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Weekly Market Guide

Short-Term Summary: Following its break out last week, the S&P 500 has been able to hold above the 50 day moving average (DMA) and push to within 0.5% of new highs, as trade talks continued to de-escalate this week. China exempted some goods from tariffs (for the first time since trade talks began) and is reportedly close to agreeing to US agricultural purchases. Additionally, President Trump delayed the October 1 increase in tariffs (to 30% from 25% on $250B worth of imports) by two weeks to October 15, ahead of the Chinese delegation coming to DC for talks in early October.

The previous S&P 500 high of 3027 is now the next level of technical resistance. With short term indicators reaching overbought levels, we would not be surprised to see some consolidation before pushing higher. However, the short term technical improvement lowers the odds for a move to (or below) the 200 DMA (2817) for now. Nearby support on the downside is the 50 DMA at 2950. Over the intermediate-term, we are still guarded but with a positive bias. Our reasons for caution include a low probability of *meaningful* trade progress, a sluggish earnings trend, and weak seasonality. However our positive bias results from the dovish Fed (25 bp cut expected next Wednesday), belief that a worst-case will be avoided on trade tensions, and the services side of the economy remains strong.

The US 10 year yield backed up 32 bp over the past week, and is now up against its 50 day moving average of 1.80%. This back up obviously comes following a total collapse in interest rates since last November (when the US 10 year yield was 3.25%), which stretched the US 10 year yield to 40% below its 200 DMA. This was the most stretched below its 200 DMA that bond yields had reached in at least the past 5 years, so the slight mean-reversion should not come as too big of a surprise. Nonetheless, the tick up in interest rates (which was actually a 15% move) was the catalyst for sharp rotation between Growth vs. Value, as well as from year to date leaders to laggards, within the equity markets this week. For example, since Friday, Large Cap Growth is flat while Small Cap Value is up 6.3%. Additionally, leading year-to-date areas like Real Estate, Commercial Services, Restaurants, Software, and Health Care Equipment all underperformed; while laggards like the Banks, Energy, Transports, and Technology Hardware all outperformed.

Given Value's underperformance for the vast majority of this bull market (and inexpensive relative P/E), it is leading many investors to wonder if the tide is turning for Value. Looking at similar relative strength spikes in the past, prior to 2017 spikes in Value outperformance led to at least short term relative strength. However, over the past couple of years, similar spikes have not led to sustainable relative gains for Value. Thus, the trend needs to be monitored in the near term for signs that it is sustainable, but for now it is far too soon to make a major portfolio shift.

Similarly, there was a noticeable shift into small cap from large cap this week. Small caps have outperformed by over 1% for the past three days in a row. This led to sharp relative strength gains for the small caps, although the intermediate term trend is still downward. The underperformance before this week was so extreme that the move could be nothing more than regression to the mean. The sharp momentum needs to prove sustainable, and we await price and relative strength to break out.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	17.2%	1.4%
S&P 500 (Equal-Weight)	15.4%	-1.1%
Dow Jones Industrial Avg	13.0%	1.6%
NASDAQ Composite	20.2%	-1.4%
Russell 2000	10.1%	-14.3%
MSCI All-Cap World	12.7%	-1.1%
MSCI Developed Markets	8.0%	-4.1%
MSCI Emerging Markets	2.6%	-4.8%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	30.8%	22.0%
Real Estate	24.6%	3.1%
Communication Svcs.	23.8%	10.5%
Consumer Discretionary	23.6%	10.2%
Industrials	22.2%	9.4%
Consumer Staples	19.9%	7.4%
S&P 500	***19.7%***	-
Utilities	18.6%	3.4%
Financials	17.6%	13.0%
Materials	14.5%	2.7%
Health Care	5.6%	13.7%
Energy	5.4%	4.6%

S&P Styles

Year to Date (Price Return)

	Growth	Blend	Value
Large Cap	20.6%	19.7%	18.7%
Mid Cap	18.7%	18.1%	17.5%
Small Cap	14.4%	15.4%	16.5%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

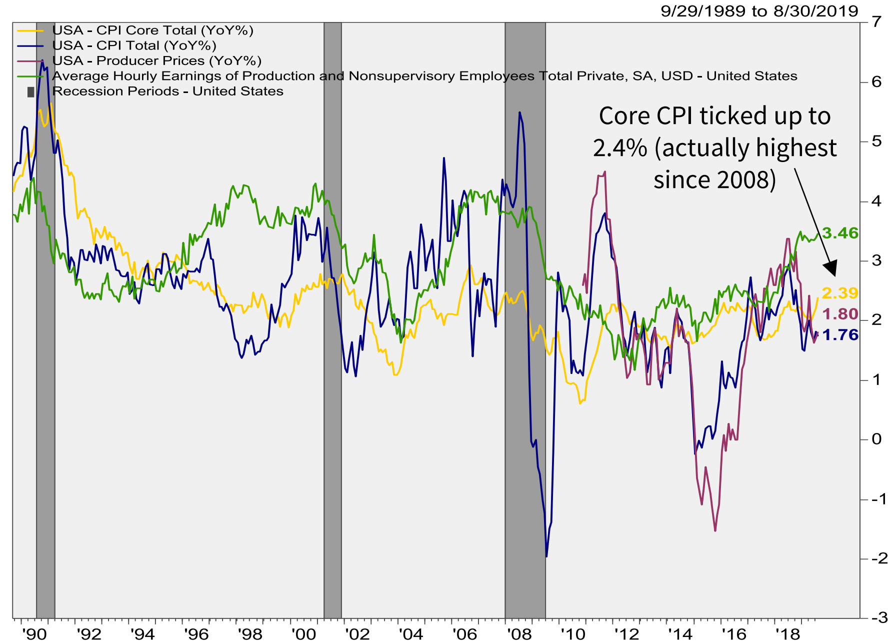
MACRO: US

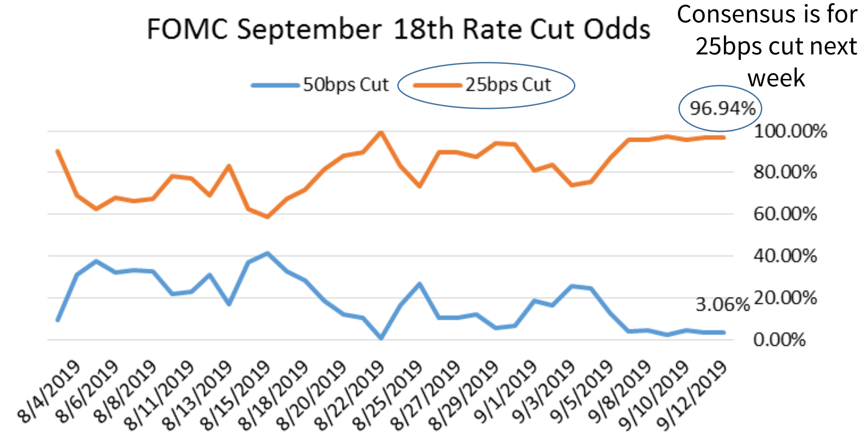
August inflationary data was received this week. Core PPI rose to 2.3% from 2.1% (above estimates of 2.2%) and core CPI rose to 2.4% from 2.2% (above estimates of 2.3%). Core CPI of 2.4% was actually the highest print since September 2008. Moreover, average hourly earnings held relatively flat at 3.2% (from 3.3% prior). We view inflationary pressures as muted.

The jobs market remains strong. Nonfarm payrolls rose 130k, which was below estimates of 160k but still solid. The unemployment rate held at a very low 3.7%, and initial jobless claims remain at exceptionally low levels.

The market has taken the scope of current economic readings as suggestive of a 25bps cut at next Wednesday's FOMC announcement. The market-implied odds of a 25bps cut is up to 97%, with the odds of a 50bps cut down to 3%. This would follow the ECB's decision to resume quantitative easing- net purchases of €20B/month and a cut in its deposit rate by 10bps to -0.50%. Market participants will be listening closely to the Fed's tone on future monetary policy. We believe the Fed will remain dovish, and stands by to support the economic outlook.

US economic data reported in the past week (actual vs estimate):
Chg in Nonfarm Payrolls (Aug): 130k vs 160k, 159k prior
Unemployment Rate (Aug): 3.7% vs 3.7%, 3.7% prior
Avg Hourly Earnings y/y (Aug): 3.2% vs 3.0%, 3.3% prior
NFIB Small Business Optimism (Aug): 103.1 vs 103.5, 104.7 prior
PPI Final Demand m/m (Aug): 0.1% vs 0.0%, 0.2% prior
PPI Ex Food and Energy m/m (Aug): 0.3% vs 0.2%, -0.1% prior
PPI Final Demand y/y (Aug): 1.8% vs 1.7%, 1.7% prior
PPI Ex Food and Energy y/y (Aug): 2.3% vs 2.2%, 2.1% prior
CPI m/m (Aug): 0.1% vs 0.1%, 0.3% prior
CPI Ex Food and Energy m/m (Aug): 0.3% vs 0.2%, 0.3% prior
CPI y/y (Aug): 1.7% vs 1.8%, 1.8% prior
CPI Ex Food and Energy y/y (Aug): 2.4% vs 2.3%, 2.2% prior
Initial Jobless Claims (Week): 204k vs 215k, 219k prior





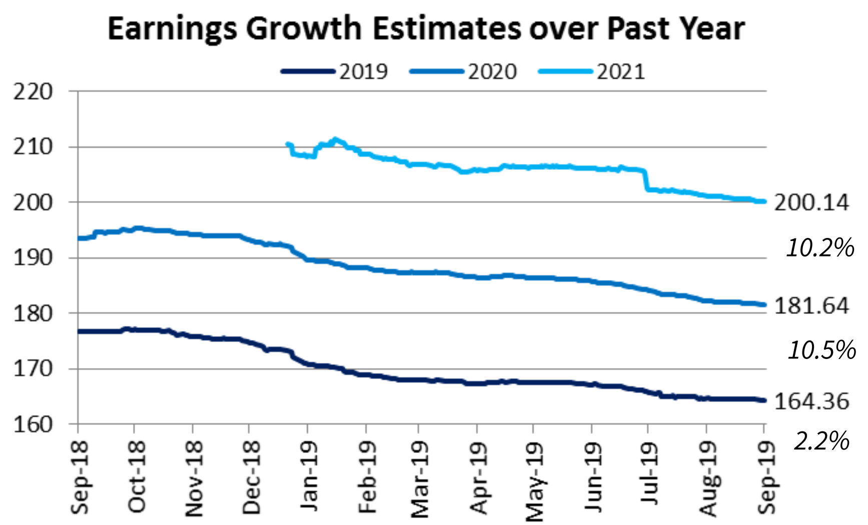
Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Earnings: Q3 earnings estimates have been revised sharply lower over the past few months, now reflecting a -3% earnings contraction (down from 0.5% on 6/30 and 4.7% to begin the year). This year's earnings continue to be pressured by a few areas, as the average company is expecting a more supportive 2.7% earnings growth in Q3. Also, Q3 sales growth is still expected to be a healthy 4.5%. Since the end of Q2, the worst earnings revisions have come from Energy, Materials, Consumer Discretionary, and Industrials. The best Q3 earnings estimate revisions have been from Real Estate and Health Care. For the full year, sales estimates remain steady at ~5%, although earnings have trended down to 2.2% due to margin pressures. Our next 12 month earnings estimate remains $168 (vs consensus at $176).

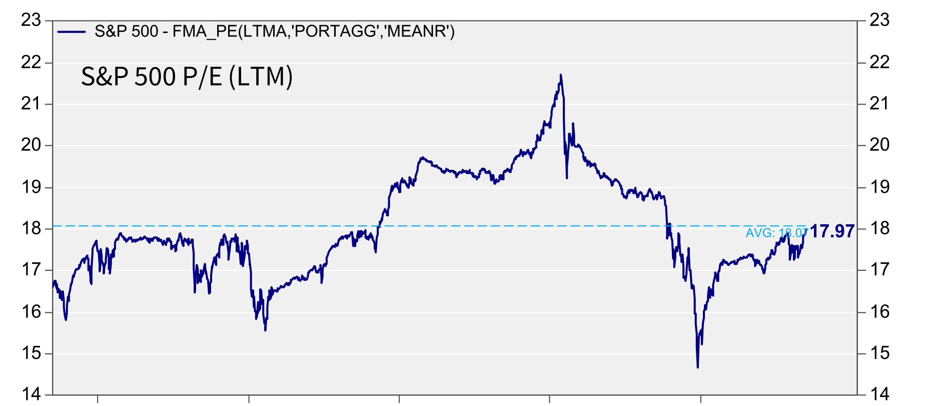
Consensus earnings estimates:

- **2019:** $164.36 (bottom-up analysts); $164.71 (top-down strategists)
- **2020:** $181.64 (bottom-up analysts); $177.86 (top-down strategists)



Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

Valuation: The S&P 500 P/E has been able to push to 18.0x on a more positive tone to trade talks and dovish Fed policy. We remain of the view that trade is the major headwind to multiple expansion, so as it has eased recently valuation multiples have been able to push higher. The very low inflation, interest rate environment remains a tailwind to multiples. Our base case outlook sees the S&P 500 P/E expanding to 18.5x over the next 12 months (just below the historical median P/E of 19.1x when inflation has been 2-2.5%).



TECHNICAL: SHORT TERM

MACD crossover a buy signal

Short term stochastics reaching overbought

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technical:

Following its break out last week, the S&P 500 has been able to hold above the 50 DMA and push to within 0.5% of new highs.

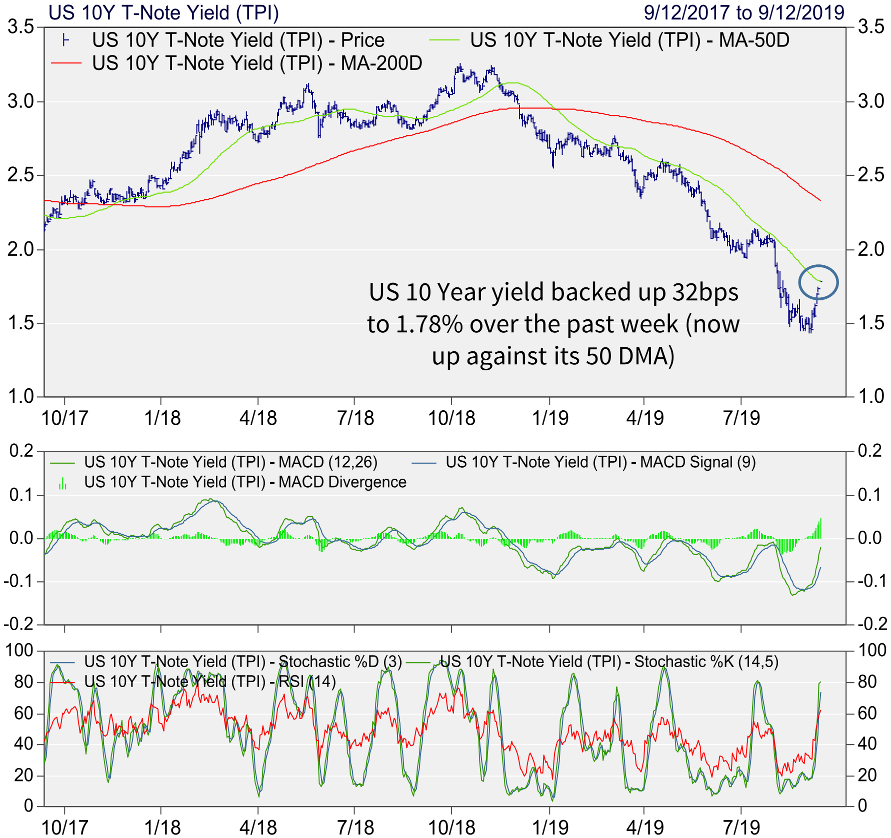
The previous high of 3027 is now the next level of resistance. With short term stochastics and the percentage of stocks above their 10 and 20 day moving averages reaching overbought levels, we would not be surprised to see some consolidation before pushing higher.

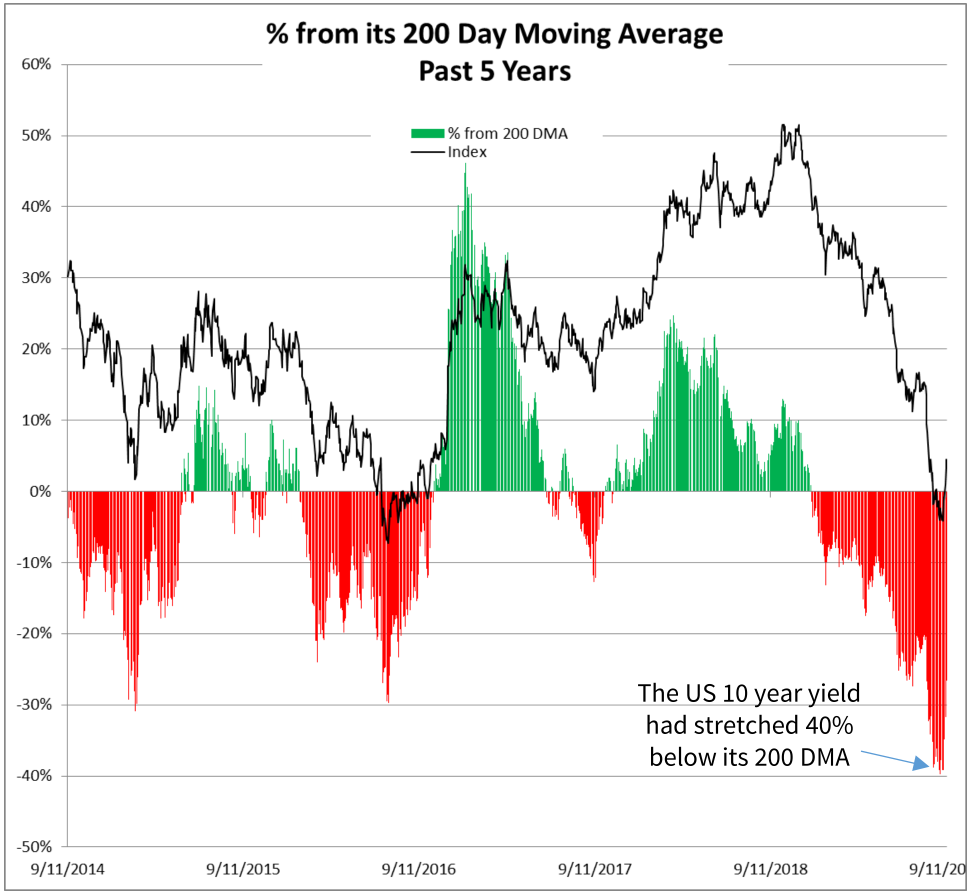
The short term technical improvement lowers the odds for a move to (or below) the 200 DMA (2817) for now. Nearby support on the downside is the 50 DMA at 2950.

Over the intermediate term, we are still guarded but with a positive bias. Our reasons for caution include a low probability of *meaningful* trade progress, a sluggish earnings trend, and weak seasonality. However our positive bias results from the dovish Fed, belief that a worst case is avoided on trade tensions, and services side of economy remains strong.

TECHNICAL: US 10 YEAR YIELD

The US 10 year yield backed up 32bps over the past week, and is now up against its 50 day moving average of 1.80%. This back up obviously comes after a total collapse in interest rates since last November (when the US 10 year yield was 3.25%), which stretched the US 10 year yield to 40% below its 200 DMA. This was the most stretched below its 200 DMA that bond yields had reached in at least the past 5 years, so the slight mean-reversion should not come as too big of a surprise. Nonetheless, the tick up in interest rates (which was actually a 15% move) was the catalyst for sharp rotation between Growth and Value, as well as from leaders to laggards, within the equity markets this week (as discussed on the next pages).

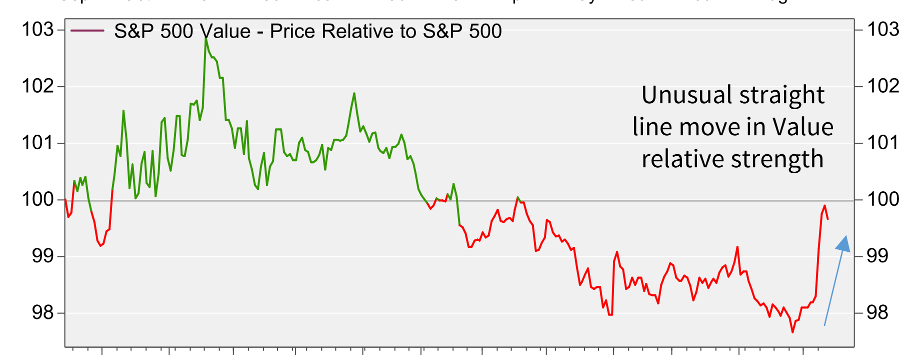


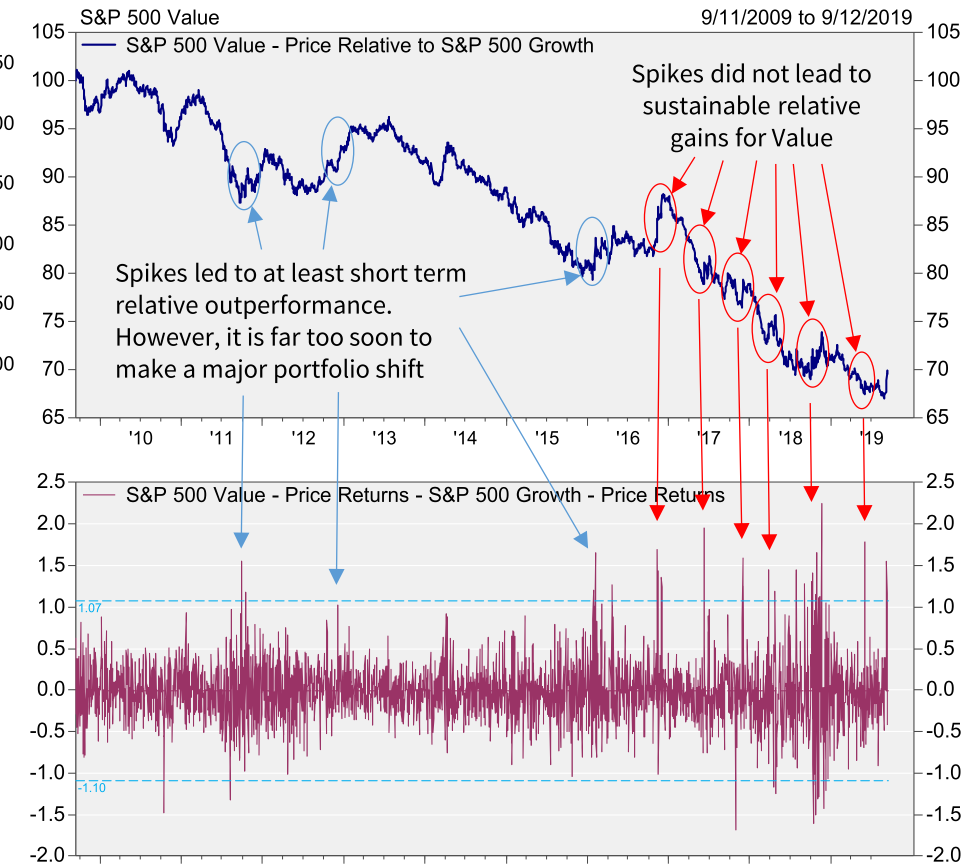


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: VALUE VS GROWTH

The back up in bond yields resulted in a shift to Value from Growth this week. As you can see, relative strength for Value spiked higher this week and the index broke out to new highs. Monday's 1.56% outperformance by Value was a 3 standard deviation move (meaning it happens less than 0.5% of the time); and given Value's massive underperformance for the vast majority of this bull market (and cheap relative P/E), it is leading many investors to wonder if the tide is turning for Value. Looking at similar spikes in the past, prior to 2017 spikes in Value outperformance led to at least short term relative strength. However since then, spikes have not led to sustainable relative gains for Value. Thus, the trend needs to be monitored in the near term for signs that it is sustainable, but for now it is far too soon to make a major portfolio shift.

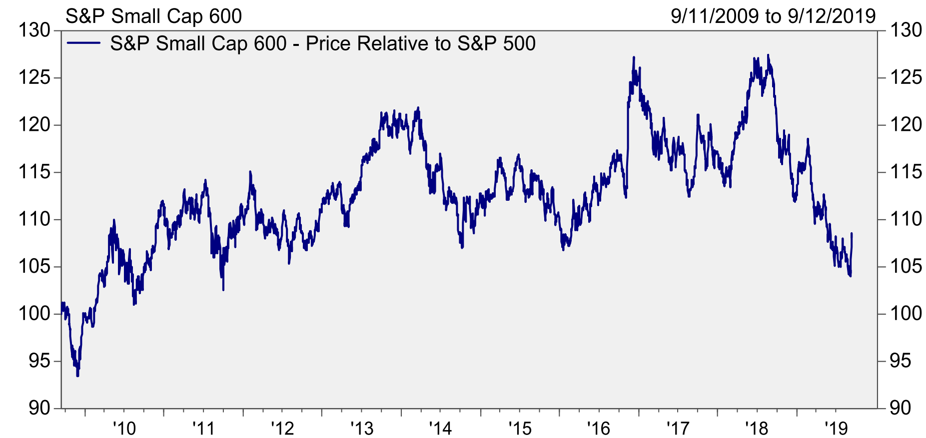


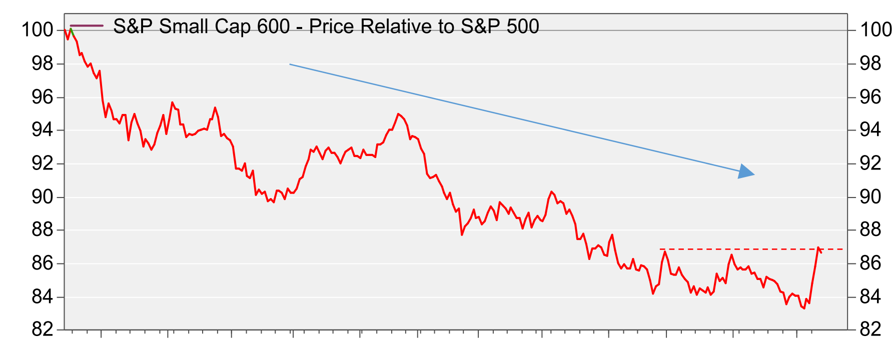


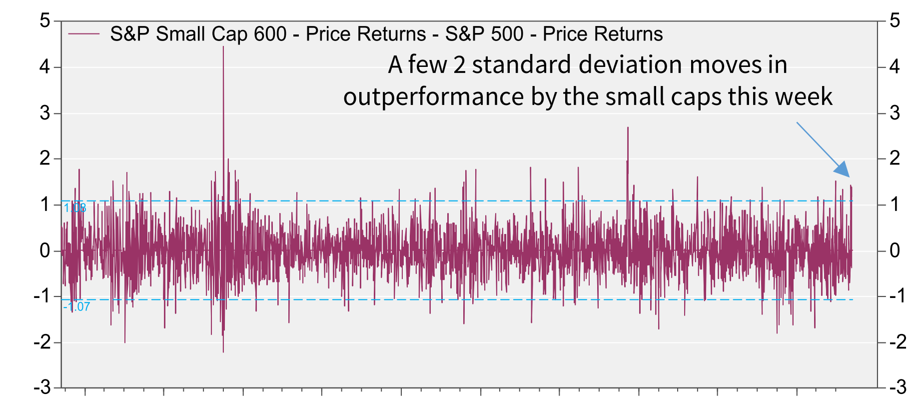
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SMALL VS LARGE

Similarly, there was a noticeable shift into small cap from large cap this week as well. Small caps have outperformed by over 1% for the past three days in a row. This led to sharp relative gains for the small caps, but as you can see the intermediate term trend is still downward. The underperformance before this week was so extreme, it could be nothing more than regression to the mean. The sharp momentum needs to prove sustainable; and price and relative strength need to break out.



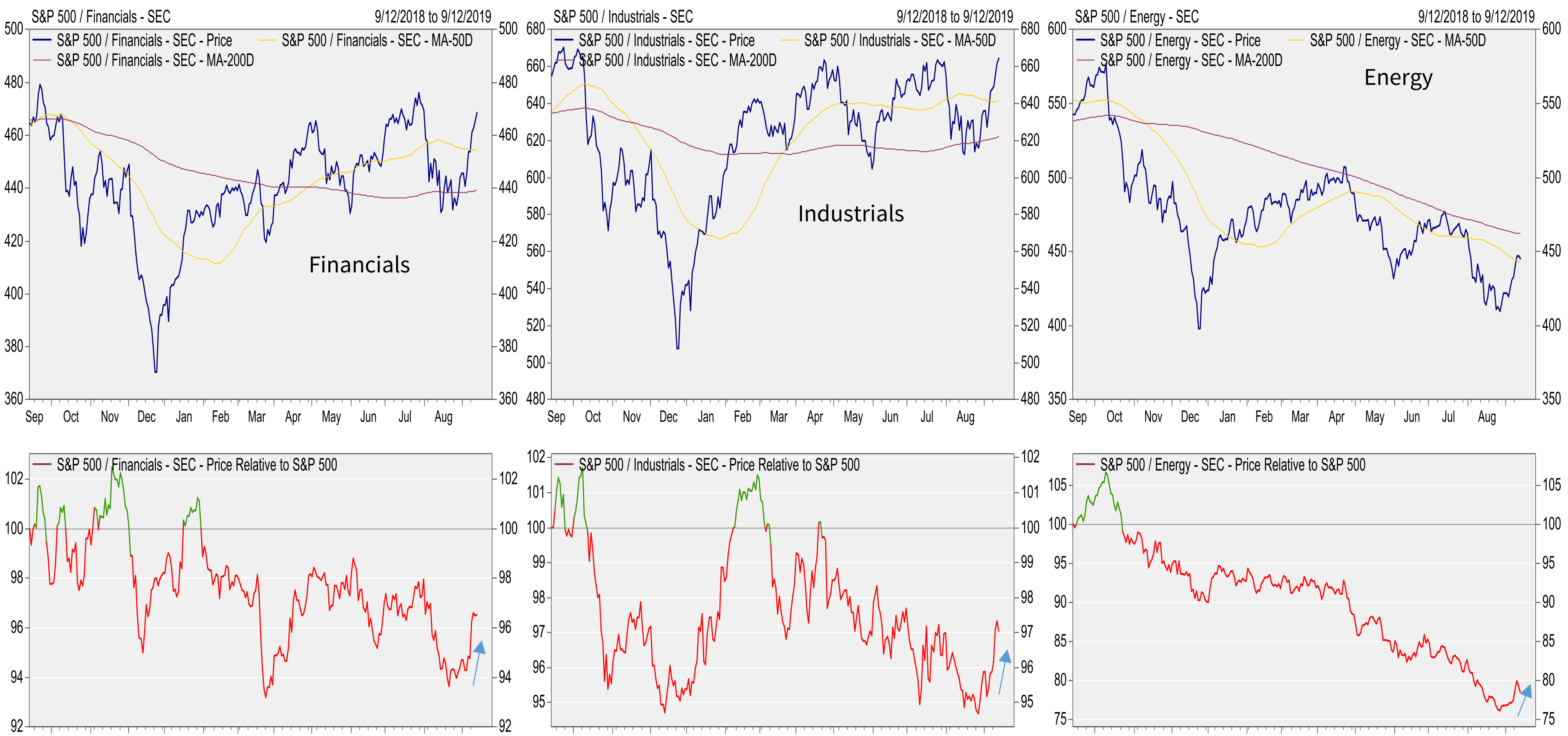




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SECTOR ROTATION

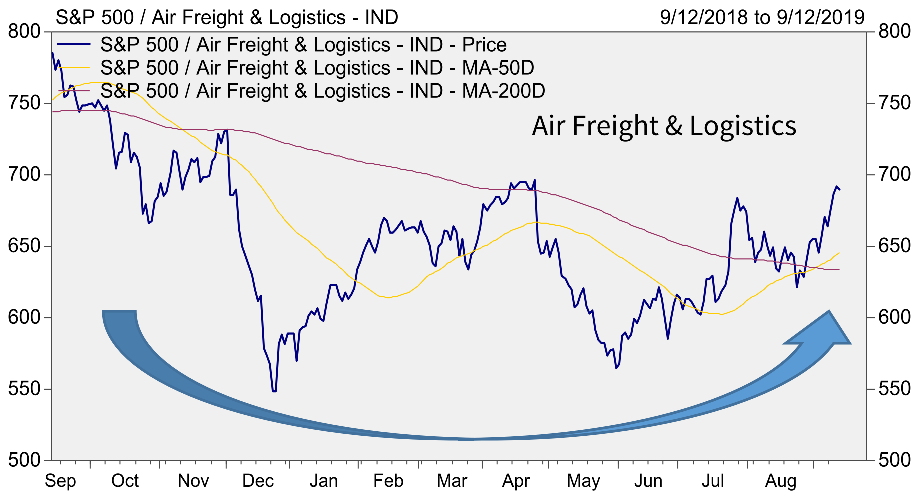
The rotation into Value, led to outperformance from the year-to-date laggards. For example, Financials, Industrials, and Energy all gained relative strength this week. As we discussed previously, the sharp outperformance on the back up in yields by some areas is notable. But many of those areas remain in downward trends relative to the S&P 500 over a longer term period. We would not rush into making portfolio shifts, but we will be monitoring these trends closely for signs they are sustainable.

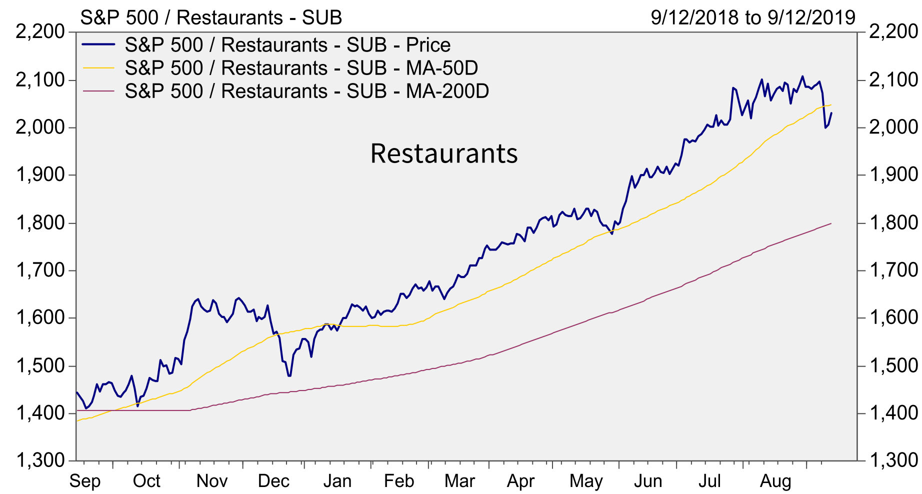


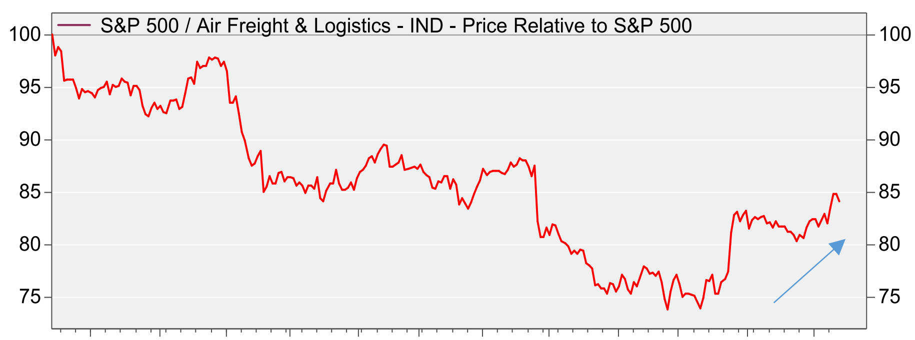
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

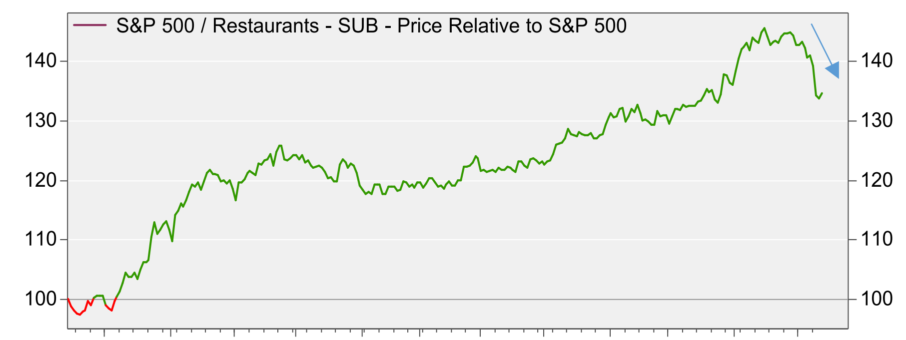
TECHNICAL: SECTOR ROTATION

One of the year-to-date lagging subsectors that has begun to improve its technical trends is air freight & logistics. The subsector trades at a 18% discount to the S&P 500 P/E vs. an average over the past 15 years of trading at a 20% premium. Thus the shift to Value names this week has benefitted this area as well. On the flip side, selling of the year-to-date leaders is impacting the restaurants. The group has exhibited some of the most momentum of all subsectors this year and trades at a 23% premium to its 15 year average relative P/E. Typically, a sharp pullback like this leads to additional weakness unless it quickly recovers.





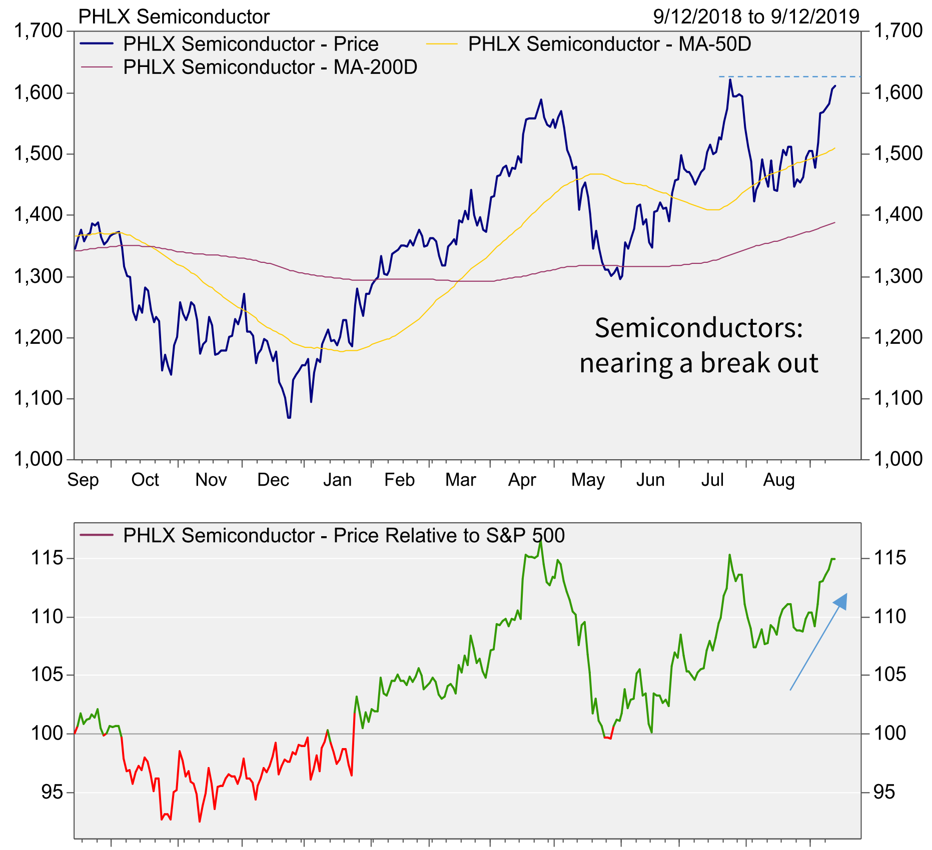




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SECTOR ROTATION

Finally, within the Technology sector, this week's shift in momentum is very evident. Software has outperformed consistently all year long, however relative strength is starting to pull back. With the group trading at a 30% premium to its 15 year relative P/E average, short term consolidation may be in the offing. In contrast, the shift to Value (as well as de-escalation in trade) this week benefitted the semiconductors as it trades at a 26% discount to its 15 year relative P/E average. Relative strength trends have really improved lately, and the group is nearing a breakout.



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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