# Tactical Asset Allocation Outlook

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

| | – NEUTRAL + | Comments |
|---|---|---|
| **EQUITY** | Current<br>Previous | Global equity markets have reached new highs, largely looking past the US-Iran conflict and focusing instead on strong underlying fundamentals. With a tentative peace agreement between the US and Iran in place, the macro backdrop remains constructive—supported by solid earnings growth and sustained AI investments as the primary market drivers. Earnings momentum—particularly from the Tech sector—is expected to continue, underpinning the positive backdrop for global equities. We remain constructive, but expect gains to be more moderate moving forward. |
| US LARGE - CAP | Current<br>Previous | Despite headwinds from higher oil prices and rising input costs tied to the US-Iran conflict, US large-cap fundamentals remain solid. To date, the conflict has had limited impact on earnings, with the S&P 500 on track for six consecutive quarters of double-digit earnings growth, its longest stretch since 2011. Structural tailwinds—including AI capital investment, a less energy dependent economy relative to peers, and a resilient consumer—continue to support growth and corporate earnings. Following strong 1Q26 earnings results, we raised our 2026 S&P 500 EPS estimate to $326 (from $300), implying +20% YoY growth, and increased our year-end target to 7,650 (from 7,250). From a sector perspective, we favor Information Technology, Consumer Discretionary, Health Care, and Industrials where earnings momentum and secular drivers remain compelling. |
| US SMID CAP | Current<br>Previous | SMID-cap equities have outperformed their large-cap counterparts YTD, despite headwinds from higher interest rates (small caps have ~50% exposure to floating rate debt), rising energy costs, sticky inflation and supply chain pressures. Easing tariff uncertainty and an improving economic backdrop have supported an inflection in earnings, with the Russell 2000 Index expected to outpace large caps through year-end. However, the rally has been driven by lower-quality, non-earning companies, leaving the asset class vulnerable to disappointing news or profit taking amid stretched momentum. With earnings revisions tracking lower and the elevated rate sensitivity likely to persist, we maintain a neutral stance. |
| DEVELOPED EX. US | Current<br>Previous | Developed markets have been more exposed to the Middle East conflict due to their reliance on imported energy. While the US-Iran agreement removes some uncertainty, the oil price shock is likely to continue weighing on consumer demand and broader economic activity across the region. Although higher defense spending may provide a partial offset, Europe's sector composition remains a headwind. Recent earnings strength from its higher energy exposure should fade as oil prices continue to ease, while a lower weighting to Tech limits the region's participation in key growth drivers. We maintain our preference for US equities over Europe, supported by stronger fundamentals, a more favorable sector mix, and lower energy dependence. In Japan, pro-growth policies in the form of tax cuts and corporate governance reforms remain supportive for Japanese equities in the long run. |
| EMERGING | Current<br>Previous | While emerging markets are not immune to geopolitical risks stemming from the conflict in the Middle East, we maintain a constructive outlook, particularly across EM Asia given its exposure to secular AI trends. The region is a key beneficiary of the AI capex cycle, supported by its central role in global tech supply chains and Tech-heavy index composition. South Korea and Taiwan—among the two best performing countries YTD (USD basis)—have attracted flows as investors diversify tech exposure and capitalize on strong earnings growth from key AI leaders. While India has lagged its EM peers given the country's lower Tech weight and greater exposure to software and services, it remains a good long-term opportunity. We continue to favor selective EM exposure and an active approach amid rising concentration risks and shifting market leadership. |
| **FIXED INCOME** | Current<br>Previous | The Middle East conflict has pushed US Treasury yields to multi-year highs as rising oil prices earlier in the year put upward pressure on inflation. While the US-Iran agreement has driven oil prices sharply lower, interest rates remain stubbornly elevated. With economic data holding firm—supported by improving job growth and further gains in manufacturing activity—alongside sticky inflation, the Fed has pivoted away from easing and is now signaling a rate hike in 2026. Historically, policymakers have looked through energy price spikes, but with inflation above the Fed's 2.0% target for more than five years, the Fed is projecting a more hawkish stance. We expect the Fed to stay on an extended pause, with easing likely deferred to 2027 when disinflation resumes. We expect yields to remain near the top end of our 4.25% - 4.50% range, with income the primary driver of fixed-income returns. |
| CORE | Current<br>Previous | Investment grade credit spreads remain near historically low levels—well below the 30-year average—despite ongoing geopolitical tensions and record levels of new issuance, particularly as hyperscalers fund the AI capex cycle. While we continue to see limited room for further spread compression, we do not expect spreads to widen materially. Solid corporate fundamentals—including healthy balance sheets, manageable leverage and continued access to capital markets—combined with robust demand for income and yields north of 5% should continue to support the asset class. |

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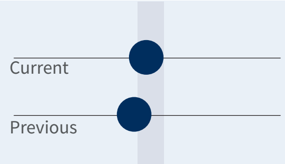
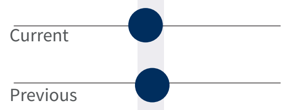
## HIGH YIELD



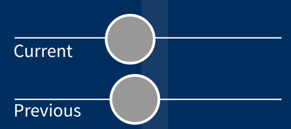

Despite elevated headline risk—specifically geopolitical and software concerns—high yield bonds have held up well. Spreads remain near pre-Great Financial Crisis lows and below the 30-year average. While underlying fundamentals are still solid, with healthy credit metrics and low default rates, tight spreads leave limited margin for error should earnings weaken. The high yield index has shifted up in quality, with BB-rated issuers now comprising over 57% of the index, compared to the 10-year average of ~49%. That said, dispersion between higher and lower quality credits has widened, a potential early signal of broader credit stress. While strains remain concentrated in the lowest-quality tier, we maintain a neutral stance and prefer to wait for more attractive entry points.

## EMERGING



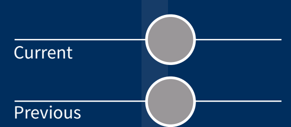

Emerging market bonds have shown resilience over the last few years, navigating diverging interest rate cycles, tariffs, and geopolitical tensions. While spreads remain tight by historical standards, all-in yields remain attractive for dollar-denominated EM debt and select local currency markets. Emerging markets are not a homogenous group and selectivity matters. We remain neutral on the asset class, with carry the primary driver of returns.

## COMMODITIES




Commodity prices have posted strong gains this year driven largely by a rally in energy prices following the Middle East conflict. With energy accounting for over a third of the total commodity index, surging oil prices amid the closure of the Strait of Hormuz have been a key driver. More recently, a US-Iran agreement has pushed WTI crude oil sharply lower as markets price in a re-opening of the Strait. We expect oil prices to move toward our year-end target of ~$70/barrel as supply flows through the Strait normalize. Meanwhile, precious metals have entered a bear market as higher interest rates erode the appeal of holding non-yielding assets.

## CASH




We expect the Fed to remain on the sidelines for the remainder of 2026 as it navigates elevated inflationary pressures driven by tariffs and ongoing supply disruptions from the Middle East conflict. In this environment, investors are getting paid to wait for more attractive entry points into risk assets. We recommend selectively deploying excess cash to into short-to-intermediate Treasuries to capture higher yields, while maintaining flexibility to add to risk assets as more compelling entry points arise.

## ASSET CLASS DEFINITIONS

**US Large-Cap:** The US large-cap consists of the US Large-Cap Blend, the US Large-Cap Growth, and the US Large-Cap Value.

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

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

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

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

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

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

**Non US Developed Market Equity:** MSCI EAFE: This index is a free float-adjusted market capitalization index that measures the performance of developed market equities, excluding the US and Canada. It consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

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

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

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

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

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

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

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

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

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

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

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

## DISCLOSURE

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

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

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

There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

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

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

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

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

The process of rebalancing may result in tax consequences.

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

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

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