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: Since the S&P 500 reached pre-Covid highs about two weeks ago, performance has been dominated by Technology stocks as the sector's strong fundamental and technical trends has only intensified. For example, the Tech sector is up ~8% over the past two weeks while the average S&P 500 stock is roughly flat (up 0.6%) and the small cap index is actually ~1% lower. This internal consolidation has created attractive entry points within various sectors, despite the S&P 500 index as a whole looking extended- such is the nature of the equity market in this unique technology-dominated environment.

We continue to favor Technology and believe the sector's fundamental momentum due to the accelerated trajectory into the digital economy (as a result of the pandemic) remains attractive. However, we would not be surprised to see rotation occur in the short term as the other areas "catch up." The catalyst could be interest rates, which are ticking slightly higher and are currently looking to move to their highest levels since June at 0.73%. There has been a 90% correlation between relative performance of the equal weight S&P 500 index and the US 10 year yield year-to-date, so a continued advance is likely to see the average stock gain some strength. For reference, the average S&P 500 stock is still below early June highs (when the US 10 year yield briefly spiked to 0.91%) while the Technology sector and S&P 500 are up 15% and 10% since then, respectively.

For the S&P 500 as a whole, a broadening out of market participation would be a positive for internal technical momentum and support our continued positive view on the equity markets. Despite the S&P 500 at all-time highs and trading at a trailing 12 month P/E of 23.75x, we do not view valuation as extreme when considering the unprecedented stimulus, low inflation, and record low interest rates (and likelihood they remain lower for longer). The Fed has effectively stated its intent to leave the fed funds rate at zero for the foreseeable future, and became more dovish in a speech today stating its desire to leave rates at zero even if inflation gets "moderately above its 2% target for some time"- switching to an "average 2% inflation target" from an absolute target that had been in place since 2012. For example, equity valuation relative to bonds (using the S&P 500 earnings yield vs the US 10 year Treasury yield) is only in line with its average since the credit crisis at 3.8% (which is still over one standard deviation "cheap" vs the 0.6% average since 1954). Additionally, the difference between the S&P 500's dividend yield and the US 10 year Treasury yield is still at 1% which is near the highest levels ever seen prior to COVID-19 (only similar readings near market lows in 2009 credit crisis, 2011-12 EU debt crisis, and 2015-16 manufacturing recession).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	7.7%	20.9%
S&P 500 (Equal-Weight)	-4.1%	7.5%
Dow Jones Industrial Avg	-0.7%	9.4%
NASDAQ Composite	30.0%	48.5%
Russell 2000	-6.5%	5.7%
MSCI All-Cap World	3.3%	16.2%
MSCI Developed Markets	-5.9%	5.5%
MSCI Emerging Markets	0.4%	16.5%
NYSE Alerian MLP	-43.7%	-45.2%
MSCI U.S. REIT	-17.3%	-16.1%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	33.0%	28.5%
Consumer Discretionary	27.2%	11.5%
Communication Svcs.	16.7%	11.3%
S&P 500	***7.7%***	-
Health Care	4.7%	13.9%
Materials	3.2%	2.5%
Consumer Staples	2.5%	6.8%
Industrials	-4.6%	8.0%
Real Estate	-7.7%	2.6%
Utilities	-9.6%	2.8%
Financials	-19.5%	9.6%
Energy	-41.5%	2.3%

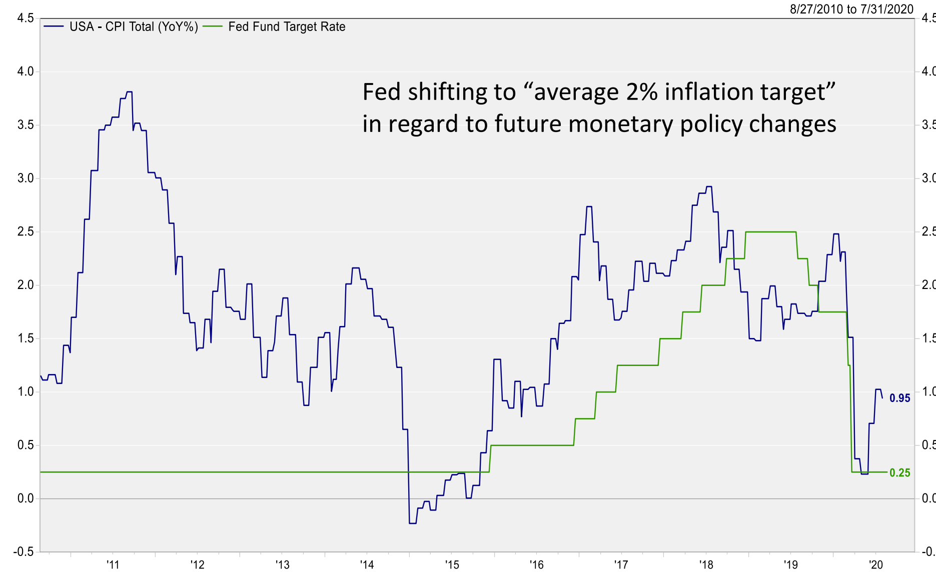
MACRO: US

Economic data continues to reflect a recovery with upside surprises. August Manufacturing PMI rose above expectations to 53.6, as did August Services PMI to 54.8. Housing data remained strong with existing and new home sales both rising well above estimates. Q2 GDP was also revised slightly higher to -31.7% q/q (vs -32.9%) and Q3 GDP estimates have been trending higher lately- up to 18.4% growth. A blemish in the past week's data was a slight disappointment in August consumer confidence. Initial jobless claims also moved slightly lower, but remains high at north 1M jobless claims.

All in all, we remain encouraged with momentum in the economic recovery. And the Fed remains very supportive in our view with rates likely to stay lower for longer. Today, the Fed shifted its monetary policy language to an "average 2% inflation target," signaling an intent to let inflation rise above its previous target "moderately, for some time" before discussing a hike in rates. The monetary policy support and lower-for-longer rates are a tailwind to equity markets.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
PMI Composite SA (Preliminary)	AUG	54.7	51.7	50.3
Markit PMI Manufacturing SA (Preliminary)	AUG	53.6	52.0	50.9
Markit PMI Services SA (Preliminary)	AUG	54.8	51.0	50.0
Existing Home Sales SAAR	JUL	5,860K	5,400K	4,700K
Building Permits SAAR (Final)	JUL	1,495K	1,495K	1,495K
S&P/Case-Shiller comp.20 HPI M/M	JUN	0.0%	0.10%	-0.03%
S&P/Case-Shiller comp.20 HPI Y/Y	JUN	3.5%	3.8%	3.6%
Consumer Confidence	AUG	84.8	93.0	91.7
New Home Sales SAAR	JUL	901.0K	782.0K	791.0K
Durable Orders ex-Transportation SA M/M (Pre)	JUL	2.4%	2.5%	4.0%
Durable Orders SA M/M (Preliminary)	JUL	11.2%	4.5%	7.7%
Continuing Jobless Claims SA	08/15	14,535K	14,400K	14,758K
GDP SAAR Q/Q (Second Preliminary)	Q2	-31.7%	-32.9%	-32.9%
GDP SA Y/Y (Second Preliminary)	Q2	-9.1%	-9.5%	-9.5%
Initial Claims SA	08/22	1,006K	1,000K	1,104K
Pending Home Sales Index SAAR	JUL	122.1	116.1	115.3
Pending Home Sales M/M	JUL	5.9%	4.4%	15.8%



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

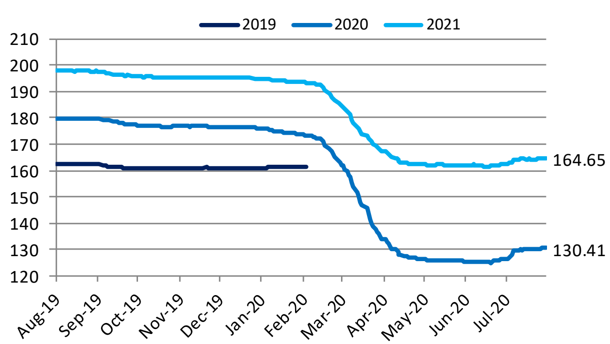
FUNDAMENTALS

With Q2 earning season past, the worst of the Covid-19 impact to fundamentals is likely over. Q3 and Q4 are also expected to have negative earnings growth y/y at -22.7% in Q3 and -13.2% in Q4. However, this is directional improvement from the -31.8% earnings contraction in Q2.

Also, as investors look into the future at earnings growth over the next 12-24 months, the most beaten up areas will generally begin to reflect very sharp rates of improvement off these easy comparisons. By 2022 year-end, today's fundamental leaders- Technology, Health Care, Communication Services, and cap-weight Consumer Discretionary sectors- are expected to see the best earnings relative to 2019 levels. But many of the most beaten-up areas will see strong growth as they narrow the gap in current fundamental performance. This fundamental change could lead to a broadening out of market performance technically, and is something we will be monitoring very closely.

For the S&P 500 as a whole, we are encouraged by the historic level of earnings beats in Q2 as well as the upward trend in earnings estimates for 2020 and 2021. As a reminder, it is actually normal for forward estimates to trend higher out of recessions (opposite of estimate trends in other years). We continue to use $130 as our earnings estimate for 2020 (consensus estimates now in line with us) and $160 for 2021 (just below consensus of $164.65). Our bull case earnings estimate remains $170 for 2021 and bear case is $150. For further information regarding our estimates, please see our *8/26 S&P 500 Price Target Revision* report here.

S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2019	1.5%
2020	-19.0%
2021	26.1%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Estimated sector earnings relative to 2019 levels shown below

S&P 500 Sector	S&P 500 Weighting	Earnings Rel. to 2019 2020	2021	2022
Information Technology	28.2%	4.3%	18.8%	25.2%
Health Care	14.2%	3.4%	16.7%	28.4%
Consumer Staples	7.0%	-0.9%	6.3%	14.6%
Materials	2.5%	-17.7%	6.1%	16.9%
Utilities	2.9%	-0.3%	5.2%	11.2%
Communication Services	11.0%	-13.1%	4.2%	22.5%
S&P 500	**100.0%**	**-19.1%**	**2.1%**	**17.2%**
Real Estate	2.7%	-8.0%	-1.1%	6.6%
Consumer Discretionary	11.4%	-45.5%	-4.1%	20.4%
Industrials	8.1%	-51.5%	-7.4%	11.4%
Financials	9.6%	-33.5%	-12.5%	4.7%
Cons. Disc. (Avg Stock)	-	-72.8%	-14.9%	11.2%
Energy	2.4%	-102.8%	-50.0%	-10.0%

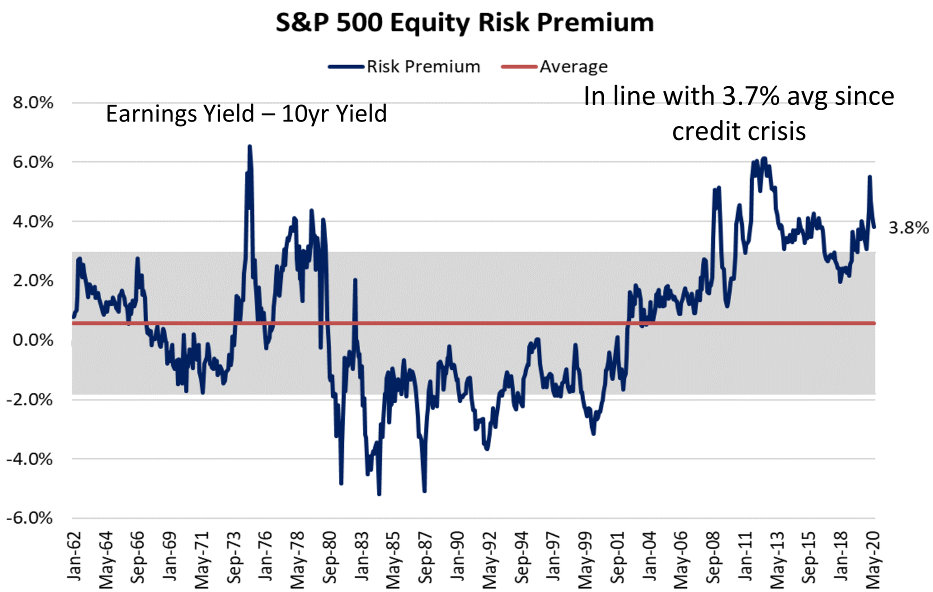
Easy comps will begin to reflect strong earnings growth for many of the most Covid-impacted areas in 2021

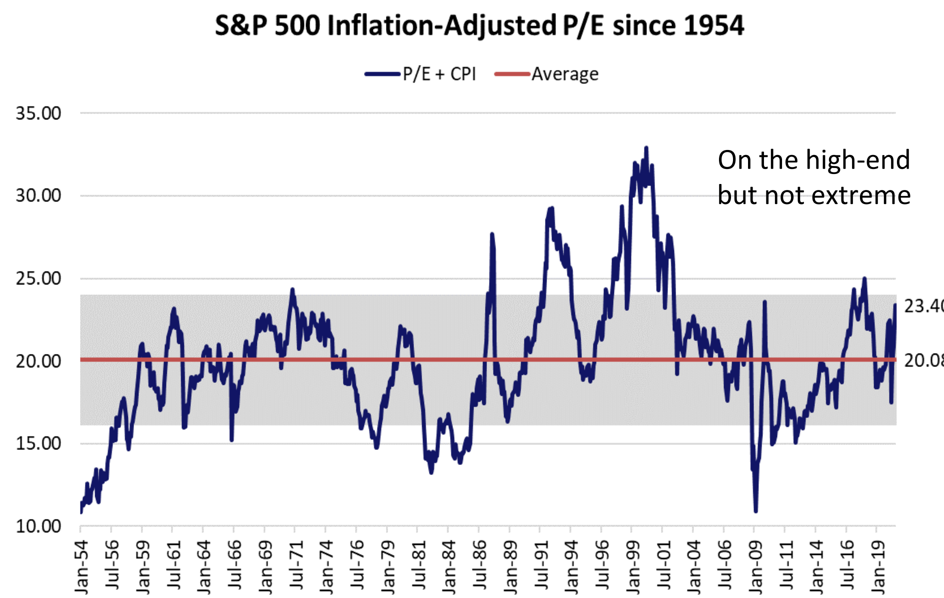
S&P 500 Sector	EPS Growth NTM	2Yr
Industrials	14.4%	56.0%
Consumer Discretionary	14.2%	57.3%
Information Technology	10.6%	19.6%
Materials	9.9%	27.4%
Health Care	9.5%	21.5%
S&P 500	7.6%	27.4%
Communication Services	6.9%	26.5%
Consumer Staples	4.3%	12.3%
Utilities	3.4%	9.2%
Financials	1.7%	25.4%
Real Estate	1.6%	9.4%
Energy	-9.7%	120.5%

VALUATION

As discussed previously, record low interest rates and low inflation are supportive of elevated equity market valuations. The current S&P 500 P/E is 23.75x which is the highest level since 2002. However, low rates have virtually made equities "the only game in town." For example, the relative valuation of equities vs bonds (as reflected by S&P 500 earnings yield vs US 10 year Treasury yield) is 3.8%. This remains over one standard deviation "cheap" vs the average since 1962 of 0.6%. Moreover, 3.8% is only in line with the earnings yield vs bond yield since the credit crisis. Also, the inflation-adjusted P/E of 24.75x is on the high-end historically, but in line with one standard deviation above its average since 1954 of 20.1x. We do not view this as extreme, especially considering the current depressed earnings as we work ourselves out of a recession. It is normal for P/E multiples to elevate out of recessions as investors discount the eventual recovery.

In our base case fair value target for the S&P 500, we use a 22.5x P/E for year-end 2021. If current earnings estimates hold and the S&P 500 price didn't move by year end, 2020 will finish with a roughly 26x P/E multiple. So a move lower to 22.5x in 2021 as earnings improve is to be expected. If inflation returns to 1.5% next year, this would still be just one standard deviation above the long term average inflation-adjusted P/E. Also the US 10 year Treasury yield would have to rise to ~1.5% in order for the equity risk premium to move lower than 3%, which has been the lower end of the past 10 year range (ex-tax reform induced January 2018 valuation surge). The message from the Fed that it is willing to support the economic recovery in all ways necessary and will likely keep the fed funds rate lower for longer are supportive of elevated P/E multiples in our view.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

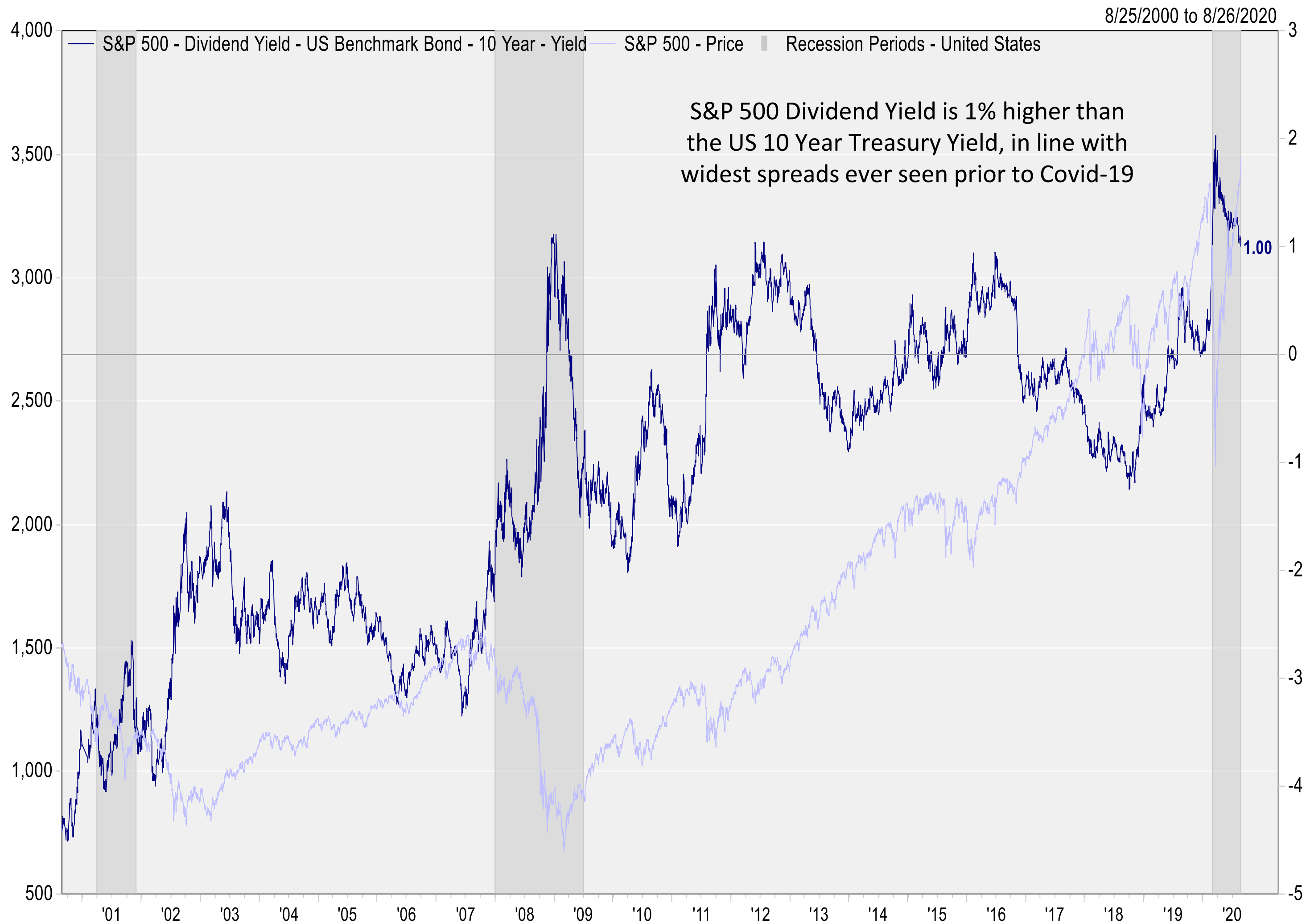
VALUATION

Another way to look at equity valuation vs bonds is the S&P 500 dividend yield vs US 10 year Treasury yield. The difference currently is 1% (investors receive 1% more yield by buying the S&P 500 than from the US 10 year yield).

Prior to Covid-19, this spread would be in line with the highest levels ever seen.

The only other instances came in the 2009 credit crisis, 2011-12 EU debt crisis, and 2015-16 manufacturing recession.

Those levels were seen near market lows in those periods. So by this metric, equities remain historically "cheap" vs bonds despite the S&P 500 index being at all-time highs.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 has been able to advance in the past two weeks due to Technology's growing strength and influence on the index as a whole, while the average stock has not experienced similar upside.

For the S&P 500 as a whole, the index is approaching technical resistance in the 3532-3566 area that investors should be mindful of. This is the trend line from January 2018 and February 2019 market tops. We would not be surprised to see the index "cool off" around this level. A move lower for the index should be met with initial support around 3354-3300 and more support can be found at 3200.

However, market breadth could also be set to expand beneath the surface as the average stock "catches up" to the index. This would be a positive for internal technical strength, and we explain this view on the next few pages.

MARKET BREADTH

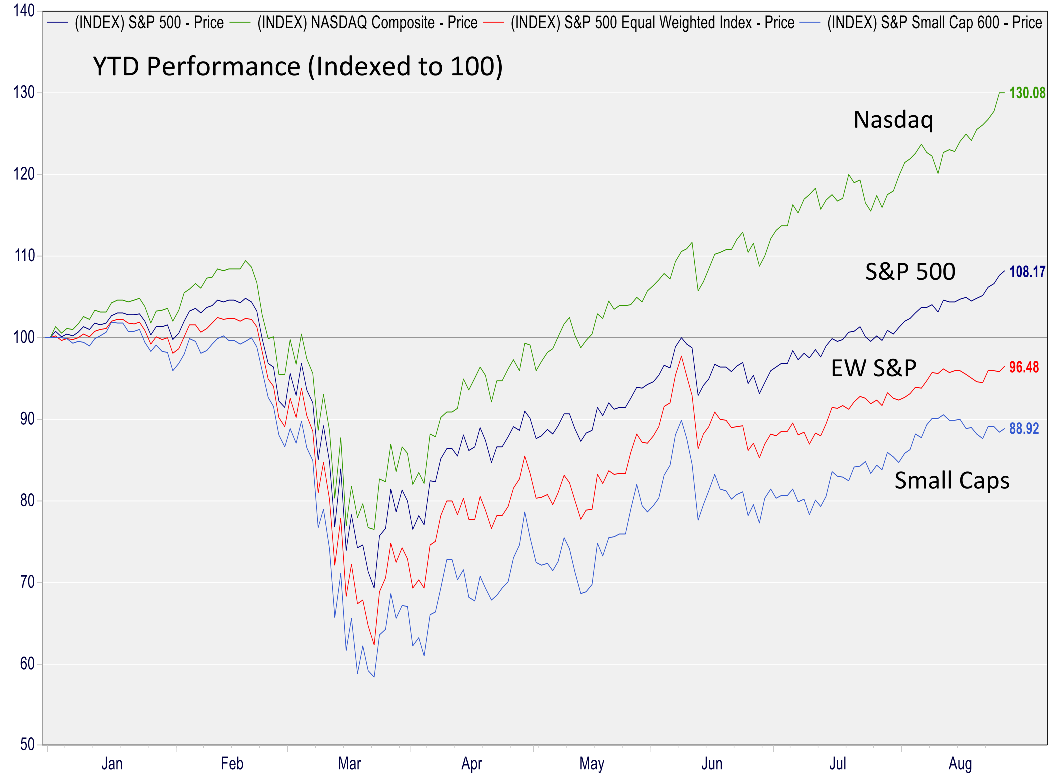
The equity market has undergone a consolidation over the past couple weeks despite the index's move higher- such is the unique nature of this technology-dominated environment. For example, Technology is up ~8% over the past two weeks while the average S&P 500 stock is roughly flat and the small index is actually ~1% lower. In fact, the average S&P 500 stock and the small cap index are both lower than they were in early June while the S&P 500 is up 10% since then. This has created attractive entry points within various sectors in our view, despite the S&P 500 index as a whole looking extended. Tech's dominance is reflected in portfolio performance (depending on your exposure), as well as size and style allocations. For example, the S&P 500 index is up 7.7% year-to-date; but roughly all of its gains can be attributed to just its five largest stocks- AAPL, MSFT, GOOGL, AMZN, and FB. The average S&P 500 stock is still down 4% year-to-date and 39% of S&P 500 stocks are still down over 20% from their 52 week highs. We continue to favor Technology, however we would not be surprised for rotation to occur in the short term as the other areas "catch up."

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	33.0%	28.5%
Consumer Discretionary	27.2%	11.5%
Communication Svcs.	16.7%	11.3%
S&P 500	***7.7%***	-
Health Care	4.7%	13.9%
Materials	3.2%	2.5%
Consumer Staples	2.5%	6.8%
Industrials	-4.6%	8.0%
Real Estate	-7.7%	2.6%
Utilities	-9.6%	2.8%
Financials	-19.5%	9.6%
Energy	-41.5%	2.3%

S&P Styles

Year to Date (Price Return)

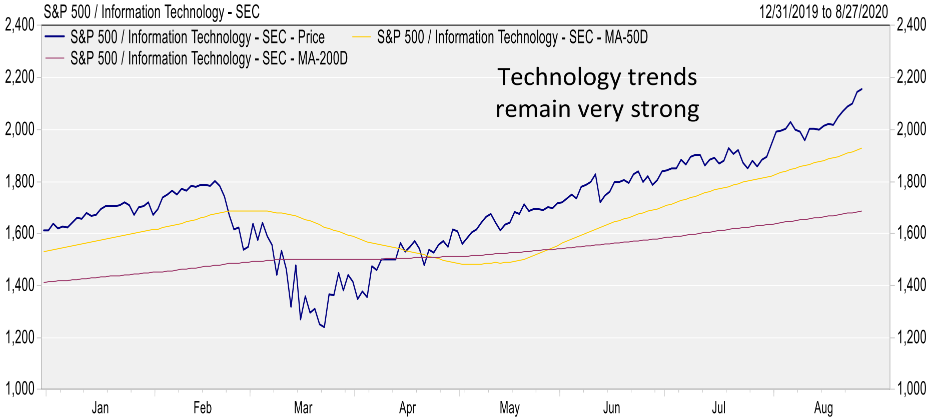
	Growth	Blend	Value
Large Cap	24.8%	7.7%	-11.6%
Mid Cap	3.4%	-6.5%	-17.1%
Small Cap	-4.2%	-11.6%	-19.4%

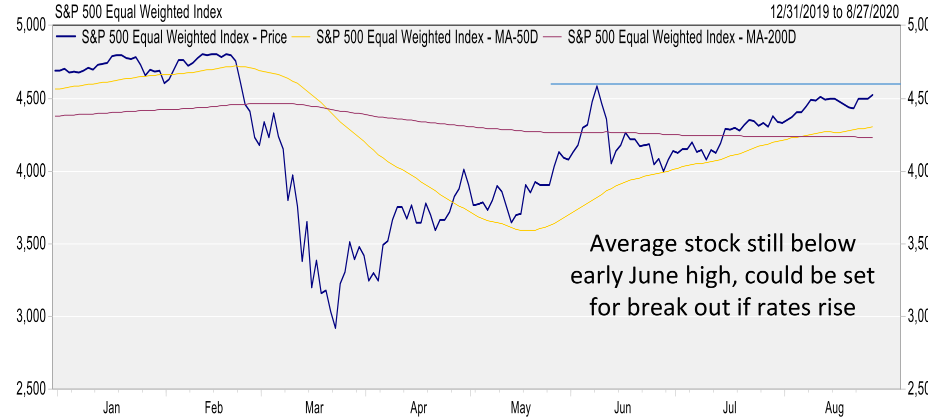


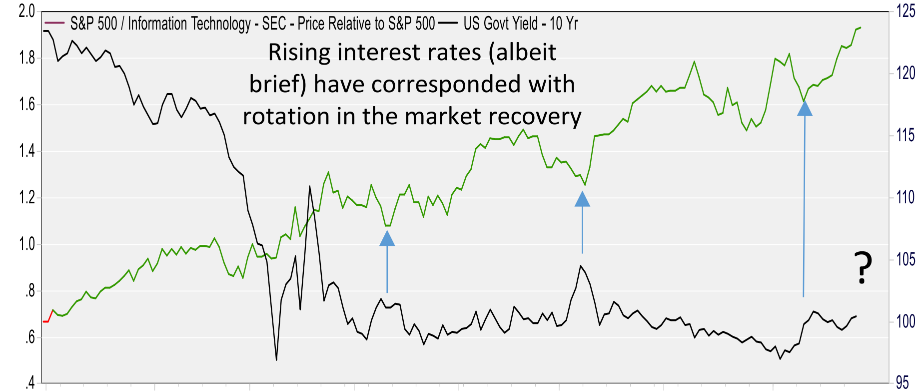
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

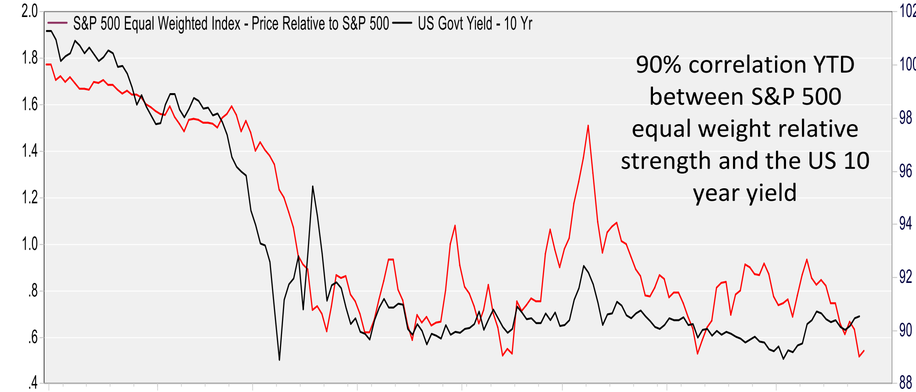
MARKET ROTATION

The only thing that seems to slow down Technology's remarkable momentum in this recovery has been interest rates. As you can see in charts below, upticks in the US 10 year yield have corresponded with sector rotation as Technology has briefly lost relative strength and the average stock has briefly outperformed. In fact, there has been a 90% correlation year-to-date between the S&P 500 equal weight index's relative performance (vs cap-weight S&P 500) and the US 10 year yield. Interest rates are ticking slightly higher currently and attempting to break to their highest level since June at 0.73%. If the advance can continue, the average stock is likely to see outperformance in the short term and could be set to break out to its recovery highs- which have been in place since early June when the US 10 year yield briefly spiked to 0.91%.





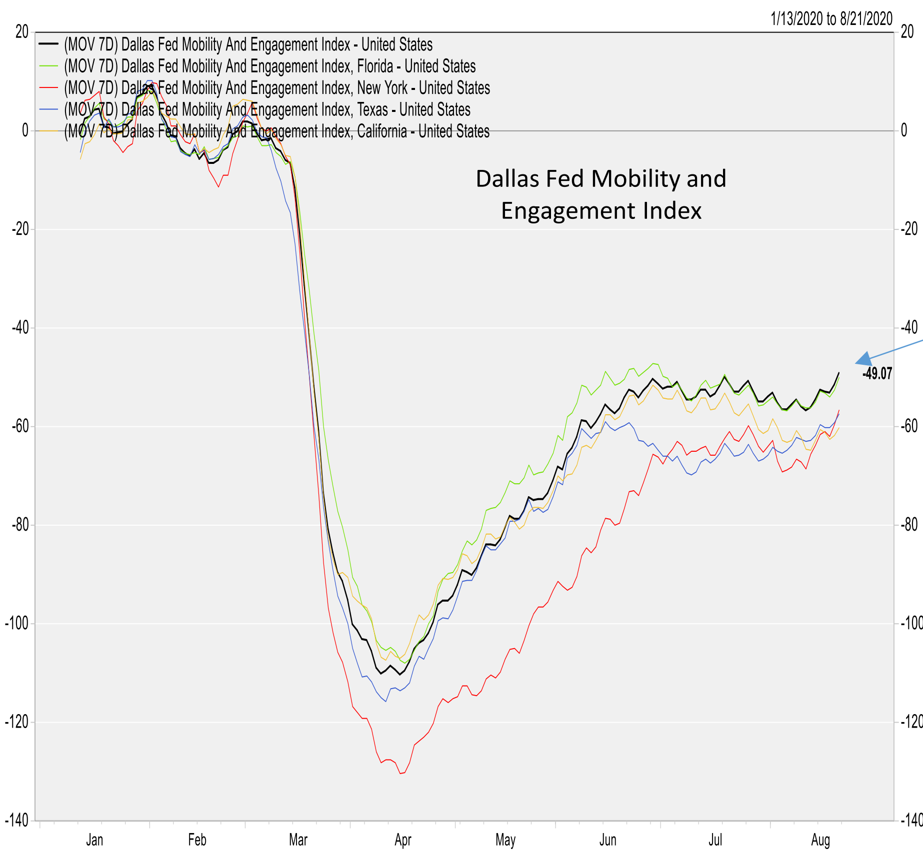


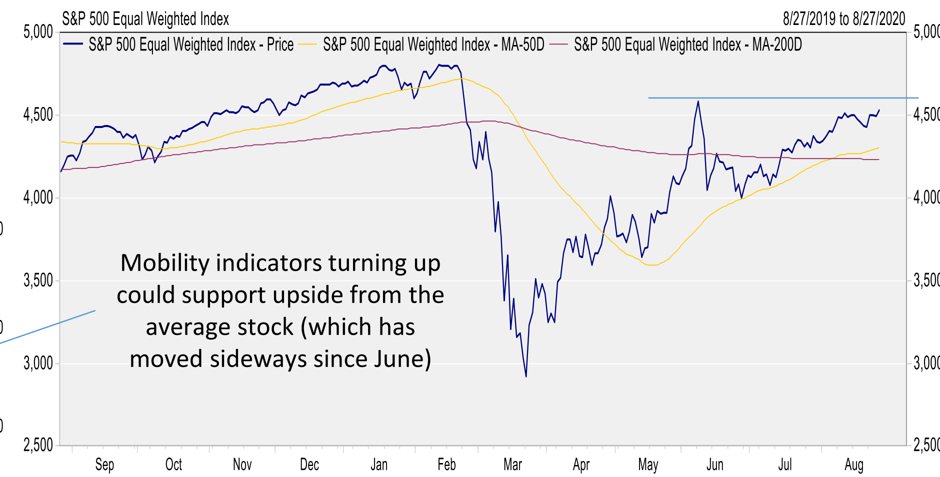


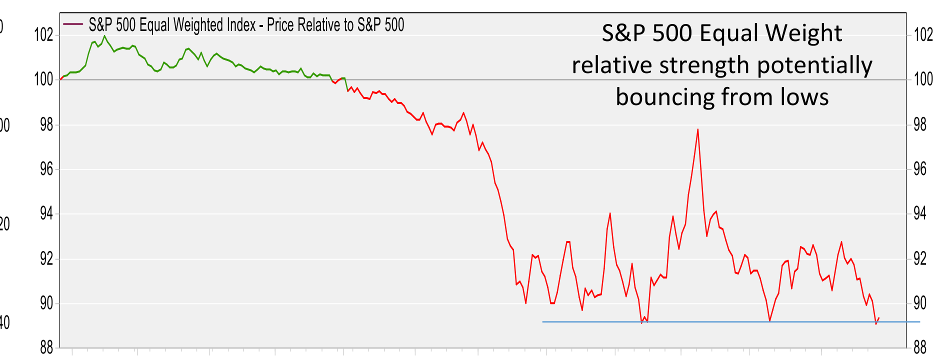
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

DALLAS FED MOBILITY AND ENGAGEMENT INDEX

Mobility indicators suggest the average stock could be set for relative strength as well. Since the Dallas Fed Mobility and Engagement index (an indication of individual behavior vs normal levels) stalled in June in conjunction with the stalled reopening process and virus spread, the S&P 500 equal weight index has generally trended sideways (unable to move above early June highs). Lately, COVID-19 new cases and hospitalizations have been trending lower which is now being reflected in the Dallas Fed Mobility and Engagement index turning up to its highest level of the economic recovery. We believe this trend can continue, as there has also been some positive news on testing, therapeutics, and a potential vaccine lately.



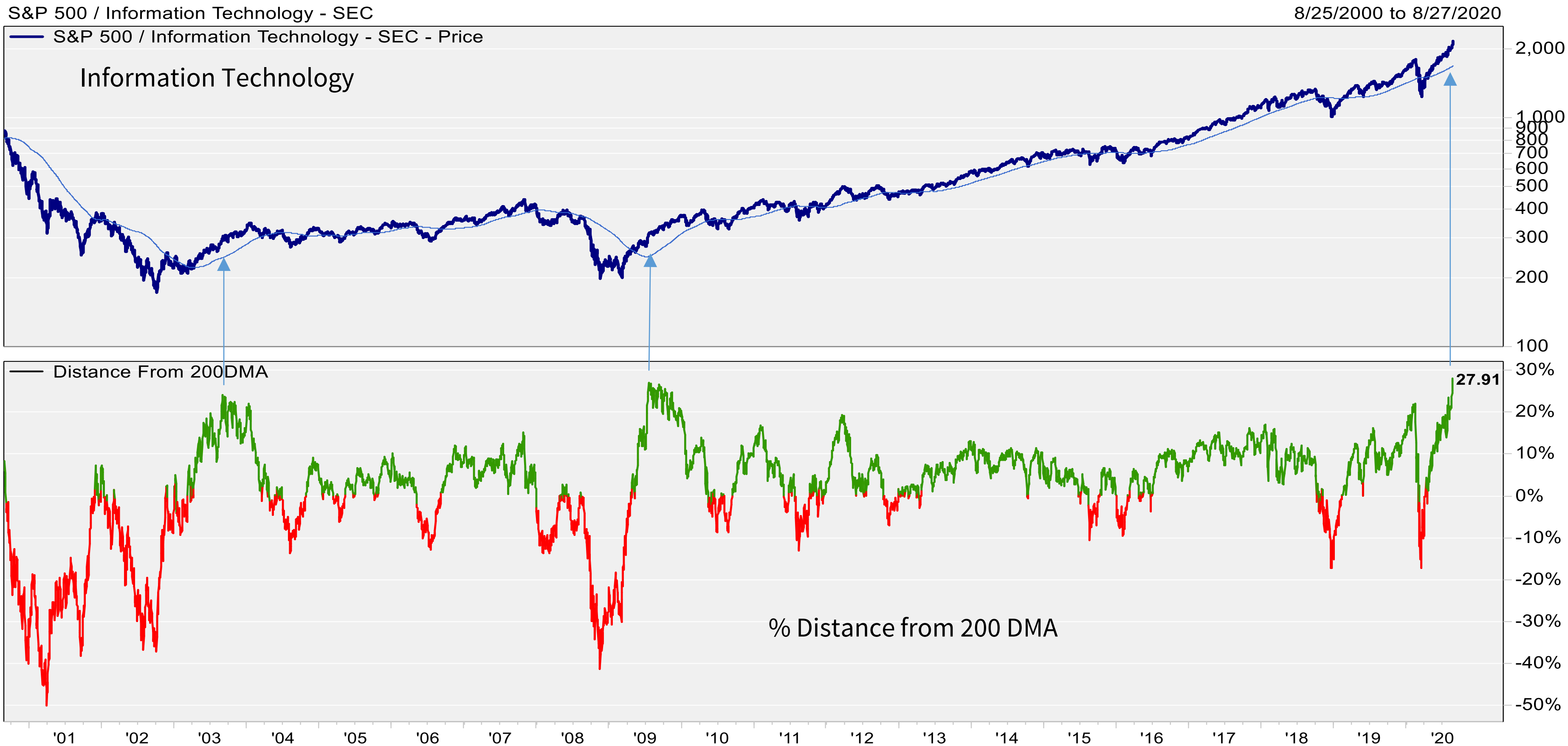




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: TECHNOLOGY

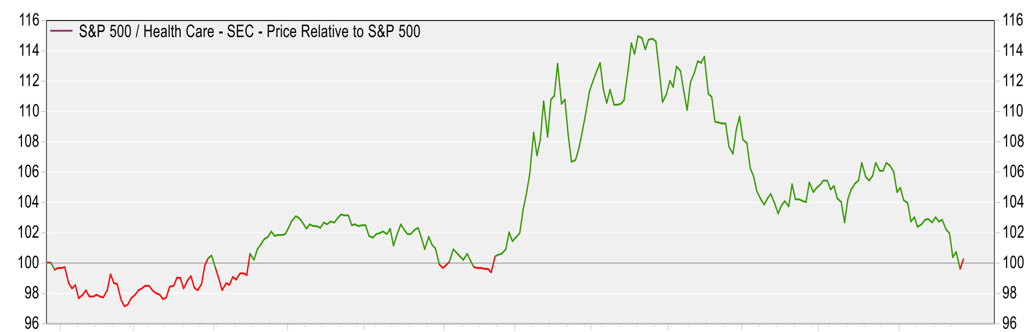
Technology's enormous strength has its index 27.9% above its 200 day moving average. This is a very rare occurrence historically with the only two times in the past twenty years coming out of recessions in 2003 and 2009. Looking at these periods, the strong moves were actually followed by continued strong trends. We continue to favor Technology (remain overweight-rated) and believe the sector's fundamental momentum due to the accelerated trajectory into the digital economy (as a result of the pandemic) remains attractive.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: HEALTH CARE

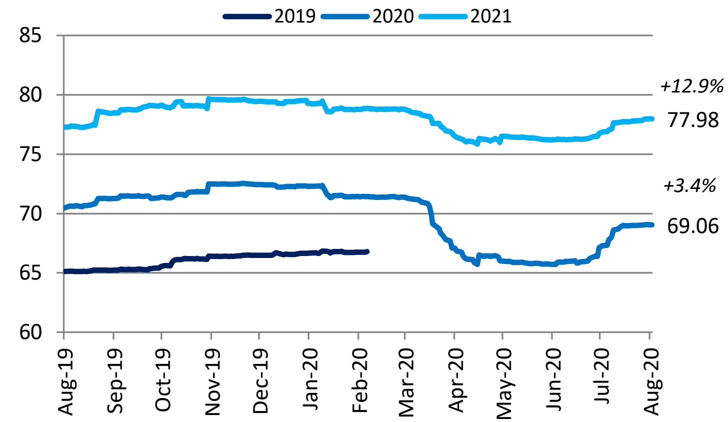
Heath Care looks timely to accumulate. The sector has consolidated its gains since breaking out to new highs in July, shaking off very large outflows over the past 65 days. From a contrarian standpoint, these large outflows could be setting up the sector for renewed upside in our view. There are attractive charts technically at the stock level throughout the sector. And fundamentally, Health Care also remains one of the most attractive. Earnings have been very resilient and are expected to be 17% above 2019 levels by the end of 2021 (vs S&P 500 at 2%). Also, the sector trades at a P/E of 17.3x which is a 26% discount to the S&P 500 (in line with the cheapest level of the past 15 years vs the S&P 500).



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

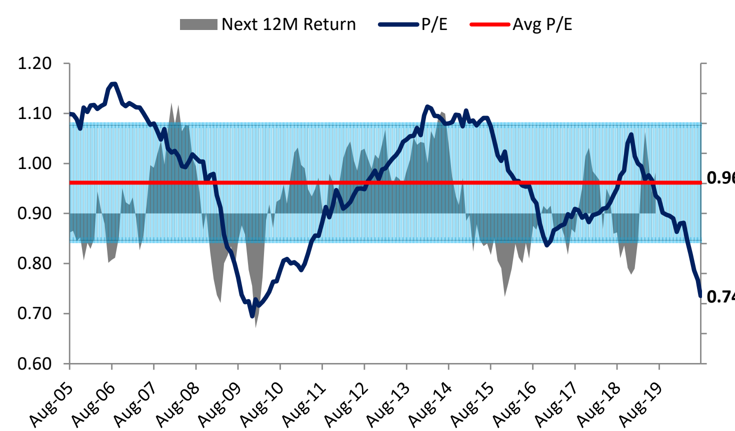
2021 earnings expected to be 17% above 2019 levels (vs S&P 500 at 2%)

Earnings Growth Estimates over Past Year



The sector trades at a 26% discount to the S&P 500 P/E, in line with cheapest level of the past 15 years vs the S&P 500

Relative P/E & Performance - Last 15 Years



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IMPORTANT INVESTOR DISCLOSURES

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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.

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