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Weekly Market Guide

Short-Term Summary:

The S&P 500 currently trades at the upper-end of its stalled range that has been in place since mid-April. Short-term stochastics are at overbought levels, and we are watching the 4238 all-time high as key resistance (which the index has been unable to break above the past two days). We continue to believe the odds are in favor of the broad market grind continuing in the short term with market rotation playing out beneath the surface. This leaves plenty of opportunity for active investors to take advantage of rolling pullbacks at the sector and stock level.

The major dynamic at play this week has been downside in the US 10 year Treasury yield (which is a significant influence on the rotation trade). As a reminder, long-duration growth stocks with high valuation multiples have been used as a source of capital for rotation into shorter-duration, deep-cyclical stocks as interest rates were rising. With the upward move in rates abating (and the US 10yr yield dropping to 3-month lows below 1.5%), Technology is seeing a bump in relative strength. Ultimately, we believe interest rates will continue to grind higher over time with a continuation of rotation into the deeper-cyclical areas. We like Technology over the long term, but do not believe they are ready to regain market leadership yet. For investors too overweight Technology, we would use the bounce as an opportunity to trim exposure.

On the flip side, the banks are consolidating with the interest rate contraction (95% correlation between the US 10yr Treasury yield and banks relative performance over the past twelve months). We recommend accumulating the banks as they become oversold or reach their 50 day moving average (which has held as support since November). 100% of banks are above their 200 DMA (reflecting a strong intermediate term technical backdrop), and valuation remains attractive in our view. The group trades at a large discount to the S&P 500 on a P/Book and P/E basis, and relative valuation by both metrics is below pre-pandemic levels. We believe valuation deserves a premium with the 10/2yr yield spread at 140bps vs 12bps pre-pandemic.

This dynamic also has a large influence on the relative performance of Growth vs Value, with the recent rate reduction providing a relief bounce for Growth (within a downtrend) and consolidation for Value (within an uptrend). Fundamentally, the Value index offers more fundamental leverage to the economic recovery and also still trades at the low end of its historical range on a relative P/E basis. We thus would use the consolidation in Value as an opportunity to accumulate.

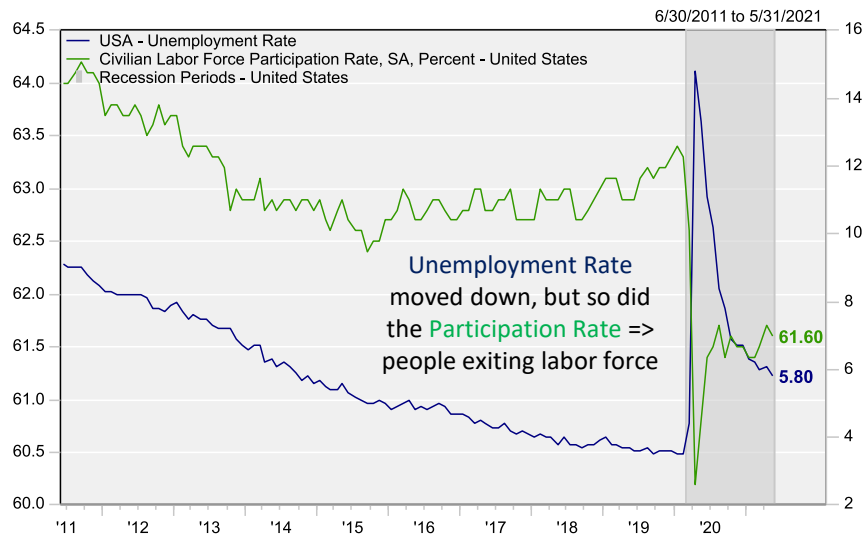
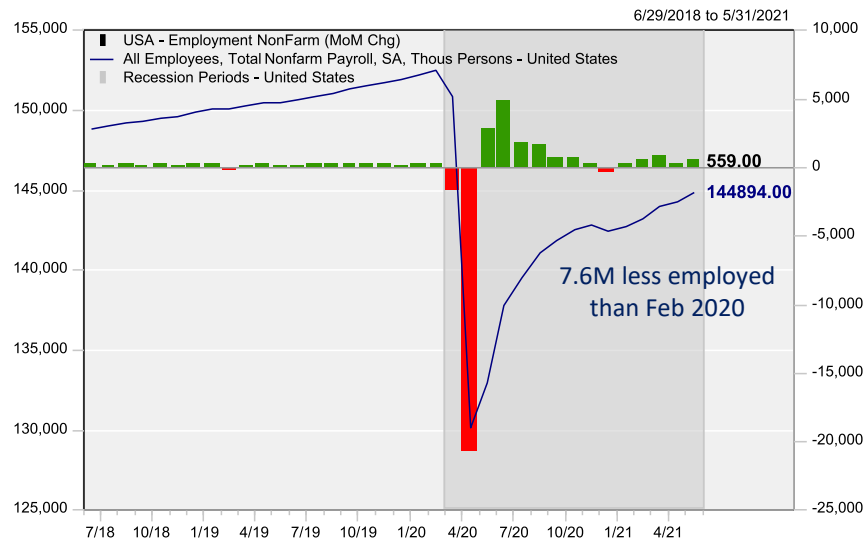
Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	12.5%	26.3%
S&P 500	12.3%	31.6%
S&P 500 (Equal-Weight)	18.5%	37.5%
NASDAQ Composite	7.9%	39.8%
Russell 2000	17.8%	54.4%
MSCI All-Cap World	10.7%	32.2%
MSCI Developed Markets	10.1%	27.7%
MSCI Emerging Markets	6.3%	36.0%
NYSE Alerian MLP	45.4%	24.5%
MSCI U.S. REIT	23.7%	26.0%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	45.2%	3.0%
Financials	27.6%	11.8%
Real Estate	24.0%	2.7%
Materials	18.6%	2.8%
Industrials	16.8%	8.8%
Communication Svcs.	16.7%	11.1%
S&P 500	12.3%	-
Health Care	8.4%	12.9%
Information Technology	7.2%	26.5%
Consumer Discretionary	5.4%	12.0%
Consumer Staples	3.7%	6.0%
Utilities	3.7%	2.6%

MACRO: US

May nonfarm payrolls rose by 559k, less than the 650k expected by consensus. The unemployment rate improved to 5.8% but for the wrong reasons as people left the labor force- i.e. the participation rate also decreased to 61.6%. This dynamic (though more stale) was also reflected in the April JOLTS Job Openings received this week which showed the number of job openings surging to record highs. Within the report, layoffs fell to record lows while job quits rose to record highs. With the Fed’s focus on the jobs recovery (and inclusive employment), there still is a way to go with 7.6M people less employed than February 2020. May’s 559k pace would take over a year just to get back to pre-pandemic employment numbers. May CPI also showed another rise in inflation above expectations, as core CPI rose 0.7% m/m vs estimates of 0.4%. All of this data will influence the Fed’s communication, and investors will be paying close attention to the FOMC meeting next week. We continue to view inflationary pressures as largely transitory, resulting from supply unable to meet massive demand (in the reopening) yet. We also expect employment to improve with the recovery this year. The upshot is that the Fed will remain accommodative in the outlook, but will need to walk back from ultra-accommodation at some point.

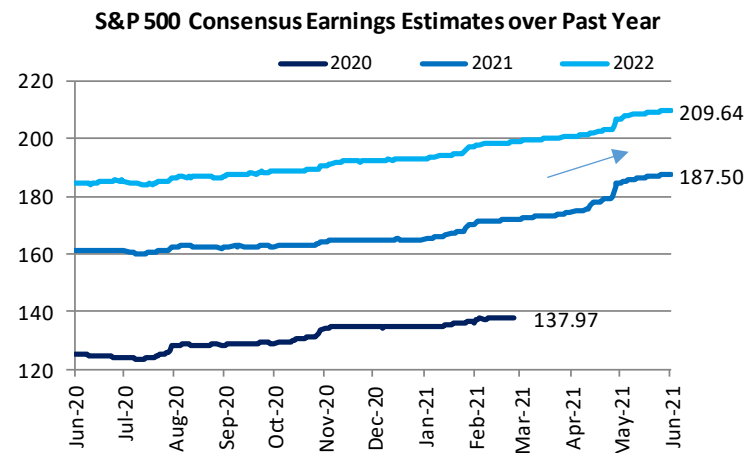
Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	MAY	559.0K	650.0K	278.0K
Unemployment Rate	MAY	5.8%	5.9%	6.1%
Durable Orders ex-Transportation SA M/M (Final)	APR	0.99%	1.0%	1.0%
Durable Orders SA M/M (Final)	APR	-1.3%	-1.3%	-1.3%
Factory Orders SA M/M	APR	-0.60%	0.50%	1.4%
NFIB Small Business Index	MAY	99.6	-	99.8
Trade Balance SA	APR	-\$68.9B	-\$68.6B	-\$75.0B
JOLTS Job Openings	APR	9,286K	8,180K	8,288K
CPI ex-Food & Energy SA M/M	MAY	0.70%	0.40%	0.90%
CPI ex-Food & Energy NSA Y/Y	MAY	3.8%	3.4%	3.0%
Continuing Jobless Claims SA	05/29	3,499K	3,620K	3,757K
CPI SA M/M	MAY	0.60%	0.40%	0.80%
CPI NSA Y/Y	MAY	5.0%	4.6%	4.2%
Hourly Earnings SA M/M (Final)	MAY	0.50%	0.50%	0.50%
Hourly Earnings Y/Y (Final)	MAY	2.0%	2.0%	2.0%
Initial Claims SA	06/05	376.0K	368.0K	385.0K



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Since trailing 12m S&P 500 earnings bottomed at the start of 2021, earnings have increased 18% to approach pre-pandemic levels at \$160. At the same time, the forward P/E (which peaked at 24x last Fall) has now receded to the lower end of its multi-month range at 21.5x. As earnings rebound, valuations should normalize from lofty levels. But, significantly higher estimate revisions on this robust earnings growth are supporting the normalizing trend. For example, 2021 and 2022 S&P 500 earnings estimates have risen by 13.9% and 8.8% respectively since the year began- reflecting earnings growth expectations of 36.3% and 11.7% respectively. And we believe upside to these estimates remain with the macro moving closer to our bull case scenario at the moment (\$200 earnings estimate). Additionally, a moderation in the ascent of interest rates and inflation expectations lately is also supportive of multiples- providing added time for earnings to offset the reduction in valuation. We believe this pattern of stronger earnings growth than multiple contraction should continue (allowing for upside to equities). Our base and bull case scenario P/E assumption is 22x on a trailing basis- resulting in a bull case S&P 500 target of 4400 currently.

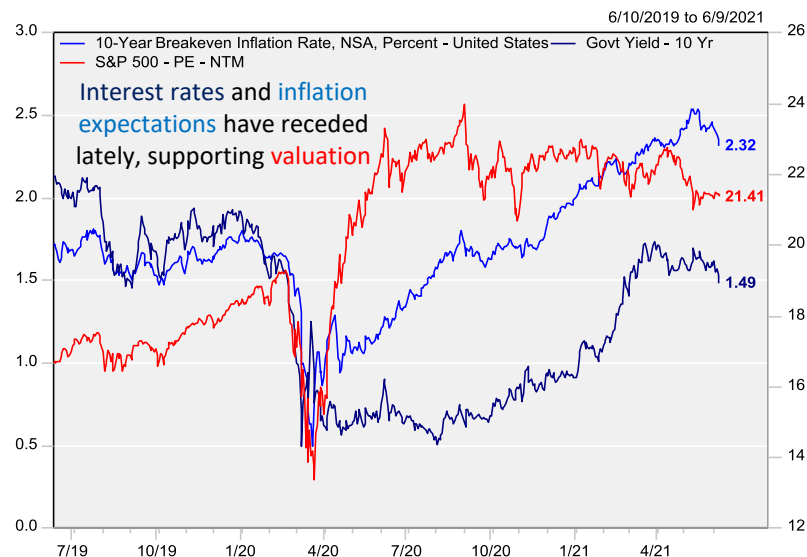
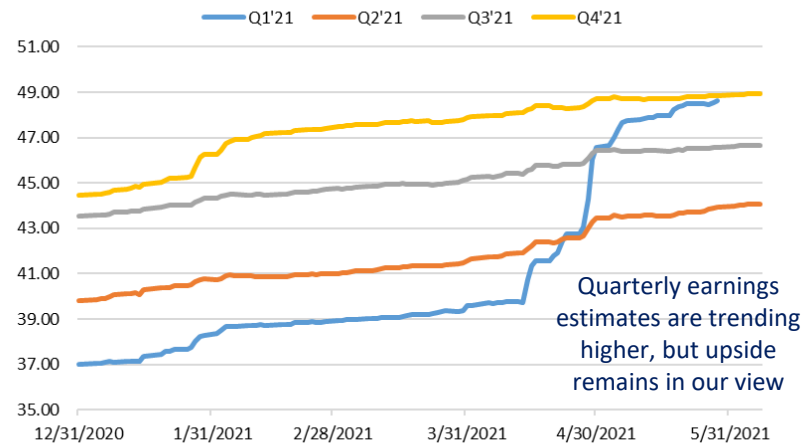


Year	Estimate
2020	-14.0%
2021	35.9%
2022	11.8%

RJ 2021 Estimates:
 \$190 Base Case
 \$200 Bull Case

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

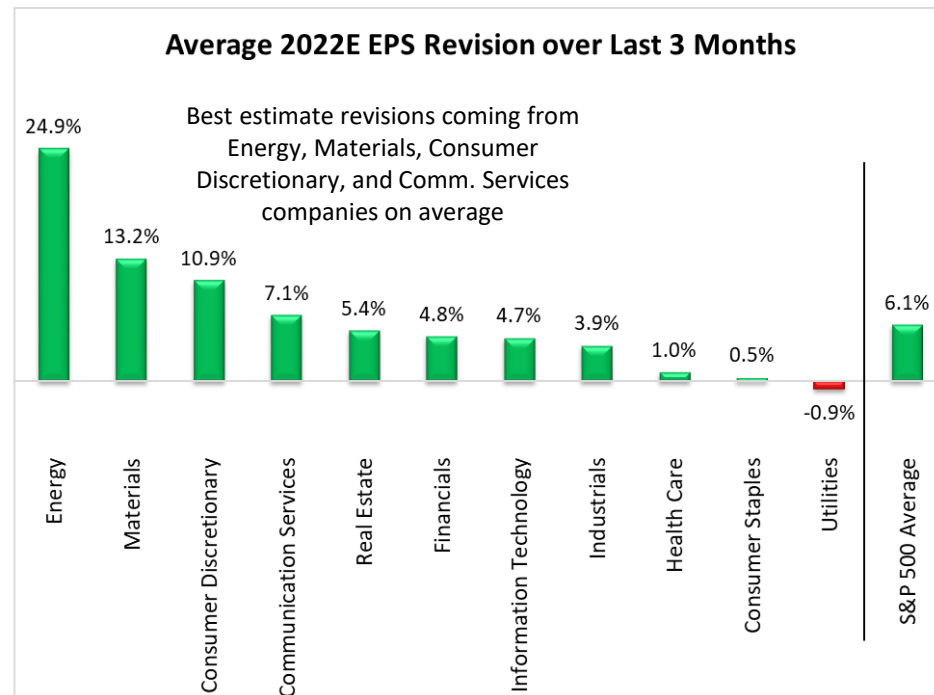
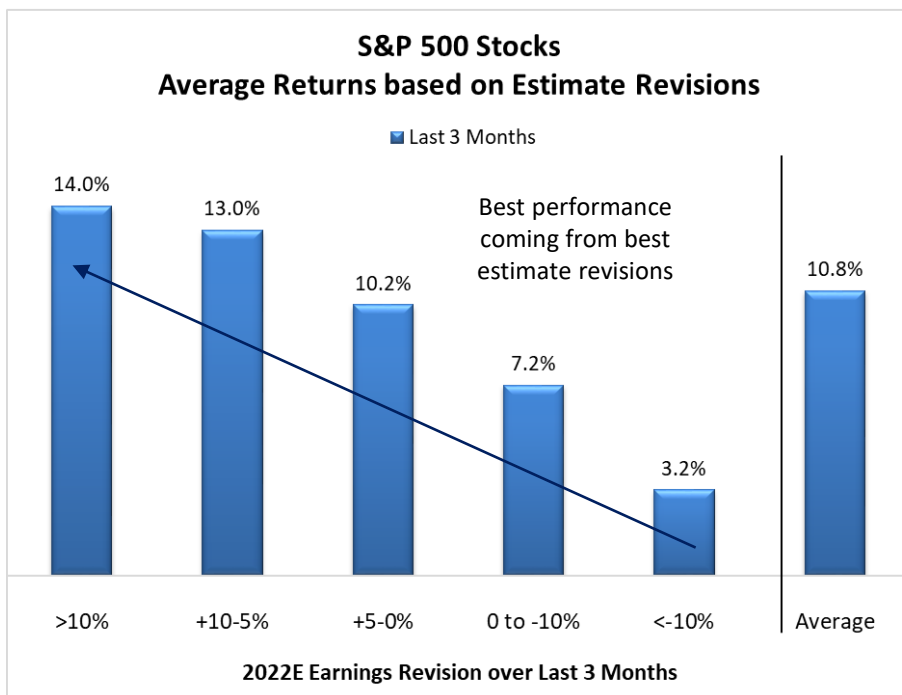
2021 Earnings Estimates



ESTIMATE REVISIONS DRIVING PERFORMANCE

The average S&P 500 company has seen a 6.1% increase to its 2022 earnings estimate over the past three months. And there has been a clear relationship between estimate revisions and performance over the past three months for S&P 500 stocks- with the best estimate revisions seeing the best performance on average, while the lowest revisions are lagging performance. For example, S&P 500 companies with >10% estimate revisions to 2022 earnings in the past three months are up 14% on average over that timeframe; while companies with <-10% estimate reductions in the past three months are only up 3.2% on average. At the sector level, companies in the Energy, Materials, Consumer Discretionary, and Communication Services sectors are seeing the best estimate revisions on average (over the past three months), while the more defensive Utilities, Consumer Staples, and Health Care are seeing the least.

3 Month 22E Revision	# of Stocks	Average Return Last 3 Months
>10%	98	14.0%
+10-5%	102	13.0%
+5-0%	191	10.2%
0 to -10%	89	7.2%
<-10%	16	3.2%
Average	496	10.8%



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



The S&P 500 currently trades at the upper-end of its stalled range that has been in place since mid-April. Short-term stochastics are at overbought levels, and we are watching the 4238 all-time high as key resistance. The index has been unable to break above this level over the past two days.

We continue to believe the odds are in favor of the current market grind continuing in the short term with market rotation playing out beneath the surface. This leaves plenty of opportunity for active investors to take advantage of rolling pullbacks at the sector and stock level.

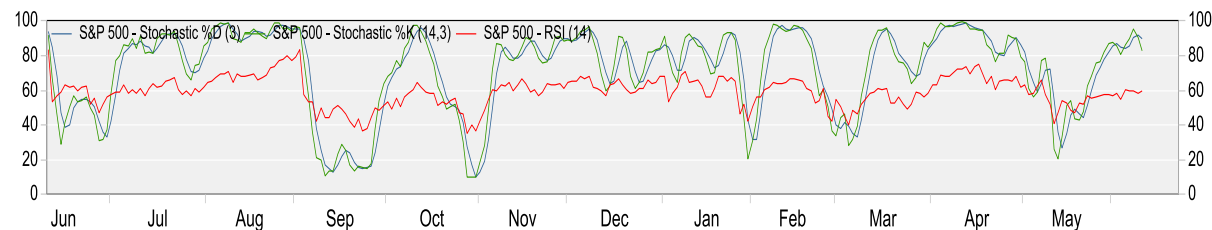
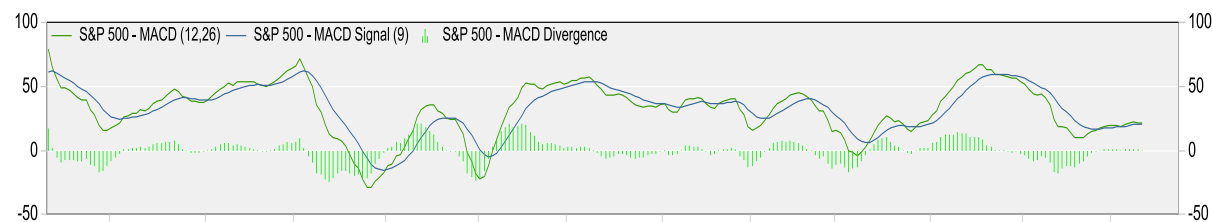
We also view this current stall as normal and healthy for the broader market. It is typical for the rate of ascent (which has been historic over the past twelve months) to moderate in the 2nd year of a bull market. That said, the intermediate term technical backdrop remains solid, and pullbacks should be used as buying opportunities.

Short-term potential support:

- 4160 (50 DMA)
- ~4060 (most recent reaction low)
- 3983 (prior high)

Short-term potential resistance:

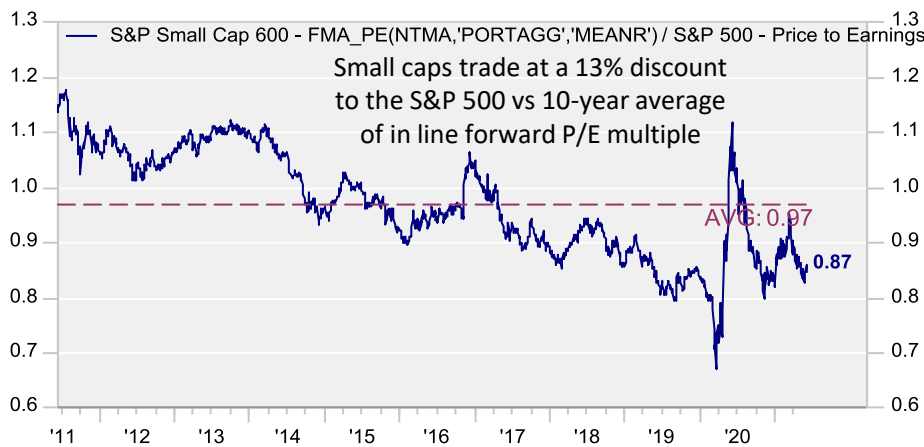
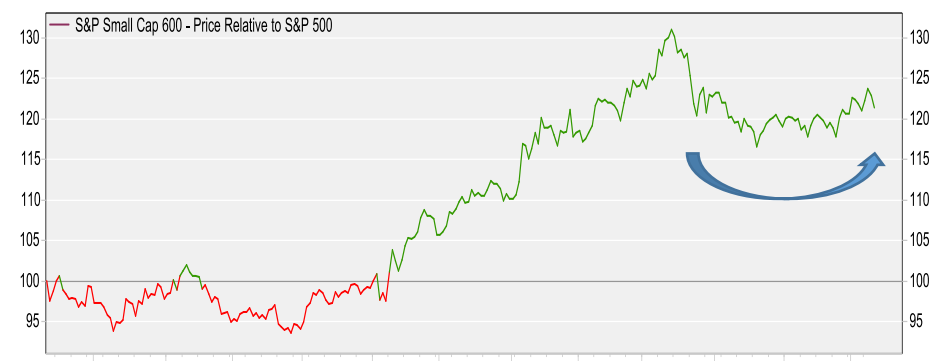
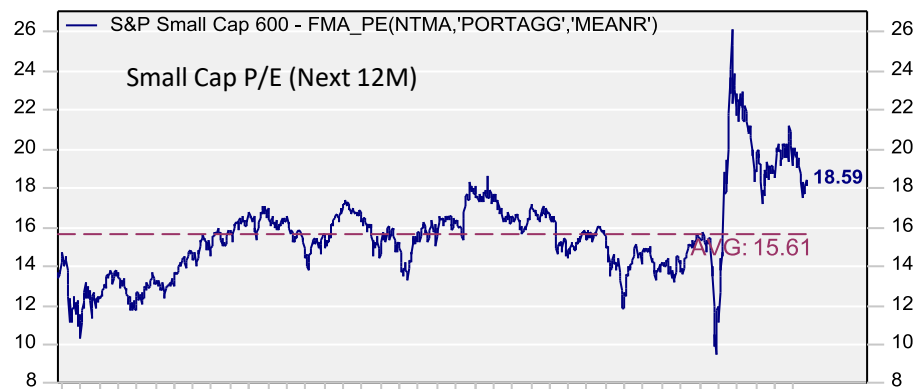
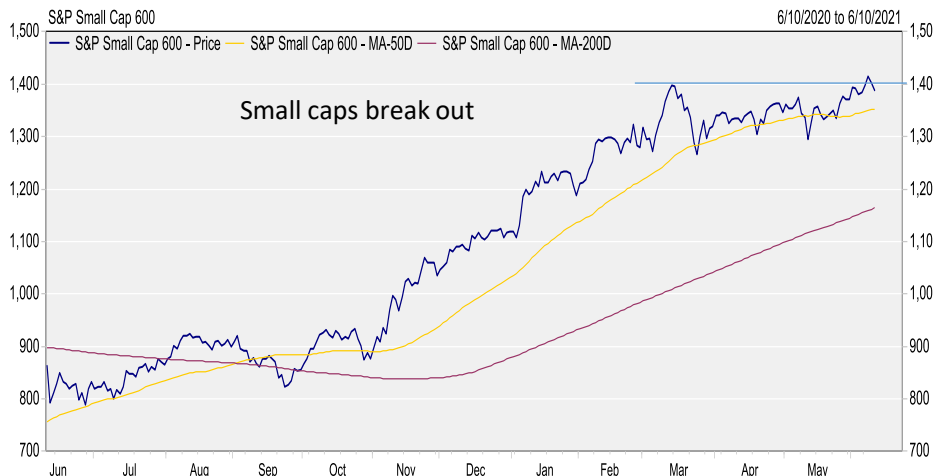
- 4238 (all-time high)
- 4274 (Fibonacci projection)



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

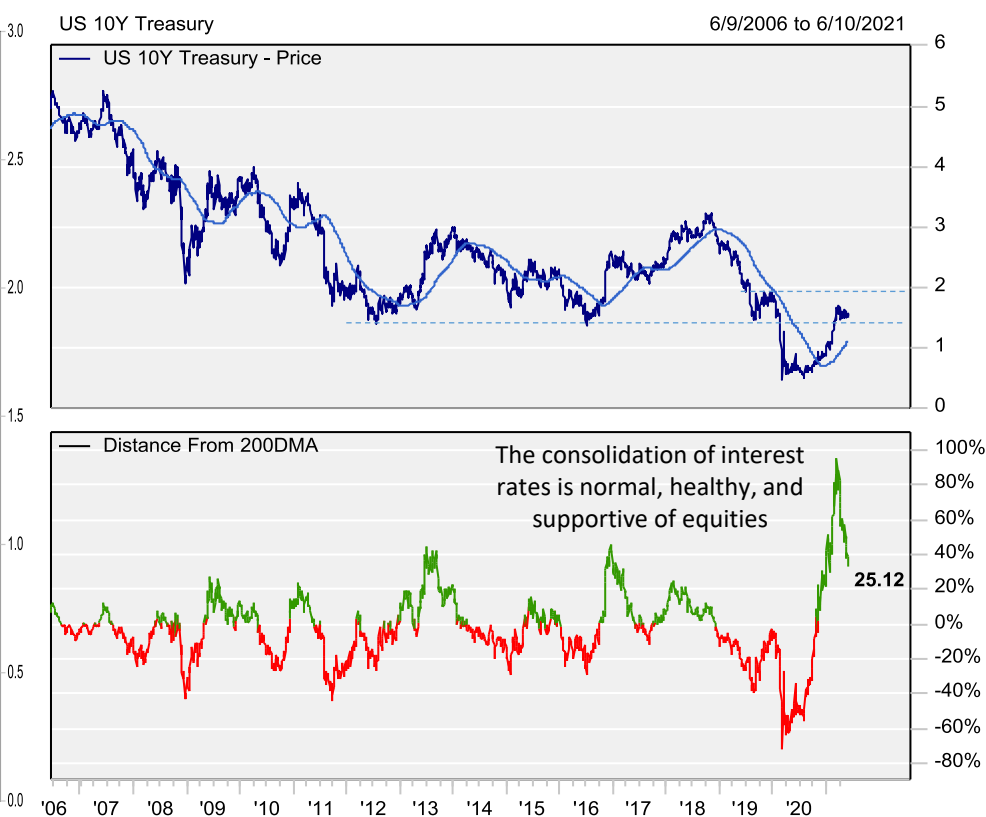
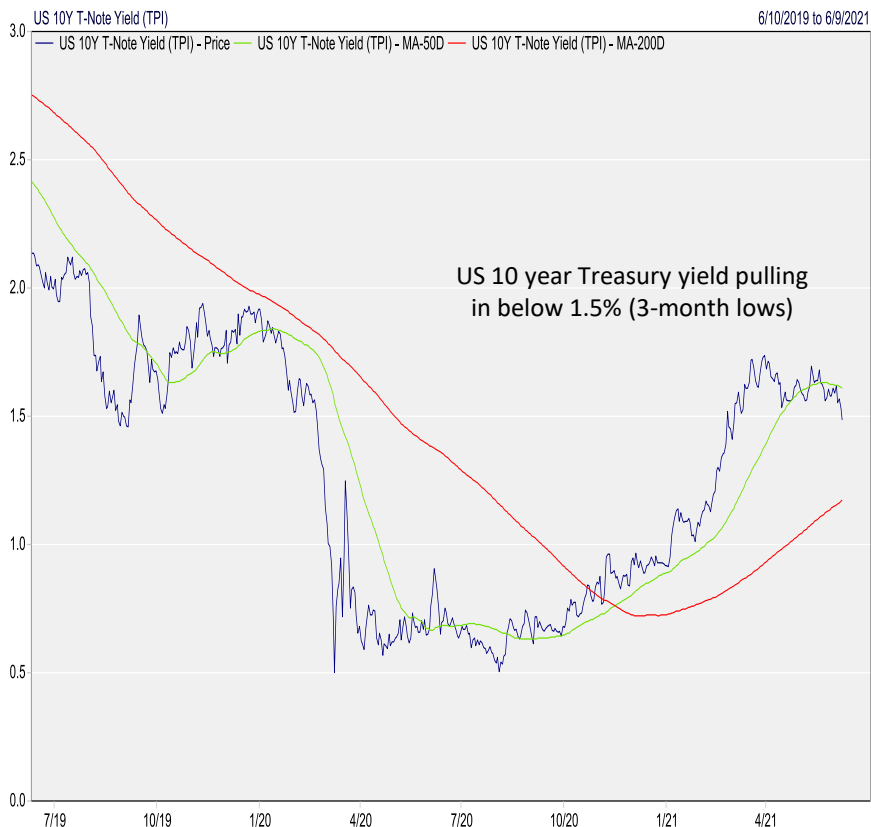
We highlighted the small caps last week stating that the index was approaching a break out to new highs, and it has now done so briefly- following a multi-month digestion phase of its enormous strength since October. Given our belief that the market will remain in a basing pattern, we do not expect a dramatic up-move in the short term; but the break out does reaffirm our conviction to small caps. The group contains more leverage to the economic recovery (very US-centric) and also trades at a 13% discount to the S&P 500 P/E on next 12 month earnings estimates. If underweight your desired exposure, accumulate with a 6-12 month time horizon.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INTEREST RATES

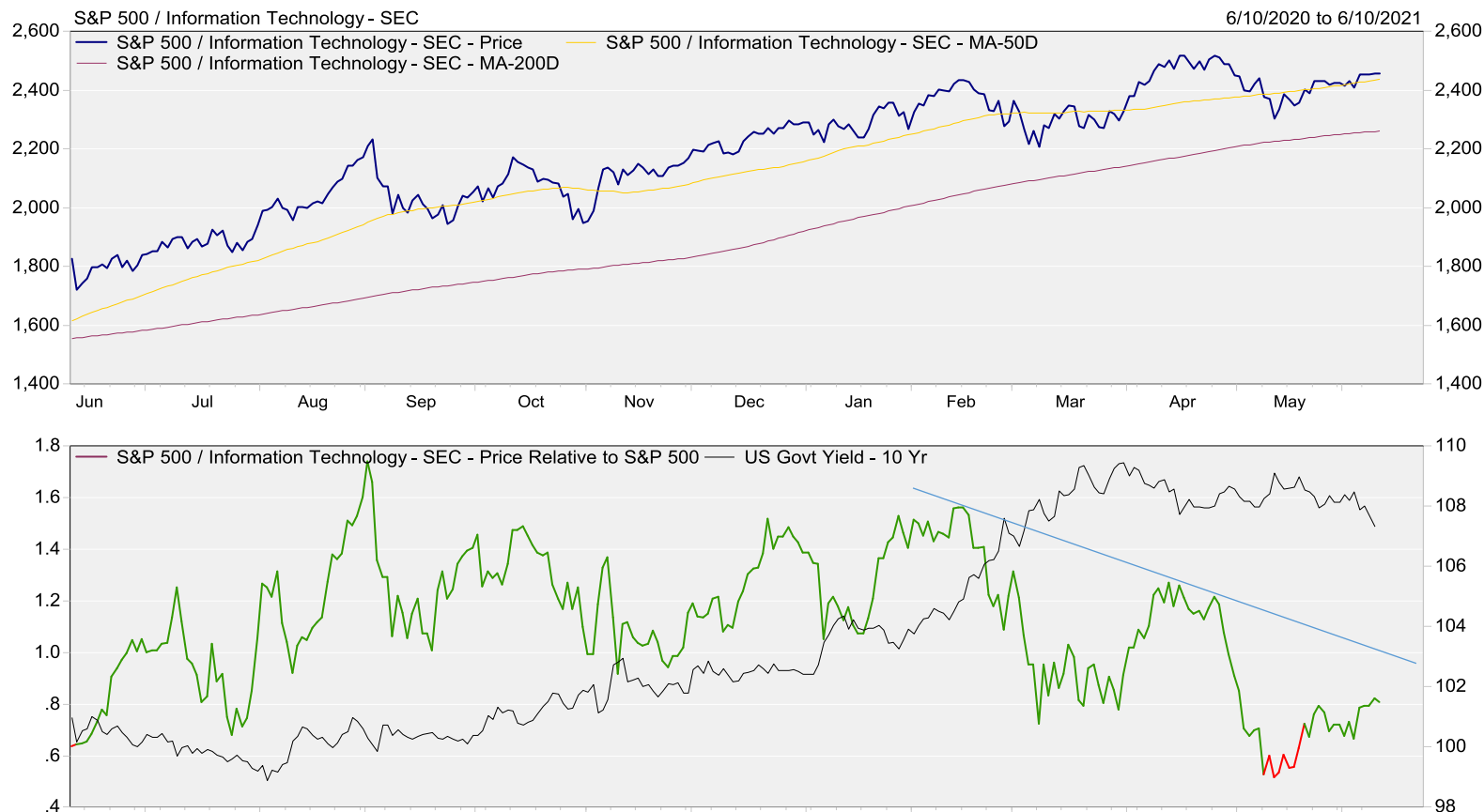
Interest rates are a significant influence on equities and the rotation trade. So the US 10-year Treasury yield moving to a new three-month low (below 1.5%) this week is notable. Downside surprises in the last two jobs numbers, a moderation in inflation expectations, low global bond yields, and positioning (among other things) have contributed to the move. This pullback in interest rates also comes after an exceptionally sharp surge back to pre-pandemic levels, as the market digests that up-move and moving averages catch up. For example, the US 10 year yield is now just 25% above its 200 DMA (vs a peak of 95% in mid-March). This is very normal and healthy on a technical basis, and rates could continue to move lower in the short term. However, tailwinds of rapid economic growth and higher inflation favor higher rather than substantially lower yields in the next 6-12 months. This influences our investment recommendations discussed on the next pages.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

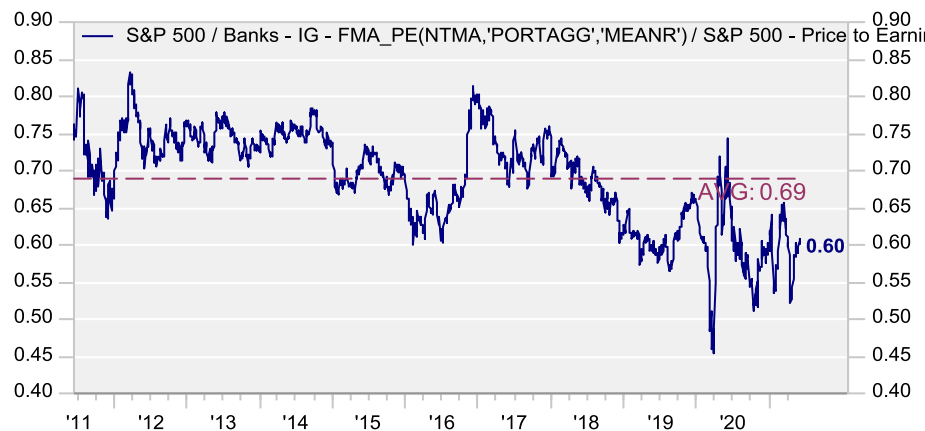
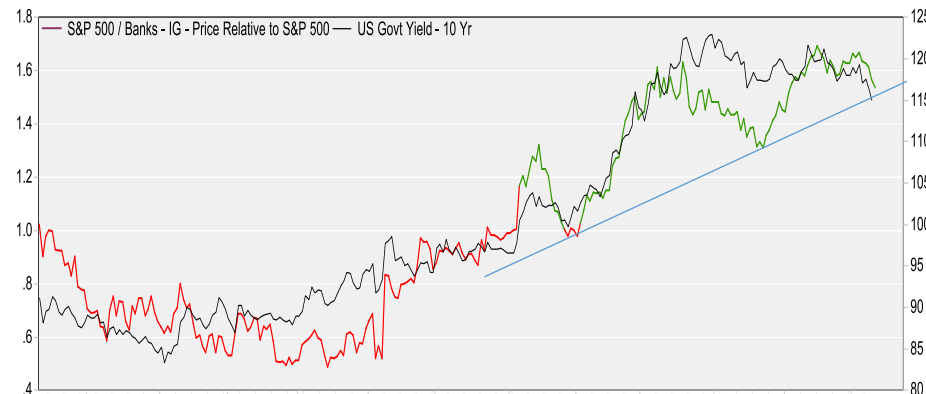
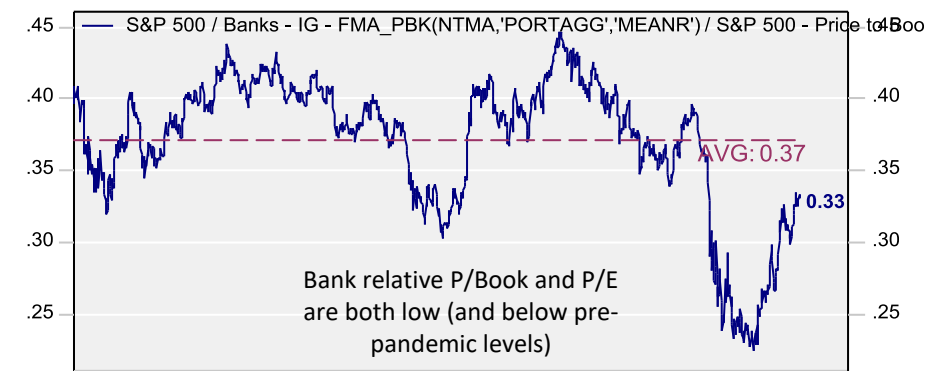
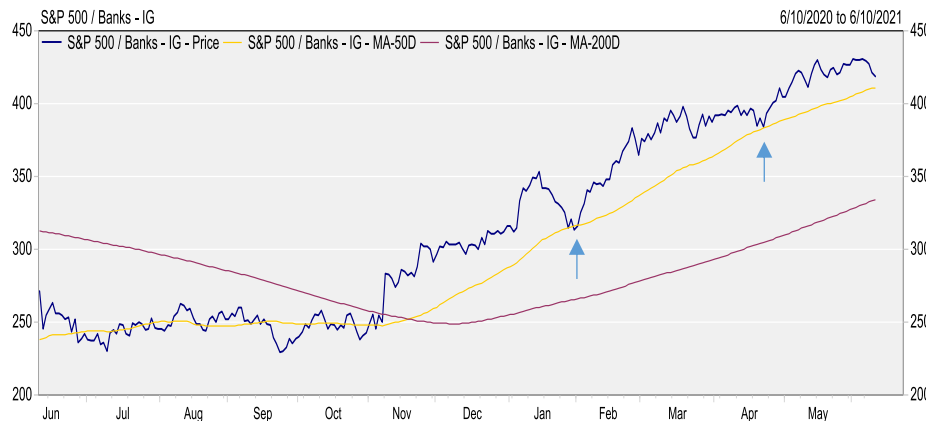
The move lower in interest rates is providing relief to the Technology sector. As a reminder, long-duration growth stocks with high valuation multiples have been used as a source of capital for the rotation into shorter-duration, deep-cyclical stocks as interest rates were rising. With the upward move in rates abating, Technology is seeing a bump in relative strength. Ultimately, we believe interest rates will continue to grind higher over time with a continuation of rotation into the deeper-cyclical areas. We like Technology over the long term, but do not believe they are ready to regain market leadership yet. For investors too overweight Technology, we would use the bounce as an opportunity to trim exposure.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BANKS

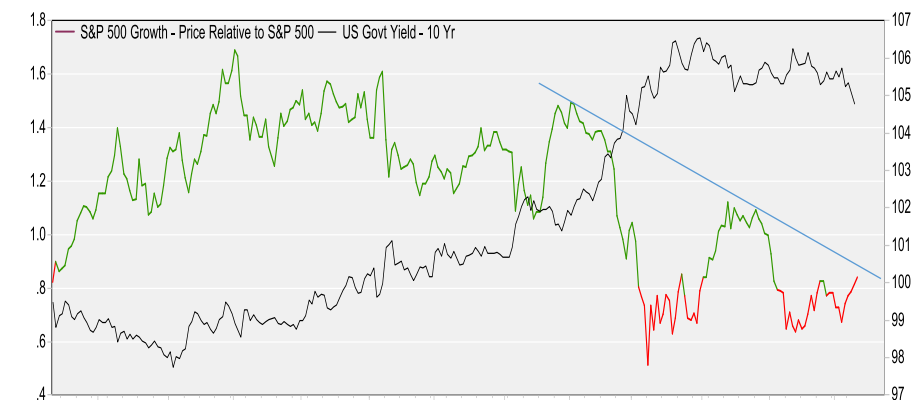
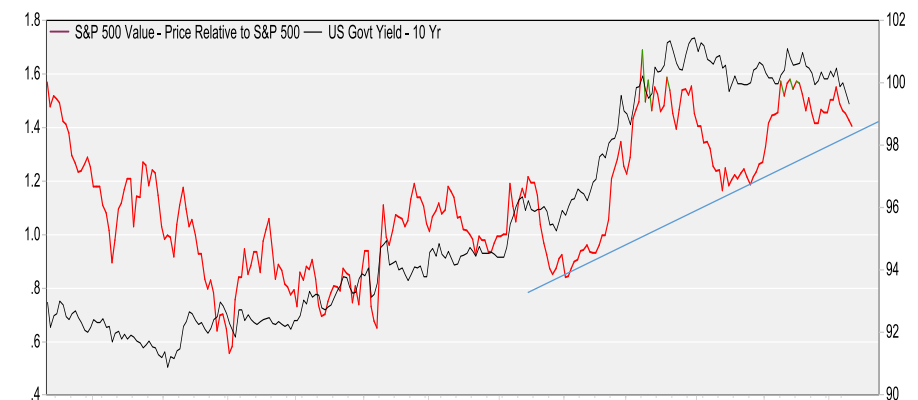
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Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GROWTH VS VALUE

Interest rate movements also have a large influence on the relative performance of Growth, with the recent reduction providing a relief bounce within a still downward trend. On the flip side, lower rates are acting as a headwind to Value within an uptrend. As stated previously, we ultimately believe interest rates will grind higher following this normal consolidation phase. We thus would use the consolidation in Value as an opportunity to accumulate. Fundamentally, the Value index offers more fundamental leverage to the economic recovery and also still trades at the low end of its historical range on a relative P/E basis.



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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