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MAY 7, 2020 | 5:27 PM EDT

Weekly Market Guide

Short-Term Summary:

The S&P 500 has remained very resilient in spite of drastically bad economic data, as massive stimulus (fiscal and monetary) is outweighing the dramatic economic impact and uncertainty for now. There have been some economic "green shoots" starting to emerge, albeit from exceptionally low levels. Additionally, companies have discussed some April stabilization/improvement in their quarterly commentary but continue to stress uncertainty in the outlook. Data on the potential trajectory of the economic recovery will be paramount to investors, as they assess the path forward for equities.

At a 20.3x forward P/E multiple, we believe the market is not fully appreciating the economic challenges still out there. For an economy that is not going to be operating at full capacity, odds are high that equities will experience a downdraft *at some point*. Technically, the S&P 500 is firmly in a pause phase- grinding roughly sideways over the past few weeks at a level that it should (61.8% retracement of the 34% selloff). We therefore would be patient and selective with purchases at current levels. 2955 remains the first area of technical resistance to watch. Above 2955 is a band of resistance in the 3000-3025 range followed by more resistance at 3136. On the flip side, we view technical support at 2721, 2538, and 2455 but also keep an eye on 2663 (38% retracement of the rally) and 2573 (50% retracement of the rally).

Beneath the surface, Q1 earnings season has confirmed the bifurcation of stocks- with wide disparity in performance and fundamentals between clear "haves" and "have nots" in the current environment. For example, the tech-oriented and non-cyclical sectors are set to grow earnings by 3.2% on average in Q1. Q2 earnings are expected to see the biggest COVID-19 impact, but these stocks are still only expecting a 12% earnings contraction on average in a horrendous economic environment- not too bad. Contrarily, the cyclical sectors are set to experience an earnings contraction of -34.7% on average in Q1 and -81.6% in Q2. This fundamental impact is reflected in performance with areas like technology and health care breaking out to new relative highs, while areas like financials and industrials break to new relative lows. This dynamic is also buoying the overall index, as the technology, communication services, and health care sectors alone make up over half of the S&P 500. These are actually our three favored sectors, leaving plenty of opportunity to accumulate individual names exhibiting relatively strong fundamental and technical momentum.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-11.8%	-2.9%
S&P 500 (Equal-Weight)	-20.4%	-14.4%
Dow Jones Industrial Avg	-17.1%	-10.5%
NASDAQ Composite	-1.3%	9.0%
Russell 2000	-24.3%	-21.8%
MSCI All-Cap World	-15.4%	-8.3%
MSCI Developed Markets	-20.8%	-15.4%
MSCI Emerging Markets	-19.4%	-15.4%
NYSE Alerian MLP	-42.0%	-48.7%
MSCI U.S. REIT	-26.5%	-23.3%

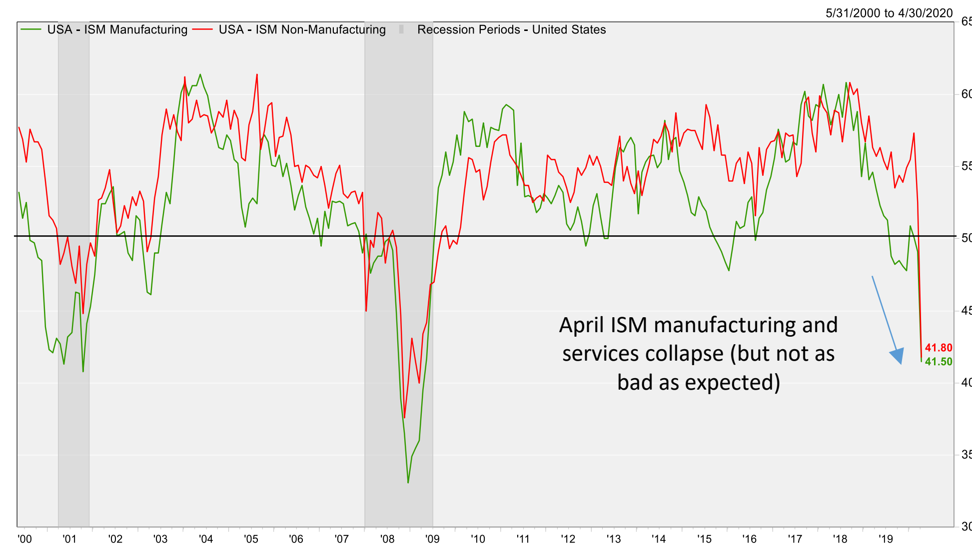
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	0.4%	26.4%
Health Care	-3.1%	15.6%
Consumer Discretionary	-6.3%	10.4%
Communication Svcs.	-7.0%	11.0%
Consumer Staples	-9.6%	7.4%
S&P 500	***-11.8%***	-
Utilities	-15.3%	3.2%
Real Estate	-16.3%	2.8%
Materials	-18.1%	2.5%
Industrials	-25.2%	7.7%
Financials	-30.8%	10.1%
Energy	-39.6%	3.0%

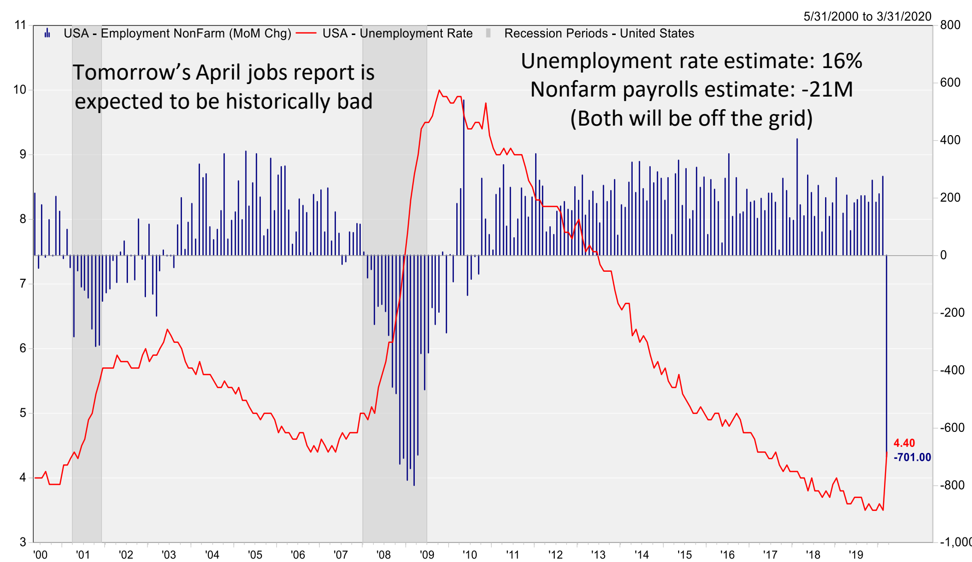
MACRO: US

The expected economic collapse is playing out in the April data, and tomorrow's jobs report is set to be historically bad. April nonfarm payrolls are estimated to drop by -21M, following a -701k reading in March. This will take the unemployment rate up from 4.4% to 16%. Both readings will be off the chart. However, the unprecedented economic impact (and uncertainty) are being offset by unprecedented government stimulus in the eyes of investors right now. The equity market is a forward-looking mechanism, and focus has shifted to the economic restart and potential trajectory of the recovery. There have been some early "green shoots" in the data, for example mortgage applications rose +14% in April, the credit card spend decline slowed to -10% in April (from -30% in March), April car sales surprised to the upside, waste collection has been better than modeled, and a weekly sequential improvement in convenience store sales. All of this contributes to our view that the data should be less bad after April, albeit at still very low levels. It will take time for the economy to get back to full capacity, and consumer behavior will be closely monitored as the economy restarts (consumer is 70% of the US economy).

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Markit PMI Manufacturing SA (Final)	APR	36.1	36.8	36.9
Construction Spending SA M/M	MAR	0.90%	-3.5%	-2.5%
ISM Manufacturing SA	APR	41.5	36.7	49.1
Durable Orders ex-Transportation SA M/M (Final)	MAR	-0.43%	-0.20%	-0.20%
Durable Orders SA M/M (Final)	MAR	-14.7%	-14.4%	-14.4%
Factory Orders SA M/M	MAR	-10.3%	-9.8%	-0.10%
Trade Balance SA	MAR	-$44.4B	-$44.2B	-$39.8B
PMI Composite SA (Final)	APR	27.0	27.4	27.4
Markit PMI Services SA (Final)	APR	26.7	27.0	27.0
ISM Non Manufacturing SA	APR	41.8	37.5	52.5
ADP Employment Survey SA	APR	-20236K	-21000K	-148.6K
Continuing Jobless Claims SA	04/25	22,647K	-	18,011K
Initial Claims SA	05/02	3,169K	3,000K	3,846K
Unit Labor Costs SAAR Q/Q (Preliminary)	Q1	4.8%	2.3%	0.90%
Productivity SAAR Q/Q (Preliminary)	Q1	-2.5%	-6.0%	1.2%



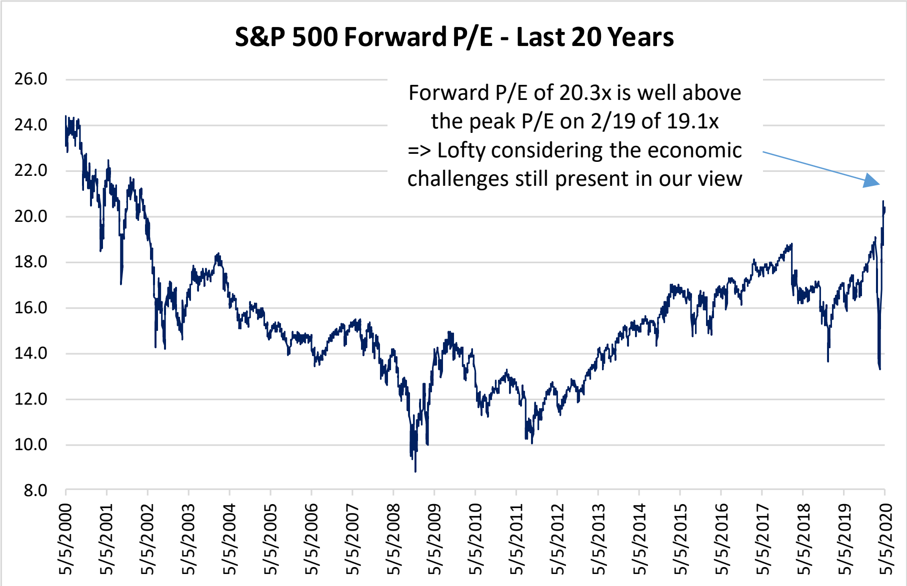


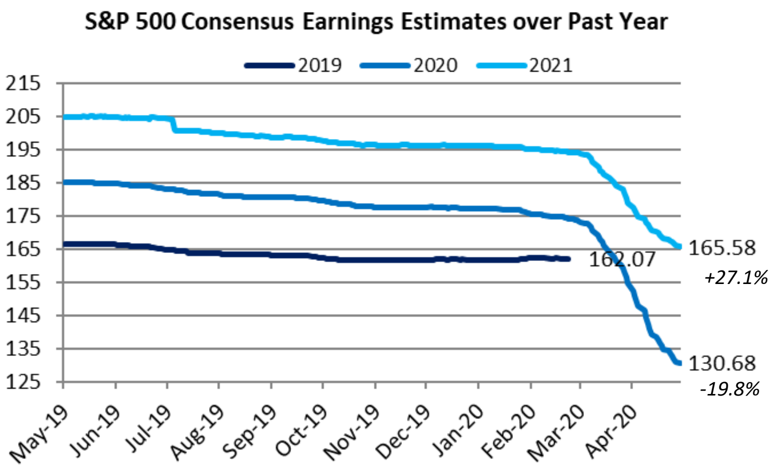
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q1 earnings season is approaching the finish line, as 80% of S&P 500 companies have reported up to this point. Q1 earnings growth is expected to finish at -14% with a clear bifurcation among sectors. For example, the tech-oriented and non-cyclical areas are set to grow earnings by 3.2% on average in Q1. Q2 earnings are expected to see the biggest impact from the shutdown, but these stocks are still only expecting a 12% earnings contraction on average- not bad in a horrendous economic environment. Contrarily, the cyclical sectors are set to experience an earnings contraction of -34.7% on average in Q1 and -81.6% in Q2. This fundamental impact is reflected in performance with areas like technology and health care breaking out to new relative highs, while areas like financials and industrials break to new relative lows. This dynamic is also boosting the overall index, as the technology, communication services, and health care sectors alone make up over half of the S&P 500. Despite the bulk of companies operating at a pretty decent rate right now, S&P 500 growth continues to be weighed down by the more cyclical areas, and forward estimates continue to trend lower toward our current estimates of $130 and $160 in 2020 and 2021, respectively.

The earnings destruction, along with the market rally, has the S&P 500 forward P/E at 20.3x- lofty considering the economic challenges still present in our view. This contributes to our view that the rally has gone "too far, too fast" and at best needs to continue its pause phase (unless there is a breakthrough on COVID-19 testing or therapeutics).

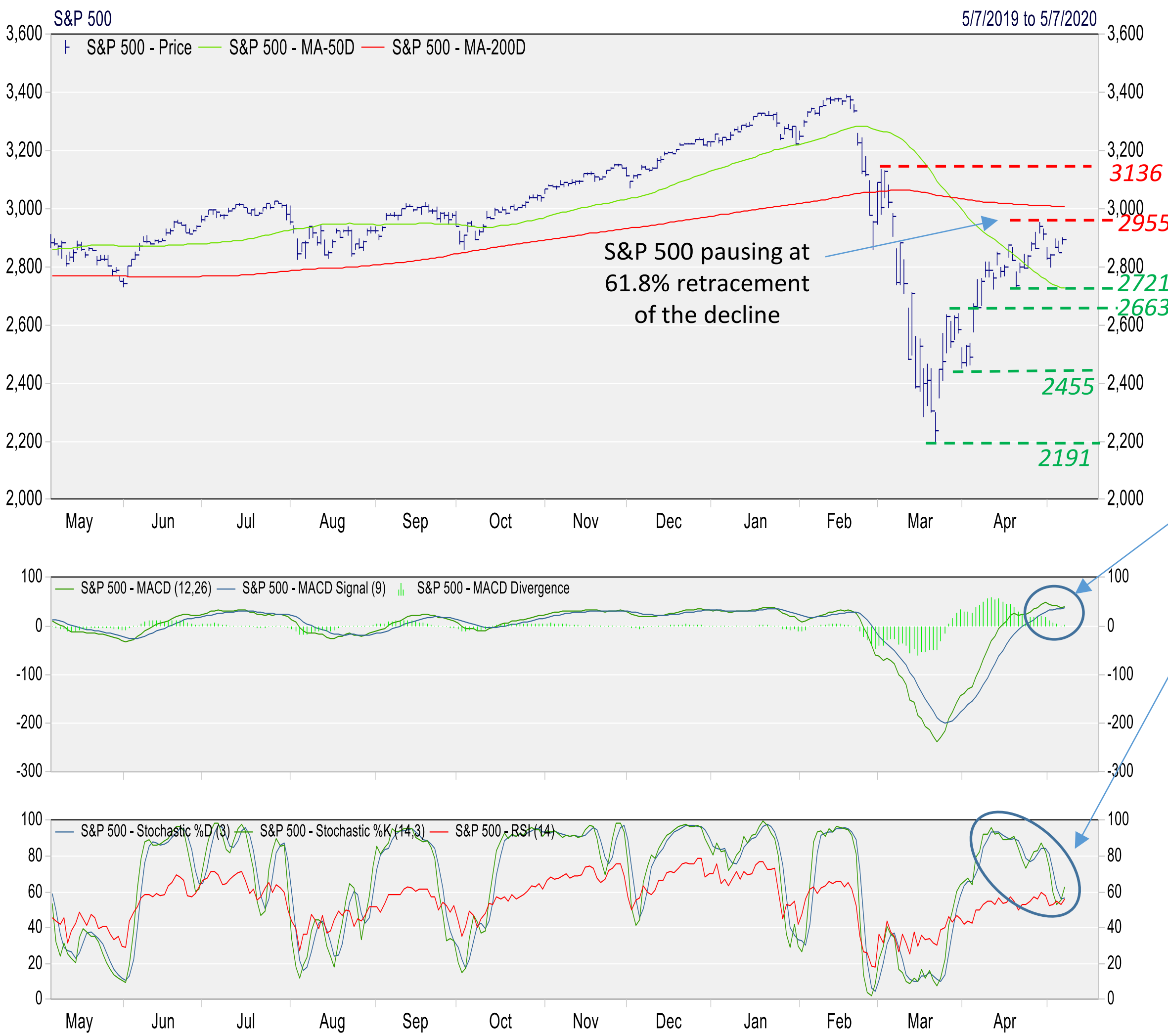




	Earnings Growth Estimates						2Yr Stacked	S&P 500
S&P 500 Sector	Q1	Q2	Q3	Q4	2020	2021	EPS Growth	Weighting
Information Technology	6.4%	-8.0%	-2.2%	1.5%	1.6%	15.3%	17.2%	26.4%
Consumer Staples	4.4%	-14.8%	-4.1%	0.1%	-2.8%	7.9%	4.9%	7.4%
Health Care	5.4%	-13.5%	-1.0%	5.4%	-1.0%	15.1%	13.9%	15.6%
Utilities	3.4%	-0.6%	1.0%	3.1%	1.8%	5.4%	7.3%	3.2%
Communication Services	0.9%	-26.2%	-13.6%	-9.5%	-11.3%	22.3%	8.5%	11.0%
Real Estate	-1.3%	-7.9%	-6.0%	-1.1%	-3.9%	8.0%	3.8%	2.8%
S&P 500	**-14.1%**	**-39.6%**	**-21.3%**	**-10.2%**	**-19.8%**	**27.1%**	**2.0%**	**100.0%**
Materials	-23.2%	-32.7%	-22.7%	-7.0%	-20.0%	29.5%	3.7%	2.5%
Industrials	-31.2%	-82.5%	-50.3%	-18.3%	-44.1%	70.6%	-4.6%	7.7%
Energy	-29.4%	-146.4%	-124.8%	-103.8%	-106.9%	-675.0%	-60.3%	3.0%
Financials	-41.7%	-44.4%	-31.4%	-27.7%	-34.8%	34.6%	-12.3%	10.1%
Consumer Discretionary	-48.2%	-102.1%	-37.2%	-6.1%	-45.4%	78.3%	-2.6%	10.4%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 is firmly in a pause phase, at a level that it should- just under the 61.8% Fibonacci retracement of the 34% selloff and 200 day moving average. While there have been some sharp swings in both directions, the S&P 500 has grinded roughly sideways over the past few weeks.

The consolidation was needed as the market moved too far too fast to sustain the gains, and now we are waiting to see if it will continue to chop sideways, or if we will have a pullback. Our view is that the odds are high we will see a drawdown at some point, as the market starts appreciating the economic challenges still out there (from an elevated valuation).

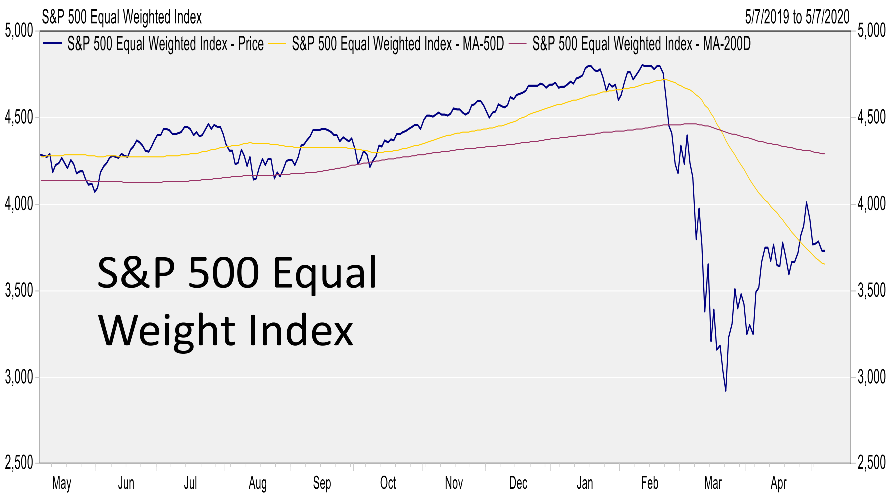
We are watching MACD, as a rollover could signal a headwind for the rally.

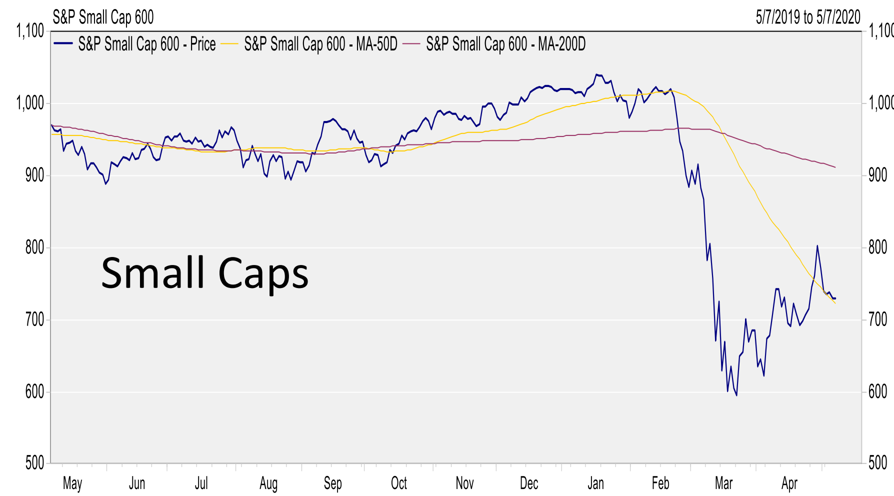
Short term stochastics are working lower- the market is suspect to pullbacks or flat trading while this is trending lower, increasing the odds of a pullback.

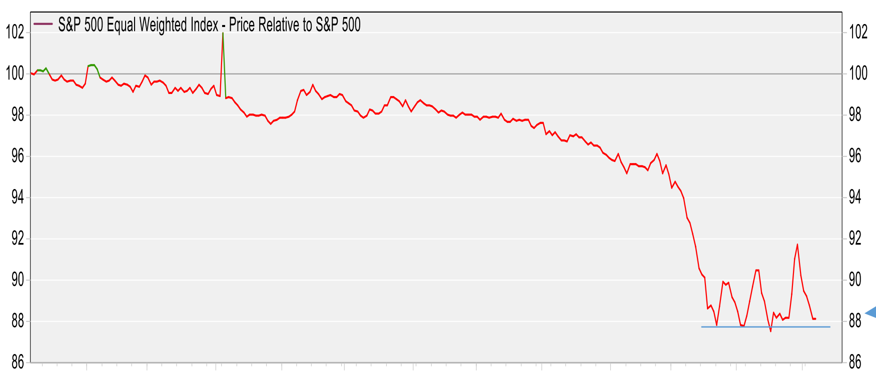
2955 remains the first area of technical resistance to watch. Above 2955 is a band of resistance in the 3000-3025 range followed by more resistance at 3136. On the flip side, we view technical support at 2721, 2538, and 2455 but also keep an eye on 2663 (38% retracement of the rally) and 2573 (50% retracement of the rally).

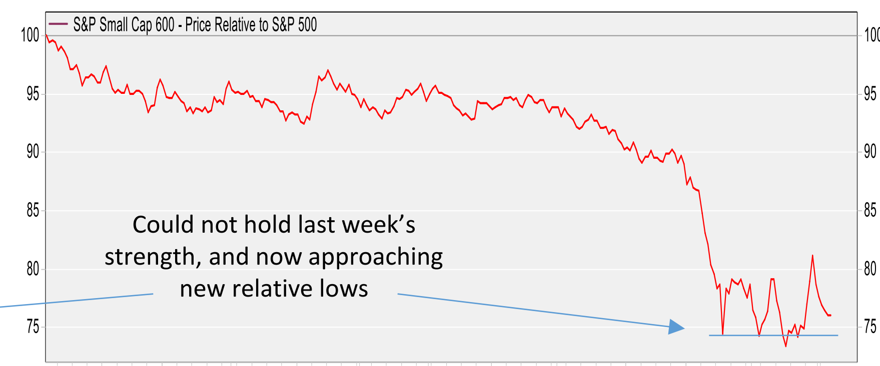
TECHNICAL: SHORT TERM

We were getting some healthy rotation into the year's laggards last week, but it did not hold as there continues to be a wide bifurcation of stock performance in the current environment- very clear "haves" and have nots." As you can see, the average stock pulled back over the last week and relative strength for the S&P 500 equal weighted index is close to breaking to new lows. This is also the case for the small caps which were not able to hold their improvement from last week. A break to new relative lows in these indexes would signal deterioration beneath the surface and would likely weigh on the S&P 500.









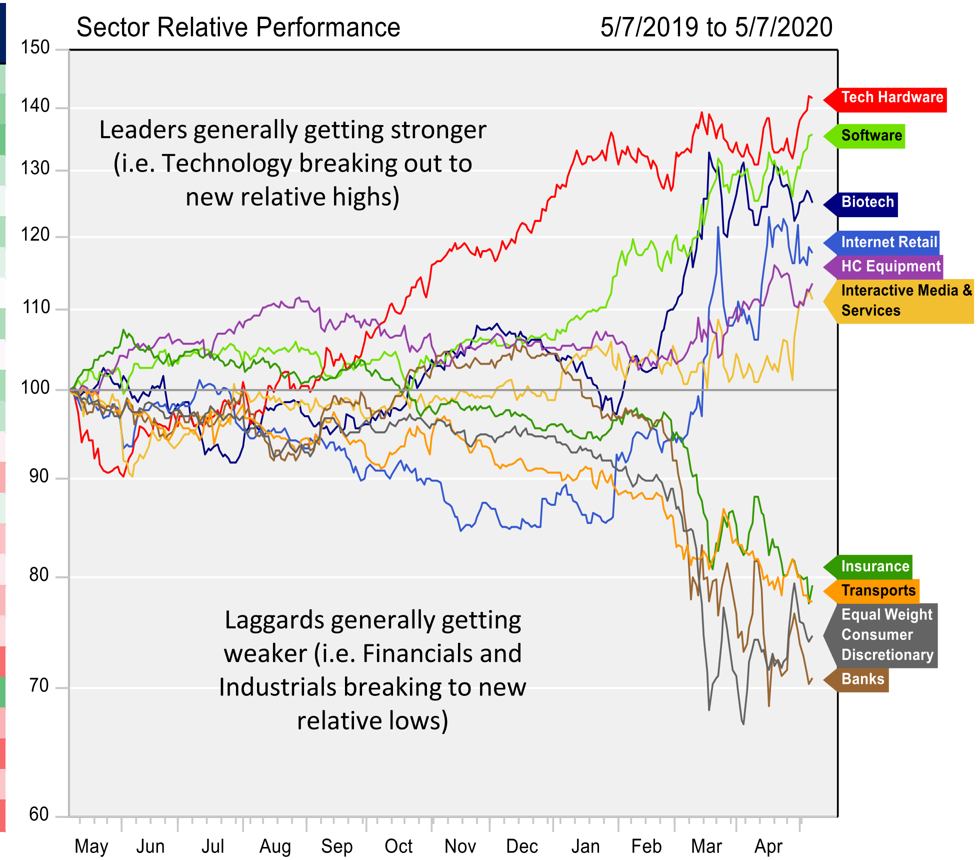
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SECTOR BIFURCATION

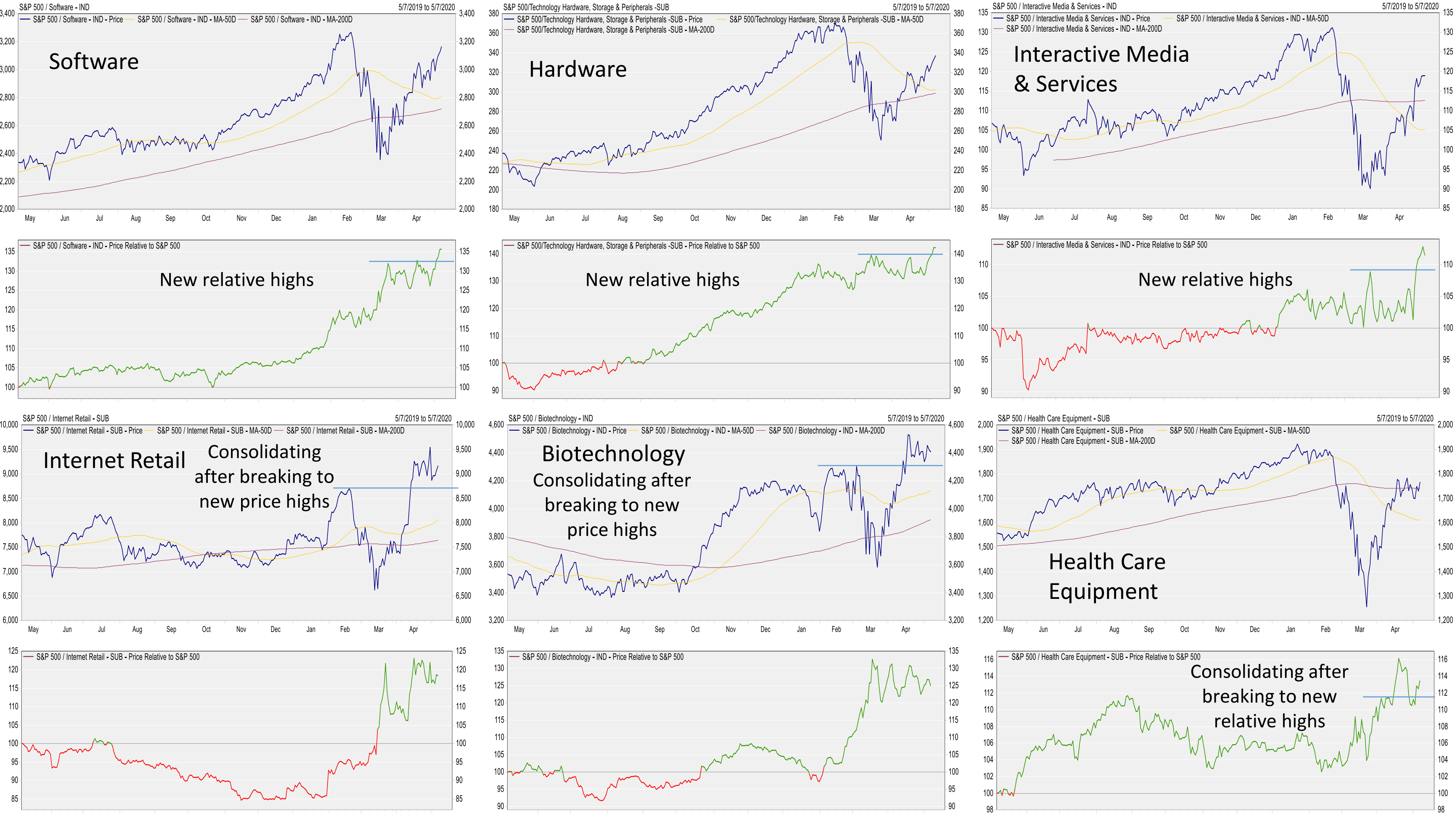
As previously noted, the market has become clearly bifurcated between those acting healthy and those not- both fundamentally and technically. For example, fundamentals are holding up fairly well for the technology oriented and non-cyclical areas. Accordingly, areas in Technology (i.e. software and hardware), areas in Health Care (i.e. biotechnology and equipment), and other tech-oriented areas like internet retail and interactive media & services are all maintaining leadership and breaking out to new relative highs. These are the areas we would look to accumulate if the market undergoes a pullback. On the flip side, the deeper cyclical areas such as banks, transports, and average consumer discretionary stock are seeing dramatic earnings impacts and accordingly are trading to new relative lows. We would continue to exercise caution toward these areas for now.

	Earnings Growth						YTD
Industry Group	Q1	Q2	Q3	Q4	2020	2021	Return
Semiconductors & Semiconductor Equi	13.6%	-2.9%	-4.1%	-3.1%	-2.4%	16.5%	-4.52
Pharmaceuticals Biotechnology & Life !	10.3%	-12.1%	0.0%	6.6%	0.5%	12.0%	0.20
Software & Services	8.8%	-7.6%	2.1%	3.4%	4.6%	14.5%	4.36
Household & Personal Products	8.2%	-10.0%	0.8%	3.0%	4.9%	6.3%	-6.99
Food Beverage & Tobacco	7.8%	-17.3%	-5.7%	0.1%	-5.0%	9.0%	-13.35
Media & Entertainment	2.2%	-38.1%	-18.2%	-11.1%	-15.5%	34.2%	-4.30
Commercial & Professional Services	4.3%	-29.6%	-17.9%	-5.1%	-10.8%	14.7%	-11.36
Utilities	3.4%	-0.6%	1.0%	3.1%	1.8%	5.4%	-15.26
Technology Hardware & Equipment	-1.2%	-12.4%	-6.6%	2.1%	0.5%	15.6%	-3.93
Real Estate	-1.3%	-7.9%	-6.0%	-1.1%	-3.9%	8.0%	-16.25
Food & Staples Retailing	-1.9%	-11.1%	-3.6%	-0.1%	-1.8%	7.0%	-3.54
Health Care Equipment & Services	-1.8%	-16.1%	-2.6%	3.6%	-3.2%	19.8%	-6.91
Telecommunications Services	-4.1%	-9.8%	-9.7%	-8.2%	-6.9%	4.3%	-17.25
Insurance	-11.8%	-11.1%	6.1%	-2.2%	-3.3%	9.1%	-28.68
S&P 500	**-14.1%**	**-39.6%**	**-21.3%**	**-10.2%**	**-19.8%**	**27.1%**	-11.83
Consumer Durables & Apparel	-23.0%	-69.9%	-29.3%	-13.9%	-26.4%	25.0%	-25.20
Materials	-23.2%	-32.7%	-22.7%	-7.0%	-20.0%	29.5%	-18.14
Capital Goods	-23.6%	-41.7%	-32.2%	-6.1%	-24.2%	33.0%	-27.03
Diversified Financials	-31.1%	-32.9%	-27.6%	-20.1%	-27.0%	27.6%	-20.81
Energy	-29.4%	-146.4%	-124.8%	-103.8%	-106.9%	-675.0%	-39.61
Retailing	-37.9%	-45.2%	-13.2%	1.1%	-22.6%	46.8%	6.22
Consumer Services	-51.6%	-153.6%	-78.4%	-46.6%	-74.9%	215.5%	-27.74
Banks	-61.1%	-63.9%	-47.3%	-43.9%	-52.3%	61.9%	-40.57
Transportation	-65.8%	-164.8%	-98.6%	-48.7%	-97.6%	3271.4%	-24.35
Automobiles & Components	-90.8%	-271.5%	-57.4%	118.4%	-110.3%	-790.8%	-40.63

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

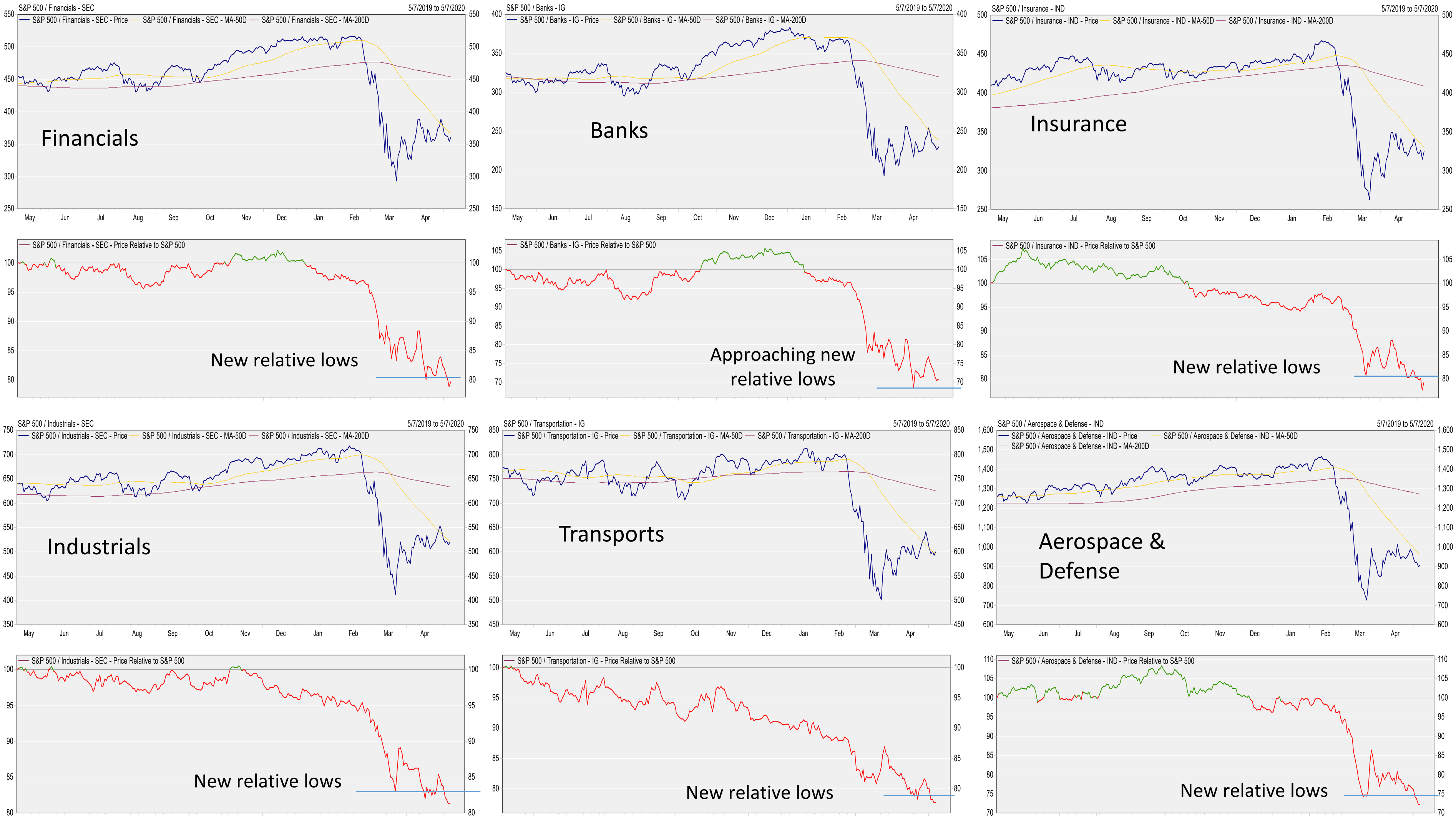


TECHNICAL: LEADERS- STRENGTH BEGETS STRENGTH



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

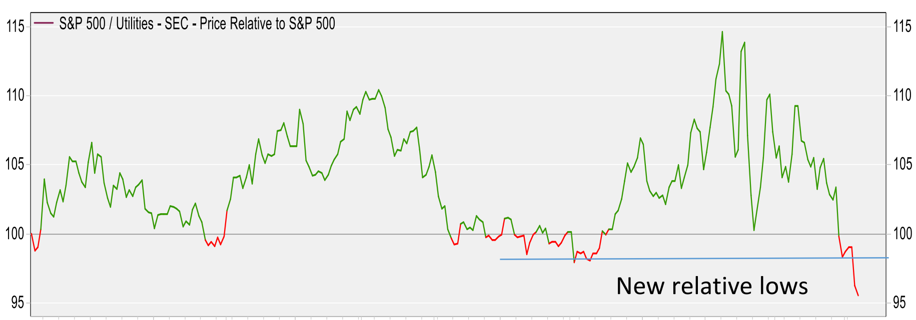
TECHNICAL: LAGGARDS- MOMENTUM REMAINS DOWNWARD



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: UTILITIES

The often-considered “defensive” Utilities sector is trading to new relative lows and has now underperformed since the February 19th market peak, despite interest rates at record lows and volatility still remaining elevated (albeit well off the highs). While the sector is likely to provide some relative stability in the event of a broad market pullback, we find other areas more attractive- for example, Technology, Health Care, and Communication Services. We would look to accumulate these areas in a pullback, as they will be more attractive for the next bull market.



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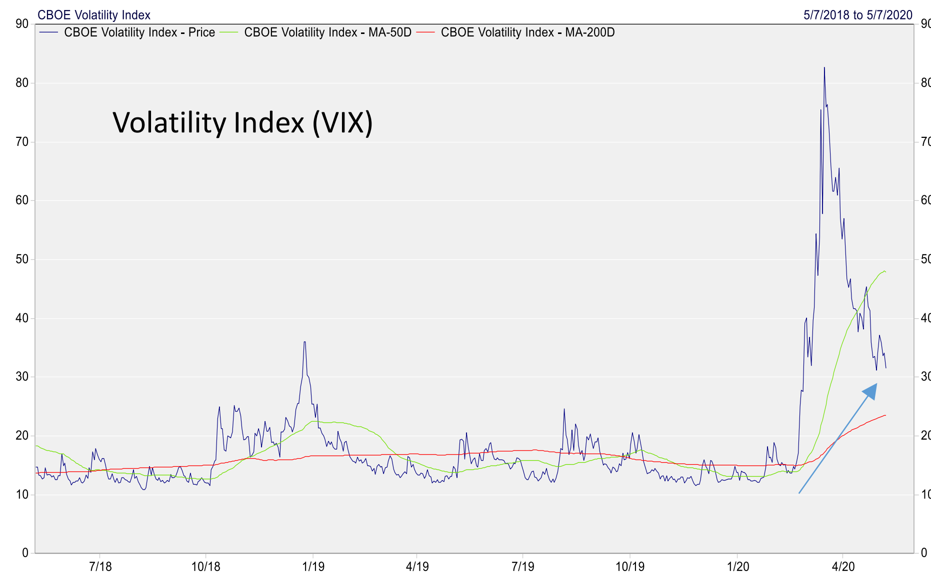

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The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

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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