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JULY 15, 2021 | 3:57 PM EDT

Weekly Market Guide

Short-Term Summary:

The S&P 500 continues to glide higher, but participation within the advance lately has been very top-heavy. For example, the largest 5 S&P 500 stocks- AAPL, MSFT, AMZN, GOOGL, FB (which collectively make up 23% of the S&P 500's market cap)- have seen a relative strength resurgence over the past six weeks as Delta variant concerns have risen and the US 10yr Treasury yield has softened. In fact, the S&P 500 is up 4% since June 3rd, but ~80% of that move can be attributed to just those largest 5 stocks. They are up 12.5% on average over that timeframe vs the rest of the S&P 500 down by an average of -0.7%. The smallest 50 S&P 500 stocks are down -7% on average. Narrowing breadth is a sign of internal weakness and can sometimes precede pullback periods. We are mindful of this, but not overly concerned given the strong intermediate term technical backdrop along with the market's proclivity for sector rotation lately. We remain positive on equities broadly, but would look for opportunity within favored stocks as they pull back toward technical support levels. Tactically, these fall in more of the "reopen" areas at the moment, such as small caps, financials, energy, industrials, and select consumer discretionary.

Q2 earnings season is off and running with 6% of the S&P 500 having reported thus far. 90% of those companies beat estimates by an aggregate surprise of 28%. Announcements have been bank-heavy so far with 44% of the financials sector actually reporting in this week alone. The sector has already seen its Q2 estimate move 14.5% higher on a 33% earnings surprise, and one of our major takeaways from the banks is strong consumer spending and credit trends (which should have broad implications for corporate fundamentals). S&P 500 estimates for the full quarter are on the rise as a result- up by 2.7% in just the first two days of earnings season. Additionally, despite the strong upside in results so far, price reactions have been muted/mixed with ~60% of S&P 500 stocks trading lower on results for an average 1-day price reaction of -0.3%. This has been the going trend of the past several quarters in the recovery- strong upside surprises but below average price reactions- particularly so for technology. With technology showing strong relative performance lately in the run-up to earnings, we are interested to see how the sector responds to results in the coming weeks (also important for the market as a whole given tech's size). Overall, the strong start to Q2 earnings season supports our above-consensus view on earnings. Our base case estimate on S&P 500 earnings for 2021 and 2022 are $200 and $230 respectively (above consensus of $190 and $211).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	14.1%	31.1%
S&P 500	16.5%	36.8%
S&P 500 (Equal-Weight)	18.2%	46.0%
NASDAQ Composite	13.6%	39.6%
Russell 2000	11.5%	54.2%
MSCI All-Cap World	12.4%	33.6%
MSCI Developed Markets	8.7%	27.5%
MSCI Emerging Markets	3.6%	26.3%
NYSE Alerian MLP	35.7%	54.1%
MSCI U.S. REIT	24.4%	40.4%

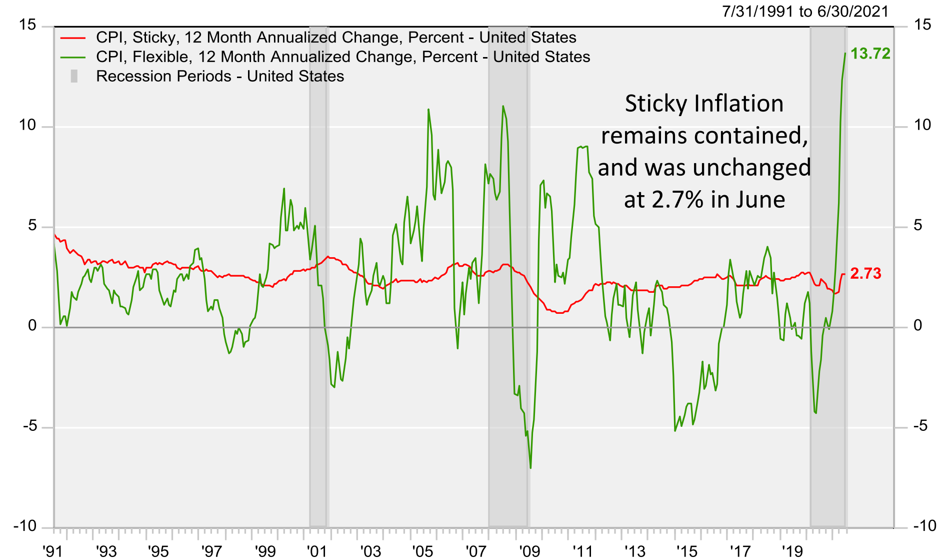
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	34.4%	2.6%
Real Estate	26.5%	2.6%
Financials	23.7%	11.0%
Communication Svcs.	21.8%	11.2%
Information Technology	17.3%	27.9%
S&P 500	***16.5%***	-
Industrials	15.7%	8.4%
Materials	13.4%	2.6%
Health Care	13.3%	13.0%
Consumer Discretionary	12.3%	12.3%
Consumer Staples	4.8%	5.8%
Utilities	3.3%	2.5%

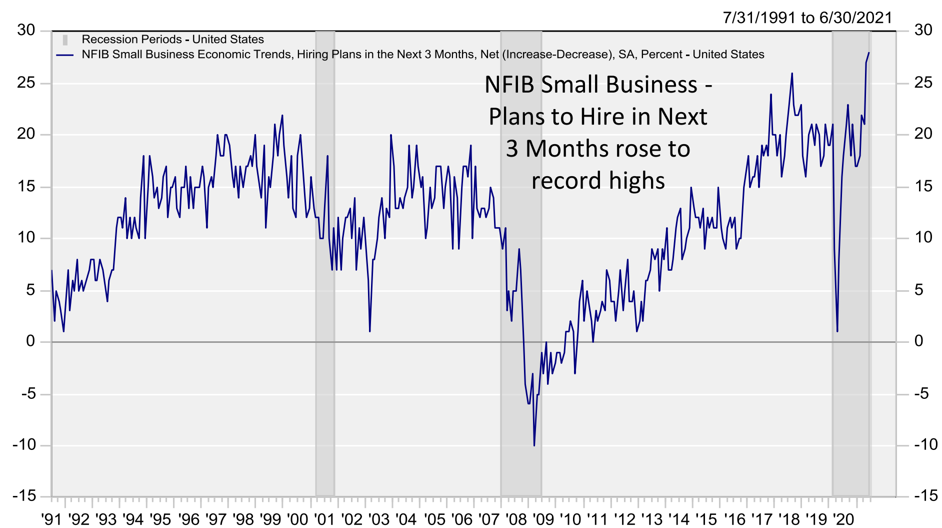
MACRO: US

Inflation readings remain elevated (June CPI 0.9% m/m and 5.4% y/y), but we still view due to largely transitory factors of heightened demand in the reopening (contributed to by enormous stimulus) accompanied with supply chain shortages globally. This dynamic could last for months, but we expect it to abate over time as stimulus ebbs and supply chains reopen. Additionally, more than 1/3rd of the CPI increase was due to used cars. The Atlanta Fed's "super-core" sticky inflation was actually unchanged in June at 2.7%.

The labor recovery remains important to monitor and is what ultimately needs to transpire for sustainability of the economic recovery. Plans to hire within the June NFIB Small Business survey increased to a record high, which also signals the improving fundamental backdrop of small businesses. A stronger labor market recovery and above average inflation should allow the Fed to back off of its ultra-accommodation, but we do not believe it will overtighten. We still expect the Fed to remain accommodative and higher rates will come because the economy is strong.

Event	Period	Actual	Consensus	Prior
NFIB Small Business Index	JUN	102.5	-	99.6
CPI ex-Food & Energy SA M/M	JUN	0.90%	0.40%	0.70%
CPI ex-Food & Energy NSA Y/Y	JUN	4.5%	4.0%	3.8%
CPI SA M/M	JUN	0.90%	0.50%	0.60%
CPI NSA Y/Y	JUN	5.4%	4.9%	5.0%
Hourly Earnings SA M/M (Final)	JUN	0.30%	0.30%	0.30%
Hourly Earnings Y/Y (Final)	JUN	3.6%	-	3.6%
Treasury Budget NSA	JUN	-$174.2B	-$210.0B	-$132.0B
PPI ex-Food & Energy SA M/M	JUN	1.0%	0.50%	0.70%
PPI ex-Food & Energy NSA Y/Y	JUN	5.6%	5.4%	4.8%
PPI SA M/M	JUN	1.0%	0.50%	0.80%
PPI NSA Y/Y	JUN	7.3%	6.8%	6.6%
Continuing Jobless Claims SA	07/03	3,241K	3,300K	3,367K
Initial Claims SA	07/10	360.0K	360.0K	386.0K
Empire State Index SA	JUL	43.0	17.7	17.4
Philadelphia Fed Index SA	JUL	21.9	28.3	30.7
Industrial Production SA M/M	JUN	0.40%	0.60%	0.70%

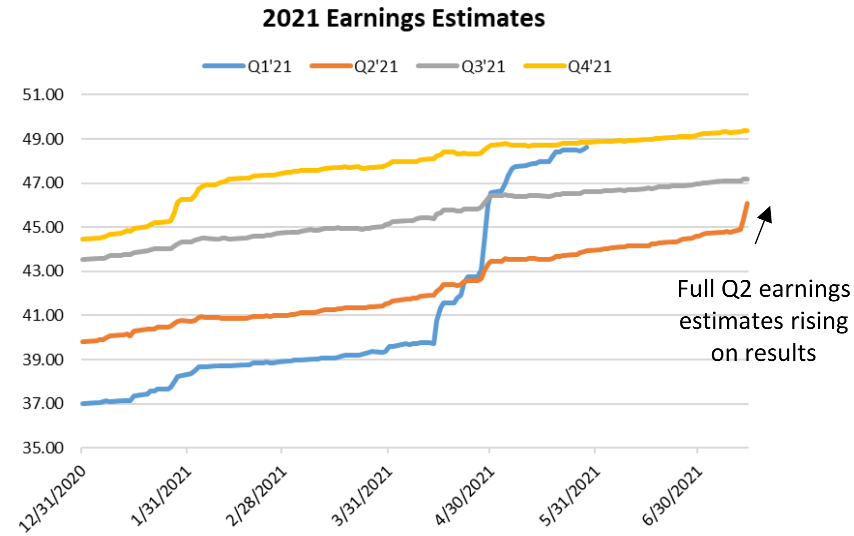


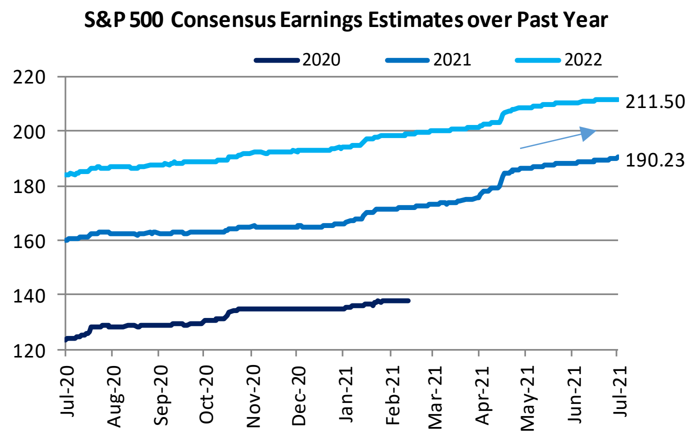


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q2 earnings season is off and running with 6% of the S&P 500 having reported thus far. 90% of those companies beat estimates by an aggregate surprise of 28%. S&P 500 estimates for the full quarter are on the rise as a result- up by 2.7% in just the first two days of earnings season. Announcements have been bank-heavy so far with 44% of the Financials sector actually reporting in this week alone. The sector has already seen its Q2 estimate move 14.5% higher on a 33% earnings surprise. Despite the strong upside in results so far, price reactions have been muted/mixed with ~60% of S&P 500 stocks trading lower on results and an average 1-day price reaction of -0.3%. This has been the going trend of the past several quarters in the recovery- strong upside surprises but below average price reactions. This has particularly been the case for Technology, and with the sector showing strong relative performance lately in the run-up to results, we are interested to see how the sector responds to results (also important for the market as a whole given Tech's size) in the coming weeks. Overall, the strong start to Q2 earnings season supports our above-consensus view on earnings this year and next. Our base case estimate on S&P 500 earnings for 2021 and 2022 are $200 and $230 respectively (above consensus of $190 and $211).





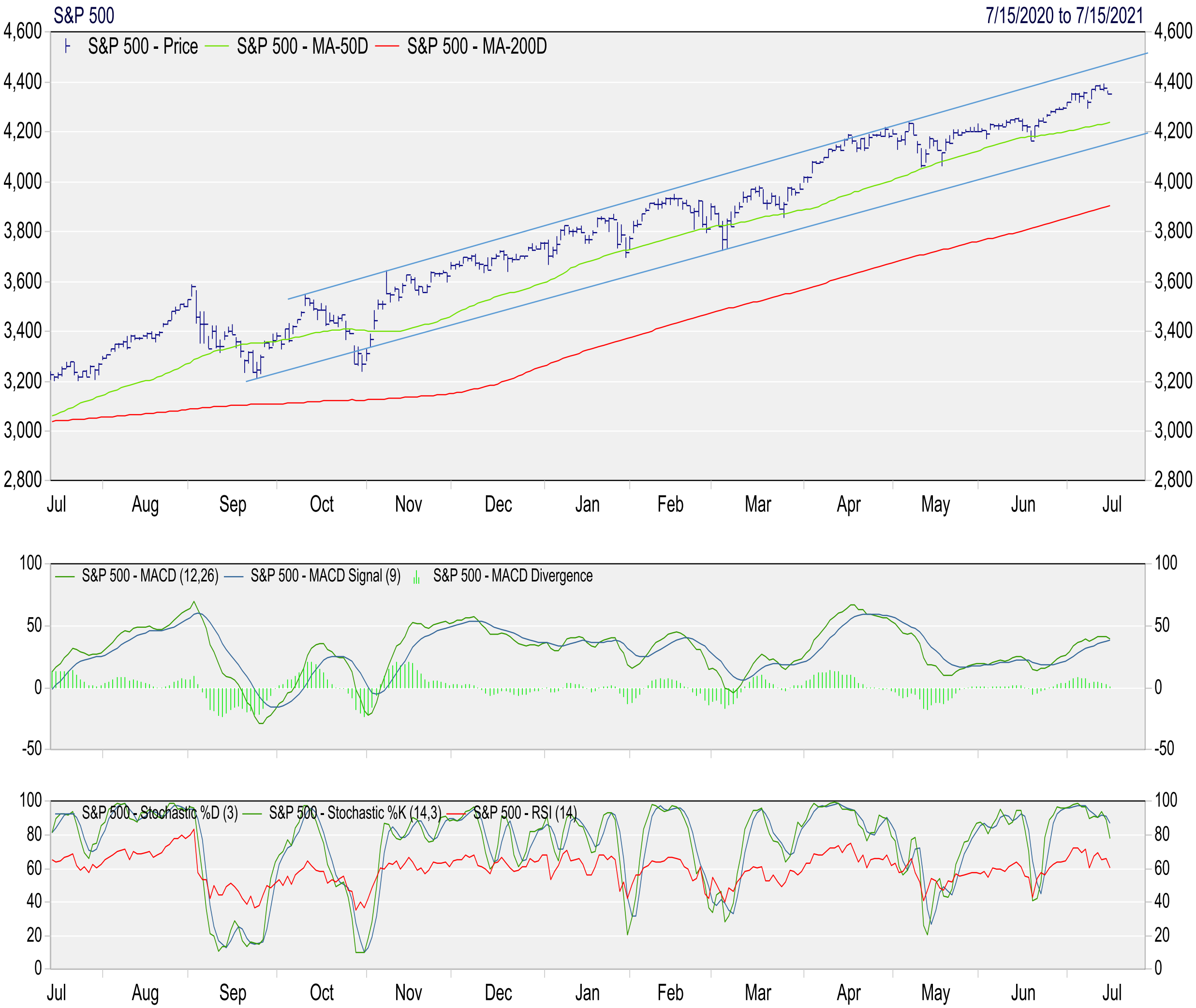
EPS Growth Estimates	
2020	-13.9%
2021	37.8%
2022	11.2%

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

S&P 500 Sector	% Q2 Est. EPS Growth Y/Y	Q/Q	% EPS Surprise	% Companies w/ Beats	Est. Chg Q2'21	Avg 1D Price Reaction
S&P 500	**68.1**	**-5.2**	**28.1**	**90**	**2.7%**	**-0.3%**
Industrials	361.2	30.1	19.2	75	0.9%	-2.0%
Energy	220.9	41.2	-	-	0.2%	-
Consumer Discretionary	209.2	-11.9	147.1	83	0.3%	-
Financials	146.0	-13.2	33.2	100	14.5%	0.2%
Materials	119.3	35.1	-	-	0.0%	-
Communication Services	42.4	-15.5	-	-	0.2%	-
Information Technology	31.2	-8.1	12.2	100	0.0%	-
Real Estate	19.2	2.2	-	-	0.0%	-
Health Care	11.6	-5.7	-	-	0.0%	0.3%
Consumer Staples	11.5	-0.2	14.6	86	1.0%	-1.6%
Utilities	-1.4	-15.3	-	-	0.1%	-

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 glide higher with far more volatility occurring beneath the surface. Participation remains fairly weak in the recent tech-heavy market push to all-time highs over the past several weeks.

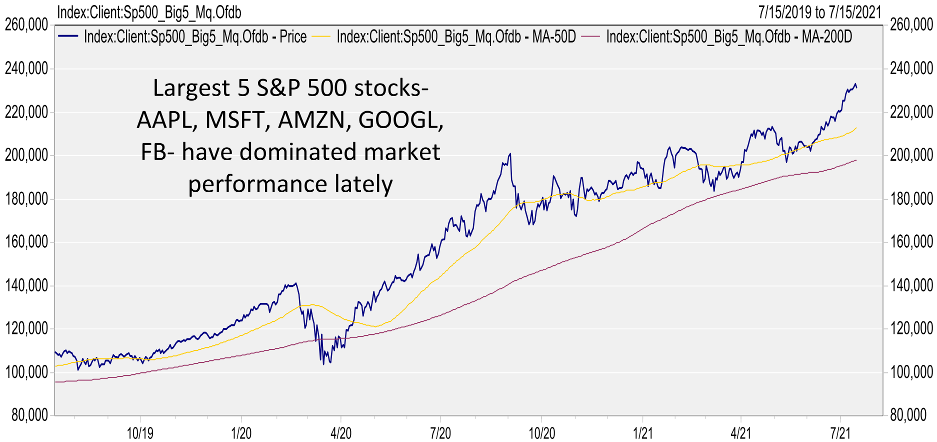
Volatility has been fairly limited in a broad sense since the positive vaccine news in early November, but we remind you that it is normal for the rate of market ascent to moderate and volatility to normalize in year 2 of a bull market.

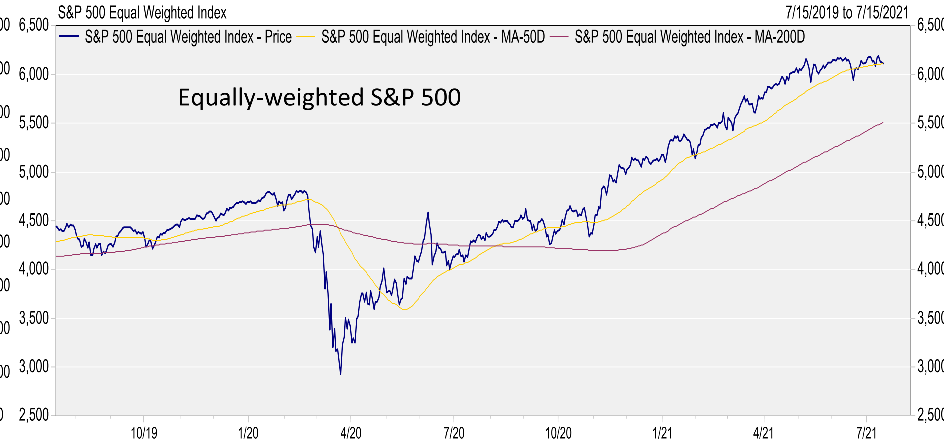
Pullbacks are bound to occur over time, but we continue to view the intermediate term technical backdrop as supportive and thus recommend using weakness (may continue to be seen more so at the sector level) as opportunity.

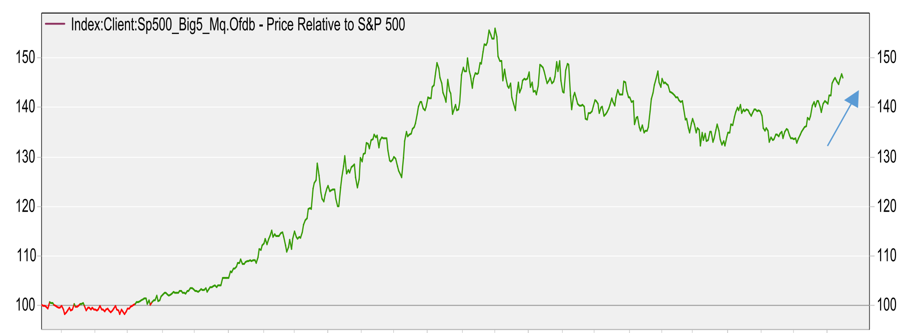
For the S&P 500, we continue to view the 50-day moving average (4236) as a key level of support, which has held since November. Below the 50 DMA, watch for technical support at the low-end of its positive trading range since September, followed by the most recent reaction low at ~4165.

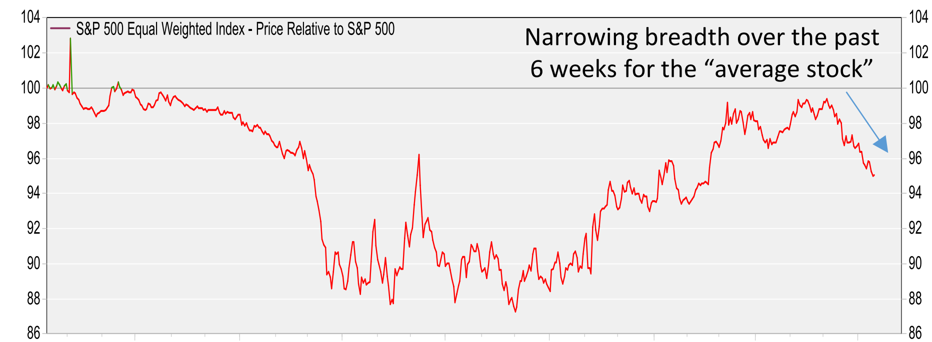
MARKET ROTATION

Participation within the market's recent advance lately has been very top-heavy. As you can see, the largest 5 S&P 500 stocks- AAPL, MSFT, AMZN, GOOGL, FB (which collectively make up 23% of the S&P 500's market cap)- have seen a relative strength resurgence over the past six weeks as Delta variant concerns have risen and the US 10yr Treasury yield has softened. In fact, the S&P 500 is up 4% since June 3rd, but ~80% of that move can be attributed to just those largest 5 stocks. They are up 12.5% on average over that timeframe vs the rest of the S&P 500 down by an average of -0.7%. The smallest 50 S&P 500 stocks are down -7% on average. Narrowing breadth is a sign of internal weakness and can sometimes precede pullback periods. We are mindful of this, but not overly concerned given the strong intermediate term technical backdrop along with the market's proclivity for sector rotation lately. We remain positive on equities broadly, but would look for opportunity within favored stocks as they pull back toward technical support levels.





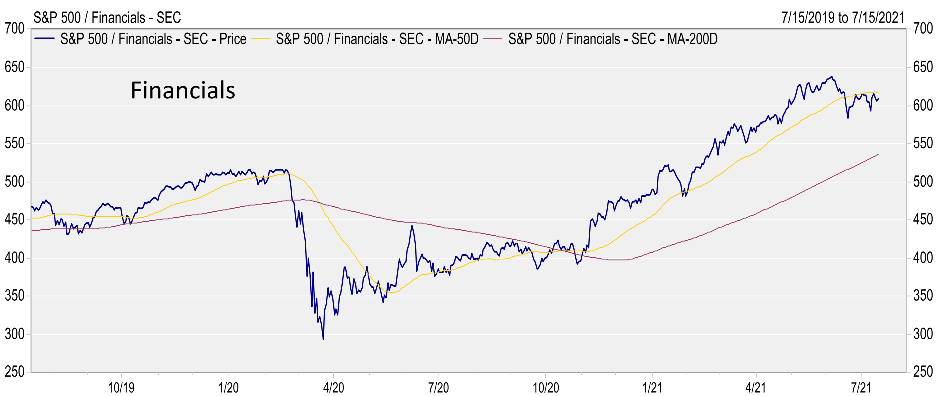


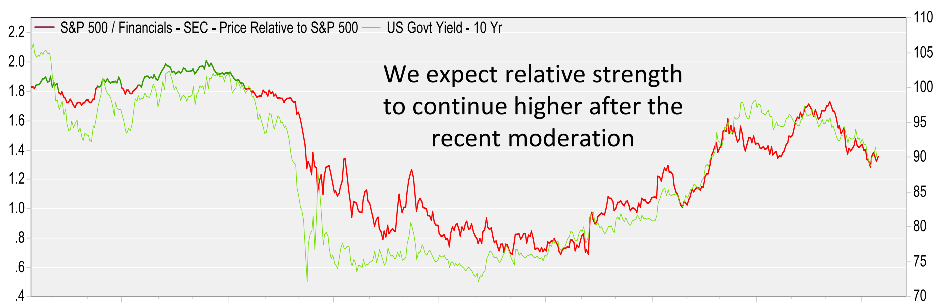


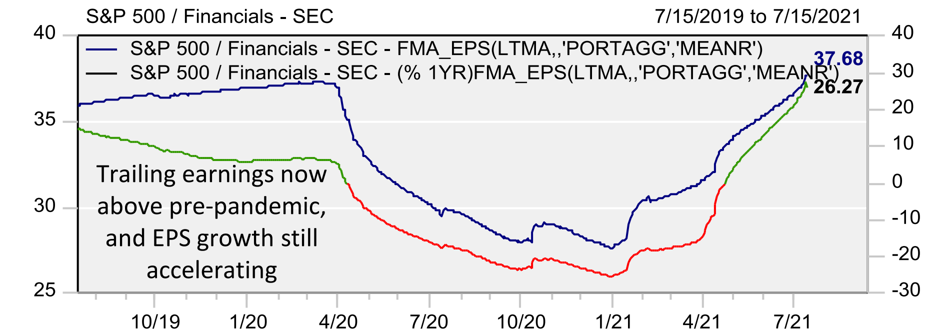
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

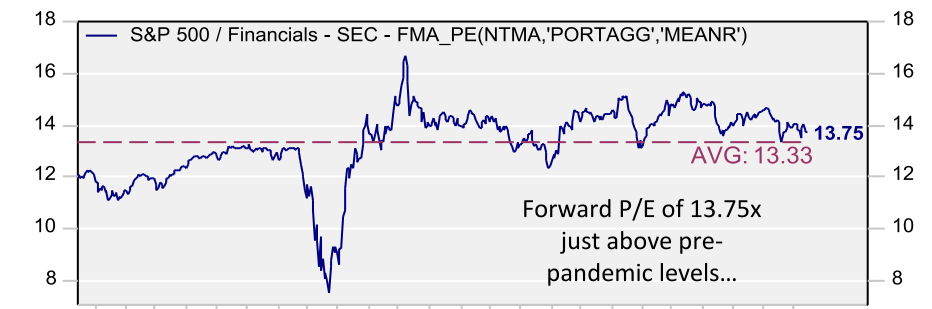
FINANCIALS

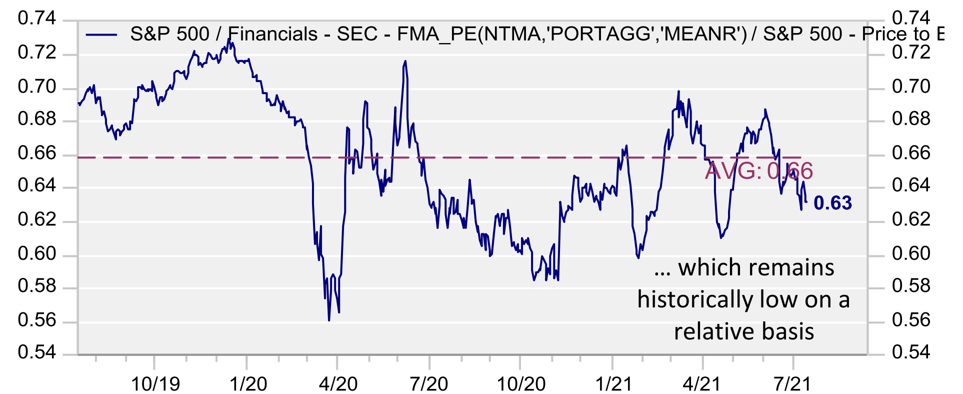
44% of the Financials sector reports Q2 earnings this week, and so far the reaction to results has been mixed. We view this as largely a result of still stubbornly low interest rates (which have been heavily correlated with relative performance over the past two years). One of our takeaways from bank earnings so far is that consumer spending and credit are strong, and this bodes well for the next stage of the recovery, where we expect higher loan growth and interest rates. The sector trades at a 13.75x forward P/E, which is still a 36% discount to the S&P 500 and near historically low levels. The flattening yield curve (and softer long-term rates) remains a headwind for now, but we remain positive on the sector over the next 6-12 months.











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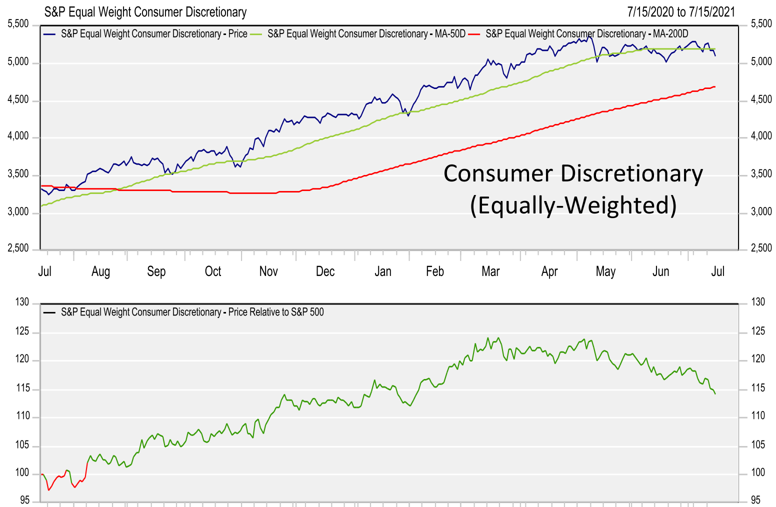
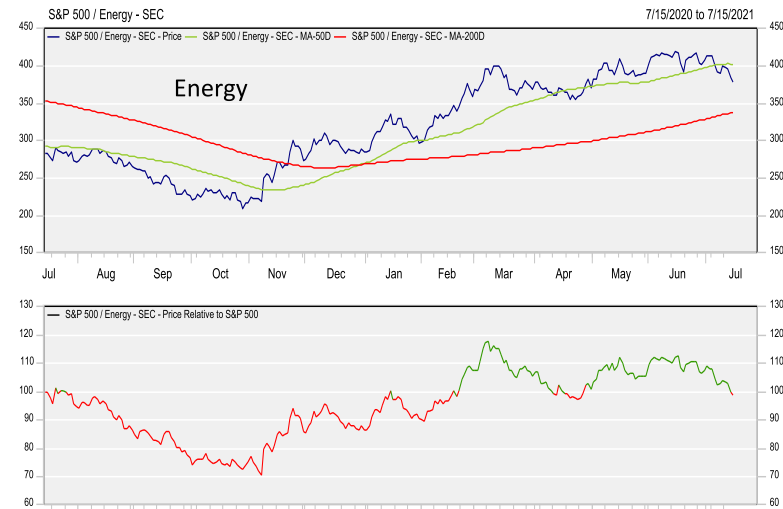
"REOPEN" AREAS



Concerns over the Delta variant, along with rotation back into large cap Tech, have weighed on the "reopen" areas lately.

Technically, many of these areas had seen outsized gains following positive vaccine news in November, so it is only natural (and healthy) to digest those gains at some point in time.

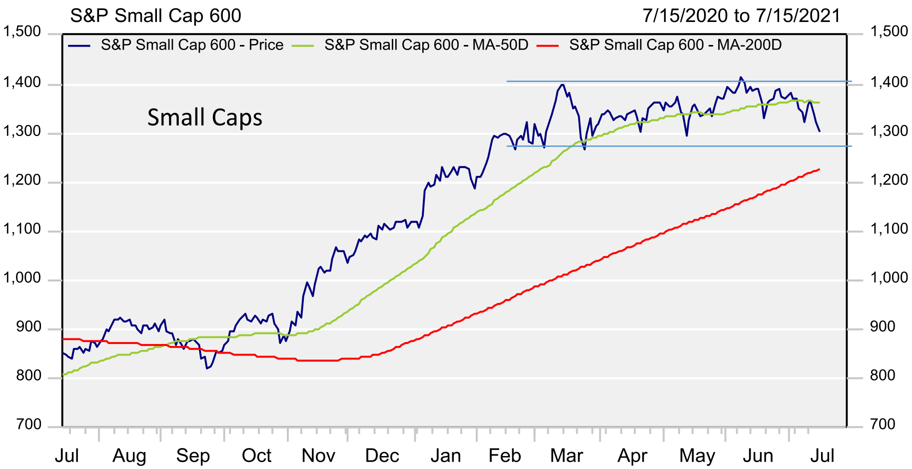
We are not ready to abandon these areas, and would use the current weakness as an opportunity to accumulate select consumer discretionary, industrials, financials, and energy stocks as they approach support levels.

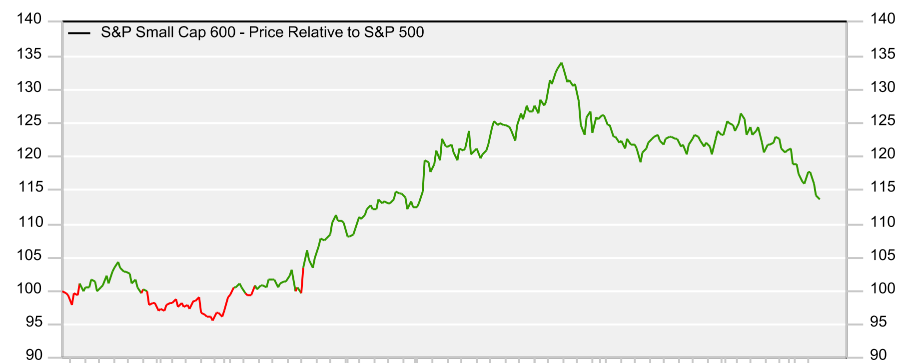


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

The same can be said for the Small Caps. The group ran ~58% higher from early November to mid-March, resulting in the index reaching 38% above its 200-day moving average which was the widest spread on record. Technically, this strength bodes well for future performance, but it is also natural for a digestion period to need to occur. The small caps have generally been consolidating those gains since mid-March. Small caps have outsized leverage to the economic recovery with 72% and 18% earnings growth expectations in 2021 and 2022 respectively, while the group trades at a discount to the S&P 500 on a forward P/E basis. We recommend modest accumulation in the small caps as they base above their 200-day moving average.





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Index Definitions

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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