



CIO View

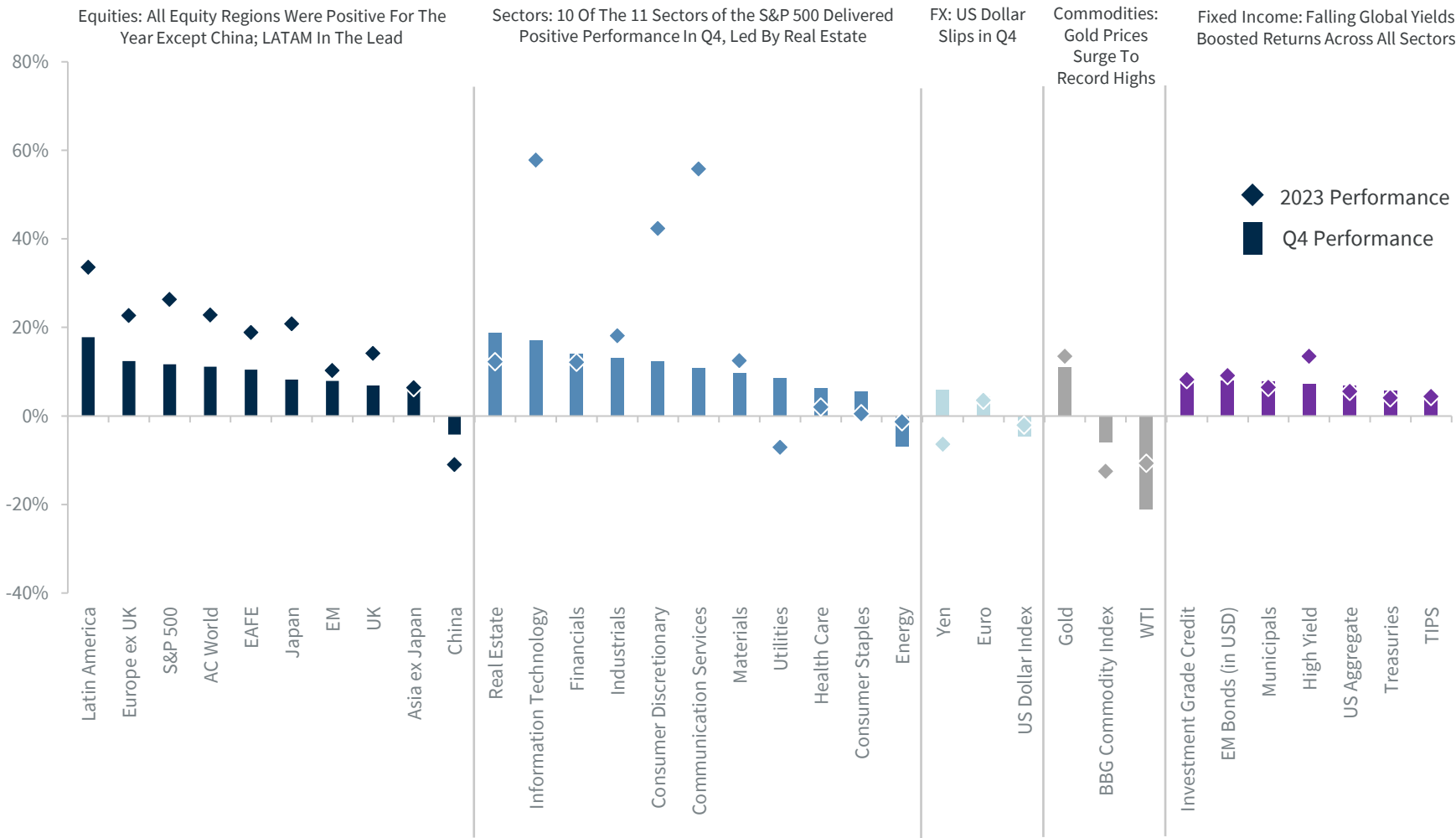
Quarterly Strategy Snapshot

Q4 2023

Lawrence V. Adam III, CFA, CIMA®, CFP®
Chief Investment Officer

Returns By Asset Class | Q4 and 2023 Returns

Returns by Asset Class



Data as of December 31, 2023. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent quarterly total returns.

Global Economy | Mild Recession Still Likely in 2024

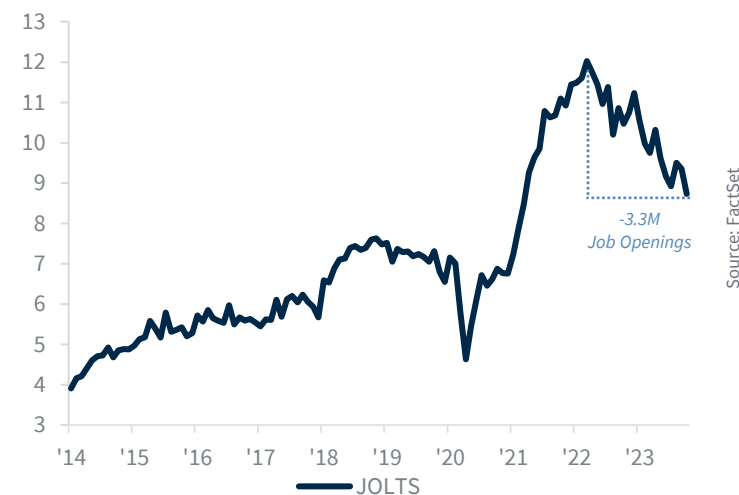
Global Economy | Recent Trends

- **The Federal Reserve's (Fed) efforts to dampen demand and price pressures are working their way through the economy.** Economic growth remains solid, but real-time indicators (i.e., hotel occupancy levels, luxury watch sales, restaurant bookings) are starting to suggest the economy is slowing. Fed officials have taken notice and have signaled rate cuts in 2024.
- **Job growth remains solid, rising at a three-month average pace of ~200k. However, the pace of hiring (+199k) has slowed from the beginning of the year.** The number of job openings is down sharply (-3.3 million) from its peak in early 2022, with the ratio of job openings to unemployed workers sliding to its lowest level (1.3) since early 2021.
- **US inflation continues to ease, with the Fed's preferred measure (core PCE) now running below its 2.0% target on a six month-annualized basis,** a sharp moderation from the ~4% pace in the first half of 2023. The steady improvement in recent months has alleviated Fed policymakers concerns and justified that no additional tightening is needed.
- **Inflation in Europe is easing faster than expected, with core CPI falling to +3.6% YoY.** However, the tight labor market has kept wage pressures (+5.3% YoY) elevated.
- **Property market headwinds and weak confidence continues to weigh on China's growth rate (+4.9% YoY).** Stimulus measures to date have not meaningfully boosted growth.

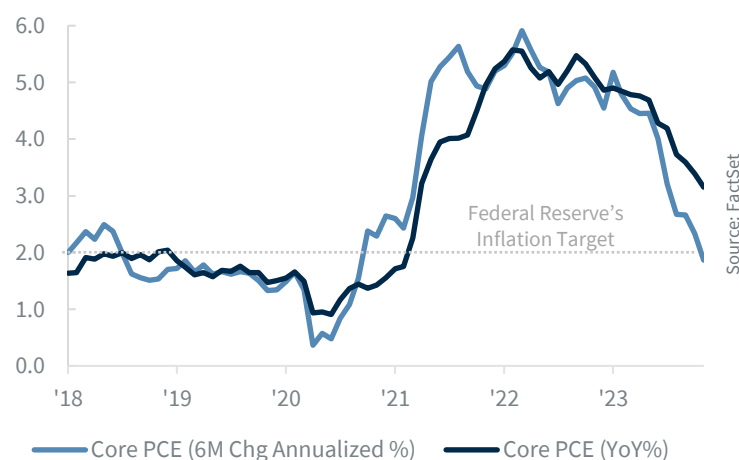
Global Economy | 12-Month Outlook

- **The US economy proved far more resilient than expected in 2023. However, a mild recession remains our base case in 2024.** We expect the recession will start in 2Q24 as consumer spending weakens amid slowing job growth. Growth should slow to a below-trend pace of +1.0% in 2024, with the forecasted recession being one of the mildest in history.
- **Slowing growth and cooling inflation pressures have brought an end to the Fed's tightening cycle.** These dynamics suggest rate cuts are on the horizon in 2024. However, we believe the market is overly optimistic, anticipating as many as six rate cuts in 2024. We expect the Fed will only cut rates three or four times.
- **High interest rates and tight lending conditions continue to weigh on economic activity in Europe.** Inflation is falling quickly in Europe. However, ECB policymakers remain concerned about elevated wage pressures, and are reluctant to signal rate cuts in 2024 even as the weak growth backdrop suggests policy easing may be warranted.
- **China's recovery has been hampered by structural issues (i.e., property downturn, high youth unemployment, poor demographics).** While Chinese authorities are taking steps to stimulate growth and maintain the government's 5.0% growth target, the economy remains in need of a major growth catalyst.

Job Openings Down Sharply From Their Peak



Inflation Is Moving Back To The Fed's Target



Equities | Global Equities Soar For Second Month In A Row

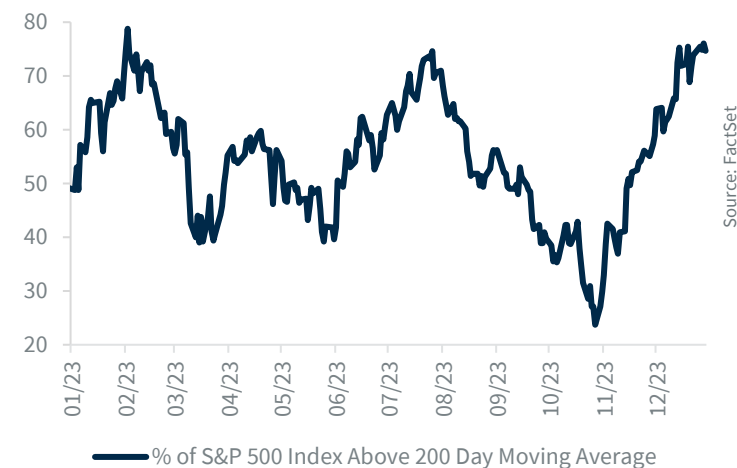
Global Equities | Recent Trends

- **US equity markets closed out 2023 on a strong note**, with the S&P 500 Index climbing within striking distance of its all time high, fueled by growing optimism for a soft landing and the prospect of Fed rate cuts in 2024. The S&P 500, tech heavy NASDAQ Composite and the Russell 2000 ended the year up +26.3%, +44.6% and +16.9%, respectively.
- **Narrow leadership drove the markets for much of 2023; however, market breadth improved significantly in the final months of the year.** Nearly 75% of stocks in the S&P 500 now trade above their 200-day moving average. While lagging YTD, small-cap stocks outperformed large caps by the widest margin since 2000 (~+9% MTD) in December.
- **Falling bond yields and strengthening currencies lifted developed market international equities in the final quarter of the year**, with the MSCI World ex-US Index largely keeping pace with US equities (+10.6% QTD). However, it trailed on a YTD basis, rising only 18.6%. In local currency terms. Japanese equities were a standout, rising 29% in 2023.
- **Emerging market equities underperformed (+10.3% YoY)**, weighed down by weakness in Chinese equities, which fell for the third year in a row (-11% YoY). Outside of China, **EM stocks benefited from strength in Indian equities (+21.3% YoY) and Latin American equities**, specifically Mexico and Brazil, which gained 41.5% and 33.4% YoY, respectively.

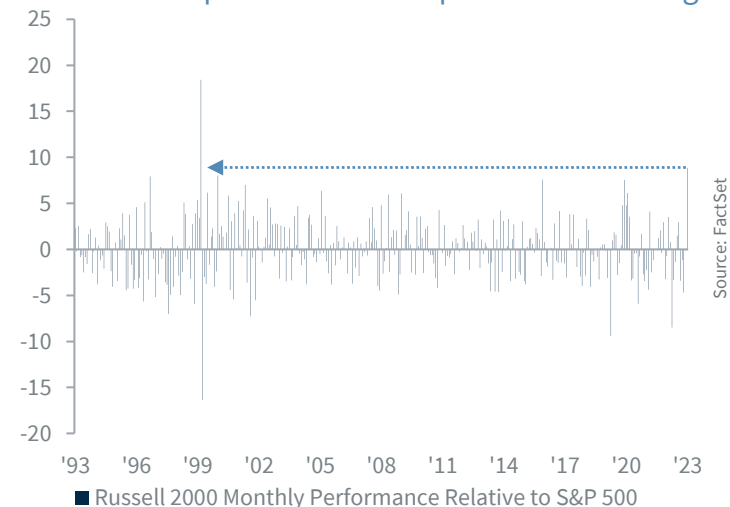
Global Equities | 12-Month Outlook

- **The equity market's strong gains at the end of 2023 has tempered our near-term expectations for the market.** While we still see modest upside for equities in 2024, a lot of the good news that we were expecting has largely been priced into valuations. Our year-end target for the S&P 500 is 4,850 (\$225 EPS forecast and a 21.5x multiple).
- **We remain cautiously optimistic on the market heading into 2024 but expect upside will be limited.** Earnings growth should remain muted as the economy experiences a mild recession starting in Q2. However, the Fed's pivot to easier policy should set the stage for recovery later in the year. For the near term, we recommend a more defensive tilt.
- **European equity valuations remain historically undervalued relative to US stocks.** However, fundamentals still favor US stocks over international developed equities. Stronger economic growth, more dynamic consumers, and higher weights to the sectors we favor suggest US equities should continue to outperform.
- **We remain constructive on emerging market equities. However, selectivity remains crucial.** China's influence on emerging markets is waning after three years of underperformance. However, EM Asia (i.e., India) and Latin America (i.e., Mexico/Brazil) should continue to benefit from attractive valuations and recent friend/nearshoring trends.

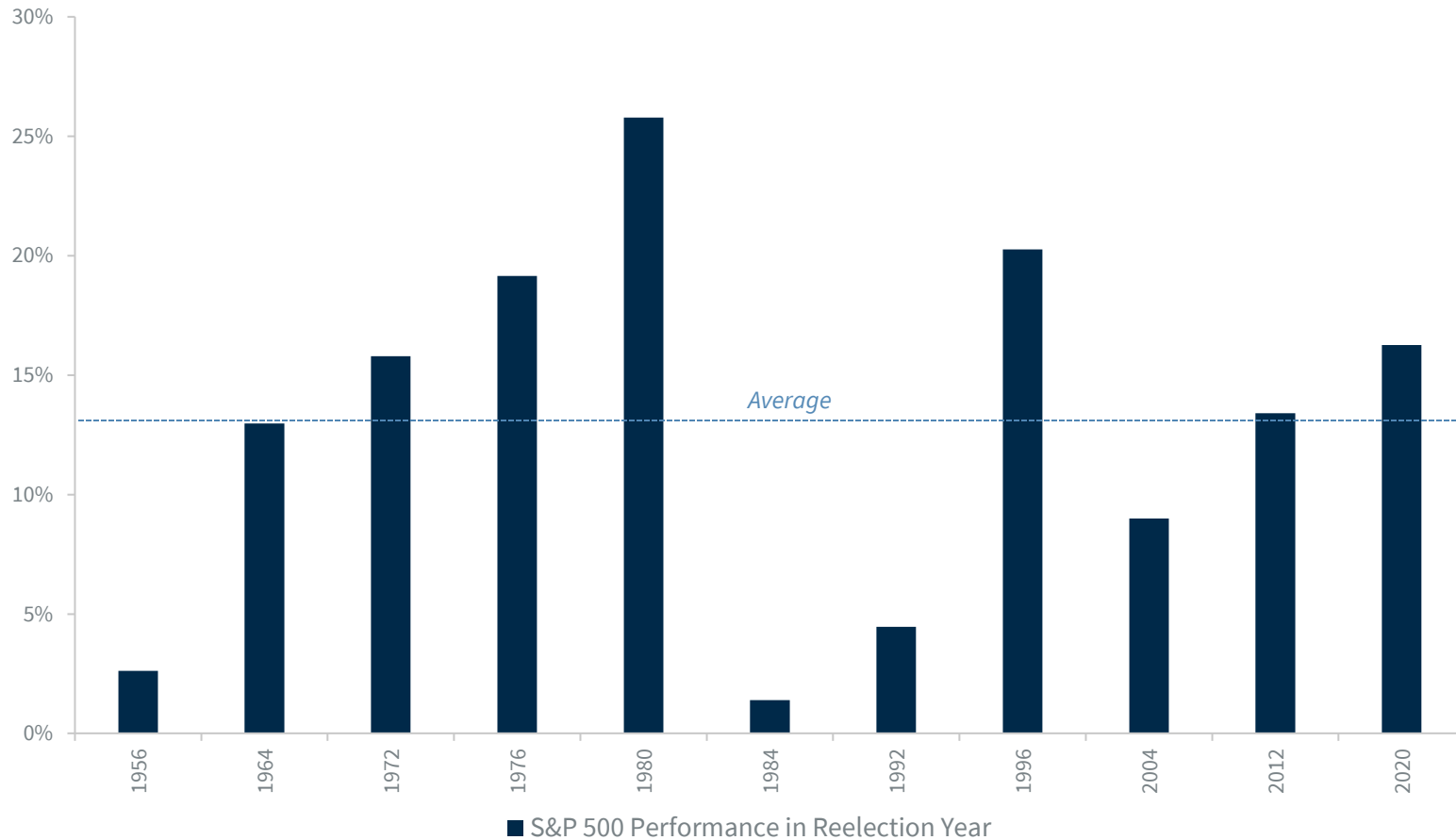
Broad Market Participation In Recent Gains



Small Caps Recover On Hopes Of Soft Landing



DON'T FEAR THE ELECTION, RETURNS HAVE HISTORICALLY BEEN POSITIVE



Source: FactSet, Data as of 1/4/2024. Returns are price return.

Fixed Income | Fed Pivot Drives Massive Bond Rally

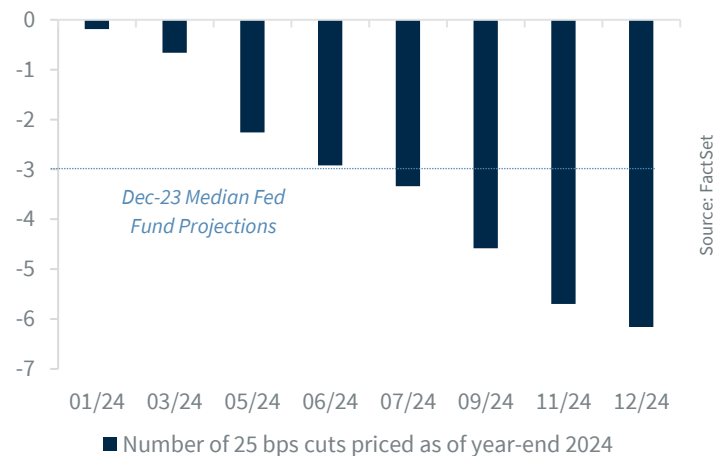
Global Bonds | Recent Trends

- **The Fed held rates steady at 5.5% for the third FOMC meeting in a row, but policymakers signaled rate cuts are on the horizon in 2024.** The Fed's pivot sparked a massive rally in bond yields, with the 2-year Treasury yield falling 17 bps to 4.25% and the 10-year Treasury finishing the year unchanged (at 3.88%) after hitting 5.0% in late October.
- **The Fed's latest Summary of Economic Projections anticipates three 25 basis point rate cuts in 2024.** However, slowing growth and the steep decline in inflation has the market more optimistic on what the Fed will deliver in 2024, with the fed funds futures contracts pricing in nearly six 25 bps rate cuts by year end, with the odds of a 1Q24 rate cut growing.
- **The sharp turnaround in bond yields boosted returns across all sectors, lifting some out of negative territory for the year.** The Bloomberg US Aggregate Bond Index delivered its best quarterly performance since 1989, climbing 6.8% in Q4. The riskiest sector of the US bond market (high yield) had its best year since 2009, gaining 13.4%.
- **The credit sensitive sectors of the bond market performed well as recession concerns dwindled.** Despite an uptick in defaults and bankruptcies, high yield credit spreads dropped to their lowest level (323 bps) since early 2022. The HY index has migrated to a higher average credit quality, as lower tier credits opt for private financing, but risks remain.

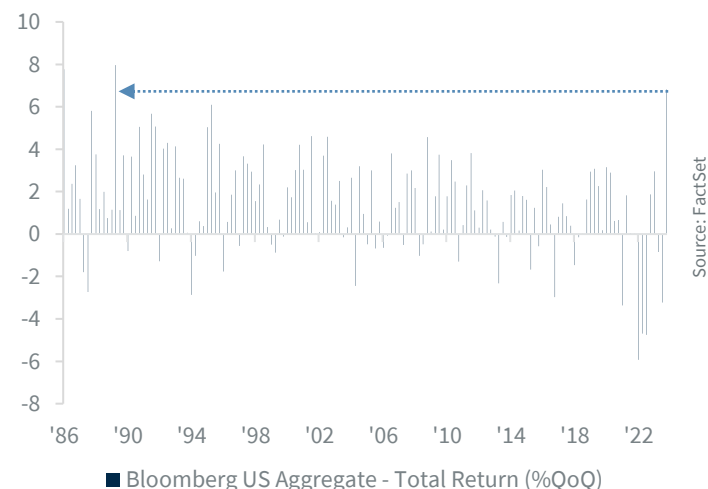
Global Bonds | 12-Month Outlook

- The last few years have been challenging for fixed income investors. However, **the Fed has signaled that we have reached the peak fed funds rate and rate cuts are now on the horizon.** While bond yields have fallen from their recent peak, yields still stand significantly higher than their COVID lows.
- **The end of the Fed's tightening cycle has historically ushered in lower yields.** With yields still elevated, investors should look for opportunities to extend duration to intermediate and longer-duration bonds to take advantage of potential capital gains. As growth and inflation continue to ease, we expect the 10-year Treasury yield to fall to 3.5% by year-end 2024.
- **The recent yield reset has restored value and improved the risk/return profile for the bond market.** At current elevated yield levels, bonds (across all sectors) now provide generous income (the highest in over a decade) that can provide a cushion against any potential move higher in rates while offering diversification benefits from equity risk.
- The resilient economy has driven investment grade and high yield credit spreads to their tightest levels in two and nearly three years, respectively. **We think there is scope for credit spreads to widen from current levels,** with lower quality credits more vulnerable heading into a recessionary environment. We recommend waiting for better entry points.

Market Expectations More Optimistic On Rate Cuts



Best Quarterly Return Since 1989



Commodities & Currencies | US Dollar Broadly Weaker As Fed Flags Easier Policy

Commodities & Currencies | Recent Trends

- **The Bloomberg Commodity Index ended the year down 12.6%— its worst annual decline since 2018.** Commodities prices were lower across most sub-indices, with everything from energy (-25.6%) to industrial metals (-13.7%) and grains (-17.4%) down sharply on a full-year 2023 basis. However, precious metals bucked the trend, rising 4.1% YTD.
- **Energy prices were down sharply in 2023.** Warmer than expected weather drove natural gas prices down 43.3% on a YTD basis. Crude oil prices eased in Q4, with WTI prices falling from a peak of \$93.7 to \$71.65/barrel. OPEC+ nations announced voluntary production cuts, but ramped up US production filled the gap pushing prices lower.
- **Gold prices hit an all-time high in Q4, climbing to \$2,093/ounce.** The rally in the precious metal has been driven by the prospect of lower interest rates and a weaker US dollar. Central banks, such as China and Russia, have also been big buyers of gold as their share of global reserves continue to shift.
- **The US dollar broadly weakened against a basket of currencies after the Fed pivoted,** falling to a five-month low and ending the year down 2.1%—its steepest calendar year drop since 2020. The euro ended the year on a high note, with much of the rally coming in Q4, closing 2023 above 1.10. The Japanese yen slumped for the third year in a row, falling 6.4%.

Commodities & Currencies | 12-Month Outlook

- **Commodity prices are likely to moderate in 2024 after steep declines in 2023.** However, geopolitical flare-ups, particularly with ongoing wars in Russia and the Middle East, rising tensions in the Red Sea and weather-related disruptions (i.e., due to el Nino or other extreme conditions) could lead to interim bouts of volatility.
- **Supply dynamics are likely to remain a key driver of oil prices in 2024.** Ramped up US and non-OPEC+ production has more than offset the voluntary production cuts from OPEC+ members. The US government's need to refill its Strategic Petroleum Reserve and recovering demand later in 2024 should push oil prices up to our \$85/barrel forecast.
- **The US dollar has likely peaked over this cycle.** However, a sustained move lower relative to other developed market currencies will require a rebound in risk appetite and a global economic recovery. The US dollar should gradually weaken as the global central bank easing cycle gets underway in 2024 and the market begins to anticipate a global economic rebound.
- **The euro should remain broadly stable relative to the US dollar, remaining in a 1 to 1.10 range in 2024.** While the ECB maintains a hawkish bias, weak growth and rapidly declining inflation should push policymakers to cut rates in 2024. **However, the deeply depressed Japanese yen could strengthen as the Bank of Japan starts to normalize policy in 2024.**

Gold Prices Hit An All-Time High



Dollar Weakens After Fed Pivot



Summary | Key 12-Month Forecasts and Views

1

ECONOMY

US GDP: +1.0%

The US economy has lost momentum heading into 2024. We expect the lagged impact of the Fed's restrictive monetary policy, high borrowing costs and a cooling labor market to dampen consumption in the months ahead. This will lead to a mild recession starting in 2Q, with full-year growth forecasted to moderate to a +1.0% pace. Inflation will continue to slow toward the Fed's 2.0% target over the course of the year, and the unemployment rate will peak at 5.1%.

2

BOND MARKET

10-Year Treasury: 3.5%

The Fed pivoted earlier than expected. Slowing growth amid sharply lower inflation will lead the Fed to cut rates in 2024. In advance of the easing cycle, yields should continue to move lower in the coming months. Supply concerns and overly optimistic rate cut expectations may cause some interim volatility; however, we still expect the 10-year Treasury yield to reach 3.5% by year end. We prefer longer duration bonds versus cash and high-quality bonds over lower-rated sectors.

3

EQUITIES

S&P 500: 4,850

Overbought conditions may lead to a near-term pullback. However, we remain cautiously optimistic over the next 12 months. Earnings should tread water as the macro backdrop becomes more challenging, while the earnings multiple is likely to get only a modest boost from falling bond yields. We expect the S&P 500 to rise to 4,850 (\$225 EPS, 21.5x P/E multiple). We prefer US over international equities, remain constructive on emerging markets (India in particular) and expect small caps to outperform.

4

DOLLAR DIRECTION

EUR/USD: 1.05

The US dollar has likely peaked. However, weak global growth and a more resilient US economy should limit the dollar's downside. Once the easing cycle begins and a global recovery gets underway, the US dollar should gradually weaken. Stagnant growth in Europe and the prospect of ECB rate cuts should limit the euro's upside, with the currency remaining broadly stable. The Japanese yen should continue to strengthen as the BOJ exits negative interest rate policy in 2024.

5

OIL

Oil: \$85/barrel

Oil prices have eased from their recent peak. Although OPEC+ nations have attempted to stabilize prices with voluntary production cuts, ramped up production from non-OPEC+ nations and the US has temporarily provided an offset. With the US government's need to refill the Strategic Petroleum Reserve likely to put a floor under falling oil prices and the prospect of better demand once a global recovery is in sight, oil prices should climb back toward our \$85/barrel forecast in the coming year.

6

Volatility:

Equity market volatility returned to its pre-pandemic level in 2023 as supply chains normalized and inflation moved on a clear decelerating path. However, volatility is likely to pick up in a market that's already priced in the good news due to elevated geopolitical risks and the US presidential election. Interest rate volatility is likely to remain elevated as fiscal dynamics remain in focus and as the market remains disconnected from the Fed over the path of its key policy rate.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss. Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes.

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.

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

DEFINITIONS

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

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

PCE INDEX | **Personal Consumption Expenditures (PCE) Index:** The PCE price index looks at U.S. inflation by measuring changes in the cost of living for households. It tracks the prices of a basket of goods and services, each with different weightings, to reflect how much a typical household spends every month.

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

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

BLOOMBERG ENERGY INDEX | **Bloomberg Energy Index** is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*. With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

NASDAQ | The **Nasdaq Composite Index** is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. As a broad index heavily weighted toward the important technology sector, the Nasdaq Composite Index has become a staple of financial markets reports.

S&P 500 | The **S&P 500 Total Return Index**: The index is widely regarded as the best single gauge of large-cap U.S. equities.

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index**: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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

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

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index**: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index**: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

JAPAN | **MSCI Japan Net Return Index**: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

EUROPE | The **MSCI Europe Index** captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 428 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

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

CITIGROUP ECONOMIC SURPRISE INDEX | **Citigroup Economic Surprise Index** represents the sum of the difference between official economic results and forecasts. With a sum over 0, its economic performance generally beats market expectations. With a sum below 0, its economic conditions are generally worse than expected.

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DATA SOURCES

FactSet as of 1/4/24.

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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

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