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NOVEMBER 5, 2020 | 5:04 PM EST

Weekly Market Guide

Short-Term Summary: The election outcome still hangs in the balance- VP Biden is close to 270 electoral votes, while President Trump still has a path to victory but more of an uphill battle at this point. The Senate majority is also still undecided and it is possible that Georgia has two runoffs for Senate positions that may not be known until January. Republicans are favored to win at least one of the seats (which would maintain a Senate majority), but until the outcome is known there still remains some lingering uncertainty. Also, Democrats will maintain their House majority, albeit much thinner than previously anticipated.

Our base case is for divided government at this point, which provides more continuity of the current environment rather than the potential for wide-sweeping changes. We view this is as a net positive for equity markets, particularly in this scenario given it puts the odds of higher taxes very low in the years to come. In the near term, investor focus is likely to shift back toward fiscal stimulus and Covid. The likelihood of divided government, and potential for contested results, dampens the size and timing of additional aid. However, we do believe it comes at some point and are encouraged by the change in tone of Mitch McConnell yesterday that he wants a fiscal package by year end. Also the virus spread continues to intensify and remains a headwind. While this can influence market volatility, our expectation of positive news flow on therapeutics and a potential vaccine by year end remains.

The S&P 500, after finding technical support in the low 3200s last week, has surged higher by over 7% in just the past four days. The sharp move has taken the index up to an area of technical resistance in the 3500s. We view the first level of technical resistance at today's high of 3529 (downtrend line of the September and October highs), followed by horizontal resistance at 3550 and 3588. While we remain positive over the intermediate term outlook and believe the likelihood of divided government reduces the chances of a bear case scenario playing out, we would refrain from unbridled enthusiasm at current levels. In the short term, the S&P 500 has run up sharply to an area that could create a slow down or pause in the past week's ascent. That said, we see multiple levels of support nearby and would continue to use weakness (both for the market or within favored sectors and stocks) as a buying opportunity for the long term.

At the sector level, the elevated odds of split government favor continuity of sectors operating best in the current stay-at-home environment in our view. We continue to recommend overweight exposures to Technology, Health Care, Communication Services, and Consumer Discretionary. We also stick with the Large Caps over Small Caps for now, and continue to favor Growth over Value.

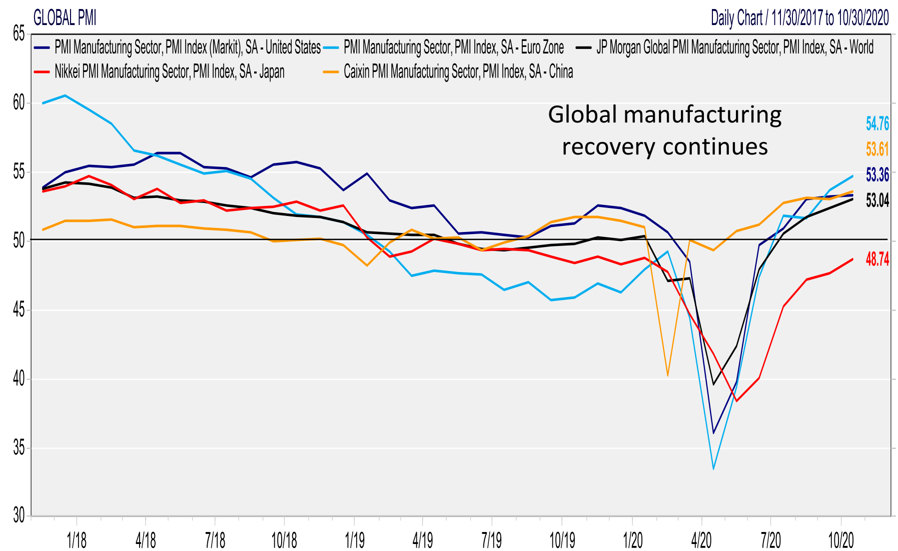
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	6.6%	11.9%
S&P 500 (Equal-Weight)	-2.8%	1.0%
Dow Jones Industrial Avg	-2.4%	1.4%
NASDAQ Composite	29.2%	37.4%
Russell 2000	-3.2%	1.1%
MSCI All-Cap World	2.4%	6.9%
MSCI Developed Markets	-7.9%	-5.1%
MSCI Emerging Markets	1.8%	6.6%
NYSE Alerian MLP	-48.2%	-48.4%
MSCI U.S. REIT	-17.9%	-19.9%

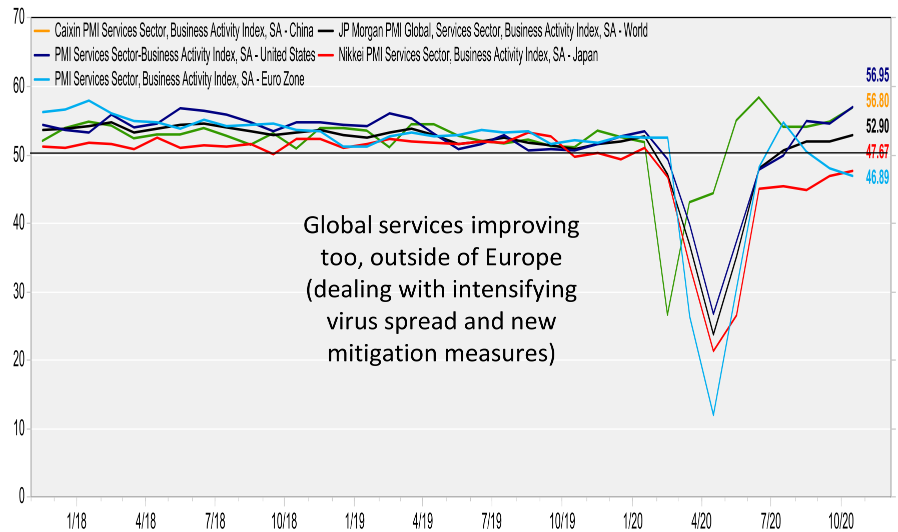
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	28.3%	27.6%
Consumer Discretionary	25.4%	11.6%
Communication Svcs.	14.5%	11.2%
Health Care	7.5%	14.4%
S&P 500	***6.6%***	-
Materials	6.2%	2.6%
Consumer Staples	2.1%	6.9%
Utilities	-1.5%	3.1%
Industrials	-2.4%	8.3%
Real Estate	-8.0%	2.6%
Financials	-20.3%	9.6%
Energy	-51.0%	2.0%

MACRO: US

The global economic recovery continues to unfold in aggregate. Europe has been dealing with an intensifying virus spread that has resulted in increased mitigation measures ("smart lockdowns" taking place). This is impacting services, as reflected in the down-trending EU Services PMI reading on the bottom portion of the chart, and weighing on the European equity markets vs the World.

Impressively, US Manufacturing and Services PMI were both able to rise slightly in October. The ISM Manufacturing reading actually surged higher to 59.3 from 55.4, while ISM Services came in below expectations at 56.6 (vs 57.8 prior). This shows some impact from the virus spread currently ramping up in the US. The virus spread remains a wildcard and headwind to the economy. We also believe additional fiscal aid is important in the absence of an economic reopening. Nonetheless, these US manufacturing and services levels are in expansion territory and at healthy levels. We maintain a positive bias to the economic recovery.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US economic data reported in the past week:

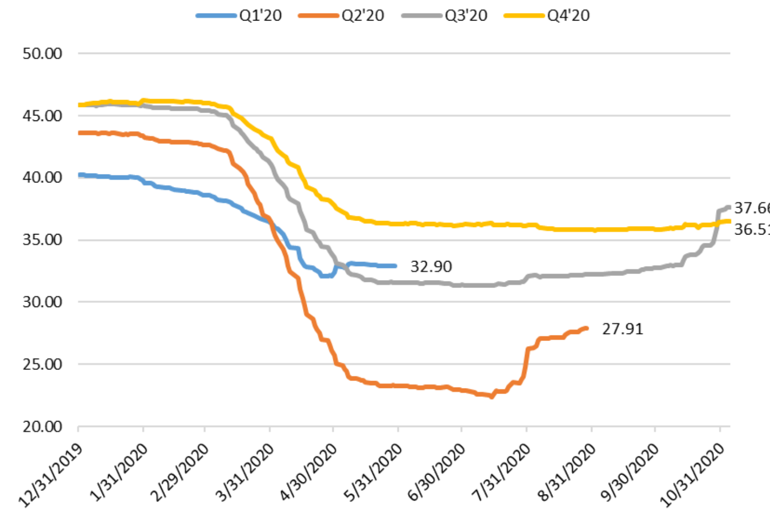
Event	Period	Actual	Consensus	Prior
Personal Consumption Expenditure SA M/M	SEP	1.4%	1.0%	1.0%
Personal Income SA M/M	SEP	0.90%	0.40%	-2.5% R
Chicago PMI SA	OCT	61.1	58.9	62.4
Michigan Sentiment NSA (Final)	OCT	81.8	81.2	81.2 P
Markit PMI Manufacturing SA (Final)	OCT	53.4	53.3	53.3 P
Construction Spending SA M/M	SEP	0.30%	0.90%	0.82% R
ISM Manufacturing SA	OCT	59.3	55.8	55.4
Durable Orders ex-Transportation SA M/M (Final)	SEP	0.87%	0.80%	0.80% P
Durable Orders SA M/M (Final)	SEP	1.9%	1.9%	1.9% P
Factory Orders SA M/M	SEP	1.1%	0.90%	0.60% R
ADP Employment Survey SA	OCT	365.0K	675.0K	752.7K R
Trade Balance SA	SEP	-$63.9B	-$63.5B	-$67.0B R
PMI Composite SA (Final)	OCT	56.3	55.5	55.5 P
Markit PMI Services SA (Final)	OCT	56.9	56.0	56.0 P
ISM Non Manufacturing SA	OCT	56.6	57.5	57.8
Continuing Jobless Claims SA	10/24	7,285K	7,200K	7,823K R
Initial Claims SA	10/31	751.0K	739.0K	758.0K R
Unit Labor Costs SAAR Q/Q (Preliminary)	Q3	-8.9%	-9.7%	8.5% R
Productivity SAAR Q/Q (Preliminary)	Q3	4.9%	3.7%	10.6% R

FUNDAMENTALS

Q3 earnings results continue to run well above estimates. 81% of S&P 500 companies have reported thus far with a 14% upside surprise for full quarter estimates. Fundamentals remain wide-ranging for individual companies in the current environment (some operating very well while others are extremely depressed). The average company has reported -14.9% y/y earnings growth, however the median company's earnings are exactly flat y/y- remarkable when you think about where expectations were just six months ago. The best earnings growth continues to come from Health Care and Technology companies this year. The upside surprises to Q3 estimates are very broad-based, but we note some of the best surprises from Consumer Discretionary, Industrials, and Communication Services. Despite a strong Q3 earnings season, price reactions have been more muted with the average company experiencing flat performance on the day of their announcement.

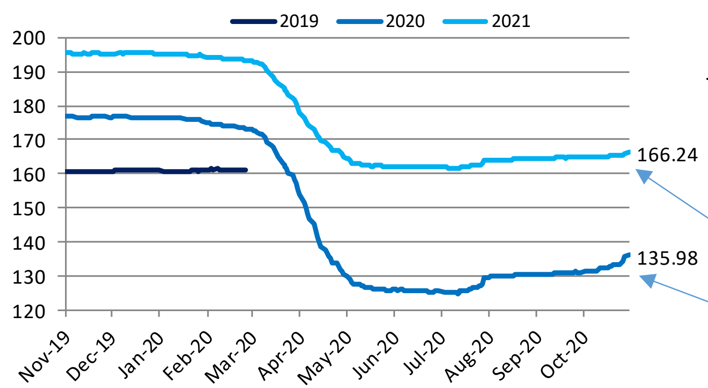
The strong Q3 results (relative to estimates) bode well for S&P 500 earnings trends into the end of the year, and we are encouraged by 2021 earnings estimates trending higher. We remain positive on equities over the next 12 months and have an upward bias to our 3600 S&P 500 base case target depending on the virus and potential vaccine. Our bull case scenario is 3910 using $170 earnings and a 23x P/E.

Earnings Estimates



S&P 500 Sector	Q3 Earnings Growth	Q3 Earnings Surprise	Avg Price Reaction
Health Care	6.8%	10.2%	0.7%
Information Technology	5.5%	6.2%	-0.3%
Consumer Staples	3.2%	6.9%	0.5%
Utilities	1.0%	5.6%	0.4%
Communication Services	-1.8%	23.9%	-0.9%
Financials	-3.6%	16.9%	-0.3%
Materials	-3.9%	12.9%	1.3%
Real Estate	-6.8%	5.8%	0.9%
S&P 500	**-9.6%**	**14.3%**	**0.0%**
Consumer Discretionary	-17.9%	31.8%	-1.2%
Industrials	-49.9%	26.3%	-0.4%
Energy	-109.2%	58.3%	0.0%

S&P 500 Consensus Earnings Estimates over Past Year

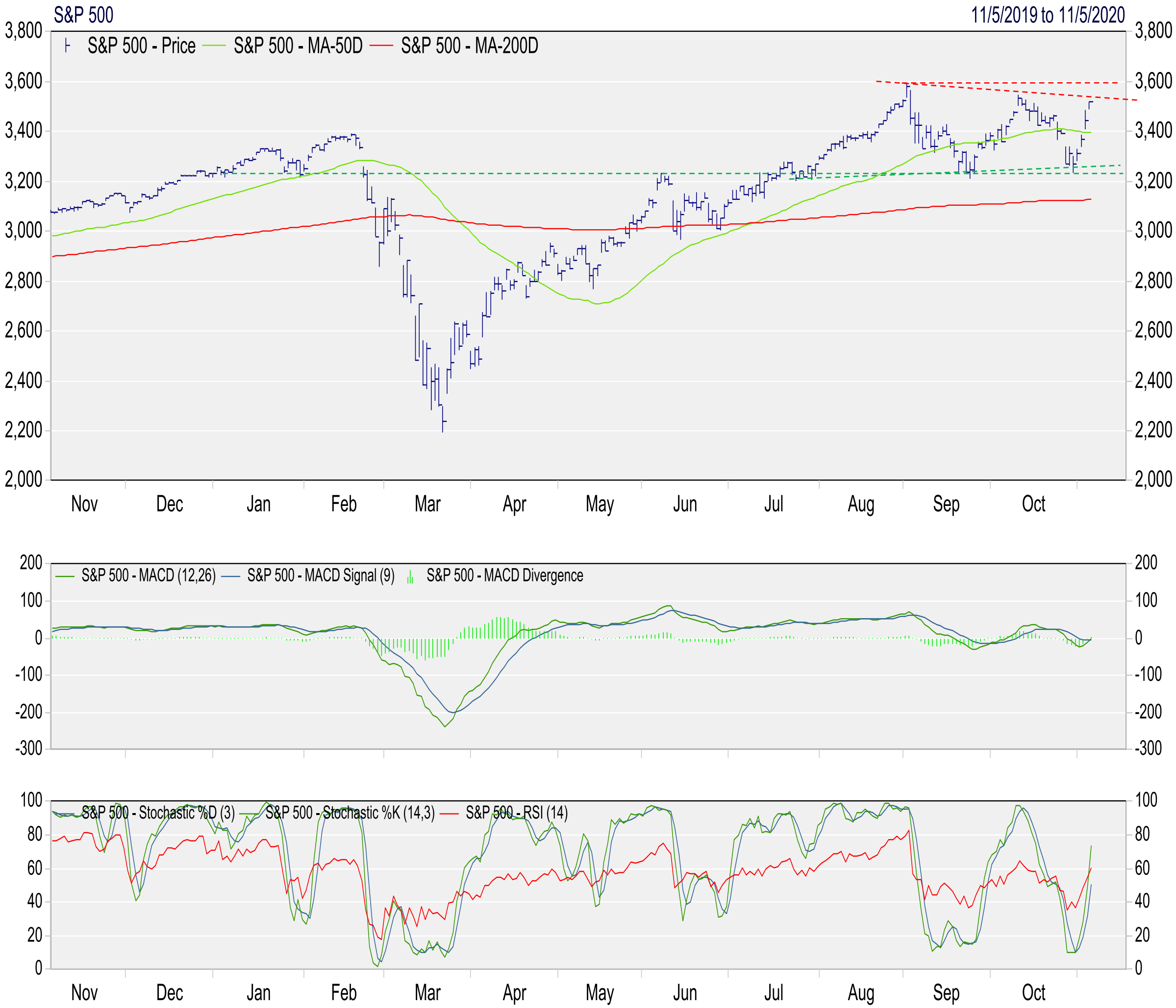


EPS Growth Estimates	
2019	1.5%
2020	-15.6%
2021	22.2%

Strong Q3 earnings season boosting forward estimates

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

After reaching oversold levels and holding technical support in the low-3200s, the S&P 500 has surged over 7% higher in just the last four days. This continues the theme of investor conviction to buy pullback periods in this current environment, which we view as supportive of intermediate term trends.

The sharp move now brings the S&P 500 right up to downtrend line resistance (using the September and October highs) at 3529 (today's highs). This is the first level of technical resistance we will be monitoring, followed by the October high of 3550 and September high of 3588.

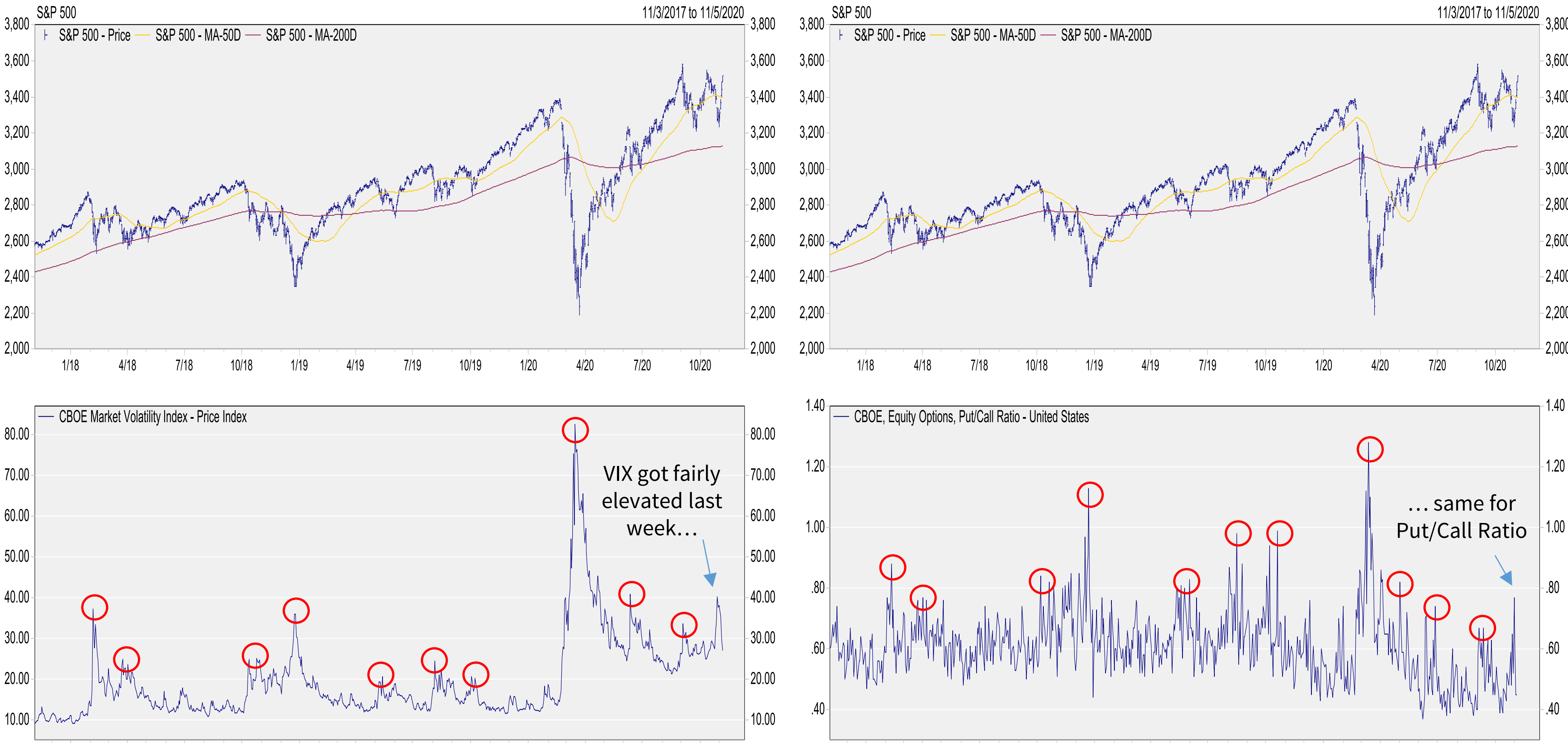
In the short term, this area could create a slow down or pause in the past week's equity market ascent. So while we remain positive over the intermediate term outlook and believe the likelihood of divided government reduces the chances of a bear case scenario playing out, we would refrain from unbridled enthusiasm at current levels.

That said, we remain positive to equities over the next 12 months and would continue to use pullbacks in the market or within favored sectors and stocks as buying opportunities.

We view initial technical support at the 50 DMA (3400) followed by ~3300 (upward trend line support) and low 3200s (horizontal support).

TECHNICAL: VIX AND PUT/CALL RATIO

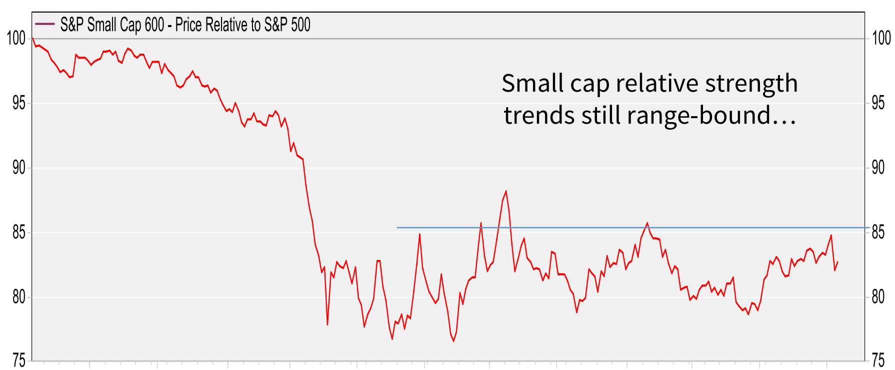
We noted last week that the VIX (Volatility index) and CBOE Equity Put/Call ratio can often be used as gauges of investor "fear" and, accordingly, also often spike near market lows. This came to fruition last week as both readings, in particular the VIX, set the equity market up for a bounce following the election. As the defensive positioning has unwound in recent days, it has fueled the bounce higher in equity markets.

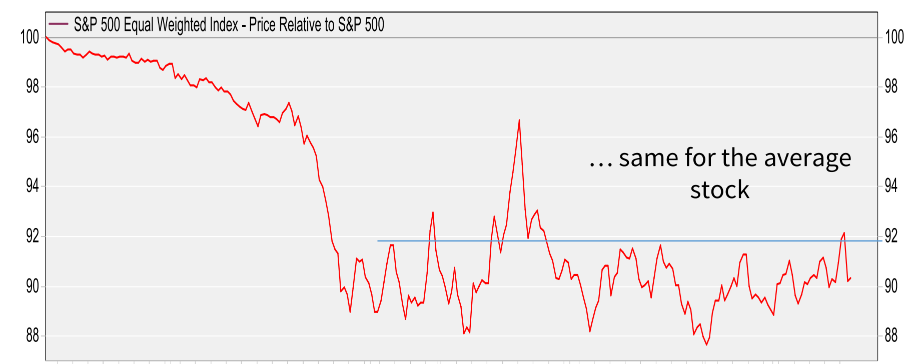


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: MARKET BREADTH

The immediate market reaction of high probability for divided government was not only net positive, but also for the status quo of those companies operating best in the current pandemic to continue. As you can see, the small caps are approaching a break out in price but relative strength trends remain within their range that has been in place for roughly six months now. We believe that small caps can eventually lead but are not ready to say that time is now, particularly with uncertainty surrounding the virus spread and additional fiscal stimulus in the near term. For now, stay overweight the leaders.

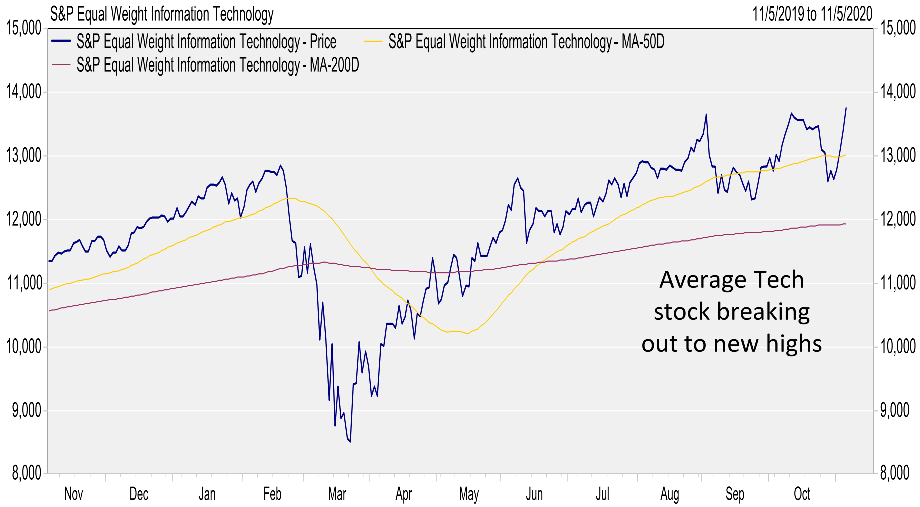


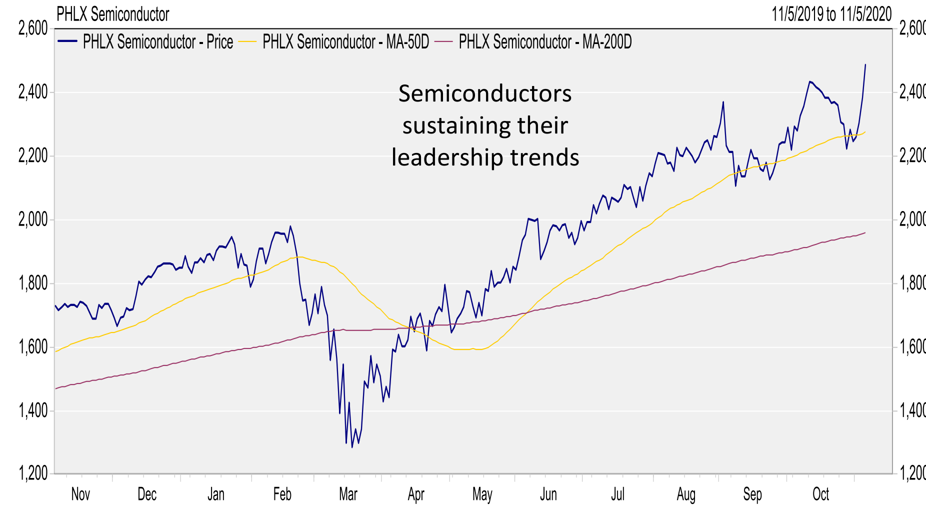


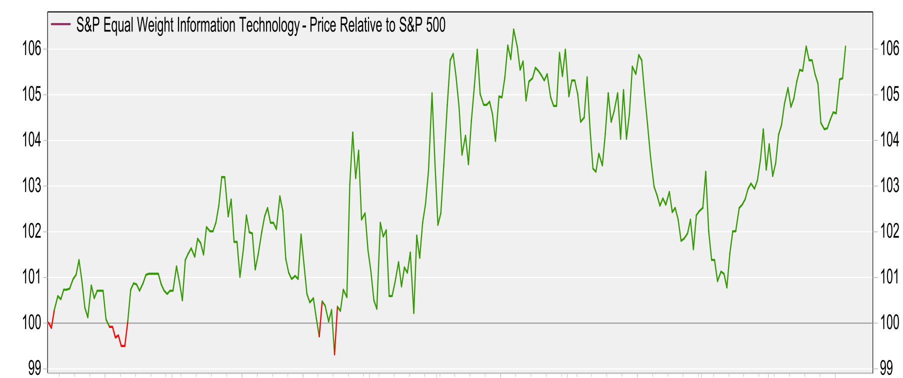
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

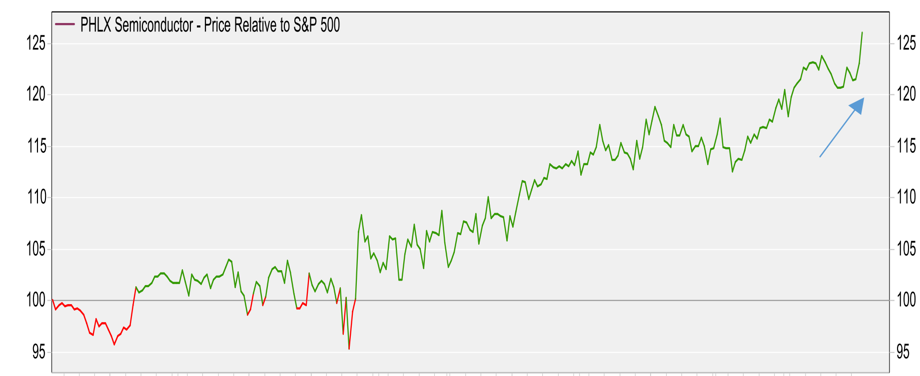
TECHNICAL: TECHNOLOGY

The average Technology stock broke out to new price highs today, and relative strength trends are on the cusp of new highs. Additionally, the semiconductors broke out to new highs on both a price and relative basis. We believe this is not only a positive sign for intermediate term market momentum, but we also believe Technology can maintain its leadership status within the market.





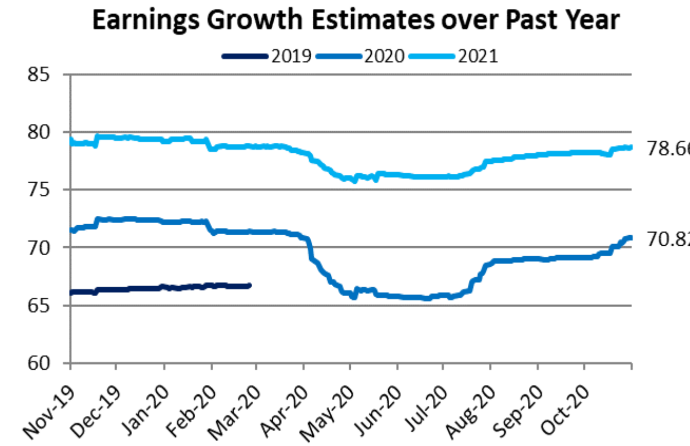




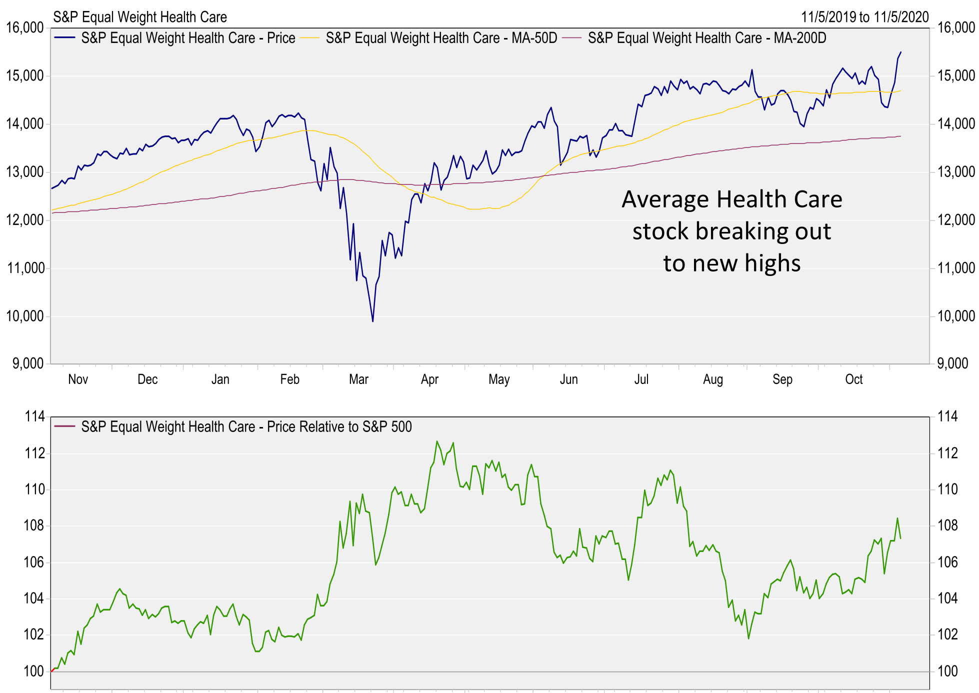
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

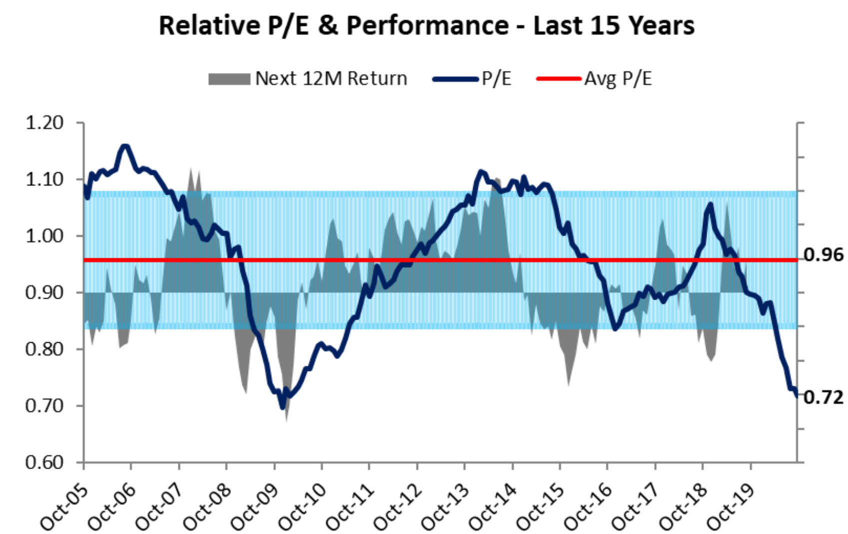
TECHNICAL: HEALTH CARE

The average Health Care stock also broke out to new highs today, and we view the Health Care sector as a beneficiary of divided government due to removing the headwind of health care legislative changes. The sector has exhibited some of the best fundamentals through the pandemic- expecting 4.9% earnings growth this year with estimates trending higher. 2021 earnings are expected to be 18% above 2019 levels, second best of all sectors only to Technology. And despite these strong fundamentals, the sector trades at just a 17.7x P/E. This is a 28% discount to the S&P 500 P/E multiple which puts the sector in line with its cheapest relative P/E of the past 15 years. We remain overweight rated Health Care and find the sector's growth and defensive characteristics as attractive for portfolios.



EPS Growth Estimates	
2019	10.6%
2020	4.9%
2021	12.2%

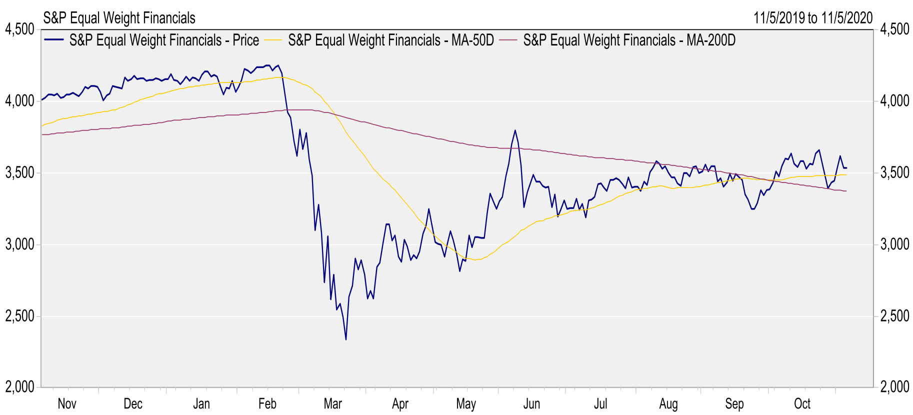


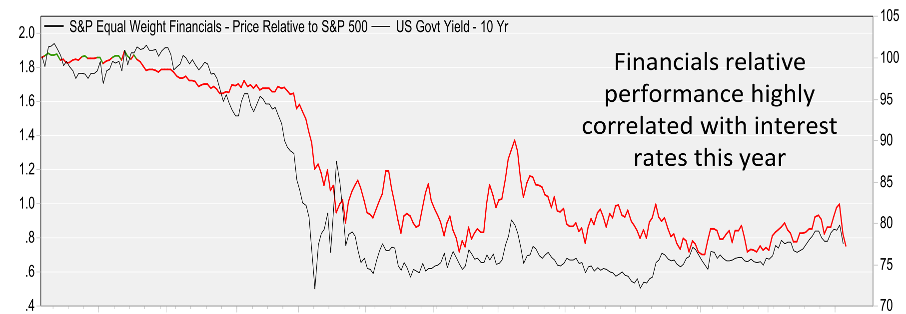


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: FINANCIALS

The financials had shown some early signs of potential improving trends, drifting higher on a relative basis as interest rates moved upward and the yield curve widened. The consensus view of a Democratic sweep increasing the potential for large fiscal stimulus soon was contributing to these trends and now will likely see some unwind in the short term. We will continue to monitor interest rate movements, as they remain influential for sector relative performance in this environment. But for now, with the likelihood of dividend government and contested results decreasing the odds of swift and large fiscal aid, we believe these upward trends are likely to pause in the near term. We maintain an equal weight recommendation on the Financials.

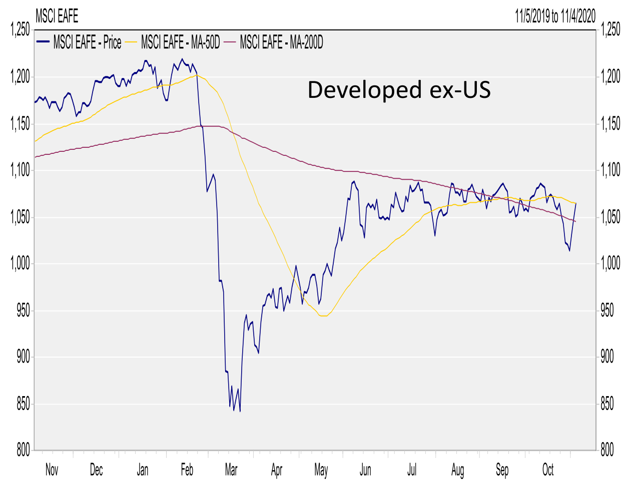


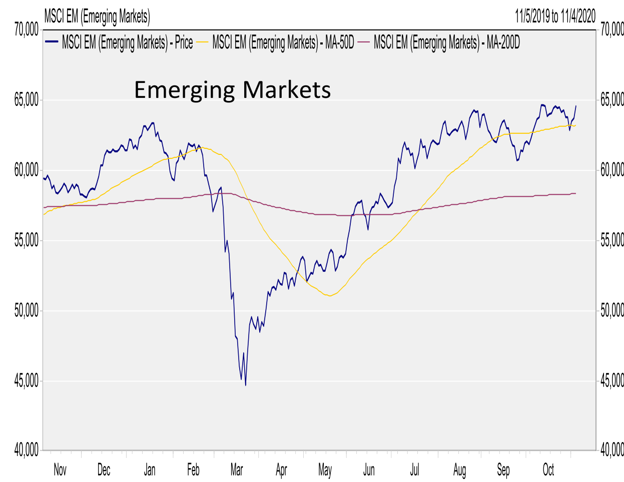


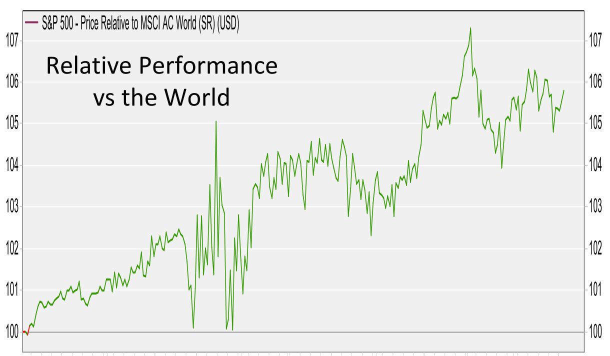
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

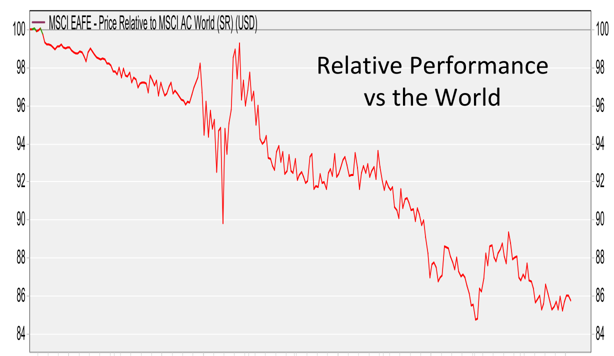
TECHNICAL: GLOBAL EQUITIES

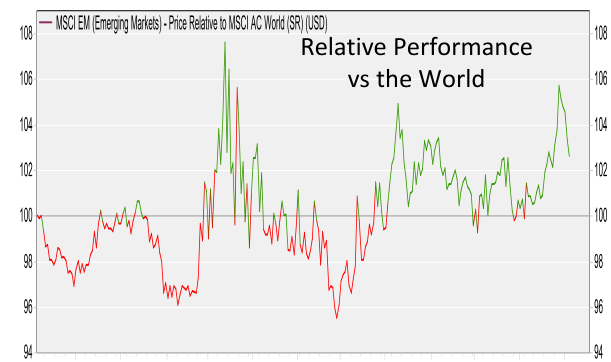
We view divided government as a net positive to US equities due to decreased odds of wide-sweeping changes, in particular higher taxes in the years ahead. This supports continued positive trends of US equities vs the World in our view. We also favor the Emerging Markets globally due to their outsized leverage to the global manufacturing recovery, along with a downward-trending US dollar. China continues to be our favored area within the Emerging Markets. The developed markets ex-US are our least favored region, primarily due to the virus spread and accompanied weaker recovery in Europe currently.











Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M20-3319205)

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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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