

Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com

Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com

Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com

Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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Weekly Market Guide

Q4 earnings season is off to a solid start fundamentally. 87% of S&P 500 companies are beating their earnings estimates by an aggregate surprise of 20.4% so far, in line with the historically strong Q2 and Q3 surprises. And only less than a week in to the reporting period, S&P 500 earnings estimates for the full quarter have already been revised 2.5% higher. However, the very early read on price reactions has been lackluster, as the average price change on results is -1.5%. For example, Financials stocks have beaten estimates by 27.8% in aggregate but seen an average price reaction of -2.4%. Interestingly, the only two sectors with positive price reactions on average are Technology and Communication Services. It is far too early to determine if this will be the pattern for the full quarter, but the extreme run-up in the more cyclical areas over recent months has likely set the bar a little high.

Accordingly, over the past couple of days, we have seen some rotation back into the more technology-oriented areas. The Nasdaq Composite was able to break to new highs yesterday and is positive again today, whereas the Russell 2000 has moved slightly lower. This is also seen in Growth stocks regaining some ground, while Value cools off. Two days do not make a trend, but it would not surprise us to see some consolidation in the “recovery” areas. The small cap index is up 33% since the early November vaccine news, and S&P 500 sectors such as Energy and Financials are up 51% and 24% respectively since then. Also, the need for consolidation in some of the cyclical areas may only show up beneath the surface rather than a broad-market drawdown. As pullbacks occur in favored stocks, we would use them as buying opportunities.

The strong start fundamentally to earnings season bodes well for continued positive earnings trends in 2021. Positive 2021 revision trends on already strong earnings growth assumptions are important, as earnings will be the necessary driver of market returns this year with valuation expansion likely over. We remain of the view that vaccines will enable an economic reopening as 2021 transpires, with the recovery supported by both fiscal and monetary stimulus. President Biden laid out his coronavirus relief package which includes \$1.9T in additional fiscal stimulus. Reports indicate he would like to pass this with bipartisan support, which could result in the final number being watered down and time until passage taking longer. Nonetheless, we believe something eventually gets done. This supports our above consensus (base case) view to 2021 earnings of \$175. As earnings recover, valuation should begin to normalize. We use a 23x P/E multiple in our base case S&P 500 assumption for 2021 (down from the current 28x P/E multiple), as the low interest rate and inflation environment remains supportive of still elevated valuations in our view.

Equity Market Indices	Price Return	
	Year to Date	12 Months
S&P 500	2.6%	15.7%
S&P 500 (Equal-Weight)	3.9%	12.2%
Dow Jones Industrial Avg	1.9%	6.3%
NASDAQ Composite	4.4%	43.3%
Russell 2000	9.4%	27.1%
MSCI All-Cap World	3.4%	15.4%
MSCI Developed Markets	2.4%	6.9%
MSCI Emerging Markets	8.5%	22.2%
NYSE Alerian MLP	13.1%	-30.8%
MSCI U.S. REIT	1.2%	-11.8%

S&P 500 Sectors	Price Return	
	Year to Date	Sector Weighting
Energy	15.5%	2.6%
Materials	4.8%	2.7%
Consumer Discretionary	4.8%	12.9%
Financials	4.6%	10.6%
Health Care	4.4%	13.7%
S&P 500	2.6%	-
Communication Svcs.	1.5%	10.7%
Industrials	1.2%	8.3%
Information Technology	1.1%	27.3%
Real Estate	0.7%	2.4%
Utilities	0.6%	2.7%
Consumer Staples	-3.1%	6.1%

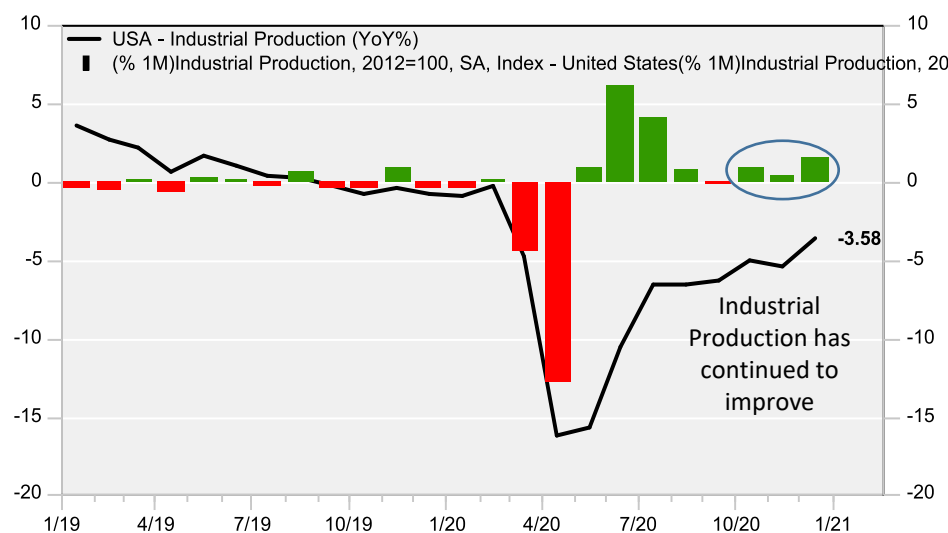
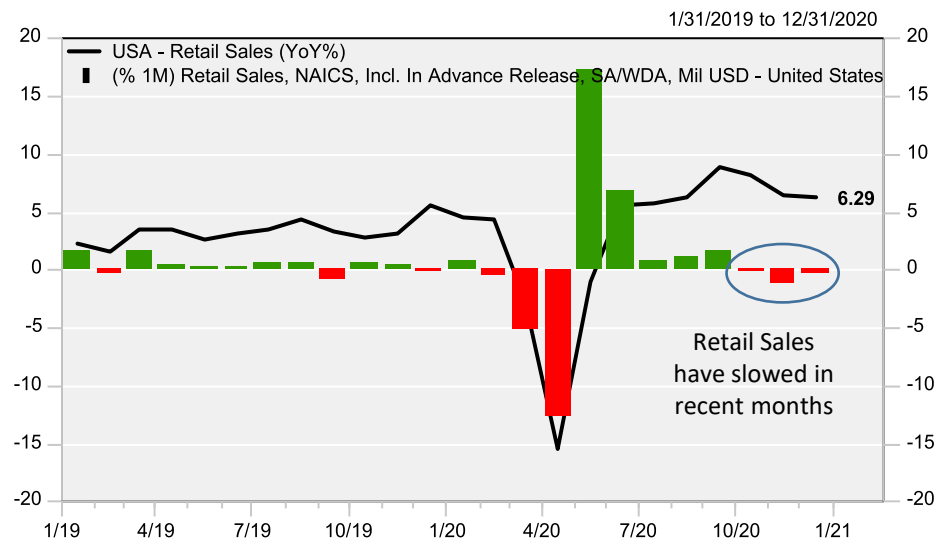
MACRO: US

December retail sales disappointed, dropping -0.7% m/m. This was the third negative monthly reading in a row, as the services side of the economy has clearly slowed in the midst of the virus surge and localized shutdowns in recent months. This is also reflected in the still elevated initial jobless claims data.

On the other hand, industrial production has continued to take a divergent path, remaining very resilient in recent months with continued improvement. December industrial production rose 1.6% m/m (vs estimates of 0.4%). With the manufacturing recovery continuing (supported by low inventories), and \$900B in stimulus to cushion the blow for consumers, we remain positive on the economic recovery in 2021. We also believe additional fiscal stimulus is likely and, along with positive vaccine news, puts our bias for 2021 GDP growth higher than the current consensus estimate of 4.1%.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
PPI ex-Food & Energy SA M/M	DEC	0.10%	0.10%	0.10%
PPI ex-Food & Energy NSA Y/Y	DEC	1.2%	1.3%	1.4%
PPI SA M/M	DEC	0.30%	0.40%	0.10%
PPI NSA Y/Y	DEC	0.76%	0.70%	0.76%
Retail sales Ex AutoFuel M/M	DEC	-2.1%	-0.60%	-1.3% R
Retail Sales ex-Auto SA M/M	DEC	-1.4%	-0.10%	-1.3% R
Retail Sales SA M/M	DEC	-0.70%	0.05%	-1.4% R
Capacity Utilization NSA	DEC	74.5%	73.5%	73.4% R
Industrial Production SA M/M	DEC	1.6%	0.40%	0.50% R
Michigan Sentiment NSA (Preliminary)	JAN	79.2	79.0	80.7
NAHB Housing Market Index SA	JAN	83.0	85.0	86.0
Building Permits SAAR (Preliminary)	DEC	1,709K	1,600K	1,635K
Continuing Jobless Claims SA	01/09	5,054K	5,390K	5,181K R
Housing Starts SAAR	DEC	1,669K	1,558K	1,578K R
Housing Starts M/M	DEC	5.8%	1.1%	3.1% R
Initial Claims SA	01/16	900.0K	900.0K	926.0K R
Philadelphia Fed Index SA	JAN	26.5	12.0	9.1 R



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

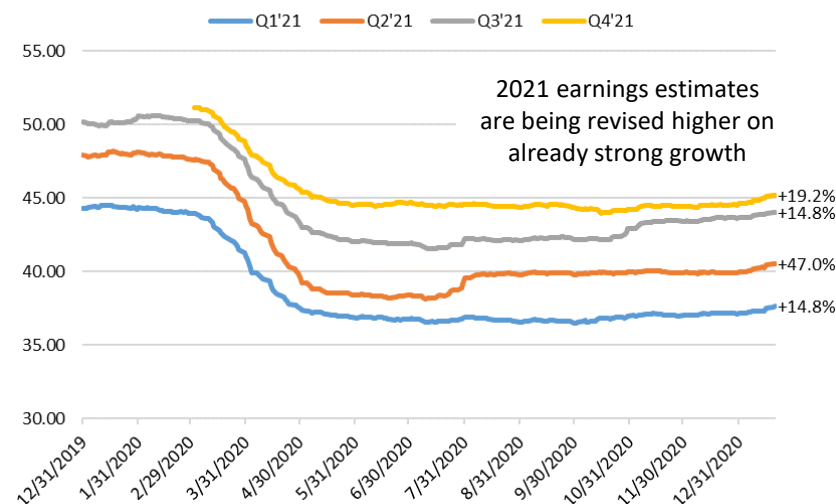
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The strong start fundamentally to earnings season bodes well for continued positive earnings trends in 2021. Positive 2021 revision trends on already strong earnings growth assumptions are important, as earnings will be the necessary driver of market returns this year with valuation expansion likely over. We use an above consensus 2021 earnings estimate of \$175 on our P/E assumption of 23x- resulting in a S&P 500 base case target of 4025.

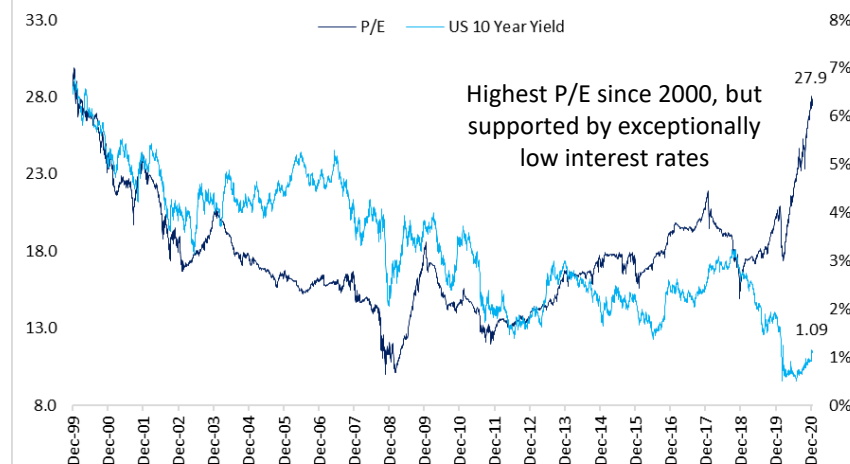
S&P 500 Sector	% Q4 Est. EPS Growth	% EPS Surprise	Est. Change Since Q4'20	1/14/21 2021	Avg Price Reaction
S&P 500	-7.9	20.4	2.5%	0.6%	-1.5%
Materials	9.0	-20.0	-0.4%	0.0%	-
Financials	8.9	27.8	14.6%	3.1%	-2.4%
Health Care	6.2	7.8	0.2%	0.1%	-0.4%
Information Technology	3.4	6.8	0.0%	0.0%	2.5%
Consumer Staples	2.8	10.9	1.4%	0.0%	-1.3%
Utilities	-5.5	-	0.2%	0.1%	-
Real Estate	-9.9	-	0.2%	0.0%	-
Communication Services	-13.4	-12.5	-0.1%	0.3%	16.9%
Consumer Discretionary	-27.7	19.4	-0.4%	0.1%	-
Industrials	-37.1	73.8	-0.5%	-0.3%	-2.2%
Energy	-106.2	20.0	137.8%	4.9%	-1.8%

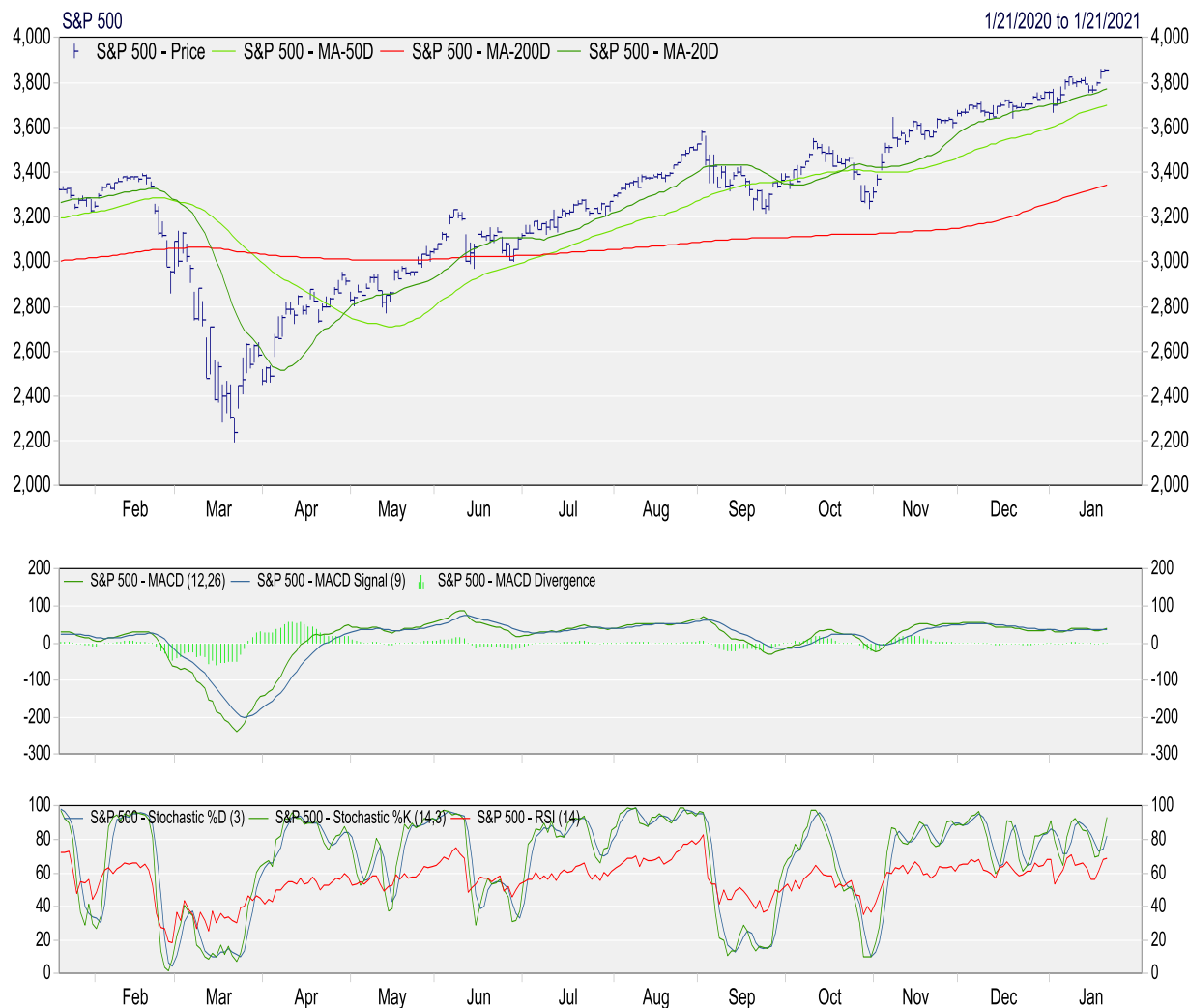
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

2021 Earnings Estimates



S&P 500 Valuation



TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

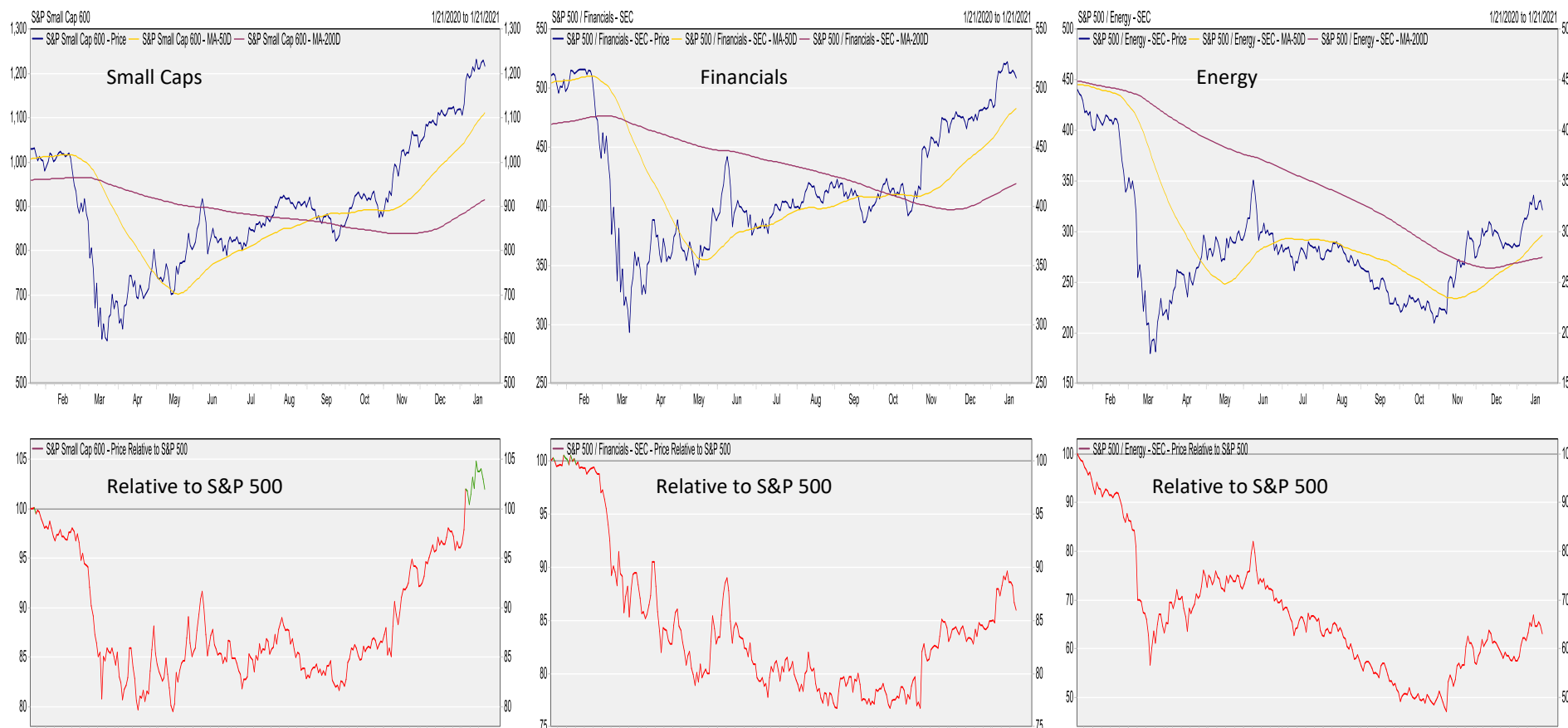
The S&P 500 has continued to trade above its 20 day moving average, as momentum remains solid for the overall index. However, leadership has taken a different tone beneath the surface in the past two days as technology-oriented stocks have led the way while some of the more cyclical areas have cooled off. For example, the Nasdaq broke out to new highs yesterday and is positive again today, whereas the Russell 2000 has moved slightly lower.

Two days do not make a trend, but it would not surprise us to see some consolidation in the “recovery” areas. The small cap index is up 33% since the early November vaccine news, and S&P 500 sectors such as Energy and Financials are up 51% and 24% respectively since then. Also, the need for consolidation in some of the cyclical areas may only show up beneath the surface rather than a broad-market drawdown. As pullbacks occur in favored stocks, we would use them as buying opportunities.

We continue to watch technical resistance at 3876 (Fibonacci projection level). Initial downside support should be found near the 20 day moving average for now (3772). Below that, technical support resides near the long-term uptrend line at ~3645, followed by horizontal support at 3588 and 3550.

TECHNICAL: “RECOVERY” NAMES COOLING OFF THE PAST TWO DAYS

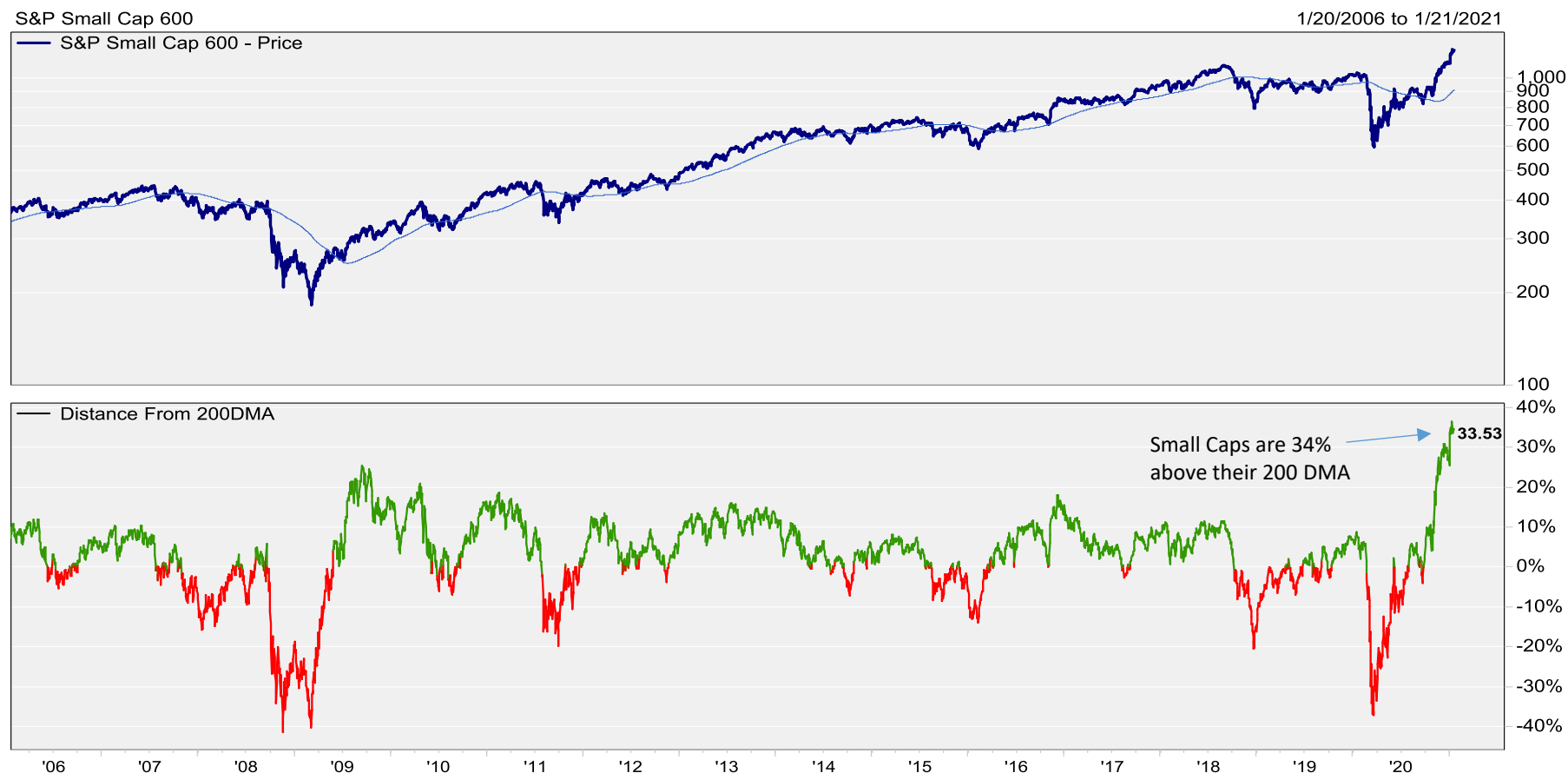
As you can see in the charts below, some of the more cyclical areas such as the Small Caps, Financials, and Energy have experienced outsized returns on both an absolute and relative basis since the early November positive vaccine news. With a “light at the end of the tunnel,” these areas have risen 33%, 51%, and 24% respectively. However over the past two days, these have traded lower while the overall market has traded higher. Two days does not make a trend, but this could be a very early glimpse at some much-needed consolidation in these names. As pullbacks occur in favored stocks, we would use them as buying opportunities.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SMALL CAPS

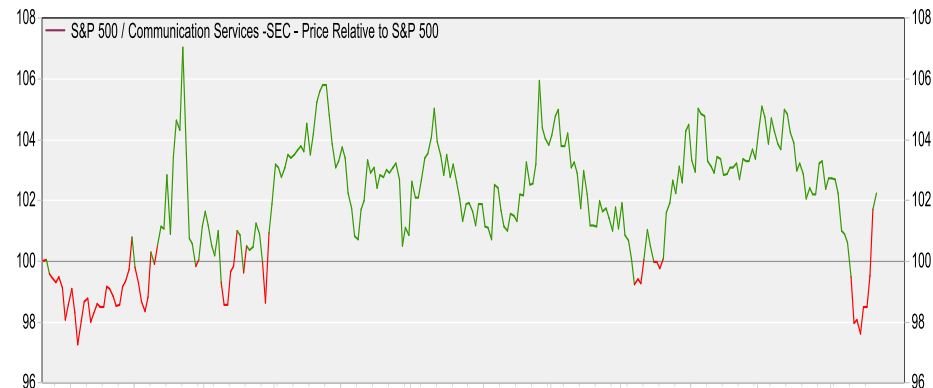
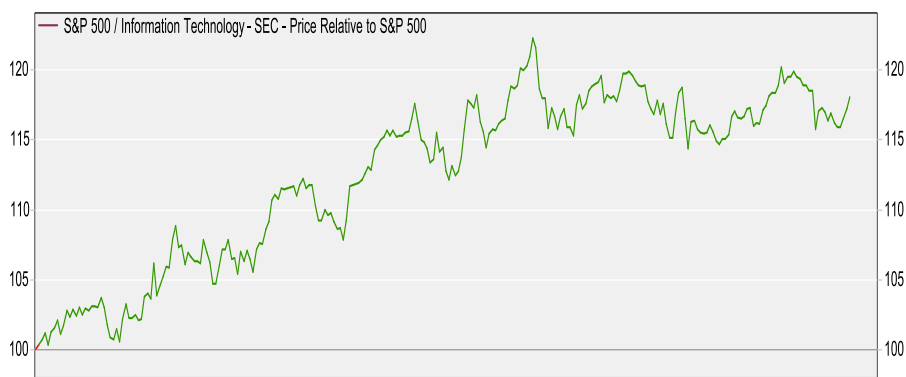
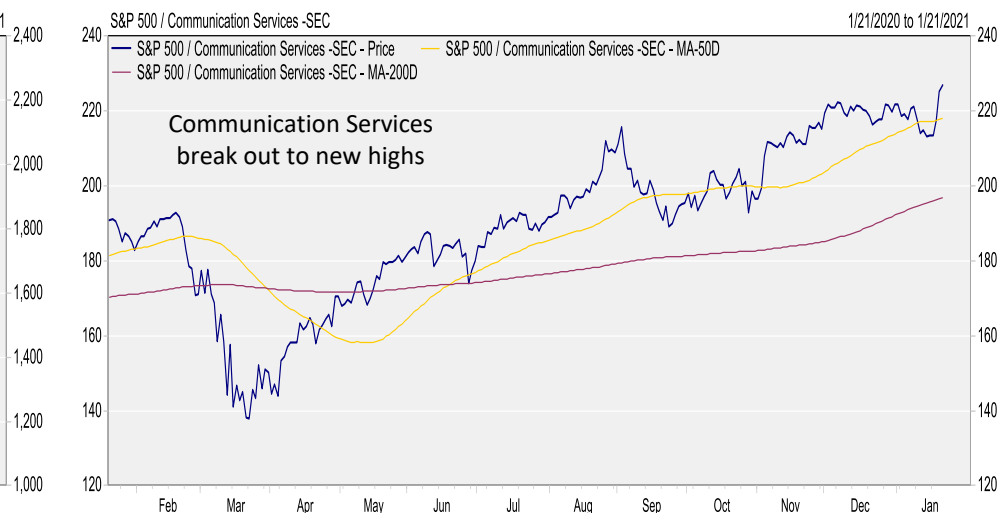
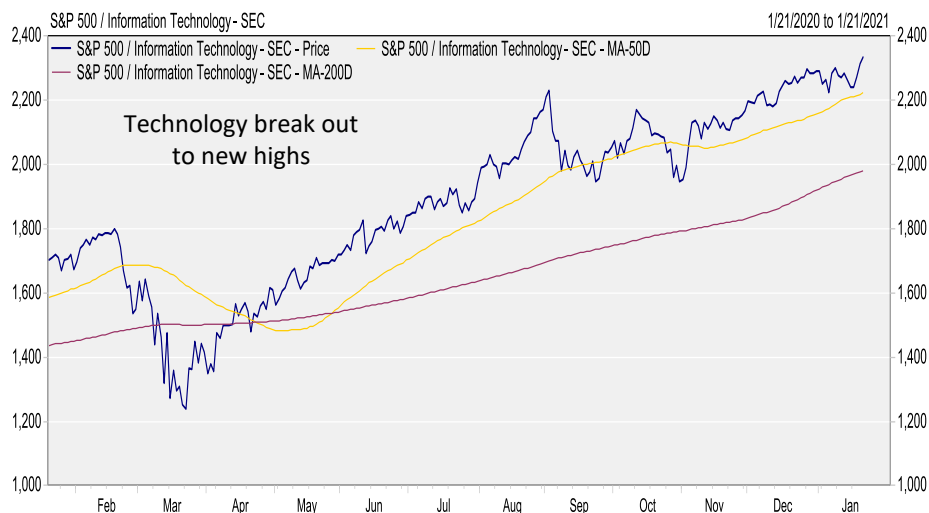
We remind you that a normal consolidation period for the small caps would be healthy, considering the index has run up 34% above its 200 day moving average. It is typical for outsized small cap strength to be seen in the early stages of a bull market, and this momentum bodes well for returns over the next 6-12 months. But a consolidation period for the market to digest some of these gains would also be completely normal and healthy. As this occurs, we would look to accumulate the small caps for the longer term.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: ROTATION INTO TECH-ORIENTED NAMES

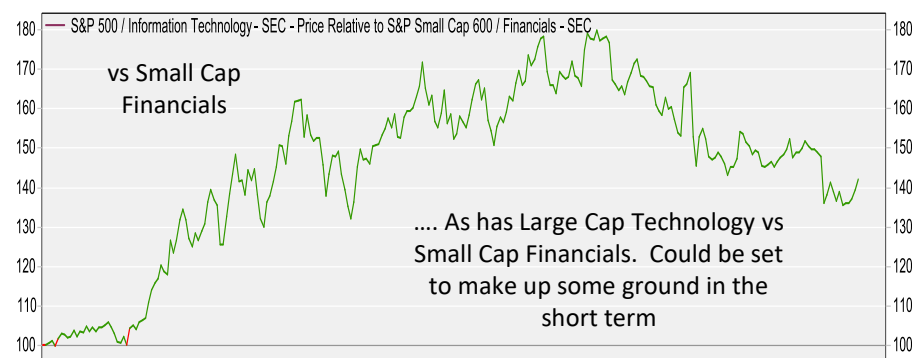
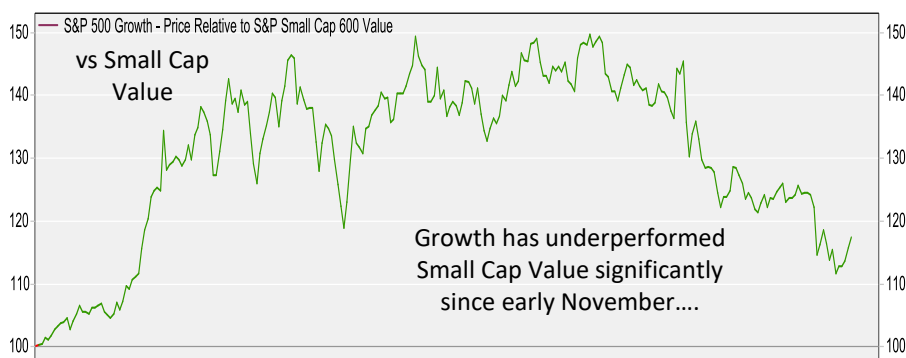
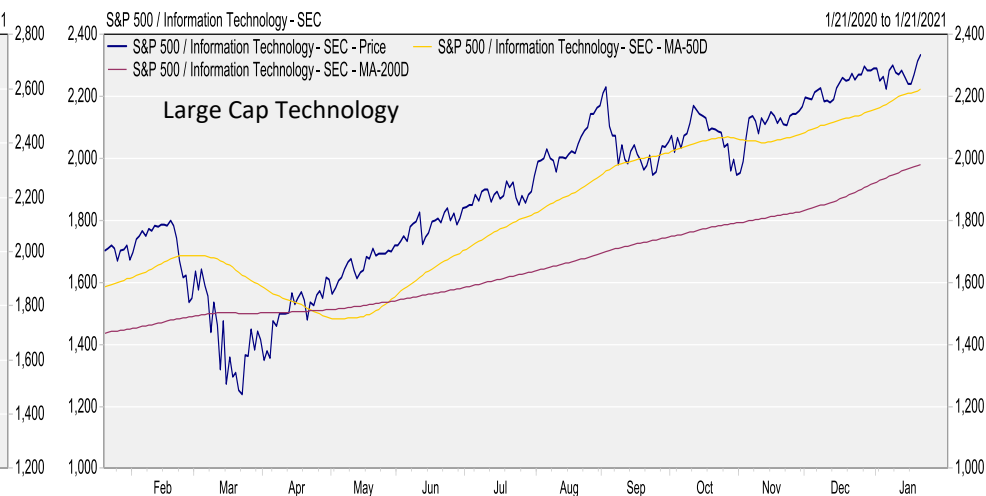
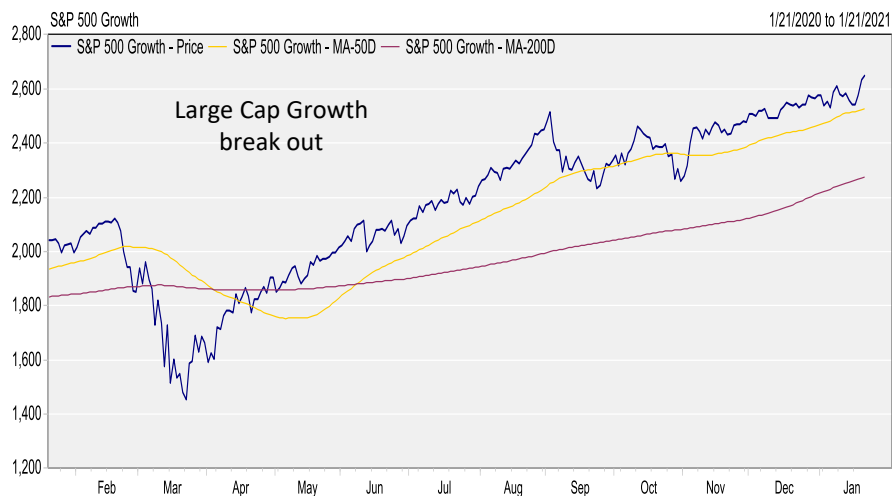
Driving the market strength these past two days has been the tech-oriented areas. For example, the Technology and Communication Services sectors both broke out to new highs yesterday (and followed up with gains today). We continue to favor these two sectors, as many of their constituents are operating very well through the current stay-at-home environment.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: GROWTH VS VALUE

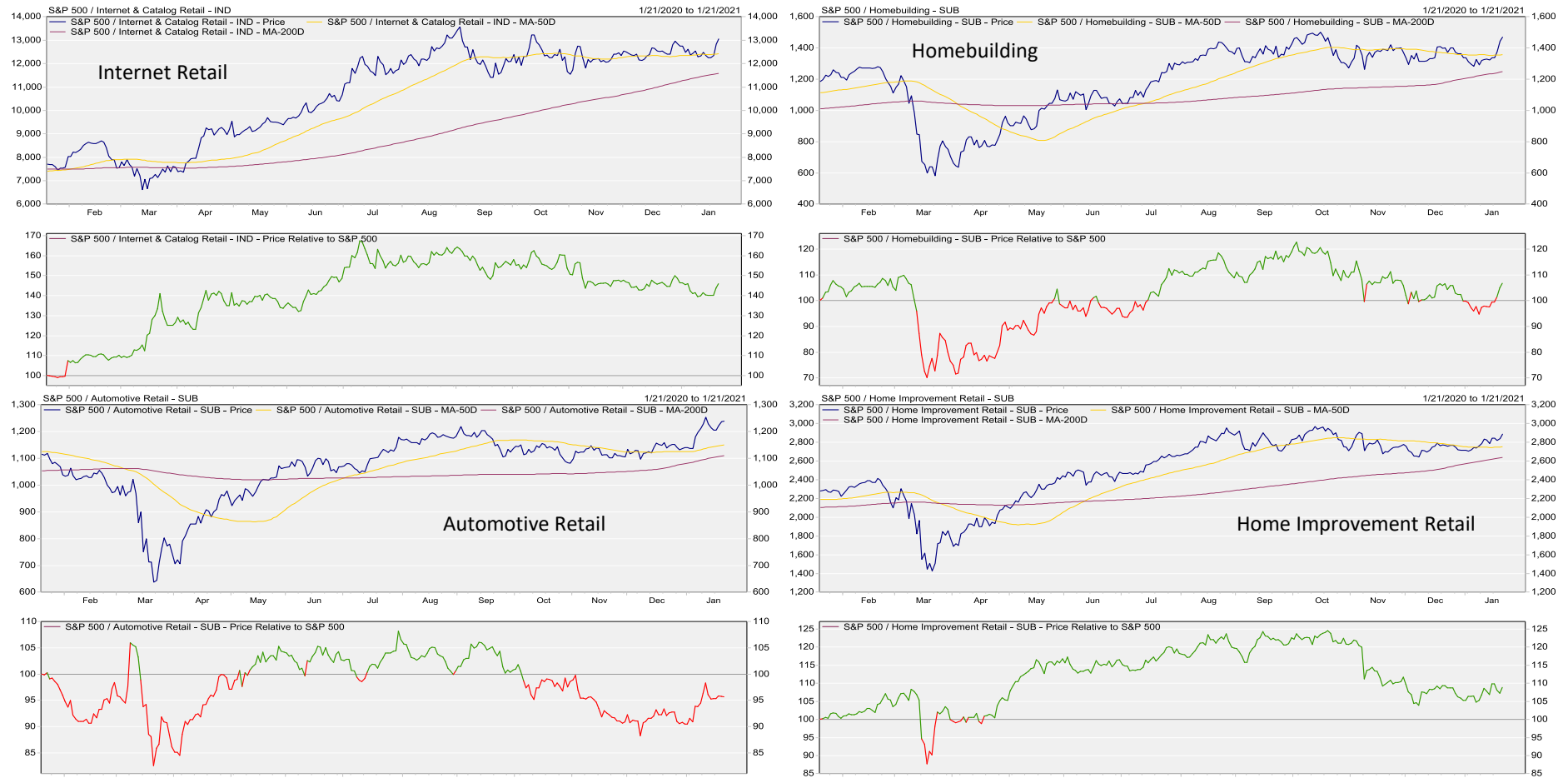
Strength from the tech-oriented names pushed the Growth index to new highs. As you can see in the bottom left chart, large cap growth has underperformed small cap value dramatically since early November (as has large cap technology relative to small cap financials- shown in bottom right chart). As many of those more cyclical names show signs of cooling off from extended levels, we could see relative strength improve for Large Cap Growth in the short term.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: MARKET ROTATION

This two-day rotation is also being seen at the subsector level. For example, within Consumer Discretionary, previous “stay-at-home” leaders have been largely consolidating prior strength for the past several months. This market rotation could see relative strength gains go back to the areas operating best in the short term- internet retail, homebuilders, home improvement, and automotive retail.



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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