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Weekly Market Guide

Short-Term Summary: The 30% market selloff since the S&P 500 hit a peak exactly one month ago on February 19th has been historic (to say the least). With the global economy screeching to a halt, and the number of new coronavirus cases increasing every day, global equities are understandably on the defensive. The economic toll has worsened dramatically over the past week, leading us to lower our S&P 500 base case earnings estimate to $155. This reflects -5% earnings growth for the full year on a -0.5% contraction in GDP for 2020, with the assumption that the number of new coronavirus cases plateaus around Memorial Day- leaving enough time for the economy to directionally show signs of improvement into the Fall and back half of the year. Admittedly, it is nearly impossible to have a great deal of confidence in economic and fundamental assumptions at this point with the duration of the coronavirus pandemic so uncertain. From a valuation standpoint, the S&P 500 now trades at ~15x P/E (long term average is 16.5x). It is important to remember that the stock market is a forward-looking mechanism- meaning valuation multiples will start to rise far before economic data and corporate profits find a trough. Stocks have historically bottomed 4 months prior to recession end and 4-6 months before earnings trough. For example, the credit crisis P/E bottomed at 10x, and expanded to 17x by the time earnings troughed. For this reason, we maintain a 19.5x P/E year-end base case assumption as the market eventually discounts the eventual recovery (results in a S&P 500 base case target of ~3000). In a bear case scenario of -3% GDP for the full year (credit crisis saw -2.5% GDP contraction for full year), we could see S&P 500 earnings hit by -20% y/y, taking full year earnings to $130.

So while we believe this will prove to be a good buying opportunity for the long term, what gets us out of decline in the short term? The Fed is doing a good job, helping credit markets- though we are still watching for corporate credit spreads to find a peak. Fiscal programs are needed, and will be coming (likely over $1T) as the economic impact of the coronavirus pandemic will be big. Most importantly though is the spread of the virus. The spread and economic impact go hand-in-hand. Raymond James Health Care Policy analyst Chris Meekins puts out 4 scenarios with Scenario 1 and 2 having the highest odds (Link HERE). The "Stop Everything" scenario 1 could see a peak in new cases by approximately late April, if we can implement this soon. In this scenario, equities may be *near* the low now. The "Eventually We Get It" Scenario 2 is if the country takes longer to implement Scenario 1, with a potential peak in new cases by Memorial Day. In this scenario, 2100-2400 on the S&P 500 looks like potential support (with a bias toward 2100). If we follow one of these, the economy can start to directionally show signs of recovery by the Fall and into back half of the year. **In sum,** we view this as a buying opportunity for long term investors, but would use partial positions (patiently accumulate) with the number of new cases still accelerating in the short term.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-25.8%	-15.3%
S&P 500 (Equal-Weight)	-32.6%	-25.4%
Dow Jones Industrial Avg	-30.3%	-23.2%
NASDAQ Composite	-22.1%	-9.4%
Russell 2000	-40.6%	-36.6%
MSCI All-Cap World	-28.8%	-21.2%
MSCI Developed Markets	-32.4%	-27.6%
MSCI Emerging Markets	-29.3%	-26.3%
NYSE Alerian MLP	-67.5%	-72.2%
MSCI U.S. REIT	-36.6%	-32.0%

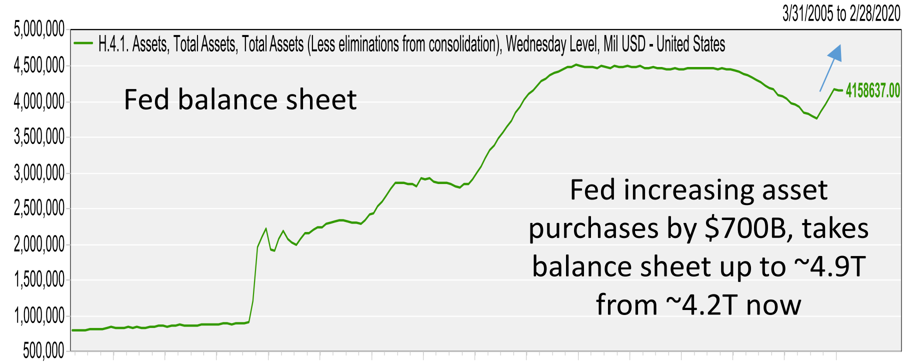
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Staples	-12.1%	8.5%
Utilities	-15.6%	3.8%
Health Care	-18.1%	15.6%
Information Technology	-19.6%	25.1%
Communication Svcs.	-21.5%	11.0%
Real Estate	-25.1%	3.0%
S&P 500	***-25.8%***	-
Consumer Discretionary	-28.3%	9.4%
Materials	-33.2%	2.4%
Industrials	-34.1%	8.0%
Financials	-38.2%	10.8%
Energy	-60.6%	2.3%

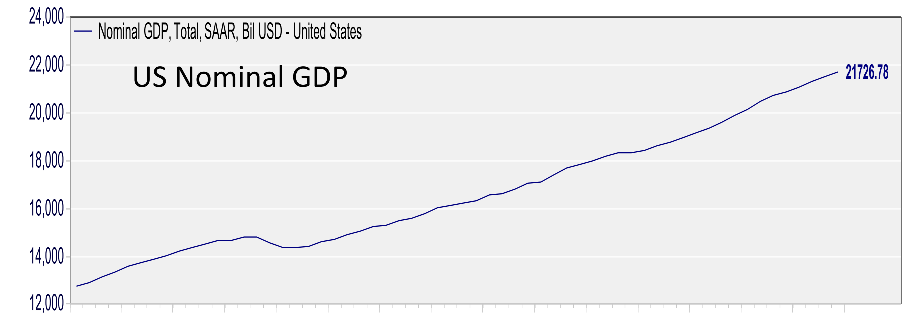
MACRO: US

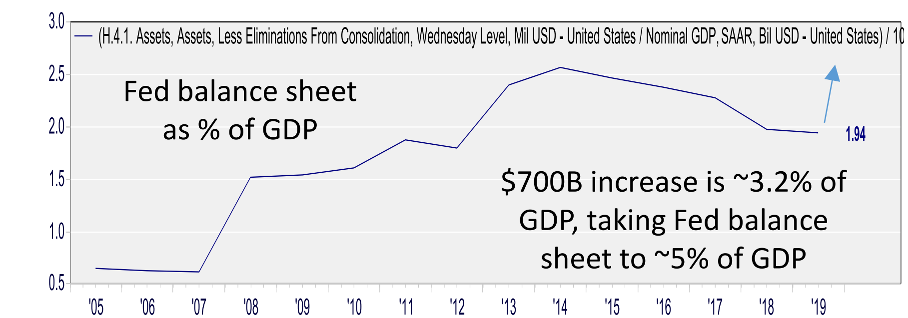
The Fed cut the fed funds rate to effectively 0% (0.0-0.25%), and announced a $700B increase in asset purchases in order to support liquidity and credit as the global economy comes to a halt. This increase of $700B is 3.2% of nominal GDP, and takes the balance sheet up to ~4.9T. In the credit crisis, the Fed also dropped rates to zero and provided ~1T in asset purchases, which doubled the Fed's balance sheet at that time. GDP was $14.8T back then, making the stimulus roughly 6.75% of GDP in 2008. So by that math, the announced stimulus is about half that seen in the credit crisis! This is a pretty remarkable turn of events considering where the economy was just a month ago (moving ahead of expectations), but the monetary stimulus is necessary as the economic hit from the coronavirus will be big. Fiscal stimulus is also coming (likely in the very near future), and could top $1T. So while, these government entities are doing their part to support the economy through this tough time, the key is the spread of the virus. The number of new cases is set to spike as testing becomes more readily available. Investors will be monitoring the virus very closely for a deceleration or stall in new cases, which would provide some "light at the end of the tunnel" for the eventual recovery that will come *at some point*.

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

Export Price Index m/m (Feb): -1.1% VS -0.40%, 0.60% prior
Import Price Index m/m (Feb): -0.50% vs -1.0%, 0.10% prior
Michigan Sentiment (Mar): 95.9 vs 96.2, 101.0 prior
Fed Funds Target: 0-0.25% vs 1.0-1.25% prior
Empire State Index (Mar): -21.5 vs 3.0, 12.9 prior
Retail Sales m/m (Feb): -0.0% vs 0.40%, 0.37% prior
Retail Sales Ex Auto and Fuel m/m (Feb): -0.15% vs 0.40%, 0.69% prior
Retail Sales m/m (Feb): -0.50% vs 0.20%, 0.60% prior
Industrial Production m/m (Feb): 0.60% vs 0.35%, -0.50% prior
NAHB Housing Market Index (Mar): 72.0 vs 74.0, 74.0 prior
Building Permits (Feb): 1464k vs 1500k, 1550k prior
Housing Starts (Feb): 1599k vs 1500k, 1624k prior
Initial Jobless Claims (Week): 281k vs 218k, 211k prior
Philly Fed Index (Mar): -12.7 vs 10.0, 36.7 prior
Leading Indicators m/m (Feb): 0.10% vs 0.0%, 0.70% prior







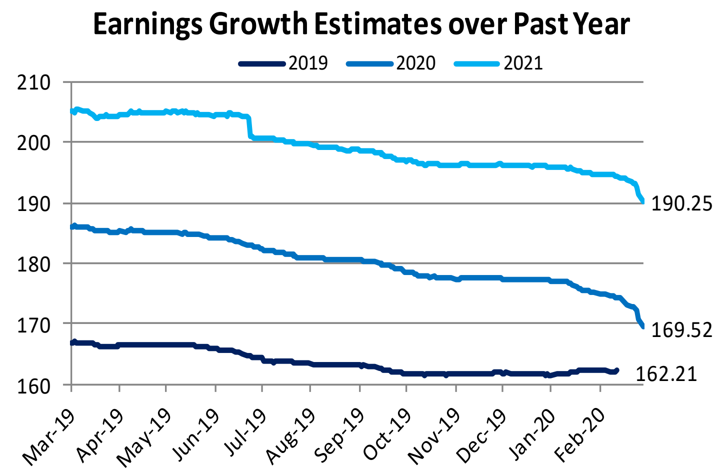
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Earnings: Analysts have been slow to reduce earnings estimates, as uncertainty over the magnitude and duration of the coronavirus are so high. The direction is obviously downward, however, with consumer discretionary, energy, industrials, and materials feeling the brunt of the impact. Financials will too, in our view, although estimates have not started downward yet. We now operate under the assumption of flat to slightly negative US GDP this year in our base case scenario, with a short, very large hit to economic growth but enough time for the economy to directionally start to recover in the Fall and back half of the year. This produces an earnings estimate of $155. In a bear case scenario of -3% GDP growth for 2020, we could see earnings hit $130.

Consensus earnings estimates:

- **2020:** $169.52 (bottom-up analysts). RJ: $155
- **2021:** $190.25 (bottom-up analysts)



EPS Growth Estimates	
2019	4.1%
2020	12.3%
2021	8.8%

RJ: Lowering 2020 EPS est. to $155

	EPS Growth Ests.			EPS Δ Since 12/31/2019				P/E			
	1Q20	2020	2021	1Q20	2020	2021	Price Δ Since 12/31/19	2020	Δ Since 12/31/19	2021	Δ Since 12/31/19
S&P 500	-1.6%	4.1%	12.3%	-6.6%	-4.7%	-3.3%	-24.5%	14.2x	-4.0x	12.65	-3.8x
Communication Services	12.4%	9.0%	13.0%	-4.1%	-1.5%	-1.2%	-18.5%	15.1x	-3.8x	13.34	-3.4x
Consumer Discretionary	-12.4%	4.2%	15.2%	-15.4%	-6.4%	-3.8%	-24.5%	17.4x	-5.3x	15.11	-5.2x
Consumer Staples	-1.0%	3.1%	6.8%	-5.0%	-2.3%	-2.6%	-13.6%	18.3x	-2.0x	17.10	-1.8x
Energy	-24.1%	-34.2%	37.8%	-42.2%	-47.5%	-34.8%	-58.5%	13.3x	-4.4x	9.68	-6.3x
Financials	0.5%	4.3%	8.6%	-0.3%	-0.8%	-1.0%	-36.8%	8.2x	-5.0x	7.54	-4.5x
Health Care	4.0%	6.6%	10.2%	-3.1%	-1.3%	-0.8%	-18.9%	13.4x	-2.7x	12.18	-2.6x
Industrials	-17.6%	2.9%	18.3%	-17.2%	-11.6%	-6.5%	-33.8%	12.6x	-4.3x	10.65	-4.5x
Information Technology	5.5%	9.7%	13.4%	-0.2%	1.5%	1.8%	-17.2%	17.2x	-4.5x	15.15	-4.0x
Materials	-20.0%	3.1%	15.5%	-15.2%	-9.4%	-8.9%	-31.3%	13.5x	-4.8x	11.65	-4.2x
Real Estate	0.1%	4.0%	6.1%	-2.0%	-1.7%	-1.7%	-25.1%	15.2x	-4.7x	14.28	-4.5x
Utilities	2.9%	2.5%	5.1%	0.7%	-0.4%	0.0%	-19.1%	16.8x	-3.0x	16.03	-3.0x

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

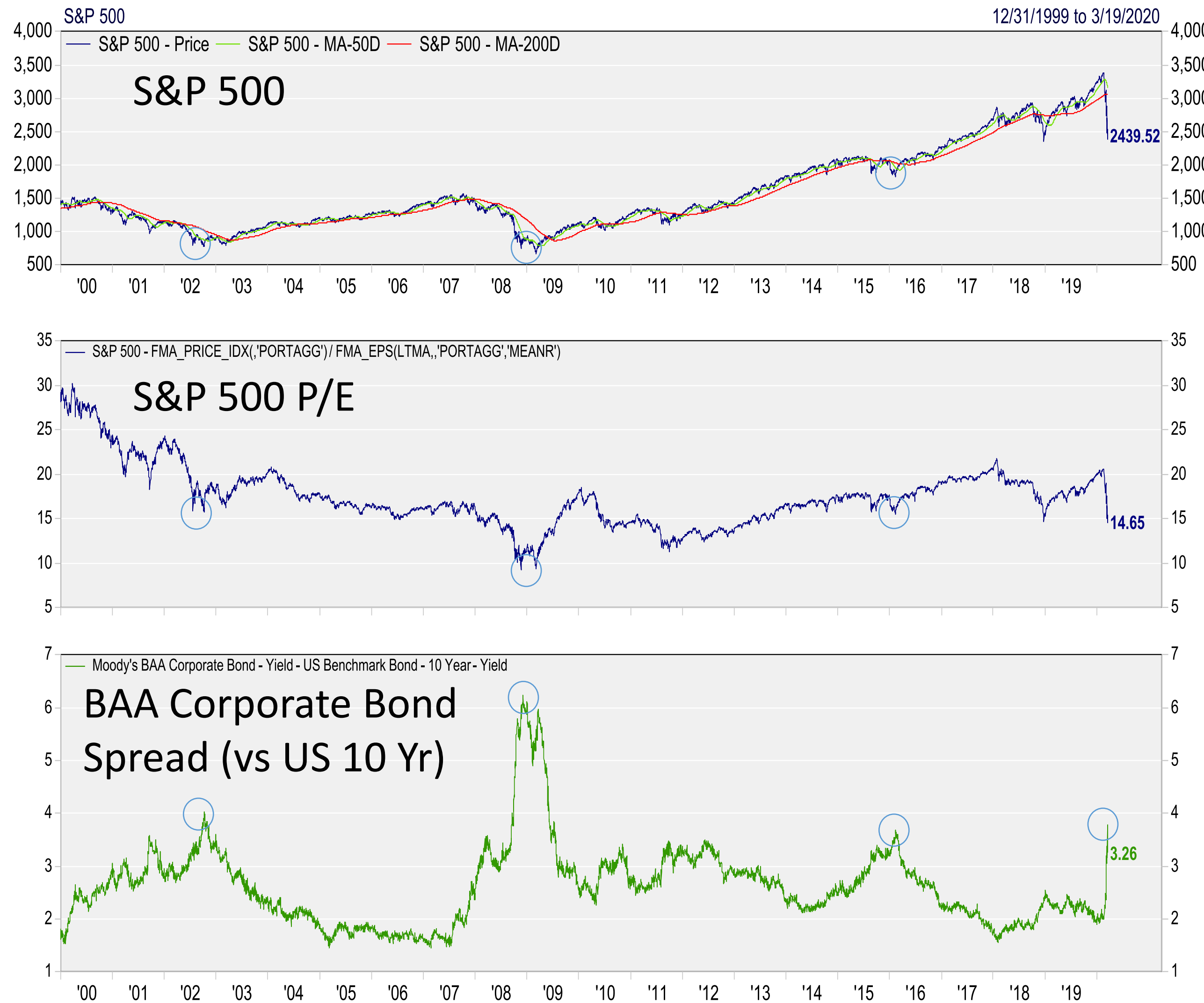
FUNDAMENTALS

Valuation: Credit spreads are in line with some of the more elevated levels historically, outside of the credit crisis. We would like to see credit spreads start to contract, in order to give more comfort that equity valuations are approaching a bottom.

At a P/E of 14.7x currently, the S&P 500 is 11% below its historical average of 16.5x. The 29% contraction in P/E multiples from the peak (just a month ago) is similar to the average P/E decline experienced in historical bear markets of 28%.

In our base case assumption, we expect the number of new cases to stall around Memorial Day. This leaves enough time in the back half of the year for the economy to directionally show signs of a recovery. Also, the stock market is a forward-looking mechanism- meaning valuation multiples will bottom on average 4-6 months before earnings trough as investors discount the eventual recovery. For example, during the credit crisis, the S&P 500 P/E bottomed at 10x and rallied to 17x by the time earnings bottomed.

For this reason, we maintain our 19.5x base case P/E assumption for year end. Resulting in a S&P 500 base case target of ~3000. That being said, until coronavirus concerns can subside, the short term could have more downside. For that reason, we would accumulate stocks with a long term focus.



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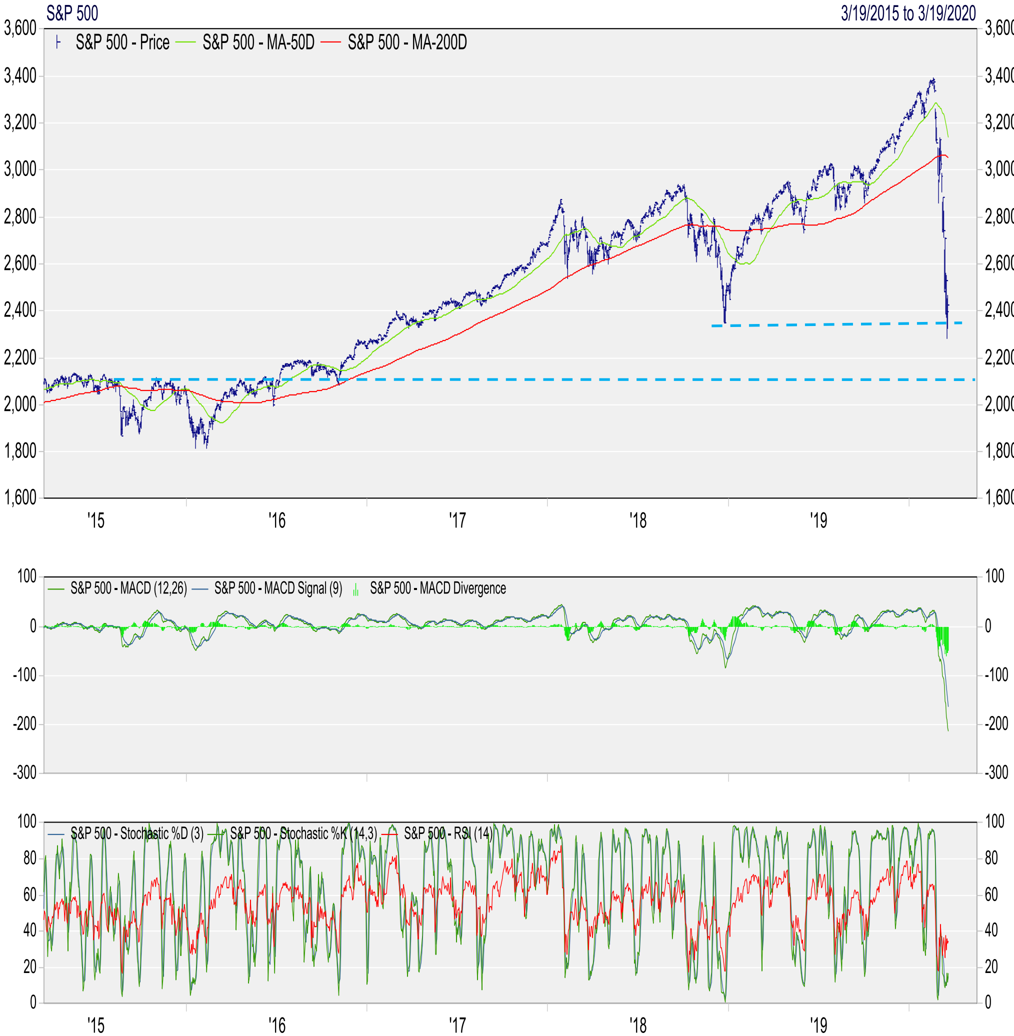
TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technical:

The S&P 500 has sold off 30% in exactly one month! Almost every metric you can look at will flash historically stretched to the downside. That said, the coronavirus has brought the global economy to a screeching halt and the key will be the spread of the virus.

The S&P 500 is currently attempting to hold support at the December 2018 lows, which are the 38% Fibonacci retracement of the entire bull market move. In a "Stop Everything" scenario where the economic magnitude is drastic but short as the number of new cases approximately peaks in late April, we could be *near* the lows now.

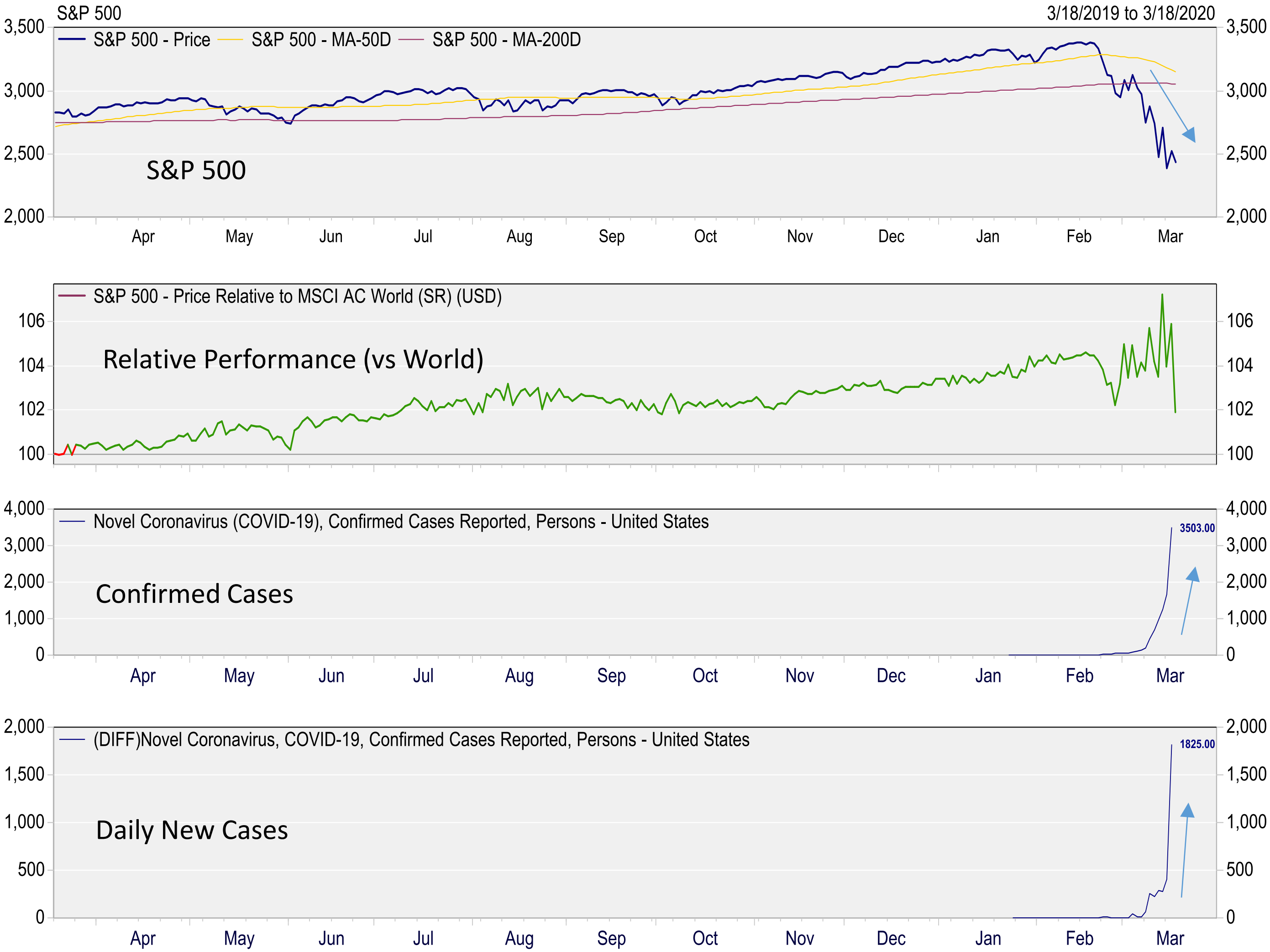
In a "Eventually We Get It" scenario, where country drags its feet and delays the inevitable Scenario 1 for a little while (with the number of new cases approximately peaking around Memorial Day), we see downside in the 2100-2400 with the bias for closer to 2100. This would coincide with the 50% Fibonacci retracement of the entire bull market.

Our base case assumption is that the number of new cases stalls around Memorial Day, leaving enough time in the back half of the year for the economy to show signs of directional improvement and investors to discount that eventual recovery. It is also not abnormal for the sharpest bear markets to see the sharpest rallies once concerns abate.

The key is the spread of the virus and the rise in new cases, which is set to spike in the US as testing becomes more widely available. We will be monitoring the new cases for a deceleration or stall, in order to provide a potential "light at the end of the tunnel" for the economy and equity markets.

Short term support is 2346 (December 2018 lows) and 2280 (yesterday's lows), followed by ~2100 (50% Fibonacci retracement level of 2009-2020 bull market move).

CORONAVIRUS - US



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

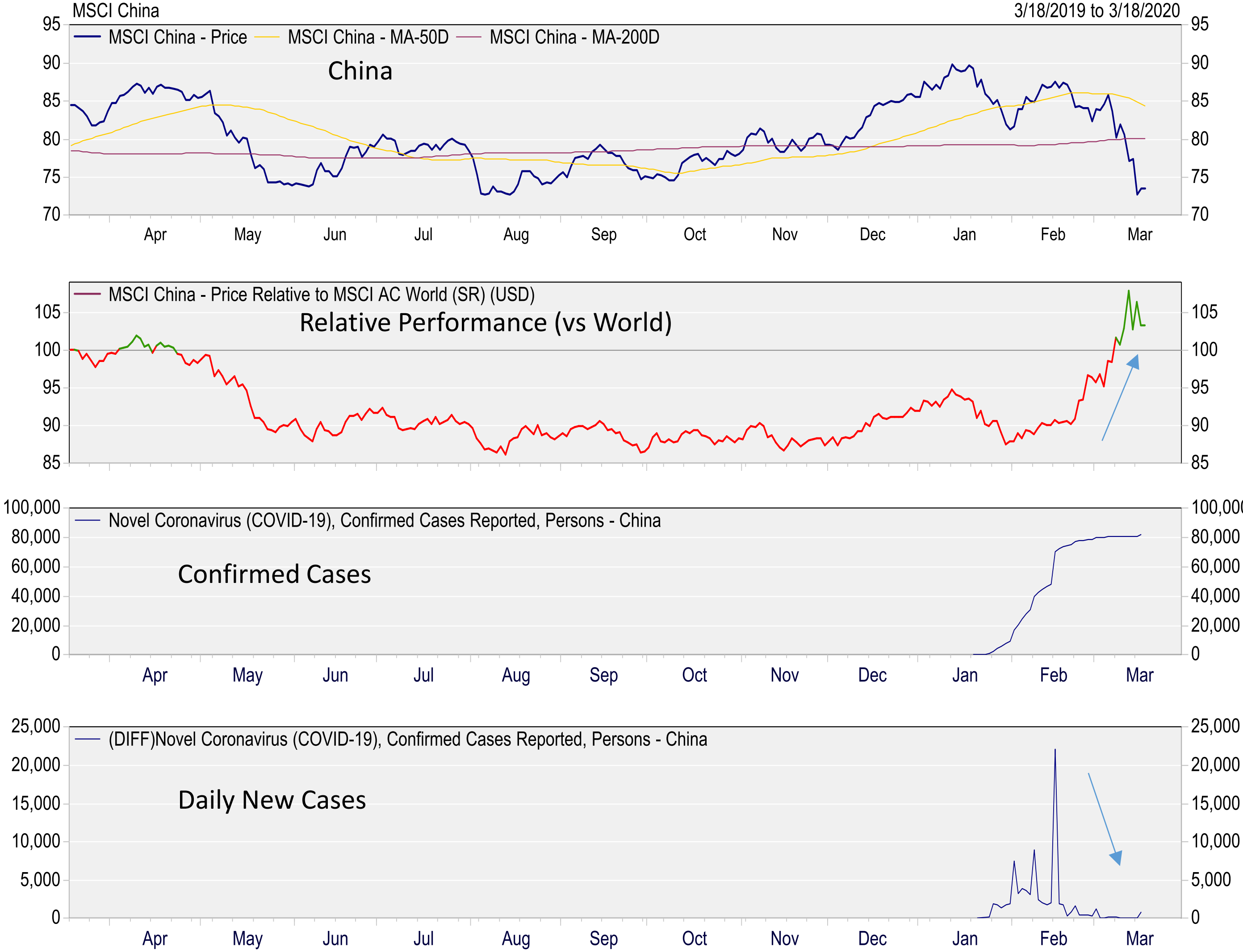
As the coronavirus cases in the US has accelerated higher, equity markets have been pressured.

With the number of new cases set to spike in the US as testing becomes more widely available, we remain guarded in the short term.

The spread of the virus is key to the equity market, and this is what we will be closely monitoring.

It is our belief that once the number of new cases can decelerate or stall, investors will begin to discount the eventual recovery.

CORONAVIRUS - CHINA



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Contributing to our view on the previous page is the path of the virus in China.

China had been the epicenter of the coronavirus, and took drastic measures to halt its spread (which collapsed economic activity there in February).

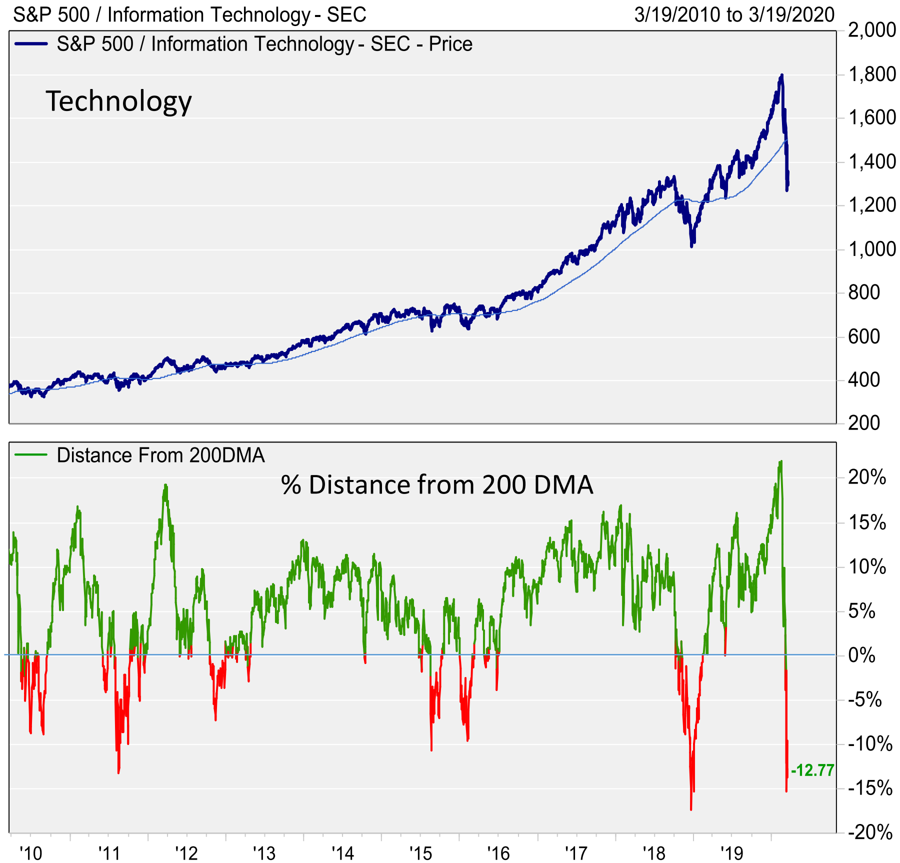
As you can see, once the number of new cases peaked in mid-February, China has been able to outperform the World (as the virus spread to increasingly more countries around the world). The same holds true for South Korea, which has outperformed since their number of new cases peaked in early March.

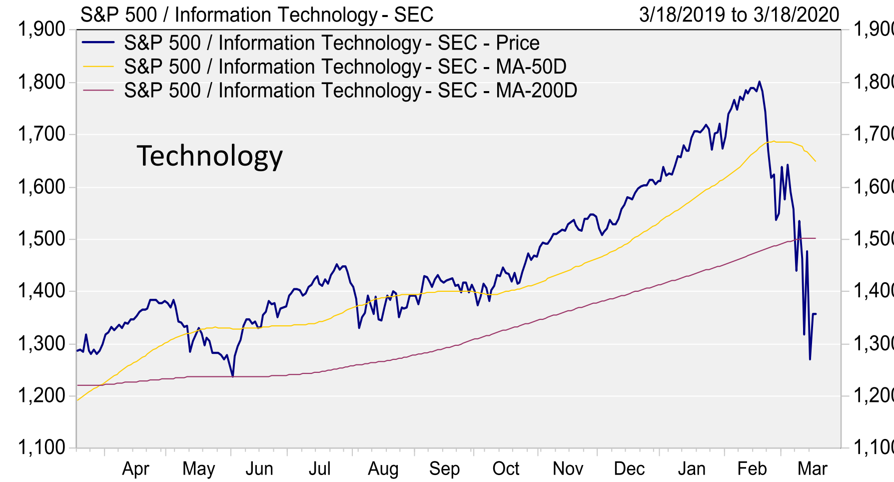
Their equity markets has still moved lower due to the global economy coming to a halt, but has been able to hold up very well so far.

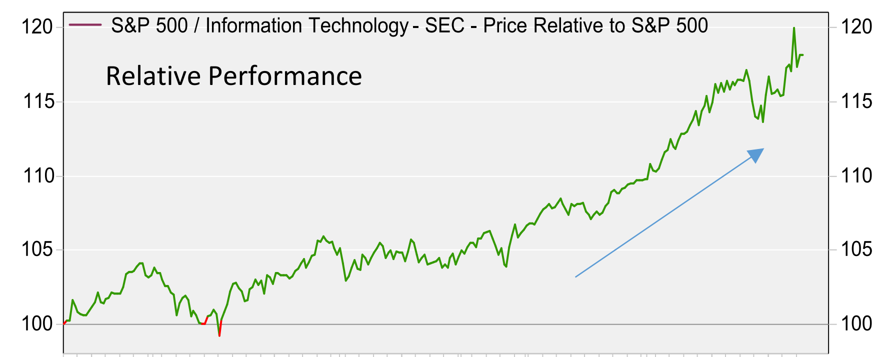
Another thing to monitor with China is if there is a "boomerang" of new cases as people are allowed back to work.

TECHNICAL: TECHNOLOGY

The technology sector remains a leader- it was outperforming before the past month's selloff and has outperformed throughout it as well. And we expect the sector to outperform in the eventual recovery. This is one of our favored sectors to accumulate quality, long term-oriented stocks in the pullback. Numerous subsectors benefit from business and individual behavioral change (online, video conferencing, 5G, cloud-computing, capital light business models, etc.). At the market peak, the Tech sector was very extended to the upside (on historical basis). The past month has flipped that dynamic on its head, as the sector reached 15% below its 200 DMA yesterday- in line with the most stretched it has been to the downside in the past 10 years.



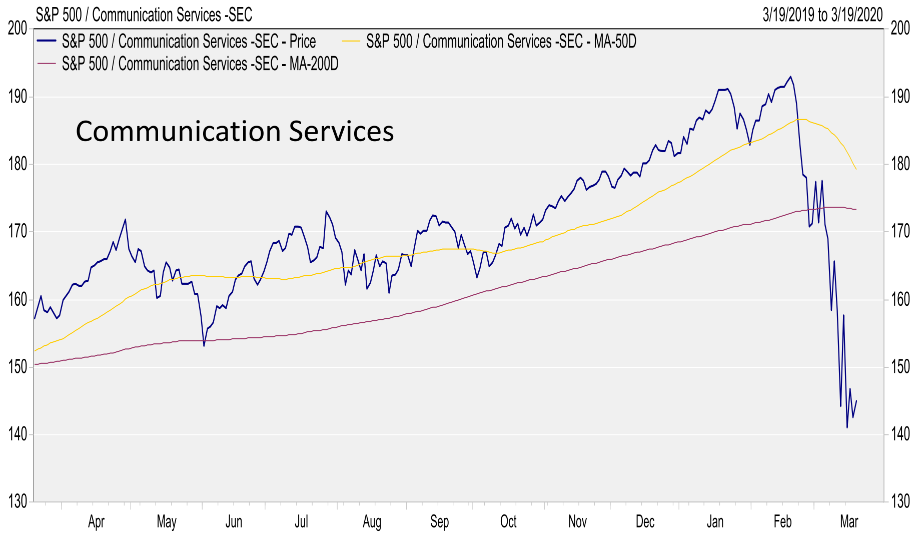


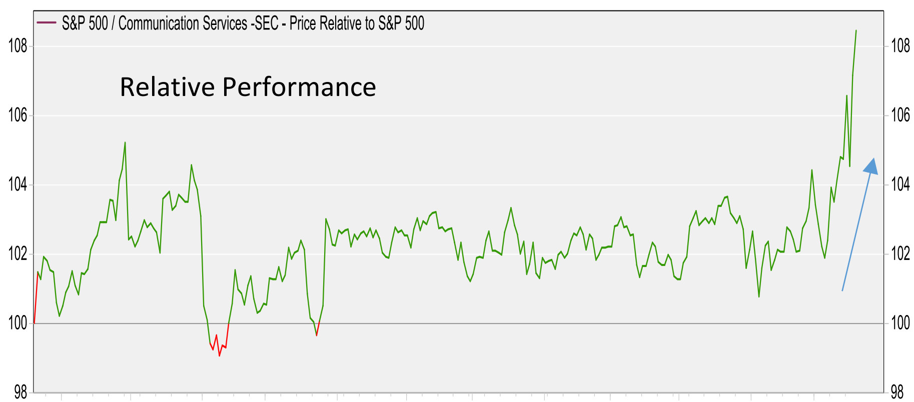


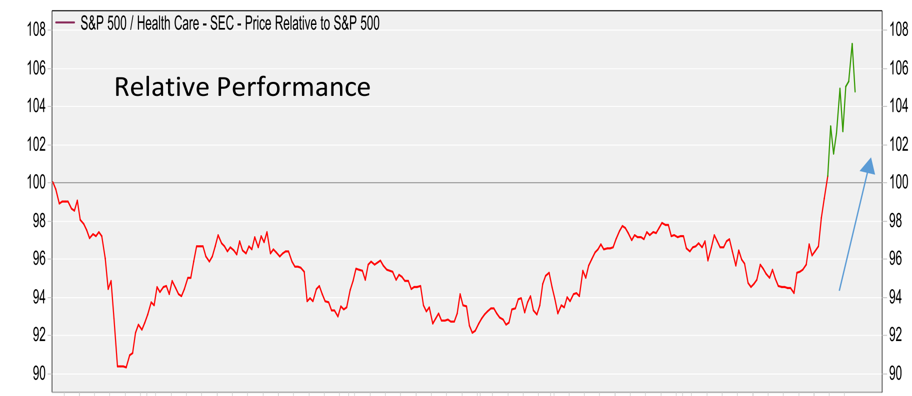
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: COMMUNICATIONS SERVICES AND HEALTH CARE

Communication Services and Health Care have been able to outperform through the selloff as well. These remain two of our overweight-rated sectors, and we would look to accumulate quality names for the long term through the market pullback. A bar-bell strategy discussed on next page.



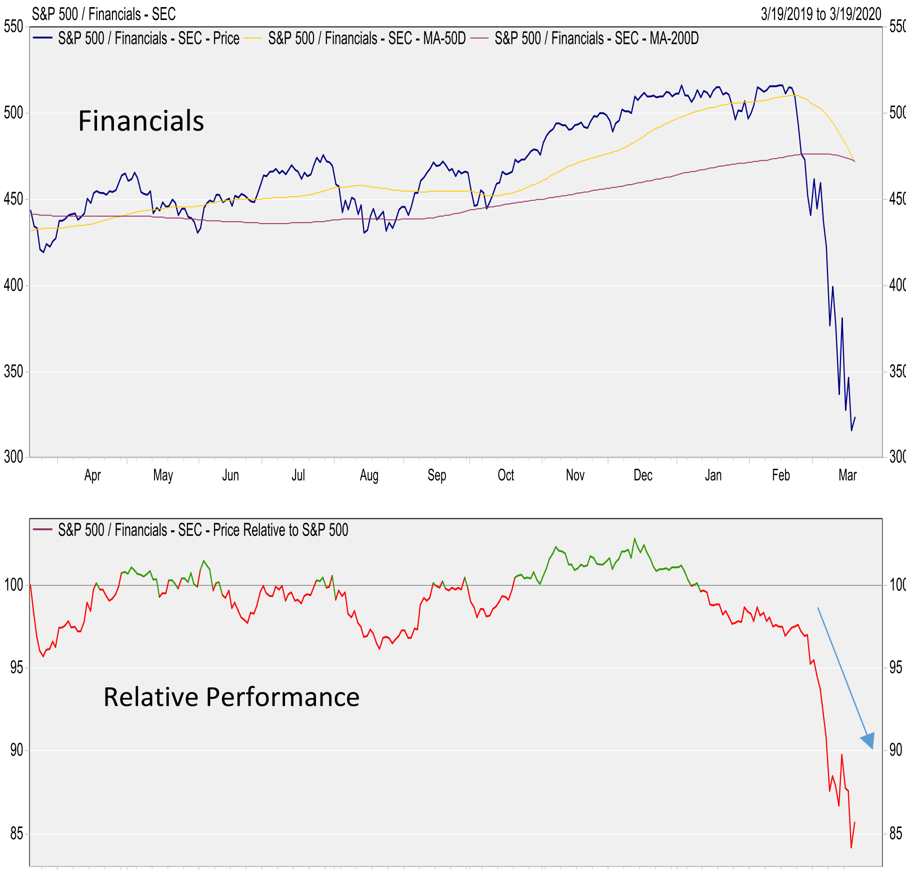


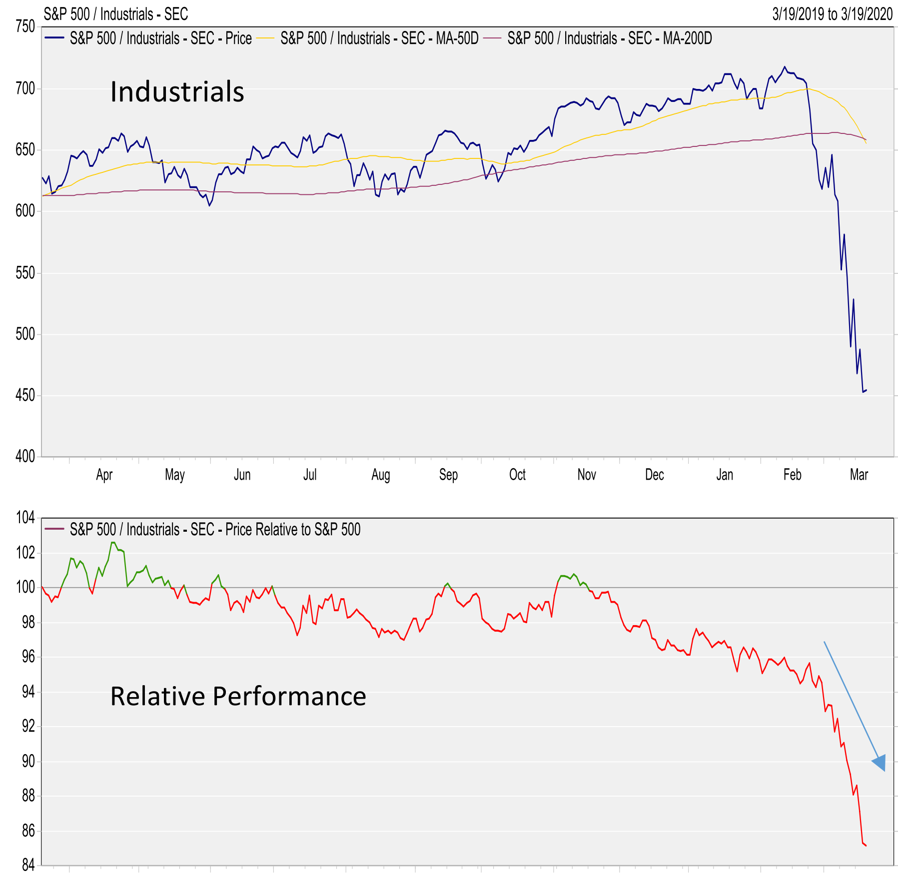


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: FINANCIALS AND INDUSTRIALS

The more economically-sensitive Financials and Industrials sectors have gotten absolutely crushed during the market selloff. For those with a 12-24 month time horizon (or longer), we would look for opportunity among our overweight-rated sectors, taking a barbell approach. On the one end, purchasing leaders (i.e. Technology) and partnering with those that have fared much worse (Financials and Industrials) and could be set up for outsized up-moves once the economy recovers. Additionally our other two overweight-rated sectors- Health Care and Communications Services- offer attractive fundamentals as well as defensive characteristics.





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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.

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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