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OCTOBER 28, 2021 | 4:40 PM EDT

Weekly Market Guide

Short-Term Summary:

The S&P 500 was able to break out to new highs on a strong start to Q3 earnings season that eased some investor concerns surrounding the Delta variant's impact on economic activity, global supply chains, and inflationary pressures during the quarter. Participation in the rally was fairly supportive, as the "average stock" broke out to new highs with the index- led by some of the more economically-sensitive areas (i.e. Energy, Financials, Transports). While the market's advance was able to push above technical resistance levels (supporting the overall bullish tone to trends), a 5% 10-day move can often be followed by a sideways to slightly downward consolidation in the short-term (days to weeks). We would not be surprised for this to occur, as the market's pace of ascent and volatility should begin to normalize at this stage of the bull market. And within digestion phases, there can be rolling pullbacks beneath the surface- which we would use opportunistically for favored stocks and sectors.

We are in the heart of Q3 earnings season at the moment with the bulk of companies reporting this week and next. About half of the S&P 500's market cap has reported up to this point with 81% of companies beating estimates by a healthy 12%. This week's takeaways include strong fundamental momentum from Technology, which is continuing to benefit from accelerated technological uses and needs in the digital economy. Key consumer and industrial companies are noting rising costs, but also very elevated demand (margins holding up better than expected). We are also encouraged by indications of improving consumer spending trends throughout the quarter, as Covid cases declined. A noteworthy highlight from a major semiconductor company was that lead times have slowed. We will have to monitor other semiconductor comments (to make sure not a one-off), but this would be a positive indication for inventory pressures as semiconductors are used in a wide variety of products.

Overall company commentary supports our positive stance on the economic recovery ahead, following the Delta variant peak. Supply issues will take a while to normalize, and we will be dealing with constraints and inflationary pressures well into next year. However, it is our inclination that we could be at or near "peak inflation concerns." This would ease margin and Fed policy concerns, while supporting S&P 500 valuations and earnings. Additionally, the *Build Back Better* framework released today is watered-down from President Biden's earlier proposal and would be much less onerous on corporate fundamentals. Negotiations are very fluid, but the current framework would provide upside to our 2022 earnings estimate of $225 (which included an increase in the corporate tax rate to 25%) toward $235.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	16.0%	29.2%
S&P 500	21.2%	34.2%
S&P 500 (Equal-Weight)	22.6%	42.0%
NASDAQ Composite	18.2%	33.3%
Russell 2000	14.1%	41.6%
MSCI All-Cap World	14.8%	29.8%
MSCI Developed Markets	9.1%	26.7%
MSCI Emerging Markets	-0.6%	13.1%
NYSE Alerian MLP	39.9%	67.3%
MSCI U.S. REIT	28.8%	43.7%

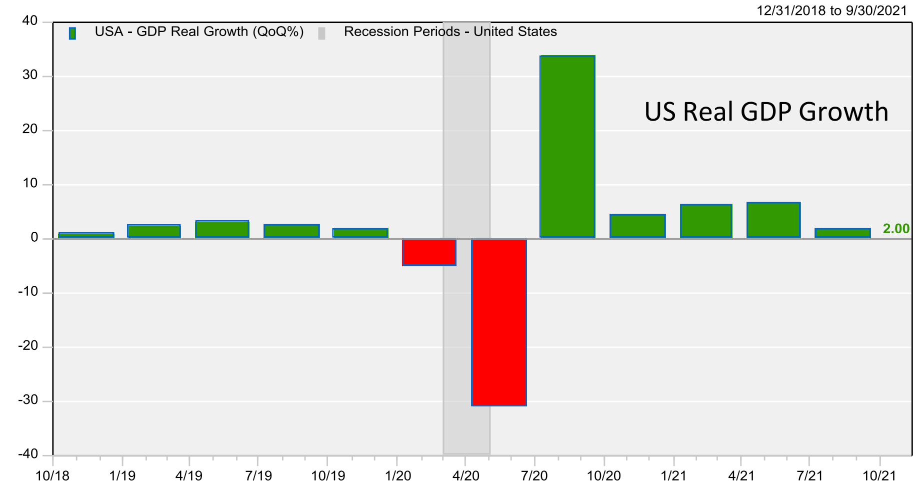
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	52.4%	2.9%
Financials	35.3%	11.5%
Real Estate	30.8%	2.6%
Communication Svcs.	22.6%	10.8%
Information Technology	22.0%	27.9%
S&P 500	***21.2%***	-
Consumer Discretionary	20.1%	12.8%
Materials	16.7%	2.5%
Industrials	16.3%	8.0%
Health Care	15.7%	12.9%
Utilities	6.5%	2.4%
Consumer Staples	6.2%	5.6%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

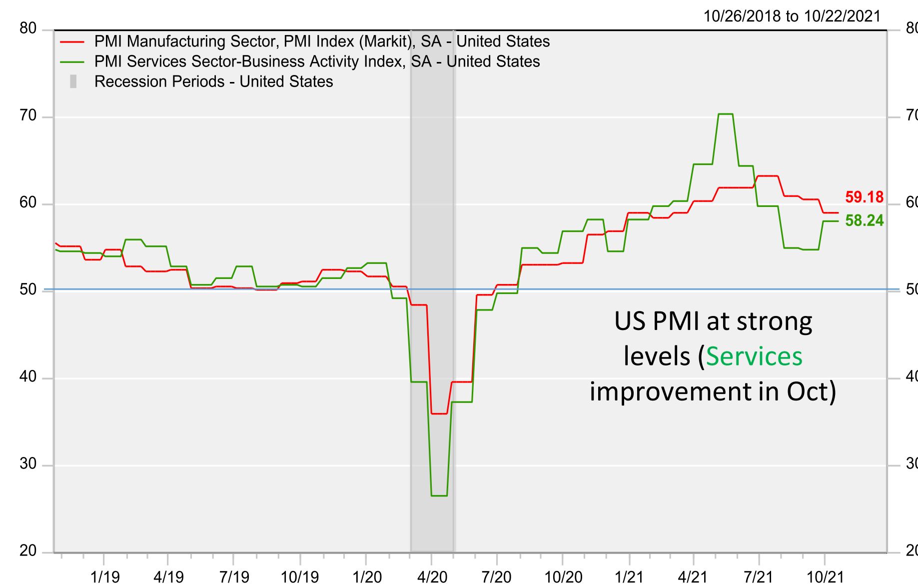
MACRO: US

As expected, the economy experienced a slowdown in Q3 with real GDP rising at an annualized rate of 2% (down from 6.7% and 6.3% in Q2 and Q1 respectively). Private domestic final purchases experienced an even sharper slowdown- growing 1.1% in Q3 vs 10.1% and 11.8% in Q2 and Q1 respectively).

With the Delta variant past its peak, Covid cases declining, and economic activity beginning to improve, we expect the recovery to continue in the months ahead. Survey data supports this view, as October Services PMI rose to 58.2- well ahead of the 55.3 consensus estimate and above 54.9 in September. Manufacturing PMI dipped to 59.2 (from 60.7), but remains at an elevated level. Both of these readings are above the World, and the best of some of the major countries and regions (i.e. Eurozone, Japan, China). All in all, we remain positive on the economic backdrop- supported by policy accommodation, low interest rates, an improving jobs market, and strong demand trends.



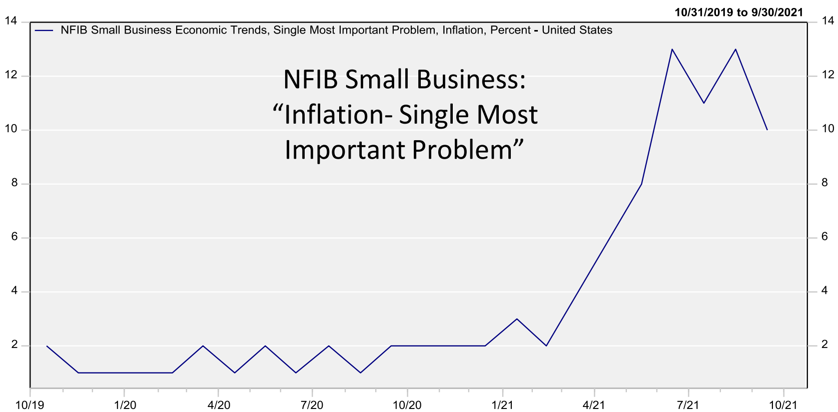
Event	Period	Actual	Consensus	Prior
PMI Composite SA (Preliminary)	OCT	57.3	55.9	55.0
Markit PMI Manufacturing SA (Preliminary)	OCT	59.2	60.0	60.7
Markit PMI Services SA (Preliminary)	OCT	58.2	55.3	54.9
Building Permits SAAR (Final)	SEP	1,586K	1,589K	1,589K
FHFA Home Price Index	AUG	351.7	-	348.2
S&P/Case-Shiller comp.20 HPI M/M	AUG	1.2%	1.3%	1.5%
S&P/Case-Shiller comp.20 HPI Y/Y	AUG	19.7%	20.0%	20.0%
Consumer Confidence	OCT	113.8	108.3	109.8
New Home Sales SAAR	SEP	800.0K	760.0K	702.0K
Durable Orders ex-Transportation SA M/M (Preliminary)	SEP	0.40%	0.40%	0.30%
Durable Orders SA M/M (Preliminary)	SEP	-0.40%	-1.0%	1.3%
Continuing Jobless Claims SA	10/16	2,243K	2,350K	2,480K
GDP SAAR Q/Q (First Preliminary)	Q3	2.0%	3.5%	6.7%
GDP SA Y/Y (First Preliminary)	Q3	4.9%	5.3%	12.2%
Initial Claims SA	10/23	281.0K	290.0K	291.0K
Pending Home Sales Index SAAR	SEP	116.7	118.0	119.4
Pending Home Sales M/M	SEP	-2.3%	0.75%	8.1%

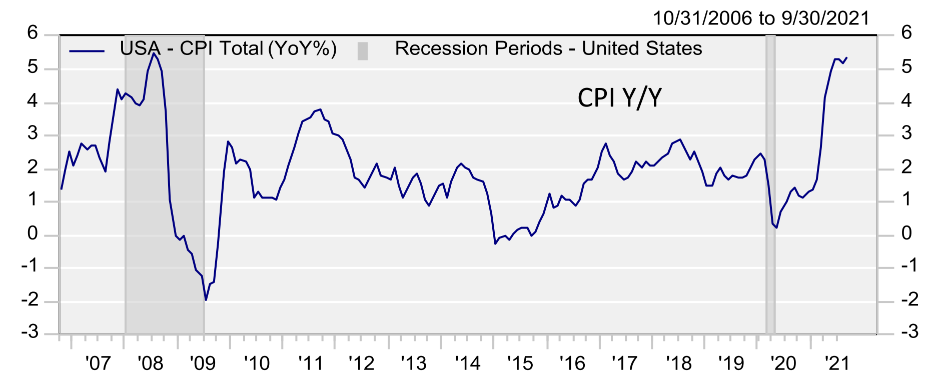


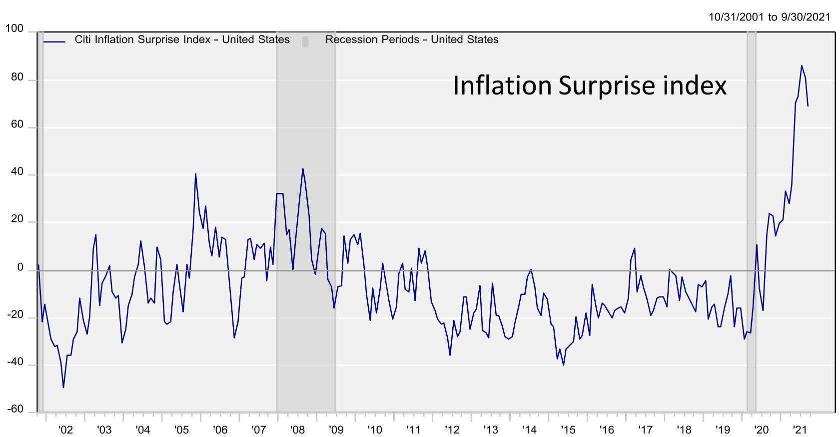
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

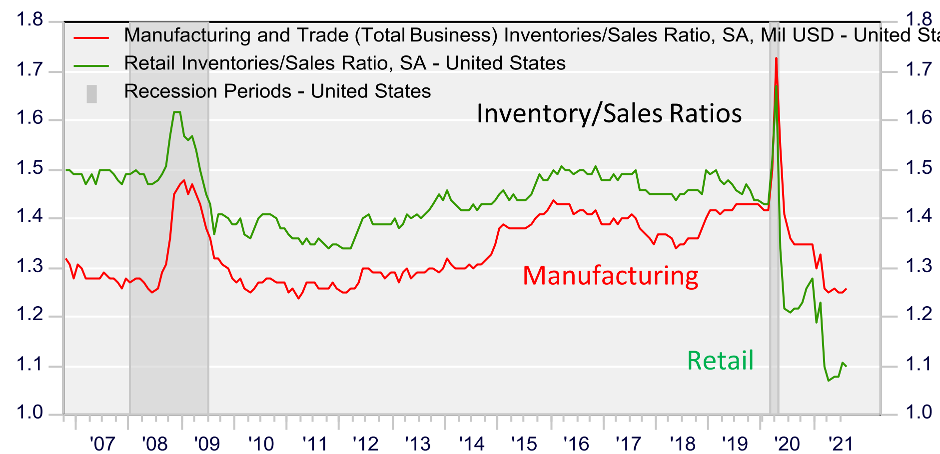
SUPPLY CHAINS

We are beginning to see indications of supply chain constraints easing. The NFIB Small Business survey of “Inflation (being the) Single Most Important Problem” and Inflation Surprise Index have both begun to decline from very elevated levels. Additionally, inventory/sales ratios are exceptionally low (as production has been unable to meet demand) but are ticking higher. As inventories are rebuilt, it should take some of the pressure off inflation. To be sure, bottlenecks will take a while to normalize and we will be dealing with supply chain issues and inflationary pressures well into next year; however, we could be at or near “peak inflation concerns.” This is important, because the market is influenced by expectations- and will begin to price things in well ahead of the hard evidence.





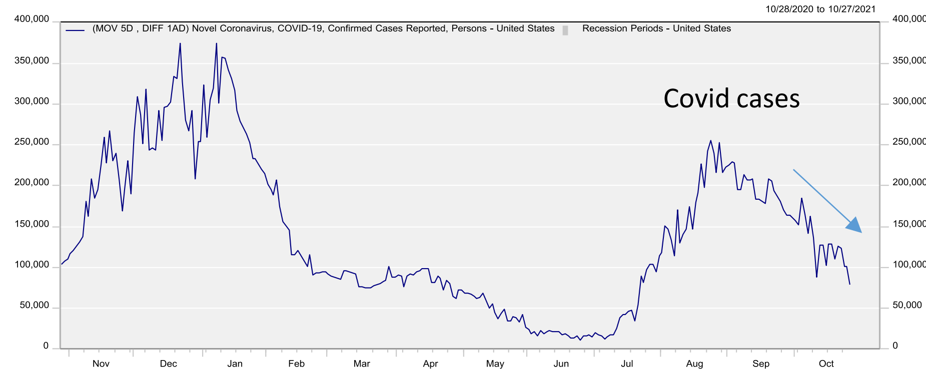


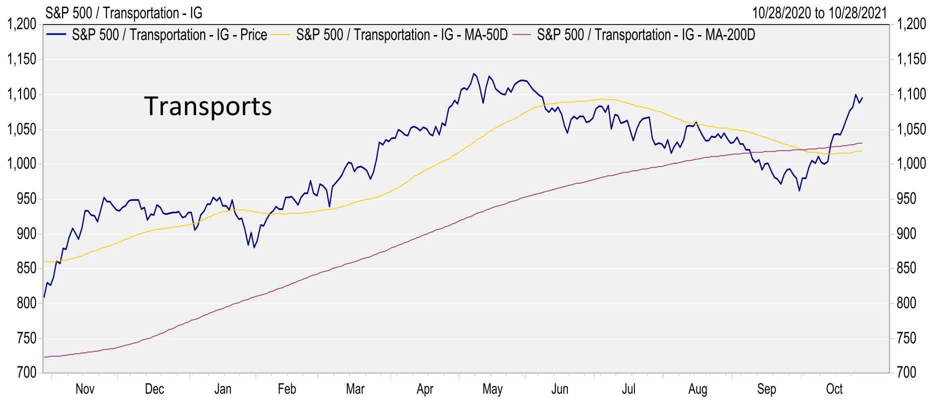


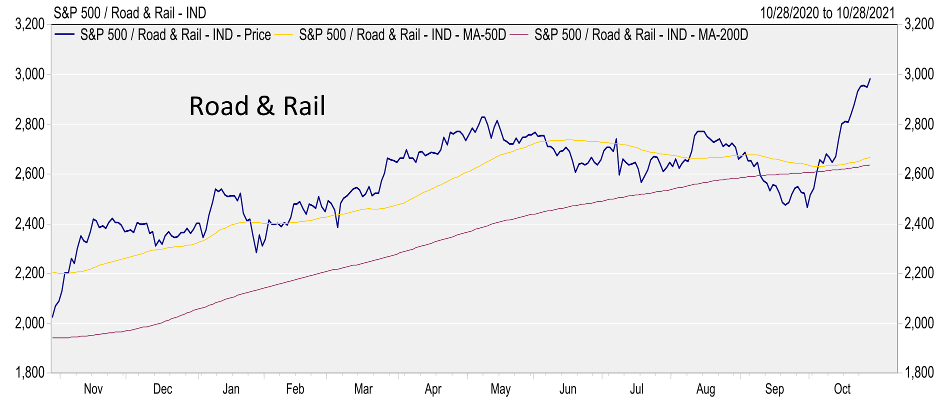
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

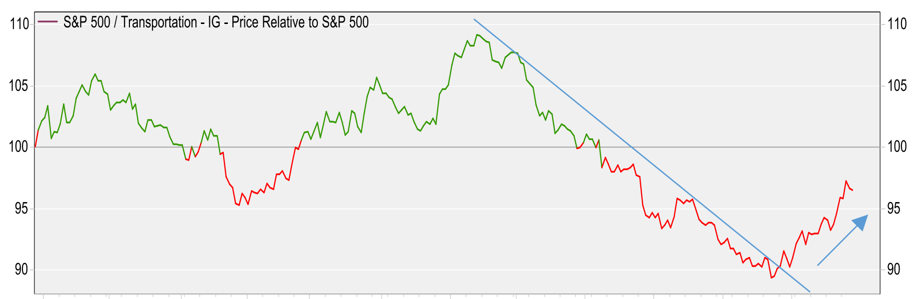
TRANSPORTS

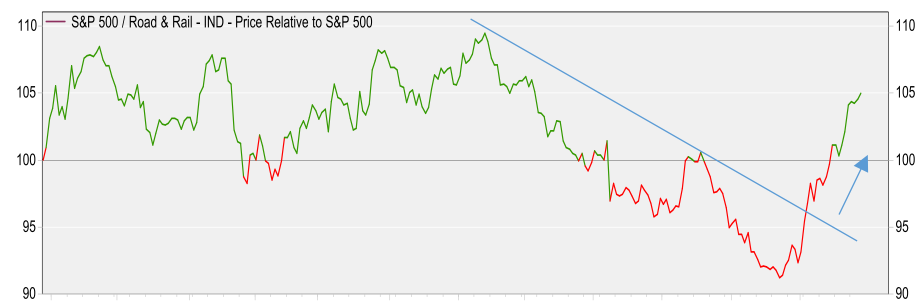
We are also seeing indications that the market is beginning to price in a potential inflection of supply constraints. As Covid cases decline (globally), production and transportation should improve (easing supply and inflation pressures over time). The Transports (led by the Road & Rail subsector) has seen sharp outperformance this month as the Covid trends have improved. This supports our view of an improving macro environment in the months ahead, along with our balanced, but pro-cyclical stance to portfolio positioning.









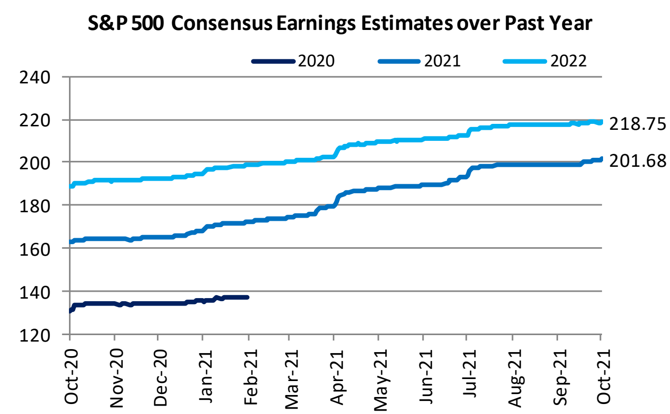


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

We are in the heart of Q3 earnings season with the bulk of companies reporting this week and next. About half of the S&P 500's market cap has reported up to this point with 81% of companies beating estimates by a healthy 12%. This week's takeaways include strong fundamental momentum from Technology, which is continuing to benefit from accelerated technological uses and needs in the digital economy. Key consumer and industrial companies are noting rising costs, but also very elevated demand (margins holding up better than expected). We are also encouraged by indications of improving consumer spending trends throughout the quarter, as Covid cases declined. A noteworthy highlight from a semiconductor company was that lead times have slowed. We will have to monitor other semiconductor comments (to make sure not a one-off), but this would be a positive indication for inventory pressures as semiconductors are used in a wide variety of products.

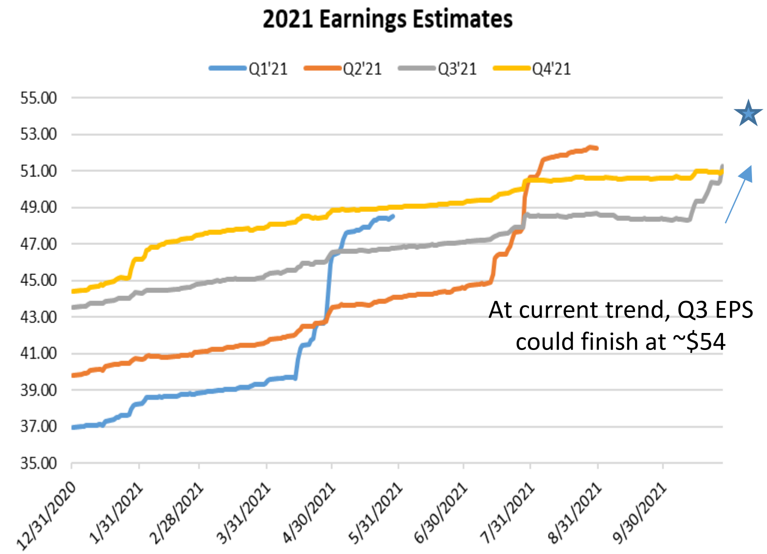
The Build Back Better framework released today is watered-down from President Biden's earlier proposal and would be much less onerous on corporate fundamentals. It appears that broadly higher corporate and individual taxes are off the table, while a 15% minimum book tax on large corporations will be included. Negotiations are very fluid and things can change, but the current framework would provide upside to our 2022 earnings estimate of $225 (which included an increase in the corporate tax rate to 25%) toward $235.



EPS Growth Estimates

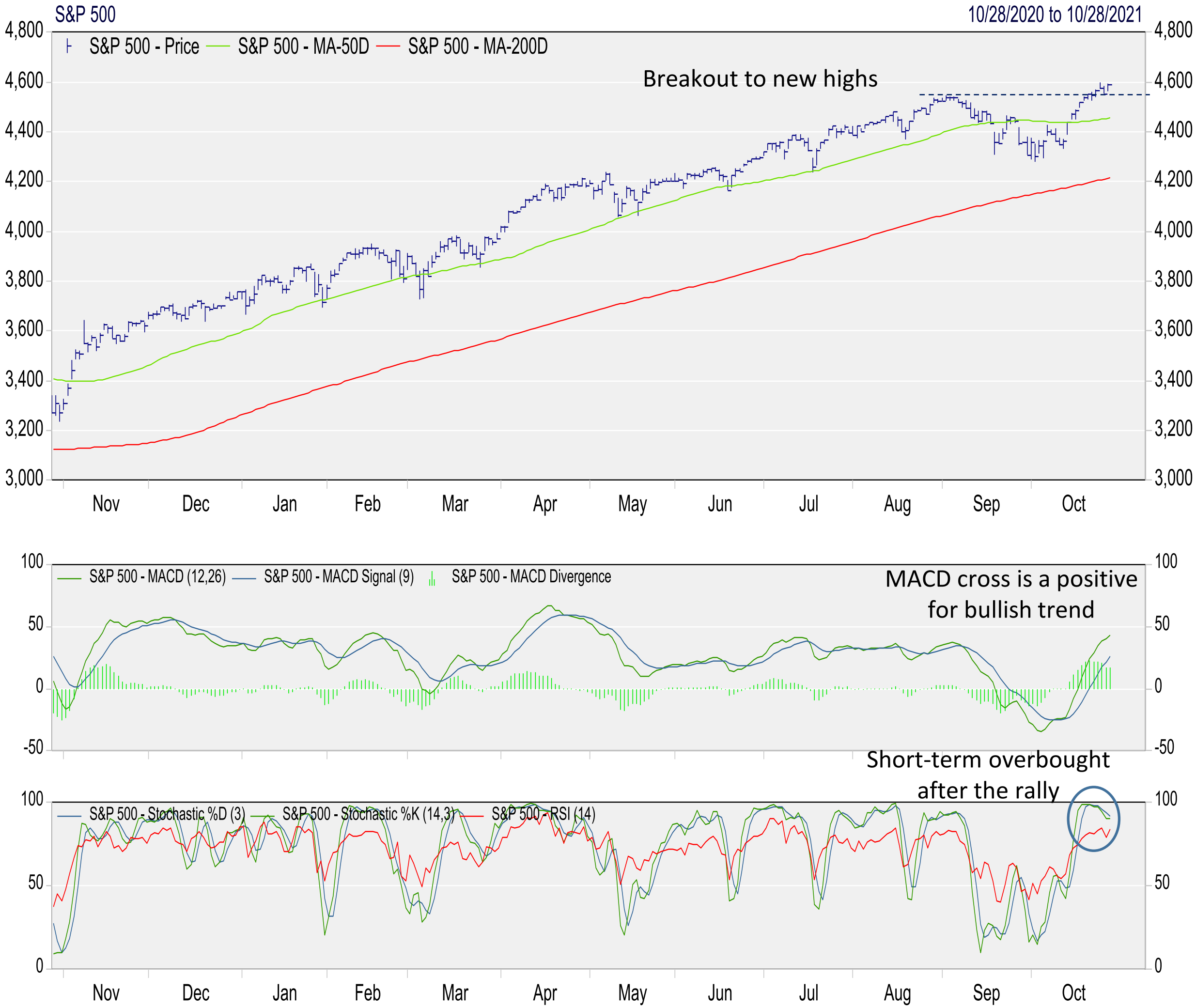
2020	-14.2%
2021	47.0%
2022	8.5%

RJ Estimates
2021: 205
2022: 225
(includes 25% corporate tax)



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The breakout to new highs with fairly broad participation (S&P 500 equal-weight index also traded to new highs) is supportive of the overall bullish trend.

Leadership within the move also came from some of the more cyclical, risk-on sectors such as Energy, Financials, and Transports.

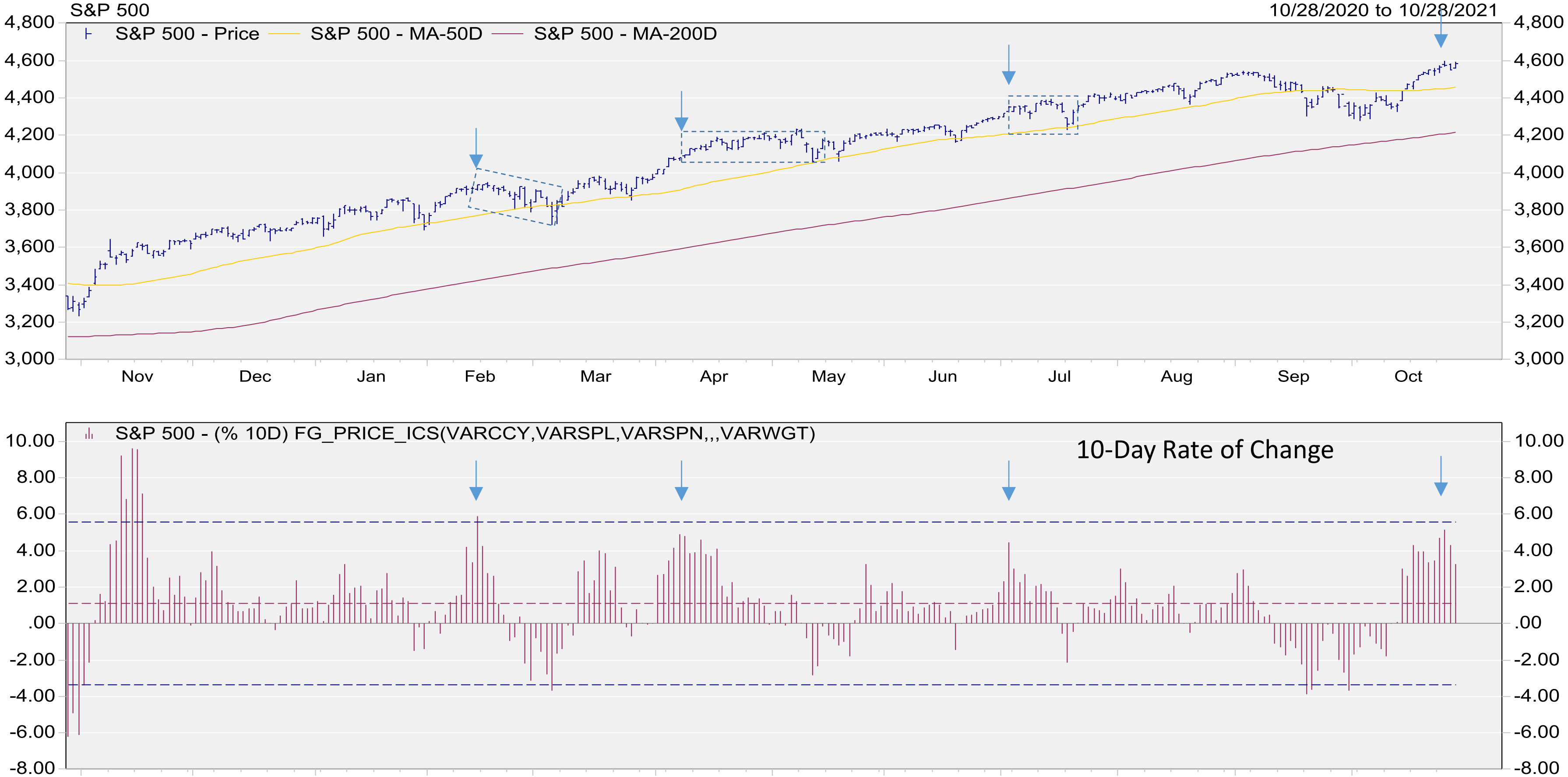
We view the pullback in September as a pause within the prevailing trend, and are encouraged by a solid start to Q3 earnings season being a key driver of the rally (as earnings are the long-term driver of stock prices).

The rally does leave the index overbought in the short-term. And we note a “shooting” star candlestick pattern, following the index’s sharp ascent over the past two weeks, that can often be followed by consolidation (sideways to slightly lower) in the short-term.

Watch the 50DMA for initial support (currently at 4457) followed by 4280. Continue to watch 4616 and 4672 for potential resistance on the S&P, which are Fibonacci projections.

TECHNICAL: S&P 500

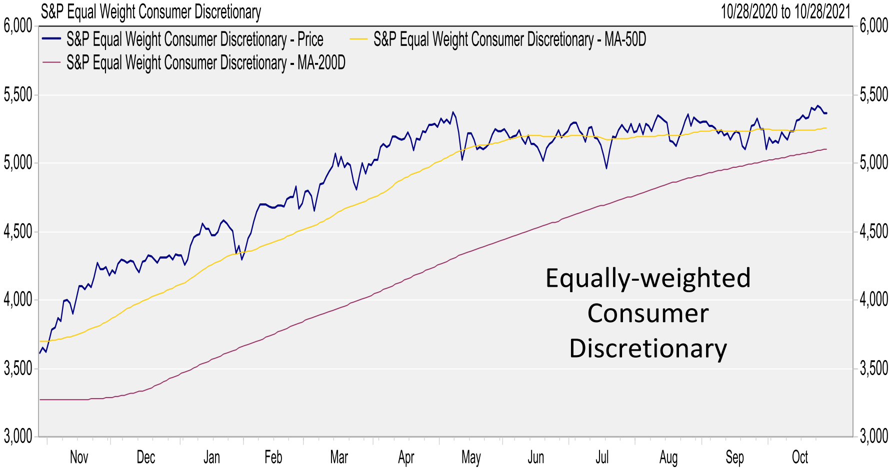
While the market's advance was able to push above technical resistance levels (supporting the overall bullish tone to trends), a 5% 10-day move can often be followed by a sideways to slightly downward consolidation in the short-term (days to weeks). We would not be surprised for this to occur, as the market's pace of ascent and volatility should begin to normalize at this stage of the bull market. And within digestion phases, there can be rolling pullbacks beneath the surface- which we would use opportunistically for favored stocks and sectors.

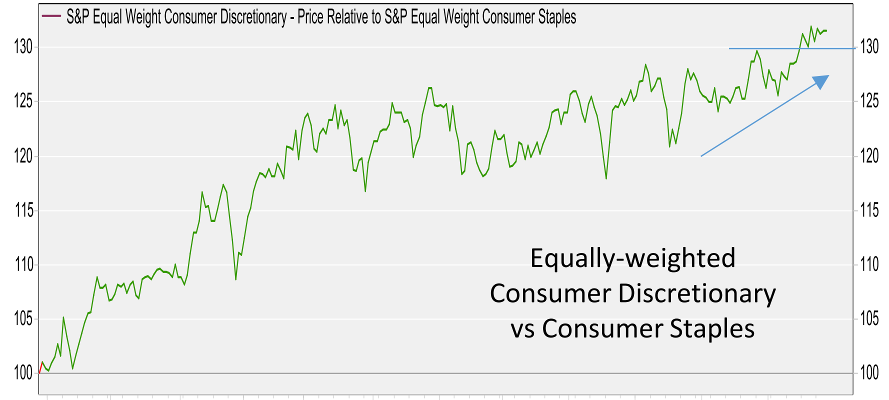


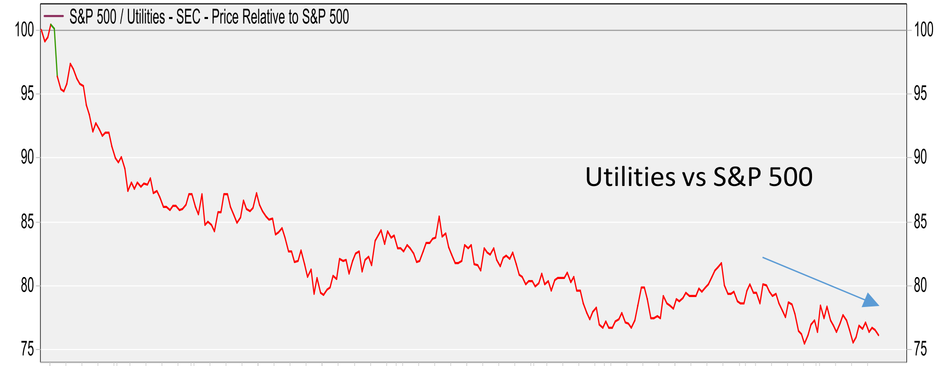
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CYCLICALITY

Within the market's break out, we were encouraged to see a risk-on tone to sector performance. The equal-weight Consumer Discretionary sector broke out to new highs, as did its relative strength vs the equal-weight Consumer Staples sector. Additionally, the more defensive, interest-sensitive Utilities sector continues its downward trend in relative performance.



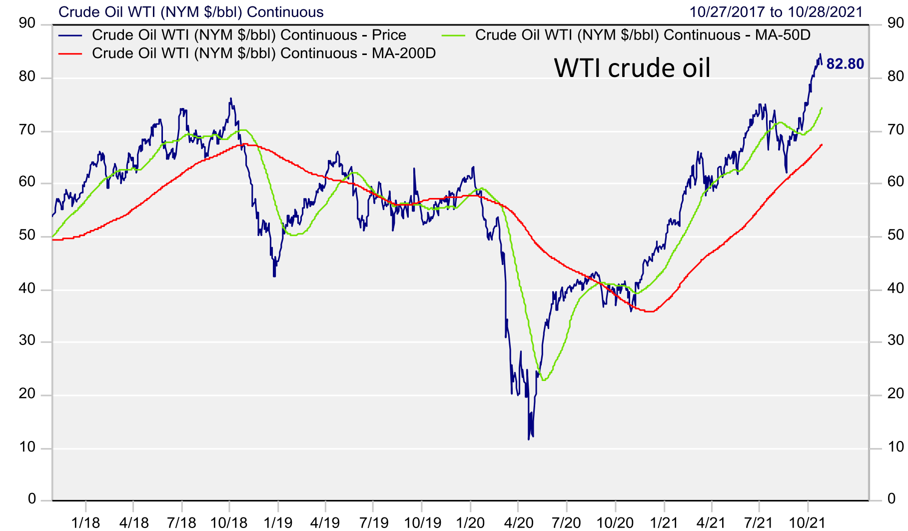


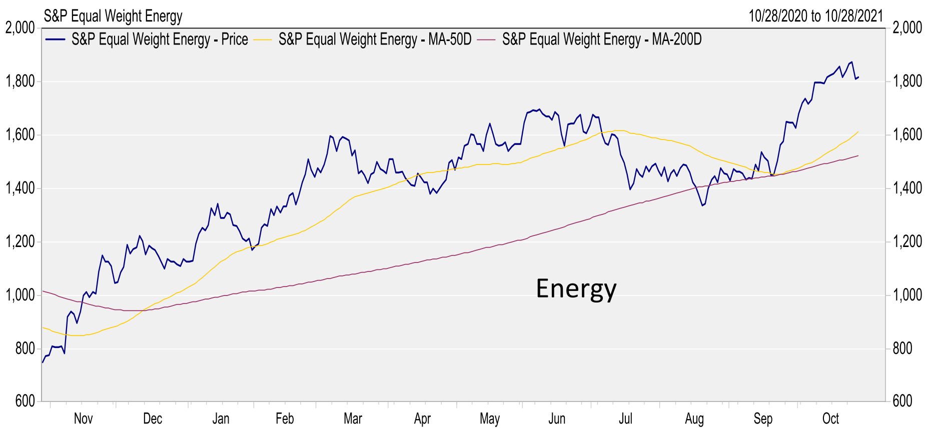


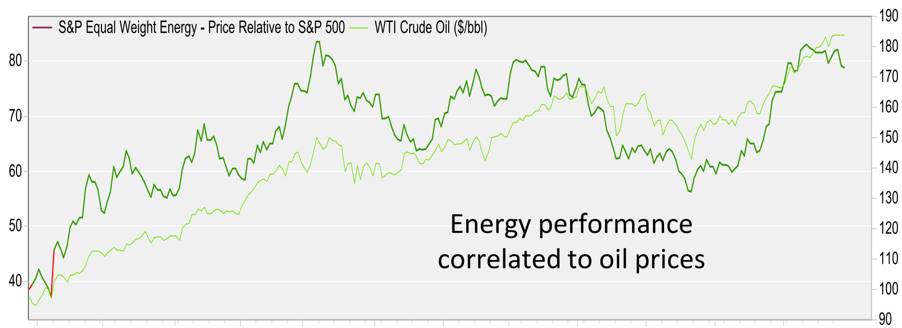
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

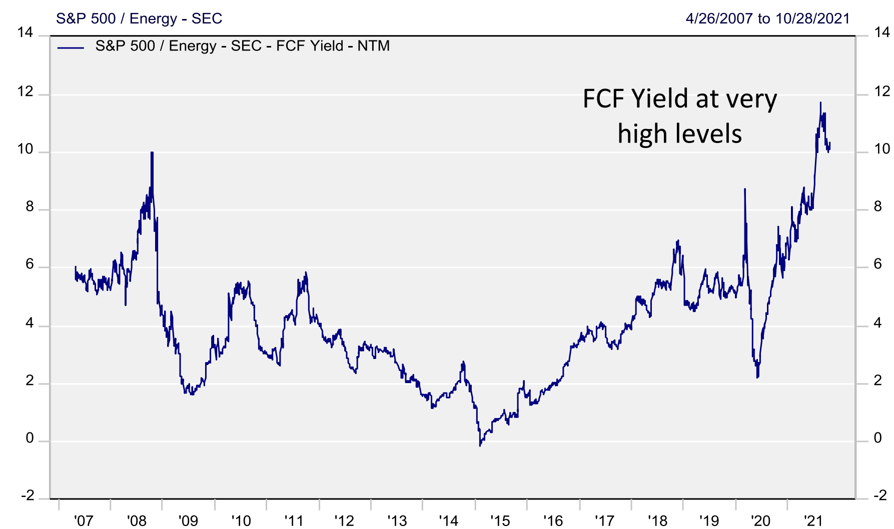
ENERGY

Energy has seen strong gains in recent weeks on sharply higher oil prices. Efficiency gains by many of the operators through the low price environment over the past several years, accompanied by upside to prices now, is leading to robust free cash flow and shareholder-friendly uses of that cash (i.e. large variable dividends). While we remain positive on the fundamental backdrop and view valuation as attractive, the sharp ascent does leave the sector overbought in the short-term. We would use a pullback or consolidation as a buying opportunity.





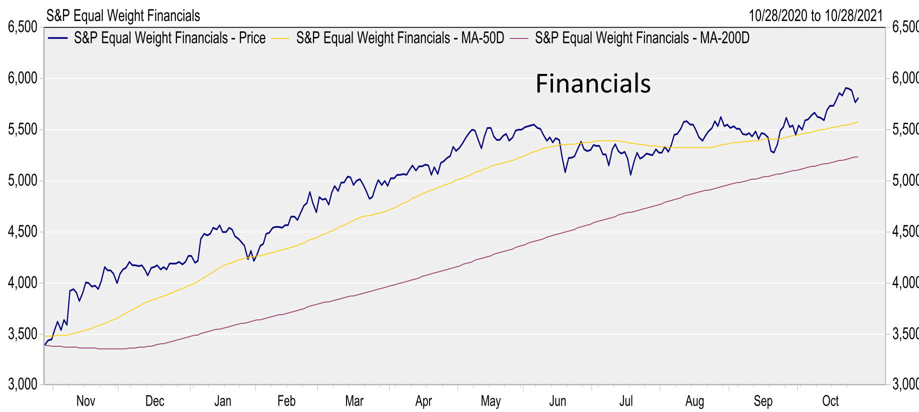


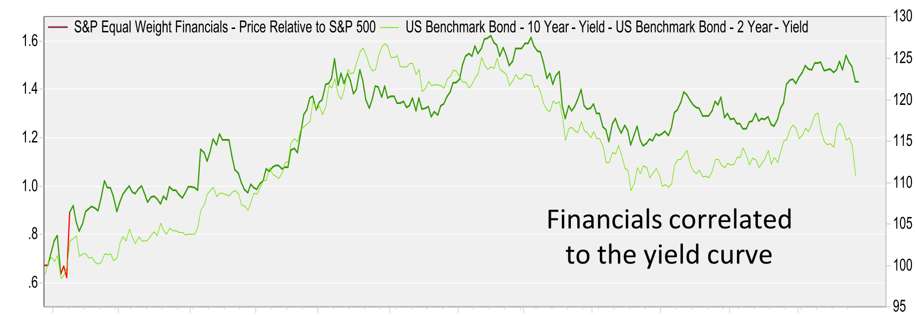


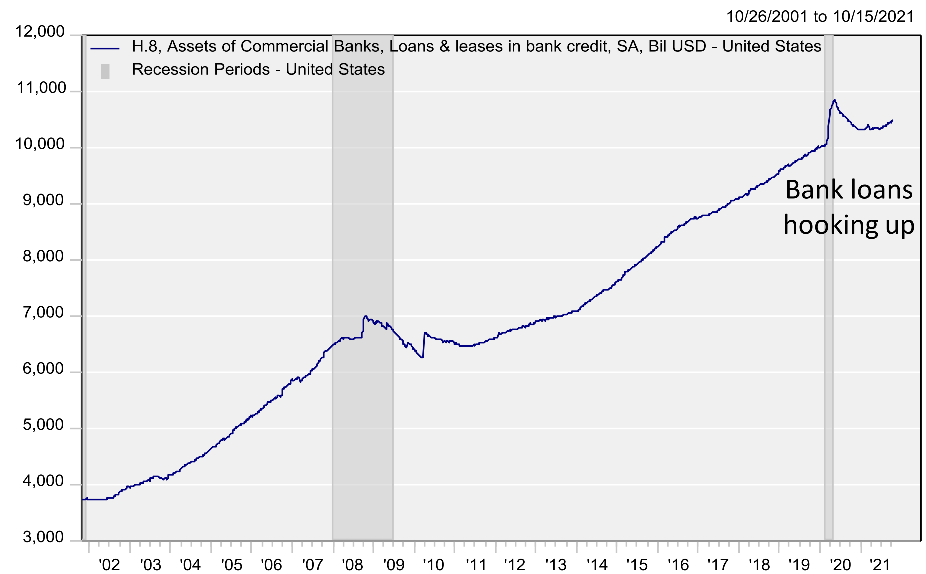
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FINANCIALS

The Financials have been highly correlated to interest rates and the yield curve over the past year, and broke out to new highs in conjunction with higher rates over the past couple of weeks. The US 10yr yield hit technical resistance at the ~1.7% level and has pulled back some recently- contributing to a narrower yield curve along with a slight consolidation for the sector. It is our expectation for interest rates to grind higher over time, but importantly we are seeing signs of improving loan growth ahead (important for the next stage of the Financials recovery). Keep an eye on the narrowing yield curve in the short term, but we would use weakness in the Financials as a buying opportunity.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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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