



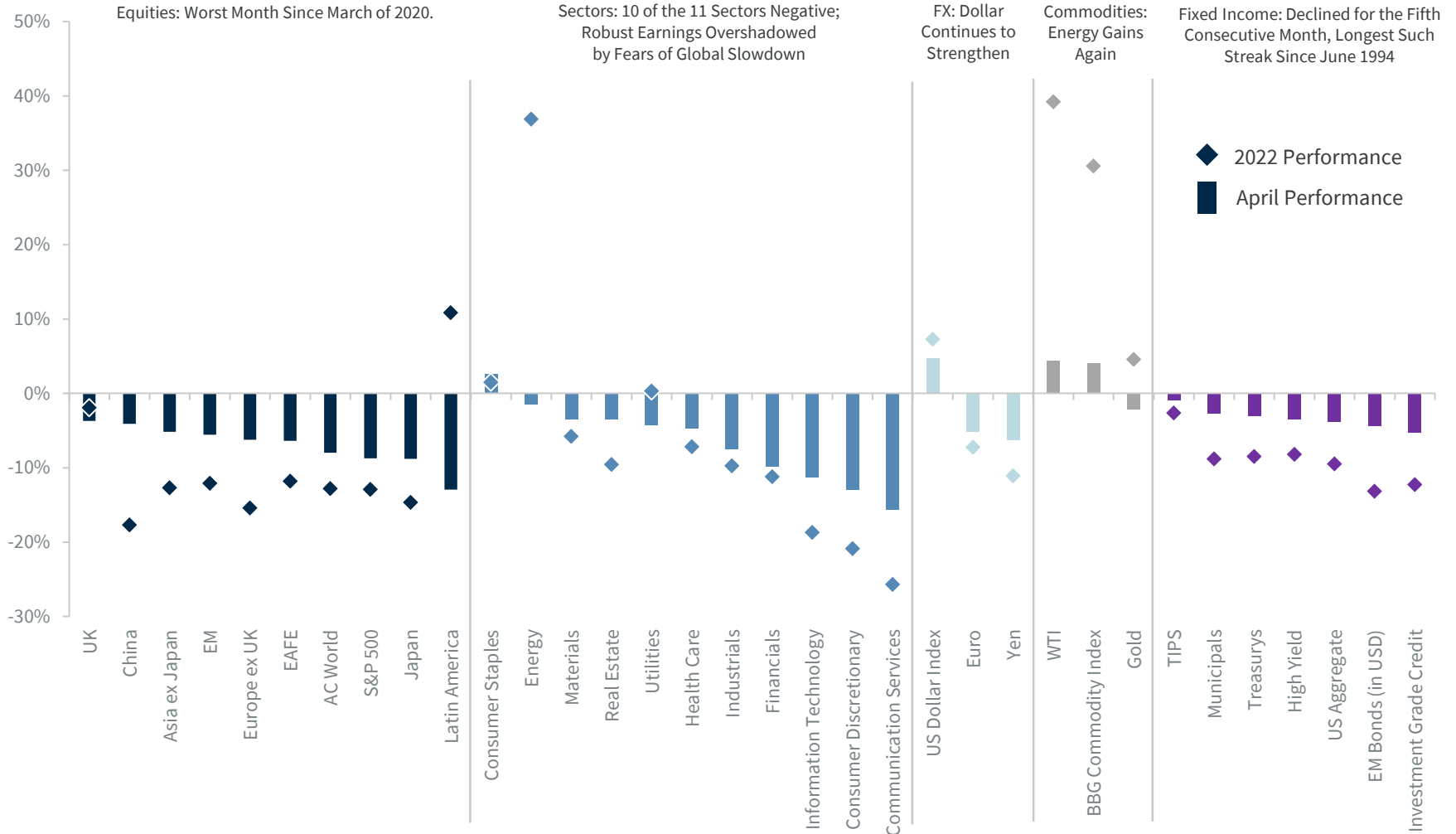
CIO View Monthly Strategy Snapshot

May 2022

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Chief Investment Officer

Returns By Asset Class | Month and Year-to-Date Returns

Returns by Asset Class



Data as of April 30, 2022. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | The US Economy is Still on Solid Ground

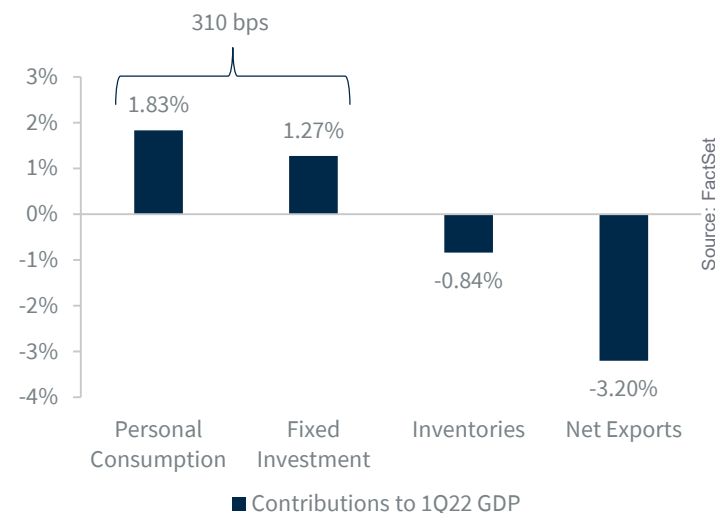
Global Economy | Recent Trends

- The US economy declined -1.4% in the first quarter, largely due to a large drag from net exports and slower inventory accumulation. However, **underlying domestic demand remains strong** with personal and business consumption still lifting growth.
- Inflation continues to be the headline concern for much of the world. The March **headline inflation (+8.6% YoY) and core CPI (+6.4% YoY) climbed at their fastest pace since the 1980s**, with gains fueled by a continued rise in energy, food and shelter costs.
- Higher prices are starting to weigh on consumer confidence and spending. While concerning, the US labor market remains strong with the **unemployment rate falling to its lowest level (3.6%) since pre-COVID**. The civilian labor force continues to grow and is closing in on pre-pandemic highs.
- Concerns about a slowdown in global growth have accelerated** as the war between Russia and Ukraine rages on, with Europe caught in the crosshairs of the conflict. China's COVID lockdowns are also posing a downside risk to growth, while simultaneously presenting another challenge for global supply chains.
- The **Federal Reserve (Fed) is expected to raise interest rates by 50 basis points at its May meeting**, and potentially at subsequent meetings, to cool down the economy as inflation continues to run at a 40-year high. (Note: the Fed did raise rates by 50bps on May 4.)

Global Economy | 12-Month Outlook

- Concerns about a global growth slowdown have been fueled by the ongoing Russia-Ukraine war, surging commodity prices and China's zero-COVID policies. While there are risks on the horizon, we think that US growth will remain resilient and still expect to see **above-trend economic growth of ~2.5% in 2022**.
- Steep increases in raw materials, transportation and labor costs continue to put upward pressure on inflation. While inflation remains at a 40-year high, **we think it will start to moderate in the coming months** as consumers shift their spending from goods to services, the Fed's front-loaded rate hikes start to cool demand, and we enter a period of more favorable year-over-year comparisons.
- While the consumer is starting to balk at higher prices and inflation has reduced their buying power, **we think consumer spending will remain resilient**. Strong job growth, excess savings, and pent-up demand for experiences should offset the impact of higher prices.
- Europe's trade linkages with Russia/Ukraine and proximity to the conflict should dampen growth in the region. China's growth slowdown will likely bring more fiscal and monetary stimulus.

Net Exports Detract from 1st Quarter Growth



Unemployment Rate Back to Historic Lows



Equities | Difficult Month for Risk Assets

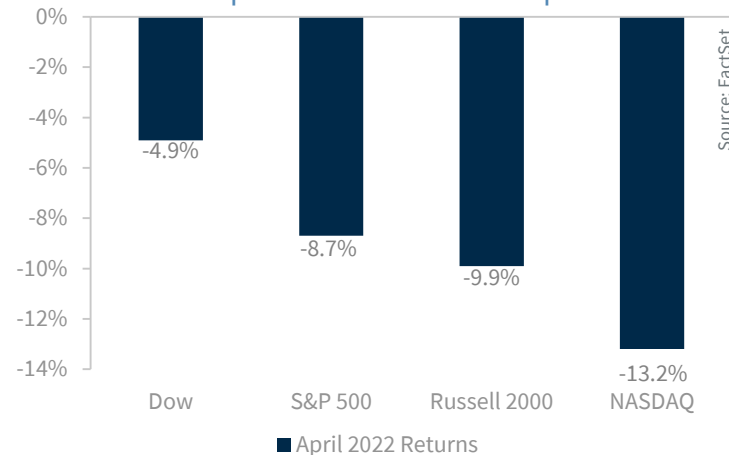
Global Equities | Recent Trends

- Concerns about a global growth slowdown and the rapid back up in bond yields weighed on risk assets in April. This led the **S&P 500 Index to post steep losses, falling 8.7% in April and down nearly 13% YTD**. The broader markets also saw steep declines, with the NASDAQ moving into bear territory.
- Defensive sectors outperformed, with value stocks significantly outperforming growth stocks.** Sharply higher interest rates and disappointing earnings results from some high-profile tech companies weighed heavily on the performance of growth stocks.
- Increased concerns about the growth/earnings outlook weighed on sector performance, with **10 out of the 11 S&P 500 sectors posting negative returns in April**. Consumer Staples was the only sector to deliver positive returns (+2.6%).
- Despite recent headwinds, **US earnings estimates have continued to trend higher**, with the market now expecting **full year S&P 500 earnings growth to be above 10%** in 2022. Currently over 80% of companies have beaten estimates by a reasonable margin.
- Global equities continued to trade lower**, with the MSCI All Country World Index falling 8% over the month. Geopolitical implications from Russia's invasion of Ukraine and China's COVID lockdowns continue to weigh on European and Chinese stocks.

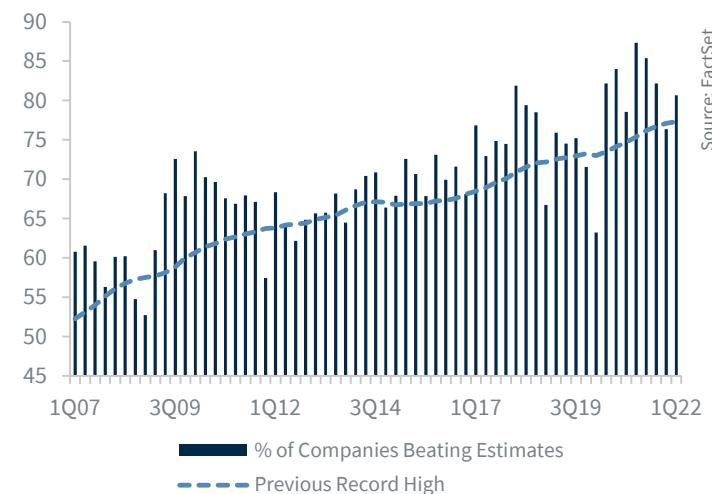
Global Equities | 12-Month Outlook

- Strong earnings growth and the recent pullback have made equity prices more attractive from a valuation perspective. **We believe equity prices will move back toward their previous highs** and our year-end target of 4,725 (\$225 EPS and 21x P/E) remains intact.
- While the defensive sectors have outperformed recently, we continue to **favor the cyclical sectors (Industrials, Financials and Energy)** as they have better earnings growth and stand to benefit the most from a sustained US economic recovery.
- Health Care** remains one of our favored defensive sectors due to attractive valuations, healthy fundamentals and their leverage to the economic reopening.
- We remain constructive on small caps**, despite recent underperformance. With attractive valuations, strong earnings momentum and greater exposure to US economic growth, small caps are poised to outperform.
- We continue to favor US equities over International.** US equities will continue to benefit from stronger earnings growth, better profitability and a resilient economy. Europe remains at a greater risk of a slowdown given its trade linkages with Russia/Ukraine.
- While **EM Asia** has underperformed, compelling valuations and better longer-term growth prospects **should present an opportunity for long-term investors.**

US Equities Lose Ground In April



String of Healthy Beats Continues



Official Metrics of Inflation May Differ From Consumers' Actual Experience



+ 108% since pre-Covid

The average cost to fill-up a car is now ~\$56, ~\$29 more than in 2019

110%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%

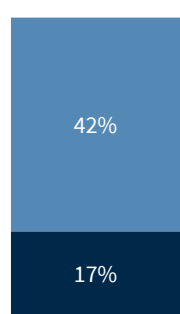


Filling Up The Tank



+ 59% since pre-Covid

The average mortgage payment is now ~\$620 more per month than in 2019

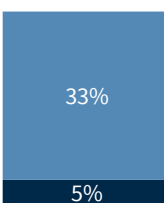


Mortgage Payment



+ 38% since pre-Covid

The average weekly cost for basic groceries is \$208, a \$58 increase from 2019

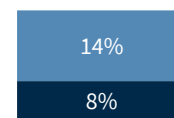


Grocery Trip



+ 22% since pre-Covid

The average utilities bill is now ~\$263 a month a ~\$50 increase from 2019

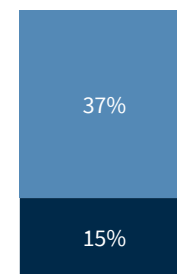


Paying Utilities Bill



+ 52% since pre-Covid

The average additional monthly cost is **\$1,087**



Total Monthly Cost

■ Pre-Covid Change

■ 1 Year Change

Source: FactSet, Data as of 4/29/2022.

Fixed Income | The Global Bond Rout Deepens

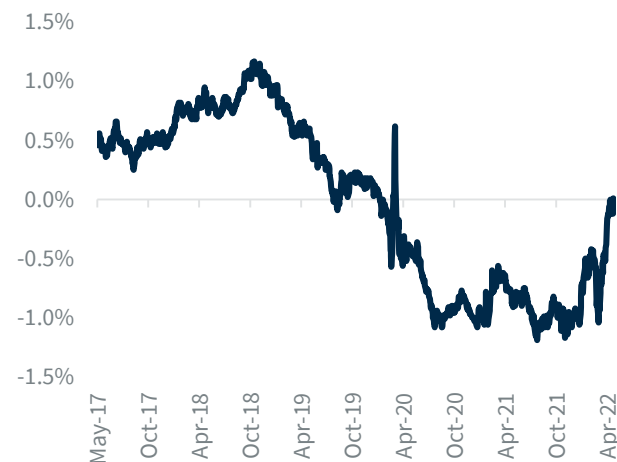
Global Bonds | Recent Trends

- Concerns about an aggressive, front-loaded central bank tightening cycle continue to fuel **the worst global bond rout in decades**. This pushed 10-year Treasury (2.9%) and German Bund (0.8%) yields to their highest levels since December 2018 and July 2015, respectively.
- 10-year US real yields have also moved back into positive territory** for the first time since March 2020. The sharp back up in bond yields has seen the **global stock of negative yielding debt** tumble to its lowest level since 2015.
- Hawkish rhetoric from Fed officials has led the market to factor in an even faster tightening cycle, with the **fed funds futures curve now factoring in 50 basis point rate hikes** in the next few FOMC meetings and a 2.6% implied fed funds rate by year end. The last time the Fed hiked rates 50 basis points was in May 2000. (Note: the Fed did raise rates 50 bps on May 4.)
- Sharply higher interest rates and widening spreads have been a drag on fixed income returns**, with the credit sensitive sectors (Investment Grade, High Yield and Emerging Market) and longer-duration assets (30-year Treasuries) faring the worst in April.
- Global growth concerns and jittery equity markets led to a **renewed widening in credit spreads and steep losses in hybrid securities**, such as fixed-rate preferreds and convertibles.

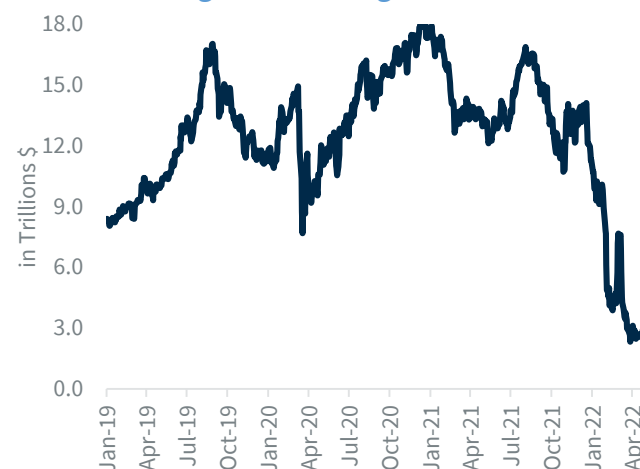
Global Bonds | 12-Month Outlook

- The hawkish shift in central banks around the world has led to the **worst bond rout in over 40 years**. The speed and magnitude of the move in US Treasuries has been swift relative to past tightening cycles and we think that **much of the bad news has already been priced into the market**.
- The Fed has signaled that it wants to expeditiously move the fed funds rate back to neutral territory** (~2.4%), a rate that neither stimulates nor restrains growth. A move to neutral in such a short time period has not occurred in decades.
- With the market pricing in a rate as high as 3.4% in mid-2023, a level that would restrain economic growth, **we think the Fed is at peak hawkishness**, and we do not expect it to raise rates as aggressively as the market is anticipating. This should allow 10-year Treasury yields to stabilize and move back to a 2.25% - 2.50% range by year end.
- The Fed is expected to begin reducing its \$9 trillion balance sheet in June**, with a three-month ramp up to a \$95 billion per month pace (\$60B Treasuries/\$35B mortgages).
- The **silver lining of the back up in bond yields is that it has created opportunities for income investors**. Municipal bonds and Investment Grade credits are particularly attractive.

Real Yields Move into Positive Territory



Negative Yielding Debt Tumbles



Commodities & Currencies | Commodity Prices Remain Elevated

Commodities & Currencies | Recent Trends

- The **Bloomberg Commodity Index reached its highest level since 2014** as the Russia-Ukraine war and China's recent lockdowns continue to disrupt of global supply chains. In April, agriculture and energy outperformed, while metals and livestock lagged.
- Rising commodity prices** have continued to push inflation higher across the globe. Dozens of countries have enacted export restrictions to secure food and other critical commodities for their citizens amid shortages and ever increasing prices.
- Within Energy, **oil and natural gas prices were up +4.4% and +30.4%** during the month. **WTI oil prices remained above \$100 a barrel** as the war between Russia and Ukraine lingers and discussions of an EU oil embargo progress. However, fears of slowing global growth and tighter monetary policy have seen oil prices come off their recent peak.
- War and weather disruptions led to strong gains in agricultural commodities**, such as corn (+9.5%) , soybean oil (+20.4%) and wheat (+4.9%) prices. However, **global growth fears weighed on industrial metals' prices** (-6.4%), with copper (-7.3%) aluminum (-13.3%) and nickel (-2.9%) declining on the month.
- The US dollar surged to a 20-year high, posting its biggest monthly gain (+4.7%) in seven years.** The Fed's aggressive policy stance and widening rate differentials have fueled the US dollar's recent ascent.

Commodities & Currencies | 12-Month Outlook

- The Russia-Ukraine war has pushed oil prices to multi-year highs. However, **we think oil prices can move lower** as OPEC+ nations systematically increase production and US producers bring capacity online after years of underinvestment. **Our year-end target is \$95 per barrel.**
- Russia's invasion of Ukraine continues to impact the commodities markets.** The ongoing conflict is impacting a broad spectrum of commodities, including energy, metals, grains and rare earth materials.
- Demand for clean energy solutions, such as solar and wind,** will likely continue. Dramatic shifts in the European Union's energy policy continue to favor green energy solutions as they look to expeditiously reduce their dependency on Russia for their energy needs.
- The US dollar should remain elevated relative to the euro and yen in the near term** as the Fed is expected to hike interest rates more aggressively than the other central banks. The dollar should also remain supported as long as the Russia-Ukraine war continues as Europe and Japan are more exposed to downside growth risks as they are net energy importers.

Natural Gas Price (\$/mmbtu)



US Dollar Soars to a 20-Year High



Summary | Views and Key 2022 Year-End Targets

1 ECONOMY

2022 US GDP: ~2.5%

We believe the risk of a recession over the next 12 months remains low. Strong job gains, elevated consumer spending and increased capital expenditures should lead to another year of above-trend growth in 2022. The ongoing war between Russia and Ukraine, elevated inflation due to surging commodity prices and China's COVID lockdowns pose near-term risks, however, we think the economy will remain strong.

2 BOND MARKET

2022 10-Year Treasury: 2.25% - 2.50%

The market has aggressively priced in a front-loaded Fed tightening cycle amid rising inflation pressures. The pace and magnitude of the recent interest rate increases leads us to believe that the bulk of the move is now behind us. We believe inflation will moderate, which should lead to a less aggressive Fed and lower overall interest rates. With the sharp back up in bond yields, there is value in the bond market. We favor higher-quality corporate bonds and municipals.

3 EQUITIES

2022 S&P 500: 4,725

The US earnings outlook remains strong, but has been overshadowed by geopolitical events, policymakers signaling an aggressive tightening cycle and sharp increases in bond yields. Despite these uncertainties, earnings growth has come in solidly ahead of expectations. We believe the strong earnings momentum will allow the S&P 500 to move back toward prior highs and maintain our 4,725 S&P 500 target for year end.

4 DOLLAR DIRECTION

2022 EUR/USD: 1.15

The US dollar continues to benefit from stronger economic growth, favorable interest rate differentials and consistent flows into US assets. While the US dollar is at a 20-year high, the dollar should continue to find support as long as the Russia-Ukraine conflict persists, and the Federal Reserve is poised to out tighten the rest of the world. Speculators have marginally reduced their long US dollar positions.

5 OIL

2022 Oil: \$95/bbl

The surge in commodity prices remains the biggest risk to our economic outlook and risk assets in general. While geopolitical risks will likely keep the price of oil elevated, we believe that increased OPEC+ and US production and a slight moderation in demand (as a result of higher prices), will ultimately pressure the price of oil lower. While oil could temporarily move higher from current levels, we expect it to moderate toward \$95/barrel by year end.

6 VOLATILITY

Volatility: 

Volatility is likely to remain elevated given the current macro backdrop. Possible triggers include ongoing geopolitical uncertainty, rising commodity prices, further supply chain challenges, elevated inflation pressures, concerns about a Fed-induced policy error, a rapid reduction in liquidity as central banks, including the Fed, start to reduce the assets on their balance sheets, the upcoming midterm elections, and a new variant that leads to another COVID wave.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

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.

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 | Investing in currencies is 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.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

AGGREGATE BOND | **Bloomberg 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 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 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.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BG COMMODITY INDEX | **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements.

BLOOMBERG INDUSTRIAL METALS INDEX | **Bloomberg Industrial Metals Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*.

With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

DATA SOURCES

FactSet as of 4/30/2022.

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.

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.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan Index** captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World Index** is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

EMERGING MARKETS LATIN AMERICA | **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.

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.

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.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index**: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

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.

MSCI EM | The **MSCI Emerging Markets Index** captures large and mid cap representation across 25 Emerging Markets (EM) countries*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

GERMAN BUND | **A Bund** is a fixed-interest, euro-denominated security issued by Germany's federal government to fund its debt.

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