CIO View

Monthly Strategy Snapshot

September 2020

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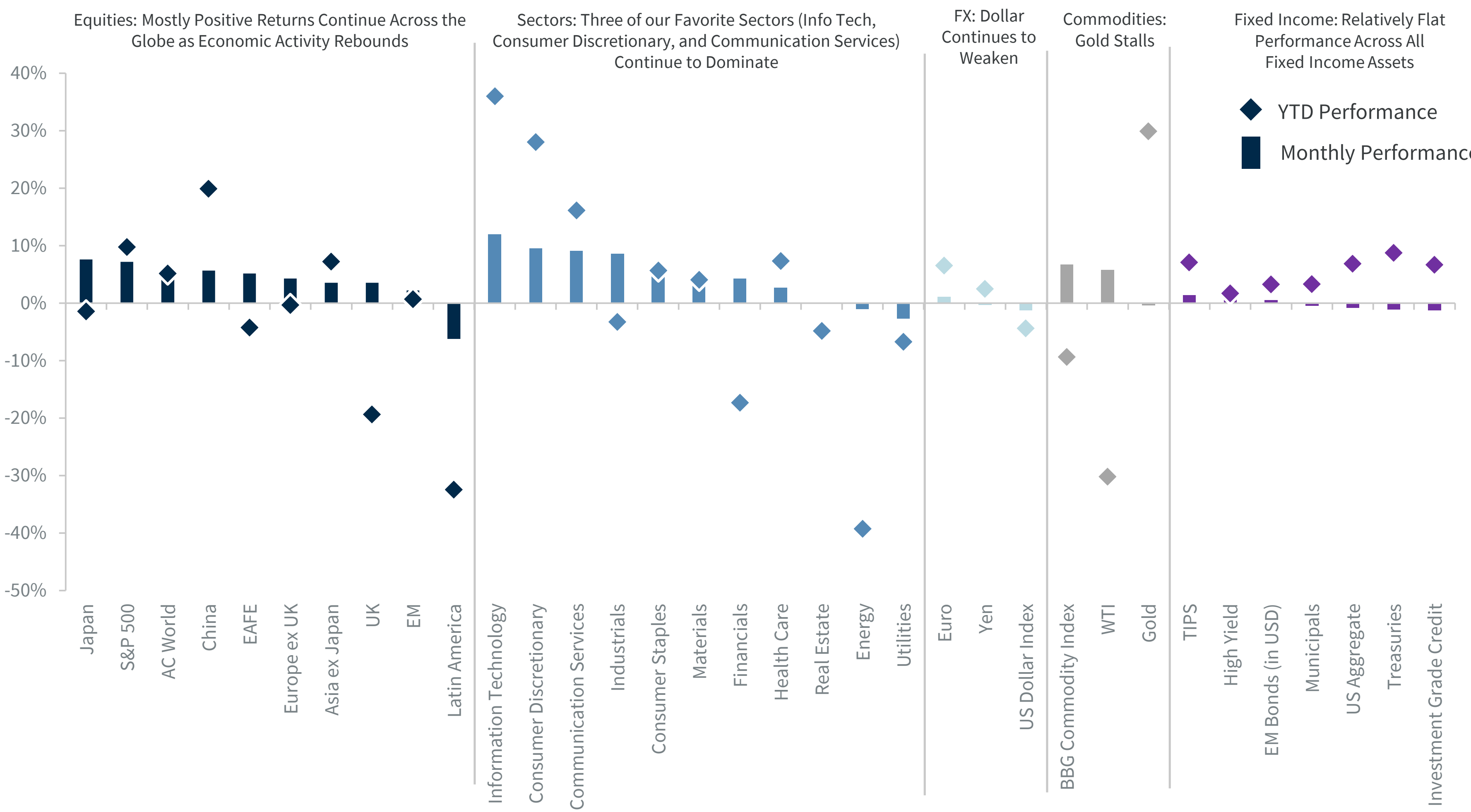
Chief Investment Officer

Returns By Asset Class | Month-to-Date and Year-to-Date

Returns by Asset Class



Data as of August 31, 2020. All international equity indices are MSCI indices and in USD. Diamonds represent year-to-date total returns and bars represent monthly total returns.

Global Economy | Less COVID-19 Daily Cases and Better Economic Data

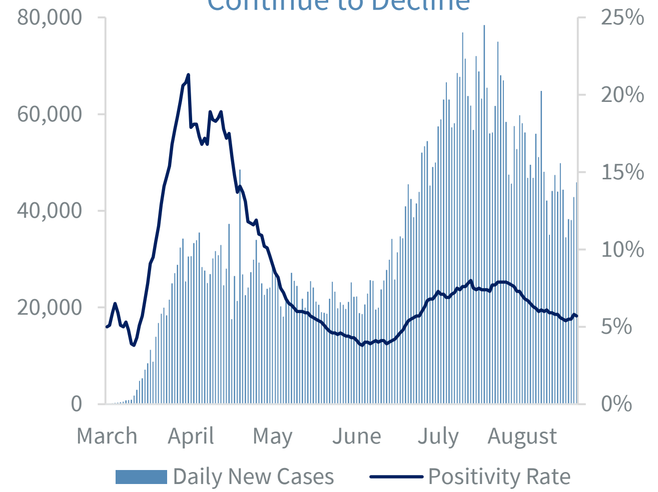
Global Economy | Recent Trends

- The 2Q20 GDP of -31.7% **was slightly better than anticipated** (forecast -35%), but the US economic recovery was bound to begin once states started to reopen. The progress made thus far has undoubtedly benefitted from the Fed's **accommodative monetary policy (e.g., zero interest rates, flexible inflation target) to ongoing debt purchases**.
- ISM Manufacturing Index (56.0 vs 54.2) reflected stronger growth in new orders and production, while retail sales rose for the third straight month, showing that the consumer remains resilient.
- From a fiscal stimulus perspective, **Congress continues to negotiate a Phase 4 stimulus deal** as some policies such as the additional unemployment benefit have expired. While the dollar amount of the package has narrowed, passage has been delayed to likely late September.
- After peaking in late July, COVID-19 daily new cases have declined significantly to **less than 50,000/day**. Similarly, the positivity rate has been steadily declining and is now approaching our goal of a 5% maximum positivity rate to signal adequate testing.
- In contrast, **daily new cases are increasing in many countries around the world**, with India surpassing Brazil with the 2nd most cases of COVID-19, and with multiple European countries seeing significant increases in their cases (notably Spain, France, and Italy).
- The August Employment report showed an improvement in labor force participation, with the unemployment rate falling sharply to 8.4%. However, this number understates the weakness in labor market conditions due to laid off workers who exited the labor force earlier in the year.

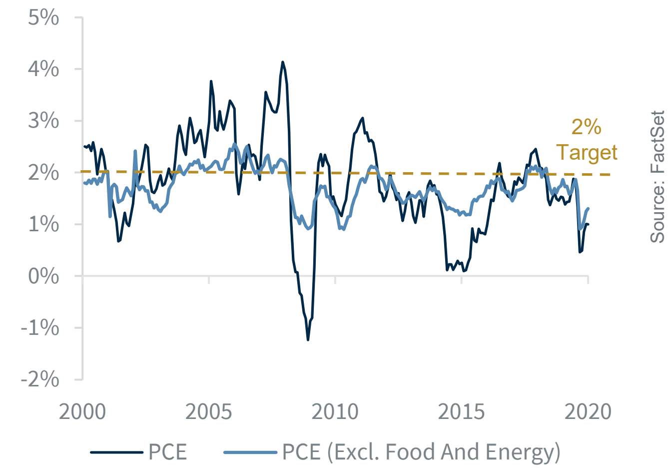
Global Economy | 2020 Outlook

- GDP growth is expected to rise sharply in 3Q20, reflecting the initial rebound in economic activity as states re-open. The outlook beyond 3Q20 depends on the virus and the amount of fiscal support going forward. US GDP is currently forecasted to be negative for the year 2020 (-3.2%) and rebound +3.2% in 2021.
- **Global economies are expected to rebound in the third quarter** as social distancing measures wane and economies return to more normal activity. Over the medium to longer term, **aggressive actions from policy makers (both from a fiscal and monetary perspective) should be supportive of economic growth**. We anticipate policy makers will continue to act proactively to support the economic recovery.
- **The threat of COVID-19** (despite the recent downtrend in new daily cases nationally) **remains a key risk** for the trajectory of economic growth into year end until an effective vaccine is discovered. While nation-wide lockdowns are unlikely to be repeated, an uptick in cases will likely weigh on consumer sentiment and thereby hamper spending.

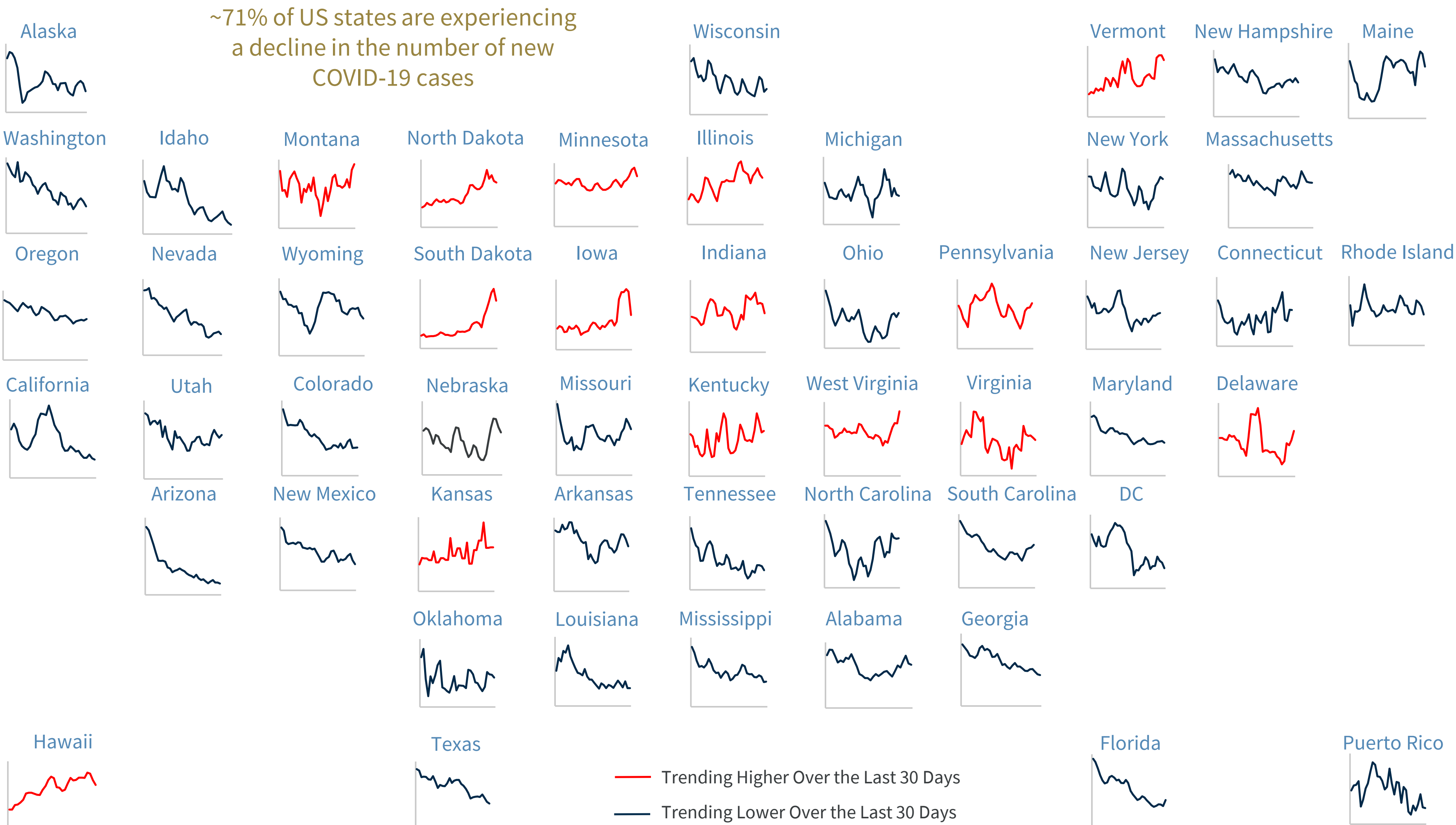
COVID-19 Daily New Cases Continue to Decline



Inflation Remains Below Target



COVID-19 | US Daily New Cases Continue To Decline

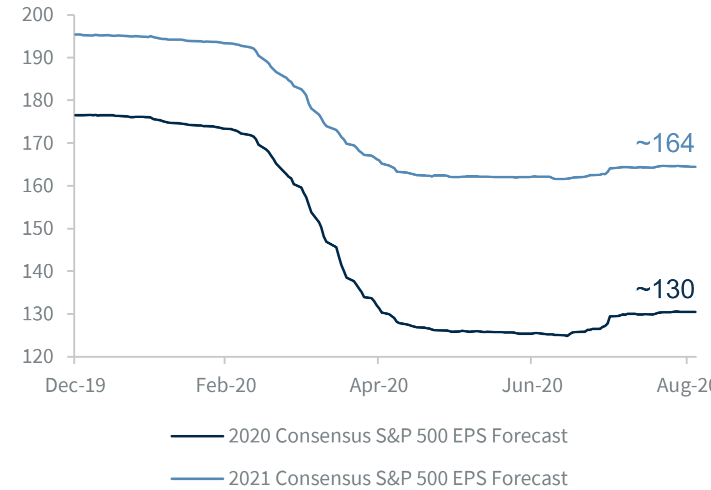


Equities | Strong Earnings Season A Tailwind For Equities

Global Equities | Recent Trends

- **Equities worldwide rallied for the fifth consecutive month**, with the MSCI All Country World Index returning 6.2% in August. Similarly, **the S&P 500 is on pace to post its best summer return (~16% since Memorial Day) since 1938**. Supported by our favorite sectors, the S&P 500 is outperforming global equities by over 480 bps year-to-date (YTD).
- **Info Tech (+36%), Consumer Discretionary (+29.4%), Comm. Services (+17.3%), and Health Care (+6.3%)** have significantly outperformed all other sectors. On the other hand, Energy and Financials remain severely depressed at -39.8% and -17.2%, respectively. This dispersion can be seen in the ~5,000 bps difference YTD between **Growth and Value.** In August alone, the Russell 1000 Growth returned 11.7%, while the Russell 1000 Value returned 6.3%.
- **Policy stimulus, low inflation, low interest rates, medical enhancements to combat COVID-19, and optimism for a strong rebound in 2021 earnings** will continue to support elevated valuations. Therefore, as positives continue to outweigh negatives, **we raised our S&P 500 2020 and 2021 base case fair value to 3,459 and 3,600, respectively.** While our 2021 EPS estimate remains unchanged, we are raising the assumed P/E multiple to 23.5 for 2020 and 22.5 for 2021.

FY EPS Estimates Rising

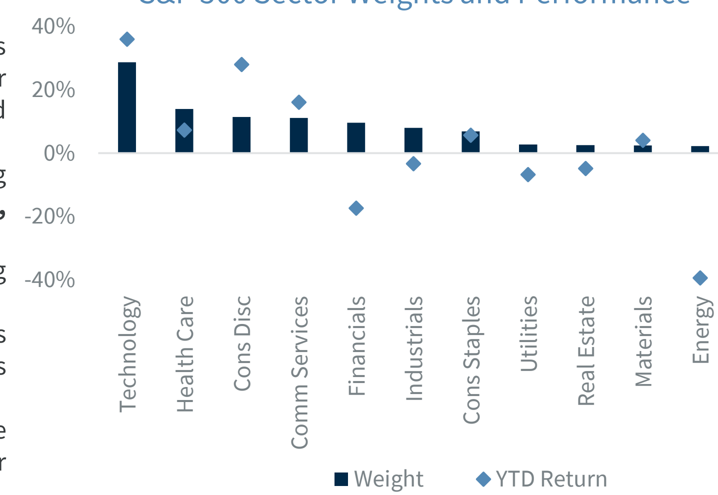


Source: FactSet

Global Equities | 12-Month Outlook

- While the trajectory for equities in the near term remains cloudy due to coronavirus uncertainty, **we believe that equities will be higher over the next 12 months.** Longer term, equities will be supported by the rebound in 2H20 and 2021 economic growth and fiscal and monetary stimulus. We have a year-end **S&P 500 price target of 3,459.**
- We remain biased to select cyclical sectors as they should benefit from improving economic growth, and rising earnings growth. We continue to favor **Technology, Communication Services, Health Care and Consumer Discretionary**.
- **Short-term pullbacks** are likely given stretched valuations, seasonality, and the upcoming elections. We would suggest using pullbacks to accumulate our favorite sectors.
- From a market cap perspective, **we favor large-cap relative to small-cap** as large cap has more resilient earnings growth relative to small cap, is less leveraged in aggregate, has stronger dividends and has greater exposure to the Tech sector.
- **We remain constructive longer term on global equities,** especially EM, due to the expected second half rebound in global economic growth, but prefer the US over other developed markets due to favorable sector exposure and more resilient economic growth.

S&P 500 Sector Weights and Performance



Source: FactSet

Fixed Income | Treasurys Range Bound; Credit Sectors Rally

Global Bonds | Recent Trends

- While Treasury yields flirted with the upper end of its recent range toward the end of the month, **Treasury yields continue to be range bound between 0.50%-0.80%.**
- Despite the continued rally in risk assets, elevated Treasury issuance and improving global economic data (stronger PMIs, surprise indices near record levels) **Treasury yields remain near record lows** due to the continued unprecedented levels of easing from global central banks, elevated COVID-19 cases (remaining a risk to the economic recovery without a vaccine), muted inflation and elevated levels of foreign investor demand.
- The Fed adjusted its inflation mandate from a 2% target to an *average of* 2% (meaning that it will allow inflation to run above 2% for some time before raising rates). **Spreads between short and long-term Treasurys widened in August** as this policy shift suggests that the central bank will leave rates lower for longer (suppressing the short end of the curve).
- **Corporate bond spreads narrowed** for the fifth straight month in August (albeit at a more modest pace) on the back of the continued risk asset rally and improving economic data.
- **Municipal spreads remain elevated**, as COVID-19 impacts continue to hamper state budgets. State/local aid in a Federal spending package would be supportive of muni bonds.

Global Bonds | 2020 Outlook

- As the market is pricing in a second half recovery in economic growth, **we forecast the 10-year Treasury yield to rise off of historic lows to 1%**. However, **we anticipate the rise in yields to be limited** due to low inflation expectations, below potential economic growth (after the near-term bounce), continued buying from global central banks, increased demand from foreign investors (due to depressed foreign sovereign yields) and aging demographics.
- Given our expectation for a modest rise in longer-duration interest rates while the Fed is set to leave policy rates unchanged for the foreseeable future (keeping shorter-term rates low), **we recommend a shorter than benchmark duration for bond portfolios.**
- From a credit perspective, we believe investors should consider **'buying what the Fed is buying.'** As a result of the expansion of eligible purchases by the Fed to include investment grade and municipal bonds, increased demand as a result of Fed buying should lead to a narrowing of spreads and support prices within these two sectors.
- **We are cautious on high yield** as rising defaults due to the COVID-19-induced recession (we forecast default rates could rise as high as 10%), increased supply due to rising fallen angels and elevated exposure to Energy will likely weigh on the sector. Selectivity is important.

Treasury Yields Challenge Record Lows

US Yield Curve Steepens on Fed Change

Commodities & Currencies | Oil Rally Continues; Dollar Weakens

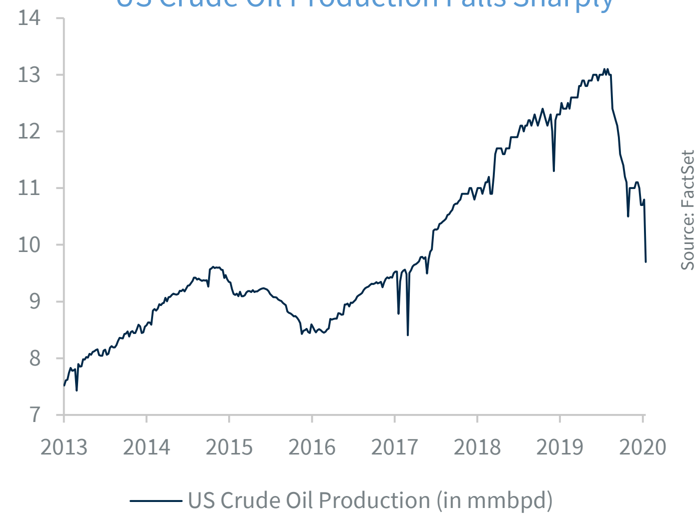
Commodities & Currencies | Recent Trends

- **Crude oil was positive for the fourth consecutive month in August,** as the commodity is up significantly from being negative in April. However, consistent with the slowing in the trajectory of economic momentum, its appreciation has slowed relative to May and June.
- As crude oil production typically lags prices by 2-3 months, **US oil production has declined** over 3mm bpd from the recent peak and is now at the lowest level since January 2018.
- With the sharp rise in prices bringing WTI above the $40/bbl level, **crude oil is now closer to its equilibrium level**. While global crude oil demand will likely increase with the rebound in economic activity in 2H20 and 2021, US crude oil production will likely rebound (following the largest three-month decline on record) as prices are closer to breakeven levels.
- Despite the continued risk asset rally and improvement in economic activity, **gold rose above the $2,000/oz to the highest level on record.** Gold continues to benefit from further easing from global central banks, falling real interest rates, a weaker dollar and continued uncertainty from COVID-19 (both elevated cases and vaccine uncertainty).
- As the global economic recovery continues, the **US dollar weakened for the fifth straight month** due to the counter cyclical nature of the currency. In fact, the US dollar is now at its lowest level since May 2018 and has posted the largest five-month decline in three years.

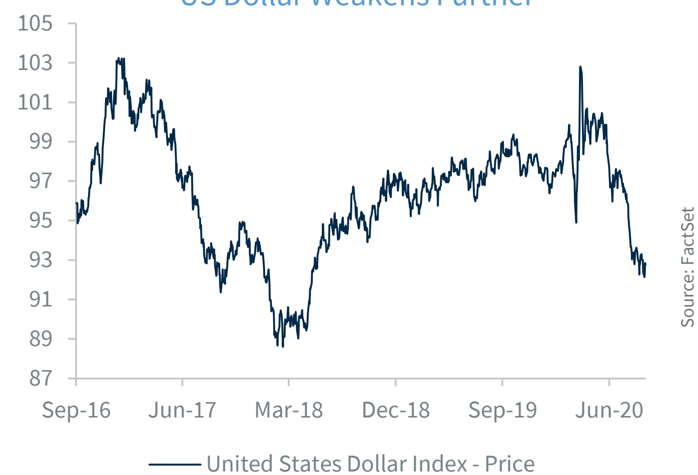
Commodities & Currencies | 2020 Outlook

- Longer term, until global demand and economic activity rebound to pre-COVID levels when a vaccine is available, **crude oil will likely remain near current levels (year end 2020** WTI target: **$40/barrel**). Near-term, as the price of oil is slightly above breakeven levels for US shale producers (~40/bbl), a rise in US production (recovering losses from the COVID-driven decline) will likely keep the rise in oil prices contained.
- As volatility is elevated and the threat of COVID-19 remains a risk due to the current lack of a vaccine and real rates remain depressed, **demand for gold remains a hedge against a second-wave virus-induced economic decline in the near term.** However, once the global economy stabilizes and a therapeutic or vaccine for the virus is found (likely by year-end 2020), gold is likely to come under pressure.
- Similar to gold, the downside in the dollar will likely be limited in the near term if risk-off sentiment materializes. However, as the investing environment improves as COVID-19 fears fade (largely as a result of the discovery of a vaccine or therapeutic), **fundamental factors that increase the supply of dollars globally like increased deficit financing (due to the fiscal stimulus measures) and quantitative easing should lead to a weaker dollar.**

US Crude Oil Production Falls Sharply



US Dollar Weakens Further



Summary | Views and Key 2020 Year-End Targets

1 ECONOMY

2020 US GDP: -3.2%

The US economy experienced its deepest and shortest recession ever due to the COVID-19 pandemic. In fact, the economy is likely to experience a robust rebound during the second half of the year, especially if policy makers continue to exhibit a "by any means necessary" approach to defeat this virus.

2 BOND MARKET

2020 10-Year Treasury: +1.00%

We forecast that the 10-year Treasury yield will be 1.00% by year end, supported by an economic recovery in the second half of the year. Given the substantial Energy sector and brick and mortar retailer exposure of high-yield bonds, we maintain our preference for investment-grade and municipal bonds given the Fed's purchases of these sectors.

3 EQUITIES

2020 S&P 500: 3,459

Our expectation for a rebound in 2H20 economic activity and stimulus from both the Fed and Congress should support equities. However, with valuations at the highest level since 2001, the risk of a pullback remains elevated. Use pullbacks as buying opportunities within our favorite sectors (Info Tech, Health Care, Comm Servs, and Consumer Discretionary).

4 DOLLAR DIRECTION

2020 EUR/USD: 1.22

Our expectation is that aggressive monetary policy and a burgeoning budget deficit (~$3 trillion) may cause the dollar to modestly weaken throughout the year. Separately, easy monetary policy from the Federal Reserve will likely add additional pressure to the value of the dollar, weakening it relative to other currencies. However, near-term volatility in riskier assets is likely to support the dollar.

5 OIL

2020 WTI: $40/bbl

Over the next 12 months, crude oil will be supported by the reduction in social distancing measures, increasing economic activity in the second half of the year and as US production continues to be reduced as prices remain below US breakeven levels. Near term, oil prices are likely to remain range bound, awaiting the direction of demand as the global economy attempts to rebound from the COVID-19.

6 ELEVATED VOLATILITY

Volatility: ↑

Given the unpredictable trajectory of the COVID-19 pandemic, we anticipate that volatility will remain heightened throughout the remainder of 2020 as the global economy finds its footing and returns to some semblance of normality. Near-term catalysts for volatility include COVID-19, the upcoming election and tensions with China.

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.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

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.

HIGH YIELD | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

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.

BBG COMMODITY INDEX | Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

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.

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.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

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.

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.

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.

INTERNATIONAL DISCLOSURES

DESIGNATIONS

DATA SOURCES

FactSet as of 8/31/2020.

RAYMOND JAMES

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