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RAYMOND JAMES®

INVESTMENT STRATEGY COMMITTEE MEETING RECAP

Economic and financial market headwinds for the next six to twelve months include a strong dollar, rising interest rates and policy uncertainty. Top tailwinds include a healthy job market, potential for fiscal stimulus and accommodative monetary policy.

U.S. ECONOMY – Scott Brown, Ph.D., Chief Economist, Equity Research

- "The pre-election outlook held that slowing population growth – resulting in slower labor input and economic growth – was the 'new normal.' Post-election sentiment suggests that we are going to get some fiscal stimulus, but that will likely be ineffective in boosting growth on a long-term basis due to demographic constraints."

- "I'm not optimistic that we'll see a big increase in GDP growth. Economists have been raising their growth forecasts for next year, but only slightly, so you're looking at a little over 2% in 2017. We could see a quarter or two of strong growth but it's not sustainable, unless we increase immigration or get a sharp rise in productivity growth."

- "While there are a number of uncertainties in the economic outlook, the largest risk is in global trade. A trade war would boost inflation through higher import costs and disrupt supply chains in U.S. manufacturing. Cooler heads should prevail, but a trade war would undermine economic growth at a time when global trade is already slowing."

- "The job market should continue to tighten in the near term, putting some upward pressure on wages, although consumer price inflation is likely to be moderate. The Federal Reserve should continue to gradually normalize short-term interest rates. Increased government borrowing should lift long-term interest rates."

INTERNATIONAL EQUITY – Chris Bailey, European Strategist, Raymond James Euro Equities* (unless otherwise noted)

EUROPE

- "The pollsters got something right by correctly predicting that the 'no vote' would prevail in the Italian constitutional referendum. In my opinion, this vote is being blown up as something which massively undermines European stability."

- "There is no doubt that a backlash against the European political elite is happening and clearly there are issues to work through in Italy. Banks remain troubled, the political system is uncertain and the people are unhappy, but my feeling is that the Italians do not want to leave the European Union."

- "The direction of Brexit is, to me, quite clear. The timetable is slower, practical realities are showing a 'soft' Brexit as the likely endpoint, rather than a more divisive, aggressive kind of breaking up of relations between the UK and the European Union."

- "Europe is not perfect – there are going to be bumps in the road. However, versus three or six months ago, there's a little bit of hope. The catalysts would be more earnings growth and potential political stability with the upcoming elections in Germany and France. Combine this with last year's big outflows from European equity markets, and opportunities may surface going forward."

> "People are woefully underinvested in the equity markets, and I do think the economy is going to pick up.
>
> **– Jeff Saut,** Chief Investment Strategist, Equity Research

CHINA

- "Concerns over Asia will be centered on China in 2017: the sustainability of growth, the banking system, the property market, and foreign exchange. However, the positive aspects which perhaps people are underestimating are the continuing reforms in China. And they are very impressive."

- "Just as labor force issues are coming to the forefront in the U.S. and demographic shifts are hitting home in Europe, China is now in a position where its labor force is starting to decline as well. It's a common refrain that China will get old before it gets rich. There's significant risk to all assets coming out of China, and I think it's very important to keep monitoring that."

– Paul Berg, CFA, Cougar Global Investments*

U.S. EQUITY

- "I think stocks are going substantially higher. I don't think the markets are overvalued or that the strong dollar will hurt corporate earnings. The markets are transitioning from an interest rate-driven secular bull market to an earnings-driven secular bull market."

INVESTMENT STRATEGY COMMITTEE MEMBERS

Each quarter, the committee members complete a detailed survey sharing their views on the investment environment, and their responses are the basis for a discussion of key themes and investment implications.

Andrew Adams, CMT Senior Research Associate, Equity Research

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Paul Berg, CFA, Cougar Global Investments*

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Jennifer Suden, CAIA Director of Alternative Investments Research

Tom Thornton, CFA, CIPM Vice President, Asset Management Services

Anne B. Platt, AWMA®, AIF® – Committee Chair Vice President, Investment Strategy & Product Positioning, Wealth, Retirement & Portfolio Solutions

Kristin Byrnes – Committee Vice-Chair Product Strategy Analyst, Wealth, Retirement & Portfolio Solutions

- "You've got six stages of emotion that investors go through and, right now, I think we're nowhere near exuberance or ecstasy or any of the other phases you come to before a secular bull market ends."

  – Jeff Saut, Chief Investment Strategist, Equity Research

- "People are woefully underinvested in the equity markets, and I do think the economy is going to pick up. The market is telling us something is happening, and it's good."

  – Jeff Saut, Chief Investment Strategist, Equity Research

- "So far, the rally we've seen has been the kind of broad-based rally that you want at this stage. It's been led by higher betas, and financials and energy are finally coming around. It's not the narrow rally we saw last year."

  – Andrew Adams, CMT, Senior Research Associate, Equity Research

- "Near term the market has a nice tailwind to it – it's completely convinced that fiscal stimulus is coming, which will generate GDP growth and make earnings targets much easier to achieve."

> "I think stocks are going substantially higher. The markets are transitioning from an interest rate-driven secular bull market to an earnings-driven secular bull market."
>
> **– Jeff Saut,** Chief Investment Strategist, Equity Research

- "I'm pretty comfortable about earnings going forward if we do get tax cuts because the magnitude of the moves would be big. However, it's probably going to be tax reform rather than tax cuts – which takes a lot longer to do. The reality of these things actually happening may slow the rate of ascent."

  – Michael Gibbs, Managing Director of Equity Portfolio & Technical Strategy

FIXED INCOME

- "Despite recent volatility, the fixed income markets really are not out of whack. We've remained in an accommodative policy, which has not resulted in inflation, and bonds in general have stayed fairly strong."
- "Asset allocation is important and, from a strategic standpoint, we are staying the course. Rising interest rates and the widening of municipal market spreads further emphasize decent opportunities for fixed income."

  – Doug Drabik, Senior Strategist, Fixed Income

- "Municipal bonds are unbelievably attractive right now. They're trading above Treasuries in terms of yield across the curve, so for investors that pay high marginal tax rates, munis look fantastic."

  – Benjamin Streed, CFA, Strategist, Fixed Income

- "Inflation has bottomed. If you think the baton should go from central bankers to the fiscal policy makers, you have a reason to believe. Risk markets will continue to rally into the first quarter."

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

- "Near-term risk markets have more room to run with economic and fiscal policy optimism. Through Q1 of 2017, the market is going to do well. The curve is steep. There's a term premium. Let's not forget that we opened 2016 with a big downdraft. This is a retracement from Brexit low yields and not particularly concerning."

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

REAL ESTATE – Paul Puryear, Director of Real Estate Research, Equity Research

- "Housing is fine. It's not robust. Demographic trends are acting as a drag and housing isn't fueling economic growth like it has in past cycles, which in some ways could be a good thing. The two wild cards for housing in 2017 are inflation and interest rates."

- "Affordability issues have been exacerbated because incomes haven't kept up with inflation. Construction costs – particularly in labor and permits – are likely to get worse, not better."

- "On infrastructure spending, I'm more concerned about what it does to the inflation rate and the labor pool – both of which are strained right now."

ENERGY AND OIL – Pavel Molchanov, Senior Vice President, Energy Analyst, Equity Research

- "With OPEC's announcement to cut supply, you would think oil prices should celebrate, and they did to a degree. Still, prices are considerably lower than where we thought they would be at this point in time."

- "Saudi Arabia cutting production is a bullish signal for the market. Bullish in the sense of fewer physical barrels on the market but also in a psychological sense, because they finally called a truce after fighting a price war for the past two years. That changes how investors, and commodity speculators, think about downside and upside."

- "The fact that oil is not yet in the $60s is going to affect capital spending decisions by oil and gas producers across the spectrum around the world. Initial capital budgets will probably be on the lower end of expectations, but still mostly showing recovery from the prior year."

- "Headwinds for oil in 2017 include recovering production in Nigeria and Libya, unexpected supply growth in Russia, and a strong U.S. dollar."

ALTERNATIVE INVESTMENTS – Jennifer Suden, Director of Alternative Investments Research, PCG Investment Products

- "Two trends we are seeing in the hedge fund industry are fee compression, driven by a decline in the average management fee charged, and increased liquidations relative to launches. In fact, though the average launch size has grown, 2016 is turning out to be the slowest year for new hedge fund launches since 2009."

- "For an ultra-high net worth investor, we believe a minimum strategic long-term allocation of 20% to alternatives is warranted. Though it depends on the client's risk/return objectives, generally this allocation should be accomplished through a mix of hedge fund and private equity strategies, providing the ability to capitalize on the illiquidity premiums."

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

ECONOMIC SNAPSHOT

The economy appeared to be in good shape toward the end of 2016. While fiscal stimulus may provide a boost to growth in 2017, the amount of infrastructure spending and tax cuts we're likely to see is unclear. Improved business optimism could lead to greater investment, but economic growth is likely to be limited by constraints in the labor market. The Federal Reserve (Fed) is expected to raise short-term interest rates gradually. Increased government borrowing should pressure long-term rates.

SCOTT BROWN
Chief Economist, Equity Research

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	GROWTH	Due to slower population growth, 2% GDP growth is the new normal. We may see a little more growth in the short term, as labor market slack is further reduced.
FAVORABLE	EMPLOYMENT	Job growth slowed somewhat in 2016 (reflecting a tight labor market), but is still relatively strong. Job destruction remains very low. An aging population suggests less labor turnover.
FAVORABLE	CONSUMER SPENDING	Strong job growth and moderate wage gains should continue to support consumer spending growth, but the benefit of low gasoline prices is fading (slower real wage growth).
FAVORABLE	HOUSING AND CONSTRUCTION	Housing and construction has been a bit choppy from month to month, but there is a general trend of improvement in single-family activity. Supply constraints have been a factor, lifting home prices and rents.
FAVORABLE	MONETARY POLICY	The Fed raised rates just once in 2016. The hawks want to move faster, but others, including Chair Yellen, are more cautious. Policy remains data dependent, with a focus on the job market and the inflation outlook. The Fed is aware that sharply rising rates may be destabilizing.
FAVORABLE	FISCAL POLICY	State and local government budgets are in better shape and spending should add a bit to GDP growth over time. At the federal level, the scale of infrastructure spending and tax cuts is very much in doubt, but will likely add significantly to the budget deficit.
FAVORABLE	THE DOLLAR	Monetary policy has contributed to the dollar's strength. A strong dollar should keep some downward pressure on commodity prices, but will place pressure on U.S. exporters.
NEUTRAL	BUSINESS INVESTMENT	After a period of softness (partly related to the contraction in energy exploration), we should see some pickup in capital spending in the near term.
NEUTRAL	MANUFACTURING	Manufacturing is mixed across industries, but generally soft – reflecting weak global demand and a restrained pace of capital spending. The pace of auto sales has likely plateaued.
NEUTRAL	INFLATION	We are seeing some mild deflationary pressure in consumer goods. Prices of services have been mixed, but generally higher (shelter, medical care). Firms still have a limited ability to raise prices. Labor cost pressures are rising, but are generally moderate.
NEUTRAL	LONG-TERM INTEREST RATES	Expectations of further Fed rate increases and substantially larger federal budget deficits have put upward pressure on long-term interest rates, but low rates abroad ought to check the upward pace of long-term interest rates here in the U.S.
NEUTRAL	REST OF THE WORLD	The global outlook looks a bit brighter, but is also uncertain: the Brexit pain lies ahead for the U.S., China's transition is likely to be uneven, and the possibility of trade conflicts is a major risk.

Economic Outlook: Policy Uncertainty and Demographic Constraints

Scott J. Brown, Ph.D., *Chief Economist, Equity Research*, outlines his expectations for the economy in the coming year.

Prior to the election, there was a growing consensus that demographic changes would be a major factor restraining economic growth in the U.S. and around the world. The expectation of the "new normal" is based on the idea that populations are aging and labor force growth will be significantly slower than in previous decades.

Barring a substantial increase in immigration or a sharp pickup in the pace of productivity growth, real Gross Domestic Product (GDP) can be expected to trend at a 1.5 - 2.0% annual rate, rather than the 3.0 - 3.5% pace seen in previous decades. Post-election, those constraints will still be binding. Hence, fiscal stimulus (increased government spending and large-scale tax cuts) may not provide much of a lift. Moreover, policy uncertainties, particularly in regard to foreign trade, add more uncertainty and risk to the economic outlook.

REAL GROSS DOMESTIC PRODUCT IS EXPECTED TO TREND AT A **1.5-2.0%** ANNUAL RATE

U.S. ECONOMY

Recent data suggest that the economy is in good shape. Real GDP growth appears likely to finish 2016 at about 2% (4Q16-over-4Q15). Consumer spending growth has been relatively strong, fueled by robust job growth and moderate wage gains. Low gasoline prices have helped, but the beneficial impact will fade over time as oil prices stabilize and move somewhat higher. Business fixed investment has been sluggish, reflecting the contraction in energy exploration, a sluggish global economy, and general uncertainty in the economic outlook. Residential homebuilding has continued to improve.

JOB MARKET

Job growth remained strong in 2016, but was somewhat slower than in the last couple of years. That may reflect business caution ahead of the presidential election, but job growth will normally slow as the job market tightens. A tighter job market would normally lead to faster wage growth. Average hourly earnings have picked up, but the underlying trend appears to be moderate, suggesting that there is still some slack in the job market. Long-term unemployment and measures of underemployment are still above levels considered to be "normal," but they have been improving.

FEDERAL RESERVE

Federal Reserve (Fed) policymakers have remained focused on the job market and the outlook for inflation. As 2016 began, most Fed officials expected to raise short-term interest rates four times over the course of the year, but improvement in the labor market was slower than expected and inflation remained muted. Most Fed officials believe that the economy is getting close to full employment. Following the December 14 increase in the federal funds target rate, most officials expect two to four rate increases in 2017, with a median of three. However, that depends on the job market and the inflation outlook. If the job market tightens more rapidly than anticipated and wage growth picks up more sharply, additional monetary tightening could come sooner. Conversely, if growth is subpar and inflation remains low, officials would be inclined to move more slowly.

DEMOGRAPHIC TRENDS IN THE U.S. AND ABROAD

Demographic issues, particularly slowing population growth, are expected to play a major role in the outlook for economic growth in the U.S. and the rest of the world.

Between 1960 and 2000, labor force growth in the U.S. averaged 1.8% per year as the baby-boom generation came into the job market and women entered the workforce in greater percentages. The Bureau of Labor Statistics now expects trend labor force growth to be about 0.5% per year.

Output (GDP) is the amount of input (labor) times the output per worker (productivity). Hence, GDP growth is labor force growth plus productivity growth. As the remaining slack in the job market is taken up, growth should exceed the longer-term trend, but the demographics will eventually become binding.

Productivity growth has been unusually soft in recent years. That may reflect softness in capital spending during the recession and early recovery. If so, productivity growth should improve as capital spending picks up. Longer term, advances in robotics and artificial intelligence could boost productivity significantly in the years ahead, offsetting the impact of slower labor force growth. However, it's difficult to predict how changes in technology will affect the economy.

Note that slower population growth and weak productivity growth are not issues unique to the U.S. Population growth is slowing worldwide. Productivity has also slowed outside the U.S., along with business fixed investment. In turn, global trade has slowed in the last couple of years – and that's absent any significant increase in protectionist measures.

BETWEEN 1960 & 2000
GROWTH IN THE U.S. LABOR FORCE AVERAGED
1.8% PER YEAR

EXPECTED LABOR FORCE GROWTH TREND
0.5% PER YEAR

OUTPUT PER WORKER (PRODUCTIVITY)
X INPUT (LABOR)
OUTPUT (GDP)

Economic Outlook: Policy Uncertainty and Demographic Constraints

PRESIDENTIAL ELECTION

Following the election, investors have been encouraged by expectations of a rollback in regulations and a major fiscal stimulus package. Donald Trump's surprise victory has significantly changed the Washington outlook. Republicans control the House and the Senate, and while there are likely to be differences between the incoming administration and the establishment Republicans on a number of issues, it should be easier to get things done.

INFRASTRUCTURE SPENDING

Trump called for more infrastructure spending during the campaign. However, it's unclear how it will be funded. Additional federal spending may be hard to get through the House. The House no longer allows earmarks (specific allocations in spending bills), which means that you don't get the kind of "horse-trading" needed to reach a broad agreement.

TAX REFORM

Tax cuts, on the other hand, should be relatively easy to achieve, although substantially less than what Trump had proposed during the campaign. Presumably, lower taxes on households and businesses would be achieved through tax "reform." However, even with lower tax rates, few will want to get rid of the deductions they enjoy, which makes true tax reform difficult, if not impossible.

FISCAL STIMULUS

Fiscal stimulus can be effective in countering an economic downturn, but is unlikely to provide much of a boost if the economy is close to full employment. Most economists have raised their GDP forecasts for 2017, but only modestly – reflecting the restraining impact of labor market constraints. Hence, while there is some possible upside for growth as the remaining labor market slack is reduced, that should be limited, and fiscal stimulus is more likely to result in higher inflation or an asset price bubble.

INTEREST RATES

Tax cuts do not pay for themselves, and the bond market is currently anticipating an increase in government borrowing in 2017 and beyond. However, the rise in U.S. bond yields is expected to be kept in check somewhat by lower long-term interest rates abroad. In turn, higher U.S. bond yields put some upward pressure on long-term interest rates outside the U.S., complicating monetary policy effectiveness in Europe and elsewhere.

PROTECTIONISM: A GLOBAL RISK

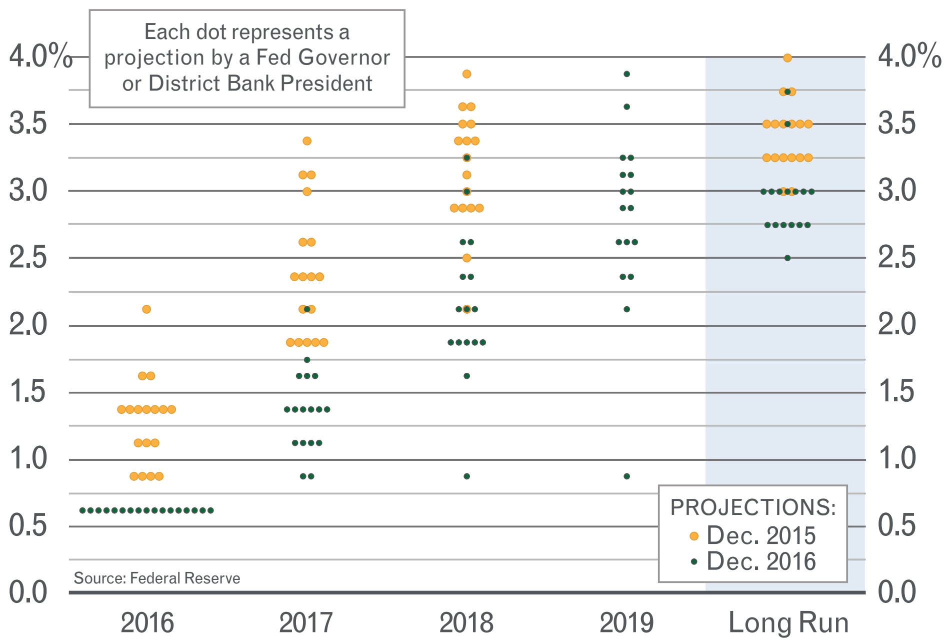
The bigger risk to the economy is the possibility of global trade disruptions. Entering trade agreements requires congressional approval, but the president can, by himself, pull out of existing agreements, such as NAFTA. Economists will tell you that neither side wins in a trade war. If the Treasury Department were to officially declare China as a currency manipulator – even though the country is trying to prevent its currency from weakening, rather than pushing it lower – that designation would automatically set off tariff increases, which would likely be met by countermeasures against U.S. exports. U.S. manufacturing uses parts and materials from around the world. Disruptions to the supply chain would have adverse effects on the overall economy. There's a strong belief that cooler heads will prevail, but a rise of protectionism remains a key risk to the global economic outlook.

OVERALL

New presidential administrations typically face a number of unforeseen challenges. Optimism about the economy may be short lived. However, there is significant positive economic momentum heading into the new year. Households and businesses are generally in good shape.

TARGET FEDERAL FUNDS RATE AT YEAR-END

At the Federal Open Market Committee meetings in March, June, September and December, senior Fed officials submit forecasts of the appropriate year-end federal funds target rate (the overnight lending rate that banks charge each other for borrowing excess reserves). Each dot in the dot plot represents a forecast of an individual Fed official. Note that there is uncertainty surrounding each dot and that not every official gets to vote on monetary policy. The dots are expectations, not a plan of action. Monetary policy decisions will remain data dependent, with a focus on the job market and the inflation outlook.



KEY TAKEAWAYS:

- Barring a substantial increase in immigration or a sharp pickup in the pace of productivity growth, real Gross Domestic Product can be expected to trend at a 1.5 - 2.0% annual rate, rather than the 3.0 - 3.5% pace seen in previous decades.
- Demographic issues, particularly slower population growth and weak productivity growth, are expected to play a major role in the outlook for global economic growth. These constraints will be binding post-election, limiting the impact of fiscal stimulus.
- There is significant positive economic momentum heading into the new year. Households and businesses are generally in good shape, and recent data suggest that the economy is healthy.
- Key risks to the global economic outlook are the possibility of global trade disruptions under the Trump administration and a resultant rise of protectionism.

2017 Themes to Watch

The following key themes are likely to occupy headlines and client conversations in the coming year.

ECONOMIC GROWTH

The economy ended 2016 in relatively good shape, with robust job gains and solid growth in consumer spending. As the job market tightens, wage growth should continue to pick up, offsetting the fading impact of low gasoline prices. Capital investment has remained relatively lackluster, but has been more akin to a soft patch rather than a recession.

Following the U.S. presidential election, investors are optimistic that the combination of a rollback in regulations, increased infrastructure spending, and lower tax rates will lead to stronger economic growth. However, the demographic shift toward slower population growth here and abroad suggests "a new normal." As we near full employment, labor market constraints may be binding, limiting the pace of growth in 2017.

Global trade has softened in the last couple of years. A trade war, while unlikely, remains a major risk to the global growth outlook.

INFLATION

While inflation in the U.S. is still below long-term averages, it is currently at or near the Federal Reserve's target of 2%. Inflation is likely to remain low but mixed – little pressure in commodities, but higher inflation in rents and healthcare – in 2017. The labor market is the widest channel for inflation pressures, and many firms are likely to be limited in their ability to pass higher costs along.

The recent post-election bump in inflation expectations reflects the potential for new tariffs on U.S. imports and fiscal stimulus in the form of tax cuts and spending, both of which would likely result in higher inflation if passed through Congress.

How does inflation impact investors? For the most part, rising inflation is negative in the near term for bonds and positive for stocks. Traditionally, as inflation moves higher, so should interest rates – in order to maintain a consistent real yield (actual yield minus inflation) – resulting in a decrease in bond prices. Following the election, we saw just that. Equities, for the most part, respond positively to slow and steady increases in inflation expectations. On the other hand, sharp and abrupt increases are perceived as a negative signal to the equity markets.

EARNINGS GROWTH

Post-election, our conviction that earnings estimates will be met has increased, as the odds of earnings growth picking up have improved on the heels of anticipated fiscal stimulus. A lower effective tax rate would boost earnings and a more favorable repatriation tax would likely result in significant inflows of cash from oversees revenues. While some of this could be used on capital expenditures and reducing debt, a portion would likely be spent in the near future on M&A, buybacks, dividend increases, and other shareholder-friendly actions.

However, with tax reform (as opposed to easy-to-implement tax cuts) likely, the boost to earnings may not be fully felt until 2018. Infrastructure spending is often a slow process as well. Downside risks include a stronger U.S. dollar and tighter trade policies.

Nevertheless, improved economic conditions, better corporate and consumer confidence, and some limited fiscal stimulus in 2017 pave the way for stronger earnings growth.

INTEREST RATES

The election of Donald Trump ushered in optimism that pro-growth fiscal and regulatory policies could extend and perhaps accelerate the pace of economic growth. The reaction in the interest-rate markets was immediate and substantial. Ten-year Treasury yields spiked nearly half a percent in the four days after the election, the largest percent move since 1962.

Promises to spend billions on infrastructure at a time when the economy is already near the Federal Reserve's (Fed's) full employment target and when inflation measures and expectations have bottomed globally have sparked a reflationary trade in the rates markets. Though far from menacing, the uptick in inflation, together with the promise of stimulative fiscal policies, sets the stage for gradual increases in yields during 2017.

As expected, the Fed raised the federal funds rate in December and is likely to continue slow and modest normalization during 2017. Still, central banks around the world are highly accommodative, and the fungibility of global rate policies suggests limited risk of U.S. yields coming unhinged.

CENTRAL BANK POLICY

The focus for Federal Reserve (Fed) policy has remained on the job market and the inflation outlook. Job growth was strong in 2016, but somewhat slower than in the last couple of years, likely reflecting the tightness in job conditions. Wage inflation, while higher, remains moderate, suggesting that there is still some slack remaining in the job market. However, many Fed officials believe that the economy is close to full employment.

Fed officials still generally expect a gradual path of tightening in the months ahead, with most anticipating two to four increases in the federal funds target rate over the course of 2017. However, Fed decisions will be driven by the economic data – or more correctly, by what the data imply for the outlook for jobs and inflation.

According to Chair Yellen, the Fed will not try to anticipate changes to fiscal policy, such as major tax cuts, but will react to how the economy evolves in response to any changes.

EXCHANGE RATES

With the Federal Reserve likely to edge up short-term interest rates in 2017, surely the path of least resistance is for the dollar to continue on its upward trend from last year. A stronger dollar from prevailing levels poses significant disruptions to global emerging and commodity markets with dynamic spill-over impacts on broader financial markets.

China, in particular, would much rather see the dollar fall, allowing the Chinese yuan – which currently tracks the dollar – to follow it down. A continued rise in the dollar could result in a formal devaluation of the yuan, unleashing a round of foreign exchange and trade uncertainties around the world. In short, the specter of protectionism becomes more likely resulting in an unfriendly trend for economic growth and stock markets.

So how could we avoid such a scenario? A more comfortable China, more buoyant commodity and emerging markets, a positive reappraised Europe, and less pressure on U.S. jobs are all potential attributes of a lower dollar regime. Only time will tell how the dollar's story plays out. Currencies are always important and never easy to predict.

U.S. Equity Outlook: Markets in Transition

Jeffrey Saut, *Chief Investment Strategist, Equity Research,* weighs in on what a turning point in 2017 could mean for equity investors.

Winter officially began on Wednesday, December 21, with the arrival of the winter solstice. Recall that solstice means "standing-still sun;" and on December 21 at 5:44 a.m. (EST) the sun "stood still" over the southern Pacific Ocean at the Tropic of Capricorn. At that time, the sun's rays were directly overhead, giving the impression that the sun was truly standing still. No one is quite certain how long ago humans began heralding the solstice as a turning point, but a turning point it is: the sun sets a minute or two later each day from there until the summer solstice on June 21.

Similarly, the U.S. economy and the stock market appear to be at a turning point. Going forward, we look for improved economic growth, moderately higher inflation, a shift toward fiscal stimulus (although it is less clear what the policy adjustment will be), reduced gridlock in D.C., and a less divided government.

TRUMPONOMICS

While many worry about President-elect Trump's potential trade policies, we believe they will be much less austere than his pre-election rhetoric. However, a harsher trade policy should be more than offset by the upcoming economic stimulus and an improving economy.

The new administration will favor tax cuts, deregulation, infrastructure spending and potentially bigger budget deficits, which justifies the bond market's sell-off. The resultant steeper yield curve should mean the outperformance of the financial complex and the underperformance of stable/defensive stocks and bond proxies. "Trumponomics" should lift commodities, including energy, as inflation picks up at the margin.

MARKETS IN TRANSITION

While the economy is likely at a turning point, so are the equity markets. As we have been suggesting for months, it is our belief the equity markets are transitioning from an interest-rate-driven to an earnings-driven secular bull market. This should become increasingly evident in 2017. We believe we saw the "profits trough" in the second quarter of 2016, making quarterly earnings' comparisons going forward look favorable. We would add that if the president-elect is able to lower the corporate tax rate to 15%, it could add another $26 in earnings to the S&P 500. Even if he only manages to get the corporate tax rate down to 25% it would still add approximately $13 in earnings.*

CORPORATE TAX RATE AND EARNINGS

TAX CUTS COULD MEAN INCREASED EARNINGS TO THE S&P 500.

LOWERED TO **15%** COULD ADD **$26**

LOWERED TO **25%** COULD ADD **$13**

*Source: Thomson Reuters

We believe that we are moving into an environment where earnings are already improving and, with the positive equity environment, we expect them to appreciate further and have tilted portfolios accordingly.

Speaking to an earnings-driven stock market, we agree with Richard Bernstein of Richard Bernstein Advisors. He states that the earnings forecast for the S&P 500 (ending June 2017) is roughly $115, with the current S&P 500 price-to-earnings multiple about 24x. "If history were to repeat, then the multiple could compress by two multiple points during that period, which would give one an expected S&P 500 level of about 2,500 ($115 x 22 = 2,530), or about 20% expected return."

PRICE-TO-EARNINGS: COMPARING MARKET ENVIRONMENTS

With falling interest rates, investors are more willing to expand their investment time horizon – and price-to-earnings multiples expand – due to fewer shorter-duration investments offering competitive returns.

INTEREST RATE-DRIVEN MARKET
(FALLING INTEREST RATES)

PRICE/EARNINGS
MULTIPLE EXPANSION

EARNINGS-DRIVEN MARKET
(RISING INTEREST RATES)

PRICE/EARNINGS
MULTIPLE CONTRACTION

MARKET LEADERSHIP

Because the equity markets are undergoing a transformation or turning point, investors should expect a change in the market's leadership. For months, we have opined that this leadership shift favors small-capitalization stocks, emerging markets, capital goods, industrials, healthcare, technology and financials. This implies that, in a rising interest-rate environment, commodities and industrials (machinery, steel, mining and energy) should be overweighted in portfolios. Healthcare remains interesting, despite its post-election rally, because it still has decent upside to get back to the valuation levels attained in 2015. Additionally, companies with significant amounts of cash offshore could benefit if the new president can actually maneuver repatriation tax legislation into existence.

The quid pro quo is that the interest rate-sensitive sectors (bond proxies) should be underweighted. We have also counseled that low-volatility stocks, or defensive names, have been driven to historically expensive valuations and consequently should be reduced in portfolios. Other potential casualties could be industries that benefit from large government subsidies. Even the FANGs (Facebook, Amazon, Netflix and Google) could suffer due to their expensive valuations. To wit, as economic growth increases, it should bring stronger earnings growth to a broader base of companies with, potentially, a concurrent contraction in the FANG's "growth premium."

BULLISH ON EQUITIES

The equity markets have rallied hard on the belief in a pro-growth administration, reduced regulation, lower taxes, increased infrastructure spending, a reset on trade toward the benefit of American companies, and the reflation trade. If this optimistic scenario comes to fruition, the Penn-Wharton

SECULAR BULL MARKET

"If past is prelude, we should have another seven-plus years in this bull run."

CYCLES LAST	COMPOUND AT	ANTICIPATED
14-15	**16%**	**7+**
YEARS	PER YEAR	YEARS REMAINING

U.S. Equity Outlook: Markets in Transition

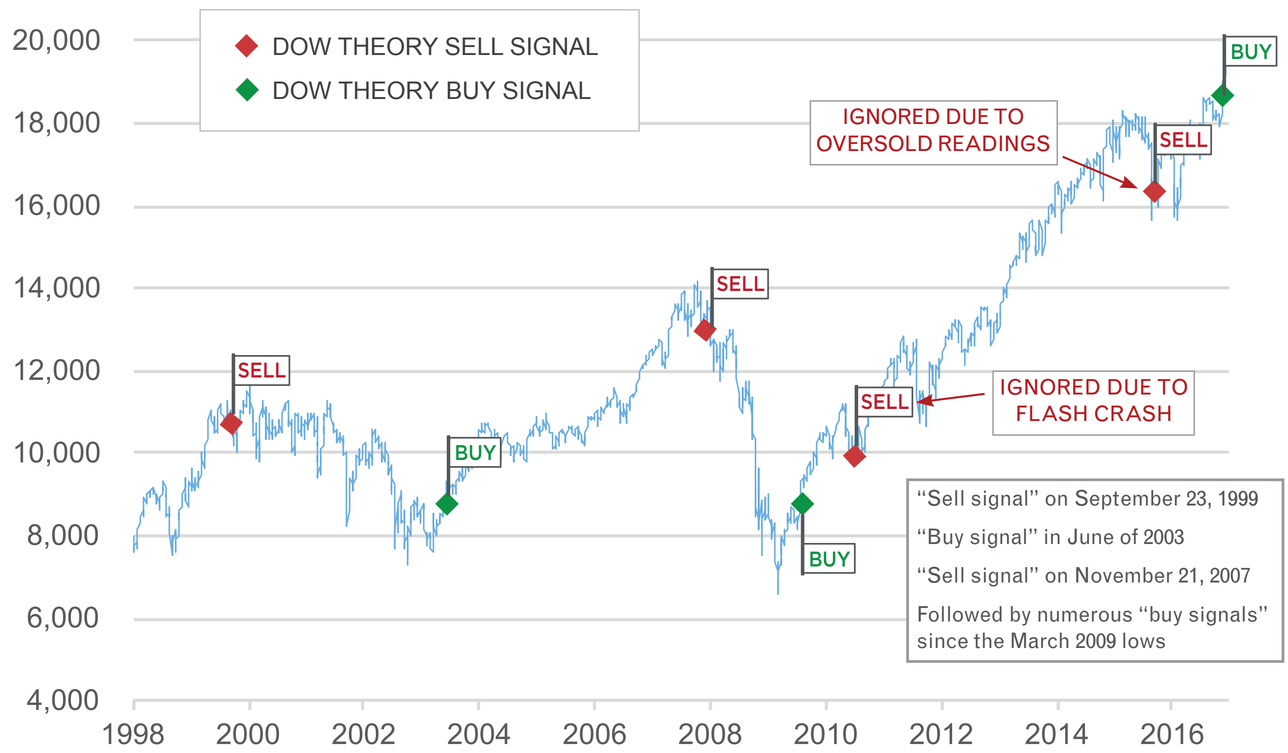
Budget Model targets between a 1.1% to a 1.7% increase in GDP growth beginning in 2018. If true, GDP growth could ramp to approximately 3%, suggesting stocks are not all that expensive. Verily, we have never wavered on the belief that we remain in a secular bull market. Such bull markets typically last for 14 – 15 years and tend to compound at around 16% per year. If past is prelude, we should have another seven-plus years in this "bull run." Will there be pullbacks? Of course there will be, but pullbacks should be viewed within the construct of a secular bull market.

DOW THEORY

Dow Theory is the interrelationship between the Dow Jones Industrial Average and the Dow Jones Transportation Average. We are one of the last practitioners of Dow Theory after the passing of our friend Richard Russell (Dow Theory Letters) last year. In the final analysis, what has happened is that the Dow Jones Industrial Average broke out to the upside in the charts from a 14-month consolidation in July of 2016. In the process, it registered a Dow Theory "buy signal." Dow Theory is not always right, and it is subject to interpretation, but it is right a lot more than it is wrong.

DOW JONES INDUSTRIAL AVERAGE

DOW THEORY'S PRIMARY TREND = EQUITY MARKET IS UP



Source: Yahoo Finance and Raymond James

HEADWINDS FOR U.S. EQUITIES

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

Stocks seem well-positioned to move higher in 2017, however, there are a few factors that have the potential to trip up the market in the months ahead.

POLITICAL UNCERTAINTY

While the incoming administration has finally given investors optimism that there is a path toward more robust economic and earnings growth, the market may already be pricing in perfection from the expected stimulus policies. The chance remains that congressional and bureaucratic resistance could force some sanitization of the proposals and, even if passed, their impact is still uncertain and it will take some time before the effects are felt.

INFLATIONARY CONCERNS

With the job market already approaching what the Federal Reserve (Fed) considers "full employment," there is the chance that fiscal stimulus increases inflation and the national debt without truly stimulating growth (possible "stagflation"). Increasing inflation may also press the Fed to raise rates faster than the market expects, which could put pressure on stocks.

GLOBAL CONSIDERATIONS

Conditions across the world remain a huge uncertainty, and there are a number of issues that could escalate and spill over into U.S. markets. Political and economic concerns remain in the UK, continental Europe, Japan, China and various other parts of the globe, and, as we have experienced over the last year, political fears can really take hold of a market in the short term. Russia and the Middle East remain wild cards, and any escalation in tensions could spook investors.

TRADING RANGE LIMITS

The S&P 500 is already at the upper end of the range it has traded within going back to 2007. Upside could be limited unless there are pullbacks along the way.

KEY TAKEAWAYS:

- We believe the equity markets are transitioning from an interest rate-driven to an earnings-driven secular bull market, which should become increasingly evident in 2017.
- Investors should expect a change in the market's leadership. This shift favors small-capitalization stocks, emerging markets, capital goods, industrials, healthcare, technology and financials.
- We have never wavered on the belief that we remain in a secular bull market. Pullbacks should be viewed as opportunities.
- Key risks for 2017 include congressional resistance against expected stimulus policies, increasing inflation and national debt, global political and economic concerns, and elevated equity prices.

International Equity Outlook: With Reappraisal, Can Come Opportunity

Chris Bailey, *European Strategist, Raymond James Euro Equities**, provides perspective on international opportunities and risks.

In the investment world, what should worry us most is rarely obvious. It's the unknown – for better or worse – that moves broad financial markets and individual investments.

Recent sentiment surveys unveil a common fear factor among global fund managers: the future cohesion of Europe following the mid-2016 Brexit referendum vote in the United Kingdom (UK). Beyond Europe's struggles, the spectre of a slowing Chinese economy would be the next biggest concern. However, these much-discussed risks and issues, while having the potential to impact the investment world in the future, shouldn't worry international equity investors in 2017.

> "If people perceive themselves as having very little opportunities to be fulfilled, then it cheapens their life and outlook. The solution is to reverse it; make sure they know opportunities abound."
>
> – Michael Lee-Chin

EUROPE

BREXIT UPDATE

Europe had a volatile 2016 with the narrow decision by the UK electorate in late June to punish the country's political hierarchy and vote to leave the European Union, a precursor to much political angst. While the UK is not a member of the single-currency euro zone, last June's events again highlighted a lack of solidarity across Europe. This region of the world is still struggling, on average, with weak economic growth, too many fragile banks, a migration crisis that threatened to spill over into a populist swing against incumbent regional politicians, as well as a number of important elections in 2017 – most notably in France and Germany.

However, caution must be exercised on extrapolating too aggressively from Brexit, as it is known in the popular parlance. First, there are bound to be delays in the practical application of the UK electorate's decision to leave the European Union. In our opinion, procedural legal challenges are unlikely to stop Brexit from eventually occurring, but what is very clear is that a rapid Brexit is extremely unlikely.

There are no precedents to fall back on, and a complex agreement that covers future trade and labor movement between the UK and the European Union will be difficult to form. However, cooler heads have prevailed in recent months, as seen by a clear reduction in last summer's inflammatory rhetoric and an acknowledgement that the desertion of current trade agreements underpinning mutual wealth generation may not be in the interest of either party. 2017 is more likely to be a year of Brexit delay where international investors are positively surprised by the establishment of the groundwork for a "soft" rather than a "hard" agreement between the UK and the European Union.

I say positively surprised because the ~$100 billion in outflows from Europe by global investment managers concerned about the region's future prospects has left investors underweight versus their benchmarks. Initial steps toward a soft Brexit coupled with mainstream political success in upcoming European elections could induce some reappraisal of the region's prospects, especially as the European

Central Bank and the Bank of England undertook new stimulus initiatives during the second half of 2016. And with reappraisal, can come opportunity.

CHINA

ECONOMIC GROWTH

International investor outflows from the Chinese equity market were also a theme in 2016. China has continued to deliver attractive headline economic growth rates, but rising concerns over the sustainability of these rates has investors worried. This is a relevant concern given that China is already the world's largest marginal consumer of many commodities and is anticipated to be a top contributor to global consumption levels as it transitions from an infrastructure-driven economy to a consumption-driven economy. Rising debt levels have been at the forefront of these concerns as they have the scope to potentially derail economic growth levels both domestically and internationally.

There is little doubt that corporate debt levels in many of the old-style State-owned Enterprises (SoEs) are a concern. SoEs are typically made up of lowly competitive industrial companies that still employ large numbers of people and sit uncomfortably in the Chinese political leadership's vision of a dynamic service sector-led economy. The better news is that Chinese government debt levels are very modest and the central government is slowly restructuring and merging these businesses, all of which can be financed via China's fledgling but fast-developing bond market.

PROPERTY MARKET

The property market in China has also attracted concern due to the sharp increase in prices in tier one

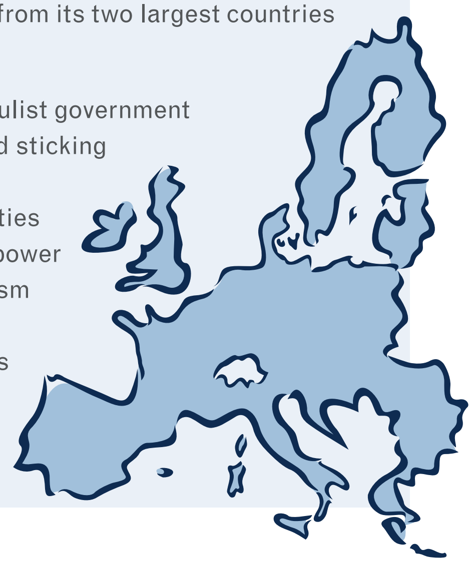
EUROPEAN POPULISM

In 2017, elections are all-critical in Europe with both France and Germany – the two largest economies in the euro zone – going to the polls. Concerns that electoral angst will be apparent is an issue that international investors are currently grappling with.

The cause of rising populism, and the seemingly associated discomfort with European cohesion, integration and ideals, is complex but a combination of low real wage growth, stubbornly high unemployment, social pressures from migration, and high living costs are all factors influencing populism.

Should investors worry about these elections in 2017? France is the first and biggest test with a populist far right candidate likely to be one of the two final presidential candidates. However, the opposing candidate at this time has an agenda which is just what the French economy needs: deregulation, less government influence and lower taxes. Combine the current poll leadership of the latter with confirmation that Mrs. Merkel will run for a fourth term as German chancellor, and the chances of Europe gaining two pro-European, centrist officials from its two largest countries in 2017 is on the rise.

With the first European populist government in Greece toeing the line and sticking within the euro zone for the foreseeable future, the realities of populist governments in power have been stark. Has populism in Europe passed its high point? A confirmation of this in 2017 would be positive for perceptions toward European equities.



International Equity Outlook: With Reappraisal, Can Come Opportunity

cities like Beijing and Shanghai over the last year or two. As with many major cities around the world, sharply rising property prices threaten numerous aspects of the economy. In China, this price appreciation is placing pressure on the ongoing viability of the rural-to-urban shift – a driver in the modernization and growth of the local economy. While there may be some bumps in the road in 2017, tailwinds such as real wage growth, tax incentives and other efficiency/flexibility-inducing supply-side reforms put in place by the Chinese government are priming the local economy for growth. With high savings rates and low consumption levels, China still has a lot of upside potential.

CURRENCY

The biggest squeeze for China may come from one aspect of policy the government is finding hard to sustain – the level of the Chinese yuan – which currently tracks the value of the U.S. dollar. A strong U.S. dollar typically causes issues for both China and the broader emerging markets. Dollar-denominated debt burdens build and commodity prices sometimes wane. While most emerging market currencies fell versus the U.S. dollar, China's yuan fell to a much lesser degree, causing increased competitiveness in Asia's largest economy. A more meaningful and realistic concern surrounding China's economic policy is the government's potential decision to formally devalue its currency, which could, in turn, unleash a round of foreign exchange and trade uncertainties as other countries react to China's shift.

Pulling it all together, the biggest concern for international investments would be if the U.S. dollar remains overly firm. That is the power of the world's current reserve currency looking into 2017.

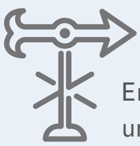
"Post-election uncertainty surrounding global trade disruptions remains a key threat to emerging market economies going into 2017. Various economies could be adversely affected by potential changes to established trade deals and/or tariffs on imported goods. Applying tariffs to U.S. imports raises the cost of foreign goods for U.S. consumers, making them more competitive with goods made here at home. While the implementation and subsequent success of such policies is questionable, investors are likely to err on the side of caution until clarity presents itself."

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

KEY TAKEAWAYS:

- Europe: 2017 is more likely to be a year of "Brexit delay" where international investors are positively surprised by the establishment of the groundwork for a "soft" rather than a "hard" agreement between the UK and the European Union.
- China: Tailwinds for China's local economy include real wage growth, tax incentives and other efficiency/flexibility-inducing supply-side reforms put in place by the Chinese government.
- Broad Emerging Markets: Post-election uncertainty surrounding global trade disruptions remains a key threat to emerging market economies going into 2017.
- The biggest concern for international investments would be if the U.S. dollar remains overly firm.

*Raymond James Euro Equities is an affiliate of Raymond James & Associates, and Raymond James Financial Services. All expressions of opinion reflect the judgment of Raymond James Euro Equities and are subject to change. Past performance may not be indicative of future results. There is no assurance the trends mentioned will continue or that the forecasts discussed will be realized. Investing involves risks, 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.



EMERGING MARKET EQUITY: HEADWINDS TURNED TAILWINDS?

Emerging market (EM) equities have been undervalued relative to their domestic counterparts for some time now. Still, bargain prices haven't been enough to lure investors back into these volatile markets, which lost more than 30% between April 2015 and January 2016.*

Things started looking up for these beaten down markets in 2016 as equities recovered and various headwinds began to subside. Despite rising growth prospects and improved earnings expectations, 2017 will likely remain challenging as U.S. policy under the new administration unfolds. Only time will tell if there is enough positive momentum to gain back the trust of wary investors. In the meantime, here is a look at some of the biggest headwinds turning potential tailwinds for emerging markets going into the new year.

With many emerging markets tied to commodity exports as a primary source of revenue, plummeting commodity prices sent countries like Russia and Brazil into recession territory. With prices coming off their lows in 2016 and trade imbalances continuing to improve, these economies will likely see the benefits of a continued commodity price recovery in 2017.

Many emerging countries with reform processes in place have started to see the fruits of their labor through increased growth prospects and improved earnings. Countries like China, Indonesia and India have implemented processes that encourage supply-side structural reform, fiscal consolidation and market deregulation.

China is perhaps one of the most visible emerging markets due to the sheer size of its economy. While headlines and sentiment have been mixed, the government continues to guide the economy through a "soft" transition from an infrastructure-based economy to a service-based economy. Additionally, structural reforms have been successful and improved earnings are likely given a rebound in growth.

The strong U.S. dollar has hurt EM countries on numerous fronts and remains a wild card going forward. Not only does it make the servicing of dollar-denominated debt more expensive for EM governments and publically traded companies as local currencies fall, but it also erodes investment returns for U.S. investors who convert profits back to their own higher currency. A slowdown in the dollar's ascent would surely be welcomed by local borrowers and U.S. investors in 2017.

*Return data is based on the MSCI Emerging Markets NR Index from 4/24/15 – 1/15/16. Performance does not include commission and fees, which would reduce an investor's returns.

Fixed Income Outlook: A Tempered Trend for Interest Rates

Doug Drabik, *Senior Strategist, Fixed Income*, **Nick Goetze,** *Managing Director, Fixed Income*,
Benjamin Streed, CFA, *Strategist, Fixed Income*

Recent history has introduced several different, yet impactful phenomena to the bond market including central bank control, the move to energy independence, and now a shifting political picture. Relative to the stationary interest-rate environment of recent years, anticipation for the 2017 bond market stands to be much more unpredictable and altering.

The market has idled on conflicting positive and negative economic data, continued low inflation and slow growth, but has been forcefully influenced by Federal Reserve (Fed) interaction. A marked 2017 political contrast is likely to reformat regulation and fiscal policy affecting many components of the bond market.

THE PRESIDENTIAL ELECTION

A post-election bump in interest rates was anticipated. President-elect Trump has been very clear about his plans to increase spending and decrease revenue via tax cuts, likely increasing the budget deficit and heightening the risks for higher inflation and higher interest rates. In a very short period of time, on the heels of the election, interest rates rose sharply on a percentage basis; however, they merely recaptured the early-2016 rate declines. Still, the expected fiscal policy change, ease on regulatory constraints, inflationary influences and slowly improving domestic economic numbers appear to finally give credence to projecting a trend up in interest rates.

BACK TO SQUARE ONE

2016 DAILY 10-YEAR TREASURY YIELD (Data through 12/28/2016)

Source: Federal Reserve

The Fed will certainly be in an improved position. The markets have depended on monetary policy to assist in controlling money supply and inflation. Inflation has not been a compelling force and, although the Fed ended its last quantitative easing program at the end of 2014, they simply took their foot off the gas pedal and remained in an "ease" position since. 2016 did not experience the Fed rate hikes most experts anticipated. It would take more than a few twenty-five basis point rate hikes to reverse policy from one of ease to one of tightening. A reevaluation is suitable considering that the current monetary policy will possibly be met with an assist via fiscal policy. If so, the Fed will not have to "go alone" in 2017.

If, as proposed, corporate tax rates are cut to 15%, corporations stand to improve profitability without doing anything. Simplification of the tax code for individuals might reduce the current seven marginal tax brackets down to three. The top tax bracket is intended to drop from 39.6% to 33%, perhaps increasing individuals' disposable income. In the final months of 2016, municipal product spreads widened partly in anticipation of these changes; however, we do not anticipate a significant change in municipal bond demand as some benefits of lower marginal rates will likely be offset by reduced deductions and other allowance changes.

U.S. DOLLAR

U.S. dollar strength will impact demand for U.S. products and influence commodity pricing in 2017. The dollar has been gaining strength versus other currencies throughout 2016. If the Fed moves forward with several 2017 rate hikes, they will further support the dollar's strength. With a stronger dollar, U.S. exports become more expensive, lowering demand for U.S. goods and services overseas and thus hampering U.S. corporate earnings.

RISING INTEREST RATES

Although we anticipate interest rates to trend up, we do not anticipate an over-the-top interest rate shift. There are numerous headwinds tempering interest rate swings; many of which also hindered higher rates in 2016: global market influences such as interest-rate disparity, central bank immersion, demographics, dollar strength and corporate earnings. Additionally, in question is the feasibility of making policy and/or regulatory changes. If these changes do come to fruition, how long will it take those changes to filter into the economy and what impact will they make?

CONTINUED GLOBAL DEMAND

Bonds are likely to see continued demand in 2017. Several active and large global central banks including the European Central Bank (ECB), Bank of England (BoE), Bank of Japan (BoJ) and Peoples Bank of China (PBOC) continued quantitative easing programs throughout 2016. Toward year's end, the ECB started murmurs of slowing down. Global central bank intervention and/or detachment will be a significant influence on the bond market in 2017. We are entering the year with a significant yield disparity among top economic powers that will continue to have mitigating influence on U.S. interest rates until these global rates close the gap.

PORTFOLIO CONSTRUCTION

Our annual outlook would be remiss without the mention of the role of bonds within a portfolio. Most investors do not have endless cash flow or a perpetual means to produce income. The role of individual bonds typically excludes speculation, and strategic bond allocations are thought of in terms of "years" not "moments," virtually eliminating the effects of interest rate movements.

Fixed Income Outlook: A Tempered Trend for Interest Rates

For wealthier investors, investment objectives generally focus on the preservation of wealth and income generation with capital appreciation as a secondary goal. Individual bonds provide continuous cash flow, income streams and return of face value at maturity, while a laddered bond portfolio can help to mitigate interest-rate risk and act as a ballast to equity exposure.

> "Global central bank intervention and/or detachment will be a significant influence on the bond market in 2017."

Call protection, credit and duration will continue to be important bond characteristics in 2017. Although interest rates may continue to trend up beyond the time it takes for economic data to reflect any stimulus events, the aforementioned headwinds should keep the trend modest. Investors should work with their financial advisors and always maintain a long-term perspective when making strategic asset allocation decisions.

GLOBAL INTEREST RATE NONCONFORMITY

	2-YEAR RATE	5-YEAR RATE	10-YEAR RATE	30-YEAR RATE	SLOPE 30-2YR
UNITED STATES	1.246%	1.983%	2.490%	3.081%	184bp
UNITED KINGDOM	0.042%	0.470%	1.227%	1.855%	181bp
CANADA	0.770%	1.136%	1.719%	2.319%	155bp
FRANCE	-0.729%	-0.155%	0.647%	1.516%	225bp
GERMANY	-0.832%	-0.560%	0.178%	0.874%	171bp
SWITZERLAND	-1.181%	-0.748%	-0.257%	0.329%	151bp
JAPAN	-0.176%	-0.116%	0.029%	0.702%	88bp
HONG KONG	1.104%	1.625%	1.966%		

Source: Bloomberg, as of 12/29/2016

KEY TAKEAWAYS:

- The 2017 bond market stands to be much more unpredictable and altering relative to the stationary interest-rate environment of recent years.
- There are numerous headwinds tempering interest rate swings: global market influences such as interest-rate disparity, central bank immersion, demographics, U.S. dollar strength and corporate earnings.
- We are entering the year with a significant yield disparity among top economic powers that will continue to have mitigating influence on U.S. interest rates until these global rates close the gap.

Energy Outlook: Oil Recovers, Opportunities Arise

Pavel Molchanov, *Senior Vice President, Energy Analyst, Equity Research,* reviews 2016 and highlights the upside potential for energy in 2017.

A LOOK BACK

This past year has not been an easy one for the global oil market. While oil prices have bounced from the 13-year lows reached during the first quarter of 2016, both West Texas Intermediate (WTI) and Brent crude prices averaged in the mid $40s for the full year, about 10% lower than 2015.

> "Looking to 2017, our view remains that there will be further price recovery."

The recovery has been slow for several fundamental reasons, including a strong dollar (especially with the recent jump in U.S. bond yields) and concern about high levels of refined product inventories worldwide. However, there are also reasons for optimism. Supply response in various non-OPEC geographies (U.S., China, Mexico, Colombia) is visible, and there are supply outages in some of the OPEC countries (Libya, Nigeria, Venezuela). Most recently, on November 30, OPEC announced its first coordinated production cut since 2008, alongside a similar commitment from Russia. History teaches us not to expect 100% compliance, but even partial implementation will still be a bullish driver for oil supply.

Looking to 2017, we remain of the view that there will be further recovery, to an average of $70/Bbl WTI and $73/Bbl Brent. This represents a cyclical peak, since we expect long-term prices to average in the $60s, but the higher 2017 level will provide a stimulus for the industry to get out of its two-year period of austerity and back to a more sustainable level of investment. Oil and gas capital spending was down globally by more than 20% in 2015 and 2016, the steepest two-year decline since at least the 1980s. The result was a non-OPEC supply decline of nearly 1 million barrels per day (1.5%) in 2016, as well as a large number of long-lead-time project cancellations (in countries such as Brazil and Canada) whose effects on supply will be felt in the latter years of this decade.

While there are a few companies (for example, in the Permian Basin) that are able to grow production even in the current commodity landscape, the vast majority worldwide cannot. For the industry as a whole to be able to afford a durable recovery in drilling activity, and thus supply growth, there must be recovery in cash flow, which in turn requires higher oil prices. This certainly does not mean that oil is heading back to its all-time highs above $100/Bbl, but we think it will be very difficult to achieve medium-term non-OPEC supply growth below the $60s.

NATURAL GAS

In contrast to our upbeat view on the global oil market, we are much less enthused about North American natural gas. The exceptionally hot summer helped in 2016, adding to the fact that domestic supply was rolling over more or less continually during the year. However, some of the structural trends are still bearish: development of industrial gas demand has been frustratingly slow, the ramp-up in wind and solar has been eating into the market share gains of gas in the power sector, and liquefied natural gas (LNG) exports will not be needle-moving until 2018.

Following a 2016 average of around $2.40/Mcf for Henry Hub gas, we project a 2017 average of $3.25/Mcf, which is better but still not too bullish. Meanwhile, the European gas market is in even rougher shape, with demand languishing near 20-year lows. Asian gas demand has been growing, but not as much as the industry would have hoped, which helps explain the current oversupply in the global LNG market as supply ramps up from projects in Australia and elsewhere.

Energy Outlook: Oil Recovers, Opportunities Arise

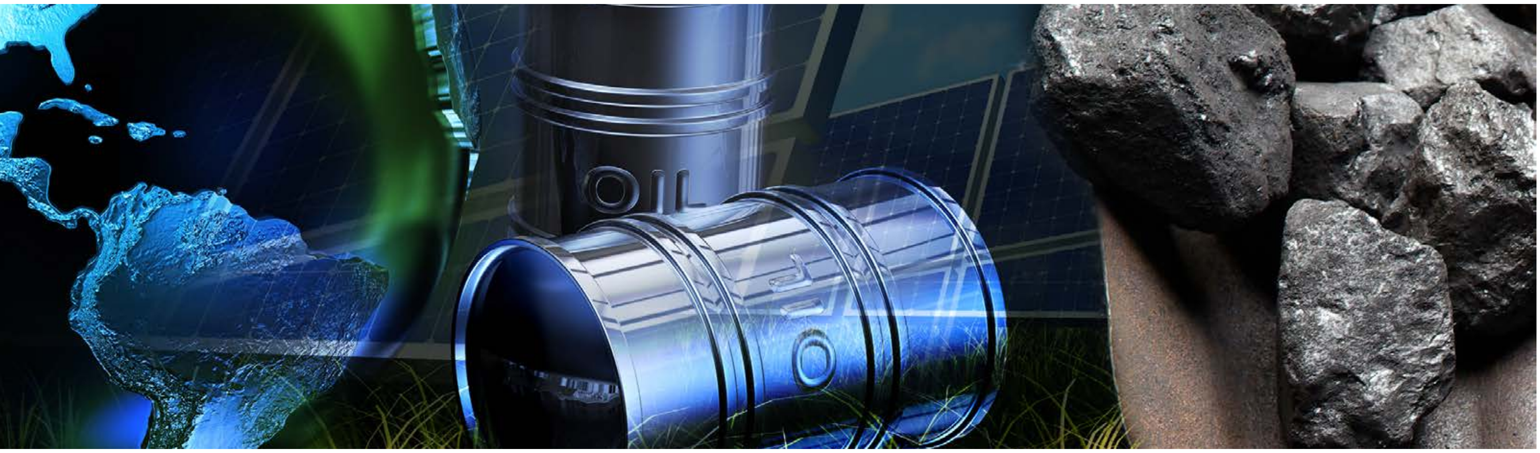
U.S. ENERGY POLICY OUTLOOK

Since we are on the topic of commodity markets, let's address the outlook for U.S. energy policy as the Trump administration and the new Congress take charge. When it comes to oil market fundamentals, the recent U.S. election – like almost all elections anywhere in the world – has very limited effect. One obvious beneficiary will be the Keystone XL pipeline, as well as some other delayed midstream projects, which the incoming administration will likely approve. Opening up Arctic and East Coast offshore acreage to drilling is also an open question, but under foreseeable oil price conditions, it is largely a moot point.

Where the new political landscape matters more is with regard to the electric power sector. The Obama administration's proposed Clean Power Plan will not take effect nationwide, although 16 states are already moving forward with their own decarbonization targets. Coal, whose market

U.S. ENERGY MARKET SHARE BY SECTOR

	COAL	WIND & SOLAR	NATURAL GAS
	DOWN 17%	UP 6%	UP 14%
	NOT DECLINING AT A FASTER RATE	GAINING BUT AT SLOWER RATE	TREND OF FURTHER EXPANSION
2005	50%	2%	19%
2015	33%	8%	33%



share in the electricity mix had plummeted from 50% in 2005 to 33% in 2015, will benefit by not declining at an even faster pace. However, it is hard to imagine coal's share rebounding, since its underlying decline was driven largely by technological changes (fracking and cheap gas, plus cheaper renewable power) and, to some extent, state-level regulations. Non-hydro renewables (mainly wind and solar, though including geothermal and biopower), which had soared from 2% in 2005 to 8% in 2015, should keep gaining share, but at a slower rate than what they could have exhibited under the Clean Power Plan. Natural gas (up from 19% in 2005 to 33% in 2015) is likely to be a mixed bag from state to state, but our bias would be for further expansion on the whole.

UPSIDE PARTICIPATION

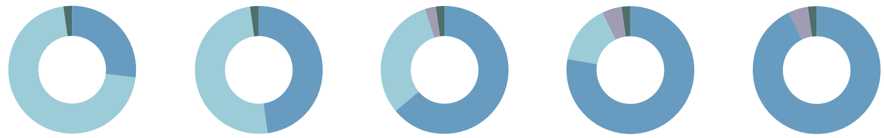
For energy investors, we believe the most important theme in 2017 is to have exposure to the potentially continuing oil price recovery. This can be accomplished most directly with equities of oil producers (E&P and integrated companies), and indirectly via service contractors and midstream MLPs.

Since nearly all of these companies are involved in a combination of oil and gas, it is important for investors to consider the individual commodity weighting of any given company. Other business-specific factors, such as geographic exposure and balance sheet metrics, are also relevant. Selectively, there are opportunities in some of the gas-centric companies. Similarly, companies involved in refining and renewable energy, which are less tied to commodity price trends, should also be considered on a selective basis.

KEY TAKEAWAYS:

- Looking to 2017, we remain of the view that there will be further recovery, to an average of $70/Bbl WTI and $73/Bbl Brent.
- While the U.S. presidential election should have little effect on oil market fundamentals, one obvious beneficiary will be the Keystone XL pipeline, as well as some other delayed midstream projects, which the incoming administration will likely approve.
- For energy investors, we believe the most important theme in 2017 is to have exposure to the potentially continuing oil price recovery. This can be accomplished most directly with equities of oil producers (E&P and integrated companies), and indirectly via service contractors and midstream MLPs.

STRATEGIC ASSET ALLOCATION MODELS



	CONSERVATIVE	CONSERVATIVE BALANCED	BALANCED	BALANCED WITH GROWTH	GROWTH
EQUITY	**27%**	**48%**	**64%**	**78%**	**93%**
U.S. Large Cap Equity	19%	28%	33%	36%	43%
U.S. Mid Cap Equity	3%	7%	9%	11%	13%
U.S. Small Cap Equity	2%	3%	4%	5%	5%
Non-U.S. Developed Market Equity	3%	10%	14%	18%	23%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Publicly-Traded Global Real Estate	0%	0%	0%	4%	4%
FIXED INCOME	**71%**	**50%**	**31%**	**15%**	**0%**
Investment Grade Long Maturity Fixed Income	0%	0%	0%	0%	0%
Investment Grade Intermediate Maturity Fixed Income	50%	36%	24%	15%	0%
Investment Grade Short Maturity Fixed Income	5%	0%	0%	0%	0%
Non-Investment Grade Fixed Income (High Yield)	4%	5%	4%	0%	0%
Multi-Sector Bond*	12%	9%	3%	0%	0%
ALTERNATIVE INVESTMENTS-MANAGED FUTURES	**0%**	**0%**	**3%**	**5%**	**5%**
CASH & CASH ALTERNATIVES	**2%**	**2%**	**2%**	**2%**	**2%**

*Refer to page 30 for multi-sector bond asset class definition.

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 dashboard above reflects 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.

	ASSET ALLOCATION	TACTICAL COMMENTS
FAVORABLE	U.S. SMALL CAP EQUITY	Small caps are experiencing strong momentum, earnings improvements, fair valuations, and isolation from the effects of a strong U.S. dollar. While rising interest rates could place upward pressure on borrowing costs, we still hold a favorable view in the near term.
FAVORABLE	NON-U.S. EMERGING MARKET EQUITY	The post-election selloff pulled down valuations making EM more attractively priced. Momentum has recently been negative causing some caution but a favorable near-term outlook is still warranted. Selectivity is key and active management is recommended in this space.
FAVORABLE	NON-INVESTMENT GRADE FIXED INCOME (HIGH YIELD)	Spreads are in line with long-term norms and non-energy defaults remain very low. Short maturities are favored over intermediate maturities. This space could benefit from spread tightening should economic prospects/growth pick up. We caution that HY carries beta risk and therefore reacts to market volatility much like equities.
FAVORABLE	GLOBAL (NON-U.S.) FIXED INCOME	The combination of a strong U.S. dollar and interest-rate movements has created attractive opportunities, particularly in the EM local currency space. Developed markets have been suppressed by ongoing quantitative easing which is keeping interest rates artificially low and global investors turning to the U.S. for yield.
NEUTRAL	OVERALL EQUITY	While near-term enthusiasm for equities is strong in the U.S., the rest of the world is not catching on, presenting a clear bifurcation in sentiment between U.S. and non-U.S. equities.
NEUTRAL	U.S. LARGE CAP EQUITY	Valuations have been elevated for some time and the potential positive impact on earnings and GDP has driven prices higher. Improvement in expected earnings suggests that they may continue to grow into prices, justifying a neutral position until the earnings story plays out.
NEUTRAL	NON-U.S. DEVELOPED MARKET EQUITY	Suffering from the U.S. dollar rally post election, developed markets may see some mean reversion if we see a pullback in the dollar's strength. Valuations are attractive yet sentiment remains muted due to political uncertainty, weak profitability and slow growth. Selectivity is key and active management is recommended in this space.
NEUTRAL	REAL ESTATE	The recent pullback in REITs reminds us of their interest-rate sensitivity but this may be a buying opportunity as REITs tend to show some resilience in uncertain markets. We recommend a neutral position at this time.
NEUTRAL	OVERALL FIXED INCOME	Inflation is being priced into the Oct/Nov selloff but it's too soon to tell if this is overdone or accurate. Various municipal positions are attractive relative to Treasuries, particularly 9-30yr AAA-rated general obligation (GO) bonds. We also prefer investment grade (IG) credit to Treasuries across all maturities.
NEUTRAL	INVESTMENT GRADE INTERMEDIATE MATURITY FIXED INCOME	Intermediate-term fixed income provides the best "bang for buck" with the yield and duration match. Treasuries are oversold, spreads are in-line with norms and if earnings/revenues improve, as expected, spreads could tighten.
NEUTRAL	INVESTMENT GRADE SHORT MATURITY FIXED INCOME	Short-maturity bonds are susceptible to the potential for more aggressive monetary policy in 2017 and offer limited benefits from spread duration.
NEUTRAL	MULTI-SECTOR BOND STRATEGIES	Multi-sector fixed income tends to be less rate sensitive compared to traditional bonds yet more spread sensitive. There are opportunities in this space but manager selection remains critical given heavy exposure to credit risk. Know what you own and how it contributes to overall portfolio risk.
NEUTRAL	ALTERNATIVE INVESTMENTS	This asset class consists of a diverse group of strategies, each with unique risk/return profiles. Please see the Alternative Investments Snapshot on page 28 for a near-term outlook on the major strategies within this space.
NEUTRAL	CASH AND CASH ALTERNATIVES	Short-term rates may become more intriguing as the likelihood of the Fed raising rates in 2017 remains high. Cash is a potential buffer against many market risks and provides funding for buying opportunities.
UNFAVORABLE	U.S. MID CAP EQUITY	U.S. mid caps still show elevated valuations and weak momentum making them more suseptible in periods of heightened volatility. This space has not benefited from improvements in expected earnings for 2017 and 2018 as most small caps have, validating our unfavorable view at this time.
UNFAVORABLE	INVESTMENT GRADE LONG MATURITY FIXED INCOME	Duration risk should linger into the turn of the year on policy uncertainty (alongside economic data). Technicals are oversold, but given the primary motivation for the recent rise in rates (Trump's victory), uncertainty will likely remain with the potential for yields and inflation expectations to continue on an upward trend.

Refer to page 31 for model definitions. *Refer to page 30 for multi-sector bond asset class definition.

ALTERNATIVE INVESTMENTS SNAPSHOT

JENNIFER SUDEN
Director of Alternative Investments Research

ALTERNATIVE INVESTMENTS	
EQUITY LONG/ SHORT	Equity long/short strategies are poised to do well when fundamentals are the drivers of equity market performance as opposed to technicals. As the market shows continued signs of decreasing stock correlation and decreasing technicals driving performance, long/short equity managers have the potential to benefit from both the long and short side of the portfolio.
EQUITY MARKET NEUTRAL	Equity market neutral strategies are constructed with a low to zero net exposure, so the direction of the market should have less of an impact on these funds. As with long/short equity funds, the crucial input is low correlation across stocks so that the fund is able to profit from both sides of its book (both long and short).
EVENT DRIVEN	We remain constructive on the event-driven space across various verticals, including merger arbitrage, activism, and distressed investing. Deal volume within M&A remains high, spreads have widened with less proprietary capital chasing deals, and interest rate increases are a tailwind for the merger arbitrage strategy. The opportunity set for distressed investing managers has become more robust after several years of a lean environment, and activist managers continue to receive more approval for board seats and engage in more proxy battles than in years past.
GLOBAL MACRO	With the rhetoric that we are in for a more volatile market environment going forward given uncertain global policy action, global macromanagers are positioned to benefit from dislocations across the globe in the various asset classes.
MANAGED FUTURES	Divergence in economic policy, uncertianty in the global markets, and elevated levels of volatility are tailwinds for the strategy. Additionally, the ability to go both long and short the various asset classes (fixed income, commodities, currency and equities) allows the strategy to benefit even in times of financial distress.
MULTI-MANAGER/ MULTI-STRATEGY	For investors seeking a lower volatility, lower beta strategy, a broadly diversified multi-manager strategy could be a relevant option.

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.

CAPITAL MARKETS SNAPSHOT

EQUITY	AS OF 12/30/2016*	4Q 2016 RETURN**	12-MONTH RETURN
Dow Jones Industrial Average	19,762.60	8.66%	16.50%
S&P 500 Index	2,238.83	3.82%	11.96%
NASDAQ Composite Index	5,383.12	1.66%	8.87%
MSCI EAFE Index	1,684.00	-0.71%	1.00%
RATES	**AS OF 12/30/2016***	**AS OF 9/30/2016****	**AS OF 12/31/2015**
Fed Funds Target Range	0.50-0.75	0.25 - 0.50	0.25 - 0.50
3-Month LIBOR	1.00	0.85	0.61
2-Year Treasury	1.22	0.73	1.06
10-Year Treasury	2.49	1.56	2.27
30-Year Mortgage	4.32	3.42	4.01
Prime Rate	3.75	3.50	3.50
COMMODITIES	**AS OF 12/30/2016***	**4Q 2016 RETURN****	**12-MONTH RETURN**
Gold	$1,145.90	-13.35%	8.10%
Crude Oil	$53.72	11.36%	45.03%

*Price Level **Total Return

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.

SECTOR SNAPSHOT

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

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

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

These recommendations will be displayed as such:

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

Equal Weight: expect in-line relative performance

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

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

	SECTOR	S&P WEIGHT	TACTICAL COMMENTS
OVERWEIGHT	INFORMATION TECHNOLOGY	20.9%	Technology is the only sector with upward Q4 earnings growth revisions since the end of Q3. As the political picture unfolds, our stance may be altered if the new administration follows through with policy changes that adversely impact trade, taxes and/or deductibles.
OVERWEIGHT	FINANCIALS	14.8%	We remain Overweight strategically in the intermediate term, influenced by rising interest rates, decent economic readings, anticipated corporate tax reform, a less restrictive regulatory environment and new technical momentum.
OVERWEIGHT	INDUSTRIALS	10.3%	We remain Overweight over the intermediate term. Manufacturing continues to recover, the macro picture is expected to improve, and the sector will be a beneficiary if fiscal reforms come through.
OVERWEIGHT	ENERGY	7.6%	OPEC's production target was more favorable than expected. Crude oil prices broke out of a short-term base. The rising U.S. dollar has limited the magnitude of the upside move in crude and remains the biggest overhang in the near term.
EQUAL WEIGHT	HEALTH CARE	13.6%	Tailwinds for the sector include attractive valuations, consistency of fundamentals, and a belief that the regulatory environment will not be as negative as reflected by stock prices. Still, the lack of technical momentum keeps us from becoming more constructive just yet.
EQUAL WEIGHT	CONSUMER DISCRETIONARY	12.1%	Questionable technical trends and recent earnings revisions (lower) offset attractive valuation, for now. A healthy job market is a fundamental tailwind. Potential tax reform for individuals could add to the tailwind. For now, an equal weight is warranted until technical trends improve.
EQUAL WEIGHT	MATERIALS	2.9%	We remain Equal Weight despite attractive technical trends. The sector responded favorably to expected reflationary fiscal policy measures from both infrastructure spending and tax reform but may lose some momentum if the package is smaller than anticipated.
EQUAL WEIGHT	TELECOM	2.6%	We moved to Equal Weight from Underweight due to favorable trading trends that may prove sustainable. The sector's high effective tax rate and large U.S. exposure are likely to create an inflow of investment capital and stave off the sector's recent interest sensitive trading pattern. The potential for a less unfavorable regulatory environment enhances a more positive stance on the sector.
UNDERWEIGHT	CONSUMER STAPLES	9.4%	Our Underweight position relates to technical deterioration in the sector due to higher interest rates and a higher U.S. dollar which have been headwinds to share prices. As a result, valuation metrics are below historical averages.
UNDERWEIGHT	UTILITIES	3.1%	We remain Underweight Utilities. Rising interest rates and deteriorating technical trends may weigh on the sector in the coming months.
UNDERWEIGHT	REAL ESTATE	2.9%	Our underweight position in real estate is influenced by higher interest rates and technical trends. Fundamentals and valuation are attractive for the sector.

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.

ASSET CLASS DEFINITIONS

U.S. Large Cap Equity
Russell 1000 Index: Based on a combination of their market cap and current index membership, this index consists of approximately 1,000 of the largest securities from the Russell 3000. Representing approximately 92% of the Russell 3000, the index is created to provide a full and unbiased indicator of the large cap segment.

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.

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.

Real Estate
FTSE NAREIT Equity: The index is designed to represent a comprehensive performance of publicly traded REITs which covers the commercial real estate space across the US economy, offering exposure to all investment and property sectors. It is not free float adjusted, and constituents are not required to meet minimum size and liquidity criteria.

Commodities
Bloomberg Commodity Index (BCOM): Formerly known as the Dow Jones-UBS Commodity Index, the index is made up of 22 exchange-traded futures on physical commodities. The index currently represents 20 commodities, weighted to account for economic significance and market liquidity with weighting restrictions on individual commodities and commodity groups to promote diversification. Performance combines the returns of the fully collateralized BCOM Index with the returns on cash collateral (invested in 3 month U.S. Treasury Bills).

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.

Global (Non-U.S.) Fixed Income
Barclays Global Aggregate Bond Index: The index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside of the U.S. The major components of this index are the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities.

Multi-Sector Bond
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 Bond 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.

Relative Value Arbitrage
A hedge fund that purchases securities expected to appreciate, while simultaneously selling short related securities that are expected to depreciate.

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.

Special Situations
Managers invest in companies based on a special situation, rather than the underlying fundamentals of the company or some other investment rationale. An investment made due to a special situation is typically an attempt to profit from a change in valuation as a result of the special situation, and is generally not a long-term investment.

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.

Conservative Balanced 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.

Balanced 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.

Balanced with 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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