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FEBRUARY 6, 2020 | 4:33 PM EST

Weekly Market Guide

Short-Term Summary: Equities were able to shake-off coronavirus concerns over the past week, rallying back to highs on the S&P 500. Contributing to the move was the People's Bank of China injecting 1.2T yuan into their markets to support the economy through the virus impact. Additionally, positive economic readings this week, i.e. US ISM manufacturing moving back into expansion, global manufacturing PMI advancing, and US ISM services surprising to the upside, supported the view that economic conditions were improving in January (before the coronavirus impact).

It remains our view that global central bank stimulus and trade progress should be tailwinds to global economic activity throughout 2020. We acknowledge the unfortunate impact of the coronavirus, and its effects can be a headwind to economic conditions until concerns subside (particularly in China). However, we believe the market impact is likely to be more transitory and do not see it altering the intermediate term thesis at this point. The US remains our favored place to invest globally. Also, it is interesting that China was able to hold support at its 200 DMA and bounce this week. We came into the year thinking China and EM could outperform the World in 2020, but we do think it is too early to make meaningful commitments to these areas with uncertainty so high over coronavirus ramifications.

We nudged up our base case S&P 500 P/E to 19.5x (from 19.25x) due to trade progress since the start of the year, and our next 12 month earnings estimate moved to $175 in order to incorporate January into our forecast. Coronavirus impacts have not altered these forecasts, as we typically take a more conservative stance to forward estimates. For example, we use 1.8% US GDP this year in our earnings estimate, while a 2.0-2.3% GDP could result in S&P 500 earnings closer to $177-180. This would be our bull case scenario (S&P 500 at 3717 using $177 earnings and 21x P/E) of continued trade progress, better than expected economic activity, and a Fed on hold. So while our bias is higher, the risk/reward to our base case target (3413) improves meaningfully during normal pullbacks. As such, we would use pullbacks as buying opportunities.

Beneath the surface, there was some rotation into Value this week (Growth has dominated YTD performance thus far) as interest rates bounced and the yield curve steepened in conjunction with the positive move in manufacturing ISM. An improving manufacturing trend is influential on many of our 2020 investment themes. With bond yields bouncing off the low end of its range, we believe banks can catch up in the short term. Also, industrials are one of our favored areas to accumulate as manufacturing improvement takes shape.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	3.2%	21.8%
S&P 500 (Equal-Weight)	1.6%	15.8%
Dow Jones Industrial Avg	2.6%	15.3%
NASDAQ Composite	6.0%	28.5%
Russell 2000	0.8%	10.6%
MSCI All-Cap World	1.5%	15.6%
MSCI Developed Markets	-0.7%	9.5%
MSCI Emerging Markets	-2.3%	3.6%
NYSE Alerian MLP	-5.2%	-17.7%
MSCI U.S. REIT	2.3%	10.2%

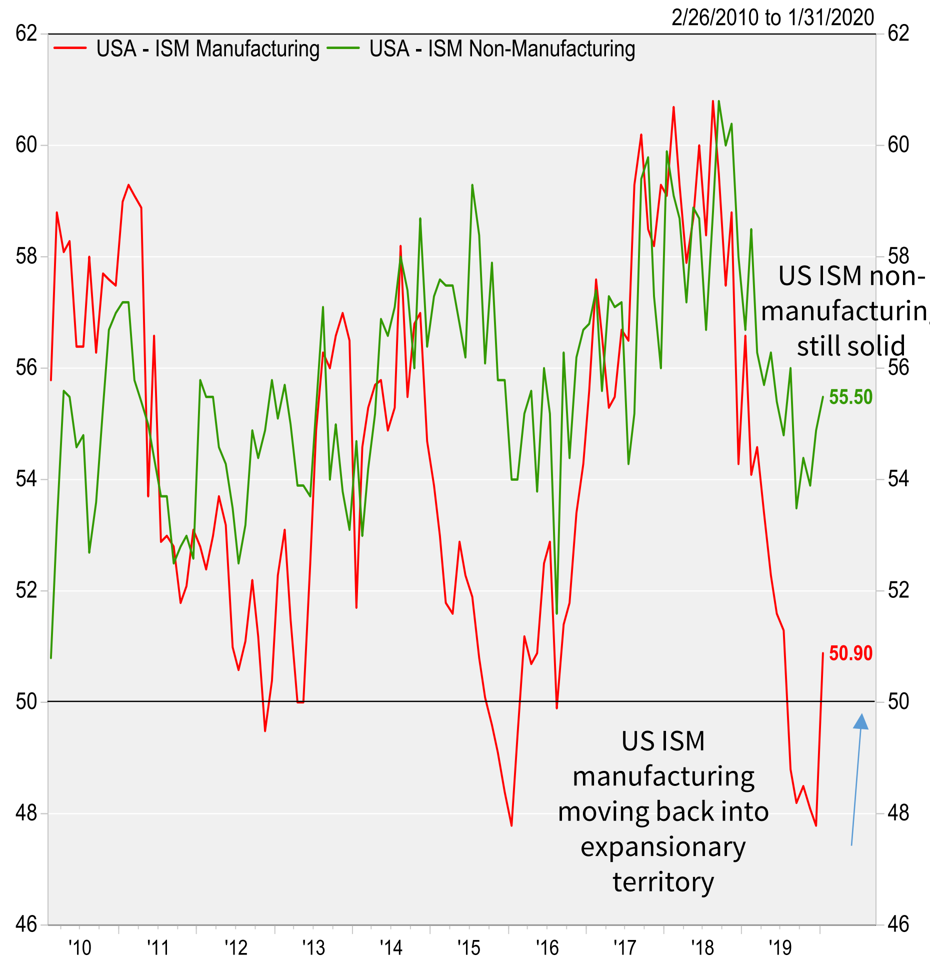
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	8.7%	24.4%
Utilities	6.3%	3.4%
Consumer Discretionary	3.5%	9.8%
S&P 500	***3.2%***	-
Industrials	3.0%	9.0%
Communication Svcs.	2.7%	10.3%
Real Estate	2.6%	2.9%
Health Care	1.6%	14.0%
Consumer Staples	1.5%	7.1%
Financials	0.7%	12.6%
Materials	-0.7%	2.6%
Energy	-8.9%	3.8%

MACRO: US

January US ISM manufacturing moved back to expansion for the first time since July. Our 2020 investment themes are influenced on the belief that easing trade tensions and global central bank stimulus last year should be tailwinds to a global manufacturing recovery this year, so this was a positive development. Additionally, global manufacturing PMI advanced to 50.4 from 50.1, although a setback is expected in February due to the coronavirus impact.

The services side of the economy remains solid in our view as ISM non-manufacturing rose above expectations to 55.5. Moreover, initial jobless claims remain exceptionally low, indicative of a continued strong jobs market.

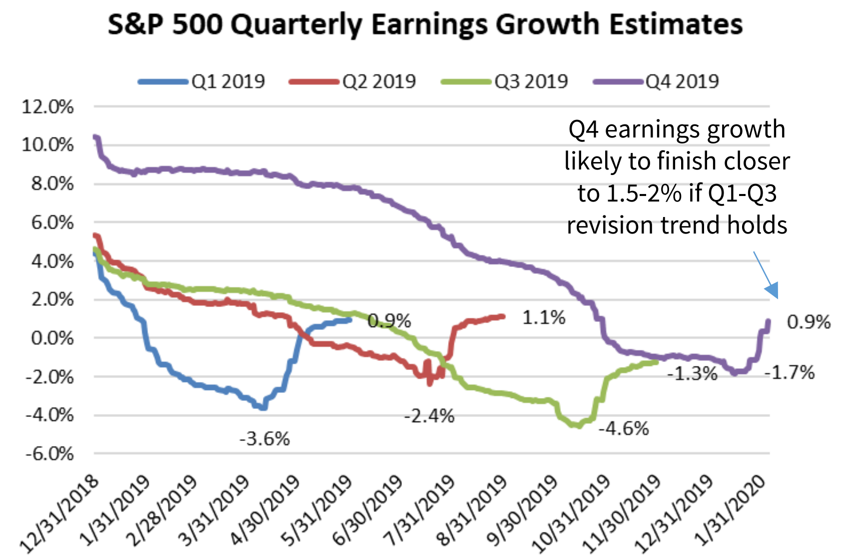
US economic data reported in the past week (actual vs estimate):
Personal Income (Dec): 0.2% vs 0.3%, 0.4% prior
Personal Spending (Dec): 0.3% vs 0.3%, 0.4% prior
Employment Cost Index (4Q): 0.7% vs 0.7%, 0.7% prior
U of Michigan Sentiment (Jan F): 99.8 vs 99.1, 99.1 prior
Markit US Manufacturing PMI (Jan F): 51.9 vs 51.7, 51.7 prior
Construction Spending m/m (Dec): -0.2% vs 0.5%, 0.7% prior
ISM Manufacturing (Jan): 50.9 vs 48.5, 47.8 prior
ISM New Orders (Jan): 52.0 vs 47.7, 47.6 prior
ISM Prices Paid (Jan): 53.3 vs 51.0, 51.7 prior
Factory Orders (Dec): 1.8% vs 1.2%, -1.2% prior
Durable Goods Orders (Dec F): 2.4% vs 2.4%, 2.4% prior
Durables ex Transportation (Dec F): -0.1% vs -0.1%, -0.1% prior
ADP Employment Change (Jan): 291k vs 157k, 199k prior
Trade Balance (Dec): -$48.9B vs -$48.2B, -$43.7B prior
Markit US Services PMI (Jan F): 53.4 vs 53.2, 53.2 prior
Markit US Composite PMI (Jan F): 53.3 vs 53.1 prior
ISM Non-Manufacturing (Jan): 55.5 vs 55.1, 54.9 prior
Nonfarm Productivity (4Q P): 1.4% vs 1.6%, -0.2% prior
Unit Labor Costs (4Q P): 1.4% vs 1.3%, 2.5% prior
Initial Jobless Claims (Week): 202k vs 215k, 217k prior



Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Earnings: 59% of S&P 500 companies have reported earnings thus far, 76% of which have beaten on the bottom line for an average earnings surprise of 5.4%. S&P 500 earnings estimates now reflect 0.9% growth for the quarter, which we expect to finish closer to 1.5-2% if the normal revision trend continues. Companies missing on earnings have been "punished" more dramatically than those beating estimates have been "rewarded." For example, S&P 500 companies beating estimates have risen 0.5% on average, which those missing have traded -1.6% lower on average. The highlight of earning season has been fundamental momentum in the Technology space, which was important in order to sustain the elevated valuations within the sector leading up to results. Technology has seen the best revisions to Q4 and 2020 earnings estimates since earnings season began.



Consensus earnings estimates:

- **2019:** $162.26 (bottom-up analysts); $169.28 (top-down strategists). RJ: $165
- **2020:** $176.15 (bottom-up analysts); $183.06 (top-down strategists). RJ: $174

Valuation: The S&P 500 is back trading at 20.4x. This is not euphoric given ~2% inflation (with no signs of moving higher right now), low interest rates, a supportive Fed that is on hold, and potential for manufacturing improvement. However, we do view it as elevated in our base case scenario where we apply a 19.5x P/E. The current P/E is actually closer to our bull case P/E of 21.0x, which we view as fair in the event that economic data improves above expectations, trade progresses, the Fed remains on hold, and earnings surprise to the upside. Additionally, the Fed's balance sheet expansion since September has been very correlated with the S&P 500 P/E expansion and has stalled lately. This, along with potential headwinds from the coronavirus, low growth environment, and election, contributes to our view that earnings will need to be the main driver of forward returns at this point. Base case S&P 500 target is 3413 (70% odds), bull case 3717 (20% odds), and bear case 2592 (10% odds).

	Q4 Earnings Estimate %		2020 Earnings Estimate %		Current	P/E Expansion
Sector	Growth	Revision since 1/13	Growth	Revision since 1/13	P/E	% since 1/13
Utilities	14.6	0.1	4.4	-0.2	22.0	5.7
Financials	10.5	0.0	5.3	-0.1	13.9	0.1
Communication Services	8.2	6.6	9.8	-0.5	21.2	-2.8
Health Care	7.2	0.7	8.0	-0.4	17.7	0.5
Information Technology	6.5	7.4	10.8	2.3	25.3	2.2
Consumer Staples	1.8	1.1	5.8	0.1	21.6	0.7
S&P 500	**0.9**	2.5	**8.6**	-0.7	**20.4**	0.5
Real Estate	0.2	1.4	5.1	-0.5	21.4	1.1
Consumer Discretionary	-7.7	4.8	10.8	-0.6	26.0	0.9
Industrials	-9.3	-3.0	8.3	-6.4	20.1	1.2
Materials	-14.4	1.5	6.8	-5.2	20.5	0.6
Energy	-41.8	-4.1	19.6	-4.8	19.9	-8.1

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technical:

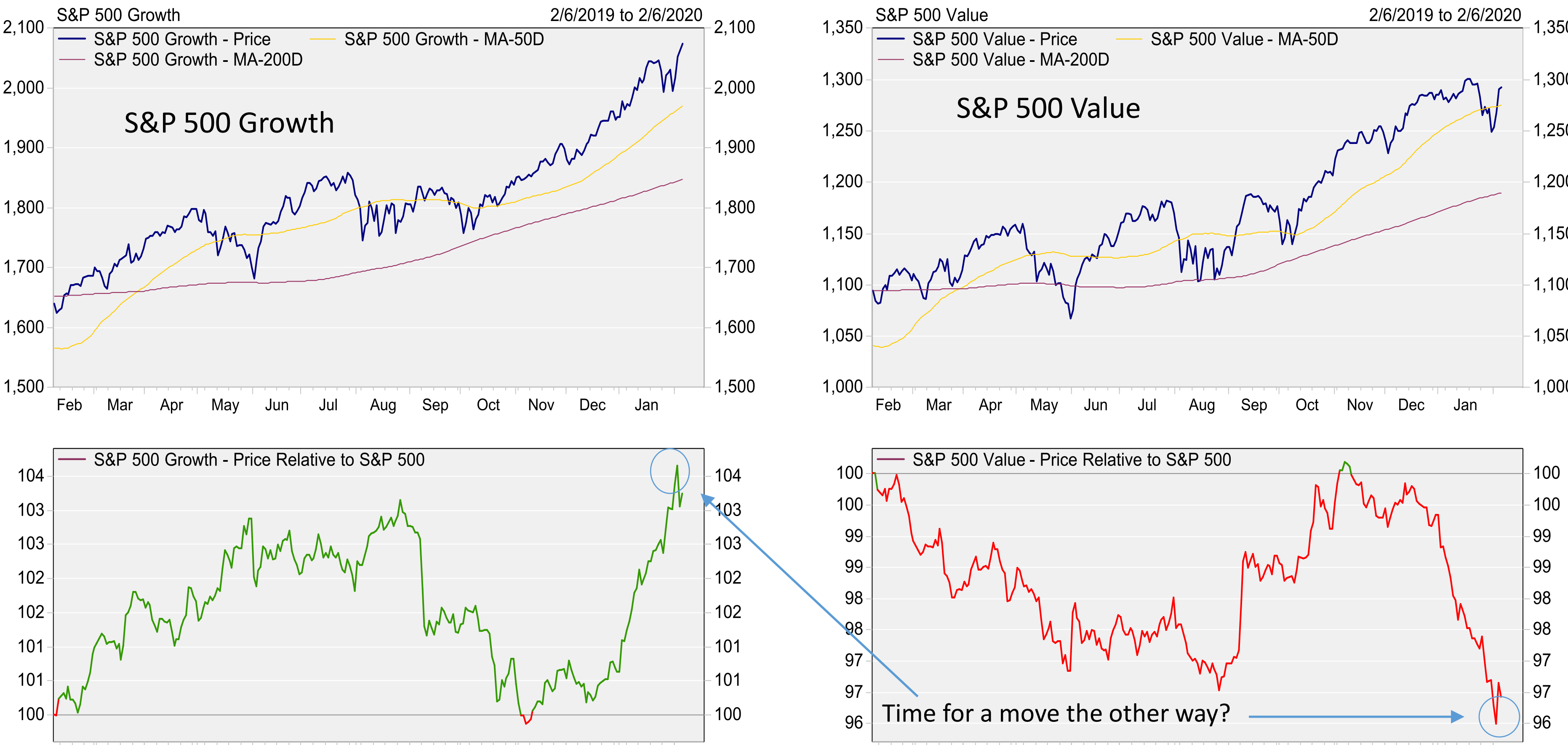
The S&P 500's 3% pullback on coronavirus concerns was able to hold the 50 DMA and subsequently rally back to highs over the past week.

During the market's move higher, advancing volume was not overly impressive. The readings were not bad, but we would have liked to see a 4:1 ratio between advancers and decliners to show more participation and conviction.

That said, intermediate term technical momentum remains strong. Our favored area of support in the short term is around the 50 DMA at 3227, followed by horizontal support at 3212. We continue to view pullbacks as buying opportunities for the broad market.

TECHNICAL: VALUE VS GROWTH- VALUE TO CATCH UP?

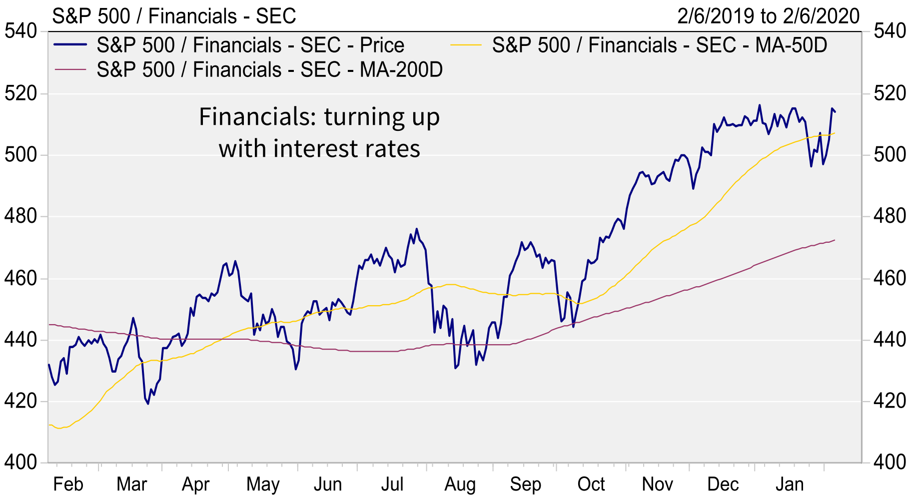
The tech-oriented Growth side of the market has dominated performance to start the year. While momentum in the Tech sector remains strong, we would not be surprised to see rotation play out beneath the surface at some point given the sharp rate of change of Growth outperformance. This time could be near as Value relative performance ticked up this week with interest rates bouncing and the yield curve steepening in conjunction with improved manufacturing trends.

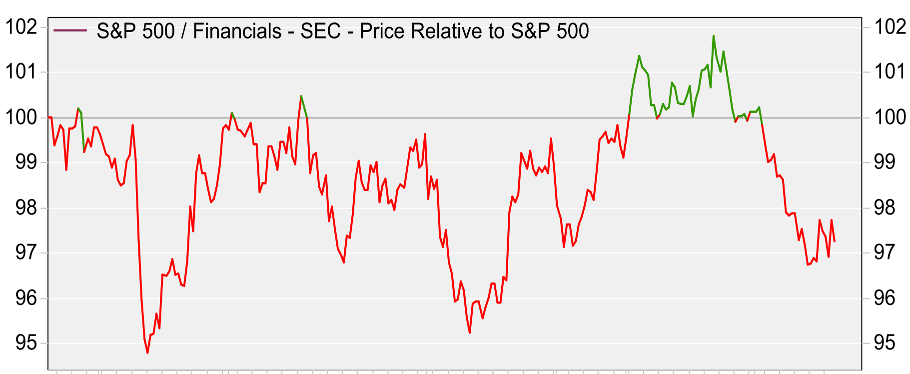


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: FINANCIALS- LOOK TO ACCUMULATE

As discussed previously, interest rates have bounced and the yield curve has steepened this week in conjunction with the improved manufacturing readings. With bond yields still near the lower end of their recent range and bouncing from "oversold" levels, there is room in the short term for a further move higher. If so, look for the financials and banks to "catch up."

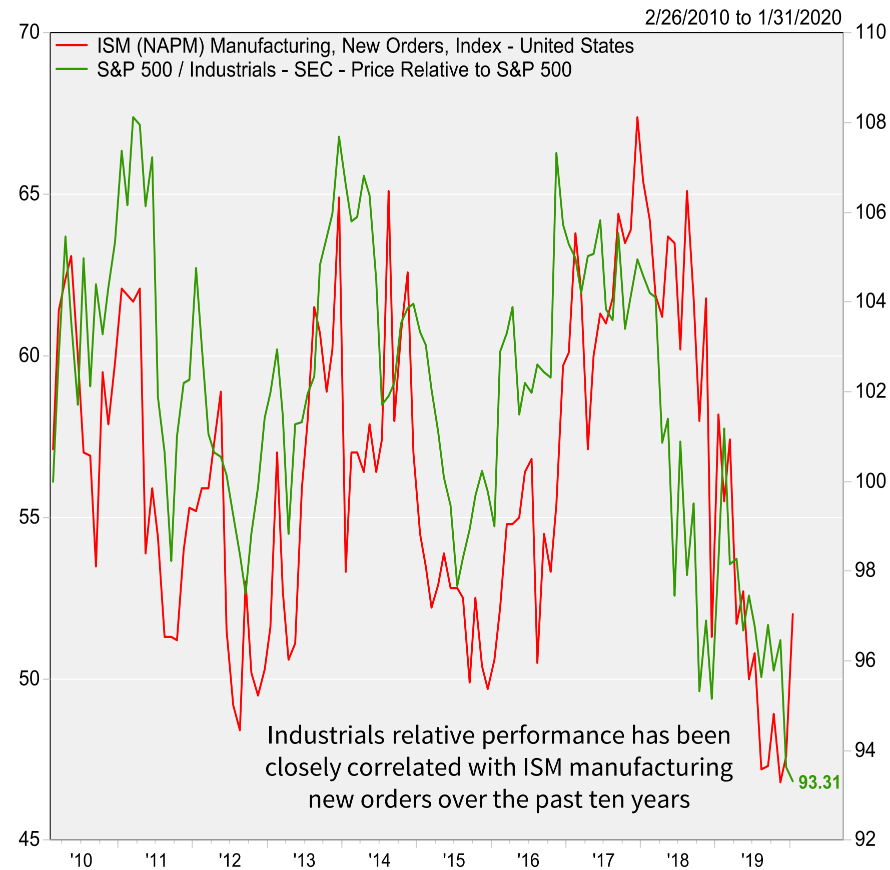




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: INDUSTRIALS- LOOK TO ACCUMULATE

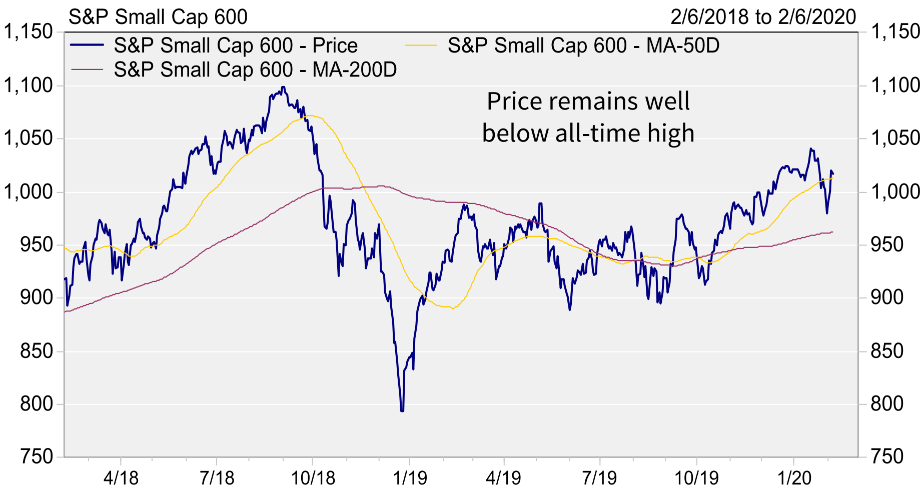
Industrials relative performance has tended to trend with ISM manufacturing (and new orders in particular) over the past 10 years. Our belief that manufacturing is likely to improve in 2020 was influential in our move to overweight the Industrials in late November. We are mindful of the fact that this trend could be volatile in the short term due to supply chain disruptions and the coronavirus impact, but we view valuation as attractive and believe the market impact will be more transitory. As such, we would look to accumulate the sector.

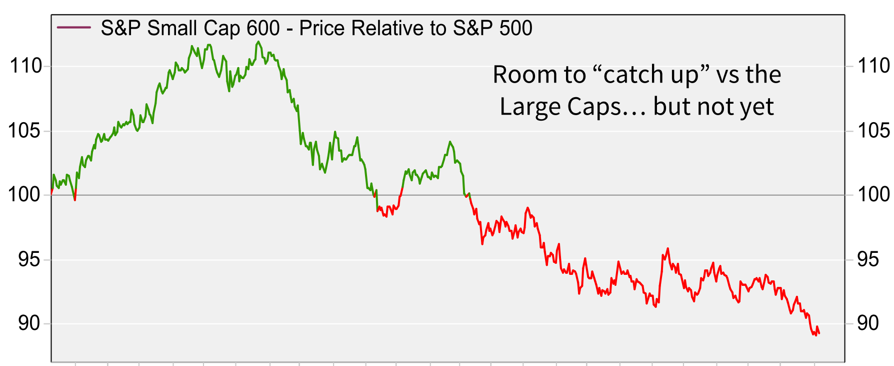


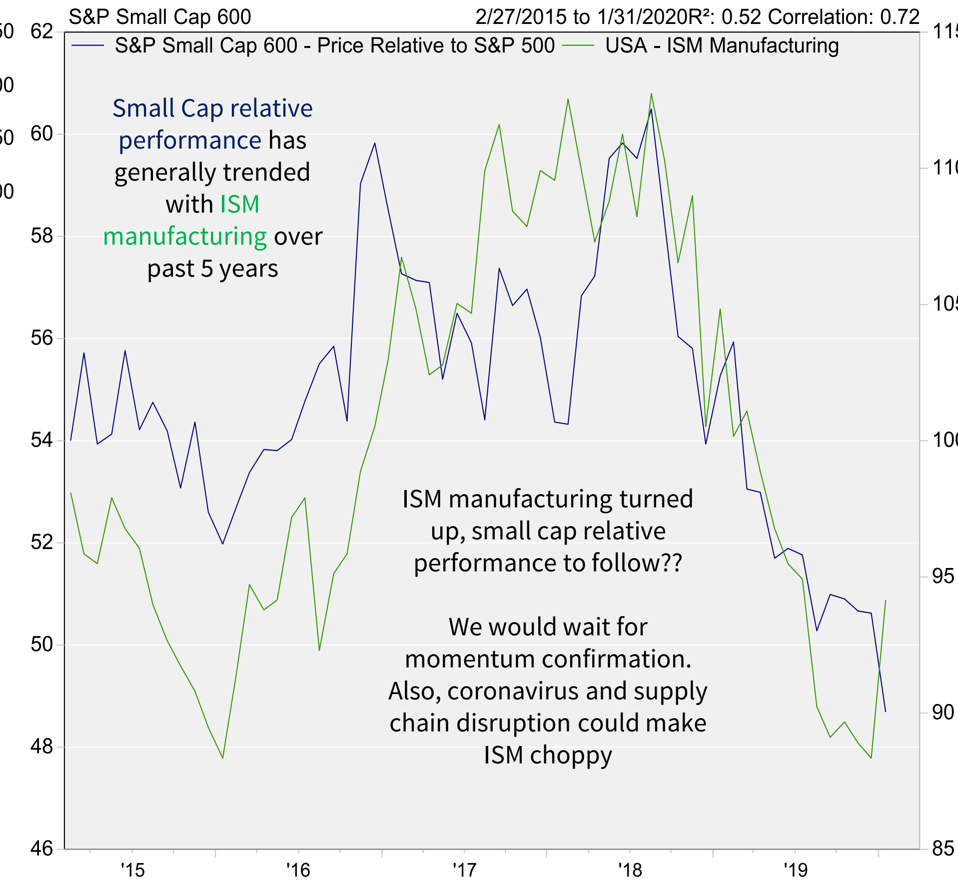
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SMALL CAPS- STILL WAITING

Small cap relative performance has generally trended with ISM manufacturing over the past 5 years. Accordingly, the small caps have underperformed drastically over the past year and a half or so as manufacturing deteriorated. With US ISM manufacturing moving back into positive territory, we are interested to see if small caps can “catch up” vs the large caps. From a technical standpoint, we would wait for momentum confirmation (price break outs on improved relative trends) to increase conviction here. Also, coronavirus impacts could make ISM trends choppy in the short term.



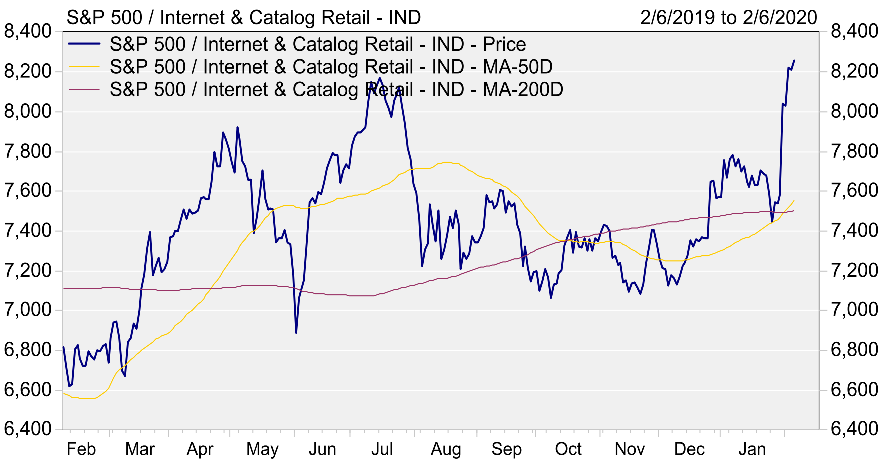


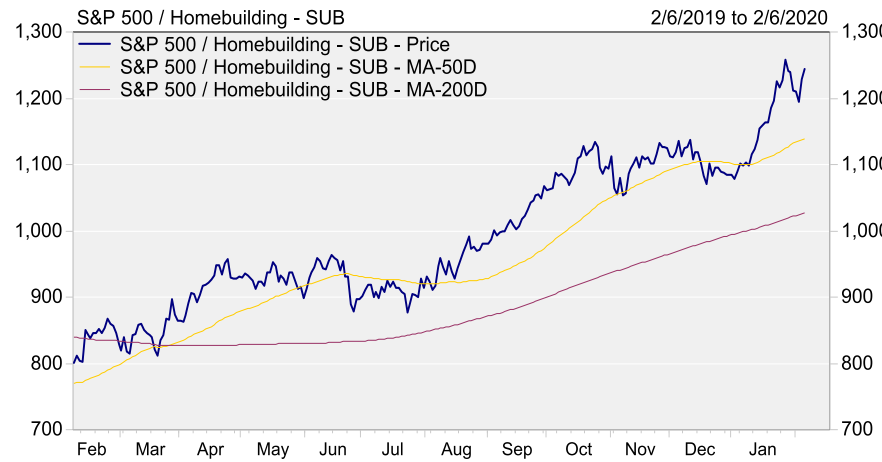


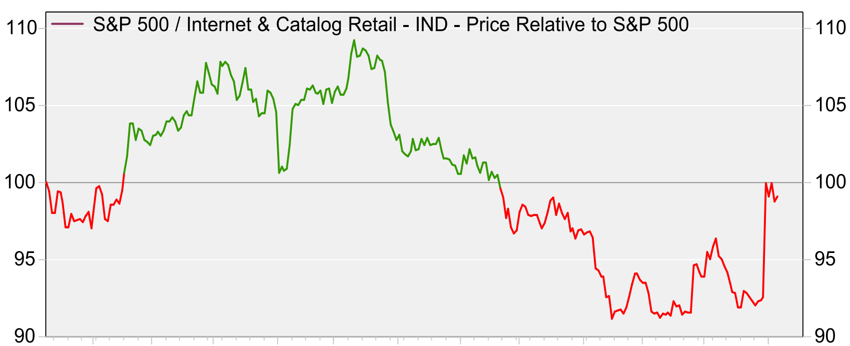
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

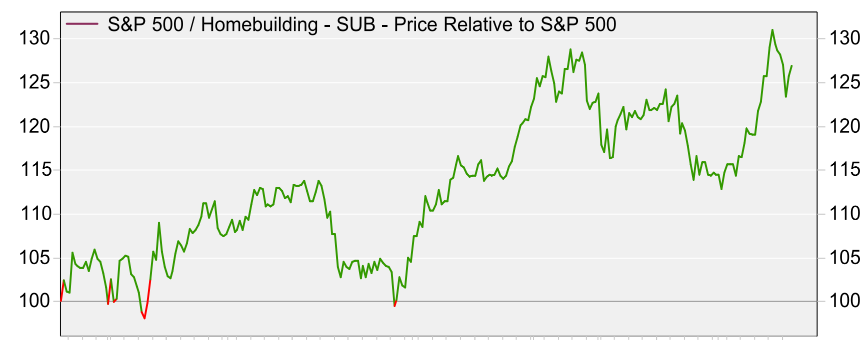
TECHNICAL: CONSUMER DISCRETIONARY

The consumer discretionary sector was able to break out to new highs over the past week, following Amazon's surge to new highs following earnings results. Amazon makes up about 1/3 of the entire sector's market cap, so the move is very significant for the overall sector. However, the equal weight Consumer Discretionary sector's relative performance trends (gives better depiction of average stock) remain downward, signifying the importance of stock selection in Consumer Discretionary. The internet retail subsector likely needs to consolidate some of its recent strength, but is one of our favored areas. Additionally, the homebuilders have been another favored area due to its leverage to the improving housing market. The group is undergoing a slight pullback, and we would look to accumulate this area for those interested.









Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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