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Weekly Market Guide

Short-Term Summary: The S&P 500 is currently undergoing its largest one day pullback in almost three months. But as has been the case with performance recently, the headline performance does not tell the full story of what is happening beneath the surface. We have been noting that Technology strength has been driving the market upside while the average stock has not been participating. Well, today those roles are somewhat reversed and technology's weakness is weighing on the overall index while some areas are actually performing fairly well. Today's gainers have generally been the weakest areas year-to-date, i.e. cruise lines, airlines, and some retail, financials, and energy names. The 50 worst-performing stocks year-to-date are up +0.6% today on average while the 50 best-performing stocks are down -4.8% today.

In today's weakness, this rotation is encouraging as we have been waiting to see market participation broaden out beneath the surface for some time. Likewise, technology had gotten extended technically (30% above its 200 DMA yesterday) and was due for a "cooling off" period. For Technology, the sector has seen pullbacks occur after reaching 7-8% above its 20 day moving average in recent months. In those instances, the sector was able to hold at its 20 DMA or just below before resuming its path higher. The sector is currently trading just above its 20 DMA, so we will be monitoring that trend. Regardless, we view the Technology sector as in a strong technical uptrend (justified by strong fundamental momentum) that bodes well for intermediate term performance. For those that are in need of increasing exposure to Technology, we would be accumulating the sector on its pullback.

The positive underlying tone of the market- fueled by unprecedented global stimulus supporting the economic recovery and pushing interest rates to record lows- remains in our view. The S&P 500 trades at an elevated P/E of 24.5x, but we continue to believe valuations can remain high due to low rates (and the likelihood that they stay lower for longer), along with the expected earnings recovery ahead. The difference between the S&P 500 earnings yield and US 10 year Treasury yield remains historically "cheap" vs bonds at 3.3%. Additionally, the S&P 500 dividend yield vs US 10 year Treasury yield is still near the highest level on record prior to COVID-19 at 1%.

In the short term, we believe the odds are higher for a more challenging market- due to very strong recent gains, weak seasonality, the election cycle heating up, complacent sentiment, and the fiscal battle to avoid a government shutdown on 9/30. So overall, we remain positive but short term we are a little more cautious. With that in mind, we woud look to make portfolio tweaks as necessary, be selective at the stock level, and look to generally continue accumulating favored equities on weakness.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	10.8%	22.4%
S&P 500 (Equal-Weight)	-1.5%	8.5%
Dow Jones Industrial Avg	2.0%	10.2%
NASDAQ Composite	34.4%	51.4%
Russell 2000	-4.6%	6.5%
MSCI All-Cap World	5.1%	16.3%
MSCI Developed Markets	-6.1%	3.8%
MSCI Emerging Markets	0.4%	13.7%
NYSE Alerian MLP	-43.4%	-46.6%
MSCI U.S. REIT	-14.9%	-14.5%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	38.6%	28.9%
Consumer Discretionary	30.1%	11.4%
Communication Svcs.	18.8%	11.2%
S&P 500	***10.8%***	-
Materials	7.8%	2.6%
Health Care	7.2%	13.8%
Consumer Staples	5.9%	6.9%
Industrials	-2.1%	8.0%
Real Estate	-4.6%	2.6%
Utilities	-7.0%	2.8%
Financials	-17.3%	9.6%
Energy	-42.4%	2.2%

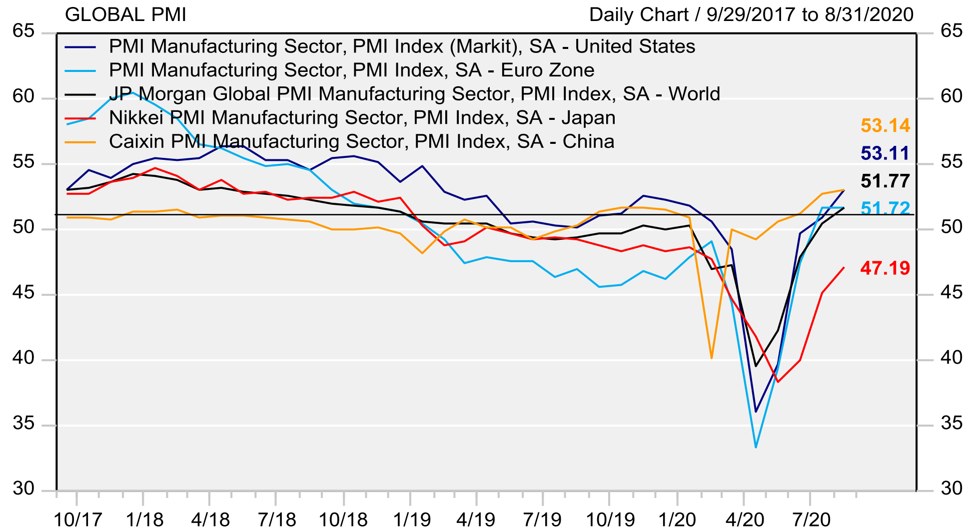
MACRO: US

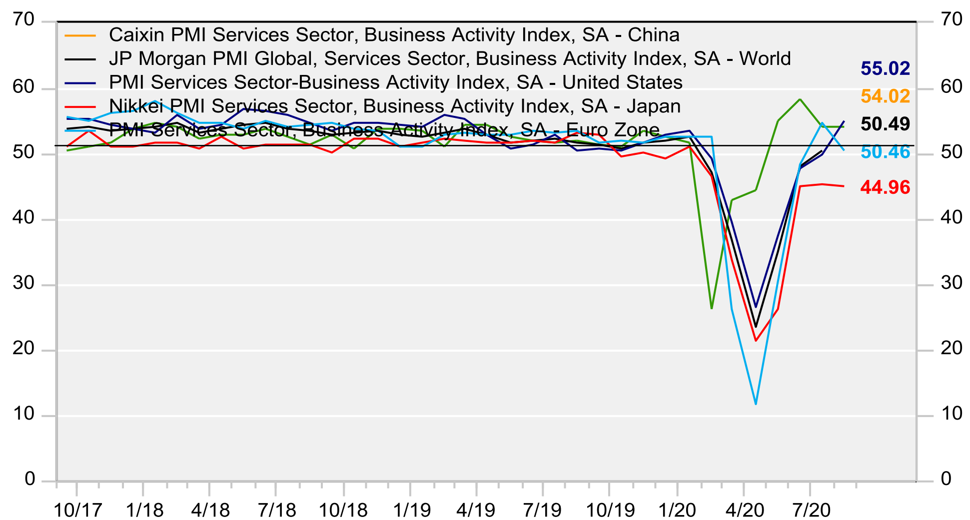
The global economic recovery continues, led by relatively strong data from the US. August ISM manufacturing surprised to the upside at 56.0 from 54.2, and new orders jumped to 67.6- its highest level since December 2003. Also, ISM non-manufacturing did tick lower to 56.9 from 58.1 but still remains at an elevated level. For global PMIs, the US manufacturing and services PMI have risen to the top of major countries and regions around the world, which we view as supportive of continued relative outperformance of US equity markets vs the World.

On the jobs front, initial jobless claims remain high at 881k but continue to improve directionally. Also, productivity has been very strong in the current environment, rising by 10.1% in Q2. This data is supportive of equity markets as well in our view.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Personal Consumption Expenditure SA M/M	JUL	1.9%	1.5%	6.2%
Personal Income SA M/M	JUL	0.40%	-0.30%	-1.0%
Wholesale Inventories SA M/M (Preliminary)	JUL	-0.10%	-0.80%	-1.3%
Chicago PMI SA	AUG	51.2	52.0	51.9
Michigan Sentiment NSA (Final)	AUG	74.1	72.8	72.8
Dallas Fed Index	AUG	8.0	0.0	-3.0
Markit PMI Manufacturing SA (Final)	AUG	53.1	53.6	53.6
Construction Spending SA M/M	JUL	0.10%	1.0%	-0.48%
ISM Manufacturing SA	AUG	56.0	54.5	54.2
ADP Employment Survey SA	AUG	428.0K	1,000K	212.3K
Durable Orders ex-Transportation SA M/M (Final)	JUL	2.6%	2.4%	2.4%
Durable Orders SA M/M (Final)	JUL	11.4%	11.2%	11.2%
Factory Orders SA M/M	JUL	6.4%	5.8%	6.4%
Continuing Jobless Claims SA	08/22	13,254K	14,328K	14,492K
Initial Claims SA	08/29	881.0K	965.0K	1,011K
Unit Labor Costs SAAR Q/Q (Final)	Q2	9.0%	12.2%	12.2%
Productivity SAAR Q/Q (Final)	Q2	10.1%	7.3%	7.3%
Trade Balance SA	JUL	-$63.6B	-$56.3B	-$53.5B
PMI Composite SA (Final)	AUG	54.6	54.7	54.7
Markit PMI Services SA (Final)	AUG	55.0	54.8	54.8
ISM Non Manufacturing SA	AUG	56.9	57.0	58.1





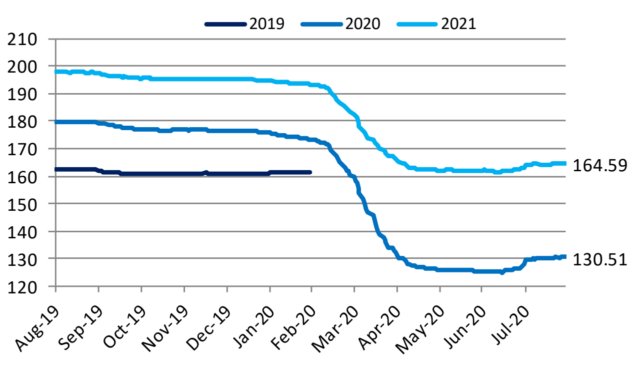
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

S&P 500 earnings are set to improve from their expected fundamental trough in Q2. Granted, growth y/y will still likely be negative through the end of the year, but directionally Q3's -23% contraction and Q4's -13% contraction are improvements from Q2's -32%. For Q3 and Q4, Technology and Health Care are the only two sectors expected to exhibit positive earnings growth y/y. This supports our continued positive view on both sectors. But as the calendar turns, this year's depressed fundamentals from many other areas- i.e. Industrials, Consumer Discretionary, and Materials- will begin to look much more attractive from a rate of change standpoint. As investors discount this improvement, there could be a broadening out of market participation over time as this fundamental shift takes place.

For valuation overall, it is normal for peak P/E multiples to come on earnings troughs as investors discount the future recovery. Additionally, the record low interest rate and low inflation environment support elevated P/E multiples (and the Fed has stated its desire to keep rates lower for longer). Despite the S&P 500 at all-time highs, the difference in earnings yield vs Treasury yield remains historically "cheap" (and only in line with its 10 year average). Also, the difference in S&P 500 dividend yield vs US 10 year Treasury yield remains near its pre-Covid all-time high at 1%.

S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2019	1.5%
2020	-19.1%
2021	26.0%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 is undergoing a pullback after briefly breaching technical resistance at its uptrend line of prior peaks. We are not surprised to see this, considering how narrow market performance had been during the recent strong gains for the overall index.

However, we are encouraged that in today's weakness, many of the weakest-performing stocks year-to-date (i.e. cruise lines, airlines, and some retail, financials, and energy stocks) are trading fairly well. In fact, the 50 worst-performing S&P 500 stocks year-to-date are actually up 0.6% today on average, while the best 50-performing stocks are down -4.8%.

In the short term, we believe the odds are higher for a more challenging market- due to very strong recent gains, weak seasonality, the election cycle heating up, complacent sentiment, and the fiscal battle to avoid a government shutdown on 9/30.

That said, we view the current pullback or consolidation within an overall uptrend. The S&P 500's very strong gains have created many levels of nearby technical support. These include the 3400-3354 area, followed by 3200.

So overall, we remain positive but short term we are a little more cautious. With that in mind, we would look to make portfolio tweaks as necessary, be selective at the stock level, and look to generally continue accumulating favored equities on weakness.

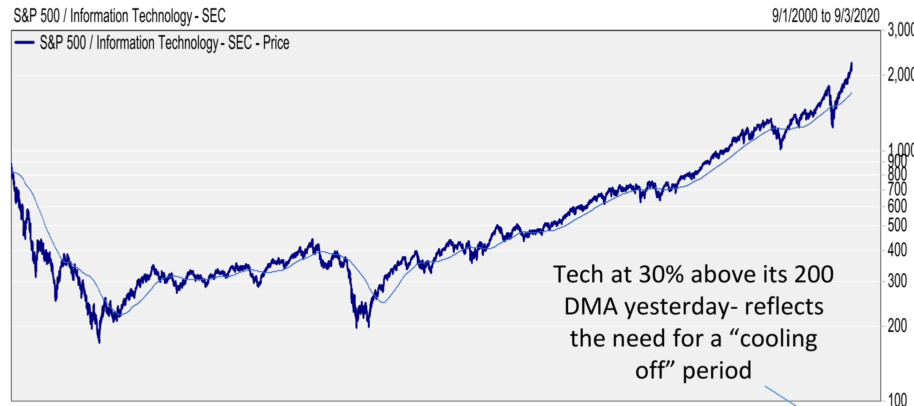
TECHNICAL: SHORT TERM

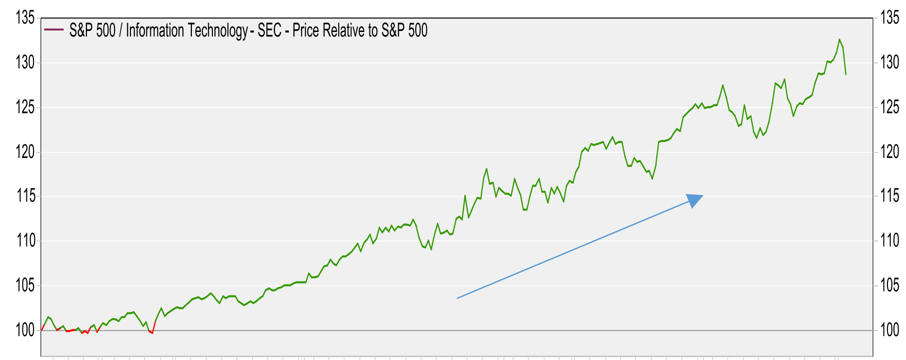
The S&P 500 index has seemed unstoppable lately, fueled by Technology-oriented stocks and their outsized index weightings. However we remind you that pullbacks happen and are normal. The S&P 500 has moved in a stair-step pattern with up-moves followed by pauses or pullbacks in this recovery. Lately the index has paused due to Tech strength, while the average stock has undergone pullbacks in those periods. Today we are seeing a reverse of those roles, as Tech weakness is putting outsized pressure on the overall index. The average stock is also not as extended as the index overall; so if the market continues into more of a pullback, it could be the average stock that holds up a bit better. Regardless, we believe pullbacks should be normal in nature and would use them as opportunities to accumulate favored sectors and stocks.

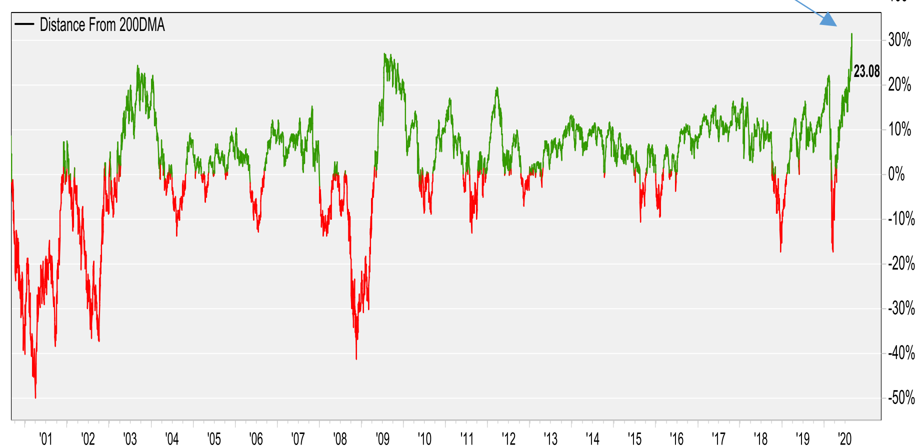
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

Technology had gotten extended technically (30% above its 200 DMA yesterday) and was due for a "cooling off" period. For Technology, the sector has seen pullbacks occur after reaching 7-8% above its 20 day moving average in recent months. In those instances, the sector was able to hold at its 20 DMA or just below before resuming its path higher. Eventually, the trend will get too steep and the 20 DMA will be broken- this may be that time. But for now, it is still above its 20 DMA. Regardless, we view the Technology sector as in a strong technical uptrend (justified by strong fundamental momentum) that bodes well for intermediate term performance. For those that are in need of increasing exposure to Technology, we would be accumulating the sector on its pullback.



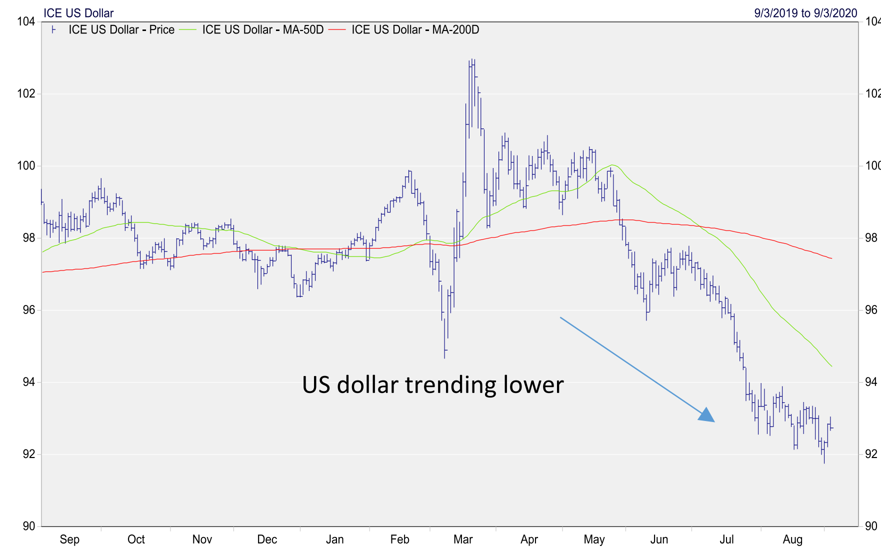


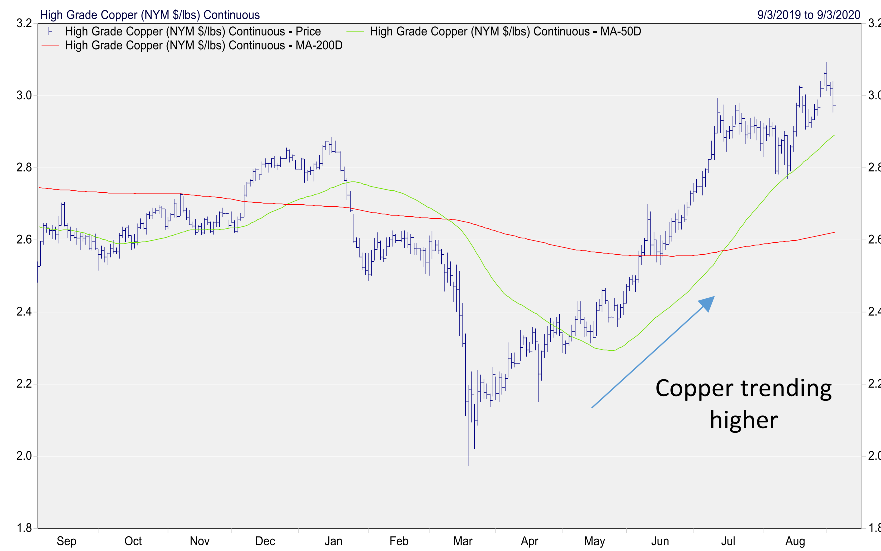


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

MATERIALS

We upgraded Materials to an Equal Weight recommendation in our [Sector Analysis this month](). Fundamentals and valuation are relatively attractive, particularly vs other cyclical areas. The sector also has outsized leverage to the global economic recovery, which is improving from a very low base and we believe has legs for the longer term. Technically, the sector is breaking out to new highs and out of a 3-year range in conjunction with a lower-trending US dollar and higher-trending copper prices (indication of global manufacturing momentum). We believe these variables support increased exposure to Materials. And for investors who have been underweight, we would look to accumulate the sector.

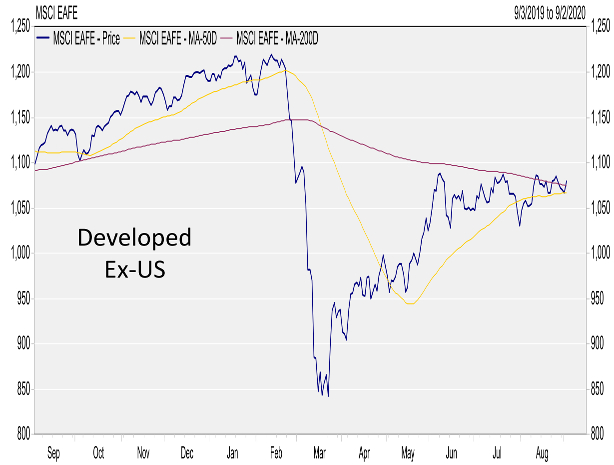


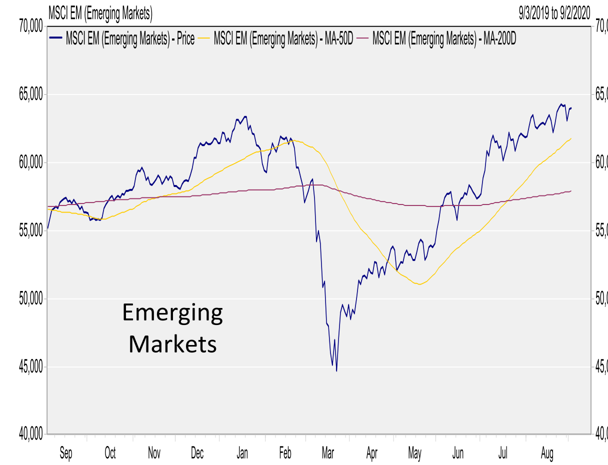


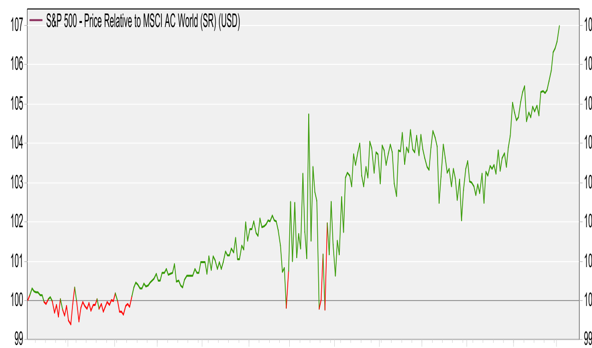
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

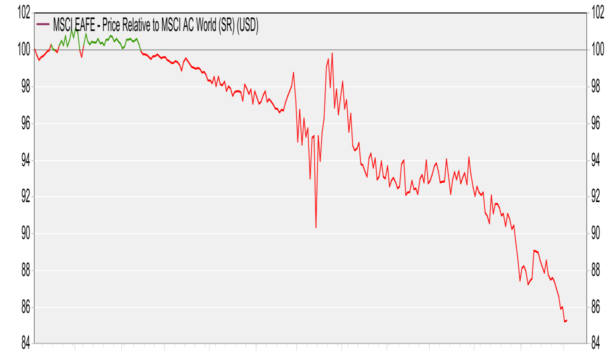
GLOBAL

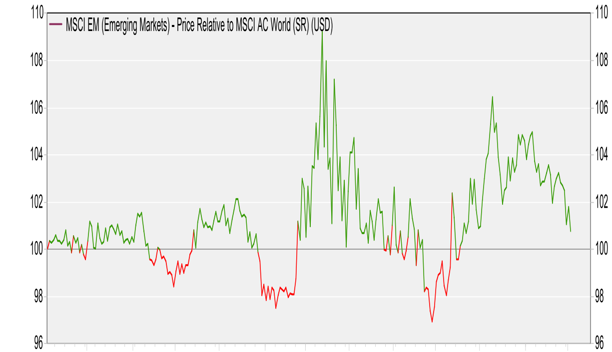
The US remains our favored place globally due to relative fundamental and technical momentum. Developed ex-US continues to have challenging technical trends, which have worsened since June when the virus spread intensified in Europe and mobility trends turned lower. Also, financials are the largest weighting in Europe and remain under pressure fundamentally and technically there. Emerging markets are attractive in our view, and are being boosted by the lower US dollar and higher copper prices (indicative of global manufacturing improvement). We would look to accumulate Emerging Markets for those in need of added exposure and would also be buyers of China (largest weighting of emerging markets).











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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