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## Weekly Market Guide

**Short-Term Summary:** Market performance continues to be dominated by the more technology-oriented names, as they benefit on a relative basis in the current stay-at-home environment. For example, as the Nasdaq composite index hits all-time highs (and is 6% higher than its February peak), the average S&P 500 company is still 15% below its February high. Underperformance from the more cyclical areas, along with the small caps, recently is a headwind to market momentum and contributes to our view that the headline index remains in a consolidation phase. The wide dispersion of performance, between Large vs Small and Growth vs Value stocks, will provide opportunity at some point. But for now, we would stick with what is working- Technology, Health Care, Communication Services, and Consumer Discretionary (new overweight sector).

In the short term, we believe the S&P 500 will be range-bound from the mid-2900s to mid-3200s. With the overall index at the higher end of this range now, we would be more careful with new purchases. Technically, a break above this range would coincide with a technical target price of 3462 for the S&P 500, whereas a break below would suggest a move lower to 2772. There are plenty of items on the agenda that can impact volatility in the months ahead. However, we maintain a positive stance over the next 12 months and would look to use pullbacks as buying opportunities. Looking to 2021, our year-end price target is 3360- using a 21x P/E on \$160 earnings in our base case scenario. We continue to believe an elevated valuation is justified due to historically low interest rates (likely to stay lower for longer), low inflation, and an unprecedented amount of stimulus to spur the global economy (and more likely to come).

In the coming weeks, Q2 earnings season (beginning with some banks next Tuesday) will be front and center for investors. Q2 S&P 500 earnings are expected to contract by 45%, which is also expected to be the trough of the economic shutdown's fundamental impact. We would not be surprised to see wide swings on results from individual companies due to the enormous amount of uncertainty embedded in analyst estimates. The majority of companies did not provide guidance in Q1, leading to historically wide ranges in analyst estimates for Q2 earnings. At the sector level, consensus estimates reflect dire earnings hits to the more economically-sensitive areas in Q2, while Technology estimates have held up extraordinarily well due to accelerated demand in the current environment. This is an important earnings season for the more cyclical names, as better than expected results could be the catalyst for a "catch up" trade, while disappointments will likely continue to weigh on their performance.

Equity Market Indices	Price Return	
	Year to Date	12 Months
S&P 500	-1.9%	6.5%
S&P 500 (Equal-Weight)	-11.6%	-5.9%
Dow Jones Industrial Avg	-8.7%	-2.8%
NASDAQ Composite	16.9%	29.6%
Russell 2000	-14.4%	-8.6%
MSCI All-Cap World	-4.4%	2.7%
MSCI Developed Markets	-10.8%	-5.5%
MSCI Emerging Markets	-4.0%	2.3%
NYSE Alerian MLP	-41.6%	-49.7%
MSCI U.S. REIT	-20.8%	-19.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	17.6%	27.7%
Consumer Discretionary	12.2%	11.1%
Communication Svcs.	3.9%	11.1%
Health Care	-0.2%	14.5%
<b>S&amp;P 500</b>	<b>-1.9%</b>	-
Consumer Staples	-5.3%	6.9%
Materials	-6.2%	2.5%
Real Estate	-9.4%	2.8%
Utilities	-11.1%	3.1%
Industrials	-15.7%	7.8%
Financials	-24.7%	9.9%
Energy	-39.7%	2.6%

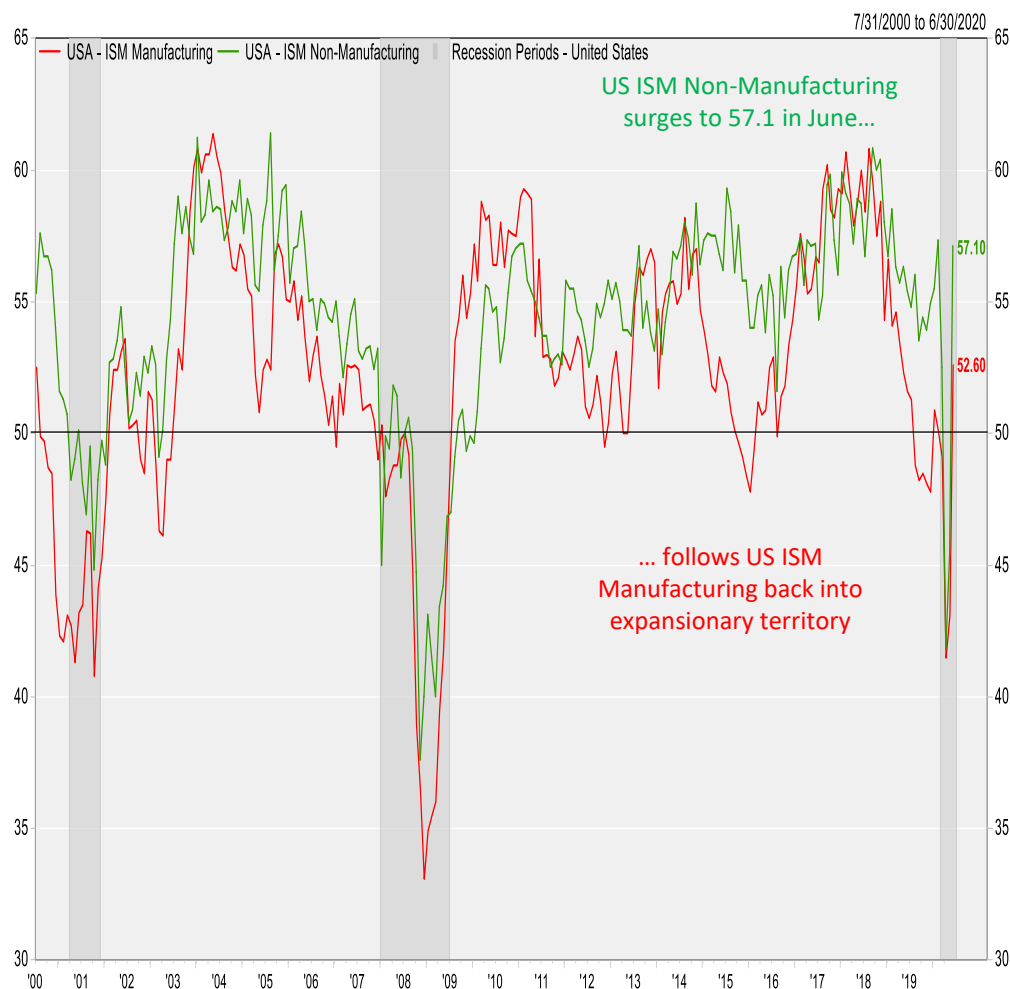
## MACRO: US

US ISM Non-Manufacturing spiked back into positive territory in June, following the expansion of ISM Manufacturing last week. The ISM Non-Manufacturing report of 57.1 surprised to the upside, well above the 50.2 consensus estimate, and was the highest reading since February. Within the report, new orders rose to 61.6 (from 41.9), business activity rose to 66.0 (from 41.0), and employment rose to 43.1 from 31.8 (but still is in contraction).

The data is consistent with an economy that is reopening, on the whole above prior expectations; although the sharp bounce does follow very easy prior comps. With communities slowing and back-tracking on some of their economic restarts recently, this data could be more subdued in the period ahead. We continue to expect a gradual and mixed economic recovery over time (with some areas recovering quickly and other areas having a long road ahead of them). Additionally based on the recent virus spread and mitigation efforts, the trajectory of the economic recovery in the period ahead could become more wavy.

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

Event	Period	Actual	Consensus	Prior
BEA Domestic Auto Sales SAAR	JUN	2.1M	-	1.9M
BEA Domestic Light Truck Sales SAAR	JUN	7.4M	-	7.2M
BEA Total Light Vehicle Sales	JUN	13.0M	13.0M	12.3M
PMI Composite SA (Final)	JUN	47.9	-	46.8
Markit PMI Services SA (Final)	JUN	47.9	46.8	46.7
ISM Non Manufacturing SA	JUN	57.1	50.0	45.4
JOLTS Job Openings	MAY	5,397K	4,775K	4,996K
Consumer Credit SA	MAY	-\$18.3B	-\$12.0B	-\$70.2B
Continuing Jobless Claims SA	06/27	18,062K	18,925K	18,760K
Initial Claims SA	07/04	1,314K	1,375K	1,413K
Wholesale Inventories SA M/M (Final)	MAY	-1.2%	-1.2%	-1.2%



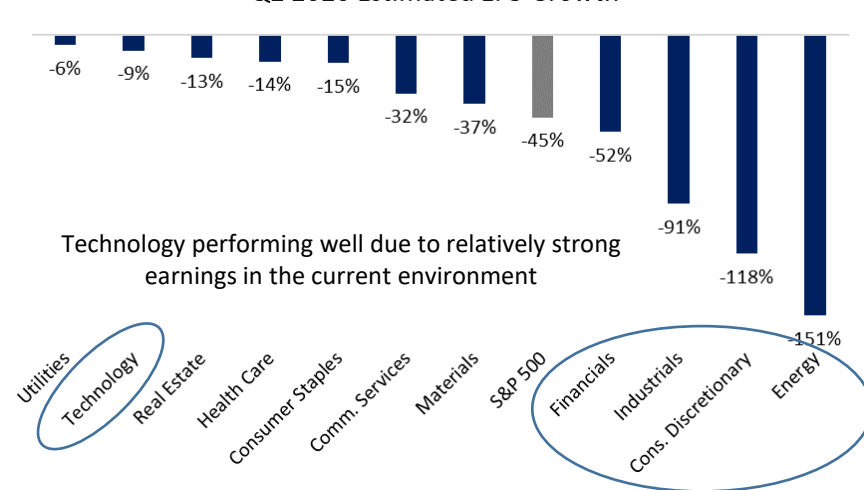
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## FUNDAMENTALS

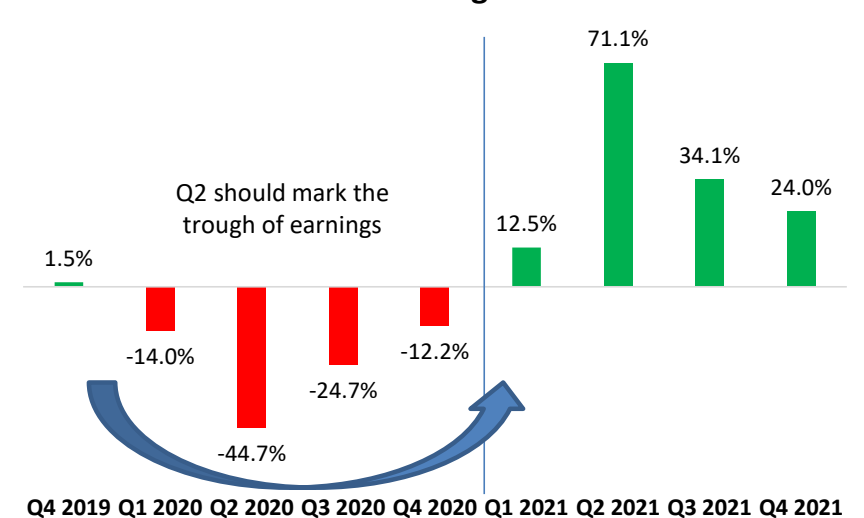
Q2 earnings season begins next week with some banks reporting on Tuesday. Q2 S&P 500 earnings estimates reflect a -45% contraction, which is also expected to be the fundamental trough from the economic shutdown. As the economy restarts, the fundamental outlook should improve. 2020 and 2021 S&P 500 earnings estimates have held steady, signifying a return to y/y growth in 2021. The more economically-sensitive areas are expected to see large earnings contractions in Q2, and Consumer Discretionary and Energy are actually expected to see losses in the quarter. On the flip side, the more defensive sector estimates have held up relatively well (as they should), but Technology has also seen its estimates hold up extremely well through the current stay-at-home environment.

We would not be surprised to see wide swings on results from individual companies due to the enormous amount of uncertainty embedded in analyst estimates. The majority of companies did not provide guidance in Q1, leading to historically wide ranges in analyst estimates for Q2 earnings. This is an important earnings season for the more cyclical names, as better than expected results could be the catalyst for a “catch up” trade, while disappointments will likely continue to weigh on their performance.

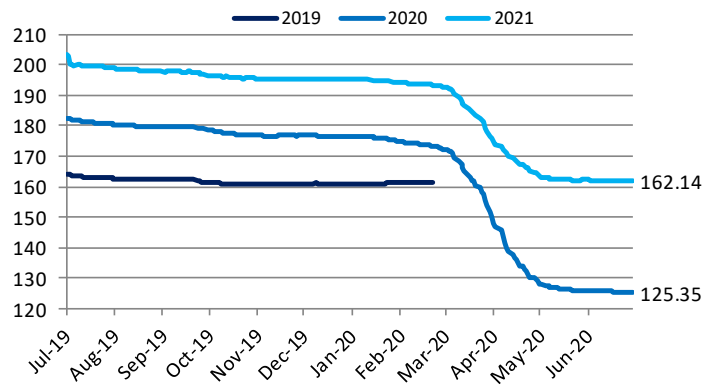
Q2 2020 Estimated EPS Growth



S&P 500 Earnings Growth



S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates

2019	1.5%
2020	-22.3%
2021	29.3%

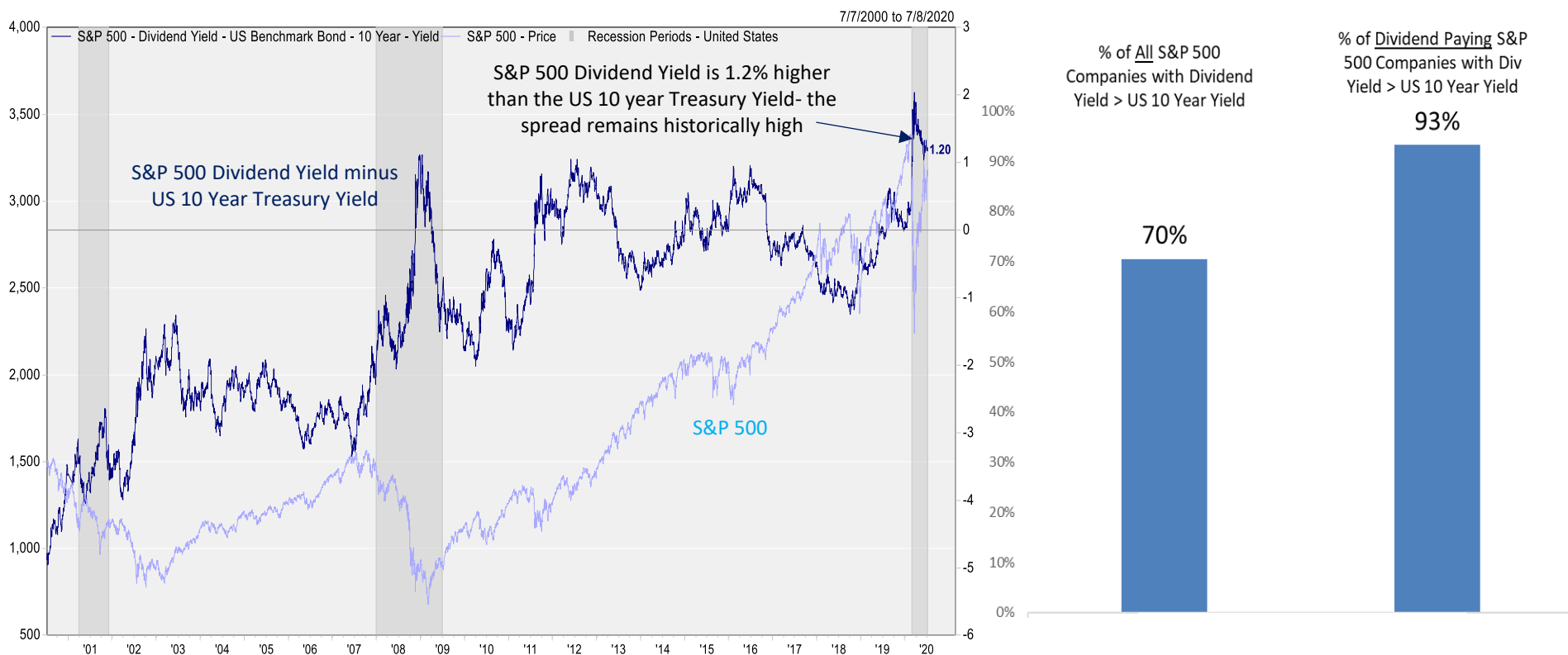
RJ 2021: 160

RJ 2020: 130

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

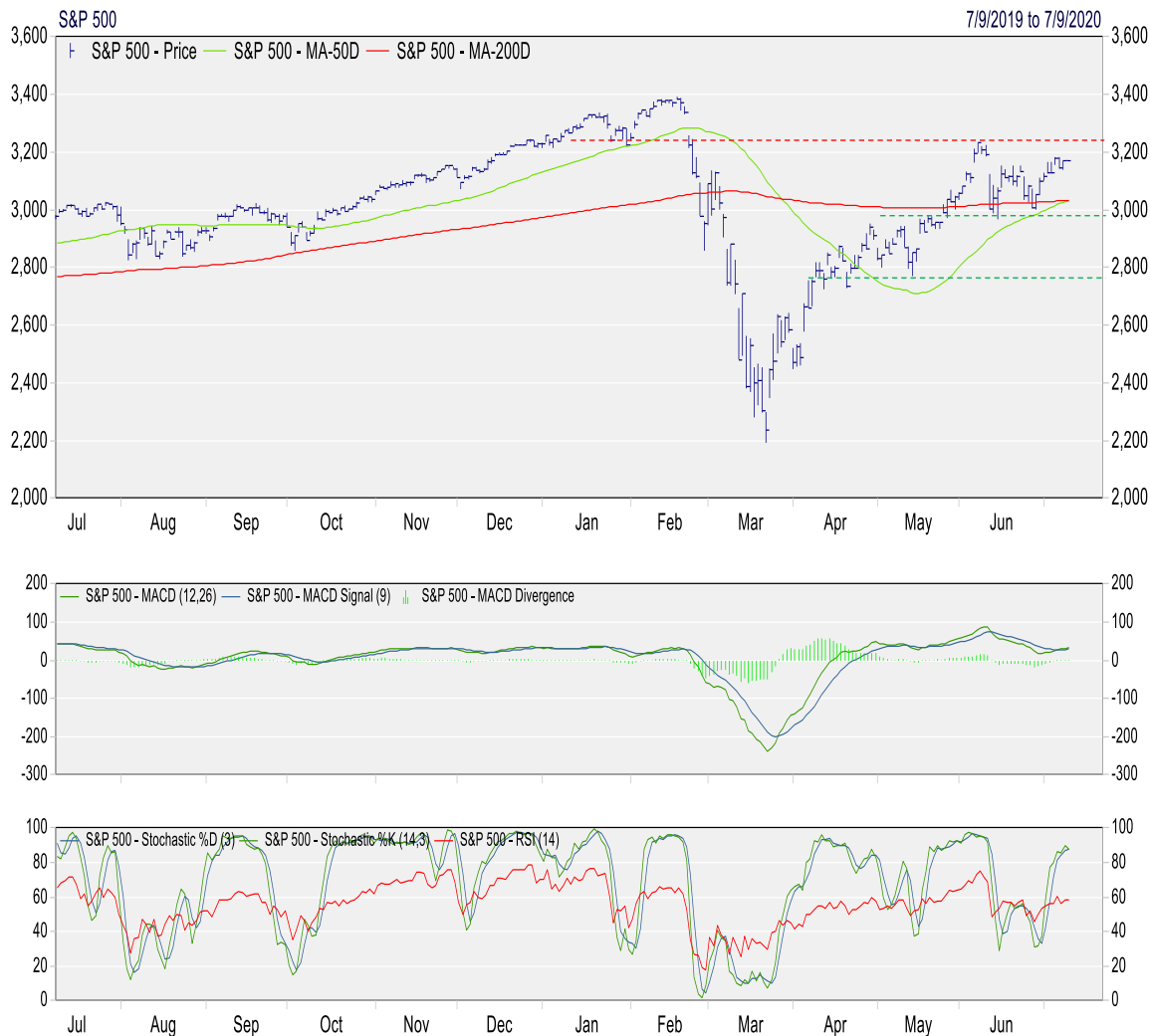
## VALUATION

The S&P 500 P/E is currently ~22x (we use 21x as our base case fair value P/E over the next 12 months). This is historically high, but we believe valuation can stay elevated due to historically low interest rates (and likelihood they stay lower for longer), low inflation, and unprecedented amount of stimulus to spur the global economy (and likely more to come). It is also normal for valuation to get lofty out of recessions as the market discounts the economic recovery, and it is difficult in our opinion to find attractive alternatives to equities (for long term investors) due to the record low interest rates. For example, the difference in the S&P 500 dividend yield (1.8%) and US 10 year Treasury yield (0.6%) remains near its highest levels in history at 1.2%. The highest S&P 500 dividend yield vs US 10 year Treasury yield spread prior to this period was near the credit crisis lows at 1.1%. Additionally, 93% of all S&P 500 dividend-paying stocks have a higher yield than the US 10 year Treasury yield- making equities still relatively attractive to bonds in our opinion, and supporting our positive bias to equities over the next 12 months.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

**TECHNICAL: SHORT TERM**



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

We continue to view the S&P 500 as range-bound from the mid-2900s to mid-3200s in the short term. With the overall index at the higher end of this range now and short term indicators approaching overbought levels, we would be more careful with new purchases.

Technically, a break above this range would coincide with a technical target price of 3462 for the S&P 500, whereas a break below would suggest a move lower to 2772.

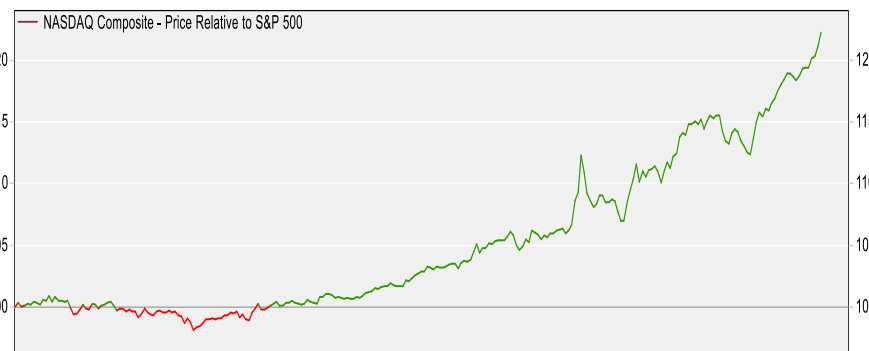
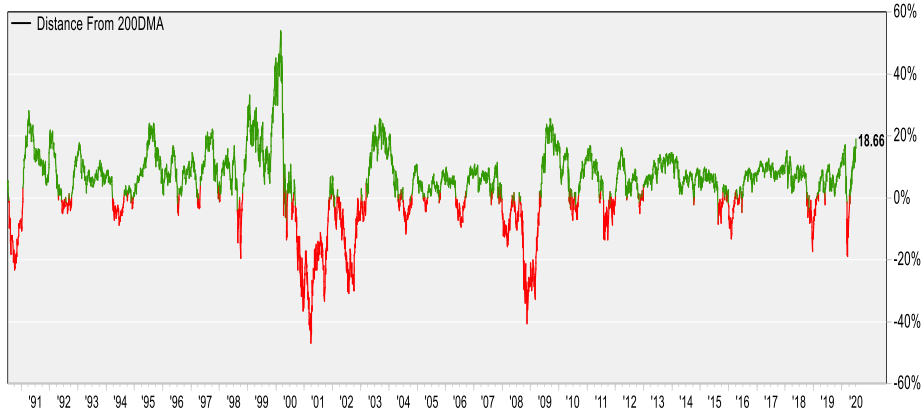
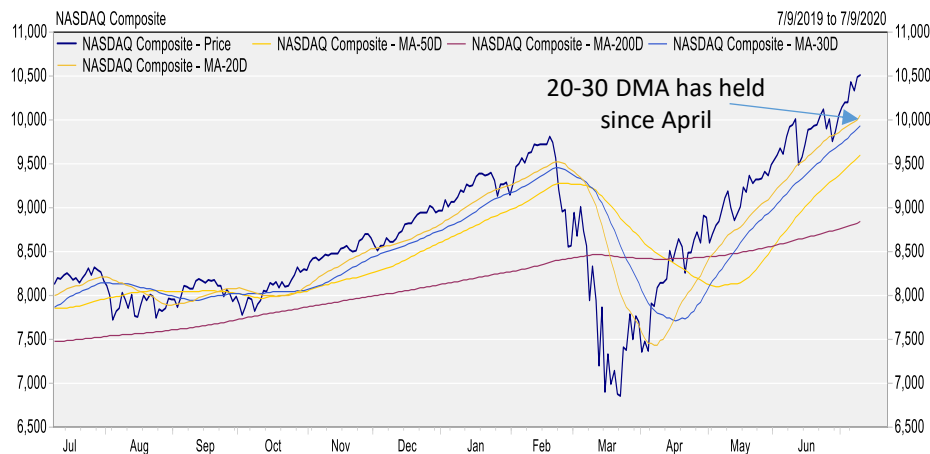
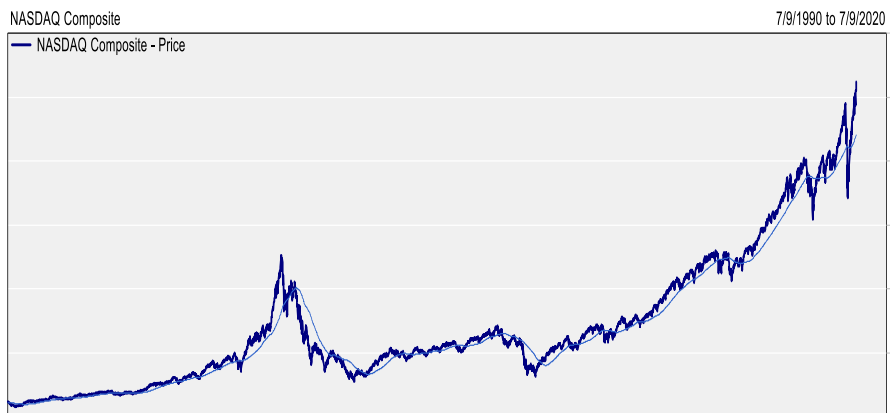
Beneath the surface, performance has narrowed with strength from the technology-oriented stocks continuing to mask the weakness felt in many other areas. For example, the Nasdaq composite index is at all-time highs (and 6% higher than its February peak) while the average S&P 500 company is still 15% below its February high. This is a headwind to market momentum, and contributes to our view that the market remains in a consolidation phase.

The wide dispersion of performance, between Large vs Small and Growth vs Value stocks, will provide opportunity at some point. But for now, we would stick with what is working- Technology, Health Care, Communication Services, and Consumer Discretionary (new overweight sector).

Over the next 12 months, we maintain a positive bias and would look to use pullbacks as buying opportunities. This can come at the market level or individual stock level. Unless something changes the narrative (vaccine, therapeutic, earnings, etc.), we would curtail buying at the high end of the current trading range and favor accumulation at the low end of the range.

## TECHNICAL: NASDAQ COMPOSITE

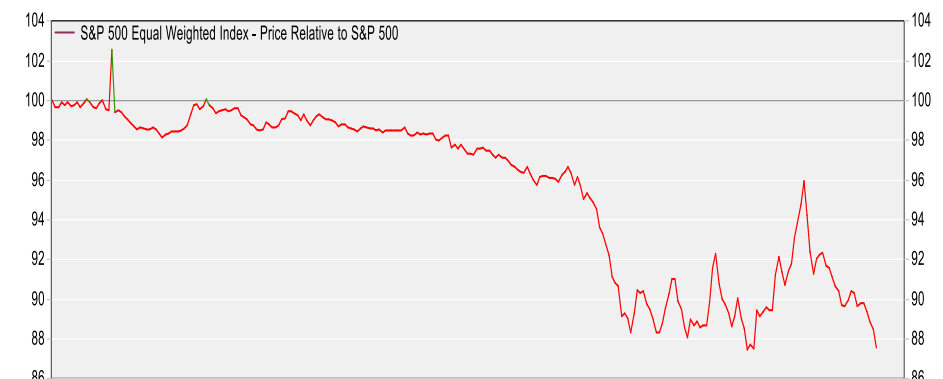
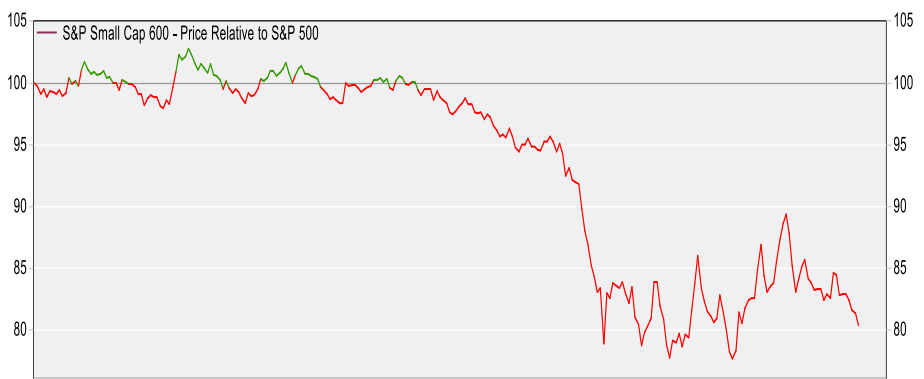
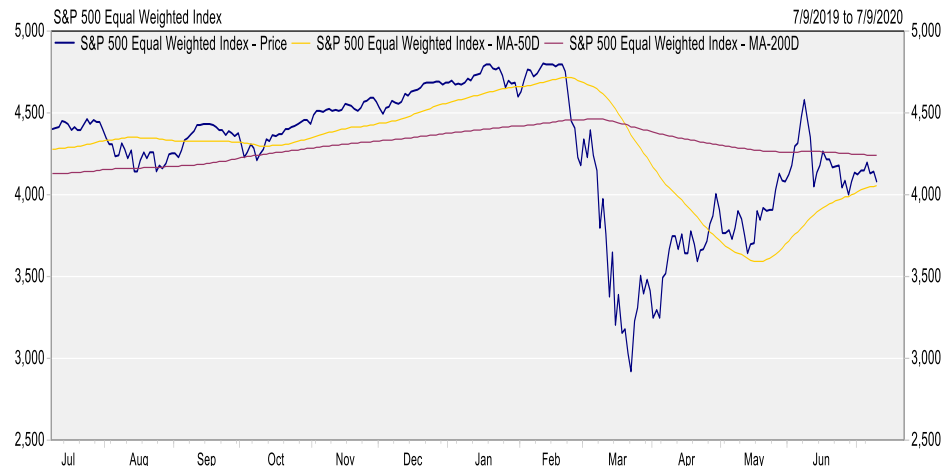
The Nasdaq Composite Index has run up 53% from its lows on March 23<sup>rd</sup> and it is these technology-oriented constituents that have continued to lead the market higher. The index is now 19% above its 200 DMA which is the most extended by this metric the index has been since 2009 (coming out of the credit crisis recession). Also beneath the surface, the percentage of members participating in the recent upside has receded. This type of action can continue for long periods of time in bull markets, but it is something that needs to be monitored. This does not mean a dramatic selloff needs to occur, but does support our belief that these stocks are due for a pause to refresh. Since April, the Nasdaq has been able to hold in consolidation periods near its 20 and 30 day moving averages (~5% below current levels). We would use that period, if it transpires, to accumulate these stocks with more conviction.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICAL: SMALL CAPS AND S&P 500 EQUAL WEIGHT INDEX

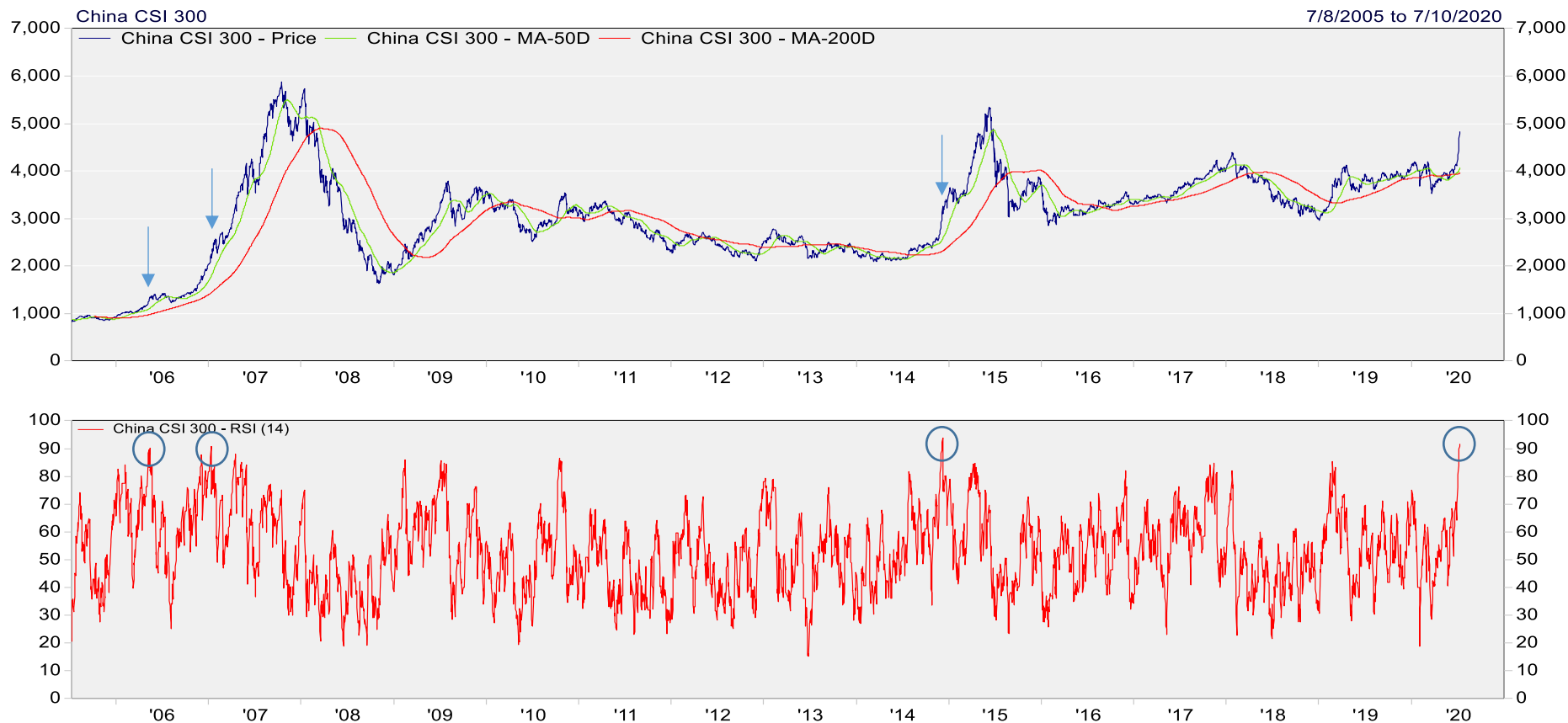
The average stock has continued to underperform since the recent S&P 500 peak on June 8<sup>th</sup>, and this is also the case for the small cap index. The small caps and S&P 500 equal-weighted index are both just above their 50 DMA, but relative strength (particularly for the equal weight index) is approaching new lows. This deterioration beneath the surface contributes to our view that the market is likely stuck in a range for the short term, as the S&P 500 continues to be held up by a narrowing group at the top.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## CHINA

China's equity market has surged this week to its highest level since 2015, and relative strength (vs the World) broke out to new highs in the process. During the move higher, the RSI reached 90%- indicative of tremendous momentum. Historically when RSI reaches a similar level as it has recently, we have seen continued advances in China's market. While we acknowledge the potential for geopolitical tensions to ramp, China is leading the world in economic improvement out of the shutdown (first in, first out) and will have leverage (along with other emerging markets) to the global recovery. Additionally, downside in the US dollar would also be a tailwind. We continue to favor China in global allocations, but would look to accumulate on pullbacks.

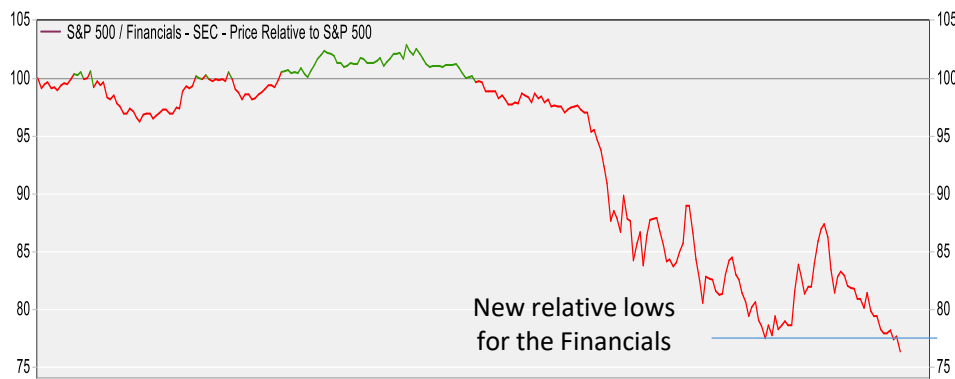


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy



## FINANCIALS

The financials have been disappointing, breaking to new relative lows vs the S&P 500 this week and continuing their trend of underperformance. The economic recession and low interest rates continue to weigh on the sector. However, valuation is fairly attractive in our view, particularly on a relative basis to the S&P 500. The banks begin Q2 earnings season next week, and upside surprises could be the needed catalyst for the sector to begin “catching back up.” Large loan loss provisions weighed on sector fundamentals in Q1. With the economy reopening and recent data improving, loan loss provisions may not be the outsized headwind to Q2 earnings that analysts expected following Q1 results (we will be watching closely)



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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