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SEPTEMBER 2, 2021 | 2:57 PM EDT

Weekly Market Guide

Short-Term Summary: The S&P 500 has put up a 7-month streak of positive returns, along with not experiencing a 5% pullback (on a closing basis) since last Fall. We believe that strength begets strength, and strong returns through August bode well for positive performance through the remainder of the year. Historically (since 1950), when the S&P 500 is over 20% higher through August, the index has finished higher by year-end 86% of the time by an average 3.25%. This supports our view of positive returns in the outlook, but we also want to be mindful of the seasonally soft period of the year coming in September-October. With plenty on the agenda (i.e. taxes/ infrastructure, debt ceiling, geopolitical concerns, tapering, among others), it would not surprise us to also see volatility by year-end. We also continue to monitor soft participation beneath the surface of the market's ascent. As the index has continued to gain since April, the percentage of stocks above their 50- and 200-day moving averages has retreated. Additionally, the NYSE advance/decline line has been unable to gain since June. We are not overly concerned by the softer breadth given the market's proclivity for rotation in the current environment, along with still positive longer-term trends. However, this is a divergence to continue monitoring, as a narrow market can be a vulnerable market (to pullbacks). Pullbacks may continue to occur more at the sector and stock level, but we recommend some pragmatism with new purchases along with using weakness as opportunity.

Fundamentally, strong New Orders (66.7) in the August Manufacturing ISM report bodes well for continued upside in earnings estimate revisions; and we expect New Orders to stay high as inventories get replenished from very low levels. Supply chain shortages continue to result in inflationary pressures, however heightened demand- supported by enormous stimulus and very low interest rates- is continuing to offset these supply issues. The result is many companies having been able to meet or beat margin estimates, and trends remain positive. This demand supports a continuation of the strong fundamental recovery. And accompanied by very low interest rates and narrow credit spreads, valuation has been able to hold at high levels. Despite the S&P 500 being over 20% higher year-to-date and over 100% higher from the March 2020 lows, the value proposition (vs bonds) remains positive for equities due to very strong earnings and exceptionally low interest rates. The equity risk premium (difference in S&P 500 earnings yield and US 10 year Treasury yield) is 2.7%, which remains historically high (or attractive)- roughly 1-standard deviation above the 0.6% average since 1960. To be sure, we expect forward returns to moderate as the recovery progresses from here (with normal volatility and pullbacks along the way). However, we remain positive on the outlook and expect positive intermediate-term returns (still early in the bull market).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	15.4%	23.3%
S&P 500	20.4%	28.3%
S&P 500 (Equal-Weight)	22.3%	39.7%
NASDAQ Composite	18.8%	28.2%
Russell 2000	15.8%	44.9%
MSCI All-Cap World	15.1%	26.4%
MSCI Developed Markets	10.7%	25.0%
MSCI Emerging Markets	1.6%	17.2%
NYSE Alerian MLP	28.8%	43.8%
MSCI U.S. REIT	29.7%	37.9%

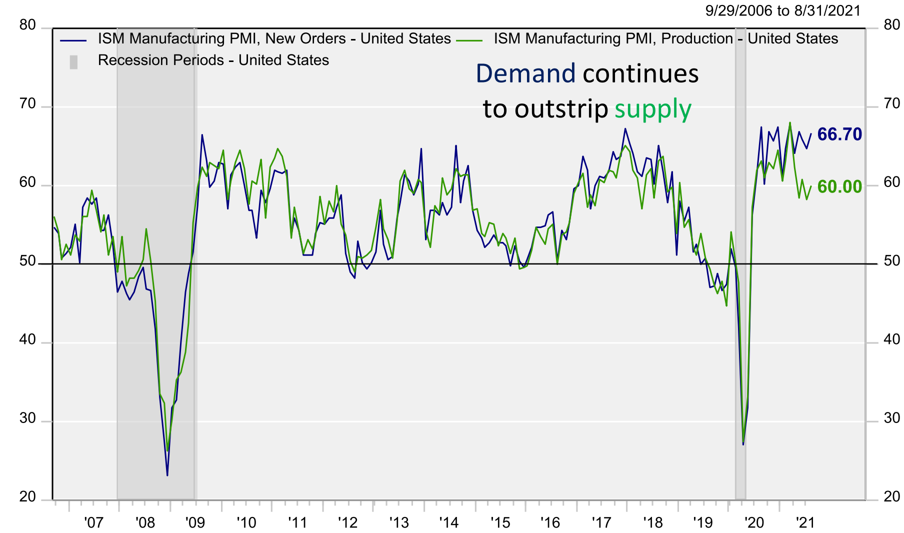
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Real Estate	32.9%	2.7%
Communication Svcs.	30.0%	11.5%
Financials	29.1%	11.1%
Energy	24.7%	2.4%
Information Technology	21.6%	28.0%
S&P 500	***20.4%***	-
Health Care	18.9%	13.4%
Materials	17.4%	2.6%
Industrials	17.2%	8.2%
Consumer Discretionary	12.7%	11.9%
Utilities	10.1%	2.5%
Consumer Staples	8.0%	5.8%

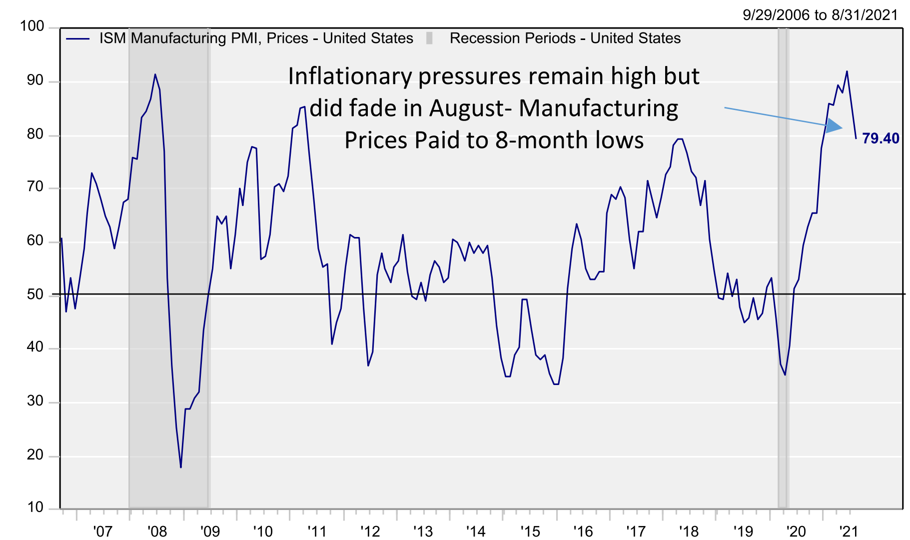
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The manufacturing recovery continues in the US, as August ISM Manufacturing came in above expectations at a very strong 59.9. New orders were also a robust 66.7, though production was unable to match this demand again. The continued demand/supply imbalance is leading to inflationary pressures. ISM Manufacturing Prices Paid remains a very high 79.4 as a result, though we do note this is an 8-month low- suggesting that upward pressure is no longer accelerating. Nonetheless, inflation is above the Fed's objective with the committee's primary focus on the labor market recovery. Tomorrow's August jobs report will be an important piece to the puzzle here, in conjunction with Covid cases that appear to be peaking. Most market participants expect a more direct indication on tapering at the September FOMC meeting. We believe the Fed will remain accommodative with tapering and rate hikes (stay a ways off) coming at appropriate stages of the economic recovery (the risk of overtightening remains minimal in our view).

Event	Period	Actual	Consensus	Prior
Personal Consumption Expenditure SA M/M	JUL	0.30%	0.40%	1.1%
Personal Income SA M/M	JUL	1.1%	0.20%	0.20%
Pending Home Sales Index SAAR	JUL	110.7	111.0	112.7
Pending Home Sales M/M	JUL	-1.8%	0.0%	-2.0%
S&P/Case-Shiller comp.20 HPI M/M	JUN	1.8%	1.8%	1.8%
S&P/Case-Shiller comp.20 HPI Y/Y	JUN	19.1%	18.6%	17.1%
Chicago PMI SA	AUG	66.8	68.9	73.4
Consumer Confidence	AUG	113.8	124.0	125.1
ADP Employment Survey SA	AUG	374.0K	625.0K	326.1K
Markit PMI Manufacturing SA (Final)	AUG	61.1	61.2	61.2
Construction Spending SA M/M	JUL	0.30%	0.30%	-0.04%
ISM Manufacturing SA	AUG	59.9	58.5	59.5
Continuing Jobless Claims SA	08/21	2,748K	2,833K	2,908K
Initial Claims SA	08/28	340.0K	350.0K	354.0K
Unit Labor Costs SAAR Q/Q (Final)	Q2	1.3%	0.90%	1.0%
Productivity SAAR Q/Q (Final)	Q2	2.1%	2.4%	2.3%
Trade Balance SA	JUL	-$70.1B	-$71.5B	-$73.2B
Durable Orders ex-Transportation SA M/M (Final)	JUL	0.77%	0.65%	0.70%
Durable Orders SA M/M (Final)	JUL	-0.10%	-0.10%	-0.10%
Factory Orders SA M/M	JUL	0.40%	0.30%	1.5%



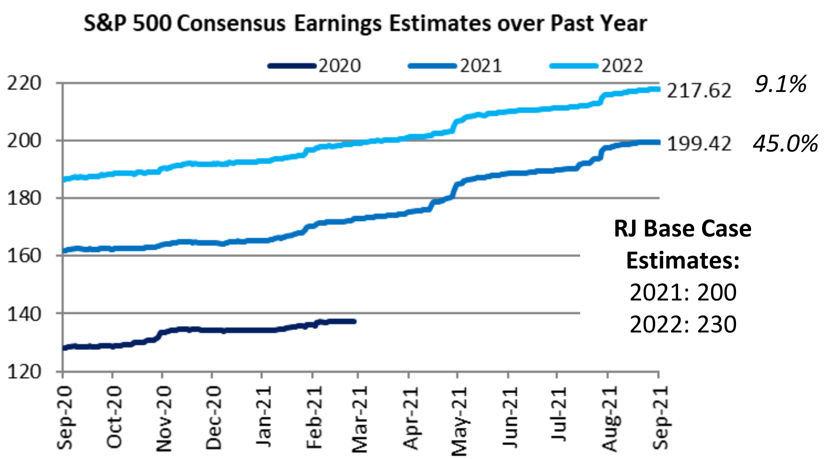


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

The elevated new orders reading in the August ISM manufacturing report bodes well for continued upside in estimate revisions, and we expect new orders to stay high as inventories get replenished from very low levels. This supports a continuation of the strong fundamental recovery. And accompanied by very low interest rates and narrow credit spreads, valuation has been able to hold at high levels.

The focus is beginning to shift toward 2022 as we get into the last few months of 2021, and our base case estimate for 2022 S&P 500 earnings is $230. As you can see in the chart to the right, investors have so far been unwilling to let the forward P/E multiple get below 21x this year. Applying a 21x P/E multiple to $230 results in a S&P 500 target of 4830 by year-end. This is possible but reflects more of a bull case scenario in our view. Our base case P/E estimate applies a 19x multiple, which may ultimately prove too conservative. Somewhere between 19x-21x appears most likely in our view by year-end, which could see the S&P 500 finish 2021 in the ~4600 range.

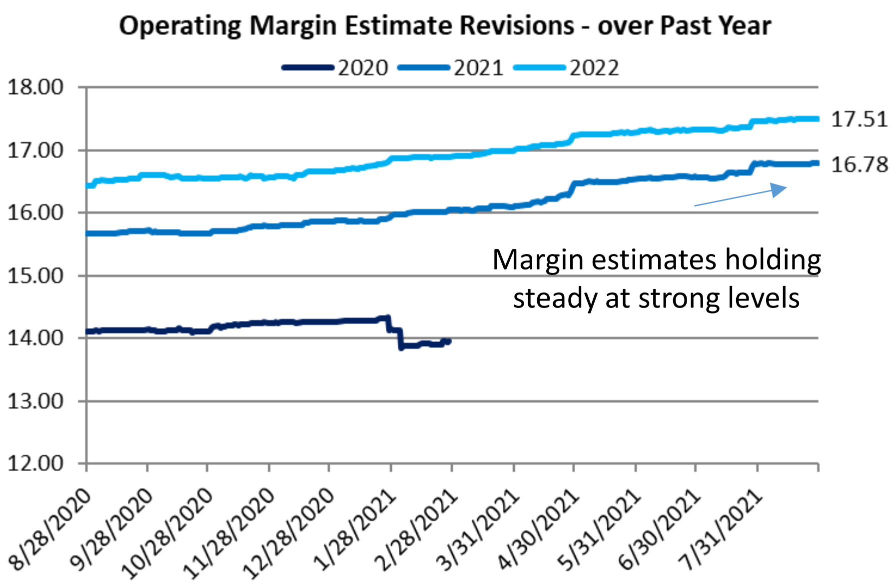


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

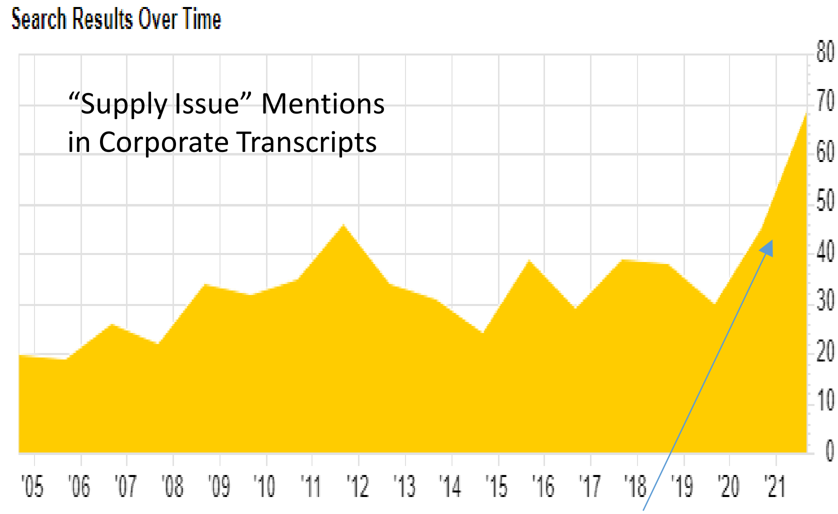
MARGINS

Continue to monitor margins, which remain in positive trends at record highs. Supply chain shortages and rising input costs remain concerns. And as you can see (top right chart), S&P 500 company mentions of "supply issues" in earnings transcripts have continued to rise. However, heightened demand- supported by enormous stimulus and very low interest rates- is continuing to offset these supply issues. As you can see (bottom right chart), company mentions of "strong demand" also remains in a steady ascent.

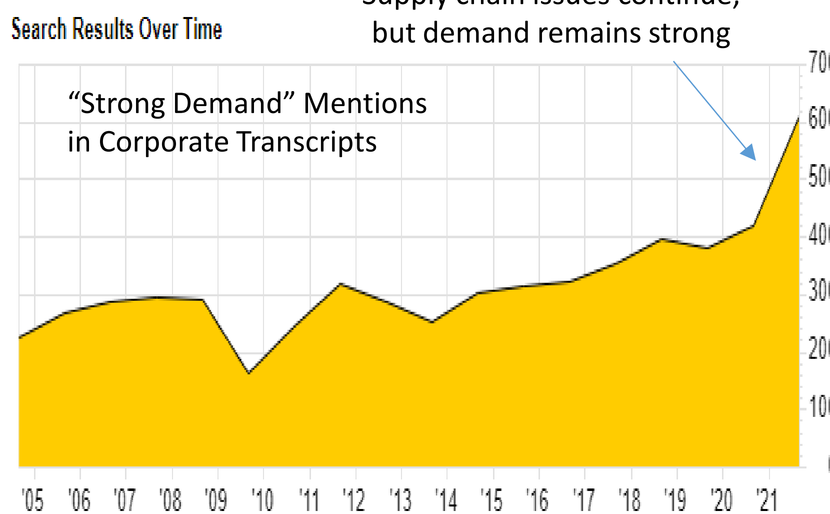
The result is many companies having been able to meet or beat margin estimates. We will continue to watch for signs that margin pressures are showing up, as that could affect the fundamental recovery. But for now, trends remain positive for the S&P 500 in aggregate.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy



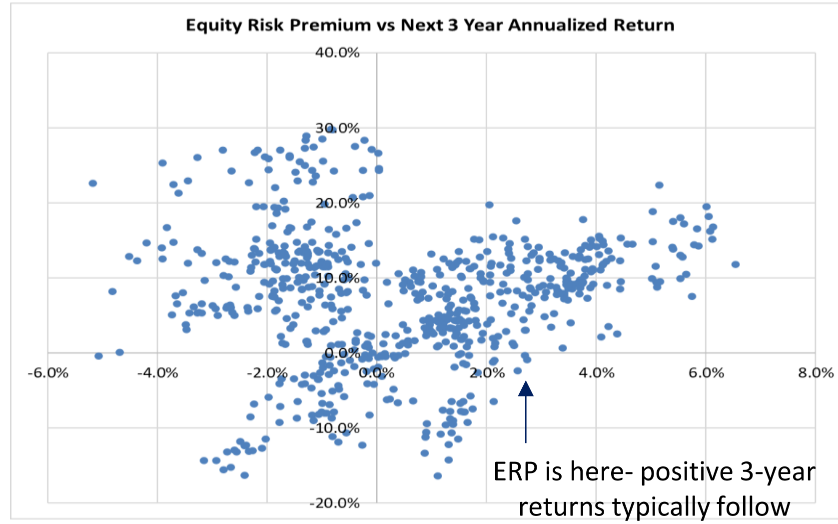
Supply chain issues continue, but demand remains strong



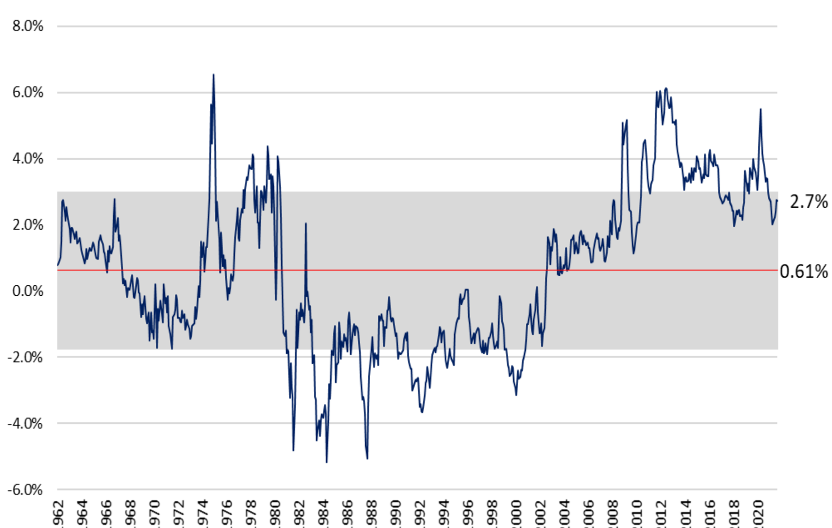
VALUATION

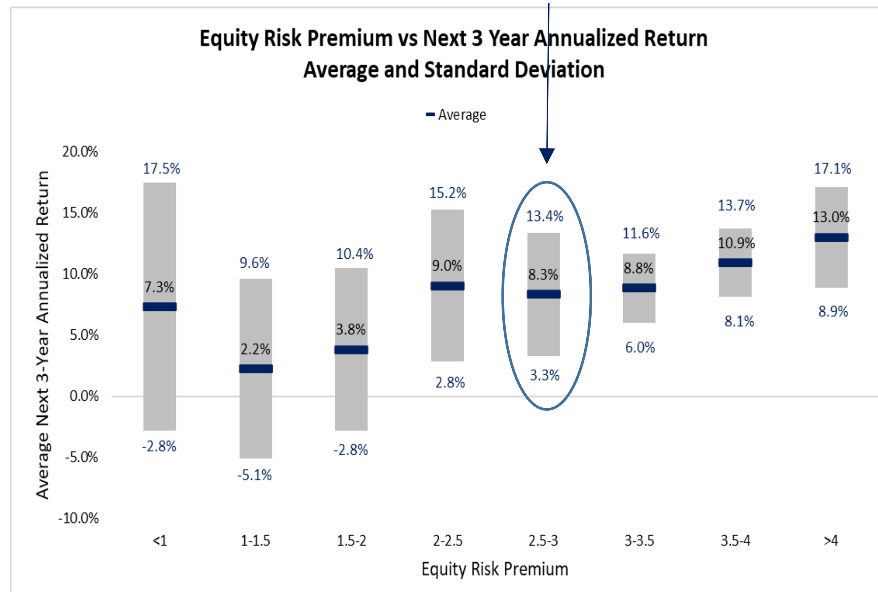
Despite the S&P 500 being over 20% higher year-to-date and over 100% higher from the March 2020 lows, the value proposition (vs bonds) remains positive for equities due to very strong earnings and exceptionally low interest rates. The equity risk premium (difference in S&P 500 earnings yield and US 10 year Treasury yield) is 2.7%, which remains historically high (or attractive)- roughly 1-standard deviation above the 0.6% average since 1960.

To be sure, we expect forward returns to moderate as the recovery progresses from here (with normal volatility and pullbacks along the way). However, we expect returns to remain positive (still early in the bull market). The average 3-year annualized return historically from an equity risk premium in the 2.5-3% range has been 8.3%. 89% of occurrences (from 2.5-3%) have seen positive 3-year returns with the worst compounded annual return being -2.4% and best 17.6%.



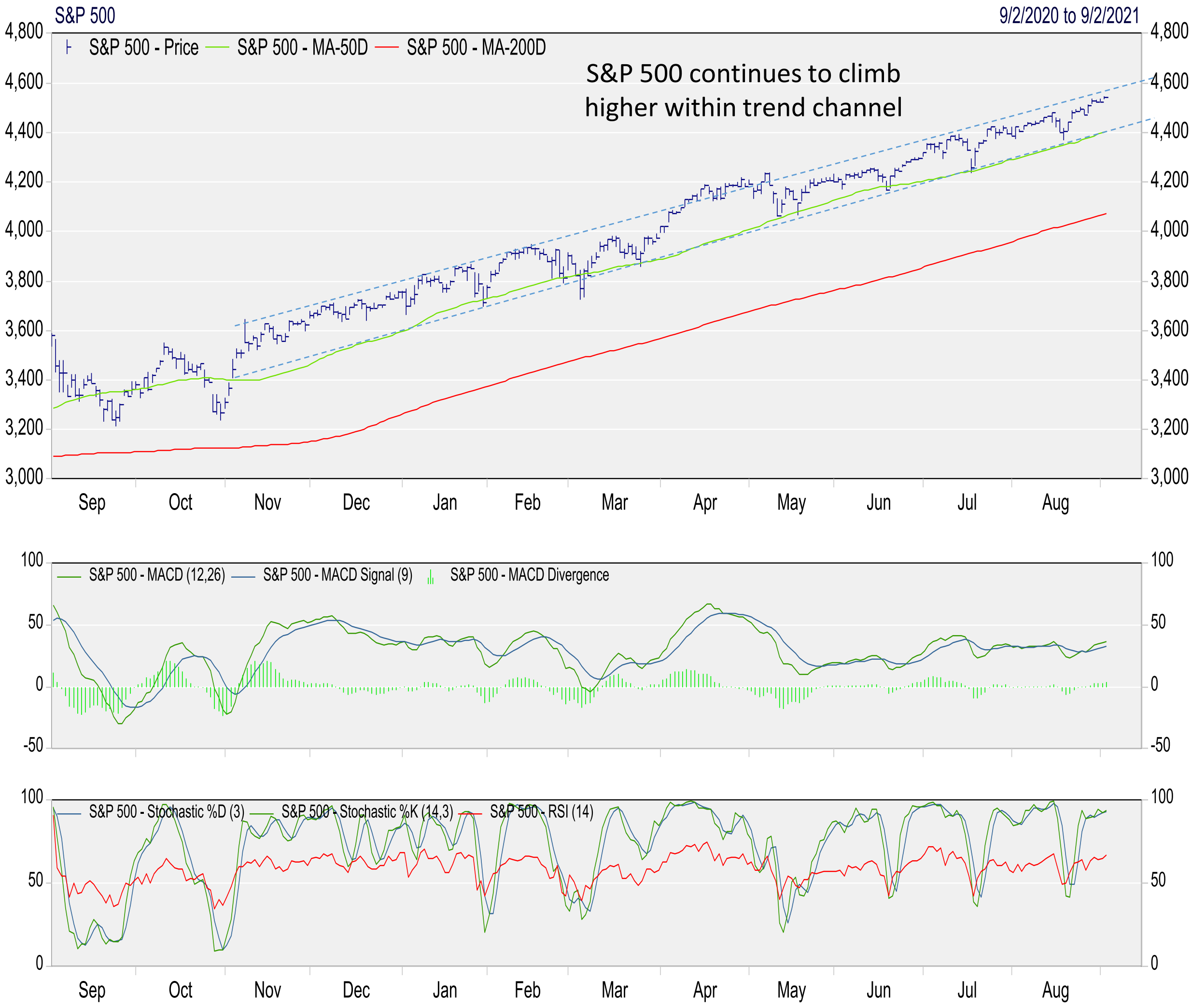
S&P 500 Equity Risk Premium





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

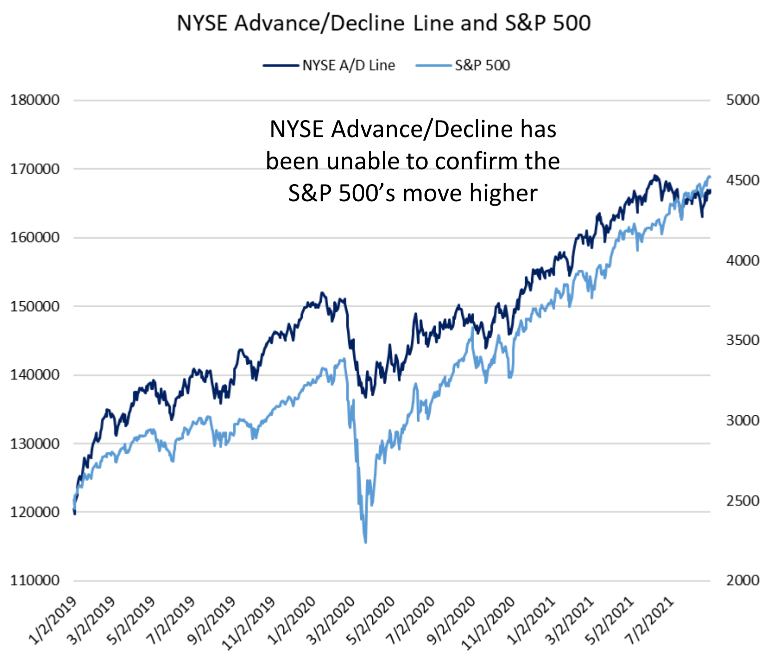
The S&P 500 continues to climb higher within its trend channel (in place since positive vaccine news last November) and is breaking out to new highs today (though has experienced some late-day weakness the past few days).

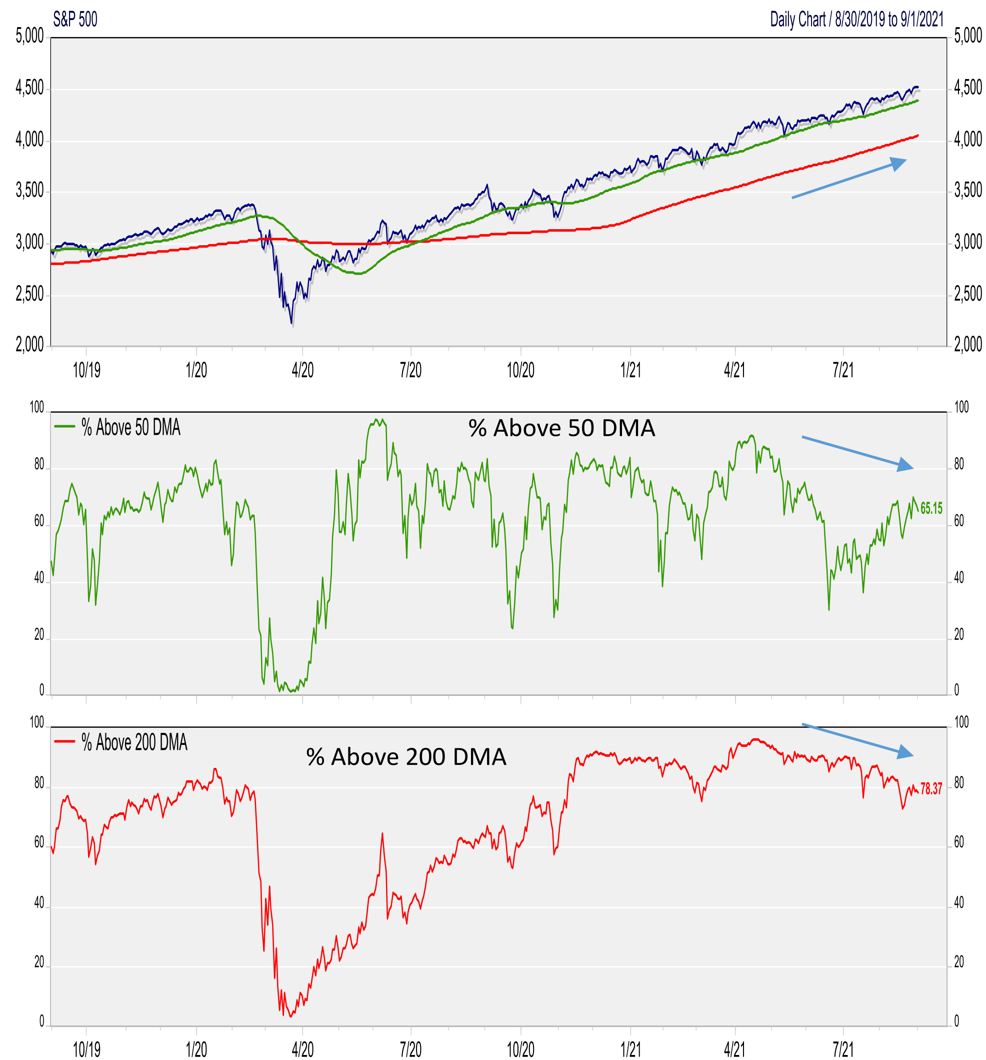
Short-term stochastics are reaching overbought levels and the index is reaching the upper-end of its range. Continue to watch Fibonacci projections around 4616 and 4672 for resistance on the upside.

The bottom end of the trend channel has continually been respected near its 50-day moving average (upward-trending at 4402 currently), and this remains the key level to watch for support. Below the 50 DMA, watch for support at 4233 and 4165.

MARKET BREADTH

We continue to monitor soft participation beneath the surface of the market's ascent. As the index has continued to gain since April, the percentage of stocks above their 50- and 200-day moving averages has retreated. Additionally, the NYSE advance/decline line has been unable to gain since June. We are not overly concerned by the softer breadth given the market's proclivity for rotation in the current environment, along with still positive longer-term trends. However, this is a divergence to continue monitoring, as a narrow market can be a vulnerable market (to pullbacks). Pullbacks may continue to occur more at the sector and stock level, but we recommend some pragmatism with new purchases along with using weakness as opportunity.

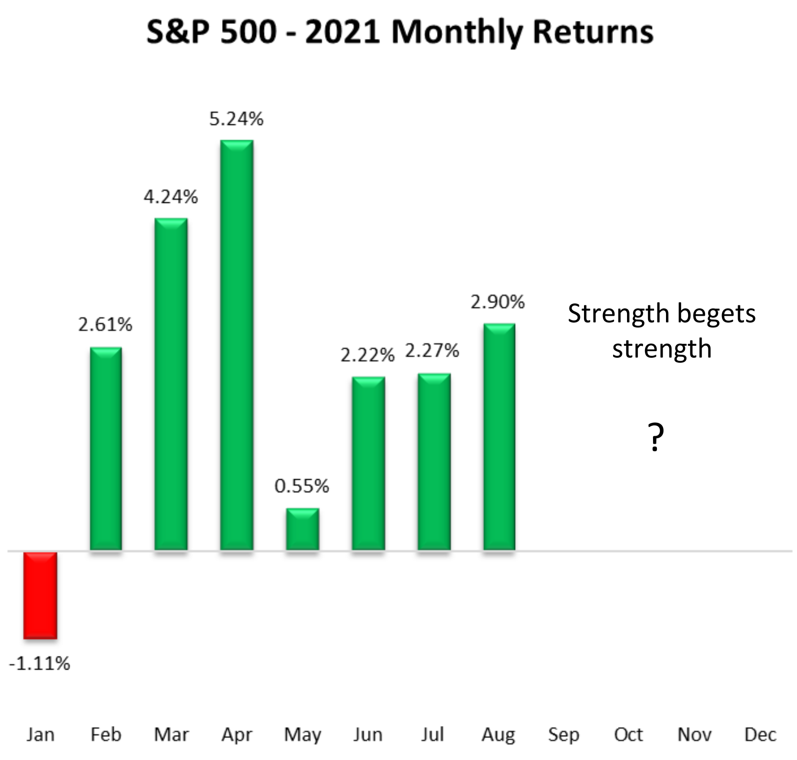


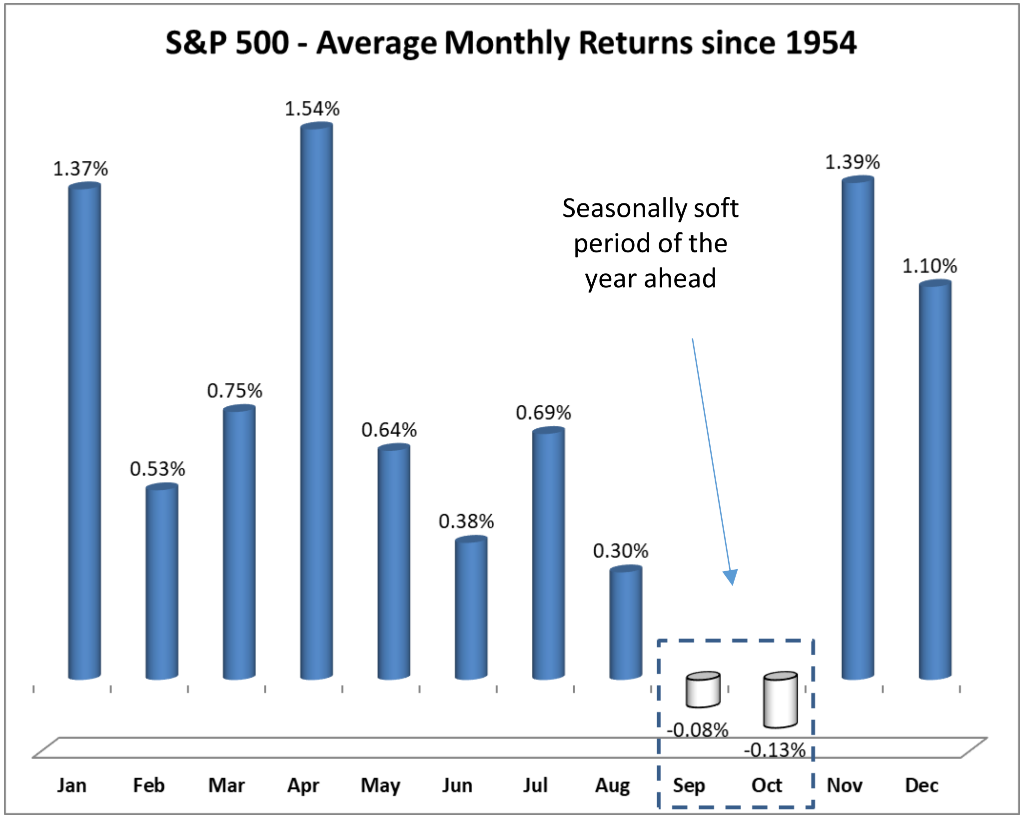


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SEASONALITY

The S&P 500 has put up a 7-month streak of positive returns, along with not experiencing a 5% pullback since last Fall. We believe that strength begets strength, and strong returns through August bode well for positive performance through the remainder of the year. Historically (since 1950), when the S&P 500 is over 20% higher through August, the index has finished higher by year-end 86% of the time by an average 3.25%. This supports our view of positive returns in the outlook, but we also want to be mindful of the seasonally soft period of the year coming in September-October. With plenty on the agenda (i.e. taxes/infrastructure, debt ceiling, geopolitical concerns, tapering, among others), it would not surprise us to also see volatility by year-end.

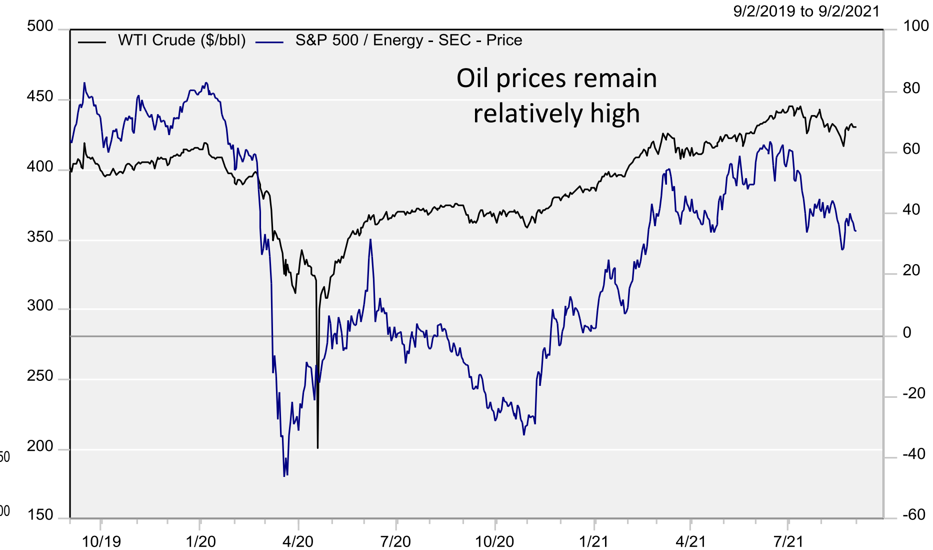


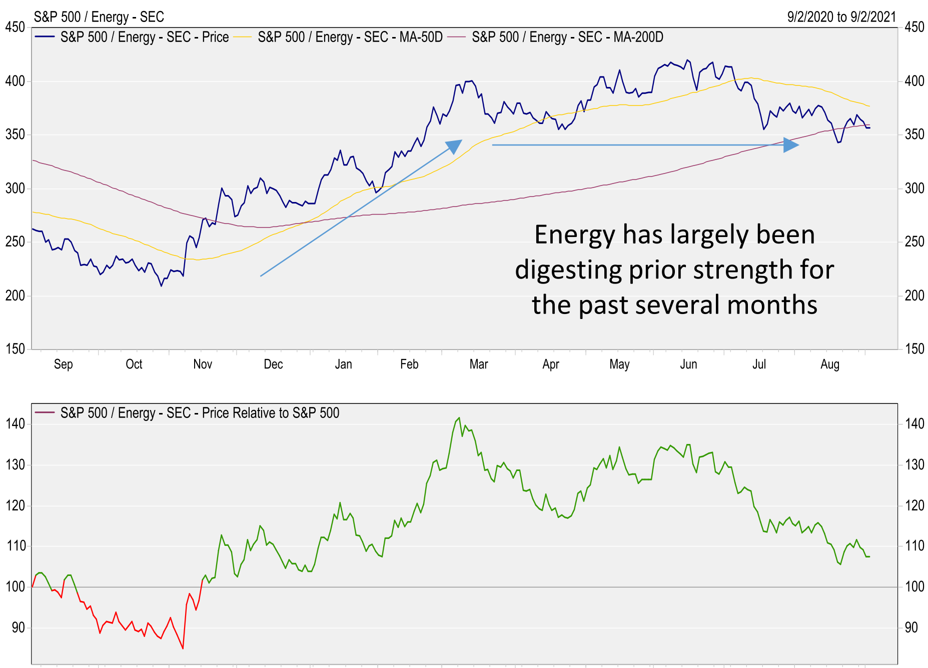


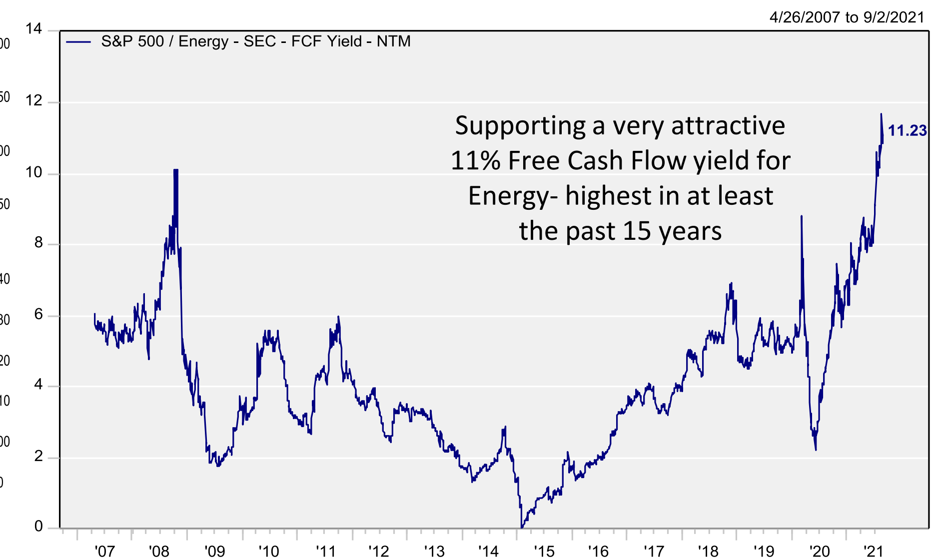
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ENERGY

The Energy sector experienced sharp gains following positive vaccine news in November, but has largely been digesting those gains for the past several months. While volatility in oil prices has contributed to this, WTI crude prices still remain relatively high (~$70/barrel today) and above pre-pandemic levels. This is resulting in large free cash flow growth for the Energy sector (specifically E&Ps), and capital discipline by the operators is leading to large shareholder-friendly uses of this cash (i.e. variable dividends) rather than overproduction. While the sector is not the most attractive technically, we remain positive on the fundamental outlook and would accumulate favored names in their current digestion period. Energy represents just 2.5% of the S&P 500's market cap (still near record low levels), and we recommend an Overweight allocation.



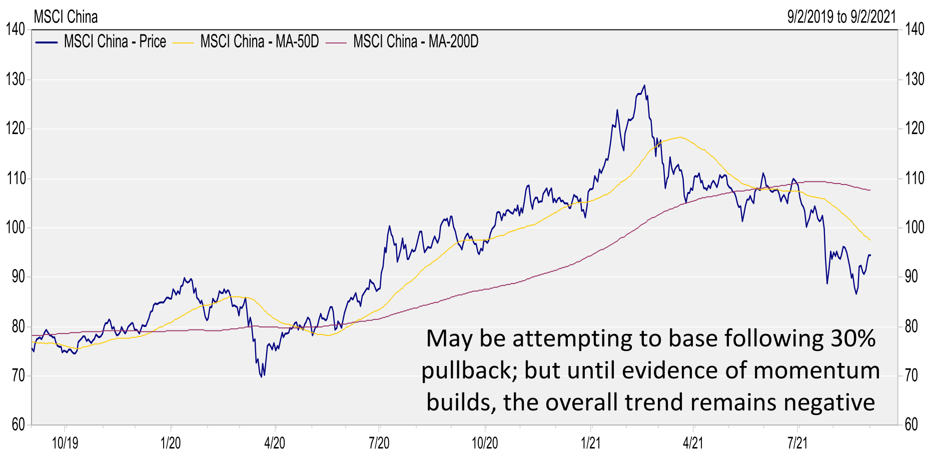


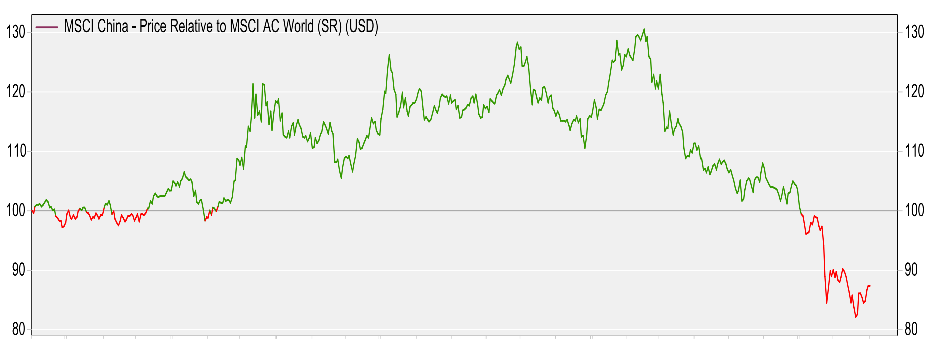


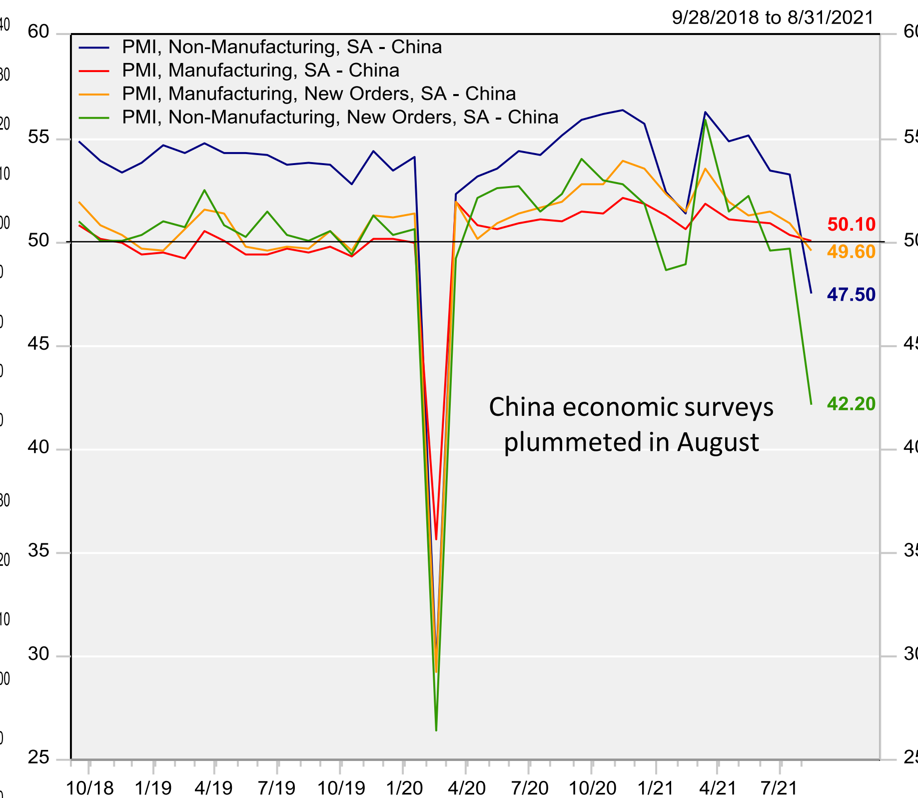
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CHINA

China's economic PMI surveys were very weak in August with Services PMI contracting (47.5) and Manufacturing PMI flat (50.1). However, New Orders for both services and manufacturing plummeted to 42.2 and 47.5 respectively. Some of this weakness may find a boost from an improvement in Covid trends in September, but overall economic trends remain relatively lackluster vs. the World. This, along with Chinese regulation on its private sector, debt concerns in China's property market, and relative virus concerns in Southeast Asia (among others), is weighing on relative performance of China's equity market. The index may be attempting to build a base following a ~30% pullback from mid-February to mid-August, but the intermediate-term trend remains negative. New uptrends have to start somewhere; but until evidence of momentum builds, respect the overall negative trend (i.e. sell into rallies that fail at resistance).







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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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