

## FIRST QUARTER HIGHLIGHTS



U.S. Federal Reserve presses pause on interest rate increases



S&P 500 index has strongest first quarter in 20+ years



Yield curve inverts in some ranges, but our outlook remains positive in the near term



International developed and emerging markets rally

## MARKET UPDATE

### **Markets regain confidence**

Following one of the worst Decembers in recent memory, the first quarter of 2019 was among the strongest in decades for the capital markets – thanks in large part to the U.S. Federal Reserve pressing the pause button on its plan to increase interest rates. From nearly every angle, it was a good time to be an investor. Domestic equity gains were pronounced, with some areas of the market generating their highest first-quarter returns in more than 20 years. International equity rallied and fixed income produced positive returns. We will, however, be keeping an eye on the bond market's yield curve, which saw some

long-term rates drop below some short-term rates near the end of the quarter. Declining yields may point to some concerns the market could have with factors such as inflation or growth expectations, yet it does not indicate something negative in the near term. While it is important to pay attention, staying invested may be more appropriate than attempting to second-guess the market. The Asset Management Services (AMS)

### *Interpreting the yield curve*

*Even as the U.S. Federal Reserve confirmed in late March it would not increase its short-term lending rate in 2019, some long-term interest rates fell below some short-term interest rates. Parts of the yield curve inverted. While it's difficult to know what caused it, any inversion can be a message the markets are unsettled in some way. While there is very little indication the U.S. economy is in danger in the near term – just that growth will be slower – the Asset Management Services (AMS) Investment Committee (IC) will watch closely the economic indicators, including the yield curve, to identify potential trends.*

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 does 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.

Investment Committee (IC) has made changes in the past year or so to help provide some ballast for portfolios, yet the IC is confident in the markets and economy at this time.

## EQUITY

### ***Domestic Equity***

In December, the equity markets expressed concern for a forecast of slower U.S. economic growth, coupled with the U.S. Federal Reserve's determination to continue raising interest rates. The result was a sharp pullback in the equity markets. When the Fed announced in January it would hold interest rates steady in 2019, resuming a supportive stance, the markets regained confidence. Many of the stocks that declined sharply in December – especially growth-oriented and smaller capitalization stocks – bounced back in the first quarter of 2019 as investors embraced risk once again. U.S. large-cap equity returned 13.7% for the quarter, as measured by the S&P 500 TR index, marking its best opening quarter in more than 20 years and its strongest overall since 2009. U.S. small- to mid-cap equity returned 15.8% for the quarter, as measured by the Russell 2500 TR index, outperforming large caps in the move toward growth.

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### ***International Equity***

International equity rallied in the first quarter of 2019, driven by a delay in the United Kingdom's withdrawal from the European Union and renewed optimism for global trade negotiations, especially U.S.-China talks. Developed markets large-cap equity returned 10.0%, as measured by the MSCI EAFE NR USD index. Emerging markets equity returned 9.9%, as measured by the MSCI Emerging Markets NR USD index.

### ***Freedom Portfolio Positioning***

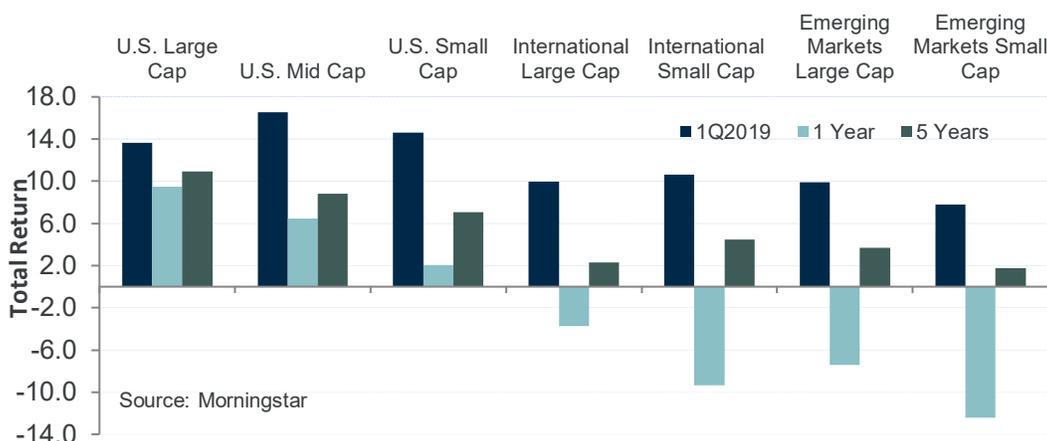
The Asset Management Services (AMS) Investment Committee (IC) currently holds a cautious view of domestic equities, given their valuations and declining earnings expectations. Within U.S. equity, the preference is for higher quality, including defensive or dividend-paying equity, and for large caps over small caps as the economy enters a later stage of the cycle. The AMS IC holds a favorable view of international developed markets equity based on attractive valuations and the continuation of accommodative monetary policy. The AMS IC holds a neutral view of emerging markets equity.

Return data on equity is continued on the following page.

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For sector information relating to commentary above, see index definitions below. Portfolio Positioning reflects the AMS IC's general opinions regarding how exposure to various market sectors may help or hinder achieving the portfolio's long term objective. The policy and sector allocations are subject to change without notice. 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 does 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.

### EQUITY RETURNS



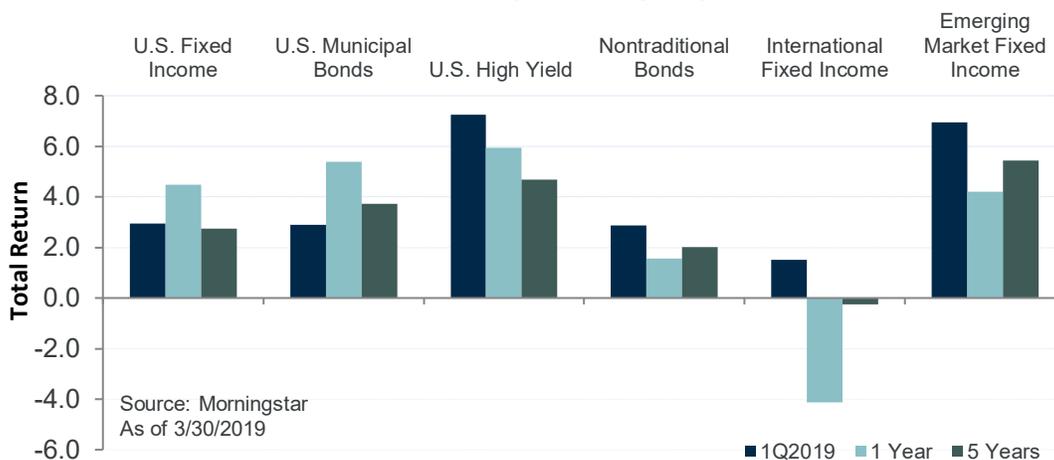
### FIXED INCOME

Core fixed income returned 2.9% for the quarter, as measured by the Bloomberg Barclays Aggregate Bond TR index. After raising its short-term lending rate nine times between December 2015 and December 2018, reaching a target range of 2.25% to 2.50%, the Fed interrupted its course and will not raise rates in 2019. The unwinding of its balance sheet – the selling of the bonds it purchased to support the economy during the financial crisis – is scheduled to conclude in September. With most central banks around the world still accommodating growth with low interest rates, the U.S. bond market appears attractive to foreign investors, which could drive down yields.

#### Freedom Portfolio Positioning

The AMS IC holds a slightly favorable view of high-quality core fixed income for its ability to mitigate risk in an equity downturn.

### FIXED INCOME RETURNS



The chart presented herein is for illustrative purposes only and should not be considered as the sole basis for your investment decision. For sector information relating to charts and commentary above, see index definitions below. Portfolio Positioning reflects the AMS IC's general opinions regarding how exposure to various market sectors may help or hinder achieving the portfolio's long term objective. The policy and sector allocations are subject to change without notice. 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 does 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.

## ALTERNATIVES

Multialternative investments returned 4.0% for the quarter, as measured by the U.S. Fund Multialternative peer group. Performance matched expectations in a quarter that saw higher equity returns.

### *Freedom portfolio positioning*

The AMS IC holds a neutral view of alternative investments.

### ALTERNATIVE INVESTMENTS RETURNS



## OUTLOOK

The near-term outlook for the capital markets remains positive. Economies around the world, including the United States, are expected to grow in 2019, though perhaps at a slower pace than in recent years. The U.S. Federal Reserve’s decision not to raise interest rates this year encourages borrowing and supports continued growth, and central banks around the world remain supportive. That said, the AMS IC will continue to monitor the narrow spread between U.S. short- and long-term interest rates. That the yield curve inverted at some ranges should not be ignored. Given the volatility in the markets since 2018, the AMS IC has positioned Freedom portfolios to be slightly more defensive and believes this is a good time to own higher quality investments. Overall, the AMS IC is cautiously optimistic.

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**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. All investments are subject to risk, including loss. The prospectus contains this and other information about the funds and should be read carefully before investing.**

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Past performance is not a guarantee of future results. 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. All investing involves risk, including loss. Asset allocation and diversification does not ensure a profit or protect against a loss. Dividends are not guaranteed and a company’s future ability to pay dividends may be limited.

There is no assurance that any investment strategy will be successful. All investments carry a certain degree of risk and you may incur a profit or a loss.

**RISK:** 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, you may incur a profit or a loss.

- 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.
- Callable bonds generally offer a higher yield than non-callable bonds as they have the option to call the bonds and repay the principal prior to maturity. Issuers will generally be inclined to initiate a call if interest rates have declined since the bonds were first issued, as they can reissue new bonds at a lower interest rate. Investors will then be positioned to reinvest return on principal in a declining interest rate environment, thus receiving a lower yield going forward.
- Credit risk includes the creditworthiness of the issuer or insurer, and possible prepayments of principal and interest. Bonds may receive credit ratings from a number of agencies however, Standard & Poor's ratings range from AAA to D, with any bond with a rating BBB or higher considered to be investment grade. Securities rated below investment grade generally provide a higher yield but carry a higher risk of default which could result on a loss of the principal investment. Because high-yield bonds have greater credit and default risk they may not be appropriate for all investors. While bonds rated investment grade have lower credit and default risk, there is no guarantee securing the principal investment.
- Investors should consider the Yield to Worst (YTW) of a bond or bond portfolio versus the Current Yield as the YTW is the lowest potential yield that that can be received without default. YTW takes into account any bonds that could be called prior to maturity.
- Securities issued by certain U.S. government-related organizations are not backed by the full faith and credit of the U.S. government and therefore no assurance can be given that the U.S. government will provide financial backing should an issue default.
- Mortgage Backed securities (MBS) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market, interest rate, prepayment, and reinvestment risks. Unless issued by GNMA, MBS's are not backed or guaranteed by any government agency. Actual payments received from a MBS frequently differ from the terms stated at purchase. Payments consist of pass through income and principal repayment, can fluctuate over time, and receive no special tax treatment. Changes in interest rates can affect the value and maturity date of a MBS. Prepayment caused by the underlying mortgages being unexpectedly paid off or refinanced is likely and will result in an unpredictable rate of income payment and principal repayment.
- Please note these portfolios may be subject to state, local, and/or alternative minimum taxes. You should discuss any tax or legal matters with the appropriate professional. International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic instability.
- 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.
- 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.
- Some accounts may invest in Master Limited Partnership ("MLP") units, which may result in unique tax treatment. MLPs may not be appropriate for ERISA or IRA accounts, and cause K-1 tax treatment. Please consult your tax adviser for additional information regarding the tax implications associated with MLP investments.
- 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.
- Changes in the value of a hedging instrument may not match those of the investment being hedged.
- 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.
- 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 Barclays U.S. Aggregate Bond Index (U.S. Fixed Income):**

This index includes investment grade U.S. Government bonds, corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the index must have at least one year remaining to maturity.

#### **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 U.S & Canada. It consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

#### **MSCI Emerging Market Index (Emerging Markets Equities):**

A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2009 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt,

Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**MSCI EM NR USD (Emerging Markets Large Cap):** The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey\* and United Arab Emirates. The MSCI EM NR USD takes only the large cap returns into account.

**Morningstar US OE Multialternative (Multialternative):** These funds will use a combination of alternative strategies such as taking long and short positions in equity and debt, trading futures, or using convertible arbitrage, among others. Funds in this category have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes.

**Russell 2500 (U.S. Small to Mid Cap):** A broad index featuring 2,500 stocks that cover the small and mid-cap market capitalizations. The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

**S&P 500 Index (U.S. Large Cap):** The index consists of 500 of the largest stocks in the U.S. stock market. A market value weighted index (stock price times number of shares outstanding after float adjustment), with each stock's weight in the index proportionate to its market value.

**MSCI Brazil Index:** The MSCI Brazil Index is designed to measure the performance of the large and mid cap segments of the Brazilian market. With 54 constituents, the index covers about 85% of the Brazilian equity universe.

**MSCI China Index:** The MSCI China Index captures large and mid-cap representation across China H shares, B shares, Red chips and P chips. The index is Indexes (GIMI) Methodology. The index incorporates broad sector diversification, free float adjustment, minimum float, liquidity and size guidelines, annual and quarterly index reviews.

**Russell 2000:** Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

**S&P 500 Select Sector Indices:** Following a modified market capitalization weight methodology, Select Sector Indices are calculated and maintained by S&P Dow Jones Indices. The constituents of each index are all members of the S&P 500, and each constituent of the S&P 500 is assigned to at least one Select Sector Index based on the constituent's classification under the Global Industry Classification Standard (GICS®). Most of the Select Sectors align in their membership with GICS sectors, with a few exceptions. The membership of Technology Select Sector combines constituents of the GICS Information Technology and Telecommunication Services sectors. The Financial Services Select Sector includes stocks from the GICS Financials sector excluding Real Estate but keeping Mortgage REITS, and the membership of Real Estate Select Sector includes constituents of the GICS Real Estate Industry Group, excluding Mortgage REITS.

#### TERMS & DEFINITIONS:

**Gross domestic product (GDP):** GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

**Total return:** when measuring performance, total return is the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

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AMS19-2494413 Expires 4/8/2020