Weekly Market Guide

Short-Term Summary:

The S&P 500 continues to prove resilient as it was able to push to a record high this week despite investors wrestling with the rising COVID cases. While this market remains far from perfect from a technical indicator standpoint (with many divergences, narrow breadth, and unfavorable seasonality), we did see some positive developments this week including: an equal-weight S&P 500 index price break-out (along with relative strength firming up) and areas within Cyclicals breaking out including: relative strength of the equal-weight Consumer Discretionary vs. the Consumer Staples, and Semiconductors seeing a price break-out, which reinforces our procyclical bias.

Additionally, the fundamental backdrop remains strong for equities with EPS strength continuing through earnings season along with macro data that continues to show signs of expansion. Investor’s attention will be focused on tomorrow’s U.S Jobs report, but earnings season continues to be strong with 87% of S&P 500 beating consensus estimates with an aggregate surprise of 16.8% (80% of the S&P 500 market cap has already reported). Moreover, consensus earnings estimates for 2021 continue to rise (up 4.1% since the beginning of 2Q’21 earnings season) with the more cyclical sectors seeing the highest revisions to earnings while Defensive sectors have lagged.

The Delta variant continues to be a major influence on the day-to-day trading as the new Delta variant seems to be more transmittable just as the economy returns to some sense of normalcy (with TSA traveler throughput returning near pre-pandemic levels). However, overlaying the new daily cases in the US with those in the U.K. (which may have already peaked during the latest surge), this suggests that worst is yet to come for the US, but on a positive note, the U.S. could see peaking new cases in the new couple weeks. Overall, we believe until a variant proves to be resistant to current vaccines—which we do not believe the current variant is, we think the waves of rising cases and corresponding market volatility (more specifically on “reopen areas”) should be purchased. These moves may be more pronounced given the narrow market breadth which leaves the market vulnerable to market pullbacks/sector rotations. We continue to recommend investors be pragmatic with new purchases in the near-term, 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), but still remain constructive on the long-term outlook for equities.
MACRO: US

While investor’s attention will be focused on tomorrow’s U.S. Jobs report, the macro data from the last week continues to be supportive. One of the hardest hit areas of the pandemic was the U.S. Services sector, which just reported an all-time high reading of 64.1 for the month of July, which came in well ahead of expectations of 60.5 and last month of 60.1. Additionally, while U.S. ISM Manufacturing did see a slight dip from the prior month, the latest July reading of 59.5 continues to point to an economy squarely in the midst of an expansionary environment in which demand continues to outstrip production with ISM New Orders of 64.9.

Inflation will continue to be an area that we will monitor closely, but the 2Q employment cost index (ECI) of 0.7% vs. the prior reading/consensus expectations of 0.9% continues to point to an inflation environment that remains contained.

<table>
<thead>
<tr>
<th>Event</th>
<th>Period</th>
<th>Actual</th>
<th>Consensus</th>
<th>Prior</th>
<th>Revised</th>
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</thead>
<tbody>
<tr>
<td>Employment Cost Index</td>
<td>2Q</td>
<td>0.70%</td>
<td>0.90%</td>
<td>0.90%</td>
<td></td>
</tr>
<tr>
<td>Personal Income</td>
<td>Jun</td>
<td>0.10%</td>
<td>-0.30%</td>
<td>-2.00%</td>
<td>-2.20%</td>
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<tr>
<td>Personal Spending</td>
<td>Jun</td>
<td>1.00%</td>
<td>0.70%</td>
<td>0.00%</td>
<td>-0.10%</td>
</tr>
<tr>
<td>PCE Deflator YoY</td>
<td>Jun</td>
<td>4%</td>
<td>4%</td>
<td>3.90%</td>
<td>4%</td>
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<tr>
<td>PCE Core Deflator YoY</td>
<td>Jun</td>
<td>1.50%</td>
<td>1.70%</td>
<td>3.40%</td>
<td></td>
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<tr>
<td>Chicago PMI</td>
<td>Jul</td>
<td>73.4</td>
<td>64.2</td>
<td>66.1</td>
<td></td>
</tr>
<tr>
<td>UoM Sentiment</td>
<td>Jul F</td>
<td>81.2</td>
<td>80.8</td>
<td>80.8</td>
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<tr>
<td>UoM Current Conditions</td>
<td>Jul F</td>
<td>84.5</td>
<td>84.5</td>
<td>84.5</td>
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<tr>
<td>UoM Expectations</td>
<td>Jul F</td>
<td>79.0</td>
<td>78.4</td>
<td>78.4</td>
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<tr>
<td>Markit US Manufacturing PMI</td>
<td>Jul F</td>
<td>63.4</td>
<td>63.1</td>
<td>63.1</td>
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<tr>
<td>Construction Spending MoM</td>
<td>Jun</td>
<td>0.10%</td>
<td>0.40%</td>
<td>-0.30%</td>
<td>-0.20%</td>
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<tr>
<td>ISM Manufacturing</td>
<td>Jul</td>
<td>59.5</td>
<td>61.0</td>
<td>60.6</td>
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<tr>
<td>ISM Prices Paid</td>
<td>Jul</td>
<td>85.7</td>
<td>89.0</td>
<td>92.1</td>
<td></td>
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<tr>
<td>ISM New Orders</td>
<td>Jul</td>
<td>64.9</td>
<td>64.2</td>
<td>66.0</td>
<td></td>
</tr>
<tr>
<td>Factory Orders</td>
<td>Jun</td>
<td>1.50%</td>
<td>1.00%</td>
<td>1.70%</td>
<td>2.30%</td>
</tr>
<tr>
<td>Durable Goods Orders</td>
<td>Jun F</td>
<td>0.90%</td>
<td>0.80%</td>
<td>0.80%</td>
<td></td>
</tr>
<tr>
<td>Capital Goods Orders Non-Defense</td>
<td>Jun F</td>
<td>0.70%</td>
<td></td>
<td>0.50%</td>
<td></td>
</tr>
<tr>
<td>ADP Employment Change</td>
<td>Jul</td>
<td>330K</td>
<td>690K</td>
<td>692K</td>
<td>680K</td>
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<tr>
<td>Markit US Services PMI</td>
<td>Jul F</td>
<td>59.9</td>
<td>59.8</td>
<td>59.8</td>
<td></td>
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<tr>
<td>Markit US Composite PMI</td>
<td>Jul F</td>
<td>59.9</td>
<td></td>
<td>59.7</td>
<td></td>
</tr>
<tr>
<td>ISM Services Index</td>
<td>Jul</td>
<td>64.1</td>
<td>60.5</td>
<td>60.1</td>
<td></td>
</tr>
<tr>
<td>Initial Jobless Claims</td>
<td>31-Jul</td>
<td>385K</td>
<td>383K</td>
<td>400K</td>
<td>399K</td>
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<tr>
<td>Continuing Claims</td>
<td>24-Jul</td>
<td>2930K</td>
<td>3255K</td>
<td>3269K</td>
<td>3296K</td>
</tr>
</tbody>
</table>

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy
FUNDAMENTALS

With greater than 80% of the S&P 500 market cap already reported, 2Q’21 earnings season is shaping up to be the fifth consecutive quarter with strong earnings surprises. 87% of S&P 500 companies are beating estimates by an aggregate 16.8%- well above historical averages (and in line with the past 4 quarter average). For the quarter, full quarter estimates have already been revised 13.9% higher, reflecting an enormous 87.5% growth y/y.

Looking out for the full year, earnings revisions continue to trend higher with the S&P 500 consensus EPS estimate for 2021 moving up 4.1% since the beginning of earnings season. Looking at revisions trends, the more cyclical sectors continue to see the greatest earnings revisions while Defensive sectors have lagged, which we believe is supportive of our pro-cyclical tilt to the current market.

While the latest variant of COVID does add some risk to the outlook, we remain positive overall on the fundamental recovery and would expect upside to continue- which should be supportive of equities.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy
The S&P 500 continues to prove resilient as it was able to push to a record high this week despite investors wrestling with the rising COVID cases. While this market remains far from perfect from a technical indicator standpoint (with many divergences, narrow breadth, and unfavorable seasonality), we did see some positive developments this week including: an equal-weight S&P 500 index price break-out (along with relative strength firming up) and areas within Cyclicals breaking out including: relative strength of the equal-weight Consumer Discretionary vs. the Consumer Staples, and Semiconductors seeing a price break-out, which reinforces our pro-cyclical bias.

The next level of technical resistance to watch is 4480. For support, monitor the 50 DMA (4305), followed by 4233, 4165 and 4060 (horizontal support levels at recent lows).

Until a variant proves to be resistant to current vaccines—which we do not believe the current variant is, we think the waves of rising cases and corresponding market volatility (more specifically on “reopen areas”) should be purchased. These moves may be more pronounced given the narrow market breadth which leaves the market vulnerable to market pullbacks/sector rotations. We continue to recommend investors be pragmatic with new purchases in the near-term, 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), but still remain constructive on the long-term outlook for equities.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy
COVID TRENDS

Investors are wrestling with rising COVID cases of the new Delta variant—which seems to be more transmittable--just as the economy returns to some sense of normalcy--as TSA traveler throughput (top right) has returned near pre-pandemic levels. Overall, we believe until a variant proves to be resistant to current vaccines—which we do not believe the current variant is, we think the waves of rising cases and corresponding market volatility (more specifically on “reopen areas”) should be purchased.  As seen below, despite a new wave of cases (still well below the new daily case seen in the December wave) new daily death count has not seen a corresponding rapid rise, to this point. This will be something to keep an eye on as there is lag between cases and new deaths. However, comparing our current wave in the U.S. to that in the U.K. (bottom right), which seems to be a couple weeks ahead, U.K. new cases appear to have already peaked and now seeing a decline. If the US follows the same trajectory, the worst of this wave may be yet to come, but may peak in the next couple weeks (and likely top out around Dr. Fauci’s projection of 200K new daily cases.)

Despite the latest surge of COVID cases, new daily deaths have not seen a rapid rise, as of yet, which could point to the effectiveness of the vaccine to adverse outcomes.

The U.K. seems to be a couple weeks ahead of the U.S. in the latest surge of COVID. Comparing the trajectory of the move, this may suggest that the worst is yet to come for the US, but on a positive note, the U.S. could see peaking new cases in the new couple weeks.
CYCLICALS

We continue to have a pro-cyclical bias and within the past week have seen some positive developments that are supportive of our stance. First, relative performance of the equal-weight Consumer Discretionary broke out to a new high (over the last year) vs. Consumer Staples. We see this risk-on indicator as positive for equities (specifically cyclical sectors). Additionally, Semiconductors, which tend to be a more cyclical area of the Technology sector, recently saw a price breakout. While the market remains narrow, these positive developments within cyclical areas reinforces our opinion that this is good area to invest and would use periods of rotation as buying opportunities.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy
INDUSTRIALS

The Industrials sector continues to see a sharp divergence from ISM New Orders. Despite New Orders remaining elevated, Industrials relative performance has moved back towards support (as seen below). While the technicals are not perfect, given our belief that low inventory levels mixed with elevated backlogs should bode well to keep New Orders elevated for the foreseeable future (along with potential tailwinds from an Infrastructure bill), we would use this period to accumulate the Industrials.
HEALTH CARE

As highlighted on page 3 of the Technical Daily - August 5, 2021, the Health Care sector is showing signs of leadership as the relative strength line is back above the former lows vs. the S&P 500. Additionally, the Health Care sector has seen the highest % of companies beating EPS during 2Q’21 earnings season thus far at 98% vs. the S&P 500 at 87%. We see the Health Care Supplies and Equipment and Health Facilities subsectors looking really strong based on technical indicators.

A series of higher highs for the Equipment & Supplies subsector of Health Care looks like a strong uptrend

Health Care facilities saw a strong breakout on both price and relative performance

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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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