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JULY 29, 2021 | 4:18 PM EDT

Weekly Market Guide

Short-Term Summary:

Q2 earnings results are blowing out estimates once again- continuing the trend of the past several quarters. 87% of S&P 500 companies are beating estimates by an aggregate 19.1%- well above historical averages (and in line with the past 4 quarter average). 60% of the S&P 500's market cap has reported up to this point, and full quarter estimates have already been revised 10.4% higher, reflecting a notable 82% growth y/y. Margins are a big topic of conversation on company calls; and while rising input costs are being mentioned as continued concerns going forward, companies overall have been able to maintain/expand margins due to very strong demand trends up to this point. Looking forward, margin estimates continue to trend higher, as do earnings estimates for every quarter of 2021 and 2022. We remain positive overall on the fundamental recovery and expect upside to continue. In addition, low interest rates and enormous stimulus are supporting elevated valuation multiples as this fundamental momentum takes place- providing upside to equities.

Technically, we have been monitoring divergences in the S&P 500's ascent over the past couple of months, noting participation has been extremely narrow. For example, the index has been making new highs while the percentage of stocks above their 50-day moving averages has contracted. Additionally, the S&P 500 has gained 5.3% since the end of May, but 60% of this move can be attributed to just the largest 5 stocks- AAPL, MSFT, AMZN, GOOGL, FB. Those stocks are up 14% on average while the rest of the index has been relatively flat. We have not been overly concerned based on the market's proclivity for rotation in the current environment, along with still solid intermediate term trends. Importantly, we see the potential for sector rotation to swing back in favor of the "recovery-oriented areas," and note a breakout to new highs by the S&P 500 equal-weighted index on relative strength today. One day does not make a trend, and we would like to see this build on itself over the coming days/ weeks. But given our recommendation for a balanced but pro-cyclical tilt to sector allocations, we view the recent pullbacks in some of the more economically-sensitive areas (i.e. small caps, energy, financials) as opportunities.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	14.1%	32.4%
S&P 500	17.2%	36.7%
S&P 500 (Equal-Weight)	19.0%	43.4%
NASDAQ Composite	14.5%	41.9%
Russell 2000	12.7%	51.4%
MSCI All-Cap World	12.0%	31.3%
MSCI Developed Markets	7.8%	23.5%
MSCI Emerging Markets	-1.8%	17.2%
NYSE Alerian MLP	33.6%	45.5%
MSCI U.S. REIT	25.4%	36.8%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	31.5%	2.6%
Real Estate	27.2%	2.6%
Communication Svcs.	24.8%	11.4%
Financials	23.3%	10.9%
S&P 500	***17.2%***	-
Information Technology	17.1%	27.7%
Health Care	15.9%	13.4%
Industrials	15.9%	8.3%
Materials	14.0%	2.5%
Consumer Discretionary	12.7%	12.3%
Utilities	5.7%	2.5%
Consumer Staples	5.4%	5.8%

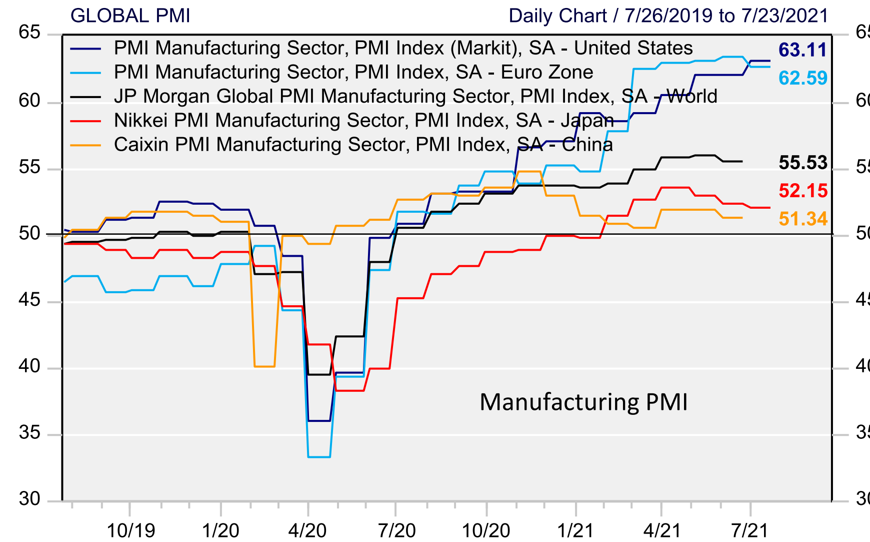
Source: FactSet

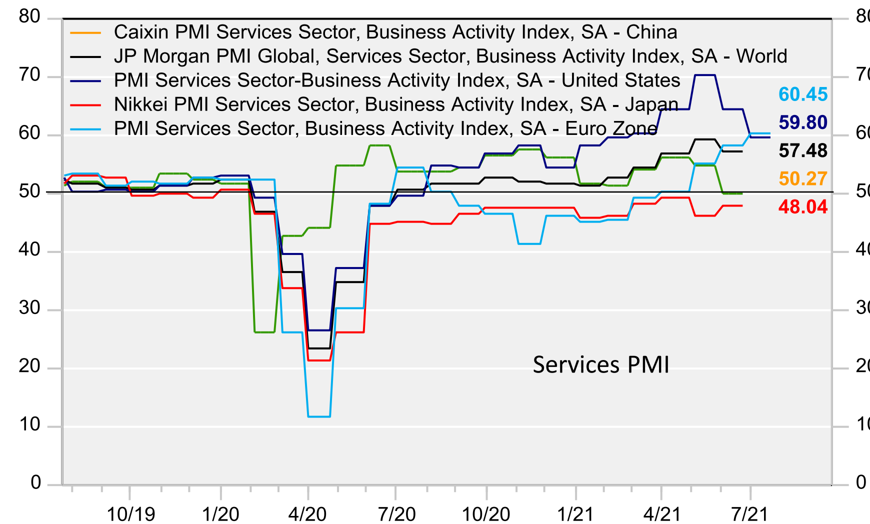
MACRO: US

Q2 GDP rose at a 6.5% annual rate (above Q1's 6.3%)- though this was below expectations, underlying data was much stronger with private domestic final purchases growing at a 9.9% annual rate. This 9.9% rate follows Q1's 11.8%, which is extremely robust growth in the 1st half of 2021. Looking ahead, July US services PMI continued to moderate (though still very elevated at 59.8), while US manufacturing PMI continued to advance (now up to 63.1). Overall, this reflects some slowdown (which is to be expected) but still at very strong/healthy levels. Additionally, both PMI readings remain relatively high vs. other countries around the globe (particularly China and Japan). Furthermore, July consumer confidence was able to advance to its highest levels since the pandemic began- now approaching February 2020's 132.6 reading.

The FOMC meeting yesterday left the narrative relatively unchanged, though the comments took a slight step forward toward an eventual tapering. There still remains a way to go with the Fed focused on the labor market recovery. The bottom line is the Fed remains very accommodative, and we expect this to be the case going forward with the risk of overtightening being minimal.

Event	Period	Actual	Consensus	Prior
PMI Composite SA (Preliminary)	JUL	59.7	63.5	63.7
Markit PMI Manufacturing SA (Preliminary)	JUL	63.1	62.0	62.1
Markit PMI Services SA (Preliminary)	JUL	59.8	64.5	64.6
Building Permits SAAR (Final)	JUN	1,594K	1,598K	1,598K
New Home Sales SAAR	JUN	676.0K	800.0K	724.0K
Dallas Fed Index	JUL	27.3	32.5	31.1
Durable Orders ex-Transportation SA M/M (Preliminary)	JUN	0.30%	0.85%	0.50%
Durable Orders SA M/M (Preliminary)	JUN	0.80%	2.1%	3.2%
S&P/Case-Shiller comp.20 HPI M/M	MAY	1.8%	2.2%	1.7%
S&P/Case-Shiller comp.20 HPI Y/Y	MAY	17.0%	15.9%	15.0%
Consumer Confidence	JUL	129.1	124.0	128.9
Richmond Fed Index	JUL	27.0	20.0	26.0
Continuing Jobless Claims SA	07/17	3,269K	3,230K	3,262K
GDP SAAR Q/Q (First Preliminary)	Q2	6.5%	8.5%	6.3%
GDP SA Y/Y (First Preliminary)	Q2	12.2%	12.7%	0.50%
Initial Claims SA	07/24	400.0K	400.0K	424.0K
Pending Home Sales Index SAAR	JUN	112.8	110.5	114.7
Pending Home Sales M/M	JUN	-1.9%	0.0%	8.0%



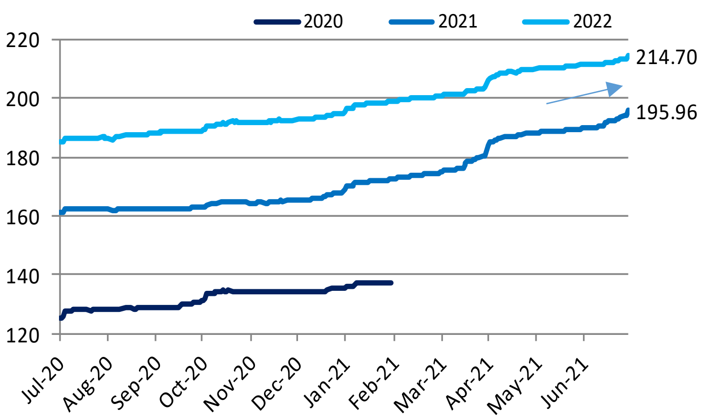


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

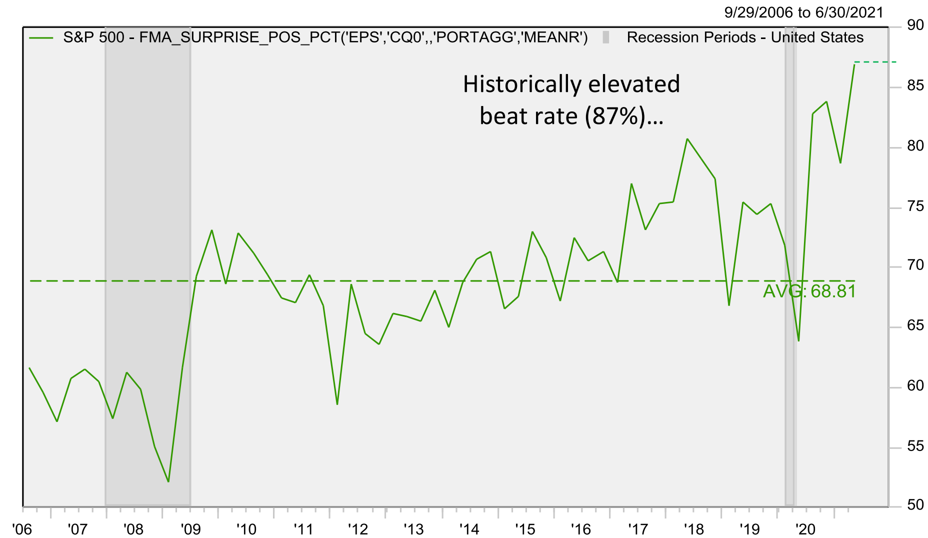
Q2 results are blowing out estimates once again- continuing the trend of the past several quarters. 87% of S&P 500 companies are beating estimates by an aggregate 19.1%- well above historical averages (and in line with the past 4 quarter average). 60% of the S&P 500's market cap has reported up to this point, and full quarter estimates have already been revised 10.4% higher, reflecting a notable 82% growth y/y. At the going 95% correlation of companies reporting vs. Q2 earnings estimates, full quarter results could finish another 6% or so higher (~93% EPS growth y/y). Margins are a big topic of conversation on company calls; and while rising input costs are being mentioned as continued concerns going forward, companies overall have been able to maintain/expand margins due to very strong demand trends. Looking forward, margin estimates continue to trend higher, as do earnings estimates for each of the next six quarters. We remain positive overall on the fundamental recovery and expect upside to continue. In addition, low interest rates and enormous stimulus are supporting elevated valuation multiples as this fundamental momentum takes place- providing upside to equities.

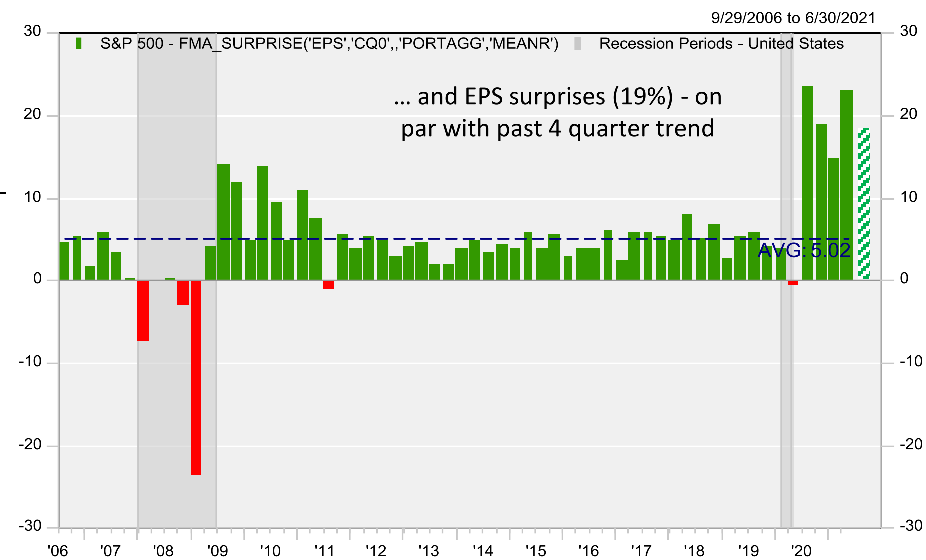
S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2020	-14.1%
2021	42.5%
2022	9.6%

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



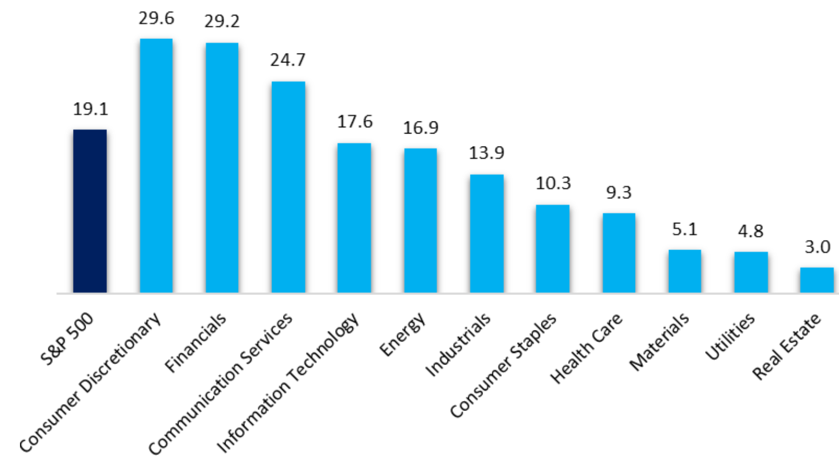


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

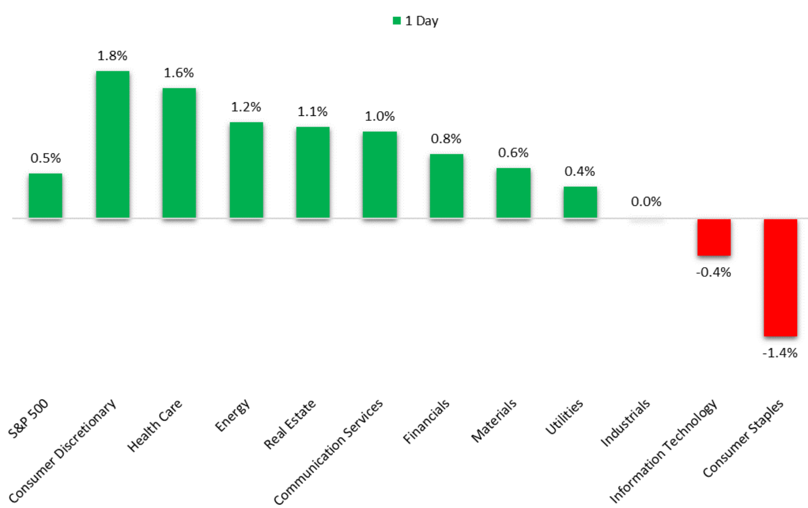
SECTOR FUNDAMENTALS

The data on this page is limited to just the stocks that have reported so far, and some areas still have a long way to go. But earnings growth has been strongest from the more economically-sensitive areas as expected, due to easy comps from last year's shutdown accompanied by enormous stimulus and the swift economic reopening. EPS surprises, on the other hand, have been more of a mix of pandemic winners and recovery stocks. Consumer Discretionary and Financials stand out as having the largest surprises, followed by Communications Services and Technology. We believe this supports our view on sector allocations- that being a balanced but pro-cyclical tilt within portfolios. Price reactions so far have been mixed with 54% of stocks trading higher and 46% trading lower. Best reactions on average have come from Consumer Discretionary and Health Care, while Consumer Staples stands out as the most negative reactions to results on average. In our view, this is due to a relative lack of pricing power and ability to cope with rising input costs in this environment.

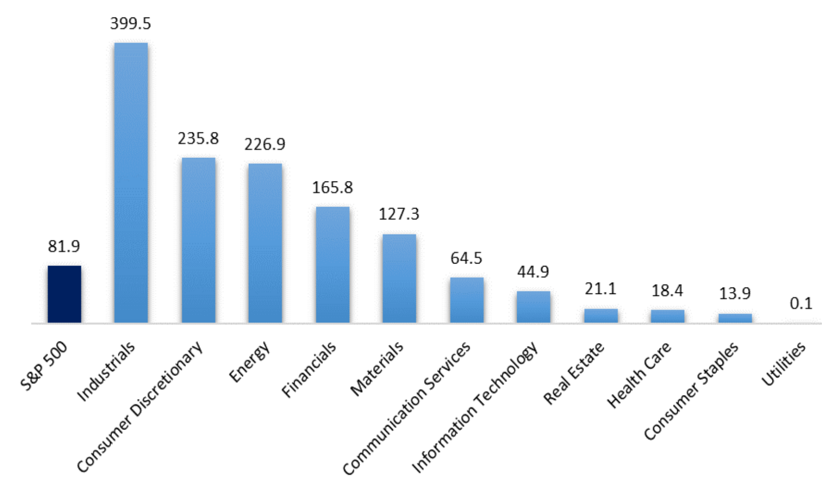
Q2 2021 EPS Surprise



Q2 Average Price Reactions

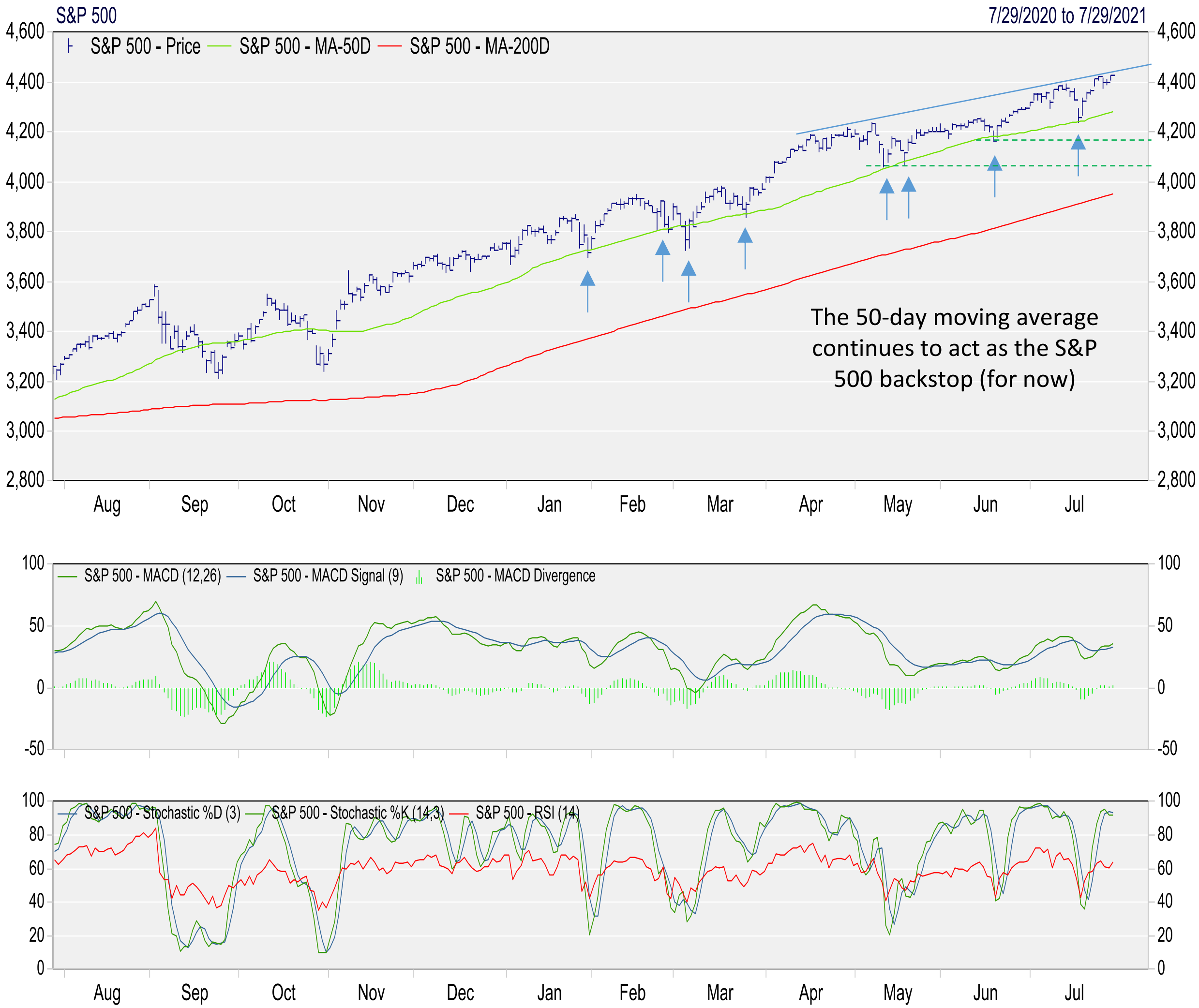


Q2 2021 EPS Growth Y/Y



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 was once again able to rebound from 50-day moving average support and trade to new highs. After closing at a new all-time high on Friday, price action over the past few days has been supportive- that being relatively quiet sessions as the index hovers just below the high, a pattern that often precedes a continuation higher.

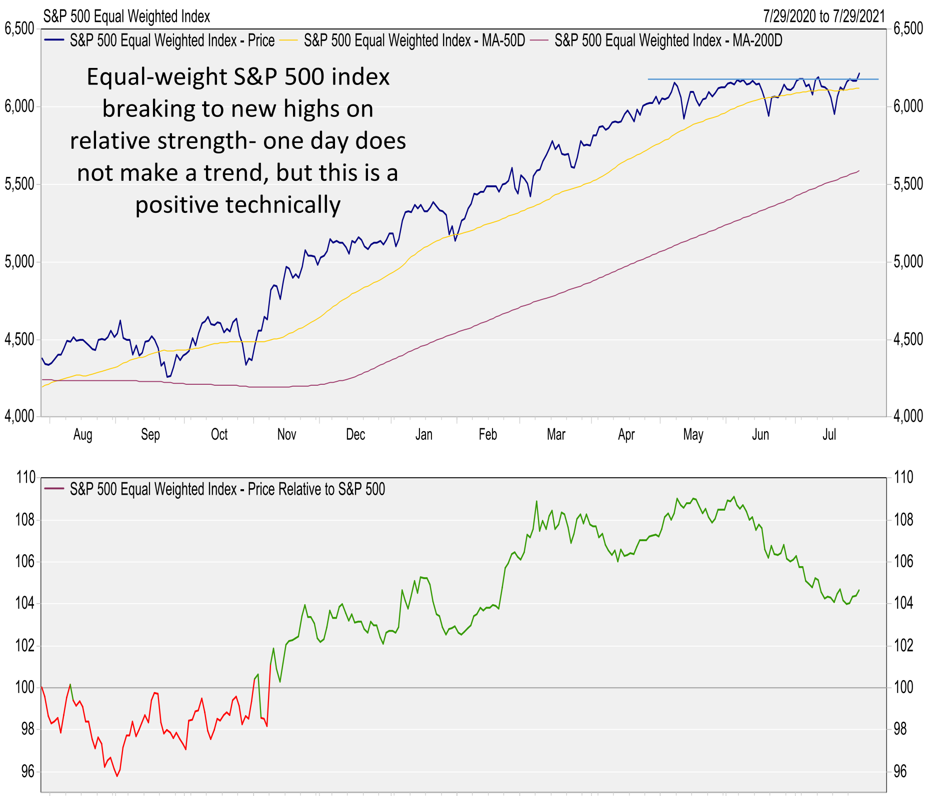
The next level of technical resistance to watch is 4480. For support, monitor the 50 DMA (4278), followed by 4165 and 4060 (horizontal support levels at recent lows).

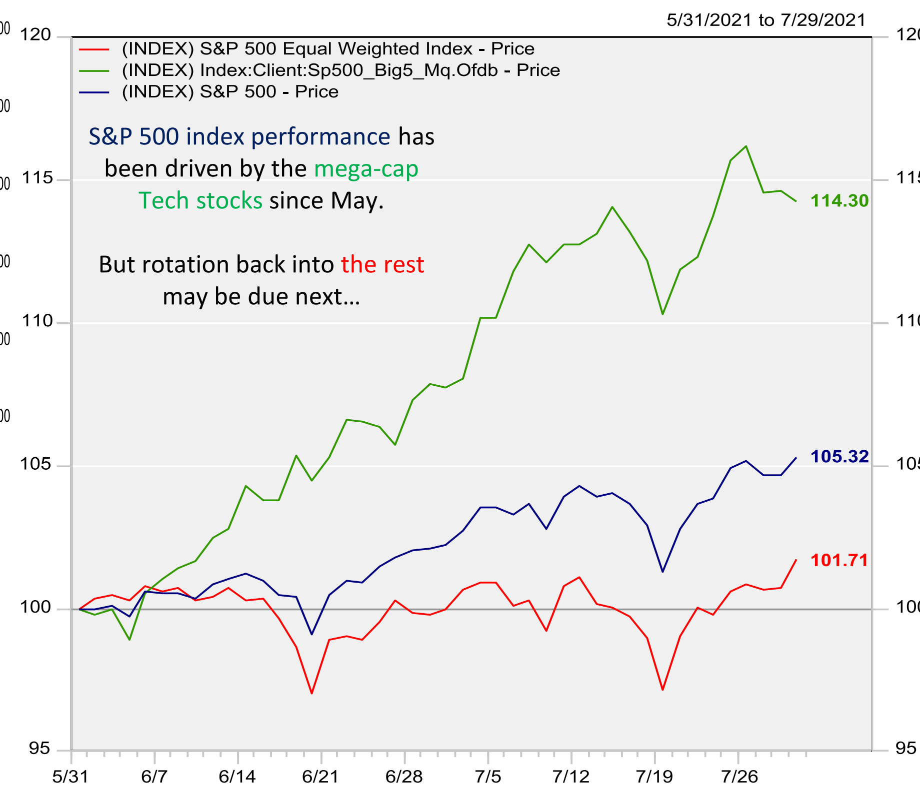
Market breadth has been narrow, and a narrow market is a vulnerable market (to pullbacks). But although the technical internals are not perfect, we remain positive overall on solid intermediate term trends. That said, we recommend investors be pragmatic with new purchases, as pullbacks are normal (9% pullbacks in bull market years on average) and the calendar becomes more of a headwind (Aug-Oct seasonally softer period of year).

We expect rotation to continue beneath the surface, and find opportunity in more of the “recovery-oriented” stocks that have pulled back in recent weeks. One day doesn’t make a trend, but we note a broadening of participation as the S&P 500 index breaks to new highs today- could be beginning of rotation back into “reflation” areas.

MARKET BREADTH

We have been monitoring technical divergences in the S&P 500's ascent over the past couple months, noting participation has been extremely narrow. For example, the index has been making new highs while the percentage of stocks above their 50 DMA has contracted. The S&P 500 has gained 5.3% since the end of May, but 60% of this move can be attributed to just the largest 5 stocks- AAPL, MSFT, AMZN, GOOGL, FB. Those stocks are up 14% on average while the rest of the index has been relatively flat. We have not been overly concerned based on the market's proclivity for rotation in the current environment, along with still solid intermediate term trends. And this rotation may be about to swing back in favor of the "recovery-oriented areas," as we note a breakout to new highs by the S&P 500 equal-weighted index today on relative strength. We would like to see this trend build over the coming days/weeks, but would use the recent pullbacks in these areas as an opportunity to accumulate.

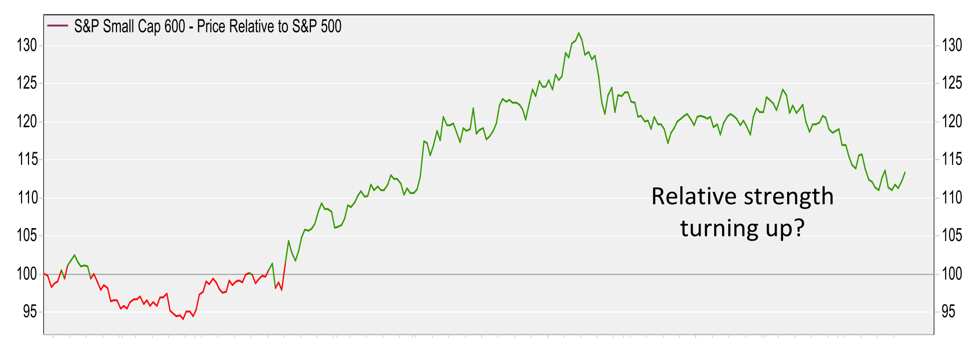


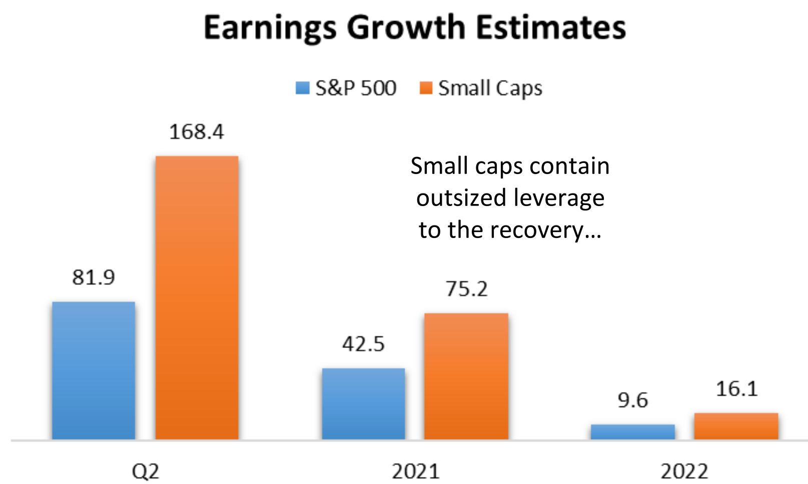


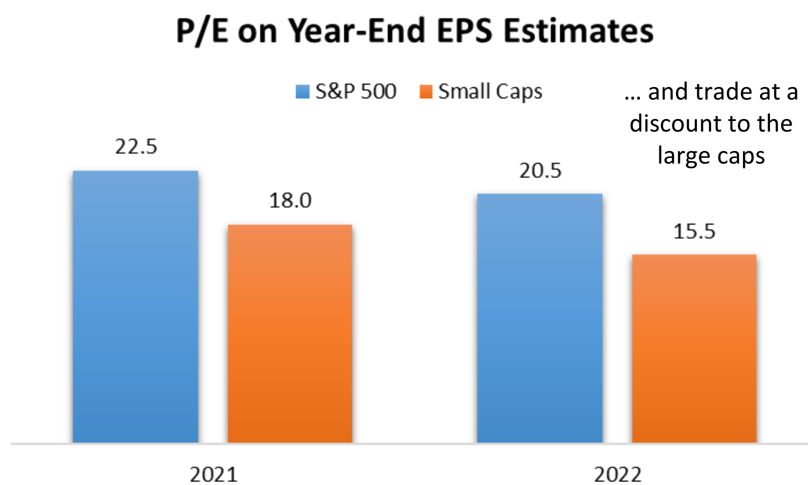
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

The small caps are also having a strong Q2 earnings season with 75% of companies beating estimates by 27.3%. The group has outsized leverage to the economic recovery with growth estimates above the S&P 500 for 2021 and 2022. And after consolidating for the better part of 5 months, valuation is also relatively attractive with the small caps trading at a discount to the S&P 500 on forward estimates. We view the fundamental and technical backdrop as supportive of the small caps, and recommend accumulating as they base within their current range.



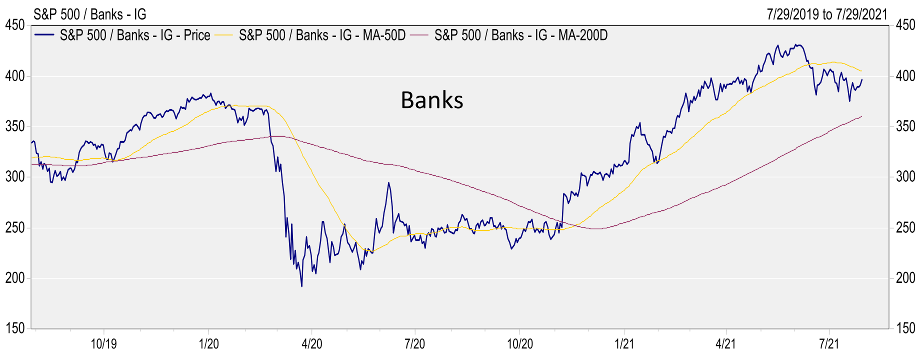


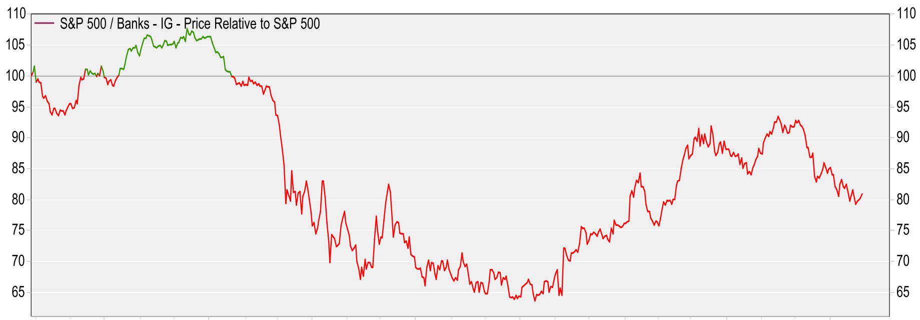


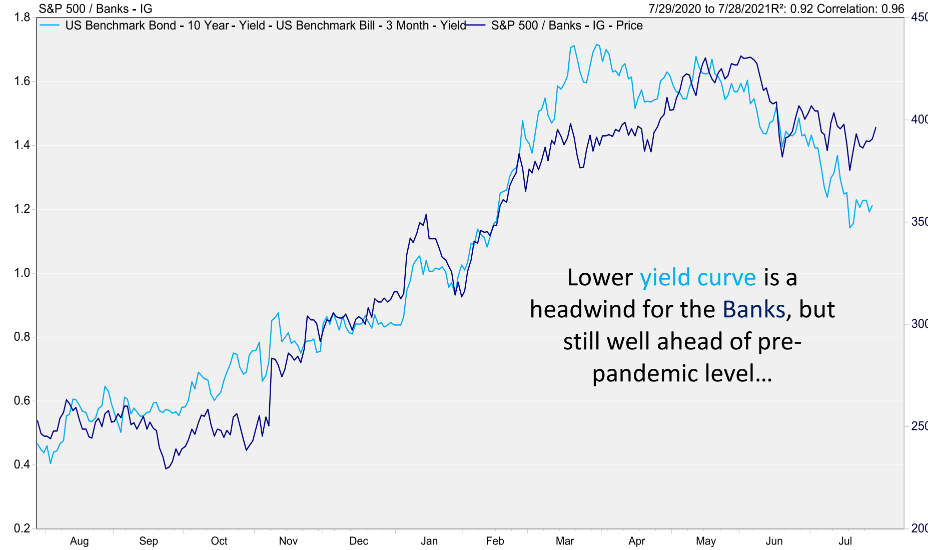
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

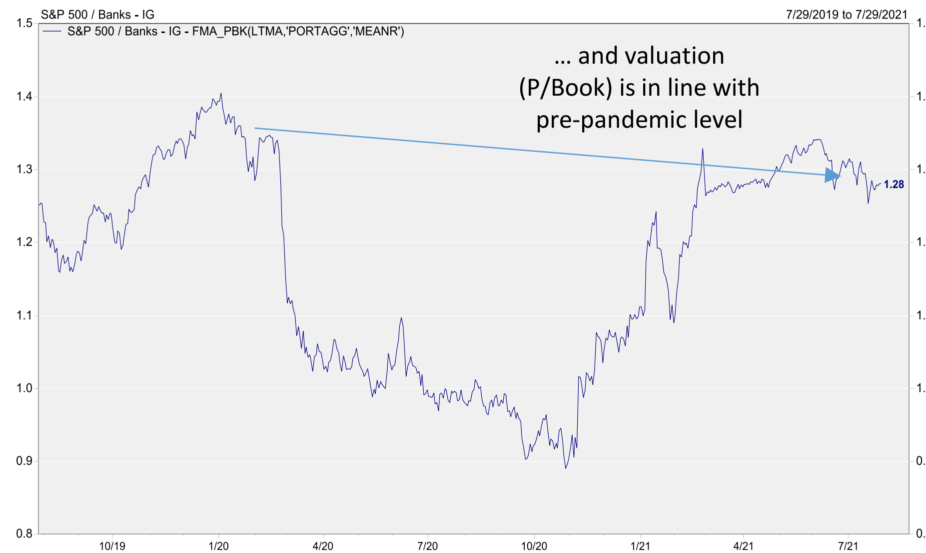
BANKS

The banks have been one of the largest laggards in the market rotation since May, as interest rates and the yield curve have contracted. There has been a 96% correlation between bank relative performance and the yield curve over the past twelve months. But while the narrower yield curve is a headwind, it is still well ahead of pre-pandemic levels while bank valuation (P/Book) is just in line with its pre-pandemic level. This is also in line with its 5-year average P/Book multiple, while the S&P 500 trades ~20% above its 5-year average. We continue to find the fundamental and technical backdrop attractive for the banks as the recovery transpires, and view the recent pullback as an opportunity.





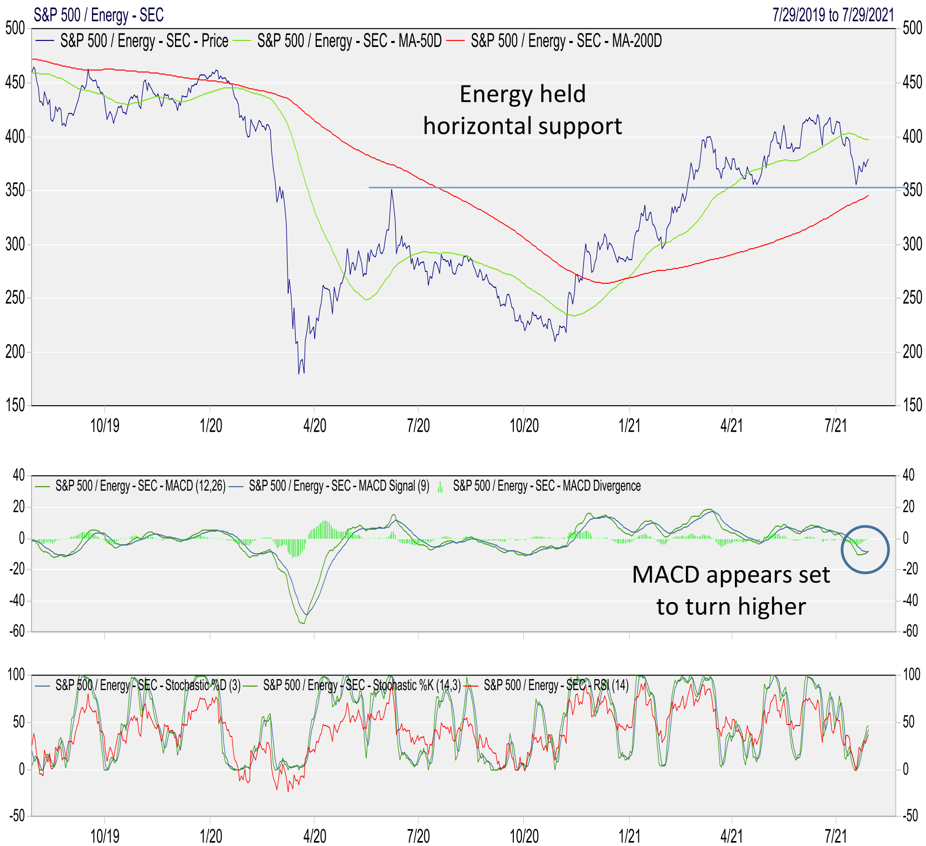


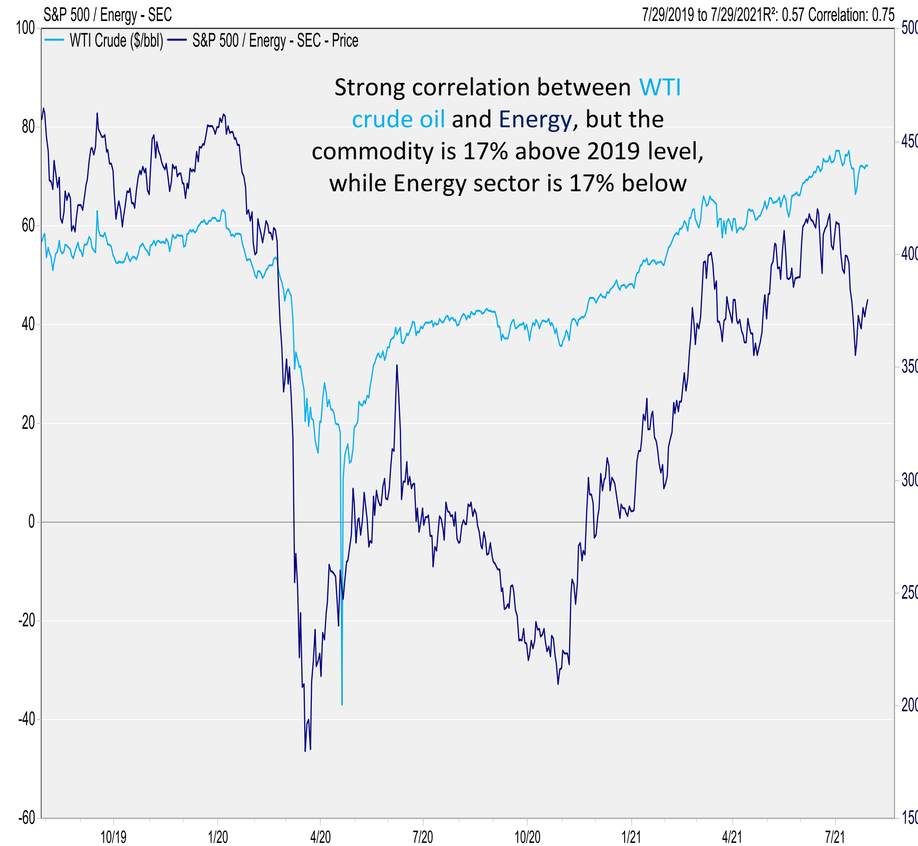


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ENERGY

The Energy sector was able to hold horizontal support in its recent pullback, and we note MACD appears set to turn higher (positive technically). There has also been a strong correlation between WTI crude oil prices and Energy performance in recent years, but the commodity is 17% above its 2019 level while the sector is 17% below. The earnings growth trajectory is robust with oil prices elevated like they are now, and large free cash flow is being met by industry capital discipline- leading to shareholder-friendly uses of that cash (such as dividends and buybacks) rather than overproduction. We continue to favor the Energy sector over the next 6-12 months, and recommend accumulating favored stocks in the current consolidation phase.

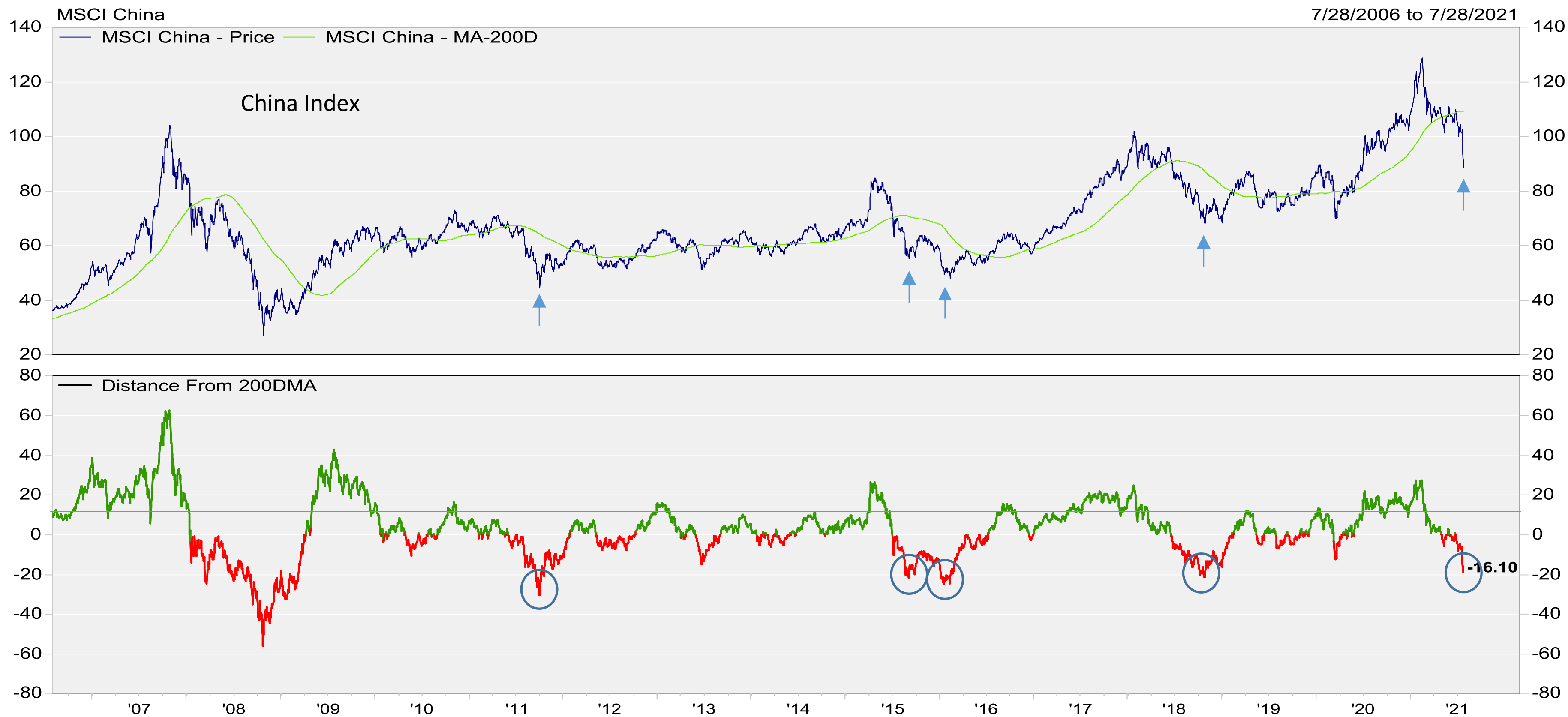




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CHINA

China dropped over 13% in just 3 days, reaching 31% from its 52-week high- the lowest of all countries globally and a stark contrast to the US and ACWI Global index which are both at highs. A slowdown in China's recovery, relative virus concerns in Southeast Asia, debt concerns in China's property market, and recent regulation on the private sector are all contributors (among others). China's index reached 18.7% below its 200 DMA, which is near the lower end of its historical spread range since the 2008 credit crisis. Similar readings over the past 10 years have often been registered near at least short-term lows. So while the index is oversold enough to bounce in the short term, the sharp breakdown suggests the intermediate term may be challenging. For investors looking to increase exposure, be aware that volatility is elevated- we recommend buying partial positions and accumulating as the trend rebuilds itself over time. (M21-3694566)



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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.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

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