RAYMOND JAMES

Monthly Market Review

Market Rally Continues Despite Optimism Being 'Tested'

August 2020

Broad-Based Rally Despite Delayed Stimulus & Slowing Economic Momentum Leaving 'Questions Unanswered'

Monthly Highlights

- US Case Count Exceeds 6 Million but Trends Show Signs of Improvement After July Surge.
- Later Stage Clinical Trials for Vaccines Appear Positive as Advanced Stages Begin.
- Real-Time Activity Metrics Improving at a Slower Pace Signaling Recovery Is Losing Momentum.
- Fed Shifts Inflation Stance and Plans to Keep Interest Rates at Zero Until Economy Recovers.
- Congress Debating Phase 4 Stimulus Deal as Partisan Divides Over Top Issues Remain.
- ISM Manufacturing (56.0) Continues to Rebound as New Orders Reach Highest Level Since 2004.
- Consumer Confidence Falls to Lowest Level Since May 2014 Due to Concerns About the Recovery.
- 10-Year Treasury Yield Nears Historic Low Intra-Month Before Rebounding ~20 Basis Points.
- Better Than Expected 2Q20 Earnings Season with a Record Percentage of Earnings Beats.
- S&P 500 Hits New All-Time High (Recovering all COVID losses), Posts Best August Since 1984, & is on Pace for Best Summer (Memorial Day to Labor Day) Since 1938.
- Dollar Declines to the Lowest Level Since April as USD Weakens for the Fifth Consecutive Month.
- Gold Soars to New Record High Intra-Month.

Economy | Fed Has Its 'Thinking Cap On' In Hopes Of Supporting The Economic Recovery.

- The second reading of **2Q20 GDP** was slightly better (-31.7% Quarter-over-Quarter (QoQ)) but it is still the worst quarter in history. Shutdowns impacting more than 90% of citizens lasted nearly the whole quarter, leading personal consumption (-34.1%) and business fixed investment (-26.0%) to contract sharply.
- Economic indicators rebounded significantly off severely depressed levels in May, leading to heightened optimism about the recovery. However, improvement in **real-time activity metrics** slowed, signaling that the recovery is losing momentum.
- **The Fed** shifted from a fixed 2% inflation target to a "flexible average inflation target" to allow short-term spikes above 2% while the economy recovers. Chair Powell also stressed the need to improve labor market conditions within lower income communities.
- **Congress** is negotiating a Phase 4 stimulus package, with vast partisan divides on the size of the bill, unemployment benefits and state/local funding.
- **August ISM Manufacturing** (56.0) rose further into expansion territory (a level above 50) and reached the highest level since January 2019. New orders (67.6) rebounded to the highest level since January 2004.
- **The US added 1.76 million jobs** in July. The unemployment rate (+10.2%) declined further from the post-World War II peak reached in April.
- **Jobless claims** remain elevated from an historical perspective. Since mid-March, claims have increased by 1+ million for 22 out of 23 weeks, with the only week below this threshold occurring earlier this month.
- The pace of **headline inflation** (+1.0% YoY) rose at the fastest rate since March. The pace of **Core CPI** (+1.6% YoY) rose for the first time over the last five months.
- **Consumer confidence** (84.8) fell to the lowest level since May 2014 as both the "present situation" and "expectations" subsectors declined. Delayed fiscal stimulus caused optimism to weaken as the pace at which the economy could recover was questioned.
- **Core retail sales** (ex. food, autos, and gas, +1.4% month-over-month (MoM)) rose for the third consecutive month. The year-over-year pace (+8.0%) is now well-above the 10-year average of (+3.8%).
- **Housing data** was robust as existing home sales (+24.7%), housing starts (+22.6%), building permits (+17.9%), and new home sales (+13.9%) all increased. The pace of home price gains (S&P Case Shiller Home Price Index +3.5% YoY) continued to slow after reaching the fastest pace since December 2018 in March.
- **China's Manufacturing PMI** (51.0) remained in expansion territory for the sixth consecutive month after falling to a virus-induced record low in February.
- **Euro Zone Manufacturing PMI** (51.8) remained in expansion territory for the second consecutive month. Euro zone economic sentiment (87.7) rose for the fifth consecutive month to the highest level since March.

Fixed Income | Not All Sectors 'Make The Grade' Due To Rising Interest Rates.

- The **Bloomberg Barclays US Aggregate Index** (-0.8% MoM) declined for the first time in five months. Rising sovereign bond yields were a headwind for the broader index, and despite the ongoing risk-asset rally, credit spreads remained relatively stagnant.
- **US investment-grade bonds** (-1.4% MoM) declined for the first time since March. Due to Fed intervention, spreads have narrowed more than 240 basis points from the mid-March peak, but were relatively range bound this month, narrowing by only four basis points. The decline was driven by weakness in the Utilities (-2.9%) and Industrials (-1.6%) sectors.
- **Municipals** (-0.5% MoM) declined for the first time in four months as delayed stimulus raised concerns about when/if the aid needed by certain state and local governments would be received. The general obligation (-0.6%) and revenue (-0.5%) sectors drove the decline while high yield (+0.2%) rallied.
- **International sovereign bonds** (G7 ex. US -0.4%) declined for the first time in three months as a rise in sovereign yields outweighed the still accommodative stance from central banks and a weaker dollar.
- **Emerging market bonds** (+0.5% USD MoM) rallied for the fifth month in a row as fears about global growth eased. A weaker dollar also supported the sector.
- **High-yield bonds** (+1.0% MoM) rallied for the fifth straight month due to decreased risk asset volatility, the continued economic rebound, rising energy prices and heightened risk appetite. After declining over 620 basis points from the mid-March peak, spreads have stabilized, narrowing only 11 bps this month.
- **TIPS** (+1.4% MoM) rallied for the tenth time in eleven months and outperformed nominal Treasurys (-1.1% MoM) by the widest margin since January 2009.

Equities | Global Equities Rally On Hopes Global Recovery Will 'Pass With Flying Colors.'

- **Global equities** (MSCI All Country World Index +6.2% USD MoM) rallied for the fifth consecutive month. They were supported by the ongoing global economic recovery, positive vaccine news, further fiscal and monetary policy easing and dollar weakness.
- **Japanese equities** (MSCI Japan +7.6% USD MoM) rallied for the fourth time in five months, posting the best month since October 2015, and outperforming global equities for the first time in three months.
- **U.S Large-Cap** equities (S&P 500 +7.2% MoM) posted their best month since April and best August since 1984 as they set an all-time high. The rally occurred due to positive vaccine trial data, better than expected earnings, accommodative monetary policy, improving COVID-19 trends (e.g., daily cases), and hopes of an eventual stimulus deal.
- 9 of the 11 **S&P 500 sectors** were positive, with only Utilities (-2.6%) and Energy (-1.0%) declining. Information Technology (+12.0%) led the rally.
- **US Small-Cap** equities (Russell 2000 +5.6% MoM) posted their fifth consecutive month of gains. Small-cap equities were outpaced by large-cap equities for the second consecutive month.
- **European** equities (MSCI Europe ex UK +4.3% USD MoM) rallied for the fifth consecutive month as economic data improved, but still underperformed global equities for the second consecutive month.
- **EM equities** (MSCI EM +2.2% USD MoM) rallied for the fifth consecutive month but underperformed developed markets (MSCI EAFE USD +5.2% MoM) for the first time in three months.
- Within EM, **Asia** (MSCI Asia ex JP +3.6% USD MoM) outperformed **LATAM** (MSCI LATAM -6.2% USD MoM) for the second time in three months.

Commodities | Restored Global Demand Helps Most Sectors 'Pencil In' Positive Returns.

- The **Bloomberg Barclays Commodity Index** (+6.8% MoM) rallied for the fourth consecutive month as the global economic recovery from the COVID-driven lows led to increased demand. A continued weakening of the dollar also supported the asset class.
- The **US Dollar Index** (-1.3% MoM) weakened for the fifth straight month, down (-10.4%) from its recent peak. The initial outbreak led the dollar to its highest level since 4/2017, but it has since fallen to its lowest level since 4/2018 due to policymaker actions and optimism surrounding the global economic rebound.
- The **Bloomberg Energy Index** (+13.1% MoM) posted its best month since 4/2016. A further rebound in crude oil (+5.8%) due to continued improvement in global demand helped contribute to the rally, but a substantial gain in natural gas prices (+46.2% MoM) set the pace for the broader index.
- The **Bloomberg Industrial Metals Index** (+6.9% USD MoM) posted its second best month since 1/2019. Increased demand from the global economic recovery drove the rally, with nickel (+12.1%), zinc (+10.0%), copper (+6.7%), and aluminum (+4.5%) all ending the month in positive territory.
- The **Bloomberg Grains Index** (+6.3% MoM) posted its best month since 5/2019 due to strength in soybean (+6.8%) and wheat prices (+4.0%).
- The **Bloomberg Precious Metals Index** (+3.6% MoM) rallied for the fifth month despite gold prices (-0.4% MoM) receding from the historic high of $2,069/oz reached at the beginning of the month. Strength was driven by silver prices (+18.1 MoM).
- The **Bloomberg Softs Index** (+3.4% MoM) rallied for the third consecutive month due to a substantial gain in coffee prices (+8.5%).

Figure 1: Strength In New Orders Drives ISM Manufacturing Index Higher

New Orders rose to 67.6 in the month of August, the highest level since January 2004. This rebound helped drive the ISM Manufacturing Index to the highest level since January 2019.

Figure 2: Broad-Based Rally Continues

All sectors except for the Utilities (-2.6%) and Energy sectors (-1.0%) rallied in the month of August. On a year-to-date basis, Info Tech is outpacing the broader index by more than 26%.

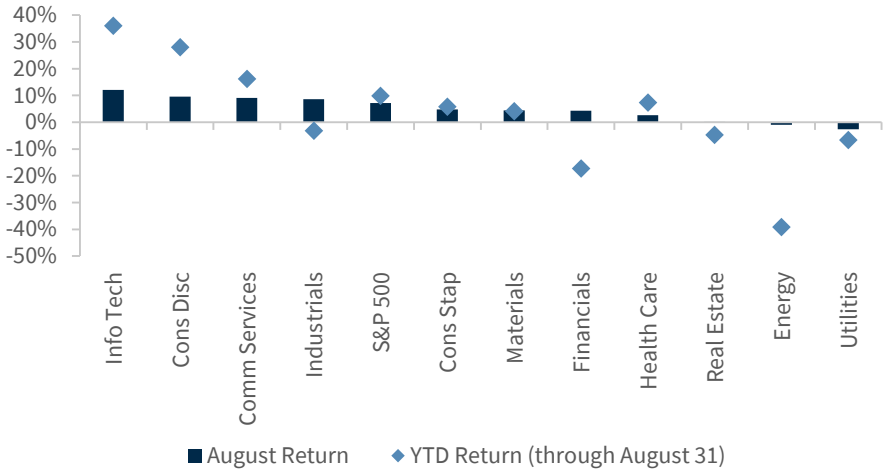

Figure 3: 10-Year Treasury Yield Nears Historic Low Intra-Month

The 10-year US Treasury yield neared the historic low set in March at the beginning of the month, but then rallied 19 basis points to the highest level since June.

Figure 4: Gold Prices Reach An Historic High

Gold prices reached a historic high of $2,069/oz at the beginning of the month, but then receded from the peak and posted a negative monthly return (-0.4%) for the first time since January.

Fixed Income | Soverign Bond Yields On The Rise

	August	YTD	1 Year	3 Year	5 Year	10 Year
TIPS	1.4%	7.1%	7.2%	4.5%	3.7%	2.9%
High Yield	1.0%	1.7%	4.7%	4.9%	6.5%	6.9%
EM Bonds	0.5%	3.2%	5.4%	4.7%	6.2%	5.7%
International Bonds	-0.4%	4.8%	2.2%	2.8%	3.8%	1.1%
Municipals	-0.5%	3.3%	3.2%	4.1%	4.0%	4.0%
US Aggregate	-0.8%	6.9%	6.5%	5.1%	4.3%	3.7%
Treasuries	-1.1%	8.8%	7.0%	5.2%	3.9%	3.1%
US Investment Grade	-1.4%	6.9%	7.5%	6.4%	6.2%	5.2%

Equities | Large Cap Outperforms Small Cap

	August	YTD	1 Year	3 Year	5 Year	10 Year
Russell 1000 Growth	10.3%	30.5%	44.3%	24.2%	20.7%	19.0%
DJ Industrial Average	7.6%	-0.4%	7.7%	9.0%	11.5%	11.0%
Russell 1000	7.3%	10.4%	22.5%	14.6%	14.3%	15.2%
S&P 500	7.2%	9.7%	21.9%	14.5%	14.5%	15.2%
Russell 2000 Growth	5.9%	6.2%	17.3%	10.9%	10.5%	14.1%
Russell 2000	5.6%	-5.5%	6.0%	5.0%	7.7%	11.5%
Russell 2000 Value	5.4%	-17.7%	-6.1%	-1.4%	4.4%	8.7%
Russell 1000 Value	4.1%	-9.3%	0.8%	4.5%	7.5%	11.0%

Commodities & FX | US Dollar Continues To Weaken

	August	YTD	1 Year	3 Year	5 Year	10 Year
BBG Energy Index	13.1%	-38.2%	-34.3%	-13.4%	-15.0%	-14.3%
BBG Industrial Metals	6.9%	4.4%	4.1%	-2.9%	3.6%	-3.1%
BBG Commodity Index	6.8%	-9.4%	-4.8%	-4.7%	-4.2%	-5.6%
Copper	6.7%	9.5%	20.0%	-0.4%	5.5%	-1.0%
Crude Oil (WTI)	5.8%	-30.2%	-22.7%	-3.4%	-2.8%	-5.1%
BBG Precious Metals	3.6%	32.4%	30.5%	11.7%	9.8%	3.0%
Gold	-0.4%	29.9%	29.4%	14.4%	11.8%	4.7%
US Dollar Index	-1.3%	-4.4%	-6.8%	-0.2%	-0.8%	1.0%

International Equities (in USD) | Developed Markets Outperform EM Equities

	August	YTD	1 Year	3 Year	5 Year	10 Year
MSCI Japan	7.6%	-1.4%	10.6%	4.7%	6.2%	6.9%
MSCI AC World	6.2%	5.1%	17.1%	9.6%	10.8%	10.5%
MSCI EAFE	5.2%	-4.3%	6.6%	2.8%	5.2%	6.4%
MSCI Europe ex UK	4.3%	-0.3%	10.6%	3.9%	6.3%	7.4%
MSCI Asia ex JP	3.6%	7.2%	22.0%	5.7%	10.9%	7.0%
MSCI UK	3.6%	-19.4%	-7.7%	-2.9%	-0.3%	3.5%
MSCI EM	2.2%	0.7%	14.9%	3.2%	9.1%	4.1%
MSCI LATAM	-6.2%	-32.5%	-23.3%	-9.5%	1.8%	-4.0%

S&P 500 Sectors | Info Tech Outperforms Broader Market

	August	YTD	1 Year	3 Year	5 Year	10 Year
Information Technology	12.0%	36.0%	57.9%	30.8%	28.3%	22.6%
Consumer Discretionary	2.7%	7.3%	22.5%	12.3%	11.1%	16.7%
Communication Services	4.3%	-17.3%	-4.4%	2.8%	7.9%	10.7%
Industrials	9.1%	16.1%	27.1%	13.1%	11.3%	11.0%
Consumer Staples	4.4%	4.1%	14.2%	7.0%	10.2%	10.1%
Materials	8.6%	-3.3%	5.2%	6.2%	10.6%	12.9%
Financials	-1.0%	-39.3%	-33.5%	-13.5%	-8.1%	-0.8%
Health Care	9.5%	28.0%	34.9%	22.3%	17.8%	19.9%
Real Estate	4.7%	5.7%	11.3%	9.3%	9.8%	12.6%
Energy	-2.6%	-6.7%	-2.0%	6.1%	10.7%	10.9%
Utilities	0.0%	-4.8%	-4.4%	6.9%	8.9%	11.1%

Key Asset Class Levels

	August	Start of Year	1 Year	3 Year	5 Year	10 Year
S&P 500	3,500	3,231	2,926	2,472	1,972	1,049
DJIA	28,430	28,538	26,403	21,948	16,528	10,015
MSCI AC World	585	565	511	478	397	279
S&P 500 Dividend Yield	1.69	1.93	2.07	2.10	2.36	2.34
1-3M T-Bills (Cash, in %)	0.09	1.51	2.00	1.03	0.02	0.13
2YR Treasury Yield (in %)	0.13	1.56	1.51	1.33	0.74	0.48
10YR Treasury Yield (in %)	0.69	1.91	1.51	2.12	2.20	2.48
30Yr Treasury Yield (in %)	1.45	2.38	1.97	2.72	2.93	3.53
EURUSD	1.20	1.12	1.10	1.19	1.12	1.27
Crude Oil - WTI ($/bbl)	43	61	55	47	49	72
Gold ($/oz)	1979	1523	1529	1322	1133	1250

Data as of August 31, 2020: Asset classes ranked by August performance.

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of 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.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US 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.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** 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.

MUNICIPAL | **Bloomberg Barclays Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

BLOOMBERG BARCLAYS CAPITAL AGGREGATE BOND TOTAL RETURN INDEX | This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. 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).

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

COMMODITY DEFINITIONS

US DOLLAR INDEX | The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG INDUSTRIAL METALS INDEX | Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

BLOOMBERG SOFTS INDEX | Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG PRECIOUS METALS INDEX | Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG GRAINS INDEX | Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

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