RAYMOND JAMES

Freedom market commentary

Q1 2025

Using the presidency's emergency tariff authority, the new administration under President Donald Trump quickly moved toward its policy preferences, implementing or threatening broad tariffs on trading partners, creating policy uncertainty that drove a pullback of domestic equity in the first quarter.

FIRST QUARTER HIGHLIGHTS

Tariff threats drive volatility

Fed waits and sees

Europe bounces back

In March, Trump increased tariffs on all Chinese imports by 20%, and levied 25% tariffs on imports from Canada and Mexico while exempting for one month goods covered by the 2020 USMCA trade agreement. He also implemented a 25% tariff on all steel and aluminum imports, regardless of origin, and said global tariffs would be forthcoming April 2. Responses from trading partners were varied, with some seeing it as a familiar negotiating tactic to extract concessions while others have implemented or threatened retaliatory actions.

INVESTING INSIGHTS

Import tariffs, a tax paid by importers for imported goods at the point of entry, should be inflationary. While generally understood to cause prices to rise, this inflation is challenging to measure because of the intricacies of the supply chain and the elasticity of profits – and it is impossible to predict.

To illustrate, consider a widget sold directly from an importer, priced at $200:

Tracing a simplified supply chain back, the importer who sells the widget may have paid $100 for it, delivered, to an overseas manufacturer, which produced it for $50. By the time of retail sale, the importer has made $100 profit and the manufacture made $50.

A 20% tariff would require the importer to pay $20 to the U.S. government at the point of entry. If the importer wanted to keep its profit margin, the widget would now cost $240 retail, a 20% price increase from a 20% tariff.

In reality, consumer preference and competition have a say.

- The importer may pass along the tariff at cost, so the widget would now cost $220 – a 10% price increase.
- Likewise, the manufacturer and importer could agree to take 10% cuts to their profit margins, leading to a final price of $216.60. That would be an 8.3% price increase.

The permutations are endless, and in the end the customer is always right. Consumers may choose alternative goods or alternative suppliers, which would put pressure on the importer and manufacturer to take larger cuts to profits to maintain market share.

Using a real-world example, President Trump implemented 50% tariffs on washing machines from Europe and South Korea in his first term. Upon analysis, economists found the price of washing machines increased by 12% and sales dropped by 15%. This is why it is so hard to forecast the impact of a tariff on prices consumers pay and why we say it "should" be inflationary.

Amid this day-to-day policy uncertainty and the risk of trade war, domestic equity churned, producing large intra-day swings on emerging headlines. Fixed income, traditionally understood as a defensive position in times of equity volatility, produced positive returns for the quarter and provided much needed diversification. International equity had one of its best quarters relative to the U.S. in more than 30 years after an extended period of relative underperformance.

Underneath the headlines, "hard" domestic economic data including jobs has remained strong, though "soft" data like consumer confidence has taken a significant hit.

Inflation remains elevated from the target, though February price data was better than expected, showing a small decrease in the inflation rate. In light of economic strength, trade policy uncertainty and inflation remaining above the Federal Reserve's 2.0% target rate, the Federal Open Market Committee (FOMC) held the benchmark federal funds rate steady through the first quarter at 4.25% – 4.50%. The consensus opinion is that the Federal Reserve will make two interest rate cuts in 2025. Inflation may remain between 2.5% and 3.0% into 2026 and perhaps longer.

EQUITY

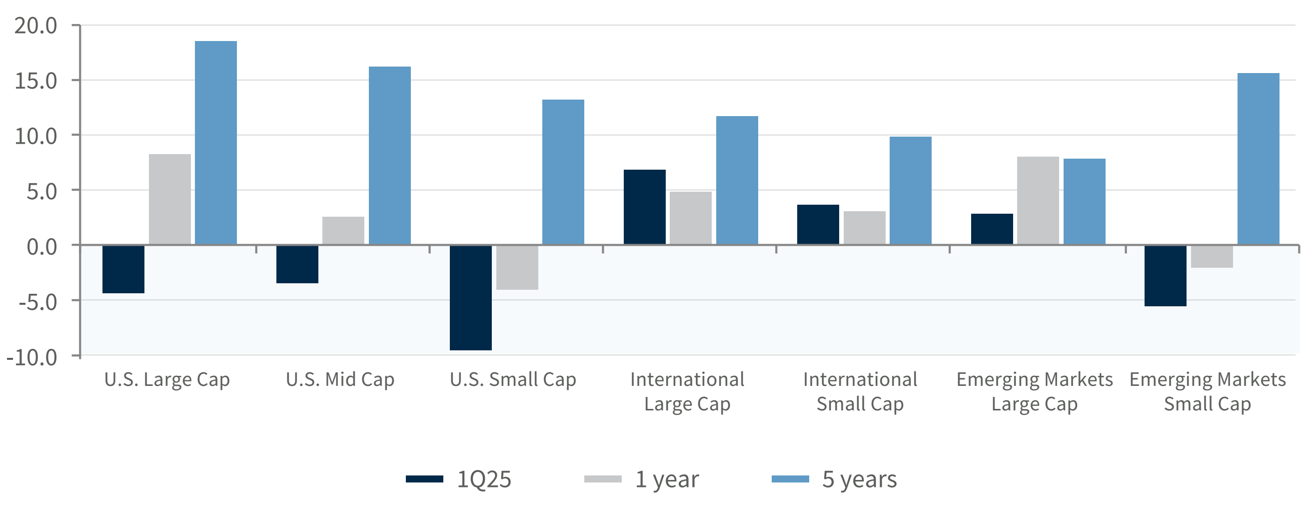
In addition to trade policy uncertainty, domestic equity faced headwinds from persistently higher inflation and elevated interest rates.

The S&P 500 Total Return Index, which tracks large U.S. publicly traded companies, briefly dipped into correction territory in March, down 10% from its February peak. Reversing the trend, value equity outperformed growth equity, with the energy sector leading, ending the quarter up 10.2%, according to the S&P 500 energy sector index. Eight of 11 sectors tracked by S&P 500 sector indices finished positive, but deep losses in the consumer discretionary (-13.8%), information technology (-12.7%) and communication services (-6.2%) sectors were enough to drag the headline S&P 500 to close -4.3%.

The release of DeepSeek, a Chinese AI model produced at a much lower cost than leading U.S. models, complicated the quarter for the large domestic AI companies that have driven much of the headline gains for large-cap U.S. equity for the past two years. Priced to perfection at the end of 2024, those companies now face pressure to prove their high valuations.

EQUITY RETURNS

Source: Morningstar as of 3/31/2025



U.S. mid- and small-cap equity continue to face larger challenges from elevated interest rates and inflation compared to large-cap equity, finishing the quarter -7.5%, based on the Russell 2500 index. Incidentally, domestic mid-cap equity outperformed large-cap, finishing -3.4% for the quarter, according to the Russell Mid Cap index, which may be more attributable to the influence and underperformance of technology growth stocks in the large-cap S&P 500 than to the environment for mid-cap equity. Small-cap equity finished the quarter -9.5%.

International stocks had their strongest quarter relative to the U.S. in more than three decades. In addition to the U.S. equity pullback, multiple factors contributed:

- European large-cap equity, long lagging U.S. performance, was at an attractive price point in search of a catalyst to spur investment.
- Germany, motivated by the rapid erosion of U.S.-Europe relations, removed a “debt brake” that limited government budget deficits. The German government is now primed to spend.
- The weakening of the U.S. dollar boosted the nominal value of European stocks, in U.S. dollars.

The MSCI EAFE index, which tracks non-U.S. developed nation large-cap stocks, closed the quarter up 6.9% in U.S. dollars.

Among emerging markets, China – the largest constituent in the category – has pledged fiscal stimulus to boost its economy, supporting increased valuations. The MSCI Emerging Markets index, which tracks large-cap equity, gained 2.9% in the quarter.

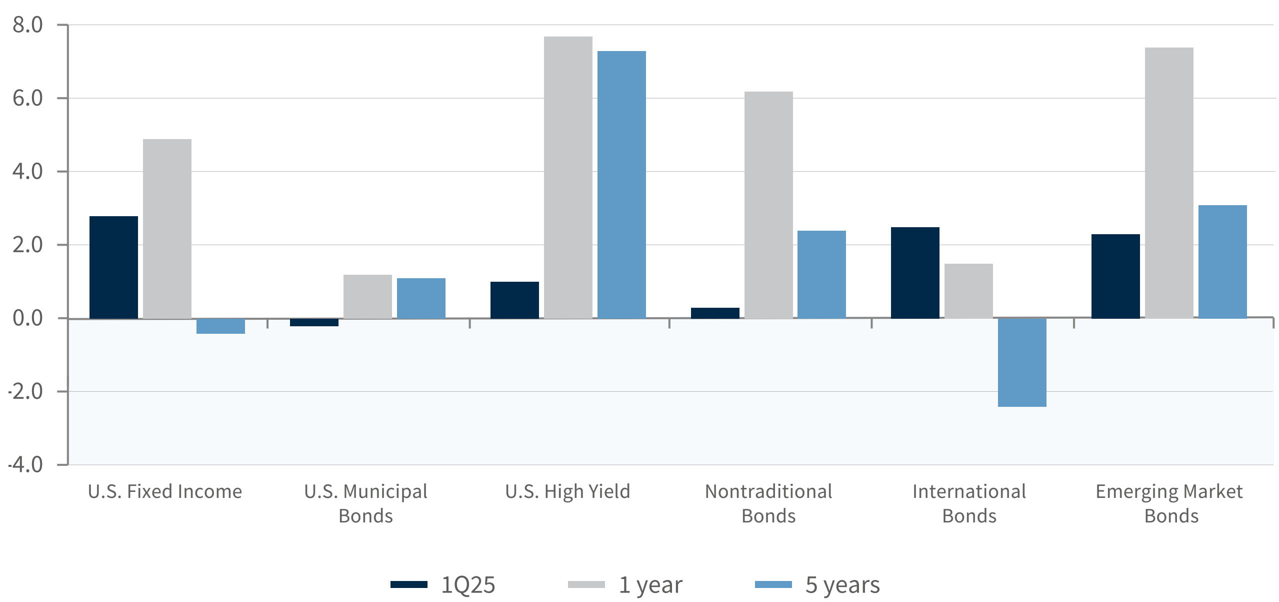
EQUITY POSITION IN FREEDOM PORTFOLIOS

Freedom portfolios are slightly underweight in equity relative to benchmarks. Within equity, Freedom is slightly overweight U.S. equity for its stronger fundamentals, profitability and potentially lower trade impact. The AMS Investment Committee favors fundamental analysis over technical considerations like currency and sentiment. Freedom is overweight large-cap equity for its relative earnings strength, and advantages of scale and slightly overweight small- and mid-cap equity.

Freedom portfolios are underweight large-cap international equity and neutral to emerging market equity.

FIXED INCOME RETURNS

Source: Morningstar as of 3/31/2025



FIXED INCOME

Fixed income performed well in the first quarter, especially U.S. high quality bonds, serving as a balance to a challenging equity market, with the Bloomberg US Aggregate Bond index up 2.8%. This movement was supported by falling yields and resilient credit conditions. High-yield debt was up 1.0% by quarter's end while municipal bonds remained mostly flat, finishing slightly down at -0.2%.

While the FOMC held interest rates steady, the accommodative language from Fed Chairman Jerome Powell and investor demand helped to lower yields across maturities, led by intermediate-term bonds. Investment-grade fixed income in particular benefited from the combination of higher starting yields and modest price appreciation.

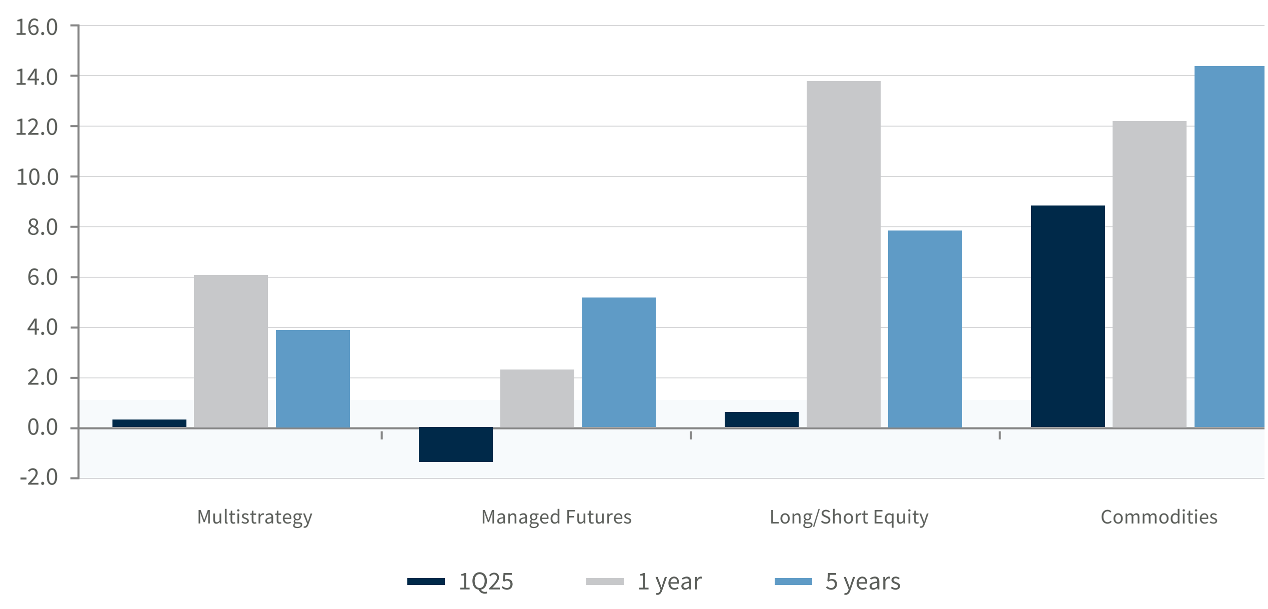
FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

Freedom entered 2025 overweight in high-quality U.S. fixed income relative to neutral benchmarks, with a focus on intermediate-maturity bonds. This position is supported by strong starting yields and modest appreciation driven by lower interest rates. As yields decline, and the timeline for rate cuts becomes more uncertain, the AMS Investment Committee will continue to evaluate future allocation considerations relative to equity.

Freedom maintains a neutral weight in high-yield debt in its 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 the level of additional compensation offered does not seem commensurate with current price levels, especially with signs of marginal deterioration in credit metrics.

ALTERNATIVE INVESTMENTS RETURNS

Source: Morningstar as of 3/31/2025



AMS INVESTMENT COMMITTEE OUTLOOK

Coming off two consecutive years that saw U.S. large-cap equities gain more than 25%, and price-to-earnings sitting near 20-year highs, the AMS Investment Committee saw a three-peat as only a distant possibility.

Still, the U.S. economy significantly outperformed expectations in 2023 and 2024, and while sentiment data has taken a dive amid policy uncertainty, the U.S. economy continues to show strength despite headline-related turbulence. A protracted trade war, sharp changes in fiscal policy or a surge of inflation could change that.

As uncertainty waits for certainty, the AMS Investment Committee believes it has become the diversifier's market. The AMS Investment Committee will continue to watch incoming hard data including labor market numbers, consumer spending and inflation for signs of weakness.

While declining to move on expected rate cuts, the Federal Reserve's language remains generally accommodative. The AMS Investment Committee believes the Fed will cut rates up to twice in 2025 and for inflation to remain elevated longer term, between 2.5% and 3.0% into 2026 and possibly beyond. While it seems only a narrow possibility that the Fed would raise rates, accelerating inflation with the economic strength to back it could lead to interest rates remaining stable longer than expected. And so far, the economy has shown it can weather – even thrive in – such conditions.

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): The index captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 1,251 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. *EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, 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 TR 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.

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.

S&P 500 Energy Index: This index tracks the performance of the energy sector within the broader S&P 500, encompassing companies involved in oil, gas, and consumable fuels, as well as energy equipment and services.

S&P 500 Consumer Discretionary Index: This is a market-cap-weighted index that tracks the performance of companies within the S&P 500 that are classified as part of the GICS (Global Industry Classification Standard) consumer discretionary sector, representing companies that sell goods and services that consumers want but don't necessarily need.

S&P 500 Information Technology Index: This is a sector-specific index within the broader S&P 500, focusing on companies classified as part of the GICS (Global Industry Classification Standard) Information Technology sector.

S&P 500 Communication Services Index: This index represents the performance of companies within the S&P 500 classified as members of the GICS Communication Services sector, encompassing telecommunications, media, and entertainment companies.

Russell Midcap Index: This index consists of the bottom 800 securities in the Russell 1000 index as ranked by total market capitalization. This Index includes the effects of reinvested dividends. This Index includes the effects of reinvested dividends.

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