RAYMOND JAMES

Freedom market commentary

Q2 2024

A small concentration of stocks continued to push headline indices upward here and abroad despite challenging currents down market as the economy cools and inflation moves in the right direction.

SECOND QUARTER HIGHLIGHTS

- It's still AI out front
- Good signs on inflation
- U.S. economy shows signs of deceleration

"It's sort of standard thinking that monetary policy affects economic activity with long and variable lags," said Federal Reserve Chairman Jerome Powell last summer – riffing on Milton Friedman – to suggest why the U.S. economy could continue barreling ahead despite higher interest rates.

Two years later, we may be through the lag as data show signs of economic activity slowing and the labor market softening, but still resilient as the economy started from a historically strong base. Real wages continue to improve, but we are beginning to see the number of job openings reduced and unemployment ticking slightly upward. Retail and housing-related growth has underwhelmed as well.

INVESTING INSIGHTS

THE BROADENING EFFECT OF AI

Artificial intelligence is poised to reshape our world and its markets in unpredictable ways, just as other transformative technologies have before it. It has been estimated that two-thirds of current jobs are subject to some degree of AI integration, and one quarter could be completely replaced. Within 10 years, AI is projected to be a $2 trillion a year industry, and responsible for a 7% increase in the global GDP.*

This potential has clearly been felt in the equity market which owes a not-insubstantial part of its year-to-date growth to AI, but the impact has been more "tip of the spear" than "rising tide," with chipmakers and AI technology leaders seeing the majority of these gains. This is not uncommon to other similar thematic rallies in the past. If semiconductors and AI are the picks and shovels of the 2020s, it'll take time for new mines to begin producing, then more time still for those mine products to find purchase throughout the economy.

Non-technology companies aren't going to shift their business models to become AI shops, but instead could benefit from the lower costs and higher productivity enabled by vendor technology suites. While some of this change will be highly visible, like using generative AI to write a perfunctory email, much more will be happening behind the scenes, adding efficiencies to repetitive tasks and large data problems like cybersecurity, regulatory compliance and sales lead generation.

That's the tide coming in.

*Source: PwC and Morgan Stanley Research

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.

Recent inflation data has resumed the trend lower towards the Fed's target of 2%, the market has taken this as a good sign, particularly after some key measures of inflation in the first quarter went the wrong direction, leading many investors to revise their assumptions for interest rate cuts this year.

Europe has made more progress on inflation, likely owing to its slower growth relative to the U.S. during this period, and in the second quarter the European Central Bank became the first major central bank to cut baseline interest rates. It did, however, set expectations that further rate easing would be data dependent and had a high hurdle to clear.

The Fed is now expected to make two rate cuts by the end of the year. The Bank of England is expected to take similar action. Those assumptions, and the markets themselves, will likely remain volatile as investors continue to pivot based on individual releases of inflation measures.

EQUITY

Despite flashes of more inclusive participation within the last year, the second quarter showed that large caps' strong year-to-date growth continues to be a story of just a few mega performers. By now in the U.S., most are familiar with the so-called "Magnificent 7." In Europe, their leading group has been dubbed the "GRANOLA" stocks. While there are clear nuances underneath those depictions, these stocks' dominance reflects an equity market that has been, and remains, extremely bifurcated, with the U.S. reaching historic levels of concentration of market cap compared to earnings that is on-par with 1999's dot-com era.

After briefly reverting earlier this year, this concentration continued in the second quarter with large caps outperforming small- and mid-caps, growth stocks outperforming value, and the U.S. market outperforming its developed-world counterparts.

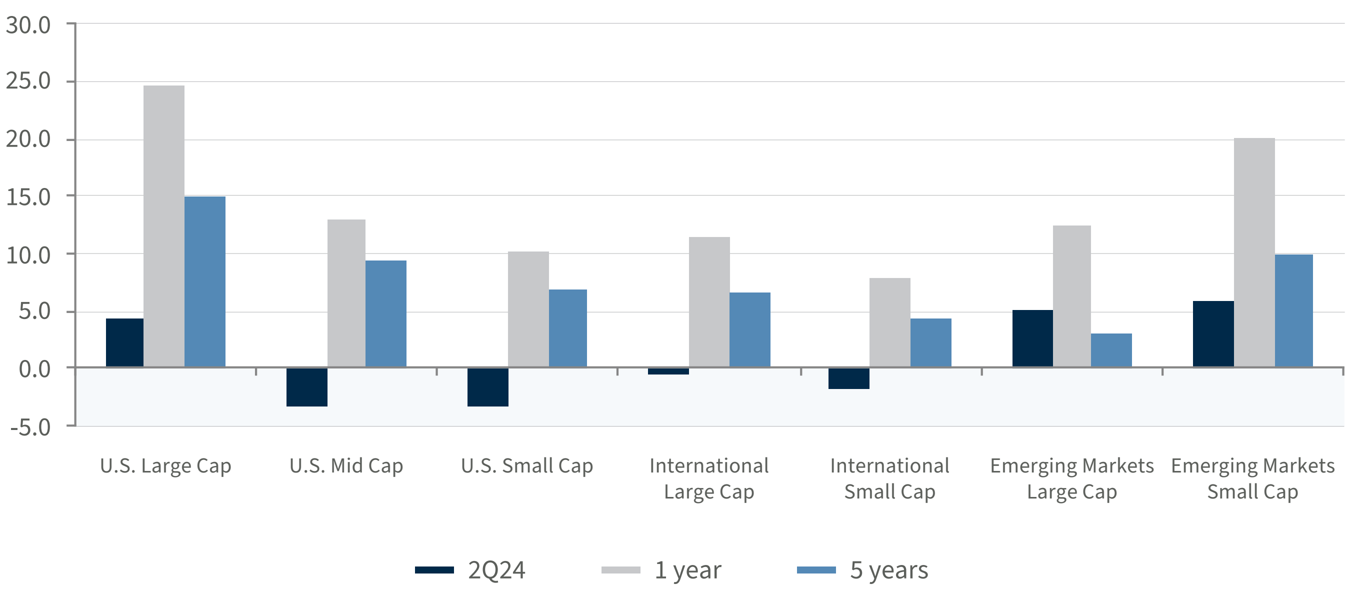
The S&P 500 finished the quarter up 4.3% with just five of 11 sectors positive. They were led by information technology, which saw gains of 13.9%, followed by communications services, up 9.4%, and utilities, up 4.7%. Materials had the worst sector performance, finishing down 4.5%.

The Russell 2500, which aggregates mid- and small-cap U.S. stock performance, showed the continuing headwinds smaller firms face from higher interest rates and slowing growth as it finished the quarter down 4.3%.

The MSCI EAFE, a measure of non-U.S., developed nation, large-cap stocks finished the second quarter down -0.4% in U.S. dollars.

EQUITY RETURNS

Source: Morningstar as of 6/30/2024



Emerging markets had a strong quarter, with the MSCI Emerging Market Total Return index recording a 5.0% gain in U.S. dollars, bringing the year-to-date gains to 7.5%. China's strong quarter reflected economic stimulus trickling through its economy, but its real estate woes continue to weigh on overall growth.

EQUITY POSITION IN FREEDOM PORTFOLIOS

Based on bond yields above long-term expectations and relevant economic and market data, Freedom portfolios remain slightly overweight to fixed income and underweight to equity within their strategies.

Within equity, Freedom portfolios continue to favor U.S. stocks, with a significant overweight large-cap position. Fundamentals for large cap stocks remain exceptionally strong, with improving earnings and margins softening the pressure from high valuations. Small-cap and mid-cap stocks still appear attractively priced, but the catalyst of rate cuts and better growth may be further pushed out as the Fed holds rates steady. Combined with stabilizing fundamentals and improving sentiment, the sector has a favorable outlook, barring a double-dip (W-shaped) economic slowdown.

Outside the U.S., Freedom remains underweight to international equity, and full underweight to non-U.S. developed markets based on underlying fundamentals and outlook for returns. As has been the case through this period of inflation suppression, the AMS Investment Committee expects the U.S. market to continue to significantly outperform other developed markets.

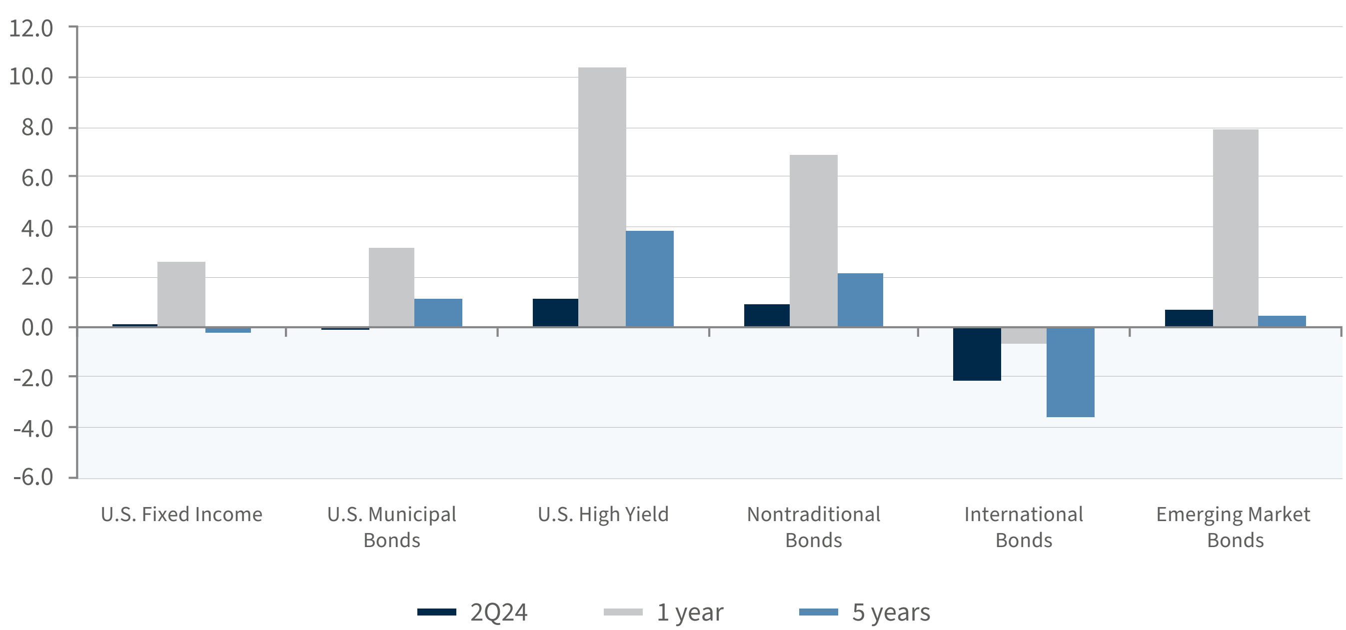
Freedom's position relative to emerging markets remains at near neutral levels, which may change as those economies start to show further signs of recovery both in fundamentals and sentiment. Select emerging market central banks have led the rate hiking cycles and now have started easing monetary policies as their economies bottom out.

FIXED INCOME

Fixed income finished the quarter positive with income from high starting yields more than offsetting the slightly negative effect from the Fed holding interest rates at their current high level. Bond yields in the U.S. edged a little higher through the quarter as markets repriced the balance between growth and inflation, based on choppy data. The Bloomberg U.S. Aggregate Bond index closed the quarter up 0.1%.

FIXED INCOME RETURNS

Source: Morningstar as of 6/30/2024



Yields on European government bonds also finished the quarter slightly up as a snap election in France spooked investors who harbored fiscal concerns.

The credit sector also performed well with high-yield and mortgage-backed securities leading the board. Emerging markets and munis had a more difficult quarter. Companies' balance sheets have been improving as more debt has been refinanced and credit ratings also broadly improved, with 1.3 ratings upgrades to every 1 downgrade through the second quarter. This compares favorably to the low point of 2023 when companies earned 0.6 credit upgrades for every 1 downgrade. Spreads have reflected this and tightened to near historical lows.

FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

In moderate to more aggressive investing objectives, Freedom portfolios maintain an overweight position in fixed income relative to equity with a focus on intermediate maturity bonds.

Within fixed-income allocations, the AMS Investment Committee continues to favor high-quality bonds, which it expects will hold up better in a weakening growth environment. With higher starting yields for long-term investors and defensiveness during periods of volatility, the core, high-quality bond market is far more attractive on a risk-adjusted basis than at any point in the past decade.

Freedom maintains a neutral weight in high yield debt in conservative allocations while keeping minimum exposure in more aggressive portfolios. In heavy fixed income allocations, spread products such as high-yield and emerging market debt typically benefit from strong corporate credit fundamentals, but level of additional compensation offered at current price levels encourages waiting for more attractive entry points.

ALTERNATIVES

Commodities edged higher during the quarter but calmed from their May highs. Metals such as gold and copper hovered around all-time highs driven by high demand and supply-side constraints.

Hedged equities performed well for the quarter while event-driven funds and long duration bond funds fared poorly.

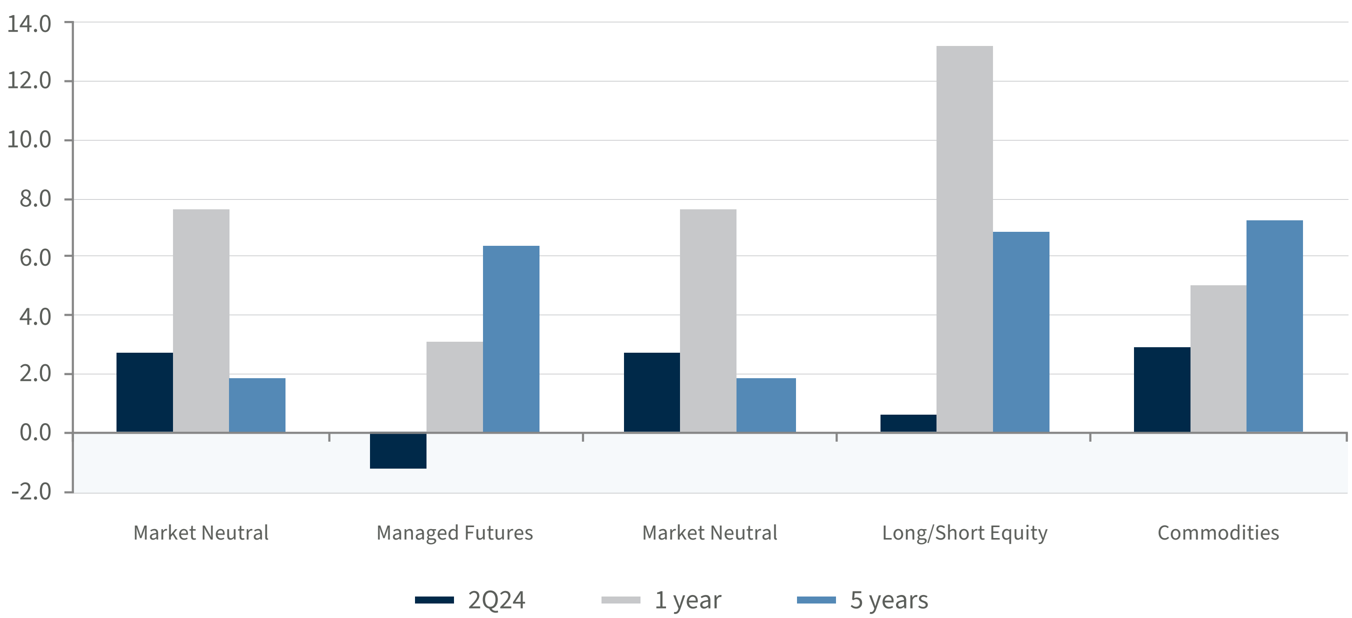
ALTERNATIVES POSITIONING IN FREEDOM PORTFOLIOS

Alternatives continue to offer diversification benefits, holding steady during the April drawdown in the equity and bond markets. With inflation concerns not fully subsiding and stocks and bonds moving in the same direction since 2021, the AMS Investment Committee expects the sector to offer value to portfolios.

Freedom portfolios maintain an underweight position in alternatives.

ALTERNATIVE INVESTMENTS RETURNS

Source: Morningstar as of 6/30/2024



AMS INVESTMENT COMMITTEE OUTLOOK

As time has passed and the Fed has held steady on interest rates amid choppy inflation data, the rest of the market has seemingly come around to the AMS Investment Committee's more conservative view on rate cuts. Last year, the market priced in expectations for as many as seven rate cuts in 2024, starting in the first quarter, which experience has shown was wildly optimistic. The AMS Investment Committee, however, assumed the Fed would make cuts only later in the year, and only a limited number.

Presently, the AMS Investment Committee believes the Fed will make around two interest rate cuts by the end of the year, barring a significant change in economic trajectory. This has been the committee's consistent view.

The committee – like the Fed, presumably – will continue to focus on inflation, particularly month-over-month reports on core inflation. Long-term, core inflation needs to average below 0.2% per month to produce an annualized inflation rate near 2.0%, the Fed's target.

As of today, the U.S. economy enjoys a favorable mix of resilient growth and cooling inflation, albeit with more evidence of growth slowing more meaningfully with a weakening labor market. Considering the Fed's prioritization of price stability within its dual mandate, this isn't necessarily a bad thing, but investors will likely see the effects in the quarters to come.

A number of scenarios could evolve, each producing a distinct market outcome. The AMS Investment Committee believes the most likely outcome is that inflation will continue to decline over a period of years, and the Federal Open Market Committee will try to soften the looming slowdown with rate cuts. However, if inflation were to cease declining while the economy remains resilient, the committee expects the Fed would delay rate cuts. If growth were to rapidly decline, the committee expects the Fed would take commiserate action. If inflation rises, a rate hike seems a very unlikely possibility.

To help find balance through each of these scenarios, the Fed will likely keep a ready eye also on the labor markets – the other side of its dual mandate – and other key economic data. So, too, will the AMS Investment Committee.

As a result, amid uncertainty and volatility, the AMS Investment Committee has taken a slightly more defensive stance in the market with less risk than is typical.

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 the 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 over weighted 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 which attempts to mimic the performance will incur expenses, such as management fees and transaction costs, that reduce returns.

Bloomberg U.S. Aggregate Bond Index (U.S. Fixed Income): 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.

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 United States & Canada. The index consists of the following 21 developed market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets Index (Emerging Markets Equities): A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The index consists of the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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 (U.S. Small to Mid-Cap): This index is a capitalization weighted index comprised of the bottom 500 stocks in the Russell 1000 index and all of the stocks in the Russell 2000 index. This Index includes the effects of reinvested dividends.

S&P 500 Dividend Aristocrats TR: The S&P 500 Dividend Aristocrats Index is a list of companies in the S&P 500 with a track record of increasing dividends for at least 25 consecutive years. It tracks the performance of well-known, mainly large-cap, bluechip companies.

Bloomberg U.S. Government 1-3 Year: The index is composed of agency and Treasury securities with maturities of one to three years and includes the reinvestment of dividends.

Bloomberg U.S. Corporate High Yield 2% Issuer Capped: The index measures the performance of high yield corporate bonds, with a maximum allocation of 2% to any one issuer.

S&P 500 Index (U.S. Large Cap): This index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. It consists of 400 industrial, 40 utility, 20 transportation, and 40 financial companies listed on U.S. market exchanges. This is a capitalization-weighted calculated on a total return basis with dividends reinvested. The S&P represents about 75% of the NYSE market capitalization.

Bloomberg Commodity Index: The index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components). The weightings for each commodity included in Bloomberg Commodity Index are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity. Annual rebalancing and reweighting ensure that diversity is maintained over time.

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