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## Weekly Market Guide

Q1 2021 is in the books with the S&P 500 up 5.8% to begin the year, making it the fourth consecutive quarter of positive returns. The underlying performance remains very broad with 91% of S&P 500 stocks above their 200 day moving average, and the average stock nearly doubling the headline index's year-to-date return at 11%. This bodes well for intermediate term performance, and also highlights the market rotation that has dominated performance- with outsized gains coming from areas most levered to an economic reopening, while last year's technology-oriented leaders largely have consolidated their prior strength (acting as a source of capital for the "reflation trade"). We remain broadly positive on equities, and continue to recommend a pro-cyclical approach to portfolio positioning. But we would also not be surprised for the historically strong gains experienced over the past twelve months to become more normal (with normal pullbacks) over the next 12 months. Continue to use weakness in favored sectors and stocks as buying opportunities.

While Q1 market momentum was supported by unprecedented amounts of fiscal stimulus (along with continued Fed support) and a ramped-up vaccine rollout, the path of infrastructure spending and higher taxes will become a larger piece of the narrative in Q2. President Biden released phase one of his infrastructure/tax plan yesterday, which reflected ~$2T in infrastructure spending paid for by ~$2T in new corporate taxes. The proposal would take the corporate tax rate to 28% from 21%, and incorporate a global minimum tax rate of 21%. Phase two is likely to be released on April 12th or 19th with more "social" spending paid for by personal taxes. These proposals are a starting point for Congressional discussions (i.e. may ultimately be "watered down") and are likely to take months to iron out. Whether these two packages move forward individually or combined is also an open question, but something significant is likely to get done this year. For further details on the infrastructure bill, please see Raymond James DC Policy Analyst Ed Mills' report HERE. Overall for equities, we do not believe the potential for higher taxes outweighs the massive stimulus supporting the economic reopening and recovery ahead.

Q1 earnings season will begin in two weeks, and growth numbers should start to become robust (from last year's low base). S&P 500 earnings are expected to grow over 21% y/y this quarter- led by Consumer Discretionary (72% growth), Financials (71%), and Materials (48%). While deep cyclical areas have been the beneficiaries of sector rotation in recent months, Technology (last year's "pandemic winner" and underperforming in the sector rotation) is also expecting strong 23%+ earnings growth. It will be interesting to hear from these companies, and assess the market reaction for clues on the next leg of sector performance.

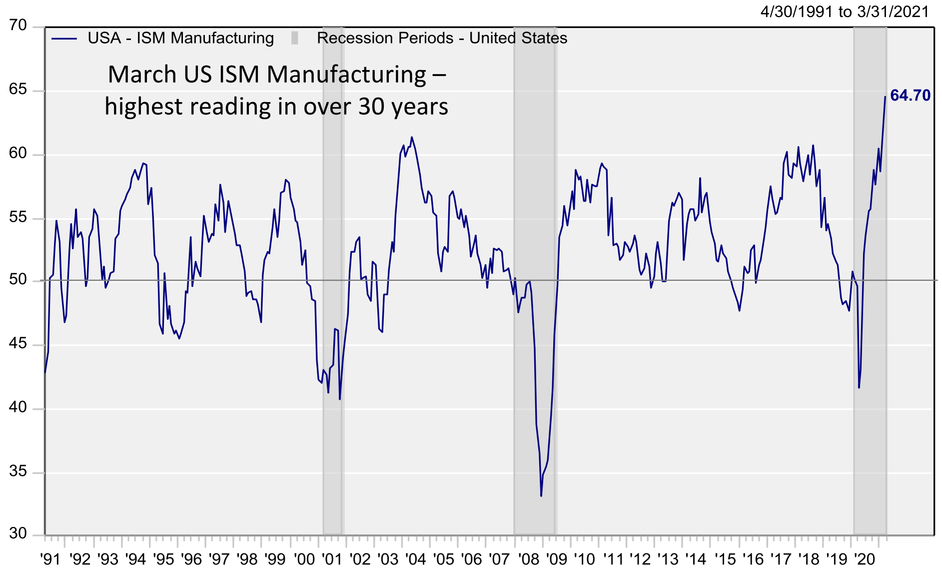
| Equity Market Indices | Price Return Year to Date | Price Return 12 Months |
|---|---|---|
| S&P 500 | 5.8% | 53.7% |
| S&P 500 (Equal-Weight) | 11.0% | 68.2% |
| Dow Jones Industrial Avg | 7.8% | 50.5% |
| NASDAQ Composite | 2.8% | 72.0% |
| Russell 2000 | 12.4% | 92.6% |
| MSCI All-Cap World | 4.2% | 52.2% |
| MSCI Developed Markets | 2.8% | 41.6% |
| MSCI Emerging Markets | 1.9% | 55.1% |
| NYSE Alerian MLP | 19.1% | 80.9% |
| MSCI U.S. REIT | 7.9% | 32.8% |

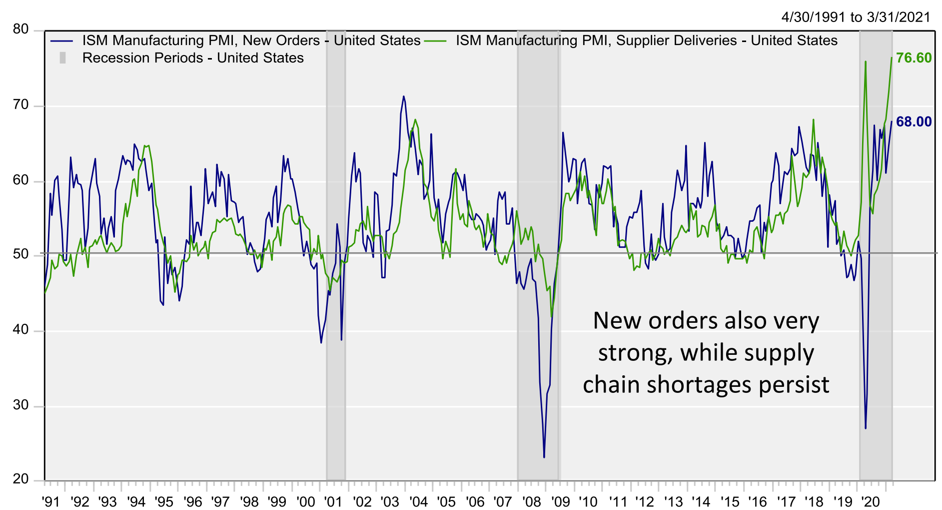
| S&P 500 Sectors | Price Return Year to Date | Sector Weighting |
|---|---|---|
| Energy | 29.3% | 2.8% |
| Financials | 15.4% | 11.3% |
| Industrials | 11.0% | 8.9% |
| Materials | 8.6% | 2.7% |
| Real Estate | 8.4% | 2.5% |
| Communication Svcs. | 7.8% | 10.9% |
| ***S&P 500*** | ***5.8%*** | - |
| Consumer Discretionary | 2.9% | 12.4% |
| Health Care | 2.7% | 13.0% |
| Utilities | 1.9% | 2.7% |
| Information Technology | 1.7% | 26.6% |
| Consumer Staples | 0.5% | 6.1% |

## MACRO: US

March US ISM Manufacturing surprised to the upside, rising to 64.7 (from 60.8) which is the strongest reading in over 30 years. Within the report, New Orders pushed higher to a very strong 68.0; while supplier deliveries moved to a very elevated 76.6- indicating supply chain constraints. So while the demand side of the equation continues to improve at strong levels, the supply side remains very tight which likely supports higher inflation in the coming months. The Fed is not worried about the prospects for higher inflation in the short term, suggesting that elevated readings in the coming months could occur from last year's very low base. With the economy still far from full employment, we are not convinced inflation is ready to move sustainably higher in the longer term outlook. We remain positive on the economic recovery, supported by the vaccine rollout as well as enormous amounts of fiscal and monetary stimulus.

| US Economic Data in the Past Week | Period | Actual | Consensus | Prior |
|---|---|---|---|---|
| Personal Consumption Expenditure SA M/M | FEB | -1.0% | -0.60% | 3.4% |
| Personal Income SA M/M | FEB | -7.1% | -7.2% | 10.1% |
| Wholesale Inventories SA M/M (Preliminary) | FEB | 0.50% | 1.2% | 1.4% |
| Michigan Sentiment NSA (Final) | MAR | 84.9 | 83.6 | 83.0 |
| Dallas Fed Index | MAR | 28.9 | 14.5 | 17.2 |
| FHFA Home Price Index | JAN | 316.7 | - | 313.6 |
| S&P/Case-Shiller comp.20 HPI M/M | JAN | 1.2% | 1.2% | 1.3% |
| S&P/Case-Shiller comp.20 HPI Y/Y | JAN | 11.1% | 11.3% | 10.2% |
| Consumer Confidence | MAR | 109.7 | 96.0 | 90.4 |
| ADP Employment Survey SA | MAR | 517.0K | 500.0K | 176.4K |
| Chicago PMI SA | MAR | 66.3 | 60.5 | 59.5 |
| Pending Home Sales Index SAAR | FEB | 110.3 | 120.0 | 123.4 |
| Pending Home Sales M/M | FEB | -10.6% | -3.1% | -2.4% |
| Continuing Jobless Claims SA | 03/20 | 3,794K | 3,775K | 3,840K |
| Initial Claims SA | 03/27 | 719.0K | 690.0K | 658.0K |
| Markit PMI Manufacturing SA (Final) | MAR | 59.1 | 59.0 | 59.0 |
| Construction Spending SA M/M | FEB | -0.80% | -0.80% | 1.2% |
| ISM Manufacturing SA | MAR | 64.7 | 61.5 | 60.8 |



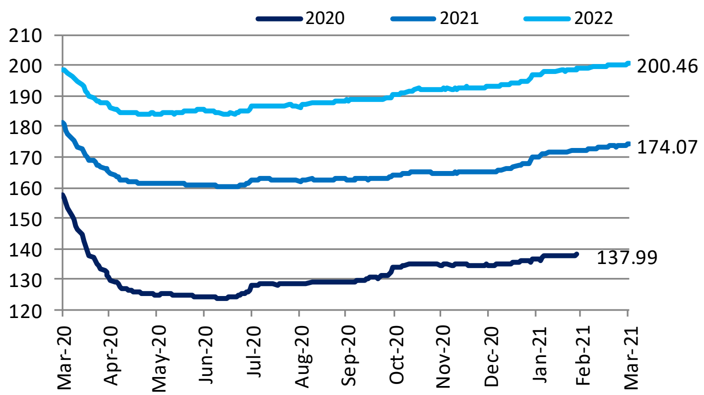

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## FUNDAMENTALS

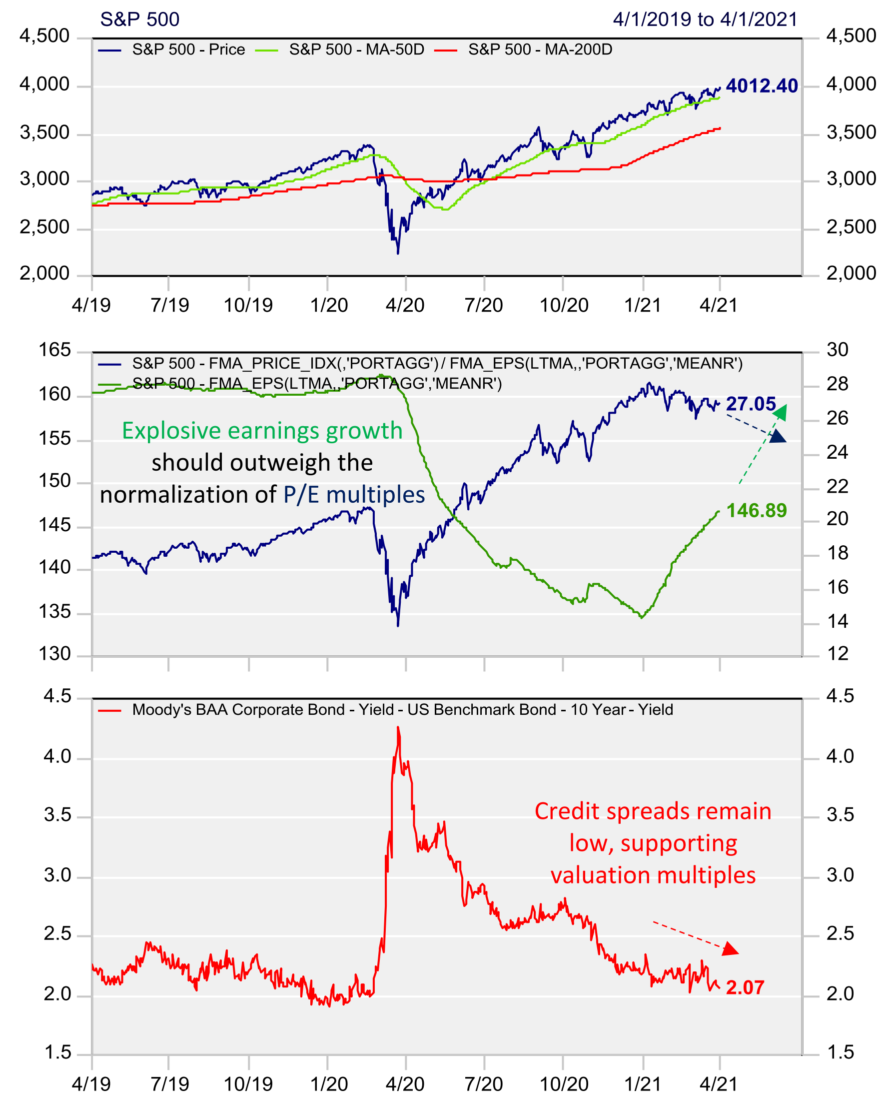
With March ending, Q1 earnings season will begin in two weeks. From last year's pandemic-induced economic collapse, earnings growth should now start to become robust from the low base. S&P 500 earnings are expected to grow over 21% y/y in Q1- led by some of the deep cyclical areas that were hardest hit by the pandemic. For example, consensus estimates for Consumer Discretionary, Financials, and Materials reflect 72%, 71%, and 48% earnings growth respectively. This rate of change inflection has been a key reason for the sector rotation occurring within the market for the past several months. However, Technology is also expected to see strong earnings growth (23%+) this quarter and has largely been consolidating its leadership from last year. It will be interesting to hear from these companies, and assess the market reaction for clues to the next leg of sector performance.

Our 2021 earnings estimate of $190 remains well above consensus estimates of $174. With valuation elevated, robust earnings growth will drive market performance this year (and outweigh the normalization of P/E multiples). Our base case S&P 500 target for 2021 is 4180 (22x P/E on $190 EPS), which will result in a pre-pandemic forward multiple by year-end if our estimates prove true.

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



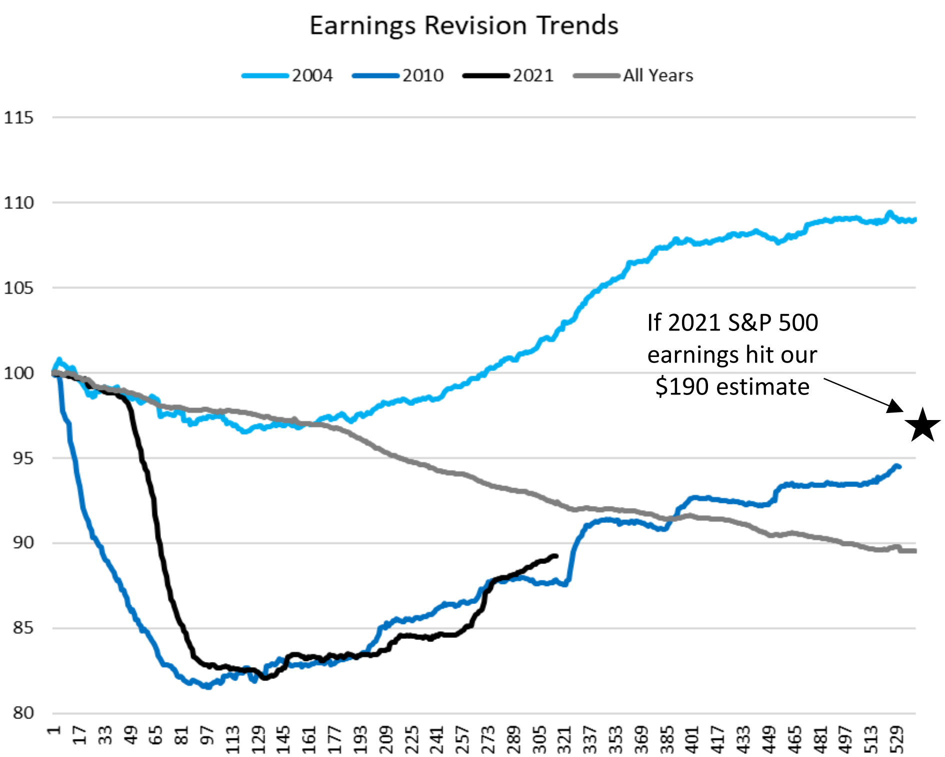

| EPS Growth Estimates | |
|---|---|
| 2020 | -14.0% |
| 2021 | 26.1% |
| 2022 | 15.2% |

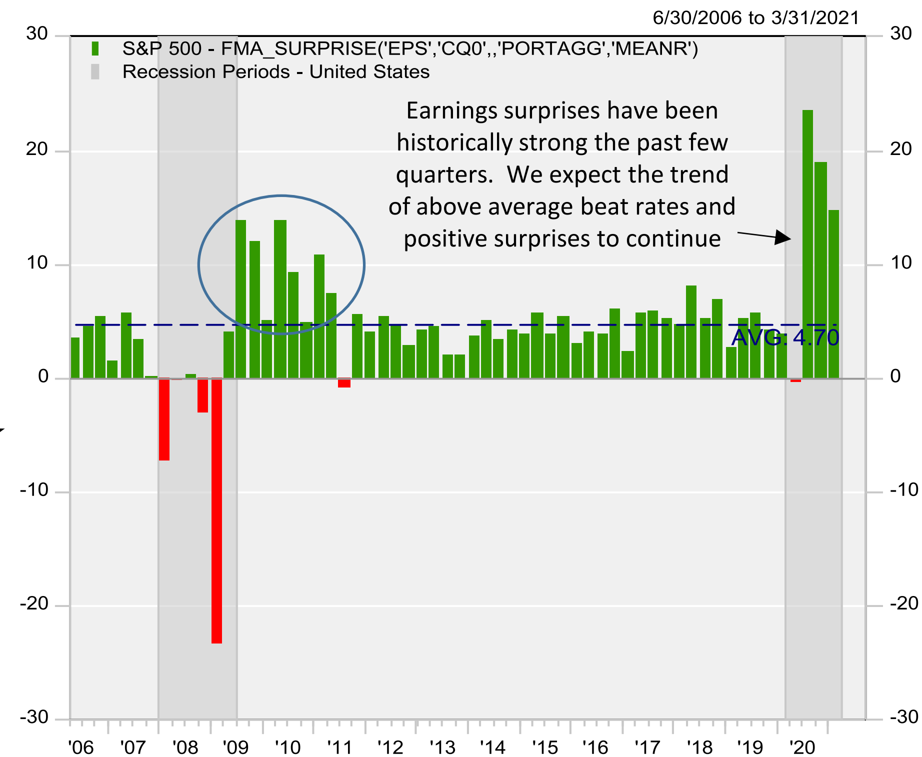



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## EARNINGS REVISION TRENDS

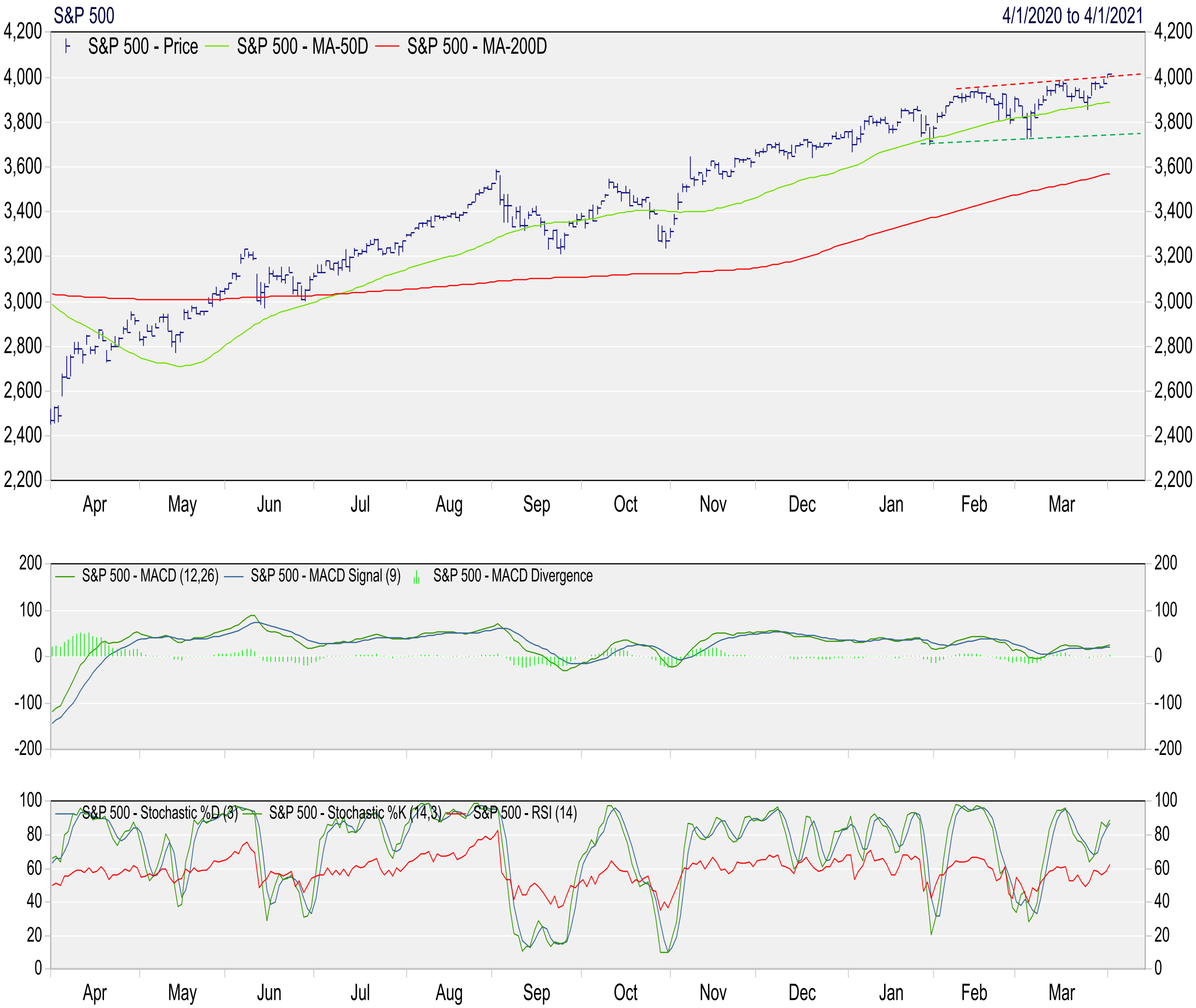
As stated previously, our 2021 earnings estimate of $190 remains ~9% above consensus estimates of $174. While our estimate is a result of our positive view on the economic and fundamental recovery ahead, historical revision trends also support this above consensus estimate. As you can see in the bottom left chart, analyst estimates are typically too low out of recessions and, thus, need to be revised higher over time. This is the exact opposite of normal periods where analyst estimates are typically too high and need to be revised lower into results. If our 2021 estimate of $190 proves correct, it will be very similar to the estimate revision trend of 2010 earnings (out of the credit crisis), as well as that of 2004 earnings (out of the dotcom bubble) albeit from a lower level. Earnings in both of those years finished ~7-8% higher from current levels. The chart to the bottom right shows the level of S&P 500 earnings surprises by quarter, and as you can see the past few quarters have seen extraordinarily high earnings surprises (23.5%, 19%, and 14.5% respectively). We expect continued upward surprises in Q1 earnings season, supported by continued improvement in the economic outlook (i.e. March ISM Manufacturing at 68.0- highest in over 30 years).




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICAL: S&P 500




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

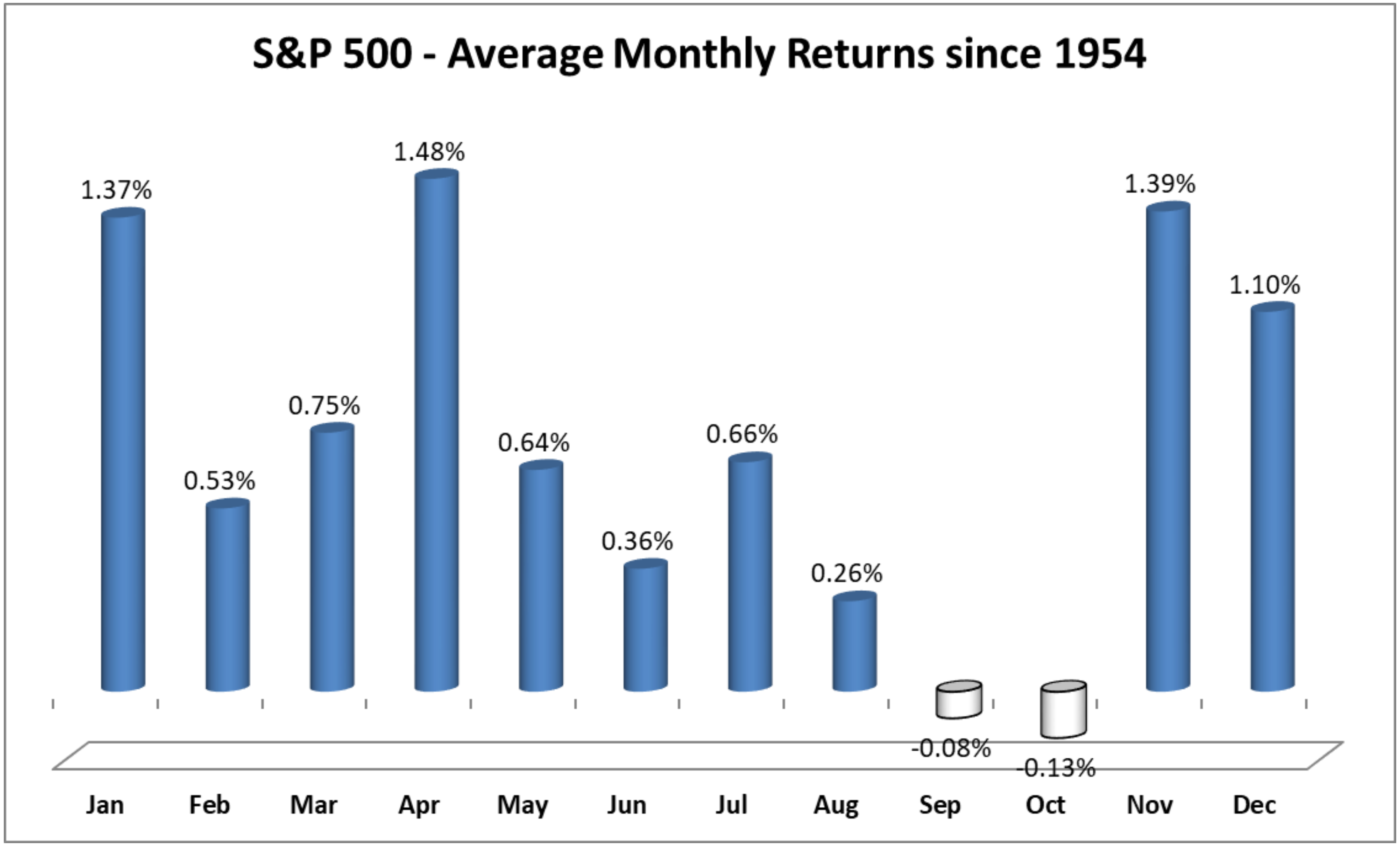
The S&P 500 pushed to a new all-time high yesterday and is breaking above trend-line technical resistance today.

If the index can hold above this level in the coming days, the next Fibonacci projection level is 4274. Underlying participation remains very broad with 91% of S&P 500 stocks above their 200-day moving average and "the average stock" driving the market upside. The S&P 500 will not move in a straight line to this level, but the technical set up supports continued upside over the intermediate term.

In terms of technical support, the 50-day moving average will likely serve as initial support (3888), followed by potential support in the 3700-3750 range.

## SEASONALITY

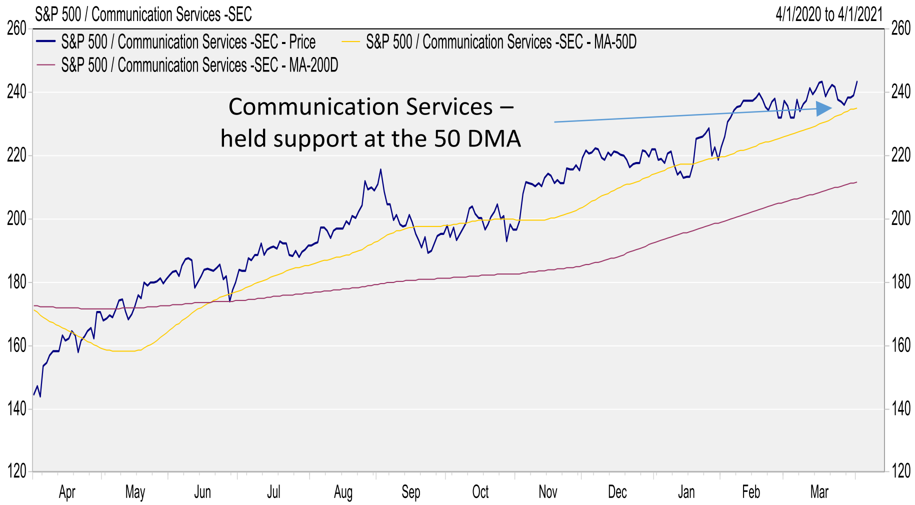
We do not recommend making investment decisions based on the calendar alone, but it is worth noting that April has historically been one of the strongest months of the year. Since 1954, it has actually produced the strongest average monthly return of 1.48%.

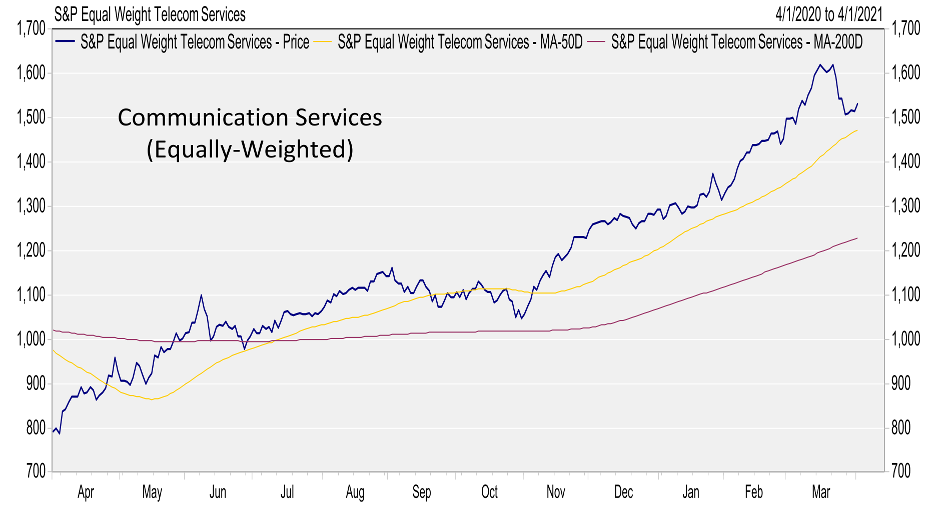


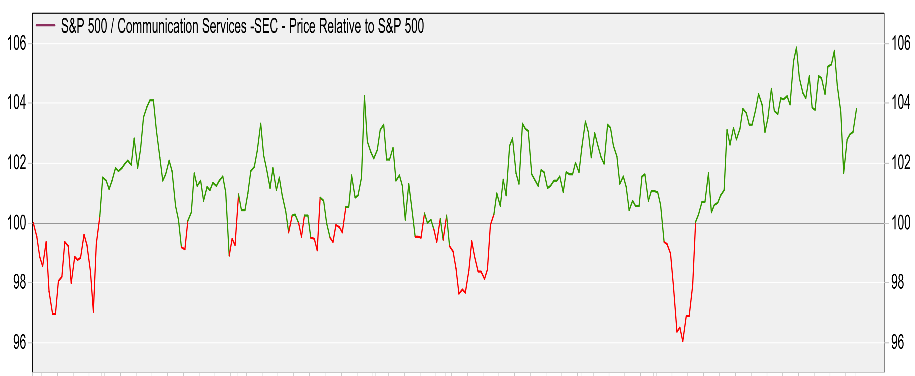

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

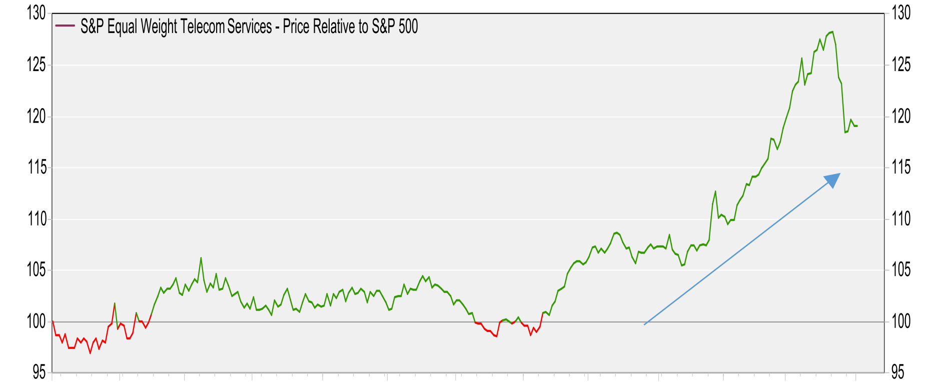
## COMMUNICATION SERVICES

The Communication Services sector reached oversold levels this week, finding technical support at its 50 DMA. We favor the fundamental backdrop of Communication Services, and see many stocks exhibiting solid technical momentum within the sector. As such, we would use the weakness as a buying opportunity.




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## ENERGY

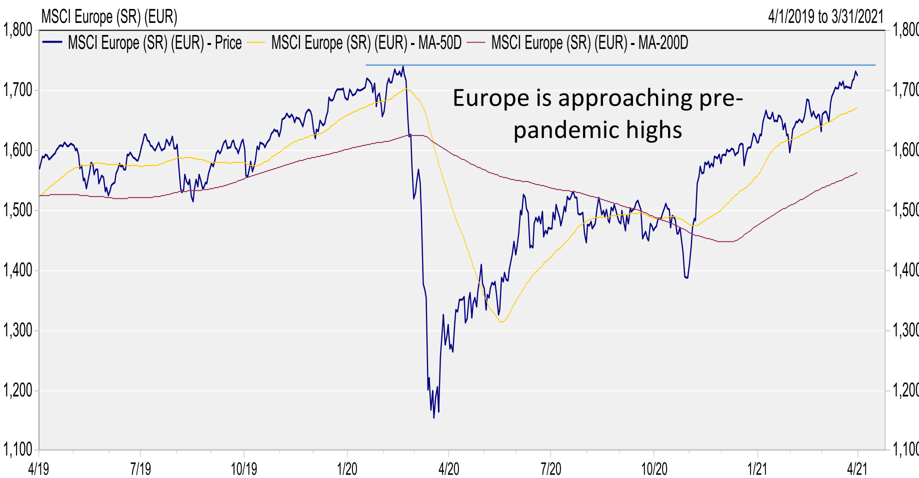
Following its extremely sharp rate of ascent to more normal prices, WTI crude oil has consolidated some of its enormous strength recently. The commodity price has been able to hold above its 50 DMA so far, and we view this as a normal digestion period within an overall upward trend. With the Energy sector consolidating just above its 50 DMA (like oil prices) but still 15% below pre-pandemic levels, we think the pullback is a buying opportunity.

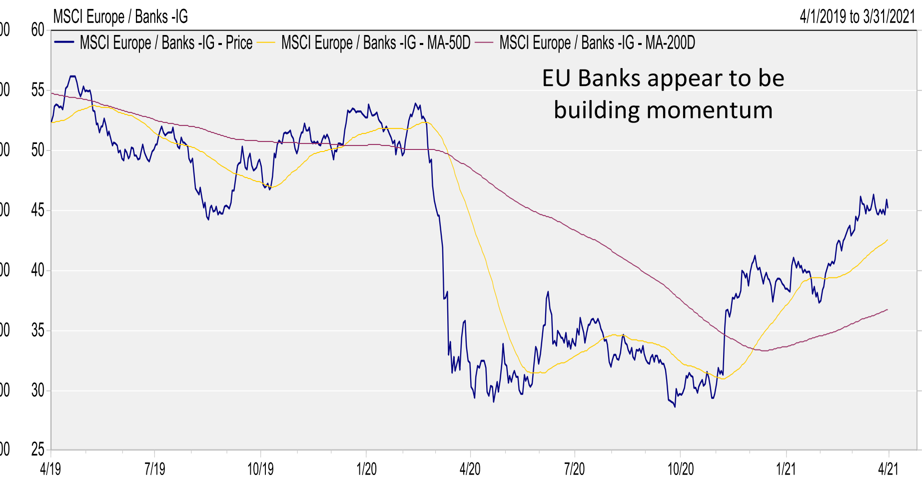


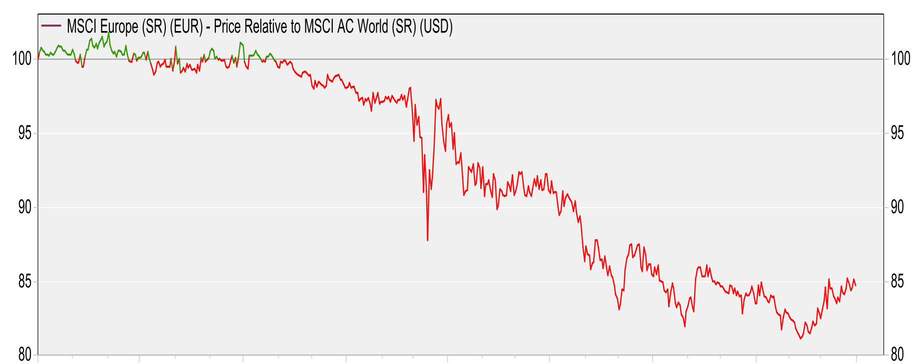
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

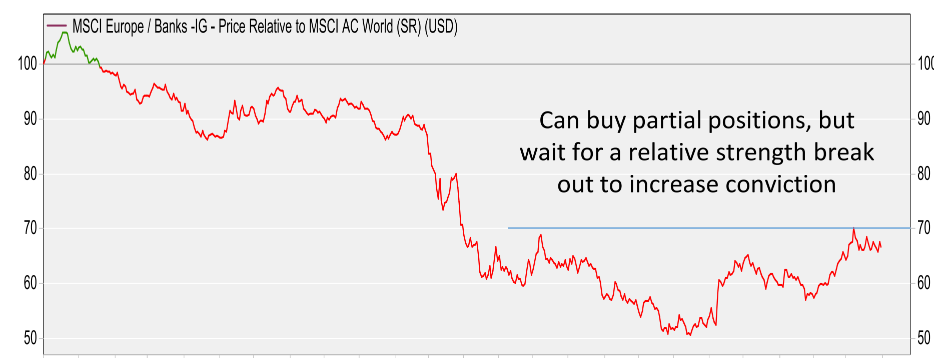
## EUROPE

Europe is on the cusp of new all-time highs, performing very well despite complications with their vaccine rollout and economic reopening. Longer term relative strength trends (vs the World) remain downward, but we are encouraged by the recent performance from EU banks. The group appears to be building technical momentum; and if relative strength can break out, this could support outperformance from the broader EU equity market index (given large weighting of the banks). For global allocations underweight EU equities, we believe you can buy partial positions here and increase conviction on a relative strength break out from the EU banks.




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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