RAYMOND JAMES

MARKET ANALYSIS: 2019 REVIEW AND 2020 OUTLOOK

Freedom Market Commentary // Q4 2019

The capital markets produced strong returns in 2019 – both stocks and core bonds – and optimism is back for the start of 2020.

Geopolitical story lines sent ripples of volatility through the capital markets in 2019, reflecting concern for an impending recession – even as the U.S. economy continued to grow. Yet, by the end of the year, much of the uncertainty that fueled those fears had been resolved, leading to a relatively uncommon – yet entirely welcome – modern-era occurrence: Freedom investors witnessed strong annual returns in the equity and bond markets in 2019.

U.S. large-cap equity had its strongest year since 2013, with the S&P 500 TR index returning 31.5%. Core fixed income had its strongest year since 2002, with the Bloomberg Barclays U.S. Aggregate Bond TR index returning 8.7%. With equities and bonds making strong contributions, Freedom portfolios with a balanced objective – target allocations of 65% equity and 35% bonds – had their strongest performance since 2009.

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2019 FREEDOM ASSET CLASS RETURNS

Asset Class	Index/ Peer Group	2019 Return
U.S. Large-cap	S&P 500 TR	31.5%
U.S. SMID	Russell 2500 TR	27.8%
U.S. Defensive Equity	S&P 500 Dividend Aristocrats TR	28.0%
Int. Dev. Mkts. Large Caps	MSCI EAFE NR USD	22.0%
Emerging Markets	MSCI Emerging Markets NR USD	18.4%
Core Fixed Income	BBgBarc U.S. Aggregate Bond TR	8.7%
Short Term Fixed Income	BBgBarc U.S. Govt/Credit 1-3 Year TR	4.0%
U.S. High Yield	BBgBarc U.S. High Yield 2% Iss. Cap TR	14.3%
Multialternatives	U.S. Fund Multialternative	7.5%

2019 MARKET DRIVERS

U.S.-China Trade Relations

Increasing tariffs and heightened rhetoric between the United States and China caused sporadic volatility in 2019. Then, late in the year, the countries reached a Phase One agreement in their prolonged trade dispute. Though U.S.-imposed tariffs on $250 billion in Chinese imports remain in place, tariffs on an additional $120 billion imposed in September were cut in half and tariffs scheduled to go into effect on December 15 were canceled. The markets took this agreement between the world's two largest economies as positive news. With the U.S. presidential election in November, it seems unlikely the Trump administration will want to put downside pressure on the economy or markets ahead of a reelection bid.

Brexit

Throughout 2019, the once far-fetched notion of a no-deal Brexit – the United Kingdom leaving the European Union without a negotiated departure – gained momentum. And, with it, concern for a substantial pullback in economy activity. Clarity finally came in December, when Prime Minister Boris Johnson's party gained the majority in a snap election and approved a deal to leave the EU by January 31, 2020. Markets reacted positively to this news, and the value of the British pound rose. Though a hard Brexit was averted, uncertainty remains about the post-Brexit future of the British and eurozone economies.

Slower Economic Growth

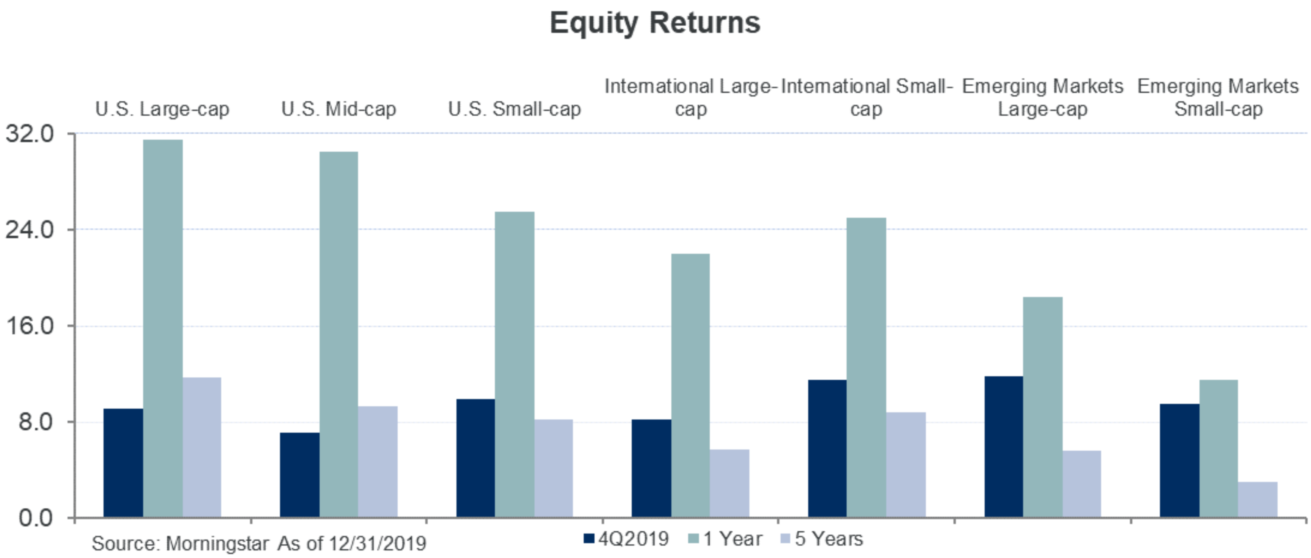
While uncertainty regarding U.S.-China trade policy and Brexit contributed to periodic volatility in 2019, the overarching concern among investors was the slower pace of U.S. and global economic growth, highlighted by a slowdown in manufacturing. Many wondered whether the decade-long expansion had run its course. All eyes were focused on the inverted yield curve – an illogical condition in which short-term interest rates are higher than long-term rates, and which many consider an indicator for recession. Against this pressure, and citing the uncertainty of U.S.-China trade relations, the U.S. Federal Reserve reversed course and lowered its short-term lending rate three times in 2019, dropping back to a target range of 1.50% to 1.75%. The equity markets reacted positively to this new, supportive stance.

2020 MARKET THEMES

- The U.S. economy is stable and growing
- Developed and emerging global economies are well-positioned
- U.S. and global interest rates are likely to remain low
- Recession is unlikely in 2020, barring a sudden change

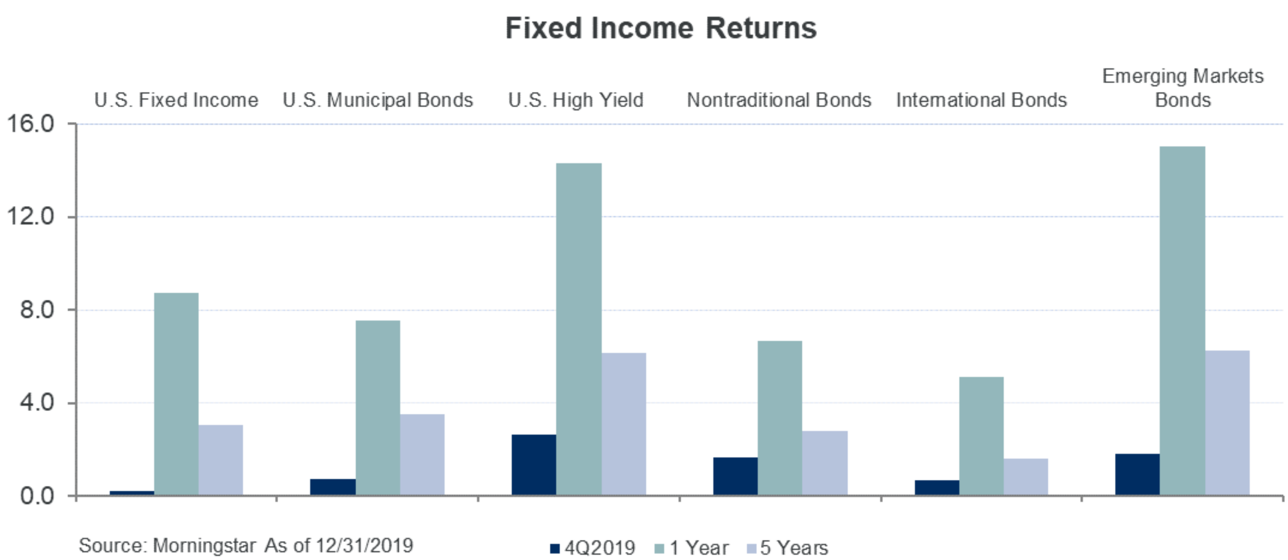
EQUITY

Domestically and around the world, stable conditions, low inflation, strong labor markets and dovish monetary policy – most central banks are holding interest rates near historically low levels – indicate support exists for continued economic growth. That said, the Asset Management Services (AMS) Investment Committee (IC) anticipates the pace of economic growth will slow in 2020. Outlooks for earnings and sales growth are subdued relative to 2019. Incentivized by low interest rates to borrow money, U.S. companies have taken on historically high debt. Equity markets worldwide are approaching peak valuations, which means the potential for additional return may be limited. The AMS IC has a slightly cautious view of domestic equity overall, but especially small- to mid-cap equity given we are in the later stage of the economic cycle. A slightly positive view of U.S. large-cap equity is reflected in a preference for low volatility investments, such as dividend equity. The AMS IC has a neutral view of international equity – developed markets large caps and emerging markets – as eroding fundamentals and persistent slow growth have dampened conviction.



FIXED INCOME

Barring a dramatic change, the AMS IC expects interest rates to remain relatively low and the yield curve to remain historically flat. As such, bonds can be expected to return their yields in 2020, but not much more. Despite the propensity for lower yields, the AMS IC has a slightly positive view of core fixed income. The preference is for high-quality bonds that tend to act as buffers during periods of stock market volatility, and for shorter durations given the negligible difference in yields relative to longer-duration bonds.



ALTERNATIVES

The AMC IC, which utilizes alternative investments for either diversification or return enhancement, has a neutral view of alternatives, given the potential for bonds to offer affordable risk mitigation to equities.

FINAL THOUGHTS

Though 2020 equity returns will be hard-pressed to match those of 2019, the AMS IC anticipates another positive year for equities, with stocks outperforming bonds. Global central bank policy remains supportive with low interest rates helping to support high equity valuations and low inflation. Equity markets are approaching their highest valuations in nearly 20 years, so we will look to earnings and sales growth to provide future gains. Low interest rates mean bond yields start the year low, as well. The yield curve may steepen, especially if growth or inflation is greater than anticipated, leading to potential losses for bond investors. Overall, the AMS IC prefers high-quality investments in both equity and fixed income, dividend equity for its potential to mitigate risk and shorter-duration bonds for their ability to approximate longer-duration yields.

The charts and tables presented herein are for illustrative purposes only and should not be considered as the sole basis for your investment decision.

Further information on the funds selected for the Freedom portfolios is available by prospectus, which can be obtained through your financial advisor. Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds and exchange-traded funds before investing. All investments are subject to risk, including loss. The prospectus contains this and other information about the funds and should be read carefully before investing.

The foregoing content reflects the opinions of Raymond James Asset Management Services and 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. All investing involves risk, including loss. Asset allocation and diversification does not ensure a profit or protect against a loss. Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

There is no assurance that any investment strategy will be successful. All investments carry a certain degree of risk and you may incur a profit or a loss.

RISK: It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investors, you may incur a profit or a loss.

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. Short-term bonds with maturities of three years or less will generally have lower yields than long term bonds which are more susceptible to interest rate risk.

Callable bonds generally offer a higher yield than non-callable bonds as they have the option to call the bonds and repay the principal prior to maturity. Issuers will generally be inclined to initiate a call if interest rates have declined since the bonds were first issued, as they can reissue new bonds at a lower interest rate. Investors will then be positioned to reinvest return on principal in a declining interest rate environment, thus receiving a lower yield going forward.

Credit risk includes the creditworthiness of the issuer or insurer, and possible prepayments of principal and interest. Bonds may receive credit ratings from a number of agencies however, Standard & Poor's ratings range from AAA to D, with any bond with a rating BBB or higher considered to be investment grade. Securities rated below investment grade generally provide a higher yield but carry a higher risk of default which could result on a loss of the principal investment. Because high-yield bonds have greater credit and default risk they may not be appropriate for all investors. While bonds rated investment grade have lower credit and default risk, there is no guarantee securing the principal investment.

Investors should consider the Yield to Worst (YTW) of a bond or bond portfolio versus the Current Yield as the YTW is the lowest potential yield that that can be received without default. YTW takes into account any bonds that could be called prior to maturity.

Securities issued by certain U.S. government-related organizations are not backed by the full faith and credit of the U.S. government and therefore no assurance can be given that the U.S. government will provide financial backing should an issue default.

Mortgage Backed securities (MBS) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market, interest rate, prepayment, and reinvestment risks. Unless issued by GNMA, MBS's are not backed or guaranteed by any government agency. Actual payments received from a MBS frequently differ from the terms stated at purchase. Payments consist of pass through income and principal repayment, can fluctuate over time, and receive no special tax treatment. Changes in interest rates can affect the value and maturity date of a MBS. Prepayment caused by the underlying mortgages being unexpectedly paid off or refinanced is likely and will result in an unpredictable rate of income payment and principal repayment.

Please note these portfolios may be subject to state, local, and/or alternative minimum taxes. You should discuss any tax or legal matters with the appropriate professional. International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic instability.

Investing in emerging markets can be riskier than investing in well-established foreign markets. Emerging and developing markets may be less liquid and more volatile because they tend to reflect economic structures that are generally less diverse and mature and political systems that may be less stable than those in more developed countries.

Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. Stocks of smaller or newer or mid-sized companies may be more likely to realize more substantial growth as well as suffer more significant losses than larger or more established issuers.

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. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Some accounts may invest in Master Limited Partnership ("MLP") units, which may result in unique tax treatment. MLPs may not be appropriate for ERISA or IRA accounts, and cause K-1 tax treatment. Please consult your tax adviser for additional information regarding the tax implications associated with MLP investments.

Alternative investments are generally considered speculative in nature and may involve a high degree of risk, particularly if concentrating investments in one or few alternative investments. These risks are potentially greater and substantially different than those associated with traditional equity or fixed income investments. The investment strategies used by certain Funds may require a substantial use of leverage. The investment strategies employed and associated risks are more fully disclosed in each Fund's prospectus, which is available from your financial advisor.

Changes in the value of a hedging instrument may not match those of the investment being hedged.

These portfolios may be subject to international, small-cap and sector-focus exposures as well. Accounts may have over weighted sector and issuer positions, and may result in greater volatility and risk.

Companies in the technology industry are subject to fierce competition, and their products and services may be subject to rapid obsolescence.

INDEX AND PEER GROUP DESCRIPTIONS:

These indices and peer groups are not available for direct investment. Any product which attempts to mimic the performance will incur expenses such as management fees and transaction costs that reduce returns.

Bloomberg Barclays U.S. Aggregate Bond Index (U.S. Fixed Income): This index includes investment grade U.S. Government bonds, corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the index must have at least one year remaining to maturity.

MSCI EAFE Index (International Large Cap): A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S & Canada. It consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index (Emerging Markets Equities): A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2009 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EM NR USD (Emerging Markets Large Cap): The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates. The MSCI EM NR USD takes only the large cap returns into account.

Morningstar US OE Multialternative (Multialternative): These funds will use a combination of alternative strategies such as taking long and short positions in equity and debt, trading futures, or using convertible arbitrage, among others. Funds in this category have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes.

Russell 2500 (U.S. Small to Mid-Cap): A broad index featuring 2,500 stocks that cover the small and mid-cap market capitalizations. The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

S&P 500 Dividend Aristocrats TR: The S&P 500 Dividend Aristocrats Index is a list of companies in the S&P 500 with a track record of increasing dividends for at least 25 consecutive years. It tracks the performance of well-known, mainly large-cap, blue-chip companies.

Bloomberg Barclays 1-3 Year U.S. Government: An inclusion of securities within Bloomberg Barclays Capital U.S. Government Index that have a maturity range from 1 up to (but not including) 3 years.

Bloomberg Barclays U.S. High Yield - 2% Issuer Cap: The index is the 2% Issuer Cap component of the U.S Corporate High Yield Index.

S&P 500 Index (U.S. Large Cap): The index consists of 500 of the largest stocks in the U.S. stock market. A market value weighted index (stock price times number of shares outstanding after float adjustment), with each stock's weight in the index proportionate to its market value.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

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