

Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com

Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com

Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com

Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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Weekly Market Guide

Short-Term Summary:

The S&P 500 is on the lower end of its range, testing the 50-day moving average support level that has held numerous times since last November. This remains the initial key level to monitor (upward-trending at 4434 currently) with short-term internals oversold enough to bounce. Narrow participation remains a technical divergence of the index's rising trend, as a narrow market can be a market susceptible to pullbacks. We have not been overly concerned by the weakening breadth due to the market's proclivity for rotation in the current environment, along with still solid intermediate-term technical trends. Additionally, if confidence shifts back to a belief that the macro will re-accelerate, we expect investors to rotate down to some of the lagging sectors and stocks. We favor selectively accumulating some of these areas (i.e. small caps, energy, industrials, financials, select consumer areas) with more aggressive positions when momentum returns (stocks often lead the actual news).

Investors will be paying close attention to the Fed at next Wednesday's FOMC meeting for clues on the eventual timeline and composition of tapering the current \$120B in monthly asset purchases. We do not view tapering as tightening, and expect the Fed to remain accommodative. Raising rates remains a long way off and, even so, will come when the economy is able to handle it. But in looking at previous ends to quantitative easing programs since the financial crisis, forward market returns are likely to moderate/normalize (within a positive overall trend) as Fed policy does. Moreover, factors to build a "wall of worry" are present (i.e. China, supply chain issues, Fed policy, debt ceiling debate, infrastructure/tax bill), though markets are not too disturbed for now. Normal pullbacks and volatility are to be expected in equity markets, but we would use these periods as opportunities.

The fundamental backdrop remains strong for equities, as robust economic growth is correlating to strong sales growth. Though supply chain issues and rising input costs are a headwind, strong demand continues to offset these as S&P 500 margin estimates remain elevated at record highs. We also view the Delta variant's impact on economic activity as transitory. This, in turn, is resulting in very strong earnings growth well above trend out of last year's shutdown. Additionally, the demand/supply imbalance economically supports continued fundamental strength (and upside to estimates), as inventories get replenished from very low levels over time. Earnings are the driver of equities over the long term, so this strong fundamental trend (in conjunction with stubbornly low interest rates) bodes well for intermediate term performance trends.

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	13.7%	24.4%
S&P 500	19.3%	31.7%
S&P 500 (Equal-Weight)	20.9%	39.5%
NASDAQ Composite	17.6%	35.5%
Russell 2000	13.1%	45.3%
MSCI All-Cap World	14.1%	28.0%
MSCI Developed Markets	10.5%	23.9%
MSCI Emerging Markets	-0.2%	15.8%
NYSE Alerian MLP	29.0%	54.6%
MSCI U.S. REIT	25.6%	31.9%

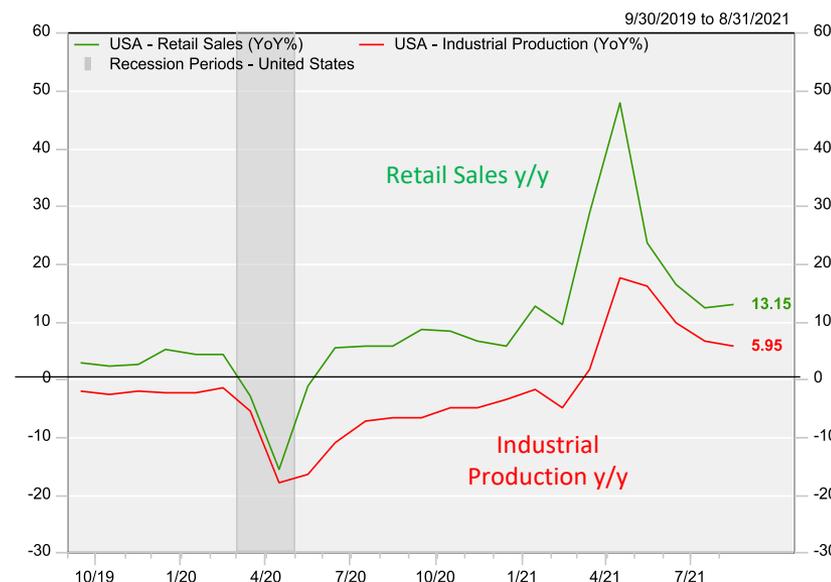
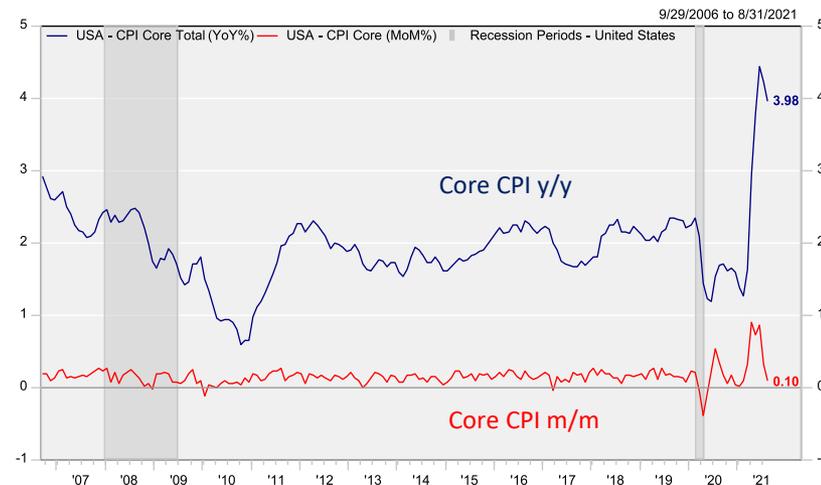
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	31.4%	2.5%
Real Estate	29.1%	2.6%
Communication Svcs.	28.0%	11.5%
Financials	27.9%	11.1%
Information Technology	20.8%	28.1%
S&P 500	19.3%	-
Health Care	17.0%	13.3%
Materials	15.2%	2.5%
Industrials	14.9%	8.1%
Consumer Discretionary	12.8%	12.0%
Utilities	7.6%	2.5%
Consumer Staples	6.9%	5.8%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

August retail sales rose 0.7% m/m- well ahead of estimates- although a large downward revision to July aided this surprise. Within the report, non-store retailers saw +5.3% m/m growth in spending while restaurants & bars showed no growth- a clear indication of Delta variant concerns throughout the month weighing on the shift from goods to services spending in the recovery. Delta concerns also weighed on the manufacturing recovery in August as industrial production rose 0.4% (below expectations), although the underlying trend is likely better than this headline as Hurricane Ida weighed on oil production (-1.4% m/m) during the month. Despite the slowdown in retail sales and industrial production, both remain a strong +13.2% and +6.0% respectively year-over-year. Core CPI eased in August, growing just 0.1% m/m which was the lowest reading since February, though 4.0% y/y core CPI is elevated (and supply/demand imbalances remain). We expect the Fed to begin tapering in the months ahead, and clues on the timeline and composition could come at next Wednesday’s FOMC meeting. *More on next page...*

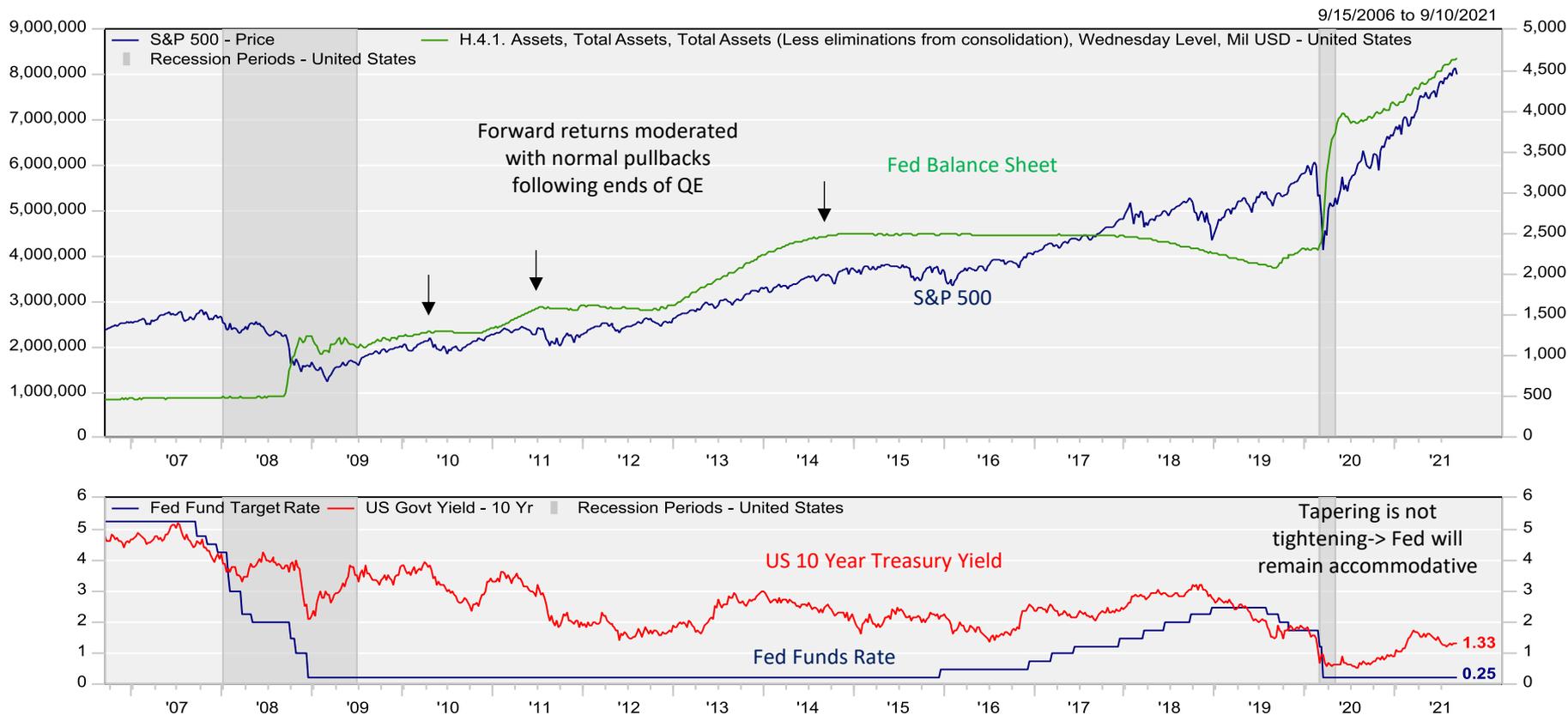
Event	Period	Actual	Consensus	Prior
PPI ex-Food & Energy SA M/M	AUG	0.60%	0.60%	1.0%
PPI ex-Food & Energy NSA Y/Y	AUG	6.7%	6.8%	6.2%
PPI SA M/M	AUG	0.70%	0.60%	1.0%
PPI NSA Y/Y	AUG	8.3%	8.3%	7.8%
Treasury Budget NSA	AUG	-\$170.6B	-\$332.5B	-\$302.0B
NFIB Small Business Index	AUG	100.1	-	99.7
CPI ex-Food & Energy SA M/M	AUG	0.10%	0.30%	0.30%
CPI ex-Food & Energy NSA Y/Y	AUG	4.0%	4.2%	4.3%
CPI SA M/M	AUG	0.30%	0.40%	0.50%
CPI NSA Y/Y	AUG	5.3%	5.3%	5.4%
Hourly Earnings SA M/M (Final)	AUG	0.60%	-	0.56%
Hourly Earnings Y/Y (Final)	AUG	4.3%	4.3%	4.3%
Empire State Index SA	SEP	34.3	18.0	18.3
Capacity Utilization NSA	AUG	76.4%	76.4%	76.2%
Industrial Production SA M/M	AUG	0.40%	0.50%	0.80%
Continuing Jobless Claims SA	09/04	2,665K	2,790K	2,852K
Initial Claims SA	09/11	332.0K	320.0K	312.0K
Philadelphia Fed Index SA	SEP	30.7	19.8	19.4
Retail sales Ex AutoFuel M/M	AUG	2.0%	-0.30%	-1.4%
Retail Sales ex-Auto SA M/M	AUG	1.8%	-0.20%	-1.0%
Retail Sales SA M/M	AUG	0.70%	-0.85%	-1.8%



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FED TAPERING

The Fed is expected to announce tapering in the coming months, and potentially at the FOMC meeting next week. The current \$120B in monthly asset purchases will be tapered back over months. We do not view tapering as tightening, and expect the Fed to remain accommodative. Raising rates remains a long way off and, even so, will come when the economy is able to handle it. But in looking at previous ends to quantitative easing programs since the financial crisis, forward returns are likely to moderate (within a positive overall trend) as Fed policy does. Normal pullbacks and volatility are to be expected, but we would use these periods as opportunities.

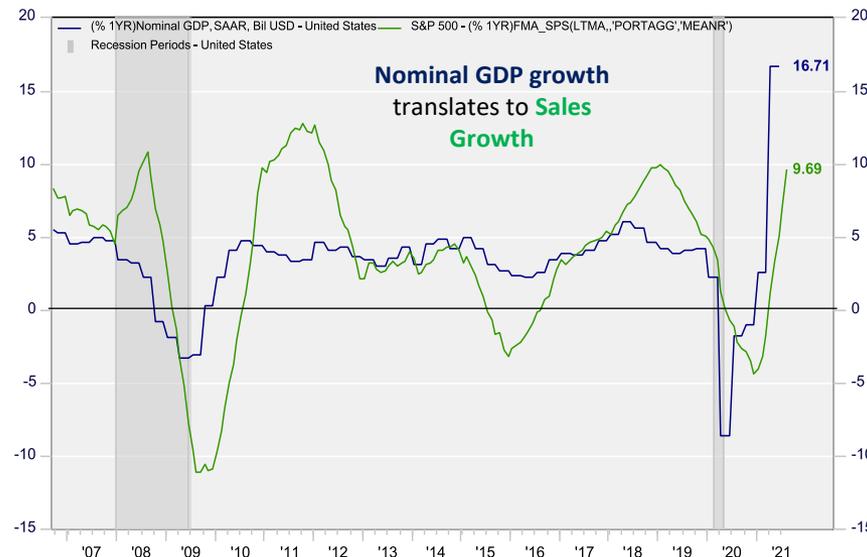


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

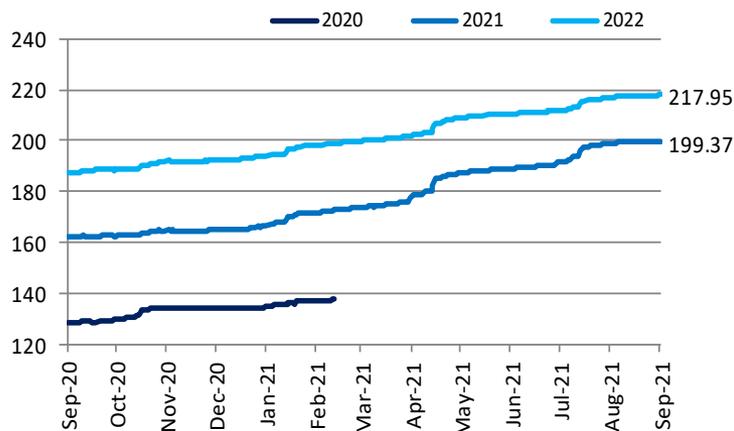
FUNDAMENTALS

The fundamental backdrop remains strong for equities, as robust economic growth y/y correlates to strong sales growth. Though supply chain issues and rising input costs are a headwind, strong demand continues to offset these as S&P 500 margin estimates remain elevated at record highs. We also view the Delta variant’s impact on economic activity as transitory. This, in turn, is resulting in very strong earnings growth well above trend out of last year’s shutdown- i.e. consensus EPS estimates reflect 45% growth in 2021, 9.3% 2022, 8.5% 2023 (vs. compounded annual growth rate since 1954 of 6.2%).

Additionally, the demand/supply imbalance economically supports continued fundamental strength (and upside to estimates), as inventories get replenished from very low levels over time. Earnings are the driver of equities over the long term, so this strong fundamental trend bodes well for intermediate term performance trends.



S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates

2020	-14.1%
2021	45.0%
2022	9.3%

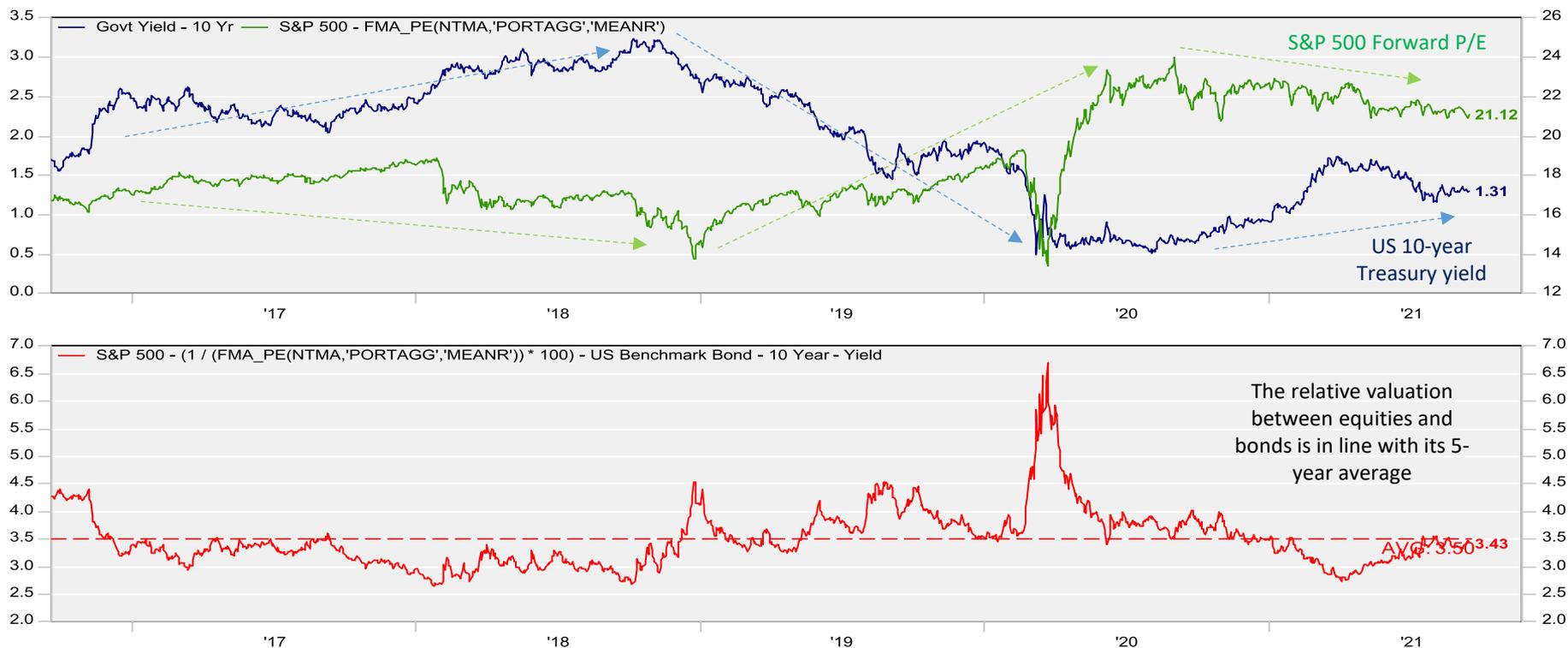
RJ Base Case Estimates:
2021: 200
2022: 230



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUATION

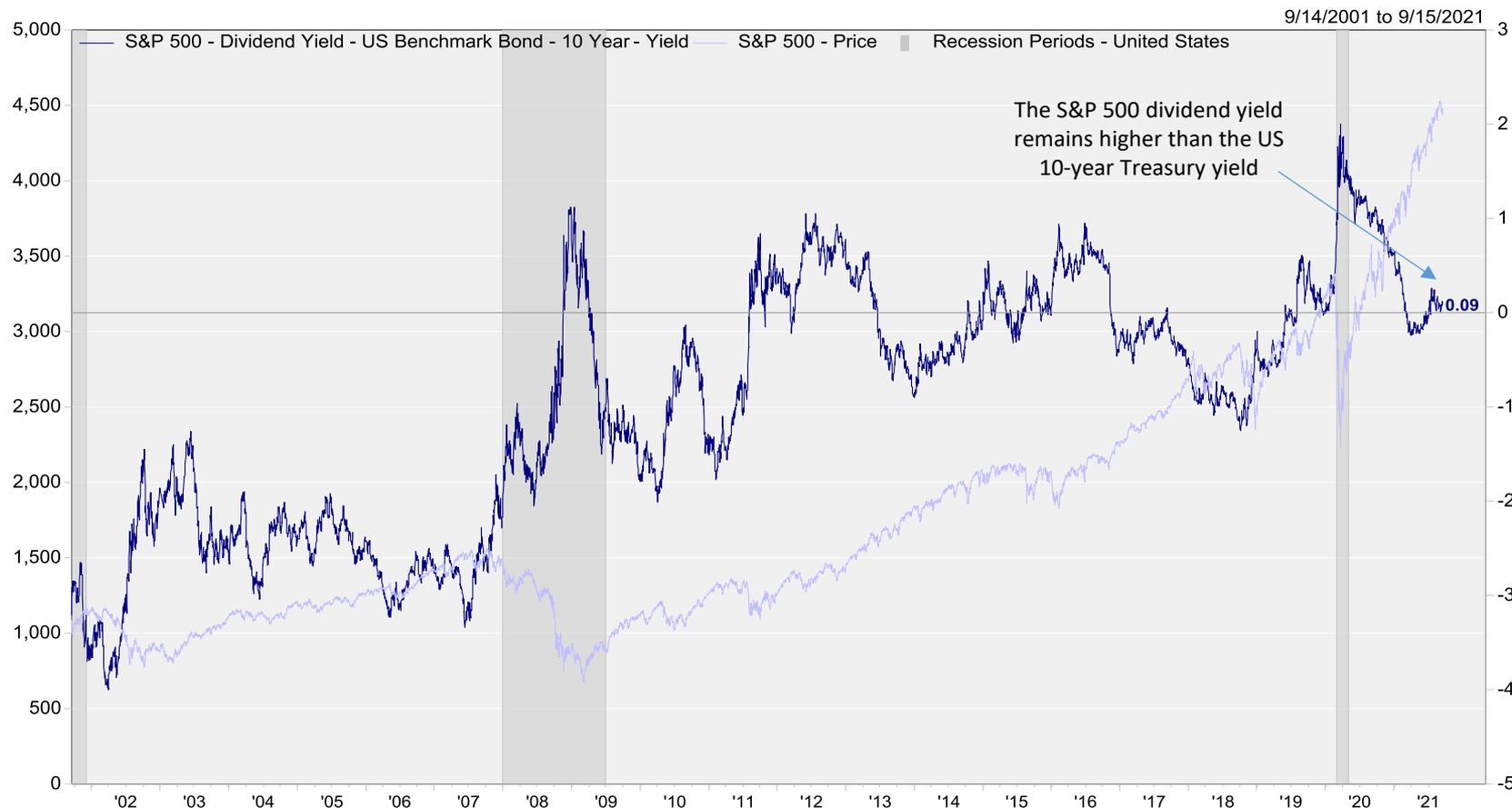
There is generally an inverse relationship between S&P 500 valuation and interest rates (i.e. all else equal, low interest rates result in higher equity net present values due to the lower discount rate on future cash flow expectations). So not only is it normal for valuation multiples to expand coming out of recessions (as the market discounts the eventual earnings recovery), the drop in the US 10-year yield to all-time lows of 0.5% in the pandemic also supported higher equity market valuations. Since the forward P/E peaked at 24x in mid-2020, stubbornly low interest rates (still just 1.3% on the US 10-year yield despite robust economic growth) has supported the normalization of multiples back toward pre-pandemic levels. For example, despite a forward P/E multiple of 21x that remains historically high, relative to bond yields the multiple is no different than its average over the past 5 years. As you can see below, the difference in the S&P 500 earnings yield and US 10-year Treasury yield is 3.43% - in line with its 5-year average of 3.5%. So as long as bond yields stay low (and credit spreads remain very narrow), equity valuations can remain elevated and normalize at a more gradual pace - supporting upside to equities.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

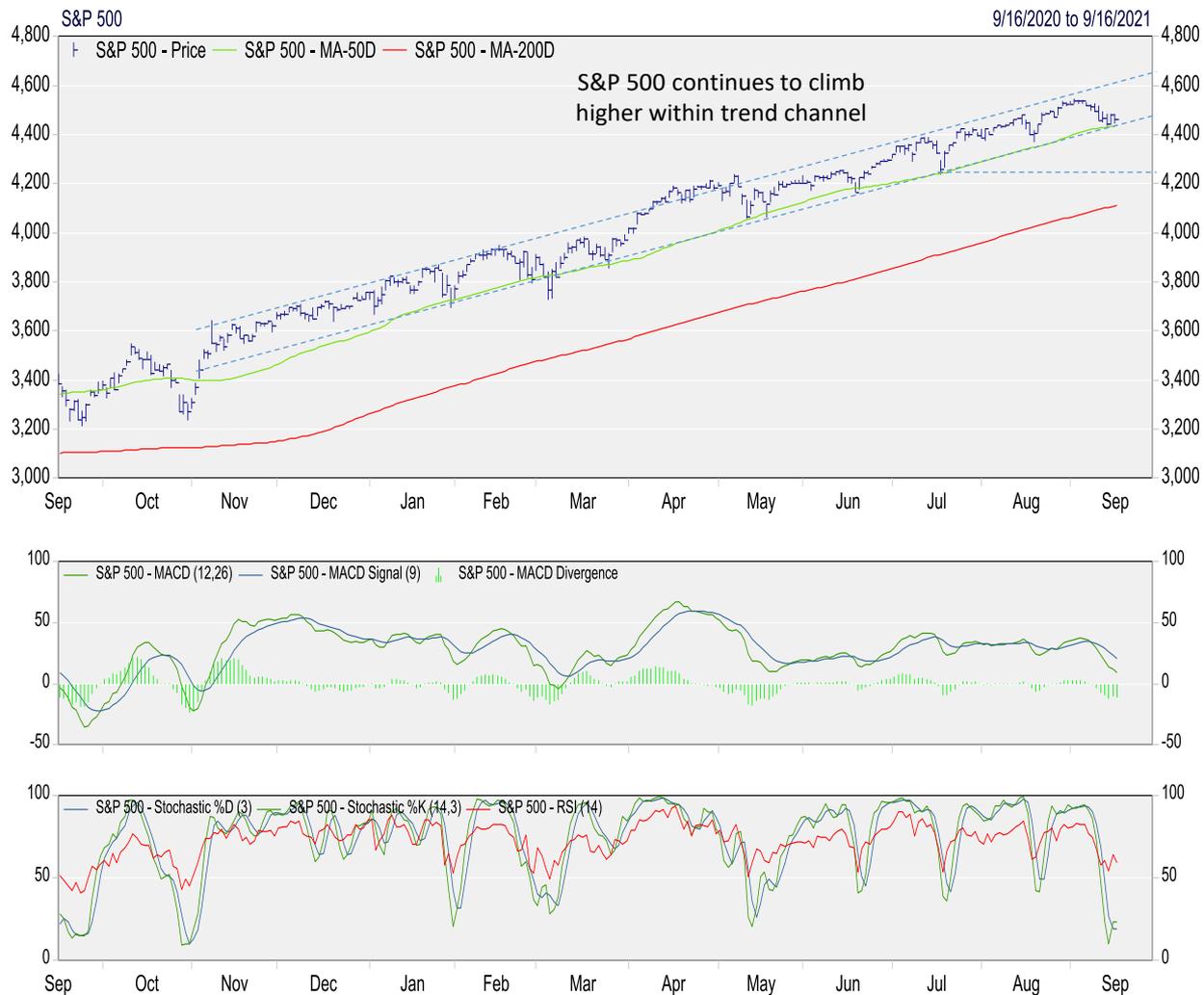
EQUITIES REMAIN ATTRACTIVE VS BONDS

Another way of looking at the relative valuation of stocks vs bonds is the S&P 500 dividend yield vs US 10-year Treasury yield. It is not normal historically for the S&P 500 to have a higher dividend yield than Treasury yield, but that remains the case today- and 70% of S&P 500 dividend-paying companies have a higher yield than the US 10yr. To be sure, pullbacks are normal and can occur at any time. But in a world of record low interest rates, equities remain attractive vs bonds- supporting intermediate term performance trends in our view.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 is on the lower end of its range, testing the 50 DMA support level that has held numerous times since last November. This remains the initial key level to monitor (upward-trending at 4434 currently).

Below the 50 DMA, we see horizontal support at 4233. A move here represents a ~7% pullback from the recent high and would be the first 5%+ pullback since last October. And on the upside, monitor the upper trend channel, along with Fibonacci projections around 4616 and 4672.

This current upward trend is not disturbed until a rally off support produces a lower high and an eventual break of the previous low. The S&P 500 is currently oversold now, and we expect a bounce from here. So if the S&P 500 does hold support at the 50 DMA, watch to see if the index can break to another new high. If not, the odds increase of the 50 DMA not holding. We remind technicians to give a time filter of a few days as quick shake out periods can occur and rebound back above prior support.

MARKET BREADTH

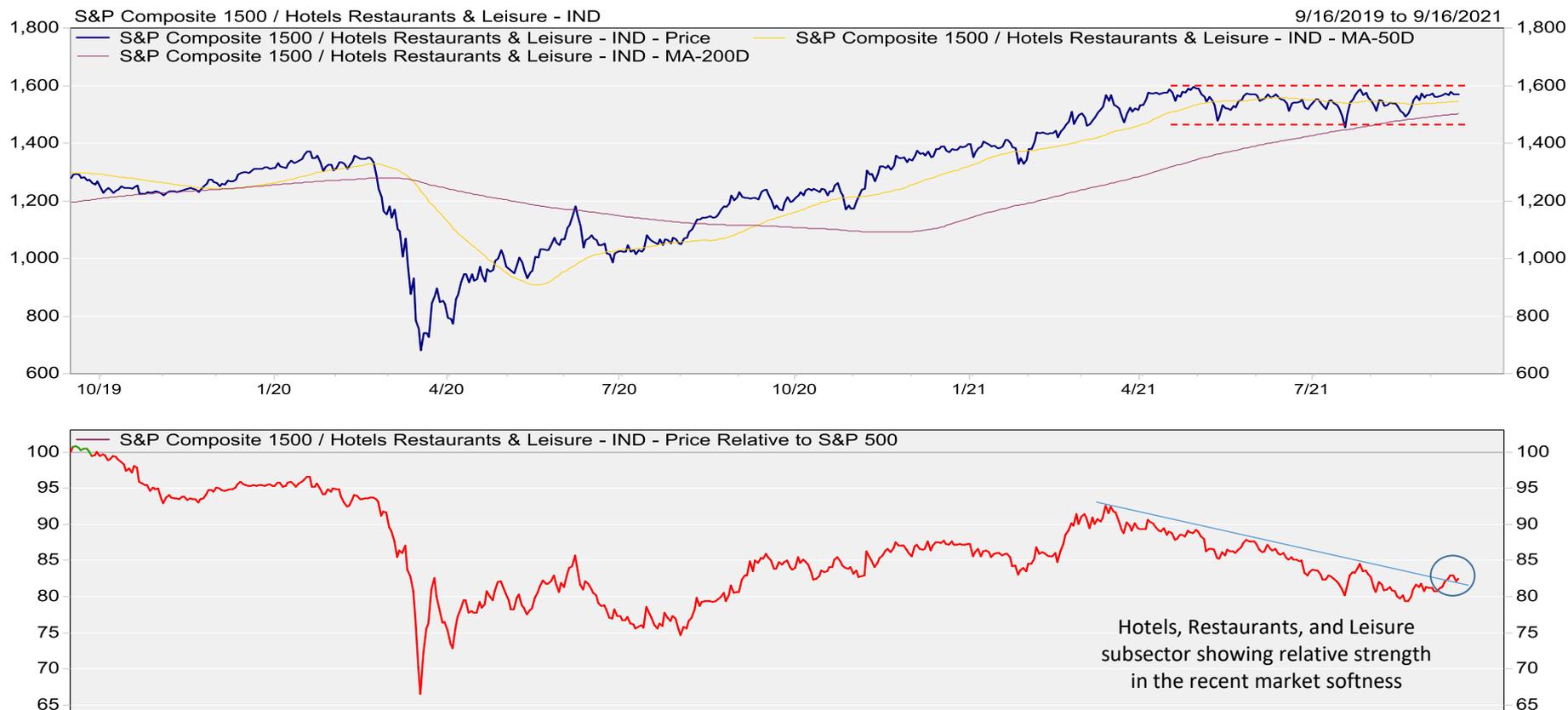
Narrow participation remains a technical divergence of the index's rising trend, as a narrow market can be a market susceptible to pullbacks. As you can see, the percentage of stocks above their 50 and 200-day moving averages has contracted despite the overall index's ascent since May. Relative performance of the average S&P 500 stock has pulled in with interest rates over that same timeframe. We have not been overly concerned by the weakening breadth due to the market's proclivity for rotation in the current environment, along with still solid intermediate-term technical trends. If confidence shifts back to a belief that the macro will re-accelerate, we expect investors to rotate down to some of the lagging sectors and stocks. We favor selectively accumulating some of these areas (i.e. small caps, energy, industrials, financials, several consumer areas) with more aggressive positions when momentum returns (stocks often lead the actual news).



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

POSITIVE DIVERGENCE?

A positive technical divergence over the past couple of weeks could potentially be seen in the recent relative strength of hotels, restaurants, and leisure. Despite Delta variant concerns and a small pullback in the S&P 500 index, this more Covid-impacted group has held its own with relative strength peeking above a downward-trend line in place since the Spring. The group has seen some volatility within it, but in aggregate has generally been digesting outsized strength out of the pandemic lows last year. This is a normal (and healthy) technical pattern, and the group could be providing clues that the market is beginning to look past the Delta variant. A breakout to new highs in price on improving relative strength would further support this view.



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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