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Weekly Market Guide

Short-Term Summary:

The S&P 500 continues to base out at highs (having done so since April 16th) with the catalyst being inflation uncertainty. Higher inflation is being driven, in our view, by an enormous demand vs. supply imbalance- resulting from the swift economic reopening and unprecedented levels of stimulus with supply chain shortages. This dynamic could last for months, but stimulus should ebb and supply chains should reopen over time. Productivity growth (due to economic digitization in the current environment) is also helping offset inflationary pressures, and margin estimates continue to climb higher. Importantly, the Fed is expected to remain accommodative (although will likely need to back down from its current ultra-accommodation). So while inflation concerns could be the catalyst for a moderation in the market's ascent, we view this as normal, particularly in year two of a bull market when the market's pace and volatility tend to normalize.

While the headline S&P 500 index has stalled out, the rotational market continues to play out beneath the surface (leaving plenty of opportunity for active investors). For example, WTI crude oil is breaking out to multi-year highs at >$68/bbl with OPEC maintaining its position on supply through July, along with increasing demand for a reopening world. This bodes well for the Energy sector, which we recently upgraded to an Overweight recommendation in our latest Sector Analysis (link here for in-depth analysis). Energy is breaking out to new highs today, and we would still be accumulating due to our expectation of further upside in the outlook. We also downgraded Technology to Equal Weight, and would use the recent bounce as an opportunity to lighten exposure (if overweight). The rotation from "stay-at-home" stocks toward "recovery" stocks continues to weigh on Technology despite strong fundamentals. We still like the sector longer term, but market momentum (and fundamental momentum) continues to shift toward shorter duration growth vs. longer duration with the likelihood of higher interest rates and an economic reopening underway.

Our current sector recommendations are slanted toward "re-open" areas, and we also continue to favor large Value over large Growth. Value holds more fundamental leverage to the robust economic recovery and is still relatively cheap in our view. Relative strength is approaching a break out, which we believe ultimately occurs. Additionally, the small caps are at a very interesting point, following a digestion (of historical strength) since March. The group is nearing a break out to new highs, which would reaffirm our bias to overweight with a 12-month outlook.

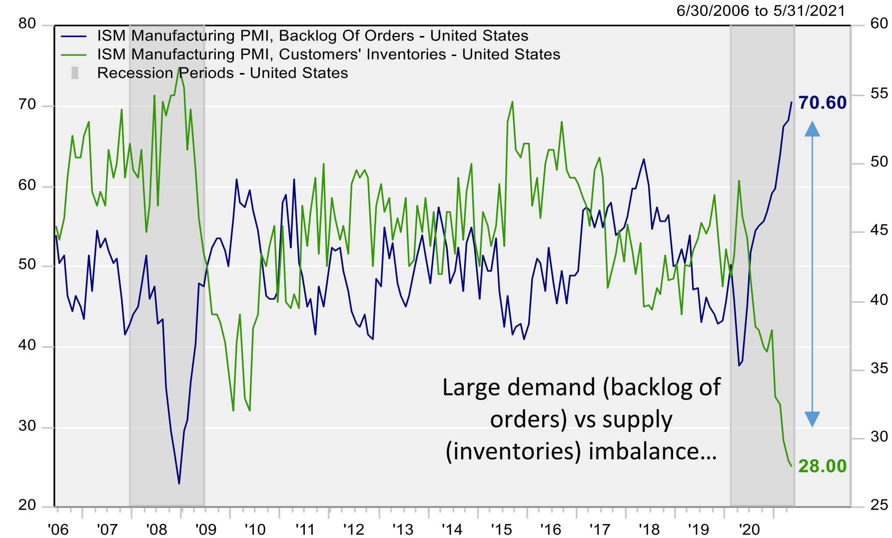
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	13.0%	34.4%
S&P 500	12.0%	36.6%
S&P 500 (Equal-Weight)	18.8%	47.2%
NASDAQ Composite	6.7%	43.2%
Russell 2000	16.4%	62.0%
MSCI All-Cap World	10.5%	37.4%
MSCI Developed Markets	9.6%	32.7%
MSCI Emerging Markets	7.5%	43.5%
NYSE Alerian MLP	40.3%	32.2%
MSCI U.S. REIT	21.1%	33.6%

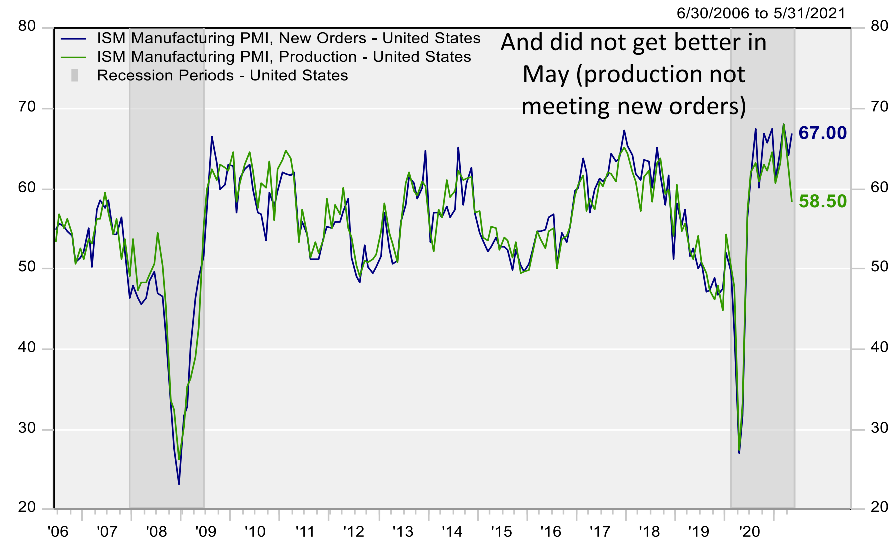
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	44.1%	2.9%
Financials	29.5%	12.0%
Real Estate	22.2%	2.6%
Materials	20.6%	2.8%
Industrials	18.4%	8.9%
Communication Svcs.	15.9%	11.1%
S&P 500	***12.0%***	-
Health Care	6.5%	12.7%
Information Technology	6.1%	26.3%
Consumer Discretionary	5.3%	12.0%
Consumer Staples	4.3%	6.0%
Utilities	3.2%	2.6%

MACRO: US

May Manufacturing and Services PMI both continued to advance to new highs, supporting continued strength in the economic recovery. Within the manufacturing survey, the data suggests the supply/demand imbalances resulting in inflation did not abate. As you can see in the charts to the right, new orders ticked higher (at very strong levels) but production actually receded (supply not matching demand). Additionally, the backlog of orders moved to extremely high levels of 70.6 while customers' inventories dropped to extremely low levels of 28. The swift economic reopening, in conjunction with enormous stimulus is leading to extremely strong demand that supply has not been able to match yet. This dynamic could last for months, but we expect to self-correct as stimulus ebbs and supply chains reopen over time. Tomorrow's May jobs report, along with next week's May CPI, will be important to monitor for the latest readings on inflation. They will impact the Fed's communication and actions, but we expect the Fed to remain accommodative.

Event	Period	Actual	Consensus	Prior
Personal Consumption Expenditure SA M/M	APR	0.50%	0.50%	4.7%
Personal Income SA M/M	APR	-13.1%	-15.0%	20.9%
Chicago PMI SA	MAY	75.2	69.3	72.1
Michigan Sentiment NSA (Final)	MAY	82.9	82.9	82.8
Markit PMI Manufacturing SA (Final)	MAY	62.1	61.5	61.5
ISM Manufacturing SA	MAY	61.2	60.6	60.7
Dallas Fed Index	MAY	34.9	33.5	37.3
BEA Total Light Vehicle Sales	MAY	17.0M	17.0M	18.8M
ADP Employment Survey SA	MAY	978.0K	622.5K	654.3K
Continuing Jobless Claims SA	05/22	3,771K	3,610K	3,602K
Initial Claims SA	05/29	385.0K	395.0K	405.0K
Unit Labor Costs SAAR Q/Q (Final)	Q1	1.7%	-0.40%	-0.30%
Productivity SAAR Q/Q (Final)	Q1	5.4%	5.6%	5.4%
PMI Composite SA (Final)	MAY	68.7	68.1	68.1
Markit PMI Services SA (Final)	MAY	70.4	70.1	70.1
ISM Non Manufacturing SA	MAY	64.0	63.0	62.7



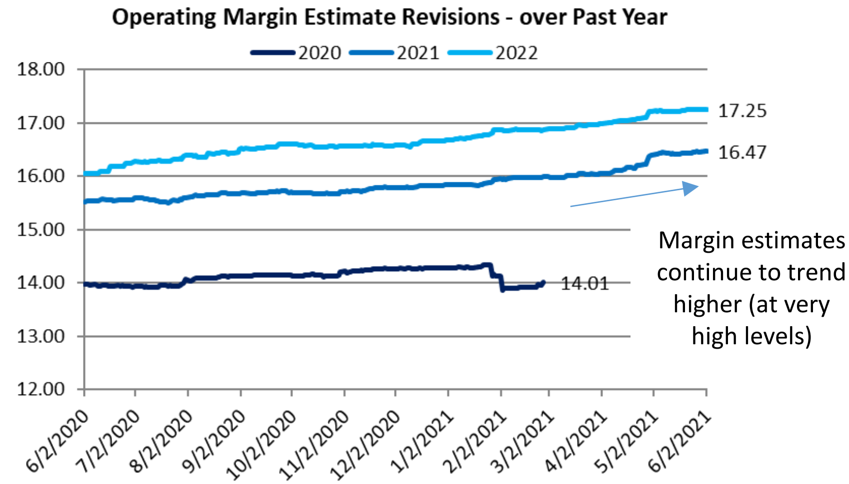


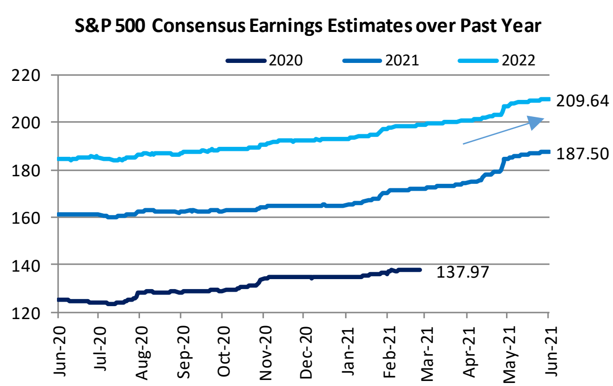
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q1 earnings posted one of the strongest upside surprises in history, resulting in significantly higher earnings estimates. However, ~70% of the increase in 2021 earnings estimates since the beginning of Q1 earnings season was due to just Q1 results. The next three quarters earnings estimates have only been revised 3.1% higher on average over the same timeframe, leaving further upside to estimates in our view. Also, we note that S&P 500 margin estimates continue to trend higher for 2021 and 2022, supporting our view that inflation concerns should not be overblown. Our base case earnings estimate for 2021 is $190, which the consensus is now approaching. However, based on how the macro-environment is progressing, our bull case scenario is closer to playing out- which reflects 2021 earnings of $200.

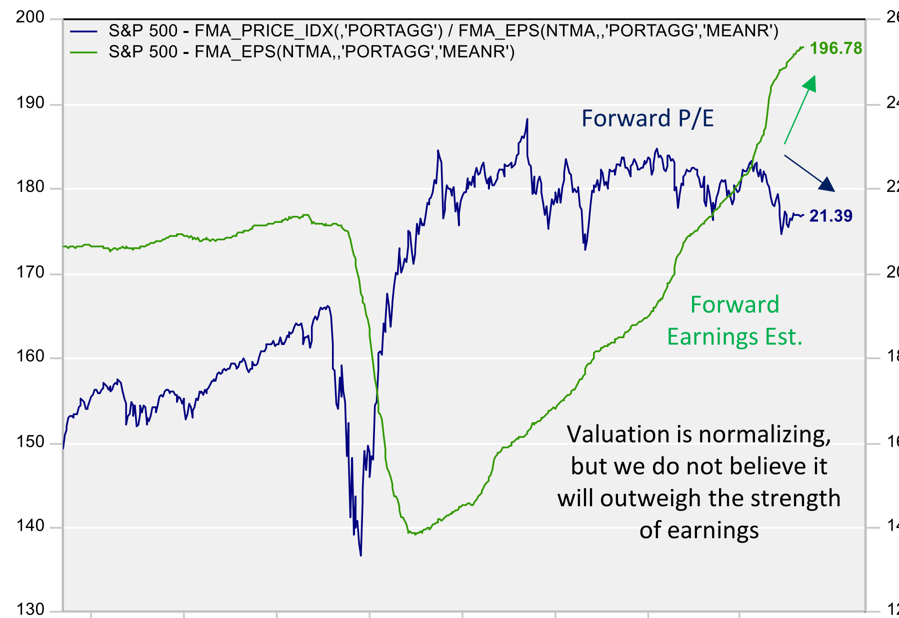
Valuation has been normalizing from elevated levels, and we expect this multiple to continue lower as earnings recover (and take over as the primary driver of equities) over the course of the year. However, we do not believe multiple normalization will outweigh earnings growth- resulting in upside to equities in the outlook. We use a 19x forward P/E (pre-pandemic level) as our base case and bull case P/E- resulting in a base case and bull case S&P 500 target of 4180 and 4400 respectively. As stated earlier, our bull case scenario is closer to playing out currently.





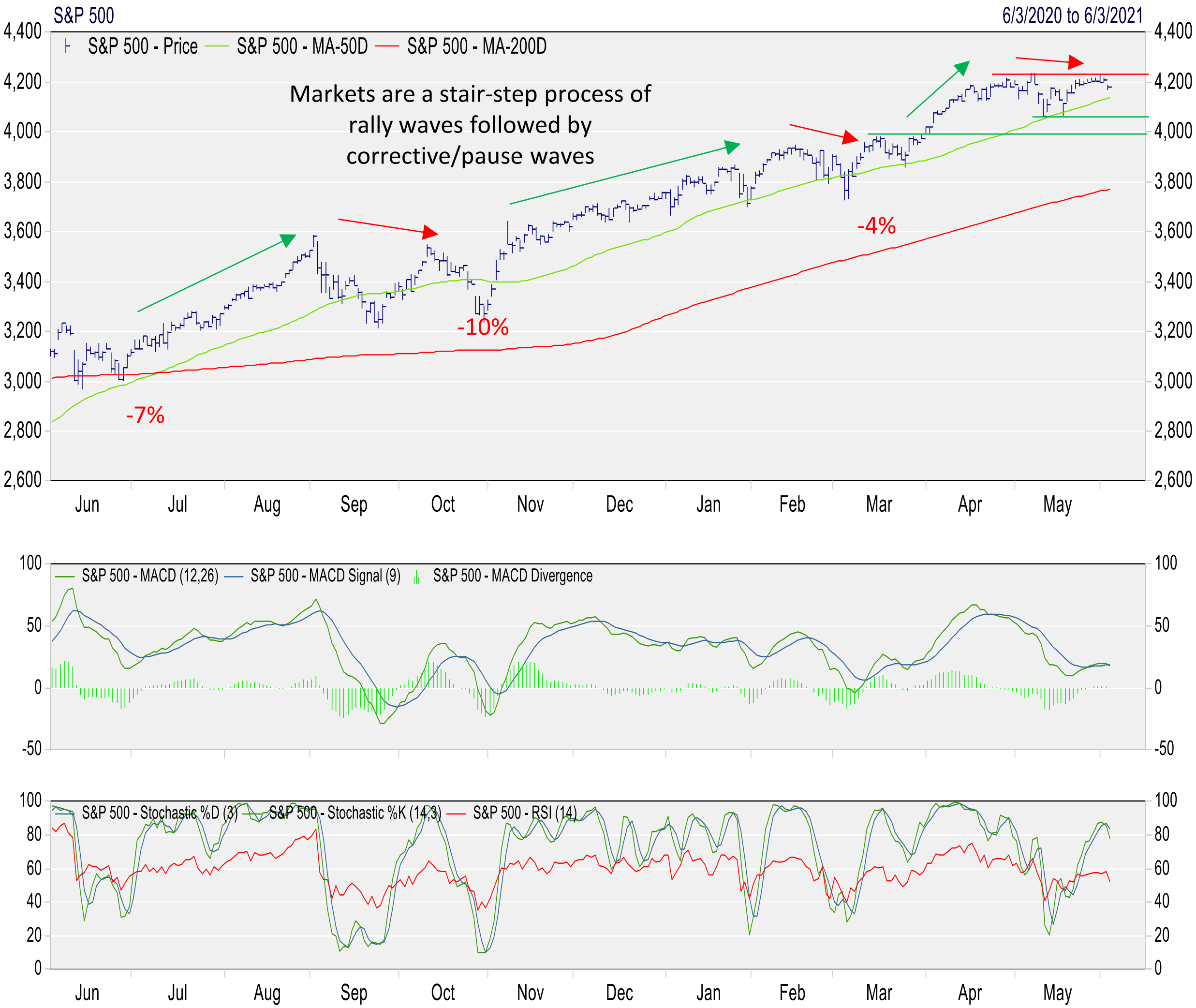
EPS Growth Estimates	
2020	-14.0%
2021	35.9%
2022	11.8%

RJ 2021 Estimates:
$190 Base Case
$200 Bull Case



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 continues to trade in its stalled range of ~4240-4060. The index's recent bounce from its 50 DMA support was unable to break out to new highs, and short term stochastics are now turning over from near overbought levels.

We believe the odds are in favor of the current market grind continuing in the short term. We also view this as normal, particularly following very strong returns over the past several months and also as the pace of market ascent typically moderates in year two of a bull market.

While the headline S&P 500 index has stalled out, the rotational market continues to play out beneath the surface (leaving plenty of opportunity for active investors). In a rotational market, we recommend using rolling pullbacks within longer term uptrends as buying opportunities.

Short-term potential support:

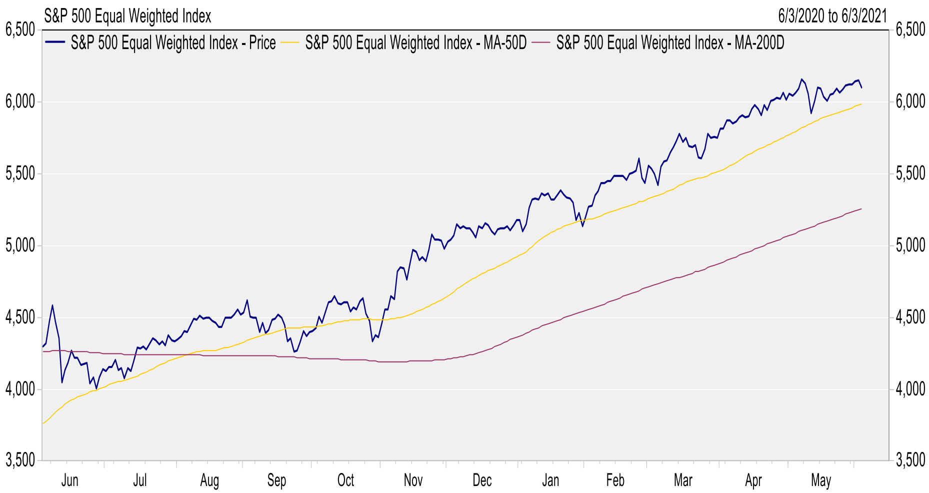
- 4132 (50 DMA)
- ~4060 (most recent reaction low)
- 3983 (prior high)

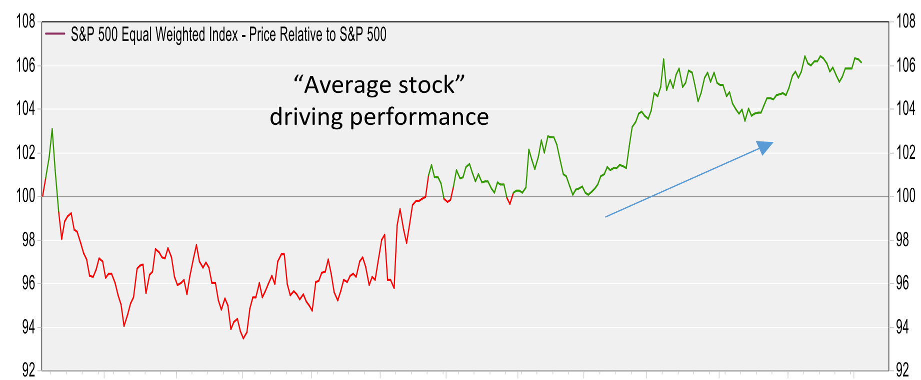
Short-term potential resistance:

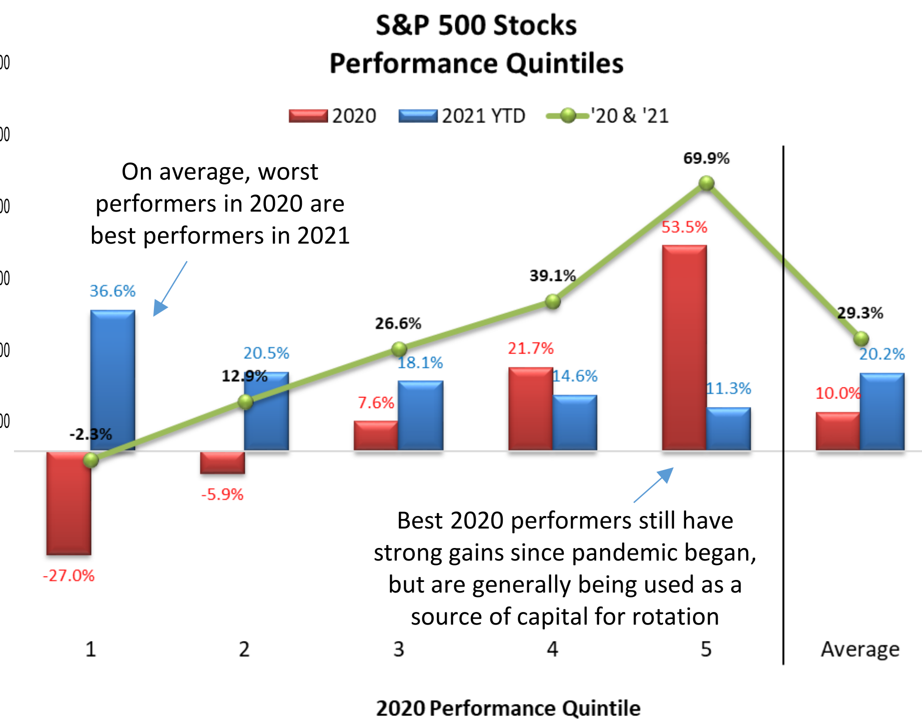
- 4238 (all-time high)
- 4274 (Fibonacci projection)

MARKET ROTATION

Performance continues to be driven by the "average stock." This is very healthy for the technical backdrop of the S&P 500, as participation remains broad in the advance. ~90% of S&P 500 stocks remain above their 200 DMA which bodes well for intermediate term performance. Also, last year's pandemic laggards continue to be this year's recovery leaders. This is very clearly seen in the performance quintiles to the bottom right. Last year's winners are generally still performing very well since the pandemic began, but current momentum is in the hands of those with the most to gain from a robust reopening.



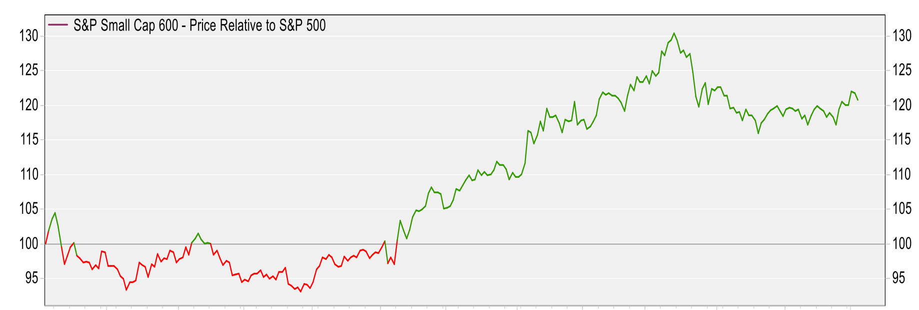


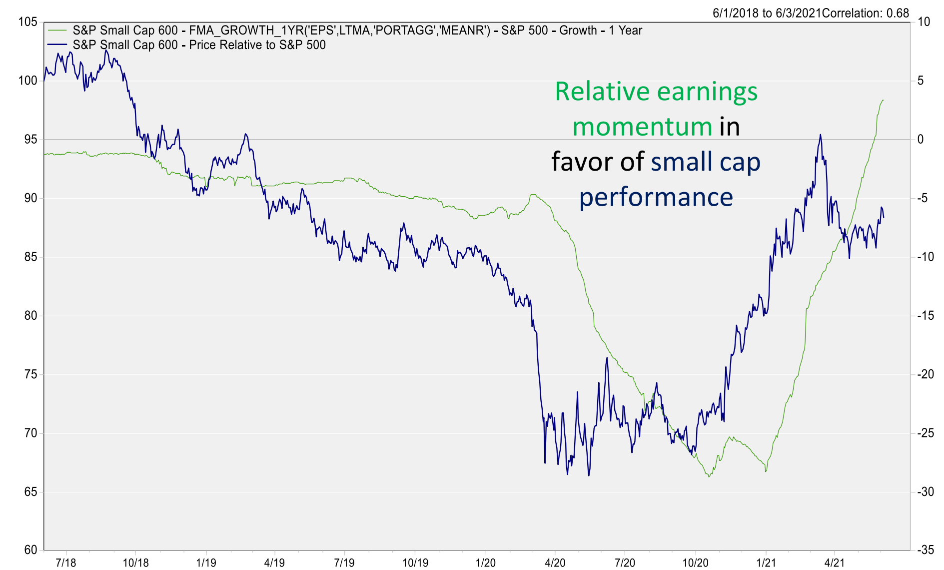


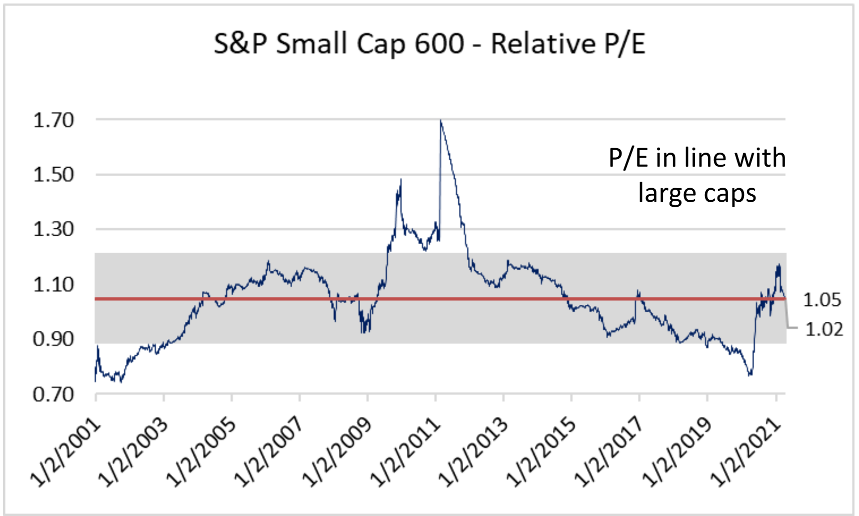
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

The small caps advanced ~51% from the positive vaccine news in early November until mid-March. Since then, the group has generally been digesting those historically strong gains, but is nearing a break out to new highs. We have favored the small caps, as they contain more leverage to the economic recovery than large caps and also trade just in-line with their average relative P/E. Additionally, its two largest sectors are financials and industrials. We would accumulate the small caps, and a break out to new highs would reaffirm our bias to overweight with a 12-month outlook.



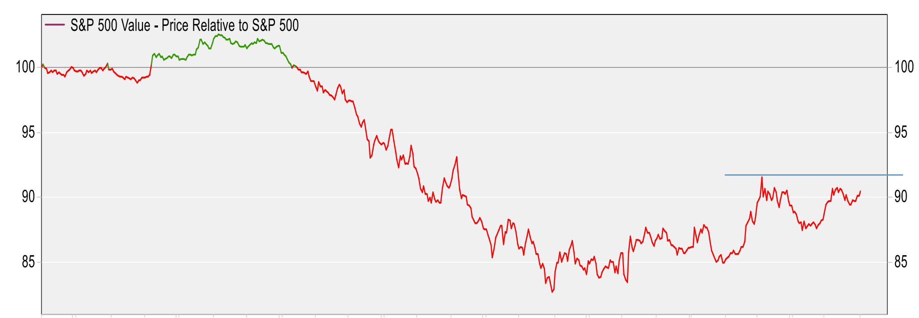


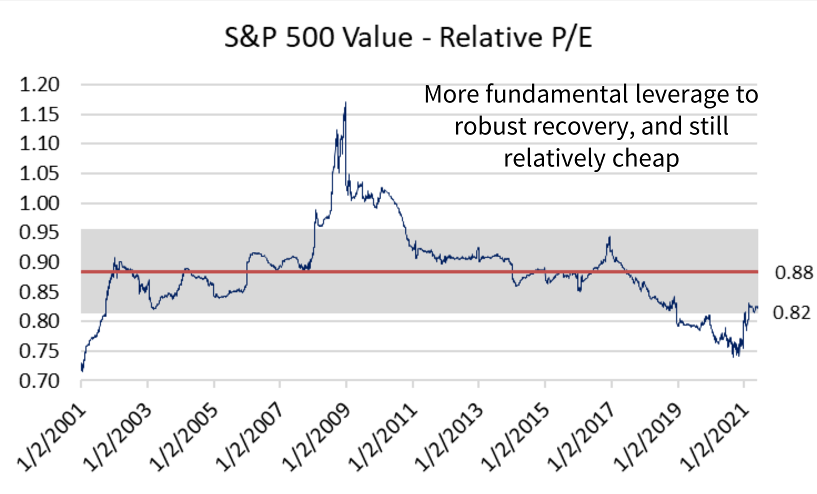


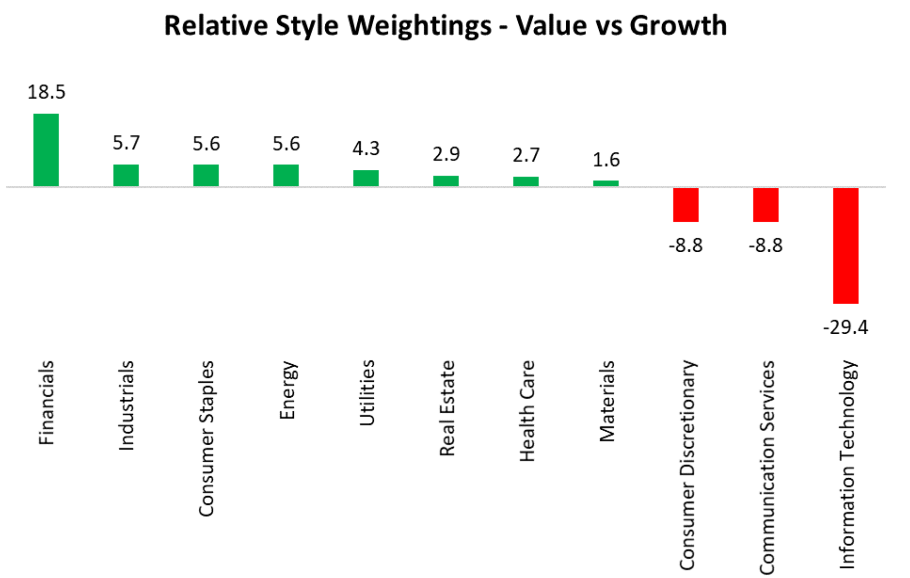
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUE

We continue to favor large Value over large Growth. Value holds more fundamental leverage to the robust economic recovery (40.4% 2021 earnings growth expected vs. 27.5% for Growth) and is still relatively cheap in our view (trading at an 18% discount to Growth vs 12% historical average). Also, the potential for higher interest rates and steeper yield curve is positive for Financials (largest Value weighting) and negative for Technology (largest Growth weighting). Relative strength is approaching a breakout, which we believe ultimately occurs.



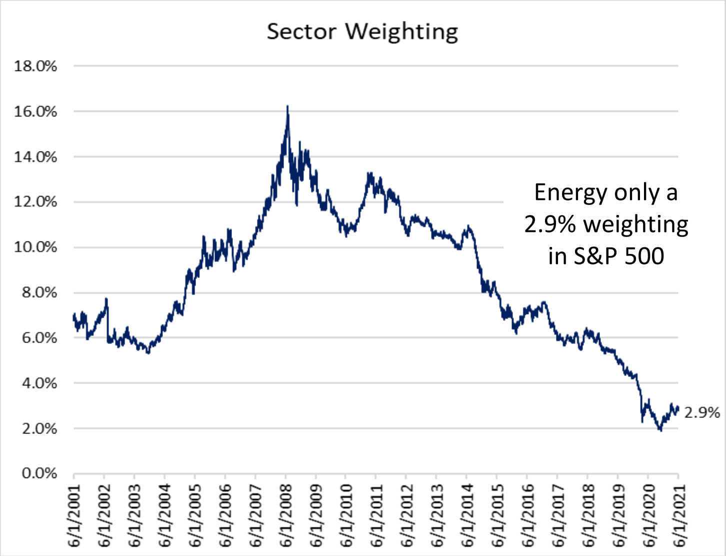




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ENERGY

WTI crude oil is breaking out to multi-year highs at >$68/bbl with OPEC maintaining its position on supply through July, along with increasing demand for a reopening world. This bodes well for the Energy sector (recently upgraded to an Overweight recommendation). Energy is breaking out to new highs today, but is still 8% below pre-pandemic levels and 20% below late-2018 levels when crude prices were last over $78/barrel. The multi-year collapse in oil prices led to drastic efficiencies for these operators, and the higher prices are now leading to robust cash flow growth. Instead of leading to overproduction, it is generally leading to share-holder friendly activities (i.e. special dividends). Also, we are not convinced that Energy will recapture a large market weighting, but at a 2.9% sector weighting and drastic underperformance over the past decade, many investors are likely still too underweight.



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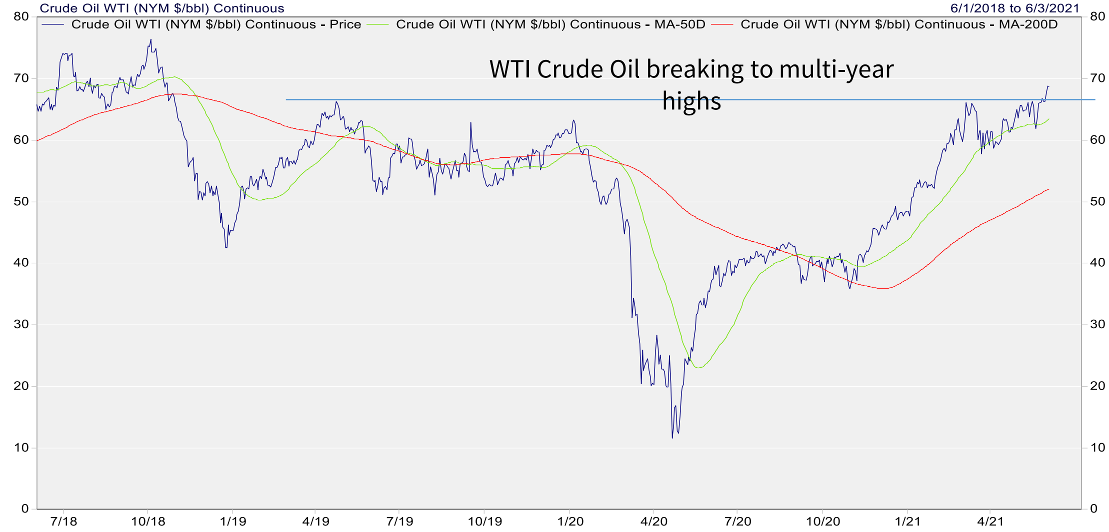
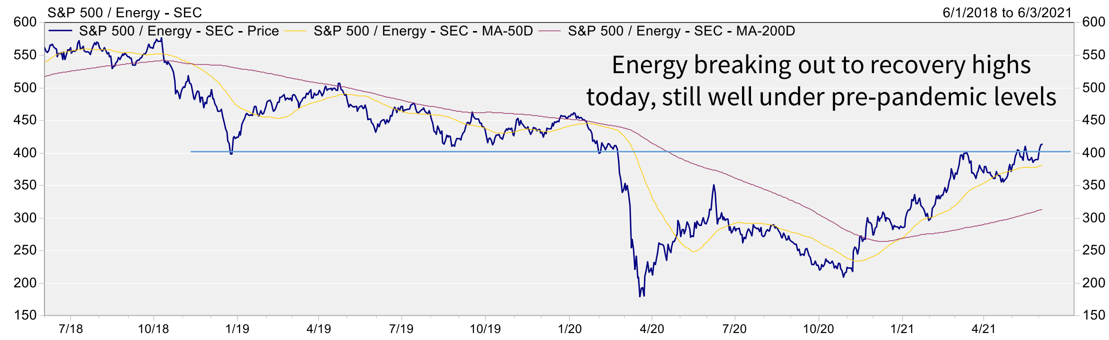
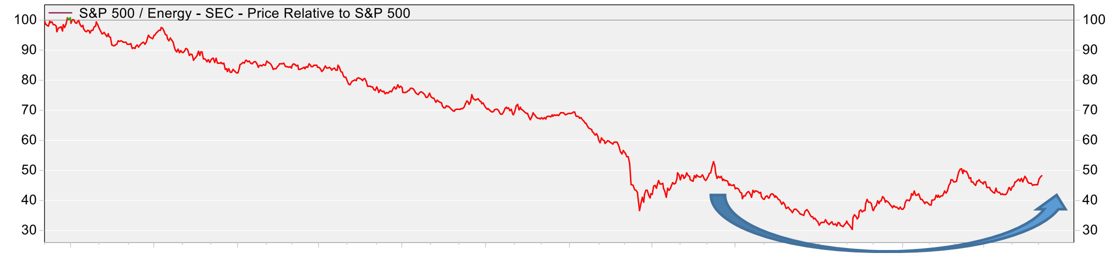
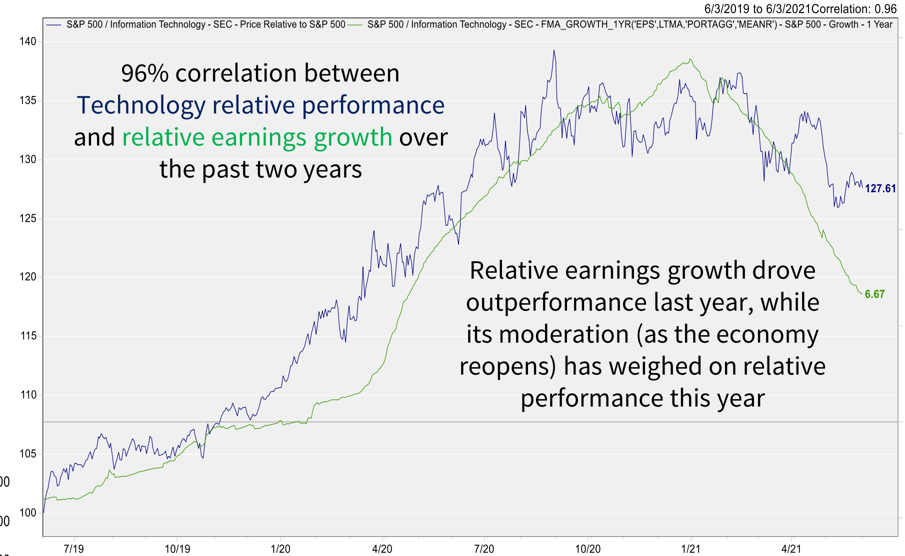


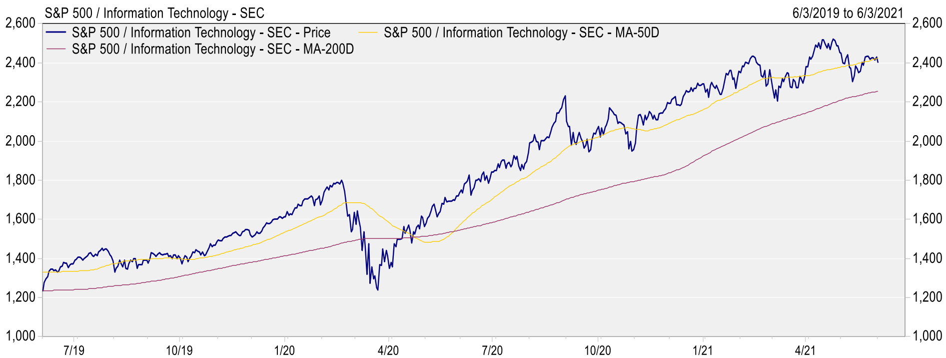


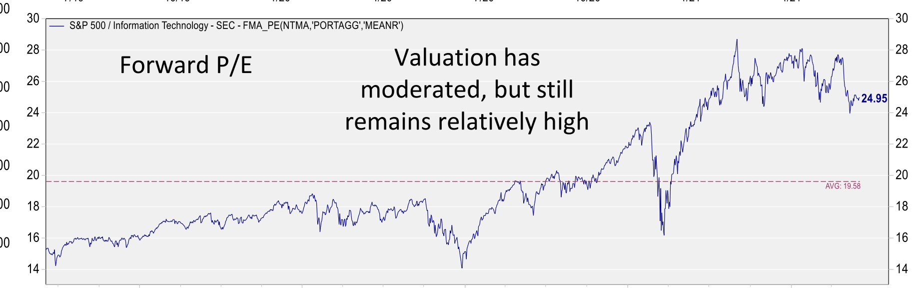


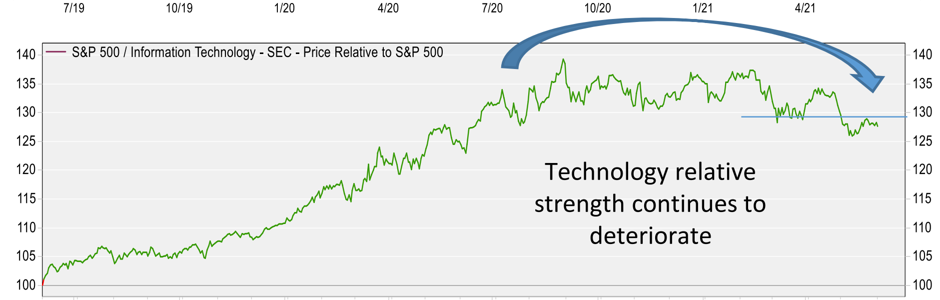
TECHNOLOGY

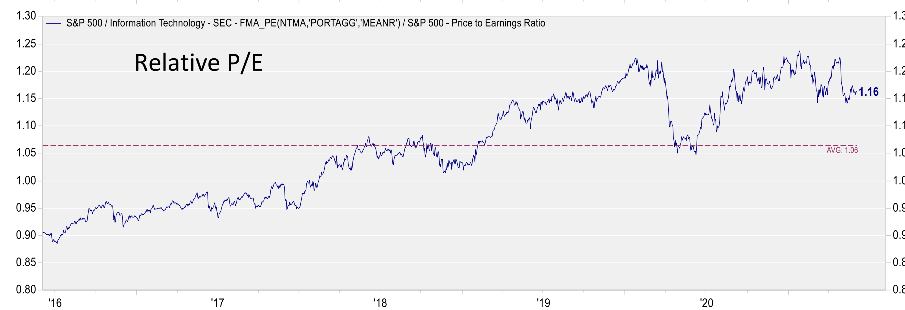
We also downgraded Technology to Equal Weight, and would use the recent bounce as an opportunity to lighten exposure (if overweight). The rotation from "stay-at-home" stocks toward "recovery" stocks continues to weigh on Technology despite strong fundamentals. We still like the sector longer term (and performance has been fine), but market momentum (and fundamental momentum) continues to shift toward shorter duration growth vs. longer duration with the likelihood of higher interest rates and an economic reopening underway. Valuation has moderated from elevated levels, but still remains relatively high. And relative earnings growth continues to diminish (less leverage to the economic reopening), which has a 96% correlation with Technology relative performance over the past two years. We therefore are not expecting Technology to regain market leadership for now.











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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