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Weekly Market Guide

Short-Term Summary: September's equity market pullback continued this week, extending the drawdown to -10% in 15 days. The "no news" consolidation turned into a selloff more concerned with the macro environment. A rise in COVID cases, primarily in Europe, along with an impasse on additional fiscal aid from Congress is creating less of a cushion for the economic recovery process.

With an understanding that the market may struggle over the next month (pre-election, macro uncertainty), we would accumulate the weakness. We continue to view the pullback as a normal correction as opposed to a shift to a bear market. The most likely downside in our view is 3100-3200 on the S&P 500 (1-3% more downside), which would put the S&P 500 near its 200 day moving average (DMA) at 3106 currently. The percentage of stocks above their 10 and 20 DMA is at short term oversold levels, and the percentage of stocks above their 50 DMA is also very near levels that often coincide with short term lows in normal corrections. Additionally, the pullback has shaken out the complacency that had set in to investor positioning. We have not yet seen a spike in the put/call ratio to "capitulation" levels, but we do believe the table is being set for the next rally.

The pullback has also made the fundamental risk/reward more attractive to our S&P 500 fair value target. Our base case target for the S&P 500 by year-end 2021 remains 3600 which is now 13% upside from 3200. We remain positive on the economic recovery process over the next twelve months, and believe valuation can remain elevated due to global stimulus and record low interest rates. As such, we see S&P 500 earnings climbing back near 2019 levels at $160 through 2021 and apply a P/E of 22.5x (vs the S&P 500's current 23x P/E).

In terms of what to buy during the market pullback, we would generally stick with the "winners"- favored names in the Technology, Communication Services, Health Care, and Consumer Discretionary sectors (particularly near technical support levels). We would keep a foundation of these areas, while also beginning to accumulate "recovery" areas- Industrials, Materials, and select Consumer Discretionary stocks. It is also still too soon to increase allocations to the small caps. We would remain patient there and continue to overweight Large Caps. We also recommend sticking with Growth over Value, with continued weakness from the Financials our main reason. Globally, the US remains our favored area, but we would use the weakness in Emerging Markets (coming in conjunction with a short term bounce in the US dollar) as a buying opportunity for the longer term.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	0.2%	8.2%
S&P 500 (Equal-Weight)	-9.2%	-3.2%
Dow Jones Industrial Avg	-6.2%	-0.7%
NASDAQ Composite	18.5%	31.1%
Russell 2000	-13.0%	-6.9%
MSCI All-Cap World	-2.3%	5.3%
MSCI Developed Markets	-8.9%	-2.6%
MSCI Emerging Markets	-3.3%	6.2%
NYSE Alerian MLP	-51.4%	-55.7%
MSCI U.S. REIT	-22.5%	-23.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	20.8%	27.7%
Consumer Discretionary	18.0%	11.6%
Communication Svcs.	4.2%	10.9%
Materials	0.3%	2.6%
S&P 500	***0.2%***	-
Health Care	0.0%	14.3%
Consumer Staples	-1.0%	7.1%
Industrials	-7.4%	8.4%
Utilities	-11.6%	3.0%
Real Estate	-12.4%	2.6%
Financials	-24.5%	9.7%
Energy	-49.8%	2.2%

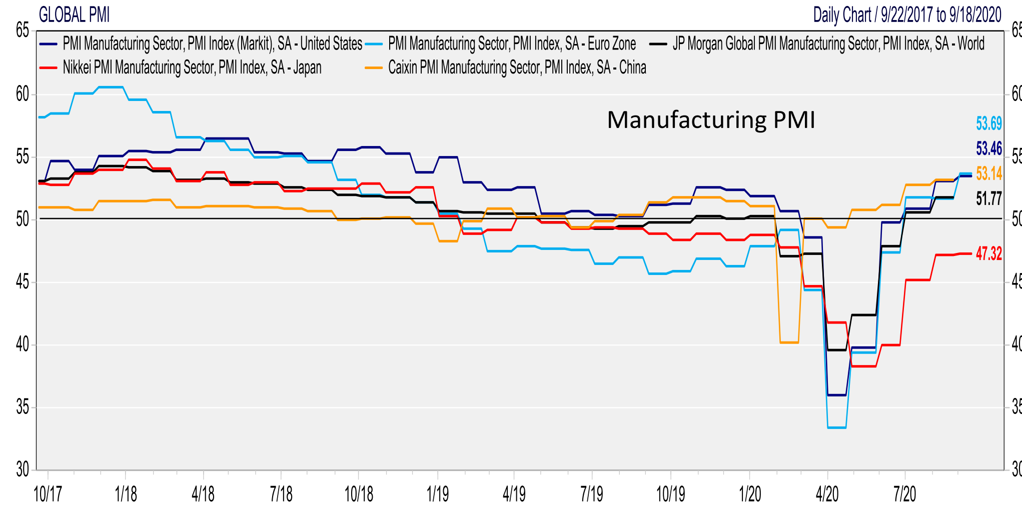
MACRO: US

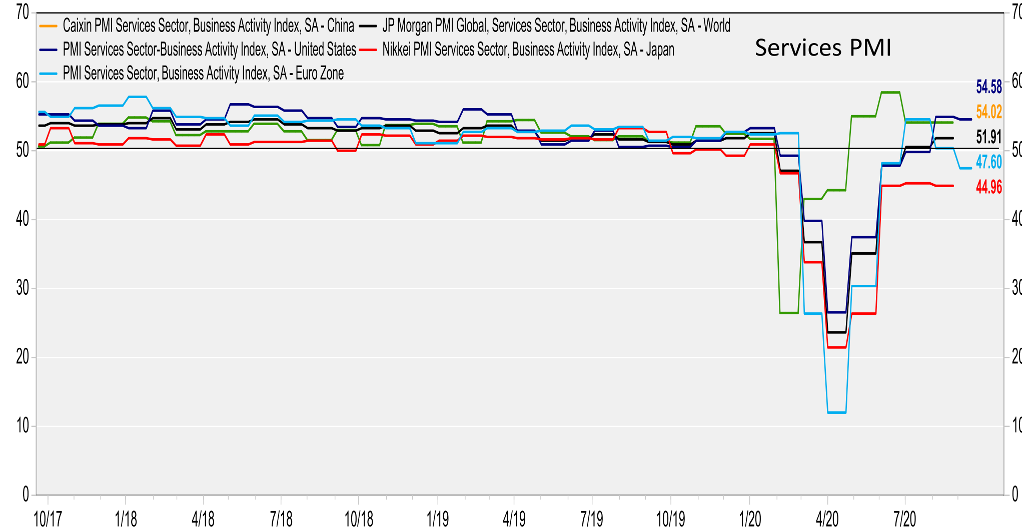
US manufacturing PMI ticked slightly higher to 53.5 in September, while services PMI ticked slightly lower to 54.6. This has generally been the trend globally as well with services PMI readings showing signs of a stall. Europe's September services PMI actually moved back into contraction territory, as the region deals with rising Covid cases. The global economic recovery is likely to become more wavy, and we view the impasse on additional US fiscal aid as providing less cushion of that recovery process.

US initial jobless claims came in at 870k this week, which continues the recent "stall" in the jobs recovery. This is likely to bleed through to future consumer spending if it continues, making additional US fiscal stimulus all the more important to the equity market recovery. A bright spot of the US economy continues to be housing where new home sales have surged to over 1M and existing home sales to 6M- both are well above pre-pandemic levels and continue to benefit from record low interest rates.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Current Account SA	Q2	-$170.5B	-$167.3B	-$111.5B
Leading Indicators SA M/M	AUG	1.2%	1.3%	2.0%
Michigan Sentiment NSA (Preliminary)	SEP	78.9	75.0	74.1
Chicago Fed National Activity Index	AUG	0.79	1.5	2.5
Existing Home Sales SAAR	AUG	6,000K	5,950K	5,860K
Richmond Fed Index	SEP	21.0	12.0	18.0
FHFA Home Price Index	JUL	293.0	-	290.0
PMI Composite SA (Preliminary)	SEP	54.4	54.0	54.6
Markit PMI Manufacturing SA (Preliminary)	SEP	53.5	53.1	53.1
Markit PMI Services SA (Preliminary)	SEP	54.6	54.5	55.0
Building Permits SAAR (Final)	AUG	1,476K	1,470K	1,470K
Continuing Jobless Claims SA	09/12	12,580K	12,220K	12,747K
Initial Claims SA	09/19	870.0K	850.0K	866.0K
New Home Sales SAAR	AUG	1,011K	890.0K	965.0K
Kansas City Fed Manufacturing Index	SEP	11.0	8.5	14.0





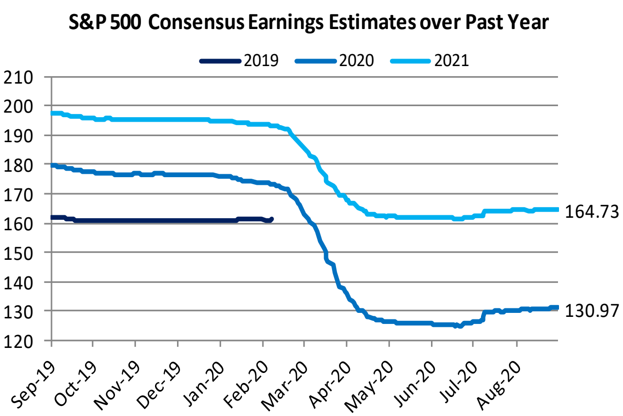
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

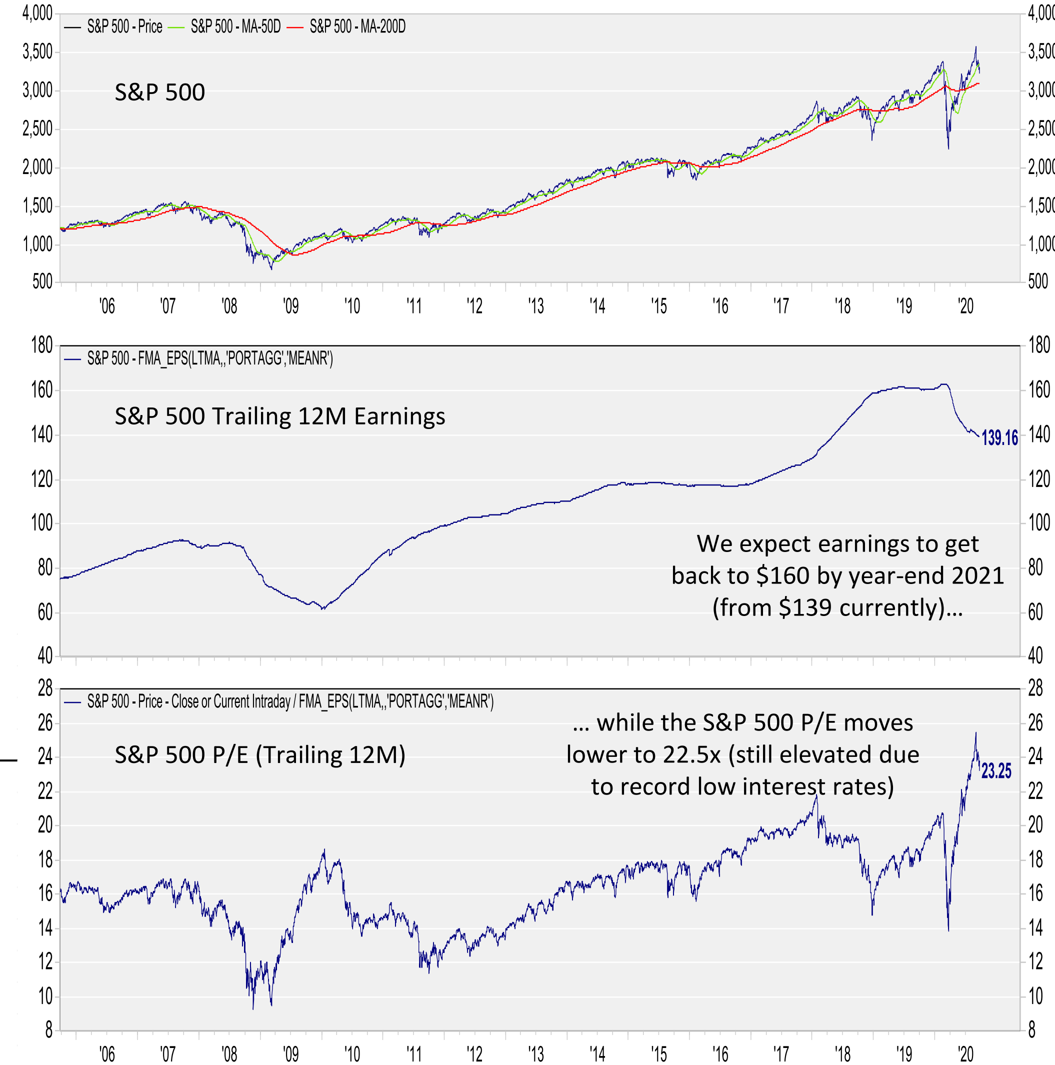
The market pullback has made the fundamental risk/reward more attractive to our S&P 500 fair value target. Our base case target for the S&P 500 by year-end 2021 remains 3600 which is now 13% upside from 3200.

Our thesis comes on a positive bias to the economic recovery process over the next twelve months, as S&P 500 earnings climb their way back near 2019 levels by the end of 2021. We use $160 as our 2021 earnings estimate vs current consensus of $164.

Additionally, we believe the unprecedented amount of stimulus globally fueling this economic recovery and pushing interest rates to record lows can support elevated valuations. For example, the equity risk premium (S&P 500 earnings yield vs US 10 year Treasury yield) is 3.6% which is very high historically. Moreover, the difference in S&P 500 dividend yield vs Treasury yield remains the highest on record prior to COVID-19. As such, we apply a P/E of 22.5x to our $160 earnings estimate (resulting in 3600).

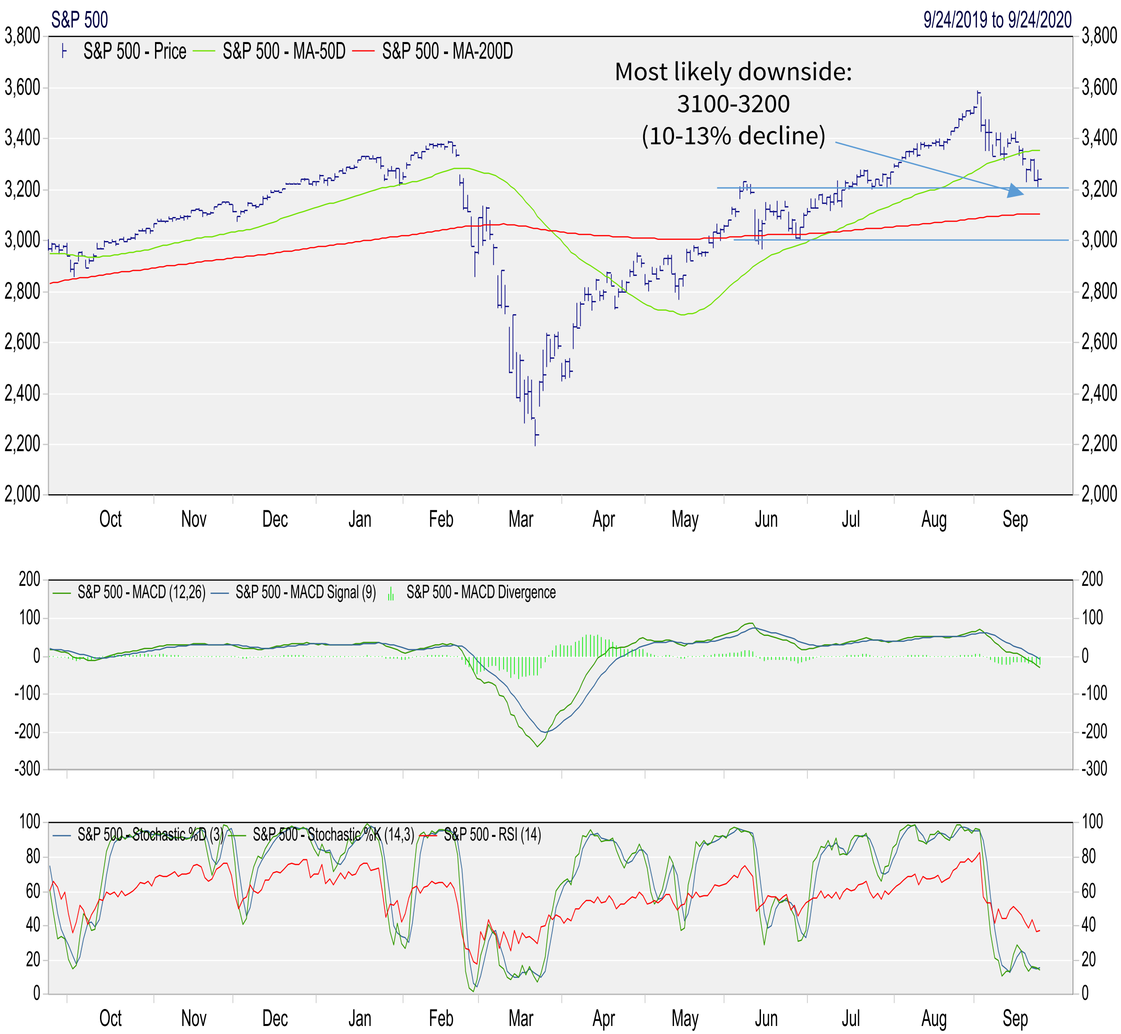


EPS Growth Estimates	
2019	1.4%
2020	-18.7%
2021	25.7%



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

September's equity market pullback continued this week, extending the drawdown to -10% in 15 days. The S&P 500 was unable to hold its 50 DMA and now trades near horizontal support at 3200. Following this level is potential technical support at the 200 DMA (currently 3106).

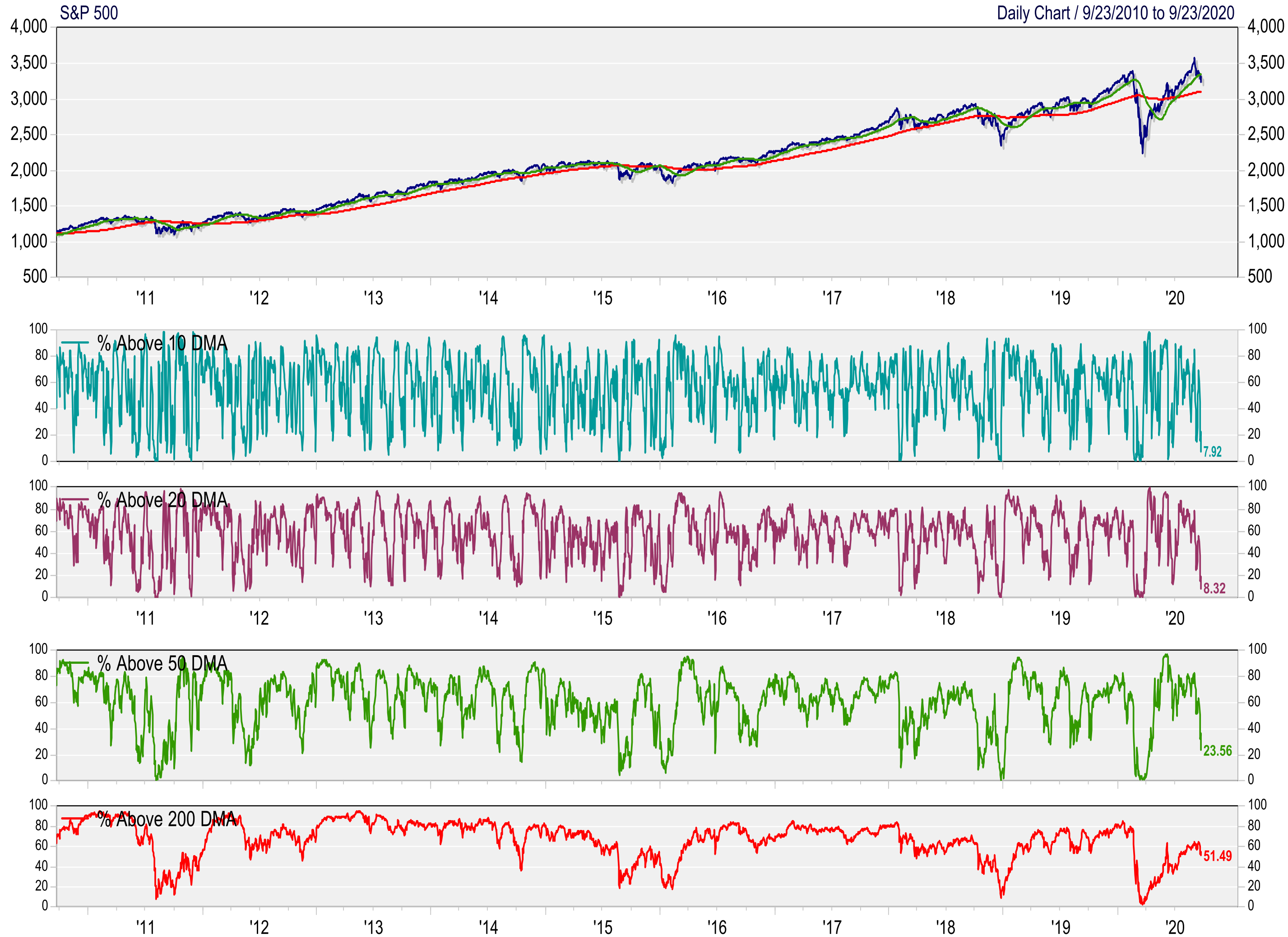
We view this range (3100-3200) as the most likely downside in the short term (1-3% more downside). A worst case downside is seen in the ~2950-3000 area for a total decline of 18% from the peak. The degree of the S&P 500's upside move (+60% in a little over 5 months), higher volatility, and uncertainty surrounding the pandemic could contribute to this outsized move in a correction.

With an understanding that the market may struggle over the next month (pre-election, macro uncertainty), we would accumulate the weakness. We continue to view the pullback as a normal correction as opposed to a shift to a bear market.

On the upside, there was a small band of support that was tested eight times around 3315-3330 between early August and mid-September. Now that the market has breached that support, the level will now act as resistance as it has done for the past couple of days. This will be the first area to monitor on the upside followed closely by the 50 DMA (currently at 3353).

Therefore, time may be needed for the equity market to grind sideways as it digests its recent gains and losses. But we would use the pullback as an opportunity to accumulate favored sectors and stocks for the longer term.

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

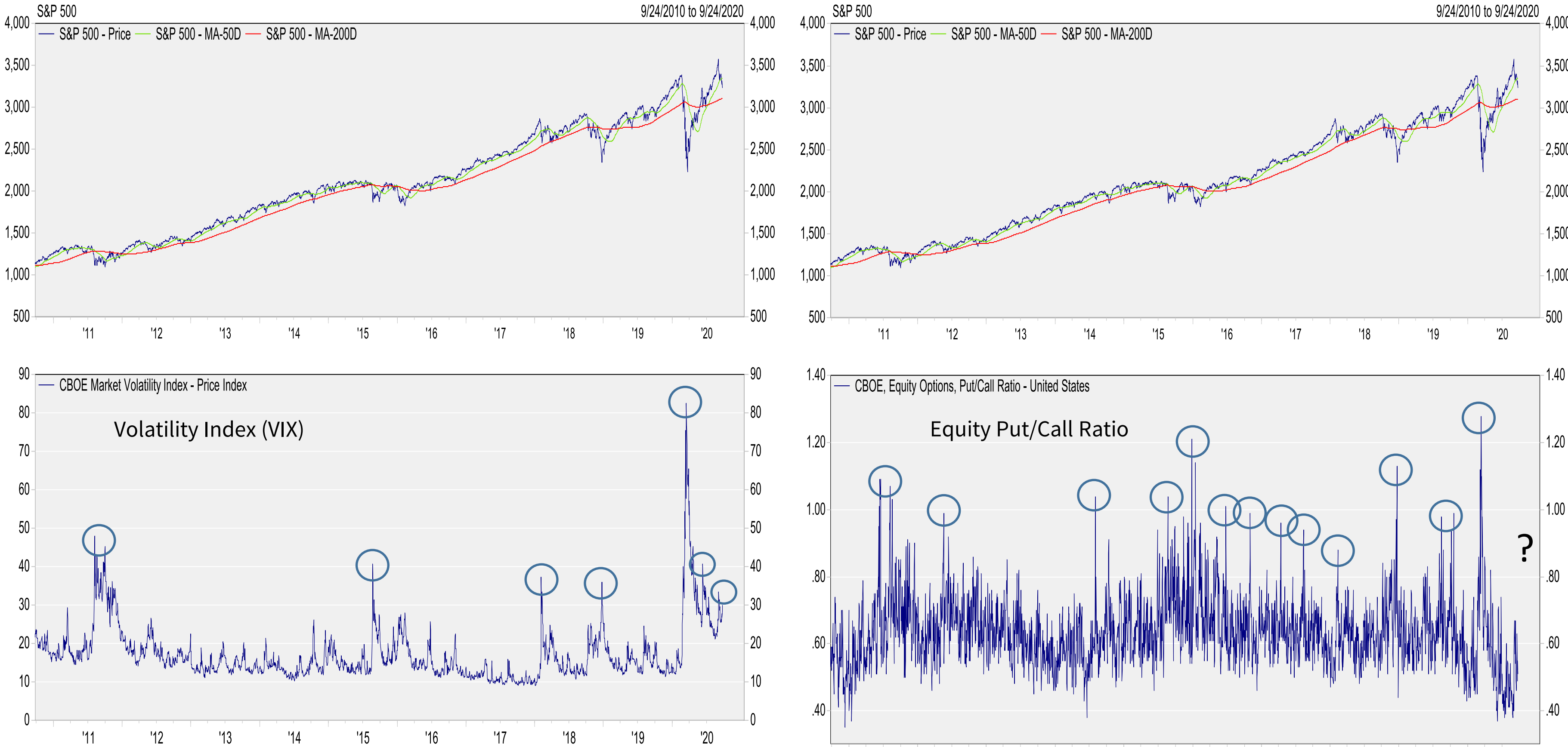
The percentage of stocks above their 10 and 20 day moving averages is at oversold levels. Additionally, the percentage of stocks above their 50 DMA is also very near levels that often coincide with short term lows.

In normal drawdowns (as we view this one), the percentage of stocks above their 50 DMA usually bottoms in the 20% area (23% now). This leads us to believe that the S&P 500 is getting close to a short term low.

If the pullback does gain steam, the percentage of stocks above their 50 DMA will likely go below 10%, as the S&P 500 tests the low end of our worst case support range (2950-3000) for a total decline near 18%. Even in this worst case, the upside trend over the intermediate term is not broken.

TECHNICAL: SHORT TERM

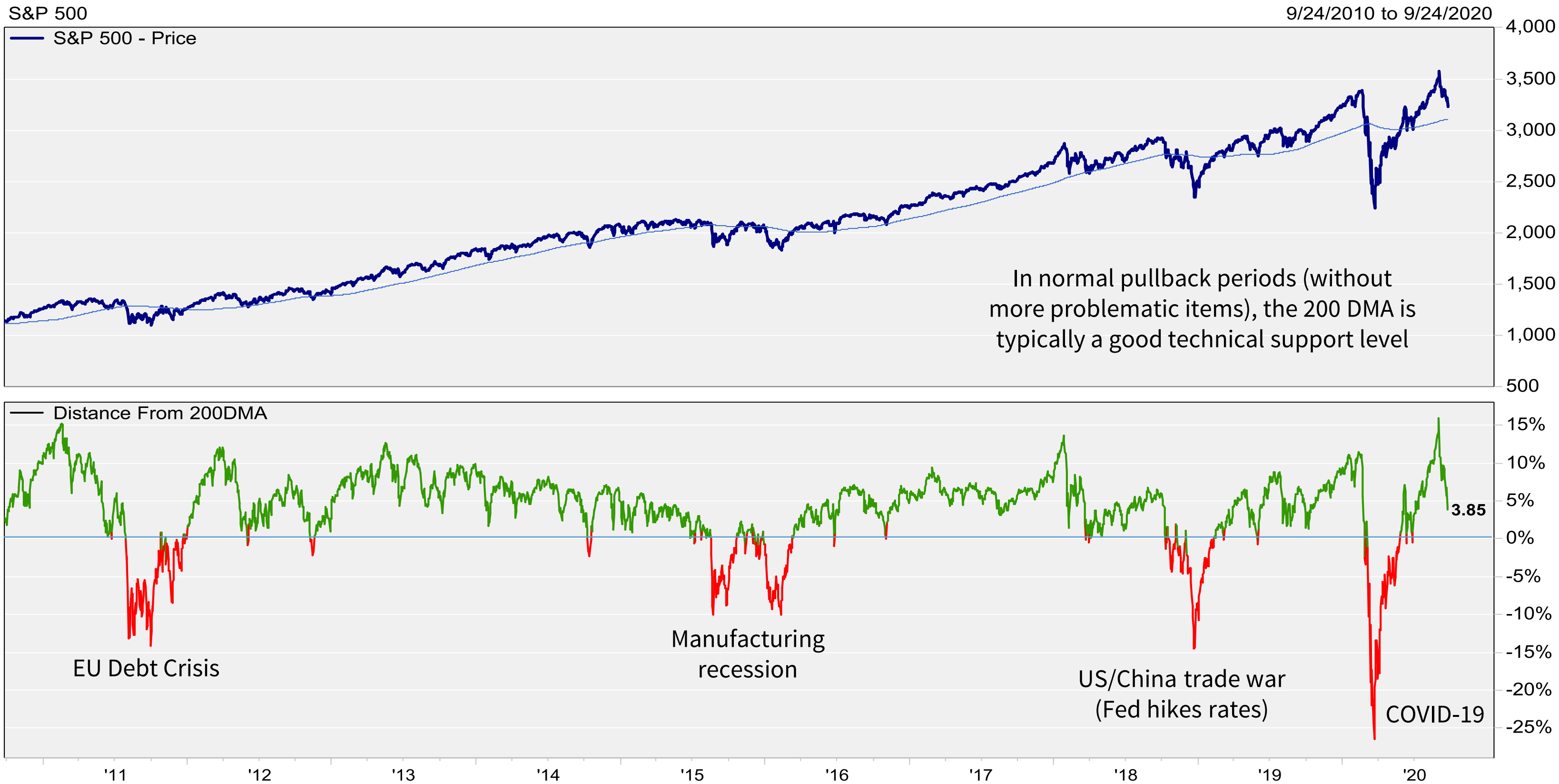
We monitor the volatility index (VIX) and the equity put/call ratio as indicators of potential short term bottoms. The VIX is elevated and approaching levels that have often coincided with market lows historically. Additionally, the 10% pullback in 15 days has shaken out the complacency that had set in to investor positioning previously. We have not yet seen a spike in the put/call ratio to "capitulation" levels, but we do believe the table is being set for the next rally.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

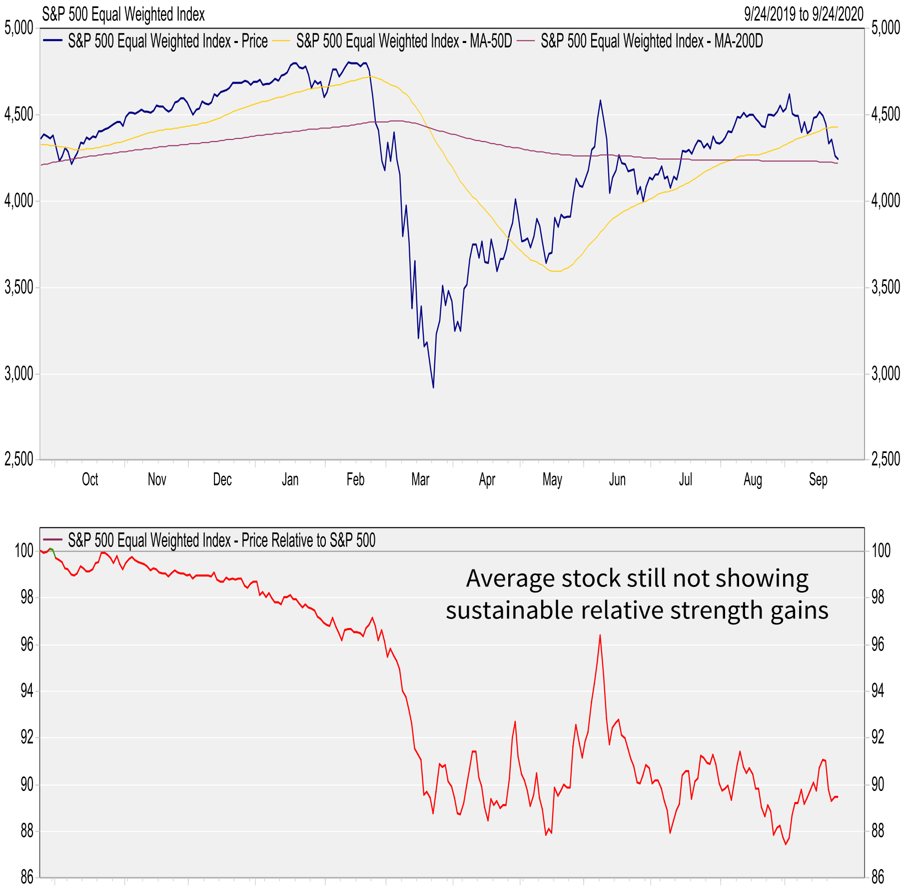
As you can see in the chart below, the S&P 500 had gotten extended in August- reaching 15% above its 200 DMA (rising 60% in just over 5 months from the March low). So it is normal for the market to then digest those gains closer to support levels. This is what we believe is going on currently, and continue to view the pullback as a normal corrective process. In normal pullback periods, the 200 day moving average is typically a good technical support level. The only times the S&P 500 has really moved meaningfully below that level in the past 10 years was the 2011 EU debt crisis, 2015-2016 manufacturing recession, 2018 China trade war (Fed raised rates), and COVID-19 economic shutdown. This supports our likely downside range of 3100-3200, as well as our view that investors should use the pullback as a buying opportunity for the longer term.

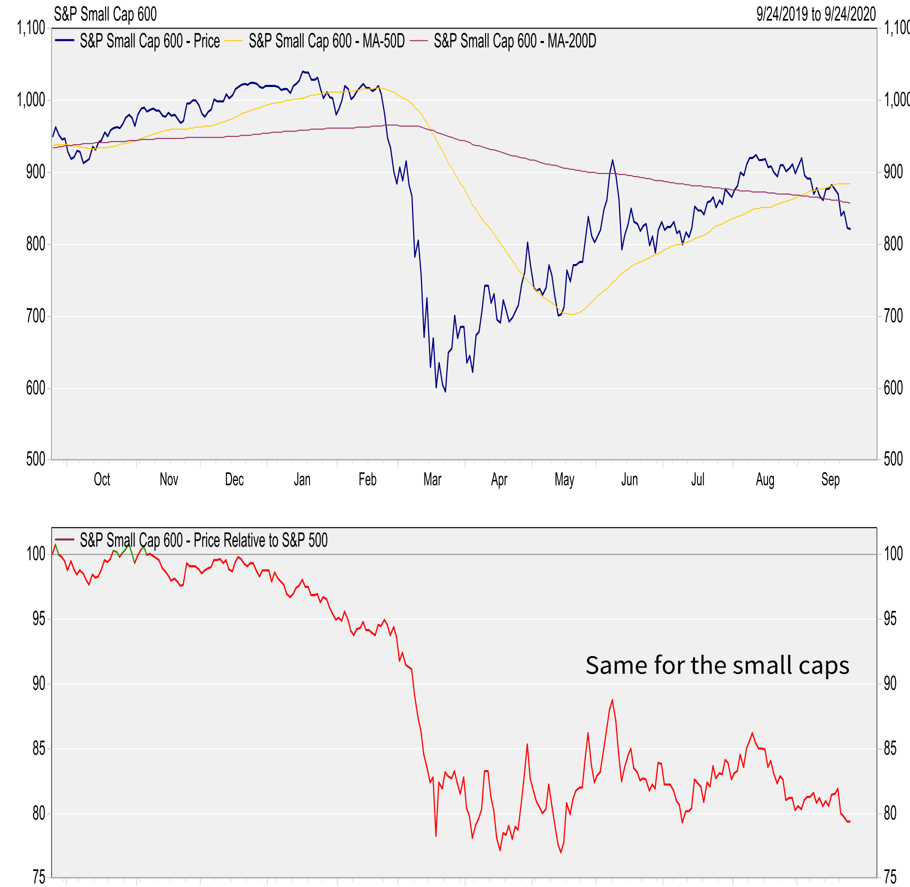


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

The average S&P 500 stock has still not been able to see sustainable relative strength gains. This is also the case for the small caps and contributes to our view that investors should generally stick with what has been working this year. We recommend patience in increasing allocations to the small caps and would thus continue to overweight Large caps. We also recommend sticking with Growth over Value, with continued weakness from the Financials our main reason.

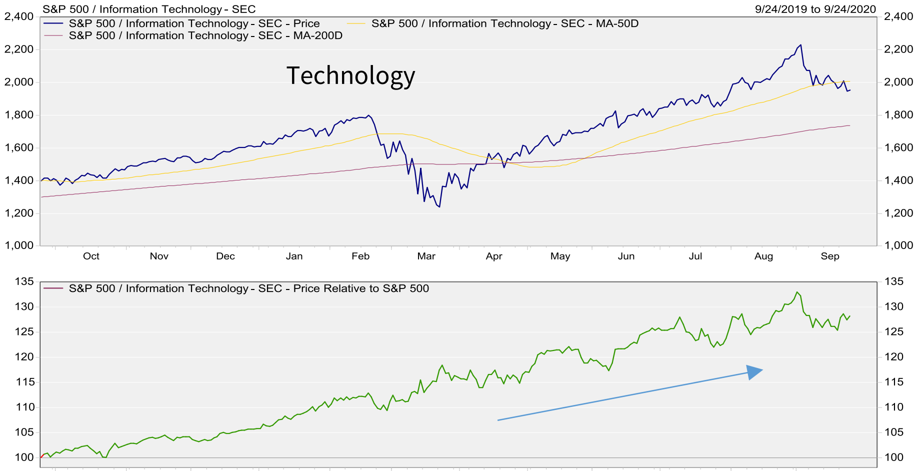


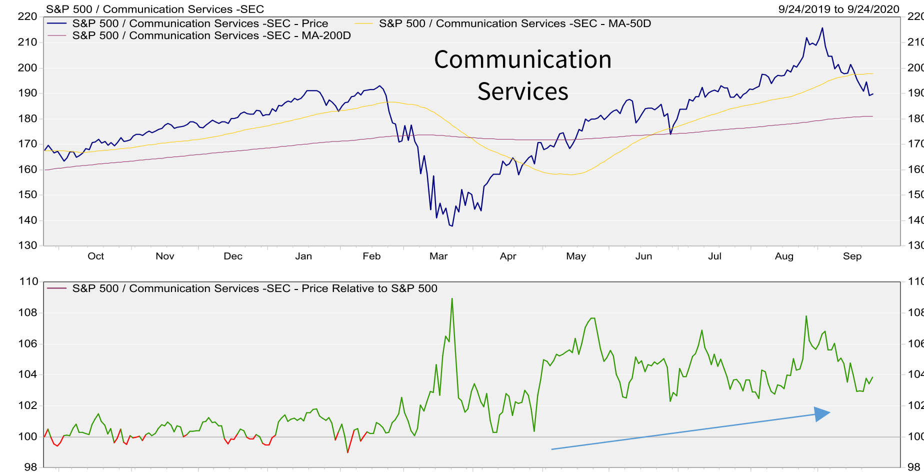


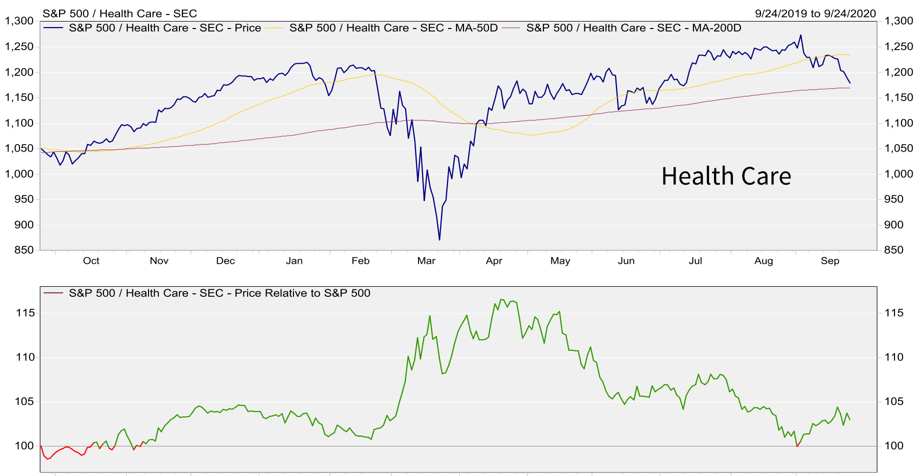
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

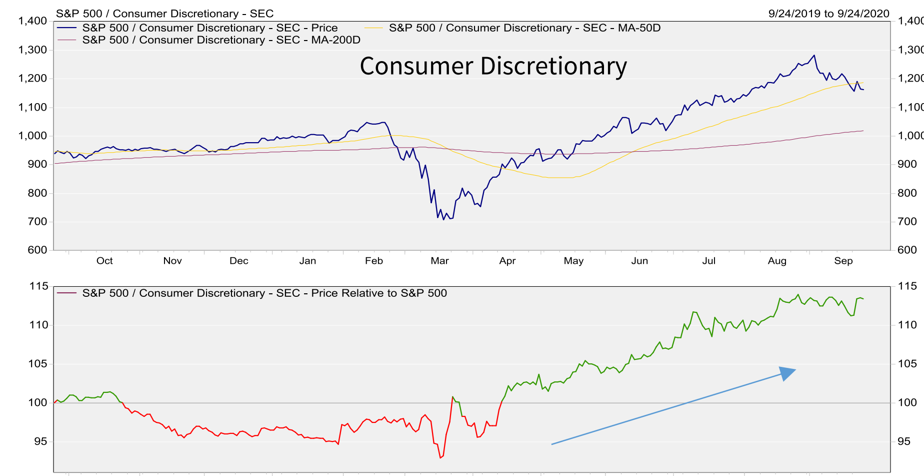
SECTORS

In terms of what to buy during the market pullback, we continue to favor the "winners"- Technology, Communication Services, Health Care, and Consumer Discretionary sectors (particularly near technical support levels).





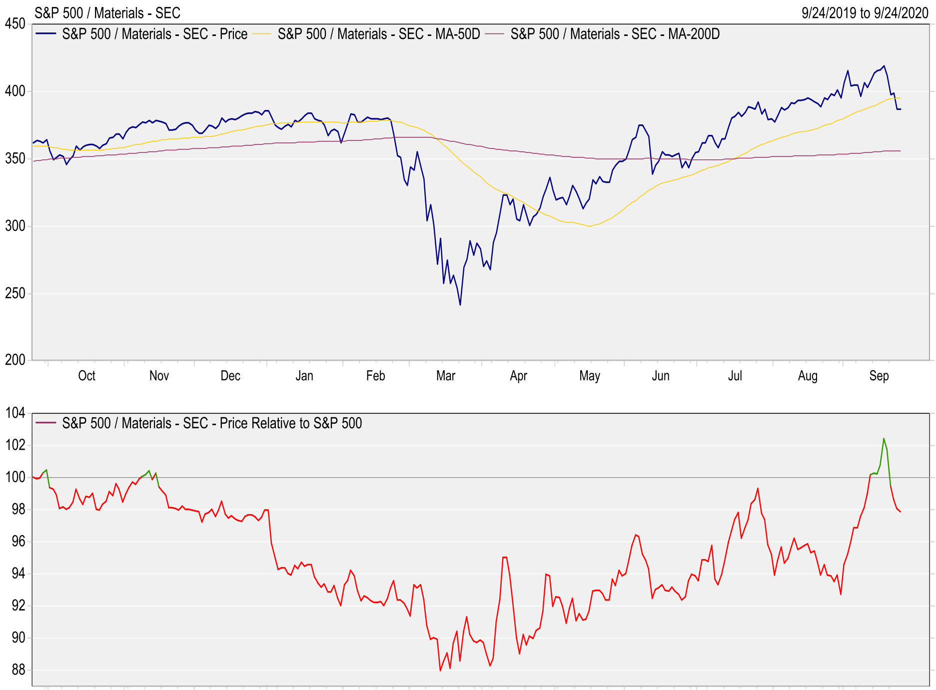


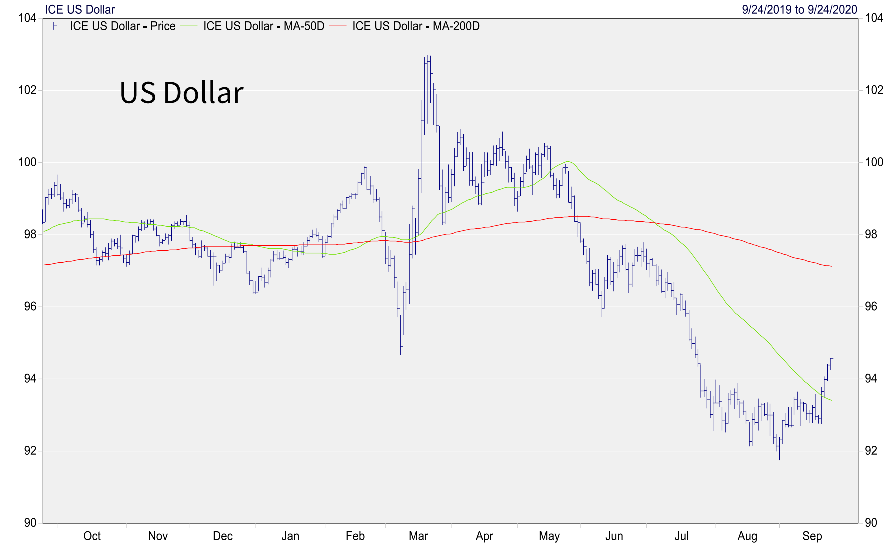


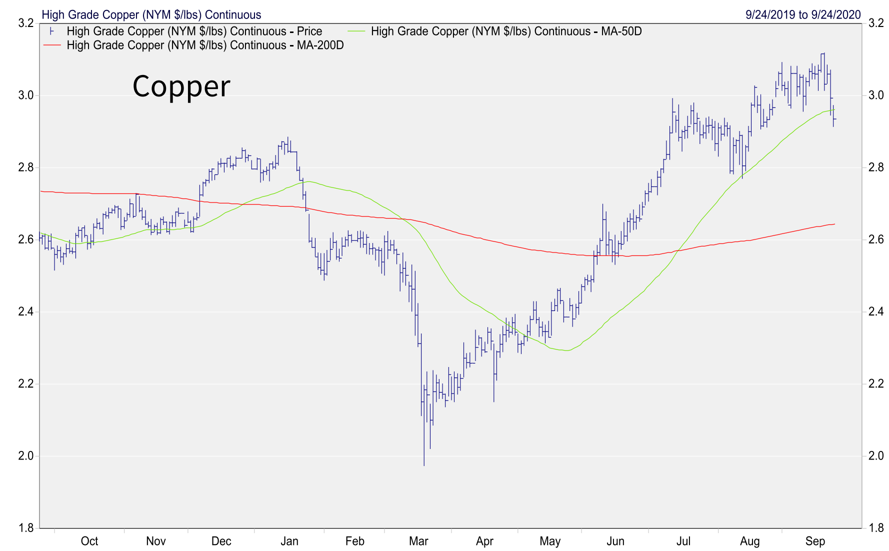
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SECTORS

While, we would keep a foundation of the sectors on the previous page, we would also begin to accumulate "recovery" areas- Industrials, Materials, and select Consumer Discretionary stocks. In the recent market pullback, the US dollar has bounced from oversold levels- contributing to a pullback in commodity prices, as well as the Materials sector (highlighted here). We view these as short term moves within an intermediate term trend of a lower US dollar and higher copper prices. As such, we would use the current pullback in Materials as an opportunity to accumulate. Emerging markets are also inversely correlated with the US dollar, and as such we would use the pullback in that region as an opportunity to accumulate for the longer term.







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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.

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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.

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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.

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