RAYMOND JAMES | INVESTMENT MANAGEMENT

Cash is so last year.

In a changing-rate environment, decisions abound – and timing matters.

Why put cash back to work before rates drop?

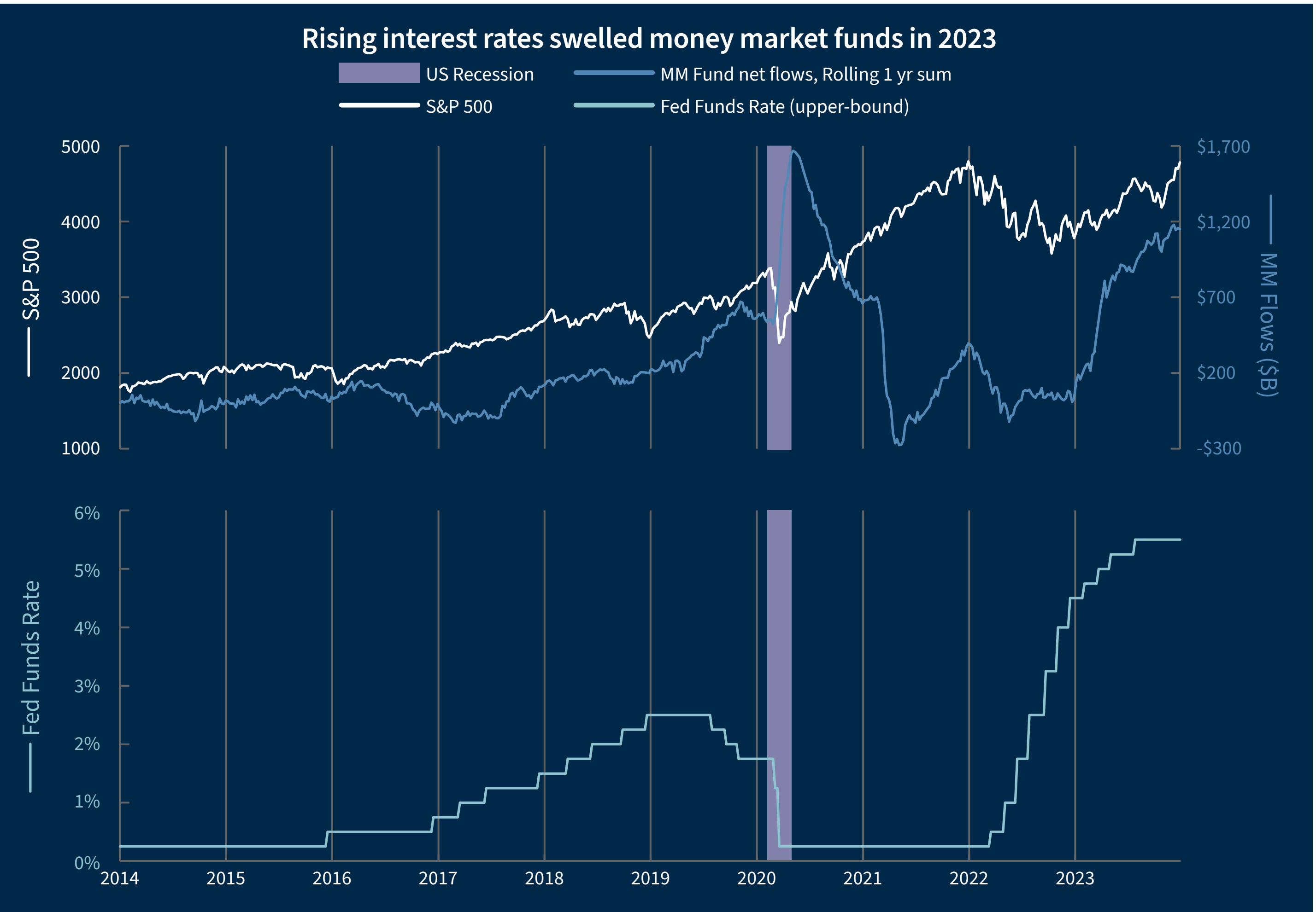
In 2023, amid rising interest rates and wild swings in market sentiment, many investors flocked to money market funds, pouring in more than $1 trillion.[1]

Now, however, the U.S. Federal Reserve (Fed) is talking about cutting the high interest rates that made those money market funds appealing, and the landscape has started to shift: The stock market has broadened but cannot be counted on to deliver smoothly even performance across sectors, factors or market capitalizations. Parts of the bond market feature attractive valuations not seen in more than a decade. Consequently, the independent investment teams within Raymond James Investment Management expect capital markets to offer select opportunities over the coming year in areas such as:

- High-quality small caps,
- Dividend-paying stocks, and
- Longer-duration fixed income securities.

Last year, money market funds temporarily offered attractive yields relative to recent history, but they are not long-term investments. For investors looking to capitalize on heightened opportunities in an evolving landscape, now could be the time to build more diversified portfolios focused on the long term.

[1] Source: Bloomberg, Investment Company Institute (ICI), as of 12/31/2023.



Source: Bloomberg, as of 12/31/23.

An uncertain and fickle market

Following the Global Financial Crisis, investors had the pleasure of being in a market environment that was abundantly constructive for equity returns. Interest rates were low and fueled the "growth at any price" model that dominated for nearly a decade.

The COVID-19 pandemic further fueled this model while elevating macroeconomic uncertainty, which led to more rapid shifts in the narrative. We watched as the market decimated travel and leisure companies when everyone felt the world was ending amid lockdowns, until it didn't. Coming out of the pandemic, office real estate valuations got decimated when it was expected that everyone would work from home forever, until they didn't.

Since the release of the ChatGPT generative artificial intelligence model, we've seen companies associated with AI markedly outperform. Similarly, since glucagon-like peptide 1 (GLP-1) weight-loss drugs have taken the market by storm, we've seen fast-food companies and staple snack makers get unreasonably discounted. This uncertain and fickle market has encouraged a record amount of money to move onto the sidelines while also creating dislocations in the equity market as investors flocked to the perceived safety of the largest companies. In 2023, investors' move to money market funds brought their total asset base to more than $5.8 trillion.[2]

Meanwhile, the Fed has locked horns with inflation for almost two years now, and interest rates have been on a bumpy ride. With all eyes on the Fed and its calculus for determining whether to pause, raise or lower rates, the market has attempted to glean what the next rate decision might be with every data release, Fed governor's speech and Federal Open Market Committee meeting.

[2] Source: Bloomberg, Investment Company Institute (ICI), as of 12/31/2023.

Immediately after October's Consumer Price Index showed inflation below estimates, the futures market went from pricing in three rate cuts to pricing in four rate cuts by the end of 2024 while almost entirely extinguishing the residual chance of another hike.

Now, at the peak of the rate-hiking cycle, the portfolio teams at Raymond James Investment Management and its boutique investment managers believe investors need to have a plan for redeploying capital before market movements leave them behind. The market's snap reactions to new data create a myriad of opportunities for investors and active managers who have the capacity to stay engaged with and inspect the market's priced-in and chosen narratives. Don't sit out and miss out: Time in the markets always beats timing the markets.

Focus on the micro. Fade the macro.

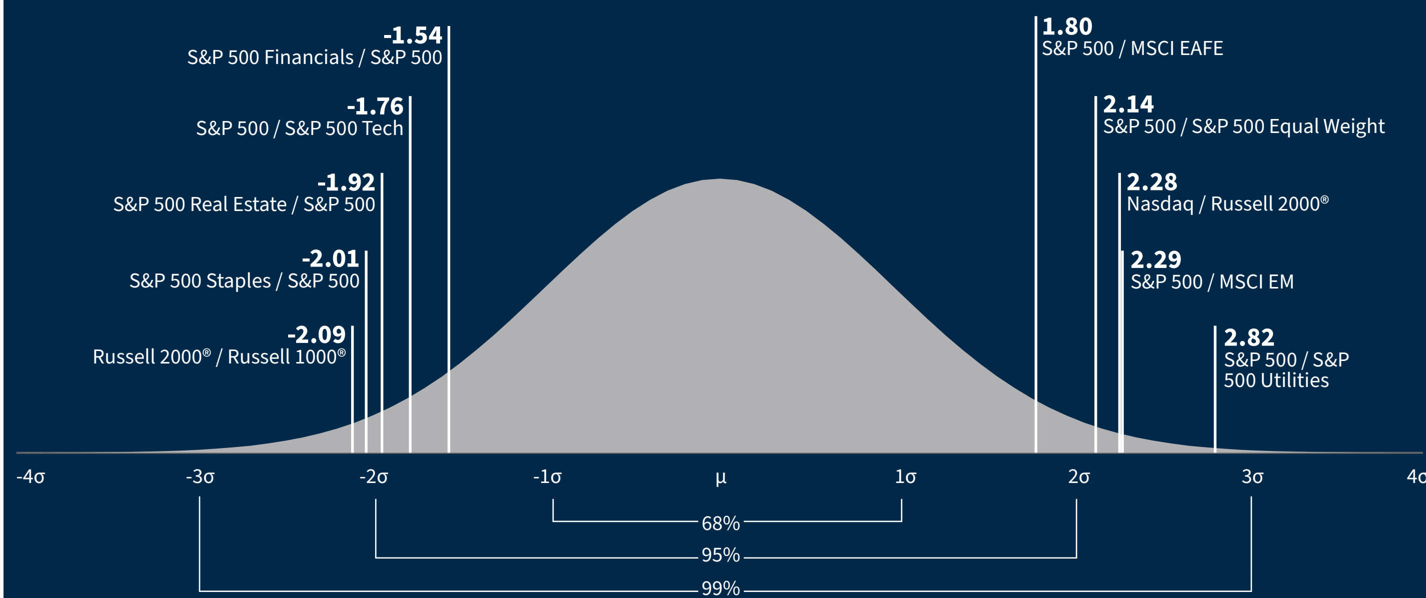
Market breadth has been terrible until very recently. While the S&P 500 Index returned 26.3% in 2023, the S&P 500® Equal Weight Index returned an unimpressive 13.8%. If you didn't own last year's big mega-cap winners, your portfolio was left in the dust as the seven largest stocks ballooned to make up about 30% of the S&P 500 Index, completely dominating its return profile. At the same time, the underperformance of the Russell 2000® small-cap index to the tech-dominated Nasdaq Composite Index marked a historically large dislocation in the market. Big outperformed small, growth outperformed value, and domestic outperformed international, and with great consistency, but it hasn't always been like this. Looking forward, and starting from such high valuations, it feels increasingly unlikely that breadth will expand so rapidly that most sectors, factors and geographies will move up in unison. In this environment:

- **Small-cap stocks** feature attractive valuations and a history of strong performance in previous post-rate hike cycles.
- **Dividend-paying stocks** likewise have provided downside protection and upside performance compared with the broader equity market following past rate-hike cycles, and
- **Longer-duration bonds** typically offer higher yields and fixed interest payments over extended periods than money market funds, plus the potential for capital appreciation when interest rates decline.

Our investment teams see being tactical and opportunistic as the best way to navigate the path ahead, focusing on the micro and fading the macro.

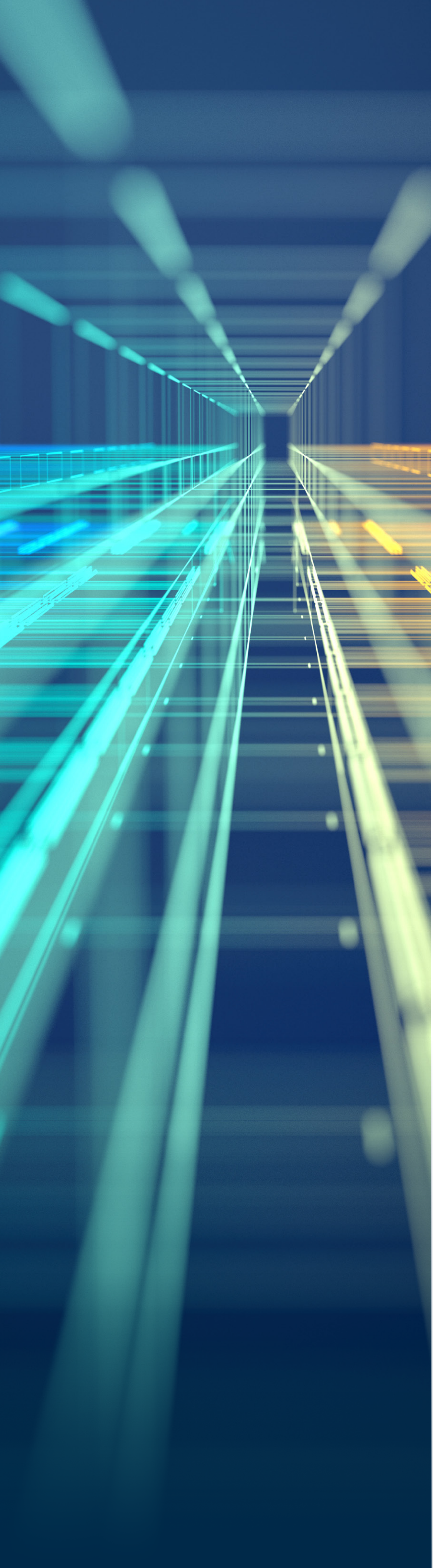
Broad dispersion across equity sectors, market caps and geographies

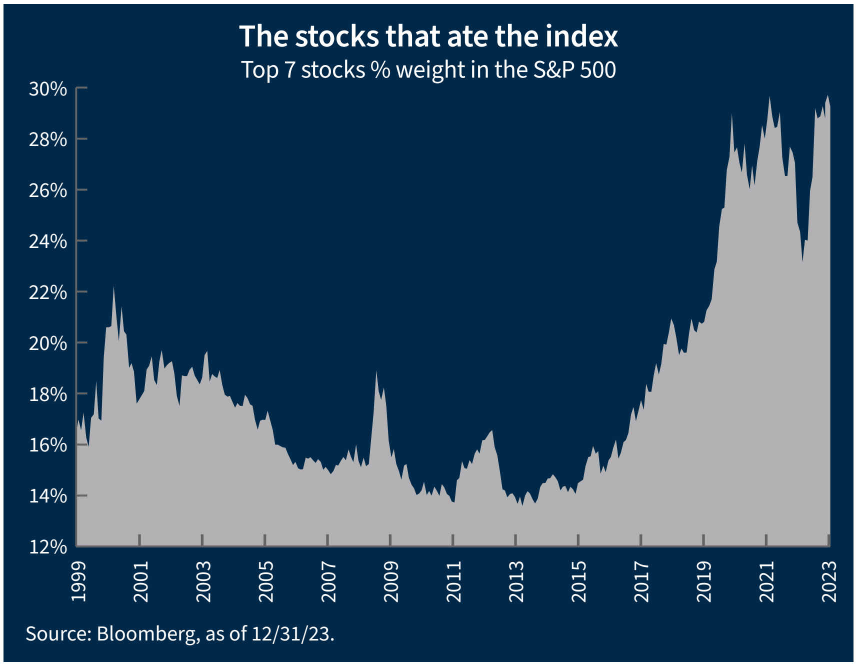
Current index ratio z-scores, relative to 2010 to present



% of observations within standard deviation range

This chart represents dispersion in equity performance since 2010 across a number of ranges of measurements, including U.S. industry sectors, market capitalizations and geographies, such as the U.S. versus developed or emerging market global stocks.
The Z-scores reflect the number of standard deviations from the mean for the index ratios being compared. Each ratio Z-score represents the relative performance from 2010 to the present for the pair of indices or sectors being compared.
In statistics, measurements of standard deviation typically are denoted by σ, the symbol for the Greek letter sigma, while the mean from which those standard deviations are measured is denoted by μ, the symbol for the Greek letter mu.
Source: Bloomberg, as of 12/31/23.





The stocks that ate the index

Top 7 stocks % weight in the S&P 500

Source: Bloomberg, as of 12/31/23.

A time to build diversified portfolios

As the market continues its regime shift toward selection and dispersion, Raymond James Investment Management investment teams believe there will be no shortage of opportunities for alpha generation and for investors who are willing to dig beneath the surface and look past the market's status quo. As it stands, there is a record amount of cash sitting on the sidelines in money market funds collecting a temporary yield that will have to reallocate into the market at some point. Get comfortable being uncomfortable: Uncertainty in the markets is here to stay, but that provides investors with the opportunity to re-deploy capital into high-quality parts of the market, both in equities and fixed income. This is the time to build diversified portfolios and take advantage of the best interest rate environment in more than a decade.

For more insights and analysis from Raymond James Investment Management, visit **Our Thinking**.

Risk Information:

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

Disclosures:

Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, or other expenses, which would reduce performance. Indexes are unmanaged. It is not possible to invest directly in an index. Any investor who attempts to mimic the performance of an index would incur fees and expenses that would reduce return.

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Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.

International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Investing in emerging markets can be riskier than investing in well-established foreign markets.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.

Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors which may affect the risk and return profile of a fixed income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. The risk of a change in the market value of the investment due to changes in interest rates is known as interest-rate risk. Interest-rate risk is subject to many variables but may be analyzed based on various data (e.g., effective duration). The risk that the issuer may default on interest and/or principal payments is often referred to as credit risk. Credit risk is typically measured by ratings issued by ratings agencies such as Moody's and Standard & Poor's. A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond. Bonds issued by the U.S. Government have significantly less risk of default than those issued by corporations and municipalities (see below for a discussion of the risk associated with convertible securities). However, the overall return on Government bonds tends to be less than these other types of fixed-income securities. Finally, reinvestment risk is the possibility that the proceeds of a maturing investment must be invested in a lower yielding security, all other things held constant, due to changes in the interest-rate environment. Investors should pay careful attention to the types of fixed-income securities which comprise their portfolio, and remember that, as with all investments, there is the risk of the loss of capital.

Convertible securities and preferred stock may be subject to greater risk than pure fixed-income instruments as they do not have a fixed par value at maturity. Investments in high-yield bonds and convertible securities are subject to the client's authorization, as set forth in the Investment Management Agreement. Such investments may be subject to greater risks than other fixed-income investments, if the financial condition of the issuer or adverse changes in general economic conditions impair the ability of the issuer to pay income and principal. Periods of rising interest rates or economic downturns may cause highly leveraged issuers to experience financial stress, and thus markets for their securities may become more volatile. Because no established secondary market exists, there may be thin trading of high-yield bonds, which increases the potential for volatility.

There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay, or the dividend may be less than what is anticipated. Dividend-issuing companies are subject to interest-rate risk and high dividends can sometimes signal that a company is in distress and/or a company's future ability to pay dividends may be limited. Dividends are not guaranteed and must be authorized by the company's board of directors.

Definitions

Alpha is a measure of the difference between a manager's actual returns and its expected performance, given its level of risk as measured by beta. A positive alpha figure indicates the manager has performed better than its beta would predict. A negative alpha indicates the manager performed worse than expected based on its level of risk. Thus it is possible for a manager to outperform an index and still have a negative alpha. In general, however, the higher the alpha the better.

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Beta is a measure of the volatility or systemic risk of a security, group of securities, or portfolio compared with the market as a whole.

Breadth describes the relationship between the median and the mean of a market index. When a few data outliers result in a mean that is substantially larger (or smaller) than the median of the full data set, then the performance of the entire index is being driven by a "narrow" selection of companies. An index supported by "broad" market movements is one where the median is closer to the mean.

The U.S. Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.

Daily moving average (DMA) refers to a calculation that takes the arithmetic mean of a given set of prices over the specific number of days in the past; for example, over the previous 15, 30, 100, or 200 days.

Dispersion refers to the range of outcomes in different areas of a financial market or to the potential outcomes of investments based on historical volatility or returns.

Fade describes an investment strategy of trading against a prevailing trend in the market.

The federal funds rate, known as the fed funds rate, is the target interest rate set by the Federal Open Market Committee of the Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

The Federal Open Market Committee (FOMC) consists of 12 members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year at which it reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

A futures contract is a legal agreement to buy or sell an asset at a predetermined price at a specified time in the future, which is known as the expiration date. Futures contracts are financial derivatives that allow investors to speculate on the direction of a particular asset and are often used to hedge the price movement of the underlying asset to help prevent losses from undesired price changes.

Generative artificial intelligence (AI) is a form of artificial intelligence that can create new content that includes text, audio, code, video, and images.

GLP-1 is a widely used abbreviation of glucagon-like peptide 1 (GLP-1) agonists, which comprise a class of type 2 diabetes drugs that improve blood sugar control and may also lead to weight loss. The drugs mimic the action of a hormone called glucagon-like peptide 1 by stimulating the body to produce more insulin when blood sugar levels start to rise after someone eats. The additional insulin helps lower blood sugar levels, which helps in controlling type 2 diabetes. How GLP-1 agonists lead to weight loss is less clear.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

Quality investing is a strategy that seeks to invest in companies with low debt, stable earnings, consistent asset growth, and strong corporate governance, as reflected in financial metrics such as ratios of return to equity and debt to equity, as well as to earnings variability.

Standard deviation is a measure of the dispersal or uncertainty in a random variable. For example, if a financial variable is highly volatile, it has a high standard deviation. Standard deviation is frequently used as a measure of the volatility of a random financial variable.

In 2023, the top seven stocks in the S&P 500 Index, known as the Magnificent 7, by market capitalization were Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.

Z-scores are statistical measurements that reflect the relationship between a particular value being measured and the average, or mean, of a group of values. Z-scores are expressed in terms of standard deviations from the mean.

Index and sector definitions

The MSCI EAFE® (Net) Index measures the performance of performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the United States and Canada. The MSCI EAFE® (Net) Index subtracts any foreign taxes applicable to US citizens but not applicable to citizens in the overseas country.

The MSCI Emerging Markets® Index measures the performance of large and mid-cap stocks across 24 emerging markets (EM) countries. EM countries include Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 93% of the total market capitalization of the Russell 3000® Index.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 7% of the total market capitalization of the Russell 3000® Index.

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The S&P 500® Equal Weight Index is the equal-weight version of the S&P 500. It includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 Equal Weight Index is allocated a fixed weight, or 0.2% of the index total at each quarterly rebalance.

The S&P 500® Consumer Staples comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

The S&P 500® Financials comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

The S&P 500® Information Technology comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

The S&P 500® Real Estate comprises those companies included in the S&P 500 that are classified as members of the GICS® Real Estate sector.

The S&P 500® Utilities comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

About Raymond James Investment Management

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers – Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

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