RAYMOND JAMES

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

SEPTEMBER 30, 2021 | 10:00 AM EDT

Weekly Market Guide

Short-Term Summary:

The legislative agenda is heating up with government funding expiring at midnight Thursday in order to avoid a "government shutdown." US Treasury Secretary Janet Yellen also estimates that the debt ceiling will need to be raised by October 18th- less than 3 weeks away. We have found that often these discussions need to fall apart in order to come together. So while the brinkmanship can lead to headline volatility in the process, a bill is probably passed by the deadline. And even if a "government shutdown" occurs, it is likely to be brief. Moreover, the debt ceiling will ultimately be raised.

Technically, the headline noise has contributed to some of the market's volatility lately. The S&P 500 bounced from oversold levels but has been unable to get back above its 50-day moving average (now acting as resistance). The lower high increases the odds that the current pullback/consolidation phase has more to go. Last Monday's low of ~4305 is the first level to watch, followed by horizontal support at 4233-4250 which coincides with the 65-day low- often a good area of technical support in normal pullback periods unless there is something more problematic beneath the surface. This 4233 level is also just above the upward-trending 200 DMA (4132). We believe the current pullback is unlikely to push below this (4132 is 9% from recent highs) unless the narrative materially changes.

Through the market's volatility over the past week, there has been a pro-cyclical tone to underlying performance as the yield curve has steepened and credit spreads narrowed to new lows. In the aftermath of last Wednesday's FOMC meeting, the US 10-year Treasury yield broke above the ~1.40% range that has capped it for the past few months. Technically, this breakout implies a move to ~1.63%, though it is testing longer-term resistance at ~1.55% currently. Our view on the economic backdrop supports a grind higher in bond yields over the next 6-12 months, and this should support relative performance of the "average S&P 500 stock" (fairly strong correlation between the equally-weighted S&P 500 index and US 10 year Treasury yield over the past year). This increased cyclicality in the market plays into our diversified, but pro-cyclical approach to sector positioning- allocating a healthy amount to tech-oriented stocks, but building exposure to areas like Energy, Financials, Industrials, select Consumer Discretionary as the momentum builds (and underweight the more defensive, interest-sensitive sectors).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	12.4%	25.3%
S&P 500	16.1%	30.7%
S&P 500 (Equal-Weight)	19.4%	41.6%
NASDAQ Composite	12.6%	30.9%
Russell 2000	12.7%	47.9%
MSCI All-Cap World	10.5%	26.9%
MSCI Developed Markets	6.2%	22.1%
MSCI Emerging Markets	-3.1%	17.1%
NYSE Alerian MLP	32.1%	66.1%
MSCI U.S. REIT	22.3%	35.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	40.4%	2.8%
Financials	29.5%	11.4%
Real Estate	24.0%	2.6%
Communication Svcs.	21.3%	11.2%
S&P 500	***16.1%***	-
Information Technology	15.3%	27.5%
Health Care	13.5%	13.3%
Industrials	12.7%	8.1%
Consumer Discretionary	11.4%	12.4%
Materials	10.7%	2.5%
Consumer Staples	4.6%	5.8%
Utilities	2.6%	2.4%

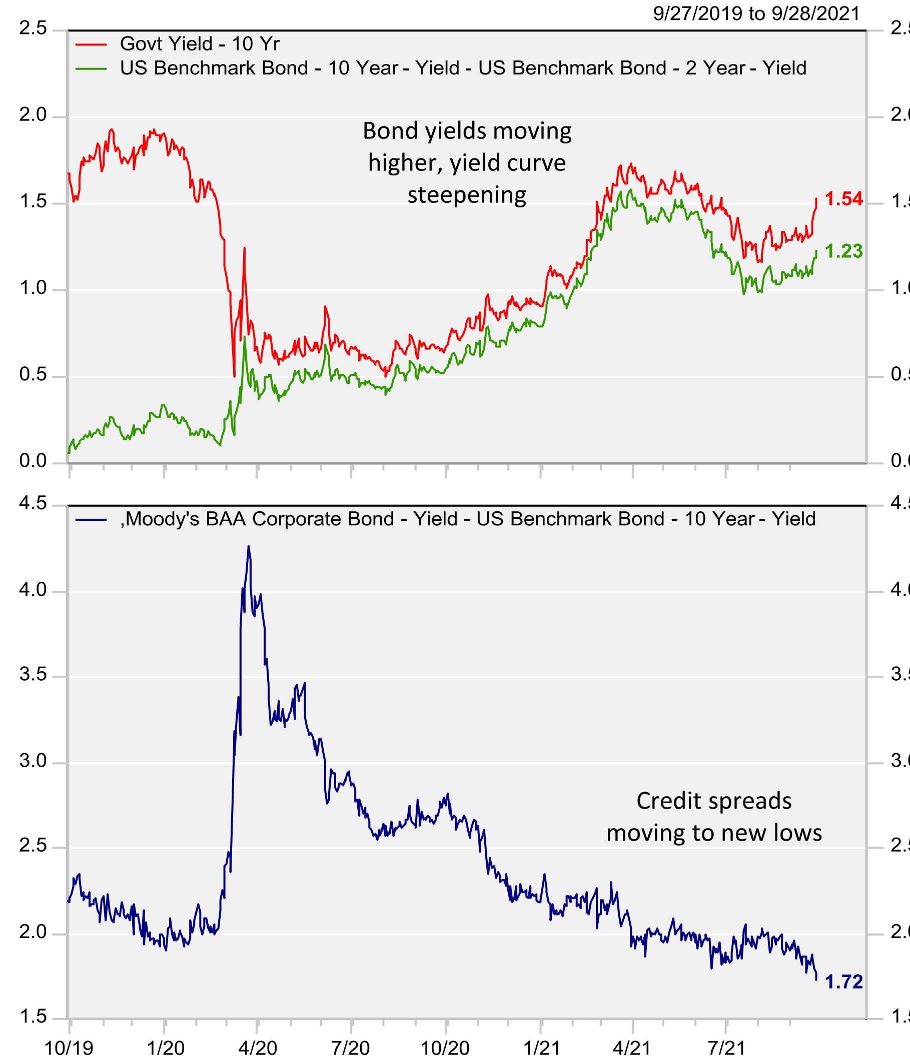
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The legislative agenda is heating up with government funding expiring at midnight tonight (9/30) in order to avoid a "government shutdown." US Treasury Secretary Janet Yellen also estimates that the debt ceiling will need to be raised by October 18th- less than 3 weeks away. We have found that often these discussions need to fall apart in order to come together. So while this brinkmanship can lead to headline volatility in the process, a bill is probably passed by the deadline. And even if a "government shutdown" occurs, it is likely to be brief. Moreover, the debt ceiling will ultimately be raised.

Within the past week's economic data, September consumer confidence disappointed again- coming in at 109.3 from 115.2. The Delta variant has weighed on confidence, affecting consumer activity and economic growth in Q3. However, we view the impact as transitory and are encouraged by the recent decline in Covid cases. Credit spreads also pushed to new lows over the past week (and the yield curve steepened), supportive of economic and equity market trends.

US Economic Data This Week	Period	Actual	Consensus	Prior
Building Permits SAAR (Final)	AUG	1,721K	1,728K	1,728K
New Home Sales SAAR	AUG	740.0K	710.0K	729.0K
Durable Orders ex-Transportation SA M/M (Preliminary)	AUG	0.20%	0.50%	0.80%
Durable Orders SA M/M (Preliminary)	AUG	1.8%	0.70%	0.50%
S&P/Case-Shiller comp.20 HPI M/M	JUL	1.5%	1.6%	1.8%
S&P/Case-Shiller comp.20 HPI Y/Y	JUL	19.9%	20.0%	19.1%
Consumer Confidence	SEP	109.3	114.3	115.2
Pending Home Sales Index SAAR	AUG	119.5	111.7	110.5
Pending Home Sales M/M	AUG	8.1%	0.70%	-2.0%
Continuing Jobless Claims SA	09/18	2,802K	2,800K	2,820K
GDP SAAR Q/Q (Final)	Q2	6.7%	6.6%	6.6%
GDP SA Y/Y (Final)	Q2	12.2%	12.2%	12.2%
Initial Claims SA	09/25	362.0K	335.0K	351.0K



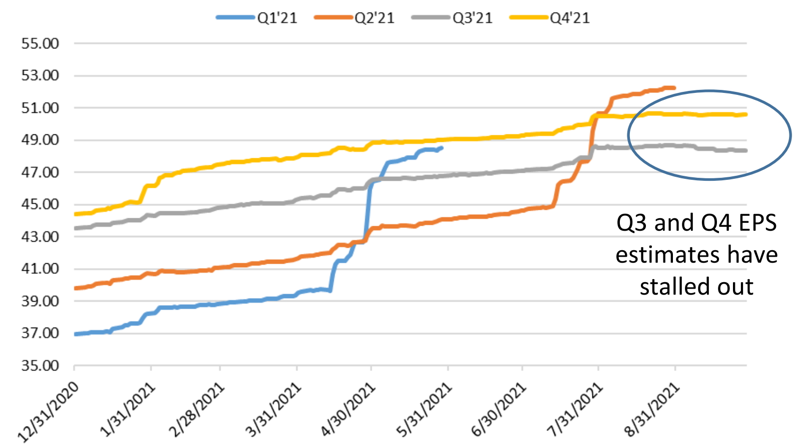
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

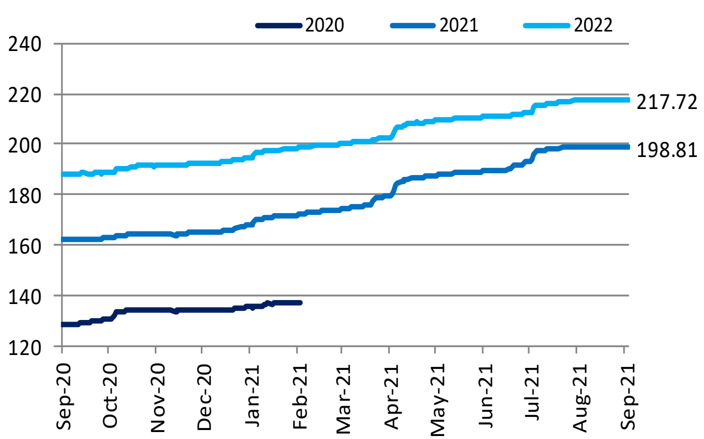
The decline in consumer confidence and activity in Q3, weighed on by the Delta variant and rising inflation, is showing up in earnings estimates. As you can see in the top right chart, Q3 and Q4 S&P 500 EPS estimates have stalled out lately. Supply chain issues are becoming a bigger concern for this quarter's results with varying effects at the company level. However, we view demand as strong- resulting in more of a delay in production/sales (rather than lost).

Even so, we believe upside remains to earnings estimates, though the level of beats is unlikely to match the record levels of the past several quarters. Additionally, we continue to view the above-trend growth, along with narrow credit spreads and low interest rates, as supportive of valuations. We believe 2021 earnings are likely to finish at ~$205 with the P/E likely to normalize to ~22.5x. This results in a price target of ~4600 for year-end.

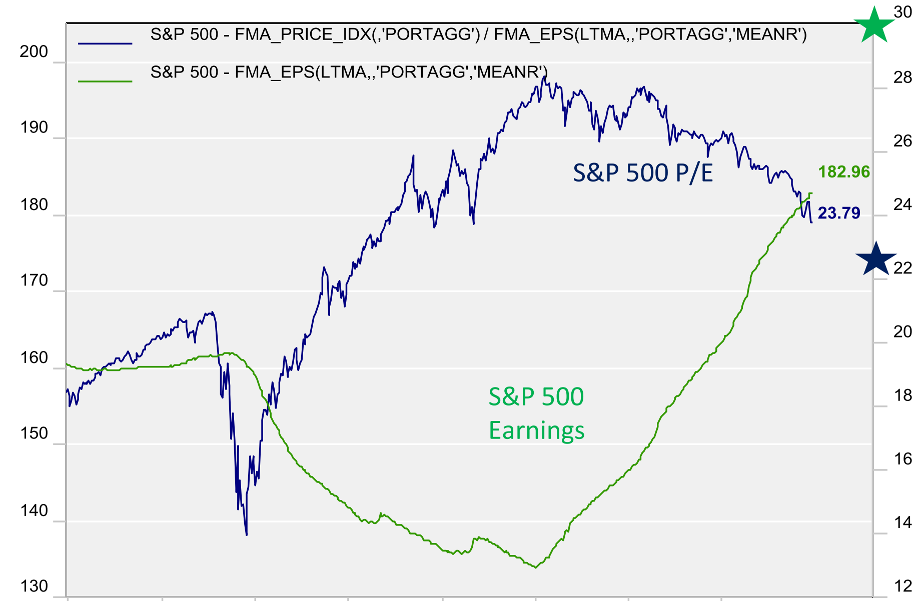
2021 Earnings Estimates



S&P 500 Consensus Earnings Estimates over Past Year



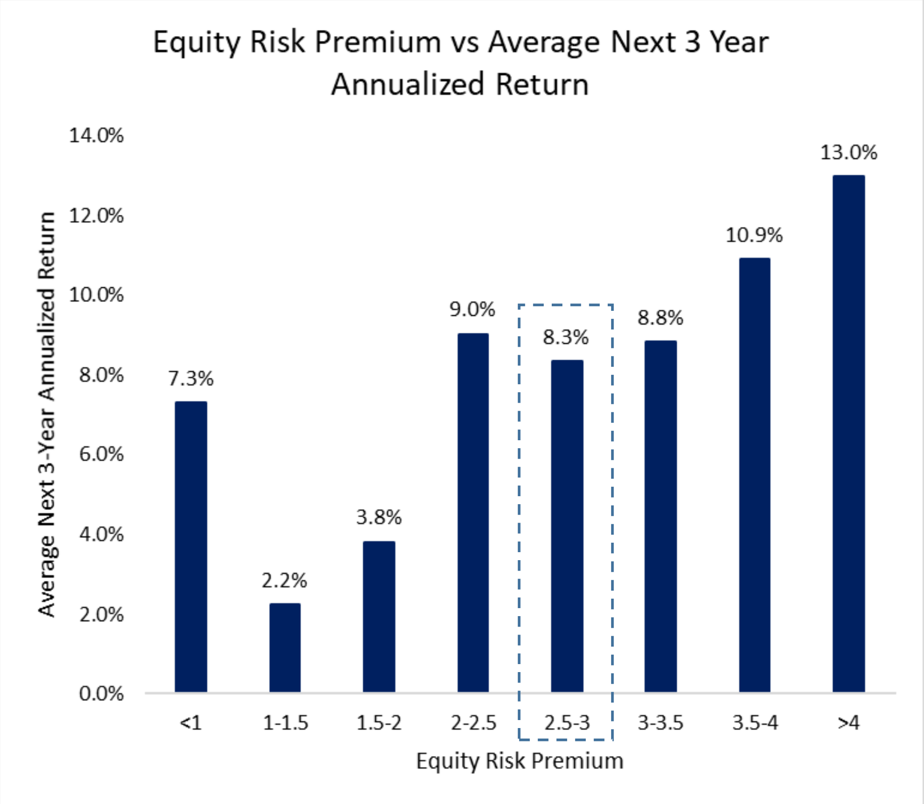
EPS Growth Estimates	
2020	-14.2%
2021	44.9%
2022	9.5%

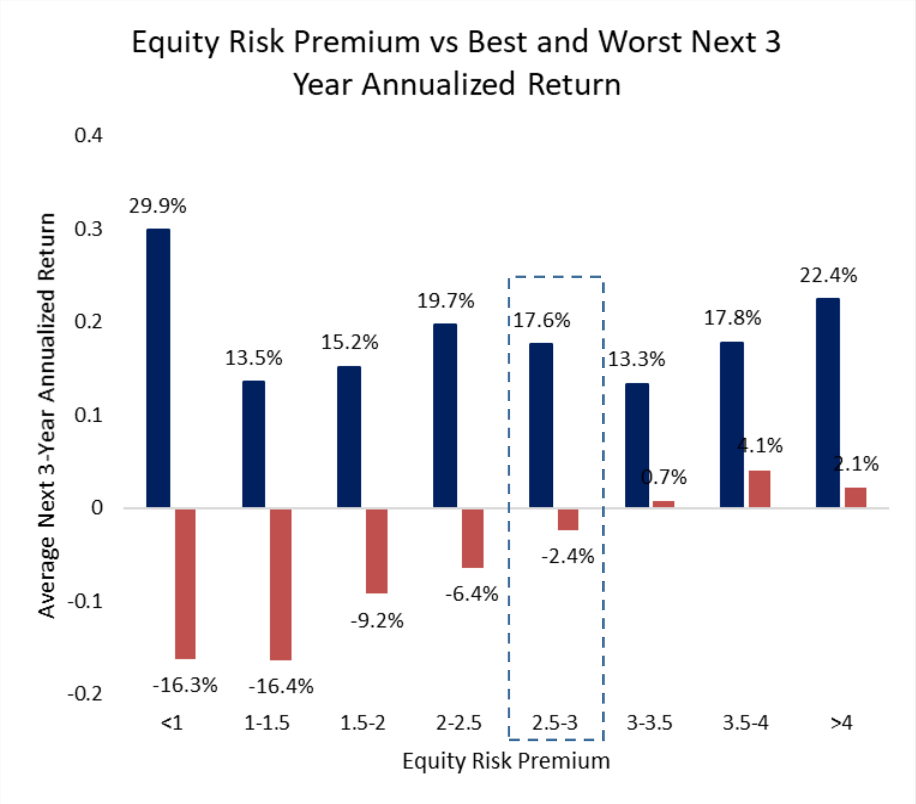


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUATION

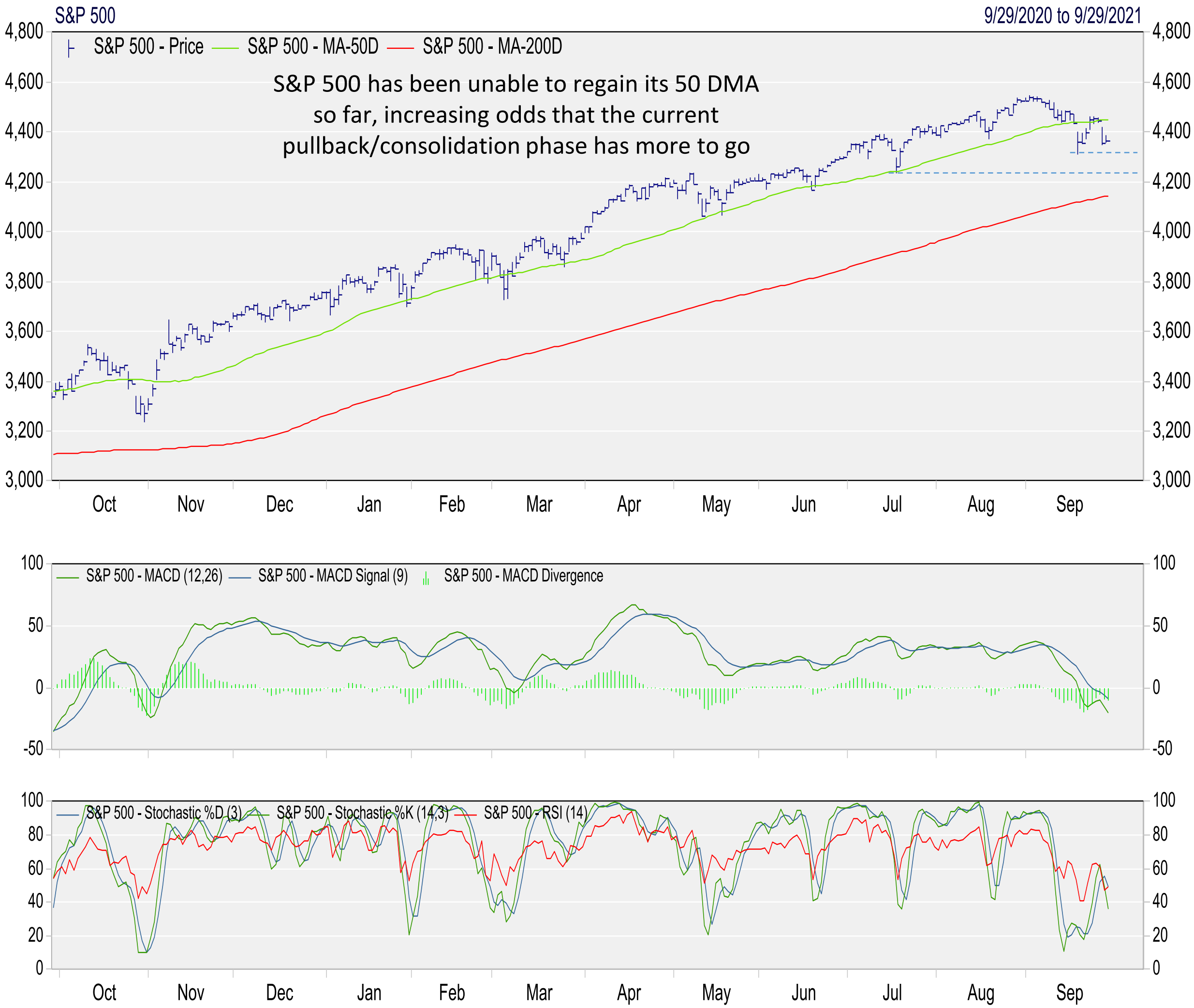
Despite the recent uptick in interest rates, the relative value of equities vs bonds (difference in earnings yield vs 10year Treasury yield) is still a relatively wide 2.65%. Historically, an equity risk premium in this 2.5-3% area has resulted in an average of 8.3% 3-year compounded annual returns. This 2.5-3% area also comes with relatively lower standard deviation (among historical observations) with the best 3-year annualized performance being 17.6% and worst being -2.4%. Additionally, there remains plenty of cushion based on our earnings estimates and bond yields before the equity risk premium moves below 2%- which has coincided with greater volatility of potential 3-year returns. This supports our view that forward returns should remain positive, though the pace of growth should moderate/normalize at this stage of the bull market.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

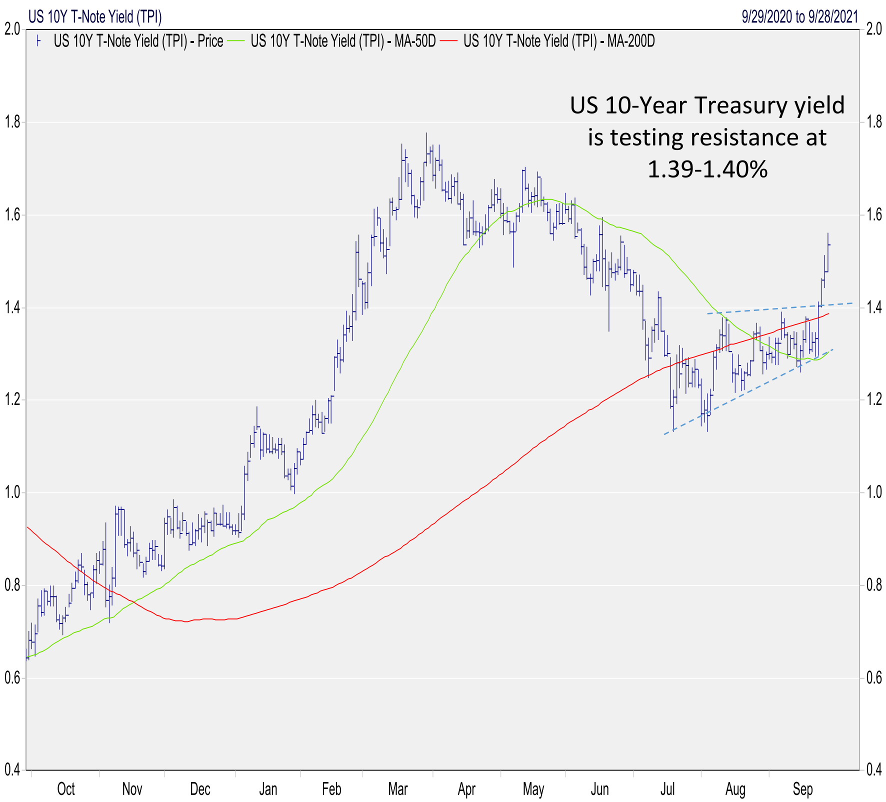
The S&P 500 bounced from oversold levels but has been unable to get back above its 50-day moving average (now acting as resistance). The lower high increases the odds that the current pullback/consolidation phase has more to go. We would like to see the S&P 500 not make a lower low- holding at last Monday's ~4305 low. Normally, a pattern like this goes sideways, best case, and more likely lower.

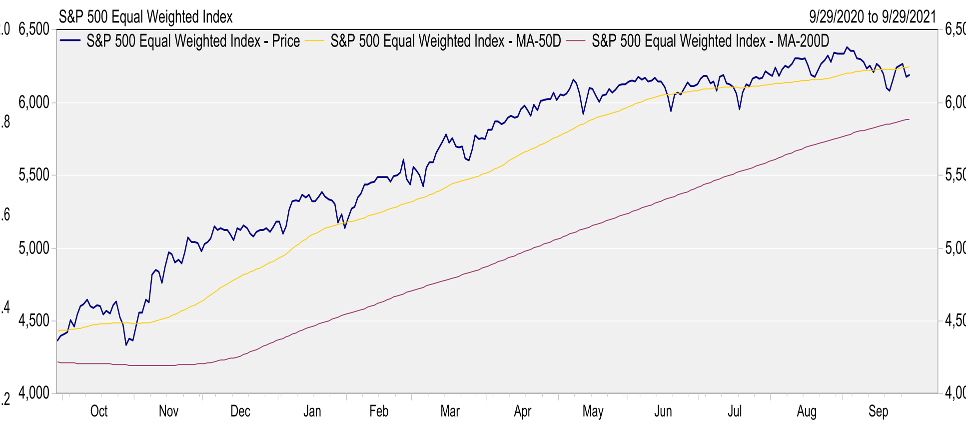
After the 4305 level, we see horizontal support at 4233-4250, which coincides with the 65-day low. The 65-day low is often seen as a good area of technical support in normal pullback periods unless there is something more problematic beneath the surface.

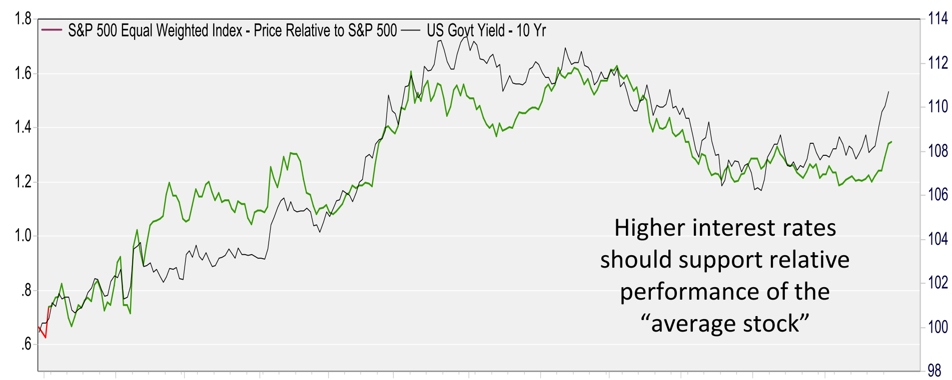
This 4233 level is also just above the upward-trending 200 DMA (4132). We believe the current pullback is unlikely to push below the low end of this level (4132 is 9% from recent highs) unless the narrative materially changes, and would use weakness in favored stocks as opportunities.

BOND YIELDS AND EQUAL-WEIGHT S&P PERFORMANCE

The story of the past week, in the aftermath of last Wednesday's FOMC meeting, has been upside in bond yields. The US 10-year Treasury yield broke above the ~1.40% range that has capped it for the past few months. Technically, this breakout implies a move to ~1.63%, though it is testing longer-term resistance at ~1.55% currently. Our view on the economic backdrop supports a grind higher in bond yields over the next 6-12 months, and this should support relative performance of the "average S&P 500 stock." As you can see, there has been a fairly strong correlation between the equally-weighted S&P 500 index and US 10 year Treasury yield over the past year. This increased cyclicality in the market plays into our diversified, but pro-cyclical approach to sector positioning- allocating a healthy amount to tech-oriented stocks, but building exposure to areas like Energy, Financials, Industrials, select Consumer Discretionary as the momentum builds (and underweight the more defensive, interest-sensitive sectors).



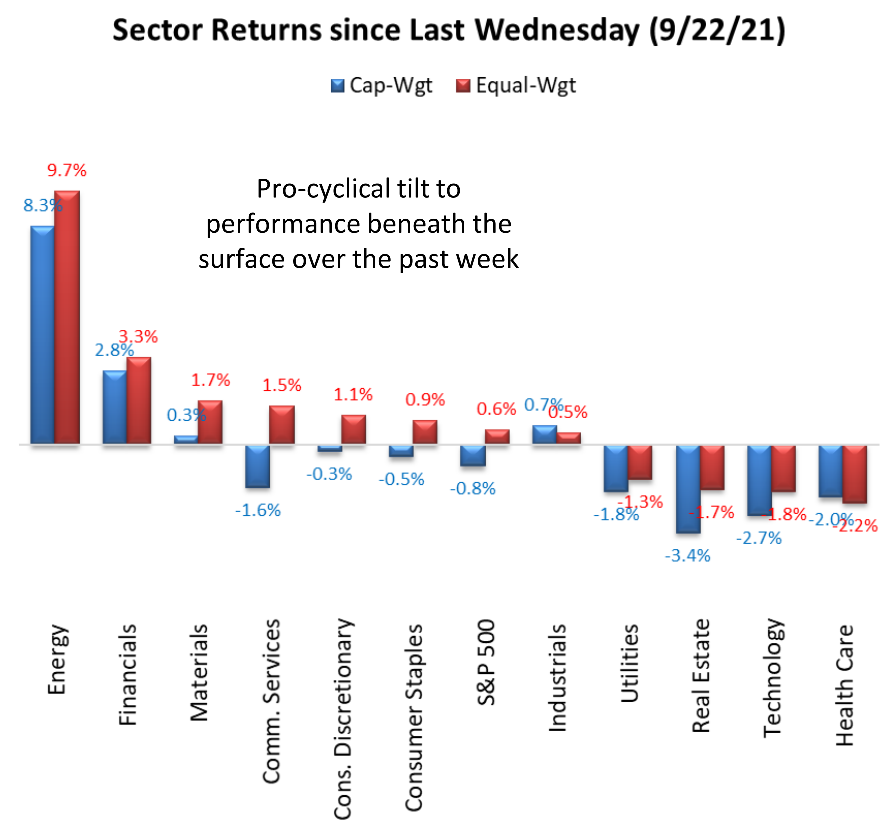


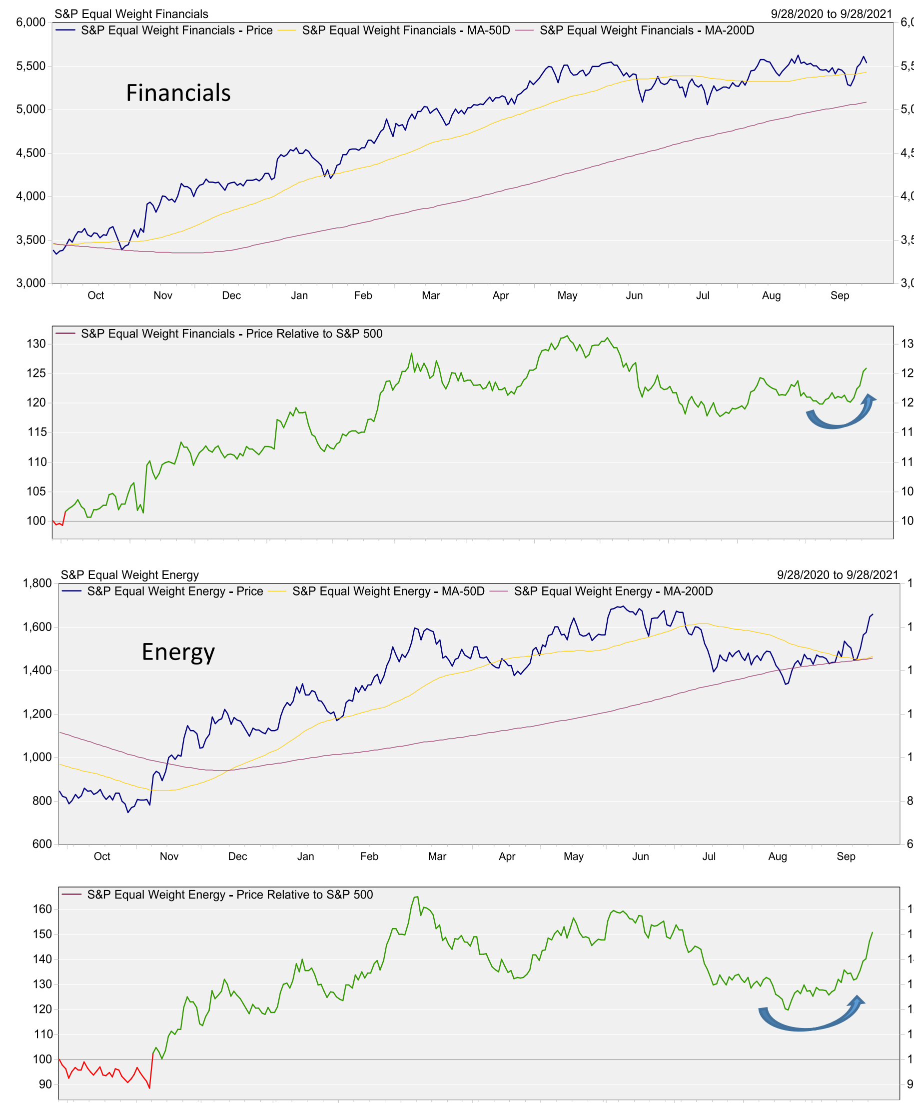


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CYCLICALITY

Performance beneath the surface has shifted toward cyclicality over the past week. As you can see, sectors like Energy and Financials have been the strongest performers while the more defensive areas have underperformed through the overall market's volatility. We believe opportunity remains in these more cyclical areas, and would consider accumulating favored stocks as needed.

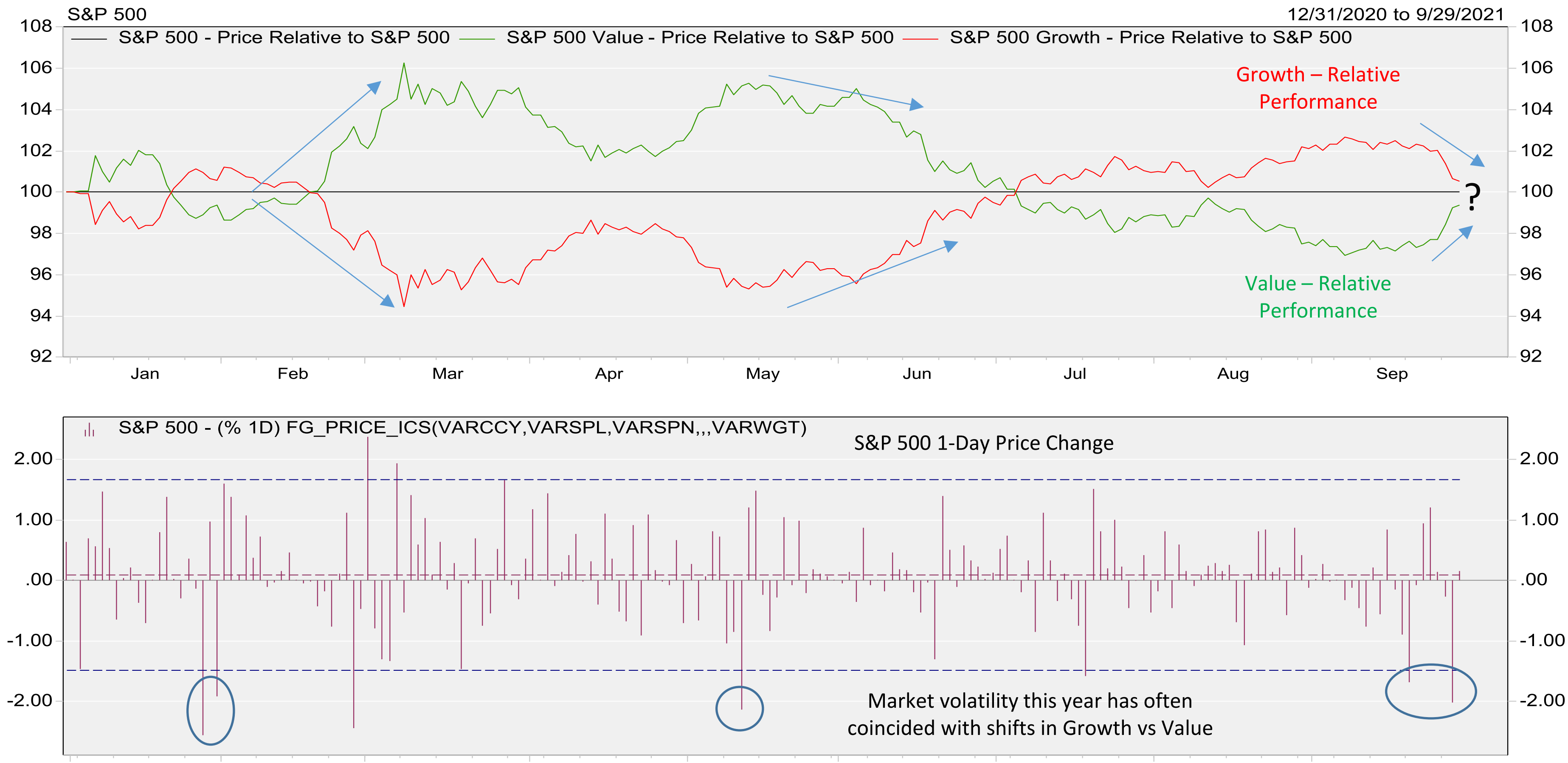




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GROWTH VS VALUE

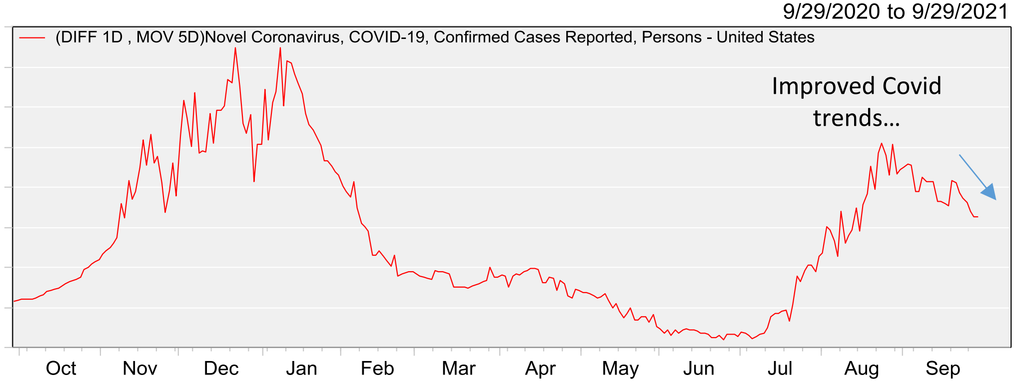
The drivers of performance over the past week have also shifted in favor of Value. We note that market volatility this year has often coincided with some shifts beneath the surface. And we would not be surprised for Value to see improved relative strength trends out of this current bout of volatility. Style investors can look to accumulate Value with bond yields showing upside, cyclicality improving, and valuation attractive after a multi-month period of underperformance.

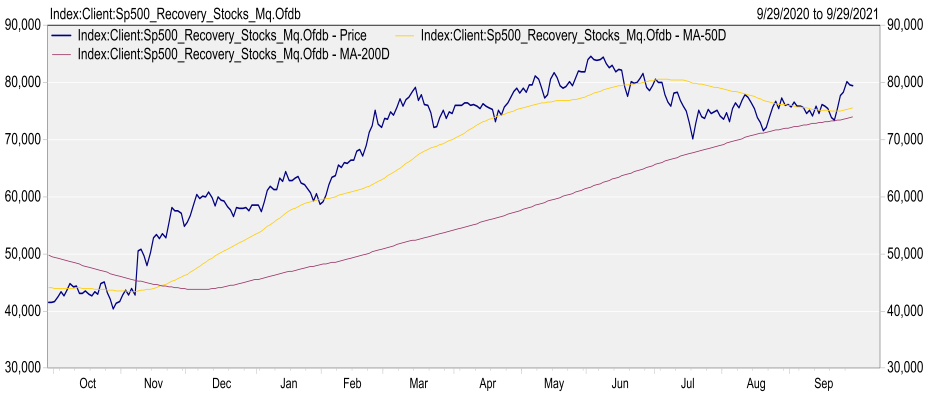


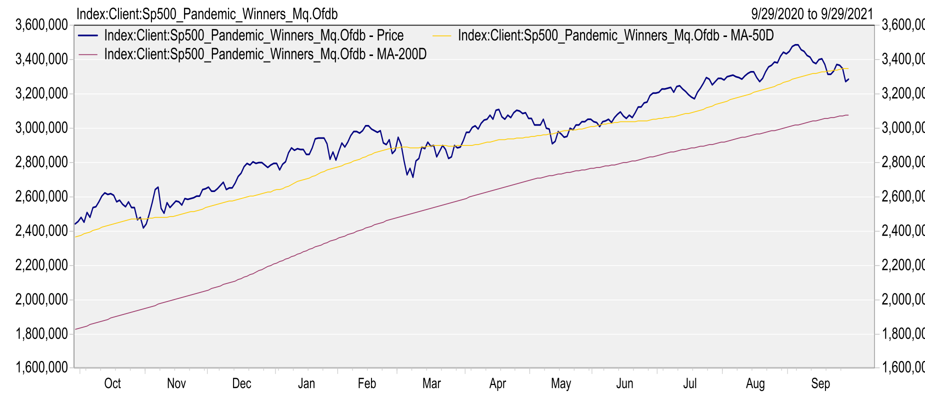
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

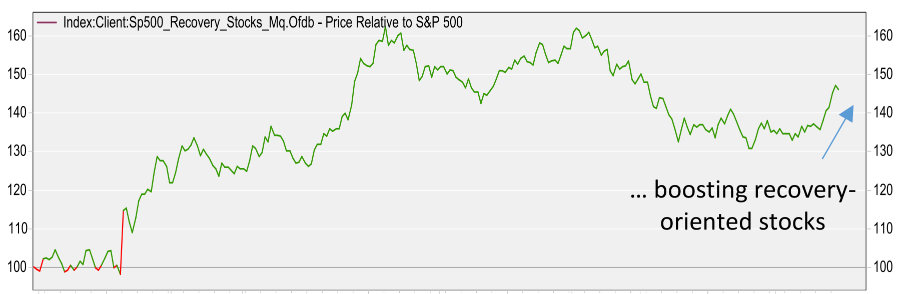
"PANDEMIC WINNERS" VS "RECOVERY STOCKS"

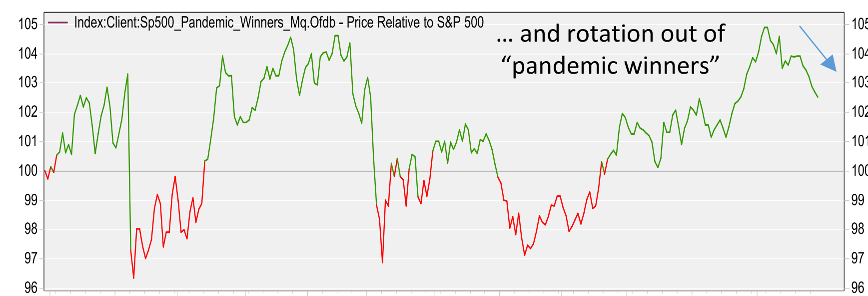
The improvement in Covid cases is contributing to a gain in relative strength of the "recovery stocks," while investor interest rotates from the "pandemic winners." The recovery-oriented stocks are showing upside after holding 200 DMA support in their multi-month consolidation phase, while the stay-at-home stocks are breaking below their 50 DMA. We would look to accumulate favored recovery-oriented stocks as the momentum builds, given our positive stance on the economic recovery over the intermediate term.







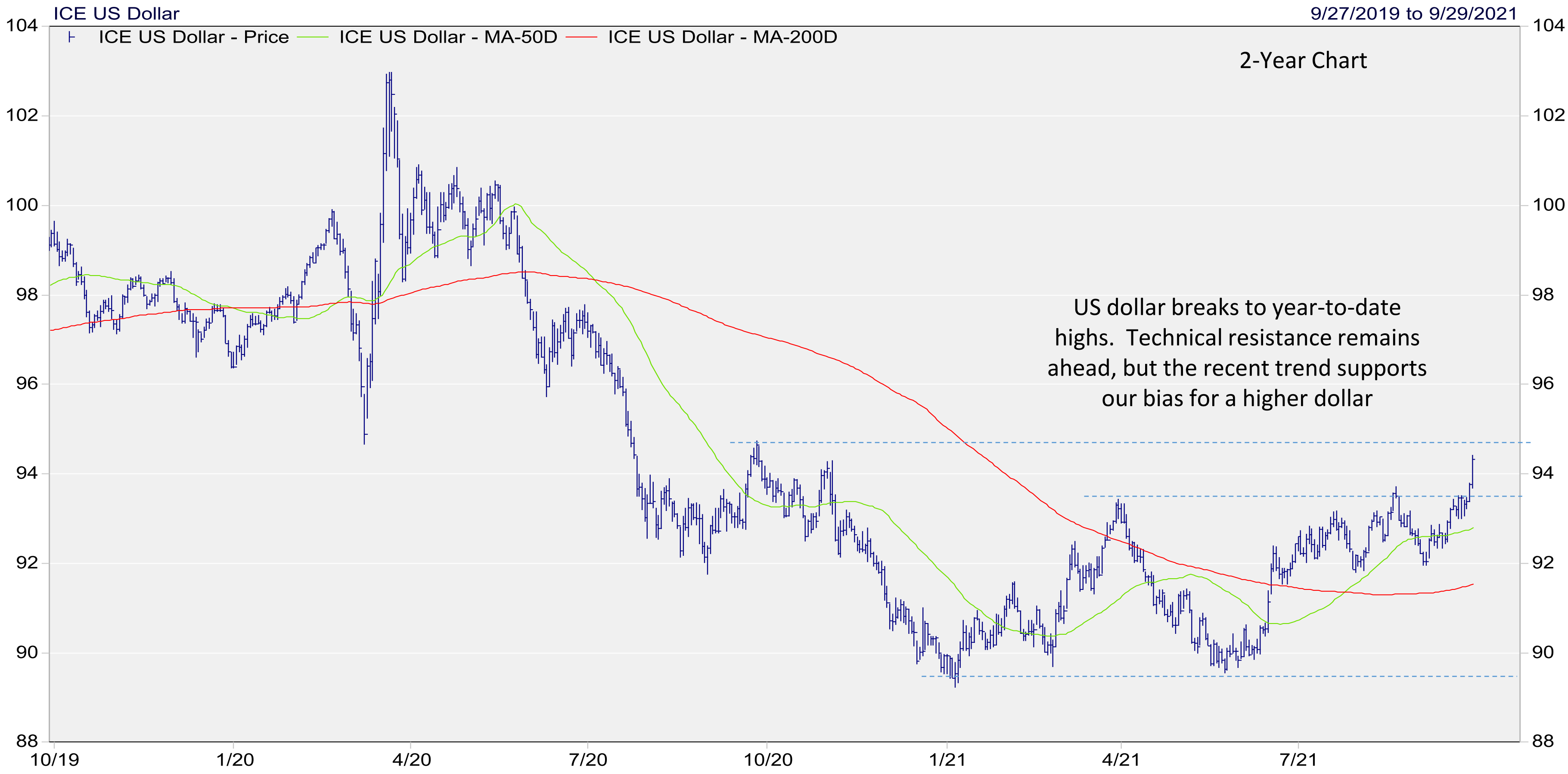




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US DOLLAR

The US dollar is breaking above the upper end of its range that has been in place year-to-date. Our bias for the USD remains higher due to real rate differentials favoring a stronger dollar. The technical trend lately supports this view with a series of higher highs and higher lows, though we do note some overhead resistance in the short-term from last year levels. Should a grind higher in the US dollar transpire, it is likely to be a headwind on Emerging markets relative performance and commodity prices.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

M21-3810488

IMPORTANT INVESTOR DISCLOSURES

This material is being provided for informational purposes only. Expressions of opinion are provided as of the date above and subject to change. Any information should not be deemed a recommendation to buy, hold or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. This report is not a complete description of the securities, markets, or developments referred to in this material and does not include all available data necessary for making an investment decision. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Links to third-party websites are being provided for informational purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any websites users and/or members.

Index Definitions

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.

International Disclosures

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This document is for the use of professional investment advisers and managers and is not intended for use by clients.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monetaire et Financier" and Reglement General de l'Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

For institutional clients in the European Economic rea (EE) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Broker Dealer Disclosures

Securities are: NOT Deposits • NOT Insured by FDIC or any other government agency • NOT GUARANTEED by the bank • Subject to risk and may lose value

Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. **Raymond James Financial Services, Inc.,** member FINRA/SIPC. Raymond James® is a registered trademark of Raymond James Financial, Inc.