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Weekly Market Guide

After abating slightly over the past week, the surge higher in interest rates is continuing today with the US 10 year Treasury yield up to 1.55%. This is spurring an additional pullback in equities, pushing the S&P 500 below its 50 day moving average. The next level of nearby technical support on the S&P 500 is 3694, followed by the 3500-3600 area (horizontal support levels and near the upward-trending 200 DMA). We reiterate our view that rates are rising for the right reasons, as the economic outlook improves rather than tightening monetary conditions. An improving economy is good for equity markets. Credit spreads continue to trend lower (reflecting a healthy corporate backdrop), and the Fed has not wavered in its dovish stance.

While the pace of the move higher in rates is unsettling equities in the short term, pullbacks are normal. The S&P 500 is now 5% below its highs for the first time since early November. And the 200 DMA at ~3500 would be ~11% from highs. Importantly, the short term volatility has not changed our positive view on equities for the year ahead, resulting in better upside over the longer term. Accordingly, we would use the pullback as an opportunity to accumulate favored sectors and stocks.

Following a low base of -3.5% real GDP growth last year, along with unprecedented levels of both fiscal and monetary stimulus, economic growth in a reopening this year could be the strongest in decades. With an estimated ~$3.5T in fiscal stimulus committed already, and a likely $1.5-1.9T coming in the next month, fiscal stimulus alone is set to approach 25% of nominal GDP since the pandemic began. With the Fed also remaining accommodative, this stimulus could result in GDP growth well above current consensus estimates of 4.4% in our view. US real GDP growth has not reached 5%+ since 1984, and we believe 2021 could be closer to 6% if our expectations on the economic reopening and fiscal stimulus come to fruition.

If GDP growth approaches a level closer to 6%, we believe earnings could finish 2021 closer to $190 (~37% growth y/y) vs current consensus estimates of $173. In fact, the current 2021 estimate revision trend has been closely correlated to 2010 estimates (out of the credit crisis), as analyst estimates are typically too low out of recessions. If this trend holds through year end, S&P 500 earnings should finish near $185. Valuation is extended with the S&P 500 P/E at 26.5x but will begin to normalize as earnings recover. And while rising rates (given the sharp pace) can remain a headwind to equities in the short term as they continue to rise, we view the pullback as a buying opportunity for the longer term as multiple contraction should not outweigh earnings growth in the year ahead.

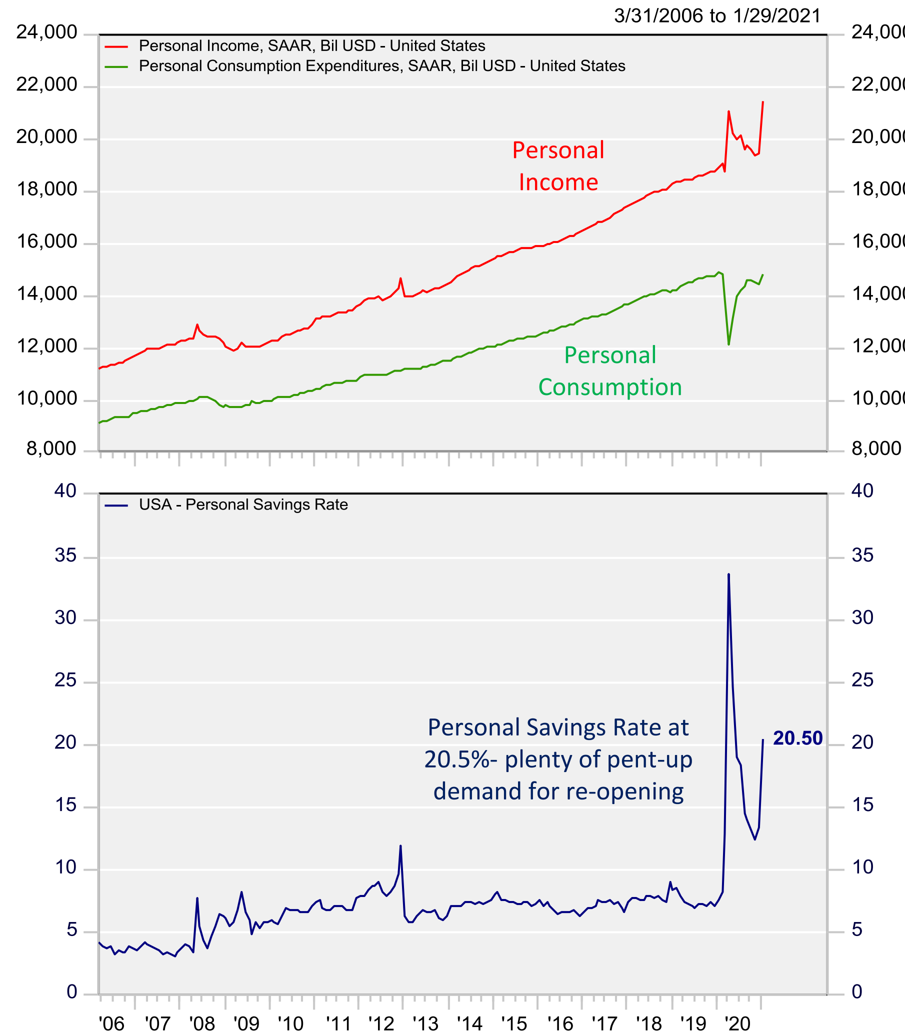
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	1.7%	27.2%
S&P 500 (Equal-Weight)	6.2%	30.0%
Dow Jones Industrial Avg	2.2%	20.7%
NASDAQ Composite	0.8%	49.7%
Russell 2000	11.8%	48.6%
MSCI All-Cap World	2.6%	26.9%
MSCI Developed Markets	2.7%	19.3%
MSCI Emerging Markets	6.7%	34.1%
NYSE Alerian MLP	20.0%	-4.1%
MSCI U.S. REIT	3.5%	-4.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	30.2%	2.9%
Financials	13.1%	11.6%
Communication Svcs.	4.6%	11.1%
Industrials	4.4%	8.6%
Materials	3.3%	2.7%
S&P 500	***1.7%***	-
Real Estate	0.2%	2.4%
Information Technology	-0.9%	27.0%
Health Care	-1.3%	13.0%
Consumer Discretionary	-2.1%	12.2%
Consumer Staples	-6.5%	6.0%
Utilities	-6.8%	2.5%

MACRO: US

January personal income surged 10.0% m/m to 20.5%, reflecting the $900B in fiscal stimulus that went into effect during the month. This follows 5.3% m/m growth in January retail sales, well above consensus estimates of 1.0%. Personal consumption also jumped 2.4% m/m in January, the highest reading since June.

February ISM Manufacturing continued its advance to 60.8, while ISM Services were less than expected at 55.3. However with an additional fiscal stimulus bill likely to be signed this month in the $1.5-1.9T range, the vaccine rollout gaining momentum, and plenty of pent up demand for a reopening, we maintain our positive view on the economic recovery ahead (with upside to consensus estimates).

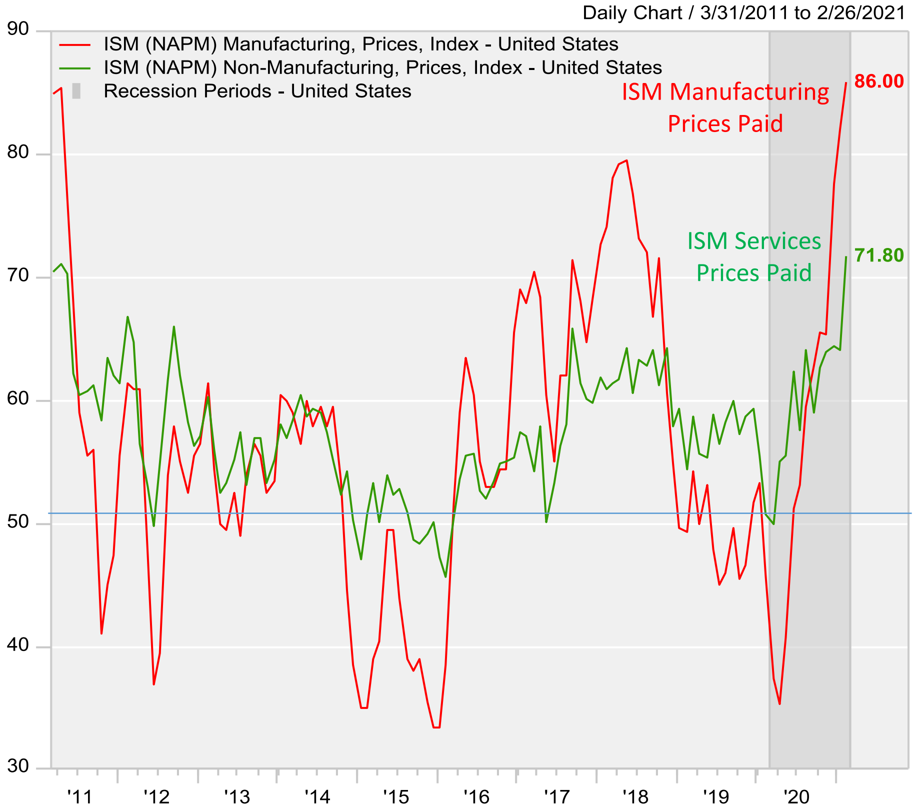


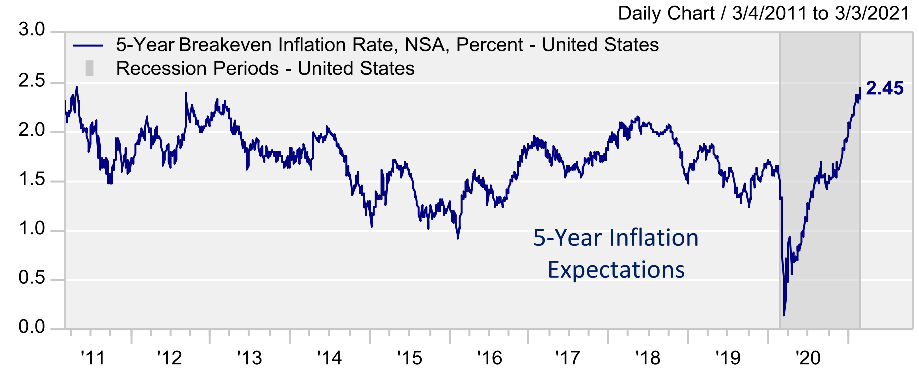
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

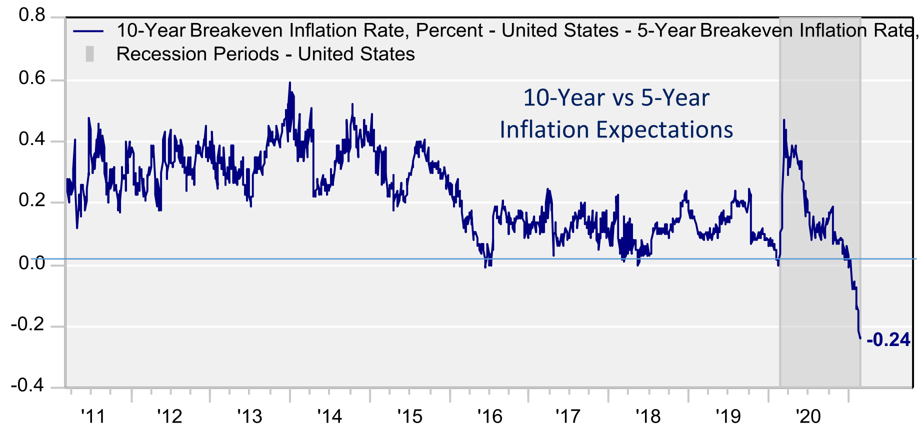
This Week's US Economic Data	Period	Actual	Consensus	Prior
Personal Consumption Expenditure SA M/M	JAN	2.4%	2.4%	-0.40%
Personal Income SA M/M	JAN	10.0%	9.9%	0.60%
Wholesale Inventories SA M/M (Preliminary)	JAN	1.3%	0.20%	0.50%
Markit PMI Manufacturing SA (Final)	FEB	58.6	58.5	58.5
Construction Spending SA M/M	JAN	1.7%	0.65%	1.1%
ISM Manufacturing SA	FEB	60.8	58.8	58.7
ADP Employment Survey SA	FEB	117.0K	200.0K	194.6K
PMI Composite SA (Final)	FEB	59.5	58.8	58.8
Markit PMI Services SA (Final)	FEB	59.8	58.1	58.9
ISM Non Manufacturing SA	FEB	55.3	58.7	58.7
Continuing Jobless Claims SA	02/20	4,295K	4,300K	4,419K
Initial Claims SA	02/27	745.0K	750.0K	736.0K
Unit Labor Costs SAAR Q/Q (Final)	Q4	6.0%	6.7%	6.8%
Productivity SAAR Q/Q (Final)	Q4	-4.2%	-4.7%	-4.8%
Durable Orders ex-Transportation SA M/M (Final)	JAN	1.3%	0.70%	1.4%
Durable Orders SA M/M (Final)	JAN	3.4%	1.0%	3.4%
Factory Orders SA M/M	JAN	2.6%	1.9%	1.6%

INFLATION EXPECTATIONS

Within the February ISM Manufacturing reading, Prices Paid jumped to 86.0 from 82.1- the highest level since 2008 and just above April 2011's 85.5. The US economy is consumer-oriented and ISM Services Prices have not surged to the same extent, but they are also at 10 year highs. Supply shortages and rapidly improving demand, along with a low base from year ago levels, are likely to result in upward pressure on inflation in the coming months. In fact, the 5-year breakeven inflation rate has continued its advance, now up to 2.45%. This has exceeded the advance of the 10-year breakeven inflation rate, resulting in an inverted inflation breakeven curve, as investors build their expectations for higher inflation in the short term vs long term. 5-year inflation break-evens have not been very accurate historically, but the perception of higher inflation (as this number continues to rise) can be a headwind to equities in the short term.



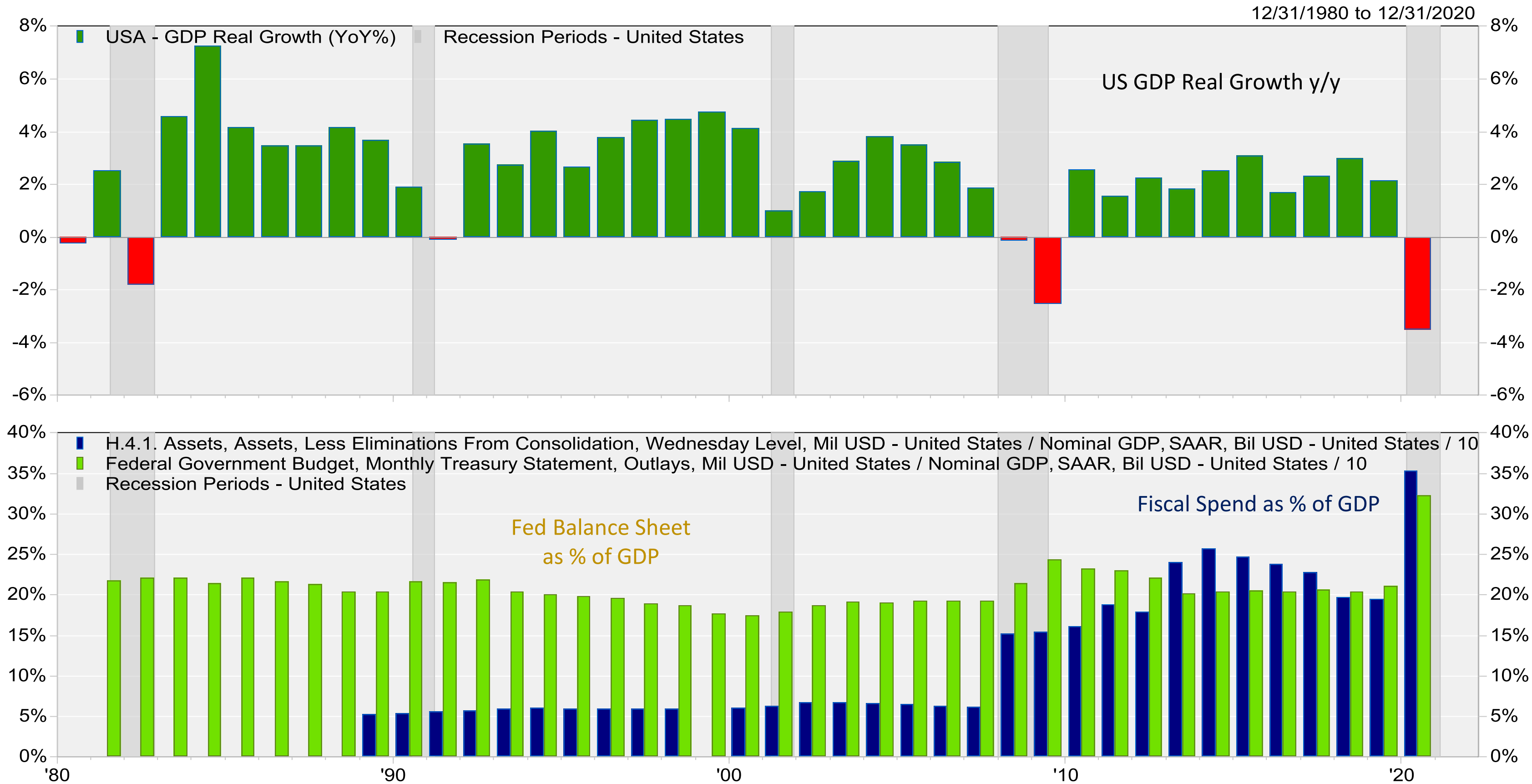




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GDP GROWTH THIS YEAR COULD BE HIGHEST IN MULTIPLE DECADES

Following a low base of -3.5% real GDP growth last year, along with unprecedented levels of both fiscal and monetary stimulus, economic growth in a reopening this year could be the strongest in decades. With an estimated ~$3.5T in fiscal stimulus committed already, and a likely $1.5-1.9T coming in the next month, fiscal stimulus alone is set to approach 25% of nominal GDP since the pandemic began. With the Fed also remaining accommodative, this stimulus could result in GDP growth well above current consensus estimates of 4.4% in our view. US real GDP growth has not reached 5%+ since 1984, and we believe this year could be closer to 6% if our expectations on the economic reopening and fiscal stimulus come to fruition.

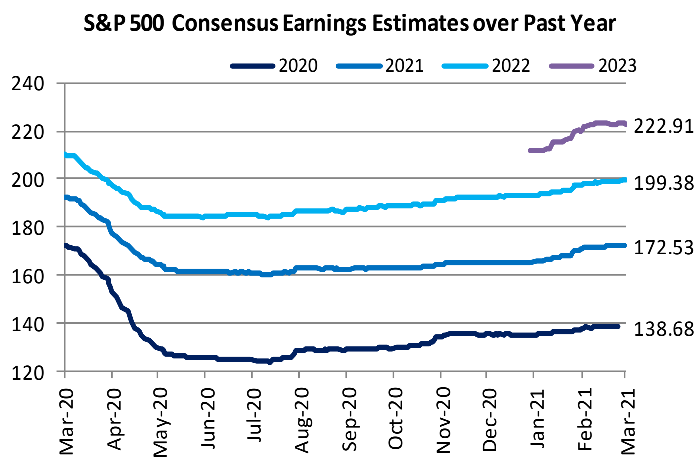


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

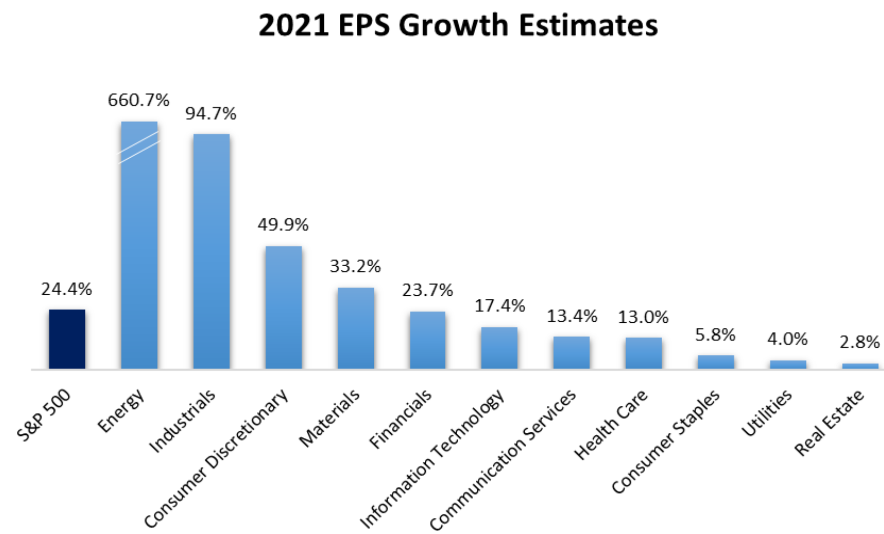
Q4 earnings season has concluded with the S&P 500 finishing at 1.8% earnings growth y/y. This was 14.7% ahead of expectations, marking the third consecutive quarter with the highest level of earnings surprises in at least 20 years. Earnings growth is set to rebound substantially in 2021 as the economy reopens, boosted by enormous monetary and fiscal stimulus. Current consensus estimates reflect 24.4% earnings growth, but these estimates are trending higher as the economic outlook improves. Our base case earnings estimate is $175; but if GDP growth approaches a level closer to 6%, we believe earnings could finish closer to $190. In fact, the current 2021 estimate revision trend has been closely correlated to 2010 estimates (out of the credit crisis). If this trend holds through year end, S&P 500 earnings should finish near $185.

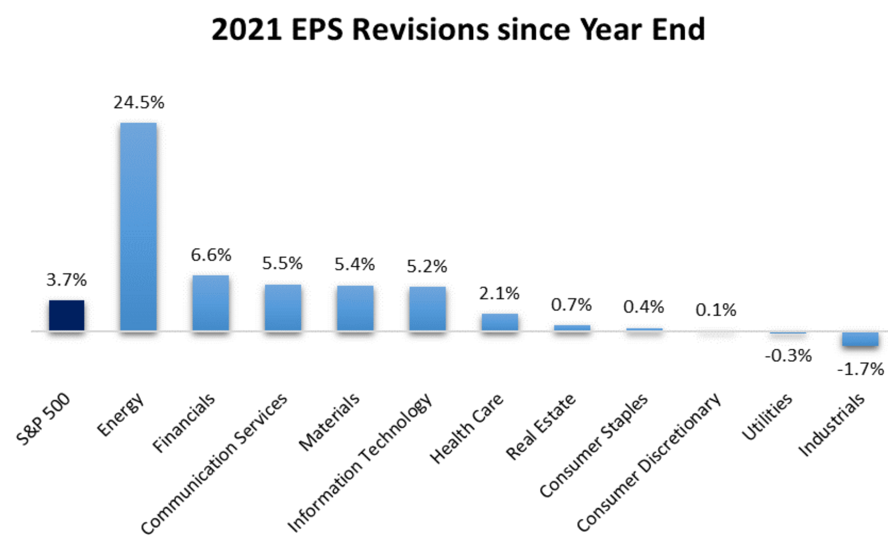
The best earnings growth is expected from the hardest-hit areas in the pandemic, i.e. Energy, Industrials, Consumer Discretionary, and Materials. But estimate revisions are also important to monitor with the best trends coming from Energy, Financials, Comm. Services, Materials and Technology. These have coincidentally (ex-Technology) seen some of the best performance year-to-date.



EPS Growth Estimates	
2020	-13.6%
2021	24.4%
2022	15.6%
2023	11.8%

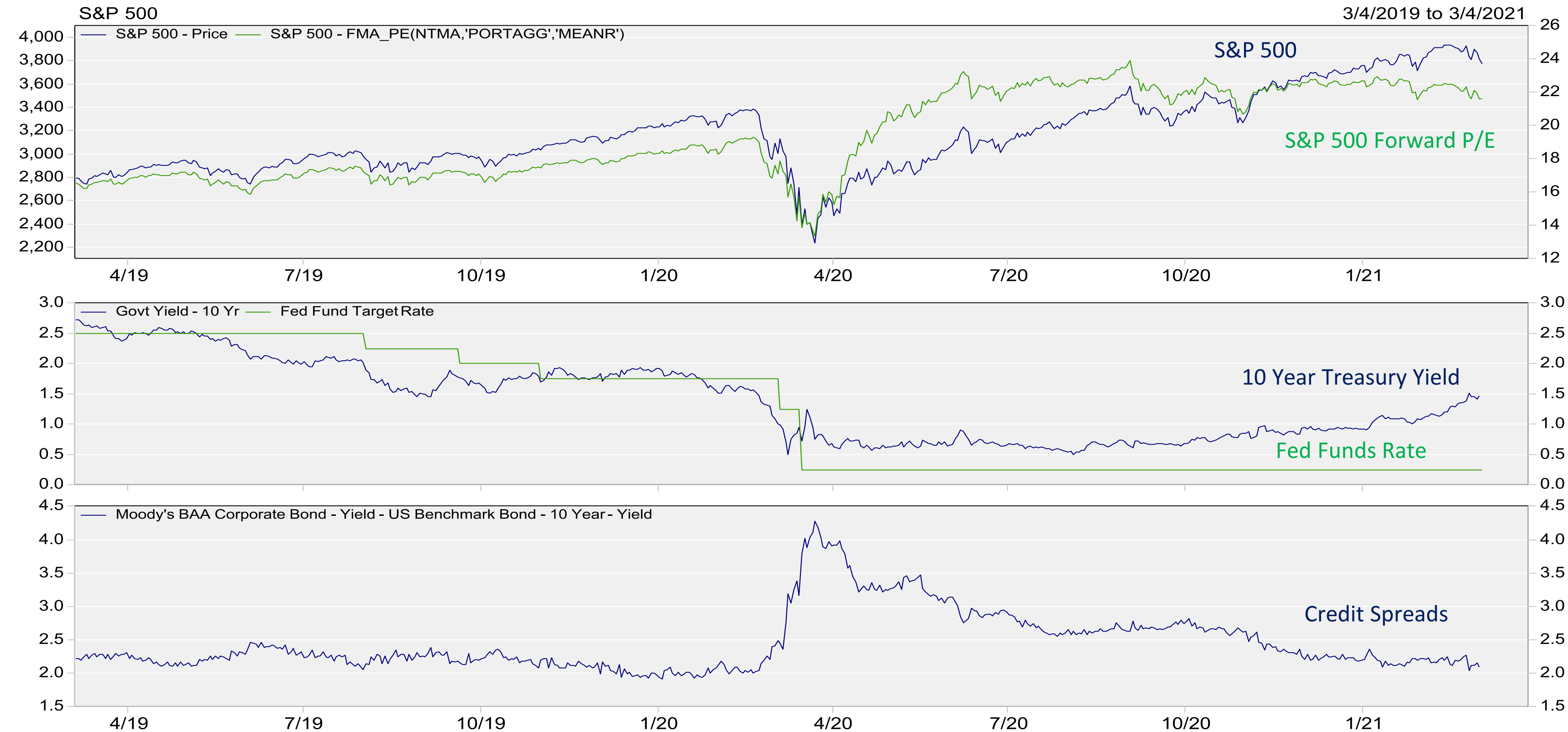
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy





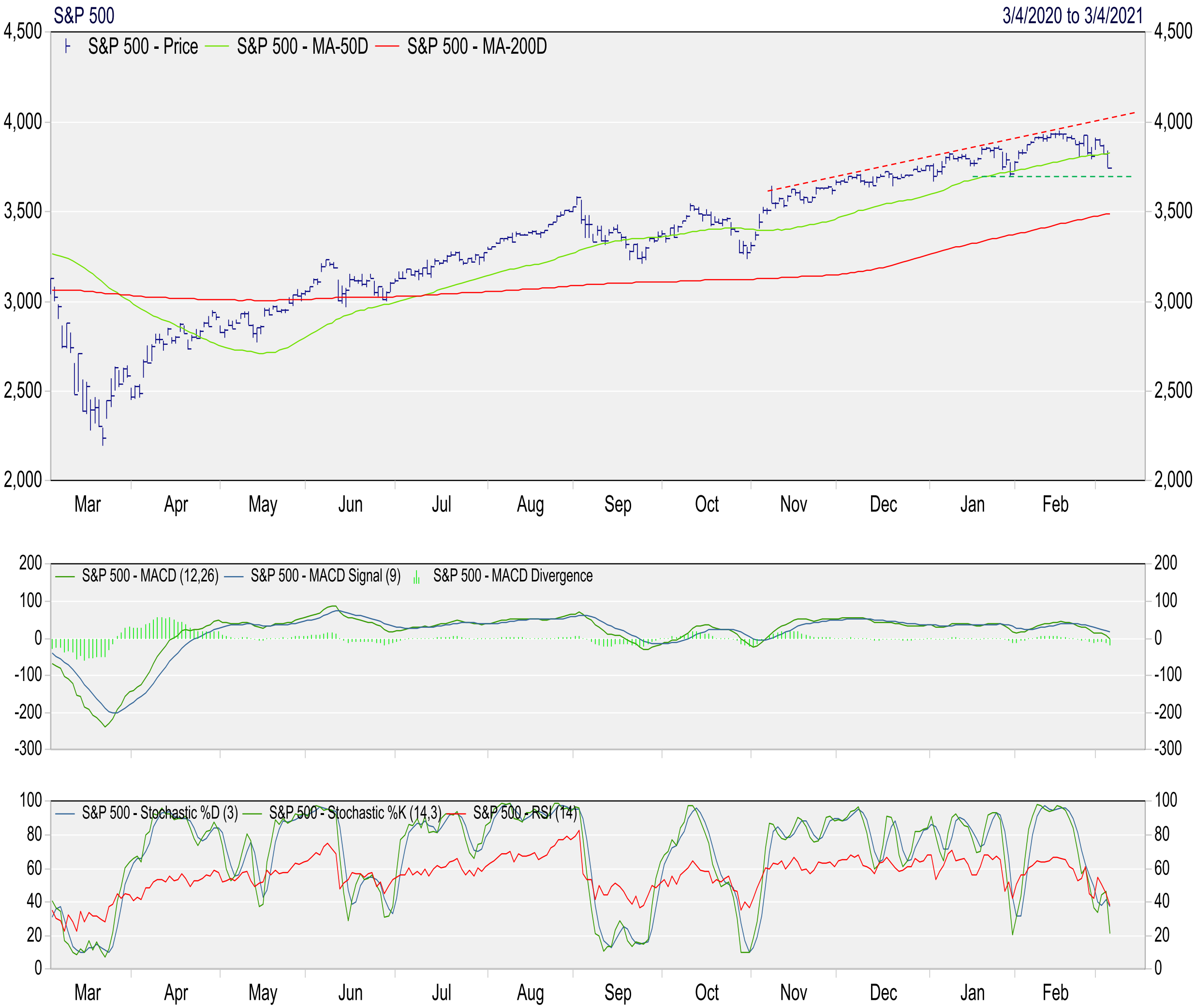
VALUATION AND INTEREST RATES

Valuation is extended with the S&P 500 P/E at 26.5x on a trailing basis and 21.6x on a forward basis (shown below), but will begin to normalize as earnings recover. As such, earnings will need to take over as the driver of equity market returns in our view. In addition, the US 10 year yield has now risen back to pre-pandemic levels. But while this still remains low at 1.55%, the pace of the surge higher is unsettling equity markets as valuations contract. However, we believe the rise in rates is occurring for the right reasons as economic growth expectations improve and inflation normalizes, rather than tighter monetary conditions. As you can see, credit spreads continue to trend lower- reflecting a healthy corporate backdrop- and the Fed has not wavered from its dovish stance. So while rising rates (given the sharp pace) can remain a headwind to equities in the short term as they continue to rise, we view it as a buying opportunity for the longer term as multiple contraction should not outweigh earnings growth in the year ahead.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The rise in interest rates briefly abated before continuing higher today, now up to its highest level in a year at 1.55%. This has spurred an additional pullback in equities, pushing the S&P 500 below its 50 day moving average today.

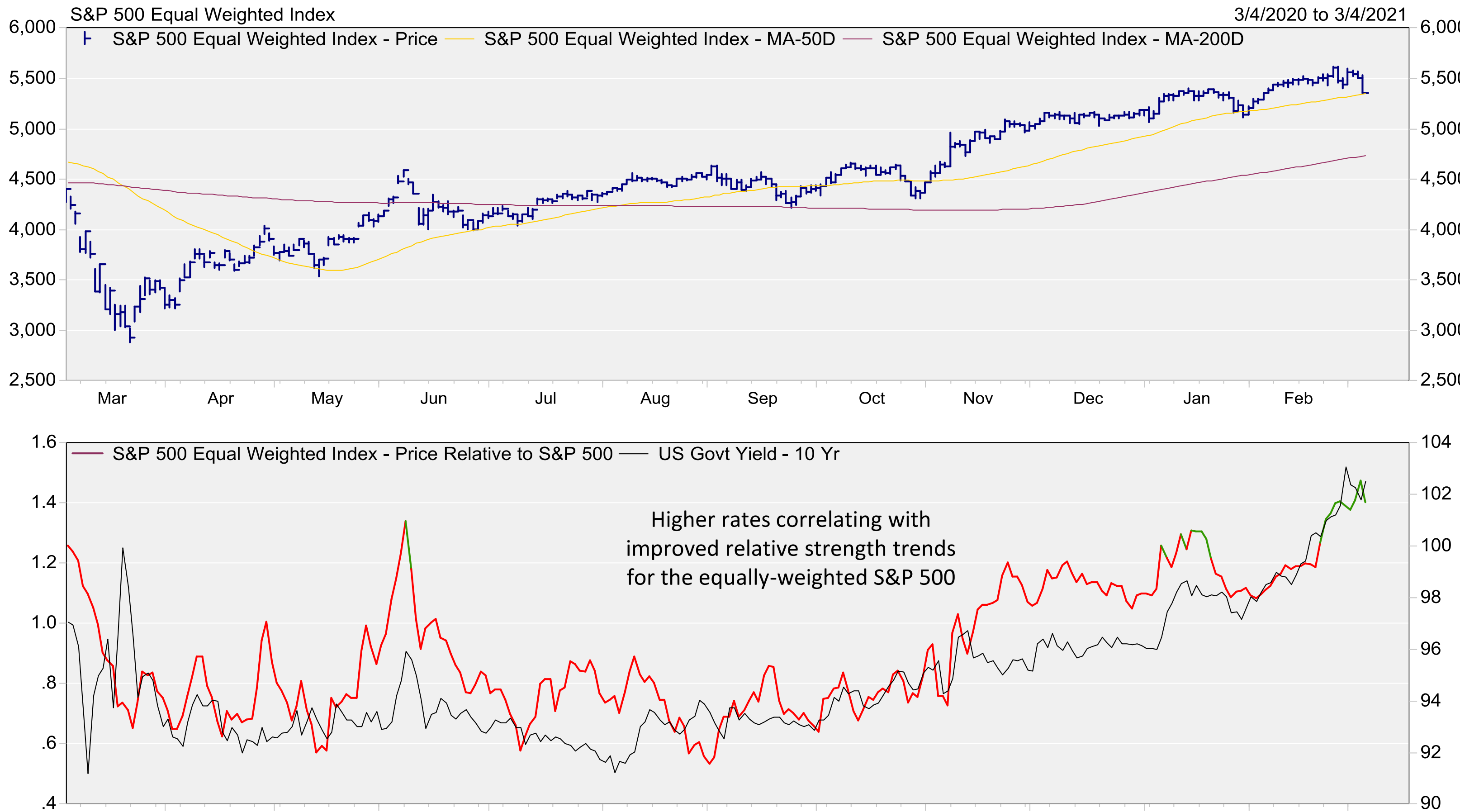
The next area of nearby technical support on the S&P 500 is 3694, followed by 3500-3600 (horizontal support and near the upward-trending 200 DMA). We reiterate our view that rates are rising for the right reasons, as the economic outlook improves rather than tighter monetary conditions. An improving economy is good for equity markets.

While the pace of rates move higher is unsettling equities in the short term, pullbacks are normal. The S&P 500 is now 5% below its highs for the first time since early November. And the 200 DMA at ~3500 would be ~11% from highs.

Importantly, the short term volatility has not changed our positive view on equities for the year ahead, resulting in better upside over the longer term. Accordingly, we would use the pullback as an opportunity to accumulate favored sectors and stocks.

EQUALLY-WEIGHTED S&P 500

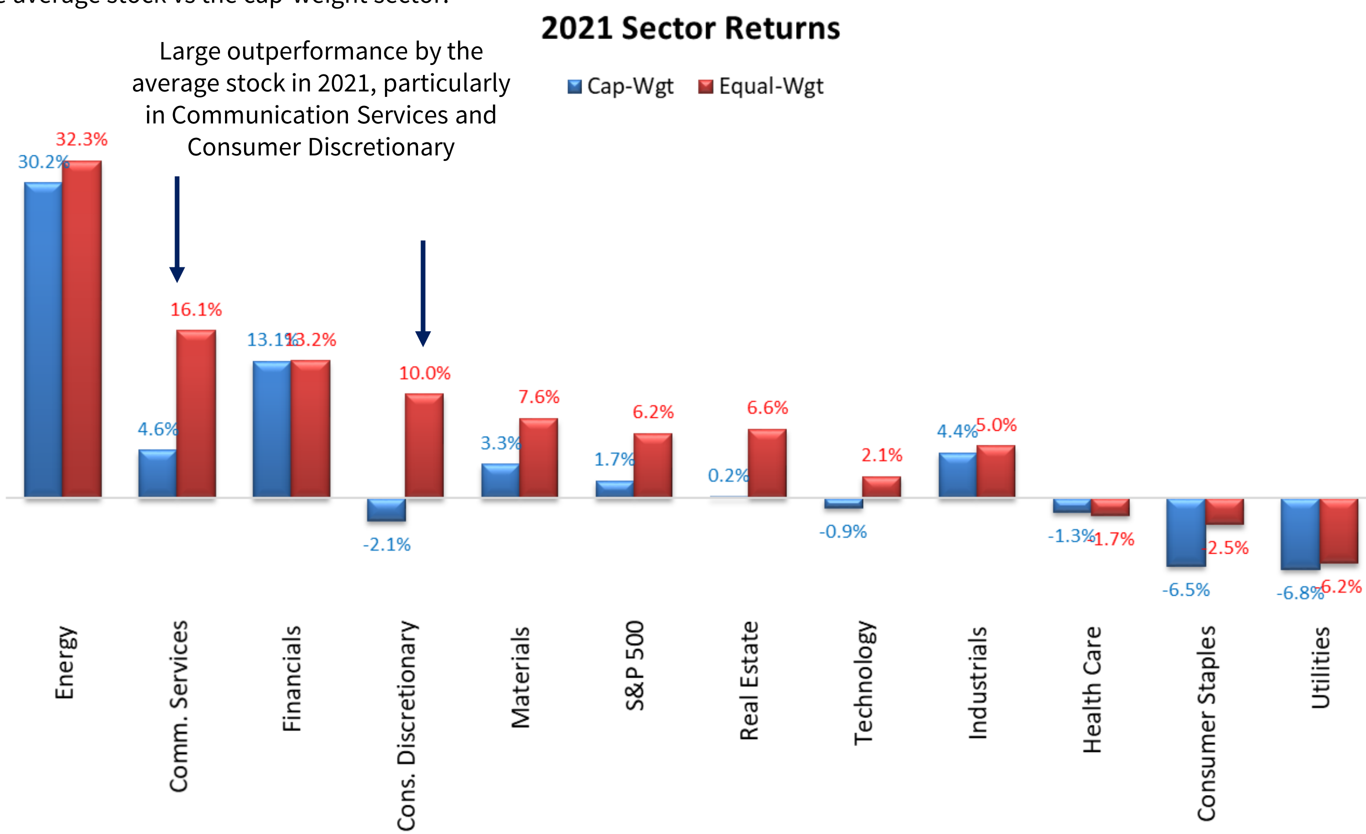
As interest rates have risen, the performance of the average S&P 500 stock has continued to improve- supporting our view that rates are rising on better growth prospects. As you can see in the chart below, there has been a 79% correlation between the relative performance of the equally-weighted S&P 500 index and the US 10 year yield over the past year. The improved market breadth leaves the intermediate term technical backdrop in a good position to weather the current volatility- supporting our view of using the pullback as a buying opportunity.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

PERFORMANCE OF "THE AVERAGE STOCK"

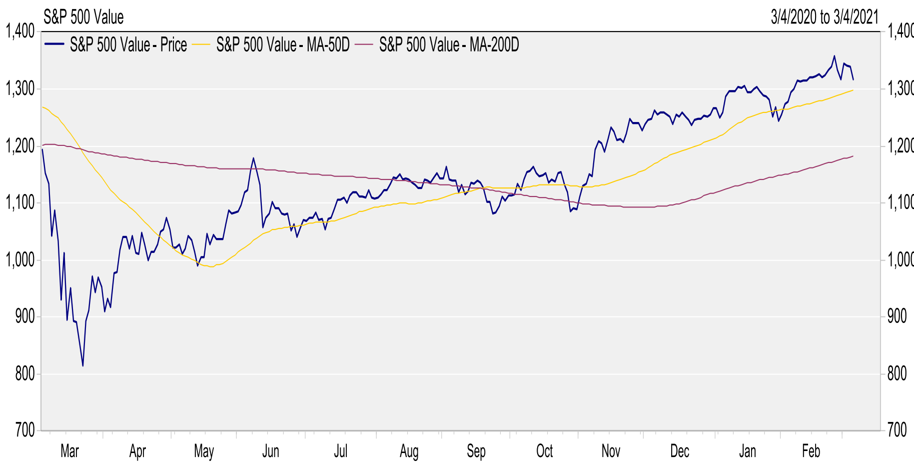
Not only have many of the hardest-hit areas from the pandemic been exhibiting relative performance in recent months (i.e. Energy and Financials), but the "average stock" has been improving across sectors to begin the year. For example, the largest 5 S&P 500 stocks- AAPL, MSFT, AMZN, FB, and GOOGL- collectively accounted for roughly half of the S&P 500's 18.4% return in 2020. While to begin 2021, those 5 are down -1% on average vs the average S&P 500 stock up 6.2%. This marked improvement in participation beneath the surface supports intermediate term technical trends and also leaves plenty of opportunity for stock selection across sectors. Communication Services and Consumer Discretionary stand out as sectors ripe for active management with the widest relative performance for the average stock vs the cap-weight sector.

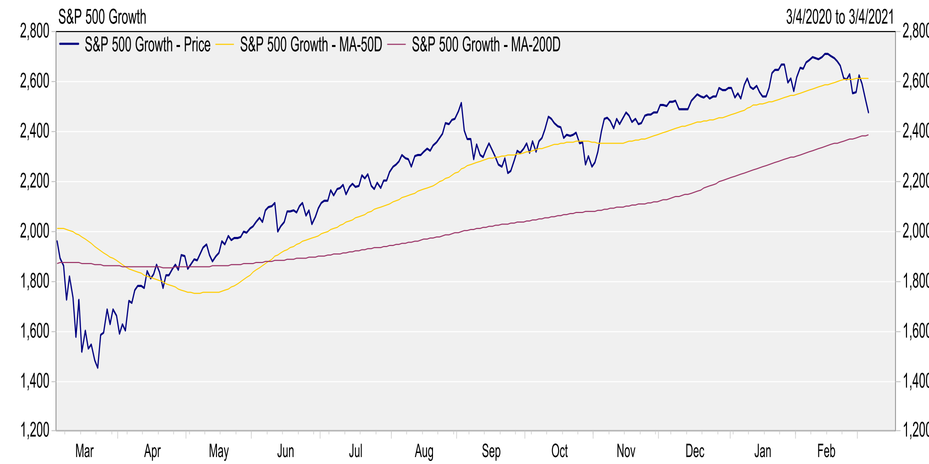


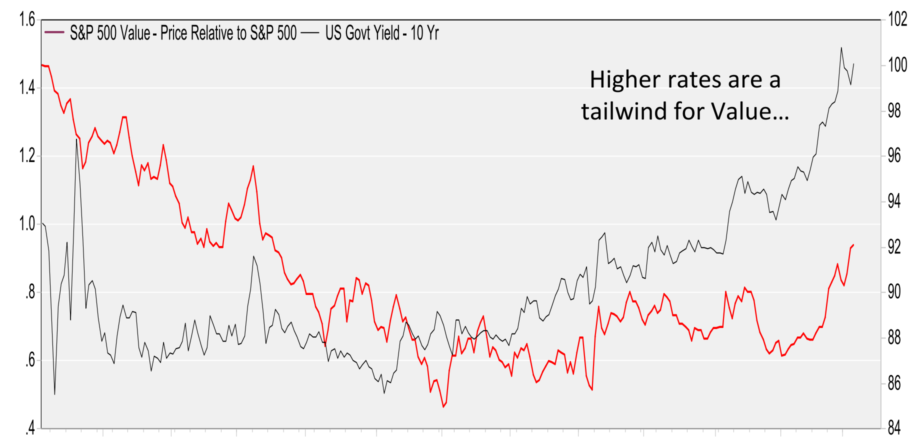
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

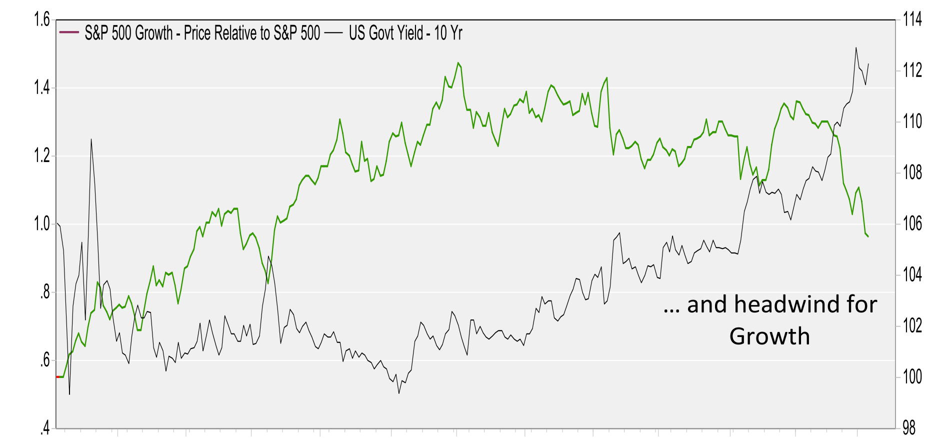
VALUE AND GROWTH

The rise in interest rates continues to be a tailwind for Value and the "recovery" areas. On the other hand, Growth has acted as the source of capital due to its relatively high valuations and longer duration growth prospects. Short term momentum remains in favor of Value, but the pullback in Growth is creating a good longer term buying opportunity for strong secular growers in our view.





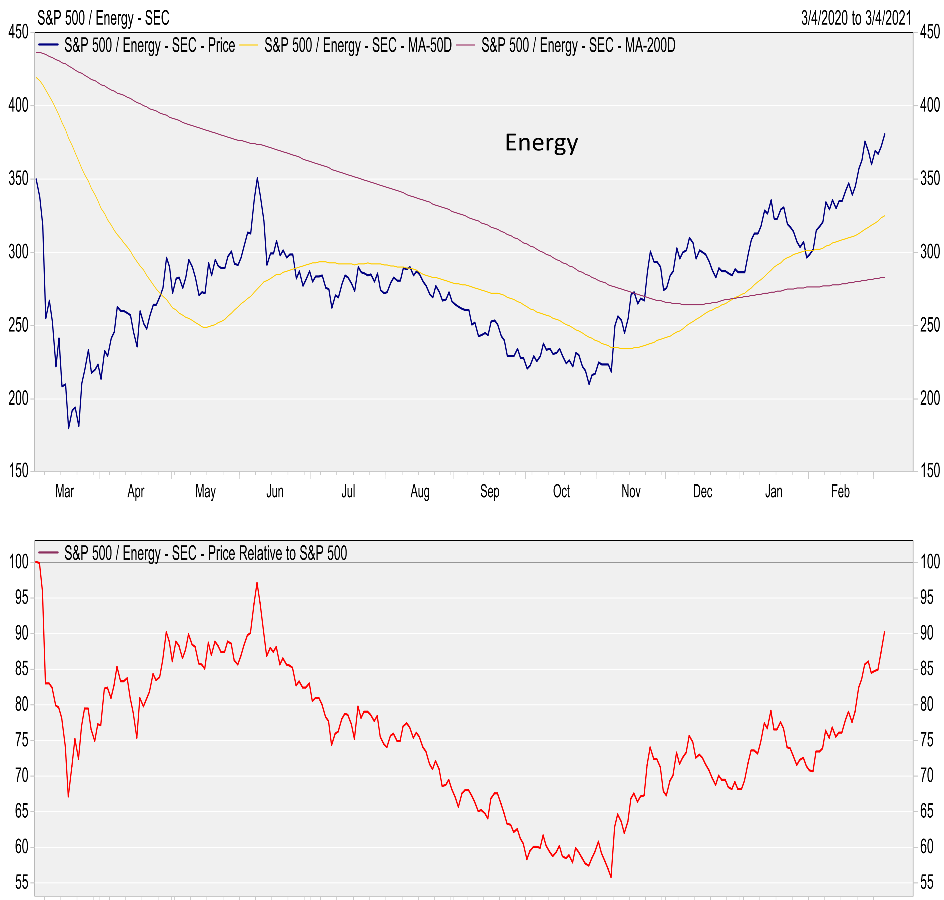


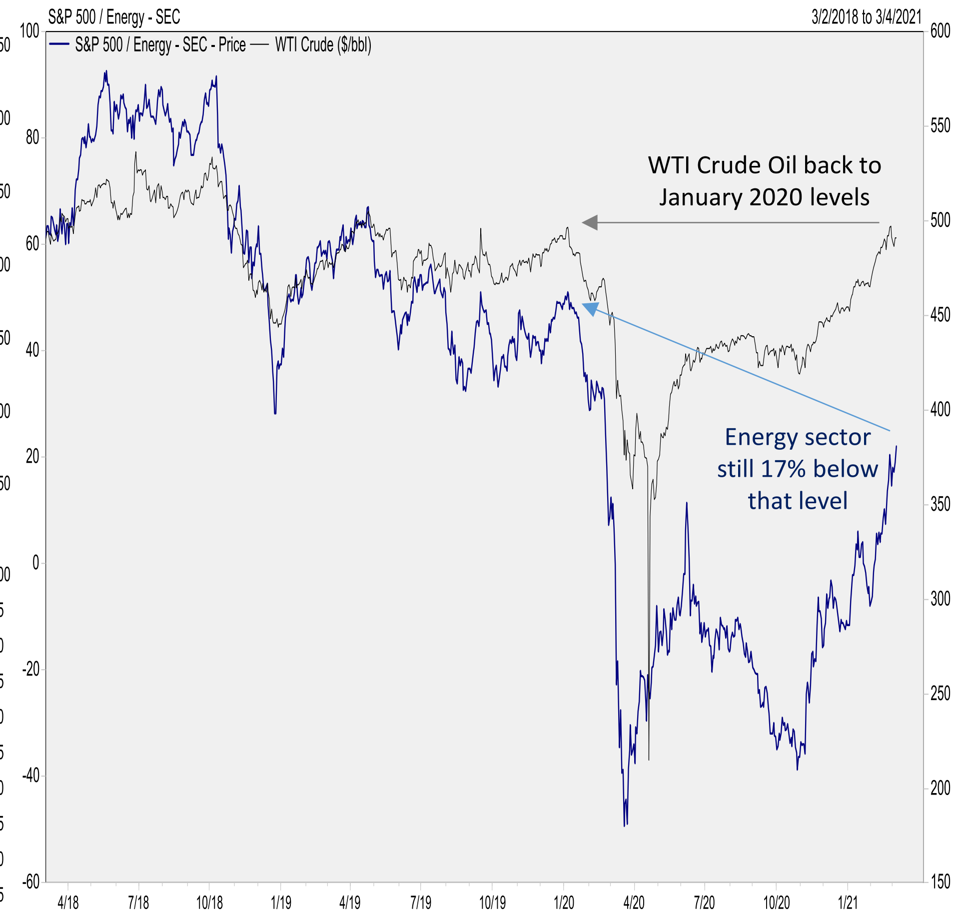


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ENERGY

Energy has surged higher since positive vaccine data in early November (now up 76% since the end of October and up 30% year-to-date) as oil prices have risen by a like degree from $36/barrel to $64 over the same timeframe. OPEC's decision to not increase production today could result in further upside in oil prices. While short-term extended, the sector appears to have more upside longer term. WTI crude oil is back to the same level it was at the beginning of 2020, while the Energy sector is still 17% below January 2020 levels.





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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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