CIO View

Monthly Strategy Snapshot

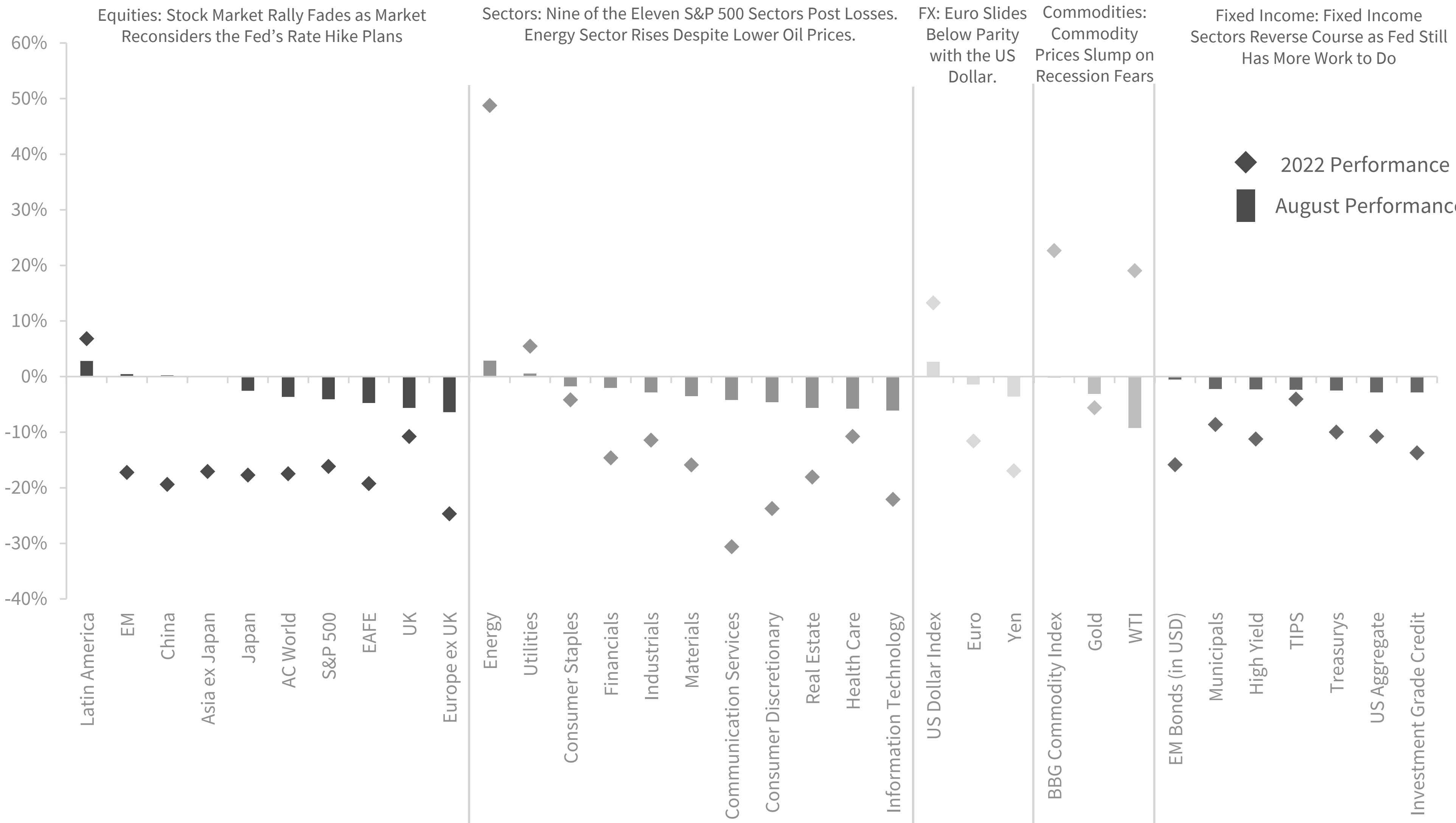
September 2022

Lawrence V. Adam III, CFA, CIMA®, CFP®
Chief Investment Officer

RAYMOND JAMES

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

Returns by Asset Class



Data as of August 31, 2022. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | Growth Still Downshifting, but Varies by Region

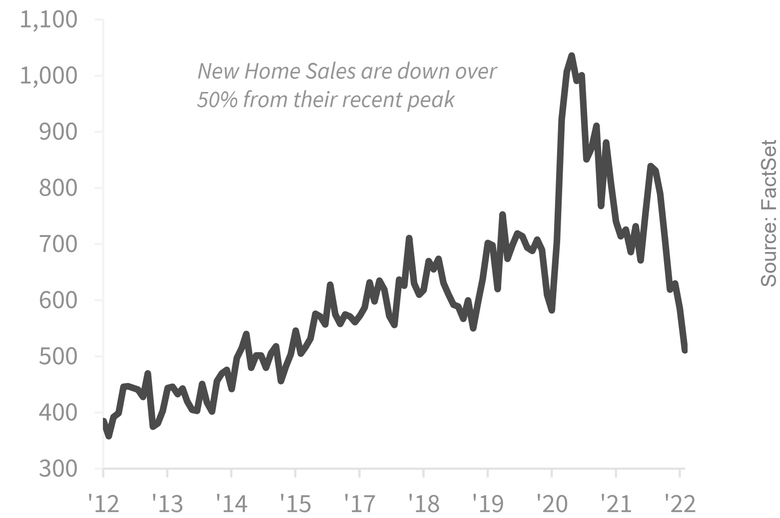
Global Economy | Recent Trends

- Concerns about a recession remain front and center for investors, yet despite two consecutive quarters of negative GDP prints, economic data remains remarkably mixed. **Higher interest rates have slowed the interest rate sensitive sectors of the economy** (i.e., housing). However, **the labor market continues to defy gravity with the creation of over 3 million new jobs** this year. Until the job market rolls over, a recession seems unlikely.
- These crosscurrents against a backdrop of elevated, but peaking, inflation pressures have been challenging for policymakers to navigate. After being late out of the gate to quell rising prices pressures, **the Federal Reserve (Fed) does not want to repeat past policy mistakes.** That is why Powell and other Fed officials are now signaling that **interest rates are likely to remain higher for longer.**
- While **inflation appears to be peaking in the US**, which has been supported by the better-than-expected inflation report (+8.5%), the ongoing energy crisis in Europe and weak euro has led to **runaway away inflation in the euro zone (9.1%) and UK (10.1%).**
- The **euro zone's manufacturing PMI plunged to a 26-month low**, marking the region's second successive contraction in business activity. After a brief reopening tailwind, **China's economic recovery also lost momentum**, weighed down by COVID flare-ups, a historic drought and the ongoing property rout.

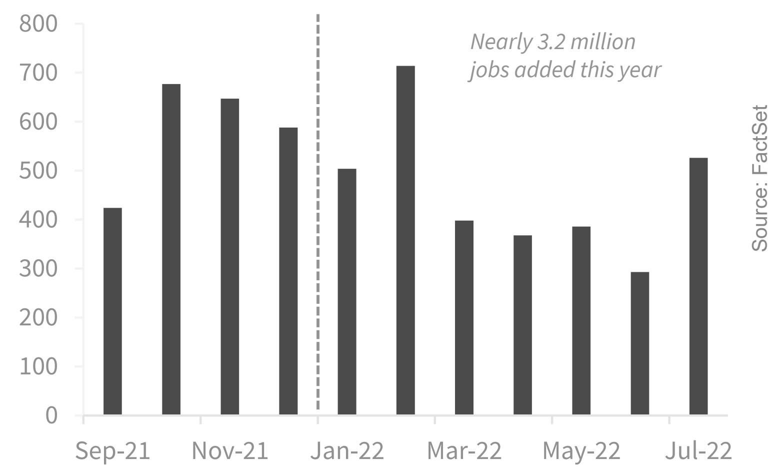
Global Economy | 12-Month Outlook

- **While economic growth contracted in the first half of this year, we still do not believe that the US economy is in a recession.** The labor market remains far too strong for the NBER, the official body that determines the dates of a recession, to conclude that the two consecutive quarters of negative growth were in fact a recession. We still expect 1.6% growth in 2022.
- However, **we expect the US economy will slow to a below trend pace next year** as the lagged effects of the Fed's aggressive rate tightening campaign continue to filter through in the real economy. We have penciled in minor contractions in growth starting the first quarter of 2023.
- **Inflation remains elevated, but there are encouraging signs** (i.e., falling commodity prices, easing supply chain pressures and bloated inventories) **that suggest price pressures are easing.** However, the Fed is not ready to declare victory yet as the sticky components of inflation (i.e., wages and owner's equivalent rents) are still accelerating.
- **Economic growth outside the US remains challenged.** Not only is the ongoing energy crisis in Europe weighing heavily on confidence and growth prospects, but it has also led to sharply higher inflation, soaring interest rates and a plunging currency. **China's growth has been disappointing** and will require further stimulus in the months ahead.

Sharply Lower New Home Sales



Solid Pace of Monthly Job Gains



Equities | Stocks Unable to Sustain Gains

Global Equities | Recent Trends

- Better than expected earnings, momentum from last month's sharp rebound and expectations that the Fed would ease up on its aggressive rate hiking campaign propelled US equities higher in the first half of the month. However, **stocks reversed course after failing at key technical levels and the market reassessed the Fed's rate hike plans.**
- This resulted in the S&P 500 giving up nearly half of the gains from its mid-June lows to end the month down 4.1%. **Nine of the eleven S&P 500 sectors posted losses during the month**, led by Info Technology (-6.1%), Health Care (-5.8%) and Real Estate (-5.6%). Energy (+2.8%) and Utilities (+0.5%) were the only sectors to deliver gains in August.
- **Earnings and sales growth continue to moderate.** While earnings growth has downshifted from the impressive gains recorded in 2021, 7% EPS growth recorded during the quarter is reasonably healthy. Valuations have also reset, with the S&P 500's forward price-earnings ratio (16.8x) now below its 10-year (17.2x) average.
- **European equities ex-UK underperformed (-6.4%)** as ongoing worries about inflation, spiking natural gas and electricity prices and recession fears continue to weigh on sentiment. **Emerging markets delivered a slight gain, up 0.5%,** significantly outperforming developed markets in August.

Global Equities | 12-Month Outlook

- While markets are likely to remain volatile in the coming months, **we maintain our 4,180 2022 year-end price target for the S&P 500** ($220 EPS estimate and a 19x multiple) and believe that the market will continue to move higher over the next 12 months.
- **We think S&P 500 earnings estimates will continue to moderate as the lagged impact of the Fed's tightening slows the economy further.** While 2022 earnings have adjusted lower toward our $220 target, we think 2023 consensus earnings (~$241) remain too high.
- **We maintain our preference for US over international equities.** Not only does the US have better economic prospects **(i.e., our tightening cycle is closer to completion and the US economy is less sensitive to the energy surge),** US corporations have shown to be more resilient during times of distress and have better profitability metrics. Our favorite sectors are Financials, Energy and Health Care.
- While US dollar strength and the onset of a Fed tightening cycle have traditionally been headwinds for emerging markets equities, they have held up reasonably well this year. **EM Asia should continue to get a lift from the economic revival post-COVID** as well as China's ongoing fiscal and monetary support.

S&P 500 Gives Up Half of Recent Gains

S&P P/E Multiple is Below 10-Year Average

AUGUST AND SEPTEMBER ARE A HISTORICALLY WEAK PERIOD FOR STOCKS

S&P 500 INDEX AVERAGE MONTHLY RETURNS (1950 – PRESENT)

Source: FactSet, Data as of 8/31/2022.

Fixed Income | Bond Yields Reverse Course

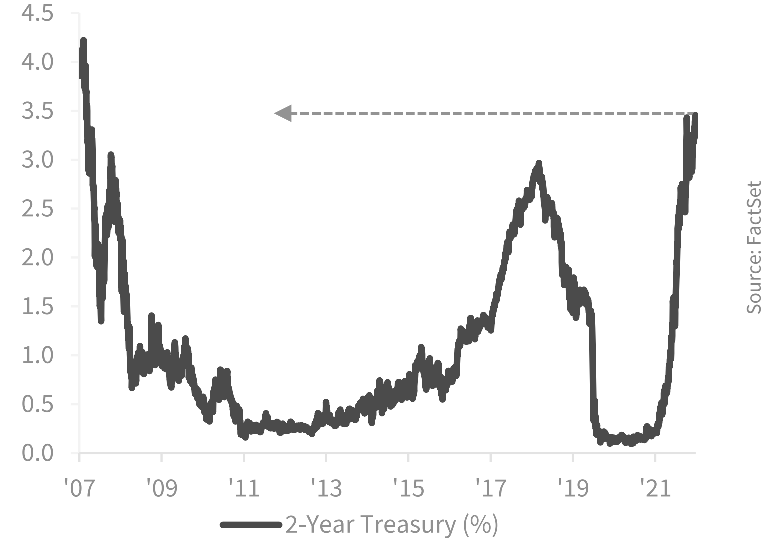
Global Bonds | Recent Trends

- **Bond yields marched noticeably higher in August as the market reassessed the Fed's interest rate outlook after a slew of hawkish comments from Fed officials** suggesting that policy rates would remain higher for longer. While the market had been pricing in a Fed pivot at Jackson Hole, Powell drove home the message that policymakers had no intention of making a U-turn on rates after one good inflation print.
- The rate cuts anticipated in 2023 were quickly reversed and the market's expectation for the peak fed funds rate rose to 3.9%. The **2-year Treasury yield soared to 3.44%, its highest level since November 2007.** The 10-year Treasury yield climbed to 3.13% after hitting a low of 2.61% nearly a month ago. The 2-year to 10-year yield curve remains deeply inverted at -31 basis points.
- **Yields across European debt markets surged.** The 2-year German Bund rose from 0.27% to 1.19% and the 10-year Bund nearly doubled to 1.54%. The move was driven by worse than expected inflation data, which has been exacerbated by soaring energy prices and a weak euro, and a more hawkish ECB.
- **Bond indices came under renewed pressure as yields shifted higher.** International bonds that do not hedge currency risk were the worst performers as the dollar soared. The Bloomberg Global Agg. ex-US Index was down 4.6% in August and has losses of 18.3% ytd.

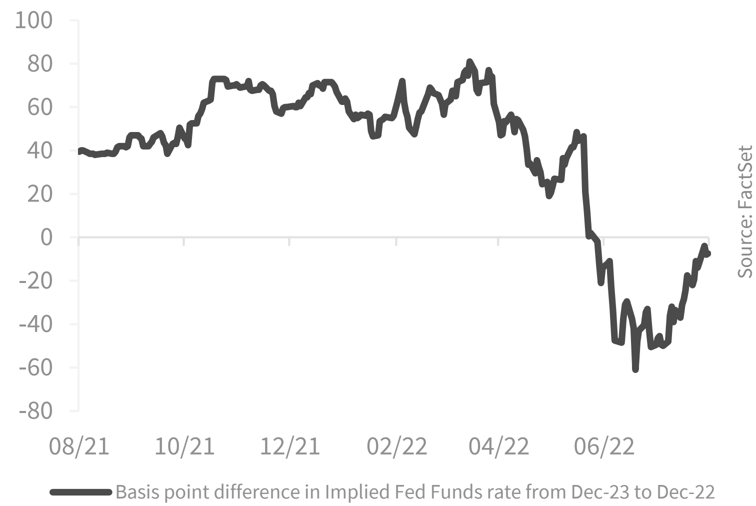
Global Bonds | 12-Month Outlook

- **Inflation remains the number one focus for central banks around the world,** with policy makers prepared to potentially tip their economies into a recession to combat rising price pressures. The Fed has more work to do to bring inflation back toward its 2.0% target and we expect the Fed to lift rates to 3.5% and remain on hold throughout 2023.
- **The Fed's quantitative tightening program is also set to ramp up into high gear** with a monthly roll-off of $95 billion in Treasuries and mortgage-backed securities starting in September. The goal is to shrink the balance sheet nearly $1.6 trillion by year-end 2023. **This should add to further tightening in financial conditions.**
- **As tighter financial conditions work their way through the real economy, it will slow economic growth and dampen inflation further.** This should be supportive for the bond market, particularly longer-maturity yields, and should lead to a further inversion in the yield curve. **We maintain our 2.85% year-end 10-year Treasury yield target.**
- While bonds have not been a great diversifier this year, the global reset in yields has made **bond valuations significantly more attractive.** We favor investment grade bonds with 4.5% to 5% yields and still find municipal securities attractive.

2-Year Treasury Yield Climbs to 2007 Levels



Market Removes Expected Rate Cuts in 2023



Commodities & Currencies | Recession Fears Crimp Commodity Prices

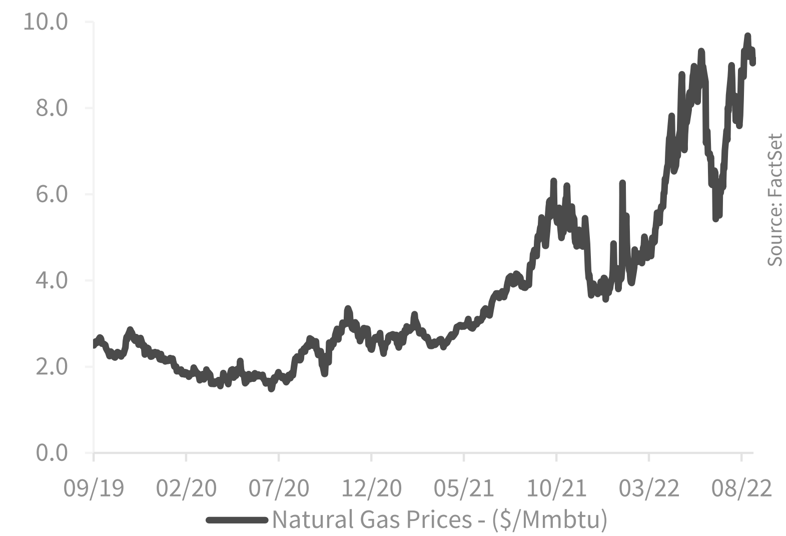
Commodities & Currencies | Recent Trends

- **The Bloomberg Commodity Index was down modestly (-0.2%) in August,** although performance within the various sub-indices was mixed. Strong gains in natural gas prices (+10.9%) and grains (+2.5%) were offset by losses in crude oil (-9.2%) and weakness in precious (-5.1%) and industrial metals (-2.9%).
- **Crude oil prices ended the month sharply lower (-9.2%)** as prospects for a nuclear deal between Iran and its Western counterparts offset concerns about Russian supply disruptions and possible OPEC+ production curbs. Oil prices slid below $90/barrel at month end.
- **The national average price for a gallon of gas continues to decline**, with the retail price now $1.18 lower than its peak in June. While this may be good news for consumers, soaring natural gas prices are likely to push up home heating bills across the US and Europe this winter. Heat waves and droughts aren't helping, leaving policymakers scrambling.
- **Slowing economic growth continues to weigh on industrial metals' prices,** with copper, aluminum and zinc prices down 30% to 50% from their peaks earlier in the year. Although gold prices are thought to be a good hedge against inflation, that hasn't been the case this year. Despite elevated inflation, gold prices are down 5.6% this year.
- **The US dollar notched another monthly gain, rising +2.6% in August and up over 13% this year.** The dollar's strength has been broad based. The big news in the foreign exchange markets was the euro falling below parity with the dollar, its lowest level since 2002.

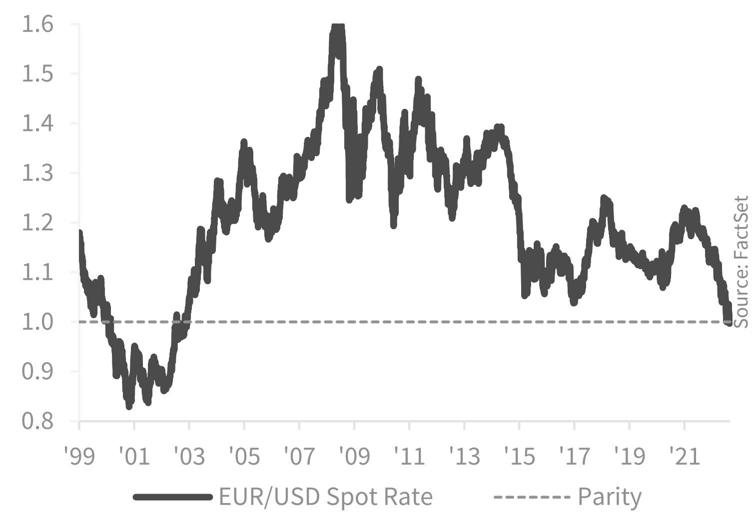
Commodities & Currencies | 12-Month Outlook

- **Concerns about slowing global growth have led to a sharp reversal in commodity prices over the last few months.** This trend should continue with central banks still tightening.
- While oil had dipped below our **$105/barrel year-end price target** amid a weakening global backdrop and aggressive releases of oil from emergency stockpiles, **we think it will be difficult to sustain a move below $100/barrel** given the ongoing Russia-Ukraine war and continued capital discipline of oil and gas companies.
- While there are concerns of widespread gas shortages due to Russia's curtailments, Europe is rapidly acquiring supply from other sources. While near-term challenges remain, **the current gas crisis and weather-related challenges (i.e., heat waves and droughts) are likely to accelerate Europe's push toward alternative energy sources.**
- **The US dollar should remain elevated in the near term** as the Fed continues to front-load its tightening cycle relative other central banks. However, further gains are likely to be limited as the US dollar's yield advantage relative to the rest of the world is likely to fade next year as the rest of the developed world plays catch-up.

Natural Gas Prices Continue to Soar



Euro Falls Below Parity for the First Time Since 2002



Summary | Views and Key 2022 Year-End Targets

1 ECONOMY

2022 US GDP: ~1.6%

We are not forecasting a recession in 2022 as job gains remain robust, consumers are still in good shape and corporations benefit from healthy balance sheets. The inventory drag likely overstated the economy's weakness in the first half and we expect growth to improve in the back half of the year, although it will remain subdued. While price pressures are easing, inflation remains too elevated for the Fed's comfort. Further tightening is expected.

2 BOND MARKET

2022 10-Year Treasury: 2.85%

The Fed's forceful response to prolonged inflation pressures has contributed to a rapid tightening in financial conditions. While growth is cooling, inflation remains stubbornly elevated. This will keep the Fed in play through the remainder of the year. Slowing growth and declining inflation expectations should be supportive for longer maturity bonds, with the curve biased to flatten/invert further. Our preferred sectors are Treasurys, higher-quality corporates and municipals.

3 EQUITIES

2022 S&P 500: 4,180

With growth slowing, we think earnings are likely to remain under pressure. However, our 4,180 year-end price target on the S&P 500 ($220 EPS, 19x multiple) remains intact. Since we believe the yield on the 10-year Treasury has been reached, valuation multiples have already reflected a lot of negative news and should stabilize from here. Attractive valuations, mid-single-digit earnings growth, increased dividends and robust buybacks underpin our optimistic longer-term forecasts.

4 DOLLAR DIRECTION

2022 EUR/USD: 1.07

The US dollar continues to benefit from stronger economic growth, favorable interest rate differentials and consistent flows into US assets. While the US dollar should remain supported in the near term by these favorable fundamentals, any sign that the Fed is pivoting to an easier policy stance could reverse the trend. We have become less constructive on the euro given the ongoing energy crisis and rising recession risks in Europe.

5 OIL

2022 Oil: ~$105/barrel

Rising recession risks have led to sharp declines in commodity prices over the last few months. This should start to alleviate some of the inflation pressures that have gripped the global economy. Despite some relief, we think oil prices will remain elevated and have a year-end price target of $105/barrel. Supply side challenges, low inventories and Russia's weaponization of oil suggest prices are not likely to remain sustainably below $100/barrel.

6 VOLATILITY

Volatility: ↑

Macro uncertainties and the upcoming midterm elections will likely keep volatility elevated over the coming months. Sources of volatility could arise from ongoing geopolitical tensions, rapid swings in commodity prices, further supply chain challenges, persistently high inflation, concerns about a Fed-induced policy error, reduced liquidity stemming from central bank quantitative tightening programs or new COVID variant strains.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

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 | Investing in currencies is 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 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 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 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 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.

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

BLOOMBERG INDUSTRIAL METALS INDEX | **Bloomberg Industrial Metals Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*.

With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

DATA SOURCES

FactSet as of 8/31/2022.

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.

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.

MSCI EM | The **MSCI Emerging Markets Index** captures large and mid cap representation across 25 Emerging Markets (EM) countries*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

GERMAN BUND | The **German Bund** is a sovereign debt instrument issued by Germany's federal government to finance outgoing expenditures.

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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863