

Monthly Market Review

Asset Class Returns ‘Heat Up’ Despite Growth Concerns

Growth Concerns Overshadowed by Investors Increasing Bets On Fed Rate Cuts

July 2024

Monthly Highlights

- US Economy Grew A More Than Expected +2.8%, Fueled By Strong Consumer Spending.
- The Federal Reserve Leaves Rates Unchanged At 5.25%–5.50%. The Target Range Remains Unchanged Since July 2023.
- The Futures Market Has Fully Priced In A September Rate Cut, Nearly Three For 2024.
- Headline Inflation (+3%) Falls To Its Slowest Pace In A Year. Core CPI Slowed To +3.3% YoY.
- President Biden Became The First Sitting President To Not Seek Reelection Since 1968.
- ISM Manufacturing Remained In Contraction Territory For the Fourth Straight Month.
- The Unemployment Rate Inched Up To 4.1%—The Highest Rate Since November 2021.
- Bonds (Bloomberg US Aggregate Index) Posted Best Monthly Return Since December 2023.
- Treasury Yields Fell Across the Curve, 10 and 2-Year Yields Declined to Nearly Six-Month Lows.
- S&P 500 Rallied for 10th Consecutive July, Notched 38th Record High Year-to-Date Intra Month.
- Small-Cap US Equities Outperformed Large Cap by the Widest Margin in July Since 2000.
- Commodities Posted Worst Month Since May 2023 and Fell to Nearly Lowest Level in Three Years.
- US Dollar Posted Worst Decline in Seven Months.

Economy | The Fed Takes a ‘Holiday’ at July Meeting, Sets September Up for First Cut.

- The preliminary reading of **2Q24 GDP** was stronger than expected, up +2.8% quarter-over-quarter, annualized. Consumer spending contributed 1.57 percentage points (pp) while private domestic investments contributed 1.46 pp to real headline GDP.
- **The Federal Reserve (Fed)** left rates unchanged at 5.25%–5.50%—the same target since a year ago. The Fed acknowledged that employment has “moderated” and that inflation “has seen some progress”, setting the stage for a potential September rate cut (which the market has fully priced in). The **Fed’s balance sheet** is down to ~\$7.2 trillion—its lowest level since November 2020.
- President Biden became the first sitting president to not seek **reelection** since 1968 and backed VP Harris for the role, but the official Democratic nominee won’t be announced until the Democratic National Convention on Aug 19-22. Betting markets now suggest a 50/50 race between Trump and Harris.
- July **ISM Manufacturing** (46.8) fell to a YTD low and remained in contraction territory (a level below 50) for the fourth consecutive month. Similarly, New Orders surprised to the downside and fell to 47.4 (also its fourth consecutive month in contraction).
- The **unemployment rate** inched up to 4.1% in June (highest since November 2021), while the economy added a better than expected **206k jobs**.
- The **four-week rolling average of jobless claims** (~238k) has moved steadily higher and is now close to YTD highs. **Job openings** (8,148k) remained almost unchanged from an upwardly revised month prior.
- The pace of **headline inflation** (+3.0% YoY) fell to the slowest pace in a year, while the pace of **core CPI** (+3.3% YoY) slowed for the third consecutive month, reaching its slowest pace since April 2021. On a monthly basis, headline CPI deflated for the first time in almost 2 years.
- **Consumer confidence** (100.3) was better than expected and increased in July. Subcomponents were mixed, with the ‘Present Situation’ Index declining compared to June while the ‘Expectations’ Index was higher.
- **Control group retail sales** in June reflected strength for the second month in a row, surging 0.9% MoM. Meanwhile, Total Retail (& Food Services) Sales were slightly lower than the previous month.
- **Housing data** was mixed in June as Housing Starts (+3.0% MoM) and Building Permits (+3.9%) increased, while New Home Sales (-0.6%) and Existing Home Sales (-5.4%) declined. The pace of home price increases (May Case Shiller 20-City Composite +6.8% YoY) slowed for the third consecutive month.
- **China’s Manufacturing PMI** (49.8) surprised to the downside, ending its eight-month expansionary streak and falling into contractionary territory.
- **Euro Zone Manufacturing PMI** (45.6) moved further into contraction and reached a YTD low. This marked the region’s 25th consecutive contractionary month.

Fixed Income | No 'Cooling' on Yield Decline as Growth Concerns Push Yields Lower.

- The **Bloomberg US Aggregate Bond Index** (+2.3% MoM) rallied for the third consecutive month and posted the best monthly performance since December 2023. Performance was broad based, as a decline in yields (due to moderating inflation, growth concerns, and rising expectations for Fed cuts) and strength in credit-related sectors boosted returns.
- **International sovereign bonds** (G7 ex. US +4.8% MoM) rallied for only the second time this year as declining sovereign bond yields in Europe and Japan combined with a weaker dollar were supportive.
- **US Investment grade bonds** (+2.4% MoM) rose for the third consecutive month. Investment grade bonds rallied as stable spreads (-.5 bps to 93 bps) and the decline in longer-duration yields boosted the asset class due to the Index's longer-duration profile.
- **Treasurys** (+2.2% MoM) rallied for the third consecutive month and posted the best monthly return in seven months. Both 10- and 2-year Treasury yields declined (-24 and -46 bps respectively) to the lowest level in nearly six months as slowing economic activity, moderating inflation and the market pricing in additional Fed rate cuts pushed yields lower.
- **High-yield bonds** (+1.9% MoM) rallied for the eighth time in the last nine months. While spreads rose slightly during the month (+5 bps to 314 bps), the decline in yields drove the high-yield rally.
- **Emerging market bonds** (+1.8% USD MoM) rallied for the fifth time in the last six months as moderating inflation and the continuation of global central bank easing boosted EM bonds.
- **Municipals** (+0.9% MoM) rallied slightly for the second straight month. All three municipal sectors (high yield, GO, revenue) rallied.

Equities | Equities 'Ride' the Positive Seasonal Performance in July

- **Global equities** (MSCI All Country World Index (+1.6% USD MoM) rallied for the eighth time in the last nine months. Easing from global central banks, declining sovereign bond yields and a solid start to the 2Q24 earnings season boosted global equities.
- **US Small-Cap** equities (Russell 2000 +10.2% MoM) outperformed large-cap US equities by the widest margin since 2000. Small caps benefitted from declining interest rates, improving earnings dynamics, and the anticipation of Fed rate cuts.
- **Japanese equities** (MSCI Japan +5.8% USD MoM) rose for the third consecutive month but declined on a local currency basis as strength in the yen weighed on performance. In USD, Japan outperformed global equities by the widest margin since September 2021.
- **European equities** (MSCI Europe ex UK +1.6% USD MoM) rallied for the seventh time in nine months. Given its sector composition, Europe benefitted from the broadening beyond Technology.
- **US Large-Cap** equities (S&P 500 +1.2% MoM) rallied for the 10th consecutive July and notched their 38th record high. Declining interest rates and a solid start to the 2Q24 earnings season boosted returns.
- Nine of the 11 **S&P 500 sectors** were in positive territory. Tech-related sectors lagged, while interest-rate sensitive sectors such as **Utilities (+6.8%)** and **Real Estate (+6.7%)** were the best performing as performance broadened beyond mega-cap tech.
- **Emerging market equities** (MSCI EM +0.4% USD MoM) rallied for the sixth consecutive month but underperformed DM (**MSCI EAFE** +2.9% MoM)
- Within EM, **LATAM** (MSCI LATAM +1.1% USD MoM) outperformed **Asia** (MSCI Asia ex JP -0.6% USD MoM) by the widest margin since December 2023.

Commodities | The Sun 'Sets' on Positive Commodity Performance

- The **Bloomberg Commodity Index** (-4.5% MoM) posted its worst monthly return since May 2023 as commodities (down ~11.2% from its recent high) fell to the lowest level since December 2021. Despite a weaker dollar, sluggish China GDP and softening US economic data fueled concerns as signals of a slowdown in global demand started to appear.
- The **US Dollar Index** (-1.7%) posted the worst monthly decline in seven months. The US dollar decline was supported by narrowing interest rate differentials and as the market began pricing in a more aggressive Fed cutting cycle. The yen strengthened vs. the dollar after falling to the lowest level intra-month (162) on record.
- The **Bloomberg Energy Index** (-8.1% MoM) saw its worst month in the last eight months. The decline was driven by the surge in natural gas (-21.6% MoM) inventory due to a reduction in demand (from hotter weather). Crude oil (-4.5% MoM) also declined on concerns of slowing global demand.
- The **Bloomberg Industrial Metals Index** (-7.2% USD MoM) posted the worst monthly decline since May 2023 and is down ~18% from recent highs. The slowdown in global demand, most notably in China, saw copper decline >20% from recent highs.
- The **Bloomberg Grains Index** (-6.9% MoM) declined for the second consecutive month, down 21.4% YTD.
- The **Bloomberg Softs Index** (-2.7% MoM) posted its largest decline in seven months. Sugar (-6.7% MoM) fell to its lowest price since September 2022.
- The **Bloomberg Precious Metals Index** (+2.2% MoM) rallied for the fourth time in five months. Strength in gold (+5.7% MoM) prices on elevated geopolitical risk offset declines from silver (-2.1%)

Figure 1: US Economy Grows At A Faster Than Expected Pace

Driven by stronger Consumer Spending and Private Investments, the US economy grew a more than expected 2.8% quarter-over-quarter (annualized) in Q2.

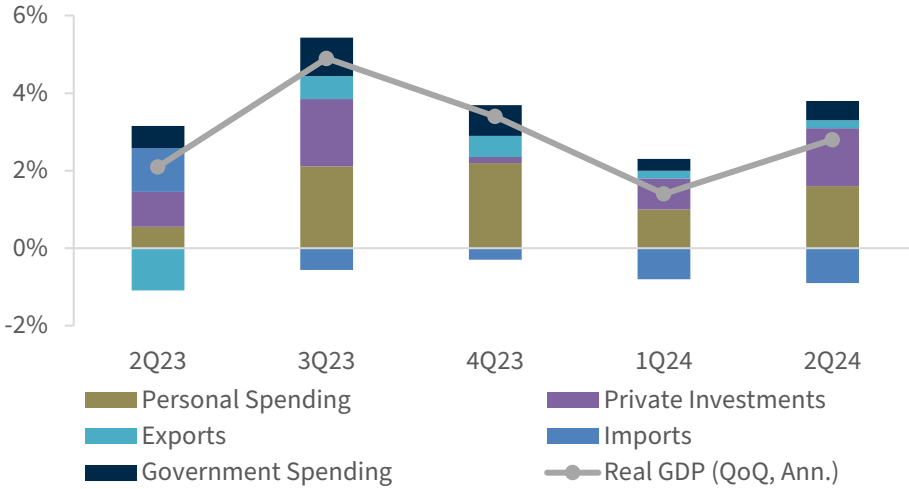


Figure 3: The 2s30s Treasury Yield Spread Un-Inverts

The difference between 30-year Treasury yields and 2-year Treasury yields pushed back into positive territory for the first time since January.



Figure 2: Performance Broadens Beyond Mega-Cap Tech

9 of the 11 S&P 500 sectors were in positive territory in July, led by the Utilities (+6.8%) and Real Estate sectors (+6.7%).

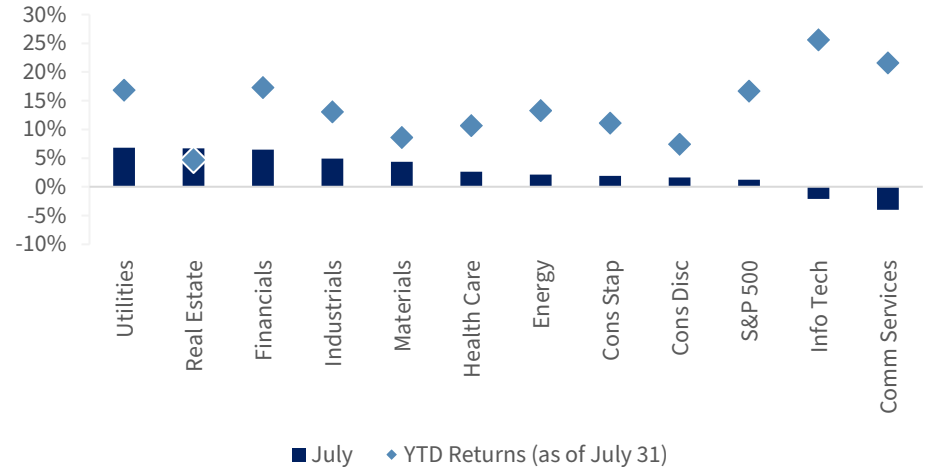
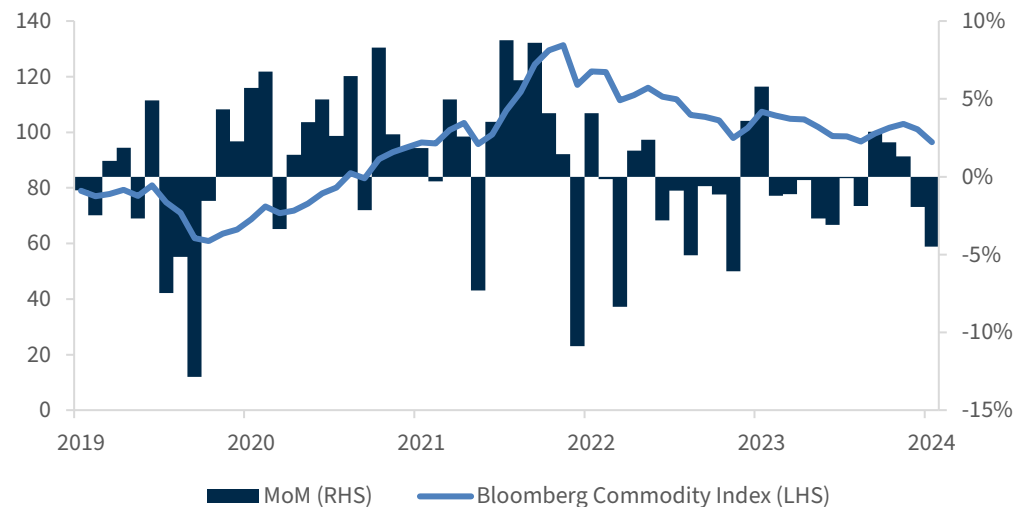


Figure 4: Commodities Decline to Nearly 3-Year Lows

The Bloomberg Commodity Index declined for the second consecutive month as commodities fell to the lowest level since December 2021. The Index is down ~11% from its recent highs.



Fixed Income | Decline in Sovereign Bond Yields Boosts Fixed Income Returns

	July	YTD	1 Year	3 Year	5 Year	10 Year
International Bonds	4.8%	-5.2%	-2.7%	-10.5%	-5.6%	-2.6%
US Investment Grade	2.4%	1.9%	6.8%	-2.7%	1.0%	2.6%
US Aggregate	2.3%	1.6%	5.1%	-2.6%	0.2%	1.6%
Treasuries	2.2%	1.3%	4.1%	-3.0%	-0.2%	1.1%
High Yield	1.9%	4.6%	11.1%	2.2%	4.2%	4.6%
EM Bonds	1.8%	4.1%	8.7%	-1.7%	0.6%	2.7%
TIPS	1.5%	2.9%	5.3%	0.1%	2.9%	2.2%
Municipals	0.9%	0.5%	3.7%	-0.9%	1.2%	2.5%

Commodities & FX | US Dollar Down In July; Gold Soars

	July	YTD	1 Year	3 Year	5 Year	10 Year
Gold	5.7%	19.4%	23.1%	10.8%	11.5%	6.8%
BBG Precious Metals	2.2%	14.5%	14.6%	4.8%	7.8%	3.2%
US Dollar Index	-1.7%	2.7%	2.2%	4.1%	1.1%	2.5%
Crude Oil (WTI)	-4.5%	8.7%	-4.8%	1.8%	5.9%	-2.3%
BBG Commodity Index	-4.5%	-2.2%	-10.1%	0.1%	4.1%	-2.8%
Copper	-4.9%	7.4%	4.2%	-2.3%	9.4%	2.6%
BBG Industrial Metals	-7.2%	-1.6%	-6.7%	-4.7%	4.2%	0.0%
BBG Energy Index	-8.1%	-3.4%	-17.3%	-0.9%	-3.6%	-10.9%

S&P 500 Sectors | Market Broadens Beyond Mega-Cap Tech In July

	July	YTD	1 Year	3 Year	5 Year	10 Year
Utilities	6.8%	16.9%	12.4%	6.7%	7.6%	9.5%
Real Estate	6.7%	4.7%	11.9%	-0.5%	5.5%	7.7%
Financials	6.5%	17.3%	26.1%	8.3%	11.4%	11.4%
Industrials	4.9%	13.0%	17.8%	9.2%	12.4%	11.4%
Materials	4.4%	8.6%	9.7%	5.3%	11.9%	8.8%
Health Care	2.7%	10.7%	13.5%	6.0%	12.5%	11.3%
Energy	2.1%	13.3%	10.1%	28.9%	13.8%	3.9%
Cons Stap	1.9%	11.1%	7.9%	6.9%	9.3%	9.5%
Cons Disc	1.7%	7.4%	12.2%	2.6%	10.7%	12.6%
Info Tech	-2.1%	25.6%	35.2%	17.5%	25.8%	22.3%
Comm Services	-4.0%	21.6%	30.0%	3.8%	13.0%	9.1%

Equities | Small Cap Outperforms Large Cap In July

	July	YTD	1 Year	3 Year	5 Year	10 Year
Russell 2000 Value	12.2%	11.2%	15.7%	4.6%	9.5%	8.1%
Russell 2000	10.2%	12.1%	14.3%	1.9%	8.9%	8.7%
Russell 2000 Growth	8.2%	13.0%	12.8%	-1.1%	7.6%	8.9%
Russell 1000 Value	5.1%	12.1%	14.8%	7.0%	9.9%	9.0%
DJ Industrial Average	4.4%	8.4%	14.9%	5.3%	8.7%	9.4%
Russell 1000	1.5%	15.9%	21.5%	8.5%	14.6%	12.9%
S&P 500	1.2%	16.7%	22.1%	9.6%	15.0%	13.2%
Russell 1000 Growth	-1.7%	18.6%	26.9%	9.5%	18.4%	16.3%

International Equities (in USD) | Most Equity Regions Perform Well In July

	July	YTD	1 Year	3 Year	5 Year	10 Year
MSCI Japan	5.8%	12.6%	16.6%	5.1%	8.2%	6.4%
MSCI UK	4.2%	11.4%	13.3%	8.1%	7.0%	3.3%
MSCI EAFE	2.9%	8.9%	11.8%	4.2%	7.9%	5.4%
MSCI AC World	1.6%	13.4%	17.6%	6.3%	11.6%	9.3%
MSCI Europe ex UK	1.6%	7.9%	10.8%	3.6%	9.2%	6.3%
MSCI LATAM	1.1%	-14.6%	-8.8%	3.3%	0.8%	0.1%
MSCI EM	0.4%	8.1%	6.7%	-2.3%	3.8%	3.0%
MSCI Asia ex JP	-0.1%	9.9%	6.6%	-3.0%	4.2%	4.1%

Key Asset Class Levels

	Start of Year	1 Year	3 Year	5 Year	10 Year
DJIA	37,690	35,560	34,935	26,864	16,563
S&P 500	4,770	4,589	4,395	2,980	1,931
Gold (\$/oz)	2072	2009	1817	1438	1283
MSCI AC World	727	707	724	524	423
Crude Oil - WTI (\$/bbl)	72	82	74	59	98
2YR Treasury Yield (in %)	4.25	4.87	0.19	1.89	0.54
1-3M T-Bills (Cash, in %)	5.26	5.39	0.04	2.04	0.01
10YR Treasury Yield (in %)	3.86	3.95	1.23	2.03	2.56
30Yr Treasury Yield (in %)	4.02	4.00	1.89	2.53	3.31
S&P 500 Dividend Yield	1.53	1.53	1.40	2.00	2.19
EURUSD	1.10	1.10	1.19	1.11	1.34

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors 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.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currency investing is generally considered speculative because of the significant potential for investment loss. These markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of 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.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

HIGH YIELD SECURITIES | High yield securities involve additional risks and are not appropriate for all investors.

SMALL-CAP STOCKS | Small-cap stocks involve greater risks and are not suitable for all investors.

DEFINITIONS

CONSUMER PRICE INDEX | The Consumer Price Index (CPI) measures the overall change in consumer prices based on a representative basket of goods and services over time.

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | Russell 1000 Growth Total Return Index: This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

SMALL GROWTH | Russell 2000 Growth Total Return Index: This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000.

LARGE BLEND | Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL BLEND | Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | Russell 1000 Value Total Return Index: This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

SMALL VALUE | Russell 2000 Value Total Return Index: This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME DEFINITION

AGGREGATE BOND | Bloomberg US Agg Bond Total Return Index: The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

MUNICIPAL | Bloomberg Municipal Total Return Index: The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

INTERNATIONAL EQUITY DEFINITION

ALL COUNTRY WORLD INDEX | MSCI All Country World Index: The ACWI is a stock index that tracks nearly 3,000 stocks in 48 developed and emerging market countries.

EMERGING MARKETS EASTERN EUROPE | MSCI EM Eastern Europe Net Return Index: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | MSCI EM Asia Net Return Index: The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | MSCI EM Latin America Net Return Index: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | MSCI Emerging Markets Net Return Index: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | MSCI Pacific Ex Japan Net Return Index: The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | MSCI EAFE Net Return Index: This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | MSCI Europe Ex UK Net Return Index: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

COMMODITY DEFINITIONS

US DOLLAR INDEX | The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

BLOOMBERG COMMODITY INDEX | Bloomberg Commodity Index is a commodity group sub index of the Bloomberg CTR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG INDUSTRIAL METALS INDEX | Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

BLOOMBERG SOFTS INDEX | Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG PRECIOUS METALS INDEX | Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG GRAINS INDEX | Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

FOREX SPOT RATE | The forex spot rate is the current exchange rate at which a currency pair can be bought or sold. It is the prevailing quote for any given currency pair from a forex broker.

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FactSet, as of 7/31/2024

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