RAYMOND JAMES

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Weekly Market Guide

Short-Term Summary:

The S&P 500 is breaking out to new highs today on reports that a potential phase 1 trade deal with China is getting "very close." Current headlines suggest that US trade negotiators are not only offering to delay the December 15th tranche of tariffs, but also cut the rate on existing tariffs by 50%. The market had been consolidating some of its gains recently as December 15th approached, as investors made sure those tariffs got delayed. So if the current headlines come to fruition, it would obviously be an added boost to market momentum. The cut in existing tariffs would improve 2020 earnings expectations marginally but, more significantly, ease the sentiment headwind for both corporations and investors. On the other hand, a disappointment on trade is likely to cause a normal pullback in our view.

The S&P 500 currently trades at a P/E of 19.3x, which we view as reasonable considering the low inflation and interest rate environment, as well as the potential for global manufacturing trends to improve in 2020 as trade tensions ease. We apply a fair value S&P 500 P/E of 19.25x to our 2020 base case scenario, so the majority of next year's upside is likely to come from earnings growth in our view (following 22% P/E expansion in 2019).

As referenced above, earnings are set to improve from a very slow 1.2% growth rate in 2019. Granted, 2019 earnings had tough comparisons following 2018's 22% earnings surge on tax reform. These comp headwinds ease in 2020, and we forecast S&P 500 earnings to grow to $174 (5.5% growth in our estimates) next year. Applying this $174 in earnings to the 19.25x P/E gets us to a base case S&P 500 target of 3,350 in 2020. This is 6% above today's current level (before dividends), and would obviously look more attractive on a slight pullback.

Technical: The S&P 500 breakout supports continued momentum over the intermediate term. As such, we would continue to accumulate favored sectors and stocks, and use pullbacks as buying opportunities. The small caps have held above their breakout point over the past week and look set to continue their advance over the intermediate term. Small cap relative strength has yet to break out (vs the S&P 500), but trends have stabilized and could be turning higher. At the sector level, we have a cyclical bias to our recommendations- overweight Technology, Communication Services, Health Care, Financials, and Industrials sectors. The industrials have not gotten overextended in the short term, and we believe you can look to this group to buy broadly as they attempt to build upside momentum.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	25.3%	19.1%
S&P 500 (Equal-Weight)	23.4%	16.7%
Dow Jones Industrial Avg	19.6%	14.5%
NASDAQ Composite	30.4%	23.1%
Russell 2000	21.0%	13.3%
MSCI All-Cap World	20.4%	16.5%
MSCI Developed Markets	15.3%	14.0%
MSCI Emerging Markets	9.6%	9.7%
NYSE Alerian MLP	-5.6%	-12.1%
MSCI U.S. REIT	19.9%	9.7%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	41.5%	22.8%
Communication Svcs.	28.9%	10.5%
Financials	26.3%	13.2%
Industrials	25.8%	9.3%
S&P 500	***25.3%***	-
Consumer Staples	22.6%	7.3%
Consumer Discretionary	22.2%	9.7%
Real Estate	22.0%	2.9%
Utilities	18.6%	3.3%
Materials	18.5%	2.7%
Health Care	15.3%	14.1%
Energy	3.0%	4.3%

S&P Styles

Year to Date (Price Return)

	Growth	Blend	Value
Large Cap	25.4%	25.3%	25.3%
Mid Cap	21.5%	21.2%	20.9%
Small Cap	16.6%	18.2%	19.9%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

(M19-2870828)

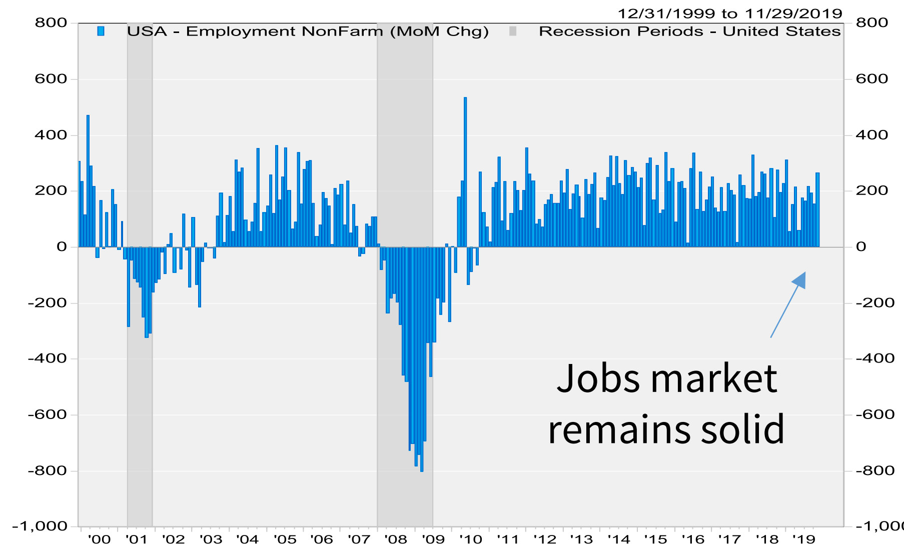
MACRO: US

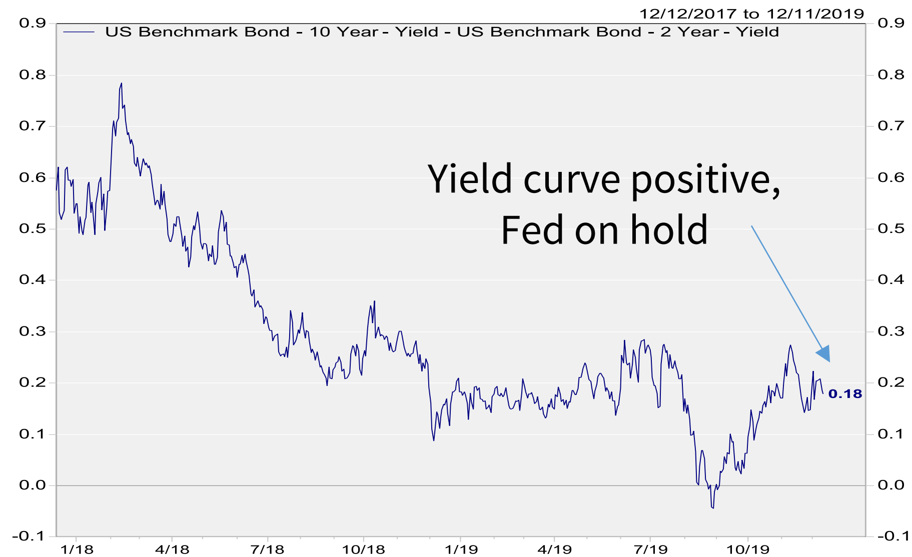
Last Friday's jobs report showed a 266k increase in nonfarm payrolls, which was well above the consensus estimate of 184k. Also, the prior two months were revised up by a total of 41k. The unemployment rate ticked lower to 3.5%, and the participation rate was 63.2% (down from a 6-year high of 63.3% last month). November's strong jobs number continues to support a solid consumer backdrop.

Additionally, inflation remained muted in November. Core inflation rose 0.2% m/m and 2.3% y/y (both in line with estimates and October's readings). November core producer prices surprised to the downside, growing just 1.3% y/y (below estimates of 1.7%). The solid jobs market and lack of inflationary pressure allowed the Fed to remain on hold in their FOMC decision this week. In its announcement, the Fed effectively telegraphed no moves in 2020 (in either direction), noting that the current policy is likely on hold unless there is a material change to the economic outlook.

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

Change in Nonfarm Payrolls (Nov): 266k vs 180k, 156k prior
Unemployment Rate (Nov): 3.5% vs 3.6%, 3.6% prior
Average Hourly Earnings y/y (Nov): 3.1% vs 3.0%, 3.2% prior
Wholesale Inventories m/m (Oct F): 0.1% vs 0.2%, 0.2% prior
U of Michigan Sentiment (Dec P): 99.2 vs 97.0, 96.8 prior
NFIB Small Business Optimism (Nov): 104.7 vs 103.0, 102.4 prior
Nonfarm Productivity (3Q F): -0.2% vs -0.1%, -0.3% prior
Unit Labor Costs (3Q F): 2.5% vs 3.4%, 3.6% prior
CPI m/m (Nov): 0.3% vs 0.2%, 0.4% prior
CPI Ex Food and Energy m/m (Nov): 0.2% vs 0.2%, 0.2% prior
CPI y/y (Nov): 2.1% vs 2.0%, 1.8% prior
CPI Ex Food and Energy y/y (Nov): 2.3% vs 2.3%, 2.3% prior
Monthly Budget Statement (Nov): -$208.8B vs -$206.2B, -$204.9B prior
PPI Final Demand m/m (Nov): 0.0% vs 0.2%, 0.4% prior
PPI Ex Food and Energy m/m (Nov): -0.2% vs 0.2%, 0.3% prior
PPI Final Demand y/y (Nov): 1.1% vs 1.3%, 1.1% prior
PPI Ex Food and Energy y/y (Nov): 1.3% vs 1.7%, 1.6% prior
Initial Jobless Claims (Week): 252k vs 214k, 203k prior





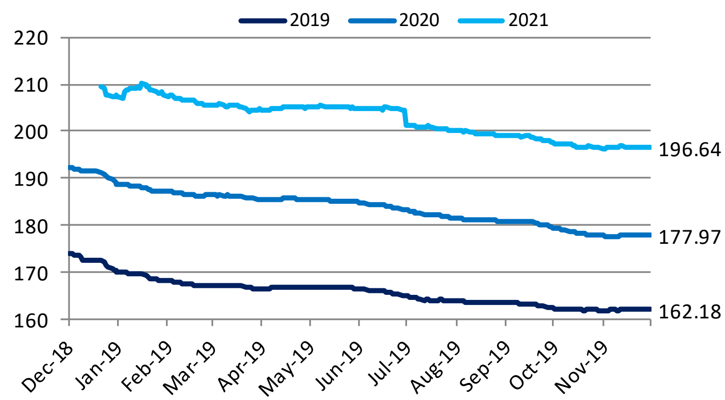
Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Earnings: Q4 earnings estimates have stabilized in recent weeks, albeit at a -0.8% growth rate. The best Q4 estimate revisions since 9/30 have been in Technology, Health Care, Communication Services, and Financials. These have also been some of the best performing sectors over this time frame, and all of which are among our favorite sectors (Industrials only other overweight recommendation).

S&P 500 earnings are set to improve from a very slow 1.2% growth rate in 2019. Granted, 2019 earnings had tough comparisons following 2018's 22% earnings surge on tax reform. Impressively, the average company is still looking to grow its bottom line by roughly 5.5% this year. However, these comp headwinds should ease in 2020, and we forecast S&P 500 earnings to grow to $174 (5.5% growth in our estimates) next year. Over the last 15 years, next 12 month consensus earnings estimates have been revised -3.6% lower on average; so our estimate being ~2% below than consensus estimates is actually above the normal revision pattern.

Consensus earnings estimates:
- **2019:** $162.22 (bottom-up analysts); $160.99 (top-down strategists). RJ: $165
- **2020:** $178.03 (bottom-up analysts); $175.78 (top-down strategists). RJ: $174



EPS Growth Estimates	
2019	1.4%
2020	9.7%
2021	10.5%

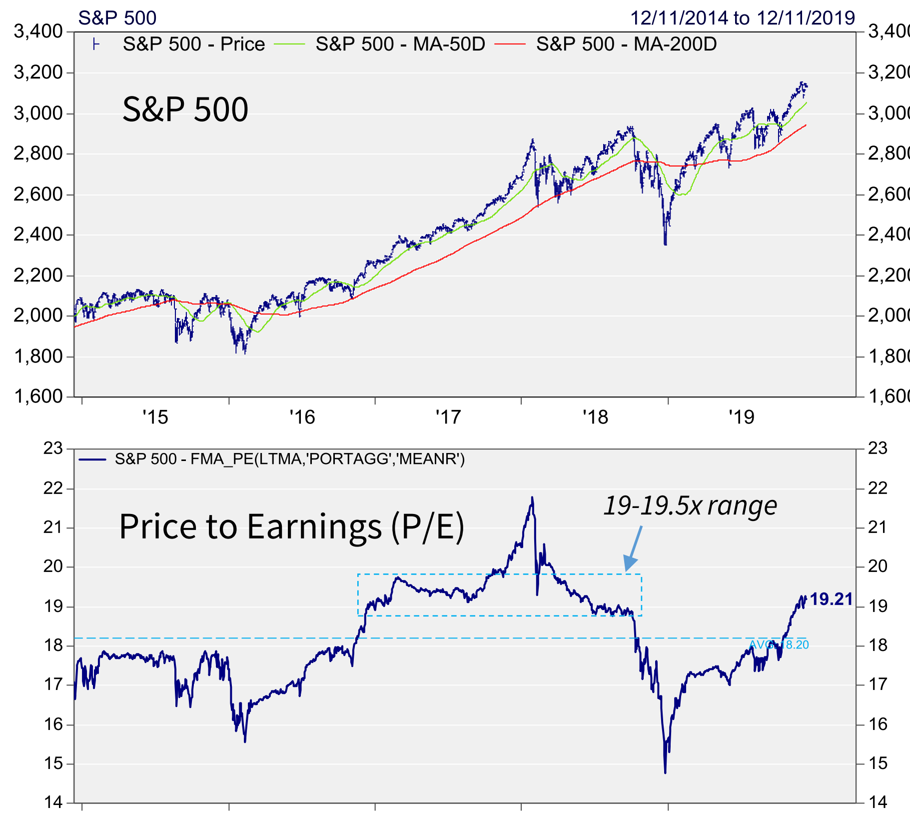
RJ 2020: $174

RJ 2019: $165

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Valuation: The S&P 500 currently trades at a P/E of 19.3x, which we view as reasonable considering the low inflation and interest rate environment, as well as the potential for global manufacturing trends to improve in 2020 as trade tensions ease. We apply a fair value S&P 500 P/E of 19.25x in our 2020 base case scenario, so the majority of next year's upside is likely to come from earnings growth in our view (following 22% P/E expansion in 2019).

Applying this $174 in earnings to the 19.25x P/E gets us to a base case S&P 500 target of 3,350 in 2020. This is 6% above today's current level, before dividends; and would obviously look more attractive on a slight pullback.



TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technical: After consolidating some its strength as the December 15th tariff deadline approached, the S&P 500 is breaking out to new highs today on reports that the US and China are "very close" to reaching an agreement.

Trade remains the primary influence to equities on a day-to-day basis currently, as investors gauge talks through the headlines. A mini-deal would obviously be positive and support continued momentum for equities. On the contrary, a last-minute setback or disappointment would likely be the catalyst for a normal pullback in our view.

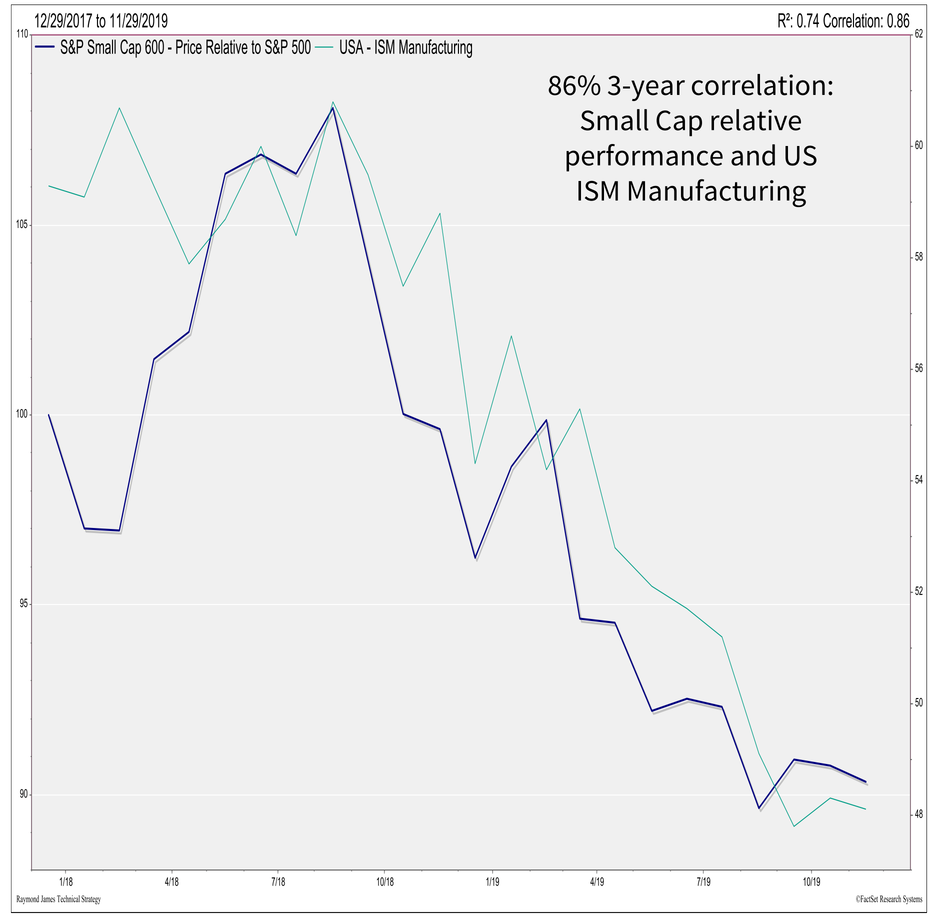
It is our view that President Trump is likely to ease tensions in 2020, and "kick the can down the road" on the more difficult structural issues. Our thesis on trade is that it is in both sides' best interest to have trade progress, particularly President Trump in the lead up to his re-election campaign next year. Therefore, in the event of a trade setback, we believe the headlines would quickly turn more positive as President Trump's tone would likely soften in the event of equity market weakness (as we have seen in numerous instances over the past year).

For now, technical momentum continues; and the break out to new highs is supportive of intermediate term technical trends. We would thus continue to accumulate favored sectors and stocks, and would be buyers on pullbacks.

Nearby technical support:
3070- horizontal support
3058- 50 day moving average
3021- previous highs

TECHNICAL: SMALL CAPS

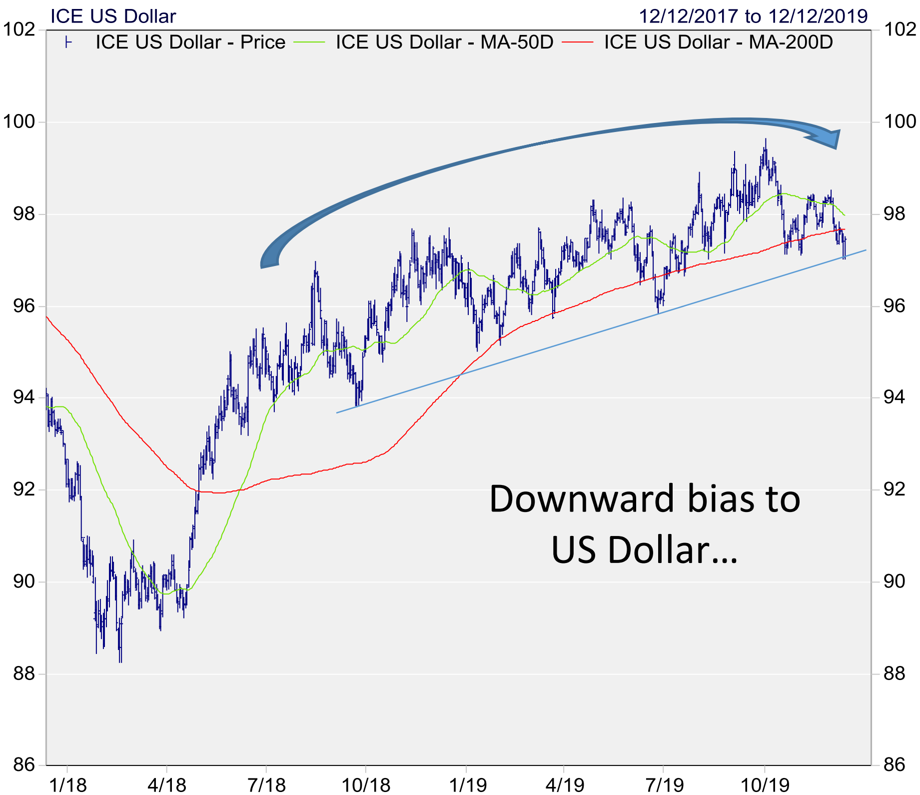
Small caps were able to break out above horizontal resistance, consolidated those gains above that level, and are resuming their move higher. We discussed this group last week, stating that we would look to accumulate them as our belief of improved manufacturing trends next year should be a tailwind to small cap relative strength. The technical break out is buyable, as intermediate term technical trends firm. We can make a case both fundamentally and technically for small caps to approach 1100 next year.

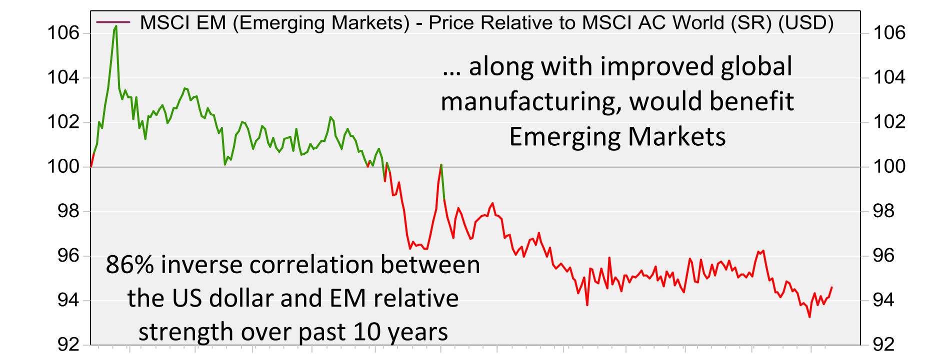


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: EMERGING MARKETS

The US dollar has technically shown signs of depreciation recently, and is currently resting on upward trend support. We have a downward bias to the US dollar over the next year as global manufacturing trends improve on decreased trade tensions. A break below this upward trend would support this downward bias technically, and emerging markets relative strength has exhibited a 86% inverse correlation with the US dollar over the past 10 years. Moreover, emerging markets earnings growth is set to improve over the next 12 months- current estimates reflect 13.6% earnings growth from -6.6% over the last twelve months. And relative valuation is just under its 10 year average. Given this data, along with our expectation of improved manufacturing trends, emerging markets could be set for some upside. We recommend accumulating the emerging markets index using partial positions over time, as we acknowledge that relative strength trends have not turned up, the US dollar has not broken its uptrend, and global manufacturing has not moved sustainably higher *yet*.

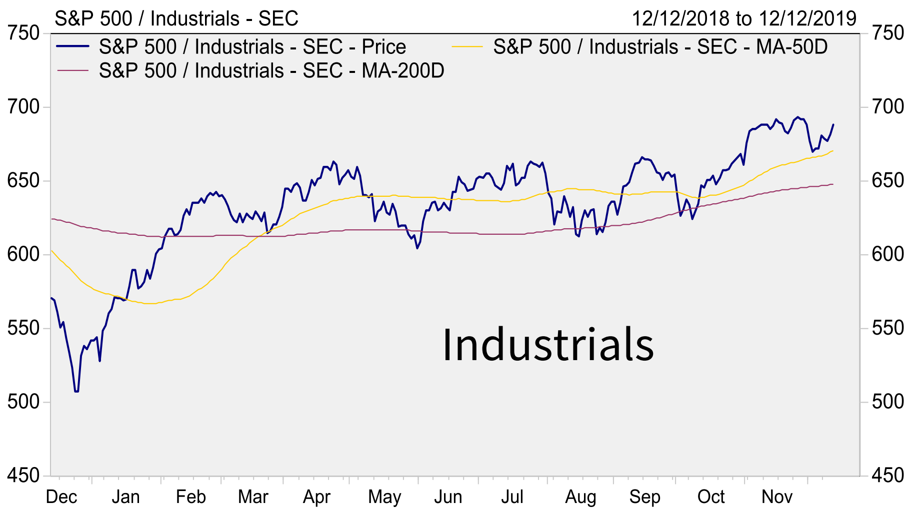


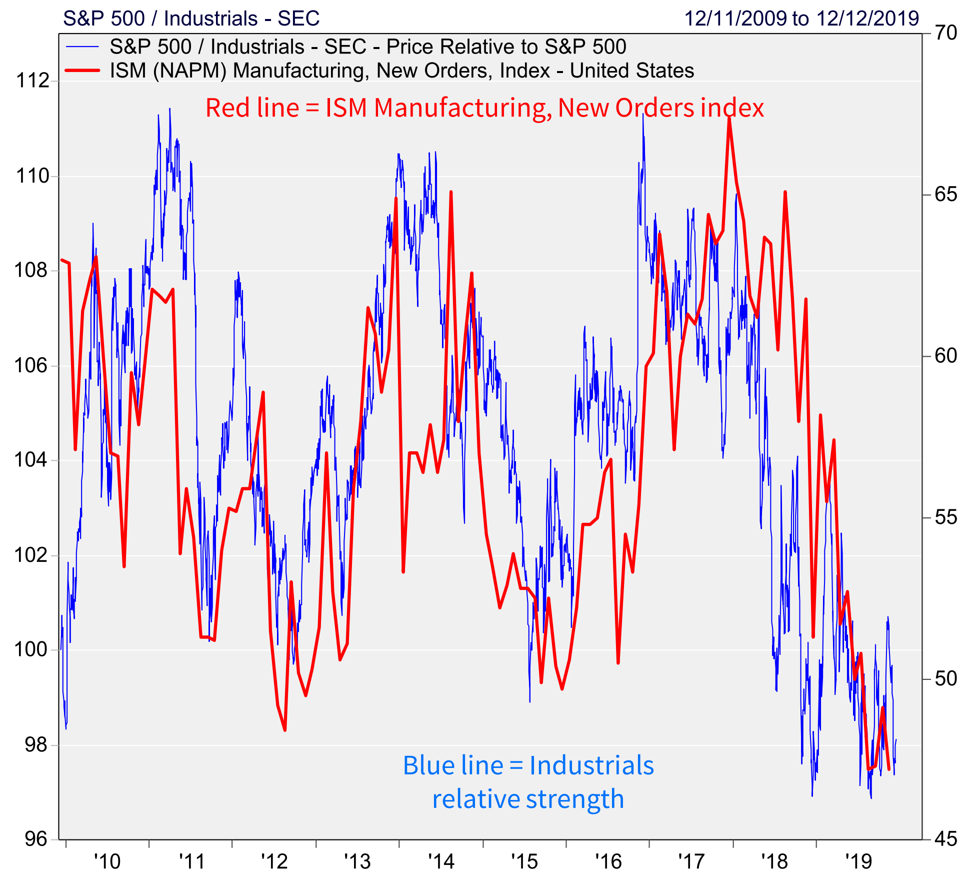


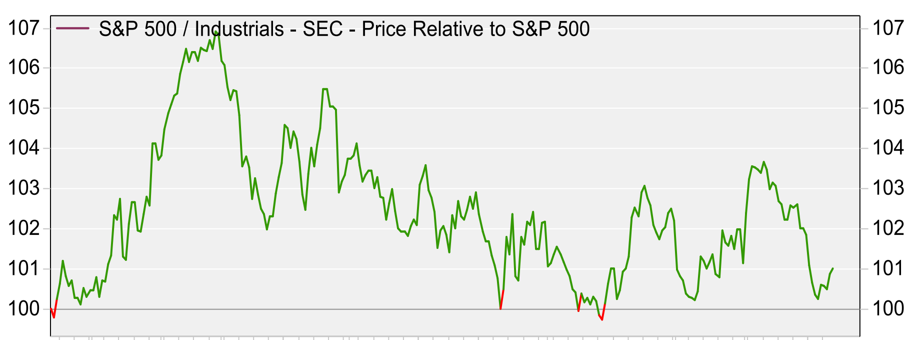
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: INDUSTRIALS

The industrials sector is one of our recent upgrades to an overweight recommendation. Once again, our belief of improved manufacturing trends next year should be a tailwind to the sector as relative strength has tended to trend with ISM Manufacturing New Orders over the past 10 years. We find valuation attractive; and for those looking to accumulate a favored area of the market that has not gotten overextended in the short term, this is an area to focus on. The sector is just bouncing off its 50 day moving average and relative strength trends are turning up from the lower end of their recent range.







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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