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Weekly Market Guide

Since breaking out to new highs in November, the S&P 500 has continued to glide higher through the seasonally strong period of the year. Enormous strength from the most risk-on areas during this time frame was triggered by positive vaccine news in early November, allowing for optimism toward an economic reopening in 2021. Technical momentum toward the reflation trade remains strong with added support in recent days from positive vaccine news (Johnson&Johnson early vaccine study) and reports that President-elect Biden is set to unveil a ~$2T fiscal stimulus package tonight (on top of the $900B in relief passed a few weeks ago). The unprecedented amount of both fiscal and monetary stimulus remains supportive of equity markets in our view.

Eventually, the market will need to digest this strength but, for now, the trend remains your friend. The S&P 500, along with some of the more cyclical areas (i.e. small caps, banks, equal weight consumer discretionary), have been able to trade above their 20-day moving averages since early November. We will be monitoring price action around this level for potential cracks in the short term trend that may lead to an eventual digestion period. But for now, short term momentum remains strong. Supporting this view of underlying equity market momentum is continued relative strength in the banks vs. utilities, as well as consumer discretionary vs consumer staples.

Fundamentally, Q4 earnings season unofficially kicks off on Friday with several of the large banks. Consensus estimates reflect -10.3% S&P 500 earnings growth on -2.2% sales growth for the quarter. The best earnings growth is expected to come from the Materials, Health Care, and Technology sectors. Q2 and Q3 earnings results saw over 80% of S&P 500 companies beat their bottom-line estimates (well above the 15-year average of 68%), as analyst estimates proved too low in the initial stages of the recovery. Solid momentum in economic data throughout Q4 bodes well for companies beating Q4 earnings estimates in our view.

Not only did a large amount of companies beat their estimates in Q2 and Q3, but they did so by historical margins (results finished an enormous 23.6% and 19.3% above estimates respectively- largest on record). We expect a strong Q4 earnings surprise above the historical average of 4.5%, but less than the historically strong Q2 and Q3. In fact, 19 S&P 500 companies have announced Q4 results early with an earnings surprise of 11.5%. This supports our above consensus earnings estimate for 2021 of $175, as estimate revisions continue to trend higher. With the market run-up in recent months on optimism for 2021, it will be interesting to assess how stocks react to Q4 results (i.e. the bar could actually be set high). Nevertheless, we remain positive on the economic and fundamental recovery in 2021 and would use pullbacks in favored sectors and stocks as buying opportunities.

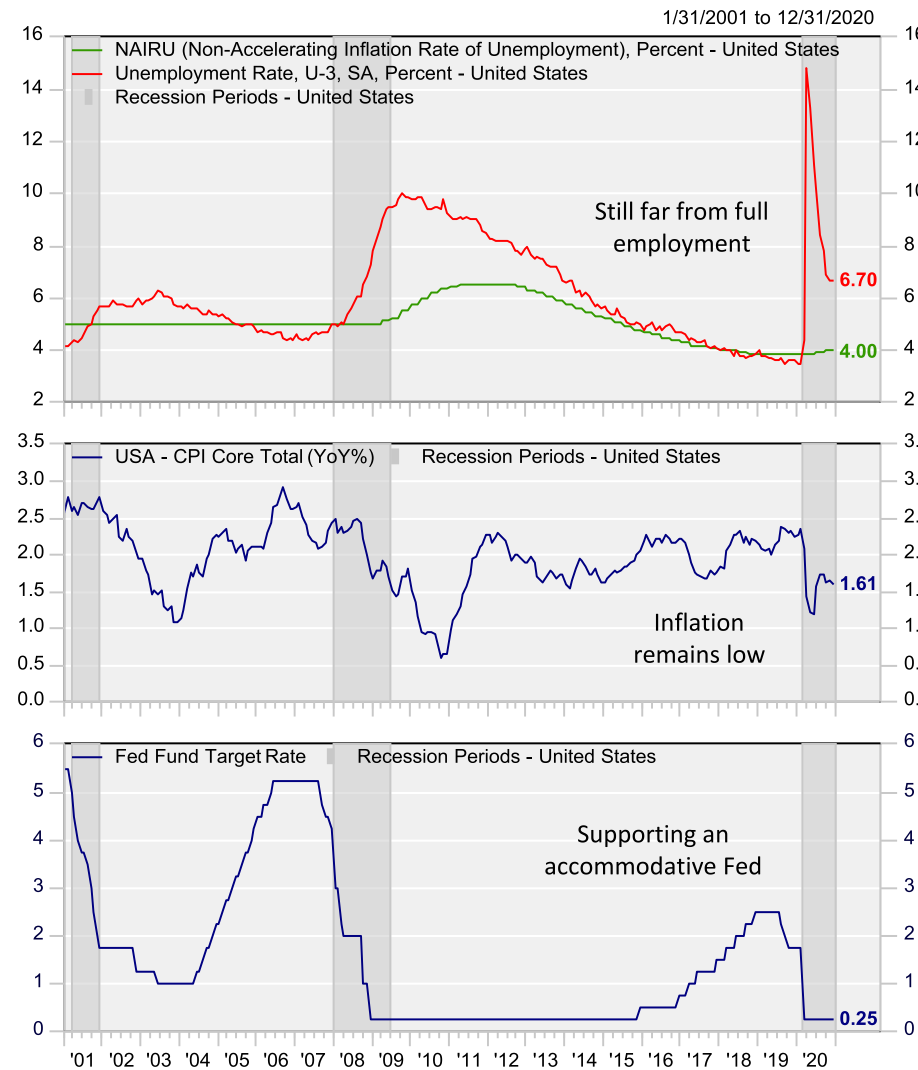
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	1.4%	15.9%
S&P 500 (Equal-Weight)	3.2%	13.1%
Dow Jones Industrial Avg	1.5%	7.4%
NASDAQ Composite	1.9%	41.6%
Russell 2000	6.9%	26.5%
MSCI All-Cap World	2.4%	15.4%
MSCI Developed Markets	2.3%	7.8%
MSCI Emerging Markets	5.6%	19.2%
NYSE Alerian MLP	15.2%	-29.0%
MSCI U.S. REIT	-2.0%	-13.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	14.0%	2.6%
Financials	6.1%	10.9%
Materials	6.0%	2.7%
Consumer Discretionary	3.4%	12.9%
Health Care	3.0%	13.7%
S&P 500	***1.4%***	-
Industrials	1.2%	8.4%
Utilities	-0.2%	2.7%
Information Technology	-0.3%	27.2%
Consumer Staples	-2.0%	6.3%
Real Estate	-2.8%	2.3%
Communication Svcs.	-3.2%	10.3%

MACRO: US

Friday's December jobs report showed a 140k contraction in nonfarm payrolls, the first negative reading since April. However, employment weakness was concentrated in the leisure & hospitality sector due to COVID-induced shutdowns during the month (employment in manufacturing and retail actually expanded). This week's jobless claims also jumped to 965k, the highest reading since August. The weak employment numbers likely increase the voice of the incoming Biden Administration for additional fiscal stimulus (i.e. bad news is good news). Localized shutdowns due to the virus surge are a headwind to the economic recovery, however we remain positive on the overall trajectory- particularly with $900B stimulus announced recently and more likely to come.

December CPI rose above expectations to 1.4% y/y. We will need to monitor the effects of the economic recovery, along with unprecedented levels of stimulus, on inflation as 2021 transpires. But for now, core inflation remains low at 1.6%, the economy remains far from full employment, and we believe the Fed can remain accommodative (as they have stated) for the foreseeable future.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US economic data reported in the past week:

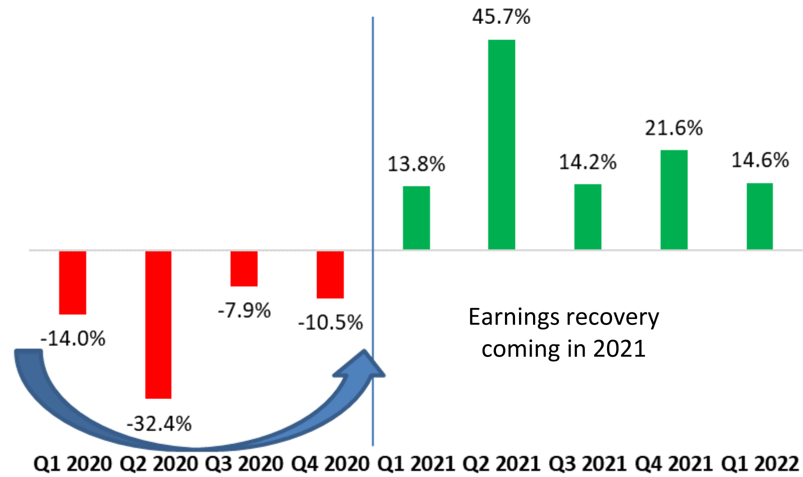
Event	Period	Actual	Consensus	Prior
Manufacturing Payrolls SA	DEC	38.0K	25.0K	35.0K R
Nonfarm Payrolls SA	DEC	-140.0K	100.0K	336.0K R
Unemployment Rate	DEC	6.7%	6.8%	6.7%
Wholesale Inventories SA M/M (Final)	NOV	0.0%	-0.10%	-0.10% P
NFIB Small Business Index	DEC	95.9	-	101.4
CPI ex-Food & Energy SA M/M	DEC	0.10%	0.10%	0.20%
CPI ex-Food & Energy NSA Y/Y	DEC	1.6%	1.6%	1.6%
CPI SA M/M	DEC	0.40%	0.31%	0.20%
CPI NSA Y/Y	DEC	1.4%	1.3%	1.2%
Hourly Earnings SA M/M (Final)	DEC	0.80%	0.20%	0.80% P
Hourly Earnings Y/Y (Final)	DEC	5.1%	4.5%	5.1% P
Treasury Budget NSA	DEC	-$143.6B	-$190.0B	-$145.3B
Continuing Jobless Claims SA	01/02	5,271K	5,185K	5,072K
Export Price Index NSA M/M	DEC	1.1%	0.70%	0.70% R
Import Price Index NSA M/M	DEC	0.90%	0.65%	0.20% R
Initial Claims SA	01/09	965.0K	801.5K	784.0K R

FUNDAMENTALS

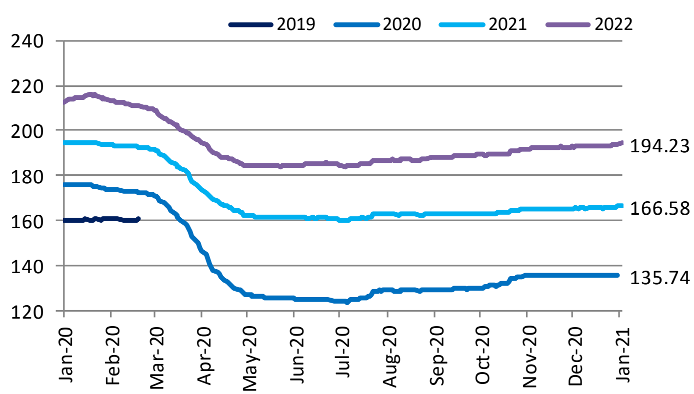
Q4 earnings season unofficially kicks off this Friday with several of the large banks. Consensus estimates reflect -10.3% S&P 500 earnings growth on -2.2% sales growth. The best earnings growth is expected to come from the Materials, Health Care, and Technology sectors. We expect above average earnings surprises and beat rates in Q4, albeit not as strong as Q2 and Q3 which were the highest on record. In fact, 19 S&P 500 companies have announced Q4 results thus far with a 11.5% earnings surprise. With the market run-up in recent months on optimism for 2021, it will be interesting to assess how stocks react to Q4 results (i.e. is the bar actually set high?)

We expect Q4 results and guidance to continue the upward revision trend to forward estimates. This positive trend comes on already strong earnings growth estimates, following depressed results in 2020. Our positive stance on the economic and fundamental recovery in 2021 results in our above consensus $175 S&P 500 earnings estimate for 2021. The most economically-sensitive areas that were hardest hit fundamentally from the pandemic should generally see the largest rebounds in 2021- contributing to our pro-cyclical stance on portfolio positioning.

S&P 500 Earnings Growth



S&P 500 Consensus Earnings Estimates over Past Year



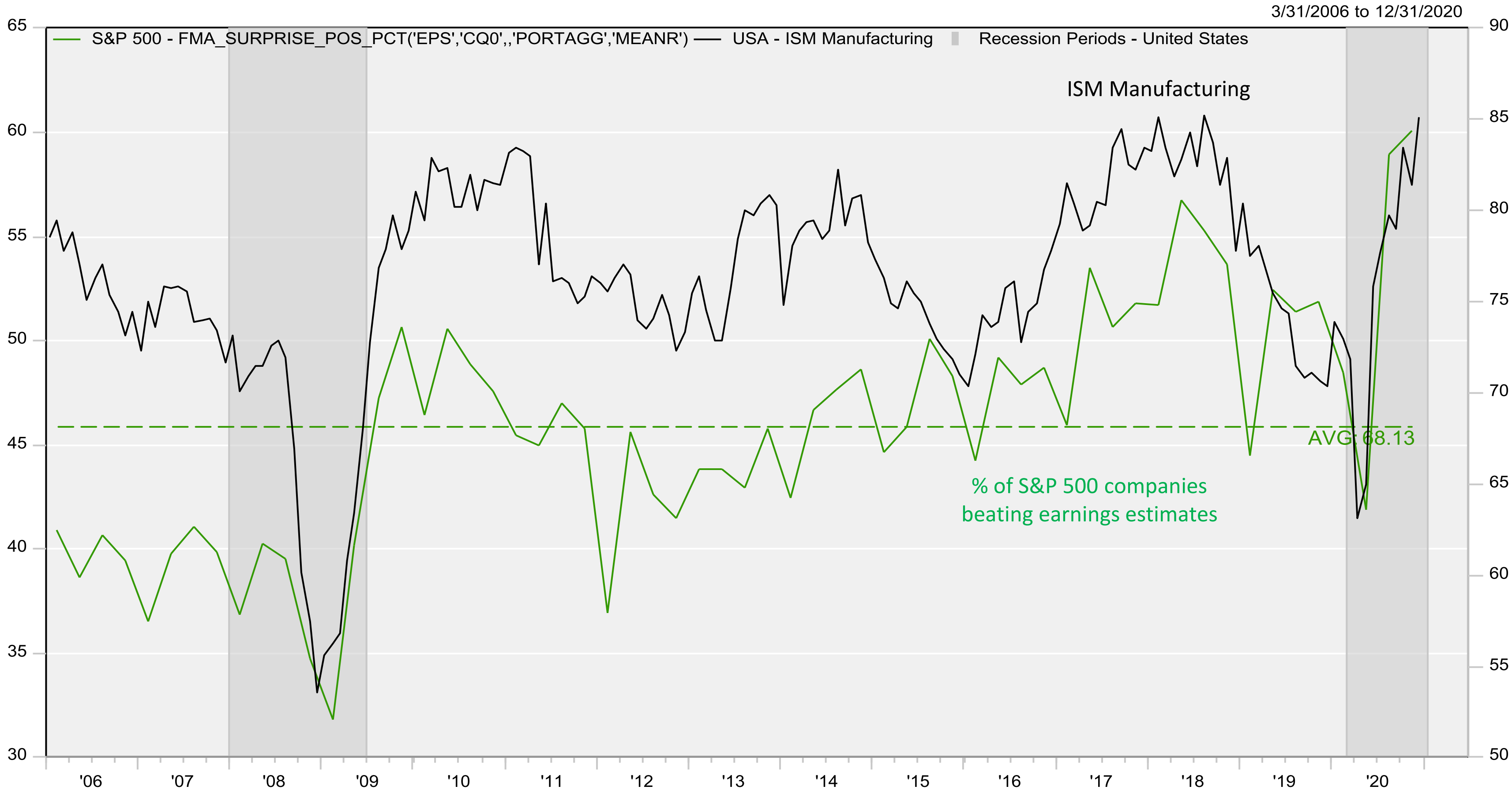
EPS Growth Estimates	
2019	0.0%
2020	-15.4%
2021	22.7%
2022	16.6%

S&P 500 Sector	% Q4 Est. EPS Growth	% EPS Surprise	Est. Change Since 10/31/20 Q4'20	Est. Change Since 10/31/20 2021
S&P 500	**-10.3**	**11.5**	**2.3%**	**1.4%**
Materials	8.3	-	3.0%	3.9%
Health Care	5.3	10.7	2.9%	1.4%
Information Technology	3.2	6.7	2.5%	1.6%
Consumer Staples	1.1	13.7	3.1%	1.2%
Utilities	-5.1	-	0.4%	-0.1%
Financials	-5.5	-	7.4%	3.8%
Real Estate	-9.9	-	0.2%	-0.2%
Communication Services	-13.3	-	-1.0%	0.3%
Consumer Discretionary	-27.7	19.4	-1.1%	-3.3%
Industrials	-36.0	19.0	2.2%	0.7%
Energy	-101.1	-	-130.8%	22.1%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

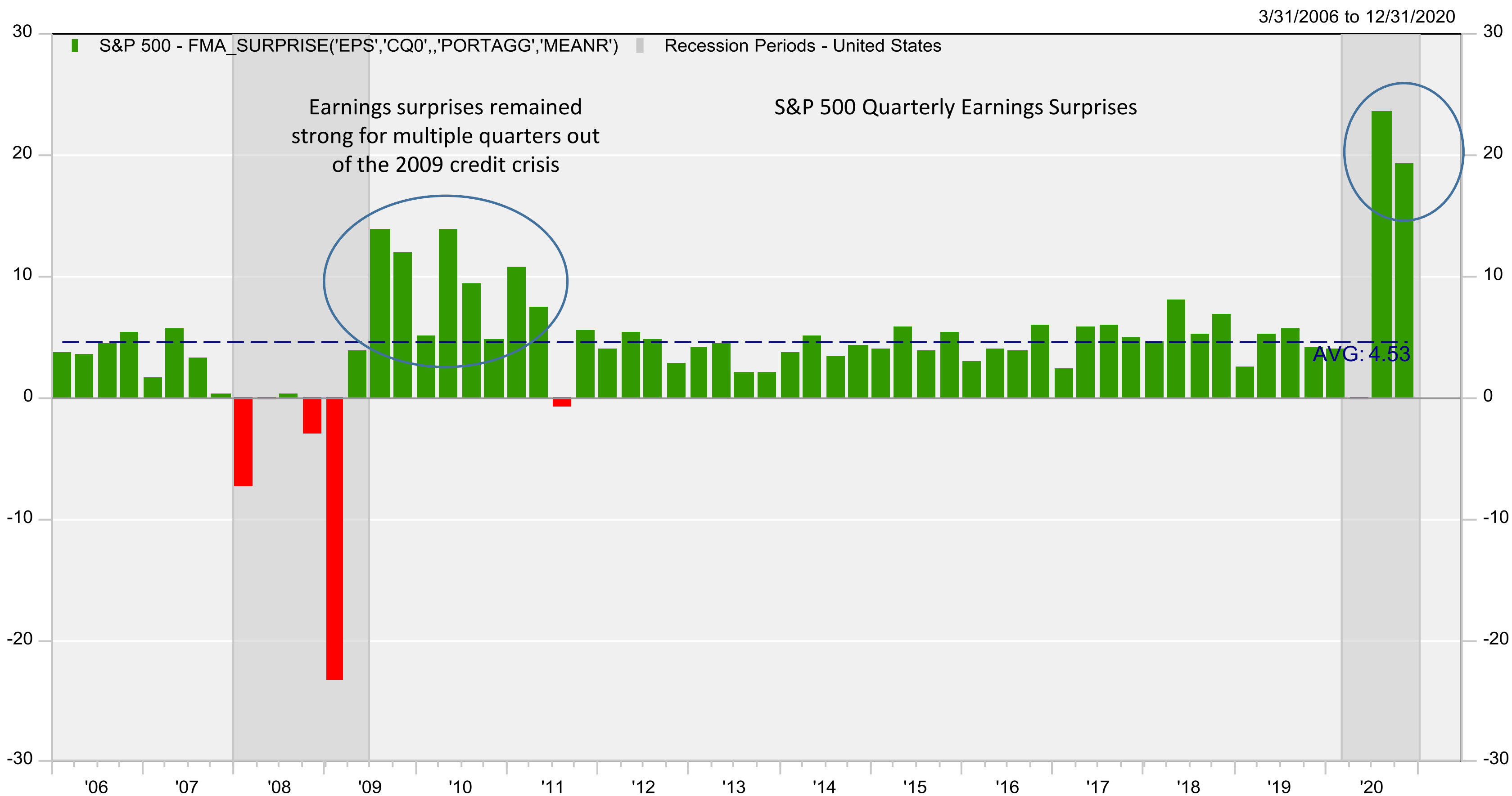
Q2 and Q3 earnings results saw over 80% of companies beat their bottom-line estimates (well above the 15-year average of 68%), as analyst estimates proved too low in the initial stages of the recovery. The solid momentum in economic data throughout Q4 (shown below via the ISM Manufacturing index) bodes well for companies beating Q4 earnings estimates in our view.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

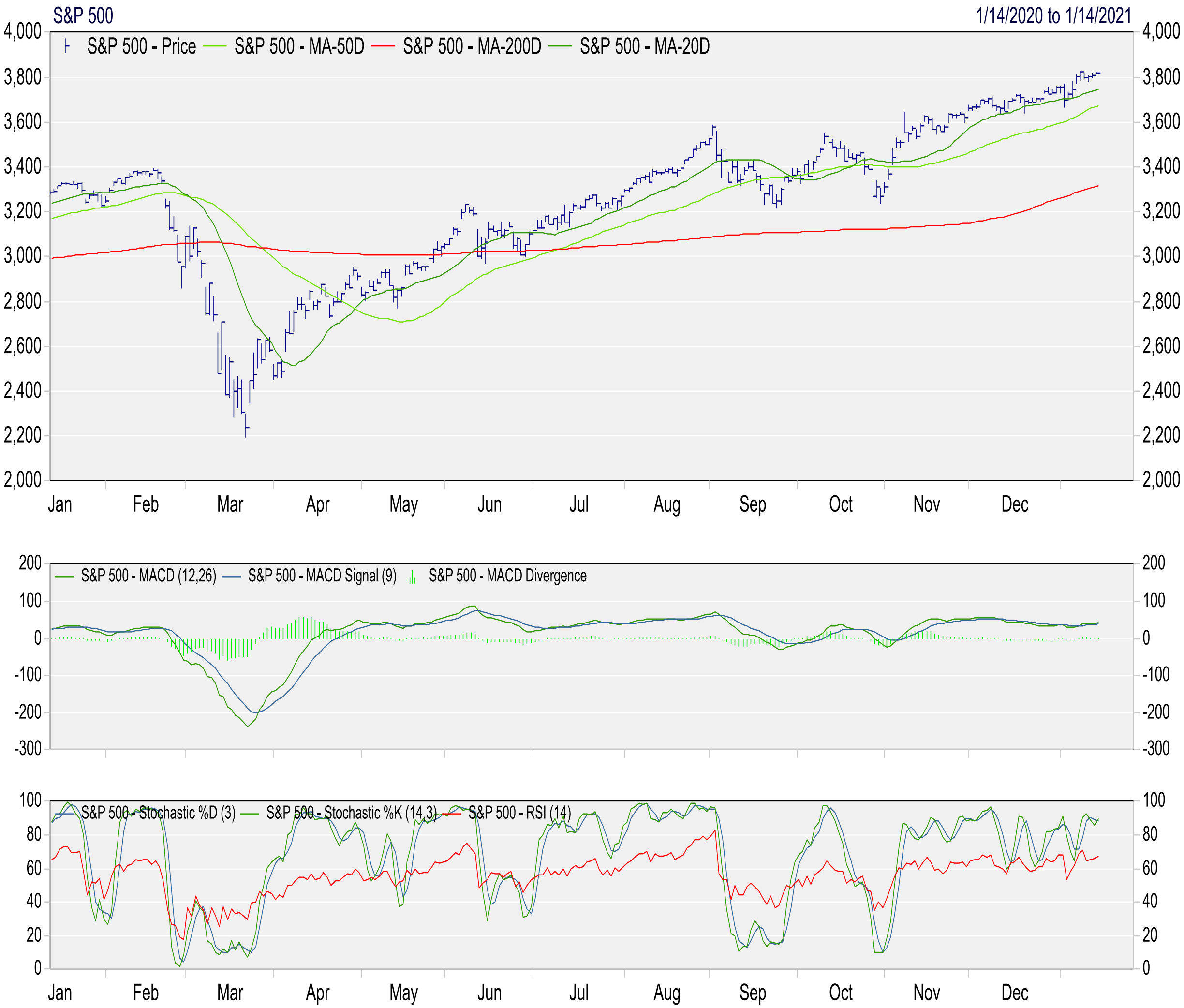
FUNDAMENTALS

Not only did a large amount of companies beat their estimates in Q2 and Q3, but they did so by historical margins. As you can see below, the last two quarters were the largest earnings surprises on record with results finishing 23.6% and 19.3% above estimates. We expect a strong Q4 earnings surprise above the historical average of 4.5%, but less than the historically strong Q2 and Q3. In fact, 19 S&P 500 companies have already announced Q4 results with an earnings surprise of 11.5%. This supports our above consensus earnings estimate for 2021, as estimate revisions continue to trend higher.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



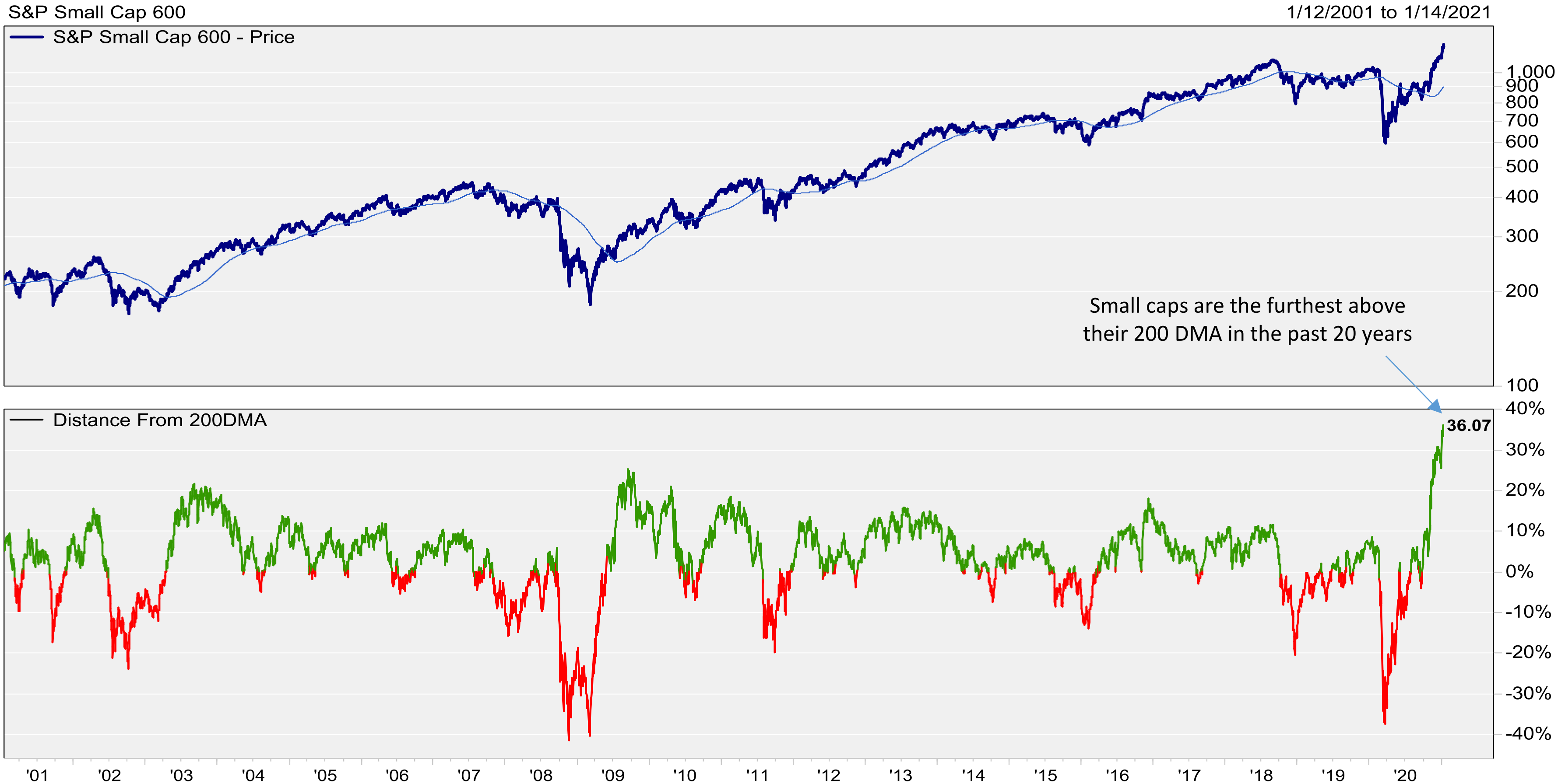
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Since breaking out to new highs in November, the S&P 500 has continued to glide higher through the seasonally strong period of the year. The index has been able to hold above its 20 day moving average through this period, and this is a level we will be monitoring for signs that an eventual consolidation period may begin to occur. For now, short term momentum remains strong.

The small flag pattern continues to build this week, which is an encouraging sign for a continuation. We will continue to watch 3876 and then 4274 on the upside. If the market turns lower, watch the 20DMA (currently at 3746), the long-term uptrend line around 3638, and then horizontal support at 3588 and 3550.

SMALL CAPS

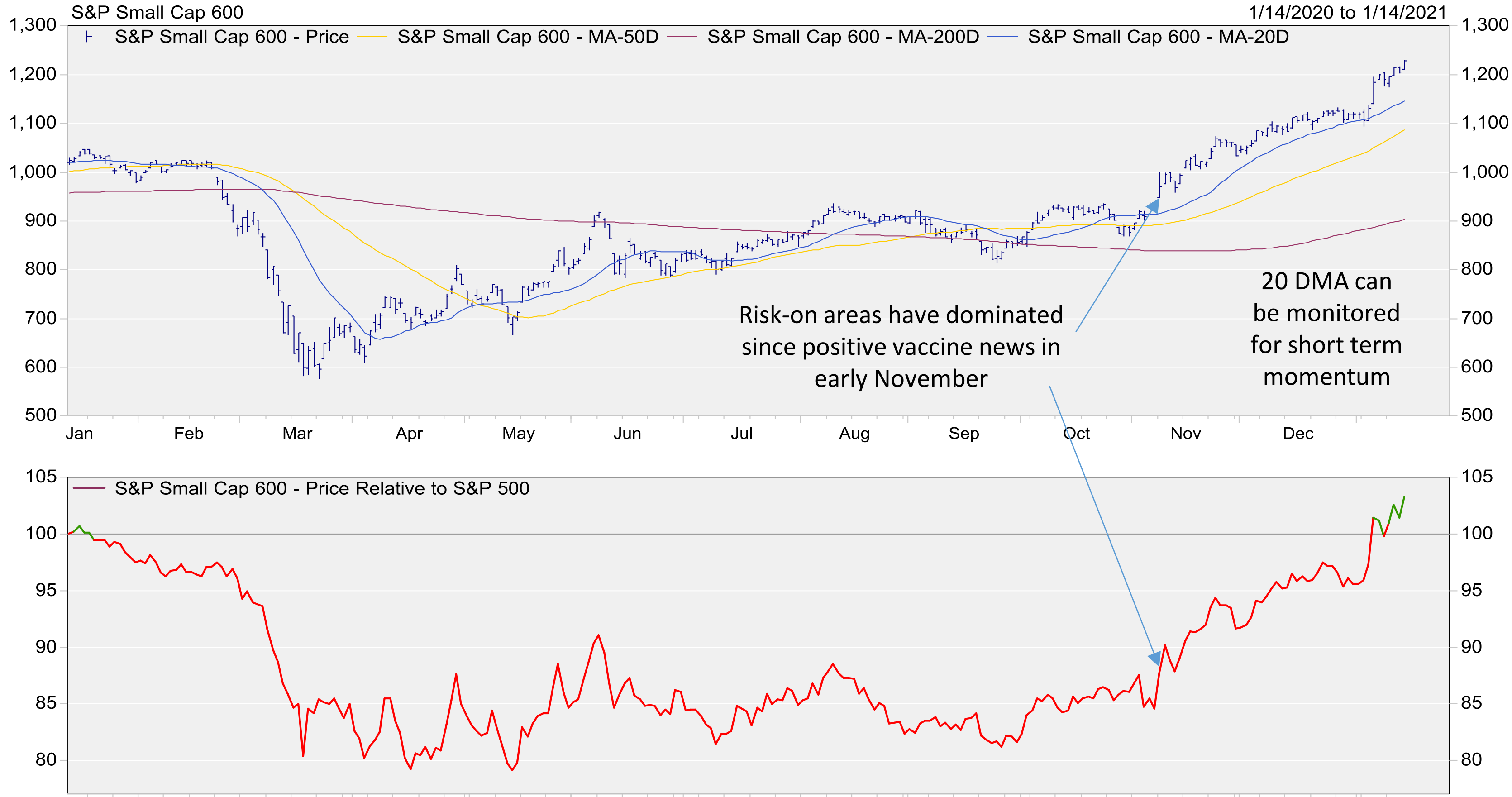
The small caps are very extended technically- up to 36% above their 200 DMA which is the largest spread in at least the past 20 years. The 30+% move over the past ~2 months is also very rare historically. We are positive on small caps as the economy recovers from Covid, along with continued support from fiscal and monetary stimulus. However, a cooling off period would be very normal and healthy. This does not mean a correction needs to occur, but we do believe the rate of ascent is due to at least slow.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

The enormous strength from the small caps was triggered on positive vaccine news in early November, allowing for optimism of an economic reopening in 2021 to fuel risk-on areas of the market. Technical momentum remains strong for the small caps and, for short term traders, the trend remains your friend. As you can see, the index has been able to hold above its 20 DMA since early November. We will be monitoring price action around this level for potential cracks in the short term trend that may lead to an eventual digestion period.



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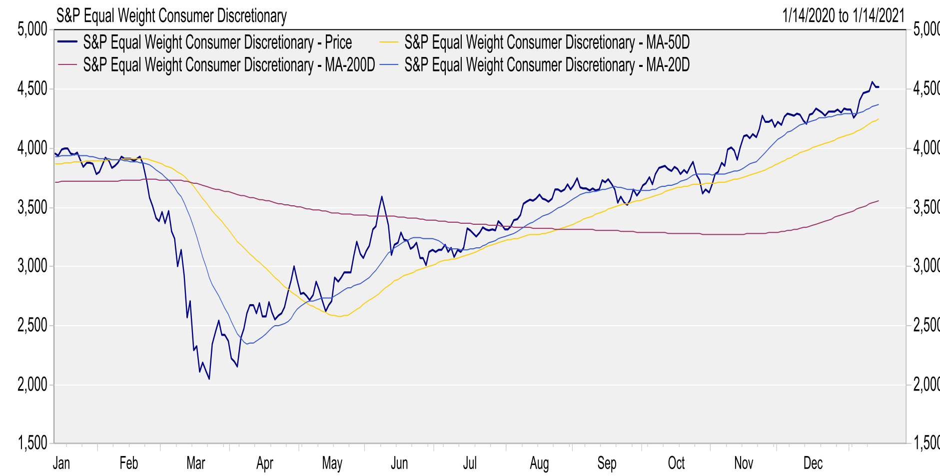
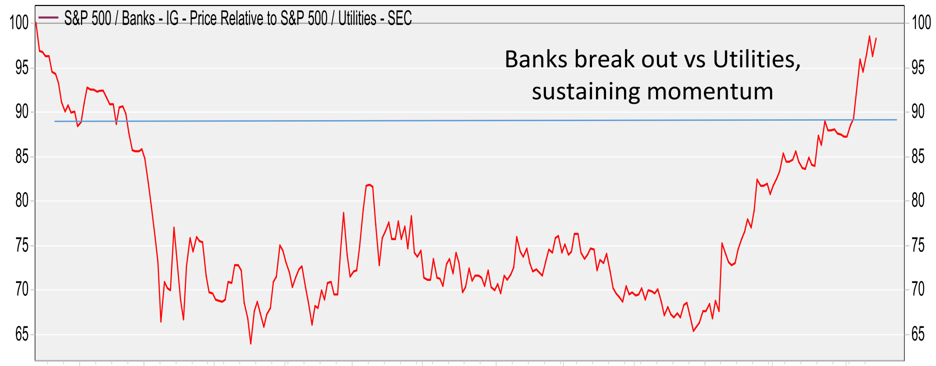
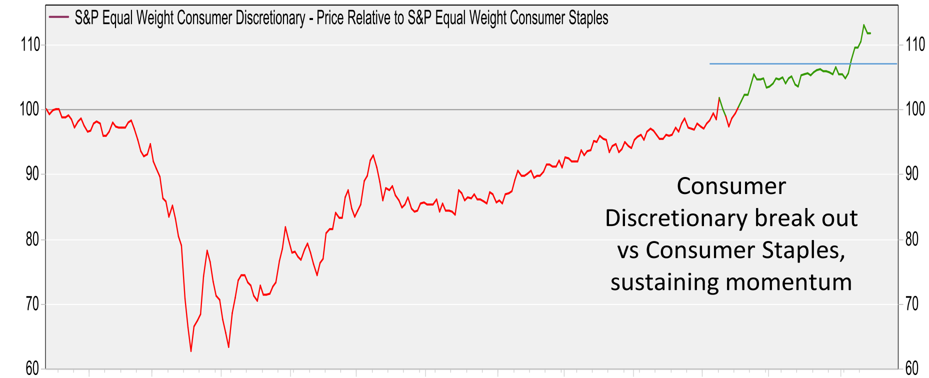
RISK-ON MOMENTUM

As noted previously, positive vaccine news in early November spurred the current risk-on trade which continues to exhibit momentum. Two of the most cyclical areas are the banks and average consumer discretionary stock. Like the small caps, both of these areas have been very strong since early November and have been able to hold above their 20 day moving averages- something we will continue to monitor. Additionally, banks broke higher vs utilities, as did consumer discretionary vs consumer staples. Both of these continue to suggest underlying equity market momentum remains strong.



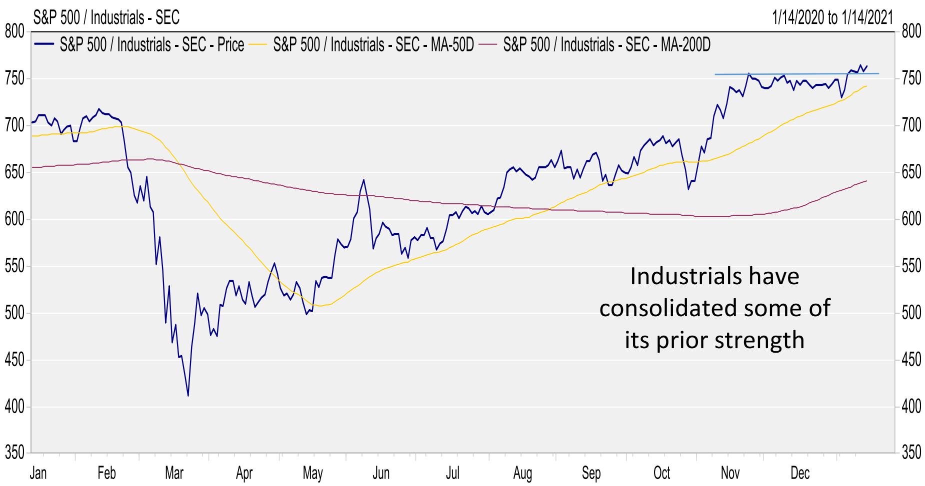


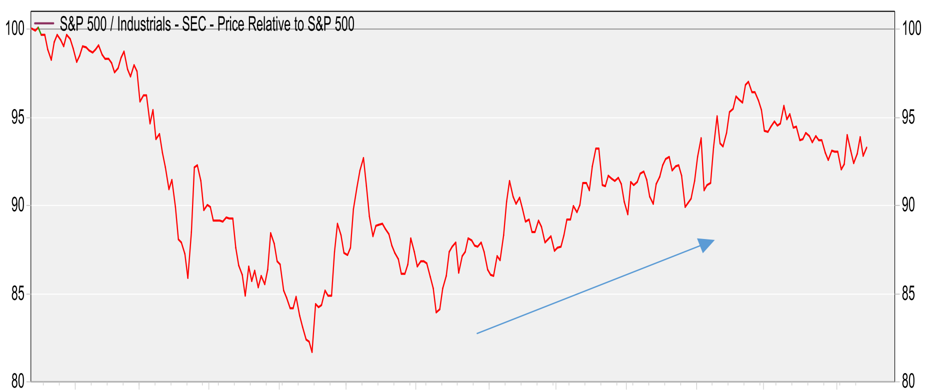


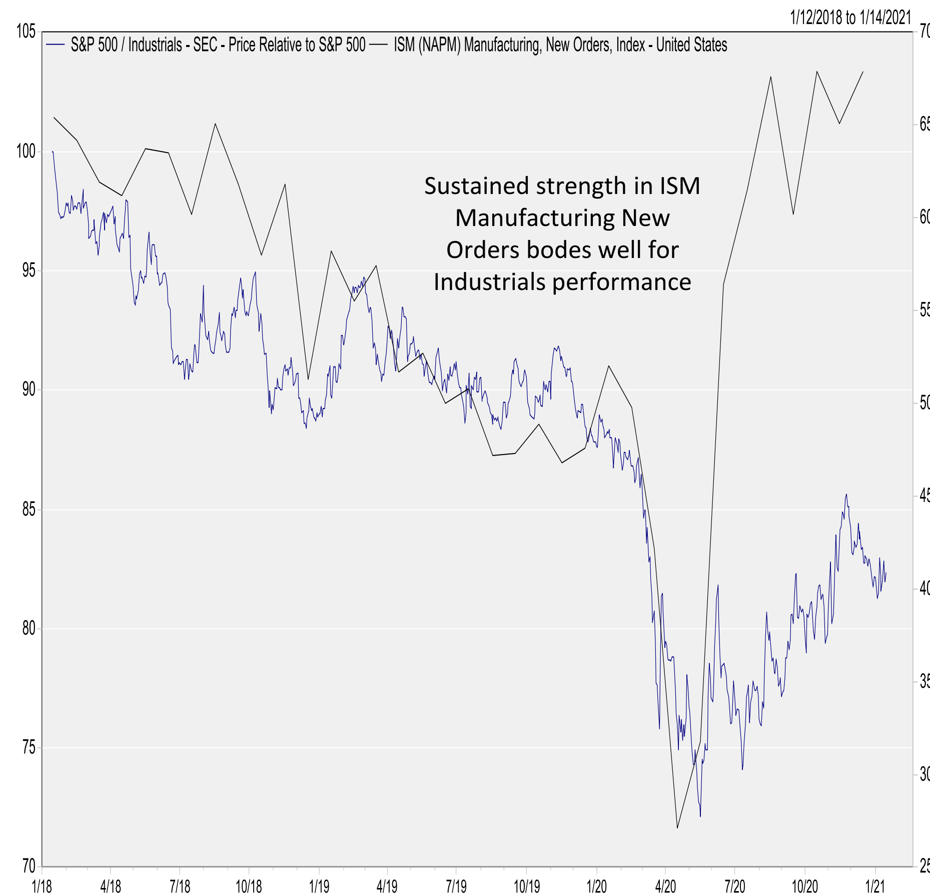
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INDUSTRIALS

As market participants have focused on the most risk-on areas recently, the also economically-sensitive Industrials sector has consolidated some of its prior strength and sits just above its 50 day moving average. Industrials remain one of our favored sectors, and we believe sustained strength in the manufacturing recovery bodes well for performance trends over the intermediate term. The two early Q4 earnings announcers have surprised by 19% on the bottom line- a small sample size but positive indication for reports as we enter Q4 earnings season.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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.

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.

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