RAYMOND JAMES

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Weekly Market Guide

Short-Term Summary:

The week began with market volatility on rising Delta variant concerns, as the S&P 500 pulled back -1.6% on Monday in what was the 5th worst day of performance for the index this year. Additionally, the US 10-year Treasury yield moved sharply lower and reached an intraday low of 1.13%! However once again, the 50-day moving average acted as the technical backstop with the S&P 500 able to rebound from this level- a trend that has persisted since the positive vaccine news in November.

We are encouraged by elevated vaccination rates and low hospitalization rates here in the US, and see outsized risks more at the global level for equities. Our stance is that until a variant proves resistant to current vaccines, we think the waves of threat and corresponding market volatility (more specifically on "reopen areas") should be purchased. Fundamental trends remain strong with Q2 earnings season maintaining the trend of the past several quarters so far- that being historically elevated beat rates and earnings surprises. Credit spreads remain very narrow and low interest rates are broadly supportive of equity markets, though their volatility is expected to remain a key influence on sector and stock rotation beneath the surface.

Looking under the hood of the market, the stocks most levered to an economic reopening have been hit the hardest over the past several weeks as Delta variant concerns have risen. For example, these “reopen stocks” have sold off 14% on average since May. On the other hand, the “pandemic winners” (that had largely been taking a breather in the earlier part of the year as the reflation trade was gaining steam) have seen renewed strength of late- up 4% on average since May. We recommend a balance of these stocks within portfolios, but view the pullbacks in “reopen stocks” recently as opportunity to accumulate with new money.

Moreover, the small caps have generally been grinding sideways for the past several months, and reached short-term oversold levels in Monday’s weakness. The group was able to find support at the bottom-end of its recent range (and just above its 200 DMA), and rebound strongly- leading Tuesday’s rally on 95% advancing volume. Technically, sideways patterns following sharp upside moves (digestion periods) usually resolve themselves higher. Additionally, we note that the percentage of small cap stocks above their 50 DMA moved below 20% on Monday. This can often occur near lows historically, and typically leads to above average returns over the next 1, 3, 6, and 12 months. We remain positive on the small caps over the next 6-12 months, and would accumulate the group as they bounce from the lower end of their recent range.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	13.7%	29.6%
S&P 500	16.0%	33.8%
S&P 500 (Equal-Weight)	18.3%	41.8%
NASDAQ Composite	13.5%	37.0%
Russell 2000	13.1%	50.2%
MSCI All-Cap World	11.4%	29.5%
MSCI Developed Markets	6.4%	21.5%
MSCI Emerging Markets	1.6%	20.8%
NYSE Alerian MLP	31.6%	36.1%
MSCI U.S. REIT	25.3%	41.6%

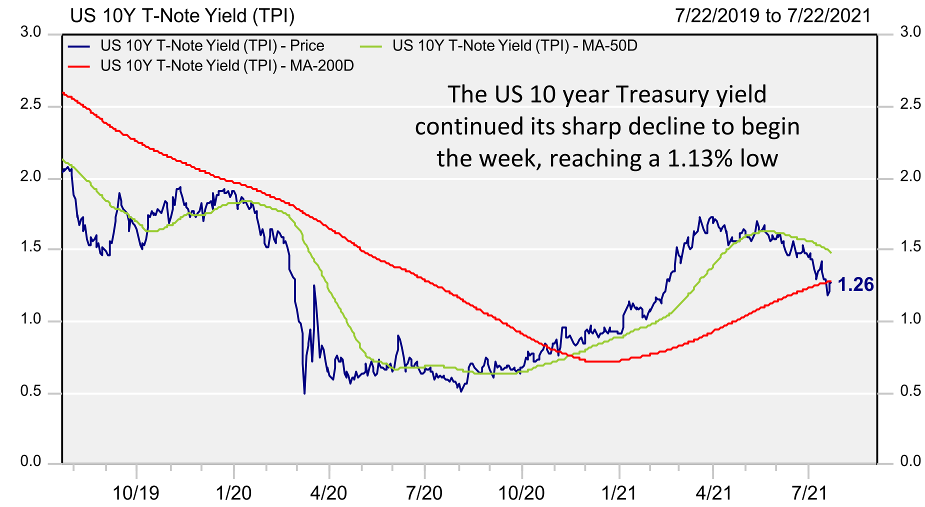
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	30.3%	2.6%
Real Estate	26.7%	2.6%
Financials	24.0%	11.1%
Communication Svcs.	20.6%	11.1%
Industrials	16.8%	8.5%
Information Technology	16.4%	27.8%
S&P 500	***16.0%***	-
Health Care	13.6%	13.2%
Materials	11.8%	2.5%
Consumer Discretionary	11.8%	12.3%
Consumer Staples	4.8%	5.8%
Utilities	3.2%	2.5%

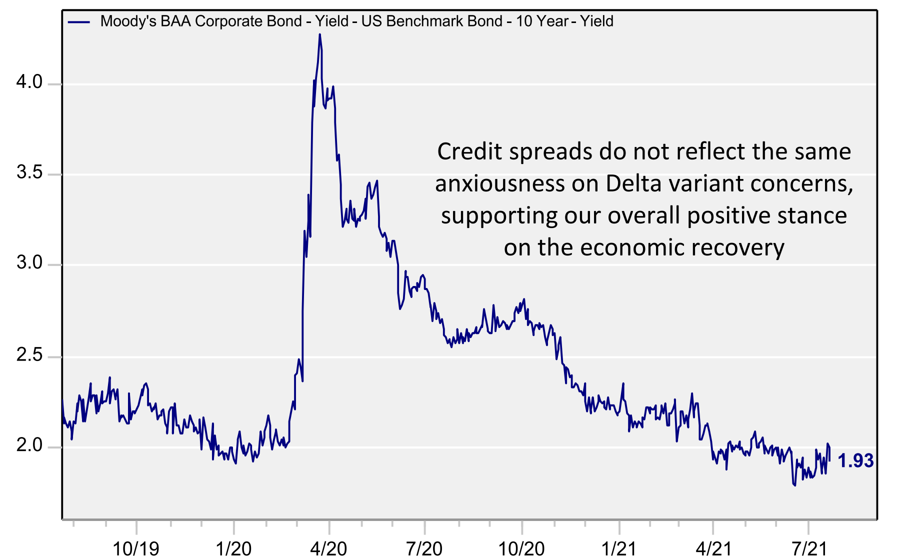
MACRO: US

The week began with continued sharp downside in the US 10 year Treasury yield which broke its 200 DMA and touched an intraday low of 1.13% on 7/20. Concerns over the Delta variant have contributed to the move, as investors weigh its impact on global growth and the reopening process. It is an important variable to take into account in our view, but we are encouraged by elevated vaccination rates and low hospitalization rates here in the US. Overall, low interest rates are supportive of equities, but their volatility is expected to remain a key influence on sector and stock rotation beneath the surface- the next catalyst to watch for rates will be the FOMC meeting next week. Also, corporate credit spreads remain very narrow, a positive indication on the overall economic and fundamental backdrop.

June retail sales were reported above expectations this week, growing 0.6% m/m and 1.3% m/m ex-auto. Overall, retail sales growth has slowed in recent months following the stimulus-induced surge in March. However, retail sales are still 16% above December 2020 levels, and we remain positive on consumer trends- which bodes well for our consumer-driven economy.

Event	Period	Actual	Consensus	Prior
Retail sales Ex AutoFuel M/M	JUN	1.1%	0.30%	-1.0%
Retail Sales ex-Auto SA M/M	JUN	1.3%	0.40%	-0.90%
Retail Sales SA M/M	JUN	0.60%	-0.40%	-1.7%
Business Inventories SA M/M	MAY	0.50%	0.35%	0.10%
Michigan Sentiment NSA (Preliminary)	JUL	80.8	86.5	85.5
NAHB Housing Market Index SA	JUL	80.0	82.0	81.0
Building Permits SAAR (Preliminary)	JUN	1,598K	1,700K	1,683K
Housing Starts SAAR	JUN	1,643K	1,590K	1,546K
Housing Starts M/M	JUN	6.3%	1.5%	2.1%
Continuing Jobless Claims SA	07/10	3,236K	3,060K	3,265K
Initial Claims SA	07/17	419.0K	350.0K	368.0K
Existing Home Sales SAAR	JUN	5,860K	5,900K	5,780K
Leading Indicators SA M/M	JUN	0.70%	0.95%	1.2%



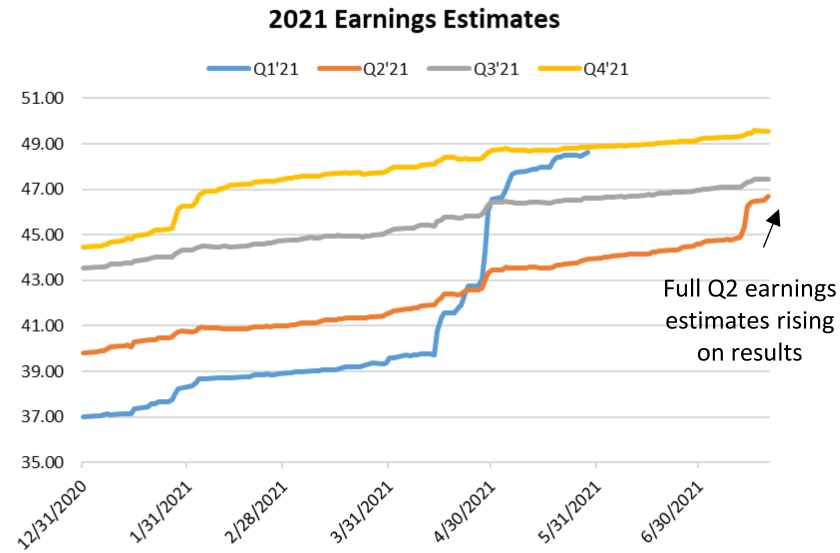


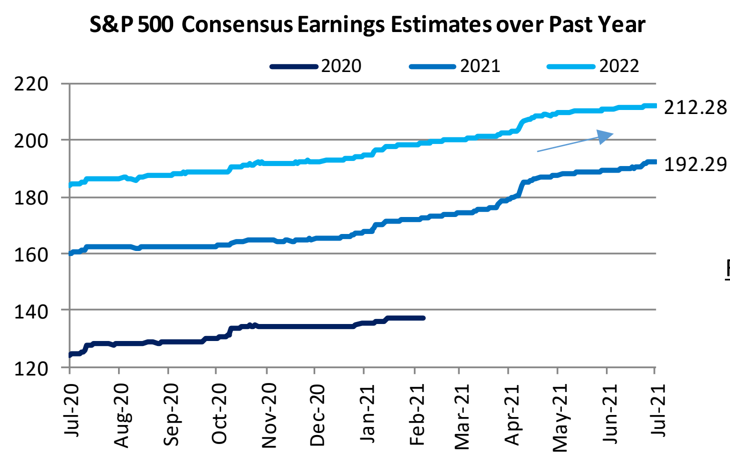
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

73 S&P 500 companies (14%) have reported Q2 results so far with another 190 (38%) reporting by the end of next week. Highlighting next week's results are a handful of mega-cap Tech companies. So far, 84% of those reporting have beaten earnings estimates- well above the 69% historical average and in line with the past four quarters at 83% (record levels). Likewise, the aggregate earnings surprise has been 19.3%- also well above the 5% historical average and in line with the past four quarters at 20% (record levels). These historically elevated beat rates and surprises continue to result in upward pressure on forward estimates. The S&P 500 full Q2 estimate has been revised 4.4% higher so far (driven primarily by the Financials), and we expect this trend to continue as earnings season progresses.

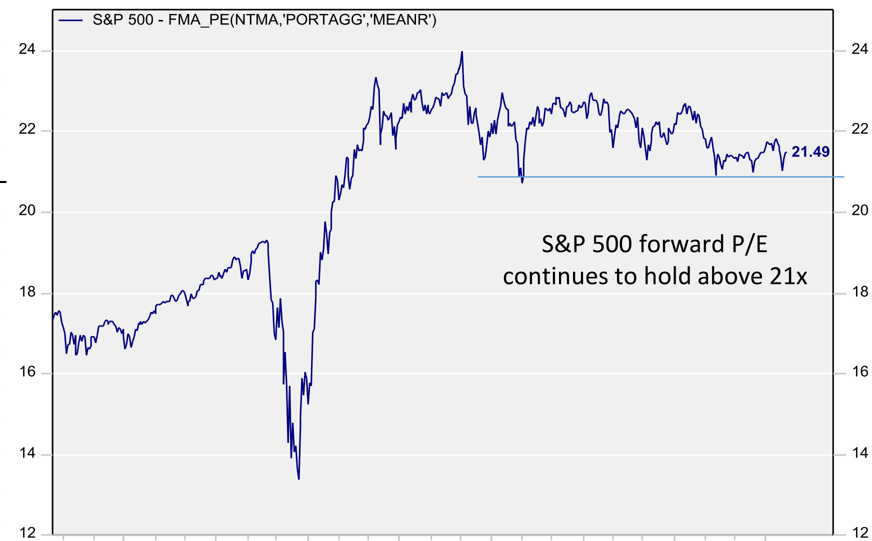
The overall fundamental trajectory remains strong with full-year 2021 and 2022 sales, margin, and earnings estimates continuing to trend higher. In addition, the S&P 500 forward P/E continues to hold above 21x. We expect multiples to gradually move lower (and normalize) toward pre-pandemic levels, but still low interest rates and narrow credit spreads are supporting elevated levels.





EPS Growth Estimates	
2020	-14.1%
2021	39.8%
2022	10.4%

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



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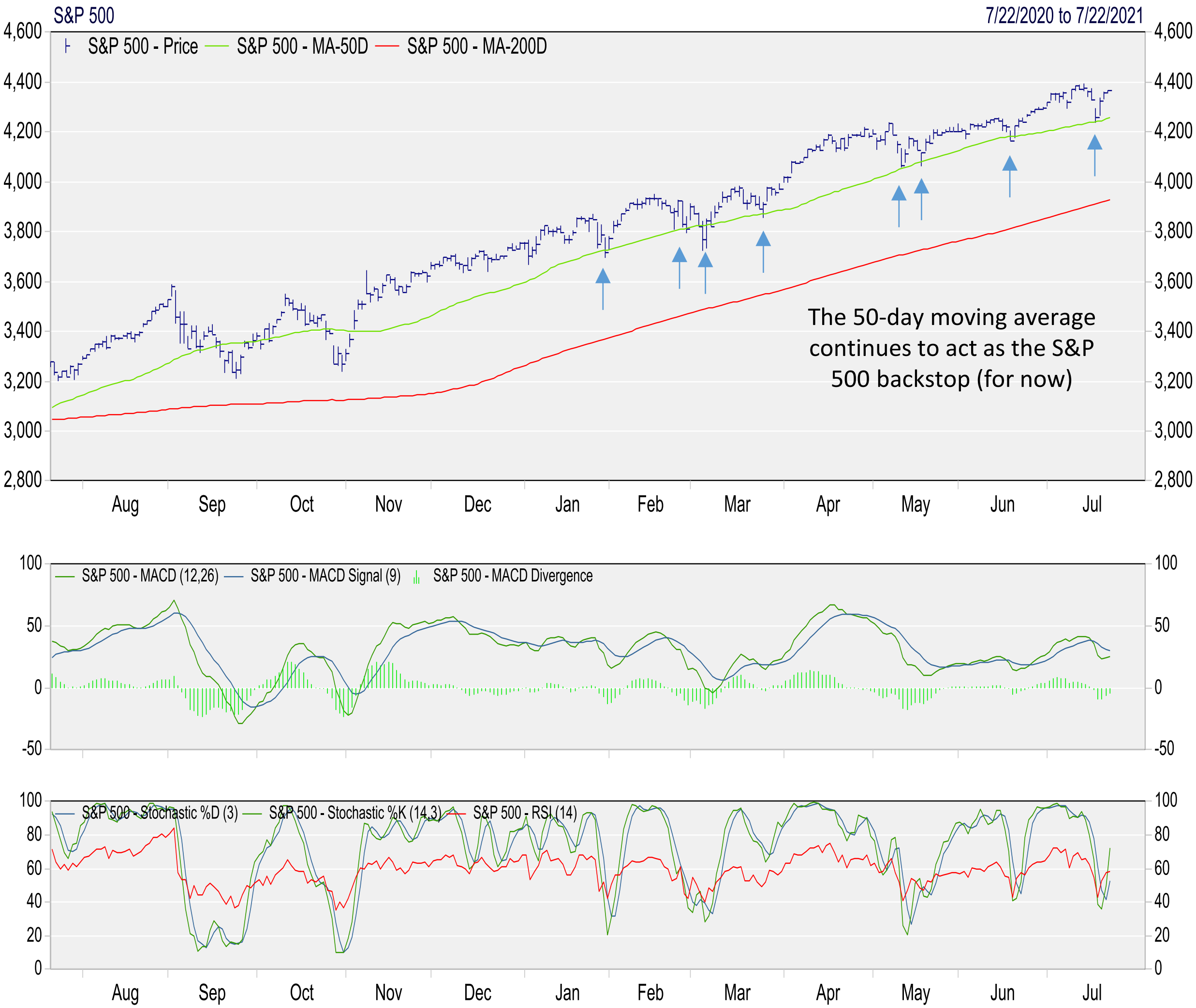
TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 began the week sharply weaker by -1.6% on Monday- the index's 5th worst day of performance in 2021. However once again, the 50-day moving average acted as the backstop with the S&P 500 able to rebound from this level- a trend that has generally persisted since the positive vaccine news in November.

The more frequent visits to the 50 DMA sets the table for an eventual failure at some point. This is not a big concern since the break would not break the positive uptrend. Further, even if we eventually test the 200-DMA it would only be a 10% pullback from the current quote.

Market breadth continues to be very narrow beneath the surface, along with being very rotational in conjunction with interest rate movements. But overall, we remain positive on the market's technical backdrop and continue to recommend using weakness opportunistically (particularly at support levels) for favored sectors and stocks.

MARKET BREADTH

As previously discussed, market breadth remains narrow in the advance since April. And a narrow market is a vulnerable market technically. So was the recent 3% pullback from highs the extent of what we will see from this big divergence? Normally, the answer would be "no." But with market rotation so heightened right now (negative correlations between Growth and Value- abnormal historically), in conjunction with record levels of stimulus and exceptionally low interest rates… "maybe."

Many areas reached oversold levels in the recent downdraft. For example, the S&P 500 was just 3.1% from its highs, but some of the more economically-sensitive Energy, Materials, and Financials sectors reached -15.5%, -10.6%, and -8.4% from their highs. But importantly this short term weakness is occurring within still solid intermediate term uptrends. We believe opportunity lies in some of these cyclical areas that have pulled back the most lately.

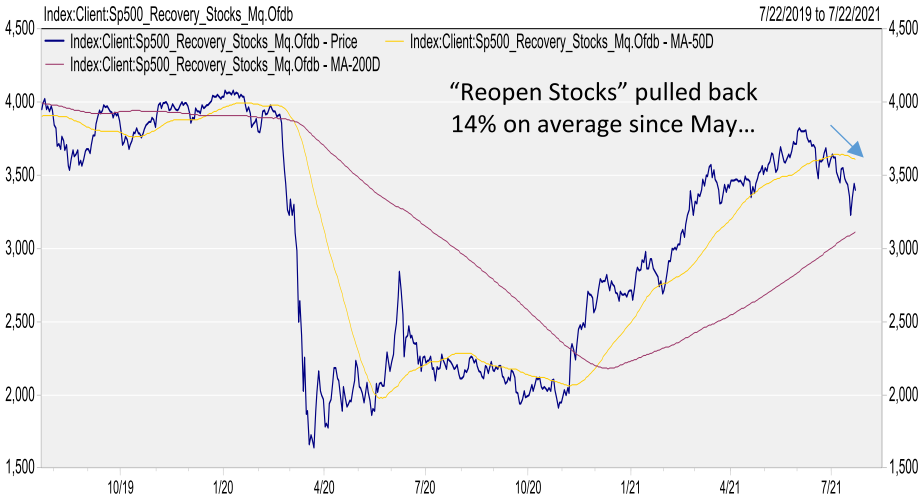
Sector Trends and Moving Averages

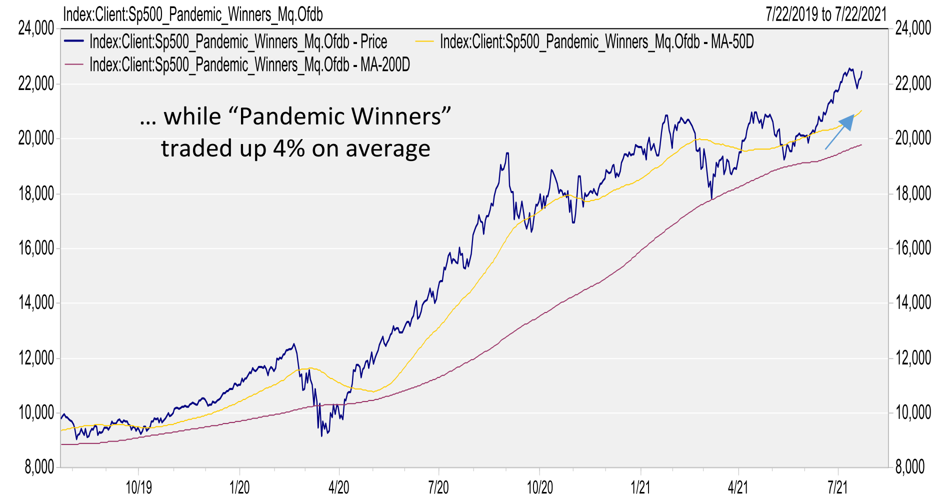
Sector	10 DMA % Above	20 DMA % Above	50 DMA % Above	200 DMA % Above	Index % From 52 Week High
Energy	0	0	0	77	-12.6%
Materials	25	18	14	71	-8.7%
Financials	72	51	31	91	-6.0%
Utilities	25	54	32	61	-4.1%
Industrials	86	73	58	91	-2.2%
Cons. Discretionary	75	48	48	86	-1.8%
Comm. Services	50	23	38	73	-1.1%
Consumer Staples	41	38	38	63	-0.7%
Health Care	55	67	76	90	-0.4%
Technology	80	68	72	86	-0.4%
Real Estate	72	86	79	100	-0.4%
S&P 500	62	54	50	84	-0.9%

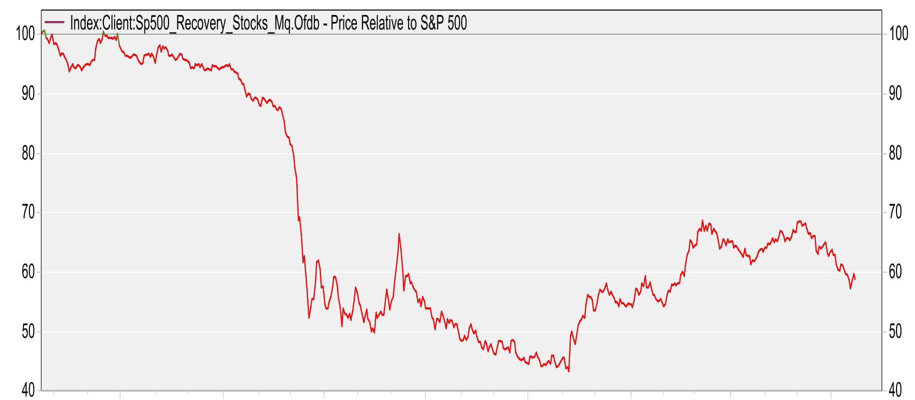
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

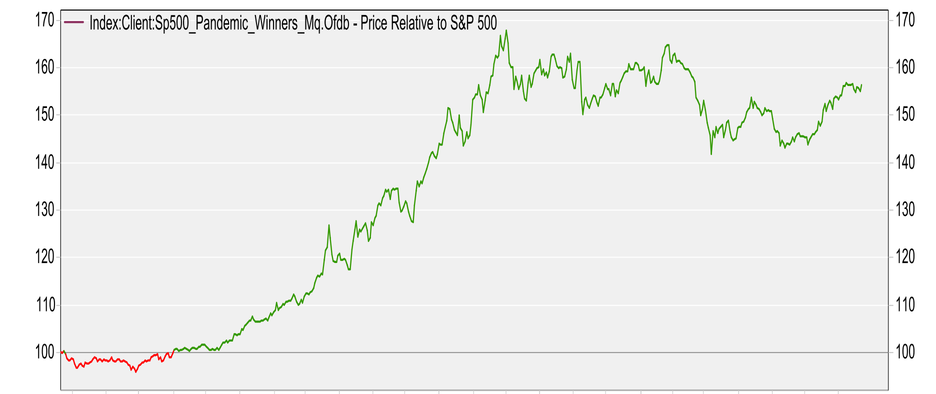
"REOPEN STOCKS" VS "PANDEMIC WINNERS"

Looking under the hood of the market, the stocks most levered to an economic reopening have been hit the hardest over the past several weeks as Delta variant concerns have risen. For example, these "reopen stocks" sold off 14% on average since May. On the other hand, the "pandemic winners" (that had largely been taking a breather in the earlier part of the year as the reflation trade was gaining steam) have seen renewed strength of late- up 4% on average since May. We recommend a balance of these stocks within portfolios, but view the pullbacks in "reopen stocks" as opportunity to accumulate for new money.









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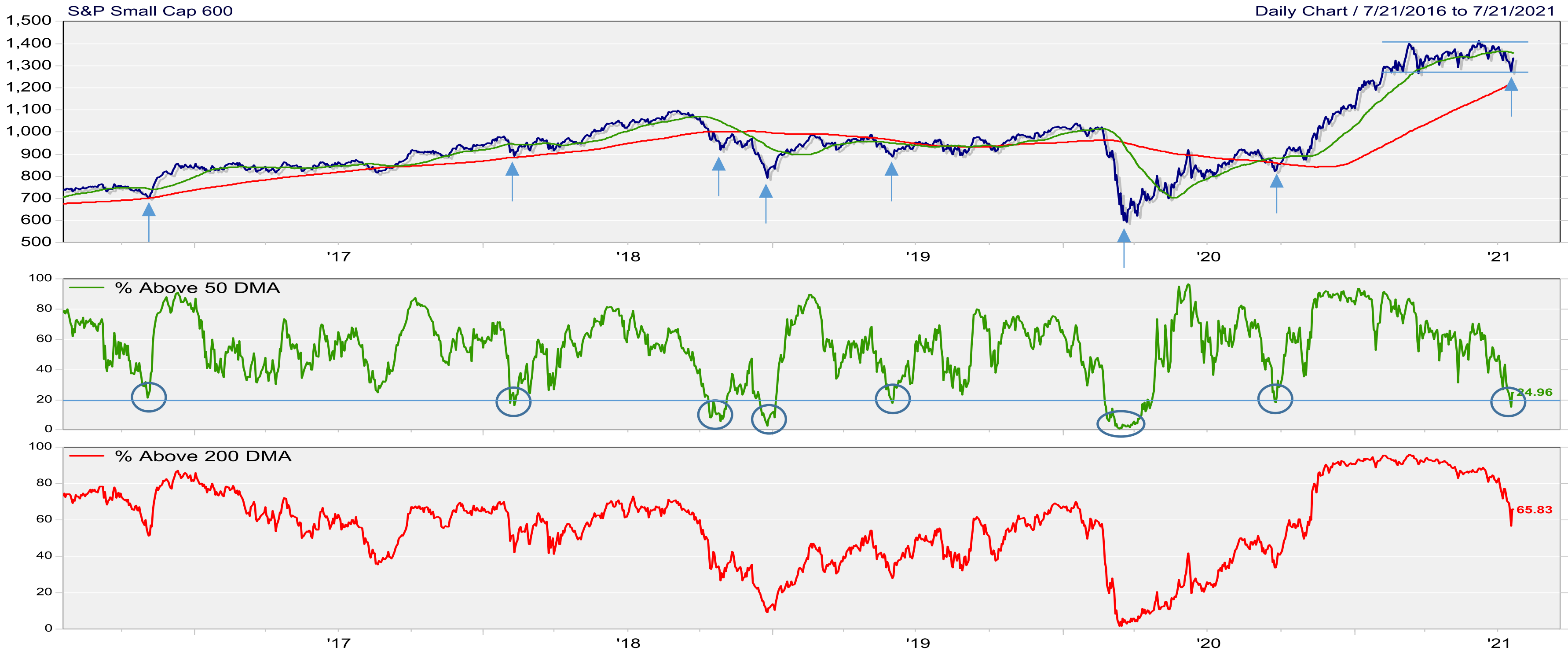
SMALL CAPS

The small caps have generally been grinding sideways for the past several months, and reached short-term oversold levels in Monday's weakness. The group was able to find support at the bottom-end of its recent range (and just above its 200 DMA), and rebound strongly- leading Tuesday's rally on 95% advancing volume. Technically, sideways patterns following sharp upside moves (digestion periods) typically resolve themselves higher. Additionally, we note that the % of small cap stocks above their 50 DMA moved below 20% on Monday. This can often occur near lows historically, and typically leads to above average returns over the next 1, 3, 6, and 12 months (as you can see in table on top right). We remain positive on the small caps over the next 6-12 months, and would accumulate the group as they bounce from the lower end of their recent range.

Small cap performance is typically above average following <20% of stocks above their 50 DMA

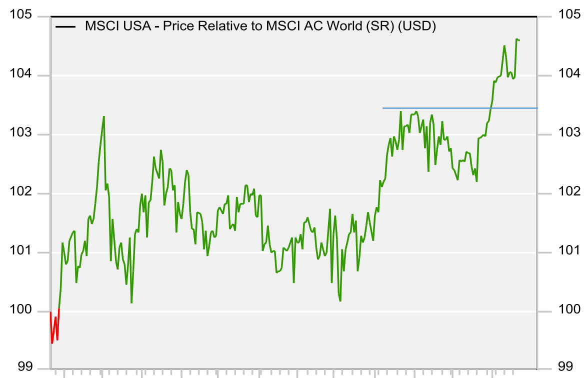
	Average Forward Returns - since 1999			
Small Caps	**1M**	**3M**	**6M**	**12M**
% Above 50 DMA <20	2.65%	6.30%	12.64%	25.44%
Positivity Rate	67%	69%	76%	85%
All Historical Data	0.90%	2.66%	5.37%	10.07%
Positivity Rate	61%	66%	69%	74%

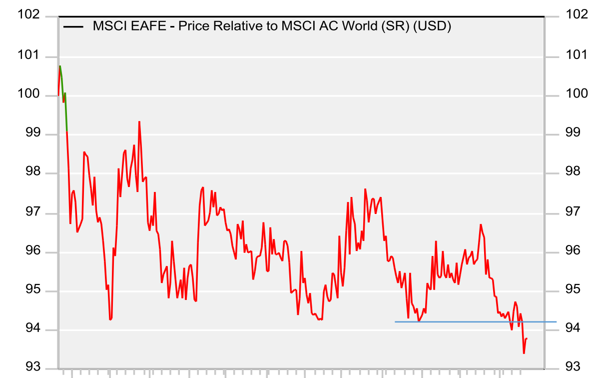


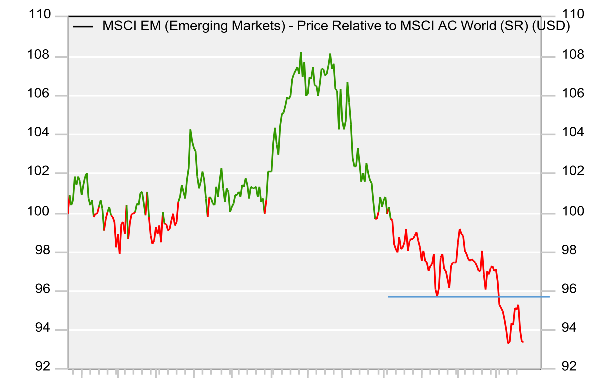
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GLOBAL EQUITIES

Delta variant concerns are impacting market volatility, more so around the world due to the US's relatively elevated vaccination rates. For the US- our stance is that until a variant proves resistant to current vaccines, we think the waves of threat and corresponding market weakness (or more specifically re-open areas), should be purchased. As you can see in the charts below, the US has been able to advance on strong relative strength (vs the World) since May; whereas Developed ex-US and Emerging Markets have traded lower and broke to new relative lows (vs the World). We continue to favor the US for global equity allocations.







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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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