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AUGUST 12, 2021 | 4:29 PM EDT

Weekly Market Guide

Short-Term Summary:

The S&P 500 achieved its 47th new record high closing price of 2021 today as the grind higher in equities continues. Despite COVID remaining the big risk to the market in the near-term, better-than-expected macro and more stimulus in the form of an infrastructure bill have spurred a rally in the 10-year yield and sector rotation beneath the surface with re-opening areas such as Financials and Industrials benefiting while Technology has given back some relative performance. Overall, this pro-cyclical/reopening move higher has been positive for the Value index, which saw a price break-out. Divergences remain and the market continues to be relatively narrow, but the current mood of the market remains positive and the S&P 500 has seen some recent improvement in breadth with the percentage of stocks trading above its 50-DMA now at 67% (while less than 40% on the NASDAQ). We would not get complacent, the market is not perfect and the narrow market breadth leaves the market vulnerable to market pullbacks/sector rotations mixed with a seasonally soft period of the year and the S&P 500 currently overbought. During periods of consolidation (at either the market level or sector level), we would be opportunistic in accumulating.

The next level of technical resistance to watch is 4480. For support, monitor the 50 DMA (~4330), followed by 4233, 4165 and 4060 (horizontal support levels at recent lows).

Fundamentals remain strong. 2Q'21 earnings season is largely complete at this point, and it is another stellar quarter with the 5th consecutive quarter of strong earnings upside. The average EPS surprise is 16.8% with 86% of S&P 500 companies seeing EPS beats pushing the consensus growth for 2Q to 89.8% YoY. Looking forward, revision trends for 3Q and 4Q remain favorable, however, consensus expectations are still pointing to earnings in 3Q to be below 2Q levels and relatively in-line with 1Q actual results. Historically, the median growth from 2Q to 3Q (since 2002) has been about +1.2%. It remains our belief that earnings can continue to surprise to the upside with our base case assumption of \$200 for 2021 (and our upside case of \$210) vs. current consensus of \$198.67.

While the USA remains our favorite area globally, Developed ex-US is beginning to firm up, specifically Europe. Europe recently has a price breakout and relative performance vs. the world has been improving with higher lows. While we are still waiting for a relative strength breakout for Europe following the recent price breakout, the higher lows in relative performance and improving GDP outlook are encouraging.

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	15.9%	28.2%
S&P 500	18.4%	33.4%
S&P 500 (Equal-Weight)	21.7%	40.6%
NASDAQ Composite	14.6%	36.9%
Russell 2000	13.9%	42.9%
MSCI All-Cap World	13.6%	30.1%
MSCI Developed Markets	10.1%	25.1%
MSCI Emerging Markets	0.5%	18.9%
NYSE Alerian MLP	28.6%	32.4%
MSCI U.S. REIT	24.8%	32.8%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	32.0%	2.6%
Financials	31.4%	11.5%
Real Estate	26.9%	2.6%
Communication Svcs.	24.3%	11.2%
Materials	19.1%	2.6%
Industrials	19.0%	8.5%
S&P 500	18.4%	-
Information Technology	17.4%	27.5%
Health Care	16.0%	13.2%
Consumer Discretionary	11.1%	12.0%
Utilities	8.4%	2.5%
Consumer Staples	6.9%	5.8%

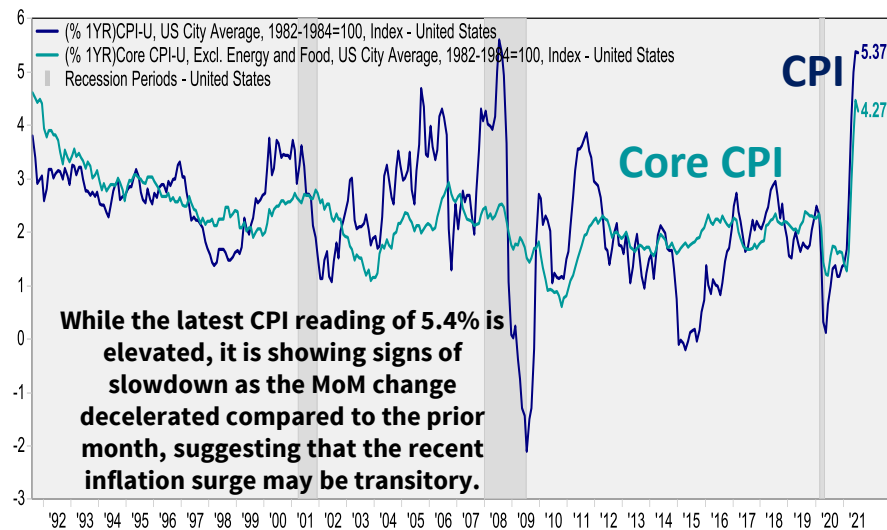
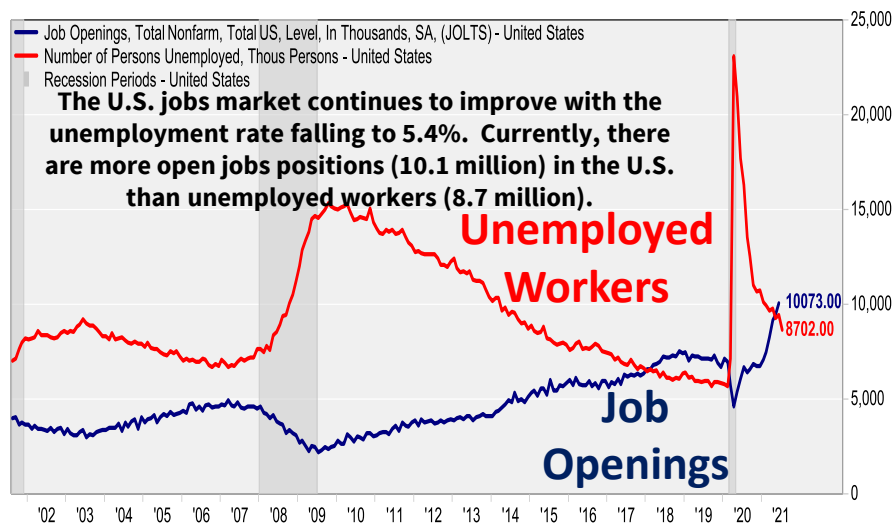
Source: FactSet

MACRO: US

Economic data over the last week came in largely better-than-expected. The U.S. Jobs Report from last Friday showed a stronger than expected rebound in jobs with non-farm payrolls increasing 943K, which was ahead of consensus expectations of 870K, along with an upward revision to the prior two months. Jobs within the Services sector were a big driver of employment gains with leisure and hospitality gaining 380K jobs, which is reflective of the continued re-openings., and pushed the overall unemployment rate down to 5.4%. Despite the nice improvement in the jobs market, there continues to be some disconnect as there are currently more job openings (10.1 million) than unemployed workers (8.7 million). As re-openings take place, we would expect the unemployment rate to continue to tick lower.

On the inflation front, the latest CPI inflation data continues to point to elevated levels with headline CPI inflation at 5.4% YoY (consistent with last month) and core CPI inflation at 4.3% YoY (which decelerated from 4.5% last month). Overall, we will continue to monitor, but for now, inflation is showing some signs of slowdown as the MoM change decelerated compared to the prior month, suggesting that the recent infl

Event	Period	Actual	Consensus	Prior	Revised
Non-Farm Payrolls	Jul	943K	870K	850K	938K
Private Payrolls	Jul	703K	709K	662K	769K
Manufacturing Payrolls	Jul	27K	25K	15K	39K
Unemployment Rate	Jul	5.4%	5.7%	5.9%	
Average Hourly Earnings YoY	Jul	4.0%	3.9%	3.6%	3.7%
Labor Force Participation Rate	Jul	61.7%	61.7%	61.6%	
JOLTS Job Openings	Jun	10073K	9270K	9209K	9483K
NFIB Small Business Optimism	Jul	99.7	102.0	102.5	
Nonfarm Productivity	2Q P	2.3%	3.2%	5.4%	4.3%
Unit Labor Costs	2Q P	1.0%	1.0%	1.7%	-2.8%
CPI YoY	Jul	5.4%	5.3%	5.4%	
Core CPI (ex-food and energy) YoY	Jul	4.3%	4.3%	4.5%	
PPI Final Demand YoY	Jul	7.8%	7.2%	7.3%	
PPI ex-food and energy YoY	Jul	6.2%	5.6%	5.6%	
Initial Jobless Claims	7-Aug	375K	375K	385K	387K
Continuing Claims	31-Jul	2866K	2900K	2930K	2980K



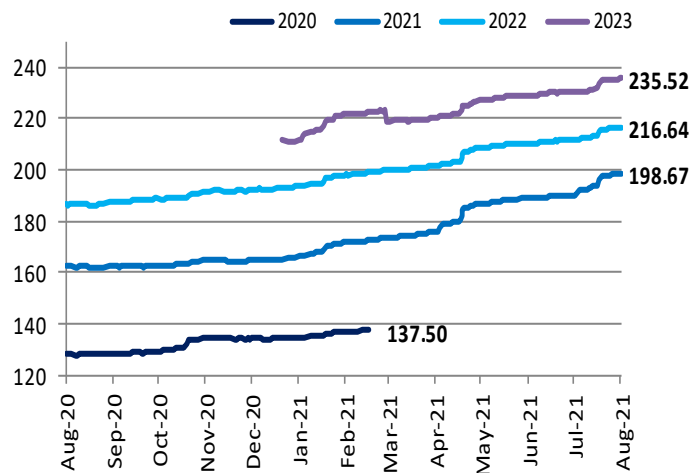
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

With 2Q'21 earnings season largely wrapping up, it is likely to mark the 5th consecutive quarter of strong earnings upside. As seen to the right, the 16.8% average EPS surprise by the S&P 500 is in-line with the strong earnings beats seen over the last 5 quarters, but well above the long-term average of ~5% EPS surprises. Overall, 86% of S&P 500 companies saw EPS beats pushing the consensus growth for 2Q to 89.8% YoY.

Looking forward, revision trends for 3Q and 4Q remain favorable, however, consensus expectations are still pointing to earnings in 3Q to be below 2Q levels and relatively in-line with 1Q actual results. Historically, the median growth from 2Q to 3Q (since 2002) has been about +1.2%. It remains our belief that earnings can continue to surprise to the upside with our base case assumption of \$200 for 2021 (and our upside case of \$210) vs. current consensus of \$198.67.

S&P 500 Consensus Earnings Estimates over Past Year

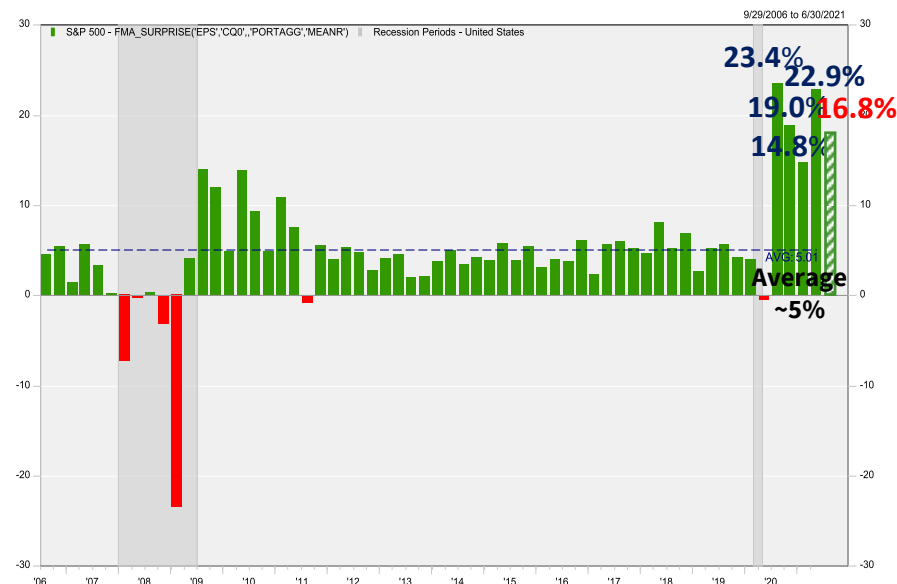


EPS Growth Estimates

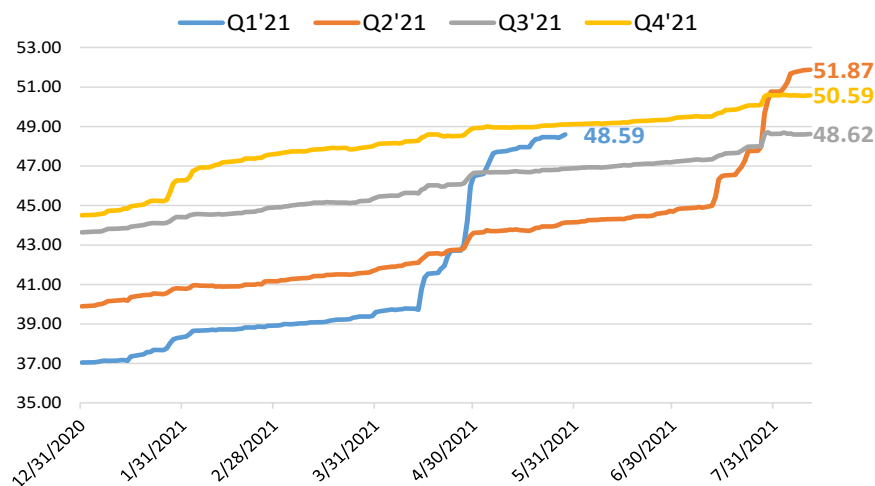
2020	-14.1%
2021	44.5%
2022	9.0%
2023	8.7%

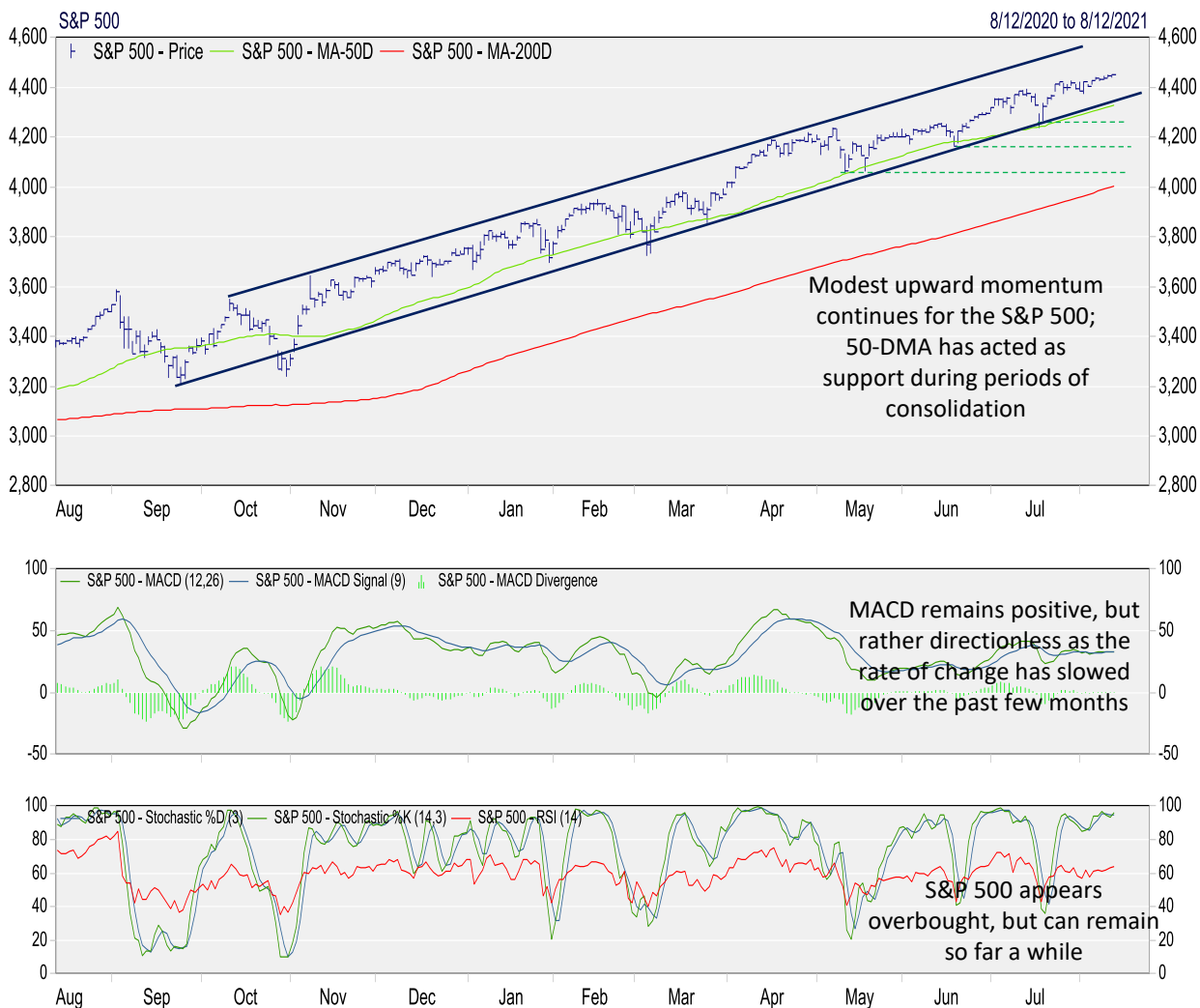
RJ Base Case Estimates
2021: \$200
2022: \$230

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy



2021 Earnings Estimates



TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

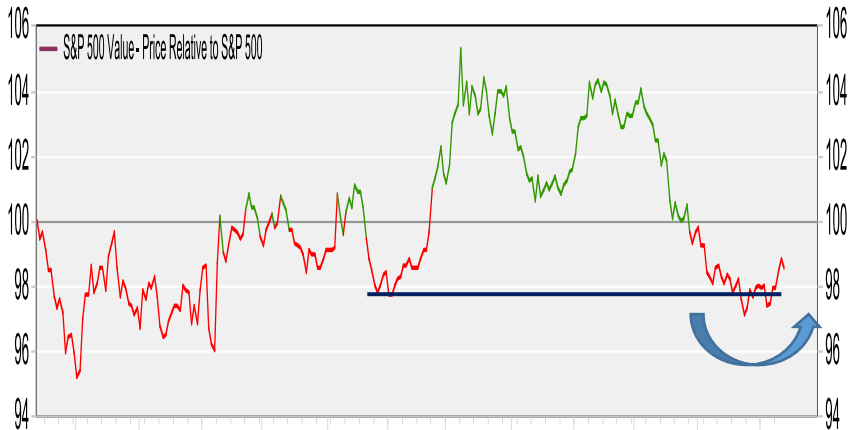
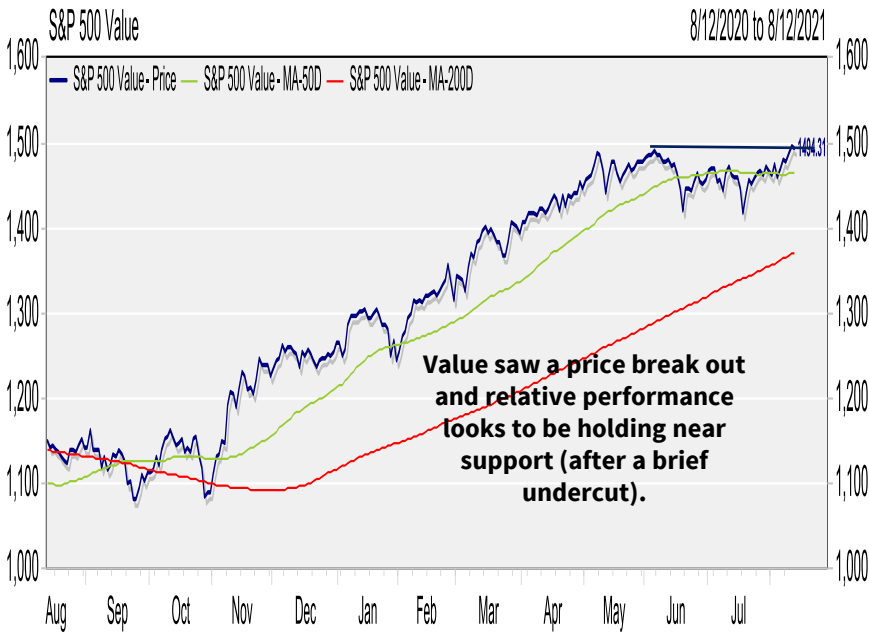
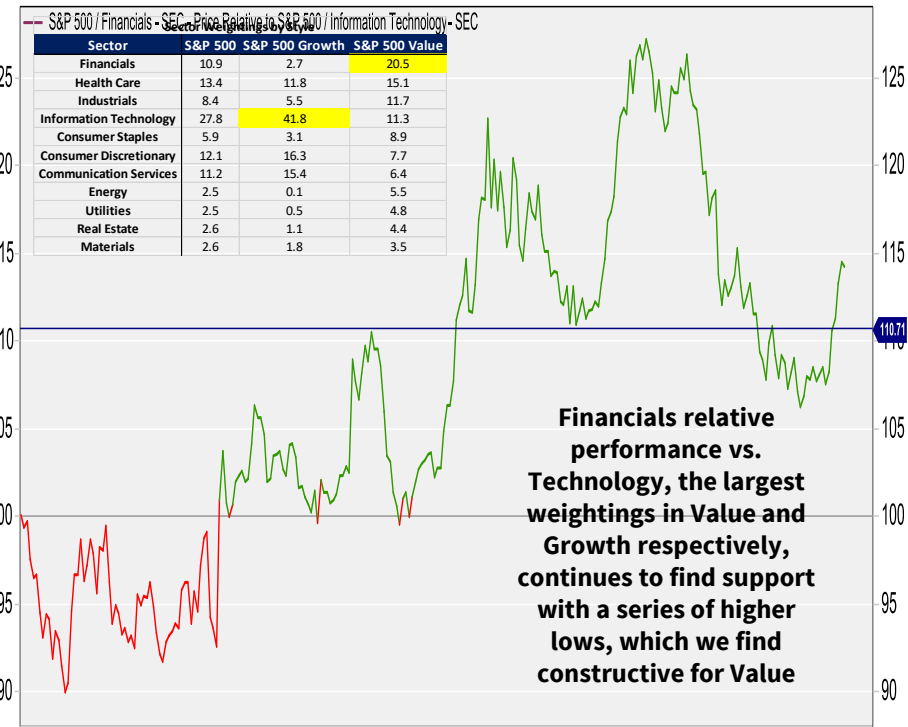
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The next level of technical resistance to watch is 4480. For support, monitor the 50 DMA (~4330), followed by 4233, 4165 and 4060 (horizontal support levels at recent lows).

Overall, the current mood of the market remains positive, however, sector rotation is likely as headlines regarding COVID can cause some volatility (but unlikely to derail the bullish tone of the market) until a variant proves to be resistant to current vaccines—which we do not believe the current variant is. However, we would not get complacent, the market is not perfect and the narrow market breadth which leaves the market vulnerable to market pullbacks/sector rotations mixed with a seasonally soft period of the year.

VALUE VS. GROWTH

S&P 500 Value saw a price breakout as it looks to regain some relative performance vs. Growth that it has given back since May. Relative performance continues to lag Growth, but has started to turn upward, which is encouraging, but we would look for more confirmation. However, looking below at the relative performance of the Financial sector to the Technology sector, the biggest weightings in Value and Growth, respectively, Financials relative performance continues to gain relative performance with a series of higher lows supportive of our belief to accumulate Value during this period.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BANKS

Following a better-than-expected U.S. Jobs report, the 10-year yield has gained momentum after fears of new COVID variants had pushed the yield below 1.2%. This curve steepening move in rates has been a positive for the relative performance of Banks, which has historically held a .96 correlation with the 10-year/2-year spread over the last year. Overall, the healthy macro is supportive for Banks and would continue to accumulate Financials with a 6-12 month outlook as we believe the sector could challenge prior highs (or better) after holding support (as seen below to the right).



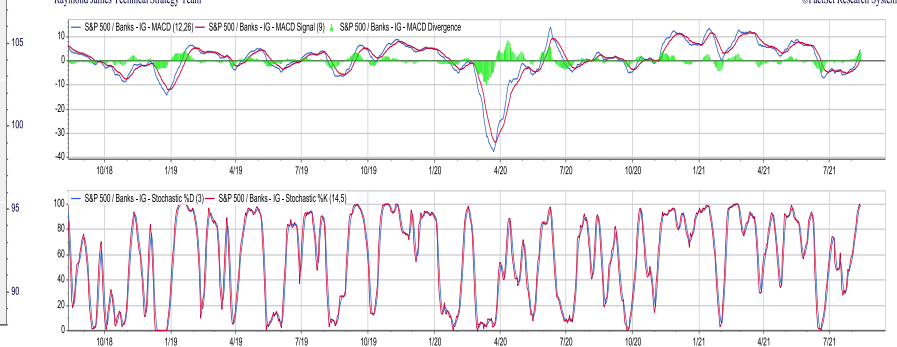
SP625-SPX / S&P 500 / Banks - IG

Current Price: 421.46, Price Change: 0.40, Percentage Change: 0.09%, Time: 1:34:14 PM (Central)

Daily Chart / 8/10/2018 to 8/12/2021



Raymond James Technical Strategy Team

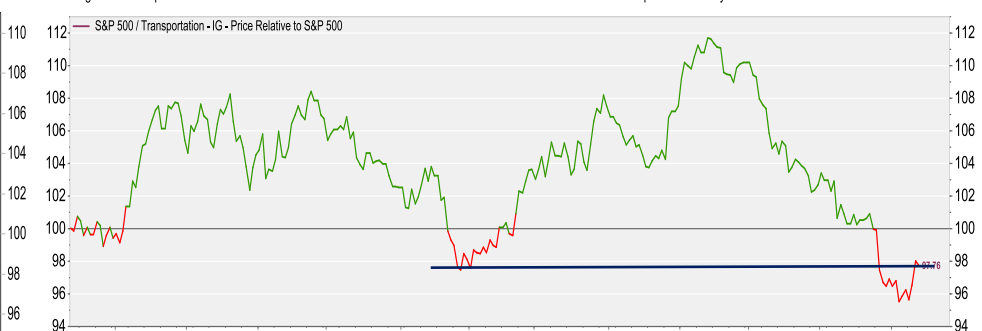
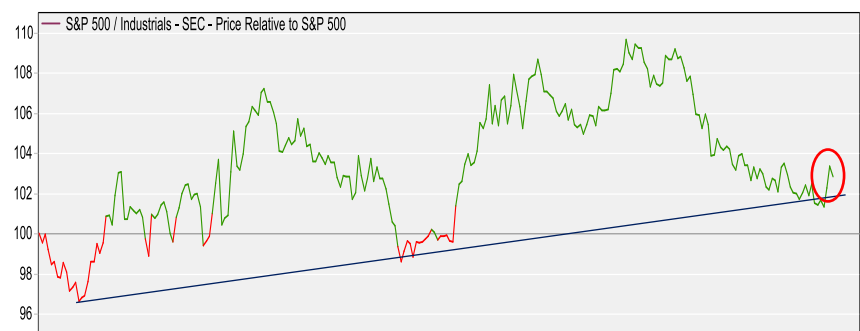
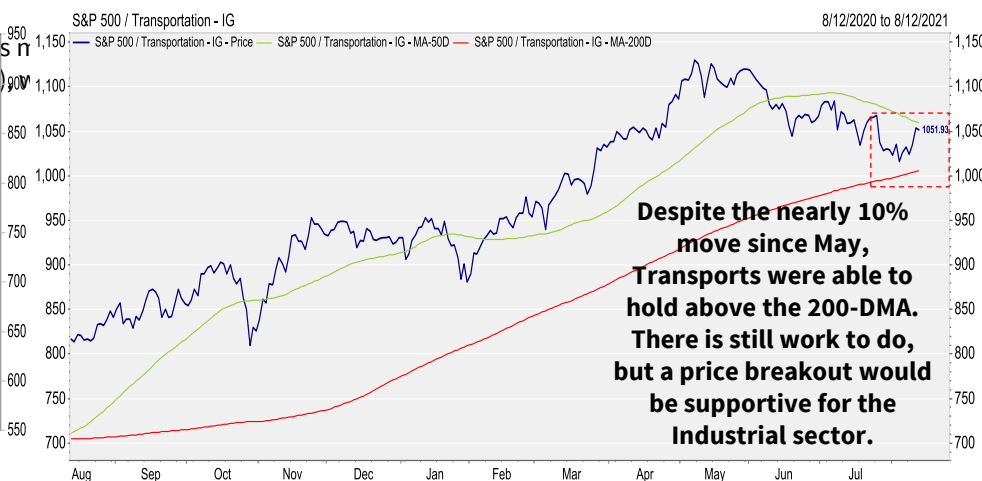
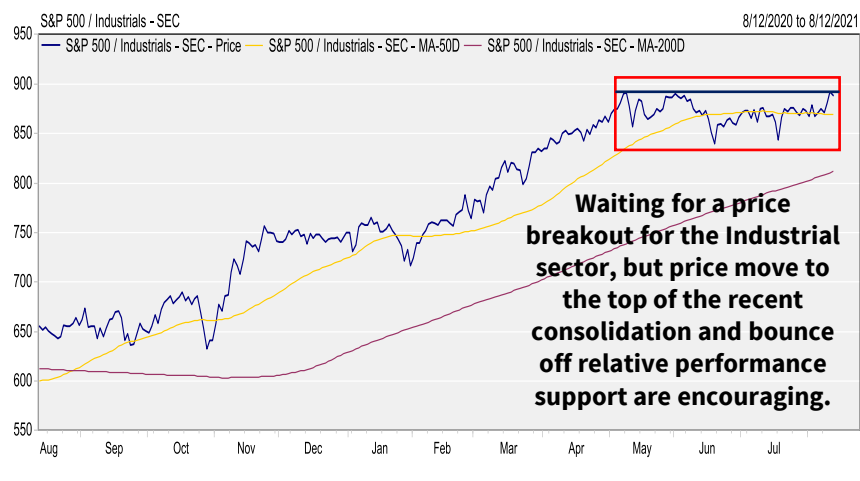


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TRANSPORTS

As we highlighted last week, the Industrials sector was consolidating around its 50-DMA with relative strength near support. This week, we saw some improvement as Industrials moved to the high end of the recent consolidation range, but are waiting for a price breakout. Moreover, relative performance support held and the sector has seen a nice bounce off that level.

One area of particular interest has been the Transports, which have seen a nearly 10% pullback since May. Price was able to hold above its 200-DMA while relative performance undercut support. However, the recent strength in Transports caused a breakout above prior support and the price has moved back to the 50-DMA. While not perfect (given the declining 50-DMA), a price breakout would be supportive for the Industrial sector.



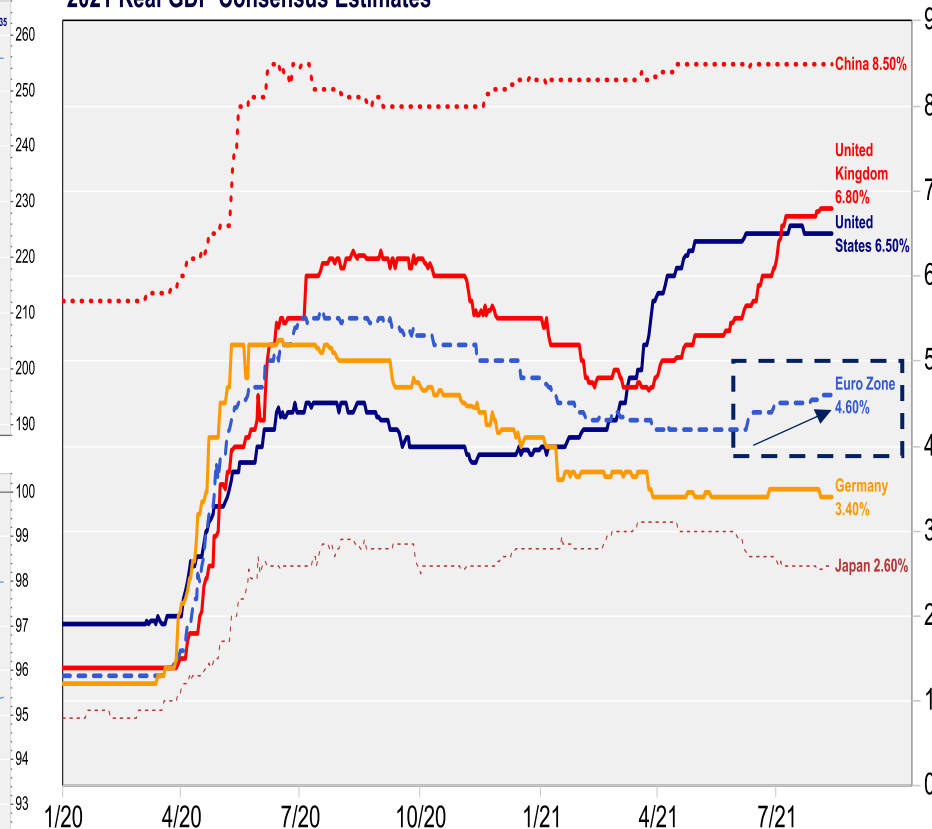
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

EUROPE

While the USA remains our favorite area globally, Developed ex-US is beginning to firm up, specifically Europe. As seen in the chart below on the left, Europe recently has a price breakout and relative performance vs. the world has been improving with higher lows. We are still waiting for a relative strength breakout to spur buying, but is something worth monitoring for those with a global allocation. From a fundamental standpoint (as seen below on the right), the United States has seen some of the best GDP revisions higher since the beginning of the year, but GDP estimates for the Eurozone have ticked higher over the last several months, specifically in the UK.



2021 Real GDP Consensus Estimates



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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