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Weekly Market Guide

Short-Term Summary:

As the S&P 500 has paused in recent weeks (following a 31% move higher in 26 days), participation beneath the surface has gotten increasingly narrow. Once the index was unable to break above its recent highs on Tuesday, this less supportive technical backdrop contributed to a 6% selloff toward the lows of its recent range (from where the S&P 500 was able to rebound today). We expect volatility to continue (given the high degree of uncertainty and economic damage). In the short term, the first level of technical support to monitor is 2736, followed by ~2630 if unable to hold. In fact, the 2630 level represents a 10% pullback from the recent peak on 4/29, which is very normal historically as equities attempt to rebuild upside momentum out of recessionary bear markets (historical examples shown on page 5). Remember that bear markets are typically very fast and violent, whereas bull markets last for years. Thus, we would use pullbacks as opportunities to accumulate favored stocks and sectors for the long term.

Actions appropriately grabbing investor attention this week included Dr. Fauci concerns over restarting too fast (risk of resurgence), Fed President Powell highlighting downside risks to the economy, and US/China rhetoric ramping up. As many areas around the country start to reopen, the virus spread will be important to monitor for investors. Mitigation efforts currently have new cases, hospitalizations, and the % of positive tests all trending downward. We would obviously like to see these continue to trend in the right direction, and will also be monitoring economic data for clues on the potential trajectory of the economic recovery. Early indications suggest improvements to consumer activity are likely to be gradual and mixed (i.e. e-commerce and staples products recovering faster).

Our favored sectors remain technology, health care, and communication services- many of which had gotten extended in the short term and needed a “cooling off” period. Contributing to their strength has been relatively strong fundamentals in the current environment. For example, these three sectors grew earnings by 4.9% in Q1 on average, whereas the S&P 500 saw a -13.5% earnings contraction. Technology and Health Care, in particular, are seeing the best fundamental momentum- only expecting a -11.5% earnings contraction on average in Q2 (expected to be the economic trough of COVID-19 impact) vs the S&P 500 at -41.8%. Valuation on a P/E to Growth basis is also fairly attractive with Tech and Health Care at just 1.35x and 1.15x respectively (based on two-year estimated earnings growth).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-12.7%	0.3%
S&P 500 (Equal-Weight)	-22.3%	-12.9%
Dow Jones Industrial Avg	-18.5%	-8.2%
NASDAQ Composite	-1.2%	15.9%
Russell 2000	-26.1%	-19.0%
MSCI All-Cap World	-15.7%	-5.0%
MSCI Developed Markets	-20.3%	-12.2%
MSCI Emerging Markets	-18.4%	-10.6%
NYSE Alerian MLP	-43.3%	-50.3%
MSCI U.S. REIT	-30.5%	-26.9%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	0.1%	26.6%
Health Care	-3.5%	15.6%
Consumer Discretionary	-6.7%	10.5%
Communication Svcs.	-7.3%	11.0%
Consumer Staples	-9.7%	7.4%
S&P 500	***-12.7%***	-
Utilities	-15.1%	3.2%
Materials	-18.8%	2.5%
Real Estate	-19.9%	2.7%
Industrials	-27.5%	7.5%
Financials	-33.1%	9.9%
Energy	-40.7%	2.9%

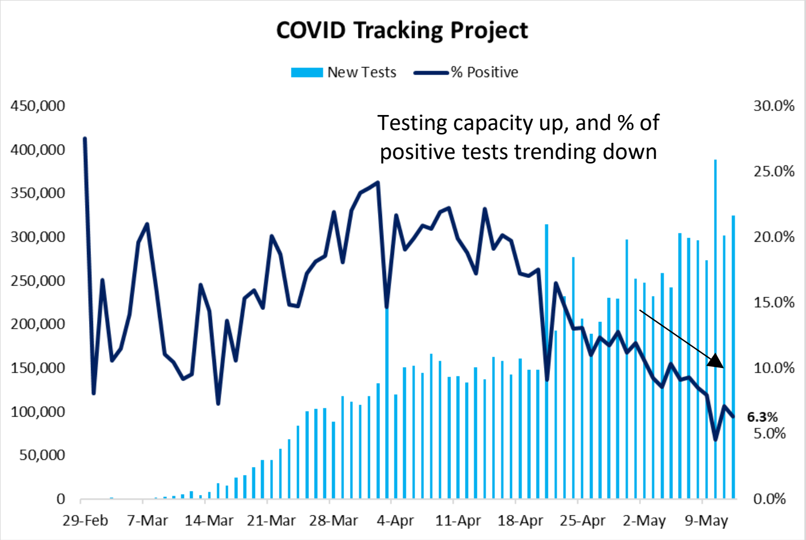
MACRO: US

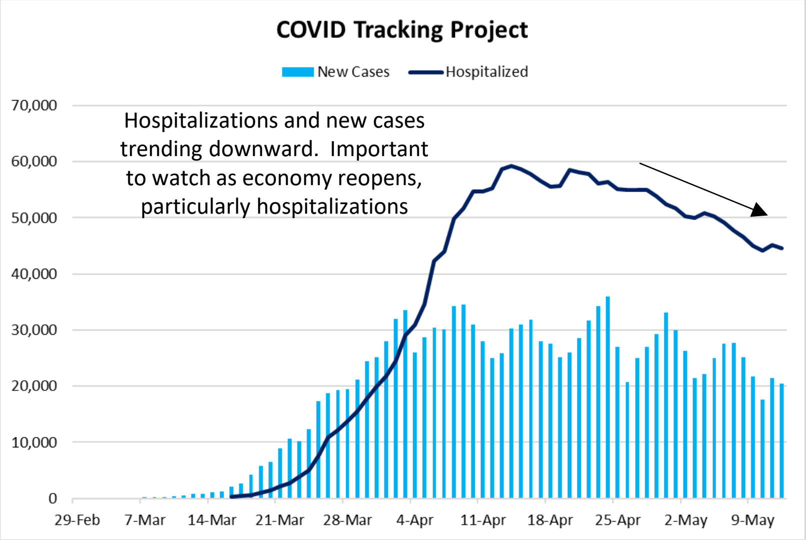
April economic data has continued to be unprecedentedly dire, as expected. Nonfarm payrolls dropped by -20.5 million in April, bringing the unemployment rate up to 14.7%. Core CPI dropped by 0.4%- the sharpest monthly drop on record- to 1.4% y/y. Also, tomorrow's April retail sales report is expected to show a -11.4% m/m contraction and industrial production is set to drop -11.9% m/m. Enormous fiscal and monetary stimulus has been put in place to help the economy "bridge the gap" through this economic shutdown. April economic data is expected to be the trough of the COVID-19 impact, so we should see "less bad" readings moving forward.

Mitigation efforts have the number of new cases and hospitalizations both trending in the right direction. Additionally, testing capacity has drastically improved- up to 312k tests/day over the past week, more than double from a month ago and up 24% from just a week ago. Importantly, as testing has improved, the % of positive COVID-19 results has also continued to trend lower. With the economy now reopening, we will be monitoring these virus spread metrics, particularly hospitalizations.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	APR	-20500K	-21000K	-870.0K
Unemployment Rate	APR	14.7%	16.0%	4.4%
Wholesale Inventories SA M/M (Final)	MAR	-0.80%	-1.0%	-1.0%
NFIB Small Business Index	APR	90.9	-	96.4
CPI ex-Food & Energy SA M/M	APR	-0.40%	-0.15%	-0.10%
CPI ex-Food & Energy NSA Y/Y	APR	1.4%	1.8%	2.1%
CPI SA M/M	APR	-0.80%	-0.70%	-0.40%
CPI NSA Y/Y	APR	0.30%	0.40%	1.5%
Hourly Earnings SA M/M (Final)	APR	4.7%	0.35%	4.7%
Hourly Earnings Y/Y (Final)	APR	7.9%	4.7%	-
PPI ex-Food & Energy SA M/M	APR	-0.30%	0.0%	0.20%
PPI ex-Food & Energy NSA Y/Y	APR	0.59%	0.90%	1.4%
PPI SA M/M	APR	-1.3%	-0.50%	-0.20%
PPI NSA Y/Y	APR	-1.2%	-0.30%	0.68%
Initial Claims SA	05/09	2,981K	2,500K	3,176K
Continuing Jobless Claims SA	05/02	22,833K	-	22,377K

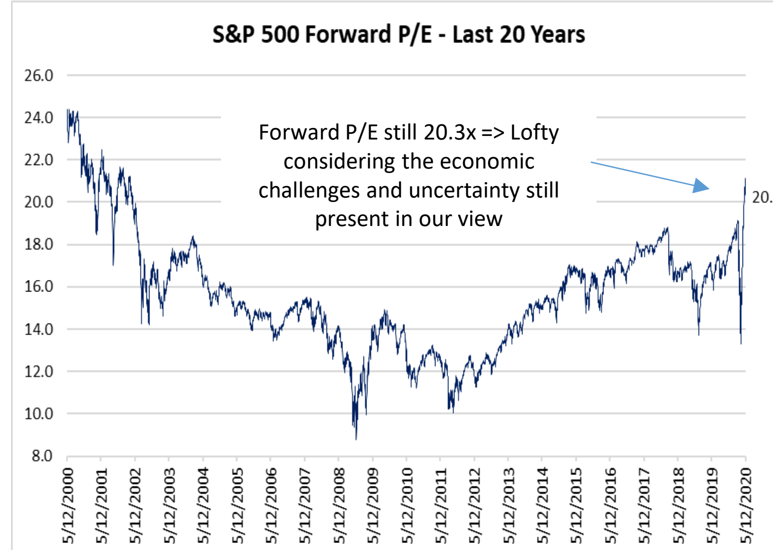




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q1 earnings season is coming to a close, as 90% of S&P 500 companies have reported results. The major takeaways are a very uncertain outlook and wide disparity in fundamentals across sectors. Most companies did not provide guidance, and even those that did noted extreme uncertainty in their projections (with wide ranges in estimates). Also, tech-oriented (technology, communication services) and non-cyclicals (health care, utilities, staples, real estate) make up 66% of the S&P 500. They collectively beat Q1 earnings estimates by 2% on average, saw Q2 estimates move -12% lower, and 2020 estimates move -6% lower since start of earnings season. On the other hand, the more cyclical areas (materials, industrials, consumer discretionary, financials, and energy) make up 33% of the S&P 500. Consumer Discretionary and Financials saw big misses on Q1 results, Q2 estimates for cyclical sectors moved -62% lower on average (ex-Energy), and 2020 estimates moved -26% lower ex-Energy (-70% with Energy).

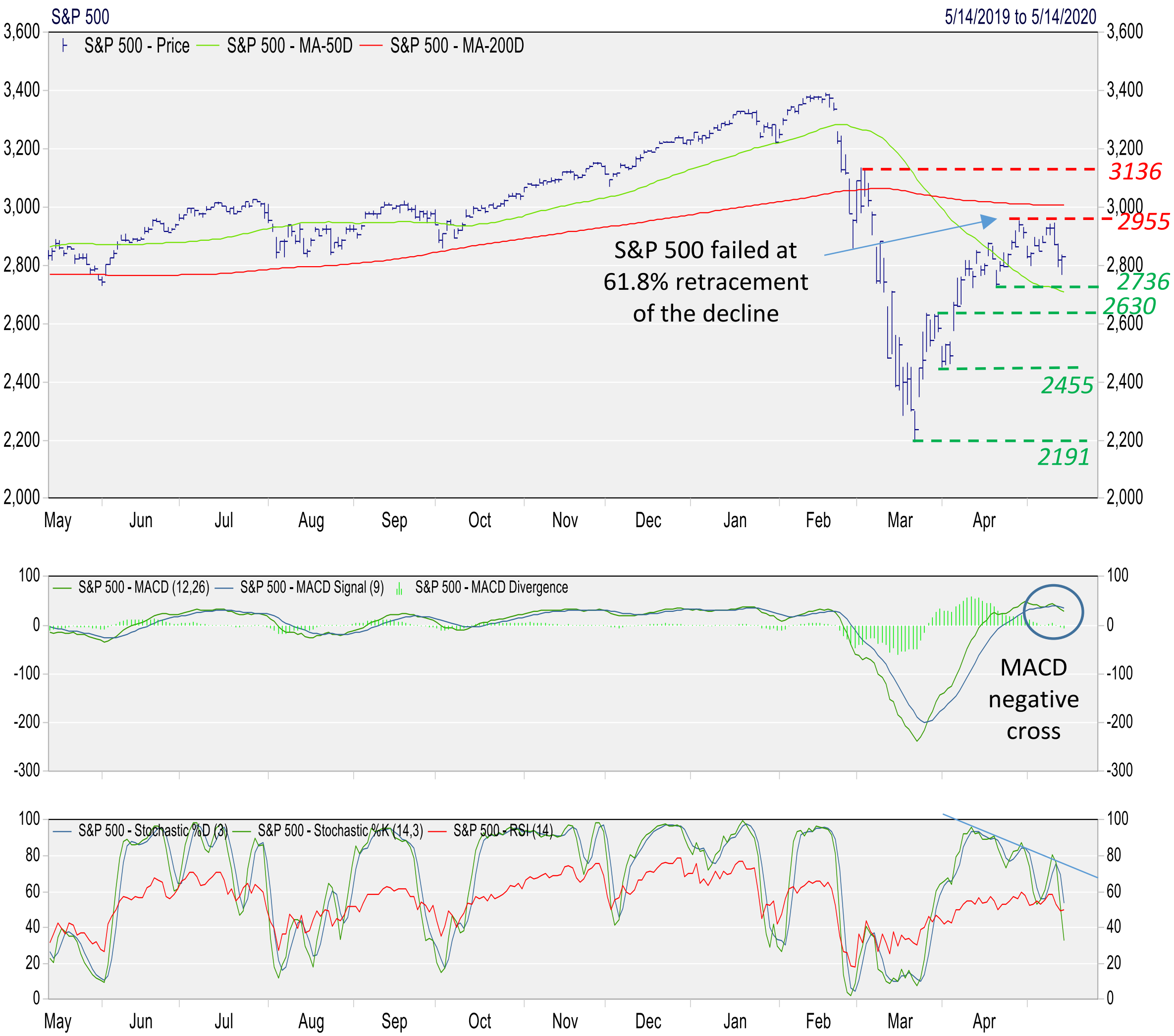


All in all, S&P 500 consensus estimates for 2020 and 2021 have moved closer to our base case earnings estimates of $130 and $160 respectively. This puts two-year growth at just 1% for the S&P 500, but attractive areas like Technology and Health Care closer to 16.9% and 14.3% earnings growth respectively (contributing to our positive stance on those two sectors). The continued downward trend in estimates has the S&P 500 still trading at a forward P/E of 20.3x. While we view this as lofty (in the absence of an effective therapeutic or vaccine) considering the economic challenges and uncertainty, we are not surprised to see valuation multiples expand dramatically before earnings trough. However, we believe the S&P 500 will provide a more attractive risk/reward at some point. We would thus reserve some buying power and use pullbacks as opportunities to accumulate favored stocks and sectors.

	S&P 500		Earnings Growth Estimates					2Yr Stacked		P/E		PEG (2Yr	Earnings Estimate Chg since 4/12					Return	
S&P 500 Sector	Weighting	Q1	Q2	Q3	Q4	2020	2021	EPS Growth	Current	19-Feb	5 Yr Avg	Stack EPS)	Q1	Q2	2020	2021	Since 2/19	YTD	Since 3/23
Information Technology	26.6%	6.0%	-8.1%	-2.6%	1.7%	1.4%	15.3%	16.9%	22.77	25.87	18.34	1.35	3%	-9%	-4%	-3%	-10.4	0.1	30.2
Health Care	15.6%	7.3%	-14.9%	-1.4%	7.1%	-0.4%	14.8%	14.3%	16.46	17.91	17.24	1.15	5%	-12%	-4%	-2%	-5.3	-3.5	31.7
Utilities	3.2%	4.2%	-3.5%	0.6%	3.6%	1.2%	5.7%	7.0%	18.67	22.29	18.01	2.65	1%	-5%	-1%	-1%	-21.6	-15.1	22.4
Communication Services	11.0%	1.3%	-31.3%	-18.5%	-14.1%	-14.7%	23.2%	5.0%	20.83	21.96	20.52	4.13	-5%	-23%	-15%	-11%	-12.8	-7.3	22.2
Consumer Staples	7.4%	4.2%	-15.4%	-4.3%	0.1%	-3.0%	7.9%	4.6%	19.78	21.76	20.39	4.26	5%	-13%	-4%	-4%	-11.8	-9.7	16.6
Real Estate	2.7%	-1.4%	-10.5%	-9.4%	-3.7%	-6.1%	8.7%	2.1%	19.19	22.17	18.97	9.00	-1%	-9%	-6%	-5%	-24.8	-19.9	21.3
Materials	2.5%	-21.7%	-36.1%	-24.8%	-8.2%	-21.2%	29.1%	1.7%	19.11	20.30	17.65	11.29	5%	-27%	-14%	-8%	-17.6	-18.8	29.6
S&P 500	**100.0%**	**-13.5%**	**-41.8%**	**-23.0%**	**-11.1%**	**-21.1%**	**28.0%**	**1.0%**	**19.69**	**20.75**	**18.39**	**19.67**	**-4%**	**-27%**	**-13%**	**-6%**	**-16.7**	**-12.7**	26.0
Consumer Discretionary	10.5%	-50.0%	-107.6%	-42.4%	-10.2%	-50.1%	88.7%	-5.8%	32.61	27.00	22.78	-5.59	-28%	-115%	-40%	-15%	-12.2	-6.7	28.9
Industrials	7.5%	-27.2%	-86.6%	-54.3%	-21.0%	-46.8%	76.2%	-6.3%	21.08	20.12	18.01	-3.36	4%	-74%	-29%	-12%	-29.6	-27.5	21.0
Financials	9.9%	-41.1%	-45.8%	-31.5%	-27.8%	-36.1%	37.1%	-12.4%	12.86	13.83	13.87	-1.04	-30%	-32%	-22%	-7%	-33.6	-33.1	16.6
Energy	2.9%	-27.8%	-147.0%	-125.1%	-105.2%	-106.7%	-684.3%	-60.9%	-61.53	19.68	39.47	1.01	84%	67%	-245%	-13%	-34.3	-40.7	49.4

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500's attempt to move higher failed again to hold above the 61.8% retracement of the decline at 2934, which spurred technical selling over the past couple of days. The index rebounded from support today, as it continues its generally range-bound trading of the past several weeks. We will be monitoring for breakouts (in either direction), but our bias remains lower.

MACD (momentum indicator) rolled over which adds to the risk of a pullback or more consolidation, and short term stochastics are working lower (not oversold yet). The market is suspect to pullbacks or flat trading while these are trending lower.

The first level of technical support to monitor is 2736, which is the low end of its recent range and also corresponds with the 50 day moving average. If unable to hold, 2630 comes into play. In fact, the 2630 level represents a 10% pullback from the recent peak on 4/29, which is very normal historically as equities attempt to rebuild upside momentum out of recessionary bear markets.

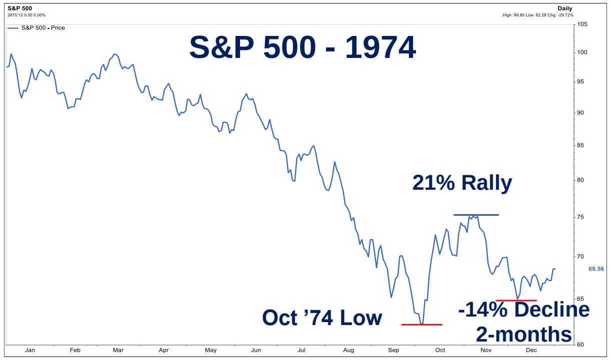
2955 remains the first area to watch for resistance. Above 2955 is a band of resistance in the 3000-3020 area followed by more resistance at 3136.

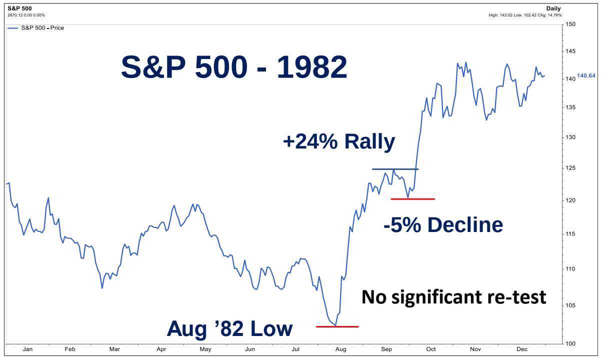
We would use pullbacks as an opportunity to continue accumulating equities for the longer term. Remember that bear markets are typically very fast and violent, whereas bull markets last for years.

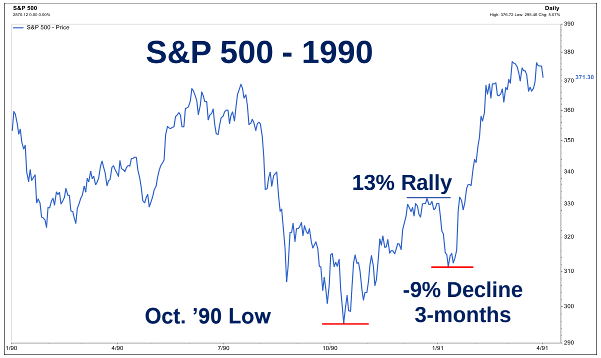
TECHNICAL: SHORT TERM

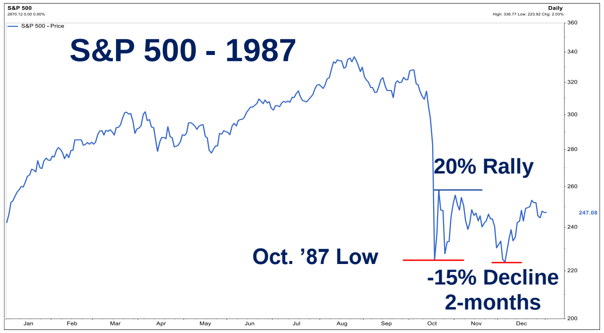
A sampling of bear market recovery periods suggests pullbacks during the bottoming process are the norm in the ensuing months following a bear market low. 1982 is the exception, as there was no significant pullback in that period.

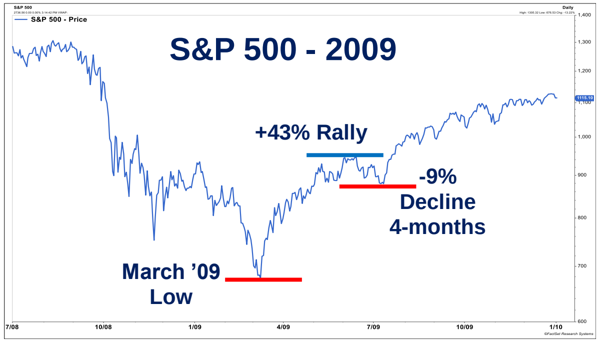
With history as the precedent, along with a high degree of uncertainty and economic damage in the current period, we would not be surprised to see a down-draft at some point. New to the “wall of worry” this week is China rhetoric ramping up. A 10% pullback would fit in with the typical trend of bear market bottoms and would take the S&P 500 near technical support at ~2630.







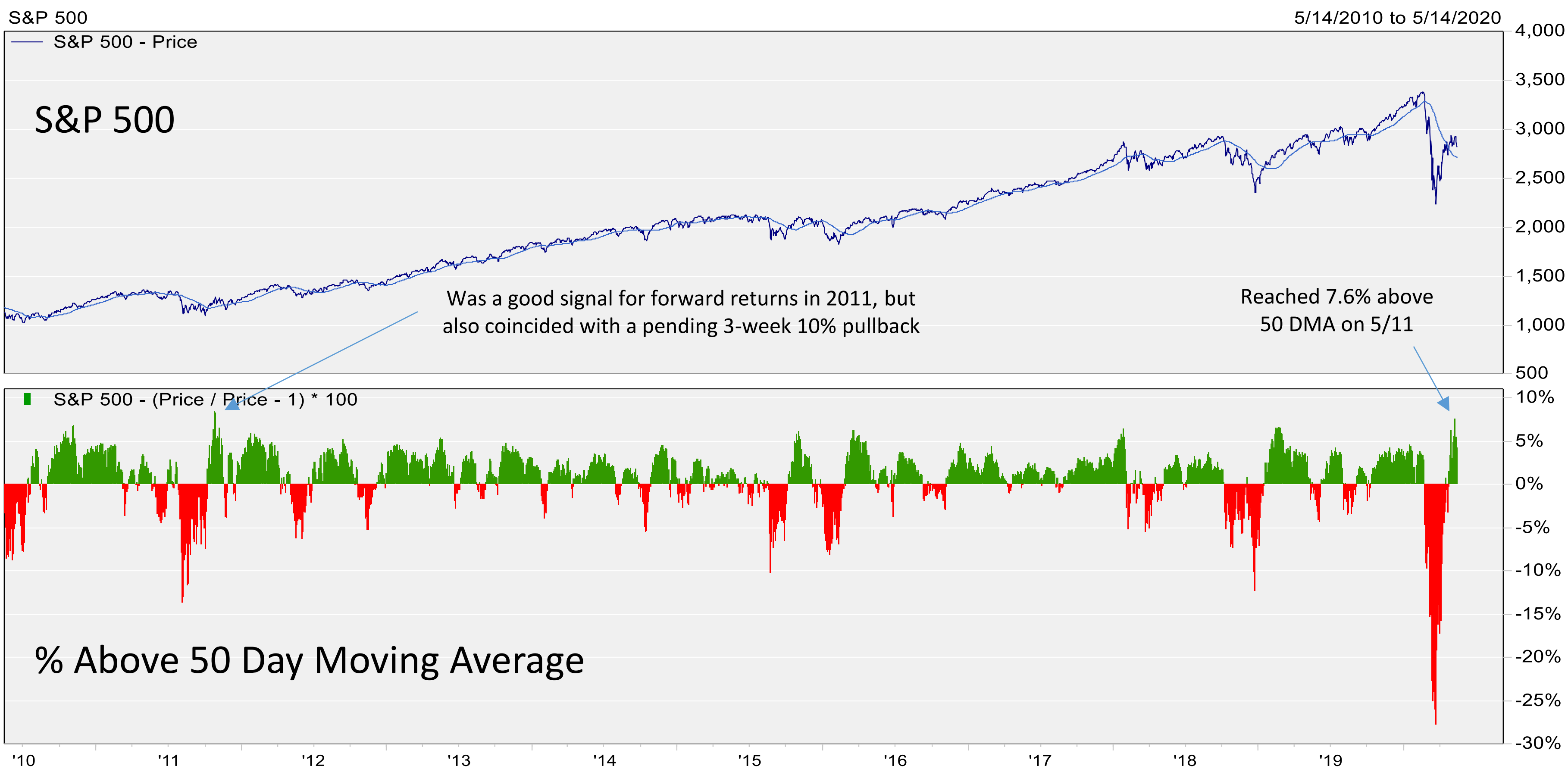




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

At Monday's high, the S&P 500 had gained 34% in only 35 trading days from the lows on 3/23. The move took the index 7.6% above its 50 day moving average which is historically elevated and the highest since 2011. In 2011, the S&P 500 was attempting to recover from the EU debt crisis. The elevated reading was a good signal for forward returns, but it also coincided with a pending 3-week 10% pullback. As noted previously, 10% pullbacks coming out of recessionary bear markets are normal historically, and a similar move would take the S&P 500 near 2630 technical support.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

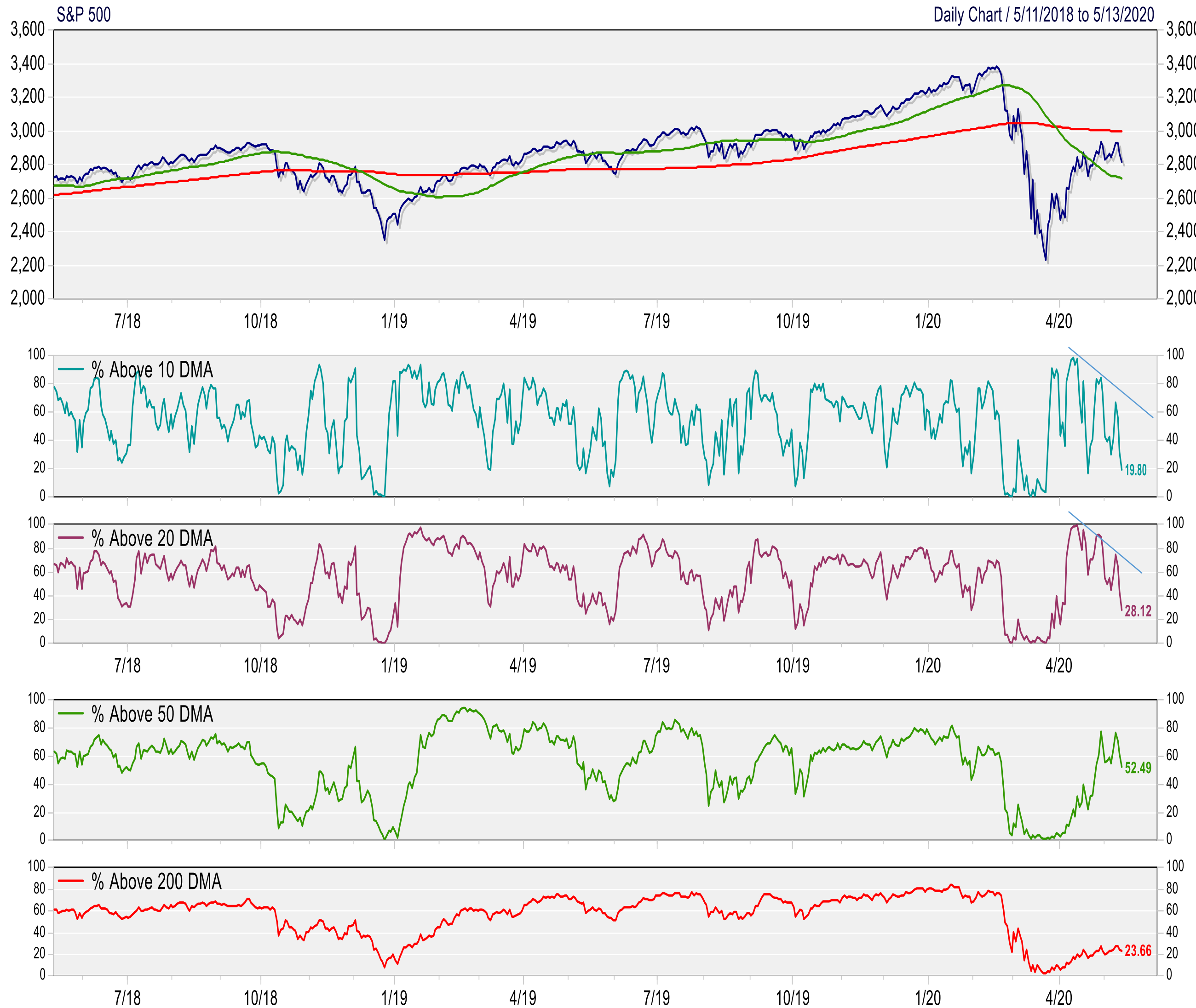
The market rally was very top-heavy with performance from large cap tech-oriented and health care stocks buoying the index.

While the S&P 500 was able to move higher in recent weeks, the percentage of stocks above their 10 and 20 day moving averages was actually moving lower.

Also while the S&P 500 is currently 4% above its 50 day moving average, only about half of its stocks are above their 50 day moving average.

While these metrics move downward, they are an added headwind to market momentum and are not to oversold levels yet.

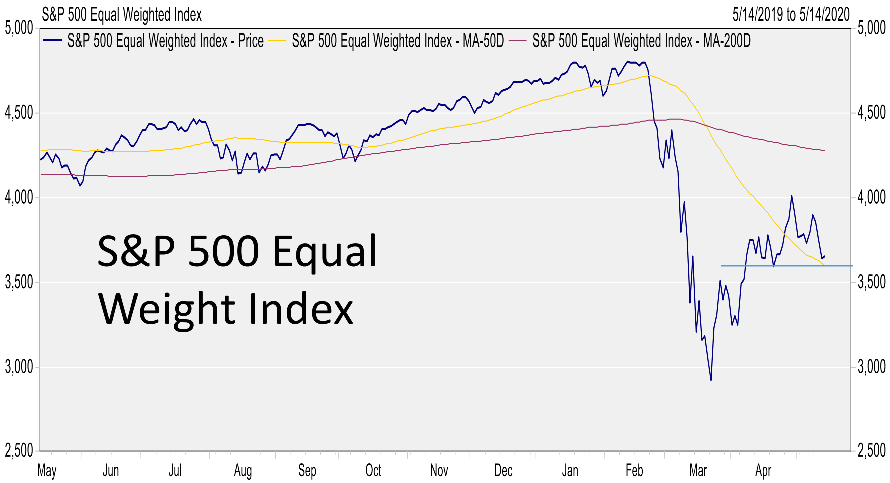
We believe all of this is part of the bottoming process, and would not be surprised to see additional downside before the market is able to build a more durable path higher.

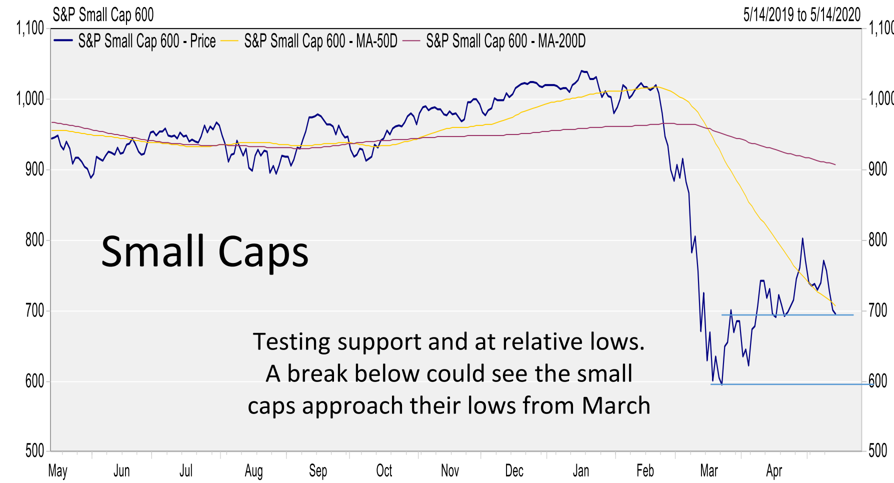


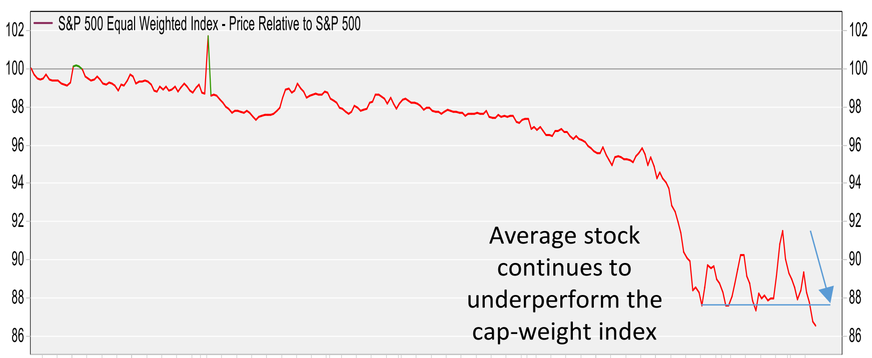
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

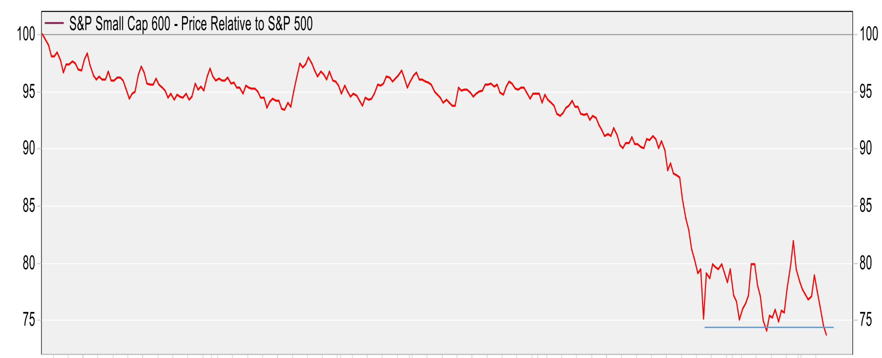
TECHNICAL: SHORT TERM

As discussed previously, market breadth has been narrow. Over the past week, the S&P 500 equal weight index and small cap index both put in a lower high-showing deterioration beneath the surface that eventually caught up to the cap-weighted index in recent days. The small caps have pulled in to technical support, and we will be watching to see if it can hold. If the index does not, it could be set to approach its lows from March. Relative strength for the small caps is also attempting to break to new lows currently, which would be an added headwind to market momentum (highlighting the stark difference between large vs small caps). Eventually the small caps will give us a chance to buy, but for now we recommend patience.









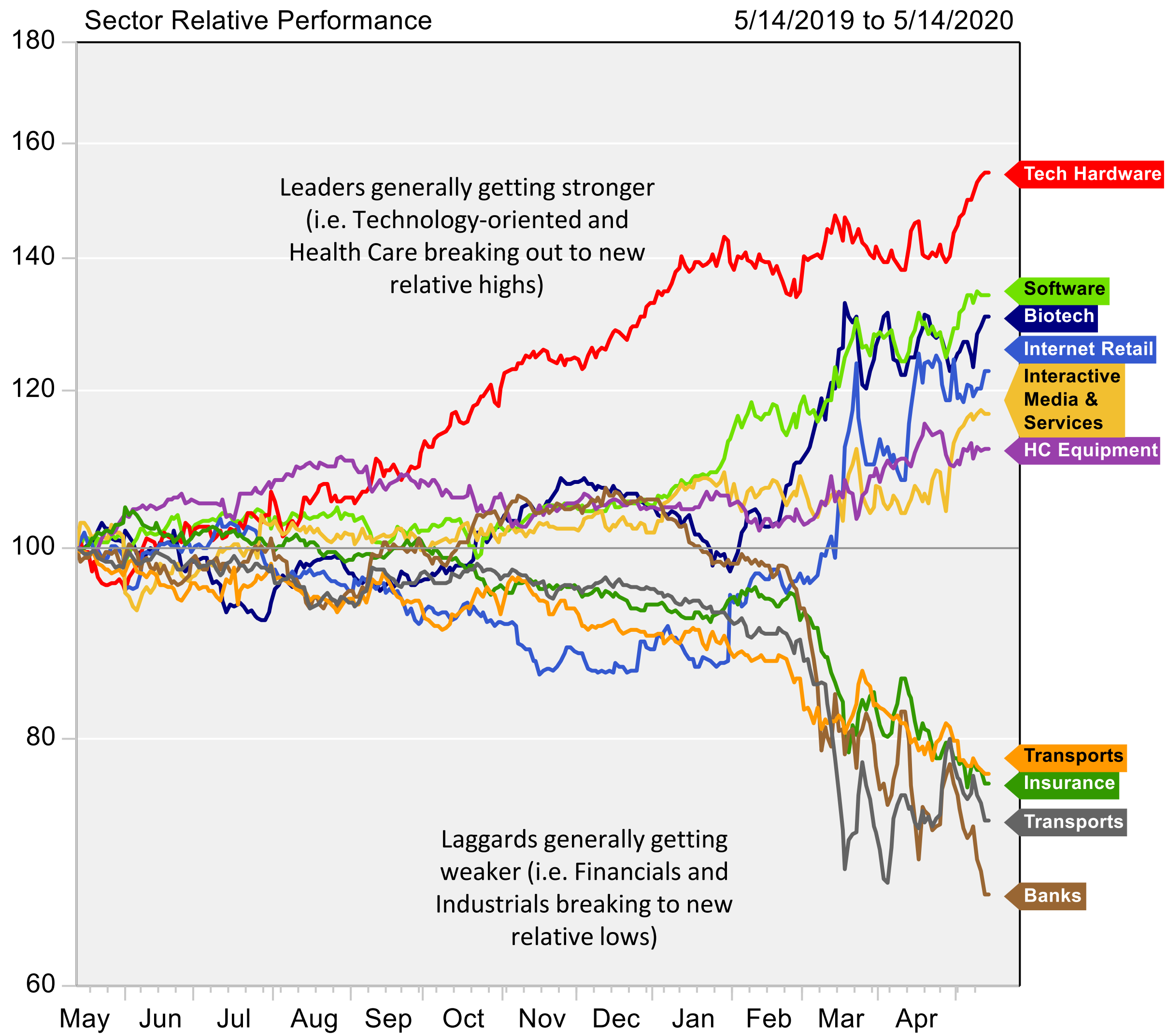
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SECTORS

We highlighted the bifurcation of sector performance last week, but the message remains the same.

Tech-oriented and health care stocks remain our favored places to be, and we would use pullbacks as opportunities to accumulate these areas. On a relative basis, they are in uptrends and many have been able to break out to new relative highs. The fundamentals back up the charts, as earnings growth and estimate revisions are attractive.

On the flip side, the more cyclical areas continue to lag as these areas are seeing outsized impacts from the economic shutdown to their fundamentals. Financials and Industrials both traded to new relative lows this week as momentum remains downward. Oversold bounces are bound to occur at some point, but we would rather see some stabilization in trends for higher odds that a sustainable recovery could be unfolding.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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Index Definitions

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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