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: Volatility re-entered the market in recent days, as the S&P 500 has now given back 7% of its 44% gain from the March 23rd lows. Strength from the Technology stocks masked some internal deterioration earlier this week, as the Nasdaq composite was able to break out to new all-time highs while the average S&P 500 stock traded lower. A much-needed consolidation in the market then spiraled into the largest 1-day loss since March today (-5.9%), as investor complacency had gotten elevated. We remind you that pullbacks are normal (and to be expected), especially following the extremely rare up-move experienced over the past 50+ days.

We view this as a necessary pullback for the market to digest its gains, as the fundamentals can begin to catch up to price. Last week, we highlighted the 2009, 1982, and 1975 periods as the only other three instances with 25+% up-moves in a 50-day period since the 1930s. All of which were experienced coming out of recessionary bear markets, and were followed by a 1-2 month stall with a 6-7% pullback within. We would not be surprised to see a similar trend occur now as the rally "cools off." Investor positioning has become complacent, and there are several items on the short term agenda that can spark volatility- for example, the spread of the virus with the economy re-opening, battle on next fiscal stimulus bill, and preparation for Q2 earnings season. The market remains overbought, and initial levels of support are seen in the 2895-3013 area (would be 7-10% pullback from Monday's recent high). More pressing headlines (to alter the narrative) are likely needed in order to push the S&P 500 considerably lower than this range.

As this pullback plays out, we would use it opportunistically to accumulate favored sectors and stocks. We remain positive on the longer term opportunity, and continue to view the positives (i.e. enormous fiscal and monetary response) as outweighing the potential negatives (i.e. election, US/China trade rhetoric, virus resurgence). Also on a technical basis, extreme rallies to overbought conditions (as experienced since the March lows) are often indicative of above average returns over the next 12 months. Upside to our year-end base case S&P 500 price target (3111) will be much more attractive following a pullback. For example, if the S&P 500 were to trade to 2895, upside to this target would be 7.5% before dividends. Beneath the surface, the more cyclical areas (i.e. small caps, financials, industrials, consumer discretionary) are likely to be more volatile due to their more volatile earnings streams in the current environment, whereas the large technology-oriented and health care companies should be more stable. Tactically, we remain overweight technology, health care, and communication services; but believe this pullback will also create a good buying opportunity in those more cyclical areas for the longer term recovery.

Equity Market	Price Return	
Indices	Year to Date	12 Months
S&P 500	-1.3%	10.5%
S&P 500 (Equal-Weight)	-7.1%	1.8%
Dow Jones Industrial Avg	-5.4%	3.6%
NASDAQ Composite	11.7%	28.1%
Russell 2000	-12.1%	-3.7%
MSCI All-Cap World	-4.5%	5.3%
MSCI Developed Markets	-9.2%	-1.7%
MSCI Emerging Markets	-9.2%	-0.9%
NYSE Alerian MLP	-27.1%	-35.8%
MSCI U.S. REIT	-15.4%	-12.5%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	13.5%	26.6%
Consumer Discretionary	7.6%	10.6%
Communication Svcs.	3.0%	10.8%
Health Care	0.5%	14.5%
S&P 500	***-1.3%***	-
Consumer Staples	-4.7%	6.9%
Materials	-4.9%	2.5%
Real Estate	-5.4%	2.9%
Utilities	-5.9%	3.2%
Industrials	-11.1%	8.1%
Financials	-18.5%	10.7%
Energy	-29.5%	3.1%

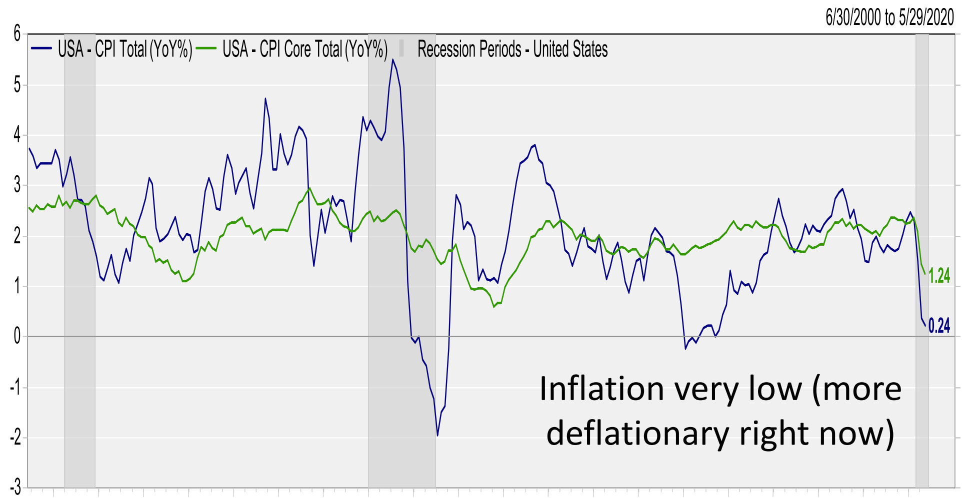
MACRO: US

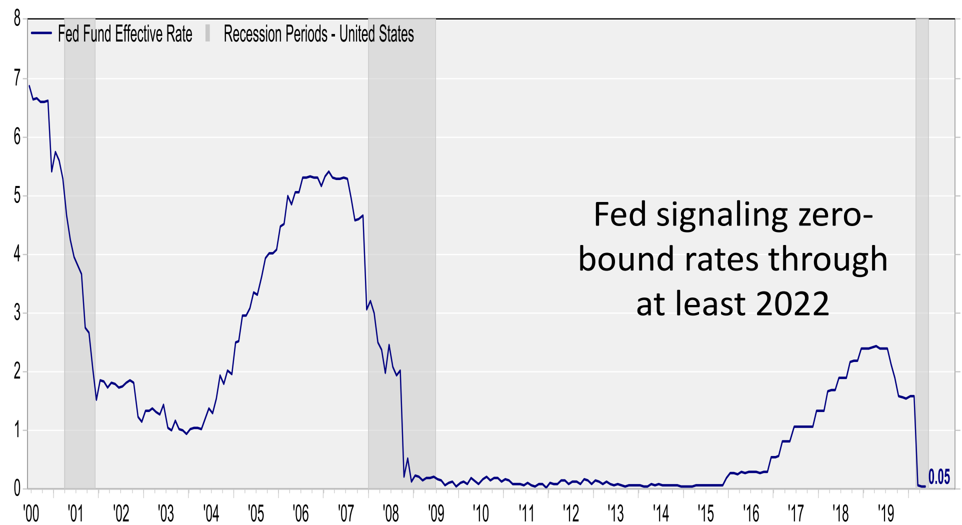
The May nonfarm payrolls surprise is a great example of uncertainty in the current economic backdrop. Expectations were for 8M job losses in May and 2.5M job gains were made, taking the unemployment rate down to 13.3% vs expectations of a rise to 19.6%. It is estimated that 73% of the still unemployed are on temporary layoffs (a very high number compared to the 12-14% that is normal), so the jobs picture could improve dramatically if they are hired back (and if so, how quickly they are hired back).

The demand destruction from the economic shutdown continues to put downward pressure on inflation, as May core CPI contracted -0.1% m/m (following -0.4% in April), taking core CPI down to 1.2% y/y. In order to fight deflation, the Fed has enacted enormous stimulus and signaled that it will keep the Fed funds rate at zero for the foreseeable future (through at least 2022) at its meeting this week. It is our view that the Fed will support inflationary trends, and lower-for-longer interest rates will be a tailwind to equity markets.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Hourly Earnings SA M/M (Preliminary)	MAY	-1.0%	1.0%	4.7%
Hourly Earnings Y/Y (Preliminary)	MAY	6.7%	9.1%	8.0%
Nonfarm Payrolls SA	MAY	2,509K	-8000K	-20687K
Unemployment Rate	MAY	13.3%	19.6%	14.7%
NFIB Small Business Index	MAY	94.4	-	90.9
CPI ex-Food & Energy SA M/M	MAY	-0.10%	0.0%	-0.40%
CPI ex-Food & Energy NSA Y/Y	MAY	1.2%	1.3%	1.4%
CPI SA M/M	MAY	-0.10%	0.0%	-0.80%
CPI NSA Y/Y	MAY	0.10%	0.20%	0.30%
Continuing Jobless Claims SA	05/30	20,929K	20,800K	21,268K
Initial Claims SA	06/06	1,542K	1,500K	1,897K
PPI ex-Food & Energy SA M/M	MAY	-0.10%	0.0%	-0.30%
PPI ex-Food & Energy NSA Y/Y	MAY	0.34%	0.50%	0.59%
PPI SA M/M	MAY	0.40%	0.10%	-1.3%
PPI NSA Y/Y	MAY	-0.84%	-1.1%	-1.2%



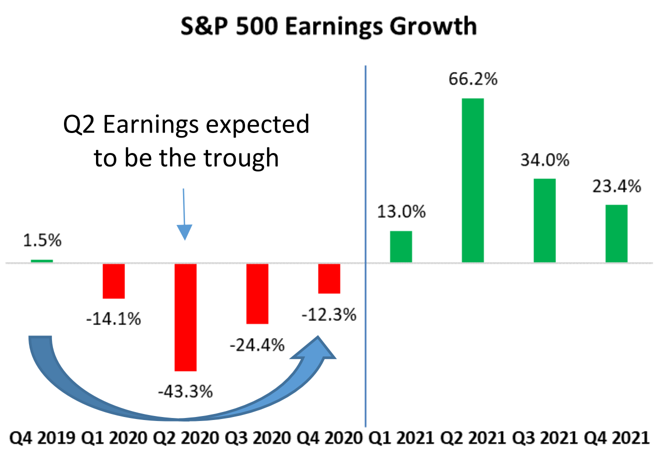


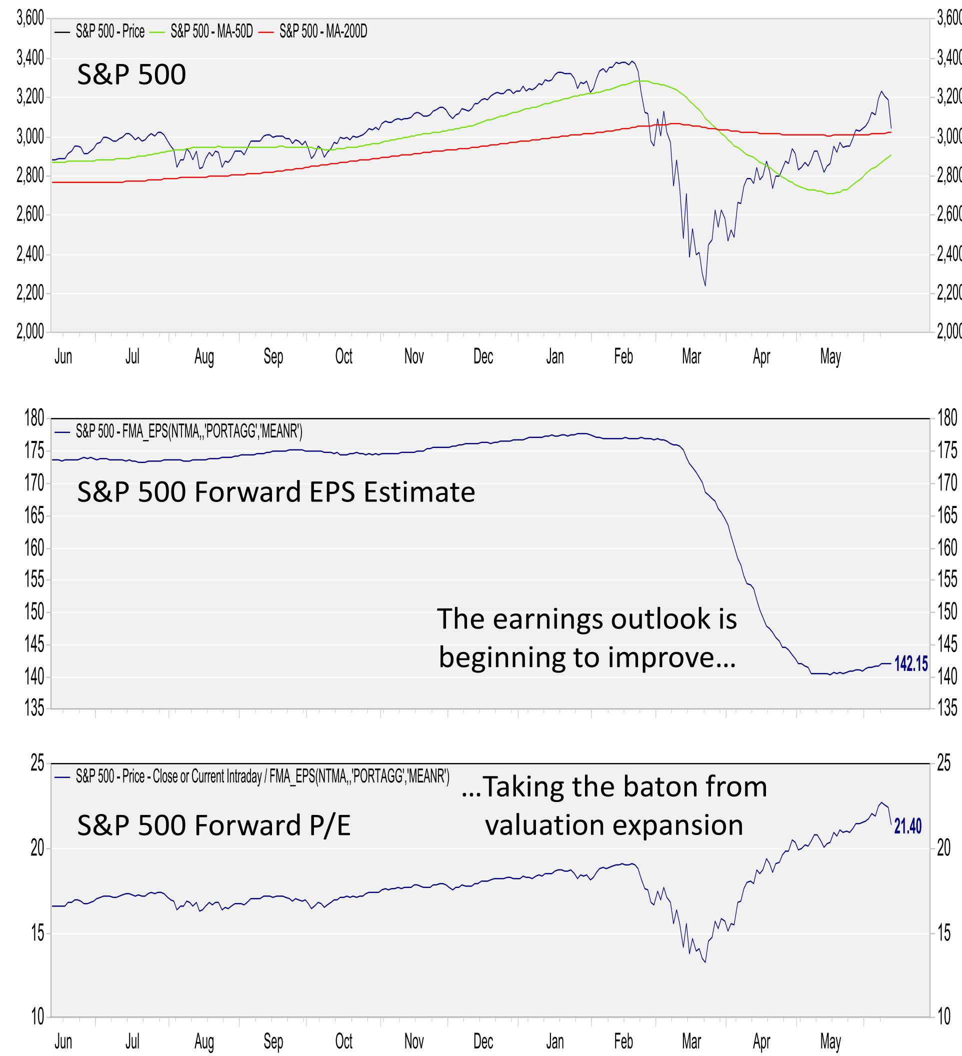
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q2 earnings season is expected to be the trough of the shutdown's impact on fundamentals. Current consensus estimates reflect a 43.3% earnings contraction in Q2 (following -14% in Q1), and all sectors are expected to have negative earnings growth (with the deeper cyclical areas expected to see horrendous earnings contractions). Looking forward, the earnings outlook is beginning to improve as the S&P 500 forward earnings estimate is beginning to tick higher after stabilizing. It is our view that as the market "changes hands" from valuation expansion to earnings improvement, market volatility is likely. Further multiple expansion (on forward estimates) will also be harder to come by as the earnings trend progresses.

We use 3,111 as our base case S&P 500 price target for 2020. With the S&P 500 currently trading in line with this target, upside will become more attractive following a pullback. As such, we would look to accumulate as the current pullback plays out. Our bull case target remains 3,384 (upside surprises to virus spread and consumer activity), and our bear case target remains 2431 (downside surprises to virus spread, consumer activity, as well as accelerating US/China trade tensions and odds of a Democratic sweep).





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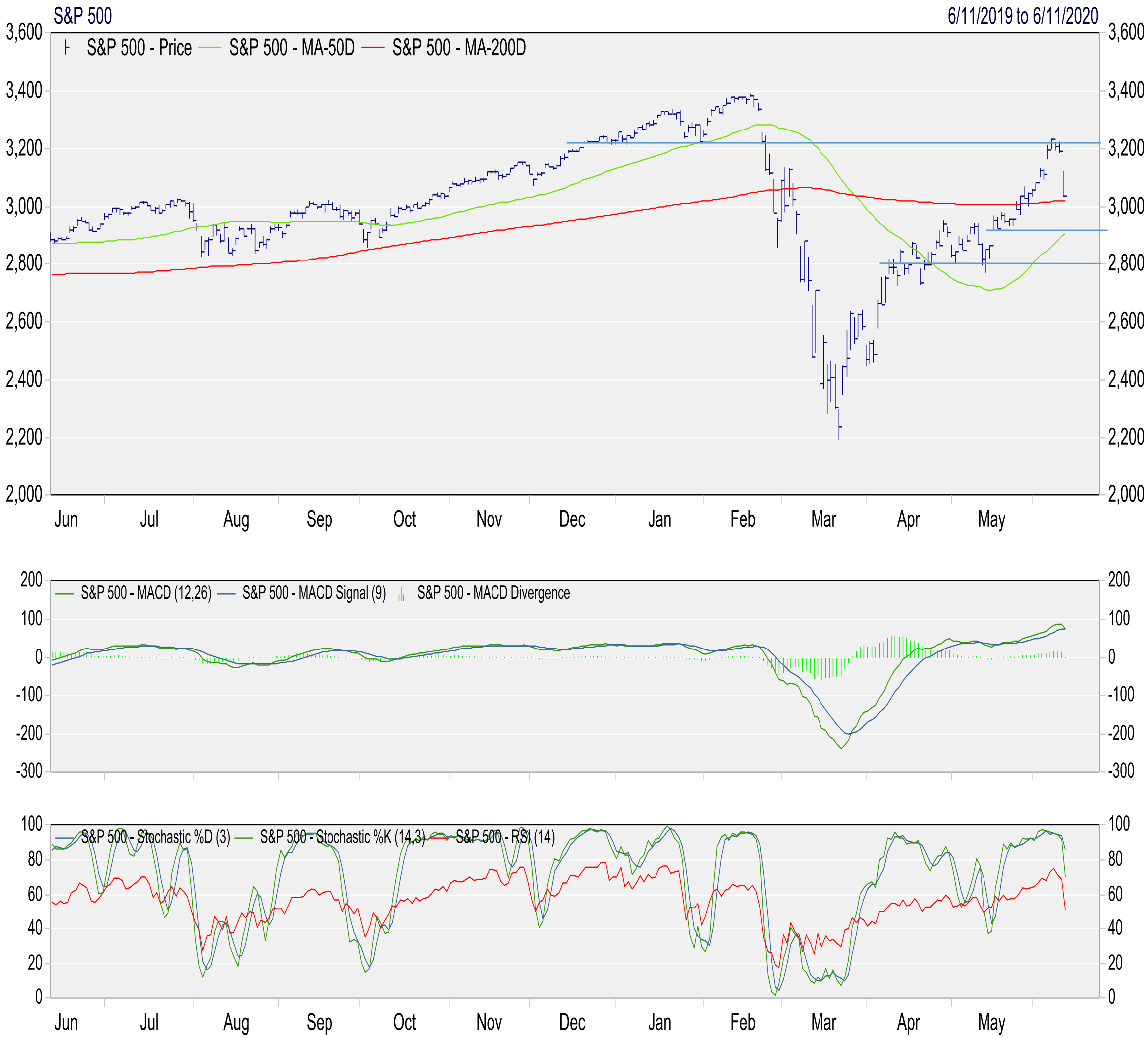
TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

A much-needed reality check spiraled into the largest 1-day loss (-5.9%) since March. The S&P 500 has now given back 7% of its 44% return from the March 23rd lows. Investor positioning had become complacent, which is also likely contributing to the downside shock seen today. The S&P 500 closed on its lows, which could be an indication of further weakness in the short term.

We see initial support in the 2956-3000 area, close to the 200 DMA (3013). Following this is the 50 DMA at 2895. This range of 3013-2895 represents a 7-10% pullback from the Monday highs. More pressing headlines (to alter the narrative) are likely needed in order to push the S&P 500 considerably lower than this range.

We view this pullback as a needed (and healthy) consolidation for the market to digest some of its gains. Last week we noted it is normal for the market to stall in the weeks following extreme 50-day rallies (as just experienced). The only other periods that have seen 25+% rallies in a 50-day period since the 1930s are 2009, 1982, and 1975. All of these were coming out of recessionary bear markets, and all stalled for a month or two with a 6-7% pullback within that consolidation period. Importantly, following a consolidation phase, these three periods also all saw above average returns over the next 12 months.

As such, we would use the pullback as an opportunity to accumulate favored sectors and stocks for the long term.

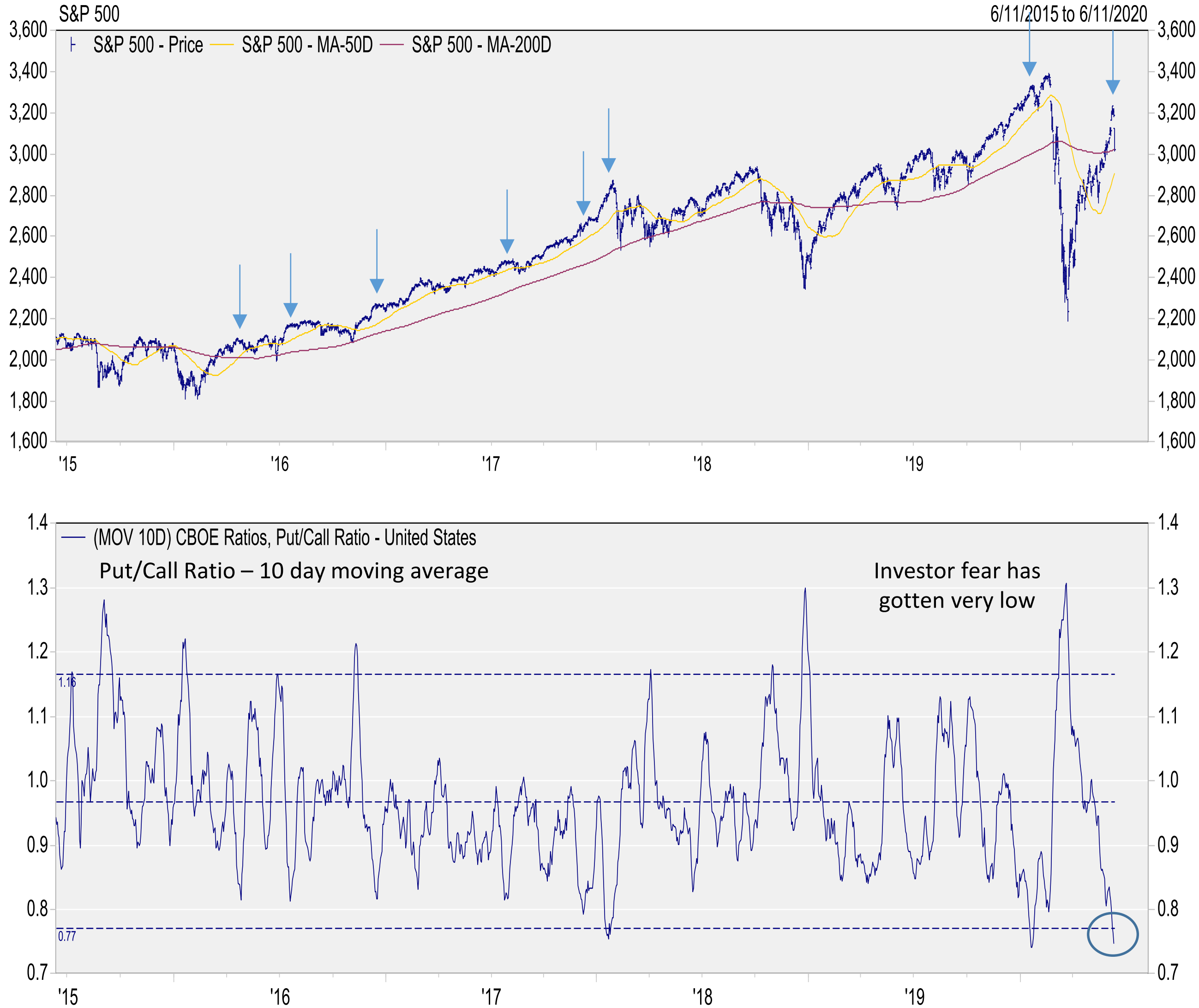
TECHNICAL: SHORT TERM

One of the risks to the short term has been very complacent investor positioning, as shown by the put/call ratio in the chart to the right.

The put/call ratio is a fear gauge, and is often a more useful timing indicator when it reaches elevated levels near market lows. However, it does provide some use in up-markets, as prior very low levels over the past five years have often been followed by some consolidation periods or pullbacks.

Investor fear coming back into the market contributed to the large increase in volatility today in our view. With so much uncertainty to the economic outlook, this was bound to happen eventually. We view this as a normal function of the market.

Sharp declines can often lead to emotional reactions by investors. We maintain our positive bias to the long term, and would use the current pullback as an opportunity to accumulate favored areas as it plays out.

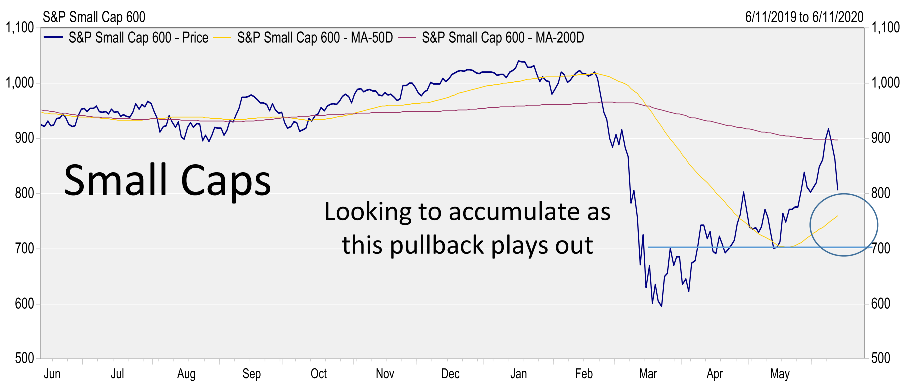


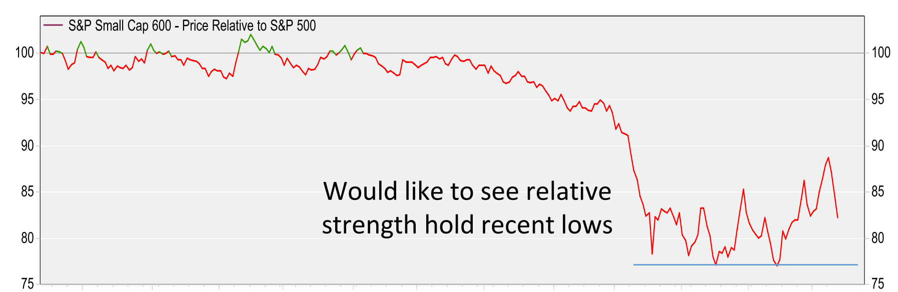
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

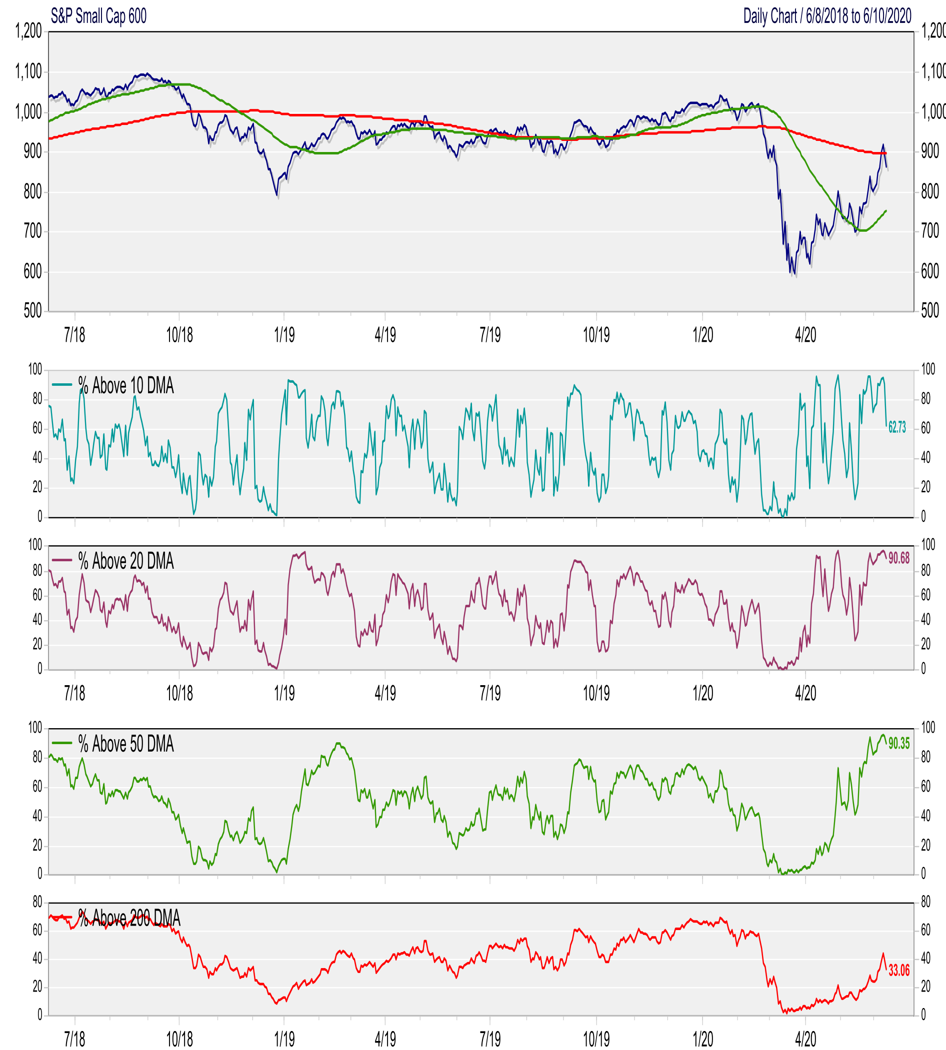
TECHNICAL: SMALL CAPS

The small caps failed at their 200 DMA resistance and are now consolidating some of their recent strength- this is normal in our view. The group had gotten overbought, and a volatile earnings backdrop will continue to contribute to volatile stock prices. However, internals have improved dramatically with 90+% of stocks above their 50 DMA- this bodes well for intermediate term trends.

As the small cap index retraces, we would like to see relative strength hold its lows. We believe the small caps will likely see outsized gains as the economy normalizes over time. For this reason, we would be looking to accumulate the small caps as the current pullback plays out.



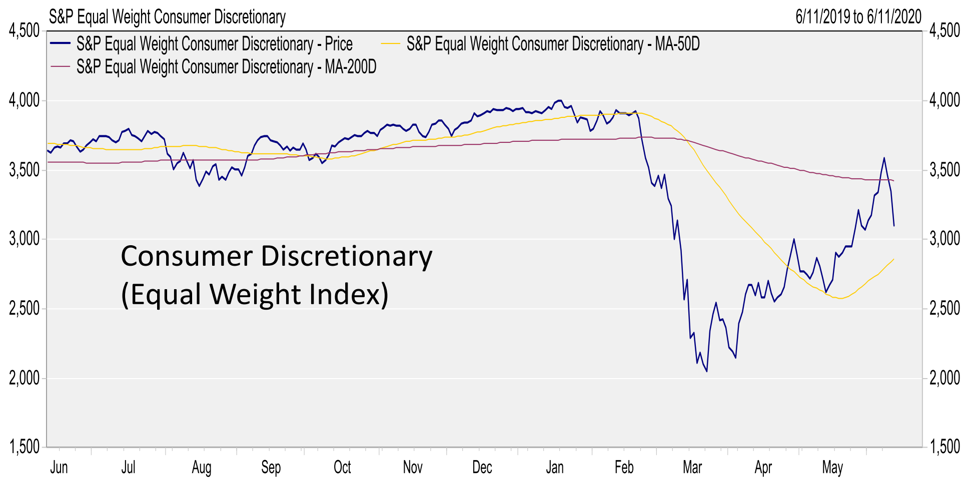


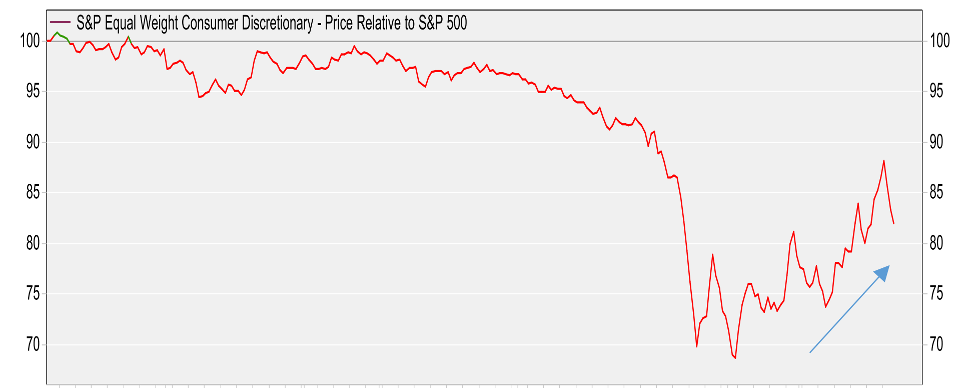


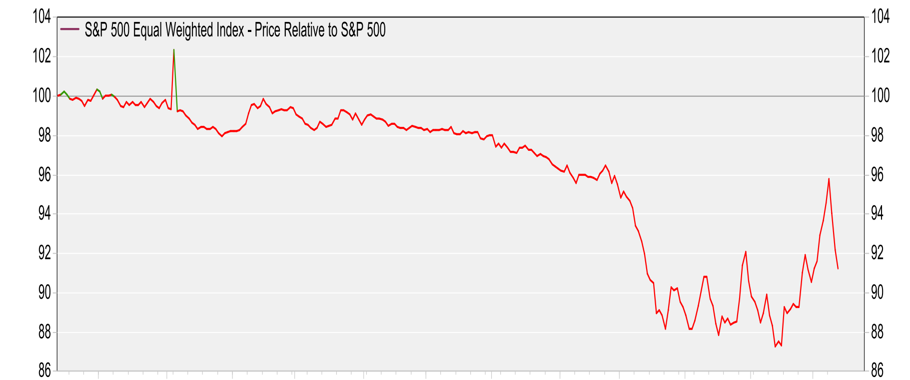
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: CONSUMER DISCRETIONARY

The average consumer discretionary stock was impressive in the market rally. While many deep cyclical areas, and the equal-weight S&P 500 index, put in a new relative strength low in May, the average consumer discretionary stock did not. Relative strength remains in an uptrend, and supports accumulating favored Consumer Discretionary names during this pullback in our view.



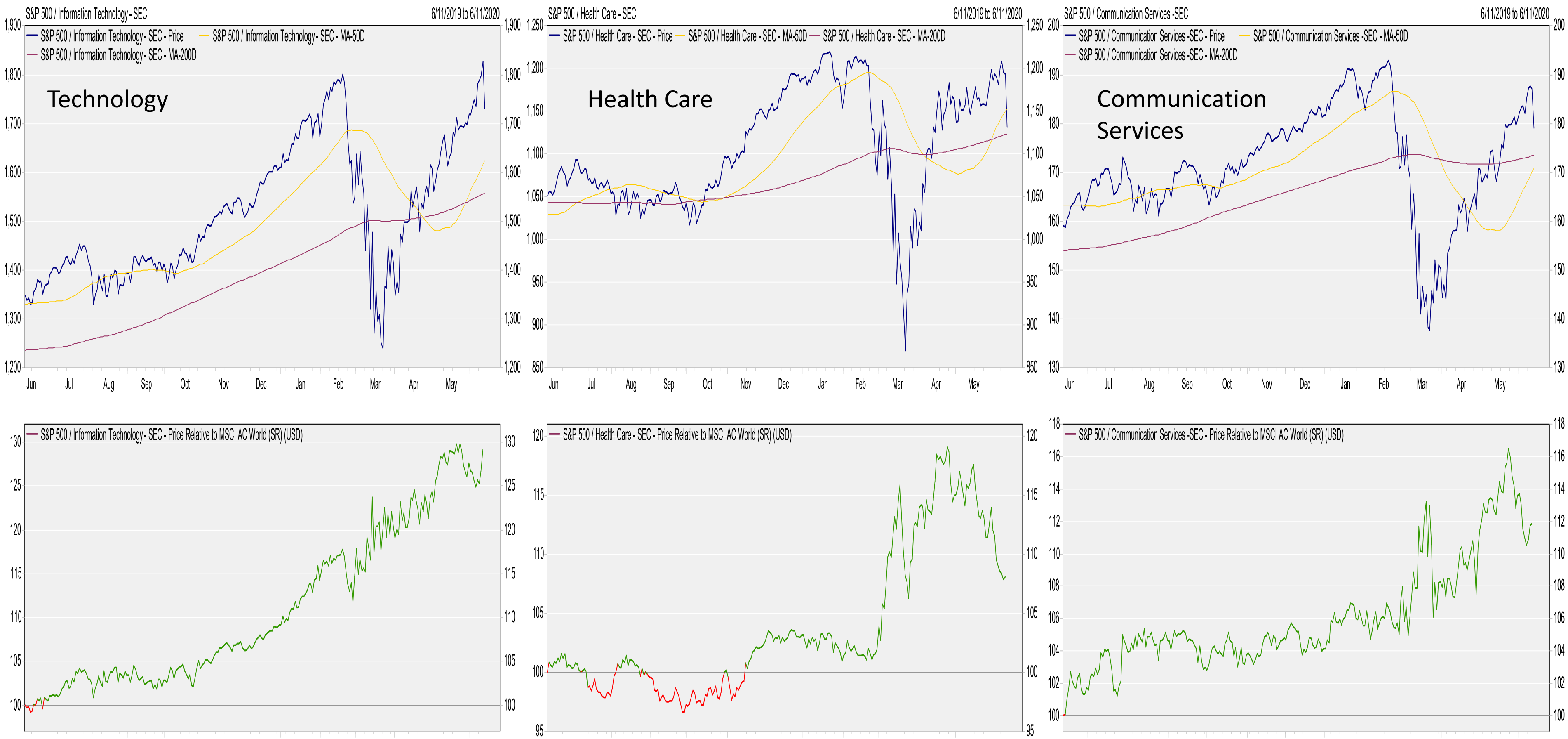




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: OVERWEIGHT SECTOR RECOMMENDATIONS

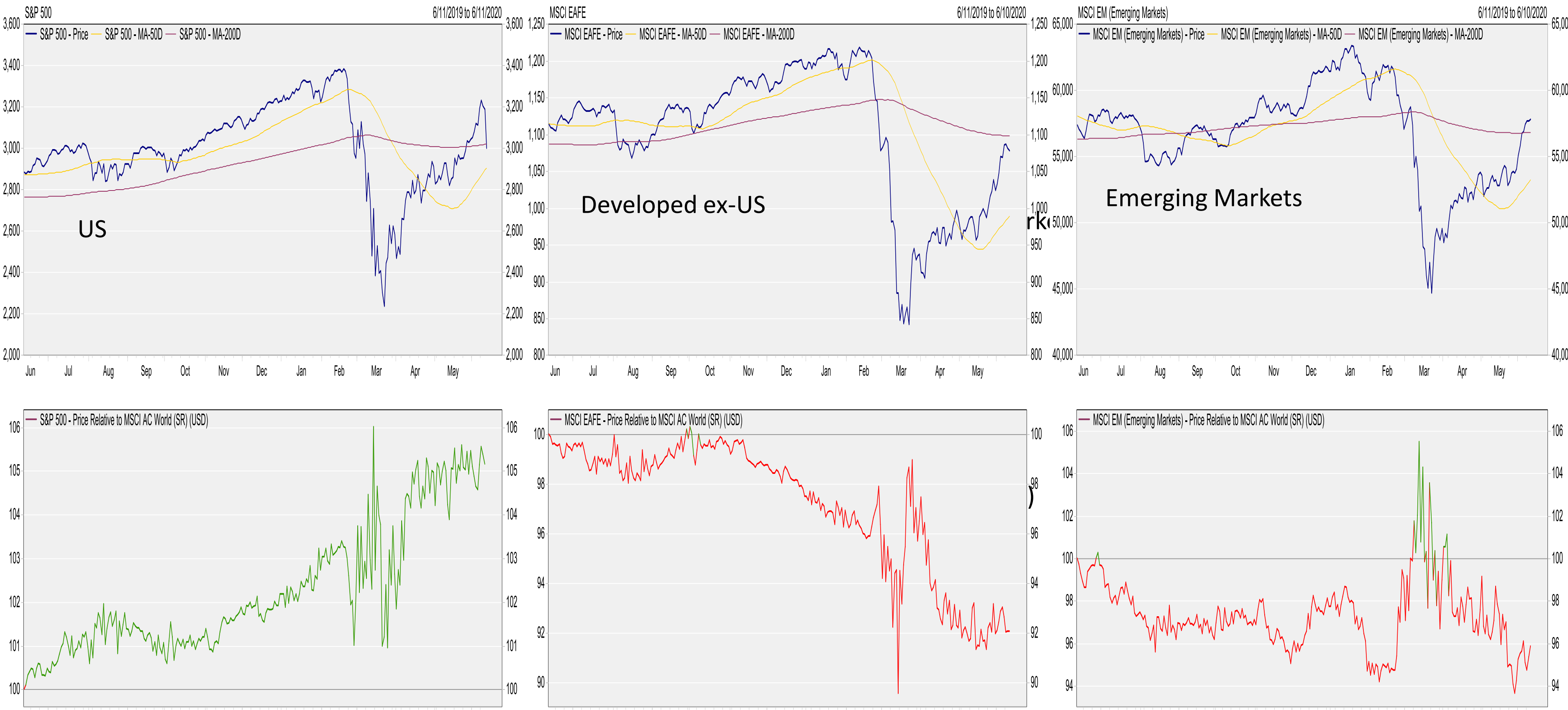
Those wanting to purchase sectors with more supportive fundamental and technical trends can look to the Technology, Health Care, and Communication Services sectors. Technology and Communication Services in particular are now consolidating some of their strength after getting extended, while the Health Care sector has already been in consolidation mode for several weeks now. On a stock basis, many of the leaders are now coming in closer to support levels. We would look to accumulate as they come in and hold their moving averages.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: GLOBAL

The US remains our favored place to invest globally. However for global allocations, we believe Developed ex-US markets can be bought tactically. The ECB is finally on board with enormous stimulus (joining Japan), and this market has proven to be obsessed with policy responses. Structural issues remain headwinds to longer term performance in our view, but tactically we believe investors can look to increase allocations to Developed ex-US during the pullback. Additionally, Emerging Markets are likely to outperform as the global economy recovers over time. The US dollar has continued to trend lower over the past week, and as it potentially rises (consolidates) its recent move in the short term, this will likely provide a good buying opportunity for investors to accumulate Emerging Markets for the long term.



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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.

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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.

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.

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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.

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