QUARTERLY COORDINATES

INVESTING IS NOT A TRIVIAL PURSUIT®

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RAYMOND JAMES®

UPDATE: TOPICS TO BE ADDRESSED

1 Introduction

Searching The Economic & Financial Market Clues

INSIGHT:

The world has largely emerged from the COVID-19 pandemic thanks to the dissemination of multiple, effective vaccines. In the US, the percentage of the population fully inoculated is among the highest, which allowed states to gradually, yet sustainably rollback restrictions just over a year since the lockdowns were implemented.

BOTTOM LINE:

The improvement in the COVID-19 situation throughout the world has expedited expectations for global economic growth, but the success of each country and region is heavily dependent upon the containment of the virus.

SOLVING THE MYSTERIES OF THE MARKET

HUNTING FOR CLUES TO EITHER AFFIRM OR ALTER OUR ECONOMIC AND FINANCIAL MARKET VIEWS

WHO?

Fed Chairman Powell
President Joe Biden
Janet Yellen
Elizabeth MacDonough
Anthony Fauci
Joe Manchin
World Leaders
Corporate CEOs
Sentiment Survey

WHAT?

Inflation
Interest Rates
Corporate Earnings
Infrastructure Bill
Monetary Policy
US Dollar
Supply Demand Dynamics
Vaccine-Evading Variant

WHEN?

Third Quarter
Fourth Quarter
2021
2022
Not Going to Happen

WHERE?

United States vs Europe
Developed vs EM Markets
Credit Markets
Long vs Short Duration
Commodities
Cash
Alternatives

2 ECONOMY

US Consumers Simultaneously Passing ‘Go’

INSIGHT:
US consumers are well-positioned due to Congress’ stimulative actions, which should continue to be a tailwind for the economy. The improvement in COVID-19 trends and the availability of vaccines has resulted in economic activity lost from the recession being regained.

BOTTOM LINE:
With ample fiscal stimulus in support of consumer spending, accommodative monetary policy, and ongoing improvements in the labor market, the US economy is poised for even better economic activity than previously expected and has the potential to post the best year of growth since the 1950s.

US ECONOMY PASSING GO

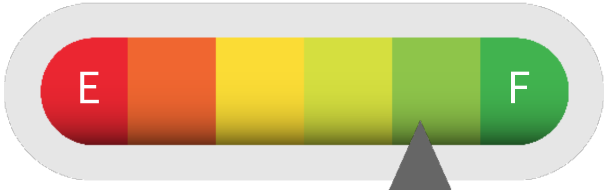
THE US ECONOMY IS FIRING ON ALL CYLINDERS AS WE MOVE INTO THE SECOND HALF OF THE YEAR

- All six of our favorite economic indicators and real-time activity levels suggest the economy is on solid footing.

Withholding Taxes

Withholding taxes are back at record highs, suggesting increased employment and rising wages

Jobless Claims



Jobless claims are at post-COVID lows and are back below the previous 30-year average

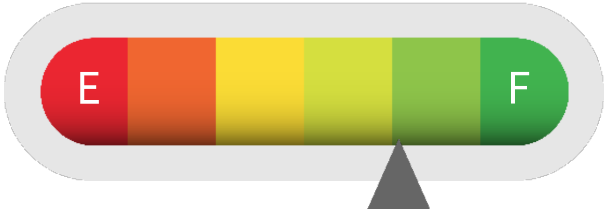
ISM New Orders

ISM new orders are in expansion territory (a level above 50) and are at nearly the highest level in thirty years

Motor Vehicle Sales

The previous two-month average of motor vehicle sales are at the highest level since 2005

Bank Lending



The percentage of banks easing lending standards is increasing and demand is picking up

Real-Time Activity

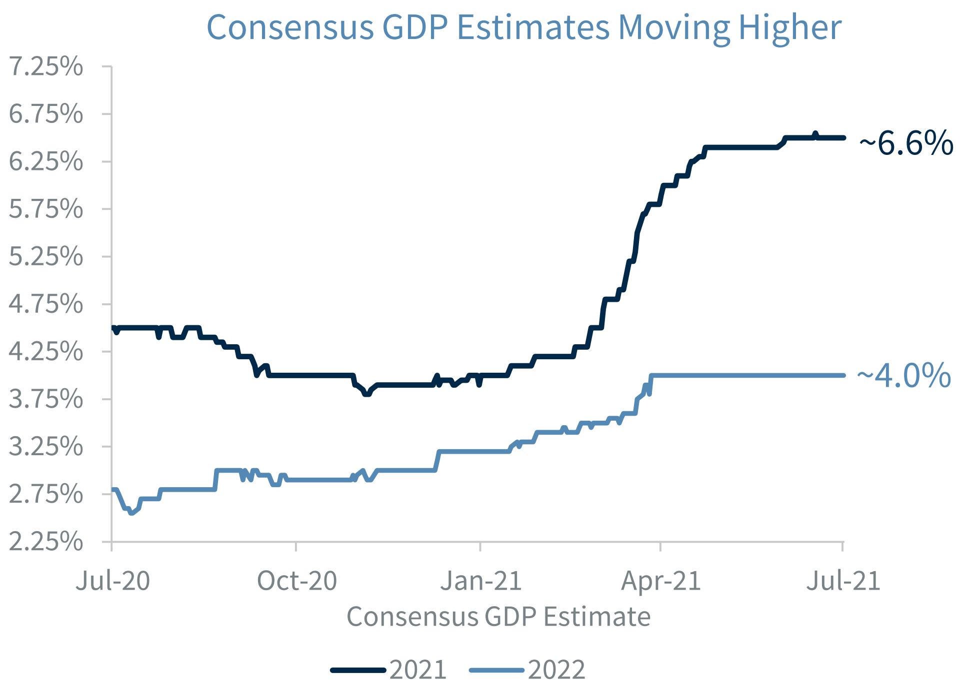
While in large part remaining below 2019 levels, TSA screenings, restaurant reservations and hotel bookings are all at post-COVID high levels

Source: FactSet, Data as of 6/30/2021

US ECONOMY PASSING GO

WE EXPECT THAT ECONOMIC ACTIVITY REACHED PRE-COVID LEVELS IN 2Q21; RECOVERY COMPLETE AS EXPANSIONARY PHASE BEGINS

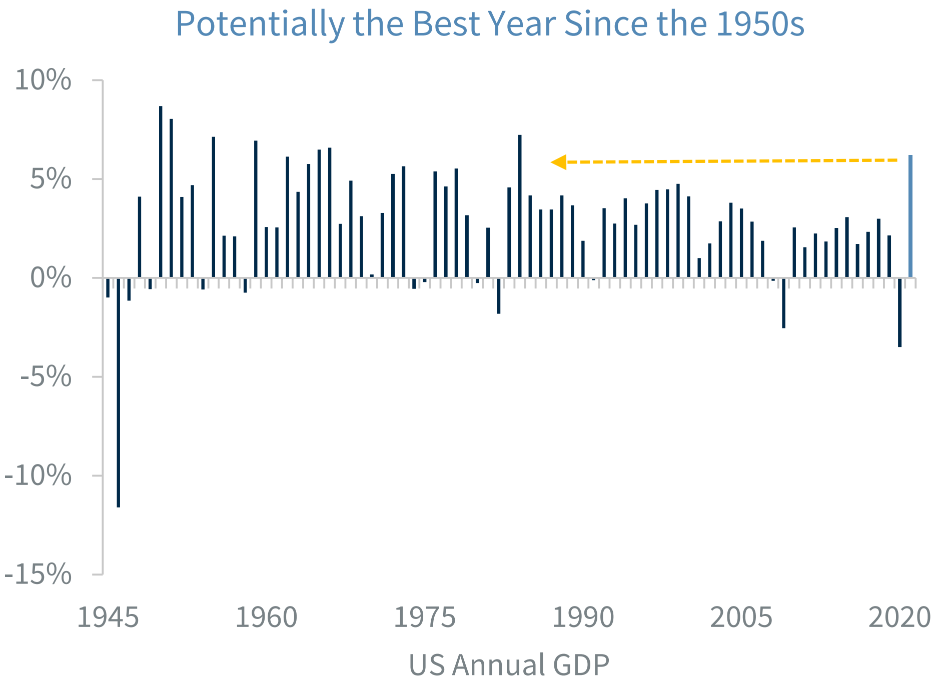
- Consensus estimates for US economic growth in both 2021 and 2022 continue to move higher and exceed early year expectations.
- In fact, the economy is likely to post the best year of economic growth since 1984, with the potential to have the best year since the 1950s.



Source: FactSet, Data as of 7/5/2021

~6.2%

RJ 2021 GDP Forecast



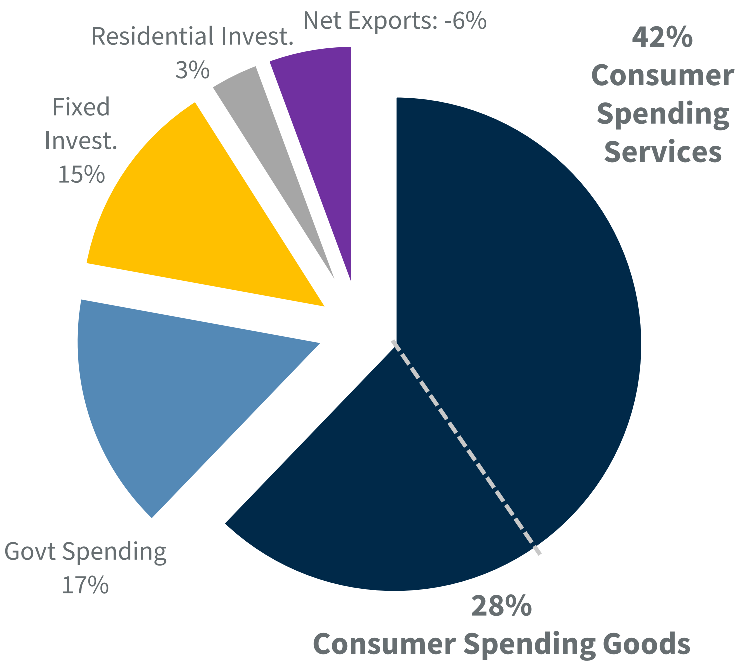
Source: FactSet, Data as of 6/30/2021

CONSUMER TO BE THE DRIVER OF ECONOMIC GROWTH

THE CONSUMER WILL BE THE PRIMARY DRIVER OF ABOVE-TREND ECONOMIC GROWTH IN 2021

- Consumer spending is the largest portion of the US economy, making up ~70% of US GDP.
- Consumer spending is expected to be robust over the next 12 months, driven by excess disposable income, surging net worth, rising confidence, an improving labor market and pent-up demand (particularly in a shift from goods purchases to services).

Consumer Driven Economy



Source: FactSet, all data as of 7/5/2021

Comfortable Resuming All Normal Activities

81%

#1 Priority is Going On Vacation

80%

Source: RJ Investment Strategy Sentiment Survey

Five Drivers of Consumer Spending

1. $2 Trillion in Excess Disposable Income
2. Net Worth at Record Highs
3. Confidence at Post-COVID Highs
4. Pent-Up Demand
5. Improving Labor Market

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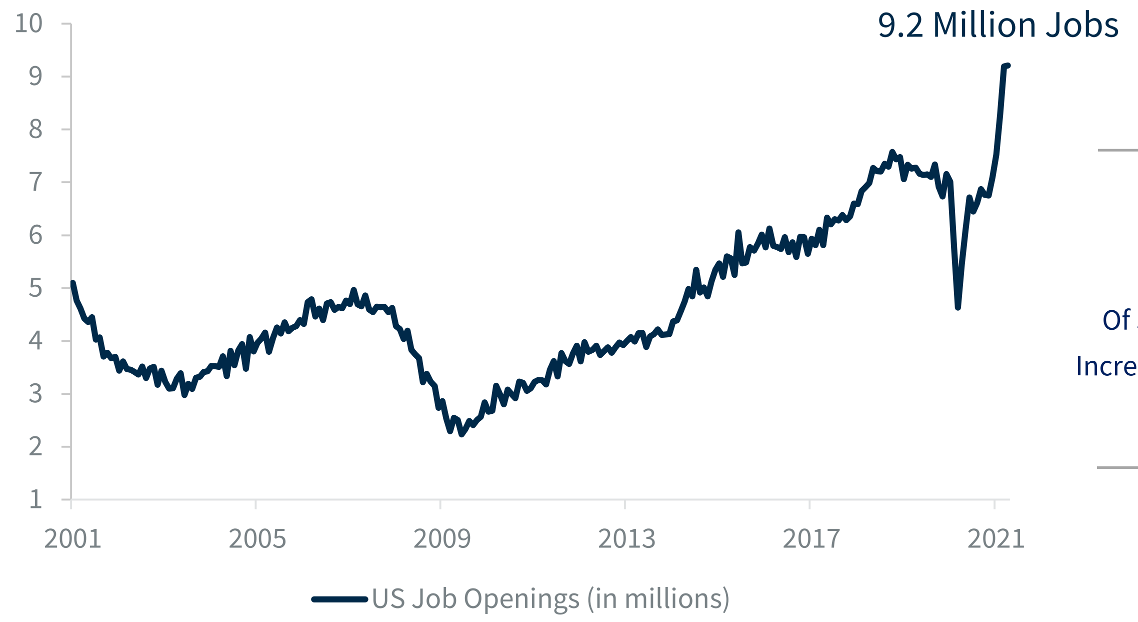
EMPLOYMENT TO BE A TAILWIND FOR CONSUMER SPENDING

A STRENGTHENING LABOR MARKET WILL BE A BOOST FOR ECONOMIC GROWTH OVER THE NEXT 12 MONTHS

- As the US economy has improved, job openings continue to move higher. In fact, with job openings at a record high of 9.2 million, company hiring plans are also at the highest level on record.
- This has brought the quits rate (which is correlated with future wage growth) to record highs while the layoff rate is at a record low.

Job Openings/Hiring Plans at Record Highs

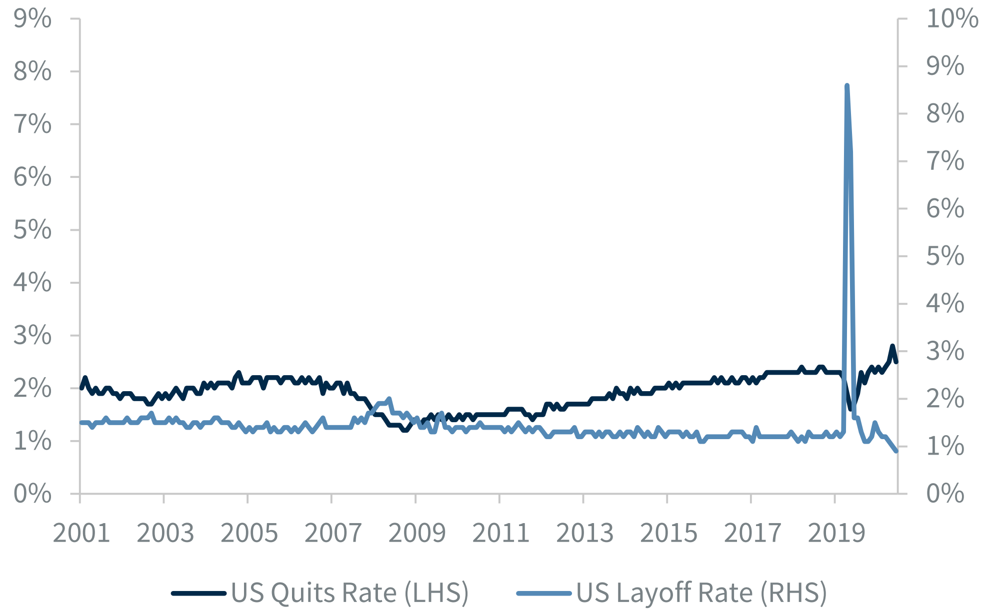


Source: FactSet, Data as of 6/30/2021

27%

Of Small Businesses Increasing Employment; A Record High

Quits Rate at Record Highs as Well



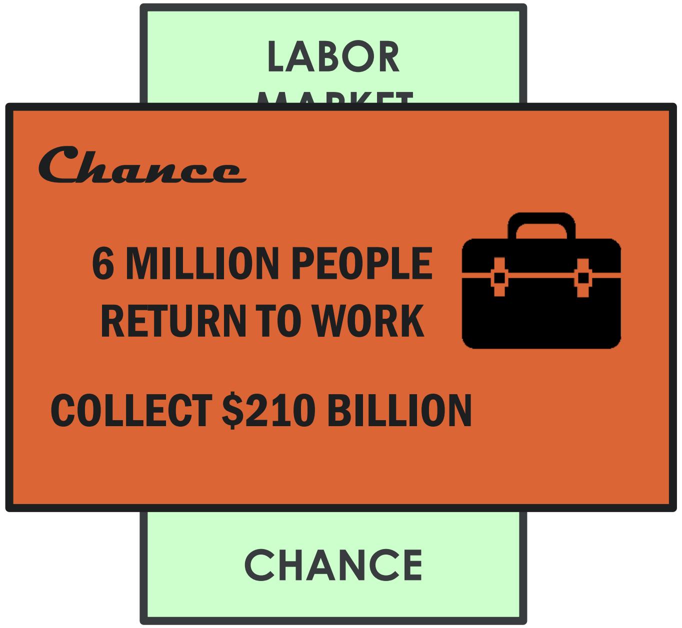
Source: FactSet, Data as of 6/30/2021

THREE GAME CHANGERS MOVING FORWARD

REASONS WHY WE HAVE REVISED OUR GROWTH EXPECTATIONS

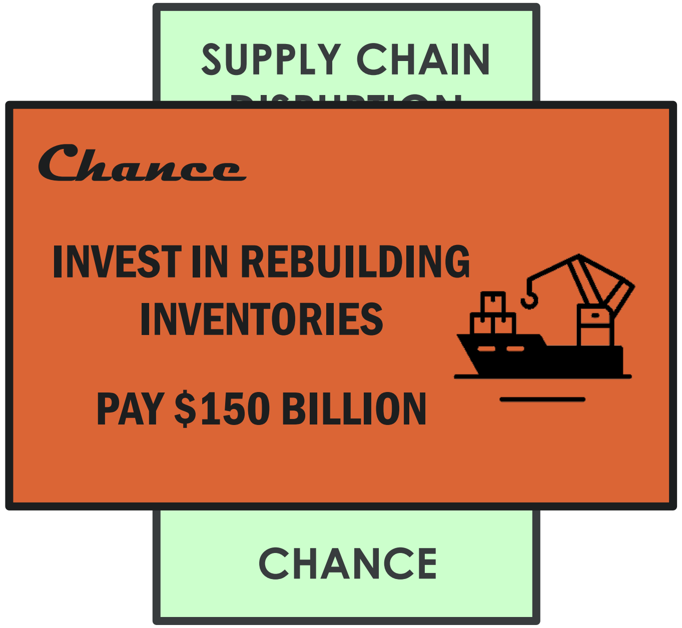
- Larger than expected fiscal stimulus, faster vaccinations (combined with improving cases) and improving mobility and real-time activity metrics are all reasons that economic growth expectations have been upgraded.

Healthy Job Creation



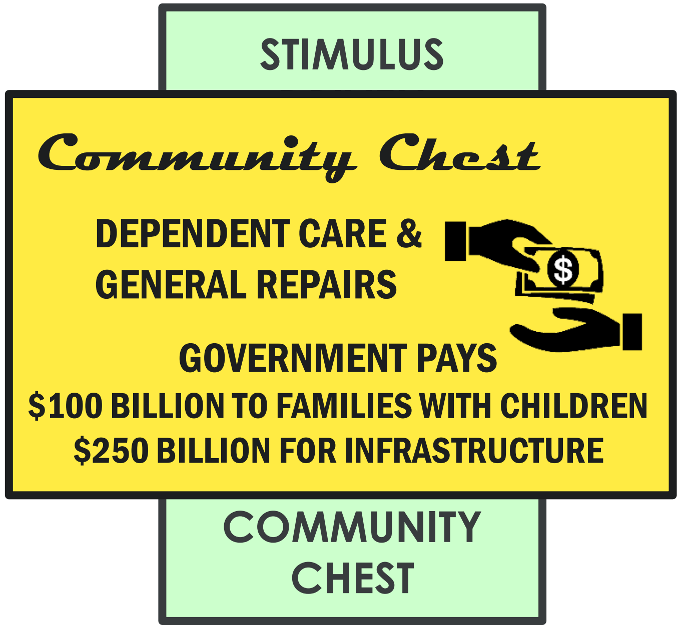
We estimate that the US economy will add over 500k jobs per month over the next year. These additional jobs (at an average salary) should add $210 billion in potential spending.

Rebuilding Inventories



Inventory to Sales ratios for both businesses and retailers are near or at record lows. We estimate that a rebuilding in inventories back to historical averages will require ~$150 billion in investment.

Expansion of Community Chest



While unemployment benefits will soon end, the US economy should receive a potential ~$100 billion consumer spending boost from the Child Tax Credit and the potential benefit from ~$250 billion (annually) in infrastructure spending.

Source: FactSet. Data as of 6/30/2021

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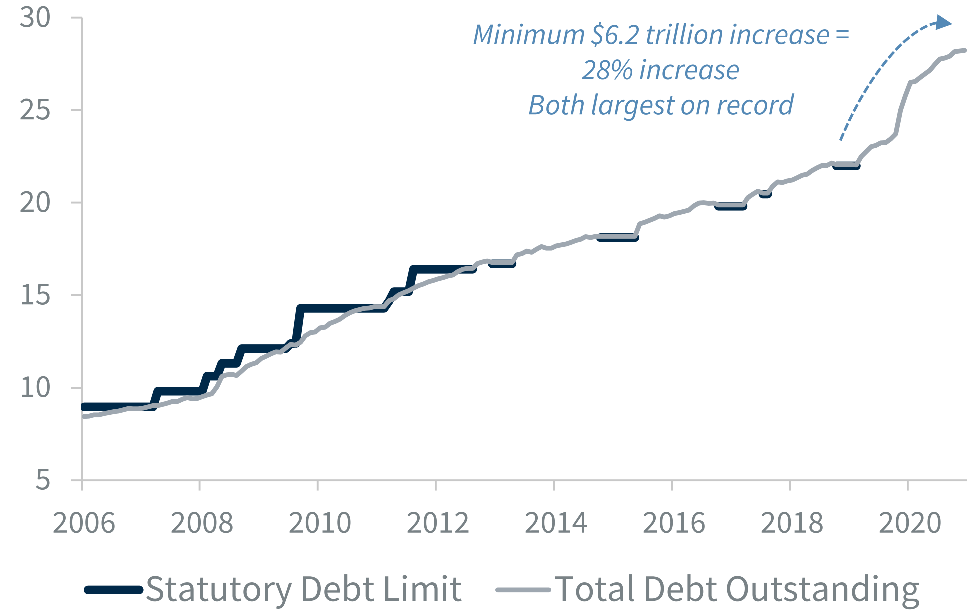
WASHINGTON POLITICS ?

THE DEBT CEILING DEBATE WILL GARNER HEADLINES, BUT WE EXPECT THE CEILING TO BE RAISED

- The debt ceiling is set to go back into effect at the end of July, which is an issue from a funding perspective as the current outstanding debt ($28 trillion) is well above the previously set debt ceiling of $22 trillion
- However, we expect Congress to waive the debt ceiling until late August or early fall.

Debt Ceiling Likely to be Raised

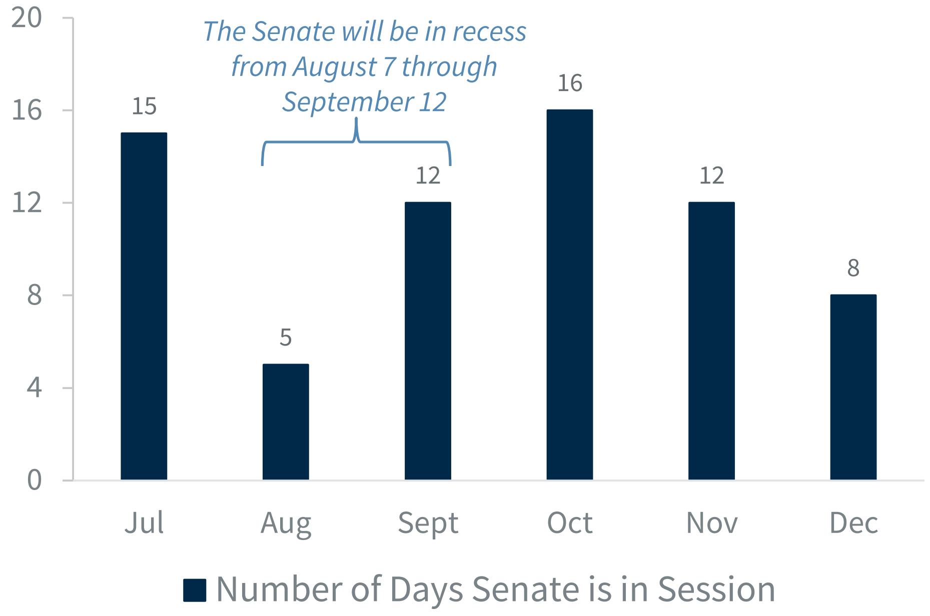


Source: FactSet, Data as of 6/30/2021

Our Base Case:

Debt Ceiling Implemented August 1; Extraordinary Funding; Ceiling Raised Early Fall

Congress To Take Its August Recess



Source: Senate.gov, Data as of 6/30/2021

3 Monetary Policy

The Fed Will Avoid A Zap From Inflation

INSIGHT:

The Federal Reserve’s unprecedented actions helped the US economy avoid the worst case scenario, but the time is nearing for the Fed to unwind some of the ultra-accommodative policies.

BOTTOM LINE:

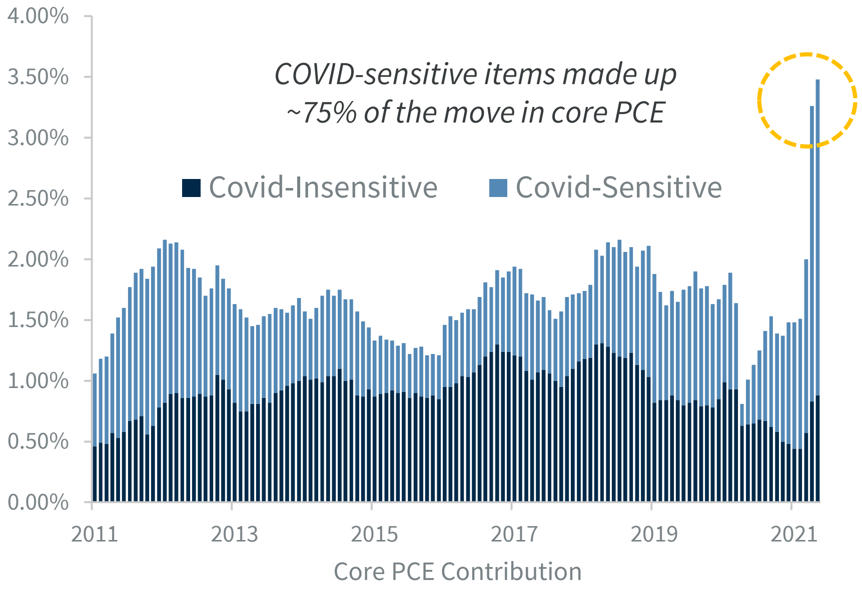
With inflation proving transitory as it peaks in the third quarter and subsides by the end of the year, the Fed will be able to start to taper its bond purchases by late this year/early next year and not raise rates until 2023.

TRANSITORY INFLATION WILL ALLOW FED TO MAINTAIN A STEADY HAND

TRANSITORY INFLATION WILL LIKELY LEAD THE FED TO KEEP INTEREST RATES LOWER FOR LONGER

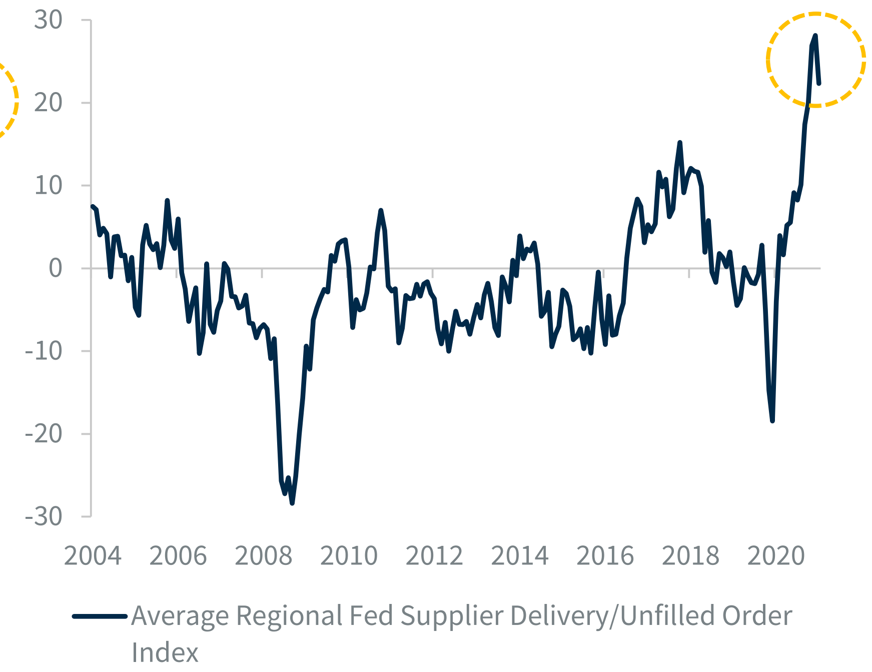
- While inflation is currently above the Fed's target of 2%, we continue to view the recent upward move as transitory.
- The easing of COVID-sensitive areas (as most of the recent move in inflation is due to COVID-related impacts), record low velocity of money and supply chains normalizing should all put downward pressure on inflation going forward.

COVID-Sensitive Areas Driving Inflation



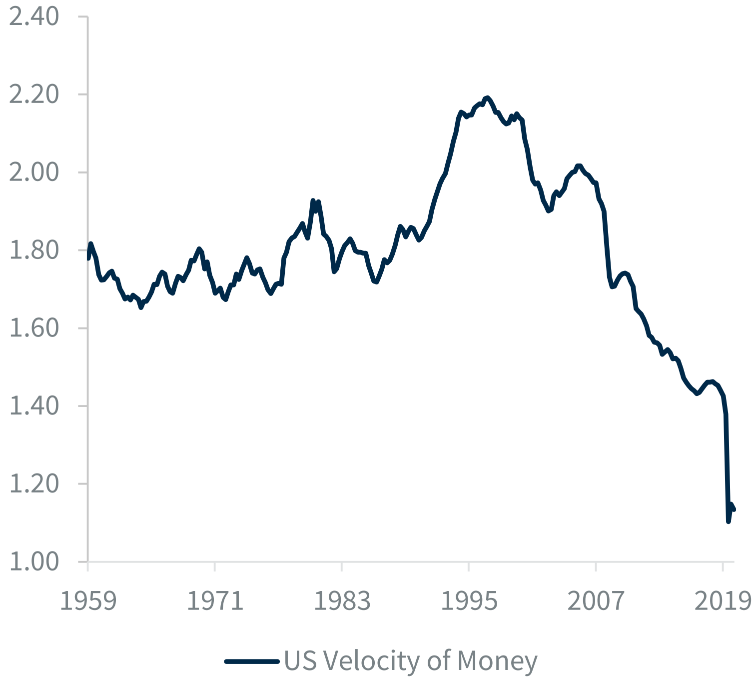
Source: SF Federal Reserve. Data as of 6/30/2021. COVID-Sensitive industries are those most impacted by COVID (e.g., hotels, transportation, autos, etc.) and COVID-Insensitive (e.g., insurance) are those not impacted.

Supply Chain Constraints Starting to Normalize



Source: FactSet, Data as of 6/30/2021

Record Low Velocity of Money



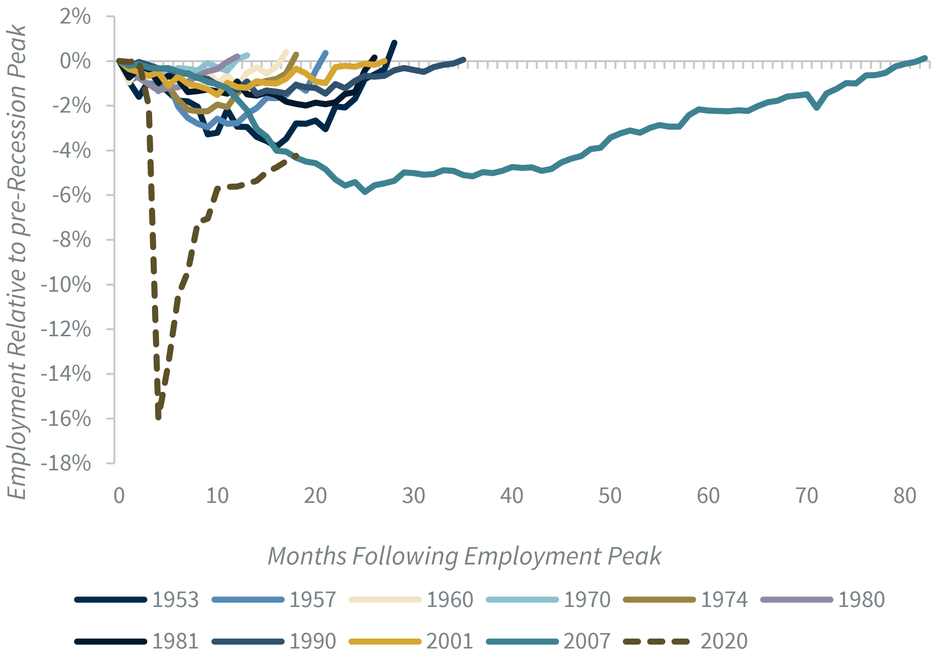
Source: FactSet, Data as of 6/30/2021

THE FED WILL BE PATIENT UNTIL EMPLOYMENT CONDITIONS RECOVER

LAGGING EMPLOYMENT WILL ALSO KEEP THE FED ON HOLD

- While the US economy has added 15.5 million jobs since the COVID-driven lows, the jobs recovery continues to lag previous recoveries at this juncture.
- Additionally, the market has historically overestimated the timing and magnitude of Fed rate hikes.

Employment Lags Behind Other Recoveries

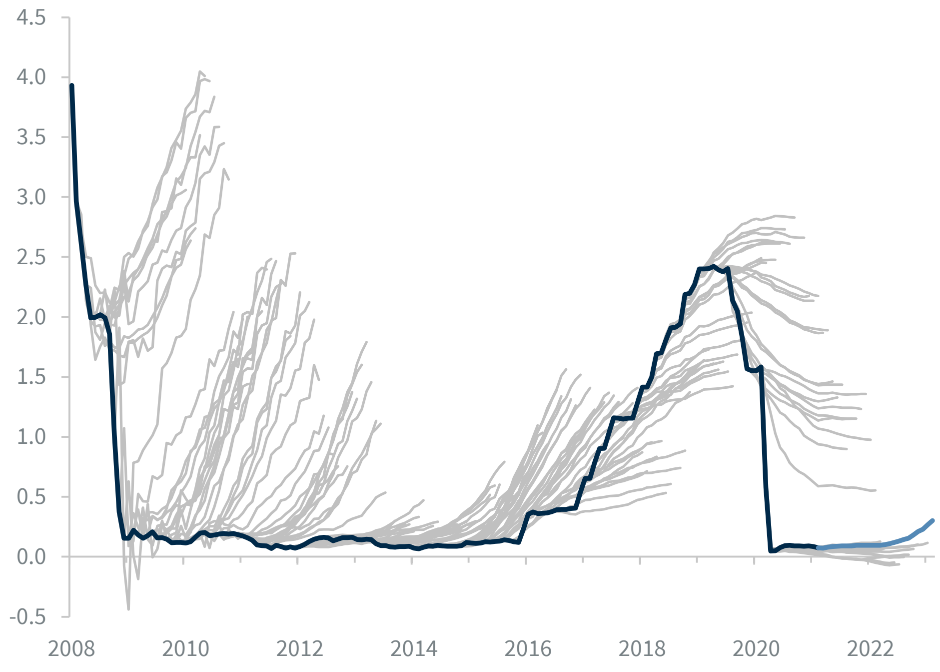


Source: FactSet. Data as of 7/6/2021

3-6 Months

Fed Historically Hikes Rates 3-6 Months, On Average, After Recovering Pre-Recession Employment

Market Historically Overestimates Fed Rate Hikes



Source: JP Morgan. Data as of 6/30/2021

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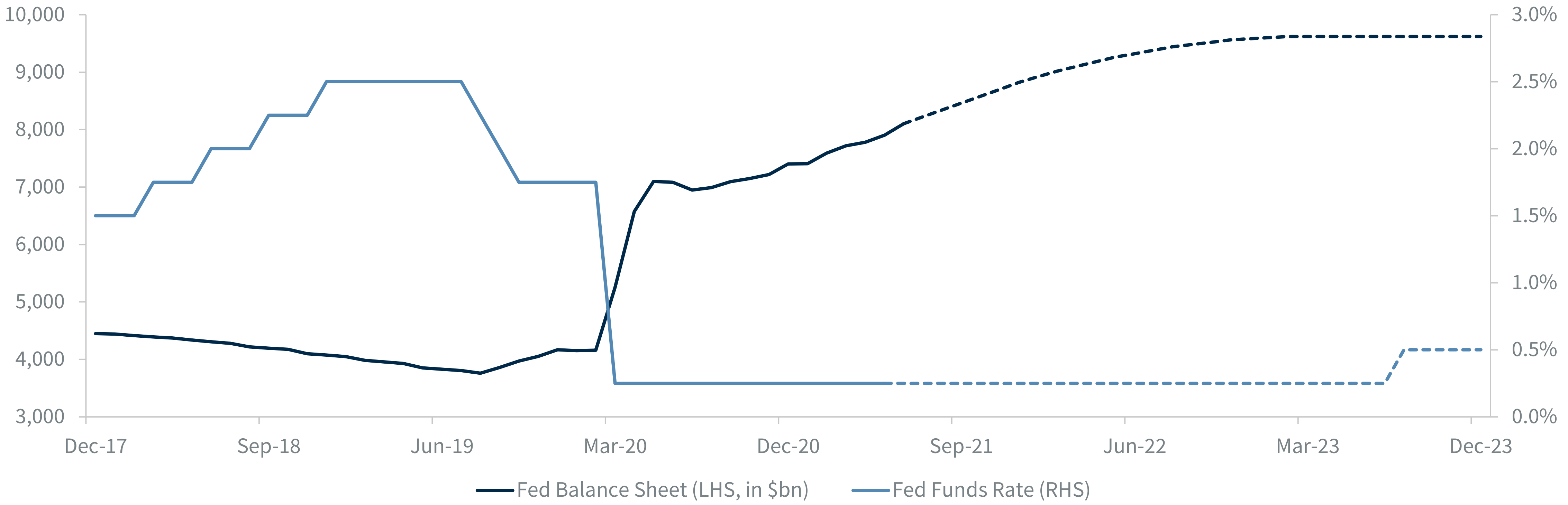
FED LOOKS TO AVOID ZAPPING THE RECOVERY

WE EXPECT THE FED TO REMAIN DOVISH TO AVOID ZAPPING THE ECONOMIC AND LABOR MARKET RECOVERY

- We expect the Fed to continue to be patient moving forward while removing accommodative monetary policy.
- We expect the Fed to begin tapering asset purchases later this year, and not hike interest rates until the middle of 2023.

Fed QE and Rate Hike Forecasts



Source: FactSet, Data as of 7/6/2021

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4 Fixed Income

Global Investors Reaching & Stretching For Yield

INSIGHT:
The healthy economic environment and the uptick in inflation are pushing yields higher, but demand for US yields from both domestic and foreign investors is keeping yields lower for longer. With catalysts counter-balancing, yields are trading within a tight range.

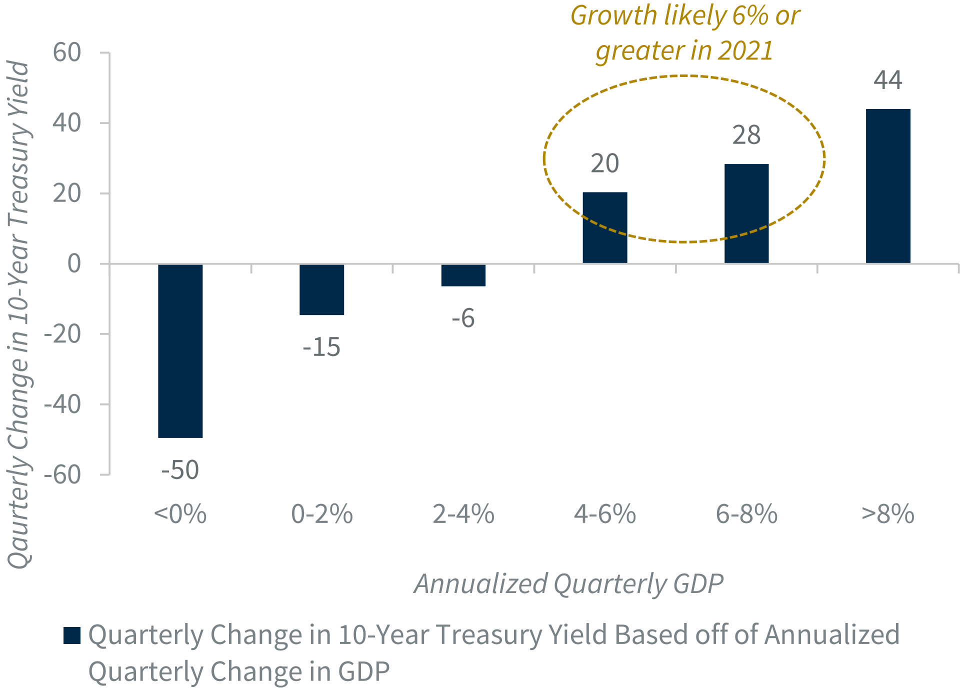
BOTTOM LINE:
Fixed income investors in search of yield must be realistic given the low rate environment. While the strength and breadth of the economy remains favorable for the credit sectors, valuations continue to favor the highest-quality bonds from a risk-return perspective.

TREASURY YIELDS DISCOUNTED STRONG RECOVERY

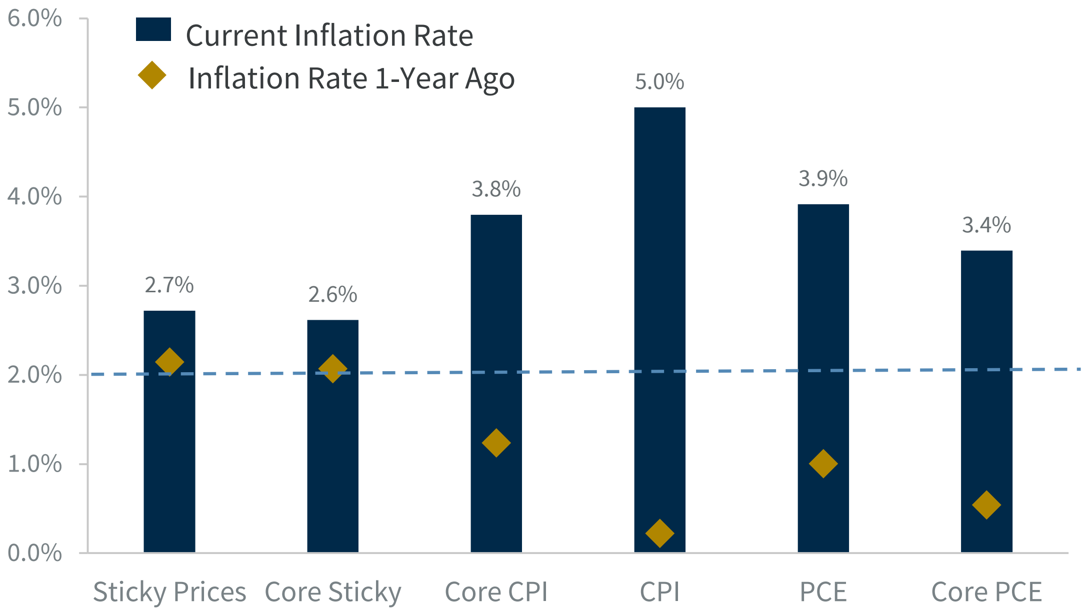
SOLID ECONOMIC RECOVERY HAS LED TO A CYCLICAL UPSWING IN YIELDS

- US Treasury yields modestly declined, despite accelerating inflation pressures during the quarter– suggesting that the strong economic recovery and cyclical upturn in inflation was already discounted in the level of yields.
- While it is not unusual to see markets correct after such sharp moves, we do not believe that we've seen the peak in rates this cycle.

Yields Also Rising With Improving Economic Growth



Increased Inflation Boosting Yields



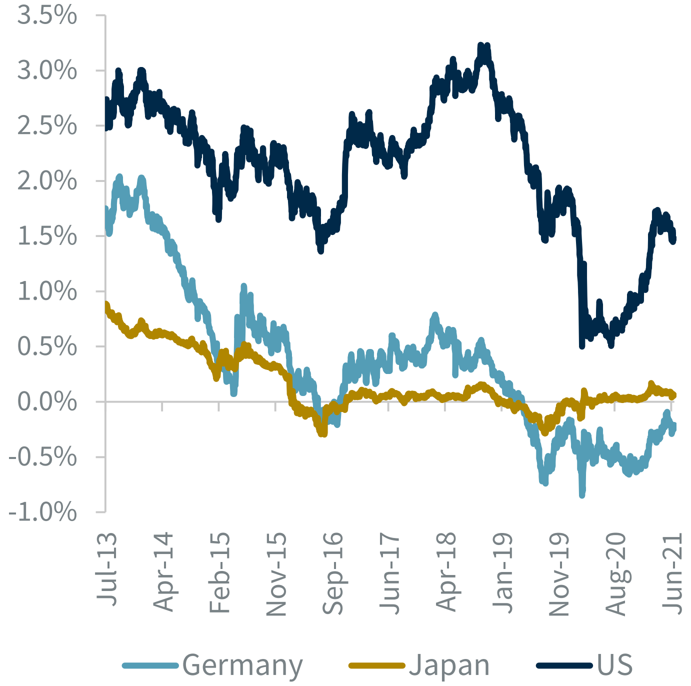
Source: FactSet. Data as of 6/30/2021.

STRUCTURAL FORCES KEEPING A LID ON RATES

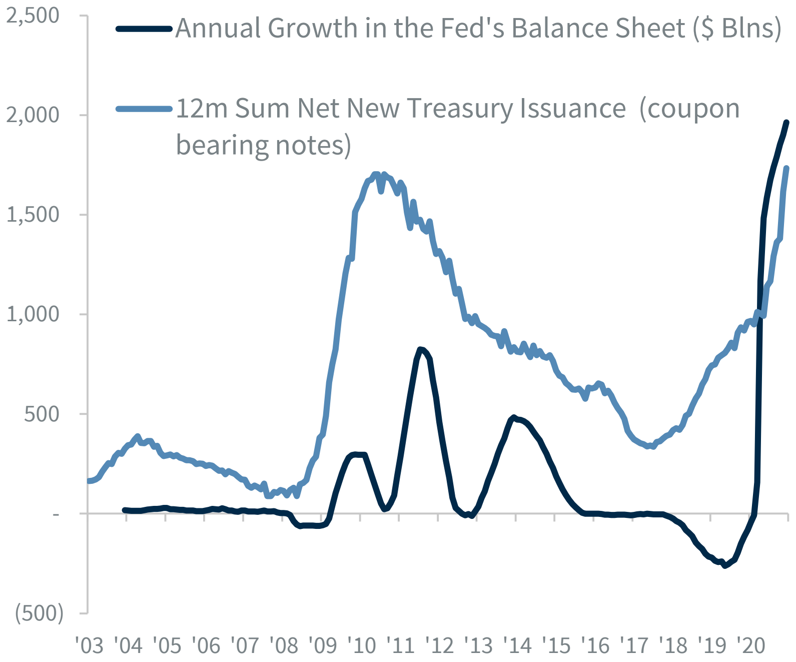
CENTRAL BANK BUYING OF GOVERNMENT DEBT SURGES THROUGH THE PANDEMIC

- Central Bank purchases of government debt has continued to depress bond yields around the globe. The attractiveness of US yields relative to their local markets suggests foreign demand for Treasurys is likely to continue.
- The Fed has been a dominant force in driving US yields lower over the last year, absorbing nearly all of the net new issuance since the pandemic.

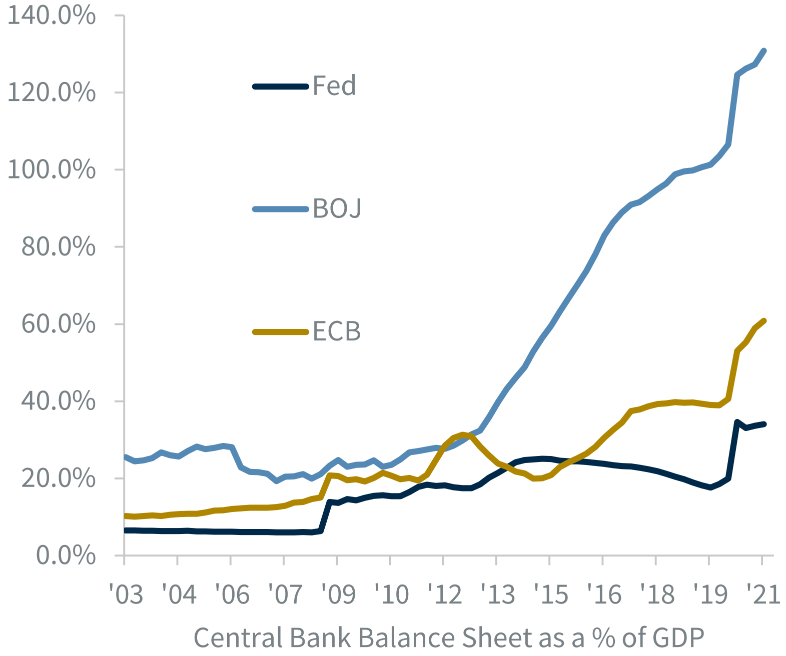
Strong Foreign Demand Likely to Continue



The Fed Purchases All New Supply



Central Bank Assets as % of GDP



Source: FactSet, Data as of 6/30/2021.

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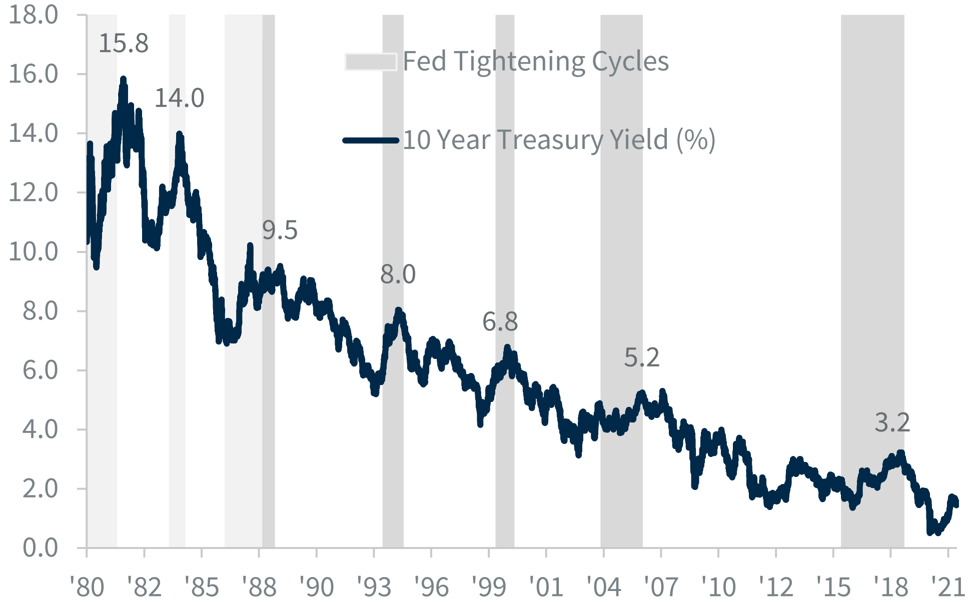
UPTREND LIKELY TO CONTINUE, BUT RISE WILL BE LIMITED

SOLID ECONOMIC RECOVERY HAS LED TO A CYCLICAL UPSWING IN YIELDS

- Despite fears of the bond bull market ending, bond yields remain in a multi-decade bull market. Cyclical forces, such as strong growth or rising inflation can place upward pressure on yields for shorter periods of time; however, yields continue to peak at lower levels in each cycle.
- High and rising public debt has not led to higher interest rates as many experts may have feared. While longer-term concerns remain about the explosion in public debt, low interest rates have constrained the cost of servicing the debt – giving policymakers ample room to respond to pandemic.

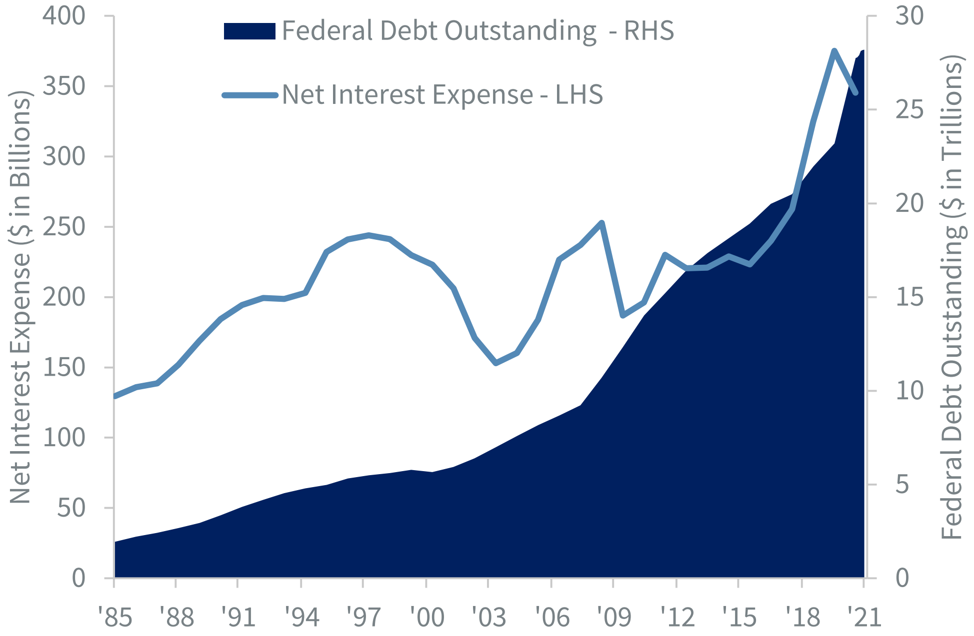
Yields Likely to Peak Below Previous Peaks



~2.0%

Year-End 10-Year Treasury Yield Forecast

Interest Expense Rise Trails Explosion of Public Debt



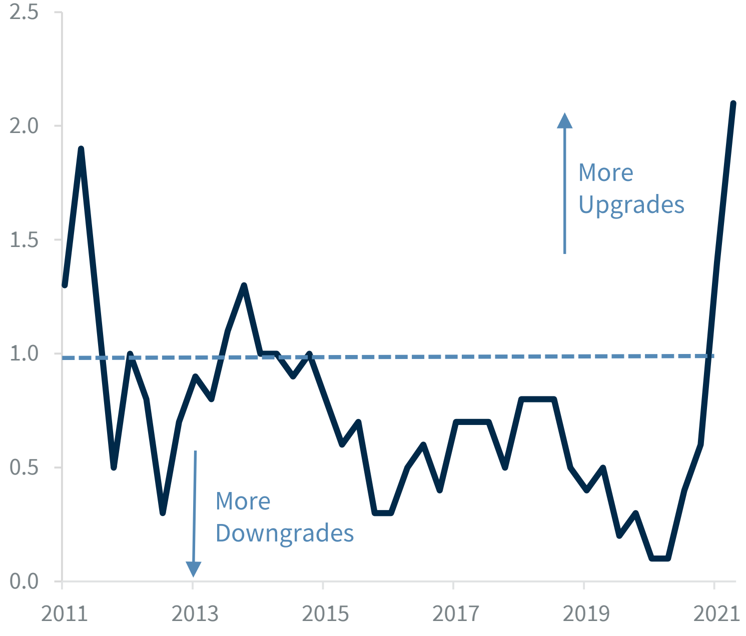
Source: FactSet. Data as of 6/30/2021.

POSITIVE CREDIT FUNDAMENTALS, BUT TIGHT VALUATIONS

STRONG RECOVERY IN CORPORATE EARNINGS SUPPORTIVE OF CREDIT SPREADS, BUT VALUATIONS REMAIN RICH

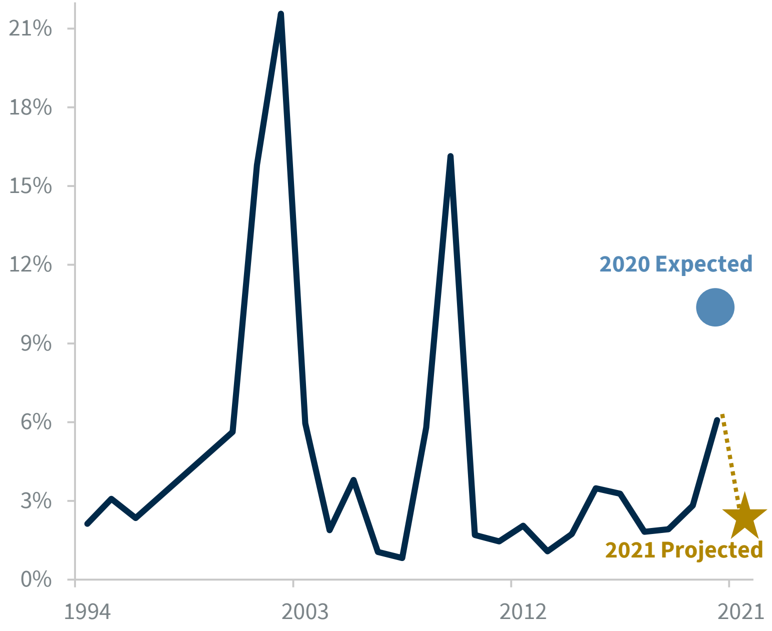
- Last year's fallen angels and rising default rates have given way to this year's rising stars and declining defaults. The strong economic backdrop and solid earnings outlook should see default rates decline to 1.8% into year end.
- With much of the improvement already reflected in historically tight spreads, there is limited room for capital appreciation from further spread narrowing. Coupon income should remain the main driver of returns through year end, barring any unforeseen volatility.

Improving Upgrade/Downgrade Ratio



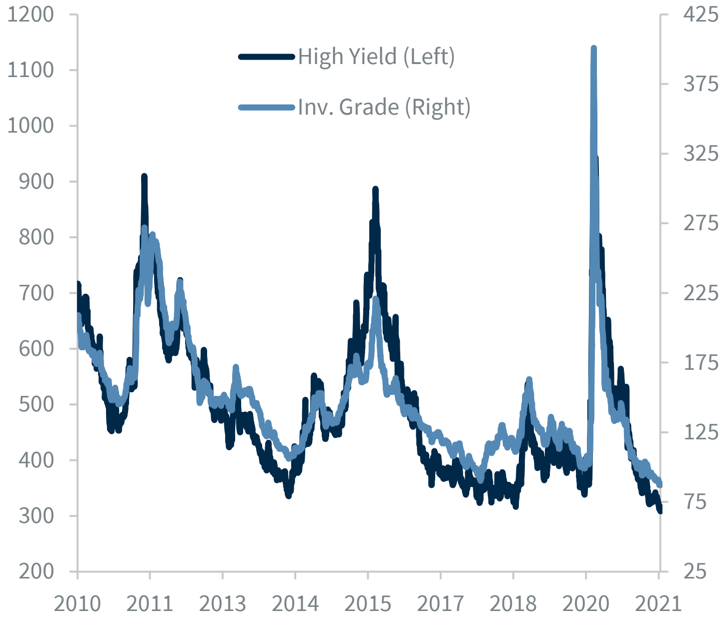
Source: Bloomberg

Default Rates Much Better Than Expected



Source: Bloomberg

Spreads Reflect Strong Recovery



Source: Federal Reserve Economic Data

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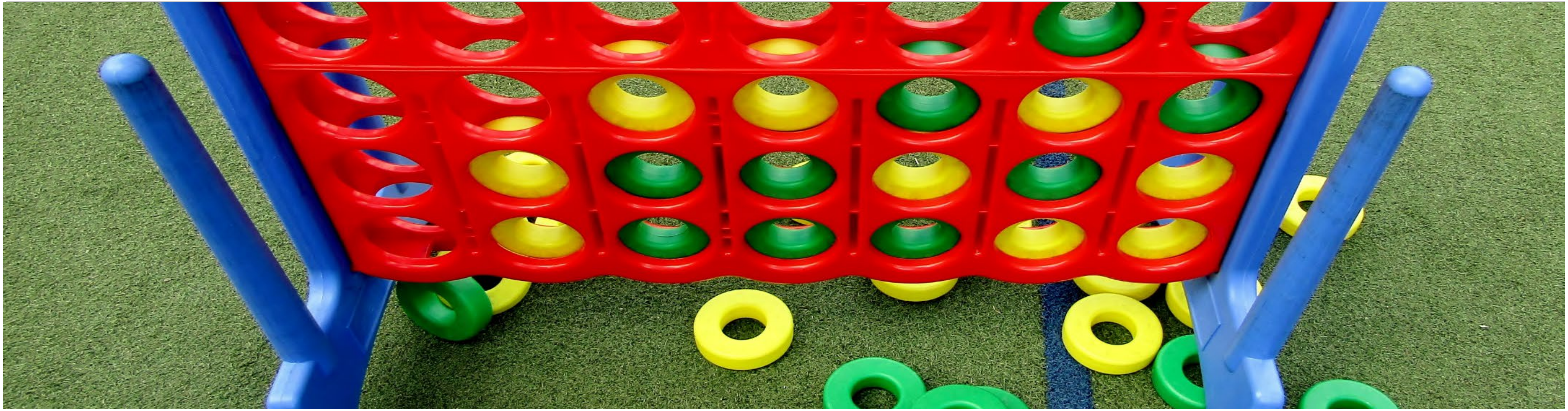


5 Equities

Connecting Four Reasons Why The Bull Market Will Continue

INSIGHT:
Between a still-improving macroeconomic backdrop, attractive valuations, increased shareholder activities, and strong earnings growth expectations, this current bull market should continue its upward trajectory.

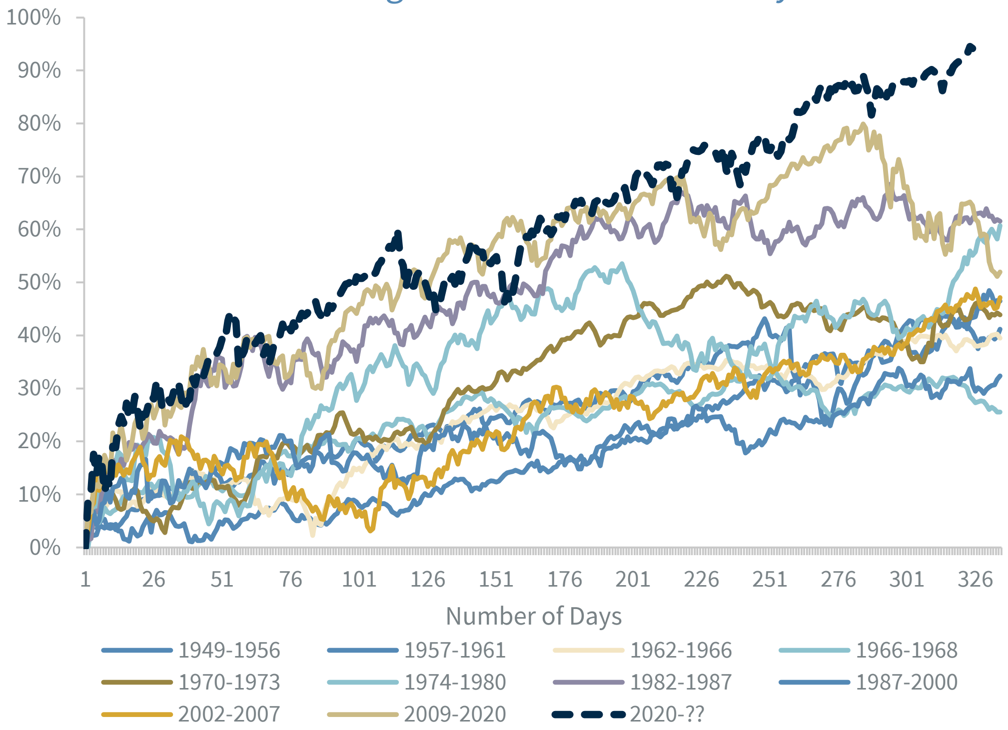
BOTTOM LINE:
Our bias remains more US-centric with a focus on US large-cap and small-cap stocks, but an acceleration in reopening in other parts of the world could lead to potential short-term trading opportunities.

CONNECTING FOUR REASONS THE MARKET WILL CONTINUE TO MOVE HIGHER

EARNINGS WILL NEED TO BE THE DRIVER TO PROPEL MARKETS HIGHER FROM CURRENT LEVELS

- Since the start of the bull market, the S&P 500 is up ~90%, marking the best start to a bull market at this juncture on record.
- We expect the bull market to continue going forward, due to strong earnings growth, a robust macro framework, attractive valuations (particularly versus bonds) and increasing shareholder-friendly actions (e.g., dividends and buybacks).

Strongest Bull Market in History



Source: FactSet, Data as of 7/6/2021

+90%

Best Start to A Bull Market On Record

Four Catalysts Pushing the Equity Market Higher

1. Strong Earnings Growth
2. Solid Macro Framework
3. Attractive Valuations (vs. Bonds)
4. Increasing Shareholder-Friendly Actions

Source: FactSet, Data as of 7/6/2021

EARNINGS WILL BE A KEY DRIVER FOR EQUITIES

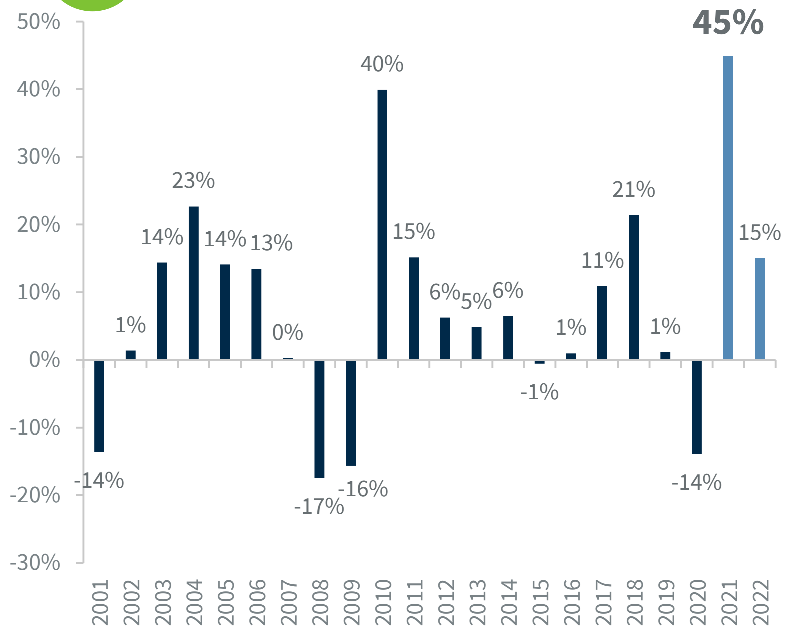
EARNINGS GROWTH ESTIMATES CONTINUE TO BE REVISED HIGHER

- We forecast 2021 S&P 500 earnings growth to rise 45% YoY—the fastest earnings growth since at least 2001.
- For 2021, consensus earnings estimates have been revised up 15% since the start of the year. This breaks the historical trend, as earnings are typically revised down ~4% on average over this time period.

4,400

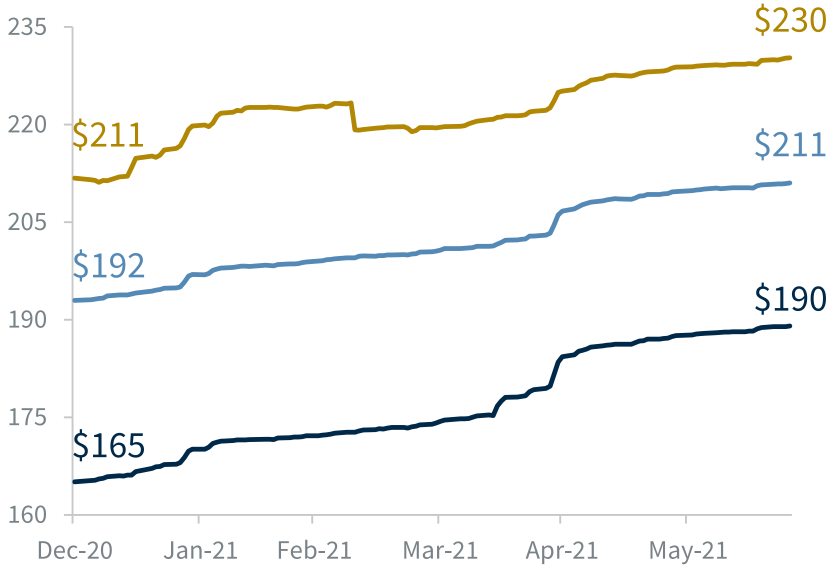
RJ Year-End S&P 500 Target (Based On $200 EPS)

1 Strongest EPS Growth in 20 Years



S&P 500 Annual EPS Growth

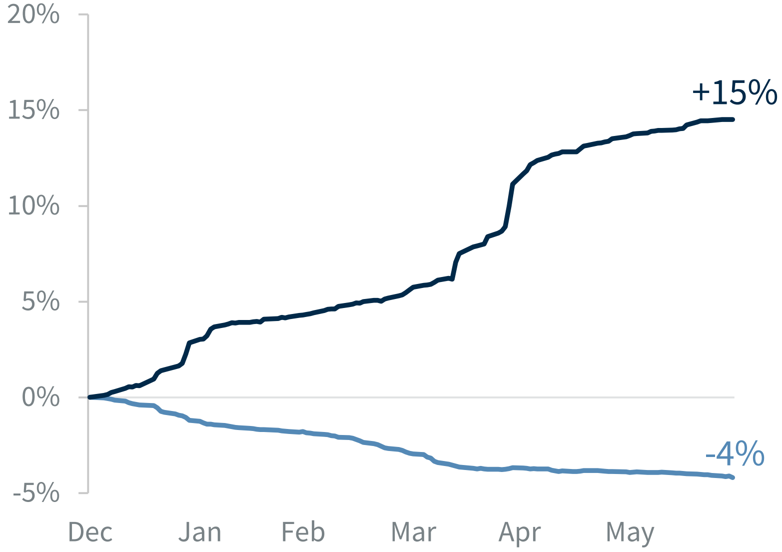
Forward EPS Estimates Continue to Move Higher



S&P 500 Consensus EPS Estimate

2021 2022 2023

Strong Upward Revision Unusual



EPS Revision Relative to Start of the Year

15-Year Average 2021

Source: FactSet. Data as of 6/30/2021

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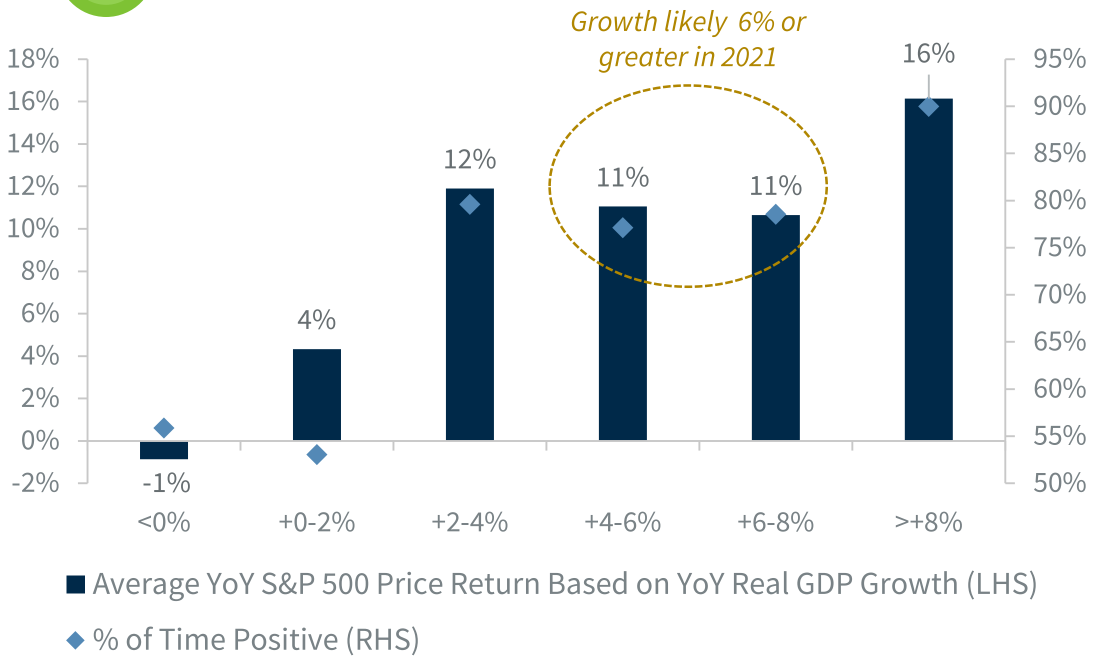
MACRO ENVIRONMENT AND VALUATIONS SUPPORTIVE OF EQUITIES

A ROBUST MACRO FRAMEWORK AND ATTRACTIVE RELATIVE VALUATIONS ARE ALSO SUPPORTIVE OF EQUITIES

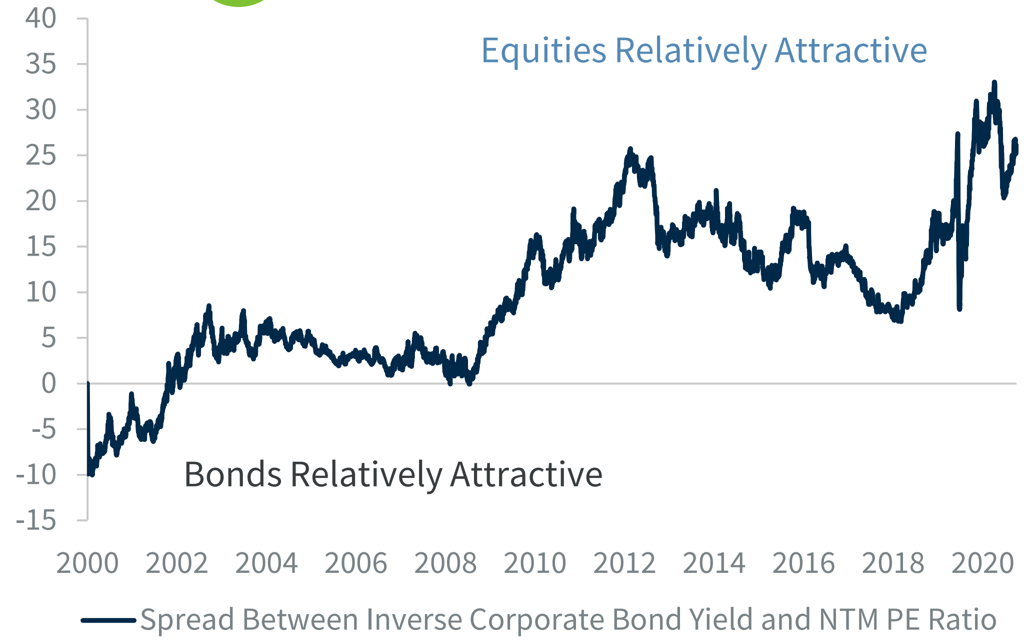
- We expect the US economy to grow 6-7% in 2021 and over 3% in 2022. Economic growth of this magnitude has historically been a significant tailwind for equities.
- Additionally, low interest rates make equities significantly more attractive relative to bonds.

2 Strong Macro Environment Favorable for Equities



Source: FactSet, Data as of 6/30/2021

3 Valuations Still Attractive vs. Bonds



Source: FactSet, Data as of 7/2/2021

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SHAREHOLDER-FRIENDLY ACTIONS ACCELERATING

INCREASING SHAREHOLDER-FRIENDLY ACTIVITIES WILL ALSO BE A TAILWIND FOR EQUITIES

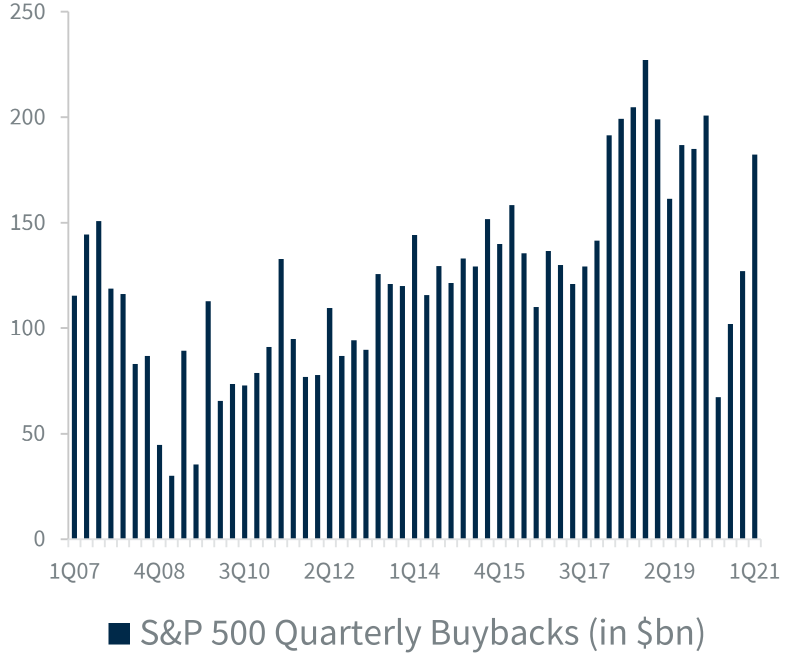
- Near record levels of cash on company balance sheets should continue to drive positive shareholder-friendly activities
- As a result, we expect both buybacks and dividends to increase from current levels.

4

Elevated Cash Balances Support Shareholder-Friendly Actions

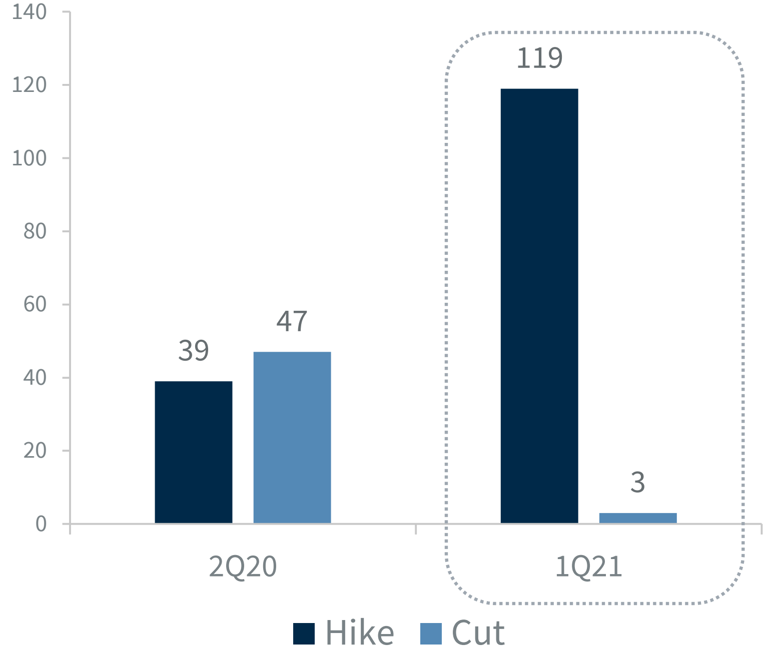
Source: FactSet. Data as of 6/30/2021.

Buybacks Accelerating



Source: FactSet. Data as of 6/30/2021.

Dividend Hikes Increasing



Source: FactSet. Data ranges from 1973 to current.

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EQUITY MARKET RALLIES THROUGH MARKET MYTHS

THE MARKET HAS HISTORICALLY RALLIED THROUGH SOME OF THE KEY RISKS FACING THE MARKETS

- Despite headlines that some of the key outstanding risks will stop the equity bull market, most of these are misconceptions when looked at from a historical perspective.
- For example, the equity market has historically rallied during rising interest rates and inflations and also into the first Fed rate hike.

Risks Do Not Stop the Bull Market

Myth #1 Rising Interest Rates Hamper Equity Market Returns

Myth #2 Higher Inflation Slows Positive Equity Market Returns

Myth #3 Corporate Tax Hikes Have Historically Hampered Equities

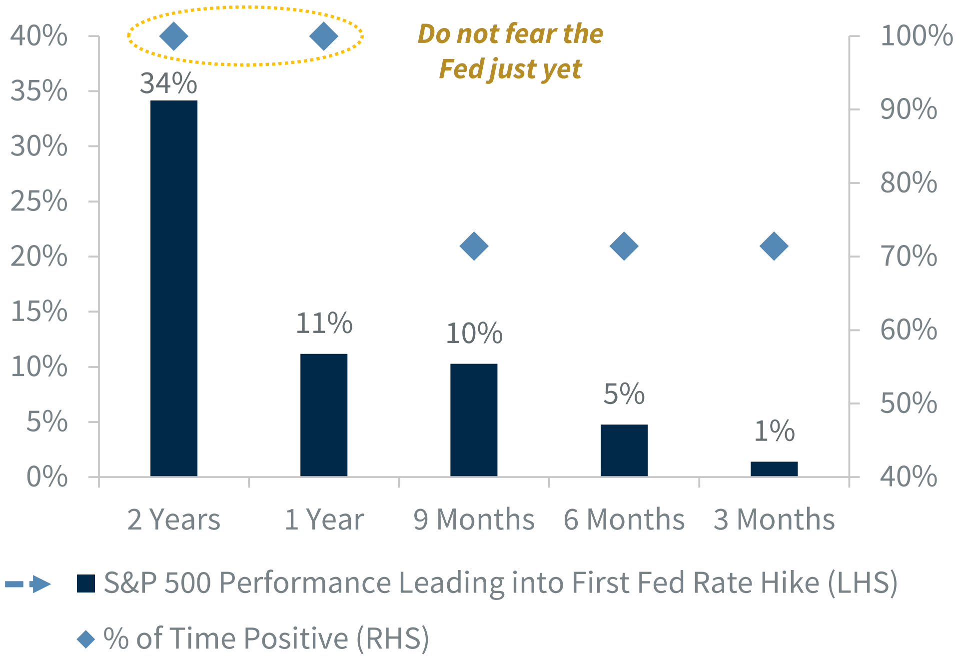
Myth #4 Individual Tax Hikes Have Historically Hampered Equities

Myth #5 The Fed Hiking Interest Rates Has Killed the Bull Market

+13%

Average S&P 500 Price Growth With Inflation Between 2-4%

Equities Typically Rally into the First Rate Hike



Source: Raymond James Investment Strategy

Source: FactSet, Data as of 6/30/2021

FAVOR CYCLICAL OVER DEFENSIVE SECTORS

WE FAVOR CYCLICAL OVER DEFENSIVE SECTORS COMING OUT OF THE RECESSION

- Due to stronger earnings growth and improving economic activity, we favor cyclical over defensive sectors.
- We are currently overweight Industrials, Communication Services, Financials, Consumer Discretionary and Energy.

Overweight Cyclical Sectors

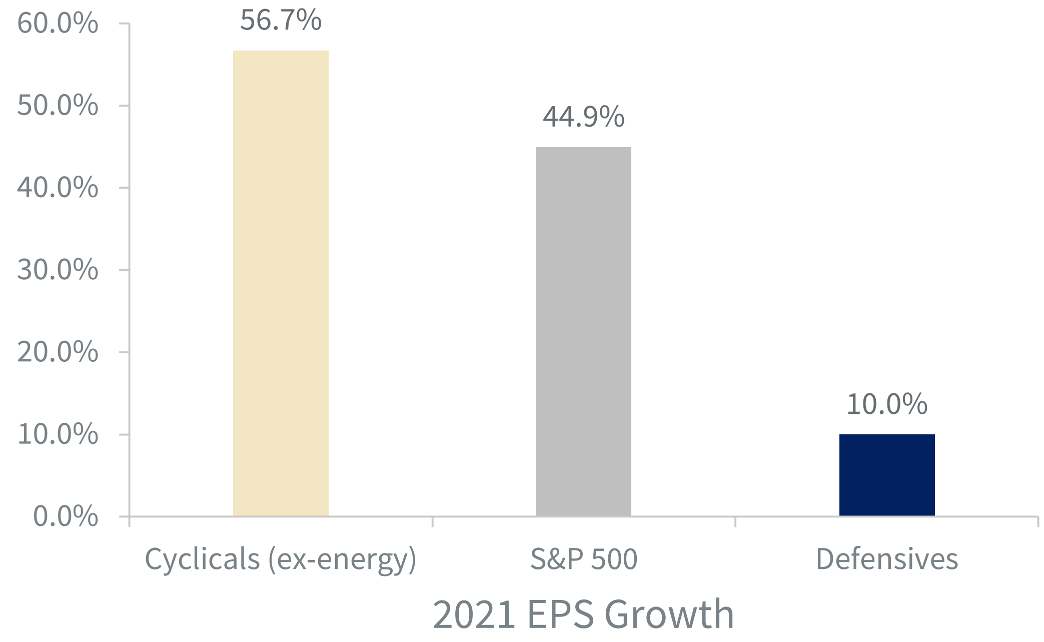
Overweight	Equal Weight	Underweight
Consumer Discretionary	Health Care	Consumer Staples
Financials	Materials	Utilities
Communication Services	Information Technology	Real Estate
Energy		
Industrials		

Cyclical Sector

Defensive Sector

Source: Raymond James Equity Portfolio and Technical Strategy

Cyclical Sectors See Stronger EPS Growth



Source: FactSet, Data as of 6/30/2021

INTRA-SECTOR SELECTIVITY REMAINS CRITICAL

Likely to increase their online purchases in 2021

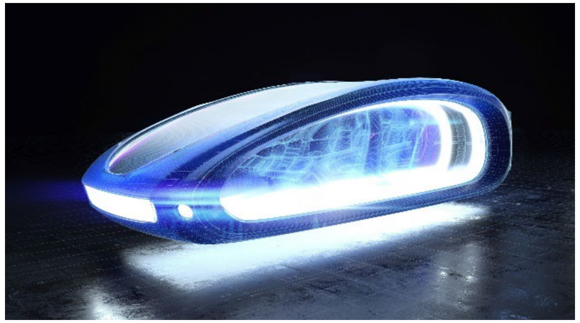
65%

Likely to increase their tech-related spending in 2021

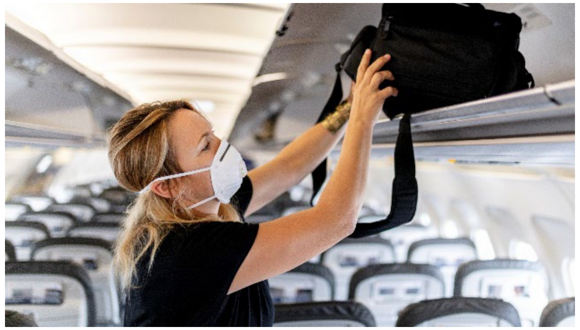
50%

Source: RJ Investment Strategy Quarterly Sentiment Survey

Tech: Big Tech vs. Smaller Tech



Industrials: Air Freight vs. Airlines



Consumer Discretionary: Online Presence

Source: FactSet. Data as of 6/30/2021.

6 International

Sorry! Still Biased Toward Domestic Equities

INSIGHT:
It's possible an acceleration in reopenings in other parts of the world, which for the most part have lagged that of the US, could lead to potential short-term trading opportunities. In addition, some developed regions have a higher weighting for our current list of preferred sectors.

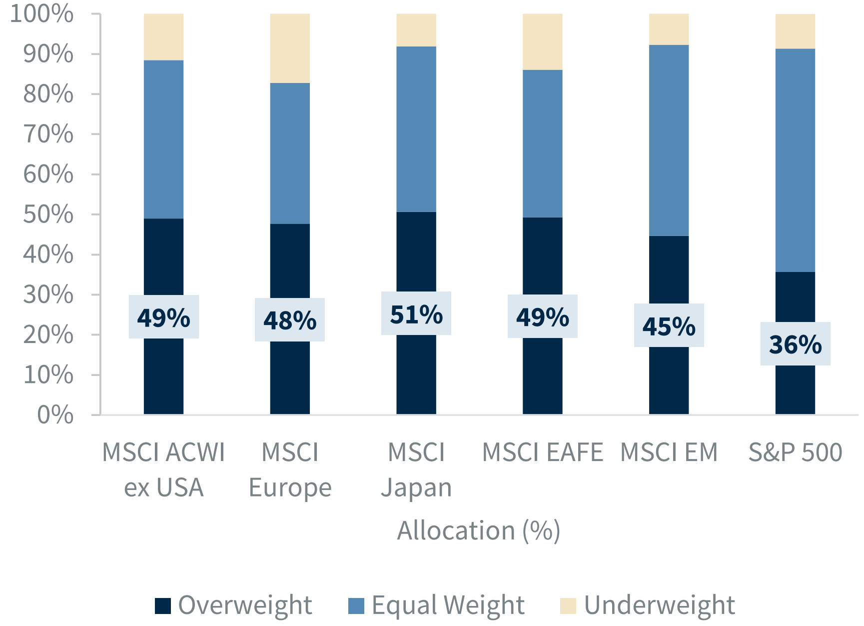
BOTTOM LINE:
In the long term, the combination of superior economic growth revisions, earnings per share growth, and profitability ratios should position US equities to outperform over the long term.

LONG-TERM BIAS TOWARD DOMESTIC EQUITIES STILL INTACT

SECTOR COMPOSITIONS MAY REVEAL OPPORTUNITIES ABROAD IN THE NEAR TERM

- A slightly higher concentration toward our preferred sectors may benefit select regions in the short term, as the recoveries and pace of vaccination in other developed regions have largely lagged that of the US.
- However, in the long term, the profitability ratios, heightened upside to economic growth, and stronger earnings revisions favor the US in comparison to its developed counterparts in Europe and Japan.

Global Index Compositions

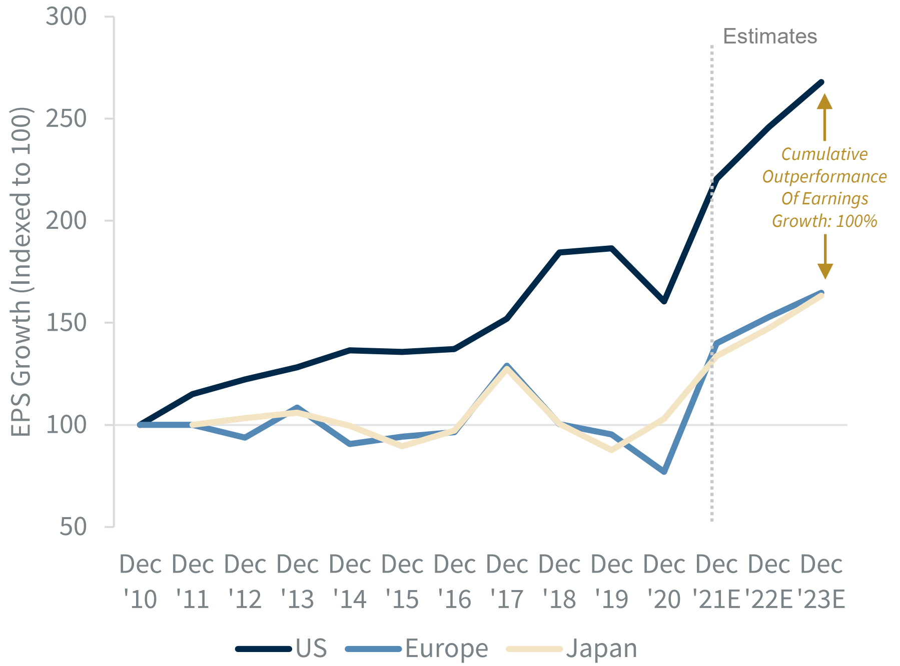


Profitability Ratios Favor The US

(5-Year Average)

	US	Europe	Japan
Return on Assets	3.2	1.2	1.3
Return on Equity	15.2	9.8	8.7
Return on Invested Capital	8.1	4.9	4.2
Gross Margin	31.8%	26.0%	24.0%
Net Margin	9.9%	6.5%	5.7%

US Economic Growth Leading To Stronger EPS Revisions



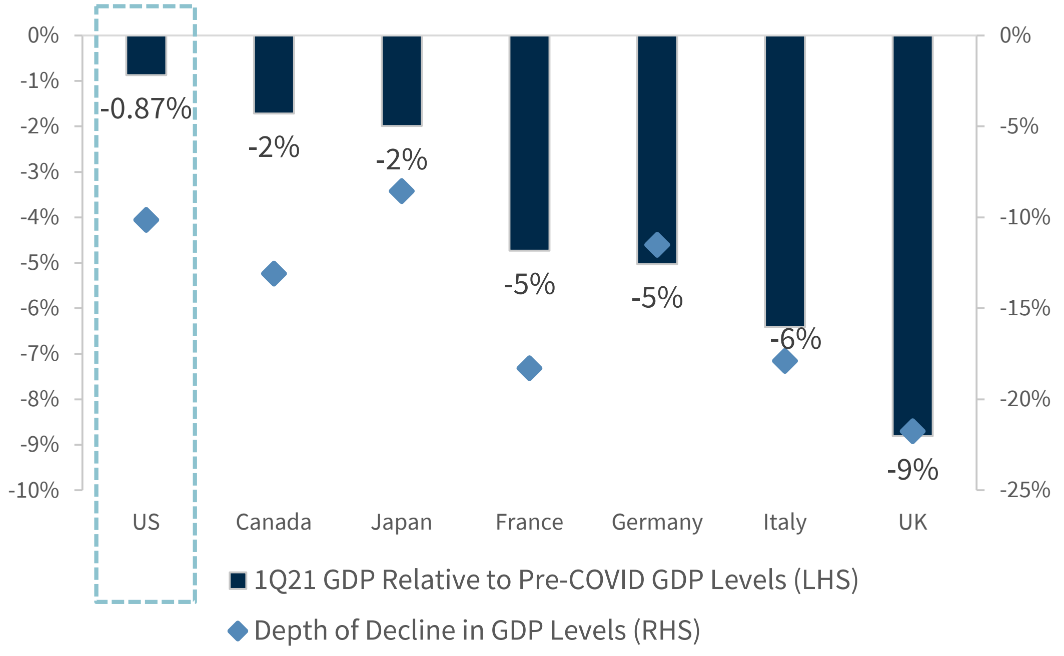
Source: FactSet. Data as of 6/30/2021.

LONG-TERM BIAS TOWARD DOMESTIC EQUITIES STILL INTACT

SUPERIOR ECONOMIC GROWTH AND EARNINGS REVISIONS SHOULD LEAD THE US TO OUTPERFORM IN THE LONG TERM

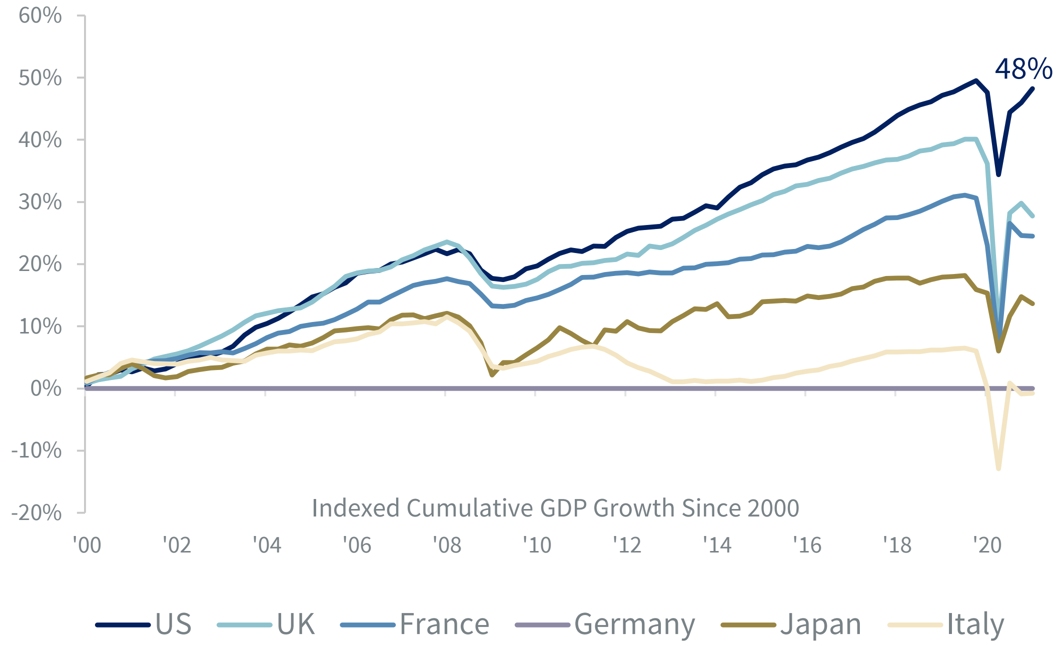
- While select regions abroad may have a ‘reopening’ rebound in the short term, their economies remain well below pre-COVID GDP levels. In contrast, the US is likely to have recovered those levels during the second quarter of this year.
- Due to its ability to contain COVID-19 through vaccine dissemination, the US is on pace to become the first developed region to recover lost economic activity. In addition, the US has experienced the largest cumulative increase in GDP since 2000.

Race to Recover Economic Activity



Source: FactSet. Data as of 6/30/2021.

US Boasts The Largest Cumulative GDP Growth Since 2000



Source: FactSet. Data as of 6/30/2021.

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7 Dollar & Commodities

Won’t Be Lollipops & Rainbows For Oil Demand Until 2022

INSIGHT:
Gradual, sustainable reopenings across the globe have left sellers vying for key inputs to satisfy pent-up demand, causing some commodity prices to skyrocket.

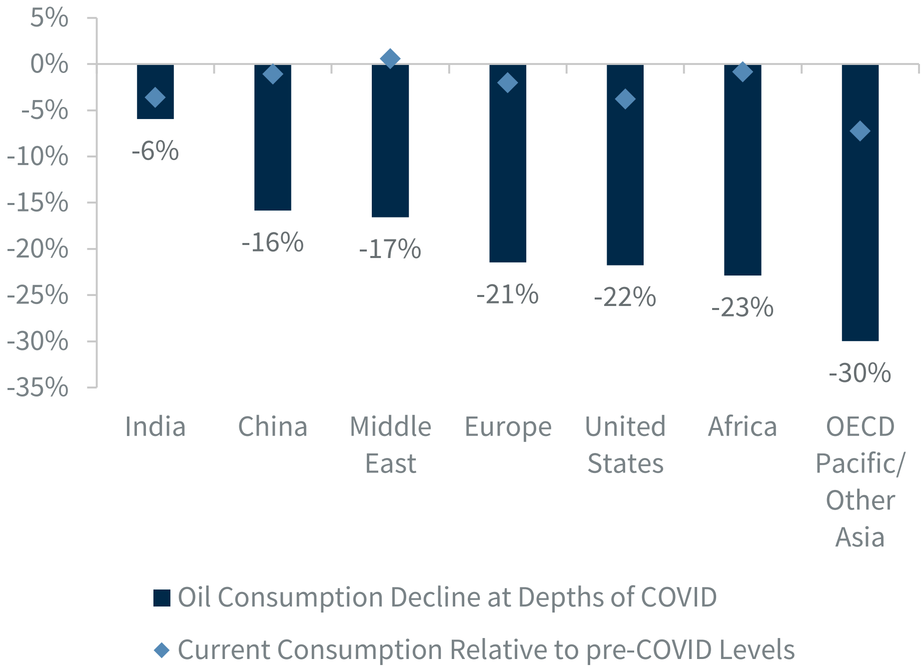
BOTTOM LINE:
While oil demand has recovered in North America, China, and Europe, still intact COVID restrictions continue to impact ~1.4 billion people in South Asia. With this component of oil demand unrecovered, prices are unlikely to reach the pre-pandemic peak of 100 million barrels per day until 2022.

STRONGER DEMAND HAS BEEN A TAILWIND FOR CRUDE OIL

CRUDE OIL HAS MOVED SIGNIFICANTLY HIGHER ON THE BACK OF STRONGER DEMAND

- Crude oil demand has sharply recovered from the depths of the COVID crisis.
- However, putting demand into context, global crude oil consumption remains ~3% below pre-COVID levels and is not expected to recover pre-COVID levels until 3Q22 at the earliest.

Demand Recovers From the Depths of COVID

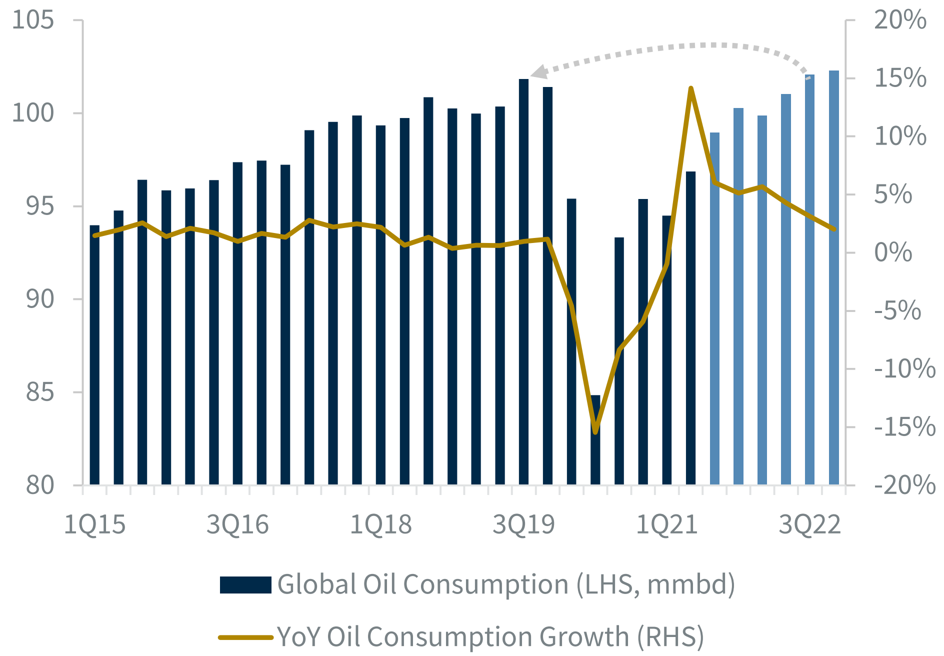


Source: Raymond James, Data as of 6/30/2021

3Q22

Global Oil Consumption To Reach Pre-COVID Levels

Global Oil Demand Will Not Recover Pre-COVID Level Until 3Q22



Source: Energy Information Administration, Data as of 6/30/2021

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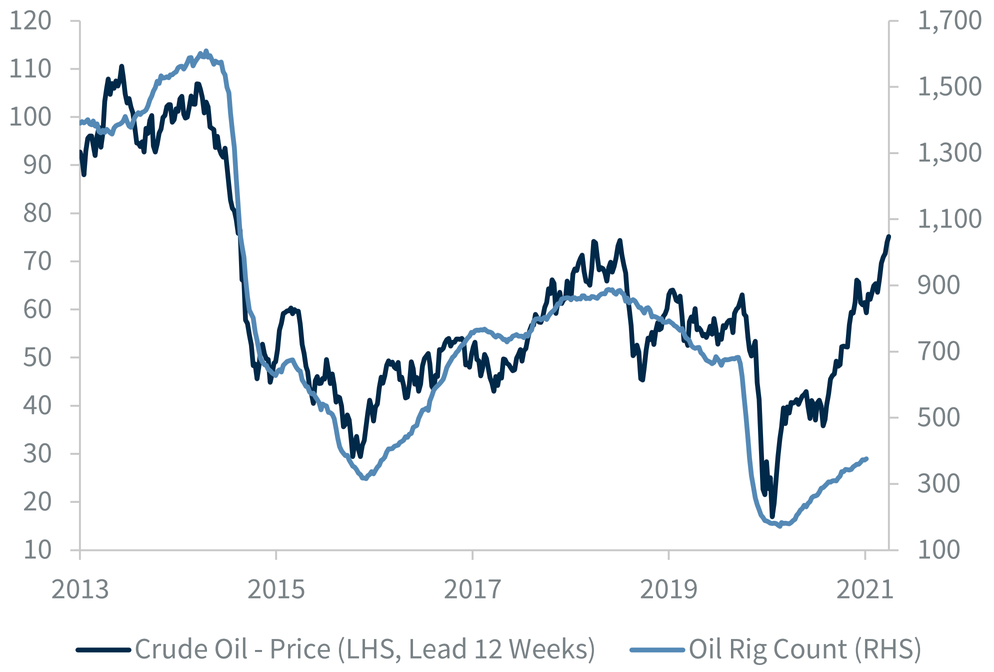
STRONGER DEMAND TO PUSH CRUDE OIL HIGHER

SUPPLY GROWTH WILL BE A HEADWIND FROM CRUDE OIL GOING FORWARD

- On a year-over-year basis, supply growth is expected to outpace consumption growth for each of the next six quarters. This should push the crude oil market to being over supplied with oil in 2022.
- As a result, we see limited upside for oil over the next 12 months, and expect it to be range bound between $70-$80/bbl.

Price Increase Will Bring on Additional Supply

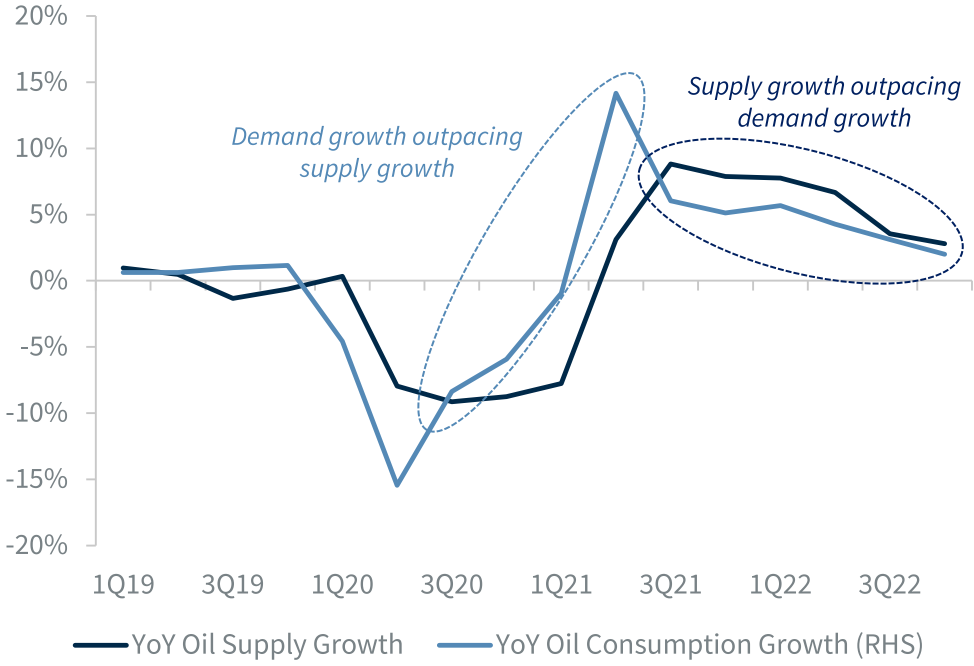


Source: FactSet, Data as of 6/30/2021

$75

Year-End 2021 Oil Price Target

Supply Growth to Outpace Demand in 2022

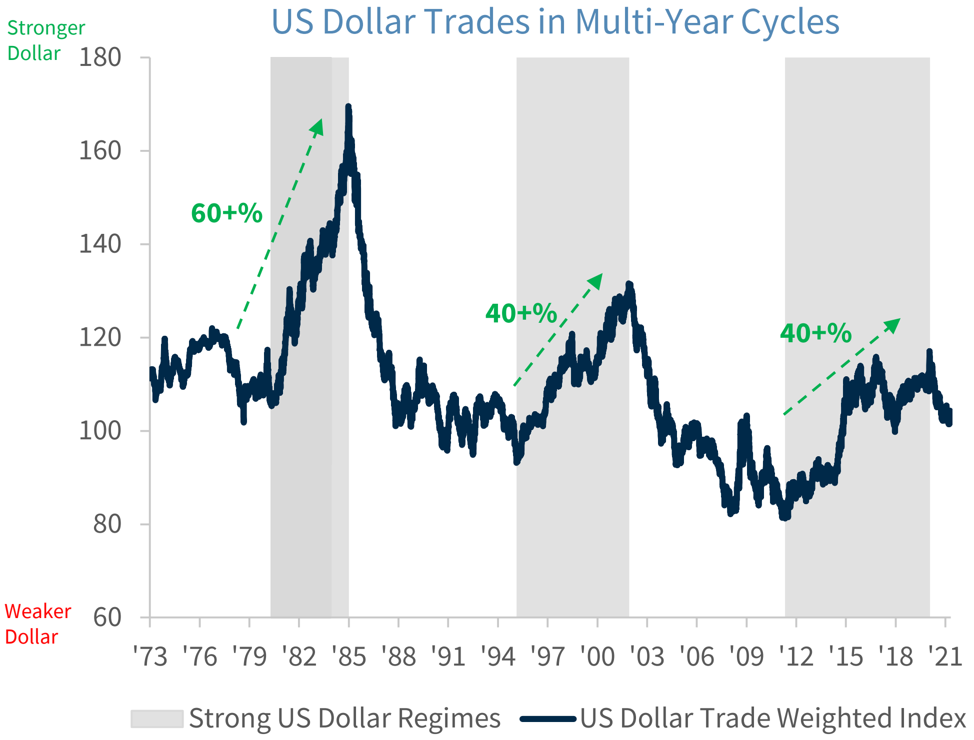


Source: Energy Information Administration, Data as of 6/30/2021

STRONGER DOLLAR RUNNING INTO HEADWINDS

AGGRESSIVE FISCAL AND MONETARY POLICY EASING WILL LIKELY LEAD TO A WEAKER DOLLAR

- Significantly stronger money supply growth in the US versus other regions such as Europe, should lead to dollar weakening going forward.
- Additionally, widening fiscal budget deficits should lead to dollar weakness relative to current levels.



Source: FactSet. Data as of 6/30/2021.

1.25

Year-End 2021 EUR/USD Target

Key Drivers of US Dollar

	Impact	Rationale
Current Account Deficit	Negative	Widening current account deficit will likely weigh on the dollar
Budget Deficit	Negative	Increased fiscal spending will be a headwind for the dollar
Relative Growth Outlook	Neutral	The growth premium between the US and other DM economies is narrowing
Relative Interest Rates	Neutral	Interest rate differentials favor the dollar, but further gains will be limited
Risk Appetite	Negative	Strong risk appetite will see low demand for safe-haven currencies
Investor Positioning	Positive	Bearish views on the dollar will be a near-term headwind

Negative Neutral Positive

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8 Asset Allocation

Multiple, Undue Risks Could Sink Your Returns

INSIGHT:
There is no shortage of viable risks related to COVID-19 (e.g., vaccine-evading variant), geopolitical tensions (e.g., US/China relations), or political negotiations (e.g., tax increases) despite our overall optimistic message.

BOTTOM LINE:
Given that we are in the second year of both the economic recovery and the equity bull market, and with bond yields near record lows, investors must manage return expectations moving forward.

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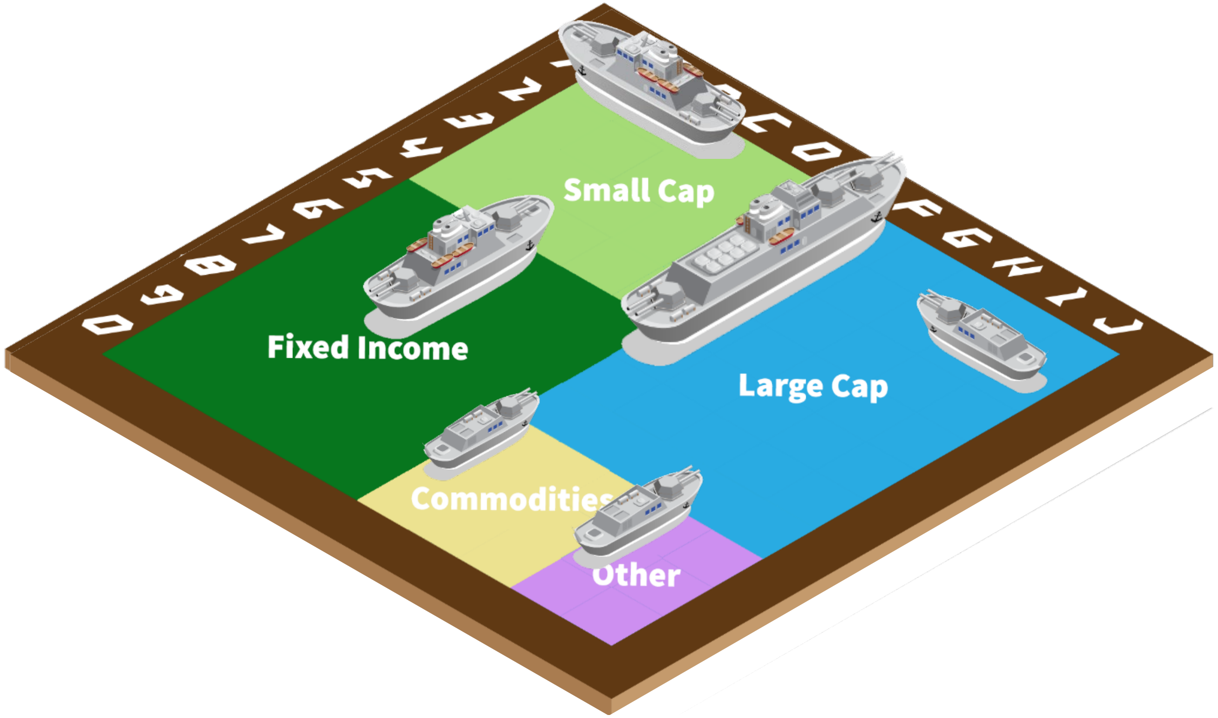
KEY QUESTION: WHICH STRATEGY WOULD YOU CHOOSE?

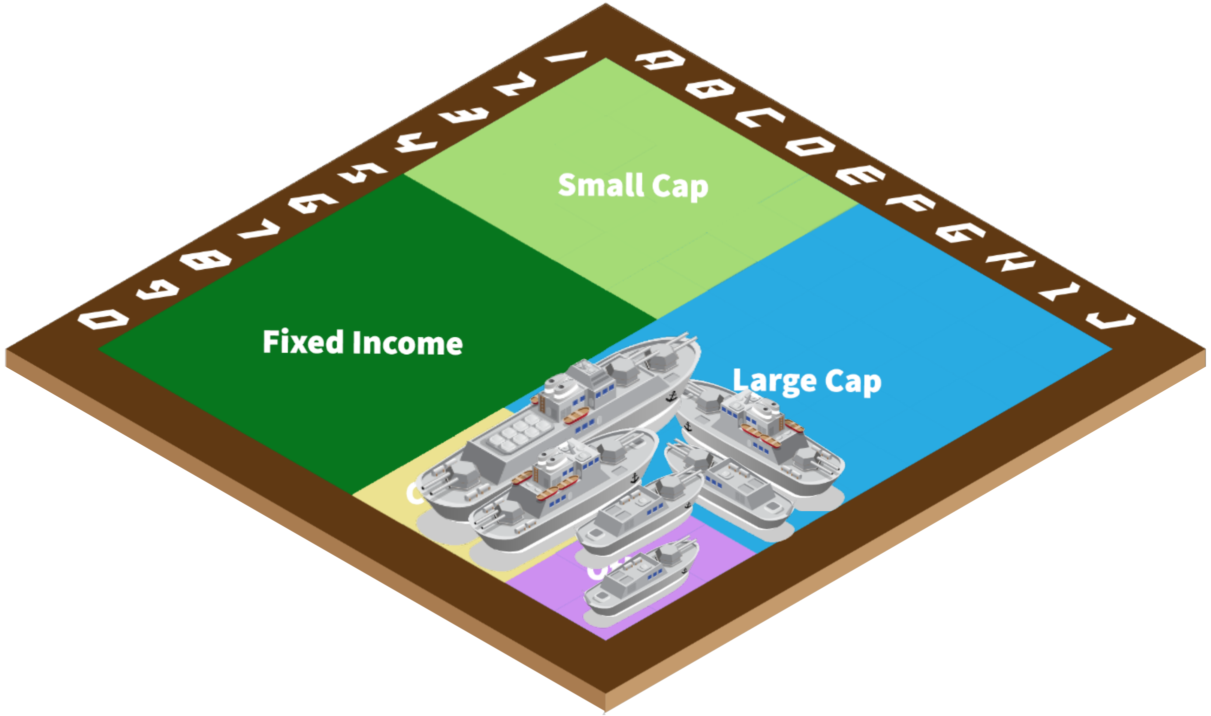
USING ASSET ALLOCATION STRATEGIES TO WIN AT BATTLESHIP

- Spreading battleships across the grid diminishes the overall risk to the fleet as only one vessel can be hit at a time, while others steer safely away from danger. On the other hand, if a vessel in a concentrated fleet is hit, the entire flotilla could be sunk. Similar to the game of Battleship®, investment portfolios benefit from proper asset allocation, which reduces market risk using the very same principle of diversification.

Investor 1: Diversified Portfolio



Investor 2: Non-Diversified Portfolio



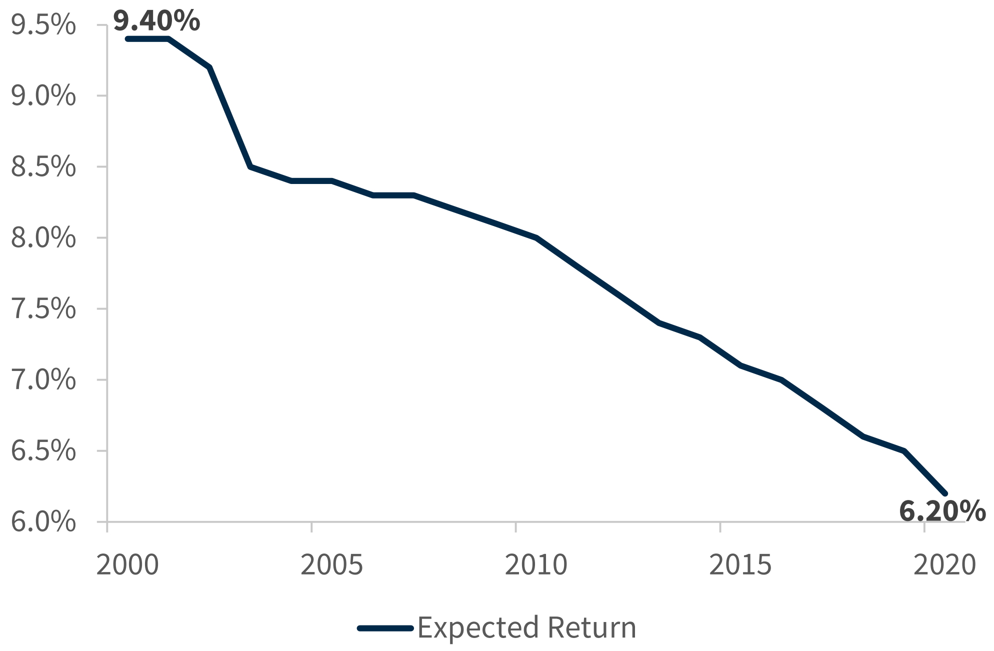
*Asset class allocations are for illustrative purposes only

SECULAR AND NEAR-TERM HEADWINDS FOR THE MARKET

BOTH LONG-TERM SECULAR IMPACTS AND NEAR-TERM PEAKS ARE LIKELY TO BE HEADWINDS FOR THE MARKET

- Secular long-term forces continue to bring pension fund return forecasts down.
- Additionally, in the near term, as the market moves past peaks such as peak earnings/economic growth and peak fiscal/monetary policy, the market may experience more muted returns going forward.

Secular Decline in Return Prospects



Near-Term Peaks for the Market to Overcome

1. Peak Fiscal Stimulus
2. Peak Monetary Policy
3. Peak Economic Growth
4. Peak Home Price Appreciation
5. Peak ISM Manufacturing
6. Peak Reopening
7. Peak Equity Price Appreciation
8. Peak Earnings Growth
9. Peak Equity Valuations
10. Peak Spreads/Interest Rates

Source: FactSet. All charts as of 3/31/2021

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IS INVESTOR OPTIMISM PRICED INTO THE MARKET?

INVESTORS SHOULD AVOID COMPLACENCY IN THE MIDST OF PREVAILING OPTIMISM

- Our quarterly sentiment survey showed an overwhelmingly positive outlook and while we believe there is significant upside to the markets, there are still no lack of potential risks (COVID-variants, geopolitical tensions, politics).
- We caution investors to stay vigilant and not get wrapped up in the abundance of optimism.

1. Improving COVID Conditions

89% of respondents believe we will not experience a resurgence of COVID cases this fall

2. Sustained Economic Recovery

86% of respondents believe we will not have another recession in 2021 or 2022

3. Favorable Tax Implications

~80% of respondents believe corporate taxes will not be raised until 2022, if at all

4. Lower Risk of Volatility

Riskier assets were selected as the most likely best performers (85% equities, 12.5% commodities)

5. Positive Equity Performance

90% of respondents believe the S&P 500 will be positive for the remainder of the year

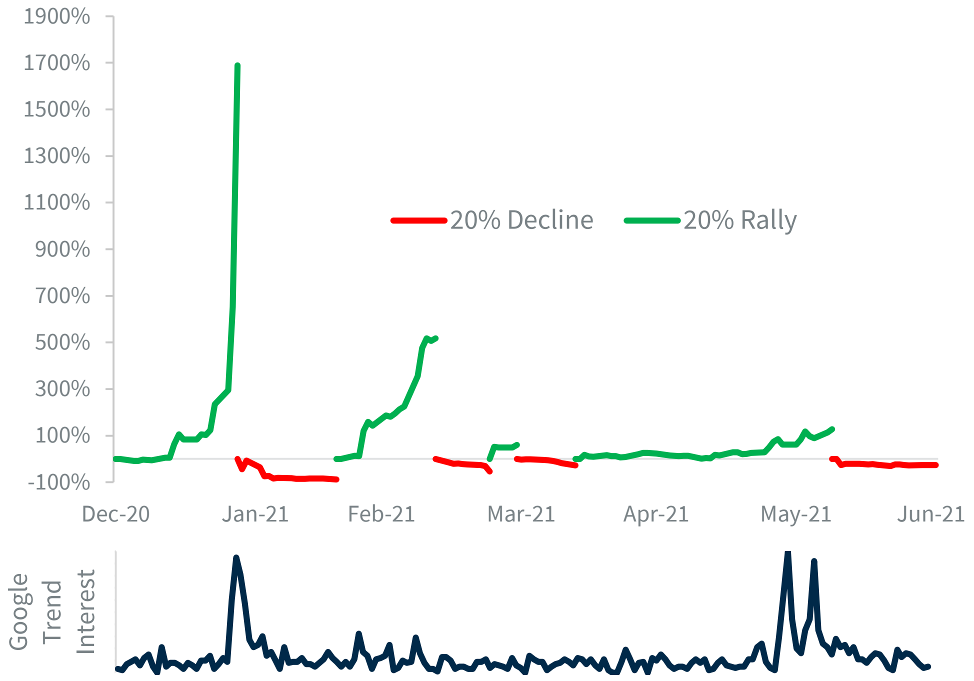
Source: RJ Investment Strategy Quarterly Sentiment Survey

LONG-TERM INVESTING VS. SPECULATION

THERE IS A SIGNIFICANT DIFFERENCE BETWEEN LONG-TERM INVESTING AND SPECULATION

- While the short-term returns for momentum-driven assets are oftentimes tempting, it is important to remember that significant volatility comes with these investments and they are typically not suitable for portfolio construction.
- For example, a basket of meme stocks and cryptocurrencies has seen four 20% or more declines year-to-date, with the largest being 88%.

Meme Stock/Crypto Portfolio



Invested in Crypto

37%

Invested in Meme Stocks

14%

Source: RJ Investment Strategy Sentiment Survey

Standard 60/40, 70/30, 80/20 Portfolios

Source: Google Trends, FactSet. All charts as of 7/8/2021

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UPCOMING WEBINARS

AUGUST

There will be no webinar this month.

SEPTEMBER 13 | 4:15 PM

Market Outlook

This presentation will discuss recent market and economic trends and impacts.

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INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Investing in emerging markets can be riskier than investing in well-established foreign markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

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FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

US DOLLAR | The U.S. Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies.

200 DAY MOVING AVERAGE | The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days

US INDEXES AND EQUITY SECTORS DEFINITION

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

RUSSELL 2000 | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

GERMAN BUND | A bund is a debt security issued by Germany's federal government, and it is the German equivalent of a U.S. Treasury bond.

SMALL CAP | Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.

LARGE-CAP STOCK | also known as big caps are shares that trade for corporations with a market capitalization of $10 billion or more. Large-cap stocks tend to be less volatile during rough markets as investors fly to quality and stability and become more risk-averse

MSCI AC WORLD EX-US | **The MSCI AC ex USA** Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,215 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

LATAM | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

COMMODITIES DEFINITION

BLOOMBERG BARCLAYS COMMODITY INDEX | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG BARCLAYS EMERGING MARKETS AGGREGATE BOND INDEX | The Bloomberg Barclays Emerging Markets Aggregate Bond Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

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DATA SOURCES:

FactSet.

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