

# FREEDOM MARKET COMMENTARY

Asset Management Services // Q3 2020

## THIRD QUARTER HIGHLIGHTS



Equity markets around the world rally



Economic data sees positive trends



Central banks remain supportive



U.S. economy expanded

## MARKET UPDATE

Equity markets around the world rallied during the third quarter of 2020. While the market bounce that occurred during the second quarter was driven largely by a handful of large technology companies, the third-quarter rally was a bit broader as U.S. businesses reopened and workers returned to their jobs from pandemic lockdowns. Jobless claims in the United States remained higher than normal, but were down substantially from their pandemic peak. Likewise, the U.S. economy expanded. Partisanship prevented Congress from moving forward on a new stimulus package, but central banks, including the U.S. Federal Reserve, pledged long-term support. Around the world, even with concern for a second wave of COVID-19, businesses and consumers found ways to adapt and move forward.

### INTEREST RATES AND INFLATION

To support economic recovery, the U.S. Federal Reserve has pledged to keep short-term interest rates low, likely through 2022. For many, that may sound familiar – the Fed lowered interest rates after the 2009 financial crisis and rates remained historically low for several years. The difference this time is the Fed intends to break from its past practice of raising interest rates to keep inflation from exceeding a 2% target. Instead, a flexible average will be used, making the decision to raise interest rates less formulaic and more subjective. This policy shift allows for the possibility that interest rates may stay lower for even longer.

Market commentary is generic in nature and not necessarily specific to the Freedom objective discussed herein but will include information material to the Freedom platform in general. Freedom Commentary is generally written from a passive standpoint and there are limitations to this data as strategies include active management. Actively managed strategies and holdings may have reacted differently during the quarter than the market segments discussed herein. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index and peer group would incur fees and expenses which would reduce returns. Asset Allocation and Diversification does not ensure a profit or protect against a loss. All investments are subject to risk including a profit or a loss. There is no assurance that any investment strategy will be successful. Past performance is not a guarantee of future results. Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

## EQUITY

U.S. large-cap equity returned 8.9% for the quarter, as measured by the S&P 500 TR index, and reached a new all-time high in early September. U.S. small- to mid-cap equity returned 5.9% for the quarter, as measured by the Russell 2500 TR index. Relative to the spring bounce, positive performance in the third quarter was more broad-based. Growth-oriented technology companies continued to dominate – even with a late-quarter pullback in growth stocks – but value and dividend investments contributed, too. Cyclical sectors, such as materials and industrials, joined consumer discretionary in driving performance as economists pointed to record gross domestic product (GDP) growth. Still lagging was the energy sector, where demand for oil remained reduced with fewer people traveling or commuting to work.

International equity markets saw strong performance, as well. Developed markets large-cap equity returned 4.8% for the quarter, as measured by the MSCI EAFE NR USD index, though nearly two-thirds of the return was attributable to a decline in the value of the dollar relative to

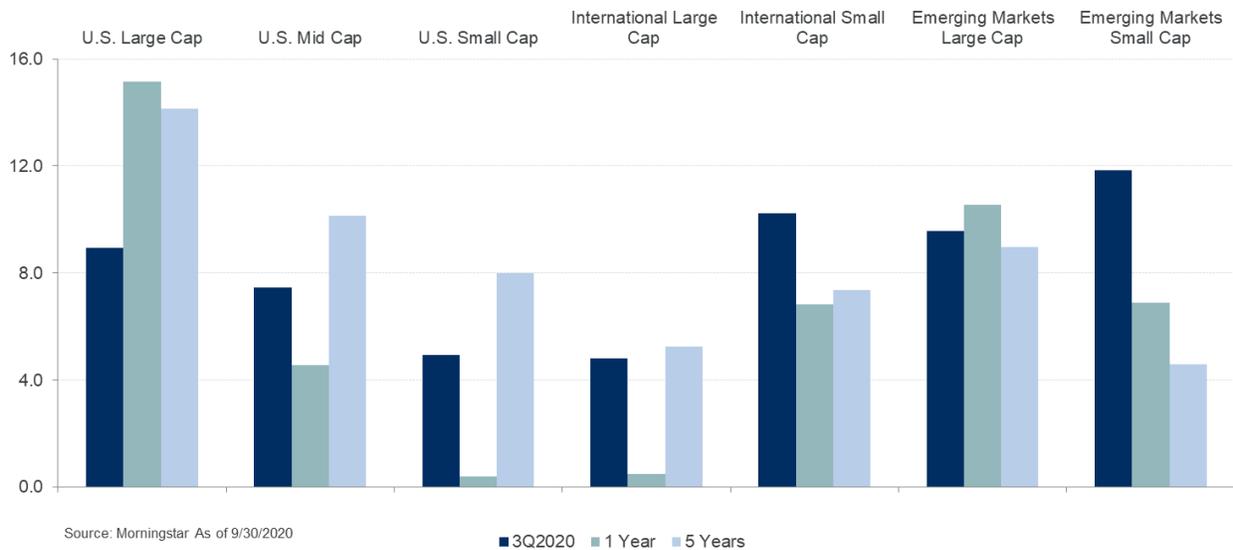
other currencies, including the euro. Emerging markets equity returned 9.6% for the quarter, as measured by the MSCI Emerging Markets NR index, with currency exchange rates less of a factor. China led the way among still-developing economies.

### EQUITY POSITIONING IN FREEDOM PORTFOLIOS

The AMS Investment Committee holds a positive view of domestic equity, believing the U.S. market offers greater growth prospects relative to the rest of the world. Within U.S. equity, the preference is for large caps over small. Recognizing the potential for elevated volatility, the AMS IC has increased exposure to lower volatility U.S. stocks.

The AMS IC holds an unfavorable view of international developed markets equity, believing the recovery in Europe and other regions may be more prolonged. The AMS IC has a neutral view of emerging markets, where attractive valuations and an improving global outlook may provide opportunities to increase exposure.

### EQUITY RETURNS



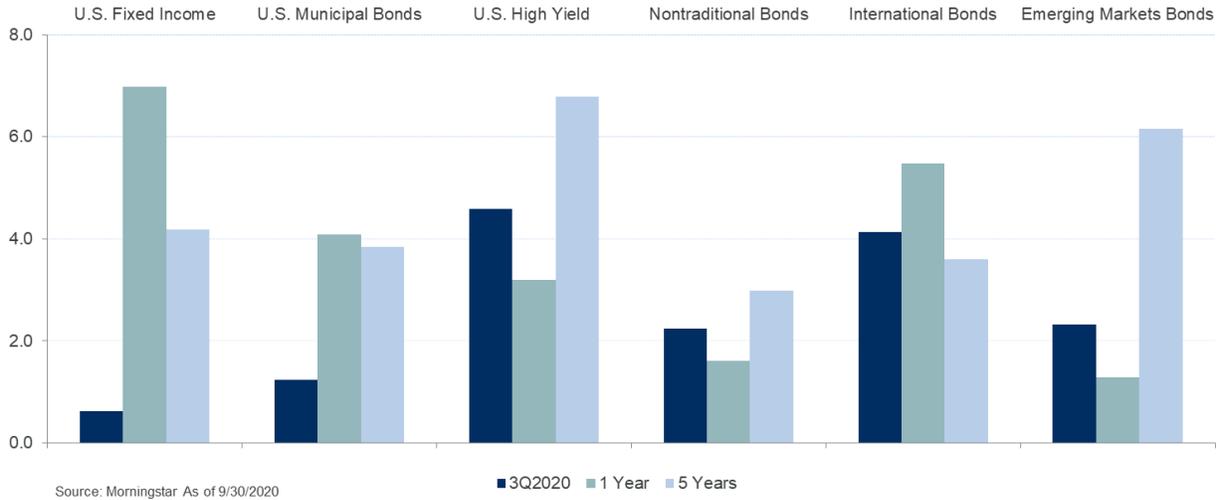
## FIXED INCOME

Core fixed income returned 0.6% for the quarter, as measured by the Bloomberg Barclays U.S. Aggregate Bond TR index. High-quality bond yields remained low with near-zero interest rates, and bond prices are typically driven down when equities rally. The U.S. Federal Reserve has pledged to keep interest rates low to support economic recovery.

### FIXED INCOME POSITIONING IN FREEDOM PORTFOLIOS

The AMS IC holds a neutral view of fixed income, valuing its potential to mitigate risk during an equity downturn. Recognizing the widening difference between spreads for Treasuries and high yield bonds, exposure to high yield bonds has been increased.

### FIXED INCOME RETURNS



### ALTERNATIVES

Multialternative investments returned 2.0% for the quarter, as measured by the U.S. Fund Multialternative peer group. This asset class, valuable for its ability to provide diversification, underperformed equities and outperformed core fixed income, as would be expected.

### ALTERNATIVES POSITIONING IN FREEDOM PORTFOLIOS

The AMS IC holds a neutral view of alternative investments, which are utilized for diversification purposes.

### ALTERNATIVE INVESTMENTS RETURNS



## OUTLOOK

Even as the COVID-19 pandemic continues to affect the ways people live and work, the U.S. economy is growing. Major gains made in employment and GDP in recent months, however, will likely give way to a more measured pace of growth going forward. Given the low starting yields of bonds during a low-interest-rate environment, fixed income returns are likely to match their current yields. As such, the AMS IC expects equities to outperform bonds, with the U.S. economy positioned more strategically for growth than foreign economies. The volatility equity markets experienced in September may continue amid concern for a second wave of infections and news about vaccine trials. Central banks around the world, including the U.S. Federal Reserve, remain supportive. And lawmakers have the ability to provide additional fiscal stimulus. Though economic recovery may take time, employment and growth trends appear positive.

Freedom portfolios are currently risk neutral, aligned with AMS IC policy in their allocations to equity and fixed income. The AMS IC evaluates Freedom portfolios on a continuous basis, and any changes would be in an attempt to earn the best possible return for the amount of downside risk the committee is willing to tolerate, in alignment with portfolio objectives.

The foregoing content reflects the opinions of Raymond James Asset Management Services and is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. The charts and tables presented herein are for illustrative purposes only and should not be considered as the sole basis for your investment decision.

Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses that would reduce returns. Asset allocation and diversification does not ensure a profit or protect against a loss. There is no assurance that any investment strategy will be successful.

***Further information on the funds selected for the Freedom portfolios is available by prospectus, which can be obtained through your financial advisor. Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds and exchange-traded funds before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. All investments are subject to risk, including loss.***

You should understand that the annual advisory fee charged in the these programs is in addition to the management fees and operating expenses charged by mutual funds and exchange-traded funds if applicable. These additional considerations, as well as the fee schedule, are listed more fully in the Client Agreement and the Raymond James & Associate's Form ADV Part 2A.

It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investors.

Additional risks may include:

- Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default or 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. Short-term bonds with maturities of three years or less will generally have lower yields than long term bonds which are more susceptible to interest rate risk.

- International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

- Investing in emerging markets can be riskier than investing in well-established foreign markets. Emerging and developing markets may be less liquid and more volatile because they tend to reflect economic structures that are generally less diverse and mature and political systems that may be less stable than those in more developed countries.

- Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. Stocks of smaller or newer or mid-sized companies may be more likely to realize more substantial growth as well as suffer more significant losses than larger or more established issuers.

- These portfolios may be subject to international, small-cap and sector-focus exposures as well. Accounts may have over weighted sector and issuer positions, and may result in greater volatility and risk.

- Alternative investments are generally considered speculative in nature and may involve a high degree of risk, particularly if concentrating investments in one or few alternative investments. These risks are potentially greater and substantially different than those associated with traditional equity or fixed income investments. The investment strategies used by certain Funds may require a substantial use of leverage. The investment strategies employed and associated risks are more fully disclosed in each Fund's prospectus, which is available from your financial advisor.

- Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of the fund's investments in commodities are cyclical economic conditions, sudden political events, changes in sectors affecting a particular industry or commodity, and adverse international monetary policies. 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.

- Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

- Companies in the technology industry are subject to fierce competition, and their products and services may be subject to rapid obsolescence.

#### INDEX AND PEER GROUP DESCRIPTIONS:

These indices and peer groups are not available for direct investment. Any product which attempts to mimic the performance will incur expenses such as management fees and transaction costs that reduce returns.

**Bloomberg Barclays U.S. Aggregate Bond Index (U.S. Fixed Income):** This index includes investment grade U.S. Government bonds, corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the index must have at least one year remaining to maturity.

**MSCI EAFE Index (International Large Cap):** A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S & 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.

**MSCI Emerging Market Index (Emerging Markets Equities):** A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2009 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**Morningstar US OE Multialternative (Multialternative):** These funds will use a combination of alternative strategies such as taking long and short positions in equity and debt, trading futures, or using convertible arbitrage, among others. Funds in this category have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes.

**Russell 2500 (U.S. Small to Mid-Cap):** A broad index featuring 2,500 stocks that cover the small and mid-cap market capitalizations. The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

**S&P 500 Index (U.S. Large Cap):** The index consists of 500 of the largest stocks in the U.S. stock market. A market value weighted index (stock price times number of shares outstanding after float adjustment), with each stock's weight in the index proportionate to its market value.

**NOT Deposits • NOT Insured by FDIC or any other government agency •  
NOT GUARANTEED by the bank • Subject to risk and may lose value**

## RAYMOND JAMES®

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // 727.567.1000 // RJFREEDOM.COM

© 2020 Raymond James & Associates, Inc., Member New York Stock Exchange/SIPC

© 2020 Raymond James Financial Services, Inc., Member FINRA/SIPC

Raymond James ® is a registered trademark of Raymond James Financial, Inc.

AMS20-3267091 Exp: 10/2/2021