



Monthly CIO View

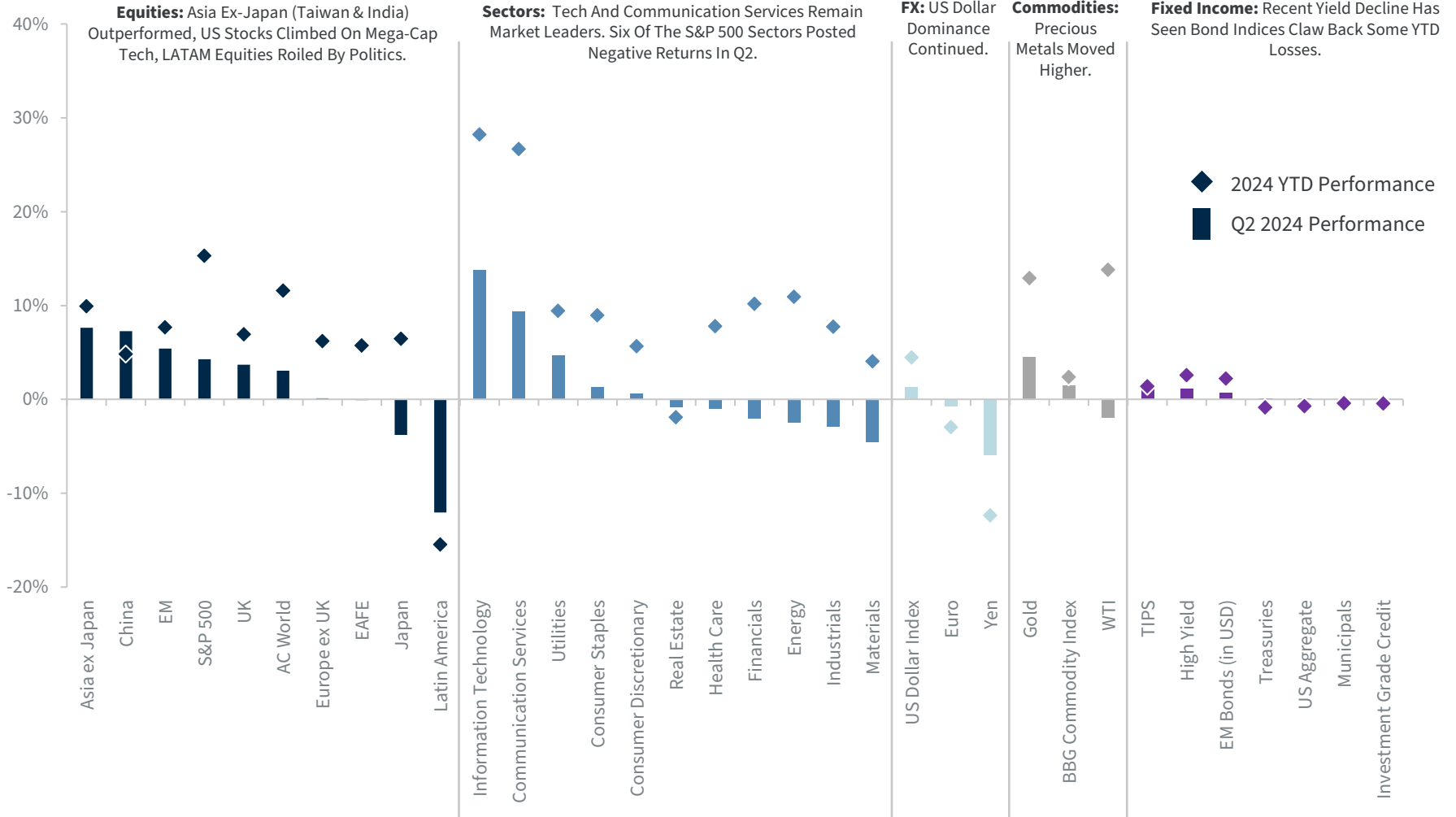
Strategy Snapshot

July 2024

Lawrence V. Adam III, CFA, CIMA®, CFP®
Chief Investment Officer

Returns By Asset Class | Q2 and 2024

Returns by Asset Class



Data as of 6/30/2024. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent quarterly returns.

Global Economy | Growth Is Starting To Look Vulnerable

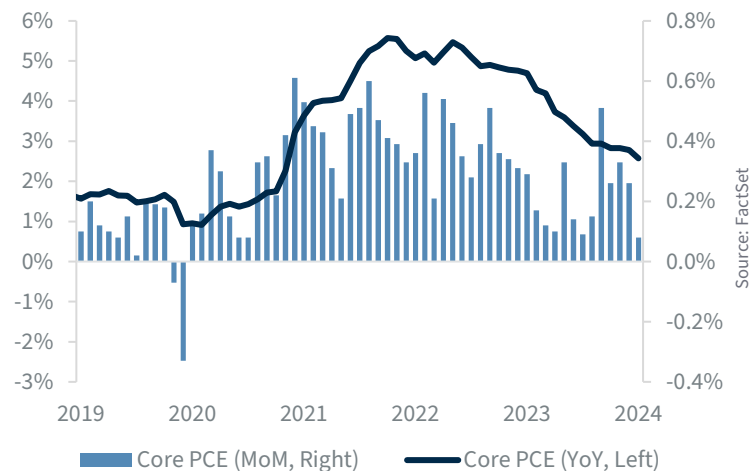
Global Economy | Recent Trends

- **Recent inflation readings point to a resumption of the disinflation trend after a worrisome start earlier in the year.** May's core CPI increased at its slowest pace MoM (+0.2%) since August 2021, while the Fed's preferred measure of inflation (core PCE inflation) fell to 2.6% YoY, its lowest reading since March 2021—welcome news for the Fed.
- **Growth concerns are picking up as economic data (retail sales, ISM surveys and housing) have come in weaker than expected.** While the pace of job gains remains strong, some indicators, such as the rising unemployment rate (4%), declining number of job openings and softer continuing claims data (highest since Nov 2021) suggest it is cooling.
- **The global easing cycle continues but it is looking less synchronized.** The ECB and Canada joined other developed nations (Switzerland, Sweden) in easing policy ahead of the Fed, while early movers have slowed their pace of easing. Despite divergences, delayed Fed rate cuts and lingering inflation should not change the trajectory of rates moving lower.
- **Optimism on Europe's nascent recovery faltered as political uncertainty dampened sentiment** with the Composite PMI Index falling to 50.8—its first decline since Oct 2023. **China's recovery remains unbalanced despite the recent uptick in the PMI surveys.** While exports are supporting growth, weak consumption and property headwinds remain.

Global Economy | 12-Month Outlook

- **US economic growth is moderating** as evidenced by the 1.4% final GDP growth figure for 1Q24 (vs. 3.4% in 4Q24). The consumer (particularly the lower-income cohort) is showing signs of fatigue as slowing job growth and lingering inflation weigh on spending, the main engine of growth in the economy. **We expect GDP to remain near trend at 2.1% in 2024.**
- **The labor market remains healthy, however, there are signs that it is cooling.** The unemployment rate has climbed from a historic low of 3.4% to 4.0%, job vacancies have returned to pre-pandemic levels and small business hiring plans are trending lower. We expect job growth to decelerate but avoid losses typically seen during recessions.
- **While inflation remains above the Fed's 2.0% target, the disinflationary trend persists.** Slowing growth, consumers pushing back against price increases, and retailers slashing prices to spur sales bode well for further declines in inflation in the months ahead. This should be welcome news for the Fed, allowing policymakers to cut rates twice in 2024.
- **Economic recoveries in Europe and China remain fragile.** Europe has emerged from a long period of stagnation; however, the recovery remains tepid, with the outlook clouded by political uncertainty. China's growth has stabilized, but headwinds have prevented a broader recovery. More stimulus is needed, but authorities are constrained by the weak currency.

Disinflationary Process Remains Intact



Highest Continuing Claims Since Nov 2021



Equities | Mega-Cap Tech Leadership Drives The Market

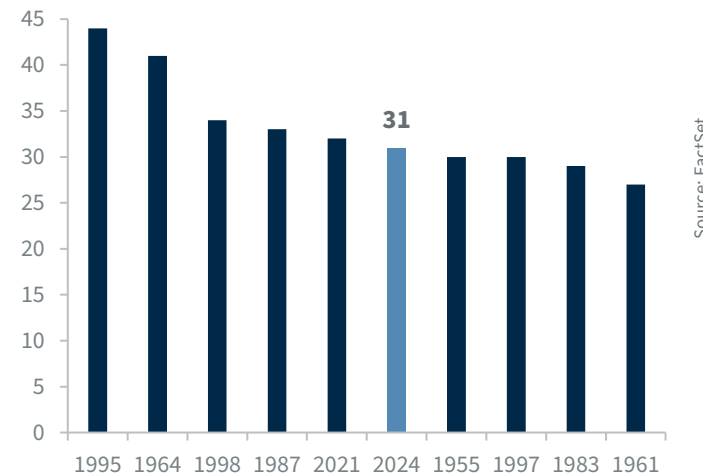
Global Equities | Recent Trends

- **US equity markets marched higher on the back of solid gains in mega-cap tech.** AI enthusiasm drove the S&P 500 up 4.3% during in Q2 to its 31st record high this year—the sixth most at this point in a calendar year. The tech-heavy NASDAQ climbed 8.5% during the quarter, dramatically outperforming the DJIA (-1.3%) and small-cap stocks (-3.3%).
- **Sharp divergences between equity styles and sectors have been a key theme this year,** with the S&P 500 outpacing small-cap equities by 13.5% YTD, large-cap growth stocks trouncing large-cap value stocks by a 14+% margin YTD, and the S&P 500 outperforming international (MSCI EAFE) stocks by 9.5% YTD due to the strength of the US dollar.
- **European equities (MSCI Europe ex UK) lagged (+0.1% QoQ) weighed down by political uncertainty and a surprise downturn in manufacturing activity.** Performance was hampered by the sharp decline in French equities, which posted their worst monthly performance in nearly two years (-7.5%) after President Macron called a snap election.
- **Asian equities ex-Japan (+7.6% QoQ) outperformed the US.** Strong gains in Taiwan (+16.4% QoQ) and India (+10.4% QoQ) drove the index, buoyed by AI demand and strong foreign inflows. Chinese equities delivered solid performance (+7.3% QoQ), despite entering a technical correction (stocks down over 10% from their recent peak before recovering).

Global Equities | 12-Month Outlook

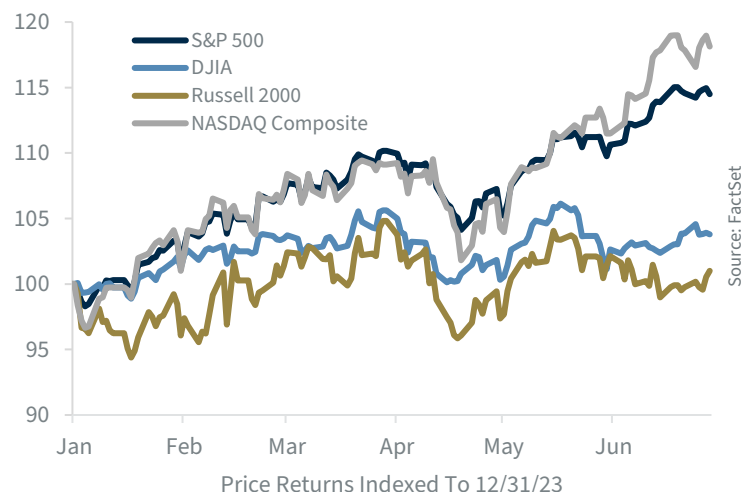
- Solid fundamentals and strong earnings growth has underpinned the equity markets this year. To reflect this, **we have lifted our year-end target for the S&P 500 from 5,200 to 5,400** (\$245 EPS forecast, 22x multiple). However, stretched valuations, growing economic uncertainty and election volatility could lead to a near-term pullback.
- **While equities may experience some near-term headwinds, we remain optimistic longer term.** The current bull market gains are below average in terms of magnitude and duration, earnings trends remain supportive and should spread to other sectors, and falling interest rates should serve as a tailwind. We would use any periods of weakness to add to positions.
- **Stronger fundamentals and growth prospects support our preference for US equities.** While relative valuations favor European equities, US stocks should benefit from stronger economic growth, superior earnings growth, more dynamic consumers, and larger weights to our favored sectors (**Tech, Health Care, Industrials, and Energy**).
- **Selection remains key in emerging markets.** While China faces onshore demand and property headwinds, we remain constructive on select markets in EM Asia (e.g., India) and LATAM (e.g., Mexico). India should benefit from policy continuity, strong earnings growth and a growing economy. However, political uncertainty is a near-term headwind for Mexico.

Sixth Highest Number of Record Highs YTD



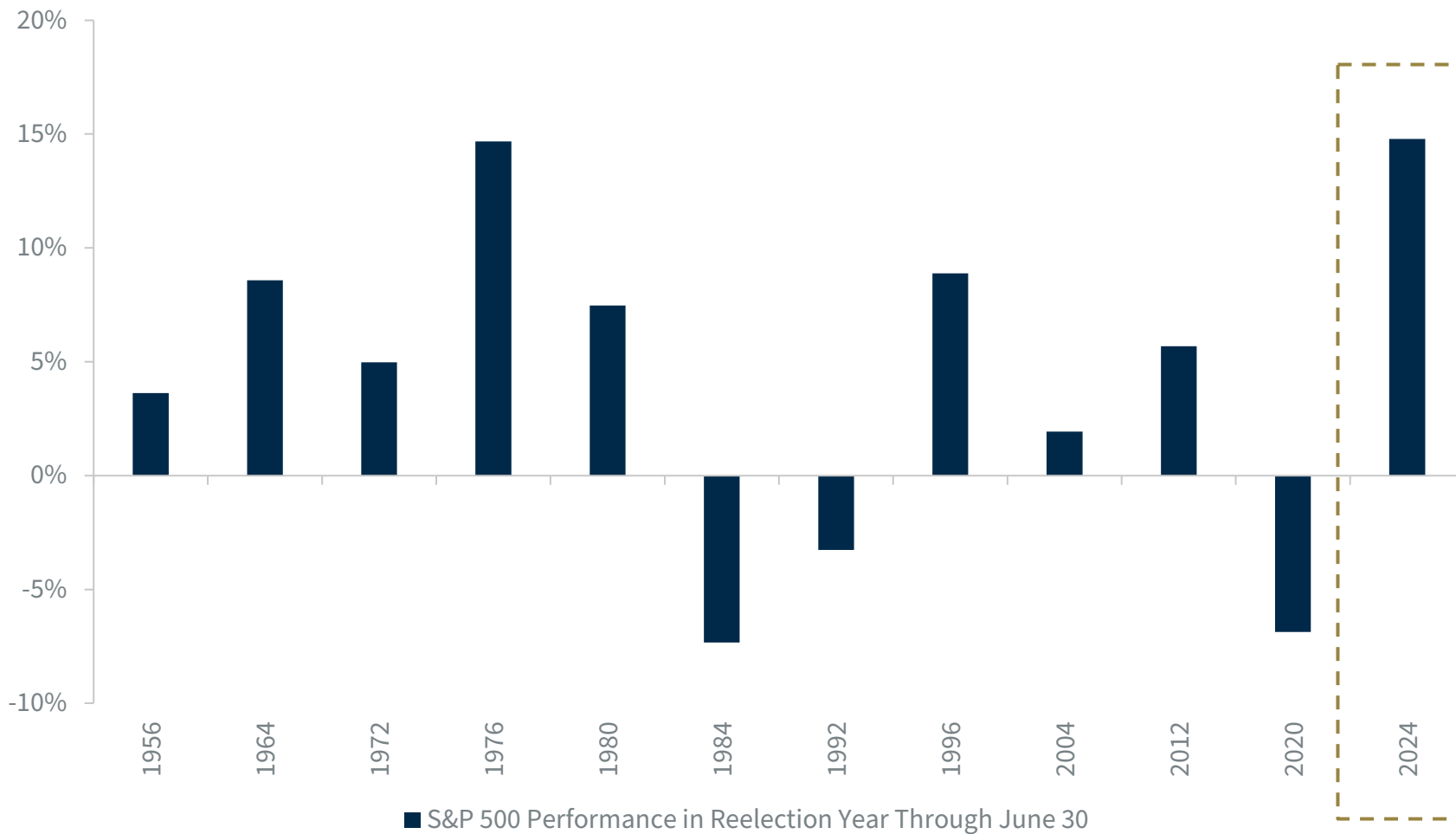
Source: FactSet

Performance Gap Across Markets Remains Wide



Source: FactSet

BEST START TO A REELECTION YEAR ON RECORD



Source: FactSet, Data as of 6/30/2024.

Fixed Income | Yields Move Lower On Disappointing Data

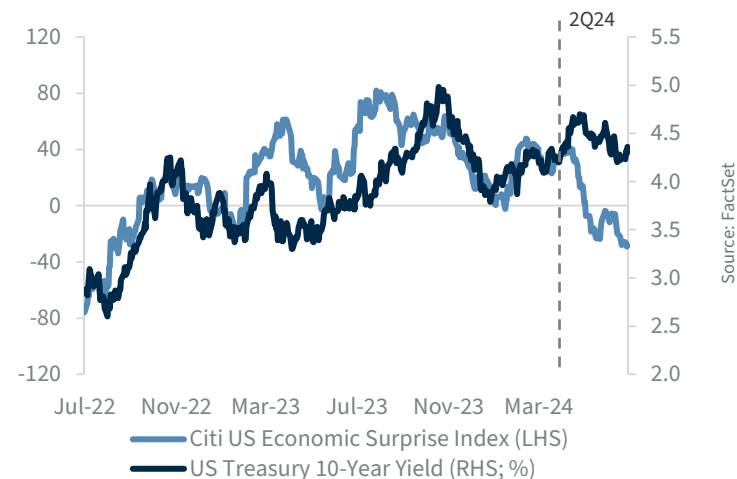
Global Bonds | Recent Trends

- **The Fed held policy rates steady at an upper-target rate of 5.5%.** However, policymakers updated forecasts led to a shift in the median dot projection, from three rate cuts in 2024 to just one rate cut this year. While Fed speak has leaned hawkish since the meeting, the market is taking its cues from softening economic data and more benign inflation prints.
- **Treasury yields moved directionally with the Citi Economic Surprise Index, which fell to its lowest level since August 2022.** Strong demand at the recent Treasury auctions also suggested investor appetite for duration may be increasing. However, 10-year yields bounced off key technical levels near month end, rising to 4.36% (-15 bps MTD, +16 bps QTD).
- **Two consecutive months of yield declines have helped the Bloomberg US Aggregate Bond Index claw back most of its losses** (-0.7% YTD) after being down over 3% in late April. Stable to lower Treasury yields over the remainder of 2024 would enable the Index to generate positive returns due to the income component of its total return.
- **The spread between French and German sovereign bond yields hit its widest level** since 2017 when President Macron called a snap election after his party got trounced in the EU Parliamentary elections. This ignited concerns about France's fiscal trajectory, particularly if a new government gets elected and opts to loosen the purse strings.

Global Bonds | 12-Month Outlook

- **Slowing economic growth and moderating inflation should give the Fed room to dial back its policy restraint in the coming months** to keep the recovery going. While the Fed has only penciled in one rate cut by year end, we are more sanguine expecting policymakers to cut rates two times, perhaps as early as September, as macro conditions weaken.
- **Our forecasted macro backdrop should allow the 10-year Treasury yield to fall to 4.0% by year end and progress down to 3.75% over the next twelve months.** However, volatility should be expected as the market contends with record government debt issuance, the Fed's balance sheet, and demand unease.
- **Bond yields offer investors the opportunity to lock in attractive income.** The increase in yields over the last few years has significantly improved the risk-return profile of bonds, providing ample scope for capital appreciation if growth slows materially and an income cushion should yields move higher. Cash remains attractive, but it is unlikely to last for long.
- **With a Fed easing cycle on the horizon, it is prudent to consider locking in duration.** We favor intermediate Treasuries which will benefit from a steeper curve once the Fed starts easing, as well as high-quality corporate bonds and longer-maturity municipal bonds which provide yields above cash.

Disappointing Economic Data Pulls Yields Lower



US Agg Index Nearly Recovers YTD Losses



Commodities & Currencies | Dollar Dominance Continues

Commodities & Currencies | Recent Trends

- **The Bloomberg Commodity Index rose 1.5% during the quarter** amid diverging trends in the sub-indices. Industrial and precious metals generated strong returns as global manufacturing improved, while natural gas prices soared (+47.4% QoQ) on concerns that an active hurricane season could disrupt production.
- **Oil prices climbed to a two-month high of \$81.54/barrel** on expectations of dwindling inventories ahead of the peak summer driving season and continuing heightened tensions in the Middle East. Despite the recent move higher, oil prices remain locked in a tight range, with WTI crude oil ending the quarter down 2.0%.
- **Industrial metals rose** (+6.1% QoQ) on improving optimism on global manufacturing activity and expectations of more policy support from China. **Precious metals remain supported** by ongoing central bank purchases and lingering concerns about inflation. Gold prices hovered near \$2,350/ounce after sharp increases this year.
- **The US dollar's dominance continued; the greenback extended its YTD gains** (+4.5% YTD). The dollar has been supported by strong growth, higher relative interest rates and reduced expectations for Fed cuts this year. Political uncertainty in France weighed on the euro (-3% YTD), while the Japanese yen fell to a 38-year low (-12.4% YTD) versus the dollar.

Commodities & Currencies | 12-Month Outlook

- **Commodity prices should remain steady, despite divergent trends within the sub-indices.** Geopolitical tensions, with wars in commodity-producing regions, have the potential to cause supply disruptions. Weather-related issues and trade disputes could also lead to bouts of volatility or temporary increases in risk premiums within the sub-components.
- **Supply and demand dynamics will remain the key drivers of oil prices in 2024.** Cross-currents between record US production, increased non-OPEC+ supply, OPEC's voluntary cuts starting in October and the need to refill the Strategic Petroleum Reserve should keep oil prices in a tight range around our \$85/barrel forecast.
- **The US dollar can remain elevated, but further gains are unlikely.** While the tailwinds supporting the dollar have largely run their course, a sustained move lower will not occur until the Fed kicks off its easing cycle, relative interest rates differentials move out of the US dollar's favor and global risk appetite improves.
- **The euro should continue to trade within a narrow range of 1.05-1.10 range in 2024.** With the ECB's bias to ease intact and near-term political risk elevated, the euro may face some near-term headwinds. **The wide interest rate differentials between the US and Japan has weighed on the Japanese yen,** but it should strengthen once policy rates narrow.

Oil Prices Remain In A Tight Range



Yen Falls To Weakest Level VS. Dollar Since 1986



Summary | Key Year-End Forecasts and Views

1

ECONOMY

US GDP: +2.1%

US economic growth has remained resilient, but activity is beginning to moderate. The consumer is showing signs of fatigue (rising credit card balances, climbing delinquencies) as softening job growth and lingering inflation take its toll. While we expect consumer spending to slow, a sharp slowdown is unlikely given healthy consumer fundamentals and the absence of job losses. Fed rate cuts should keep the recovery going, with growth slowing to 2.1% in 2024.

2

BOND MARKET

10-Year Treasury: 4.0%

Slowing growth and moderating inflation should allow the Fed to lower rates this year. We expect the Fed to deliver two rate cuts by year end, provided inflation continues its downward trajectory. This should allow the 10-year Treasury yield to fall to 4.0% by year end and 3.75% in 12 months. However, record debt issuance, the Fed's balance sheet, and demand unease should keep volatility elevated. We favor intermediate Treasuries, high-quality corporates, and longer-maturity munis.

3

EQUITIES

S&P 500: 5,400

The improving economic backdrop and mega-cap tech earnings have been tailwinds for stocks. However, stretched valuations, growing economic uncertainty, and election volatility could lead to a near-term pullback. We upgraded our year-end target for the S&P 500 from 5,200 to 5,400 (\$245 EPS, 22x P/E multiple), and to 5,700 in 12 months. Our preferred sectors are Info Tech, Health Care, Industrials, and Energy. We prefer US over Europe, and favor Japan and select emerging markets (India/Mexico).

4

DOLLAR DIRECTION

EUR/USD: 1.075

The resilient US economy and relative interest rate differentials should benefit the US dollar, supporting it in the near term. However, once the Fed begins to cut rates, the US dollar should gradually start to weaken. The euro may struggle in the near term as relative interest rates and growth differentials tilt in the US dollar's favor and political uncertainty poses a headwind. The weak yen should reverse course as the BOJ normalizes rates and the Fed eases.

5

OIL

Oil: \$85/barrel

The cross-currents between supply and demand dynamics should keep oil prices in a tight range. While OPEC+ efforts to restrict supply puts upward pressure on prices, record amounts of US and non-OPEC production provide an offset. Increasing US crude stockpiles and tepid global growth suggest weaker demand; however, geopolitical tensions could elevate risk premiums if supply is disrupted. These factors should hold oil prices in a steady range around our \$85 year-end price target.

6

Volatility: 

Equity volatility has moved back toward its pre-pandemic lows as the S&P 500 climbs to new highs. However, increasing geopolitical risks, optimistic earnings estimates, stretched sentiment and uncertainty surrounding the US presidential election could lead to higher volatility this year. Bond volatility continues to decline, but unresolved fiscal concerns and accompanying Treasury supply dynamics along with shifting Fed expectations could lift bond volatility.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss. Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

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 | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their 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.

Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes.

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.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

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.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

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.

PCE INDEX | **Personal Consumption Expenditures (PCE) Index:** The PCE price index looks at U.S. inflation by measuring changes in the cost of living for households. It tracks the prices of a basket of goods and services, each with different weightings, to reflect how much a typical household spends every month.

BG COMMODITY INDEX | **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements.

BLOOMBERG INDUSTRIAL METALS INDEX | **Bloomberg Industrial Metals Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

BLOOMBERG ENERGY INDEX | **Bloomberg Energy Index** is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*. With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

NASDAQ | The **Nasdaq Composite Index** is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. As a broad index heavily weighted toward the important technology sector, the Nasdaq Composite Index has become a staple of financial markets reports.

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.

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.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

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.

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.

EUROPE | The **MSCI Europe Index** captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 428 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

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.

MSCI EM | The **MSCI Emerging Markets Index** captures large and mid cap representation across 25 Emerging Markets (EM) countries*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

CITIGROUP ECONOMIC SURPRISE INDEX | **Citigroup Economic Surprise Index** represents the sum of the difference between official economic results and forecasts. With a sum over 0, its economic performance generally beats market expectations. With a sum below 0, its economic conditions are generally worse than expected.

ISM MANUFACTURING INDEX | The **ISM Manufacturing Index**, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

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DATA SOURCES

FactSet as of 6/30/24.

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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

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