RAYMOND JAMES

# FREEDOM MARKET COMMENTARY

Asset Management Services // Q1 2020

## FIRST QUARTER HIGHLIGHTS

- Markets experience extreme turbulence over coronavirus concerns
- Governments approve fiscal stimulus packages
- Central banks offer sweeping support
- U.S. Treasuries provide ballast

## MARKET UPDATE

### SPREAD OF CORONAVIRUS SHOCKS MARKETS

The world and its financial markets experienced an event unlike any in history, as the spread of a novel coronavirus and concern for its impact on global economies prompted a sudden selloff and intermittent rallies during the first quarter of 2020. The bull market that ran for 11 years ended in March when major U.S. stock indices fell more than 20% from highs they had reached just weeks earlier. As a risk-off sentiment took hold among investors, all areas of the global equity markets experienced losses. As nations around the world work to combat the effects of the pandemic's spread – and as projections for economic growth indicate a U.S. recession is likely – the focus for investors shifted from enhancing gains to mitigating loss. Believing the United States was in the later stages of the economic cycle, the Asset Management Services (AMS) Investment Committee (IC) began positioning Freedom portfolios more defensively in 2017. As a result, Freedom portfolios currently own a little less equity than normal and a little more high-quality fixed income.

### FREEDOM CONSTRUCTION PROCESS ANALYZES DOWNSIDE RISK

No one can anticipate a coronavirus outbreak. But risk, even when it feels like volatility is extreme and markets shift without warning, is part of investing.

Understanding that loss is uncomfortable, the Asset Management Services (AMS) Investment Committee (IC) constructs Freedom portfolios in an attempt to maximize return potential while considering the amount of tolerable downside risk.

Arguably, the most important element in constructing Freedom portfolios is asset allocation – the mix of asset classes that serves to mitigate risk and minimize volatility. Currently, portfolios are positioned more defensively than normal – in an effort to enhance downside protection.

## EQUITY

Significant lifestyle changes necessary to combat the rapid spread of COVID-19, the respiratory illness caused by the novel coronavirus, created strong headwinds for consumer spending and employment. Social distancing comes with the consequence of curbing discretionary spending as people avoid malls, restaurants, sporting events and travel.

After reaching new highs in February on the strength of consumer confidence, U.S. equity markets fell sharply and suddenly in March, bringing an end to the bull market that ran for more than a decade after the Great Recession. During the quarter, the U.S. stock market reached volatility levels not seen since 2008 and major U.S. stock indices – the S&P 500 and Dow Jones Industrial Average – experienced record daily losses and gains of the sort typically measured over months, not days.

U.S. large-cap equity returned -19.6% for the quarter, as measured by the S&P 500 TR index. Considered inherently riskier than large caps, U.S. small- to –mid-cap equity returned -29.7% for the quarter, as measured by the Russell 2500 TR index. Defensive sectors such as utilities, real estate and consumer staples shed the least. At the other end of the spectrum, the energy sector, which came under intense pressure due to sharply lower oil prices, fell precipitously.

U.S. equity income, which focuses on dividend-paying and dividend growth companies, did not hold up as well as may have been expected because of exposures to the financials and energy sectors, which underperformed the broader market. Equity income returned -23.3%, as measured by the S&P 500 Dividend Aristocrats TR index. Minimum volatility equity, however, provided greater downside support through this challenging market, returning -17.2% as measured by the MSCI USA Minimum Volatility GR index.

Internationally, large-cap equity in developed markets such as Japan, the United Kingdom and the Eurozone returned -22.8% for the quarter, as measured by the MSCI EAFE NR index. Emerging markets, which had not kept pace with the rise of stock prices in the United States and other developed countries, returned -23.6% for the quarter, as measured by the MSCI Emerging Markets NR index.

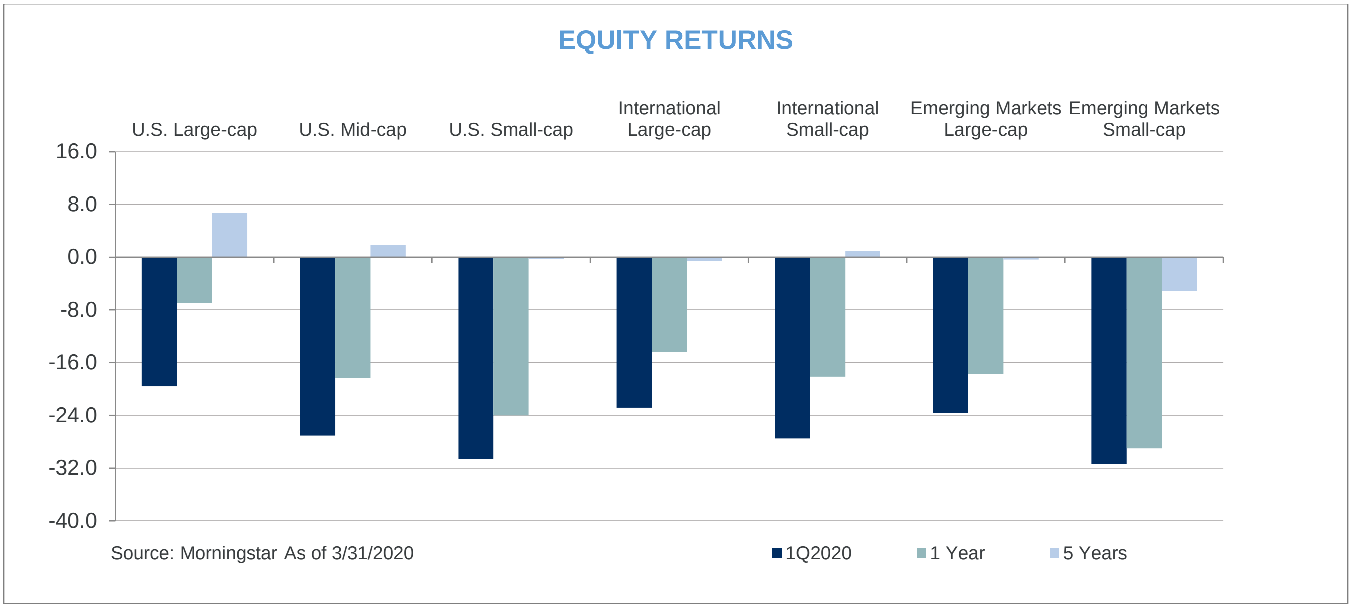
While it is unclear how long social distancing will last or how much the economy will weaken, we expect heightened volatility to continue in the financial markets. Monetary policy and fiscal stimulus could buoy optimism and help speed the recovery.

### EQUITY POSITIONING IN FREEDOM PORTFOLIOS

Freedom portfolios maintain a slight underweight to equity. The AMS IC has held a cautious view of equity in the United States and abroad given its belief the United States was in the later stages of the economic cycle and that the market was nearly fully valued. Coming into 2018, the IC began to shift toward asset classes with more attractive fundamentals and the potential to mitigate risk in an equity downturn. As a result, portfolios are underweight U.S. mid- and small- cap equity and overweight minimum volatility equity. The AMS IC believes this improves the quality of the U.S. equity positions in Freedom portfolios and reduces the potential for downside capture. The AMS IC has a neutral view of international equity, including developed and emerging markets.

### UNPRECEDENTED MONETARY, FISCAL SUPPORT

Along with institutions worldwide, the United States government and Federal Reserve are providing unprecedented support to sustain the economy until the virus can be contained. Congress passed the biggest fiscal stimulus package in American history, providing $2 trillion in support for individuals, small businesses and corporations affected by the loss of work because of the coronavirus. The Fed cut its short-term lending rate to essentially zero and pledged continued efforts to purchase bonds, a strategy known as quantitative easing, and boost liquidity. Analysts anticipate the Fed can and will do more if the situation warrants.

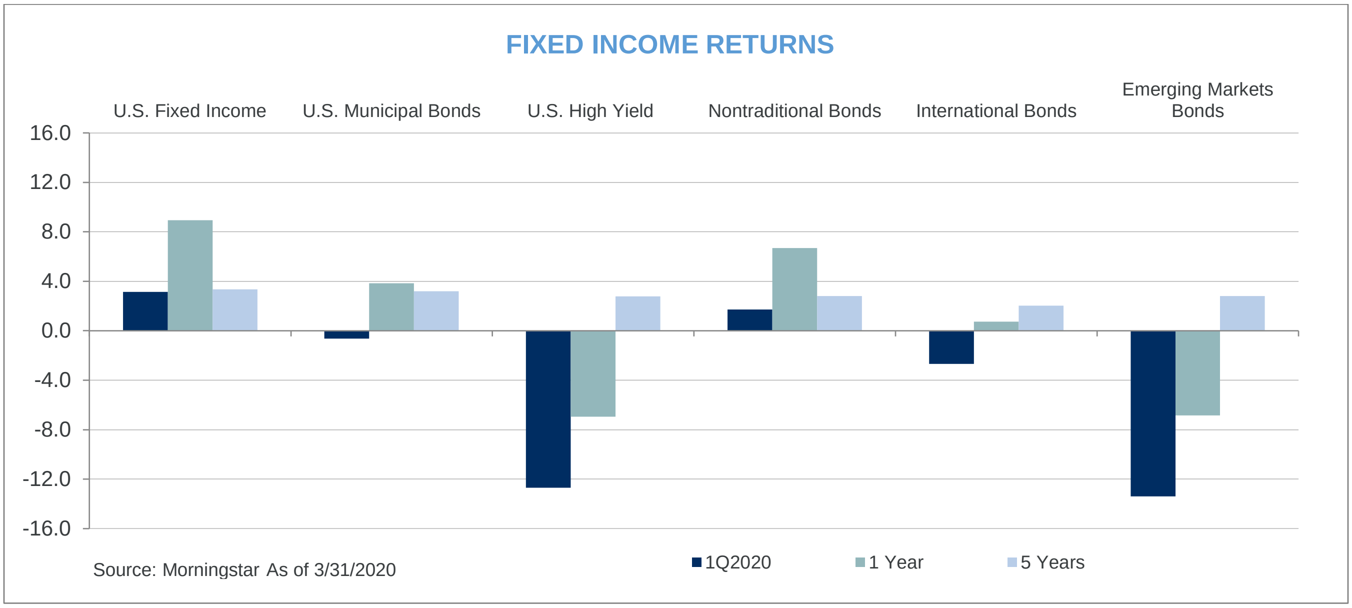



## FIXED INCOME

Record-setting events occurred in fixed income, as well, as yields on all U.S. Treasuries fell below 1.0% at the same time. Municipal bonds experienced surprising volatility and losses. Even so, bonds did help to mitigate losses as core fixed income returned 3.1% for the quarter, as measured by the Bloomberg Barclays U.S. Aggregate Bond TR index.

### FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

The AMS IC has a slightly positive view of core fixed income for its ability to mitigate risk in an equity downturn. The preference is for high-quality bonds, especially those with shorter or intermediate durations.

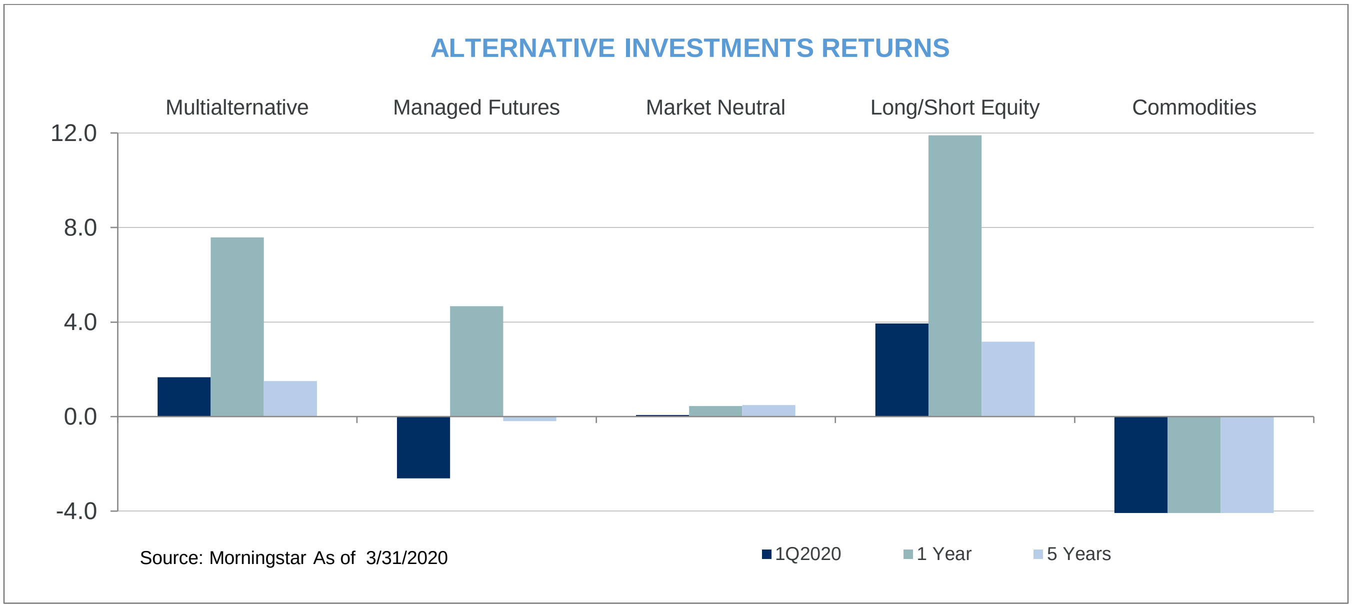


## ALTERNATIVES

While alternatives did outperform equities, as would be expected in an equity downturn, this asset class also posted negative returns. Alternatives returned -9.7% for the quarter, as measured by the U.S. Fund Multialternative peer group.

### ALTERNATIVES POSITIONING IN FREEDOM PORTFOLIOS

Freedom portfolios maintain limited exposure to alternatives as the AMS IC prefers an overweight to U.S. investment grade bonds, with a concentration on shorter to intermediate maturity.




## OUTLOOK

A recession in the United States, as well as other countries, is likely. It is challenging, however, to project the effect the spread of the virus will have on the nation or the extent to which the economy will weaken. If those effects are curtailed swiftly enough, conditions may lend themselves to a quicker recovery. The federal government is taking significant measures to support the health and well-being of the people and the economy, for both the short and long terms.

The AMS IC evaluates Freedom portfolios on a continuous basis, and will continue to monitor these factors and more. Keep in mind, most changes to Freedom portfolios over the past two years were in anticipation of increased volatility and downside potential. Overall, the pullback that occurred this quarter was orderly: asset classes considered riskier, such as small-cap equity, experienced greater losses relative to those considered less risky, including high-quality fixed income. Those areas of the market that were hardest hit could represent opportunities to deploy capital. As Warren Buffet famously said, “Be fearful when others are greedy, and be greedy only when others are fearful.” Even so, keep in mind that any changes to Freedom portfolios would occur in an attempt to earn the best possible return for the amount of downside risk the committee is willing to tolerate, in alignment with portfolio objectives.

> “Be fearful when others are greedy, and be greedy only when others are fearful.” – Warren Buffett

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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 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.

**The MSCI USA Minimum Volatility Index** aims to reflect the performance characteristics of a minimum variance strategy applied to the US large and mid cap equity universe. The index is calculated by optimizing the MSCI USA Index, its parent index, for the lowest absolute risk (within a given set of constraints).

**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.

**Dow Jones Industrial Average Total Return:** The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

**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.

**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, blue-chip companies.



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