# Capital Markets Review

# Q2 2015

Reviewing the quarter ended March 31, 2015

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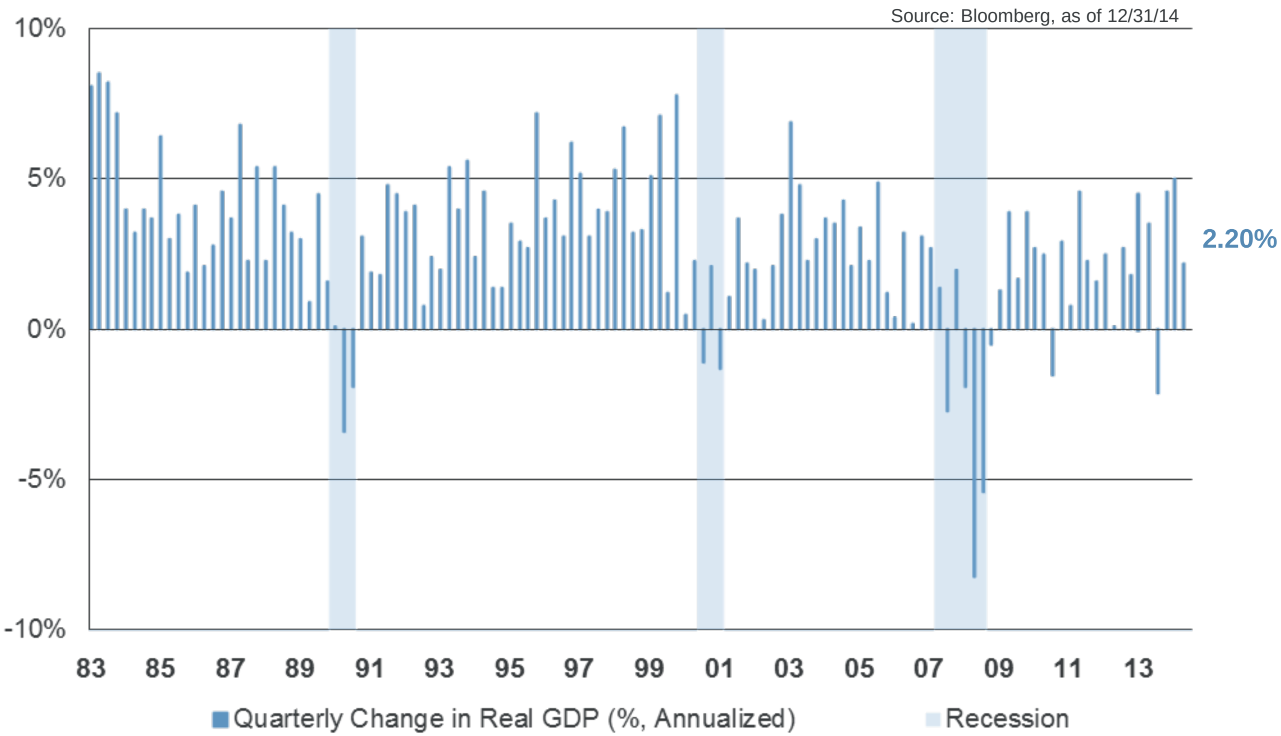
# GROSS DOMESTIC PRODUCT

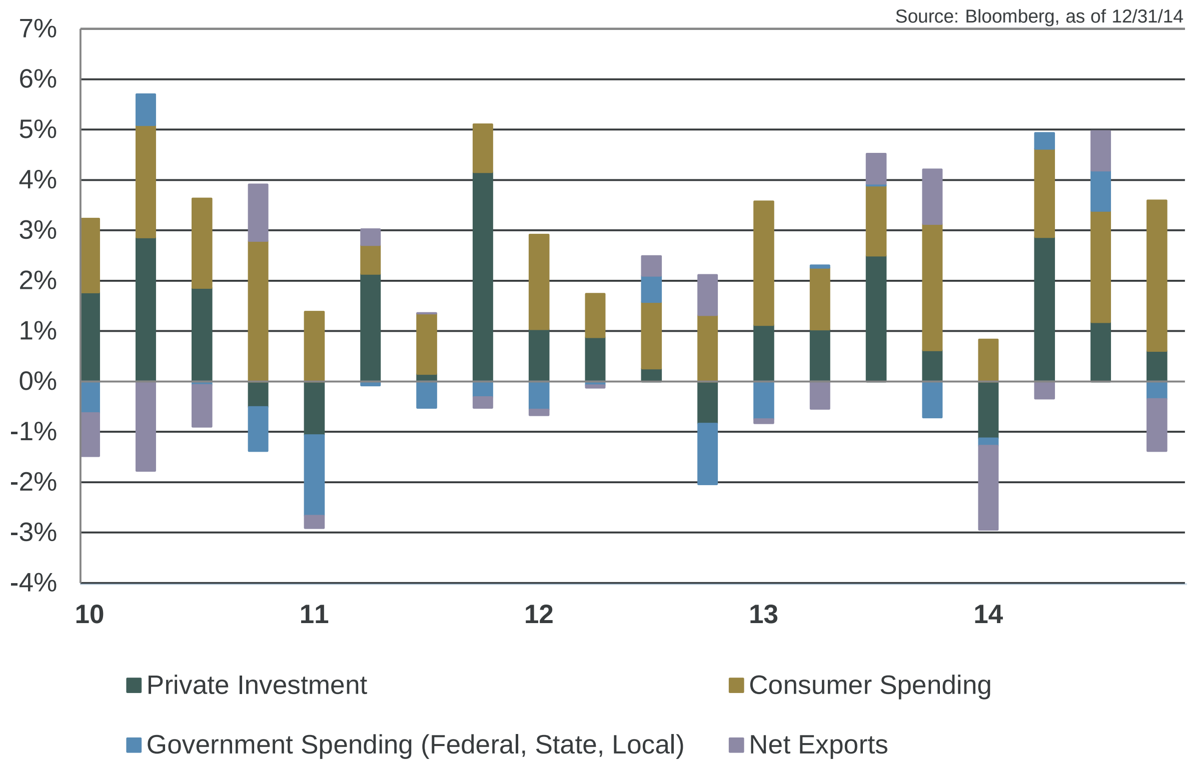
In the fourth quarter, GDP grew at a 2.2% pace, slower than the second and third quarters of 2014.



# CONTRIBUTIONS TO % CHANGE IN REAL GDP



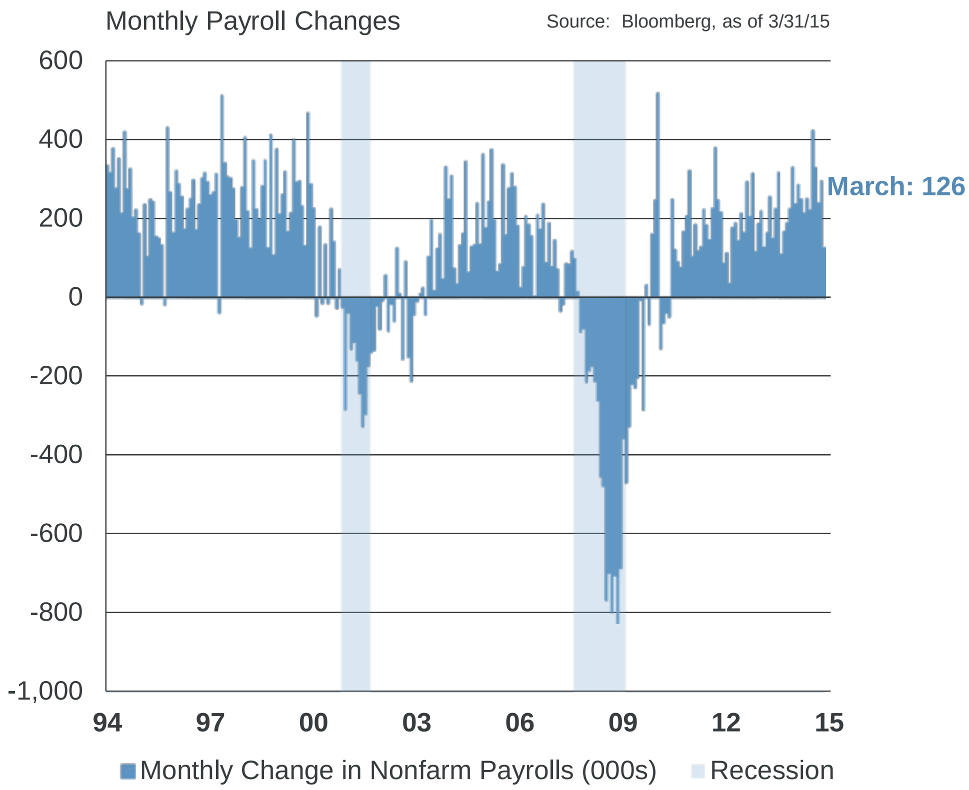
Boosted by lower energy prices, consumer spending drove economic growth in the fourth quarter. Net exports were the primary detractor, as the strong U.S. dollar made domestic goods more expensive abroad.



# EMPLOYMENT



The unemployment rate dropped to 5.5%, its lowest level since June 2008, as the upward trend in job growth continued. Total nonfarm payroll employment increased by 126,000 in March.

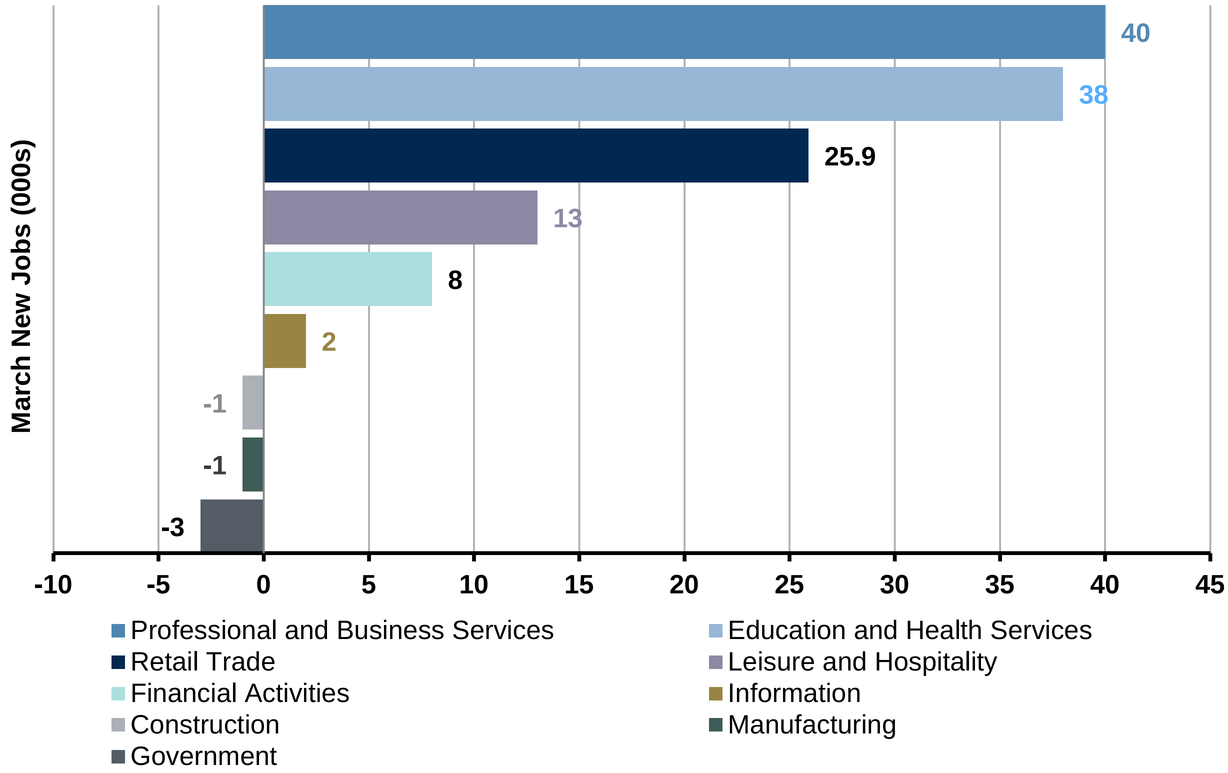



# MAJOR INDUSTRY CONTRIBUTIONS TO JOB GROWTH



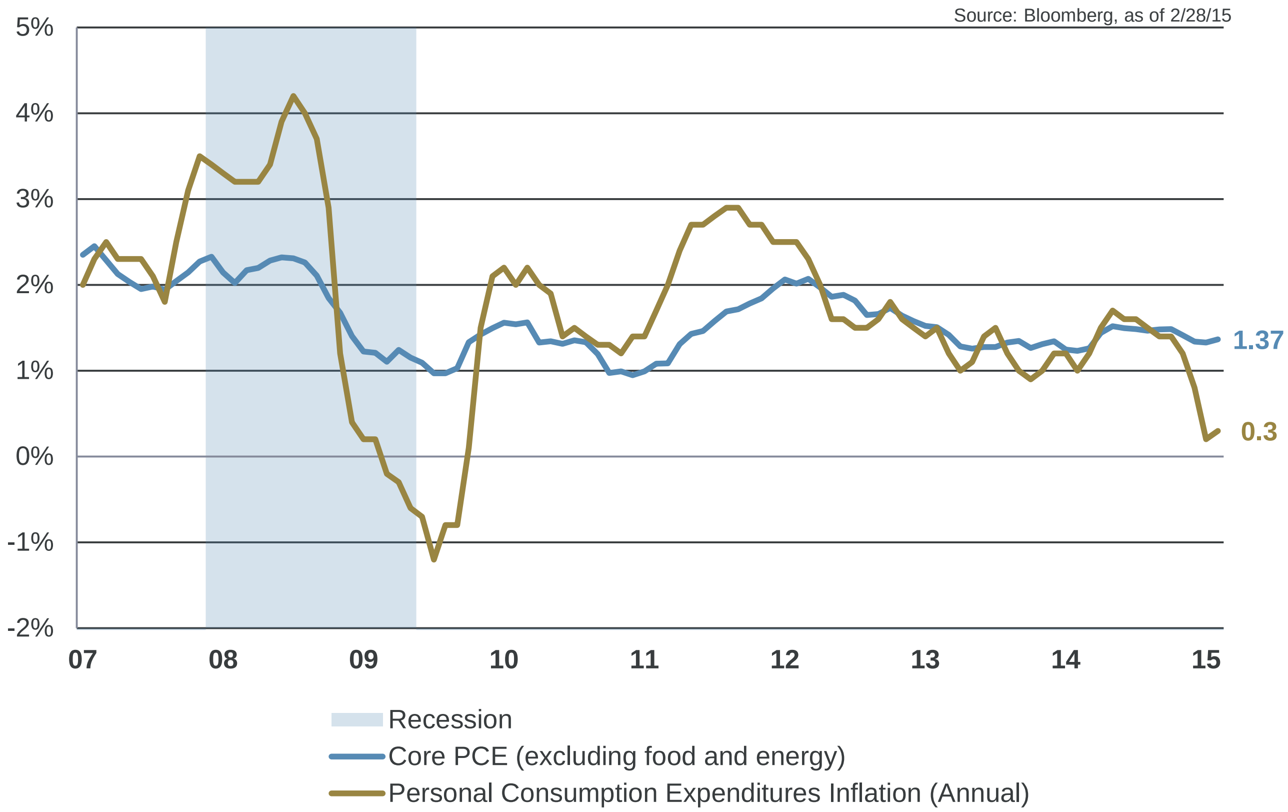
Employment continued to trend up in professional and business services, health care, and retail trade, while government lost jobs.

Source: Bureau of Labor Statistics, as of 3/31/15



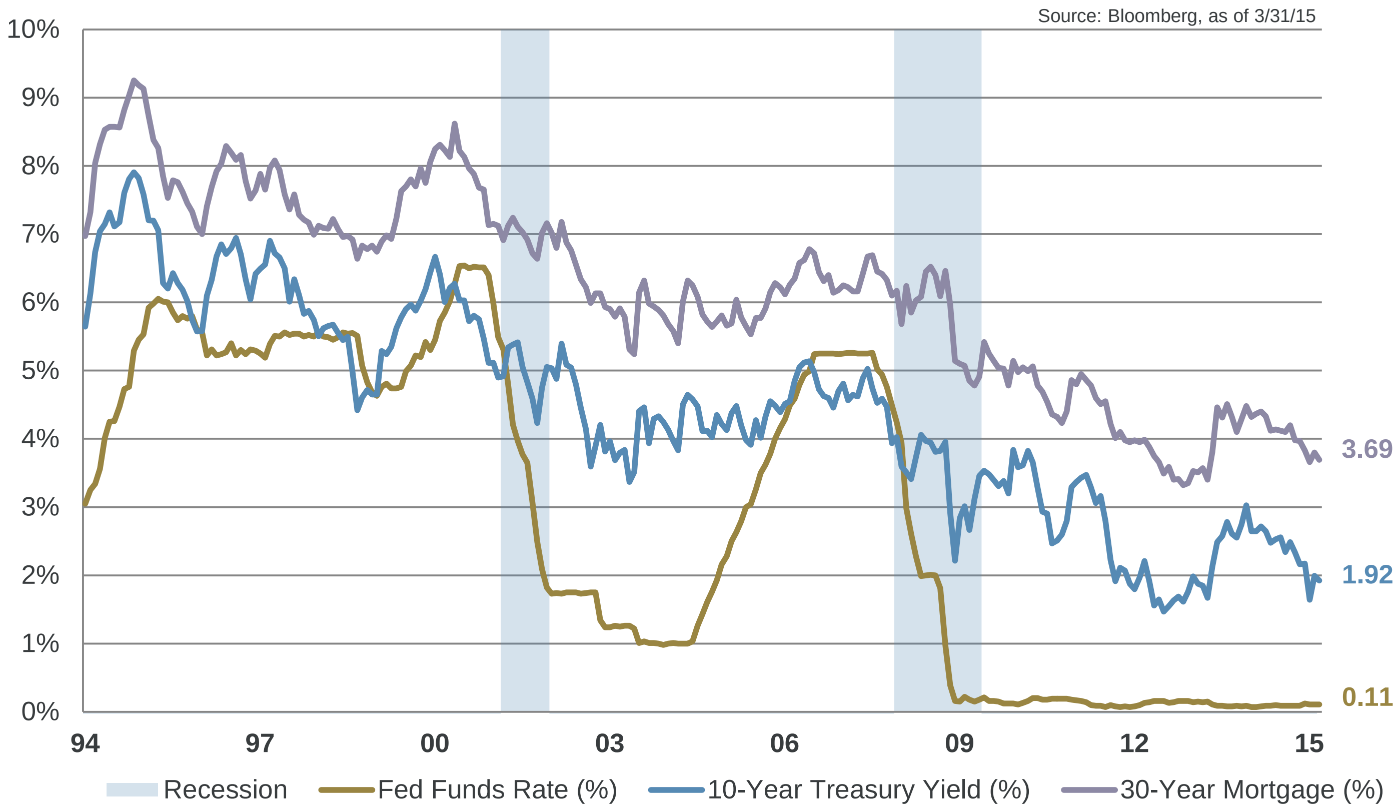
# INFLATION

Lower energy prices pushed overall inflation close to zero while core inflation (excluding food and energy) remained stable yet well below the Fed's 2% target rate.

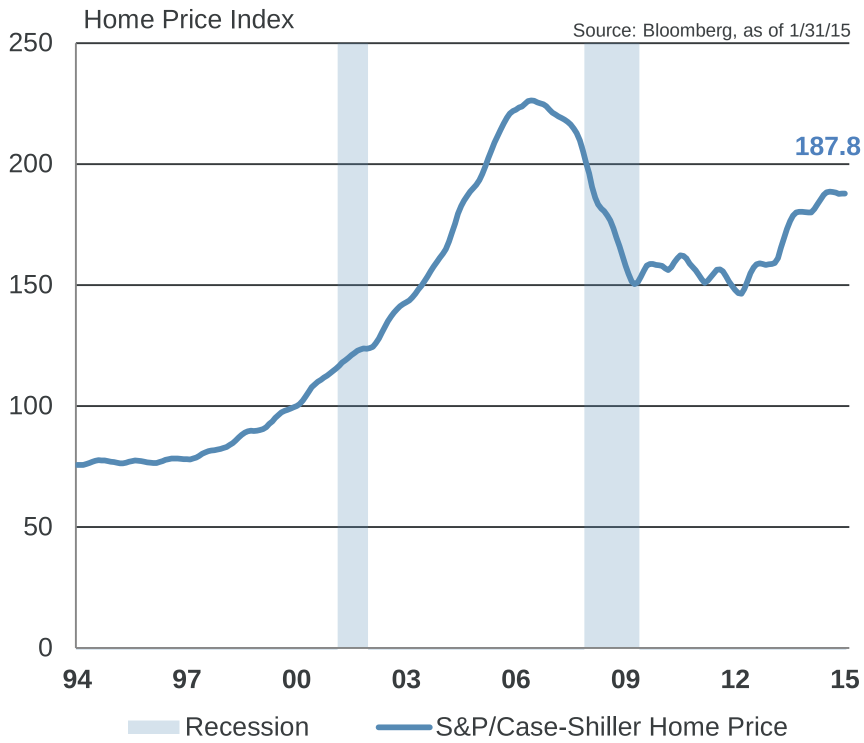


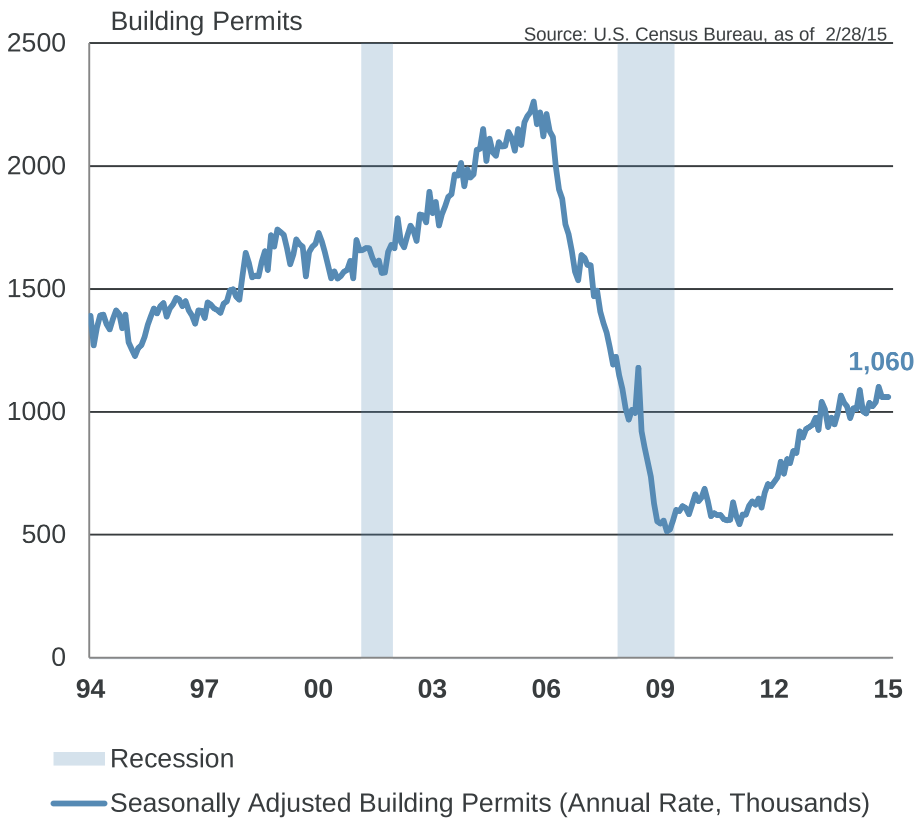
# KEY INTEREST RATES

Interest rates remained low as the Federal Reserve committed to keeping the discount rate "lower for longer."

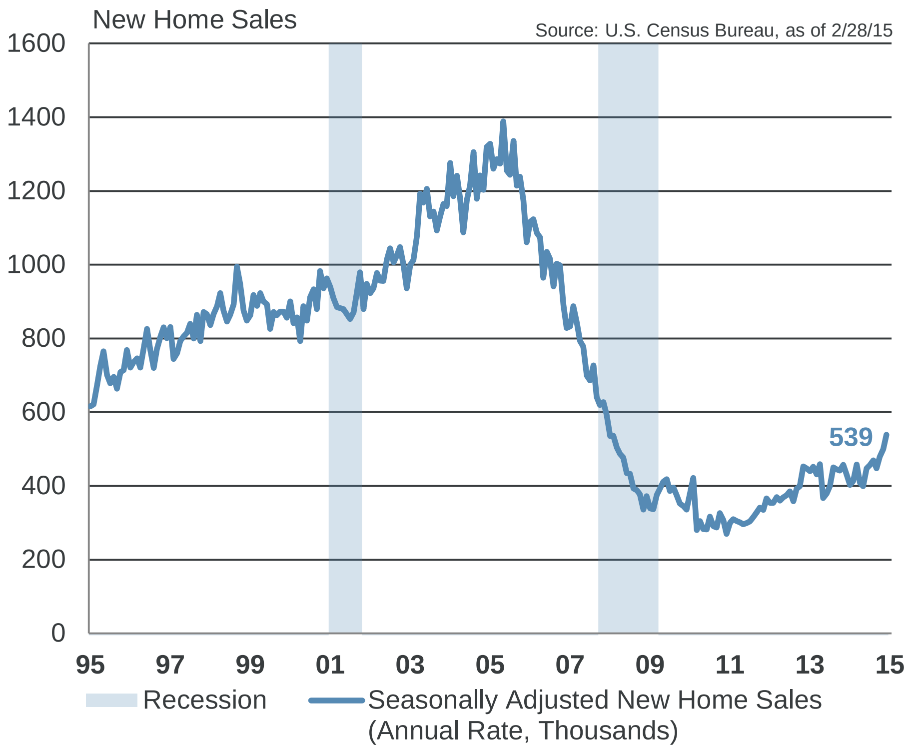


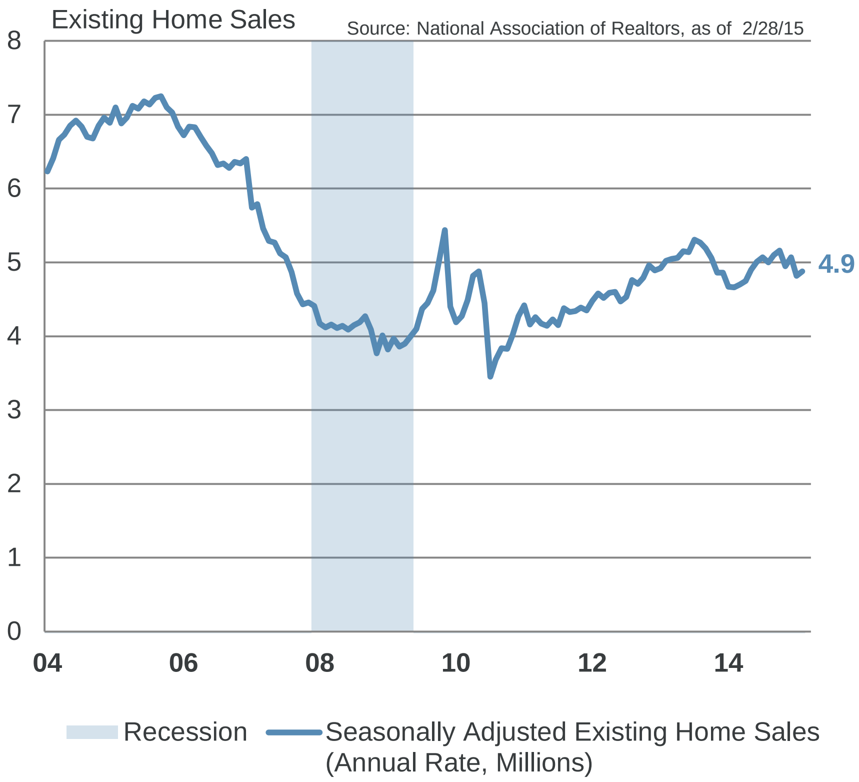
Home prices remained flat to start the year, while building permits picked up in February.



Since the start of the year, buyers preferred new homes over existing homes.

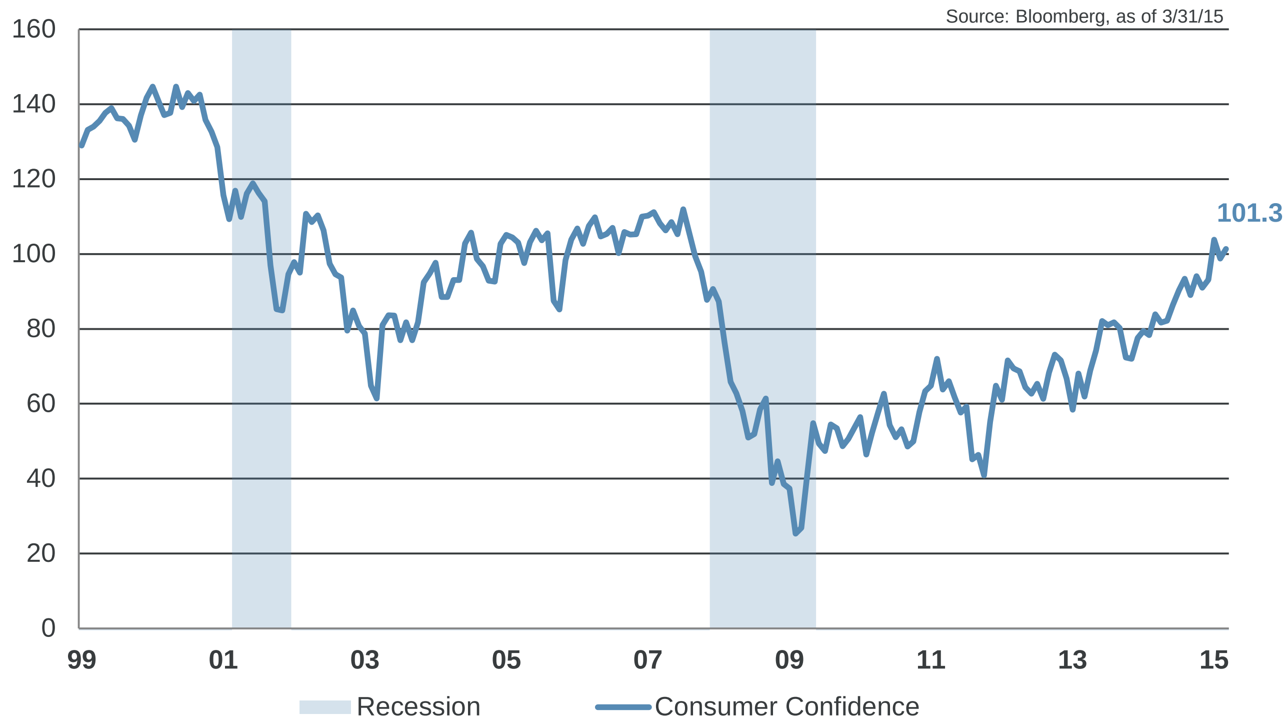


# CONSUMER CONFIDENCE

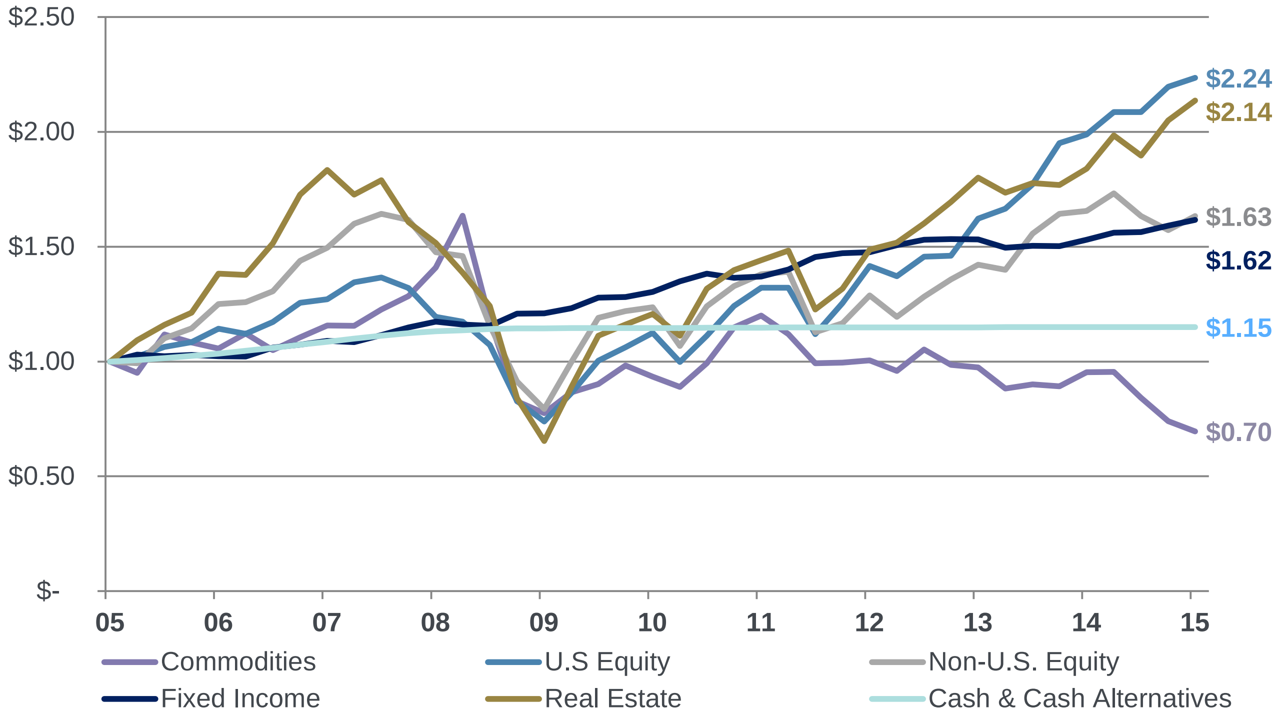


U.S. consumer confidence improved significantly during the first quarter and was likely supported by lower gas prices and better employment prospects.



# INDEX RETURNS GROWTH OF A DOLLAR

Capital Markets




| | YTD | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|
| **U.S. Equity** | 0.95% | 12.73% | 16.11% | 14.47% | 8.01% |
| **Non-U.S. Equity** | 3.83% | -1.39% | 8.24% | 5.72% | 5.03% |
| **Fixed Income** | 1.61% | 5.72% | 3.10% | 4.41% | 4.93% |
| **Real Estate (REITs)** | 4.17% | 16.06% | 12.82% | 12.08% | 7.88% |
| **Commodities** | -5.94% | -27.04% | -11.52% | -5.71% | -3.56% |
| **Cash & Cash Alternatives** | 0.01% | 0.03% | 0.05% | 0.07% | 1.41% |

Source: Morningstar, as of 3/31/15 Investors cannot invest directly in an index. Past performance is not indicative of future results. **See asset class benchmarks on slide 30.**

# ASSET CLASS RETURNS



Global REITs continued to produce strong returns, while commodities continued to disappoint.

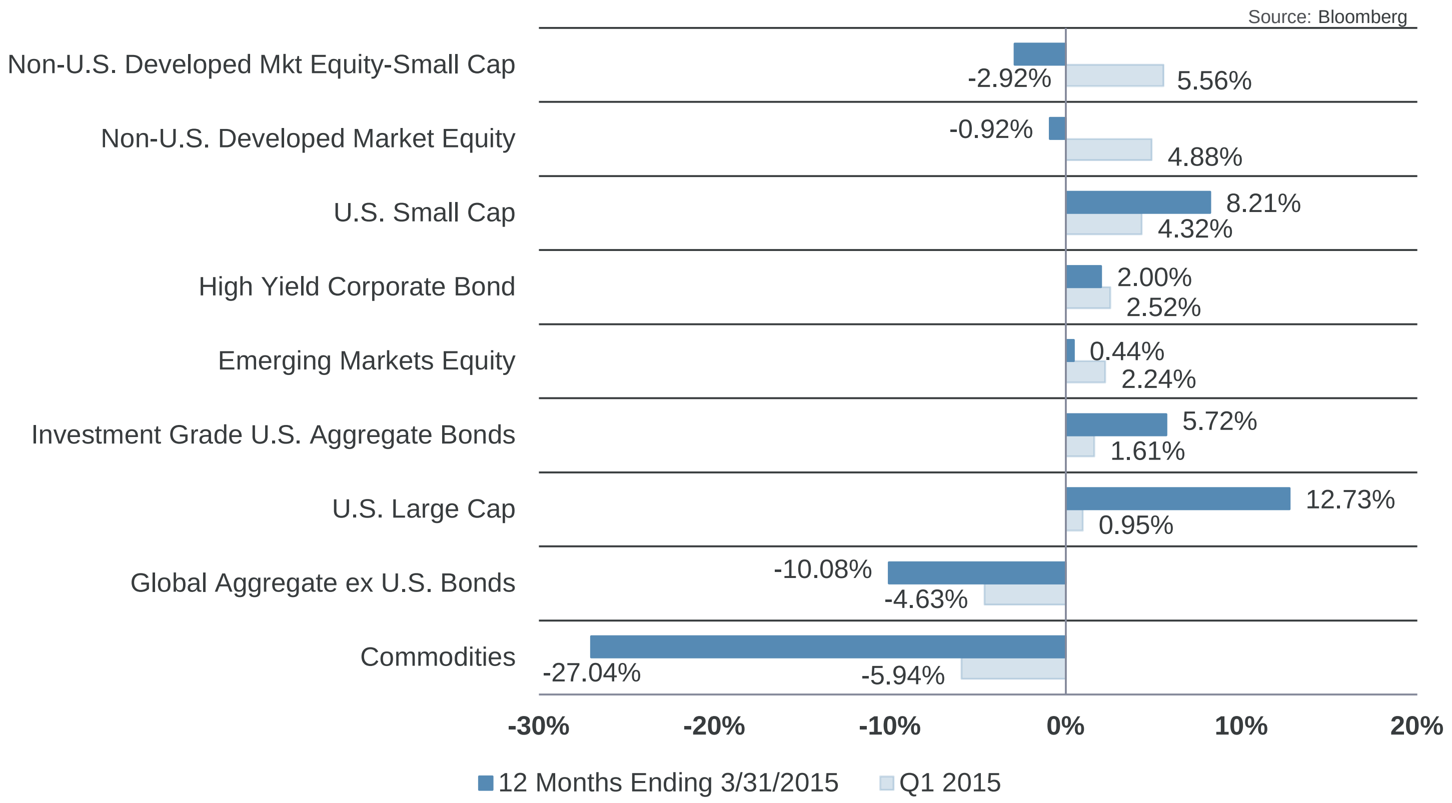
| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 YTD | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real Estate 40.7% | Real Estate 38.0% | Commodities 21.4% | Real Estate 42.3% | Commodities 16.2% | Fixed Income 5.2% | Real Estate 38.3% | Real Estate 20.4% | Fixed Income 7.8% | Real Estate 28.7% | U.S. Equity 33.6% | Real Estate 15.89% | Real Estate 4.2% | Best |
| Non-U.S. Equity 39.4% | Non-U.S. Equity 20.4% | Real Estate 15.4% | Non-U.S. Equity 25.7% | Non-U.S. Equity 12.4% | Cash & Cash Alternatives 1.8% | Non-U.S. Equity 33.7% | U.S. Equity 16.9% | Portfolio 4.0% | U.S. Equity 16.4% | Non-U.S. Equity 21% | U.S. Equity 12.56% | Non-U.S. Equity 3.8% | |
| U.S. Equity 31.1% | U.S. Equity 11.9% | Non-U.S. Equity 14.5% | U.S. Equity 15.7% | Fixed Income 7.0% | Portfolio -22.1% | U.S. Equity 28.3% | Commodities 16.8% | U.S. Equity 1.0% | Non-U.S. Equity 16.4% | Portfolio 17.6% | Portfolio 10.61% | U.S. Equity 1.8% | |
| Commodities 23.9% | Commodities 9.1% | U.S. Equity 6.1% | Portfolio 11.1% | Portfolio 6.0% | Commodities -35.6% | Commodities 18.9% | Portfolio 12.1% | Cash & Cash Alternatives 0.1% | Portfolio 11.3% | Real Estate 4.4% | Fixed Income 5.96% | Fixed Income 1.6% | |
| Portfolio 18.5% | Portfolio 8.3% | Portfolio 4.0% | Cash & Cash Alternatives 4.8% | U.S. Equity 5.1% | U.S. Equity -37.3% | Portfolio 18.4% | Non-U.S. Equity 9.0% | Real Estate -5.8% | Fixed Income 4.2% | Cash & Cash Alternatives 0.1% | Cash & Cash Alternatives 0.03% | Portfolio 1.2% | |
| Fixed Income 4.1% | Fixed Income 4.3% | Cash & Cash Alternatives 3.0% | Fixed Income 4.3% | Cash & Cash Alternatives 4.7% | Non-U.S. Equity -43.6% | Fixed Income 5.9% | Fixed Income 6.5% | Non-U.S. Equity -12.2% | Cash & Cash Alternatives 0.1% | Fixed Income -2.0% | Non-U.S. Equity -4.32% | Cash & Cash Alternatives 0.0% | |
| Cash & Cash Alternatives 1.1% | Cash & Cash Alternatives 1.2% | Fixed Income 2.4% | Commodities 2.1% | Real Estate -6.9% | Real Estate -47.7% | Cash & Cash Alternatives 0.2% | Cash & Cash Alternatives 0.1% | Commodities -13.3% | Commodities -1.1% | Commodities -9.5% | Commodities -17.01% | Commodities -5.9% | Worst |

U.S. Equity · Non-U.S. Equity · Portfolio (60% Stocks 40% Bonds) · Fixed Income · Real Estate (REITs) · Commodities · Cash & Cash Alternatives

Past performance is not indicative of future results. Annual Returns for Key Asset Classes (2003-2015). See asset class benchmarks listed on slide 30.

# ASSET CLASS RETURNS

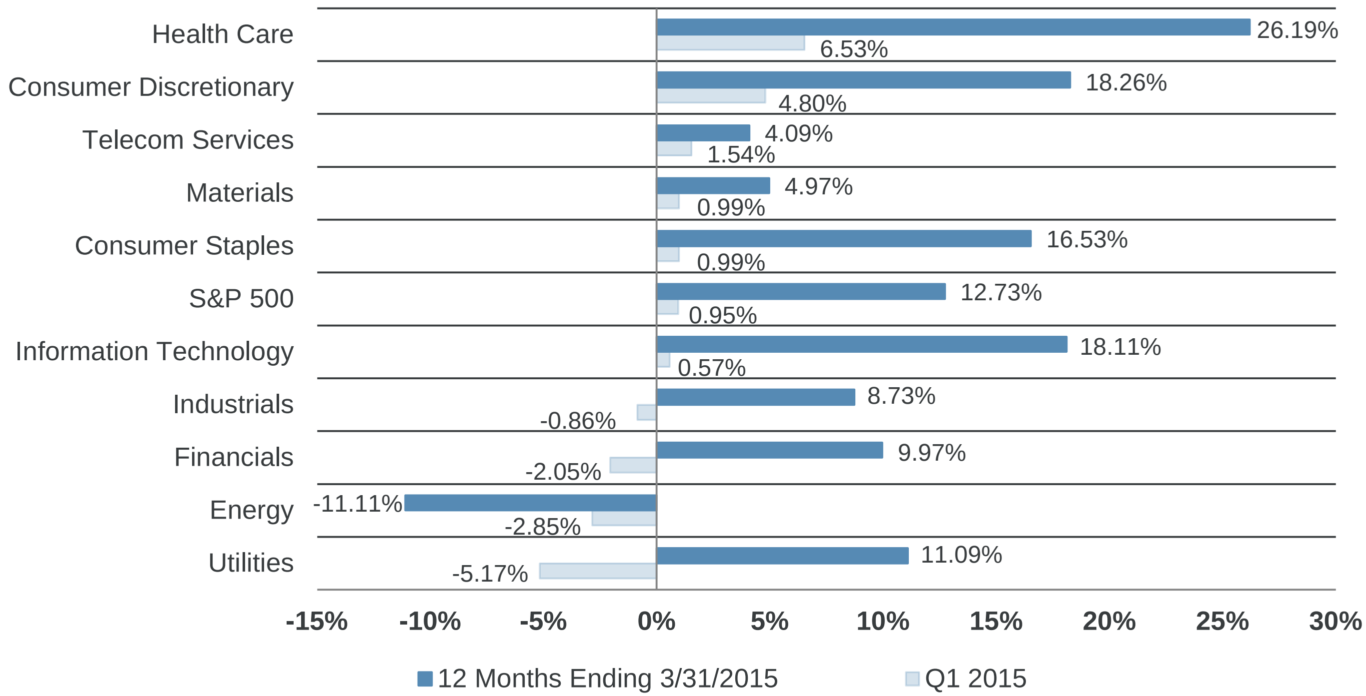
International developed market equities had a strong start to the year, while international fixed income and commodities produced negative results for the quarter.




Past performance is not indicative of future results. Please see slide 33 for index definitions.

# S&P 500 SECTOR RETURNS

Health Care continued last year's rally in the first quarter, fueled in part by positive developments in the biotech industry as well as increased demand, efficiency and cost controls within hospitals.




Utilities were the weakest performer this quarter. Accelerating economic growth typically makes this defensive sector less attractive. Lower projected earnings growth and a possible rise in short-term interest rates are potential headwinds for the yield-heavy sector going forward.

Returns are based on the GICS Classification model. Returns are cumulative total return for stated period, including reinvestment of dividends. Past performance is not indicative of future results. Please see slide 32 for index definitions.

# EQUITY STYLES



Growth-style equities outperformed value and core across the market-cap spectrum this quarter, with the biggest gains observed in small caps.

## Q1 2015

| | Value | Blend | Growth |
|---|---|---|---|
| **Large** | -0.72% | 1.59% | 3.84% |
| **Mid** | 2.42% | 3.95% | 5.38% |
| **Small** | 1.98% | 4.32% | 6.63% |

## Trailing 12 Months
*Ending 3/31/2015*

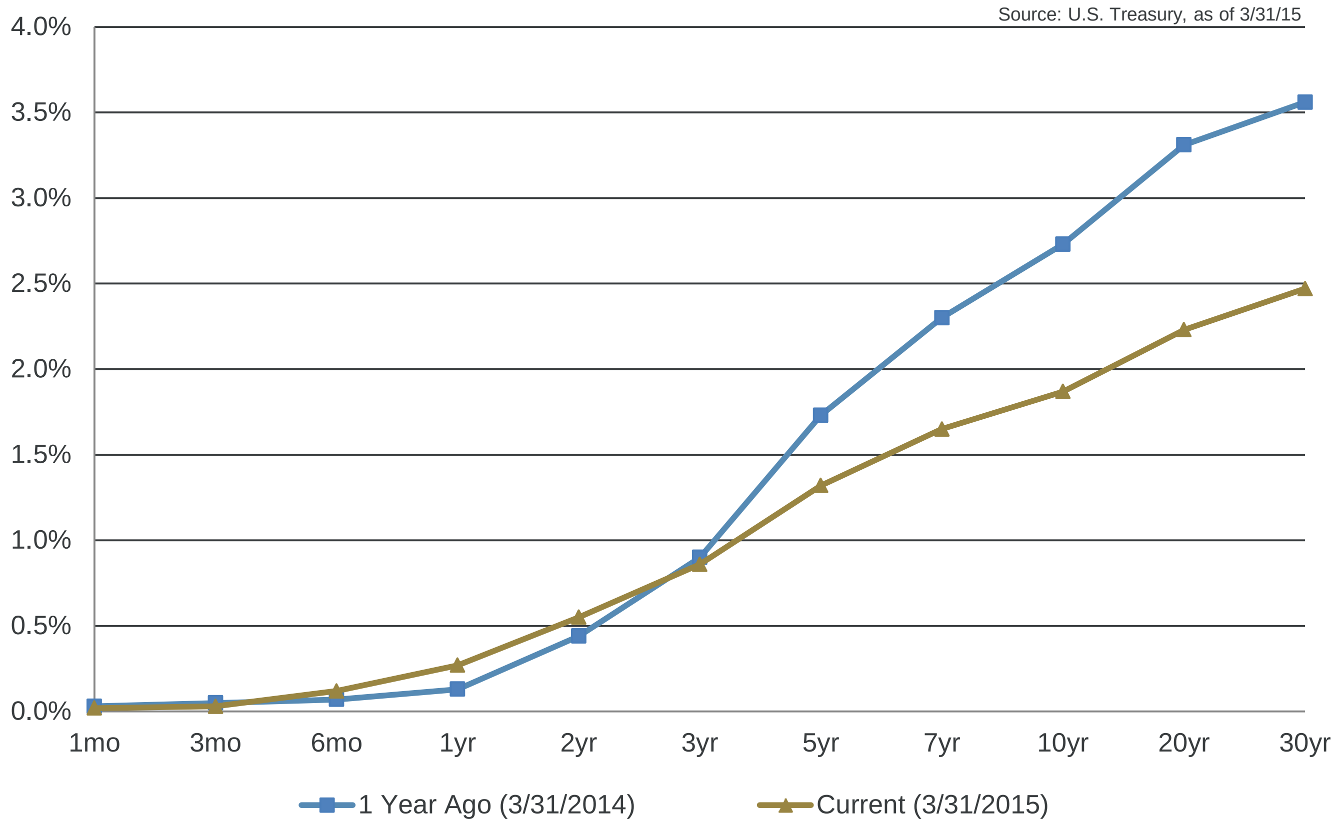
| | Value | Blend | Growth |
|---|---|---|---|
| **Large** | 9.33% | 12.73% | 16.09% |
| **Mid** | 11.70% | 13.68% | 15.56% |
| **Small** | 4.43% | 8.21% | 12.06% |

Source: Morningstar

Style box returns based on the GICS Classification model. All values are cumulative total return for stated period including reinvestment of dividends. The Indices used from left to right, top to bottom are: Russell 1000 Value Index, Russell 1000 Index, Russell 1000 Growth Index, Russell Mid-cap Value Index, Russell Mid-cap Blend Index, Russell Mid-cap Growth Index, Russell 2000 Value Index, Russell 2000 Index and Russell 2000 Growth Index. Past performance is not indicative of future results. Please see slide 31 for index definitions.

# U.S. TREASURIES

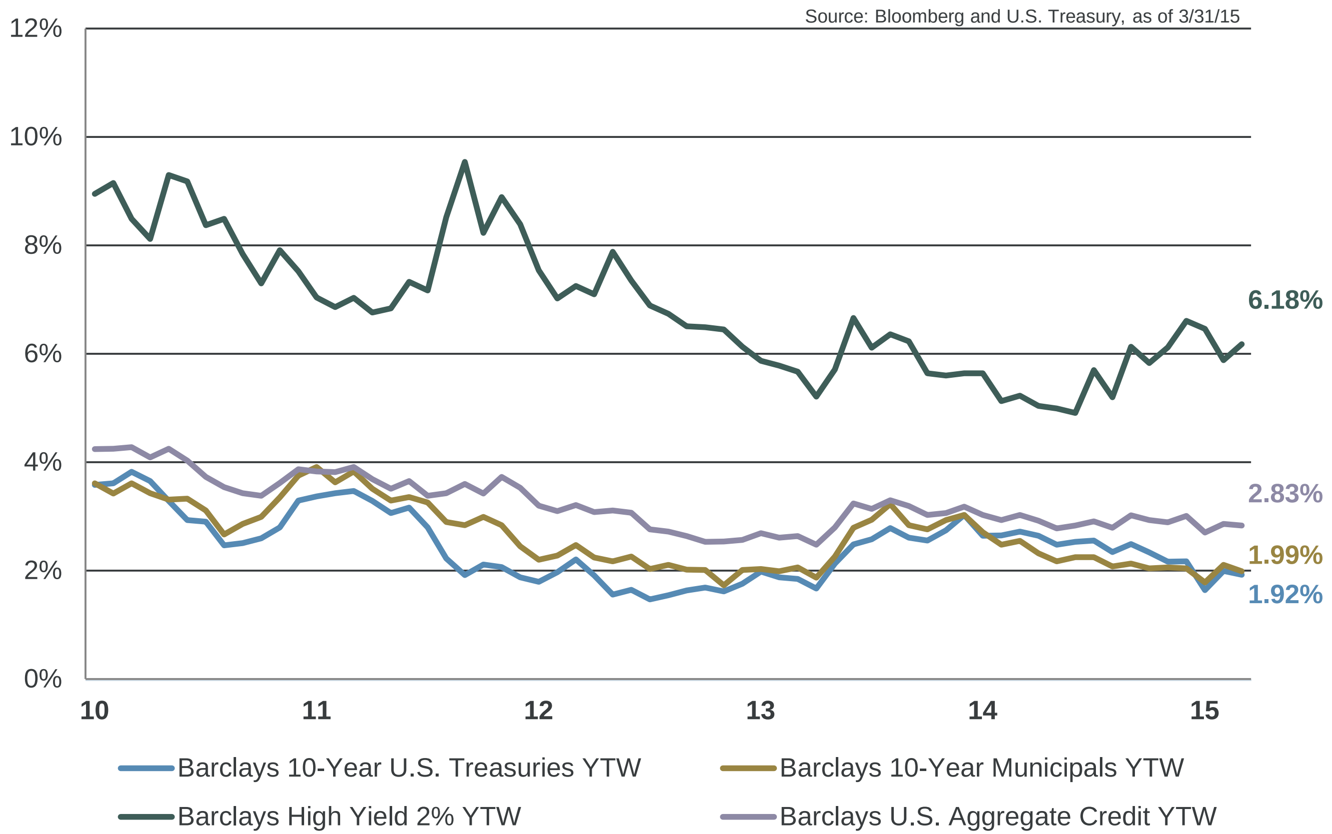
Since the start of 2014, the yield curve has flattened significantly. Fed intervention may only help to accelerate the flattening curve by boosting very short-term rates; having little or no effect on the long-term part of the curve.



# FIXED INCOME YIELDS



Yields of investment grade and high-yield fixed income trended downward for the quarter.

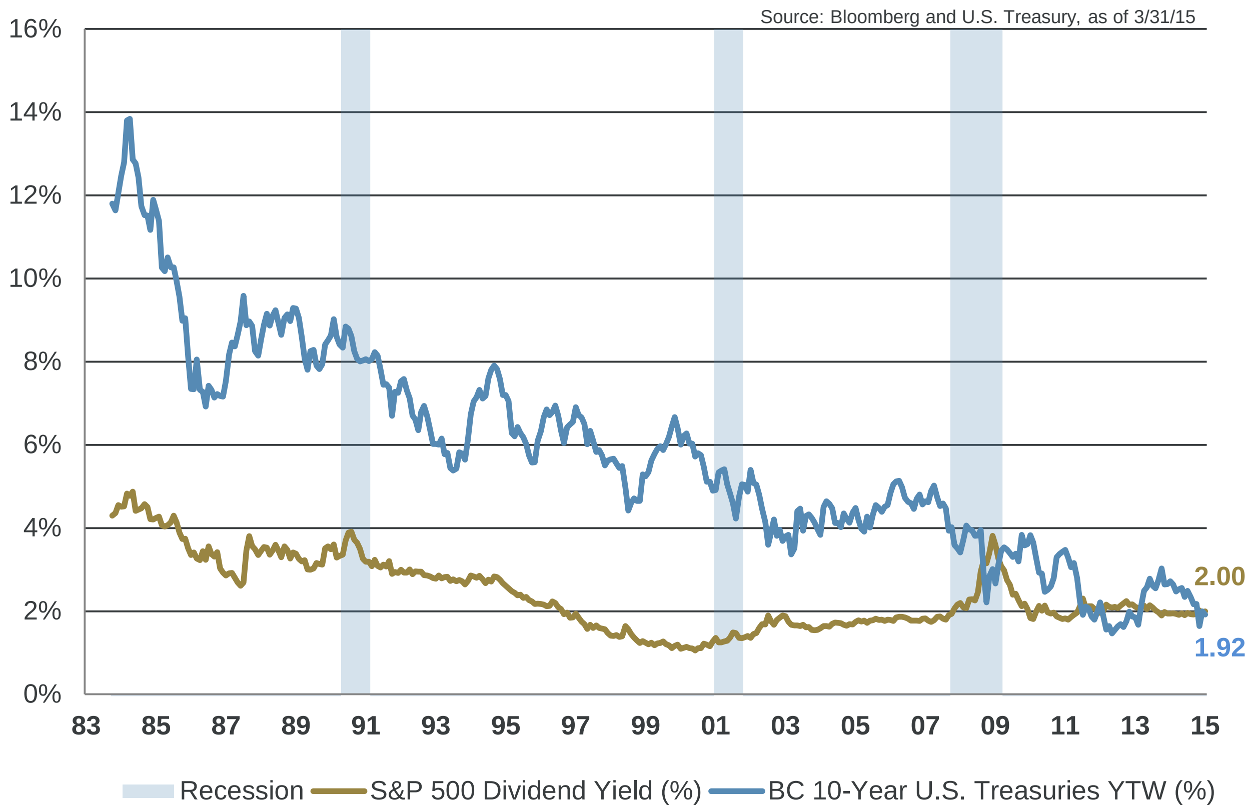



Past performance is not indicative of future results. Please see slide 30 for index definitions.

# S&P 500 YIELDS VS. TREASURY YIELD



Equities are offering relatively attractive yields compared to fixed income.

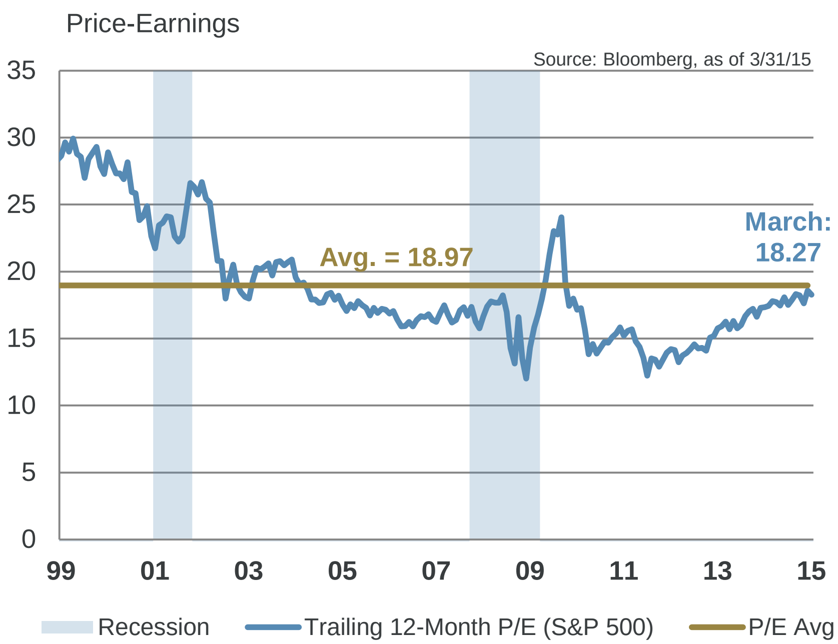


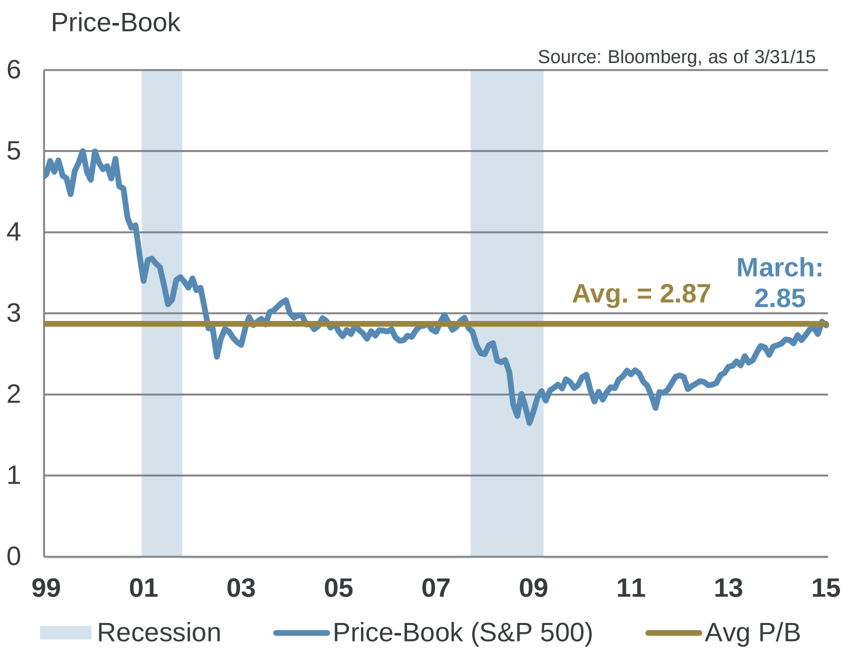

Past performance is not indicative of future results. Please see slide 30 for index definitions.

# PRICE-EARNINGS RATIO AND PRICE-BOOK RATIOS



S&P 500 valuations are approaching their historical average based on P/E and P/B ratios.

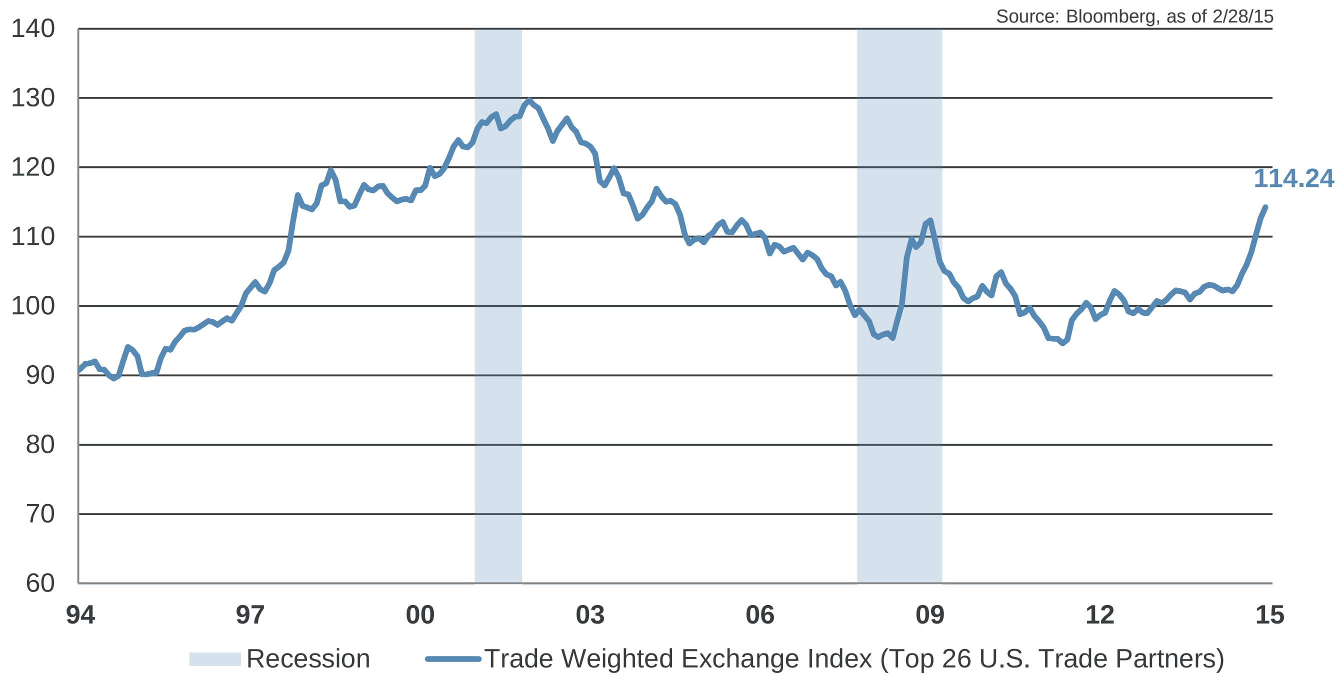



Past performance may not be indicative of future results. Please see slide 30 for index definitions.

# FOREIGN EXCHANGE RATES

The U.S. dollar continued its bullish run against a broad basket of currencies during the first quarter. A strong dollar benefits importers yet hinders exports and foreign revenues of multinational companies.

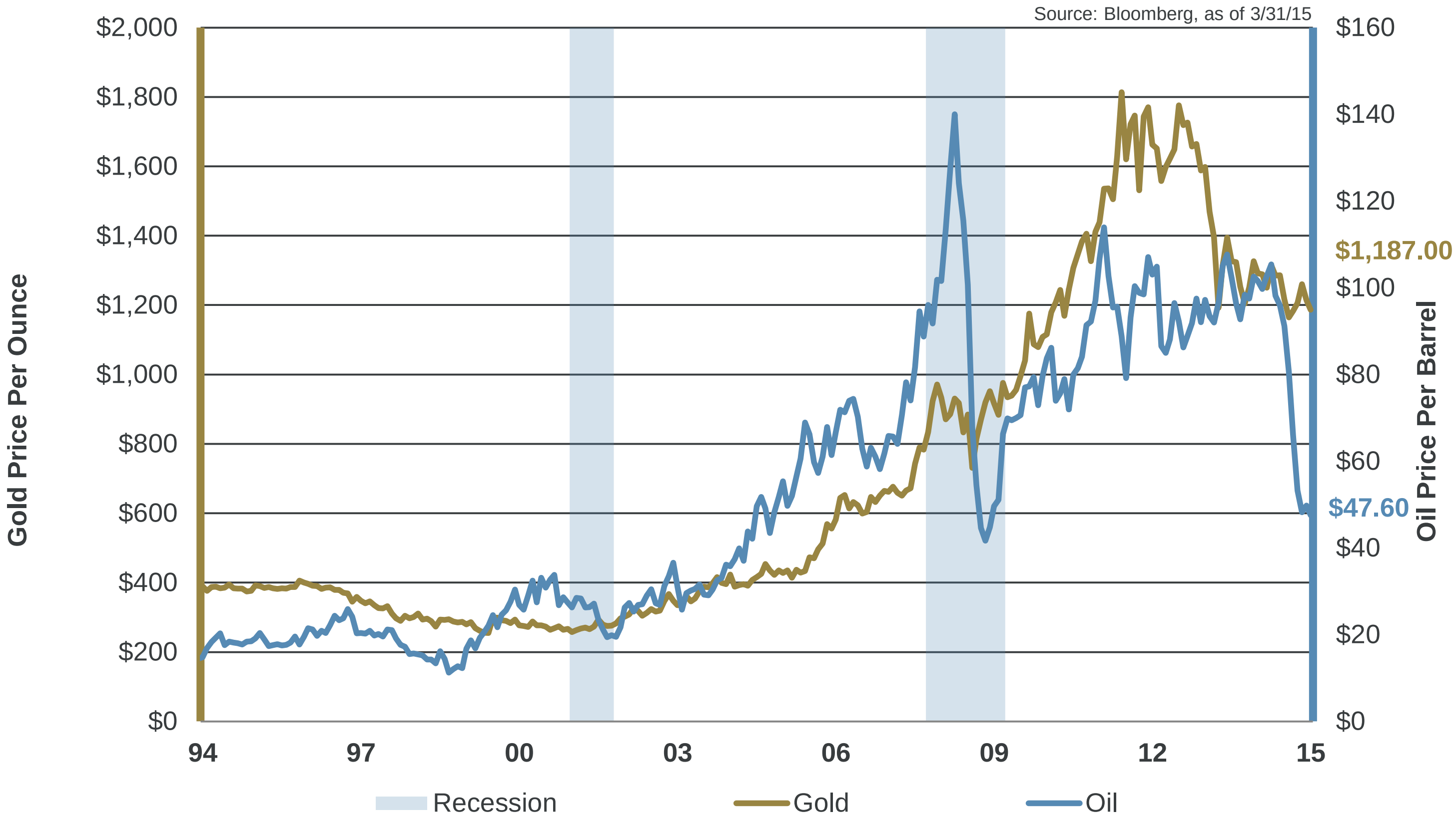



| Source: Bloomberg | 3/31/2015 | 3/31/2014 |
|---|---|---|
| **U.S. Dollar ($) / Japanese Yen (¥)** | 120.13 | 103.23 |
| **Euro (€) / U.S. Dollar ($)** | 1.07 | 1.38 |
| **British Pound (£) / U.S. Dollar ($)** | 1.48 | 1.67 |

# COMMODITY PRICES

Capital Markets

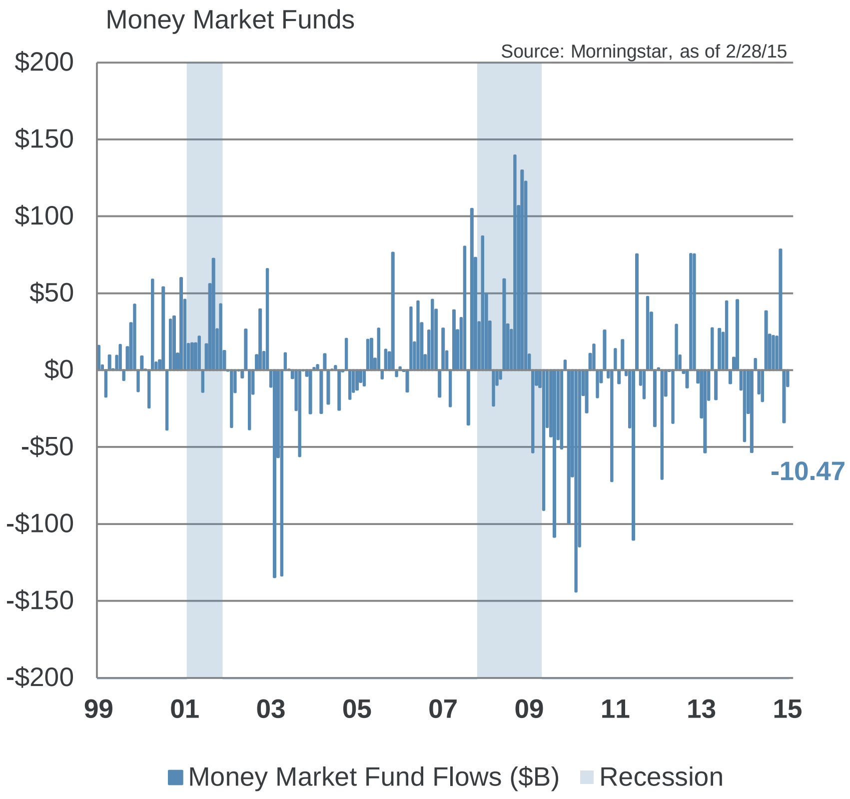
Oil continued its decent this quarter, falling 11%. Oil prices will likely bounce along the price bottom until supply and demand imbalances are corrected. Gold experienced a more modest decline of 2%.

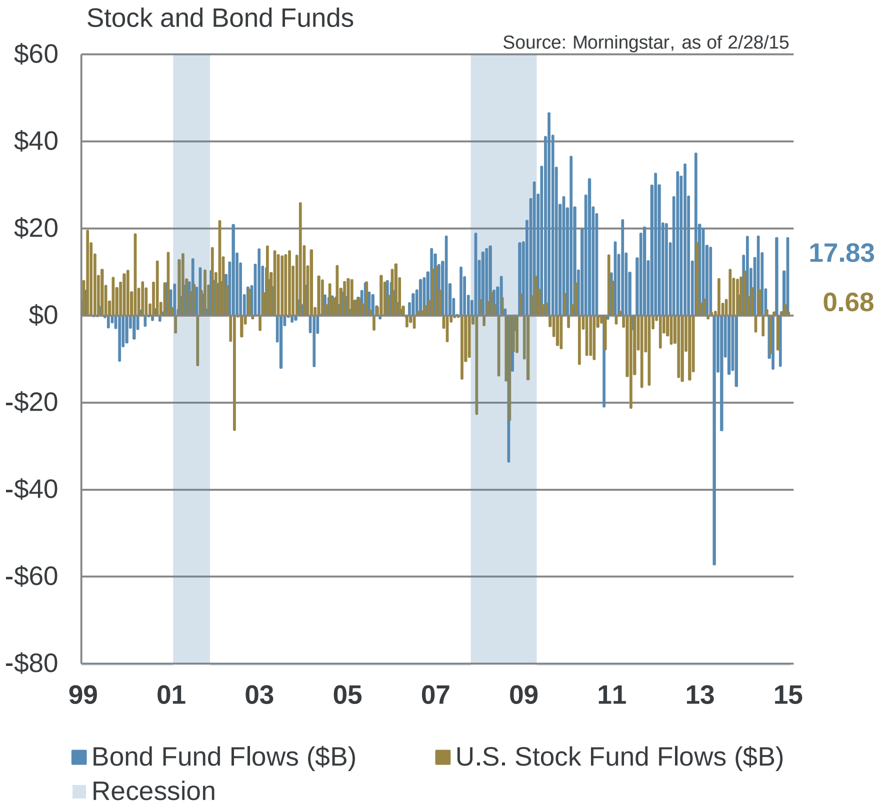


# MUTUAL FUND FLOWS



So far this year, approximately $10.5 billion flowed out of money market funds while $18.5 billion flowed into U.S. equity and bond funds.



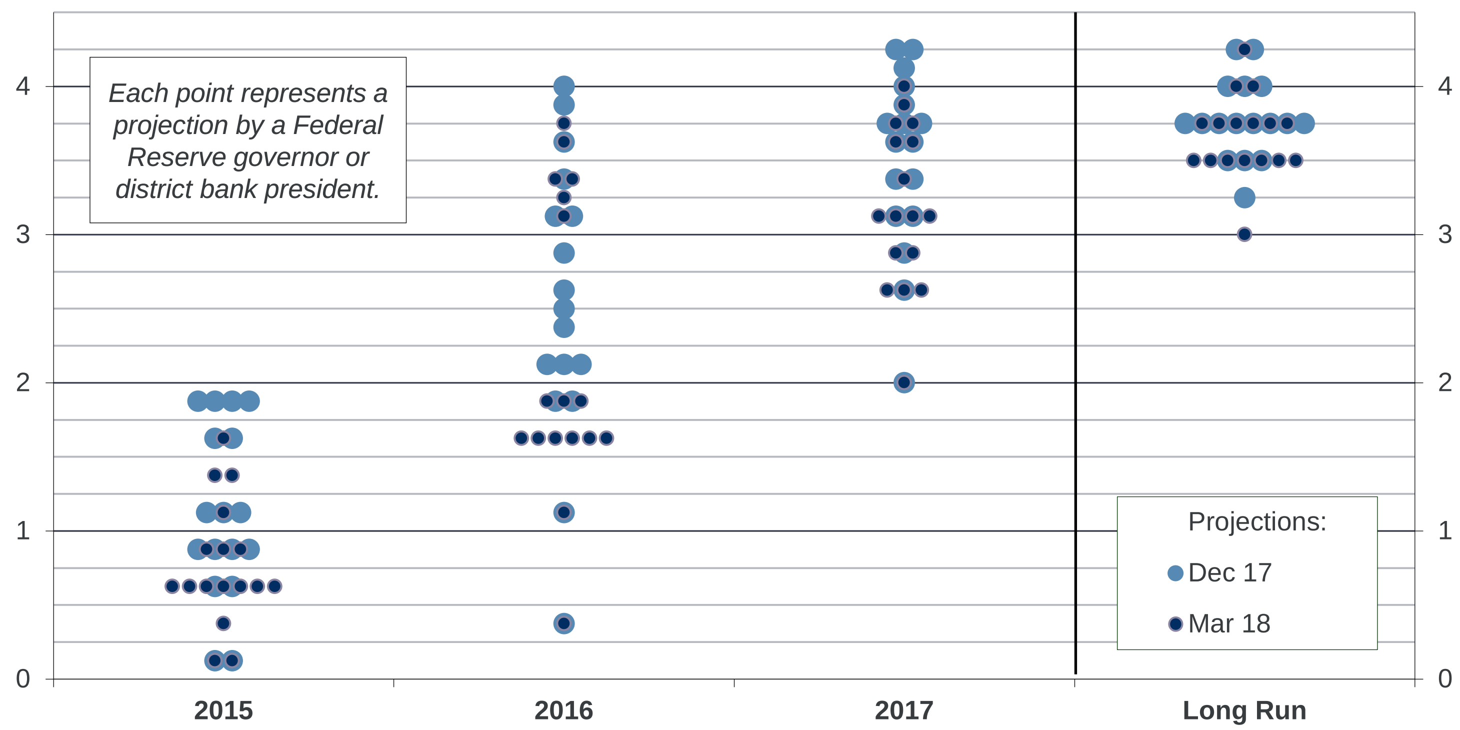




Past performance may not be indicative of future results.

# THE FED: A LESS AGGRESSIVE PATH IS LIKELY

While the verdict is still out on the timing and pace of policy tightening, the chart suggests a less aggressive tightening path, which is also consistent with the downward revisions to Fed expectations for growth and inflation.

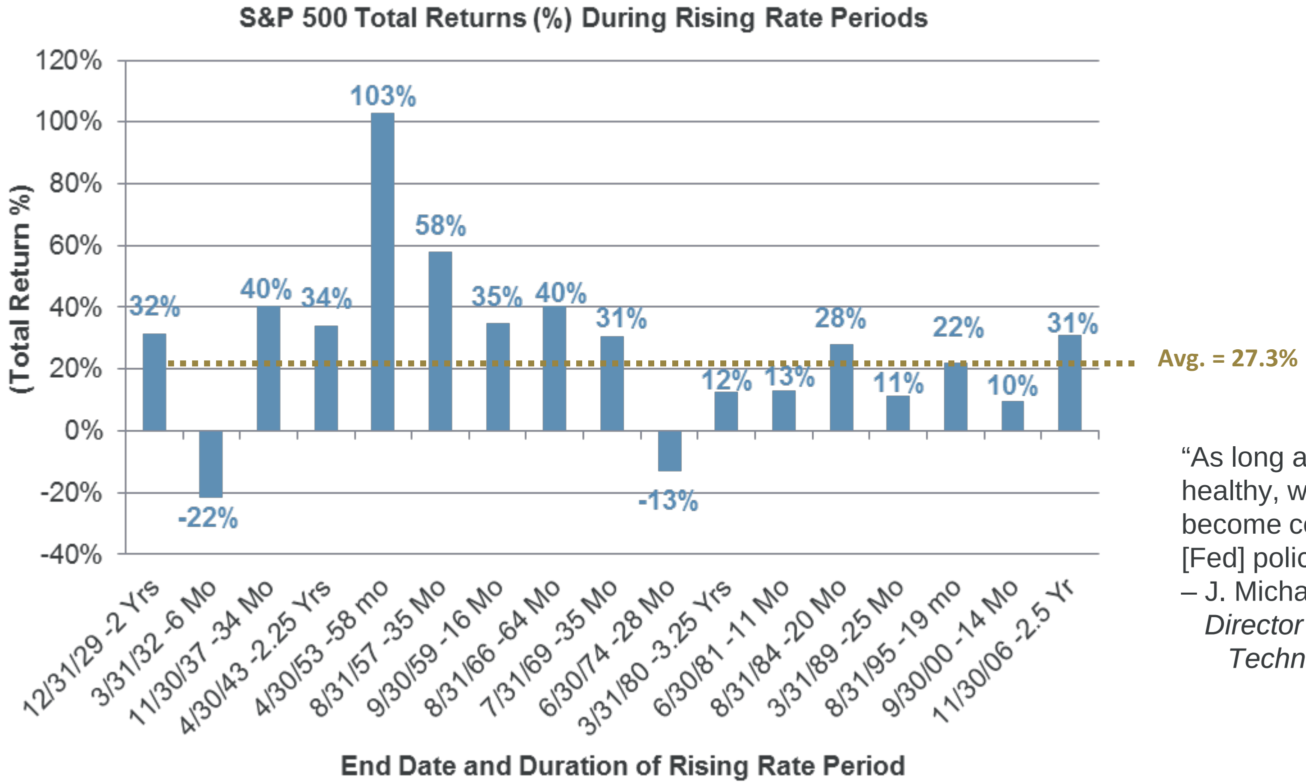
**Target Federal Funds Rate at Year-End, %**




Source: Federal Reserve

# RISING RATES: NOT BAD FOR ALL

In 15 of the last 17 tightening cycles since 1927, stocks produced gains following the first rate hike through the duration of the rising rate period.



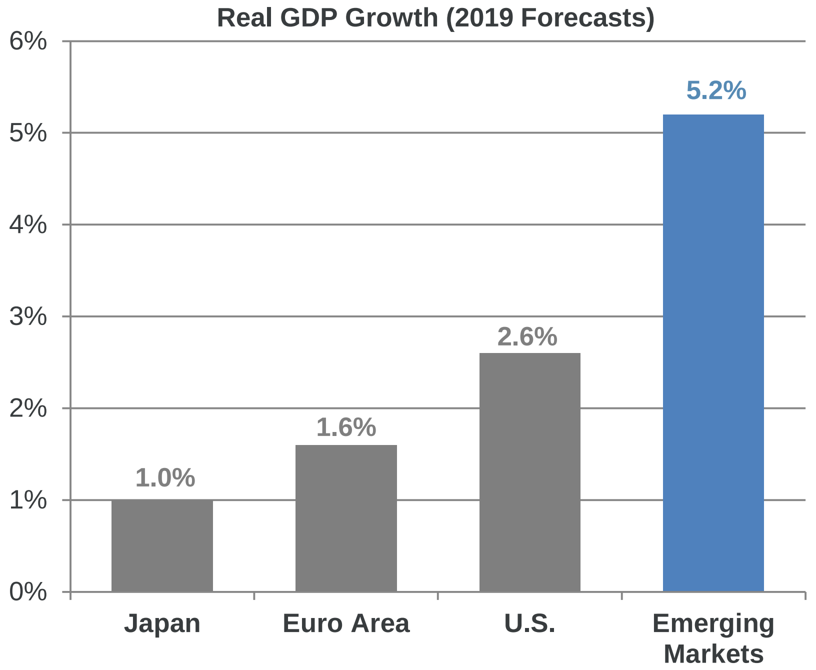

"As long as the economy remains healthy, we believe equities will become conditioned to the new [Fed] policy and move higher."
– J. Michael Gibbs
*Director of Equity Portfolio & Technical Strategy*

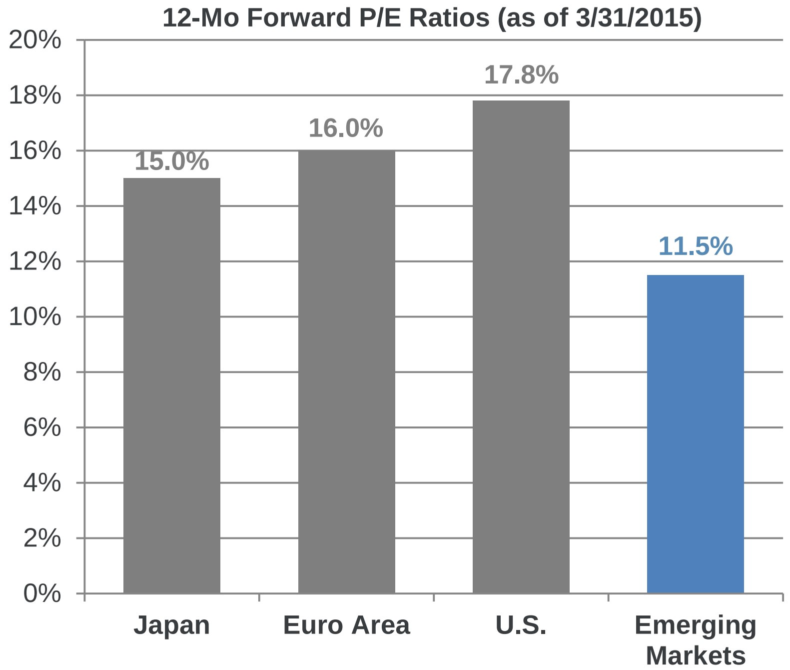
Source: Institutional Research, Asset Management Services

# GLOBAL GROWTH AND VALUTATION



## Emerging Markets Poised for Long-Term Growth



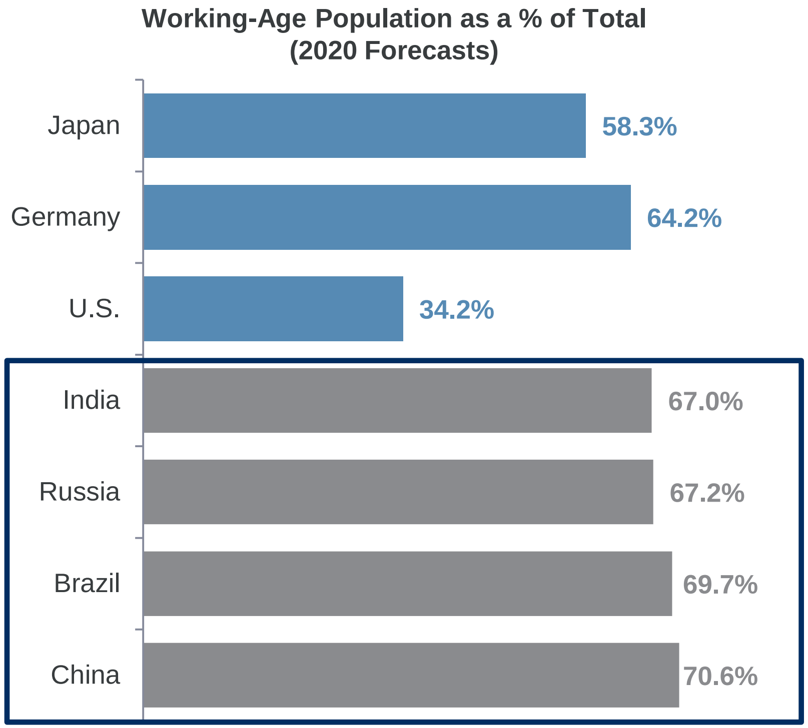

"Over the next 10 to 30 years, these markets are poised to move forward economically."
– Stacey Nutt
*President & Chief Investment Officer*, Clarivest Asset Management

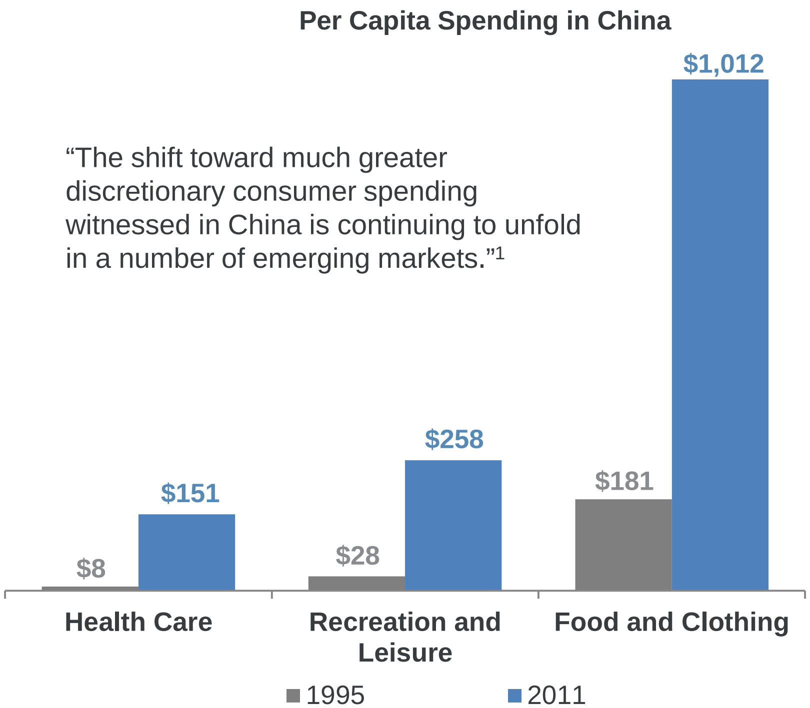
"Multiples on the main emerging market indices are the lowest they've been in years. Combine that with fundamental tailwinds, and I think the next 12-18 months are setting up for a relief rally."
– Pavel Molchanov
*Energy Analyst*, Equity Research

Source: Left chart-IMF (World Economic Outlook, 9/30/2014). Right chart-MSCI and Capital Group. Forward valuations data are from respective MSCI indices.

# GLOBAL DEMOGRAPHICS

## Emerging Markets Poised for Long-Term Growth




"The shift toward much greater discretionary consumer spending witnessed in China is continuing to unfold in a number of emerging markets."[1]

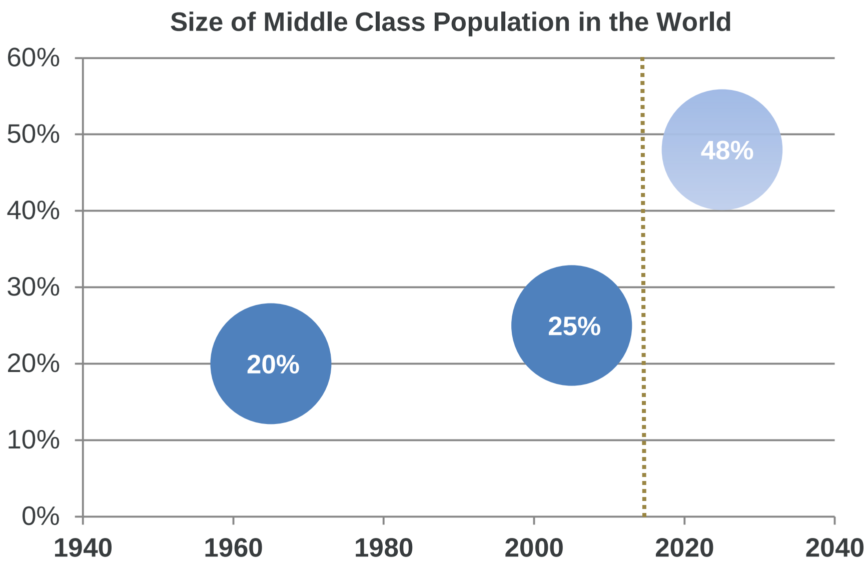
"Despite near-term challenges, long-term growth demographics in this space [emerging markets] are undeniable."
– Stacey Nutt
*President & Chief Investment Officer*, Clarivest Asset Management

"I'm bullish on China due to both fiscal and monetary stimulus. Technicals are finally improving and breaking out, and they have rock bottom valuations."
– Ryan Lewenza
*Private Client Specialist and Portfolio Manager*, Raymond James Ltd*

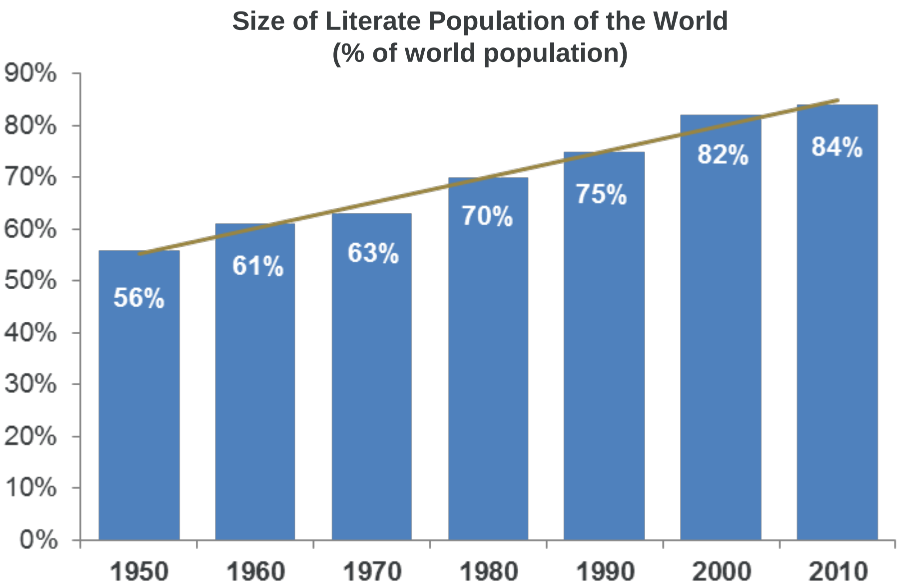
Sources: Left chart-U.S. Census Bureau (2020 population estimates as of De. 2013). Right chart-CEIC, Nat'l Bureau of Statistics if the People's Republic of China, Deutsche Bank.
[1] American Funds 2015 Outlook, January 2015, pg. 7
*An affiliate of Raymond James & Associates and Raymond James Financial Services.

# GLOBAL DEMOGRAPHICS

## Emerging Markets Poised for Long-Term Growth




Almost half of the world population is expected to achieve middle-class status by the year 2025.




As of 2010, nearly 85% of the world can read, up from 56% in the 1950s.

Source: Middle Class Data: Brookings Institute, 2012. Population Data: World Bank: Health Nutrition and Population Stats.
For full theme articles, ask for a copy of the April 2015 *Investment Strategy Quarterly*.

# DISCLOSURE

Data provided by Raymond James Asset Management Services.

This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account.

There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product that attempts to mimic the performance of an index will incur expenses that would reduce returns. Past performance is not indicative of future results. The performance noted in this presentation does not include fees and costs, which would reduce an investor's returns.

Fixed income securities are subject to interest rate risk. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.

The Consumer Price Index (CPI) is a measure of inflation.

Gross Domestic Product (GDP) is the annual total market value of all final goods and services produced domestically by the United States.

Investing in small-cap and mid-cap stocks generally involves greater risks, and, therefore, may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

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.

Commodities trading is generally considered speculative because of the significant potential for investment loss.

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 (less than one year) obligations of the U.S. government.

Fixed Income Sectors: Returns based on the four sectors of Lehman Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).

Diversification does not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate.

# INDEX DESCRIPTIONS

Asset class and reference benchmarks:

| ASSET CLASS | BENCHMARK USED |
|---|---|
| U.S. Equity | Russell 3000 |
| Non-U.S. Equity | MSCI World, Ex-U.S. |
| Fixed Income | BC Aggregate |
| Real Estate | FTSE EPRA NAREIT Global Real Estate |
| Commodities | Bloomberg Commodity TR USD Index |
| Cash & Cash Alternatives | Citi 3-Month T-Bill |

The Bloomberg Commodity Total Return IndexesSM: Formerly known as Dow Jones-UBS Commodity Index Total Return (DJUBSTR), the Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Barclay 10-Year Municipal: A rules-based, market-value weighted index engineered for the long-term tax-exempt bond market. This index is the 10 year (8-12) component of the Municipal Bond Index.

Barclay 10-Year U.S. Treasuries: Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

Barclays Capital Aggregate Index: Measures changes in the fixed-rate debt issues rated investment grade or higher by Moody's Investors Service, Standard & Poor's, or Fitch Investor's Service, in that order. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities and the Asset-Backed Securities indices.

Barclays Capital U.S. Aggregate Index: Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

Barclays Capital Global Aggregate ex-U.S. Dollar Bond Index: Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

Barclays Capital High Yield: Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

Barclays U.S. Corporate High Yield: Composed of fixed-rate, publicly issued, non-investment grade debt.

Citigroup 3-Month T-Bill Index: This is an unmanaged index of three-month Treasury bills.

# INDEX DESCRIPTIONS (continued)

FTSE EPRA/NAREIT Global Real Estate Index Series: Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

MSCI All Country World Index Ex-U.S.: A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

MSCI EAFE (Europe, Australasia, Far East): A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small-Cap Index: An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE U.S. Dollar: An unmanaged capitalization-weighted index of companies representing the stock markets of Europe, Australasia and the Far East.

MSCI EAFE Value: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets: Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

MSCI Local Currency: A special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

Russell 1000: Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

Russell 1000 Value Index: Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Mid-cap: Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Russell Mid-cap Value Index: Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid-cap Growth Index: Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 2000 Value Index: Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

# INDEX DESCRIPTIONS (continued)

Russell 2000 Growth Index: Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000® Index: measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

S&P 500 Consumer Discretionary: Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples: Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy: Comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Financials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector

S&P 500 Health Care: Comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P 500 Industrials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

S&P 500 Information Technology: Comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

S&P 500 Materials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P 500 Telecom Services: Comprises those companies included in the S&P 500 that are classified as members of the GICS® telecommunication services sector.

S&P 500 Utilities: Comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.