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Weekly Market Guide

Short-Term Summary: The S&P 500 is approaching the two-month anniversary of its low on 3/23 and is up an impressive 31% since then. This 40-day rate of change is actually the second highest since 1940, with the only better 40-day rally coming off the lows in 2009 (+34%). In looking at the very small sample size of 20+% returns in 40 days (only 5 prior times since 1940), they have all occurred out of bear markets and have (importantly) been followed by above average returns. For example, the average return over the next 40 days and 250 days was 4.5% and 21.6% respectively. This compares favorably to all normal 40 day and 250 day periods with average returns of 1.2% and 7.6% respectively. However, we do not expect it to be a glide path higher, as 5-7% pullbacks along the way are very normal (particularly over the next couple months).

In looking to the 2009 recovery as a guide, there are some interesting comparisons to the recent market activity. For example, the S&P 500 rose 36% and the forward P/E expanded 61% by the time forward earnings estimates bottomed in late April 2009. As earnings began to improve, valuation stalled out. Similarly, current forward earnings estimates have flattened out (potentially bottoming) and the S&P 500 forward P/E has risen by 60%. We view the current S&P 500 forward P/E of 21.3x as lofty, and as such we believe earnings improvement will need to be the primary driver of forward returns from here- making the trajectory of the recovery paramount. This potential earnings bottom is also occurring with the S&P 500 approaching technical resistance at its 200 DMA. In the 2009 period, this was also the case and the index grinded sideways for a couple of months with two 5-7% pullbacks. With so much uncertainty surrounding the economic restart, path of consumer behavior, spread of the virus, vaccines/treatments, testing, along with US/China rhetoric ramping back up, we expect volatility to occur.

Technically, the S&P 500 has shaken off a number of pullback setups in recent weeks, producing a wide, but well-defined price formation between roughly the 200 DMA (2999) and 50 DMA (2722). In the short term, we will be watching for a breakout in either direction but believe the S&P 500 is likely to trade within a grinding range of 3130-2630 over the coming weeks to months. Unless something changes, deep pullbacks are unlikely in our view. However, decent pullbacks are expected, as a normal move to the 50 DMA reflects a 8% pullback. We would use such periods as opportunities to buy favored sectors and stocks for the next bull market. Moreover, there have been brief moments of broadening participation (into the deep cyclical areas, small caps, international), but we are still waiting for further evidence of sustained momentum there. For now, continue to stick with what is working- US large cap (growth bias), technology, health Care, communication services, and select others.

Equity Market Indices	Price Return	
	Year to Date	12 Months
S&P 500	-8.0%	4.6%
S&P 500 (Equal-Weight)	-16.3%	-6.8%
Dow Jones Industrial Avg	-13.9%	-4.3%
NASDAQ Composite	4.5%	21.7%
Russell 2000	-19.3%	-11.7%
MSCI All-Cap World	-11.9%	-1.3%
MSCI Developed Markets	-17.8%	-9.9%
MSCI Emerging Markets	-16.4%	-6.3%
NYSE Alerian MLP	-35.1%	-43.9%
MSCI U.S. REIT	-26.0%	-22.1%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	6.2%	26.8%
Consumer Discretionary	-0.1%	10.6%
Communication Svcs.	-1.0%	11.2%
Health Care	-1.9%	15.1%
S&P 500	-8.0%	-
Consumer Staples	-8.5%	7.2%
Materials	-12.7%	2.5%
Utilities	-13.1%	3.1%
Real Estate	-17.1%	2.7%
Industrials	-21.8%	7.7%
Financials	-28.5%	10.1%
Energy	-35.3%	3.0%

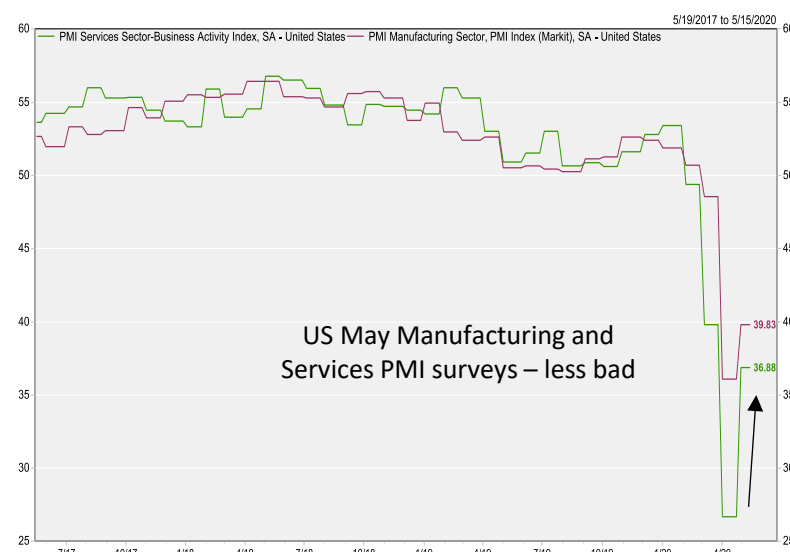
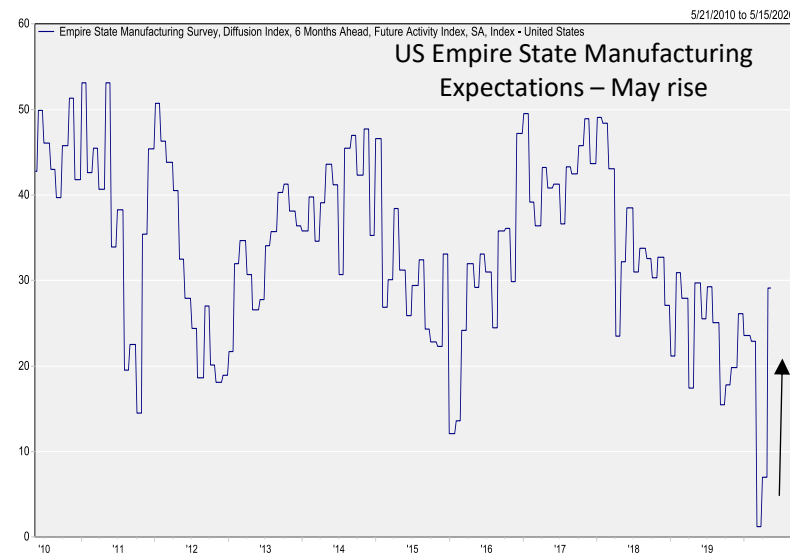
MACRO: US

US May economic data is showing signs of improvement from April, but we expect the recovery to be gradual (and mixed). The May NAHB Housing market index improved from the lows in April, but still remains very low. Also, Michigan Consumer Sentiment showed an uptick in May and the US Empire State Manufacturing expectations showed a more impressive May rise.

US May manufacturing and services PMI surveys were less bad, still in contraction but improving directionally from April. This is also the case across the globe, as PMI surveys are weak but moved in the right direction. The US economic contraction likely troughed in April, and this is to be expected as all 50 states are now open to some degree just ahead of Memorial Day. Moving forward, we will be closely monitoring new cases and hospitalizations as the economy reopens, along with testing capacity, therapeutics/vaccines, and consumer behavior in order to gauge the trajectory of the economic recovery (paramount for investors).

US economic data reported in the past week:

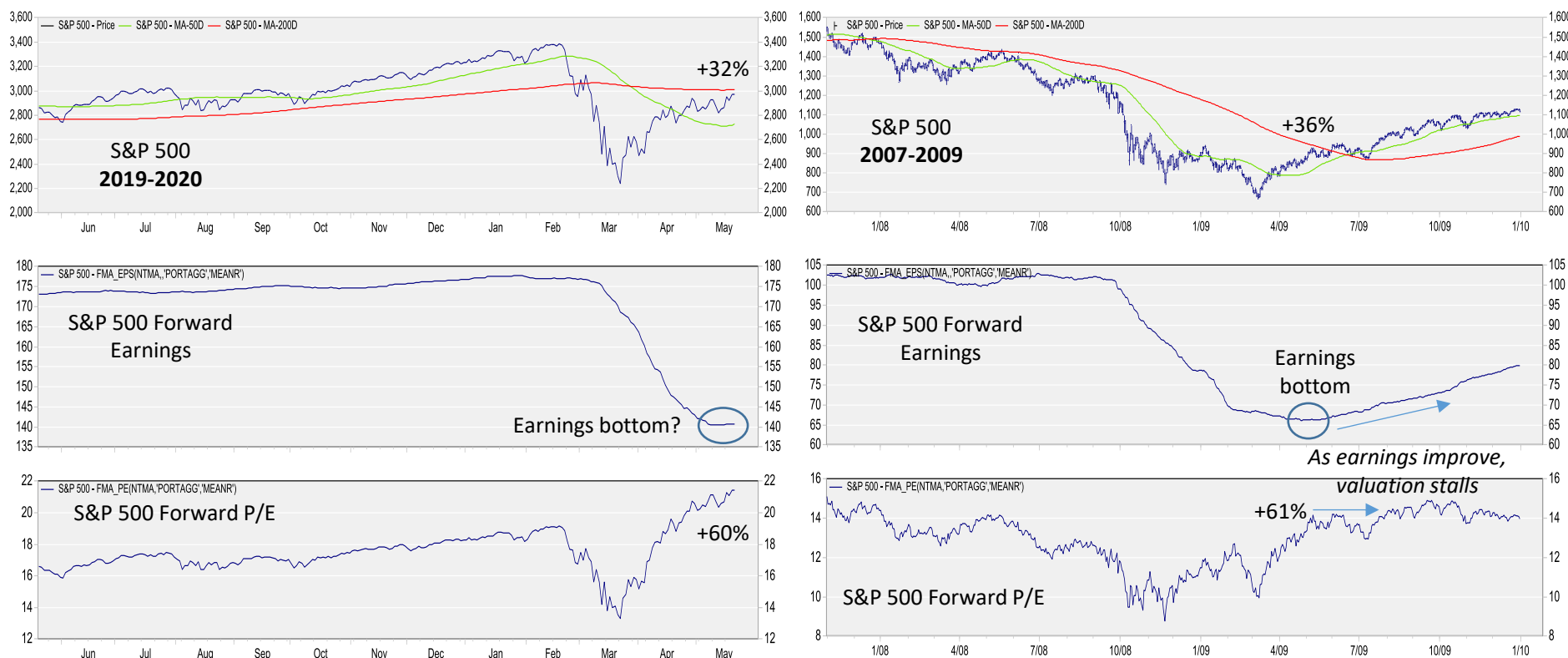
Event	Period	Actual	Consensus	Prior
Empire State Index SA	MAY	-48.5	-65.5	-78.2
Retail sales Ex Auto/Fuel M/M	APR	-16.2%	-8.3%	-2.6%
Retail Sales ex-Auto SA M/M	APR	-17.2%	-7.8%	-4.0%
Retail Sales SA M/M	APR	-16.4%	-11.8%	-8.3%
Capacity Utilization NSA	APR	64.9%	65.0%	73.2%
Industrial Production SA M/M	APR	-11.2%	-12.0%	-4.5%
Business Inventories SA M/M	MAR	-0.20%	-0.30%	-0.50%
Michigan Sentiment NSA (Preliminary)	MAY	73.7	68.0	71.8
NAHB Housing Market Index SA	MAY	37.0	34.5	30.0
Building Permits SAAR (Preliminary)	APR	1,074K	990.0K	1,356K
Housing Starts SAAR	APR	891.0K	908.0K	1,276K
Housing Starts M/M	APR	-30.2%	-32.7%	-18.6%
Continuing Jobless Claims SA	05/09	25,073K	24,500K	22,548K
Initial Claims SA	05/16	2,438K	2,450K	2,687K
Philadelphia Fed Index SA	MAY	-43.1	-40.0	-56.6
PMI Composite SA (Preliminary)	MAY	36.4	32.5	27.0
Markit PMI Manufacturing SA (Preliminary)	MAY	39.8	37.9	36.1
Markit PMI Services SA (Preliminary)	MAY	36.9	31.0	26.7
Existing Home Sales SAAR	APR	4,330K	4,300K	5,270K
Leading Indicators SA M/M	APR	-4.4%	-5.7%	-7.4%



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

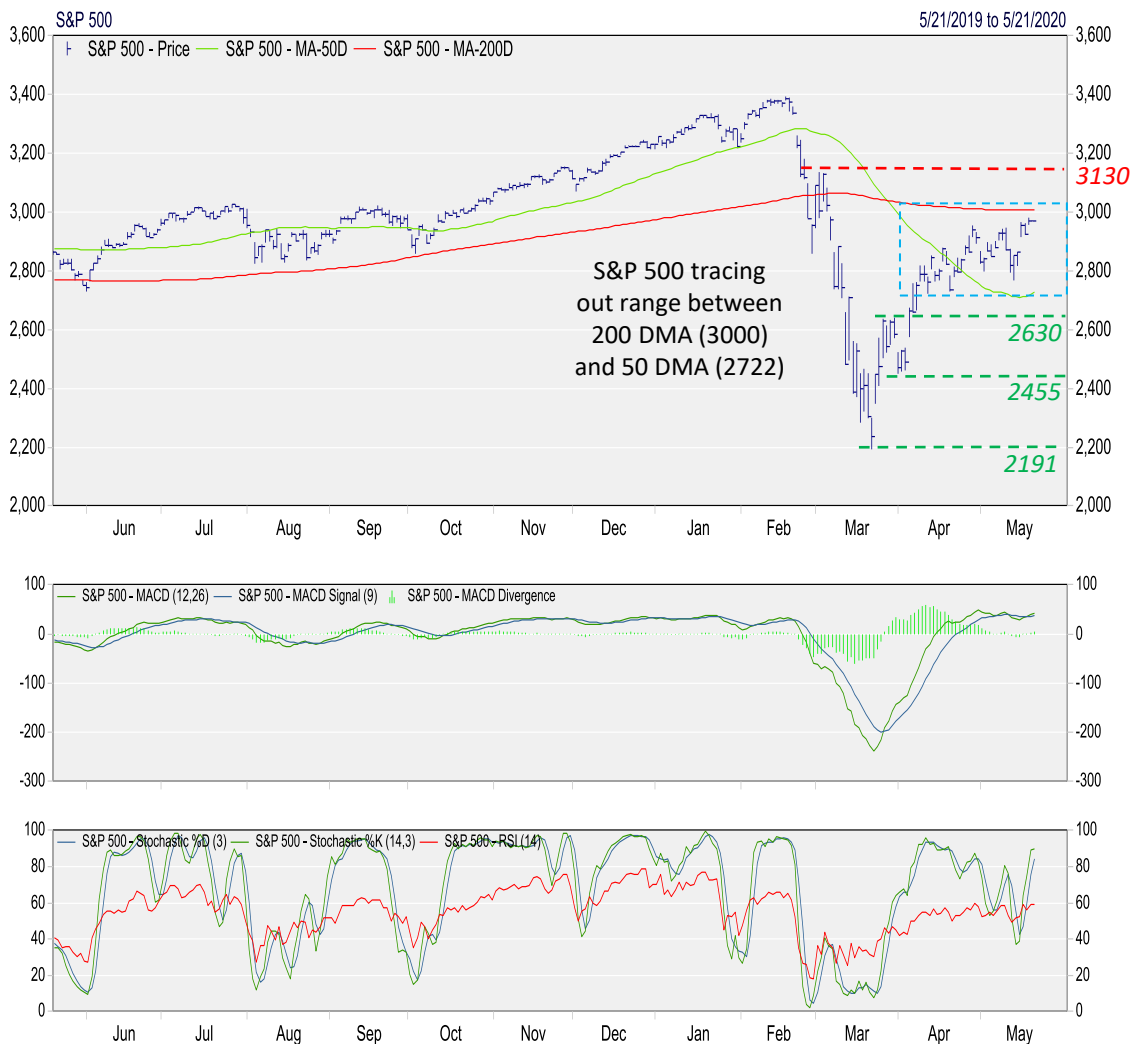
FUNDAMENTALS

The S&P 500 has rallied by 32% from the lows due to a 60% increase in its forward P/E to 21.3x (stocks discount the future). This is similar to the 2009 recovery, as the S&P 500 then rose 36% due to a 61% increase in its forward P/E. In the 2009 period, valuation then stalled as the earnings outlook began to improve. We think this makes sense in the current environment. As forward earnings estimates are potentially bottoming, we believe valuation expansion will be harder to come by (unless there is a breakthrough on a vaccine or therapeutic), and earnings improvement will need to be the primary driver of forward returns from here. As the major contributor to market returns “changed hands” from valuation to earnings in 2009, there was a market pause over a couple months as the S&P 500 grinded sideways and digested its sharp gains from the lows. During that period, there were two 6-7% pullbacks. We would not be surprised to see some consolidation or decent pullbacks in the coming weeks or months, and we believe they should be used as buying opportunities for the next bull market.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 has been very resilient in recent weeks, shaking off a number of pullback setups. The index has been able to trend marginally higher but has essentially traced out a wide, well-defined price range. The 2955 level acted as resistance multiple times (currently trading there now), with the index also quickly reversing pullbacks near the lower end of its recent range (~2800).

The 200 day moving average is another nearby level of resistance to monitor on the upside. It is normal for the S&P 500, when in recovery mode, to pause even if it is able to break slightly above the 200 DMA. On the downside, there are technical support levels near the 50 day moving average at 2722.

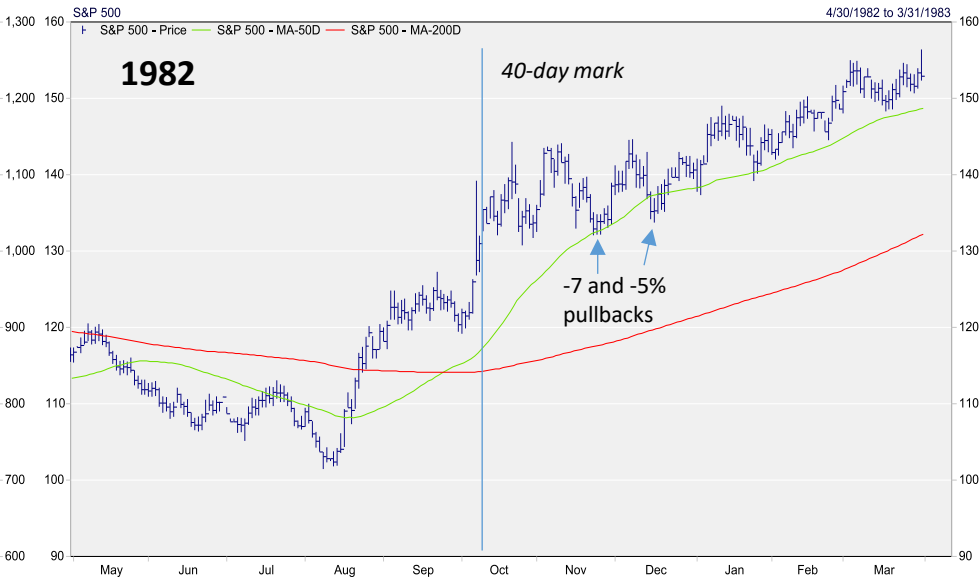
In the short term, we will be watching for a breakout in either direction but believe the S&P 500 is likely to trade within a grinding range of 3130-2630 over the coming weeks to months. Unless something changes, deep pullbacks are unlikely in our view. For example, to test the 2455 level likely requires a major setback in the economic reopening in the coming weeks to months or possibly in late Fall if the macro and earnings recovery begin to look more drawn out (and less rapid) than hoped.

We expect decent pullbacks in the coming weeks and months, as a normal move to the 50 DMA reflects a 8% pullback from current levels. We would use such periods as opportunities to buy favored sectors and stocks for the next bull market.

TECHNICAL: SHORT TERM

The S&P 500 just posted one of the sharpest 40-day rallies in history, up 31% from the lows. Since 1940, only the 2009 recovery saw a sharper 40-day rate of change. Moreover, there were only 5 periods that saw 20+% rallies in a 40-day period. In looking at this very small sample size, all occurred coming out of bear markets and have (importantly) been followed by above average returns. For example, the average return over the next 40 days (~2 months) and 250 days (~1 year) was 4.5% and 21.6% respectively. This compares favorably to all normal 40 day and 250 day periods with average returns of 1.2% and 7.6% respectively. However, we do not expect it to be a glide path higher, as 5-7% pullbacks along the way are very normal (particularly over the next couple months). The closest two examples were 2009 and 1982. As you can see, both grinded sideways for a couple months after the 40-day surge with 5-7% pullbacks happening multiple times. *(continued on next page)*

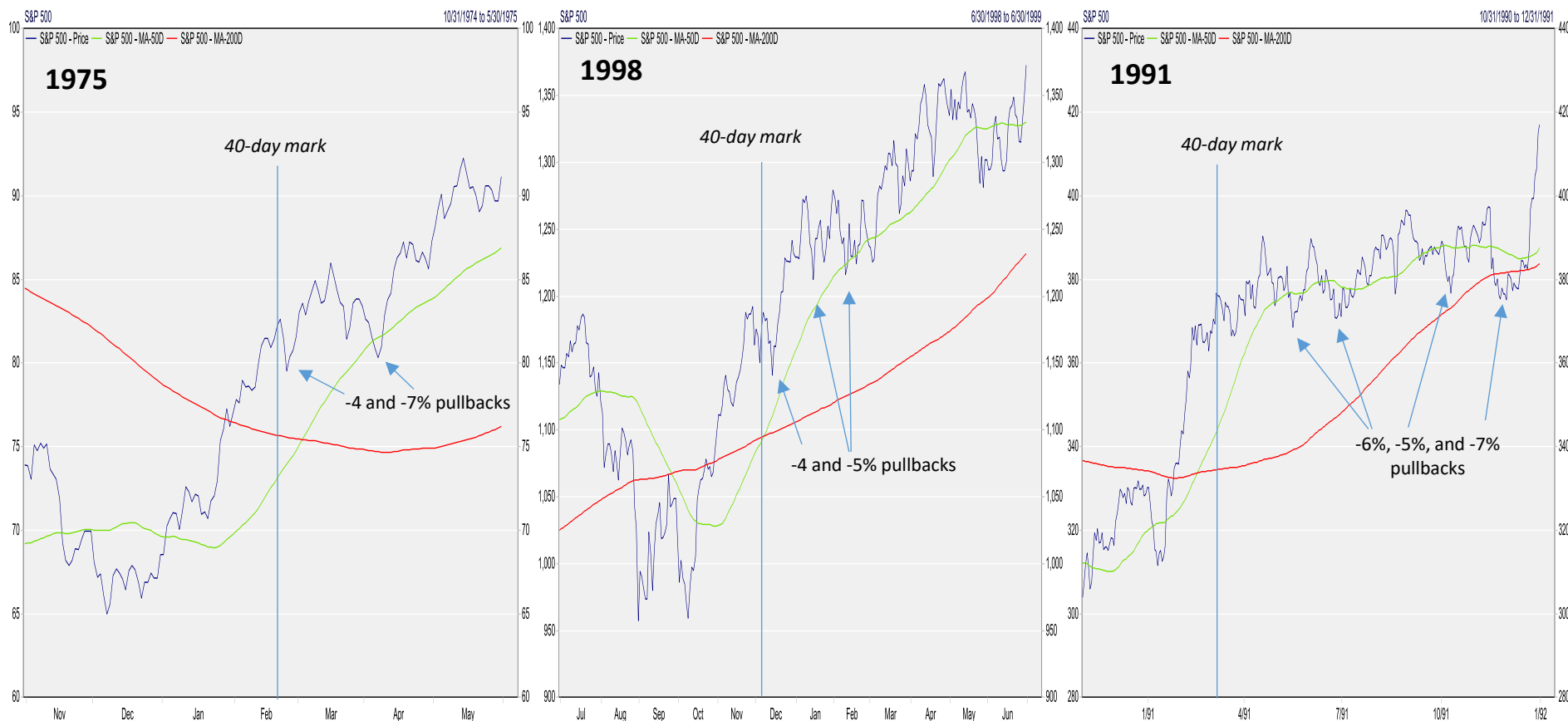
S&P 500 Performance Following 20%+ Up-Moves in 40 Days - since 1940								
Date	40D ROC	10days	20days	40days	80days	120days	250days	
5/5/2009	33.6%	0.5%	3.1%	2.2%	14.1%	19.5%	33.0%	
5/19/2020	30.6%							
10/11/1982	29.5%	-0.9%	4.4%	6.1%	6.5%	13.8%	24.7%	
2/20/1975	24.6%	1.8%	1.7%	5.0%	11.3%	6.0%	20.5%	
12/4/1998	22.6%	1.0%	5.8%	8.1%	9.9%	10.6%	19.7%	
3/7/1991	20.7%	-2.5%	-0.1%	1.3%	0.5%	4.6%	9.8%	
Average	26.9%	0.0%	3.0%	4.5%	8.5%	10.9%	21.6%	
Median	27.1%	0.5%	3.1%	5.0%	9.9%	10.6%	20.5%	
% Positive		60%	80%	100%	100%	100%	100%	
All Historical Occurrences								
Average	1.2%	0.3%	0.6%	1.2%	2.3%	3.5%	7.6%	
% Positive	61%	58%	60%	61%	64%	66%	69%	



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

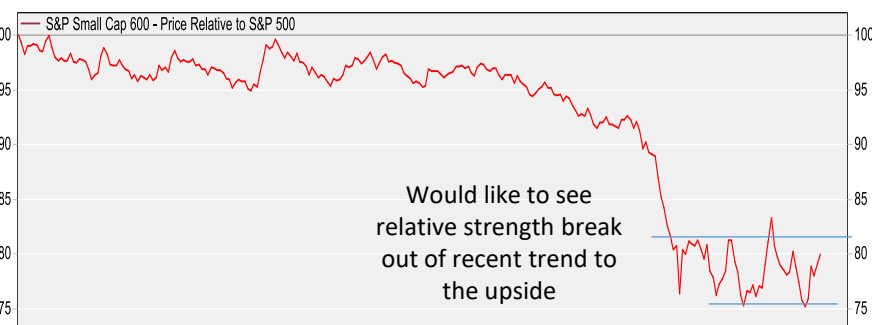
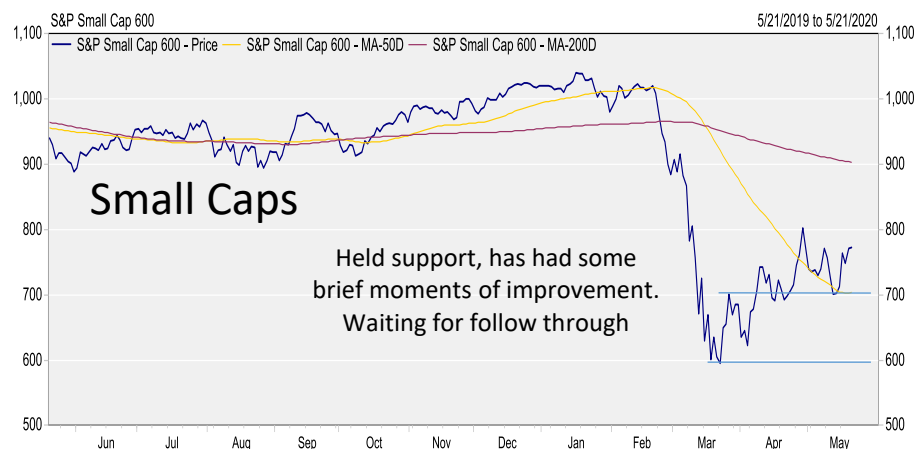
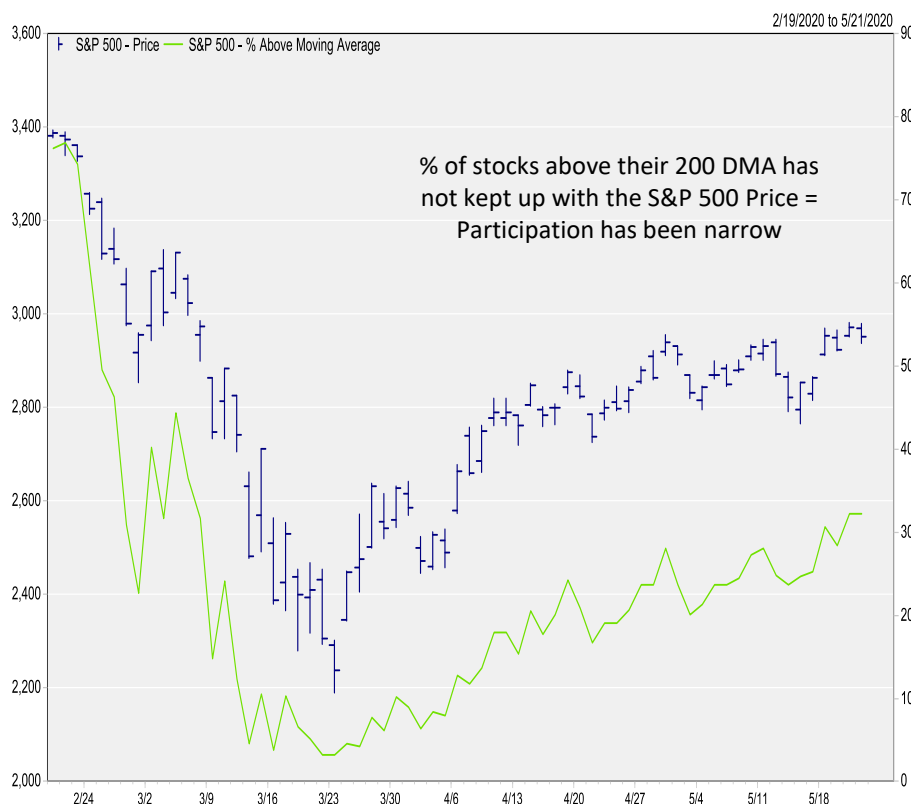
As discussed on the previous page, sharp 40-day rallies (20+%) have been historically followed by above average returns. However, there are often pauses in the short term and multiple 5-7% pullbacks as the market digests its sharp gains off the bottom. These are seen in the 1975, 1998, and 1991 bear market recovery periods below (along with 2009 and 1982 on the previous page). This historical precedent contributes to our view that the odds are high for additional gains over the longer term, however there will also likely be some volatile periods along the way. We would use those periods as buying opportunities to accumulate favored sectors and stocks for the next bull market.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM

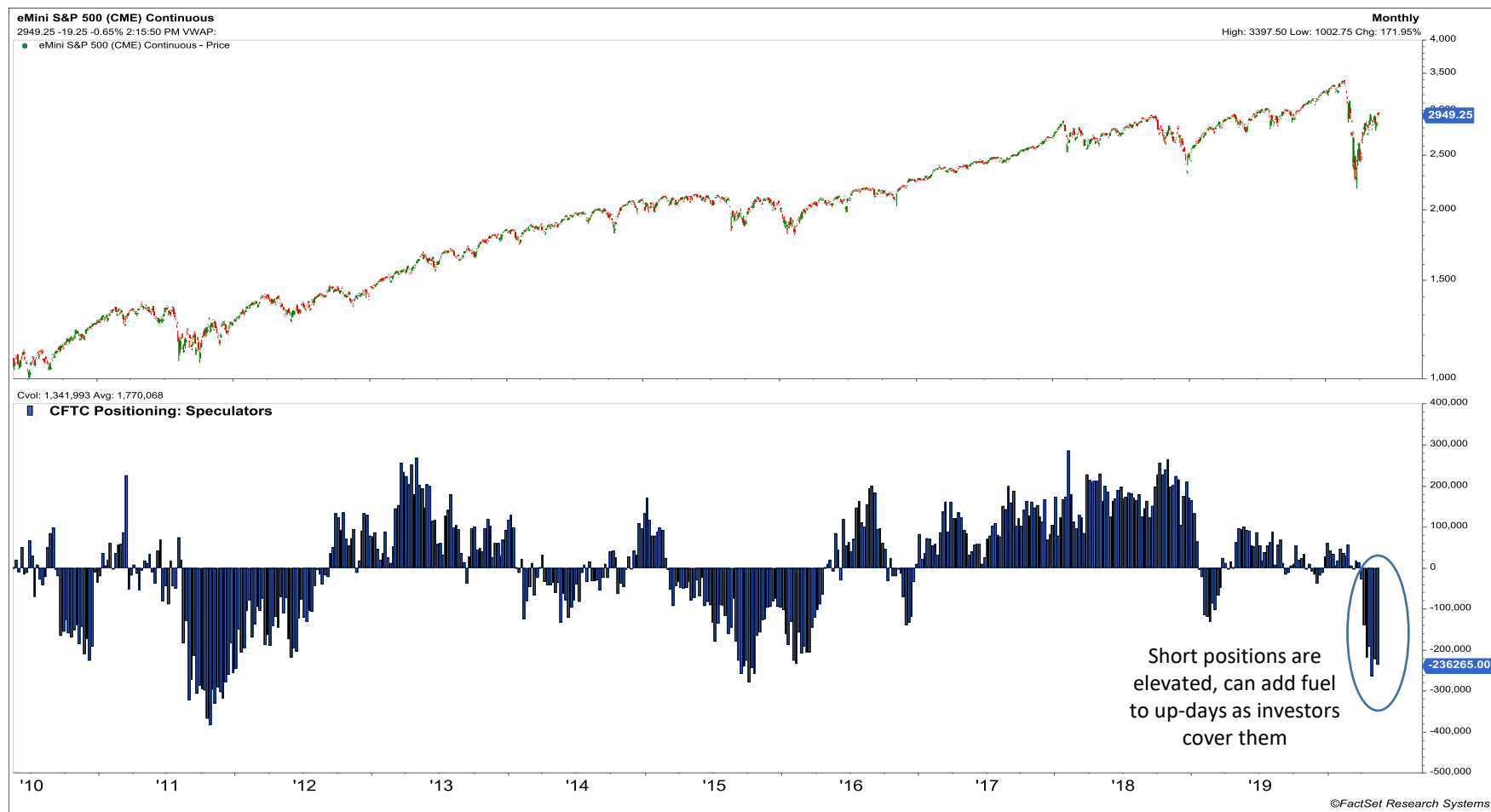
We have been discussing the narrow participation in the market rally for over a month now. As you can see in the chart to the bottom left, the % of stocks above their 200 DMA has not kept up with the S&P 500 price. Additionally, the small caps have not been able to gain relative strength in the rally. What you want to see is broadening participation and outperformance from the higher beta small caps as signs that the technical momentum is more durable. There have been some brief moments for the deep cyclical areas and small caps in recent weeks, but we are still waiting for further evidence of sustained momentum there. We are encouraged that the small caps were able to hold their support level over the past week and did not break to new relative lows. Now we need some follow through in order to increase conviction to this out-of-favor area. For now, continue to stick with what is working- US large cap (growth bias), Technology, Health Care, Communication Services, and select others.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: COMMITMENT OF TRADERS

Stock market speculators remain heavily positioned to the short side. This amount of short-positioning can cause very sharp rallies, such as the one we saw on Monday, as short positions are squeezed and investors must buy to cover their positions.



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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