RAYMOND JAMES

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Weekly Market Guide

Short-Term Summary:

Equities have continued to march higher in recent weeks, extending the upside seen since early October to ~9% at the recent peak. There has been a definitive risk-on tone to the move higher with small caps breaking out to new highs, cyclical sectors outperforming the defensives, and areas like the transports and semiconductors leading the charge. While the underlying leadership bodes well for forward returns, we do see many stocks at overbought levels in the short term. The S&P 500 index reached 5% above its 50-day moving average during the rally, which is the widest deviation in over four months. So while the overall path of least resistance remains higher, we recommend that investors be pragmatic with new purchases at current levels- using rolling pullbacks in favored sectors and stocks as opportunity when they occur.

Earnings season is approaching an end, although a handful of retailers and tech companies report over the next couple of weeks. The message from companies, along with the economic data recently, is strong underlying demand trends are partially contributing to the supply-related shortfalls in recent months. This is effectively resulting in an elongation of the recovery in our view as sales are being delayed (rather than lost). With Covid cases declining and vaccination rates rising globally, we are hopeful that the supply-related pressures can subside over the coming months and ease inflationary pressures. Estimates for 2022 S&P 500 operating margins have declined slightly over the past month, but still show margin expansion over the next year (from what is already elevated levels).

Strong demand trends bode well for earnings momentum and upside surprises ahead. We remain above consensus for 2022 earnings with an estimate of $225 (vs. consensus $218). And if recent indications prove true that potential tax hikes are being watered down (i.e. 15% minimum corporate tax rate vs. broad-based tax increases), we see upside to our estimate toward $230-235. Moreover, stubbornly low interest rates and narrow credit spreads remain supportive of above average valuations.

In sum: We remain positive on the fundamental and technical backdrop but believe the market's rate of ascent should begin to moderate at this stage of the recovery- with normal volatility occurring within an overall healthy trend over the next 12 months. As such, we would use market rotation and pullbacks as opportunities to accumulate favored stocks.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	17.9%	22.6%
S&P 500	23.7%	31.1%
S&P 500 (Equal-Weight)	25.6%	34.2%
NASDAQ Composite	21.2%	35.2%
Russell 2000	21.0%	37.6%
MSCI All-Cap World	16.3%	25.1%
MSCI Developed Markets	9.7%	18.4%
MSCI Emerging Markets	-1.3%	8.0%
NYSE Alerian MLP	36.3%	51.9%
MSCI U.S. REIT	31.2%	33.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	51.8%	2.8%
Financials	35.3%	11.2%
Real Estate	32.0%	2.6%
Information Technology	26.0%	28.2%
S&P 500	***23.7%***	-
Communication Svcs.	23.6%	10.7%
Consumer Discretionary	23.5%	12.9%
Materials	22.1%	2.6%
Industrials	20.0%	8.1%
Health Care	17.5%	12.9%
Consumer Staples	8.7%	5.7%
Utilities	6.6%	2.4%

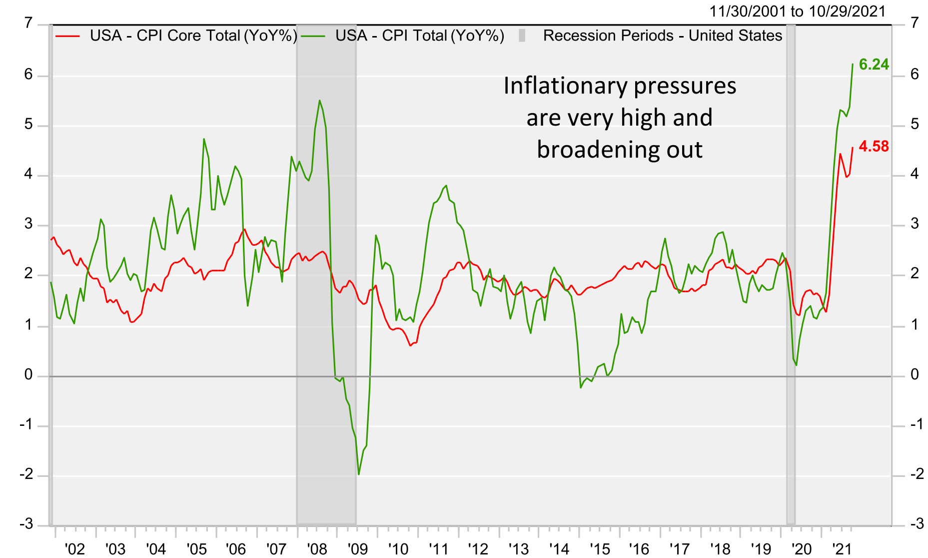
Source: FactSet, RJ Equity Portfolio & Technical Strategy

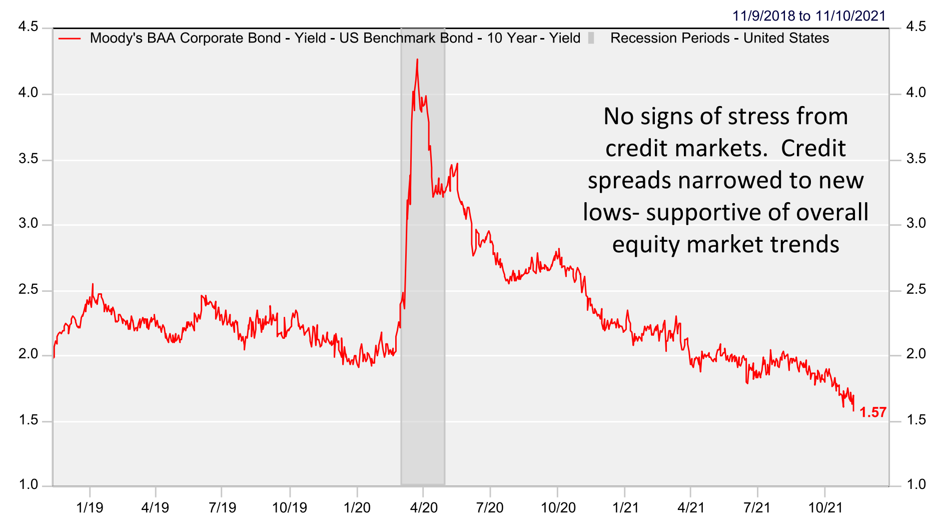
MACRO: US

Inflation remains a risk to equities, as it can put pressure on margins and reduce valuations. CPI accelerated by 0.9% m/m in October to 6.2% y/y (multi-decade highs). Core CPI also rose 0.7% m/m to a very elevated 4.6% y/y. This is likely to induce some pause for investors as they assess the stickiness of inflation and its potential impact on Fed policy. Elsewhere, October nonfarm payrolls improved by 531k in October, led by a 164k increase in leisure & hospitality employment (good to see, as Covid cases declined throughout the month). There were also big upward revisions to the prior two months in the jobs report, though we are not seeing the participation rate rise yet.

Elevated job openings (well ahead of unemployed), an end to direct payments and the eviction moratorium, and a decline in Covid cases, supports an improving labor market. We see the potential for supply chain and labor constraints to thaw in the months ahead, but these are risks to the recovery that continue to warrant attention. Importantly, demand remains strong.

Event	Period	Actual	Consensus	Prior
Manufacturing Payrolls SA	OCT	60.0K	30.0K	31.0K
Nonfarm Payrolls SA	OCT	531.0K	412.5K	312.0K
Private Nonfarm Payrolls	OCT	604.0K	380.0K	365.0K
Unemployment Rate	OCT	4.6%	4.7%	4.8%
Consumer Credit SA	SEP	$29.9B	$15.4B	$13.8B
NFIB Small Business Index	OCT	98.2	-	99.1
PPI ex-Food & Energy SA M/M	OCT	0.40%	0.50%	0.20%
PPI ex-Food & Energy NSA Y/Y	OCT	6.8%	6.8%	6.8%
PPI SA M/M	OCT	0.60%	0.60%	0.50%
PPI NSA Y/Y	OCT	8.6%	8.7%	8.6%
CPI ex-Food & Energy SA M/M	OCT	0.60%	0.40%	0.20%
CPI ex-Food & Energy NSA Y/Y	OCT	4.6%	4.3%	4.0%
Continuing Jobless Claims SA	10/30	2,160K	2,051K	2,101K
CPI SA M/M	OCT	0.90%	0.50%	0.40%
CPI NSA Y/Y	OCT	6.2%	5.8%	5.4%
Hourly Earnings SA M/M (Final)	OCT	0.40%	-	0.40%
Hourly Earnings Y/Y (Final)	OCT	4.9%	-	4.9%
Initial Claims SA	11/06	267.0K	265.0K	271.0K
Treasury Budget NSA	OCT	-$165.1B	-$137.0B	-$61.6B



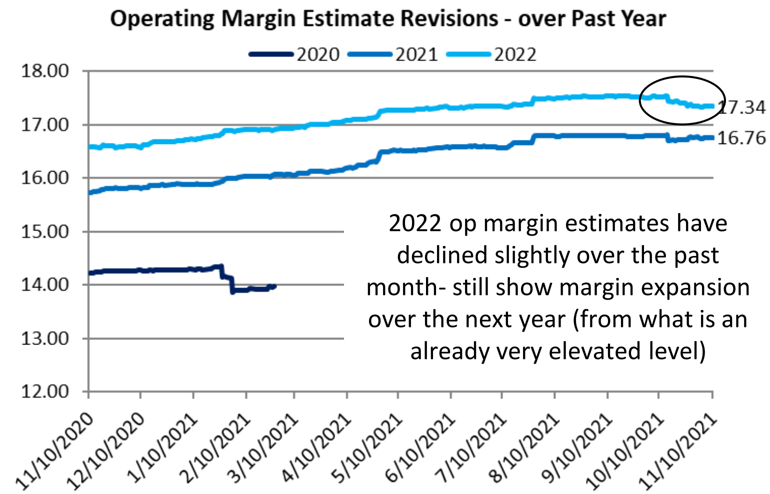


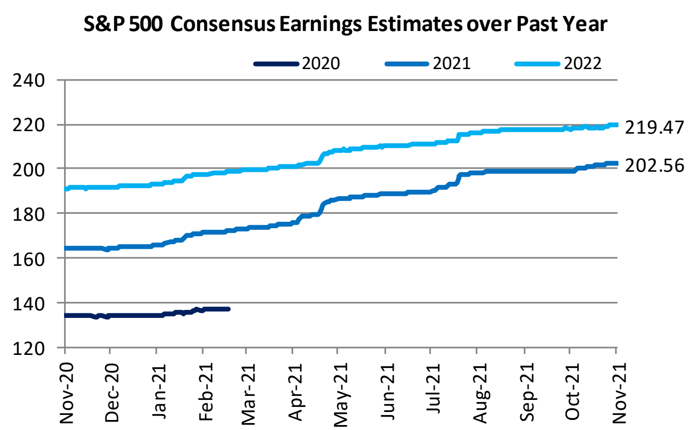
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q3 earnings season is winding down, as 91% of S&P 500 companies have reported results up to this point. There are a handful of notable retailers and tech companies still to report over the next couple of weeks that will be interesting to hear from (for late quarter trends on demand and margins). Q3 results overall have been strong with 81% of S&P 500 companies beating by an aggregate 10.4% surprise (both are well above historical averages). Estimates for 2022 S&P 500 operating margins have declined slightly over the past month, but still show margin expansion over the next year (from what is already elevated levels).

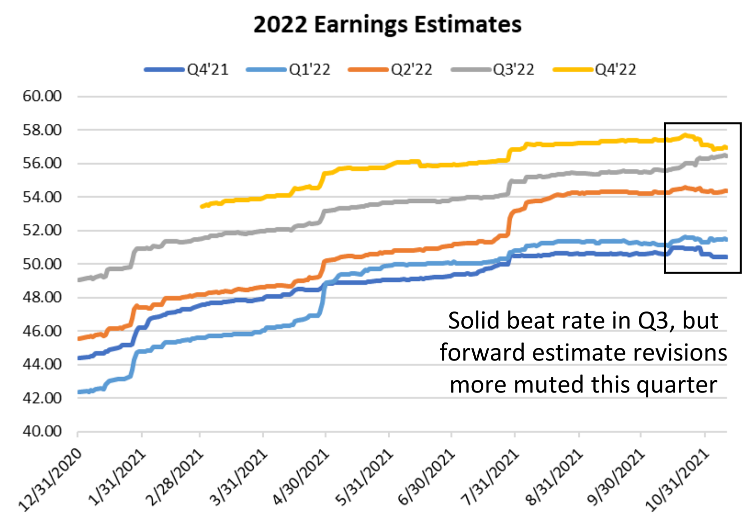
The strong Q3 earnings season with supply-related shortfalls but very high demand support our view of an elongation of the recovery. This bodes well for earnings strength in Q4 (and into next year), driven by what is likely to be good holiday spending (contributed at least in part by the wealth effect of very high asset prices). We remain above consensus for 2022 earnings with an estimate of $225 (vs. consensus $218). And if recent indications prove true that potential tax hikes are being watered down (i.e. 15% minimum corporate tax rate vs. broad-based tax increases), we see upside to our estimate toward $230-235. Moreover, stubbornly low interest rates and narrow credit spreads remain supportive of above average valuations.





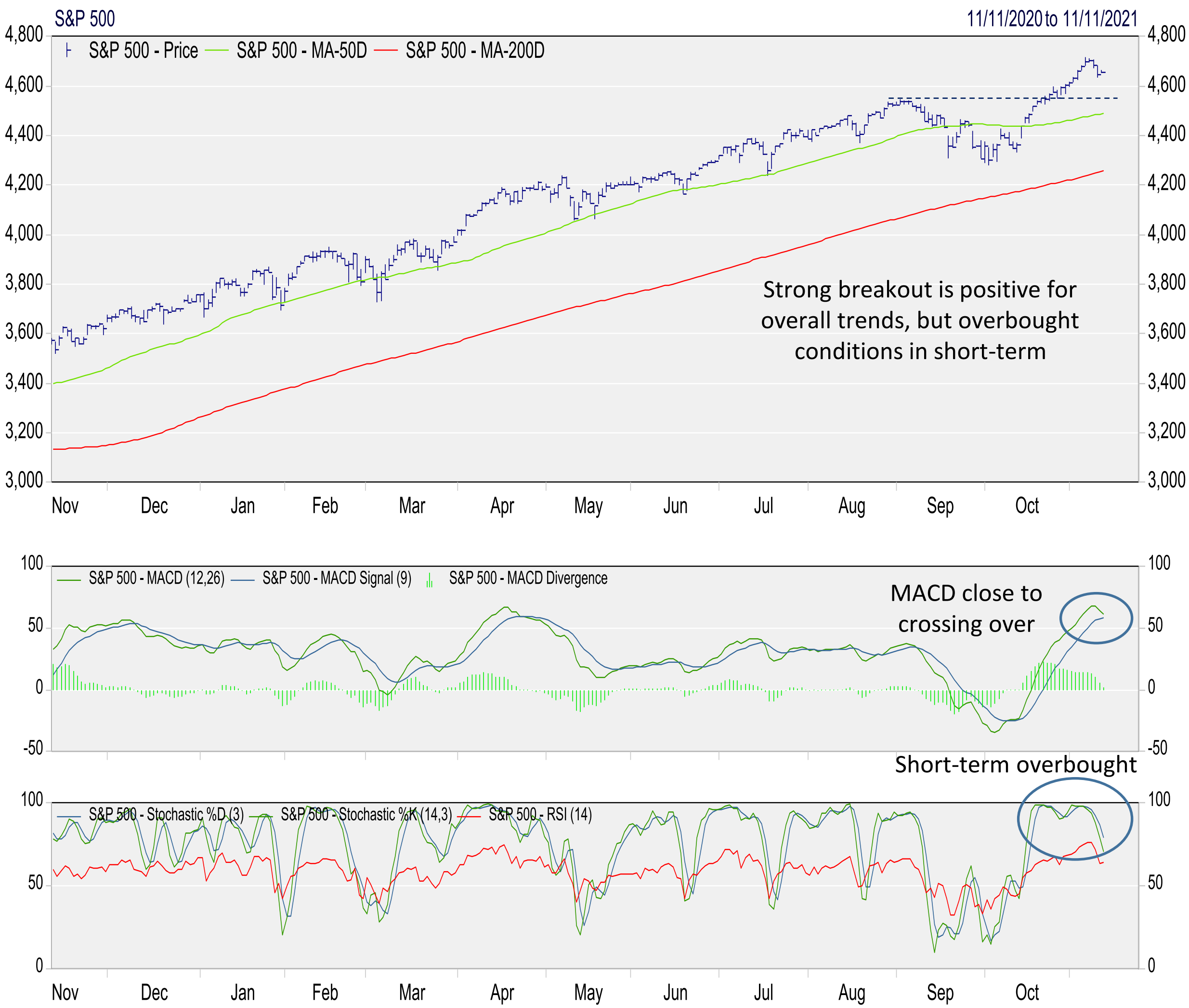
EPS Growth Estimates	
2020	-14.2%
2021	47.6%
2022	8.3%

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

Equities have continued to march higher in recent weeks, extending the upside seen since early October to ~9% at the recent peak. And while this strength bodes well for overall technical trends, it does leave many equities at overbought levels in the short-term.

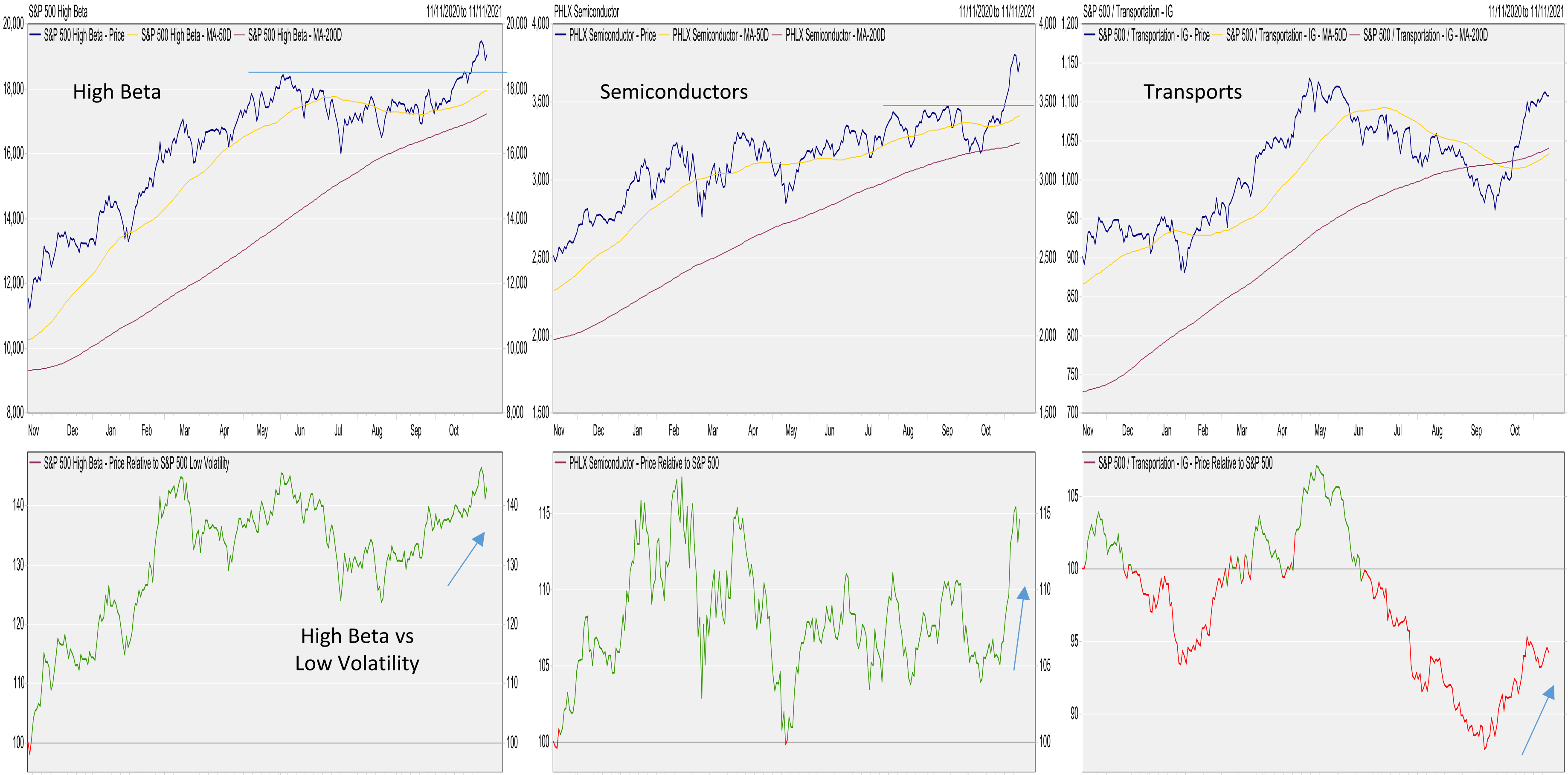
The 30-day rate of change is over 8% for the first time since April. Looking back to that period, the index needed a consolidation phase in the short-term (weeks) to digest the move before continuing its ascent higher. We believe a similar occurrence would be healthy. Additionally, MACD is close to rolling over, which may act as a headwind to the market's ascent in the short-term.

In the very short term, watch the 21DMA (currently at 4590), and horizontal support around 4545 (breakout point).

On the upside, the next area of resistance would be around 4795, which is a Fibonacci projection.

RISK-ON TONE

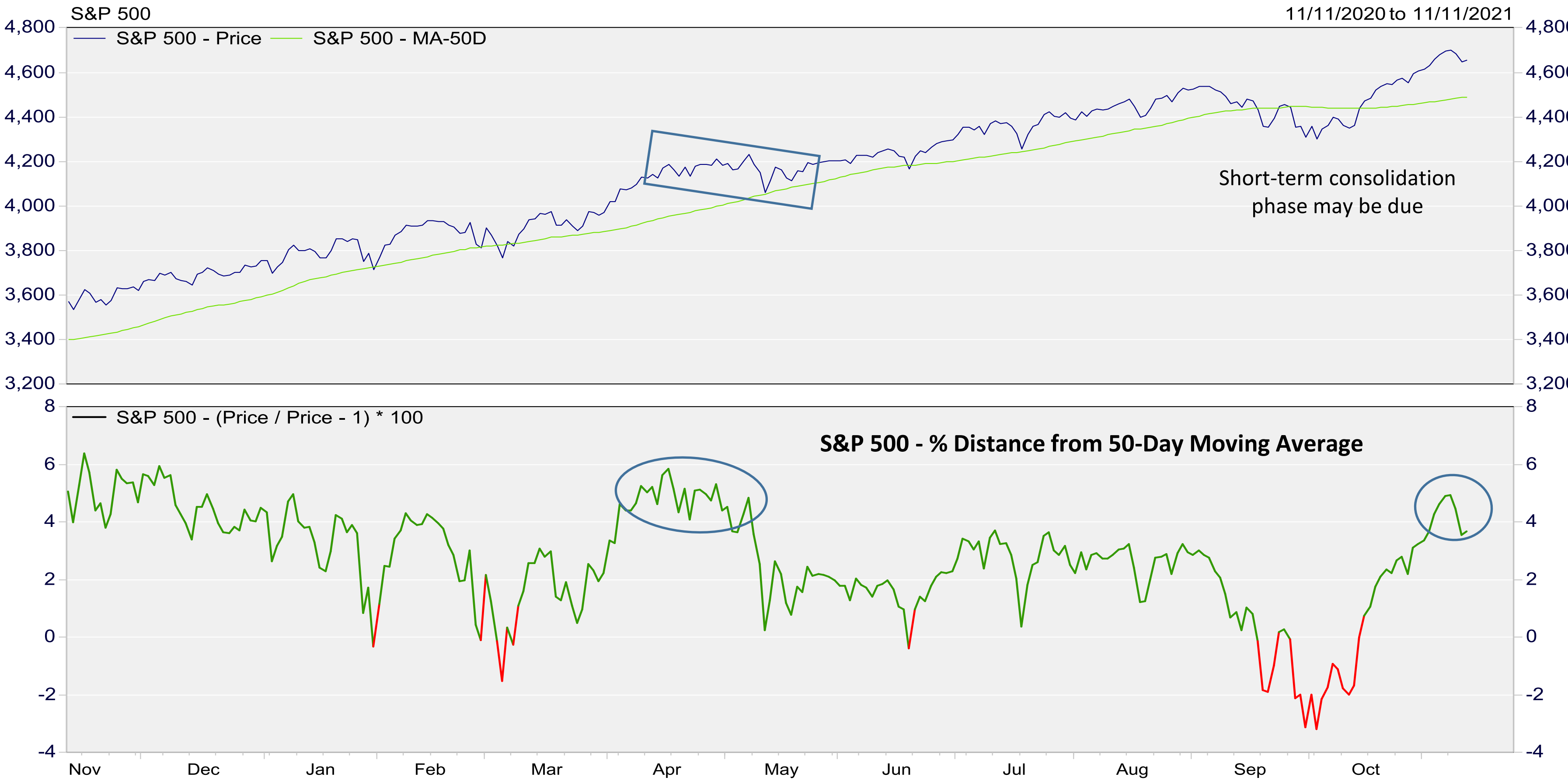
There has been a definitive risk-on tone to the market's move higher over the past month with high beta outperforming low volatility, the cyclical sectors outperforming the defensives, and areas like the transports and semiconductors leading the charge. This is the type of action you want to see on market strength, and this market messaging bodes well for intermediate term technical momentum and forward returns over the next 6-12 months.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

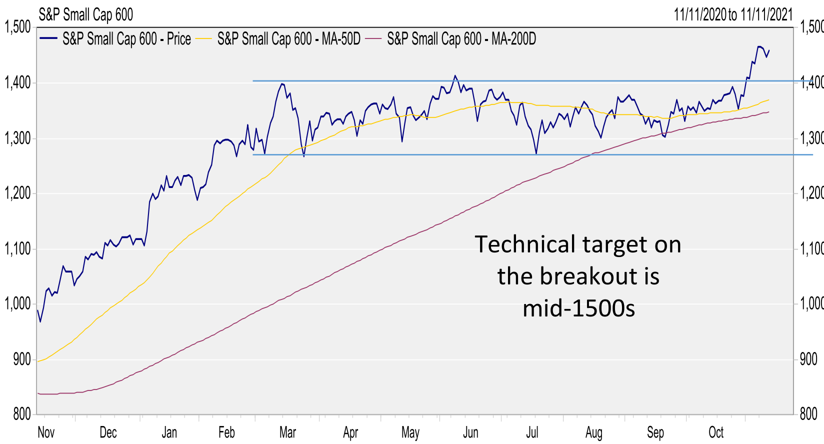
While the underlying leadership bodes well for forward returns, we do see many stocks at overbought levels in the short term. The S&P 500 index reached 5% above its 50-day moving average during the rally (which was a >8% 30-day rate of change). This is the widest stretch above the 50-day moving average in over 4 months, and the prior example (in April) corresponded with a consolidation phase where moving averages and fundamentals were able to catch up to valuation in the coming weeks. This would be very normal and healthy technically.

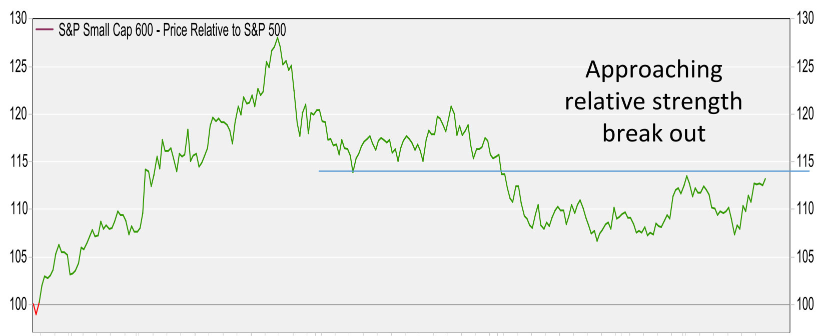


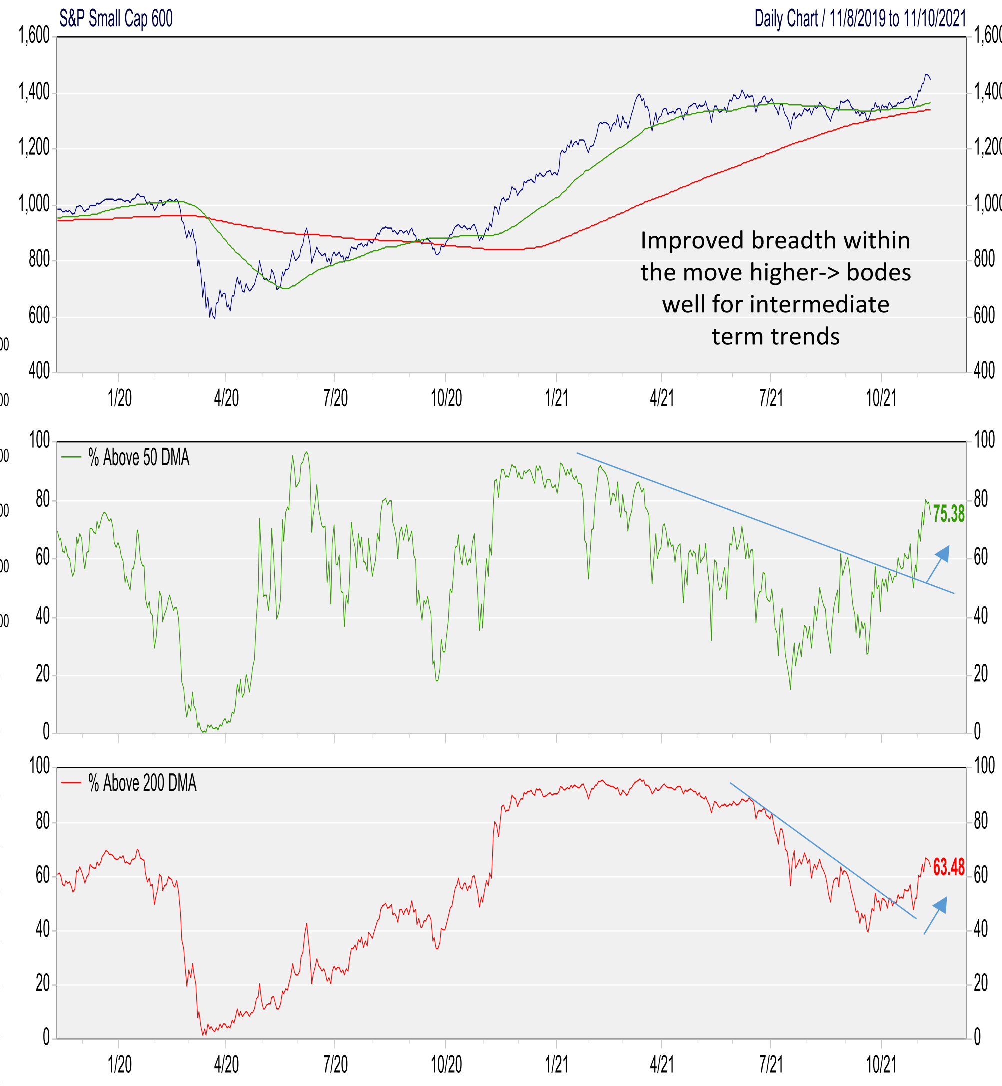
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

The small caps have also been able to break out recently (coming out of a ~8-month trading range). And importantly, breadth has improved within the move. As you can see, the % of small cap stocks trading above their 50- and 200-day moving averages has broken out of its declining trend. We remain positive on the fundamental set up for small caps, along with improving technical trends. Relative strength has been unable to break above resistance yet, and if it occurs, we would look to increase conviction on the group.



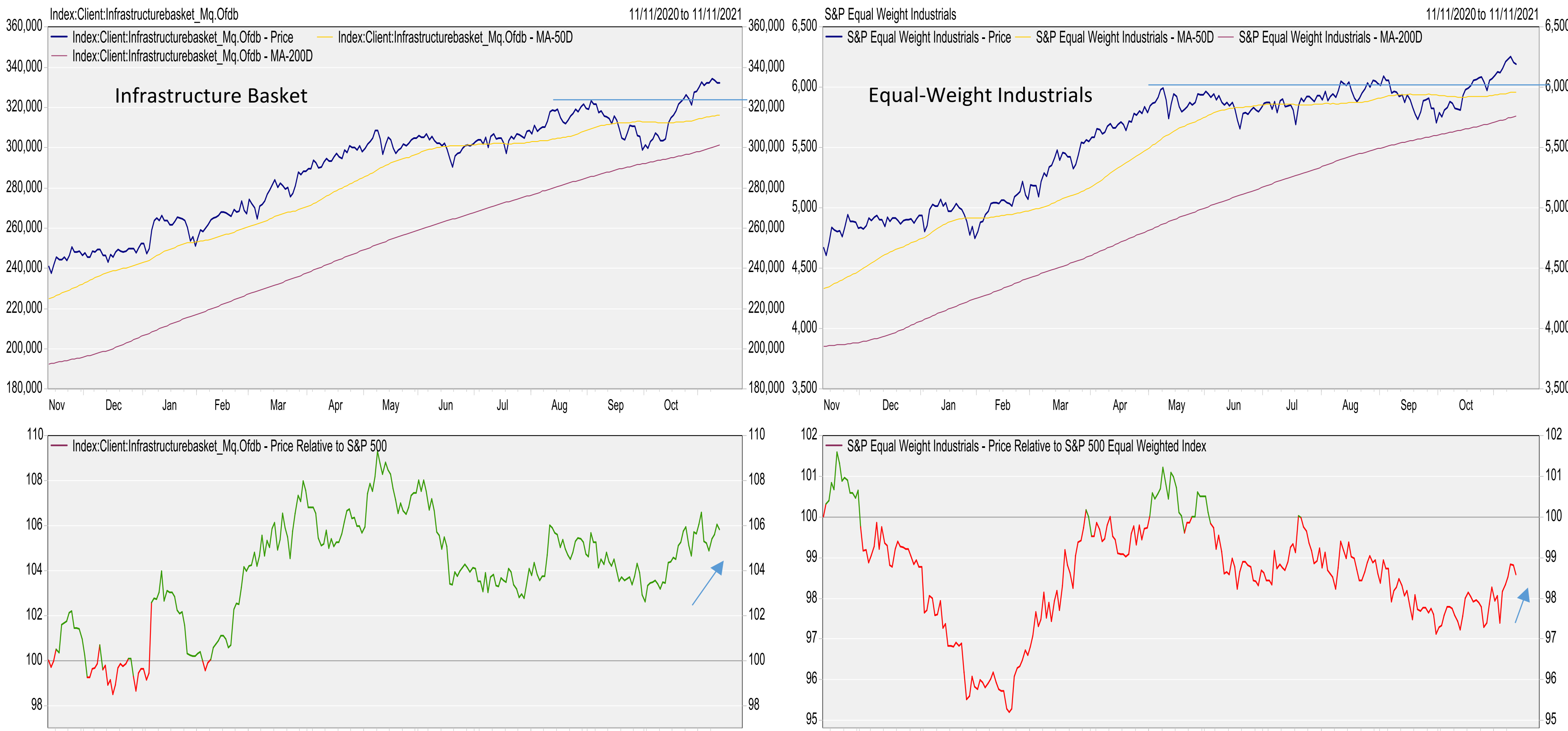




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INFRASTRUCTURE BASKET

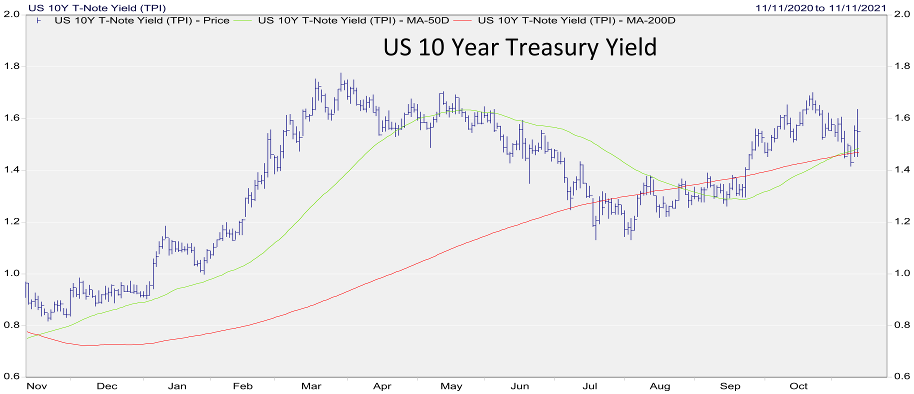
Congress was able to pass the $1.2T bipartisan infrastructure spending bill with "shovels in the ground [expected] in the next 2-3 months." Our infrastructure basket levered to the bill was able to break out to new highs on improving relative strength trends. Additionally, the equally-weighted Industrials sector was also able to break out of its multi-month range on relative strength. We see opportunity in this sector (particularly on pullbacks); as declining Covid cases and increased vaccination rates globally, along with very low inventory levels (need to be replenished), bode well for an improving manufacturing backdrop in the outlook.

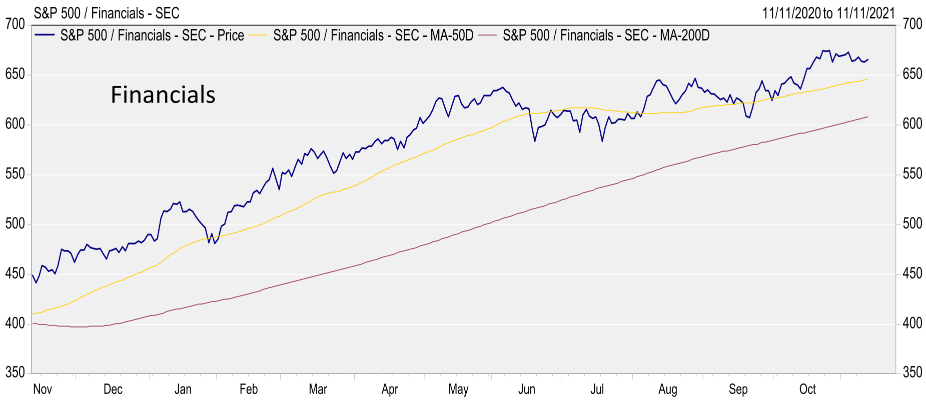


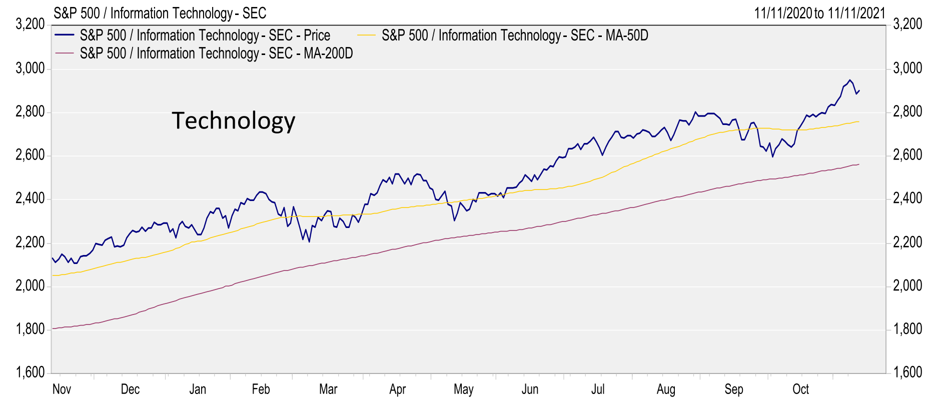
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

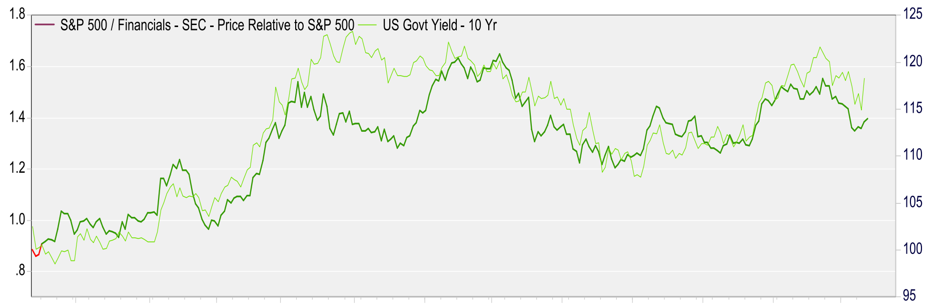
INTEREST RATES AND SECTORS

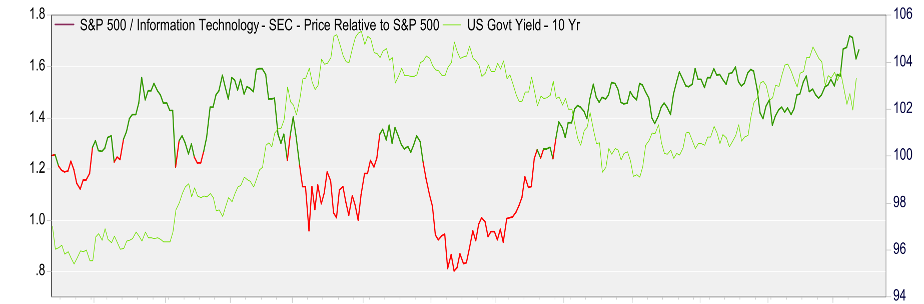
Interest rates (and the yield curve) remain an important influence on market rotation, and the US 10-year Treasury yield is currently on 50- and 200-day moving average support. Technology was able to break to new relative highs on the recent downside in rates; but though we would maintain a healthy allocation to Technology-oriented areas (as fundamentals remain strong), relatively high valuations may be a headwind to outperformance if rates grind higher over the next 6-12 months (as is our bias). This rotation is likely to benefit more of the economically-sensitive areas. This view supports our balanced, but pro-cyclical stance on portfolio positioning- using pullbacks and rotation as opportunity.











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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.

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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.

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