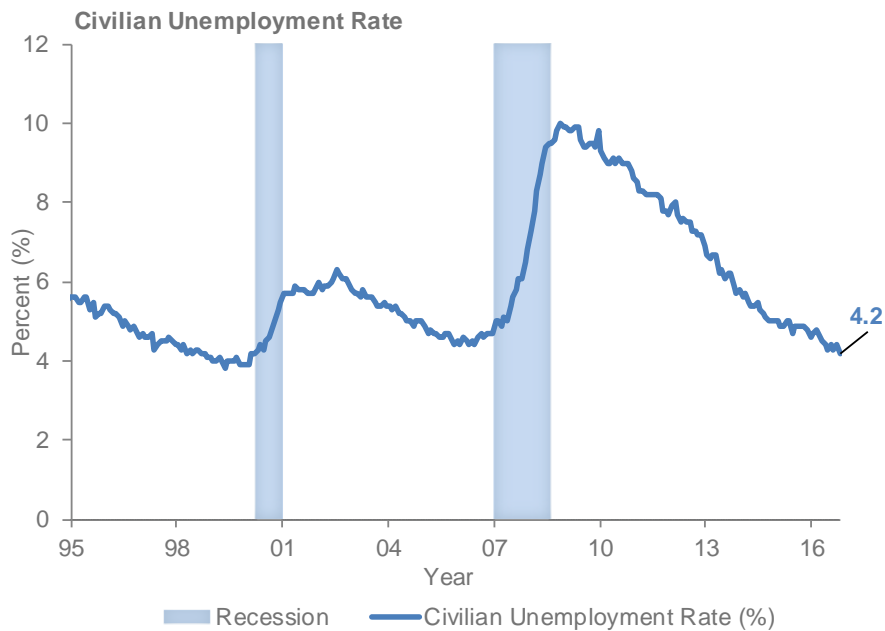


Source: Bloomberg, as of 6/30/2017

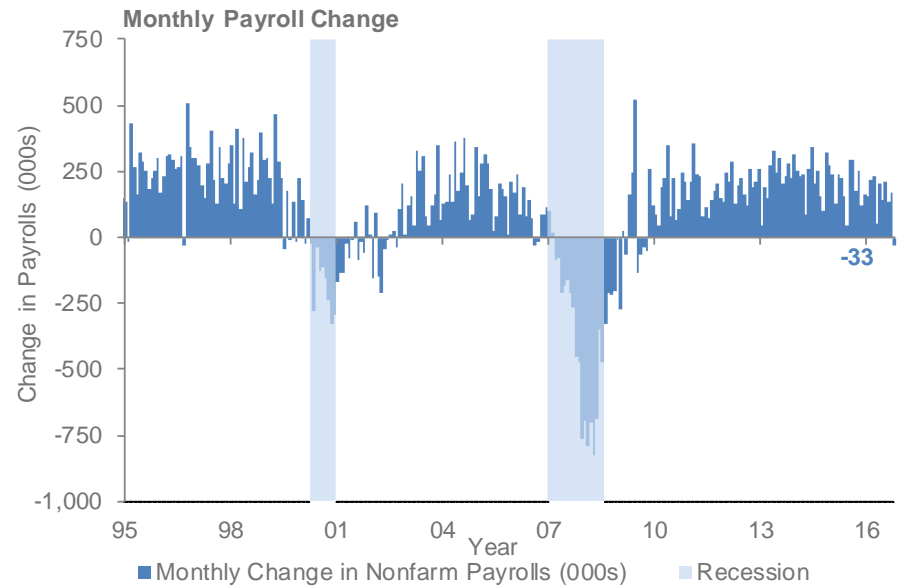


# EMPLOYMENT

The unemployment rate declined to 4.2 percent in September, and total nonfarm payroll employment changed little (-33,000). A sharp employment decline in food services and drinking places and below-trend growth in some other industries likely reflected the impact of Hurricanes Irma and Harvey.



Source: Bloomberg, as of 9/30/17

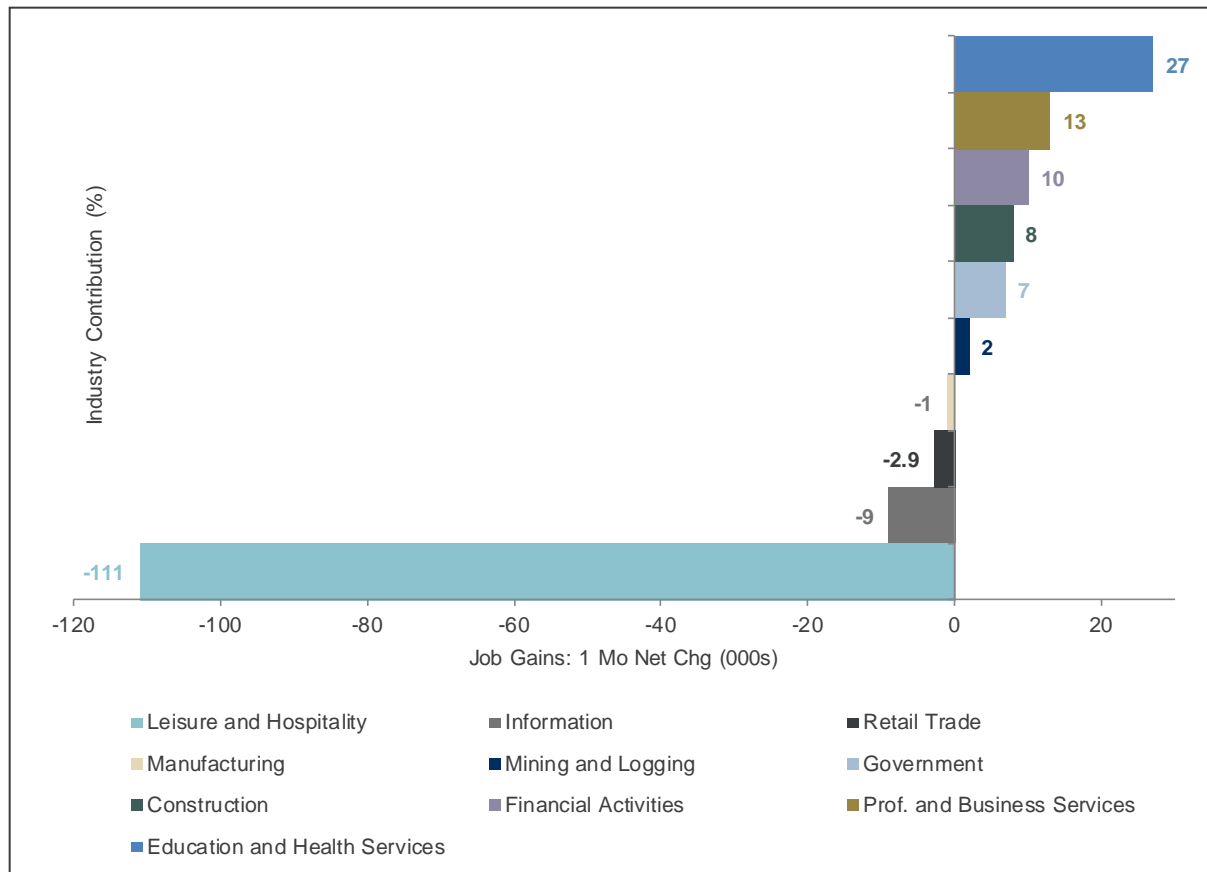


Source: Bloomberg, as of 9/30/17



## MAJOR INDUSTRY CONTRIBUTIONS TO JOB GROWTH

In September, a steep employment decline in food services and drinking places and below-trend growth in some other industries likely reflected the impact of Hurricanes Irma and Harvey. Employment rose in health care and in transportation and warehousing.

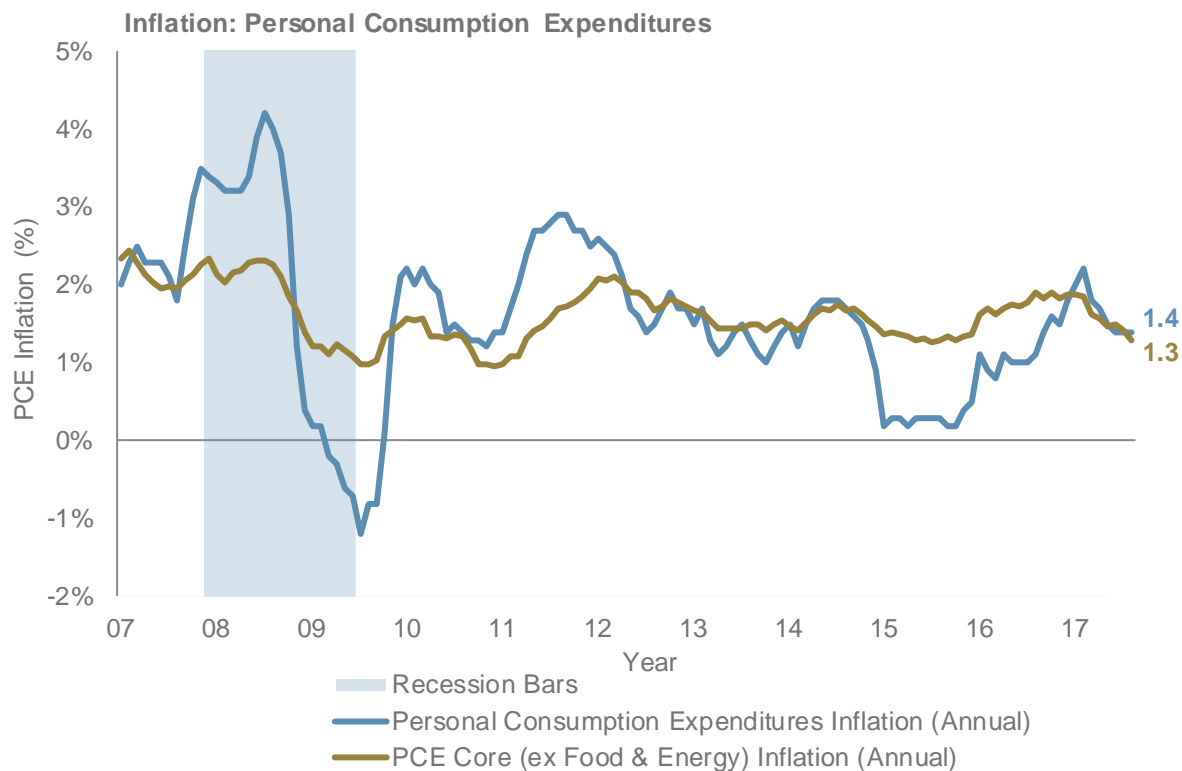




# INFLATION

*“Consumer goods prices are generally falling. Inflation in non-energy services has moderated. Labor cost pressures have been moderate, but are likely to pick up. The softer dollar has contributed to some pressure in raw materials.”*

**– Dr. Scott Brown, Chief Economist, Equity Research**



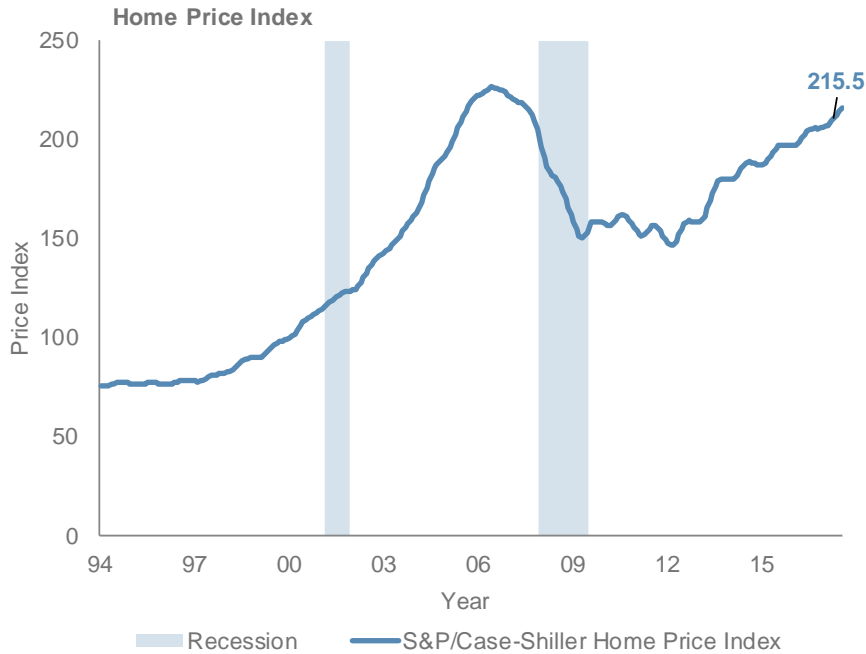
Source: Bloomberg, as of 8/31/2017



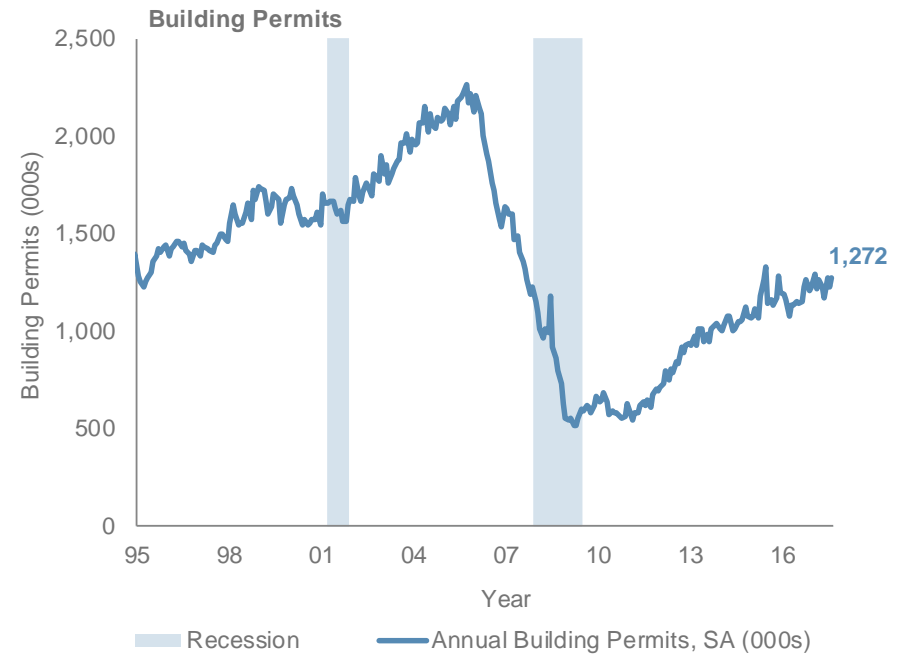
# HOUSING MARKET

*“Monthly figures on sales and construction activity have been choppy, but generally stronger than a year ago. Demand for homes remains strong, but the industry faces supply constraints.”*

**– Dr. Scott Brown, Chief Economist, Equity Research**



Source: Bloomberg, as of 7/31/2017



Source: U.S. Census Bureau, as of 8/31/2017





## CONSUMER CONFIDENCE

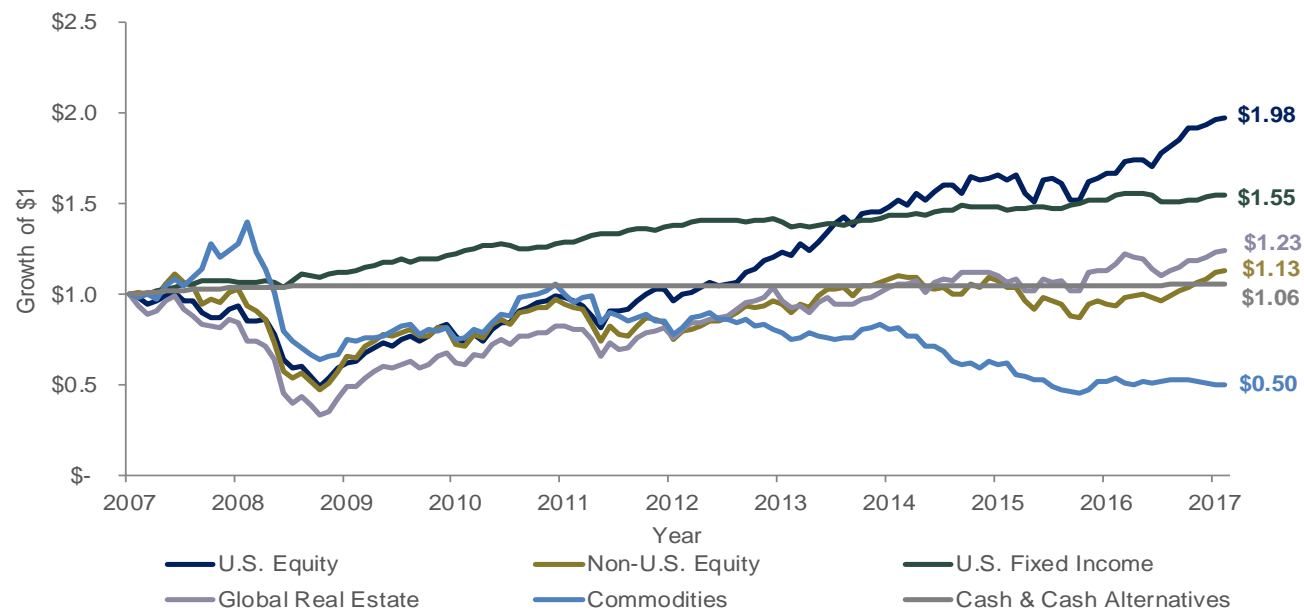
*“Despite the slight downtick in confidence, consumers’ assessment of current conditions remains quite favorable and their expectations for the short-term suggest the economy will continue expanding at its current pace.”*

*– Lynn Franco, Director of Economic Indicators at The Conference Board*



Source: Bloomberg, as of 9/30/2017

## ASSET CLASS RETURNS: GROWTH OF A DOLLAR



Source: Morningstar Direct, as of 9/30/2017

Source: Morningstar Direct, as of 9/30/2017	QTD	YTD	1-Year	3-Year	5-Year	10-Year
<b>U.S. Equity</b>	4.57%	13.91%	18.71%	10.74%	14.23%	7.57%
<b>Non-U.S. Equity</b>	6.16%	21.13%	19.61%	4.70%	6.97%	1.28%
<b>U.S. Fixed Income</b>	0.85%	3.14%	0.07%	2.71%	2.06%	4.27%
<b>Global Real Estate (REITs)</b>	3.15%	10.08%	3.52%	6.45%	6.75%	2.95%
<b>Commodities</b>	2.52%	-2.87%	-0.29%	-10.41%	-10.47%	-6.83%
<b>Cash &amp; Cash Alternatives</b>	0.26%	0.56%	0.64%	0.29%	0.19%	0.42%

## ANNUAL ASSET CLASS TOTAL RETURNS

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD 2017
Non-U.S. Equity 16.7%	Fixed Income 5.2%	Non-U.S. Equity 41.5%	Real Estate 19.3%	Fixed Income 7.8%	Real Estate 29.0%	U.S. Equity 33.6%	Real Estate 13.9%	Fixed Income 0.6%	U.S. Equity 12.7%	Non-U.S. Equity 21.1%
Commodities 16.2%	Cash & Cash Alternatives 1.8%	Real Estate 40.2%	U.S. Equity 16.9%	Blended Portfolio 2.1%	Non-U.S. Equity 16.8%	Non-U.S. Equity 15.3%	U.S. Equity 12.6%	U.S. Equity 0.5%	Commodities 11.8%	U.S. Equity 13.9%
Blended Portfolio 7.8%	Blended Portfolio -21.7%	U.S. Equity 28.3%	Commodities 16.8%	U.S. Equity 1.0%	U.S. Equity 16.4%	Blended Portfolio 13.9%	Blended Portfolio 7.1%	Cash & Cash Alternatives 0.0%	Blended Portfolio 7.1%	Real Estate 10.1%
Fixed Income 7.0%	Commodities -35.7%	Blended Portfolio 20.2%	Blended Portfolio 11.9%	Cash & Cash Alternatives 0.1%	Blended Portfolio 11.0%	Real Estate 1.6%	Fixed Income 6.0%	Blended Portfolio -0.2%	Non-U.S. Equity 4.5%	Blended Portfolio 9.9%
U.S. Equity 5.1%	U.S. Equity -37.3%	Commodities 18.9%	Non-U.S. Equity 11.2%	Real Estate -8.7%	Fixed Income 4.2%	Cash & Cash Alternatives 0.1%	Cash & Cash Alternatives 0.0%	Real Estate -1.2%	Real Estate 3.8%	Fixed Income 3.1%
Cash & Cash Alternatives 4.7%	Non-U.S. Equity -45.5%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash & Cash Alternatives 0.1%	Fixed Income -2.0%	Non-U.S. Equity -3.9%	Non-U.S. Equity -5.7%	Fixed Income 2.7%	Cash & Cash Alternatives 0.6%
Real Estate -5.0%	Real Estate -50.2%	Cash & Cash Alternatives 0.2%	Cash & Cash Alternatives 0.1%	Non-U.S. Equity -13.7%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash & Cash Alternatives 0.3%	Commodities -2.9%

Best  
Worse

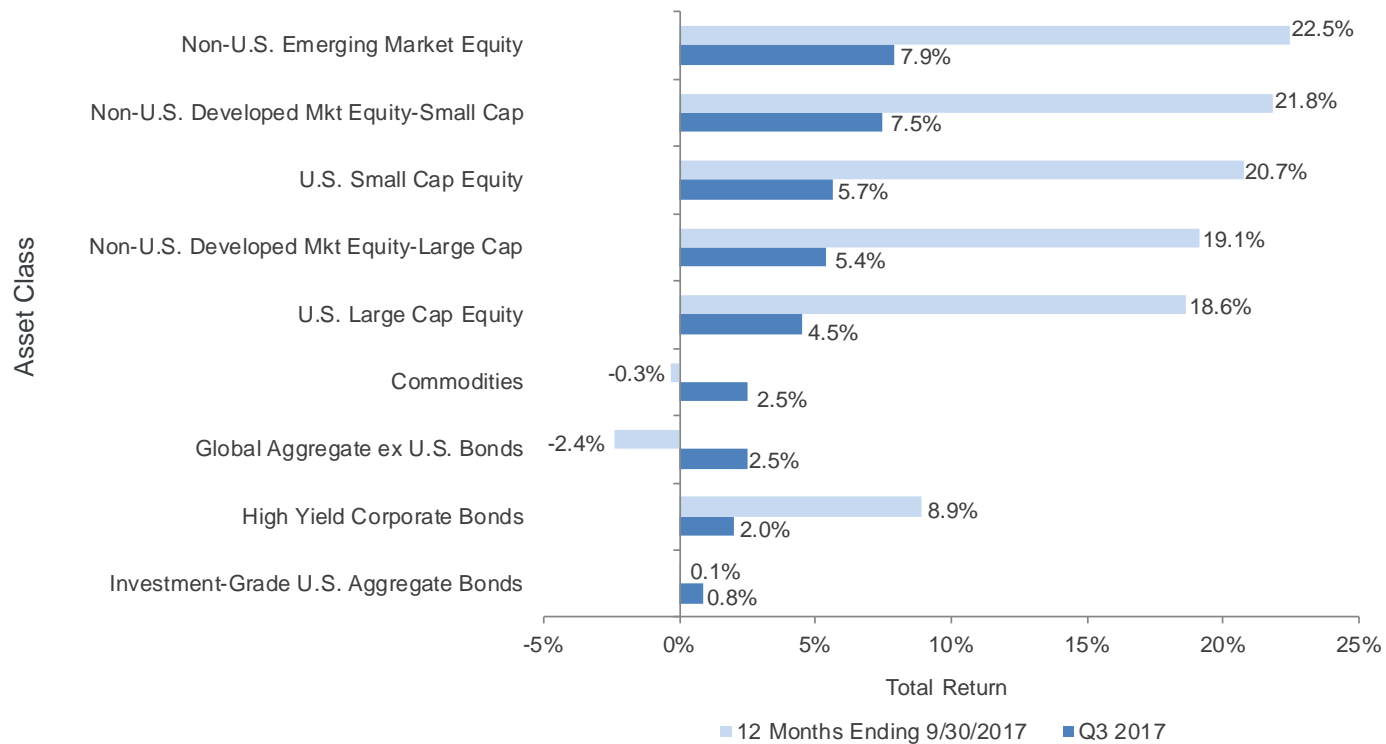
Source: Morningstar Direct, as of 9/30/2017

Blended Portfolio Allocation: 45% U.S. Equity / 15% Non-U.S. Equity / 40% Fixed Income

## ASSET CLASS RETURNS

*“Non-U.S. equities benefited from a decline in the U.S. dollar. Aside from exchange rate premiums, earnings growth and profitability have been key drivers, especially in Europe where they are improving more rapidly than in the U.S. Emerging market equity performance this year was less about the exchange rate benefit and more about improving valuations in these markets.”*

**– Nick Lacy, Chief Portfolio Strategist, Asset Management Services**



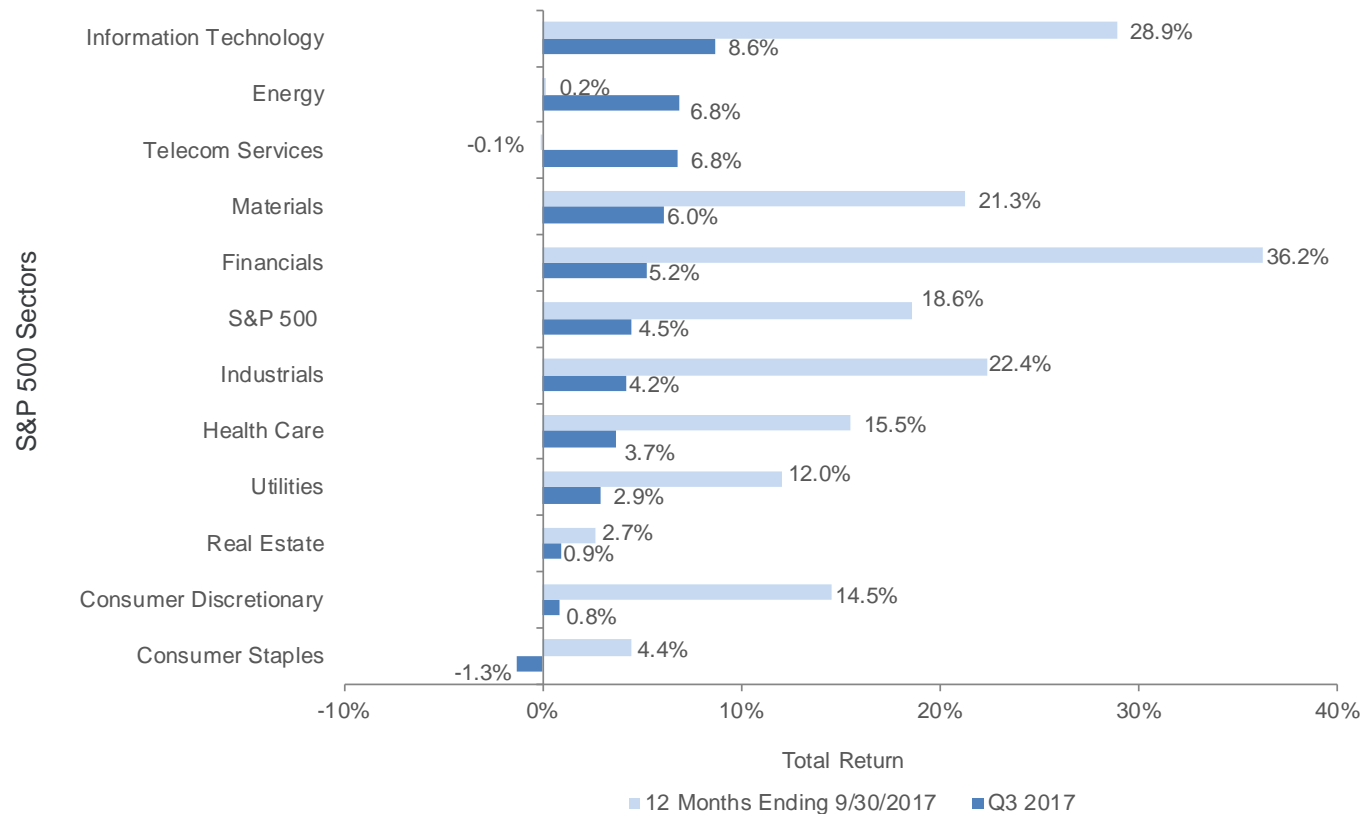
Source: Morningstar Direct, as of 9/30/2017



## S&P 500 SECTOR RETURNS

*“Technology continues to exhibit some of the strongest fundamental momentum of the S&P 500 sectors. The softer U.S. dollar year to date has likely provided a boost to earnings estimates due to the sector’s overseas exposure.”*

**– Michael Gibbs, Director of Equity Portfolio & Technical Strategy**



Source: Morningstar Direct, as of 9/30/2017

Past performance is not indicative of future results. Please see slides 32-34 for asset class definitions.

13 Returns are based on the GICS Classification model. Returns are cumulative total return for stated period, including reinvestment of dividends.



## EQUITY STYLES

*“The U.S. stock market is a bit stretched right now, and the apparent lack of concern out there has us a little more cautious than usual. We reiterate that we still believe the secular bull market is alive and well, but for the more tactically inclined, we think it might be a good time to start pumping the brakes a bit just in case.”*

**– Andrew Adams, CFA, CMT, Senior Research Associate, Equity Research**

**Q3 2017 Total Return**

	Value	Blend	Growth
Large	3.1%	4.5%	5.9%
Mid	2.1%	3.5%	5.3%
Small	5.1%	5.7%	6.2%

Source: Morningstar Direct, as of 9/30/2017

**12-Month Total Return**

	Value	Blend	Growth
Large	15.1%	18.5%	21.9%
Mid	13.4%	15.3%	17.8%
Small	20.5%	20.7%	21.0%

Source: Morningstar Direct, as of 9/30/2017

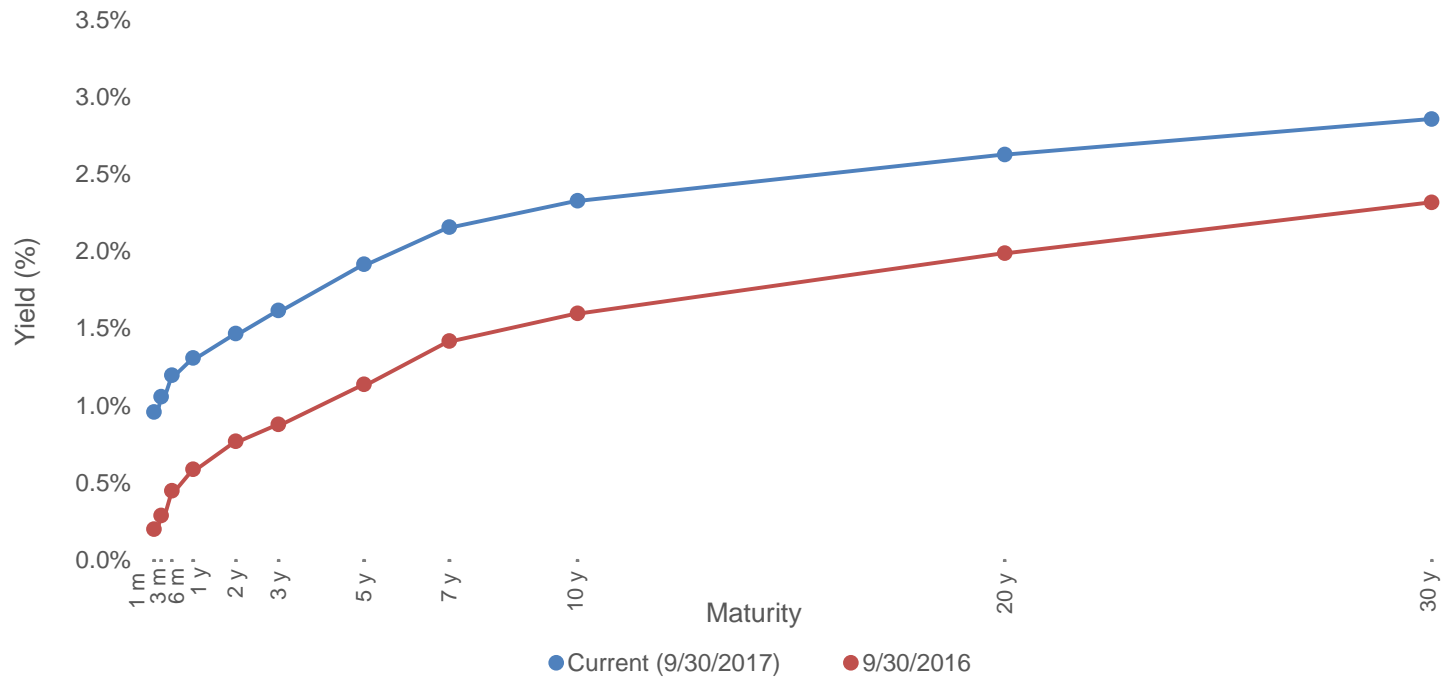
Style box returns based on the GICS Classification model. All values are cumulative total return for stated period including reinvestment of dividends. The indices used from left to right, top to bottom are: Russell 1000 Value Index, Russell 1000 Index, Russell 1000 Growth Index, Russell Mid-Cap Value Index, Russell Mid-Cap Blend Index, Russell Mid-Cap Growth Index, Russell 2000 Value Index, Russell 2000 Index and Russell 2000 Growth Index. Past performance is not indicative of future results. Please see slides 32-34 for asset class definitions.



# THE U.S. TREASURY YIELD CURVE

*“The month of September saw yields increase slightly across the Treasury curve. Year-to-date, the intermediate and long-end of the curve remain lower in yield.”*  
– Doug Drabik, Senior Strategist, Fixed Income

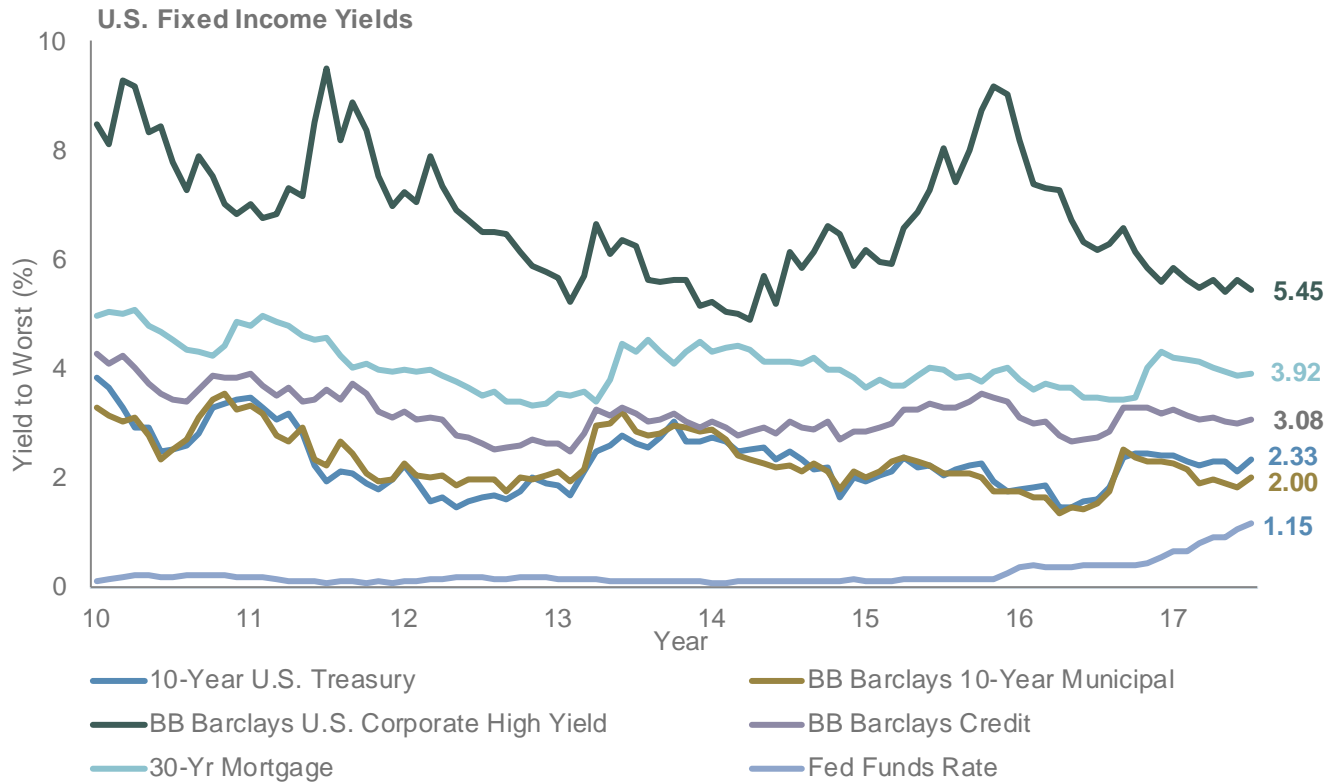
U.S. Treasury Yield Curve



Source: Federal Reserve, as of 9/30/2017



# FIXED INCOME YIELDS

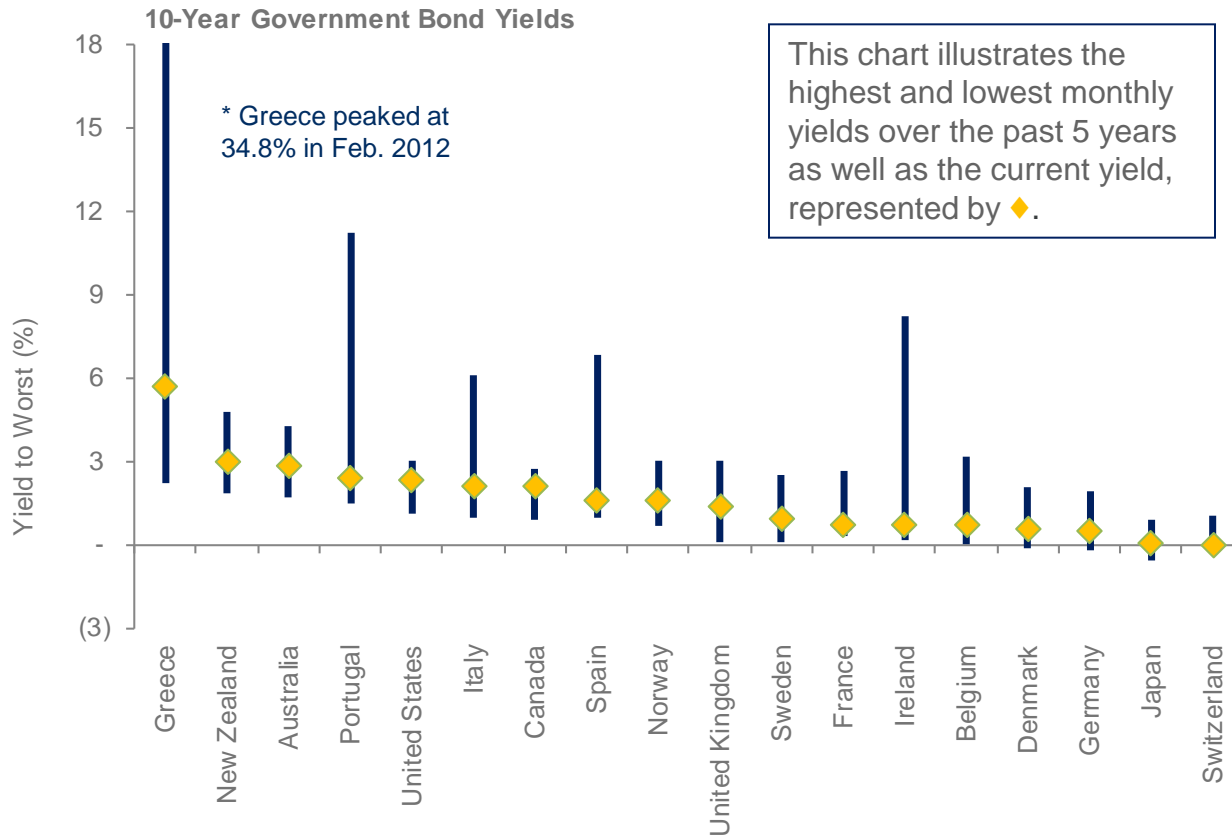


Source: Bloomberg, as of 9/30/2017



## GLOBAL SOVEREIGN DEBT YIELDS

*“Global interest rate disparity continues and will keep pressure on low domestic interest rates.”*  
 – Doug Drabik, Senior Strategist, Fixed Income



Source: Bloomberg, as of 9/30/2017



## S&P 500 YIELD VS. TREASURY YIELD



Source: Bloomberg, as of 9/30/2017

## PRICE-TO-EARNINGS AND PRICE-TO-BOOK RATIOS

*“Most all valuation measures remain at premiums to their long-term averages. Based upon these metrics, we believe that the S&P 500 currently trades at the high end of its fair valuation range. With an uncertain political backdrop, we believe that earnings growth is necessary to justify these current levels.”*

**– Mike Gibbs, Managing Director, Equity Portfolio & Technical Strategy**



Source: Bloomberg, as of 9/30/2017

The price-to-earnings ratio, or P/E, is a common measure of the value of stocks. It shows the relationship between a stock's price and the underlying company's earnings (or profits) per share of stock. In essence, it calculates how many dollars you pay for each dollar of a company's earnings. In very general terms, the higher the P/E ratio, the more likely the stock is to be overpriced.



Source: Bloomberg, as of 9/30/2017

The price-to-book ratio, or P/B, is a relative measure based on most recent price/accounting (book) value (quarterly, semiannual or annual data). Both price-to-earnings and price-to-book are accounting-based relative value measures.

## FOREIGN EXCHANGE RATES

*“The dollar has fallen against the major currencies in 2017, reflecting diminished expectations for the Trump agenda and expectations of tighter monetary policy abroad.”*

**– Dr. Scott Brown, Chief Economist, Equity Research**



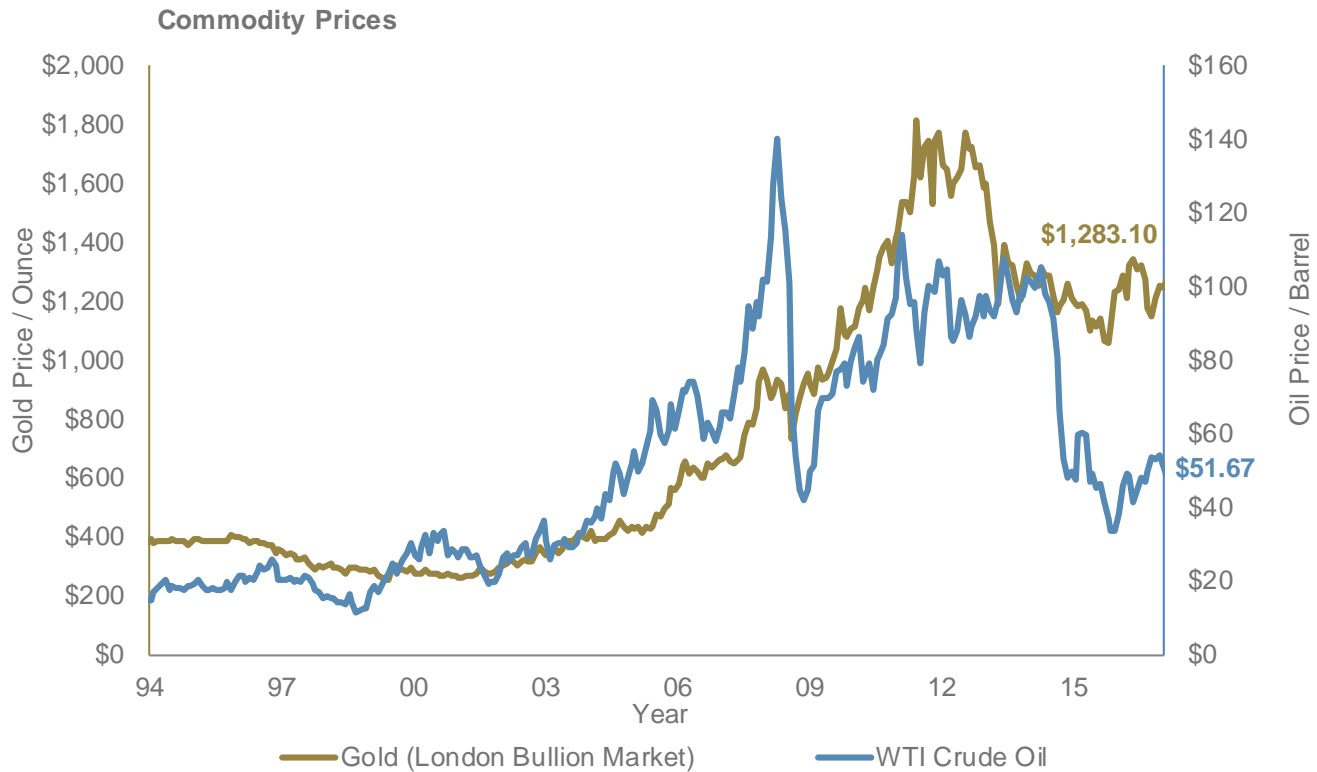
Source: Bloomberg, as of 9/30/2017

	9/30/2017	9/30/2016
Source: Bloomberg, as of 9/30/2017		
<b>U.S. Dollar (\$) / Japanese Yen (¥)</b>	112.5100	101.3500
<b>Euro (€) / U.S. Dollar (\$)</b>	1.1814	1.1235
<b>British Pound (£) / U.S. Dollar (\$)</b>	1.3398	1.2972



## COMMODITY PRICES

*“Crude oil has been behaving much better recently and the Energy sector has benefitted from that price action. Gold has benefitted this year from the weaker U.S. dollar and the geopolitical noise.”*  
– **Andrew Adams, CFA, CMT**, Senior Research Analyst, Equity Research



Source: Bloomberg, as of 9/30/2017

## LOW VOLATILITY: ALL QUIET ON THE MARKET FRONT?

“**Volatility doesn’t drive the markets**; rather, it is merely a byproduct of the market’s actions. Understanding the current environment helps to explain this state of complacency.”  
– **Nick Lacy**, Chief Portfolio Strategist



**Rising inflows to passive investments** may be reducing the volume of trades by ‘stock pickers’ driven by fundamental analysis, thus decreasing the impact of these forces on the market.



**Technology stocks** have been one of the key drivers of recent U.S. market performance – earning over 27% so far this year according to the S&P 500 Information Technology Sector Index.



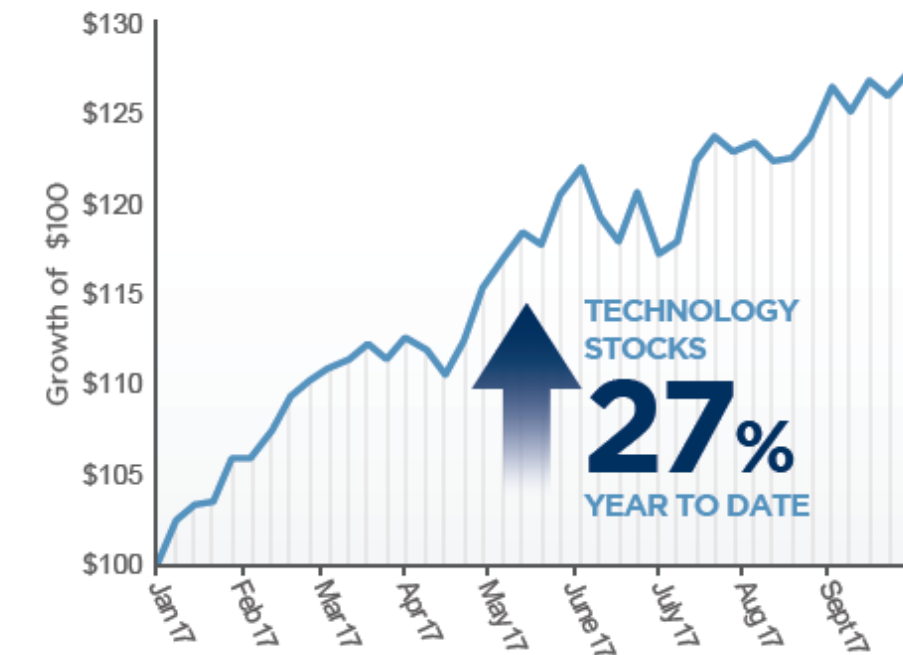
**Healthy earnings growth, positive economic growth**, and an extended period of **low interest rates** have fueled the uptrend in prices. Positive earnings estimates going forward are supportive of further appreciation.



**Accommodative global central bank policy** has increased cash flow to the global equity markets, resulting in its best performance run since 1998 according to the MSCI ACWI Index.

## LOW VOLATILITY: ALL QUIET ON THE MARKET FRONT?

### S&P 500 INFO TECH SECTOR PERFORMANCE



Source: S&P 500 Info Tech Sector Index

“While it has been most pronounced in the technology space, the **willingness of investors to put cash to work during minor draw-downs in the market** has helped stabilize and limit some downside that the market would otherwise have experienced.”

## LOW VOLATILITY: ALL QUIET ON THE MARKET FRONT?

### MEASURING MARKET VOLATILITY

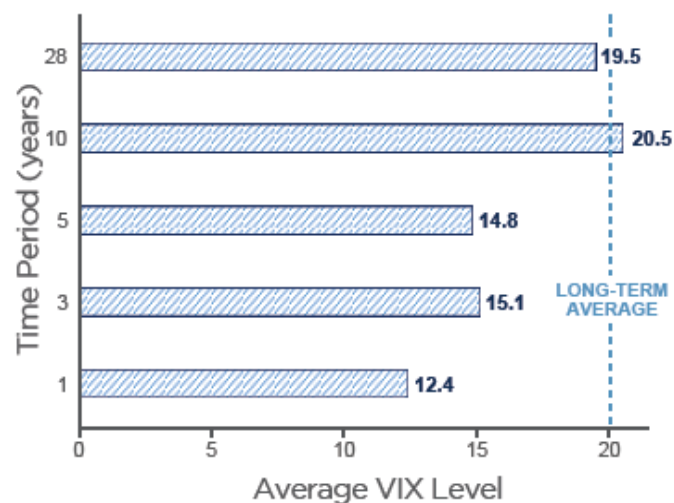
The Chicago Board Options Exchange Volatility Index (VIX), commonly referred to as the Investor “fear gauge,” measures the market’s expectation of 30-day volatility for the S&P 500 Index. It recently neared its lowest level ever, and recent trading has been among the quietest in history.

CBOE VOLATILITY INDEX (VIX)



Source: St. Louis Federal Reserve and Raymond James

AVERAGE VIX LEVEL OVER TIME



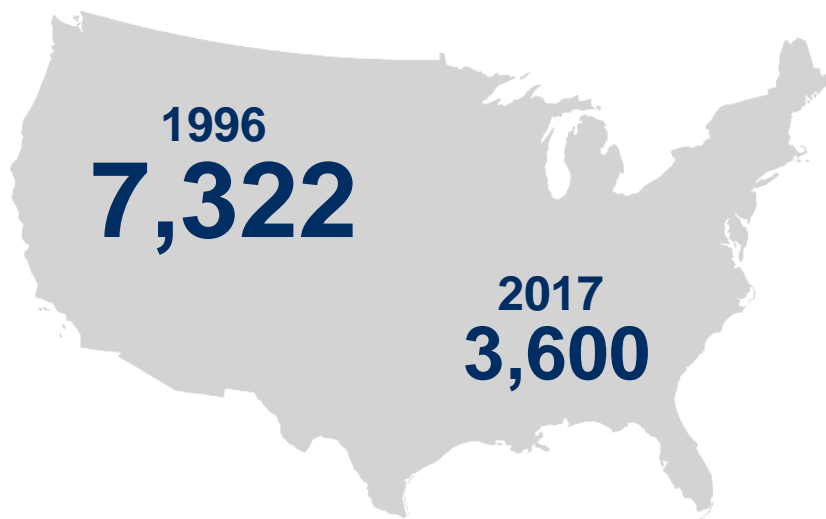


## COMPANY CONSOLIDATION

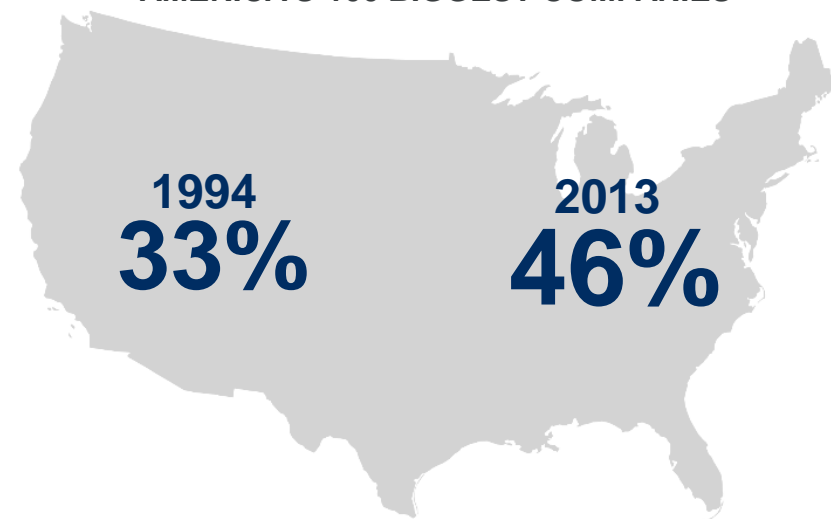
*“Since 1996, the total number of listed stocks in the U.S. has been cut in half. Not only are there fewer firms these days, but a small number of them are taking a greater piece of the pie.”*

– Andrew Adams, CFA, CMT, Senior Research Analyst

### NUMBER OF LISTED STOCKS IN THE U.S.



### SHARE OF U.S. GDP GENERATED BY AMERICA'S 100 BIGGEST COMPANIES





## COMPANY CONSOLIDATION



SINCE 1996,  
THE TOTAL NUMBER OF  
LISTED STOCKS IN THE U.S.  
**HAS BEEN CUT IN HALF**

TEN BIGGEST STOCKS  
CURRENTLY MAKE UP OVER 20%  
OF THE S&P'S MARKET CAP  
**ROUGHLY THE SAME AS IN 1980**



### THE 10 LARGEST COMPANIES IN 1980

VS.

### THE 10 LARGEST NOW (BY MARKET CAP)

1. IBM
2. AT&T

**70% OIL**  
COMPANIES

3. Exxon
4. Standard Oil of Indiana
5. Schlumberger
6. Shell Oil
7. Mobil
8. Standard Oil of California
9. Atlantic Richfield
10. General Electric

1. Apple
2. Alphabet
3. Microsoft
4. Amazon

**50% TECH**  
COMPANIES

5. Berkshire Hathaway
6. Facebook
7. Exxon Mobil<sup>2</sup>
8. Johnson & Johnson
9. J.P. Morgan Chase
10. Wells Fargo

Source: *Fortune* 500  
<sup>2</sup> Merged In 1998

## BOND MARKET BUBBLE? NOT WHERE YOU THINK IT IS.



WE ARE 'LESS NEGATIVE' NOW, WITH NEGATIVE-YIELDING SOVEREIGN DEBT AT 17%, DOWN FROM 28% A YEAR AGO.

RATES ARE HIGHER, YET STILL EXTRAORDINARILY LOW.

LESS THAN A QUARTER OF THE WORLD'S GOVERNMENT DEBT HAS YIELDS ABOVE 2%.



Flow of central bank money and low inflation are the key drivers of sovereign yields. The nearly \$19 trillion of new money created by global central banks produces too much liquidity inertia for bond bears to overcome.

### BLOOMBERG CREDIT CONDITIONS INDEX<sup>1</sup> AND CORPORATE BOND SPREADS

As corporate indebtedness continues to climb, risk premiums grind tighter.



ON 6/20, ARGENTINA 100-YEAR, USD DENOMINATED BONDS 3.5X OVERSUBSCRIBED JUST ONE YEAR AFTER ITS LATEST DEFAULT

DESPITE THE FED TIGHTENING, FINANCIAL CONDITIONS ALMOST AS LOOSE AS AT ANY OTHER TIME SINCE THE '07-'09 RECESSION

<sup>1</sup> Consists of the U.S. TED spread, LIBOR/OIS spread, CP/Treasury bill spread, Baa/10-year Treasury note spread, HY/10-year Treasury note spread, Mun/10-year Treasury note spread, Swaption Volatility Index, S&P 500 Index, and VIX Index.

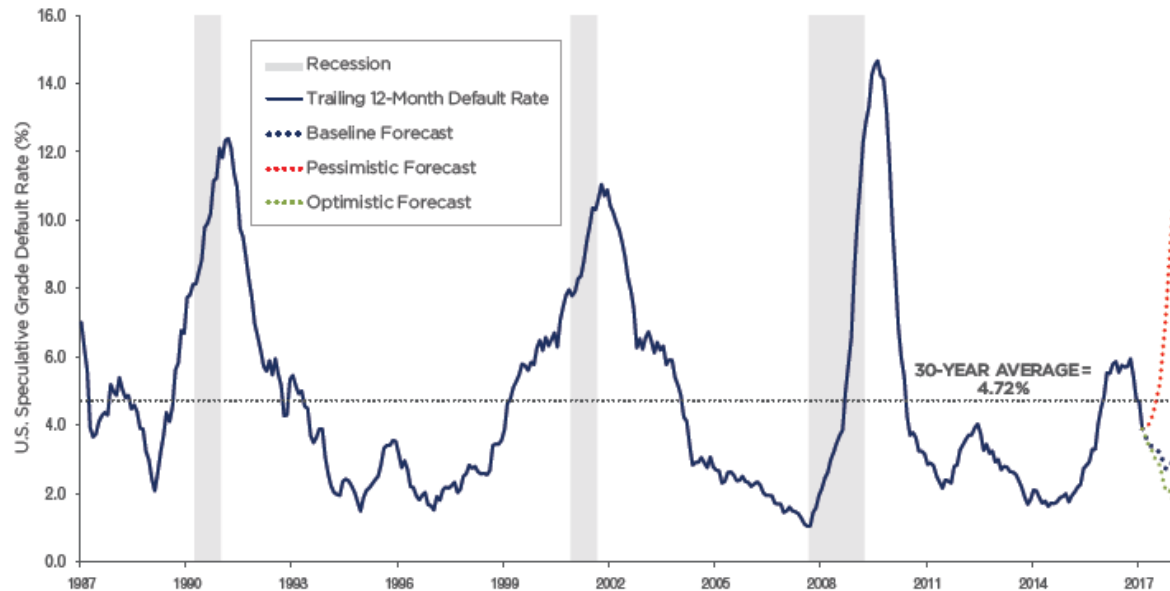
## BOND MARKET BUBBLE? NOT WHERE YOU THINK IT IS.

*“The real risk to the bond market, and capital markets in general, is the buying stampede in credit, and, as corporate indebtedness continues to climb, risk premiums grind tighter.”*

– **James Camp, CFA**, Managing Director of Fixed Income, Eagle Asset Management\*

### MOODY'S U.S. SPECULATIVE GRADE DEFAULT RATE - SKEWED DEFAULT SCENARIOS.

The default scenarios for speculative grade debt are significantly skewed to the downside.



Source: Moody's and National Bureau of Economic Research; monthly data as of May 31, 2017.

\*An affiliate of Raymond James & Associates and Raymond James Financial Services

For full theme articles, ask for a copy of the [October 2017 Investment Strategy Quarterly](#).

## ANNUAL THEME UPDATE: EXCHANGE RATES

### EXCHANGE RATES



The U.S. dollar has recently depreciated while we've seen appreciation of the euro and other foreign currencies. What impact has a declining dollar had on markets as a whole and what does this mean for our currency outlook?

### INTERNATIONAL EQUITY: 2 MAIN DRIVERS OF RISK AND RETURN



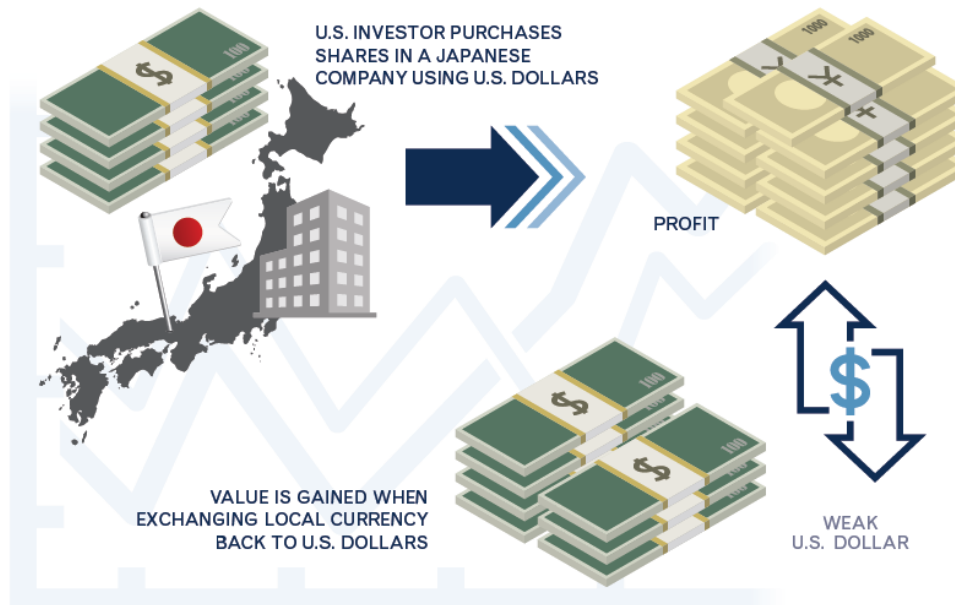
**LOCAL MARKET RETURN**



**EXCHANGE RATES**

#### THE CURRENCY 'PREMIUM'

Depending on the strength of the U.S. dollar, value can be gained when exchanging currency.



If you were to strip out the impact of the U.S. dollar declining this year by approximately 9%, the local total return would be more like 9% for non-U.S. developed markets – less than that of the S&P 500.

This is the perfect example of exchange rates benefiting U.S. investors.

# DISCLOSURE

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Data provided by Morningstar Direct, Bloomberg.

This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account.

There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product that attempts to mimic the performance of an index will incur expenses that would reduce returns. Past performance is not indicative of future results. The performance noted in this presentation does not include fees and costs, which would reduce an investor's returns.

- **Fixed Income:** subject to credit risk and interest rate risk. An issuer's ability to pay the promised income and return of principal upon maturity may impact the issuer's credit rating. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.
- **Personal Consumption Expenditure Index (PCE):** a measure of inflation, this index measures the price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services.
- **Gross Domestic Product (GDP):** a broad measurement of a nation's overall economic activity. It is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, including all private and public consumption, government outlays, investments and net exports that occur within a defined territory.
- **Price-to-Earnings Ratio (P/E):** a ratio for valuing a company that measures its current share price relative to its per-share earnings.
- **Price-to-Book Ratio (P/B):** A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.
- **Small-cap and Mid-Cap Equity:** generally involve greater risks, and may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.
- **High-Yield Fixed Income:** not suitable for all investors. Risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.
- **Commodities:** trading is generally considered speculative because of the significant potential for investment loss.
- **U.S. Government Fixed Income:** guaranteed timely payment of principal and interest by the federal government. **U.S. Treasury Bills:** A short-term debt obligation backed by the U.S. government with a maturity of less than one year.
- **Fixed Income Sectors:** Returns based on the four sectors of Barclays Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).

Asset allocation and diversification does not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate.

Past performance is not indicative of future results. Investing in international securities involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

The values of real estate investments may be adversely affected by several factors, including supply and demand, rising interest rates, property taxes, and changes in the national, state and local economic climate. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector including limited diversification.

# INDEX DESCRIPTIONS

## Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK
U.S. Equity	Russell 3000 TR
Non-U.S. Equity	MSCI ACWI ex US NR
U.S. Fixed Income	Barclays U.S. Aggregate Bond TR
Global Real Estate (prior to 2008)	NASDAQ Global Real Estate NR
Global Real Estate (2008-present)	FTSE EPRA/NAREIT Global Real Estate NR
Commodities	Bloomberg Commodity TR USD
Cash & Cash Alternatives	Citi Treasury Bill 3 Mon USD

**Bloomberg Commodity Total Return Index:** Formerly the Dow Jones-UBS Commodity Index TR (DJUBSTR), is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 3 Month U.S. Treasury Bills.

**Barclays 10-Year Municipal Bond Index:** A rules-based, market-value weighted index engineered for the long-term tax-exempt bond market. This index is the 10 year (8-12) component of the Municipal Bond Index.

**Barclays 10-Year U.S. Treasury Index:** Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

**Barclays U.S. Aggregate Bond Index:** Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Barclays Global Aggregate ex-U.S. Bond Index:** Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

**Barclays High Yield Bond Index:** Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

**Barclays U.S. Credit Index:** an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB- or higher).

**Citi 3-Month Treasury-Bill Index:** This is an unmanaged index of three-month Treasury bills.



## INDEX DESCRIPTIONS (continued)

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**FTSE EPRA/NAREIT Global Real Estate Index** : designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

**MSCI All Country World Index Ex-U.S Index (ACWI ex U.S.):** a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

**MSCI EAFE Index (Europe, Australasia, Far East):** a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

**MSCI EAFE Growth Index:** represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

**MSCI EAFE Small-Cap Index:** an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

**MSCI EAFE Value:** represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

**MSCI Emerging Markets Index:** designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

**MSCI Local Currency Index:** a special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

**NASDAQ Global Real Estate Index:** the index measures the performance of real estate stocks which listed on an Index Eligible Global Stock Exchange. The index is market-capitalization weighted.

**Russell 1000 Index:** measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

**Russell 1000 Value Index:** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 1000 Growth Index:** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell Mid-Cap Index:** measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

**Russell Mid-cap Value Index:** measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

**Russell Mid-Cap Growth Index:** measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 2000 Index:** measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

**Russell 2000 Value Index:** measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 2000 Growth Index:** measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 3000 Index:** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

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## INDEX DESCRIPTIONS (continued)

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**Standard & Poor's 500 (S&P 500):** measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

**S&P 500 Consumer Discretionary:** comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

**S&P 500 Consumer Staples:** comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

**S&P 500 Energy:** comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

**S&P 500 Financials:** comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector

**S&P 500 Health Care:** comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

**S&P 500 Industrials:** comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

**S&P 500 Information Technology:** comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

**S&P 500 Materials:** comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

**S&P 500 Telecom Services:** comprises those companies included in the S&P 500 that are classified as members of the GICS® telecommunication services sector.

**S&P 500 Utilities:** comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.



Ralph McDevitt

Senior Vice President, Investments

O 215.640.3144 / F 215.496.9263

One Logan Square 130 N 18th Street, Suite 1300, Philadelphia, PA 19103

[ralph.mcdevitt@raymondjames.com](mailto:ralph.mcdevitt@raymondjames.com)

[ralphmcdevitt.com](http://ralphmcdevitt.com)