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Letter from the Chief Investment Officer

State of Play: Discipline over emotion

Soccer legend Pelé famously called soccer “the beautiful game”—a tribute to its universal accessibility, elegant simplicity, and strategic depth. All it takes is a ball, yet at its best, soccer becomes a shared global language, connecting players and fans across cultures and generations. That spirit will be on full display this summer as the US, Mexico, and Canada co-host the World Cup, with an estimated six billion viewers watching teams adapt to unfamiliar opponents, conditions, and tactics. The best players know talent alone doesn’t win tournaments—preparation, flexibility, and calm under pressure determine who advances.

The past year has demanded many of those same traits from investors. Rapid advances in artificial intelligence, persistent geopolitical tensions—particularly Iran—and ongoing trade uncertainty have kept headlines loud and emotions elevated. In that kind of environment, the biggest mistakes come from reacting to noise rather than fundamentals. Like a well-organised team that keeps its composure over the full tournament—not just one match—investors who stay focused on long-term objectives and respond thoughtfully instead of emotionally are best positioned to succeed over time.

In the near term, developments in Iran will shape the economic outlook. Energy prices have reached multi-year highs, pressuring consumers. While the situation remains fluid, our base case is that the conflict will end shortly. Limited public support, rising fuel/gasoline and other prices, and shifting political momentum ahead of the US Congressional midterm elections are likely to constrain its duration. Importantly, the impact on oil has been more about shipping disruptions than a significant loss of production. As conditions normalise, we expect oil prices to retreat toward \$60 per barrel over time, reducing spillovers to economic growth, monetary policy, and asset markets.

Coming into the year, the US economy took the field in strong form. Still, as any soccer fan knows, matches can turn on a single moment—a deflection, a missed clearance, or a sudden counter-attack. The recent spike in oil prices prompted a fresh review—our own Video Assistant Referee (VAR) moment—but the officiating call stands: we still expect 2.4% US economic growth in 2026.

Historically, oil shocks have been most damaging to weaker, energy dependent economies. Today, however, the US is on

firmer footing: more energy efficient, less energy intensive, and a net exporter of oil, providing a stronger defence against supply disruptions. Given our expectation for a brief conflict in Iran, higher oil prices appear to be a temporary headwind rather than a match-altering ‘red card.’

US consumer spending should remain supported by healthy tax refunds this season and improving hiring conditions, while business investment continues to benefit from record AI-related capital expenditures that are delivering the strongest productivity gains in two decades. While a prolonged rise in energy prices would raise recession risk, we see no reason to abandon our broader, more optimistic outlook based on a single contested development.

The Federal Reserve (Fed) is navigating this stretch with potential new leadership on the horizon, as Kevin Warsh sits a Senate confirmation vote away from becoming the next Fed chair. He appears well-suited for the coach’s role, bringing a rare blend of experience—firsthand knowledge of the changing room from his time as a Fed governor (2006–2011) and a clear understanding of how the crowd and markets react from his years on Wall Street. That perspective matters. Still, once policy debates begin, the ultimate tempo of play is set by the full Federal Open Market Committee—the eleven other ‘players’ alongside the chair—and, as with any new leader, markets and fellow policymakers will quickly test his discipline, credibility, and consistency.

At present, the Fed faces a delicate tactical dilemma. Inflation remains stubbornly above the 2% target, constraining its ability to ease, even as a softening labour market increasingly argues for eventual support. Geopolitical tensions and higher oil prices add

near-term complexity and reinforce that restraint, but as those pressures fade later in the year, we expect the US central bank to place greater weight on labour market conditions and deliver one rate cut before year-end.

In fixed income markets, bonds continue to play the role of the goalkeeper—steady and dependable when conditions get choppy. While inflation remains a risk, we do not expect elevated energy prices to persist, and with US growth holding up, the 10-year Treasury yield should finish the year within our 4.25%–4.50% forecast range. Like a goalkeeper who favours control over power—calmly distributing the ball to reset play rather than resorting to a booming kick—today’s starting yields are attractive, especially when compared to the historically low COVID-era levels. With monetary policy still mildly restrictive but gradually tilting toward easing, we continue to favour higher-quality bonds such as investment-grade corporate bonds over riskier high-yield credit.

While the World Cup will capture global attention, many Americans dismiss soccer as “too boring.” But seasoned fans know the game isn’t just about goals; it’s about spacing, positioning, pace, and movement off the ball. Markets have looked similar this year: while the S&P 500’s pullback has been modest and its top-line trading range narrow by historical standards, a great deal of game-changing action has been unfolding beneath the surface.

Sector rotation has been meaningful. The energy sector has surged ahead, while Financials have lagged. We expect rotation to remain a defining feature of the equity market. Against geopolitical uncertainty and elevated energy prices, sectors with durable tailwinds and strong margins should prove most resilient. US technology remains the market’s captain, with Industrials, Consumer Discretionary, and Health Care as our other star players, certainly in the US. Technology benefits from sustained AI investment; Industrials from infrastructure, reshoring, and defence spending; Consumer Discretionary from moderating energy prices; and Health Care offers something akin to home-field advantage given its more domestic orientation and support from durable demographic trends. While Energy has been an early standout, we do not believe now is the time to increase exposure. As supply disruptions ease, recent out-performance may prove temporary—more like a breakaway run steadily closed down by disciplined defenders.

Financial market volatility is likely to remain elevated in the near term, but investors should resist reacting to every blow of the whistle. The US economy remains on solid footing, and its stock market is entering this stretch from a position of strength. With

valuations now more reasonable, we expect earnings growth of ~10% to carry the S&P 500 toward our year-end target of 7,250. Importantly, that target is built on a conservative \$300 earnings assumption—providing a meaningful cushion relative to the consensus forecast of \$316.

Long-term success comes from balance and preparation, not reacting to short-term headline noise.

Internationally, non-US equities were winners last year, aided by improving growth and a weaker dollar. Recently, however, a few ‘yellow cards’ have appeared. While the odds of winning the World Cup may favour teams like Spain, England, and France, we continue to prefer US equities over other developed international markets due to stronger GDP growth, more resilient earnings, and lower sensitivity to Middle East-related costs. In Asia, near-term volatility may persist, but we view these pressures as temporary setbacks. We remain constructive—though selective—on Asian emerging markets, where improving earnings momentum and solid longer-term fundamentals, including exposure to the Technology sector, remain intact.

In soccer, the often most reliable penalty kick isn’t the spectacular wallop into the top of bottom corners of the goal—it’s the calm kick straight down the middle as the goalkeeper commits one way or the other. Investing works much the same way. Long-term success comes from balance and preparation, not reacting to short-term headline noise. Over a full tournament—or a full market cycle—results are shaped by positioning and discipline. That’s where your wealth manager and our work help complete your team, maintaining perspective and increasing the likelihood of achieving your goals. In markets, as in soccer, championships are won by those who keep their composure, trust the process, and keep their eyes on the trophy.

Wishing you an enjoyable World Cup.



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



Understanding the complexity of the affordability crisis

Eugenio J. Alemán, PhD, *Chief Economist*, Raymond James
Giampiero Fuentes, CFP®, *Economist*, Raymond James

Politicians love low interest rates, or ‘easy money,’ because, among other benefits, it helps economic growth by expanding the number of individuals who have access to credit. Easier access to credit increases the ability of those individuals to buy goods and services as well as get a loan for purchasing a home. All of this increases consumption and pushes economic growth higher. But lower interest rates are not always good for the economy as a whole. Low interest rates may also have negative consequences, especially for those who are typically at a disadvantage—those at the middle to lower income levels and who have low levels of wealth.

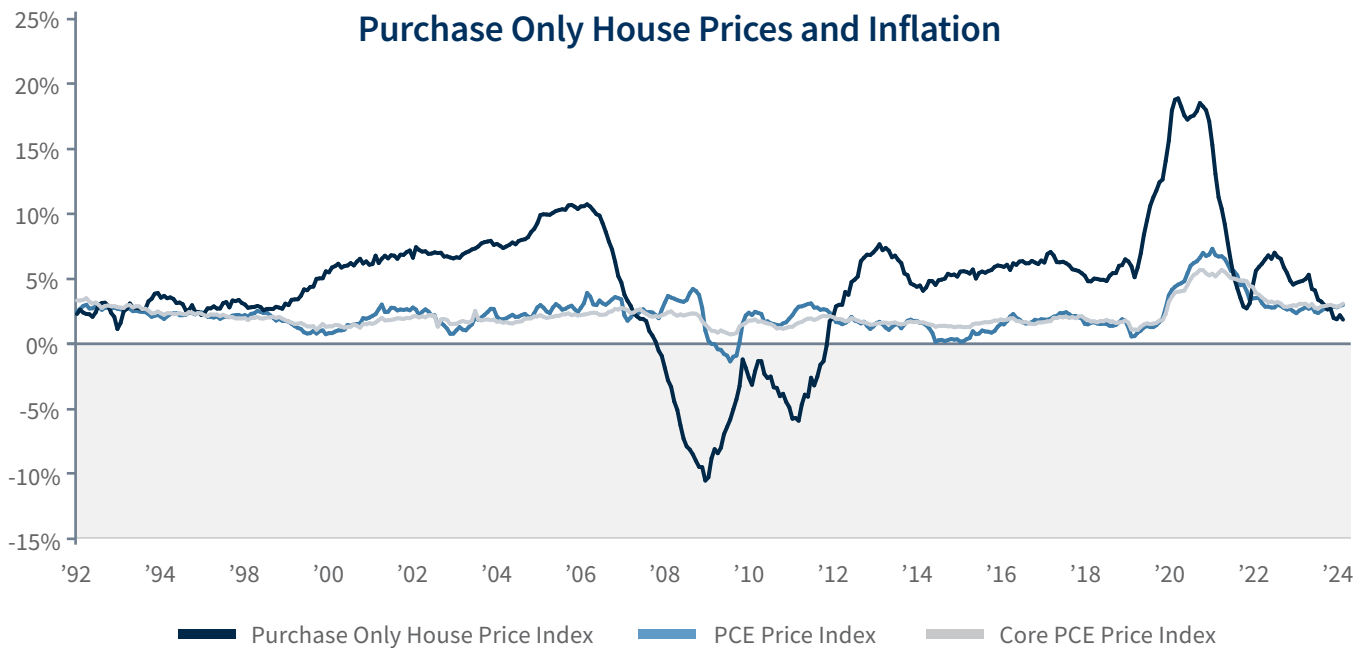
Why? Because low interest rates have the potential to increase asset prices at a faster pace than consumer prices are increasing. What is an asset? An asset is typically a financial instrument like stocks or bonds, or real estate like homes or commercial properties. This means that asset price inflation affects the

components of wealth, such things as equities, bonds, housing, commercial real estate, commodities, and even collectibles, which include art and precious metals, etc.

Lower interest rates are not always good for the economy as a whole.

On the other hand, consumer price inflation, measured by the consumer price index (CPI) or, in the US, the personal consumption expenditures price index (PCE price index), measures the prices of goods and services that consumers typically consume. Although these measures of consumer prices also include the price of homes, the prices of homes (in the US) are not measured directly in these indices. Rather, they are measured indirectly, for the services they provide—what is called ‘owners equivalent rent.’

Since the early part of this century the US central bank, the Federal Reserve (Fed), has pursued an expansive monetary policy, i.e. a



Source: FactSet, data as of 17/3/2026

policy of low interest rates, because inflation remained below the Fed's target for years, and the Fed had been trying to bring inflation back to the 2.0% target. During that period, very low interest rates as well as lack of regulations helped to produce a home price asset bubble that ended with the Great Financial Crisis or Great Recession. Prior to that crisis home prices surged well above the overall price level, but the increase in the price of homes did little to affect the rate of inflation as other disinflationary effects overwhelmed the effects of home price appreciation (see graph above).

However, that environment changed after the COVID pandemic recession when the underlying disinflationary trend that existed since the start of the century ended and both goods as well as services prices, which include housing prices, started to move higher simultaneously.

THE FEDERAL RESERVE TODAY: BETWEEN A ROCK AND A HARD PLACE

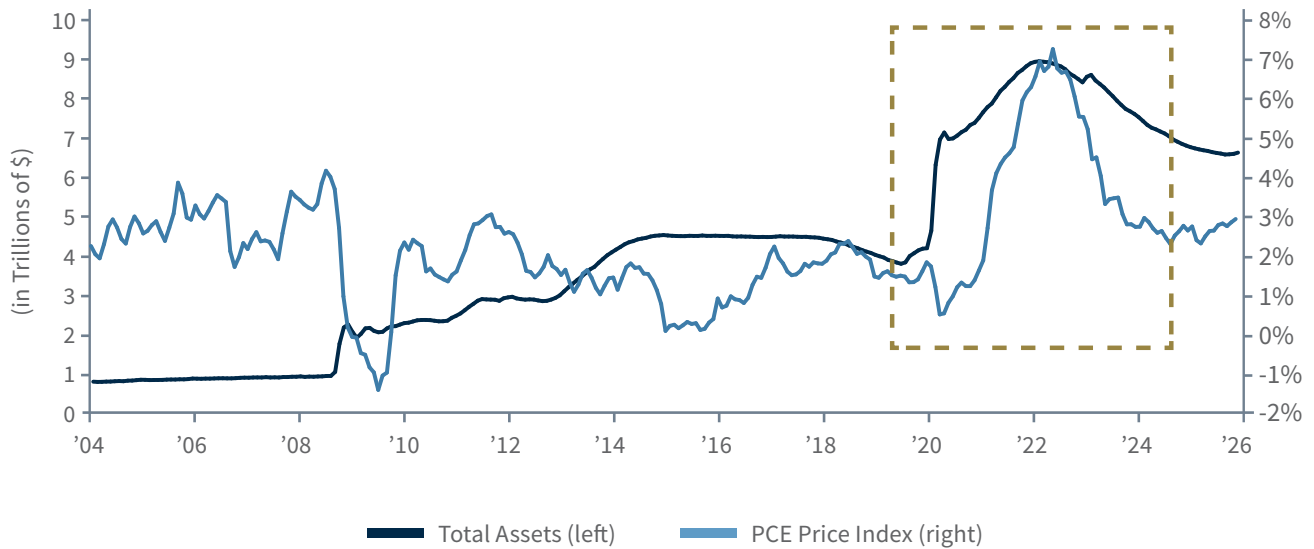
The Fed's job, since the beginning of the century, was to increase inflation, getting closer to 2%. Today's job, however, is just the opposite: to bring inflation down to 2.0%. An expansionary monetary policy was what was called for in order to increase the rate of inflation, which included the introduction of Quantitative Easing (QE) during the worst of the financial crisis. However, today's policy cannot be expansionary because it would only

make the Fed's job of bringing inflation back to 2.0% more difficult. Thus, today, the Fed needs to conduct monetary policy that is tighter than it has been for the past two decades.

Enter Kevin Warsh as President Trump's nominee for Fed Chairman. During his tenure as a Governor of the Board of the Federal Reserve (2006-2011), Kevin Warsh was, as some have indicated, very close to Fed Chairman Ben Bernanke when he introduced quantitative easing (QE) and other programmes to stabilise the financial system. But he resigned from the Board in disagreement with a second phase of QE that started in 2010, which he argued was going to increase inflation. However, inflation did not increase during that period even as the Fed continued to expand QE.

QE was used again during the COVID recession, and in this case, inflation increased. However, QE was not to blame for the increase in inflation. Inflation was more of a by-product of supply chain issues created by the COVID pandemic, as well as very expansive fiscal policies conducted across the global economy as well as by successive Republican and Democratic administrations. It is important to note that the increase in inflation was a worldwide phenomenon and not just a US phenomenon, while there are very few countries outside the developed world that have used or have the ability to use QE.

The Impact of QE on Inflation Post-Pandemic



Source: FactSet, data as of 17/3/2026

It is important to note that the increase in inflation was a worldwide phenomenon and not just a US phenomenon.

At the end of his tenure as a Fed Board member, Kevin Warsh was considered a 'hawkish' policy participant. That is, he was more concerned about the inflationary effects of monetary policy while being against the continuous expansion of the Fed's balance sheet (see graph above). Recently, he has transitioned from having hawkish views to having more 'dovish' views on monetary policy, arguing that the current increase in productivity generated by AI would allow the Fed to lower interest rates without pushing inflation higher.

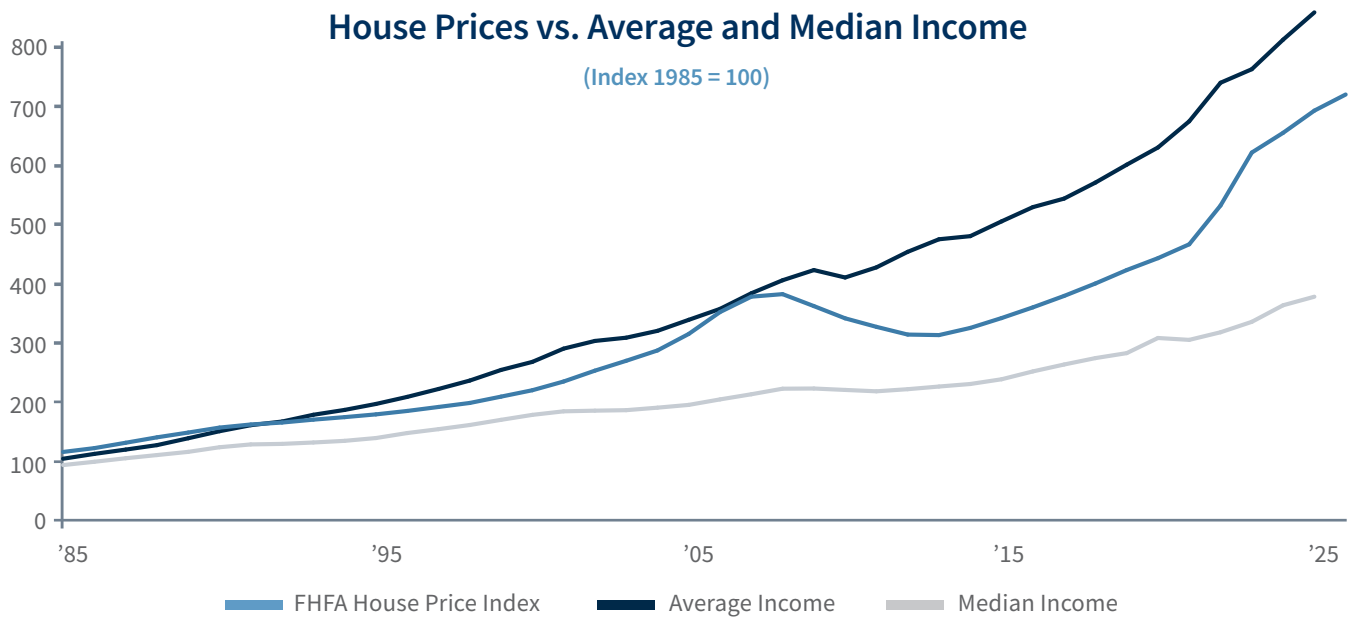
The problem for the Fed today (and not just the US central bank but also in the UK and Europe) is how to bring down interest rates without generating an asset price cycle that continues to push the price of these assets higher. This is particularly the case with the housing market. If the Fed lowers interest rates further and that pushes home lending higher, it could continue to push home prices even higher and worsen housing affordability even more.

Furthermore, the fundamentals of both the UK and US housing markets are not so much related to the level of mortgage rates but, more fundamentally, to a lack of supply of homes; that is, a lack of home building, something that lower interest rates will probably not solve.

MEDIAN INCOME AND MEDIAN HOME PRICE

Home affordability has become a daily headline, and for many young individuals it is not an abstract policy debate but something real. Those who did not purchase or refinance a home more than three years ago (or much longer in the UK case), when home prices were lower, and mortgage rates were near historic lows, are facing a fundamentally different market today. Prices surged again during the pandemic-era housing boom, and although US mortgage rates have come down from their recent peaks, they are still hovering around 6%, more than double the ultra-low levels many existing homeowners locked in.

At first glance, affordability may not appear to be a systemic issue. Average disposable personal income has increased over time and, on paper, has broadly kept pace with home price growth over the last four decades. But averages can be misleading. When we shift from average income to median household income, the picture changes significantly. The median better reflects what a typical household earns, whereas the average is pulled higher by top-income households. Since the Global Financial Crisis (GFC),



Source: FactSet, data as of 17/3/2026

there was a period when housing became unusually affordable, supported by low prices and low interest rates. For many middle-income households, home ownership required disciplined, but achievable, savings.

In the post-pandemic environment, however, that dynamic has reversed. Rapid home price appreciation combined with higher borrowing costs has pushed monthly payments beyond what the median household can reasonably afford. The discrepancy between average and median income highlights a broader structural issue: gains at the top of the income distribution disproportionately lift averages, masking the affordability pressures faced by typical households.

This also helps explain why simply lowering interest rates may not resolve the problem. While lower rates reduce borrowing costs, they also tend to stimulate asset prices. Higher-income households, who already hold significant assets, are positioned to benefit disproportionately from further appreciation, as seen in the years following the GFC. Meanwhile, lower- and middle-income households, constrained by limited savings and rising entry costs, risk falling further behind.

In that sense, the affordability challenge is not just about interest rates or home prices in isolation. It is about distribution, about average versus median income, and how policy responses can unintentionally widen the gap between households that already own appreciating assets and those still trying to enter the market. ■

KEY TAKEAWAYS

- Lower interest rates are not always good for an economy and don't solve all problems.
- Easy money inflates asset prices—especially housing—faster than consumer prices, disproportionately benefiting higher-wealth households while leaving middle and lower-income families further behind.
- Instead of fighting too low inflation, the Fed and other developed economy central banks must now cool inflation without reigniting another asset boom—particularly in housing—should rates fall too quickly.
- Lower mortgage rates won't fix affordability because the primary issue is a chronic shortage of homes, not just the cost of borrowing.
- While average incomes appear to keep up with home prices, median incomes have not, revealing a harsh truth, that typical households and individuals face worsening affordability even as wealthier households benefit from rising asset values.

Q&A: A pivotal time for the Fed

Tracey Manzi, CFA, *Senior Investment Strategist*, Raymond James

New Fed Chairs don't come along often. Since 1980, only five individuals have led the Federal Reserve (Fed): Jerome Powell is currently in his second term; Janet Yellen served one term, and Alan Greenspan famously held the role for more than eighteen years. With such infrequent turnover in the Fed's top spot, markets naturally pay close attention to a new nominee—especially when the nominee brings different views to those held by the sitting Fed Chair. Kevin Warsh's nomination comes at a pivotal time. Questions about the Fed's independence have intensified, the administration is openly pressuring the central bank to lower interest rates, and the US economy is undergoing meaningful structural shifts—from evolving trade policy to AI's growing influence on productivity and the labour market. Against this backdrop, understanding Warsh's policy leanings and potential impact on the Fed is critically important.

Q. What are the next steps for Warsh to become Fed Chair?

A. Several procedural steps remain. The process began on March 4, when the president submitted the nomination to the Senate. The next step is a series of public hearings before the Senate Banking Committee. After the hearings, the Committee will vote on whether to advance Warsh's nomination to the full Senate, which requires a simple majority for confirmation. Historically, first-term Fed Chair confirmations take about 44 days on average. While Warsh should be confirmed, obstacles remain. Most notably, Senator Thom Tillis (Republican – North Carolina) has indicated that he will block Warsh's nomination until the criminal investigation involving Chair Powell is dropped. With Republicans holding only a 13-11 majority on the Senate Banking Committee, Tillis' stance poses a meaningful risk. Betting markets currently assign ~50% probability that Warsh is confirmed before Powell's term expires on May 15. Powell has noted he will remain as Chair pro tempore if his successor is not confirmed, though that interpretation could be challenged.

Q. What do we know about Kevin Warsh's views?

A. During his tenure as a Fed Governor from 2006 to 2011, Warsh developed a reputation as an inflation hawk, often placing more weight on inflation risks than on employment concerns. Although he supported the Fed's crisis-era tools during the Great Financial Crisis, including large-scale asset purchases (quantitative easing), he later became increasingly critical of the prolonged balance sheet expansion. He has also criticised the Fed's extensive use of forward guidance, its broader communication tools, and its slow response to changing economic conditions. More recently, however, Warsh has adopted a more dovish tone. He now believes that the economy may be experiencing an AI-driven productivity boom, allowing for faster growth without triggering inflation. Some observers worry that

this shift reflects political alignment with the administration. However, we believe these concerns are overstated. Warsh has long been a strong defender of Federal Reserve independence and understands the importance of maintaining public trust in the institution.

Q. What could the Fed look like under Warsh's leadership?

A. Although Warsh was a vocal critic at times during his previous Fed tenure, he never dissented—underscoring his willingness to work collaboratively. In theory, Warsh may favour a combination of lower policy rates, a smaller Fed footprint in the financial markets and a higher bar for future intervention. However, none of these changes would occur quickly in practice. Even if he leans more dovish than some of his colleagues, elevated inflation and a still solid economic backdrop make near-term rate cuts difficult to justify, especially within a committee that is more divided today than at any point in modern history. One of Warsh's more ambitious goals is to reduce the Fed's balance sheet. But shifting away from the central bank's current ample-reserves framework would require significant operational adjustments that are unlikely to happen quickly. The area most likely to see quicker movement is the Fed's communication strategy. Warsh has argued for scaling back forward guidance, including the widely followed dot plot, which he views as unnecessary and occasionally counterproductive in normal economic times.

BOTTOM LINE

Kevin Warsh's nomination comes at a consequential moment for monetary policy and the financial markets. While Warsh may desire meaningful regime change at the Fed, structural constraints and a divided committee argue for gradual adjustments, rather than abrupt shifts. We expect Warsh to uphold the Fed's independence in the face of political pressure. ■



The Great Rotation of 2026: Broad-based shifts reshape US equity market leadership

Matt Barry, CFA, *Senior Investment Strategist*, Investment Strategy

Mike Payne, *Investment Strategy Analyst*, Investment Strategy

The defining feature of US equity markets in early 2026 has been a dramatic and broad-based rotation, marking a clear departure from the narrow leadership that characterised much of the prior two years. Investors have actively repositioned portfolios in response to improving macro conditions, moderating interest rates early in the year, evolving expectations around Federal Reserve policy, and heightened geopolitical tensions. As a result, leadership has rotated away from last year's Artificial Intelligence (AI) driven winners (e.g., Technology, Communication Services) toward more defensive and cyclical segments, as areas like Consumer Staples, Energy, Materials, and small-capitalisation stocks have all experienced meaningful relative strength. This rotation reflects not only a reassessment of valuation and earnings durability across sectors, but

also a recalibration of investor sentiment as financial markets digest the implications of AI adoption, geopolitical uncertainty, and the path of monetary policy in the year ahead. Against this backdrop, sector dispersion has widened significantly, creating both pockets of opportunity and areas of caution as the market continues to rebalance across styles, factors, and market capitalisations (size).

AI EUPHORIA MEETS LONGER-TERM SCEPTICISM

Perhaps one of the most remarkable observations from this rotation has been the stark shift in investor sentiment toward AI. Despite the fundamental US supremacy story remaining in place with the Technology sector expecting 34% year-over-year earnings per share (EPS) growth in 2026 compared to only 14% for the S&P 500, the sector has underperformed the index by over 2% year-to-date.

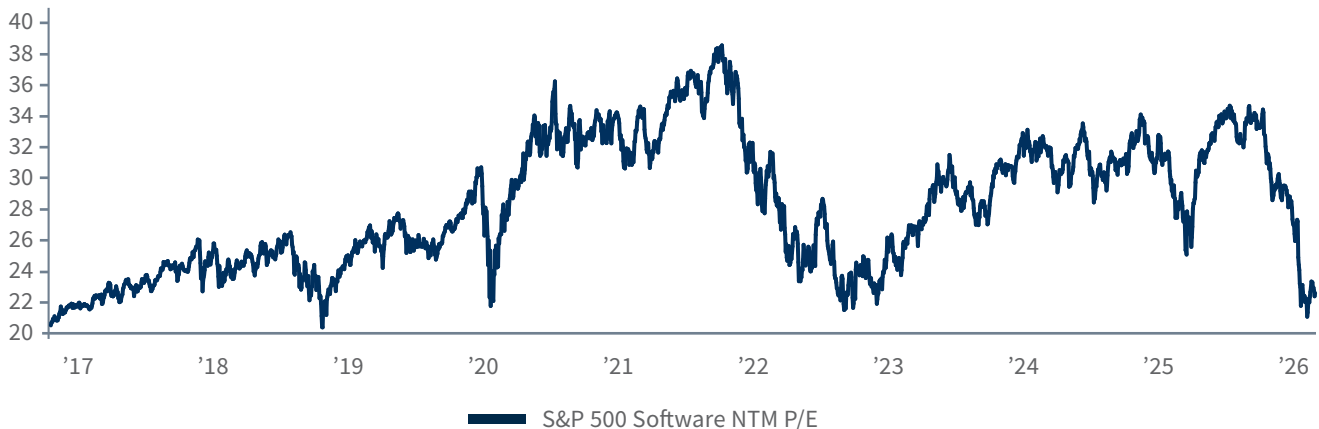
What the market has largely ignored, however, is AI’s potential to meaningfully improve operating efficiency, expand margins, and enhance product delivery for incumbent software vendors.

Underperformance has been driven by recent declines in software stock prices that are largely tied to investor fears that rapidly advancing AI tools could erode traditional software business models, compress pricing, and reduce long term growth prospects. New AI agents from companies such as Anthropic have triggered broad selloffs by demonstrating the ability to replicate or automate workflows that many software providers rely on for revenue, raising concerns that demand for seat based Software as a Service (SaaS) products may shrink or become commoditised. However, we have not seen these risks materialise thus far.

What the market has largely ignored, however, is AI’s potential to meaningfully improve operating efficiency, expand margins, and enhance product delivery for incumbent software vendors. Many companies are already deploying AI internally to streamline development cycles, automate support functions, and scale customer-facing capabilities at far lower incremental cost—all of which could strengthen competitive positioning rather than weaken it. This disconnect between perceived risk and the realised benefits creates an opportunity: as AI-driven productivity gains begin to show up in financial results, sentiment may recalibrate, presenting upside for investors willing to look beyond the current fear-driven narrative.

We believe recent declines across the software ecosystem are overdone at this point with the software industry trading at only 22x forward earnings estimates—the lowest level since 2018. Therefore, we remain comfortable with our overweight position in the Technology sector.

Software Trading at Lowest P/E Since 2018



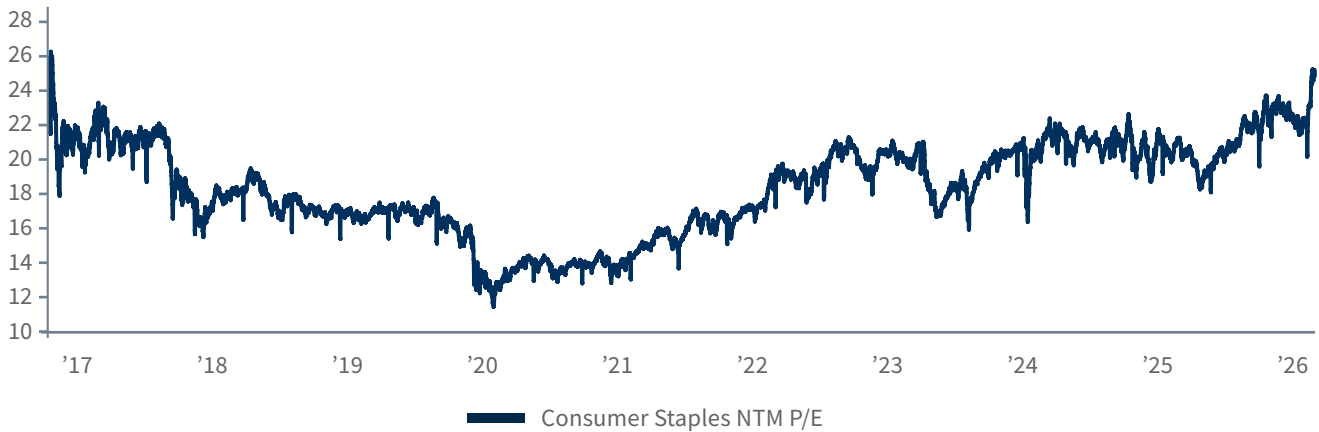
Source: FactSet, data as of 17/3/2026

THE STAPLES COMEBACK: FROM OVERLOOKED TO OVERCROWDED

The rotation has benefited formerly unloved areas of the market, defensive sectors often providing reliable dividend payouts familiar, in particular, to UK investors. In fact, the US Consumer Staples sector has gained 10% year-to-date, marking the strongest start to a year for the sector over the last 30 years. A mix of weaker labour market signals combined with geopolitical uncertainty has heightened risk aversion. In response, investors have shifted into

areas with predictable demand. This rotation reflects a classic de-risking pattern that historically benefits staples during periods of volatility. However, given that Consumer Staples’ earnings growth is expected to lag the broader S&P 500 index in both 2026 and 2027, while valuations are at the highest level since 2000, we are downgrading Consumer Staples from neutral to underweight.

Defensive Rotation Leads Staples P/E to Highest Level Since 2000



Source: FactSet, data as of 17/3/2026

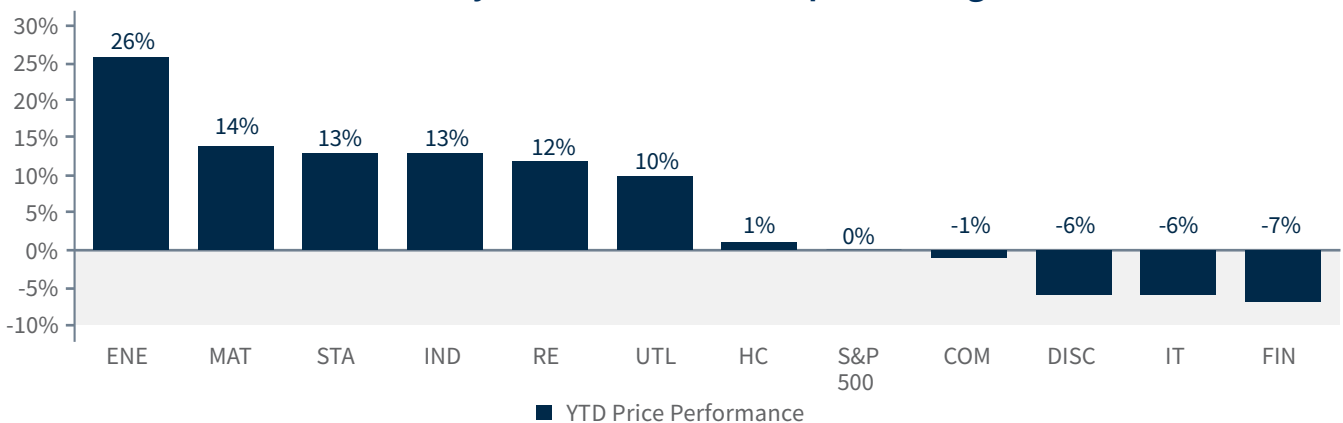
ENERGY & MATERIALS OUTPERFORM ON GEOPOLITICAL PREMIUMS—BUT SUSTAINABILITY IS LIMITED

The US Energy sector has been the top performer year-to-date in common with similar strength elsewhere, driven by geopolitical tensions that have pushed oil prices higher and kept them elevated throughout the war.

Escalating instability in key producing regions—most notably Venezuela, Iran and neighbouring Gulf states—has added a meaningful geopolitical risk premium to crude markets, driving energy equities higher in the early part of the year. At the same time, the Materials sector has also posted strong year-to-date gains, supported by a rebound in industrial commodity prices and tightening supply conditions. Industrial metals such as copper, aluminium, and nickel have benefited from supply deficits, infrastructure-driven demand, and a supportive macro

backdrop in 2026, contributing to broad-based strength across materials stocks. However, despite this near-term performance, we remain underweight both sectors. In Energy, we believe the rally is likely to be short lived as oil prices are expected eventually to reset lower toward our target of \$55-\$60/bbl once geopolitical risk premiums fade, with structural oversupply and long-term electrification trends continuing to work against the sector’s earnings power. Similarly, in US Materials, while commodity prices have firmed, the underlying drivers appear cyclical rather than durable, and the sector remains exposed to slowing global growth, and policy uncertainty. As a result, we view the recent strength in both groups as an opportunity to maintain our underweight positioning rather than chase late cycle gains.

Commodity Related Sectors Outperforming YTD



Source: FactSet, data as of 17/3/2026

“What matters for long-term investors is ...
maintaining a disciplined framework anchored in fundamentals,
earnings durability, and strategic asset allocation.”

US SMALL COMPANIES OUTPERFORM, BUT RISK-REWARD APPEARS BALANCED LOOKING FORWARD

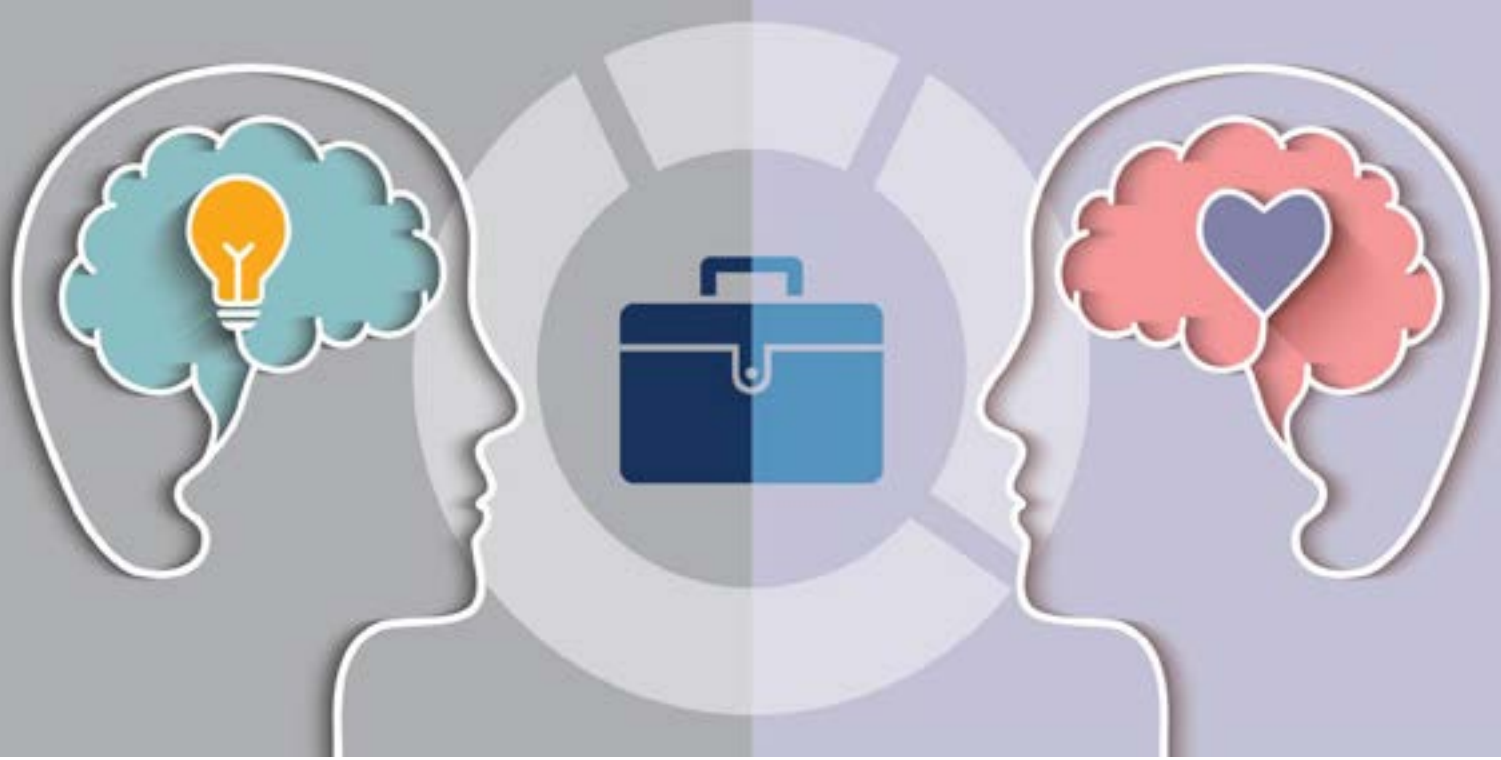
Small caps have outperformed larger counterparts year-to-date as earnings momentum has begun to inflect higher and lower interest rates have provided a disproportionate tailwind to smaller companies, which typically carry more variable rate debt and therefore benefit more immediately from easing financial conditions. Additionally, estimates for 2027 earnings growth now favour smaller companies due to their more domestic revenue exposure and sensitivity to cyclical improvements in the US economy, further supporting recent outperformance. Despite these near-term tailwinds, we remain neutral on US smaller companies as we believe market expectations are too optimistic on additional rate cuts throughout 2026 which could reverse some of the rate-cut driven benefits currently supporting the group. Additionally, consensus expects only 7% net margins for the sub-sector this year compared to nearly 15% for larger companies which leaves small companies particularly vulnerable to the risk of rising input costs in the year ahead.

STAYING THE COURSE THROUGH SHIFTING LEADERSHIP

While the sharp US sector rotations that have characterised 2026 may feel dramatic, they are far from unusual—equity markets routinely undergo periods where leadership shifts abruptly in response to changing macro conditions, sentiment swings, or short-term dislocations. What matters for long-term investors, a key point for all investors not just those based in the US, is not chasing these rotations after they've already played out, but maintaining a disciplined framework anchored in fundamentals, earnings durability, and strategic asset allocation. This year's movements—from the downturn in Technology to the surge in Staples, Energy, Materials, and small companies—underscore how quickly narratives can change, often before underlying fundamentals do. Staying grounded in a long-term plan allows investors to benefit from volatility rather than be whipsawed by it, ensuring that portfolio decisions reflect enduring opportunities rather than fleeting momentum. In our view, maintaining discipline—rather than reacting to every rotation—remains the clearest path to compounding wealth over time. ■

KEY TAKEAWAYS

- US equity leadership in 2026 has dramatically broadened. Markets have shifted away from the narrow, AI-driven leadership of the past two years toward more defensive and cyclical areas.
- AI sentiment has swung from euphoria to scepticism—creating opportunity. AI-driven efficiency gains are being overlooked, and concerns over software have not materialised.
- Defensive sectors have rallied—but may not be sustainable. Earnings fundamentals and valuation concerns lead to our underweight views on US Staples, Energy, and Materials despite recent strength.
- US small companies have outperformed but face a more balanced outlook ahead. Expectations for additional rate cuts appear overly optimistic, and lower margin profiles make them vulnerable, supporting a neutral stance going forward.



How happy is your portfolio? Differentiating between fundamentals and investor sentiment

Pavel Molchanov, *Senior Investment Strategist*, Investment Strategy

The famed economist John Maynard Keynes said almost a century ago that “markets can remain irrational longer than you can remain solvent.” He was referring to the unpredictable nature of investor sentiment: an amorphous, hard-to-define concept that nonetheless plays a major role across various asset classes. As investment strategists, our approach is grounded in fundamentals, such as interest rates and corporate earnings. But at the same time, it’s important to be aware that sentiment—that is to say, the market’s emotional state also influences how investments perform, especially over relatively short timeframes. As vital as fundamental analysis is, an understanding of sentiment is also useful.

MEME STOCKS: WHERE SENTIMENT SUPERSEDES FUNDAMENTALS IN THE EQUITY MARKET

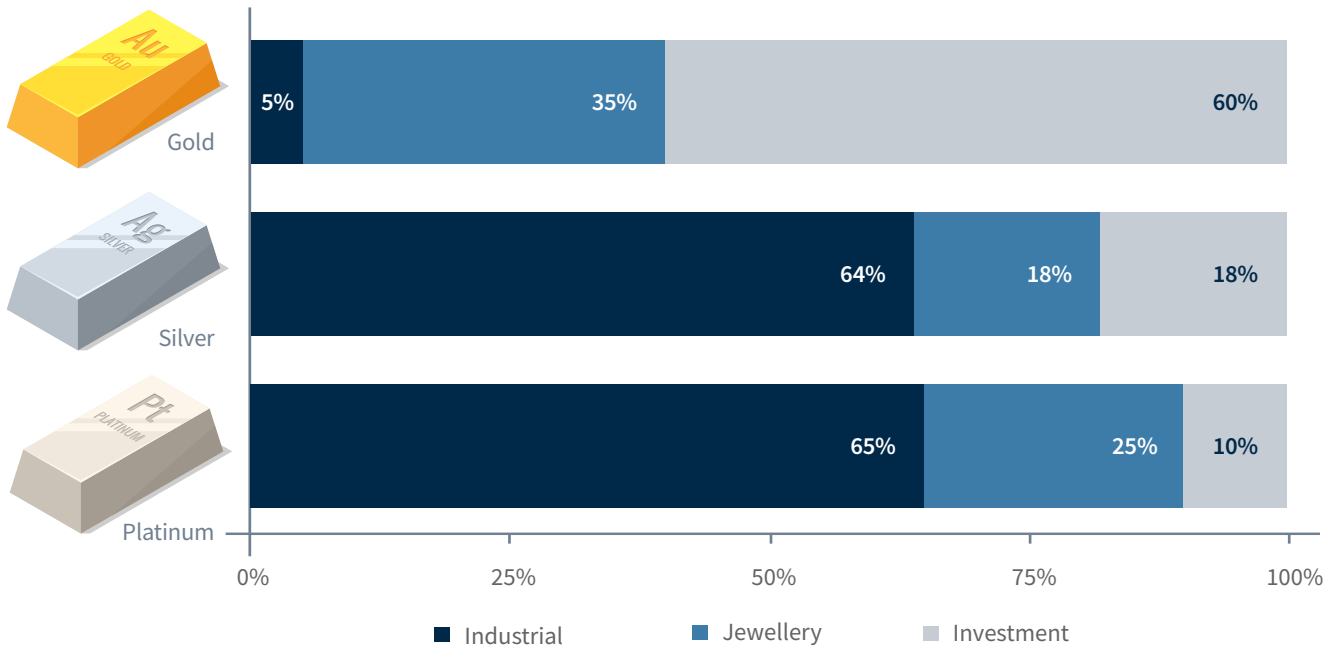
Fundamental analysis of stocks centres on earnings. The standard method of valuing a stock is a price-to-earnings (P/E) ratio. When the P/E multiple is high, a stock is typically referred to as ‘expensive’ or ‘richly valued.’ This does not mean that it’s

necessarily a bad investment, but we typically want to see some justification for the lofty multiple, i.e., an expectation of high earnings growth in the future. For companies that have negative earnings, we can apply a revenue multiple instead. In certain sectors, other multiples are sometimes used, such as free cash flow yield in Real Estate and price-to-book value in Financials.

Fundamental analysis of stocks centres on earnings.

But what if a company has no revenue? In other words, the firm is an early-stage business that has yet to begin selling a product or service. Traditional valuation analysis isn’t practical in these cases. It’s possible to create estimates for many years into the future, but these are prone to error. Share prices of such companies move from day to day based, in large part, on how the market perceives the company. Corporate announcements (R&D milestones, M&A activity, management changes) can influence sentiment, but even when there are no headlines whatsoever, sentiment is still subject to change.

Global Demand for Precious Metals, 2025



Source: FactSet, data as of 17/3/2026

You may have come across the term “meme” stocks. While there is no ‘official’ list, the term refers to companies that, in general, 1) are on the smaller side; 2) have little to no earnings, and sometimes no revenue; and 3) are popular with day traders or momentum-oriented funds. Meme stocks are very sensitive to changes in sentiment, with share prices routinely swinging by double-digit percentages on a daily basis. A single social media post can be enough to move meme stocks. While these stocks can be found in any industry, they tend to cluster around certain innovative or high-growth themes, such as quantum computing, nuclear technology, electric vehicles, and cryptocurrencies (more on that last one later).

For our readers who may be tempted to invest in meme stocks, our message is: be careful. It’s certainly possible to ride a meme stock to hefty gains—but it’s also possible that any given meme stock will turn into a moribund penny stock or perhaps go out of business altogether. Precisely because they don’t lend themselves to fundamental analysis, meme stocks resemble lottery tickets—it’s a matter of luck rather than skill.

PRECIOUS METALS: ALL THAT GLITTERS CAN BE VOLATILE

Gold, silver, and platinum all posted hefty gains over the past year, but—as with all commodities—they also exhibited intense volatility. Gold is the most sentiment-driven, while silver and platinum tend to be influenced more by ‘physical’ supply/demand fundamentals.

Gold has a centuries-long history of being regarded as a one-of-a-kind metal, but why is that? The short answer is because that’s just how society looks at it. Gold’s special status in culture and the economy is ultimately a matter of sentiment rather than chemistry. Industrial applications account for a mere 5% of global gold demand, whereas 60% represents gold as an investment (e.g., stockpiles in central bank vaults). The remaining portion is jewellery. The amount of gold mined around the world barely changes from year to year, so price volatility is largely a function of the level of investor appetite for owning gold. This appetite tends to increase in times of geopolitical turbulence (but not always) and/or high inflation, but it is subject to abrupt reversals, such as witnessed during the latest Gulf conflict, sometimes for no apparent reason and certainly not always as a safe haven.

“Gold is the most sentiment-driven, while silver and platinum tend to be influenced more by ‘physical’ supply/demand fundamentals.”

With silver and platinum, sentiment also plays a role, but physical demand is more important. Nearly two-thirds of global silver demand is attributable to industrial end markets, including 20% in solar panel manufacturing. In high-volume/low margin products such as these, rapid escalation in input costs can create serious margin pressure. We are already seeing evidence of solar manufacturers starting to redesign their hardware to use copper in place of silver. Platinum is also vulnerable to commodity substitution, though to a lesser extent than silver. A key application for platinum is catalytic converters in auto engines, but because these are more highly engineered products than solar panels, redesign efforts are likely to take longer.

CRYPTOCURRENCIES: SENTIMENT ON STEROIDS

When thinking about which asset class is the most sentiment-driven, cryptocurrencies provide the prime case study. There is no fundamental underpinning to the value of Bitcoin, Ethereum, or other cryptocurrencies, with the exception of stablecoins. Trading dynamics from day to day can be extremely volatile, even more so than meme stocks or precious metals. Among several reasons for this lies the fact that cryptocurrencies are typically subject to less regulation than other asset classes. Cryptocurrencies have no governing authority, such as a central bank, and various trading platforms operate under a wide range of rules.

What makes stablecoins different from other cryptocurrencies is the emphasis on maintaining a stable value, typically \$1.00/unit. Stablecoins must be backed by assets—such as Treasury bills—that are low-risk and highly liquid. That said, stablecoins are not insured, in the US by the Federal Deposit Insurance Corporation (FDIC), or in the UK by the Financial Services Compensation Scheme FSCS, so they should not be looked at through the same lens as a bank account. If the company that issued any given stablecoin ends up going bankrupt, it’s possible to conceive a scenario where the stablecoin’s value could fall below par. Given the inherently speculative nature of the crypto market, this is not an area in which Raymond James deals in or offers advice on, although we are aware that some investors will trade cryptocurrencies at their own discretion.

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Entire mini cultures have developed around some of the cryptocurrencies, including numerous blogs, podcasts, and conferences. Celebrities and politicians occasionally endorse certain cryptocurrencies, which can result in gains that are rapid but also fleeting. Along the same lines, a critical news story can lead to sudden selling pressure. All of this means that cryptocurrency investors need to be ready for intense volatility, at any time. Given that sentiment plays such a central role, we are unable to provide price targets or even offer directional guidance for cryptocurrencies. Remember, they are ultimately just strings of digital code.

CONCLUSION

As much as we might wish for markets to always behave rationally, the reality is very different. Investors are human beings, who can be swayed by greed, fear, and every other emotion. While no asset class is entirely immune from sentiment-fuelled volatility, some types of investments are more sentiment-driven than others. In the equity market, it’s meme stocks. In the commodity market, it’s precious metals, especially gold. Finally, cryptocurrencies across the board are particularly susceptible to abrupt shifts in sentiment. ■

KEY TAKEAWAYS

- In contrast to well-established companies, meme stocks cannot be valued using traditional metrics.
- Whereas gold is heavily sentiment-driven, silver and platinum trade more on supply/demand fundamentals.
- Cryptocurrencies lack any fundamental underpinnings, making this the most sentiment-driven asset class.



“Cry ‘havoc!’, and let slip the dogs of war”

Prof Jeremy Batstone-Carr, *European Strategist*, Raymond James

The UK economy, weak even ahead of the war in the Middle East, finds itself under intense pressure once again while inflationary forces associated with and emanating from the energy price shock have intensified. The Bank of England, in common with most other central banks, is waiting to see how the conflict evolves, holding the base rate at 3.75% while indicating that it stands ready to raise interest rates if price pressures accelerate and inflation expectations rise. For the UK’s financial markets, the adjustment in the tenor of the Bank’s language has contributed to a sharp repricing in the gilt-edged market, a surge in borrowing costs more pronounced than elsewhere as earlier expectations for rate cuts have been replaced by a conviction that the Bank might be forced to tighten monetary policy irrespective of the economy’s fragile condition. The UK stock market has come under pressure, as have markets elsewhere. Admittedly, and unsurprisingly, the energy sector has performed strongly but weakness in two other heavyweight sectors, basic resources and financials has proved a severe drag on performance.

A SUPPLY-SIDE SHOCK LIKE NO OTHER

In purely economic terms the Iran conflict represents a severe shock to the UK and global economy and a clear sign that supply disruption is emerging as a potent source of instability. Since the 1970s, a decade itself characterised by two significant oil shocks, policymakers and financial markets have focused overwhelmingly on the demand side of the economy recessions, when they occurred, usually being the consequence of a shortfall in aggregate demand. As the years passed the policy response (and financial market playbook) evolved with numerous opportunities, including the Great Financial Crisis, for rehearsal; ease

monetary conditions, increase fiscal support and thus stimulate demand. Over time, demand and output would recover.

Throughout recent history, the supply-side was generally overlooked. Recessions caused by weak demand created spare capacity delivering a latent supply available to be utilised to increase output as demand revived. All thinking in relation to the supply-side typically focused on the deliverance of the most efficient allocation of resource. Globalisation, deregulation and technological innovation created a system both clean, interconnected

and highly productive, serving to generate efficiencies while simultaneously lifting many millions out of poverty. However, the evolution was imperfect and contained vulnerabilities which the difficult 2020s have exacerbated. The Covid pandemic was a non-economic shock that certainly triggered global supply chain distortion, constraining output even as demand was amped up through unprecedented policy stimulus. The end result, a surge in inflation unseen since the 70s.

A long-known critical choke point has been exposed, the economic cost of which ... is only now emerging.

The Ukraine war proved another test, especially in terms of its impact on energy markets in Europe where the region's supply security experienced severe pressure, a vulnerability from which it has not fully recovered. President Trump's election for a second term brought with it tariffs and erratic trade conditions, a policy shaped by geopolitical rather than economic considerations. And now the effective closure of the Strait of Hormuz through which flows around a quarter of all seaborne oil and a fifth of its natural gas. A long-known critical choke point has been exposed, the economic cost of which, together with damage to upstream energy installations, is only now emerging.

THE UK STARTS TO COUNT THE ECONOMIC COST

For most businesses and households, the initial cost of the war is already manifesting in the price of fuel at petrol stations. While backward-looking data contained within February's Consumer Price Index release, covering February, confirmed that fuel inflation had actually dropped from an annualised rate of -2.2% to -4.6%, nobody paid any attention. The surge in energy prices has caused average petrol/diesel prices to rise to 159p per litre and in some cases by even more. That increase alone could add 0.3%-points to CPI inflation in March without accounting for a further 10% surge as the conflict endures. Furthermore, Ofgem is now thought likely to raise its utility price cap by as much as 30% on 1 July adding, if confirmed, a further full 1%-point to the headline rate of inflation and that without accounting for any additional pass-through costs as businesses pass higher energy costs on in the form pricing for non-energy items.

While hard economic data lags, soft business survey data is typically more forward-looking. While the correlation between

survey outcomes and economic activity is not perfect, it does serve as a guide to how the future might unfold. Not only have flash purchasing manager surveys confirmed a sharp increase in business costs (and higher output prices), falls in both manufacturing and service sector indices are consistent with no growth in GDP to end the first quarter of the year and on into the second. Indeed, confirmation that some businesses have been stockpiling in anticipation of trouble ahead may make the reality even worse.

THE POLICY RESPONSE

A combination of rising inflationary pressures and stagnating economic output, so-called "stagflation" is a central banker's nemesis and further complicates life for the Labour administration. Although the Bank of England "stands ready", by its own admission, to adjust policy (hike interest rates) as necessary, it faces a dilemma, how best to set policy when price pressures are intensifying while simultaneously both the economy and labour market are weakening? Ultimately, it will be the war's duration and its impact on incoming data that will prove the deciding factor. The Bank has "stood ready" before, most recently in 2020 at the outset of the Covid pandemic and before that in 2013, but on each occasion the policy adjustment was not immediate and may mean that the financial markets' assessment of the policy outlook (three 0.25%-point rate hikes by end-year) could yet prove too previous.

Turning to government policy, the degree to which the administration can provide support to lower income households is being couched in the context of how much fiscal headroom Chancellor Ms Rachel Reeves may have without breaching her fiscal rules. Although the Spring Statement (3 March) confirmed that the buffer had expanded to £23.6bn the combination of a weaker growth outlook, shrinking tax base and higher interest rates and gilt-edged yields are thought likely to have cut any room for manoeuvre roughly in half. That said, a temporary support package would likely have little bearing on the health of the public finances by the end of the current parliament.

Instead, the true constraint lies in the reaction of investors to the country's highly parlous public finances. The UK's debt dynamics are fragile (public debt stands above 85% of GDP against 70%-85% over the previous decade) while public sector net borrowing stands at around £130bn (4.2% of GDP), a poor starting point for any short-term giveaways if that is what there might be. Back in the autumn of 2022 the then government provided c.£60bn in untargeted support for households and businesses, but a policy loosening to that extent on this occasion would, however, be asking for trouble. Chancellor Reeves has recognised this,

“... the conflict’s duration can only be guessed at, depending as it does both on US – Israel and Iranian desire for peace.”

confirming in a speech on 24 March that any support would be smaller in size and more targeted than was previously the case. The extent of that support will likely depend on how scenarios play out.

OUTLOOK SCENARIOS

Try as military strategists might to “game out” conflict outcomes the truth is that in war hostilities can escalate and de-escalate continuously. Try as one or either side might to seek a negotiated ceasefire or “off-ramp” in the jargon *du jour*, in the words of Federal Reserve Chair Mr Jerome Powell “We just don’t know”. In such circumstances one might think it right to abandon all attempts at trying to anticipate the eventual outcome. But economic and financial market forecasting requires an assessment, no matter how loosely held and vulnerable to change it might be.

A baseline scenario might assume that hostilities remain intense through to the end of April, during which time energy prices will be volatile, spiking and falling with each twist and turn in the war. Ultimately, sufficient common ground might be found on which to achieve a negotiated settlement ending hostilities and allowing for a proper assessment of damage to regional upstream energy infrastructure. Repairs are carried out fairly swiftly and the Strait of Hormuz reopens, allowing a gradual return of seaborne energy exports. Given that Qatari officials have already ascribed a 3 to 5-year timeline to get the giant Ras Laffan liquefied natural gas (LNG) facility before it fully recovers this may already feel like wishful thinking. Furthermore, the conflict’s duration can only be guessed at, depending as it does both on US – Israel and Iranian desire for peace.

Given the uncertainty a second more adverse scenario might assume a more prolonged war during which hostilities remain intense. While boiling down to two potential outcomes, modellers are cognisant of the fact that numerous other permutations exist, however, the longer the war lasts the greater the risk that significant and widespread damage is done to energy and other key infrastructure installations. Eventually hostilities become less intense, perhaps the consequence of the escalating cost associated with funding a war and/or the loss of public support for any intensification or prolongation. Transit through the Strait recovers but damage to installations takes a long time to

be restored to pre-war levels and energy prices, albeit off peak levels, remain higher for longer.

PUTTING THE SCENARIOS IN THE UK ECONOMIC CONTEXT

In consequence of the above, under the baseline scenario UK headline CPI inflation might be expected to peak at around 4.5% in November with core CPI (excluding food, fuel and certain other prices) hitting 3.7% before both fall back towards the Bank of England’s target in 2027. Under the more adverse second scenario headline inflation might peak at around 7.0% early in 2027 before falling back fairly swiftly thereafter. Economic textbooks confirm that supply-side shocks, while violent, typically tend to be comparatively short-lived. Commodity traders might recall that “higher prices are the cure for higher prices”, a reference to the fact that the so-called demand destruction caused by higher (energy) prices eventually brings prices down.

The question is to what extent are the risks priced in and whether the pricing adjustment might provide an opportunity.

Rate-setters at the Bank of England will be highly attuned to inflation outcomes such as those described but may set greater store in the tenor of incoming data when formulating policy. The great imponderable lies in the extent to which companies attempt to pass through higher costs in the form of higher product prices and in so doing build in a sharp rise in inflation expectations. This alone might warrant higher interest rates, as gilt-edged pricing anticipates. But much will depend on the weight the Monetary Policy Committee ascribes to the offsetting hit to economic activity which, under the benign scenario might see real GDP growth dip from 1.3% in 2025 to just 0.5% this year. Under the adverse scenario the UK drops into a shallow technical recession (two consecutive quarters of negative growth) and ultimately the economy only grows by 0.3% this year as energy-intensive sectors are hit hardest and for longer.

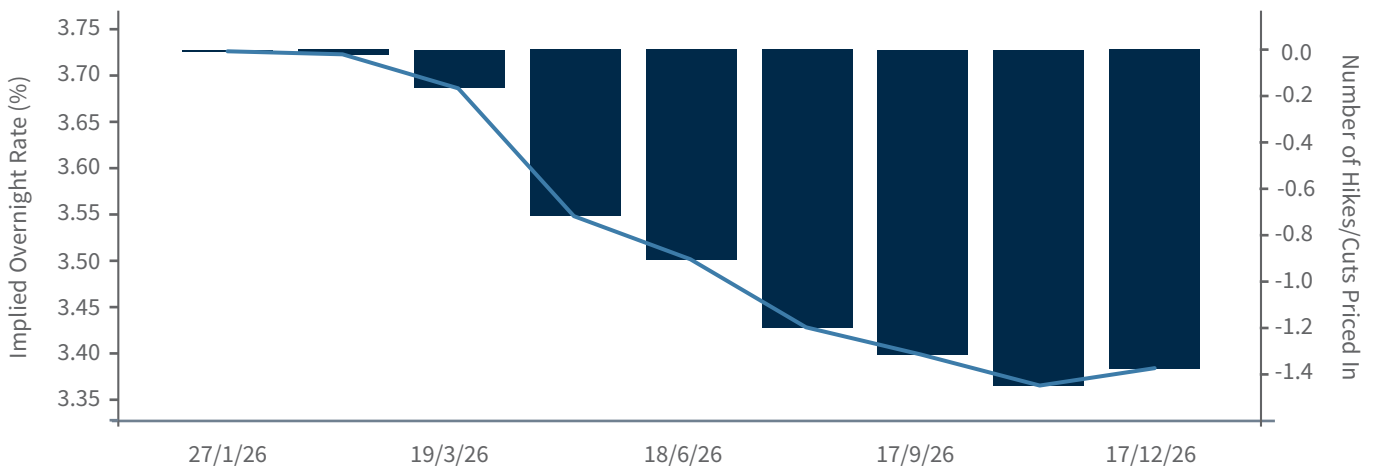
NAVIGATING TREACHEROUS FINANCIAL MARKETS

That these are testing conditions for investors in all financial markets, not just those of the UK, is abundantly clear. The question is to what extent are the risks priced in and whether the pricing adjustment might provide an opportunity. It is sometimes said that it's not the fall (in pricing) one needs to worry about, but the rise! The gilt-edged market has repriced, and yield curves flattened aggressively over March, from pricing in as many

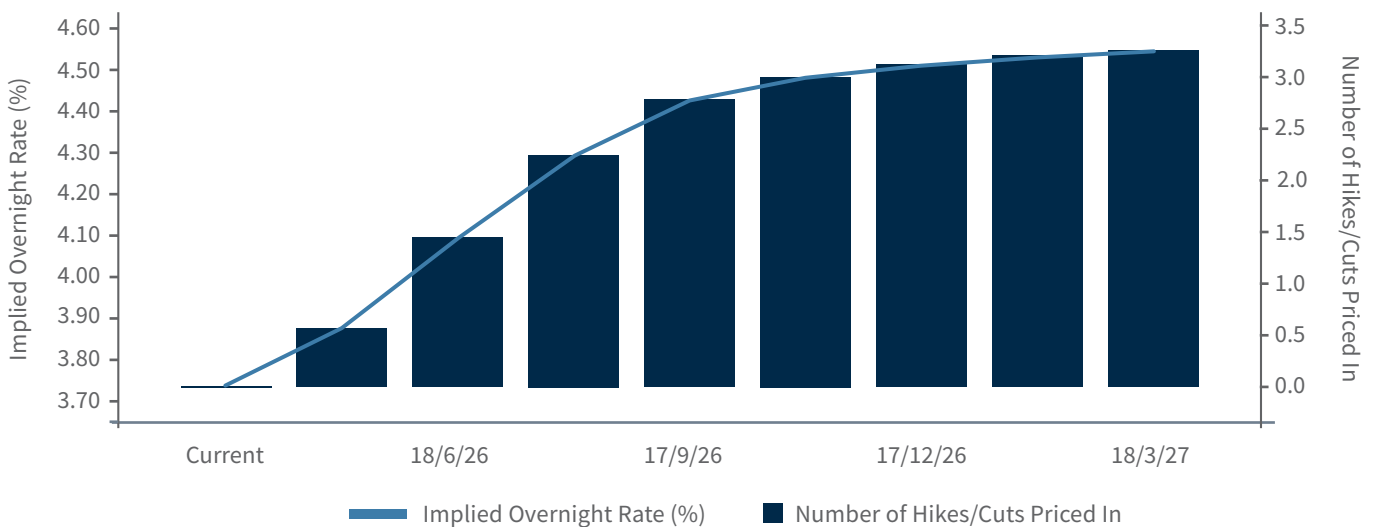
as three Bank of England rate cuts to fully pricing in three rate hikes, to 4.50% with an 80% chance that the first might come at the end of April. This may yet prove an over-reaction as noted above, but it certainly indicates that investors are very aware both of a growing inflation shock and the vulnerable nature of the country's public finances.

FROM THIS...

Implied Overnight Rate and Number of Hikes/Cuts



TO THIS IN ONE MONTH



Source: Bloomberg

While the gilt-edged market has grabbed the headlines, the UK stock market has flown under the radar. Admittedly the index of leading one hundred companies dropped below 10,000 as March drew to a close but there have been offsetting influences at the sector level. Unsurprisingly, the heavyweight energy sector has performed strongly since late February (and has been a strong performer elsewhere too, including the US).

Offsetting this strength, two other heavily weighted sectors have performed poorly, Materials (mining companies) and financials. Atypically, the price of energy has not moved with industrial metal prices, the divergence a clear reflection of investor concerns that a sustained rise in energy prices will likely undermine demand while serving to undermine sector margins. Meanwhile the financials sector has fared even worse, perhaps surprising given surging gilt-edged yields. However, the correlation between the two is not that strong, growing concerns regarding the domestic economic outlook proving a bigger factor in driving performance. While uncertainties prevail sectors comprising businesses with strong pricing power, reliable cash generation and dividend payouts are likely to remain popular. ■

KEY TAKEAWAYS

- The UK economy, already weak as the Persian Gulf war erupted in late February, faces a sharp intensification of inflationary pressure as economic activity stagnates.
- The conflict represents a severe supply-side shock, the latest and most intense of the shocks dominating the first half of the 2020s.
- With fuel prices surging at filling stations and market pricing reflecting fears that higher business costs might be passed on as higher prices, inflation expectations are rising.
- The Bank of England “stands ready” to raise interest rates if the crisis persists while Chancellor Reeves promises targeted help to vulnerable households.
- Both the gilt-edged market and UK stock market have come under pressure, in common with markets globally. Market pricing may yet prove overly pessimistic but the uncertainty caused by the fog of war and its lasting economic impact augurs in favour of near-term caution.

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Disclosure (cont.)

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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.

The VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

The MSCI Emerging Markets Index is used to measure the financial performance of companies in fast-growing economies around the world. The MSCI China A Index measures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The MSCI Pacific Index is a free float adjusted market capitalisation weighted index that is designed to measure the equity market performance of the developed markets in the Pacific region. The MSCI USA Index is designed to measure the performance of the large- and midcap segments of the US market. The MSCI Europe index is a European equity index which tracks the return of stocks within 15 European developed markets. The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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