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Weekly Market Guide

Short-Term Summary: The S&P 500 remains resilient, trading at new highs despite ongoing concerns over the coronavirus (COVID-19). One of the reasons for the recent strength has been a declining trend of new cases since 2/4. However, a change to the new diagnosis standard today saw the daily number of new cases jump by 15,208 (vs 2,066 yesterday) and new deaths increase by 254 (vs 97 yesterday). The ongoing uncertainty surrounding the virus is likely to remain a headwind, although we remain of the view that the market impact will be transitory and that pullbacks should be used as buying opportunities.

Contributing to our positive bias to equities is the fundamental backdrop, as Q4 earnings season has been very supportive. 76% of S&P 500 companies have beaten on earnings (74% have reported thus far), taking the index's expected earnings growth for the full quarter up to 1.6% (from -1.6% when earnings season began). As was the case for Q1-Q3, the average S&P 500 company is reporting 5.6% growth, much stronger than the headline. Looking forward, 2020 estimates have held up much better than 2019 so far and reflect a re-acceleration in earnings growth of 8.1%.

The highlight this earnings season has been the strength of the Technology stocks- putting up some of the best growth with the strongest forward estimate revisions of all sectors. This was important for the market's largest sector as valuation had gotten elevated into the results. While Tech has traded well (up 10.8% year-to-date), the average S&P 500 stock is up only 2.5% YTD. This has created a fairly narrow, top-heavy market. For example, the largest 4 stocks of the S&P 500 (AAPL, MSFT, AMZN, GOOG) have been responsible for roughly 2.12% of the S&P 500's 4.6% return. Another way to look at this would be ~46% of the S&P 500's return so far this year can be attributed to just 4 stocks! We would like to see participation broaden out in market strength, signaling a more supportive technical backdrop. This is not something to react strongly toward, but the narrowing divergence is something to keep in mind as it could signal a needed pause or consolidation phase for the overall index.

There is also a lot to like technically, and the recent break out to new highs sustains the market's momentum (path of least resistance is higher). The semiconductors, often viewed as a gauge of broader economic and market momentum, have outsized exposure to China and are also breaking out to new highs. Previous highs are now the first level of support for the S&P 500 (~3337), followed by the 50 DMA of 3249 (which recently held in the brief coronavirus-induced pullback of late January) and horizontal support at 3212 (-5% from current levels).

Equity Market	Price Return	
Indices	Year to Date	12 Months
S&P 500	4.6%	23.1%
S&P 500 (Equal-Weight)	2.5%	15.8%
Dow Jones Industrial Avg	3.5%	16.2%
NASDAQ Composite	8.4%	31.2%
Russell 2000	1.3%	9.8%
MSCI All-Cap World	2.8%	17.5%
MSCI Developed Markets	0.2%	12.0%
MSCI Emerging Markets	-0.4%	6.5%
NYSE Alerian MLP	-6.9%	-17.0%
MSCI U.S. REIT	4.2%	12.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	10.8%	24.6%
Utilities	6.7%	3.4%
Real Estate	6.3%	3.0%
Consumer Discretionary	6.1%	9.9%
Communication Svcs.	5.2%	10.4%
S&P 500	***4.6%***	-
Industrials	4.5%	9.0%
Health Care	2.2%	13.8%
Consumer Staples	2.0%	7.0%
Financials	0.9%	12.5%
Materials	-1.2%	2.5%
Energy	-9.1%	3.8%

MACRO: US

The coronavirus is likely to impact economic conditions for the quarter, and uncertainty surrounding the magnitude and duration are elevated. Battling these impacts, however, are fiscal and monetary stimulus coming from China, which should have longer lasting positive implications for the economy in our view. Therefore, we would expect our general theme heading into 2020 to progress once the transitory virus impacts subside. These include global central bank stimulus and easing trade tensions to provide a tailwind to manufacturing activity and economic conditions globally. This is likely to create a more stable interest rate environment and put downward pressure on the US dollar.

Over the past week, jobless claims moved to their lowest level since last July. This took the 4 week average down to 212k, which is below the 2019 average of 218k and Q4's average of 221k. This is consistent with a strong jobs market in our view, remaining a tailwind to equities. Additionally, core inflation remained at 2.3% in January, and average hourly earnings ticked slightly higher to 3.1%. The lack of inflationary pressures remains supportive of a Fed on hold. And commentary this week provided a dovish tone for their ability to act in the event that the virus impact deepens.

US economic data reported in the past week (actual vs estimate):
Change in Nonfarm Payrolls (Jan): 225k vs 165k, 147k prior
Two Month Payroll Net Revisions (Jan): 7k
Unemployment Rate (Jan): 3.6% vs 3.5%, 3.5% prior
Average Hourly Earnings m/m (Jan): 0.2% vs 0.3%, 0.1% prior
Average Hourly Earnings y/y (Jan): 3.1% vs 3.0%, 3.0% prior
Wholesale Inventories m/m (Dec F): -0.2% vs -0.1%, -0.1% prior
NFIB Small Business Optimism (Jan): 104.3 vs 103.5, 102.7 prior
Monthly Budget Statement (Jan): -$32.6B vs -$10.0B, $8.7B prior
CPI m/m (Jan): 0.1% vs 0.2%, 0.2% prior
CPI Ex Food and Energy m/m (Jan): 0.2% vs 0.2%, 0.1% prior
CPI y/y (Jan): 2.5% vs 2.4%, 2.3% prior
CPI Ex Food and Energy y/y (Jan): 2.3% vs 2.2%, 2.3% prior
Initial Jobless Claims (Week): 205k vs 210k, 203k prior

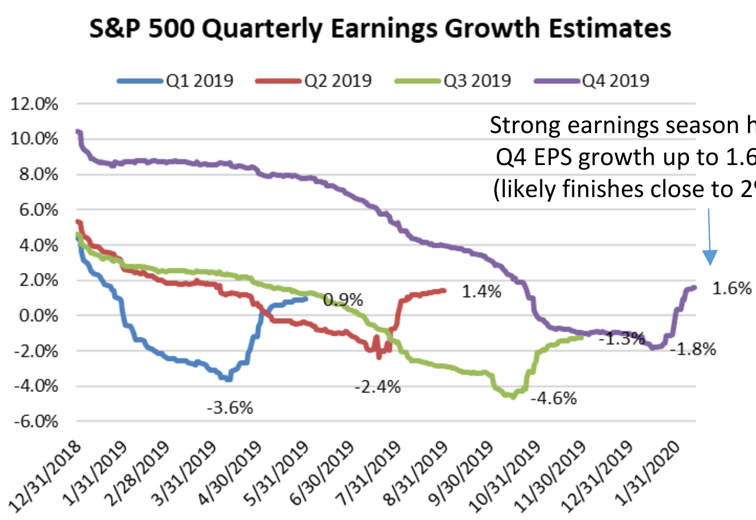
Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Earnings: Q4 earnings season has been solid with 74% of companies having reported results thus far. 76% of these companies have beaten on earnings by an average of 5%, taking the index's expected earnings growth for the full quarter up to 1.6% (from -1.6% when earnings season began). As was the case for Q1-Q3, the average S&P 500 company is reporting 5.6% growth, much stronger than the headline. The highlight this earnings season has been the strength of the Technology stocks- putting up some of the best growth with the strongest forward estimate revisions of all sectors. This was important for the market's largest sector as valuation had gotten elevated into the results. Looking forward, 2020 estimates have held up much better than 2019 so far and reflect a re-acceleration in earnings growth of 8.1%. We use $175 in our next 12 month earnings estimate (2% below the $178 consensus).

Consensus earnings estimates:

- **2019:** $162.43 (bottom-up analysts); $169.28 (top-down strategists). RJ: $165
- **2020:** $175.65 (bottom-up analysts); $183.06 (top-down strategists). RJ: $174



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

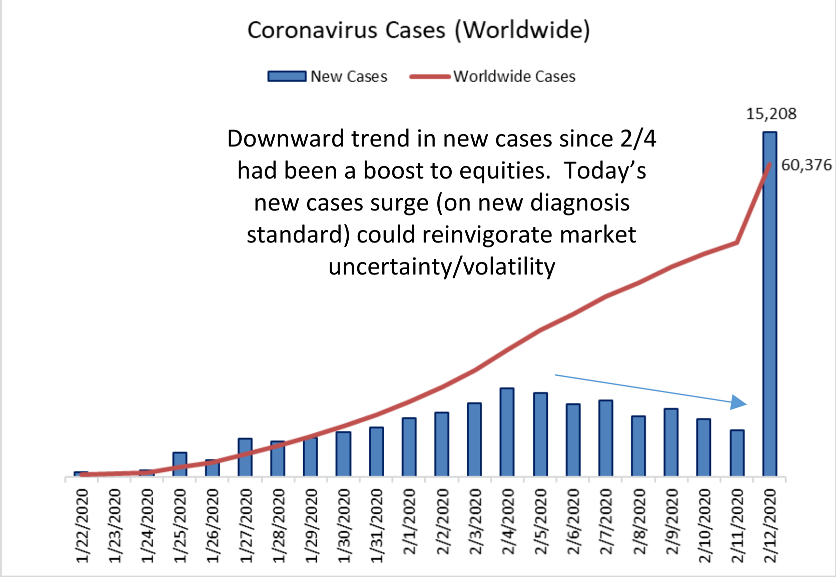
Valuation: The S&P 500 P/E (trailing 12M) has reached 20.6x, which is the highest level since early 2018 following the announcement of tax reform. On a next 12 month estimated earnings basis, the S&P 500 P/E is 19x which has surpassed the tax reform P/E peak of 18.65x. Valuation has not been a great timing indicator historically, but this does contribute to our belief that a short term consolidation or pullback would be justified. We use a 19.5x base case P/E multiple in our forecast (which is 5% below the current P/E). In fact, the current P/E is close to our bull case P/E of 21.0x. So while not euphoric given the low inflationary and interest rate environment, along with global central bank stimulus, easing trade tensions, and potential for global manufacturing improvement, we do believe it will be necessary for earnings to be the main driver of forward market returns at current levels.

TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

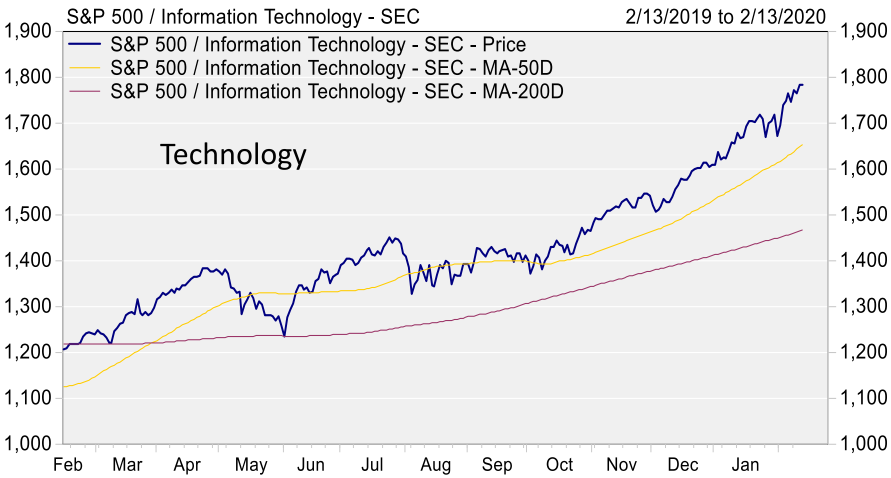
Technical: Equity market momentum remains resilient, trading at new highs despite ongoing concerns over the coronavirus (COVID-19). One of the reasons for the recent strength has been a declining trend of new cases since 2/4 (chart below), increasing optimism that the impact of the virus could be subsiding (which came in conjunction with the market's advance). However, a change to the new diagnosis standard today saw the daily number of new cases jump by 15,208 (vs 2,066 yesterday) and new deaths increase by 254 (vs 97 yesterday). The ongoing uncertainty surrounding the virus is likely to remain a headwind, however it is noteworthy that the market has reacted favorably to the news over the course of today so far. We remain of the view that the virus's market impact will be transitory and that pullbacks should be used as buying opportunities.

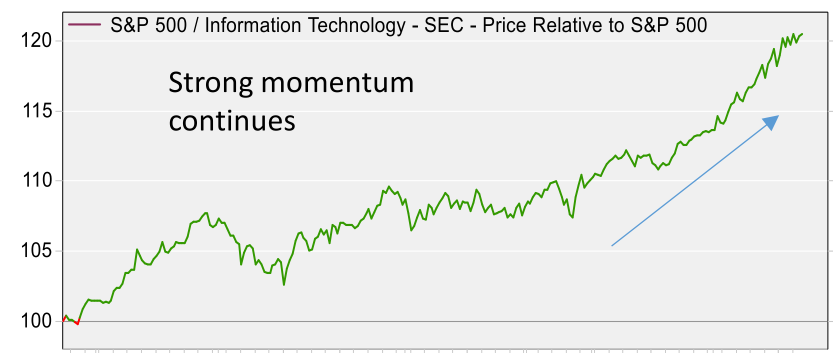
Previous highs are now the first level of support for the S&P 500 (~3337), followed by the 50 DMA of 3249 (which recently held in the brief coronavirus-induced pullback of late January) and horizontal support at 3212 (-5% from current levels).

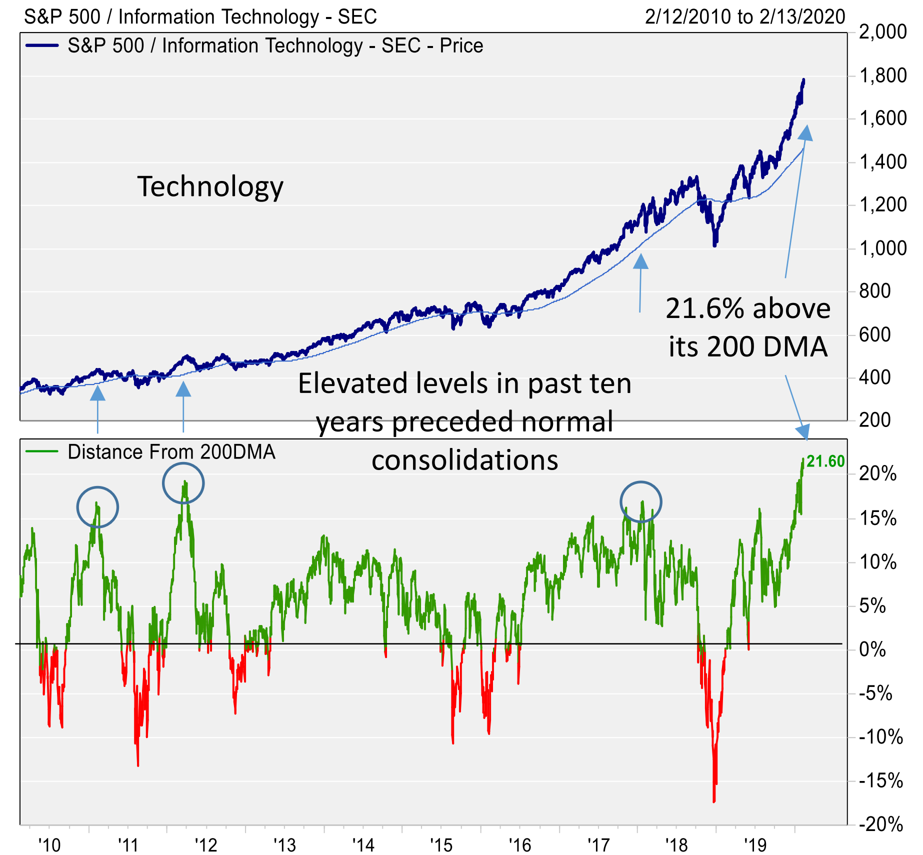


TECHNICAL: TECHNOLOGY

Technology momentum has been very strong over the past several months, and has been sustained through earnings season due to strong results (as discussed previously). While we would not fight the trend, it is worth noting that the Technology sector is 21.6% above its 200 day moving average. This is the largest degree of distance above the 200 DMA of the past ten years. It is still far from the dotcom bubble surge, which saw multiple readings above 40%. However, this does lead us to believe that a brief pause or consolidation of strength would be warranted. When strong readings have been seen in the past, pullbacks have been normal and light typically (not signifying a "top"). Therefore, we would be selective in Technology currently and increase buying conviction for new purchases during a pullback.



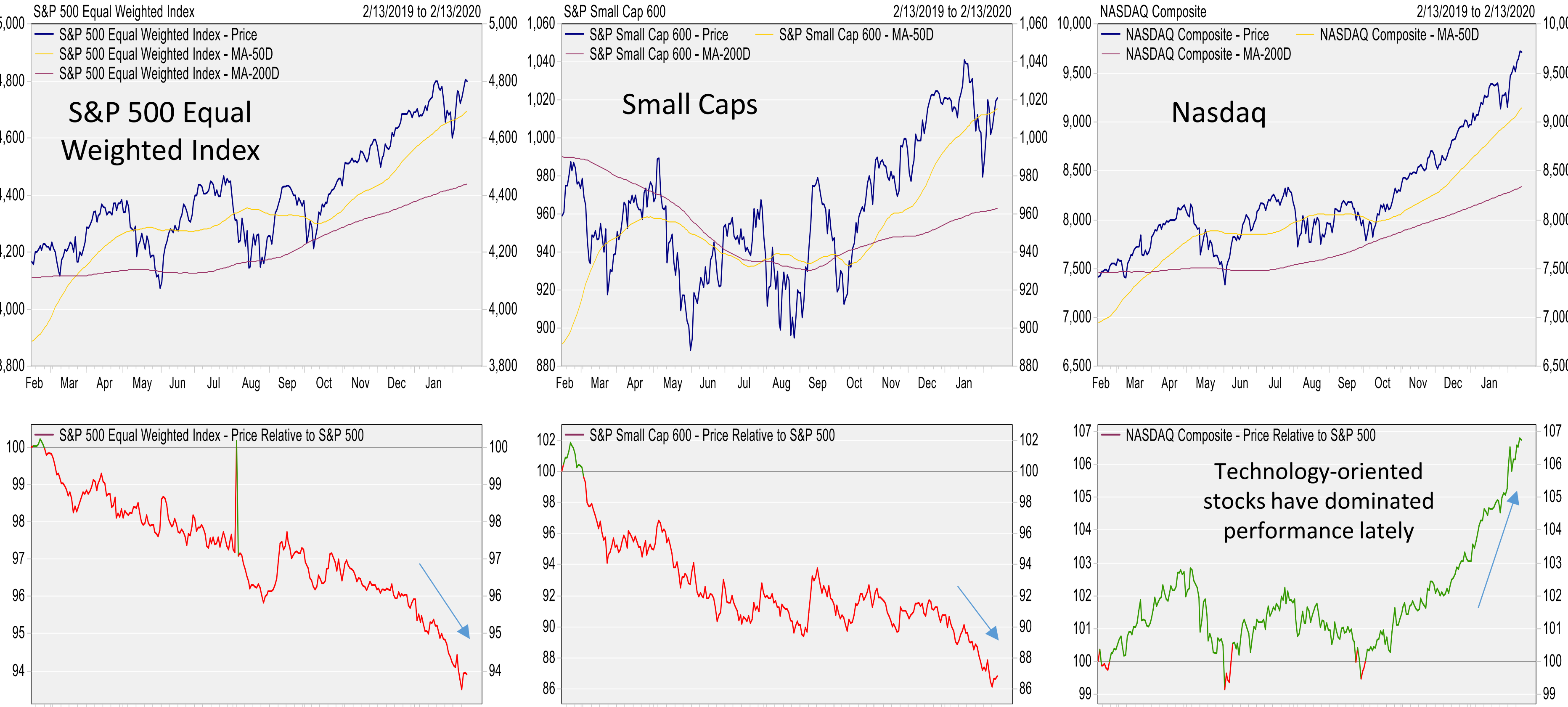




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: NARROWING MARKET BREADTH

While Tech has traded well (up 10.8% year-to-date), the average S&P 500 stock is up only 2.5% YTD. This has created a fairly narrow, top-heavy market. For example, the largest 4 stocks of the S&P 500 (AAPL, MSFT, AMZN, GOOG) have been responsible for roughly 2.12% of the S&P 500's 4.6% return. Another way to look at this would be ~46% of the S&P 500's return so far this year can be attributed to just 4 stocks! The S&P 500 equal-weighted index and small caps remain in uptrends, but we would prefer to see their outperformance in strong markets as a signal of broadening participation beneath the surface. This is not something to react strongly toward, but the narrowing divergence is something to keep in mind as it could signal a needed pause or consolidation phase for the overall index.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: INDUSTRY GROUPS

For the most part, the hardest hit areas during the market's brief pullback in late January (1/23 to 2/3) have rallied the most (2/3 to now).

This is especially the case for Technology areas. As you can see, the semiconductors and hardware groups have risen by more in the market's recovery than they had pulled back. Additionally, the software subsector held up well and has outperformed in the market's rally. This is what you want to see, and increases conviction on buying pullbacks in these areas.

Exceptions include energy, autos, telecom, transports, and some consumer areas. For example, energy was hardest hit (-8%) during the pullback and has not been able to recover much since. This is indicative of weak internals, and leads us to remain cautious on this area. The transports were also not able to recover their losses in the market's recovery. The impact of the coronavirus on global manufacturing will be more known as we get February data, but likely will stall the improving trend. The transports, and industrials in general, remain a stock-picker's area. Some Industrials subsectors with the best technical trends include the railroads and commercial services.

Retailing has done well as of late, but this is primarily due to the big jump higher in AMZN following its earnings report. The average consumer discretionary stock has not been able to show relative momentum yet.

	Returns	
S&P 500 Industry Group	1/23 - 2/3	2/3 - Now
Semiconductors & Semiconductor Equipment	-4.8%	8.1%
Retailing	1.2%	6.2%
Health Care Equipment & Services	-5.1%	5.4%
Capital Goods	-3.4%	5.0%
Software & Services	1.2%	4.9%
Technology Hardware & Equipment	-3.9%	4.9%
Real Estate	-1.9%	4.8%
Transportation	-4.8%	4.3%
Insurance	0.6%	4.3%
S&P 500	***-2.3%***	***4.1%***
Banks	-3.3%	4.0%
Food & Staples Retailing	-3.3%	3.9%
Media & Entertainment	-2.4%	3.8%
Commercial & Professional Services	-0.2%	3.5%
Telecommunications Services	-4.3%	3.1%
Materials	-2.2%	3.0%
Pharmaceuticals Biotechnology & Life Sciences	-3.1%	3.0%
Consumer Durables & Apparel	-3.8%	2.9%
Energy	-8.0%	2.9%
Consumer Services	-3.6%	2.8%
Food Beverage & Tobacco	-1.6%	2.3%
Diversified Financials	-2.2%	2.1%
Household & Personal Products	0.3%	1.3%
Utilities	1.5%	0.8%
Automobiles & Components	-4.3%	0.3%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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.

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