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Weekly Market Guide

Short-Term Summary: The S&P 500 is now positive on the year +1.4%, although performance beneath the surface continues to paint a different picture. The average S&P 500 stock is still down -7% year-to-date and the small caps are down -11%, while the Nasdaq composite is up 19%. The S&P 500 was able to break above its recent range this week, but sector performance during the move was very fragmented. We would like market strength to come with unification among sectors. The wide gaps in daily leaders and laggards fits with a market in “stalled mode” in our view. For example, there was a rare occurrence on Monday where the S&P 500 was up over 0.75% but decliners led advancers. When this has happened historically, performance in the next week or two has been choppy.

Q2 earnings are coming in above depressed expectations. 21% of S&P 500 companies have reported so far with 80% beating on the bottom-line and 73% beating on the top-line. This has resulted in S&P 500 Q2 expected earnings being revised 3% higher so far, led by the Health Care sector. Additionally, the average price reaction has been a solid 0.4%, and we expect wide swings at the individual stock level due to heightened uncertainty in the current environment (analyst estimate ranges are historically wide). Overall, a good earnings season so far and we are encouraged by forward S&P 500 estimates ticking higher.

Along with earnings season, investors are focused on the prospects of another fiscal package. The stalled reopening process is being reflected in some of the high frequency economic data lately, as the job market improvement moderates. This is likely putting added pressure on Congress to pass additional relief in August, following the expiration of current benefits at the end of this month. We believe another fiscal package is very important, and we expect it to come in good size (likely in the \$1.5-2T range).

We have also been watching the US dollar and copper, which can have meaningful impacts on areas within the equity market. Copper is often looked at as an economic barometer and has surged to recent highs, influenced by a global recovery in demand as well as supply constraints due to COVID-19. Also, the US dollar is on the cusp of recent lows. While we expect copper to move higher and the US dollar to move lower over the intermediate term, we believe a pause in both is likely in the short term. This could result in a good buying opportunity for emerging markets and materials if they can consolidate some of their recent strength and pull in to support levels.

In sum: Despite some positives, we believe the market is still in a somewhat range-bound mode for the short term. We expect sector swings beneath the surface and would use weakness opportunistically.

Equity Market Indices	Price Return	
	Year to Date	12 Months
S&P 500	1.4%	9.7%
S&P 500 (Equal-Weight)	-7.2%	-1.0%
Dow Jones Industrial Avg	-5.4%	-0.6%
NASDAQ Composite	19.3%	30.5%
Russell 2000	-10.7%	-3.5%
MSCI All-Cap World	-1.5%	5.5%
MSCI Developed Markets	-8.0%	-2.3%
MSCI Emerging Markets	-3.3%	2.3%
NYSE Alerian MLP	-39.7%	-48.9%
MSCI U.S. REIT	-19.7%	-15.7%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	19.4%	27.2%
Consumer Discretionary	15.8%	11.1%
Communication Svcs.	5.9%	10.9%
Health Care	4.6%	14.7%
S&P 500	1.4%	-
Materials	0.8%	2.6%
Consumer Staples	-1.7%	7.0%
Utilities	-6.4%	3.1%
Real Estate	-9.3%	2.7%
Industrials	-10.7%	8.0%
Financials	-21.1%	10.0%
Energy	-37.3%	2.7%

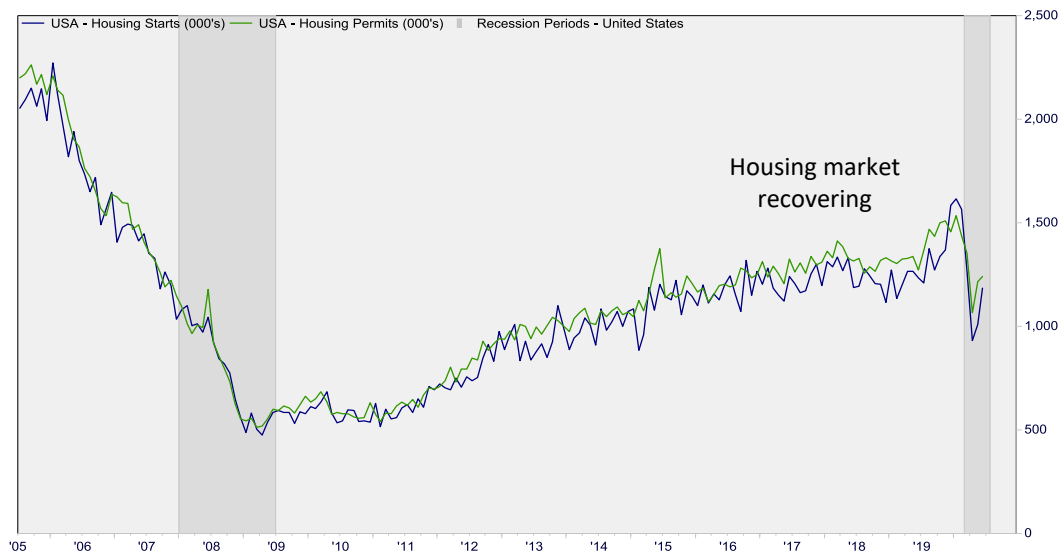
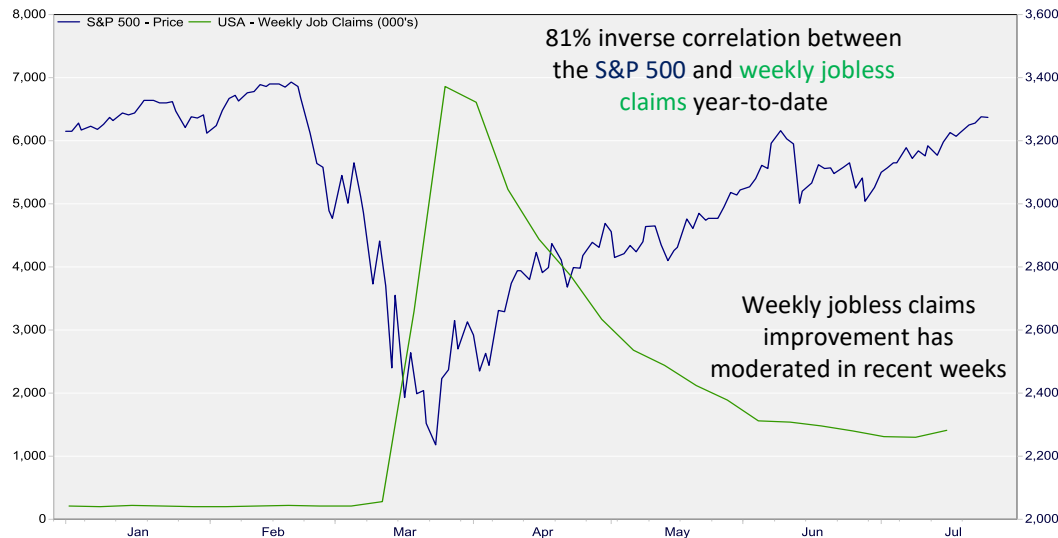
MACRO: US

Initial jobless claims rose above expectations this week to 1.416M from 1.307M last week. Moderation in the jobs market improvement is reason for pause in our view, and comes in conjunction with many high frequency economic indicators stalling in recent weeks as the reopening process has paused. This likely puts added pressure on Congress to put together another fiscal package. We believe another fiscal package is very important for the economy and equity market, and we expect it to come in good size (likely in the \$1.5-2T range).

Elsewhere, the housing market continues to recover with the economic restart and record low interest rates. Housing starts rose 17.3% m/m in June following a 8.2% rise in May. Building permits and existing home sales both improved as well. We believe the housing market improvement is likely to continue and view this as supportive of economic trends.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Building Permits SAAR (Preliminary)	JUN	1,241K	1,280K	1,216K
Housing Starts SAAR	JUN	1,186K	1,163K	1,011K
Housing Starts M/M	JUN	17.3%	20.1%	8.2%
Michigan Sentiment NSA (Preliminary)	JUL	73.2	79.1	78.1
Chicago Fed National Activity Index	JUN	4.1	4.0	3.5
FHFA Home Price Index	MAY	287.3	-	288.0
Existing Home Sales SAAR	JUN	4,720K	4,900K	3,910K
Continuing Jobless Claims SA	07/11	16,197K	9,417K	17,304K
Initial Claims SA	07/18	1,416K	1,300K	1,307K
Leading Indicators SA M/M	JUN	2.0%	2.1%	3.2%
Kansas City Fed Manufacturing Index	JUL	3.0	5.0	1.0



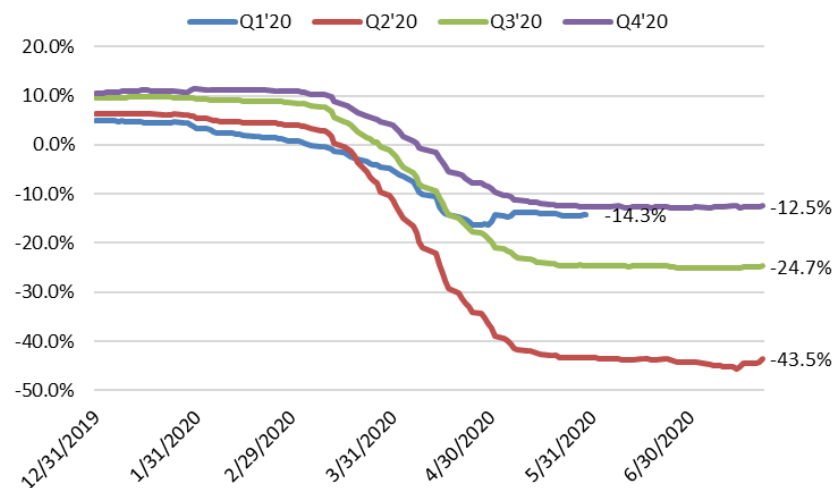
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

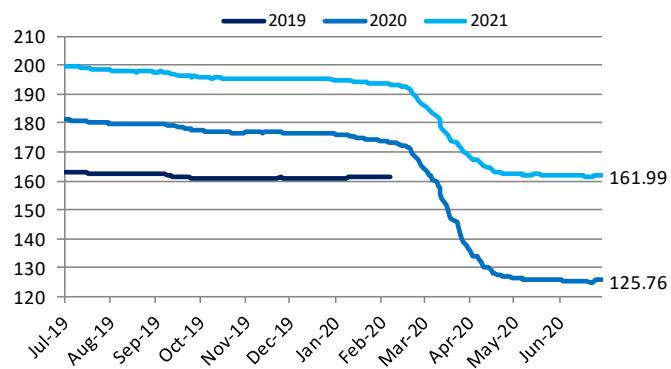
Q2 earnings season is ramping up with 21% of S&P 500 companies having reported up to this point. In aggregate, results are coming in above depressed expectations. 80% of S&P 500 companies have beaten on the bottom-line and 73% have beaten on the top-line. This has resulted in S&P 500 Q2 expected earnings being revised 3% higher so far, led by the Health Care sector. Additionally, the average price reaction has been a solid 0.4% with a 0.8% average move for earnings beats and a -1.3% move for earnings misses. We expect wide swings at the individual stock level due to heightened uncertainty in the current environment. A lack of guidance in Q1 has left analyst estimate ranges at historically wide ranges.

Overall, this has been a good earnings season so far and we are encouraged by forward S&P 500 estimates ticking higher. Q2 is expected to be the earnings trough from the economic shutdown, and accordingly should set the high for P/E on a trailing 12 month basis. Valuation is not a major influence right now due to focus on stimulus and the recovery, but it will matter as the economy normalizes over time. We do believe valuation can stay elevated due to unprecedented stimulus and record low interest rates. We use a 21x P/E in our base case analysis over the next 12 months vs a current S&P 500 P/E of 22.6x. This results in a base case 2021 year-end S&P 500 target of 3360.

S&P 500 Quarterly Earnings Growth Estimates



S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates

2019	1.5%
2020	-21.8%
2021	28.6%

RJ 2021: 160

RJ 2020: 130

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Sector	% Reported	Q2 2020 Average Price Reaction		
		All	Beats	Misses
Communication Services	12%	-1.06	-1.71	-0.73
Consumer Discretionary	19%	0.48	2.17	-1.88
Consumer Staples	33%	1.67	2.61	-7.76
Energy	7%	-0.42	-1.09	0.92
Financials	48%	0.02	0.04	-0.03
Health Care	17%	2.02	2.42	-2.00
Industrials	26%	0.38	0.83	-3.44
Information Technology	17%	0.05	0.05	-
Materials	14%	-0.96	-0.96	-
Real Estate	6%	-0.39	-0.39	-
Utilities	0%	-	-	-
S&P 500	21%	0.41	0.80	-1.28

TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 was able to break above the range that has been in place since early June. Technically, this implies a price target of 3464 on the break out. However, sector performance during the S&P 500 index's move was very fragmented. We would like market strength to come with unification among sectors.

The wide gaps in daily leaders and laggards fits with a market in "stalled mode" in our view. For example, there was a rare occurrence on Monday where the S&P 500 was up over 0.75% but decliners led advancers. When this has happened historically, performance in the next week or two has been choppy.

So while we have a positive bias over the longer term, we believe the market is still in a somewhat range-bound mode for the short term. The paused reopening process, along with stalled high frequency economic indicators, also supports this view.

We expect sector swings beneath the surface but would use weakness as a buying opportunity, particularly in favored sectors (technology, health care, communication services, consumer discretionary).

Short term resistance levels:

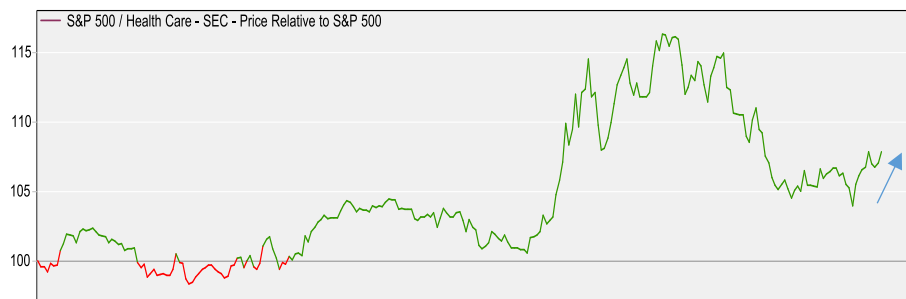
- 3328
- 3389

Short term support levels:

- 3115
- 2965
- 2865

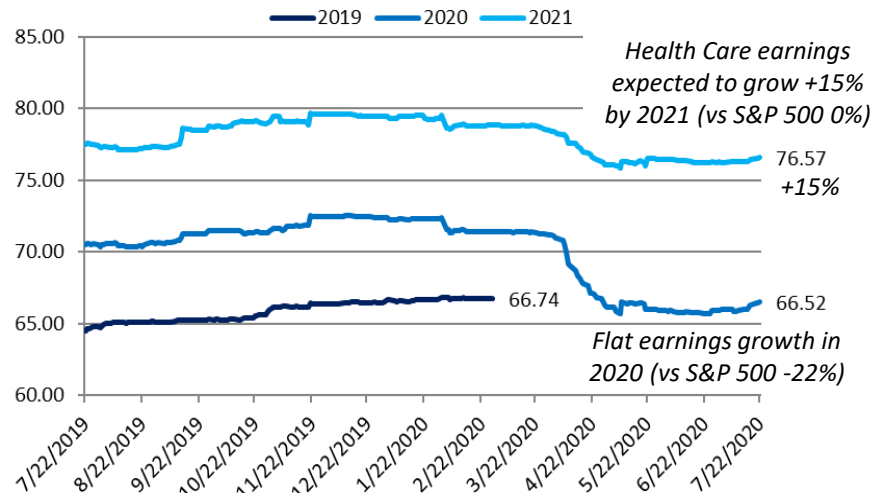
TECHNICAL: HEALTH CARE

Health Care broke out to new highs this week on relative strength gains, and continues to be one of our favored sectors. Earnings are impressively expected to be at 2019 levels in 2020, a full year ahead of the S&P 500 which is currently expected to reach 2019 earnings by the end of 2021. Additionally, the sector is experiencing the strongest upward estimate revisions of all sectors through earnings season. In terms of valuation, the sector's P/E of 17.6x is 22% below the S&P 500 P/E of 22.6x- the 0.78x relative P/E is the lowest since February 2011. The fundamental and technical backdrop are both supportive of continued outperformance in our view, and we would accordingly remain overweight the health care sector.

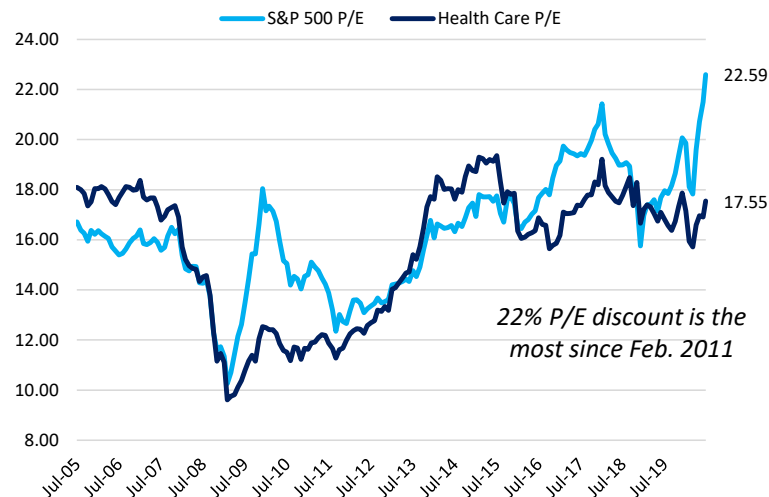


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Health Care Earnings Estimate Revisions - over Past Year

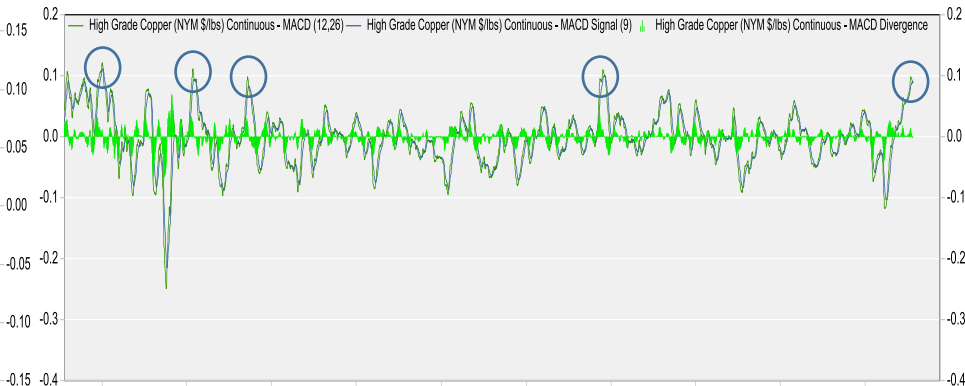
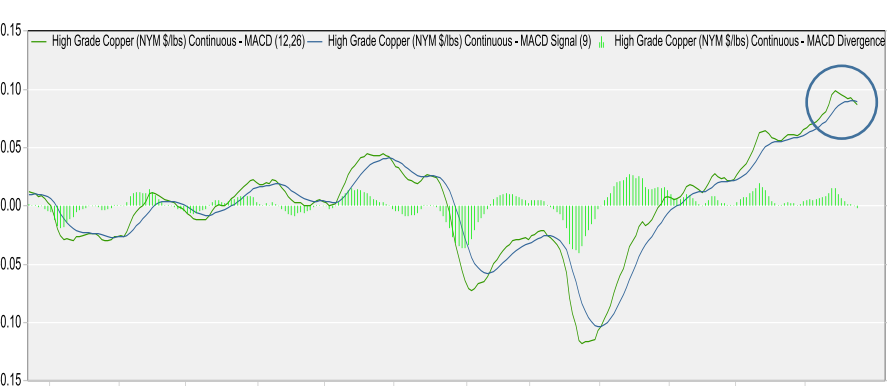


Health Care P/E



TECHNICAL: COPPER

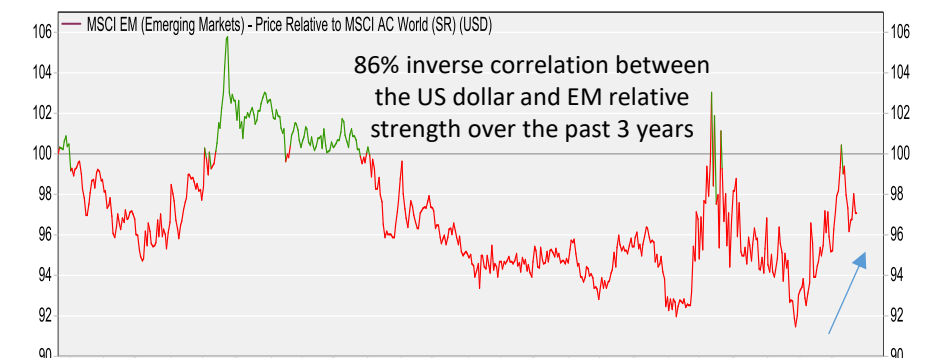
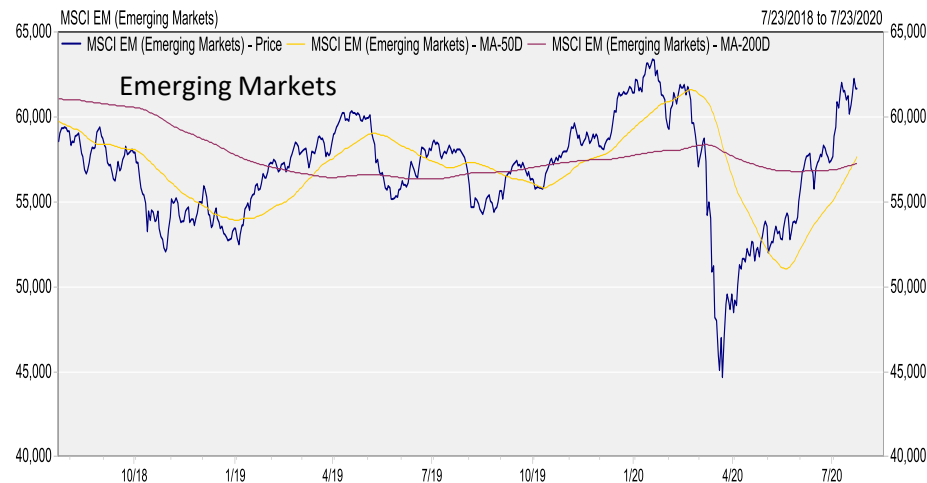
Copper is often viewed as a barometer of global manufacturing activity and has surged to highs, likely influenced by the global recovery in demand as well as supply constraints due to COVID-19. While we expect copper to continue higher over the intermediate term, we would not be surprised to see it pause in the short term. The commodity has reached a technical downtrend line that began in 2011, which could act as a headwind, but is also very overbought with MACD now crossing over to the downside. Historically, when MACD has crossed over from elevated levels, there is typically some consolidation in the short term. This is meaningful for areas of the equity market, such as Emerging Markets and Materials, which we discuss on the next pages.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: US DOLLAR AND EMERGING MARKETS

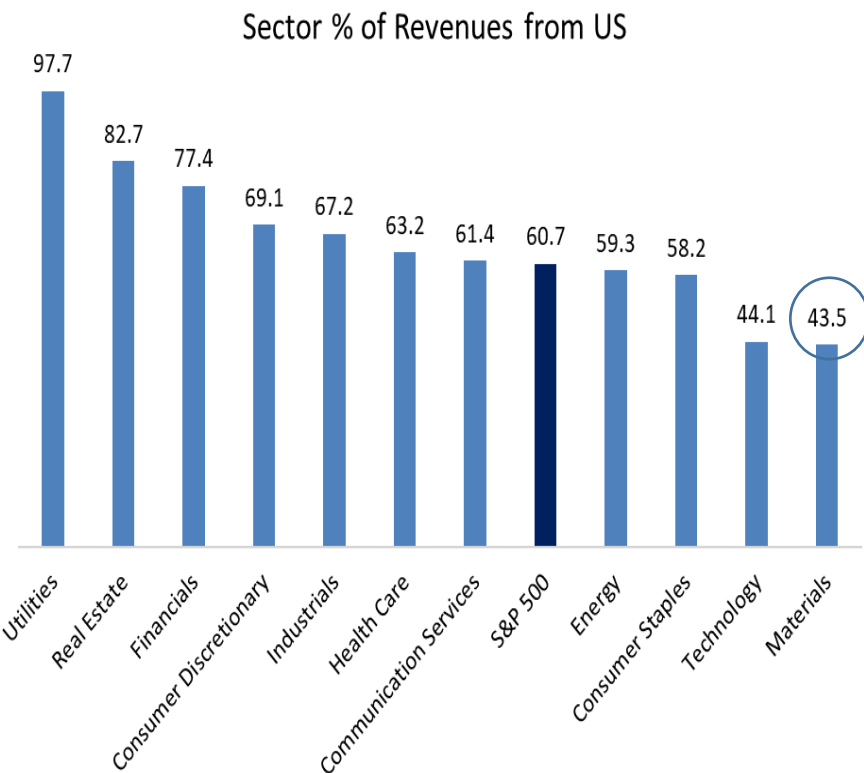
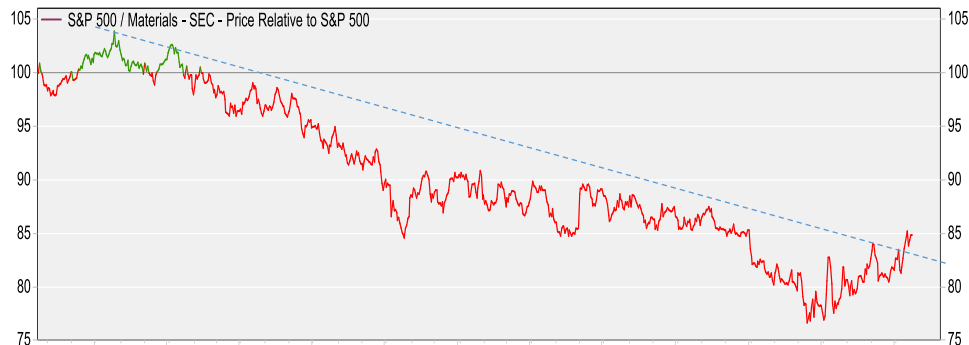
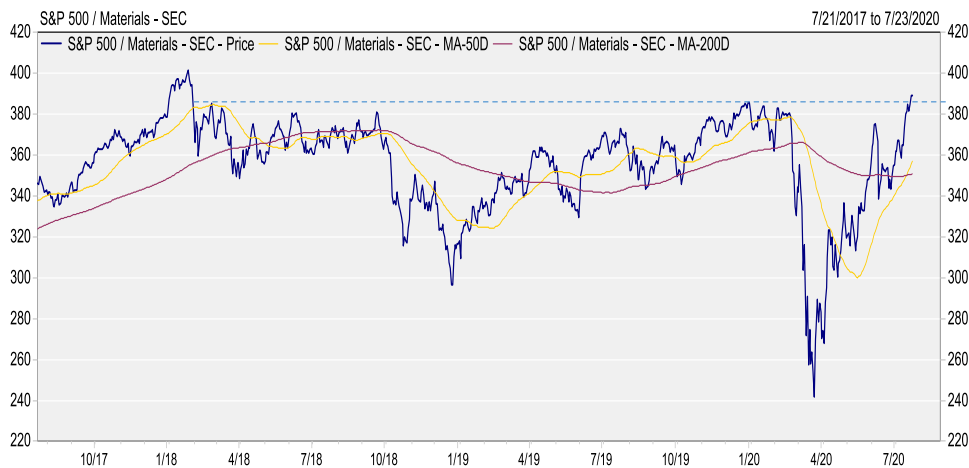
The global economic recovery and unprecedented stimulus is also contributing to US dollar weakness (another boost to copper and commodities since they are US dollar-denominated). While we expect the US dollar to trend lower, the sharp move lower to horizontal resistance may result in some consolidation in the short term. There has been a -86% inverse correlation between the US dollar and Emerging Markets relative strength over the past 3 years. We continue to favor Emerging Markets as the global economy normalizes over time, and a consolidation in the US dollar may result in a good buying opportunity for Emerging Markets if the index can have a pullback toward its 50 and 200 DMA.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: MATERIALS

The Materials sector is being influenced by both copper and US dollar movements in our view. As you can see in the table below, Materials have the most exposure to overseas markets as only 43.5% of Materials sector revenues come from the US. As the US dollar weakens, this is a boost to sector profits due to the currency translation. Additionally, emerging market economic improvement and commodity strength (copper, gold, etc.) are all direct influences to sector fundamentals. This has resulted in Materials breaking above the downward relative strength trend that has been in place for several years. Again, we believe copper is likely to move higher and the US dollar is likely to move lower over the intermediate term. However, a consolidation for both in the short term could result in Materials also consolidating some of its recent strength. If this scenario plays out, we would look to accumulate the sector closer to its 50 and 200 DMA.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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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