RAYMOND JAMES

Raymond James Asset Management Services

Freedom Market Commentary // Q3 2019

THIRD QUARTER HIGHLIGHTS

- The U.S. economy leads the world and continues to grow
- U.S.-China trade tension escalates, making for a volatile August
- The U.S. Federal Reserve turns supportive, lowering interest rates
- Fixed income returns lead relatively subdued equity returns

MARKET UPDATE

Bonds lead a topsy-turvy quarter

The U.S. economy is the strongest in the developed world. It continues to grow, unemployment remains low and consumer spending is solid. Market performance for the third quarter of 2019, however, wasn't that simple. The pace of growth slowed in the United States and around the world, U.S.-China trade tensions flared and a no-deal Brexit became a real possibility. The U.S. Federal Reserve lowered its short-term lending rate for the first time since the financial crisis, a supportive move made possible by low inflation. These factors and more contributed to a topsy-turvy quarter that saw fixed income lead the way – bond prices benefited from lower interest rates and declining yields – ahead of more subdued equity returns.

The Fed offers support

Central banks such as the U.S. Federal Reserve use monetary policy to foster healthy economic conditions. The Fed has four primary tools at its disposal:

- The interest rate it charges commercial banks for short-term loans
- The amount of cash it requires banks to hold in reserve
- The interest it charges banks for holding cash in excess of the required reserve
- The buying and selling of U.S. securities

When the Fed is said to be supportive, or dovish, it uses these tools to promote access to funds by consumers, thereby supporting spending and economic growth.

The Fed lowered its short-term lending rate twice in the third quarter, to reach a target range of 1.75% to 2.00%, in response to slower growth and trade uncertainty. While this range is low from a historical perspective, the Fed has more flexibility to offer support than most central banks globally, where rates are already near or even below zero. One more rate cut is anticipated in the fourth quarter, and additional cuts may occur in 2020. As such, the assumption is rates will remain low for the next several years.

EQUITY

Domestic Equity

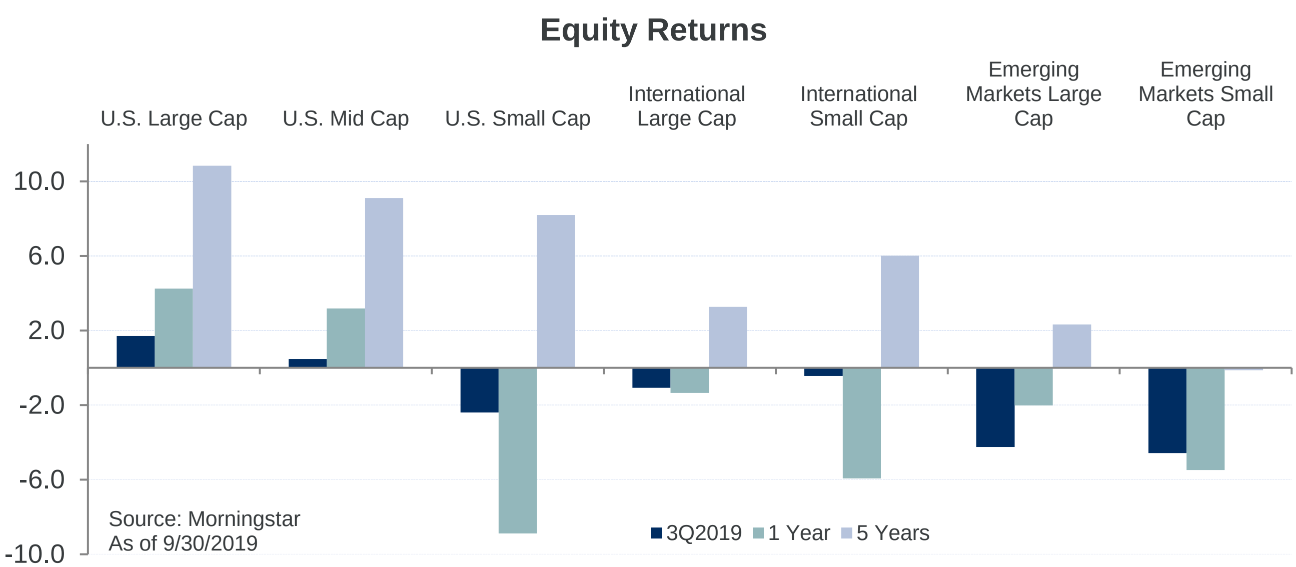
After a strong first half of the year, U.S. equity returns were relatively flat in the third quarter. U.S. large-cap equity returned 1.7%, as measured by the S&P 500 TR index, while U.S. small- to mid-cap equity returned -1.3%, as measured by the Russell 2500 TR index. The pace of U.S. economic growth has slowed in 2019 relative to 2018 – reports put second-quarter growth at 2% – but the economy is still growing. The U.S. equity markets were sensitive to the shifting winds of U.S.-China trade talks as the world's two largest economies continued to thrust and parry over the summer. August was especially volatile, and September gains were nearly nullified late in the quarter amid concerns the United States might limit investment in Chinese companies. Though the United States delayed a planned tariff hike from October 1 to October 15, the deadline for negotiations looms. Amid this uncertainty, the U.S. Federal Reserve turned supportive, lowering its short-term lending rate for the first time since the financial crisis to encourage lending, borrowing and spending.

International Equity

International equity markets faced additional challenges. International developed markets large-cap equity returned -1.1% for the quarter, as measured by the MSCI EAFE NR index, while emerging markets equity returned -4.3%, as measured by the MSCI Emerging Markets NR index. Emerging economies felt the effects of the U.S.-China trade dispute most acutely. And for some developed economies, the global slowdown was compounded by the United Kingdom's fitful departure from the European Union.

Freedom Portfolio Positioning

The Asset Management Services (AMS) Investment Committee (IC) currently holds a slightly cautious view of domestic equities, given their full valuations. 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 has a slightly favorable view of international developed markets equity, but will keep an eye on what appear to be eroding fundamentals that may be affecting previously attractive valuations. The AMS IC has a neutral view of emerging markets equity.



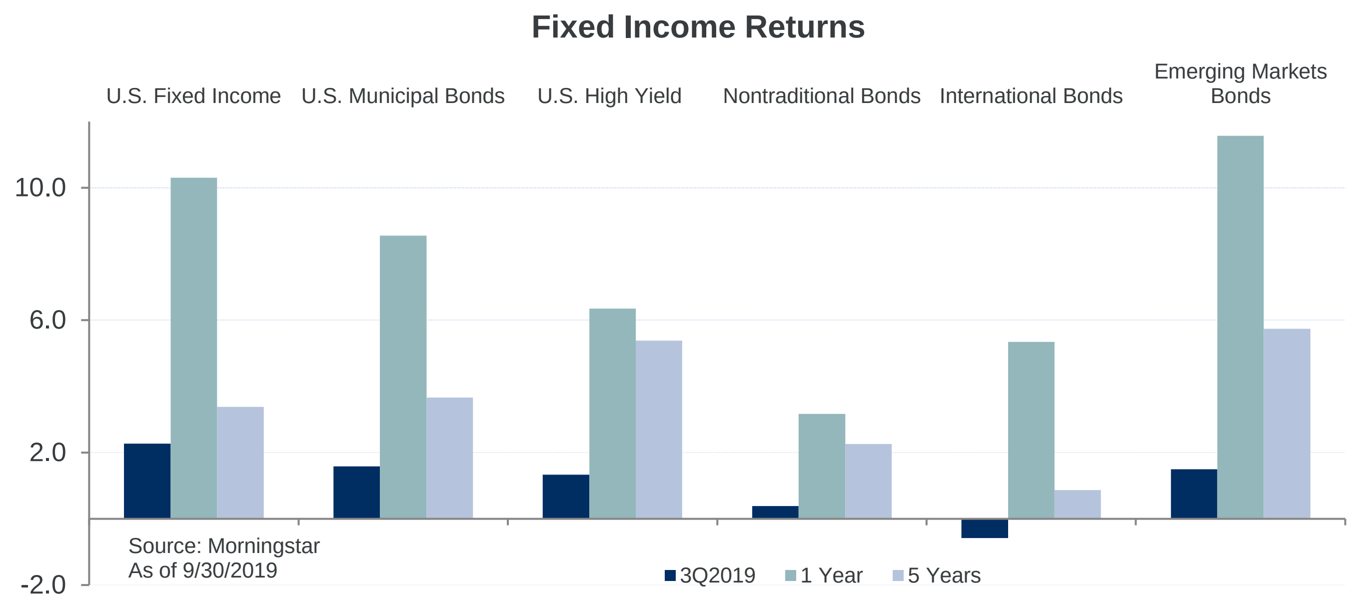
Market commentary is generic in nature and not necessarily specific to the Freedom objective discussed herein but will include information material to the Freedom platform in general. Freedom Commentary is generally written from a passive standpoint and there are limitations to this data as strategies 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.

FIXED INCOME

The bond market has produced strong returns in 2019, though performance is being driven primarily by declining yields. Core fixed income returned 2.3% for the quarter, as measured by the Bloomberg Barclays U.S. Aggregate Bond TR index. Yields have been pushed lower by a number of factors, including lower economic growth prospects and falling inflation pressure. The U.S. Federal Reserve lowered its short-term lending rate twice during the quarter – 0.25% each in July and September – to support the economic expansion amid concerns for slower growth and trade-policy uncertainty. With the 0.50% decrease, the Fed reached a target range of 1.75% to 2% in what could be a lower-for-longer new normal in the post-crisis era.

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. We prefer shorter-maturity bonds because they are less interest-rate sensitive than longer-maturity bonds.



ALTERNATIVES

Multialternative investments returned 0.5% for the quarter, as measured by the U.S. Fund Multialternative peer group. Performance matched expectations in a quarter that saw strong fixed income returns.

Freedom Portfolio Positioning

The AMS IC holds a neutral view of alternative investments.

OUTLOOK

Heading into the fourth quarter of 2019, the AMS IC expects more of what we saw in the third quarter: The pace of economic growth will continue to be slower, interest rates and yields will continue to decline and, barring new information, markets likely will not make any major moves. We do not see any indication the U.S. will enter a recession in the near term, but as economic growth slows, it may be challenging for U.S. equities to produce additional return from expansion, given their relatively extended valuations. Rather, return potentially likely will align with earnings. The U.S. Federal Reserve is expected to lower interest rates once or twice in the fourth quarter, and possibly go lower in 2020, assuming inflation remains low.

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.

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