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Weekly Market Guide

Short-Term Summary: After trading down to the 200-DMA, U.S. equities have moved higher this week. However, we believe this back and forth trading that we have seen over the last couple weeks, is normal and likely to persist as we believe the S&P 500 remains in a consolidation phase as the rate of ascent slows and digests the strong move higher from the March lows.

In the near-term, the percentage of stocks trading above their 10-DMA has not reached overbought territory suggesting that there could be some further upside to this recent run. However, we generally believe the market is likely to trade in a range of +5% to -5%, or 3,200-3,250 on the upper bound to 2,950-3,000 on the lower bound assuming the consolidation is "normal". If the market backdrop, however, becomes more challenging in regards to COVID-19 cases, US/China tensions becoming the central influence, or a stall in the economic recovery, the draw down could be more severe towards to the 2736-2850 range, or 8%-12% lower than current levels. We continue to have a positive bias, and would use bouts of volatility as buying opportunities.

Despite the uncertainties, we continue to find signs of optimism the recovery is well underway, even if there is still a long road until full recovery.

- The US jobs market continues to show some improvement (which should be positive for sectors levered to consumption such as Consumer Discretionary (recently upgraded to Overweight)) as the unemployment rate moved lower to 11.1%, however, it is still a far cry from the under 4% seen prior to the pandemic.
- US ISM Manufacturing returned to expansionary territory. Historically, rising ISM Manufacturing readings have held a strong correlation to rising 10-year yields, and improving relative performance in the small-caps. However, there seems to be a disconnect between the improvement in the ISM Manufacturing data and the relative performance of small cap and yields, which did not respond accordingly to the recent data. We would continue to monitor this as it could present a "catch-up" trade opportunity for small-caps.
- Copper prices continue to move higher, which historically has been seen as a good indicator for the health of the global macro environment, and tends to have a strong correlation to Chinese equities. A continued move higher in copper could lead to continued improvement in the relative performance of Chinese equities, along with Emerging Markets.

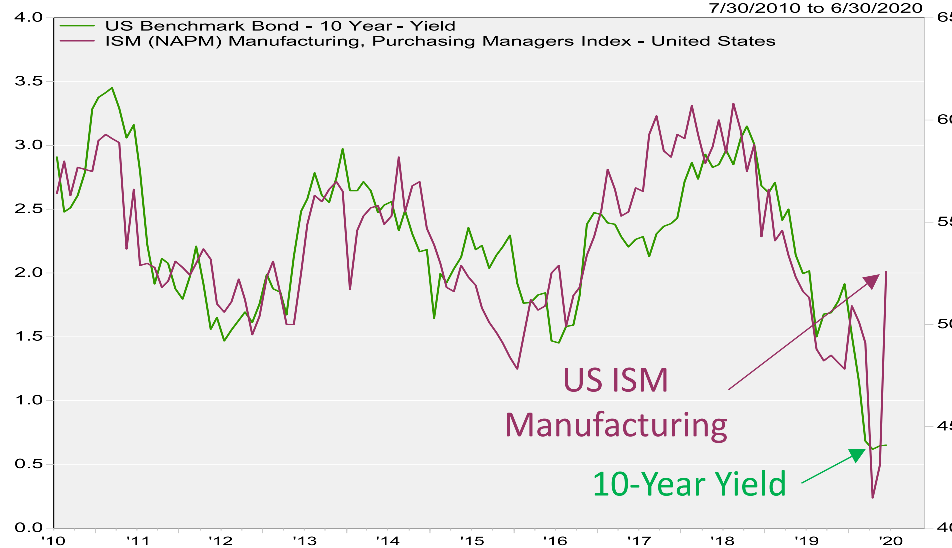
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-3.6%	5.1%
S&P 500 (Equal-Weight)	-12.0%	-6.2%
Dow Jones Industrial Avg	-9.8%	-3.7%
NASDAQ Composite	13.2%	25.5%
Russell 2000	-14.5%	-9.1%
MSCI All-Cap World	-6.7%	0.1%
MSCI Developed Markets	-12.4%	-7.7%
MSCI Emerging Markets	-10.2%	-5.9%
NYSE Alerian MLP	-39.7%	-47.5%
MSCI U.S. REIT	-18.1%	-14.0%

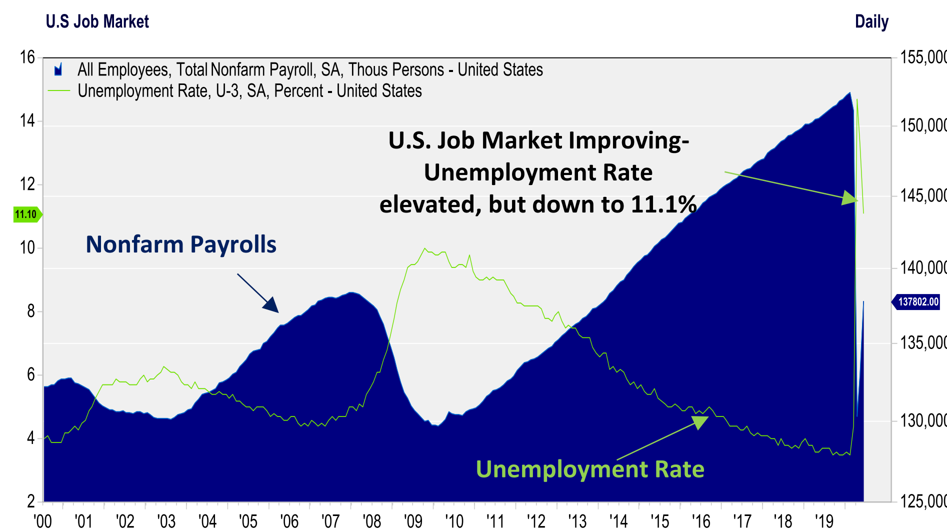
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	14.3%	27.4%
Consumer Discretionary	8.5%	11.0%
Communication Svcs.	1.2%	11.0%
Health Care	-1.0%	14.7%
S&P 500	***-3.6%***	-
Consumer Staples	-7.0%	6.9%
Real Estate	-7.6%	2.9%
Materials	-7.9%	2.5%
Utilities	-10.6%	3.1%
Industrials	-15.9%	7.9%
Financials	-25.4%	9.9%
Energy	-38.6%	2.7%

MACRO: US

The economy in the U.S. continues to show signs of early improvement, but still a ways to go before full recovery. US ISM Manufacturing returned back into expansionary territory (above 50) with its latest reading of 52.6 and ISM new orders for June at 56.4. Historically, there has been a correlation between US ISM Manufacturing and the 10-year bond yield, but with this latest report, there appears to be a disconnect as the 10-year yield failed to respond to the break-out in ISM Manufacturing.

Also, important to the recovery is the U.S. jobs market given its high dependence on the consumer (which accounts for nearly 2/3 of GDP). Overall, non-farm payrolls rose for the second straight month after bottoming just north of 130.4 million. The recent improvement in the jobs market has pushed the overall unemployment rate down to 11.1% from a high of 14.7%. However, it will likely take time to get back to under 4%. During prior two recessions (dot com bubble and Great Financial Crisis), it took 48 months and 76 months, respectively, to fully recover to prior peak nonfarm payroll numbers.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

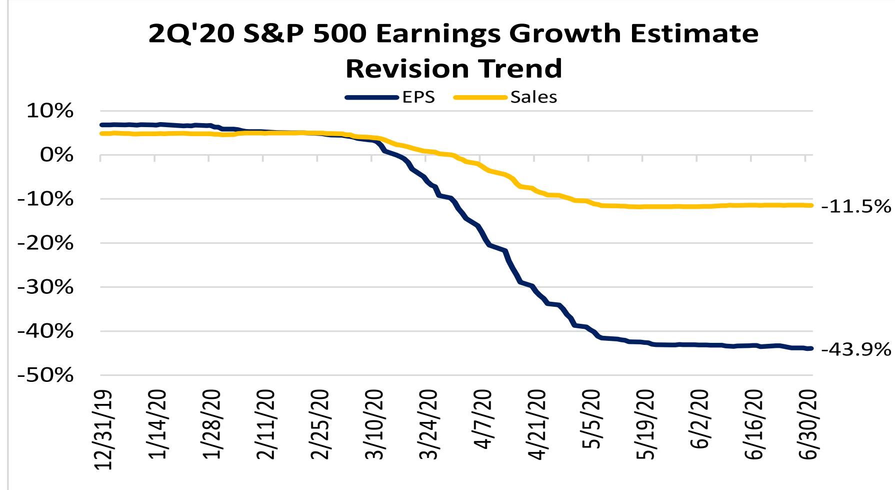
US economic data reported in the past week:

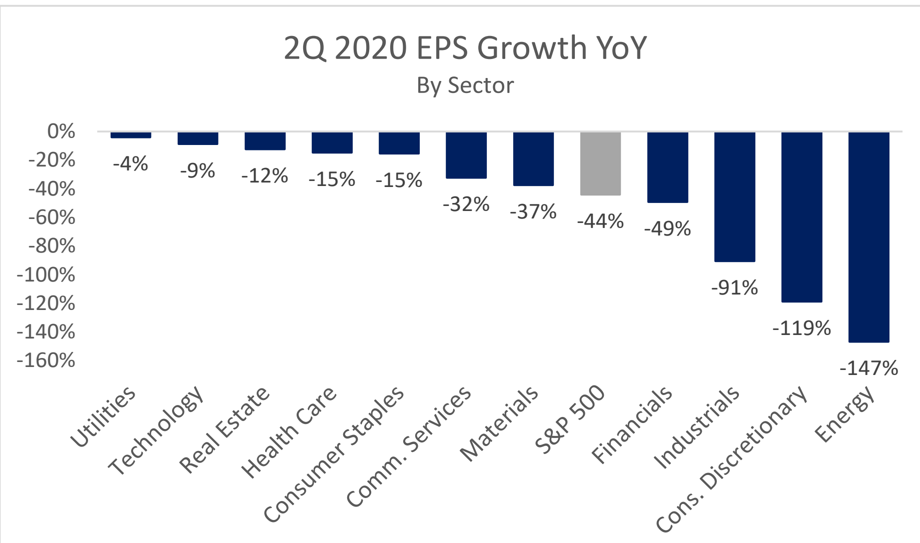
Event	Period	Actual	Consensus	Prior
Personal Income	May	-4.20%	-6.00%	10.80%
Personal Spending	May	8.20%	9.30%	-12.60%
Core PCE Deflator YoY	May	1.00%	0.90%	1.00%
U. of Mich. Consumer Sentiment	Jun F	78.1	79.2	78.9
U. of Mich. Current Conditions	Jun F	87.1	88.0	87.8
Pending Home Sales MoM	May	44.30%	19.30%	-21.80%
Dallas Fed Manufacturing Activity	Jun	-6.1	-21.4	-49.2
Consumer Confidence- Conference Board	Jun	98.1	91.5	85.9
Mortgage Applications	26-Jun	-1.80%		-8.70%
ADP Employment Change	Jun	2,369K	2,900K	3,065K
ISM Manufacturing	Jun	52.6	49.8	43.1
ISM New Orders	Jun	56.4	51.9	31.8
Nonfarm Payrolls Change	Jun	4,800K	3,230K	2,699K
Unemployment Rate	Jun	11.10%	12.50%	13.30%
Initial Jobless Claims	27-Jun	1,427K	1,350K	1,482K

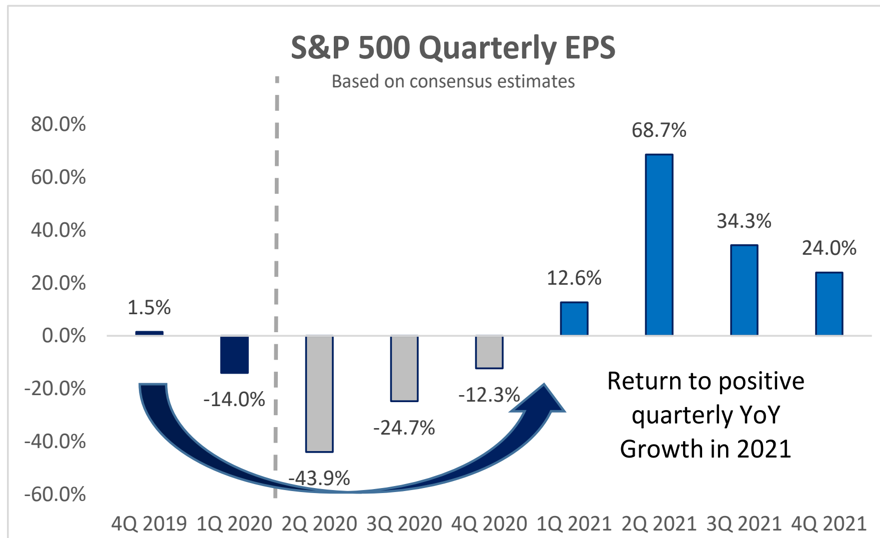
FUNDAMENTALS

With the 2Q just closing, Q2 earnings season will begin in a few weeks. Expectations are for S&P 500 earnings to contract by 43.9% YoY. Despite the significant contraction, 2Q is expected to be the trough for earnings with improvement throughout 2H 2020 and into 2021. Currently, consensus expectations for 2021 of $162.12 would suggest a full recovery above 2019 levels.

As seen below, all 11 sectors are expected to see YoY declines in EPS. Not surprisingly, some of the more defensive sectors, such as Utilities, Real Estate, Health Care, and Consumer Staples are expected to see the fundamentals hold up better than some of the more Cyclical sectors of Financials, Industrials, Consumer Discretionary, and Energy. The Consumer Discretionary and Energy sectors are expected to see the absolute level of earnings in 2Q turn negative. Technology continues to exemplify leadership, not only from a stock standpoint, but a fundamental perspective with 2Q EPS expected to only decline 9%, the second best amongst sectors.







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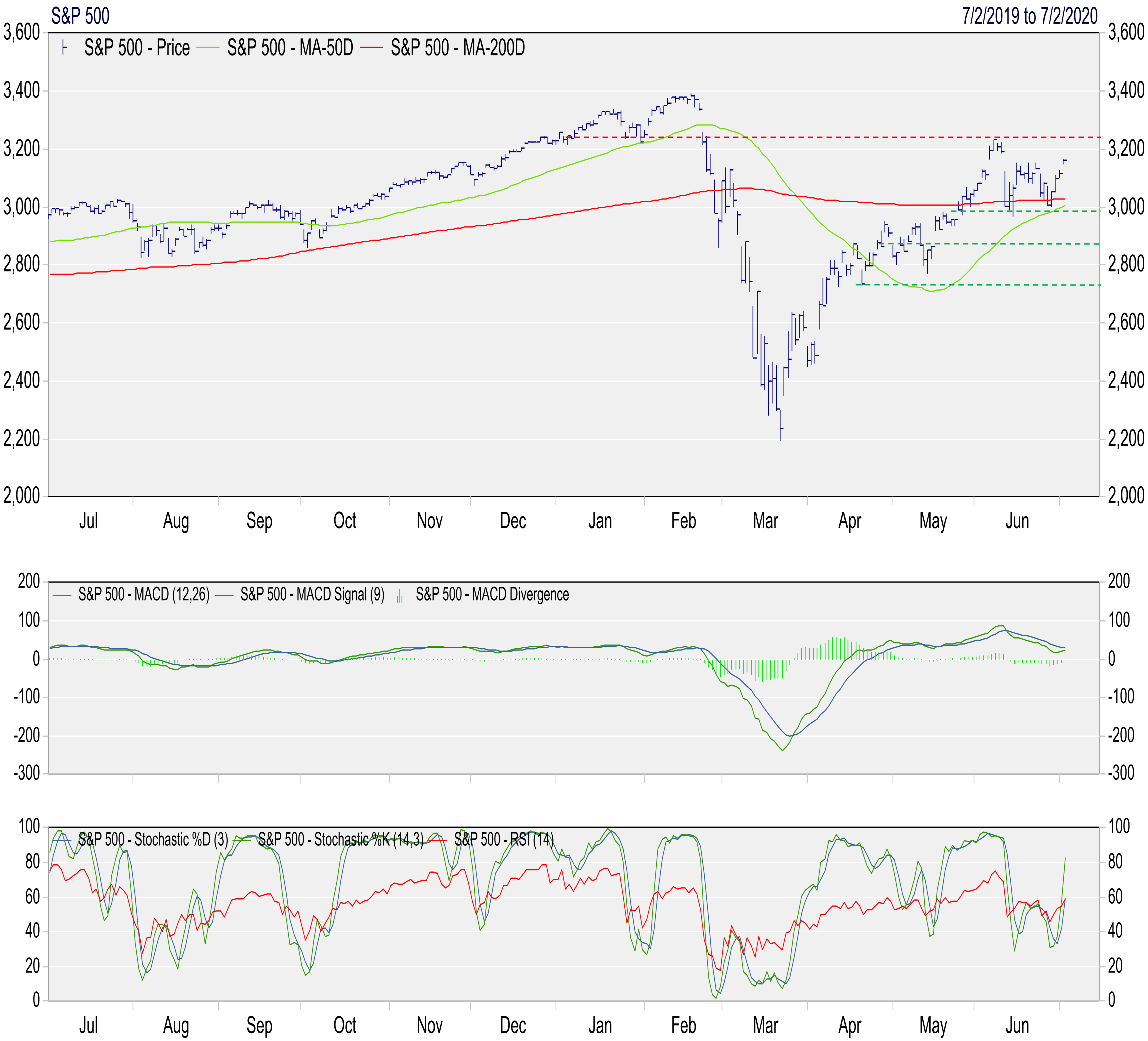
TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The consolidation phase seen over the last few weeks continues with the market attempting to balance areas of improving economic conditions (off of the bottom) in the US with rising COVID-19 cases and other mounting risks. Moreover, given the sharp move off the bottom, it is not surprising to see some period of consolidation. Without anything to disrupt the current narrative and the consolidation as “normal” (+5%/-5%), we would expect the market to be somewhat range bound with the lower bound of ~2950-3000 (50-DMA) and the upper bound of 3200-3250 over the coming weeks/months.

If a more challenging backdrop emerges in regards to cases, US/China relations, or the economic recovery is derailed, we could see a drawdown in the 8-12% range, which would take the lower bound closer to towards 2736-2850. In any event, we continue to have a positive bias towards equities and view pullbacks as buying opportunities.

From a fundamental perspective, 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 on pullbacks. Also 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).

TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The % of stocks trading above its 10 DMA is off its lows and out of oversold levels. However, it is not yet overbought in the near-term, suggesting that the recent bounce of the 200-DMA may continue in the very near-term. However, given our belief (as described previously) that the S&P 500 is in a consolidation period, upside is likely capped around the 3200-3250 range.

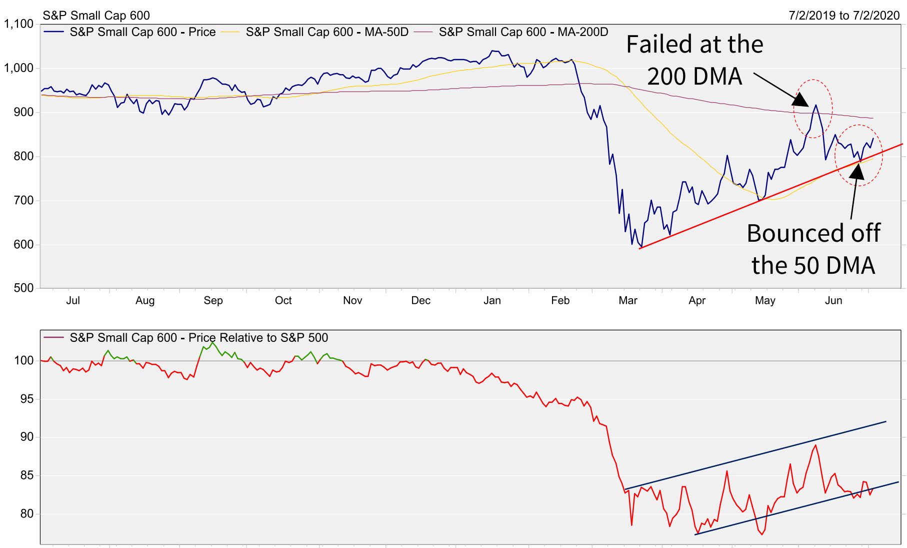
Longer-term, the % of stocks trading above its 200 DMA remain well off overbought territory, further contributing to our long-term bias towards equities.

From a sector perspective, the most overbought in the near-term would be the Utilities and Real Estate sectors with Energy continuing to be significantly oversold.

Sector	10 DMA - % Of Members Above	20 DMA - % Of Members Above	50 DMA - % Of Members Above	200 DMA - % Of Members Above
Technology	61	42	72	68
Industrials	49	22	86	37
Comm. Services	62	38	65	40
Real Estate	84	45	87	26
Financials	21	15	56	24
Cons. Discretionary	41	23	72	33
Utilities	96	32	68	19
Cons. Staples	42	39	58	58
Materials	79	36	86	43
Health Care	79	60	68	68
Energy	8	0	24	0

TECHNICAL: SMALL CAPS

Price action of the small-cap index remains frustrating as it has yet to break-out after failing at the 200-DMA and rolling back to the 50-DMA. However, some encouraging signs are that the 50-DMA has proven to be a formidable support level and the small-caps were able to hold the recent uptrend. As we saw on page 2, there has historically been a correlation between ISM Manufacturing and the 10-year yield. While the Fed has signaled that short-term rates are likely to remain low through 2022, a persistently higher manufacturing environment could push the 10-year higher and be a nice catalyst for a small-cap "catch-up" trade given the recent de-coupling between small-caps relative performance (did not react to improvement to ISM Manufacturing data), the 10-year yield (remain low), and US ISM Manufacturing (which is improving). Quarterly earnings growth for small-caps continues to be volatile, but the technical picture is starting to improve for small-caps (holding above their 50-DMA and relative performance has put in higher lows). This will be an area to keep an eye on over the coming weeks/months to see if the recent improvement is sustainable as small-caps have historically led large caps emerging from recessionary periods.



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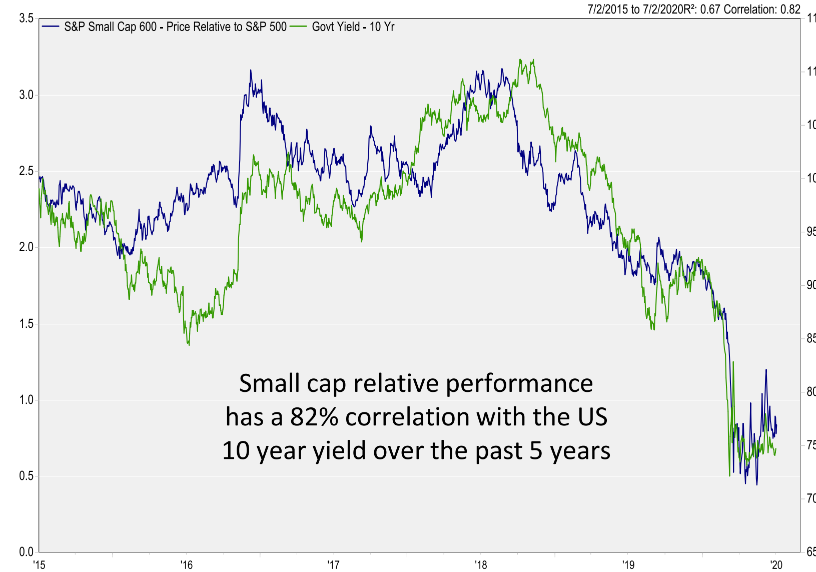
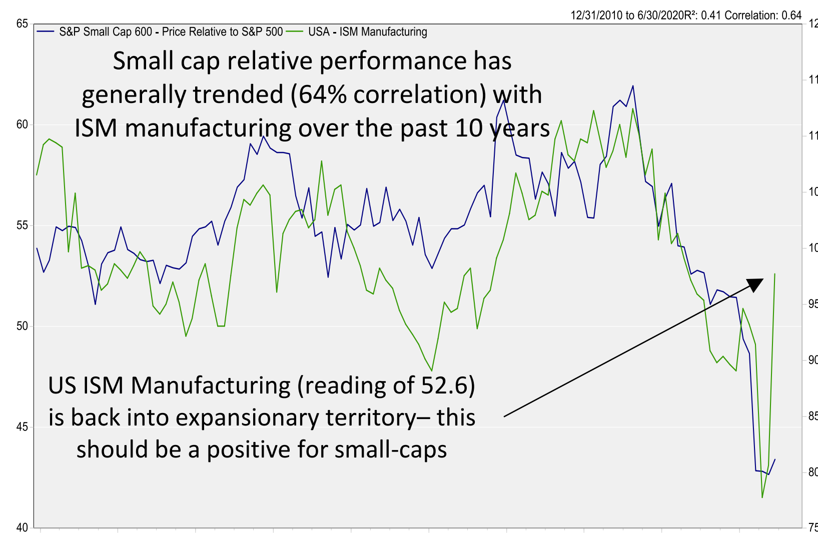
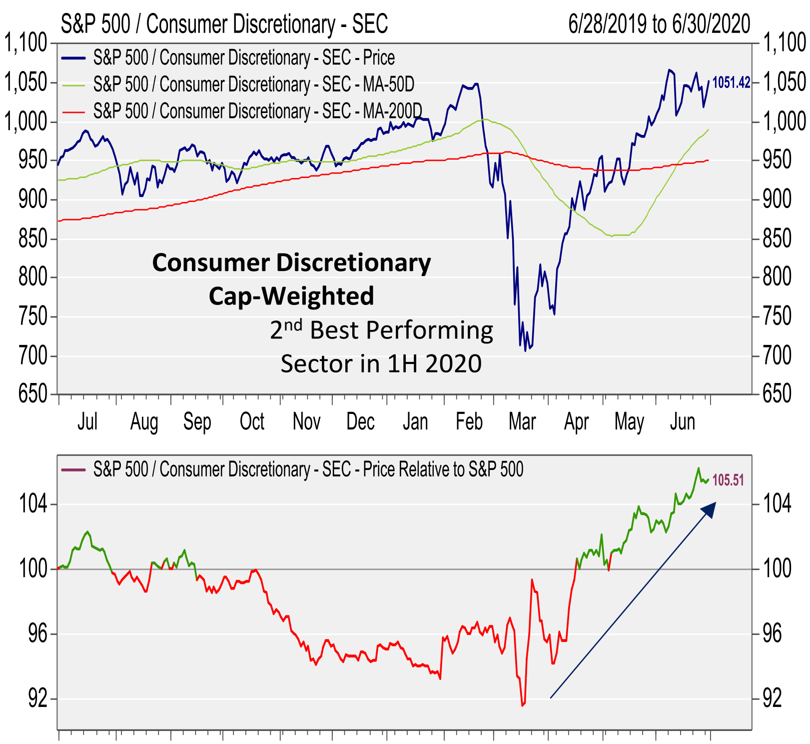


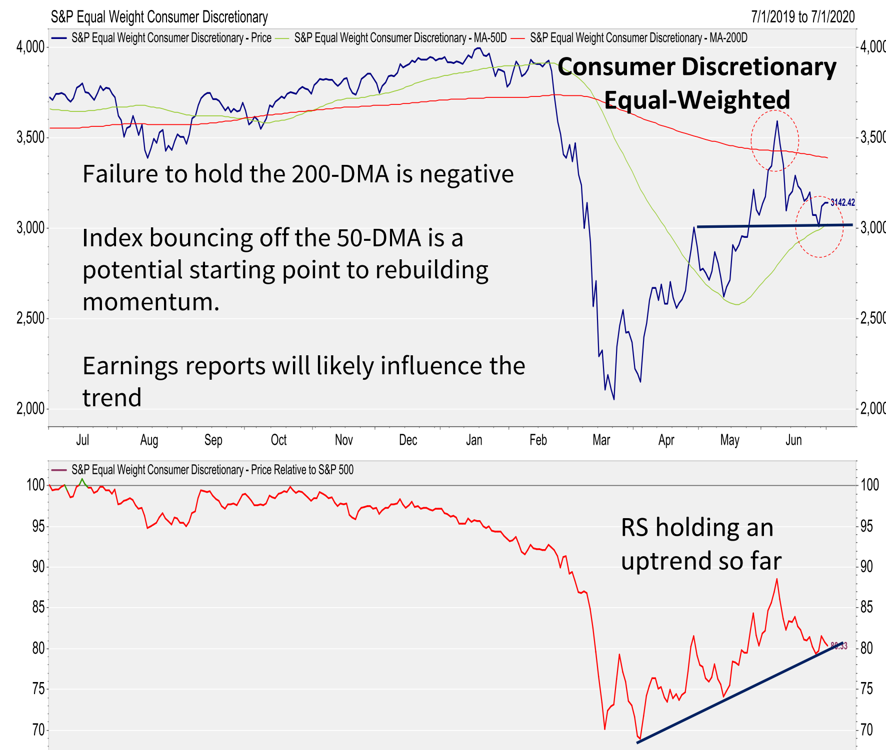


RAYMOND JAMES

TECHNICAL: CONSUMER DISCRETIONARY

We recently upgraded the Consumer Discretionary sector (please reference our Sector Analysis- June 2020) as U.S. economy recovers. Overall, as seen in today's non-farm payrolls, the U.S. jobs market continues to improve. Given our belief that a large portion of the job losses are classified as "temporary", the recovery could be swift as the economy reopens and employees return to work. While there is still a long road to full recovery (hotel revenues per available room still down over 60% and travel still down 75%), we believe the excessively high savings rate (aided by the unprecedented monetary/ fiscal measures) coupled with the inability to spend during lockdown should be a positive for the typically spend-happy US consumer once the economy fully reopens. We would continue to be selective on an individual basis, as the average stock within Consumer Discretionary (equal-weight index) remains down ~20% YTD while the cap-weighted index was the second best performing sector (+6.6%) in 1H 2020 driven by large exposure to e-commerce and home improvement giants that represent about 50% of the cap-weighted index. We would like to see a continued broadening out of the strength in the sector, but the recent improvement in relative performance off of the low in the equal-weighted index is encouraging.

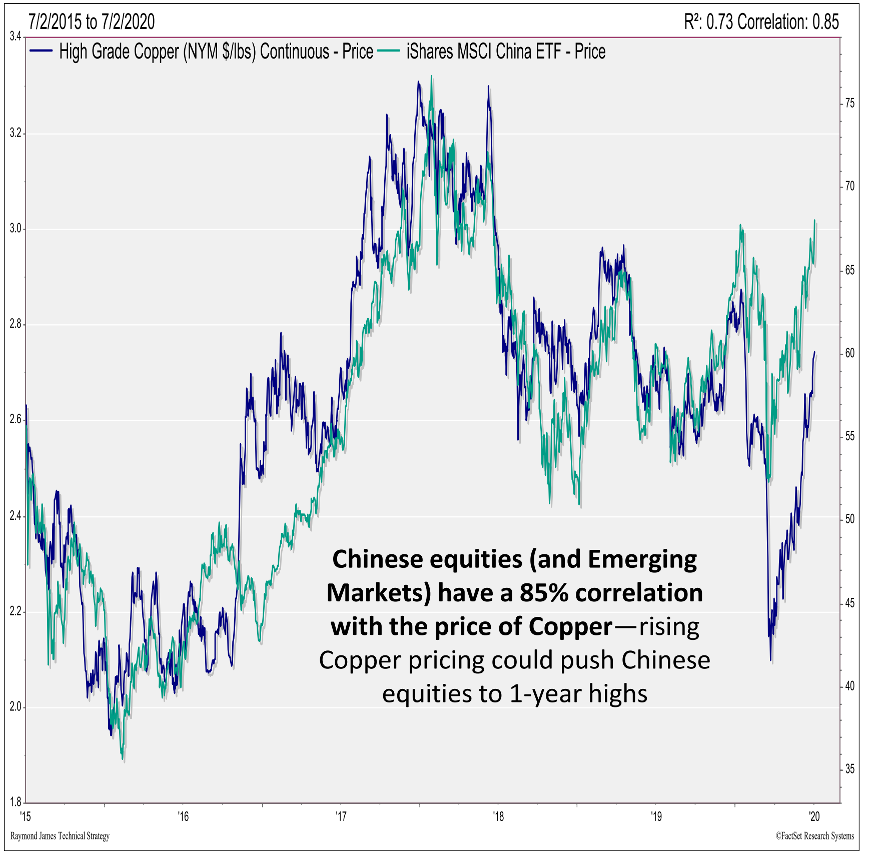




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: COPPER AND CHINA

Copper prices continue to move higher, which can be a good indicator for the health of the global macro environment. As seen below, historically, the 5-year correlation between copper prices and Chinese equities has been 85%. If the strength in copper is sustainable, Chinese equities look poised to break above January highs and serve as a nice catalyst to drive the relative performance of Chinese equities (and potentially Emerging Market equities) higher.

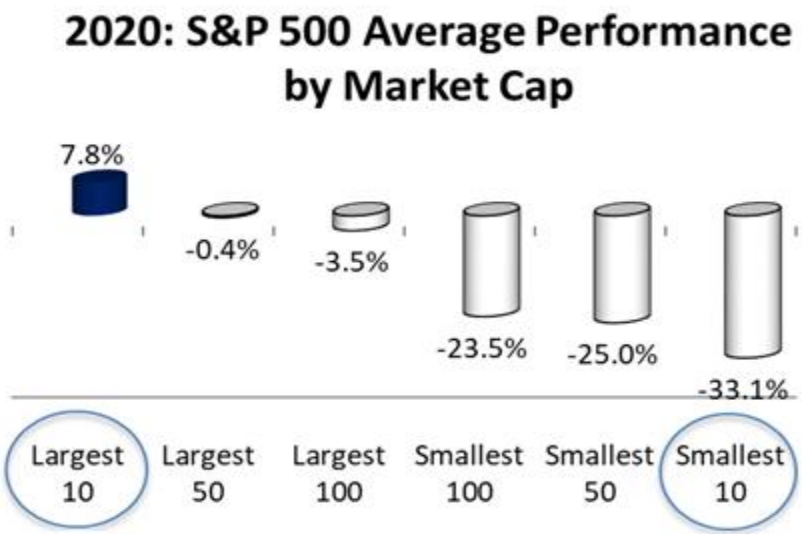


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: 1H 2020 PERFORMANCE DOMINATED BY LARGE CAPS

As seen below, the returns seen in 1H 2020 have been dominated by the large cap names. The largest 10 names on average returned 7.8% while the overall S&P 500 was down 4%. Additionally, the three largest stocks (AMZN, APPL, and MSFT), which make up 16% of the S&P 500, were up on average +35% over this period. Excluding these names, the S&P 500 would have been -8% vs. actual returns of -4%, masking the reality the economy is still challenged.

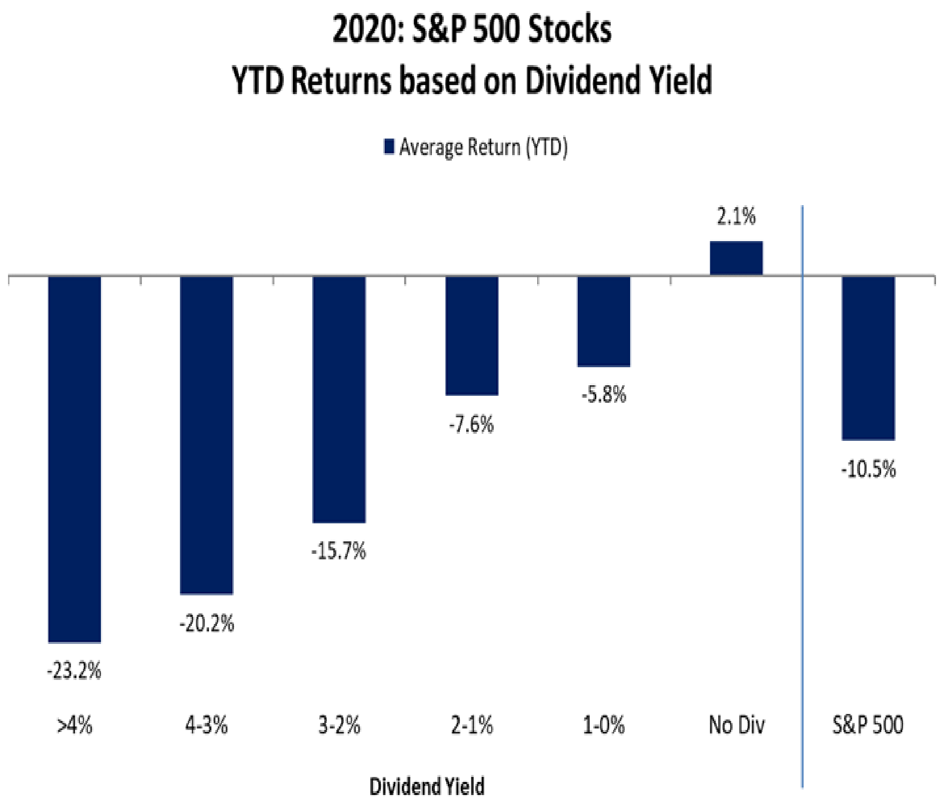
As seen to the right, the equal-weight index has given up relative performance to the cap-weighted index over the last few years, suggesting that the rally in equities was relatively narrow. However, following the market low, the equal-weight index attempted to regain some relative performance, suggesting some broadening out, which is positive for equities. However, this has not been sustainable as large caps continue to dominate. We would look for further relative strength in the equal-weight index for get constructive that the recent consolidation phase is likely over.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

DIVIDENDS NOT PROVIDING SUPPORT IN 1H 2020

Overall, equity income strategies have offered little support in 1H 2020 with Growth and non-dividend paying companies continuing to dominate performance. As seen below, the average return for non-dividend paying companies has been 2.1% through 1H 2020, while the average dividend paying stock was down 13%. Not surprisingly, sectors with large exposure to higher growth companies such as Technology and e-commerce within Consumer Discretionary are the best performing sectors through the 1H 2020.



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.

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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