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## Weekly Market Guide

**Short-Term Summary:** The S&P 500 rally paused over the past week, after recovering roughly half of its -34% plunge from 2/19 to 3/23. With the index just under its 50 day moving average (following a 27% move off the lows) and a band of technical resistance from 2901-3136, we would not be surprised to see equities pull back in the short term. We also believe that market bottoms are a process, as it would be very unusual for the S&P 500 to simply V-bottom back to previous highs. It is more normal in recessionary bear markets to have a "grind it out phase" where the market can rebuild itself internally for a more durable path higher. Thus, we would reserve some buying power to accumulate pullbacks. Initial downside technical support is 2644 with more support at 2538 and 2455.

Q1 earnings season is moving along with 23% of S&P 500 companies having reported thus far. The market response to results has been generally positive, ex-Financials. The banks have had to take on large loan loss provisions which has added to their earnings impact in the current environment. Some of the best earnings reactions have come from Technology-oriented stocks, as supportive results were needed following very stable estimate revisions heading into earnings season (along with strong relative performance this year). Overall, the S&P 500 is now expected to see a -14.4% earnings contraction in Q1, with the majority of weakness from the Energy, Consumer Discretionary, Financials, Industrials, and Materials sectors. These stocks have, accordingly, felt the brunt of the weakness in this bear market. Whereas, sectors with the most stable estimate revisions- i.e. Health Care, Technology, and Consumer Staples- have seen some of the best performance.

For the full year 2020, S&P 500 earnings estimates continue to cascade lower, toward our estimate of \$130. We continue to believe the trajectory of the recovery will be more important for the equity market, where we expect directional improvement in the back half of this year and into 2021. However, the deteriorating earnings picture, accompanied by the sharp market rally, has brought the S&P 500 P/E on a next 12 month basis (NTM) up to 19.1x. This is above the P/E (NTM) at the market peak on 2/19. While it is normal to see higher multiples on lower earnings, the lofty valuation in conjunction with all of the uncertainty and challenges remaining (in regard to testing, therapeutics, virus spread, restarting the economy, etc.) contributes to our recommendation of patience in the short term. In fact, the S&P 500 currently trades in line with our base case 2020 S&P 500 target of 2797. The current virus situation is fluid, and details can quickly shift toward our upside case (3128) or downside case (1914). However, with the risk/reward balanced fundamentally in our view for the short term, we would look to be more aggressive on a market pullback.

Equity Market Indices	Price Return	
	Year to Date	12 Months
S&P 500	-13.4%	-3.7%
S&P 500 (Equal-Weight)	-21.9%	-15.4%
Dow Jones Industrial Avg	-17.7%	-11.4%
NASDAQ Composite	-5.3%	6.0%
Russell 2000	-28.0%	-23.0%
MSCI All-Cap World	-17.0%	-10.1%
MSCI Developed Markets	-22.1%	-17.4%
MSCI Emerging Markets	-20.3%	-18.4%
NYSE Alerian MLP	-47.0%	-54.9%
MSCI U.S. REIT	-26.4%	-20.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	-5.0% 	25.6%
Health Care	-5.3% 	15.6%
Consumer Staples	-6.0% 	7.8%
Utilities	-9.3% 	3.5%
Consumer Discretionary	-9.9% 	10.2%
Communication Svcs.	-11.0% 	10.8%
Real Estate	-13.0% 	3.0%
<b>S&amp;P 500</b>	<b>-13.8%</b> 	-
Materials	-20.8% 	2.4%
Industrials	-25.3% 	7.9%
Financials	-29.8% 	10.5%
Energy	-46.3% 	2.7%

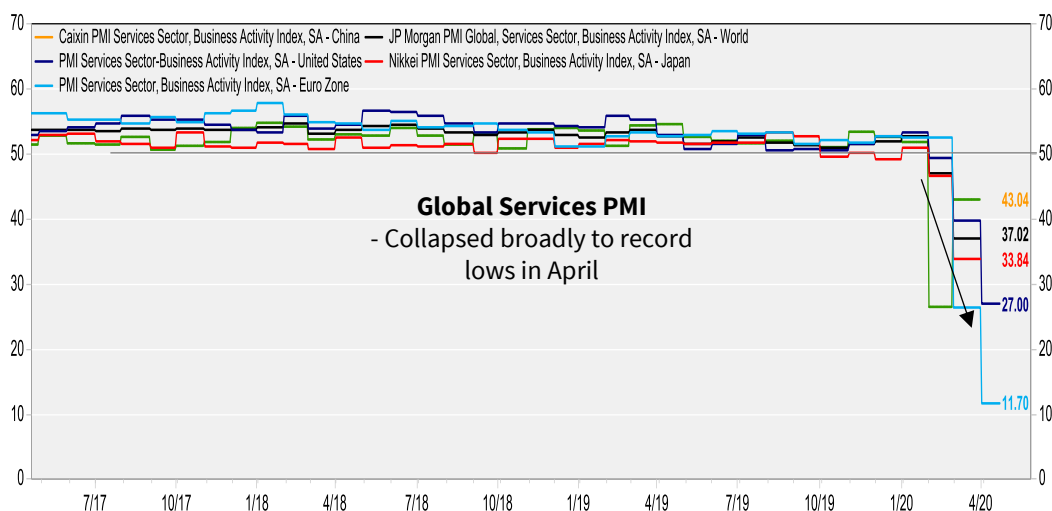
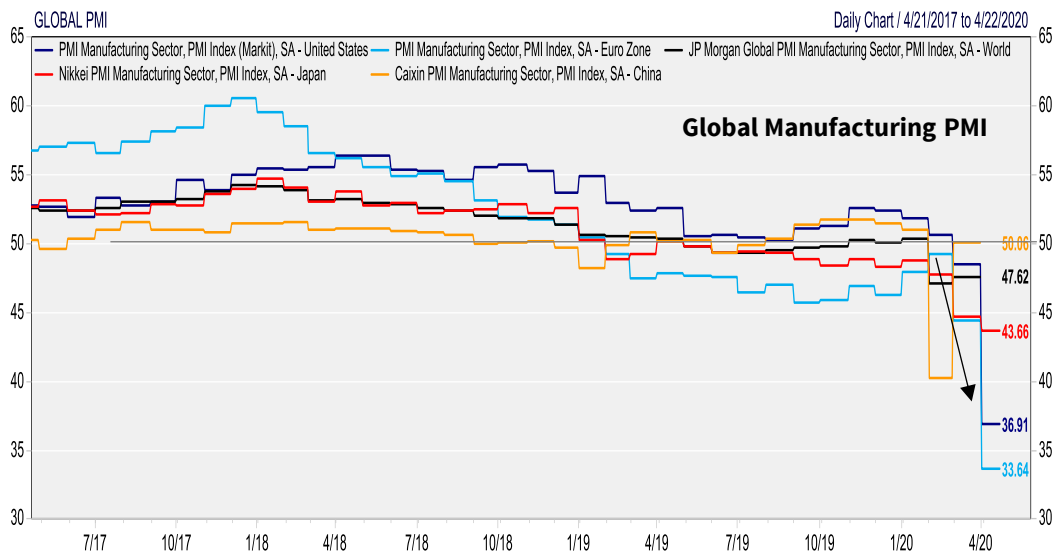
## MACRO: US

Economic activity is collapsing at unprecedented rates globally. Global PMI readings fell broadly to their lowest levels on record in April, weighed on in particular by the services side of the global economy. Eurozone composite PMI hit 13.5, UK composite PMI 12.9, Japan composite PMI 27.8, and US composite down to 27.4- all of which are record lows. Additionally, US jobless claims rose another 4.4M last week- putting roughly 15% of the US workforce as having filed for unemployment in just the last five weeks (more than one in every seven workers)!

These suggest historically dramatic economic contractions across the world, though not entirely surprising given worldwide economic lockdowns. This is why there has also been an unprecedented amount of global fiscal and monetary stimulus (with more likely to come) in hopes to “bridge the gap” for the economic recovery. Our base case outlook (with obviously a high level of uncertainty) continues to be a U-shaped recovery (with a short bottom of the U), as the short term economic impact is sharp and severe with a recovery beginning in Q3, and into Q4 and 2021.

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

Event	Period	Actual	Consensus	Prior
Leading Indicators SA M/M	MAR	-6.7%	-7.1%	-0.20%
Chicago Fed National Activity Index	MAR	-4.2	-0.57	0.16
Existing Home Sales SAAR	MAR	5,270K	5,300K	5,760K
FHFA Home Price Index	FEB	287.0	-	284.9
Building Permits SAAR (Final)	MAR	1,350K	1,300K	1,353K
Continuing Jobless Claims SA	04/11	15,976K	13,000K	11,912K
Initial Claims SA	04/18	4,427K	4,250K	5,237K
PMI Composite SA (Preliminary)	APR	27.4	36.5	40.9
Markit PMI Manufacturing SA (Preliminary)	APR	36.9	38.5	48.5
Markit PMI Services SA (Preliminary)	APR	27.0	32.5	39.8
New Home Sales SAAR	MAR	627.0K	637.0K	741.0K
Kansas City Fed Manufacturing Index	APR	-30.0	-32.0	-17.0



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

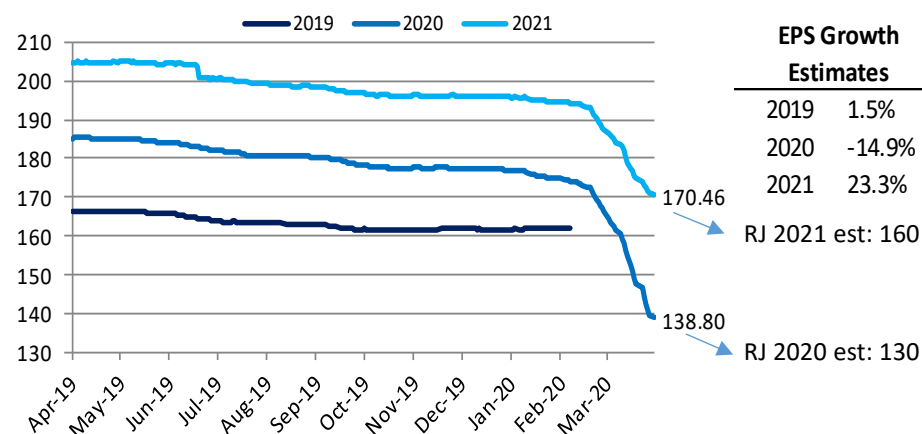
## FUNDAMENTALS

Q1 earnings season is moving along with 23% of S&P 500 companies having reported thus far. The market response to results has been generally positive, ex-Financials. The banks have had to take on large loan loss provisions which has added to their earnings impact. Some of the best earnings reactions have come from the Tech sector, as supportive results were needed following very stable estimate revisions heading into earnings season (along with strong relative performance this year). Sectors with the most stable estimate revisions- i.e. Health Care, Technology, and Consumer Staples- have seen some of the best performance this year.

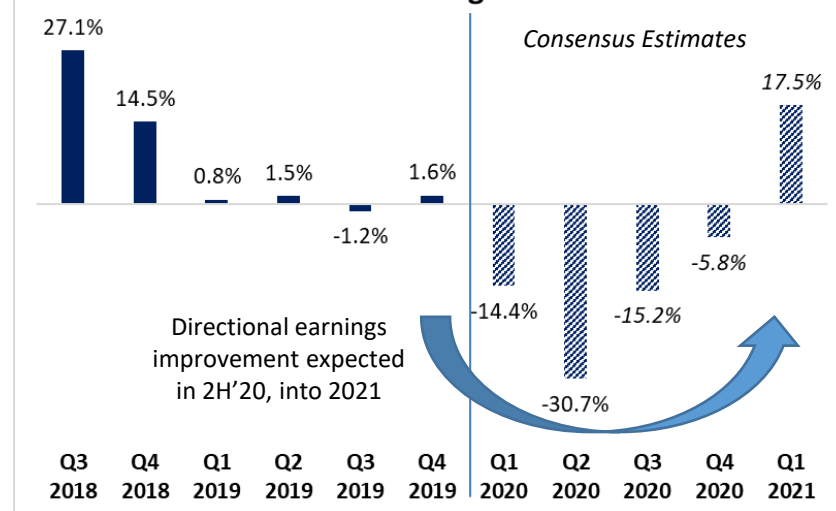
S&P 500 earnings estimates continue to cascade lower for the full year 2020, approaching our estimate of \$130. We continue to believe the trajectory of the recovery will be more important for the equity market, where we expect directional improvement in the back half of this year and into 2021. We use a base case 2021 earnings estimate of \$160, and apply a 19x P/E. Discounting this back to 2020 results in a base case S&P 500 target of 2797. With the current virus situation so fluid, details can quickly shift toward our upside case (3128) or downside case (1914). With the risk/reward balanced fundamentally in our view for the short term, we would look to be more aggressive on a market pullback.

	EPS Growth Ests.			EPS Δ Since 12/31/2019			Price Δ Since 12/31/19
	1Q20	2020	2021	1Q20	2020	2021	
Health Care	2.5%	1.0%	13.6%	-4.5%	-6.5%	-3.0%	-3.5%
Information Technology	1.8%	3.4%	15.2%	-3.7%	-4.3%	-2.5%	-4.6%
Consumer Staples	2.4%	-0.8%	7.6%	-1.7%	-6.0%	-5.6%	-7.0%
Consumer Discretionary	-38.8%	-29.9%	47.4%	-40.9%	-37.2%	-17.4%	-8.1%
Utilities	1.2%	1.9%	5.4%	-0.9%	-0.9%	-0.3%	-8.7%
Communication Services	3.9%	-6.0%	19.6%	-11.4%	-15.1%	-9.8%	-10.9%
<b>S&amp;P 500</b>	<b>-14.4%</b>	<b>-14.9%</b>	<b>23.3%</b>	<b>-18.8%</b>	<b>-22.2%</b>	<b>-13.4%</b>	<b>-13.4%</b>
Real Estate	-1.7%	-0.9%	7.1%	-3.8%	-6.3%	-5.4%	-13.9%
Materials	-26.6%	-12.3%	24.0%	-22.2%	-22.9%	-16.8%	-20.4%
Industrials	-32.3%	-33.1%	51.7%	-32.1%	-42.6%	-22.2%	-25.5%
Financials	-32.4%	-29.0%	28.2%	-32.9%	-32.5%	-20.5%	-30.1%
Energy	-67.2%	-108.3%	-601.0%	-75.0%	-106.7%	-69.9%	-43.9%

## Earnings Growth Estimates over Past Year



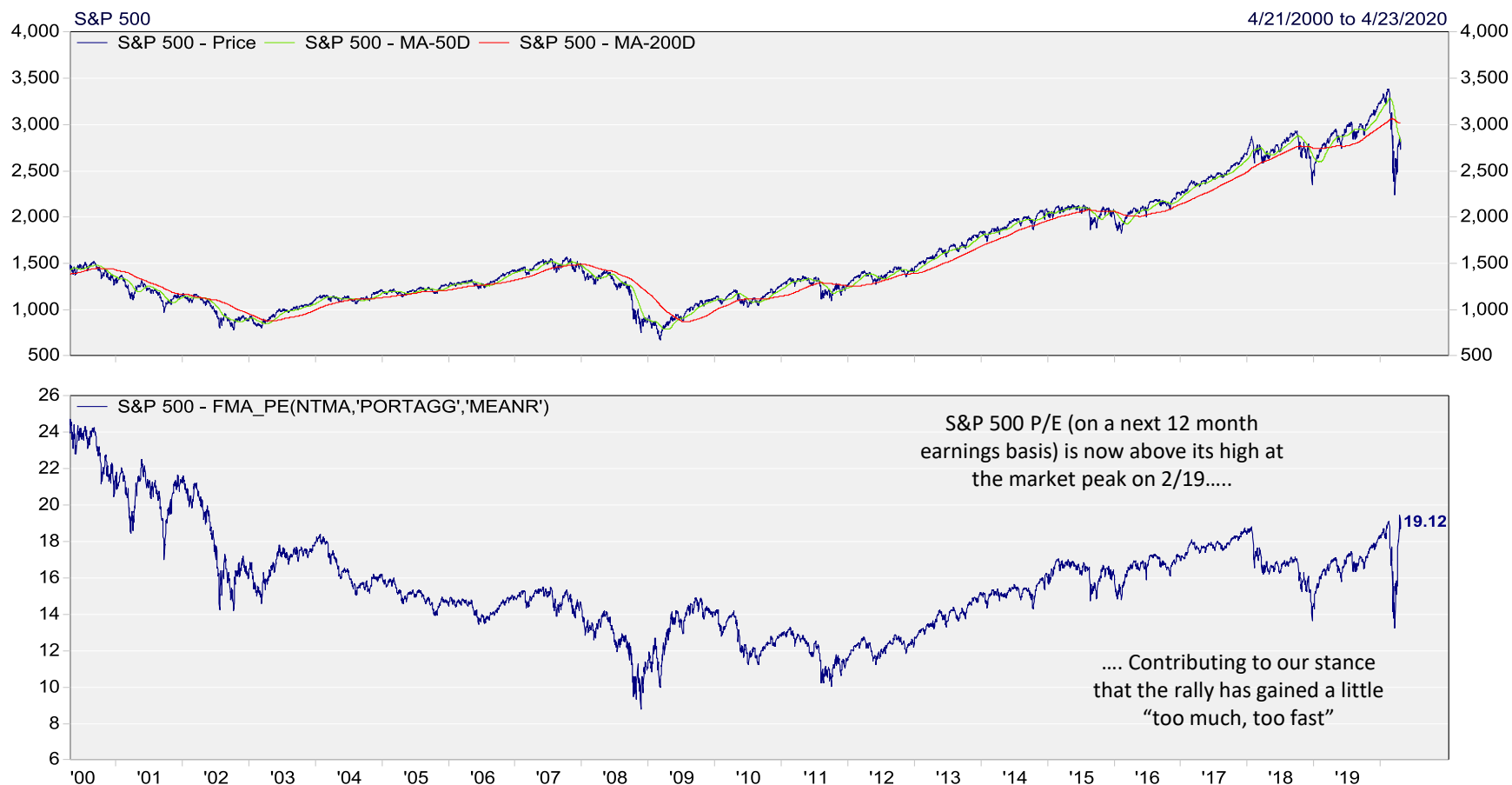
## S&P 500 Earnings Growth



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

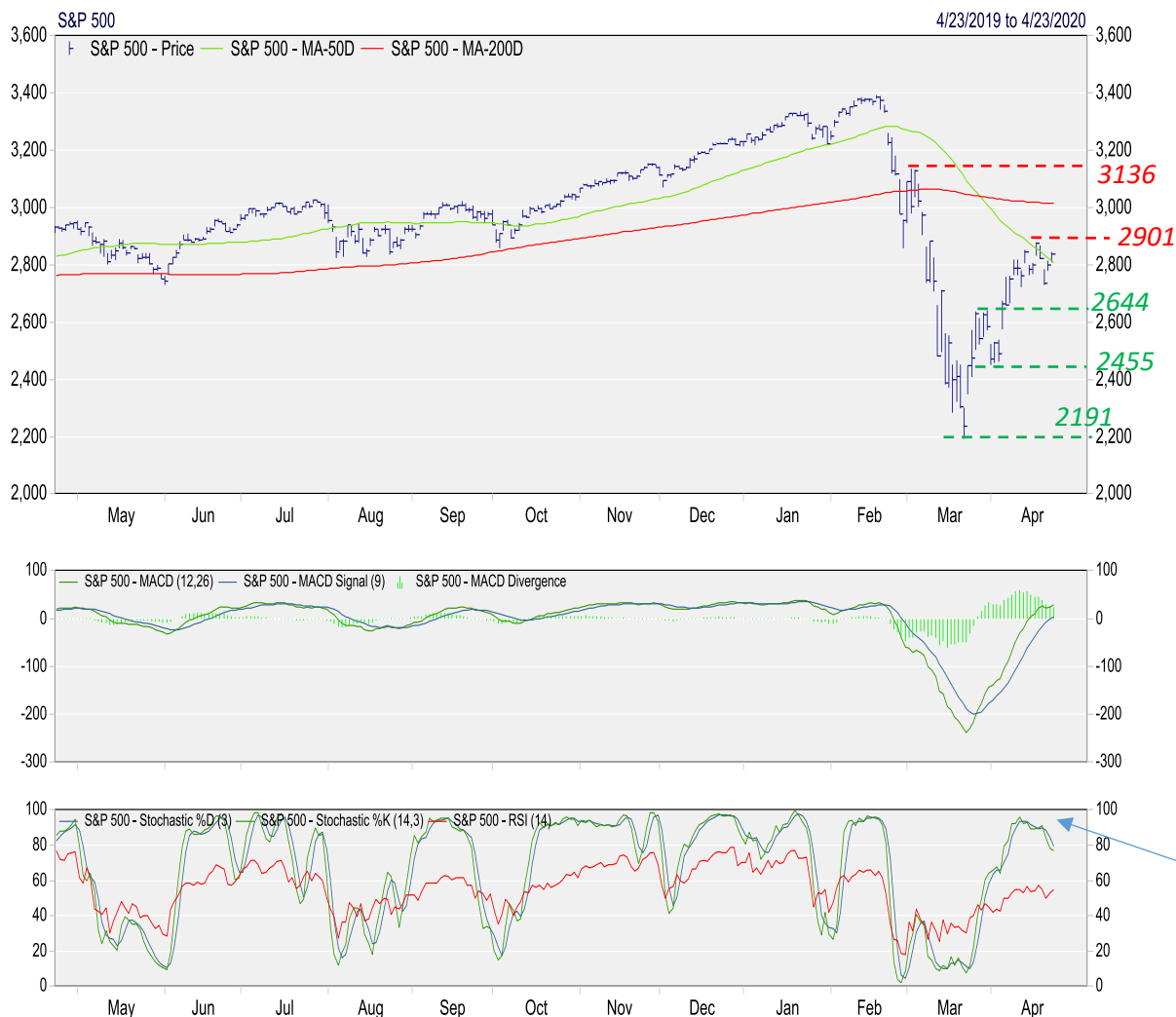
## VALUATION

The deteriorating earnings picture, accompanied by the sharp market rally, has brought the S&P 500 P/E on a next 12 month basis (NTM) to 19.1x. This is above the P/E (NTM) at the market peak on 2/19. While it is normal to see higher multiples on lower earnings, the lofty valuation in conjunction with all of the uncertainty and challenges remaining (in regard to testing, therapeutics, virus spread, restarting the economy, etc.) contributes to our recommendation on patience for the short term. We would not be surprised to see a short term pullback (following the 27% rally off the lows) as the market rebuilds itself for a more durable path higher.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICAL: SHORT TERM



The S&P 500 rally paused over the past week, after recovering roughly half of its -34% plunge from 2/19 to 3/23.

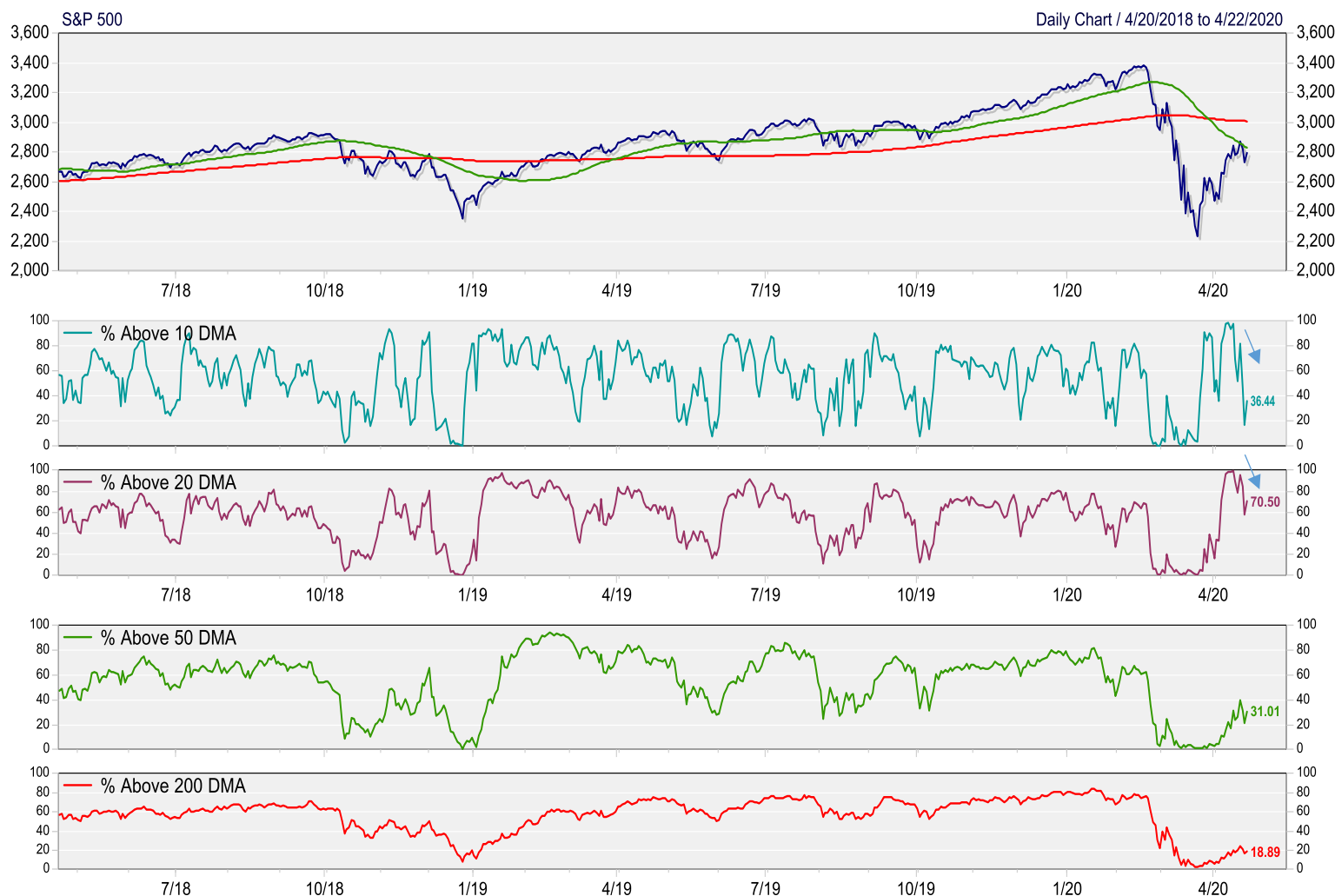
With the index just under its 50 day moving average (following a 27% move off the lows) and a band of technical resistance from 2901-3136, we would not be surprised to see equities pull back in the short term.

We also believe that market bottoms are a process, as it would be very unusual for the S&P 500 to simply V-bottom back to previous highs. It is more likely that a “grind it out phase” is needed for the market to rebuild itself internally for a more durable path higher.

As such, we would reserve some buying power to accumulate in that scenario. Initial downside technical support is 2644 with more support at 2538 and 2455.

Short term  
stochastics  
overbought

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

**TECHNICAL: SHORT TERM**

Source: FactSet, Raymond James Equity Portfolio &amp; Technical Strategy

There was a short term divergence over the past week when looking at the percentage of stocks above their 10 and 20 day moving averages.

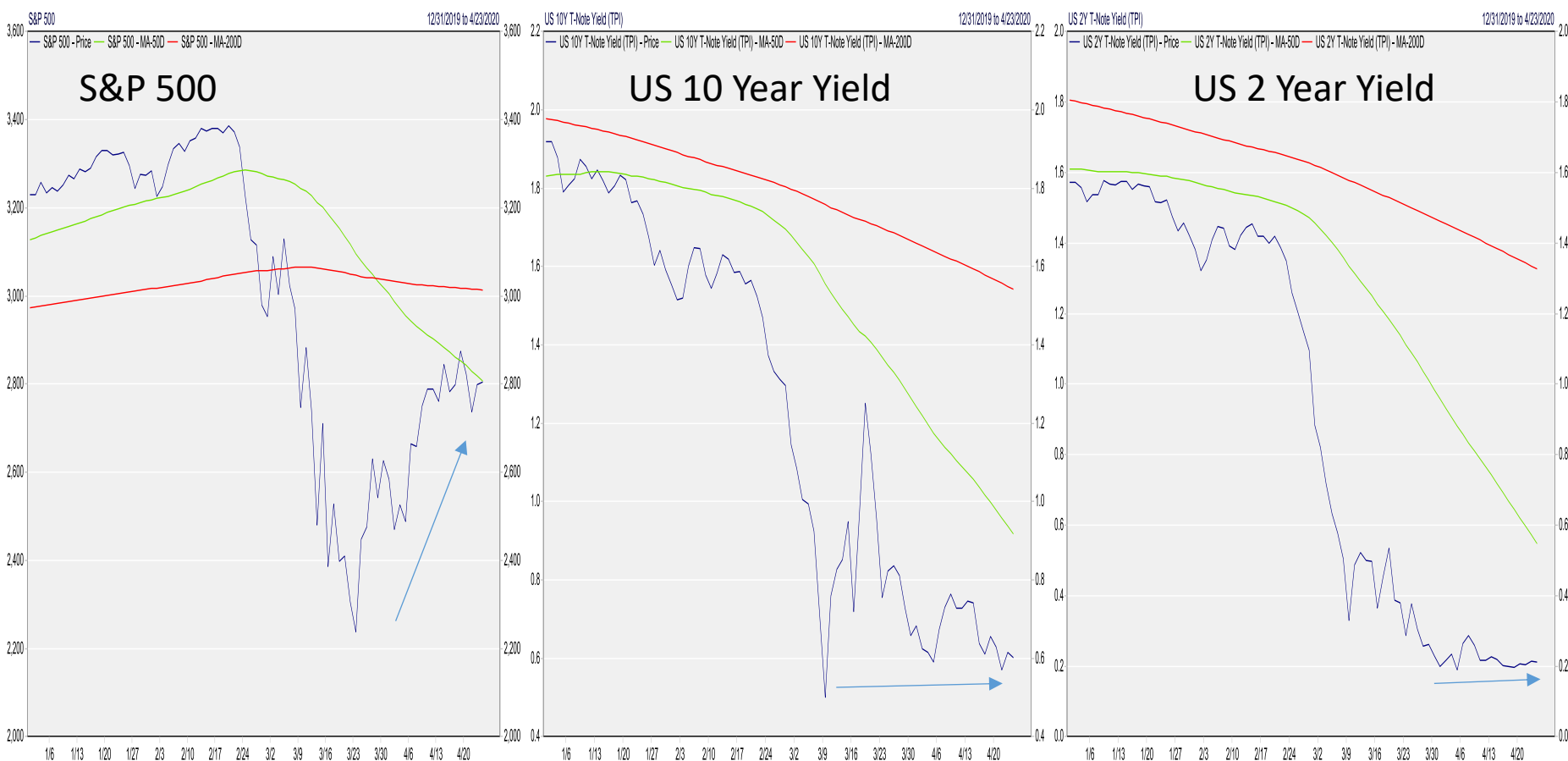
As the S&P 500 was able to move higher on 4/17 (above the 4/14) high, the percentage of stocks above their 10 and 20 day moving average moved lower.

Additionally, the percentage of stocks above their moving averages continued to trend lower as the S&P 500 continued its pause of the past week, with the percentage of stocks above their 10 day moving average just 36% now.

This suggests a short term pullback is underway internally.

## TECHNICAL: SHORT TERM

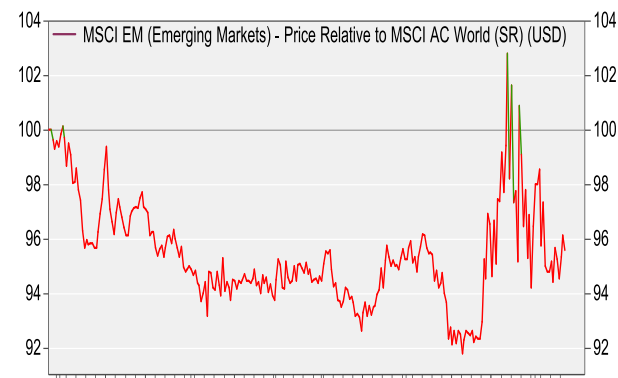
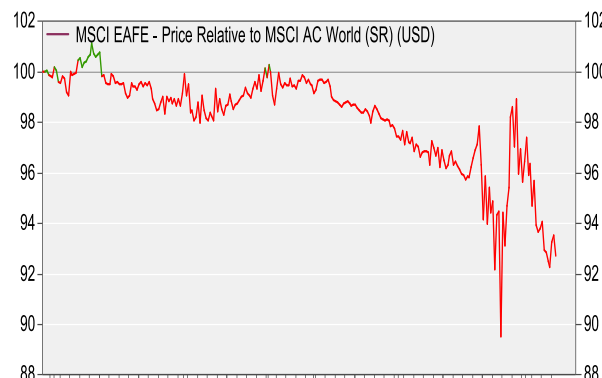
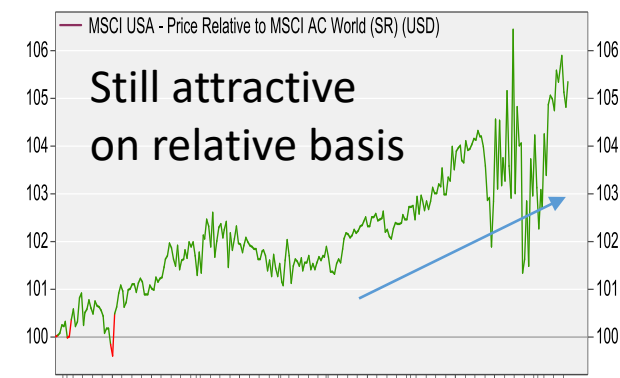
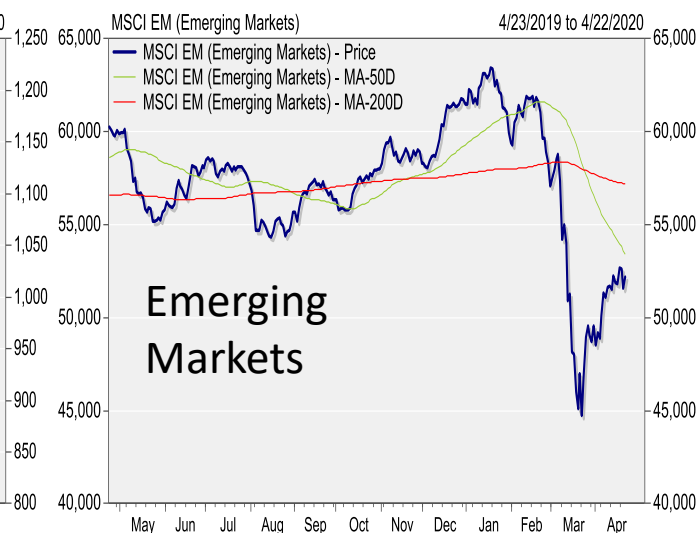
As the S&P 500 has recovered roughly half of its losses from the 2/19-3/23 plunge, bond yields remain near their lows. We would have liked to see bond yields rise in conjunction with the S&P 500, as a risk-on sign within the financial markets toward the eventual recovery. This divergence suggests that bond investors are not as positive as equity investors currently, and investors are not ready to leave the relative safety of the Treasury markets yet.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICAL: US STILL FAVORED GLOBALLY

The US continues to be favored globally. As you can see, global equities are broadly under pressure; and as they have rallied over the past month, the US has regained its leadership from a relative strength standpoint (vs the World). We would continue to stay overweight US equities within globally-diversified portfolios.

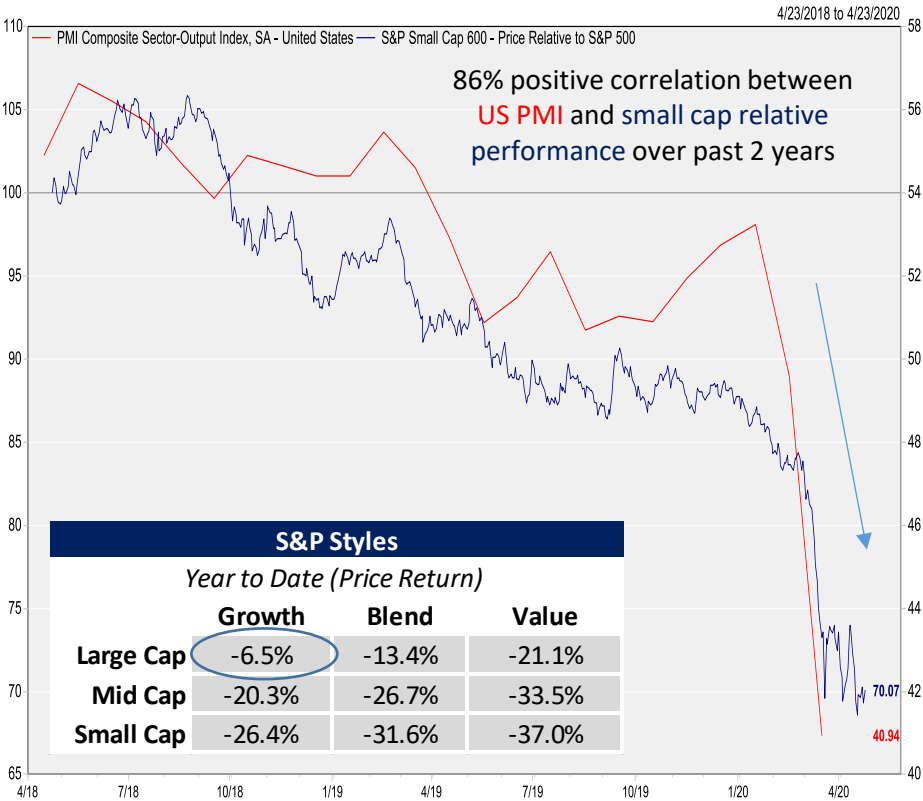
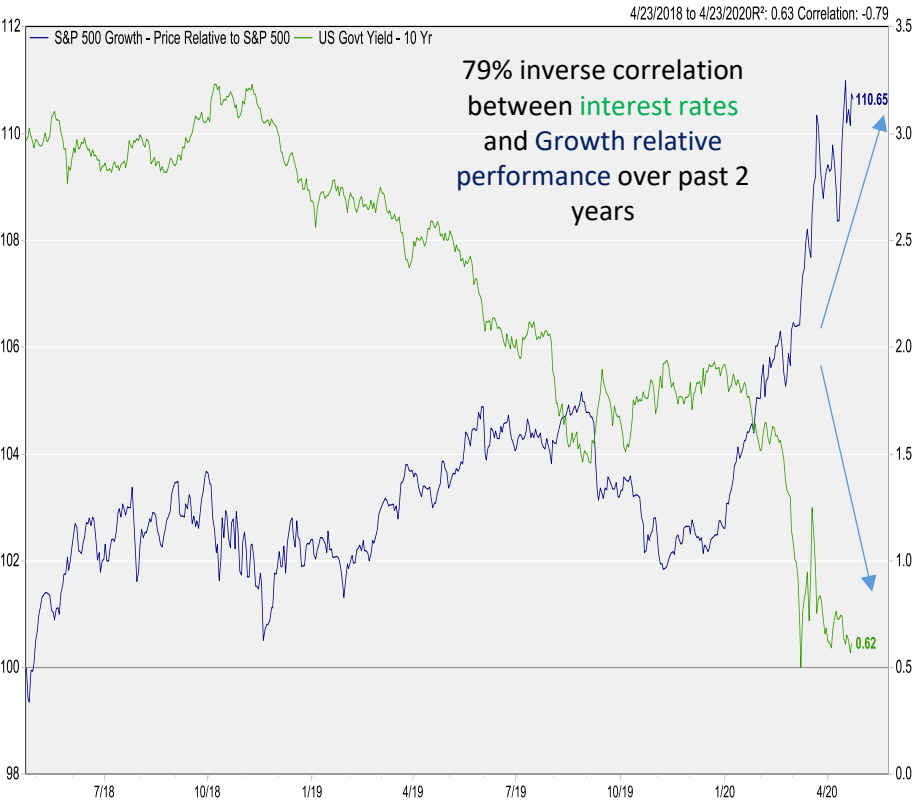


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy



TECHNICAL: LARGE CAP GROWTH DOMINATING RELATIVE PERFORMANCE

The bottom left chart shows the 79% inverse correlation between Growth (relative performance) and interest rates over the past two years, as companies able to grow their fundamentals in slower return environments are more valuable. Additionally, lower interest rates can make valuations for long term growers more attractive (due to a lower discount rate). The bottom right chart shows the 86% positive correlation between US Composite PMI and Small Cap relative performance over the past two years, as small cap stocks typically feel outsized impacts on economic changes (due to higher leverage and less stable businesses). So as the generally lower trend in interest rates and US economic PMI surveys has been a boost to Large Cap Growth over the past two years, the dramatic collapse in interest rates and economic activity over the past couple months has resulted in enormous outperformance for Large Cap Growth. For example, Large Cap Growth is only down -6.5% year-to-date, while small cap value is down 37%!



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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