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Weekly Market Guide

The US economic backdrop continues to improve with nonfarm payrolls pointing to recovery (albeit still below its pre-pandemic level) along with subdued inflation (for now) as core CPI actually saw a deceleration in YoY trends in the month of February. Combined with the $1.9T fiscal stimulus package approved by Congress, dovish commentary from the Fed, and a slight easing in the rate of ascent in the 10-year yield, the S&P 500 attempts to resume its upward price trend as it made a new 52-week high intraday today.

Despite breaking below the 50-day moving average last week, the S&P 500 was able to hold above the January low of 3694 before this week's rebound. We would like to see the S&P 500 hold above the prior 52-week high of 3950 followed by the next area of resistance likely at 4274 (which is the next Fibonacci projection).

From a fundamental basis, we recently updated our base case EPS estimates to $190 and $220, respectively, for 2021 and 2022, and increased our S&P 500 price target to 4180 by year-end 2021 and 4400 by year-end 2022 (please reference our latest note for more details). Currently, NTM P/E is ~22x. However, if our price objective of 4180 is achieved by year-end, the S&P 500 would be trading at ~19x our 2022 EPS estimate, which is in-line with pre-pandemic levels. We continue to see 2021 as a transitional year as valuations normalize as EPS and GDP grow above trend. As we go into 2022, we would expect some continued normalization in valuations (but to a much lesser degree) with continued strength in EPS and GDP growth driven by economic reopening and the unprecedented level of stimulus. For the most part, the consumer is in good shape with savings rate north of 20% (before the latest round of stimulus), which should provide plenty of pent-up demand for the coming years.

1Q'21 earnings season is only about a month away (with the quarter closing in the next few weeks). With 4Q earnings season finishing above consensus estimates at a historically high rate for the third consecutive quarter, it would be logical to believe there may be some pull forward from quarters in 2021, however, thus far, we are not seeing this take place with 1Q'21 earnings expected to increase 19.2% YoY to $39.09. Remember last year during the first quarter, there were about 2 months before the COVID-19 pandemic caused widespread shutdowns. From a sector perspective, Financials and Consumer Discretionary are expected to see the strongest YoY earnings growth (with both expected to grow greater than 50%) while Energy, Industrials, and Real Estate are expected to see declined YoY from last year's 1Q'20.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	3.8%	35.3%
S&P 500 (Equal-Weight)	9.1%	42.2%
Dow Jones Industrial Avg	5.5%	29.1%
NASDAQ Composite	1.4%	56.6%
Russell 2000	15.7%	69.2%
MSCI All-Cap World	3.1%	35.6%
MSCI Developed Markets	2.6%	30.0%
MSCI Emerging Markets	2.6%	37.4%
NYSE Alerian MLP	25.7%	39.0%
MSCI U.S. REIT	6.4%	3.1%

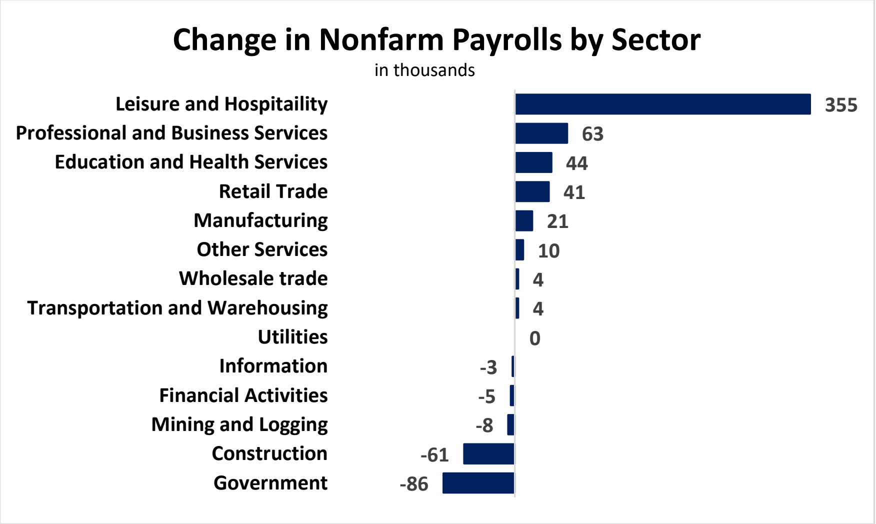
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	39.7%	3.1%
Financials	16.6%	11.7%
Industrials	7.4%	8.7%
Materials	7.3%	2.7%
Communication Svcs.	7.0%	11.1%
S&P 500	***3.8%***	-
Real Estate	3.1%	2.4%
Consumer Discretionary	0.4%	12.3%
Health Care	-0.1%	12.9%
Information Technology	-0.8%	26.5%
Utilities	-2.3%	2.6%
Consumer Staples	-3.5%	6.0%

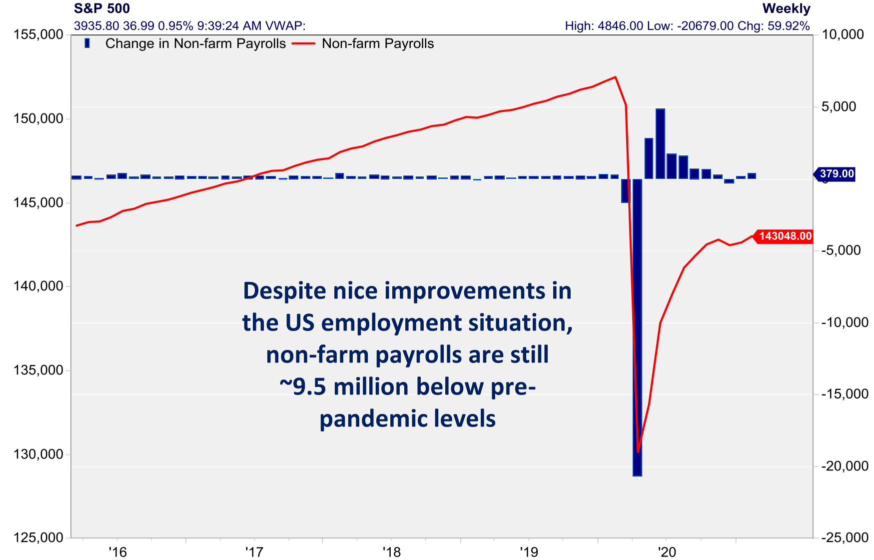
MACRO: US

February nonfarm payrolls continue to show a nice improvement in the employment situation in the US with gains of 379k. More importantly, the majority of the gains in nonfarm payrolls came from the Leisure and Hospitality sector (with gains of 355K jobs in February) pointing to the continuation of the economic reopening in some of the most hard hit areas of the economy. However, despite the nice improvements in the US employment situation from the pandemic lows, nonfarm payrolls are still ~9.5 million below pre-pandemic levels, which is reflected in the 6.3% unemployment rate (vs. 3.5% last February).

Inflation continues to be a major focus for market participants. For now, inflation remains contained. For the month of February, inflation showed some divergence with core CPI increasing only 0.1% MoM and coming in below expectations YoY at 1.3%, while headline CPI was stronger, up 0.4% MoM, but still below the Fed's target (of 2%) with the latest reading of 1.7%. We will continue to monitor, but for now, inflation remains under control.

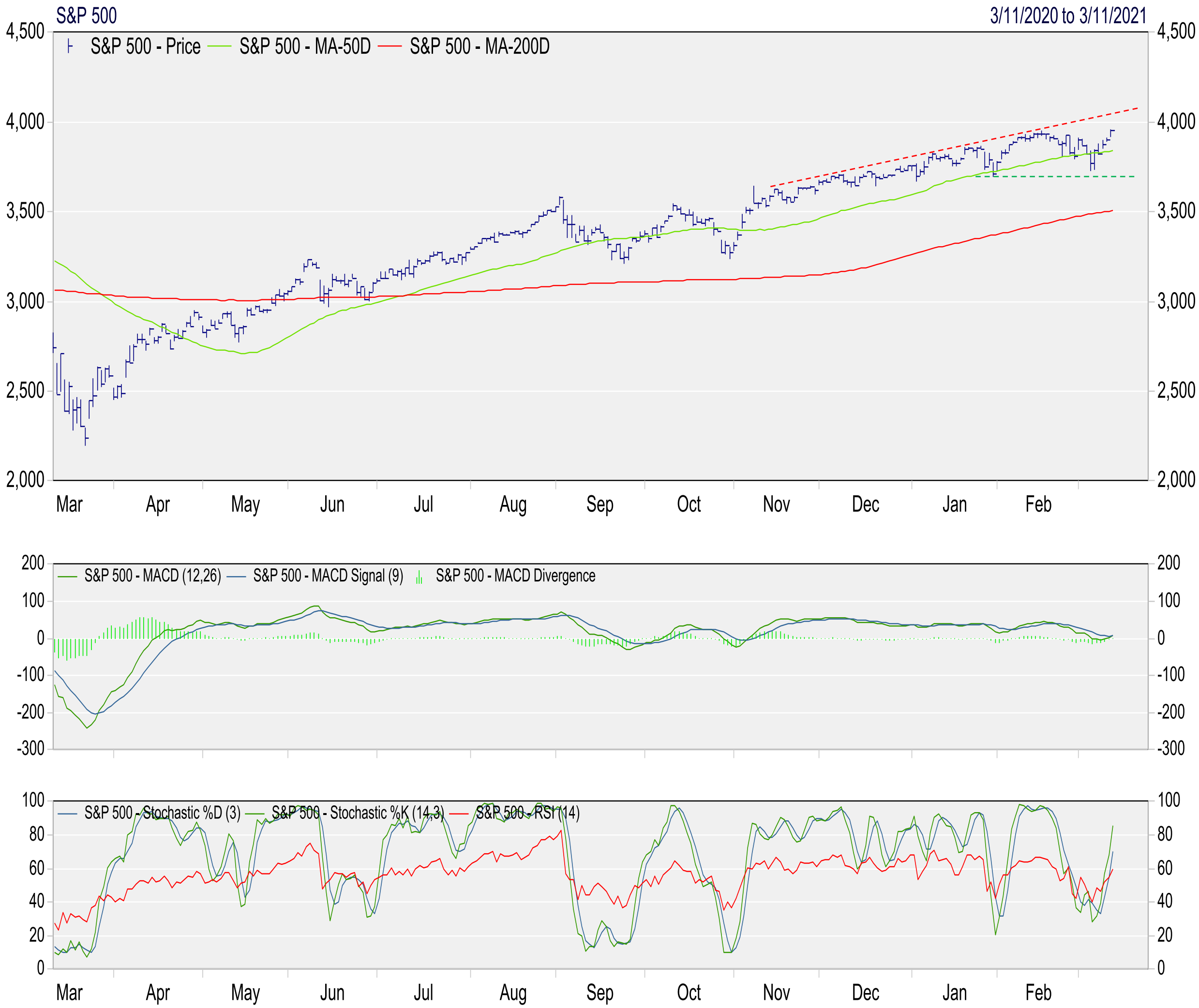
This Week's US Economic Data	Period	Actual	Consensus	Prior	Revised
Change in Nonfarm Payrolls	Feb	379K	200K	49K	166K
Change in Private Payrolls	Feb	465K	200K	6K	
Change in Manufacturing Payrolls	Feb	21K	15K	-10K	-14K
Unemployment Rate	Feb	6.20%	6.30%	6.30%	
Average Hourly Earnings YoY	Feb	5.30%	5.30%	5.40%	5.30%
Average Weekly Hours	Feb	34.6	34.9	35	34.9
Labor Force Participation Rate	Feb	61.40%	61.40%	61.40%	
NFIB Small Business Optimisim	Feb	95.80	97.00	95.00	
CPI YoY	Feb	1.70%	1.70%	1.40%	
Core CPI (ex- Food and Energy) YoY	Feb	1.30%	1.40%	1.40%	
Initial Jobless Claims	6-Mar	712K	725K	745K	754K
Continuing Claims	27-Feb	4144K	4200K	4295K	4337K
JOLTS Job Openings	Jan	6917K	6700	6646	





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 looks to continue its upward momentum after consolidating recent gains for much of February. Despite breaking below the 50-day moving average last week, the S&P 500 was able to hold above the January low of 3694. With positive news on fiscal stimulus (with both House and Senate approving a $1.9T stimulus package), dovish comments from the Fed, and some easing in the rate of ascent of the 10-year yield, the market has been able to rebound back to new highs (intraday) today.

We would like to see the S&P 500 hold above the prior 52-week high of 3950 followed by the next area of resistance likely at 4274 (which is the next Fibonacci projection).

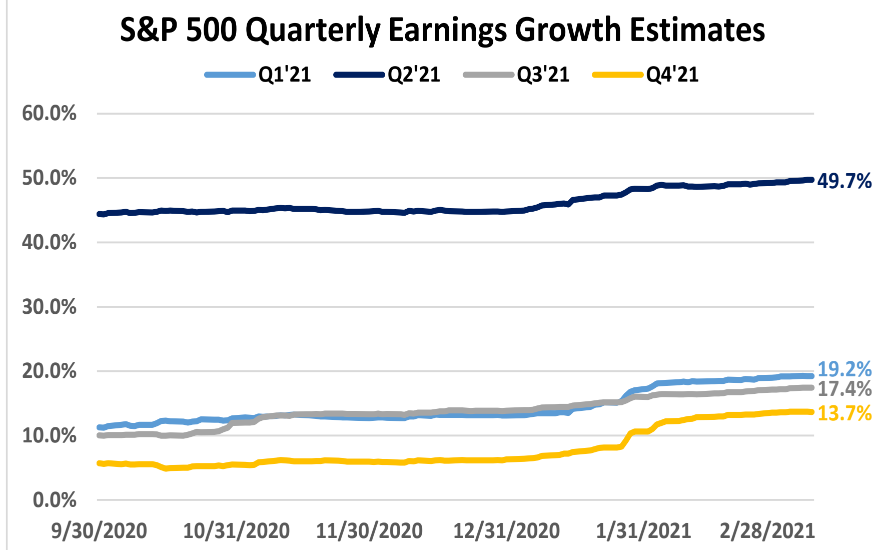
On the downside, initial support is likely around the 50-DMA at 3840 followed by the long-term uptrend line at 3690, which is just shy of the January low of 3694. A break below this uptrend line would open the door for further downside towards the horizontal support around 3550 and upward-trending 200-DMA around 3500.

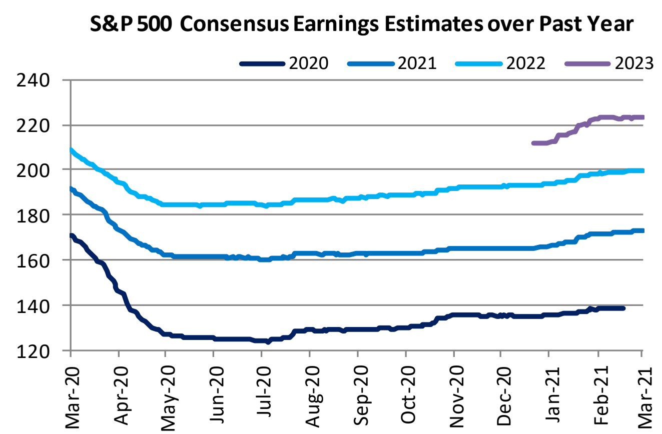
We continue to believe the positives outweigh the negatives and believe the recent rise in yields is overblown as rates are increasing for the right reasons as an improving economy is good for equity markets.

FUNDAMENTALS

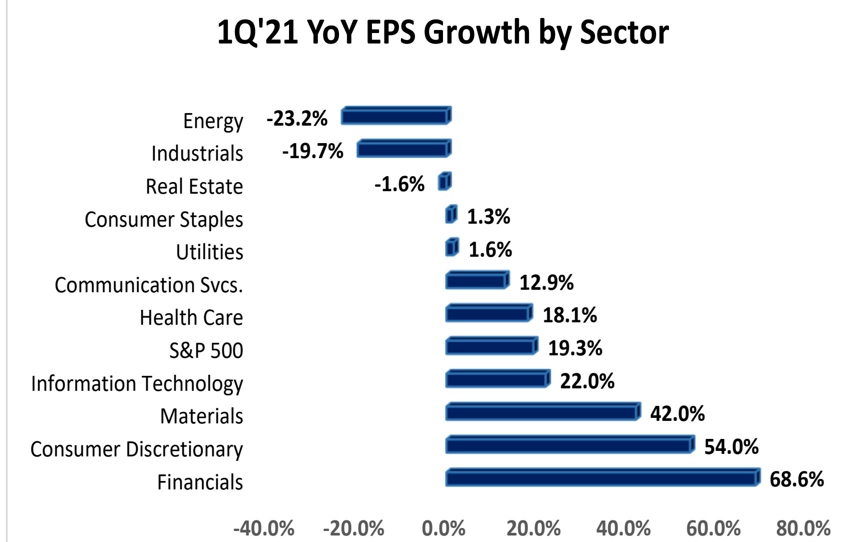
With Q4 earnings season finishing above consensus estimates at a historically high rate for the third consecutive quarter, it would be logical to believe there may be some pull forward from quarters in 2021, however, thus far, we are not seeing this take place. As seen to the right, earnings estimates continue to trend higher for each quarter in 2021 with 2Q'21 expected to see the strongest earnings growth of 49.7%, as it laps the worst period of economic contraction as COVID-19 essentially shut down the US economy. With only a few more weeks until the close of 1Q'21, Financials and Consumer Discretionary sectors are expected to see the best YoY EPS growth (it is important to remember that the 1Q'20 comparison includes a couple months before the pandemic took hold).

Overall, we continue to believe the trajectory of economic re-openings will continue to increase rapidly as the vaccine rollout ramps (accelerated by the recent approved Johnson & Johnson vaccine resulting in more supply) and the recent approval from Congress of the $1.9T stimulus package. Given the increasing positive economic positive trends, we updated our 2021 and 2022 base case earnings expectations to $190 and $220, respectively, well ahead of consensus expectations of $172.93 and $199.64.





EPS Growth Estimates	
2020	-13.6%
2021	24.7%
2022	15.4%
2023	11.8%

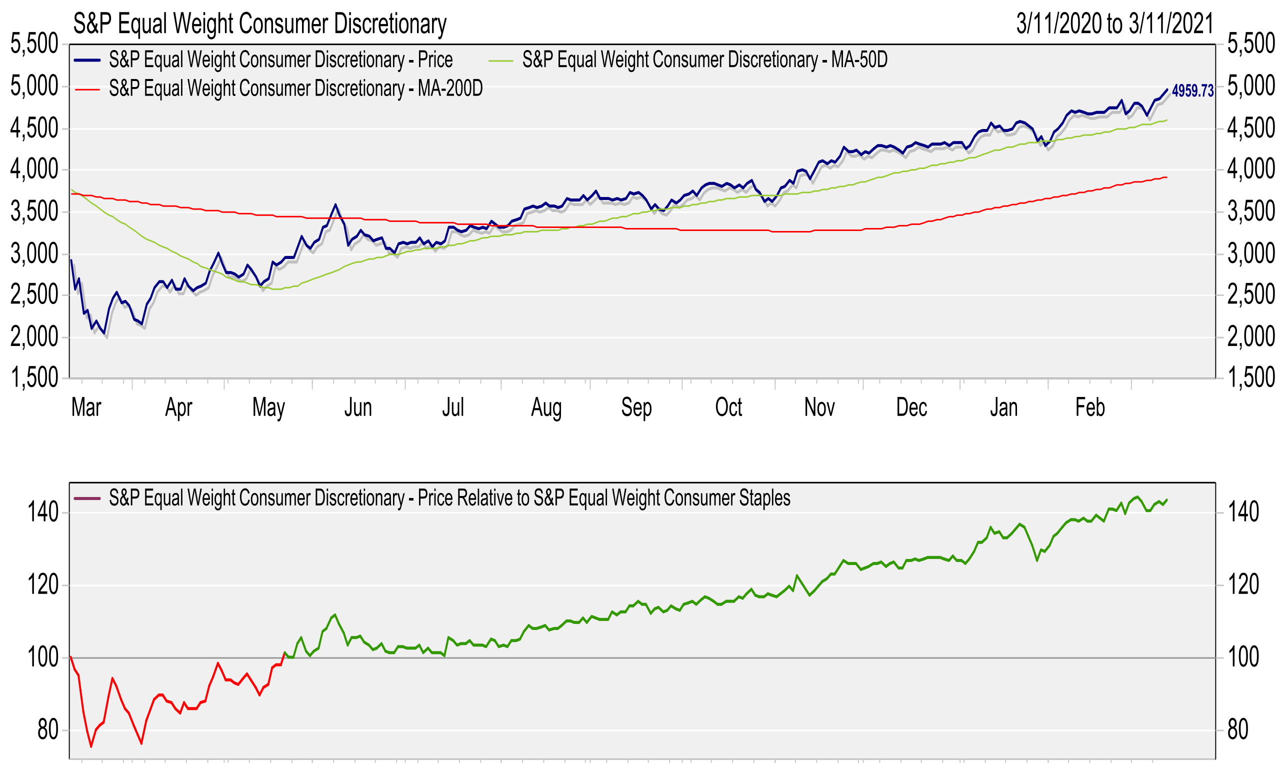


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CONSUMER DISCRETIONARY

Consumer Discretionary remains one of the most levered areas to the economic re-opening. We continue to believe the consumer remains in good shape with savings rates above 20% (before the most recent stimulus). The recently approved fiscal stimulus package, will provide an additional $1,400 direct payment (for those that qualify), putting more money in the hands of consumers which we view as a nice tailwind for the sector.

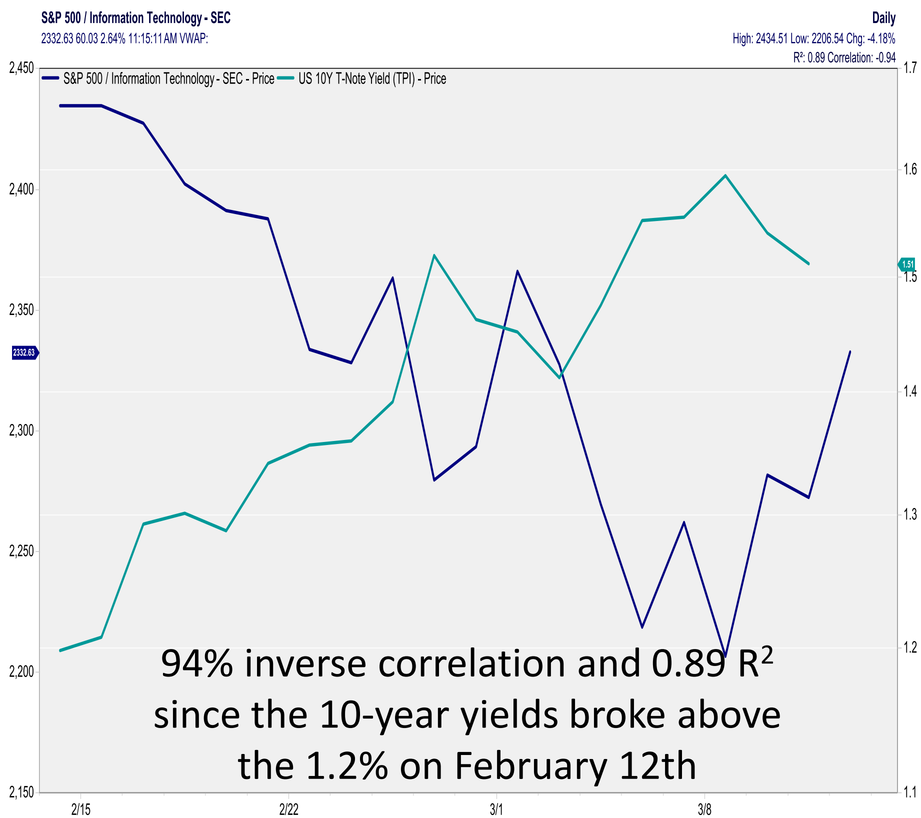
The sector breadth continues to broaden with the equal-weight index breaking to new highs and outperforming the cap-weighted index (which is heavily skewed to some of the companies that were major beneficiaries during the COVID-19 lockdown). Additionally, as seen below, the outperformance of the equal-weight Consumer Discretionary compared to the equal-weight Consumer Staples points to the risk-on posture of the equity markets (with the S&P 500 breaking to a new 52-week intraday high today).

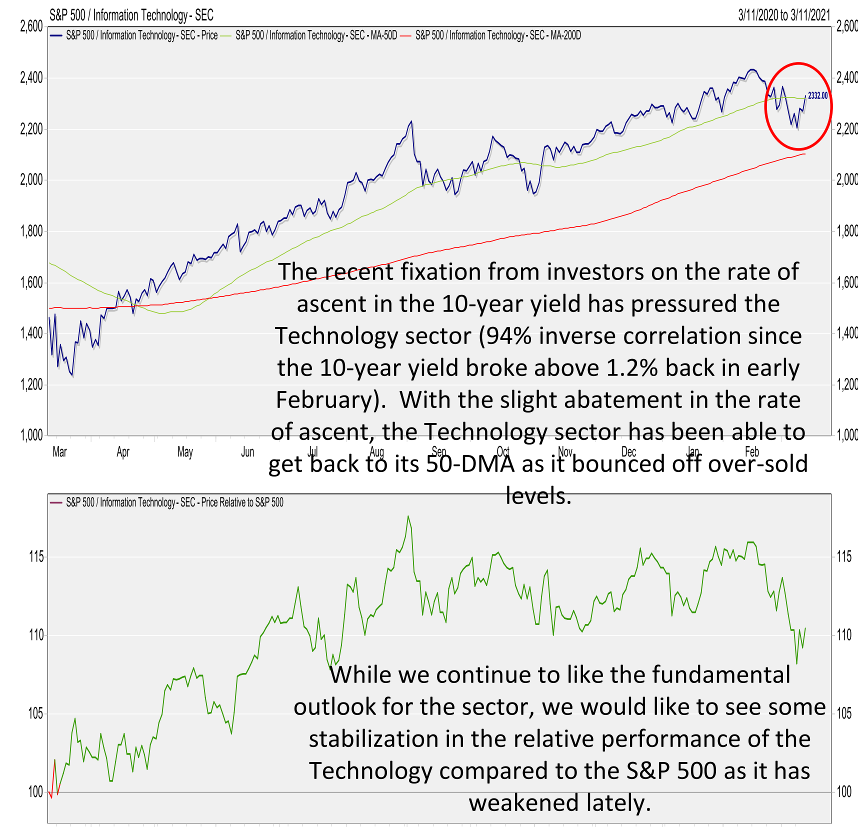


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

The Technology sector has recently been (since February 12 when the 10-year yield broke out above the 1.2% level) inversely correlated to the 10-year yield as this has become a fixation of investors. As seen below to the left, the price performance of the Technology sector has seen a 94% inverse correlation over this period of time. While this trend has not held over the long-term, we believe in the near-term, given the markets has become overly fixated on the 10-year yield, this trend may continue to hold as long as it remains the central focus of the market. However, with the rate of ascent in yields slightly abating this week, the Technology sector has been able to bounce off oversold levels and regain its footing and get back to the 50-DMA. We will continue to monitor, as relative performance still remains weak compared to the S&P 500, but if rates continue to abate, this could be a nice positive for the Technology sector.

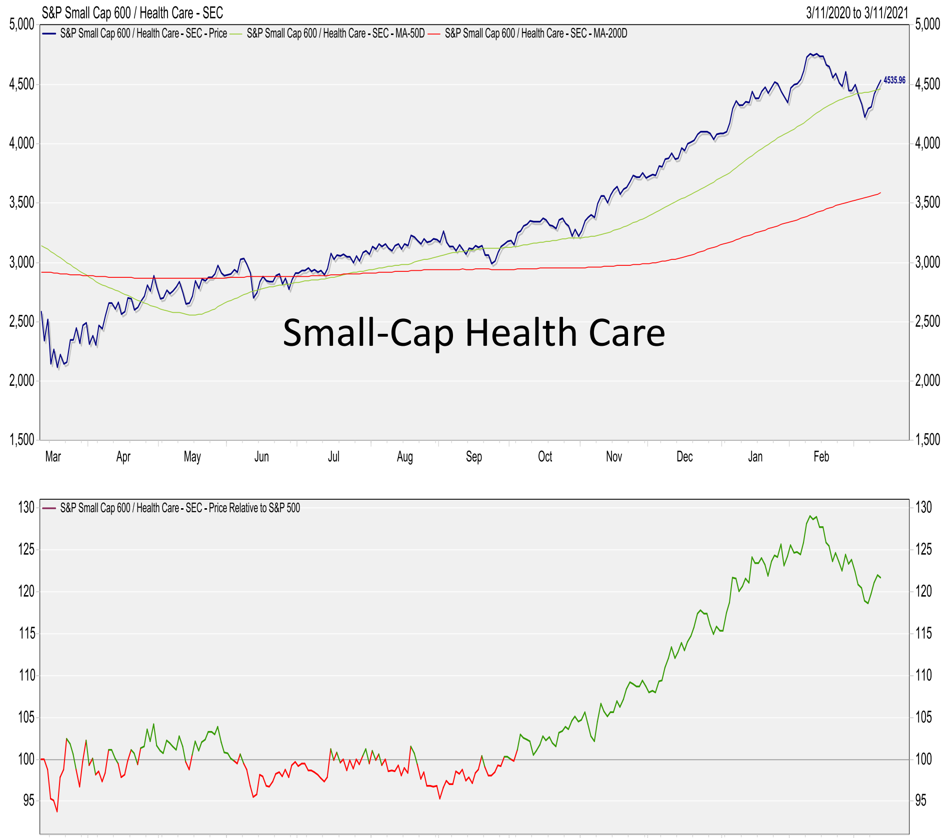


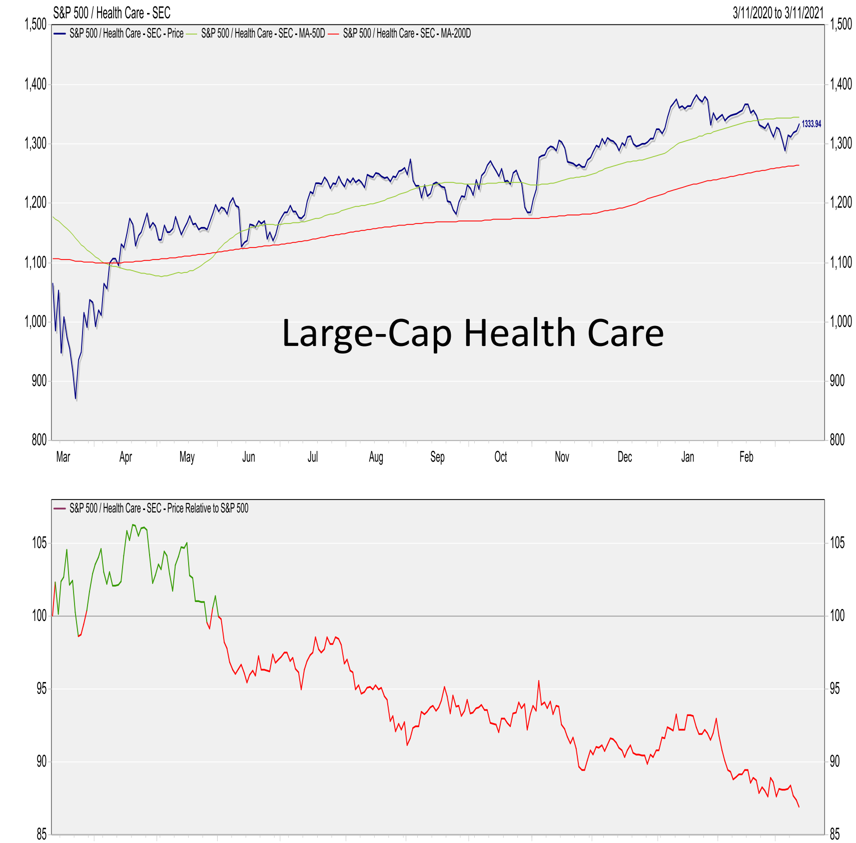


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

HEALTH CARE

We continue to like the fundamental backdrop for the Health Care sector given attractive valuation and solid fundamental momentum. However, for momentum investors, the large-cap Health Care sector performance remains disappointing, moving to new lows on relative performance. However, remaining selective and moving down market cap offers attractive opportunities as we continue to monitor the sharp divergence between the small-cap HC and large-cap HC sector. While the small-caps are off highs, relative performance has held in much better than the large-caps and the small-caps were able to take back the 50-DMA. We would look to see if the recent relative performance gains vs. the S&P 500 are sustainable, but this could be a supportive signal for the HC sector, which overall has been struggling recently.





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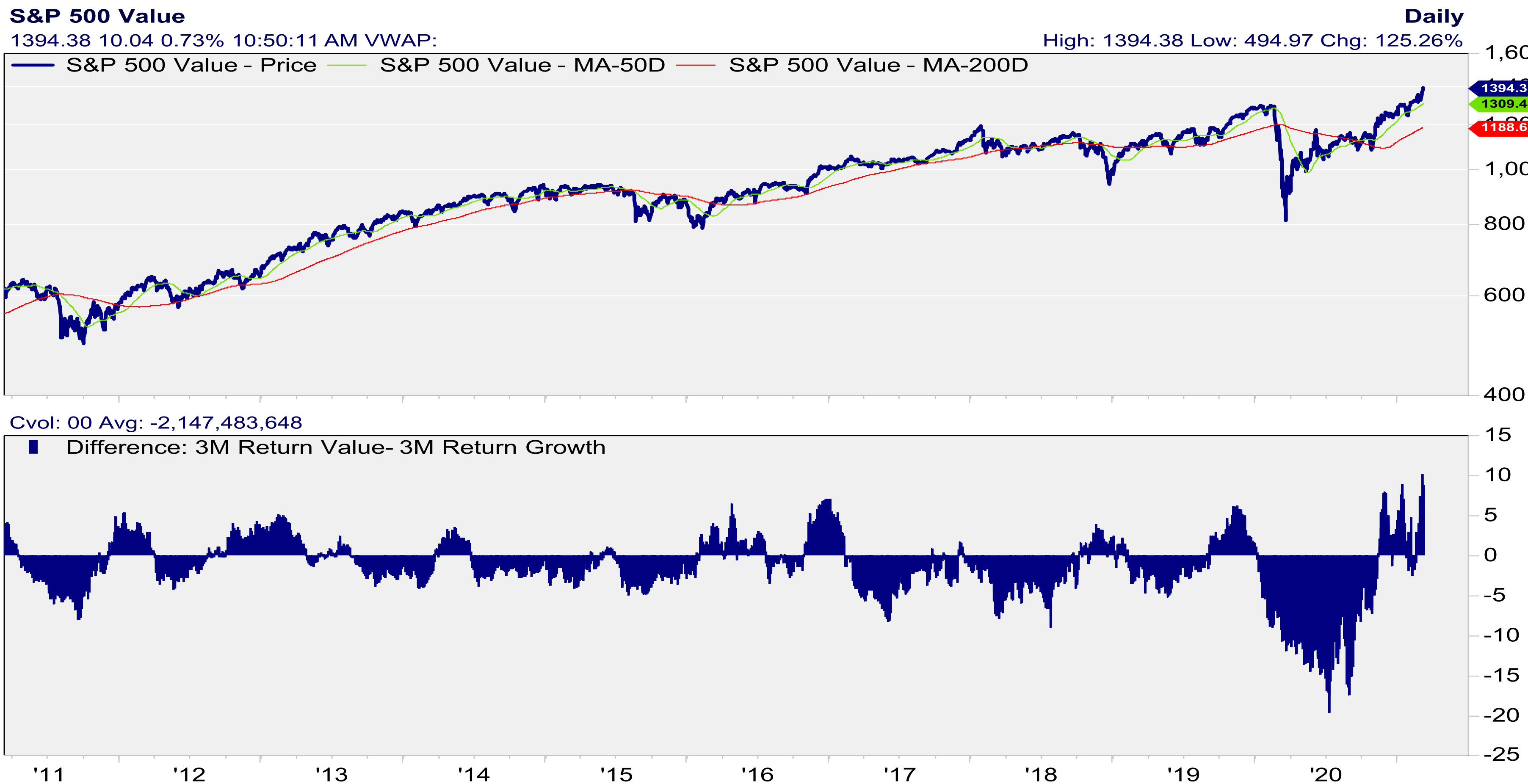
GROWTH AND VALUE

We have been highlighting the improving trends in the Value index compared to the Growth index recently. Earlier this week, we saw the strongest differential in the 3-month return of Value compared to the 3-month return of Growth. While this could suggest that a near-term breather is necessary for Value, we would continue to take a balanced approach to Growth and Value given the underlying strength of the constituents of the Value index as the economy reopens.

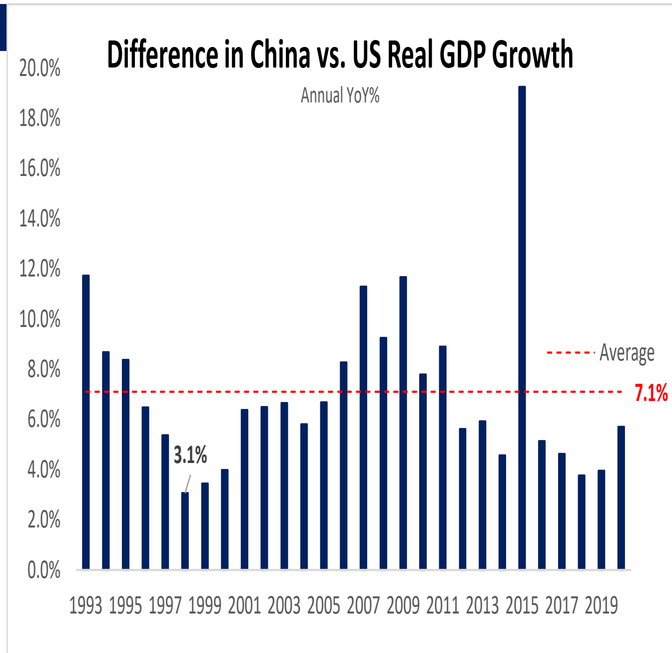


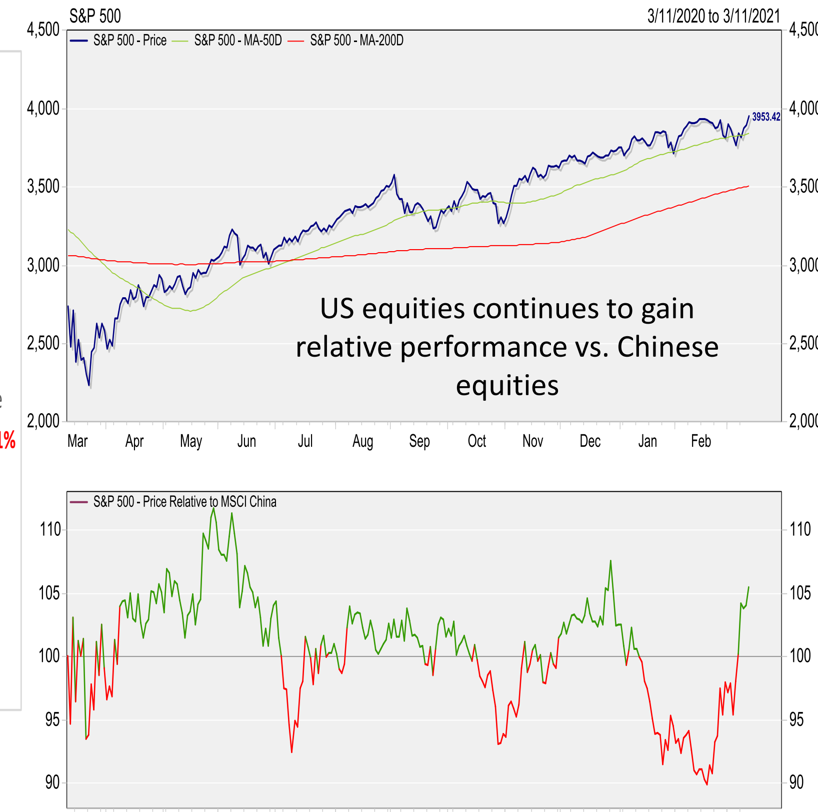
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US AND CHINA

The relative performance of US equities compared to Chinese equities is being driven by the improving economic backdrop in the US and the unprecedented level of fiscal and monetary stimulus, which should drive strong GDP growth in 2021. As seen below, dating back to 1993, the US has never seen its real GDP growth outpace that of China's economy. However, 2021 could be the year in which US GDP growth finally outpaces China GDP growth for the first time (if recently updated consensus expectations prove correct, which are coming in north of 6%). China recently updated its GDP target growth rate to 6%+ for 2021. As seen below, the differential between China and US real GDP annual growth has averaged 710 basis points (with 1998 as the closest period of growth when China grew 7.5% while the US economy grew 4.5%). Even if current consensus estimates of 5.5% (which have been revised higher) for 2021 prove correct, this would be the narrowest spread between China and US GDP growth (since 1993).

Real GDP Growth (YoY%)			
Year	China	US	Difference
1993	14.5%	2.8%	11.7%
1994	12.7%	4.0%	8.7%
1995	11.1%	2.7%	8.4%
1996	10.2%	3.8%	6.5%
1997	9.8%	4.4%	5.4%
1998	7.5%	4.5%	3.1%
1999	8.2%	4.8%	3.4%
2000	8.1%	4.1%	4.0%
2001	7.4%	1.0%	6.4%
2002	8.2%	1.7%	6.5%
2003	9.5%	2.9%	6.7%
2004	9.6%	3.8%	5.8%
2005	10.2%	3.5%	6.7%
2006	11.1%	2.9%	8.3%
2007	13.2%	1.9%	11.3%
2008	9.1%	-0.1%	9.2%
2009	9.1%	-2.5%	11.7%
2010	10.4%	2.6%	7.8%
2011	10.4%	1.6%	8.9%
2012	7.9%	2.2%	5.6%
2013	7.8%	1.8%	5.9%
2014	7.1%	2.5%	4.6%
2015	22.3%	3.1%	19.3%
2016	6.8%	1.7%	5.1%
2017	6.9%	2.3%	4.6%
2018	6.7%	3.0%	3.8%
2019	6.1%	2.2%	3.9%
2020	2.2%	-3.5%	5.7%

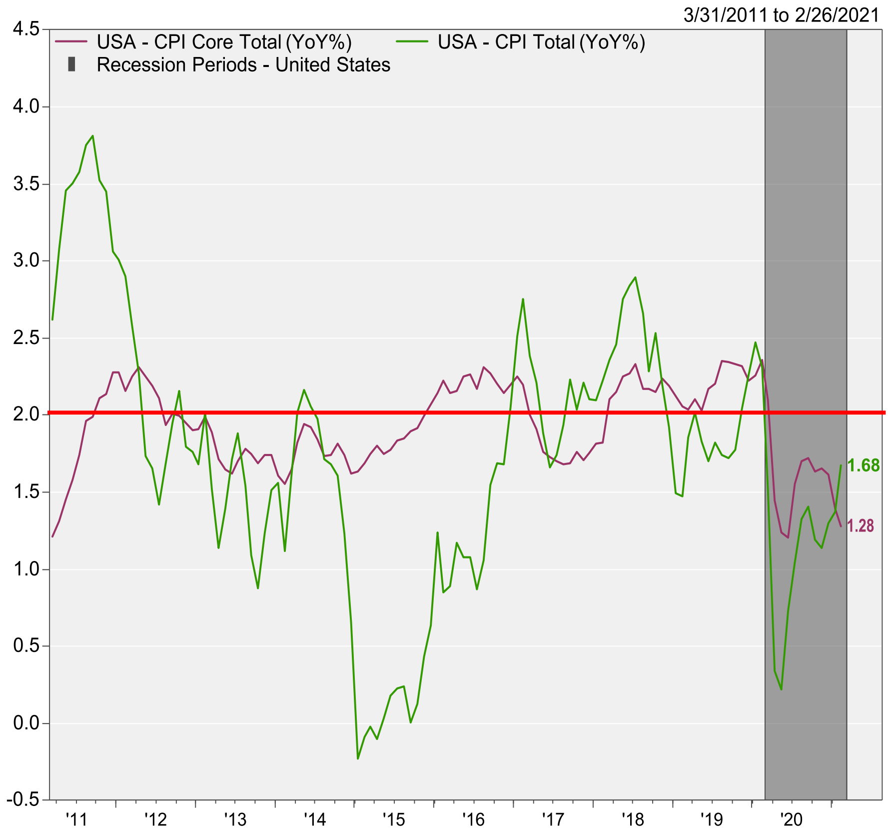


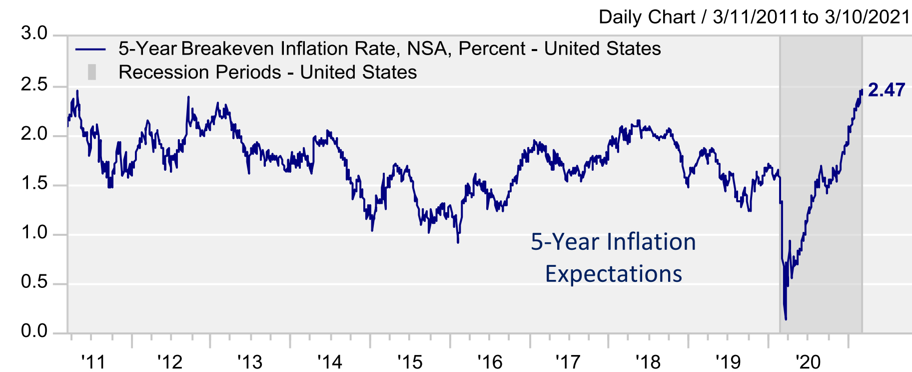


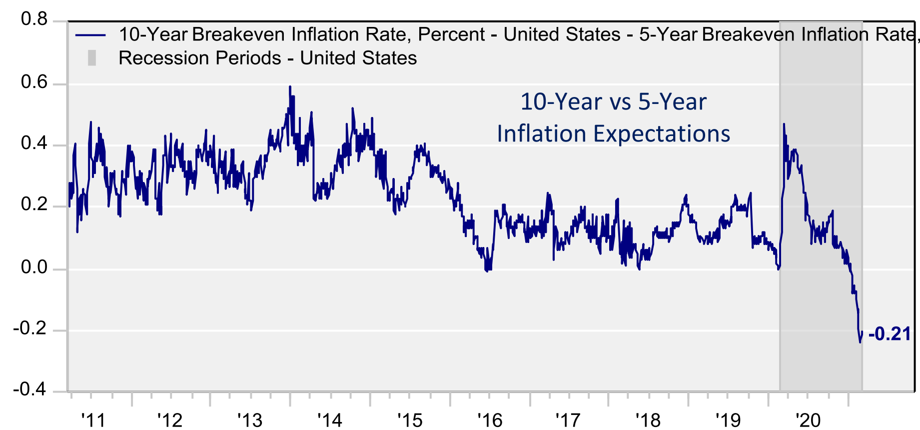
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INFLATION

We continue to believe that fears of runaway inflation are overblown. As seen below, the latest CPI reading showed that inflation remains subdued and well below the Fed's target of 2%. YoY Core inflation actually saw a deceleration from prior months while headline CPI continued to move higher. While it is expected that inflation is likely to run above trend in the near-term due to some restocking of the economy, over the long-term, inflation is expected to normalize just above the Fed's long-term target of 2% (with 10-year breakeven at 2.26%). We will continue to monitor inflation, as the perception of higher inflation could be a near-term headwind to equities, but overall we would expect the recent fears to be overblown.







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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.

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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.

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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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