

# INVESTMENT STRATEGY QUARTERLY

■ LETTER FROM THE  
CHIEF INVESTMENT OFFICER  
page **2**

■ ECONOMIC SNAPSHOT  
page **17**

■ SECTOR SNAPSHOT  
page **18**



## THE ROAD TO RECOVERY

**ECONOMIC OUTLOOK –  
A STRONG INITIAL  
REBOUND AND THEN...?**

■ page **4**

**FED SUPPORTS BOND  
MARKET; MARKET  
PRICES BONDS**

■ page **7**

**OIL PRICES SET FOR  
RECOVERY INTO  
2021 AND BEYOND**

■ page **10**

**FRAGILE  
TRUCE ON  
THE BRINK**

■ page **12**

**EQUITIES LOOK  
THROUGH  
UNCERTAINTIES**

■ page **14**



# Letter from the Chief Investment Officer

## Our Flag Was Still There

**“Our hearts aching, our prayers praying, our flags waving, never forget.”** These prescient words spoken by the maker of our nation’s flag, Betsy Ross, are just as true today as they were more than 240 years ago. We ache for those who are suffering from COVID-19, economic hardship, and social injustice. We pray for those protecting and defending liberty and justice for all. Our flag is still waving knowing our country will recover from today’s challenges and grow toward a better America as 2020 will surely be a year we never forget.

We maintain our belief in the ‘American Dream’ as described by James Truslow Adams, that “life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement,” regardless of social class or circumstances of birth. We not only acknowledge but embrace that we have work to do as a society, and hope that this year will serve as an inflection point as we advance toward a stronger and more united country.

As tumultuous as times are, we must always **persevere**. And so it is our duty to provide you with our mid-year outlook on the economy and financial markets.

Whether it be wars, pandemics, financial crises, or bubbles **bursting**, the US economy has a history of resiliency, and even in the aftermath of the COVID-19 outbreak, it will be **gleaming** once again. The scale of the global lockdown likely caused the most significant global recession in the post-World War II era. However, it will likely be the shortest recession on record as the **dawn’s early light** of a recovery is signaling a robust rebound in the second half of 2020. Leading indicators and real-time activity metrics suggest the ‘bottom’ occurred in April, as states eased restrictions, labor market conditions improved and consumer spending was revitalized. Admittedly, the depth of the decline (possibly -35% quarter-over-quarter annualized gross domestic product (GDP) in the second quarter) means it will take time for the economy to return to pre-COVID-19 GDP levels, which we expect will not occur until the end of 2021 at the earliest. As a result, our forecast is that US GDP for 2020 will be -5.3% before accelerating to 4.9% in 2021.

Until the recovery is evident from **sea to shining sea**, Congress and the Federal Reserve (Fed) will **make sparks fly** through fiscal and monetary stimulus efforts. The Fed took unprecedented steps to alleviate investor fears, improve credit market functionality, and provide liquidity in order to mitigate the downside risk to the

economy. Fortunately, the Fed has not utilized the newly established programs to their full capacity just yet, so plenty of firepower remains. Similarly, Congress swiftly passed record-breaking levels of direct relief and more could be provided soon, as ongoing negotiations have hinted at additional stimulus in support of the recovery rather than just as an emergency response. The cumulative actions built a pillar of support for the US economy and helped avoid the doomsday scenario.

When fear dominated the financial markets, US Treasuries quickly **earned their stripes** as heightened demand pushed the entire yield curve below 1% for the first time. The realization of an economic rebound should push yields modestly higher (year-end 10-year Treasury target 1.0%), but the upside will be limited. Despite record issuance by the Treasury in support of the economy, interest from the Fed, foreign buyers, retirees, and institutions should keep demand steady. The Fed expanded the scope of its purchase programs to include investment-grade and municipal bonds, so its ongoing purchases should lead spreads to narrow further. Therefore, we favor these sectors over high-yield bonds (of which the Fed is only buying a small portion) which are subject to heightened risk due to the expected uptick in defaults. If investing in the high-yield sector, selectivity will be critical given the high exposure to energy companies and brick-and-mortar retailers, which have arguably suffered the most due to the outbreak.

We **pledge our allegiance** to US equities, which have benefitted from aggressive policymaker action, states reopening their economies, and promising vaccine clinical trials. Despite the recent rally, we remain confident equities will move higher over the next 12 months, surpassing our year-end S&P 500 target of 3,111, as post-recessionary periods have historically been supportive of the equity market. Our bias toward US equities over international equities isn’t based on **patriotism**. Much of Europe participated in coordinated fiscal stimulus action, but US economic growth

will be more resilient and the rebound should be much more robust. In addition, the sector composition of the S&P 500 is more apt to weather a potential second wave in COVID-19 cases while simultaneously being better positioned to thrive should the economy accelerate as expected. We still favor more cyclical or growth-oriented sectors such as Technology, Communication Services, and Health Care. For long-term investors wanting international exposure, we would consider select Asian emerging market equities as they may benefit from our expectations of a global recovery, a modestly weakening US dollar, and attractive valuations.

Oil prices remain **at the liberty of** global demand, which will normalize as economies across the globe reopen. The demand fallout from COVID-19 peaked at ~20+ million barrels per day (bpd) earlier this year, but should ease to 5 and 1.25 million bpd in 2021 and 2022, respectively. Prices will also benefit from production cut agreements between OPEC and Russia as they attempt to reduce global oil supply by ~10%, and from the decline in US production due to a reduction in capital expenditures and new wells. With both the demand and supply side of the equation improving, oil prices should end the year around \$38 per barrel.

The panic-driven market movements caused by COVID-19 have been subdued, but pullbacks remain possible and should be viewed as a natural, healthy occurrence. We are monitoring the potential risks **o'er the ramparts**, especially since equity valuations are the highest since 2001 and due to the tremendous amount of optimism priced into the market. The upcoming election is poised to be a **perilous fight** as the virus-induced recession has altered President Trump's reelection prospects. No president

has won reelection when a recession coincided with the election year, and with the possibility of a Democratic sweep on the rise, the market's concern for a rollback of the corporate tax cuts may become elevated. In addition, escalating tensions between the US and China have renewed fears surrounding a derailment of the trade truce, and any potential setback in the development of a vaccine could curtail investor confidence as we seek to emerge from this ongoing health crisis.

The original **Star-Spangled Banner** is on display at the Smithsonian's National Museum of American History in our nation's capital as it encompasses the values on which our country was founded: freedom, justice, and equality. Throughout history these values have been tested, and they have always endured. From an investment strategy perspective, this is not the first year investors have faced challenges and it will surely not be the last. However, it is times such as these that prove the principles of asset allocation and selectivity are indeed a **perfect union** that can help your portfolio stand the test of time. The **stars of the flag** are located in the 'northwest quadrant' when properly flown or hung, and portfolios should strive to move toward this quadrant too – a place that maximizes return for a given amount of risk.

Have a safe, healthy and enjoyable summer. ■



**Lawrence V. Adam, III, CFA, CIMA®, CFP®**  
Chief Investment Officer, Private Client Group

All expressions of opinion reflect the judgment of Raymond James and are subject to change. Investing involves risk including the possible loss of principal. Past performance may not be indicative of future results.

## Investment Strategy Committee Members

**Lawrence V. Adam, III, CFA, CIMA®, CFP® – Committee President,**  
Chief Investment Officer, Private Client Group

**Chris Bailey** European Strategist, Raymond James Investment Services Ltd.\*

**Scott J. Brown, PhD** Chief Economist, Raymond James

**James C. Camp, CFA** Managing Director, Strategic Income,  
Eagle Asset Management\*

**Doug Drabik** Managing Director, Fixed Income Research

**J. Michael Gibbs** Managing Director, Equity Portfolio & Technical Strategy

**Kevin Giddis**, Managing Director, Chief Fixed Income Strategist,  
Investment Strategy

**Nick Goetze** Managing Director, Fixed Income Solutions

**Nicholas Lacy, CFA** Chief Portfolio Strategist, Asset Management Services

**Joey Madere, CFA** Senior Portfolio Analyst, Equity Portfolio & Technical Strategy

**Ed Mills** Managing Director, Washington Policy Analyst, Equity Research

**Pavel Molchanov** Director, Energy Analyst, Equity Research

### Chief Investment Office

**Anne B. Platt, AWMA®, AIF®, RICP® – Committee Chair**, Vice President,  
Investment Strategy & Product Positioning, Investment Strategy

**Giampiero Fuentes** Investment Strategy Analyst, Investment Strategy

**Kailey Bodine** Investment Strategy Analyst, Investment Strategy

\*An affiliate of Raymond James & Associates, Inc., and Raymond James Financial Services, Inc.





# Economic Outlook – A Strong Initial Rebound and Then...?

Scott J. Brown, PhD, *Chief Economist*, Raymond James

Efforts to contain the spread of SARS-Cov2, the strain of coronavirus that causes COVID-19, led to an unprecedented decline in US economic activity this spring. As states have relaxed social distancing guidelines, growth has picked up sharply, also on an unprecedented scale. However, the initial rebound will leave us far short of where we started the year and there is a lot of uncertainty about the virus and the future availability of a vaccine or effective treatment against it. A full recovery will take time.

Social distancing had a major impact on several sectors of the economy, notably air travel, hotels, restaurants, retail, spectator events, and healthcare – anything where one would come into close contact with other people. Job losses in these sectors have been massive. The leisure and hospitality sector lost half of its jobs between February and April. A key concern was whether that economic weakness would snowball – that the corresponding loss of wage income would lead to further reductions in consumer spending. That spending is someone else's income. However, second-round effects have appeared to be relatively limited thanks to government aid.

The fiscal support was as unprecedented as the downturn itself. More will likely be needed.

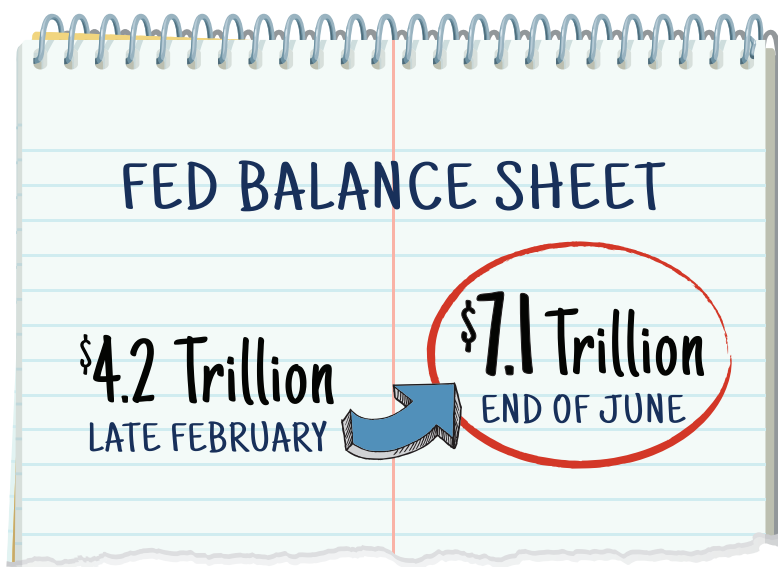
## FISCAL STIMULUS SHORES UP THE SYSTEM

Federal support has played a key role in countering the economic effects of the pandemic. Increased spending on healthcare was critical in treating the infected. 'Recovery rebate' checks and expanded unemployment insurance benefits helped to shore up household income. Lending to small businesses kept many firms operating. Federal aid to the states offset strains in state and local government budgets.

The fiscal support was as unprecedented as the downturn itself. More will likely be needed. Extended unemployment benefits are set to run out at the end of July. State and local budget strains will worsen amid falling revenues and recession-related spending increases. The first three phases amounted to nearly \$3 trillion, over 14% of gross domestic product (GDP). Bear in mind that the deficit was running at over \$1 trillion per year prior to the pandemic, with the economy near full employment.

The Federal Reserve's (Fed) response to the pandemic was quick and forceful. The Fed cut short-term interest rates to effectively

The Fed's balance sheet increased almost two-fold as a result of stimulus measures such as the CARES Act.



zero in early March and restarted asset purchases ('quantitative easing'). It relaunched liquidity and lending facilities that it had employed during the financial crisis and created some new ones. The size of the Fed's balance sheet rose from around \$4.2 trillion in late February to \$7.1 trillion at the end of June.

### BUDGET DEFICITS AND INFLATION

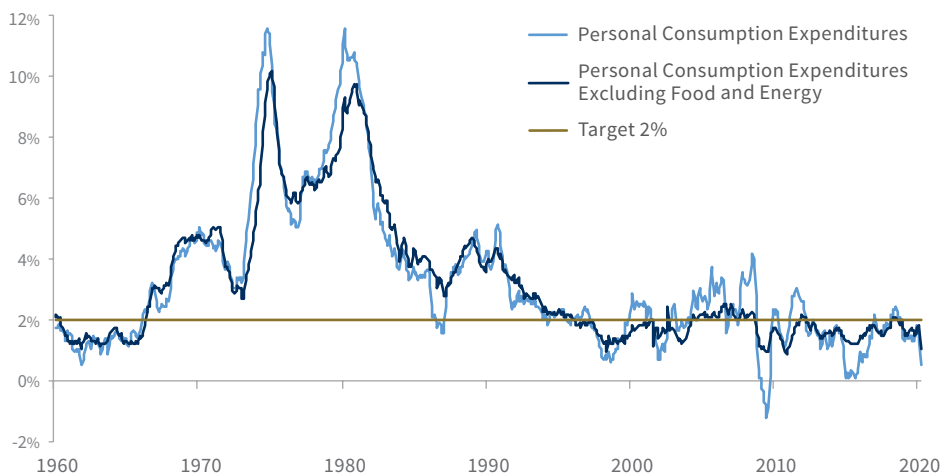
Many investors are concerned about the government's ability to repay the additional borrowing. However, the government is nothing like a household. The government only has to make interest payments and be able to roll over maturing debt. That's not a problem currently. Interest rates are low and are expected to remain so over the long term. While the federal government has been borrowing more in the near term, the Fed has increased its holdings of Treasury securities. Private savings have increased and the demand for safe assets is strong.

Still, the federal budget was on an unsustainable path before the pandemic. Federal debt was rising as a percent of GDP. At some point, beyond the pandemic, lawmakers will have to work to bring the deficit in line. That doesn't mean balancing the budget. Rather, we should try to have the national debt stable or falling as a per-

cent of GDP over time. Lower deficits will require higher taxes, cuts to entitlement and other spending programs, or some combination. However, there is no rush. The bigger dangers are not doing enough to back up the economy in the near term and ending support too soon. Budget austerity may have broad political support, but it would make the recovery weaker.

Some investors worry that the Fed's efforts will fuel higher inflation. This is the same concern that was expressed during the financial crisis. Inflation is a monetary phenomenon. Yet, the relationships between growth, inflation, and the money supply broke down in the early 1990s. For the most part, the Fed views inflation as driven by inflation expectations and pressures in resource

### Inflation Remains Below Target



Source: FactSet as of 5/29/2020

---

“The bigger dangers are not doing enough to back up the economy in the near term and ending support too soon.”

---

markets – capital, labor, and raw materials. Following the great inflation of the 1970s and early 1980s, the Fed spent decades establishing its credibility as an inflation fighter and was perhaps a little too successful in keeping inflation low. It has struggled to achieve its 2% inflation goal over the last several years. Importantly, the Fed and other central banks around the world have not abandoned their inflation goals. There is no conspiracy to monetize the debt.

The pandemic has shifted from a supply shock to a demand shock. There is excess productive capacity globally. While there may be some bottleneck inflation pressures as economies around the world begin to recover and supply chains are adjusted, significant inflation pressures in capital and raw materials are unlikely. In the US, the labor market is the widest channel for inflation. Labor cost pressures are expected to be mixed, but generally moderate. In the near term, high unemployment should keep wage increases in check, although job losses have been highest at the low end where there wasn't much pressure to begin with.

## RECESSION AND RECOVERY

The recession began in February and may have ended in April or May. That would be the shortest downturn on record. That doesn't mean that the economy has recovered; it simply means that the economy began growing again. As the downturn was unprecedentedly large and swift, the initial rebound will be exceptionally strong and investors have eagerly embraced that view. Economists expect that third quarter GDP growth will be the strongest ever recorded, led by a sharp rebound in consumer spending. With the ability to spend limited in the downturn, savings improved, and that should fuel spending in the near term. However, the initial rebound will leave the level of GDP far below where it was at the end of 2019.

Looking ahead, the pace of recovery will depend on the virus and efforts to contain it, but it will likely be several quarters before GDP returns to its pre-pandemic level. It will take the economy

even longer for GDP to get back to its previous trend. Absent a vaccine or effective treatment, the sectors affected most by social distancing can be expected to recover gradually. We could have some luck with the development of a vaccine, but risks to the outlook into next year appear predominately to the downside.

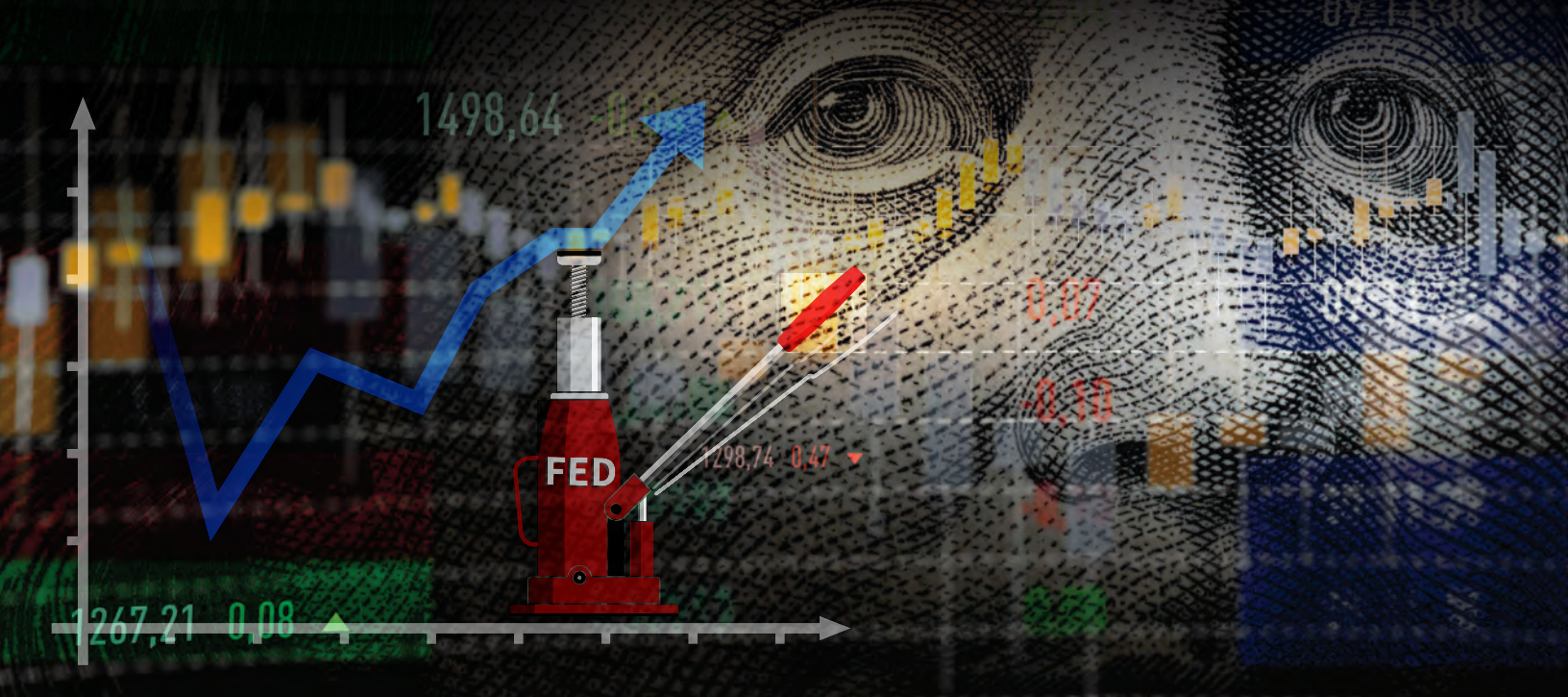
One fear is that reopening the economy too soon raises the risk of a second wave of infections and a more prolonged period of social distancing. More likely, the US has implicitly settled on a trade-off between economic activity and a moderate pace of new infections and deaths.

Severe recessions usually leave long-lasting impacts on economic activity. Consumer behavior and global trade are unlikely to return to previous patterns. While the recent improvement in the economy is welcome, there will be significant long-term damage in some sectors. As Fed Chair Powell noted, the coronavirus has taken a human and economic toll and “the burden has fallen most heavily on those least able to bear it.” ■

### KEY TAKEAWAYS:

- As states have relaxed social distancing guidelines, growth has picked up sharply.
- Federal support has played a key role in countering the economic effects of the pandemic.
- The recession began in February and may have ended in April or May – the shortest on record. That just means that the economy began growing again, it doesn't mean that the economy has recovered.
- The pace of recovery will depend on the virus and efforts to contain it, but it will likely be several quarters before GDP returns to its pre-pandemic level.





# Fed Supports Bond Market; Market Prices Bonds

James Camp, CFA, *Managing Director, Strategic Income, Eagle Asset Management\**

All corporations now having an implied 'government guarantee' is a growing perception by some investors and market strategists. The catalyst for this view is the creation of the Primary and Secondary Market Corporate Credit Facilities under the direction of the US Federal Reserve (Fed) and US Treasury. Both facilities are part of the government's recent spate of rescue packages in response to the economic and financial market damage caused by the COVID-19 pandemic.

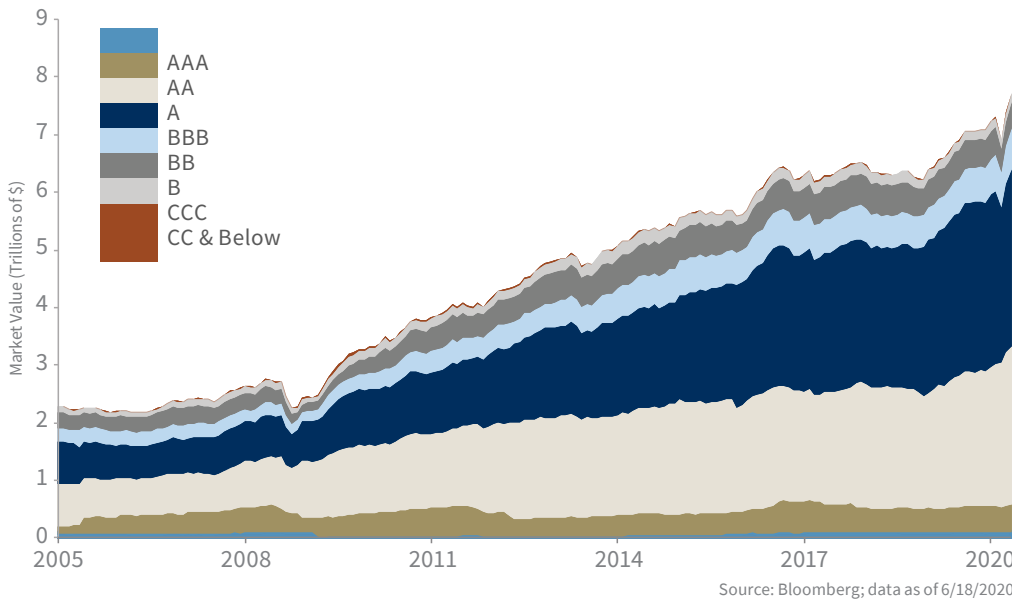
While these policies will likely have unintended, long-term consequences, we believe they were necessary in the short term. However, we also believe the economic and market shock created by the outbreak and subsequent shutdowns has laid bare issues that had been percolating underneath the surface for some time. Risks that were not properly accounted for heading into this crisis are reflected by tight and narrowing corporate credit spreads. In fact, the corporate bond market appears to be pricing risk between industries and individual companies better now than pre-coronavirus. 'Follow the Fed' has been a mantra for the past decade when the Fed's large scale asset purchase programs (quantitative easing or QE) were focused on US Treasuries and agency mortgage-backed securities. But following the Fed into the corporate bond market as a whole is not the same as following it into triple-A rated securities explicitly backed by the full faith of the US government.

... the corporate bond market, overwhelmed by fund flows and complacency eleven years into the expansion, was not fulfilling its role as an arbiter of quality and risk pricing.

## PRE-CRISIS

Rate of change data for the US economy and corporate earnings showed signs of slowing for over a year heading into 2020. A decade of near-zero short-term interest rates modified investor and corporate behavior. Well documented conditions of corporate indebtedness for unproductive, shareholder friendly endeavors set the table for a period of balance sheet de-leveraging and slower growth. The share of BBB-rated corporate bonds doubled from a decade earlier to nearly 50% of all investment-grade corporate debt. On top of this, the disparity of credit metrics within that category of credit quality grew to high levels. The bottom decile of BBB-rated companies had leverage ratios over three times higher than the top decile. Interest coverage ratios were even more divergent, up to seven times within the same BBB rating category. Yet, investor demand for yield and the rise of passive debt vehicles produced record tight credit spreads in aggregate, and low intra-sector spreads among issuers. Simply stated, the corporate bond market, overwhelmed by fund flows and complacency eleven years into the expansion, was not fulfilling its role as an arbiter of quality and risk pricing.

## BBB-Rated Bonds Nearly Double Over The Last Ten Years



“If you’ve got a bazooka, and people know you’ve got it, you may not have to take it out.”

– Hank Paulson  
Former US Treasury Secretary,  
September 8, 2008

That changed in March 2020 when the seriousness of the COVID-19 pandemic came into focus. The swiftest drawdown in stock market history was accompanied by a complete collapse of the corporate bond market. Cross-asset volatility hit dizzying heights as bonds, stocks, and commodities fell in unison. The Financial Conditions Index, the broadest measure of capital market health, jackknifed in the sharpest decline on record. The inertia vacuum of asset prices essentially halted capital market activity in March. Corporate bonds suffered their worst loss in a decade and investment-grade corporate credit spreads spiked three and a half times to 373 basis points. High yield fared even worse with spreads of 1,100 basis points.

### THE FED TAKES ACTION

Fortunately, the Fed acted. Special purpose vehicles were created at the US Treasury, which unlike the Fed, can directly purchase obligations of corporate bonds. With the Fed able to finance these positions with leverage, the bond buying capacity could be almost limitless. But as former US Treasury Secretary Hank Paulson stated during the 2008 financial crisis, “If you’ve got a bazooka, and people know you’ve got it, you may not have to take it out.” Indeed that has been the experience to date, as the aforementioned Financial Conditions Index has retraced 90% of the move down despite limited actual buying by the Fed. It took nearly a year and a half for a similar recovery post-2008.

During April, with the Fed’s backstop, the corporate bond market was flooded with issuance. As national ‘shelter-in-place’ orders took effect, corporate America began its ‘rescue-in-place,’ shoring up balance sheets with sufficient capital to survive the depth- and duration-uncertain recession. While a necessary condition for

ultimate recovery, the cost was dear. Many high-coupon bond deals were issued with short tenors and call features making them eligible for future purchase by the new credit facilities. Fully 30% of all recent debt issuance has occurred in the three to five year maturity range, twice the amount of the current corporate debt percentage in that maturity range. This funding strategy will allow potential refinancing if and when COVID-19 related financial strains abate. But these funds will not be deployed into productive and growth enhancing endeavors, and the ‘rescue,’ while necessary, comes at a cost.

### ENTERPRISE SPECIFIC RISK

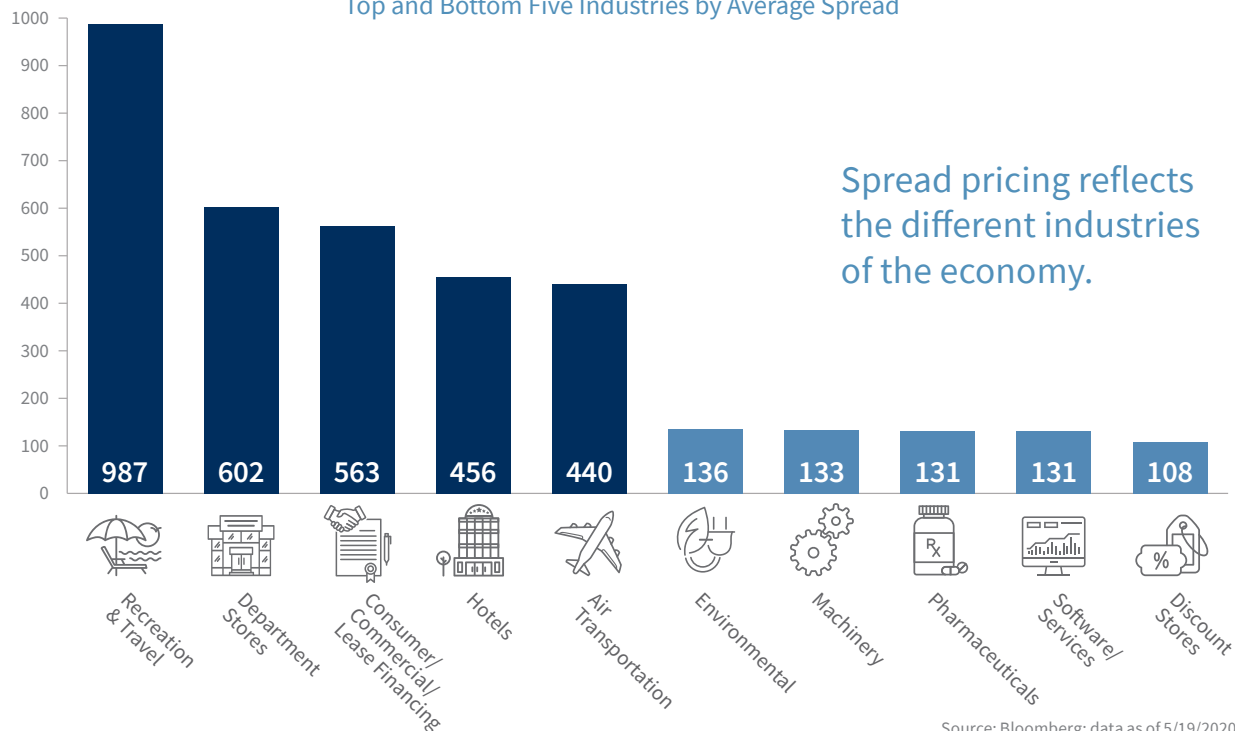
While Fed actions put function back into the debt markets, issuer-specific debt costs reflect enterprise level risk. The price discrimination mechanism for access to capital returned from hibernation. Contrary to the perceived ‘bailouts’ of yesteryear, the pandemic and monetary response in many cases simply offers a ‘stay of execution.’ The recession of 2020 must be viewed as a government-imposed shuttering of the economy. This was a choice. The supportive measures necessary now seem less distortive and philosophically troubling viewed in that light. And, the pandemic will unambiguously reorder the economy and reprice assets across sectors. The market is functioning.

The chart to the right shows the spread pricing (the yield in excess of the 10-year Treasury yield) of various industries. The top industries’ spreads are moving back toward long-term averages. Conversely, the bottom five industries have spread levels similar to high yield just months ago. On a more granular level, security-specific risk is reflecting enterprise level risk and leverage. For example, both Ford



## Lockdown-Induced Widening of Spreads

Top and Bottom Five Industries by Average Spread



and GM bonds are eligible for the Fed's Primary and Secondary Credit Facilities. But the spread for Ford is 80 basis points wider than pre-COVID-19. The airlines are more dramatic. The spread between Delta Air Lines and Southwest Airlines is over 800 basis points wide. The Fed is supporting markets, not individual companies.

This point is even more relevant for high yield. Though the Fed has expanded its potential reach into high yield, the program seems focused on ETFs with gates on dollar amount and premiums to net asset value. The Fed's capacity to purchase high yield ETFs is approximately \$14 billion, based on the Fed's 20% market capitalization limit, but current premium limitations only allow for a fraction of that amount to be purchased. If moribund companies deeply scarred by the pandemic continue to be kept alive by expanded Fed action, the overall process of reordering and redeploying capital is neutered. This ultimately weighs on growth and productivity. Earnings are expected to decline 40%, net corporate indebtedness has increased, and the pace of downgrades and defaults will accelerate.

Healing markets won't bail out individual companies. The Fed's liquidity measures can help otherwise healthy companies survive a credit crunch, but they can't shore up solvency issues. Bond market investors must not conflate market risk with issuer specific risks. ■

### KEY TAKEAWAYS:

- Simply stated, the corporate bond market, overwhelmed by fund flows and complacency eleven years into the expansion, was not fulfilling its role as an arbiter of quality and risk pricing. That changed in March 2020 when the seriousness of the COVID-19 pandemic came into focus.
- While Fed actions put function back into the debt markets, issuer-specific debt costs reflect enterprise level risk.
- Contrary to the perceived 'bailouts' of yesteryear, the pandemic and monetary response in many cases simply offers a 'stay of execution.'
- The Fed's liquidity measures can help otherwise healthy companies survive a credit crunch, but they can't shore up solvency issues. Bond market investors must not conflate market risk with issuer-specific risks.

All expressions of opinion reflect the judgment of Eagle Asset Management, Inc. and are subject to change. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

Note: Industries based on the ICE BofA U.S. Corporate Index; option-adjusted spread (OAS) is the measurement of the yield spread of a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option.



# Oil Prices Set for Recovery into 2021 and Beyond

Pavel Molchanov, *Director, Energy Analyst, Equity Research*

It is a good bet that none of us will ever forget seeing West Texas Intermediate (WTI) oil prices at a negative \$30 per barrel. Was that the bottom? In a word: Yes. The extraordinary sight of negative pricing marked the worst of the COVID-19 pandemic's impact on global oil demand. While sub-zero prices are unlikely to be repeated, that does not mean that it will be all smooth sailing from here on out. Demand recovery to pre-COVID-19 levels is unrealistic until 2022, so supply will need to play a key role in rebalancing the market.

## NEGATIVE OIL PRICES?

First, about those negative prices. That was a very short-lived phenomenon – just a few days in mid-April – and, to clarify, it was specific to WTI. WTI, the price most US investors see, is not always indicative of global oil market fundamentals. In April, the overall oil market panic was compounded by a WTI-specific issue: storage in Cushing, Oklahoma (where WTI contracts are priced) was reaching capacity. This is what's called oil-on-oil competition: literally, not enough room to put the extra barrels. Internationally, while the oil market was also under intense stress, prices did not go negative, because the storage issues were less pressing. We do not envision a return to negative prices, but if it were to happen again, investors should focus on Brent – the global benchmark – rather than WTI.

The demand picture into the second half of 2020 should continue to improve, ... but it would not be realistic for demand to fully normalize in 2021.

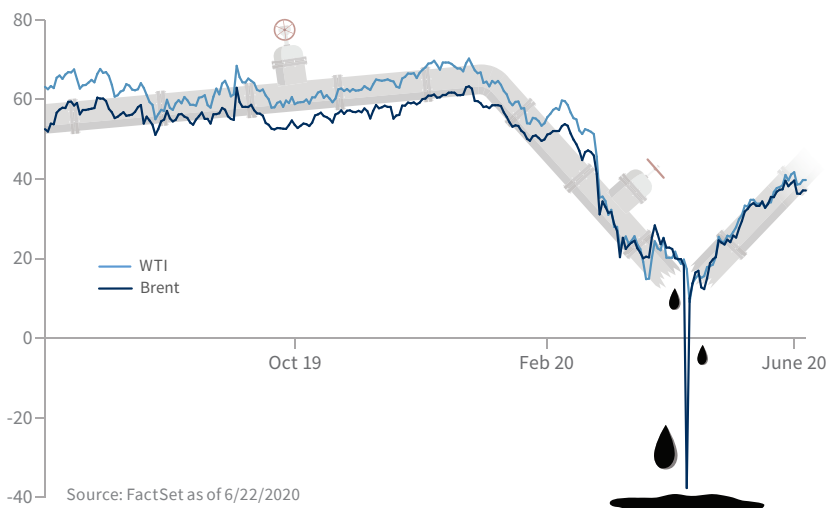
## SUPPLY AND DEMAND

We believe that the worst of COVID-19's demand impact is in the rearview mirror, having peaked in April at upwards of 20 million barrels per day (bpd). The initial recovery since then reflects, above all, the timing of economic reopening decisions by governments. We have been tracking reopening policies in 80 countries, and here is the synopsis: of the 4.3 billion people who have been under a lockdown at some point since January, over 99% have some reopening, including 80% with what we define as reopening concluded. At this point, further reopening is purely a matter of 'depth' rather than 'breadth', whether using a sectoral approach or along regional lines. The positive read-through for transportation activity is confirmed by traffic congestion data, as well as commentary by refiners and other energy companies during the recently concluded reporting season.

The demand picture into the second half of 2020 should continue to improve as the various countries move along their reopening roadmaps, but it would not be realistic for demand to fully normalize in 2021. Not only will demand in 2021 still be

“WTI, the price most US investors see, is not always indicative of global oil market fundamentals.”

## Domestic vs. International Oil Prices



affected by the post-crisis economic damage (high unemployment, business bankruptcies, etc.), but the pandemic has also caused a structural shift in travel patterns around the world. This includes more telecommuting and distance learning, as well as less travel (especially less flying) for both leisure and business purposes. In the absence of a vaccine, the way many people think about the health risk of getting on planes, cruise ships, or even buses will remain problematic. Gauging consumer psychology is more art than science, but our current assumption is that COVID-19's impact will be 5 million bpd in 2021, disproportionately in aviation. For 2022 and beyond, assuming a vaccine is widely available by that point, thereby enabling a reversion in travel patterns to something closer to pre-COVID-19 levels, we think the impact will diminish to 1.25 million bpd.

Alongside the recovery in demand, the production cuts being implemented by OPEC and Russia are also helping to bring the global supply/demand situation into balance. These cuts took effect in May and the plan is for them to continue, at gradually decreasing levels, into 2022. Even more importantly, drastic cutbacks in the oil industry's capital spending will weigh on global oil supply for years to come. Capital spending in 2020 is below its previous (2016) trough, and nowhere has it fallen more sharply than in the US. At current oil prices, there is no way to avoid US production continuing to fall through all of 2021 and 2022. The industry would simply not be able to generate sufficient cash flow to enable spending to recover to maintenance levels, to say nothing of resuming growth. In addition to the US, other countries where organic field declines are likely to be hefty include China, Mexico, and Colombia.

To prevent drawdowns in global oil inventories from reaching unsustainably steep levels (thus leading to a future shortage), oil price recovery will need to be more robust, as well as more rapid, than what is implied by commodity futures. With the caveat that the level of uncertainty – for both demand and supply – has probably never been higher than it is currently, we forecast WTI prices recovering to \$38 per barrel in 4Q20 and \$50 as the average for 2021. For 2022 and beyond, our long-term assumption is \$65. ■

### KEY TAKEAWAYS:

- We do not envision a return to negative prices, but if it were to happen again, investors should focus on Brent – the global benchmark – rather than WTI.
- The demand picture into the second half of 2020 should continue to improve as the various countries move along their reopening roadmaps, but it would not be realistic for demand to fully normalize in 2021.
- Alongside the recovery in demand, the production cuts being implemented by OPEC and Russia are also helping to bring the global supply/demand situation into balance. These cuts took effect in May and the plan is for them to continue, at gradually decreasing levels, into 2022.

All expressions of opinion reflect the judgment of Raymond James, and are subject to change. Investing involves risk including the possible loss of capital. Past performance may not be indicative of future results. Companies engaged in businesses related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence.





# Fragile Truce on the Brink: Why China Remains a Major 2020 Theme

Ed Mills, *Managing Director, Washington Policy Analyst, Equity Research*

The year began with the signing of a 'Phase One' economic and trade agreement between the US and China which was set to provide President Trump with a significant win backing up a strong economy heading into his reelection campaign. However, as we have seen in most other areas, the spread of COVID-19 and the associated economic disruption shifted the dynamics of the relationship between the US and China in a major way.

Importantly, the Trump administration's China 'hawks' are now clearly driving the agenda, as evidenced in the recent uptick in administration policies challenging China in an increasingly broad manner. Particularly, US/China tensions are notably rising in the areas of technology (next-gen 5G networks and advanced computing) and capital markets, which will be leading themes for the rest of 2020 and beyond. The tensions are also becoming increasingly geopolitical in nature, as we have seen in questions over the future of Hong Kong and Taiwan.

Looking to the future, we will be keeping a close eye on two factors which will play a large role in the US/China dynamic in the coming months: the scope and pace of the US economic recovery, and political messaging leading up to the November elections. We expect the election campaign to entrench negative public senti-

... we could see some relaxation of tariffs, as a way to relieve economic pressures and support recovery.

ment against China for the foreseeable future and become a key campaign issue for both President Trump and former Vice President Biden. Furthermore, a faster than anticipated economic recovery along the lines of the bounce back we have seen in the market could embolden President Trump to take more aggressive actions against China, as we have seen throughout the trade fight of 2017-2019. Throughout this, market attention will focus on the threat of the Phase One trade deal collapsing. Although we anticipate escalating tensions could lead to threats to pull out of the deal by either side, the economic relationship may prove to be an important area of cooperation in order for the two sides to maintain dialogue during a fragile global economic recovery.

## PRESSURE ON CHINA INCREASINGLY BIPARTISAN ACROSS THE GOVERNMENT

In the wake of COVID-19's disruption in the US, we have seen a more unified effort across the government to increase pressure on China. A variety of notable actions have come from the White House, Congress, and federal agencies increasing pressure on China in areas such as technology, capital markets, human rights,

## By the Numbers

5

Actions and regulations by federal agencies to limit China's access to US technology/software

4

US government actions to increase pressure on China's human rights record

3

US government actions to scrutinize China's access to US capital markets

2

Major bills in Congress to assign damages to China for the spread of COVID-19

1

US Election

and supply chain security. The increased pace of these actions matches the war of words between the two nations which has escalated over China's role in the global spread of COVID-19.

In our view, the most impactful of these efforts will be limiting access to US technology and software to China's leading technology companies and increasing scrutiny on China's access to US capital markets. The tech war dramatically escalated this spring, and the conditions for a longer-term 'Tech Cold War' are solidifying, causing the US and China to compete over primacy in the space of next-gen networks and technologies. Pressure is also building on capital market ties between the US and China. The Trump administration successfully pushed back on the government retirement savings fund transitioning part of its portfolio to Chinese equities, and there is a high likelihood of Congress enacting a law that would force Chinese equities to delist from US stock exchanges if they do not meet certain auditing standards. In all, these two pressure points are likely to be long-term trends, regardless of the administration in power following the 2020 elections.

### IMPACT OF THE 2020 CAMPAIGN

We are often asked why this bipartisan push against China exists and whether a potential Biden administration would walk back some of the hardline approach of the Trump administration. I always go back to one of the first lessons I learned as a young Capitol Hill staffer – "In politics, when you are explaining, you are losing." For members of Congress, they have a choice of which team they want to be on: Team China or Team USA. This is not a difficult political choice and we see this playing out on Capitol Hill where members only challenge President Trump with proposals to go even further than he has in confronting China.

This dynamic will limit the extent to which there can be an alternative view with regard to the US relationship with China, particularly given the spread of COVID-19. This election is likely to be one where both Republicans and Democrats will have to take a tough line on China and explain how they plan to hold China accountable for the narrative forming around China's lack of effective information sharing and containment on COVID-19. Further, given that a significant portion of this year's legislative action has been stifled by the spread of the virus, candidates will lean more on their China policy

as a demonstration of actions they've taken during their time in office while making their reelection pitch. This is likely to entrench an overall negative view of China for a significant period.

It is also worth noting that an expanded scope of frictions between the two nations, particularly in an election year where rhetoric will be consistently elevated against China, limits opportunities to find off-ramps to de-escalate. This increases the overall risk of miscalculation on critical matters. Although the two sides are appearing to separate out the recent disputes in order to maintain general economic cooperation, the risks are rising of a spiraling confrontation. Alternatively, the economic relationship may prove to be an important area of cooperation for the two sides to continue a dialogue and maintain general global economic stability at a fragile time. Should Biden win the presidency in November, we could see some de-escalation, but far from a complete thaw. We believe a Biden presidency would seek to reestablish traditional post-World War II global alliances that have been impacted by the Trump presidency. Should that occur, walking back on China would likely not be a top priority. However, we could see some relaxation of tariffs as a way to relieve economic pressures and support recovery. ■

### KEY TAKEAWAYS:

- The spread of COVID-19 and the associated economic disruption shifted the dynamics of the relationship between the US and China in a major way.
- The Trump administration's China 'hawks' are now clearly driving the agenda, as evidenced in the recent uptick in administration policies challenging China in an increasingly broad manner.
- A variety of notable actions have come from the White House, Congress, and federal agencies increasing pressure on China in areas such as technology, capital markets, human rights, and supply chain security.
- The economic relationship may prove to be an important area of cooperation for the two sides to continue dialogue and maintain general global economic stability at a fragile time.



# Equities Look Through Uncertainties

**J. Michael Gibbs**, *Managing Director, Equity Portfolio & Technical Strategy*

**Joey Madere, CFA**, *Senior Portfolio Analyst, Equity Portfolio & Technical Strategy*

Following one of the worst quarterly performances in history in the first quarter of 2020, the S&P 500 staged a remarkable rally during the second quarter. Importantly, powerful surges in performance out of recessionary bear markets have historically been indicative of further strength and above-average returns over the next 12 months. Fueling the rally has been enormous fiscal and monetary stimulus (with more likely to come), as policy makers attempt to support the economy and reduce credit concerns.

As the economy restarts, numerous early economic readings are moving ahead of expectations, buoying investor sentiment toward the recovery process. This will be important to monitor as we believe the trajectory of the recovery will be paramount to investors as we move into the back half of the year. Still, the virus spread remains a central influence on the equity markets. We are encouraged by the promising medical data on treatments and the potential for a vaccine, as they can have material impacts on consumer behavior and the pace of the economic recovery. However, we are also mindful of the potential for pockets of outbreaks as the economy reopens, though we believe the bar is high for state-wide shutdowns again and more likely there will be slower reopenings.

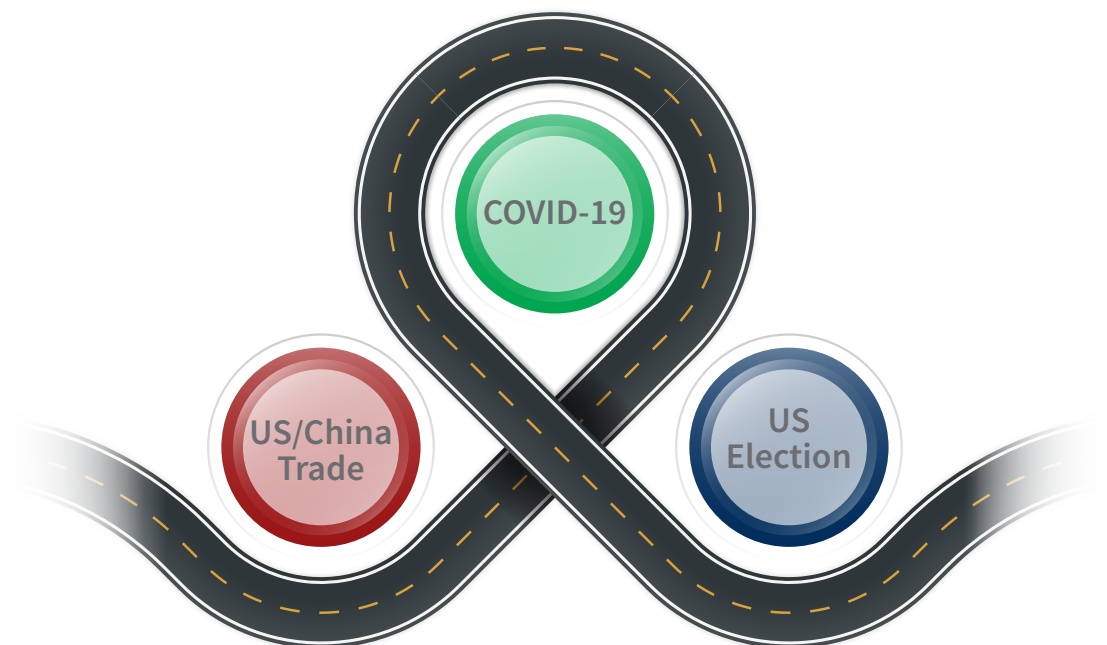
We would use those volatile periods as opportunities to accumulate favored areas for the long-term bull market opportunity that remains.

## CHALLENGES AND OPPORTUNITIES

As if the virus spread has not created enough uncertainty for the market outlook, investors must also prepare for an upcoming presidential election, along with the likelihood of US/China trade rhetoric ramping up over time. As for the election, the odds of a Democratic sweep are rising, and we view this as a risk to the equity market as Biden has stated his intent to raise corporate taxes to 28% (from 21% now), along with other tax changes. We would not become overly concerned with this right now, as a lot can change by November and Biden's tax proposal would likely not come into play before 2022. Nevertheless, a Democratic sweep would be a headwind to fundamentals if it were to take shape over time. With so much uncertainty around influential variables, we believe there is bound to be increased volatility in the months ahead. However, we believe the positives (namely unprecedented stimulus) outweigh the potential negatives. As such, we would use those volatile periods as opportunities to accumulate favored areas for the long-term bull market opportunity that remains. Remember, bear markets are often short and



## Near-Term Challenges



violent, whereas bull markets typically last for years. So while the S&P 500's ascent from the March lows has been remarkable, on average, bull markets have spanned 1,233 days and seen price gains of 155%.

Fundamentally, the earnings outlook is beginning to improve, and record low interest rates (and very low inflation) make the S&P 500's current price-to-earnings multiple of 21x justifiable. In our view, valuations can stay elevated given the enormous stimulus, the likelihood that interest rates stay lower for longer, no current threat of inflation, and no attractive alternative to equities. For example, the equity risk premium (the difference in S&P 500 earnings yield and the US 10-year Treasury yield) is still at 4% following the market's rally. This remains over one standard deviation above the long-term average, and the S&P 500 forward 3-year return has never been negative following a 4% or higher reading. Additionally, the S&P 500's dividend yield (1.84%) remains over 1% above the US 10-year Treasury yield (~0.70%), keeping it at its highest relative value on record versus bond yields.

### POSITIONING

Our favored sectors are Technology, Health Care, Communication Services, and Consumer Discretionary. The Technology-oriented and Health Care stocks have been able to outperform in the

current environment, benefitting from much more stable earnings streams and relatively strong fundamental momentum. Also, on the other side of the recovery, Technology likely continues to benefit from the accelerated transformation to a digital economy, Communication Services benefits from increased broadband demands and content, and Health Care benefits from increased focus and spending by both the government and individuals. Consumer Discretionary is our newest favored sector, recently upgraded to an overweight recommendation as we believe investors should be adding some exposure to the more cyclical areas that have more leverage to the economic recovery. Additionally, there are many dynamic consumer companies operating well through the pandemic due to improved online capabilities, while the others will have room to catch up as the economy normalizes over time.

Similarly, large caps benefitted drastically versus small caps in the downturn due to generally more stable balance sheets and business models. Small caps have more volatile earnings streams and, in turn, more volatile performance. However, they also have the ability to achieve outsized gains as the economy normalizes. While global economic activity has deteriorated since late 2018 (as trade tensions rose), small caps have underperformed drastically versus large caps, giving back roughly ten years' worth of

---

“While volatility is bound to happen in the months ahead due to vast uncertainty surrounding the virus, geopolitical tensions, and the election, we believe the positives outweigh the potential negatives.”

---

previous outperformance in the past two years. As the global economy restarts, we believe small-cap relative performance should benefit in the months ahead from the improvement in activity. In fact, small-cap relative performance has generally moved with manufacturing trends over the past ten years. With manufacturing data bouncing off of the bottom, this stands to become a tailwind to future performance. As such, we would be preparing to build positions in small caps during the months ahead if there are no set-backs in the economic recovery.

Finally, in terms of global positioning, the US remains our favored region. However, we do believe tactical global asset allocators should be closely monitoring both emerging and international markets. The risk-on move in global markets has pushed the US dollar sharply lower, breaking down technically. Should the US dollar trend lower (as it did coming out of the past two recessions in 2003 and 2009) on improving global economic data, the emerging markets likely stand to benefit given more leverage to the global economy and an 86% inverse correlation between the US dollar and relative performance of the emerging markets over the past ten years. Additionally, international markets will likely see a boost due to large stimulus, with the European Central Bank recently injecting liquidity into the system following the Bank of Japan's stimulus. Both Europe and Japan continue to face long-term structural headwinds, therefore current positioning is tactical only.

In sum: We believe equities are in the early stages of a bull market. Record low interest rates and unprecedented global stimulus are likely to fuel the economic recovery and result in elevated valuations. While volatility is bound to happen in the months ahead due to vast uncertainty surrounding the virus, geopolitical tensions, and the election, we believe the positives outweigh the potential negatives. Accordingly, we would be buyers on pullbacks and position portfolios toward the long-term bull market opportunity that remains. ■

#### KEY TAKEAWAYS:

- The S&P 500 staged a remarkable rally during the second quarter.
- Our favored sectors are Technology, Health Care, Communication Services, and Consumer Discretionary.
- We would be preparing to build positions in small caps during the months ahead if there are no set-backs in the economic recovery.
- We would be buyers on pullbacks and position portfolios toward the long-term bull market opportunity that remains.

All expressions of opinion reflect the judgment of Raymond James & Associates, Inc., and are subject to change. Past performance may not be indicative of future results. The performance noted does not include fees and charges which an investor would incur. Investing in international securities involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Small cap securities generally involve greater risks and are not suitable for all investors. Companies engaged in businesses related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. Asset allocation does not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate.

## Economic Snapshot

Efforts to contain the coronavirus led to a steep decline in US economic activity in 2Q20. Growth has picked up sharply as states have begun to reopen, but the level of activity will remain far below where we started the year. Absent a vaccine or effective treatment for COVID-19, the recovery will be gradual, with significant changes in consumer spending patterns and global trade. Fiscal and monetary policy have helped to offset much of the near-term damage, but fiscal support may fall short of what's needed in the months ahead.

**DR. SCOTT BROWN**  
Chief Economist

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	HOUSING AND CONSTRUCTION	Housing demand was strong prior to the pandemic. Lower mortgage rates have helped to fuel an initial rebound. Supply constraints will support home prices, feeding ongoing concerns about affordability.
	MONETARY POLICY	Fed officials expect short-term interest rates to remain low through 2022. Asset purchases have been unlimited – the pace may slow, but more will be done if needed.
NEUTRAL	GROWTH	Gross domestic product is expected to have bounced sharply off the lows following a record decline in the first half of the year. However, the level of activity will fall far short of where we started the year.
	EMPLOYMENT	Job losses due to social distancing have been massive. Some will be recouped as state economies reopen. However, many job losses will likely be permanent, with workers transitioning to other industries.
	CONSUMER SPENDING	'Recovery rebates' and extended unemployment benefits have helped to offset the loss in wage income. Savings increased as consumer spending was restrained, which ought to provide some fuel for improvement.
	MANUFACTURING	Production is likely to improve following sharp weakness in the spring, but new orders are expected to improve only partially.
	INFLATION	The pandemic has put downward pressure on prices. There may be a few bottleneck pressures as the economy recovers and supply chains adjust. However, we should see little pressure from the labor market.
	LONG-TERM INTEREST RATES	Fed asset purchases should prevent long-term interest rates from rising much and inflation is expected to remain low. Long-term demographic changes still imply lower yields than in past decades.
	FISCAL POLICY	More support is expected at the federal level, but the appetite for more debt beyond that will be limited and we may see a turn toward austerity after the November election. State and local government budget pressures are rising.
	THE DOLLAR	The US' failure to put the coronavirus in check likely means that other economies will recover sooner. The Fed will be more accommodative than other central banks. Both are a negative for the dollar.
	REST OF THE WORLD	A mixed bag, but a worse outlook than three months ago. Most developed economies have successfully tamped down the number of new infections, while many emerging economies have done a lot worse.
UNFAVORABLE	BUSINESS INVESTMENT	Capital spending is expected to lag in the recovery, reflecting an uncertain economic outlook, weak global demand, and a reduction in energy exploration.



## Sector Snapshot

This report is intended to highlight the dynamics underlying the 11 S&P 500 sectors, with a goal of providing a timely assessment to be used in developing your personal portfolio strategy. Our time horizon for the sector weightings is not meant to be short-term oriented. Our goal is to look for trends that can be sustainable for several quarters; yet given the dynamic nature of financial markets, our opinion could change as market conditions dictate.

Most investors should seek diversity to balance risk versus reward. For this reason, even the least-favored sectors may be appropriate for portfolios seeking a more balanced equity allocation. Those investors seeking a more aggressive investment style may choose to overweight the preferred sectors and entirely avoid the least favored sectors. Investors should consult their financial advisors to

formulate a strategy customized to their preferences, needs, and goals.

These recommendations will be displayed as such:

**Overweight:** favored areas to look for ideas, as we expect relative outperformance

**Equal Weight:** expect in-line relative performance

**Underweight:** unattractive expectations relative to the other sectors; exposure might be needed for diversification

For a complete discussion of the sectors, please ask your financial advisor for a copy of *Portfolio Strategy: Sector Analysis*.

**J. MICHAEL GIBBS**  
Managing Director of Equity  
Portfolio & Technical Strategy

	SECTOR	S&P WEIGHT	COMMENTARY
OVERWEIGHT	INFORMATION TECHNOLOGY	26.9%	We remain Overweight the Technology sector. The secular growth trend of digital transformation in the economy has only accelerated through the economic shutdown, and this is reflected in terms of the sector's fundamentals and performance. The sector has experienced the best fundamental momentum in our view, resulting in sustained intermediate-term relative strength trends.
	HEALTH CARE	14.6%	We remain Overweight the Health Care sector, as increased resources and focus on the sector should not only support it through the current environment, but also on the other side of this recovery. Valuation is an added boost, as the sector trades at its cheapest relative P/E in almost ten years and is the most attractive of all sectors on a P/E to Growth basis.
	COMMUNICATION SERVICES	10.9%	We maintain an Overweight recommendation on Communication Services as the sector's combination of growth and defensive characteristics attracts us in the current environment.
	CONSUMER DISCRETIONARY	10.7%	Consumer Discretionary is our newest favored sector, recently upgraded to an Overweight recommendation as we believe investors should be adding exposure to the more cyclical areas with more leverage to the economic recovery. Additionally, there are many dynamic consumer companies operating well through the pandemic due to improved online capabilities, while the others will have room to catch up as the economy normalizes over time.
EQUAL WEIGHT	FINANCIALS	10.5%	We maintain our Equal Weight recommendation to Financials. The bounce back in economic activity should benefit fundamentals moving forward, however, we expect a long path to recovery. Additionally, despite attractive valuation, the likelihood of interest rates staying lower for longer is a headwind to the group in our view.
	INDUSTRIALS	8.0%	We maintain an Equal Weight recommendation to Industrials. The hard-hit group should benefit from improvement in the manufacturing side of the economy. Additionally, an infrastructure bill could be a boost. However, earnings are likely to be volatile, and we will wait for signs of more durable strength before increasing our conviction to Overweight.
	CONSUMER STAPLES	7.3%	We remain Equal Weight the Consumer Staples sector. Heightened demand for consumer staples products supported performance trends for the group in the early stages of the economic lockdown, however, focus has shifted back toward faster-growing areas. This has weighed on the sector in the market rally, and relative strength trends are back near their lows. We like the group's stable earnings backdrop, but we find other areas more attractive to Overweight for the ensuing bull market.
UNDERWEIGHT	UTILITIES	3.0%	We maintain our Underweight recommendation on the Utilities sector. A lack of protection through the bear market, and less leverage to the eventual economic recovery leaves other areas more attractive in our view.
	ENERGY	2.9%	We maintain an Underweight recommendation on Energy. Performance over the past two months has been remarkable for many of the stocks in the sector, however, fundamentals are under significant pressure and oil prices remain low. Unless oil prices can continue to climb higher (and stay higher), many companies will have difficulties. Especially following the enormous rallies from the bottom in many of these stocks, we would tread lightly in the sector.
	REAL ESTATE	2.8%	We remain Underweight the Real Estate sector. High leverage ratios and concerns over lease payments have the sector on its back foot. Valuation is fairly attractive, but not enough to offset negative intermediate-term relative strength trends.
	MATERIALS	2.5%	We maintain our Underweight opinion on Materials. The sector has significant leverage to the global economy and as such is likely to see improvement in the months ahead. However, we expect the path forward to be volatile and would rather allocate funds to other areas at this time.

## DISCLOSURE

All expressions of opinion reflect the judgment of Raymond James, Inc. and are subject to change. Past performance may not be indicative of future results. There is no assurance any of the trends mentioned will continue or forecasts will occur. The performance mentioned does not include fees and charges which would reduce an investor's return. Dividends are not guaranteed and will fluctuate. Investing involves risk including the possible loss of capital. Asset allocation and diversification do not guarantee a profit nor protect against loss. Investing in certain sectors may involve additional risks and may not be appropriate for all investors.

International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. Investing in emerging and frontier markets can be riskier than investing in well-established foreign markets.

Investing in small- and mid-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

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 rise.

US government bonds and Treasury bills are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. US government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term obligations of the US government.

While interest on municipal bonds is generally exempt from federal income tax, they may be subject to the federal alternative minimum tax, or state or local taxes. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Municipal bonds may be subject to capital gains taxes if sold or redeemed at a profit.

If bonds are sold prior to maturity, the proceeds may be more or less than original cost. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other com-

modities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Investing in REITs can be subject to declines in the value of real estate. Economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

Beta compares volatility of a security with an index. Alpha is a measure of performance on a risk-adjusted basis.

The process of rebalancing may result in tax consequences.

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. Investors should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. Investors should only invest in hedge funds, managed futures, distressed credit or other similar strategies if they do not require a liquid investment and can bear the risk of substantial losses. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided.

The companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence.

The indexes are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The S&P 500 is an unmanaged index of 500 widely held securities. The Bloomberg Barclays U.S. Aggregate Bond Index contains approximately 8,200 fixed income issues and represents 43% of the total U.S. bond market.

The VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

# RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

[RAYMONDJAMES.COM](http://RAYMONDJAMES.COM)