RAYMOND JAMES

Freedom market commentary

Q3 2024

The Federal Reserve made a highly anticipated policy turn in the third quarter, lowering interest rates by 50 basis points and creating a tailwind across asset classes and market cap sizes that brought a positive close to a highly volatile quarter.

SECOND QUARTER HIGHLIGHTS

- Fed cuts interest rates
- Broad gains across equity
- Small-cap, mid-cap and value stocks see biggest bounce

Despite inflation remaining elevated, the Federal Open Market Committee's accommodative action arrived as inflationary fears have cooled, but economic concerns have heated up. A rate cut was expected, but it was unclear whether the Federal Reserve would make a typical 25 basis point cut or take a more aggressive tack.

The decision to make the larger cut signaled two things seen as positive across the market: One, the Federal Reserve is comfortable with inflation's slow but generally downward trajectory, and two, it is committed to engineering a "soft landing," a cooling of inflation without inducing a recession. The market has priced in further cuts by the end of the year, with between 50 basis points and 75 basis points expected, and another 100 basis points in 2025.

INVESTING INSIGHTS

SOFT LANDING, DEFINED

A "soft landing," a term that came to prominence during the tenure of Federal Reserve Chairman Alan Greenspan, is the end of a complete business cycle that finishes in a slowdown, but not a recession. Relatedly, and recently, the term has been used as shorthand to describe a scenario in which the economy returns to normal rates of inflation – the Federal Reserve's target is 2.0% per year – without inducing a recession.

Conversely, a hard landing describes a situation in which economic tightening measures, such as significant interest rate hikes, lead to a sharp contraction in economic activity.

Annualized inflation peaked at 9.1% in June 2022, and steadily came down to 3.0% a year later, but rebounded and lingered to around 3.5% for another year, when it began to fall again. As of August 2024, annualized inflation was measured at 2.5% and the Federal Reserve seems confident in its trajectory. Meanwhile, deteriorating economic conditions gave rise to recession fears. By lowering interest rates now, the Federal Reserve is hoping to feather the fall by accommodating investors and consumers, avoiding recession without reigniting inflation – a soft landing.

Since 1980, the U.S. has had two soft landings to a total of seven rate-cutting cycles – in 1984 and 1995. The average rate cuts in those two periods were 220 basis points. In the remaining five, the "hard landing" situations, the average rate reduction was around 420 basis points.

Effects of the announcement were swift, with small-cap, mid-cap and value stocks – seen as more sensitive to higher interest rates – leading the field. Indicative of this bounce, utilities now lead all sectors, year to date, followed by technology, which has been the high center pole to the market's otherwise sagging tent.

Prior to the rate-cut rally, the quarter was defined by its intense volatility with a number of contributing factors. The Bank of Japan raised interest rates in late July, devaluing a high-volume trading strategy that hinged on the low price of yen compared to the high price of dollars. The ripples from traders unraveling those positions caused a sharp global selloff at the start of August and a glut of dour headlines. Later that month, the U.S. Bureau of Labor Statistics announced a major revision to jobs numbers from April 2023 through March 2024 that amounted to 818,000 fewer jobs than originally reported. As the jobs numbers were seen as evidence of the U.S. economy's robustness, the revision increased fears of a recession.

EQUITY

The market remained twitchy at the start of the quarter, producing a vigorous start on the back of strong corporate earnings and higher-than-expected retail numbers. While providing a reasonable boost to large-cap stocks, small-cap stocks saw an 11.5% surge in a week in July, as reflected in the Russell 2000. The collapse of the Japanese carry trade soon took it back, leaving a fever plot resembling the background of a John Ford western, and it remained volatile through the Federal Reserve's mid-September rate cut announcement.

Nearly everyone has gotten a piece of the rally, but small-cap, mid-cap and value stocks have particularly benefited after being suppressed by high interest rates. The S&P 500, representing large-caps, gained 5.9% for the quarter while the Russell 2500, representing small- and mid-cap stocks, gained 8.8%.

Overseas, outcomes generally followed the U.S., with the MSCI EAFE, measuring non-U.S. large-cap stocks in developed economies, returning 7.3% for the quarter.

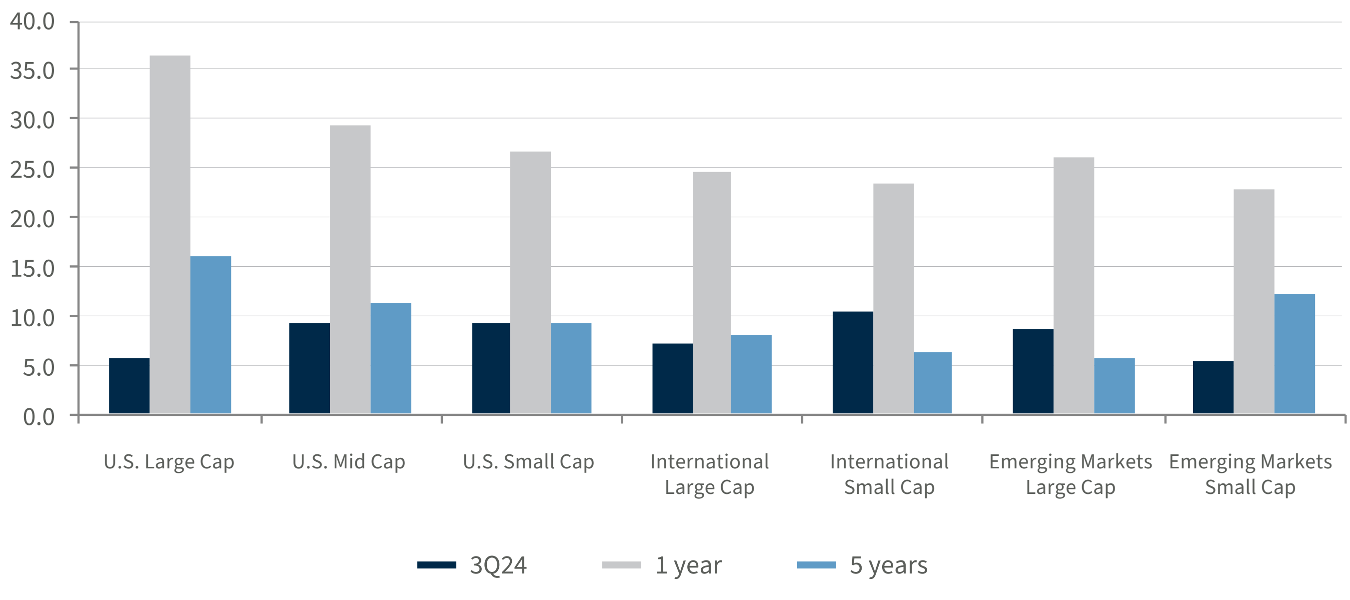
The U.S. dollar has an outsized influence on emerging markets, so the segment saw a strong rebound on the Federal Reserve's announcement. The MSCI Emerging Market Total Return index gained 8.7% in U.S. dollars at quarter's close.

EQUITY POSITION IN FREEDOM PORTFOLIOS

The relative strength of the U.S. economy and its companies continue to make cases for themselves, and Freedom portfolios remain slightly overweight in U.S. equity and underweight in non-U.S. developed market and emerging market equity.

EQUITY RETURNS

Source: Morningstar as of 9/30/2024



The AMS Investment Committee expects a "soft landing" scenario, a situation that would likely put small- and mid-cap stocks in position for strong gains. As a result, Freedom portfolios remain slightly overweight to U.S. small- and mid-cap stocks.

In the committee's view, non-U.S. developed market equity suffers from middling economic and earnings performance without a clear case for inclusion. Freedom portfolios are significantly underweight in this segment.

Despite emerging market equity's stellar third quarter performance, we believe the segment has not made a strong case for neutral inclusion nor presented an attractive entry point, relative to risk, and remains slightly underweight.

FIXED INCOME

In light of the Federal Reserve's imminent interest rate cut, yields on new debt declined through the third quarter while the bond market experienced rising valuations, as expected. Throughout the quarter's equity market volatility, bonds performed well in a mitigating role. The Bloomberg U.S. Aggregate Bond index returned 5.2% for the quarter.

The Treasury curve remains inverted – with shorter term debt yielding higher than longer-term, generally – but the depth of inversion lessened, which we believe supports a soft-landing conclusion. An inverted yield curve is often seen as a predictor for recession.

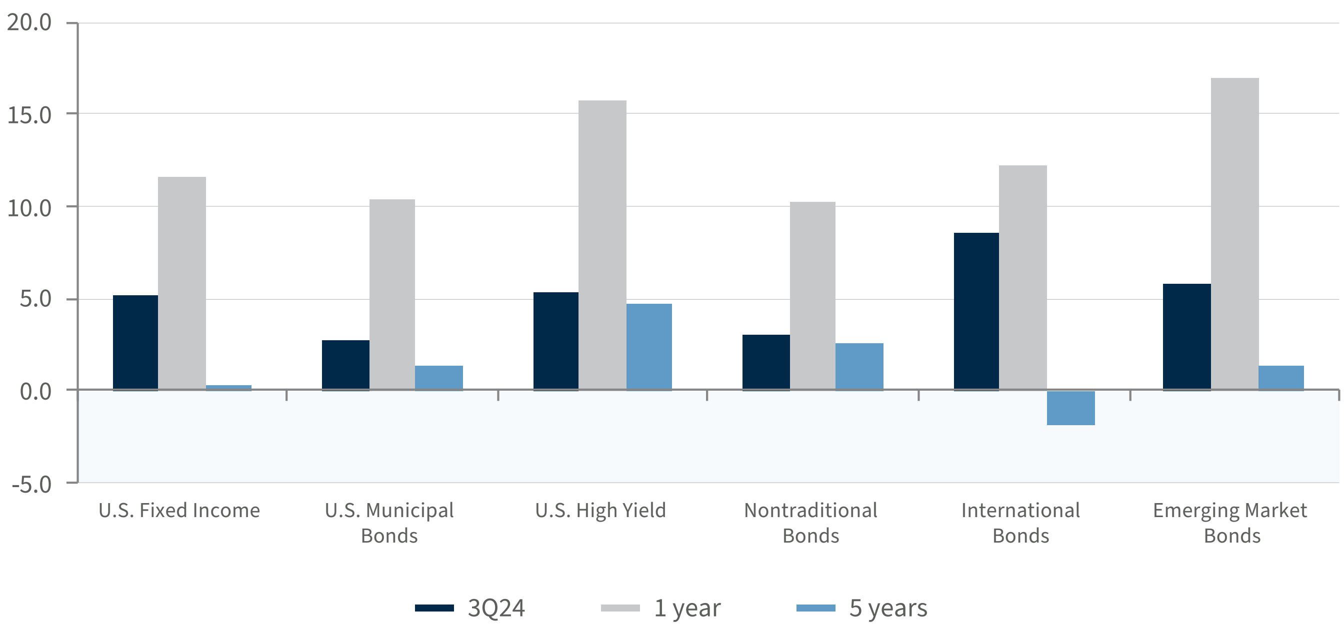
FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

Continuing to benefit from recent high yields – and now rising valuations – Freedom remains overweight in high-quality bonds with a focus on intermediate term debt. In the AMS Investment Committee's view, the strong income component keeps fixed income strong on a risk-adjusted basis and has performed well against a volatile equity market.

Freedom portfolios remain at neutral weight in high-yield debt in conservative allocations and 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 in our opinion the level of additional compensation offered at current price levels is not attractive, especially with signs of marginal deterioration in credit metrics.

FIXED INCOME RETURNS

Source: Morningstar as of 9/30/2024



AMS INVESTMENT COMMITTEE OUTLOOK

The AMS Investment Committee expects the Federal Reserve to continue cutting interest rates by 50 to 75 basis points by the end of the year, and another 100 to 200 basis points in 2025, barring a major disruption or signs of reinflation. The committee does not expect a recession.

Lower interest rates will help parts of the market left out in the rain shake off the dampness and experience strong growth, as seen among small-cap, mid-cap and value stocks at the end of the third quarter. Meanwhile, the high-flying AI stocks that have carried the headline indices through this period of churn appear to be reaching a stable price range. Together, this makes a case for more inclusive market participation and a new slate of leaders who are emerging from the downside of the business cycle, including utilities and real estate.

Considering the present macroeconomic conditions, inflation remains elevated – particularly on core services and shelter – but reinflation seems unlikely. The U.S. economy has softened, but despite blows to confidence in the third quarter, economic growth is reaccelerating. Consumer confidence may be down, but consumer spending tells a different tale.

On the other side of that balance, the market is priced for expansion, driven by strong corporate earnings. Underperformance could lead to reactive volatility. Further, the job market, while fair, has softened, which could have downstream effects.

DISCLOSURE

The foregoing content reflects the opinions of Raymond James Asset Management Services and is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. The charts and tables presented herein are for illustrative purposes only and should not be considered as the sole basis for your investment decision.

Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses that would reduce returns. Asset allocation and diversification does not ensure a profit or protect against a loss. There is no assurance that any investment strategy will be successful.

Further information on the funds selected for the Freedom portfolios is available by prospectus, which can be obtained through your financial advisor. Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds and exchange traded funds before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. All investments are subject to risk, including loss.

You should understand that the annual advisory fee charged in the these programs is in addition to the management fees and operating expenses charged by mutual funds and exchange traded funds if applicable. These additional considerations, as well as the fee schedule, are listed more fully in the Client Agreement and 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): S&P 500 Index (U.S. Large Cap): The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

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.

Russell 2000 Index: This index covers 2000 of the smallest companies in the Russell 3000 index, which ranks the 3000 largest U.S. 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.

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