

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:** After experiencing a ~7% pullback over 6-days, the bounce back of only ~1.8% over 3-days seems pretty lackluster, especially as most of the gains have reversed in today's trading session. However, under the surface, we continue to believe the intermediate trends remain favorable and the pullback should be accumulated as it is more of a rotation than an exodus from the market. We would continue to stay with large-caps over small-caps and start to add some more cyclical exposure to portfolios.

From a fundamental standpoint, next twelve month (NTM) earnings continue to trend higher with consensus estimates revised ~2.5% higher over the last month. This has been driven by improving fundamentals and the macro environment in the most cyclical areas such as Consumer Discretionary, Industrials, and Materials, which we believe are worth gaining exposure to at this point (mentioned last week and strength continues to improve with the US Dollar moving lower and Copper moving higher). Additionally, we maintain our conviction that the recent relative performance of the leaders is unlikely to reverse the positive trends we continue to see in the fundamentals for areas such as Technology, Communication Services, and Health Care.

From a technical standpoint, markets and sectors cannot go up forever, so the recent 'no news' pullback was a healthy breather with support found at the 50-DMA. We will continue to monitor if this support is able to hold as we are in a historically weak period of time for the equities market from a seasonality perspective. However, if this level is held, we would see this period of stabilization as supportive of equities longer-term. Moreover, we have seen several up volume readings over 80% during the 3-day rally, which is suggestive that investors have conviction to accumulate on market pullbacks.

As will possibly be commonplace during the recovery process, there are likely to be periods of volatility, which can present opportunities. This recovery is likely to be more volatile than in the past as it is highly dependent on the rate of improvement in the virus spread. As such, pullbacks such as the 7% decline would not deter us from the market, as we continue to believe the intermediate term remains intact. However, we would suggest adding some exposure to more cyclical areas.

Equity Market Indices	Price Return	
	Year to Date	12 Months
S&P 500	4.8%	12.9%
S&P 500 (Equal-Weight)	-3.7%	1.9%
Dow Jones Industrial Avg	-1.8%	3.5%
NASDAQ Composite	23.2%	35.5%
Russell 2000	-7.0%	-2.0%
MSCI All-Cap World	1.7%	9.4%
MSCI Developed Markets	-5.5%	1.2%
MSCI Emerging Markets	0.2%	8.8%
NYSE Alerian MLP	-45.7%	-50.7%
MSCI U.S. REIT	-15.0%	-15.3%

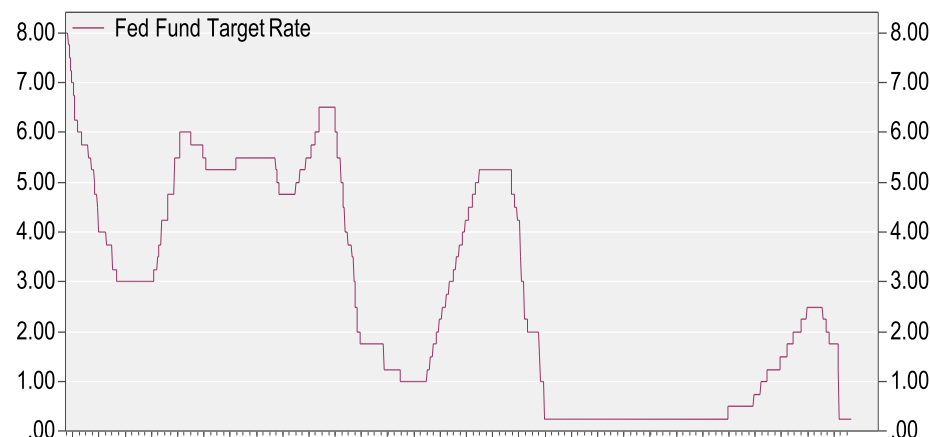
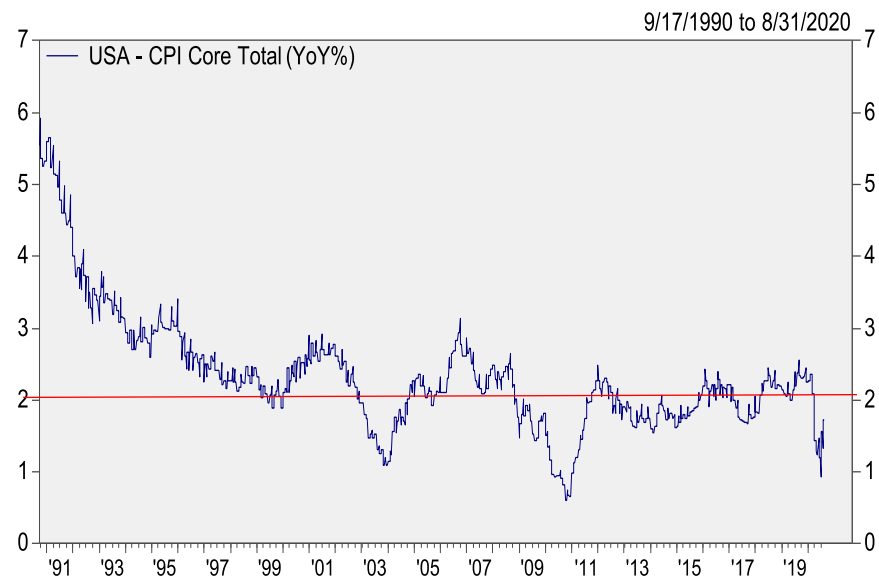
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	25.0%	27.5%
Consumer Discretionary	22.2%	11.4%
Communication Svcs.	9.6%	10.9%
Materials	7.8%	2.7%
<b>S&amp;P 500</b>	<b>4.8%</b>	-
Health Care	3.7%	14.1%
Consumer Staples	2.2%	7.0%
Industrials	-2.6%	8.4%
Real Estate	-4.5%	2.8%
Utilities	-7.8%	3.0%
Financials	-19.1%	9.9%
Energy	-44.6%	2.3%

## MACRO: US

Overall, the macro environment continues to be a mixed bag, but a sharp improvement off the bottom. Momentum appears to be waning in the recovery of retail sales off the bottom as August only improved 0.6% MoM, however, this continues to reflect a 1.9% improvement from February levels despite consumer services being most impacted by COVID-19. On a positive note, inflation remains contained, which is supportive of the Fed keeping interest rates lower for longer, which has been a positive for risk assets historically. As mentioned at yesterday's FOMC meeting, rates are likely to remain low as 13 of 17 voting members do not expect to see a rate change through 2023.

### US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
CPI YoY	Aug	1.3%	1.2%	1.0%
Core CPI (ex-Food & Energy) YoY	Aug	1.7%	1.6%	1.6%
Real Avg. Hourly Earnings YoY	Aug	3.3%	-	3.7%
Empire Manufacturing Survey	Sep	17.0	6.9	3.7
Import Price Index YoY	Aug	-1.4%	-2.1%	-2.8%
Export Price Index YoY	Aug	-2.8%	-3.2%	-3.8%
Industrial Production MoM	Aug	0.4%	1.0%	3.5%
MBA Mortgage Applications	11-Sep	-2.5%	-	2.9%
Retail Sales MoM	Aug	0.6%	1.0%	0.9%
Retail Sales (ex-Auto) MoM	Aug	0.7%	1.0%	1.3%
NAHB Housing Market Index	Sep	83.0	78.0	78.0
Initial Jobless Claims	12-Sep	860K	850K	893K
Continuing Claims	5-Sep	12,628K	13,000K	13,544K
Housing Starts MoM	Aug	-5.1%	-0.6%	17.9%
Building Permits MoM	Aug	-0.9%	2.0%	17.9%
Philly Fed Business Outlook	Sep	15.0	15.0	17.2



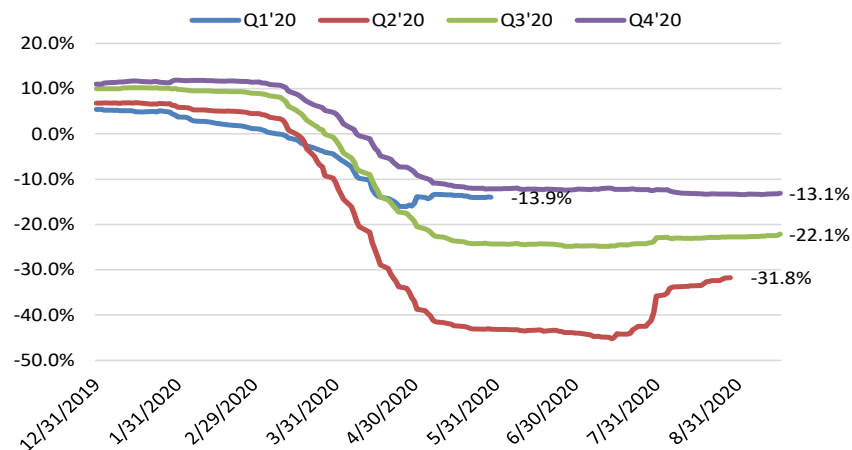
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## FUNDAMENTALS

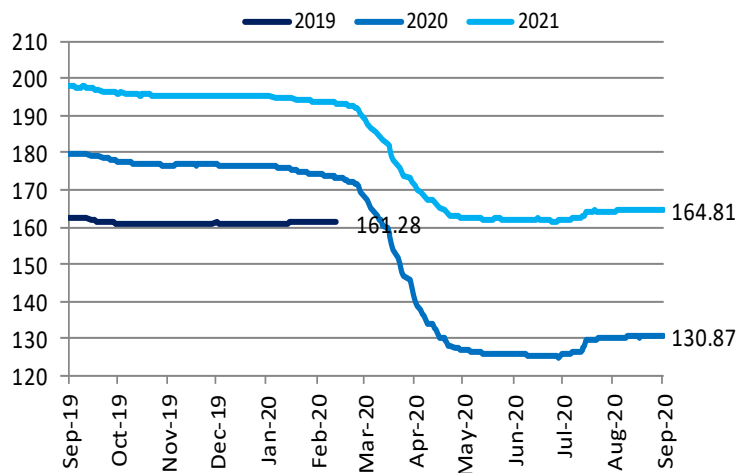
With the end of 3Q'20 just a couple weeks away, it is important to examine how earnings have been trending. Overall, 2Q earnings season reflected the worst of the pandemic. As the economy has reopened, earnings have started to improve, which can be seen in the chart in the lower right portion of the page. On a q/q basis, S&P 500 earnings are expected to improve 16.5% in 3Q vs. 2Q. However, the more cyclical sectors such as Industrials and Consumer Discretionary are expected to see earnings more than double from the 2Q lows.

Looking further out, 4Q earnings estimates continue to stabilize with an expected decline in earnings YoY of -13.1%, which would be the least severe earnings decline of any quarter during 2020, including 1Q which was only partially impacted by COVID-19. The improving earnings outlook continues to underscore our expectations that the market can move higher over the intermediate to long-term.

### S&P 500 Quarterly Earnings Growth Estimates



### S&P 500 Consensus Earnings Estimates over Past Year



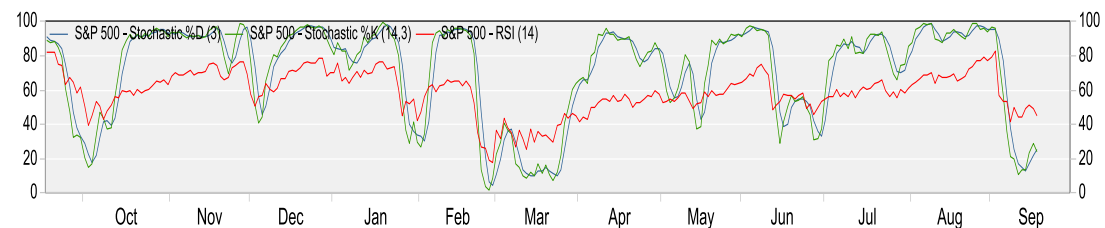
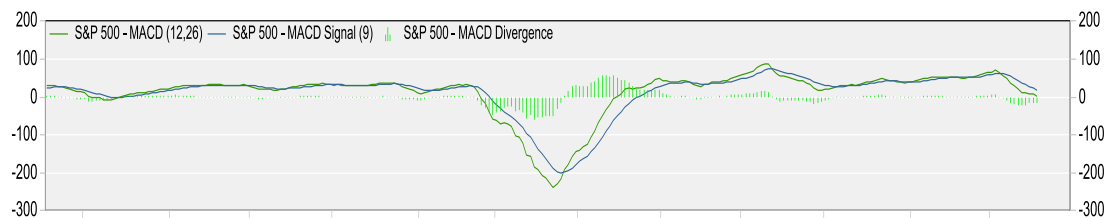
#### EPS Growth Estimates

2019	1.5%
2020	-18.9%
2021	25.9%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

	Consensus EPS		
	2Q 2020	3Q 2020	QoQ Improvement
<b>Industrials</b>	\$1.59	\$3.82	140.2%
<b>Cons. Discretionary</b>	\$3.09	\$6.23	101.5%
<b>Energy</b>	(\$4.14)	(\$0.35)	91.5%
<b>Financials</b>	\$4.79	\$6.95	45.1%
<b>Utilities</b>	\$3.65	\$5.02	37.5%
<b>S&amp;P 500</b>	\$27.83	\$32.43	16.5%
<b>Consumer Staples</b>	\$7.19	\$7.47	3.9%
<b>Technology</b>	\$16.55	\$16.79	1.5%
<b>Real Estate</b>	\$2.52	\$2.55	1.4%
<b>Materials</b>	\$3.86	\$3.73	-3.5%
<b>Comm. Svcs.</b>	\$1.75	\$1.68	-4.3%
<b>Health Care</b>	\$18.35	\$16.49	-10.1%

## TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The market seems to have found some stabilization following the ~7% pullback over 6 days. While the 3-day bounce of ~1.8% is not overly impressive, under the surface, we have seen some optimistic signals. The up volume (which we will discuss later) has seen several readings over 80% suggesting some conviction to accumulate the pullback. While the A/D (advancers/decliners) readings have not reached impressive levels, the overall intermediate signal remains intact and positive.

Overall, the market was able to see a short-term floor around the 50-DMA. Given the support level on the ‘no news’ pullback, we would continue to accumulate as we view the pullback as more of rotation rather than an exodus from the market. Other areas of support we would look at would be the 3232 level, followed by the 200-DMA at 3102 and the ~3000 level.

As will possibly be commonplace during the recovery process, there are likely to be periods of volatility, which can present opportunities. This recovery is likely to be more volatile than in the past as it is highly dependent on the rate of improvement in the virus spread. As such, pullbacks such as the 7% decline would not deter us from the market, as we continue to believe the intermediate term remains intact. However, we would suggest adding some exposure to more cyclical areas, which we will discuss later.

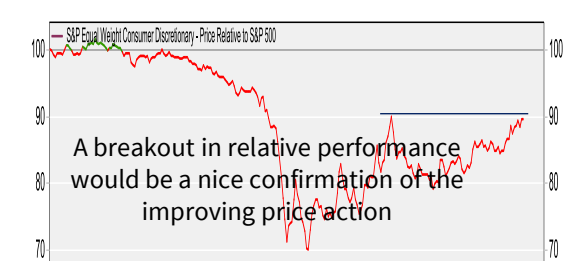
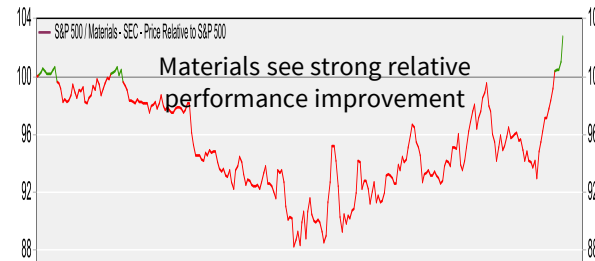
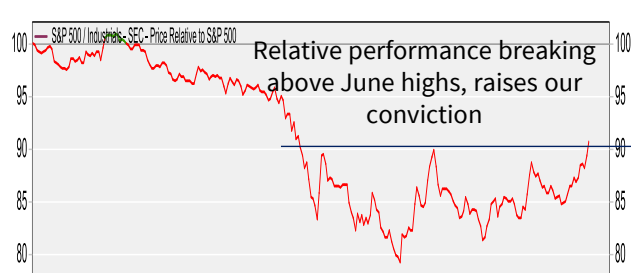
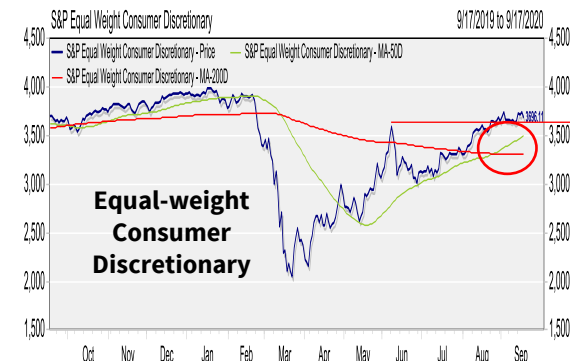
Additionally, the market seems to be near oversold levels, so an improvement from here could move the market higher in the short-term as the overbought/oversold oscillator has moved to its lowest level since March.

## CYCLICALS WORTH SOME EXPOSURE

As we highlighted last week, there are a few cyclical sectors emerging that may be worth some exposure, namely, Industrials, Materials, and Equal-Weight Consumer Discretionary. Based on the technicals, these sectors continue to improve with Industrials recently seeing a relative performance breakout, which raises our conviction, and equal-weight Consumer Discretionary near a breakout, which would be a nice confirmation of the recent price action strength.

From a fundamental standpoint, as you can see to the right, these cyclical sectors, which are levered to a recovery in the macro, have seen the largest revisions higher over the last month to the NTM EPS and all above the revisions seen for the S&P 500. As the manufacturing backdrop continues to improve and the economy opens, this could be a nice backdrop for the cyclicals. Additionally, for Materials, as we will discuss later, a lower US Dollar is beneficial.

Sector	Consensus NTM EPS		1 Month Change
	1 Month Ago	Current	
Cons. Discretionary	\$30.09	\$32.38	7.6%
Energy	\$6.00	\$6.40	6.6%
Industrials	\$26.34	\$27.99	6.3%
Materials	\$18.01	\$18.53	2.9%
<b>S&amp;P 500</b>	<b>\$151.22</b>	<b>\$154.98</b>	<b>2.5%</b>
Financials	\$29.35	\$30.07	2.4%
Technology	\$77.31	\$78.83	2.0%
Comm. Svcs.	\$8.49	\$8.64	1.7%
Health Care	\$74.47	\$75.65	1.6%
Consumer Staples	\$31.13	\$31.40	0.9%
Utilities	\$16.55	\$16.64	0.5%
Real Estate	\$11.00	\$11.01	0.1%



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICAL: US DOLLAR

The US Dollar continues to move in what we would describe as a continuation pattern. In technical analysis, during a continuation pattern, the price can see periods of consolidation or sideways trading, but the price tends to continue in the prevailing trend, which in this case for the US Dollar would be lower. Historically, we have seen an inverse correlation between the US Dollar and Emerging Markets, thus a weaker US Dollar tends to be positive for the relative performance of EM. Additionally, from a sector level, Materials (which we discussed previously) tend to have an inverse correlation with the US Dollar, so a lower US dollar would benefit the Materials sector.

Additionally, it is important to note that the US Dollar was not able to breakout of this range as the short-term indicators (stochastics) moved to overbought territory.

### DX-Y-IFUS / ICE US Dollar

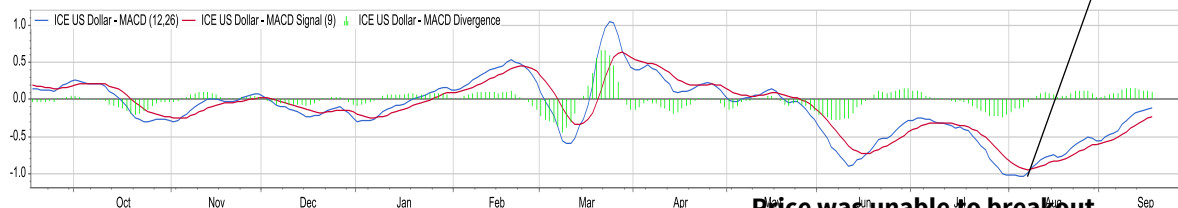
Current Price: 93.09, Price Change: -0.13, Percentage Change: -0.14%, Time: 12:41:40 PM (Central)

Daily Chart / 9/17/2019 to 9/17/2020

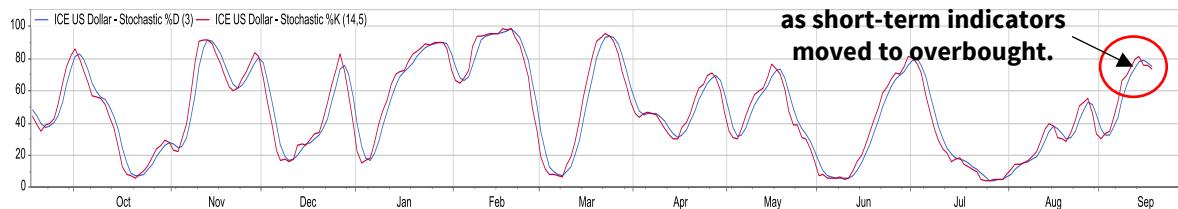


Raymond James Technical Strategy Team

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**Price was unable to breakout as short-term indicators moved to overbought.**

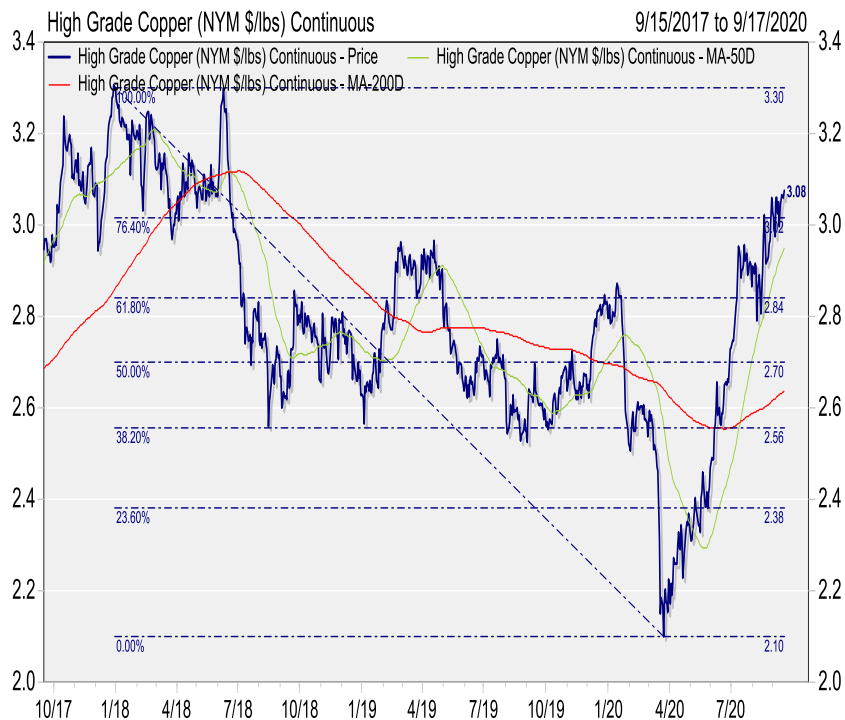


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

### TECHNICALS: DR. COPPER POINTING TO IMPROVING MACRO

Copper is often thought to be a good indicator of macro strength. With the metal just below the 2017 high, we believe this suggests an improving macro environment, which is positive for the more cyclical sectors that we previously discussed (Industrials, Materials, and Consumer Discretionary).

Below, is the 3-year price performance of Copper with various Fibonacci levels from the high in 2017 to the low earliest this year. This would suggest support for Copper at the 3.02 level (76.4% retracement level).



### HG00-USA / High Grade Copper (NYM \$/lbs) Continuous

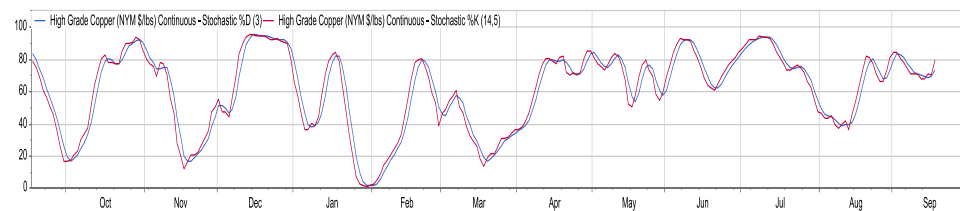
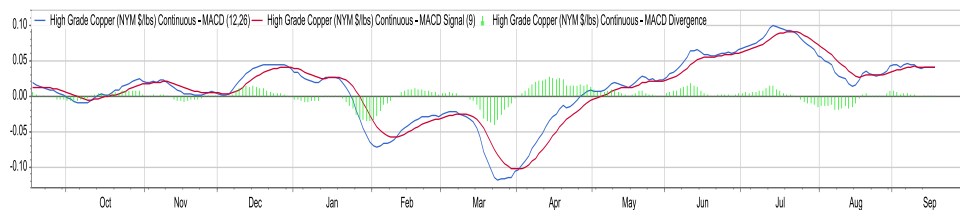
Current Price: 3.08, Price Change: 0.01, Percentage Change: 0.47%, Time: 1:51:03 PM (Central)

Daily Chart / 9/17/2019 to 9/17/2020



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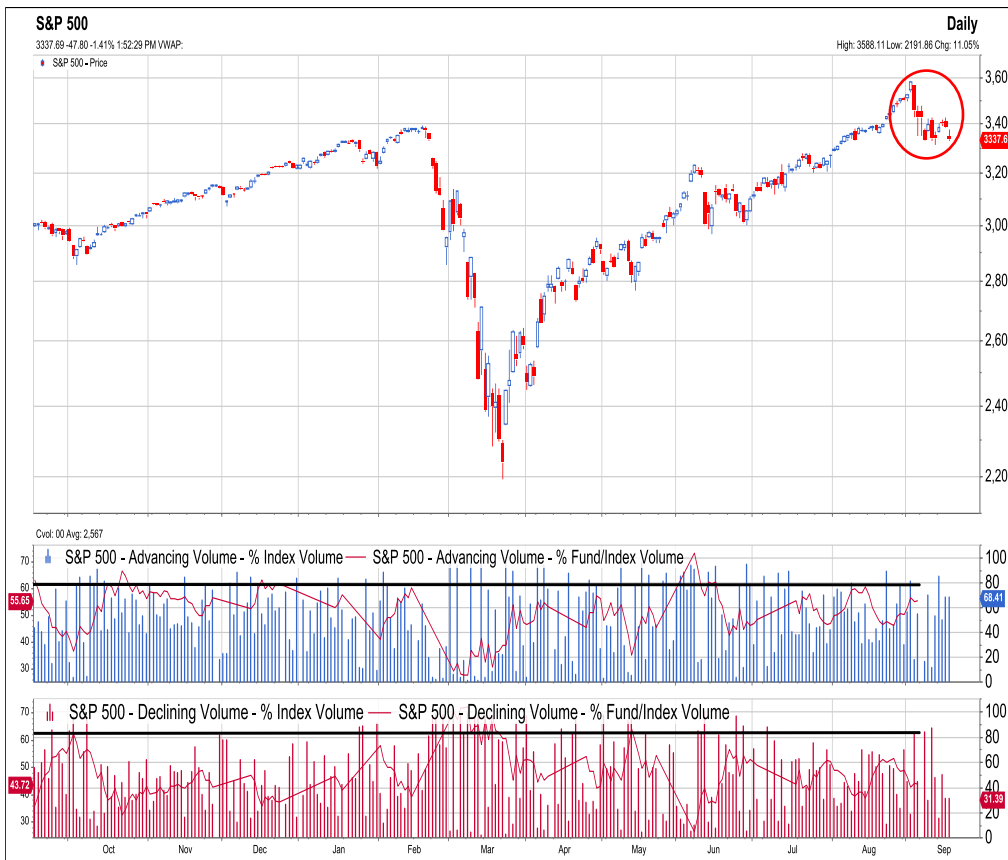
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Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICALS: CONVICTION BUYING DURING PULLBACK

We would continue to accumulate favored sectors as we believe the technicals remain strong enough to suggest a positive overall market trend. In recent days, up volume as seen below to the left, has seen readings over 80% suggesting conviction by buyers that this was a pullback only and not a more longer-term trend. Another slight divergence we are seeing that may suggest that the technicals remain strong is the advancing/decline line. As seen below on the right, the A/D line made new highs prior to highs in the market. Additionally, even as the market has not snapped back from the recent pullback, the A/D line has moved higher (but not back to highs). We view this improvement in the A/D line as a positive for the intermediate trend.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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.

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