RAYMOND JAMES | INVESTMENT MANAGEMENT

Cash is so last year.

Think small caps and dividend-paying stocks.

When getting 'paid to wait' makes sense (and when it doesn't)

Getting "paid to wait" is a phrase with two meanings, one older and one newer. Unfortunately, it's the newer usage – the one that's become synonymous with leaving cash on the sidelines – that arguably exerts inordinate and unproductive influence on many investors today.

After an uncertain 2023, the independent equity investment teams at Raymond James Investment Management believe that 2024 is:

- The time to move the "paid to wait" discussion back to the original meaning, which focuses on the benefits of **dividend-paying stocks.** By returning cash to shareholders, dividends provide investors with an incentive to stay invested even in uncertain market environments.
- An apt time to consider **small cap stocks**, which
  - have attractive valuations,
  - have posted competitive performance in previous post-rate hike environments, and
  - have started 2024 well below their all-time highs, even after posting their strongest December on record.

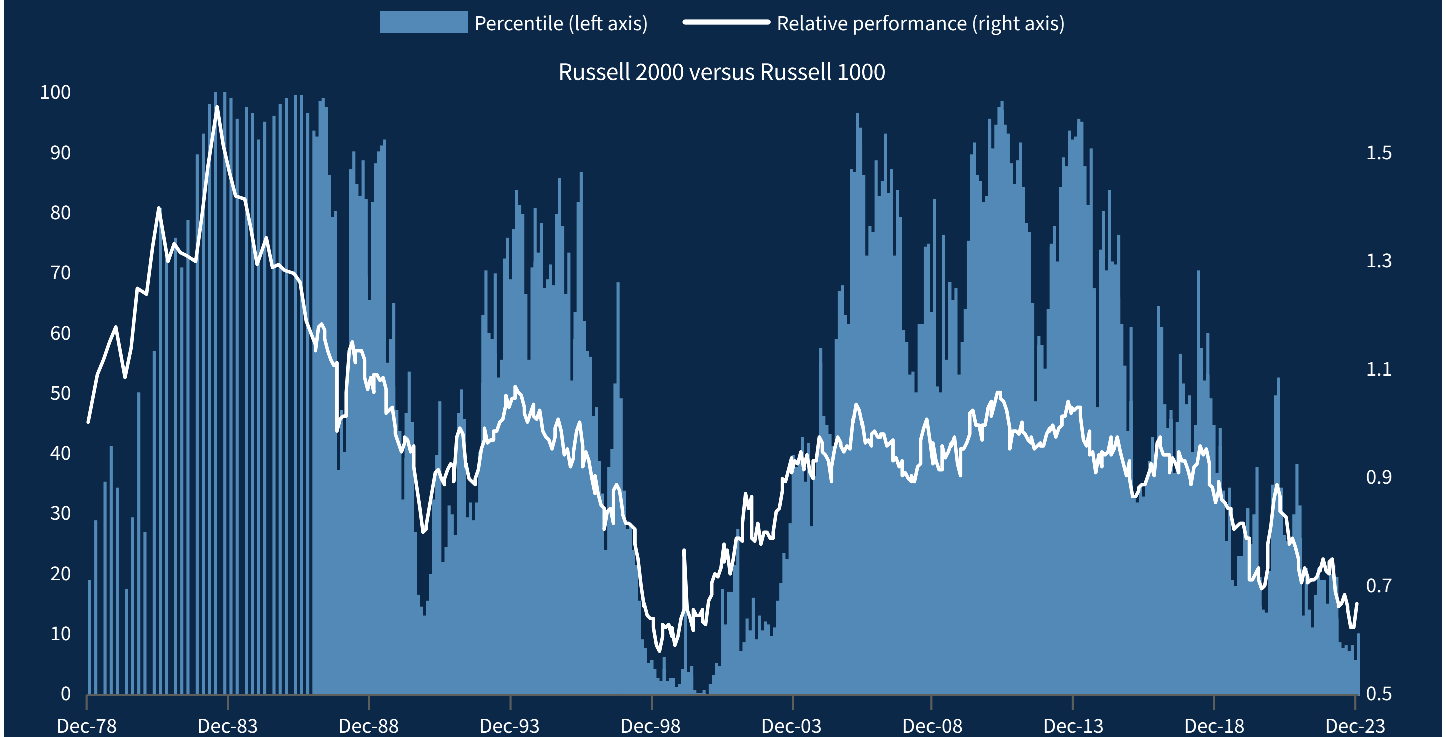
How we got here is well-known. Uncertainty can bring anxiety, and there's no doubt that equity markets last year were whipsawed by uncertainty: Is the U.S. Federal Reserve done hiking interest rates? Will there be a recession in 2024? Will artificial intelligence take all our jobs? Faced with high interest rates, unknown risk, and market volatility, more and more investors leaned into short-term money market funds (to the tune of $5.8 trillion, according to the Investment Company Institute, with more than $1 trillion being added in just 2023) that, for a time, offered attractive yields relative to recent history.[1] Household bank deposits also swelled to nearly $4 trillion as of the third quarter of 2023 (up from around $1 trillion in the beginning of 2020), according to the Federal Reserve Bank of St. Louis.[2] Many of these investors opted to get "paid to wait" in money market funds.

These yields, however, will not last forever, so eventually that money will need to come off the sidelines and be redeployed into the market. So now the question is, "Where do we go from here?" While small caps and dividend payers have had a rough go recently and might be top of mind, the economic backdrop today could bode well for returns in each if history is any indication.

Small-cap strengths

Small-cap stocks, typically representing companies with a market capitalization ranging between $300 million and $2 billion, are known for their potential for high growth. They can be nimble, often are more domestically focused, and can respond quickly to economic changes, which makes them well-positioned in the investment world. But two key reasons to look at this area of the market are small caps' attractive relative valuations and historic performance following monetary policy cycles.

Relative performance: Small vs. large



Note: Relative valuation model consists of relative trailing 12-month and forward 12-month price to earnings (P/E), price to book, price to sales and from 2002 price to cash flow; from March 31, 2016 forward Jefferies' estimates.
Source: FactSet; FTSE Russell; Jefferies, as of 12/29/23

[1] Source: Bloomberg; Money Market Fund Assets, Jan. 4, 2024, Investment Company Institute (ICI), as of 12/27/2023.
[2] Board of Governors of the U.S. Federal Reserve System, "Households; Checkable Deposits and Currency; Asset, Level [BOGZ1FL193020005Q]," retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOGZ1FL193020005Q, Jan. 25, 2024.

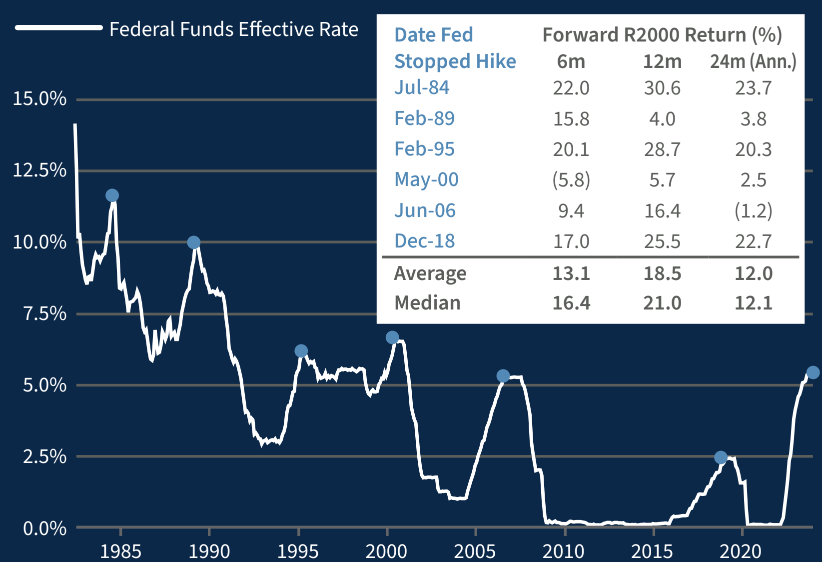
Absolute valuations for Russell 2000 and Russell 1000 indices

	Russell 2000 Long-term			Russell 1000 Long-term			Russell 2000 vs. 1000 Long-term		
Valuation metric	Current	Average	% Difference	Current	Average	% Difference	Current	Average	% Difference
Trailing 12-month P/E (non negative)	16.3	17.4	-6.5	23.4	18.2	28.7	0.69	0.99	-29.6
Forward 12-month P/E	19.9	16.6	19.7	21.6	16.1	33.6	0.92	1.04	-11.5
Price to book	2.0	2.0	-1.6	3.4	2.8	22.8	0.58	0.76	-23.2
Price to cash flow*	18.1	17.6	2.9	16.1	13.4	20.6	1.12	1.32	-14.7
Price to sales	1.8	1.2	49.9	2.5	1.6	56.8	0.74	0.79	-7.1
P/E to growth	1.8	1.2	56.1	2.5	1.4	77.7	0.72	0.83	-12.6

*Price to cash flow started in 2002. Note: From March 31, 2016 forward Jefferies estimates.
Source: FactSet; FTSE Russell; Jefferies, as of 12/29/23.

Current relative valuations, when compared to historic trends, paint a potentially opportunistic picture for small caps, as we are approaching some of the most attractive valuation levels going back to the early 2000s. And if there is one takeaway to the relative attractiveness of small caps to large caps right now, it is that the market capitalization of the single largest stock in the S&P 500 Index is larger than the entire market cap of the Russell 2000® Index.

Russell 2000 consistently rises between last rate hike and first rate cut



Date Fed Stopped Hike	Forward R2000 Return (%) 6m	12m	24m (Ann.)
Jul-84	22.0	30.6	23.7
Feb-89	15.8	4.0	3.8
Feb-95	20.1	28.7	20.3
May-00	(5.8)	5.7	2.5
Jun-06	9.4	16.4	(1.2)
Dec-18	17.0	25.5	22.7
Average	**13.1**	**18.5**	**12.0**
Median	**16.4**	**21.0**	**12.1**

Source: Furey Research Partners and FactSet. Data as of 3/31/23. Based upon R2000 index returns following the '88/'89, '94/'95, '99/'00, '04/'06, '15/'18 and current Fed hiking periods. Ann. is an abbreviation for annualized.

Additionally, looking at the current economic environment and potential Fed actions – if we are closer than ever to the peak of the rate-hiking cycle, with rate cuts ultimately to follow – it is worthwhile to pay attention to the smaller market cap range of stocks. Even after posting its strongest December on record to close 2023, the Russell 2000 entered the new year still 17% below its all-time highs in November 2021. Earnings growth is starting to inflect and a more benign economic backdrop can propel earnings momentum and margin expansion in 2024. Investor positioning is also very light, so increased flows to the asset class could also help the rally continue.

The **S&P 500 Dividend Aristocrats® Index** measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. As in fixed income, interest rates are a key driver of returns for these securities.

Dividend payers and growers

Another area of note within equity markets, when looking forward to what many project to be a falling-rate environment, is dividend-paying equities, specifically dividend-growers. While 2023 was not kind to this asset class, it is important to understand that interest rates are a key driver of returns for these securities, in a similar fashion to fixed income.

The chart below shows that falling rate environments tend to be difficult for equities as the Federal Reserve cuts rates into a tough economic environment (as indicated by longer terms showing lower returns for the S&P 500 Index, with generally higher returns in the short run). Meanwhile, dividend-paying equities (as represented by the S&P 500 High Dividend Index) have provided a level of downside risk mitigation, and dividend-growing equities (as represented by the S&P 500 Dividend Aristocrat® Index) have provided upside over longer time frames.

Annualized returns post Fed rate hike pause

	1-Year Return			3-Year Return			5-Year Return		
Federal Funds Rate Hike Cycle Ended	S&P 500	S&P High Dividend	S&P Dividend Aristocrat	S&P 500	S&P High Dividend	S&P Dividend Aristocrat	S&P 500	S&P High Dividend	S&P Dividend Aristocrat
2/1/1995	39.2%	26.8%	32.4%	30.5%	22.8%	29.1%	26.8%	14.4%	16.7%
5/6/2000	-11.3%	27.3%	18.2%	-12.4%	7.9%	5.6%	-3.0%	12.9%	9.9%
6/29/2006	20.3%	22.2%	17.0%	-8.0%	-14.7%	-4.9%	2.7%	2.4%	6.3%
12/19/2018	30.4%	18.6%	27.7%	24.7%	10.9%	19.5%	15.7%	7.6%	12.2%
Average	19.7%	23.7%	23.8%	8.7%	6.7%	12.3%	10.6%	9.3%	11.3%

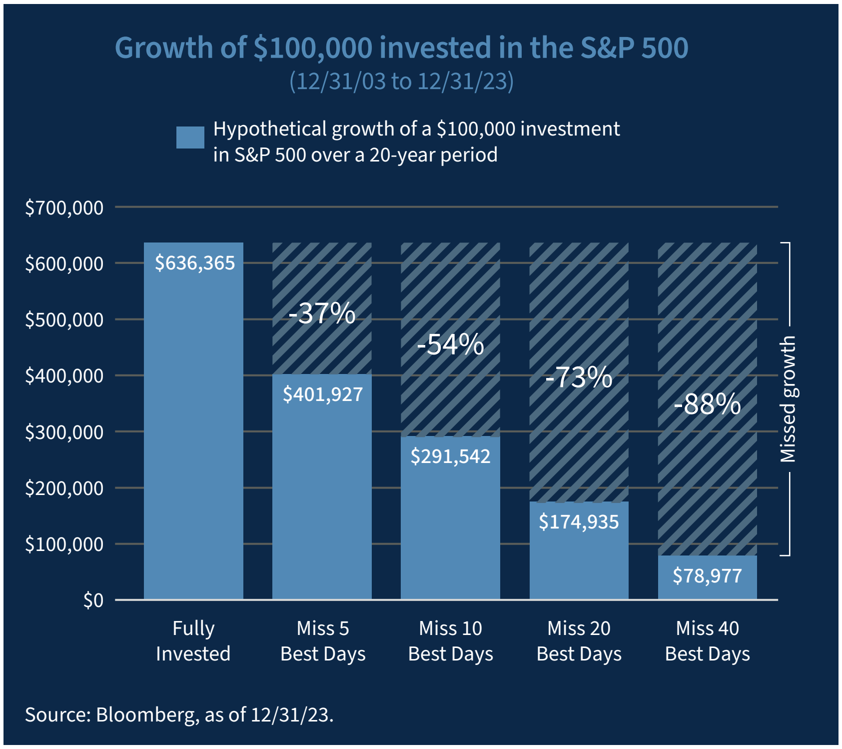
[1]Based on monthly returns rounded to the nearest month-end.
Source: Bloomberg, as of 12/19/23.

"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves."

Timing the market

Some investors inevitably ask: Why not just get "paid to wait" in cash until there is more clarity as to what is next for capital markets?

If history is any indication, markets can move at a speed that makes it a brutal, near-impossible task to time them effectively. Studies have shown that just missing out on the 5, 10 or 20 best days of the market over a 20- or 30-year period significantly reduced the return potential of an investment. When the market reverses, it tends to do so abruptly and often in the face of extreme adversity and volatility. So waiting for a sign to get back into the equity market may leave you watching the game pass you by. As renowned fund manager Peter Lynch said of market timing, "Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves."



As reflected in the preceding charts, the current economic environment, coupled with the historical performance trends following Fed rate-hiking cycles and relative valuations, make a strong case for considering these investments. For those sitting in cash, the Eagle equity investment teams believe that moving into small caps and/or dividend-paying equities could be a strategic decision that sets the stage for robust long-term returns through a balance of potential growth, portfolio diversification and downside risk mitigation.

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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The views and opinions expressed are not necessarily those of the broker/dealer or any affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.

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.

The risks associated with Equity Income investing are based upon the identification of companies that possess both moderate growth rates as well as higher-than-average and consistent dividend distributions. 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. Dividends are not guaranteed and must be authorized by the company’s board of directors.

Dividend-issuing companies are subject to interest-rate risk. High dividends can sometimes signal that a company is in distress. Historically, dividend yields have been relatively constant and therefore have created a cushion for investors when stock prices have declined. However, as with all equity investing, there is the risk that a company will not achieve its expected earnings results, or that an unexpected change in the market or within the company will occur, both of which may adversely affect investment results. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Definitions

Absolute valuation reflects the intrinsic or fundamental value of a stock based on the company's financial metrics, such as earnings, cash flow and dividends. In an absolute valuation model, these metrics are used to estimate the current value of a company by projecting its future levels of income. Unlike relative valuation, absolute valuation does not compare the stock's valuation to that of another stock or to a benchmark.

Annualized estimates represent short-term calculations or rates that have been converted into annual rates. Dividend payers are the companies that distribute a portion of their profits to shareholders in the form of a dividend.

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.

Forward price-to-earnings (forward P/E) is a version of the ratio of price to earnings that uses forecasted earnings for the P/E calculation. The earnings used in this ratio are an estimate and therefore are not as reliable as current or historical earnings data.

Investor positioning refers to assessments of whether professional investors are, on the whole, bullish or bearing on a particular security, industry, sector, market capitalization or other area of the market, as reflected by the extent to which they are invested in the area of the market in question.

A non-negative price to earnings (P/E) ratio reflects that the current price of the stock is at least equal to its current earnings per share (zero), or that investors are willing to pay a certain amount above the earnings (a multiple) for each share of stock (a positive ratio). A negative P/E ratio would reflect that the stock's price is less than its earnings per share over a specified period of time.

The price to book (P/B) ratio measures the market valuation of a company relative to its book value. Investors use the metric in their search for potential investments. Typically, a company's market value is higher than the book value of its stock. Value investors generally view P/B ratios under 1.0 as a potentially solid investment.

The price to cash flow ratio (P/CF) is a valuation metric that compares the value of a stock's price to its operating cash flow per share.

The price/earnings ratio (P/E) measures a company's current share price relative to its per-share earnings.

The price/earnings to growth (PEG) ratio is a valuation metric used to assess a company's performance and evaluate potential investment risk. A PEG ratio of 1 would be considered to represent an even correlation between a company's market value and its projected earnings growth. Higher PEG ratios are taken as signs that a stock may be overvalued. Lower ratios are seen as signs that a stock may be undervalued.

The price to sales ratio (P/S) is calculated by dividing a company's market capitalization by the revenue in the most recent year.

Relative performance (RP) is a measure of a security's performance compared to a specified benchmark such as a stock index, sector or other group of similar securities.

Relative valuation, also known as comparable valuation, entails using similar and comparable assets to determine the value of a particular asset, such as, but not limited to, a piece of real estate.

Trailing price to earnings (trailing P/E), considered to be the standard form of the P/E ratio, is calculated using recent past earnings, often from the previous 12 months or other specified periods of time.

Indices

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 Dividend Aristocrats® Index measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The S&P 500 High Dividend Index serves as a benchmark for income-seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500 and is equally weighted to best represent the performance of this group, regardless of constituent size.

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.

About Eagle Asset Management

Eagle Asset Management, a boutique in the Raymond James Investment Management family, provides a broad array of fundamental equity and fixed-income strategies designed to meet the long-term goals of institutional and individual investors. Eagle's multiple independent investment teams have the autonomy to pursue investment decisions guided by their individual philosophies and strategies.

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