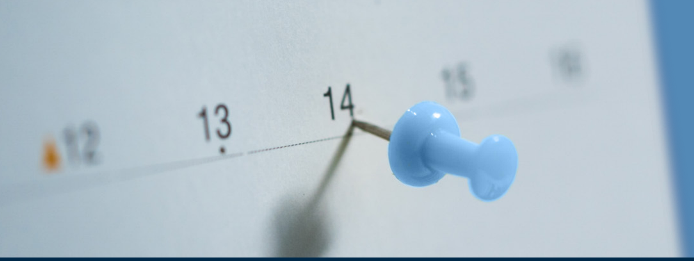

RAYMOND JAMES | INVESTMENT MANAGEMENT

Cash is so last year. Portfolio managers look ahead

It made sense for investors to strive to seek lower volatility in cash and short-term money market funds after the underperformance of 2022 was followed by the uncertainty of 2023. Now the question is whether a 2023 playbook remains relevant for 2024.

The U.S. Federal Reserve (Fed) is talking about cutting interest rates, and markets are expected to shift well in advance of any central bank actions that will lower yields for cash and money market funds. Investors should be making plans now to prepare for the changing investment landscape of the future.

The independent investment teams within Raymond James Investment Management believe that capital markets will offer select opportunities over the coming year, and portfolio managers from three of its investment strategies recently shared their opinions on potential steps for investors who are considering putting their cash back to work.

James Camp, CFA
Managing Director, Fixed Income and Strategic Income, Eagle Asset Management

FIXED INCOME (read the white paper)

"At least on the bond side, the data is pretty unambiguous."

Fixed income investments have been more productive than cash in the 1-, 3-, and 5-year periods that followed the end of previous Fed tightening cycles, according to Bloomberg, which is why Camp believes investors should consider whether they want to keep holding cash. "That trade that was productive is going to be less so at the margin going forward," he said.

Brad Erwin, CFA
Portfolio Co-Manager and Senior Research Analyst, Eagle Asset Management

DIVIDEND-PAYING STOCKS (read the white paper)

"There's a lot of infrastructure spend to be had."

Erwin believes that the year ahead could offer secular growth opportunities in the form of data center investments, power and cooling infrastructure, and semiconductors. Dividend-paying stocks underperformed in 2023, but Erwin doesn't expect that trend to continue. "Typically when we see these periods, they don't last long," he said.

Matt McGeary, CFA
Portfolio Co-Manager, Eagle Asset Management

SMALL CAP STOCKS (read the white paper)

"The environment that we're in now – when inflation is high but coming down – is very positive for small caps."

McGeary said that in the past six fed funds rate cycles, the relative performance of small-cap investments was very strong after interest rates hit their peak, according to Furey Research Partners and FactSet. However, McGeary believes that active management is important for identifying high-quality companies in a sea of small-cap mediocrity: Not all small-cap companies are created equal.

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Why put cash back to work before rates drop?

LISTEN
Hear the full discussion with James, Brad and Matt

INSIGHTS
From our boutique investment managers

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Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The prices of small company stocks may be subject to more volatility than those of large company stocks.

Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors which may affect the risk and return profile of a fixed income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. The risk of a change in the market value of the investment due to changes in interest rates is known as interest-rate risk. Interestrate risk is subject to many variables but may be analyzed based on various data (e.g., effective duration). The risk that the issuer may default on interest and/or principal payments is often referred to as credit risk. Credit risk is typically measured by ratings issued by ratings agencies such as Moody's and Standard & Poor's. A credit rating of a security is not a recommendation to buy, sell or hold the security and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning Rating Agency. Ratings and insurance do not remove market risk since they do not guarantee the market value of the bond. Bonds issued by the U.S. Government have significantly less risk of default than those issued by corporations and municipalities (see below for a discussion of the risk associated with convertible securities). However, the overall return on Government bonds tends to be less than these other types of fixed-income securities. Finally, reinvestment risk is the possibility that the proceeds of a maturing investment must be invested in a lower yielding security, all other things held constant, due to changes in the interest-rate environment. Investors should pay careful attention to the types of fixed-income securities which comprise their portfolio, and remember that, as with all investments, there is the risk of the loss of capital.

Convertible securities and preferred stock may be subject to greater risk than pure fixed-income instruments as they do not have a fixed par value at maturity. Investments in high-yield bonds and convertible securities are subject to the client's authorization, as set forth in the Investment Management Agreement. Such investments may be subject to greater risks than other fixed-income investments, if the financial condition of the issuer or adverse changes in general economic conditions impair the ability of the issuer to pay income and principal. Periods of rising interest rates or economic downturns may cause highly leveraged issuers to experience financial stress, and thus markets for their securities may become more volatile. Because no established secondary market exists, there may be thin trading of high-yield bonds, which increases the potential for volatility.

There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay, or the dividend may be less than what is anticipated. Dividend-issuing companies are subject to interest-rate risk and high dividends can sometimes signal that a company is in distress and/or a company's future ability to pay dividends may be limited. Dividends are not guaranteed and must be authorized by the company's board of directors.

Definitions

Dividend investing is a strategy that seeks to invest in companies that pay out dividends and considers a company's dividend yield, ability to grow and pay dividends over time, and dividend payout ratio, or the amount being paid out to shareholders in the form of dividends versus how much income the company retains.

Dividend payers are the companies that distribute a portion of their profits to shareholders in the form of a dividend.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

Relative performance (RP) is a measure of a security's performance compared to a specified benchmark such as a stock index, sector or other group of similar securities.

Secular stocks are characterized by having consistent earnings over the long term constant regardless of other trends in the market. Secular companies often have a primary business related to consumer staples most households consistently use whether the larger economy is good or bad.

About Raymond James Investment Management

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers – Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

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