RAYMOND JAMES

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Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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Weekly Market Guide

Short-Term Summary:

Equities continue to trade in a rather boring sideways manner following a pause in the rate of ascent since mid-April. This is a normal period of consolidation, but it does make the market somewhat more vulnerable to negative headlines, with the latest being inflation. However, it does seem the bond market is much less anxious about run-away inflation than equities as yields and market-implied inflation expectations have moved lower since the report on May 12th of core CPI of 3%, in-line with our expectation that "hot" inflation will be transitory. This slight reprieve in inflation expectations/interest rates moving higher has provided some support for equities to move off oversold levels. In the very short-term, MACD recently reversed higher and the S&P 500 is turning up from oversold levels, which could lead to some upside towards the upper end of the recent trading range towards the ~4240 high.

We place the highest odds that this sideways trading environment will continue over the next few weeks/months with sector rotation under the surface. Given that the market is vulnerable to negative headlines, such as inflation, we do not believe the market likely runs away to the upside meaningfully (although our second highest odds are that the market has a breakout and modest rally towards our bull case price target of 4400 (~+4% from current levels). We see the 50% retracement level of 3966 as an area of support followed by the 61.8% retracement at around 3900. However, in the second year of bull market rallies from the bottom, markets are vulnerable to more “normal” corrections with the average drawdown in the second year of 12.9%. If selling becomes more intense on troubling headlines, we could see a drawdown towards 3739 (200-DMA) followed by 3735 (12% decline from the peak) and 3600 (which was meaningful breakout support).

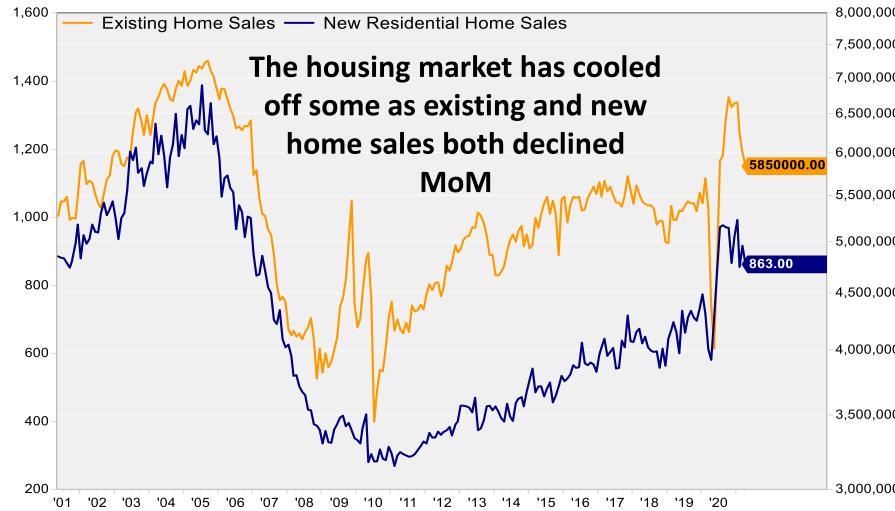
During bullish environments (such as now), accumulating during the basing phase is warranted. For those looking to put new money to work, we recommend using periods of weakness as buying opportunities as the sector pulls back off overbought levels, similar to what we have seen in the Consumer Discretionary space this week. Conversely, we would use periods of strength to lighten sector concentrations when it becomes overbought. Our favored areas would be large value over large growth (although certain momentum indicators allow for short-term gains in growth); accumulating small-caps as they are in a basing period; and globally, we would favor the US while waiting for an opportunity in Europe and be selective in Emerging Markets as China remains weak.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	12.1%	37.3%
S&P 500	11.7%	40.3%
S&P 500 (Equal-Weight)	17.5%	51.0%
NASDAQ Composite	6.6%	47.1%
Russell 2000	13.9%	61.5%
MSCI All-Cap World	9.6%	41.1%
MSCI Developed Markets	8.4%	36.8%
MSCI Emerging Markets	4.7%	45.9%
NYSE Alerian MLP	35.8%	29.3%
MSCI U.S. REIT	16.9%	33.6%

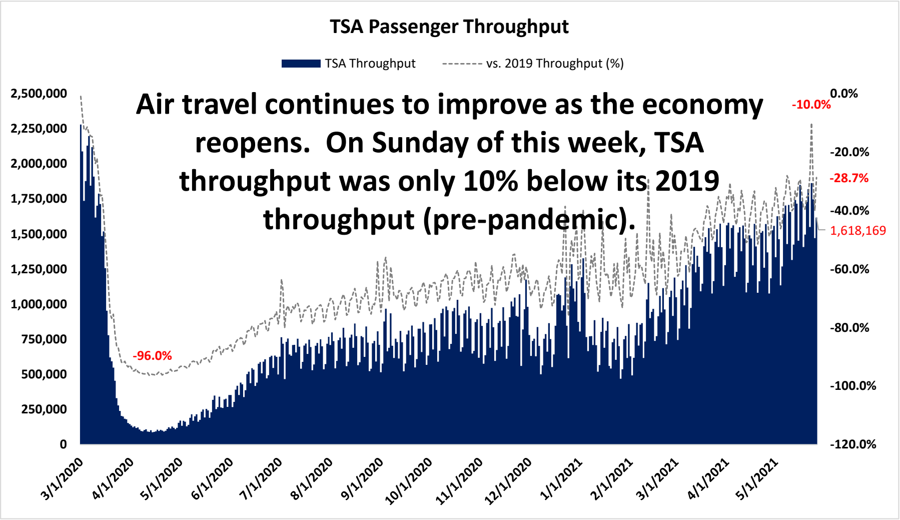
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	36.1%	2.8%
Financials	26.9%	11.8%
Materials	17.9%	2.5%
Real Estate	19.4%	2.8%
Industrials	16.8%	8.8%
Communication Svcs.	16.1%	11.1%
S&P 500	***11.7%***	-
Health Care	6.0%	12.1%
Information Technology	6.2%	26.3%
Consumer Discretionary	8.4%	13.0%
Consumer Staples	3.5%	2.6%
Utilities	4.8%	6.1%

MACRO: US

The US macro picture remains intact. Personal consumption remains robust with the second reading of 1Q GDP showing an 11.3% rise in personal consumption. Moreover, on Sunday of this week, TSA throughput was only 10% below its 2019 throughput (pre-pandemic levels) as leisure/travel improves. Additionally, preliminary May results for Markit US PMI improved to 68.1 (from 63.5) driven largely by the Services sector, which came in at 70.1, on continued strength in US Manufacturing at 61.5. It appears that the current situation continues to improve in the US with the latest conference board reading of 144.3. However, the housing market has cooled off some as existing and new home sales both declined MoM.



US Economic Data	Period	Actual	Consensus	Prior	Revised
Markit US Manufacturing PMI	May P	61.5	60.2	60.5	
Markit US Services PMI	May P	70.1	64.3	64.7	
Markit US Composite PMI	May P	68.1	-	63.5	
Existing Home Sales MoM	April	-2.70%	1%	-3.70%	
FHFA House Price Index MoM	Mar	1.40%	1%	0.90%	1.10%
House Price Purchase Index QoQ	1Q	3.50%	-	3.80%	3.90%
New Home Sales MoM	Apr	-5.90%	-7%	20.70%	7.40%
Conference Board Consumer Confidence	May	117.2	118.8	121.7	117.5
Conference Board Present Situation	May	144.3	-	139.6	131.9
Conference Board Expectations	May	99.1	-	109.8	107.9
Richmond Fed Manufacturing Index	May	18	19	17	
Durable Goods Orders	Apr P	-1.30%	0.80%	0.80%	1.30%
Capital Goods Orders Nondef	Apr P	2.30%	1.00%	1.20%	1.60%
Initial Jobless Claims	22-May	406K	425K	444K	
Continuing Claims	15-May	3642K	3680K	3751K	3738K
GDP Annualized QoQ	1Q S	6.40%	6.50%	6.40%	
Personal Consumption	1Q S	11.30%	10.90%	10.70%	
Pending Home Sales MoM	Apr	-4.40%	0.40%	1.90%	1.70%
Kansas City Fed Manf. Activity	May	26	30	31	



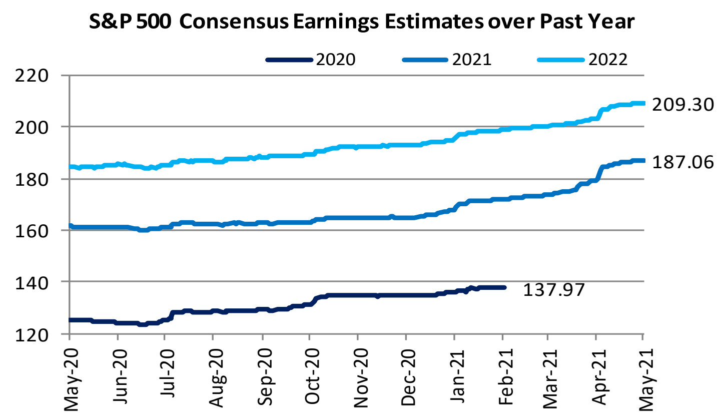
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

2021 and 2022 EPS estimates continue to move higher. As seen below, 2021 and 2022 EPS estimates, respectively, are $187.06 and $209.30 for the S&P 500. On a quarterly basis, the strongest YoY earnings growth (+59.8% YoY) is expected in the upcoming Q2 earnings season as earnings compare to the pandemic low quarter of last year before YoY growth starts to normalize (albeit still elevated) in the back-half of 2021.

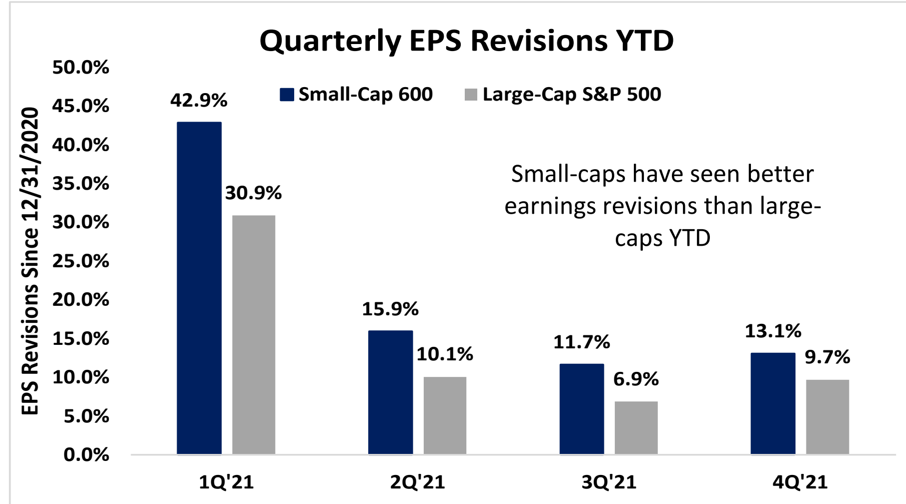
While S&P 500 growth remains robust at over 35% YoY, the small-caps are expected to see even stronger growth than the large-caps (after declining more in 2020). As seen to the right, quarterly EPS revisions since year-end have been stronger for each quarter of 2021 for the small-caps vs. the large-caps. While earnings revisions have been robust, we expect earnings estimates to continue their upward trend on robust earnings growth, which is supportive of equities.

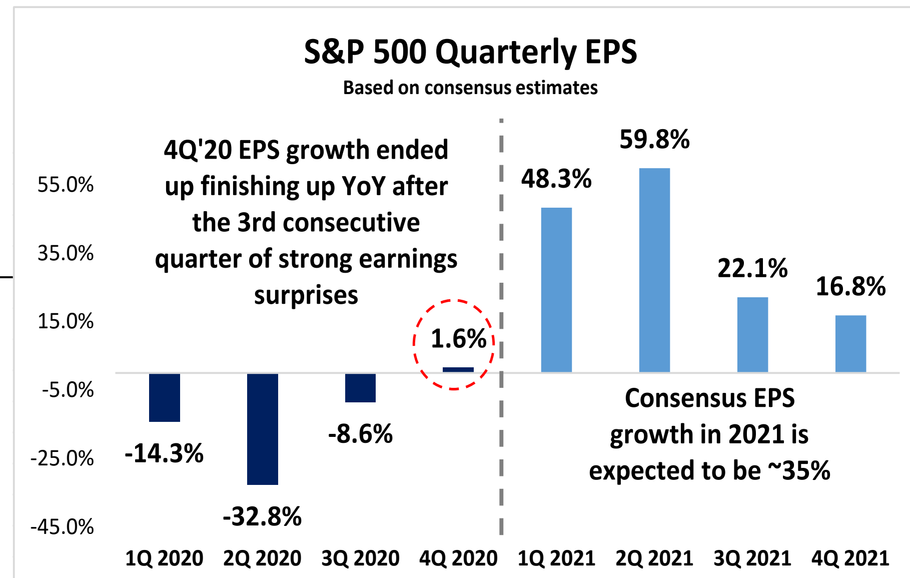
Valuation remains elevated vs. historical averages, but continues to normalize. Currently, the NTM P/E is 21.5x, which is down over 125 bps from year-end. We would expect P/E to continue to normalize as NTM earnings estimates improve.



EPS Growth Estimates	
2020	-14.0%
2021	35.6%
2022	11.9%

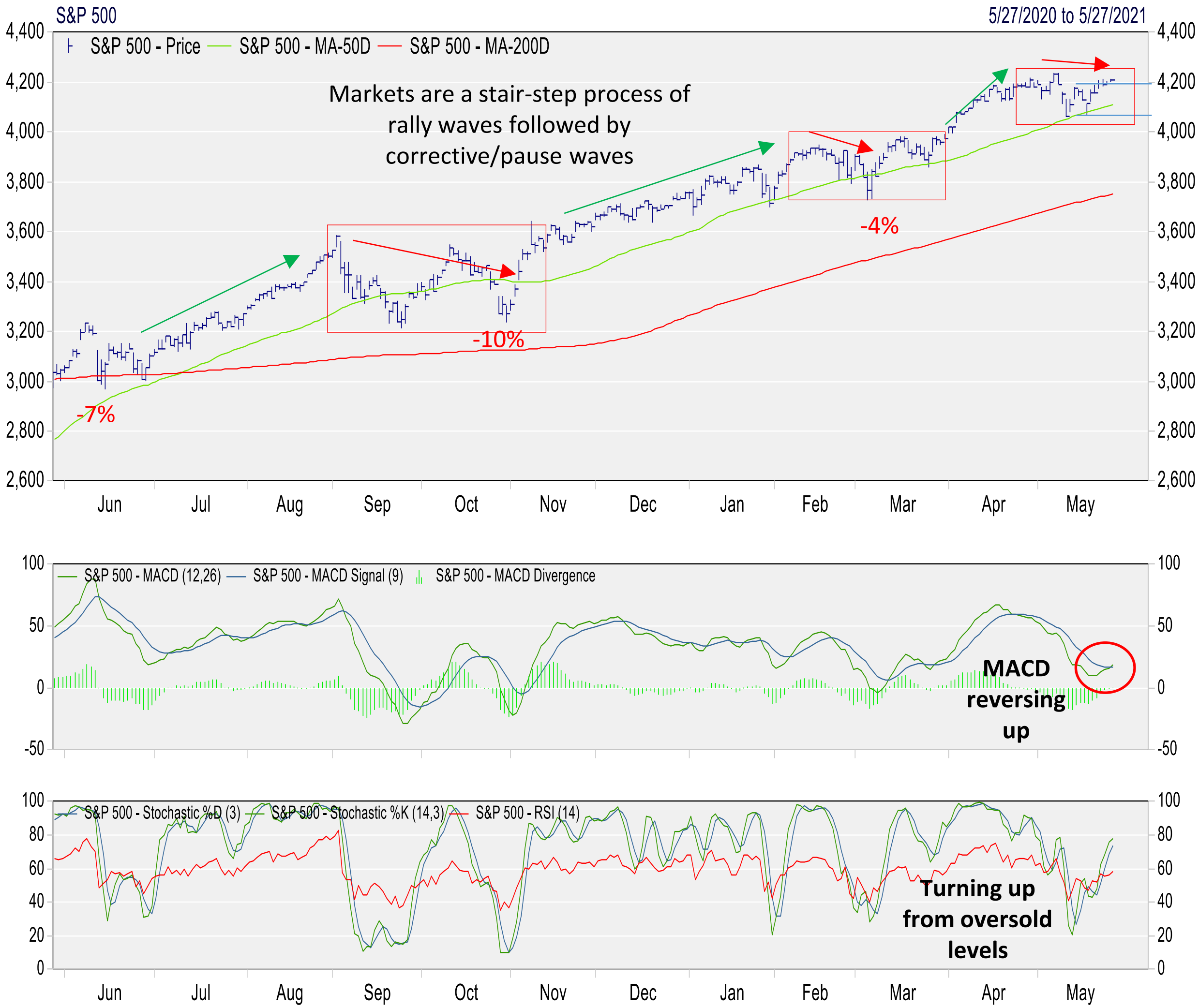
RJ Estimates
2021: $190
2022: $220





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

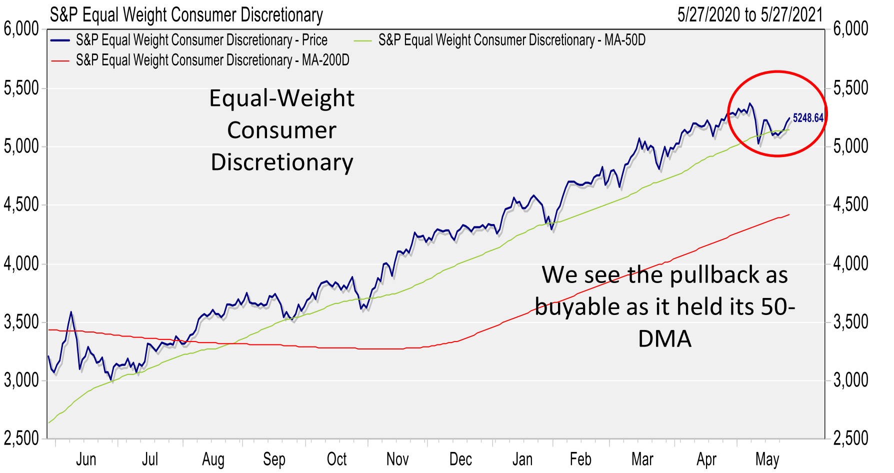
The market remains in the pause phase seen since mid-April. Overall, we place the highest odds that we remain in this boring, sideways market (with sector/subsector rotation underneath the surface) for the coming weeks/months ahead. In this type of environment, we would use opportunities to add to favored sectors when they become oversold and lighten sectors when they become overbought.

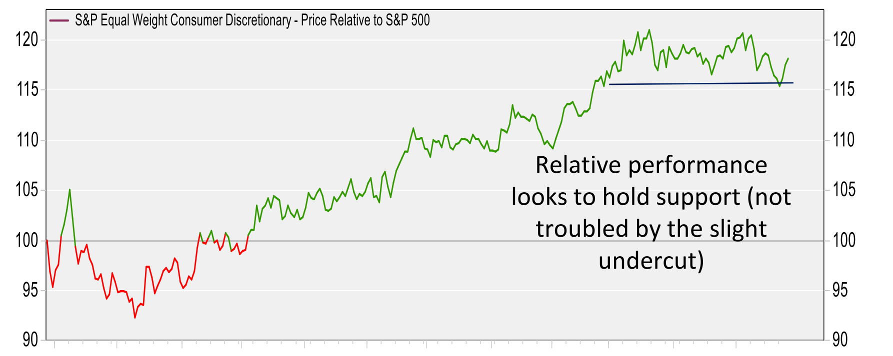
In the near-term, MACD recently reversed higher and stochastics are turning up from oversold levels, which could propel the market to test the recent highs in the near-term. However, given that the market is vulnerable to negative headlines, such as inflation, we do not believe the market likely runs away to the upside meaningfully (although our second highest odds are that the market has a breakout and modest rally towards of bull case price target of 4400 (~+4% from current levels).

We see the current support at 50% retracement level of 3966 as an area of support followed by the 61.8% at around 3900. However, in the second year of bull market rallies from the bottom, markets are vulnerable to more “normal” corrections with the average drawdown in the second year of 12.9%. If selling becomes more intense on troubling headlines, we could see a drawdown towards 3739 (200-DMA) followed by 3735 (12% decline from the peak) and 3600 (which was meaningful breakout support).

TECHNICAL: CONSUMER DISCRETIONARY

We see the pullback in the Consumer Discretionary space as buyable. We see unprecedented stimulus, a re-opening of the economy, and historically high savings rates as supportive of strong fundamentals for the sector, and believe the current opportunity is likely what will transpire in a market that trades sideways with rotation underneath the surface. The sector is coming off overbought territory, and was able to find support at its 50-day moving average. Additionally, we are not troubled by the slight undercut of relative performance as it looks to hold support. Overall, we would continue to be selective within the sector as the average consumer discretionary stock (equal-weight index) is doing better than the cap-weighted index, which is driven by a couple large-cap names—as seen below.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

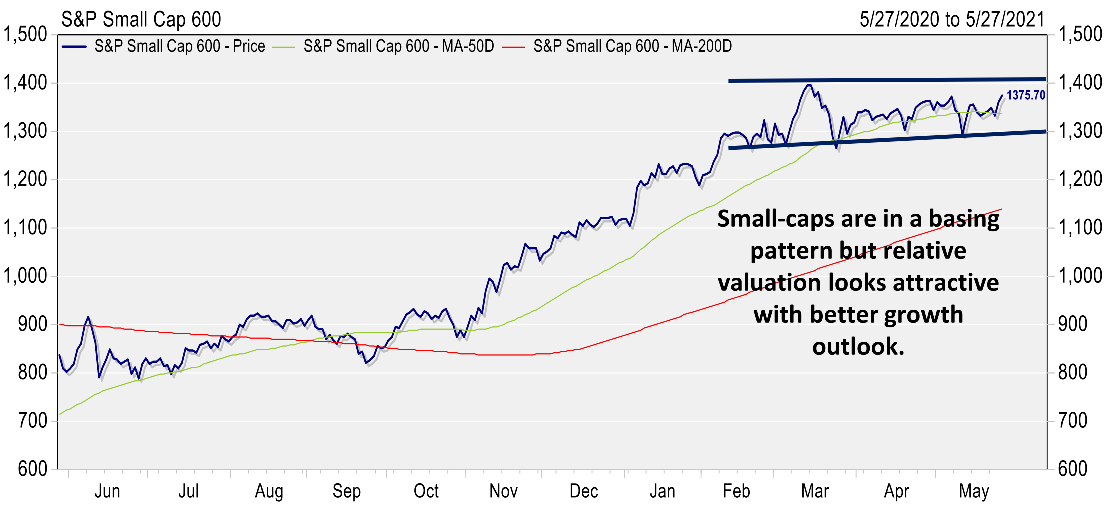
TECHNICAL: HEALTH CARE

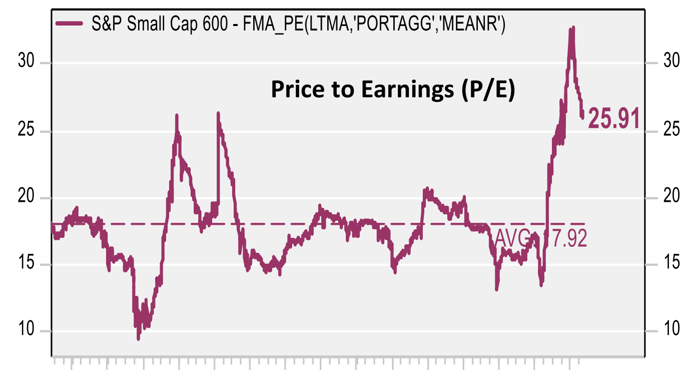
We will continue to monitor the Health Care sector. The sector had been improving and relative performance tested the downward sloping resistance level. However, it quickly rolled over as the sector reached overbought levels and relative performance rolled back towards support. We would like to see it hold support (although it may struggle until it reached overbought territory). If it is able to hold support, this could prove to be a buyable pullback.

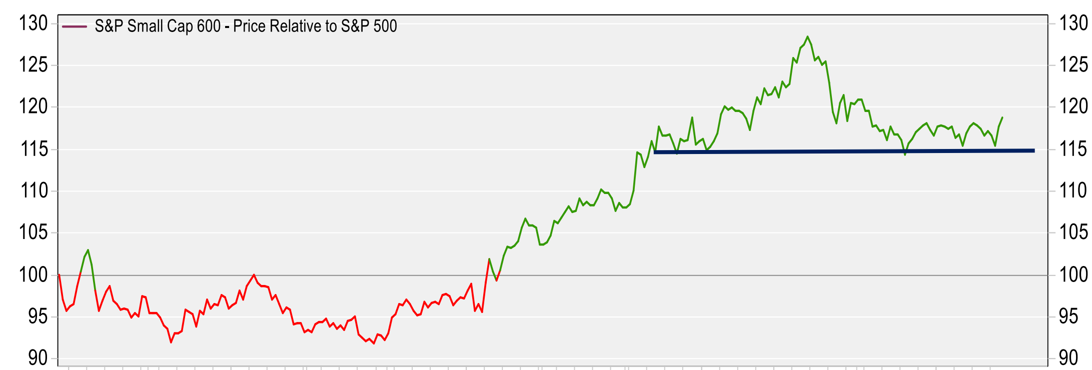
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

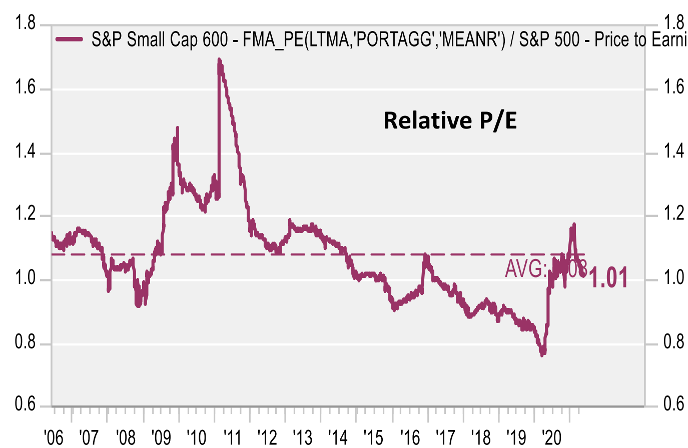
TECHNICAL: SMALL-CAPS

We continue to favor small-caps and would accumulate as they are trading in a basing pattern. Overall, small-caps have been able to hold above its 50-DMA and relative performance support. Relative valuation vs. large-caps has moved below its long-term average and as discussed earlier, the growth prospects for the small-caps are currently better than large-caps (at 69% YoY growth vs. ~35%).









Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

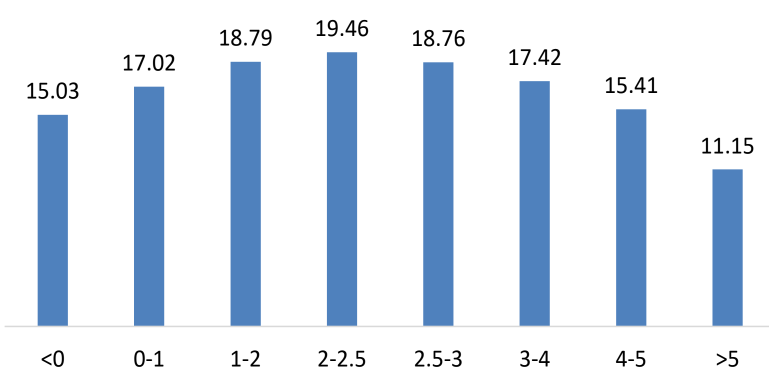
INTEREST RATES AND INFLATION

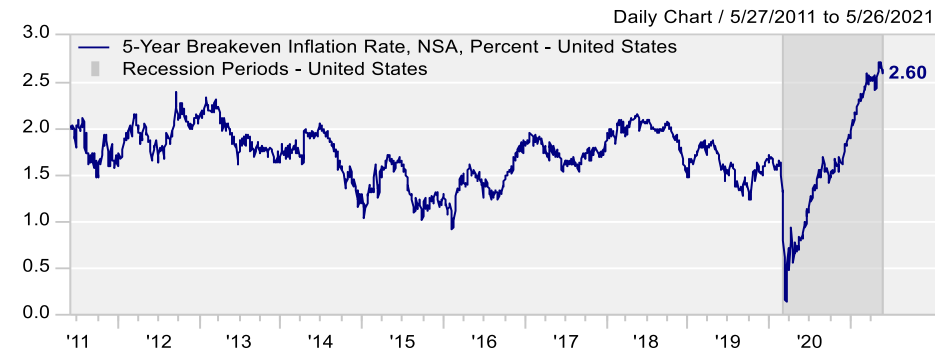
While "hot" inflation has been the catalyst for the current pause in equities, since the inflation reading on May 12th, in which core CPI inflation was 3%, the bond market and market implied inflation expectations have sold off while the S&P 500 has moved modestly higher. It does not seem that the bond market is as anxious about inflation as the equity markets. We will continue to monitor, but this is in-line with our expectations that high near-term inflation is likely transitory. Additionally, 10-year breakeven inflation expectations are 20 bps below the 5-year level, which implies that expectations are for inflation to run hot in the near-term, but normalize longer-term under 2.5%, which is in the inflation range (since 1954) that the average P/E have been the highest.

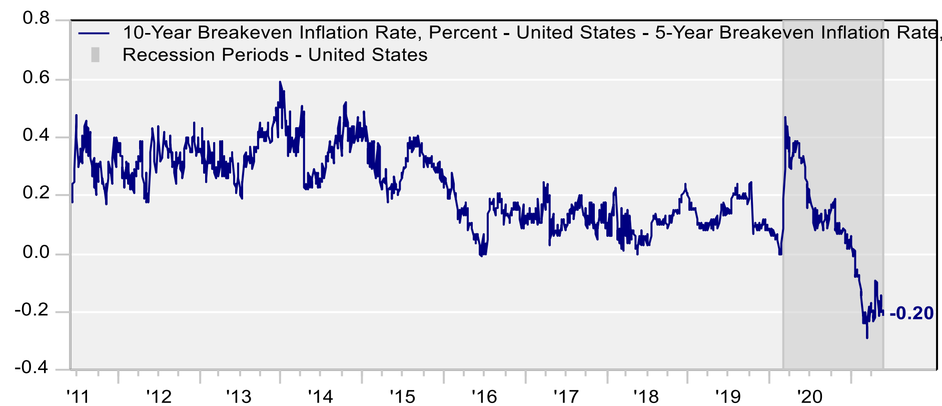
Change Since April CPI Reading (May 12th)	% Change
S&P 500	1.1%
US 10-Year Yield	-2.7%
5-Year Breakeven	-3.0%
10-Year Breakeven	-5.5%

Despite blow out inflation numbers for April, the bond market and implied inflation expectations have sold off since the reading while equities continued to move largely sideways

Average P/E based on Inflation Range (since 1954)







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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.

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