RAYMOND JAMES®

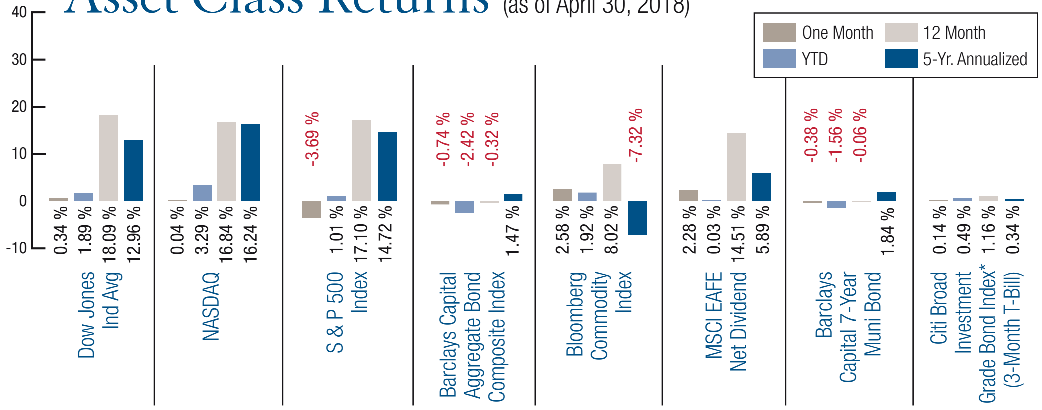
market update

From the Office of:
Jeff Sgroi, CFP®

"The man who moves a mountain begins by carrying small stones."

-*Confucius*

Asset Class Returns (as of April 30, 2018)



Material prepared by Raymond James for use by its Financial Advisors

Market/Economic Synopsis

- Geopolitical tensions remain elevated, as U.S. reneges on treaty with Iran, while possibility of reunification of North and South Korea appears to be real
- Federal Reserve passes on opportunity to raise the Fed Funds rate in most recent meeting
- With most S&P 500 companies having reported 1Q 2018 earnings, approximately three-quarters have beat expectations on both top and bottom lines
- Ten year U.S. Treasury yield flirts on either side of 3.0%, while Goldman Sachs calls for benchmark yield to reach 3.6% in 2019
- $70/barrel oil holds strong as drilling and energy investment continue to rise
- Supreme Court rules that states can legalize sports gambling in monumental case
- Washington moves ahead with efforts to reduce prescription drug prices for Americans

Market Update

The Raymond James Investment Strategy Committee publishes its market perspective on a quarterly basis. This report serves as a critical guide in our office's portfolio construction and investment recommendations on an ongoing basis. I found the most current report particularly intriguing, as we have witnessed the return of a nemesis (although many claim friend) of investors – volatility. In our preceding market letter we focused on the volatility index (VIX) and inflation pendulum swinging in search of renewed pricing discovery. These topics remain current and relevant despite a historically strong earnings quarter and renewed expectations of ongoing economic growth in the United States. The following key takeaways from the committee members are as follows:

Andrew Adams, CFA, CMT, *Senior Research Associate, Equity Research*

- We believe the February correction was more of a trading event, not the kind of recessionary or systemic breakdown that has generally caused more significant declines in market history.
- The odds favor further bouts of 'episodic volatility,' although we continue to believe these should be viewed as opportunities within an ongoing secular bull market rather than a reason for significant concern.
- By expecting price swings, and perhaps even viewing them as an opportunity to buy at lower prices, one will be less likely to panic and sell out of long-held positions at what could be very inopportune times.

Joey Madere, *Senior Portfolio Strategist, Equity Portfolio & Technical Strategy*

- While there are many factors that can impact equity markets in the short term, earnings are the most important influence over the long term.
- The strongest earnings growth is expected to come from energy, financials, materials, industrials, and technology.
- Following the strongest estimate revision trends of the current bull market, 2018 is expected to exhibit very strong earnings growth, a tailwind to equity markets.

Doug Drabik, *Senior Strategist, Fixed Income Services, and*
Nick Goetze, *Managing Director, Fixed Income Services*

- Global central bank intervention comprises over $20 trillion in assets, up from pre-recession levels of $6 trillion in November 2007. Even if other central banks halt their open market purchases, the significant influence of this newly created money persists in the financial markets.
- As inflation has inched up, the market reaction has been clear: if the market believes inflation is trending up, it will drive interest rates higher.
- Relative to other central banks, the Fed has been much more direct in communicating and executing its strategy of raising short-term rates. While these hikes only impact short-term interest rates, rising short-term rates influence overall rate sentiment.
- Interest rates are not likely to be pulled dramatically in either direction. Rather, rates will likely be range bound, albeit in a slightly higher range of 2.65%-3.45%.

Market Update (continued)

Nicholas Lacy, CFA, *Chief Portfolio Strategist*

- Individual investors remained relatively calm throughout the quarter as lingering memories of the 2008 financial crisis and subsequent recovery had them thinking twice about hastily exiting the market.
- The underperformance of defensive equities was surprising. Various sectors including REITS, energy, and telecom, have historically held up well in down markets since they typically pay higher dividends, which should have cushioned prices relative to the overall market.
- Global equity markets appear poised for another above-average year in market returns. A steeper yield curve has historically been a positive signal for equities.
- Fixed income remains a foundational element of a diversified portfolio and should continue to serve as a ballast amidst turbulent equity markets.

Ed Mills, *Washington Policy Analyst, Equity Research*

- The deregulatory push, combined with the tax changes enacted earlier this year, will likely result in increased profitability, capital return, and M&A activity for many financial services companies.
- The push against financial regulations has been cast as a driver of economic growth, a position that many congressional Republicans avoided in the immediate aftermath of the financial crisis.
- Tightening will shift away from regulation to normalization of the Fed Funds rate. This could represent a multi-pronged win for the banking industry: normalized interest rates, expanded regulatory relief, increased business activity, and lower regulatory expenses.
- The recent announcement on tariffs raises concerns of a trade war, which would represent a significant headwind for the economy.

In summary, we remain optimistic that our financial markets will continue to expand for the foreseeable future. Domestic equity indices have crept back to near all-time highs hit in January. It has been a bumpy ride with sector participation electing clear winners and losers, as witnessed in 2017. Rising rates have hurt fixed income investors on a short term basis, but continue to be a prudent diversification tool and sensible asset class to manage risk. As always, we seek opportunity when it presents itself. It has been my experience that a well-diversified portfolio aligned with one's personal risk tolerance is the best strategy for successfully attaining one's financial goals – and based on our professional current analysis of the markets, that belief remains.

From the Officefront

The Raymond James National Conference will be kicking off the week of May 21st in National Harbor, Maryland. This year I expect to see a number of familiar faces (colleagues and speakers), including Raymond James Chief Investment Strategist Jeff Saut, along with Andy Friedman, commonly referred to as "one of the nation's most sought-after speakers on all things political." Two new speakers this year include Robert Gates, former United States Secretary of Defense, and Adam Alter, whose session is titled "Why Our Screens Are Making Us Less Happy". It is bound to be a busy schedule from 8AM through the evening each day, with smaller breakout sessions featuring fellow advisors, money managers and interesting colleagues. I look forward to sharing with you what I learn and discover during this important week.

Closer to home, we are excited to announce the rollout of our new asset management tool, called Riskalyze. Riskalyze is a tool we will use to both identify your personal risk tolerance and assess your current portfolio risk level. We will then work to ensure that the two are aligned in a prudent, well-constructed portfolio. Our office will be reaching out to you within the next few months requesting you complete an online questionnaire that will assist in re-evaluating your risk tolerance. The questionnaire should take about 5 minutes to complete and will be invaluable in our understanding of you as an investor. Your results will be assessed by our office, and we will follow up with recommended changes, if necessary. Additionally, the information you provide us will be integrated into your next portfolio review. We constantly seek ways to further assist and understand you and your objectives, and we expect Riskalyze to be an invaluable tool as part of this ongoing process. *Riskalyze is and independent third party service provider and is not affiliated with Raymond James.

From the Homefront

May is our big birthday month, with six family members celebrating birthdays including all three of our girls. Stella just turned eight, and the twins turn five later this month. Thankfully, they have been counting down the days for the past two months, so we are sure to not overlook their special days.

Just as important, May is also when months of many local children's hard work in the Aspen Santa Fe Ballet program culminates in the spring recital. This past weekend we had the pleasure of witnessing not only our girls perform in front of a packed house at the local theatre, but also their friends and peers. It was a great showing of support from parents, family members and others. What I found most amazing was how disciplined, dedicated and committed the group of kids is, and how it translated into their performance. Kudos to the Aspen Santa Fe Ballet staff, coaches, and ballerinas! Above is a glimpse of Lily, Stella and Hannah pre-performance.

Index performance is shown for illustrative purposes only and does not reflect the deductions of fees, trading costs or other expenses, which will affect actual investment performance. You cannot invest directly in any index. Individual results may vary. Past performance is not a guarantee of future results. There is no assurance any of the forecasts mentioned will occur.

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The DJIA index covers 30 major NYSE industrial companies. The NASDAQ represents 4500 stocks traded over the counter. The S&P 500 is a broad based measurement of performance of 500 widely held common stocks. The Barclays Aggregate Bond Index is diversified index measuring approximately 6,000 investment grade, fixed rate taxable securities. The Bloomberg Commodity Index is a diversified benchmark for the commodity futures market. The MSCI EAFE index is designed to measure the equity market performance of developed markets excluding the US & Canada. The Barclays Municipal Bond Index is a measure of the long-term tax-exempt bond market with securities of investment grade. The Citigroup Broad Investment Grade Bond Index is market capitalization weighted and designed to track the performance of U.S. dollar-denominated bonds issued in the U.S. investment-grade bond market.

International investing involves additional risks such as currency fluctuations, differing financial and accounting standards, and possible political and economic instability. Also, investing in emerging markets can be riskier than investing in well-established foreign markets. There is no assurance any of the trends mentioned will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

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. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Commodities may be subject to greater volatility than investments in traditional securities. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes, and international economic and political developments. Diversification and asset allocation do not ensure a profit or protect against a loss. Dividends are not guaranteed and must be authorized by the company's board of directors. Investment Advisory Services are offered through Raymond James Financial Services Advisors, Inc.

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