

WEEKLY HEADINGS

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KEY TAKEAWAYS

The US Economy Is Poised For It's Fifth Year Of Expansion

The 10-Year Treasury Yield Should Remain Range-Bound In 2025

Fundamentals Remain Supportive Of US Equities, But Gains Should Be More Muted

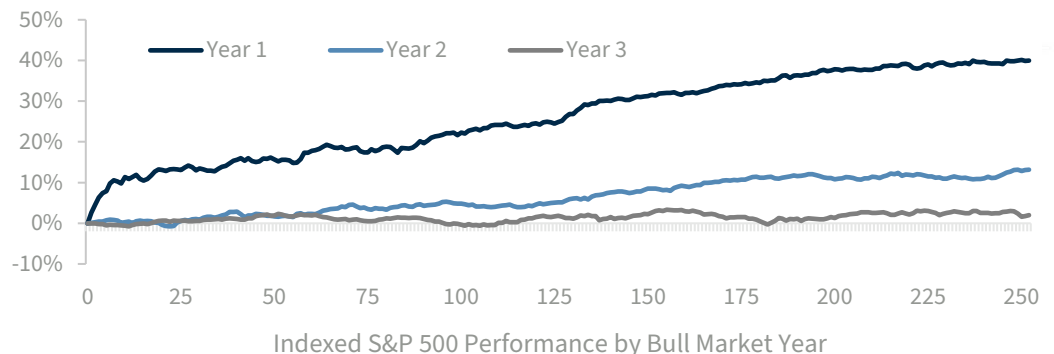
2024 was a banner year—with equities soaring to new heights and the economy maintaining growth at a healthy pace. I mean, who could complain with another year of 25% gains for the S&P 500, a 15+% return on a 60/40 portfolio, and economic growth likely to clock in at an above-potential rate of 2.7%! As we turn the page on 2024 and look ahead into 2025, the key question on investors' minds is: can 2024's positive momentum in the economy and financial markets continue into 2025? In many ways, that is the *million-dollar question*! With that question in mind and the challenges that lie ahead, we were inspired to use classic TV game shows to articulate how we see the economy and financial markets unfolding in 2025. Please join us on Monday, January 6 at 4PM EST for our webinar *Ten Themes for 2025: Come On Down!* Here is a quick preview:

- 1. Too Much Optimism?** | Consumer, business, and investor confidence have surged following the 2024 election—and that exuberance is reflected in valuations. With uncertainties stemming from the new administration's policy initiatives (i.e., taxes and tariffs) and equity markets priced to perfection, there is little room for error regarding economic and earnings disappointments—particularly if the Federal Reserve (Fed) is unable to cut interest rates further should inflation surprise to the upside. This will likely lead to higher volatility in 2025.
- 2. The US Economic Expansion Continues** | Just like in the game show 'Deal or No Deal', the recessionary 'bad cases' have been taken off the board. What's left is a resilient consumer, steady job growth, fiscal spending from legislation like the Inflation Reduction Act and the CHIPS Act, along with continued investments in transformative areas like artificial intelligence. These positive factors should sustain growth in 2025, with the economy likely to achieve its fifth consecutive year of growth. We expect the economy to grow 2.4% in 2025.
- 3. Stop Fretting About The Number Of Fed Rate Cuts** | Although the Fed is expected to cut rates twice in 2025, investors should focus more on the results the Fed achieves (i.e., a continuation of the expansion and further disinflation) rather than the number of rate cuts. While the potential inflationary impact of tariffs could alter the Fed's rate path, cash yields north of 4% remain attractive for fixed income investors.
- 4. Steeper Yield Curve Ahead** | Short-term interest rates are anchored to Fed policy so as the Fed cuts rates two additional times in 2025, shorter-maturity yields will track policy rates lower leading to a steeper yield curve. Different cross-currents (i.e., growth, inflation, and deficit dynamics) will sway longer-maturity yields—but ultimately, we expect the 10-year Treasury yield to remain range-bound in 2025.
- 5. Dial Back Equity Performance Expectations** | Equity market fundamentals (i.e., a strong economy, positive earnings growth, and robust corporate activity) remain healthy. However, expectations need to be dialed back due to high valuations and the potential complacency of investors. While we still see upside (our 2025 S&P 500 target is 6,375), the gains in 2025 should be more muted than the last two years.
- 6. Mid Caps Are Poised To Have Their Moment** | While large caps have dominated over the last two years and small caps benefited from aggressive Fed rate cut expectations, mid-caps may be the sweet spot in 2025—benefiting from solid earnings growth, attractive valuations, revenues insulated from tariffs, higher quality companies (that have earnings) and less exposure to floating rate debt.
- 7. Three Sectors To Watch In 2025** | Our favored sectors stand head and shoulders above the rest with compelling long-term macro themes (i.e., AI investments, ongoing government spending, and aging demographics) and the best earnings potential in 2025. The three sectors at the top of our list are: Technology, Industrials, and Health Care.
- 8. International Markets Remain The 'Weakest Link'** | US equities are likely to once again be the top performer in the global equity market—driven by superior economic growth, higher earnings growth, more dynamic leadership, and greater exposure to preferred sectors. But keep an eye on Japan, which is benefiting from an improved economy and a shift away from deflation.
- 9. Next Stage Of Bull Market May Be More Challenging** | The market gains over the last few years will be hard to repeat in 2025, particularly in an environment of stretched valuations. Investors will need to be discerning, focusing on quality and fundamentals as the third year of a bull market should bring more volatility and muted returns. Given the shifting landscape, active management should prove its worth.
- 10. Importance Of Asset Allocation** | In a year of elevated uncertainties, the importance of asset allocation and a diversified portfolio cannot be overstated—particularly as net worth has soared to record highs. Having a clear strategy, sticking with a long-term approach, and building a balanced and resilient portfolio will help grow your wealth and ride out any volatility that comes along the way.

CHART OF THE WEEK

Returns In The Third Year Of A Bull Market Tend To Be Weaker

Since 1949, there have been eleven bull markets that have made it past two full years. However, investors should take note that the third year of a bull market has historically delivered more muted gains.



Source: FactSet

Economy

- The Pending Home Sales Index increased a larger than expected 2.2% MoM (vs. expectations of 0.8%) and 6.9% YoY, pushing the Index to the highest level since February of 2023. The jump was driven by a strong increase in the largest region of the US, the South.
- Home prices (FHFA Home Price Index) in 2024 increased by 4.5% despite elevated mortgage rates. The inventory of homes for sale remains low, and homebuyers, no longer expecting mortgage rates to drop much, are moving forward with their home purchases.
- The ISM Manufacturing in December was stronger than market expectations, but it nevertheless remained in contraction territory for the ninth consecutive month and 25 of the last 26 months. The Employment Index went further into contraction during the last month of the year while the Prices Index was also higher, meaning that price pressures remain a concern.
- **Focus of the Week:** Next week will see multiple employment indicators, starting with the Job Openings & Labor Turnover Survey on Tuesday. Expectations are for the number of job openings to decrease from 7.7 to 7.5 million. Next is the weekly jobless claims report on Thursday, followed by the all-important Employment Report on Friday. We expect to see a slowdown in the number of jobs added to the US economy, from 227,000 down to about 160,000, with the unemployment rate kept unchanged at 4.2%.

January 6 – January 10



Factory Orders



FOMC Minutes
Consumer Credit



Employment Report
Michigan Sentiment



ISM Services
JOLTS



Jobless Claims



1/14 PPI
1/15 CPI
1/16 Retail Sales

Equity

- Welcome to 2025! The S&P 500 officially closed 2024 up 23% (in price terms) which puts 2024 in the 75th percentile of annual returns since 2000. While returns were positive, the infamous Santa Claus rally (the last five trading days of the year combined with the first two trading days of the following year) failed to materialize as the S&P 500 is down 1.8% since 12/23. The weakness surrounding the Santa Claus rally is consistent with other popular seasonal strategies this year, as ‘Sell in May and Go Away’ and the year-end rally (December is typically one of the strongest months of the year) also failed to materialize. This highlights the fact that fundamentals (e.g., earnings, valuations) are a much more important driver for returns rather than short-term seasonal patterns.
- One of the drivers of the recent volatility has been stretched valuations, as the S&P 500 LTM PE was in the 97th percentile before the drawdown. With 9 of 11 sector valuations trading above their historical averages, earnings growth will likely need to be the driver of performance this year (which is consistent with typical returns in the third year of a bull market). Our 3 favorite sectors represent the areas of the market with the highest expected EPS growth in 2025—Tech (+23%), Health Care (+21%), and Industrials (+19%).
- **Focus of the Week:** Next week, markets will get another early look into the 4Q24 earnings season via earnings results from Delta Airlines. Real-time TSA metrics reflected both a record holiday travel season and also record travelers in 2024, pointing to continued consumer strength. The outlook for the consumer and expense management will be the main areas of focus for investors.

Fixed Income

- In 2024, the 10-year Treasury yield rose 70 bps, ending the year at 4.58%. While yields have been steadily climbing since 2020, it is unusual for yields at the long end of the yield curve to increase so soon after the Fed initiated its rate-cutting cycle. Typically, as the Fed lowers its overnight policy rate, yields at the longer end of the Treasury curve are steady or lower. But, after 100 bps of cuts to the Fed's policy rate in 2024, the 10-year rose ~100 bps—closing the calendar year at its highest level in 18 years. The 2-year Treasury yield ended 2024 just two bps higher (at 4.25%), leading to the largest steepening of the 2s/10s curve since 2013.
- The debt ceiling was reinstated on January 1 which means the US government can't borrow any additional money until Congress either passes a bill to lift it or suspend it again. Treasury Secretary Janet Yellen warned the debt limit could be reached by January 14 at which time it would be necessary for the Treasury Department to start taking “extraordinary measures” to pay its bills. These measures could stave off default for a few months, potentially until mid-June or longer, depending on factors like tax receipts and spending. Meanwhile, the Treasury will deplete its cash balance (the Treasury General Account or TGA) to cover the deficit. No net new issuance of Treasuries could provide technical support for the bond market.
- **Focus of the Week:** The December payrolls report will be the focus for bond markets. While the release of last month's FOMC meeting minutes is unlikely to be market moving, it will be an interesting read given the shifting views at the Fed (i.e. slower pace of rate cuts) and another dissent. We will also be watching how the bond market absorbs \$119B of 3-, 10- and 30-year Treasury supply next week.

Politics

- Today marks the start of the 119th Congress, the final stretch of the pre-inauguration process, and the beginning of a Republican-run House, Senate, and White House. As of this writing, the House is preparing to vote to elect the Speaker of the House, which must take place before any other legislative activity. While President-elect Trump has endorsed current Speaker Mike Johnson (R-LA) for another term, the Republican House majority is very slim, and key Republican factions remain frustrated with Johnson's handling of the December government funding debate. This opens up the possibility of another messy speaker battle. Even if the process does not stretch out as long as the 2023 battle did, delays remain a material possibility given that Johnson will lose if only two House Republicans vote for someone else.

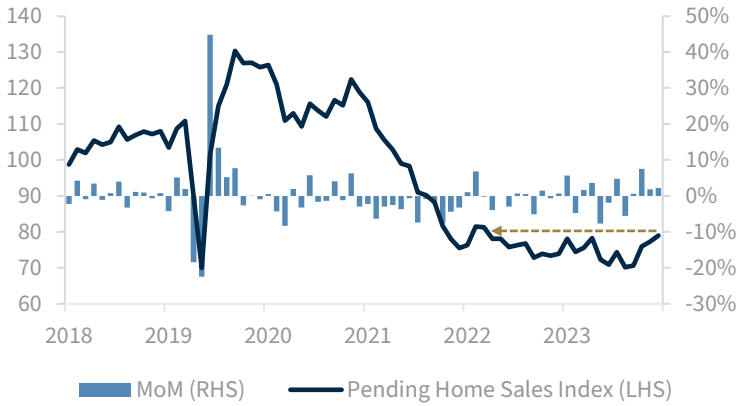
International

- Despite EM asset classes' positive performance, investors have reduced their international risk exposure amid economic and political uncertainty. In 2024, EM sovereign and corporate bonds returned a solid 6.5% and 7.6% in USD terms, respectively. However, investors withdrew \$30 billion in assets, making 2024 the 3rd consecutive year of asset outflows. China's rally in late September helped push EM equities (MSCI EM) to close the year with an 8% return in USD. Despite this, EM equity investors withdrew \$31 billion—resulting in the worst flows in 6 years. Macroeconomic headwinds may continue to weigh on both EM fixed income and equity assets, at least through the first half of 2025, despite some valuations appearing attractive. Until we see more clarity, we will remain cautious about EM assets.

Charts of the Week

Pending Home Sales Increases

The Pending Home Sales Index increased 2.2%, pushing the Index to the highest level since February of 2023.



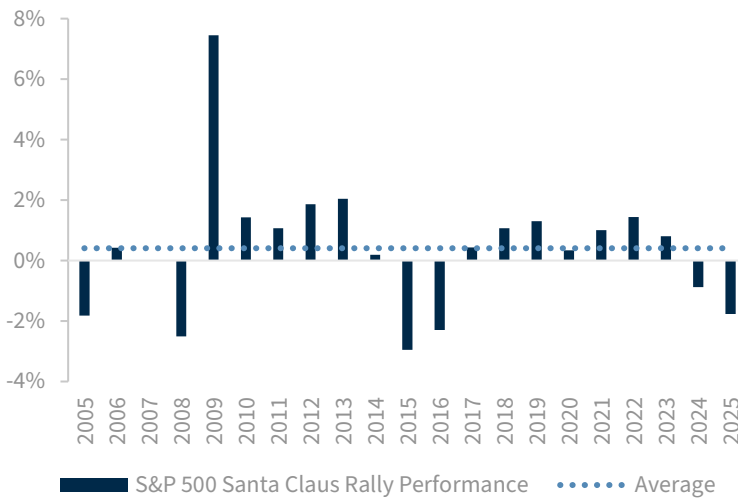
Manufacturing Sector Contracting Continues

The ISM Manufacturing Index improved, but remained in contraction territory for the ninth consecutive month and 25 of the last 26 months



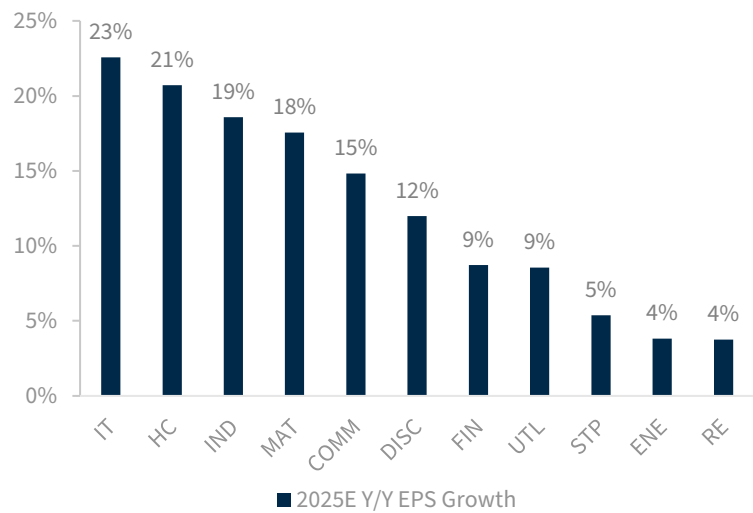
No Santa Claus Rally

The infamous 'Santa Claus Rally' failed to materialize thus far for the second consecutive year with the S&P 500 trading down 1.8%.



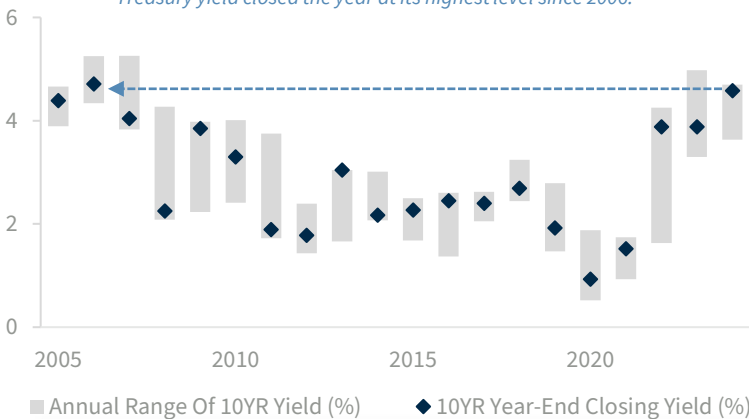
2025 Sector EPS Growth

2025 earnings growth is expected to be led by our favorite sectors: Tech, Health Care, and Industrials.



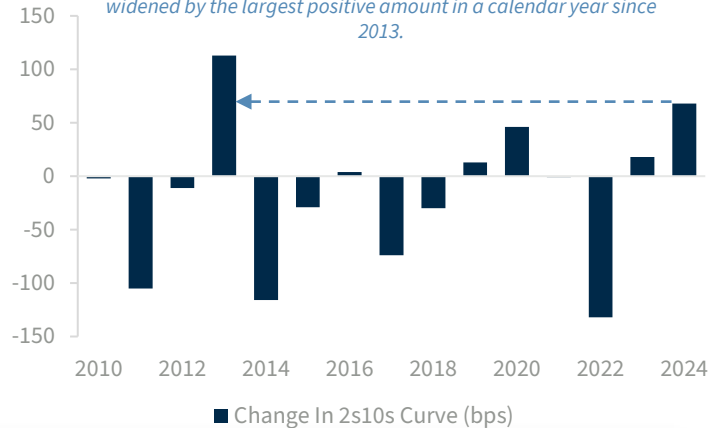
10YR Treasury Yield Closes Year At Highest Level In 18 Years

Despite 100 bps of cuts to the Fed's overnight policy rate, the 10-year Treasury yield closed the year at its highest level since 2006.



2024: The Year Of The Curve Steepening

The spread between the 10-year and 2-year Treasury yields widened by the largest positive amount in a calendar year since 2013.

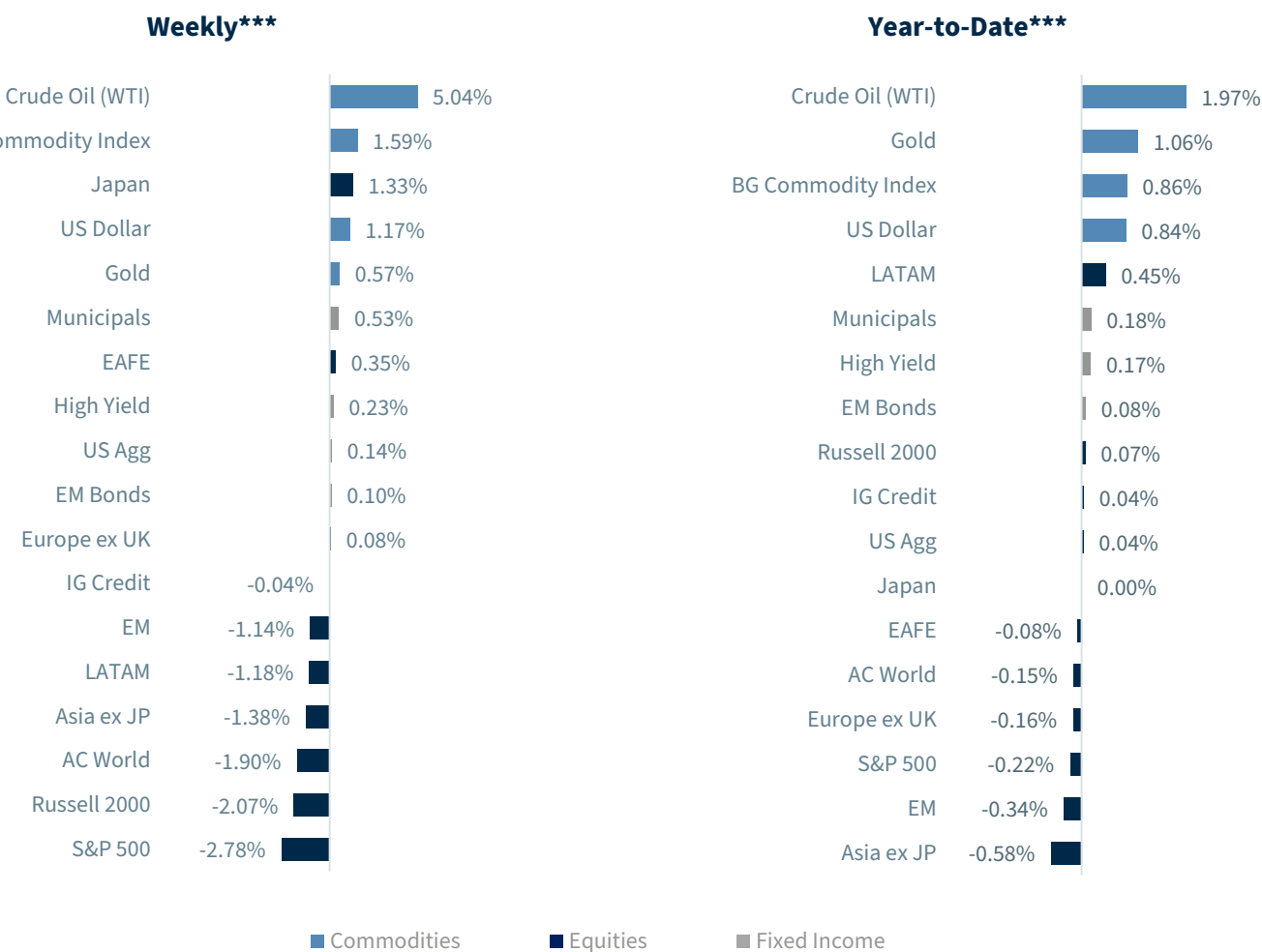


Source for charts: FactSet, as of 1/2/2025.

Asset Class Performance | Distribution by Asset Class and Style (as of January 2)**

	US Equities (Russell indices)			International Equities (MSCI indices)			Fixed Income (Bloomberg indices)		
	Value	Blend	Growth	Dev. Mkt	World	E merg. Mkt	1-3 YR	Medium	Long
Weekly Returns (as of January 2)									
Large Cap	-1.5%	-2.7%	-3.7%	1.1%	-1.9%	-0.9%	0.1%	0.3%	0.1%
Mid Cap	-1.8%	-2.0%	-2.6%	0.7%	-1.0%	-0.6%	0.2%	0.1%	0.1%
Small Cap	-1.7%	-2.1%	-2.4%	1.0%	-0.7%	0.3%	0.2%	0.2%	0.1%
Year-to-Date Returns (as of January 2)									
Large Cap	-0.2%	-0.2%	-0.2%	0.5%	0.0%	-0.3%	0.0%	0.1%	0.1%
Mid Cap	-0.3%	-0.1%	0.5%	0.3%	0.1%	-0.1%	0.0%	0.1%	0.1%
Small Cap	-0.2%	0.1%	0.3%	0.4%	0.1%	0.0%	0.1%	0.2%	0.1%

Asset Class Performance | Weekly and Year-to-Date (as of January 2)**



**Weekly performance calculated from Thursday close to Thursday close.

4 ***Assumes all asset classes are priced in US dollars unless otherwise noted. Ranked in order of performances (best to worst).

Weekly Data**

US Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	5868.6	(2.8)	(0.2)	(0.2)	25.5	8.8	14.3	13.1
DJ Industrial Average	42392.3	(2.2)	(0.4)	(0.4)	12.4	5.3	8.0	9.0
NASDAQ Composite Index	19280.8	(3.7)	(0.2)	(0.2)	30.6	7.2	16.2	15.1
Russell 1000	6181.7	(2.7)	(0.2)	(0.2)	24.5	8.4	14.3	12.9
Russell 2000	5546.3	(2.1)	0.1	0.1	11.5	1.2	7.4	7.8
Russell Midcap	9062.8	(2.0)	(0.1)	(0.1)	15.3	3.8	9.9	9.6

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	523.7	(2.6)	(1.1)	(1.1)	(0.9)	(0.8)	8.7	7.7
Industrials	1111.5	(2.2)	(0.4)	(0.4)	18.2	9.3	11.5	10.7
Comm Services	343.8	(2.2)	0.6	0.6	42.4	9.7	14.4	11.2
Utilities	387.8	(0.1)	0.7	0.7	22.6	5.5	7.1	8.5
Consumer Discretionary	1808.0	(5.6)	(1.3)	(1.3)	29.7	4.8	13.5	13.6
Consumer Staples	850.0	(2.0)	(0.4)	(0.4)	13.1	4.5	8.6	8.4
Health Care	1605.0	(1.4)	0.0	0.0	0.8	0.9	7.9	9.1
Information Technology	4600.1	(3.8)	(0.2)	(0.2)	39.9	15.6	24.1	22.3
Energy	661.7	2.3	1.0	1.0	5.6	20.4	12.2	5.0
Financials	802.8	(1.8)	(0.2)	(0.2)	29.8	9.3	11.4	11.4
Real Estate	251.7	(1.4)	(0.9)	(0.9)	3.0	(4.8)	4.6	6.3

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	4.3	0.1	0.0	0.0	5.3	4.0	2.5	1.8
2-Year Treasury (%)	4.2	0.2	0.0	0.0	4.0	1.1	1.1	1.2
10-Year Treasury (%)	4.6	0.1	0.1	0.1	(1.1)	(5.3)	(2.0)	0.1
Bloomberg US Corporate HY	7.6	0.2	0.2	0.2	8.8	3.0	4.2	5.2
Bloomberg US Aggregate	4.9	0.1	0.0	0.0	1.8	(2.4)	(0.3)	1.3
Bloomberg Municipals	--	0.5	0.2	0.2	1.3	(0.5)	1.0	2.3
Bloomberg IG Credit	5.3	(0.0)	0.0	0.0	2.8	(2.3)	0.3	2.4
Bloomberg EM Bonds	6.7	0.1	0.1	0.1	7.1	(0.5)	0.6	3.2

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTICrude (\$/bl)	73.1	5.0	2.0	2.0	3.9	(0.9)	3.6	3.3
Gold (\$/Troy Oz)	2669.0	0.6	1.1	1.1	28.7	13.4	11.8	8.4
Bloomberg Commodity Index	99.6	1.6	0.9	0.9	1.5	0.1	4.2	(0.4)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
US Dollar Index	109.4	1.2	0.8	0.8	7.0	4.5	2.5	1.8
Euro	1.0	(1.3)	(0.8)	(0.8)	(6.1)	(3.3)	(1.7)	(1.6)
British Pound	1.2	(1.1)	(1.2)	(1.2)	(2.0)	(3.0)	(1.3)	(2.2)
Japanese Yen	157.2	0.6	0.0	0.0	(9.7)	(9.8)	(7.2)	(2.6)

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCIAC World	839.9	(1.9)	(0.2)	(0.2)	18.7	5.9	10.4	9.8
MSCIEAFE	2259.8	0.3	(0.1)	(0.1)	5.2	2.1	5.1	5.8
MSCIEurope ex UK	2458.5	0.1	(0.2)	(0.2)	1.8	0.8	5.7	6.4
MSCIJapan	3931.1	1.3	0.0	0.0	9.4	3.2	5.1	6.6
MSCIEM	1071.0	(1.1)	(0.3)	(0.3)	8.5	(1.6)	1.8	4.0
MSCIAsia ex JP	699.4	(1.4)	(0.6)	(0.6)	12.8	(1.4)	2.6	4.8
MSCILATAM	1859.5	(1.2)	0.5	0.5	(24.5)	2.8	(3.3)	1.1
Canada S&P/TSX Composite	17263.3	0.2	0.7	0.7	19.3	5.5	7.8	5.4

**Weekly performance calculated from Thursday close to Thursday close.

Disclosures

All expressions of opinion reflect the judgment of the author(s) and the Investment Strategy Committee and are subject to change. This information should not be construed as a recommendation. The foregoing content 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. Past performance is not a guarantee of future results. 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. No investment strategy can guarantee success. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Diversification and asset allocation do not ensure a profit or protect 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 including India.

COMMODITIES | Investing in commodities such as copper 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.

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 | Currency investing is generally considered speculative because of the significant potential for investment loss. These 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. A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond.

US TREASURYS | 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.

PRODUCER PRICE INDEX | The Producer Price Index (PPI) is a measure of wholesale inflation, while the Consumer Price Index measures the prices paid by consumers.

CONSUMER PRICE INDEX | The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX | The PCE price index, released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States.

UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT INDEX | The Michigan Consumer Sentiment Index (MCSI) is a monthly telephone survey of how consumers feel about the economy, personal finances, business conditions, and buying conditions.

EMPLOYMENT INDEX | The Employment Index is a component and one of the five indicators of the ISM Manufacturing Index. It carries a 20% weight within that Index.

NAHB HOUSING MARKET INDEX | The NAHB/Wells Fargo Housing Market Index (HMI) is a monthly sentiment survey of members of the National Association of Home Builders (NAHB). The index measures sentiment among builders of U.S. single-family homes

PENDING HOME SALES INDEX | The Pending Home Sales Index (PHS), a leading indicator of housing activity, measures housing contract activity, and is based on signed real estate contracts for existing single-family homes, condos, and co-ops.

FHFA HOME PRICE INDEX | The FHFA HPI is a broad measure of the movement of single-family house prices. The FHFA HPI is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or refinancings on the same properties.

ISM MANUFACTURING INDEX | The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

ISM SERVICES INDEX | The Institute of Supply Management (ISM) Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives.

CONSUMER CONFIDENCE INDEX | The Consumer Confidence Index (CCI) measures the degree of optimism of consumers regarding current and expected economic conditions.

Disclosures

DATA SOURCE | FactSet, Bloomberg as of 1/2/2025

DOMESTIC EQUITY DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

NASDAQ COMPOSITE INDEX | The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

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.

S&P 500 EQUAL WEIGHT INDEX | The S&P 500 Equal Weight Index: The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

LARGE GROWTH | Russell 1000 Growth Total Return Index: This index represents a segment of the Russell 1000 Index with a greater- than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

MID GROWTH | Russell Mid Cap Growth Total Return Index: This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

LARGE BLEND | Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL GROWTH | Russell 2000 Growth Total Return Index: This index represents a segment of the Russell 2000 Index with a greater- than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

MID BLEND | Russell Mid Cap Total Return Index: This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

SMALL BLEND | 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.

LARGE VALUE | Russell 1000 Value Total Return Index: This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

MID VALUE | Russell Mid Cap Value Total Return Index: This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

SMALL VALUE | Russell 2000 Value Total Return Index: This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

COMMODITY INDEX DEFINITION

BLOOMBERG COMMODITY INDEX (BCOM) | The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

FIXED INCOME DEFINITION

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.

Disclosures

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.

BLOOMBERG CAPITAL AGGREGATE BOND TOTAL RETURN INDEX | This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components).

BLOOMBERG EMERGING MARKET BOND INDEX | The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value-weighted index engineered to measure USD fixed-rate sovereign and corporate securities issued from emerging markets. The index includes both investment-grade and below-investment-grade securities.

INTERNAL 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.

EMERGING MARKETS ASIA | MSCI EM Asia Net Return Index: The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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.

PACIFIC 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.

FOREIGN DEVELOPED MARKETS | MSCI EAFE Net Return Index: This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. 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 21 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.

MSCI ACWI | The MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. The index is comprised of the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

MSCI ACWI EX US | The MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. The index is comprised of the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

CANADA S&P/TSX COMPOSITE | The S&P/TSX Composite Index is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada's primary stock exchange, the Toronto Stock Exchange.

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GERMAN BUND | The German bund is a sovereign debt instrument issued by Germany's federal government to finance outgoing expenditures.

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