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Weekly Market Guide

Short-Term Summary:

Equity market momentum remains solid- grinding slightly higher over the past week to begin December and following a historically strong November. The S&P 500 is 13% higher since October 30th, while the average stock and small caps are up 19.5% and 24% respectively. This enormous strength and improved market breadth are technically positive for forward returns over the longer term. For example, returns over the next 3, 6, and 12 months have historically been above average following 10+% returns in one month. However, returns over the following month are typically below average.

Technically, the base breakout to new highs remains the dominant force, and the three-month base could make the current wave last longer and gain to a greater degree. But we would not be surprised to see consolidations or pullbacks occur at some point in the short term. We note that the S&P 500 is still flirting with overhead trend line resistance at ~3700, along with elevated investor optimism and very low put/call ratios. These are not great timing indicators, but do suggest the need to refrain from unbridled enthusiasm. If the market moves lower, watch horizontal support at 3550, and then the 50DMA (currently at 3507). A 3-5% pullback to these levels would be very normal and healthy for equities in our view. We would use pullback periods as a buying opportunity for the year ahead.

Our base case assumption of 3+ vaccines with strong efficacy rates should allow an economic reopening as 2021 progresses, a tailwind to the global economic recovery. We also believe additional fiscal aid will ultimately get done (potentially some by the end of December). The likelihood of a divided Congress (Georgia Senate runoffs on Jan. 5th are a key variable to monitor) also would remove longer run concerns over aggressive legislative changes to the tax code. We believe that S&P 500 earnings can reach $175 in 2021 and that valuations can remain elevated (albeit move lower from current levels) due to the likelihood of low interest rates and inflation. Our 23x P/E assumption results in a base case S&P 500 target of 4025 (~9.5% upside from current levels before dividends).

In sum: We remain positive on equities over the next 6-12 months, and recommend a pro-cyclical exposure to portfolios. Strong technical momentum has many areas overbought in the short term. As consolidations or pullbacks occur within favored sectors and stocks, we would accumulate for the longer term recovery ahead.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	13.7%	17.1%
S&P 500 (Equal-Weight)	9.2%	12.2%
Dow Jones Industrial Avg	5.4%	7.7%
NASDAQ Composite	37.5%	43.1%
Russell 2000	14.0%	16.7%
MSCI All-Cap World	11.6%	15.2%
MSCI Developed Markets	3.2%	5.9%
MSCI Emerging Markets	12.7%	19.5%
NYSE Alerian MLP	-32.4%	-28.0%
MSCI U.S. REIT	-12.1%	-13.0%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	35.7%	27.4%
Consumer Discretionary	28.3%	11.1%
Communication Svcs.	20.8%	11.1%
Materials	16.6%	2.7%
S&P 500	***13.7%***	-
Health Care	10.0%	13.8%
Industrials	9.6%	8.8%
Consumer Staples	7.0%	6.7%
Utilities	-4.0%	2.8%
Real Estate	-6.3%	2.5%
Financials	-7.0%	10.6%
Energy	-34.0%	2.5%

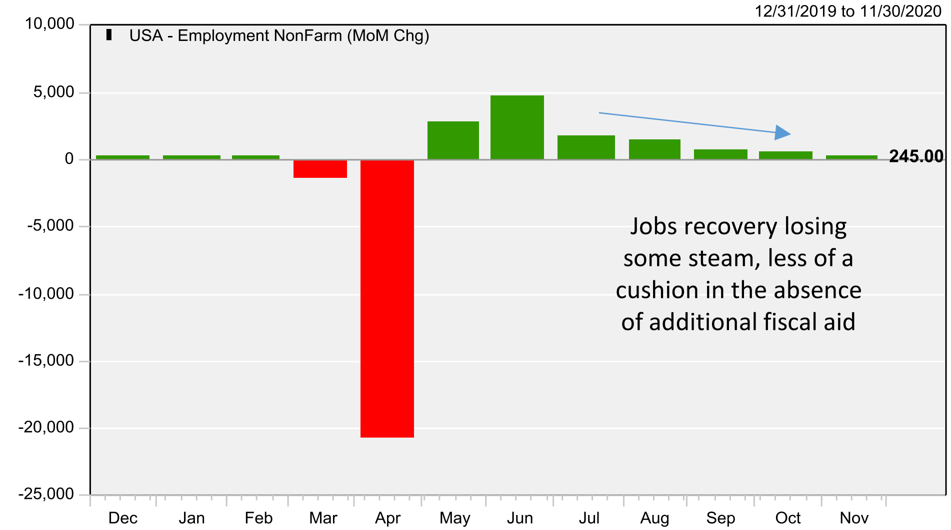
MACRO: US

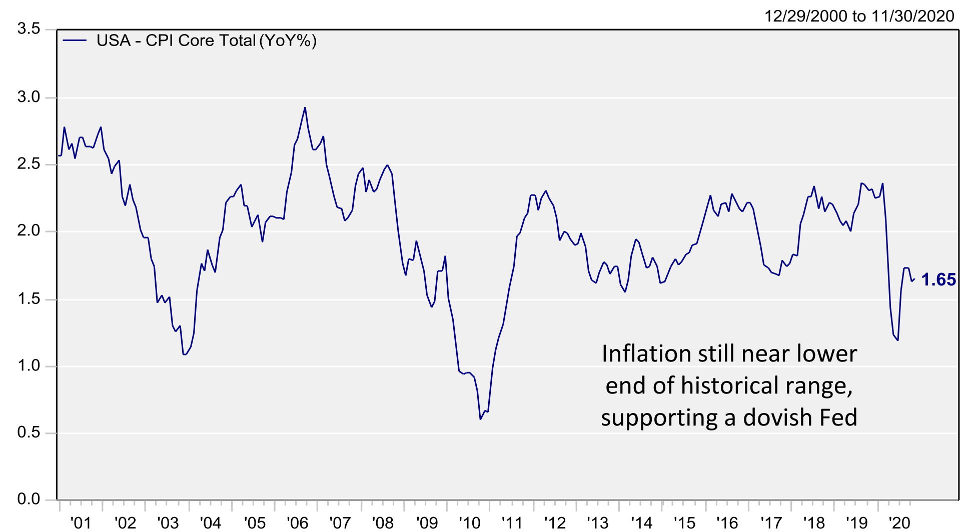
November nonfarm payrolls disappointed at 245k vs consensus estimates of 475k, continuing the slowing trend of jobs gains in recent months following 610k in October and 711k in September. This trend is likely to continue in our view, due to the ongoing virus surge and localized shutdowns. The unemployment rate was able to improve slightly to 6.7%, but this still leaves roughly 10.5M Americans out of work since January. While the jobs recovery losing steam is concerning, it likely puts added pressure on Congress to pass an additional fiscal aid package. The situation remains fluid, but it appears that Congress could push the Dec. 11th government funding deadline to Dec. 18th, likely a positive for fiscal talks.

Additionally, inflation remains very low. November CPI rose 0.2% m/m to 1.2% y/y. Core inflation held at 1.6%, which remains near the lower end of its historical range. Low inflation is supportive of elevated equity market valuations, in addition to low interest rates. It also allows the Fed to remain dovish and step in to support the economic recovery.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
Manufacturing Payrolls SA	NOV	27.0K	45.0K	33.0K R
Nonfarm Payrolls SA	NOV	245.0K	475.0K	610.0K R
Private Nonfarm Payrolls	NOV	344.0K	590.0K	877.0K R
Unemployment Rate	NOV	6.7%	6.8%	6.9%
Durable Orders ex-Transportation SA M/M (Final)	OCT	1.3%	1.3%	1.3% P
Durable Orders SA M/M (Final)	OCT	1.3%	1.3%	1.3% P
Factory Orders SA M/M	OCT	1.0%	0.80%	1.3% R
Consumer Credit SA	OCT	$7.2B	$17.0B	$15.0B R
NFIB Small Business Index	NOV	101.4	-	104.0
Unit Labor Costs SAAR Q/Q (Final)	Q3	-6.6%	-8.9%	-8.9% P
Productivity SAAR Q/Q (Final)	Q3	4.6%	4.9%	4.9% P
JOLTS Job Openings	OCT	6,652K	6,400K	6,494K R
Wholesale Inventories SA M/M (Final)	OCT	1.1%	0.90%	0.90% P
CPI ex-Food & Energy SA M/M	NOV	0.20%	0.10%	0.0%
CPI ex-Food & Energy NSA Y/Y	NOV	1.6%	1.6%	1.6%
Continuing Jobless Claims SA	11/28	5,757K	5,520K	5,527K R
CPI SA M/M	NOV	0.20%	0.10%	0.0%
CPI NSA Y/Y	NOV	1.2%	1.1%	1.2%
Initial Claims SA	12/05	853.0K	712.0K	716.0K R





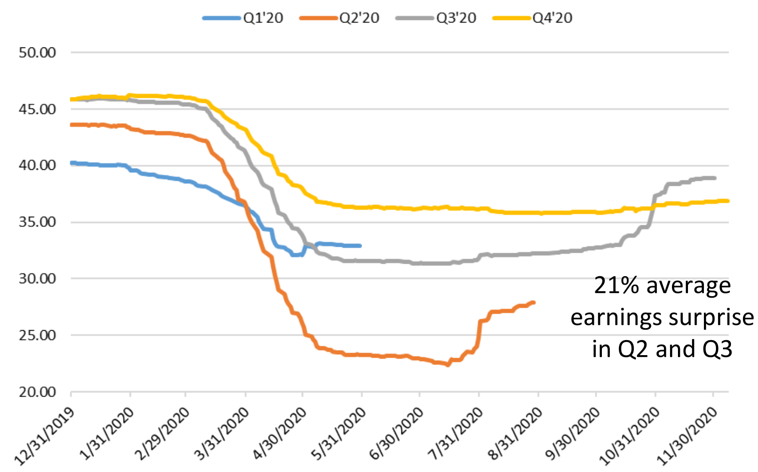
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

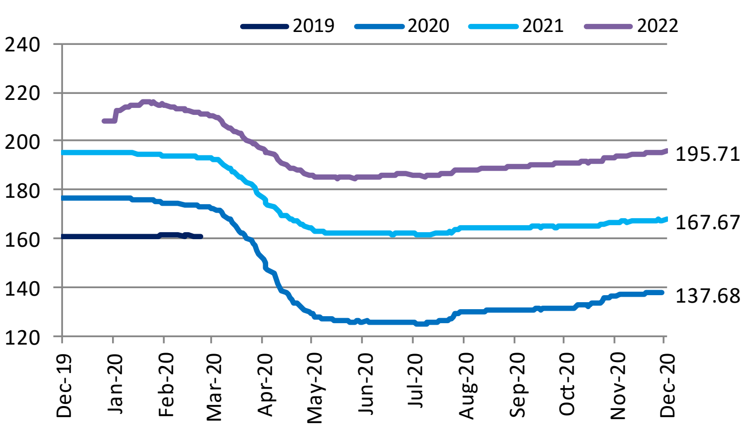
S&P 500 earnings estimates continue to trend higher, in line with historical revisions coming out of recessions. Q4 earnings are expected to contract by -10.7%, however historically strong surprises in Q2 and Q3 (by 24% and 18% respectively) support positive surprises in Q4 (albeit likely not to the same degree). As the calendar turns into 2021, earnings are expected to begin growing again- not only due to our view of a continued economic recovery and reopening as 2021 progresses, but also due to easy comparisons following this year's economic shutdown. In our base case view for 2021, we see S&P 500 earnings reaching $175 by next year's end.

As earnings recover, valuation should begin to normalize from lofty levels. Historically, valuation expansions are more powerful for equity market returns than earnings, as investors discount earnings growth in the future (as is the case currently). This should see earnings grow faster than equity markets in 2021, as the S&P 500 P/E moves lower from 26.3x currently. We use 23x as our base case P/E for 2021 and believe valuation can remain elevated due to the likelihood that interest rates and inflation remain lower for longer. These assumptions of $175 earnings and a 23x P/E result in our base case S&P 500 target of 4025.

Earnings Estimates

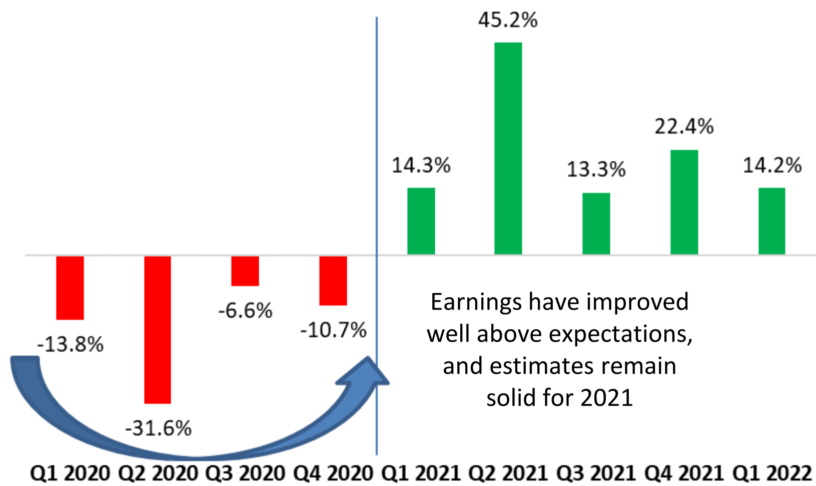


S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2019	1.5%
2020	-14.5%
2021	21.8%
2022	16.7%

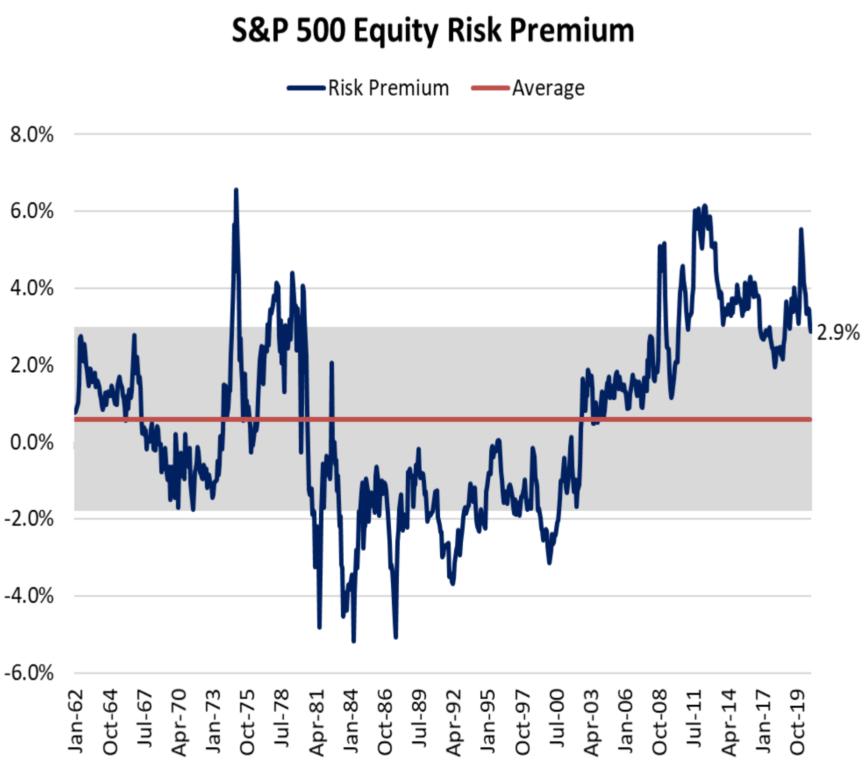
S&P 500 Earnings Growth

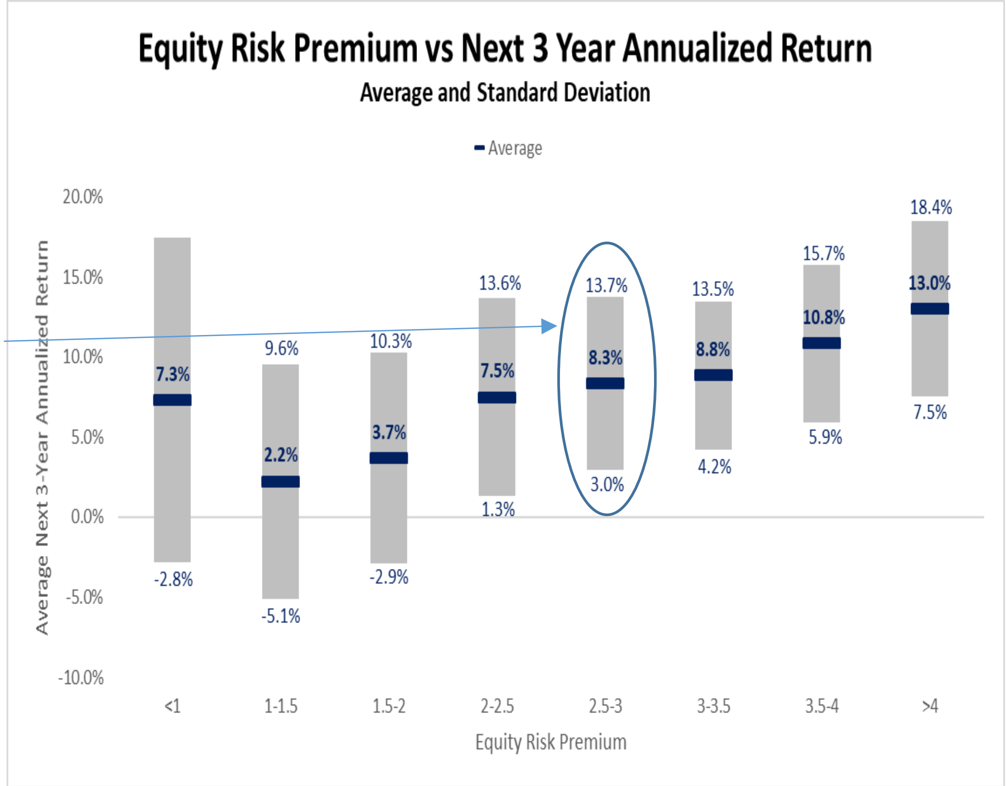


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUATION

As mentioned on the previous page, the historically low interest rate (and low inflation) environment makes current equity market multiples reasonable in our view. For example, the current equity risk premium (S&P 500 earnings yield vs US 10 year Treasury yield) is 2.9% which is just below the equity risk premium in January prior to Covid. This also remains historically high, supporting a still attractive value proposition for equities vs bonds in our view. Since 1954 when the equity risk premium has been in the 2.5-2.9% range, the average forward 3-year annualized return has been 8.3% with a 1 standard deviation range (68% odds) of returns in the 13.7%-3% range. If our 2021 S&P 500 earnings estimate and target prove accurate, the US 10 year yield could rise to 1.45% and deliver the same current equity risk premium. This, in conjunction with low inflation, supports our view that equity market valuations can remain elevated (albeit drifting lower than current levels over the next 12 months).





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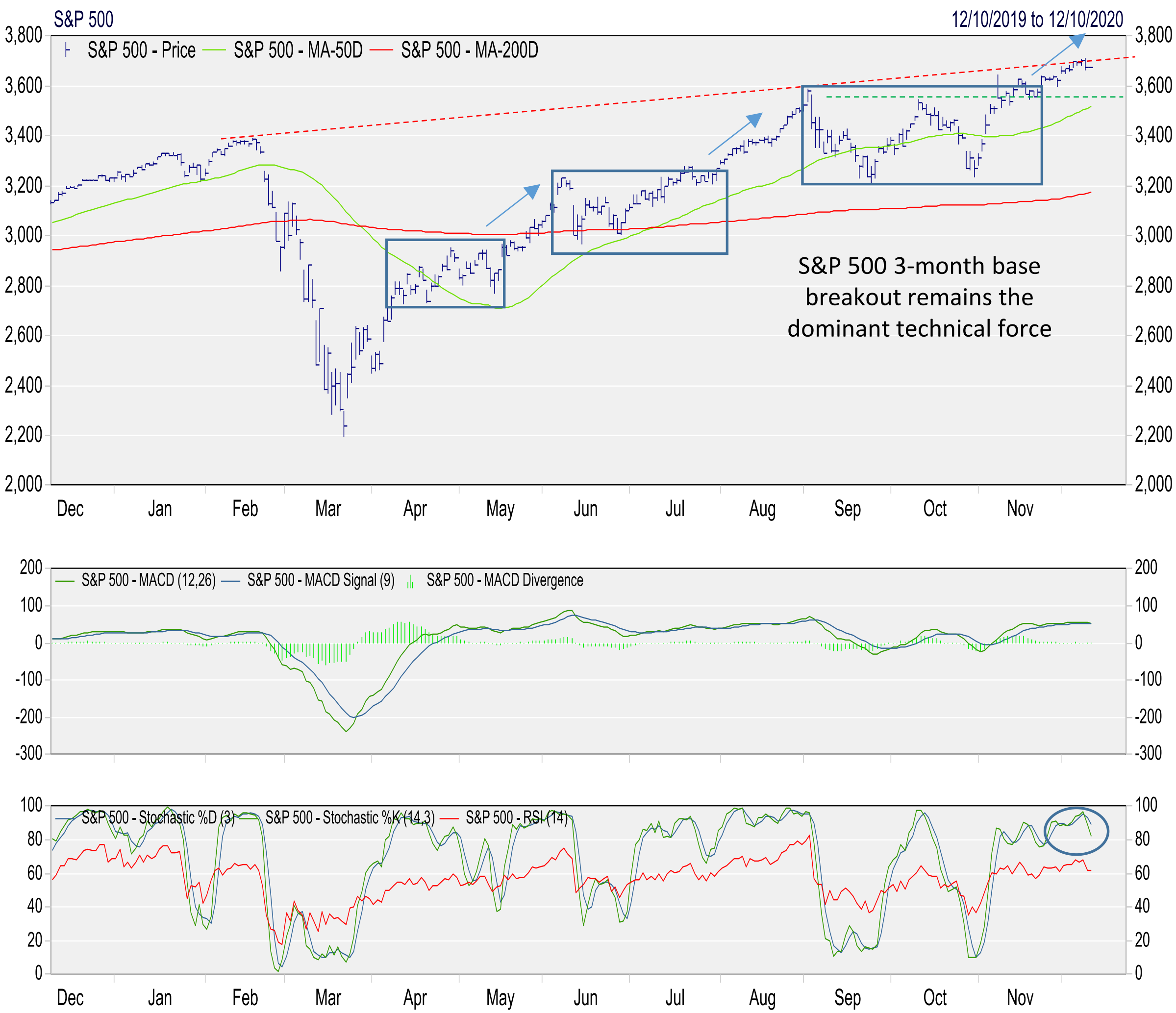
TECHNICAL: S&P 500



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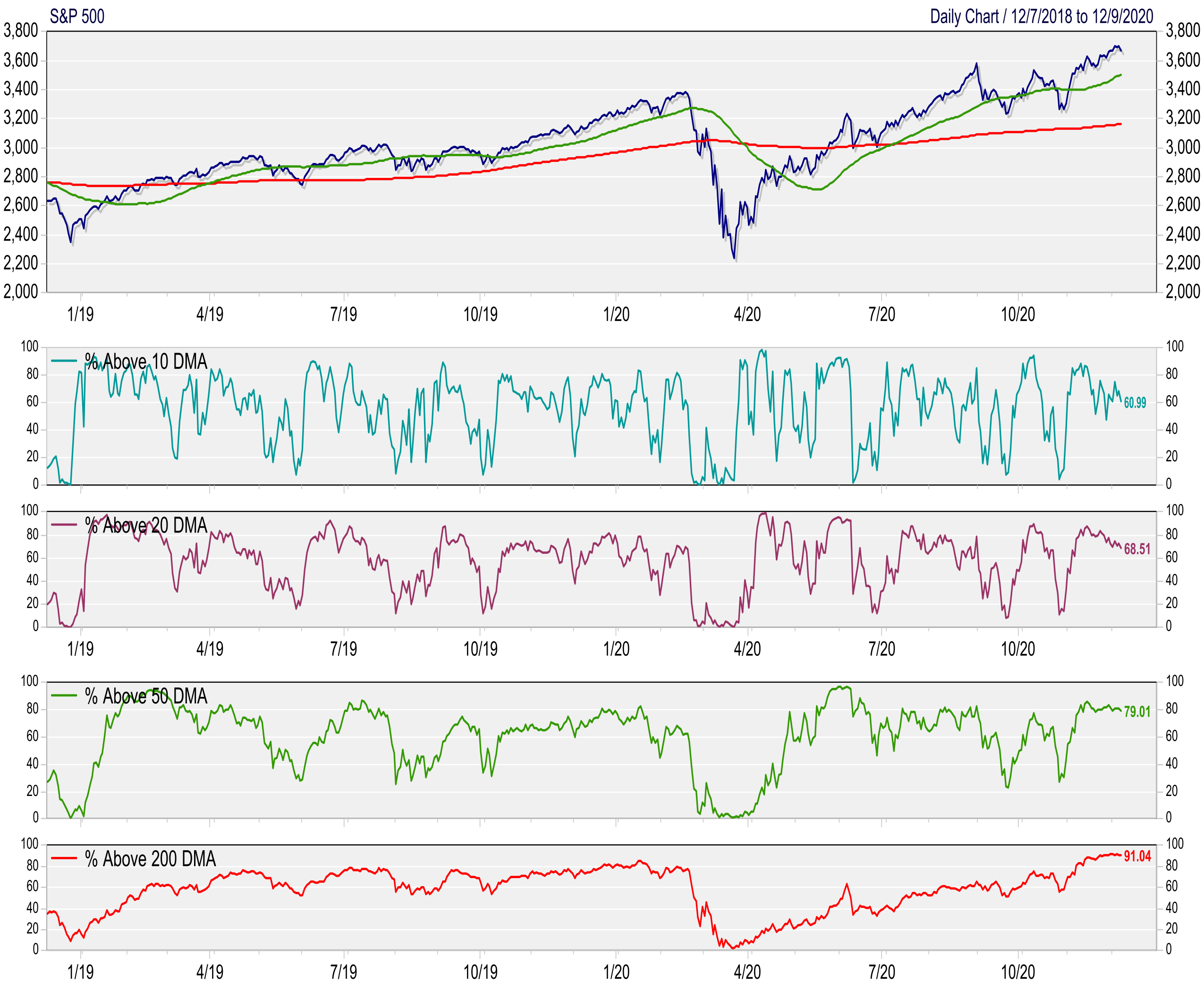
If the market moves lower, watch horizontal support at 3550, and then the 50DMA (currently at 3507). A 3-5% pullback to these levels would be very normal and healthy for equities in our view. We would use those pullback periods as a buying opportunity for the year ahead.

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

While the S&P 500 has continued its advance, the percentage of stocks above their 10 and 20 day moving average has drifted slightly lower. This suggests some consolidation/rotation beneath the surface.

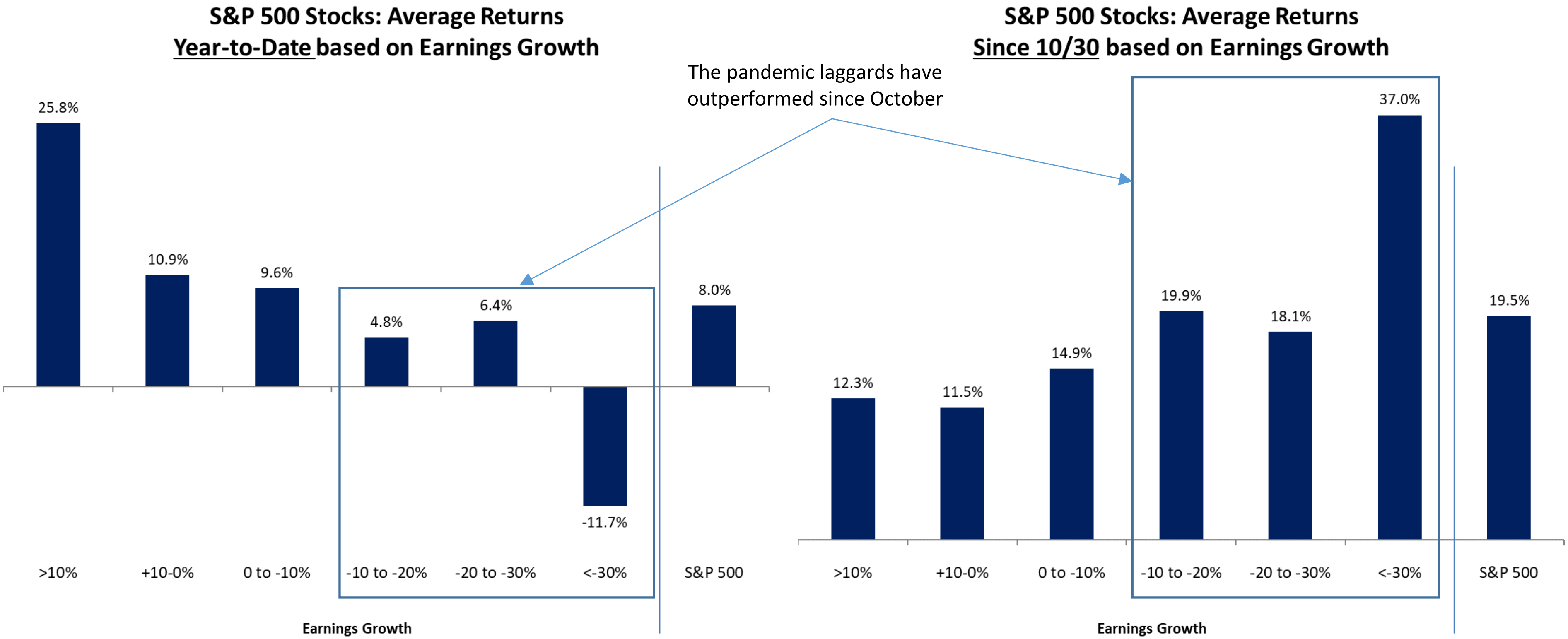
For example, the average stock has experienced a 4% pullback at some point since Dec. 1st despite the index being 2% higher currently. Breaking it down further- 33% of S&P 500 stocks have experienced at least a 5% pullback, and 11% have seen at least a 7% pullback (albeit potentially brief) since the beginning of the month. And some of the recent best performers have experienced the highest levels of volatility.

This data is similar for the smaller cap companies. These “recovery” areas with the most technical momentum have also experienced some of the biggest pullbacks at the individual stock level within that trend. For stock-pickers, this provides opportunity.

S&P 500 Stocks	
Degree of Pullback	**Since 12/1**
>3%	79%
>5%	33%
>7%	11%
>10%	1%
By Market Cap	**Average**
<5B	-6.5%
5-10B	-5.5%
10-50B	-4.5%
50-100B	-4.3%
>100B	-3.9%
Average	-4.6%

STOCK PERFORMANCE BASED ON EARNINGS GROWTH

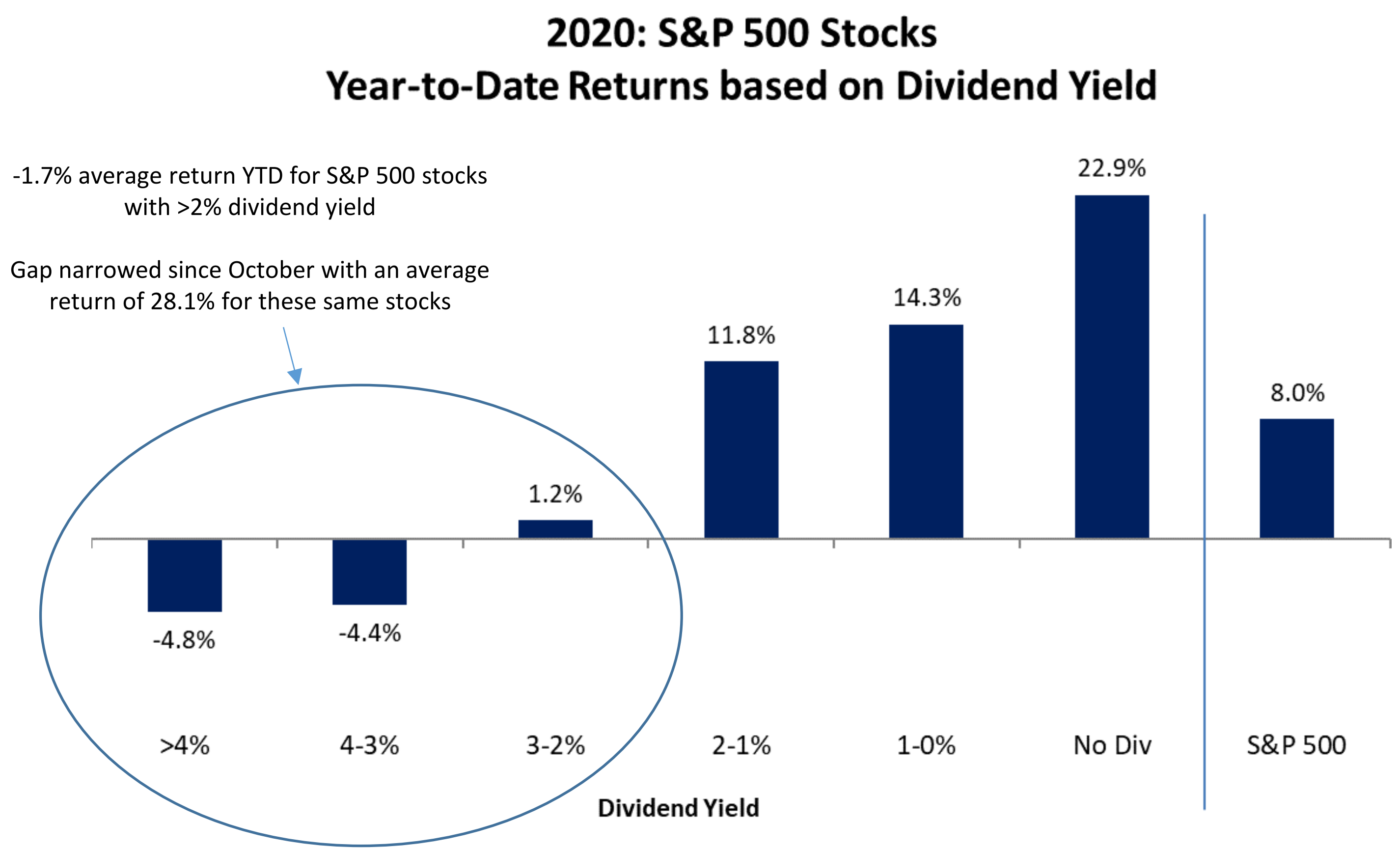
As you can see in the bottom left chart, earnings growth has had a huge impact on stock performance in 2020. S&P 500 companies operating the best through the pandemic with earnings growth above 10% in 2020 have seen an average price return of 25.8% year-to-date. This compares favorably to the most beaten-up areas with an earnings contraction over -30% seeing an average price return of -11.7%. However, November's data highlighting 3 vaccines with stated 90%+ efficacy rates spurred a massive rotation into the pandemic laggards, as investors see a "light at the end of the tunnel." Those largest underperformers year-to-date have gained 37.0% on average since October 30th vs the prior leaders returning 12.3% on average. This strength is a positive for longer term trends, but leaves many stocks overbought in the short term. As favored names consolidate, we would use that weakness as a better opportunity than chasing some with unbridled enthusiasm at current levels.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

STOCK PERFORMANCE BASED ON DIVIDEND YIELD

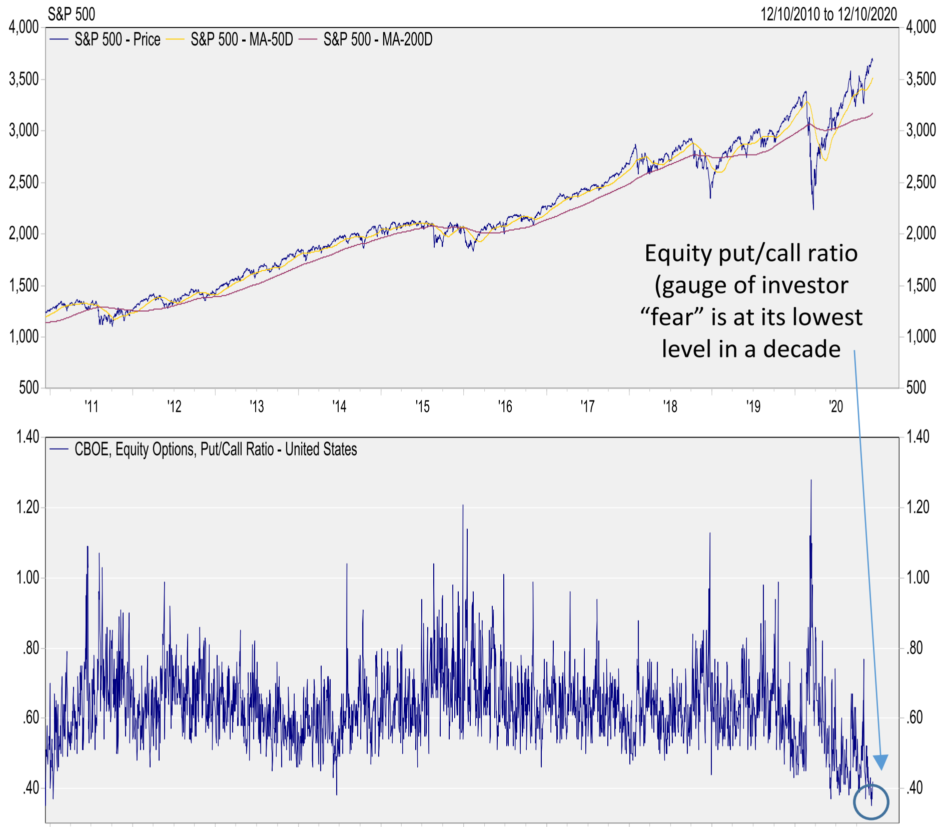
This rotation was also seen for income-oriented stocks, as the higher dividend yielding names were able to narrow their underperformance gap over the past month. On average, stocks that started the year with a dividend yield above 2% have averaged a -1.7% return YTD. However since the end of October, these stocks are up 28.1% on average (vs a 17.4% average return for the <2% dividend yield group). This year's returns remain dominated by the no/low dividend-paying stocks. But we believe income strategies, particularly those with healthy dividend growth, are attractive for long term investors.

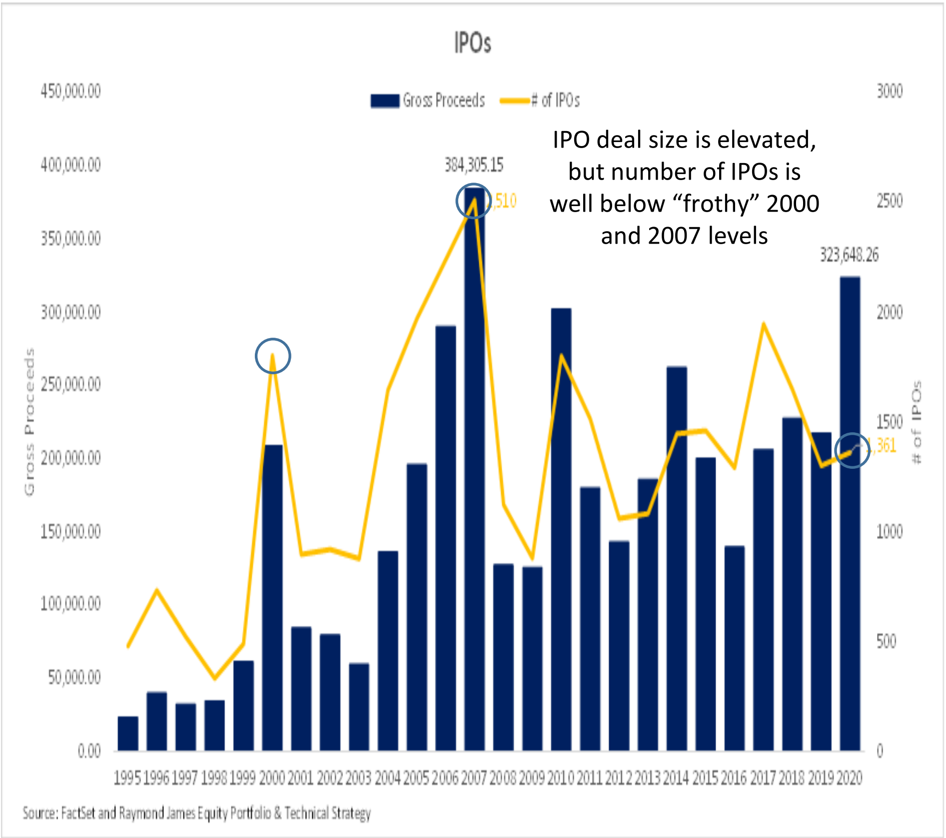


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INVESTOR SENTIMENT

While a poor timing indicator, we do want to remain mindful of investor bullishness which can be a contrarian signal. The equity put/call ratio (gauge of investor "fear") is at its lowest level in a decade. Additionally, IPO activity has surged since May. It is normal to see investor excitement in the early stages of a new bull market, i.e. put/call ratios reached similar levels in the early aftermath of the credit crisis and dotcom bubble. Also, the number of IPOs is still well below 2007 and 2000 "frothy" levels, as is deal size as a % of total market cap. So we are not overly concerned by the readings and remain positive on equities over the next 6-12 months. But in conjunction with the average S&P 500 stock up 19.5% since October, we do want to refrain from over-exuberance and the belief that pullbacks will not occur.

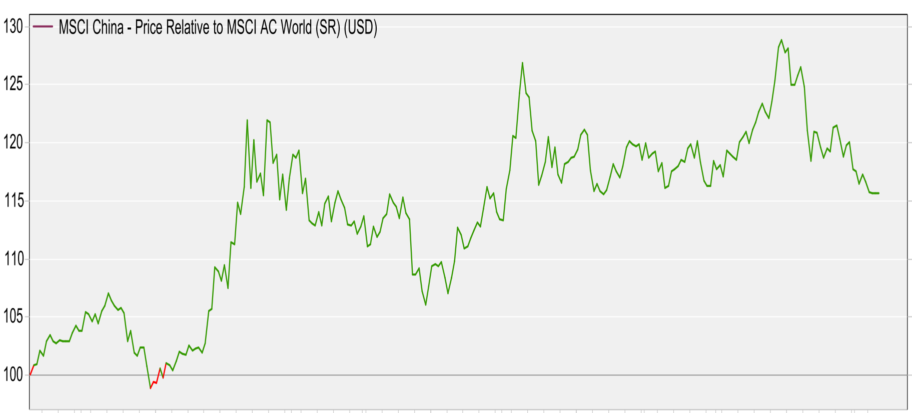


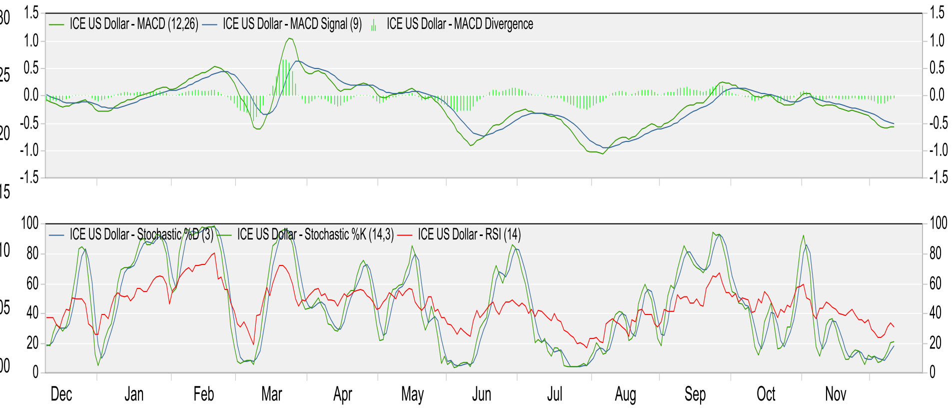


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CHINA

For global equity allocations, we continue to favor China due to its leverage to an improving global manufacturing backdrop, along with a weakening US dollar. The China equity index has been consolidating recently and is approaching short term oversold levels just above its 50 DMA. The US dollar could be set for a counter-trend bounce in the short term, but the intermediate term trend remains downward which has historically been supportive of China (and emerging markets) equities. For investors looking to increase their China exposure, we would accumulate for the longer term near current levels.





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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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