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Weekly Market Guide

Equity markets continue their advance to begin the new year, as investor focus remains on the potential for vaccines to allow a reopening as 2021 progresses along with higher odds of increased stimulus as a result of the Democratic sweep. The outcome is a net positive for potential economic growth this year, and consequently enhances the reflation trade already underway. The small caps are likely to extend their momentum, as increased fiscal stimulus and infrastructure spending benefit these US-centric companies. It also likely extends rotation within the S&P 500, as interest rates and the yield curve break out to new recovery highs. The most economically-sensitive areas were the largest gainers on the Georgia Senate runoff results. These areas- small caps, energy, financials, equal-weight consumer discretionary, materials, and industrials- are now up over 35%, 42%, 28%, 22%, 21%, and 18% respectively since the end of October.

Technical momentum remains strong in these areas, a trend that we believe can continue. However, performance has gotten stretched and markets do not often move in straight lines. We, therefore, believe it is important to maintain a healthy allocation to the areas operating best through the pandemic while also continuing to accumulate areas with the greatest leverage to the economic recovery- resulting in a balanced, but pro-cyclical approach to portfolio positioning.

Valuation remains lofty at 27.5x P/E, as investors discount low interest rates and the economic recovery. We are encouraged by the increased chances of higher fiscal stimulus, along with an accommodative Fed, to support economic growth in the year ahead; but the rise in interest rates needs to be monitored. Higher bond yields (albeit still at low levels) have some short term momentum, but we do not believe they will go significantly higher with central banks desiring low rates and US rates substantially higher than global peers. Also, the relationship between potential higher spending and higher taxes will be an important variable to valuation in the year ahead. We maintain our base case P/E multiple assumption of 23x (-16% compression) as we balance all of these factors.

As valuation multiples begin to normalize in 2021, earnings growth will be the necessary driver of market returns in our view. We have an above consensus view on earnings growth this year and use a S&P 500 EPS estimate of $175 (29% EPS growth)- resulting in a base case 2021 S&P 500 target of 4025. But while we are positive on equities over the next 12 months, we would not be surprised for the road to be bumpy along the way with key questions surrounding the ongoing virus surge, vaccine capacity and distribution, timing and size of stimulus, potential tax changes, and pace of the economic recovery.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-0.2%	15.5%
S&P 500 (Equal-Weight)	1.7%	12.5%
Dow Jones Industrial Avg	0.7%	7.4%
NASDAQ Composite	-1.1%	40.4%
Russell 2000	4.2%	23.7%
MSCI All-Cap World	0.6%	14.7%
MSCI Developed Markets	1.4%	7.2%
MSCI Emerging Markets	1.9%	18.2%
NYSE Alerian MLP	7.7%	-33.9%
MSCI U.S. REIT	-3.0%	-13.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	7.8%	2.5%
Materials	5.4%	2.8%
Financials	3.3%	10.8%
Health Care	1.5%	13.7%
Industrials	0.8%	8.5%
Consumer Discretionary	0.2%	12.8%
Utilities	-0.2%	2.8%
S&P 500	***-0.2%***	-
Consumer Staples	-1.2%	6.5%
Communication Svcs.	-1.9%	10.6%
Information Technology	-2.9%	26.9%
Real Estate	-3.9%	2.3%

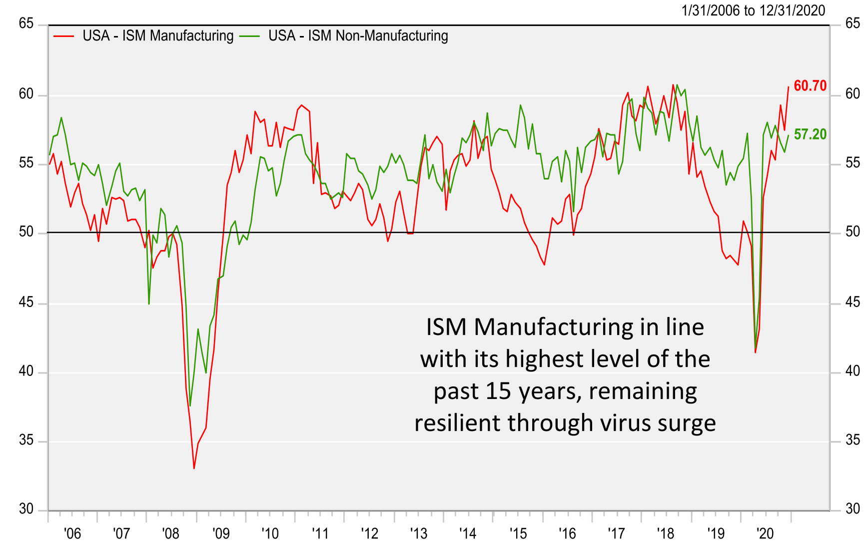
MACRO: US

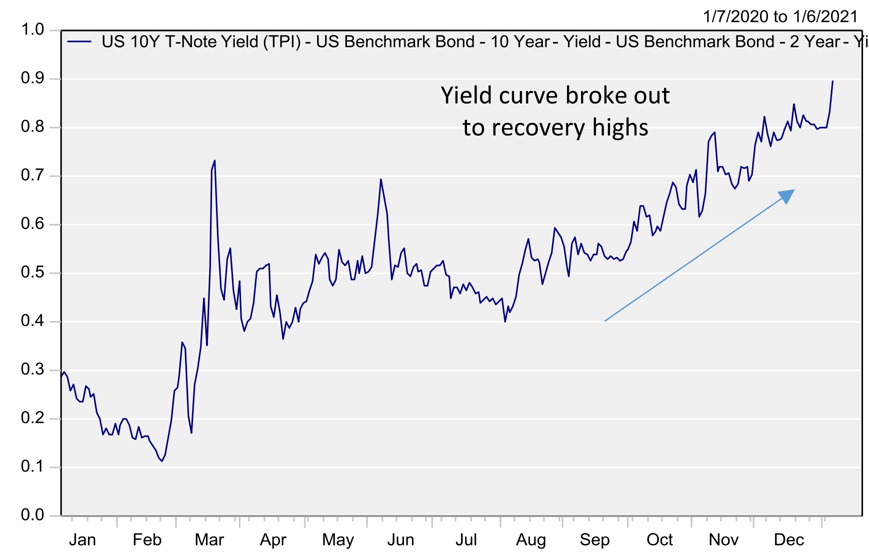
December manufacturing surveys showed resiliency, as they continued to advance in the midst of the ongoing virus surge and localized shutdowns. In fact, the ISM Manufacturing index reached 60.7- in line with its highest levels of the past 15 years. We believe the manufacturing backdrop will continue to improve as the economic recovery transpires, supported by still low inventory levels. Non-manufacturing ISM also increased in December to a strong 57.2 reading. These readings reflect sustained momentum in the economic recovery to close out 2020, supportive of the fundamental recovery as we head into Q4 earnings season.

The recently passed $900B fiscal stimulus bill supports the economic recovery as we head into 2021, which was needed given the rampant virus spread as we look to bridge the gap until vaccinations ramp up. The slim Democratic majority may temper the ability for the full agenda to get done and may make the battles tougher, but we do believe the majority of President-elect Biden's agenda ultimately gets done. The odds of additional stimulus rise, while it is also likely that Democrats will want to pay for this stimulus with higher taxes down the road. The result is a net positive for potential economic growth this year, and consequently enhances the reflation trade already underway on vaccine optimism.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Markit PMI Manufacturing SA (Final)	DEC	57.1	56.5	56.5 P
Construction Spending SA M/M	NOV	0.90%	1.0%	1.6% R
ISM Manufacturing SA	DEC	60.7	56.5	57.5
ADP Employment Survey SA	DEC	-123.0K	98.0K	304.3K R
PMI Composite SA (Final)	DEC	55.3	55.7	55.7 P
Markit PMI Services SA (Final)	DEC	54.8	55.3	55.3 P
Durable Orders ex-Transportation SA M/M (Final)	NOV	0.44%	0.50%	0.40% P
Durable Orders SA M/M (Final)	NOV	0.97%	0.90%	0.90% P
Factory Orders SA M/M	NOV	1.0%	0.70%	1.3% R
Continuing Jobless Claims SA	12/26	5,072K	5,185K	5,198K R
Initial Claims SA	01/02	787.0K	801.5K	790.0K R
Trade Balance SA	NOV	-$68.1B	-$66.7B	-$63.1B
ISM Non Manufacturing SA	DEC	57.2	57.2	55.9



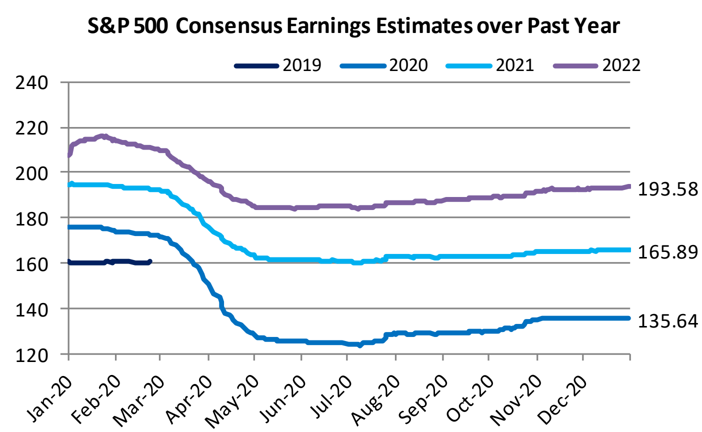


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

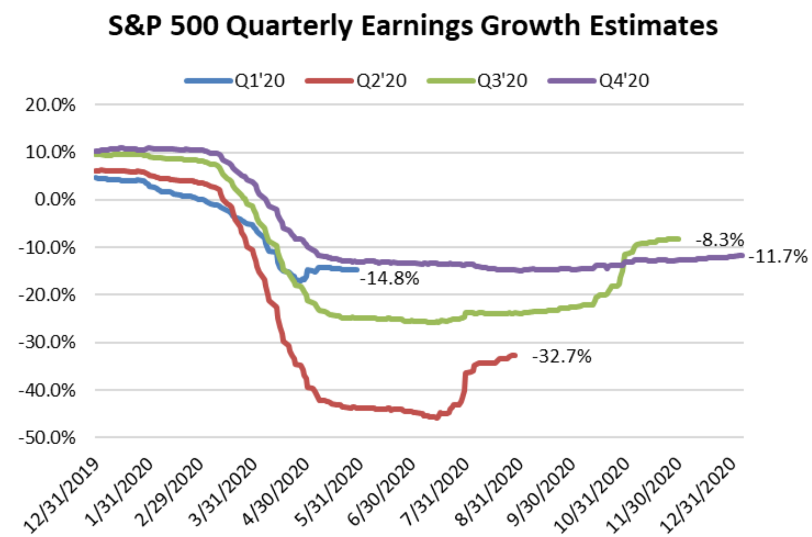
Believe it or not, Q4 earnings season begins next Friday with several of the large banks. Consensus earnings estimates reflect a -11.7% contraction y/y, however results are likely to finish higher following much stronger Q2 and Q3 earnings seasons. We do not expect a beat rate similar to the historically strong surprises in Q2 and Q3 of 24% and 18% respectively. But the 5-year average earnings surprise is 5.6%, and we would not be surprised for that to be surpassed given sustained momentum in the economic recovery despite the virus surge in Q4. For full-year 2021, we use a $175 estimate to earnings, above the current consensus estimate of $166, due to our positive expectation on the economic and fundamental recovery in the year ahead. And given elevated valuation multiples, earnings growth will need to be the driver of 2021 market returns in our view.

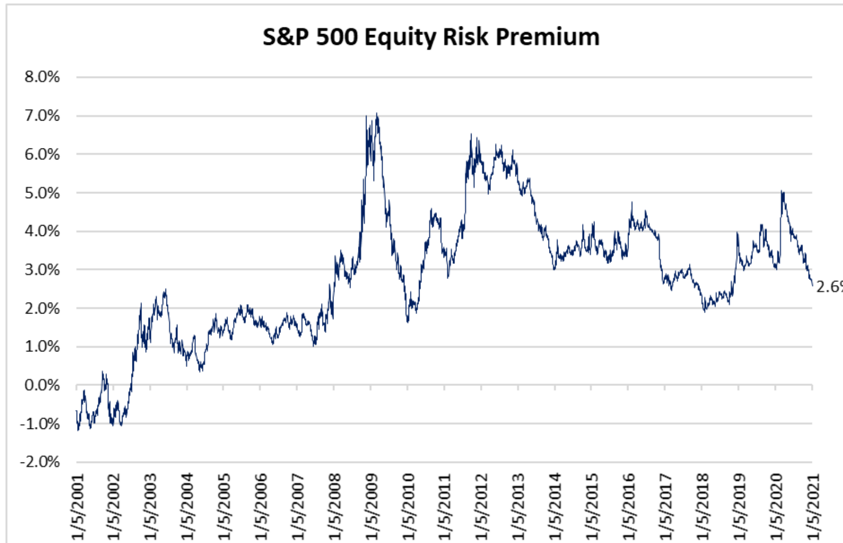
Valuation multiples remain lofty at 27.5x P/E, and we believe they will contract to 23x in 2021 as they normalize with the earnings recovery- resulting in a 2021 S&P 500 base case target of 4025. We believe valuation multiples can remain relatively elevated given our view of interest rates likely remaining lower for longer. Interest rates have seen some momentum higher lately, but are still at relatively low levels- making the value proposition of equities still attractive vs bonds in our view.



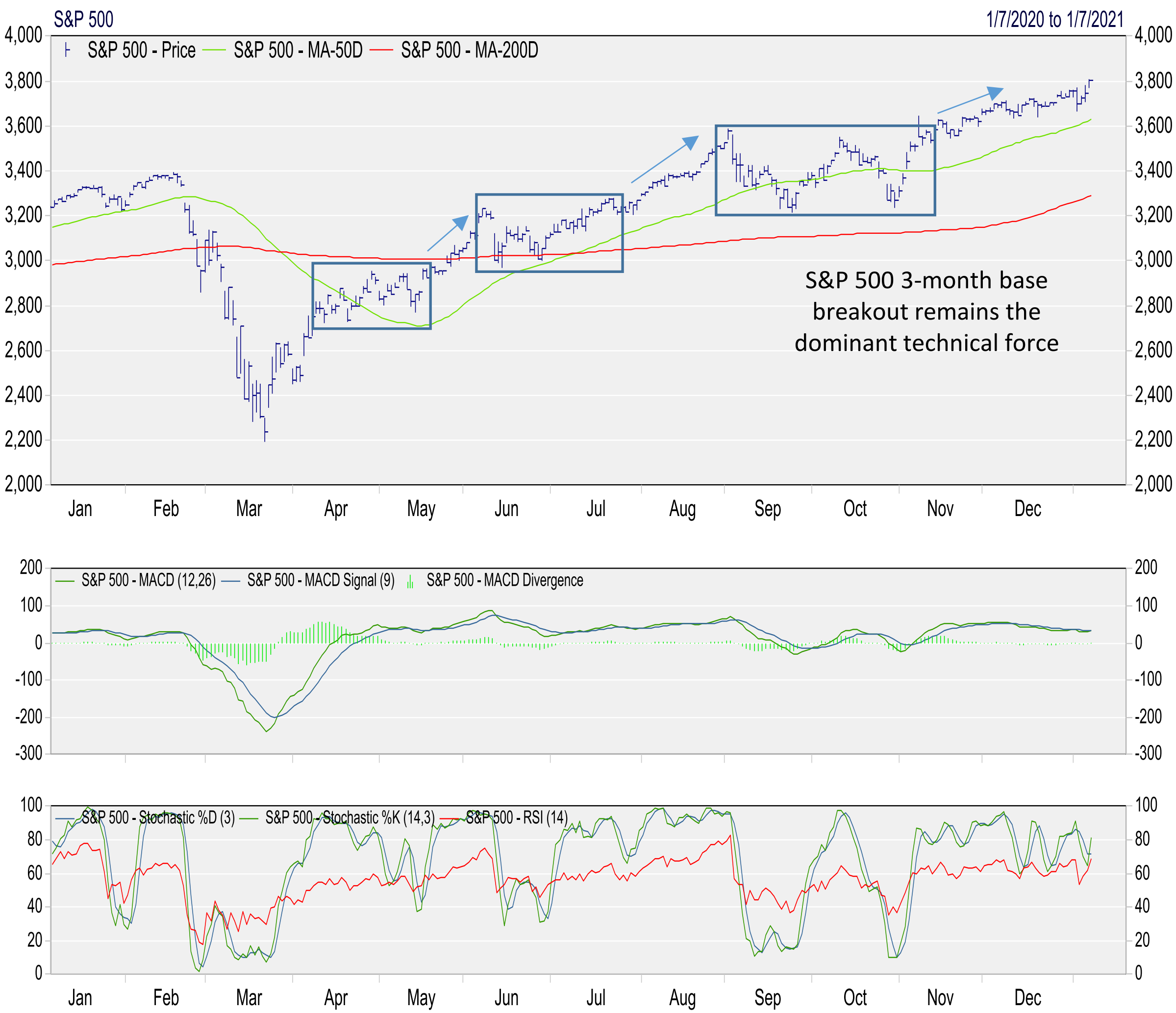
EPS Growth Estimates	
2019	0.0%
2020	-15.4%
2021	22.3%
2022	16.7%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy





TECHNICAL: S&P 500



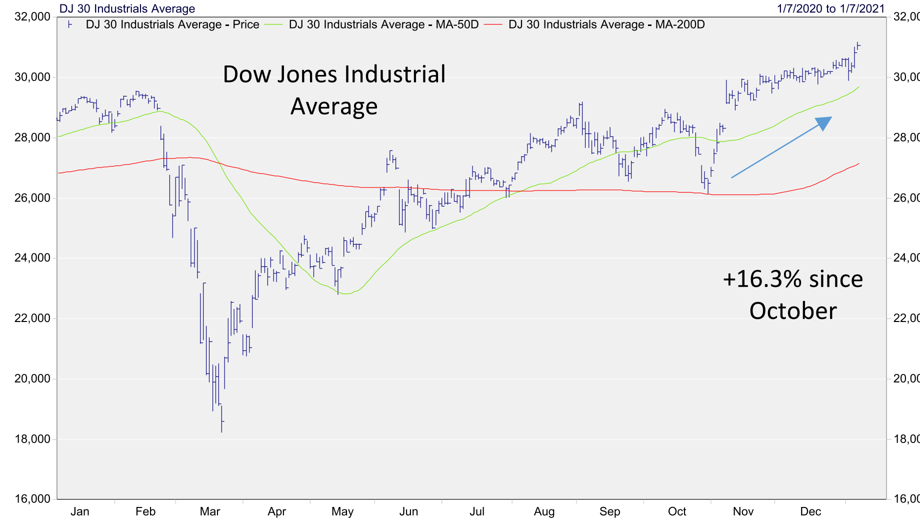
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

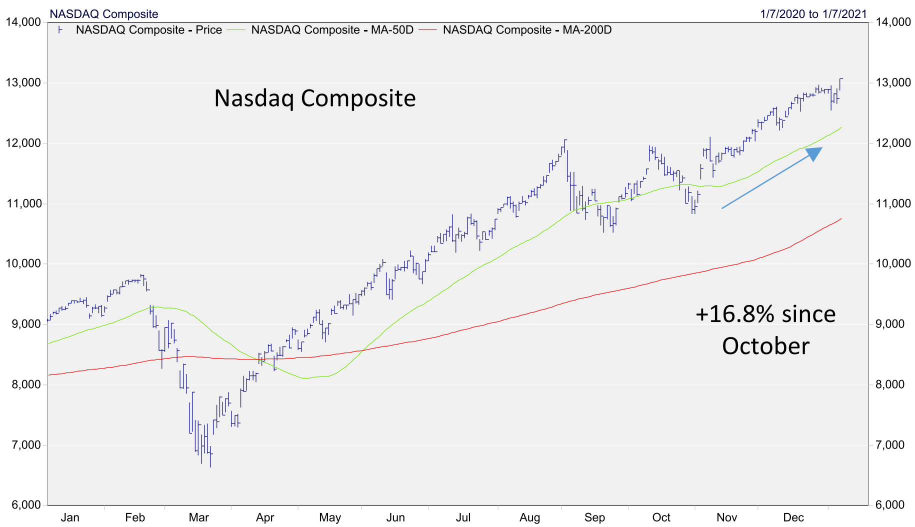
Equity market momentum remains strong with the S&P 500, Nasdaq Composite, Small Caps, and Equal Weight S&P 500 all trading at all-time highs. The breakouts yesterday and continued strength from the cyclical areas of the market are positive for trends.

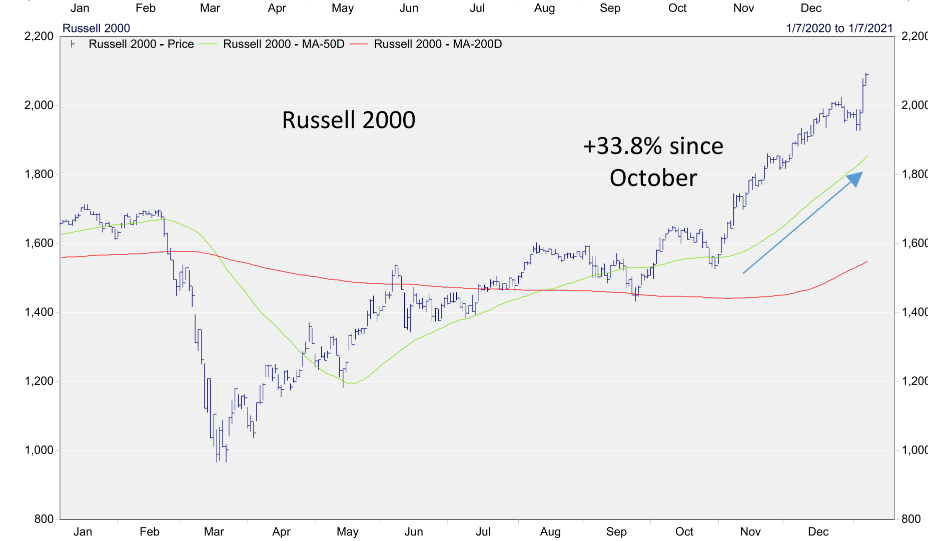
The base break out to new highs remains the dominant force technically, and the three-month base could make the current wave last longer and to a greater degree. We do remind you that markets do not often move in straight lines, so the enormous strength since early November will need to be digested at some point. But for now, momentum remains strong.

The 21DMA continues to hold as support on the downside (3709 currently). If we can get a close above 3770, the next level to watch is 3876 (Fibonacci retracement level) on the upside. We also see technical support at the long term uptrend line around 3633, along with horizontal support at 3588 and 3550.

EQUITY MARKET STRENGTH IS BROAD-BASED WITH ALL MAJOR INDICES AT ALL-TIME HIGHS







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

STRONG NOVEMBER AND DECEMBER RETURNS

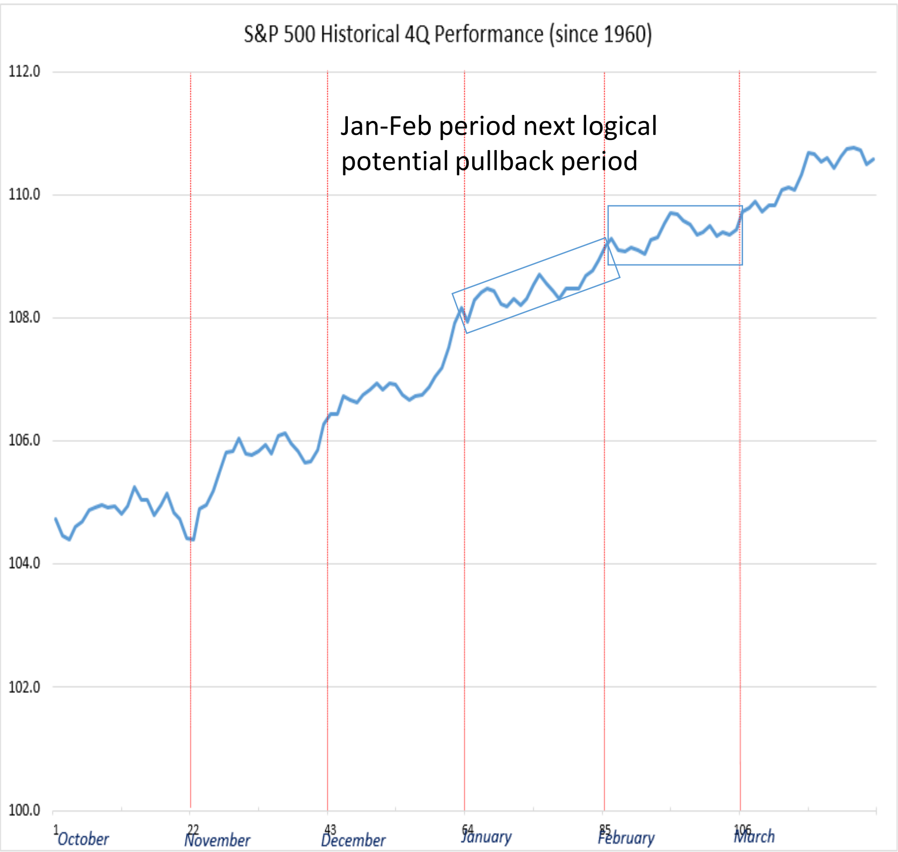
The past two months in the stock market generated very strong returns of almost 15%, which happens to be the strongest November/December combo anytime in history. There have only been 7 other times in which November + December have posted >10% returns. What happened in the following January? It was positive every single time, by an average of 4.69%. So far, the S&P 500 is up 1.3% in 2021 (at the time of this writing).

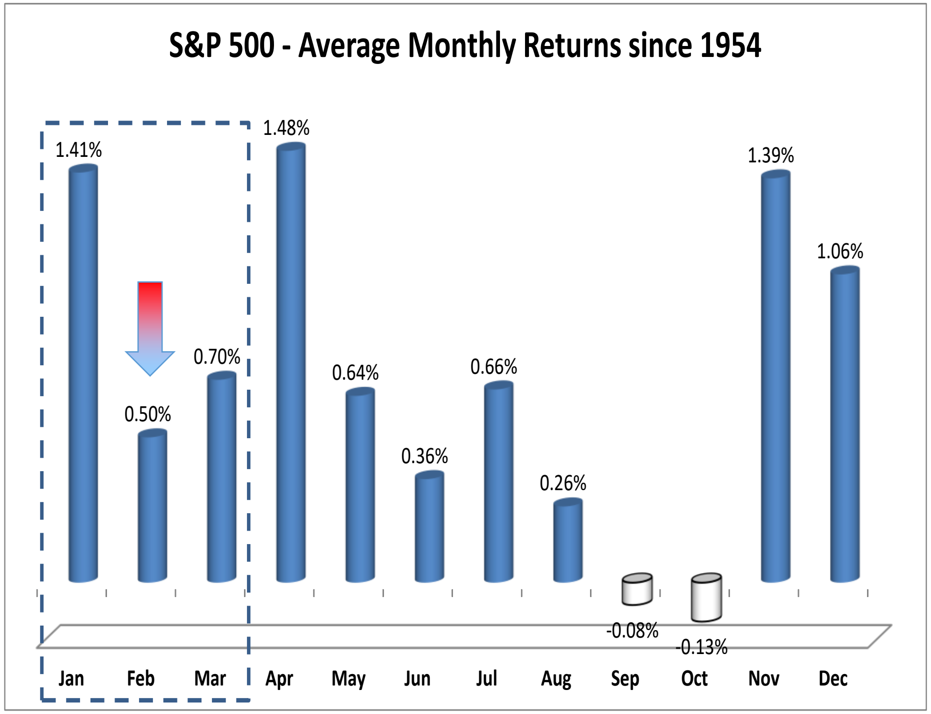
SPX Index	Nov+Dec Return	January Return
1928	12.32%	5.71%
1933	11.27%	12.04%
1954	13.57%	1.81%
1962	11.64%	4.91%
1970	10.69%	4.05%
1985	11.31%	0.24%
1998	11.88%	4.10%
2020	14.87%	?
Average		4.69%
Win Rate		100%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SEASONALITY

Seasonality remains strong, as the November-January period is the strongest 3-month period historically. We believe the broad breakout to new highs bodes well for continued market momentum, however markets do not often move in straight lines. Pullbacks and consolidation periods will happen at some point. And in attempt to evaluate when this could happen, we look to the January-February period. February returns are typically a bit more lackluster with an average return of just 0.04% since 1960. We would view a healthy consolidation period as a good buying opportunity.

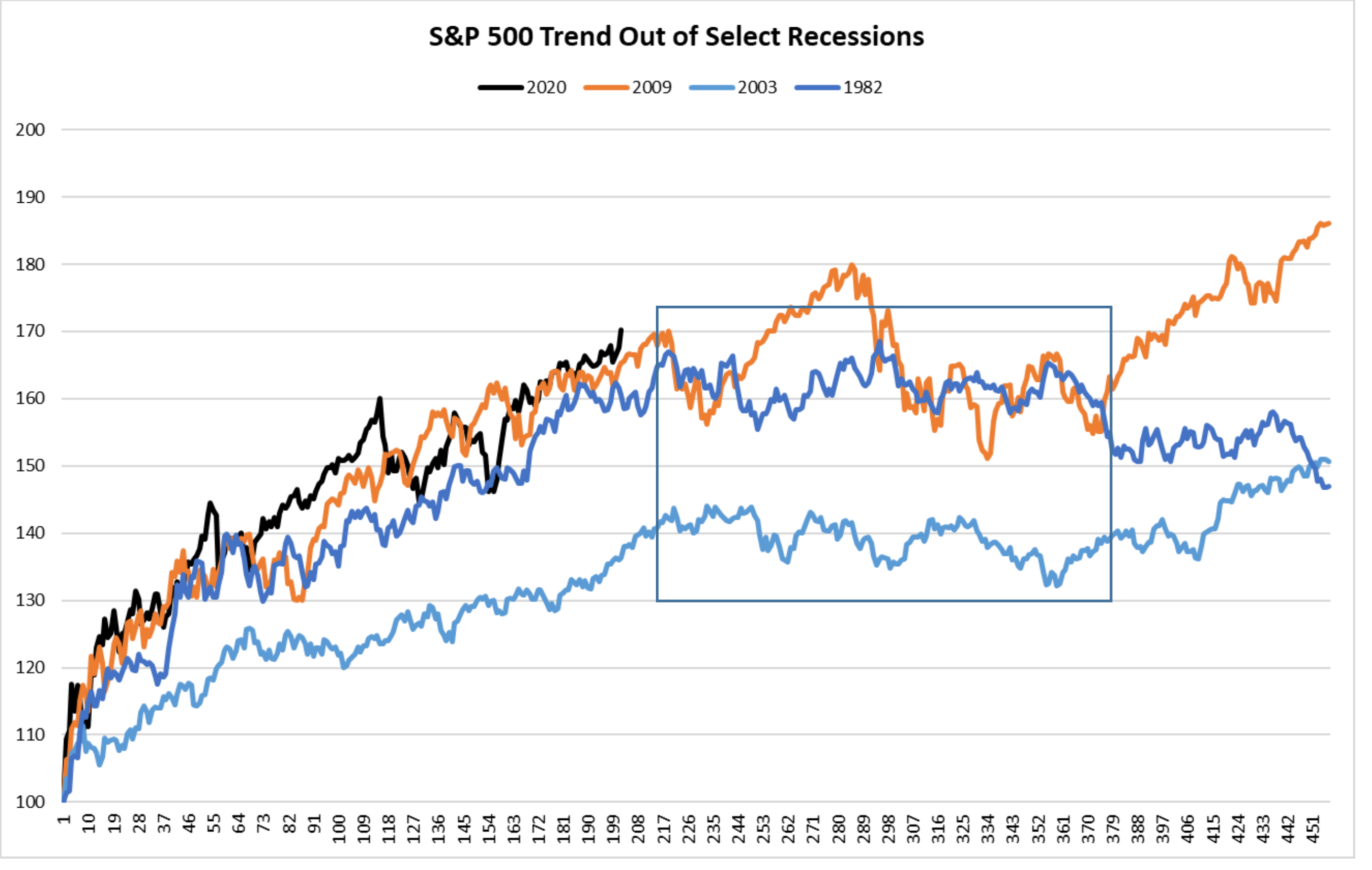




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

S&P 500 TREND OUT OF RECESSIONS

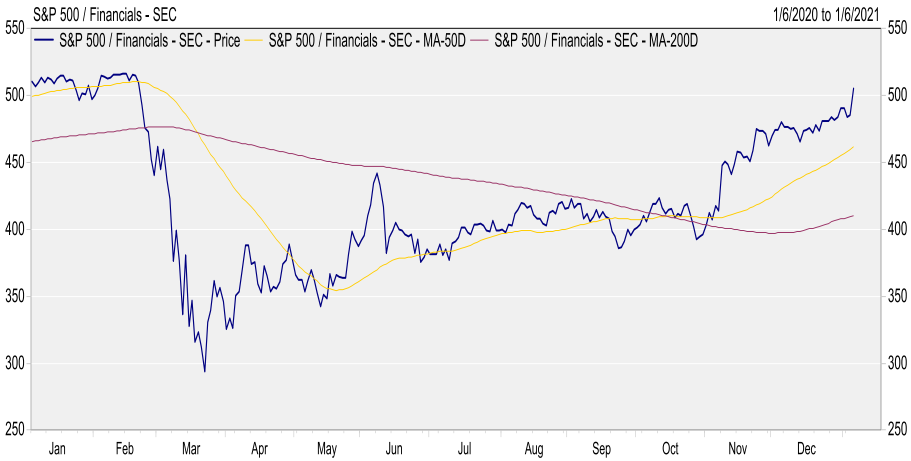
In addition to the seasonality data on the previous page, the historical trend out of recessions also suggests that the ascent could be due for a pause in the coming weeks. We are currently 202 trading days into this recovery since the 3/23/2020 market low; and selected recovery trends out of the last two recessions, along with 1982's similar ascent, all experienced a pause around the 220 day mark. We would not trade based on historical trends or the calendar alone, but it is interesting to keep in mind when assessing similar rises out of recessions and investor sentiment in the recovery process. The rate of ascent has been enormous, but a healthy consolidation period with pullbacks as the market digests these gains is likely to occur at some point.

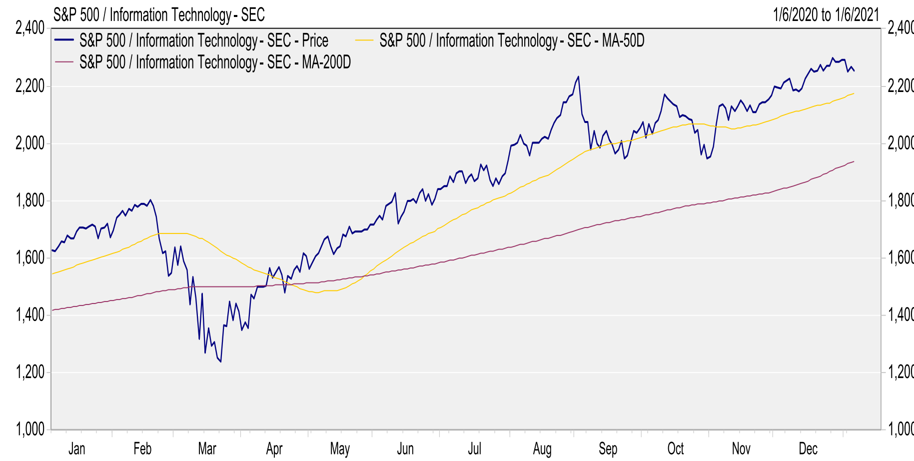


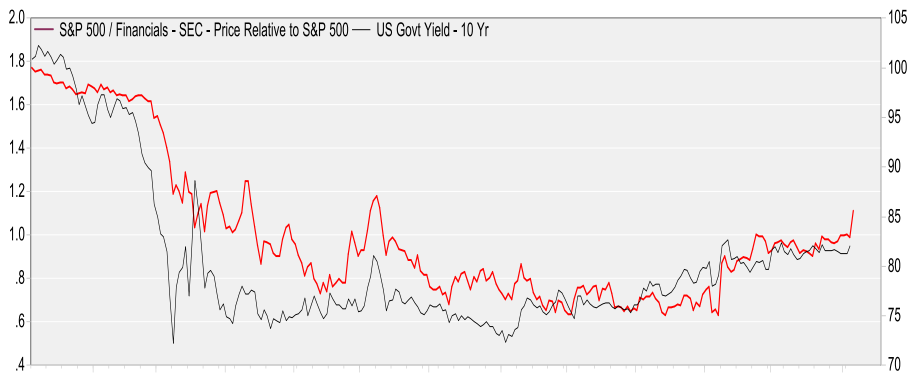
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

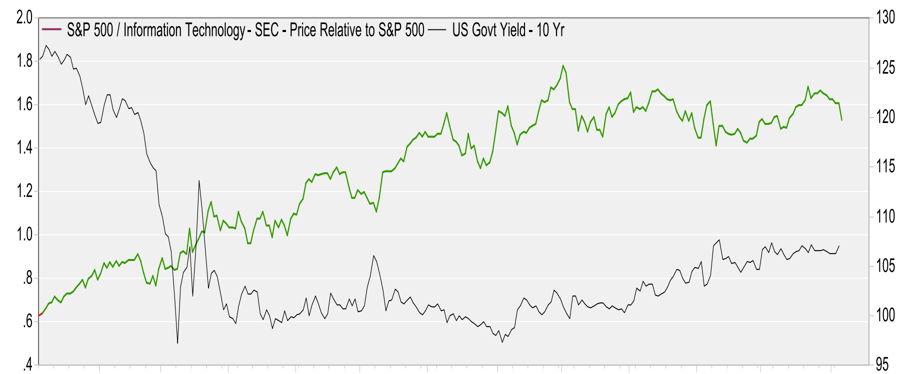
FINANCIALS AND TECHNOLOGY

Higher interest rates likely extend the rotation within the S&P 500- a boost to the under-owned financials sector and a headwind to the over-owned technology sector. As you can see the US 10 year yield has been positively correlated to relative performance of the Financials, and has been negatively correlated with relative performance of Technology during the recovery. Despite short term momentum higher in rates, we remain overweight-rated technology given favorable fundamental trends. We acknowledge the short term momentum in financials, but maintain an equal weight position in financials based on our belief that interest rates are unlikely to move meaningfully higher.





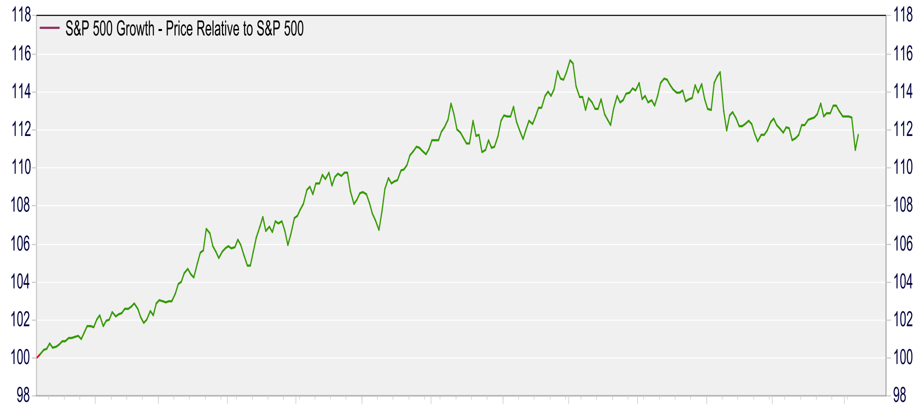


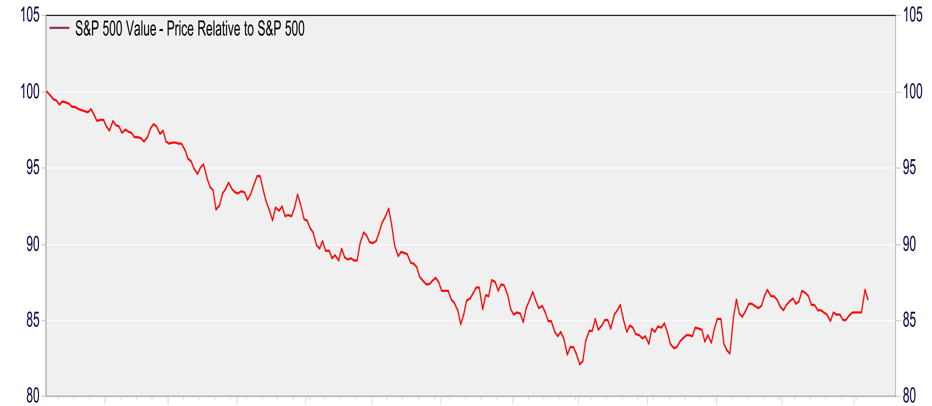


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GROWTH AND VALUE

This performance deviation between the Financials (large weighting in Value) and Technology (large weighting in Growth) also continues the relative improvement in Value and headwind to Growth relative performance. Value is relatively attractive on a P/E basis after years of substantial underperformance, therefore we believe accumulating some positions on the newfound momentum is justified for diversified portfolios.





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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.

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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.

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