CIO View

Monthly Strategy Snapshot

October 2020

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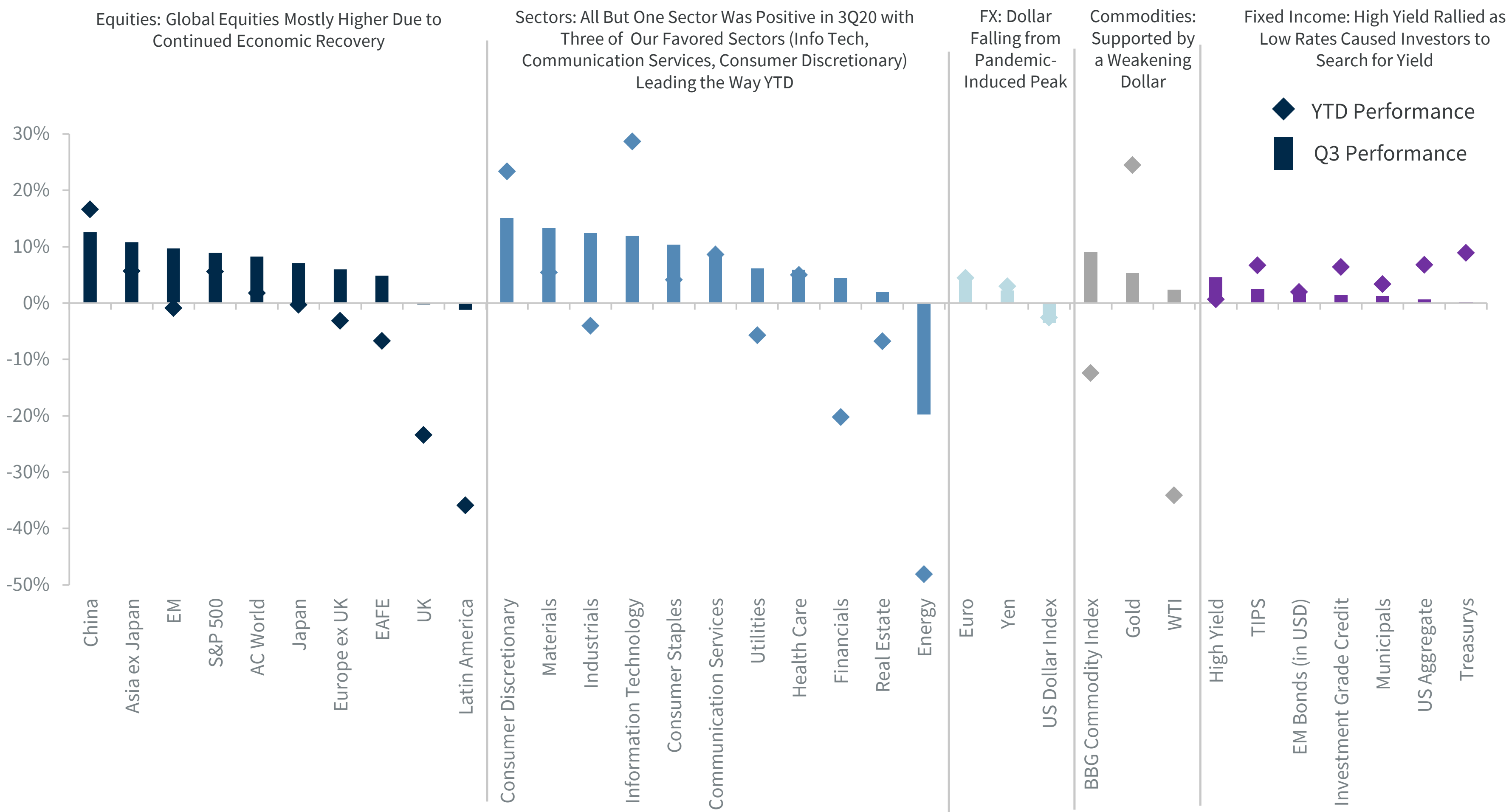
Chief Investment Officer

Returns By Asset Class | Q3 and Year-to-Date

Returns by Asset Class



Data as of September 30, 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 | Recovery Threatened By COVID Second Wave

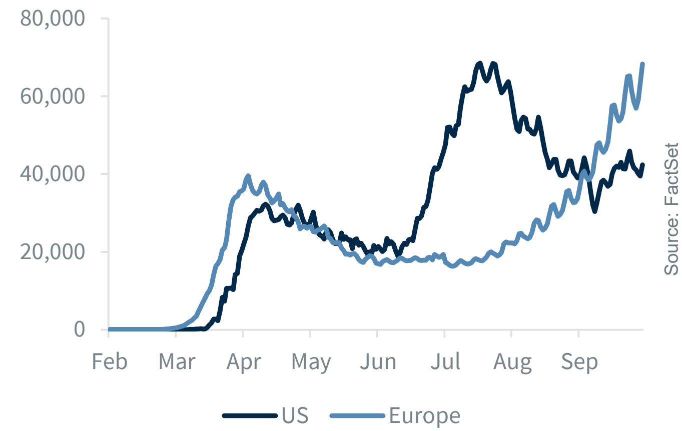
Global Economy | Recent Trends

- After posting the worst quarter of economic growth on record in 2Q20 (-31.4% QoQ ann.), **the US economy is on pace to post the best quarter of growth in the post-WWII era in 3Q** (estimated 20-30% QoQ ann.) on the back of strong recoveries in consumer spending (retail sales above pre-COVID peak), housing and manufacturing. Prior to this sharp positive quarter of economic growth, the **US economy was ~10% below its pre-COVID peak**.
- Despite a strong recovery at the headline level, **the economic recovery remains bifurcated and continues to follow a 'K'-shaped recovery** as more technology-based, home-improvement and medical care companies have strongly improved while service-oriented businesses tied to the COVID outlook (e.g., airlines, hotels, restaurants) have struggled to recover.
- While real-time activity metrics (e.g., airline travelers, gasoline demand) suggest that the economic recovery will likely continue through 4Q (albeit at a more modest pace relative to 3Q), the **US economy remains on fragile ground** as the threat of additional social distancing measures (particularly during the winter months) due to rising COVID cases remains (US daily cases are currently rising at the fastest pace since mid-August) and the impact of existing fiscal stimulus (personal income down 7% from peak, small business revenues down 20% YoY) wanes.
- While remaining weak from an historical perspective, **the US labor market continues to improve** as the US economy added 661,000 jobs during the month of September and the unemployment rate declined to 7.9% (down from the recent peak of 14.7%).

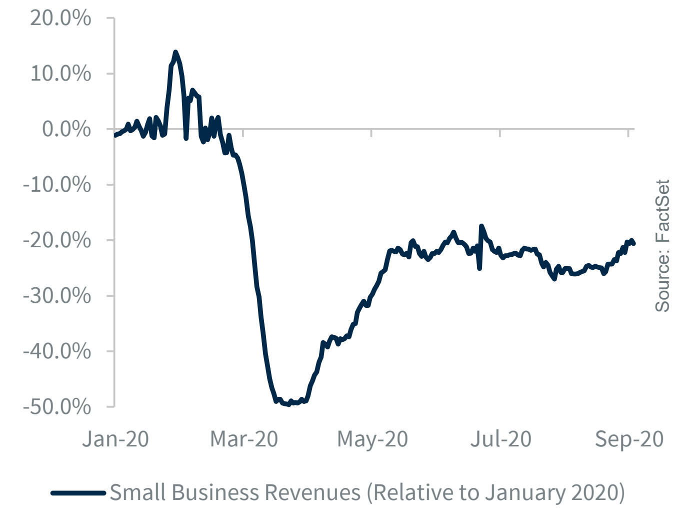
Global Economy | 2020 Outlook

- **Global economies are expected to rebound in 3Q20**, with most G20 countries experiencing between 3 and 9% GDP growth in 2021, as social distancing measures wane and economies return to more normal activity. **The threat of COVID-19** (evident by the recent uptrend in new daily cases nationally and internationally) **remains a key risk** for the trajectory of economic growth until an effective vaccine is developed. While nation-wide lockdowns are unlikely to be repeated due to a better understanding of the virus, increased testing and better treatments, a continued uptick in cases will likely weigh on consumer sentiment and hamper spending going forward.
- Over the medium to longer term, continued **aggressive actions from policy makers (both from a fiscal and monetary perspective) will be needed to support economic growth**. However, President Trump called off stimulus negotiations with Democrats 'until after the election.'
- The upcoming US presidential election will play a key role in the pandemic recovery as the next administration will determine the continued virus response, implications of potential tax changes and the possibility for further future fiscal support.

Rising COVID Cases Threatens Recovery



More Stimulus Needed for Small Businesses



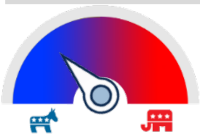
Election Checklist | Biden in the Lead

JOE BIDEN IS CURRENTLY THE LEADER IN THE 2020 PRESIDENTIAL ELECTION

- Our ten election metrics (from polling, capital market indicators and enthusiasm metrics) suggest Joe Biden is currently in the lead in the 2020 Presidential election. However, it remains a close race.

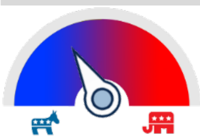
Polling Metrics

Polling/Betting Markets



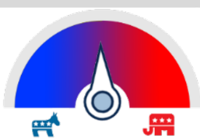
Both polling (8.1 point national lead) and betting markets (66% probability) suggest that Joe Biden is the favorite.

Swing State Polling



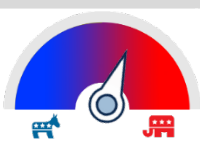
Joe Biden leads in betting markets in all six swing states.

Approval Rating



Trump's approval rating remains below 50%, and is on the cusp where previous candidates lost re-election.

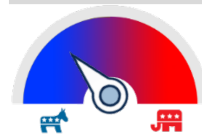
Ohio Factor



Ohio has predicted the winner in each election since 1964. President Trump currently leads in Ohio betting markets

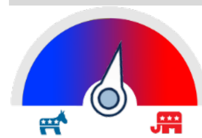
Capital Market Indicators

Economy



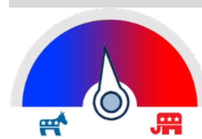
No president has ever won re-election with a recession in the two years leading up to election.

Three-Month Equity Performance



The three-month performance of the S&P 500 has predicted 20 of the last 23 elections. The demarcation line is 3,294.

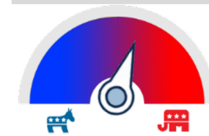
Three-Month Dollar Performance



The three-month performance of the dollar has predicted six out of the last seven elections. Currently, the demarcation line is 93.3.

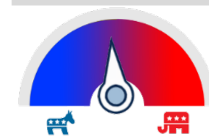
Enthusiasm

Google Searches



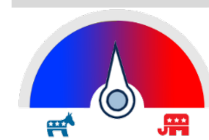
President Trump is seeing greater Google search traffic relative to VP Biden.

Party Registrations



Both Dems and Reps have seen outflows in party registrations in key swing states, while independents have grown.

Total Money Raised



President Trump has outraised Biden ($1.3 billion to $0.9 billion); however, Biden currently has more cash hand.

Overall Race Indicated by Checklist

Source: Wikimedia. Bloomberg, as of October 3.

Election Checklist | Biden in the Lead

- Internet & Direct Marketing Retail
- Technology Hardware, Storage & Peripherals
- Air Freight & Couriers
- Wireless Telecommunication Services
- Application Software
- Interactive Home Entertainment
- Household Products

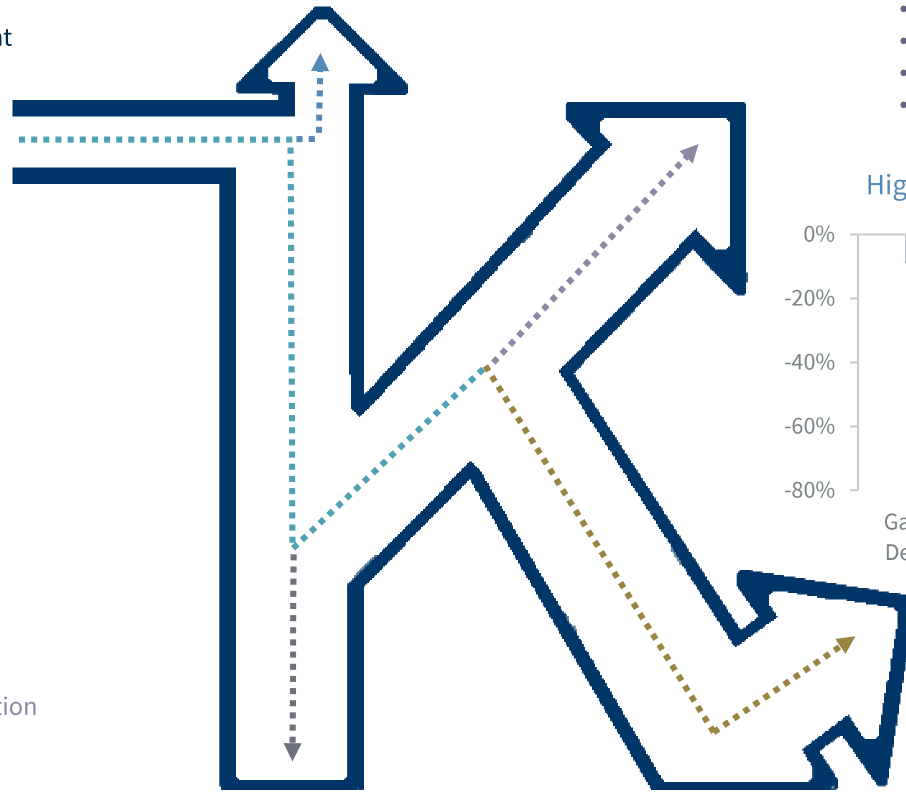
-3.3%

2020 GDP Target

+2.7%

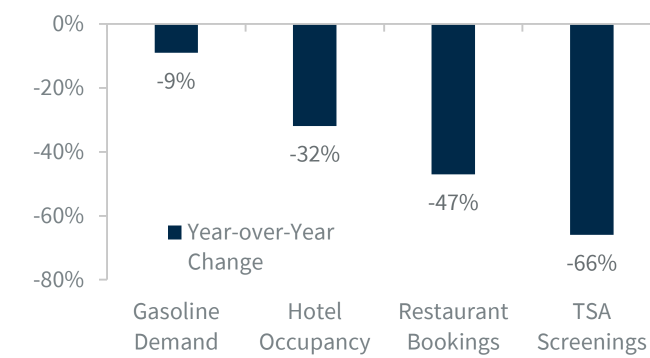
2021 GDP Target

- Oil & Gas Equipment & Services
- Oil & Gas Exploration & Production
- Integrated Oil & Gas
- Hotel & Resort REITs
- Retail REITs



- Homebuilding
- Computer & Electronics Retail
- Home Improvement Retail
- Internet Services & Infrastructure
- Building Products
- Financial Exchanges & Data
- Biotech
- Medical Supplies

High Frequency, Real-Time Indicators



- Restaurants
- Automobile Manufacturers
- Apparel, Accessories & Luxury Products
- Diversified Banks
- Hotels, Resorts & Cruise Lines
- Airlines

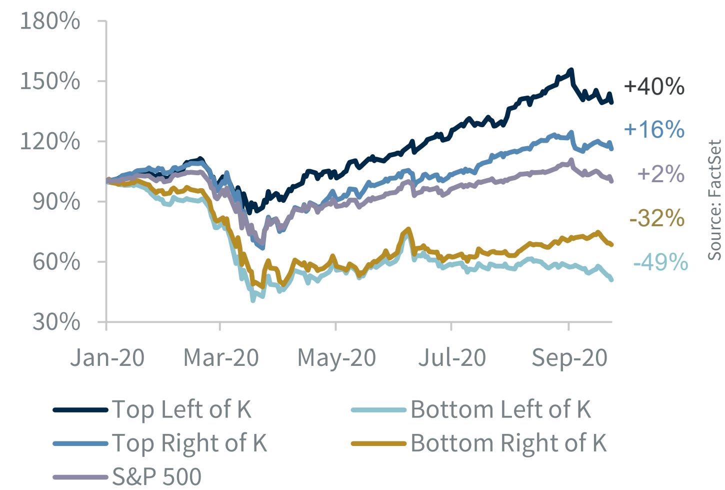
Source: Bloomberg, FactSet, Raymond James Investment Strategy estimates

Equities | Seasonal Weakness Slows Market Rally

Global Equities | Recent Trends

- **The S&P 500 followed the typical seasonal pattern in September** (September is the worst month of the year, on average) as the index declined (-3.8%) for the first time in six months and fell nearly 10% intra-month after hitting a new record early in the month.
- After getting out to the best start to a bull market (50% through 125 days) in the post- WWII era, **it was not surprising to see a consolidation in the equity market** as valuations rose to the highest level since 2001 and technical indicators (14-day RSI, put/call ratio) suggested that the market had reached stretched levels. Also pressuring equities was the break in the recent downtrend in new daily COVID cases, stalled momentum for a new fiscal stimulus package and the market beginning to price in a potential Biden presidential win (the market historically sells off if the incumbent candidate loses).
- While the S&P 500 remains up ~7% year-to-date, **there has been significant dispersion beneath the surface as the 'K'-shaped recovery continues to dictate performance.** The 'K'-recovery has favored large cap over small-cap equities, growth over value, industries at the top portion of the K and has rewarded companies with stronger sales growth.
- While the election continues to drive headlines, markets will begin to turn their focus to the 3Q20 earnings season, where S&P 500 earnings are expected to decline 21.2% YoY.

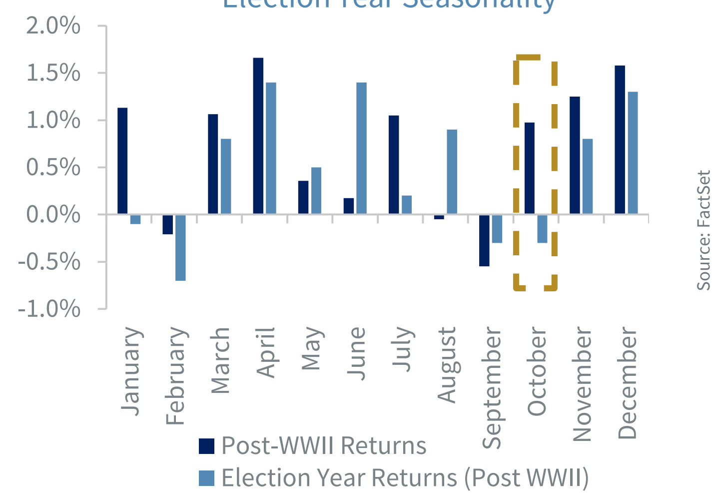
'K' Economy Driving Returns



Global Equities | 12-Month Outlook

- While the near-term trajectory for the market remains cloudy due to COVID uncertainty, **we believe that equities will be higher over the next 12 months.** Longer term, equities will be supported by a continued rebound in 4Q20 and 2021 economic growth and further fiscal and monetary stimulus. We have a year-end 2020 **S&P 500 price target of 3,459.**
- We remain biased to select cyclical sectors as they should benefit from improving economic growth and stronger earnings growth. We continue to favor **Technology, Communication Services, Health Care and Consumer Discretionary**, as these sectors can benefit from additional fiscal stimulus, online shopping, the work-from-home trend and rising consumer confidence.
- **From a market cap perspective, we favor large-cap US equities relative to small-cap US equities** as large cap has more resilient earnings 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.

Election Year Seasonality



Fixed Income | Treasurys Remain Range Bound

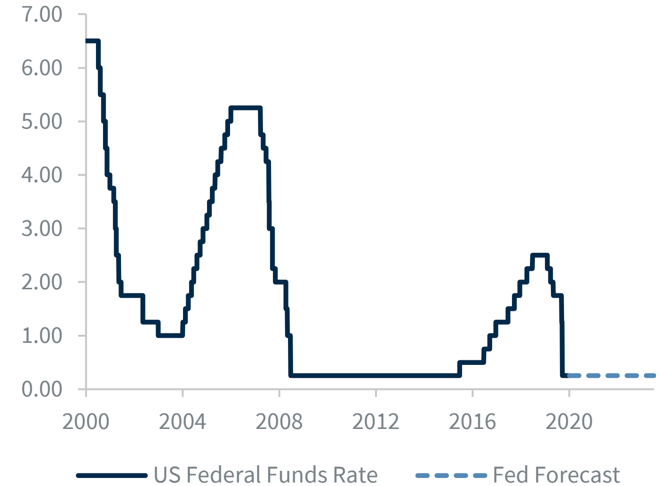
Global Bonds | Recent Trends

- While **Treasury yields** flirted with the upper end of their recent range toward the end of the month, they **continue to be range bound between 0.50%-0.80%.**
- Despite elevated Treasury issuance and improving global economic data (stronger PMIs) putting upward pressure on yields, **Treasury yields have remained range bound** due to increased risk asset volatility, 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) and signaled through its dot plot that it expects to keep the fed funds rate at zero through at least 2023.
- **Spreads between short and long-term Treasurys widened in September** as the market priced in the Fed remaining lower for longer while economic growth picks up.
- As a result of the risk asset volatility, **corporate-bond spreads rose** for the first time in six months in September despite improving economic activity. High-yield spreads rose to a two month high as declining energy prices weighed on the asset class.

Global Bonds | 2020 Outlook

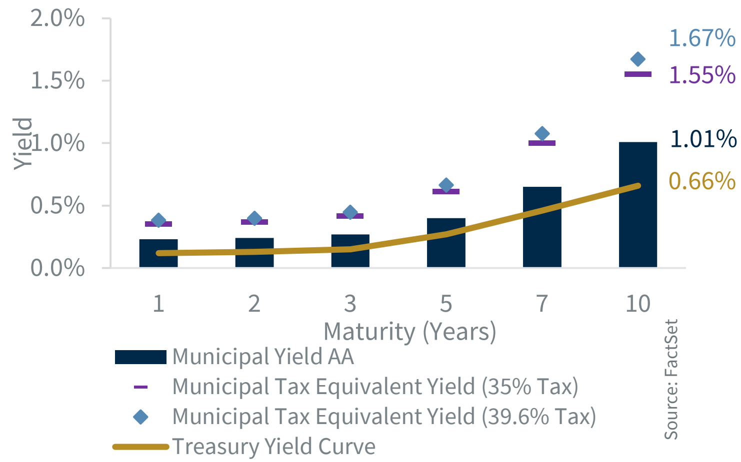
- As the market is pricing in continued economic recovery through 2021, **we forecast the 10-year Treasury yield to rise off of historic lows to 1.4% by October 2021**. However, **we anticipate the rise in yields to be limited** due to low inflation expectations, below potential economic growth, continued 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.

Fed to Leave Rates on Hold Through 2023



Source: FactSet

Municipals Benefit From Higher Taxes



Source: FactSet

Commodities & Currencies | Oil Rally Continues; Dollar Weakens

Commodities & Currencies | Recent Trends

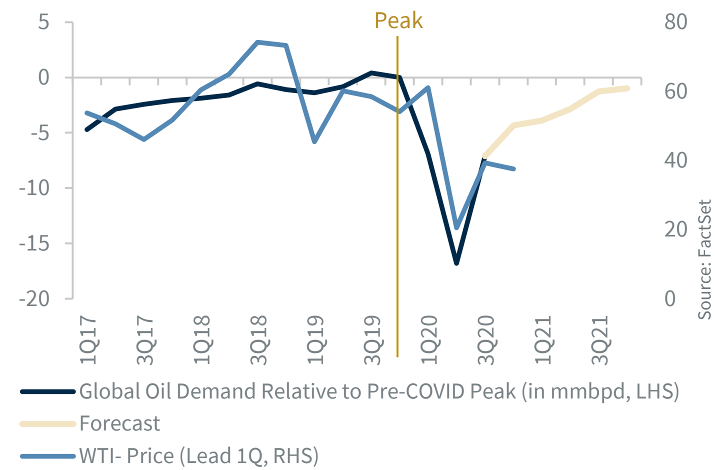
- Consistent with other risk assets, **crude oil prices declined for the first time in five months in September.** Despite the continued improvement in global economic activity, **crude oil was hampered by rising global COVID cases** (particularly in Europe and in select EM countries) as further cases could lead to additional lockdown measures and reduced demand. Also hampering crude oil in September was a strengthening in the dollar.
- While demand has recovered sharply off of the COVID driven lows, crude oil demand in aggregate remains ~11% below the pre-COVID peak. Looking at both gasoline and jet fuel demand, both remain ~12% and 50% off of their pre-COVID peaks respectively.
- While remaining near record highs, **gold declined modestly in September for the second consecutive month.** Despite continued easing from global central banks and increased risk asset volatility (as gold typically provides a hedge in periods of elevated market volatility), gold declined as a result of the strengthening in the dollar (given the negative correlation between the two asset classes) and rising real interest rates.
- As a result of the increased risk asset volatility, **the US dollar rallied 1.89% for the first time in six months.**

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.** However, once the global economy stabilizes and a therapeutic or vaccine for the virus is found (likely by year-end 2020/early 2021), 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 development of a vaccine or therapeutic), **fundamental factors that increase the supply of dollars globally such as increased deficit financing (due to the fiscal stimulus measures) and quantitative easing should lead to a weaker dollar.**

Gold Declines With Rising Real Rates

Crude Oil Demand Well Off Pre-COVID Peak



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 4Q20 and 2021 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 and 1.40% in 12 months, supported by an economic recovery in 4Q20 and 2021. 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 4Q20 and 2021 economic activity and stimulus from both the Fed and Congress should support equities. However, with political and COVID uncertainty, 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: 1.20

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 continues 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.

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DATA SOURCES

FactSet as of 9/30/2020.

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