RAYMOND JAMES

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INVESTMENT STRATEGY QUARTERLY

Investment Strategy Committee Meeting Recap – held on December 6, 2018

Major macroeconomic factors that the committee believes will be most influential on investors over the next six to 12 months include Federal Reserve (Fed) policy, global economic growth, trade policy, interest rates, geopolitical uncertainty, and U.S. economic growth.

U.S. ECONOMY – **Scott J. Brown, Ph.D.,** *Chief Economist*

87% of the committee estimates U.S. GDP growth over the next six to 12 months to be greater than 2.1%.

- "We still have some fiscal stimulus in the pipeline, which ought to support consumer spending growth in the first half of 2019. However, the impact will fade over time."
- "The job market has continued to tighten. There appears to have been more slack in the job market than was expected in 2018. Job growth remained strong, but it has to slow to a pace more in line with the demographics at some point."
- "A flatter yield curve, what we're seeing now, is consistent with increased economic uncertainty and somewhat slower growth. If it does invert, then there is a strong probability of a recession, but it could be a year or more between inversion and the start of a downturn. Even though recent economic data have remained strong, investors are more concerned about the prospects for growth in late 2019 and 2020."

WASHINGTON POLICY – **Ed Mills,** *Washington Policy Analyst, Equity Research*

"The two things I'm most focused on are the congressional agenda for 2019, and what's going on with the China trade fight."

- "On the congressional agenda, what I'm really focused on is that this is an election that produced an unprecedented result. We have never in the history of our country seen one party switch the majority in one house while the other party expanded their majority in the other. And I think that really speaks to the polarization that we are seeing in our politics."
- "I'm not banking on the fact that we get an infrastructure bill. I'm not banking on the fact that we can necessarily get an immigration bill. Still, the conditions are in place to get those surprise bipartisan compromises out of a need and desire for some of these members to have something to run on two years from now."
- "We have said for the entire year that the China trade fight would get worse before it gets better. We are sticking with that call. Too much of the market has focused on tariffs. The more intractable part of the trade fight is the reclassification by the United States of our technology to a national security asset."

U.S. EQUITY – **Michael Gibbs,** *Managing Director, Equity Portfolio & Technical Strategy*

63% of the committee is bullish to some degree on U.S. equities over the next six to 12 months.

- "Our position hasn't changed much since early 2018 when we gave the opinion that we're stuck in a range-bound market. We're still in that camp but do admit equities cascaded below what we envisioned would be the low end of the range."
- "The extent of the down move seems excessive. If you look at the economy, sure, we've had some slowdowns, but there is nothing to be afraid of at this point. Valuations have become attractive as well."
- "We recognize the risk in the equity markets has increased. For that reason, our conviction has moderated, causing us to reduce our base case odds to 65%. Our bull case is now only 5%. We raised the odds for our bear case to 30%."

INTERNATIONAL EQUITY – **Chris Bailey,** *European Strategist, Raymond James Euro Equities**

44% of the committee is bullish to some degree on non-U.S. developed market equities while 56% are bullish on emerging market equities.

- "China is the ultimate long-term player in the sense that they perceive Trump as somebody who has to make things happen now, and they're prepared to wait and observe things over the longer term."
- "The key for China is all about domestic change and reform. They are still laser light-focused on that, and they've got a lot to do to change their economy to make it more of a consumer-based economy, and make various other reforms to the financial sector. In order for them to do that, they need an external environment which is calm, and that's why I think they will exhibit a little bit of flexibility."
- "Throughout this past year, I've argued that we will see what I call a 'soft Brexit' where the UK will exit the European Union, but there will be sort of a compromise position."
- "UK assets remain cheap. The Pound is priced very low, and sentiment is negative. My feeling is still that UK assets look ludicrously

cheap given the fact that a soft Brexit scenario is the most likely, but I agree that there's high uncertainty at the moment."

- "I think we'll see more fiscal policy in Europe over the next year. A bit more fiscal policy use in Europe is a good thing, and it underpins the fact that Europe, despite low sentiment and everything else going on, is very cheap at the moment. So, my feeling is that European markets will go up next year."

FIXED INCOME

67% of the committee see the 10-year Treasury yield being about the same (~3%) six months from now.

- "One of the things that has been interesting to watch over the last several years is the incredibly low volatility on a historical basis for the movements in Treasury rates, especially the 10-year Treasury. We're going to be stuck in a tight range for a while."
- "We do see political and geopolitical risks, but even if we do have a reason for rates to run up, we have massive buying pressure from the baby boomers that will keep rates from significantly rising."

  – Nick Goetze, *Managing Director, Fixed Income Services*

- "A problem for the debt markets is investor and corporate behavior has been modified by the decade long monetary experiment. Credit investors have traded discipline for yield, while corporate America has re-levered in often non-productive activities. This creates the potential for a simultaneously liquidity and credit event in the next downturn. Oversimplifying, perhaps, but recent spread widening in the face of a modest slowing in the pace of growth is notable."
- "As short rates rise, refinancing costs for issuers and borrowing costs for levered investors create the potential for credit deterioration coupled with investor deleveraging. We expect a lot of volatility in credit. Going forward, we are focused on leverage."
- "So, the question is, do we invert? Our base case is that we get a rate hike in December[1] and maybe one next year, but I think we're closer to the end of Fed activity. So, I would say the curve gets flat to slightly inverted, and you can set your watch that we have a slowdown in 2020."

  – James Camp, CFA, *Managing Director of Fixed Income, Eagle Asset Management**

OIL AND ENERGY – Pavel Molchanov, *SVP, Energy Analyst, Equity Research*

"Oil and commodities, in general, are under pressure in part because of macro fears. Also, a strong dollar is unhelpful for any commodity market, oil very much included."

- "Fundamentally, the global oil market is in good shape. It's very different from where we were two years ago when there was an actual glut of oil production. That is no longer the case: quite the contrary, we forecast undersupply in 2019."
- "Our sense is that fundamentals are still supportive of a cyclical peak for oil prices in 2020 because of the International Maritime Organization (IMO) low-sulphur rules and the impact that will have on erasing, in a practical sense, 1% to 2% of global oil supply."

HOUSING – Paul Puryear, *Vice Chairman of Real Estate Research, Equity Research*

"The U.S. housing market is "okay," with single family slowing from the effects of higher rates but not a major concern at this point."

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[1]The Federal Reserve increased the federal funds rate by 25 basis points on December 19, 2018.
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2019: Head*wind*s or Tail*wind*s?

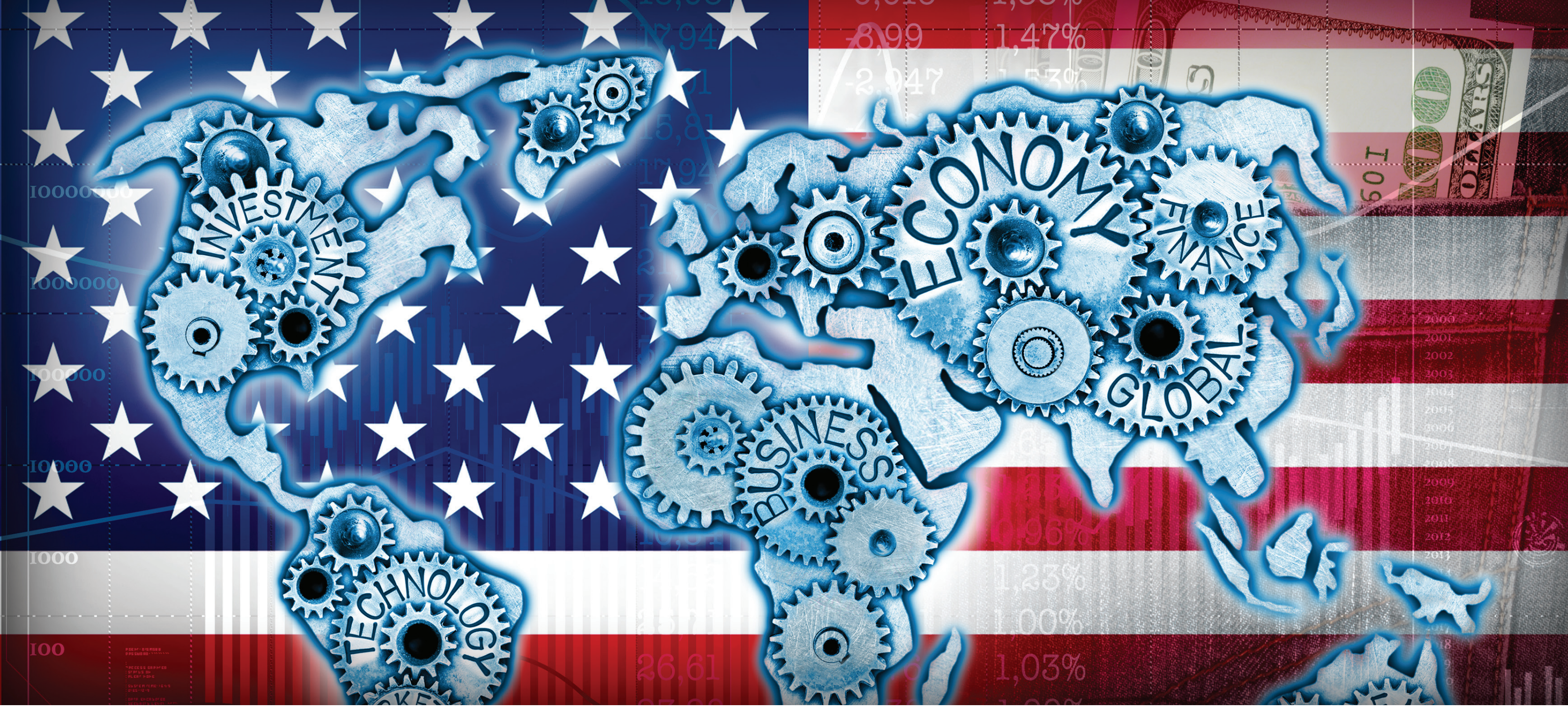
Kristin Byrnes, *Senior Manager, Investment Strategy Group*

As we move into the new year, the outlook for the financial markets is beginning to feel like a classic game of heads or tails. This simple yet effective game has been used throughout history as a means of deciding between two alternatives, and is often used to resolve a dispute between two parties. It has also become a staple in Statistics 101, where we get our first lessons in probability, or the chance of occurrence. Whether we're talking about settling a dispute or calculating the probability of an event taking place, both are highly relatable to the world around us as we head into 2019.

This past year grounded complacent investors, and asset prices alike, as both retreated from one of the most extraordinary expansions in market history. Slowly and steadily, stocks have been on the rise, with U.S. equities reaching record levels in January before sputtering through emotion-filled sell-offs for most of the year. Mounting concerns over trade tensions with China and slowing global growth consumed the news headlines as we watched markets plummet and significant intraday movements became the norm.

We now look ahead with much less certainty than in prior years. As major market developments unfold, opportunities and challenges remain abundant. Looming challenges include Brexit and the Italian debt crisis in Europe, slowing growth in China, and unresolved trade negotiations with a bipartisan government in the U.S. On the brighter side, U.S. earnings growth remains positive, and supportive fiscal policy, lower oil prices, and increasing wage growth all bode well for consumer spending.

As one crosses their fingers as they call "tails" in a coin toss, we look ahead with hope that tailwinds prevail, the bull continues to run, and we all have a prosperous new year. Good luck!



2019 Economic Outlook

Scott J. Brown, Ph.D., *Chief Economist*

The 2019 economic outlook is dominated by many of the same themes of a year ago. While fiscal stimulus (tax cuts and government spending) should provide support in the near term, labor market conditions will become more binding, Federal Reserve (Fed) policy is set to become tighter, and trade policy adds uncertainty.

RECESSION: POSSIBLE BUT NOT LIKELY

If the current economic expansion continues past June, it will become the longest expansionary period on record. So, many investors ask, when will the next recession occur? The likelihood of entering a recession, a period of declining economic activity, usually lasting two quarters or more, does not depend on the length of the expansion. That is, we are never "due" for a recession. There are few signs of a pending economic downturn on the immediate horizon, but economists have raised the odds of a recession beginning in late 2019 or 2020 – still not likely, but also not out of the question.

The stage is typically set for a recession by a period of over-investment or mal-investment, often fueled by increased leverage. Fed policy is often a factor, typically by raising short-term interest rates too rapidly or by previously raising them too slowly (and then having to play catch-up). In past decades, sharp increases in oil prices were also a catalyst, dampening consumer spending. Every downturn has its own story.

> “We are never ‘due’ for a recession.”

FISCAL STIMULUS

The Tax Cut and Jobs Act of 2017 (TCJA) lowered the corporate tax rate and many economists remained doubtful of the impact it would have on the economy since firms were generally flush with cash and borrowing costs were low. Research has shown that corporate tax cuts are more likely to increase share buybacks and dividends than to fuel capital expenditures and, for the most part, that was the case in 2018. However, business fixed investment, while uneven from quarter to quarter, was generally stronger.

The other component of the TCJA was reductions in personal tax rates, which will expand in early 2019. While the impact will vary across income levels and regions, overall consumer spending, which accounts for 68% of overall economic activity, should see a boost in the first half of the year as a result. The impact of fiscal stimulus will fade over time, but job gains and wage increases are expected to drive consumer spending.

Stimulating Spending

Though it was signed into law in 2017, the effects of the Tax Cut and Jobs Act are expected to continue to drive consumer spending via higher discretionary income and wage increases.

THE LABOR MARKET

The labor market continued to tighten in 2018, with job growth trending well above the pace needed to absorb new entrants to the workforce. The unemployment rate continued to fall, yet employers cited difficulty in finding skilled labor. Wage growth has picked up, and can be expected to rise further in 2019.

While investors continue to look to commodity prices as an early indicator, the labor market is the widest channel for inflation pressure. The Fed's dilemma lies in the possibility that there may be more labor market slack than is generally believed. A tighter job market and rising wages should lead to a more efficient allocation of labor, reduce underemployment, and provide younger workers with opportunities to acquire important job skills. However, if firms are able to pass higher costs along, consumer price inflation will trend higher – and the Fed will have to work harder to suppress inflation.

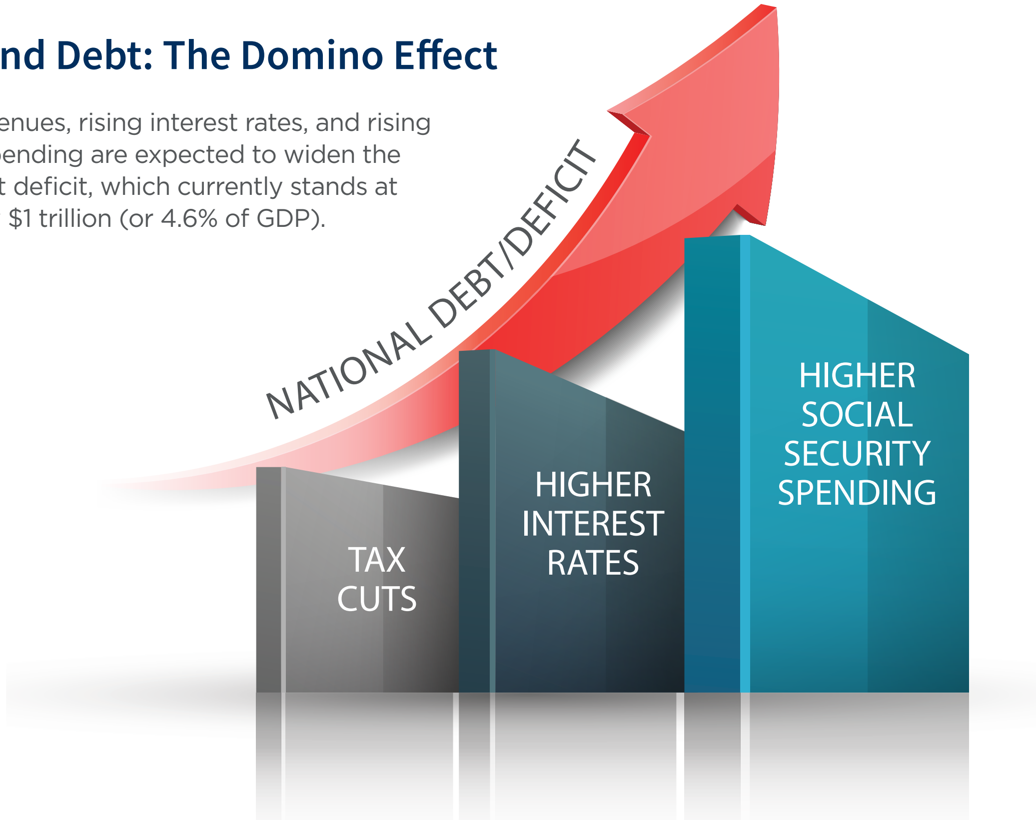
MONETARY POLICY

The Fed continued to gradually move short-term interest rates toward a more normal level in 2018, and in the second half of the year began debating the risks of a policy error. Monetary policy affects the economy with a long and variable lag, so the Fed needs to account for the impact of previous actions. Policy decisions will remain data dependent, meaning how the incoming information affects the outlook for growth and inflation. The Fed raised short-term interest rates once a quarter in 2018, but is likely to be more cautious with raising rates in 2019.

The Fed has continued to reduce the size of its balance sheet, letting a certain amount of maturing Treasury securities and mortgage prepays roll off each month. The Fed views this as "background," not "active" monetary policy. All else being equal, the unwinding of the balance sheet may add 50 basis points (0.50%) to long-term interest rates, but over a period of three years or more.

Deficits and Debt: The Domino Effect

Falling tax revenues, rising interest rates, and rising entitlement spending are expected to widen the federal budget deficit, which currently stands at approximately $1 trillion (or 4.6% of GDP).



INFLATION

Inflation moderated in the second half of 2018 and Fed officials are more concerned with future inflation than past inflation. The low trend heading into the new year should allow the central bank more leeway in deciding how quickly to raise short-term interest rates. Starting in 2019, the Fed chairman will conduct a press conference after every monetary policy meeting (eight times per year), rather than after every other meeting.

TRADE POLICY

Trade policy will be a major uncertainty in early 2019. Tariffs on Chinese goods were set to expand at the start of the year, but that has been postponed, allowing more time for negotiations. It's unclear whether an agreement will be reached. An escalation of trade tensions would further disrupt supply chains, add to inflationary pressures, and dampen overall growth through retaliatory efforts abroad. The worst-case scenario, in isolation, would not be enough to cause a recession – but it would likely restrain growth to some extent, possibly offsetting the impact of the fiscal stimulus.

Focusing on bilateral trade deficits doesn't make a lot of sense. China is largely an assembler, importing raw materials and shipping intermediate and finished goods to the rest of the world. Its trade surplus with the rest of the world is small as a percentage of its Gross Domestic Product (GDP).

Ideally, the U.S. should focus its efforts on promoting U.S. exports. China's questionable trade conduct would be better addressed through a coordinated international effort and a shoring up of the World Trade Organization. Tariffs are a tax on U.S. consumers and businesses, not on foreign suppliers, and retaliation hurts U.S. exporters, including farmers. Moreover, global supply chains are complex, disruptions are costly, and policy uncertainty is a negative factor for business fixed investment.

FISCAL STIMULUS AND THE BUDGET DEFICIT

The tradeoff to fiscal stimulus in 2019 is a larger federal budget deficit. Recall that the deficit rose to $1.4 trillion, 9.8% of GDP, in fiscal 2009, reflecting the severity of the 2008-09 recession, but then fell to 2.5% of GDP in fiscal 2014 as the economy recovered. The deficit is now expected to approach $1 trillion in fiscal 2019, about 4.6% of GDP.

Additional pressure will arise as the aging population will continue to boost spending on entitlements (Social Security and Medicare) in the years ahead and higher interest rates will add to the government's interest expense. If we don't reduce entitlements and defense spending, there's not a lot left to cut. Nondefense discretionary spending is a little over 3% of GDP.

> “The transition to a slower, more sustainable pace of growth may be a challenge for investors, as such transitions are rarely smooth. However, the economic expansion should continue.”

Tough choices lie ahead. There’s no reason to believe that the national debt is a burden to our children and grandchildren. It doesn’t have to be paid off. The key issue is whether the U.S. can service its debt and roll over existing debt as it matures. No problem there. However, prudent management of the budget would require lawmakers to work to stabilize the debt-to-GDP ratio over time.

THE DEMOCRATS GO TO WASHINGTON

In the November 2018 election, Democrats gained control of the House and Republicans retained control of the Senate. This split may prompt the two sides to work together on a number of issues, but we are more likely to see sharp partisan divisions continue. Democrats in the House are expected to conduct hearings into the inner workings of the Trump administration, and the Mueller investigation has the potential to create a period of political uncertainty, adding to investor anxiety.

“THIS TIME IS DIFFERENT?”

All else being equal, a strong economy, the Fed’s unwinding of its balance sheet, and the increase in government borrowing should put upward pressure on bond yields, yet long-term interest rates have remained moderate, due in part to global rate disparity and demand.

The slope of the yield curve (the difference between long- and short-term interest rates) is, by far, the best single indicator of a pending recession. The flattening of the yield curve was a significant concern for investors in 2018 as it typically signals increased uncertainty about where the economy is headed. We could see an inversion of the yield curve in 2019, which has historically signaled that a recession is on the way. Some economists, and even a few Fed officials, have suggested that “this time is different,” as there are a variety of factors keeping U.S. bond yields low, including the fact that long-term interest rates remain low outside of the U.S. We’ll see.

Economic growth was strong in 2018, but beyond a sustainable pace. We know this because the unemployment rate fell, which clearly can’t go on forever. The transition to a slower, more sustainable pace of growth may be a challenge for investors, as such transitions are rarely smooth. However, the economic expansion should continue.

KEY TAKEAWAYS:

- There are few signs of a pending economic downturn on the immediate horizon, but economists have raised the odds of a recession beginning in late 2019 or 2020 – still not likely, but also not out of the question.
- Fed policy decisions will remain data dependent, meaning how the incoming information affects the outlook for growth and inflation.
- Trade policy will be a major uncertainty in early 2019. Tariffs on Chinese goods were set to expand at the start of the year, but that has been postponed, allowing more time for negotiations.
- We could see an inversion of the yield curve in 2019, which has historically signaled that a recession is on the way. Some economists, and even a few Fed officials, have suggested that “this time is different.”
- The transition to a slower, more sustainable pace of growth may be a challenge for investors, as such transitions are rarely smooth. However, the economic expansion should continue.

2019 Washington Outlook

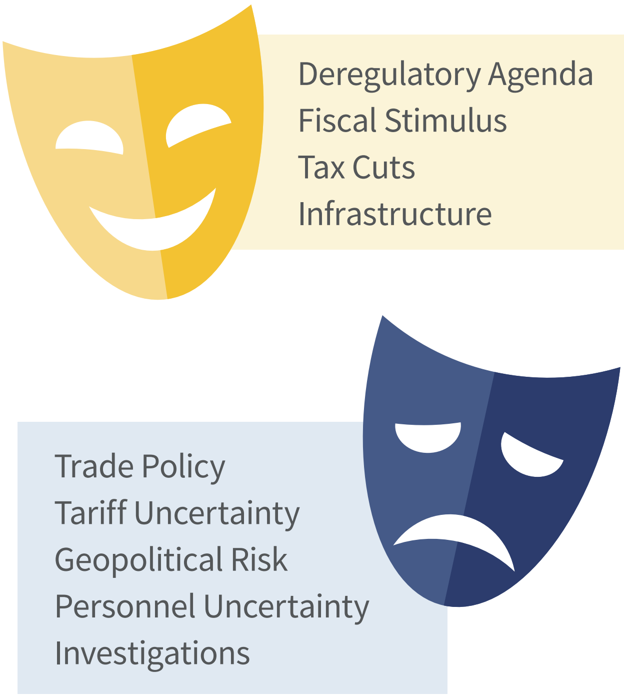
Ed Mills, *Washington Policy Analyst, Equity Research*

With the election now behind us, Washington turns to mapping out what the results will mean for legislative dynamics in 2019 and what (if any) areas can see meaningful progress in a divided Congress.

We believe the incoming Congress may offer opportunities for some surprise bipartisan compromises, especially on potential infrastructure, immigration, trade, and government funding issues. The House may produce more headline risk for the market as Democrats gain subpoena and investigative powers, but the current deregulatory track of the Trump presidency will largely be sustained given the Republican Senate's nominee confirmation powers.

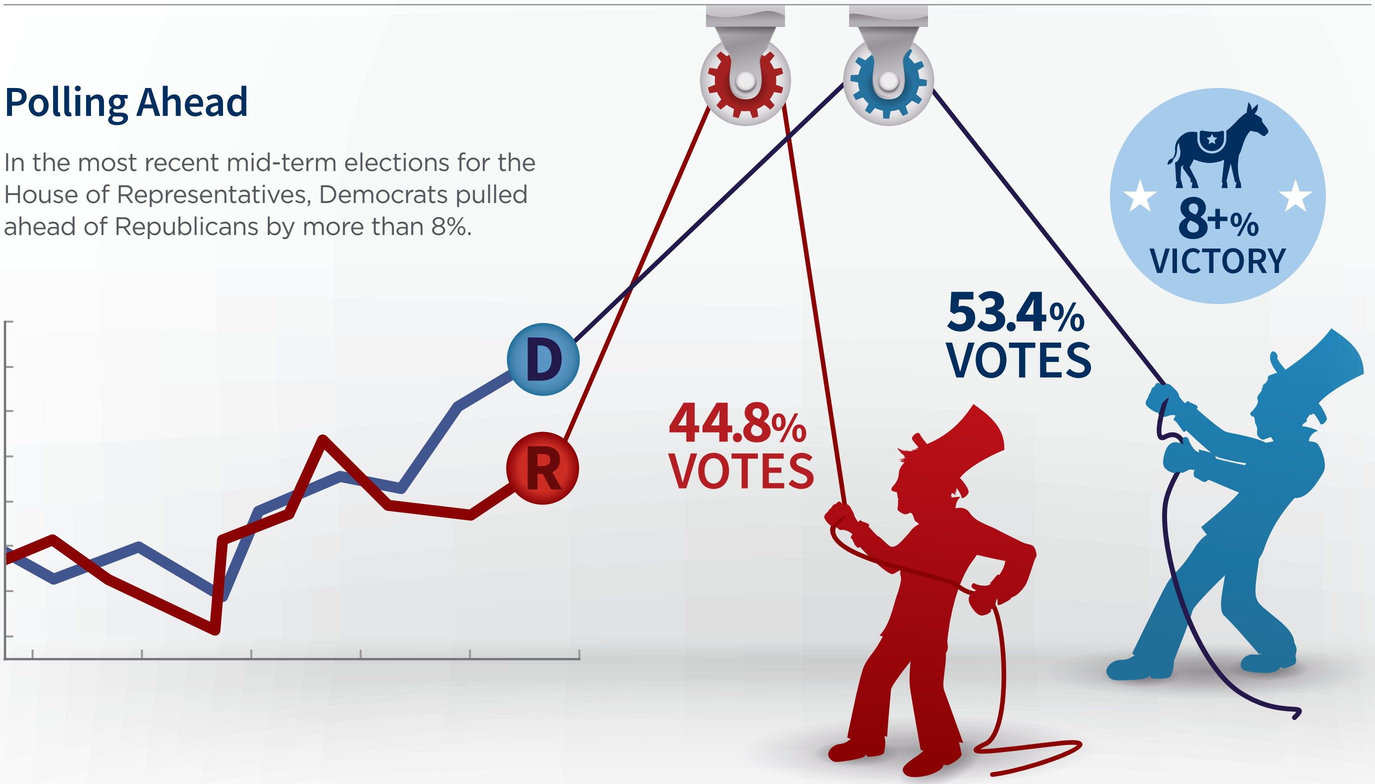
A theme we're starting to track that may produce an overhang in the coming year is the tilting of the scales from market tailwinds to headwinds on the D.C. agenda. Over the past year, we have seen the deregulatory agenda, fiscal stimulus, and tax cuts dominate the conversation, providing a boost to investor sentiment. Now, with those big-ticket items largely behind us, the focus is turning toward more potential market challenges, particularly trade policy uncertainty, rising geopolitical risk, and the potential for ramped up investigations. We will be watching to determine the impact Congress will have on this transition and whether investors value market fundamentals over perceived risks on the horizon.

The D.C. Agenda: From Tailwinds to Headwinds



Polling Ahead

In the most recent mid-term elections for the House of Representatives, Democrats pulled ahead of Republicans by more than 8%.



DIVING DEEPER: ELECTION RESULTS IN FOCUS

In many ways, the election produced a historical result that will heavily weigh on the dynamics of the incoming 116th Congress. The split decision we saw in November (where one party decisively flipped control of a chamber of Congress while the other party added to their majority in the other) is unprecedented in U.S. politics. Democrats needed a net gain of 23 seats to gain control of the House of Representatives and a net gain of two seats to flip control of the Senate. We saw Democrats flip 40 Republican seats in the House with Republicans gaining two seats in the Senate.

On a national level, Democrats saw 60,109,539 votes compared to Republicans' 50,864,077 – a victory margin of more than 8% for the House. Democratic voter participation was almost up to Presidential election cycle levels – Hillary Clinton saw 65,853,514 votes in 2016. This is a significant departure from the norm as Democratic voter participation has historically drastically dropped off in non-Presidential election years.

Although Democrats won a significant share of the popular vote, they enter the new Congress with a modest majority (235 Democrats, 200 Republicans). Given that almost 20% of Democrats in the House will now be from formerly Republican-represented areas of the country, there will be pressure on those members to produce results for their constituents if they want to keep their seats in two years. This sets up a key dynamic to watch where a faction of Democrats may deviate from their party's agenda on certain issues and sets the table for some surprise bipartisan compromises in 2019. In our view, infrastructure and immigration stand to be the biggest beneficiaries of the new House dynamics.

The Senate result produced quite the opposite story. Republicans defeated a handful of vulnerable Democrats in Republican-leaning states in order to expand their majority to 53-47. As the Senate controls the confirmation of presidential appointments to key regulatory and judicial positions, an expanded Senate majority allows for an easier and faster confirmation process. This, in essence, locks in President Trump's executive powers and deregulatory agenda for the remainder of his first term.

POST-ELECTION CONGRESSIONAL AGENDA

The new year is likely to start off with a focus on the administration's short-term trade actions as all eyes are on China, but trade, in general, will be a significant theme for 2019. Beyond that, we are likely to see debates on an infrastructure package, technology regulation, and healthcare policy.

TRADE: SIGNIFICANT MILESTONES AHEAD

The trade dispute with China remains a significant wildcard that threatens to spill over into the technology sector should talks break down. Tariff increases loom large in the fight and are attracting significant speculation, but another "under-the-radar" concern is the restrictions on technology investment and exports that may be the next source of leverage for the Trump administration.

> “In our view, infrastructure and immigration stand to be the biggest beneficiaries of the new House dynamics.”

Beyond China, we will see negotiations and potentially a vote to ratify the revised NAFTA agreement with the U.S., Mexico, and Canada (USMCA). Democrats are beginning to voice their opposition to the deal as negotiated, and may use the ratification vote as leverage on other issues. Car tariffs may also attract lawmakers' attention next year. Trump administration officials have raised the prospect of placing tariffs on car imports again, an effort likely to draw Congressional opposition.

INFRASTRUCTURE: BIPARTISAN POSSIBILITIES

On this issue, both parties start at a common point of agreement that there has been significant under-investment in infrastructure. This raises long-term competitiveness and even safety concerns as deteriorating and unmaintained roads, bridges, and communication networks can constrain economic growth in the long term. However, the two sides are far apart in terms of the size and scope of the plan, and, importantly, on the appropriate way to fund infrastructure investment.

Tax changes to pay for large-scale federal funding will likely be a non-starter with Senate Republicans, and a more-targeted $200 billion infrastructure package would likely be dismissed by House Democrats for not offering meaningful investment. The clearest path to a successful bipartisan push on infrastructure lies in both parties needing to claim a win as they run for reelection in 2020. Many of the new House members come from swing districts and will want to avoid being cast as obstructionists. This sets up infrastructure as a natural vehicle for bipartisanship that leads to investment in both rural and urban areas while creating jobs and contributing to continued fiscal stimulus.

TECHNOLOGY REGULATION

Another potential area of bipartisan compromise could be regulation of technology platforms, specifically on data protection and privacy standards, after a series of high-profile scandals in 2018. Landmark privacy standards, similar to the European Union's enacted General Data Protection Regulation (GDPR), could be on tap given agreement on both sides that “rules of the road” should be set for major technology platforms.

HEALTHCARE POLICY

Healthcare emerged as a winning issue for Democrats in 2018 in a way that shifts the debate away from repeal of the Affordable Care Act (ACA) toward a renewed push for lowering drug prices. However, the two sides are likely to approach this issue from vastly different angles, and President Trump likes to keep this issue close as a potential achievement heading into the 2020 campaign. These dynamics may hamper efforts at a significant bipartisan compromise.

KEY TAKEAWAYS:

- We believe the incoming Congress may offer opportunities for some surprise bipartisan compromises, especially on potential infrastructure, immigration, trade, and government funding issues.
- A theme we're starting to track that may produce an overhang in the coming year is the tilting of the scales from market tailwinds to headwinds on the D.C. agenda.
- The focus is turning toward more potential market challenges, particularly trade policy uncertainty, rising geopolitical risk, and the potential for ramped-up investigations.
- Infrastructure and immigration stand to be the biggest beneficiaries of the new House dynamics, in our view.

International Outlook: Will the Rest of the World Awaken?

Chris Bailey, *European Strategist, Raymond James Euro Equities**

The year 2018 will not go down in financial market history as a traditional one for most investors, and this is especially true for anyone investing outside of the United States. Can a new year bring new hope?

2018: HEADWINDS HAD A STRONGHOLD

If you had to sum up the rationale for the underperformance of most foreign markets from the dollar-based perspective of a U.S. investor, economic growth, currency movements, and trade talk uncertainties would be the three most influential headwinds. Simply put, U.S. economic growth surprised on the upside whilst other major economies did not, the dollar appreciated against most other currencies, and concerns about essential future trading relations impacted the more export-focused European and emerging markets last year. In order for international markets to gain momentum over the U.S. in 2019, these concerns need to be quelled.

WORLD TRADE

Economic growth and trade policy are inevitably and deeply integrated, as even a cursory glance at the economic history of the 1930s and 1970s illustrates. The more conciliatory signs from the recent G20 discussions in Buenos Aires suggest a hopeful position on global trade should be adopted in 2019, as all sides fear the impact of a vicious cycle of additional protectionism and lower growth rates. After all, the easiest way to induce something which feels like a global synchronised recession is to shift global trade trends into a sharp reversal. However, significant ongoing discussions are still required, and the world trade discussions are just one piece of the economic growth story.

> Expect lots of political noise, including talk about a second referendum or a general election and ultimately a thick slice of common sense to permeate the Brexit debate, quite possibly via a delay to the current Brexit timetable.

SELF-INFLICTED SLUGGISHNESS?

With trade tensions progressively pressuring global market performance throughout 2018, both Europe and emerging market countries did not do themselves any favors from a domestic standpoint. In the UK, Brexit discussions have induced fear about economic prospects whilst in Continental Europe, leading incumbent European Union politicians struggled to connect with voters, let alone generate any meaningful regional economic reform.

Similar reform paralysis continues to afflict Japan. Elsewhere in Asia, the Chinese economy slowed as higher corporate and consumer debt levels, and a more stagnant property market,

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Dollar-Denominated Currency Conundrum

Given its dominance in currency markets, the U.S. dollar drives both the exchange rate and relative value of foreign currencies. Due in part to the robust growth of the U.S. economy and tightening monetary policy, the dollar has appreciated, precipitating a fall in the relative value of other foreign currencies. Separately, Brexit and Italy's budget negotiations with the EU have influenced the value of the Pound and euro, respectively.

negatively impacted growth. Still, China's performance remained significantly healthier than most other major emerging markets where change and crises have become the norm.

So is there any hope for more domestic changes in major economies around the world outside the United States in 2019?

HOPE ON THE HORIZON?

CHINA

Progress is most visible in China where policymakers continue to have significant room to maneuver, a luxury not afforded by most other economies around the world. This flexibility has been demonstrated through targeted loosening of monetary and fiscal policy and an ongoing internal reform effort focused on shifting the Chinese economy towards the expansion of consumption. Collectively, these efforts – along with the development and open access to bond markets - should allow the Chinese economy to continue to experience decent economic growth rates in 2019, especially if they bend with the wind on the trade front.

A clear rationale exists for China and the U.S. not to blow up current fluid commerce flows - after all, the President's best bet to get reelected is via a strong economy, whilst the Chinese want a stable external environment in order to get on with their essential domestic economic reforms. In the same vein as President Xi's famous 2017 Davos speech, China gets material value from its World Trade Organisation membership. Noise around intellectual property shifts and market access changes are in line with the maturing of this membership and helpful to a calmer world trade backdrop. It also aids in deeper political and economic power shifts China is undertaking, such as the Belt and Road initiative, which stretches deep into Western Europe and Africa. Despite the difficult timing of a certain well-publicised arrest in Canada, I am heartened to read recent reports about good progress in the initial discussions of the 90-day negotiation period.

BREXIT

If some policy flexibility is apparent in China, Europe seems to be more fixated on binary choices, although the reality is much more complex than that. On Brexit, following the June 2016 referendum result where the UK chose to leave the European Union, a deal was struck between the two sides, but new challenges emerged in

> "Corporate earnings growth watchers will also note Europe as a region that looks relatively strong versus the United States using current estimates for 2019, and this has not been the case for some time."

the ratification of the deal by the UK Parliament.

the ratification of the deal by the UK Parliament. Whilst details are being discussed, faith in the immediate prospects for the UK economy withers.

This has put the UK government in a difficult position. They managed to reach a compromise proposal on Brexit with the rest of the European Union but initial efforts to get this ratified failed miserably via a combination of strict pro-Brexit beliefs or opposition political expediency (with the aim of forcing a General Election). Attempts to walk a political tightrope has resulted broadly in political and legislative prevarication and a resulting lack of clarity for both consumers and businesses.

Dig deeper, however, and the spectre of the UK breaking away from the European Union does not seem likely. A clear majority in both Parliament and in recent general population voter polling is in favour of a more compromise-style approach, or a 'soft Brexit' as it has been dubbed. Expect lots of political noise, including talk about a second referendum or a general election and ultimately a thick slice of common sense to permeate the Brexit debate, quite possibly via a delay to the current Brexit timetable. Any positive moves in this broad area would likely support both the British Pound and UK domestic financial assets after a difficult last couple of years.

ITALY

Meanwhile, outside of the Brexit debacle, pan-European market participants are deeply focused on the ongoing saga of the Italian budgetary debate, which pitches the wishes of a populist Italian government to spend more money against a more financially-orthodox European regional leadership. Typically, this does nothing but cause more uncertainty around the future path of local growth rates. Followers of the European Union decision-making process get familiar quite quickly with an abundance of "late-in-the-day" negotiations, so recent noise around more flexibility in the Italian budget is not surprising and the tentative deal struck in late December is a positive.

No one benefits from the Italian budget debate as it further deepens investor angst over euro zone prospects. The euro zone is already grappling with challenges as the European Central Bank (ECB) - as reconfirmed during its December policy meeting - seeks to avoid the Bank of Japan "policy trap" by phasing out quantitative easing and making fiscal policy (and ideally other supply-side structural reform measures) more of a focus in 2019. The challenge will be to control the degree of use of the fiscal policy lever to maximise its effectiveness. European Union leaders also know that the best backdrop for increased regional growth and job creation is more faith and hope from consumers and entrepreneurs. Such supply side policies - which aim to boost flexibility, entrepreneurship and dynamism - however are largely out of the ECB's hands, with the requisite policy levers resting with national governments.

The debate over the future structure of the Greek economy a handful of years ago taught us all about the 'reforms for cash' compromises that the European Union is willing to make. In Italy's case, it resembles more of a clunky 'reforms for budget deficit allowances' reality. Still, it is something for global investors to grasp. Europe looks down and out, but lower trade concerns combined with some regional policy compromises (as recently offered by President Macron of France) could go a long way, even getting a notable number of protesting French citizens off the streets. Corporate earnings growth watchers will also note Europe as a region that looks relatively strong versus the United States using current estimates for 2019, and this has not been the case for some time.

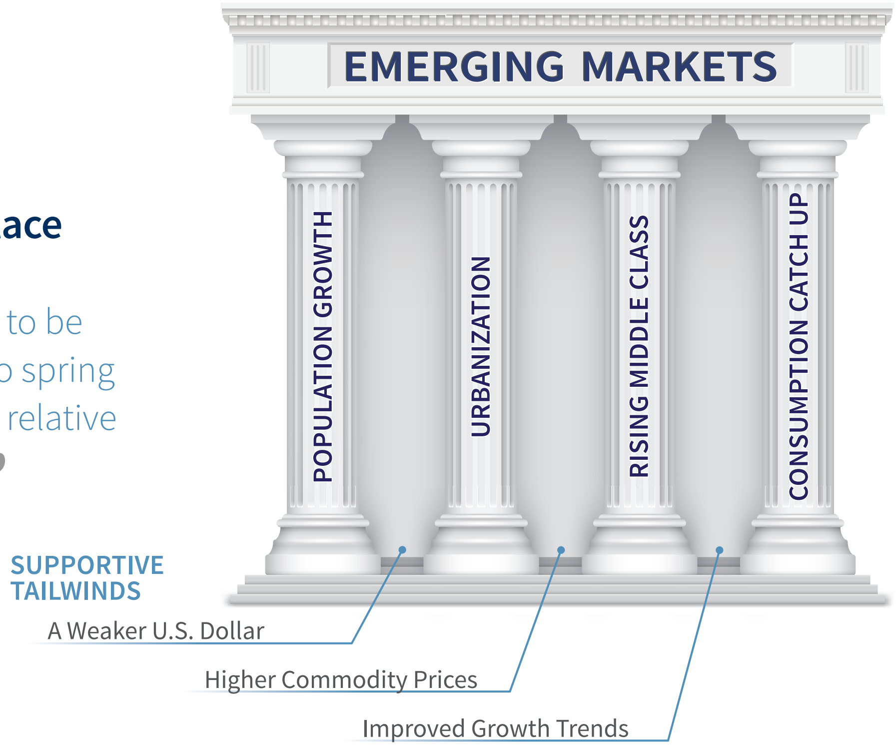
If both the Chinese and pan-European markets surprise fund managers from a sentiment standpoint, then the story will likely change. The chances of the Pound, euro and Chinese yuan appreciating against the dollar becomes much more likely, countering the third observation which beleaguered global markets last year: a rising dollar.

EMERGING MARKETS

A stronger dollar is good news for U.S. travelers but it has delayed global reform and altered initiatives in Europe and Japan. This has also resulted in strife in broader emerging markets (most notably in countries such as Turkey) due to the extensive amounts of outstanding dollar-denominated debt.

Emerging Markets: Structural Forces in Place

"Emerging markets appear to be in the strongest position to spring a positive surprise in 2019 relative to other non-U.S. assets."



A weaker dollar and reduced trade angst, aligned with less fear toward important global economies such as China, the UK and Continental Europe would be particularly helpful to emerging markets in 2019. Whilst emerging markets collectively contain a multitude of challenges and influences, as a broad asset class, it appears to be in the strongest position to spring a positive surprise in 2019 relative to other non-U.S. assets.

Certainly, the actions of new political leaders in both Mexico and Brazil will be watched carefully, but a world that avoids a plunge into trade angst should see the supportive tailwinds of a weaker dollar, higher commodity prices and improved underlying growth trends. Emerging markets, after all, still retain all the structural forces they are famous for, including population growth, urbanisation, the rise of the middle class, and consumption catchup capabilities.

In short, as long as global trade talks stay on track, the outlook for markets outside the United States for 2019 looks a lot better than it currently feels, even if we have to rely on leading global politicians to help deliver it.

All expressions of opinion reflect the judgment of Raymond James Euro Equities, and are subject to change. There is no assurance any of the trends mentioned will continue or that any of the forecasts mentioned will occur. Economic and market conditions are subject to change. Investing involves risk including the possible loss of capital. 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

KEY TAKEAWAYS:

- In order for international markets to gain momentum over the U.S. in 2019, concerns over economic growth, the strength of the U.S. dollar, and trade talks need to be quelled.
- The Chinese economy should continue to experience decent economic growth rates in 2019, especially if they bend with the wind on the trade front.
- Expect lots of political noise, including talk about a second referendum or a general election and ultimately a thick slice of common sense to permeate the Brexit debate.
- Corporate earnings growth in Europe, as a region, looks relatively strong versus the United States using current estimates for 2019, and this has not been the case for some time.
- Emerging markets appear to be in the strongest position to spring a positive surprise in 2019 relative to other non-U.S. assets.
- As long as global trade talks stay on track, the outlook for markets outside the United States for 2019 looks a lot better than it currently feels.

2019 U.S. Equity Outlook

Michael Gibbs, *Managing Director, Equity Portfolio & Technical Strategy* and
Joey Madere, CFA, *Senior Portfolio Analyst, Equity Portfolio & Technical Strategy*

As we begin 2019, the U.S. equity markets are under pressure due to uncertainty regarding trade talks with China, concern over the sustainability of U.S. economic growth, the path of the Federal Reserve's (Fed) tightening cycle, and moderating economic growth abroad.

BEAR SIGHTINGS?

We recognize the heightened risk environment, but feel the sharp weakness in December is overdone for the short term. Moreover, we do not feel the recent weakness is the beginning of a *lasting* bear market for equities. We expect U.S. economic concerns to be proven premature as U.S. GDP will likely reach low- to mid-2% growth in 2019. Earnings growth for the S&P 500, while slowing from the unsustainable 20+% growth rate of 2018, will still be healthy as we project 5% to 6% growth for the year.

Attractive valuation further supports a positive bias with the S&P 500 price-to-earnings ratio (P/E) trading under 15x, relative to the long-term historical average of 16.5x (and 22% lower than the September peak P/E of 18.8x). Our base case S&P 500 target of 2,957 by year end 2019 renders 25% upside price movement from the December 24 close of 2,351.

> "Trade negotiations are expected to remain the center of investor focus in 2019."

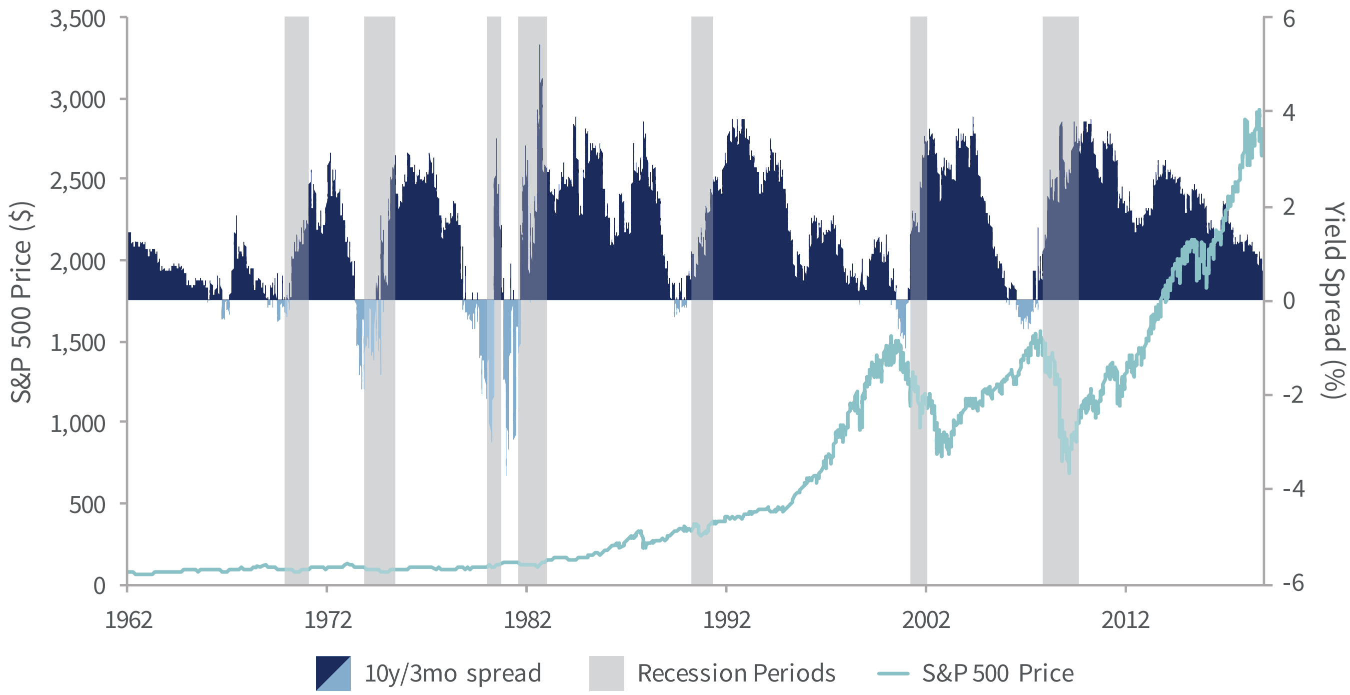
Despite our bullish posture, we admit a lot needs to go right in the year ahead to achieve our target. With delicate issues, such as the U.S.-China trade talks, a volatile road lies ahead. We widen the range between our potential bull and bear case scenarios to account for the heightened risk environment. Our year-end bear case of 2,415 is 2% above the December 24 close, reflecting a lack of progress from the current oversold conditions. In our bull case scenario, the 3,305 target renders a 40% gain from the December 24 close. With the issues delicate and the outcomes uncertain, especially regarding trade, our probability odds in our bull case are lowered to just 5%, while our bear case odds increase to 30%. Our base case odds are the highest at 65%. Progress on the trade front could alter our cautious bull/bear case probability odds dramatically.

TRADE POLICY: THE PRIMARY INFLUENCE

Trade negotiations are expected to remain the center of investor focus in 2019. Despite the G20 "trade-truce," challenges to a "deal" are elevated with both sides appearing hardened regarding intellectual property rights. For this reason, reaching an agreement by the 90-day deadline suggested by President Trump is

Yield Inversion = Equity Reversion?

Historically, an inversion between the yields on the 3-month and 10-year Treasuries (i.e., when the yield on the 3-month Treasury is higher than the yield on the 10-year Treasury) has often preceded an impending recession. However, its success in predicting future equity market performance has been less certain. In other words, an inversion in Treasury yields does not necessarily precipitate a reversion in equity prices.



Source: FactSet, Bloomberg, Raymond James as of 12/15/2018

unlikely. Nonetheless, we feel the two sides can and will deliver a message of progress to reassure the financial markets as the deadline nears. With the stakes (to global sentiment) high, we are optimistic both sides can arrive at acceptable terms as the year progresses. Stock market volatility will likely remain elevated with the path to an agreement rocky.

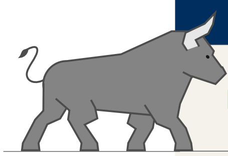
SOFTER GROWTH OR NOISE?

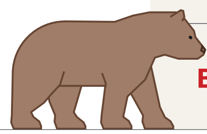
Investor concern over the health of the economy is heightened, with housing trends softening and initial jobless claims ticking slightly higher. The softening trends are likely noise, in our opinion, and with the economy late cycle, uncertain readings are not a surprise. Conversely, other economic readings, such as unemployment, leading indicators, consumer confidence, and Institute of Supply Management (ISM) surveys, all point to a healthy environment.

YIELD CURVE INVERSION

The flattening yield curve, often a signal of pending economic weakness, adds to investor angst. The narrowing spread between the 2-year and 10-year yields (as low as 10 basis points, or 0.10%) stoked concern in early December. We are watching yield spreads, but since we put more weight on the 10-year and 3-month yield spread, we are not overly concerned at this point with it comfortably above the zero mark (0.30%). Long lead times to recessions after previous yield curve inversions and false signals cause us to refrain from overconcern at this point, as well.

Raymond James Equity Portfolio & Technical Strategy 2019 Year-End Outlook





S&P 500	EPS ESTIMATE	P/E	PRICE	% CHANGE FROM 2,351	SCENARIO ODDS
Bull Case	$174	19x	3,306	40%	5%
Base Case	$169	17.5x	2,957	25%	65%
Bear Case	$161	15x	2,415	2%	30%

Source: Raymond James Equity Portfolio & Technical Strategy

Nonetheless, with investors focused on the shape of the yield curve, it is likely to influence equity market direction, at least over short periods. The predictive power of yield curve inversion and forward stock market returns has a mixed history. The chart above highlights periods of negative spreads between the 3-month and 10-year yields (which we remind you is positive). Many of these periods occurred at or near stock market peaks (1966, 1968, 1973, 1980, and 2000). However, stocks moved higher after, or during, inversion periods (in late 1966, 1967, 1989, and 2006). The yield curve is an important indicator to watch, but using it as a sole source for stock market direction is a failed approach, in our opinion.

INFLATION AND INTEREST RATES IN CHECK

Our belief that inflation will remain anchored and interest rates will not run away to the upside further supports a positive bias. Low global bond yields and the likelihood of only one Fed rate hike in 2019 should keep the U.S. 10-year Treasury yield from spiking again. As a reminder, in 2018 a jump in interest rates triggered both 10% drawdowns in the equity market.

POLITICS

In addition to trade and economic worries, political brinkmanship due to a split Congress will add to the list of stock market headwinds, as noise around impeachment, government shutdowns, and approval of the U.S., Mexico, and Canada Agreement (USMCA) will garner headlines.

U.S. EQUITY OUTLOOK: A DEEPER DIVE INTO 2019

EXPECTED EARNINGS

Fundamentally, earnings are set to slow from the 20%+ growth in 2018. There has been plenty of noise around "peak earnings," but it is a mistake to confuse "peak earnings growth" with "peak earnings." We estimate earnings will grow 5% in 2019 to $169 per share. Such growth, if realized, is adequate to support higher equity prices.

The overhanging issues and technical damage done during the decline will limit equity upside in the coming months. Negative headlines will influence stocks to test the low end of the range. However, a healthy U.S. economy, a growing earnings stream, and attractive valuation should serve as downside support. We believe the current pullback is overdone in the short term. Success or failure with trade negotiations will likely influence the equity markets next significant directional move.

BASE CASE: 65% PROBABILITY

In our base case scenario for 2019, trade issues linger, but enough progress is made (by year end) to allow a more positive tone. Our base case assumes that the U.S. economy does not falter, the Fed

> “In summary, we have a positive bias to equities over the next 12 months and believe the current pullback is overdone for the short term. We view valuation as attractive and expect supportive economic and earnings growth.”

pauses the tightening cycle after one move in 2019, the Treasury yield curve does not invert as measured by the 3-month to 10-year spread, and earnings rise as expected.

We apply a P/E of 17.5x to $169 in earnings to reach 2,957 (+25%, as of December 24). Our P/E adequately discounts late-stage economic risks, which will likely linger. We place a 65% probability of this scenario playing out.

BULL CASE: 5% PROBABILITY

Our bull case scenario for 2019 is a “Goldilocks” environment in which trade differences are worked out more rapidly (and without as many issues as feared), the U.S. economy hits its targets, inflation remains muted, the yield curve steepens in a controlled fashion, the unemployment rate stops falling (allowing the Fed to pause the tightening cycle), and investor optimism returns.

We use a 19x P/E, which was the P/E at the September peak and has been the historical median P/E when inflation is in the 2-2.5% range. Earnings surpass our estimate and reach consensus forecasts of $174. Applying a 19x P/E to $174 earnings gets a 3,306 bull case scenario (+40% from current levels).

BEAR CASE: 30% PROBABILITY

In our bear case scenario, the trade conflict escalates and slows economic and earnings growth (without entering a recession). Our base case assumes that the Treasury yield curve inverts as measured by the 10-year and 2-year spread and the Fed stops tightening and leans toward looser policy (which helps to limit the downside in stocks).

In this scenario, we feel earnings will be flat with 2018 (~$161). Negative sentiment could keep the S&P 500 P/E down near 15x (~9% below the historical average of 16.5x). Applying a 15x P/E multiple to $161 earnings results in a bear case scenario of 2,415 on the S&P 500 at 2019 year end (+2% from current levels before dividends and -17.5% from the 2,930 September peak).

OVERALL: POSITIVE BIAS

In summary, we have a positive bias to equities over the next 12 months and believe the current pullback is overdone for the short term. We view valuation as attractive and expect supportive economic and earnings growth. Numerous factors are impacting the environment and investor sentiment (on the positive and negative side). These factors will not go away anytime soon.

Therefore, for the next several months and possibly into mid year, the S&P 500 is likely to remain volatile as investors balance the headwinds and tailwinds. If the U.S. and China eventually work out trade differences and the U.S. economy remains healthy (two outcomes we expect), improving investor sentiment and solid earnings may allow equities to post healthy gains by the end of 2019.

KEY TAKEAWAYS:

- We have a positive bias to equities over the next 12 months and believe the current pullback is overdone for the short term.
- Trade negotiations are expected to remain the center of investor focus in 2019. With the stakes (to global sentiment) high, we are optimistic both sides can arrive at acceptable terms as the year progresses.
- Long lead times to recessions after previous yield curve inversions and false signals cause us to refrain from overconcern at this point.
- If the U.S. and China eventually work out trade differences and the U.S. economy remains healthy (two outcomes we expect), improving investor sentiment and solid earnings will allow equities to post healthy gains by the end of 2019.

2019 Fixed Income Outlook

Doug Drabik, *Senior Strategist, Fixed Income Services*

The bond market played out the year in 2018 much as expected. The Treasury curve remained in a tight, albeit slightly higher, trading range as yields were bumped up across the curve, driven in part by four Federal Reserve (Fed) rate hikes. Short-term Treasury rates (less than one year) followed suit, rising approximately 1.00%, while intermediate- and long-term Treasury rates lagged. As a result, the Treasury yield curve continued to flatten over the year.

Several factors contributed to the rise in short-term rates: the economy grew at a positive clip, unemployment hovered at decade lows, inflation remained near the Fed's target level, and Congress and the White House continued to push corporate-friendly agendas.

However, geopolitical events and monetary policy abroad not only maintained, but, in many cases, widened interest-rate disparity.

INTEREST RATES: THE GLOBAL GAP WIDENS

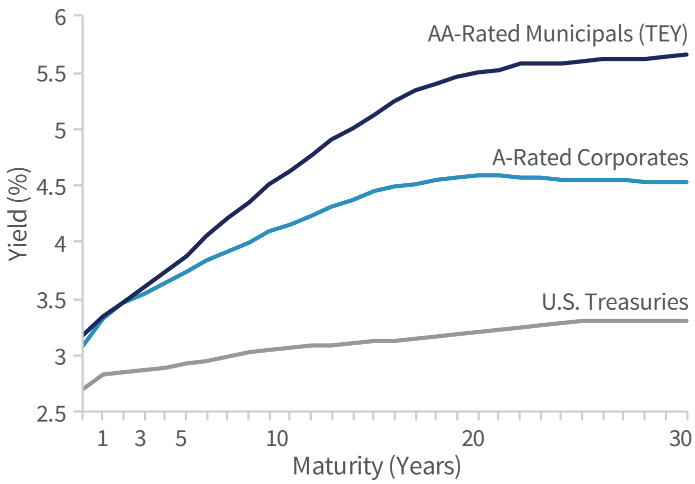
While it boosted 2018 growth substantially, fiscal stimulus is anticipated to be muted in 2019 due to the fact Republicans lost control of the House of Representatives in the most recent mid-term elections. Furthermore, receding corporate profits and the diminishing benefits of recent tax cuts may further slow the economic expansion in the U.S. Additionally, as the government's budget deficit continues to widen, the incentive to keep interest rates low intensifies.

Global rate disparity has continued to widen (rather than narrow, as had been previously anticipated by many pundits). Active intervention by central banks around the globe, and the growth of their balance sheets appear to have peaked at the beginning of 2018, yet most central banks remain in an accommodative state. The aggregate assets of the Fed, the European Central Bank (ECB), the Bank of Japan (BOJ), and the People's Bank of China (PBOC) reached holdings of $20.6 trillion U.S. dollars. This number has since declined to approximately $19.4 trillion U.S. dollars, an exceedingly large accumulation by any measure.

FED POLICY

In the short term, the Fed has committed to reducing its balance sheet of assets, thus reducing its impact as a buyer. Given that policymakers at the Fed have indicated interest rates are approaching a 'neutral' level, monetary policy in 2019 is expected to be softer than previously anticipated. While the Fed had been expected to hike interest rates up to four times in 2019, the probability of any hikes is now in question. As such, there is little to suggest that interest rates will make any dramatic moves upward over the next 12 months. The market has become rather proficient in accepting and adapting to monetary policy announcements. Exaggerated rate shifts are not expected as policymakers approach the neutral 3.00% federal funds target rate.

Comparing Curves



Source: Bloomberg, Raymond James as of 12/15/2018

ONWARD, BUT NOT UPWARD?

All of this suggests a continuation of the push-and-pull dynamic that has influenced interest rates for more than a year; however, the heightened uncertainty entering 2019 presents a more challenging interest rate forecast. If economic growth remains intact, the Treasury yield curve may continue its narrow trading range with the 10-year Treasury hovering between 2.70% and 3.40%, yet there are significant geopolitical and economic factors continuing to "pull" interest rates in the opposite direction. The conflicting undertows of economic data, fiscal policy, and monetary policy substantially impede the possibility of a massive rise in interest rates.

Political events are shifting rapidly as we write this outlook. A compromise on the European Union and Italian fiscal budget calmed the impasse but is subject to smooth enactment. The Brexit debate continues to stir insecurity. Additionally, China's and the U.S.' trade policy disagreement seems to shift from tolerable to gridlock every other day. As these events flare up, the uncertainty can push investors toward safe haven assets, such as U.S. Treasury securities, thus they limit the momentum market move toward higher interest rates. Should any of these politically charged events exhibit extreme results, the consequences could potentially empower a decisive flight to quality and plunge the 10-year Treasury rate range much lower toward 2.00% - 2.50%.

PORTFOLIO POSITIONING

Appropriate allocation remains crucial to managing diversified portfolio risk. Allocations to fixed income may provide critical risk mitigation to other asset classes and act as a ballast for overall portfolio risk, particularly with equity exposure.

However, many fixed income investors ultimately require more yield than can be provided by Treasury bonds or equity dividends. Corporate and municipal bonds are investments that typically provide higher income opportunities than Treasuries.

The curve comparison chart highlights the divergence between the yield curves for A-rated corporates, AA-rated municipals, and U.S. Treasuries.

The Treasury yield curve is relatively flat compared to the municipal and corporate curves, which are over twice as steep as the Treasury curve. Given that both the corporate and municipal curves have steeper slopes, they reward investors who are willing to assume the risk of longer maturities with higher yields. The spreads between the yields on 1-year and 10-year bonds on the corporate and municipal yield curves are 1.01% and 1.34%, respectively, whereas the spread between the yields on 1-year and 10-year Treasuries stands at just 0.36%.

GOING FORWARD

Due to the aforementioned factors, interest rates are likely to remain in a compact range, facing minimal upward potential and significant downward potential. While some points of the Treasury yield curve have approached inversion, there remains some spread between intermediate- (5-10 year) and short-term (less than one year) yields. Barring significant geopolitical developments, the Treasury curve is expected to trade in a narrow range, with the yield on the 10-year Treasury between 2.75% and 3.40%.

KEY TAKEAWAYS:

- Muted fiscal stimulus, a widening government deficit, and softening monetary policy suggest that interest rates will not make any dramatic moves upward.
- Should certain geopolitical events come to fruition, they pack the clout to push interest rates significantly downward as investors rush to purchase safe haven assets, such as U.S. Treasury securities.
- 2019 will likely see a continuation of the push-and-pull dynamic that has kept interest rates in a narrow trading range.
- The steeper municipal and corporate yield curves may provide investors more attractive options than Treasury bonds.

2019 Energy Outlook

Pavel Molchanov, *Senior Vice President, Energy Analyst, Equity Research*

After a volatile year for the global oil markets, Pavel Molchanov reminds us that short-term gyrations should not obscure the fundamentally bullish oil picture.

A VOLATILE VOYAGE FOR OIL

2018 was certainly a "round-trip" journey for the global oil markets, with West Texas Intermediate (WTI) crude prices starting the year in the low $60s per barrel (Bbl), reaching four-year record heights of $76/Bbl by early October before a turbulent descent to the low $50s by the end of November. Brent's premium to WTI was similarly volatile. On a calendar-year basis, oil prices averaged their highest level since 2014, though there is no disputing the rough end to the year.

Commodity markets are volatile by nature, reflecting both fundamental drivers and additional factors, such as the impact of the rising U.S. dollar, which placed significant pressure on already strained oil prices. Technical/momentum trading also contributed to this intense sell-off. It is important to keep in mind that short-term prices are essentially unpredictable, so we do not encourage investors to focus on short-term volatility – whether it is taking off or on a nerve-wracking descent.

BIG PICTURE, BOTTOM LINE

The global oil market was undersupplied in 2017, becoming broadly balanced (demand equaling supply) in 2018. We forecast undersupply persisting in 2019 and 2020. The four-year period 2017-2020, therefore, translates into consecutive drawdowns in global petroleum inventories – a virtually unheard of string of decreases by historical standards. While many U.S. investors tend to focus on the Department of Energy's weekly inventory reports as the only real-time data source, to get a holistic view of the oil market, it is essential to look at global metrics.

> "Short-term prices are essentially unpredictable so we do not encourage investors to focus on short-term volatility."

DEMAND AND SUPPLY

After four years (2015-2018) of demand growing above the long-term average of 1.4% per year, we envision growth slowing in 2019, and even more so in 2020. While a potential economic slowdown is among the factors here, it is not the main one. Rather, this undersupplied market must see oil prices rise in order to meaningfully curtail demand growth. As oil becomes more expensive, consumers gravitate to more fuel-efficient (or electric) vehicles, and businesses take steps to reduce fuel usage as well.

On the supply side of the ledger, there is a wide variety of "line items" to track. High profile developments include pressure on Iranian exports due to the U.S. sanctions and Venezuela's political/economic crisis and resulting collapse in production. These are counterbalanced by the record production in Saudi Arabia

> "To get a holistic view of the oil market, it is essential to look at global metrics."

and Russia. Less headline-grabbing themes include restraint in capital allocation by larger U.S. oil producers. While the U.S. - especially the Permian Basin - should remain the world's preeminent source of supply growth in the years ahead, there are still supply declines in several non-OPEC geographies such as China and Mexico. Additionally, the limited number of long-lead-time oil project approvals translates to the gradual diminishment of this source of supply uplift over time.

RENEWED STRENGTH

Putting everything together, we anticipate back-end-loaded oil price strength in 2019, to an average of $62/Bbl WTI and $72/Bbl Brent. For 2020, while visibility that far ahead is admittedly limited, we currently envision a cyclical peak of $93/Bbl WTI and $100/Bbl Brent. The main reason for this cyclical peak is global implementation of the International Maritime Organization (IMO) 2020 low-sulfur fuel regulations – arguably the most important yet underappreciated oil market story for the next several years. While some regulatory uncertainty remains, our estimate is that the overall impact in 2020 will effectively erase 1.5 million barrels per day, or 1.5% of global supply. Not only is our 2020 price forecast at the high end of consensus, but it is even more striking when compared to the futures curve. While we do not think that triple-digit oil prices will become the new normal, it may be necessary, at least temporarily, to squeeze demand out of the system, thus preventing even steeper inventory declines. Beyond 2020, our forecast is $75/Bbl WTI and $80/Bbl Brent – a normalized level of prices that should enable moderate demand growth (even with increasing adoption of electric vehicles) as well as a level of industry-wide capital spending that could generate the incremental supply for accommodating that demand growth.

NATURAL GAS: NOT SO NOTABLE

In contrast to our upbeat view on the global oil market, we are much less enthused about North American natural gas. The unusually cold start to the 2018/2019 winter temporarily pushed Henry Hub gas prices above $4.00/thousand cubic units (Mcf), but such prices are emphatically not sustainable. We remain bearish relative to consensus and futures pricing. Our forecast is an average of $2.75/Mcf (down modestly year-over year) in 2019, followed by a cyclical trough of $2.25/Mcf in 2020 and a long-term normalized level of $2.50/Mcf. The backdrop for our bearishness is the U.S. gas market's "inverse" relationship with oil prices. As higher oil prices spur growth in oil production, they also drive an increasing supply of associated gas – whether or not anyone actually wants that gas. Simply put, the better things get for oil prices, the worse the read-through for gas. Improving takeaway capacity from the Permian will only exacerbate this, along with increased access to Northeast markets from the Marcellus and Utica Shale Formations.

The supply side of the gas equation outweighs the mostly upbeat story on the demand side, led over the next three-to-four years by the ramp-up of U.S. liquefied natural gas (LNG) exports. Pipeline exports to Mexico are also a growth driver, whereas the power sector is more of a mixed picture as retirements of coal-fired power plants are disproportionately being displaced by wind and solar rather than gas. Meanwhile, the European gas market is also rather weak, with demand near 20-year lows, as wind and solar are capturing market share in the electricity mix to an even greater extent than in the U.S. Gas demand in Asia is growing, led by China, but not as much as the industry would have hoped.

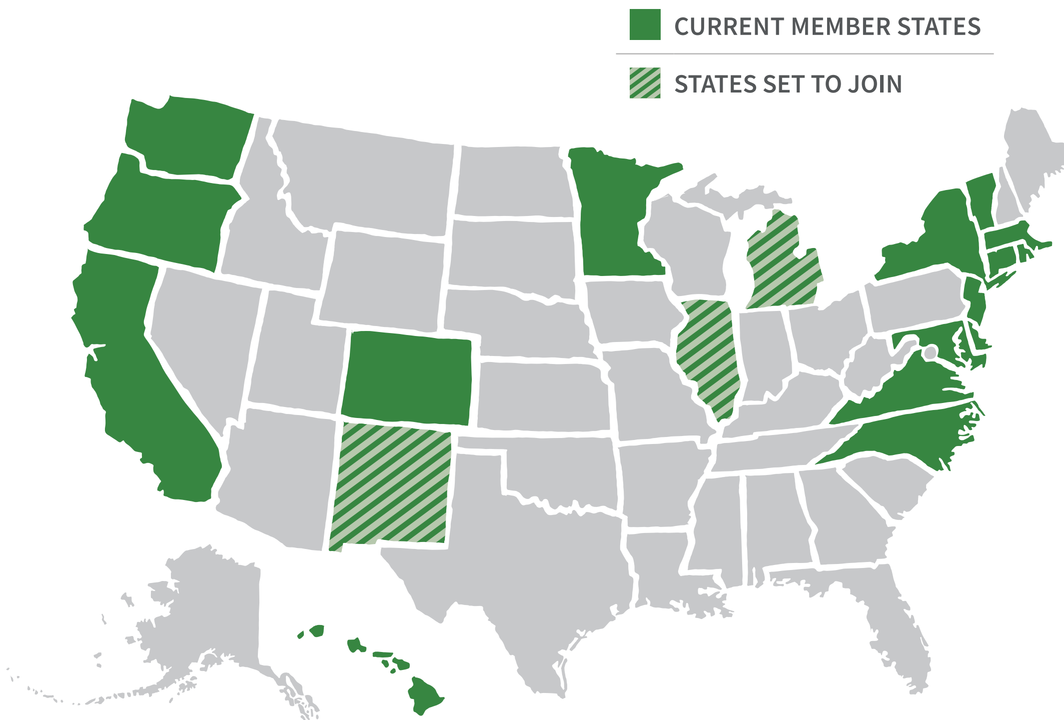
Outlook on Prices
Looking Ahead

	WTI CRUDE	BRENT CRUDE	NATURAL GAS
2019	$62/Bbl	$72/Bbl	$2.75/Mcf
2020	$93/Bbl	$100/Bbl	$2.25/Mcf
2020+	$75/Bbl	$80/Bbl	$2.50/Mcf

Source: Raymond James Equity Research

Going Green

United States Climate Alliance Coalition



U.S. ENERGY POLICY OUTLOOK

Since we are on the topic of commodity markets, let's address the outlook for U.S. energy policy following the 2018 mid-term elections. At the federal level, essentially nothing is changing. The Trump administration remains in control of the regulatory agencies: the Energy and Interior departments, as well as the Environmental Protection Agency (EPA) and the Federal Energy Regulatory Commission (FERC). To the extent Congress may take up impactful energy legislation – and it rarely does – anything will have to pass the Democratic-controlled House and Republican-controlled Senate. This, of course, is a recipe for gridlock.

At the state level, there were four high-profile initiatives on the ballot – in Colorado (drilling restrictions), Washington State (carbon tax), California (reduction of fuel taxes), and Arizona (upsized renewable portfolio standard) – but all four were defeated. On the other hand, three new governors – in Illinois, Michigan, and New Mexico – are set to join the U.S. Climate Alliance, a coalition of currently 16 states that are enforcing the Paris Agreement's decarbonization targets. While any specific regulatory changes will have to go through utility commissions, it is a safe bet that the new administrations will push to accelerate retirements of coal plants. This is more bad news for the coal industry – but bullish for renewables.

KEY TAKEAWAYS:

- It is important to keep in mind that short-term prices are essentially unpredictable, so we do not encourage investors to focus on short-term volatility.
- The global oil market does not have enough available supply to sustain the current pace of demand growth – thus, prices must move higher to slow demand likely peaking in 2020.
- We remain bearish relative to consensus and futures pricing for North American natural gas.
- As for U.S. energy policy, at the federal level, essentially nothing is changing. At the state level, a growing number of states are enforcing decarbonization rules.

2019 Asset Allocation Outlook

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

Investors should continue to adhere to their long-term strategic asset allocation as we move into 2019, particularly as it pertains to equity and fixed income positioning. As we navigate this late-market cycle, after coming off an extraordinary period of growth, attention to the quality of stock and bond holdings can help mitigate downside volatility as the cycle continues to mature.

Despite an anticipated deceleration in economic and earnings growth in 2019, the U.S. maintains healthy prospects: consensus Gross Domestic Product (GDP) growth is currently estimated to be 2.5% and earnings growth estimates remain above average with a consensus forecast of 8.5%.

While we are in the later stages of the growth cycle in the U.S., the rest of the world still has ample room for growth and a much lower bar to surpass from a relative growth standpoint. While the U.S. may end up achieving final 2018 growth figures of around 2.9% (according to final GDP estimates), other large economies saw more muted expansions, due in part to the fact that international companies did not have the luxury of reaping the benefits of the 2017 U.S. corporate tax cuts.

WILL THE U.S. TAKE THE BACK SEAT?

Despite the U.S. leading the financial markets last year, there are numerous reasons to believe that international equities will have their time to shine. Why do we remain confident in international equity markets after such a trying period of relative underperformance and a host of geopolitical concerns plaguing many of these countries and their economies?

FUNDAMENTAL SUPPORT

The prices of U.S. equities are elevated both on an absolute basis and relative to the rest of the world. In fact, we haven't seen global market dislocations such as these since 1998. While buying dividend-paying and low-volatility stocks with low multiples won't always yield superior results relative to other investments, incorporating these strategies into a diversified portfolio should add value during unstable times.

POLICY DIVERGENCE

Of the major developed-market economies, a restrictive stance on monetary policy has been most notable in the U.S. with the Federal Reserve (Fed) raising short-term interest rates from near zero in December 2015 to current levels of 2.5% (likely headed to 3.0%).

Countries such as the UK and Canada began raising rates as well, but at a much slower pace. Japan, on the other hand, is unlikely to raise interest rates for the foreseeable future and the same is expected for most euro zone central banks.

Several emerging market countries have been aggressively raising short-term rates in an attempt to defend and stabilize their currencies as higher short-term rates in the U.S. typically cause the dollar to rise against emerging market currencies. These countries, such as Turkey, are likely to see a negative impact on their economic growth, but higher short-term rates should help support their currencies and mitigate inflation pressures. This is a very different issue from that which the developed economies are dealing.

A headwind for the U.S. going forward, with regard to higher relative interest rates, is the cost of doing business, both for companies abroad and here at home. Continued rate increases should eventually place pressure on economic growth, leading the Fed to revisit their somewhat limited stimulus toolkit if necessary. Rising rates don't guarantee that the U.S. will slow down, but they certainly increase the probability the expansion decelerates.

CURRENCY: THE X-FACTOR

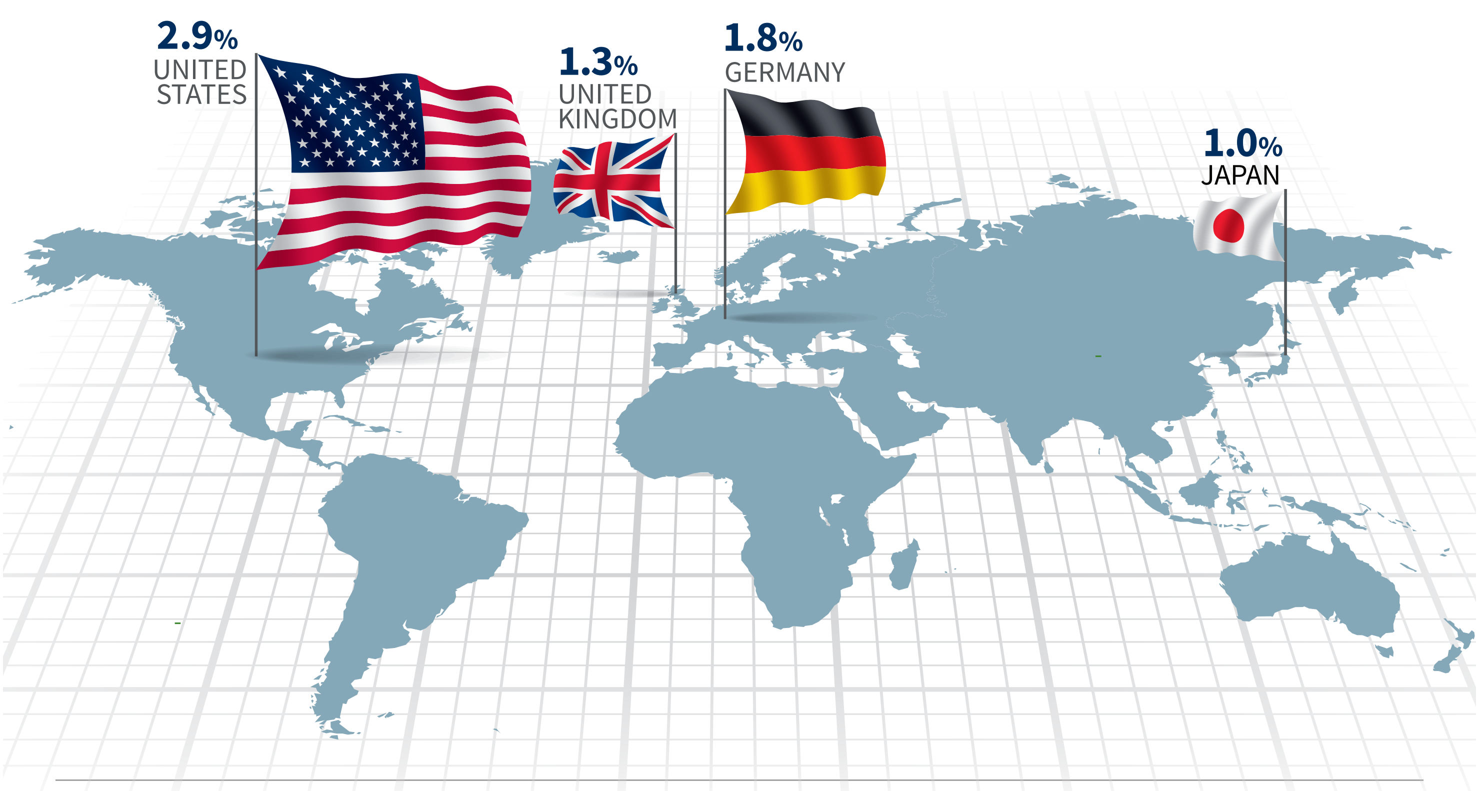
Exchange rates are typically a wild card as they are difficult to accurately predict and much of the excess returns/losses of foreign investments can be attributed to currency movements. The U.S. dollar has strengthened against most major foreign currencies over the last five to six years, eroding foreign returns as those funds flow back to the U.S. investors. In fact, the dollar has only declined in two of the last eight years against major currencies, contrarily boosting returns for domestic investors. If the dollar appreciates in 2019, non-U.S. investments will have a more difficult time outperforming their domestic counterparts.

FIXED INCOME: SHORTEN UP

Shorter-duration, higher-quality U.S. bonds are preferred relative to low-quality, non-investment grade bonds (high yield bonds) as investors are not being appropriately compensated for the potential downside risk taken by owning these securities.

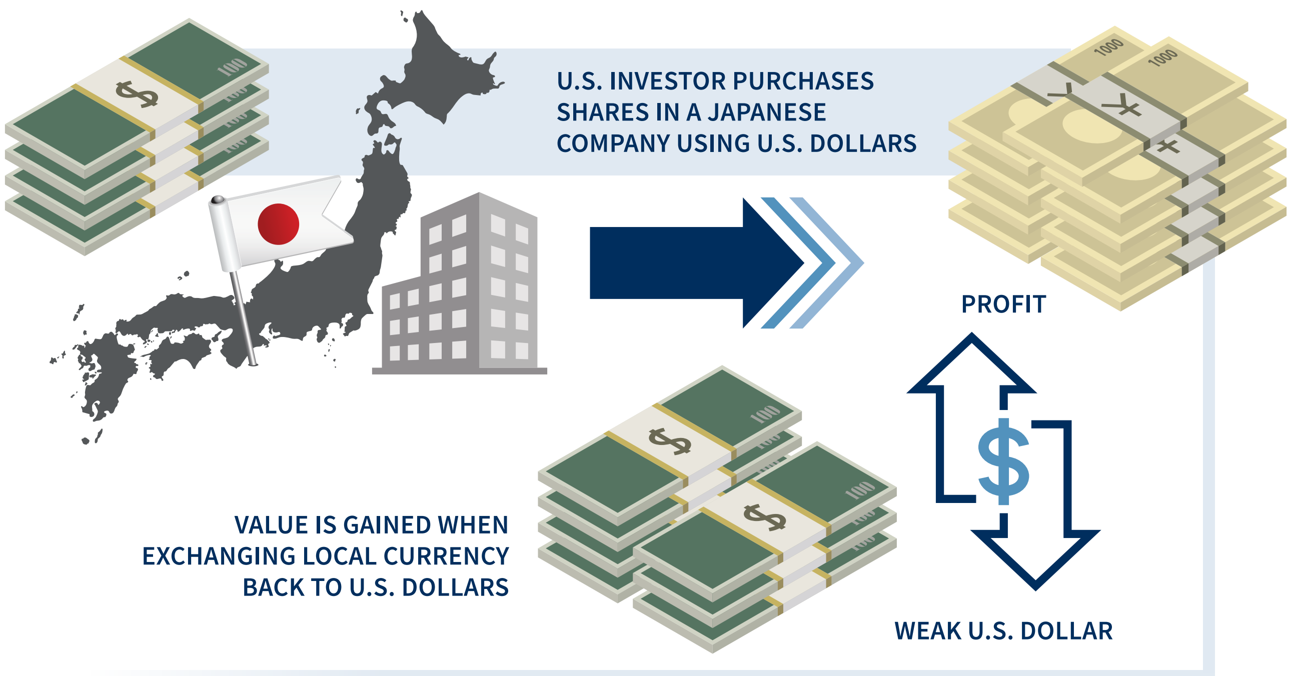
Growing Gaps

While the U.S. may end up achieving final 2018 growth figures of around 2.9% (according to final GDP estimates), other large economies saw more muted expansions, due in part to the fact that international companies did not have the luxury of reaping the benefits of the 2017 U.S. corporate tax cuts.



The Currency 'Premium'

Depending on the strength of the U.S. dollar, value can be gained when exchanging currency.



> "It is impossible to forecast the direction and magnitude of currency movements."

We also continue to avoid non-U.S. sovereign debt in Europe as an eventual rising interest rate environment and political concerns such as Brexit and the Italian debt crisis remain headwinds for foreign bond returns over the next several years.

Emerging market local currency bonds may present opportunity in the new year as the yields of these bonds increased substantially as many countries raised interest rates to control currency levels. While these types of bonds tend to have low default rates, they do carry the risk of repayment of interest and principal in local currencies that may have declined dramatically.

PROCEED WITH CAUTION

As the markets grapple with lower prospects for global earnings, a decelerating world economy, and the necessary transition from central bank accommodation to something more restrictive, we expect volatility to be a centerpiece in the market narrative. However, volatility remains the pre-requisite for opportunity and, to that end, we look forward to evaluating the opportunities and tradeoffs as they continue to improve.

KEY TAKEAWAYS:

- Depending on their individual situation, investors should continue to adhere to their long-term strategic asset allocation as we move into 2019, particularly as they pertain to equity and fixed income positioning.
- While the economy and company earnings are expected to decelerate from the exceptional levels seen throughout 2018, the U.S. is still poised for growth.
- Exchange rates are typically a wild card. If the dollar appreciates in 2019, non-U.S. investments will have a more difficult time outperforming their domestic counterparts.
- We expect volatility to be a centerpiece in the market narrative. However, volatility remains the pre-requisite for opportunity and, to that end, we look forward to evaluating the opportunities and tradeoffs as they continue to improve.

Economic Snapshot

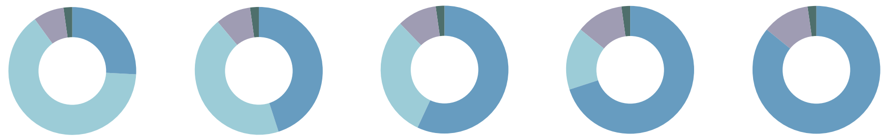
Recent data suggest that the economic expansion continued at a moderately strong pace in 4Q18, with low and stable inflation. Trade tariffs initially had a significant impact on some sectors, but only a modest impact on overall economic growth and inflation. However, the impact is broadening and there are risks of a further escalation of trade tensions in 2019. Fiscal stimulus (deficit spending) should continue to provide support in early 2019, but the impact will fade. Federal Reserve (Fed) officials expect that some further increases in short-term interest rates will be warranted, but the pace of tightening should slow.

DR. SCOTT BROWN
Chief Economist

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	GROWTH	GDP growth is expected to remain moderately strong, although somewhat slower in 2019, reflecting job market constraints, trade disruptions, and the fading impact of fiscal stimulus.
FAVORABLE	EMPLOYMENT	Demand for workers should remain strong and there may be some slack remaining in the labor market, but the pace of job growth is likely to slow as constraints become more binding.
FAVORABLE	CONSUMER SPENDING	Job growth remains supportive. The drop in gasoline prices should add to purchasing power.
FAVORABLE	INFLATION	Inflation moderated in the second half of 2018, but should pick up somewhat in early 2019, reflecting higher labor costs (minimum wage increases in some states) and tariffs.
FAVORABLE	THE DOLLAR	Trade policy conflicts and concerns about global economic risks have led to a flight to safety into U.S. Treasuries and the dollar. However, there is some risk of a softening as the Fed nears the peak of its tightening cycle.
NEUTRAL	BUSINESS INVESTMENT	Sentiment remains strong, although there are some concerns about the negative impact of tariffs. Orders and shipments of capital goods have improved into 3Q18.
NEUTRAL	MANUFACTURING	New orders and production have been mixed, but the pace has been generally moderate. Trade tariffs are a concern, disrupting supply chains and dampening expectations for growth in exports.
NEUTRAL	HOUSING AND CONSTRUCTION	Builders continue to note supply constraints (a lack of skilled labor, and higher construction costs). Demand remains strong, but customers have balked at higher home prices.
NEUTRAL	MONETARY POLICY	Fed policy is closer to neutral, but not there yet. Fed officials expect to raise rates further in 2019, but the pace of tightening should slow.
NEUTRAL	LONG-TERM INTEREST RATES	There are a number of factors that would normally put some upward pressure on bond yields. However, investor anxiety has led to a flight to safety, pushing long-term interest rates lower (that may be transitory).
NEUTRAL	FISCAL POLICY	Tax cuts and added spending provided support for economic growth in 2018 (a bit more than expected), but budget deficit projections have risen sharply (a long-term concern given the expected strains on Social Security and Medicare funding).
NEUTRAL	REST OF THE WORLD	Fed rate increases have had a negative impact on emerging market economies and trade policy has disrupted supply chains. Nationalistic tendencies, Brexit, and Italy are concerns. China should do okay.

High-Net-Worth & Ultra-High-Net-Worth Models

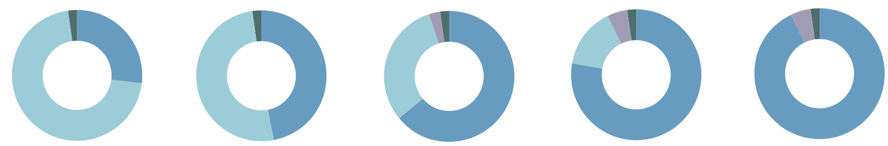
For high-net-worth and ultra-high-net-worth clients, the strategic asset allocation models below reflect the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation relative to your individual asset allocation policy, risk tolerance, and investment objectives.



CURRENT POSITIONING	CONSERVATIVE	MODERATE CONSERVATIVE	MODERATE	MODERATE GROWTH	GROWTH
TOTAL EQUITY	**26%**	**45%**	**57%**	**70%**	**84%**
Total U.S. Equity	14%	28%	35%	44%	53%
Large Cap	9%	19%	23%	30%	35%
Mid Cap	3%	5%	7%	8%	11%
Small Cap	2%	4%	5%	6%	7%
Total Non-U.S. Equity	12%	17%	22%	26%	31%
Non-U.S. Developed Market Equity	10%	14%	18%	21%	25%
Emerging Market Equity	2%	3%	4%	5%	6%
TOTAL FIXED INCOME	**64%**	**44%**	**31%**	**16%**	**0%**
Core Fixed Income	55%	37%	27%	15%	0%
Investment-Grade Intermediate Maturity	48%	32%	22%	11%	0%
Investment-Grade Short Maturity	7%	5%	5%	4%	0%
Plus Fixed Income	9%	7%	4%	1%	0%
Non-Investment Grade FI (High Yield)	3%	2%	0%	0%	0%
Non-U.S. Fixed Income	3%	2%	2%	1%	0%
Emerging Market Debt (Local+USD)	3%	3%	2%	0%	0%
ALTERNATIVE INVESTMENTS	**8%**	**9%**	**10%**	**12%**	**14%**
CASH & CASH ALTERNATIVES	**2%**	**2%**	**2%**	**2%**	**2%**

Refer to pages 34 and 35 for asset class and model definitions.

Strategic Asset Allocation Models

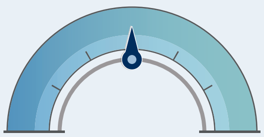


CURRENT POSITIONING	CONSERVATIVE	MODERATE CONSERVATIVE	MODERATE	MODERATE GROWTH	GROWTH
EQUITY	**27%**	**47%**	**64%**	**78%**	**93%**
U.S. Large Cap Blend	15%	17%	21%	24%	29%
U.S. Large Cap Growth	0%	4%	6%	8%	9%
U.S. Large Cap Value	0%	4%	6%	8%	9%
U.S. Mid Cap Equity	2%	5%	7%	8%	10%
U.S. Small Cap Equity	1%	3%	4%	6%	6%
Non-U.S. Developed Market Equity	9%	14%	16%	20%	25%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
FIXED INCOME	**71%**	**51%**	**31%**	**15%**	**0%**
Investment Grade Intermediate Maturity Fixed Income	56%	42%	27%	15%	0%
Investment Grade Short Maturity Fixed Income	7%	5%	4%	0%	0%
Non-Investment Grade Fixed Income	3%	2%	0%	0%	0%
Multi-Sector Fixed Income	5%	2%	0%	0%	0%
ALTERNATIVE INVESTMENTS/ MANAGED FUTURES	**0%**	**0%**	**3%**	**5%**	**5%**
CASH & CASH ALTERNATIVES	**2%**	**2%**	**2%**	**2%**	**2%**

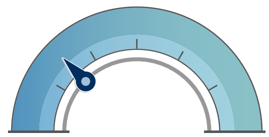
 Refer to pages 34 and 35 for asset class and model definitions.

Tactical Asset Allocation Outlook

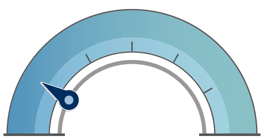
For investors who choose to be more active in their portfolios and make adjustments based on a shorter-term outlook, the tactical asset allocation outlook below reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your advisor can help you interpret each recommendation relative to your individual asset allocation policy, risk tolerance, and investment objectives.



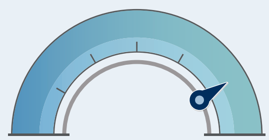
Global equity prices retreated last quarter, making them more attractive relative to bonds. Still, we have a neutral short-term view as earnings revisions are falling and downside volatility is likely to continue. Headwinds for fixed income include a potential rise in interest rates, currency volatility, and credit concerns.



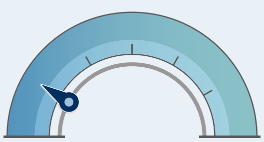
U.S. companies benefited from 2017 tax cuts, but this tailwind is subsiding as earnings growth estimates are already receding. Non-U.S. economic growth is moderating in certain areas but earnings revisions are weak, and geopolitical concerns, particularly around the Brexit deal, the Italian debt crisis, a slowdown in Chinese growth, and trade policy, keep us favorable to U.S. equities as they tend to hold up better during times of uncertainty.



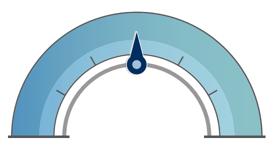
Large-cap fundamentals are relatively expensive. Still, these companies tend to better hold their value relative to smaller companies during market selloffs. Once the market finishes repricing, this may be an opportunity to rebalance assets into higher beta, small-cap strategies.



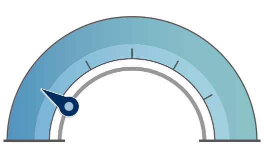
We are more favorable on emerging markets than last quarter as the potential for downside loss has decreased substantially. These markets are oversold and have reasonable valuation and fundamentals. Headwinds include appreciation of the U.S. dollar, earnings pressure, and concerns over trade negotiations. Active management is recommended in this space.



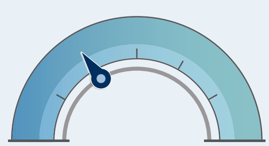
We favor value-oriented strategies over growth in the near term as these strategies include defensive, lower-volatility companies, rather than the more cyclical firms found in growth strategies. Given the late market cycle, a more defensive approach is recommended in the near term.



Longer-duration bonds should provide better support for equities during a significant equity down market, however, if the selloff is muted/contained, a spike in the yield curve could prove very harmful to longer-duration holdings. While some duration is necessary for diversification, investors may not be appropriately compensated for duration risk at this time.



While spreads have widened some, we still favor IG bonds over high yield as investors are still not being fully compensated for the credit and equity risk. This would also include senior bank loans as they tend to act like high yield when spreads widen. IG bonds continue to provide ballast to equity market risk and strategic positions should be maintained for this reason.



The probability of the U.S. dollar rallying in the near term is low, but could happen if global markets continue to sell off. Appreciation of the dollar would negatively impact dollar-denominated debt held abroad. This, coupled with the additional credit risk associated with non-U.S. debt leaves us slightly favorable to U.S. dollar-denominated fixed income in the near term. Opportunities are presenting themselves in the local market space, as prices are starting to look relatively attractive, but it may be too soon to favor them tactically.

Alternative Investments Snapshot

ALTERNATIVE INVESTMENTS	In a period in which volatility persists and markets appear to be late cycle, alternative assets that provide exposure to unique return streams become more attractive. On a go forward basis, manager execution in the space will be vital as dispersion across strategy types and managers has picked up broadly.
EQUITY LONG/SHORT	Equity long/short becomes more attractive in an environment that includes greater dispersion in stocks, increasing the potential for managers to create alpha both long and short. For advisors and clients that believe more volatility is on the horizon, and would like to attempt to reduce equity risk, long/short equity may represent an opportunity to meet that objective.
MULTI-MANAGER/ MULTI-STRATEGY	Multi-manager/multi-strategy funds that are diversified across strategy types and asset classes provide investors with differentiated exposure relative to traditional markets. For investors seeking investments with limited correlation and beta to traditional markets, multi-manager/multi-strategy funds represent a potential solution.
MANAGED FUTURES	Managed futures seek to profit from price movements and trends across a wide range of trading markets. Although managed futures in general have failed to meet investor expectations during recent bouts of volatility, historically the asset class maintains limited correlation to equity and bond markets, providing diversification benefits to a broader portfolio.
EVENT-DRIVEN	Event-driven strategies aim to identify catalysts around corporate situations to generate investment returns. While there has been a limited opportunity set for distressed strategies in recent years, a core discipline for many distressed investors, dislocations in credit and a late cycle environment potentially create additional opportunities for managers going forward.
EQUITY MARKET NEUTRAL	Equity market neutral strategies strive to maintain a limited degree of exposure to equity markets. The strategy should outpace broader equity markets during periods of increased volatility as short equity exposure limits losses.
GLOBAL MACRO	Trading across a range of asset classes, geographies, and sectors, global macro strategies provide investors with a return stream that features limited correlation to traditional asset classes. These strategies tend to benefit from divergent moves across markets and as such, are poised to outperform when volatility presents itself.

This report is intended to highlight the dynamics underlying major categories of the alternatives market, with the goal of providing a timely assessment based on current economic and capital market environments. 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.

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.

Investment Strategy committee meeting recap

Continued from page 3

- “We don’t see anything that even comes close to the oversupplied situation we were in in 2006. We are growing the U.S. housing stock at about 0.8%, and right now, we’re creating more households than we’re building houses.”
- “In a nutshell, I think we have de-risked the $50 trillion U.S. real estate industry, including residential and commercial, over the past 20 years. The severe housing downturn and the fact that REITs went public, both driving the need for much more data and visibility, is a huge part of that de-risking.”
- “To sum it up, housing isn’t going to put us in a recession. It’s going to suffer if we enter into one, but at this juncture, we don’t see that happening.”

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.

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

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.*

	SECTOR	S&P WEIGHT	TACTICAL COMMENTS
OVERWEIGHT	INFORMATION TECHNOLOGY	20.3%	Earnings revisions continue to tick lower; a trend that may persist in the near term. If trade talks fail to improve and tariffs move to 25% and expand, the sector will suffer adversely. Valuation does not provide the support it did during the last rough spot for the equity market (2015-2016). Nonetheless, with little evidence suggesting the current fundamental weakness is nothing more than slowing as opposed to outright contraction, we maintain an overweight position.
OVERWEIGHT	HEALTH CARE	15.7%	The top performing sector in 2018 remains favorable. Still, we feel the sector is vulnerable to short-term underperformance given that significant market declines often end with leading sectors collapsing. Despite this near-term risk, the defensive characteristics, generally healthy fundamental trends, and reasonable valuation support an overweight stance.
OVERWEIGHT	INDUSTRIALS	9.1%	Our overweight stance will continue to suffer if the flattening yield curve and equity market volatility are accurately forecasting slowing macro trends in the months ahead. However, if the current healthy economic data does not roll over, the sector is likely set-up for strong relative performance over the next 12-months. Valuation is compelling and current earnings growth projected for 2019 (+10.8%) is well ahead of overall growth expected for the S&P 500.
OVERWEIGHT	ENERGY	5.5%	This overweight position is suffering as crude oil moves lower. With the sector deeply oversold, negative sentiment, and the equity market near (in our opinion) a decent bounce, we remain overweight. Additionally, supply and demand for this commodity-influenced sector will eventually move in favor of higher prices as low price levels will ultimately result in less supply and hence higher prices; assuming global demand holds up.
EQUAL WEIGHT	FINANCIALS	12.9%	Tight correlation to the flattening yield curve keeps us equal weight despite attractive valuation and expectations for solid earnings gains in 2019. Technical trends are weak and also justify an equal weight.
EQUAL WEIGHT	COMMUNICATION SERVICES	10.0%	Potential increased government scrutiny of social media companies (largest weighting in the sector) influence an equal weight despite compelling qualities of the sector (valuation and improving relative technical trading trends).
EQUAL WEIGHT	CONSUMER DISCRETIONARY	9.9%	Expensive valuation along with sluggish technical trading trends for the equal weight index (average consumer discretion stock) cause us to remain equal weight, despite what should be a favorable fundamental back-drop of ample jobs and low energy prices.
UNDERWEIGHT	CONSUMER STAPLES	7.6%	The defensive sectors, such as consumer staples, are performing relatively well in the risk-off mode of the equity market. Given our belief (an oversold bounce and eventually higher equity prices will transpire), we are not chasing the fundamentally-challenged sectors that are working now.
UNDERWEIGHT	UTILITIES	3.3%	Given our belief (an oversold bounce and eventually higher equity prices will transpire), we are not chasing the fundamentally-challenged sectors, such as utilities, that are working now. Q4 earnings are expected to grow by 0.15%, slowest of all sectors and downwardly revised from 9.84% on 9/30.
UNDERWEIGHT	REAL ESTATE	3.0%	The defensive sectors, such as real estate, are performing relatively well in the risk-off mode of the equity market. Given our belief (an oversold bounce and eventually higher equity prices will transpire), we are not chasing the fundamentally-challenged sectors that are working now. Q4 estimates have held steady at 8.9% expected earnings growth, although 2019 estimated growth is slowest of all sectors at 3.7%.
UNDERWEIGHT	MATERIALS	2.6%	The deeply cyclical materials are suffering in the market decline, and for now, we remain underweight. Sharp downward earnings estimate revisions for Q4, now reflecting 9.1% growth (from 17.7% expected on 9/30). 2019 earnings estimate is 5.9%.

ASSET CLASS DEFINITIONS

U.S. Mid Cap Equity: Russell Midcap Index: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 27% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

U.S. Small Cap Equity: Russell 2000 Index: The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

U.S. Large Cap Blend: The Russell 1000 Index. An index of approximately 1,000 of the largest companies in the U.S. equity market. The Russell 1000 is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks. It is considered a bellwether index for large cap investing.

U.S. Large Cap Growth: The Russell 1000 Growth Index. A composite that includes large and mid-cap companies located in the United States that also exhibit a growth probability. The Russell 1000 Growth is published and maintained by FTSE Russell.

U.S. Large Cap Value: The Russell 1000 Value Index. A composite of large and mid-cap companies located in the United States that also exhibit a value probability. The Russell 1000 Value is published and maintained by FTSE Russell.

Non U.S. Developed Market Equity: MSCI EAFE: This index is a free float-adjusted market capitalization index that measures the performance of developed market equities, excluding the U.S. and Canada. It consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

Non U.S. Emerging Market Equity: MSCI Emerging Markets Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of December 31, 2010, the MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

Investment Grade Long Maturity Fixed Income: Barclays Long US Government/Credit: The long component of the Barclays Capital Government/Credit Index with securities in the maturity range from 10 years or more.

Investment Grade Intermediate Maturity Fixed Income: Barclays US Aggregate Bond Index: This index is a broad fixed income index that includes all issues in the Government/Credit Index and mortgage-backed debt securities. Maturities range from 1 to 30 years with an average maturity of nearly 5 years.

Investment Grade Short Maturity Fixed Income: Barclays Govt/Credit 1-3 Year: The component of the Barclays Capital Government/Credit Index with securities in the maturity range from 1 up to (but not including) 3 years.

Non-Investment Grade Fixed Income (High Yield): Barclays US Corporate High Yield Index: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issued, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule, and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's. S&P, Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.

Multi-Sector Fixed Income: The index for the multi-sector bond asset class is composed of one-third the Barclays Aggregate US Bond Index, a broad fixed income index that includes all issues in the Government/Credit Index and mortgage-backed debt securities; maturities range from 1 to 30 years with an average maturity of nearly 5 years, one-third the Barclays US Corporate High Yield Index which covers the universe of fixed rate, non-investment grade debt and includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors and one-third the J.P. Morgan EMBI Global Diversified Index, an unmanaged index of debt instruments of 50 emerging countries.

The Multi-Sector Fixed Income category also includes nontraditional bond funds. Nontraditional bond funds pursue strategies divergent in one or more ways from conventional practice in the broader bond-fund universe. These funds have more flexibility to invest tactically across a wide swath of individual sectors, including high-yield and foreign debt, and typically with very large allocations. These funds typically have broad freedom to manage interest-rate sensitivity, but attempt to tactically manage those exposures in order to minimize volatility. Funds within this category often will use credit default swaps and other fixed income derivatives to a significant level within their portfolios.

Alternatives Investment: HFRI Fund of Funds Index: The index only contains fund of funds, which invest with multiple managers through funds or managed accounts. It is an equal-weighted index, which includes over 650 domestic and offshore funds that have at least $50 million under management or have been actively trading for at least 12 months. All funds report assets in US Dollar, and Net of All Fees returns which are on a monthly basis.

Cash & Cash Alternatives: Citigroup 3 Month US Treasury Bill: A market value-weighted index of public obligations of the U.S. Treasury with maturities of 3 months.

KEY TERMS

Long/Short Equity: Long/short equity managers typically take both long and short positions in equity markets. The ability to vary market exposure may provide a long/short manager with the opportunity to express either a bullish or bearish view, and to potentially mitigate risk during difficult times.

Global Macro: Hedge funds employing a global macro approach take positions in financial derivatives and other securities on the basis of movements in global financial markets. The strategies are typically based on forecasts and analyses of interest rate trends, movements in the general flow of funds, political changes, government policies, inter- government relations, and other broad systemic factors.

Multi-Strategy: Engage in a broad range of investment strategies, including but not limited to long/short equity, global macro, merger arbitrage, statistical arbitrage, structured credit, and event-driven strategies. The funds have the ability to dynamically shift capital among the various sub-strategies, seeking the greatest perceived risk/reward opportunities at any given time.

Event-Driven: Event-driven managers typically focus on company-specific events. Examples of such events include mergers, acquisitions, bankruptcies, reorganizations, spin-offs and other events that could be considered to offer "catalyst driven" investment opportunities. These managers will primarily trade equities and bonds.

Market Neutral: A hedge fund strategy that seeks to exploit differences in stock prices by being long and short in stocks within the same sector, industry, market capitalization, country, etc. This strategy creates a hedge against market factors.

Managed Futures: Managed futures strategies trade in a variety of global markets, attempting to identify and profit from rising or falling trends that develop in these markets. Markets that are traded often include financials (interest rates, stock indices and currencies), as well as commodities (energy, metals and agriculturals).

INDEX DEFINITIONS

Barclays U.S. Aggregate Bond Index: A broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. Securities must be rated investment-grade or higher using the middle rating of Moody's, S&P and Fitch. When a rating from only two agencies is available, the lower is used. Information on this index is available at INDEX-US@BARCLAYS.COM.

DISCLOSURE

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. 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.

U.S. government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. 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 U.S. 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 commodities 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 performance mentioned does not include fees and charges which would reduce an investor's returns. 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 Shanghai Composite Index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

MODEL DEFINITIONS

Conservative Portfolio: may be appropriate for investors with long-term income distribution needs who are sensitive to short-term losses yet want to achieve some capital appreciation. The equity portion of this portfolio generates capital appreciation, which is appropriate for investors who are sensitive to the effects of market fluctuation but need to sustain purchasing power. This portfolio, which has a higher weighting in bonds than in stocks, seeks to keep investors ahead of the effects of inflation with an eye toward maintaining principal stability.

Moderate Conservative Portfolio: may be appropriate for investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of the financial markets. The portfolio, which has an equal weighting in stocks and bonds, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. The portfolio has return and short-term loss characteristics that may deliver returns lower than that of the broader market with lower levels of risk and volatility.

Moderate Portfolio: may be appropriate for investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in stocks, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. The portfolio has return and short-term loss characteristics that may deliver returns lower than that of the broader equity market with lower levels of risk and volatility.

Moderate Growth Portfolio: may be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in stocks seeks to keep investors well ahead of the effects of inflation with principal stability as a secondary consideration. The portfolio has return and short-term loss characteristics that may deliver returns slightly lower than that of the broader equity market with slightly lower levels of risk and volatility.

Growth Portfolio: may be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has 100% in stocks, seeks to keep investors well ahead of the effects of inflation with little regard for maintaining principal stability. The portfolio has return and short-term loss characteristics that may deliver returns comparable to those of the broader equity market with similar levels of risk and volatility.

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