# THOUGHTS OF THE WEEK

Larry Adam, Chief Investment Officer, Private Client Group

**Follow Larry Adam on Twitter:** @LarryAdamRJ

# WEEKLY HEADINGS

### Key Takeaways

Coronavirus Continues To ‘Power’ Market Volatility

Social Distancing Could Deliver A ‘Shock’ To The US Economy

Second Longest Bull Market In History ‘Blows A Fuse’

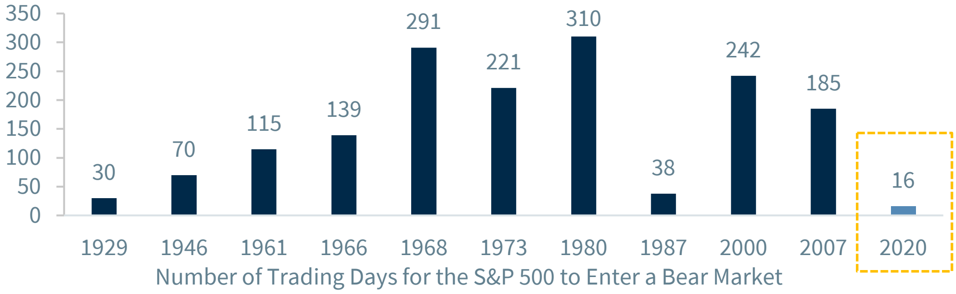
The 11-year bull market, which ironically celebrated its anniversary on Monday, has ‘short circuited’ due to coronavirus fears. For the first time since 1997, circuit breakers halted equity trading for 15 minutes on Monday morning after the S&P 500 declined 7%. The same occurred on Thursday, bringing the Index into bear market territory. These mechanisms exist to help ‘protect’ investors, allowing them an opportunity to assess market conditions and base decisions on available information rather than on pure emotion. Two unexpected ‘deal breakers’ triggered these circuit breakers: 1) escalating fears of the global spread of the coronavirus and 2) the reignited oil price war between Saudi Arabia and Russia. These developments will likely ‘power’ the ‘surge’ in near-term market volatility as markets attempt to decipher the ultimate economic and earnings impact in the context of significant policy responses from both global central banks and governments. Quickly attempting to recalibrate market expectations without the benefit of historical precedence tends to exacerbate volatility.

- **Concerns About The US Consumer Going ‘Off The Grid’ |** Perhaps the biggest risk to the US economy is social distancing—activities like restaurants, transportation and spectator events—as consumer spending accounts for ~70% of US GDP. Prior to the coronavirus outbreak, personal consumption was robust, posting 40 straight quarters of growth. But now, the outbreak of the virus has raised concerns that the most resilient, critical component of the US economy will be hampered. Just this week alone, local and state governments limited events above certain capacities, major sports leagues suspended seasons, and College Basketball Tournaments were cancelled. Our Chief Economist Scott Brown estimates that virus-impacted social spending comprises ~8% of consumer spending and ~5% of total GDP. If this spending component declines 10%, it will translate to a -0.5% impact on GDP. If the decline worsens to 20%, the downside risk to our 2020 GDP forecast (1.8%) would likely be more than 1.0% and take us to the cusp of a recession. If it falls meaningfully further a short and shallow recession would likely result. Regardless, pent up consumer demand should lead to a bounce back in growth in 2H20 and 2021.
- **‘Amped Up’ Action By The Fed |** The Federal Reserve’s (Fed) ‘electrifying’ moves lately have proven to be amongst the most proactive actions taken by a central bank thus far. Scott Brown expects further easing at the March FOMC meeting next week with a 100 basis point cut which would take rates to zero. In addition, the Fed ‘exercised power’ as it announced $1.5 trillion of liquidity injections. The decision to widen the maturity range for its purchases and undergo significant repo operations helps ensure the proper market functioning for Treasuries, which subsequently impacts the credit markets. As uncertainty plagues the market, the Fed will continue to “act as appropriate” to protect the US economy.
- **Trump’s ‘Power Play’ Yet To Come |** President Trump’s prime time Oval Office speech essentially disappointed investors who were anticipating a ‘shock and awe’ fiscal response. He escalated his verbiage surrounding the severity of the virus, but his proposals seemed to not be broad or far-reaching (e.g., travel ban for passengers from Europe) or seemed politically challenging given a lack of congressional support (e.g., a tax holiday through Election Day which would cost $312-334 billion). Ed Mills, Equity Research Washington Policy Analyst, expects that more targeted efforts such as tax relief for specific industries or democratic proposed priorities (e.g., medical care and testing coverage, unemployment insurance) are more likely fiscal stimulus outcomes in the near term. With the magnitude and duration of the coronavirus outbreak in the US still relatively unknown, large scale measures (e.g., delayed tax payments) will be implemented in the later stages of what will be a multi-step process.
- **‘Plug Pulled’ On The Bull Market |** With the S&P 500 down ~27% from its February 19 record high, the coronavirus has resulted in the worst daily decline since 1987 and the quickest reversal of a bull market in history – just 16 trading days. While the magnitude and duration has been difficult, our models indicate that the current pullback is overestimating the decline in earnings growth (~20% priced in versus our worst case scenario ~7.5%) and dividends (~15% priced in near the Great Recession decline of 20%) for the year.* Volatility will persist, but contrarian indicators suggest that a bottom may be approaching. The Volatility Index is at the highest level since 2008, the put/call ratio is rising to multi-year highs, and the percentage of S&P 500 constituents trading above their 10 and 50-day moving averages is near record lows.* Our expectation is that over the next 12 and 24 months equities will be meaningfully higher from current levels and that the coronavirus fears will subside, leading to an economic rebound in the second half of this year.

## CHART OF THE WEEK

**Bull Market ‘Short Circuits’**

*The coronavirus outbreak caused the worst daily decline since 1987 and the quickest reversal of a bull market in history – just 16 trading days!*




*See Charts of the week on page 3.

## ECONOMY

- The University of Michigan Consumer Sentiment Index declined less than expected from 101 to 95.9, reflecting early optimism about the coronavirus being a temporary issue, but as the virus continues to spread, sentiment is likely to decline further.*
- Jobless claims fell in the week ending March 7, leaving the four-week average at 214,000. This remains very low by historical standards, but it is still too soon to show any negative impact from COVID-19.* The Consumer Price Index edged up 0.1% in February (2.3% YoY), as higher food prices offset a decrease in energy. Core inflation rose 0.2% (2.4%).
- **Focus of the Week**: The Fed will meet next Tuesday and Wednesday for its March FOMC meeting. While we had initially expected that the Fed would cut rates an additional 50 bps following its inter-meeting 50 bps cut, we now expect the Fed to cut interest rates 100 bps to (0.00-0.25%) given the negative ramifications from the coronavirus. Senior Fed officials will revised their projections of growth, unemployment, and inflation, and we'll get a new dot plot. Retailers are expected to post a lackluster-to-moderate gain for February (not a key month for retailers), with only a modest impact from COVID-19. The Index of Leading Economic Indicators should rise by about 0.2% in February, boosted by an increase in the factory workweek.

## March 16 – March 20

**MON**

**TUE** Retail Sales (Feb)
Industrial Production (Fed)
JOLTS (Feb)

**WED** FOMC Policy Statement
Fed Economic Projections
Powell Press Briefing

**THU** Leading Economic Indicators

**FRI** Existing Home Sales

**FUTURE EVENTS** 3/25 Durable Goods Orders (Feb)
3/26 Real GDP
3/27 UM Consumer Sentiment

## US EQUITY

- With market trading influenced by passive investing and controlled by computer programs, the price moves have been dramatic over recent weeks. Until there is some clarity surrounding the eventual spread and negative economic impact from the coronavirus, equities will likely continue to exhibit volatility. However, longer term, we believe odds are high that equity markets will be sharply higher within 12-24 months. Given our belief that the virus' impact is transitory, the market will begin to discount the recovery and the Fed's monetary actions and potential fiscal policy may be an additional catalyst to accelerate the recovery.
- **Focus of the Week:** Coming into Friday, the S&P 500 is already down over 26% from the peak and bear market bottoms tend to be violent (those that sell now will likely miss the outsized returns early in the snapback). Historically, recessionary bear markets have seen average price declines of 33% (median 24%) and average price declines of 24% (median 22%) in non-recessionary periods (dating back to 1957). However, looking forward, from the low, equities return to new highs within 27 months of the low (median 12 months) during recessionary bear markets and an average of 11 months (median 11 months) following non-recessionary bear markets. We reiterate our belief that the odds are high that equity markets will be sharply higher within 12-24 months.

## FIXED INCOME

- To begin the week, longer duration bond yields fell to record lows (including the largest 15-day trading decline for the 10-year Treasury since 2008) as fixed-income investors priced in a potential recession as a result of the negative ramifications of the coronavirus. This decline in yields brought the entire Treasury yield curve (yields across all maturities) below 1%.
- However, this sharp decline in yields led longer-duration Treasury to become significantly oversold as the 14-day RSI of the 10-year Treasury rose to the highest level on record.* This suggests that the decline in yields was likely over done in the near term, which led yields to rise sharply as the 30-year Treasury yield posted its largest four-day gain since 2009.
- **Focus of the Week:** Amidst the market volatility and the sharp decline in energy prices, high-yield spreads widened sharply over recent days as the market priced in the potential for potential defaults and credit downgrades over the coming months. We continue to believe investment-grade bonds offer a better risk/reward framework relative to high yield over the coming months.

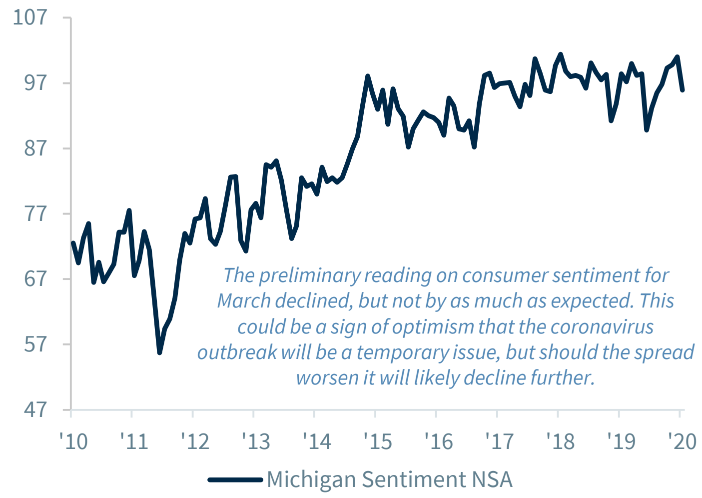
## INTERNATIONAL, POLITICAL & COMMODITIES

- Democratic voters appear to be overwhelmingly pivoting toward Biden as he stacked up a series of impressive wins in March 10 voting, expanding his delegate lead over Senator Sanders. While Sanders continued to pick up delegates, it is hard to see any real path towards a majority or plurality of delegates. The spread of COVID-19 in the US is starting to have an impact on campaign events and potentially on future primaries, which could pressure an earlier-than-expected departure of Senator Sanders. We believe most of the immediate market impact of a Biden nomination was seen last Monday (following South Carolina) and Wednesday (following Super Tuesday). The removal of the policy risk of a Sanders' presidency removes some market risk from this election. While Biden would swing the agenda away from Trump priorities, he is generally viewed as promoting policy goals from the political mainstream/could easily push more fiscal stimulus, which is a neutral to positive market impact.
- The Saudi-Russia price war is real, although the rhetoric from Saudi leadership is exaggerating how much supply can be increased. Saudi Arabia has never produced more than 10.8 mbpd in a quarter, and even with some temporary measures, the talk about surpassing 12 mbpd looks farfetched. More importantly, the Saudi treasury needs a $70/Bbl oil price for its fiscal requirements, and burning $120 billion per year (at current prices) is not a long-term option.* This means Saudi Arabia is likely to blink first. We also expect that Russia will be more receptive to a deal after Vladimir Putin wins his constitutional referendum on April 22.
- **Focus of the Week:** President Trump delivered a prime time Oval Office address, the World Health Organization (WHO) declared COVID-19 a pandemic, many national sports leagues have cancelled their seasons, and we learned American icon Tom Hanks is infected - all on Wednesday. To be clear, we continue to believe the headlines around the virus will continue to get worse before they get better. We believe the next 5-7 days will provide clarity on the likely duration and extent of the outbreak in the US. By next week, we will probably have a much clearer sense of whether we can be largely past this virus by the end of April, or if this will stretch to summer or longer. In terms of the market, the question to watch will be how quickly policymakers take action on fiscal stimulus and whether that will be enough to ease fears. We believe this will be a multi-step process with targeted relief for individuals before a systemic fiscal stimulus package comes together, possibly prolonging the timeline and related volatility.

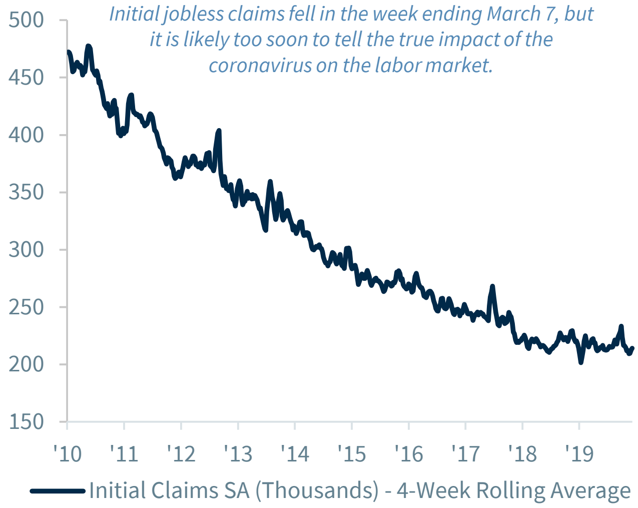
*See Charts of the week on page 3.

## Charts of the Week

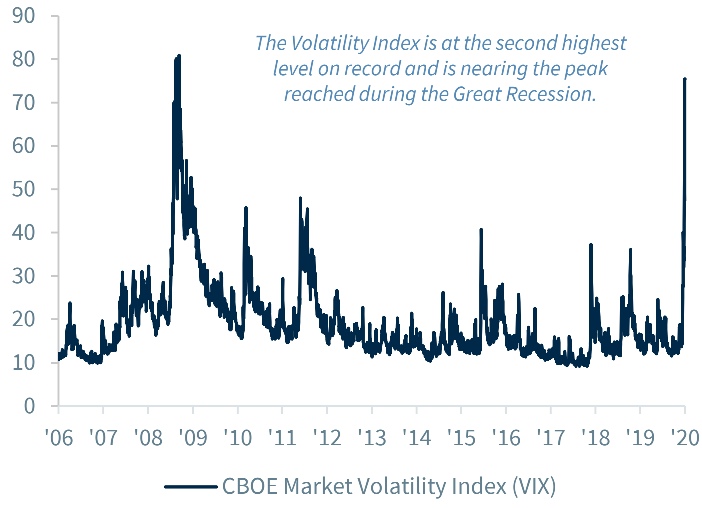
Preliminary Reading on Consumer Sentiment



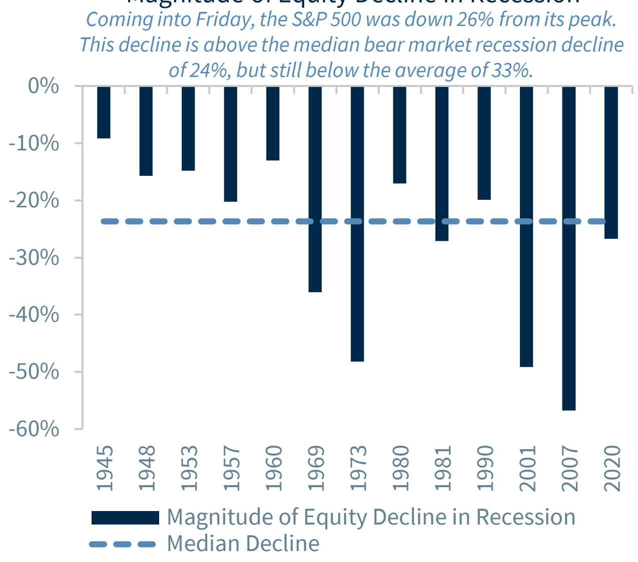

Initial Jobless Claims Remain Resilient



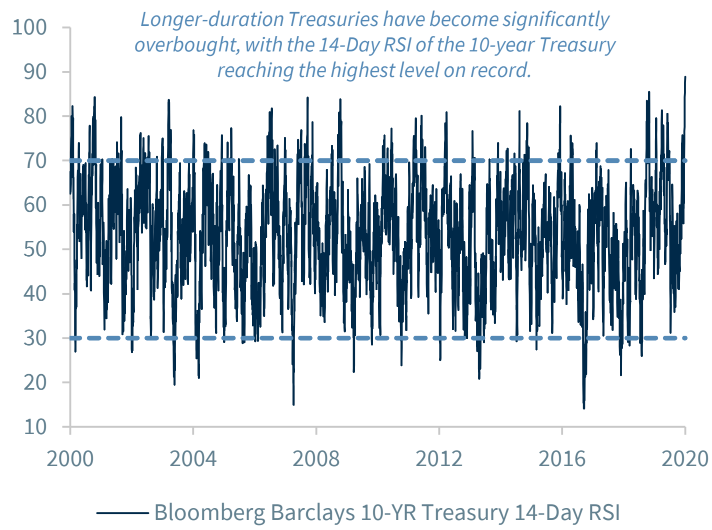

Market Volatility Near Record High



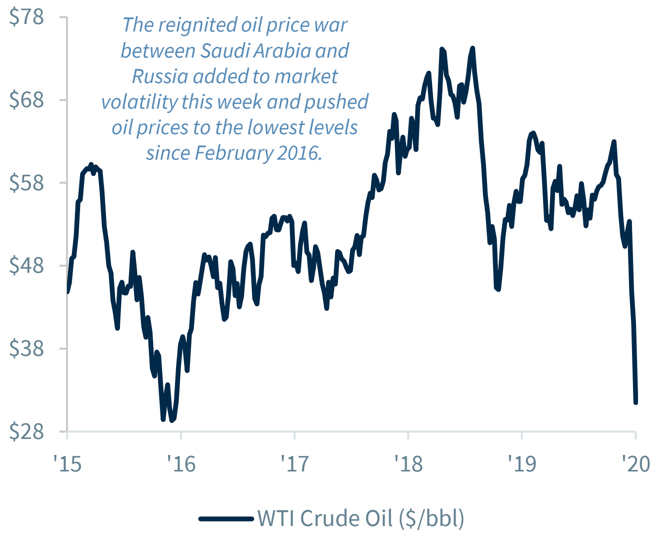

Magnitude of Equity Decline in Recession




10-Year US Treasury In Overbought Territory




Reignited Oil Price War



## Asset Class Performance | Distribution by Asset Class and Style (as of March 12)**

### Weekly Returns (as of March 12)

**US Equities (Russell indices)**

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | -20.3% | -17.2% | -14.5% |
| Mid Cap | -22.7% | -20.5% | -17.5% |
| Small Cap | -26.5% | -25.0% | -23.6% |

**International Equities (MSCI indices)**

| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | -20.4% | -17.2% | -12.2% |
| Mid Cap | -20.7% | -20.3% | -16.0% |
| Small Cap | -20.7% | -22.1% | -15.1% |

**Fixed Income (Bloomberg Barclays indices)**

| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 0.3% | 2.3% | 4.2% |
| Invest. Grade | -0.5% | -2.5% | -3.4% |
| High Yield | -6.8% | -8.0% | -8.4% |

### Year-to-Date Returns (as of March 12)

**US Equities (Russell indices)**

| | Value | Blend | Growth |
|---|---|---|---|
| Large Cap | -28.4% | -23.2% | -18.4% |
| Mid Cap | -30.5% | -27.1% | -22.1% |
| Small Cap | -36.2% | -32.5% | -29.0% |

**International Equities (MSCI indices)**

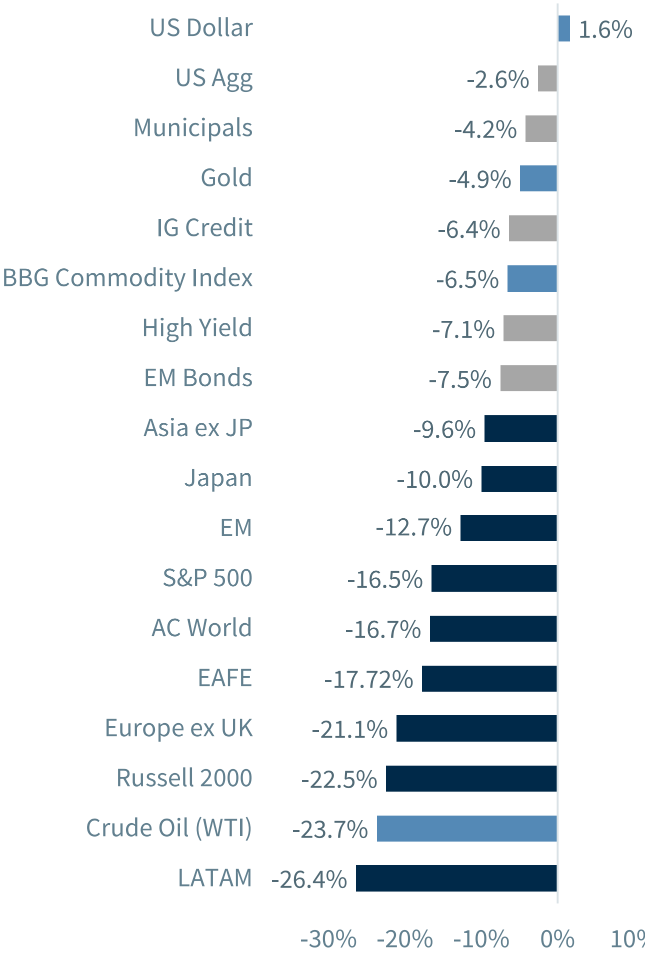
| | Dev. Mkt | World | Emerg. Mkt |
|---|---|---|---|
| Large Cap | -25.2% | -22.4% | -16.4% |
| Mid Cap | -25.8% | -26.0% | -21.3% |
| Small Cap | -26.8% | -28.8% | -19.9% |

**Fixed Income (Bloomberg Barclays indices)**

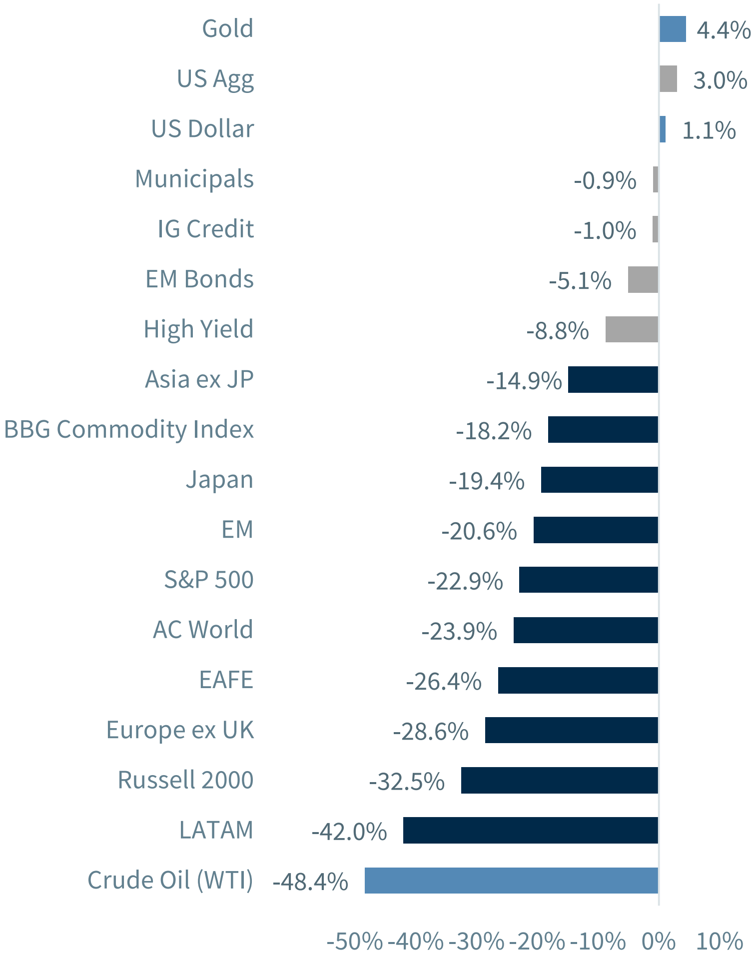
| | 1-3 YR | Medium | Long |
|---|---|---|---|
| Treasury | 0.5% | 5.3% | 10.3% |
| Invest. Grade | 0.4% | -0.6% | -0.6% |
| High Yield | -7.3% | -8.9% | -6.5% |

## Asset Class Performance | Weekly and Year-to-Date (as of March 12)**

### Week-to-Date***




### Year-to-Date***




Commodities ■ Equities ■ Fixed Income

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

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

# Weekly Data**

Data as of March 12

### U.S Equities

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| S&P 500 | 2480.6 | (17.9) | (16.0) | (22.9) | (9.4) | 3.5 | 10.8 | 15.8 |
| DJ Industrial Average | 21200.6 | (18.8) | (16.6) | (25.7) | (17.0) | 19.3 | 12.6 | 16.1 |
| NASDAQ Composite Index | 7201.8 | (17.6) | (15.9) | (19.7) | (5.1) | 19.9 | 13.1 | 19.0 |
| Russell 1000 | 2623.3 | (18.3) | (16.5) | (23.2) | 7.8 | 9.7 | 9.0 | 12.6 |
| Russell 2000 | 2790.8 | (24.0) | (23.9) | (32.5) | (4.9) | 3.5 | 5.1 | 10.4 |
| Russell Midcap | 4440.4 | (20.6) | (19.6) | (27.1) | 2.3 | 6.6 | 6.4 | 11.9 |

### Equity Sectors

| Sector | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| Materials | 272.0 | (20.9) | (17.6) | (29.2) | (20.0) | (3.9) | (0.8) | 5.3 |
| Industrials | 490.2 | (20.1) | (20.7) | (28.4) | (19.6) | (2.6) | 2.4 | 8.8 |
| Comm Services | 144.3 | (15.6) | (15.7) | (20.3) | (7.9) | (2.1) | 2.6 | 7.9 |
| Utilities | 275.2 | (19.3) | (12.2) | (15.6) | (3.3) | 5.8 | 8.2 | 10.4 |
| Consumer Discretionary | 766.6 | (16.7) | (16.2) | (22.0) | (10.4) | 5.0 | 6.6 | 13.4 |
| Consumer Staples | 537.0 | (15.7) | (9.7) | (16.7) | (1.7) | 1.2 | 4.4 | 9.7 |
| Health Care | 985.4 | (13.1) | (8.4) | (16.8) | (4.6) | 5.8 | 5.3 | 12.4 |
| Information Technology | 1319.1 | (17.0) | (14.8) | (17.9) | 6.6 | 15.3 | 15.4 | 15.1 |
| Energy | 221.7 | (34.2) | (35.3) | (50.9) | (51.8) | (21.6) | (13.8) | (3.9) |
| Financials | 336.7 | (23.0) | (23.5) | (33.8) | (20.8) | (4.5) | 2.5 | 6.9 |
| Real Estate | 200.8 | (17.2) | (11.7) | (16.2) | (5.7) | 5.5 | 4.6 | 10.7 |

### Fixed Income

| Index | Yield | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| 3-Months Treasury Bill (%) | 0.3 | 0.1 | 0.2 | 0.4 | 2.2 | 1.7 | 1.1 | 0.6 |
| 2-Year Treasury (%) | 0.5 | 0.2 | 0.8 | 2.3 | 5.1 | 2.4 | 1.6 | 1.3 |
| 10-Year Treasury (%) | 0.9 | 0.7 | 2.6 | 10.3 | 18.6 | 7.4 | 4.1 | 5.0 |
| Barclays US Corporate High Yield | 8.3 | (8.3) | (7.5) | (8.8) | (1.8) | 2.6 | 3.7 | 6.2 |
| Bloomberg Barclays US Aggregate | 1.8 | (1.6) | (0.7) | 3.0 | 10.1 | 5.2 | 3.5 | 3.9 |
| Bloomberg Barclays Municipals | | (3.8) | (3.9) | (0.9) | 4.7 | 4.2 | 3.3 | 4.0 |
| Bloomberg Barclays IG Credit | 3.1 | (5.5) | (4.5) | (1.0) | 9.7 | 5.6 | 4.1 | 5.2 |
| Bloomberg Barclays EM Bonds | 5.9 | (7.5) | (6.3) | (5.1) | 3.0 | 3.6 | 4.5 | 5.7 |

### Commodities

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| WTI Crude ($/bl) | 31.5 | (23.4) | (29.7) | (48.5) | (44.6) | (13.1) | (7.7) | (9.0) |
| Gold ($/Troy Oz) | 1570.7 | (5.4) | (2.4) | 3.7 | 21.1 | 9.3 | 6.4 | 3.6 |
| Dow Jones-UBS Commodity Index | 66.2 | (9.0) | (6.8) | (18.2) | (18.2) | (7.7) | (7.7) | (6.7) |

### Currencies

| Currency | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| US Dollar Index | 97.5 | 0.7 | (0.7) | 1.1 | 0.5 | (1.3) | (0.4) | 2.0 |
| US Dollar per Euro | 1.1 | (1.0) | 0.9 | (1.3) | (1.7) | 1.3 | 0.9 | (2.1) |
| US Dollar per British Pounds | 1.3 | (2.9) | (1.8) | (5.3) | (4.2) | 1.0 | (3.4) | (1.9) |
| Japanese Yen per US Dollar | 105.7 | (0.9) | (2.0) | (2.8) | (5.1) | (2.8) | (2.7) | 1.5 |

### International Equities

| Index | Price | Weekly | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|---|---|
| MSCI AC World | 428.5 | (18.4) | (16.3) | (23.9) | (12.6) | 1.2 | 2.9 | 6.2 |
| MSCI EAFE | 1491.7 | (19.6) | (17.4) | (26.4) | (17.1) | (2.3) | (0.8) | 2.8 |
| MSCI Europe ex UK | 1516.3 | (23.1) | (20.5) | (28.6) | (17.6) | (2.4) | (0.8) | 2.8 |
| MSCI Japan | 2770.0 | (11.4) | (10.0) | (19.4) | (8.7) | 0.2 | 1.8 | 4.0 |
| MSCI EM | 883.1 | (15.0) | (12.1) | (20.6) | (13.5) | 1.2 | 1.3 | 1.6 |
| MSCI Asia ex JP | 584.7 | (11.8) | (8.3) | (14.9) | (8.4) | 4.1 | 3.1 | 4.7 |
| MSCI LATAM | 1683.3 | (29.1) | (30.2) | (42.0) | (38.1) | (10.0) | (4.1) | (5.7) |
| Canada S&P/TSX Composite | 9017.4 | (24.4) | (23.1) | (26.7) | (22.5) | (6.9) | (3.3) | 0.4 |

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

## DISCLOSURES

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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.

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.

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## DATA SOURCES

FactSet.

## DOMESTIC EQUITY DEFINITION

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.

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.

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.

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.

## FIXED INCOME DEFINITION

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.

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.

BLOOMBERG BARCLAYS 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).

VIX | The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options.

## INTERNATIONAL 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. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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.

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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# Investment Strategy


**Lawrence V. Adam III, CFA, CIMA®, CFP®**
*Managing Director, Chief Investment Officer*
T. 410.525.6217
larry.adam@raymondjames.com

**Matt Barry, CFA**
*Investment Strategy Analyst*
T. 410. 525. 6228
matt.barry@raymondjames.com

**Scott Brown, PhD**
*Senior Vice President, Chief Economist*
T. 727.567.2603
scott.j.brown@raymondjames.com

**Liz Colgan**
*Investment Strategy Analyst*
T. 410.525.6232
liz.colgan@raymondjames.com

**Kevin Giddis**
*Chief Fixed Income Strategist*
T 901.578.4769
kevin.giddis@raymondjames.com

**Giampiero Fuentes**
*Investment Strategy Analyst*
T. 727.567.5776
giampiero.fuentes@raymondjames.com

**J. Michael Gibbs**
*Managing Director, Equity Portfolio & Technical Strategy*
T. 901.579.4346
michael.gibbs@raymondjames.com

**Taylor Krystkowiak**
*Investment Strategy Analyst*
T. 727.567.2211
taylor.krystkowiak@raymondjames.com

**Joey Madere, CFA**
*Senior Portfolio Analyst*
T.901.529.5331
joey.madere@raymondjames.com

**Anne B. Platt**
*Vice President, Investment Strategy & Product Positioning*
T. 727.567.2190
anne.platt@raymondjames.com

**Richard Sewell, CFA**
*Senior Portfolio Analyst*
T.901.524.4194
richard.sewell@raymondjames.com



RAYMOND JAMES

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

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

RAYMONDJAMES.COM