RAYMOND JAMES

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Weekly Market Guide

Short-Term Summary: Equity market strength has continued since the S&P 500 break out to new highs on continued trade progress, a positive reaction to Q3 earnings season, steepening yield curve, and violent rotation into some of the deep cyclical areas. Trade is moving in the right direction, but we maintain our guarded optimism until the phase 1 agreement is signed (due to multiple trade setbacks over the past year). Global equity markets are also showing strength, as developed markets (ex-US) and emerging markets are breaking downtrends and moving higher in unison (a much more supportive global backdrop than late 2018). In the short term, the degree of the S&P 500 advance is approaching levels that have historically coincided with overbought conditions. This does not mean the S&P 500 is due for a big pullback, but it does suggest the market is likely due for a pause or consolidation period where moving averages can "catch up" and the index can digest its recent strength.

The market break out to new highs is positive in terms of momentum. We evaluated all market breakouts going back to 1928 and quantified the forward returns. When the S&P 500 has traded to a new high (after over 3 months of not having a new high- in order to only include the more significant breakouts), forward returns over the next 1 month, 3 months, 6 months, and 12 months have been above average historically. Additionally, seasonality now becomes a tailwind as the November-April timeframe is historically the strongest period of the year for equity returns. When the S&P 500 has been up over 20% year-to-date through October (as it was this year), November, the rest of the year (Nov. & Dec.), and next 6 month returns have been above historical averages. We see this as "strength begets strength." Breakouts to new highs and strength through October are both suggestive of above-average forward returns on average. This supports our positive bias to equities.

The wave of rotation into Value (from Growth) continues. A significant catalyst for Value's upside momentum is the rise in interest rates that has taken place over the past month. When the US 10 year yield was able to make a higher low in early October, the banks (largest weighting within Value) were able to break above their relative strength downtrend. Contributing to this was also a steepening in the yield curve which has eased macro concerns and led to improvement from some of the deep cyclical (Value) areas that had been under pressure for the vast majority of the past couple of years (i.e. banks, industrials, transports, and semiconductors). Accordingly, the more "defensive" interest rate sensitive areas (Utilities, Real Estate, Consumer Staples) have significantly underperformed over the past month. We would not rush into knee-jerk reactions to your portfolio allocations at this point; although the strength of the trend change remains notable and does warrant building Value exposure within portfolios at a measured pace.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	22.7%	11.7%
S&P 500 (Equal-Weight)	21.7%	9.6%
Dow Jones Industrial Avg	17.9%	7.2%
NASDAQ Composite	26.8%	14.0%
Russell 2000	17.9%	2.1%
MSCI All-Cap World	18.9%	10.0%
MSCI Developed Markets	15.1%	7.9%
MSCI Emerging Markets	10.7%	7.7%
NYSE Alerian MLP	-4.4%	-16.6%
MSCI U.S. REIT	22.1%	14.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	37.0%	22.4%
Industrials	26.5%	9.5%
Communication Svcs.	25.0%	10.4%
Financials	24.1%	13.2%
Real Estate	23.1%	3.0%
Consumer Discretionary	22.7%	10.0%
S&P 500	***22.7%***	-
Consumer Staples	20.0%	7.3%
Utilities	18.6%	3.4%
Materials	18.0%	2.7%
Health Care	8.9%	13.8%
Energy	4.4%	4.4%

S&P Styles

Year to Date (Price Return)

	Growth	Blend	Value
Large Cap	22.2%	22.7%	23.4%
Mid Cap	19.3%	19.7%	20.0%
Small Cap	13.9%	16.5%	19.2%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

(M19-2816518)

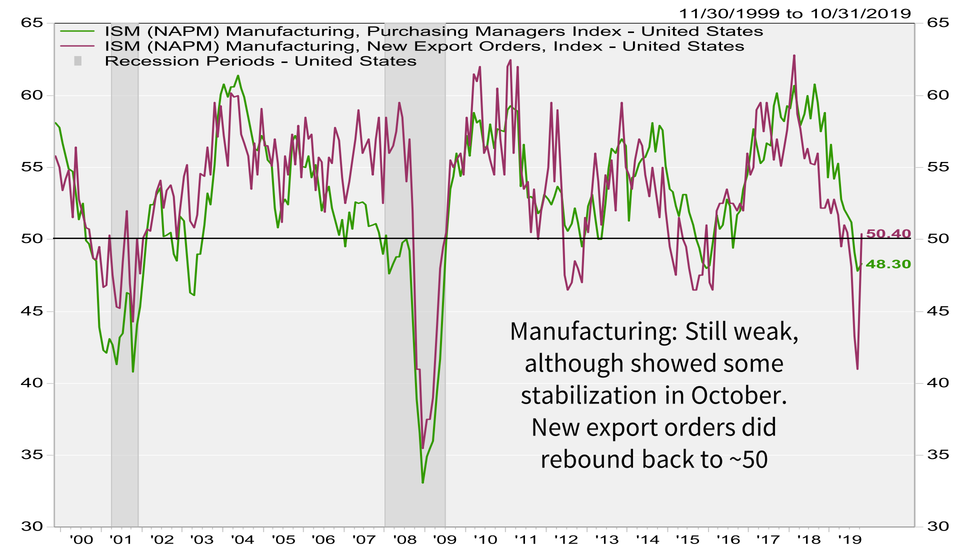
MACRO: US

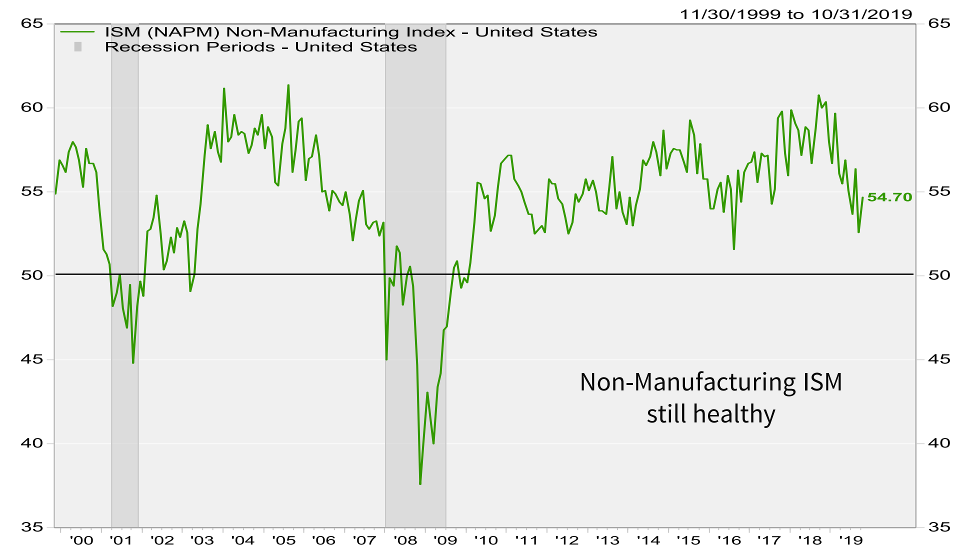
The October US manufacturing ISM survey showed a slight tick up to 48.3 from 47.8 in September. This is still weak (and contractionary), but did show some stabilization and is far from the low-40s (or worse) seen in recessionary periods. Interestingly, downdrafts in the ISM manufacturing survey have typically lasted around 18 months historically which is very near the duration of the current trend lower. Additionally, new export orders (which are often seen as a leading indicator) did bounce back to ~50 breakeven level after plummeting in September. This is easing concerns on manufacturing trends, as investors begin to discount some manufacturing improvement (as seen by cyclical improvement in the equity market).

Moreover, the consumer remains solid in our view. Nonfarm payrolls rose by a strong 128k in October, well above estimates of 85k, and September's reading was revised higher to 180k (from 136k). The unemployment rate remains at a very low 3.6%. Finally, non-manufacturing ISM bounced to a still healthy 54.7, above estimates of 53.5 as well as September's 52.6 reading.

US economic data reported in the past week (actual vs estimate):

Change in Nonfarm Payrolls (Oct): 128k vs 85k, 180k prior
Unemployment Rate (Oct): 3.6% vs 3.6%, 3.5% prior
Average Hourly Earnings y/y (Oct): 3.0% vs 3.0%, 3.0% prior
Markit US Manufacturing PMI (Oct F): 51.3 vs 51.5, 51.5 prior
ISM Manufacturing (Oct): 48.3 vs 48.9, 47.8 prior
Construction Spending m/m (Sep): 0.5% vs 0.2%, -0.3% prior
Durable Goods Orders (Sep F): -1.2% vs -1.1%, -1.2% prior
Durables ex Transportation (Sep F): -0.4% vs -0.3%, -0.4% prior
Factory Orders (Sep): -0.6% vs -0.5%, -0.1% prior
Markit US Services PMI (Oct F): 50.6 vs 51.0, 51.0 prior
Markit US Composite PMI (Oct F): 50.9 vs 51.2 prior
ISM Non-Manufacturing (Oct): 54.7 vs 53.5, 52.6 prior
Nonfarm Productivity (3Q P): -0.3% vs 0.9%, 2.5% prior
Unit Labor Costs (3Q P): 3.6% vs 2.2%, 2.4% prior
Initial Jobless Claims (Week): 211k vs 215k, 219k prior





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

FUNDAMENTALS

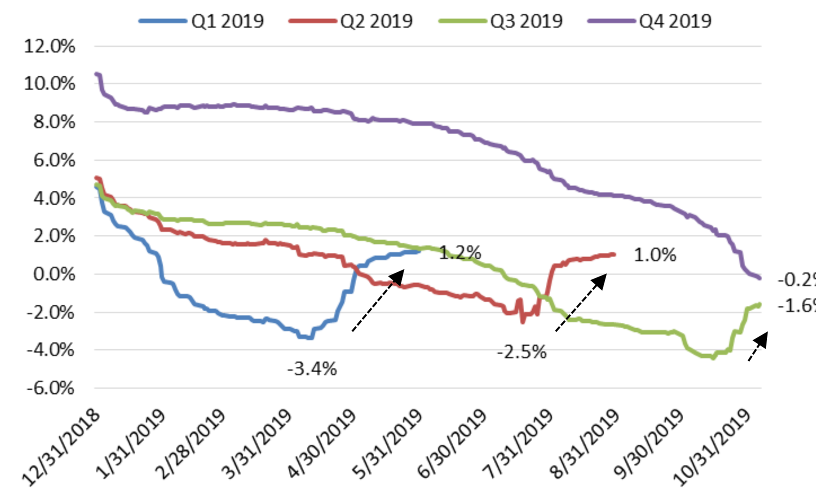
Earnings: Q3 earnings season is approaching its end, as 87% of the S&P 500 has reported up to this point. The average price reaction has been a positive 0.6%, with those beating on earnings rising by 1.2% on average and those missing on earnings trading -2.3% lower on average. At the sector level, the best price reactions have come from Health Care (the biggest positive outlier), Financials, Materials, and Industrials. Earnings have surprised by 4.6% on average (below the 5.5% 3-year average), which has taken the full quarter earnings estimate up to -1.6%. This is the weakest earnings growth of the year, although comes on the toughest comps (Q3 2018 earnings growth was 27%) and the average S&P 500 company is still putting up a respectable 4.8% earnings growth this quarter. The more domestic-focused companies (less exposure to the global macro) have continued to put up the better fundamentals.

Looking forward, estimates have continued to move lower. Q4 earnings growth is now estimated at -0.2% (4.6% for average company). 2020 consensus earnings are also trending lower toward our $173 estimate (~3% below the consensus $178.54).

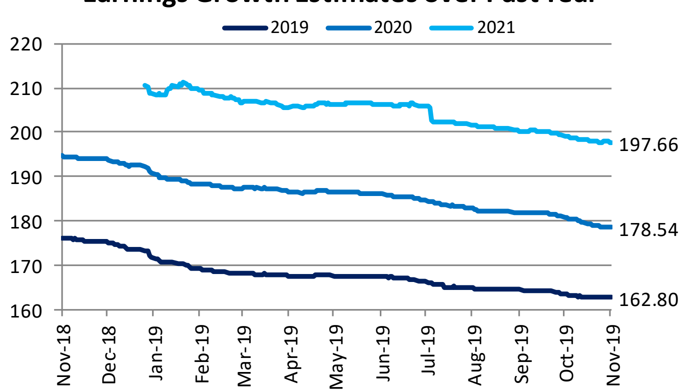
Consensus earnings estimates:

- **2019:** $162.81 (bottom-up analysts); $163.90 (top-down strategists)
- **2020:** $178.54 (bottom-up analysts); $176.58 (top-down strategists)

S&P 500 Quarterly Earnings Growth Estimates



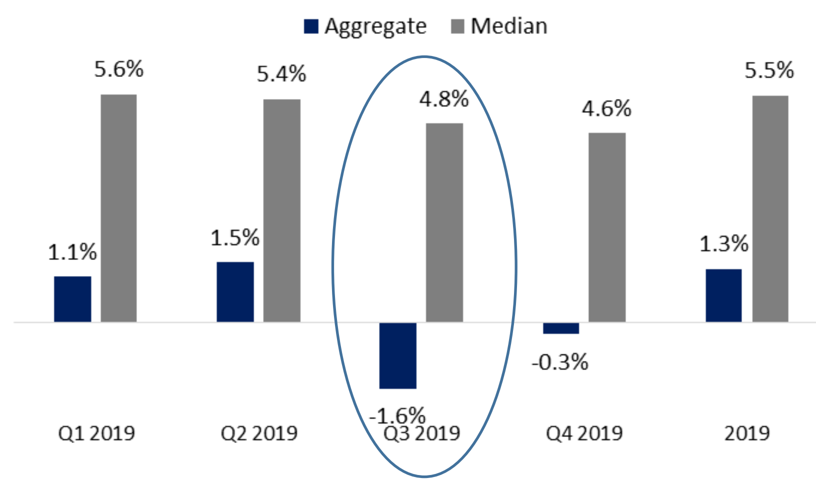
Earnings Growth Estimates over Past Year



EPS Growth Estimates	
2019	1.3%
2020	9.7%
2021	10.7%

RJ 2020 est.: $173

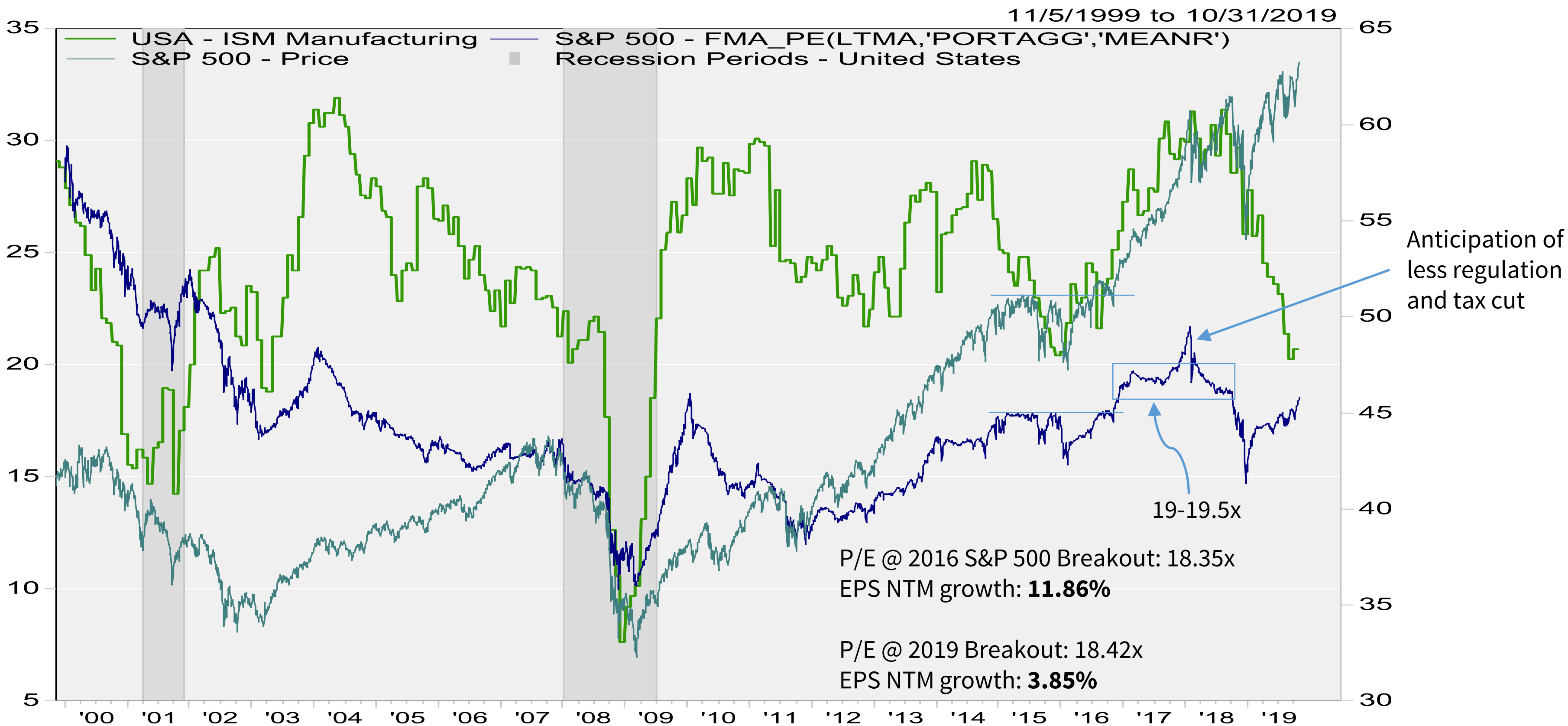
S&P 500 Earnings Growth Estimates



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

FUNDAMENTALS

Valuation: We have been using 18.5x as our base case next 12 month P/E, which the S&P 500 multiple has been able to expand to currently. In evaluating the right multiple to apply to the market, our bias is higher as the current inflation-adjusted P/E of 20.25x is just in line with the historical average. Also, the median P/E when inflation is in the 2-2.5% range has been 19.1x. Moreover, when the S&P 500 was able to break out following the last weak manufacturing period (2016), the P/E was 18.35x and eventually found a home in the 19-19.5x range (ventured into the low 20s on tax reform euphoria). Earnings growth was much stronger in that period than now, as slow growth, potential trade tensions, and regulation potential are still headwinds of multiple expansion in the current environment. Due to our guarded optimism on a trade signing, we are holding off on raising our multiple expectation although our bias is clearly higher at this point.



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

TECHNICAL: SHORT TERM

S&P 500 Since 1928	Average Return			
	Next 1M	Next 3M	Next 6M	Next 12M
All Periods	0.56%	1.71%	3.40%	7.00%
New High (First in over 3 Months)	1.65%	2.10%	6.30%	10.23%

S&P 500 Since 1928	Average Return		
	November	Final 2 Months	Next 6 Months
All Periods	0.71%	2.00%	5.11%
YTD Positive (thru Oct)	1.55%	3.64%	6.97%
YTD Negative (thru Oct)	-1.09%	-1.49%	1.14%
YTD >20% (thru Oct)	3.19%	5.47%	8.73%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technical:

Not even ascending trend line resistance could contain the current S&P 500 strength, which has come on trade progress, a positive reaction to earnings season, and violent rotation into some of the deep cyclical areas of the equity market.

The market break out to new highs is positive in terms of momentum. We evaluated all market break outs going back to 1928 and quantified the forward returns in the top table to the left. As you can see, when the S&P 500 has traded to a new high (after over 3 months of not having a new high- in order to only grab the more significant break outs), forward returns over the next 1 month, 3 months, 6 months, and 12 months have been above average.

Additionally, seasonality now becomes a tailwind as the November-April timeframe is historically the strongest period of the year for equity returns. When the S&P 500 has been up over 20% year-to-date through October (like it was this year), November, through year end, and next 6 month returns have been above historical averages.

We see this as “strength begets strength.” Breakouts to new highs and year-to-date strength through October are both suggestive of above average forward returns on average. This supports our positive bias to equities.

Key levels of support:
3028 – prior highs
2897 – upward trending 50 day moving average

TECHNICAL: SHORT TERM

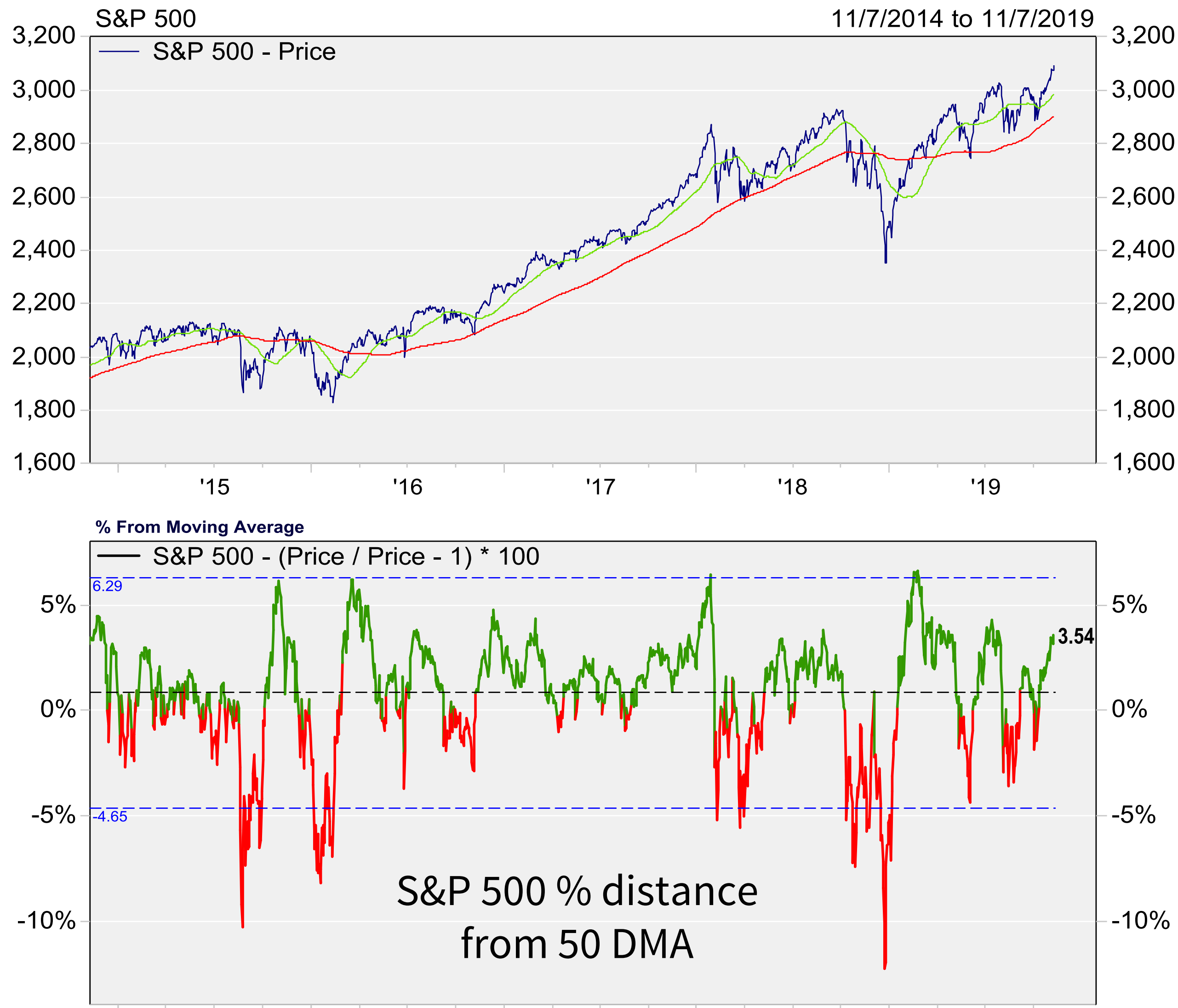
The S&P 500 advance has taken the index 3.5% above its 50 day moving average.

In an attempt to gauge how overbought this is, we looked at the distance the S&P 500 has traded above its 50 day moving average over the past 5 years, which is shown to the right.

The upper end of its range over the past 5 years has been 6.3%, which coincided with a handful of periods coming out of bigger market drawdowns (i.e. 2015, 2016, early 2018, early 2019).

In more normal periods, the high end of distance above its 50 DMA has been more in the 4.2% area which is within ~1% of current levels.

This does not mean the S&P 500 is due for a big pullback, but it does suggest that the S&P 500 is likely due for a pause or move sideways for the moving averages to catch up and the market to digest its recent strength.



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

TECHNICAL: GLOBAL MARKETS SHOWING STRENGTH

Global markets are showing strength with the S&P 500. This is a positive following late last year's global divergence which saw global equities moving lower as the S&P 500 traded to new highs.

The global weakness eventually made its way to the US in the fall of 2018, as the S&P 500 was not able to hold support and cascaded lower into the end of the year. Contributing to the decline was a hawkish Fed (which was raising interest rates) in the face of trade escalation and equity market weakness.

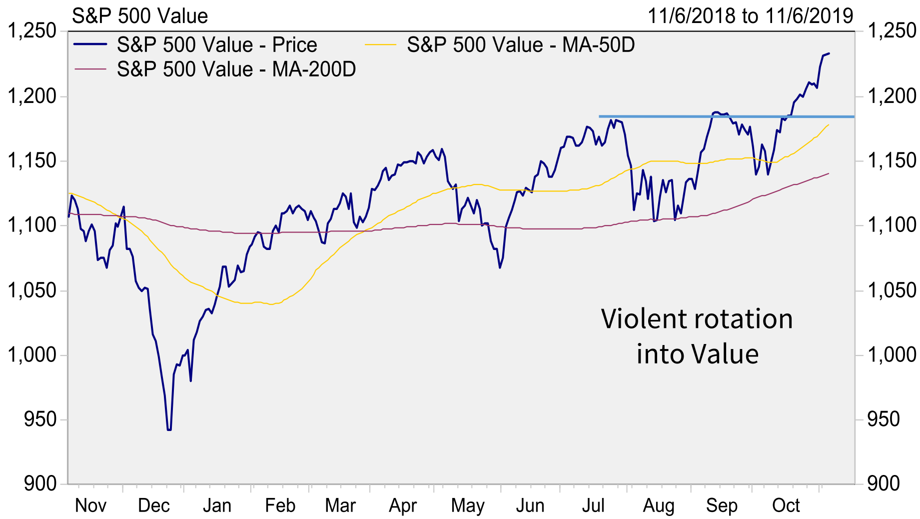
This contrasts with the current environment, where we are seeing trade progress and a more dovish Fed has cut rates three out of the last four months.

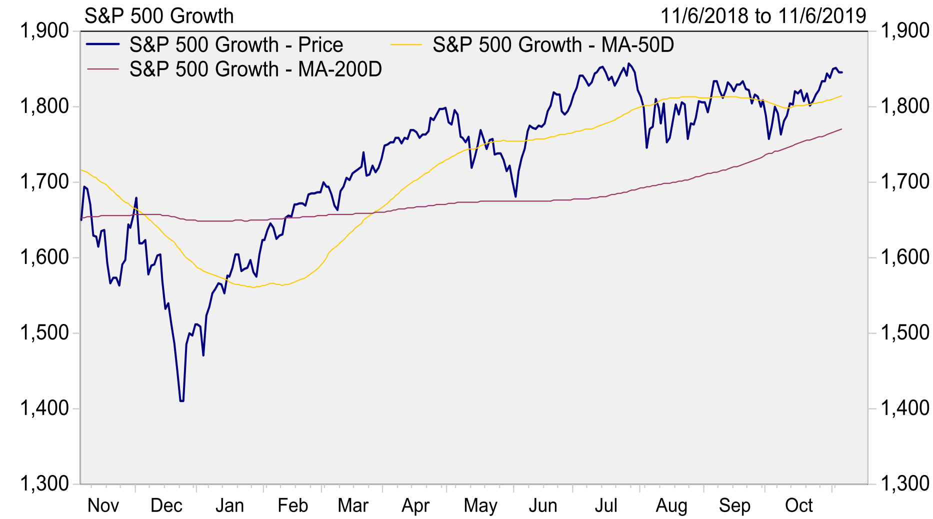
In sum, the global equity market backdrop is much more supportive in the current environment than last year, as global equities are showing strength in unison.

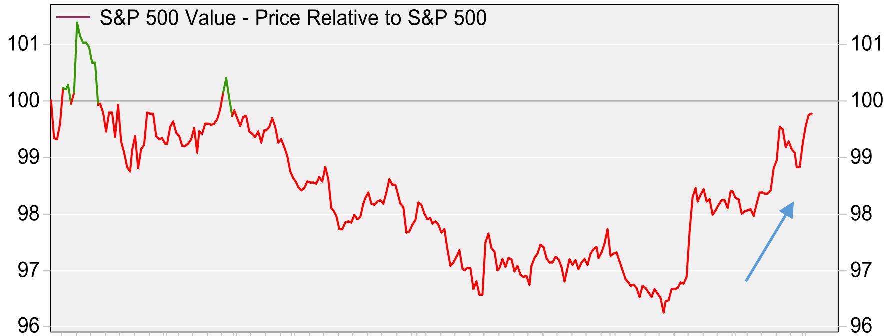
Source: Bloomberg, FactSet, Raymond James Equity Portfolio & Technical Strategy

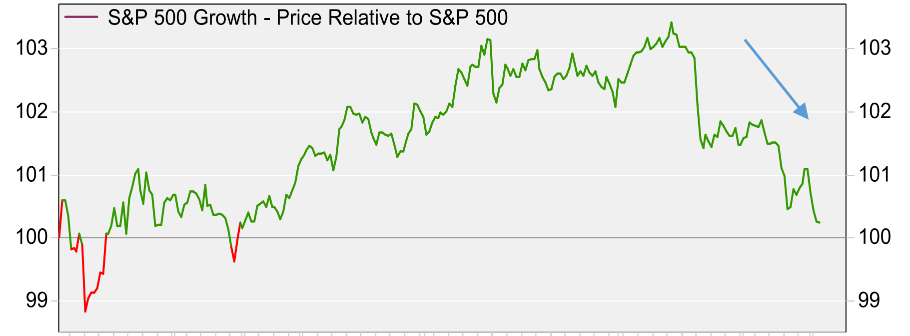
TECHNICAL: GROWTH & VALUE

The wave of rotation into Value (from Growth) has not looked back. Value is now up almost 9% in the past month and has reached 5% above its 50 DMA. While there have been periods where Value has reached ~6% above its 50 DMA over the past 5 years, the straight line move is likely due for a pause where the moving averages can catch up. Therefore, we would not rush into large portfolio knee-jerk reactions at this point; although the strength of the trend change remains notable and does warrant building Value exposure within portfolios at a measured pace.





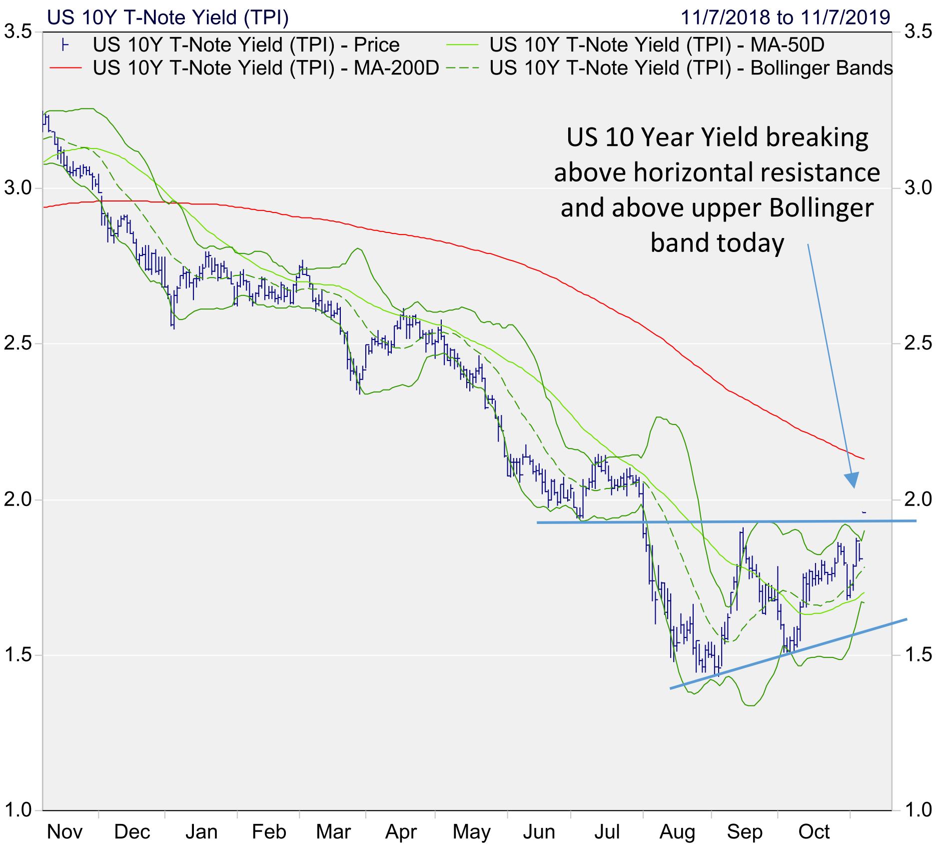


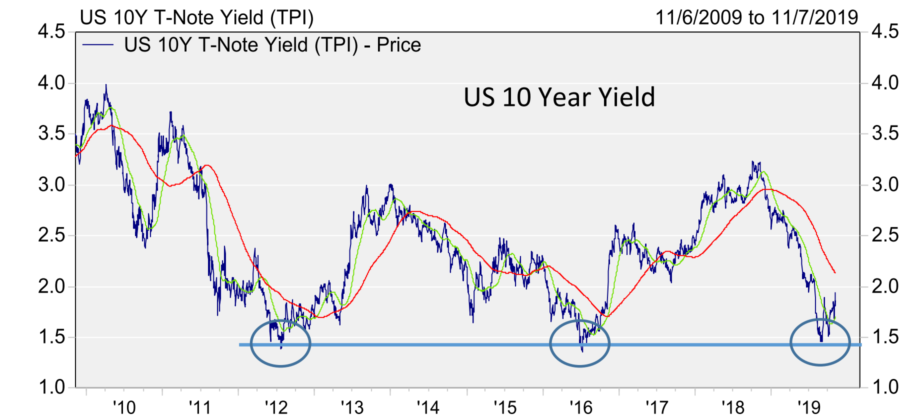


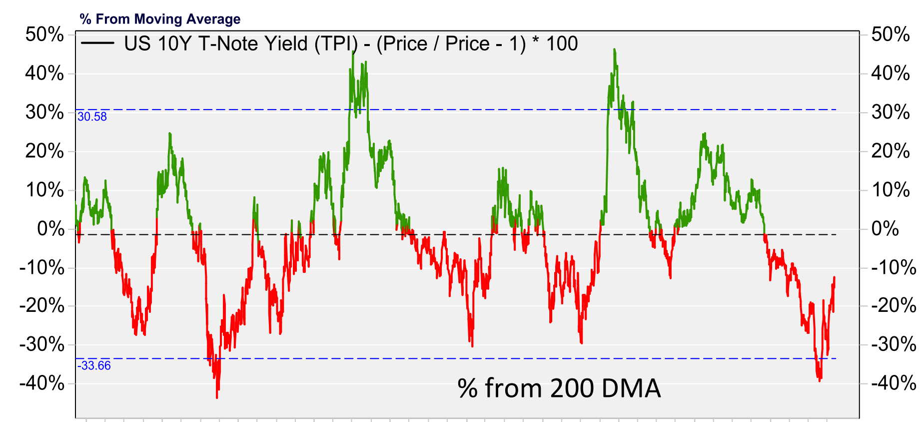
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: INTEREST RATES

A significant catalyst for the upside momentum in Value is the rise in interest rates that has taken place over the past month. When the US 10 year yield was able to make a higher low in early October, the banks (largest weighting within Value) were able to break their relative strength downtrend. Contributing to this was also a steepening yield curve which has eased macro concerns and led to improvement from some of the deep cyclical (Value) areas that had been under pressure for the vast majority of the past couple of years (more on next page). As you can see in the right chart, interest rates had gotten very stretched to the downside (reaching almost 40% below its 200 day moving average) before stalling near 1.5%- long term horizontal support. With the break out above the upper end of its Bollinger band today (if it holds), our bias is for rates to move even higher in the short term. We see the next area of resistance at the 200 day moving average (2.13%).



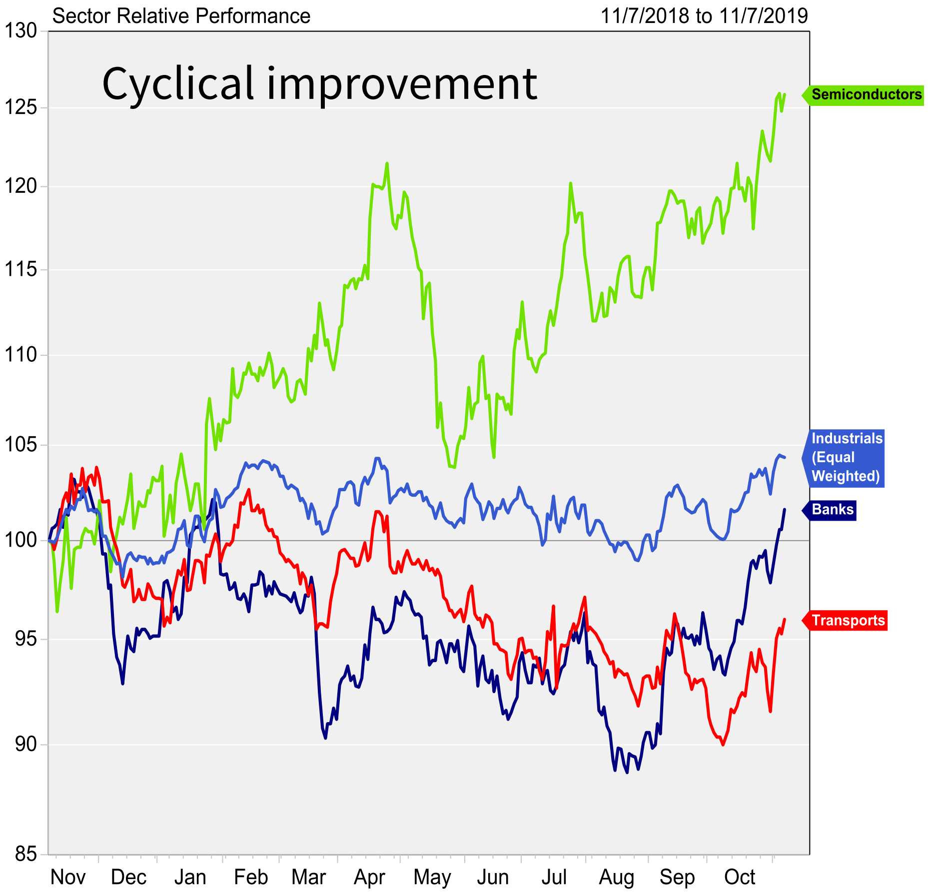


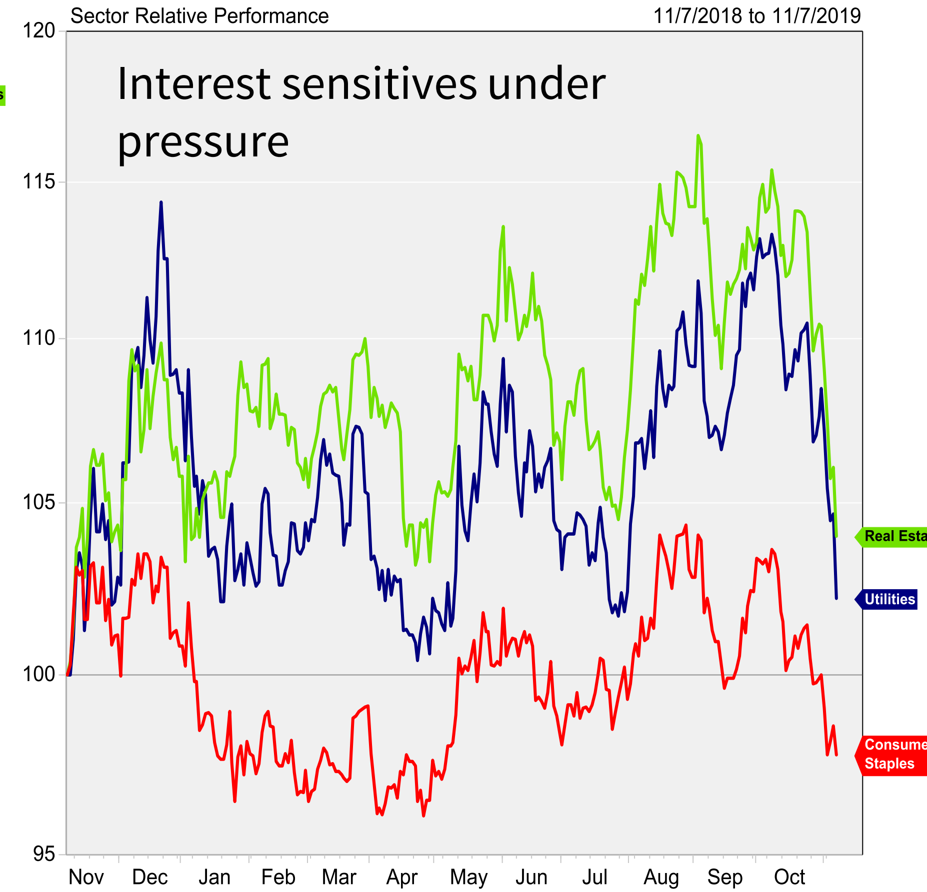


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: CYCLICAL IMPROVEMENT

The move higher in interest rates and steepening yield curve is not only benefitting the deep cyclical areas and Value index, but is putting pressure on the interest rate sensitive sectors (Utilities, Real Estate, and Consumer Staples). As you can see, while some of the deep cyclical areas (banks, industrials, transports, semiconductors) have seen strength in the recent market rotation, the more "defensive" areas have significantly underperformed over the past month. We have a cyclical bias to our sector recommendations and this trend change supports our view of the market outlook.





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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