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Weekly Market Guide

Short-Term Summary:

The S&P 500 index has advanced to new highs to begin Q3, but the story continues to be rotation beneath the surface. For example, Large Cap Growth is up 7.8% over the past month, while Large Cap Value is down -1.8% (and Small Cap Value is down -7.4%). This resurgence of Growth (and narrowing breadth) has come in conjunction with continued downside in the US 10-year Treasury yield recently (now down to 1.29%), along with the corresponding narrowing yield curve. There are many variables contributing to this moderation in rates, including rising concerns over the Delta variant, very low global yields, along with the Fed purchasing a large portion of Treasuries. But technically, we have also thought it natural for the US 10-year Treasury yield to digest its historically sharp rise from November to March, in which it stretched 94% above its 200-day moving average (largest spread on record). We have been keying on technical support near its 200 DMA (1.20-1.30%) for some time now, so with the US 10-year Treasury yield now approaching these levels, we wait to see how it responds to support. It remains difficult to determine how long the moderation in interest rates will play out. But ultimately, we still stand in the camp that interest rates are likely to grind higher over the next 6-12 months due to strong economic growth, increasing inflation, and the Fed coming off of its ultra-accommodative stance.

Interest rate movements will continue to have a large influence on sector rotation in our view, but low interest rates in general are supportive of overall market trends. We also are not overly concerned with the narrowing yield curve as credit spreads remain very narrow (positive indication on underlying corporate stability), along with continued weak relative strength trends from the more defensive sectors (i.e. Utilities and Consumer Staples). Pullbacks are bound to happen, and a moderation in the pace of market ascent is expected over the next 6-12 months. However, we continue to view the positives (strong fundamental and technical backdrop) as outweighing the potential negatives. As such, we recommend using short-term pullbacks as long-term buying opportunities.

Q2 earnings season is set to begin next Tuesday; and while S&P 500 earnings estimates have been trending higher, they still appear too low in our view. We expect a large percentage of companies to beat estimates by an above average rate- continuing the trend of historically strong surprises over the past several quarters. In fact, the "early Q2 reporters" have beaten estimates by 17% so far. Inflation will be a key talking point on earnings calls, as investors focus on margin impacts. We will also be watching the market's response to results, as price reactions have been below average for the past several quarters despite strong results (particularly for Technology).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	13.3%	34.0%
S&P 500	16.0%	38.6%
S&P 500 (Equal-Weight)	18.6%	48.7%
NASDAQ Composite	13.8%	41.8%
Russell 2000	14.1%	59.1%
MSCI All-Cap World	12.1%	34.8%
MSCI Developed Markets	7.9%	27.0%
MSCI Emerging Markets	3.8%	27.4%
NYSE Alerian MLP	39.0%	51.2%
MSCI U.S. REIT	22.0%	36.7%

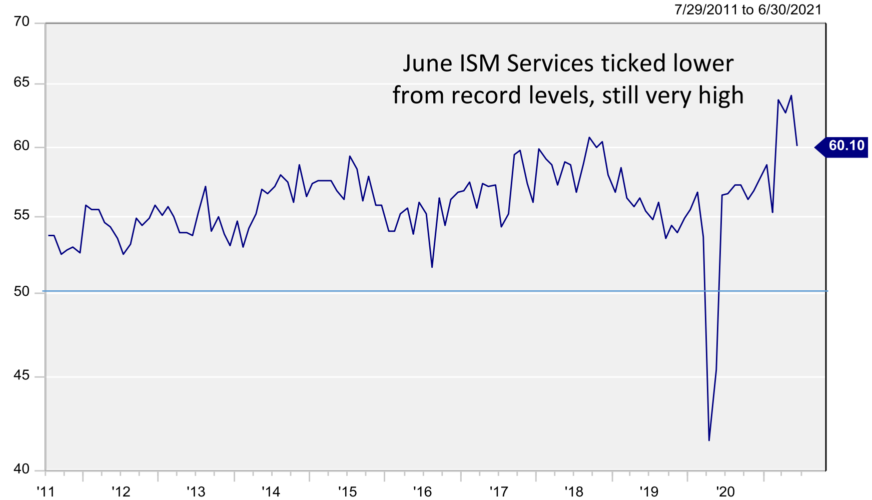
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	37.5%	2.7%
Real Estate	24.4%	2.6%
Financials	23.4%	11.0%
Communication Svcs.	21.0%	11.2%
Industrials	16.6%	8.5%
S&P 500	***16.0%***	-
Information Technology	15.9%	27.7%
Materials	13.7%	2.6%
Health Care	13.5%	13.1%
Consumer Discretionary	12.4%	12.4%
Consumer Staples	3.8%	5.8%
Utilities	3.1%	2.5%

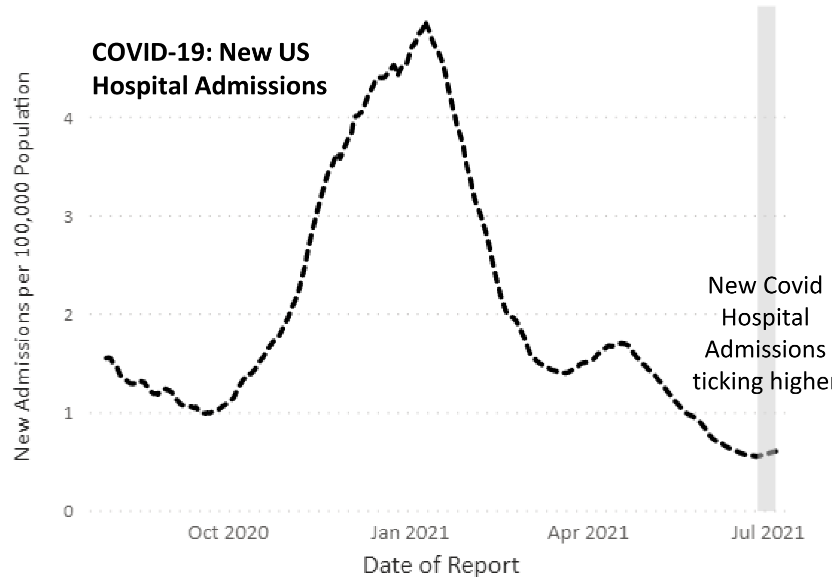
MACRO: US

The June jobs report showed a 850k increase in nonfarm payrolls, ahead of the 700k estimate and 583k in May. However, the unemployment rate ticked higher to 5.9% and the participation rate stayed flat at 61.6%. The underemployment rate (U-6) was able to move lower, but still remains elevated at 9.8%. The takeaway is improvement in the labor market, but still a long way to go. The Fed indicated as much in their FOMC minutes this week, stating their "substantial further progress" standard for tapering has not been met yet.

ISM Services disappointed in June, declining to 60.1 vs the consensus estimate of 63.0. This was down from last month's record 64.0 level; and while some will focus on "peak growth rates," this is still a very strong number. We continue to view the economic trajectory as supportive of equities. A growing concern has been the emergence of the Delta variant, and the recent uptick in hospital admissions. While this needs to be monitored (maybe more so globally), we are encouraged by >2/3 of US adults having been vaccinated already (and 88% of 65+ year olds), along with studies showing vaccines should be effective against the variant.

Event	Period	Actual	Consensus	Prior
BEA Total Light Vehicle Sales	JUN	15.4M	16.7M	17.0M
Hourly Earnings SA M/M (Preliminary)	JUN	0.30%	0.35%	0.40%
Hourly Earnings Y/Y (Preliminary)	JUN	3.6%	3.5%	1.9%
Manufacturing Payrolls SA	JUN	15.0K	25.0K	39.0K
Nonfarm Payrolls SA	JUN	850.0K	700.0K	583.0K
Private Nonfarm Payrolls	JUN	662.0K	560.0K	516.0K
Trade Balance SA	MAY	-$71.2B	-$71.3B	-$69.1B
Unemployment Rate	JUN	5.9%	5.6%	5.8%
Durable Orders ex-Transportation SA M/M (Final)	MAY	0.26%	0.30%	0.30%
Durable Orders SA M/M (Final)	MAY	2.3%	2.3%	2.3%
Factory Orders SA M/M	MAY	1.7%	1.5%	-0.10%
PMI Composite SA (Final)	JUN	63.7	63.9	63.9
Markit PMI Services SA (Final)	JUN	64.6	64.8	64.8
ISM Non Manufacturing SA	JUN	60.1	63.0	64.0
JOLTS Job Openings	MAY	9,209K	9,300K	9,193K
Continuing Jobless Claims SA	06/26	3,339K	3,340K	3,484K
Initial Claims SA	07/03	373.0K	359.5K	371.0K





Source: FactSet, CDC.Gov, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

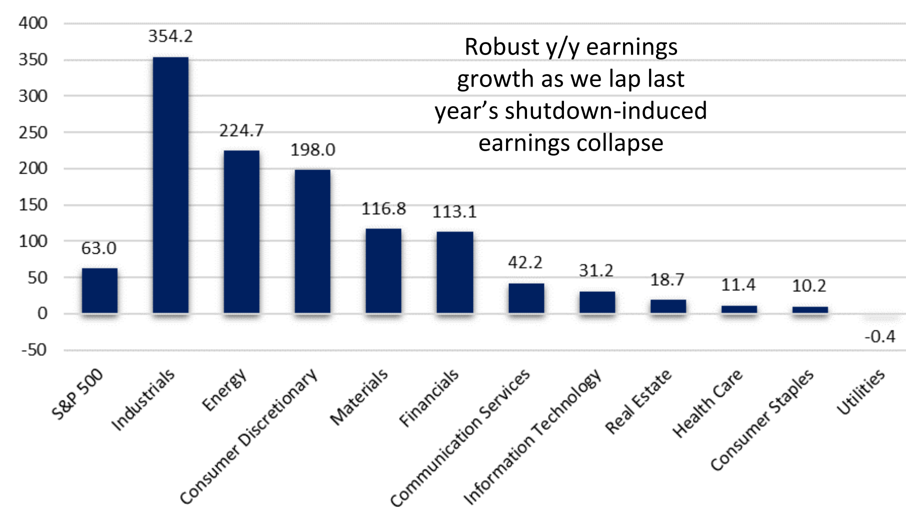
Q2 earnings season kicks off with several banks reporting next Tuesday. Q2 S&P 500 estimates have been trending gradually higher into results; and though they reflect an enormous 63% earnings growth y/y (as we lap last year's shutdown-induced earnings collapse), they still reflect a -8% earnings contraction from Q1. We view this as likely too low still, and expect a large percentage of companies to beat estimates by an above average rate (more on this discussed on the next page).

The strongest earnings growth is expected from the deep-cyclical sectors such as Industrials, Energy, Consumer Discretionary, Materials, and Financials. Inflation will be a key talking point on earnings calls, as investors focus on margin impacts. We will also be watching the market's response to results, as price reactions have been below average for the past several quarters despite strong results. This dynamic has particularly been the case for Technology; and given their recent run up in relative strength, the group may be set up for a continuation of that trend (disappointing reactions to strong earnings announcements).

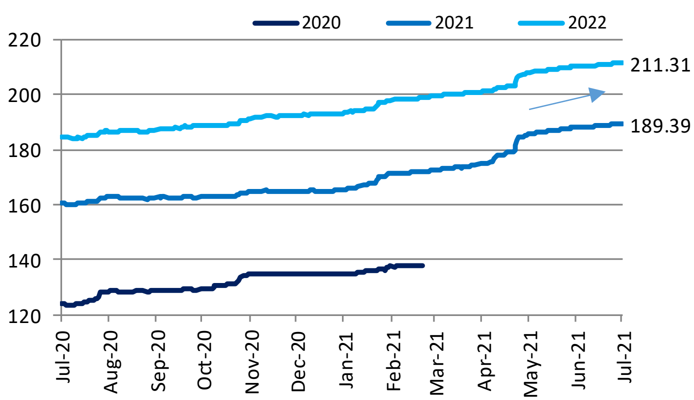
S&P 500 Sector	% Q2 Est. EPS Growth Y/Y	Q/Q
S&P 500	**63.0**	**-8.0**
Industrials	354.2	28.1
Energy	224.7	45.8
Consumer Discretionary	198.0	-15.1
Materials	116.8	33.5
Financials	113.1	-24.8
Communication Services	42.2	-15.6
Information Technology	31.2	-8.0
Real Estate	18.7	1.7
Health Care	11.4	-5.9
Consumer Staples	10.2	-1.3
Utilities	-0.4	-14.3

-8% q/q EPS growth seems unlikely/too low

Q2 2021 EPS Growth Y/Y



S&P 500 Consensus Earnings Estimates over Past Year



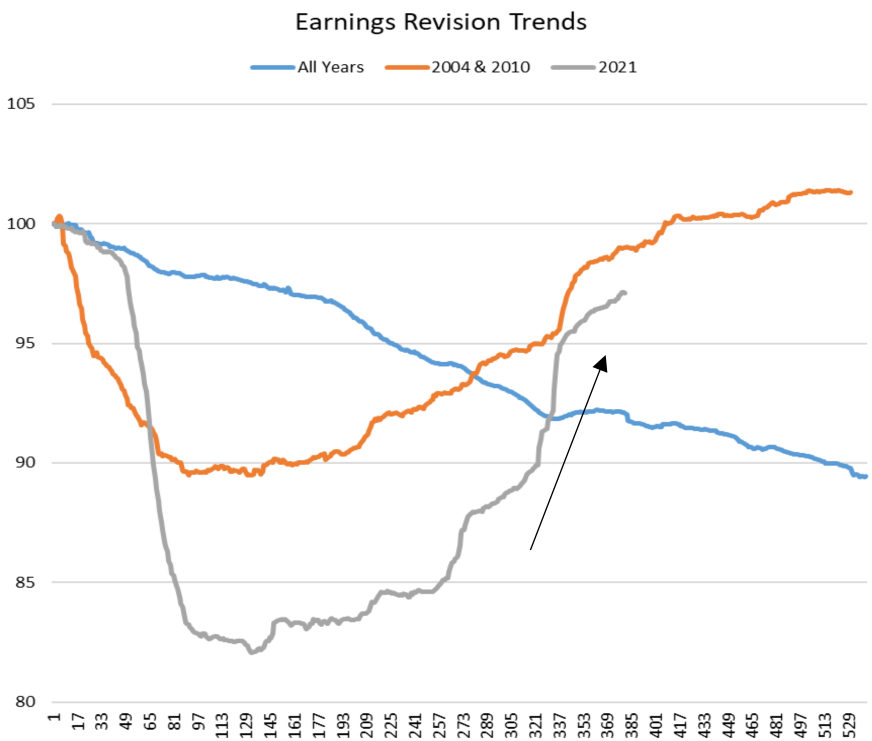
EPS Growth Estimates	
2020	-13.9%
2021	37.2%
2022	11.6%

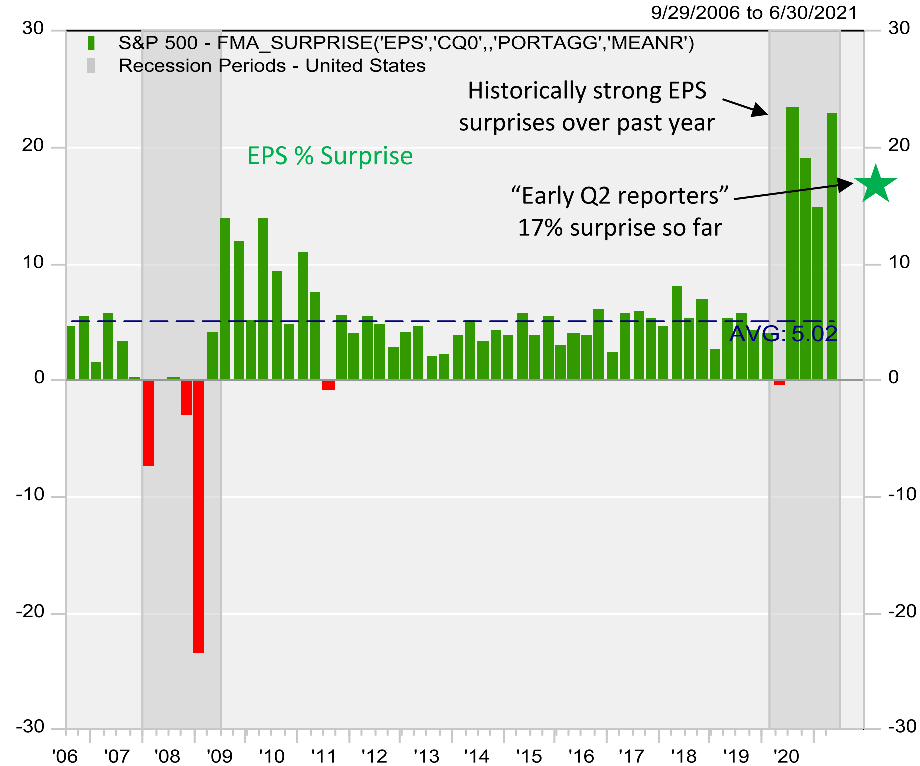
RJ Base Case Estimates
2021: $200
2022: $230

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Q2 EARNINGS SEASON

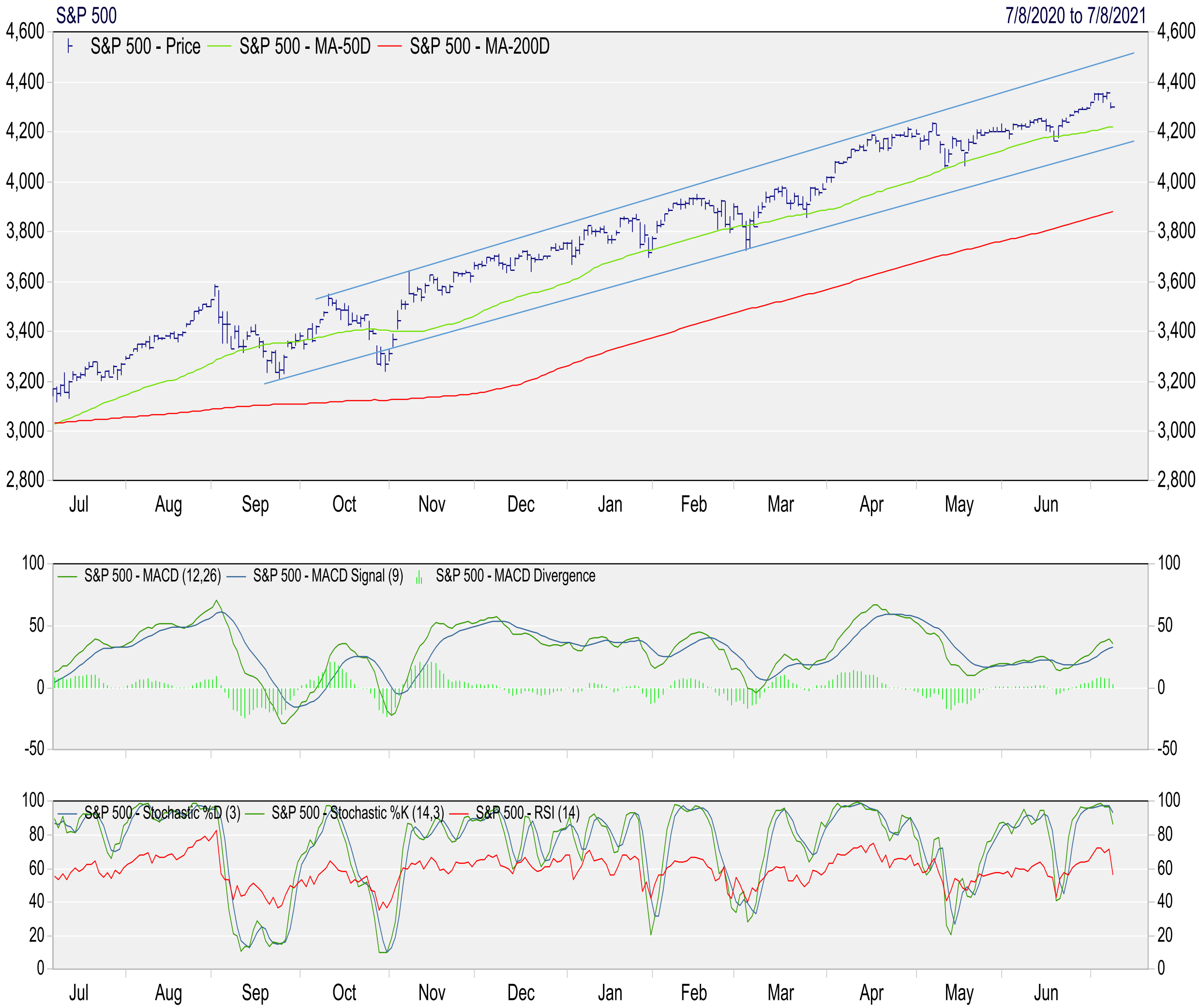
Strong economic surveys in recent months, on the heels of enormous stimulus and an economic reopening, bode well for positive earnings surprises in our view. We expect the going trend of strong surprises and beat rates to continue in Q2 reporting season. Likely below that seen in Q1, in which a record 87% of S&P 500 stocks beat estimates (vs. long-term average of 70%) by an aggregate 23% (near record highs), but still strong. In fact, “early Q2 reporters” have beaten estimates by 17% so far- well ahead of the long-term average of 5%. These strong surprises are also occurring on upwardly revised earnings estimates. As you can see in the bottom left chart, estimates typically are revised lower into results (only for beats to then occur on those downwardly-revised estimates). This is the opposite out of recessions, where analysts typically play “catch-up” to the fundamental recovery. We believe this remains the case, and expect continued upside to earnings estimate revision trends for 2021 and 2022. Our base case earnings estimates for 2021 and 2022 are $200 and $230 respectively (vs consensus estimates of $189 and $211).





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 is moving lower today and short-term stochastics are turning lower from overbought levels, in what could be some consolidation of the index's 4.6% gain over the past 12 days to new all-time highs.

Market breadth within the market's break out was fairly weak, as relative strength of the "average stock" consistently retreated vs. the index. In fact, only 8% of S&P 500 stocks reached 4-week highs (with the index at a new high).

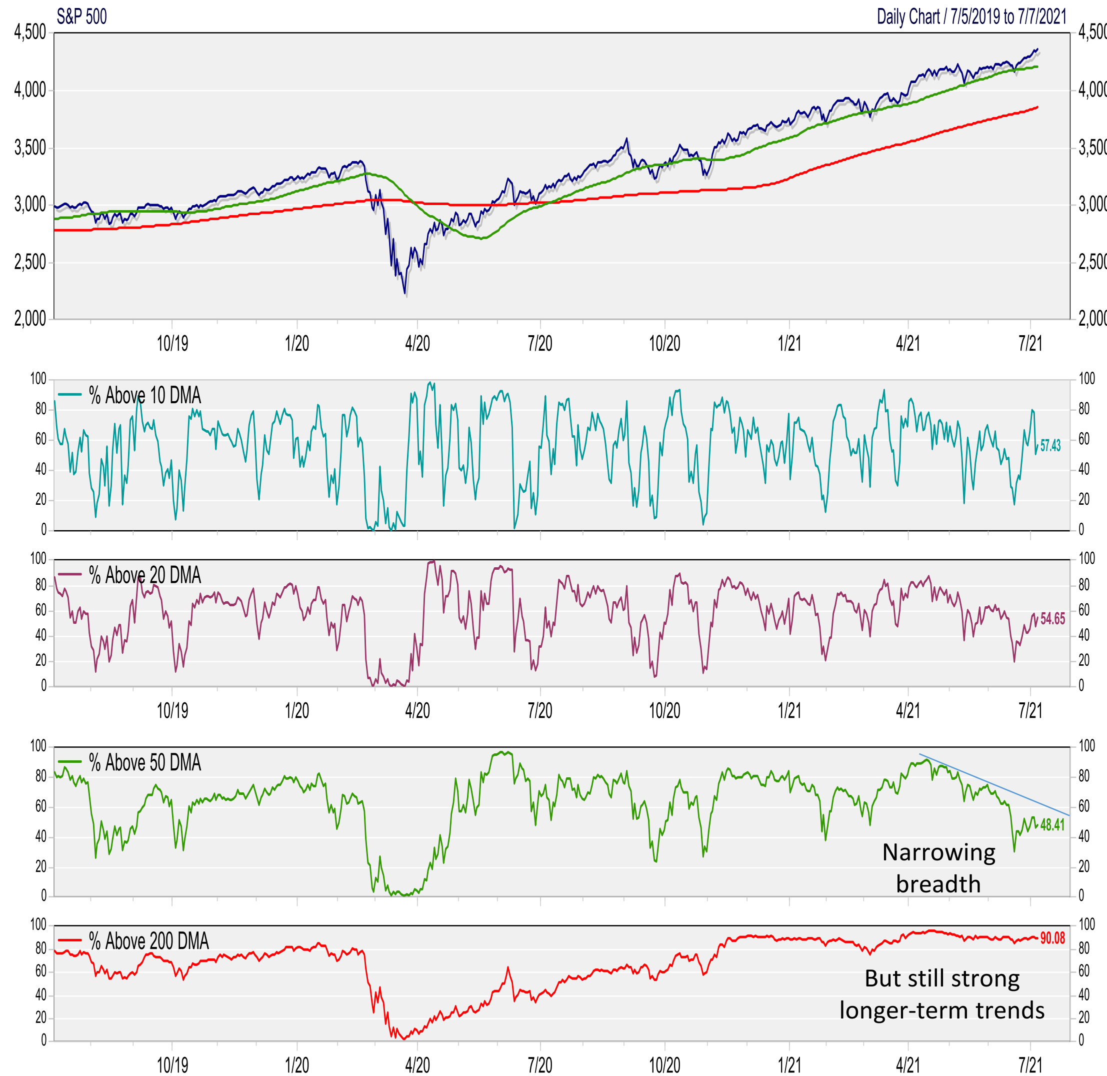
Narrow leadership leaves the market vulnerable to weakness. That said, we continue to view the S&P 500 within an intermediate term uptrend with rotation likely to continue beneath the surface.

The upward-trending 50-day moving average (4217) has acted as technical support since November, and will be a key level to monitor. Below the 50 DMA, watch for technical support at the low-end of its positive trading range since September, followed by the most recent reaction low at ~4165.

MARKET BREADTH

Market breadth continued to narrow in the index's advance to new highs. For example, only 48% of S&P 500 stocks trade above their 50 DMA (despite the index trading 3% above its 50 DMA). As mentioned previously, a narrow market is a vulnerable market to pullbacks.

This also reflects the nature of sector rotation occurring beneath the surface, and (importantly) we continue to view intermediate term trends as supportive (90% of S&P 500 stocks above their 200 DMA). Materials, Financials, and Energy stocks are approaching oversold short-term levels within longer-term uptrends (during the current rotation). We recommend monitoring price action around support levels for favored stocks (and be mindful of earnings dates/reports), as short-term weakness can create longer-term opportunity.



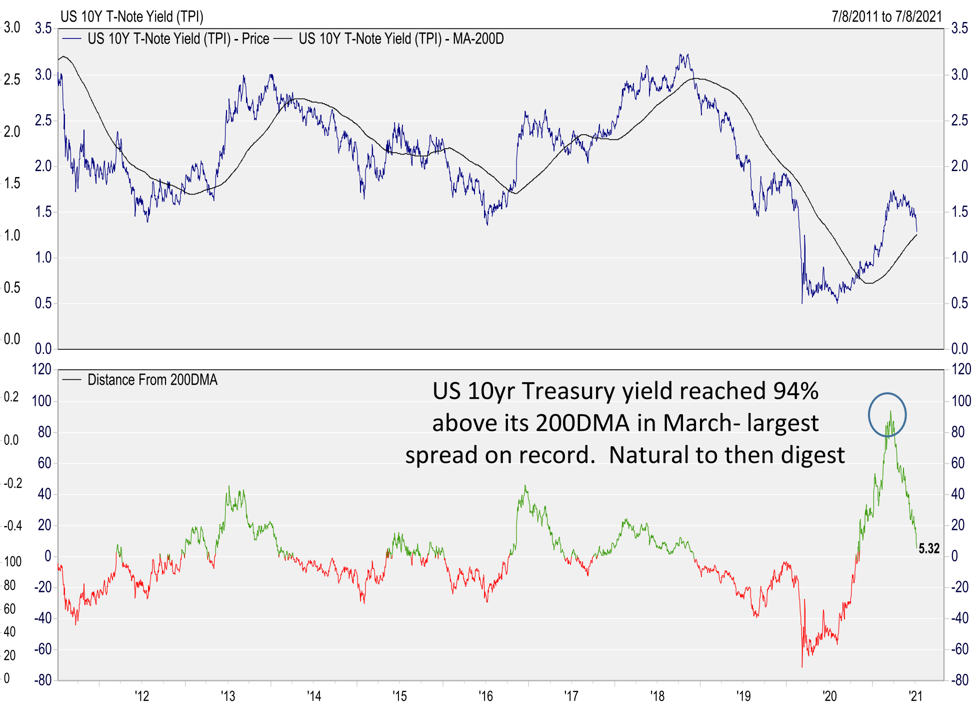
Sector Trends and Moving Averages

Sector	10 DMA % Above	20 DMA % Above	50 DMA % Above	200 DMA % Above
Materials	57	43	11	86
Financials	28	31	23	97
Energy	5	5	27	95
Utilities	93	50	32	71
Consumer Staples	56	44	38	78
Comm. Services	31	42	38	77
Cons. Discretionary	52	56	46	92
Industrials	69	68	54	92
Real Estate	69	59	66	100
Technology	65	68	73	91
Health Care	80	81	75	94
S&P 500	57	55	48	90

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INTEREST RATES

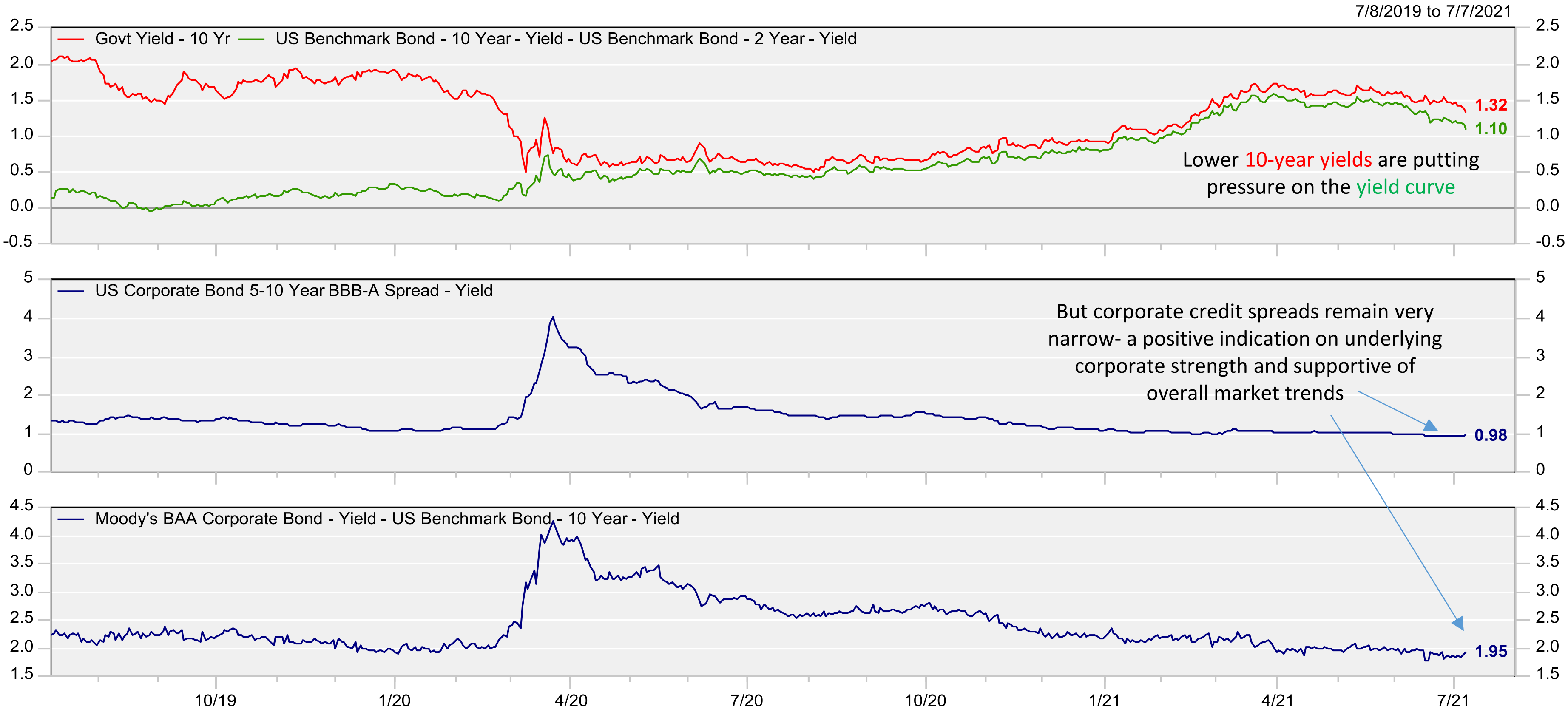
The underlying story impacting equities continues to revolve around interest rate movements. This is due to the market's rotational nature between longer-duration Growth stocks and shorter-duration Value areas. Growth was able to outperform dramatically in the pandemic as secular earnings growth potential was accelerated in the stay-at-home environment, accompanied by record low interest rates. This resulted in low discount rates on future growth and high net present values. As interest rates rose from last Fall to March (at a record pace), the high valuations of those Growth areas needed to be reduced (and they underperformed). However following that surge higher in rates, the US 10-year yield has been consolidating since and recently showed quicker downside to a now 1.29% yield. There are many variables contributing to this moderation in rates, but we have also thought it normal (and healthy) technically for a digestion phase to follow its prior rapid rate of ascent. We have been keying on technical support near its 200 DMA (1.20-1.30%) for some time now, so with the US 10-year Treasury yield now approaching these levels, we wait to see how it responds to support. It remains difficult to determine how long the moderation in interest rates will play out. But ultimately, we still stand in the camp that interest rates are likely to grind higher over the next 6-12 months due to strong economic growth, increasing inflation, and the Fed coming off of its ultra-accommodative stance.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CREDIT SPREADS

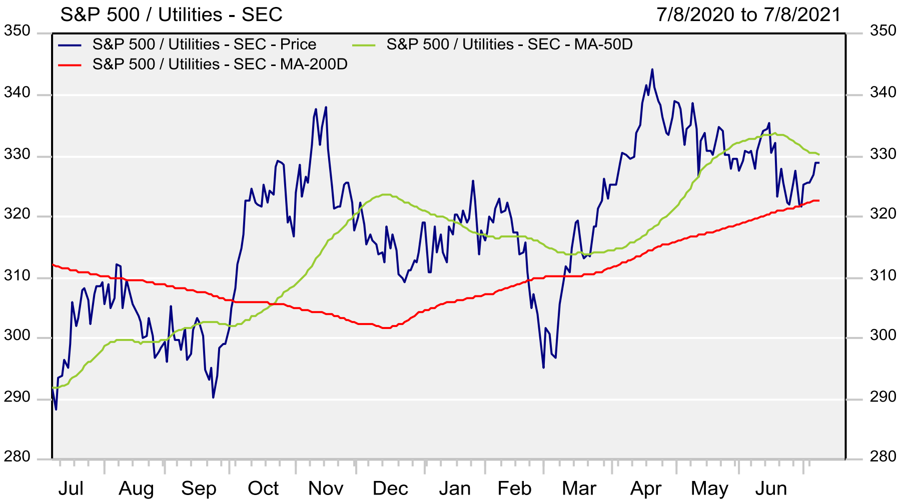
The downside in interest rates has also put pressure on the yield curve, which can often be used as a gauge of economic strength. However, this narrowing yield curve is not corroborated by credit spreads, which remain very narrow- a positive indication on underlying corporate stability. While interest rate movements will continue to have a large influence on sector rotation in our view, low interest rates in general are supportive of overall market trends. Pullbacks are bound to happen, and a moderation in the pace of market ascent is expected over the next 6-12 months. However, we continue to view the positives (strong fundamental and technical backdrop) as outweighing the potential negatives. As such, we recommend using short-term pullbacks as long-term buying opportunities.

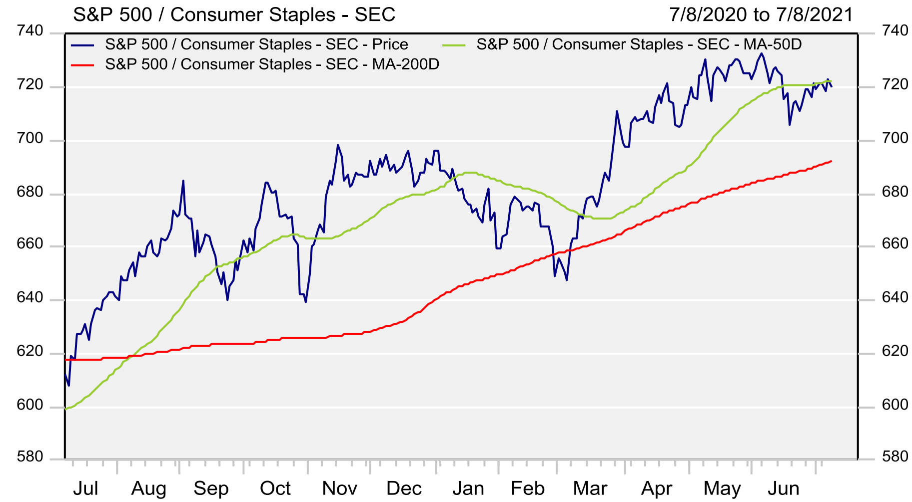


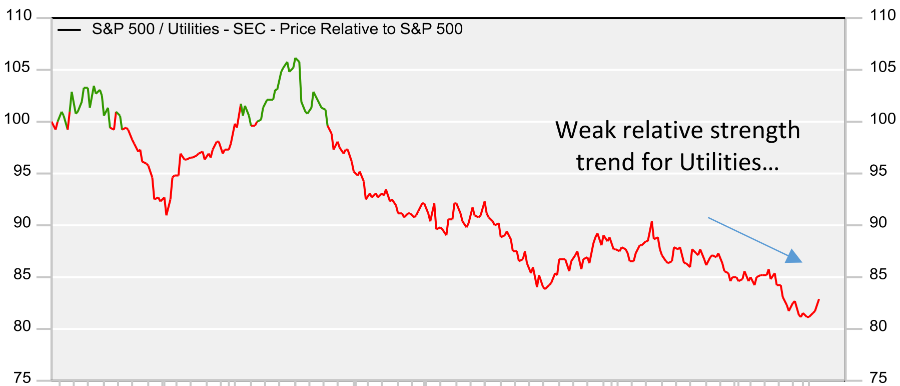
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

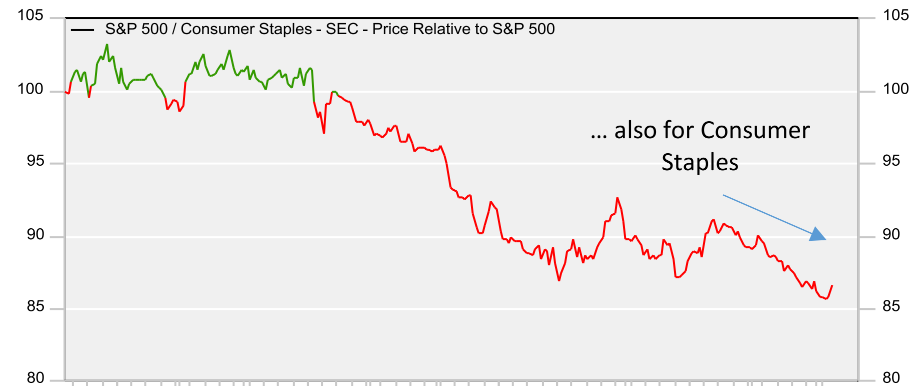
DEFENSIVE SECTORS

Our positive stance on the economic, fundamental, and technical backdrop is supported by weak relative strength trends exhibited from some of the more "defensive" areas, in our view. Despite lower interest rates and some softening short-term market participation, relative performance of Utilities and Consumer Staples remains in a downtrend. We continue to favor a pro-cyclical stance to portfolios.





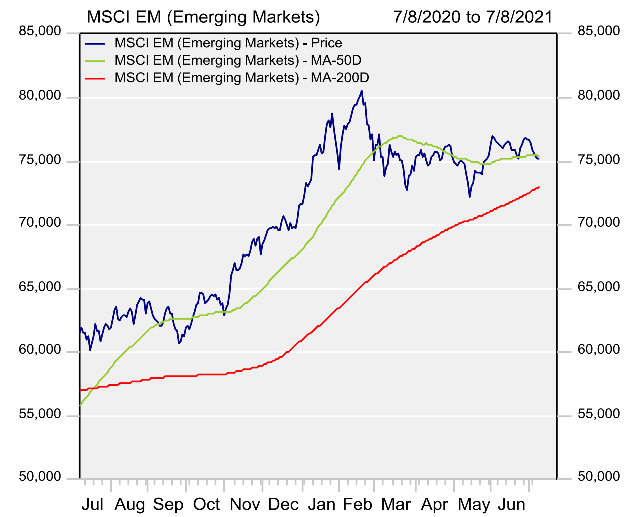


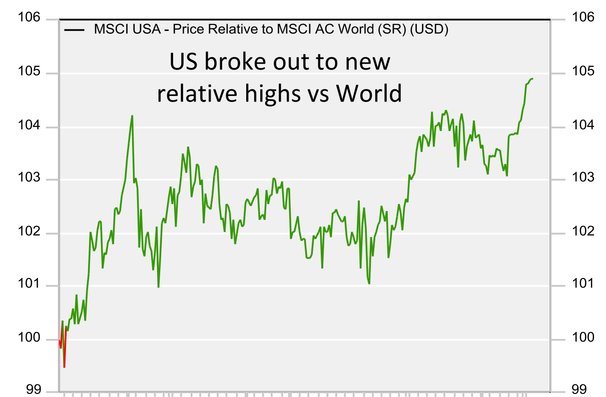


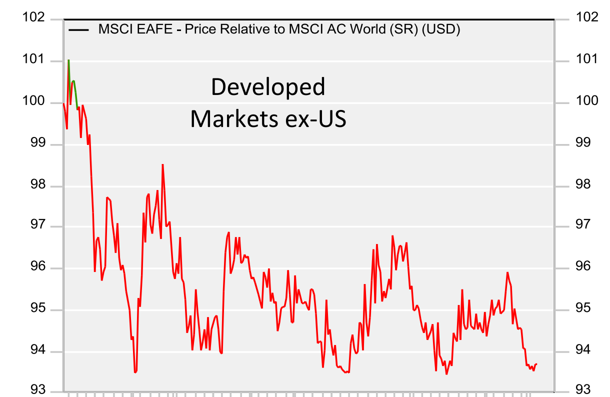
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

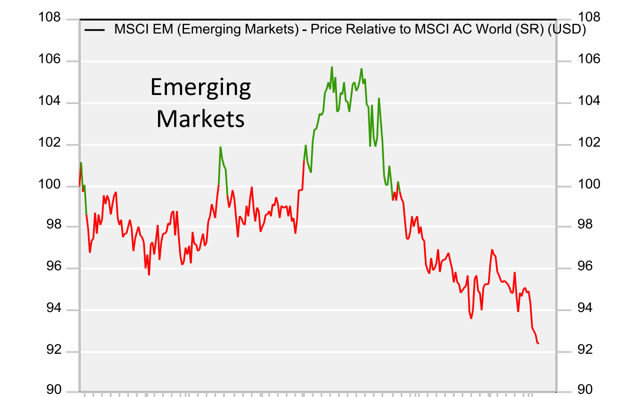
GLOBAL EQUITIES

Global equities continue to trade fairly well in general. However on a relative basis, the US remains the stand out- recently breaking out to new relative highs vs the World. We continue to favor the US in global equity allocations.









Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M21-3663860)

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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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