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2021 3rd Quarter Equity Market Update

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Outlook:

The S&P 500 achieved its 6th consecutive quarter of quarterly gains, narrowly finishing in the green by 0.23%. Similar to history, the month of September was not favorable for equities with the S&P 500 down 4.76% (which compares to the average decline of 0.6% for September since 1960). Despite some mounting concerns such as: narrow participation could make the market susceptible to pullbacks, slowing momentum in the macro data, rising inflation, COVID cases, supply chain issues, China (regulatory tightening, slowing macro, and debt contagion fears), elevated valuations, tax changes and debt ceiling, we continue to believe the positives outweigh the negatives and raised our **year-end price target to 4613 for 2021 and 4950 for year-end 2022**. While pullbacks are possible, the market has remained resilient in the face of the mounting wall of worry and has not experienced an intra-year decline greater than 6% through the end of September.

Earnings, in our opinion, will continue to be the key driver of equity returns this year and next as some valuation normalization (off elevated levels) transpires. While inflation and rising input costs will be a concern for investors, we believe, at this point, the sales outlook for the S&P 500, aided by above trend GDP growth (the Fed is projecting 2022 GDP growth of 3.8%), will continue to grow faster than overall input costs, which should lead to margin expansion and continuation of earnings growth. As such, we took our **2021 EPS estimate to $205 (up from $200)**. For **2022**, we **incorporated a 25% corporate tax rate** into our estimates, which lowered our estimate by ~3-5%, but remain above consensus estimates with our **new estimate of $225**. Without the higher taxes, our 2022 estimate would have moved higher.

We continue to see **many divergences emerge in the market in which the actual data or trading patterns often differs from the logical belief based on the current headlines**, and the results influence our **positive bias for equities**. Most importantly, earnings continue to move higher, which has been highly correlated to the S&P 500 performance historically and credit spreads continue their downward path, an important indicator to watch as widening spreads tend to be associated with concerns of a worsening macro environment, which we believe is positive for risk-on assets. Additionally, the relative performance of the Consumer Staples continues to be at the low end of its range, which we believe maintains a **pro-cyclical bias** to the market. In a diversified portfolio, we remain positive on US large-cap and continue to see opportunities to add small-caps (as growth and valuation remain attractive).

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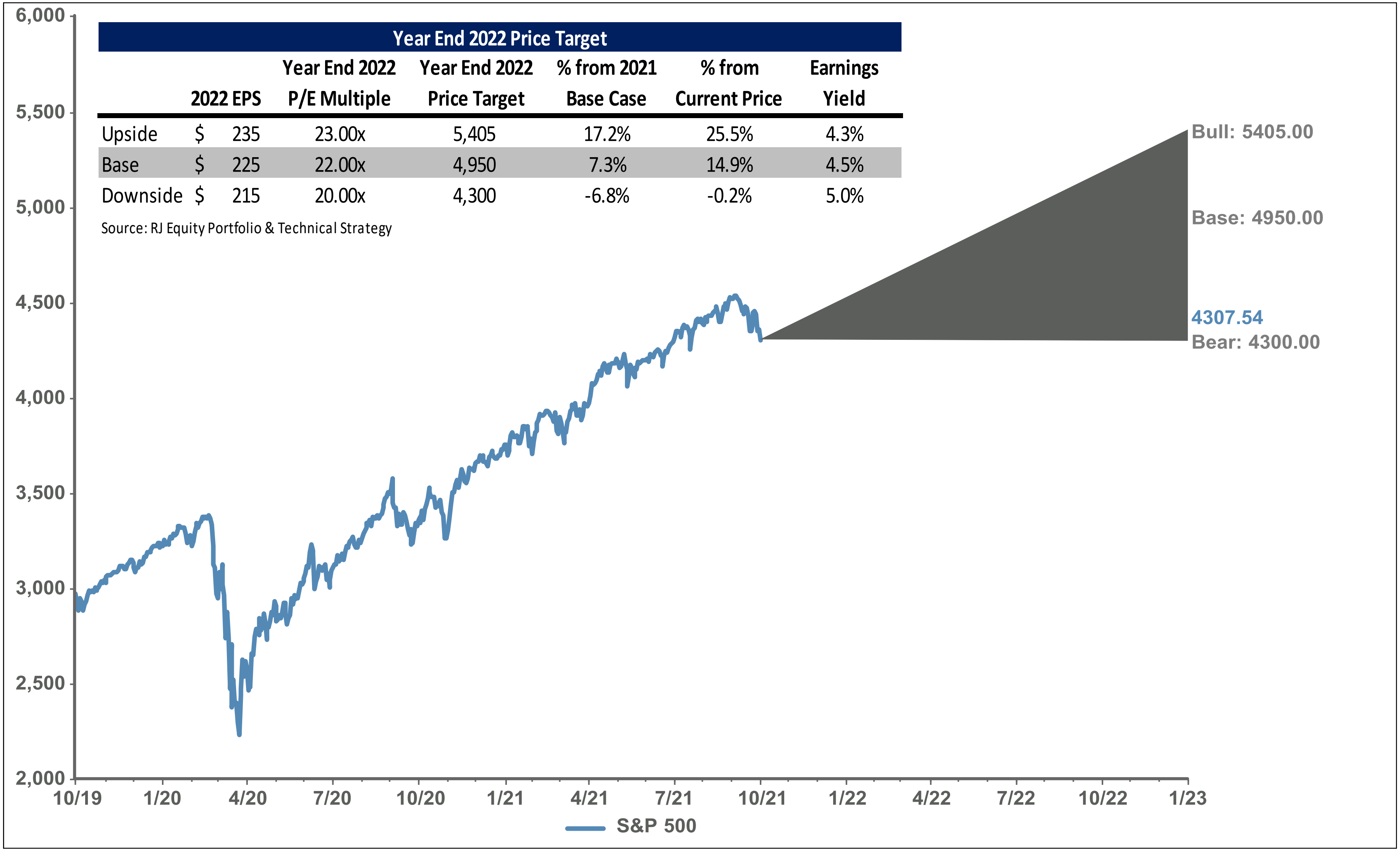
Summary of key data points

- **S&P 500 Fair Value (pg. 6):** We continue to believe the positives outweigh the negatives as the re-openings continue to fuel strong sales growth as vaccination rates improve globally and accommodative monetary policies remain supportive for equities. For 2021, our fair value for the S&P 500 is 4613 and for 2022 is 4950 based on our projected earnings of $205 and $225 (which incorporates higher corporate taxes), respectively.
    - **Corporate taxes (pg 7)**: We are incorporating the higher corporate tax rate of 25% into our estimate for 2022. While it is still a fluid situation, we believe it appears that the tax rate is likely to rise, which will be a 3-5% headwind to earnings. Our new estimate of $225, which remains above consensus, reflects the higher tax; however, without the incorporation of higher taxes, our 2022 estimate would have moved higher compared to our prior estimate of $230.
- **Credit Spreads and NTM Earnings Support Equities (pg 10-11):** We continue to watch earnings and credit spreads for indications of a worsening macro environment, but currently both continue to be supportive of upside for equities.
- **Tapering is Not Tightening (pg 14-18)-** The Fed has indicated that it is likely to begin tapering soon, which many believe will take place at the next meeting. Overall, we do not believe tapering is the same as tightening as the Fed's balance sheet is likely to continue its expansion just at a slower pace of asset purchases, and historically, tapering alone has not been a big risk to equities.
- **Drivers of Earnings Growth (pg 20-26):** While we continue to see input costs (pg 22-25 and 38) rising, we believe margins and earnings are likely to continue to see expansion as S&P 500 sales growth is still projected to accelerate faster than input costs. Price increases to customers along with above trend economic growth should keep margins steady or rising due to leverage in business models. So, despite higher input costs profits should continue to advance. Estimates for margins continue to move higher despite the higher costs, see page 22-25 and 38. Currently, consensus expects S&P 500 sales growth of 6.4% in 2022 while wages, which are the biggest input cost for companies, are expected to rise with average hourly earnings of 3.7% in 2022.
- **Searching for divergences (pg 27-44):** We are seeing several divergences emerge in which actual data or trading patterns often differ from the logical belief based on the current headlines, and the results influence our positive bias for equities. Our overall takeaway is that the market continues to look through near-term air pockets in macro data and COVID risks as the eventual re-opening globally should boost macro growth which influences our Cyclical Bias over Defensive sectors, which have not provided support during spikes in COVID cases (pg 35-36).
- **Young Bull Markets (pg. 37):** We continue to believe we are in the midst of a young bull market. Overall, bull markets tend to last ~5 years with average returns of 155%, vs. our current bull market which has returned nearly 100% over less than 2 years. While we continue to see upside, we would be mindful that pullbacks can transpire with the average intra-year pullback during bull markets of 8-12%.
- **Emerging Markets and China (pg 40-42):** Headlines from China have been negative (regulatory crackdown, fear of debt contagion, slowing macro, rising COVID cases, etc). However, despite these headlines, the relative performance is seeing a slight divergence from the negative headlines as relative performance (vs. the world) did not move to a new low. Moreover, Emerging Markets ex-China, are holding up much better suggesting that one can continue to be selective within Emerging Markets.

2022 Price Objective

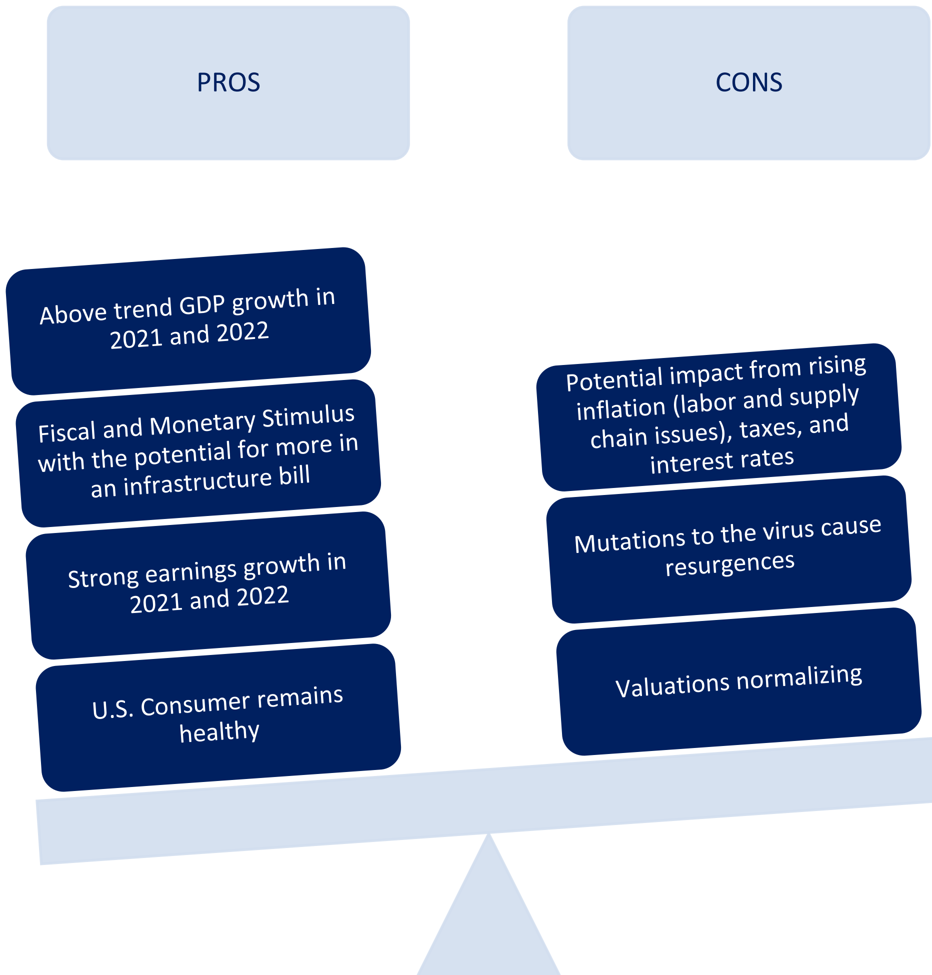
Year End 2022 Price Target						
	2022 EPS	Year End 2022 P/E Multiple	Year End 2022 Price Target	% from 2021 Base Case	% from Current Price	Earnings Yield
Upside	$ 235	23.00x	5,405	17.2%	25.5%	4.3%
Base	$ 225	22.00x	4,950	7.3%	14.9%	4.5%
Downside	$ 215	20.00x	4,300	-6.8%	-0.2%	5.0%

Source: RJ Equity Portfolio & Technical Strategy



Source: FactSet and RJ Equity Portfolio & Technical Strategy
% from Current Price is priced from the S&P 500 closing price on September 30, 2021 of 4307.54

Outlook



Positives outweigh the negatives

Source: FactSet and RJ Equity Portfolio & Technical Strategy

S&P 500 Fair Value

Year End 2021 Price Target						
	2021 EPS	Year End 2021 P/E Multiple	Year End 2021 Price Target	% from Current Price	2021 Price Return (%)	Earnings Yield
Upside	$ 210	23.00x	4,830	12.1%	28.6%	4.3%
Base	$ 205	22.50x	4,613	7.1%	22.8%	4.4%
Downside	$ 195	21.00x	4,095	-4.9%	9.0%	4.8%

Source: RJ Equity Portfolio & Technical Strategy

Year End 2022 Price Target						
	2022 EPS	Year End 2022 P/E Multiple	Year End 2022 Price Target	% from 2021 Base Case	% from Current Price	Earnings Yield
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Source: RJ Equity Portfolio & Technical Strategy

Overall, We see tapering and tightening as more of a process beginning with a transition from rapid expansion of the Fed's balance sheet to a slowing/stabilization period and eventually reducing the balance sheet and raising fed funds rates. At each step, stocks could see some added volatility, but unless other factors (macro slowdown, fears of runaway inflation, etc.) evolve, we believe draw downs should not be terminal for the bull market- although some may be deeper than "normal" and reach beyond 10%.

Monetary policy still supports a bull market.
- Tapering is not tightening – Fed's balance sheet likely will continue to expand in 2022 despite slowing the rate of asset purchases
- Markets "typically" do not get in macro-driven trouble (i.e., recessionary conditions) until after the Fed has been tightening for a while and something else joins in to trigger the next economic downturn

Macro: Remains a nice tailwind with re-openings globally as vaccination rates accelerate
- The current soft-patch is not a problem (to the bull market), given it is a supply (not demand) issue.
- Pent-up demand and the need to rebuild inventories provides macro support thru next year

Earnings: Revision trends remain positive for earnings
- Our 2022 estimate **now incorporates a 25% corporate tax rate**—otherwise, our core EPS number would have moved higher in 2022
- Sales growth (price increases and strong demand) is likely to remain above input cost growth, which should be positive for margins

Valuation: Continue to expect some normalization from elevated levels, but likely to remain above trend due to low interest rates
- We don't feel stock prices will be automatically adjusted lower if tax rates go up. For this reason, we apply slightly higher multiples to our new number, which has been reduced by higher taxes
- Equity Risk Premium (ERP) still supports positive forward equity returns--historically, forward 3-yr returns are mostly positive when ERP is above 2%, which suggests the 10-year yield could move to ~2.5% (at current earnings yield) before the rise in yields hurts our equity outlook.
- Until/unless inflation proves sticky, we don't feel valuation will rapidly return to longer-term levels. Currently, there is not enough evidence that inflation will be sticky with the global economies still unopened and uncertainty regarding employment participation rate.

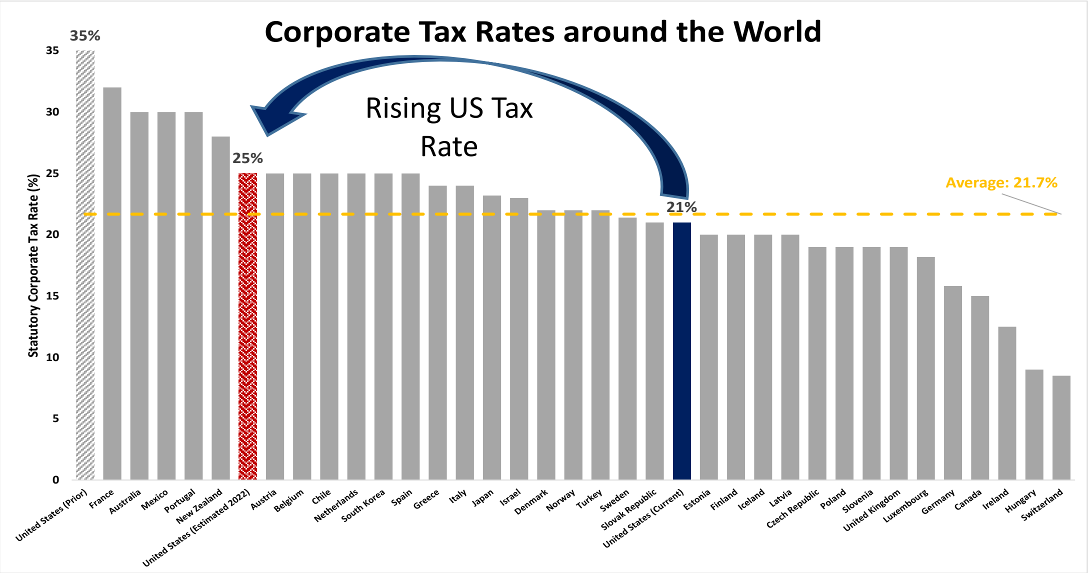
Source: FactSet and RJ Equity Portfolio & Technical Strategy

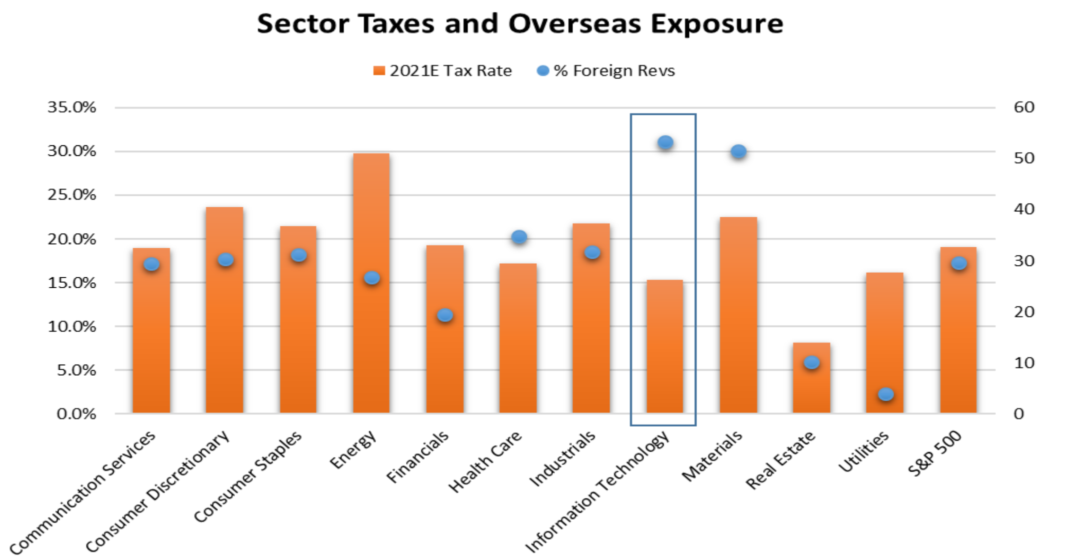
% from Current Price is priced from the S&P 500 closing price on September 30, 2021 of 4307.54

Adjusting for Higher Taxes

- **Very fluid/lots of questions remain**
- Stimulus is likely an offset
- **<u>Our base case now assumes that taxes will go to 25%--which is about a 3-5% reduction to earnings</u>**
    - Our official estimate was reduced to $225 from $230—as we are now assuming taxes increase in 2022—without the tax increase our estimate would likely have increased to ~$235 for 2022
- Targeting multinationals- i.e. Tech and BioPharma- with outsized overseas tax-sheltering
- Relative winners are likely those already paying high tax rates, more domestic

Sector	% Foreign Revs	2021E Tax Rate
Communication Services	29	19.0%
Consumer Discretionary	30	23.7%
Consumer Staples	31	21.5%
Energy	27	29.8%
Financials	19	19.2%
Health Care	35	17.2%
Industrials	32	21.8%
Information Technology	53	15.3%
Materials	52	22.5%
Real Estate	10	8.1%
Utilities	4	16.1%
S&P 500	**30**	**19.0%**





Source: FactSet and RJ Equity Portfolio & Technical Strategy

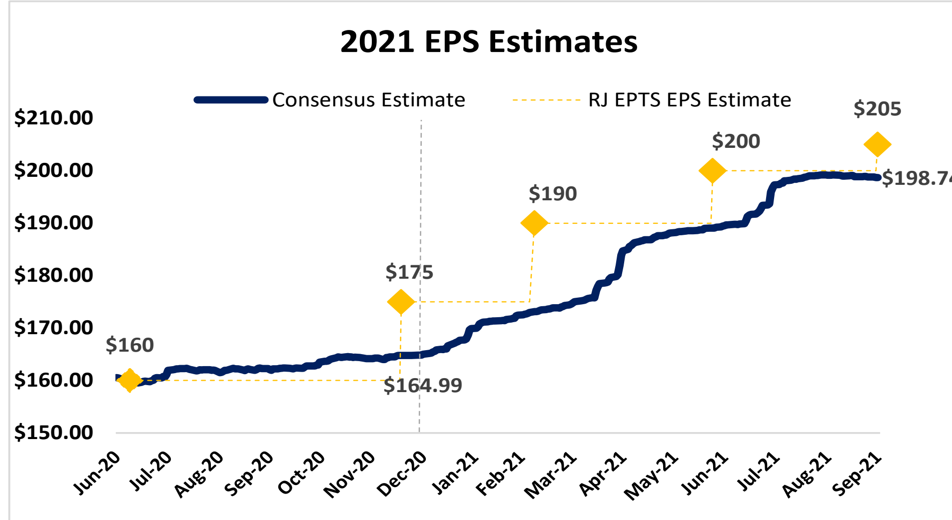
Charts as of 10/1/2021

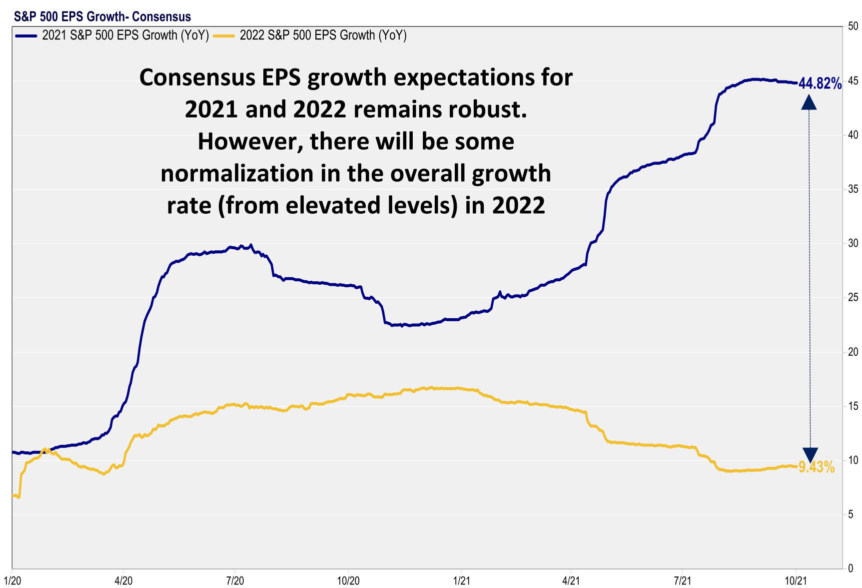
Consensus Likely Too Conservative

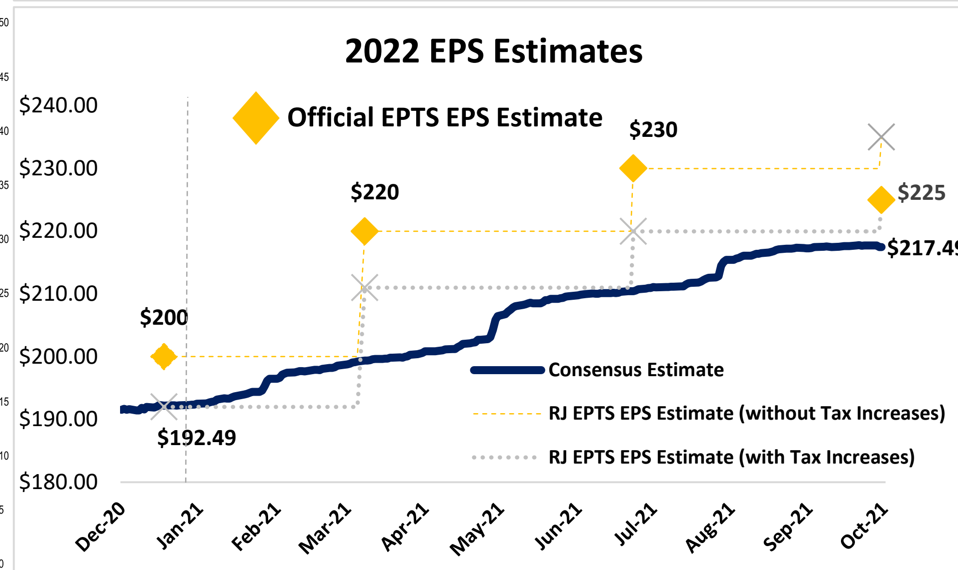
We continue to believe consensus EPS estimates for 2021 and 2022 remain too conservative.

- Even after adjusting for the tax rate to increase to 25% in 2022, our EPS estimate remains above consensus
    - Our 2022 estimate would have moved higher had we not adjusted for higher taxes—core earnings remain strong
- Since the start of the vaccine roll-out in late 2020 and the subsequent re-opening (even as the Delta variant caused cases to tick higher), our estimate has remains consistently above consensus estimates

Growth is expected to remain above trend in 2022 with consensus projecting ~9.4% YoY growth and our estimate of ~9.8%.





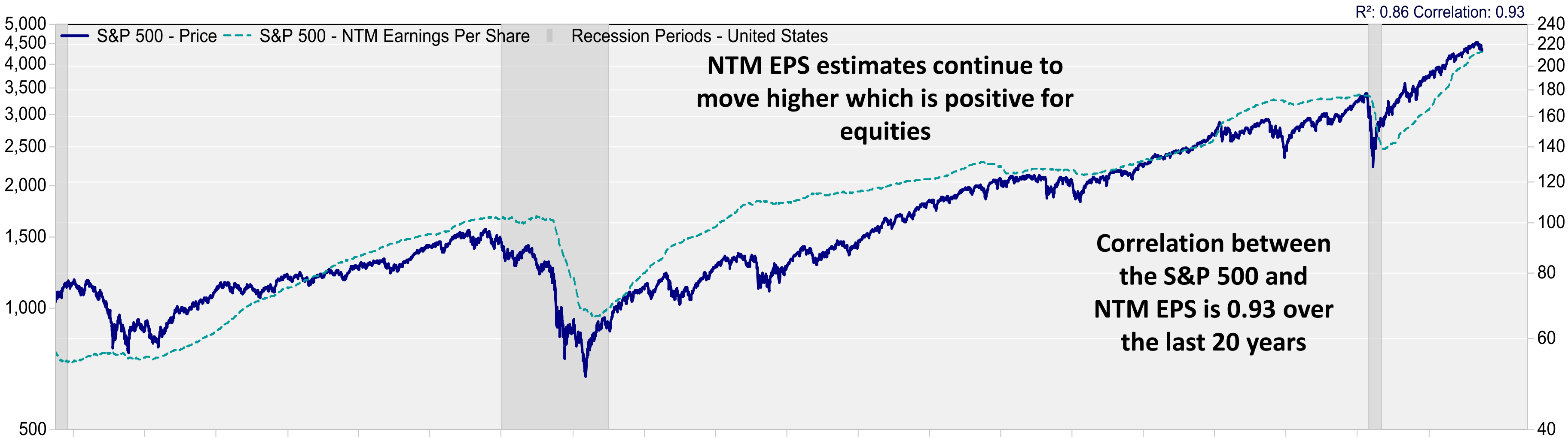


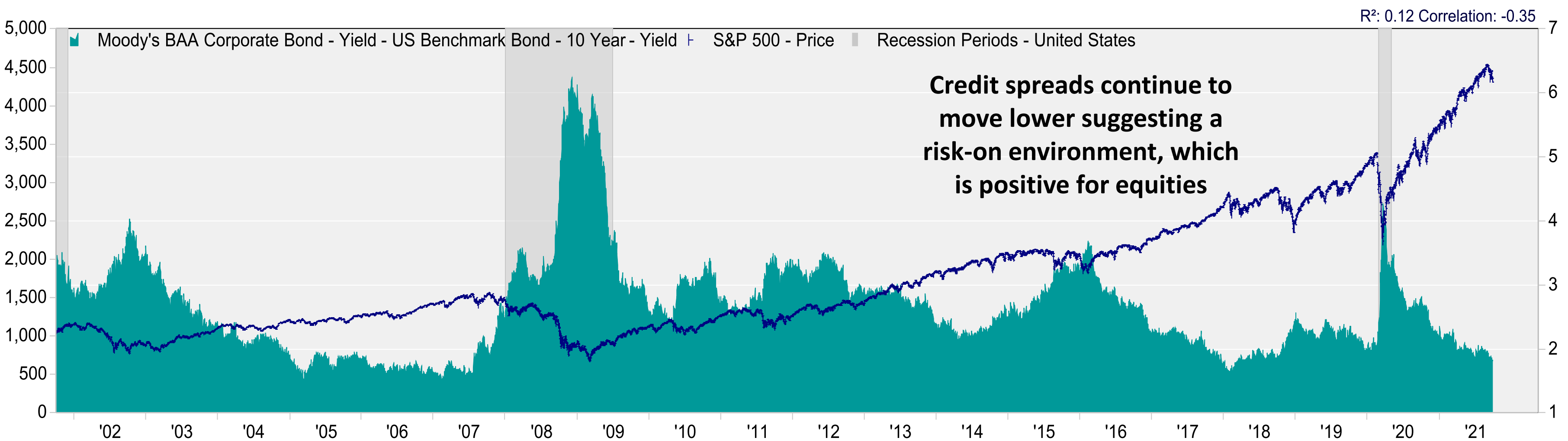
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Support for Equities

Credit Spread and EPS Growth Positive for Equities

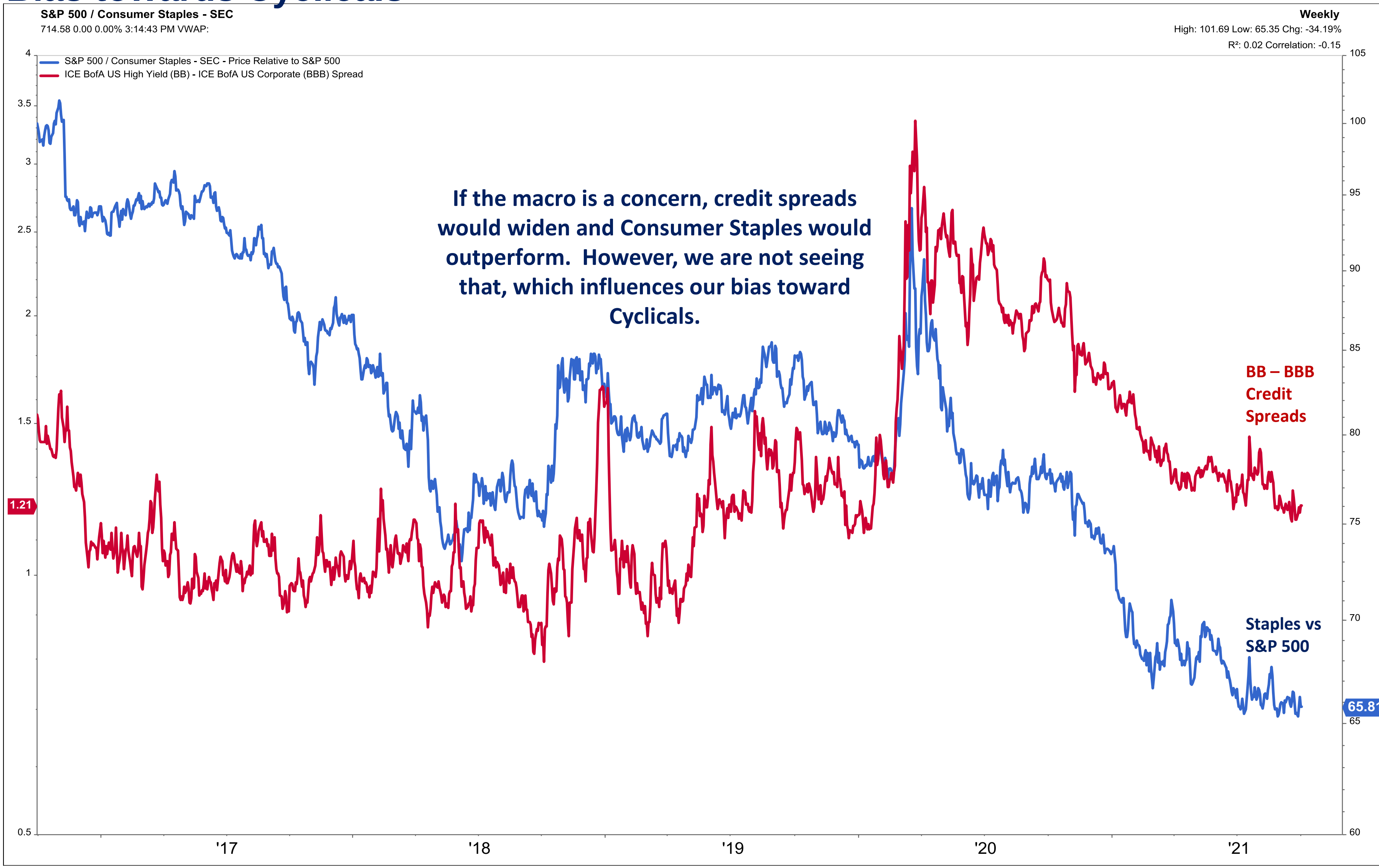




Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Bias towards Cyclicals

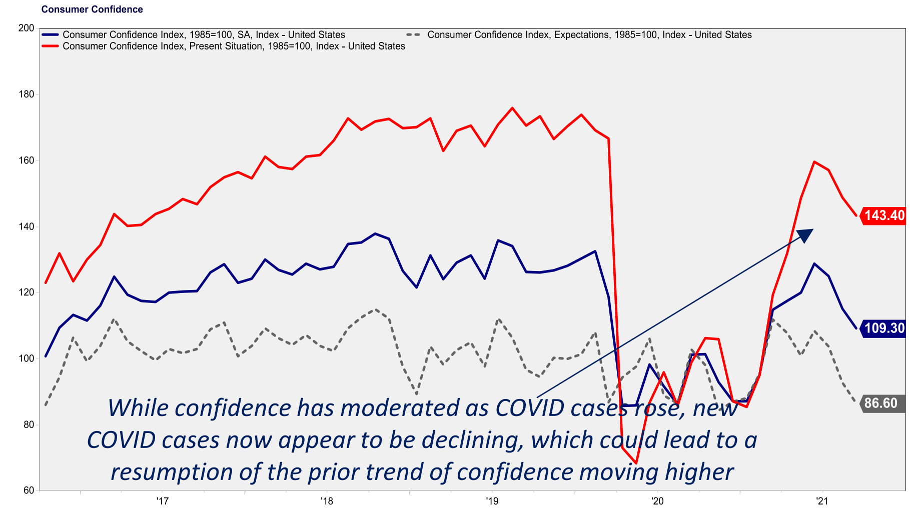


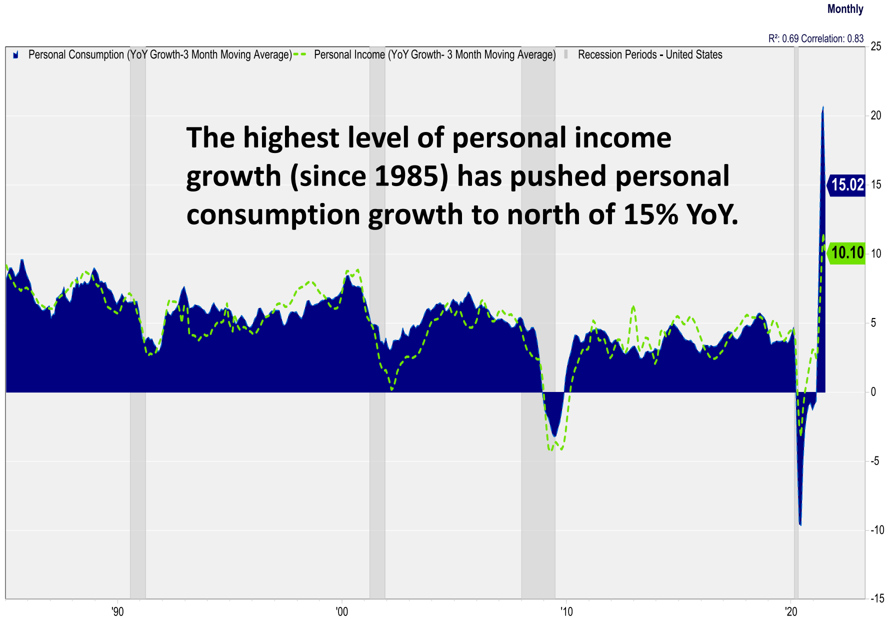
Source: FactSet and RJ Equity Portfolio & Technical Strategy

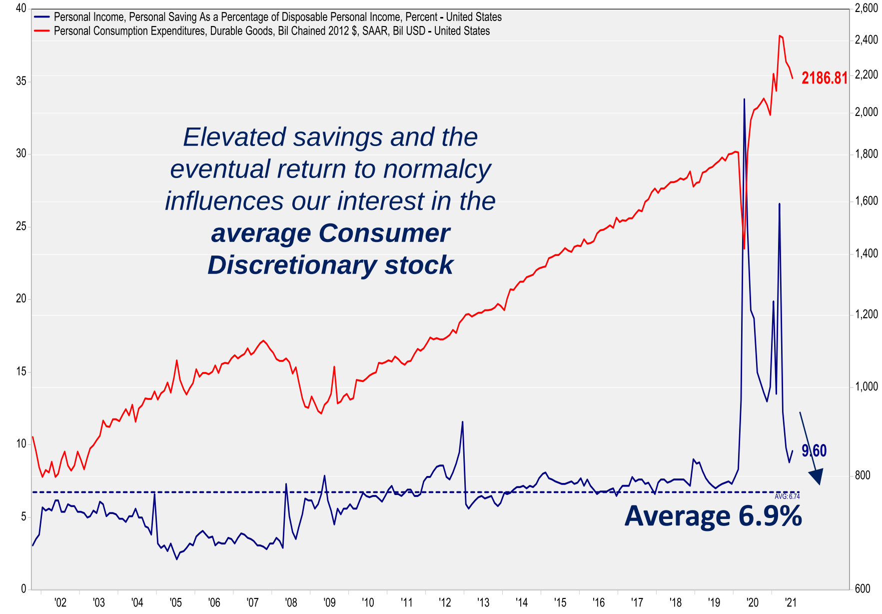
Charts as of 10/1/2021

Consumer Remains Healthy

While there has been some moderation since COVID cases ticked back higher, we continue to believe the US consumer remains strong. There continues to be more job openings than unemployed workers, savings rates remain elevated, personal consumption remains strong, and consumer confidence has seen a strong rebound since the beginning of the year (may see a resumption of the prior trend of confidence moving higher as it appears new COVID cases are now declining). Overall, we believe a strong consumer should be nice tailwind for equities given the outsized contribution to GDP the consumer represents.





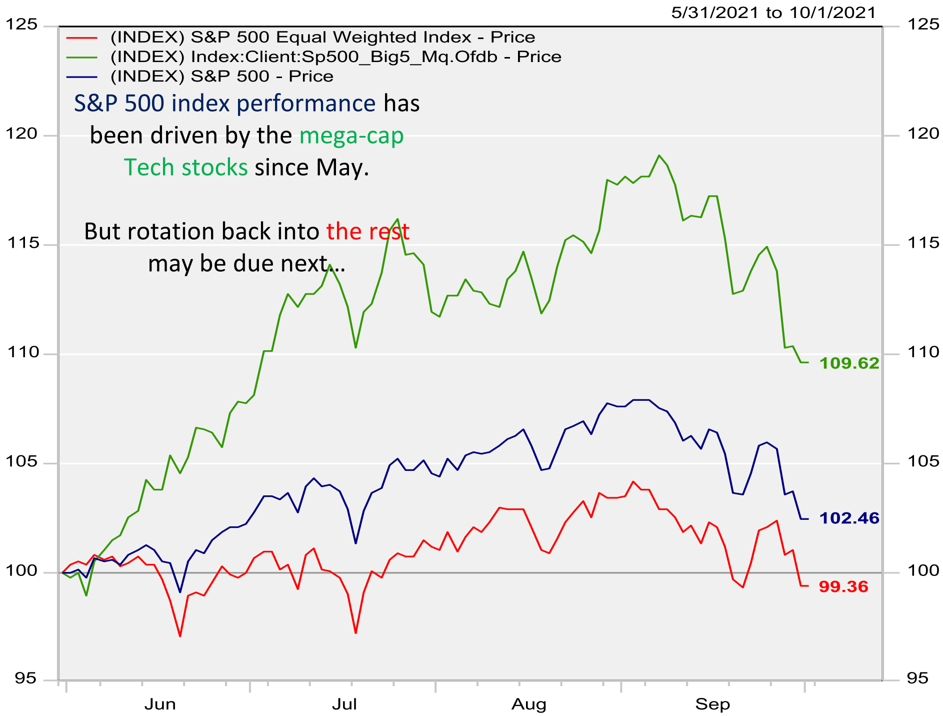


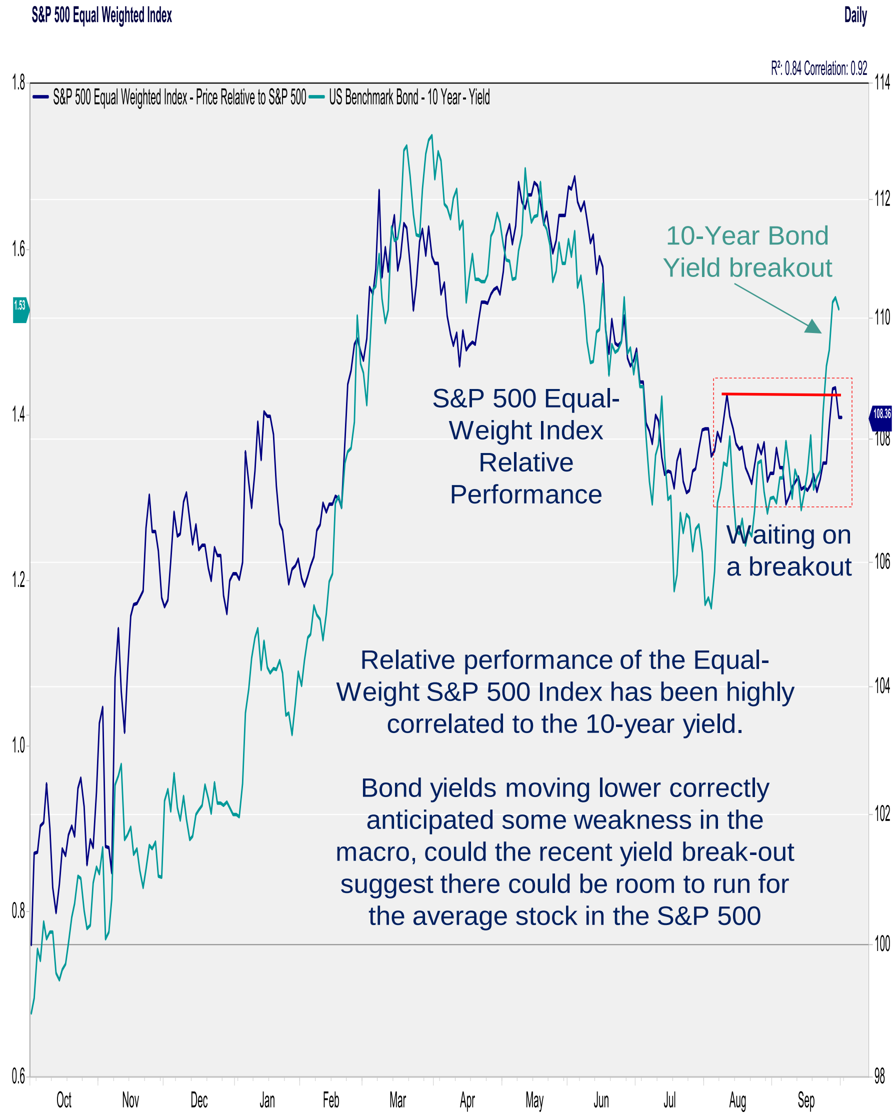
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

S&P 500 Equal-Weight

The market strength has been narrow, which has made it vulnerable to pullbacks. However, the market remained resilient as much of the strength since May has been driven by the mega-cap Tech stocks. However, it appears rotation back into the “average” stock (S&P 500 equal-weight index) may be due next. Over the last year, there has been a tight correlation between the relative performance of the S&P 500 equal-weight index and the 10-year yield (.92 correlation). Recently, the 10-year yield broke out to the upside, while the relative performance has yet to do the same. We will continue to monitor, but a breakout for the equal-weight index would be a positive for the average stock and a broadening of the market, which we believe would be a positive.

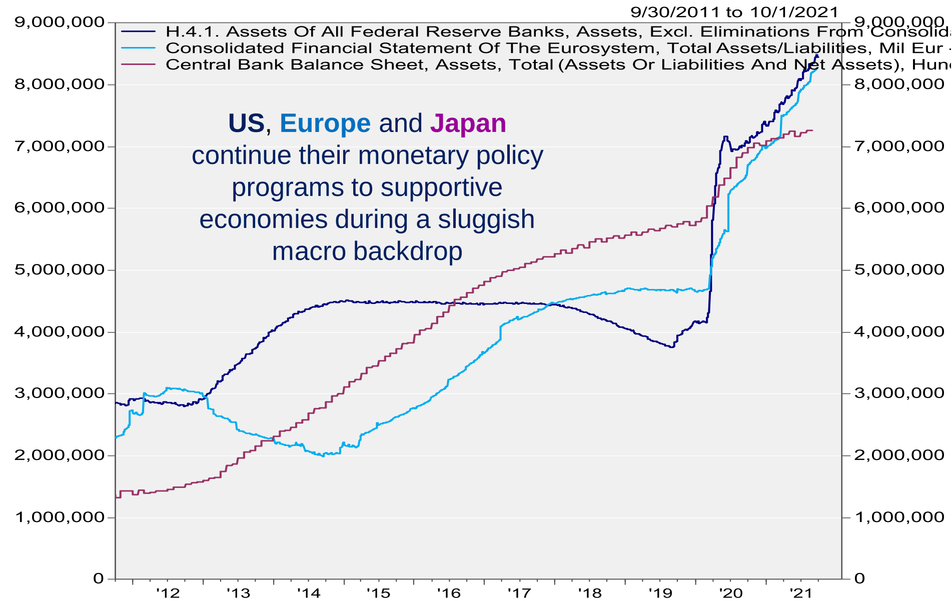


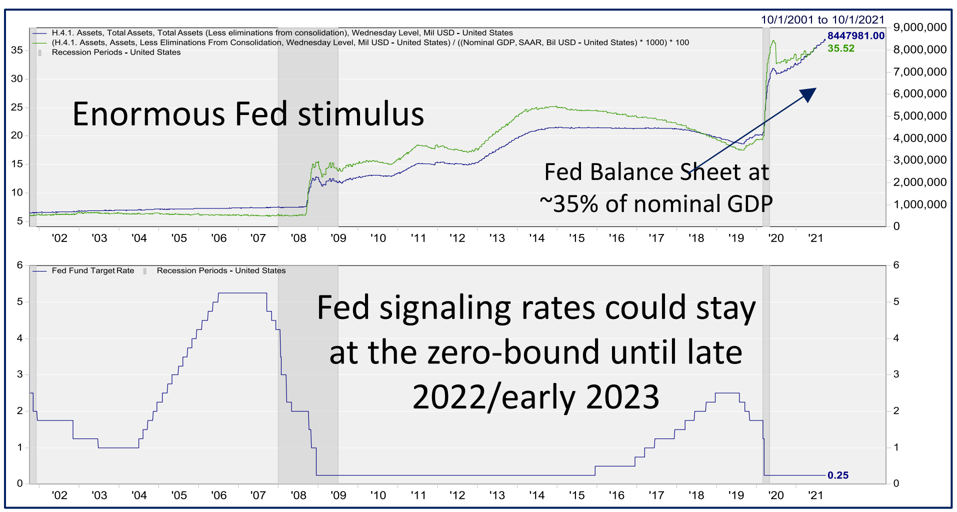


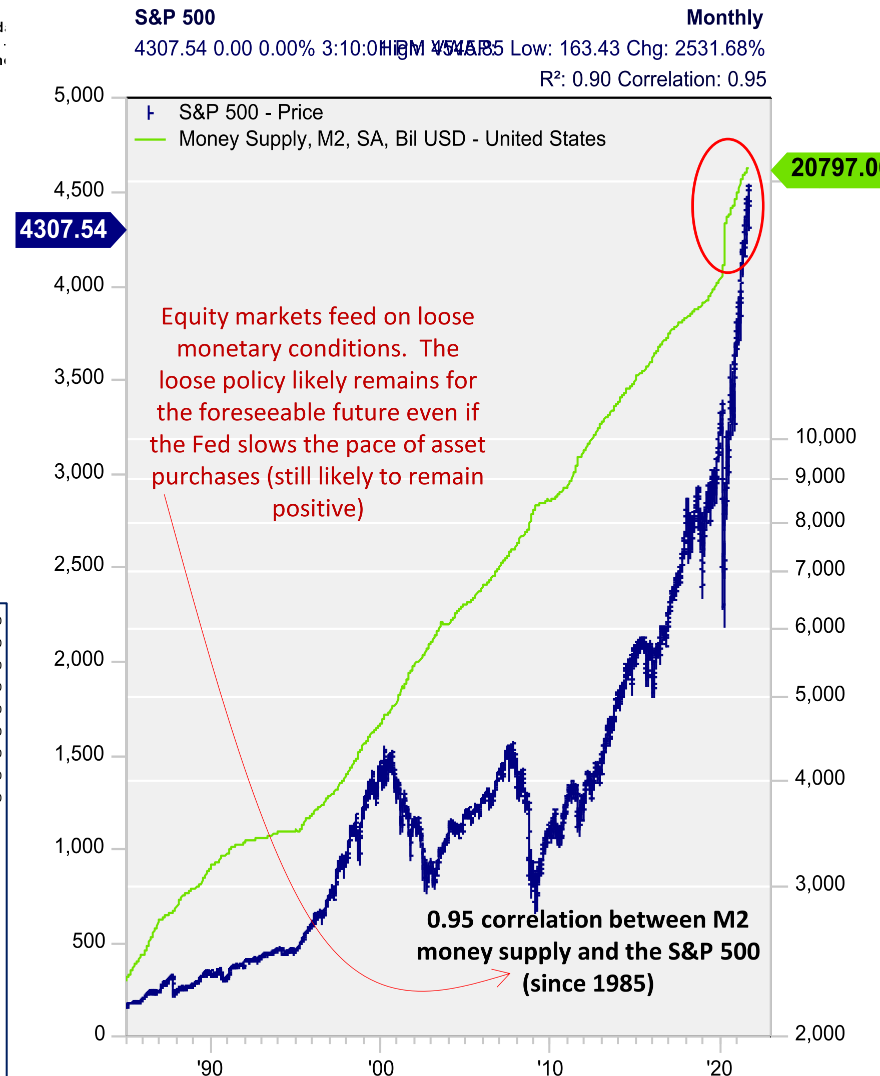
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Tapering is Not Tightening—Central Bank Remains Supportive



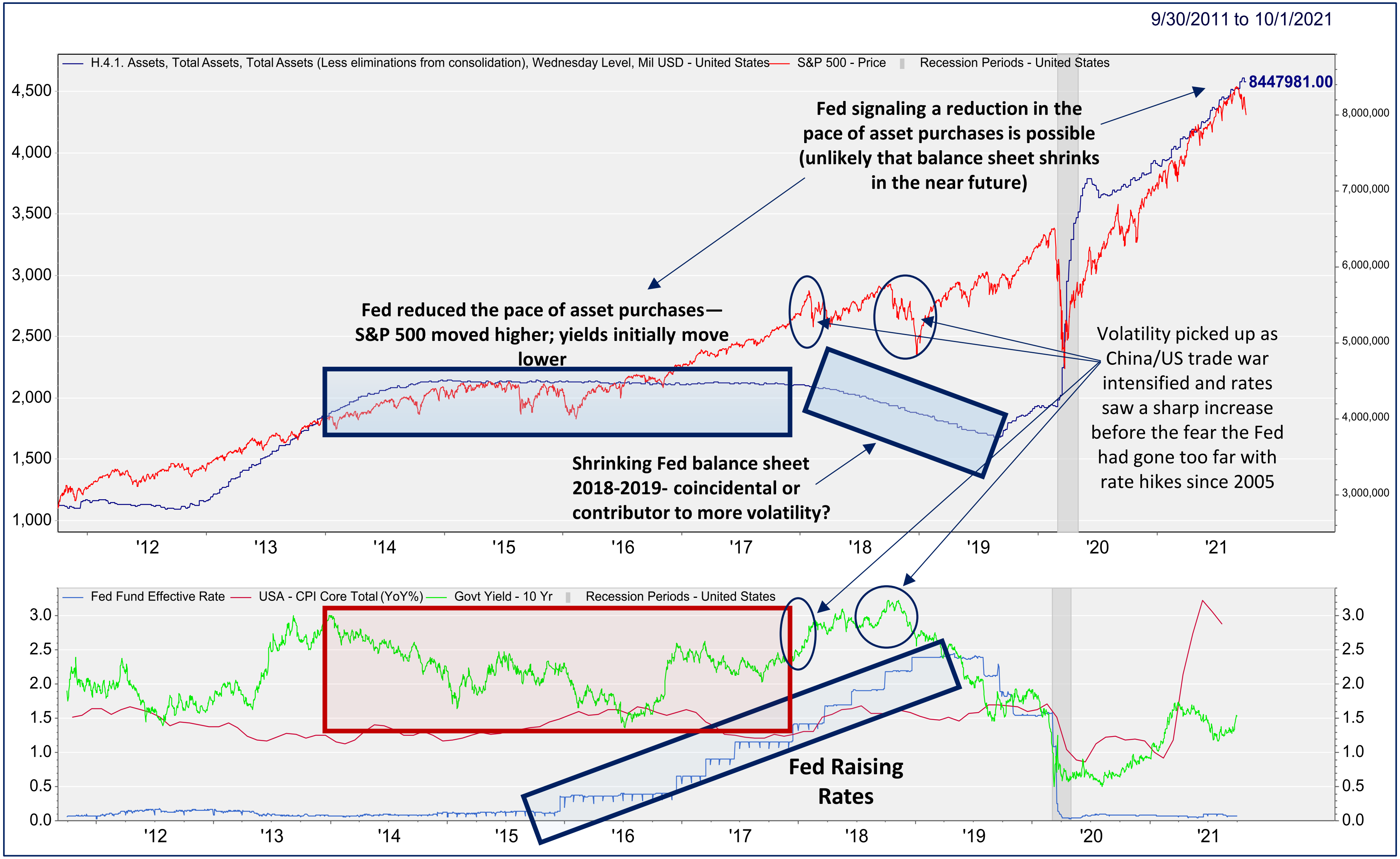




Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Tapering Alone is not a Big Risk for Equities

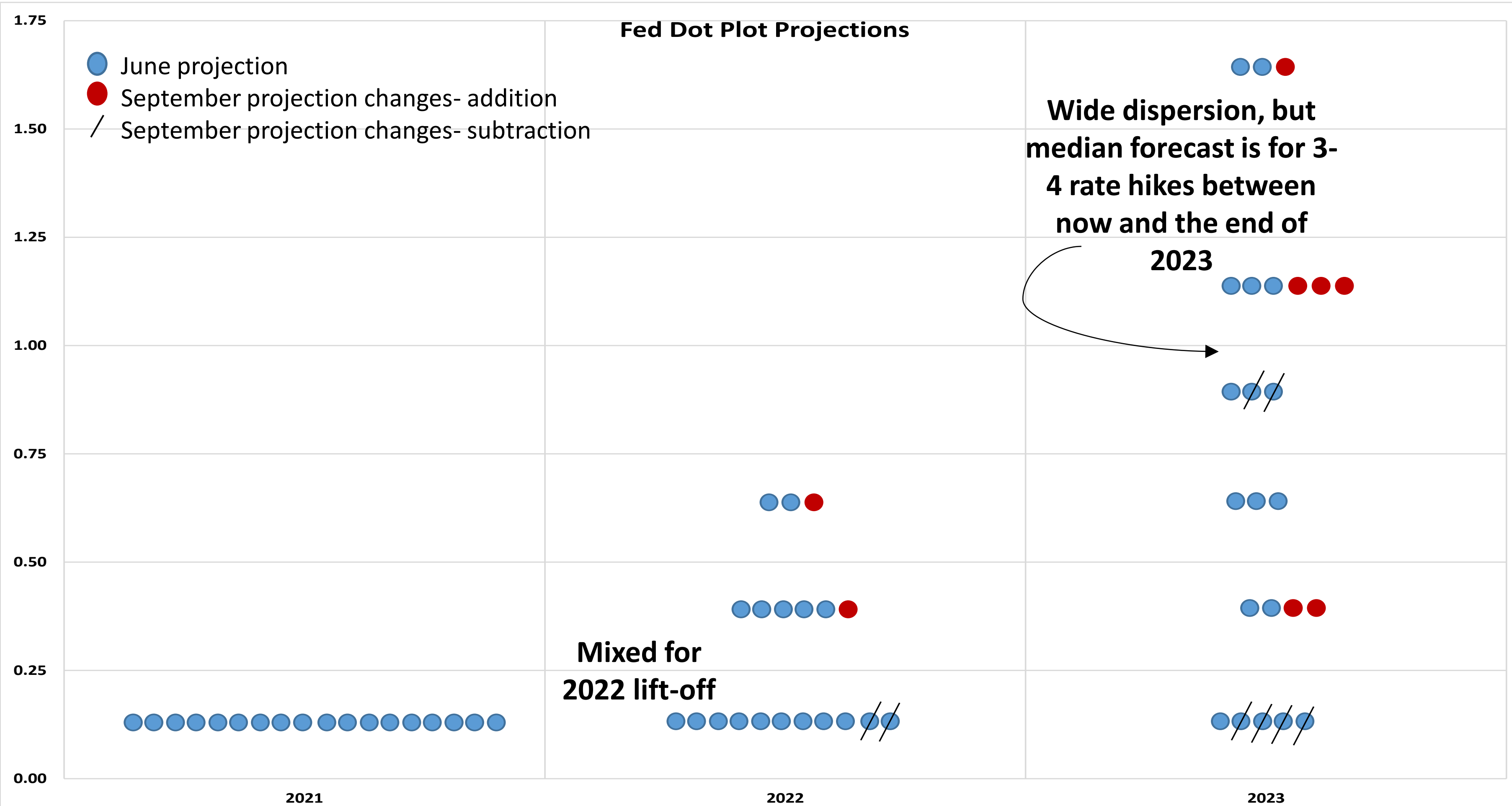


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Rate Hikes

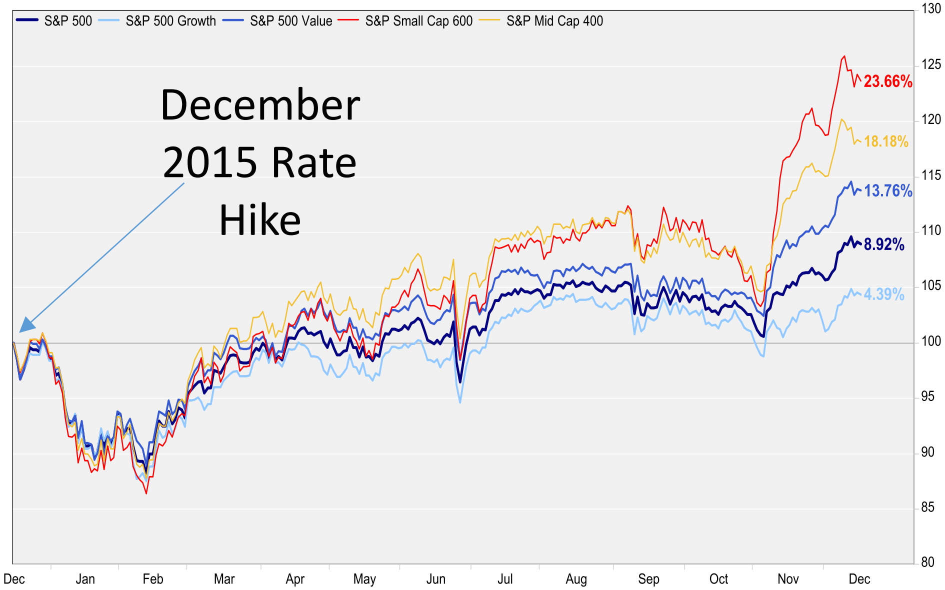
Odds are increasing of a possible rate hike in 2022 with the recent dot plot showing that members are split between rates remaining near-zero through the end of 2022 and one rate hike. However, looking forward, there is a wide dispersion in 2023 and beyond where rates could go with the median projection of 3-4 rate hikes between now and the end of 2023. We will continue to monitor the Fed's actions, but as we will look on the next page, the market environment (not only rate hikes) is likely a bigger determinant of returns in equity markets.

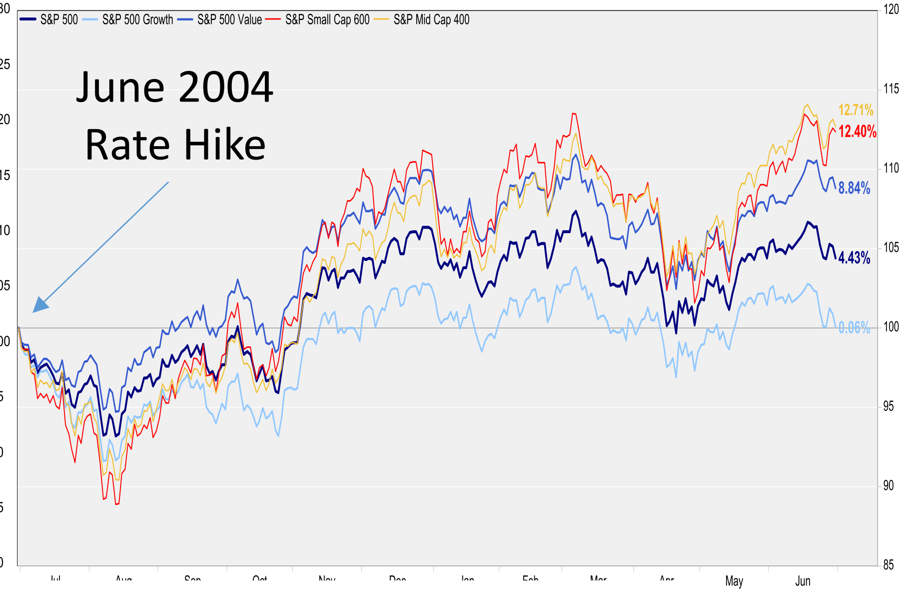


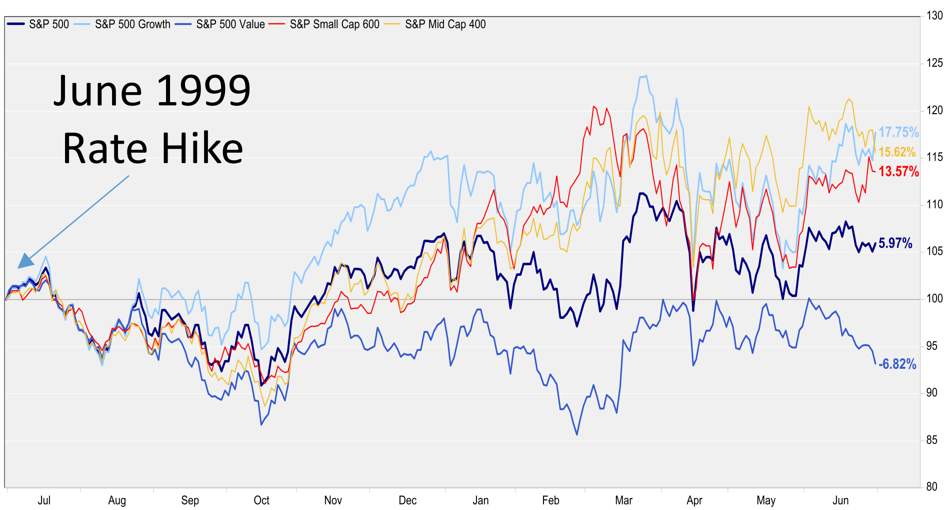
Source: FactSet and RJ Equity Portfolio & Technical Strategy

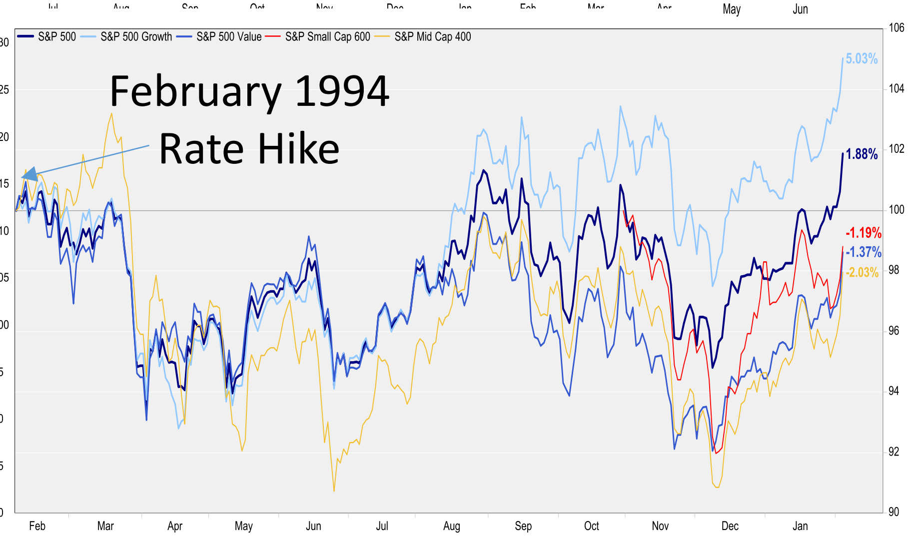
Charts as of 10/1/2021

Performance Following Rate Hikes









Source: FactSet and RJ Equity Portfolio & Technical Strategy

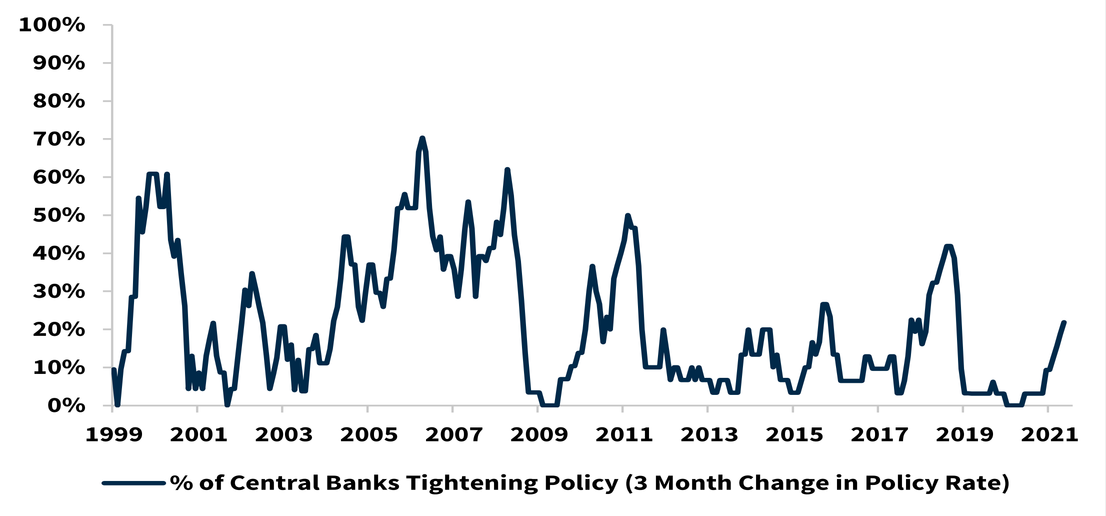
Charts as of 10/1/2021

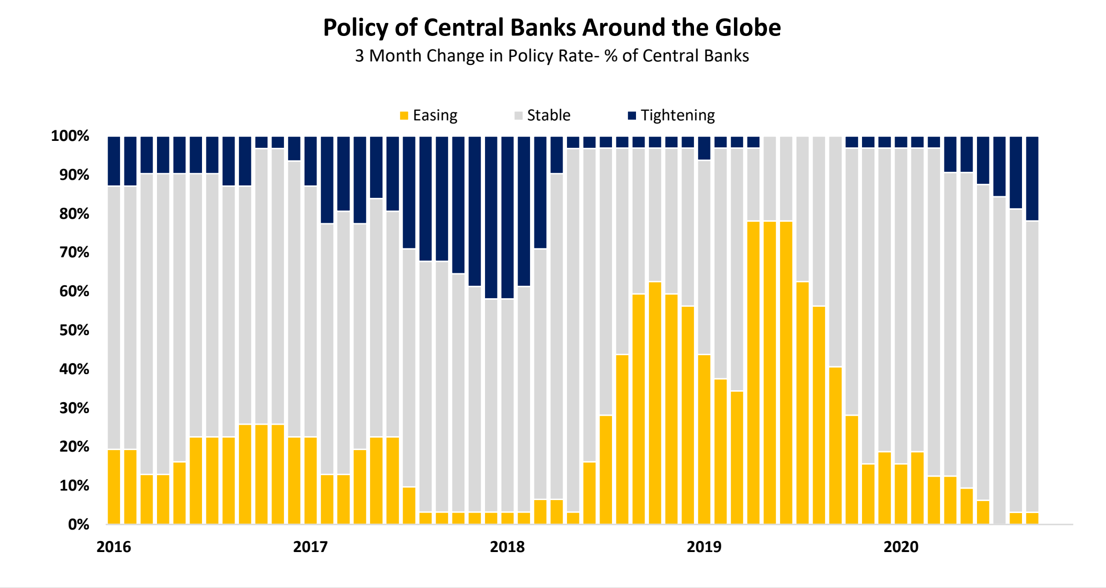
Central Banks Around the Globe

Of the 32 central banks, we track, 7 have raised rates in the last 3 months which include:

- ✓ Brazil (Emerging Markets)*
- ✓ Chile (Emerging Markets)*
- ✓ Hungary (Emerging Markets)*
- ✓ Iceland (Frontier Markets)*
- ✓ Mexico (Emerging Markets)*
- ✓ Peru (Emerging Markets)*
- ✓ Russia (Emerging Markets)*

The only country that lowered rates is **China** (Emerging Markets)*



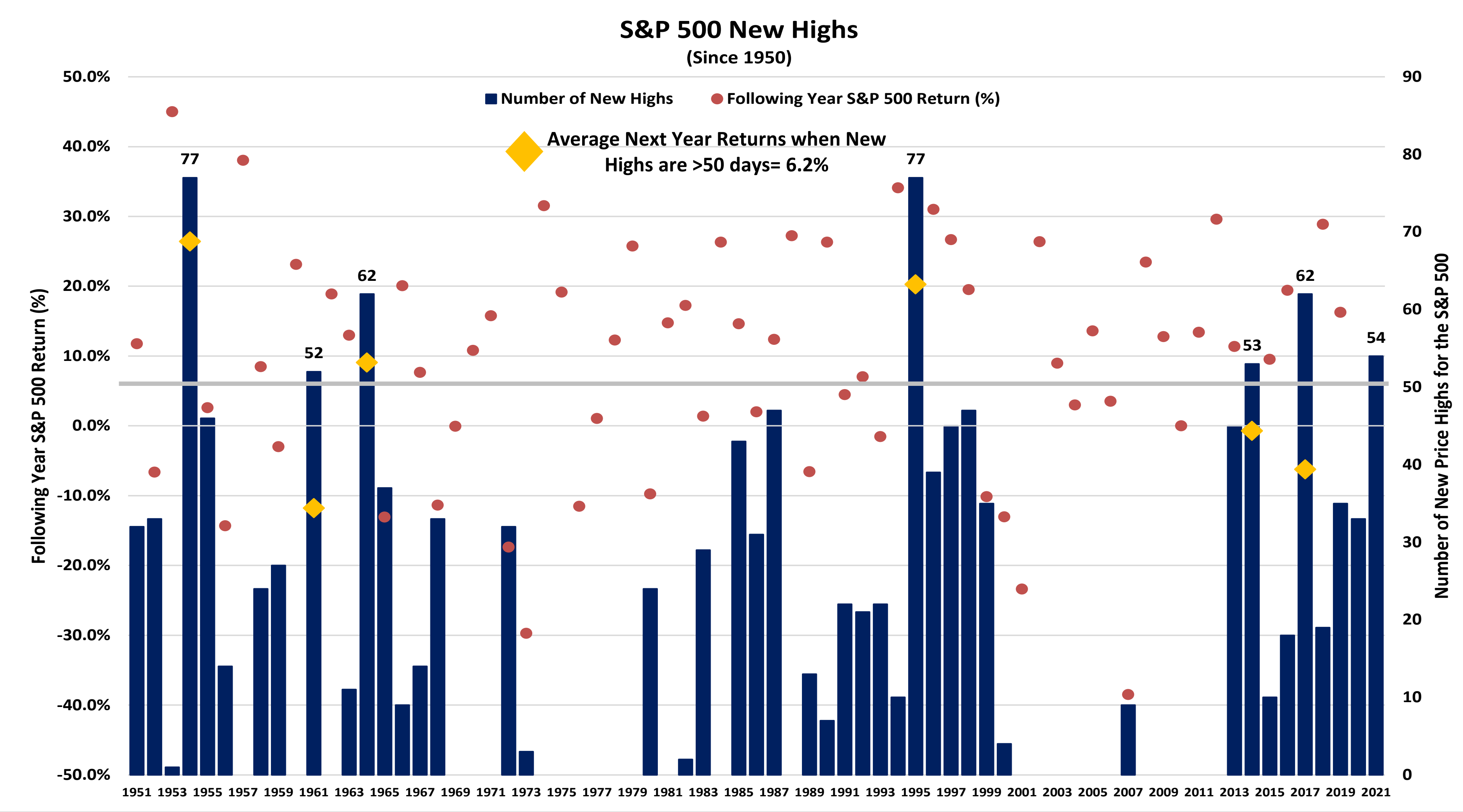


Source: FactSet and RJ Equity Portfolio & Technical Strategy
*Based on MSCI's classification

Charts as of 10/1/2021

New Highs

YTD there have been 54 new closing highs. Looking back since 1950, there have been 6 years in which the number of new highs was above 50, with the average return in the next calendar year at 6.2%. Our base case 2022 price objective is for a price return of 7.3%.

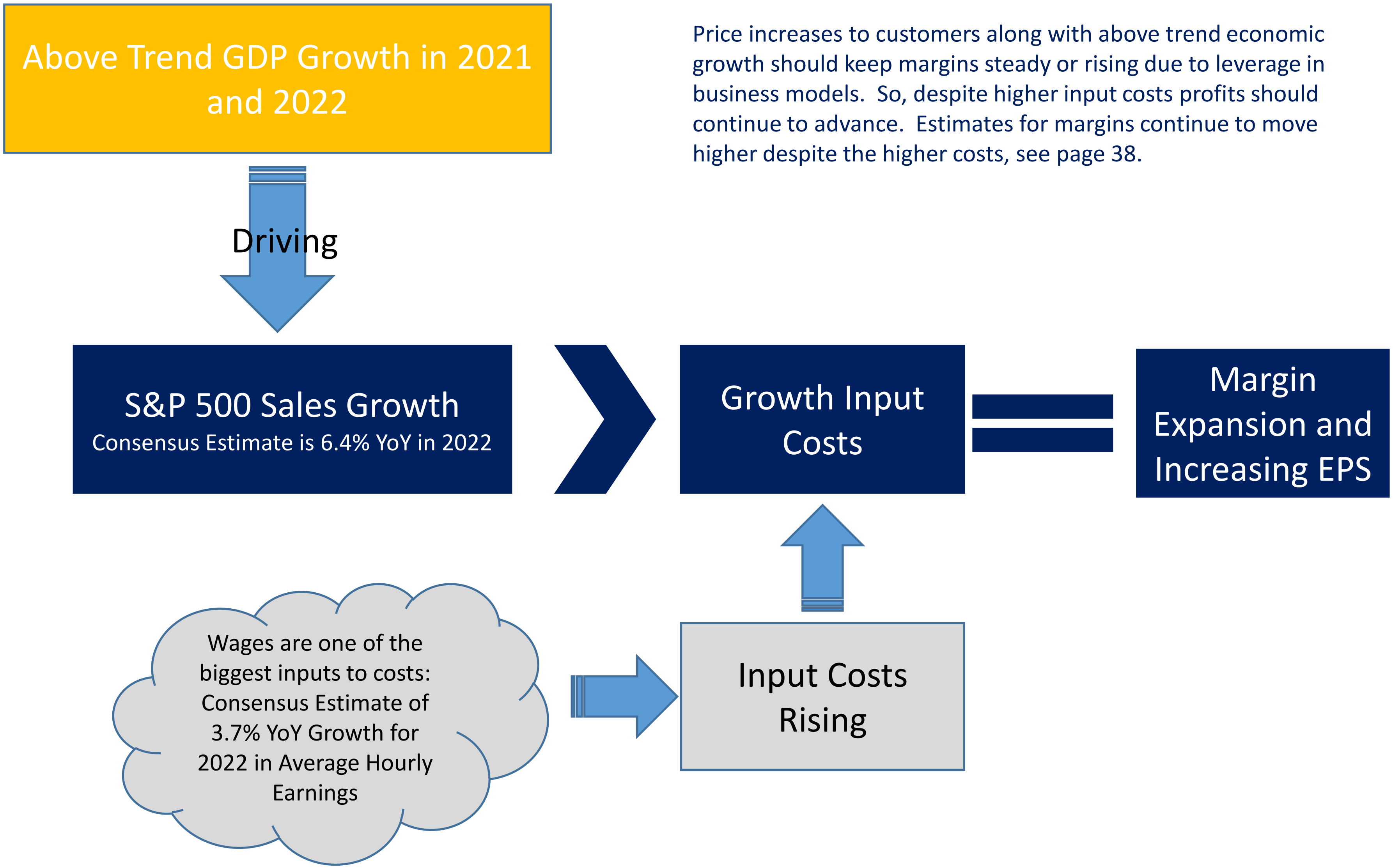


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

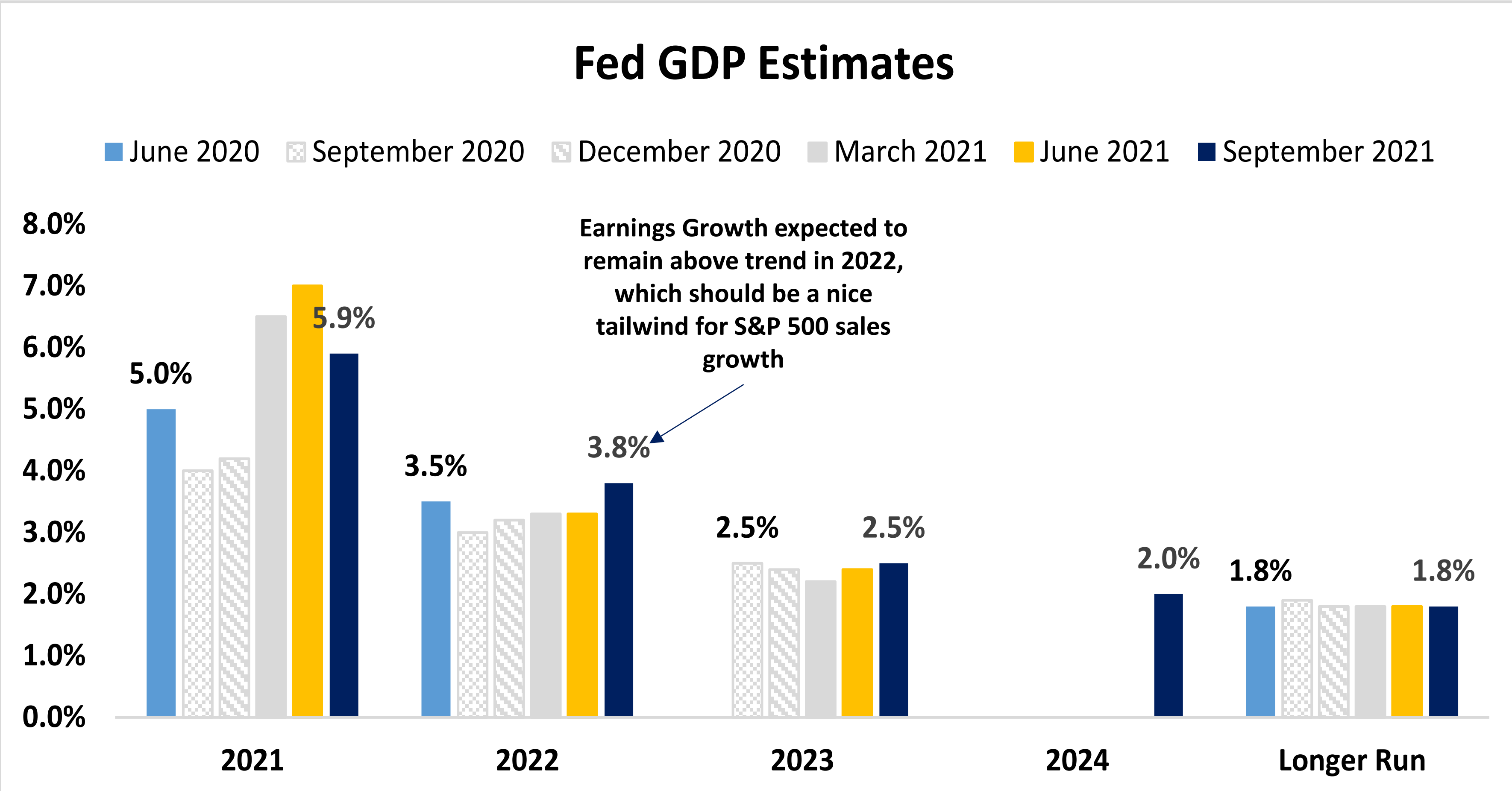
Drivers of Earnings Growth

Price increases to customers along with above trend economic growth should keep margins steady or rising due to leverage in business models. So, despite higher input costs profits should continue to advance. Estimates for margins continue to move higher despite the higher costs, see page 38.



GDP Estimates

After revising 2021 estimates higher since vaccines became available in late 2020/early 2021, the Fed recently revised its 2021 GDP estimates lower as Delta variant fears and supply chain issues likely pushed out some of the GDP growth rebound to 2022, which is now expected to see faster growth than prior expectations. For 2021, the latest estimates are for 5.9% GDP growth YoY (down from 7%) and for 2022, estimates were revised higher to 3.8% (from prior estimates of 3.3%). Long-run GDP growth estimate remains 1.8%.

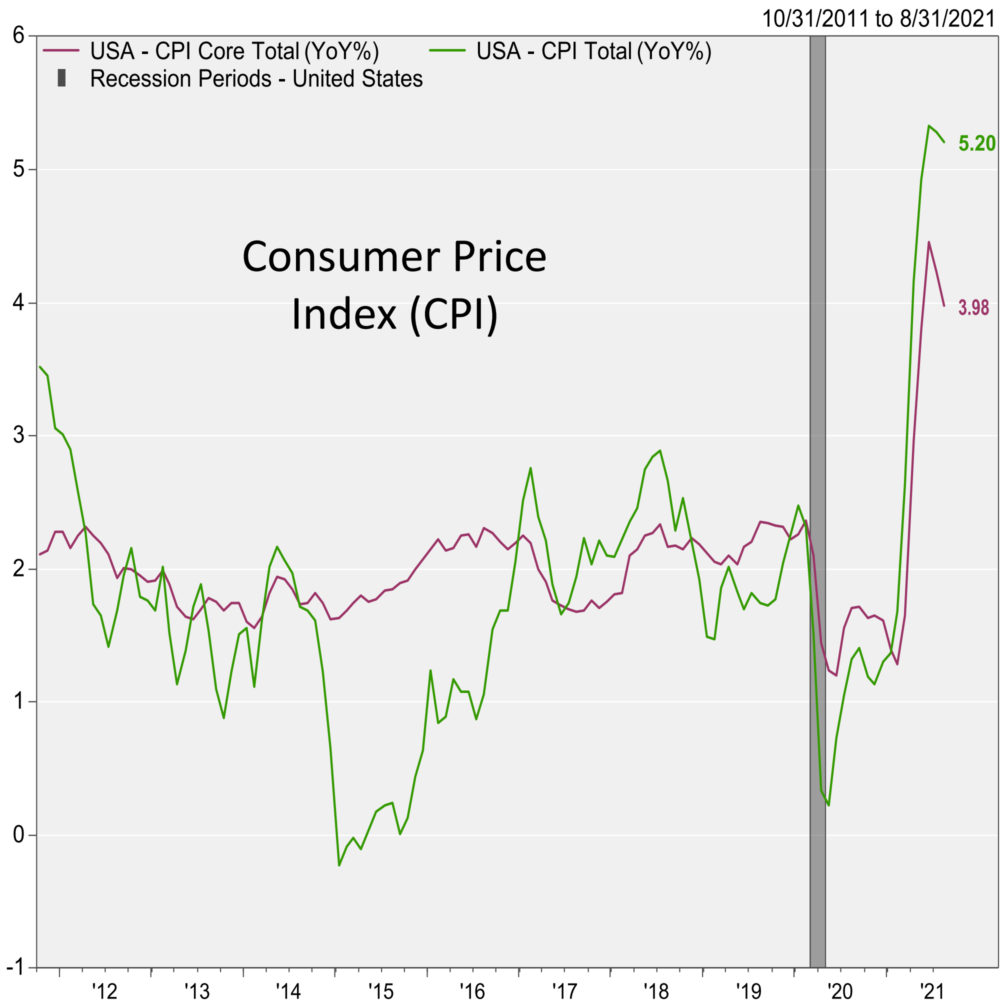


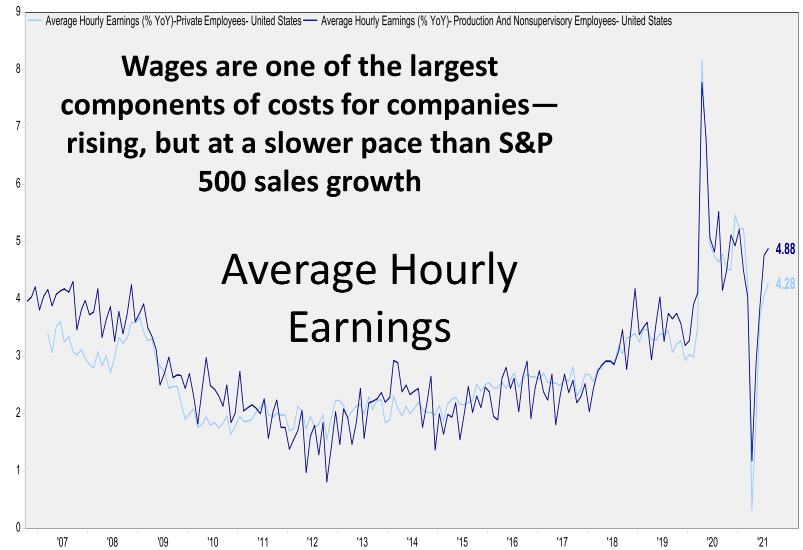
Source: FactSet and RJ Equity Portfolio & Technical Strategy

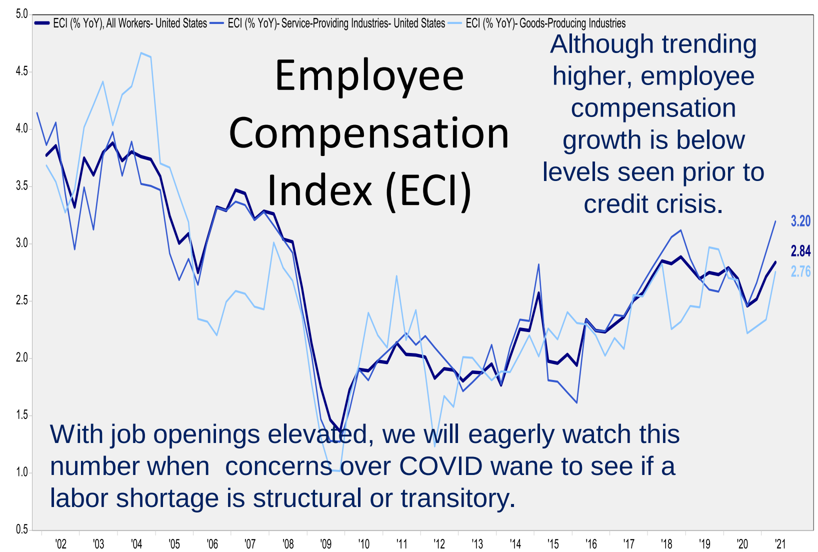
Charts as of 10/1/2021

Input Costs Rising

Until the supply chain normalizes and the re-opening gains steam, it is difficult to determine how sticky the rising costs will be.



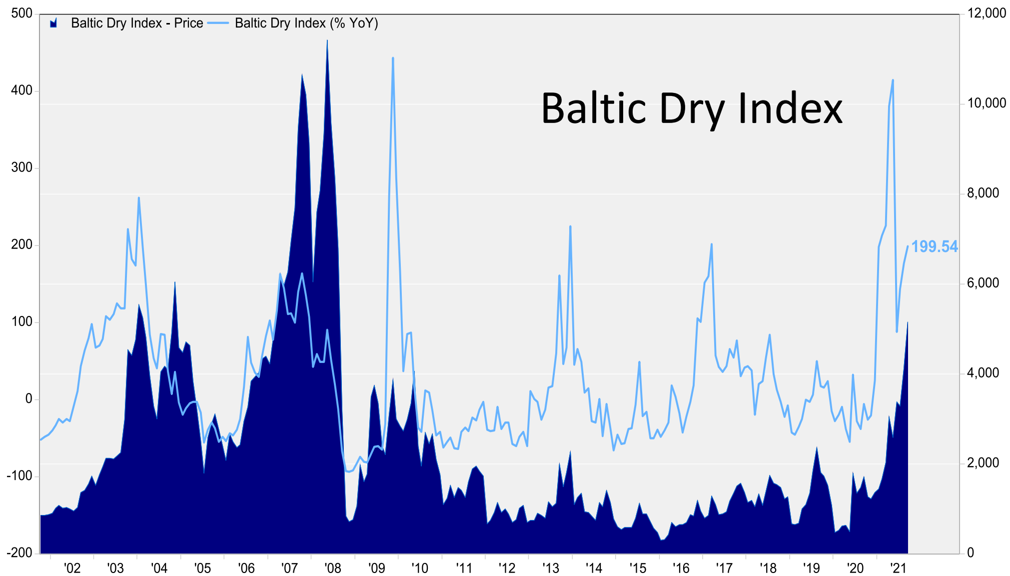


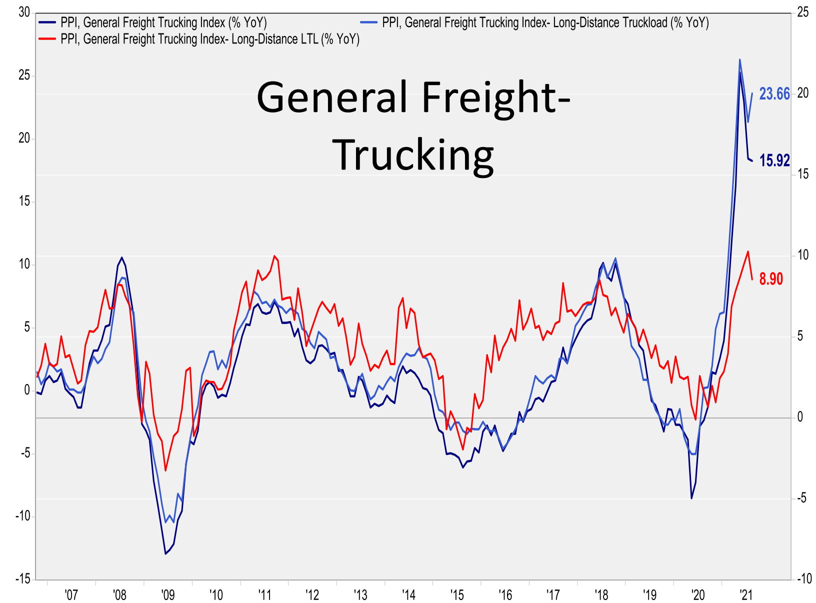


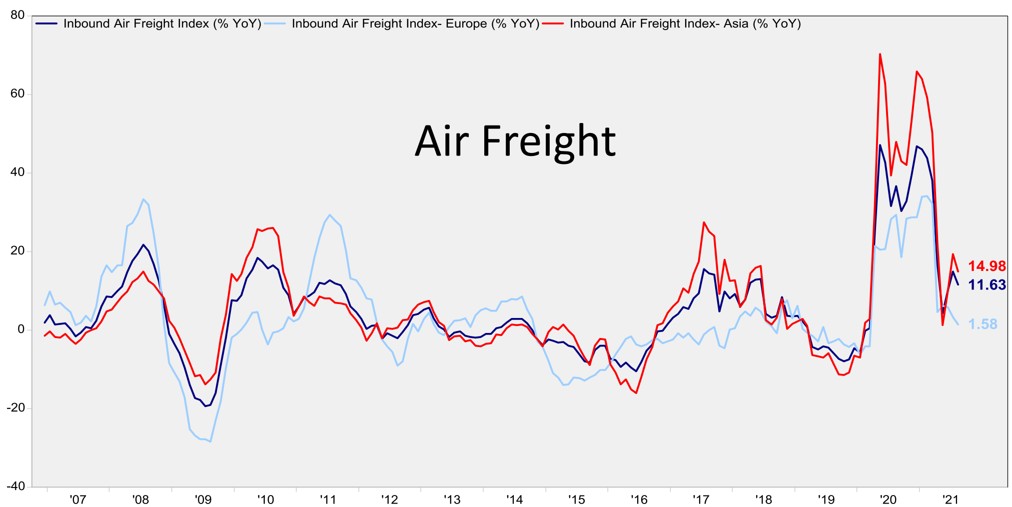
Source: FactSet and RJ Equity Portfolio & Technical Strategy

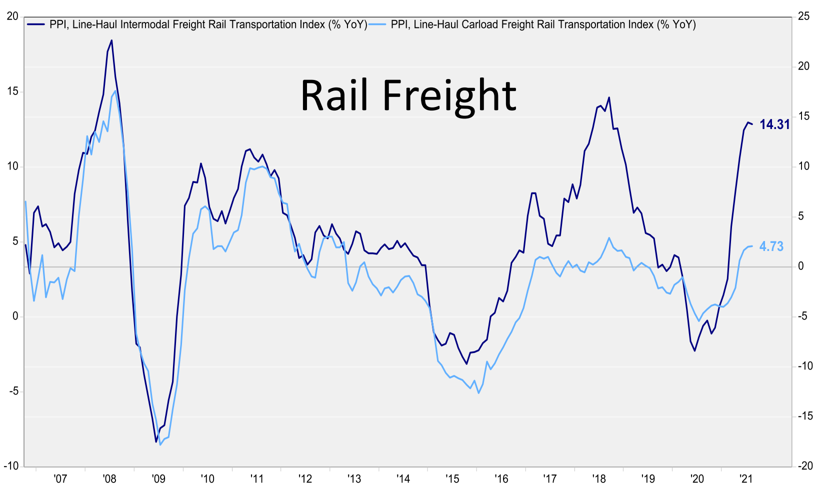
Charts as of 10/1/2021

Input Costs Rising





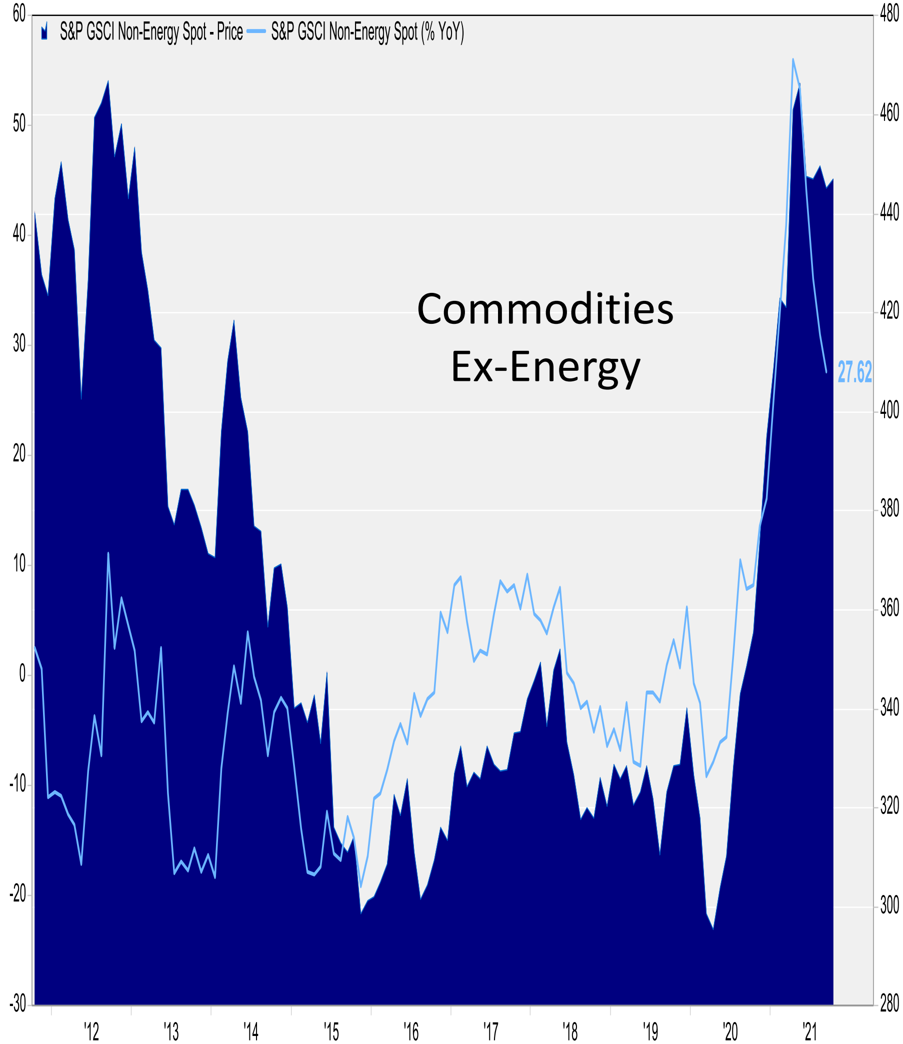


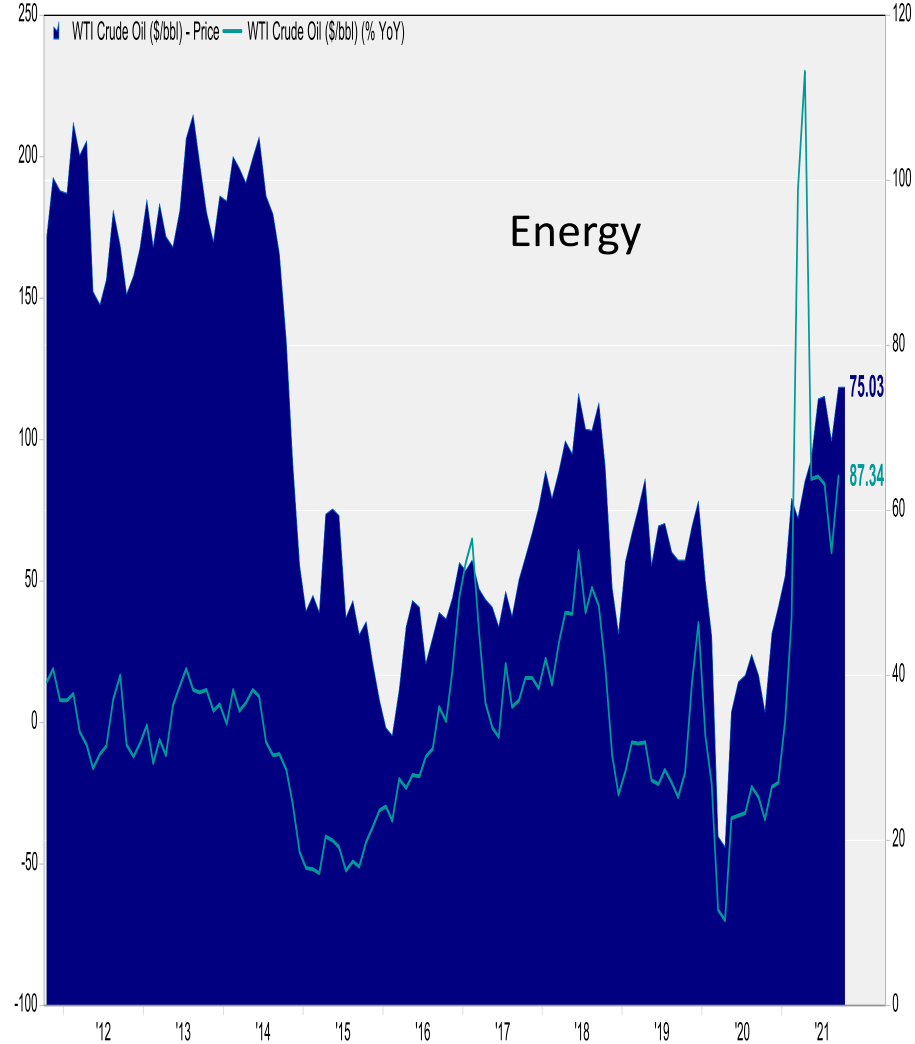


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Input Costs Rising



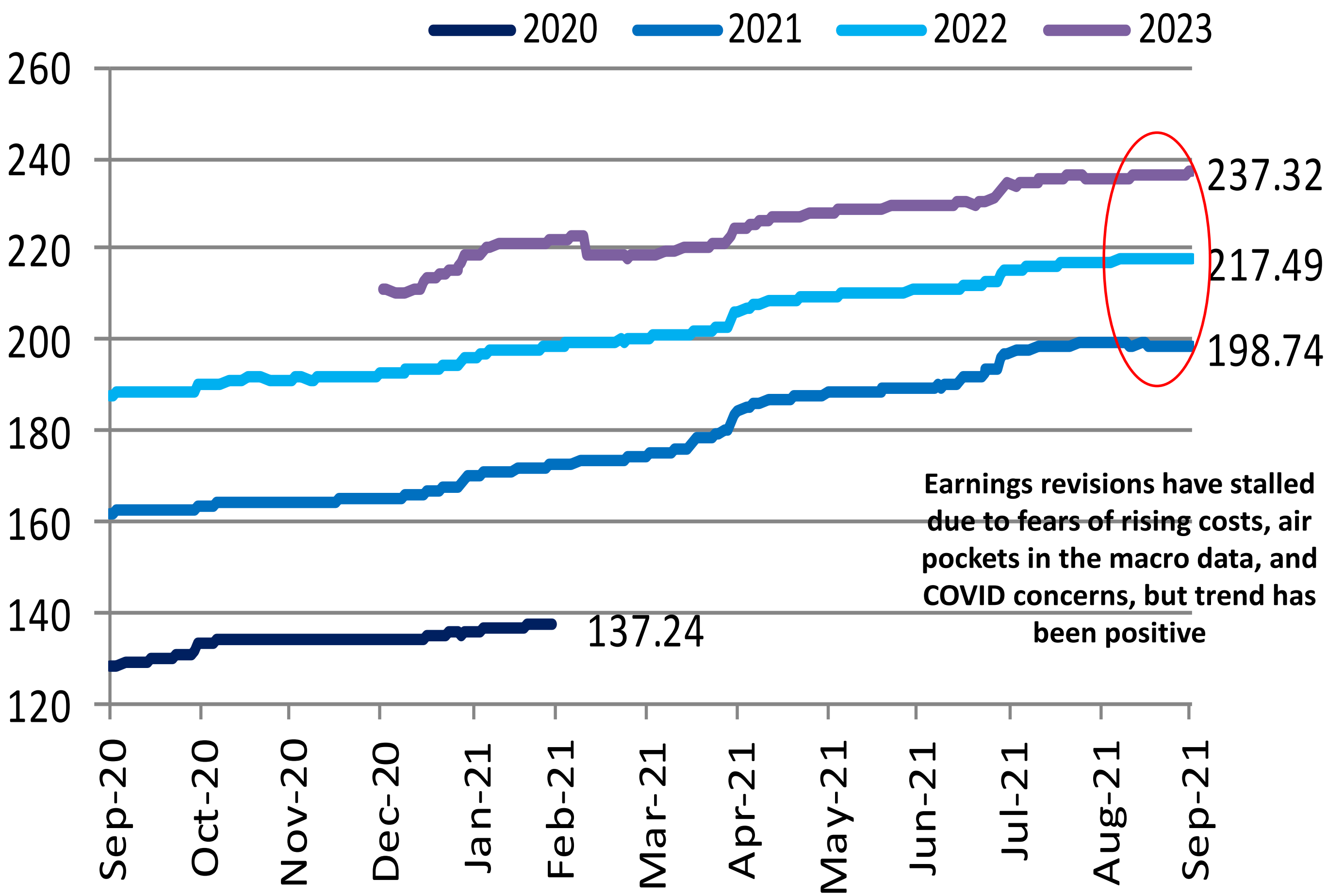


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

EPS Growth

S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2020	-14.2%
2021	44.8%
2022	9.4%
2023	9.1%

Growth remains robust as S&P 500 sales growth is expected to exceed growth in input costs

Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Searching For Divergences

Often actual data or trading patterns differ from the logical belief based on the current headlines. The tables and charts on the following slides reflect a point/ counter-point review of the recent headlines. The results influence our positive bias for equities.

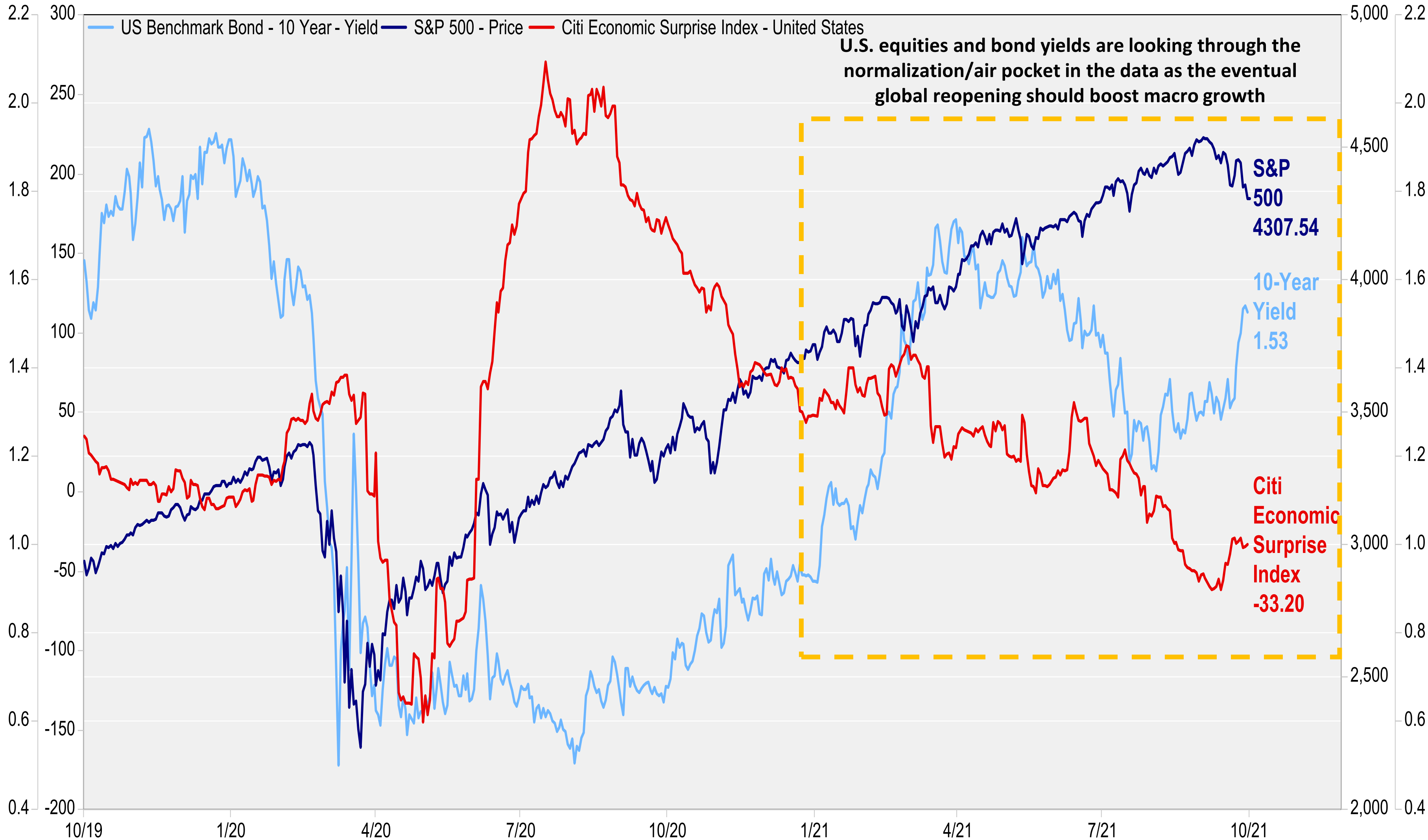
Headline	Reality
US macro data is softening as the momentum in economic surprises wane	U.S. equities and bond yields are looking through this normalization/air pocket in the data as the future outlook looks promising
GDP estimates for 2021 were revised lower by the Fed due to COVID cases, rising inflation, and on-going supply issues indicating some slowing momentum in the macro	Equities maintain a risk-on bias as the relative performance of Staples remains weak and credit spreads remain contained, which typically would widen if the macro was a concern
Largest YTD drawdown is only 5.7%, so we are due for a larger drawdown by year end	Historically, if the max drawdown in the first 6 months of the year is less than 6%, on average the max drawdown for the remainder of the year is only 6.62% and the average return is 6.82%, which would put us at ~4600 by year end
The current market reflects narrowing participation. Narrow trading markets are vulnerable to substantial decline	With other factors positive, the narrowness being seen may point to a modest pullback only
Rising COVID cases and slower TSA throughput should be a hindrance to the re-opening trade and specifically the airlines stocks	New daily cases now appear to be on the decline and despite some softening in the TSA throughput data, the reopening stocks and airlines stocks were recently able to find support and seeing relative performance improve off of support, which we believe is a positive
Defensive stocks should outperform when there is fear that the macro is slowing	Defensive stocks have underperformed during periods of uncertainty as COVID cases were on the rise while the pandemic winners were better performers during these periods—maintain our bias towards cyclical and pandemic winners over the defensive sectors

Source: FactSet and RJ Equity Portfolio & Technical Strategy

Headline	Reality
The market has risen too far, too fast, leaving it vulnerable to a large pullback	This is still a young bull market, and yes, the S&P 500 has seen strong gains off the bottom and some consolidation is likely, but we see more room to run for the market
Rising inflation and input costs are going to lead to margin pressure for S&P 500 companies	While input costs are on the rise and inflation is elevated currently, we believe some of this may be transitory as supply chain issues are adding pressure. Additionally, margins are still expected to increase YoY in 2021, 2022, and 2023.
Small caps will continue to under-perform large caps due to softening macro and potentially higher corporate taxes.	The relative performance of small-caps vs. large-cap growth has seen a high correlation to the 10-year yield. As long as yields are rising for the right reasons (improving macro), we see a potential tailwind for small-caps. Also, in 2021 and 2022, small-caps are expected to see better growth than large-caps at a more attractive valuation. Please note, we continue to like large-caps in diversified portfolios
Strength in the US Dollar, rising inflation, central banks hiking rates, slower roll-out of COVID vaccines, and the large contribution of China into the index are headwinds to Emerging Markets	Despite the recent breakout of the US Dollar, Emerging Markets are making higher lows in relative performance and relative performance of Emerging Market ex-China is constructive.
China is having issues as the macro slowdown, increasing government restrictions, and real estate defaults.	Despite this, China is making higher relative performance lows and is the only central bank that is easing rates—which should help soften the blow. Despite calls that the macro is slowing down, GDP growth for 2021 remains steady above 8% in 2021.
Valuations are too stretched and rising inflation will be a headwind to valuations	Despite the market moving higher, EPS growth has been able to far exceed the compression in multiples this year. Additionally, valuations have been much more resilient than we would have expected and can stay elevated given low interest rates.

Source: FactSet and RJ Equity Portfolio & Technical Strategy

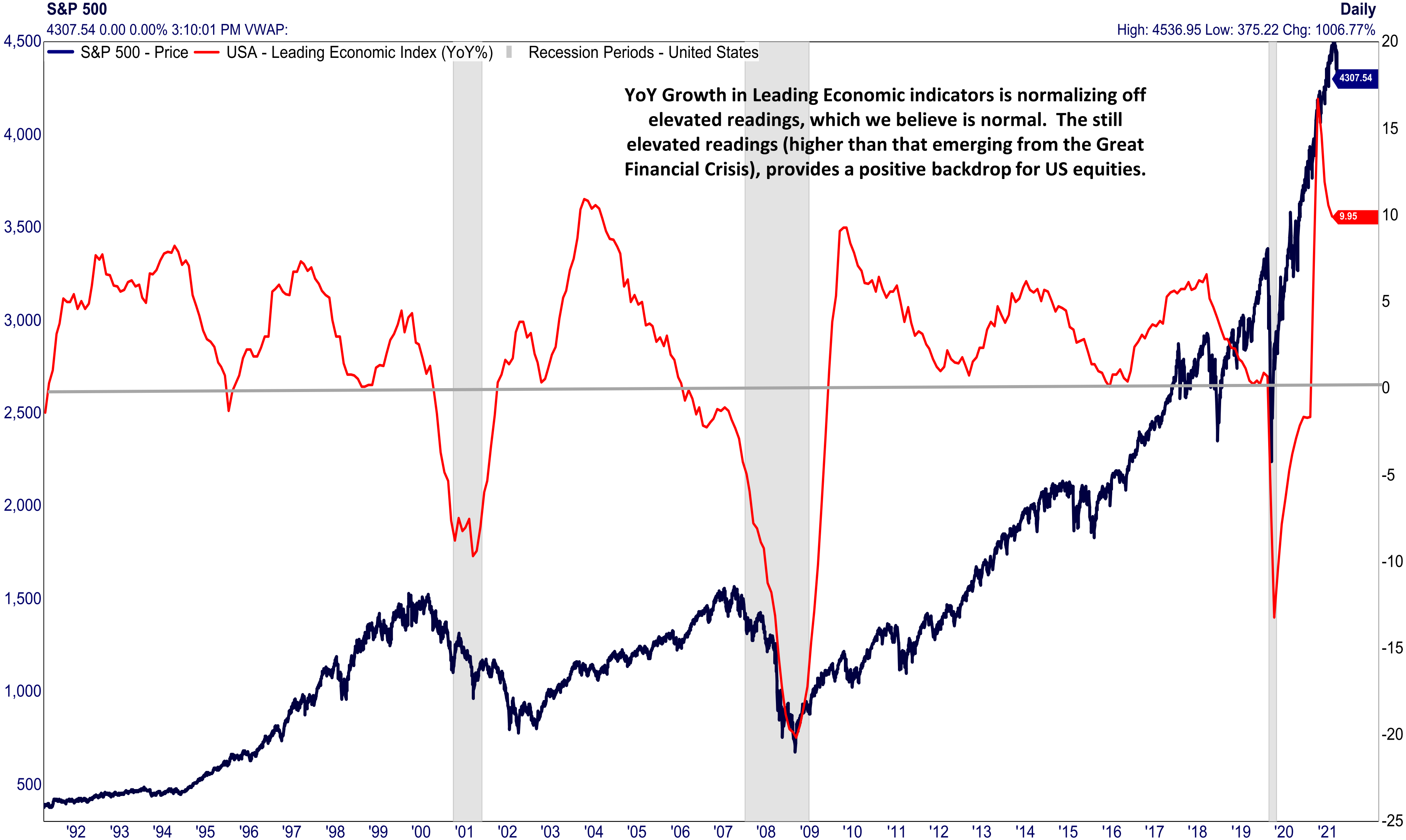
Markets Looking Through Air Pockets in Data



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

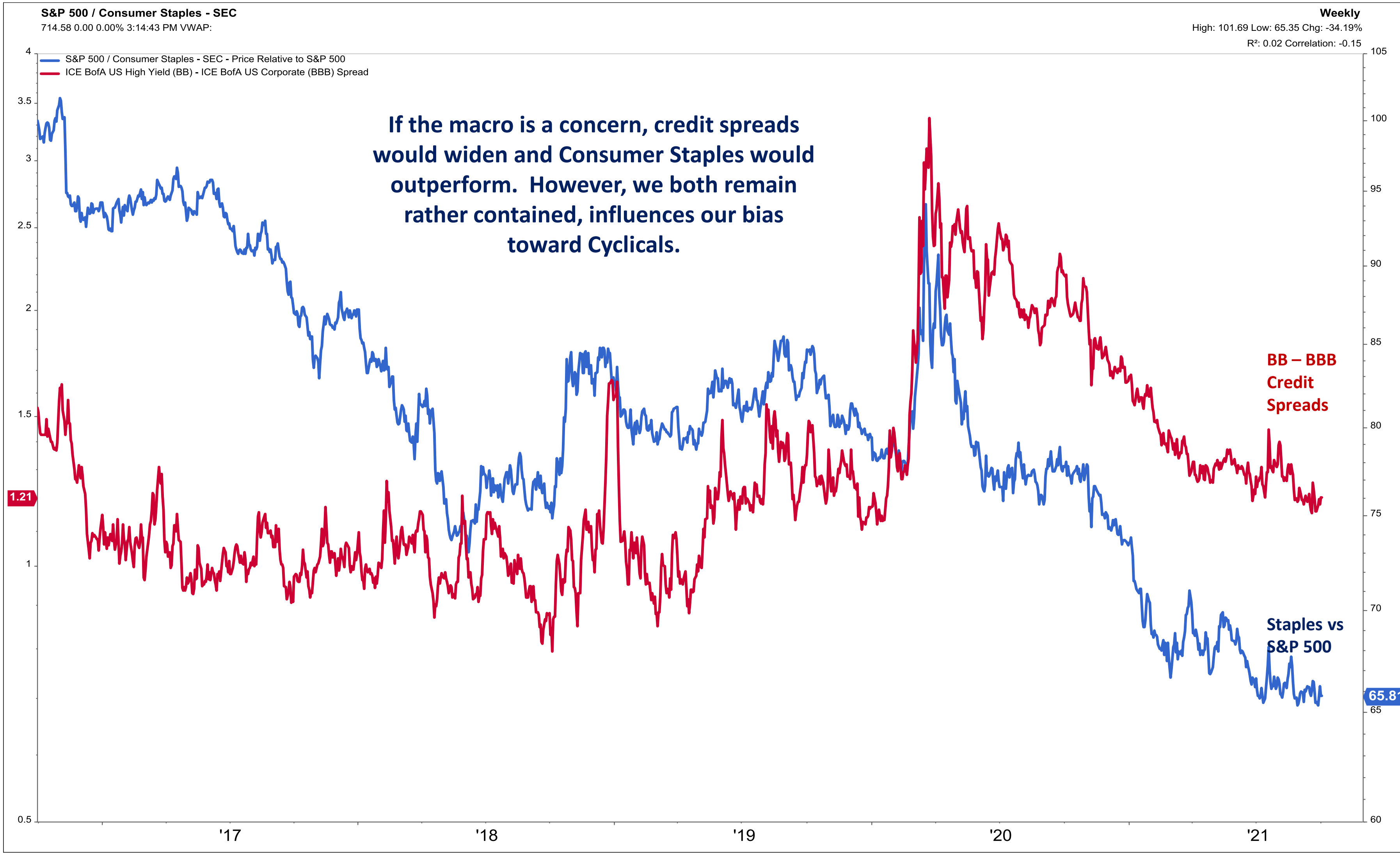
Markets Looking Through Air Pockets in Data



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Markets Looking Through Air Pockets in Data



Source: FactSet and RJ Equity Portfolio & Technical Strategy

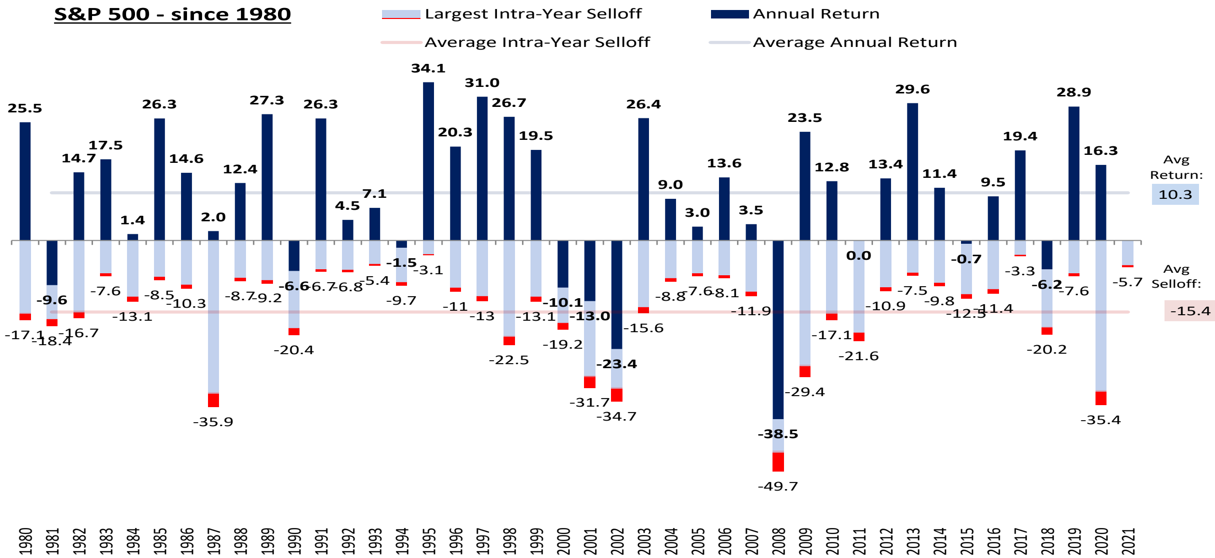
Charts as of 10/1/2021

Intra-year Pullback

The S&P 500 has not experienced a "normal" intra-year pullback. So far, YTD, the largest pullback has been 5.7%, which is well below the historical intra-year sell off during bull markets of 8-12% and below the normal drawdown of 12.9% in the second year of a recovery from bear market lows. While we see the potential for some consolidation in the near-term, historically a large drawdown in the second half is not the case (average is only 6.62%) when the max drawdown in the 1H of the year is below 6%. Additionally, the average return for the 2H of the year when drawdowns are below 6% in the 1H of the year are +6.82%. Using the average returns, the S&P 500 would end ~4600 by year end.

Pullbacks are normal, even in the bull market years.

When the 1st half of the year produces a pullback of less than 6%, like 2021, the balance of the year is often good.



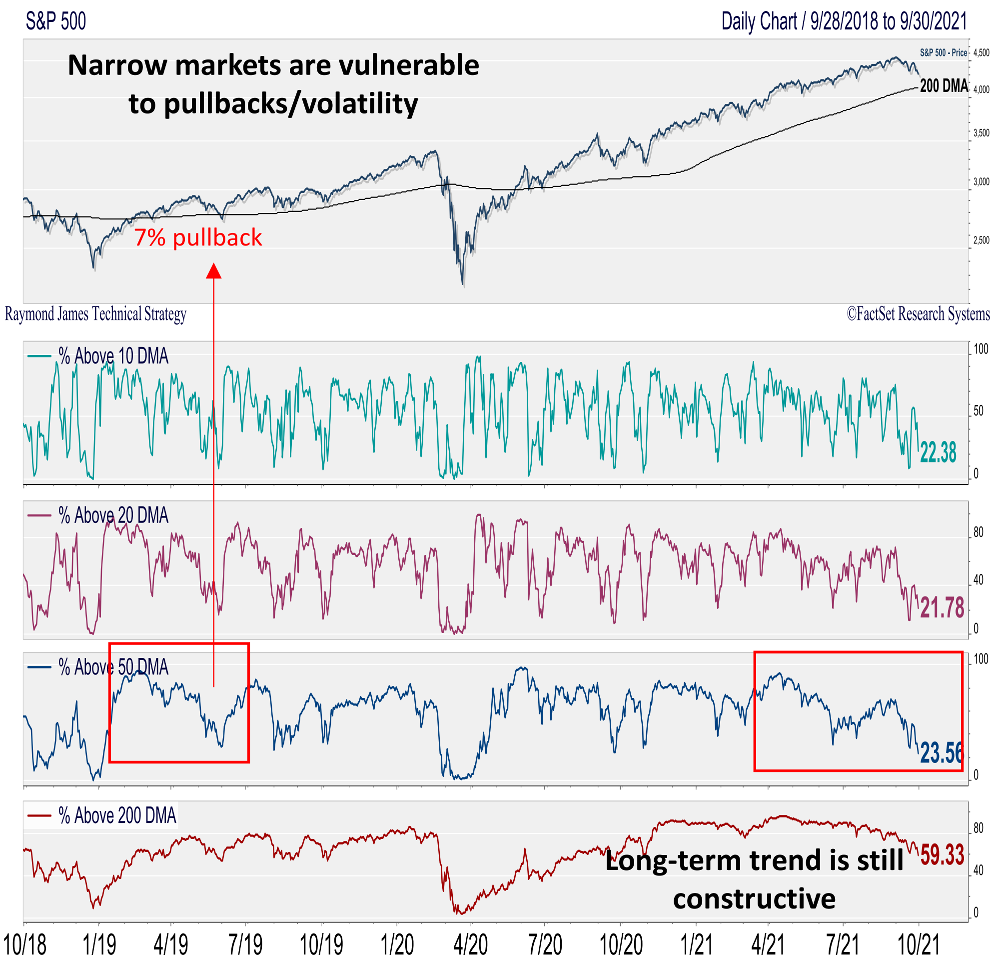
If First 6mo Has Max Drawdown Less Than -6%		If First 6mo Has Max Drawdown Between -6% & -12%		If First 6mo Has Max Drawdown Greater Than -12%	
Average Return For Next 6mo	6.82%	Average Return For Next 6mo	2.25%	Average Return For Next 6mo	4.84%
Median For Next 6mo	4.89%	Median For Next 6mo	3.84%	Median For Next 6mo	9.18%
Average DD For Next 6mo	-6.62%	Average DD For Next 6mo	-11.41%	Average DD For Next 6mo	-16.53%
Max DD For Next 6mo	-13.00%	Max DD For Next 6mo	-35.90%	Max DD For Next 6mo	-49.40%
Occurrences	19	Occurrences	42	Occurrences	31
Wins At End Of Year	16	Wins At End Of Year	27	Wins At End Of Year	19
Win Rate End Of Year	84%	Win Rate End Of Year	64%	Win Rate End Of Year	61%

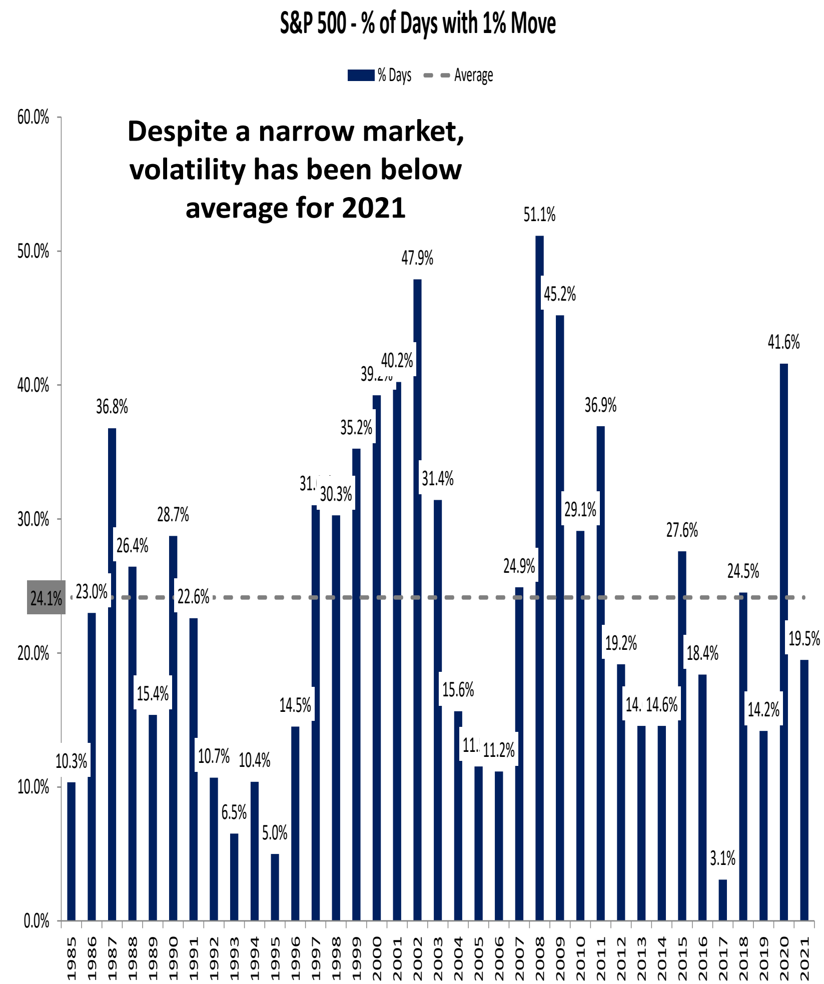
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Narrow Markets

The US equity market remains in a narrowing trend (fewer stocks going up), as witnessed by the % of stocks trading above their respective 50- day and 200-day moving averages. Often, narrow markets end with, *at least*, a pullback. Reflected below is a previous narrowing period in 2019. The period ended with just a 7% equity market pullback. The current narrowness leaves the US equity market vulnerable. However, considering other factors (above trend macro and earnings growth ahead), any developing weakness is likely to be modest.

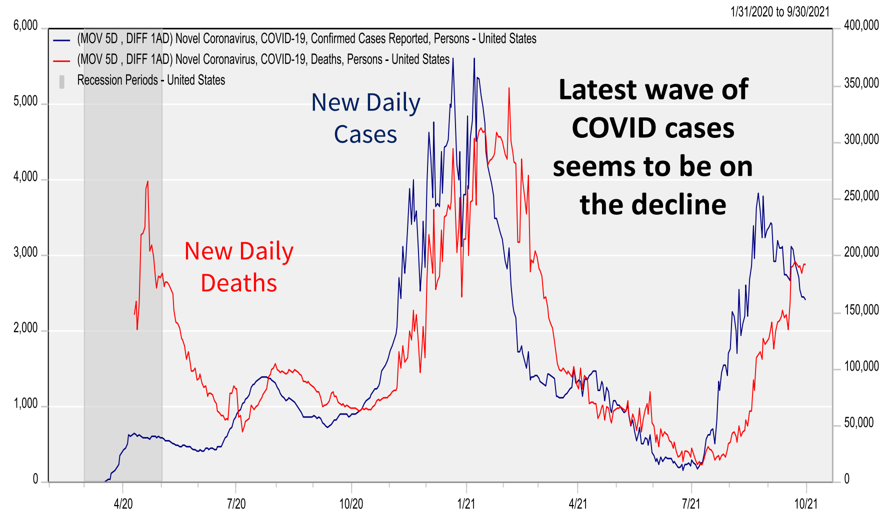


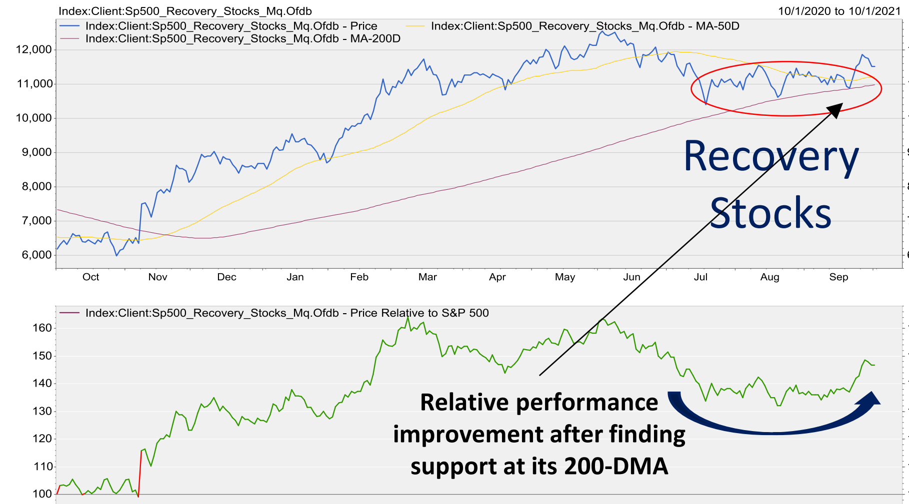


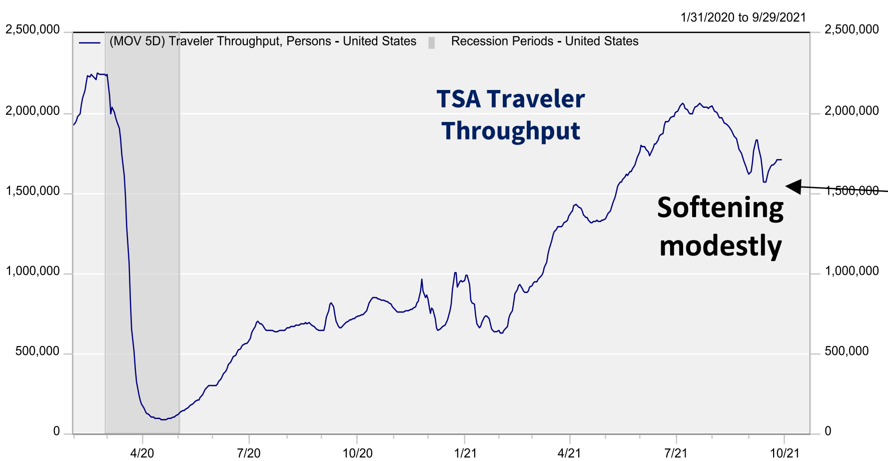
Source: FactSet and RJ Equity Portfolio & Technical Strategy

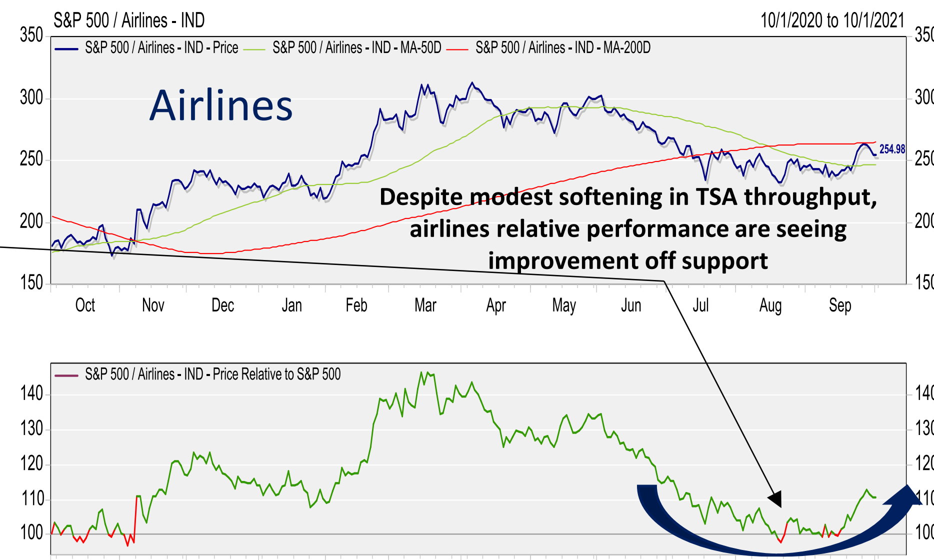
Charts as of 10/1/2021

Re-Opening Slowdown





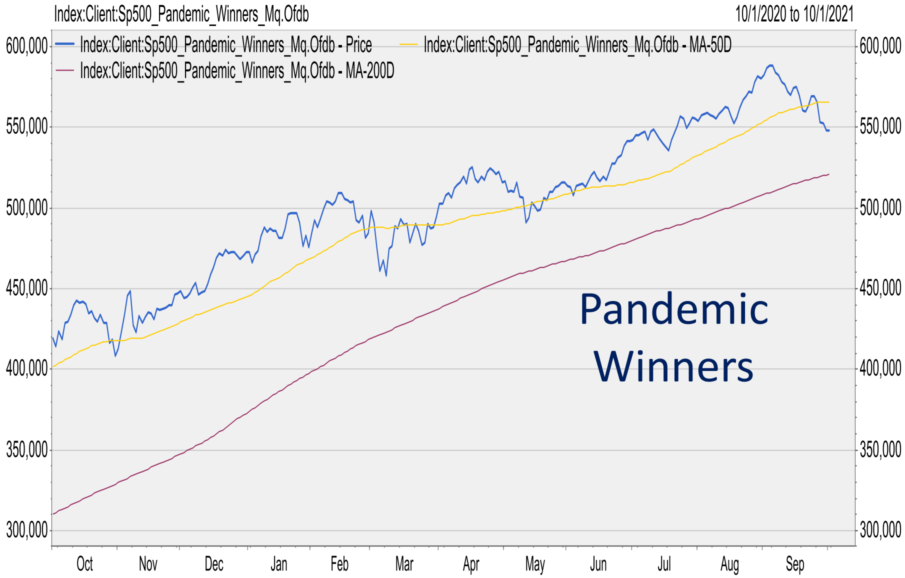


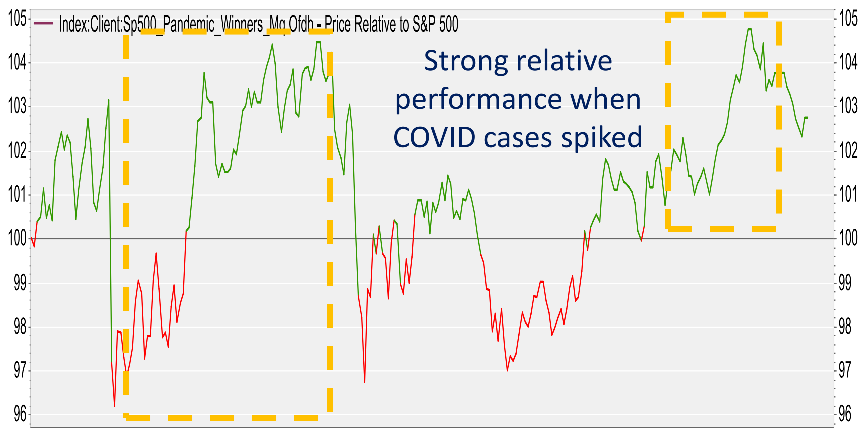


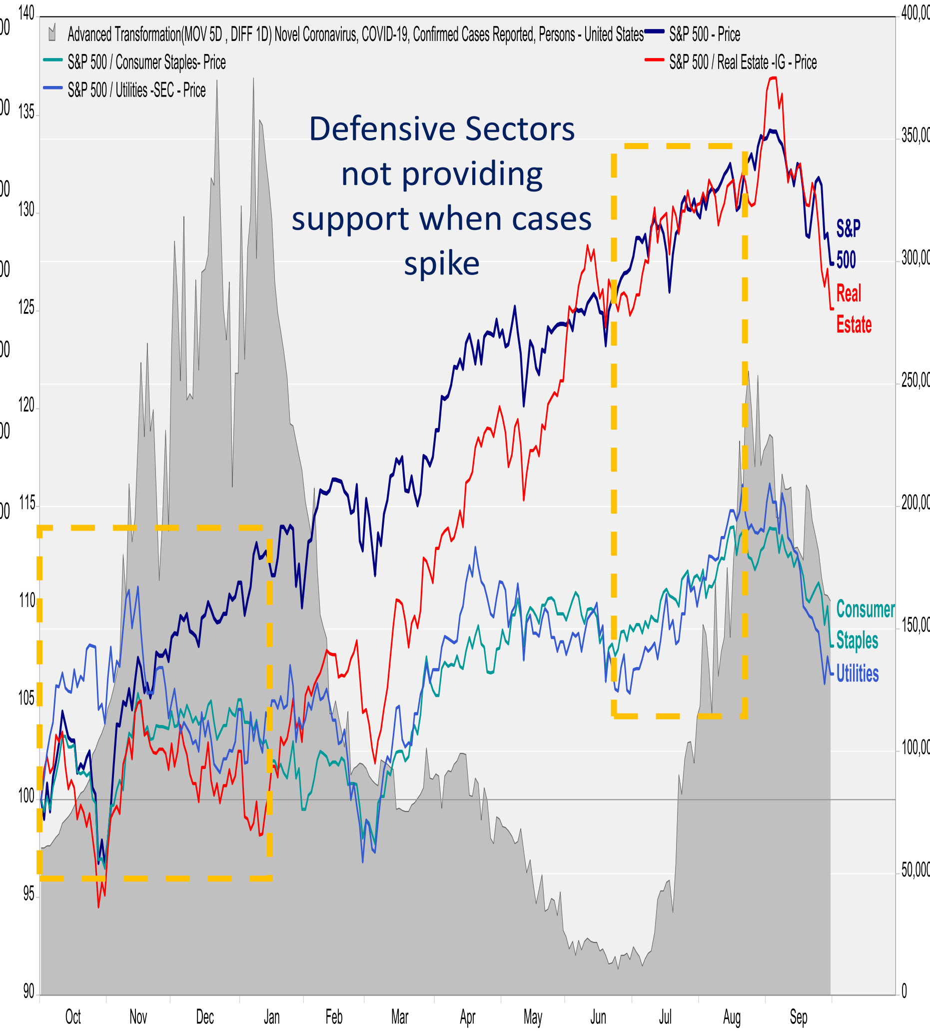
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Pandemic Winners vs. Defensives







Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Young Bull Market

The S&P 500 has risen 98% from the March 2020 lows, which are strong gains. However, we believe there is still room to run as the bull market is relatively young compared to prior bull markets. Historically, the average length is 1233 days, or ~5 years with gains of 155%. While the current bull market has seen gains of 98% over just under 400 days, this is well below the average length and gains in a bull market.

Bull Markets

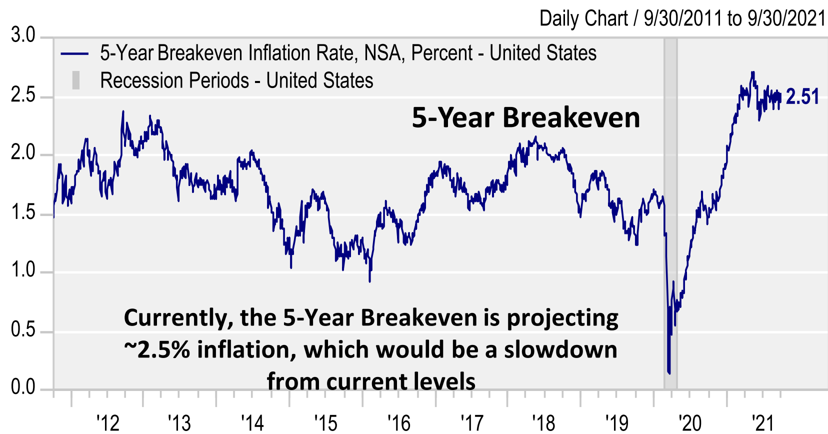
Trough	Peak	Price Change	# of Days
6/13/1949	8/2/1956	267%	1,789
10/22/1957	12/12/1961	86%	1,042
6/26/1962	2/9/1966	80%	913
10/7/1966	11/29/1968	48%	516
5/26/1970	1/11/1973	74%	665
10/3/1974	11/28/1980	126%	1,555
8/9/1982	8/25/1987	231%	1,277
10/20/1987	7/16/1990	71%	691
10/11/1990	7/20/1998	304%	1,963
10/8/1998	3/24/2000	68%	368
10/10/2002	10/11/2007	105%	1,259
3/6/2009	2/19/2020	396%	2,758
Average		***155%***	***1233***
3/23/2020		98%	398

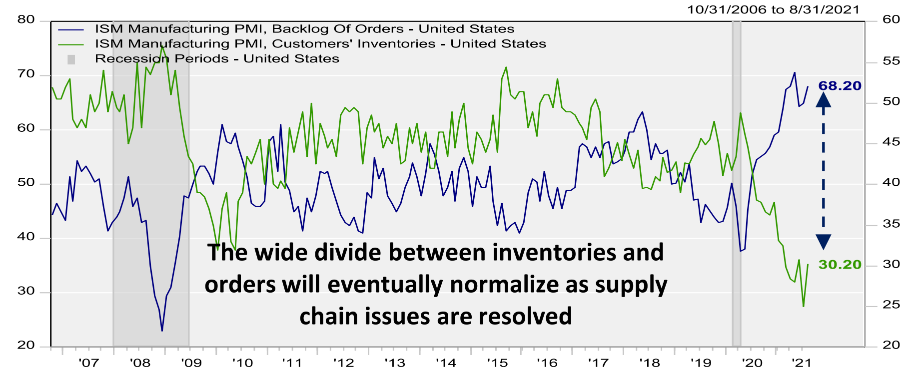
Source: FactSet and RJ Equity Portfolio & Technical Strategy

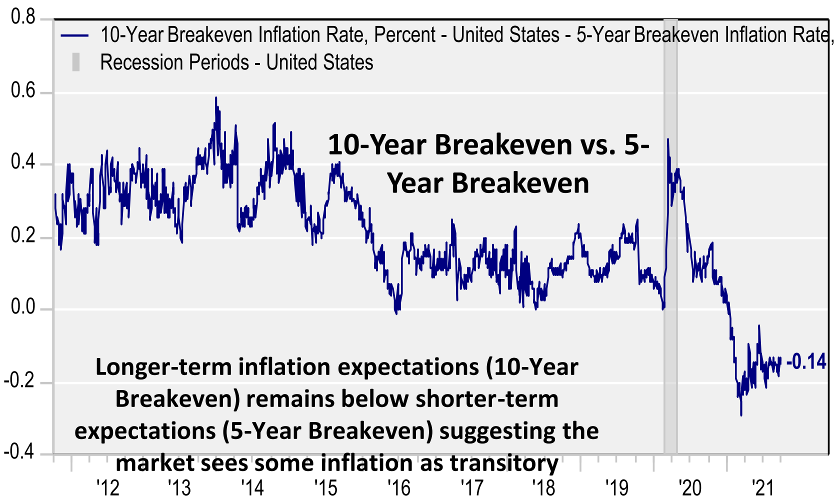
Charts as of 10/1/2021

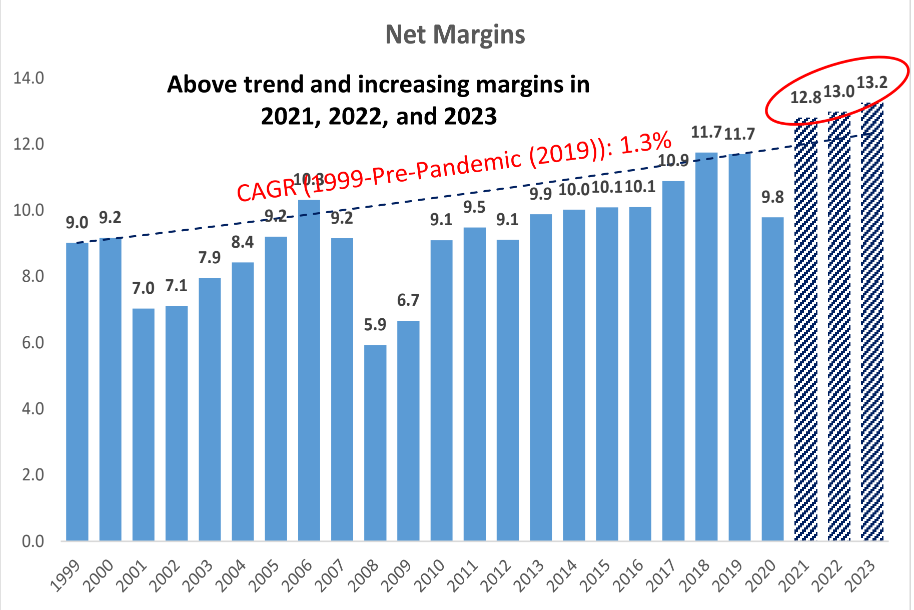
Inflation and Margins

Despite rising input costs, net margins are projected to be above trend and increase in 2021, 2022, and 2023. We believe some of the rising costs are transitory and due to supply chain issues.





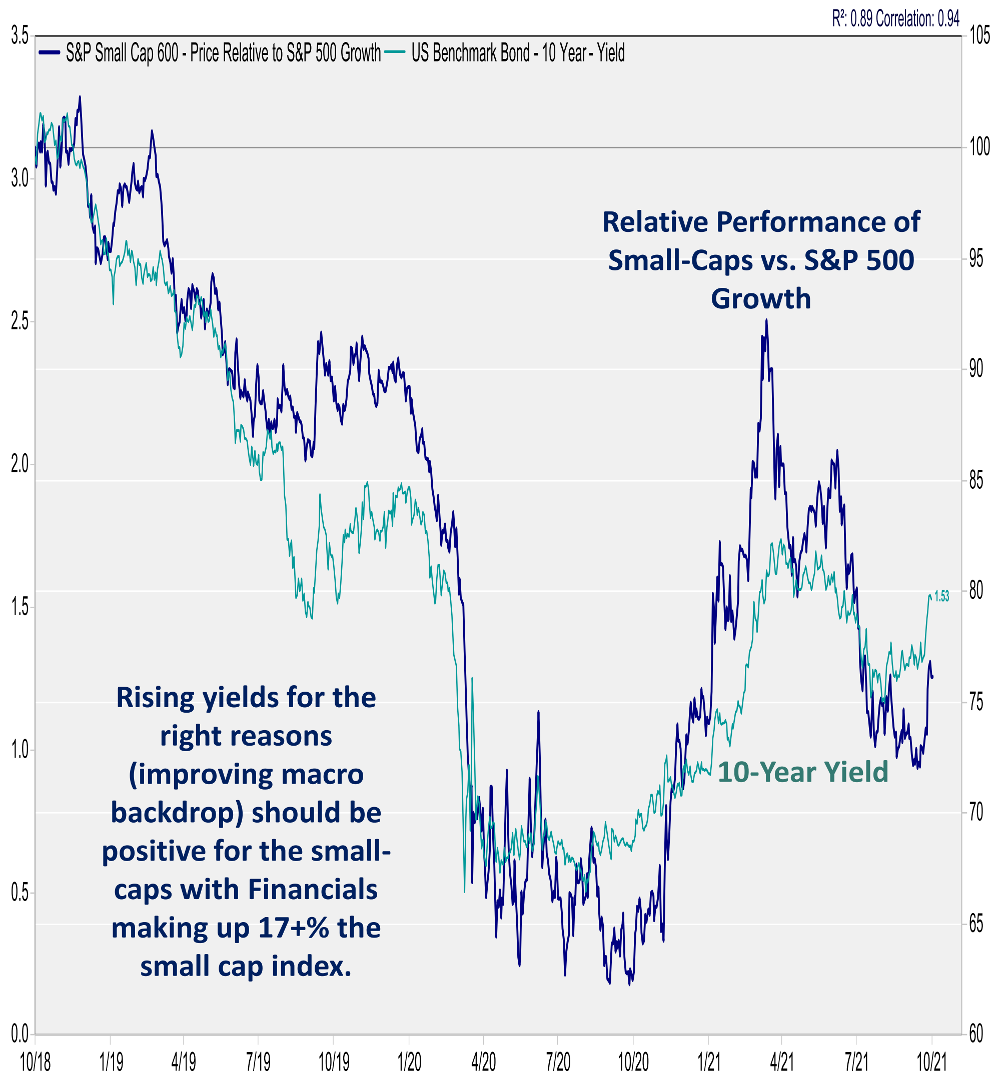




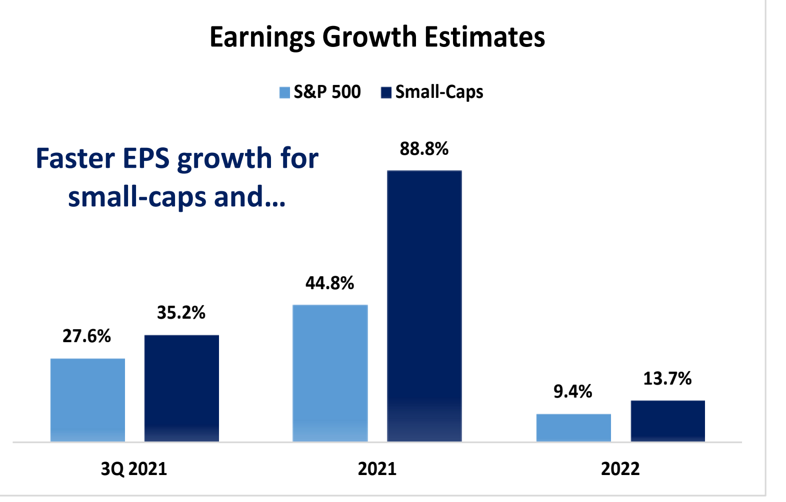
Source: FactSet and RJ Equity Portfolio & Technical Strategy

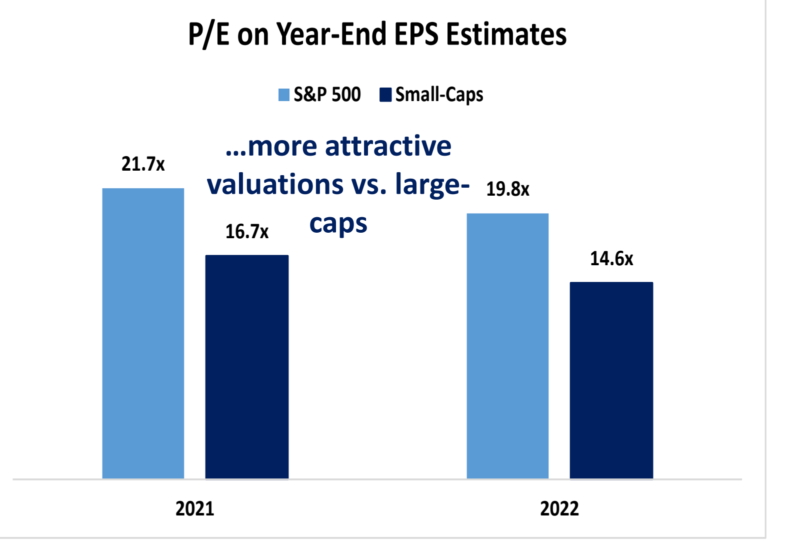
Charts as of 10/1/2021

Small-Caps



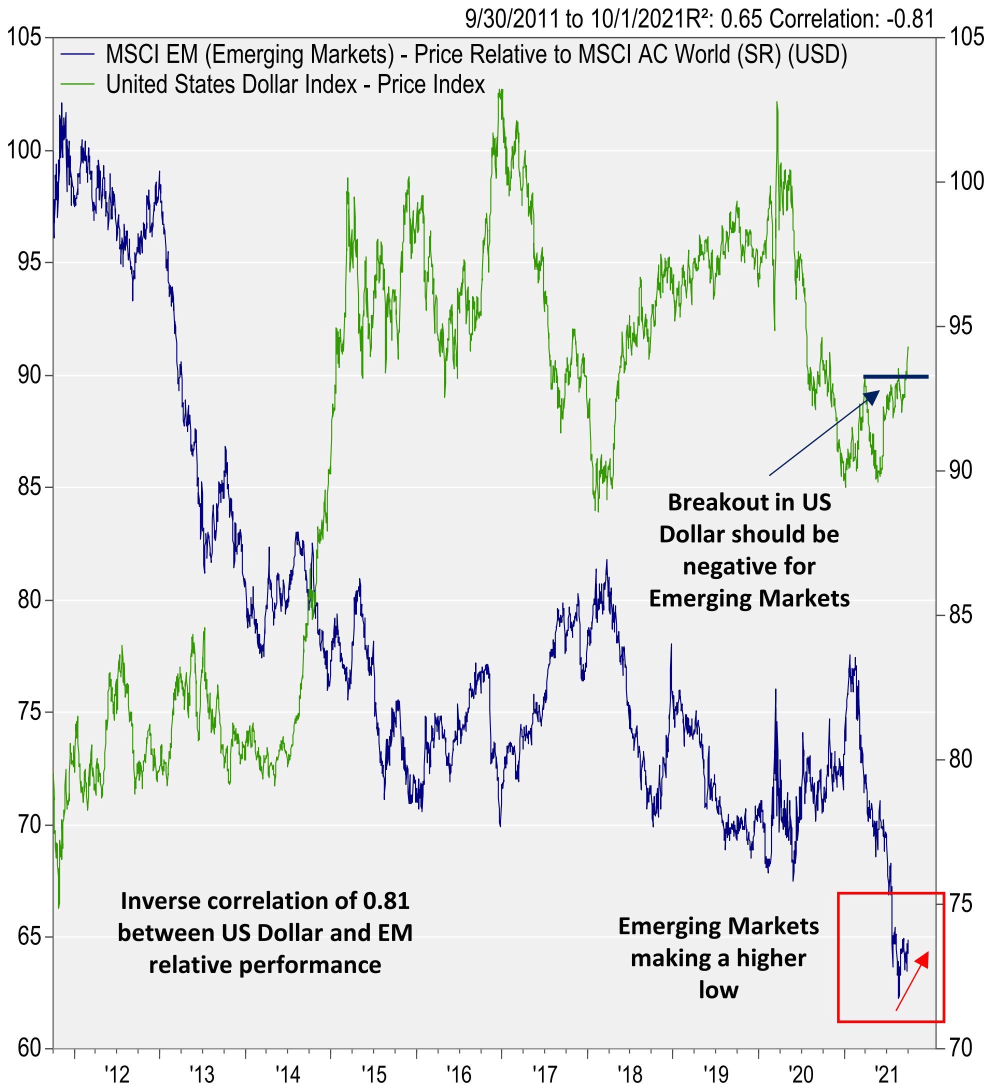
Source: FactSet and RJ Equity Portfolio & Technical Strategy

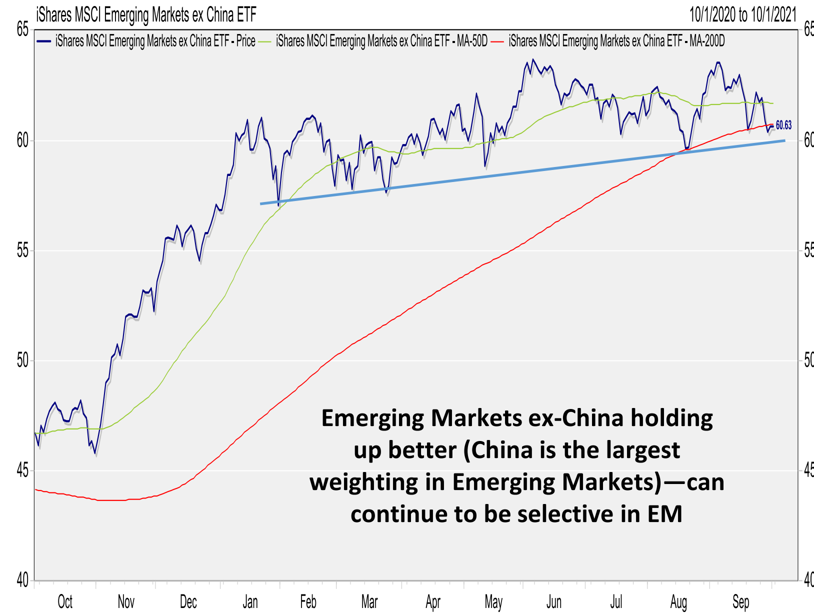


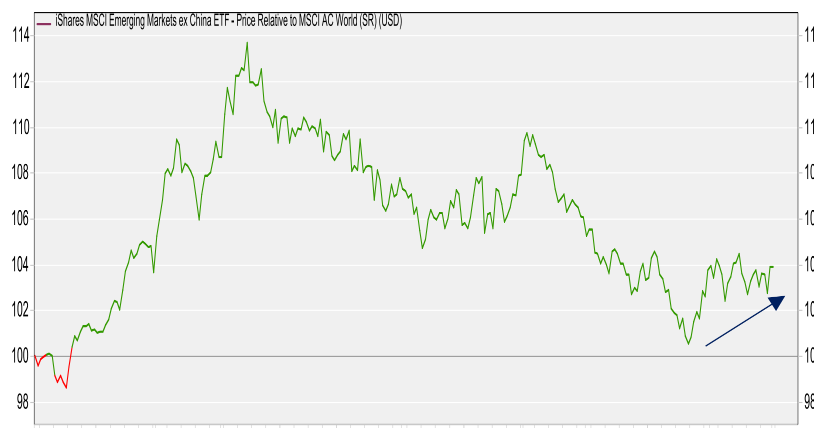


Charts as of 10/1/2021

Emerging Markets



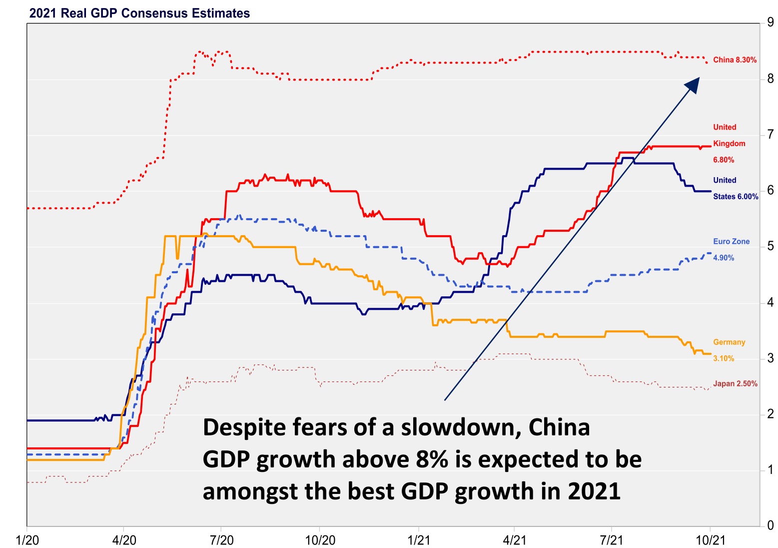


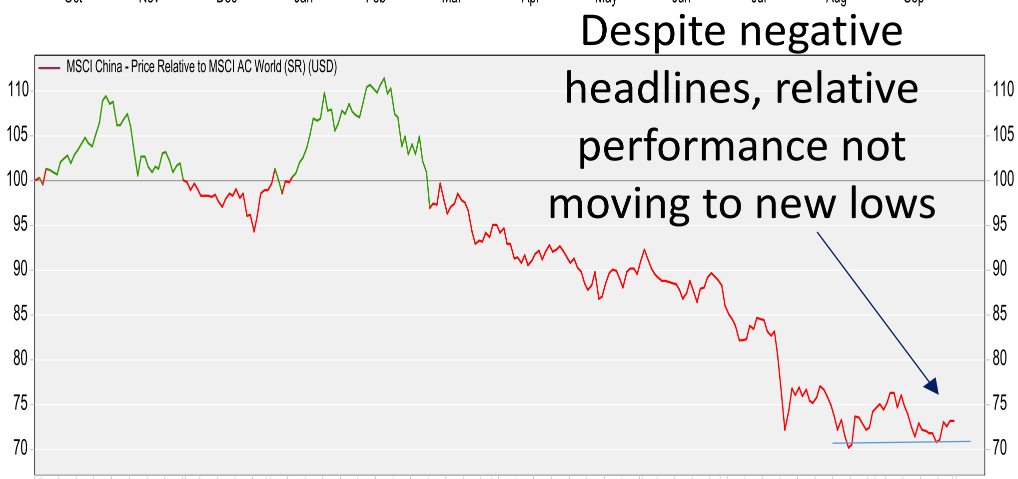


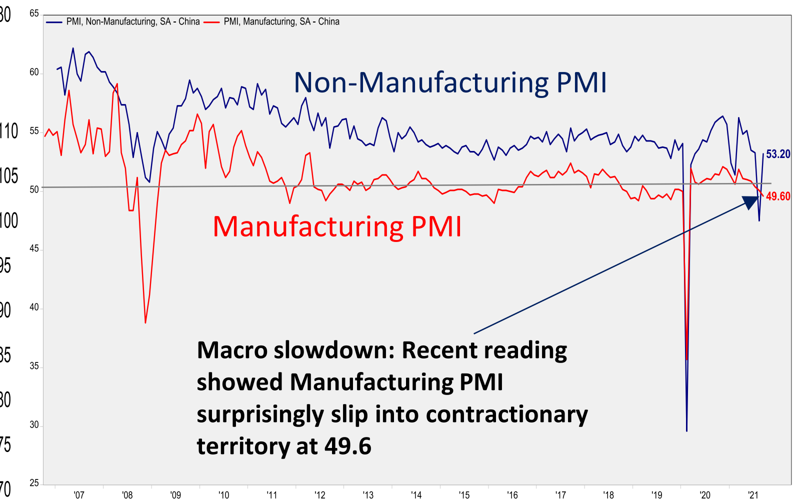
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

China





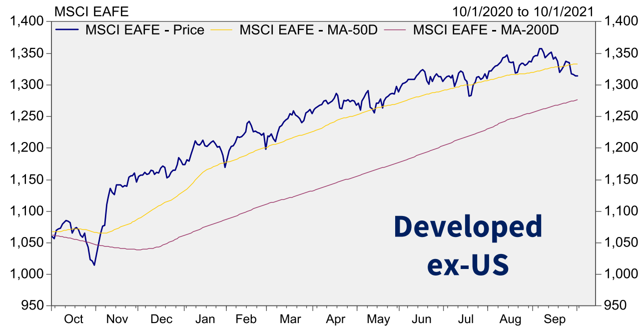


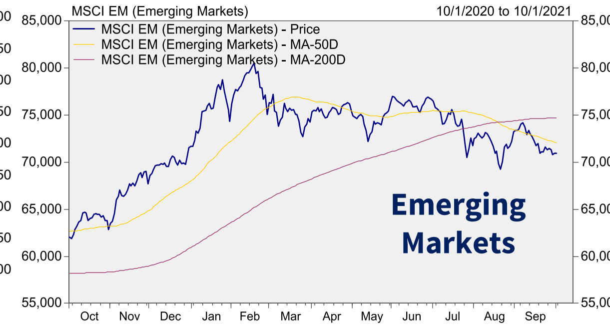
Source: FactSet and RJ Equity Portfolio & Technical Strategy

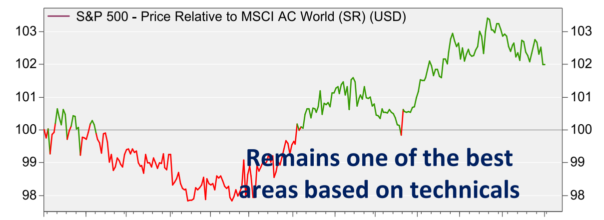
Charts as of 10/1/2021

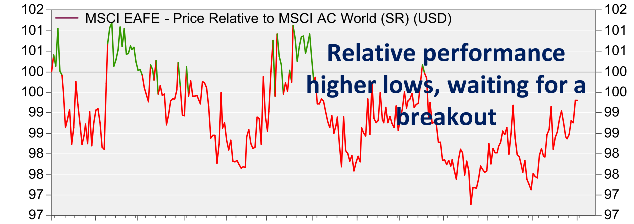
Global Asset Allocation

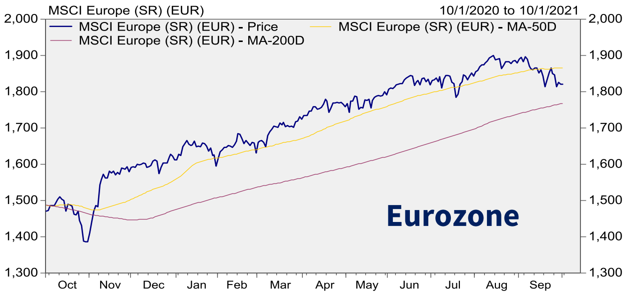
USA continues to look the best

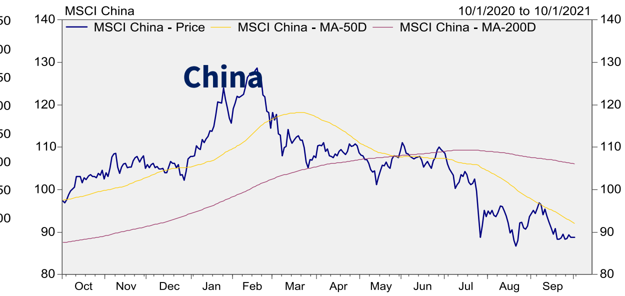


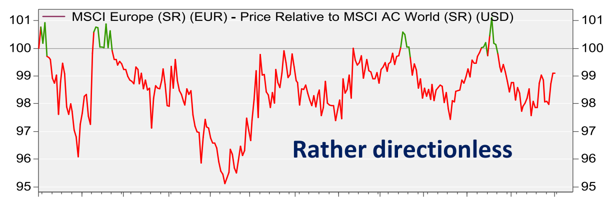


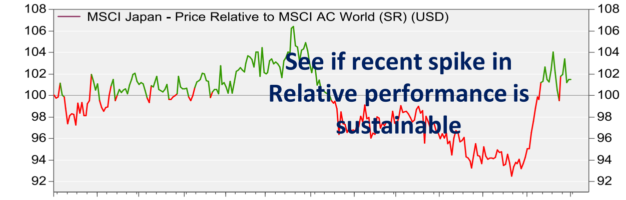


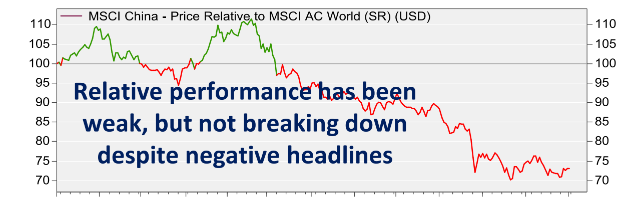








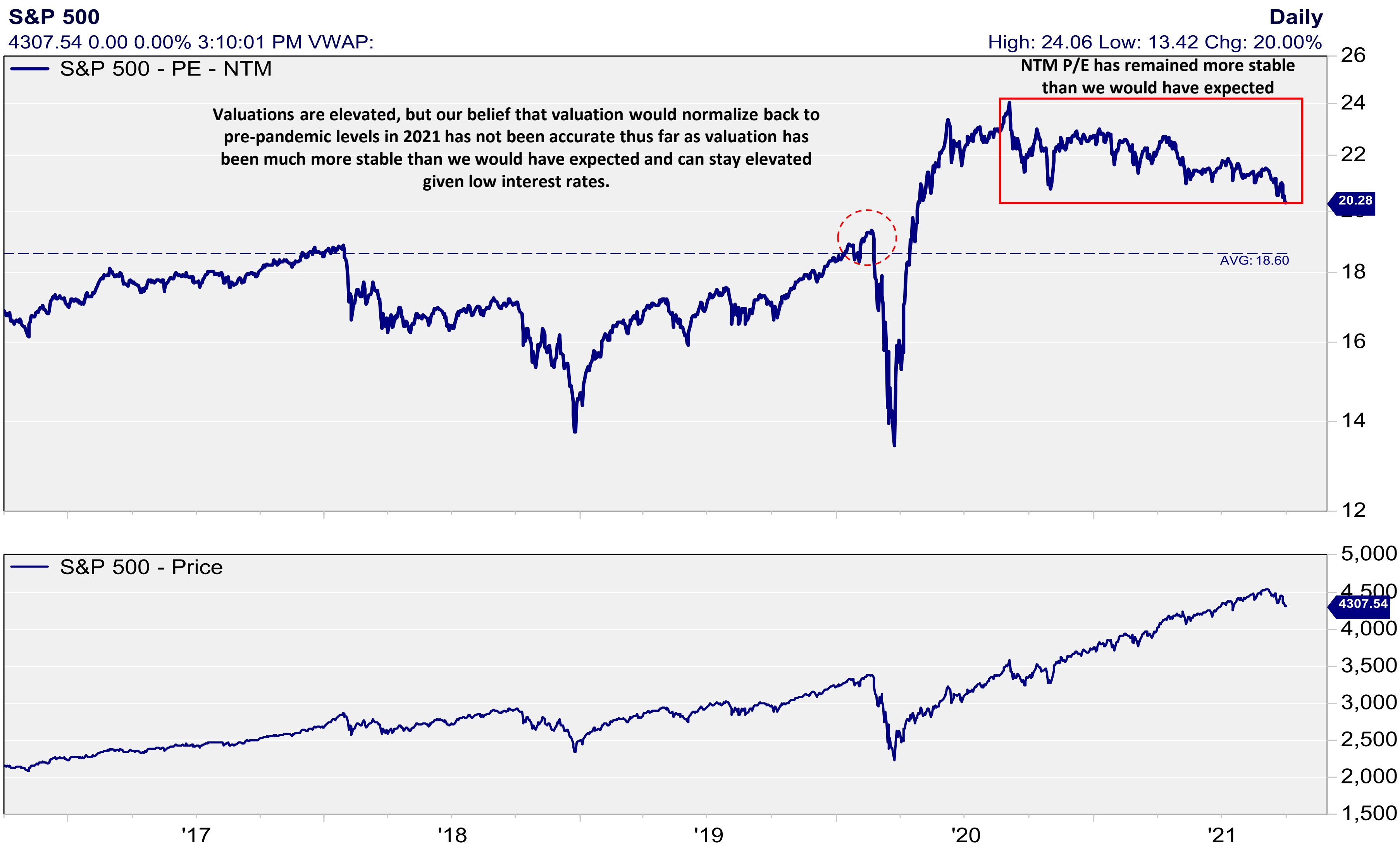




Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Valuation

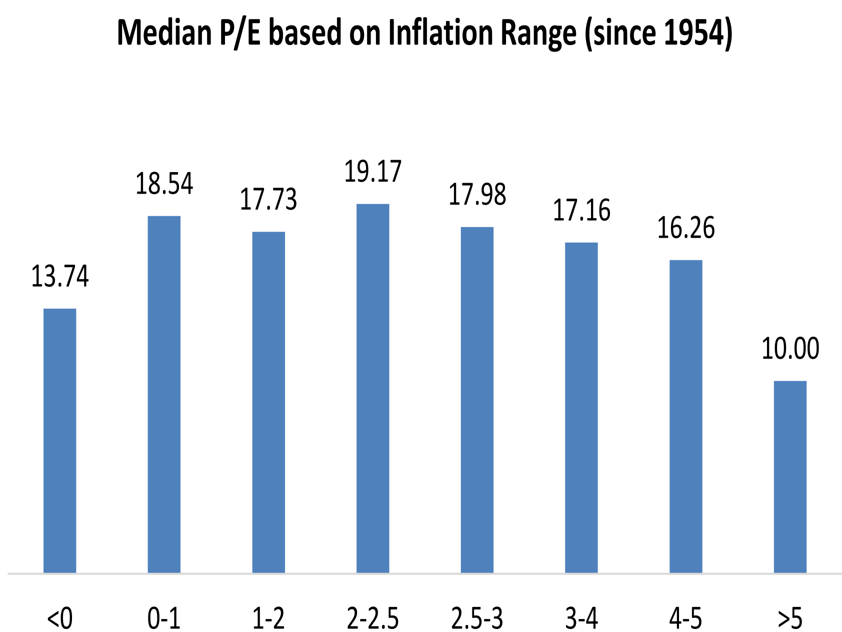


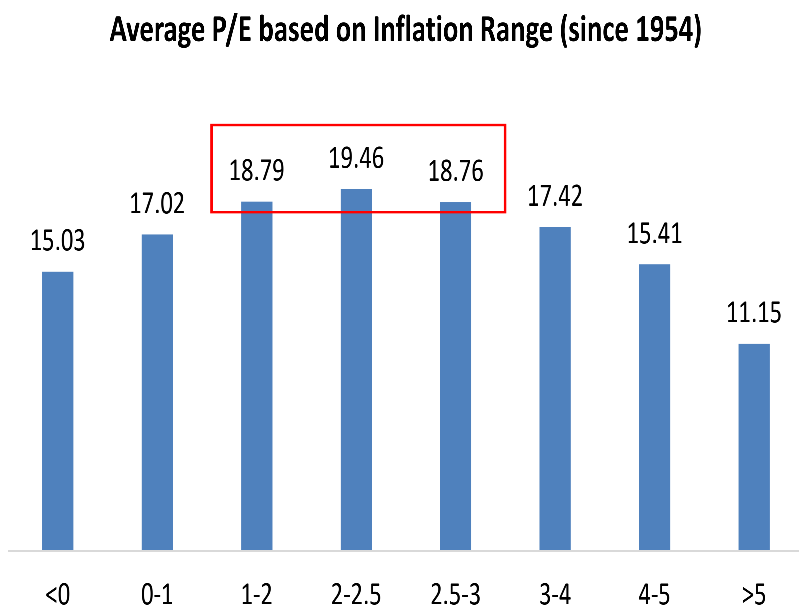
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Risk: Inflation and Valuations

It is not a surprise that so much focus has been on the recent inflation readings as higher inflation is often associated with lower P/E multiples. However, for now, we see inflation as largely contained, but if inflation starts to get over 3%, we could see some more significant moderation to valuations.





On average, P/E have been the highest when inflation is growing at 1-3%

Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Supplemental Slides

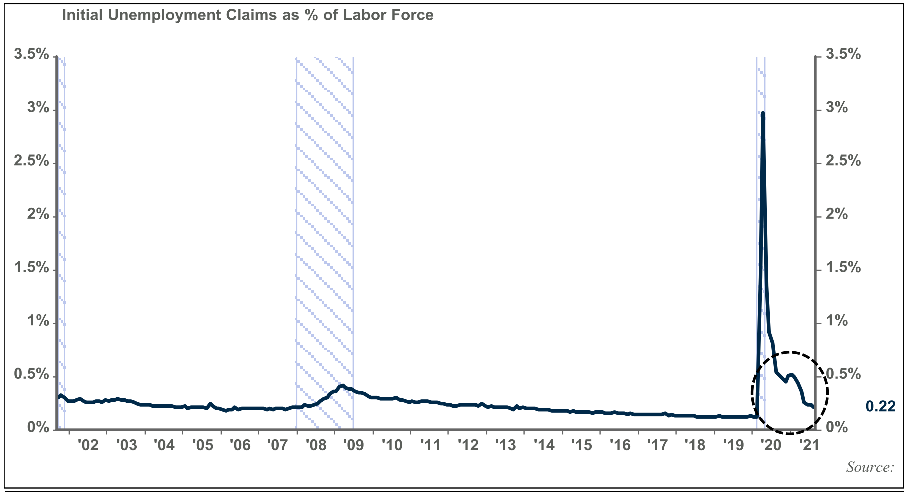
Supplemental Pages

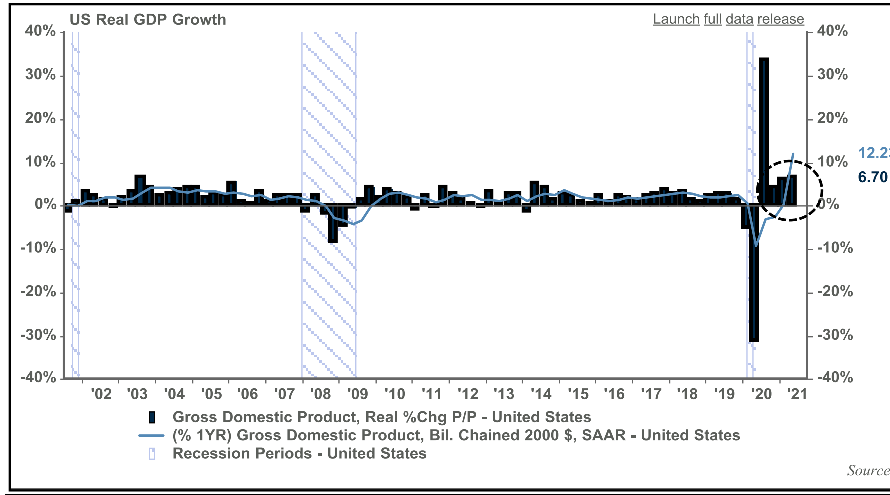
Stat Pack Estimates (September 30, 2021: S&P 500 4,307.54)

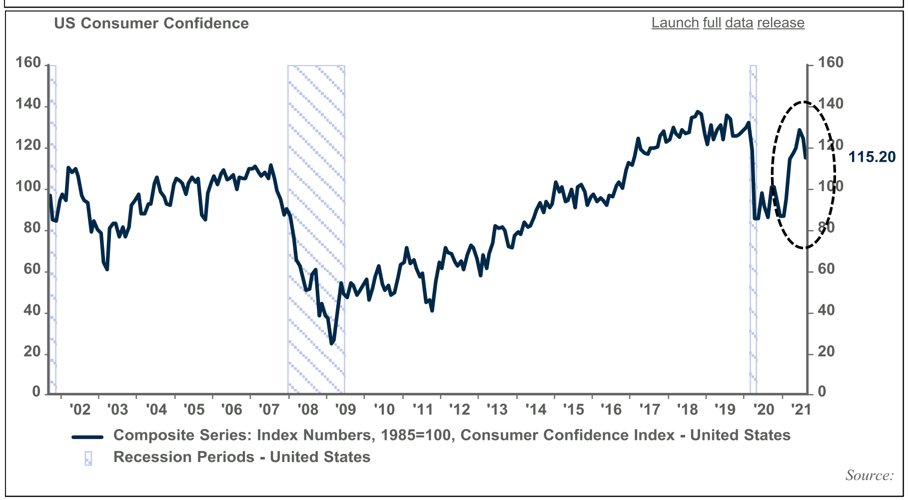
Stat Pack of Forecasts		
	2021 Estimates	2022 Estimates
Consensus EPS S&P 500[1]	$198.74 (Bottom up- Analysts) $205- RJ estimate (base case)	$217.49 (Bottom up- Analysts) $225- RJ estimate (base case)
EPS Growth S&P 500	44.8% bottom up; 49% RJ (base case)	9.4% bottom up; 9.7% RJ (base case)
Margins (EPS/Sales-using bottom up est.)	12.8% E(consensus[1])	13.0% E (consensus[1])
EPS if Margins stay flat (high probability from elevated levels)		$209.76 (based on consensus revenues)
GDP	Fed 5.9%; Consensus 5.9%	Fed 3.8%; Consensus 4.1%
CPI	Headline 4.3%[1]	Headline 3.0%[1]
PCE (Personal Consumption Expenditures)	3.1% (ex-F&E)[1]	2.6% (ex-F&E)[1]
Dividend/Dividend Growth S&P 500	$59.51[1] +5.8% Payout ratio: 29.9% (of bottom up est.)	$63.89[1] +7.4% Payout ratio: 29.4% (of bottom up est.)
Revenue Growth Per Share S&P 500 (only bottom up available)	+15.3% ($1,539.99/share[1])	+6.4% ($1,638.75/share[1])
P/E	~21.7x[2]	~19.8x [2]
Earnings Yield S&P 500	4.6% (using bottom up est.)	5.1% (using bottom up est.)
Fed Funds (average)	0.25[1]	0.35[1]
10 Year Treasury Yield	1.59%[1]	1.99%[1]

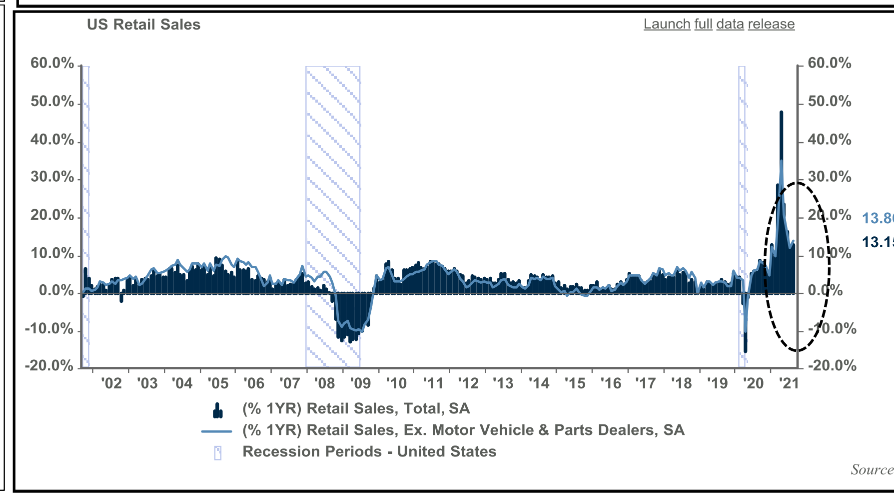
[1] FactSet;
[2] Current PE based on consensus 2021 and 2022 bottom up estimates

U.S. Economic Conditions Improving with Some Air Pockets







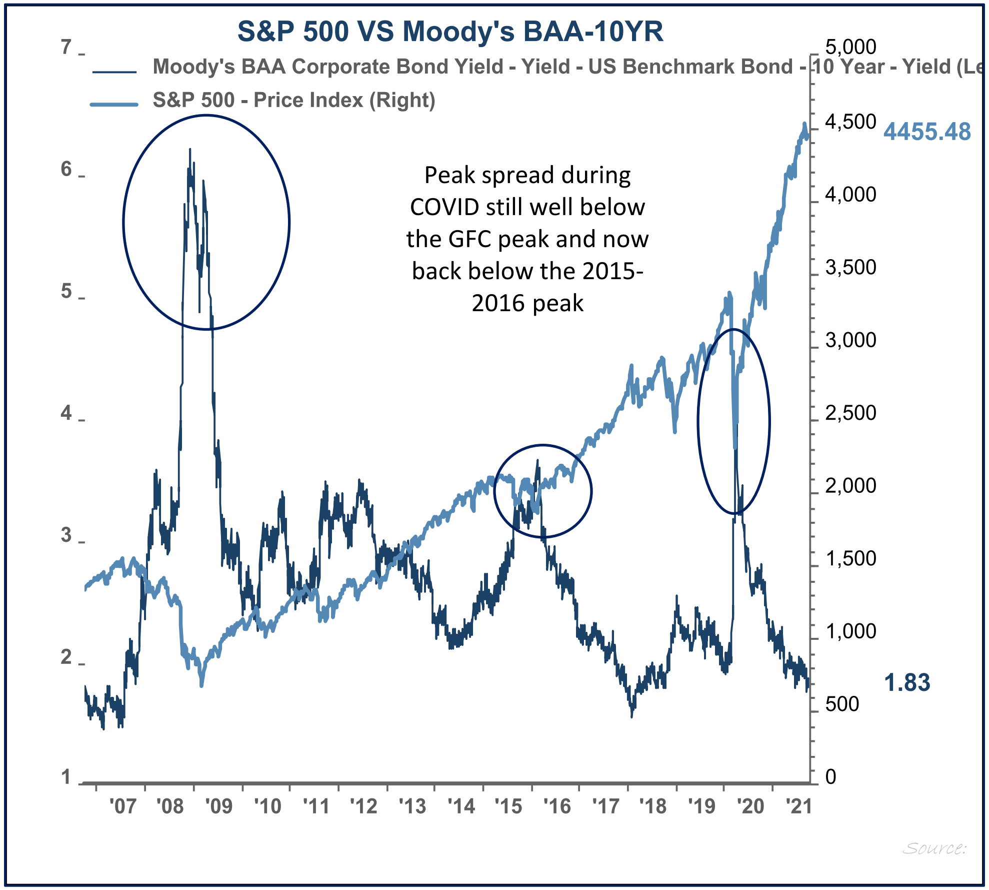


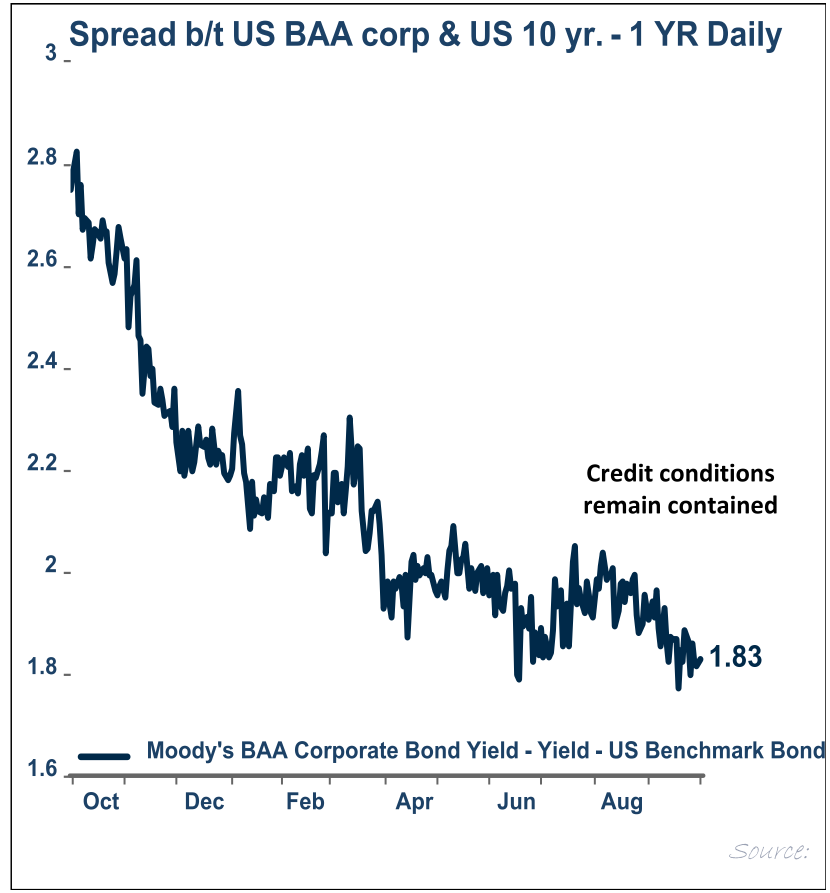
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Credit Conditions

The credit markets remain contained after seeing an uptick during the height of the pandemic. Overall, credit conditions are not concerning as move to new lows. We will continue to keep a keen eye on the credit markets for signs of further deterioration, but as of now, despite some lingering risks, we are not overly concerned.



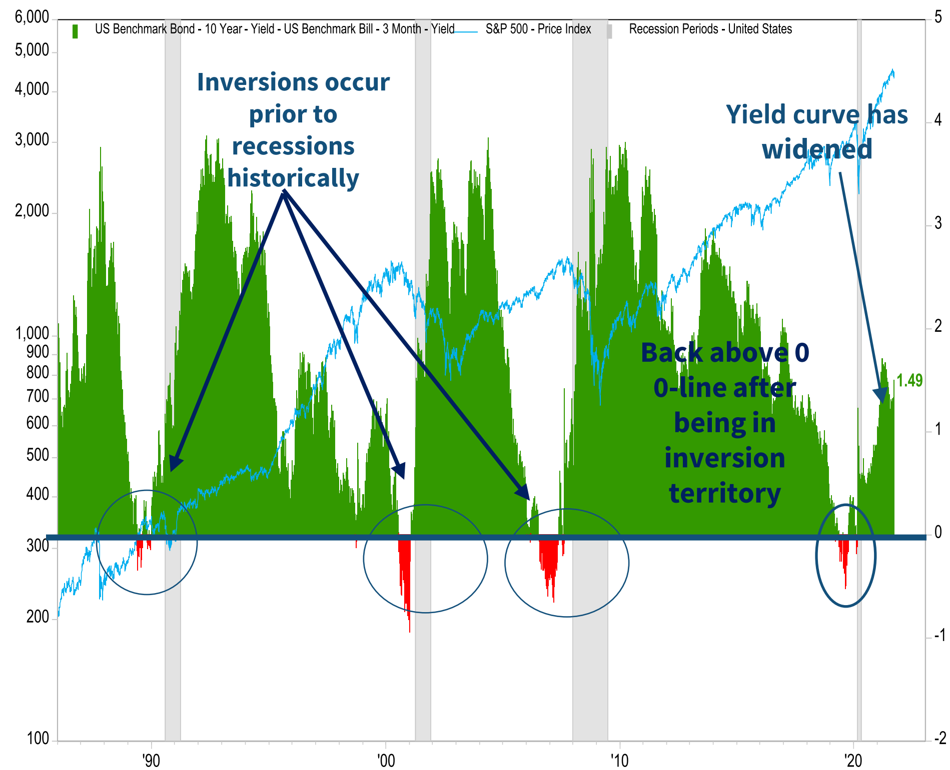


Source: FactSet, RJ Equity Portfolio & Technical Strategy

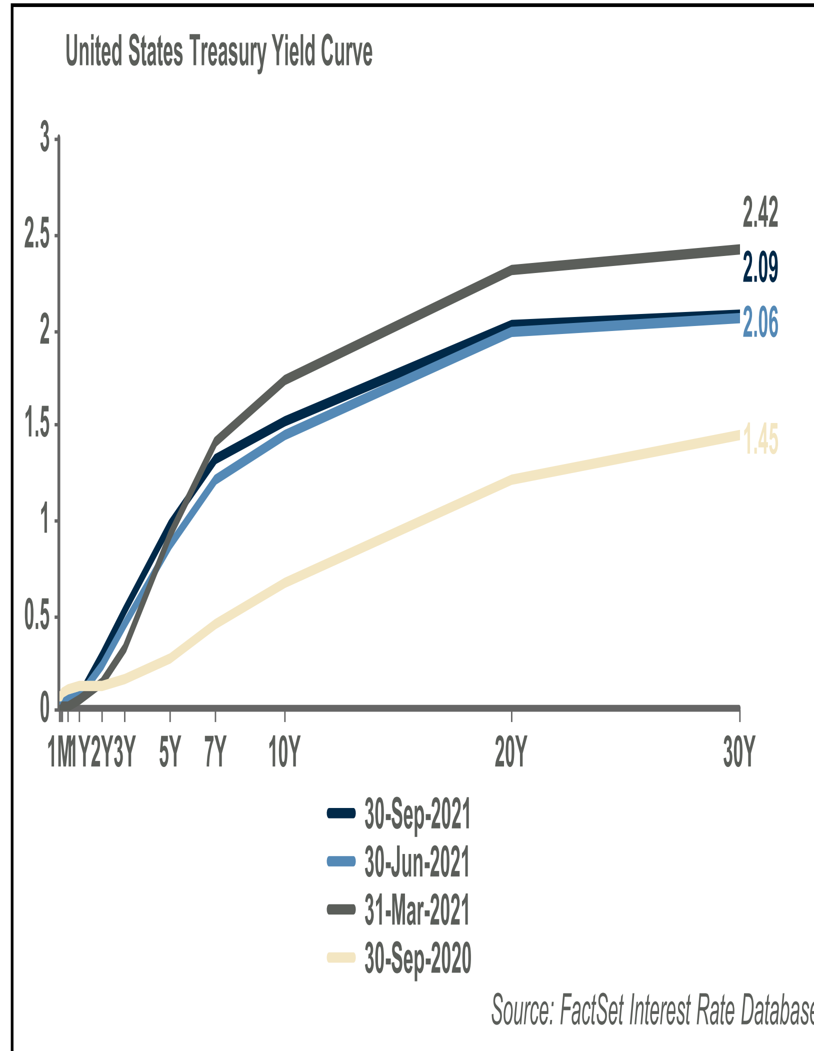
Charts as of 10/1/2021

2021: Areas to Watch: Inversion of Yield Curve

The swift move by the Fed to lower rates (after the yield curve inverted again) has pushed the spread between the 10-year and 3-month back into positive territory. A narrowing of the yield curve would likely be negative for the Financial sector and Value index.



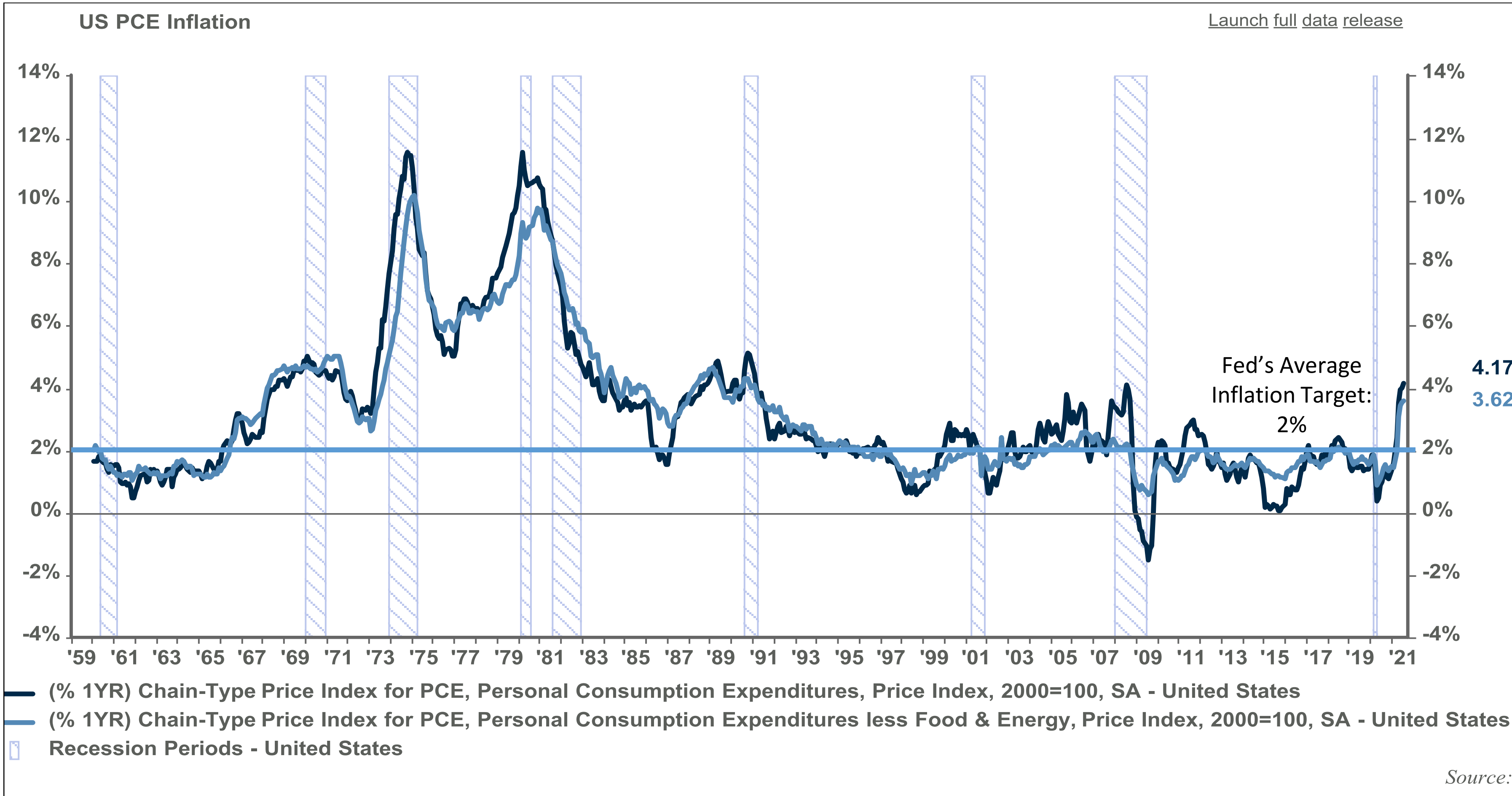
Source: FactSet, RJ Equity Portfolio & Technical Strategy



Charts as of 10/1/2021

2021: Areas to Watch: Inflation

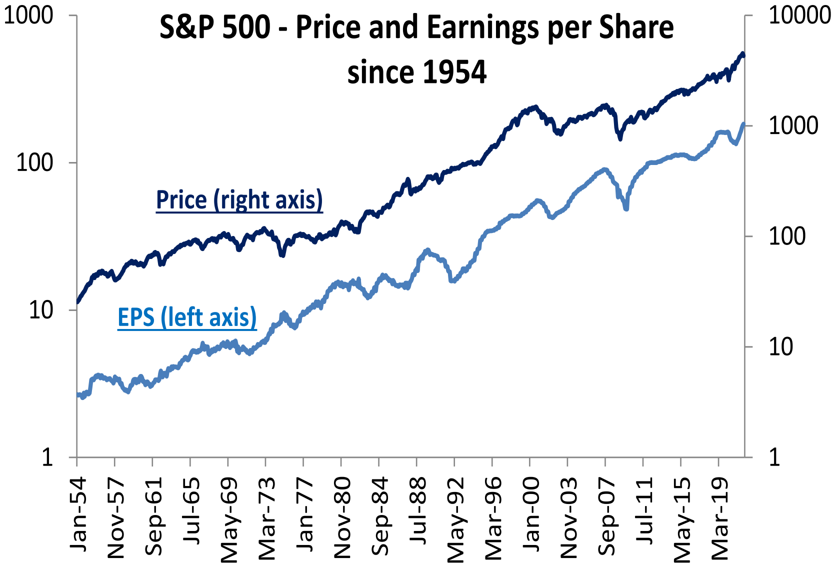
This is an area we continue to watch closely. Inflation is one of the biggest concerns right now as it is debated if the recent rise is transitory or more long-lasting. We believe some will prove to be transitory, but could remain above the Fed's average inflation target rate of 2% for some time before it normalizes.

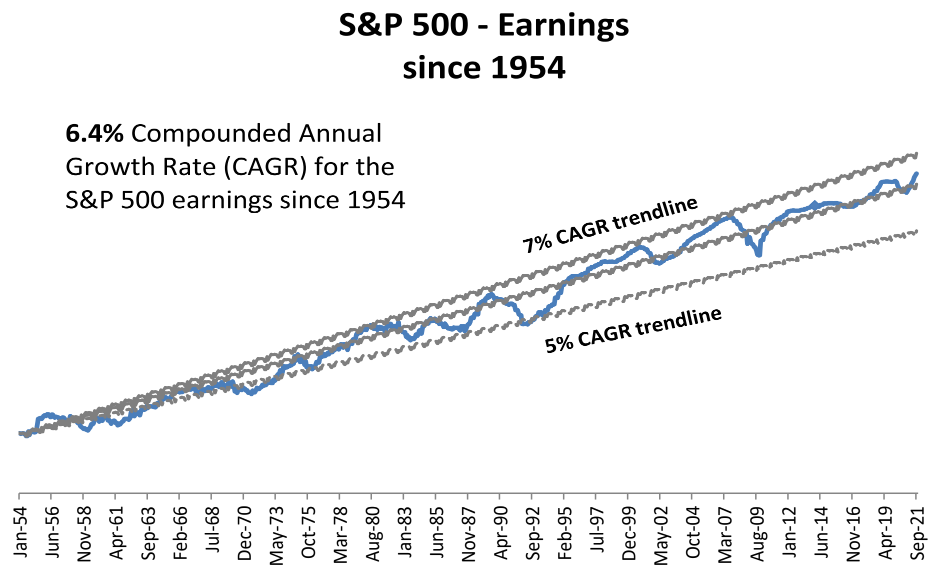


Charts as of 10/1/2021

Source: FactSet, RJ Equity Portfolio & Technical Strategy

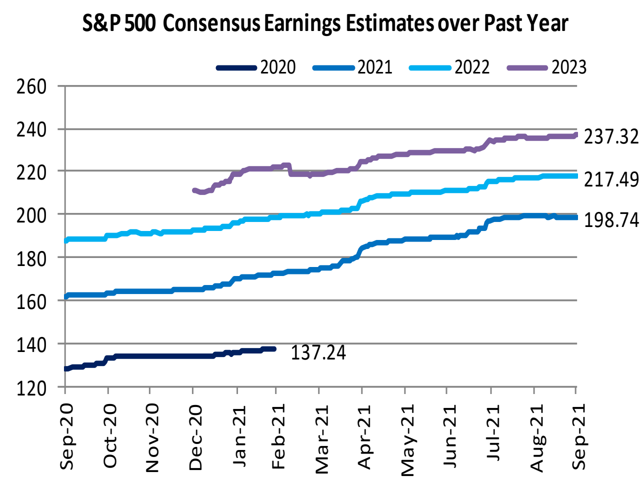
S&P 500 Earnings – Long-Term Mother's Milk of the Market





S&P 500 since 1954:

- **Earnings CAGR**: 6.4%
- **S&P 500 Price CAGR**: 7.6%

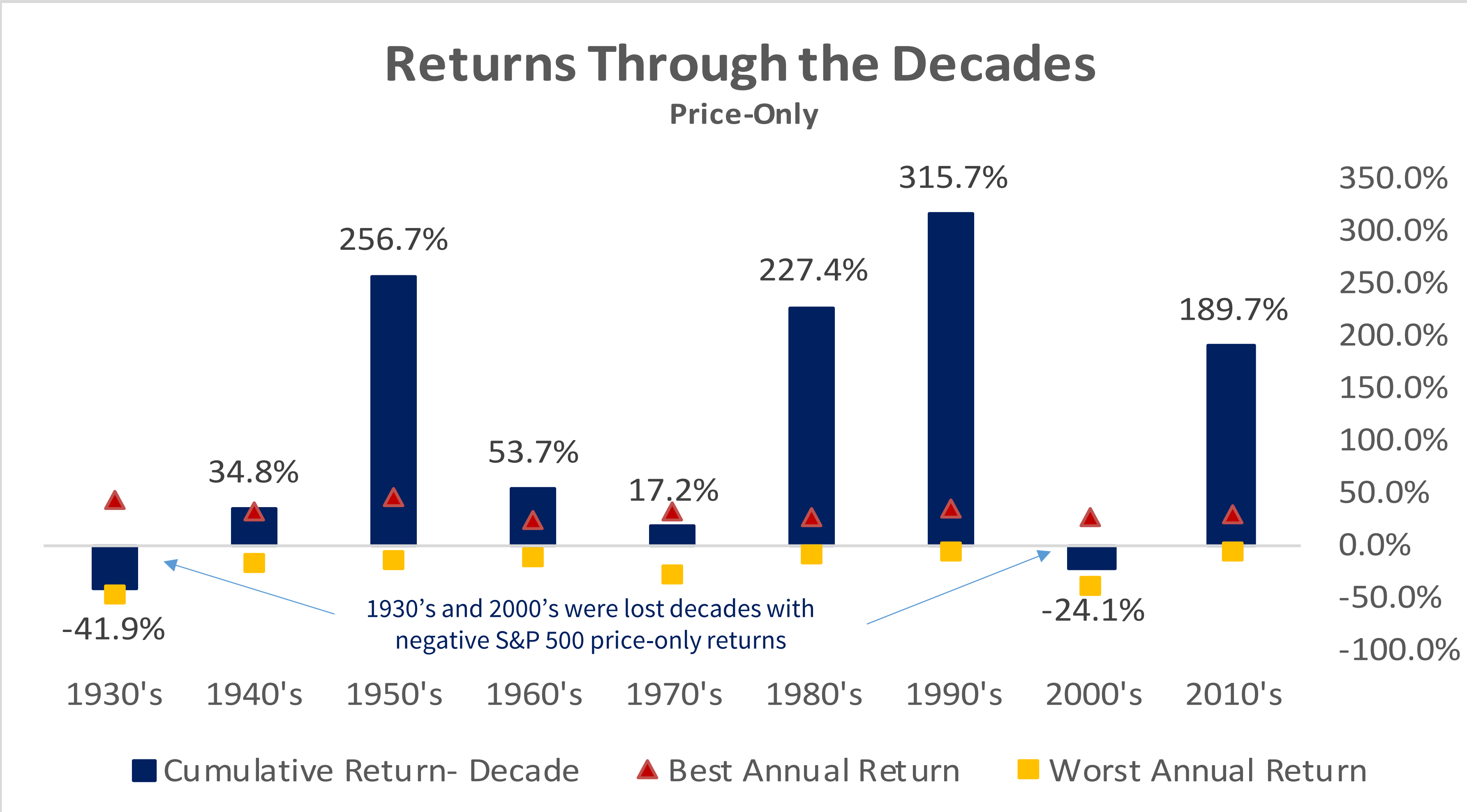


EPS Growth Estimates	
2020	-14.2%
2021	44.8%
2022	9.4%
2023	9.1%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

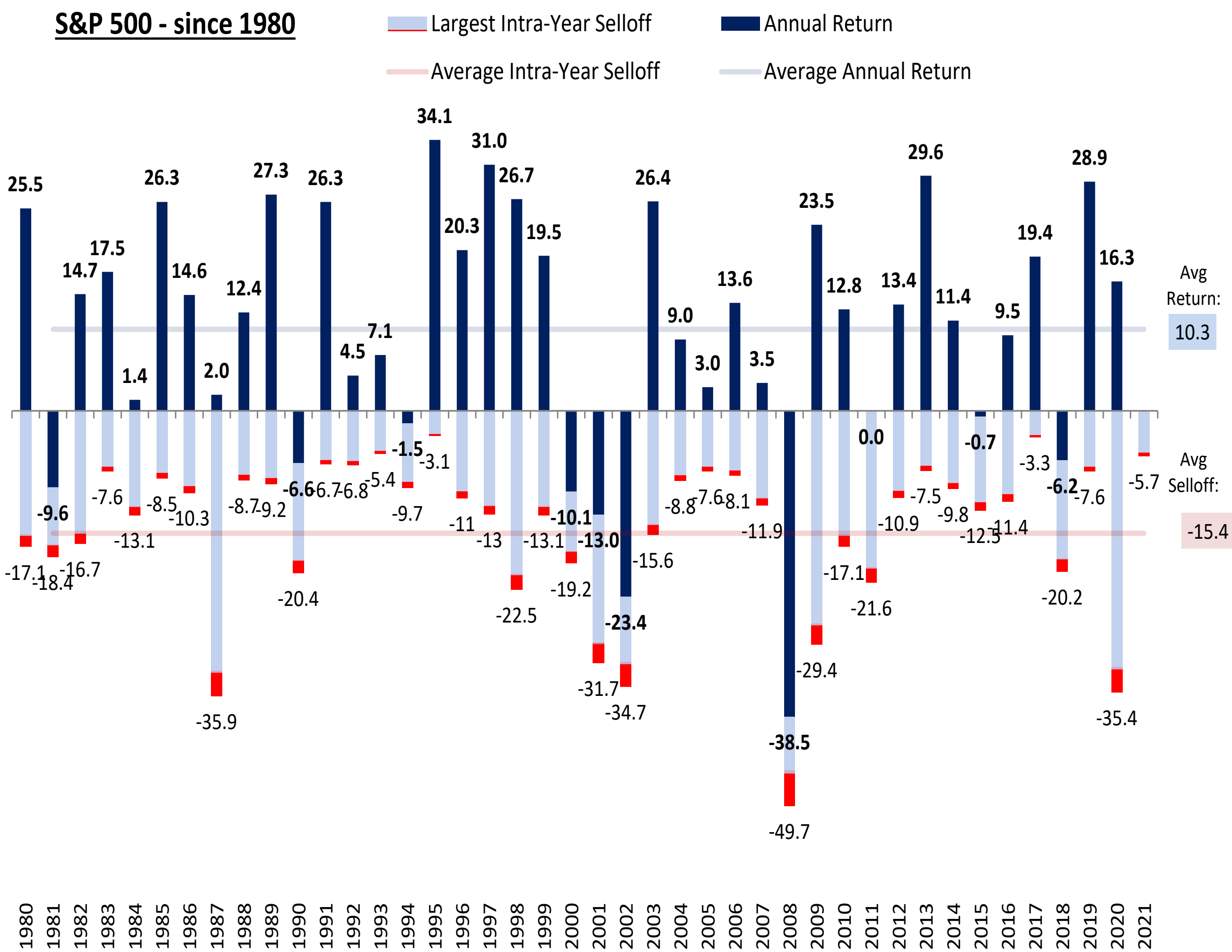
Returns Through the Decades



Source: FactSet, RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

Market Selloff Stats



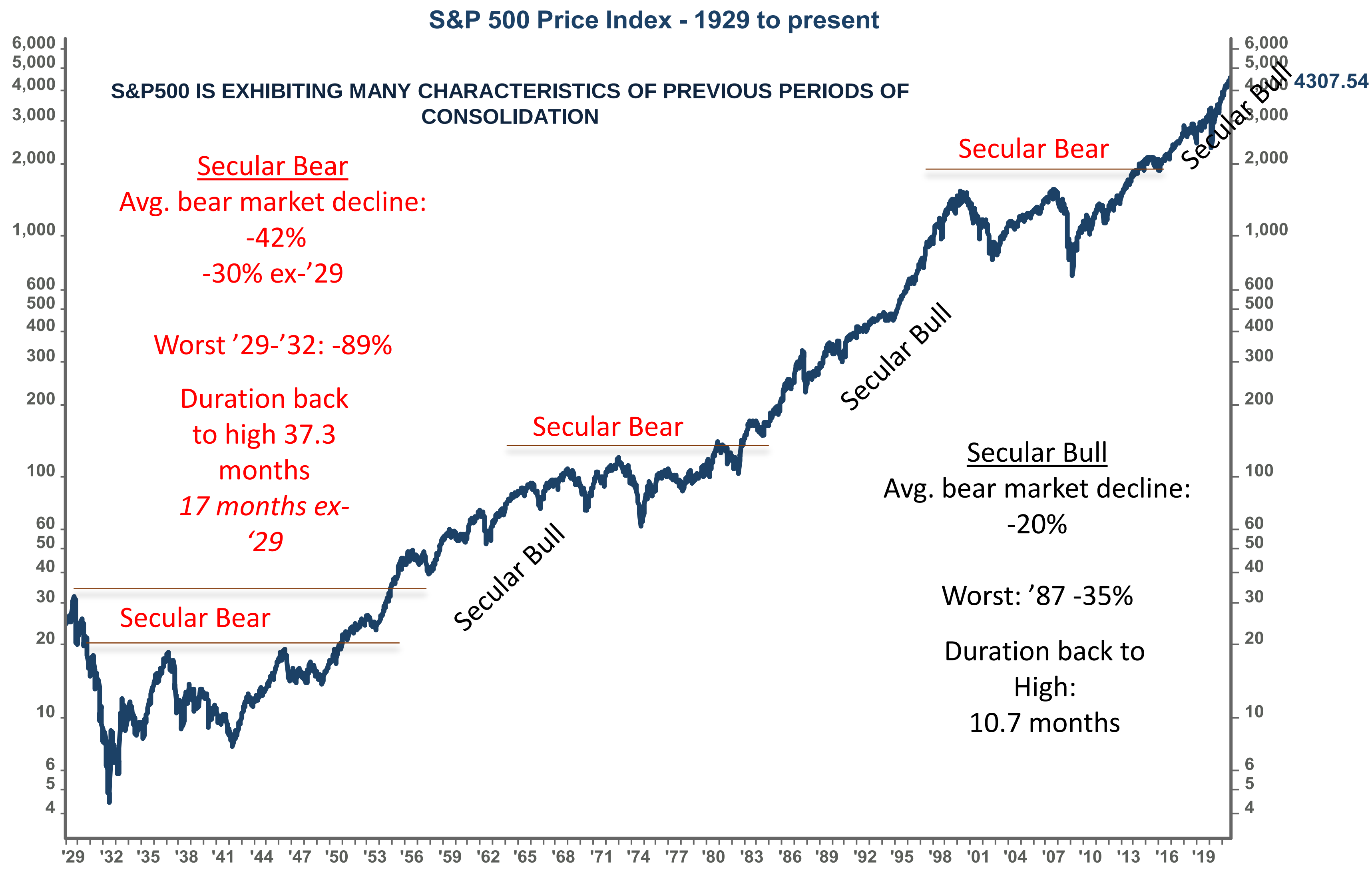
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Selloffs are common:

- Average Largest Intra-year selloff: -14.9%
- Ex-bear market years still normal to get 8-12% drawdown intra-year
- Average Annual return is : +10.1%

Charts as of 10/1/2021

Secular Bull and Bear Markets

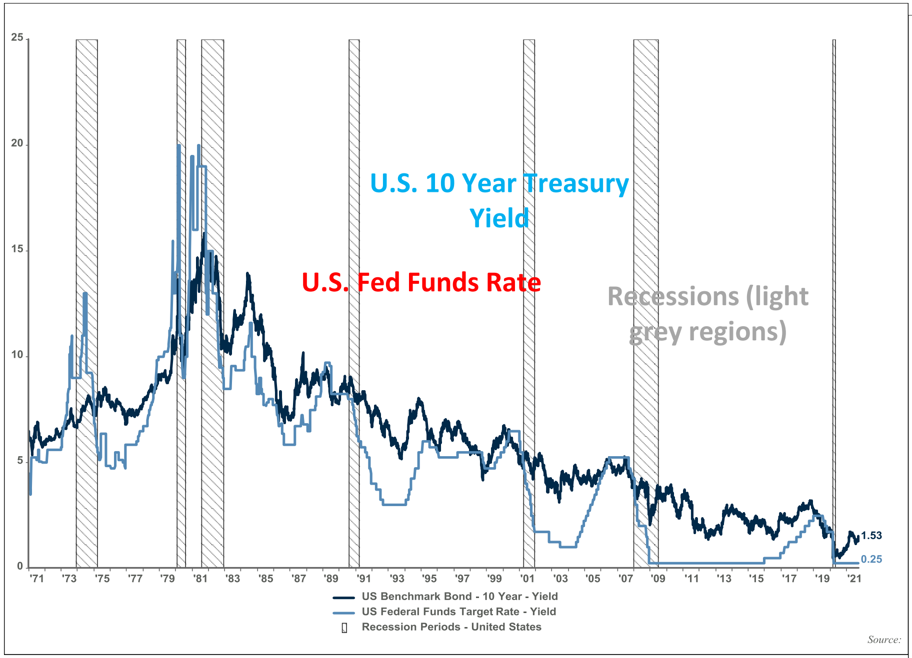


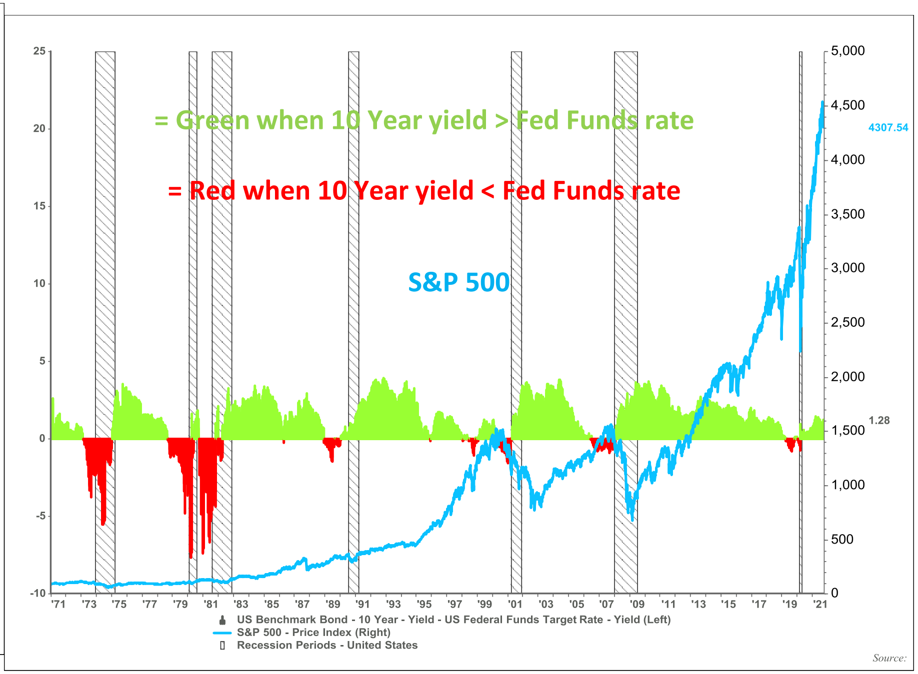
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

U.S. 10 Year Yield vs US Fed Funds Rate, since 1970

Note that when the Fed Funds rate lifts above the 10 -year Treasury yield (i.e. inverted yield curve—chart on right), recessions often follow. For this reason, yield curve flattening is a major concern. As you can see, the yield curve has remained above zero despite low interest rates on the 10-year yield.





Source: FactSet, RJ Equity Portfolio & Technical Strategy

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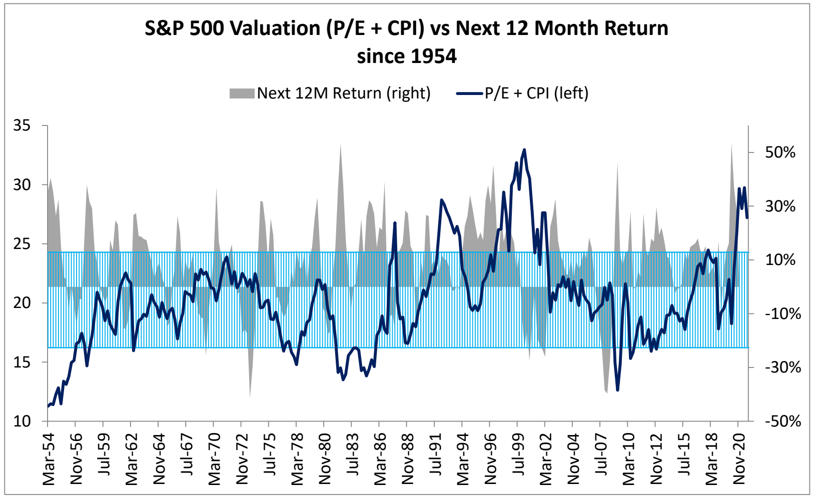
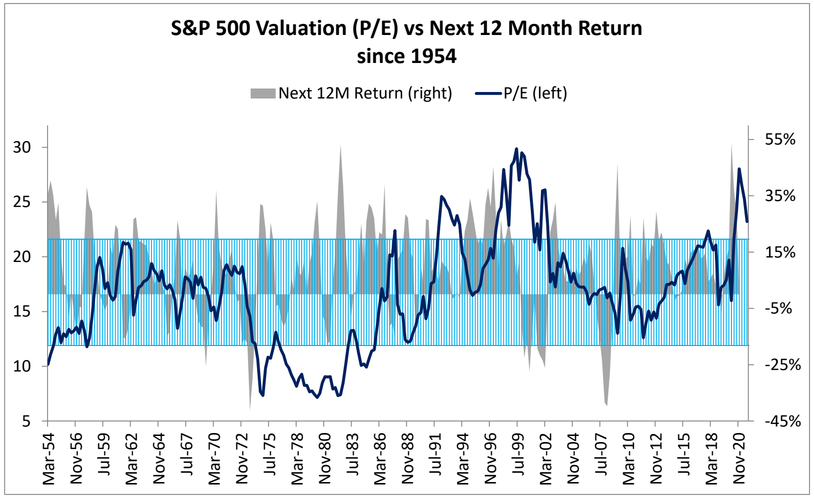
S&P 500 Valuation

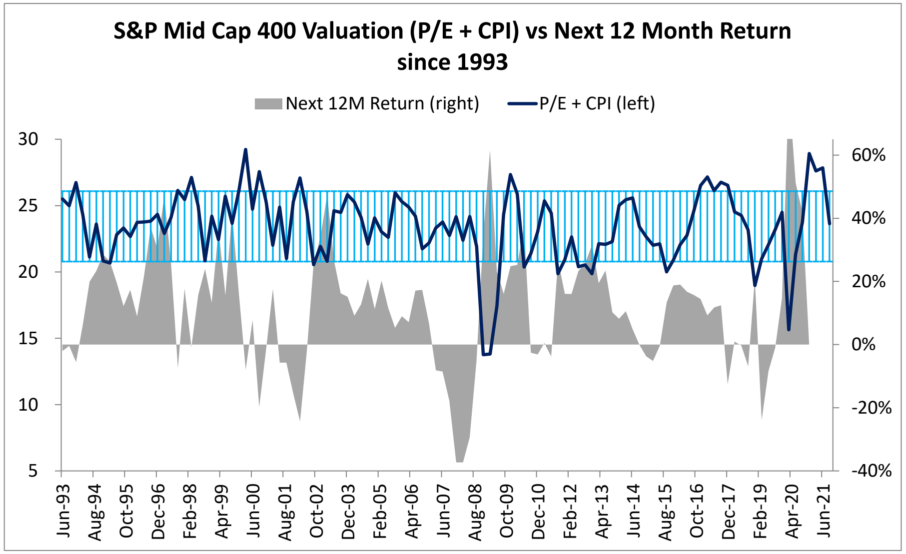


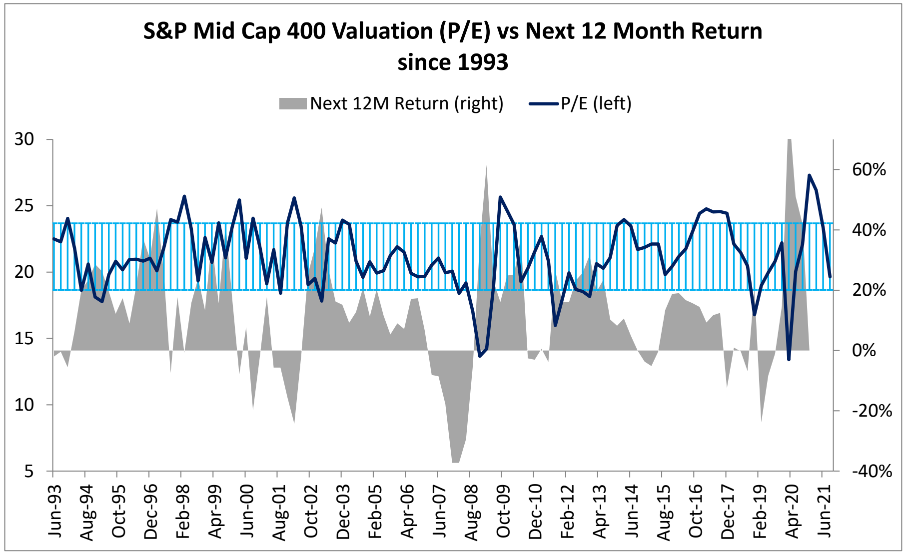


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

S&P Mid Cap 400 Valuation





Source: FactSet, RJ Equity Portfolio & Technical Strategy

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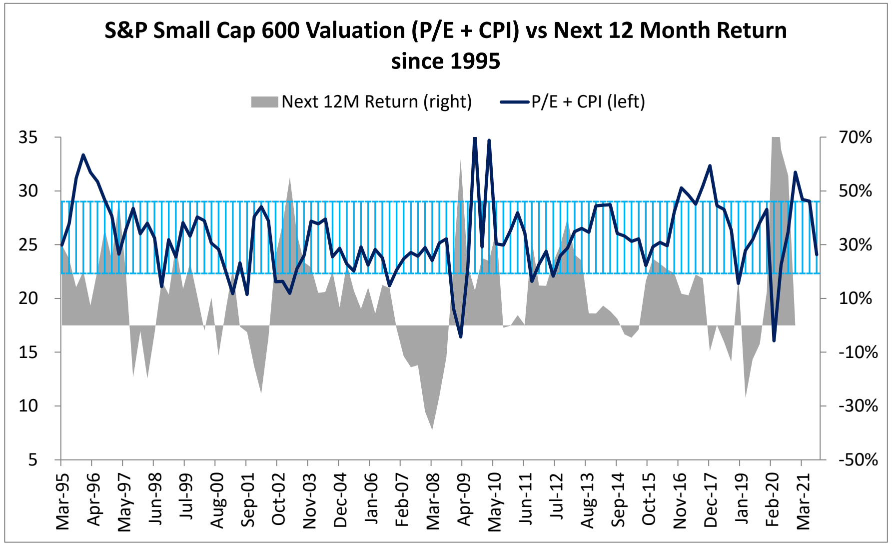
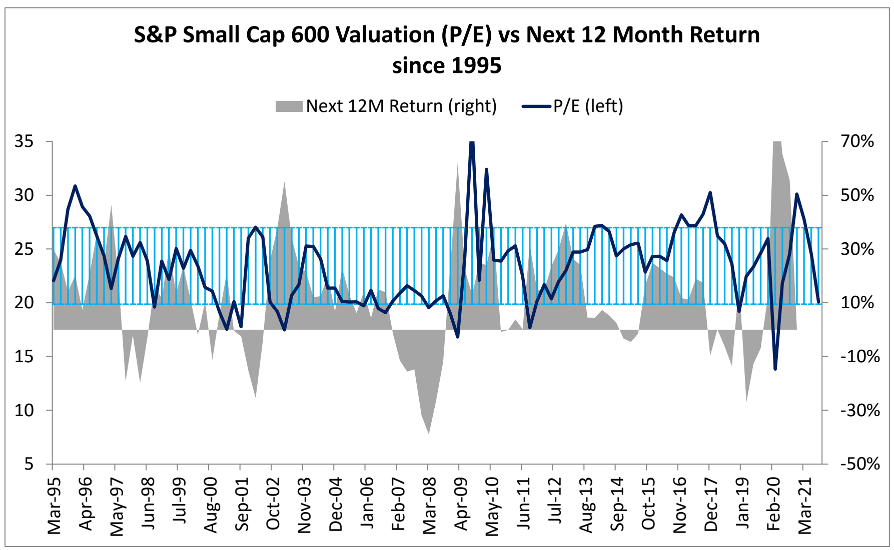
S&P Small Cap 600 Valuation

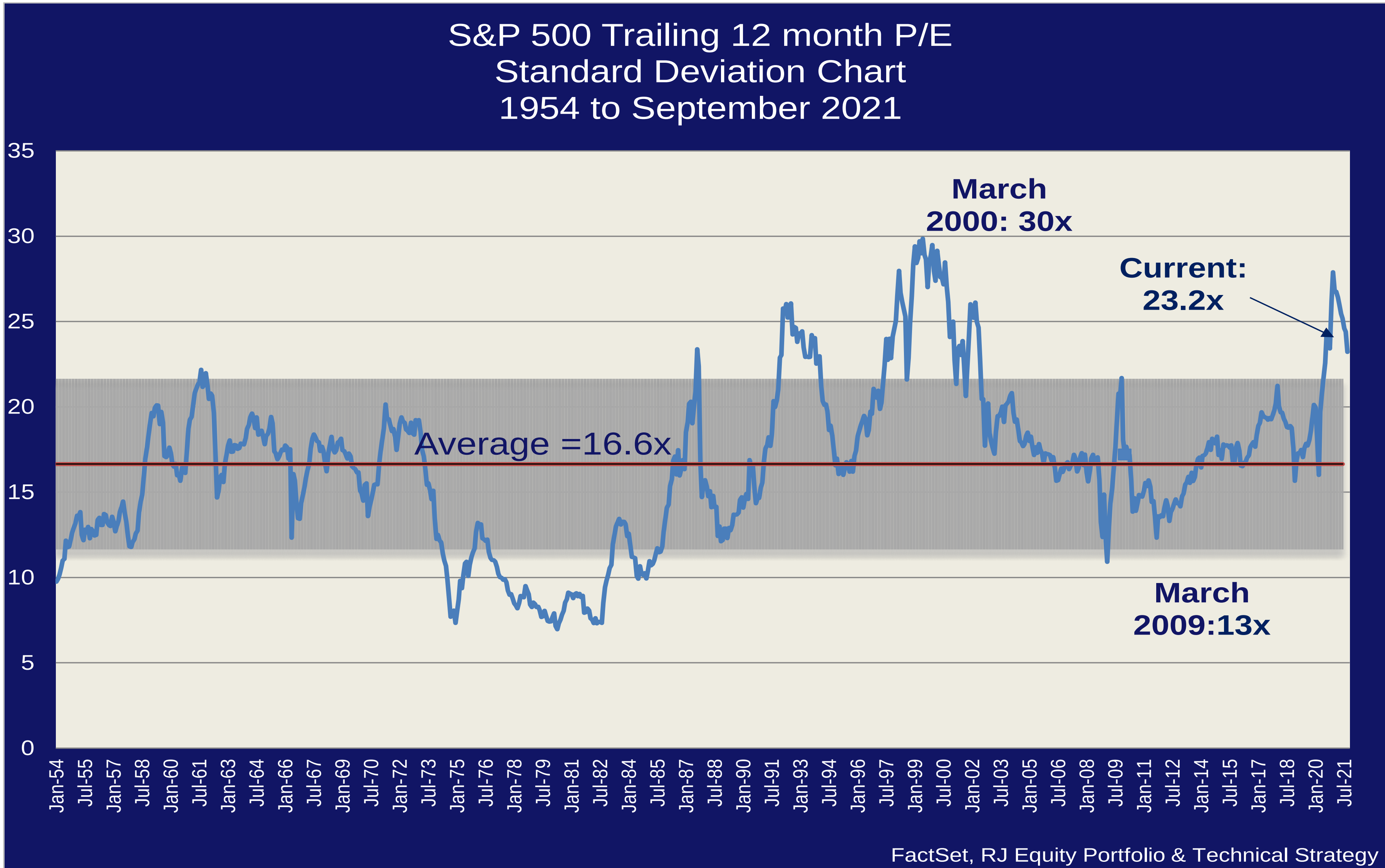




Source: FactSet, RJ Equity Portfolio & Technical Strategy

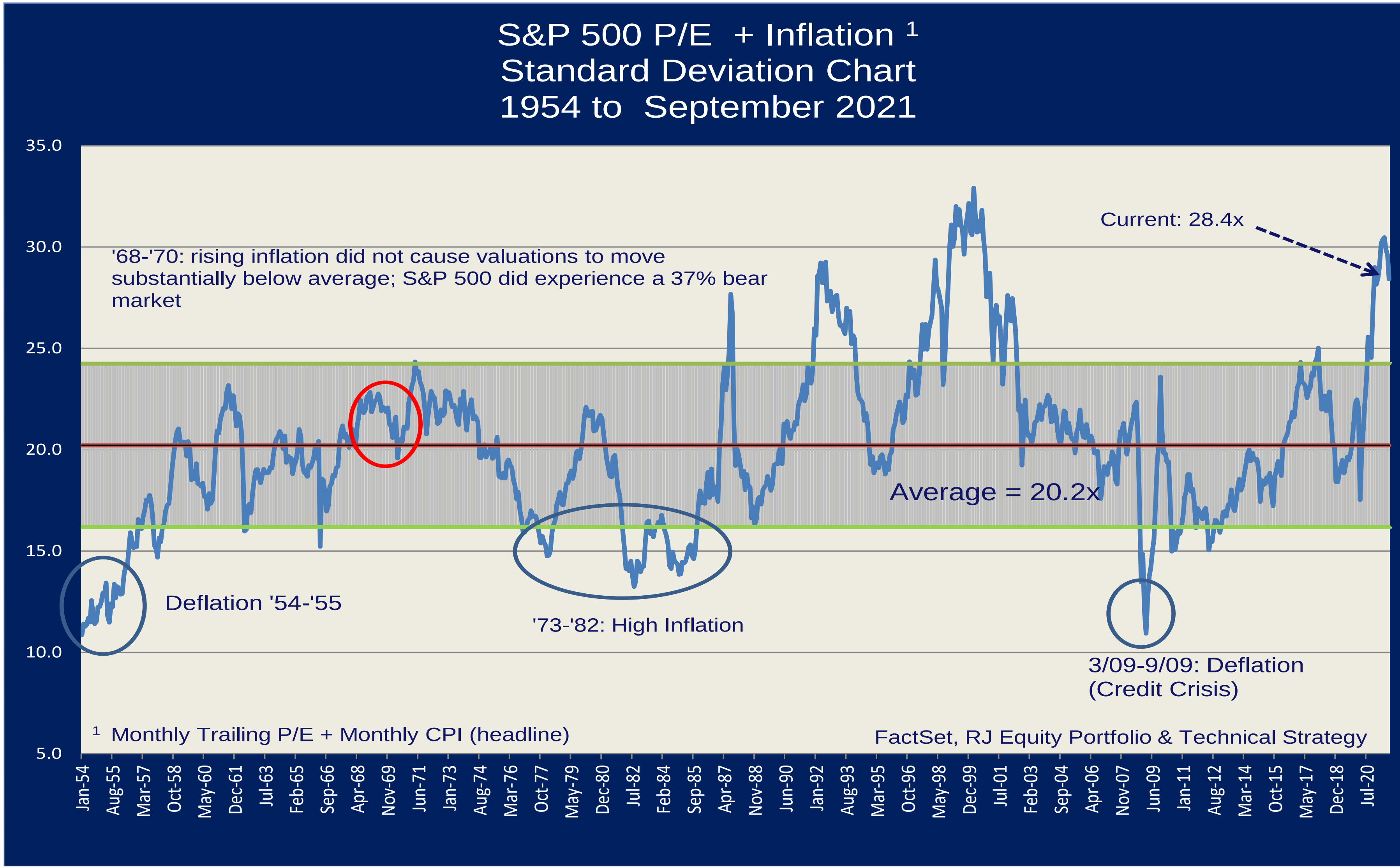
Charts as of 10/1/2021

S&P 500: Long Term P/E



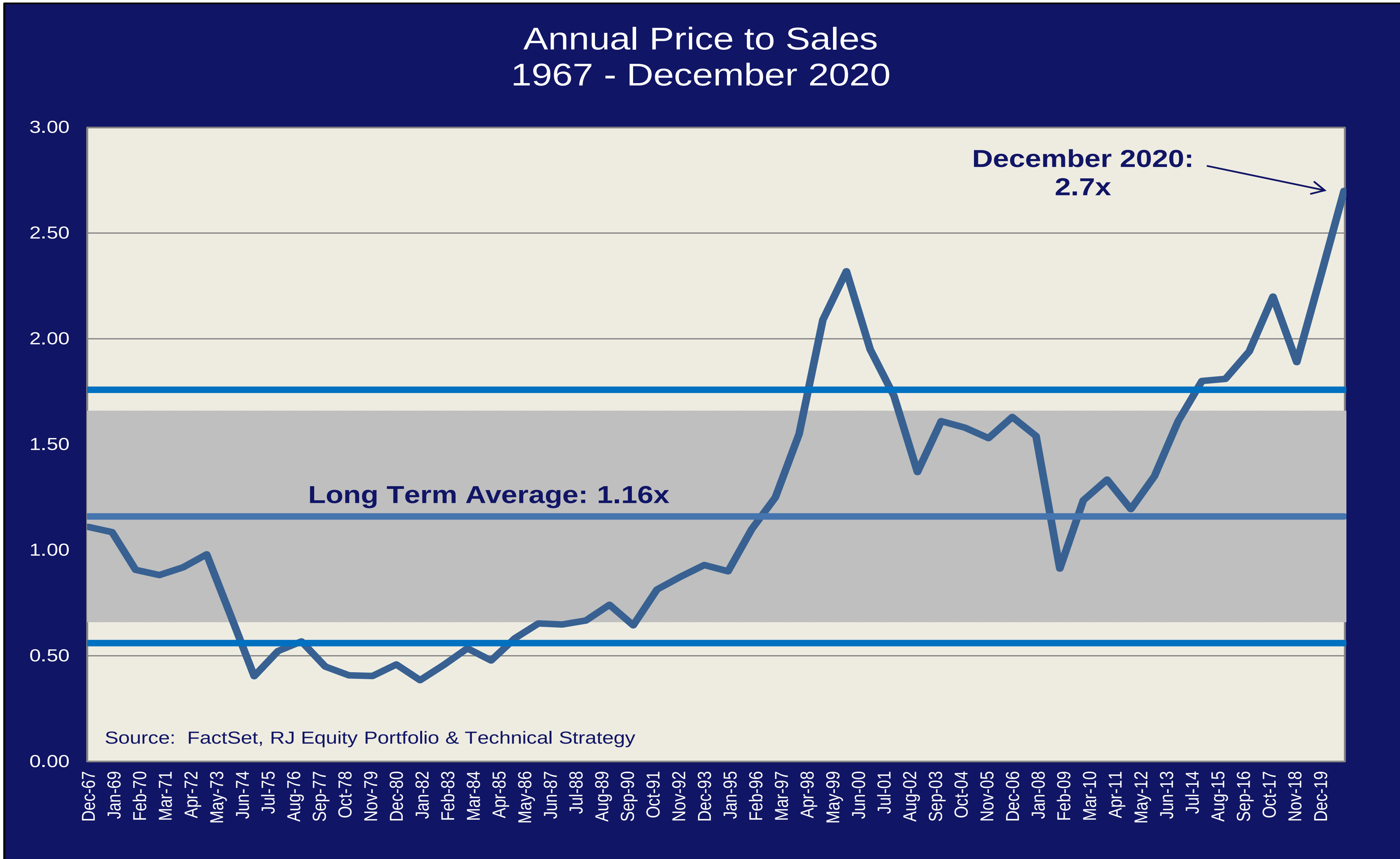
Charts as of 10/1/2021

S&P 500: Inflation-Adjusted P/E



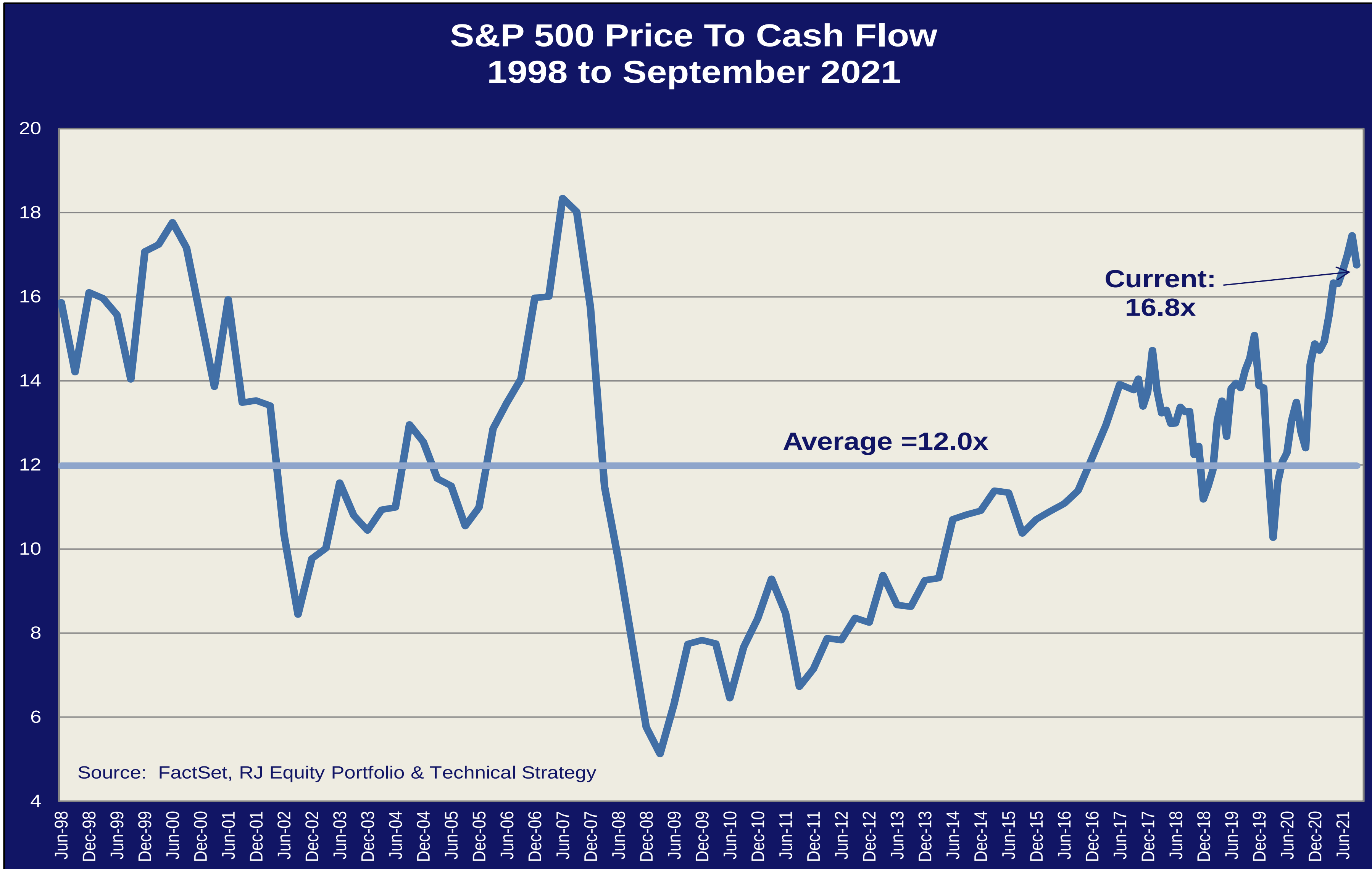
Charts as of 10/1/2021

S&P 500: Price to Sales



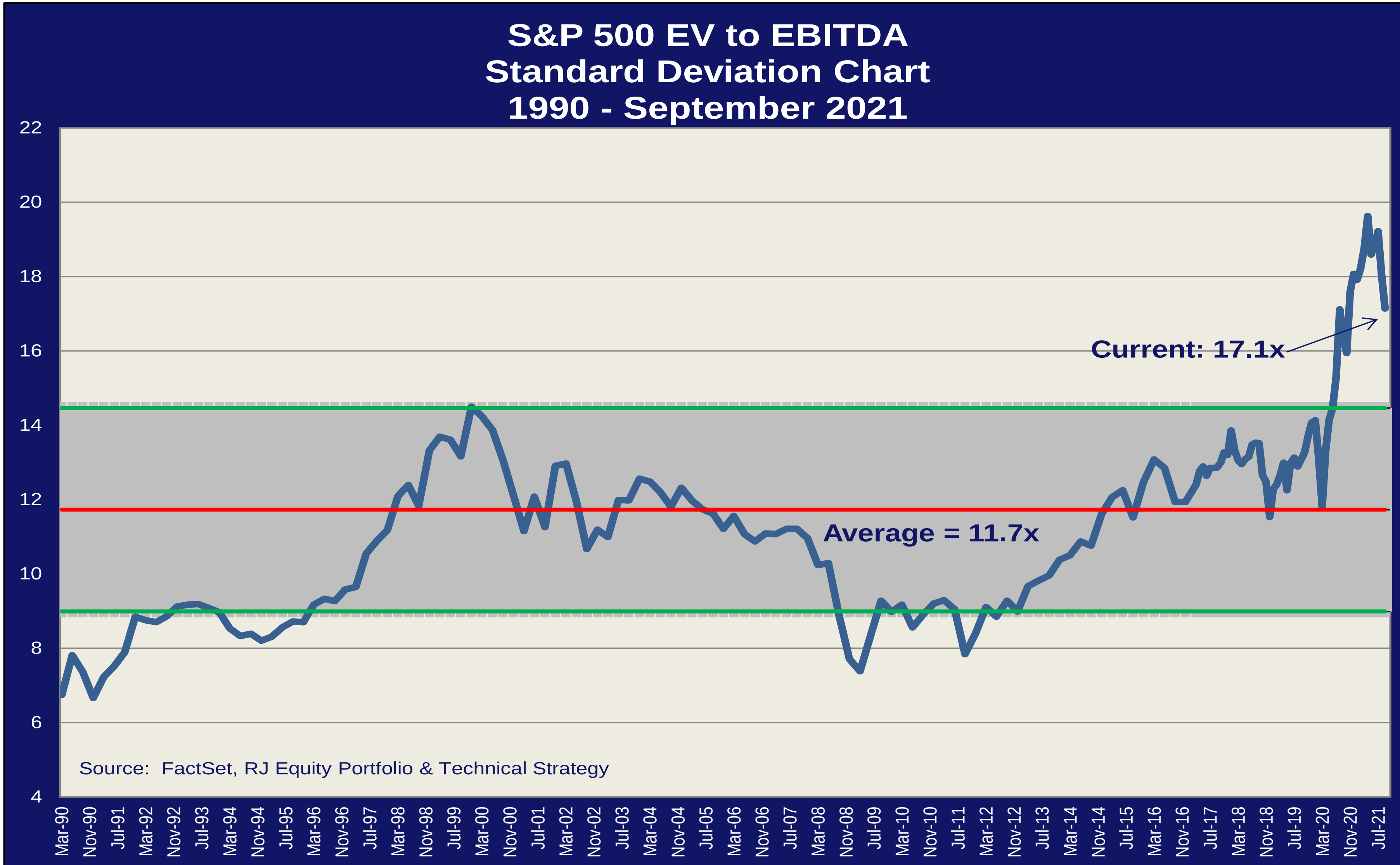
Charts as of 10/1/2021

S&P 500: Price to Cash Flow



Charts as of 10/1/2021

S&P 500: EV to EBITDA



Charts as of 10/1/2021

Sector Recommendations

Link to the full *September 2021 Sector Analysis* report… CLICK HERE

RECOMMENDATIONS

Sector	S&P 500 Weighting	Recommend
Consumer Discretionary	12.3%	Overweight
Financials	11.2%	Overweight
Communications Services	11.2%	Overweight
Industrials	8.0%	Overweight
Energy	2.6%	Overweight
Information Technology	28.1%	Equal Weight
Health Care	13.4%	Equal Weight
Materials	2.5%	Equal Weight
Real Estate	2.6%	Equal Weight
Consumer Staples	5.7%	Underweight
Utilities	2.4%	Underweight

S&P 500 Sector	Weighting Current	Weighting Recommend	Sector Thoughts	Favored Subsectors
Consumer Discretionary	12.3%	Overweight	The Delta variant has acted as a headwind to the economic recovery and prolonged global supply chain issues, resulting in upward pressure on inflation. This has impacted consumer confidence and spending, which in turn has weighed on Consumer Discretionary earnings estimates and relative performance. However, we view these pressures as transitory and continue to view the consumer as in good shape, supported by elevated savings rates, strong credit, abundant job openings, and low interest rates. We view Consumer Discretionary stocks as attractive (following their multi-month consolidation phase) given our positive stance on consumer activity in the next 6-12 months.	Specialty Retail
Financials	11.2%	Overweight	The Fed's strong indication for tapering to begin in December, along with positive stance on the economic recovery in the coming year, has put upward pressure on interest rates and the yield curve in recent days. With this catalyst and an attractive valuation, we believe the Financials could be set for outperformance. We reiterate our Overweight recommendation.	Banks IB & Brokerage
Comm. Services	11.2%	Overweight	The Communication Services sector remains fragmented at the individual stock level, but in aggregate the sector is exhibiting strong fundamental and technical momentum. We continue to view valuation as attractive, and remain favorable on the group's leverage to increased connectivity in the digital economy, along with the 5G rollout.	Media & Entertainment
Industrials	8.0%	Overweight	The Industrials have largely been digesting sharp prior gains since May, as the Delta variant weighed on global production. We believe this headwind is abating, and view inventory replenishment over time along with the likelihood for infrastructure stimulus to be tailwinds to the fundamental outlook. We maintain our Overweight stance and recommend accumulating the sector with it reaching oversold levels near support at the 200 DMA.	Commercial Services & Supplies
Energy	2.6%	Overweight	The Energy sector was able to hold 200 DMA support in its consolidation phase and is showing signs of renewed technical momentum with WTI crude oil prices climbing back to the upper-end of its multi-month range at $74/barrel. The Energy sector is showing the best fundamental momentum of all sectors and continues to generate large free cash flow growth (that is being used for shareholder-friendly purposes). We view valuation as attractive with oil prices at current levels and reiterate our Overweight recommendation.	E&Ps Storage
Information Technology	28.1%	Equal Weight	The Technology sector continues to generate strong fundamental momentum, benefitting from the accelerated trajectory toward economic digitization. Relative performance has been strong in recent months, as Delta variant concerns weighed on economic activity and interest rates. However with the group back to the upper-end of its relative strength range and interest rates showing signs of upside, valuation may become a headwind to relative performance again. We recommend a healthy allocation to Technology, but maintain an equal-weight stance.	Semis Software
Health Care	13.4%	Equal Weight	The health care sector has shown relative performance in recent months as market internals leaned defensive through Delta variant headwinds. Fundamentals remain solid and valuation is inexpensive, however potential drug price legislation remains an overhang as does the potential for sharper changes to the corporate tax code for multinationals. We recommend an equal-weight stance.	Supplies Facilities
Materials	2.5%	Equal Weight	The Delta variant's impact to global manufacturing, along with an upward-trending US dollar, have acted as headwinds to the Materials sector. Earnings growth looks relatively slow in the outlook, though valuation is relatively attractive. With the group pushing to new relative lows as it tests support at the 200 DMA, we maintain an equal-weight recommendation in portfolio allocations.	Steel
Real Estate	2.6%	Equal Weight	The Real Estate sector is breaking its 50 DMA as bond yields show some upside. Relative strength has yet to breakdown (yet), but we find other areas more attractive at the moment. FFO estimates remain in upward trends, though growth is below market averages. We recommend an equal-weight allocation in what remains our favored of the more defensive, interest-sensitive sectors.	RE Services Management & Dev Hotels & Resorts
Consumer Staples	5.7%	Underweight	The Consumer Staples sector continues to lack relative momentum; and given our positive view on the economic recovery, we expect this trend of underperformance to continue. Many stocks in the sector offer less relative pricing power in the rising input cost environment, leading to margin concerns for an already slow-growth sector. We remain underweight.	Tobacco
Utilities	2.4%	Underweight	Utilities continue to exhibit weak fundamental and relative strength trends. Additionally, relative performance pushed to new lows in the past week with bond yields showing upside. Given our positive stance on the economic recovery, along with our expectation for interest rates to grind higher, we recommend an Underweight allocation to this more defensive, interest-sensitive area.	

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

S&P Industry Group Returns (through September 30, 2021)

S&P 500 Industry Group	Class	Beta (3Yr)	1 Month	3 Month	YTD	12 Month
Energy	Cycl.	1.26	8.5%	-2.8%	38.4%	74.0%
Automobiles & Components	Cycl.	1.24	5.8%	8.3%	14.1%	54.0%
Banks	Cycl.	1.27	1.7%	4.1%	32.9%	75.6%
Consumer Services	Cycl.	1.01	0.4%	2.9%	9.6%	25.9%
Telecommunications Services	Def.	0.64	-2.0%	-6.0%	-6.3%	-4.4%
Insurance	Cycl.	1.03	-2.5%	4.4%	20.3%	40.9%
Retailing	Cycl.	0.92	-3.5%	-2.3%	9.3%	14.4%
Commercial & Professional Services	Cycl.	0.90	-3.6%	4.4%	15.7%	29.4%
Household & Personal Products	Def.	0.63	-3.7%	0.0%	-1.0%	1.0%
Food & Staples Retailing	Def.	0.62	-3.9%	4.1%	8.6%	15.4%
Health Care Equipment & Services	Def.	0.95	-4.7%	1.7%	14.2%	26.7%
Food Beverage & Tobacco	Def.	0.72	-4.9%	-3.7%	2.0%	9.6%
S&P 500	-	***1.00***	***-4.9%***	***0.2%***	***14.7%***	***28.1%***
Diversified Financials	Cycl.	1.08	-5.0%	0.0%	25.6%	47.8%
Semiconductors & Semiconductor Equ	Cycl.	1.32	-5.8%	-2.3%	18.4%	36.3%
Software & Services	Cycl.	1.14	-5.8%	1.7%	16.3%	25.4%
Real Estate	Cycl.	0.91	-6.1%	0.2%	22.0%	27.0%
Utilities	Def.	0.77	-6.5%	0.9%	1.7%	7.5%
Capital Goods	Cycl.	1.07	-6.7%	-4.0%	11.7%	31.9%
Pharmaceuticals Biotechnology & Life	Def.	0.72	-6.8%	0.4%	10.1%	15.2%
Media & Entertainment	Cycl.	0.99	-6.9%	2.5%	25.9%	45.9%
Transportation	Cycl.	1.04	-7.2%	-9.9%	3.3%	12.3%
Technology Hardware & Equipment	Cycl.	1.18	-7.6%	2.6%	9.3%	26.7%
Materials	Cycl.	1.01	-7.7%	-3.9%	9.0%	24.2%
Consumer Durables & Apparel	Cycl.	1.09	-12.4%	-7.1%	6.9%	19.8%

Charts as of 10/1/2021

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Definitions

S&P Mid-Cap 400 – Provides investors with a benchmark for mid-sized companies.

S&P Small Cap 600 – Provides investors with a benchmark for small-sized companies.

U.S. Treasury – Securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

200-DMA– 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.

50-DMA– The 50-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 50 days.

Weighting – Sector percentage (%) of S&P 500

Total Return – Price return including dividends received

Beta – Measure of volatility in comparison to the market as a whole

Dividend Yield – Dividends received divided by price; reflects the percentage return off of dividends received.

Dividend Payout Ratio – Dividends distributed divided by net income; reflects the percentage of net income distributed in dividends.

Long-Term EPS Growth – Estimated earnings per share growth over the next three to five years, as received from consensus analyst forecasts.

Free Cash Flow Yield – Free cash flow divided by price. The free cash flow per share a company is expected to earn against its market price per share.

Price to Sales – Market cap divided by sales of companies in the sector or S&P 500

Price Earnings Ratio (P/E) – The price of the stock divided by its earnings per share.

EV to EBITDA – Enterprise Value (EV) divided by EBITDA (Earnings Before Interest, Tax, Depreciation, & Amortization).

- LTM P/E – P/E calculated with the last 12 months earnings reported.
- NTM P/E – P/E calculated with the consensus earnings estimates over the next 12 months.

Relative P/E – The sector's multiple divided by the S&P 500 multiple; represents a premium or discount relative to the S&P 500's valuation. We use last 12-month P/E in this report.

Relative Ratio – The sector's relative P/E multiple vs. its respective 10-year average relative P/E.

Relative Strength – Calculates price performance relative to the S&P 500 over time.

Standard Deviation – Measures the fluctuations of returns around the arithmetic average return of investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

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 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

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