CIO View
Monthly Strategy Snapshot
July 2020

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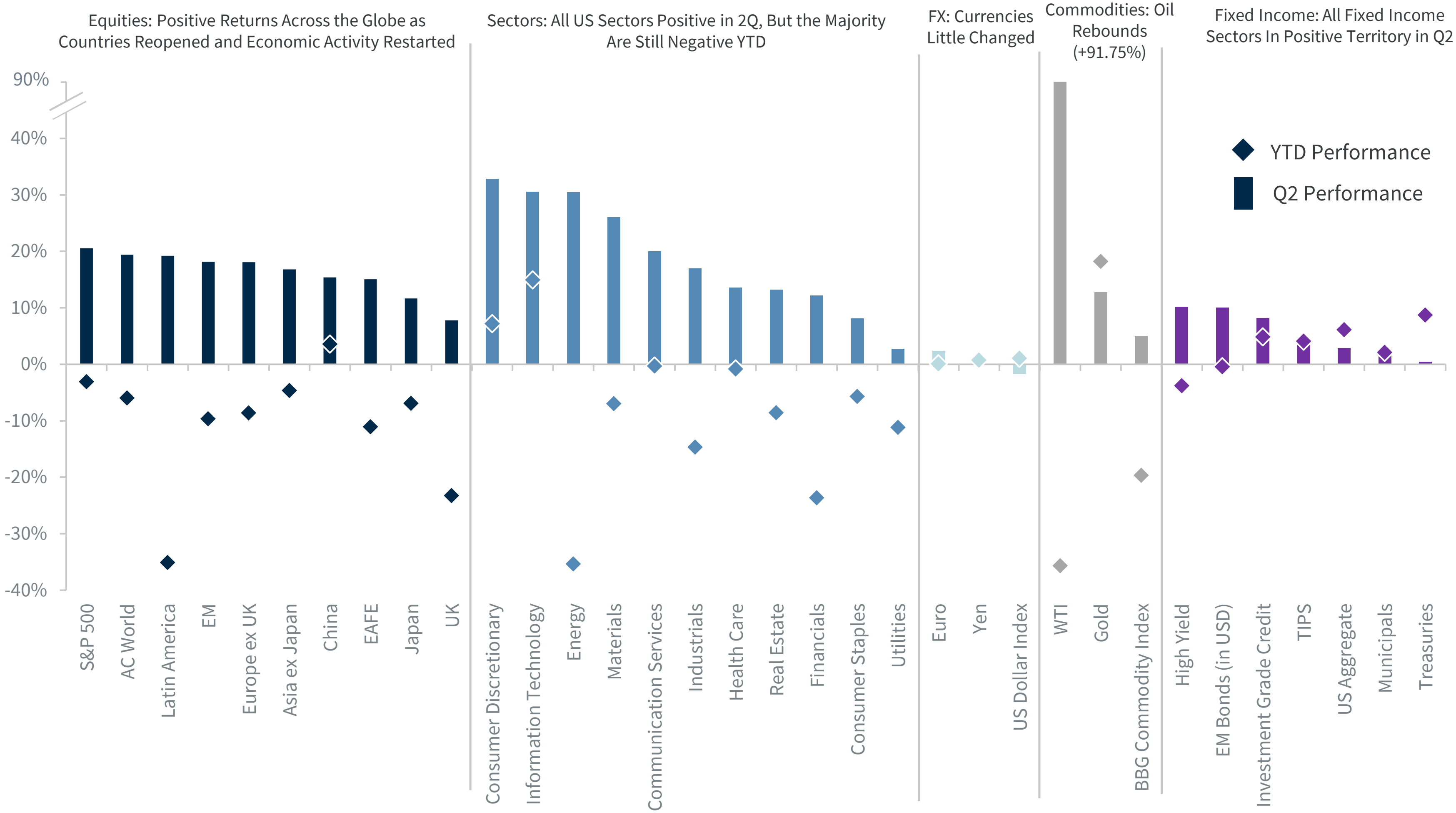
RAYMOND JAMES

Returns By Asset Class | Q2 and Year to Date

Returns by Asset Class



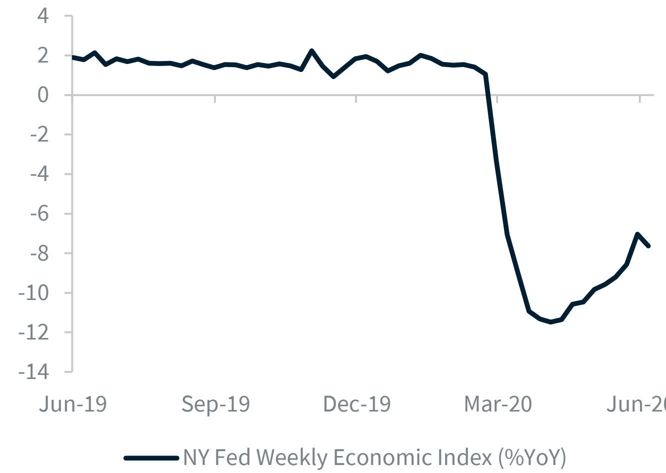
Data as of June 30, 2020. All international equity indices are MSCI indices and in USD. Diamonds represent year-to-date total returns and bars represent Q2 total returns.

Global Economy | Surge in Cases Threatens Recovery

Global Economy | Recent Trends

- As states have rolled back social distancing measures, the **US economy has likely exited the sharpest and fastest recession in history**. This is evident as economic data (improving consumer confidence, sharp rebound in ISM surveys) and activity metrics (e.g., TSA screenings, restaurant bookings) continue to suggest we are past the bottom in economic growth and that economic activity is recovering. However, **activity metrics remain well-off pre-Covid levels** and the recent uptick in national COVID-19 cases threatens the recovery in economic growth.
- The **US job market has improved in recent weeks** with the unemployment rate falling more than expected to 11.1%. On the other hand, jobless claims fell more slowly, suggesting weakness in the labor market even as many furloughed workers returned to their jobs.
- After already passing over $2.5 trillion in stimulus, **Congress is legislating an additional round of fiscal relief**, which will likely be focused on state and local aid and include an extension to both the federal unemployment insurance booster and the PPP program.
- In its updated World Economic Outlook, the **IMF lowered its forecast for 2020 global growth to -4.9%**, down from the -3.0% estimate last quarter, but expects growth to pick up in 2021.
- **Overseas, economic activity also deteriorated sharply** with some countries administering massive financial relief programs, in some cases north of 50% of GDP.

Bottoming in Economic Growth

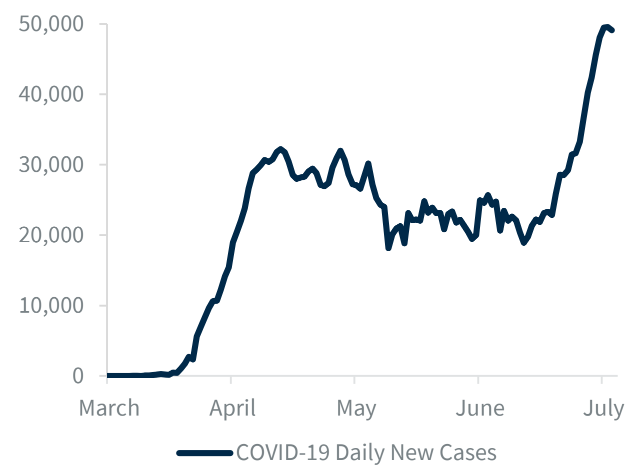


Source: FactSet

Global Economy | 2020 Outlook

- While the decline in US economic activity has likely bottomed, given the scale of the shutdown in economic activity due to social distancing measures and impact on consumer spending (~70% of US GDP), **the US likely posted the worst quarterly decline on record** (forecast of -35% QoQ ann.) **in 2Q20**.
- The **US economy is likely to rebound in the third quarter** as social distancing measures wane and the economy returns to more normal activity. Over the medium to longer term, **aggressive actions from policymakers (both from a fiscal and monetary perspective) should be supportive of economic growth**. We expect policymarkers will continue to act proactively if growth deteriorates further and more action is needed.
- While we expect economic growth to recover sharply in both 2H20 and 2021, **we do not anticipate GDP to return to pre-Covid levels until 4Q 2021 at the earliest.**
- **The threat of COVID-19 (evident by the recent uptick in cases nationally) remains a key risk** for the trajectory of economic growth into year end until an effective vaccine is discovered. While nation-wide lockdowns are unlikely to be repeated, a continued uptick in cases will likely weigh on consumer sentiment and thereby hamper consumer spending.

COVID-19 New Daily Cases



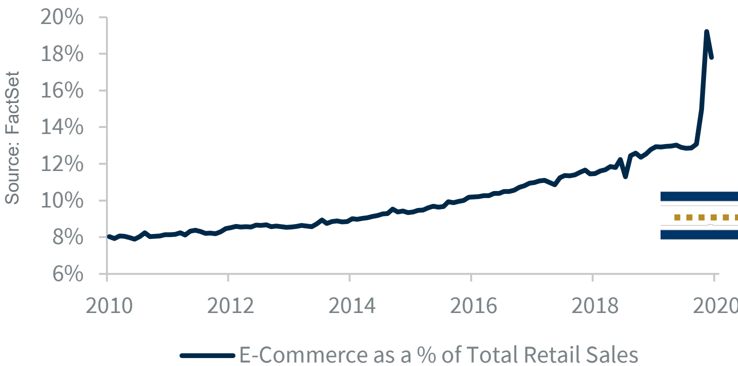
Source: Investment Strategy

The ‘K’ Economy | The Road to Economic Recovery

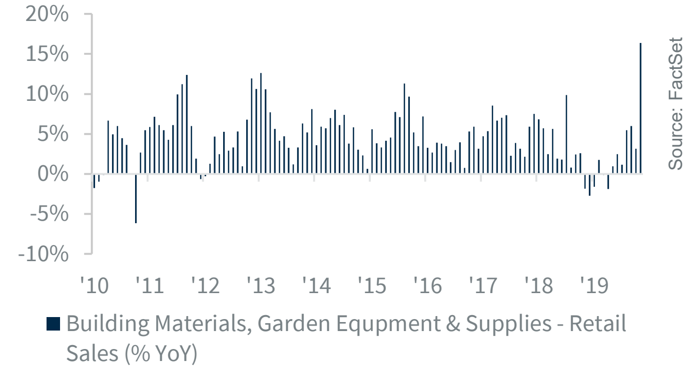
THE ‘K’ ECONOMY CONTINUES TO DEPICT THE RECOVERY

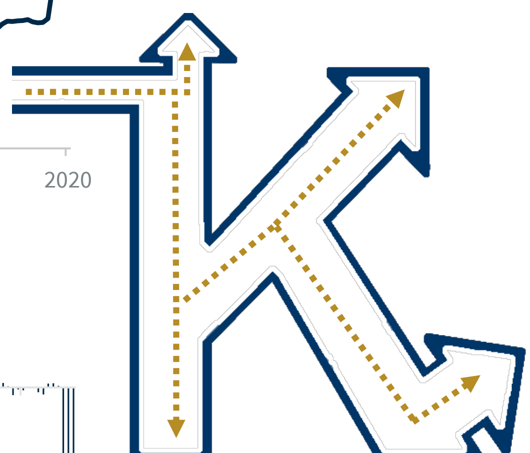
- An area that has not been negatively impacted by the lockdowns has been e-commerce, as sales in this category have reached nearly 20% of total retail sales. On other hand, clothing has been severely impacted, with sales still down more than 60% on a year-over-year basis. On the top right, building material and garden equipment sales are up more than 16% since this time last year. Lastly, until the majority of the workers who lost their jobs during the prolonged shutdowns return to work, spending for ‘big ticket’ items such as cars will likely be suppressed.

E-Commerce Sales



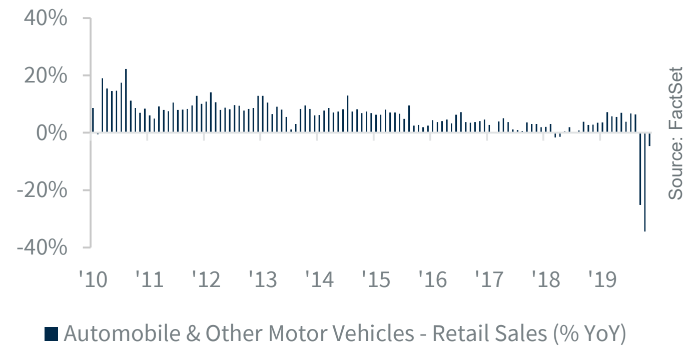
Building Material & Garden Equipment





Clothing and Clothing Accessories

Automobile & Motor Vehicle Purchases



Equities | Rally Continues, But Risk of Pullback is Elevated

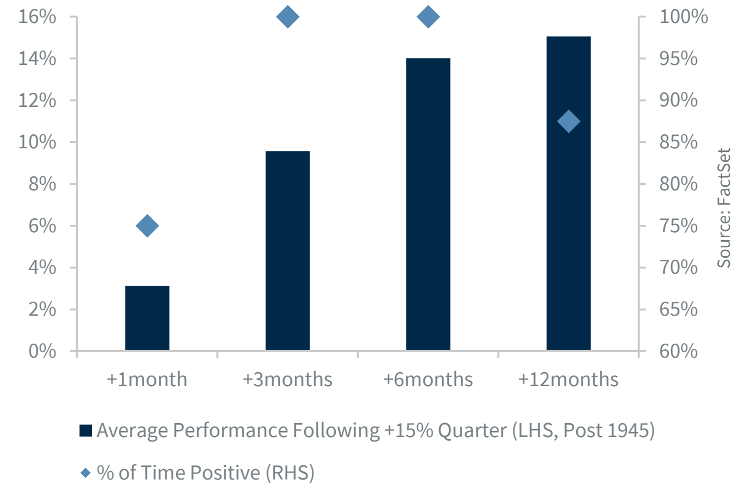
Global Equities | Recent Trends

- After declining by more than 30% off of recent highs in recent months as a result of COVID-19, US stocks had **the best quarter in over 20 years** with the S&P 500 up 20.5% QoQ.
- The rally was driven by optimism as states reopened, thereby leading to a bottoming and rebound in economic activity, and as a phase four fiscal stimulus package remains likely.
- The expectations of an economic rebound in the 2H20 **led all sectors higher for the quarter,** with Consumer Discretionary (+30.5%) and Technology (+32.9%) leading the way.
- Strong quarters typically lead to further strength, as following the eight quarters of 15%+ returns dating back to 1945, the S&P 500 was higher on average over the next 6-12 months.
- Earnings growth is likely to accelerate along with the rebound in economic activity, and is expected to rise 29% in 2021. In addition, the amount of cash on the sidelines remains near record highs at ~$4.8T, which is supportive of equity markets going forward.
- Despite the decrease in volatility, there is an **elevated risk of a pullback in the near term** as a result of multi-year high valuations, uncertainty surrounding a potential vaccine, increasing COVID-19 cases in the US, political uncertainty as the probability of a Democratic sweep is increasing, and the typical seasonal volatility over the summer months could have a negative impact on the equity markets in the near term.

Global Equities | 12-Month Outlook

- While the trajectory for equities in the near term remains cloudy due to coronavirus uncertainty, **we believe that equities will be higher over the next 12 to 24 months.** Longer term, equities will be supported by the rebound in 2H20 economic growth and increased fiscal and monetary stimulus. We have a year-end S&P 500 price target of 3,111.
- **We remain biased to select cyclical sectors** as they should benefit from improving economic growth, stronger earnings growth, and rising earnings growth. In addition to our previous three favorite sectors (Technology, Communication Services, and Health Care) we added Consumer Discretionary to our list, as this sector should benefit from additional fiscal stimulus, online shopping, and rising consumer confidence.
- **From a market cap perspective, we favor large-cap US equities relative to small-cap US equities** as large cap has more resilient earnings relative to small cap, is less leveraged in aggregate, has stronger and more stable dividends and greater exposure to Tech.
- **We remain constructive longer term on global equities** due to the expected turnaround in second half global economic growth, but would prefer US to global equities at this time due to favorable sector exposure in the US and more resilient US economic growth.

Strong Quarters Typically Lead to Further Strength



Valuations at Elevated Levels

Fixed Income | Treasurys Range Bound; Credit Sectors Rally

Global Bonds | Recent Trends

- After falling sharply to all-time lows during the month of March, **Treasury yields stabilized and have been range bound near record lows for the past two months.**
- Pressuring yields to the downside have been the continued unprecedented levels of easing from global central banks, muted inflation and elevated levels of foreign demand; however, yields were supported by the sharp rally in risk assets, the rebound in economic activity (with expectations for further recovery in 2H20 and 2021) and elevated issuance.
- **Spreads between short-term and long-term Treasurys** have fallen from their March highs, **but remain elevated** relative to 2019 level (full-year average of +17bps). The spread between the yields on 10-year and 2-year Treasurys ended the month at 51 basis points.
- **Corporate bond spreads narrowed sharply in 2Q20** on the back of improving economic activity (and expectations for a continued rebound in 2H20 and 2021), purchases of corporate bonds from the Fed and the risk asset rally. High-yield spreads remain more elevated relative to investment grade due to their exposure to Energy and retail. **Municipal spreads remain elevated**, as COVID-19 impacts continue to hamper state budgets. The potential for federal fiscal relief for states in a phase four package would be supportive for municipal bonds.

Range Bound Treasury Yield

Global Bonds | 2020 Outlook

- As the market is pricing in a second half recovery in economic growth, **we expect the 10-year Treasury yield to rise off of historic lows to 1%**. However, **we expect the rise in yields to be limited** due to record low inflation expectations, vulnerable economic growth prospects, continued buying from global central banks, increased demand from foreign investors (due to depressed foreign sovereign yields) and aging demographics.
- Given our expectation for a modest rise in longer-duration interest rates while the Fed is likely to leave policy rates unchanged for the foreseeable future (keeping shorter-term rates low), **we recommend a shorter than benchmark duration for bond portfolios.**
- From a credit perspective, we believe investors should consider **'buying what the Fed is buying.'** As a result of the expansion of eligible purchases by the Fed to include investment grade and municipal bonds, increased demand as a result of Fed buying should lead to a narrowing of spreads and support prices within these two sectors.
- **We are cautious on high yield** as rising defaults due to the COVID-19-induced recession (we forecast default rates could rise as high as 10%), increased supply due to rising fallen angels and elevated exposure to Energy will likely weigh on the sector. Selectivity is important.

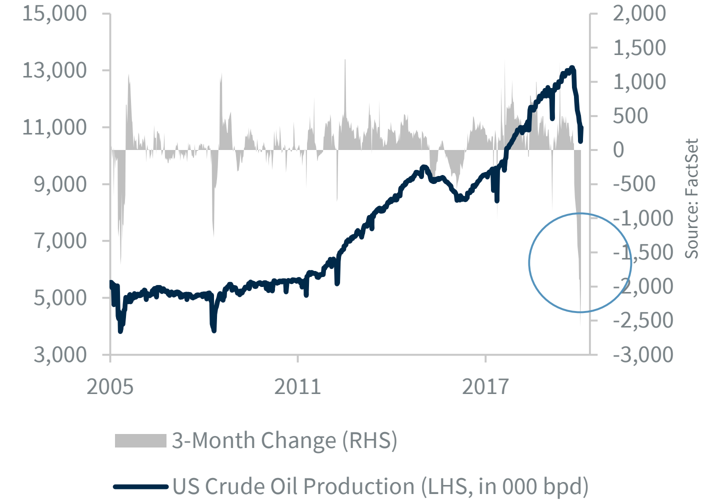
Municipal Spreads Remain Elevated

Commodities & Currencies | Oil Rally Continues; Dollar Weakens

Commodities & Currencies | Recent Trends

- **After its best monthly return on record in May (+88%)**, crude oil prices continued to move higher in June as WTI oil prices have bounced sharply off of the all-time low – negative $37 per barrel – that was set in mid-April.
- Three factors that have driven the sharp rally in crude oil are: First, the **OPEC+ Russia deal on production cuts has been in effect since May.** Second, **price-related production shut-ins in the US (the US has posted the largest three month decline in crude oil production on record) and elsewhere** decreased the overall supply of crude oil. Third, and most importantly, the COVID-related disruptions in transportation and economic activity have begun to subside and demand is recovering. In fact, while US gasoline demand remains down 21% from pre-Covid-19 levels, it is now up 69% off of the COVID-driven lows.
- Despite the recent risk asset rally, **gold spiked to over $1,800/oz for the first time since September 2011** as easing from global central banks and continued uncertainty from COVID-19 supports the precious metal given its role as a diversifier amidst elevated volatility.
- Following significant volatility in March (the dollar rose to the highest level in three years), the **US dollar declined for the third straight month in June** as markets digested the impacts of monetary policy, stimulus efforts, and widening government deficits on the currency.

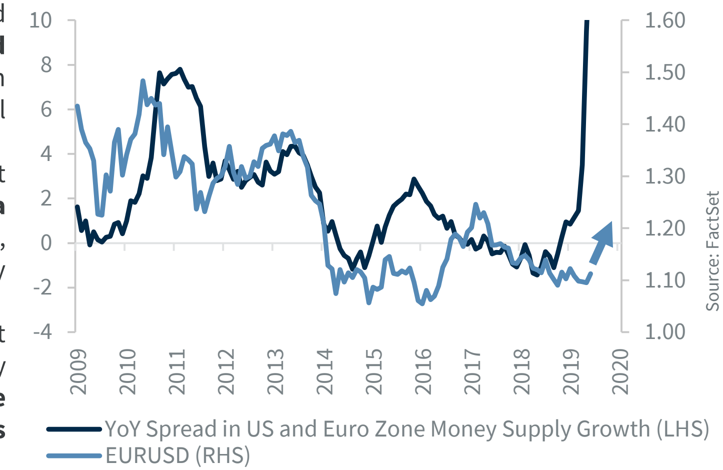
US Oil Production Declines



Commodities & Currencies | 2020 Outlook

- Longer term, as demand rebounds as social distancing measures are scaled back and economic activity increases in the second half of the year, **crude oil likely will be supported through year end** (2020 WTI target: **$38/barrel**). In addition, the reduction in production from US oil producers (current prices below US breakeven levels) and the OPEC+ Russia deal should lead to decreased supply and support crude oil prices.
- As volatility remains elevated and the threat of COVID-19 remains a risk due to the current lack of a vaccine and cases continue to increase nationally, **demand for gold will remain a hedge against a second-wave virus-induced economic decline in the near term.** However, once the global economy stabilizes and a therapeutic or vaccine for the virus is found (likely by year-end 2020), we believe that gold will come under pressure.
- Similar to gold, the dollar will remain supported in the near term if risk-off sentiment materializes. However, as the investing environment improves as COVID-19 fears fade (largely as a result of the discovery of a vaccine or therapeutic), **fundamental factors that increase the supply of dollars globally like increased deficit financing (due to the fiscal stimulus measures) and quantitative easing should lead to a weaker dollar.**

US Dollar Weakens With Rising Money Supply



Summary | Views and Key 2020 Year-End Targets

1 ECONOMY

2020 US GDP: -5.3%

The US economy experienced its deepest and shortest recession ever due to the COVID-19 pandemic. In fact, the economy is likely to experience a robust rebound during the second half of the year, especially if policymakers continue to exhibit a “by any means necessary” approach to defeat this virus.

2 BOND MARKET

2020 10-Year Treasury: +1.00%

We forecast that the 10-year Treasury yield will be 1.00% by year end, supported by an economic recovery in the second half of the year. Given the substantial Energy sector and brick and mortar retailer exposure of high-yield bonds, we maintain our preference for investment-grade and municipal bonds given the Fed’s purchases of these sectors.

3 EQUITIES

2020 S&P 500: 3,111

Our expectation for a rebound in 2H20 economic activity and fiscal and monetary stimulus should support equities. However, with valuations at the highest level since 2001, the risk of a pullback remains elevated. Use pullbacks as buying opportunities within our favorite sectors (Info Tech, Health Care, Comm Services, and Cons Disc).

4 DOLLAR DIRECTION

2020 EUR/USD: 1.15

Our expectation is that aggressive monetary policy and a burgeoning budget deficit (~$3 trillion) will cause the dollar to modestly weaken throughout the year. Separately, easy monetary policy from the Federal Reserve will likely add additional pressure to the value of the dollar, weakening it relative to other currencies.

5 OIL

2020 WTI: $38/bbl

We expect crude oil to be range bound around our year-end target of $38/bbl as positive factors such as improving demand as a result of the rebound in economic activity support prices higher. However, a recovery in US oil production (as prices return to breakeven levels) will likely limit any upside in prices.

6 ELEVATED VOLATILITY

Volatility: ↑

Given the unpredictable trajectory of the COVID-19 pandemic, and elevated political (2020 election) and geopolitical risk, we expect that volatility will remain heightened throughout the remainder of 2020 as the global economy finds its footing and returns to some semblance of normality.

DISCLOSURES

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 | 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.

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 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.

MUNICIPAL | **Bloomberg Barclays 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.

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

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.

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.

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DATA SOURCES

FactSet as of 6/30/2020.

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