RAYMOND JAMES

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Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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Weekly Market Guide

Short-Term Summary:

Sector rotation played out this week, as many of the lagging areas- financials, industrials, consumer discretionary, and small caps- outperformed substantially. For example, these groups were up 8.6% on average this week, as the former leaders- technology, health care, communication services- "cooled off," up just 0.7% on average. We would like to see follow through from the small caps and deep cyclical areas, as for now it was just an overdue "catch up" trade. Nevertheless, this was some much-needed improvement in market breadth, and it resulted in the S&P 500 continuing its grind higher.

The S&P 500 is now up a remarkable 36% in 46 days, and back above its 200 DMA for the first time since March 5th. It is fairly normal historically for equity markets to enter a more volatile sideways trend, following the initial recovery back to the 200 DMA, with multiple 3-7% pullbacks occurring over a period of time. We also continue to believe the S&P 500 is likely to trade within a range of 3130 to 2630 for weeks to months. With the S&P 500 getting closer to the upper end of that range, we would be relatively patient and selective with purchases in the short term. As sector rotation plays out, we expect opportunities to present themselves at the individual sector and stock level. For example, we view health care's fundamental outlook attractive and, after consolidating some of its strength over the past several weeks, would look to accumulate here.

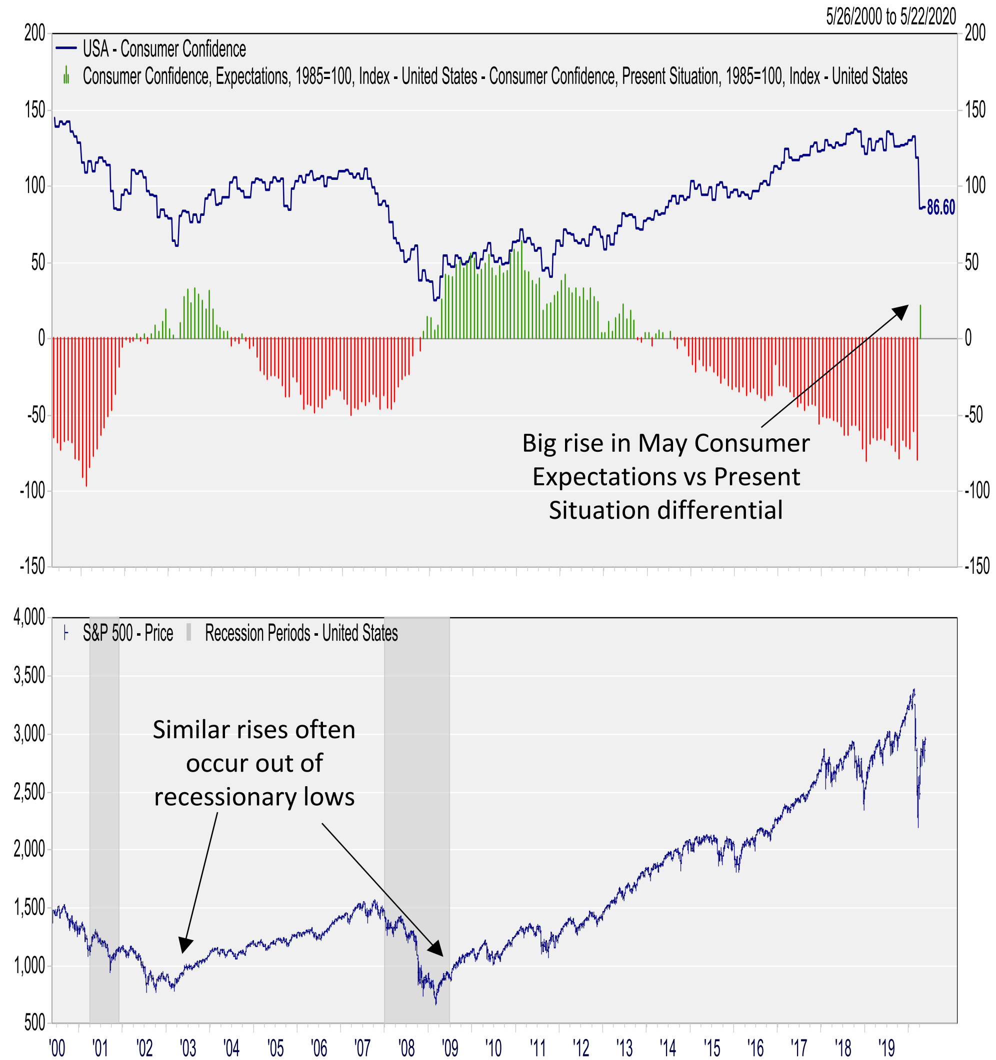
Fundamentally, forward earnings estimates for the S&P 500 have stabilized in the past two weeks and begun to move slightly higher. The forward P/E has also continued to move slightly higher to 21.6x. It is our view that the primary driver of market returns will need to shift from valuation expansion to earnings growth, as further valuation expansion will likely be harder to come by (unless an effective therapeutic or vaccine is announced). As investors change focus toward earnings, this can reintroduce some volatility. Additionally with so much uncertainty surrounding the trajectory of the economic and earnings recovery, as well as the virus spread, China rhetoric ramping back up, and the election upcoming, we believe volatility is bound to happen at some point. Thus, we would reserve some buying power to take advantage of those pullback opportunities for the long term. Remember, bear markets are often very fast and violent, whereas bull markets last for years. The S&P 500 is 36% off the lows in 46 days, but bull markets have lasted 1,233 days on average and seen price gains of 155%. So while the market has reached overbought conditions in the short term in our view, the long term opportunity remains.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-6.0%	7.4%
S&P 500 (Equal-Weight)	-11.9%	-1.3%
Dow Jones Industrial Avg	-10.5%	-0.1%
NASDAQ Composite	4.9%	23.2%
Russell 2000	-13.9%	-5.1%
MSCI All-Cap World	-10.3%	1.0%
MSCI Developed Markets	-16.2%	-7.9%
MSCI Emerging Markets	-16.8%	-6.0%
NYSE Alerian MLP	-33.0%	-41.6%
MSCI U.S. REIT	-20.9%	-18.1%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	6.2%	26.8%
Consumer Discretionary	-0.1%	10.6%
Communication Svcs.	-1.0%	11.2%
Health Care	-1.9%	15.1%
S&P 500	***-8.0%***	-
Consumer Staples	-8.5%	7.2%
Materials	-12.7%	2.5%
Utilities	-13.1%	3.1%
Real Estate	-17.1%	2.7%
Industrials	-21.8%	7.7%
Financials	-28.5%	10.1%
Energy	-35.3%	3.0%

MACRO: US

May consumer confidence showed a slight tick higher from April, but the Expectations portion rose to 94.3 (from 86.8). This is a relatively high reading, and is fairly close to the level seen in October 2019 (when the S&P 500 was near all-time highs at the time). On the other hand, the Present Situation portion plunged to 73.0 from 166.7. This makes the difference in Expectations – Present Situation 21.3. The equity market is a forward-looking mechanism, and accordingly responded favorably to the strong surge in Expectations vs Present Situation differential. Also, given how uncertain the path of consumer behavior is now that the economy is reopening, and how important consumer activity will be to the pace of the recovery, the strong Expectations reading (for this environment) was very supportive. Additionally, similar positive bounces in the Expectations-Present Situation differential have occurred as the S&P 500 was coming out of prior recessionary bear market lows.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

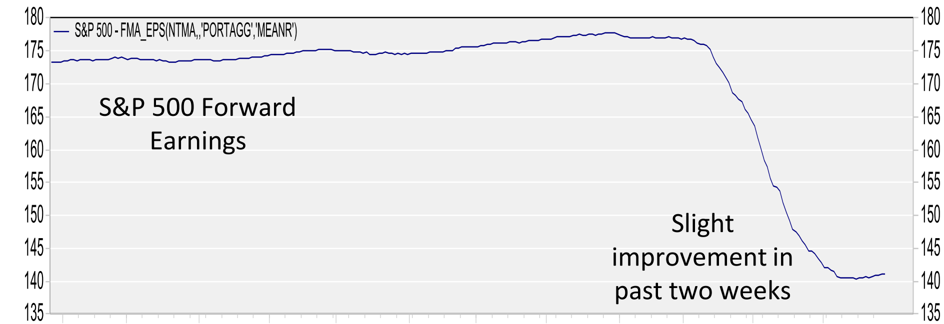
US economic data reported in the past week:

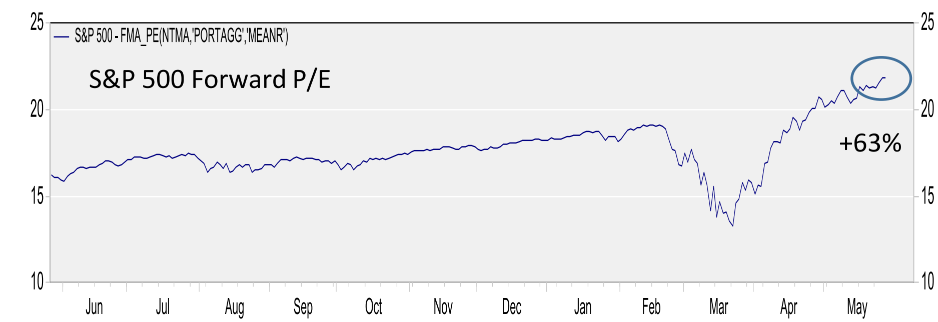
Event	Period	Actual	Consensus	Prior
Building Permits SAAR (Final)	APR	1,066K	1,035K	1,074K
S&P/Case-Shiller comp.20 HPI M/M	MAR	0.50%	0.35%	0.52%
S&P/Case-Shiller comp.20 HPI Y/Y	MAR	3.9%	3.5%	3.5%
Consumer Confidence	MAY	86.6	88.0	85.7
New Home Sales SAAR	APR	623.0K	480.0K	619.0K
Continuing Jobless Claims SA	05/16	21,052K	26,180K	24,912K
Durable Orders ex-Transportation SA M/M (Preliminary)	APR	-7.4%	-14.4%	-1.7%
Durable Orders SA M/M (Preliminary)	APR	-17.2%	-19.0%	-16.6%
GDP SAAR Q/Q (Second Preliminary)	Q1	-5.0%	-4.8%	-4.8%
GDP SA Y/Y (Second Preliminary)	Q1	0.20%	0.30%	0.30%
Initial Claims SA	05/23	2,123K	2,050K	2,446K
Pending Home Sales M/M	APR	-21.8%	-15.0%	-20.8%

FUNDAMENTALS

The S&P 500 forward earnings estimate stabilized in the past two weeks at $140, and has seen some improvement this week up to $141. This is raising the odds that the earnings outlook should improve from here. Q2 is set to be the likely trough of economic and earnings growth. The market discounted this eventual stabilization of forward estimates for about two months; and accordingly, with the help of unprecedented stimulus, increased the S&P 500 forward P/E by 63% to 21.7x currently.

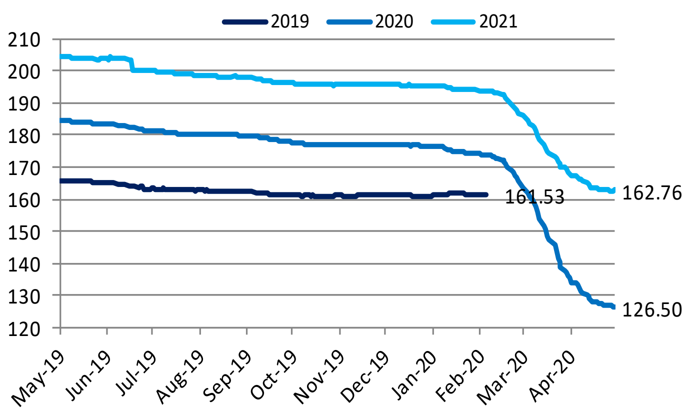
With earnings stabilizing and the forward P/E elevated, we believe earnings will need to take over as the primary driver of market returns. When this shift from multiple expansion to earnings took place in 2009, the S&P 500 stalled its bear market recovery and entered a grinding sideways pattern with two 5-7% pullbacks over the coming months. With so much uncertainty surrounding the economic recovery, along with the virus spread, China rhetoric ramping up, and upcoming election, we believe volatility is likely at some point. We would not be surprised to see the market stall its recent recovery and consolidate its recent strength as the fundamentals can begin to catch up to price.





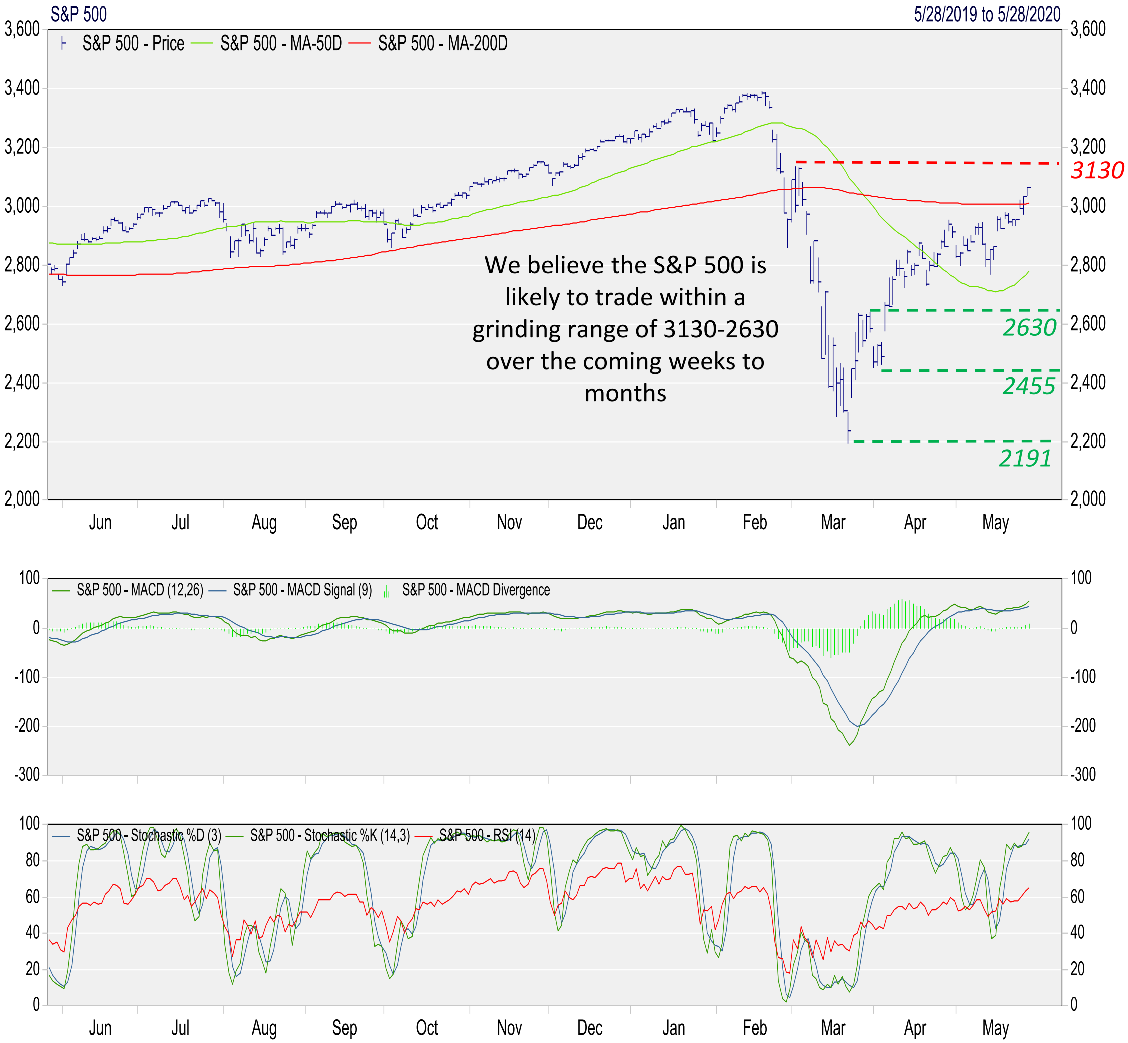
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2019	1.5%
2020	-21.7%
2021	28.8%

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

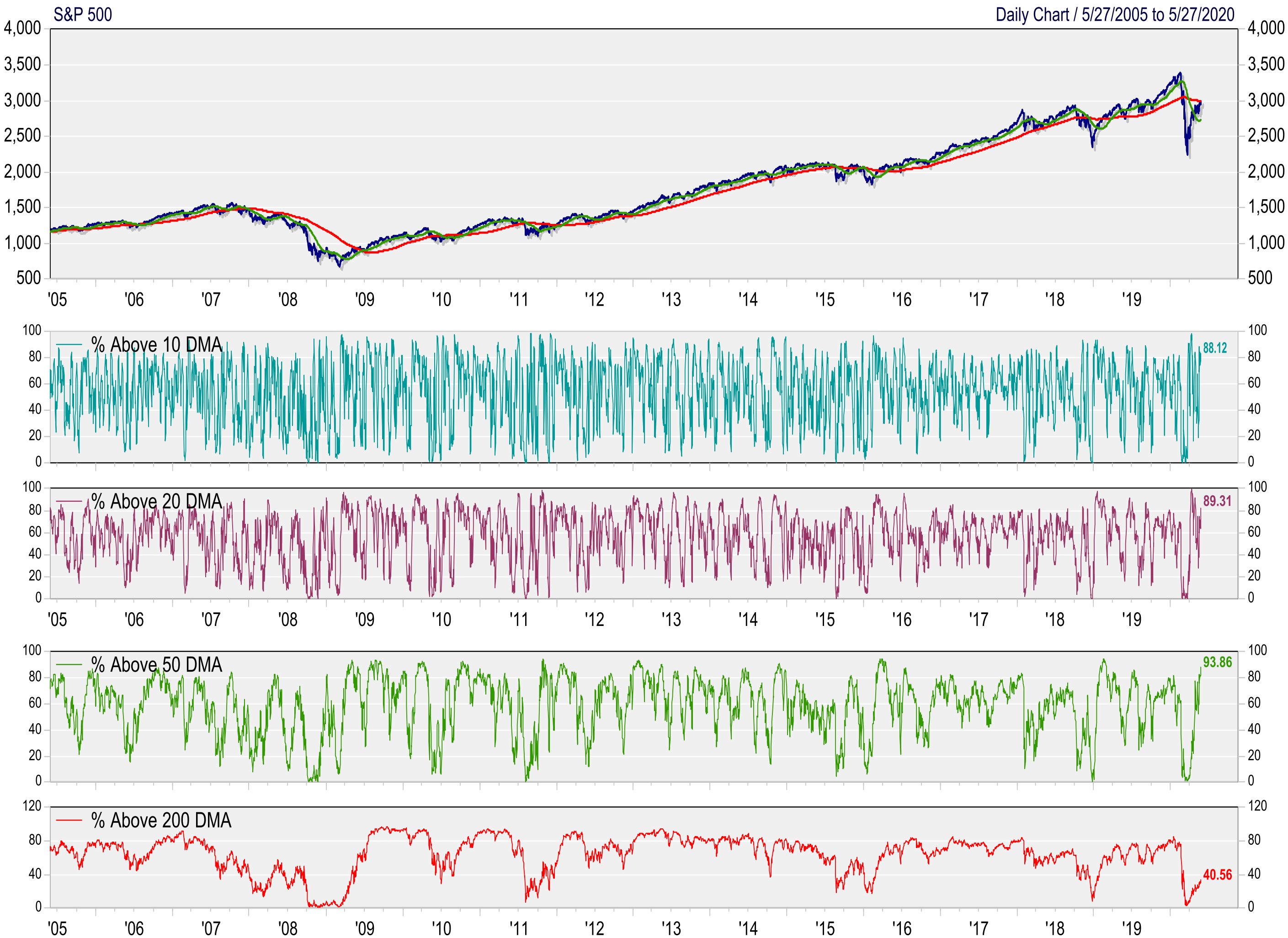
The S&P 500 is now up a remarkable 36% in 46 days, and back above its 200 DMA for the first time since March 5th. The break above the 200 DMA is significant, and supports our view that deep pullbacks are unlikely unless something materially changes. For example, to test the 2455 level likely requires a major setback in the economic reopening in the coming weeks or months.

That said, it is fairly normal historically for equity markets to enter a more volatile sideways trend, following the initial recovery back to the 200 DMA, with multiple 3-7% pullbacks occurring over a period of time. For example, in the 2009 recovery, the S&P 500 grinded sideways with two 5-7% pullbacks in the two months following its break above the 200 DMA.

We continue to believe the S&P 500 is likely to trade within a range of 3130 to 2630 for weeks to months. With the S&P 500 getting closer to the upper end of that range, we would be relatively patient and selective with purchases in the short term.

Additionally with numerous variables that can reintroduce volatility (virus spread, economic trajectory, China, election, etc.), we believe volatility is bound to happen at some point. Thus, we would reserve some buying power to take advantage of those pullback opportunities for the long term. Remember, bear markets are often very fast and violent, whereas bull markets typically last for years. The S&P 500 is 36% off the lows in 46 days, but bull markets have lasted 1,233 days on average and seen price gains of 155%. So while the market has reached overbought conditions in the short term, the long term opportunity remains.

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

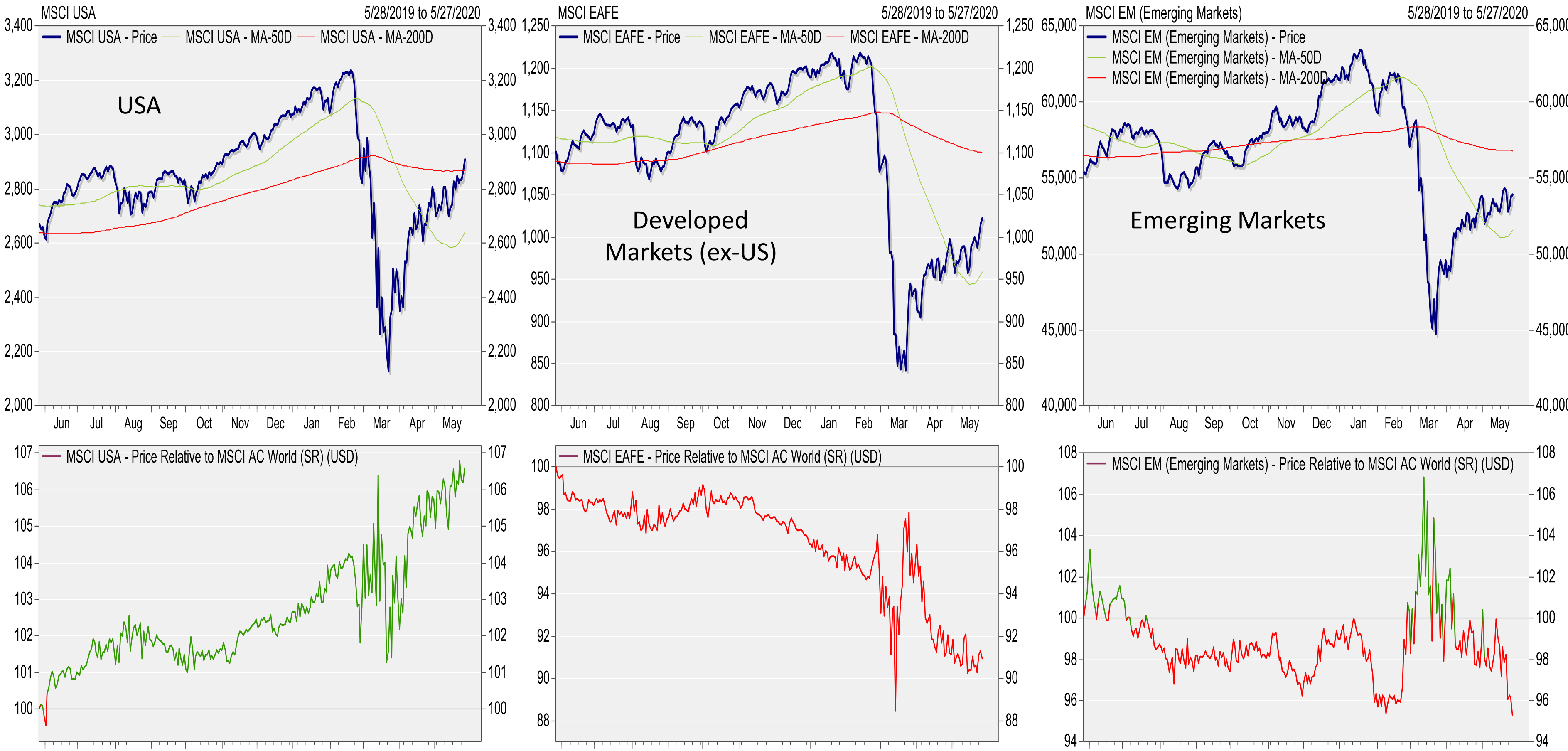
Although the S&P 500 is ~2% above its 200 day moving average (DMA), only 40% of stocks are above their 200 DMA. This still reflects narrow participation beneath the surface, and makes rotation into the more beaten up areas (and follow through) important in terms of supporting the intermediate term technical backdrop.

In the short term, the percentage of stocks above their 50 DMA has reached 94%. Looking at prior recoveries, a similar reading corresponded with a consolidation period coming out of the credit crisis in 2009, EU debt crisis in 2011, industrial recession in 2016, and briefly out of the bear market in Dec. 2019.

These historical precedents raise the odds in our view that the market is likely to enter a more grinding sideways pattern as it consolidates its strength in the recovery. Within this phase, there are likely to be 3-7% pullbacks, which we would use opportunistically.

TECHNICAL: US REMAINS FAVORED GLOBALLY

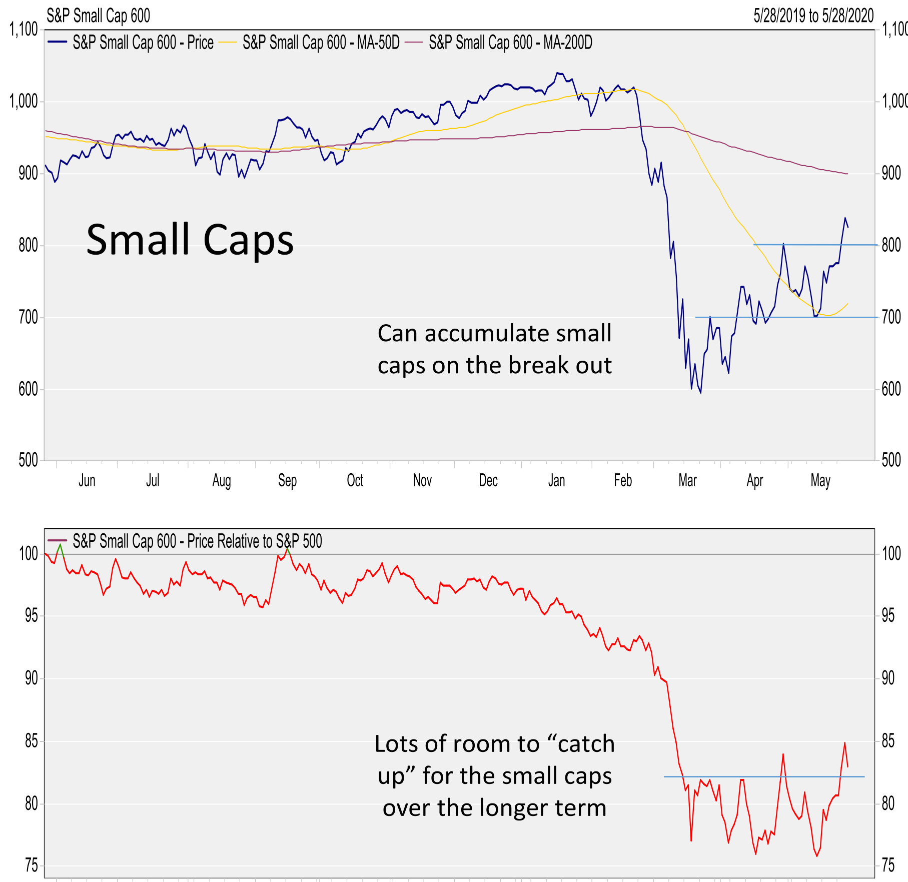
The US remains our favored region globally with relative strength trends (vs the World) sustaining their move higher. The Emerging markets broke to new relative lows this week. The straight move lower may result in a short term bounce, but the relative strength trend has moved negative since US/China rhetoric began ramping back up again. Developed markets (ex-US) experienced a short term price breakout, which could lead to some upside toward the 200 DMA, however the overall relative strength trend still remains soft.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SMALL CAPS

The small caps broke to price and relative strength highs in recent days, a positive sign of momentum. We would like to see follow through, but recommend buying partial positions in the small caps for the longer term. The small caps are more economically-sensitive, so we expect more volatility from them given their more volatile earnings streams in the economic restart. However, the group has a lot of room to potentially "catch up" to the large caps over the long term after underperforming by ~40% over the past 2 years- giving back about 10 years worth of outperformance.



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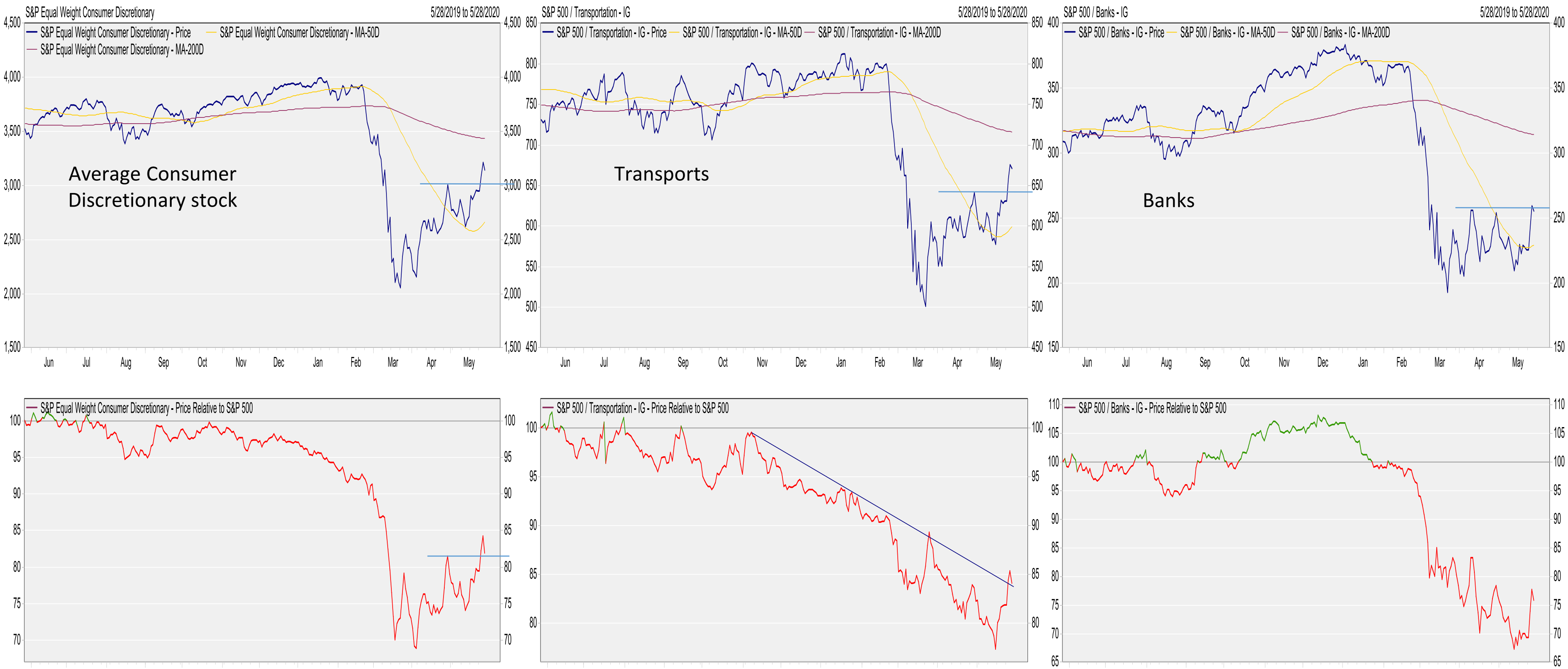
TECHNICAL: FORMER LAGGARDS

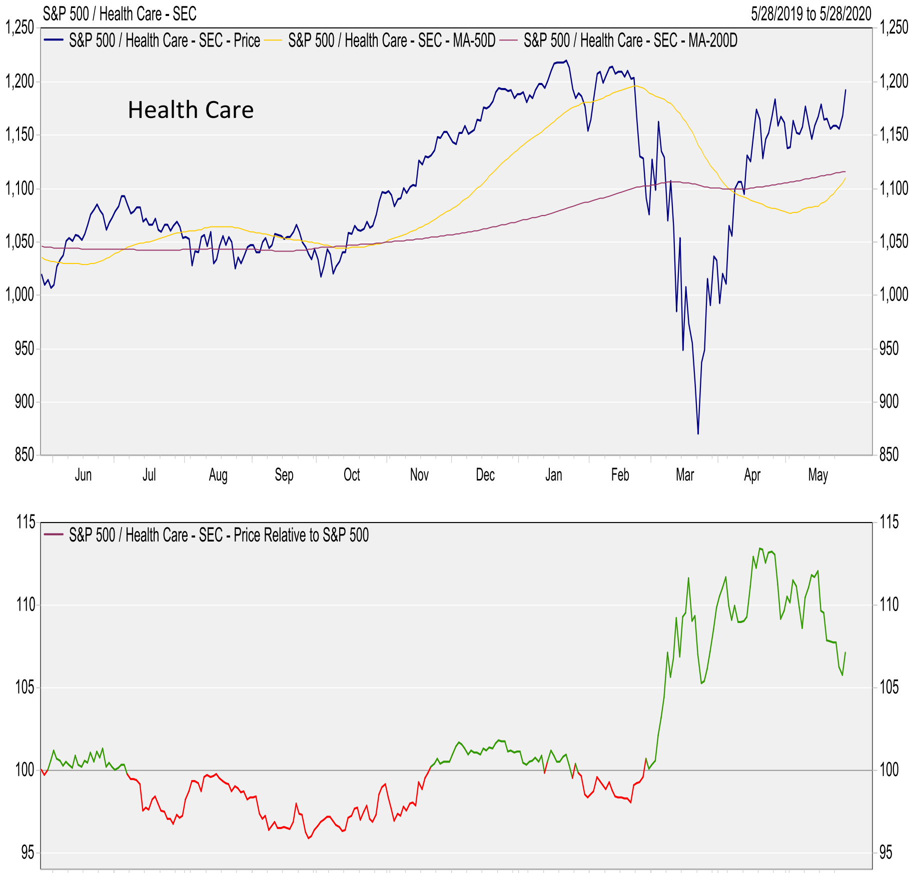
The past week saw marked improvement from the more beaten-up areas, as the financials, industrials, and consumer discretionary stocks gained momentum. For now, these are just short term moves and more work needs to be done to increase conviction toward the intermediate term trend. However, traders can buy partial positions. The equal-weight Consumer Discretionary index (depicts the average stock) was able to break to recent price and relative strength highs. The transports were also able to break to recent price highs, and in the process finally took out a relative strength downtrend line. The transports are often used as a gauge of the economy, so this could be also telling us things are improving economically. The financials have not broken out yet, but it is interesting to see some improvement here. Would like to see a price breakout (very close currently) before raising conviction, but enough improvement to buy partial positions here.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: FORMER LEADERS

As the market has rotated toward the more beaten-up areas, the health care sector has been consolidating sideways just above its moving averages. We continue to find the sector's fundamental outlook and valuation attractive, and would buy at current levels. Technology has not seen the same level of consolidation, but some groups within (i.e. software and semis) have experienced brief pullbacks. If sector rotation continues, or Technology pulls back closer to its moving averages in the coming weeks, we would be buyers.



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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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