

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: Last week's 8% pullback was a much-needed reality check that risk still exists in this market. However, this week, the market returned to its bullish posture as once again the Fed came to the rescue by supporting the corporate bond market, resulting in tighter spreads, which tend to be positive for risk assets. Additional drivers to recoup some of the lost ground from last week included: positive clinical data on a potential COVID-19 treatment, proposal of a \$1T stimulative infrastructure program, and economic data suggesting that the recovery (although mixed) is still showing signs of improvement offset by rising risks of higher hospitalization in new hot spots across the US. All in all, the biggest influence on the market continues to be the old mantra, "Don't Fight the Fed". With the Fed not backing away from prior promises of supporting the market, we continue to believe the positives outweigh the negatives, and would continue to use pullbacks opportunistically.

From a technical perspective, volatility was bound to happen at some point given the vast amount of uncertainty and investor complacency. Similar to what we saw last week, sparks of volatility can take place as the market consolidates recent gains. However, near-term internals are much better as overbought conditions have been removed and alleviated some of the recent complacency that had crept into the market. However, moving forward, odds of periods of volatility are likely to remain elevated as earnings must meet expectations given the strong rebound in valuations and continued uncertainties. Additionally, the MACD recently crossed could point to some waning momentum in the near-term, but given that the market is in an uptrend, does not derail the market outlook longer-term. If a pullback does ensue, we would expect the drawdown to be rather contained as there continues to be record piles of cash on the sidelines that could add as support to move the market higher.

From a sector perspective, we favor Technology, which continues to be a market leader, and is seeing broad strength with software, hardware, and semis all near record highs, Health Care, and Communication Services. We would fade any rallies in the more defensive sectors, as areas such as Utilities and Consumer Staples recently saw relative performance move to new lows despite the market swoon seen last week. As the market continues to discount the recovery in the macro, the cyclical sectors could be areas to watch as the equal-weight Consumer Discretionary, Financials, and Industrials all saw higher lows on a relative performance.

While upside to our base case price target of 3,111 is limited, the record fiscal and monetary stimulus (with potentially more to come), continued momentum on effective treatments for COVID-19, and improving economic conditions, continues to be supportive of possible upside towards of bull case scenario of 3,384 by year-end.

Equity Market Indices	Price Return	
	Year to Date	12 Months
S&P 500	-3.6%	7.7%
S&P 500 (Equal-Weight)	-10.1%	-1.3%
Dow Jones Industrial Avg	-8.5%	0.0%
NASDAQ Composite	10.5%	26.3%
Russell 2000	-14.5%	-6.9%
MSCI All-Cap World	-6.5%	3.4%
MSCI Developed Markets	-11.1%	-2.9%
MSCI Emerging Markets	-10.8%	-1.6%
NYSE Alerian MLP	-31.6%	-39.2%
MSCI U.S. REIT	-16.4%	-15.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	11.6%	26.8%
Consumer Discretionary	6.1%	10.8%
Communication Svcs.	1.4%	10.9%
Health Care	-2.1%	14.5%
S&P 500	-3.6%	-
Consumer Staples	-6.2%	7.0%
Real Estate	-7.1%	2.9%
Materials	-8.5%	2.5%
Utilities	-9.2%	3.1%
Industrials	-13.9%	8.1%
Financials	-21.8%	10.5%
Energy	-34.7%	2.9%

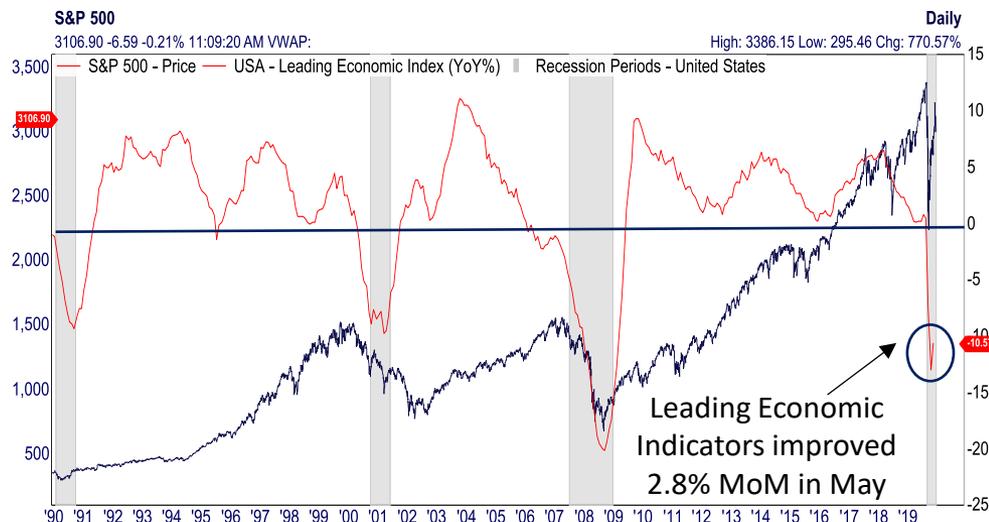
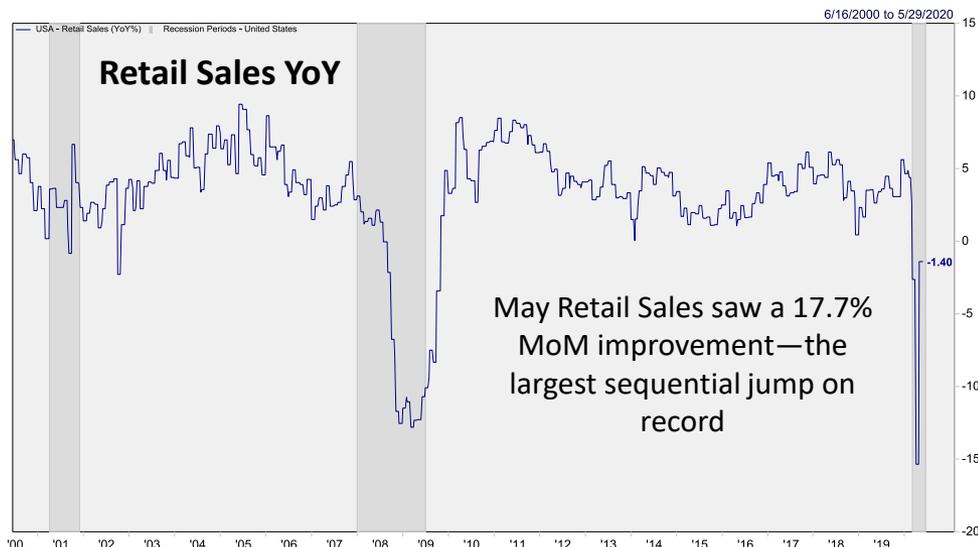
MACRO: US

This week’s economic data continues to point to the early stages of economic recovery. The big upside surprise came from retail sales in May with the largest sequential jump on record at 17.7% MoM, which was well ahead of consensus expectations of 8.4%. Additionally, leading economic indicators pointed to a sequential improvement of 2.8% MoM, but still remain down over 10% YoY. This is something to keep in mind as the eventual bottom of leading indicators tends to be near the end of the official recessionary periods.

Housing and manufacturing data remains somewhat mixed. While Housing Starts and Building Permits MoM came in below expectations for the month of May, the more recent mortgage data and NAHB Housing Market Index (from June) points to a resilient housing market, with mortgage applications up 8% and the NAHB Housing Market Index seeing a 21 point improvement, which is the largest on record. While Industrial Production was weaker than expected for the month of May (up only 1.4% vs. 3% expected), the more recent surveys (Empire Manufacturing and Philly Fed) for June show improvement from the prior period.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Import Price Index MoM	May	1.0%	0.6%	-2.6%
Export Price Index MoM	May	0.5%	0.5%	-3.3%
U. of Michigan Sentiment	June P	78.9	75.0	72.3
U. of Michigan Current Conditions	June P	87.8	85.2	82.3
U. of Michigan Expectations	June P	73.1	69.0	65.9
U. of Michigan 1 Yr. Inflation	June P	3.0%	3.1%	3.2%
Empire Manufacturing	June	-0.2	-29.6	-48.5
Retail Sales MoM	May	17.7%	8.4%	-14.7%
Industrial Production MoM	May	1.4%	3.0%	-12.5%
Business Inventories	Apr	-1.3%	-1.0%	-0.3%
NAHB Housing Market Index	Jun	58	45	37
MBA Mortgage Applications	12-Jun	8.0%		9.3%
Housing Starts MoM	May	4.3%	23.5%	-26.4%
Building Permits MoM	May	14.4%	16.8%	-21.4%
Philly Fed Index	June	27.5	-21.4	-43.1
Initial Jobless Claims	13-Jun	1,508K	1,290K	1,566K
Continuing Claims	6-Jun	20,544K	19,850K	20,606K
Leading Economic Indicators	May	2.80%	2.40%	-6.10%



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

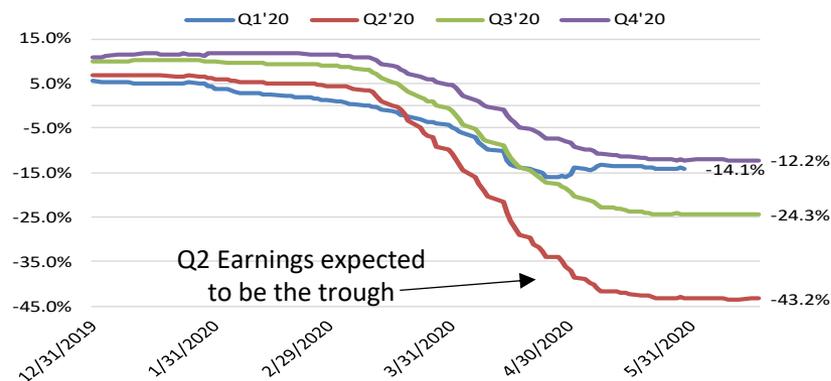
FUNDAMENTALS

With the end of 2Q20 coming within the next couple weeks, it is worth noting that EPS growth has seen stabilization leading into earnings season. While it is largely expected to be a very challenging quarter, it is also expected to be the trough in earnings for this recessionary period. As seen below, S&P 500 earnings are expected to drop 43.2% YoY. While this continues to point to the severity of the economic situation, the recent stability, not just for 2Q, but also 3Q and 4Q, points to some expectation that the worst is likely behind us and the worst case scenario may be averted.

As seen below, the sectors that have seen the largest earnings revisions since the end of the year have been the more cyclical sectors such as Energy, Consumer Discretionary, Industrials, and Financials. Taking a closer look at Consumer Discretionary, which is actually the second best performing sector YTD, gaining 5.9%, it has been driven by the outperformance of the largest names in the sector and multiple expansion. On an equal-weight basis (average Consumer Discretionary stock), the sector is down over 17% YTD, which is more in-line with the other cyclical sectors.

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, we would look to accumulate favored sectors during market volatility. Moreover, as we discussed last week, at some point, the market will need to pass the baton from valuation expansion to re-acceleration of economic and earnings expansion. We believe this could cause some periods of volatility as this transition takes place and would use any dislocation to add to positions. On the positive note, this week we got further confirmation from the Fed that it will remain supportive, potential COVID-19 treatments, early recovery improvement in economic data, and potential further fiscal stimulus, which could push the market closer to our upside case scenario of 3,384.

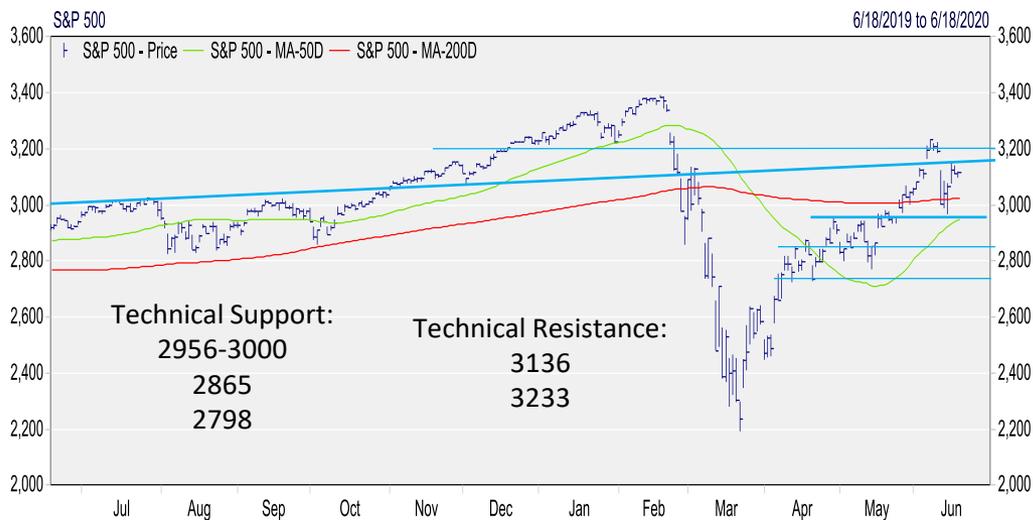
S&P 500 Quarterly Earnings Growth Estimates



	EPS Δ Since 12/31/2019		Price Δ Since 12/31/19	P/E	
	2020	2021		2021	Δ Since 12/31/19
S&P 500	-28.8%	-17.0%	-3.7%	19.17	2.7x
Communication Services	-23.4%	-16.4%	1.1%	20.36	3.6x
Consumer Discretionary	-61.8%	-26.5%	5.9%	29.49	9.1x
Consumer Staples	-7.9%	-7.1%	-5.9%	19.12	0.2x
Energy	-104.2%	-71.5%	-33.8%	36.53	20.6x
Financials	-40.0%	-24.1%	-21.9%	12.45	0.4x
Health Care	-9.1%	-3.9%	-2.4%	15.23	0.3x
Industrials	-55.1%	-28.8%	-14.1%	18.27	3.2x
Information Technology	-6.4%	-4.6%	11.8%	22.47	3.3x
Materials	-30.8%	-22.5%	-8.5%	18.75	2.9x
Real Estate	-12.7%	-10.4%	-7.1%	19.44	0.7x
Utilities	-1.8%	-0.6%	-9.8%	17.34	-1.6x

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

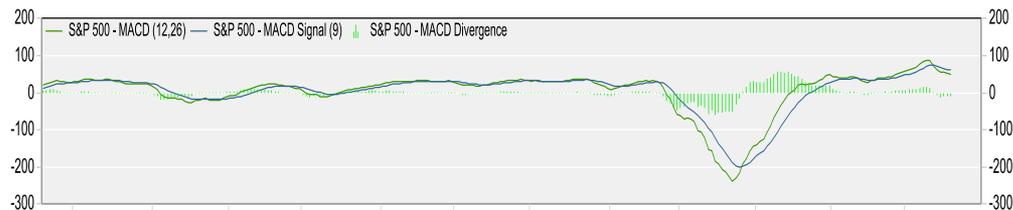
TECHNICAL: SHORT TERM



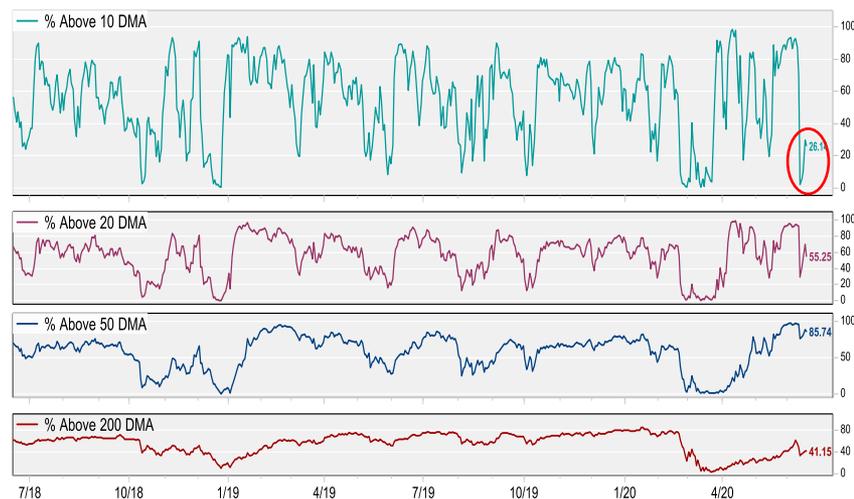
Since the market bottom, the S&P 500 has largely glided higher with little resistance. However, last week was a much needed breather in the market as the % of stocks trading above moving averages pulled back from overbought conditions and some of the complacency seen with the put/call ratio waned. We view this pullback as normal in the recovery process and provided an attractive opportunity as the index was able to hold support.

Moreover, with a more risk-on posture this week, the market has recovered some of the losses from last week. We would continue to use pullbacks opportunistically as we believe the positives still outweigh the negatives over the next 12-24 months.

From a technical perspective, given that we are building a new uptrend, the recent cross in the MACD is not that big of a deal, but could point to some waning momentum in the near-term. This was bound to happen following a strong rebound and the number of uncertainties that remains. However, we would use this opportunity of increased volatility to add to positions.

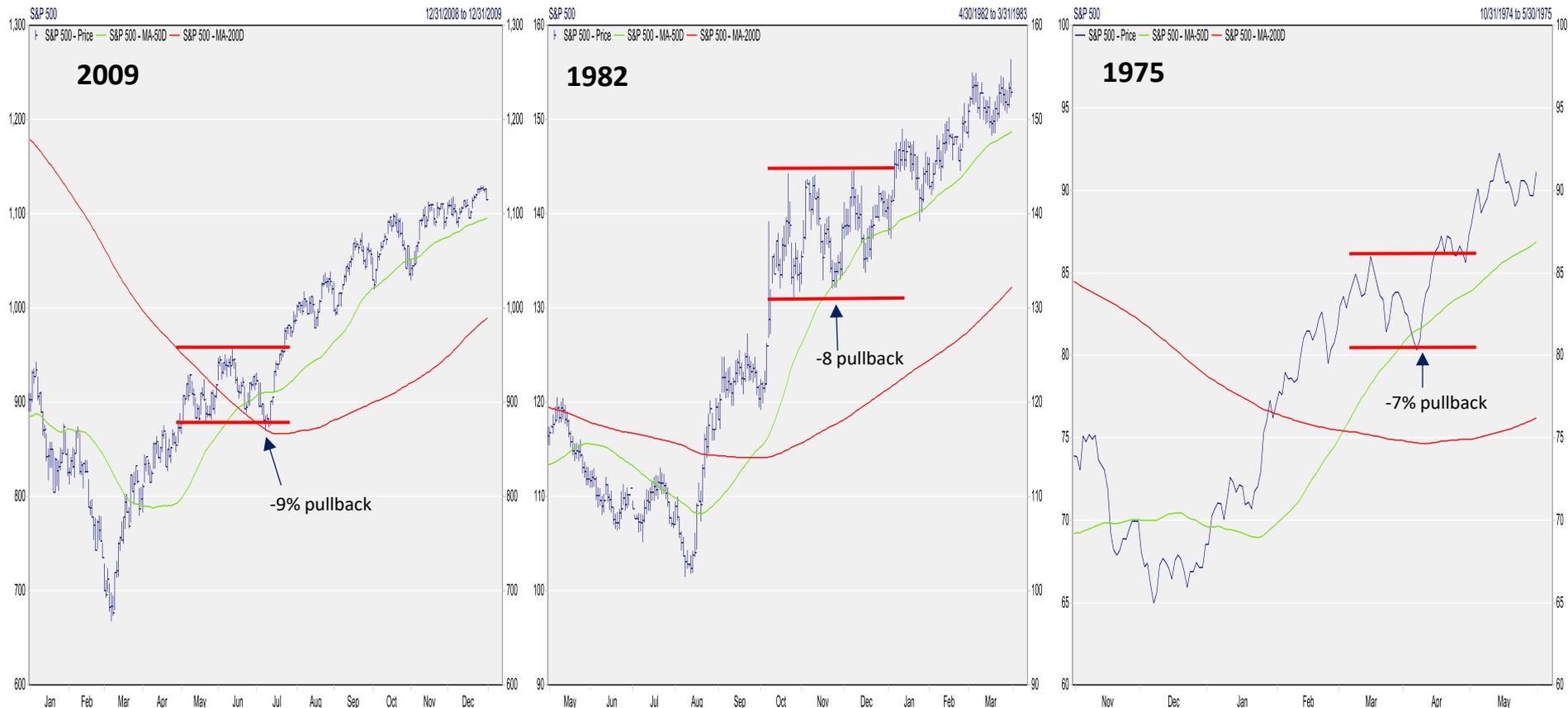


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy



TECHNICAL: CONSOLIDATION IN A RECOVERY IS NORMAL

While the recovery from the bottom has been impressive, the stock market usually does not move in straight lines (as we have seen since the market lows back in March). Since 1940, we have seen three other periods in which the market gained 25% in 50 days and each coincided with a recovery from a recessionary bear market and early beginning of a new bull market. While each period saw 20%+ over the next 12 months, there were periods of volatility over this timeframe. These periods of volatility offered attractive entry points as the S&P 500 saw a 1-2 month pause with a 7-9% pullback. While last week's pullback of 8% was swift, we believe some sparks of volatility would be normal amidst recovery as the recent strong momentum wanes.



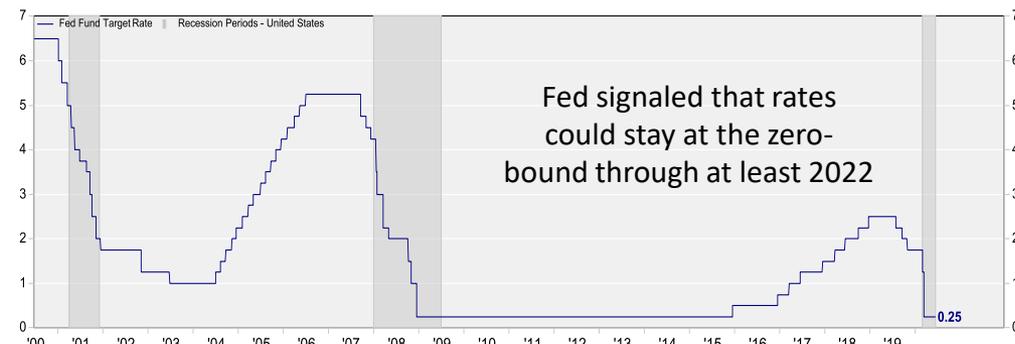
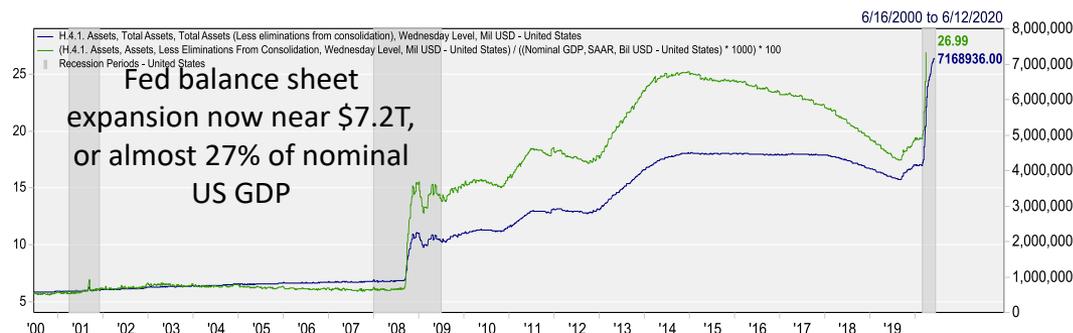
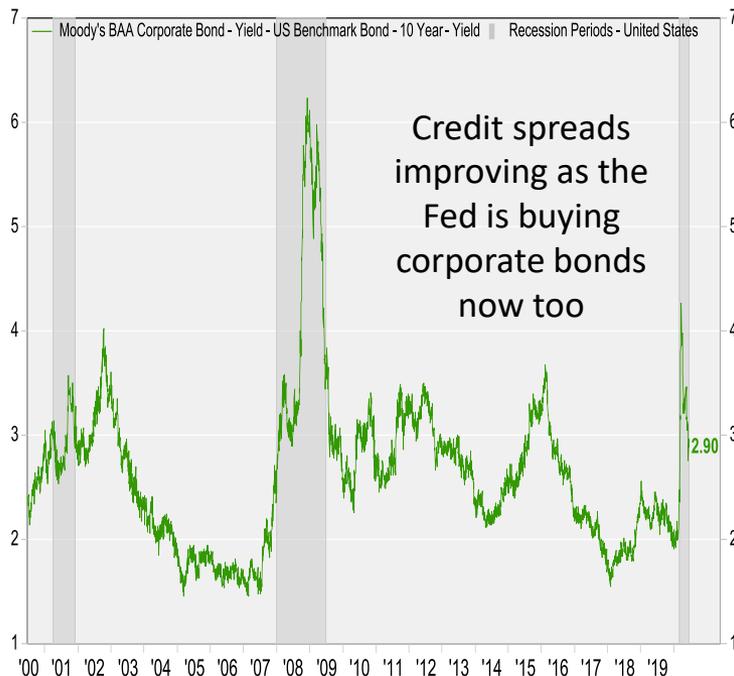
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: DON'T FIGHT THE FED

The old adage “Don’t Fight the Fed” continues to gain merit during this recovery. Following swift action by the Federal Reserve and additional stimulus from a fiscal perspective to restore confidence in the market and avert a worst case scenario, investors have a bias towards risk assets with the backing of central banks not only domestically, but also around the world. Just this week, the Fed came to the rescue of the market once again as it announced that it will fulfill its word and begin purchases of individual corporate bonds, providing stability to credit spreads, and giving further credence to the bullish posture of the market as narrow spreads tends to be positive for equities.

Moreover this week, fiscal policy and a potential infrastructure proposal upwards of \$1T gave further ammunition to the market. Not only is this stimulative proposal expected to aid traditional projects like roads and bridges, it is also expected to advance 5G and rural broadband development.

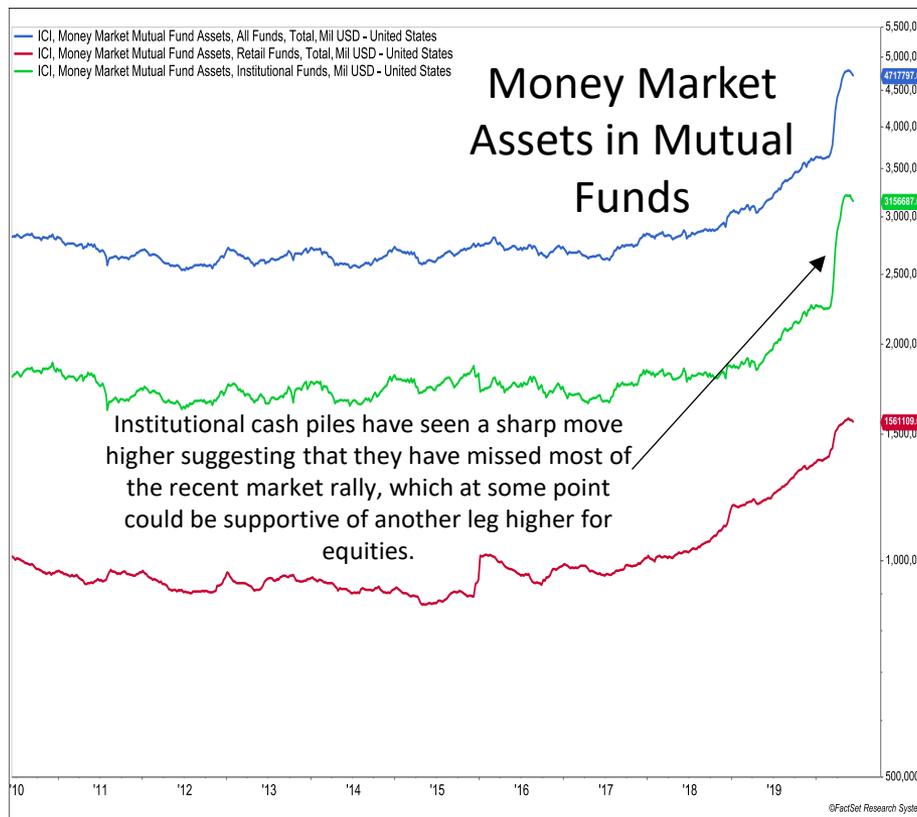
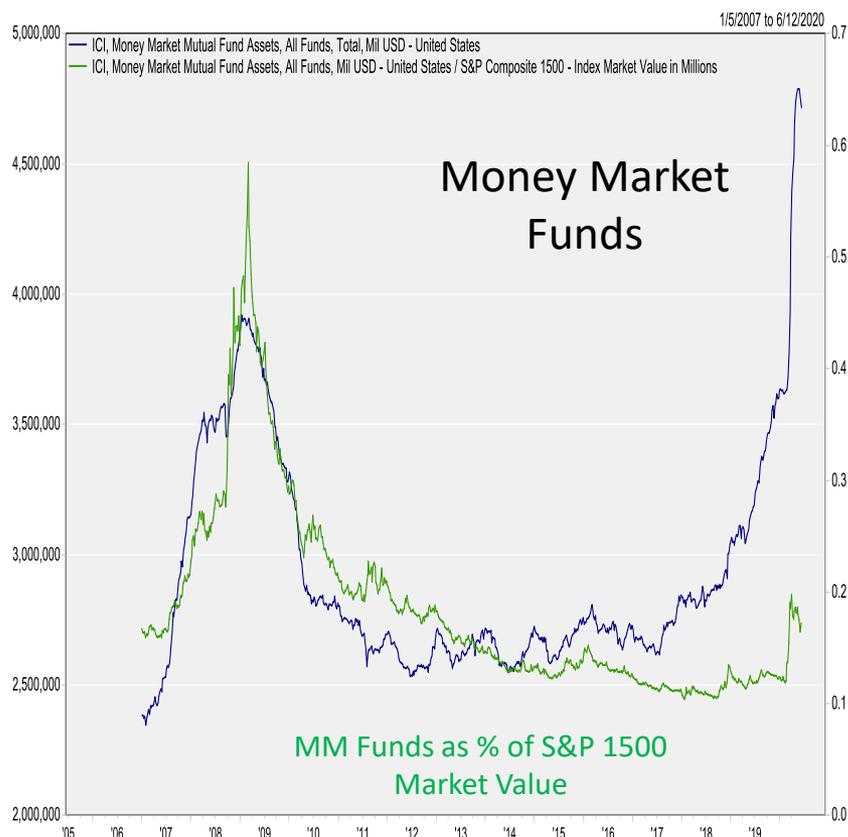
Additionally, with a supportive Fed, the market narrative turned rather quickly this week. Last week, following the Fed meeting, in which the Fed signaled rates could remain at the zero-bound through at least 2022, investors took lower rates to indicate that the recovery may be less V-shaped or U-shaped than expected. This week, however, the lower-for-longer rate narrative, mixed with both fiscal and monetary stimulus announcements, have shifted back to being a supportive, tailwind for the market as lower rates will help spur continued re-acceleration as inflation does not appear to be a concern at this time.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

MONEY ON THE SIDELINES COULD ADD FUEL FOR ADDITIONAL UPSIDE

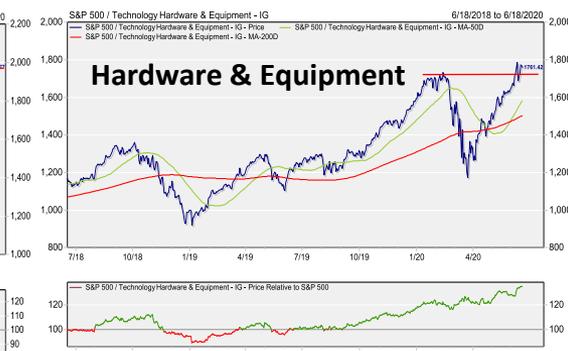
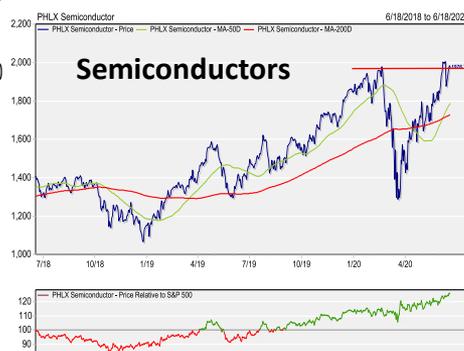
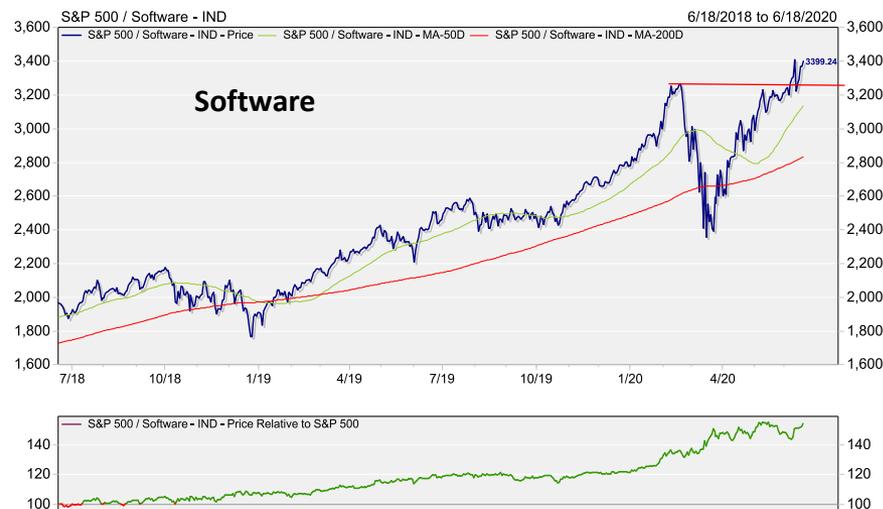
Much has been made of a “retail investor” induced rally in the market. Giving further credence to this thought is the money market assets in mutual funds. While both retail and institutions are carry high cash levels, it has been the institutions that have seen the biggest stockpiling of money market assets during the market rally, suggesting that institutions have largely missed the recent market rally. However, market volatility or periods of weakness could induce both the marginal retail investor or institution to get off the sideline with these high cash levels and start to invest more assets into equities, providing support and further upside to equities.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: TECHNOLOGY

Technology continues to prove its leadership position, outperforming both during market rallies and during market consolidations. While much has been made that the rally in the market has been predominately large-cap driven, Technology is showing rather broad-based strength with both the cap-weight and equal-weighted near all-time highs. As highlighted below, the equal-weight index (average Technology stock) 50-DMA is about to cross through the 200-DMA, a bullish technical signal. Moreover, from a subsector perspective, the rally has come from both the hardware side (semiconductors and hardware devices) along with software.

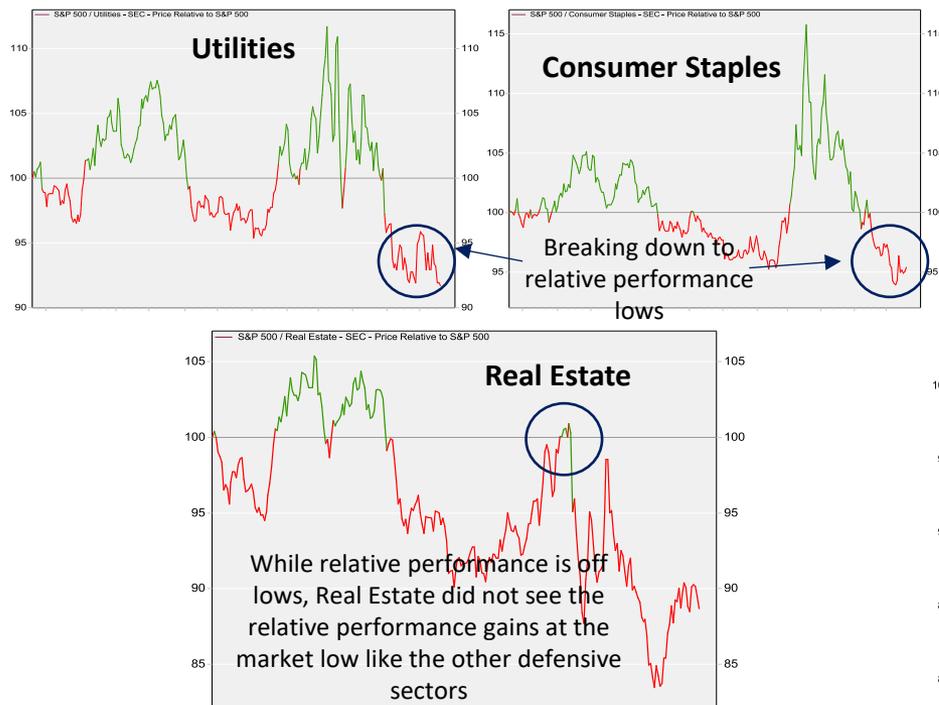


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

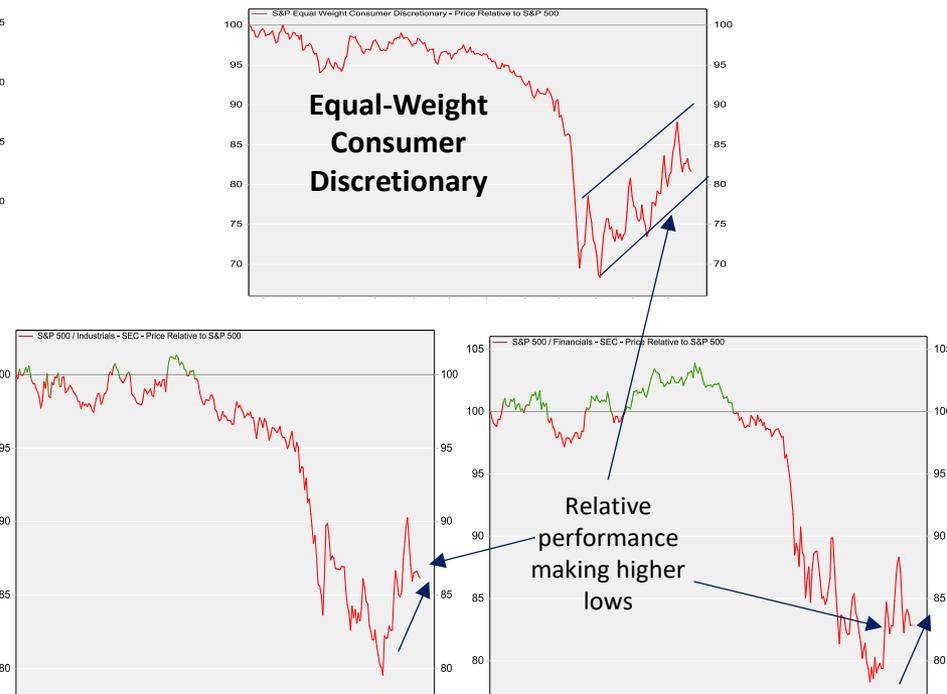
TECHNICAL: DEFENSIVE SECTORS BREAKING DOWN

We would continue to fade rallies in the traditionally defensive sectors of Utilities, Consumer Staples, and Real Estate while accumulating growth sectors such as Technology and even look at cyclical sectors that were able to hold above their respective 50-DMA during the market swoon of last week. As seen below, both Utilities and Consumer Staples have moved to new relative lows despite the volatility seen last week. While Real Estate did not move to a new low, this sector did not see the relative performance gains during the sharp market sell-off in March. Overall, given our bias that the market is discounting a market recovery and macro data is pointing to green shoot improvements, we would be biased against these sectors.

Defensive Sector Relative Performance



Cyclical Sector Relative Performance



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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.

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