Tactical Asset Allocation Outlook

For investors who choose to be more active in their portfolios and make adjustments based on a shorter-term outlook, the tactical asset allocation outlook below reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your advisor can help you interpret each recommendation relative to your individual asset allocation policy, risk tolerance and investment objectives.

	– NEUTRAL +	Comments
EQUITY		US equity valuations look considerably more attractive after the recent correction; however, growth risks may weigh on sentiment in the near term. While we expect the US economy to decline, we continue to favor the US over international markets in part due to lower exposure to geopolitical tensions and energy dependency.
US LARGE CAP		US equities have remained under pressure from geopolitical tensions, persistent inflation and an increasingly hawkish Fed. This year's selloff has largely been driven by a sharp decline in the forward-earnings multiple, which now sits below its 20-year average. While economic growth is slowing and investors are concerned about margin pressures and an increased risk of a recession, earnings growth continues to hold up better than expected.
US SMALL CAP		Small-cap equities have underperformed significantly during the recent equity correction and valuations appear to be reflecting a bigger recessionary headwind than we expect, with earnings multiples now trading near levels last seen during the COVID-19 downturn. There is a big disconnect as earnings growth has held up even better than that of large-cap stocks.
DEVELOPED EX. US		The energy price shock has induced an economic slowdown and inflation fears in Europe. While international stocks continue to trade at attractive valuation discounts to the US, risks to growth and earnings remain skewed to the downside. We continue to favor the US over International Developed equities.
EMERGING		EM equities remain attractively valued relative to US and Developed Market equities. While growth has slowed considerably in China, we expect a rebound in the second half of the year. Fiscal and monetary policy support and loosening of regulatory crackdowns should lift China's growth rate, which should bode well for the broader emerging markets. Latin America should continue to benefit from elevated commodity prices.
FIXED INCOME		While the current drawdown has been painful for investors, Treasury yields are looking considerably more attractive than they have in years, and there might not be much more upside to them. Therefore, for yield-starved investors seeking income opportunities, the fixed income space is finally offering income. We continue to prefer the higher quality portion of the market.
INVESTMENT GRADE		Credit spreads remain under pressure as recession risks continue to rise as the Fed tightens liquidity. While the Fed's ability to engineer a soft landing will ultimately determine the directions of spreads, we think all-in yields near 5% for high-quality debt is looking reasonably attractive, particularly for yield-starved investors seeking income opportunities.
HIGH YIELD		After trading at historically tight levels at the beginning of the year, spreads are now closer to their longer-term historic average as tighter liquidity conditions weigh on risk assets. While corporate health remains solid and defaults are expected to remain at historically low levels, we recognize that spreads are prone to spike during periods of elevated macro-uncertainty.
EMERGING		Emerging market debt has remained under pressure as growth and liquidity conditions continue to deteriorate. EM debt is starting to look attractive given the advanced stage of the EM central banks tightening cycle, but the rising dollar remains a headwind. Emerging markets are highly differentiated, therefore, selectivity within markets remains key.
COMMODITIES		Commodities continue to look attractive in this high inflationary environment but would remain selective.
CASH		Now is not the time to raise cash, better time to use pullbacks in the market to put any excess cash to work given the better valuations. Similarly, for risk-averse investors, higher yields are finally providing income.

ASSET CLASS DEFINITIONS

U.S. Mid Cap Equity: Russell Midcap Index: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, this index includes approximately 800 of the smallest securities which represents approximately 27% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

U.S. Small Cap Equity: Russell 2000 Index: The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index, representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

U.S. Large Cap Blend: The Russell 1000 Index. This is an index of approximately 1,000 of the largest companies in the U.S. equity market. The Russell 1000 is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks. It is considered a bellwether index for large cap investing.

U.S. Large Cap Growth: The Russell 1000 Growth Index. This is a composite that includes large- and mid-cap companies located in the United States that also exhibit a growth probability. The Russell 1000 Growth is published and maintained by FTSE Russell.

U.S. Large Cap Value: The Russell 1000 Value Index. This is a composite of large- and mid-cap companies located in the United States that also exhibit a value probability. The Russell 1000 Value is published and maintained by FTSE Russell.

Non U.S. Developed Market Equity: MSCI EAFE: This index is a free float-adjusted market capitalization index that measures the performance of developed market equities, excluding the U.S. and 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.

Non U.S. Emerging Market Equity: MSCI Emerging Markets Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of December 31, 2010, the MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

Emerging Fixed Income: Emerging fixed income, or emerging market bonds, is the debt issued by countries with developing economies as well as by corporations within those nations.

Investment Grade Long Maturity Fixed Income: Barclays Long U.S. Government/Credit: The long component of the Barclays Capital Government/Credit Index with securities in the maturity range from 10 years or more.

Investment Grade Intermediate Maturity Fixed Income: Barclays U.S. Aggregate Bond Index: This index is a broad fixed income index that includes all issues in the Government/Credit Index and mortgage-backed debt securities. Maturities range from 1 to 30 years with an average maturity of nearly 5 years.

Investment Grade Short Maturity Fixed Income: Barclays Govt/Credit 1-3 Year: The component of the Barclays Capital Government/Credit Index with securities in the maturity range from 1 up to (but not including) 3 years.

Non-Investment Grade Fixed Income (High Yield): Barclays U.S. Corporate High Yield Index: Covers the universe of fixed rate, non-investment grade debt which includes corporate (industrial, utility and finance both U.S. and non-U.S. corporations) and noncorporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-emerging countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issued, dollar-denominated and nonconvertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule, and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P or Fitch. Also, it must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.

Multi-Sector Fixed Income: The index for the multi-sector bond asset class is composed of one-third the Barclays Aggregate U.S. Bond Index, a broad fixed income index that includes all issues in the Government/Credit Index and mortgage-backed debt securities; maturities range from 1 to 30 years with an average maturity of nearly 5 years, one-third the Barclays U.S. Corporate High Yield Index which covers the universe of fixed rate, non-investment grade debt and includes corporate (industrial, utility and finance both U.S. and non-U.S. corporations) and noncorporate sectors and one-third the J.P. Morgan EMBI Global Diversified Index, an unmanaged index of debt instruments of 50 emerging countries.

The Multi-Sector Fixed Income category also includes nontraditional bond funds. Nontraditional bond funds pursue strategies divergent in one or more ways from conventional practice in the broader bond-fund universe. These funds have more flexibility to invest tactically across a wide swath of individual sectors, including high-yield and foreign debt, and typically with very large allocations. These funds typically have broad freedom to manage interest-rate sensitivity, but attempt to tactically manage those exposures in order to minimize volatility. Funds within this category often will use credit default swaps and other fixed income derivatives to a significant level within their portfolios.

Alternatives Investment: HFRI Fund of Funds Index: The index only contains fund of funds, which invest with multiple managers through funds or managed accounts. It is an equal-weighted index, which includes over 650 domestic and offshore funds that have at least $50 million under management or have been actively trading for at least 12 months. All funds report assets in U.S. dollar and net return, which are on a monthly basis.

Cash & Cash Alternatives: Citigroup 3 Month U.S. Treasury Bill: A market value-weighted index of public obligations of the U.S. Treasury with maturities of 3 months.

Commodities: A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services.

DISCLOSURE

All expressions of opinion reflect the judgment of Raymond James & Associates, Inc., and are subject to change. Past performance may not be indicative of future results. There is no assurance any of the trends mentioned will continue or forecasts will occur. The performance mentioned does not include fees and charges, which would reduce an investor's return. Dividends are not guaranteed and will fluctuate. Investing involves risk, including the possible loss of capital. Asset allocation and diversification do not guarantee a profit nor protect against loss. Investing in certain sectors may involve additional risks and may not be appropriate for all investors.

International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. Investing in emerging and frontier markets can be riskier than investing in well-established foreign markets.

Investing in small- and mid-cap stocks generally involves greater risks and, therefore, may not be appropriate for every investor.

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 rise.

U.S. government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term obligations of the U.S. government.

While interest on municipal bonds is generally exempt from federal income tax, they may be subject to the federal alternative minimum tax or state or local taxes. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Municipal bonds may be subject to capital gains taxes if sold or redeemed at a profit.

If bonds are sold prior to maturity, the proceeds may be more or less than original cost. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. 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.

High-yield bonds are not suitable for all investors. 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 your portfolio.

The process of rebalancing may result in tax consequences.

The companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence.

The performance mentioned does not include fees and charges, which would reduce an investor's returns. The indexes are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The S&P 500 is an unmanaged index of 500 widely held securities. The Shanghai Composite Index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

RAYMOND JAMES