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Weekly Market Guide

Short-Term Summary:

Equities have been able to bounce from oversold levels in the past few days and investors are closely monitoring fiscal stimulus discussions. Raymond James DC Policy analyst Ed Mills believes we are probably down to the final negotiations for a chance at additional fiscal stimulus before the election, and his contacts are skeptical on the ability for a deal. Both sides are still fairly far apart despite the Republicans reportedly raising their offer to $1.6T (Democrats have been at $2.2T). Encouragingly, talks have heated up with both sides at least publicly showing some willingness to negotiate. Numerous companies have announced layoffs recently, Democrats and Republicans are getting pressure from unions and businesses for aid, and President Trump is looking for an economic win in the election run-up. We view a fiscal package prior to the election as a wildcard and still a low probability. If an agreement is made, we believe it would be a positive surprise for the market and out-of-favor cyclical areas would likely rally significantly.

With our view that a fiscal package is probably not coming before the election, the resulting lack of support for consumers will be a headwind for equities. However, monetary support is firmly in place- providing downside support as an incentive for investors to buy weakness. Also despite a choppy macro environment, the recovery is underway. Softer consumer data recently is being offset by strong housing and manufacturing. The current recovery rate and expected improvement over the next 12 months supports buying equities. Our 2021 S&P 500 base case target is 3600; and in the event of positive surprises to the economy and corporate earnings, as well as potential vaccines and therapeutics, we use a bull case target of 3910. Our bear case scenario is 2775, although we apply a very low probability given the unlikelihood of a double dip recession with the lag effect of stimulus and likely vaccine.

We continue to view the market pullback as a normal correction as opposed to a shift to a bear market. With an understanding that the market may be choppy over the next month (outside of a fiscal package), we would accumulate market weakness. At the sector level, we maintain our recommendation for investors to keep a foundation of market leaders in the Technology, Communication Services, Health Care, and Consumer Discretionary sectors while also beginning to increase exposure to “recovery” areas, in particular Industrials, Materials, and select Consumer Discretionary stocks.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	4.1%	13.0%
S&P 500 (Equal-Weight)	-6.3%	0.3%
Dow Jones Industrial Avg	-2.7%	3.2%
NASDAQ Composite	24.5%	39.6%
Russell 2000	-9.6%	-1.0%
MSCI All-Cap World	0.0%	8.5%
MSCI Developed Markets	-8.9%	-1.8%
MSCI Emerging Markets	-2.9%	8.1%
NYSE Alerian MLP	-50.5%	-53.6%
MSCI U.S. REIT	-19.5%	-21.0%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	27.5%	28.2%
Consumer Discretionary	22.4%	11.6%
Communication Svcs.	7.6%	10.8%
S&P 500	***4.1%***	-
Materials	3.7%	2.6%
Health Care	3.6%	14.2%
Consumer Staples	1.9%	7.0%
Industrials	-5.4%	8.3%
Utilities	-8.1%	3.0%
Real Estate	-8.9%	2.6%
Financials	-21.7%	9.7%
Energy	-50.2%	2.1%

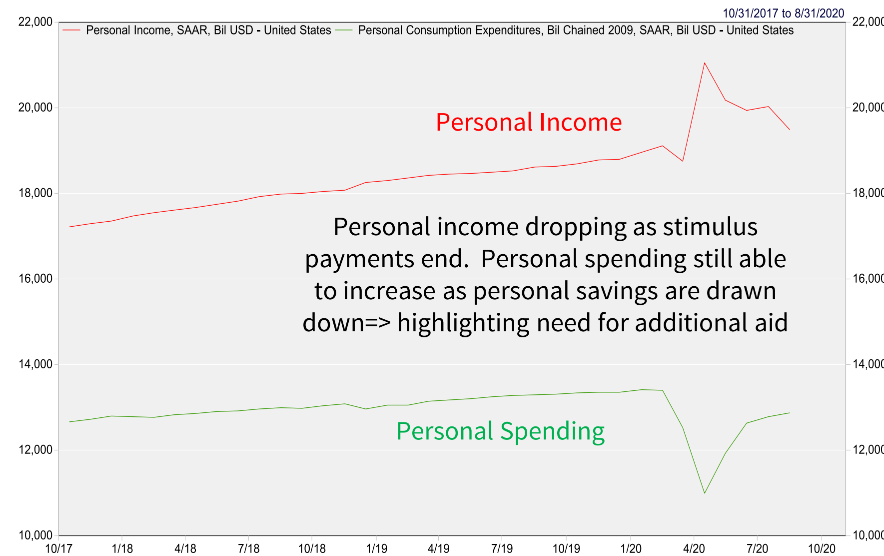
MACRO: US

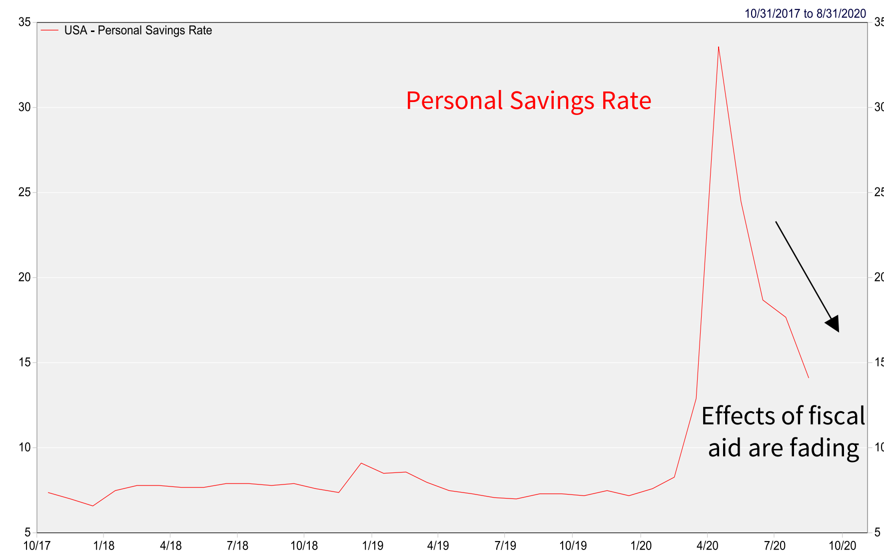
Manufacturing continues to improve globally. US and China manufacturing PMI both surprised to the upside in September, and Europe manufacturing PMI was also able to rise to 53.7, its strongest level in over two years. The housing recovery also continues its remarkable momentum- fueled by very low inventory and record low interest rates.

This manufacturing and housing strength is offsetting some softer data on the consumer side. The jobs recovery has slowed down and numerous companies have announced layoffs recently. Additionally, the positive effects of fiscal stimulus supporting the consumer is fading. August personal income dropped -2.7%, while personal spending was still able to rise 1.0% as personal savings were drawn down. We believe additional aid is needed to support the consumer, but view it as unlikely ahead of the election. Despite a potential choppy short term, we do think fiscal stimulus comes at some point and monetary support remains firmly in place. The current recovery rate and expected improvement in the next 12 months supports buying equities.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Durable Orders ex-Transportation SA M/M (Preliminary)	AUG	0.40%	1.1%	3.2%
Durable Orders SA M/M (Preliminary)	AUG	0.40%	1.5%	11.7%
Dallas Fed Index	SEP	13.6	8.5	8.0
Wholesale Inventories SA M/M (Preliminary)	AUG	0.50%	-0.10%	-0.12%
S&P/Case-Shiller comp.20 HPI M/M	JUL	0.60%	0.15%	0.0%
S&P/Case-Shiller comp.20 HPI Y/Y	JUL	3.9%	3.5%	3.5%
Consumer Confidence	SEP	101.8	88.5	86.3
ADP Employment Survey SA	SEP	749.0K	605.0K	481.0K
GDP SAAR Q/Q (Final)	Q2	-31.4%	-31.7%	-31.7%
GDP SA Y/Y (Final)	Q2	-9.0%	-9.1%	-9.1%
Chicago PMI SA	SEP	62.4	52.1	51.2
Pending Home Sales M/M	AUG	8.8%	3.2%	5.9%
Continuing Jobless Claims SA	09/19	11,767K	12,275K	12,747K
Initial Claims SA	09/26	837.0K	850.0K	873.0K
Personal Consumption Expenditure SA M/M	AUG	1.0%	0.70%	1.5%
Personal Income SA M/M	AUG	-2.7%	-2.5%	0.50%
Markit PMI Manufacturing SA (Final)	SEP	53.2	53.5	53.5
Construction Spending SA M/M	AUG	1.4%	0.70%	0.65%
ISM Manufacturing SA	SEP	55.4	56.3	56.0





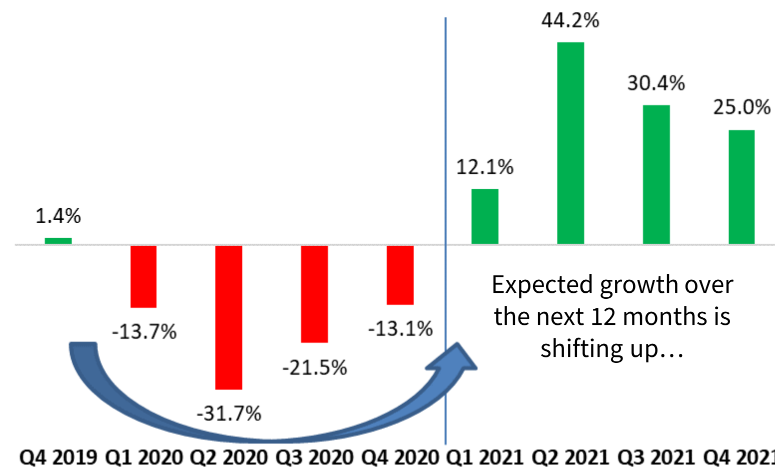
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

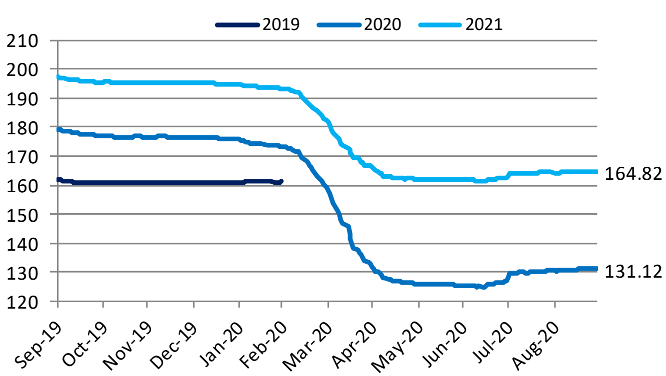
Q3 earnings season begins in under two weeks on 10/13. S&P 500 estimates have generally been trending higher into the results for the past few months, reflecting -21.5% growth y/y but +17.3% growth q/q. This sequential increase is expected to continue from the earnings trough in Q2, resulting in a shift upward for expected earnings growth as we move into next year.

The technology and health care sectors are expected to see Q3 earnings hold up best (as they have throughout the pandemic), along with the more defensive Utilities and Consumer Staples sectors. However, as the calendar turns, expected growth over the next 12 months is shifting upward for the more beaten-up cyclical areas. For example, expected earnings growth over the next 12 months is strongest for Energy, Industrials, Consumer Discretionary, and Materials. Financials are notably missing from that list, and the lackluster snapback in earnings growth expected (with interest rates still very low) keeps us more cautious on that group for now. Also, Energy is expecting the largest bounce back but fundamentals remain very depressed (oil prices still very low) as 2021 earnings are only expected to get to 44% of 2019 levels (worst of all sectors). This contributes to our view that investors should be looking to accumulate some of the “recovery areas”- particularly Industrials, Materials, and select Consumer Discretionary stocks- while also holding a foundation in the “winners”- Tech-oriented and Health Care.

S&P 500 Earnings Growth

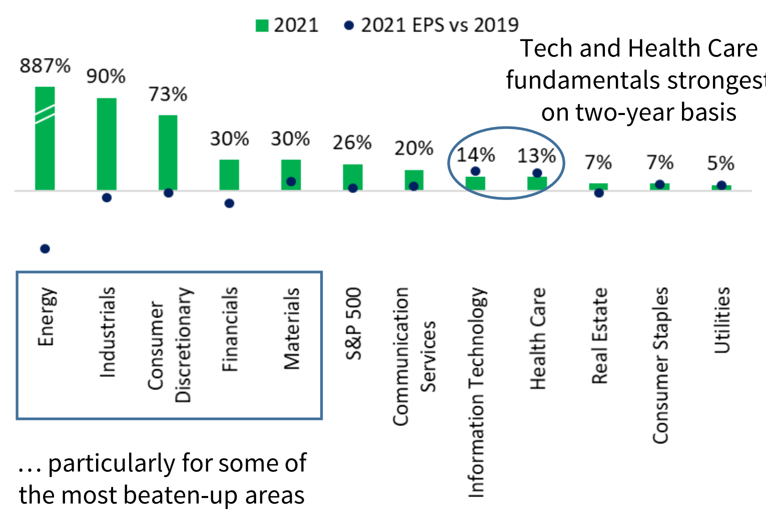


S&P 500 Consensus Earnings Estimates over Past Year



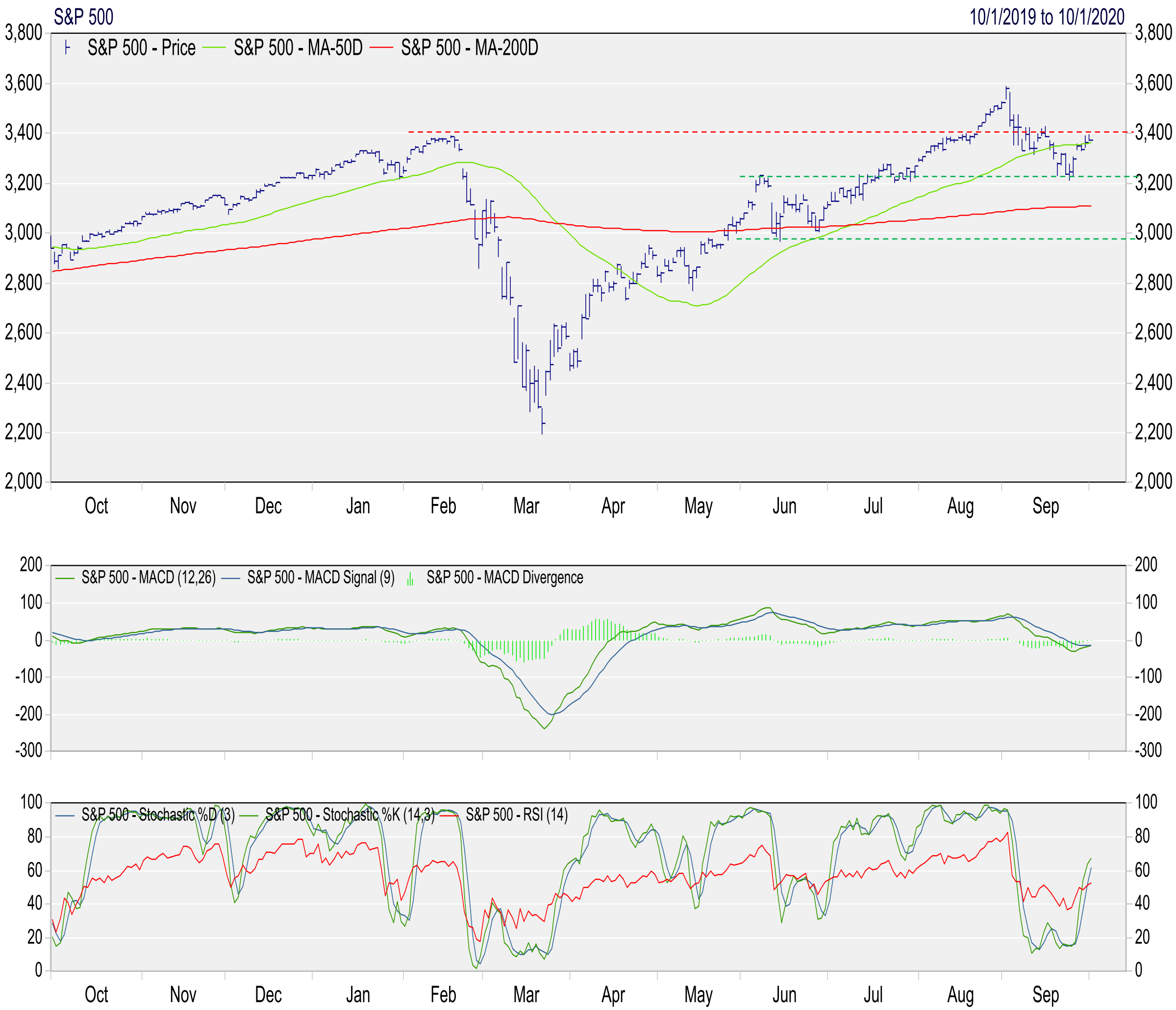
EPS Growth Estimates	
2019	1.4%
2020	-18.6%
2021	25.7%

2021 Estimated Earnings Growth



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM



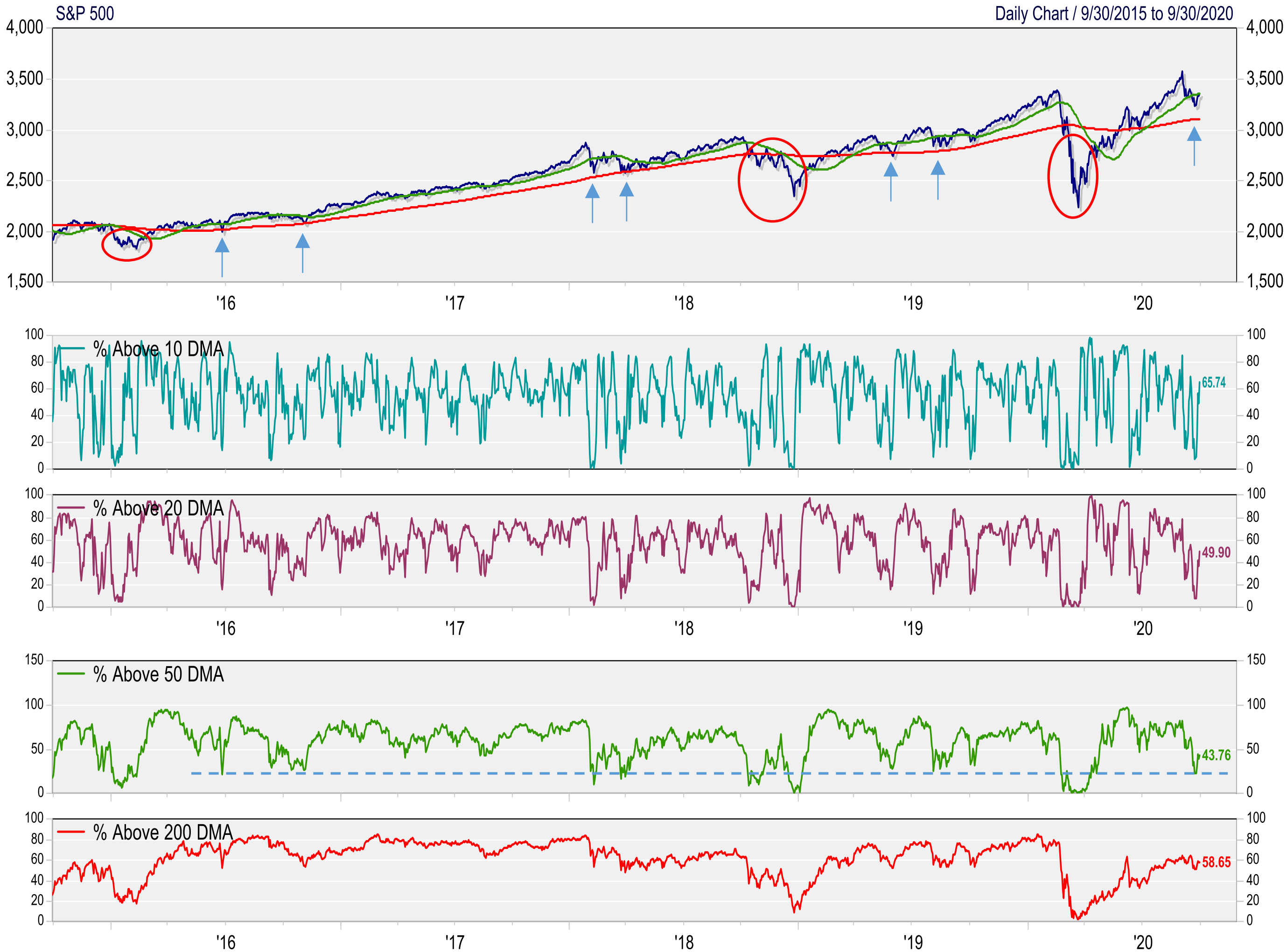
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Equities were able to bounce from oversold levels over the past week, as the S&P 500 index now trades near its 50 DMA and horizontal resistance at ~3400. Ideally, we would see a surge above the 50 DMA on increased volume to solidify the chances that a bottom has been made. So far today, this is not the case as equities are fading earlier strength on dampened hopes for a stimulus bill- raising the odds of more sideways action for the overall index.

Technical support at ~3200 was able to hold in the market pullback and will be a level to watch on the downside. Below this is the upward-trending 200 DMA at 3110, followed by horizontal support at 2966.

With an understanding that the market may be choppy over the next month (outside of a fiscal package), we would accumulate market weakness. We continue to view the market 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

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

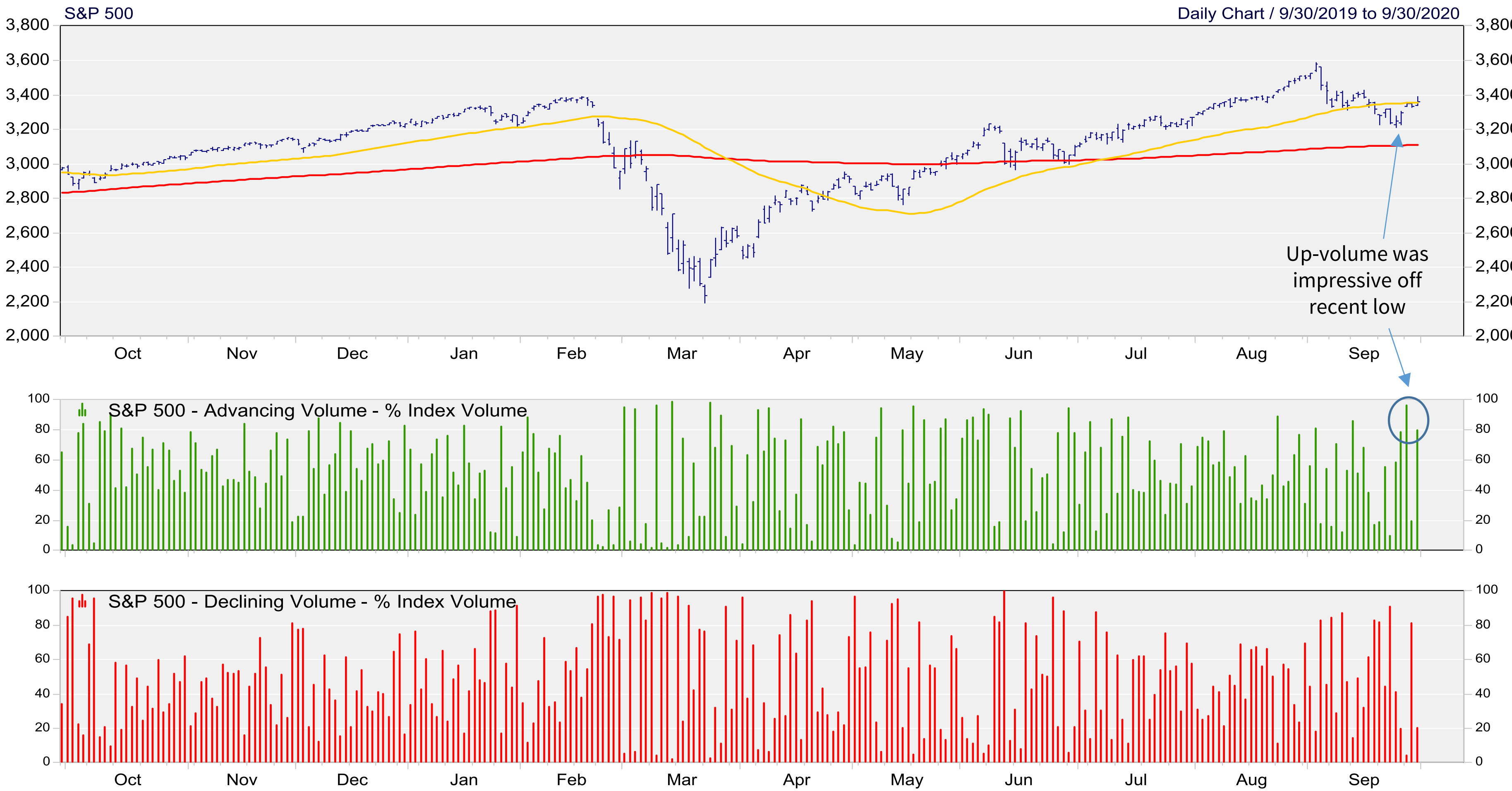
We commented last week on the percentage of stocks above their 50 day moving averages reaching 23%- a level in line with that seen during normal pullbacks over the past several years.

The blue arrows show normal market corrections where the S&P 500 index reached oversold levels near its 200 DMA before resuming its upward trend. These periods generally saw the percentage of stocks above their 50 DMA reach ~20% level. Instances where stocks were more oversold than this are circled in red and were during more challenged periods (i.e. 2015-16 manufacturing recession, 2018 trade war and Fed rate hike, 2020 COVID-19 economic shutdown).

We continue to view the current pullback as a normal correction as opposed to a shift to a bear market. This data also supports our view that the most likely downside for the S&P 500 is in the 3100-3200 area. With our positive bias to equities over the next 12 months, we would use weakness as a buying opportunity.

TECHNICAL: SHORT TERM

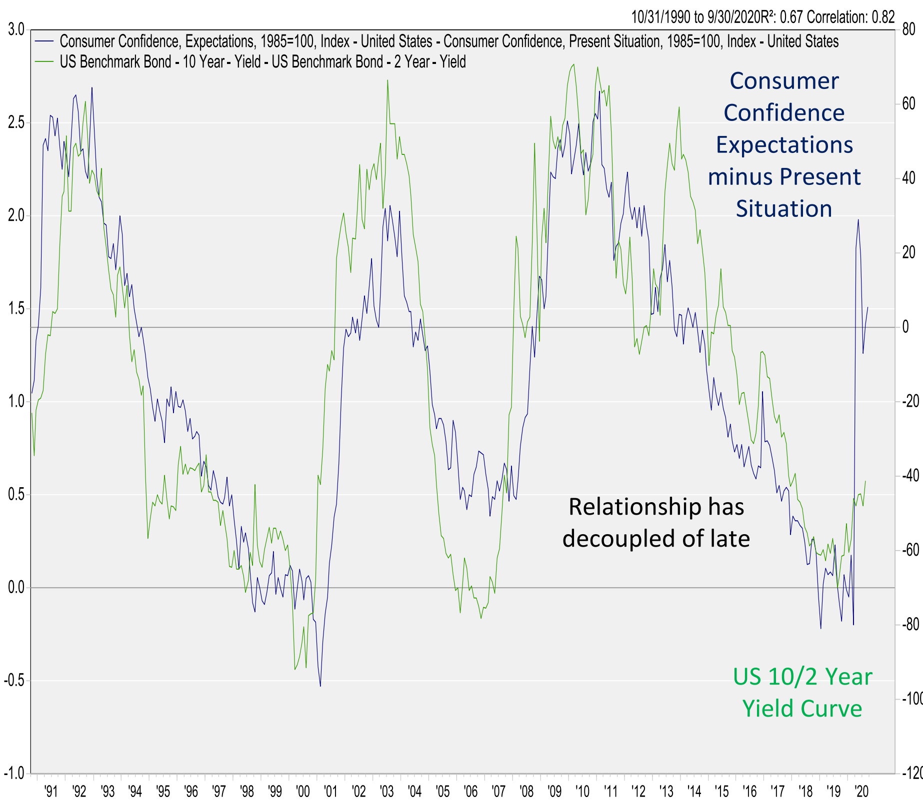
Up-volume in the market bounce was impressive, indicating investor conviction to buy pullbacks.

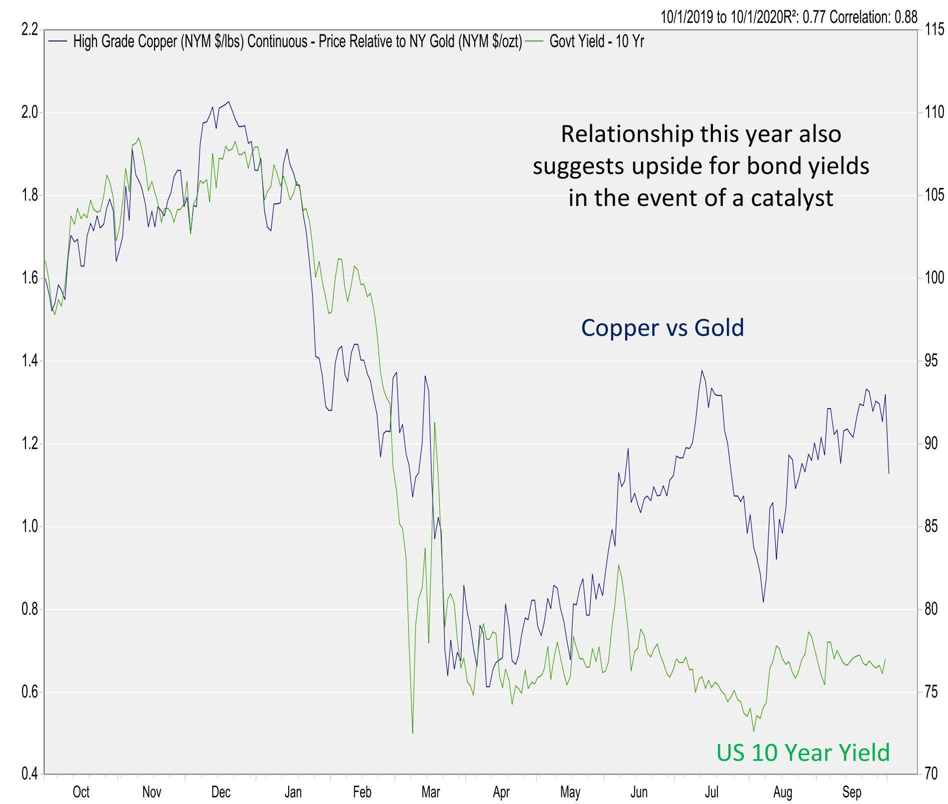


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: BOND YIELDS AND YIELD CURVE

Bond yields continue to trade at very low levels historically despite an economic recovery that is underway. In the left chart below, we show the relationship between consumer confidence expectations vs present situation surveys and the yield curve. As you can see, these readings have typically tracked in a fairly correlated fashion over the past 30 years, but have decoupled of late on surprisingly strong consumer confidence. Additionally, the bottom right chart shows the correlation between Copper vs Gold and the US 10 year Treasury yield, which also suggests room for upside in bond yields. We view Fed policy of low rates for the foreseeable future, along with the Congressional impasse on additional fiscal aid, as contributing to stubbornly low interest rates. While we view the likelihood of a fiscal package before the election as low, a surprise deal could be the catalyst for bond yields to move higher (discussed further on next page).

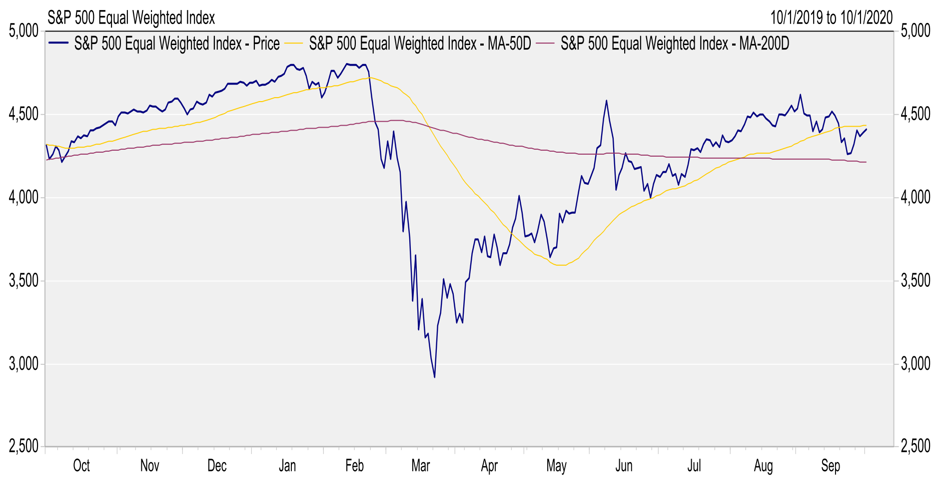


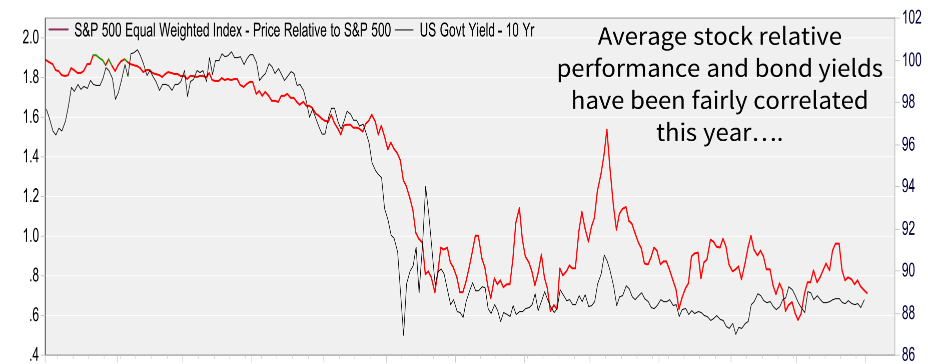


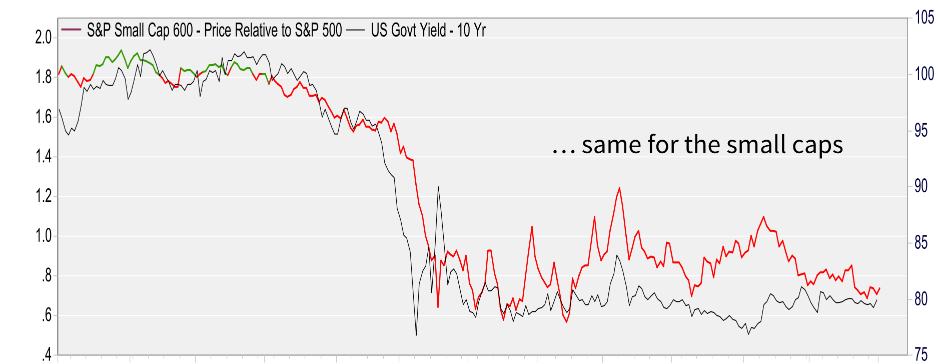
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: BOND YIELDS AND "RECOVERY" AREAS HAVE BEEN CORRELATED

If bond yields and the yield curve are able to expand, it is likely to result in outsized strength from the more beaten-up equity areas. For example, relative performance of the small caps and average S&P 500 stock has been fairly correlated with bond yields year-to-date. Bond yields and relative performance trends both remain very low. Higher bond yields would likely be the catalyst for gains in more of the "recovery areas." For now, we would remain overweight the large caps and hold a foundation of market-leading areas- Technology-oriented and Health Care. But we would also be looking to increase exposure to some of the areas more levered to an economic recovery with Industrials, Materials, and select Consumer Discretionary stocks being our favored among those.



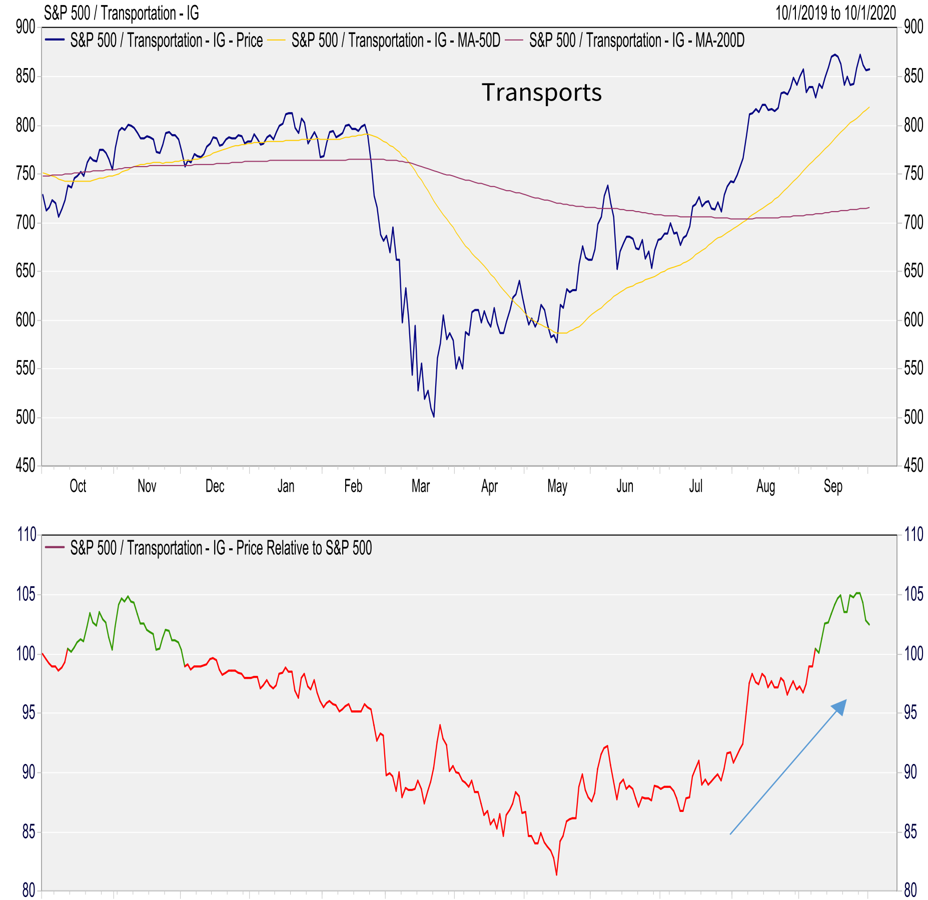




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SEMICONDUCTORS AND TRANSPORTS

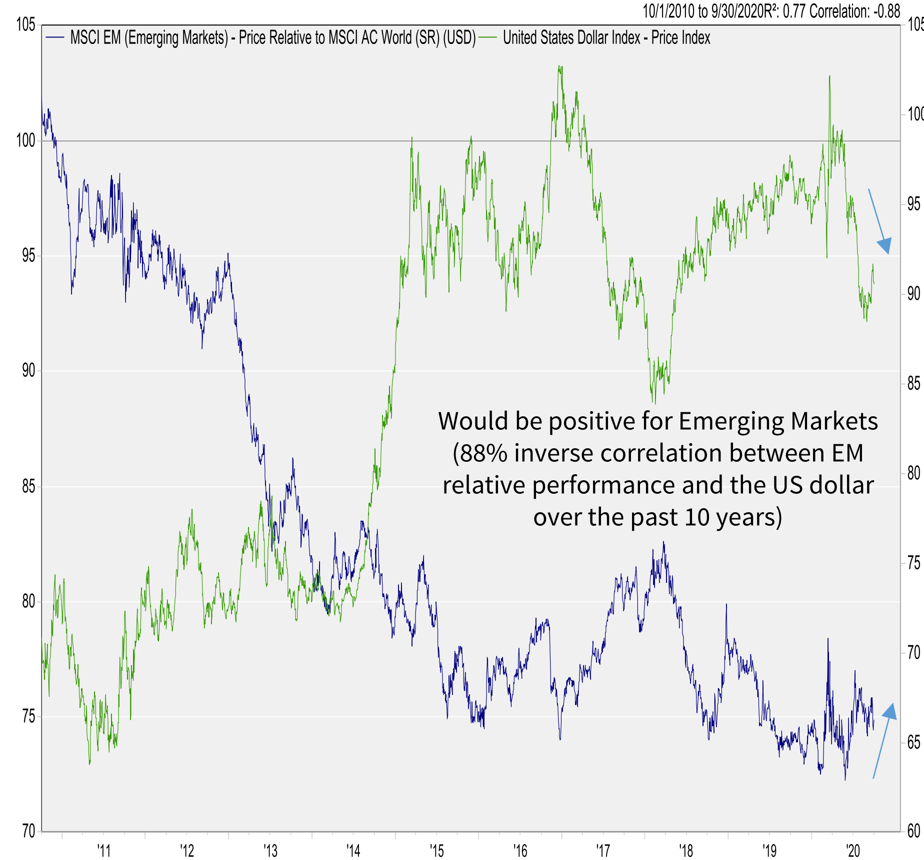
The semiconductors and transports have maintained their strong relative strength trends through the market volatility. These areas are often looked at as indications of economic and market momentum, and as such contribute to our positive view on equities over the intermediate term. Additionally, the semiconductor trends remain supportive for one of our favored sectors- Technology; while the transports trends make us increasingly constructive on adding exposure to the Industrials sector.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: EMERGING MARKETS

After bouncing from oversold levels during the equity market pullback, the US dollar reversed at horizontal resistance and slightly undercut its breakout point in recent days. This could spur some short term weakness. In the near term, the US dollar probably trades more range-bound, but we still favor a weakening trend over the intermediate term (improving global macro, loose policy). If this comes to fruition, it would be positive for emerging markets relative performance which has exhibited a 88% inverse correlation vs the US dollar over the past 10 years. A lower-trending US dollar is also a boost for the industrials and materials sectors. As such, we would be looking to accumulate emerging markets, industrials, and materials for the intermediate term.



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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