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OCTOBER 7, 2021 | 4:14 PM EDT

Weekly Market Guide

Short-Term Summary: Anxiety surrounding the debt ceiling has contributed to recent market weakness in our view, though also accompanied by supply chain issues, inflation concerns, and details on the coming infrastructure/tax bill. While all of these variables can impact volatility and act as headwinds in the short term, they do not alter our positive view on the intermediate term outlook. Equities are rallying today on reports that Congress has come to agreement on a short-term extension to the debt ceiling (suggesting the amount can carry borrowing capacity into December). Details are not yet finalized; and though we view debt ceiling brinkmanship as largely "noise," the agreement would remove some near-term uncertainty impacting market volatility (delaying debt ceiling resolution to December like government funding).

Technically, the S&P 500 has put in a string of lower highs and lower lows over the past month. Today's bounce has the index approaching resistance at its 50-day moving average (4438) which is in line with the most recent lower high. We will be monitoring price action around this level. On the downside, we would like to see the trend of lower lows come to an end- and would thus like to see the recent low of 4278 hold if the S&P 500 pulls back in (and as the overall market pattern gets rebuilt). Below this, we see technical support at 4233 (65-day low) and 4165 (in line with 200-day moving average). We view the current pullback as normal and unlikely to move significantly below these support levels (unless the narrative materially changes). We are also encouraged by the pro-cyclical nature of sector and stock performance beneath the surface through the current bout of volatility (along with very narrow credit spreads), and believe the improved relative strength trends of these more economically-sensitive areas can continue.

Q3 earnings season begins next week, and we expect the predominant theme to surround companies' ability to weather the ongoing supply chain inefficiencies and bottlenecks. Investors will be listening closely to cost inflation, pricing power, and the margin outlook for companies. Despite these headwinds, demand remains strong in our view- supporting our positive outlook on the economic and fundamental recovery. We see the positives of a healthy consumer, monetary and fiscal stimulus, above trend economic growth, and strong earnings growth outweighing the potential impacts of higher inflation, taxes, and interest rates. We also believe valuations will normalize further but can remain above average in the low interest rate environment. This results in our updated base case S&P 500 price objectives of 4613 for 2021 and 4950 for 2022 (includes 25% corporate tax). For details on our updated S&P 500 targets, please see our recently-published Q3 Equity Market Update (linked here).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	12.5%	23.9%
S&P 500	16.2%	29.8%
S&P 500 (Equal-Weight)	19.3%	38.5%
NASDAQ Composite	12.5%	30.0%
Russell 2000	12.2%	40.4%
MSCI All-Cap World	9.8%	24.6%
MSCI Developed Markets	4.2%	18.6%
MSCI Emerging Markets	-5.0%	11.3%
NYSE Alerian MLP	32.8%	66.7%
MSCI U.S. REIT	22.4%	29.3%

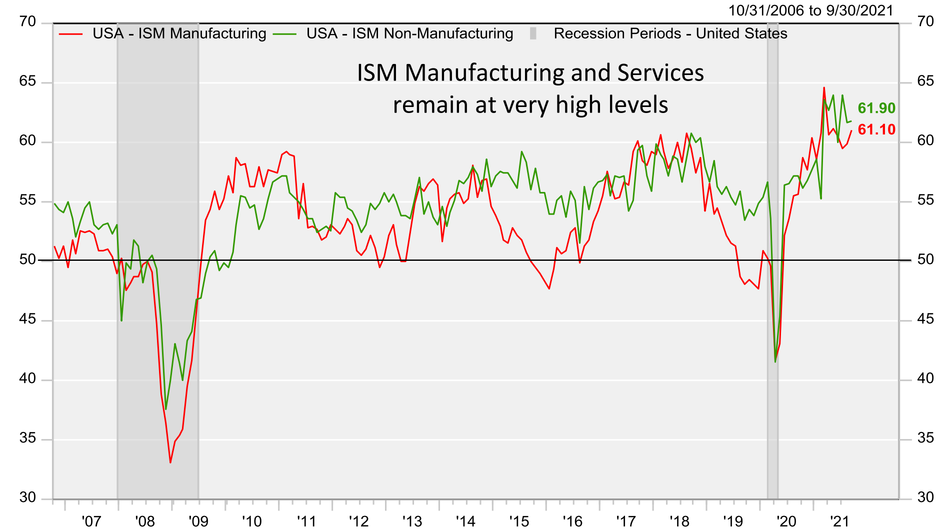
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	44.5%	2.9%
Financials	30.9%	11.6%
Real Estate	23.6%	2.6%
Communication Svcs.	22.8%	11.3%
S&P 500	***16.2%***	-
Information Technology	15.9%	27.6%
Industrials	13.0%	8.1%
Materials	11.0%	2.5%
Health Care	11.0%	12.9%
Consumer Discretionary	10.3%	12.3%
Utilities	4.5%	2.5%
Consumer Staples	4.0%	5.8%

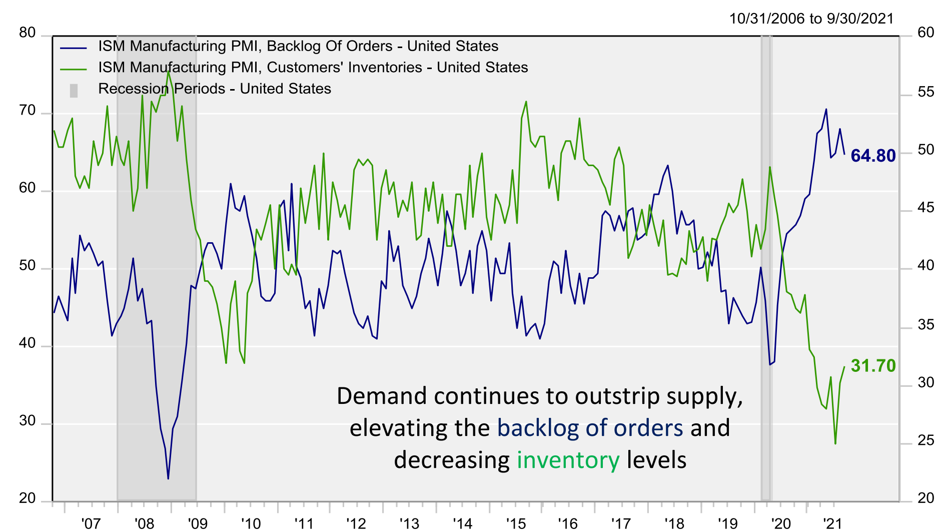
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

September ISM surveys were released in the past week with both Manufacturing and Services surprising to the upside. ISM Services rose to 61.9 (from 61.7), ahead of estimates for a decrease to 60.0. Additionally, ISM Manufacturing rose to 61.1 (from 59.9), ahead of estimates for a decrease to 59.5. These are both very strong readings and reflect expectations for a robust recovery. Within the Manufacturing report, new orders remained very high (66.7) and continued to outstrip production (59.4). This indicates supply chain pressures remain elevated but so does demand, putting upward pressure on inflation as the backlog of orders stays very elevated and inventory levels diminish. Moreover, we are encouraged by the decrease in Covid cases recently, along with the resultant uptick in mobility indicators. As global economies reopen following the Delta variant peak and increased vaccination rates, we are hopeful that supply chain pressures (albeit remaining high) can ease in the coming months. We note a slight narrowing between the backlog of orders and inventories lately and are hopeful that this gap can continue to normalize.

Event	Period	Actual	Consensus	Prior
Personal Consumption Expenditure SA M/M	AUG	0.80%	0.75%	-0.10%
Personal Income SA M/M	AUG	0.20%	0.20%	1.1%
Markit PMI Manufacturing SA (Final)	SEP	60.7	60.5	60.5
Construction Spending SA M/M	AUG	0.0%	0.30%	0.30%
ISM Manufacturing SA	SEP	61.1	59.5	59.9
Michigan Sentiment NSA (Final)	SEP	72.8	71.0	71.0
Durable Orders ex-Transportation SA M/M (Final)	AUG	0.34%	0.20%	0.20%
Durable Orders SA M/M (Final)	AUG	1.8%	1.8%	1.8%
Factory Orders SA M/M	AUG	1.2%	1.0%	0.70%
Trade Balance SA	AUG	-$73.3B	-$70.5B	-$70.3B
PMI Composite SA (Final)	SEP	55.0	54.5	54.5
Markit PMI Services SA (Final)	SEP	54.9	54.4	54.4
ISM Non Manufacturing SA	SEP	61.9	60.0	61.7
ADP Employment Survey SA	SEP	568.0K	450.0K	339.7K
Continuing Jobless Claims SA	09/25	2,714K	2,790K	2,811K
Initial Claims SA	10/02	326.0K	348.0K	364.0K

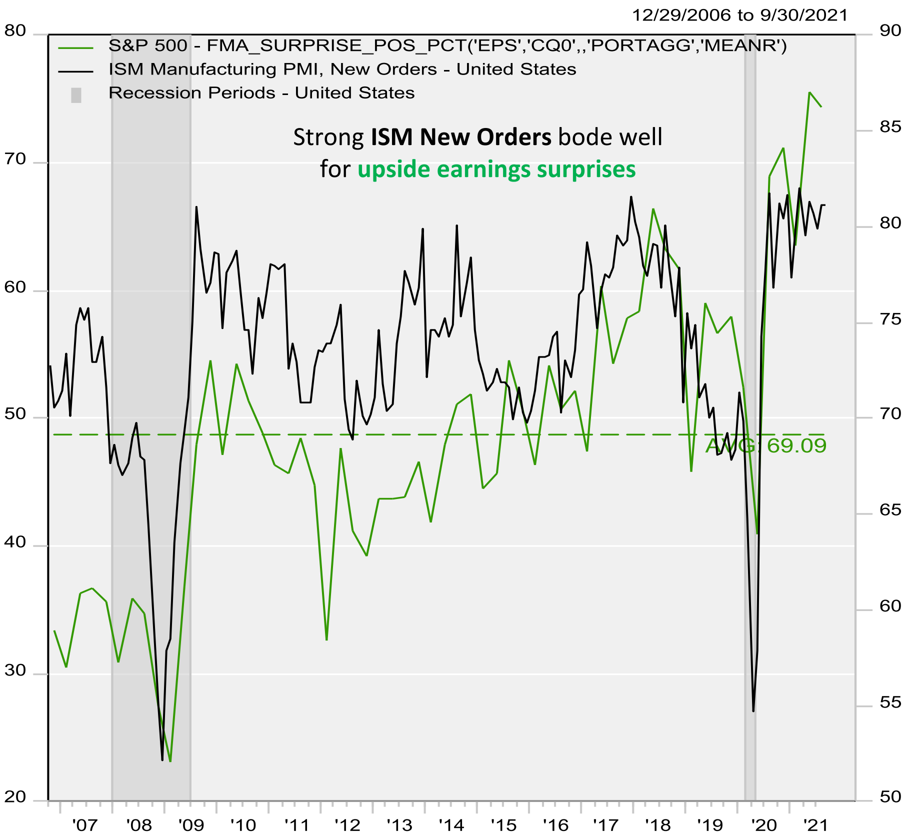


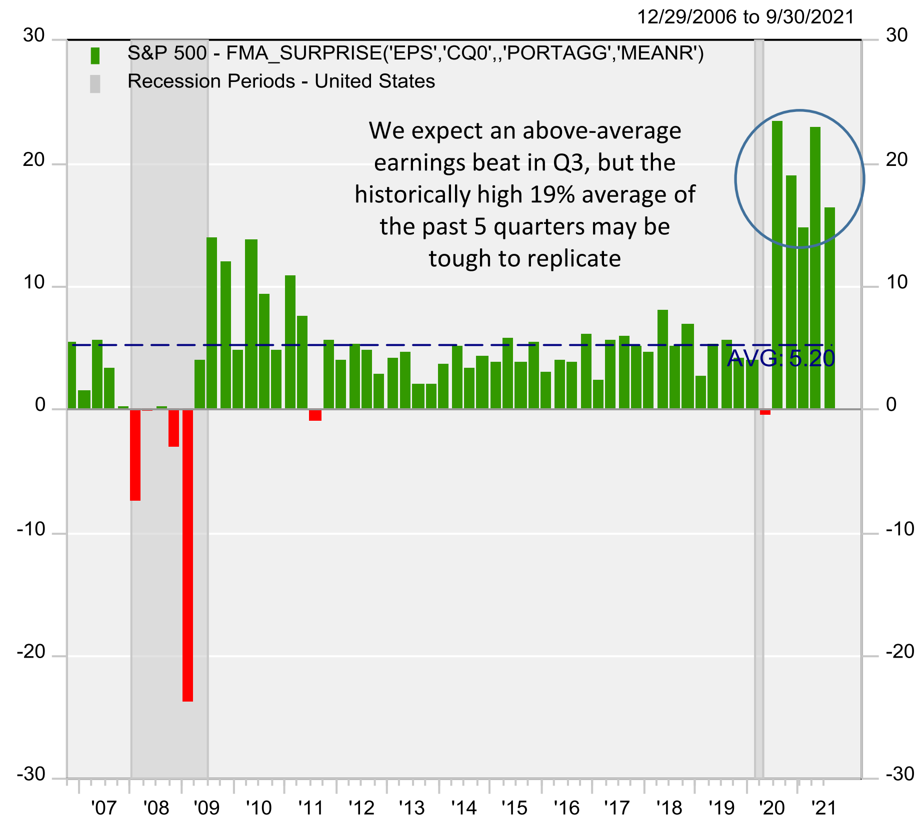


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

The trend of strong ISM New Orders bodes well for upside earnings surprises in our view, as you can see the positive correlation between the two variables historically. Additionally, the replenishment of inventory levels over the next year should support the continuation of elevated new orders- which in turn should lead to earnings upside. But while we expect above average earnings beats, the magnitude of the past five quarters (historically high 19% average) may be tough to replicate given the economic slowdown in Q3 resulting from the Delta variant and higher inflation. That said, we expect the S&P 500 earnings surprise to remain above the 5.2% 15-year average.



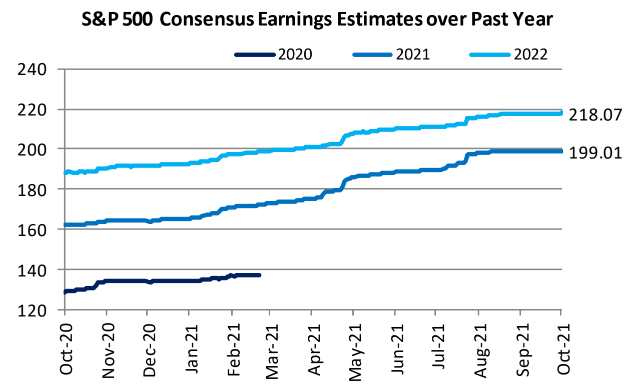


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q3 earnings season begins next week with banks leading the charge, but also initial reads in other sectors (i.e. industrials, health care, semiconductors). Supply chain inefficiencies and bottlenecks, resulting from the Delta variant in Q3, have weighed on earnings estimates as corporations deal with missed delivery dates and higher inflation. This will be the predominant theme of earnings this quarter in our view, as investors will be listening closely to margin impacts, the ability to offset these pressures, and the outlook for individual companies. S&P 500 Q3 earnings estimates overall have stalled out in recent months. But companies with the best Q3 earnings revisions have seen the best returns, while those with the worst revisions have seen the worst returns. With supply chain issues likely to remain in Q4, company comments on guidance (particularly margins) will likely continue to play a major role in relative performance through year-end.

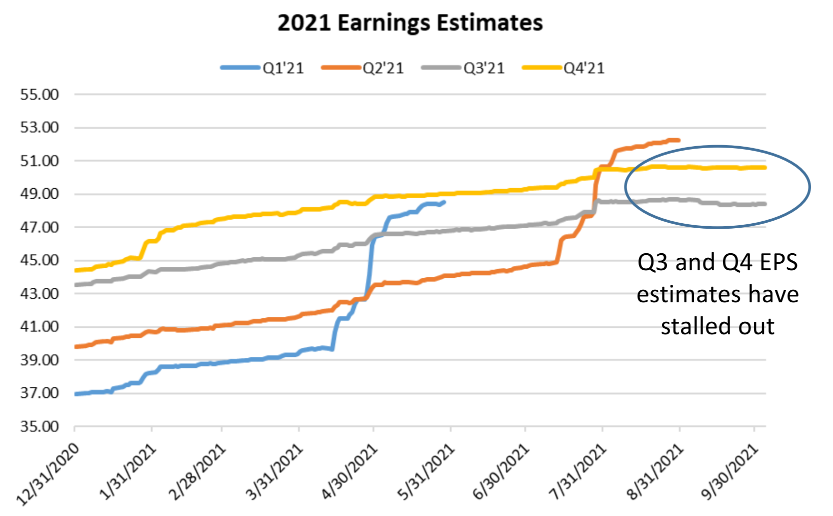
We updated our 2021 and 2022 S&P 500 price objectives this week- increasing our base case target to 4613 for 2021 and 4950 for 2022. Our 2022 earnings estimate is now $225 (including 25% corporate tax), and we apply an above-average 22x P/E due to our expectation of above-trend economic and earnings growth, in conjunction with the low interest rate environment (and supportive Fed). For more details on our updated S&P 500 targets, please see our recently-published Q3 Equity Market Update (linked here).

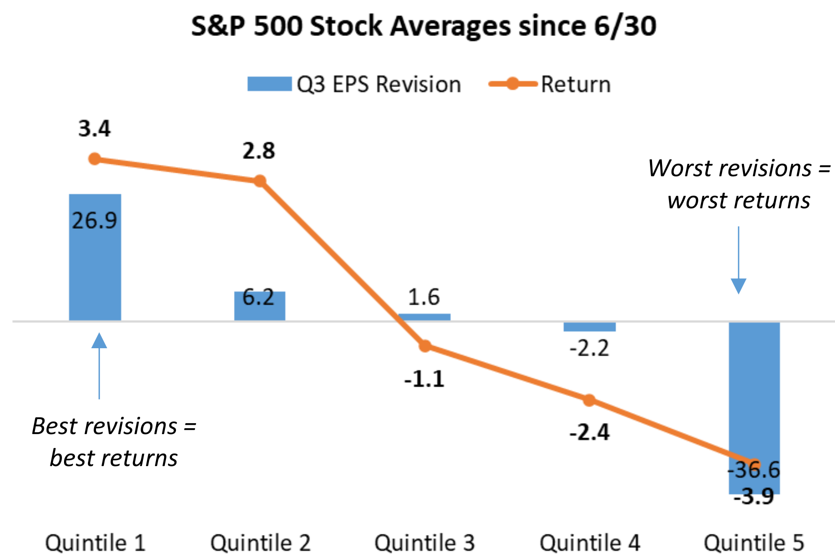


EPS Growth Estimates	
2020	-14.2%
2021	45.0%
2022	9.6%

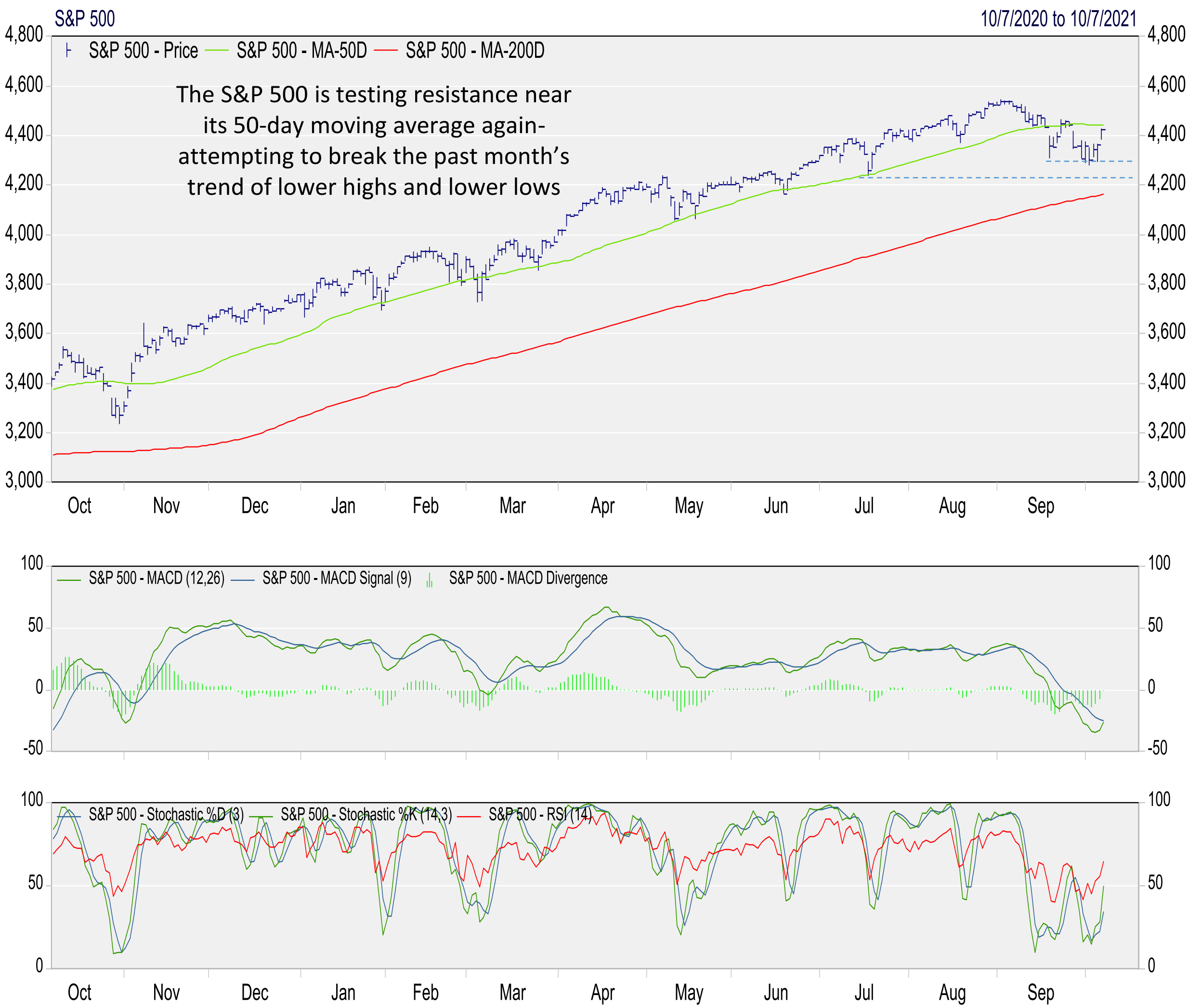
RJ Estimates
2021: 205
2022: 225
(includes 25% corporate tax)

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy





TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

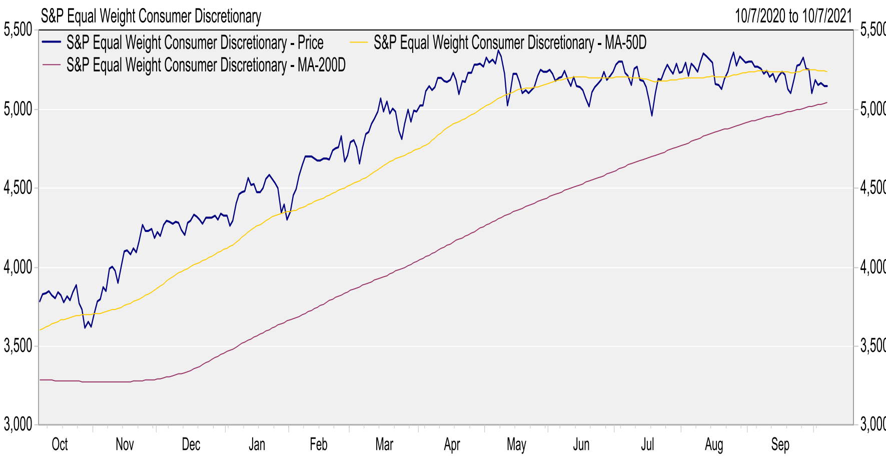
Technically, the S&P 500 has put in a string of lower highs and lower lows over the past month. Today's bounce has the index approaching resistance at its 50-day moving average (4438) which is in line with the most recent lower high. We will be monitoring price action around this level.

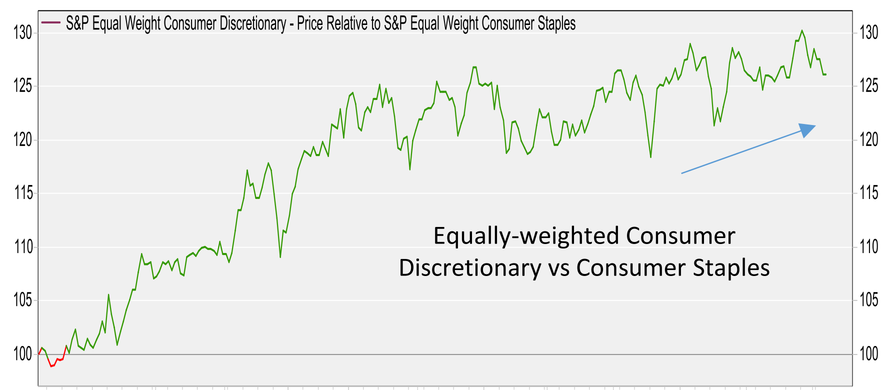
On the downside, we would like to see the trend of lower lows come to an end- and would thus like to see the recent low of 4278 hold if the S&P 500 pulls back in (as the overall market pattern attempts to rebuild for resumed upside). Below this, we see technical support at 4233 (65-day low) and 4165 (in line with 200-day moving average).

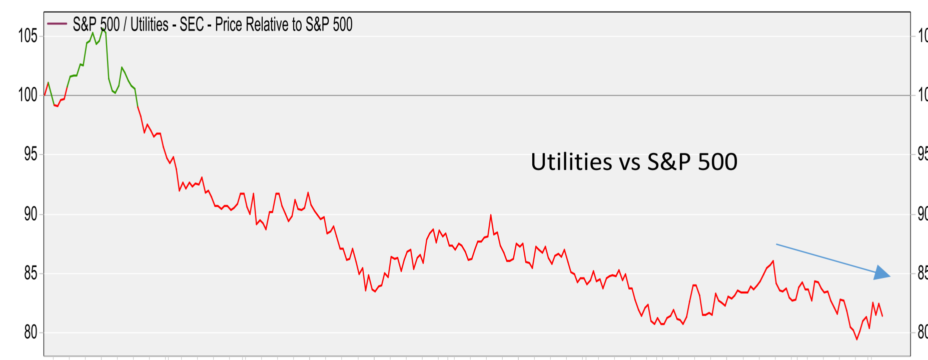
We view the current pullback as normal and unlikely to move significantly below these support levels (unless the narrative materially changes).

CYCLICALITY

We are also encouraged by the pro-cyclical nature of sector and stock performance beneath the surface through the current bout of volatility (along with very narrow credit spreads). As you can see, relative performance of the equal-weight Consumer Discretionary sector continues to exhibit an uptrend vs equal-weight Consumer Staples. Additionally, the Utilities sector continues its trend of underperformance. This risk-on tone to underlying performance supports our pro-cyclical stance to portfolio positioning, along with our underweight recommendation to the more defensive areas.



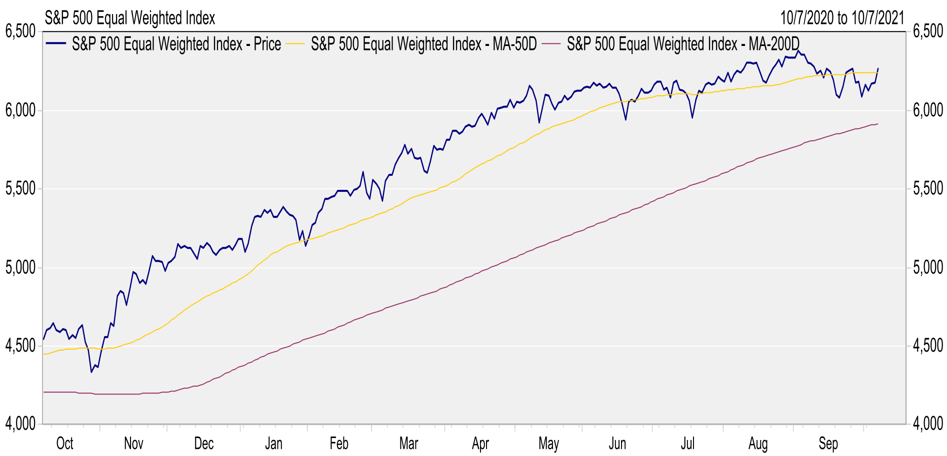


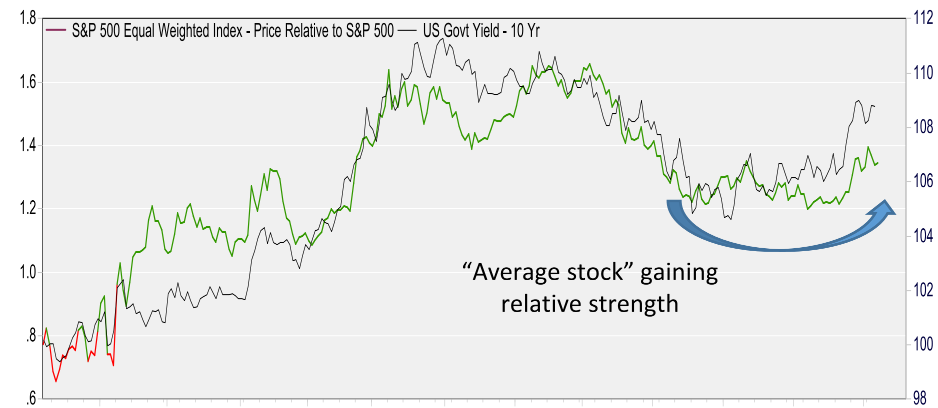


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

MARKET BREADTH

The increase in bond yields and steepening yield curve lately has supported the improvement of market breadth. As you can see, there continues to be a strong correlation between the US 10-year Treasury yield and relative performance of the equally-weighted S&P 500 ("average stock"). We have a bias for interest rates to grind higher and for rotation back into the more economically-sensitive areas to lead market performance. Two of the best performing areas lately are Energy and the Banks. Some of the stocks have seen very large moves, but we would look to accumulate as opportunity presents itself with both sectors in strong uptrends (100% of stocks within them trade above their 200 DMA).



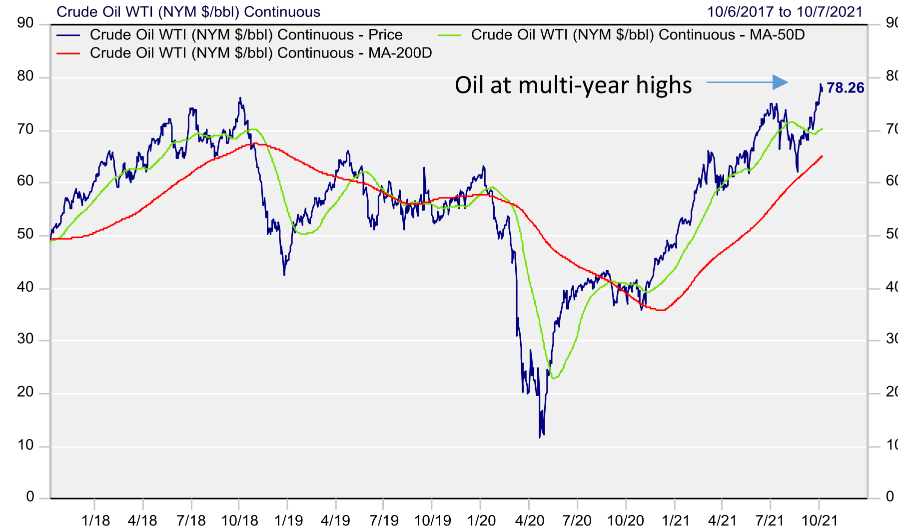


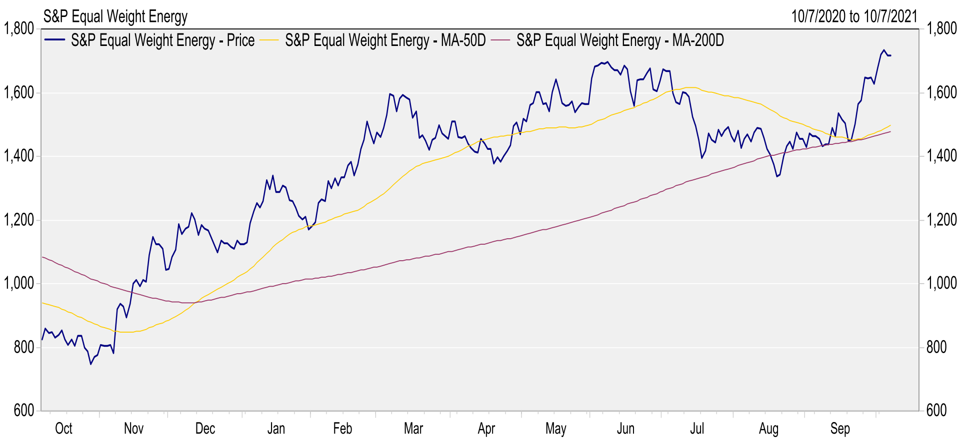
Industry Groups	10 DMA % Above	20 DMA % Above	50 DMA % Above	200 DMA % Above
Banks	100	100	100	100
Energy	86	100	100	100
Diversified Financials	56	60	44	92
Insurance	91	73	64	91
Commercial & Professional Services	58	42	42	83
Real Estate	52	48	45	83
Technology Hardware & Equipment	15	15	10	75
Consumer Services	44	61	61	72
Retailing	14	23	32	68
Pharmaceuticals Biotechnology & Life	7	7	11	65
S&P 500	***50***	***41***	***34***	***65***
Health Care Equipment & Services	14	5	8	65
Software & Services	33	28	25	61
Media & Entertainment	65	57	48	61
Utilities	96	36	7	61
Food & Staples Retailing	20	20	20	60
Automobiles & Components	60	100	80	60
Materials	71	32	14	57
Capital Goods	48	39	28	54
Transportation	80	80	60	53
Food Beverage & Tobacco	71	62	33	43
Semiconductors & Semiconductor Equ	21	11	16	42
Household & Personal Products	83	0	0	33
Consumer Durables & Apparel	6	6	0	11
Telecommunications Services	50	75	25	0

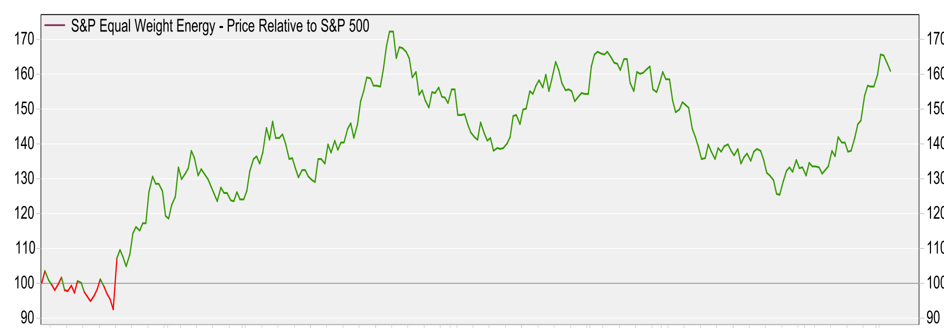
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

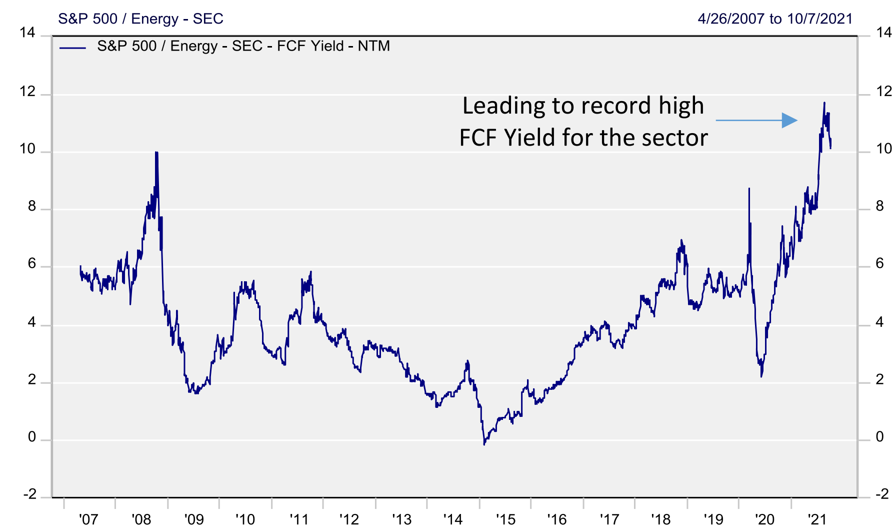
ENERGY

Oil prices have surged to multi-year highs lately ($78/barrel), and this is supporting very large free cash flow growth for the Energy sector which many operators are using in shareholder-friendly ways (i.e. large variable dividends) rather than overproduction. The Energy sector is attempting to break out to new recovery highs on oil's move. While the move lately has been straight up and may need to consolidate in the short term, we would use pullbacks as buying opportunities and reiterate our Overweight recommendation to the sector.





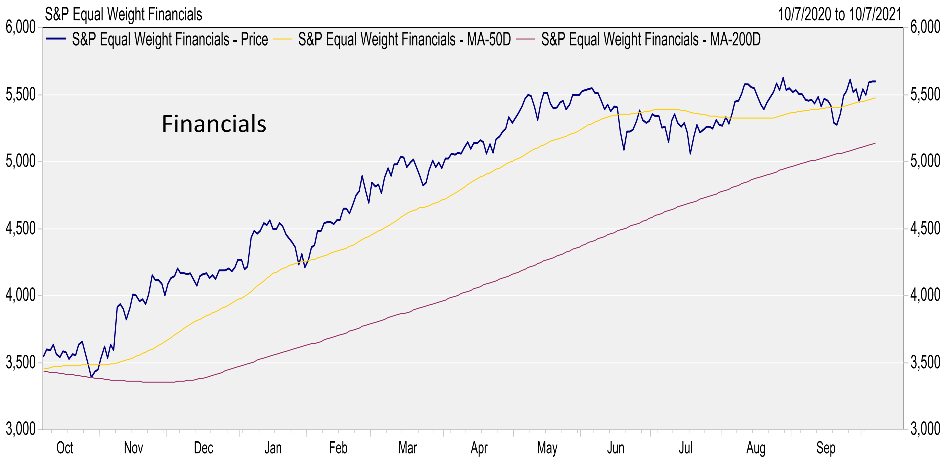


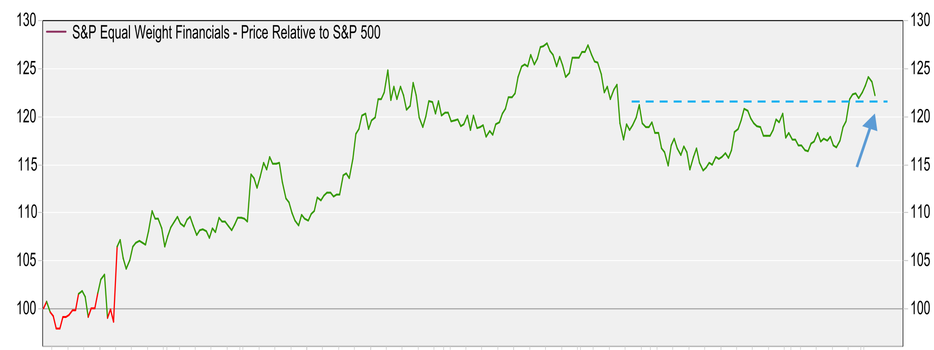


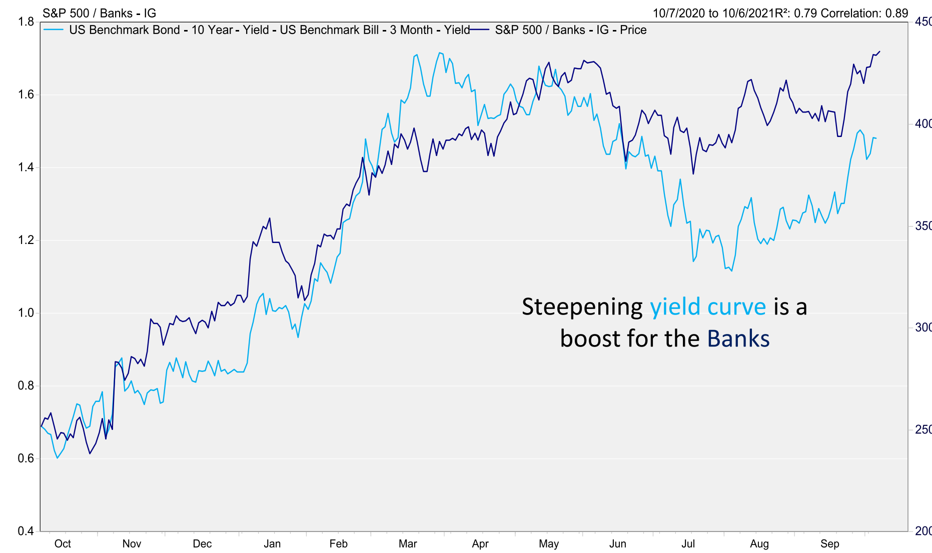
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

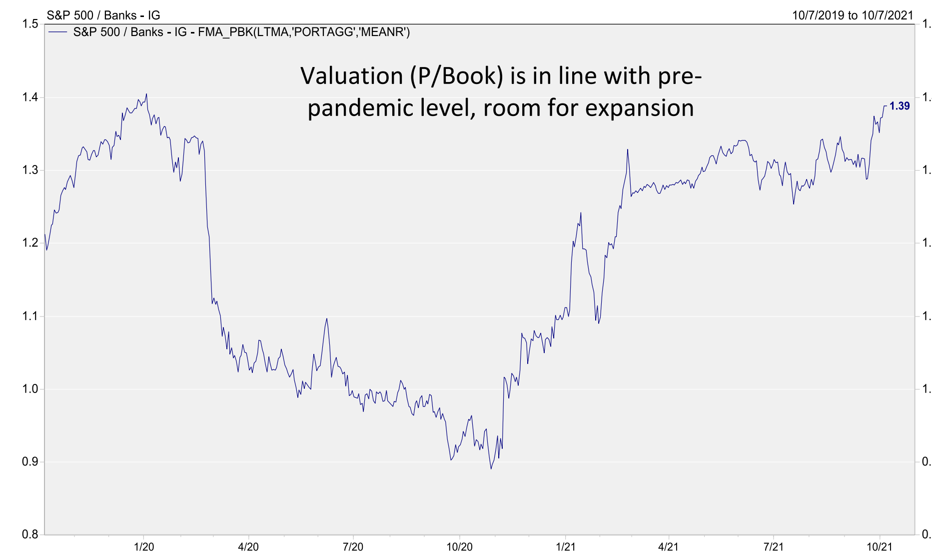
FINANCIALS

The Financials are on the cusp of breaking out to new highs and have seen relative strength trends improve with the steepening yield curve lately. We recommend an Overweight allocation to the Financials within portfolios due to our view of a likely grind higher in interest rates and improving loan growth as the recovery transpires, in conjunction with a relatively cheap valuation.





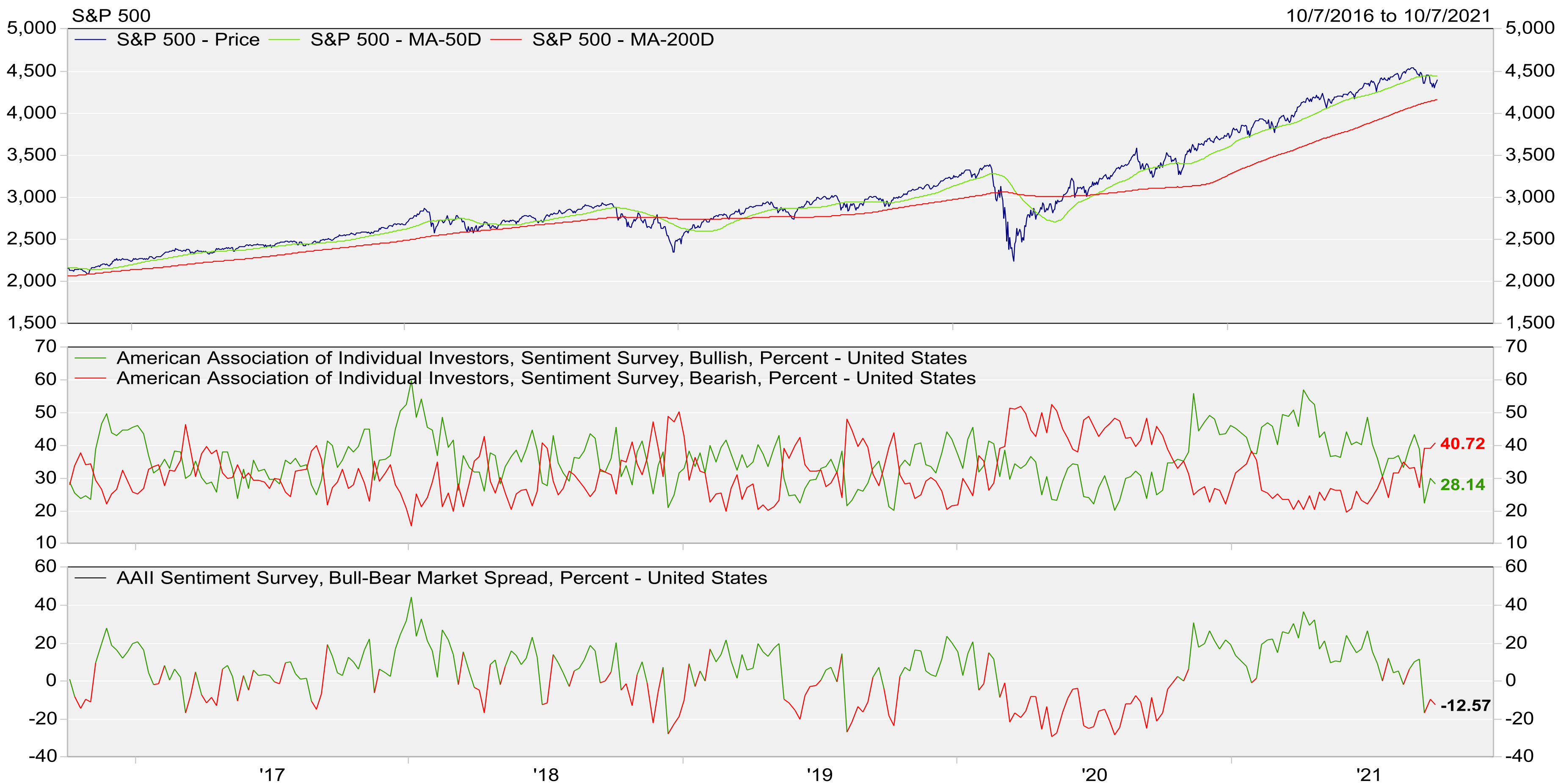




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INVESTOR SENTIMENT

This week's investor sentiment survey showed the highest percentage of bears and second lowest percentage of bulls in about a year. From a contrarian standpoint, bearish sentiment in our view is often a positive. It typically occurs closer to market lows (rather than highs) and provides upside as investors climb the "wall of worry."



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.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

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