RAYMOND JAMES

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

AUGUST 13, 2020 | 4:56 PM EDT

Weekly Market Guide

Short-Term Summary:

The market remains resilient with the S&P 500 inching closer to new all-time highs (less than 1% away) despite no major improvements in the stalemate on the coronavirus relief package. The focus of this week has been on the rotation we have seen into more beaten, lagging sectors such as Industrials, Financials and Energy that were all up over 3% in the last week and into small-caps, while areas of leadership (Technology and Communication Services), have seen momentum wane. Even yesterday, when the NASDAQ was up over 2%, the internal technical strength was uninspiring with advancing volume as a percentage of total volume at only 56%. While we find the recent outperformance by the more cyclical sectors as positive, we believe in order for a long-lasting, sustainable rally, market breadth needs to be widespread with all sectors moving higher, and not a continuation of the recent rotation we have been seeing under the surface.

Clearly, the next area of resistance is going to be breaking through the all-time high resistance level. It is important not to get complacent, thus during periods of market rotation, we would use the pullbacks in areas such as Technology, Health Care, and Communication Services to accumulate positions.

Overall, the narrative has been that the market rally (from the March lows) has been rather narrow with large, cap Tech driving the majority of gains with short-lived bouts of outperformance from cyclical areas only for Tech + names to quickly regain is leadership position. However, this dynamic could see a shift if the yield curve is able to see a sustained period of steepening, similar to what we have seen over the last week, which would suggest that the bond market may finally be anticipating an improvement in the economic outlook following the 3rd consecutive sequential improvement in non-farm payrolls. While the technicals remain under pressure (suggesting that we would continue to fade these short-lived rallies), a sustained steepening of the yield curve could present opportunities to embrace the "catch-up" trade on the deeply beat-up, cyclical sectors such as Industrials and Financials.

With Q2 earnings season winding down (with over 91% of companies already have reported earnings), it has been a much better than expected earnings season. Overall, 84% of companies have reported earnings better than expected with aggregate earnings surprise of ~22%. Looking ahead to Q3, earnings expectations have been rather resilient, with an expected y/y decline of 23.1%, which is an improvement from -24.8% in mid-July when earnings season began. Moreover, we have seen 2021 estimates move slightly higher as the economy continues to reopen.

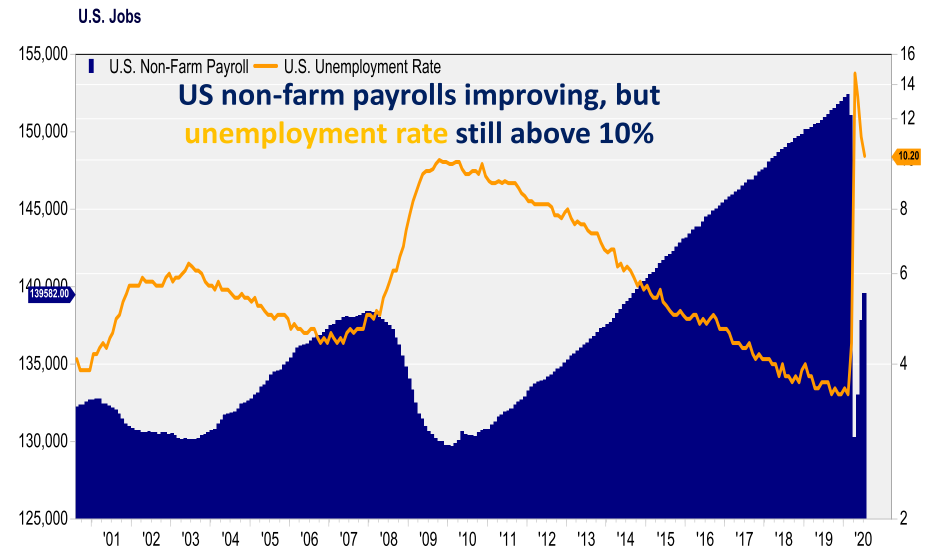
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	4.6%	17.2%
S&P 500 (Equal-Weight)	-3.8%	6.9%
Dow Jones Industrial Avg	-2.0%	8.0%
NASDAQ Composite	22.7%	40.0%
Russell 2000	-5.1%	5.9%
MSCI All-Cap World	1.0%	12.9%
MSCI Developed Markets	-6.1%	4.0%
MSCI Emerging Markets	-1.9%	12.3%
NYSE Alerian MLP	-37.3%	-40.0%
MSCI U.S. REIT	-15.7%	-14.0%

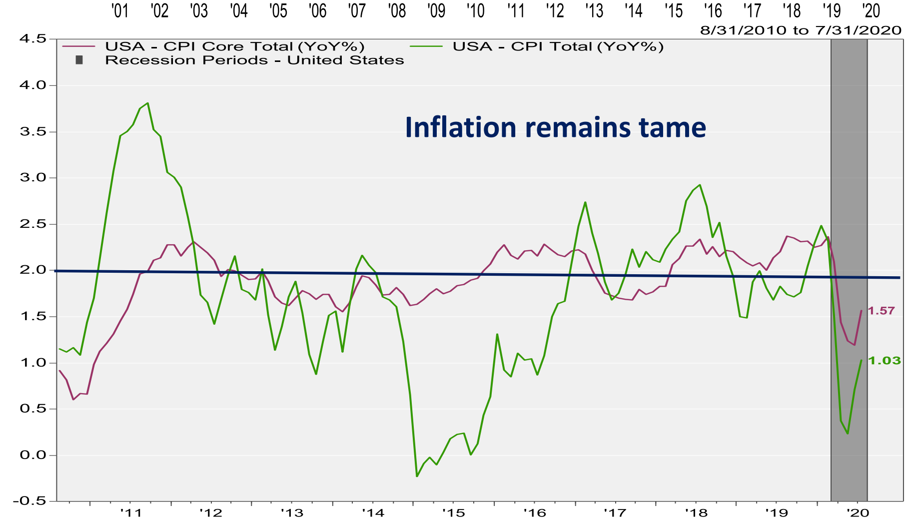
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	24.3%	27.4%
Consumer Discretionary	20.4%	11.2%
Communication Svcs.	8.1%	10.8%
Health Care	5.0%	14.3%
S&P 500	***4.6%***	-
Materials	2.0%	2.6%
Consumer Staples	1.7%	7.0%
Industrials	-4.6%	8.3%
Utilities	-5.7%	3.0%
Real Estate	-6.5%	2.7%
Financials	-18.1%	10.0%
Energy	-36.5%	2.6%

MACRO: US

The U.S. jobs market saw another non-farm payrolls surprise to the upside with 1.763 million jobs added vs. expectations of +1.480 million. This is the third consecutive month of sequential improvement. However, the jobs market remains depressed, with non-farm payrolls still down over 12 million since February (despite the recent gains of 9 million jobs since the April low). While the unemployment rate has trended lower, it remains elevated at over 10%, suggesting that the US jobs market is still a long way from being fully recovered. However, we still remain optimistic that the unemployment rate will continue to trend lower throughout the year as more businesses reopen and workers return to their jobs.

Despite the improvement in jobs, the NFIB small business optimism survey continues to moderate, suggesting optimism around the pace of the recovery may be slowing, which is consistent with the recent high frequency economic data and fears of new emerging hot spots throughout the US.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US economic data reported in the past week:

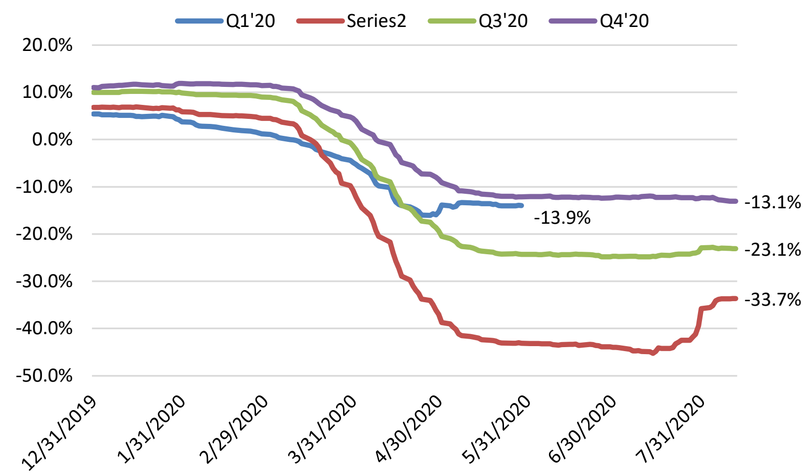
Event	Period	Actual	Consensus	Prior
Change in Non-Farm Payrolls	Jul	1,763K	1,480K	4,791K
Unemployment Rate	Jul	10.2%	10.6%	11.1%
Average Hourly Earnings YoY	Jul	4.8%	4.2%	4.9%
Average Weekly Hours	Jul	34.5	34.4	34.6
Labor Force Participation Rate	Jul	61.4%	61.8%	61.5%
JOLTS Job Openings	Jun	5,889	5,300	5,371
NFIB Small Business Optimism	Jul	98.8	100.5	100.6
PPI YoY	Jul	-0.4%	-0.7%	-0.8%
Core PPI (ex-food and Energy) YoY	Jul	0.3%	0.0%	0.1%
MBA Mortgage Applications	7-Aug	6.8%	-	-5.1%
CPI YoY	Jul	1.0%	0.7%	0.6%
Core CPI (ex-food and Energy) YoY	Jul	1.6%	1.1%	1.2%
Import Price Index YoY	Jul	-3.3%	-3.1%	-3.9%
Export Prince Index YoY	Jul	-4.4%	-	-5.1%
Initial Jobless Claims	8-Aug	963K	1,100K	1,191K

FUNDAMENTALS

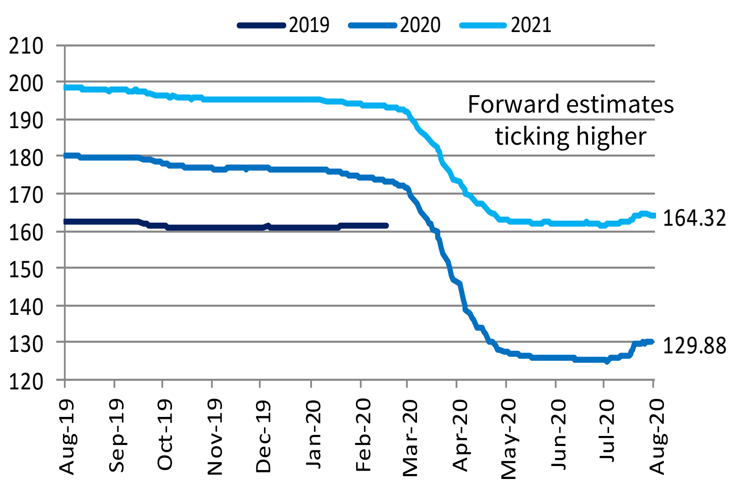
With Q2 earnings season winding down (with over 91% of companies already have reported earnings), it has been a much better than expected earnings season. Overall, 84% of companies have reported earnings better than expected (above the 5 year average of 72%) with aggregate earnings surprise of ~22% (well above the 5 year average of 4.7%). It is important to note, that 2021 earnings have also trended higher during this period of time, suggesting that the positive 2Q results are not taking away from future growth expectations.

Looking ahead to Q3, earnings expectations have been rather resilient, with an expected y/y decline of 23.1%, which is an improvement from -24.8% in mid-July when earnings season began. Fundamentally, Technology, Utilities, and Health Care are expected to see the least impact from COVID in 3Q20 with expected YoY declines under 5%. On the other hand, the more cyclical areas such as Energy, Industrials, Consumer Discretionary, and Financials are expected to see the largest YoY declines in 3Q.

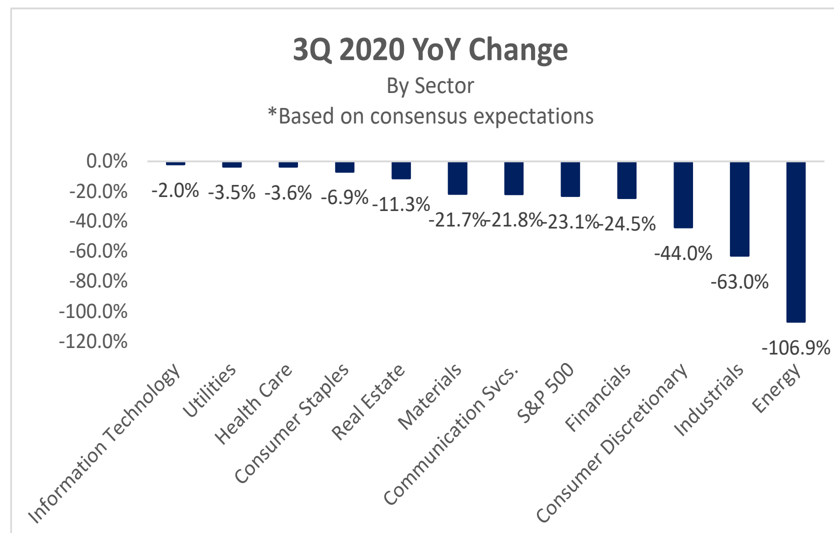
S&P 500 Quarterly Earnings Growth Estimates



S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2019	1.5%
2020	-19.5%
2021	26.5%

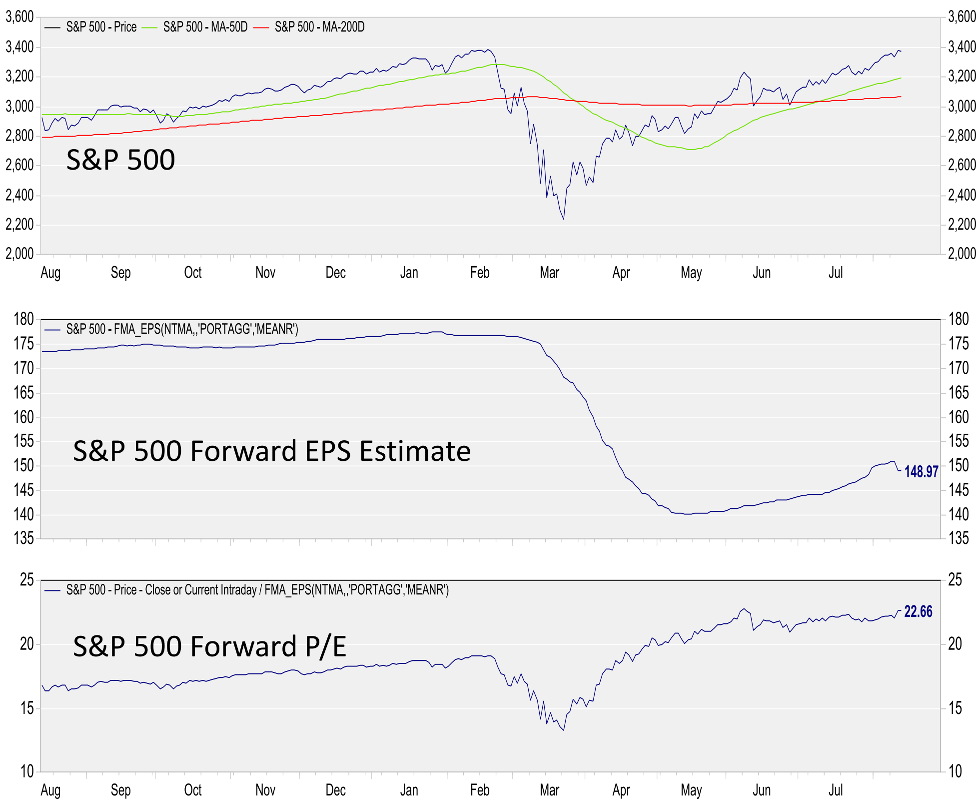


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUATION

S&P 500 P/E continues to remain at historically elevated level north of 22x. It is normal for valuations to extend coming out of recessions as the market discounts the eventual recovery. The overall trend (with some choppiness) is that forward EPS will continue to move higher, which should provide support for the equity markets. Our base case assumption is for the P/E multiple at year-end 2021 to be 21x.

Looking at the sector level, most of the cyclical sectors look the most extended with short-term indicators suggesting these sectors being overbought (as the % of companies above their 10-DMA are above 90%). Longer-term trends remain weak in many of these sectors, but the drastic underperformance could lend itself to a nice catch-up opportunity if the economic backdrop continues to improve.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Sector Trends and Moving Averages

Sector	10 DMA % Above	20 DMA % Above	50 DMA % Above	200 DMA % Above	Index % From 52 Week High
Energy	92	92	62	19	-38.5%
Materials	86	75	86	71	-0.6%
Health Care	56	58	76	81	-0.3%
Financials	88	83	85	33	-19.6%
Industrials	99	97	95	77	-9.4%
Technology	56	63	66	73	-1.5%
Comm. Services	77	73	81	62	-0.8%
Cons. Discretionary	93	97	93	61	-0.8%
Real Estate	68	90	65	35	-13.5%
Consumer Staples	88	88	91	73	-1.3%
Utilities	57	61	86	43	-14.3%
S&P 500	78	80	81	60	-0.7%

TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The technical momentum for the S&P 500 remains strong despite some undercurrents that could be challenging to move meaningfully higher (sector rotation and waning strength in leadership areas such as Technology). The S&P 500 was able to shake off the rollover seen in late July (breaking out of the trading range) and move within 1% of all-time highs.

We have seen some broadening out with areas such as small-caps and equal-weight S&P 500 outperforming. While this is positive and something that has been needed in this rally, we would like to see all sectors participate rather than leadership sectors move lower in order for the more cyclical, beaten up areas to gain relative performance.

Over the long-term, we maintain our positive stance, but we believe in order for a long-lasting, sustainable rally, market breadth needs to be widespread with all sectors moving higher, and not a continuation of the recent rotation we have been seeing under the surface.

Clearly, the next area of resistance is going to be breaking through the all-time high resistance level. It is important not to get complacent and would use periods of market rotation and pullbacks to accumulate positions in areas such as Technology, Health Care, and Communication Services.

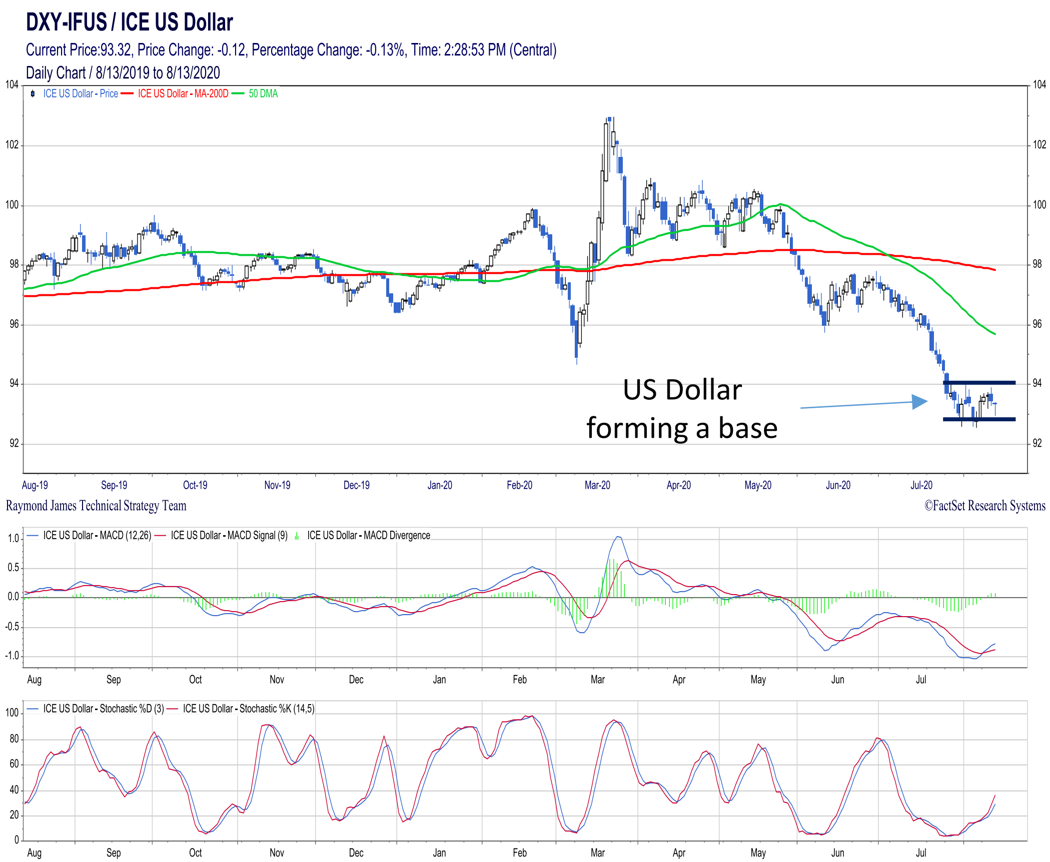
Weakness in leadership

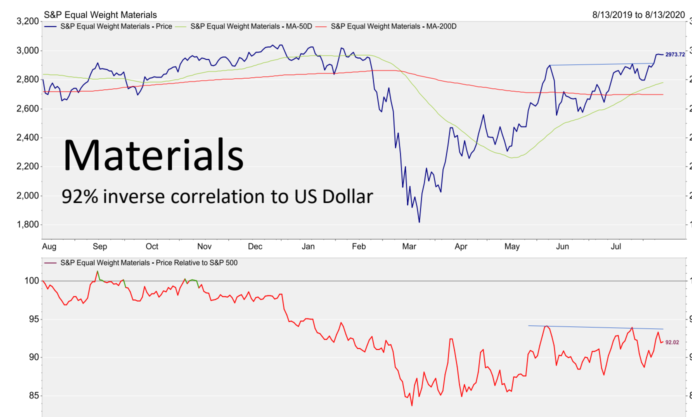
Strength in laggards

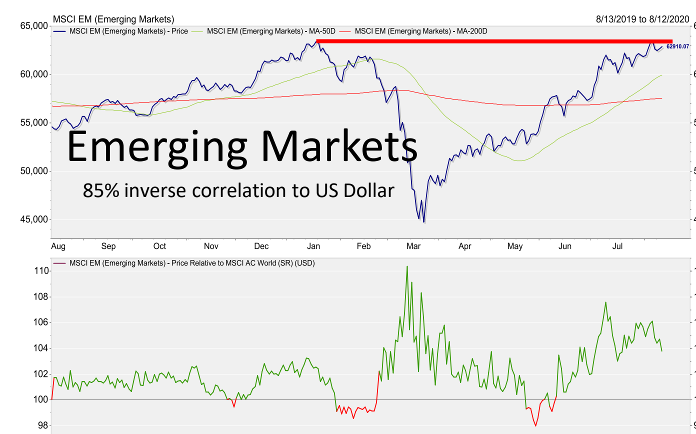
S&P 500 Sectors	Price Return 1 Week	Price Return Year to Date	Sector Weighting
Information Technology	-1.4%	24.3%	27.4%
Consumer Discretionary	1.4%	20.4%	11.2%
Communication Svcs.	-0.6%	8.1%	10.8%
Health Care	1.1%	5.0%	14.3%
S&P 500	***0.9%***	***4.6%***	-
Materials	1.8%	2.0%	2.6%
Consumer Staples	1.6%	1.7%	7.0%
Industrials	5.1%	-4.6%	8.3%
Utilities	1.0%	-5.7%	3.0%
Real Estate	0.6%	-6.5%	2.7%
Financials	3.9%	-18.1%	10.0%
Energy	3.4%	-36.5%	2.6%

TECHNICALS: US DOLLAR

The US Dollar has seen some stabilization from its recent move lower. As the USD forms a base, we would wait for the next directional move before new actions on Emerging Markets and the Materials sector, which tend to have a strong inverse correlation to the US Dollar. If the US Dollar continue to move sideways, this could mean basing for the Emerging Market and Materials sector. However, if the US Dollar begins to strengthen again, this could be a short-term negative.



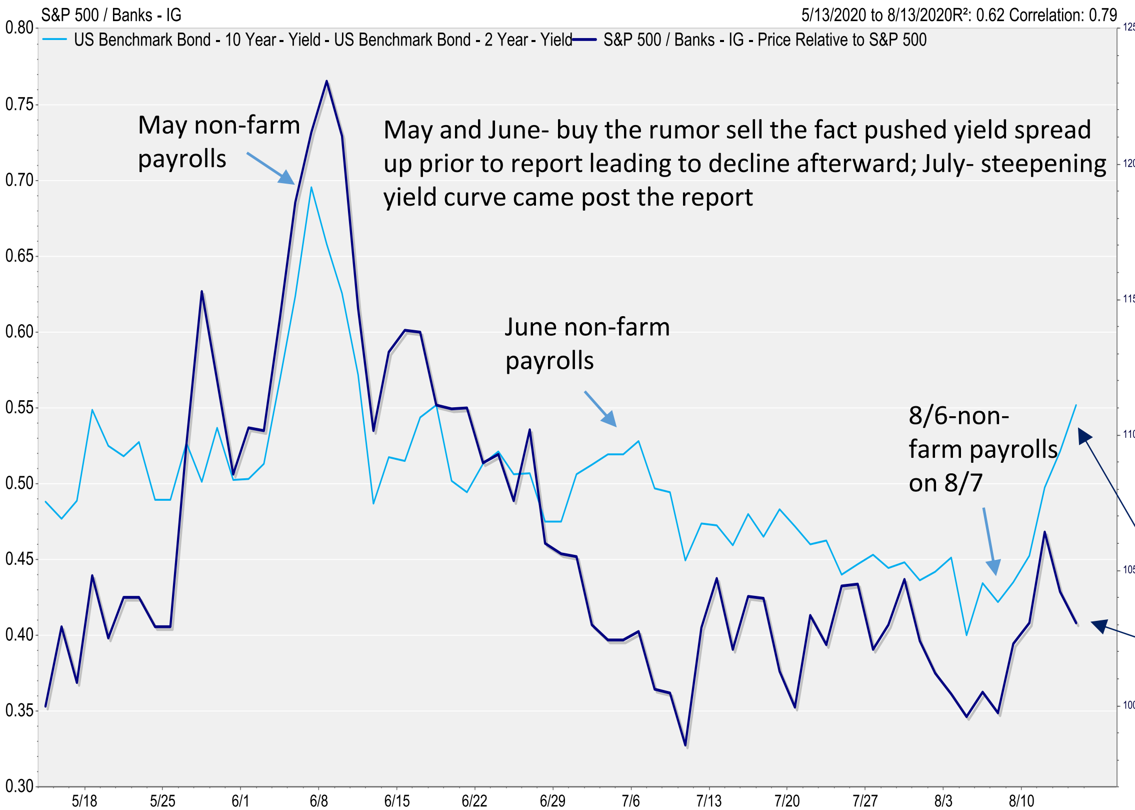


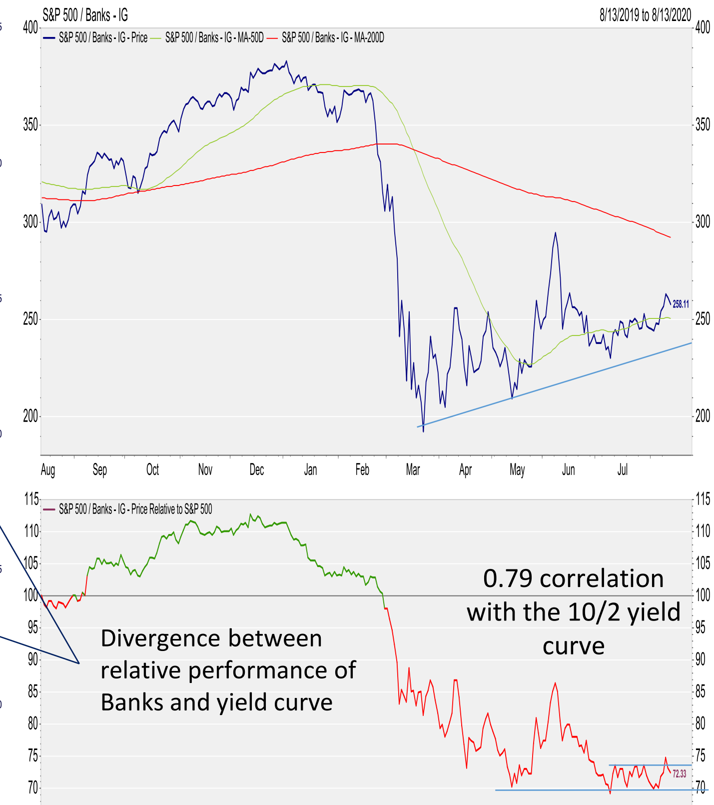


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICALS: FINANCIALS AND YIELD CURVE

The yield curve is going to be an important area to watch in the coming days, weeks, and months ahead. There have been short-term bouts of outperformance by the Financials and other cyclicals during this market recovery only for the rotation to quickly reverse with Tech+ names regaining leadership. However, this time, the steepening of the yield curve has been sustained after a better than expected US jobs report (prior two months, the yield curve started to narrow shortly following the report despite surprising to the upside). The steepening yield curve would suggest that the bond market may finally be anticipating an improvement in the economic outlook following the 3rd consecutive sequential improvement in non-farm payrolls. However, there seems to be a divergence with the relative performance of the Banks. The technicals remain under pressure (suggesting that we would continue to fade these short-lived rallies), but a sustained steepening of the yield curve could present opportunities to embrace the "catch-up" trade on the deeply beat-up, cyclical sectors such as Industrials and Financials.

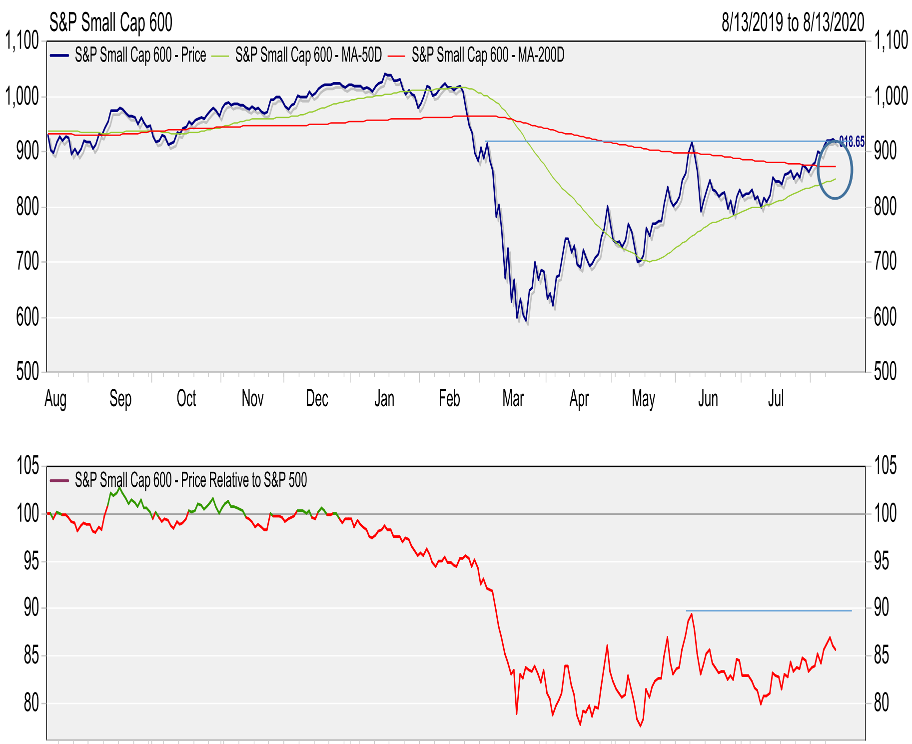


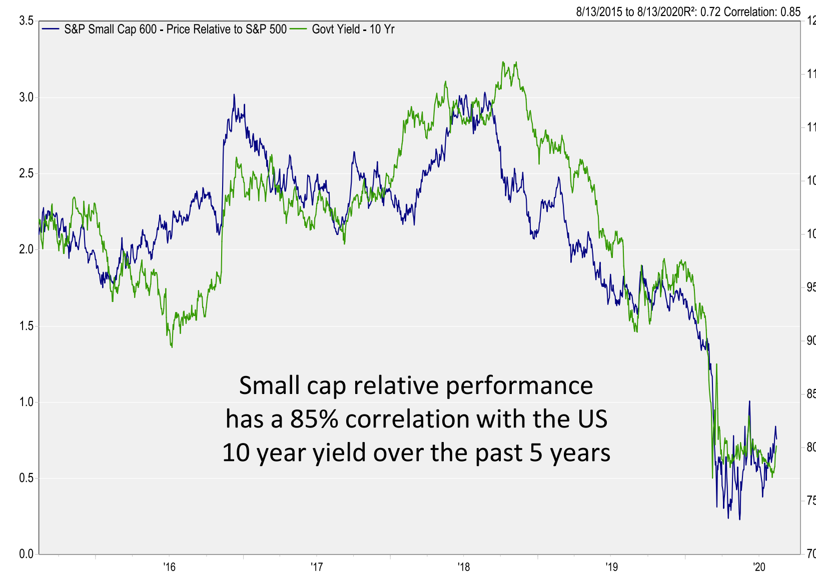


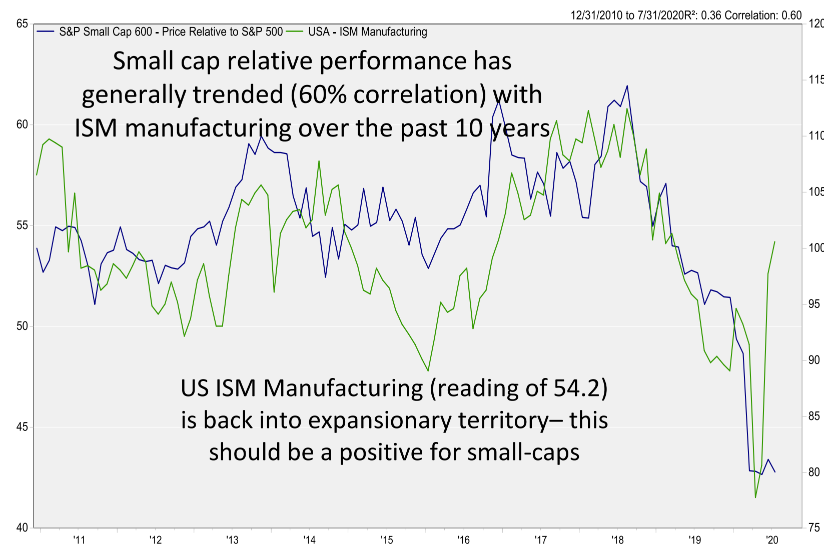
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICALS: SMALL-CAP

After giving back roughly 10 years worth of outperformance over the past 2 years, small-caps have started to see some stabilization and outperformance recently, breaking above its June highs. While we would still look for confirmation that this recent rotation can be sustained (price holds above recent breakout, relative performance breaks above the June highs, and 50-DMA moves above 200-DMA), the improving ISM Manufacturing and recent improvement in 10-year yield may prove to be catalysts to move the small-cap index higher given the strong historical correlation.





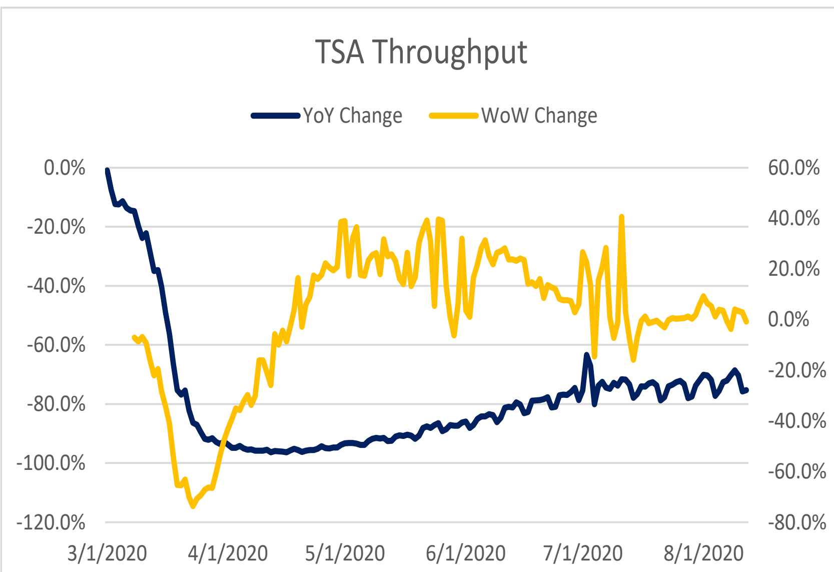


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

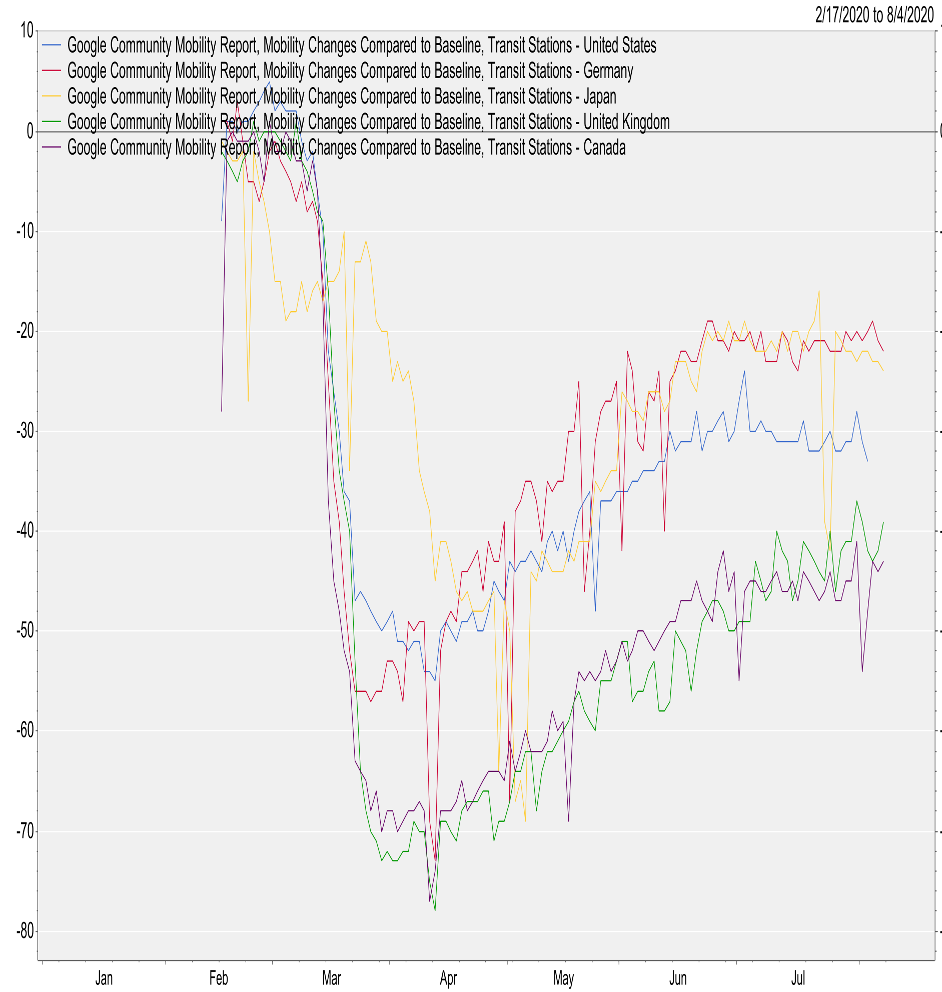
HIGH FREQUENCY DATA

Recent high frequency data suggest some moderation in the economic improvement in the US, but not sharp deterioration despite fears of new, emerging “hot spots”. As seen below, the TSA throughput data improved rapidly off the bottom until the beginning of July. However, over the last month or so, as new “hot spots” emerged and the fear of a resurgence increased, this rate of change has slowed, but has not see a significant decline on either a YoY or WoW basis. To the right, we looked at global mobility changes at transit stations. Similar to the TSA data, this would suggest some moderation, but not a drastic decline in mobility throughout the globe.

Earnings estimates have been moving higher and this recent moderation is unlikely to change the earnings narrative as expectations remain relatively subdued for the 3Q EPS with the resumption of growth not expected until 2021.



Source: TSA.gov, FactSet, Raymond James Equity Portfolio & Technical Strategy



M20-3202194

IMPORTANT INVESTOR DISCLOSURES

This material is being provided for informational purposes only. Expressions of opinion are provided as of the date above and subject to change. Any information should not be deemed a recommendation to buy, hold or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. This report is not a complete description of the securities, markets, or developments referred to in this material and does not include all available data necessary for making an investment decision. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Links to third-party websites are being provided for informational purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any websites users and/or members.

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.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

International Disclosures

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This document is for the use of professional investment advisers and managers and is not intended for use by clients.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monetaire et Financier" and Reglement General de l'Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

For institutional clients in the European Economic rea (EE) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Broker Dealer Disclosures

Securities are: NOT Deposits • NOT Insured by FDIC or any other government agency • NOT GUARANTEED by the bank • Subject to risk and may lose value

Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. **Raymond James Financial Services, Inc.,** member FINRA/SIPC. Raymond James® is a registered trademark of Raymond James Financial, Inc.