Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com

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2021 2nd Quarter Equity Market Update

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Outlook:

Rapid vaccinations (>2/3rds of US adults have received at least one dose) have spurred a sharp reduction in daily COVID case counts and hospitalizations since the start of the year. This has resulted in a swift economic reopening which, boosted by enormous amounts of stimulus, is likely to push 2021 economic growth to its fastest pace in almost 40 years. And this economic momentum remains with manufacturing and services surveys continuing to advance at very strong levels. In fact, the sharp rate of recovery is creating inflation concerns for investors as supply has been unable to meet this heightened demand. This dramatic demand vs. supply imbalance could last for months, but we believe should abate over time as stimulus ebbs and supply chains reopen. Productivity growth (due to economic digitization) should also help offset inflationary pressures. Importantly, the Fed is expected to remain accommodative as the labor market recovery still has a way to go, and raising rates will come because the economy is strong.

The most important influence for equities over the long term is earnings, and earnings growth remains strong. Q1 earnings season posted one of the strongest upside surprises in history with S&P 500 earnings growth finishing up 49% y/y (more than double the 21.6% consensus expectation). This is leading to markedly higher earnings revisions for 2021 and 2022, with upside to estimates remaining in our view. In fact, we believe **S&P 500 earnings will hit $200 in 2021 (+45% growth y/y)**. As earnings continue to recover, elevated valuation multiples should normalize in the back half of the year. In fact, the S&P 500 currently trades at a 25x P/E multiple (down from a 28x peak) which we believe will move directionally toward pre-pandemic levels (~22x) by year-end. The upshot is our belief the normalization in valuation will outweigh robust earnings growth, providing further upside to equities- $200 earnings estimate and 22x P/E assumption results in a base case **S&P 500 target of 4400** by year-end.

While equity market performance has been historically strong over the past year, it is normal for year two of a bull market to moderate its rate of ascent. Inflation, Fed communication, and the debate over stimulus/taxes are likely to gain significance in the back half of this year. These items (among many others) can lead to short term volatility, something that has generally eluded equities in a broad sense since positive vaccine news in early November. The largest drawdown for the S&P 500 since then has been ~5%, while it is very normal (and healthy) historically to have 8-12% pullbacks in a bull market recovery throughout a year. We view the fundamental and technical backdrop as supportive over the intermediate term, and continue to see the positives as outweighing the potential negatives. Thus, we recommend using potential weakness as a buying opportunity. As has been the case for months now, volatility is likely to be seen more significantly beneath the surface as sector rotation continues to play out- leaving plenty of opportunity for active investors with our **bias towards pro-cyclical sectors, Value over Growth with new funds, and U.S. equities exposure over Emerging Markets.**

Table of Contents

Summary of key data points

Support for Equities: Pages 4-7- We continue to believe the positives outweigh the negatives and recently raised our 2021 and 2022 EPS estimates and revised our fair value price objective higher for the S&P 500 (June 23, 2021) following the Fed raising its 2021 GDP outlook and another stellar quarter of earnings surprises. Our base case 2021 price objective is 4400 (which would be a return of ~17% for 2021) with an upside scenario of 4830 (which would be 12.4% from current levels).

1. **Credit Spreads and EPS Growth:** Pg. 9-10; Credit spreads and EPS growth continue to be supportive of equities and risk assets. Credit spreads tend to widen when economic risks are elevated and contract when the economy is doing well. Looking at the credit market, it remains supportive of equities as spreads continue to contract. Moreover, one of the highest correlations to equity market returns is earnings per share. We continue to believe consensus remains too conservative and would expect NTM EPS to continue to move higher, another supportive sign for equities and influences our bias towards **cyclicals**.
2. **GDP Estimates Continue to Favor US Equities:** Pg. 13-15; U.S. GDP growth in 2021 is expected to be robust. Currently, consensus estimates of 6.5% are lower than the 7% predicted by the FOMC. However, consensus US GDP growth estimates continue to be revised higher, which we believe will continue and is supportive of **US equities** as many other areas globally have seen GDP revisions decline or remain relatively stable.
3. **Productivity Gains Could Shift Potential GDP Growth Higher:** Pg. 16-17; For several years, a move higher in productivity has been underway and despite the challenges of 2020, this trend was able to remain intact and has seen some acceleration into the beginning of 2021. A sustainable move higher in productivity could shift the potential GDP outlook higher for the US, which we believe would be positive to drive EPS growth and equity returns.
4. **Leading Indicators Remain Strong:** Pg. 18; YoY Growth in Leading Economic indicators remains robust and well above levels seen during the recovery from the prior bubbles (dot com bubble and Great Financial Crisis) which provides a nice backdrop for US equities.
5. **The US Consumer Remains Strong:** Pg. 19; The US consumer remains strong as Consumer Confidence in the outlook for the present situation has improved, personal savings rate of 12.4% remains well above the average of 6.9%, which provides a nice tailwind for **Consumer Discretionary** stocks, and the highest level of personal income growth (since 1985) has pushed personal consumption growth to nearly 20% YoY.
6. **Supportive Central Banks:** Pg. 20; Central banks globally remain supportive as equities continue to feed on loose monetary policies. Money Supply remains robust, expansion of the Fed balance sheet (at 34% of nominal GDP), and a stated policy to keep rates low until 2023 provides a nice backdrop for stocks.

Risks to Equities: Pages 21-36: We see mounting risks to equities, however, we still believe these risks are not enough to derail the bull market, which is still in its infancy stages.

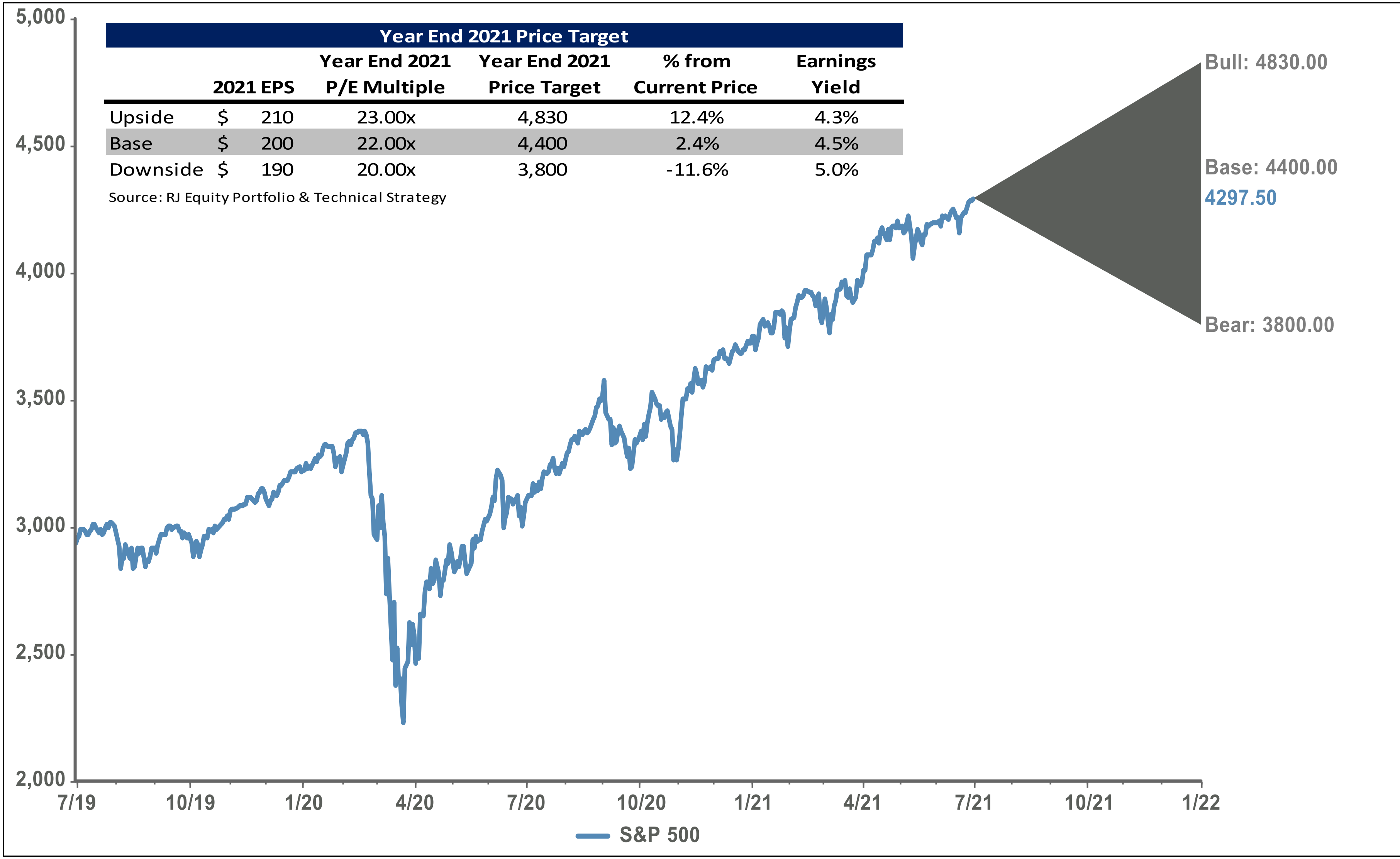
1. **Near-term Intra-year Pullback and Seasonality:** Pg. 22-23; The S&P 500 has not experienced a "normal" intra-year pullback. So far, YTD, the largest pullback has been 5.7%, which is well below the historical intra-year sell off during bull markets of 8-12% and below the normal drawdown of 12.9% in the second year of a recovery from bear market lows. While we see the potential for some consolidation in the near-term, we would use it as a buying opportunity to add to favored sectors if a pullback does ensue.
2. **Interest Rates:** Pg. 24-26; The movement in interest rates has been unusual as yields have been moving lower despite strong CPI inflation readings recently and a more hawkish Fed. We examine several factors that could influence interest rates to move higher and lower over the near-term, but our overall base case would be for yields to grind higher towards pre-pandemic levels, but remain under 2% by year-end.
3. **Policy Error:** Pg. 27-28; The market is implying that the Fed will act earlier than expected with a Fed hike as early as December of 2022 while the Fed dot plot projections do not expect a rate hike until 2023. Policy error (of the Fed raising rates too early) is certainly a risk, but given the slack in the labor market, we believe the Fed can hold out and keep yields lower for longer, which is supportive of equities.
4. **Inflation:** Pg. 29-35; Inflation has become a central focus of the market given its influence on the Fed and valuations. While we are seeing elevated levels of inflation currently, we remain in the camp that inflation is likely transitory and caused by supply chain issues and the large imbalance between demand and inventories. As this works through, we would expect inflation to normalize.
5. **Emerging Markets:** Pg. 36; Historically, there has been an inverse correlation between long-term inflation expectations and the US dollar. As inflation expectations are reduced, this could provide **upward support for the US Dollar, which would be a negative for Emerging Markets**.

Backdrop Remains Strong in 2021; Normalization in 2022: Pages 37-42. As would be expected after robust growth, many areas of the economy will begin to normalize in 2022 such as **1) Money Supply Growth (pg. 38); 2) GDP Growth (pg. 39); 3) Valuation (pg. 40); 4) Economic Surprises (pg. 41); and 5) Earnings Season Surprises (pg. 42)**. Despite some normalization (from elevated levels), we still see the backdrop remaining strong and supportive for equities as many of these areas will remain above long-term averages.

2021 Price Objective

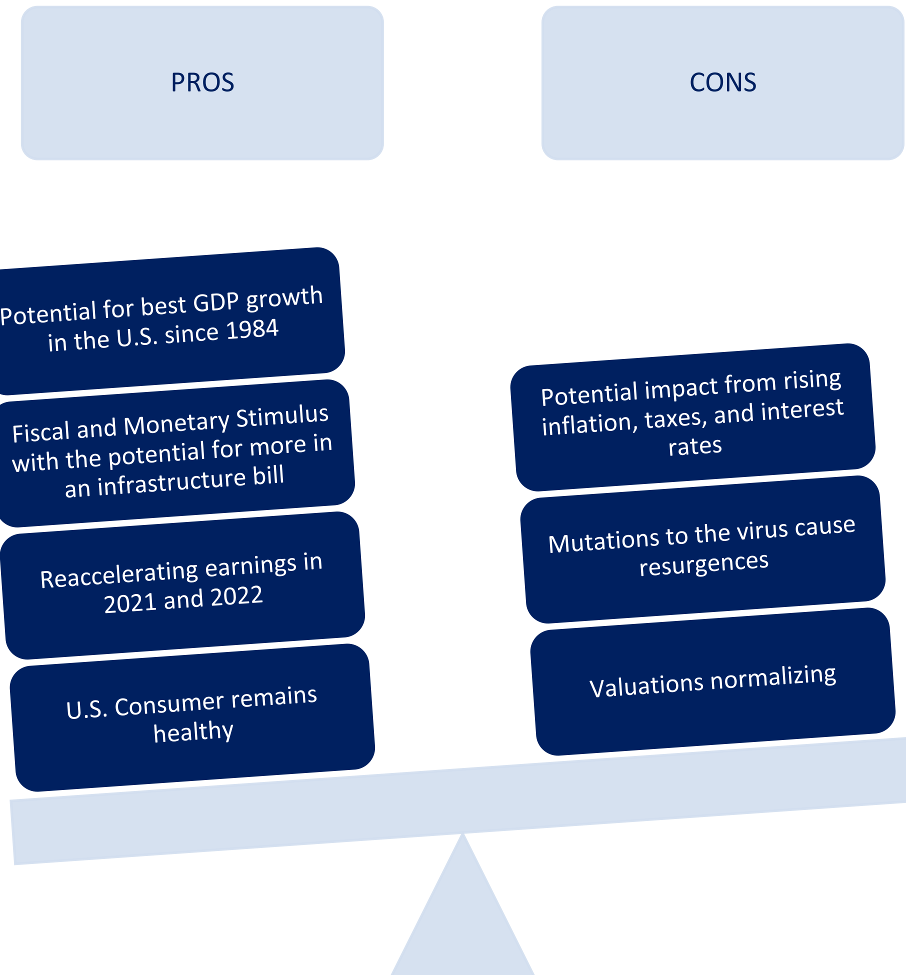
Year End 2021 Price Target						
	2021 EPS	Year End 2021 P/E Multiple	Year End 2021 Price Target	% from Current Price	Earnings Yield
Upside	$ 210	23.00x	4,830	12.4%	4.3%
Base	$ 200	22.00x	4,400	2.4%	4.5%
Downside	$ 190	20.00x	3,800	-11.6%	5.0%

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 June 30, 2021 of 4,297.50

2021 Outlook



Positives outweigh the negatives

Source: FactSet and RJ Equity Portfolio & Technical Strategy

2021 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	Earnings Yield
Upside	$	210	23.00x	4,830	12.4%	4.3%
Base	$	200	22.00x	4,400	2.4%	4.5%
Downside	$	190	20.00x	3,800	-11.6%	5.0%

Source: RJ Equity Portfolio & Technical Strategy

We recently raised 2021 EPS estimate and revised our fair value price objective higher for the S&P 500 (June 23, 2021). Our prior upside scenario became our base case. Overall, the macro continues to point to a strong re-opening in 2021 with high frequency data such as airline travel and restaurants showing nice improvements, the US consumer remains strong, the Fed remains accommodative (although slightly more hawkish takeaways from its latest June meeting), and COVID-19 mitigation efforts continue to become less stringent as the number of cases move lower while the percentage of fully vaccinated people in the US continues to rise. This led the Fed to recently raise its 2021 GDP growth expectations to 7% from its prior projection of 6.5% in March. Additionally, earnings surprises, which we thought might moderate some after three prior quarters of robust upside surprises, remained strong for the fourth consecutive quarter in 1Q'21. All in all, the stronger US macro backdrop in 2021 continues to show upside to current consensus expectations of $189.24, and we believe could be closer to $200 (in our base case) by year-end, which would reflect YoY growth of ~45%.

Year End 2021 Price Target:
Base Case Scenario: 4,400 (2021 EPS- $200, P/E Multiple 22x)

- The pace of the vaccinations continues to improve, resulting in faster economic growth as the economy reopens- currently the Fed is projecting 7% GDP growth in 2021.
- Unprecedented levels of stimulus have their intended impact as excess personal savings rates are spent as the economy reopens and consumers resume some sense of normalcy.
- Historical trend of earnings revisions moving higher coming out of recessions holds true.
- Interest rates and inflation do not run away to the upside.
- Valuation multiples begin to normalize, but can stay above average given enormous stimulus, still relatively low interests rates, low inflation, and no attractive alternative to equities.

Upside Scenario: 4,830 (2021 EPS- $210, P/E Multiple 23x)

- All goes better than expected and economic growth in the re-opening is robust.
- The much stronger growth outlook is offset by some degree of modest inflation (but remains in check), and the Fed remains accommodative given that some inflation is transitory as the economic reopening results in higher prices as re-stocking of inventory ensues.
- Valuations are more resilient than expected given the low interest rates, accommodative Fed, and stronger growth expectations and finish the year at 23x

Downside Case: 3,800 (2021 EPS- $190, P/E Multiple 20x)

- Economic growth rebounds, but not as strongly as anticipated
- Interest rates and inflation continue to be the central influences on equity markets causing more significant multiple compression.
- Given the Democrats control of government, fears increase of aggressively higher taxes as the economy gets on firmer footing.
- Slower-than-expected growth, rising fears of inflation, risk of a more hawkish Fed, and risk of higher taxes in the future are too much as P/E multiples compress to 20x.

Source: FactSet and RJ Equity Portfolio & Technical Strategy
% from Current Price is priced from the S&P 500 closing price on June 30, 2021 of 4,297.50

2022 S&P 500 Fair Value

Year End 2022 Price Target					
	2022 EPS	Year End 2022 P/E Multiple	Year End 2022 Price Target	% from 2021 Base Case	Earnings Yield
Base	$ 230	20.00x	4,600	4.5%	5.0%

Source: RJ Equity Portfolio & Technical Strategy

While there is much uncertainty as we look ahead to 2022, we continue to see upside to equities as nice growth in EPS is likely offset by continued normalization in P/E multiples. There are mounting fears such as inflation (many believe the recent elevated readings are transitory), taxes (the odds of increased taxes in 2022 is actually moving lower), Fed moving faster than expected (median dot plots continues to point to 2023 before the first rate hike), and deceleration in the GDP growth rate (expected to moderate from elevated growth levels, but GDP is still expected to grow above trend in 2022 based on consensus expectations), we believe P/E multiple compression to 20x (compared to today's multiple of nearly 25x) reflects these potential risks. Moreover, we continue to see the US economy as strong and believe the positives can outweigh the negatives as the market is likely to climb the wall of worry in 2022 to achieve our base case price target of 4,600.

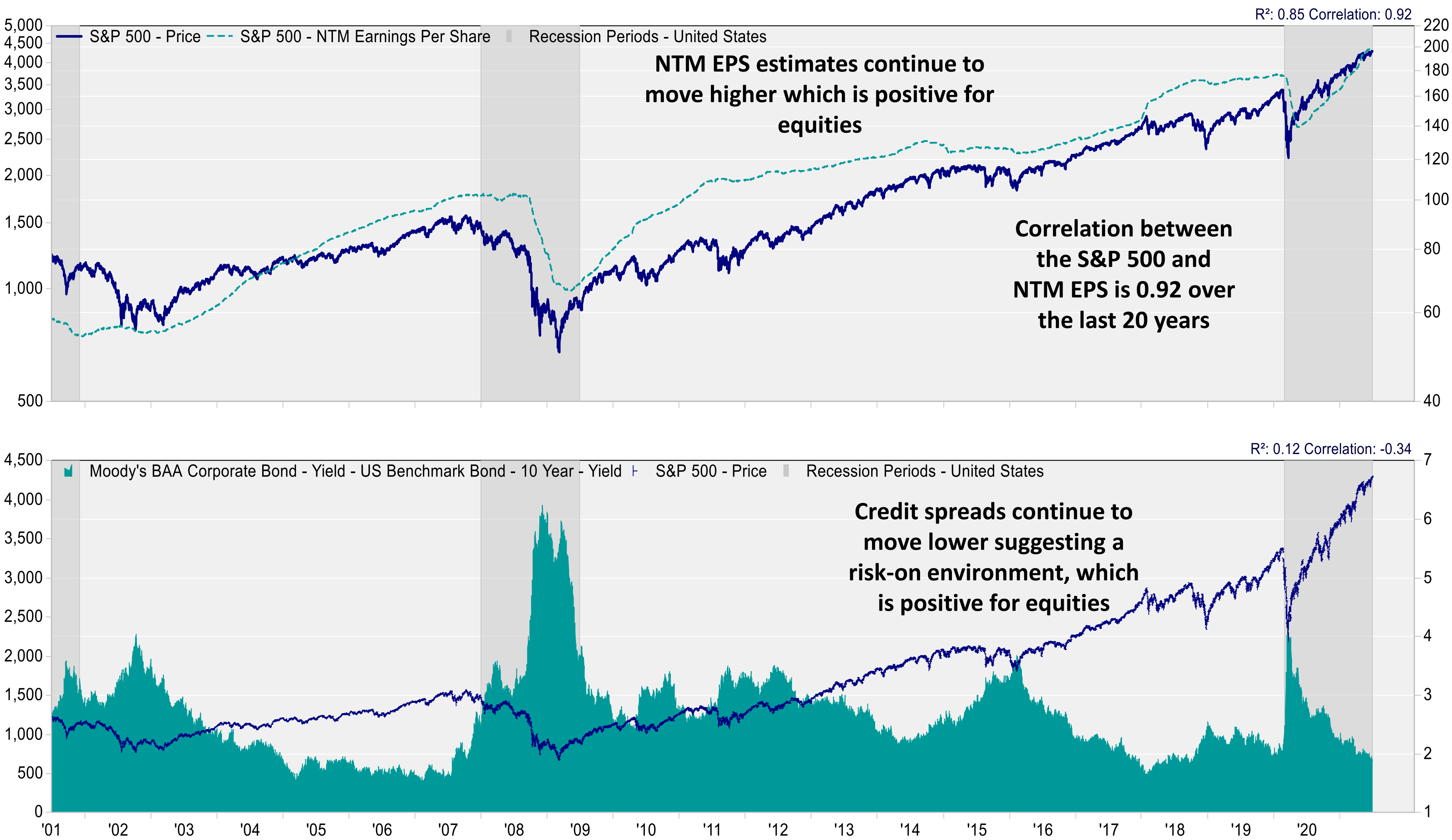
Year End 2022 Price Target:
Base Case Scenario: 4,600 (2021 EPS- $230, P/E Multiple 20x)

- COVID-19 has limited impact as most everyone within the US (that wants to be) is vaccinated and pent-up demand for travel/leisure activities remains robust (with the potential for international travel as vaccine distribution improves worldwide including emerging economies).
- Unprecedented stimulus globally and reopening continues to drive above normal economic growth (albeit a moderation from elevated growth in 2021).
- Inflation does not run away to the upside and the Fed remains accommodative.
- Potential mounting risks are reflected by the multiple compression as it normalizes back towards long-term average, however, stays elevated given stimulus, low interest rates, and low inflation.

Source: FactSet and RJ Equity Portfolio & Technical Strategy
% from Current Price is priced from the S&P 500 closing price on June 30, 2021 of 4,297.50

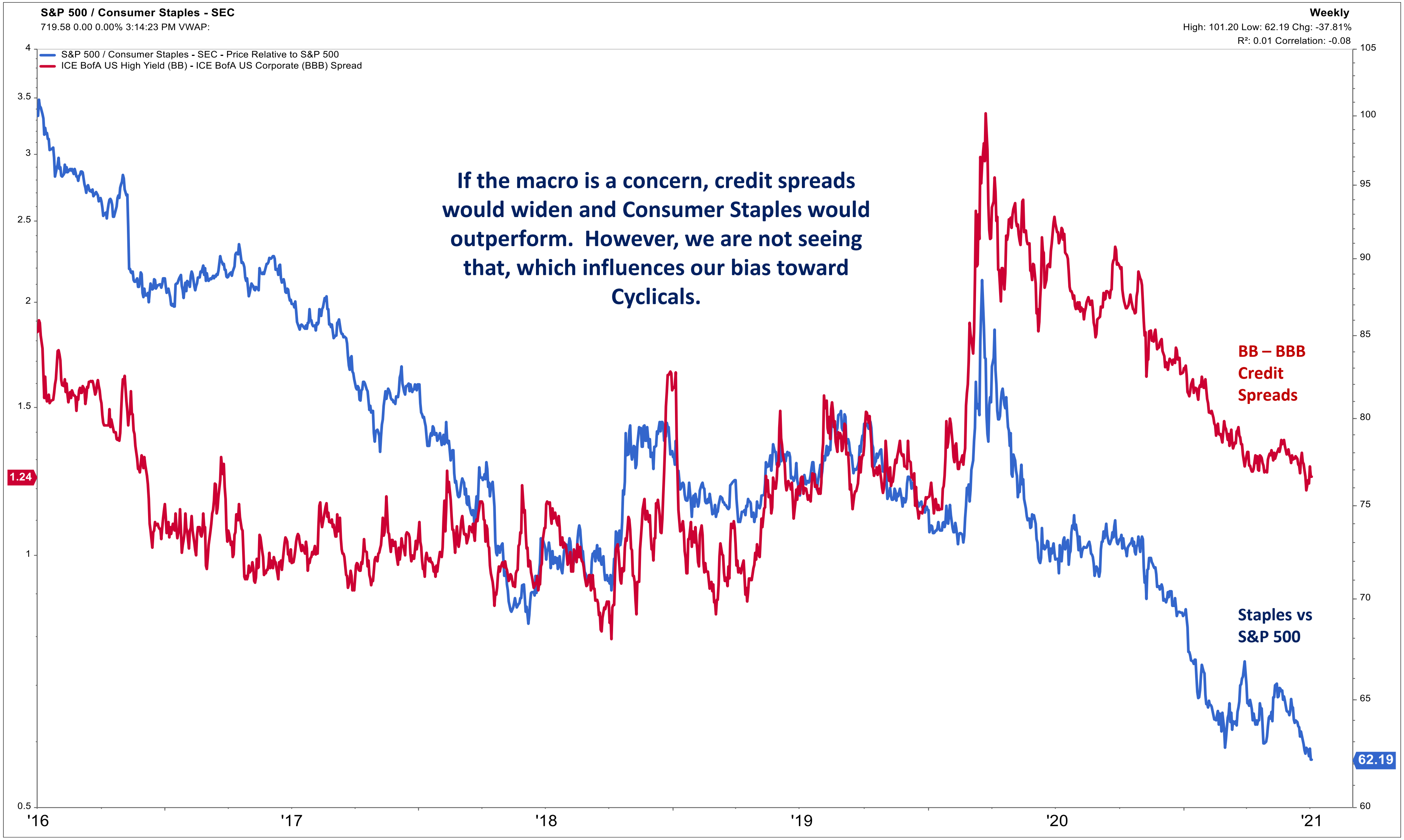
Support for Equities

Credit Spread and EPS Growth Positive for Equities



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Bias towards Cyclicals

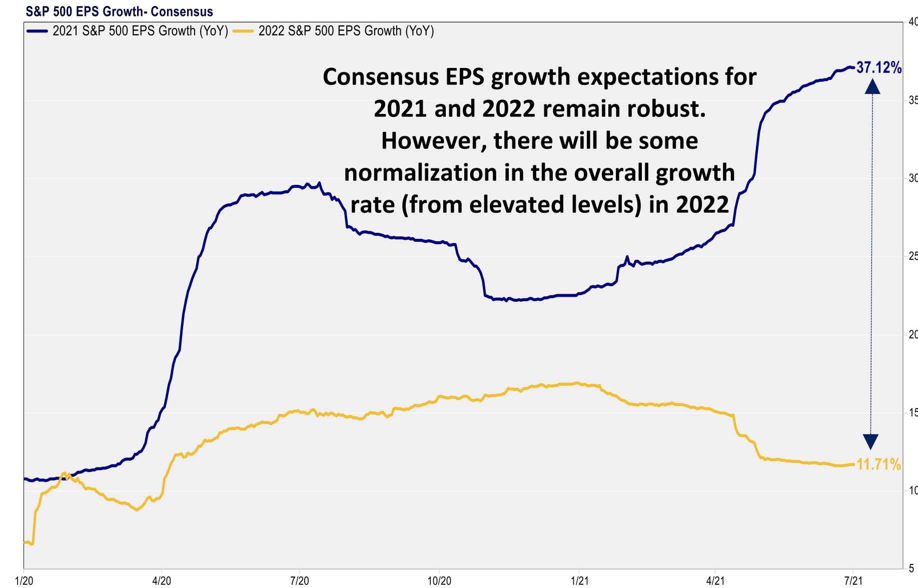


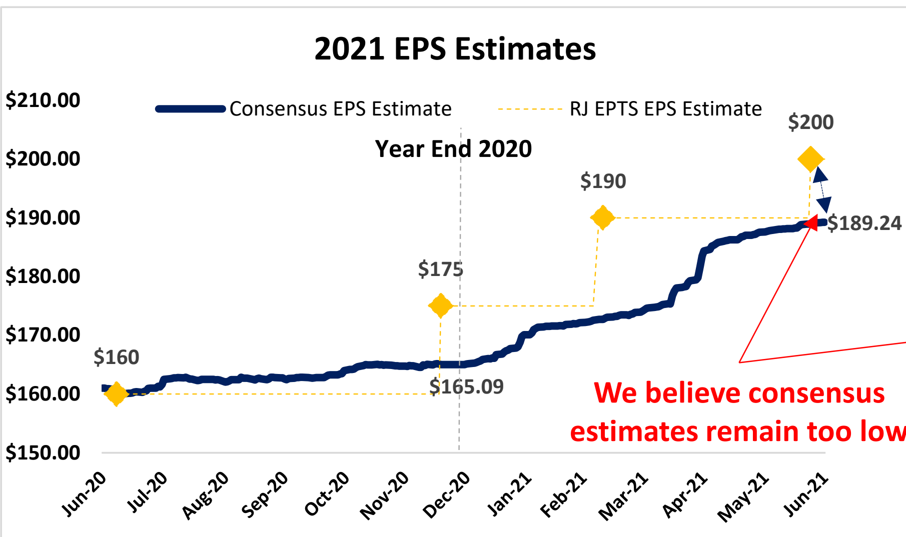
Source: FactSet and RJ Equity Portfolio & Technical Strategy

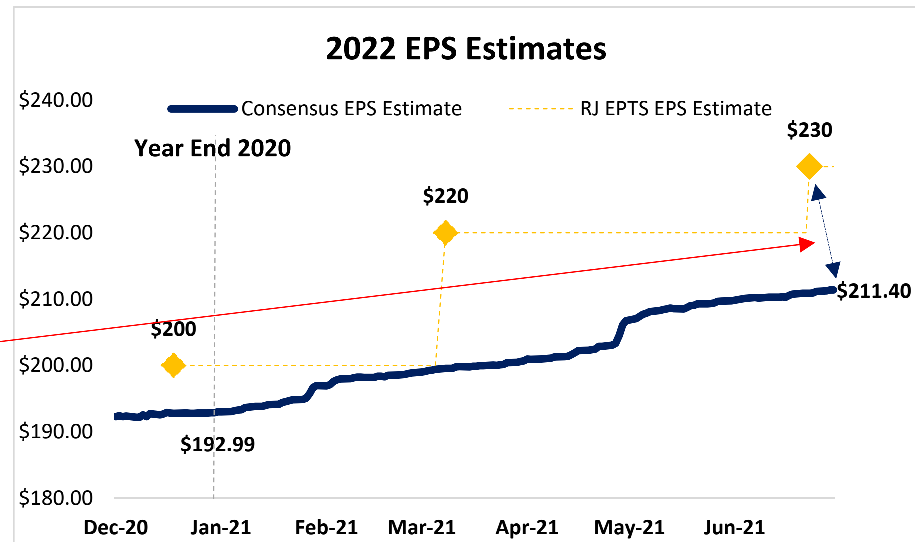
EPS Estimates

Earnings continue to do the heavy lifting in 2021 to drive equity returns (as valuations normalize). S&P 500 earnings growth is expected to be robust in 2021 and remain above trend in 2022 driven by rapid economic re-acceleration, unprecedented stimulus, a healthy consumer, and increased productivity. While there are mounting concerns of inflation, interest rates, taxes, and some normalization (albeit from elevated levels), we do not believe these fears are enough to offset the strong fundamentals.

Additionally, as seen below, since the beginning of the year, as vaccines rolled-out and the consumer benefited from additional stimulus, the Raymond James EPTS EPS estimate has consistently been above consensus expectations and it is our belief that consensus expectations are still too conservative for 2021 and 2022. We are expecting EPS growth of ~45% and ~15%, respectively, vs. consensus at 37.1% and 11.7%.







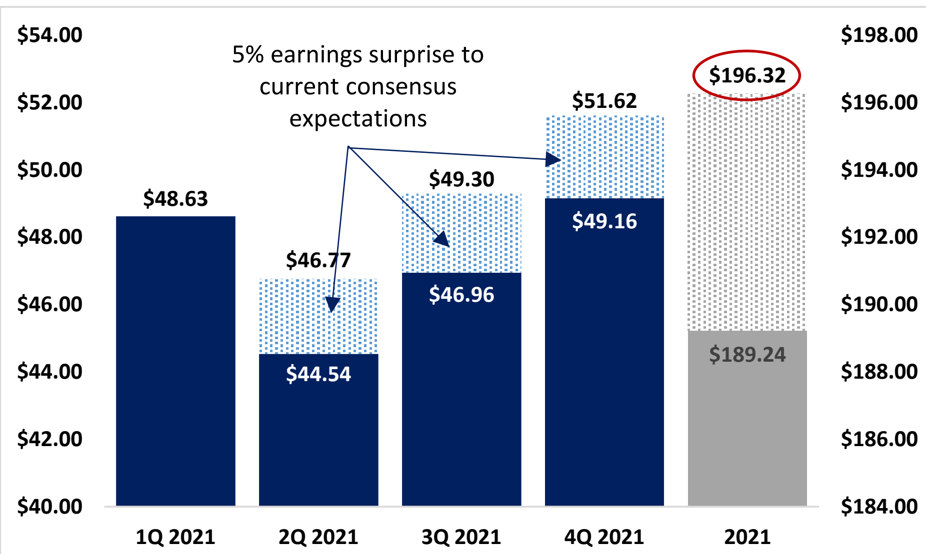
Source: FactSet and RJ Equity Portfolio & Technical Strategy

EPS Estimates- Scenarios

We find it somewhat unusual that consensus estimates have 2Q and 3Q EPS estimates below 1Q'21 reported earnings. As seen on the prior page, we believe consensus EPS estimates for 2021 remain too low, so we examined what would happen to earnings under multiple scenarios: 1) normalized EPS surprises of 5% to consensus expectations and 2) the quarterly seasonality (median QoQ growth since 2002) in EPS, and under these scenarios we believe earnings could be between ~$195-$205 for 2021, which is above consensus expectations of $189.24.

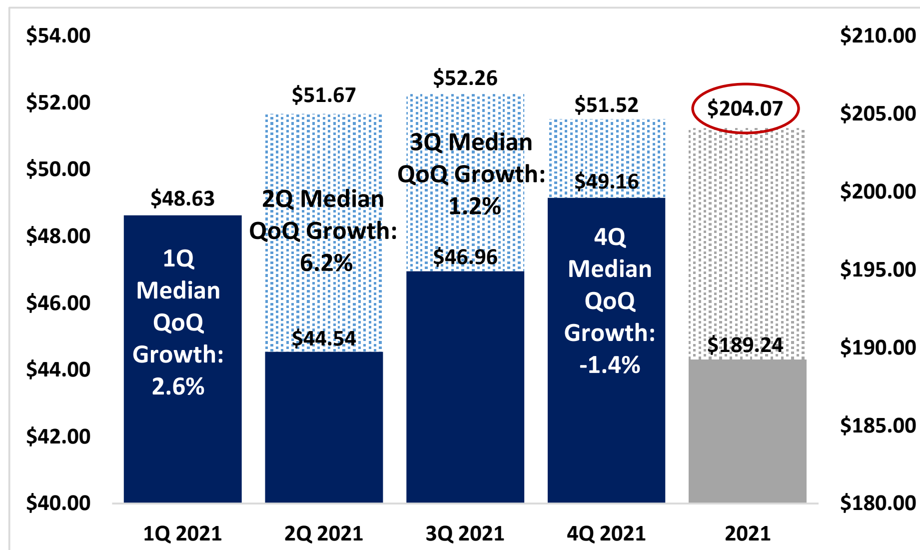
Normalized EPS Surprises to Current Consensus Expectations

As seen on page 42, the average quarterly EPS surprise is 5%. Applying a 5% surprise to each of the remaining quarters for 2021, the annual EPS would be $196.32, or ~3.7% above consensus expectations.



Quarterly Seasonality Growth in Earnings

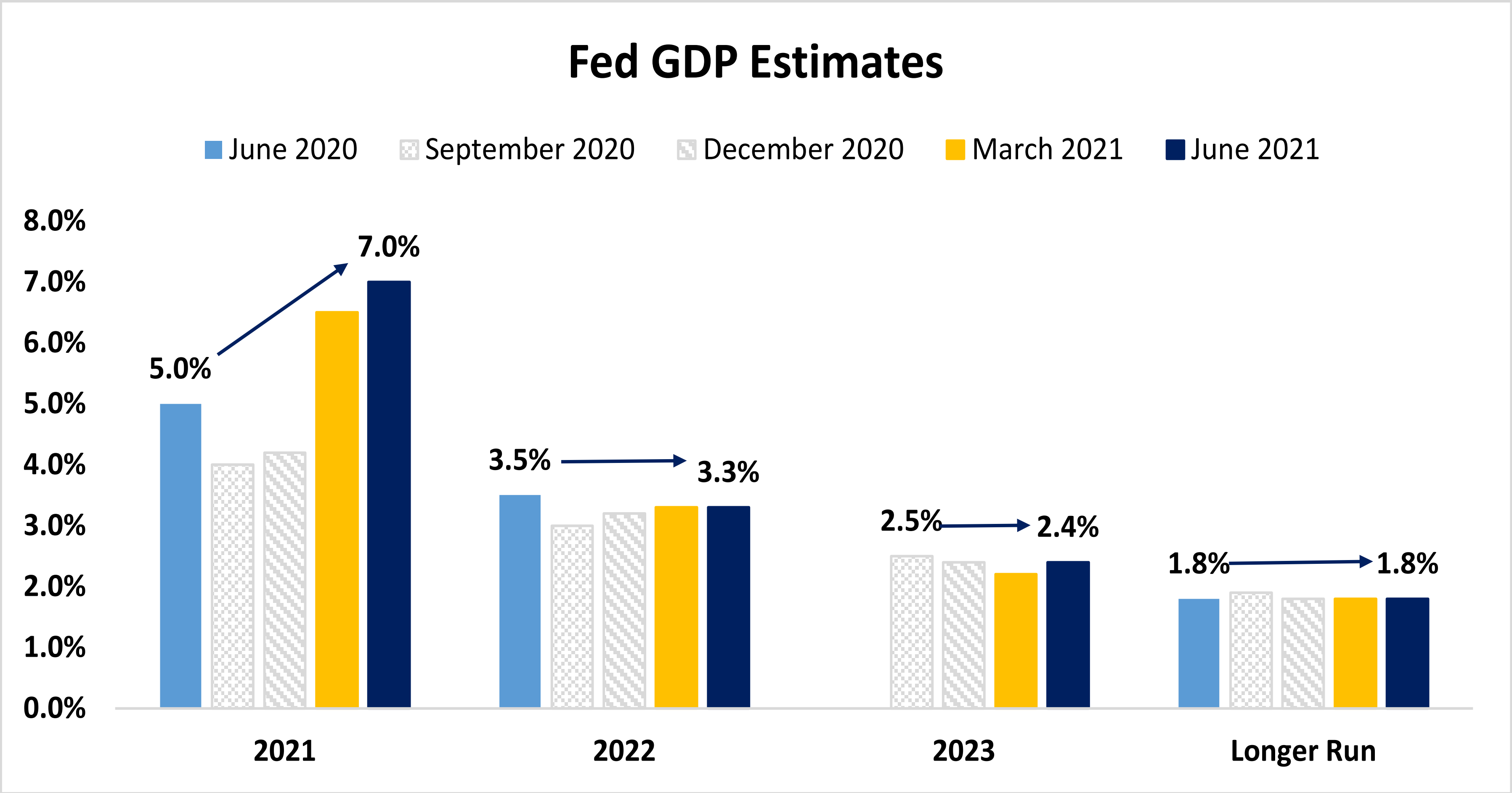
Historically, there is quarterly seasonality for S&P 500 EPS with Q2 seeing the largest QoQ growth (above Q1 levels). The normal cadence is for earnings to increase QoQ during 1Q, 2Q, and 3Q before some seasonality in 4Q. While there may be many puts/takes each year, applying the median QoQ EPS growth rate (since 2002), we arrived at a scenario of EPS at $204.07, which is ~8% above current consensus expectations.



Source: FactSet and RJ Equity Portfolio & Technical Strategy

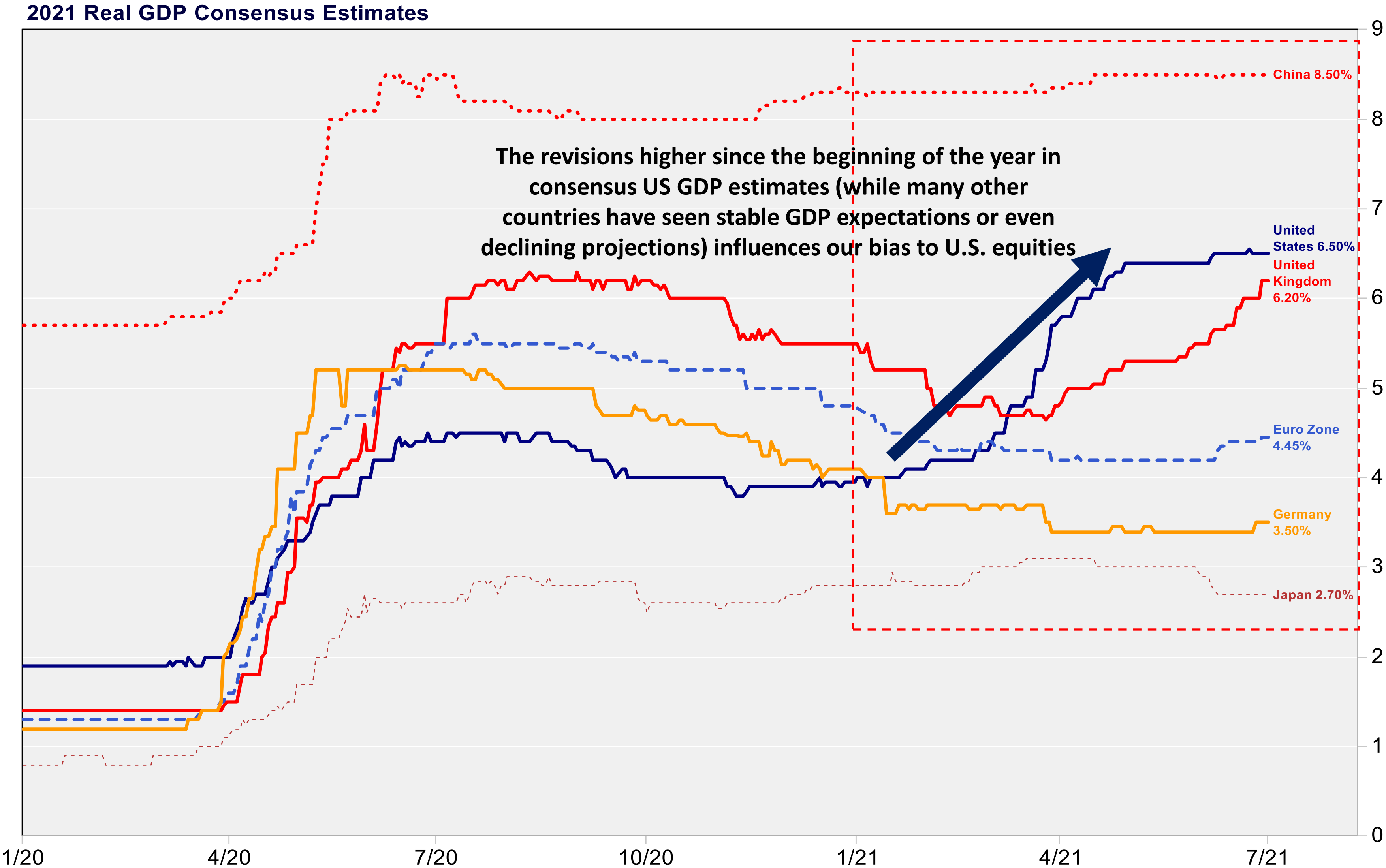
GDP Estimates

Fed expectations for 2021 GDP growth has been revised nicely higher while growth expectations have stayed relatively consistent over the past year for 2022, 2023, and longer-run. While GDP growth will normalize, we remain constructive as the overall level of GDP is expected to stay above trend for the foreseeable future.



Source: FactSet and RJ Equity Portfolio & Technical Strategy

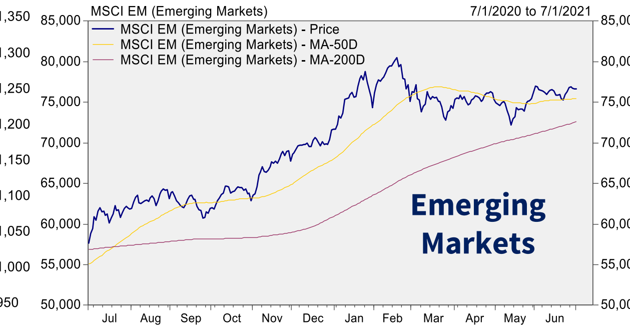
GDP Estimates

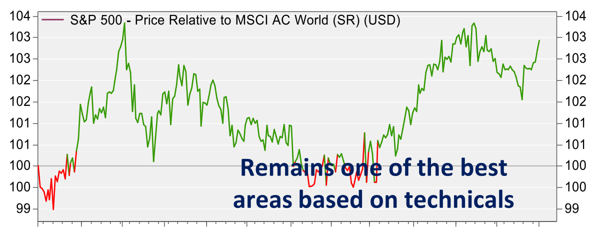


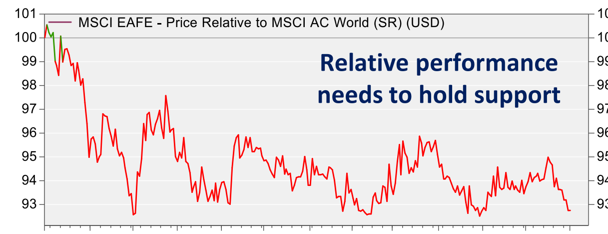
Source: FactSet and RJ Equity Portfolio & Technical Strategy

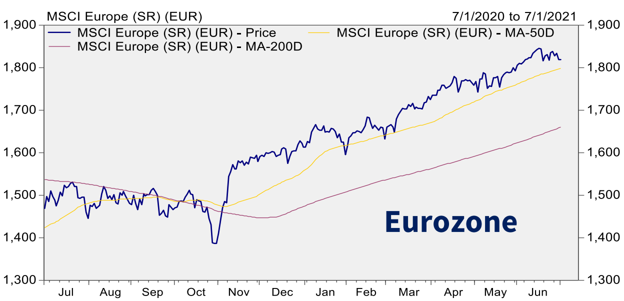
Global Asset Allocation

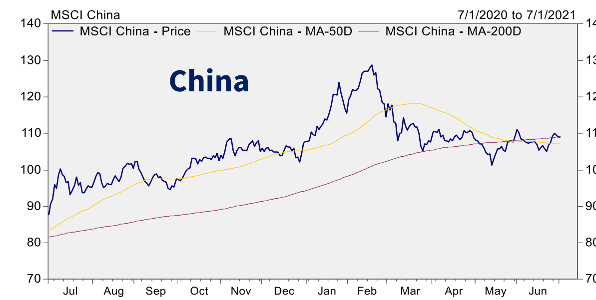
USA continues to look the best; Eurozone is one area to keep an eye on

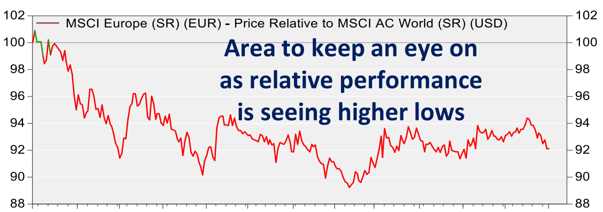


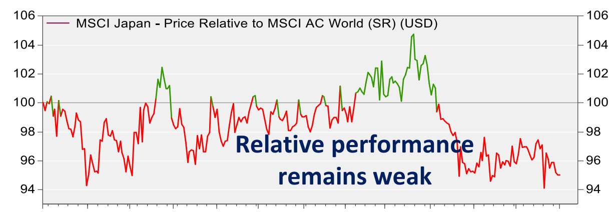








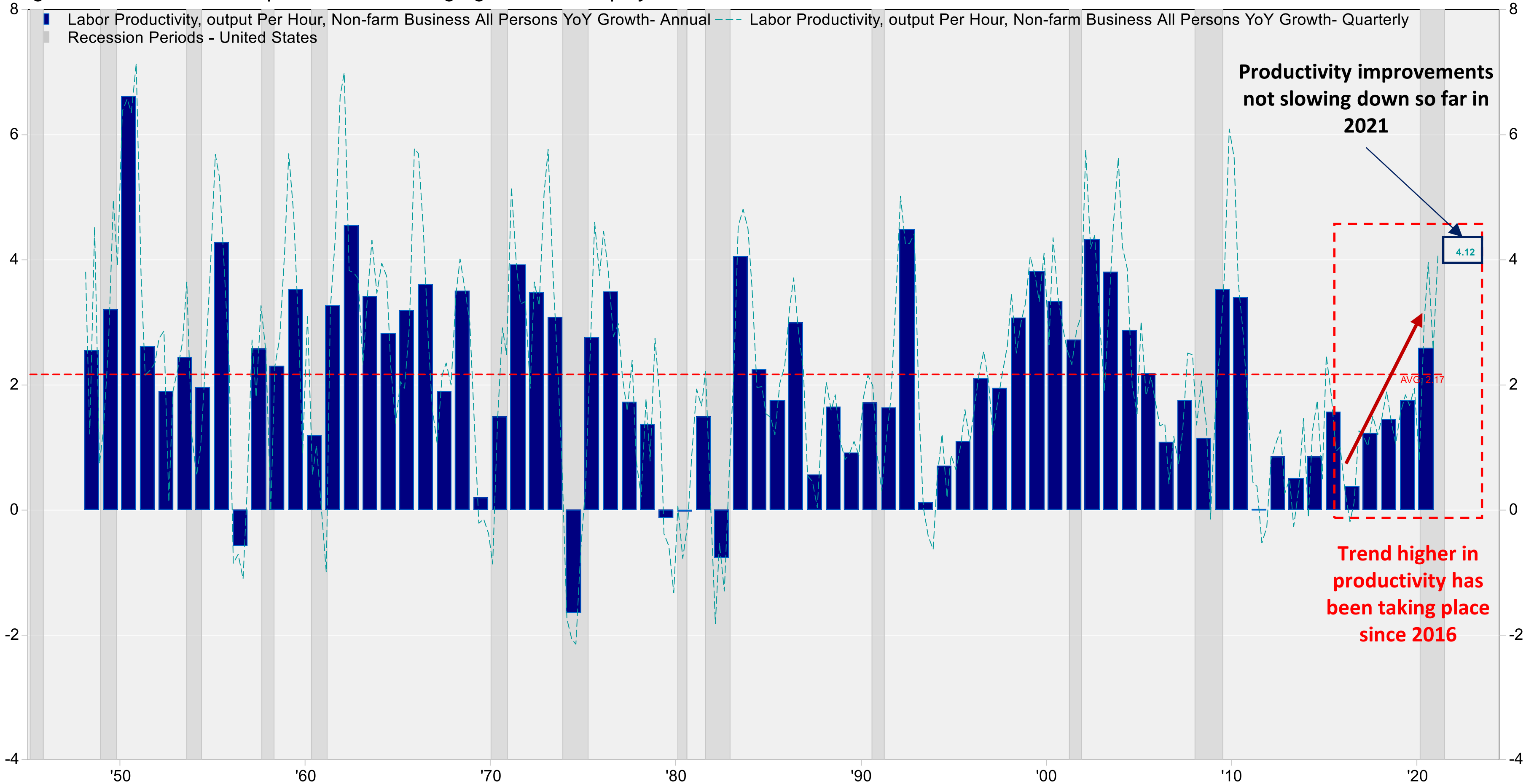




Source: FactSet and RJ Equity Portfolio & Technical Strategy

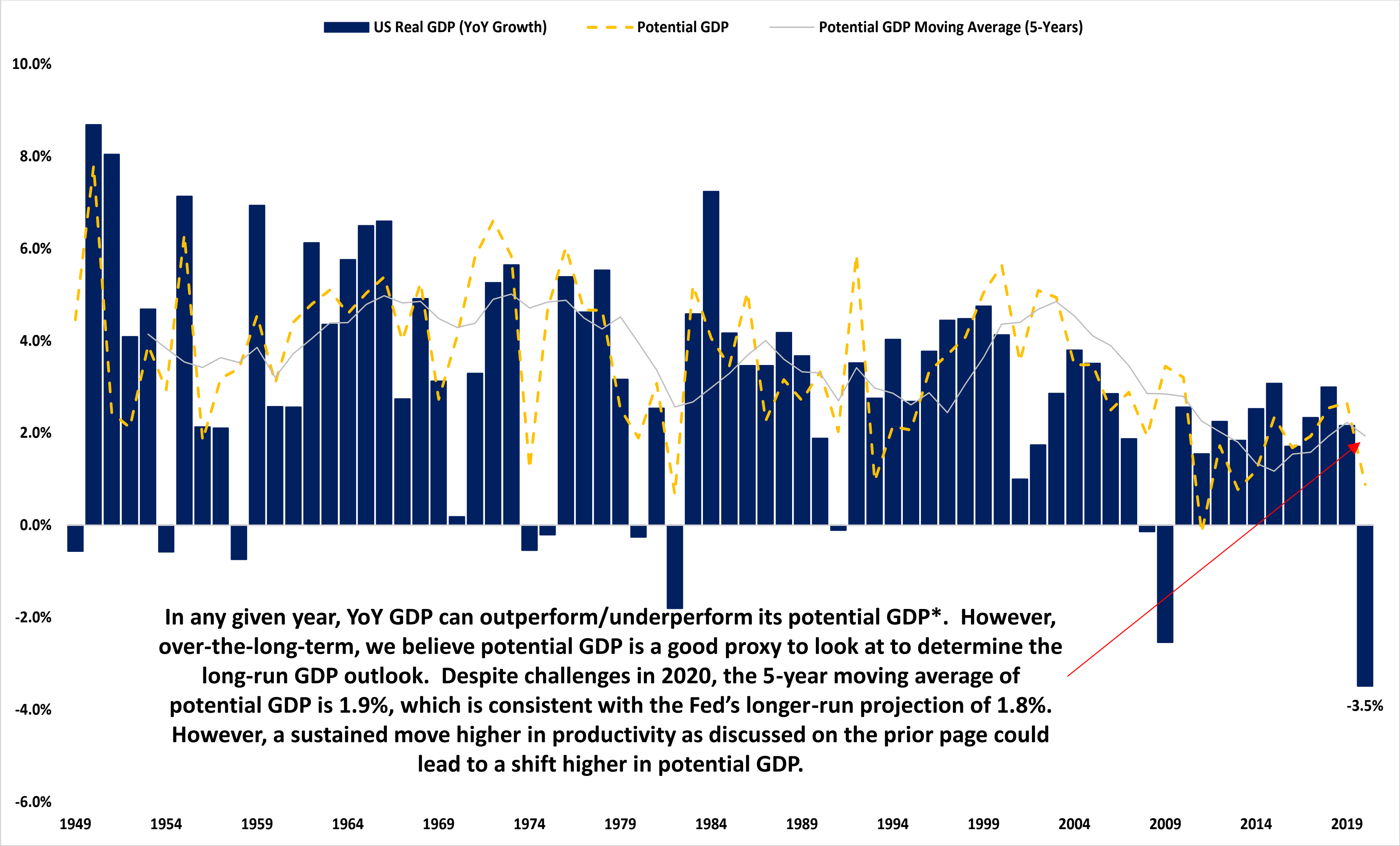
Productivity

Productivity gains have been an area of improvement even through the pandemic. While companies and individuals were forced to pivot and many work remotely, productivity actually improved during this period of time and thus far in 2021 has not shown signs of slowdown. While some will suggest that productivity may moderate as workers return to the office and possibly less productive workers re-enter the labor force, this higher trend in productivity improvements has been underway since 2016. We will continue to monitor as productivity growth has the ability to shift potential GDP higher, which would be a positive for earnings growth and equity returns.



Source: FactSet and RJ Equity Portfolio & Technical Strategy

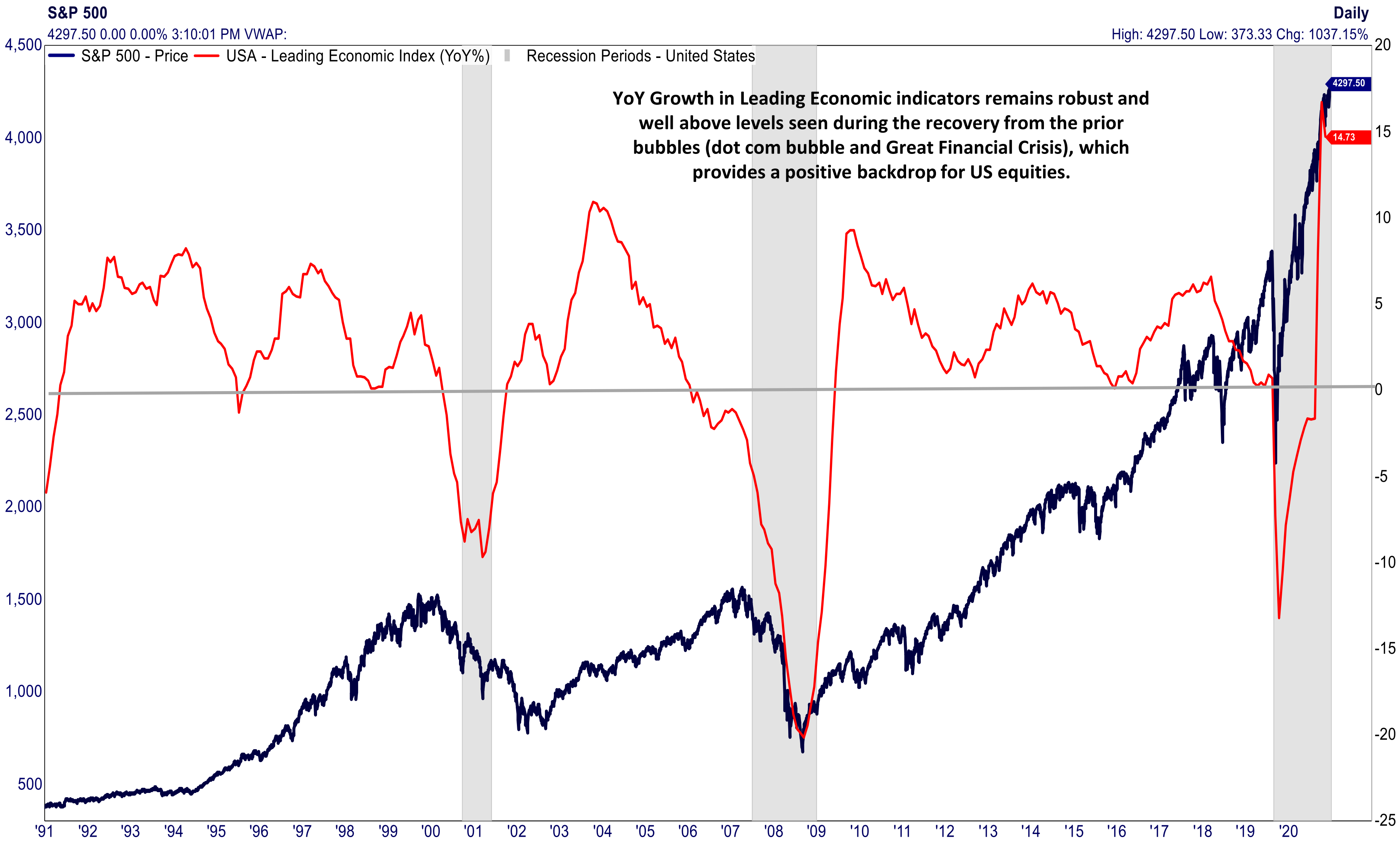
Potential GDP



Source: FactSet and RJ Equity Portfolio & Technical Strategy

*Potential GDP is calculated by summing the YoY Growth in Labor Productivity and YoY Growth in Labor Force

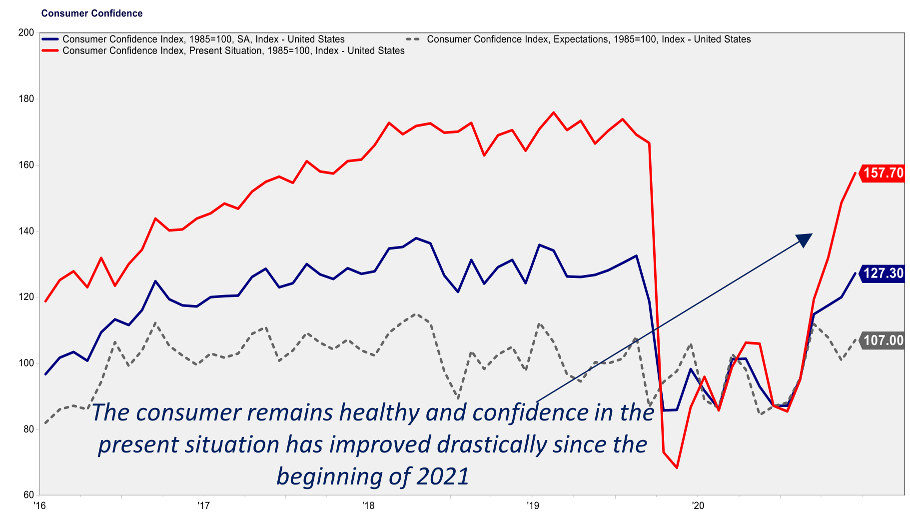
Leading Indicators

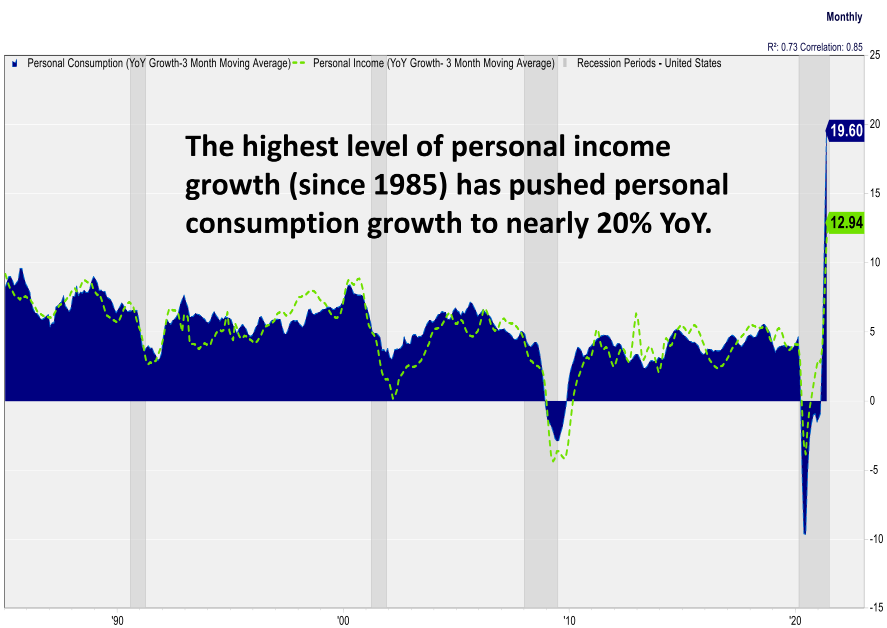


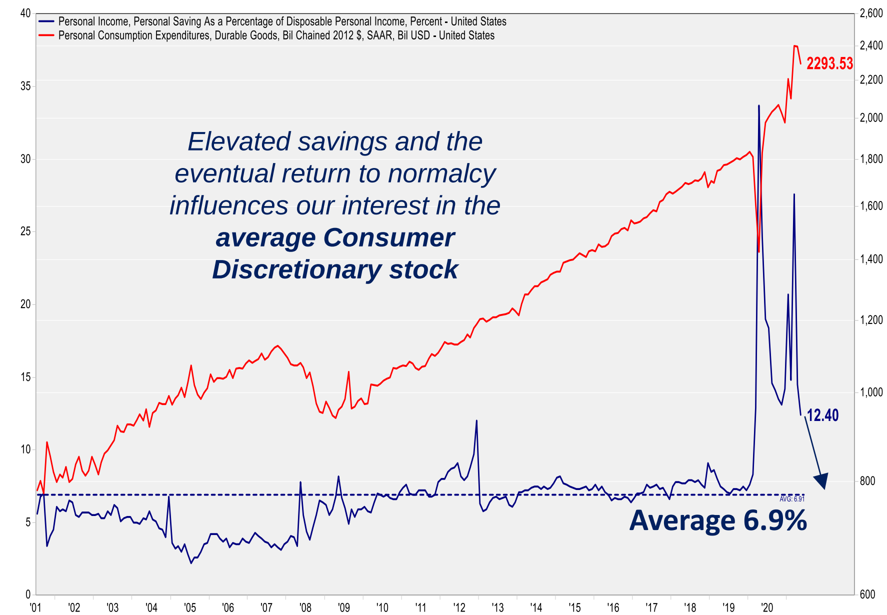
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Consumer Remains Healthy

We continue to see the consumer as healthy, which should be a nice tailwind for equities given the outsized contribution to GDP the consumer represents. As seen in the top right, consumer confidence for the present situation has improved drastically in 2021 as mitigation restrictions for COVID-19 have loosened. Additionally, the additional stimulus has aided not only consumer confidence, but has sustained the personal savings rate above the long-term average, which we believe can be a nice tailwind for growth for the foreseeable future as this savings rate normalizes to the long-term trend. And finally, as seen below, the highest level of personal income YoY growth since 1985 has aided personal consumption, which is also at the highest level (since 1985) at nearly 20% YoY.



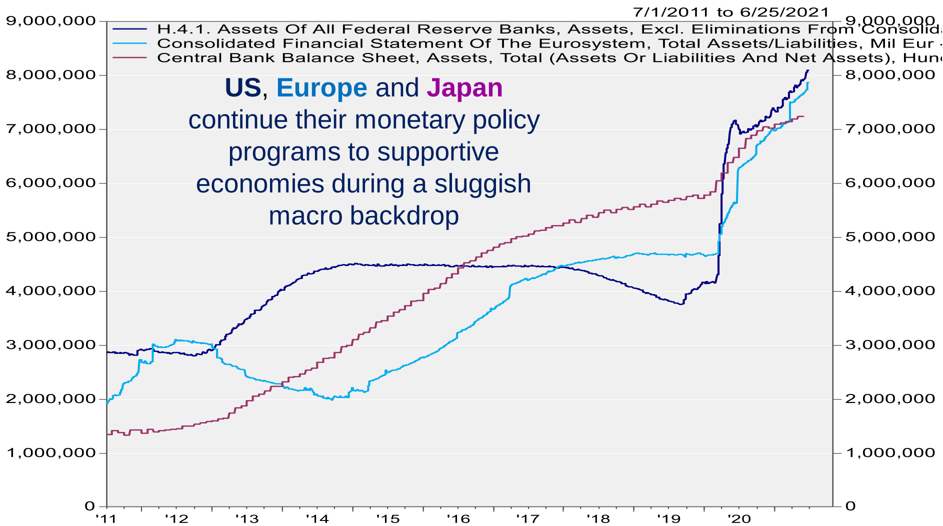


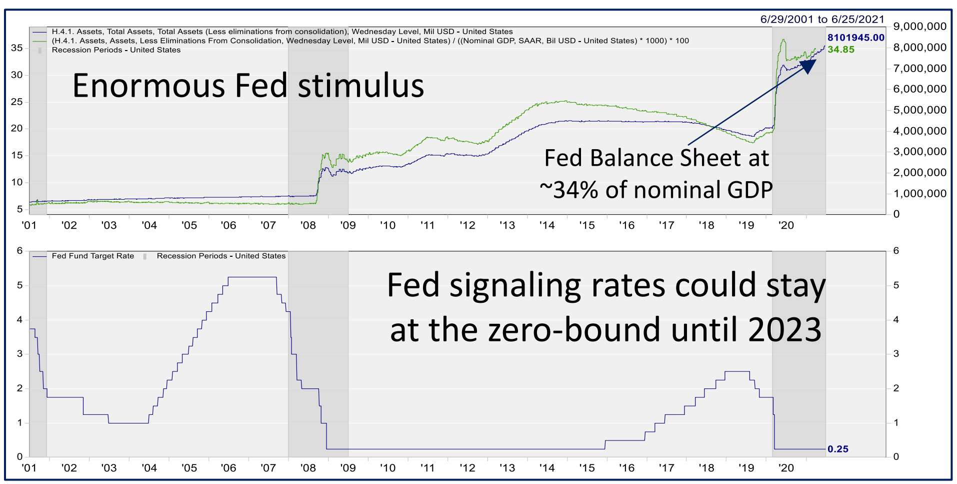


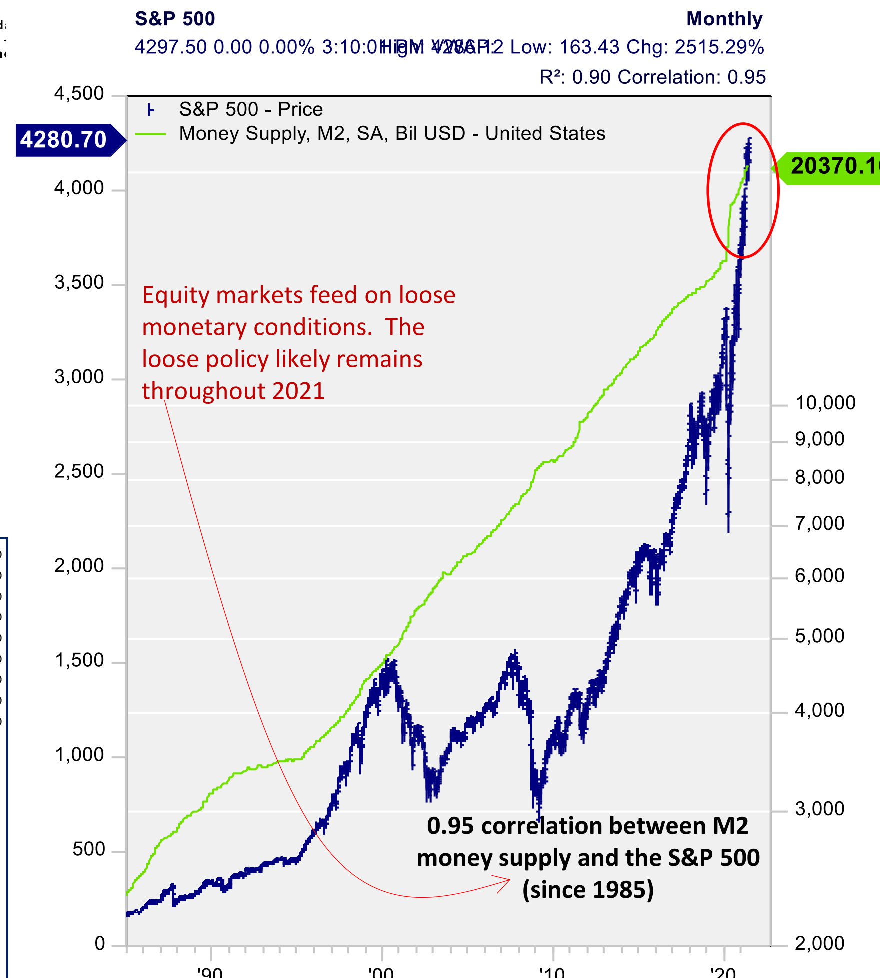
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Supportive Central Banks

Supportive Central Banks





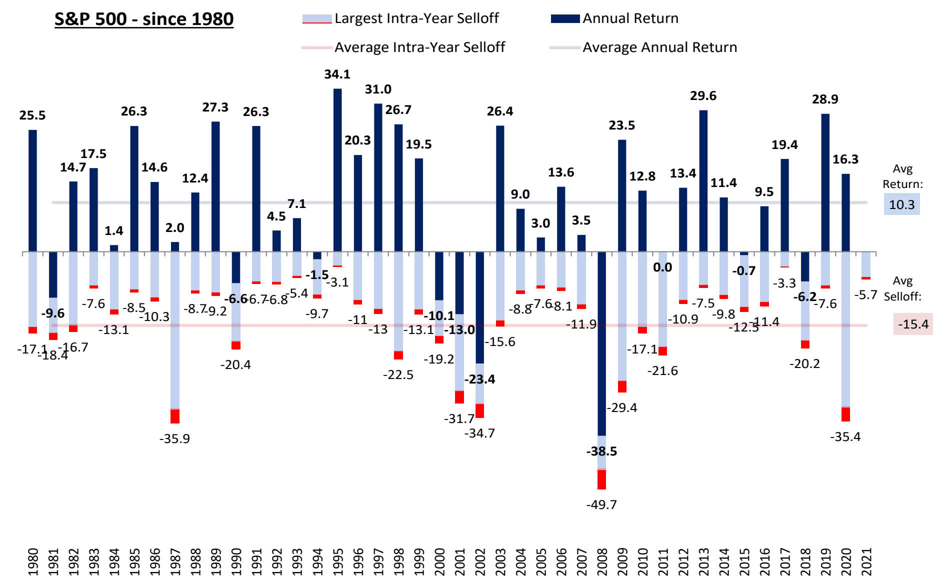


Source: FactSet and RJ Equity Portfolio & Technical Strategy

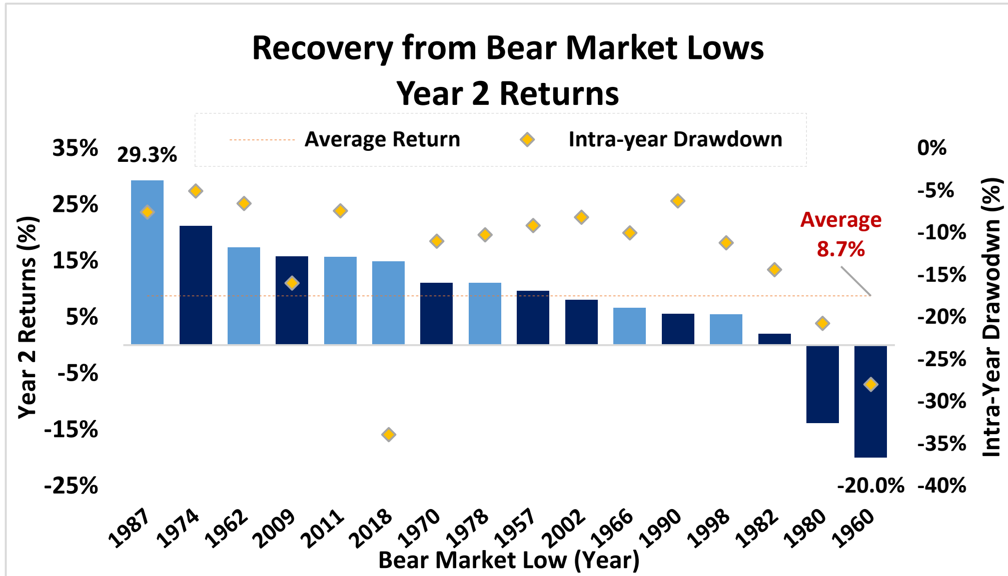
Risks to Equities

Risk: Near-term 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, we would use this as a buying opportunity to add to favored sectors if a pullback does ensue.



The strong gains seen during the first year of the recovery typically normalize in the second year of a recovery from bear market lows. On average, the second year returns for the S&P 500 are ~8.7%. Another important point is that drawdowns are typical in the second year of a recovery, with the average drawdown of 12.9%.



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Risk: Intra-year Seasonality

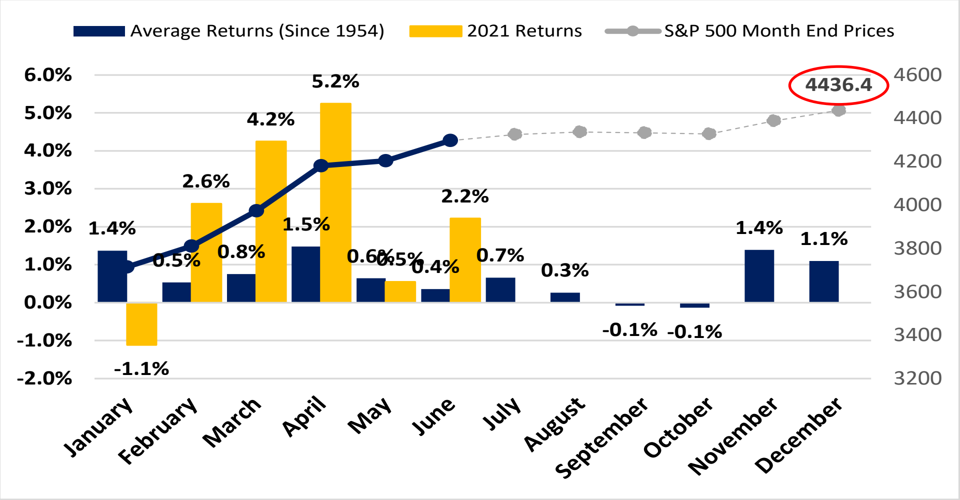
While we do not recommend making investment decisions based on the calendar alone, we are in the midst of a calendar period when equity returns historically have been weaker before a year-end resurgence. This could cause some near-term risk for equities.

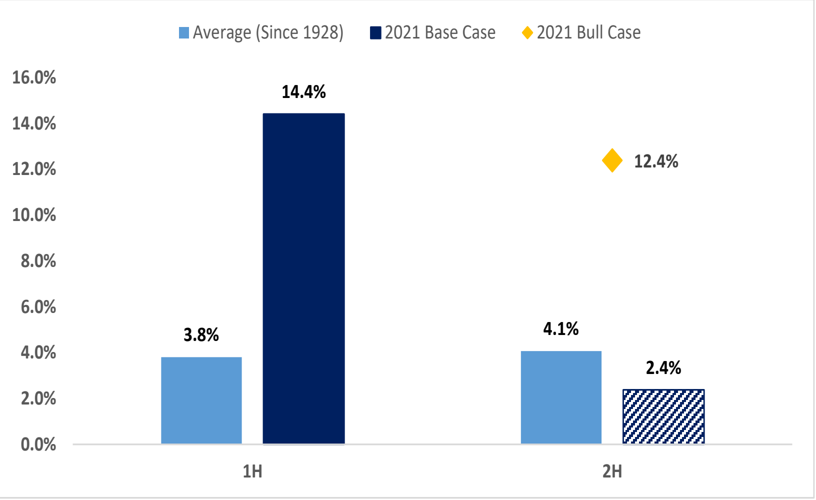
Scenario Analysis: Normal Intra-Year Seasonality for the Remainder of the Year

In the below example, we look at how monthly returns in 2021 have been largely above normal. However, assuming that this reverts back to normal seasonal trends in the 2H of 2021, we would exit 2021 at a price level of 4436.40, which is just above our base case price objective.

Scenario Analysis: 1H vs. 2H Calendar Returns

1H 2021 has been much stronger than the typical 1H performance of the S&P 500 since 1928. However, based on our base case, this would imply that the remainder of the year would be below normal. However, if we are able to achieve our upside scenario, it would be much stronger than the average S&P 500 returns in the calendar 2H of the year.

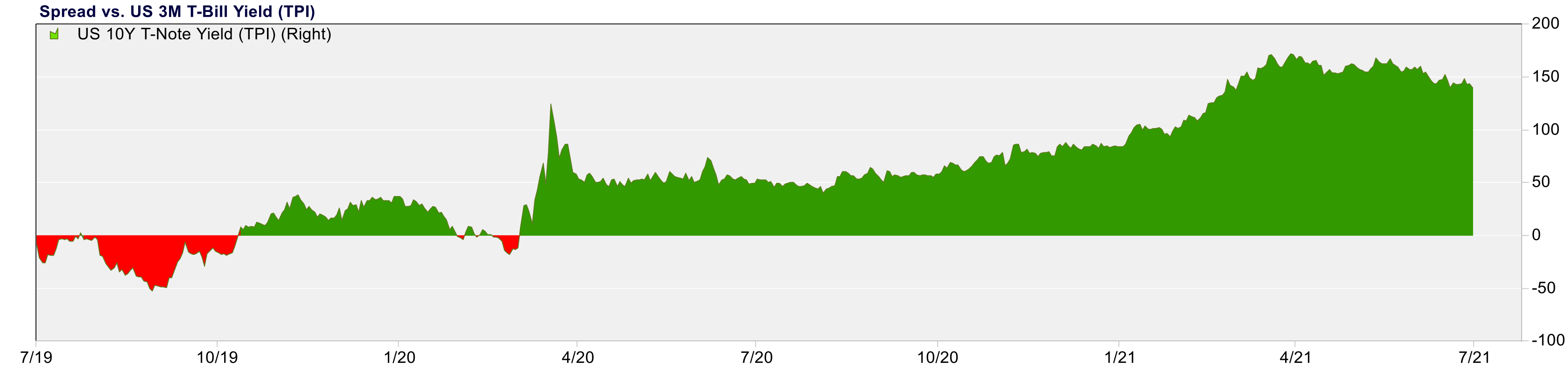


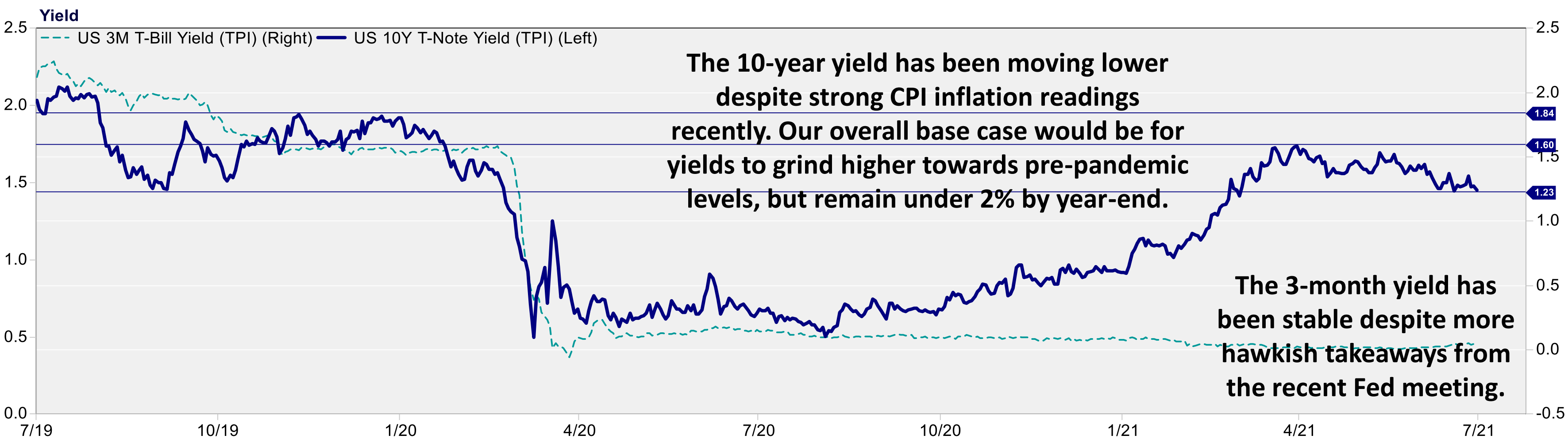


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Risk: Interest Rates

The movement in interest rates has been unusual as yields have been moving lower despite strong CPI inflation readings recently and a more hawkish Fed. On the next of couple slides, we will take a look at some of the influencing factors that could cause interest rates to move higher and some that may influence a continued move lower. Our overall base case would be for yields to grind higher towards pre-pandemic levels, but remain under 2% by year-end.

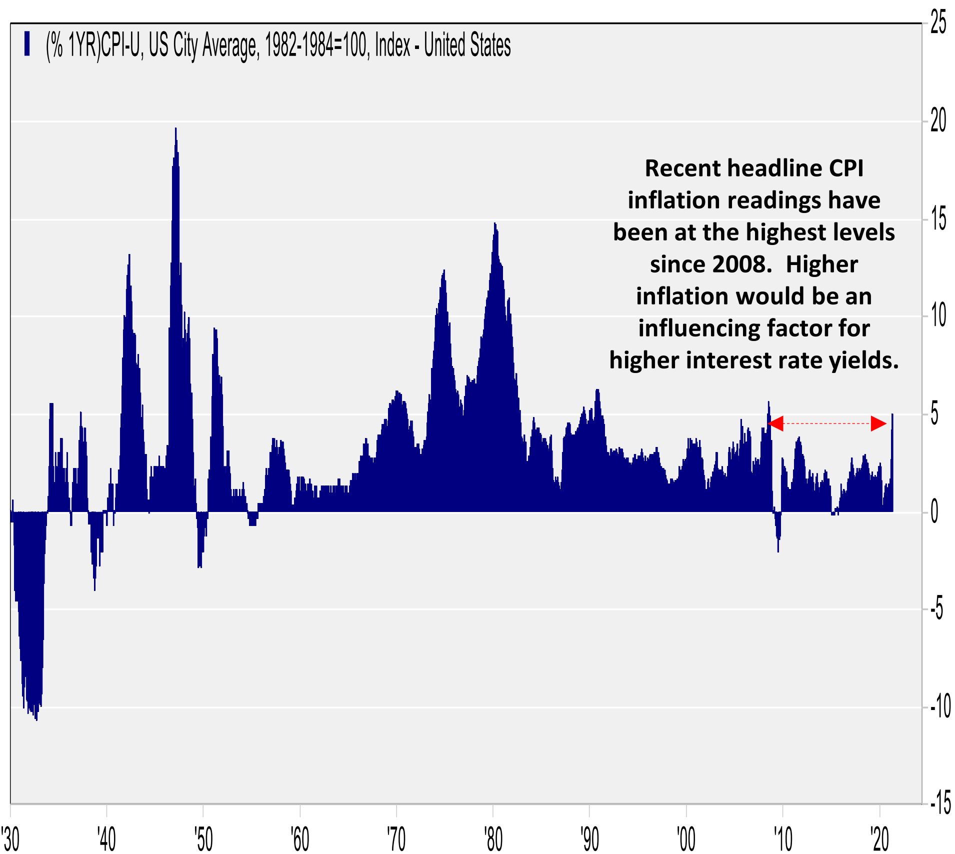




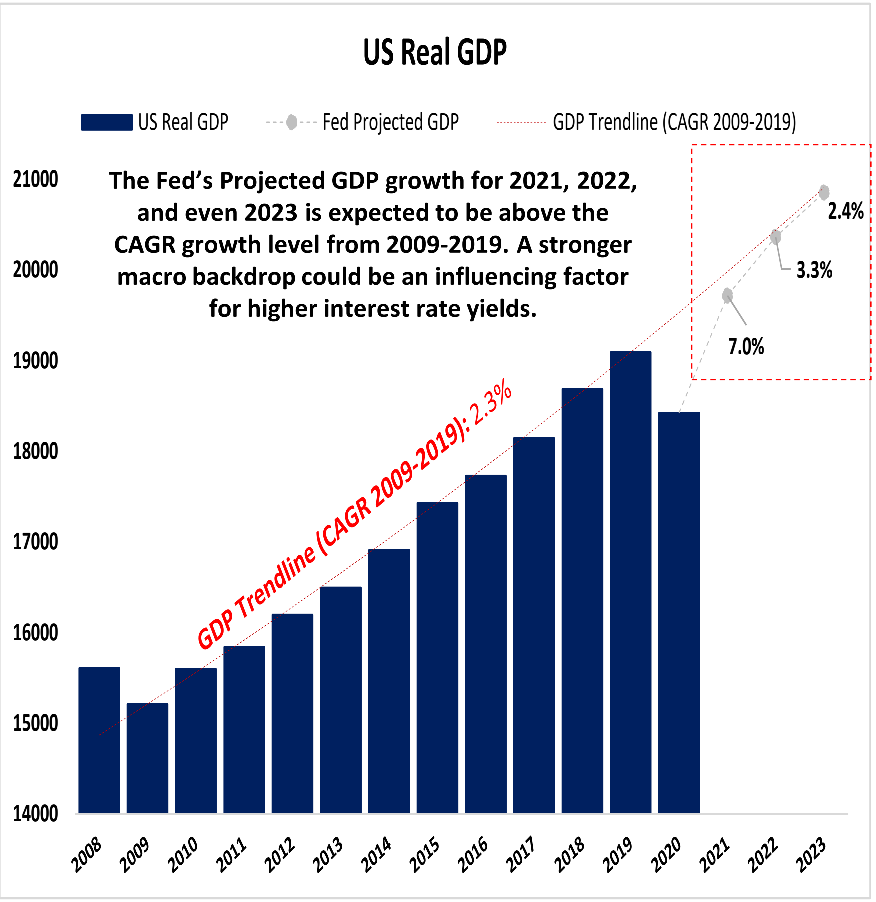
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Interest Rates- Rationale for Higher Bond Yields

Inflation



GDP Growth

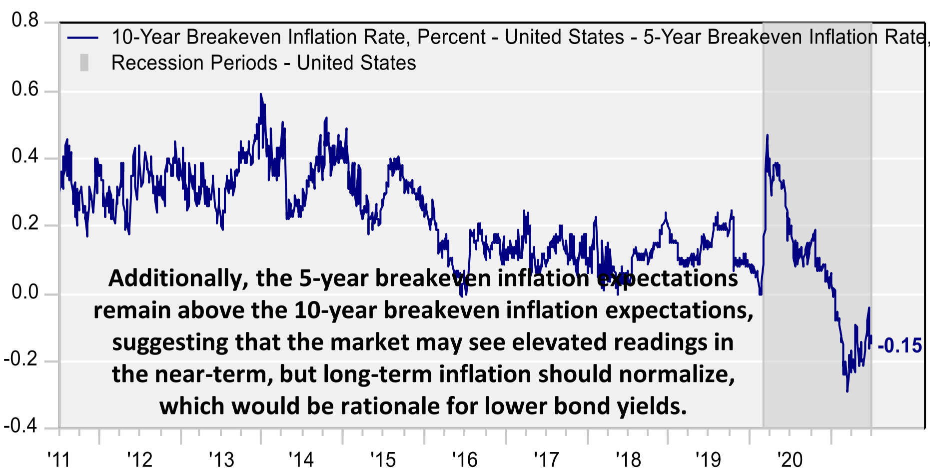


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Interest Rates- Rationale for Lower Bond Yields

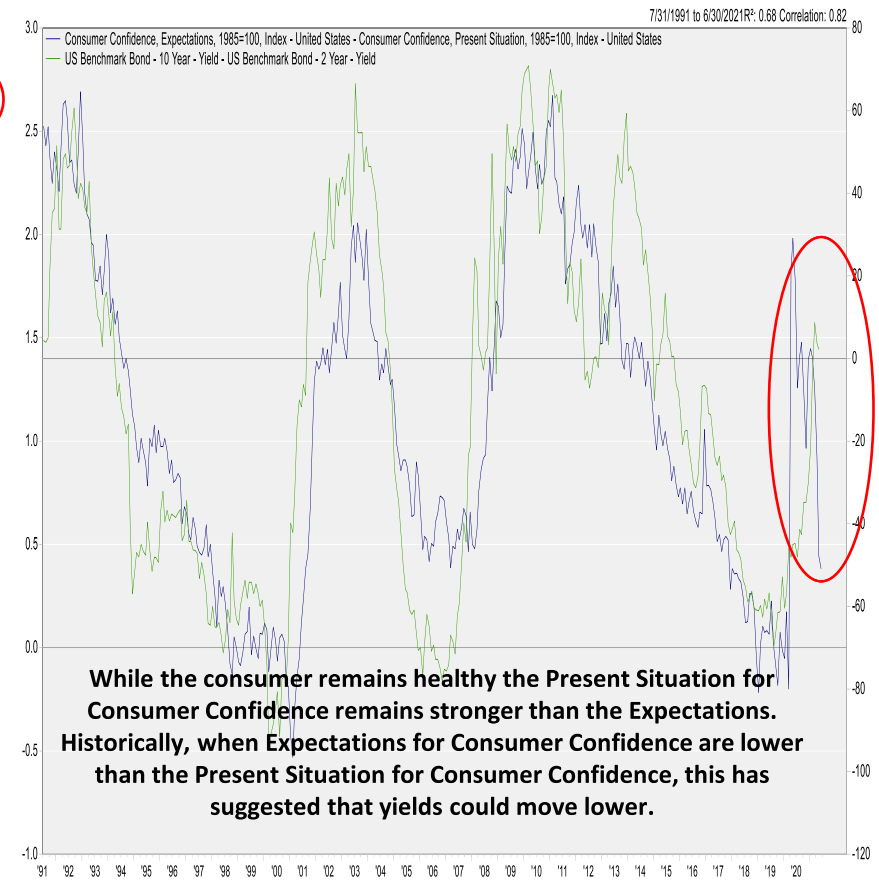
Inflation is Transitory

Despite elevated inflation readings recently, the market has seen the market implied inflation expectations fall, suggesting that the strong inflation readings are transitory rather than sustainable.



Additionally, the 5-year breakeven inflation expectations remain above the 10-year breakeven inflation expectations, suggesting that the market may see elevated readings in the near-term, but long-term inflation should normalize, which would be rationale for lower bond yields.

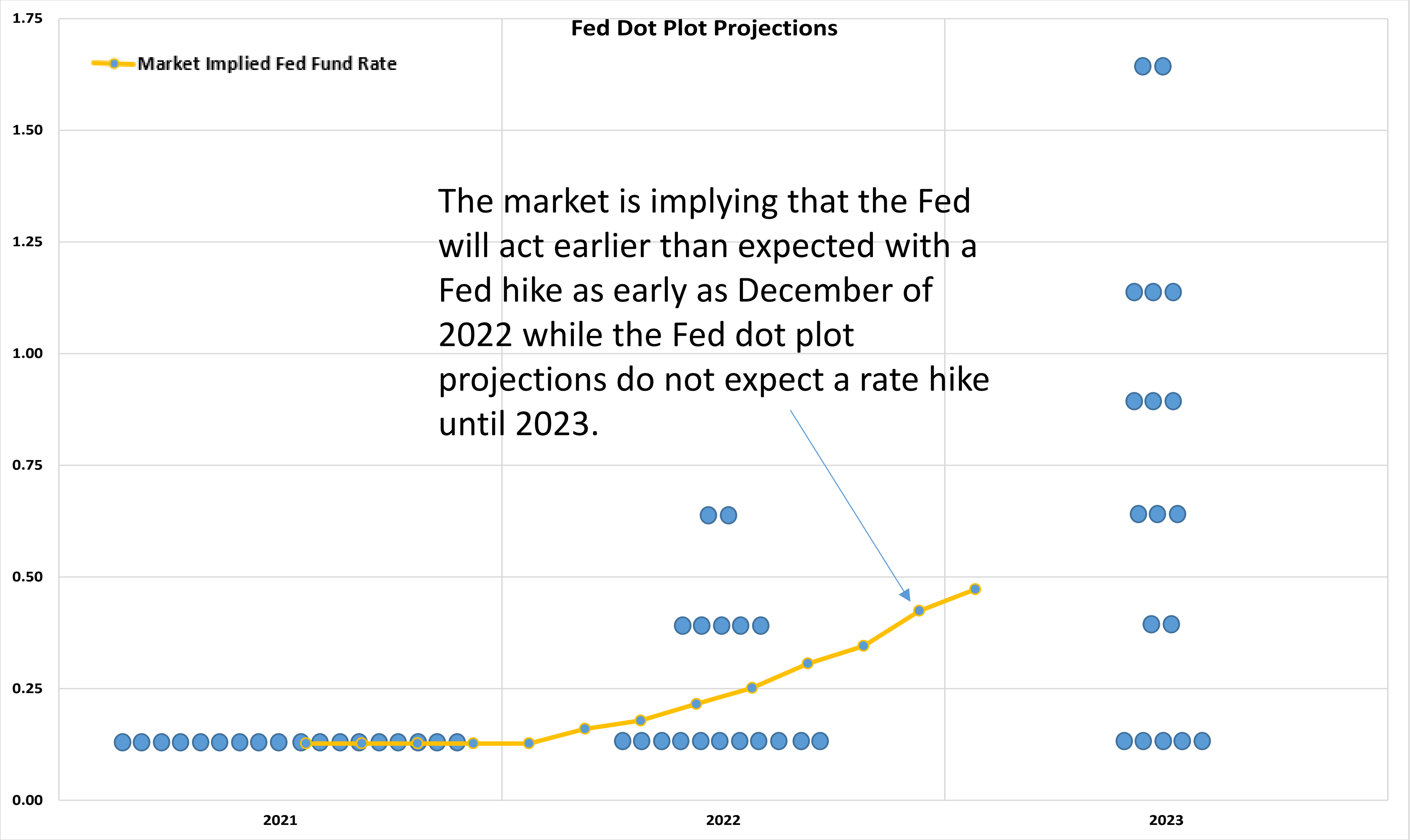
Normalization of the Economy



While the consumer remains healthy the Present Situation for Consumer Confidence remains stronger than the Expectations. Historically, when Expectations for Consumer Confidence are lower than the Present Situation for Consumer Confidence, this has suggested that yields could move lower.

Source: FactSet and RJ Equity Portfolio & Technical Strategy

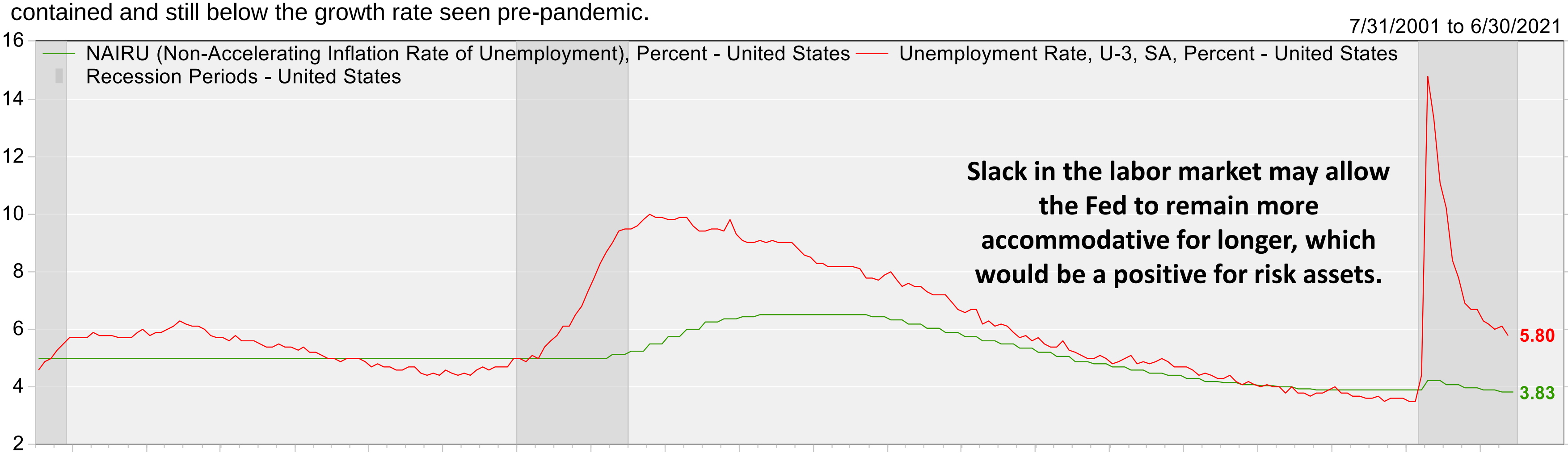
Risk: Policy Error

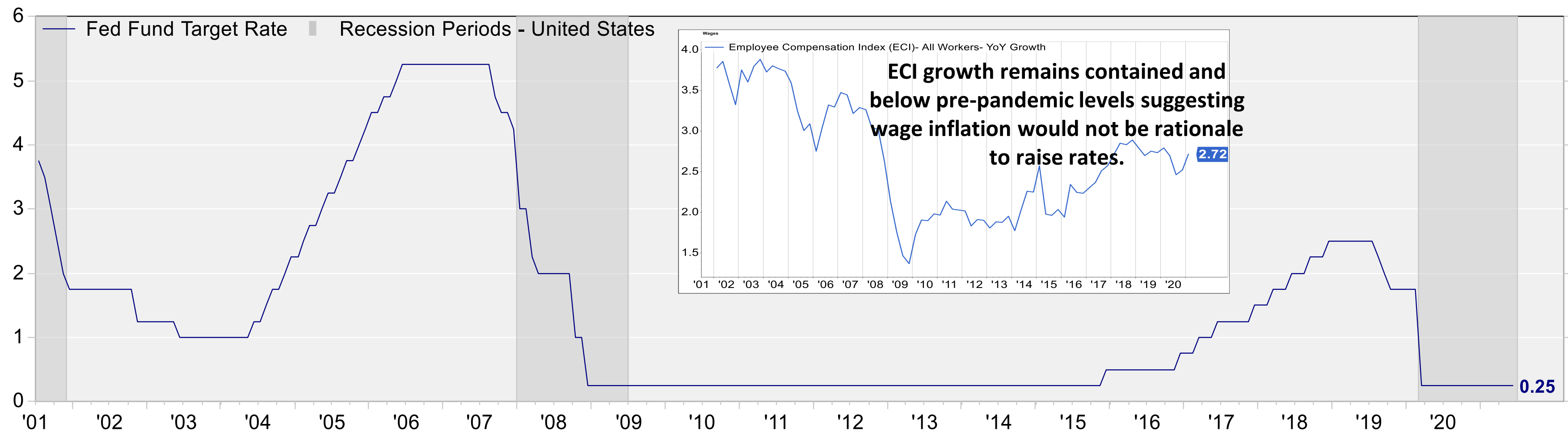


Source: Federalreserve.gov, FactSet and RJ Equity Portfolio & Technical Strategy

Risk: Policy Error

Overall, we believe slack remains in the labor markets and could allow the Fed to remain more accommodative for longer. Currently, the unemployment rate is still well above the non-accelerating inflation rate of unemployment, which we believe should allow for more accommodative policy until this gap closes. Additionally, looking at the employee compensation index (ECI) while it has rebounded, the growth rate of 2.7% remains contained and still below the growth rate seen pre-pandemic.

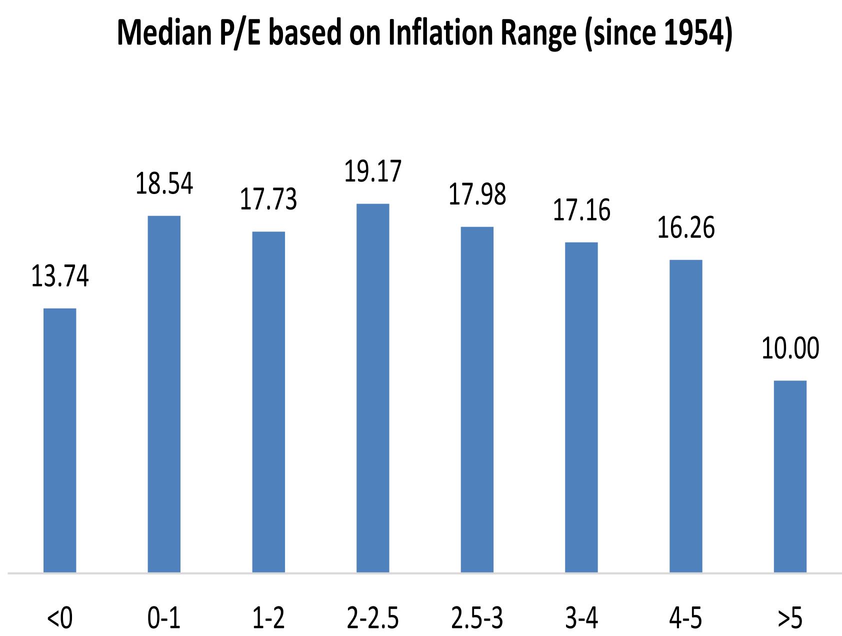


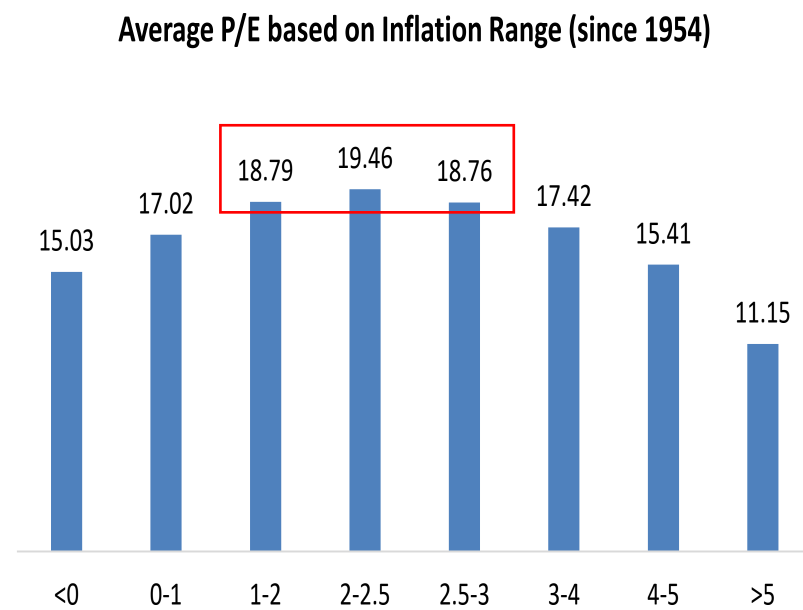


Source: FactSet and RJ Equity Portfolio & Technical Strategy

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.

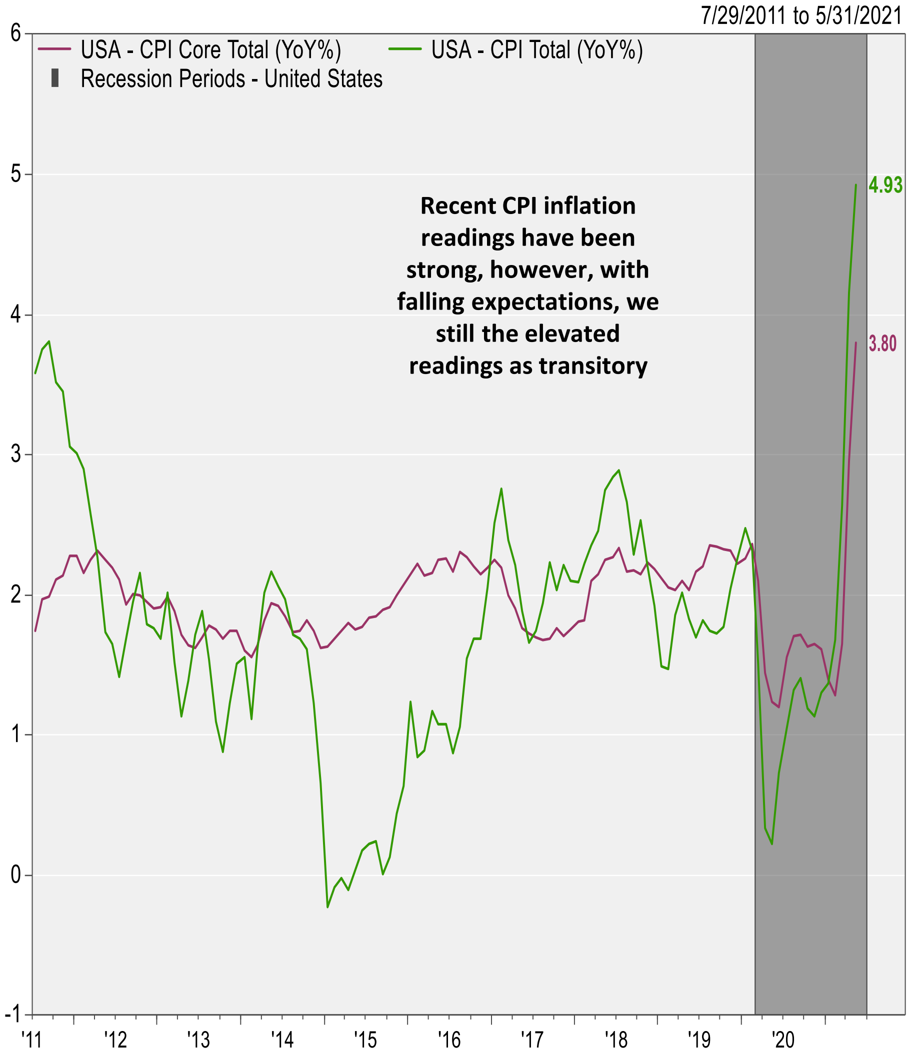


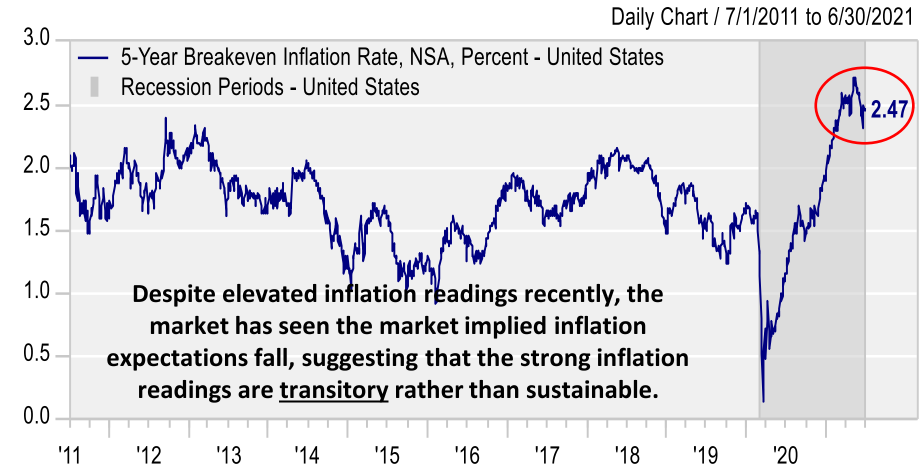


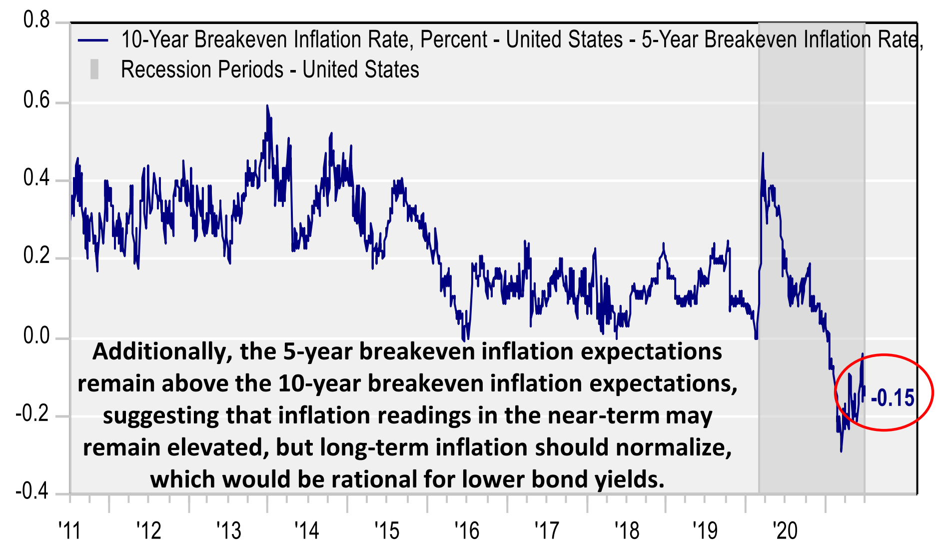
On average, P/E have been the highest when inflation is growing at 1-3%

Source: FactSet and RJ Equity Portfolio & Technical Strategy

Risk: Inflation- Still See the Elevated Readings as Transitory



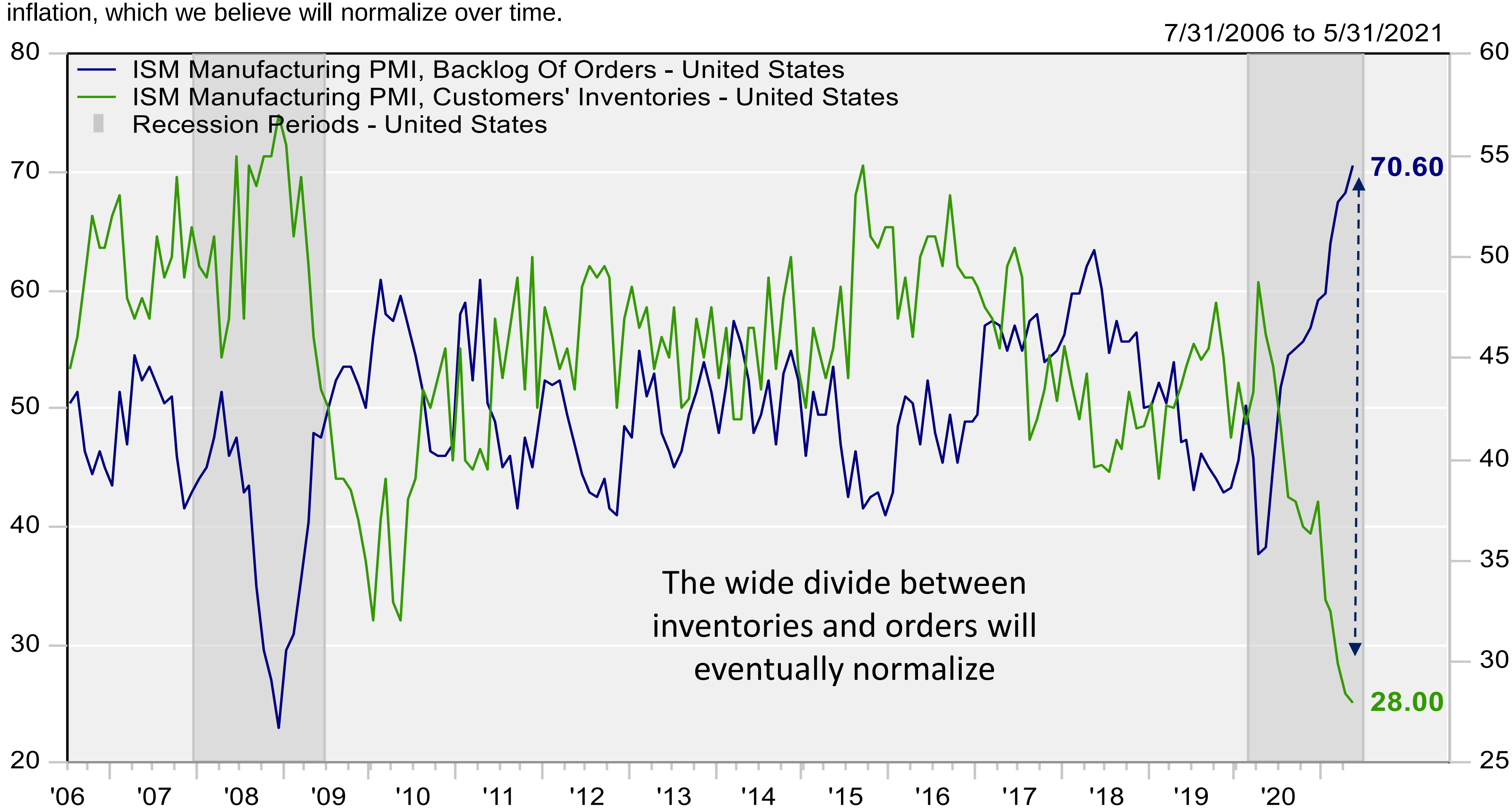




Source: FactSet and RJ Equity Portfolio & Technical Strategy

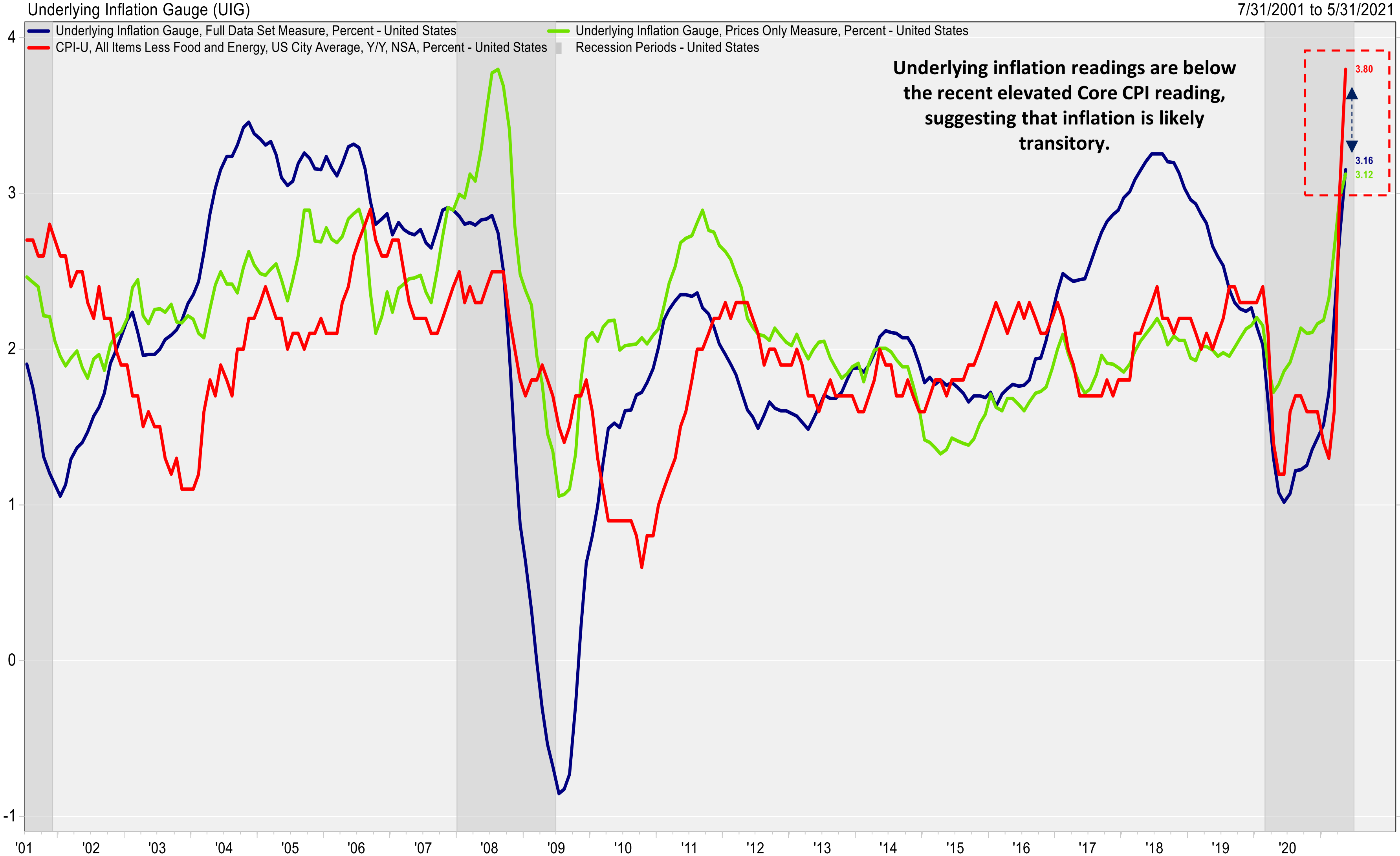
Inflation

We see supply chain issues as one of the main culprits for the recent elevated inflation levels. As seen below, there is a wide divide between inventories and orders. As companies ramp production back up to keep up with demand, this is causing some near-term inflation, which we believe will normalize over time.



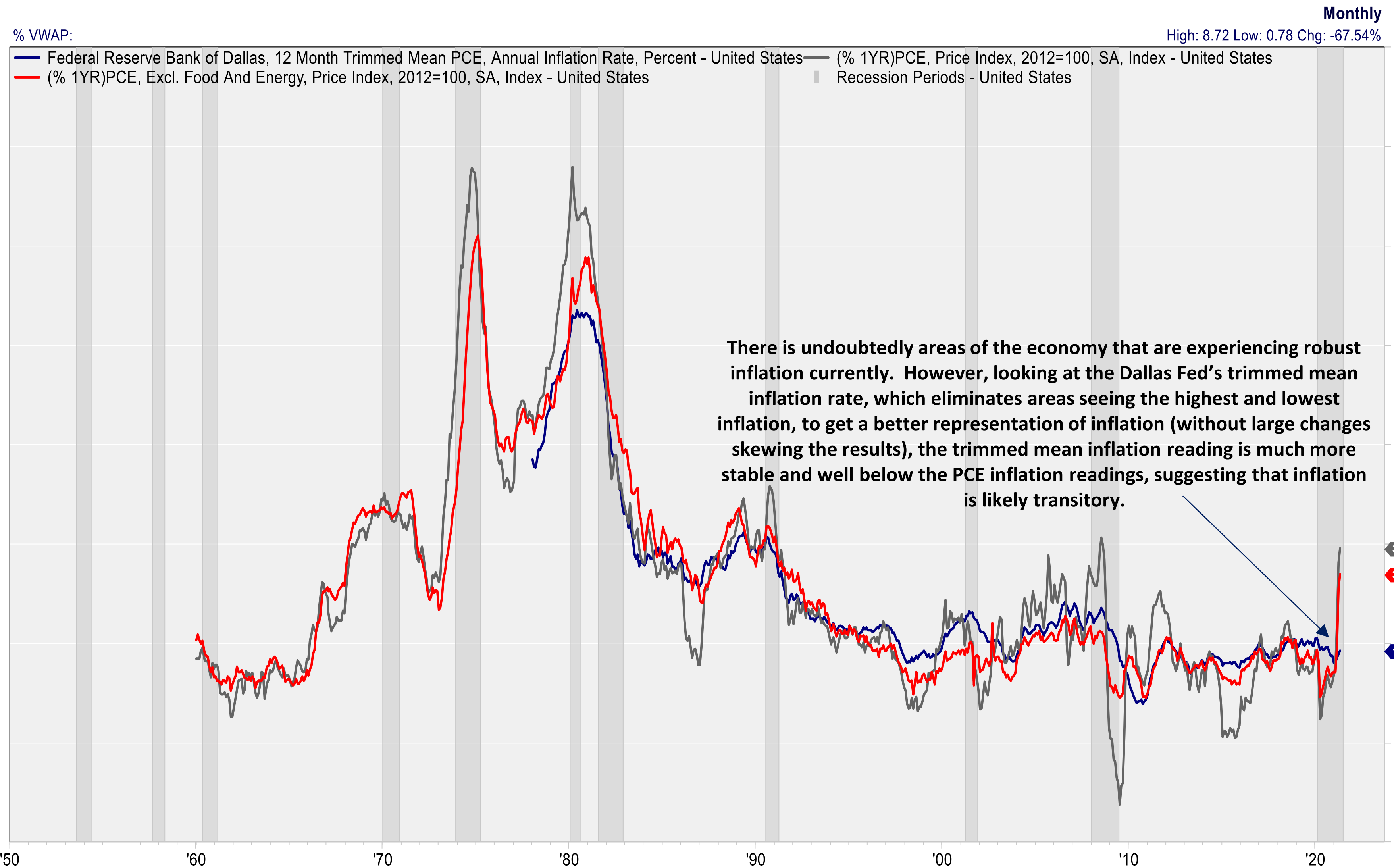
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Inflation



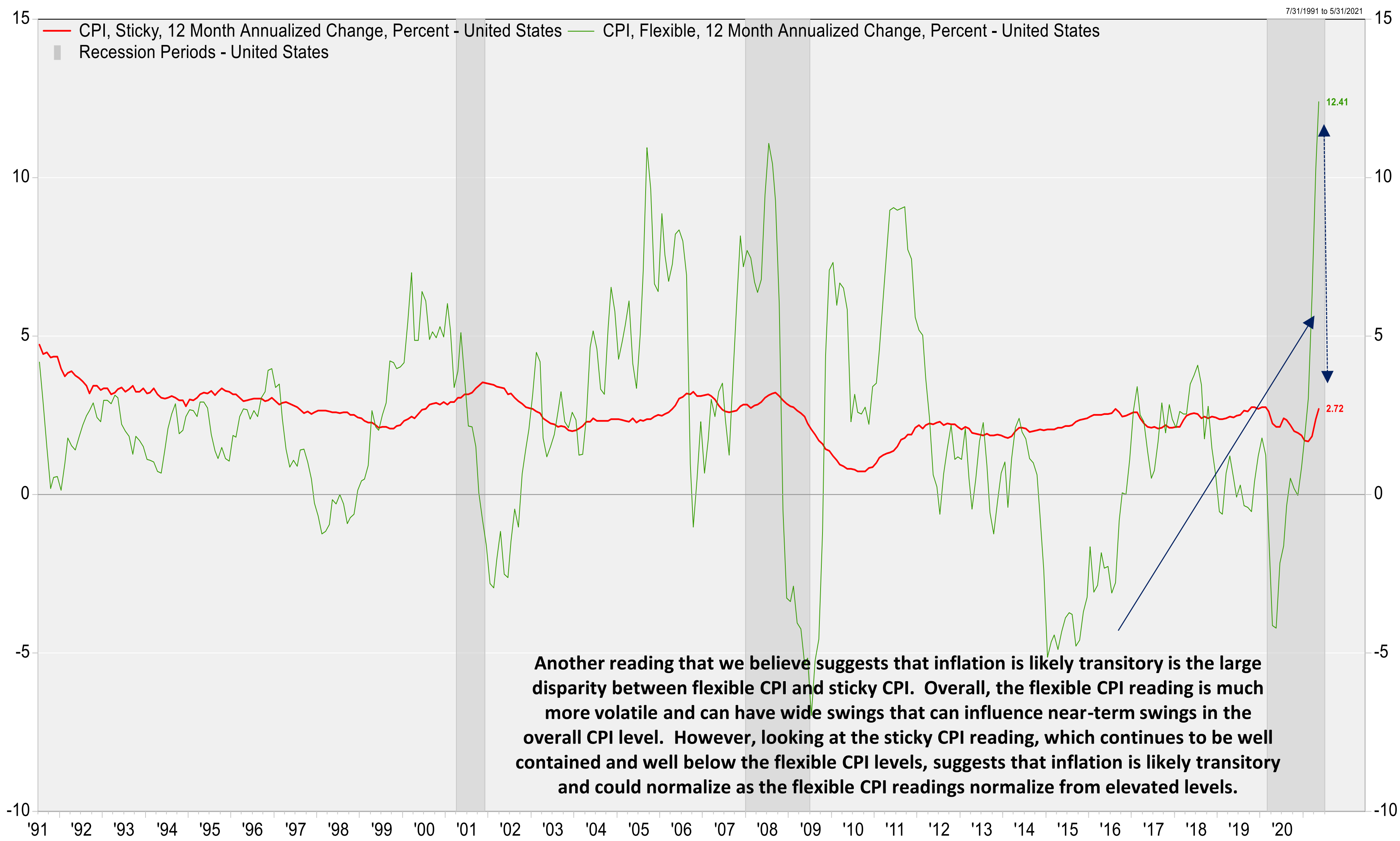
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Inflation



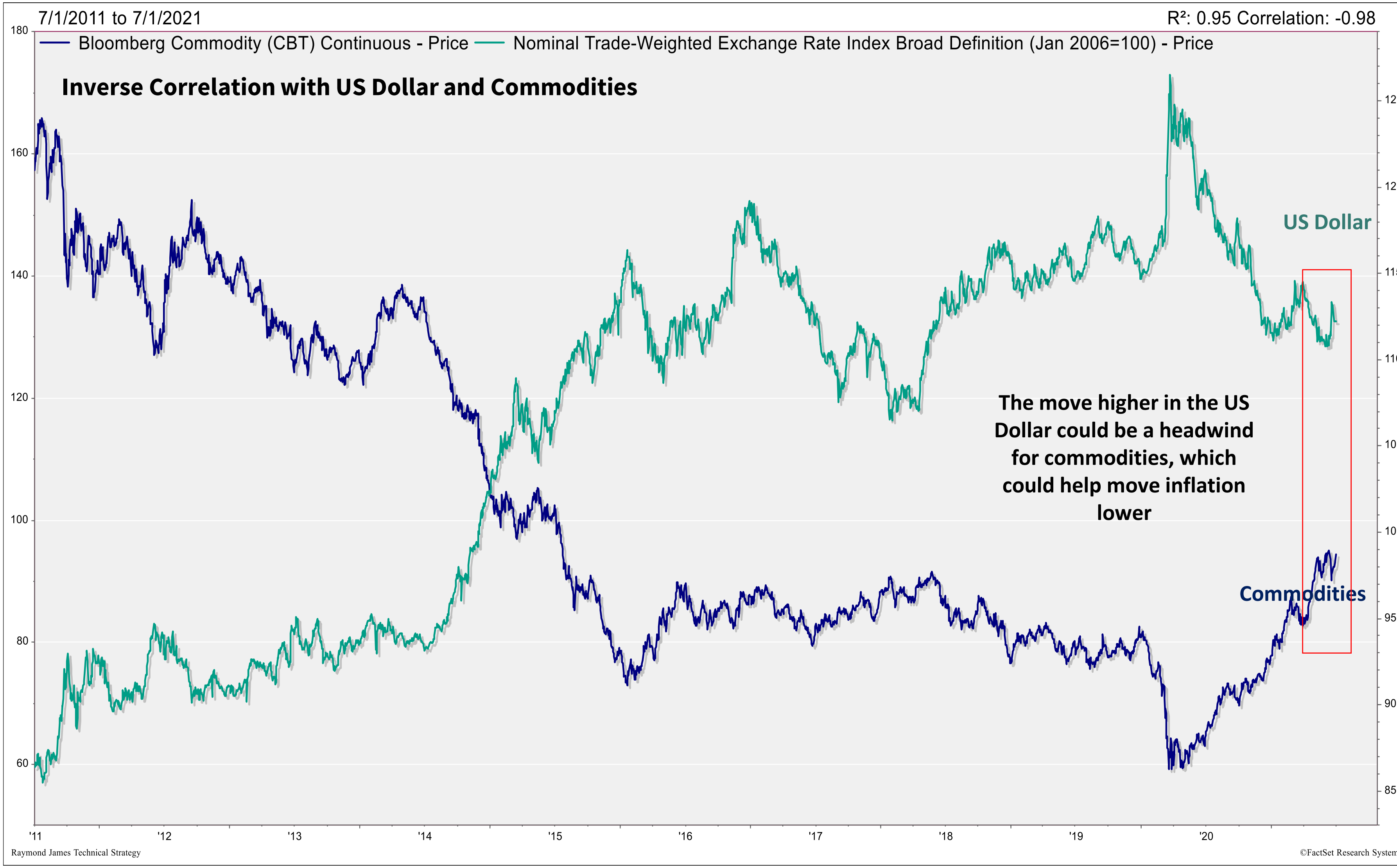
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Inflation



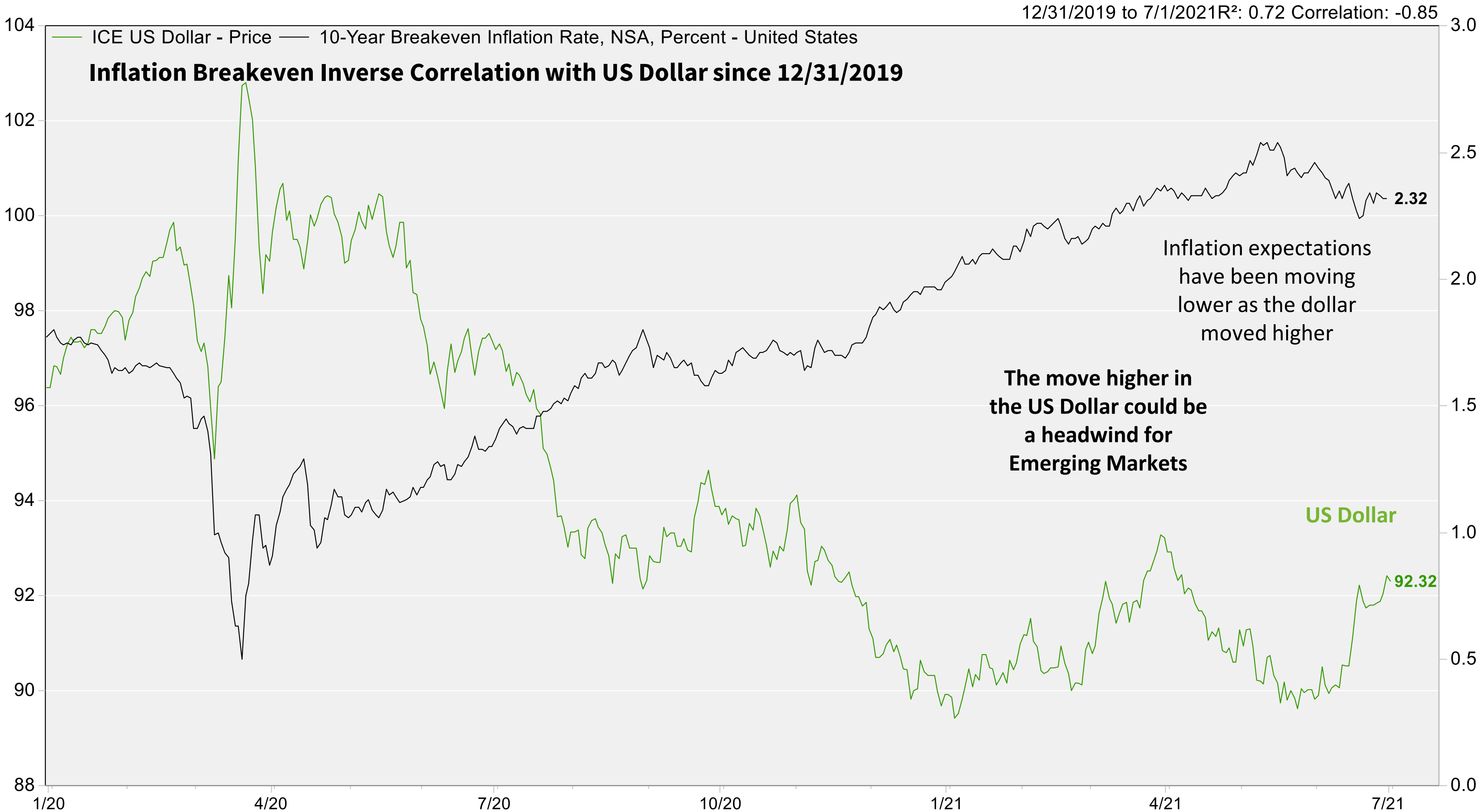
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Inflation



Source: FactSet and RJ Equity Portfolio & Technical Strategy

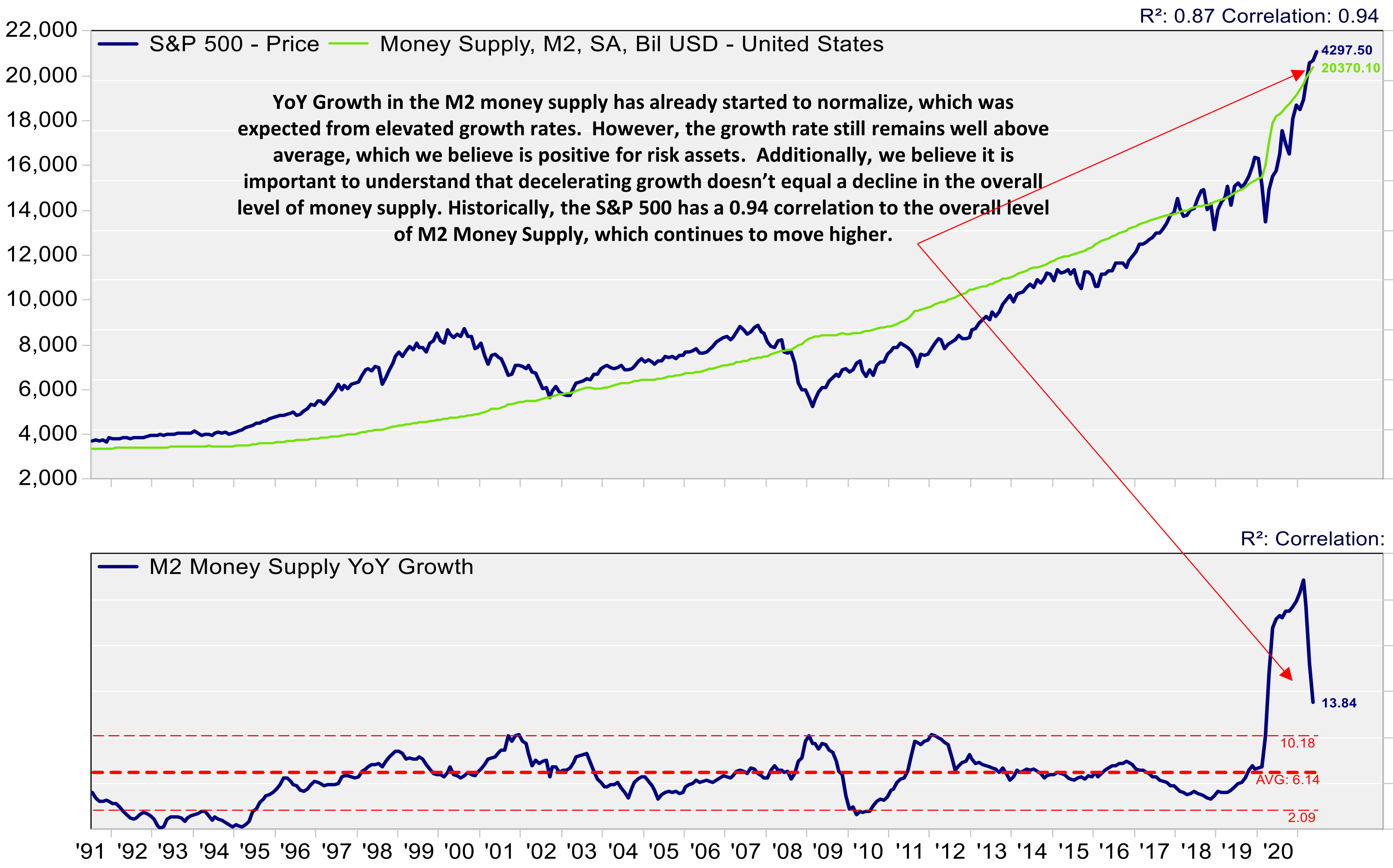
Risk: Emerging Markets



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Backdrop Remains Strong; Normalization in 2022

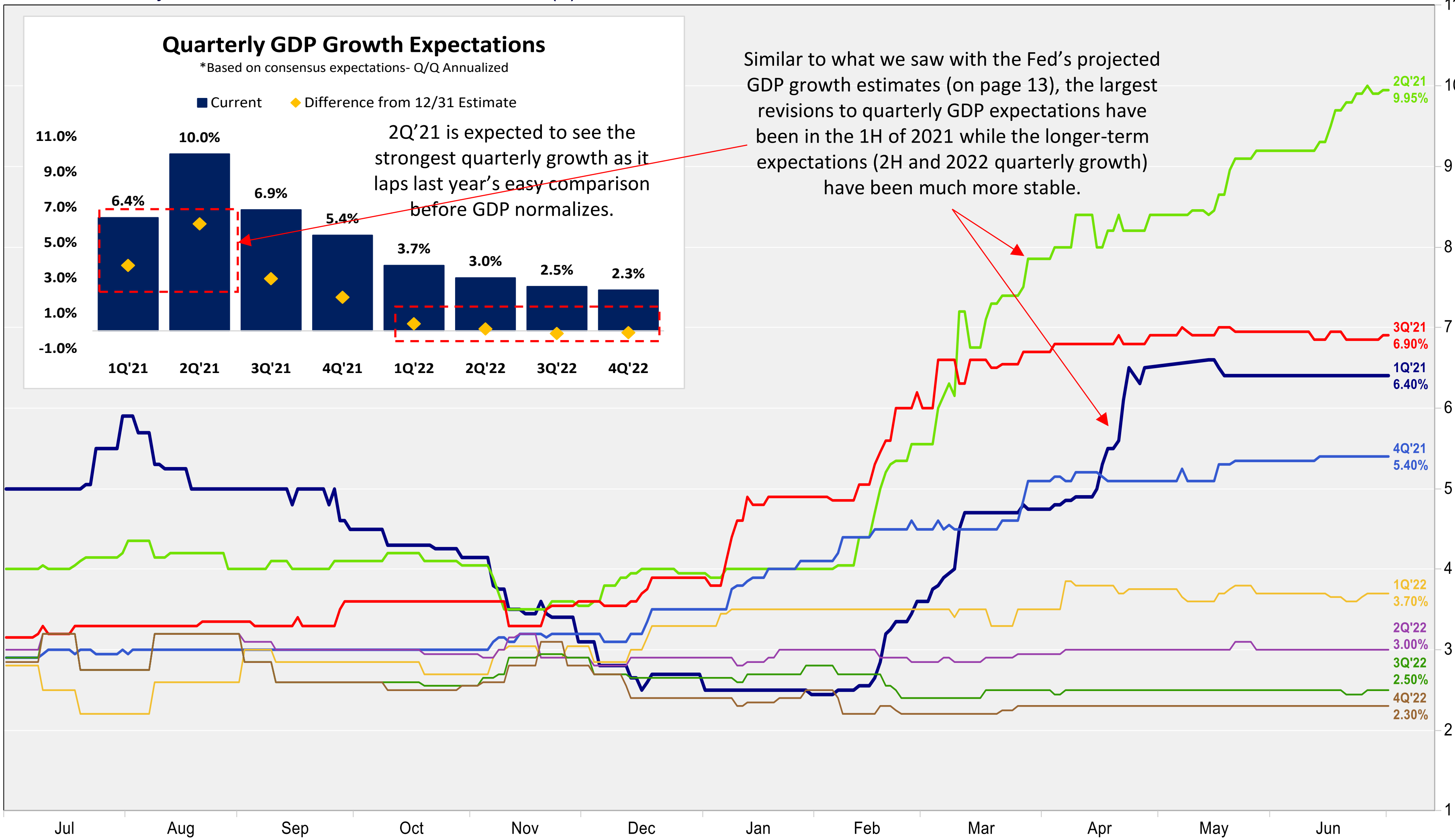
Normalization: Money Supply Growth



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Normalization: GDP Growth

Consensus Quarterly U.S. Real GDP Growth Estimates- QoQ Annualized (%)



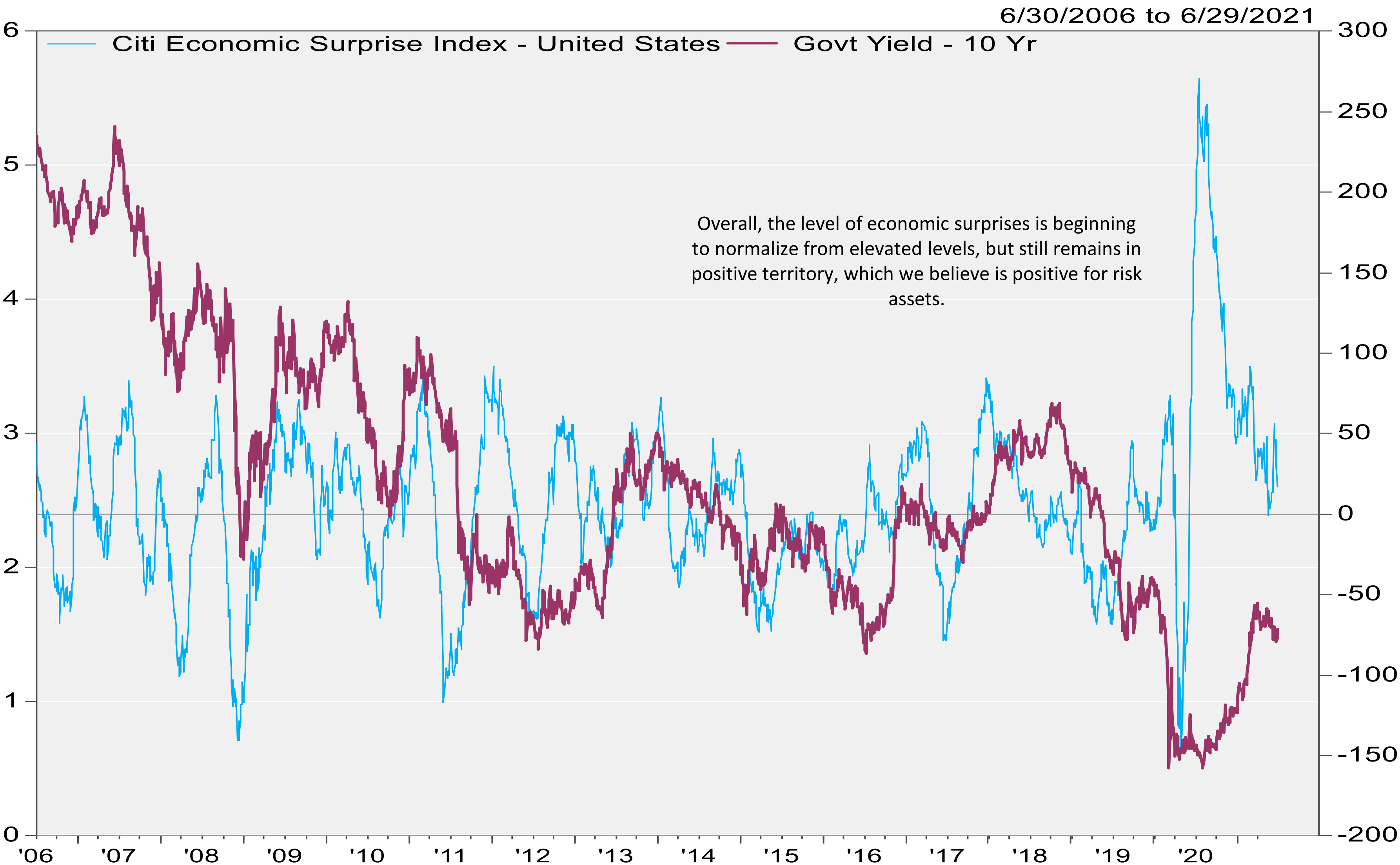
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Normalization: Valuation

NTM P/E Multiple Normalizes to Pre-Pandemic Levels	
2021 Price Objective- Base Case	4,400
2022 EPS- Base Case	$230
Implied NTM P/E	**19.1x**

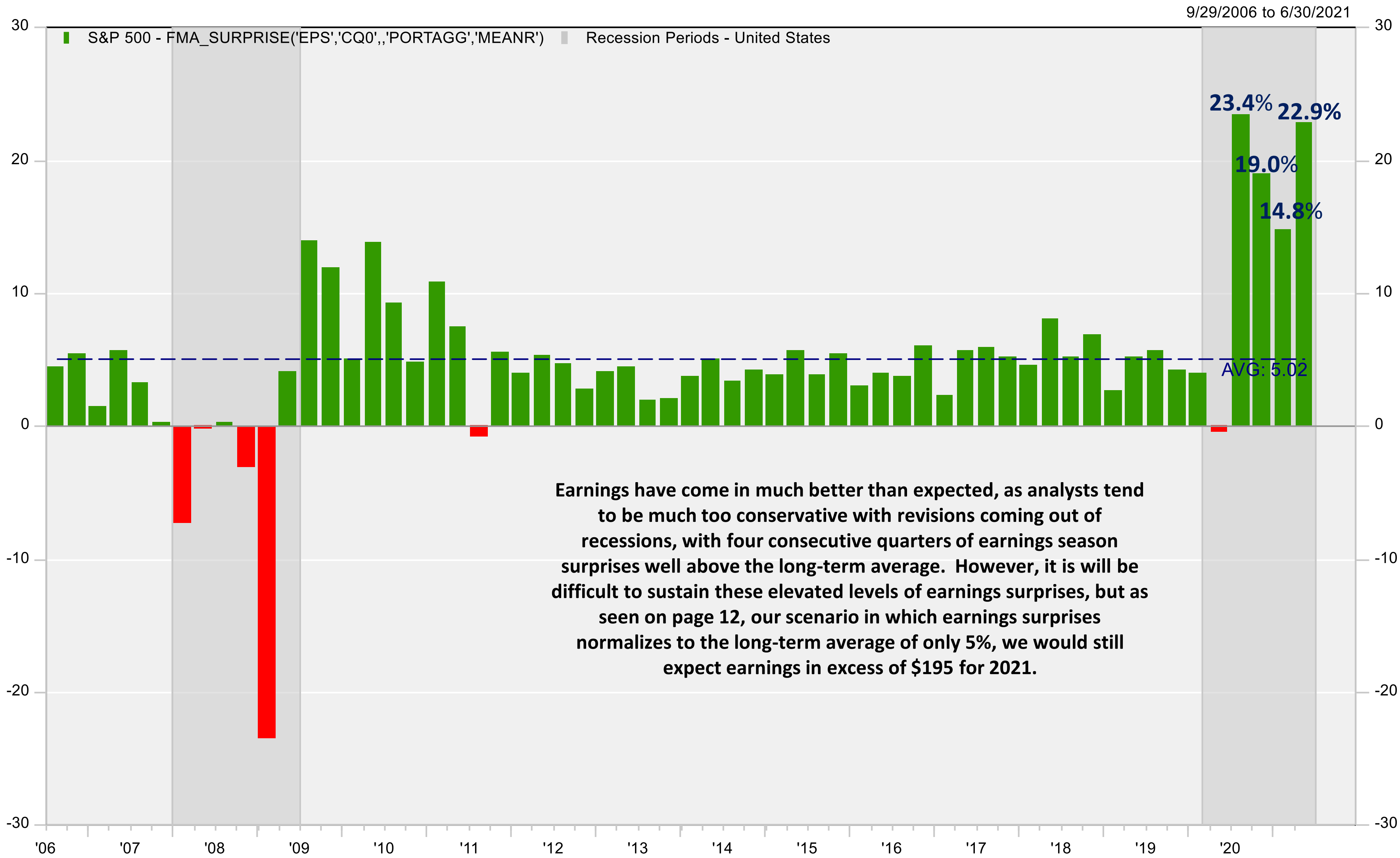
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Normalization: Economic Surprises



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Normalization: Earnings Season Surprises



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Supplemental Slides

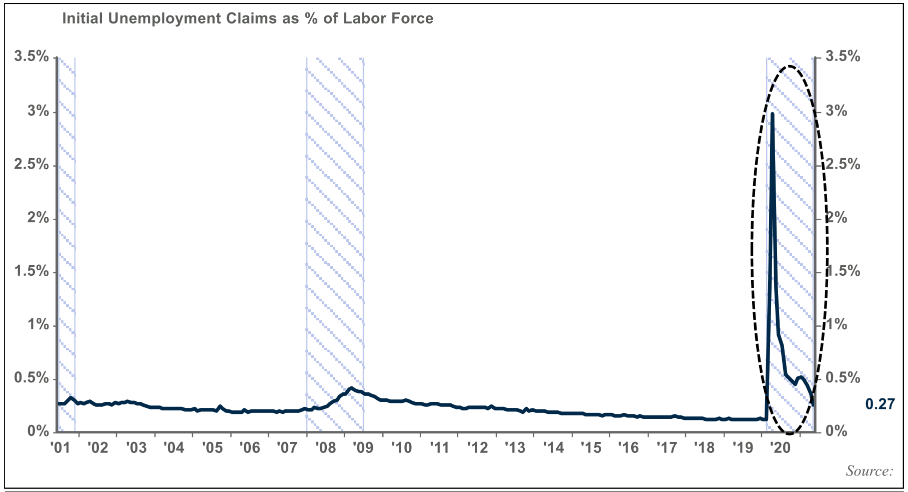
Supplemental Pages

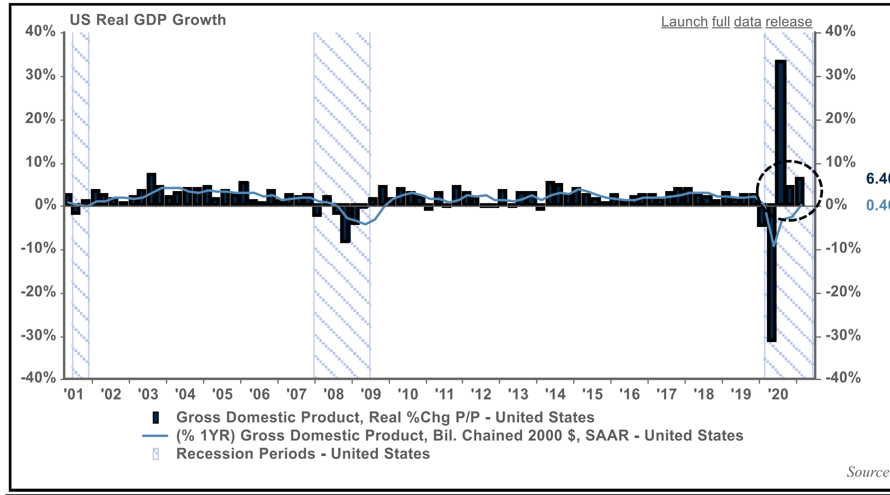
Stat Pack Estimates (June 30, 2021: S&P 500 4,297.50)

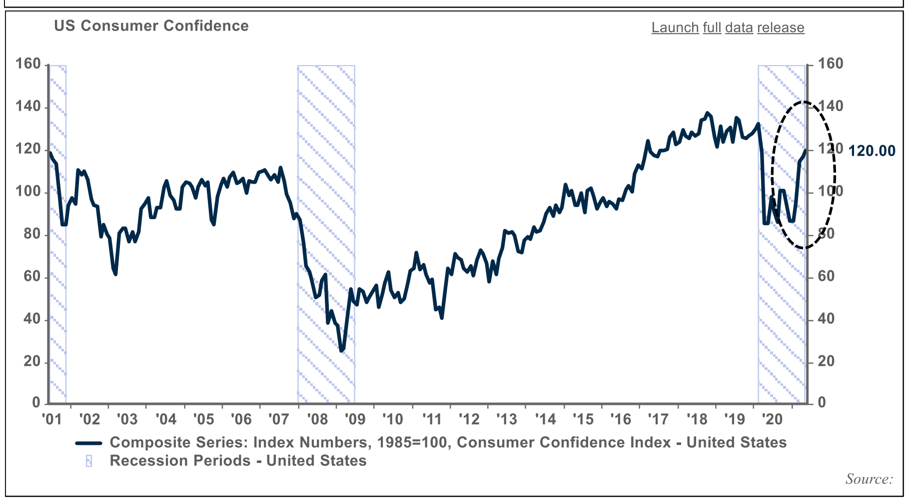
Stat Pack of Forecasts		
	2021 Estimates	2022 Estimates
Consensus EPS S&P 500[1]	$189.24 (Bottom up- Analysts) $200- RJ estimate (base case)	$211.40 (Bottom up- Analysts) $230- RJ estimate (base case)
EPS Growth S&P 500	37.1% bottom up; 45% RJ (base case)	11.7% bottom up; 15% RJ (base case)
Margins (EPS/Sales-using bottom up est.)	12.5% E(consensus[1])	13.1% E (consensus[1])
EPS if Margins stay flat (high probability from elevated levels)		$201.06 (based on consensus revenues)
GDP	Fed 7%; Consensus 6.5%	Fed 3.3%; Consensus 4.0%
CPI	Headline 3.5%[1]	Headline 2.5%[1]
PCE (Personal Consumption Expenditures)	2.5% (ex-F&E)[1]	2.2% (ex-F&E)[1]
Dividend/Dividend Growth S&P 500	$59.14[1] +4.8% Payout ratio: 31.3% (of bottom up est.)	$63.39[1] +7.2% Payout ratio: 30.0% (of bottom up est.)
Revenue Growth Per Share S&P 500 (only bottom up available)	+12.7% ($1,511.84/share[1])	+6.4% ($1,608.51/share[1])
P/E	~22.7x[2]	~20.3x [2]
Earnings Yield S&P 500	4.4% (using bottom up est.)	4.9% (using bottom up est.)
Fed Funds (average)	0.25[1]	0.35[1]
10 Year Treasury Yield	1.88%[1]	2.17%[1]

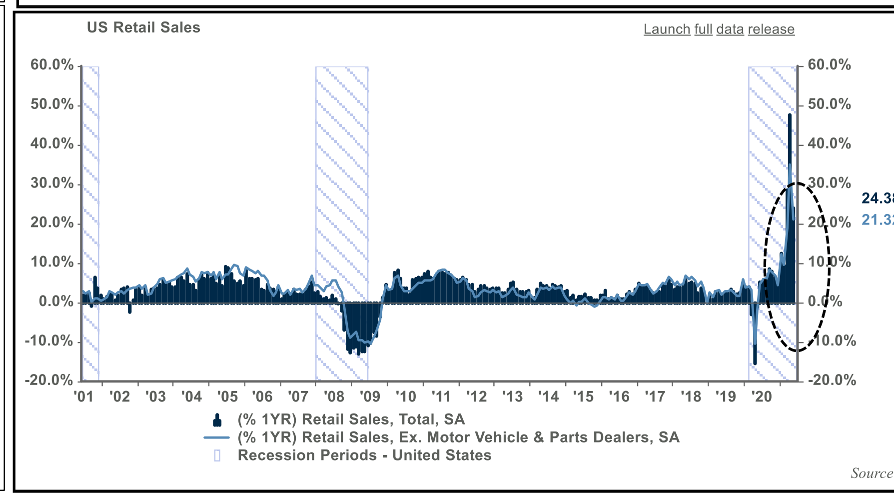
[1] FactSet;
[2] Current PE based on consensus 2021 and 2022 bottom up estimates

U.S. Economic Conditions Reflect Immediate and Significant Impact from COVID-19





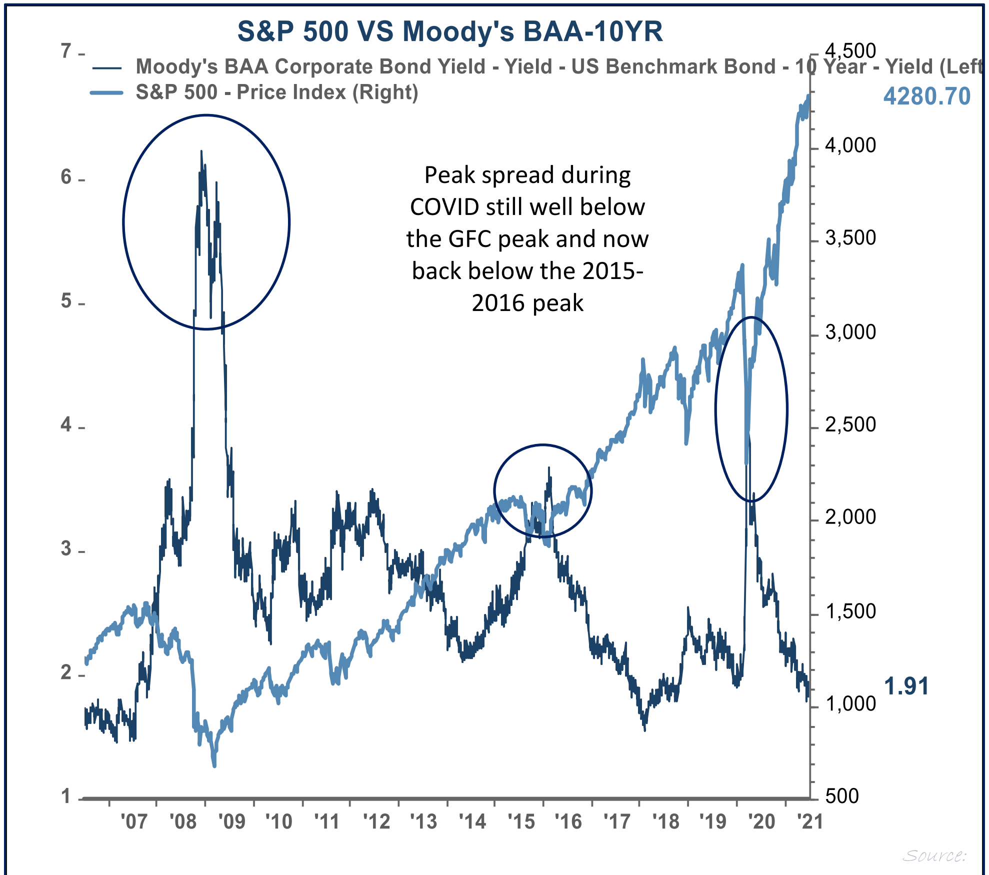


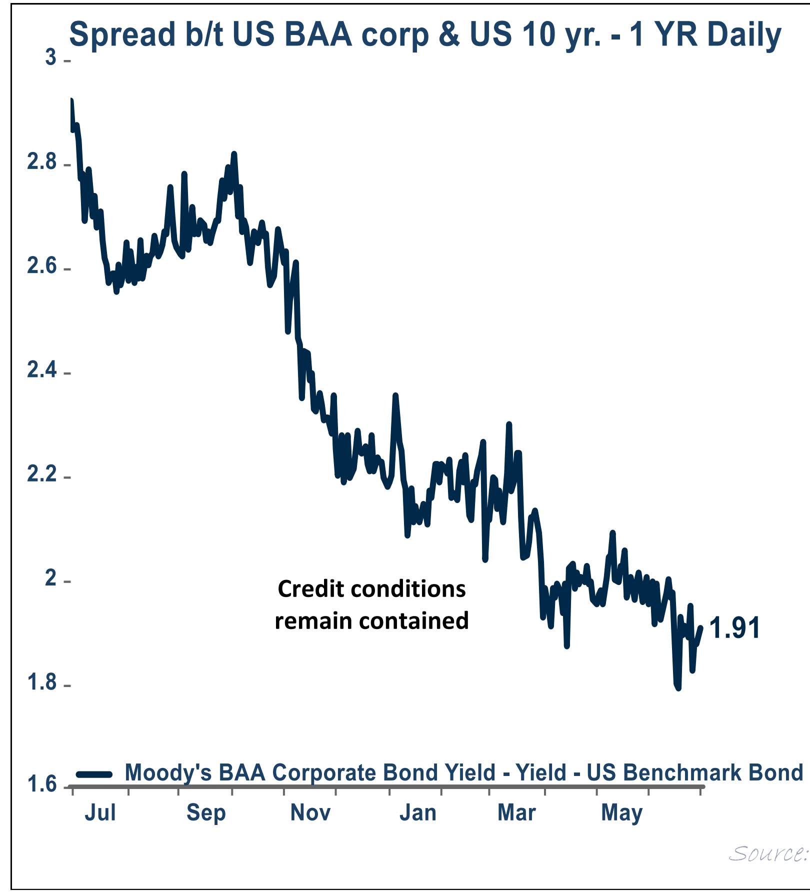


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Credit Conditions

The credit markets remain contained after seeing an uptick during the height of the pandemic. Overall, credit conditions remain relatively contained, well below the peak seen in March 2020. 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.

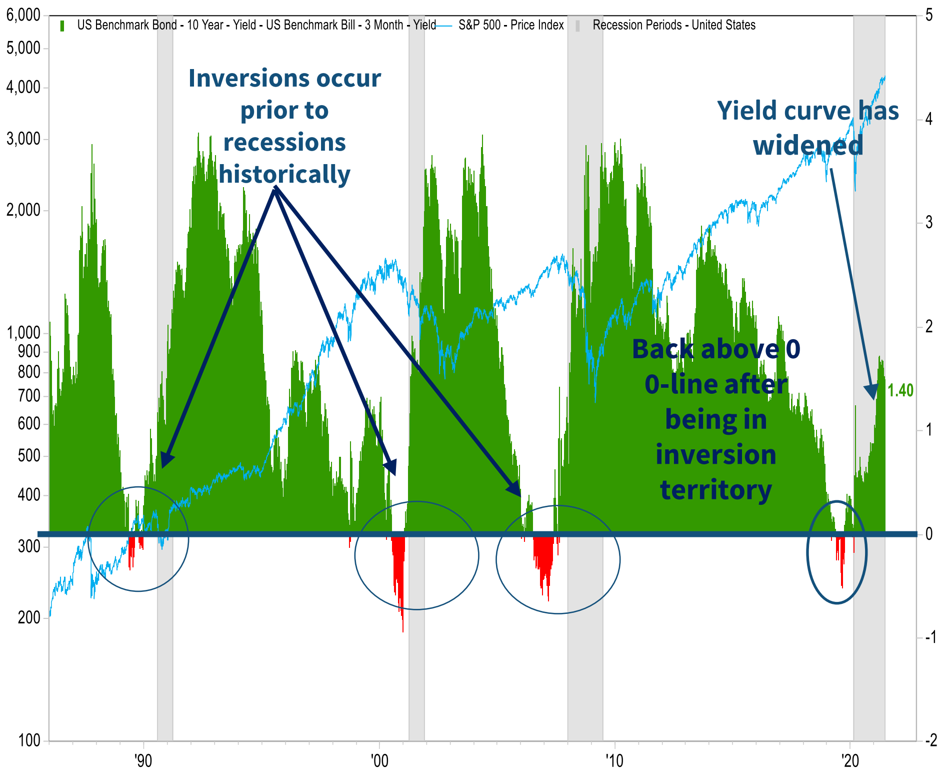




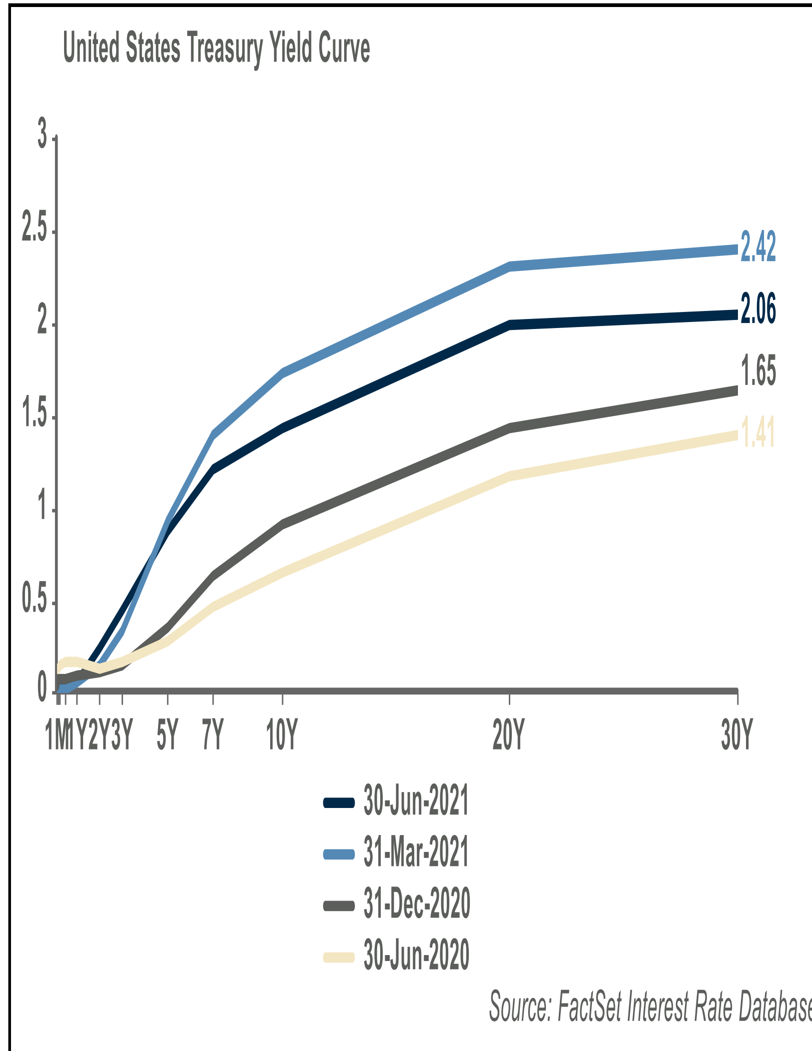
Source: FactSet, RJ Equity Portfolio & Technical Strategy

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.

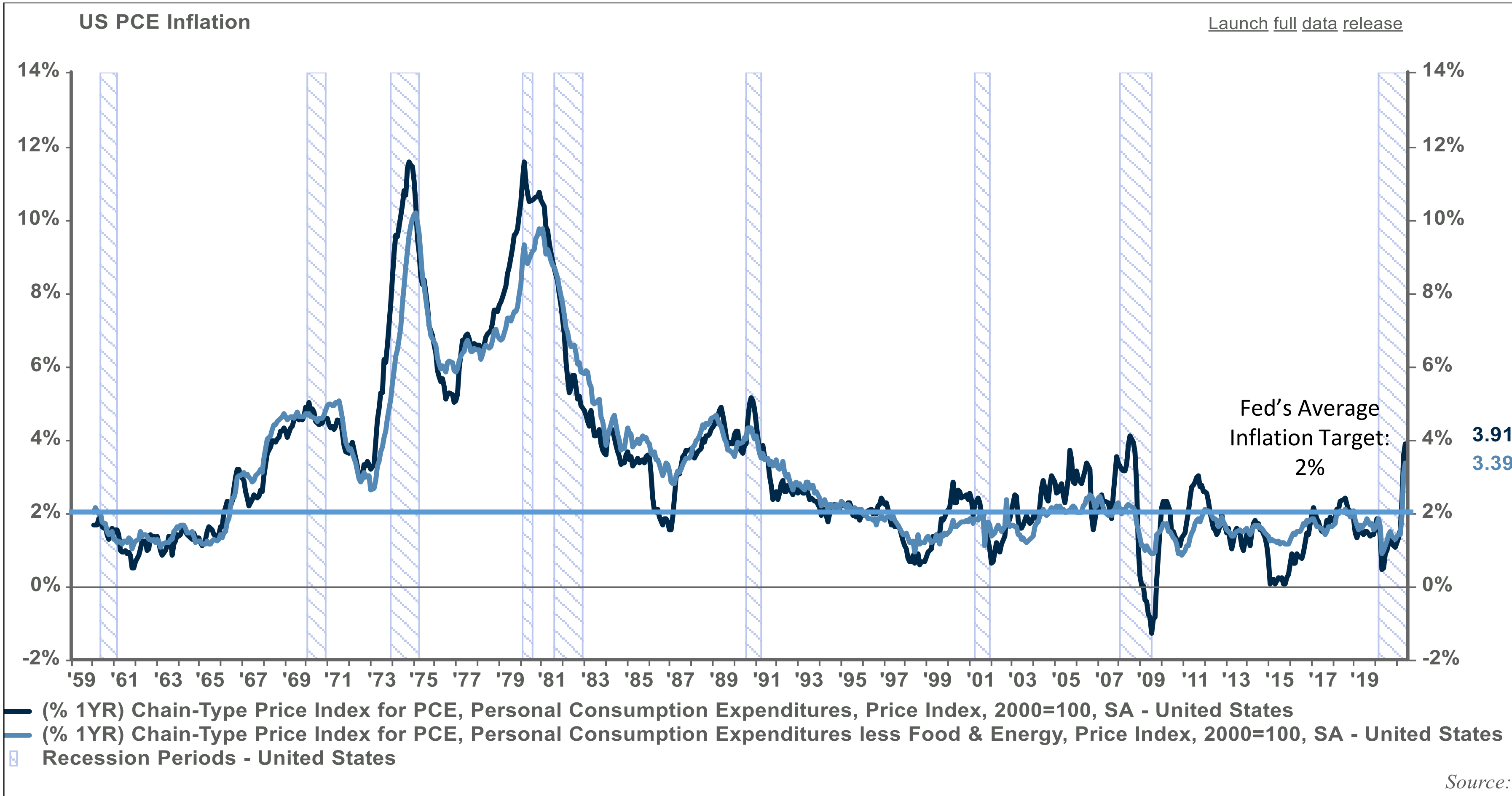


Source: FactSet, RJ Equity Portfolio & Technical Strategy



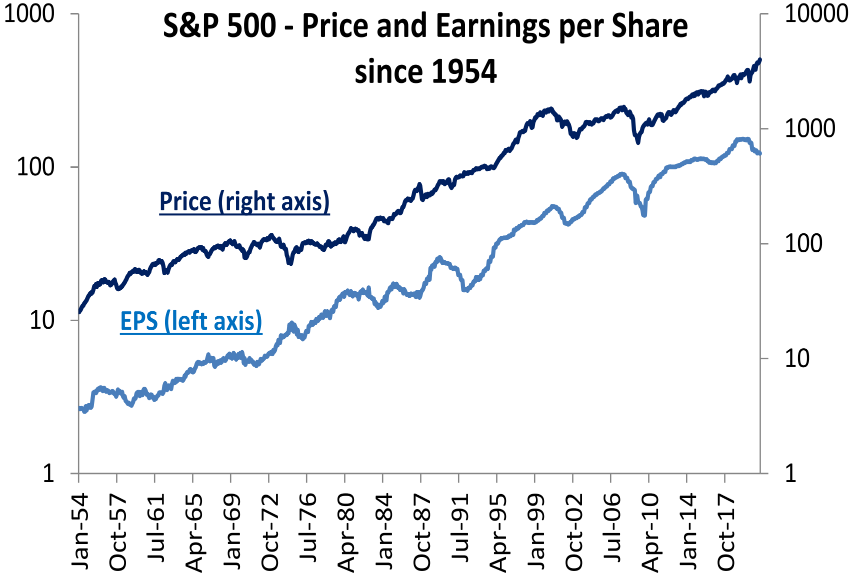
2021: Areas to Watch: Inflation

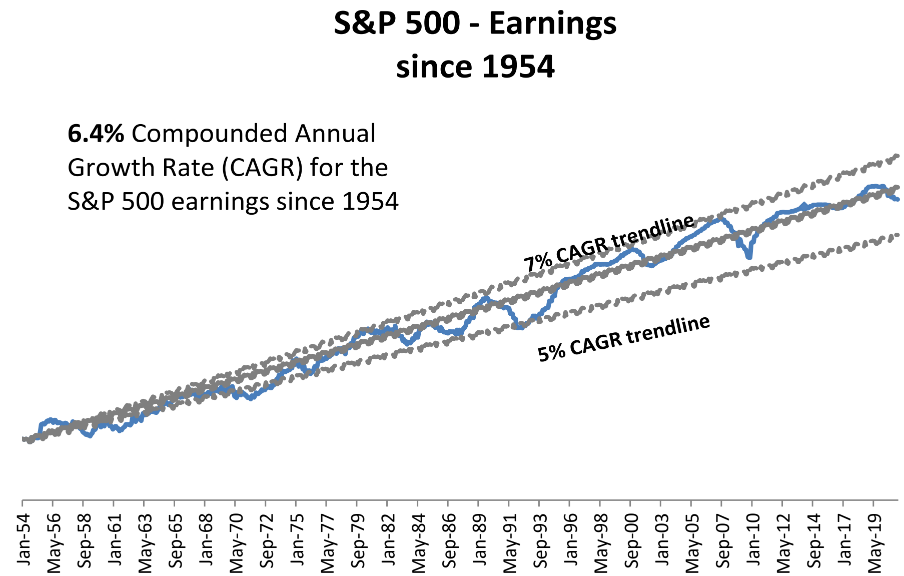
This is an area we continue to watch closely. We see inflation as transitory, but the recent elevated readings have caused some concern amongst investors. We will closely monitor to see inflation is able to sustainably remain above the Fed's average inflation target rate of 2%.



Source: FactSet, RJ Equity Portfolio & Technical Strategy

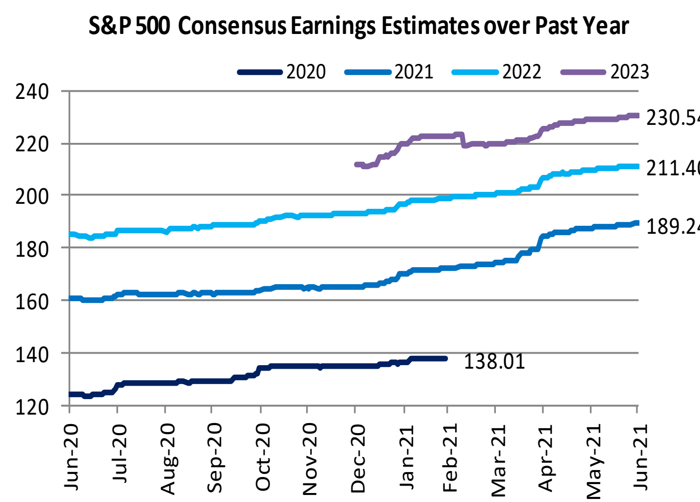
S&P 500 Earnings – Long-Term Mother's Milk of the Market





S&P 500 since 1954:

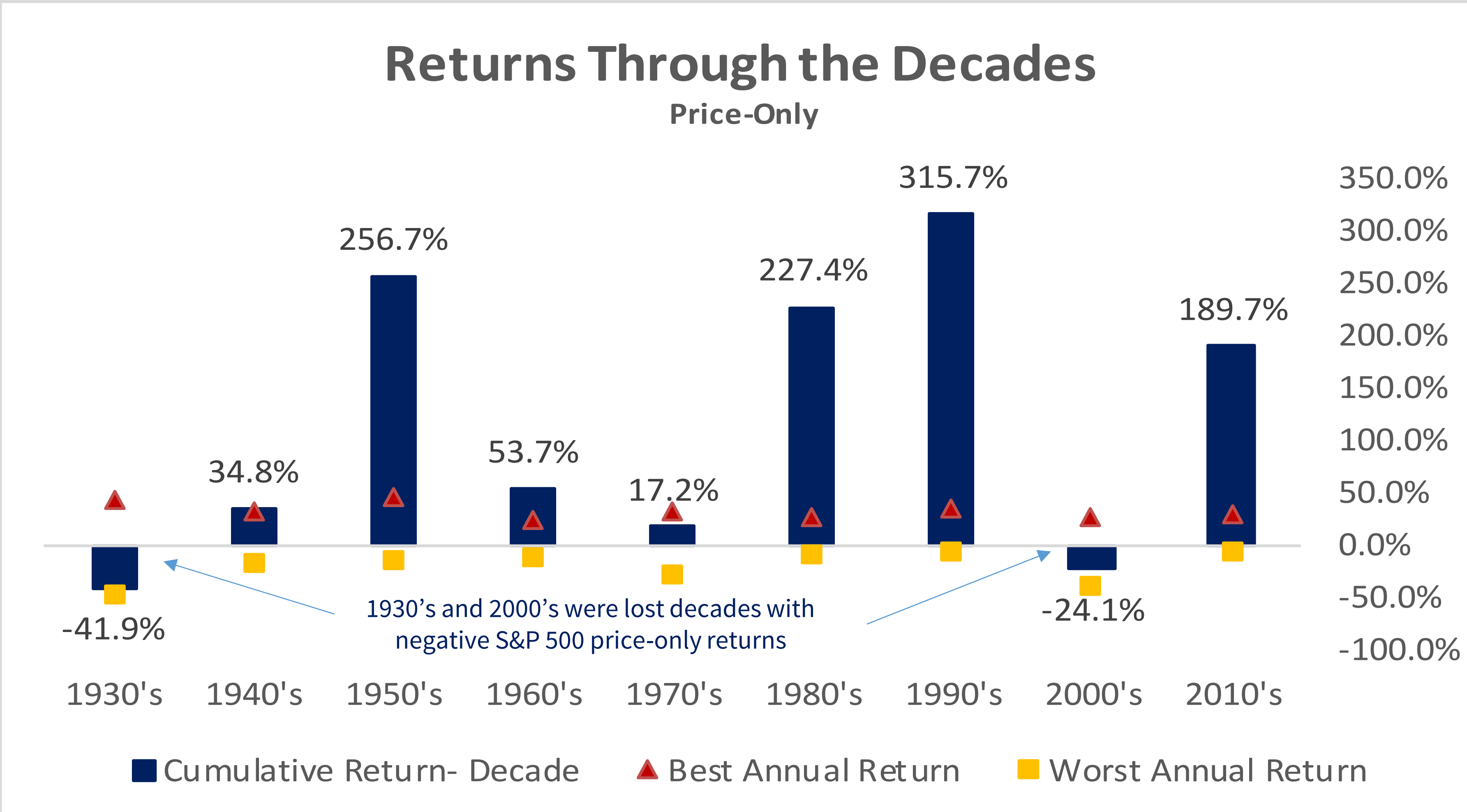
- **Earnings CAGR**: 6.4%
- **S&P 500 Price CAGR**: 7.6%



EPS Growth Estimates	
2020	-13.9%
2021	37.1%
2022	11.7%
2023	9.1%

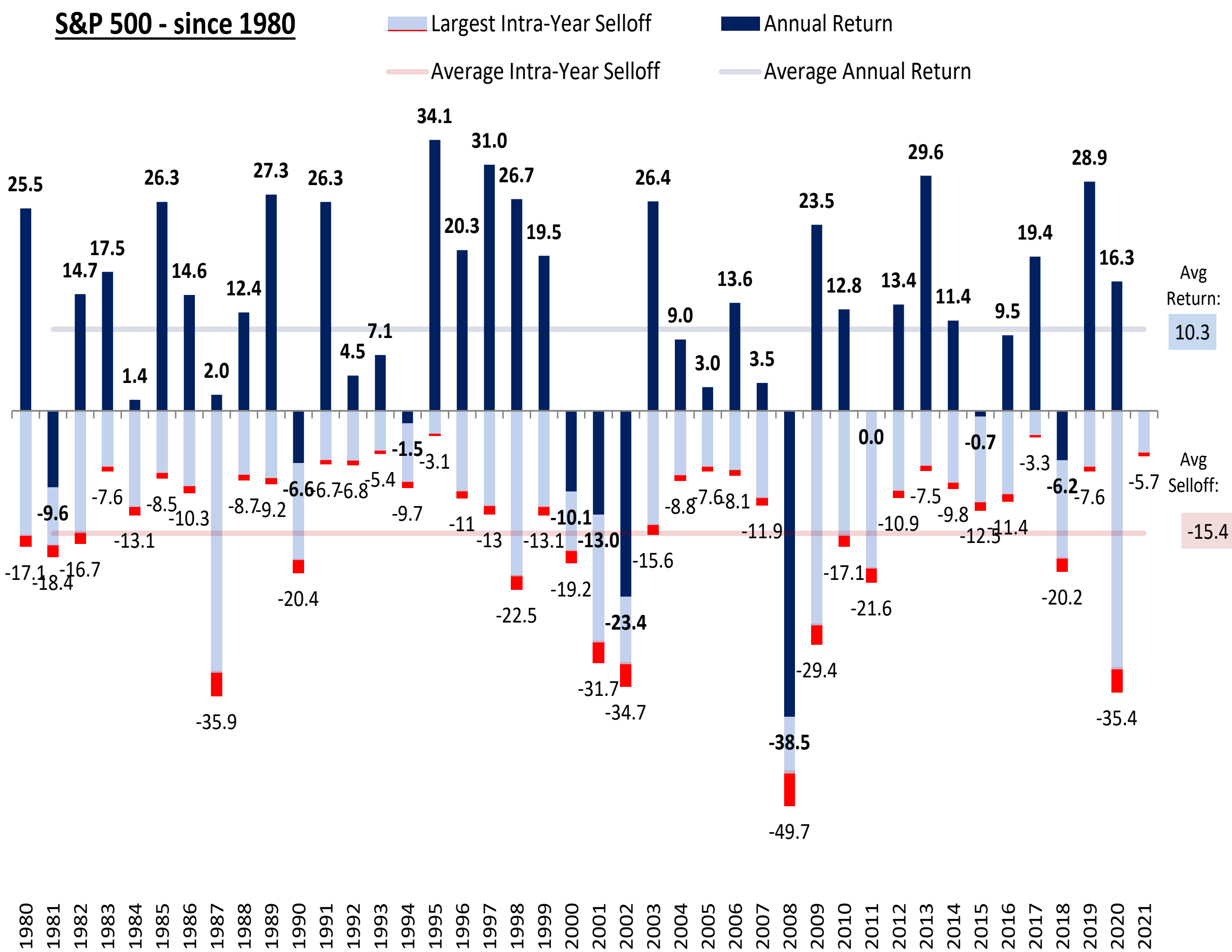
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Returns Through the Decades



Source: FactSet, RJ Equity Portfolio & Technical Strategy

Market Selloff Stats

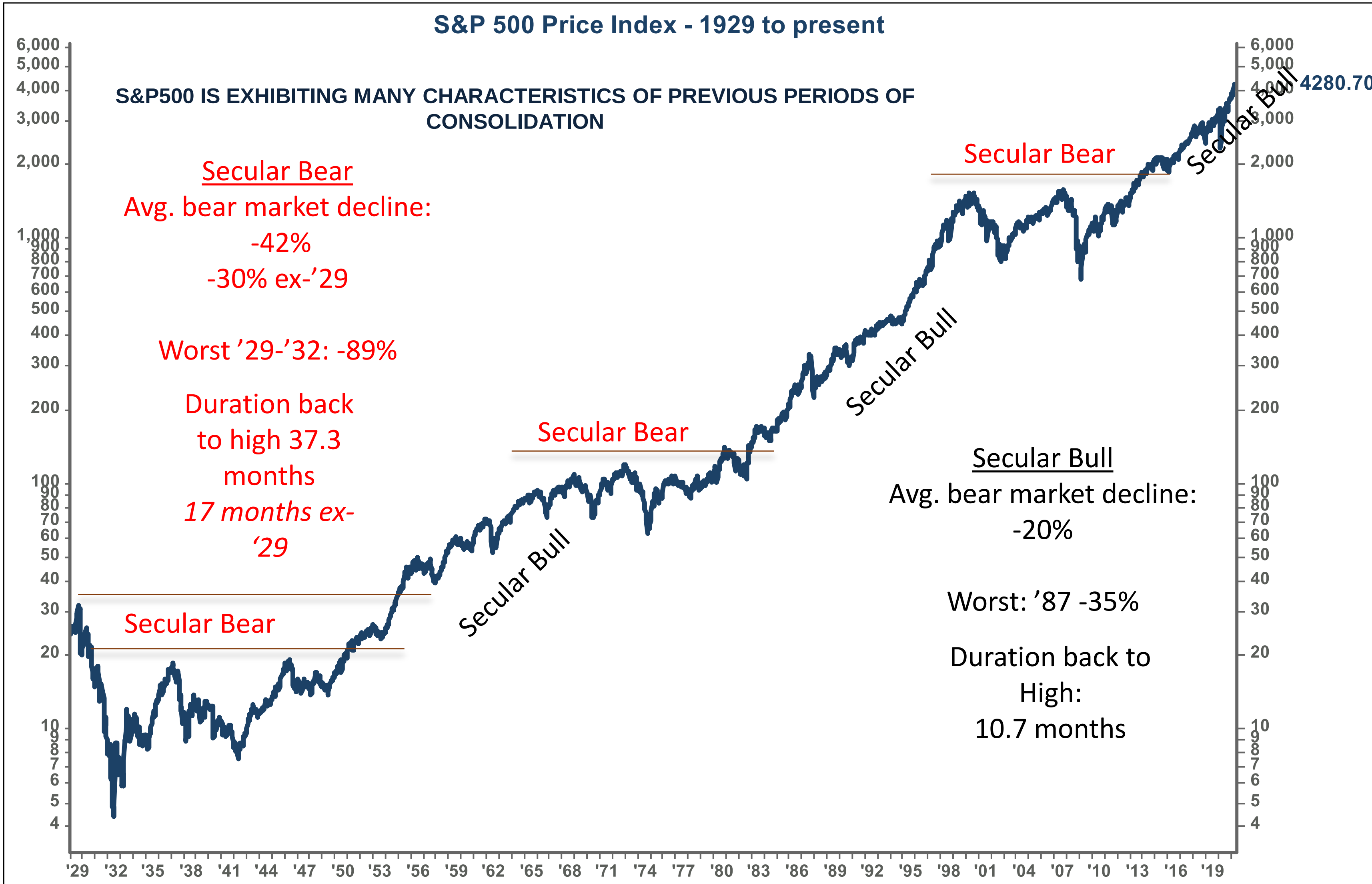


Selloffs are common:

- 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%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

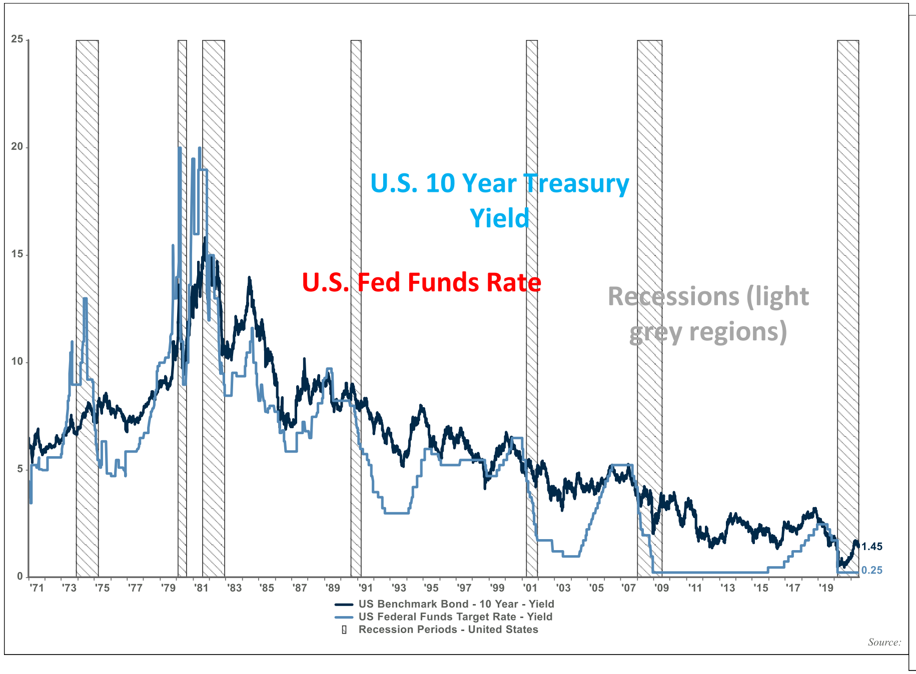
Secular Bull and Bear Markets

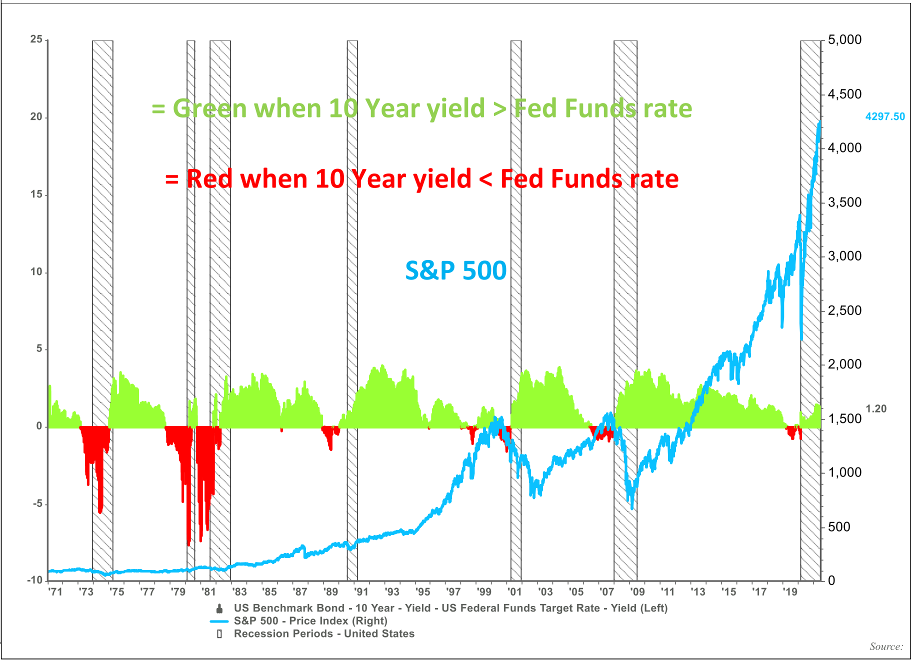


Source: FactSet, RJ Equity Portfolio & Technical Strategy

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

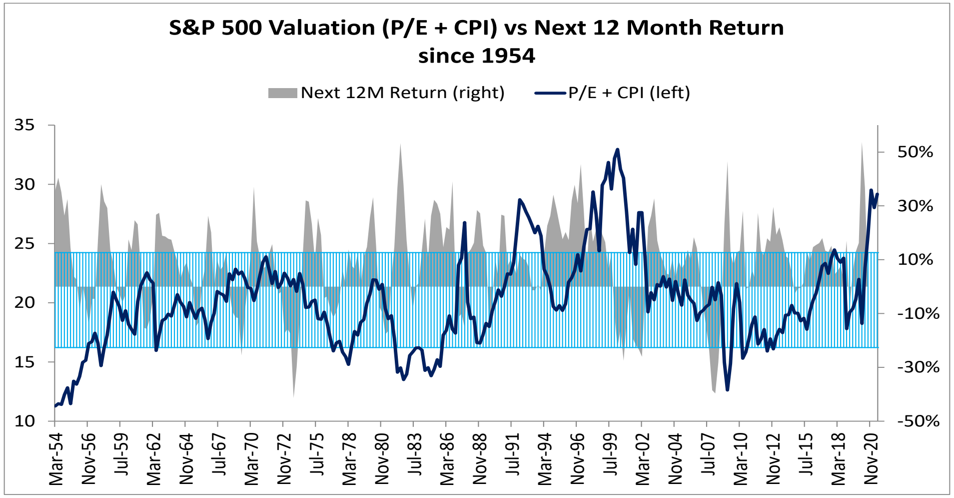
Note that when the Fed Funds rate lifts above the 10 -year Treasury yield (i.e. inverted yield curve—chart on right), recessions often follow. For this reason, yield curve flattening is a major concern. As you can see, the yield curve has remained above zero despite low interest rates on the 10-year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

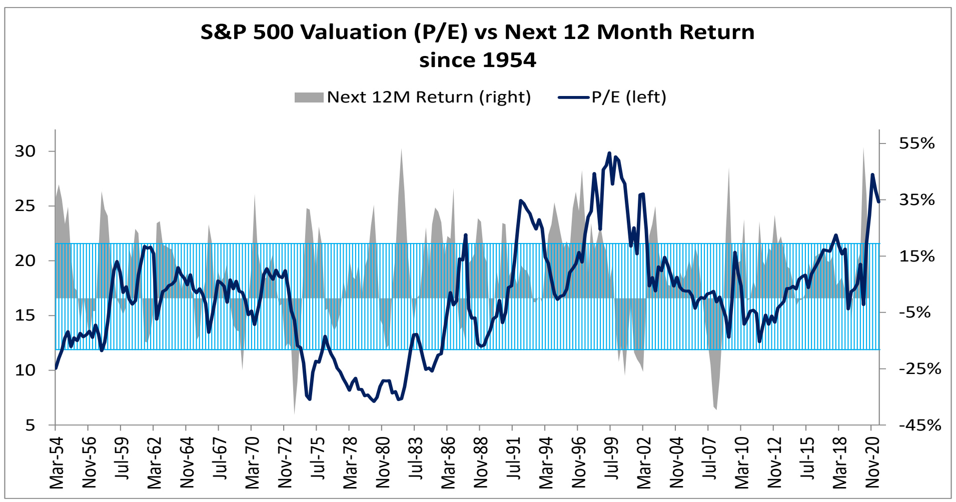




Source: FactSet, RJ Equity Portfolio & Technical Strategy

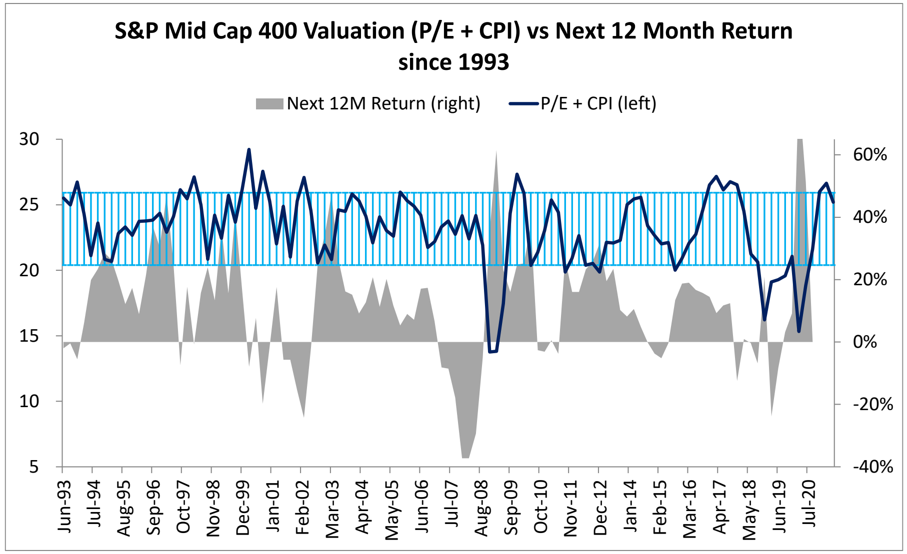
S&P 500 Valuation

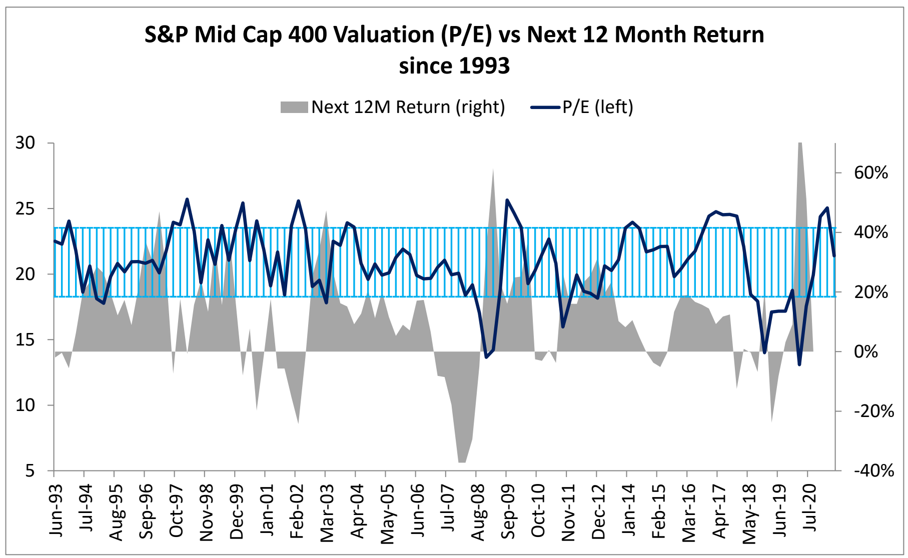




Source: FactSet, RJ Equity Portfolio & Technical Strategy

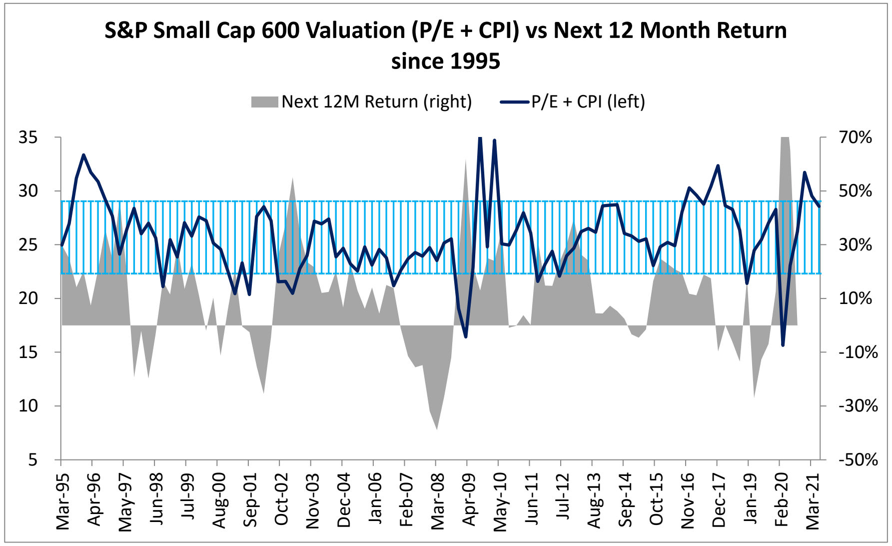
S&P Mid Cap 400 Valuation

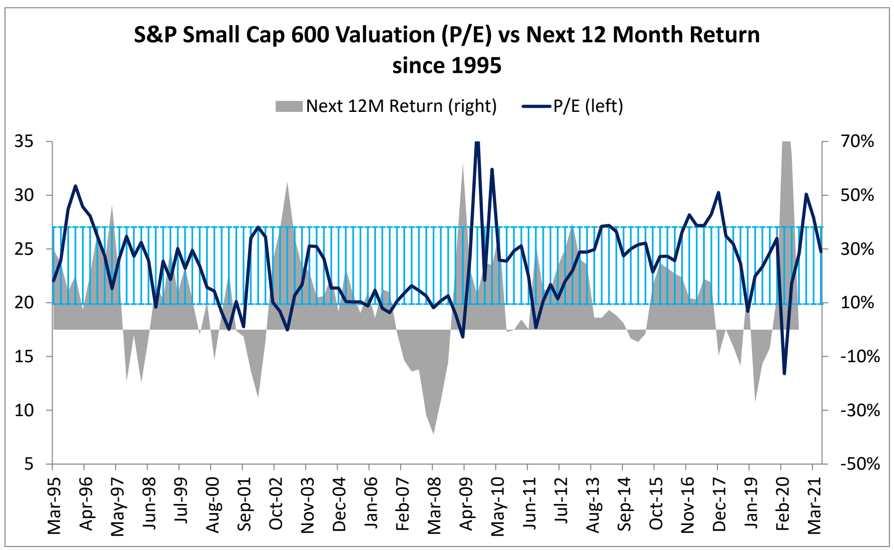




Source: FactSet, RJ Equity Portfolio & Technical Strategy

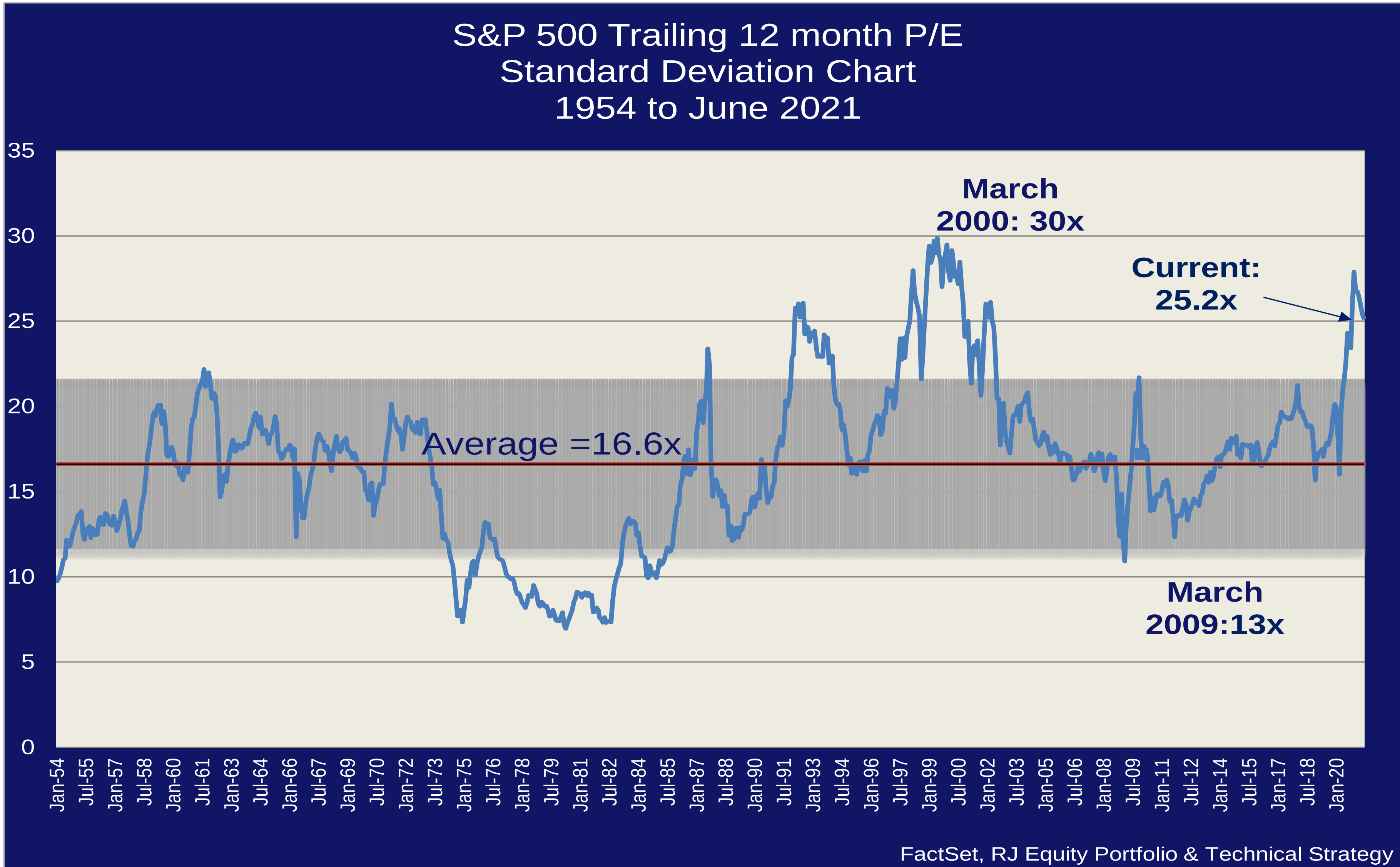
S&P Small Cap 600 Valuation



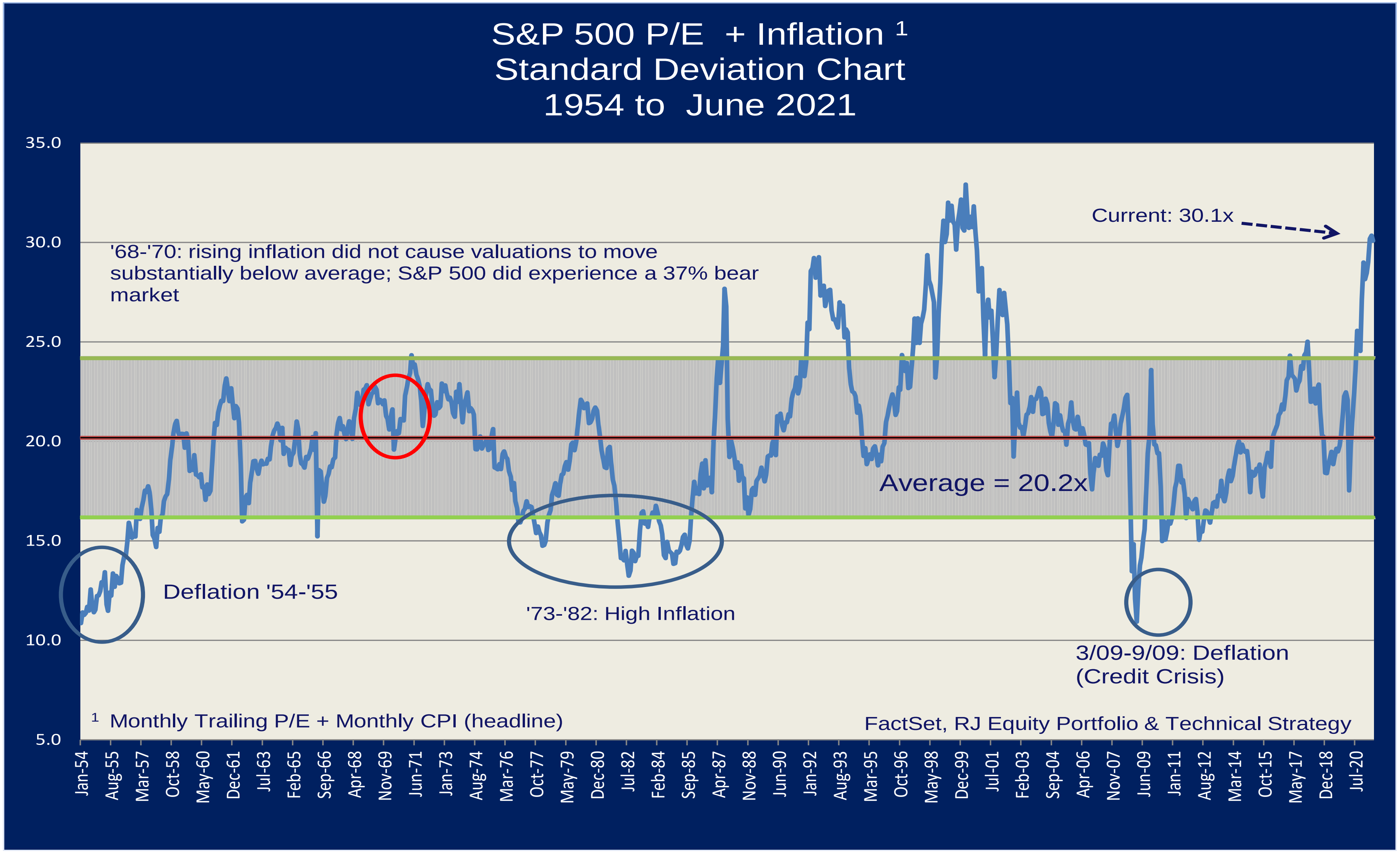


Source: FactSet, RJ Equity Portfolio & Technical Strategy

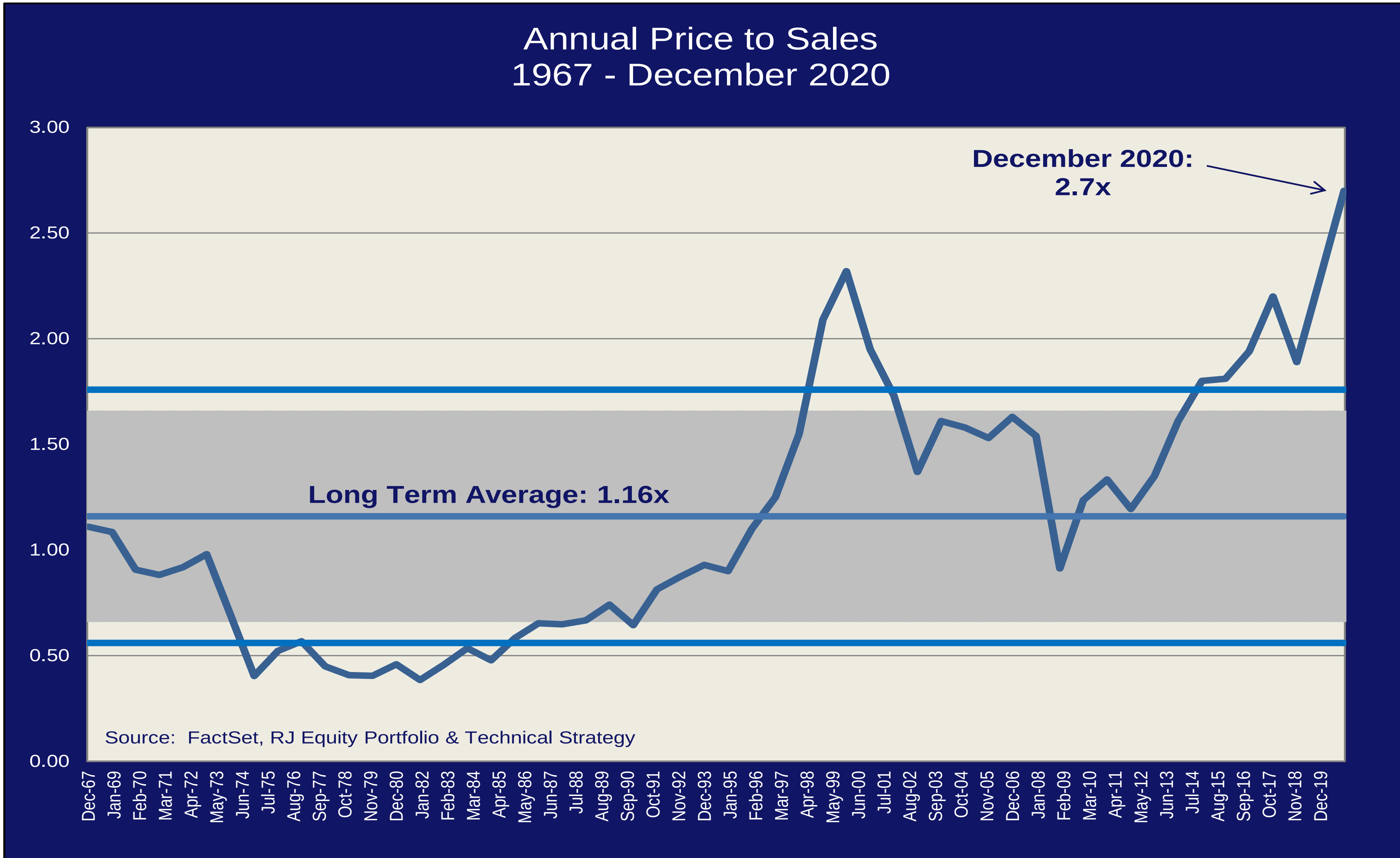
S&P 500: Long Term P/E



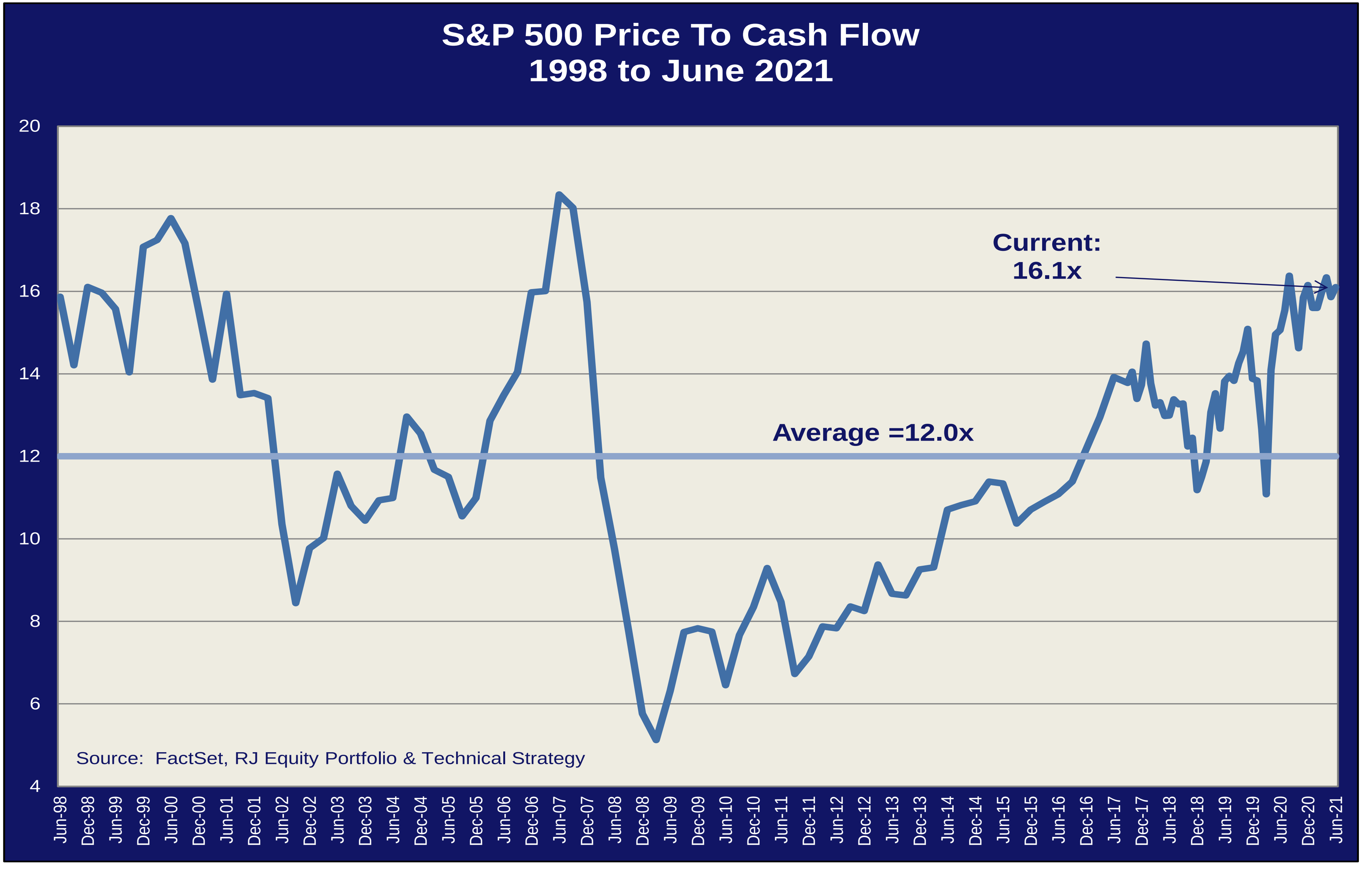
S&P 500: Inflation-Adjusted P/E



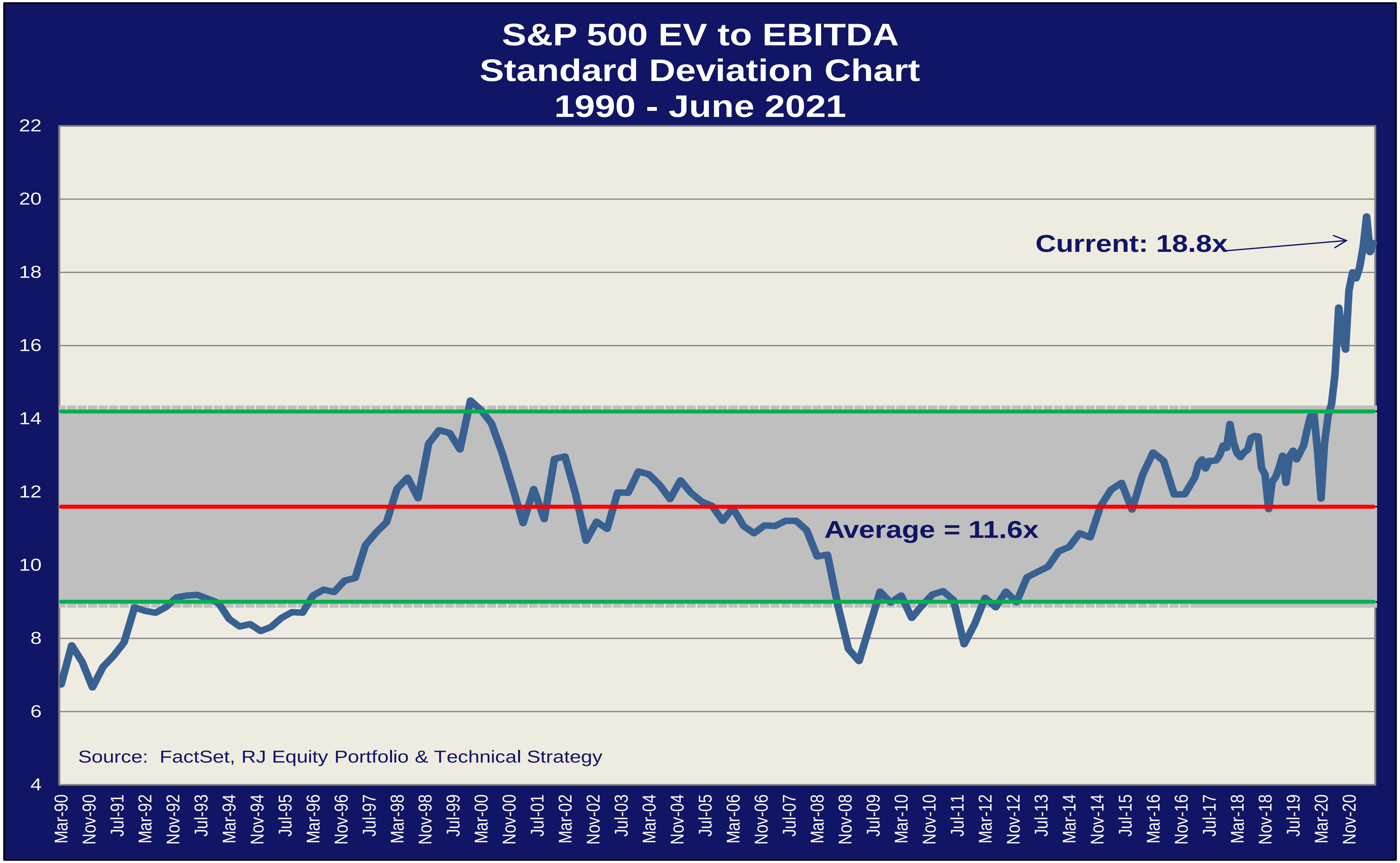
S&P 500: Price to Sales



S&P 500: Price to Cash Flow



S&P 500: EV to EBITDA



Sector Recommendations

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

RECOMMENDATIONS

Sector	S&P 500 Weighting	Recommend
Consumer Discretionary	12.3%	Overweight
Financials	11.3%	Overweight
Communications Services	11.2%	Overweight
Industrials	8.6%	Overweight
Energy	2.9%	Overweight
Information Technology	27.2%	Equal Weight
Health Care	13.0%	Equal Weight
Materials	2.6%	Equal Weight
Real Estate	2.6%	Equal Weight
Consumer Staples	5.8%	Underweight
Utilities	2.5%	Underweight

S&P 500 Sector	Weighting Current	Weighting Recommend	Sector Thoughts	Favored Subsectors
Consumer Discretionary	12.3%	Overweight	Consumer Discretionary stocks have consolidated their rate of ascent over the past couple months. And with only 20% of constituents above their 50 DMA but over 90% above their 200 DMA, we view the sector as short-term oversold within an intermediate term uptrend. We view the current pause as a digestion phase, and recommend using it as an opportunity to accumulate favored stocks. We view the consumer on solid footing with disposable income elevated for the economic reopening, supported by enormous stimulus and low interest rates.	Specialty Retail Internet Retail
Financials	11.3%	Overweight	The Financials sector pulled back over the past month and relative strength broke its trend line, following the June FOMC announcement (resulted in a narrower yield curve). Long-term interest rates have been digesting their prior surge since March, which we view as normal and healthy technically. And while it is difficult to determine how long this will transpire in the short term, we ultimately believe rates will grind higher over the next 6-12 months. Valuation remains attractive, and long term trends remain intact. As such, we would use the recent weakness as a buying opportunity.	Banks Consumer Finance
Comm. Services	11.2%	Overweight	We continue to recommend Overweight exposure to the Communication Services sector, and appreciate the sector's combination of secular growth (i.e. connectivity, 5G) and leverage to the economic recovery. The average stock continues to trade well technically, fundamental trends remain positive, and valuation is attractive in our view (~3% premium to S&P 500 vs 14% 15-year average).	Int. Media & Svcs.
Industrials	8.6%	Overweight	The Industrials sector has lost some short-term momentum recently with rotation back into long-duration growth, as interest rates have consolidated. However, intermediate term technical trends remain solid and the manufacturing backdrop continues to recover. Additionally, low inventory levels will need to be replenished over time- a tailwind to fundamentals, along with potential infrastructure stimulus. Maintain Overweight exposure.	Electrical Eqpmt.
Energy	2.9%	Overweight	The Energy sector continues to trade near its upward-trending 50-DMA as it attempts to break out to new recovery highs. Oil prices have increased to >$70/barrel over the past month, contributing to continued upward pressure on earnings estimates in the outlook. Free cash flow growth is set to be robust at current strip prices, and industry discipline toward capital spending and production is likely to result in large shareholder-friendly uses (i.e. dividends, share buybacks). We view valuation as attractive, and would continue to accumulate the sector.	E&P
Information Technology	27.2%	Equal Weight	Technology experienced a sharp bounce in relative strength over the past month, as rotation occurred back into the sector. The catalyst was a continued moderation in interest rates and narrower yield curve following the June FOMC announcement. While we continue to favor the Technology sector's fundamental backdrop, we are not sure they are ready to regain sustainable market leadership yet. Weak reactions to the past few earnings seasons, along with our bias for a grind higher in interest rates over the next 6-12 months, contribute to this position. We recommend an Equal-Weight allocation and would use the recent strength as an opportunity to trim (for those investors too overweight).	Semis Software
Health Care	13.0%	Equal Weight	We maintain an Equal-Weight recommendation due to attractive valuations and consistent earnings growth. Additionally, health care spending is set to be a larger percentage of consumer and governmental spending post-Covid. Moreover, we see plenty of opportunity at the individual stock level. However relative strength trends remain downward for the overall sector with investors more focused on the economic recovery for now. Also, the potential for drug pricing legislation and higher corporate tax rates remain headwinds.	Life Sciences
Materials	2.6%	Equal Weight	Relative strength plummeted over the past month as inflation expectations moderated, commodity prices pulled in, and the US dollar halted its downward trend in the aftermath of the FOMC announcement. These influences will need to be monitored closely. We continue to view valuation as attractive and the global manufacturing recovery as a tailwind. However, we maintain our Equal-Weight stance for now.	Metals & Mining
Real Estate	2.6%	Equal Weight	Real Estate is digesting some prior strength back toward its 50 DMA and remains in a relative strength uptrend. For those still building positions to equal-weight, we recommend using the consolidation as an opportunity to accumulate. While rising interest rates are historically a headwind for the sector, their moderation in recent months is supportive. There is also plenty of variation at the individual company level, offering investors a wide range of leverage to differing fundamental landscapes (stock-picker's sector). Of the more "defensive, interest-sensitive" sectors, this remains our favored one.	Industrial REITs
Consumer Staples	5.8%	Underweight	We maintain our underweight recommendation to the Consumer Staples sector and find other areas more attractive at this stage of the economic recovery. We are concerned about the sector's ability to offset rising cost pressures across the supply chain, likely pressuring margins. Additionally, relative strength trends broke to new lows this month, supporting our underweight stance.	Food Retail
Utilities	2.5%	Underweight	We maintain our Underweight recommendation to Utilities. The defensive sector is seeing negative earnings estimate revisions and broke to new relative lows despite the moderation in interest rates. We continue to rather allocating assets to other more cyclical areas given our positive stance on the overall economic and fundamental recovery.	

Source: FactSet, RJ Equity Portfolio & Technical Strategy

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

S&P 500 Industry Group	Class	Beta (3Yr)	1 Month	3 Month	YTD	12 Month
Technology Hardware & Equipment	Cycl.	1.18	7.7%	11.8%	6.6%	47.9%
Semiconductors & Semiconductor Equ	Cycl.	1.33	7.3%	13.9%	21.1%	58.0%
Automobiles & Components	Cycl.	1.25	6.6%	7.6%	5.4%	62.7%
Software & Services	Cycl.	1.14	6.3%	13.2%	14.3%	32.0%
Retailing	Cycl.	0.92	4.9%	9.8%	11.8%	32.9%
Energy	Cycl.	1.25	4.5%	9.1%	42.4%	41.7%
Consumer Durables & Apparel	Cycl.	1.08	4.1%	8.2%	15.1%	60.1%
Pharmaceuticals Biotechnology & Life	Def.	0.72	3.9%	8.5%	9.7%	18.2%
Media & Entertainment	Cycl.	0.98	3.3%	13.2%	22.7%	56.8%
Real Estate	Cycl.	0.91	2.8%	11.8%	21.7%	28.2%
S&P 500	**-**	***1.00***	***2.2%***	***8.6%***	***14.4%***	***38.6%***
Commercial & Professional Services	Cycl.	0.90	1.5%	11.5%	10.7%	35.8%
Food & Staples Retailing	Def.	0.62	1.2%	5.9%	4.4%	25.3%
Health Care Equipment & Services	Def.	0.95	0.5%	7.7%	12.3%	34.8%
Household & Personal Products	Def.	0.64	0.4%	0.3%	-1.0%	13.7%
Diversified Financials	Cycl.	1.08	-0.2%	11.9%	25.6%	60.5%
Telecommunications Services	Def.	0.63	-0.9%	-2.3%	-0.3%	4.0%
Food Beverage & Tobacco	Def.	0.72	-1.7%	2.6%	5.9%	21.2%
Capital Goods	Cycl.	1.07	-1.9%	3.0%	16.4%	48.5%
Utilities	Def.	0.77	-2.4%	-0.5%	0.8%	12.1%
Consumer Services	Cycl.	1.00	-2.8%	0.5%	6.5%	41.4%
Transportation	Cycl.	1.04	-4.7%	3.1%	14.6%	56.4%
Insurance	Cycl.	1.02	-5.2%	3.4%	15.3%	38.3%
Banks	Cycl.	1.27	-5.5%	3.0%	27.7%	66.3%
Materials	Cycl.	1.01	-5.5%	4.0%	13.5%	45.7%

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.

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