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# **COVID-19 UPDATE**

## ***STIMULUS, HEALTHCARE & MARKET RESPONSE***

March 30, 2020

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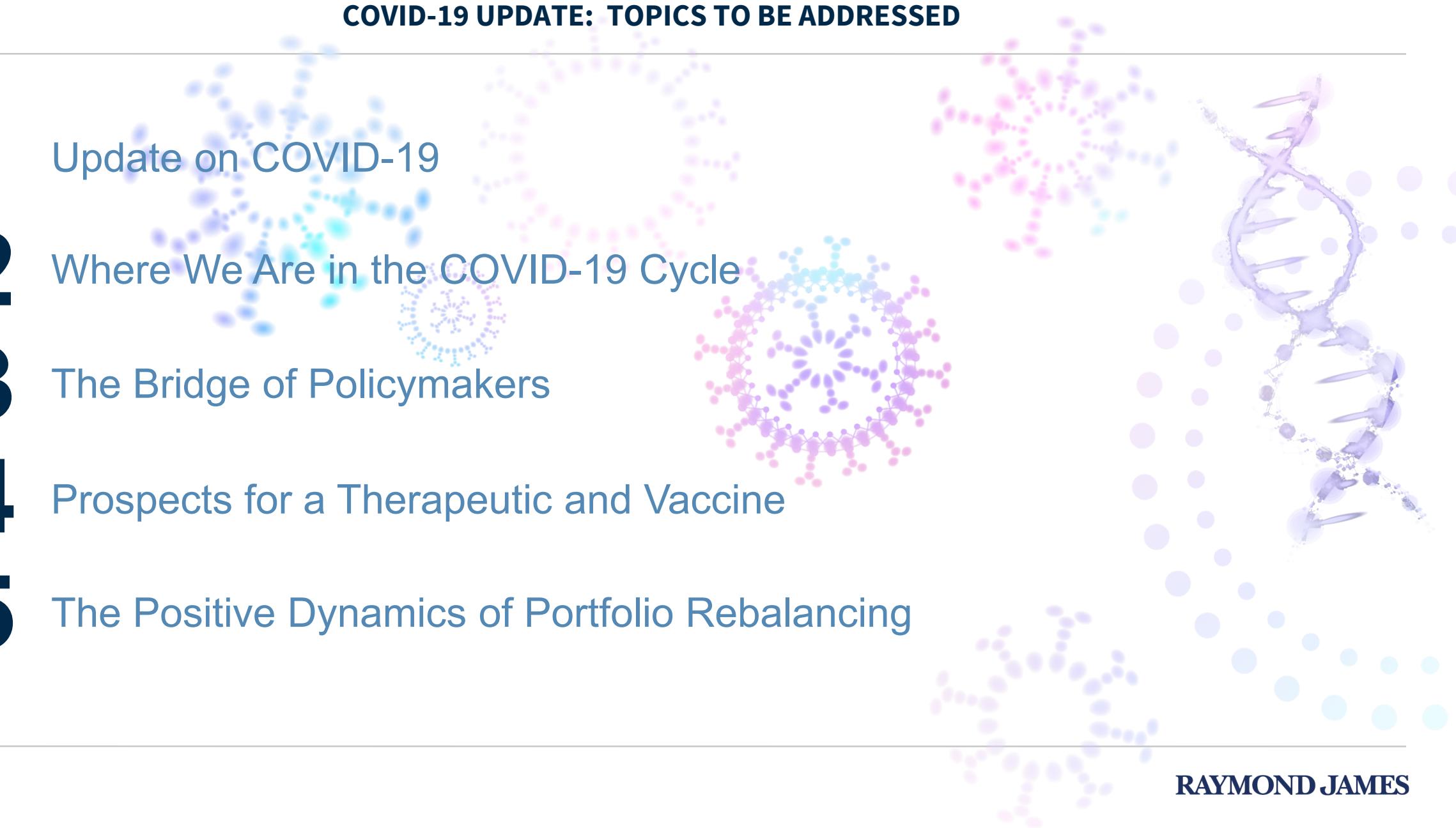
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## COVID-19 UPDATE: TOPICS TO BE ADDRESSED

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- 1** Update on COVID-19
  - 2** Where We Are in the COVID-19 Cycle
  - 3** The Bridge of Policymakers
  - 4** Prospects for a Therapeutic and Vaccine
  - 5** The Positive Dynamics of Portfolio Rebalancing

## HEALTHCARE POLICY – CHRIS MEEKINS

As we have been saying for two months now, we hope we are wrong, **it will get worse before it gets better.**

- **Where do things stand?** More than 150,000 cases and 2,550 deaths have been identified. Mitigation measures in areas like New York are showing early signs of working, and we believe the peak in number of hospitalizations and deaths is on pace to occur in the next 10 days. The additional metropolitan areas of concern in our view includes New Orleans, Chicago, Los Angeles, Washington D.C., Detroit, Miami, and Philadelphia.
- **Testing:** Testing capacity has increased dramatically in the last week to more than 100,000 tests being processed a day (up from about 20,000 a day as of last Sunday). The FDA's emergency use authorization of Abbott's new test which can tell if someone is infected in under 5 minutes is a huge step forward.
- **How will the \$100B provider fund be allocated?** We believe HHS is likely to focus on getting the money out quickly and in a transparent manner, and then reconciling it later on.
- **Where are things going?**

### Identified Cases

US: ~150,000

World: ~750,000

### Identified Deaths

US: ~2,550

World: ~36,000

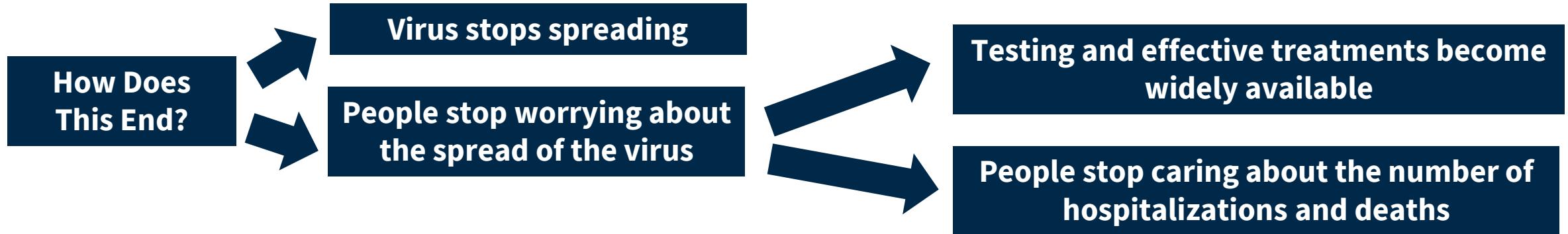
\*As of 3/30/2020 4pm

### Quotes from yesterday's political Sunday shows:

Dr. Deborah Birx: "*Every metro area should assume they could have an outbreak similar to New York.*"

Dr. Tony Fauci: "*Looking at what we're seeing now, you know, I would say between 100 and 200,000 (deaths).*"

## HEALTHCARE POLICY – CHRIS MEEKINS



**Scenario 1:**  
“Stop Everything Now” – 0%  
  
It is too late to be able to do a two-week national “time-out,” keep the number of infections under 500k and turn the corner by late April.

**Scenario 2:**  
“Eventually We Get It” – 40%  
  
Either national two-week shutdown occurs or testing and treatments become widely available. Infections stay under 1m and we turn the corner by Memorial Day.

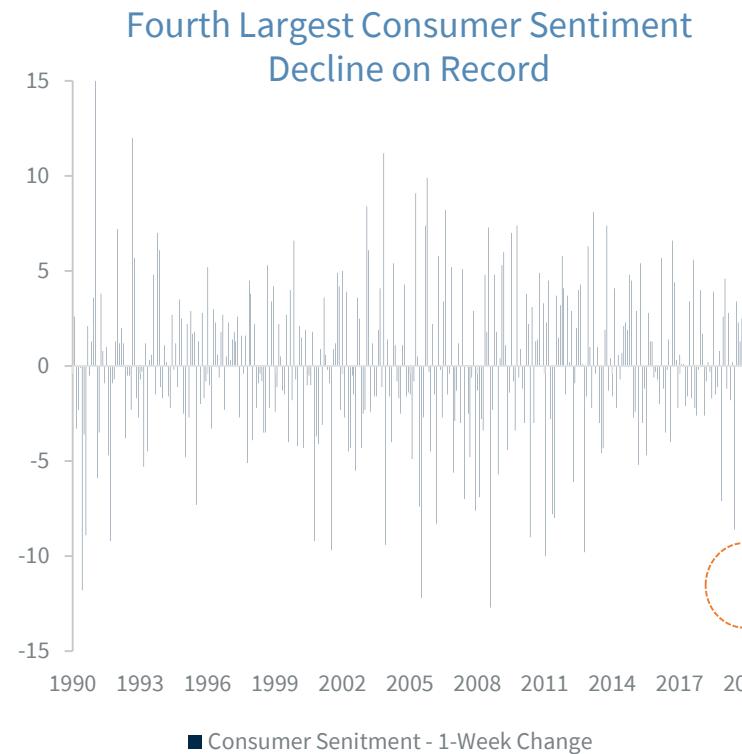
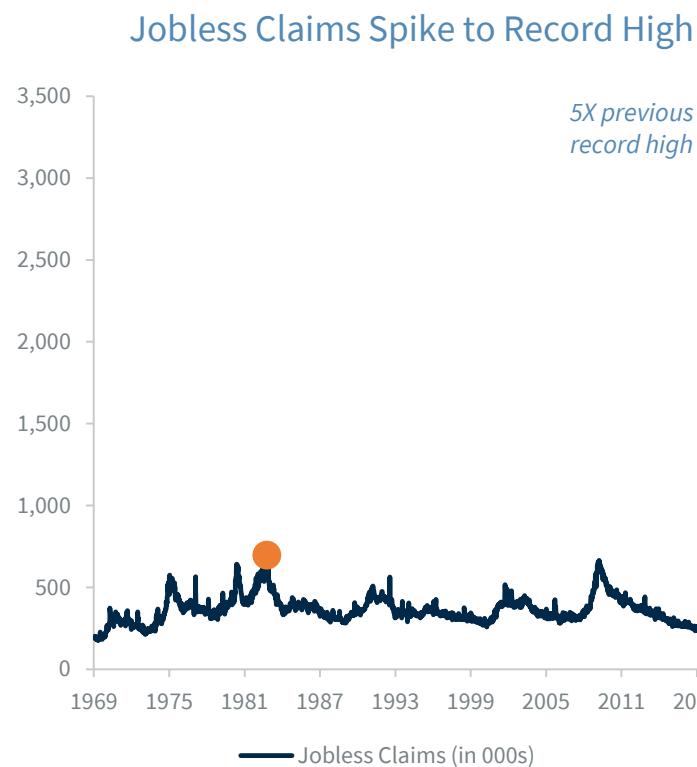
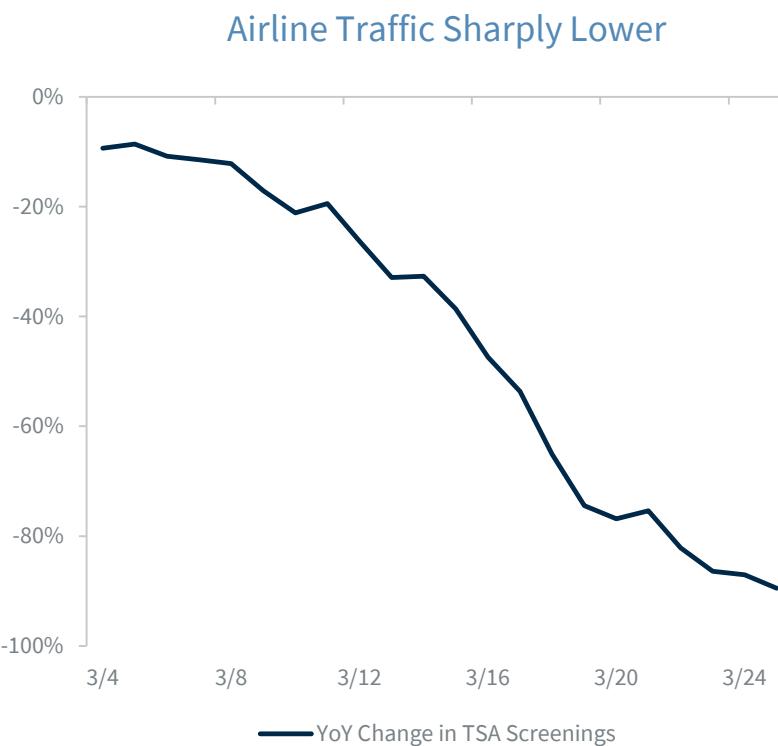
**Scenario 3:**  
“Saved by Summer” – 40%  
  
Warmer weather helps slow the spread and/or testing and treatments become widely available.  
Infections total over 1m and we turn the corner by July 4.

**Scenario 4:**  
“Failure IS an Option” – 20%  
  
Government fails to take appropriate steps and no treatments become available.  
Infections total 100m+ over multiple years. We do not turn the corner on this wave until Labor Day.

## REAL-TIME ACTIVITY METRICS CONTINUE TO REFLECT SLOWDOWN

### REAL-TIME INDICATORS CONTINUE TO REFLECT A SHARP SLOWDOWN IN ECONOMIC INDICATORS

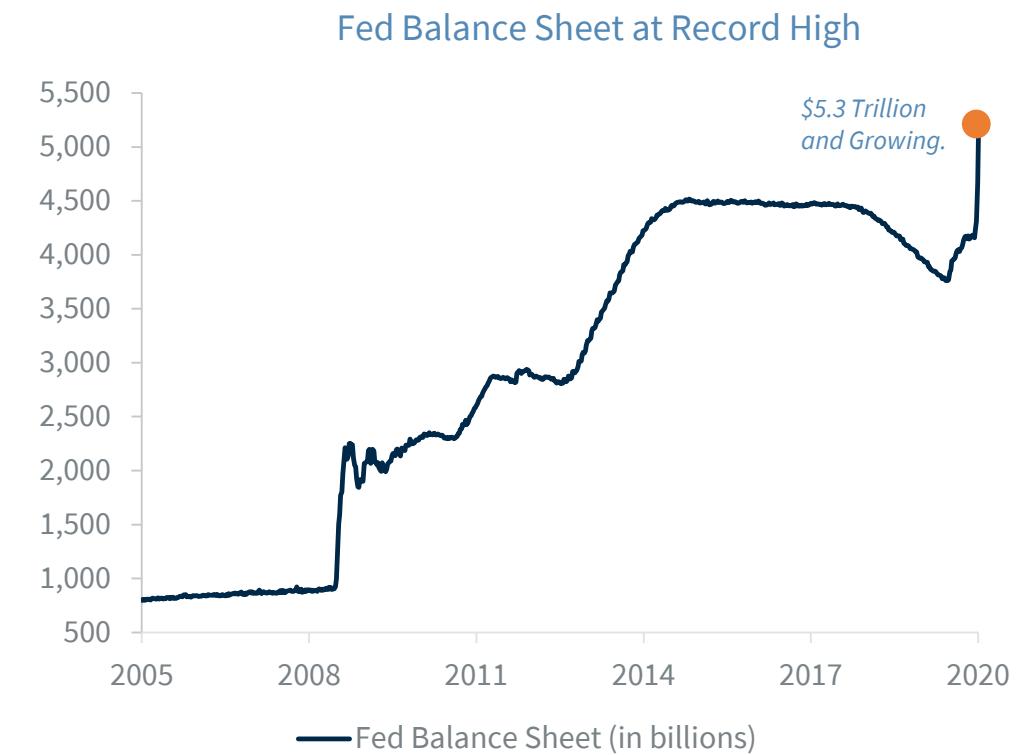
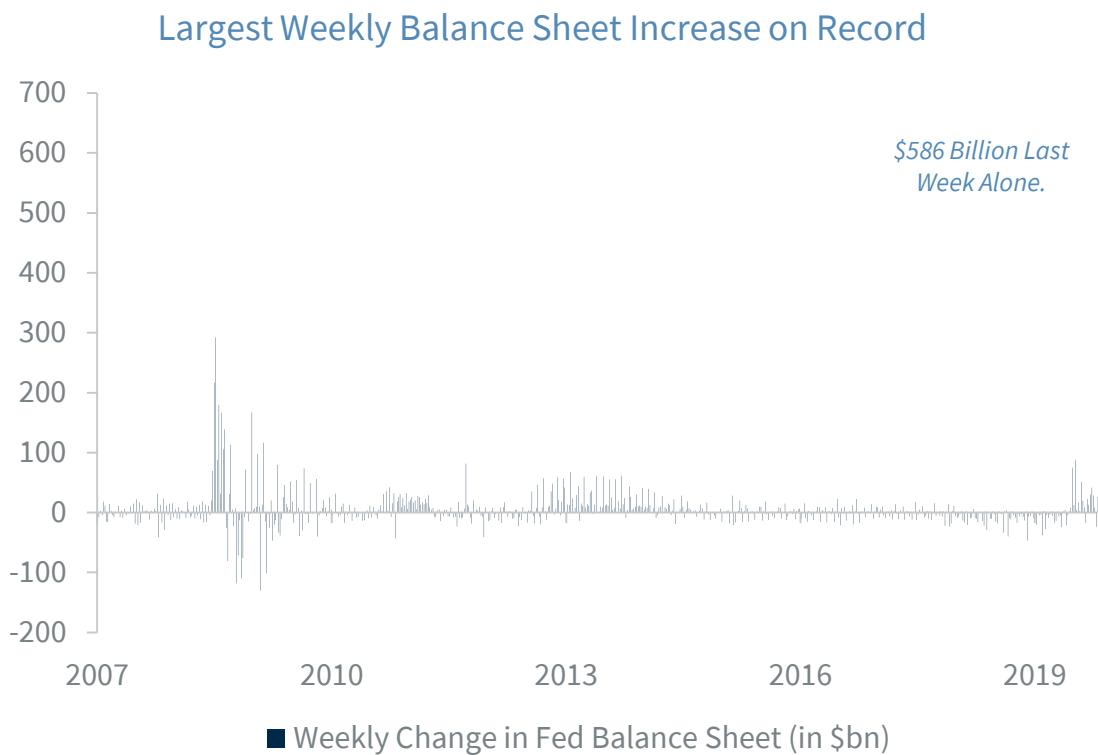
- Evidenced by the sharp decline in airline traffic, soaring jobless claims (to a record high nearly five times the previous record) and the fourth largest decline in consumer sentiment on record, the US economy is poised for a sharp decline in economic activity in 1H20.
- This has prompted fiscal and monetary policy makers to act quickly to help quell the decline.



## FEDERAL RESERVE PROVIDING A BOOST

### THE SPEED AND SCOPE OF FED PURCHASES HAS BEEN UNPRECEDENTED

- Last week, the Fed announced an unlimited amount of purchases for its quantitative easing program, and expanded the scope of purchases to include both corporate and municipal bonds.
- Last week, the Fed added a record \$586 billion to its balance sheet, bringing it to a new record high of \$5.3 trillion.



## QUANTITATIVE EASING MEETING ITS GOALS

### FIVE GOALS OF QUANTITATIVE EASING—THE PLAYBOOK

Boost Confidence

Reduce Volatility

Keep Interest Rates Depressed

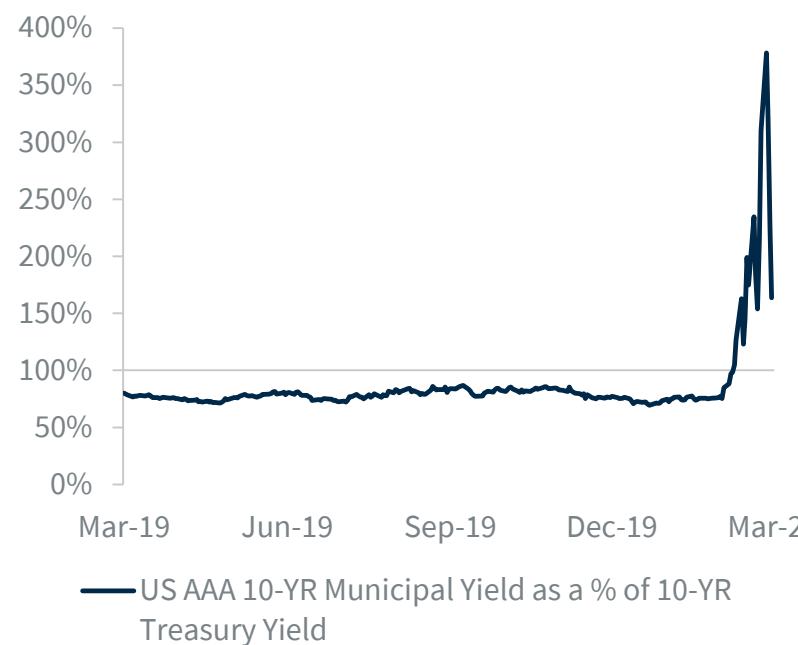
Narrow Fixed Spreads

Increase Asset Prices

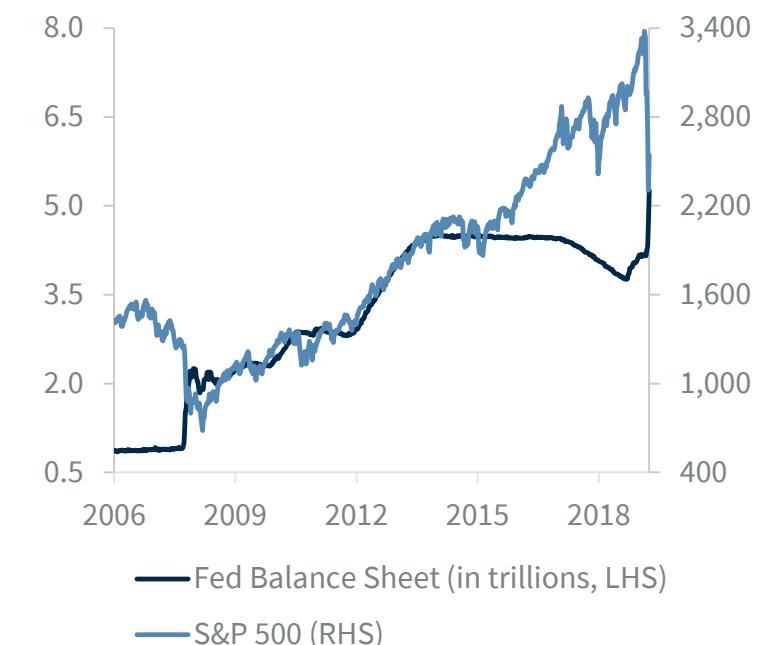
Mortgage Rates Decline



Municipal Spreads Decline Sharply



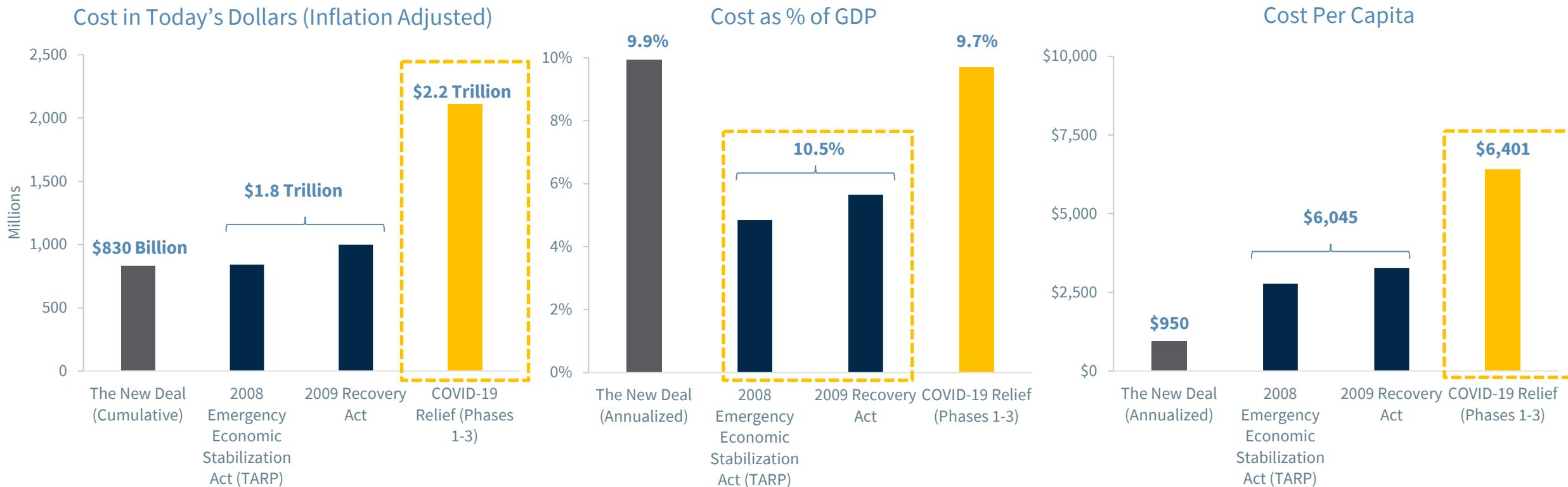
S&P 500 and Fed Balance Sheet



## FISCAL STIMULUS RESPONSE

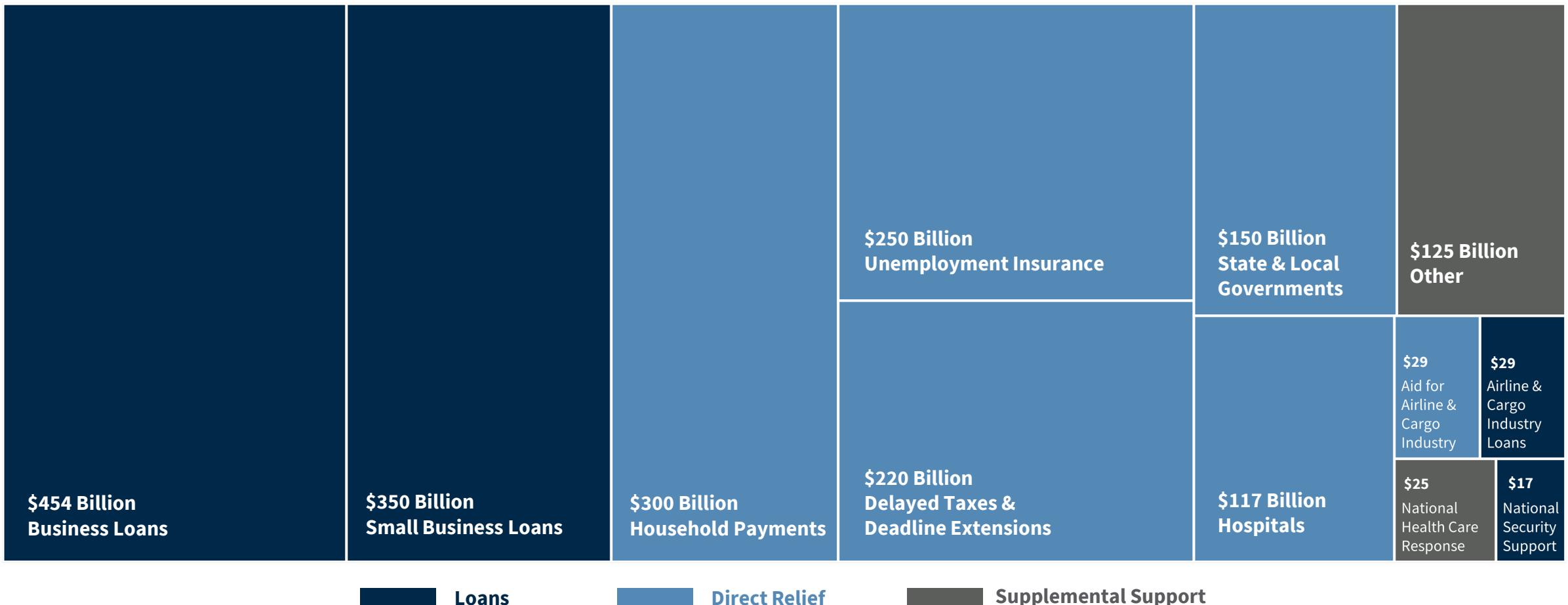
FROM A HISTORICAL PERSPECTIVE, THE CUMULATIVE STIMULUS EFFORTS UNDERTAKEN BY THE GOVERNMENT THUS FAR RIVAL THOSE OF BOTH THE GREAT DEPRESSION AND THE GREAT RECESSION.

- After the CARES Act was signed by President Trump on Friday afternoon, the collective stimulus measures implemented to combat the coronavirus became the largest stimulus package in US history in terms of both cost and cost per capita. With Phase Four discussions already underway, it will likely become the new record holder in terms of cost as a percentage of GDP as well.



## FISCAL STIMULUS RESPONSE

THE RECORD SETTING \$2+ TRILLION PHASE THREE STIMULUS PACKAGE PROVIDES OVER \$1 TRILLION IN DIRECT RELIEF, \$850 BILLION IN LOANS, AND \$150 BILLION IN SUPPLEMENTAL SUPPORT.

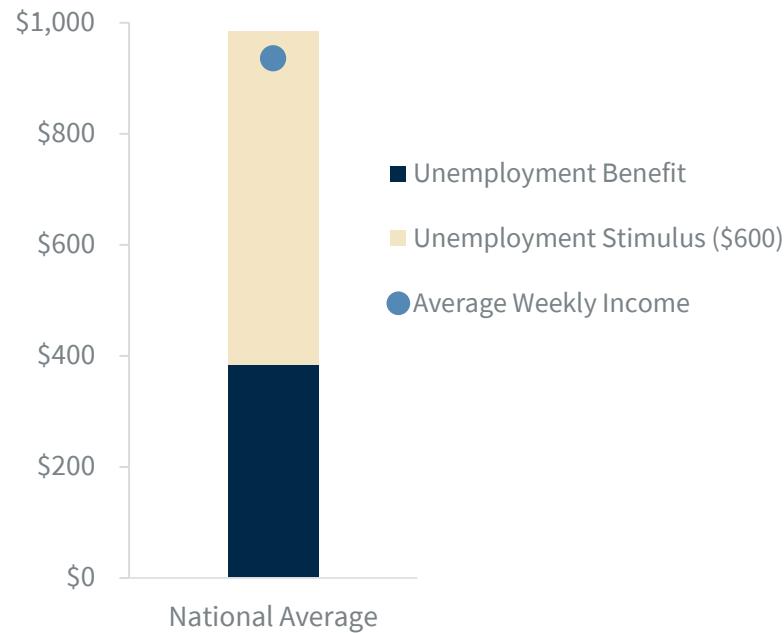


## FISCAL STIMULUS IMPACT ON THE CONSUMER

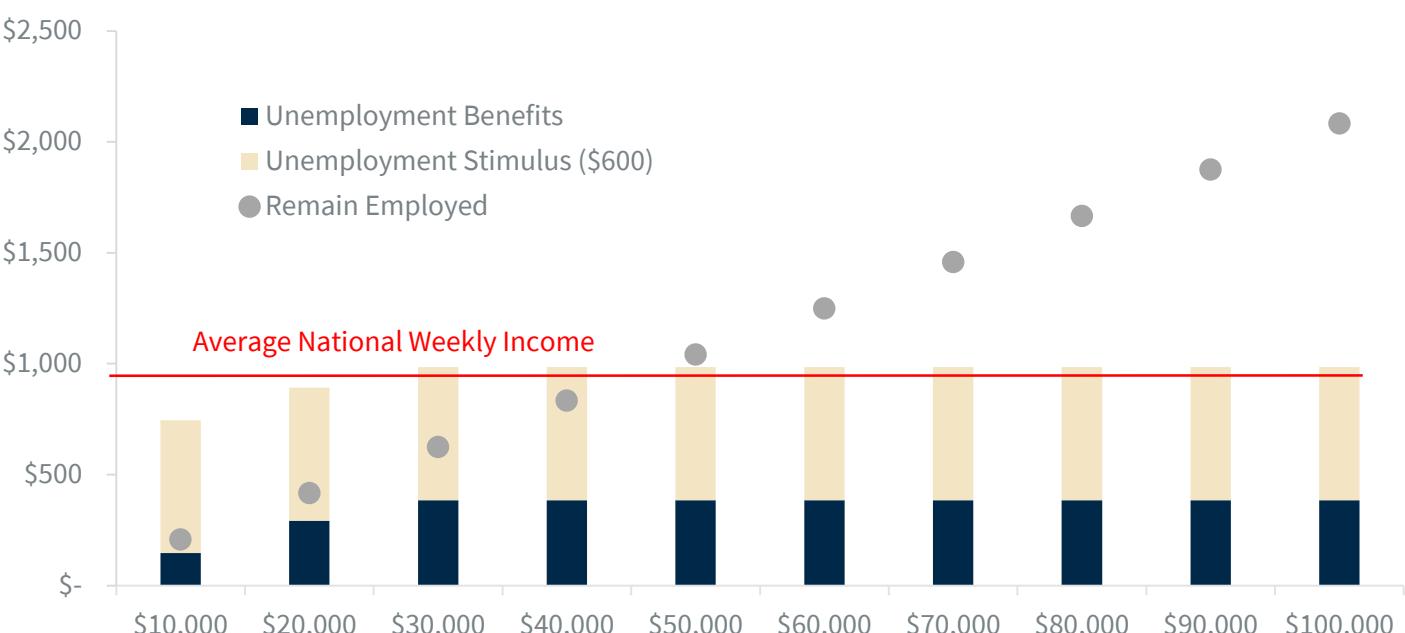
### THE IMPORTANCE OF THE FISCAL STIMULUS TO THE CONSUMER

- Lower income earners receive a maximum unemployment benefit of \$235/week, while higher income earners receive a maximum of \$795/week. The national average unemployment benefits are between \$300-\$500/week – far from the average national weekly income of \$936.
- With the additional \$600 weekly check, all unemployed individuals will receive an amount close to the average national weekly income. With the exception of earners below ~\$45,000, people currently employed are incentivized to remain employed as the stimulus maxes out at ~\$1,000/week.

Average Unemployment Insurance (Weekly)



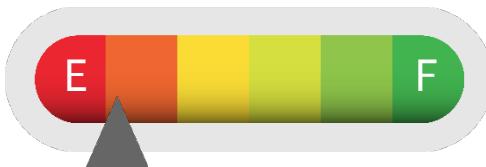
Average Weekly Income Before and After Stimulus



Source: Bureau of Labor Statistics

## SCOPE OF POLICY ACTIONS TO DATE AND WHAT REMAINS

### *Monetary Policy*



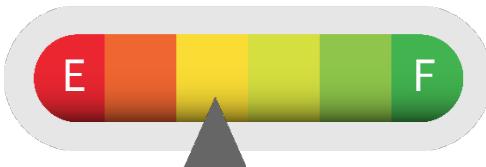
#### *Tools Left*

- Expand and increase QE purchases even further

#### *Tools Used*

- Cut interest rates to zero
- \$750bn in QE
- \$500bn in overnight repos
- Opened credit facilities
- Organized swap lines with global central banks
- Expanded scope of QE purchases to include municipal bonds
- Expanded scope of QE to include corporate bonds

### *Fiscal Policy*



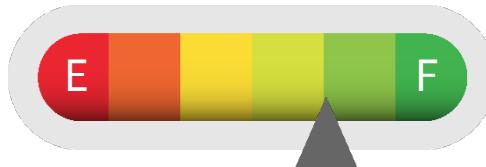
#### *Tools Left*

- Phases 4, 5 and 6 possible
- Payroll tax cut
- Exemptions from existing China tariffs

#### *Tools Used*

- Phase 1: \$8.3 billion—Vaccine, therapeutic and diagnostic support
- Phase 2: ~\$100 billion—unemployment and sick leave benefits
- Phase 3: \$2.1 trillion—small business relief, payments to individuals and funds to impacted industries

### *Corporate & Medical Response*



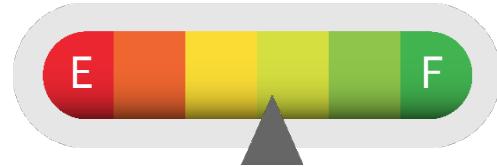
#### *Tools Left*

- Full scale quick testing
- Vaccine
- Approved treatment
- Abundance of masks, beds, sanitizer & ventilators

#### *Tools Used*

- People over Profits
- Limited COVID-19 testing
- Limited anecdotal medical treatment
- Defense Production Act

### *Societal Response*



#### *Tools Left*

- Shelter in home
- Full lockdown
- Patience, commitment, and understanding

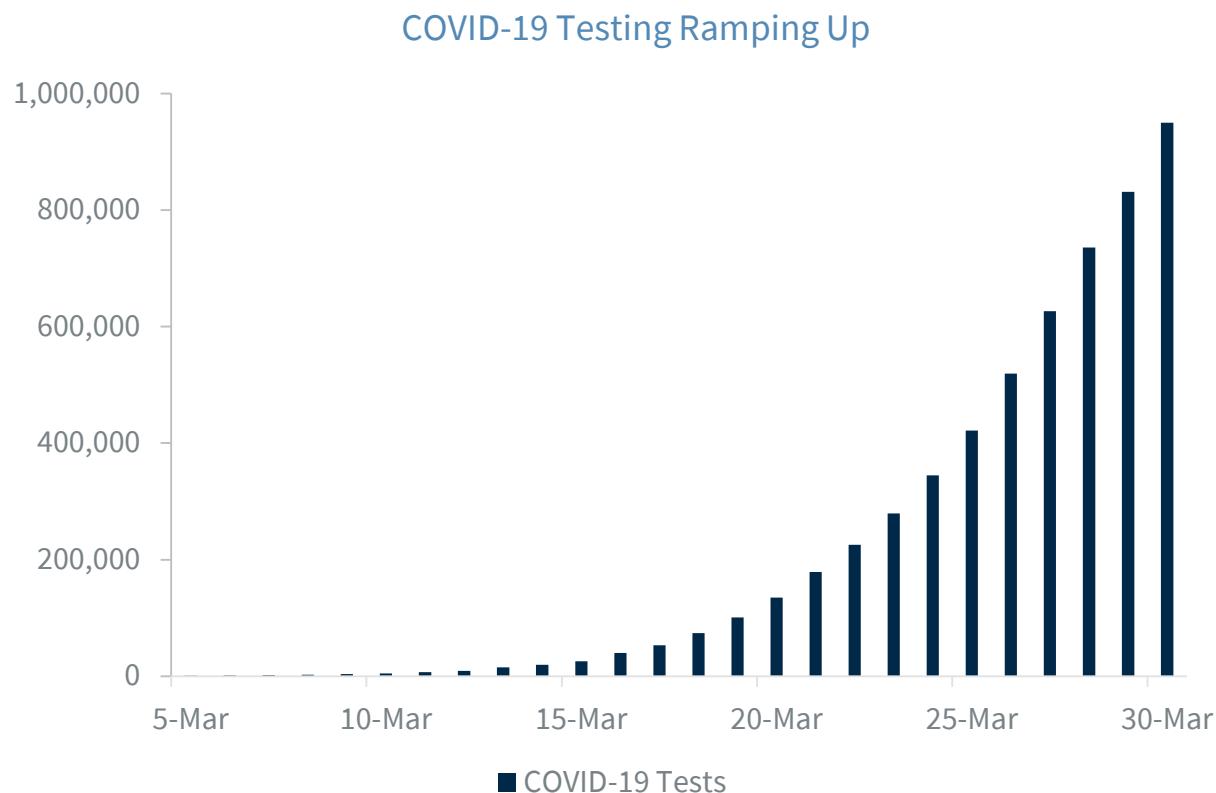
#### *Tools Used*

- Social distancing - No gatherings above 10 people
- “Flatten the curve”
- Closed both Mexican and Canadian borders
- Limited international travel

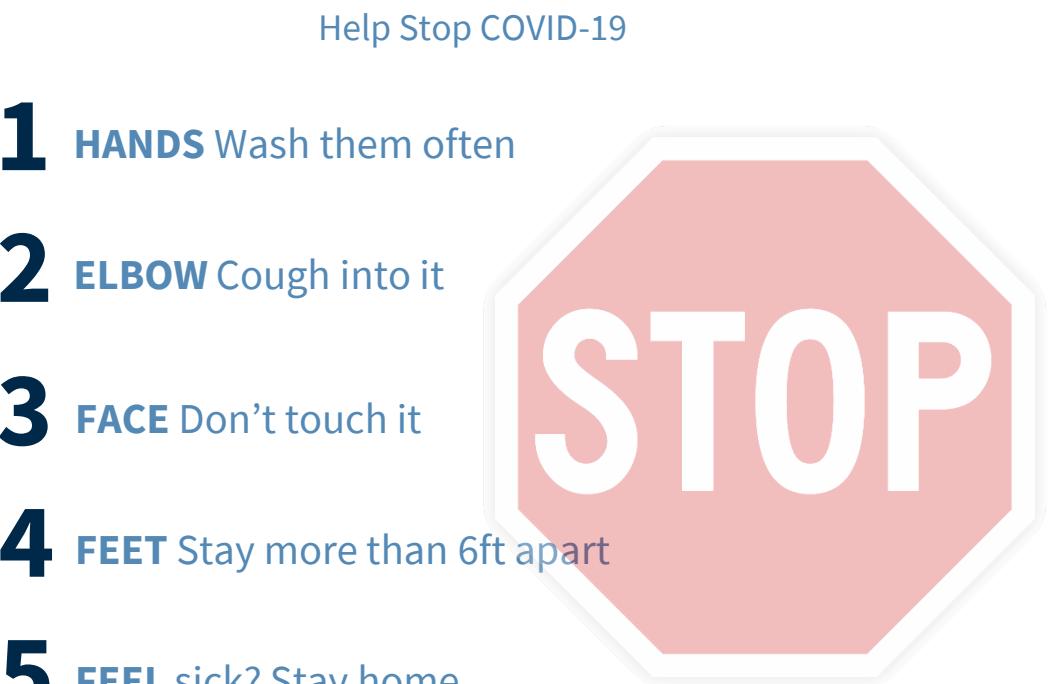
## COVID-19 PUBLIC SERVICE ANNOUNCEMENT

### WE CAN ALL MAKE A DIFFERENCE

- Testing in the US has increased significantly over the last two weeks with more than a 100,000 tests processed a day.
- While social distancing is important, it is also essential that we all practice the five items mentioned below to help stop the spread of COVID-19.



Source: CDC



Source: World Health Organization

## BIOTECHNOLOGY – STEVE SEEDHOUSE, PHD

FIVE DIFFERENT BUCKETS OF THERAPEUTIC TREATMENT / PROPHYLAXIS FOR COVID-19 TO BE AWARE OF (IN REVERSE CHRONOLOGICAL ORDER):

1. **Vaccine** – Won't have it for **>12 months**; need to ensure it works in clinical trials (first, do no harm).
2. **Long-term novel drug discovery** – New drug targets in SARS-CoV-2 genome have already been identified. Many companies and academics have started drug discovery efforts to develop new chemical entities (NCE) that could be optimized antivirals against coronavirus. **Won't be ready until “next season” or beyond (>12 months)**. Won't help the current crisis.
3. **Intermediate timeframe new treatments/prophylaxis – Data within months**

**Antibody therapy (Regeneron)** – could be effective prophylaxis for healthcare workers.

**Convalescent Plasma therapy** – Transferring plasma from recovered patient to infected patient. Effective but limited by donor availability; by definition, only scalable once many have been infected/identified.

4. **Immediate treatment for Acute Respiratory Distress Syndrome (ARDS) resulting from COVID-19 – Data within weeks**

**Anti IL-6 (Roche's Actemra and Regeneron's Kevzara)** – Studies ongoing. Could prevent lung injury from pneumonia.

5. **Treatment of infection to clear virus and reduce hospitalization time NOW; repurposing existing drugs – Data Now**

**Hydroxychloroquine +/- azithromycin** – I think it works, 75% probability efficacy proven in trials within 4 weeks.

**Remdesivir (Gilead)** - Expect weak positive signal mid-April, last resort in hospitalized patients on life support.

**Lopinavir/ritonavir (AbbVie)** – Failed 2 small studies already; should be deprioritized/removed from guidelines.

## BIOTECHNOLOGY – STEVE SEEDHOUSE, PHD

### FOCUS ON HYDROXYCHLOROQUINE (TRUMP'S "GOOD FEELING") – WILL IT WORK?

75% probability of success that we get sufficient evidence it is effective within ~4 weeks to support approval/widespread use. That said, it is **not** a magic bullet / cure for all.

#### BASIS FOR MY CONVICTION THAT HCQ COULD HELP:

**Preclinical data** suggest it can kill the SARS-CoV-2 virus *in vitro* (*i.e., in a dish in the lab*).

**Solid mechanistic rationale** – prevents virus from entering the cell / also positive impact on immune system (why it works in lupus and rheumatoid arthritis).

**Positive clinical reports** from China, South Korea, and NYC although no final data yet.

**Inclusion in treatment guidelines** early in China and South Korea, late in Italy – US is playing catch-up to what initial epidemic regions already adapted.

**Controlled clinical study from France** – Controversial study where 26 patients were treated and compared to 16 controls. N data set is perfect right now given the crisis, and this study is no different. It needs to be verified in a better designed study.

**Safe drug to try given its ~70 year use history** and ~100k scripts/week already written in the US

**Supply commitment by Novartis, Bayer, Sanofi, Teva, Mylan to donate and/or manufacture enough supply to meet the need** – This may be the only practical, large-scale solution. Others (remdesivir) can't be scaled quickly (unapproved drug, IV dosing).

#### A TRIAL BEGAN TUESDAY IN NY TO CONFIRM EFFICACY/SAFETY – DATA EXPECTED IN 4 WEEKS.

There are many in the “it doesn’t work and/or is dangerous” crowd that are instinctively pushing back on Trump’s eccentric endorsement of hydroxychloroquine. We’ve been advocating for testing HCQ since before the administration/media picked up on it so we are not influenced. The rationale for testing HCQ is better than most clinical development I follow during normal times.

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## BIOTECHNOLOGY – STEVE SEEDHOUSE, PHD

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### FREQUENTLY ASKED QUESTIONS\*

**If I have been infected and recover, can I be reinfected?** No. Within weeks/months there will be a blood test to check and see if you had COVID-19 at any point (some of us may have had it and not known it). Helpful to know who remains at risk and who doesn't.

**How long does COVID-19 last?** Published data suggests as short as 0 days, as long as ~50 days

**Will warm weather make it go away?** No. It may help reduce infectivity though.

**Will COVID-19 come back next year?** Yes, almost certainly.

**Is COVID-19 only dangerous/deadly in the elderly?** No. It is more deadly in the elderly, but also in 1) smokers, 2) diabetics, 3) asthmatics, 4) obese. On an age-matched basis, it is also seemingly more deadly than flu for everyone and by a wide margin more young people end up hospitalized or in serious condition vs. the flu.

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\* Using the best available data as of 3/30/2020

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## HEALTHCARE – JOHN RANSOM

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### FREQUENTLY ASKED QUESTIONS\*

**Describe the surge in COVID-19 cases at a local level?**

**What permanent changes might emerge from the short-term chaos?**

**What about the pharma supply chain?**

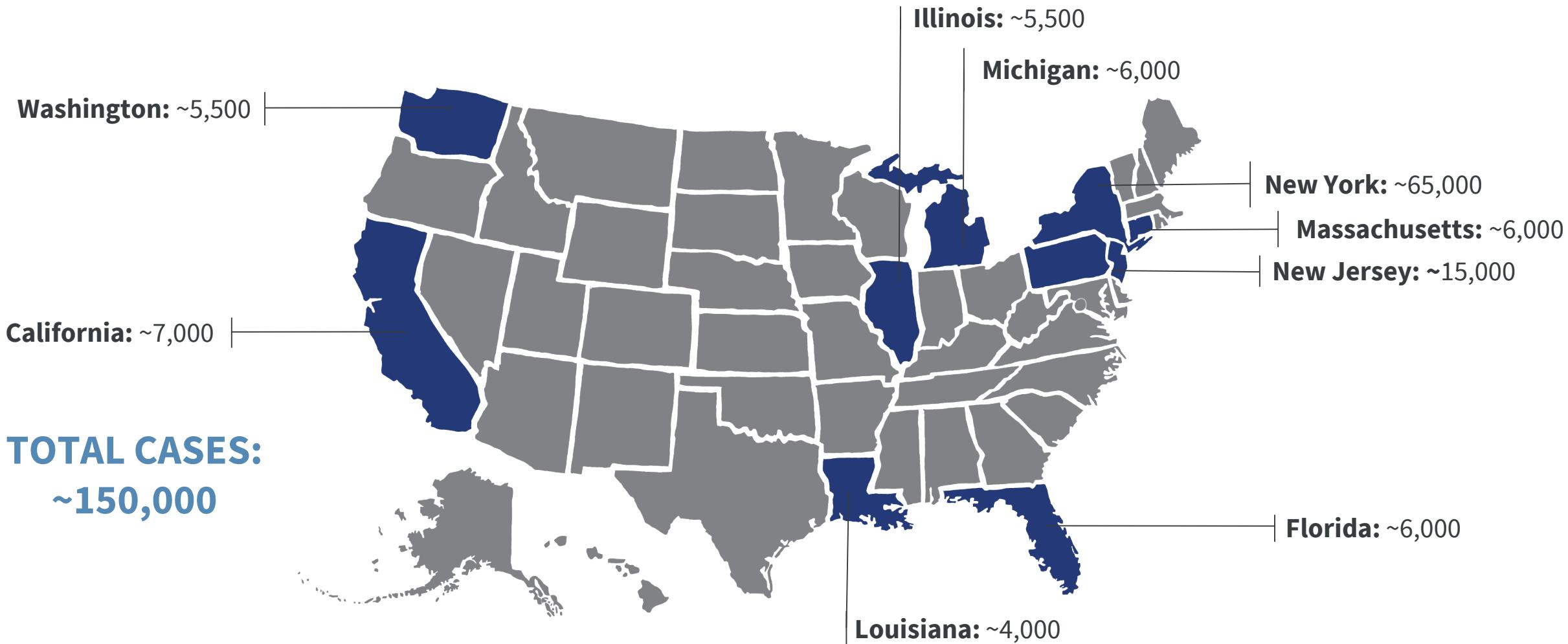
**Is the market underestimating the non-government response both in the short term (protective gear/ventilators) and the long term (therapeutics and vaccine)?**

**Where are the new hot spots ex-NY?**

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\* Using the best available data as of 3/30/2020

## CORONAVIRUS CASES IN THE US

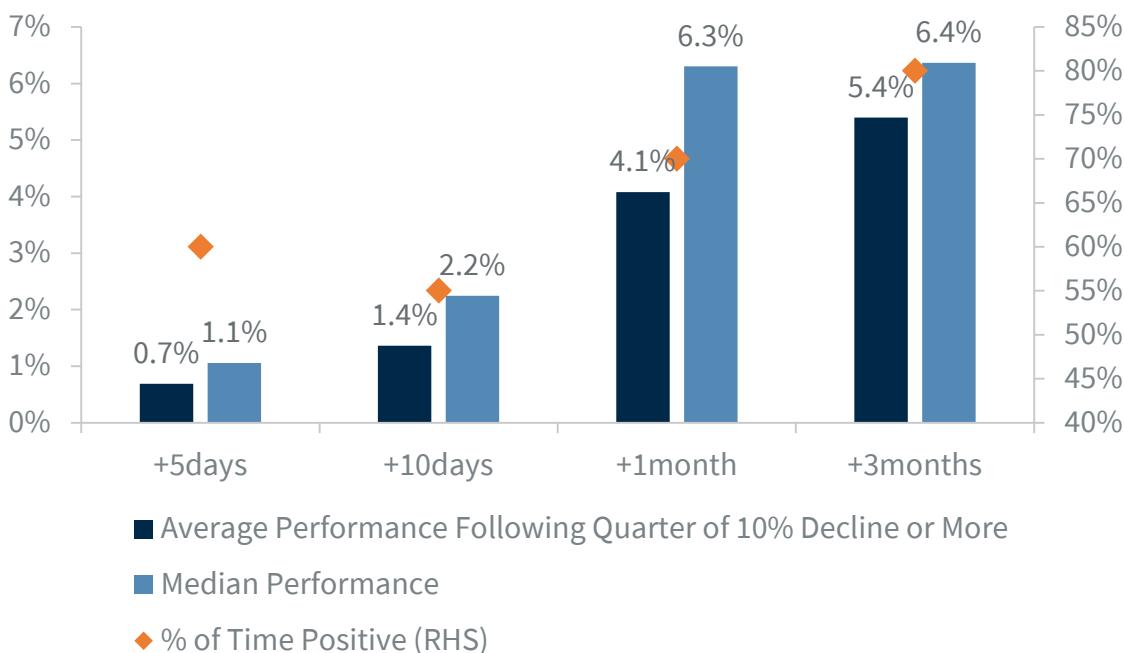


## REBALANCING A TAILWIND FOR THE EQUITY MARKET

### REBALANCING COULD PROVIDE A NEEDED BOOST TO THE EQUITY MARKET

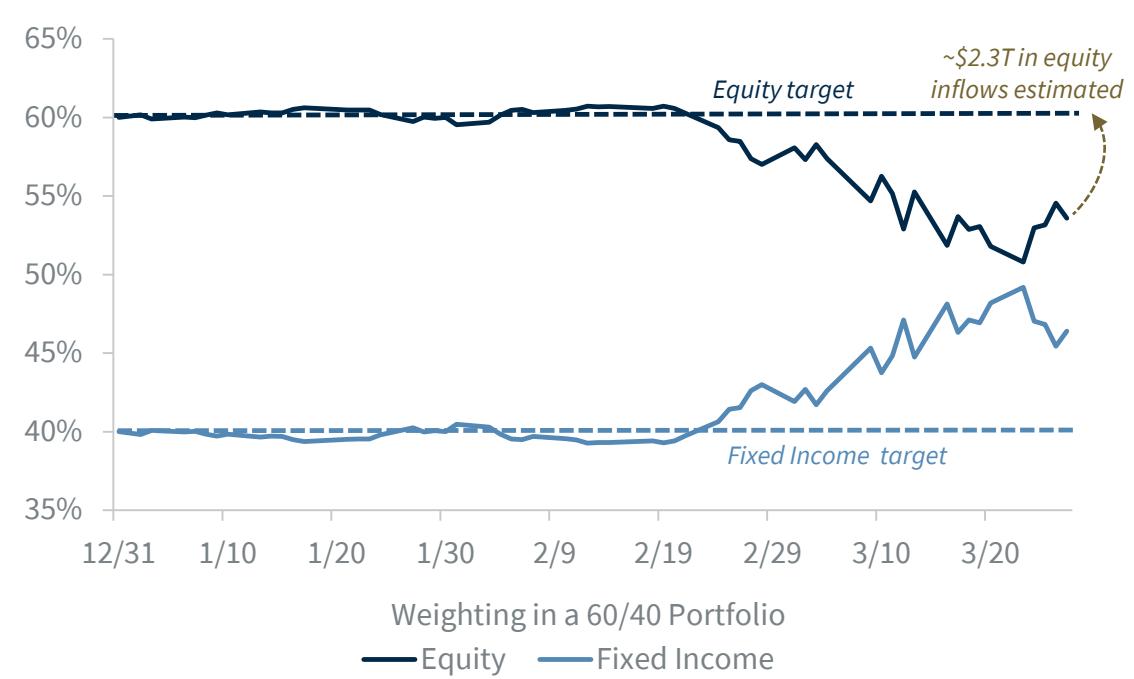
- Given the sharp decline in the equity market in 1Q, this could lead to significant rebalancing for institutional investors like pensions and foundations. Our estimate is that rebalancing could lead to ~\$2.3 trillion in inflows into the equity market, or ~3% of the total world equity market cap.
- Following a quarterly decline of >10%, equity markets have historically been positive in the weeks and months following.

S&P 500 Performance Following >10% Quarterly Decline



Source: FactSet. Data dates back to 1945.

~\$2T in Potential Equity Inflows for Rebalancing

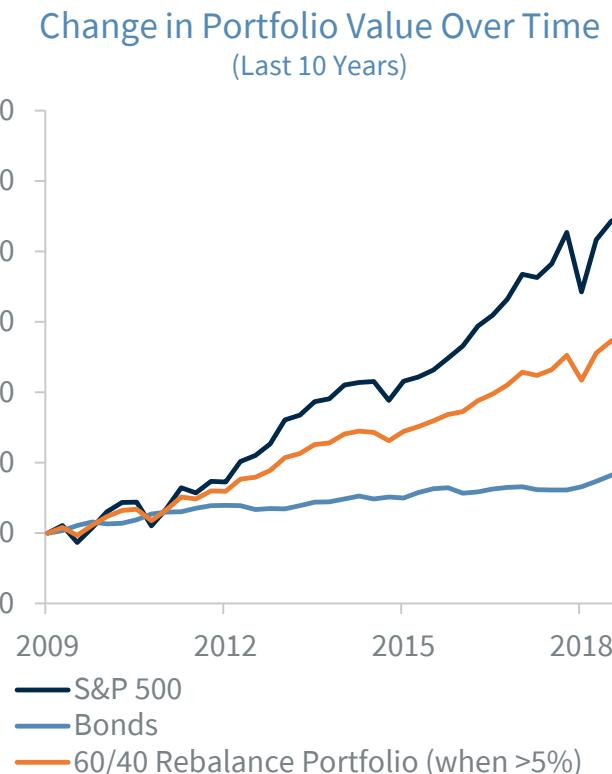
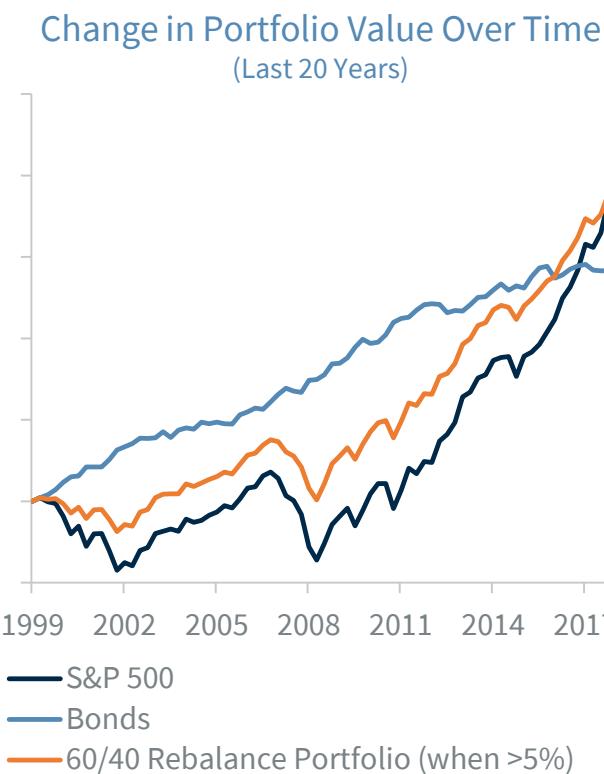
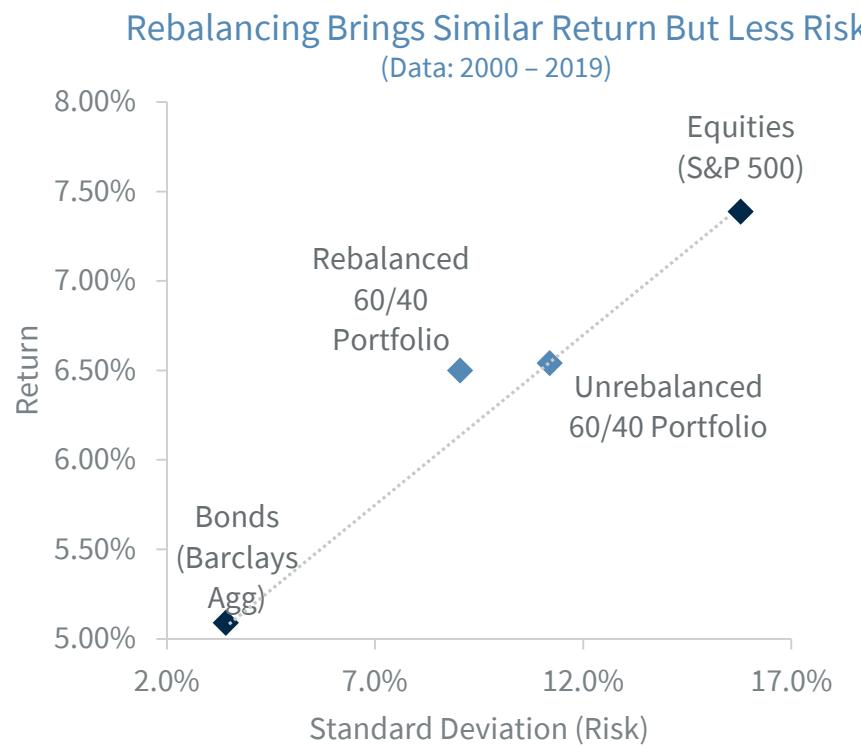


Source: FactSet. Data as of March 27.

## IMPORTANCE OF REBALANCING

### REBALANCING AN IMPORTANT PILLAR FOR PORTFOLIO ALLOCATION

- Due to asset class performance, portfolios can oftentimes come out of alignment with stated long-term portfolio allocation (e.g., 60/40 equity/bond portfolio or 70/30 portfolio).
- Rebalancing is extremely important to a portfolio, as it can provide a similar return as not rebalancing but bring less risk.



Source: FactSet. Data ranges from 2000-2019.

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## **COVID-19 UPDATE: SUMMARY**

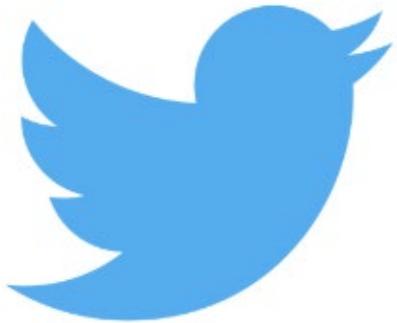
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- 1** 40% Probability of “Turning the Corner” By Memorial Day
- 2** Economic Data to Deteriorate (We Know That); But Rebound Strong
- 3** Policymakers Have Provided “Shock and Awe,” but not Finished
- 4** Medical Response Growing—Critical to Defeat Crisis
- 5** Investment Strategy: Stay Calm, *Rebalance* and Do Not Panic

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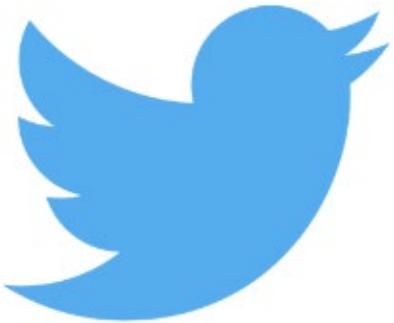
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**SECTORS** | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

**OIL** | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

**CURRENCIES** | Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

**GOLD** | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

**FIXED INCOME** | Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. 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 generally rise.

**US TREASURIES** | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

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## FIXED INCOME DEFINITION

**AGGREGATE BOND** | **Bloomberg Barclays US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

**HIGH YIELD** | **Bloomberg Barclays US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

**CREDIT** | **Bloomberg Barclays US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**US DOLLAR** | The U.S. Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies.

**200 DAY MOVING AVERAGE** | The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days

## US INDEXES AND EQUITY SECTORS DEFINITION

[S&P 500](#) | The **S&P 500 Total Return Index**: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

[RUSSELL 2000](#) | **Russell 2000 Total Return Index**: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

## INTERNATIONAL EQUITY DEFINITION

[EMERGING MARKETS EASTERN EUROPE](#) | **MSCI EM Eastern Europe Net Return Index**: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

[EMERGING MARKETS](#) | **MSCI Emerging Markets Net Return Index**: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

[MSCI EAFE](#) | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

[GERMAN BUND](#) | A bund is a debt security issued by Germany's federal government, and it is the German equivalent of a U.S. Treasury bond.

[SMALL CAP](#) | 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.

[LARGE-CAP STOCK](#) | also known as big caps are shares that trade for corporations with a market capitalization of \$10 billion or more. Large-cap stocks tend to be less volatile during rough markets as investors fly to quality and stability and become more risk-averse.

[MSCI AC WORLD EX-US](#) | The **MSCI AC ex USA** Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries\*. With 2,215 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

[LATAM](#) | **MSCI EM Latin America Net Return Index**: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

[ASIA EX-JAPAN](#) | **MSCI Pacific Ex Japan Net Return Index**: The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

[JAPAN](#) | **MSCI Japan Net Return Index**: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

## COMMODITIES DEFINITION

[BLOOMBERG BARCLAYS COMMODITY INDEX](#) | Bloomberg Barclays Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

[BLOOMBERG BARCLAYS EMERGING MARKETS AGGREGATE BOND INDEX](#) | The Bloomberg Barclays Emerging Markets Aggregate Bond Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

## DATA SOURCES:

FactSet and Bloomberg.

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