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

OCTOBER 29, 2020 | 3:26 PM EDT

Weekly Market Guide

Short-Term Summary:

Equity markets have pulled back 7.5% in recent weeks as the virus spread has intensified. New cases, hospitalizations, and 7-day average deaths are all trending higher, as is the positivity rate of new tests (7.4% currently). This is leading to concerns around the eventual reopening timeline, as well as enhanced mitigation measures. Moreover, the Congressional impasse on additional fiscal aid continues as both sides remain in gridlock until after the election- which also creates uncertainty regarding its outcome and implications.

Ultimately, we believe additional fiscal aid will come post-election, positive news flow on therapeutics and potential vaccines are likely to continue, and the Fed still remains on hand to support the economic recovery. Additionally, we continue to view the S&P 500 as in a good intermediate term uptrend and in the early stages of a bull market. Because of this, we believe the pullback should be used as a buying opportunity, while acknowledging the potential for continued volatile trading in the short term. The risk/reward to our base case 2021 S&P 500 target (3600) has also become more attractive at current prices, representing 10% potential upside (with an upward bias to that level).

Technically, we believe the highest odds are for support to be found near the 200 day moving average. We see the first level of good support at ~3200 (horizontal support that held in September pullback), followed by 3130 (200 DMA), and 3000 (horizontal support). This represents -2% to -9% additional downside from current levels with a bias to favor the smaller decline. Technical indicators are approaching levels enough oversold to have a bounce; but with the election next week, we expect stocks to stay on the defensive. The weakness does set the market up for a counter bounce after the election (in the absence of a contested outcome).

On the earnings front, Q3 results have so far come in well above expectations in aggregate, leading to a 7.2% increase in full quarter estimates. This is above the 5 year average revision, however earnings season is impressively only half way through. The results also highlight how bifurcated fundamentals are this year with about half of companies growing and the other half contracting y/y. The group growing is doing so at a healthy 22.2% median rate, while the group contracting is doing so at a depressed -19.1% median rate. Price reactions (to earnings announcements) have been muted (-0.8% median), as the strong overall reports have not been rewarded by investors. This suggests that much of the growth was baked into expectations, but also likely has more to do with results coming in the midst of a ramp up in virus spread concerns.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	1.2%	7.6%
S&P 500 (Equal-Weight)	-7.6%	-2.6%
Dow Jones Industrial Avg	-7.1%	-2.1%
NASDAQ Composite	22.6%	32.2%
Russell 2000	-7.5%	-1.8%
MSCI All-Cap World	-1.8%	3.9%
MSCI Developed Markets	-11.4%	-7.3%
MSCI Emerging Markets	0.5%	7.5%
NYSE Alerian MLP	-48.8%	-48.9%
MSCI U.S. REIT	-22.3%	-24.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	21.7%	27.6%
Consumer Discretionary	21.4%	11.8%
Communication Svcs.	6.2%	10.9%
S&P 500	***1.2%***	-
Materials	0.8%	2.6%
Health Care	0.5%	14.2%
Consumer Staples	-0.7%	7.0%
Utilities	-2.8%	3.2%
Industrials	-8.0%	8.3%
Real Estate	-12.5%	2.6%
Financials	-23.3%	9.8%
Energy	-54.1%	1.9%

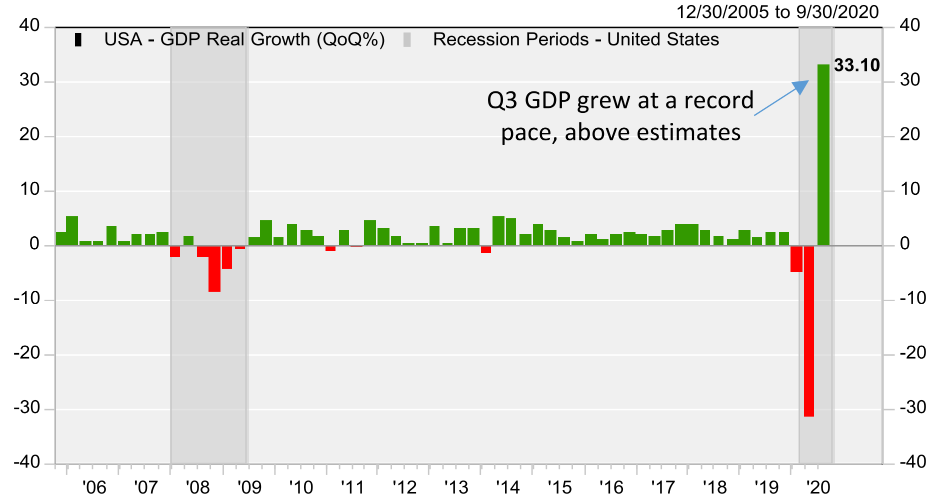
MACRO: US

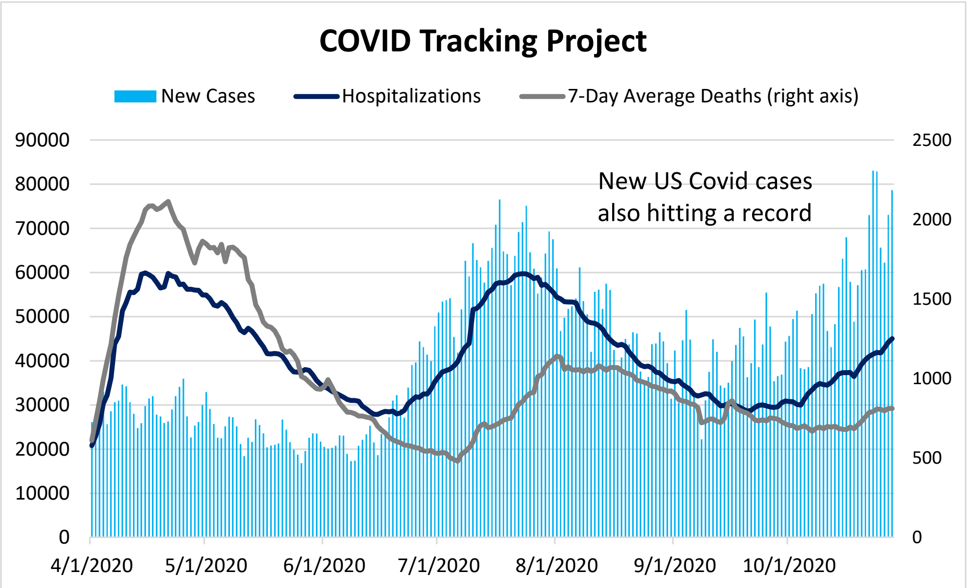
The economic recovery continued in Q3 above estimates with GDP growing at a record 33.1% q/q (taking overall US GDP to just 3.5% below where it was last year). The recovery was fueled by a 40.7% rebound in personal spending, which itself saw a 82.2% rise in durable goods spending. Business fixed investment rose by 20.3% (equipment by 70.1%), and residential investment surged by 59.3% (actually 2.1% higher than Q4'19 now). Business structures contracted by -14.6% and government spending contracted by -4.5%.

Overall, the data reflects a recovery above expectations with some areas of significant strength while other areas (i.e. nondurable goods, services, and business structures) are more muted. We are encouraged by the above estimate reading in October Services PMI and slight tick higher in Manufacturing PMI as we move into Q4. However with the virus spread intensifying (raising potential for increased mitigation measures) and continued impasse on additional fiscal aid, the recovery will be much tougher in the months ahead until this situation changes in our view.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
PMI Composite SA (Preliminary)	OCT	55.5	53.9	54.3 R
Markit PMI Manufacturing SA (Preliminary)	OCT	53.3	53.4	53.2
Markit PMI Services SA (Preliminary)	OCT	56.0	54.6	54.6
Building Permits SAAR (Final)	SEP	1,545K	1,542K	1,553K P
New Home Sales SAAR	SEP	959.0K	1,000K	994.0K R
Durable Orders ex-Transportation SA M/M (Preliminary)	SEP	0.80%	0.40%	1.0% R
Durable Orders SA M/M (Preliminary)	SEP	1.9%	0.60%	0.36% R
FHFA Home Price Index	AUG	297.7	-	293.3 R
S&P/Case-Shiller comp.20 HPI M/M	AUG	0.50%	0.40%	0.75% R
S&P/Case-Shiller comp.20 HPI Y/Y	AUG	5.2%	4.1%	4.1% R
Consumer Confidence	OCT	100.9	101.8	101.3 R
Continuing Jobless Claims SA	10/17	7,756K	7,900K	8,465K R
GDP SAAR Q/Q (First Preliminary)	Q3	33.1%	30.9%	-31.4%
GDP SA Y/Y (First Preliminary)	Q3	-2.9%	-3.5%	-9.0%
Initial Claims SA	10/24	751.0K	775.0K	791.0K R
Pending Home Sales Index SAAR	SEP	130.0	132.8	132.9 R
Pending Home Sales M/M	SEP	-2.2%	1.0%	8.8%





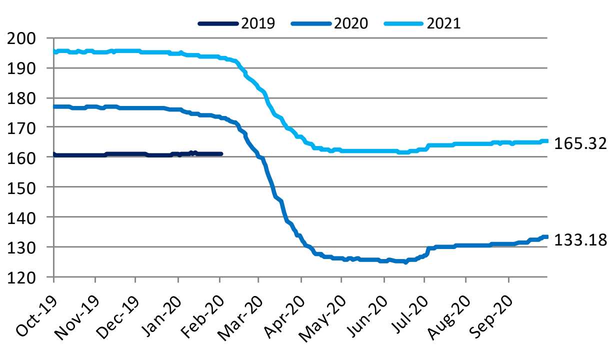
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

On the earnings front, Q3 results have so far come in well above expectations in aggregate, leading to a 7.2% increase in full quarter estimates. This is above the 5 year average revision, however earnings season is impressively only half way through. The results also highlight how bifurcated fundamentals are this year with about half of companies growing and the other half contracting y/y. The group growing is doing so at a healthy 22.2% median rate, while the group contracting is doing so at a depressed -19.1% median rate. At the sector level, the biggest surprises have come from Industrials, Financials, and Materials. Price reactions (to earnings announcements) have been muted across the board, as the strong overall reports have not been rewarded by investors (outside of Materials which have seen an average 1.4% reaction on results). This suggests that much of the growth was baked into expectations, but also likely has more to do with results coming in the midst of a ramp up in virus spread concerns.

We remain positive on equities over the next 12 months due to our expectation of positive news flow on vaccines and therapeutics, as well as additional fiscal stimulus post-election and unprecedented level of global monetary stimulus fueling the economic recovery in the year ahead. We also believe valuation can remain elevated due to the expected recovery, along with record low interest rates and low inflation. Our 2021 base case S&P 500 target is 3600 (with an upward bias to this level) using $160 in earnings and 22.5x P/E. Upside case is 3910 and downside case is 2775.

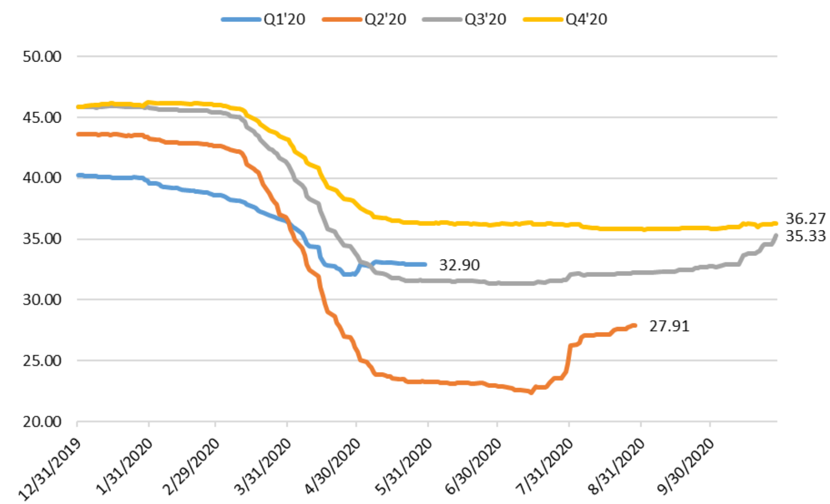
S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2019	1.5%
2020	-17.2%
2021	23.9%

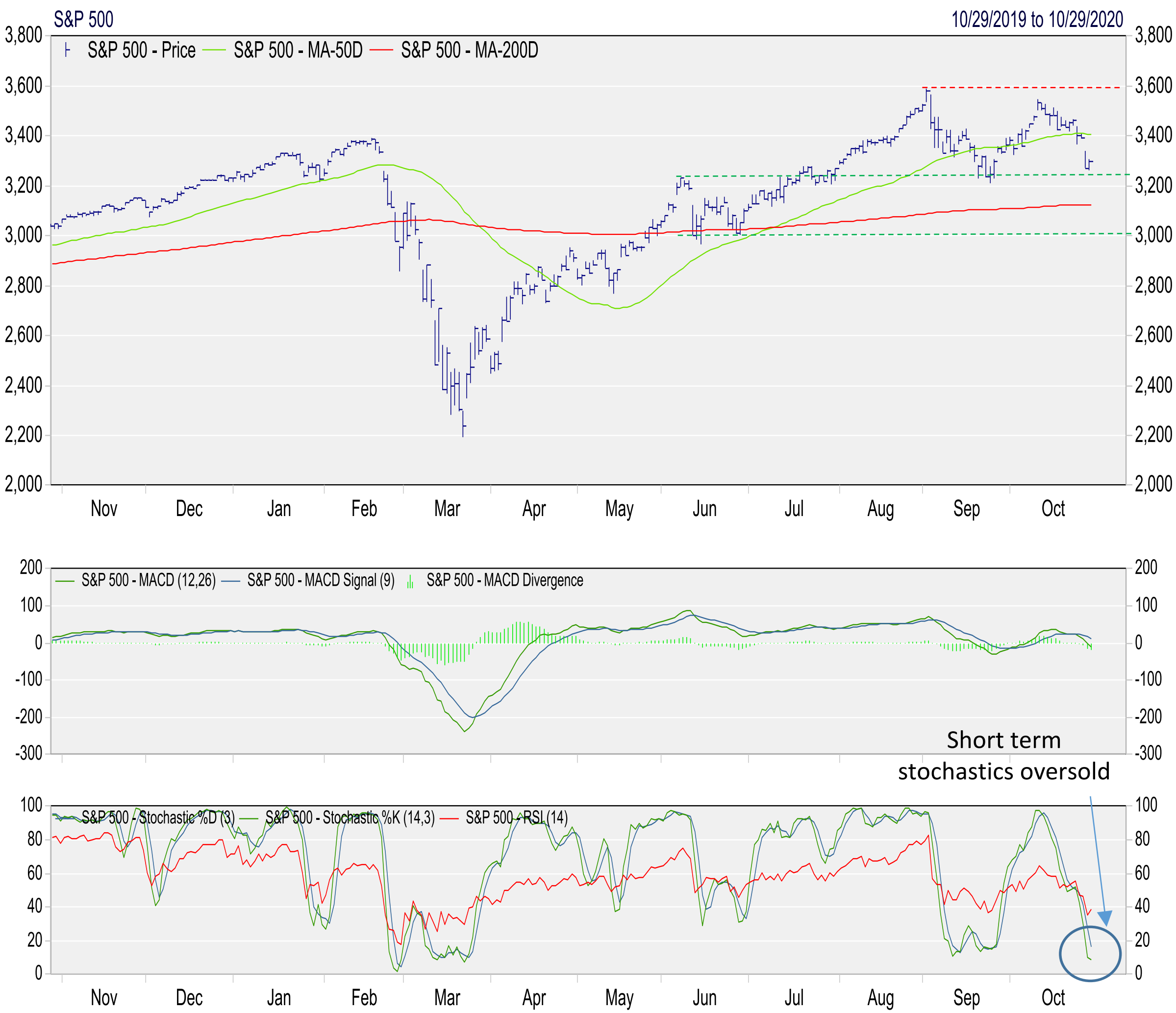
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Earnings Estimates



S&P 500 Sector	Q3 Earnings Growth	Q3 Earnings Surprise	Avg Price Reaction
Information Technology	3.8%	4.7%	0.1%
Health Care	3.1%	6.4%	-1.7%
Consumer Staples	0.3%	3.8%	0.2%
Utilities	-2.1%	2.3%	-0.6%
Financials	-4.6%	15.7%	-0.3%
Materials	-8.4%	7.7%	1.4%
Real Estate	-10.0%	2.1%	-0.1%
S&P 500	**-15.2%**	**7.2%**	**-0.7%**
Communication Services	-20.0%	1.0%	0.0%
Consumer Discretionary	-34.0%	6.0%	-1.8%
Industrials	-52.1%	20.9%	-1.3%
Energy	-123.7%	-6.9%	-2.0%

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

We believe the highest odds are for support to be found near the 200 day moving average. We see the first level of good support at ~3200 (horizontal support that held in September pullback), followed by 3130 (200 DMA), and 3000 (horizontal support). This represents -2% to -9% additional downside from current levels with a bias to favor the smaller decline.

Technical indicators are approaching levels enough oversold to have a bounce; but with the election next week, we expect stocks to stay on the defensive. The weakness does set the market up for a counter bounce after the election (in the absence of a contested outcome).

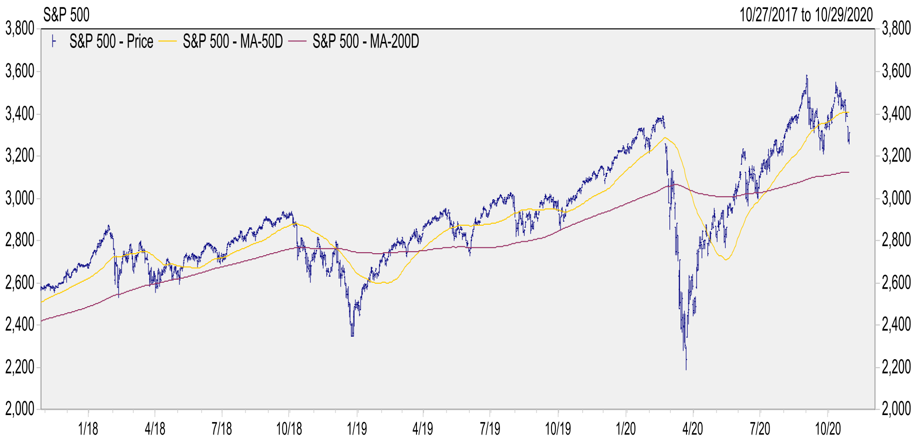
Ultimately, we believe additional fiscal aid will come post-election, positive news flow on therapeutics and potential vaccines are likely to continue, and the Fed still remains on hand to support the economic recovery.

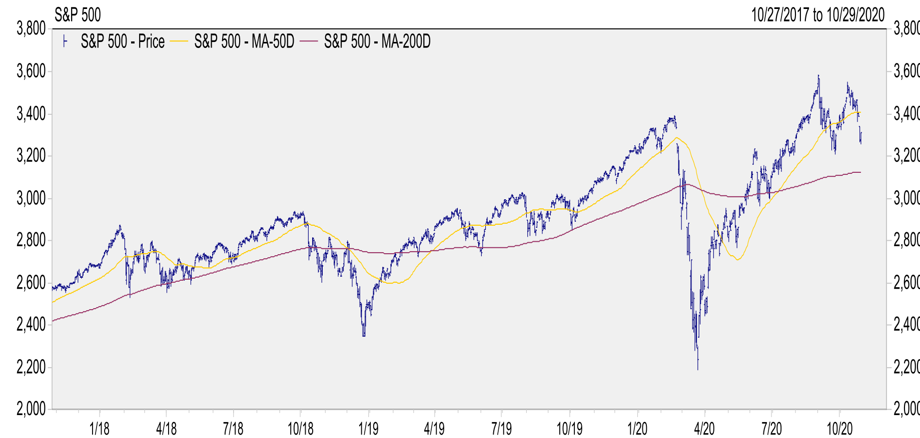
Additionally, we continue to view the S&P 500 as in a good intermediate term uptrend and in the early stages of a bull market.

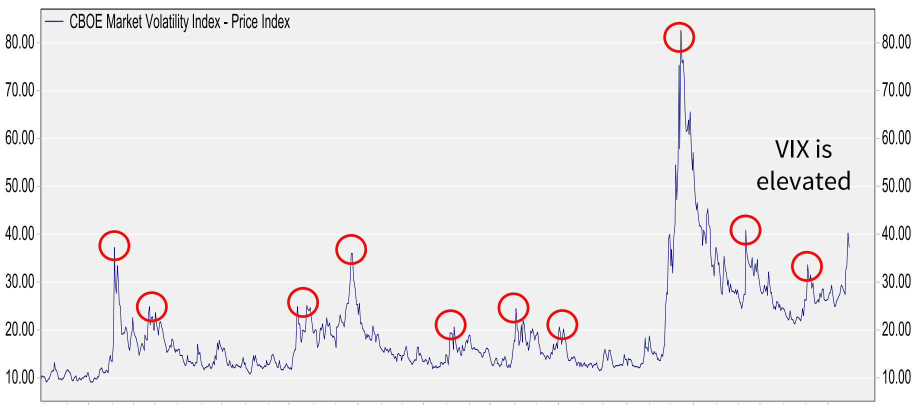
Because of this, we believe the pullback should be used as a buying opportunity, while acknowledging the potential for continued volatile trading in the short term. The risk/reward to our base case 2021 S&P 500 target (3600) has also become more attractive at current prices, representing 10% potential upside (with an upward bias to that level).

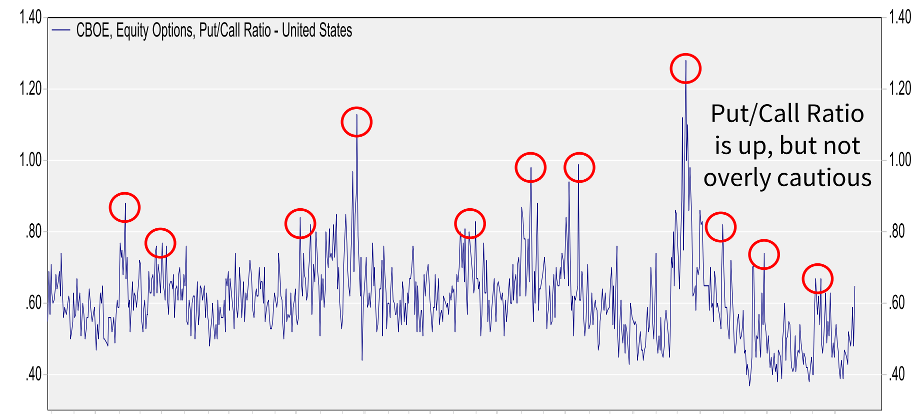
TECHNICAL: VIX AND PUT/CALL RATIO

The VIX (Volatility index) and CBOE Equity Put/Call ratio can often be used as gauges of investor “fear” and, accordingly, also often spike near market lows. Below, we circled the peak readings over the past few years, and as you can see spikes are typically found near market lows at least on a tactical basis. Currently, the VIX has been elevated in recent weeks and is spiking to its highest level since the June lows. The put/call ratio is up near the level seen at the September lows, but not flashing overly cautious yet. While not always a perfect timing indicator, we do believe these readings support our view that the market is likely approaching a near term low.



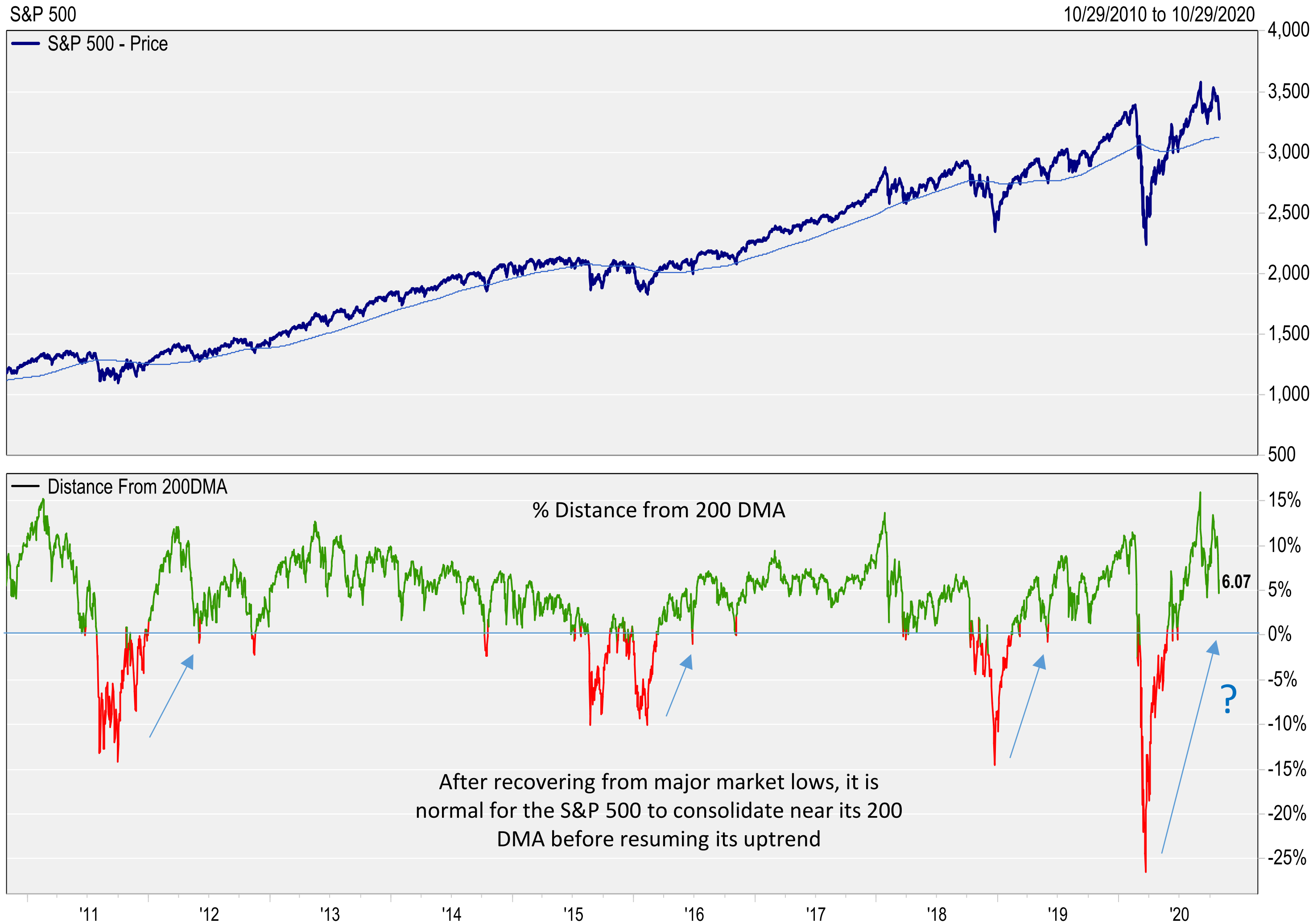






Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



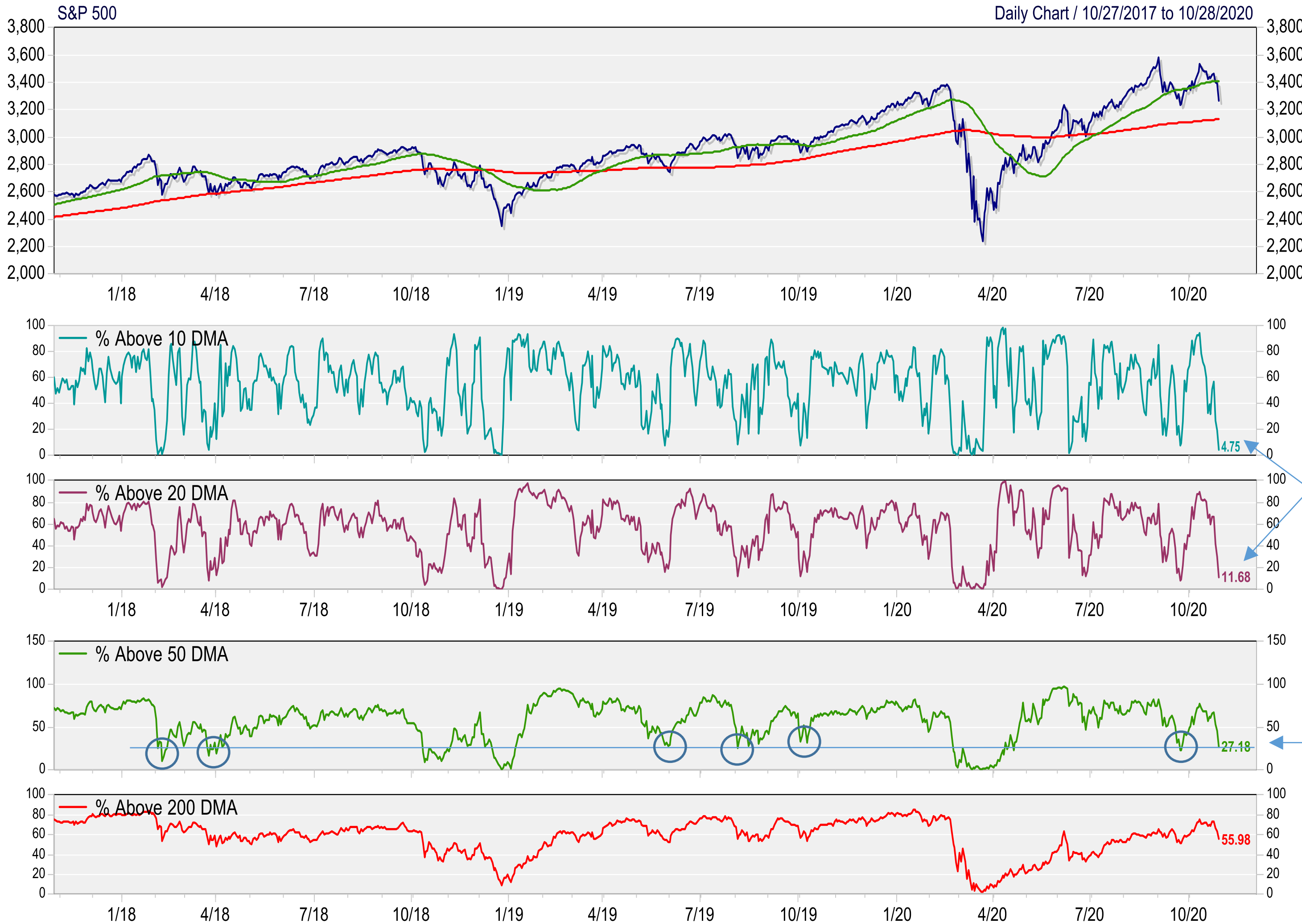
We believe the S&P 500 is in a normal consolidation of its prior strength with the virus spread, lack of additional fiscal aid, and election uncertainty being the catalyst and market headwind.

However, the current pullback comes within a solid intermediate term uptrend and in the early stages of a bull market in our view. It is normal for pullbacks within good intermediate term uptrends to find support near the 200 DMA (particularly as the market recovers from a major market low), as you can see in the chart to the left.

We believe the highest odds are for support to be found near the 200 day moving average. We see the first level of good support at ~3200 (horizontal support that held in September pullback), followed by 3130 (200 DMA), and 3000 (horizontal support). This represents -2% to -9% additional downside from current levels with a bias to favor the smaller decline.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



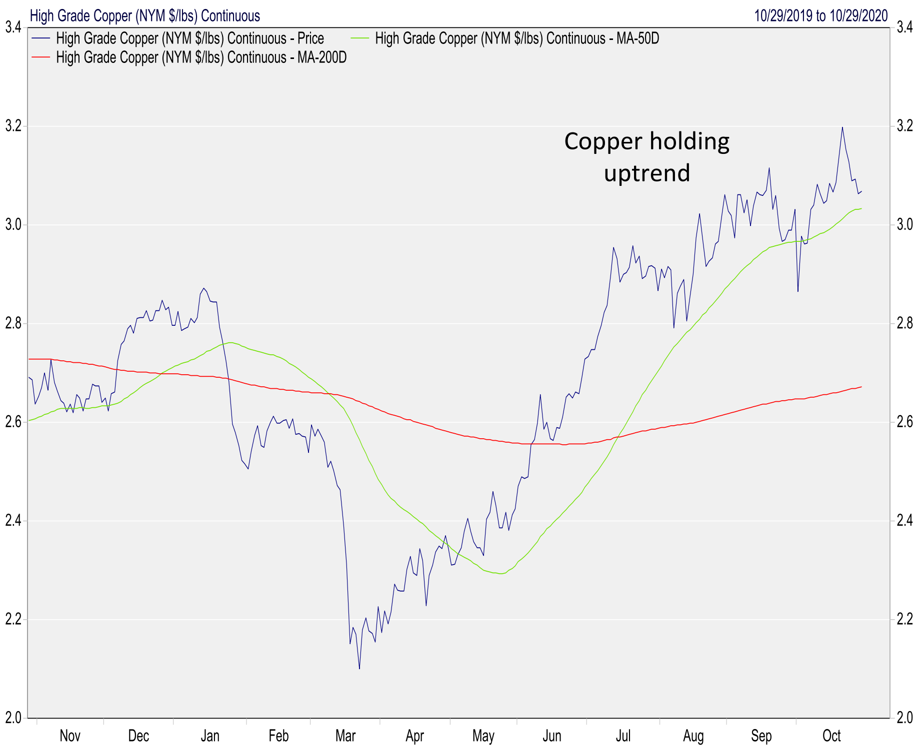
The percentages of stocks above their 10 and 20 day moving averages are oversold enough for a short term bounce.

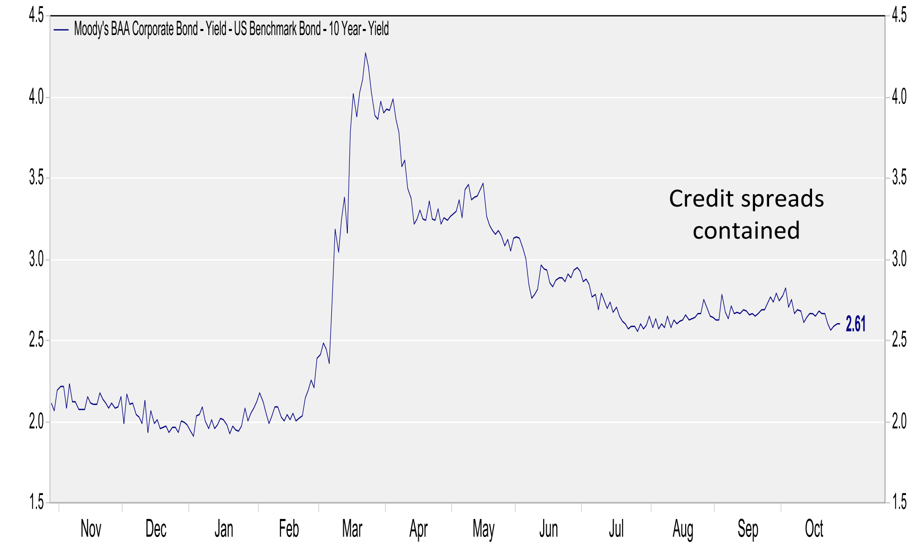
The percentage of stocks above their 50 DMA is also at a level often coincident with short term lows in normal pullback periods.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: MACRO INDICATORS

Despite the pullback in equity markets, copper prices have held up well and credit spreads have remained contained. Copper is often used as a gauge for economic momentum, so sustaining its uptrend is supportive of equity market trends in our view. Additionally, credit spreads remain near their recovery lows despite the 7.5% S&P 500 pullback in recent weeks. This indicates to us that the bond market is not signaling credit concerns beneath the surface. Both of these indicators support our view that the market pullback is likely to be normal in nature.

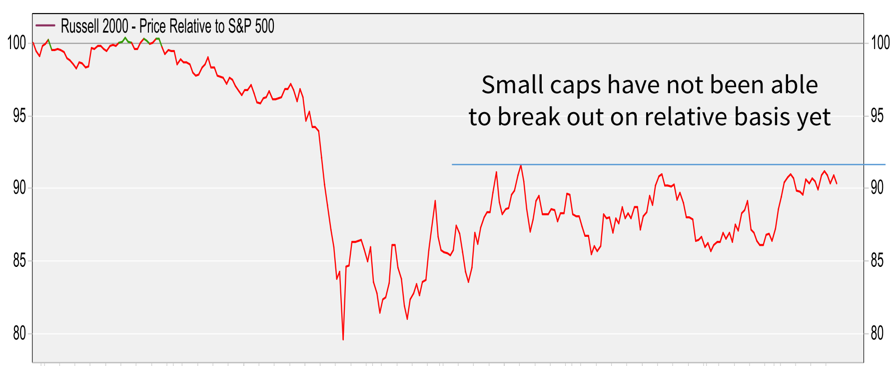


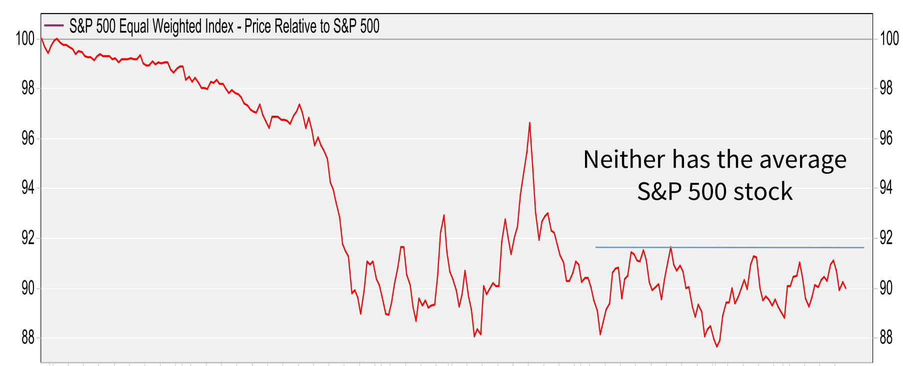


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: MARKET BREADTH

The small caps and average stock have not been able to break out on a relative basis and sustain leadership yet. Also with the virus spread intensifying, lack of fiscal aid, and election uncertainty, these areas in general have the most headwind for the short term due to greater leverage to the economic recovery. For this reason, we stick with the best operating companies for now- remain favorable to Large over Small caps, as well as Technology, Health Care, Communication Services, and Consumer Discretionary sectors.

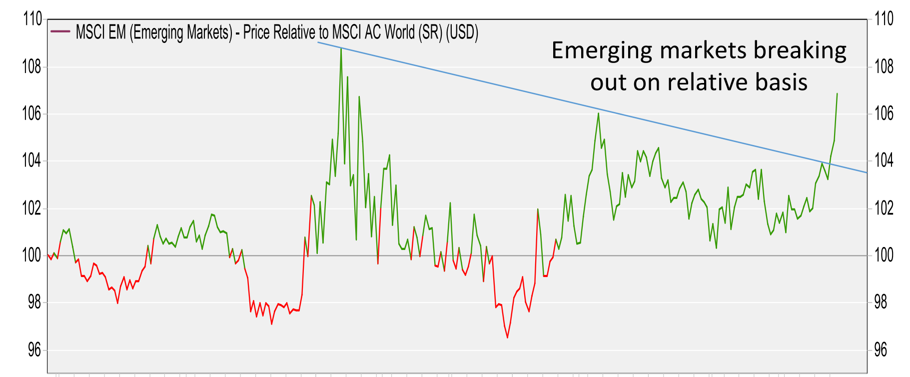


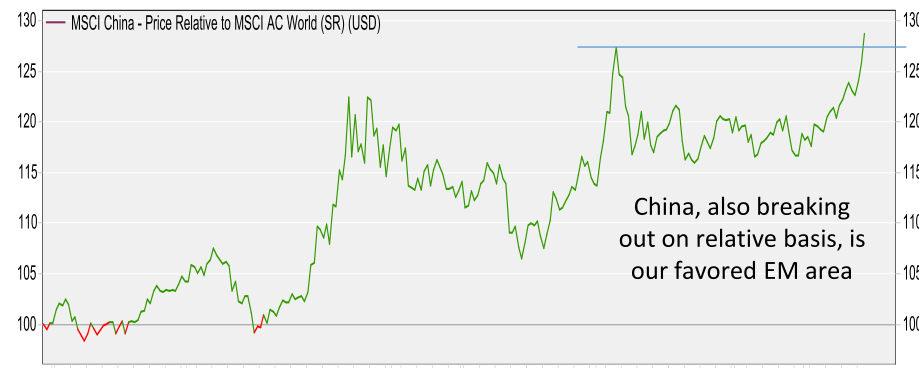


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: EMERGING MARKETS

The emerging markets have been able to sustain their trend after breaking out to new highs and relative strength is breaking out to new highs vs the World as well. We would continue to accumulate the emerging markets in global allocations. Our favored area of emerging markets is China, which is also breaking out to new price highs and relative strength highs. This bodes well for future performance.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

M20-3308850

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.