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NOVEMBER 4, 2021 | 4:44 PM EDT

Weekly Market Guide

Short-Term Summary:

A good Q3 earnings season has contributed to a ~9% rally in the S&P 500- it is reassuring to see strong market momentum on strong earnings (as earnings are the long-term driver of equities). 81% of S&P 500 companies have beaten EPS estimates (above the 69% 15-year average) by a strong 10.5%. While this 10.5% earnings beat is below the last five quarters, it is still well above the 5.2% 15-year average and comes despite large Covid and supply disruptions in the quarter. The best surprises have come from Financials, Energy, and Health Care; while some of the cyclical areas more impacted by the supply chain (Industrials, Consumer Discretionary, Materials) have shown relatively lower surprises. Looking ahead, operating margin estimates have ticked slightly lower (albeit from very high levels) and forward earnings estimate revisions have been more muted this quarter. This makes sense as the trend of historically strong earnings beats should moderate/normalize over the next year. Still, we see upside to consensus earnings estimates ahead.

The October ISM Services reading, which surged well above expectations to a record high of 66.7, supports our positive stance on the economic and fundamental recovery. Within the report, supplier deliveries expanded to exceptionally high levels but so did new orders (record high at 69.7). The takeaway is that bottlenecks remain an issue leading to supply-related shortfalls, but demand continues to be very strong. This bodes well for delayed production, rather than lost sales- elongating the economic recovery.

This takeaway is being echoed by companies throughout Q3 earnings season. Many are reporting supply-related shortfalls, but not demand. For example, mentions of "supply issue" and "shortage" in company calls are elevated and worsened in Q3. However, mentions of "backlog growth" and "strong demand" are also elevated and strengthened in Q3. This is leading to some lumpiness, but delayed (rather than destroyed) sales in our view. Overall fundamental trends remain favorable for equities.

Technically, the market breakout and underlying strength bode well for technical momentum and positive forward returns, but the S&P 500 is overbought in the short term after a two standard deviation 20-day move. While the index can continue moving higher at overbought levels, investors should use pragmatism when putting new money to work here. Moreover, fundamental and technical trends continue to support our balanced, but pro-cyclical recommendation to sector positioning.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	18.1%	31.6%
S&P 500	24.1%	38.3%
S&P 500 (Equal-Weight)	25.7%	43.0%
NASDAQ Composite	22.7%	41.7%
Russell 2000	21.7%	48.9%
MSCI All-Cap World	16.5%	32.5%
MSCI Developed Markets	10.1%	27.9%
MSCI Emerging Markets	-2.2%	12.6%
NYSE Alerian MLP	37.4%	69.5%
MSCI U.S. REIT	32.1%	42.7%

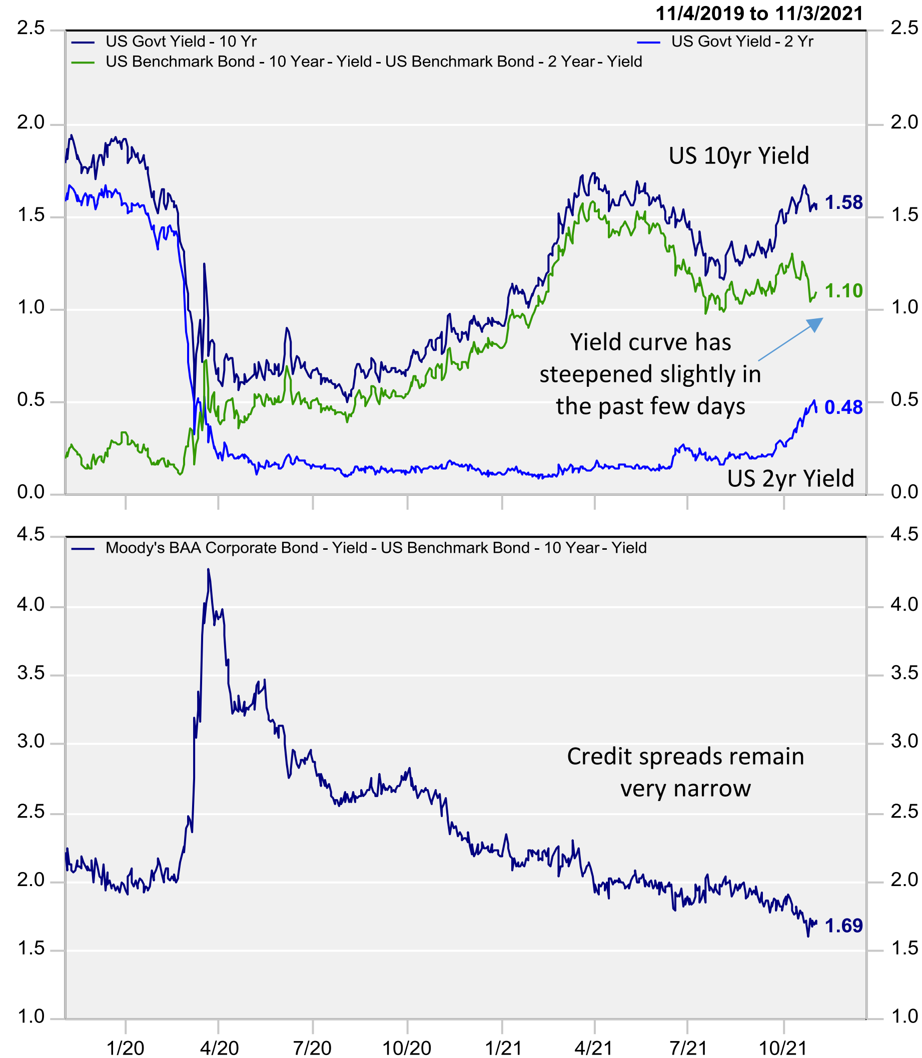
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	52.0%	2.8%
Financials	37.3%	11.3%
Real Estate	33.4%	2.6%
Information Technology	25.5%	28.0%
Consumer Discretionary	25.0%	13.0%
Communication Svcs.	24.3%	10.7%
S&P 500	***24.1%***	-
Materials	20.1%	2.5%
Health Care	19.1%	13.0%
Industrials	18.3%	8.0%
Consumer Staples	8.2%	5.6%
Utilities	6.6%	2.4%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

As expected, the Fed announced the beginning of its taper of monthly asset purchases (beginning this month). The plan is for the current $120B monthly purchases (made up of $80B/mo. Treasury securities and $40B/mo. mortgage-backed securities) to trimmed by $15B per month (made up of $10B and $5B respectively from the groups mentioned). At that pace, tapering should be done in June 2022. Fed comments leaned more toward risks of higher inflation in the announcement, but also their view that supply constraints should ease and jobs should improve as Covid cases decline and the recovery resumes. We remind you that tapering is not tightening- the Fed will still be making open market purchases through mid-2022 as it remains accommodative to the recovery ahead. The yield curve has steepened slightly in the past few days (a welcome sign for growth expectations) and credit spreads remain very narrow (lack of stress beneath the surface).

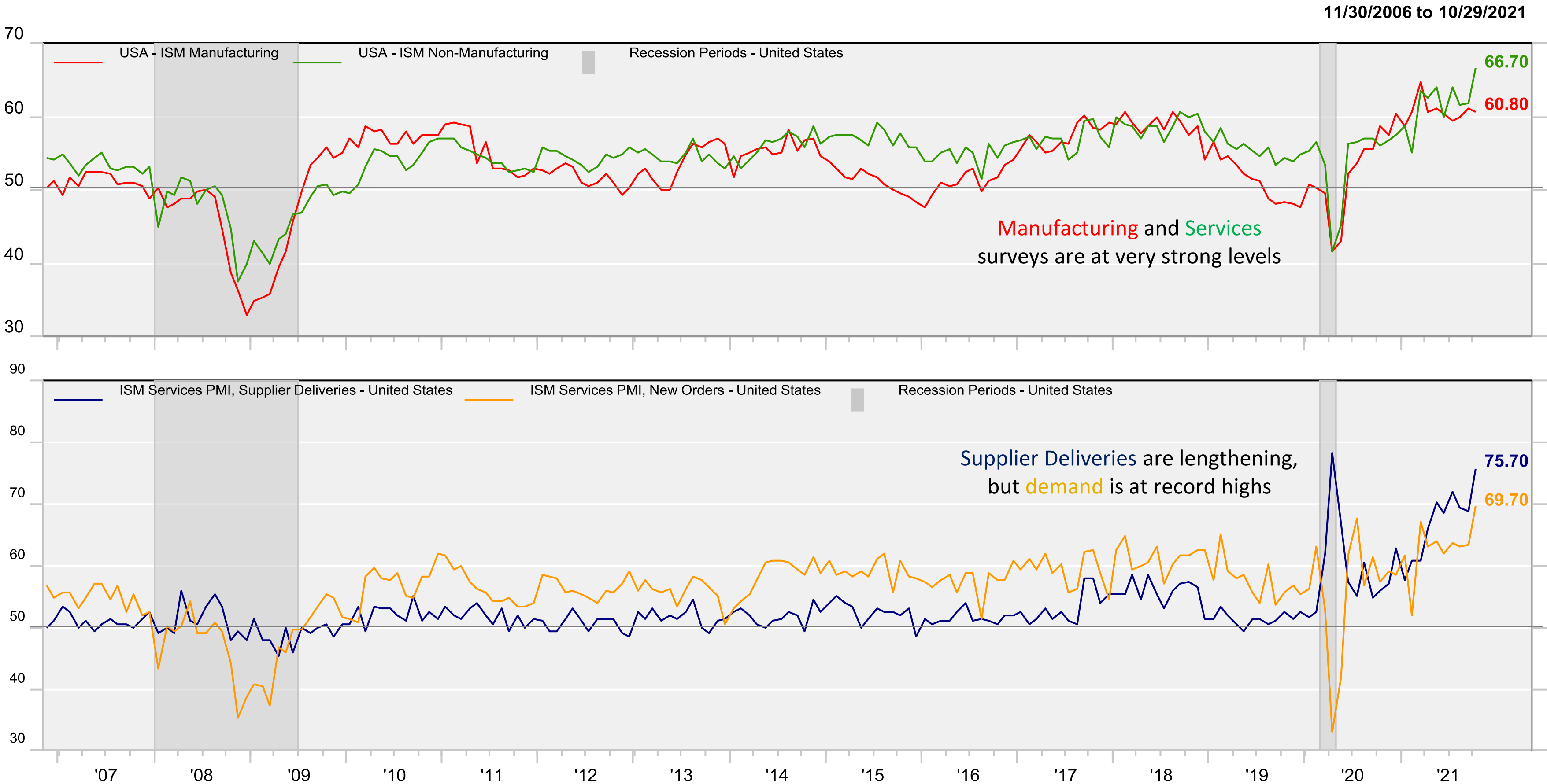
Event	Period	Actual	Consensus	Prior
ECI Civilian Workers SA Q/Q	Q3	1.3%	0.90%	0.70%
ECI Civilian Workers SA Y/Y	Q3	3.7%	1.8%	2.9%
Personal Consumption Expenditure SA M/M	SEP	0.60%	0.20%	1.0%
Personal Income SA M/M	SEP	-1.0%	0.05%	0.20%
Michigan Sentiment NSA (Final)	OCT	71.7	71.4	71.4
Markit PMI Manufacturing SA (Final)	OCT	58.4	59.2	59.2
Construction Spending SA M/M	SEP	-0.50%	0.40%	0.06%
ISM Manufacturing SA	OCT	60.8	60.3	61.1
ADP Employment Survey SA	OCT	571.0K	400.0K	522.5K
PMI Composite SA (Final)	OCT	57.6	57.3	57.3
Markit PMI Services SA (Final)	OCT	58.7	58.2	58.2
Durable Orders ex-Transportation SA M/M (Final)	SEP	0.52%	0.40%	0.40%
Durable Orders SA M/M (Final)	SEP	-0.34%	-0.70%	-0.40%
Factory Orders SA M/M	SEP	0.20%	0.0%	1.0%
ISM Non Manufacturing SA	OCT	66.7	61.9	61.9
Continuing Jobless Claims SA	10/23	2,105K	2,100K	2,239K
Initial Claims SA	10/30	269.0K	278.0K	283.0K
Unit Labor Costs SAAR Q/Q (Preliminary)	Q3	8.3%	7.0%	1.1%
Productivity SAAR Q/Q (Preliminary)	Q3	-5.0%	-2.5%	2.4%
Trade Balance SA	SEP	-$80.9B	-$75.0B	-$72.8B



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ELONGATED RECOVERY

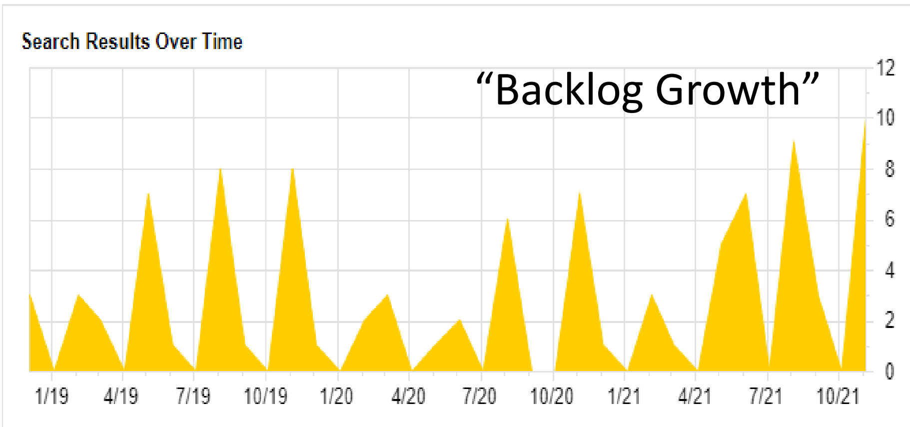
October ISM Services surged well above expectations to a record high of 66.7. Within the report, supplier deliveries expanded to exceptionally high levels but so did new orders (record high at 69.7). The takeaway is that bottlenecks remain an issue leading to supply-related shortfalls, but demand continues to be very strong. This bodes well for delayed production, rather than lost sales- elongating the economic recovery. Additionally, elevated new orders bode well for economic and fundamental strength ahead.

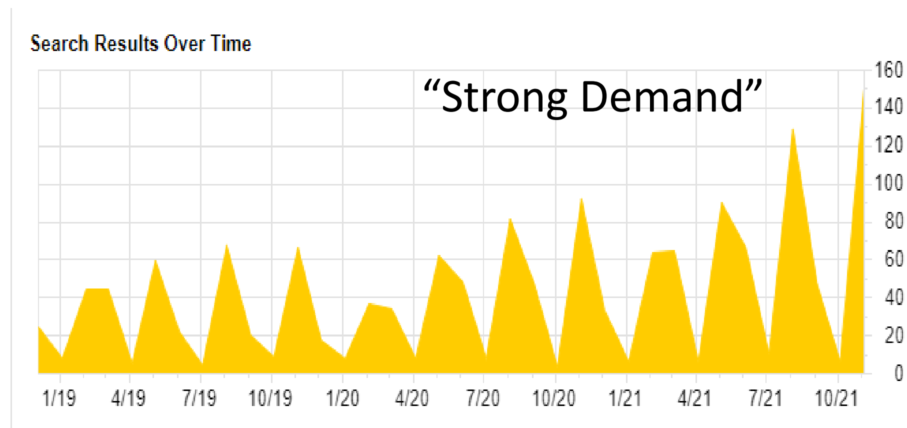


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Q3 EARNINGS TRANSCRIPTS

… This takeaway is supported by company comments throughout Q3 earnings season. Many are reporting supply-related shortfalls, but not demand. As you can see, mentions of “supply issue” and “shortage” in company calls are elevated and worsened in Q3. However, mentions of “backlog growth” and “strong demand” are also elevated and improved in Q3. This is leading to some lumpiness in sales but delayed (rather than destroyed) sales in our view. Overall fundamental trends remain favorable for equities. reverberated

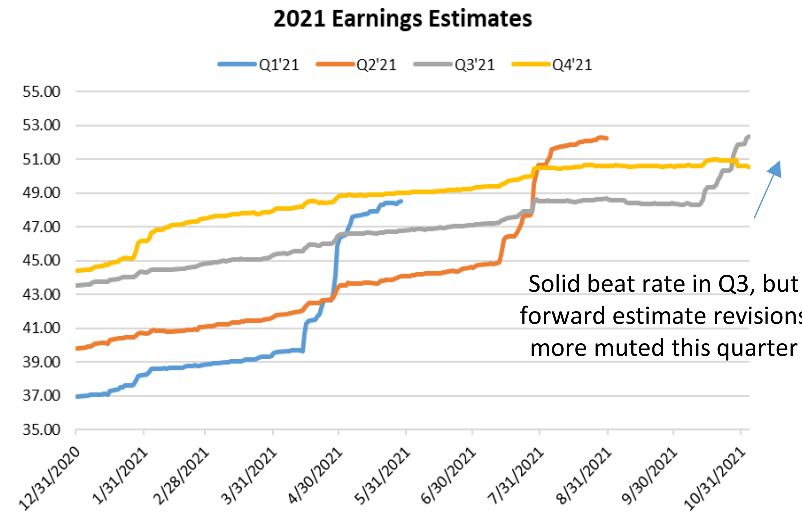


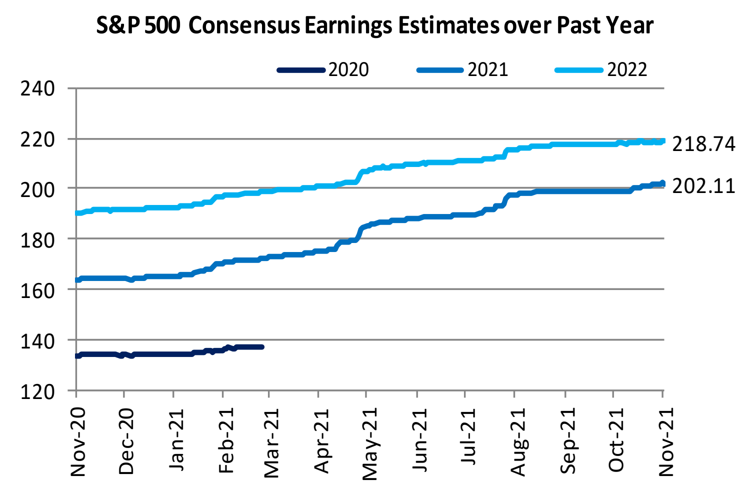


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

A good Q3 earnings season has contributed to a ~9% rally in the S&P 500- it is reassuring to see strong market momentum on strong earnings (as earnings are the long-term driver of equities). 81% of S&P 500 companies have beaten EPS estimates (above the 69% 15-year average) by a strong 10.5%. While this 10.5% earnings beat is below the last five quarters, it is still well above the 5.2% 15-year average and comes despite large Covid and supply disruptions in the quarter. The best surprises have come from Financials, Energy, and Health Care; while some of the cyclical areas more impacted by the supply chain (Industrials, Consumer Discretionary, Materials) had relatively lower surprises. Looking ahead, operating margin estimates have ticked slightly lower (albeit from very high levels) and forward earnings estimate revisions have been more muted this quarter. This makes sense as the trend of historically strong earnings beats should moderate/normalize over the next year. Still, we see upside to consensus earnings estimates ahead.



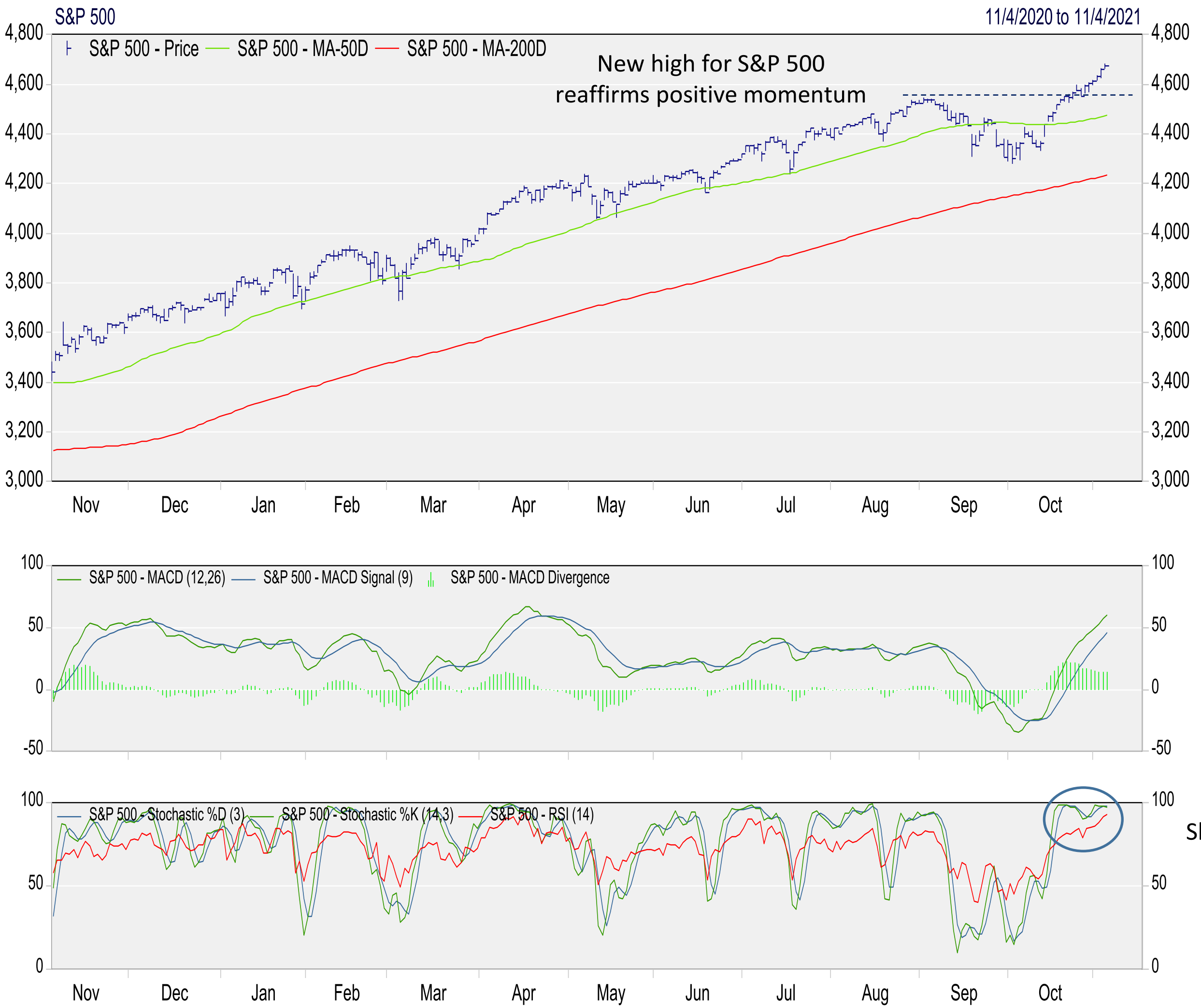


EPS Growth Estimates	
2020	-14.2%
2021	47.3%
2022	8.2%

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

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Short-term overbought

The S&P 500 has continued its rally (up ~9% since early October) after breaking out to new highs with risk-on strength beneath the surface.

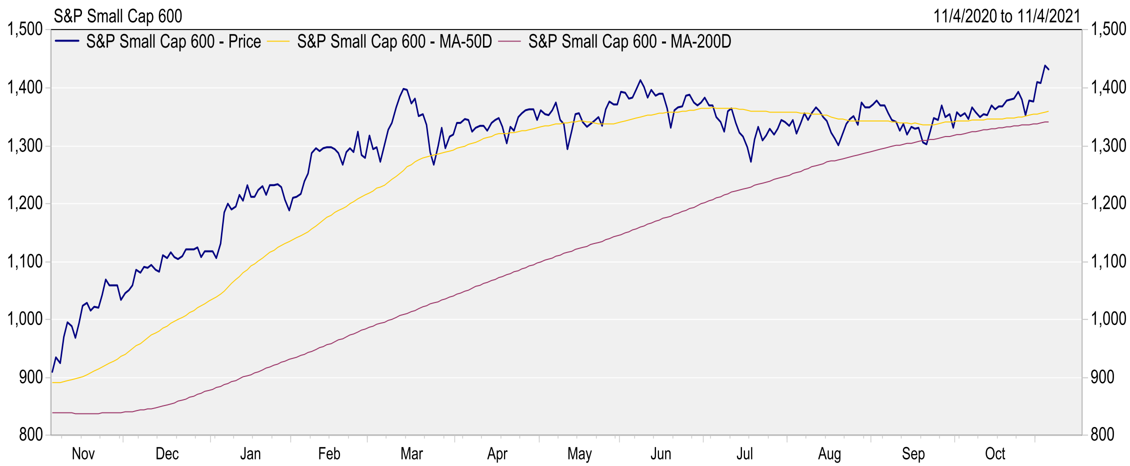
The breakout and underlying strength bode well for technical momentum and positive forward returns (4804 technical target on the break out), but the market is overbought in the short term after a two standard deviation 20-day move. While the index can continue moving higher at overbought levels, investors should use pragmatism when putting new money to work here.

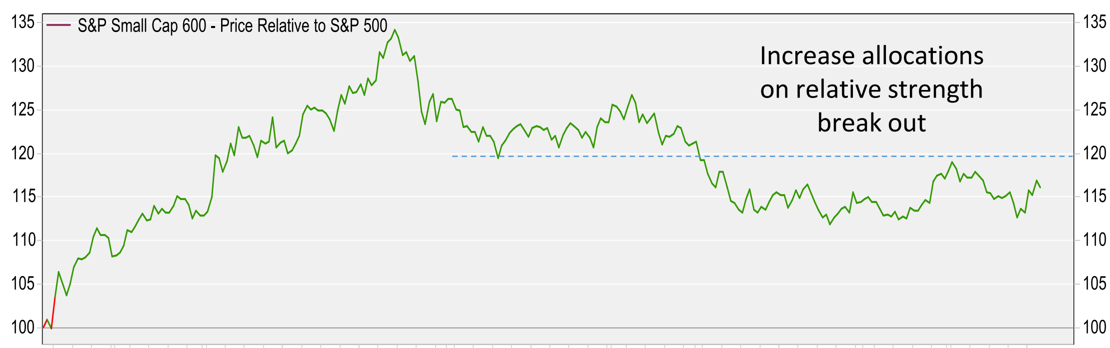
Technical resistance levels include 4672 (current level) and 4792. Both of these are Fibonacci projections. There is plenty of technical support nearby, including the recent break out (4545) and 50-day moving average (4473).

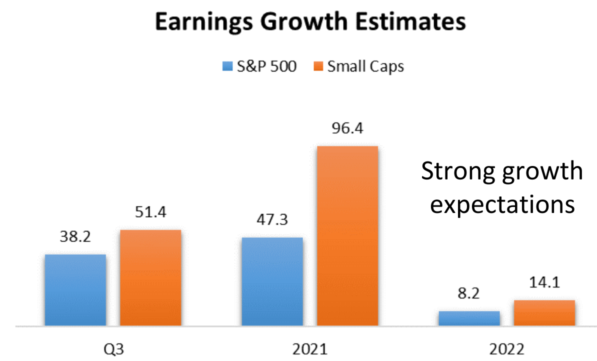
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

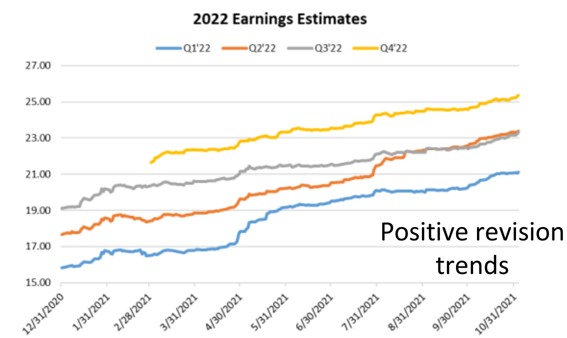
SMALL CAPS

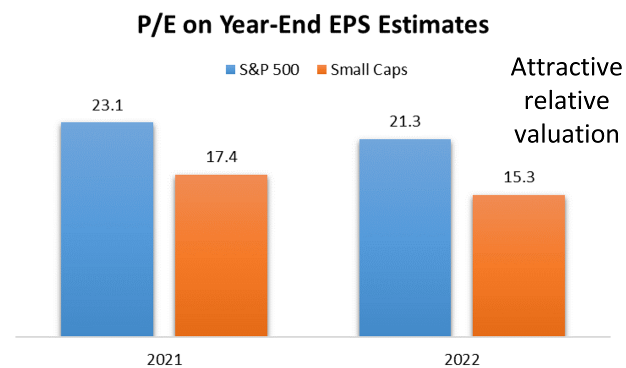
The small caps are breaking out of an ~8-month range, and we will be watching to see if the group is able to hold the break out and build relative momentum in the coming days. With the world due to re-open (and interest rates possibly grinding higher), we feel small caps may get another run to the upside. Earnings growth expectations and estimate revision trends are both favorable to the large caps, as is valuation. For example, the small caps trade at a ~25% discount to the S&P 500 vs. a ~5% premium on average over the past 20 years. We remain favorable to the small caps and would increase allocations on a relative strength break out.







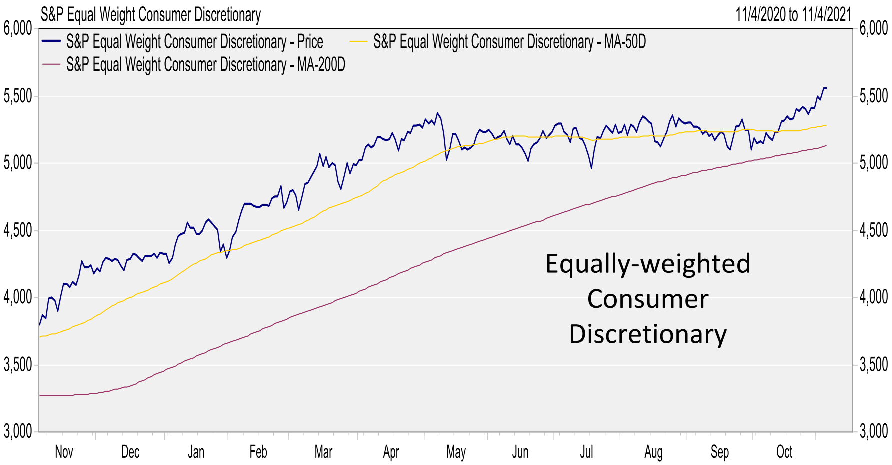


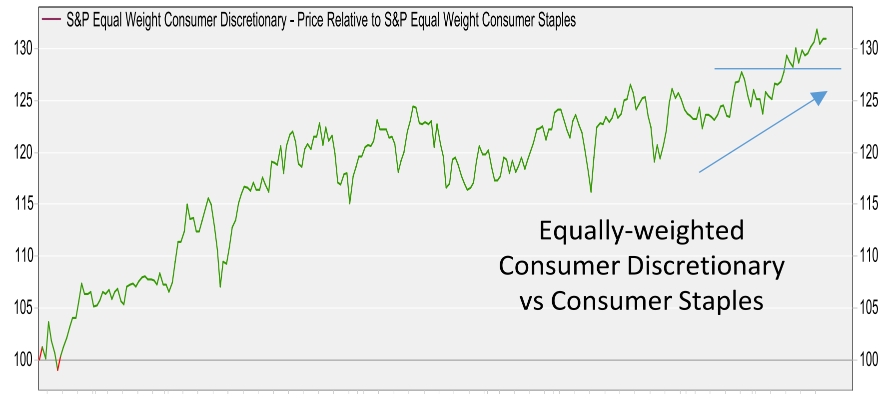


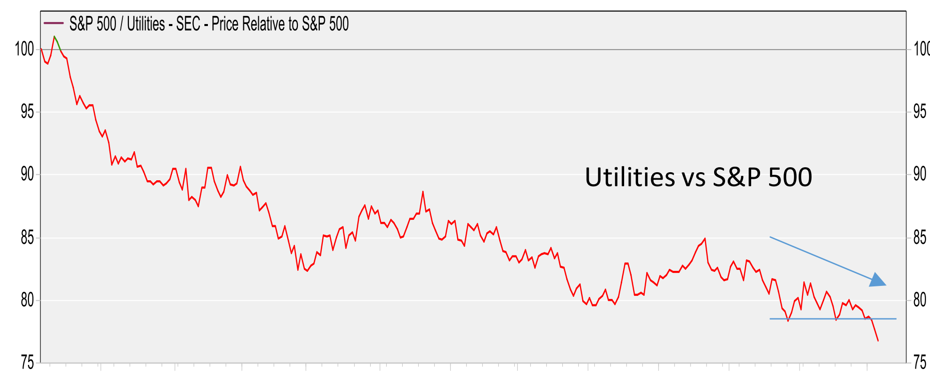
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CYCLICALITY

We also continue to see a pro-cyclical nature to underlying performance within the market's ascent. The average Consumer Discretionary stock continues its relative momentum vs. the average Consumer Staples stock. Additionally, the defensive, interest-sensitive Utilities sector broke to new relative lows vs. the S&P 500. Fundamental and technical trends continue to support our balanced, but pro-cyclical recommendation to sector positioning.



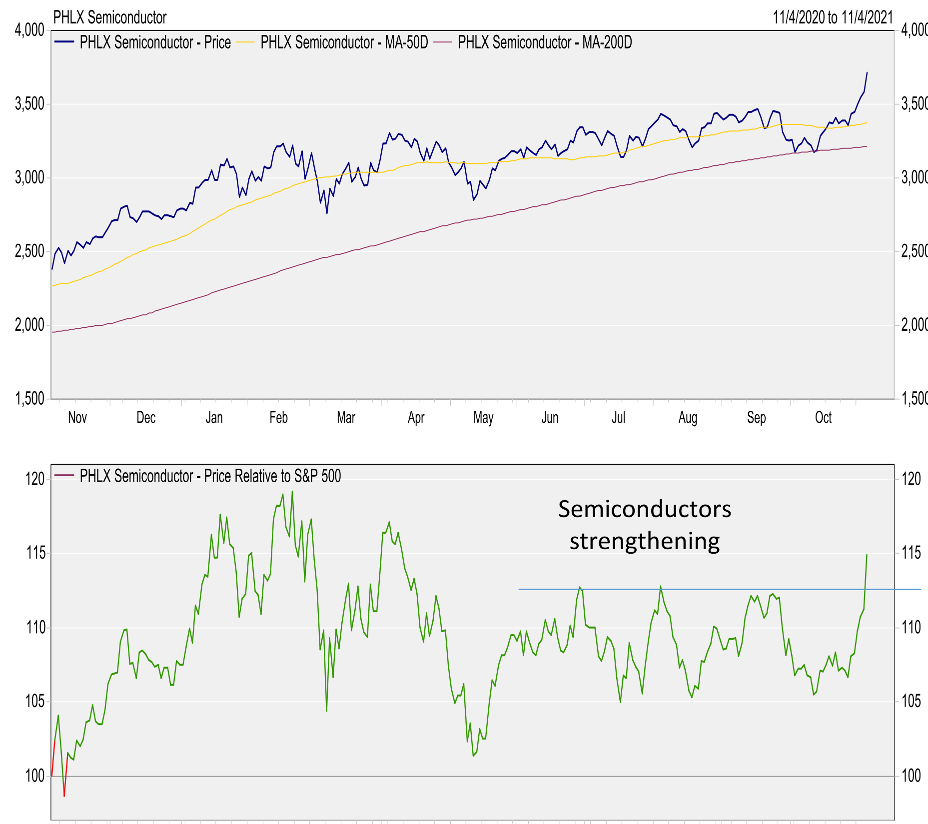




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

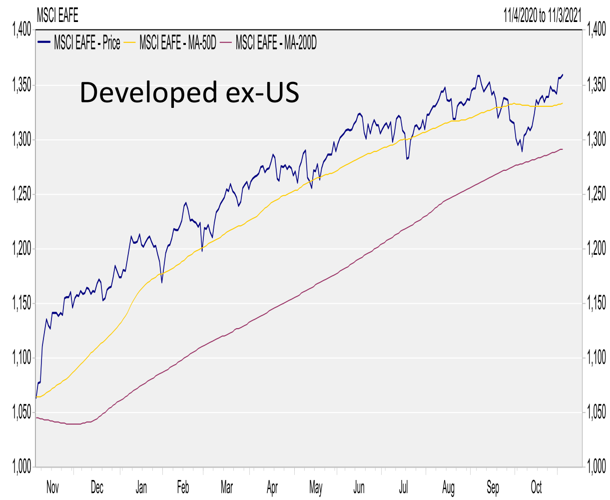
Technology is breaking out to relative highs today, in conjunction with a surge in the semiconductors. For all of the talk surrounding upside in the most economically-sensitive areas, it is important to not forget about Technology in your portfolio allocations. The fundamental backdrop remains strong, and technical momentum could be set for renewed upside (will have to monitor if today's trends can sustain). Interest rate movements will have an influence in our view; and if they grind higher over the coming months, we do believe that valuation will be a headwind to relative performance. Nonetheless, we recommend maintaining healthy allocations to Technology in your portfolios. And from an overall S&P 500 standpoint, Technology's break out and sheer size bode well for market trends.

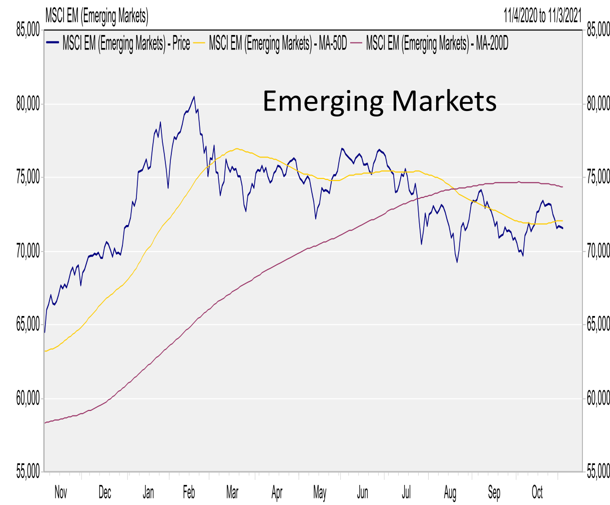


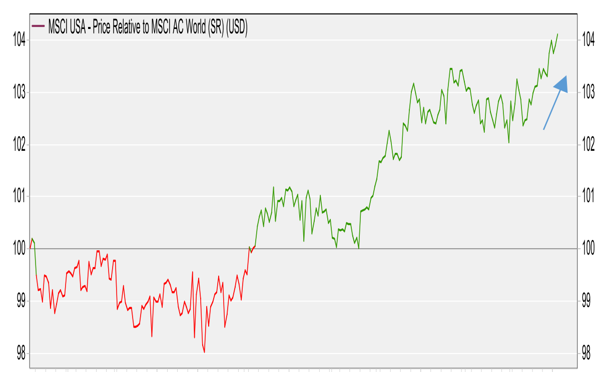
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

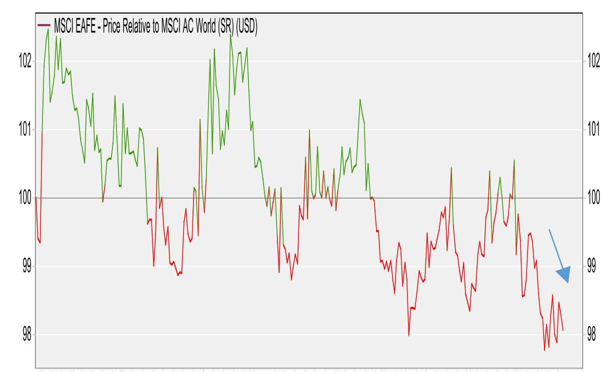
GLOBAL EQUITIES

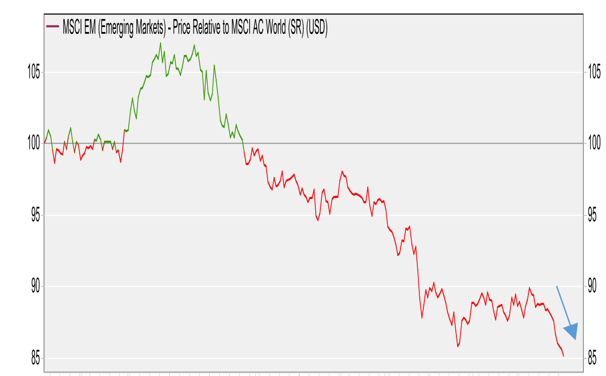
The All-Cap World index broke out to new highs this week, led by the US (new relative highs). Economic surveys continue to favor the US among the major global countries and regions, contributing to upward pressure on the US dollar and acting as a headwind to Emerging Markets (which made a new relative low). Developed ex-US also remains in a relative strength downtrend. Recent technical momentum supports our favorable toward the US on a global scale.











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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