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Weekly Market Guide

Short-Term Summary: Volatility is heightened with an average daily move on the S&P 500 of 2.8% over the past 10 days, as investors assess the path of the coronavirus. In the near term, the virus breakout in the rest of the world is far from peaking. Therefore, the daily news flow will remain volatile, and challenging equity markets are still a high probability in the coming weeks or months. Monitoring China is important in the near term, and company commentary does suggest factories are restarting. If a boomerang virus breakout (resurgence of cases in China) does not develop and the supply chain restarts, we would be more aggressive with purchases. However, if factories are shut down again due to a boomerang breakout, expect stocks to decline.

Forecasting the economic growth and earnings impact with a high degree of confidence is virtually impossible at this point, given the unknowns. Nonetheless, we lowered our 2020 S&P 500 earnings estimate to $167 (from $174). This 4% annual reduction is weighted to the first half of the year, with the potential for the economy to begin a recovery in the back-half of the year as the coronavirus concerns eventually subside. We maintain our base case P/E of 19.5x, as the market eventually begins to discount the eventual recovery. This takes our 2020 S&P 500 target to 3256. In this forecast, we are operating under the assumption that the virus impact will prove transitory. That said, we are guarded regarding how bad it gets (for the economy and stocks) before eventually subsiding.

Although many are proclaiming the virus could eventually create another 2008-2009 economic catastrophe, we fail to join the doomsday crowd. During that period, financial institution failures and lack of global funding were potentially worse and potentially longer-lasting negative impacts on the global economy than a virus that will eventually run its course. Economies are going to weaken, and some may even contract due to the virus. However, a snapback is highly likely as the virus scare passes. Additionally, central banks around the world are likely to do their part in supporting the economic outlook. The US Fed surprised investors with an inter-meeting 50bps cut this week. Other central banks, such as China, Australia, Hong Kong, and Canada, have also joined in the monetary stimulus (and there are likely more to come). The central banks' actions may do little for now due to their inability to directly address the supply chain issues; but when economies restart, the steps will provide an economic boost which will help corporate earnings. We are reluctant to disregard the adage, "Don't Fight the Fed."

In sum: Instead of trying to pick the final low, we suggest long-term investors patiently accumulate during weakness in the period ahead. Regardless of where equities print the final low, we are comfortable expecting an equity market higher than today over the next 12-24 months.

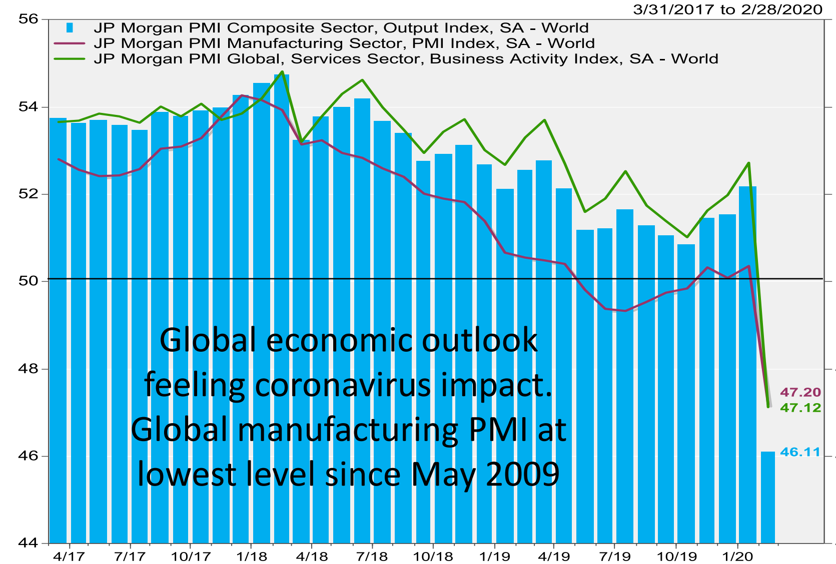
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-3.1%	12.1%
S&P 500 (Equal-Weight)	-6.2%	4.4%
Dow Jones Industrial Avg	-5.1%	4.9%
NASDAQ Composite	0.5%	19.0%
Russell 2000	-8.2%	-2.8%
MSCI All-Cap World	-5.1%	6.3%
MSCI Developed Markets	-8.7%	-1.0%
MSCI Emerging Markets	-6.9%	-1.5%
NYSE Alerian MLP	-20.6%	-30.3%
MSCI U.S. REIT	-0.4%	7.6%

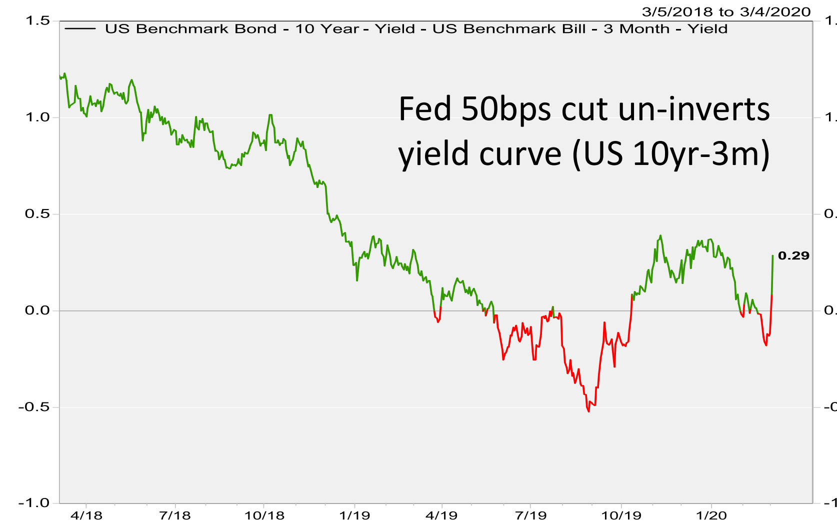
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Utilities	5.7%	3.6%
Real Estate	3.4%	3.2%
Information Technology	2.0%	24.4%
Consumer Staples	0.5%	7.5%
Health Care	-2.1%	14.3%
Communication Svcs.	-2.2%	10.5%
Consumer Discretionary	-2.9%	9.8%
S&P 500	***-3.1%***	-
Industrials	-6.1%	8.8%
Materials	-7.9%	2.5%
Financials	-10.1%	12.0%
Energy	-23.3%	3.4%

MACRO: US

Coronavirus concerns have dampened the economic outlook in recent weeks (we still view the impact as ultimately transitory). The global manufacturing PMI survey came in to 47.2 in February, its lowest level since May 2009. Global services PMI also dipped to 47.1. Weighing on the global reading is China, in particular, which posted a 35.7 manufacturing PMI in February (record low). Non-manufacturing PMI was not spared either, coming in at 29.6. These readings reflect a sharp contraction in the month of February which will likely lead to weak economic growth in Q1. However, listening to recent company commentary, it seems that there has been improvement in recent weeks and that factories are restarting.

In order to help support the economy, G-7 finance ministers and central banks produced a joint statement reaffirming their commitment to use all appropriate policy tools available. That day, the Fed announced a surprise 50bs cut. While central banks cannot directly address the supply issues, they can affect confidence and prevent a tightening of financial conditions. For example, the 50bps cut un-inverted the US yield curve. Despite the cut, the bond market is still implying another 50bps cut on March 18th.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US economic data reported in the past week (actual vs estimate):

Wholesale Inventories m/m (Jan P): -0.2% vs 0.1%, -0.3% prior
Personal income (Jan): 0.6% vs 0.4%, 0.1% prior
Personal Spending (Jan): 0.2% vs 0.3%, 0.4% prior
U of Michigan Sentiment (Feb F): 101.0 vs 100.7, 100.9 prior
Markit US Manufacturing PMI (Feb F): 50.7 vs 50.8, 50.8 prior
Construction Spending m/m (Jan): 1.8% vs 0.6%, 0.2% prior
ISM Manufacturing (Feb): 50.1 vs 50.5, 50.9 prior
ISM Prices Paid (Feb): 45.9 vs 50.8, 53.3 prior
ADP Employment Change (Feb): 183k vs 170k, 209k prior
Markit US Services PMI (Feb F): 49.4 vs 49.4, 49.4 prior
Markit US Composite PMI (Feb F): 49.6 vs 49.6 prior
ISM Non-Manufacturing Index (Feb): 57.3 vs 54.8, 55.5 prior
Initial Jobless Claims (Week): 216k vs 215k, 219k prior
Factory Orders (Jan): -0.5% vs -0.1%, 1.9% prior
Durable Goods Orders (Jan F): -0.2% vs -0.2%, -0.2 prior
Durables Ex Transportation (Jan F): 0.8% vs 0.8%, 0.9% prior

FUNDAMENTALS

Earnings: An increasing number of companies are providing coronavirus updates to their fundamentals. Uncertainty is still very high, but many are citing some impact to the supply chain at this point. Q1 S&P 500 earnings have been revised -4.2% lower since the start of the year (a little above the norm, but not much) and now reflects 1.0% growth. The most negative estimate revisions have come from Energy, Materials, Industrials, and Consumer Discretionary; while Tech estimates have held up well. 2020 earnings estimates have come in -1.7% since 12/31 now reflecting 7.5% growth, but we believe this needs to come in more. We lowered our 2020 earnings estimate to $167 (from $174) vs consensus of $174.38. Our 4% reduction to $167 is weighted to the first half of the year, with the potential for the economy to begin a recovery in the second half as coronavirus concerns eventually subside.

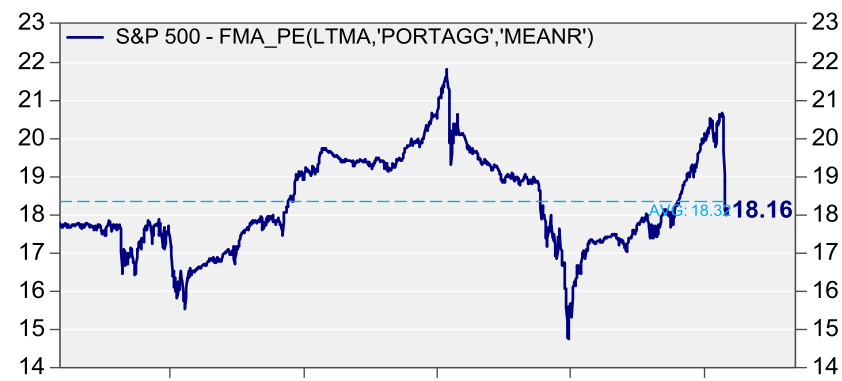
Consensus earnings estimates:

- **2020:** $174.38 (bottom-up analysts); $184.06 (top-down strategists). RJ: $167
- **2021:** $194.50 (bottom-up analysts); $190.06 (top-down strategists).

	EPS Growth Ests.			EPS Δ Since 12/31/2019		
	1Q20	2020	2021	1Q20	2020	2021
S&P 500	1.0%	7.5%	11.5%	-4.2%	-1.7%	-0.9%
Communication Services	13.0%	9.0%	12.9%	-3.6%	-1.5%	-1.2%
Consumer Discretionary	-8.6%	7.7%	14.1%	-11.8%	-3.2%	-1.4%
Consumer Staples	0.8%	4.8%	6.9%	-3.3%	-0.7%	-0.9%
Energy	1.3%	10.1%	14.9%	-22.8%	-12.0%	-8.9%
Financials	0.8%	5.1%	8.8%	0.1%	-0.1%	-0.1%
Health Care	4.5%	7.8%	10.2%	-2.6%	-0.3%	0.4%
Industrials	-12.0%	7.6%	15.6%	-11.5%	-7.5%	-4.5%
Information Technology	6.8%	10.7%	13.7%	0.9%	2.5%	3.0%
Materials	-18.2%	5.6%	14.8%	-13.2%	-7.2%	-7.3%
Real Estate	0.6%	4.4%	6.2%	-1.6%	-1.3%	-1.2%
Utilities	3.0%	2.5%	5.0%	0.8%	-0.3%	-0.1%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Valuation: We maintain our 19.5x P/E for year-end and next 12 months, taking our 2020 S&P 500 target price to 3256 (7.5% upside from current levels, prior to dividends). Low inflation, low interest rates, and more attractive valuation than a few weeks ago influence our opinion. More importantly, the virus is likely to be transitory (eventually), and the warm months stand to slow the spread. Central bank actions also support a higher multiple by providing liquidity to fuel a snapback whenever the fear subsides. Also, relative to bonds, stocks are now very attractive historically at a 4.4% equity risk premium (excess return offered by stocks over bonds). In fact, the next 3-year S&P 500 return has never been negative with a 4.4% equity risk premium or higher.



TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technical:

Following the sharp cascade lower, the S&P 500 is now in its "bounce" phase which will be followed eventually by its digestion phase.

Volatility remains heightened. After experiencing only five 1% daily moves from January 1st through February 20th, 8 of the past 10 days have experienced an average daily change of 2.8%!

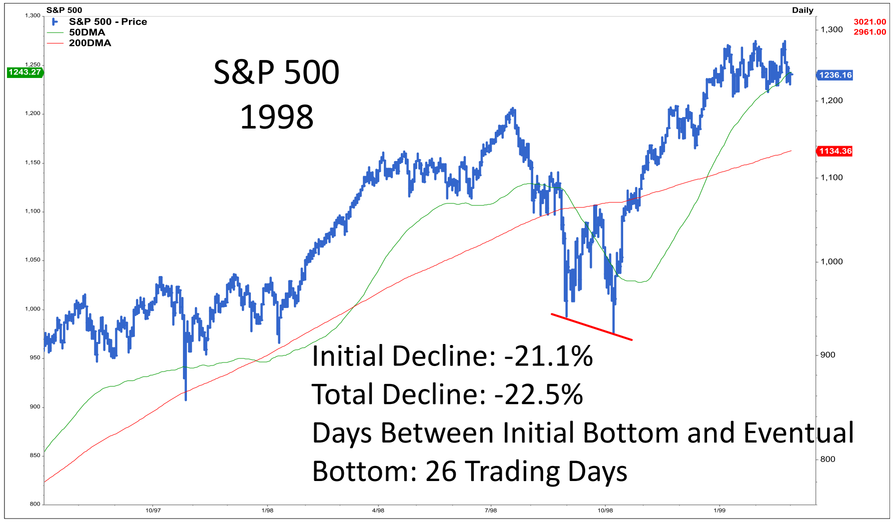
The index was unable to hold above its 200 DMA and is now reversing lower. With the news flow likely to get worse before it gets better, stocks could be set for range-bound trading (~2800-3000) for the coming weeks as investors digest the market correction and (at the same time) gain more information surrounding the magnitude and duration of the coronavirus.

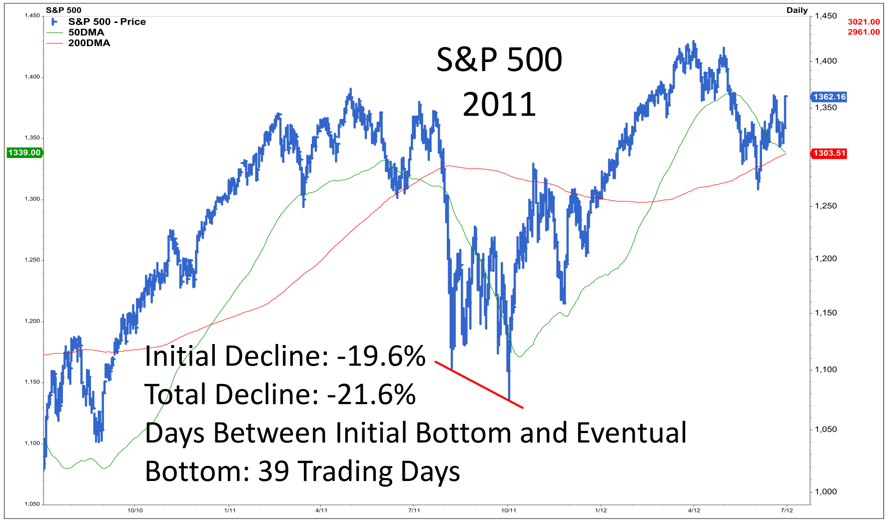
It is also important to remember that bottoms generally take time to form. After the initial decline, there is typically a bounce with an eventual retest (often where the initial lows are undercut slightly). The timeframe can last anywhere from a few weeks to several months. We highlight several examples on the next page.

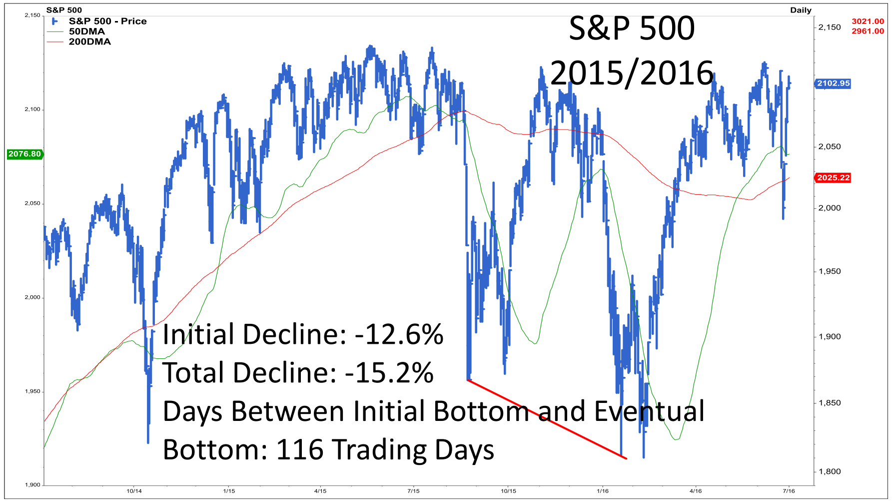
In this volatile period, it is easy to lose sight of the long term. Although we understand that the virus could lead to a global recession, it is far too soon to rush to such a conclusion. This is not our base case assumption, as we are operating under the view that the virus impact will prove transitory at some point. Regardless, if "technical recessions" are seen, they likely prove short-lived and shallow.

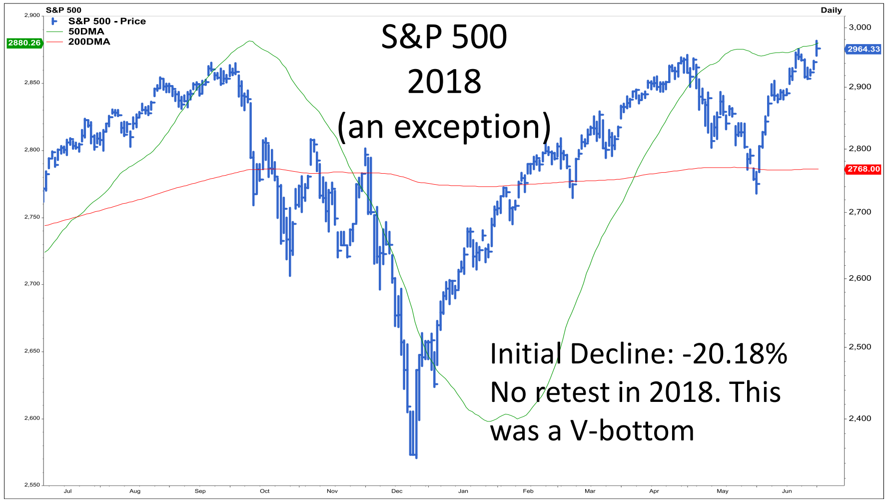
Instead of trying to pick the final low, we suggest long-term investors patiently accumulate weak periods in the period ahead. Regardless of where equities print the final low, we are comfortable expecting an equity market higher than today over the next 12-24 months.

TECHNICAL: BOTTOMS GENERALLY TAKE TIME – EXAMPLES BELOW









Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

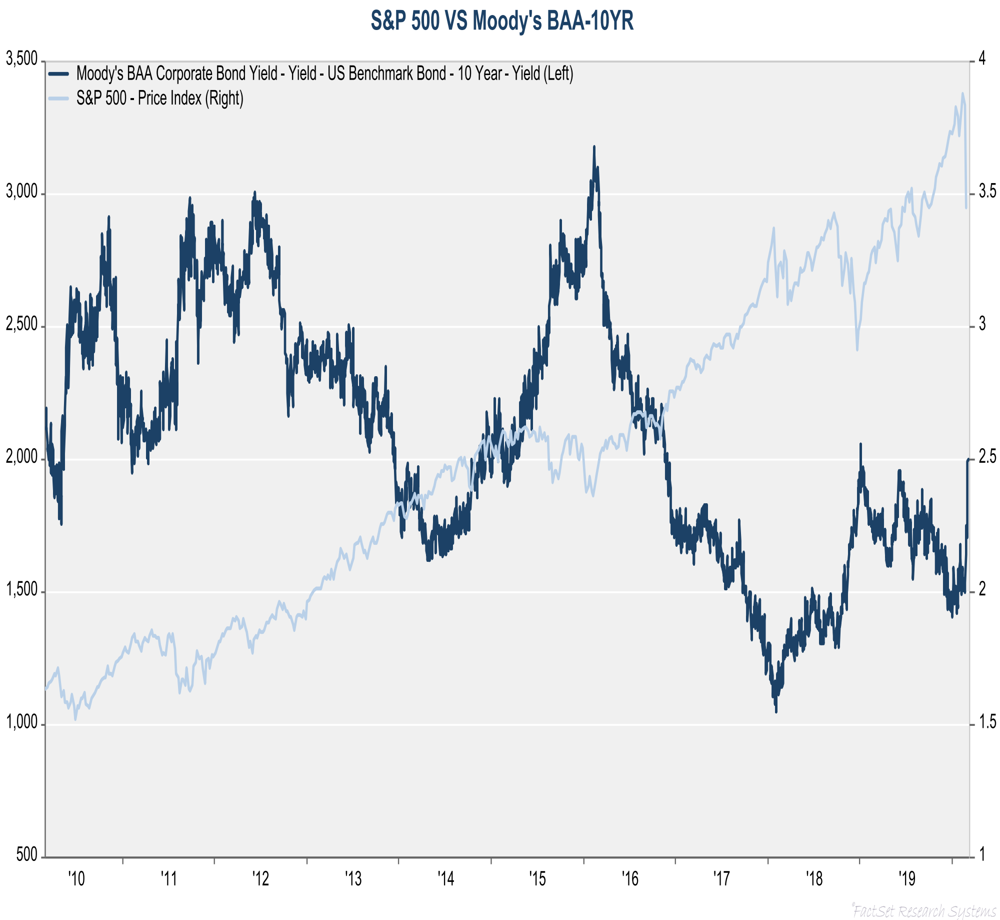
TECHNICAL: MONITORING THE EPICENTER- CHINA AND THE EM

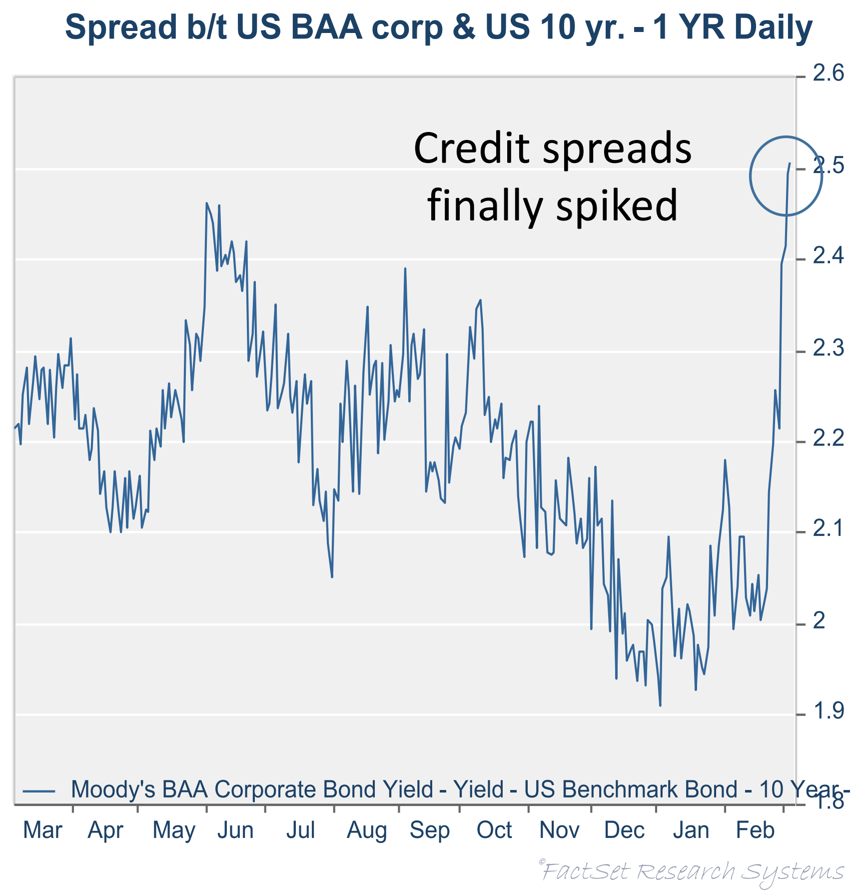
The emerging markets, and in particular China, have held up fairly well through the coronavirus so far. Despite the potential for the coronavirus to be much more transitory than the more impactful global trade war of the past two years, headlines currently seem much more dire with doomsday forecasters suggesting the coronavirus could result in a 2008-2009 type of economic contraction. If that is in the cards, we would expect prices to undercut trade war-induced lows (of at least last August)- which has not been the case yet. We will of course continue to monitor this as a potential confirming or diverging signal.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: CREDIT SPREADS HAVE FINALLY SPIKED

One thing we are watching is credit spreads, which have finally started to spike- now to 52 week highs. Most of this is due to a few areas (i.e. energy), and still remains low historically. But it is something we need to be mindful of and closely monitor.

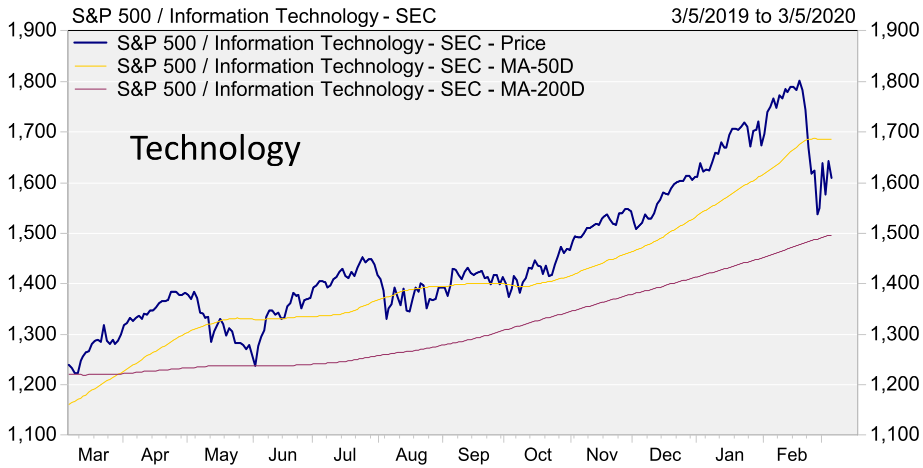


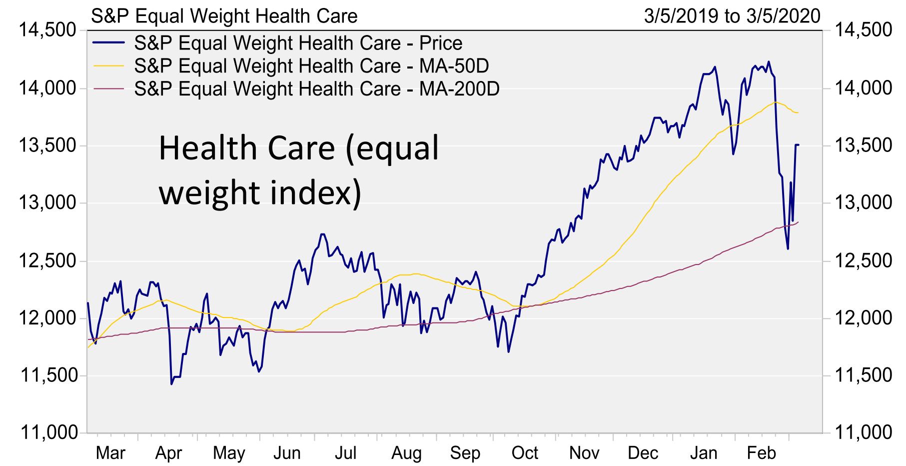


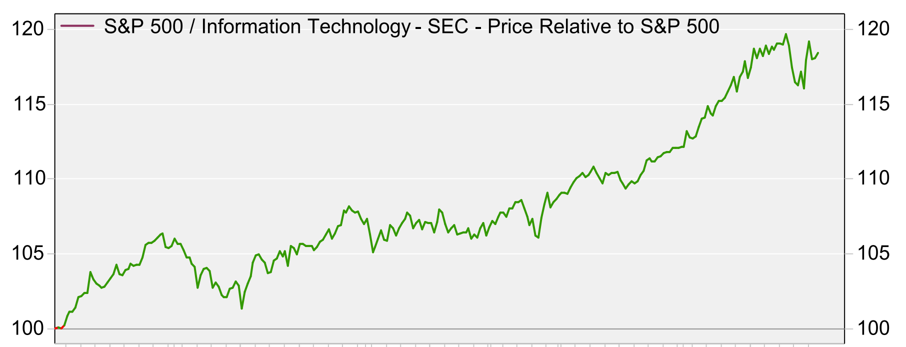
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

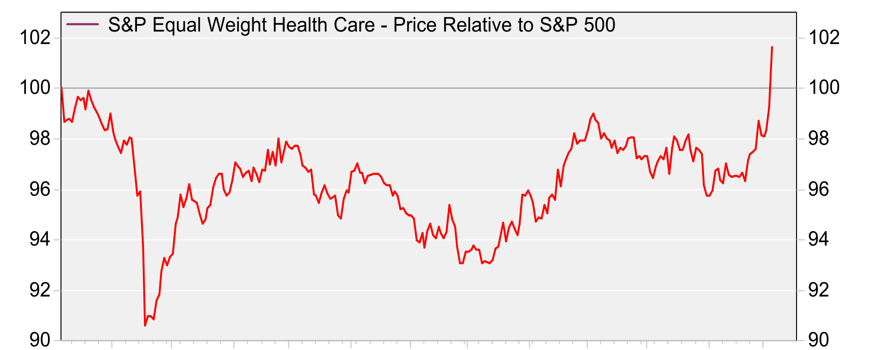
TECHNICAL: SECTORS

In our view, the smartest purchases during the market correction are in the areas offering the most attractive risk vs. reward for an extended period (beyond 12 months). These are companies experiencing strong fundamental trends (and were at price highs prior to the market correction). The best secular growth stories will be the first areas investors buy, i.e. technology, payments, and selective companies in many industries. Consider risk vs. reward if economic conditions deteriorate (i.e. are dividends sustainable). Stick with large cap, well-capitalized companies since they are better able to main dividends even in economic contractions. Two of our favored sectors with the most supportive technical trends currently, include Technology and Health Care. We would look to accumulate these areas in weakness.









Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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.

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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.

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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).

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