RAYMOND JAMES

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## Weekly Market Guide

Volatility has picked back up over the past two weeks, disrupting the glide path higher for equities that has largely been in place since positive vaccine news in early November. While the S&P 500 remains near highs and was able to hold its 50-day moving average today, there have been larger draw downs beneath the surface. For example, some of the more cyclical areas- energy, financials, materials- have underperformed since earnings season began, whereas some of the more tech-oriented areas have gained strength. We view this as a natural "cooling off" of momentum. Today's bounce-back from support for the S&P 500 is positive, but the underlying tone is mixed with the small caps actually trading lower and only 51% advancing volume on the NYSE. Nonetheless, many areas have drawn down enough that we would use pullbacks in favored stocks near support levels as buying opportunities.

Q4 earnings season continues to be solid, albeit at an expectedly reduced surprise rate. 84% of companies have beaten estimates, but at a running surprise rate of 11.7% (down from the historically elevated 21% average in Q2 and Q3). Fundamentals remain very bifurcated at the sector and company level with roughly 1/2 of companies reporting earnings growth y/y. Median earnings growth among these companies is 22% y/y, whereas the median earnings contraction for the other 1/2 of companies is -21%. The strongest results have come from Financials and Technology. For the S&P 500 index, full quarter estimates are being revised higher (by 3.3% so far), as are quarterly estimates throughout 2021.

These positive 2021 revision trends on strong earnings growth estimates remain supportive for equities over the intermediate term. And this is at least in part due to an improving economic backdrop. We are encouraged by the going 1M+/day rate of US vaccinations, and await the Johnson&Johnson vaccine results next week. We expect the results to support our view of 3+ vaccines with solid efficacy rates allowing for an economic reopening as 2021 transpires. This, along with support from fiscal stimulus and Fed accomodation, should provide economic momentum throughout the year.

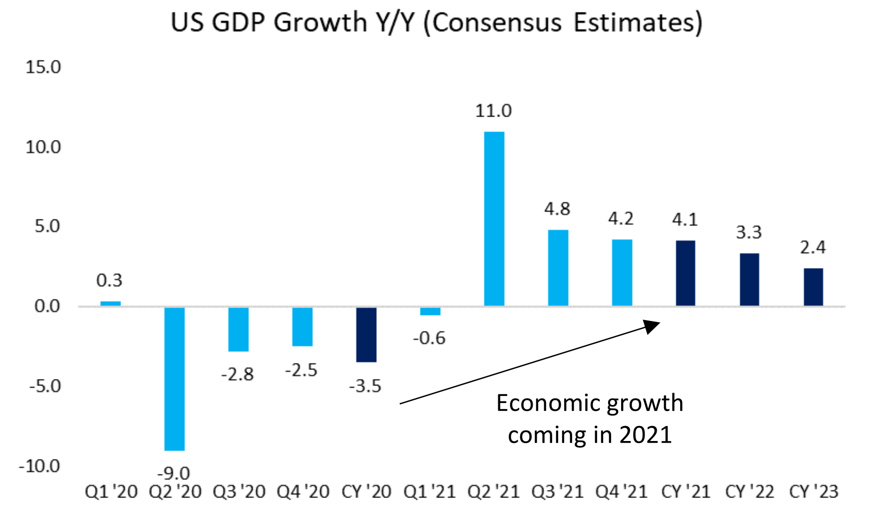
But while we remain positive on equity markets, volatile periods are bound to occur. February is a seasonally slower period of the year, and the past couple of weeks could be a glimpse of at least rolling pullbacks taking place beneath the market surface. This market action also supports our current view on sector allocations- that being pro-cyclical exposure to the economic recovery ahead but also a healthy allocation to areas operating well through the pandemic. This barbell approach results in our overweight sectors being Technology, Health Care, Communication Services, Consumer Discretionary, and Industrials.

| Equity Market Indices | Price Return Year to Date | Price Return 12 Months |
|---|---|---|
| S&P 500 | -0.1% | 15.6% |
| S&P 500 (Equal-Weight) | -0.1% | 11.2% |
| Dow Jones Industrial Avg | -1.0% | 6.2% |
| NASDAQ Composite | 3.0% | 45.2% |
| Russell 2000 | 6.8% | 28.3% |
| MSCI All-Cap World | 1.0% | 15.7% |
| MSCI Developed Markets | 1.1% | 8.1% |
| MSCI Emerging Markets | 6.2% | 24.3% |
| NYSE Alerian MLP | 4.9% | -30.9% |
| MSCI U.S. REIT | 0.5% | -12.5% |

| S&P 500 Sectors | Price Return Year to Date | Sector Weighting |
|---|---|---|
| Energy | 6.0% | 2.4% |
| Consumer Discretionary | 2.1% | 12.9% |
| Real Estate | 1.2% | 2.5% |
| Information Technology | 1.0% | 28.0% |
| Health Care | 0.6% | 13.6% |
| ***S&P 500*** | ***-0.1%*** | - |
| Communication Svcs. | -0.9% | 10.7% |
| Utilities | -1.6% | 2.7% |
| Financials | -1.8% | 10.3% |
| Materials | -2.2% | 2.6% |
| Industrials | -3.7% | 8.1% |
| Consumer Staples | -3.8% | 6.3% |

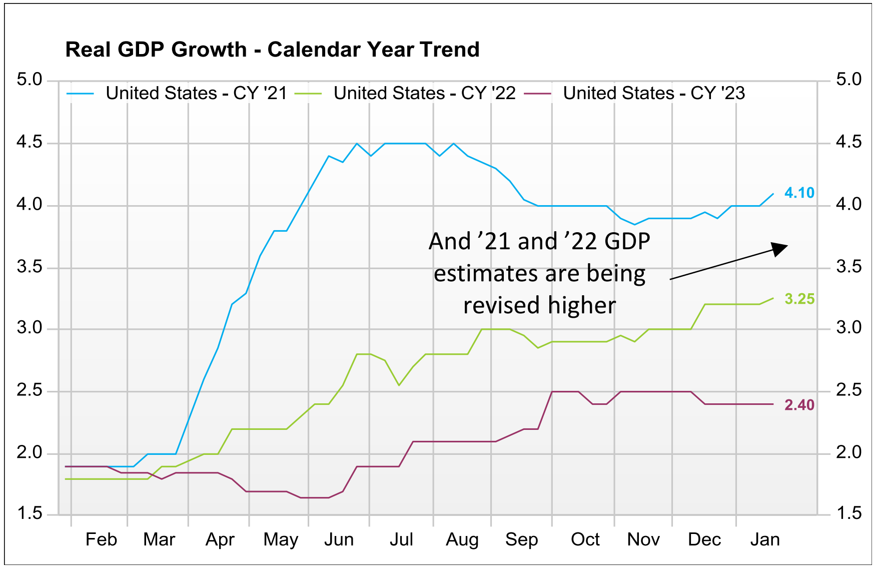
## MACRO: US

Q4 GDP (initial estimate) rose 4.0% q/q (just below estimates of 4.2%) and -2.5% y/y. Consumer spending dropped -2.6% y/y and was the major drag. The services side of the economy was expected to be weaker in Q4 as the virus surged and localized shutdowns were taking place. Looking ahead, Covid cases are now dropping, over 1M Americans are being vaccinated every day, and some states are easing their stay-at-home measures. Additionally, Congress passed $900B in fiscal stimulus that should boost consumer trends into 2021. We expect additional stimulus, although bipartisan push back on President Biden's $1.9T figure is developing. We believe additional fiscal stimulus will ultimately come, and also view the Fed's dovish stance as supportive of the economic recovery. In fact, January manufacturing and services PMI readings both surprised to the upside- rising to 59.1 and 57.5 respectively. The improving macro backdrop is resulting in economists to revise up their 2021 GDP estimates. The current consensus estimate if 4.1%, and the IMF updated its US GDP estimate to 5.1% this week. Our bias to economic growth projections remains upward.




### US economic data reported in the past week:

| Event | Period | Actual | Consensus | Prior |
|---|---|---|---|---|
| PMI Composite SA (Preliminary) | JAN | 58.0 | 55.0 | 55.3 |
| Markit PMI Manufacturing SA (Preliminary) | JAN | 59.1 | 56.5 | 57.1 |
| Markit PMI Services SA (Preliminary) | JAN | 57.5 | 53.3 | 54.8 |
| Existing Home Sales SAAR | DEC | 6,760K | 6,550K | 6,710K |
| S&P/Case-Shiller comp.20 HPI M/M | NOV | 1.4% | 0.65% | 1.6% |
| S&P/Case-Shiller comp.20 HPI Y/Y | NOV | 9.1% | 8.2% | 8.0% |
| Consumer Confidence | JAN | 89.3 | 89.1 | 87.1 |
| Durable Orders ex-Transportation SA M/M (Preliminary) | DEC | 0.70% | 0.55% | 0.80% |
| Durable Orders SA M/M (Preliminary) | DEC | 0.20% | 1.0% | 1.2% |
| Building Permits SAAR (Final) | DEC | 1,704K | 1,605K | 1,709K |
| Continuing Jobless Claims SA | 01/16 | 4,771K | 5,395K | 4,974K |
| GDP SAAR Q/Q (First Preliminary) | Q4 | 4.0% | 4.2% | 33.4% |
| GDP SA Y/Y (First Preliminary) | Q4 | -2.5% | -2.5% | -2.8% |
| Initial Claims SA | 01/23 | 847.0K | 880.0K | 914.0K |
| Wholesale Inventories SA M/M (Preliminary) | DEC | 0.10% | 0.30% | 0.0% |
| Leading Indicators SA M/M | DEC | 0.30% | 0.30% | 0.70% |
| New Home Sales SAAR | DEC | 842.0K | 856.0K | 829.0K |




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

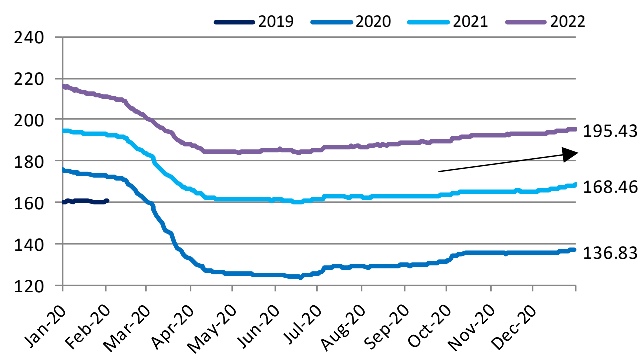
## FUNDAMENTALS

Q4 earnings season continues to be solid, albeit at an expectedly reduced surprise rate. 84% of S&P 500 companies have beaten earnings estimates, but at a running surprise rate of 11.7%. This is still well above the 15-year average of 4.5%, but down from the historically elevated 21% average in Q2 and Q3. Fundamentals remain very bifurcated at the sector and company level with roughly 1/2 of companies reporting earnings growth y/y. Median earnings growth among these companies is 22% y/y, whereas the median earnings contraction for the other 1/2 of companies is -21%. The strongest results have come from Financials and Technology. The average price reaction to results has been -1% with sector performance favoring the less cyclical areas. We view this as a normal "cooling off" in cyclical sector momentum that can be used as a buying opportunity for favored stocks.

For the S&P 500 index, full quarter estimates are being revised higher (by 3.3% so far), as are quarterly estimates throughout 2021.These positive 2021 revision trends on strong earnings growth estimates remain supportive for equities over the intermediate term. It will be important for earnings to drive market performance with valuation at lofty levels. As earnings recover, the P/E should begin to normalize. Our 2021 base case S&P 500 target of 4,025 uses $175 in EPS and a 23x P/E.

| S&P 500 Sector | % Q4 Est. EPS Growth | % EPS Surprise | % Companies w/ Beats | Est. Change Since 1/14/21 Q4'20 | Est. Change Since 1/14/21 2021 |
|---|---|---|---|---|---|
| **S&P 500** | **-7.4** | **11.7** | **84** | **3.3%** | **1.5%** |
| Financials | 14.4 | 29.6 | 88 | 20.3% | 5.6% |
| Information Technology | 10.5 | 20.8 | 95 | 7.0% | 1.8% |
| Materials | 9.4 | -3.9 | 33 | 0.0% | 0.1% |
| Health Care | 6.5 | 5.5 | 100 | 0.6% | 0.6% |
| Consumer Staples | 2.9 | 10.4 | 100 | 1.5% | 0.2% |
| Utilities | -4.5 | 5.3 | 100 | 1.3% | 0.1% |
| Real Estate | -9.7 | -1.1 | 50 | 0.4% | 0.2% |
| Communication Services | -12.3 | 2.2 | 67 | 1.1% | 0.7% |
| Consumer Discretionary | -28.5 | 32.3 | 89 | -0.1% | 0.5% |
| Industrials | -61.3 | -100.9 | 67 | -38.6% | -2.2% |
| Energy | -107.2 | 3.7 | 80 | 47.0% | 13.8% |

**S&P 500 Consensus Earnings Estimates over Past Year**



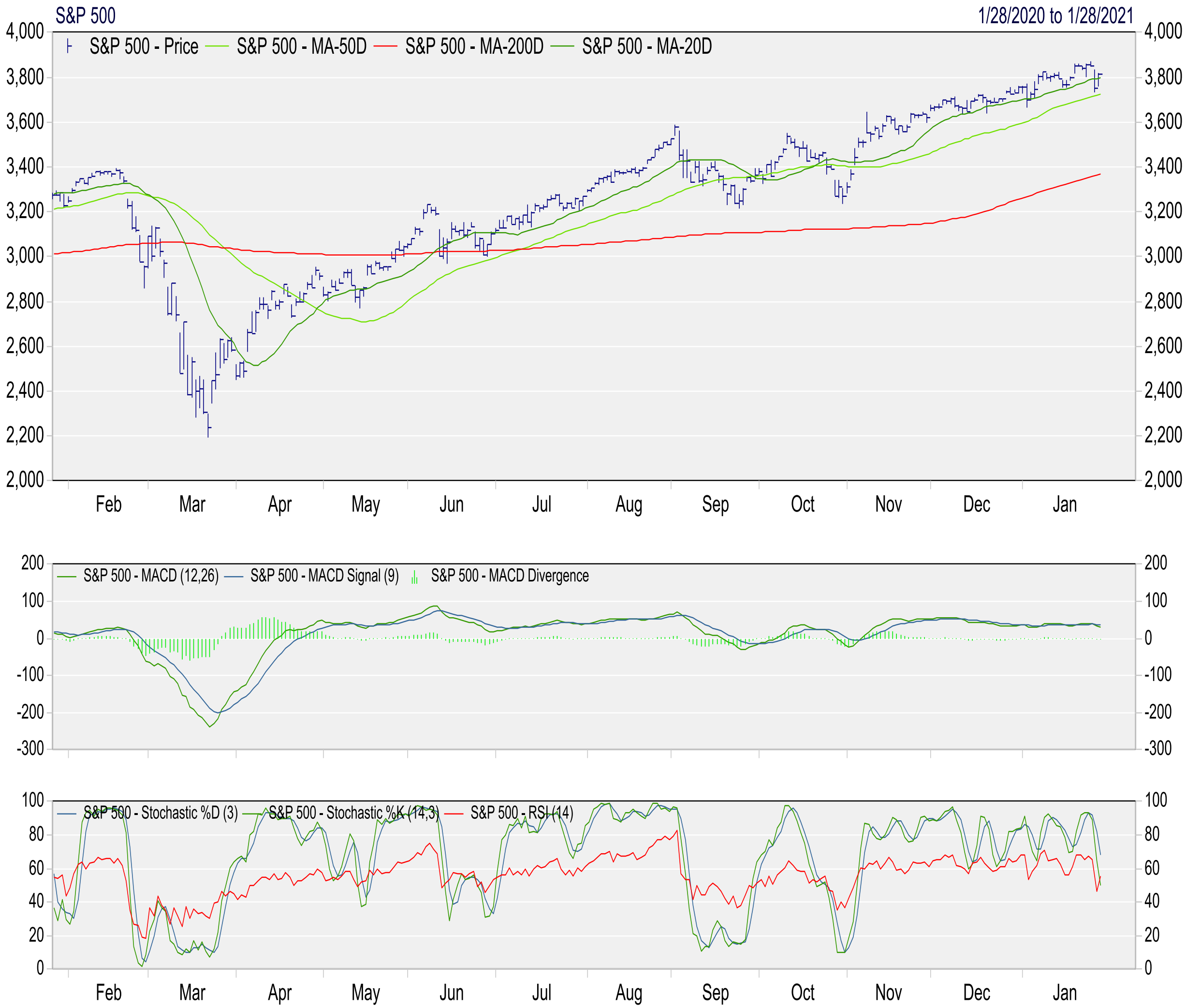

| EPS Growth Estimates | |
|---|---|
| 2020 | -14.9% |
| 2021 | 23.9% |
| 2022 | 15.9% |

Earnings set to bounce back strongly in 2021

**S&P 500 P/E**


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICAL: S&P 500



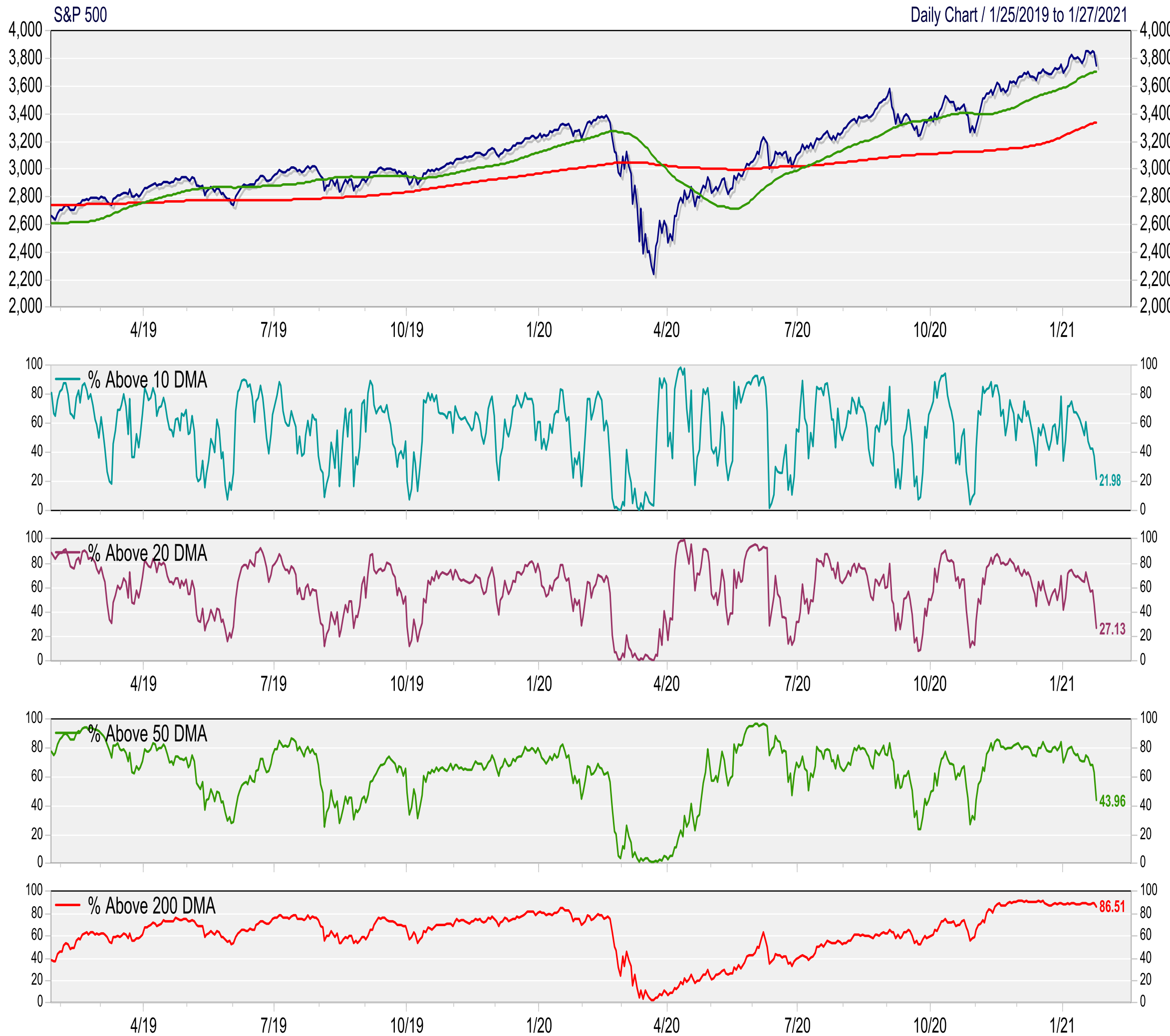

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 broke below its 20 day moving average yesterday on heavy volume, which has preceded the last two consolidation periods in June and September-October. Short term stochastics started moving lower from overbought levels. However, the overall index is rebounding from support at the 50 day moving average today. We also view today's internals as mixed given sharp underperformance from the small caps and only 51% advancing volume on the NYSE. At this stage, it is too early to tell whether or not this is the beginning of a consolidation phase or a brief hiccup within the upward trend.

Beneath the surface, there have been larger drawdowns- particularly in the more cyclical areas that have largely driven equity market performance since positive vaccine news in early November. We view this as a natural "cooling off" of momentum, and believe that many of these areas have drawn down enough for investors to use pullbacks in favored stocks near support levels as buying opportunities.

As January comes to a close, February is a seasonally softer period of the year. The past couple of weeks could be a glimpse of at least rolling pullbacks set to take place beneath the surface. We view the 50 DMA as the first level of technical support (3714), followed by the ~3600 level. This would be a ~7% pullback from recent highs, well within the framework of a normal pullback.

## PERCENTAGE OF STOCKS ABOVE MOVING AVERAGES




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

While the S&P 500 has only traded within ~3% of its highs, the percentage of stocks above their 10, 20, and 50 day moving averages has been receding for the past couple of weeks. This reflects the rolling pullbacks occurring beneath the surface- largely seen by some of the more cyclical areas such as Energy, Financials, Materials, and Industrials. Many of these areas appear oversold enough to at least bounce in the short term, and we would use their pullbacks as an opportunity to accumulate favored stocks near support levels.

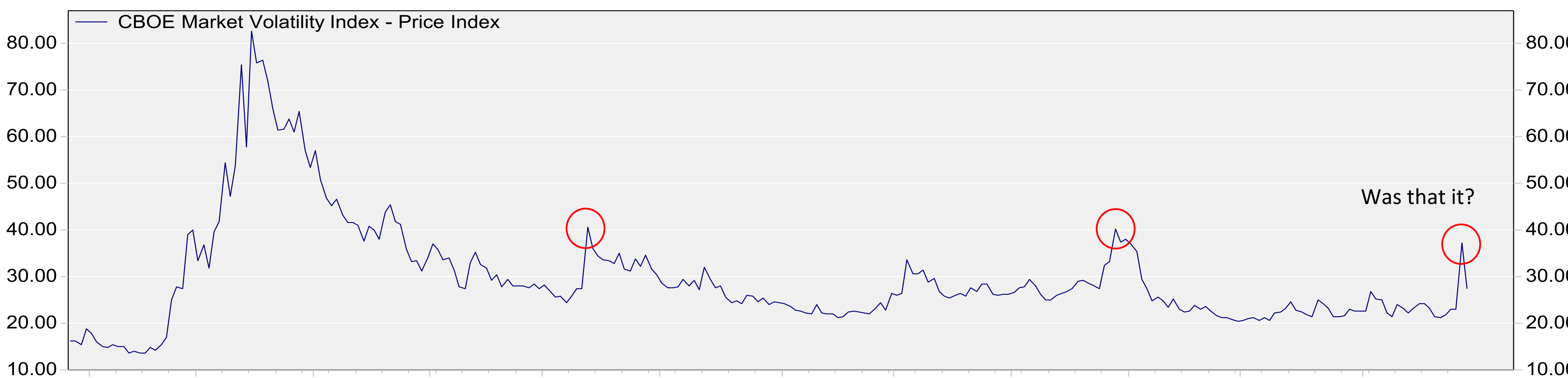
For the longer term, 87% of S&P 500 stocks remain above their 200 day moving average with broad participation across sectors. This is supportive of broad equity market trends over the next 6-12 months.

### Sector Trends and Moving Averages

| Sector | 10 DMA % Above | 20 DMA % Above | 50 DMA % Above | 200 DMA % Above |
|---|---|---|---|---|
| **Materials** | 0 | 0 | 21 | 89 |
| **Financials** | 6 | 14 | 45 | 92 |
| **Energy** | 8 | 17 | 67 | 100 |
| **Industrials** | 14 | 15 | 23 | 93 |
| **Health Care** | 16 | 24 | 52 | 81 |
| **Cons. Discretionary** | 21 | 30 | 38 | 90 |
| **Utilities** | 25 | 32 | 21 | 43 |
| **Technology** | 27 | 27 | 55 | 86 |
| **Comm. Services** | 50 | 58 | 65 | 88 |
| **Consumer Staples** | 50 | 47 | 47 | 84 |
| **Real Estate** | 53 | 70 | 63 | 90 |
| **S&P 500** | 22 | 27 | 44 | 87 |

## VOLATILITY INDEX

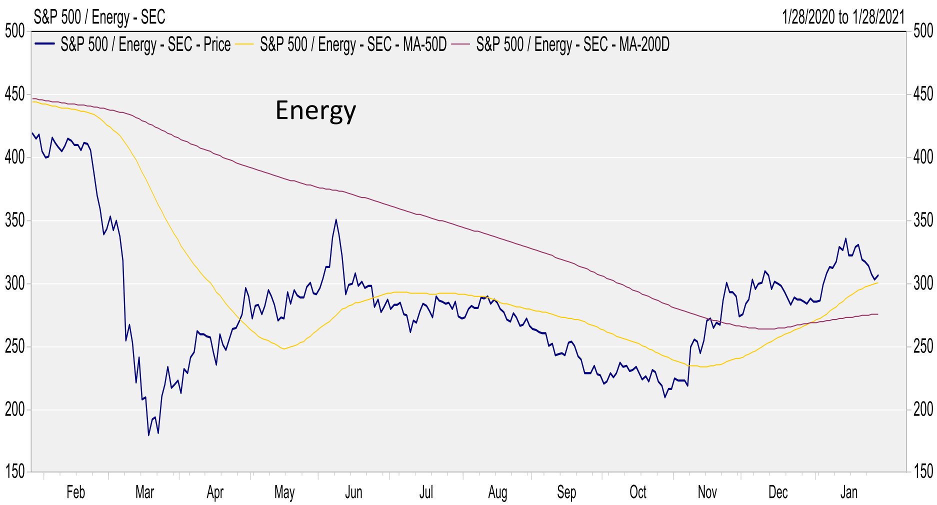
Yesterday's -2.6% S&P 500 pullback saw the VIX (Volatility index) spike to 37. This reading is in line with that seen near market lows of the last two consolidation periods in June and October. We are not yet convinced that the current market consolidation is over, but enough of a drawdown has been seen in some areas to buy partial positions at current levels.

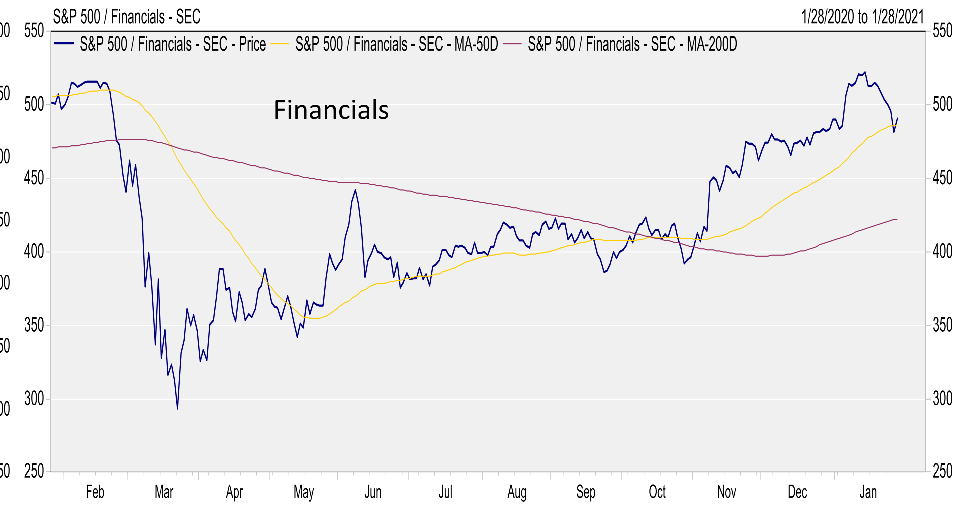



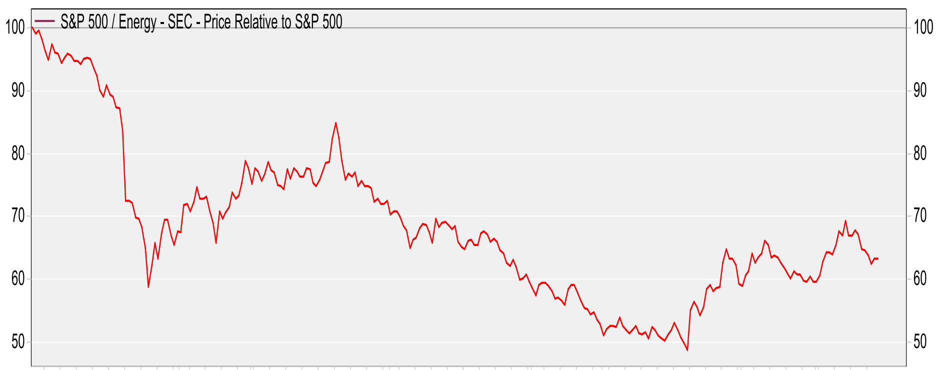

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

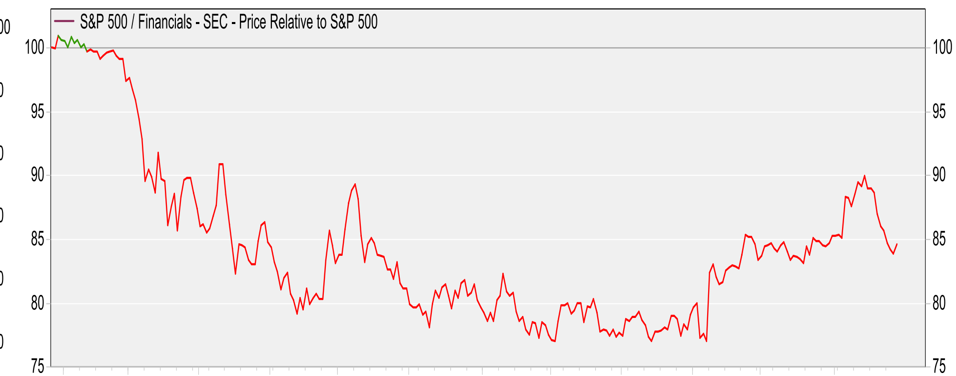
## ENERGY AND FINANCIALS

Two of the sectors with the most leverage to the economic recovery are Energy and the Financials. Both of these sectors have seen outsized gains since the positive vaccine news in early November. This strength has consolidated some in recent weeks during earnings season, and both sectors are currently near their 50 day moving averages. For those looking to add exposure to the "recovery" areas, we recommend accumulating favored stocks in these sectors.




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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