THOUGHTS OF THE WEEK

Larry Adam, Chief Investment Officer, Private Client Group

WEEKLY HEADINGS

For the next several weeks, we will go from talking about the proverbial forest (macro headlines) to focusing on the trees (corporate earnings). The forest has grown to record levels (S&P 500 crossing the 3,000 level for the first time and notching its ninth record close of the year) on the back of policy "fertilization." The thaw in trade tensions between the U.S. and China following the Trump/Xi G-20 meeting and a growing synchronized global central bank dovish tone (highlighted by Fed Chair Powell in his testimony this week) have increased optimism that the U.S. (and global) economic expansion will gain momentum. In fact, the S&P 500 P/E (LTM) has soared to ~18x to reflect a market priced close to perfection. However, outside of the strong June U.S. employment data, other U.S. economic data (manufacturing, housing) and global data (Europe PMIs in contraction) suggest "clouds" of weakness forming. As earnings are the fundamental driver of the equity market, 2Q earnings season will give us a picture of how healthy the "trees" are as many of the big banks kick-off the reporting season next week. Below are some of the key dynamics to monitor throughout the upcoming earnings season:

Key Takeaways

Macro Trade and Monetary Policy Optimism have Lifted the U.S. Equity Market to Record Levels

Second Quarter Earnings Growth Likely to be Lifted from Negative to Positive Territory.

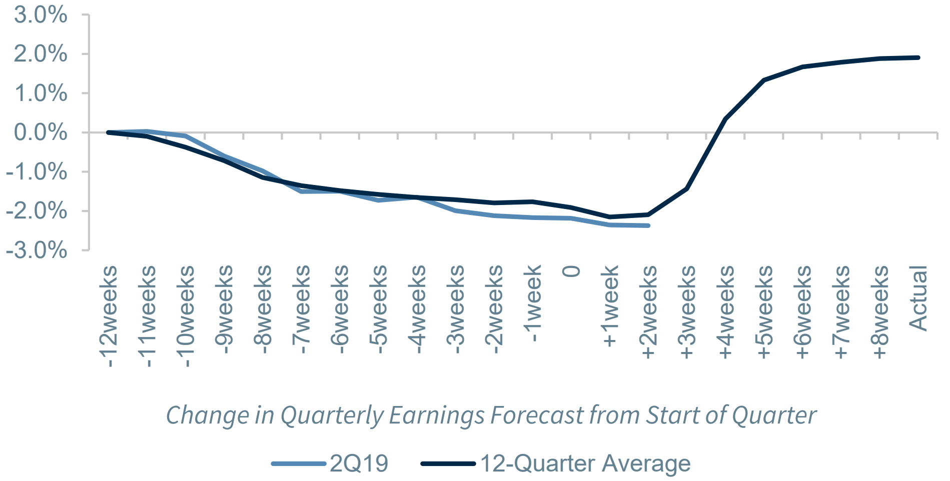
With Elevated Equity Valuations, Positive Forward Guidance Needed to Maintain Momentum

- Avoiding Negative Earnings Growth | After being revised down 2.4% since the start of the second quarter and the largest number of negative earnings pre-announcements since 2016, consensus earnings forecasts currently reflect an earnings decline of 1.4% on a year-over-year (YoY) basis.* Based on history, our expectation is that companies will beat their lowered earnings forecasts (which they have done for five consecutive quarters) by ~3% to 5% and lift earnings growth back into positive territory. Early indications suggest we will be correct because of the 24 S&P 500 companies that have reported, 84% of companies have beaten earnings estimates by an average of 8.8%. The bigger question is whether the second quarter in a row of sub-2% earnings growth (with the prospects of a third consecutive quarter next quarter—3Q earnings growth estimate is currently +0.1%) can serve as a catalyst to take equity prices higher from current levels. Similar to earnings, revenue growth is also expected to be fairly muted as top-line sales growth is expected to rise 5.3%, which would be the lowest pace since 3Q16 if this forecast holds.
- Forward Guidance Will be Key | Given the heightened uncertainty surrounding the trade conflict, a stronger dollar and slowing global economic momentum, the magnitude of the negative impact on cyclical U.S. companies (Tech, Industrials, Materials) remains unclear. As a result, forward guidance and its impact on future earnings forecasts will be key. While second quarter earnings growth will likely avoid being negative, the current +0.1% YoY forecast for 3Q19 will likely be revised lower into negative territory. In addition, the lofty ~7% consensus earnings forecast for 4Q19 and 11% for full-year 2020 lack clear visibility, and if the trend of downward revisions continues, it could hamper the near-term upside potential of the market.
- Trade Impact on Tech | While Info Tech has been the best performing sector year-to-date (YTD) (up 31% through July 11), Info Tech has been one of the most impacted sectors as a result of trade given its exposure to China and the sanctions imposed on Huawei. As a result, commentary from management will be crucial, particularly as the sector is expected to post its worst quarterly earnings decline (-9.3% YoY) since 2Q09 and continue that trend into the third quarter (current consensus forecast -6.8% YoY). However, it is important to note that Info Tech historically beats earnings estimates, on average, by a healthy ~5%.
- Net Margins and Financials | Despite tailwinds from increased M&A and IPO activity and positive stress test results from the Fed, Financials continue to underperform the broad S&P 500 YTD as a result of falling global sovereign interest rates and the narrowing yield curve.* These negative factors' impacts on net margins will be a key determinant for the sector going forward.
- Health of the Consumer | Consumer Discretionary earnings are expected to decline 0.3% YoY, which would be the first quarterly earnings decline for the sector since 3Q17. Despite the slowdown in earnings, the key focus will be managements' views on the health of the consumer, and if the tightening labor market is translating into an increase in consumer spending.

CHART OF THE WEEK

2Q19 Earnings Following the Seasonal Pattern

The downward revision in 2Q19 earnings forecast has followed a seasonal pattern, and we expect earnings to be revised higher into positive territory by the end of the quarter.



Change in Quarterly Earnings Forecast from Start of Quarter

*See Charts of the week on page 3.

RAYMOND JAMES

ECONOMY

- In his semiannual monetary policy testimony to Congress, Fed Chair Powell said that since the mid-July FOMC meeting, "it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook," reinforcing expectations that the central bank will lower short-term interest rates by the end of the year.
- Growing concerns about global economic growth validates our Chief Economist Scott Brown's conservative view on 2019 GDP (1.9%).
- After trending lower over recent months, core CPI posted the strongest month-over-month gain (+0.3%) since 2006. However, with both Fed Chair Powell citing "subdued" inflation in his Congressional testimony and inflation expectations remaining at record lows, this month's increase in inflation will likely not stop the Fed from cutting rates by 25 bps in July.*
- **Focus of the Week:** Next week will have a few data points worth monitoring, as the June retail sales reading will provide a key update on the health of the consumer and the Beige Book will give a look into the Fed's view into economic strength.

THE WEEK AHEAD: July 15 – July 19

MON

TUE
Retail Sales
Industrial Production
Manufacturing Output

WED
Building Permits
Housing Starts
Fed Beige Book

THU
Jobless Claims
Leading Econ. Indicators

FRI
Consumer Sentiment

FUTURE EVENTS
7/21 Japanese Parliamentary Elections
7/30 – 7/31 FOMC Meeting
8/1 ISM Manufacturing Index (July)

U.S. EQUITY

- This week, the Dow Jones Industrial Average hit another record high and crossed above the 27,000 level for the first time on record. When looking at the Dow in 1,000 point increments, this latest 1,000 point move above 27,000 (from 26,000 in January 2018) was one of the longest (540 days) and weakest stretches during this current bull market.*
- As earnings come back into focus for investors, for the full year 2019, the consensus earnings estimate has trended down toward our $166 estimate (+3.3% y/y growth). Equity Portfolio & Technical Strategy raised their next 12-month earnings estimate to $168 (~4% below consensus due to slightly more conservative sales and margin assumptions).
- For the short term, the S&P 500 is 8% above its 200 day moving average, which has generally reflected overbought conditions and been followed by some consolidation historically. Seasonality is another factor to consider in that the August-October time period is the weakest three-month period of the calendar on average since 1954.
- **Focus of the Week:** The positives (Fed support, trade ceasefire, technical momentum) outweigh the negatives (macro softness, fundamental slowdown, potential trade headwinds). We view the market as overbought in the short term, but would be buyers on pullbacks given the positive intermediate-term backdrop.

FIXED INCOME

- Mixed positive and negative economic data releases continue to push-and-pull Treasury rates. Fed Chair Powell all but assured a Fed rate cut (July 31) citing subdued inflation and overall weak global economic conditions. Although the bond market sold off the last two weeks, expect a modest near-term decline in Treasury yields as U.S. rates are affected by overwhelmingly accommodative global central bank measures.
- Flat interest rate curves can lure investors to short duration bonds offering yields comparable to longer duration bonds; however, over time, reinvestment risk can eclipse current duration benefits with considerably lower future rates.* It is important that investors maintain discipline with fixed income allocations, such as laddered maturities to mitigate interest rate risk with benefits both now and into the future.
- **Focus of the Week:** Investment-grade spread products such as municipal or corporate bonds offer greater value, especially as high yield alternatives narrow in spread due to worldwide demand.

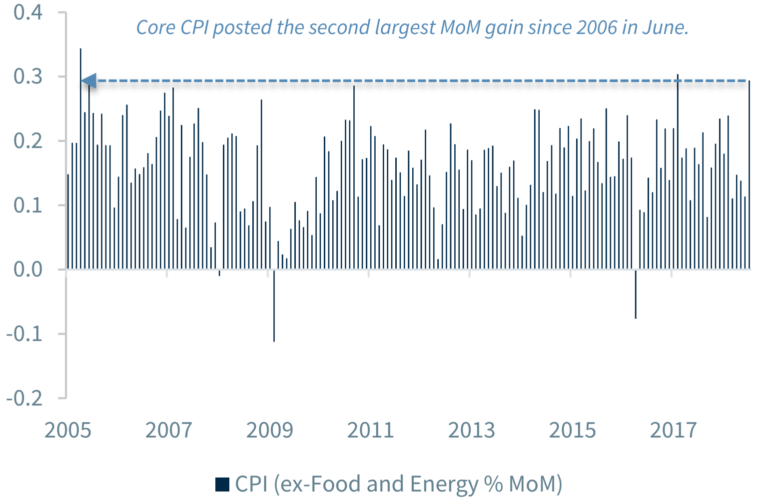
INTERNATIONAL & COMMODITIES

- In response to growing Middle East tensions, the United Kingdom (UK) department for Transport issued a heightened state of security to all UK commercial ships travelling in the Strait of Hormuz.
- The Pentagon announced a $2 billion arms sale to Taiwan, a territory that Beijing considers it should be reunited with China. In addition to the ongoing trade battle, this decision is likely to further complicate the relationship between the two nations.
- The updated summer European Commission economic forecast for euro zone GDP growth in 2019 remains unchanged at 1.2% while the forecast for 2020 was lowered slightly to 1.4%. As the recently released European Central Bank (ECB) minutes from the June meeting noted: "heightened uncertainty" over the bloc's economy means that the central bank should be 'ready and prepared' (in the words of some members) to unleash new stimulus measures.
- The recently nominated European Central Bank President Christine Lagarde will likely be thinking about how to use her years of IMF experience to encourage euro zone governments to take more of the local economic strain via greater use of fiscal stimulus and selected other reform measures.
- Last week, DOE inventories report indicated that U.S. crude inventories fell as refineries processed the most throughput since January. Additionally, oil producers closed nearly a third of the refineries in the Gulf of Mexico in preparation for the first major storm of the 2019 hurricane season. This is perhaps not as headline-grabbing as the continuing news flow surrounding Iran, but any production outage, by definition, compounds the oil market's existing tightness.*
- **Focus of the Week**: President Donald Trump ordered an investigation into the new French digital tax, which negatively affects and burdens the ability of U.S. tech giants to do business in France.

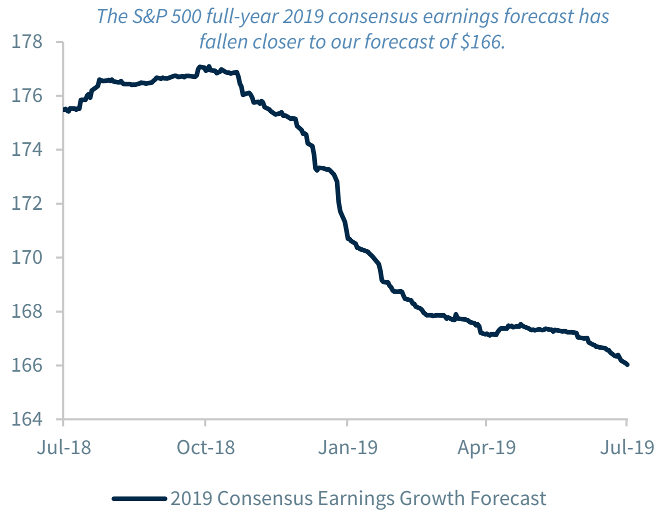
*See Charts of the week on page 3.

Charts of the Week

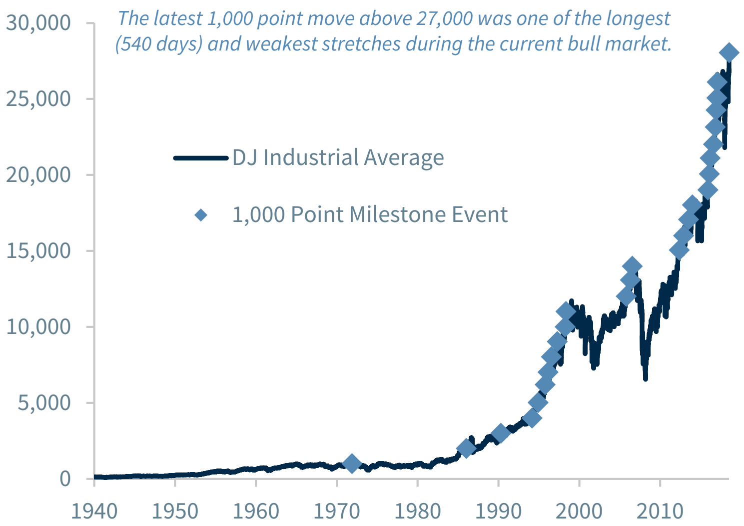
Inflation Moves Higher



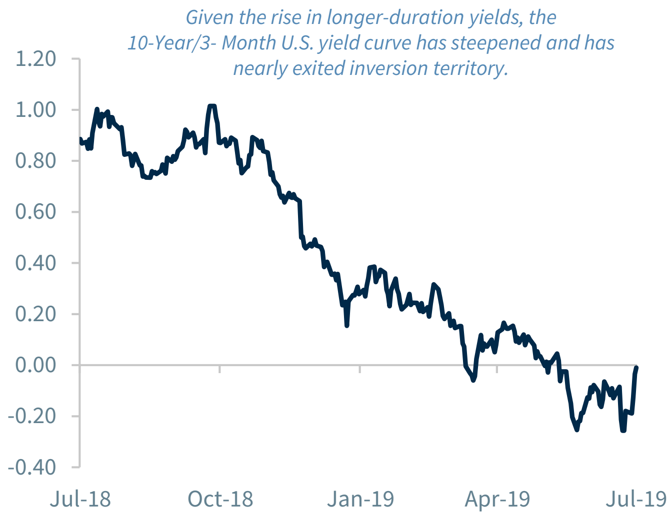
Full-Year Earnings Forecast Continues to Decline



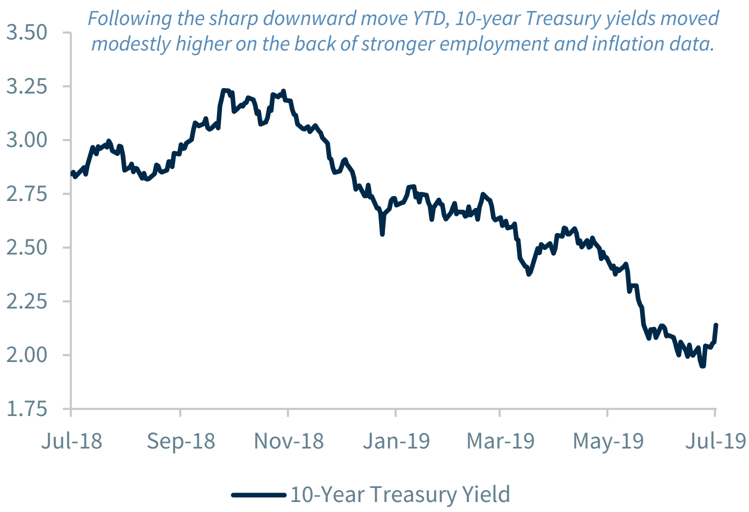
The Dow Rises Above 27,000



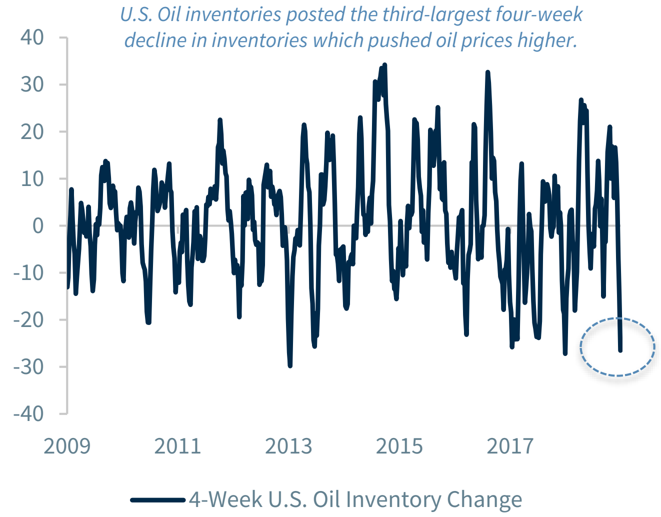
U.S. Yield Curve Close to Exiting Inversion



Longer Duration Bond Yields Move Higher



U.S. Oil Inventories Decline



Asset Class Performance | Distribution by Asset Class and Style (as of July 11)

Weekly Returns (as of July 11)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	0.1%	0.3%	0.6%
Mid Cap	-1.7%	-1.3%	-0.9%
Small Cap	-1.8%	-1.5%	-1.1%

International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	-0.8%	0.0%	-0.6%
Mid Cap	-1.0%	-0.6%	-0.6%
Small Cap	-0.8%	-0.8%	-0.3%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	0.1%	-0.1%	-0.6%
Invest. Grade	0.1%	-0.1%	-0.4%
High Yield	0.0%	-0.1%	-0.1%

Year-to-Date Returns (as of July 11)

U.S. Equities (S&P indices)

	Value	Blend	Growth
Large Cap	18.5%	21.0%	23.2%
Mid Cap	15.7%	17.7%	19.7%
Small Cap	12.3%	12.7%	13.1%

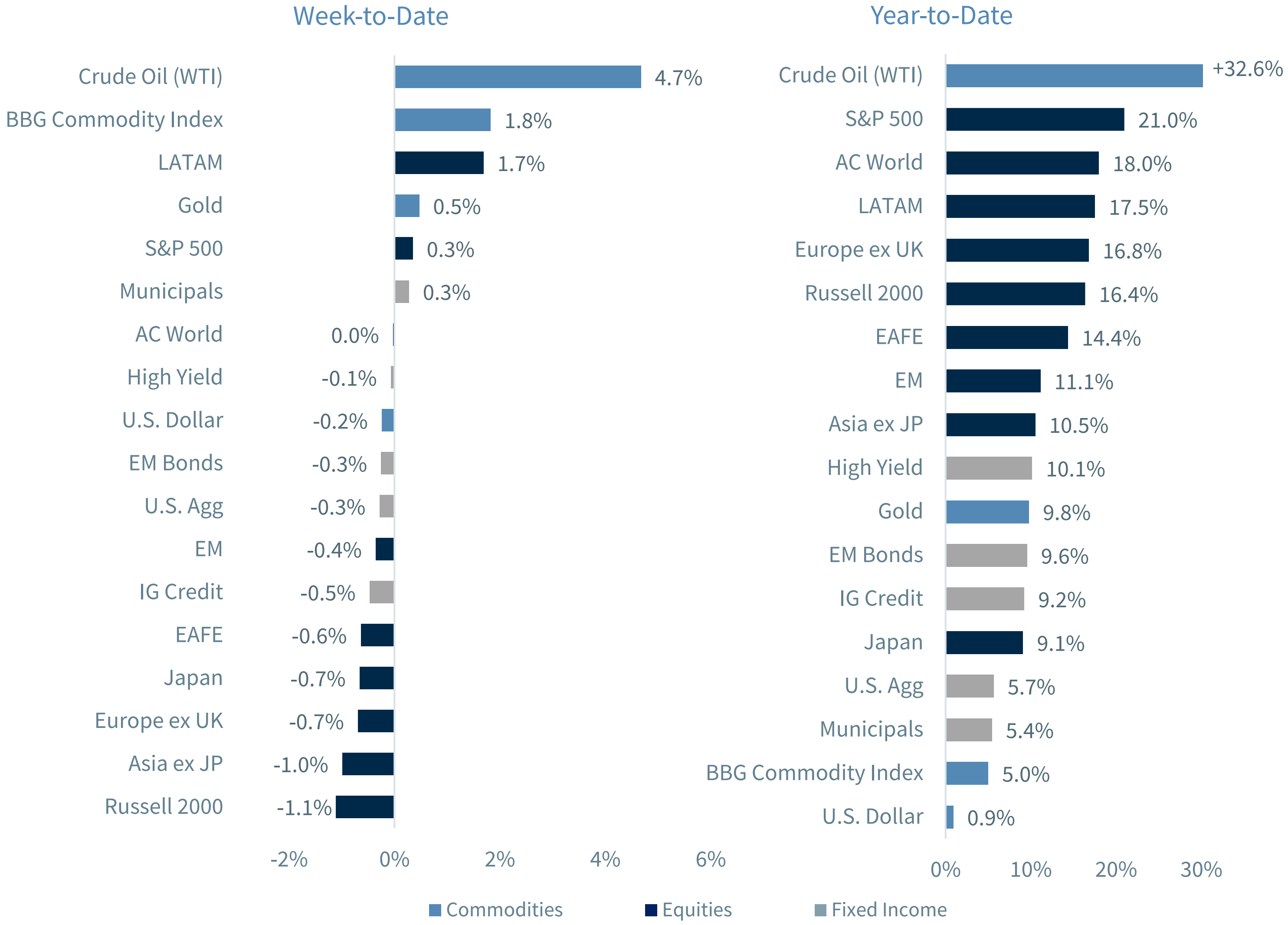
International Equities (MSCI indices)

	Dev. Mkt	World	Emerg. Mkt
Large Cap	15.4%	17.9%	10.7%
Mid Cap	14.3%	18.2%	8.8%
Small Cap	14.1%	15.7%	7.7%

Fixed Income (Bloomberg Barclays indices)

	1-3 YR	Medium	Long
Treasury	1.3%	4.2%	6.4%
Invest. Grade	3.2%	6.8%	9.3%
High Yield	5.3%	9.9%	15.6%

Asset Class Performance | Weekly and Year-to-Date (as of July 11)



Weekly Data

Data as of July 11

U.S Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	2999.9	0.3	2.0	21.0	10.3	14.3	10.8	15.8
DJ Industrial Average	27088.1	0.6	1.8	16.1	9.7	19.3	12.6	16.1
NASDAQ Composite Index	8196.0	0.4	2.4	23.5	6.2	19.9	13.1	19.0
Russell 1000	3192.9	0.3	2.0	21.3	10.0	14.1	10.5	14.8
Russell 2000	3871.8	(1.1)	(0.5)	16.4	(3.3)	12.3	7.1	13.4
Russell Midcap	5809.1	(0.2)	1.3	23.0	7.8	12.2	8.6	15.2

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	362.3	(1.8)	(1.3)	15.7	1.1	9.3	5.2	11.9
Industrials	648.9	(0.5)	(0.4)	20.9	8.6	11.3	9.2	16.2
Comm Services	169.7	0.8	3.7	23.4	15.4	1.6	5.5	10.8
Utilities	309.5	0.5	2.2	17.2	20.4	8.8	11.2	12.8
Consumer Discretionary	975.5	1.1	3.2	25.7	11.3	16.5	14.5	20.7
Consumer Staples	613.8	0.6	2.8	19.4	17.4	5.4	8.7	13.2
Health Care	1082.3	(0.3)	1.0	9.1	10.3	10.3	10.5	15.9
Information Technology	1413.3	0.7	3.0	30.9	14.5	26.4	18.9	19.4
Energy	475.1	1.8	0.8	14.1	(12.3)	0.6	(5.1)	5.9
Financials	467.1	(0.1)	1.9	19.5	6.4	16.8	11.0	14.1
Real Estate	233.9	0.2	2.7	23.6	18.7	7.3	10.1	18.5

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Month Treasury Bill (%)	2.1	0.0	0.1	1.3	2.3	1.4	0.8	0.5
2-Year Treasury (%)	1.9	0.1	(0.2)	2.2	3.7	1.1	1.0	1.1
10-Year Treasury (%)	2.1	(0.6)	(1.0)	6.4	9.1	(0.0)	2.7	3.6
Barclays US Corporate High Yield	6.4	(0.1)	0.2	10.1	7.3	6.9	4.8	9.3
Bloomberg Barclays US Aggregate	2.6	(0.3)	(0.4)	5.7	7.1	2.0	2.9	3.7
Bloomberg Barclays Municipals		0.3	0.3	5.4	6.8	2.6	3.8	4.6
Bloomberg Barclays IG Credit	3.3	(0.5)	(0.6)	9.2	9.4	3.3	4.0	5.8
Bloomberg Barclays EM Bonds	4.9	(0.3)	0.2	9.6	10.1	4.6	4.6	7.6

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	60.2	4.7	3.0	32.6	(14.5)	10.4	(9.8)	0.1
Gold ($/Troy Oz)	1406.7	0.5	(0.5)	9.8	13.0	1.2	1.0	4.4
Dow Jones-UBS Commodity Index	80.6	1.8	1.1	5.0	(3.5)	(2.2)	(9.2)	(3.4)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
U.S. Dollar Index	97.1	(0.2)	1.0	0.9	2.5	0.2	3.9	1.9
U.S. Dollar per Euro	1.1	0.3	(1.2)	(1.6)	(4.0)	0.6	(3.7)	(2.1)
U.S. Dollar per British Pounds	1.3	0.2	(1.5)	(1.6)	(5.4)	(1.2)	(6.0)	(2.5)
Japanese Yen per U.S. Dollar	108.3	(0.1)	0.6	(1.3)	(2.7)	1.8	1.4	1.6

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	529.2	(0.0)	1.2	18.0	6.3	12.1	7.0	11.3
MSCI EAFE	1919.6	(0.6)	(0.1)	14.4	1.3	9.4	3.0	7.8
MSCI Europe ex UK	1983.7	(0.7)	(0.8)	16.8	2.2	10.4	3.1	8.3
MSCI Japan	3160.3	(0.7)	1.0	9.1	(1.1)	8.5	5.2	6.4
MSCI EM	1055.2	(0.4)	0.3	11.1	2.0	10.6	2.7	6.5
MSCI Asia ex JP	649.1	(1.0)	(0.3)	10.5	0.4	11.2	4.9	8.2
MSCI LATAM	2957.2	1.7	4.1	17.5	20.3	12.2	(0.0)	3.7

Disclosures

Lawrence V. Adam III, CFA®, CIMA®, CFP®
Managing Director, Chief Investment Officer
larry.adam@raymondjames.com

Anne B. Platt
Vice President, Investment Strategy & Product Positioning
anne.platt@raymondjames.com

Kristin Byrnes
Senior Manager
kristin.byrnes@raymondjames.com

Matt Barry
Investment Strategy Analyst
matt.barry@raymondjames.com

Giampiero Fuentes
Investment Strategy Analyst
giampiero.fuentes@raymondjames.com

Taylor Krystkowiak
Investment Strategy Analyst
taylor.krystkowiak@raymondjames.com

Liz Colgan
Investment Strategy Analyst
liz.colgan@raymondjames.com

J. Michael Gibbs
Managing Director, Equity Portfolio & Technical Strategy
michael.gibbs@raymondjames.com

Joey Madere, CFA
Senior Portfolio Analyst
joey.madere@raymondjames.com

Richard Sewell, CFA
Senior Portfolio Analyst
richard.sewell@raymondjames.com

Scott Brown, Ph.D.
Senior Vice President, Chief Economist
scott.j.brown@raymondjames.com

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Sector investments are companies engaged in business related to a specific es presented herein are for illustrative purposes only and should not be considered as the sole basis for an investment decision. There can be no assurance that the future performance of any specific investment or investment strategy made reference to be advisors do not offer tax or legal advice. You should discuss any profitable or equal any corresponding indicated sector. They 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. 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 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 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. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of a portfolio. The Citi Economic Surprise Indices measure data surprises relative to market expectations. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. 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 Eastern Europe Net Return Index: The index captures large and mid cap representation across 4 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. MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segment of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. MSCI EM Asia Net Return Index: The index captures large and mid cap representation across 8 Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI Europe ex UK: The MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe*. With 343 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK. MSCI Asia ex JP: The MSCI 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 955 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country. MSCI LATAM: The MSCI EM Latin America ex Brazil Index includes large and mid cap representation across 4 Emerging Markets (EM) countries* in Latin America. With 55 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Value Index measures the stock of debt with yields below zero issued by governments, companies and mortgage providers around the world which are members of the Bloomberg Barclays Global Aggregate Bond Index. The Dow Jones UBS Commodity Index is a weighted index which tracks a wide range of 22 commodity futures contracts, including metals, agricultural products, energy, and livestock. The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds. The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest U.S. 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. 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. 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. The Russell Midcap Index is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion. The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. Dow Jones-UBS Commodity Index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. Should interest rates remain unchanged, increase, or even decline, a laddered approach to fixed income investing may help reduce risk, improve yields, provide flexibility and provide shorter-term liquidity. Risks include but are not limited to: changes in interest rates, liquidity, credit quality, volatility and duration. S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. 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. The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. An investor could lose all or a substantial amount of their investment. Investors should consider hedge funds as a supplement to an overall investment strategy. 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. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. No investment strategy can guarantee success. There is no assurance any of the trends mentioned will continue or that any of the forecasts mentioned will occur. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital. 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. Investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. Data sources: FactSet and Bloomberg. Diversification and asset allocation do not ensure a profit or protect against a loss.

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880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

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