RAYMOND JAMES

Freedom market commentary

2024 review // 2025 outlook

For the second consecutive year, the S&P 500 TR Index ended higher by more than 25%, and for similar reasons both years: a U.S. economy outperforming expectations, a lowering inflation rate and large-cap growth companies – primarily in technology – experiencing strong earnings and massive gains.

The robustness of the U.S. economy came as a welcome surprise in 2023, helping to shake off the challenges of the prior year and then some. Entering 2024, it was not clear the strength would hold as the inflation rate remained stuck above 3.0%, recession remained a distinct – if narrow – possibility and the headline performance of the U.S. equity market hinged on just a small cadre of ultra-performative winners.

But as 2024 progressed, it began to take on the air of a sequel. The U.S. economy remained a world beater, inflation and the Federal Reserve's response to it remained a powerful undercurrent, mega-cap growth stocks continued to hold up headline performance numbers, and vigilance for any sign of economic weakness created steady volatility.

Which is not to say the year did not have its distinctions: The Federal Reserve lowered the baseline target interest rate from 5.25–5.5% to 4.25–4.5% over three cuts starting in September, beginning a new phase in its nearly three-year fight against inflation. The U.S. presidential election came and went, creating some volatility up to decision day and then giving the boost that typically follows every election. We also saw moments of broader participation in the market, particularly in the third quarter with the first interest rate cut. That's when investors were most optimistic about inflation's steady glide path to 2.0% and small- and mid-cap stocks were momentarily unburdened from perceptions of their interest-rate sensitivities.

Then 2024 finished in some ways with similar uncertainties felt 12 months prior. Despite steadily declining in the second and third quarters, the inflation rate gave back some of its progress in the fourth, owing primarily to housing costs. The Federal Reserve then expressed its concerns and squashed expectations for deep interest rate cuts in 2025, messaging a limited number of smaller cuts followed by a wait-and-see period.

LOOKING AHEAD

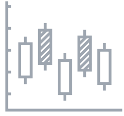
Faith in the U.S. economy is well-earned at this point, but that doesn't mean there isn't the possibility for relative weakness in 2025. The markets' consensus on gross domestic product growth for 2025 is around 2.0%, but forward estimates have been on a lowering trend. If the economy has been cushioned by a glut of COVID-era savings and fiscal support these past two years, that will no longer be the case in 2025, which could lead to marginal weakening. Corporate earnings expectations have been moderated for 2025, but the 2026 outlook remains strong.

On inflation, a clear view to victory has been fleeting. Though inflation came down from its post-COVID peak quickly, trimming the final 1.5 percentage points to get to the target 2.0% rate has been more challenging. Barring a disrupting event, the Federal Reserve is poised to make two or three more interest rate cuts in 2025 and then is expected to hold – a more hawkish position than earlier expected. A rate hike is still a low-probability scenario based on current and forward-looking data, but we are cautiously monitoring major policy changes.

Bond yields are anticipated to stay slightly elevated, with the 10-year yield remaining between 3.5% and 4.5%, depending in changes in trade policy, inflation and labor data.

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 do 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.

2024 MARKET DRIVERS



INFLATION

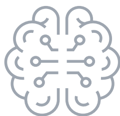
The annualized inflation rate remained above 3.0% through the first quarter, hitting a high of 3.5% in March, based on the Consumer Price Index (CPI), before coming down steadily through the summer and giving the Federal Reserve the confidence to cut the target interest rate. Reaching a low of 2.4% in September, the trend reversed in October and November, where the CPI recorded a 2.7% annualized rate. What's driving it? In a word, housing, which comprises approximately 40% of recent price increases.

FEDERAL RESERVE

On interest rates, the question of 2024 was less "Will they?" – which seemed a given – than "When will they?" On the whole, the market was more optimistic than the Federal Reserve's own deliberate messaging, pricing in early-year interest rate cuts that failed to materialize in the face of lingering inflation. When the Fed did lower interest rates in September, it did so boldly, taking off half a percentage point instead of the expected quarter point. Despite that, the Federal Reserve retreated back to wary optimism by the end of the year, suggesting further rate cuts will be limited.

U.S. ECONOMY

Again the U.S. economy beat expectations, and convincingly. While the data is still being tabulated, the real gross domestic product is expected to finish with around 2.7% of growth, far surpassing the initial 1.2% expectation. There have been some hairline fractures in the armor, however. In August, the U.S. Bureau of Labor revised its April 2022 to March 2023 jobs estimates, reducing the tally by 818,000 jobs. The unemployment rate also ticked up, slightly, yet remains very strong.



AI CAPITAL EXPENDITURES

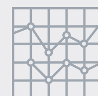
Companies building the "picks and shovels" of the AI age continued to rapidly accrue value and massive earnings. The strength of these technology companies continued to be the high center pole in the equity market's big tent. While underneath the situation was more complex, for the second year in a row these companies showed they were capable of growing top-line sales and bottom-line earnings amid high inflation and high interest rates.

2024 MARKET THEMES

Inflation

Interest rates

U.S. economic strength



U.S. large-cap growth stocks

EQUITY

Despite moments of broader market participation, the equity story of 2024, as in 2023, was largely one of very large growth companies in the U.S. with connections to AI doing incredibly well and pulling forward the headline indices. Meanwhile, most other companies had a more complicated year.

The S&P 500 TR Index returned 25.0% for the year, the second in a row, a feat last accomplished in 1997 and 1998. Representing the other side of the U.S. market, the Russell 2000, which measures the aggregate performance of small companies' stocks, returned 7.4%.

For the eighth time in 10 years – and 12th in the last 15 – the U.S. equity market led the rest of the developed world. Large caps outperformed small caps for the fourth consecutive year – and eighth of the last 10. Also for the eighth time in the last ten years, growth stocks outpaced value stocks, recording a performance gap of approximately 20%.

Freedom remains full overweight in U.S. equities and underweight in non-U.S. equities. In terms of local currencies, the U.S. economy and U.S. corporate earnings have been far stronger than other developed countries'. The very strong dollar has amplified the difference for U.S. investors.

Freedom remains overweight in U.S. equities and underweight in non-U.S. equities from a combination of better U.S. fundamentals and currency imbalances.

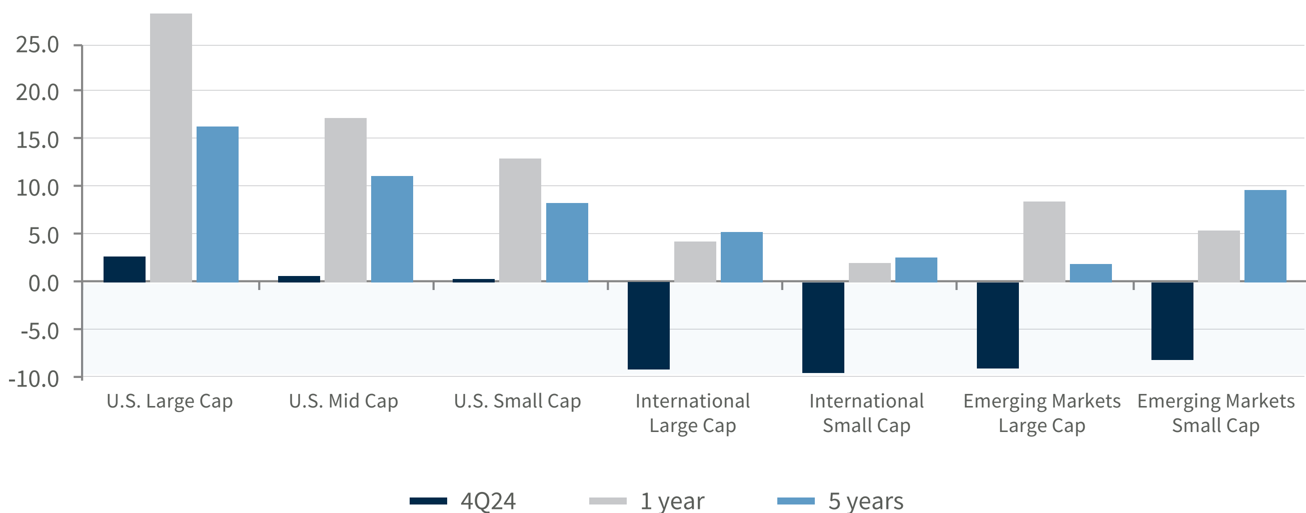
High inflation and the higher interest rates prescribed to combat them have played a role in an intense bifurcation of the market. Large-cap companies are seen as more resilient in these conditions while small- and mid-cap companies are seen as more dependent on cheap debt. Meanwhile, the leading large-cap companies have shown an ability to add sales and earnings despite these headwinds.

But over the long term, we believe, small- and mid-cap companies remain poised for strong growth, as demonstrated in the third quarter when the market was more optimistic about inflationary trends. Earnings expectations for small- and mid-cap stocks have been stabilizing.

We believe, Freedom is positioned to take advantage of a broadening market scenario and maintains an increased allocation to small- and mid-cap stocks relative to normal levels.

EQUITY RETURNS

Source: Morningstar as of 12/31/2024



FIXED INCOME

The bond market finished 2024 marginally positive – as would be expected when equities are soaring and the economy is strong – with the Bloomberg U.S. Aggregate Bond index returning 1.3% for the year. Higher yields and coupons helped offset the decline in prices during the year.

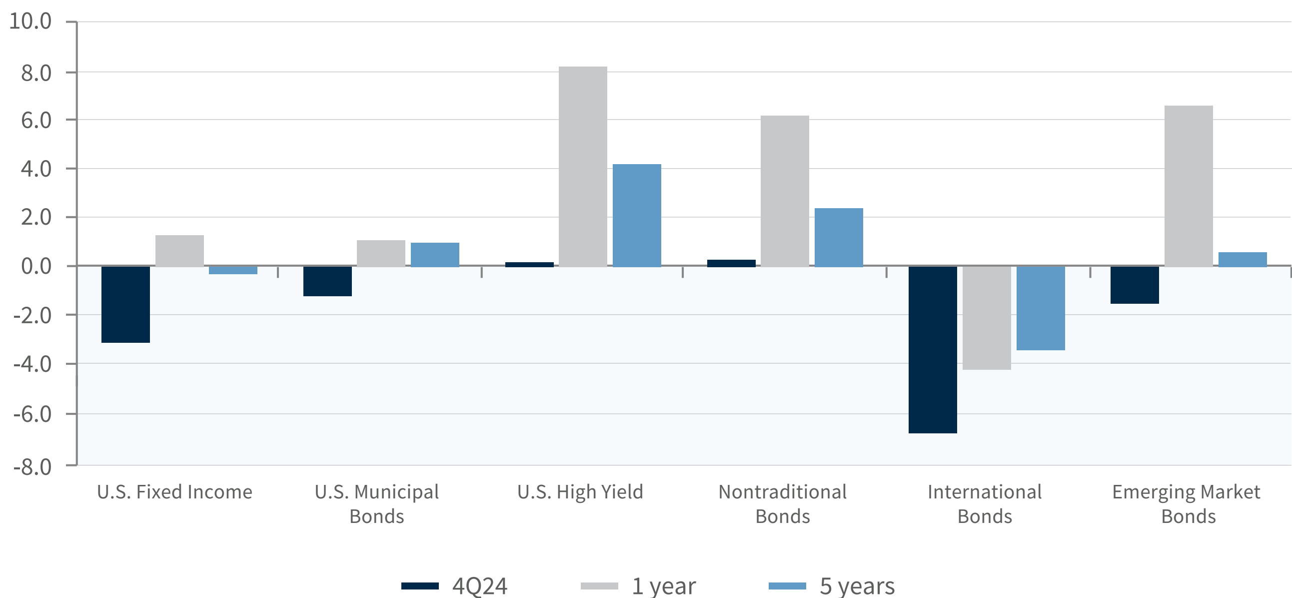
The yield on the 10-year Treasury finished 2024 at 4.6%, up from 3.9% at the start of the year while the yield on the two-year Treasury was slightly lower by 10 basis points to close at 4.2%. Yields are expected to stay elevated in light of persistent inflation and the Federal Reserve's demonstrated commitment to suppressing it with elevated interest rates.

Lower quality credit benefited from the strong economy and tightening spreads with high-yield bonds returning 8.2% for 2024 as recorded by the Bloomberg U.S. HY 2% Issuer Cap index, and emerging market debt returned 6.6%, as per the Bloomberg Emerging Markets Aggregate Bond index in U.S. dollars.

Entering 2025, Freedom maintains a slight overweight allocation in bonds and a slight underweight in stocks compared to normal levels. In our opinion, the concentration of value in a handful of mega-cap stocks benefiting from the same thematic tailwinds warrants a cautious approach.

FIXED INCOME RETURNS

Source: Morningstar as of 12/31/2024

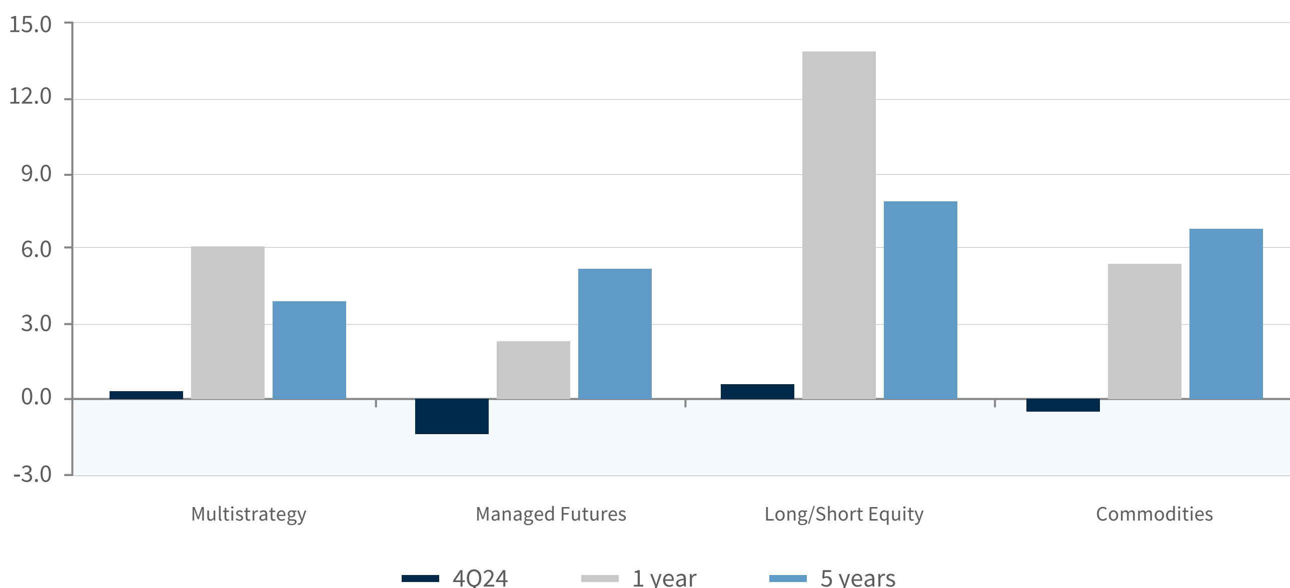


ALTERNATIVES

The AMS Investment Committee uses alternative investments for either diversification or return enhancement. In the last decade, easy monetary policy and ultra-low inflation rendered alternative assets less attractive relative to equity and bonds. However, we believe the persistent inflation and tighter monetary policy going forward increases the utility of alternative assets in diversified portfolios. Freedom portfolios are neutral weight alternatives.

ALTERNATIVE INVESTMENTS RETURNS

Source: Morningstar as of 12/31/2024



FINAL THOUGHTS

Our outlook for 2025 is positive for the U.S. economy and equity markets overall. Despite some of the sheen coming off the U.S. economy, it remains strong both in actual terms and relative to other developed economies. On the other side, this will likely continue to put a floor on inflation and the Federal Reserve potentially will face some challenges to uphold the credibility of maintaining both stable prices and full employment. While political leadership in Washington has changed, Federal Reserve Chairman Jerome Powell said he will remain in his post through his term, providing continuity of policy.

“Normal” is a loaded term, but as we continue to move past the post-COVID era, we are seeing a return to normalcy. Companies are producing solid earnings growth, creating a strong economy, which in turn is creating some inflationary pressure. Aggregate bond performance has been somewhat lackluster, as would be traditionally expected in a strong economy without considerable monetary stimulus. Long-term yields are pressured by potential fiscal deficit changes that could demand higher interest rates, albeit with limited upside considering where yields are today. Bear in mind, the intended benefit of owning high quality U.S. bonds comes from the diversification compared to simply owning stocks.

We also enter 2025 alongside now-familiar risks. The equity market remains one-note, though the third quarter of 2024 demonstrated the case for a broader market. We feel the equity market is also fully valued, reaching levels last seen in 2021. There are also the risks of expectations: When the market is euphoric, it is often wise to be a little skeptical; when it is despairing, there is value in hopefulness. For 2025, the expectations are far better than when we entered 2024 and some level of diversification is warranted for investors.

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.

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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. 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 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. This Index includes the effects of reinvested dividends.

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880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

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