Weekly Market Guide

Short-Term Summary:

With ~20% of the S&P 500’s market cap having reported up to this point, Q3 earnings season has gotten off to a solid start. 83% of S&P 500 companies have beaten estimates by an aggregate earnings surprise of 13.3%. While this 13.3% rate is lower than the past five quarters, it is still very strong historically (well above the 5.2% 15-year average) and supportive of fundamental trends. Many companies are citing the difficult environment with the Delta variant’s impact on global supply chains and inflation, but also noting elevated demand. Importantly, since the start of Q3 reports, forward S&P 500 earnings estimates are ticking higher for Q4 2021 and all quarters of 2022. Earnings are the most important driver of equities over the long term, so these positive revision trends are supportive of overall market trends. Looking ahead, earnings season is set to heat up from here with 173 more S&P 500 companies reporting by the end of next week, highlighted by the mega-cap Tech names (AAPL, MSFT, GOOGL, AMZN, and FB make up 22% of the S&P 500’s market cap and all report next week).

Technically, “buy the pullback” wins again, as the S&P 500 broke above the 50-day moving average and is attempting to push to new highs. The downtrend has now transitioned to a horizontal base- more of a flat/consolidation pattern than declining pattern, and we view it as a pause within the prevailing uptrend. Odds are the index breaks out to the upside. However, due to uncertainty surrounding the supply chain, Fed action, and inflation (labor market structure), we have a sideways to moderate upward bias over the coming weeks and months. Seasonal factors (Nov-Dec seasonally strong period of the year) and the potential for some clarity over the issues (with Delta past its peak) are next in line to produce the next leg higher. Earnings are the long-term driver of stock prices, and it is reassuring to see a solid start to Q3 earnings season being a key driver of the rally.

Declining Covid cases have supported upside in bond yields over recent weeks, which has significant implications on equity market performance beneath the surface. The improved growth expectations and less risk-off tone (following Delta’s peak), along with the corresponding steeper yield curve, bodes well for the “average stock.” The equal-weight S&P 500 index broke out to new highs yesterday, which not only supports underlying trends for equity markets (improved breadth in the rally) but also supports our positive stance on some of the more economically-sensitive areas. All in all, we recommend positioning portfolios with a diversified but pro-cyclical tilt (continuing to underweight the more interest-sensitive, defensive areas), and using weakness opportunistically.
MACRO: US

September retail sales were better than expected, growing 0.7% m/m vs the -0.1% consensus estimate. Retail sales have basically trended flat following the early 2021 surge (from record fiscal stimulus) but remain 12.2% higher y/y. Also, this was the second consecutive month of sequential growth - a positive indication for consumer demand despite ongoing supply shortages and higher inflation.

On the other hand, September industrial production missed estimates - contracting -1.3% m/m vs the consensus estimate of 0.2% growth. Lingering effects from Hurricane Ida and the Delta variant both weighed on this report. As global Covid cases numbers and vaccination rates improve, we expect supply chain issues to ease and the manufacturing recovery to progress. We are also encouraged by strong manufacturing surveys for new orders (reflecting elevated demand).

<table>
<thead>
<tr>
<th>Event</th>
<th>Period</th>
<th>Actual</th>
<th>Consensus</th>
<th>Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail sales ControlGroup M/M</td>
<td>SEP</td>
<td>0.82%</td>
<td>0.40%</td>
<td>2.6%</td>
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<tr>
<td>Retail sales Ex AutoFuel M/M</td>
<td>SEP</td>
<td>0.67%</td>
<td>0.40%</td>
<td>2.1%</td>
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<tr>
<td>Retail Sales ex-Auto SA M/M</td>
<td>SEP</td>
<td>0.80%</td>
<td>0.60%</td>
<td>2.0%</td>
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<tr>
<td>Retail Sales SA M/M</td>
<td>SEP</td>
<td>0.70%</td>
<td>-0.10%</td>
<td>0.90%</td>
</tr>
<tr>
<td>Business Inventories SA M/M</td>
<td>AUG</td>
<td>0.60%</td>
<td>0.60%</td>
<td>0.60%</td>
</tr>
<tr>
<td>Michigan Sentiment NSA (Preliminary)</td>
<td>OCT</td>
<td>71.4</td>
<td>74.0</td>
<td>72.8</td>
</tr>
<tr>
<td>Capacity Utilization NSA</td>
<td>SEP</td>
<td>75.2%</td>
<td>76.5%</td>
<td>76.2%</td>
</tr>
<tr>
<td>Industrial Production SA M/M</td>
<td>SEP</td>
<td>-1.3%</td>
<td>0.20%</td>
<td>-0.10%</td>
</tr>
<tr>
<td>Manufacturing Production M/M</td>
<td>SEP</td>
<td>-0.76%</td>
<td>0.30%</td>
<td>-0.40%</td>
</tr>
<tr>
<td>NAHB Housing Market Index SA</td>
<td>OCT</td>
<td>80.0</td>
<td>75.0</td>
<td>76.0</td>
</tr>
<tr>
<td>Building Permits SAAR (Preliminary)</td>
<td>SEP</td>
<td>1,589K</td>
<td>1,700K</td>
<td>1,721K</td>
</tr>
<tr>
<td>Housing Starts SAAR</td>
<td>SEP</td>
<td>1,555K</td>
<td>1,620K</td>
<td>1,580K</td>
</tr>
<tr>
<td>Housing Starts M/M</td>
<td>SEP</td>
<td>-1.6%</td>
<td>0.45%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Continuing Jobless Claims SA</td>
<td>10/09</td>
<td>2.481K</td>
<td>2.550K</td>
<td>2.603K</td>
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<tr>
<td>Initial Claims SA</td>
<td>10/16</td>
<td>290.0K</td>
<td>299.0K</td>
<td>296.0K</td>
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<tr>
<td>Philadelphia Fed Index SA</td>
<td>OCT</td>
<td>23.8</td>
<td>24.0</td>
<td>30.7</td>
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<tr>
<td>Existing Home Sales SAAR</td>
<td>SEP</td>
<td>6,290K</td>
<td>6,110K</td>
<td>5,880K</td>
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<tr>
<td>Leading Indicators SA M/M</td>
<td>SEP</td>
<td>0.20%</td>
<td>0.45%</td>
<td>0.80%</td>
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</tbody>
</table>
FUNDAMENTALS

About 20% of the S&P 500’s market cap has reported Q3 results up to this point, and the early read is positive. 83% of S&P 500 companies reporting have beaten estimates by an aggregate earnings surprise of 13.3%. While this 13.3% rate is lower than the past five quarters, it is still very strong historically (well above the 5.2% 15-year average) and supportive of fundamental trends. Many companies are citing the difficult environment with the Delta variant’s impact on global supply chains and inflation, but also noting elevated demand. 62% of S&P 500 companies are trading higher in the 3-day aftermath of results so far by an average of 0.8%. It is still very early, but the best price moves have come from Financials, Consumer Discretionary, and Health Care.

Forward earnings estimates are ticking higher for Q4 2021 and all quarters of 2022; and positive estimate revision trends are supportive of market trends. Also, the early read on results and guidance implies upside to our above-consensus $205 earnings estimate for 2021. At the current trend, Q3 earnings could finish at ~$55 (5% q/q growth vs current consensus estimates of -5%). Earnings season is set to heat up from here with 173 more S&P 500 companies reporting by the end of next week, highlighted by the mega-cap Tech names. The 5 largest S&P 500 companies- AAPL, MSFT, GOOGL, AMZN, and FB- make up 22% of the S&P 500’s market cap and all report next week.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy
Buy the pullback wins again. The S&P 500 broke above the 50-day moving average and is attempting to break to new highs.

Technical analysis is momentum driven

- The combination of lower highs and lower lows since August was a sign of growing downside momentum (short-term only since we are still in a bull market).
- But, over the past 5 days of trading, that momentum pattern was broken as the market registered a higher low, higher high, and took out the 50-DMA. A new high looks likely, which will reaffirm the bullish status.

The downtrend has now transitioned to a horizontal base- more of a flat/consolidation pattern than declining pattern, and we view it as a pause within the prevailing uptrend. Odds are the index breaks out to the upside. However, due to uncertainty surrounding the supply chain, Fed action, and inflation (labor market structure), we have a sideways to moderate upward bias over the coming weeks and months.

Seasonal factors (Nov-Dec seasonally strong period of the year) and the potential for some clarity over the issues with Delta past its peak are next in line to produce the next leg higher.

Earnings are the long-term driver of stock prices. It is reassuring to see a solid start to Q3 earnings season being a key driver of the rally.
Declining Covid cases have supported upside in bond yields over recent weeks, which has significant implications on equity market performance beneath the surface. The improved growth expectations and less risk-off tone (following Delta’s peak), along with the corresponding steeper yield curve, bodes well for the “average stock.” As you can see, there has been a strong correlation between relative performance of the S&P equal-weight index and the yield curve over the past year. The equal-weight index broke out to new highs yesterday, which not only supports underlying trends for equity markets (improved breadth in the rally) but also supports our positive stance on some of the more economically-sensitive areas.
If the S&P 500 does make a clear breakout to new price highs, it will be reassuring to see the percentage of S&P 500 stocks above their 50- and 200-day moving averages surpass the highlighted levels at the prior market high in order to snap the declining trend of participation at market highs in recent months. Stronger market breadth supports underlying technical momentum.
**VALUE**

Value is developing an interesting technical set-up in our view. Relative strength appears poised for a break out after a recent upward pattern of higher highs. We believe the steepening yield curve bodes well for the more Value-oriented areas, as the group underperformed through the Delta variant’s rise (and narrower yield curve) in the summer months. Additionally, we are seeing forward earnings estimates hook back up (above the S&P 500) to begin Q3 earnings season, in conjunction with the decline in Covid cases. Current earnings growth expectations are largely in-line with the S&P 500 (slightly above for 2021 and slightly below for 2022), but valuation remains low historically. Value currently trades at a 24% discount to the S&P 500 P/E, double the 12% 20-year average discount.

**Graphs and Charts**

- **Value breaking out to new highs**
- **2022 Earnings Estimates**
- **P/E on Year-End EPS Estimates**

**Source:** FactSet, Raymond James Equity Portfolio & Technical Strategy
SMALL CAPS

The more economically-sensitive small caps have largely trended sideways for the past six months. In our view, this is due to the group’s historically sharp rise from November to March (healthy consolidation to digest these gains, allowing moving averages to “catch up”) along with the narrower yield curve since then, as the bond market correctly noticed some growing underlying concerns to the recovery (i.e. Delta variant, supply chains, inflation). The decline in Covid cases, along with rising vaccination rates globally, has contributed to a steeper yield curve in recent weeks and we believe this bodes well for small cap relative performance. The fundamental outlook remains strong with upward estimate revision trends (on above-market earnings growth). Additionally, the small caps trade at a 28% discount to the S&P 500 on 2022 estimates (vs a 5% premium on average over the past 20 years). We recommend accumulating the small caps in their current basing phase and would increase conviction on a relative strength break out.
TECHNOLOGY

Technology relative strength has been unable to push to a new high. With sector earnings reports set to heat up next week, good results will likely push Tech to a new relative strength high; whereas a failure to move to a new high will further suggest the sector may be a market-performer for now. Despite strong fundamental trends, valuation remains a headwind (particularly with rising interest rates). Our view is that the Technology can continue to perform well, but that other areas can pull more weight as the economic recovery progresses.

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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