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Weekly Market Guide

Short-Term Summary: We believe that the market is in a normal back and forth pattern right now, after breaking below the 50 day moving average (DMA) in early August. Up volume days are being followed by elevated down volume days, while price has been unable to produce any breakouts and thus far has failed to move above the 50 DMA (2945). To the downside, focus on the August 5th low (2822) and the 200-day moving average (2805) as potential support. The well-defined technical range (2822 to 2945) sets the market up for a break one way or the other. After testing the low of the range last week, we are now pushing back to the top of the range this week. We currently lean to the opinion for a downside break below 2822 with a possible test of the June low (2728) in the coming months, and feel downside should be limited *near* the 2700 area. If the break-out is to the upside, we expect the degree of the upside to be limited to near the old high (3027) unless really good news develops regarding trade (which we view as unlikely).

Our caution is the result of less than impressive technical action during the bounce/base since the initial low on August 5th, a low probability of a trade deal any time soon (President Xi unlikely to back down with the 70 year anniversary of the People's Republic of China celebration on Oct. 1), slowing earnings trends, slowing global macro data globally, and the historically weak seasonal period of the year ongoing (August-October). Although we are cautious on the broad market in the short term, there are opportunities for the long term investor to be selective and accumulate individual sub-sectors and stocks with partial positions during the market's current consolidation phase. In general, we continue to favor US large-cap growth stocks, in particular, those with the least overseas exposure.

Over the intermediate term, the value proposition to our next 12 month S&P 500 target of 3108 has improved (8% upside). In our base case outlook, we apply a “Fed put” and “Trump put” to a macro that is ok given our consumption-oriented US economy. The Fed cut rates in July, almost assuredly will cut again in September, and has stated its intent to support the economic outlook. This is a change from last Fall, when the Fed was hiking rates and interest rates were moving higher (contributing to our belief that the market is not due a sell-off like we saw in late 2018). President Trump’s behavior on trade has been erratic, but it is in his best interest to do enough to support the economy and market into his re-election campaign next year. That being said, the recently announced increase in tariffs on China will continue the downward trajectory of margin estimates, if they go (and stay) in effect. We use a next 12 month earnings estimate of $168 (4.5% below consensus). We use 18.5x as our base case P/E multiple (vs 17.4x currently). This is slightly below the 19.1x median P/E since 1954 when inflation is in the 2-2.5% range, and in line with the market’s P/E last September.

In sum: The S&P 500 has effectively been range-bound for the majority of August, after breaking below the 50 DMA to begin the month. The inability to move back above the 50 DMA, along with increased trade tensions make it difficult to increase conviction broadly in the seasonally slow period of the year. Look to the August 5th low (2822) and 200 DMA (2804) as key levels of support on the downside. Absent a dose of good news that sees the S&P 500 decisively break above the 50 DMA, we would not be surprised to see the index move toward (or just below) the June price low of 2728 before this consolidation phase is all said and done.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	15.2%	-0.3%
S&P 500 (Equal-Weight)	13.2%	-3.3%
Dow Jones Industrial Avg	11.6%	-0.1%
NASDAQ Composite	18.4%	-2.2%
Russell 2000	9.2%	-14.8%
MSCI All-Cap World	10.6%	-4.0%
MSCI Developed Markets	5.9%	-8.1%
MSCI Emerging Markets	0.0%	-9.8%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	25.8%	22.0%
Real Estate	25.0%	3.3%
Consumer Discretionary	19.3%	10.2%
Consumer Staples	19.2%	7.7%
Communication Svcs.	18.5%	10.5%
Utilities	16.8%	3.5%
S&P 500	***15.2%***	-
Industrials	14.8%	9.2%
Financials	10.5%	12.7%
Materials	9.9%	2.7%
Health Care	3.6%	14.0%
Energy	-2.0%	4.4%

S&P Styles
Year to Date (Price Return)

	Growth	Blend	Value
Large Cap	18.1%	15.2%	12.0%
Mid Cap	14.3%	11.2%	8.1%
Small Cap	8.4%	7.2%	6.1%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

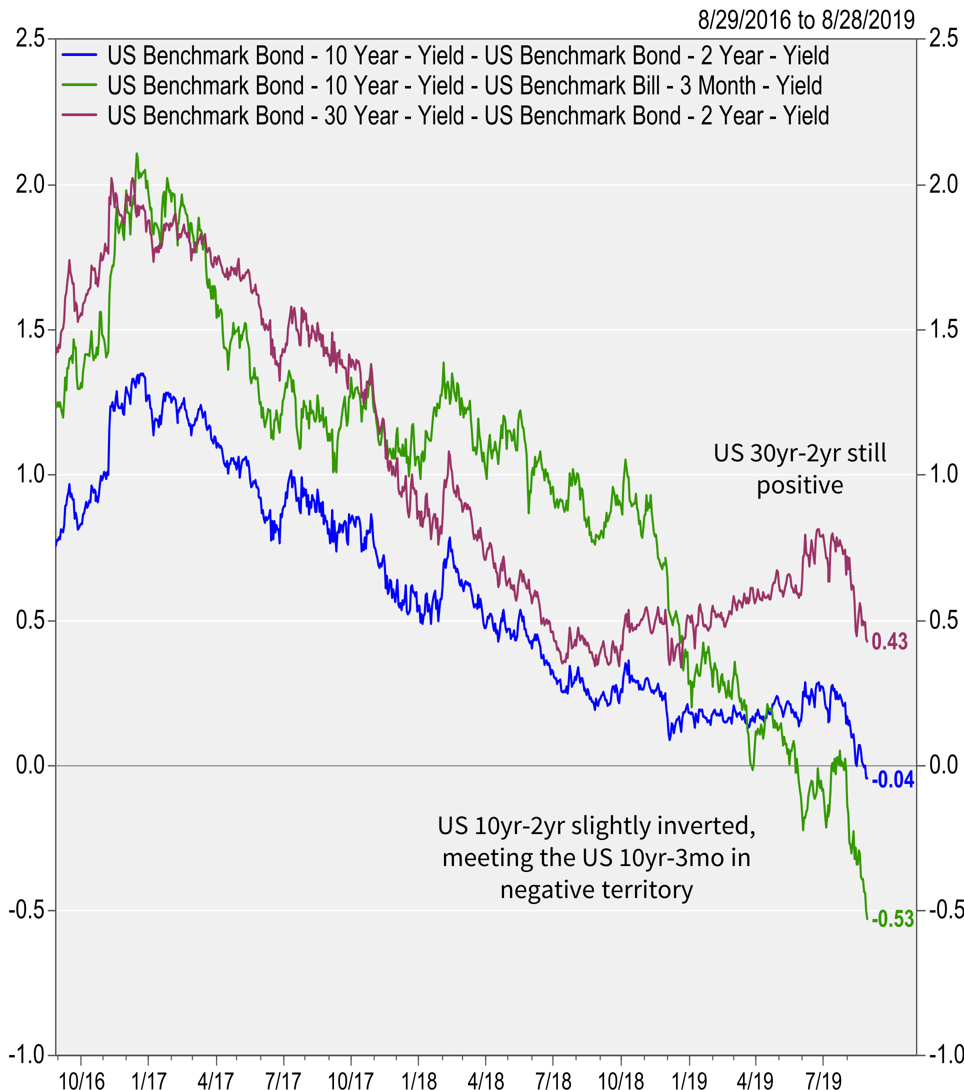
MACRO: US

Durable goods orders surprised to the upside in July, although details were not as strong as the headline and the trend remains downward.

New home sales missed due to a sharp upward revision in the June data to 20.9% growth m/m (from 7%). We view housing as positive, boosted by a solid consumer and lower interest rates.

Consumer confidence was stronger than expected in August, remaining at high levels. The expectations number dropped to 107 (in line with its average from last year), and the present situation number rose to a strong 177.2. Additionally, the net percentage of people rating jobs as plentiful (vs percentage saying hard to get) rose to 39.4% from 33.1% (2018 average was 27.6). This, along with exceptionally low initial jobless claims, should support the unemployment rate trending lower and also supports our view that the consumer remains strong.

US economic data reported in the past week (actual vs estimate):
New Home Sales (Jul): 635k vs 647k, 728k prior
New Home Sales m/m (Jul): -12.8% vs 0.2%, 20.9% prior
Durable Goods Orders (Jul P): 2.1% vs 1.2%, 1.8% prior
Durables Ex Transportation (Jul P): -0.4%, 0.0%, 0.8% prior
FHFA House Price Index m/m (Jun): 0.2% vs 0.2%, 0.2% prior
Conf. Board Consumer Confidence (Aug): 135.1 vs 129.0, 135.8 prior
GDP Annualized q/q (2Q S): 2.0% vs 2.0%, 2.1% prior
Personal Consumption (2Q S): 4.7% vs 4.3%, 4.3% prior
Core PCE q/q (2Q S): 1.7% vs 1.8%, 1.8% prior
Wholesale Inventories m/m (Jul P): 0.2% vs 0.2%, 0.0% prior
Initial Jobless Claims (Week): 215k vs 214k, 211k prior
Continuing Claims (Week): 1698k vs 1686k, 1676k prior
Pending Home Sales m/m (Jul): -2.5% vs 0.0%, 2.8% prior
Pending Home Sales y/y (Jul): 1.7% vs 1.8%, -0.6% prior



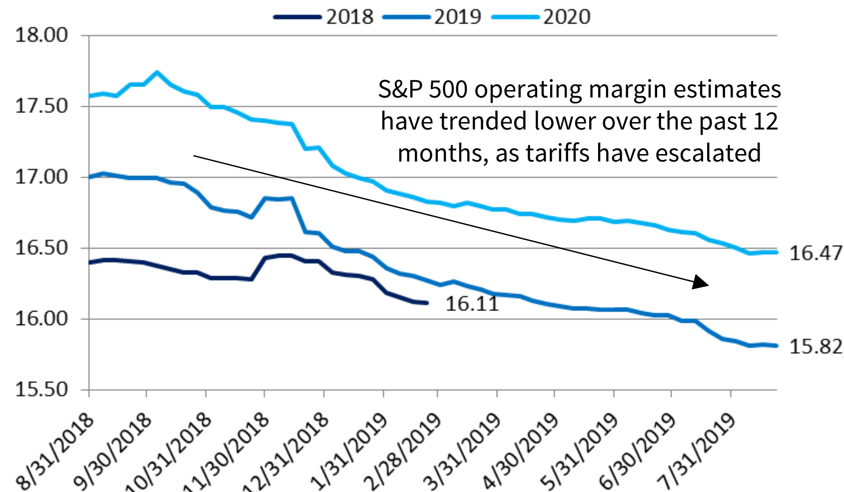
Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

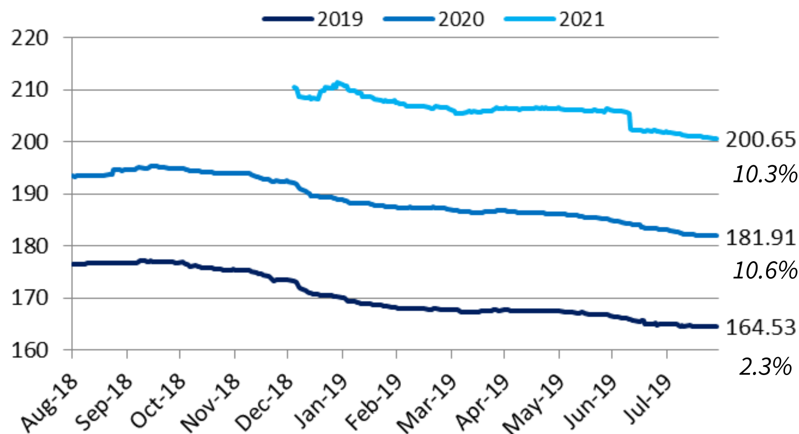
FUNDAMENTALS

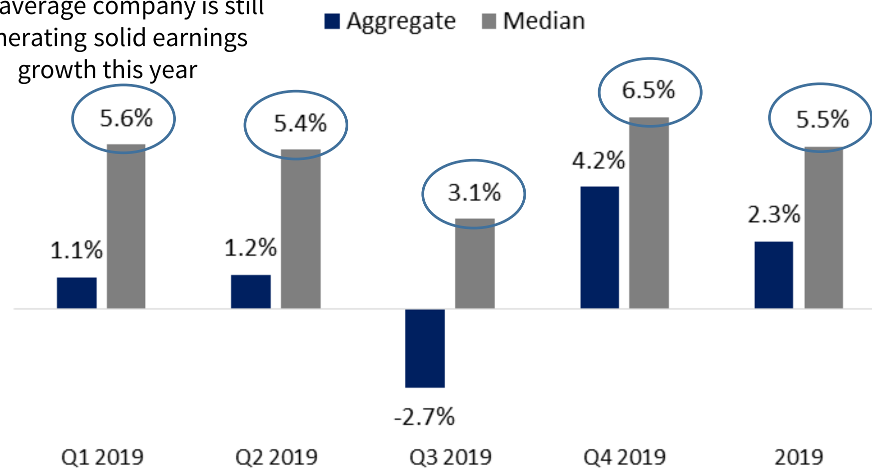
Earnings: Mathematically, we believe the impact of 30% tariffs on $250B worth of Chinese goods and 15% on $300B worth of goods to be about 5.1% *if they go into effect and stay there*. Additionally, a 30% tariff rate on all Chinese goods would mathematically be a 6.6% impact to S&P 500 earnings. As you can see in the chart to the top right, margin estimates have been trending lower since last September (when Trump initiated the tariff increases on China). Despite strong sales growth (solid consumer), the margin revisions have weighed on earnings estimates. Additionally, **we feel the real impact of tariffs and trade tensions is greater than the mathematical impact** due to decreased confidence of corporations and consumers. A 6% tariff impact could take our 2020 earnings estimate down to $165 (from our current $176 est.), and an 8% impact could take it to $161. This reflects flat to negative growth y/y, and is a reason that we do not believe President Trump can let these tariffs go and stay in effect for long, without upsetting the equity market.

Consensus earnings estimates:

- **2019:** $164.53 (bottom-up analysts); $165.18 (top-down strategists)
- **2020:** $181.91 (bottom-up analysts); $178.49 (top-down strategists)



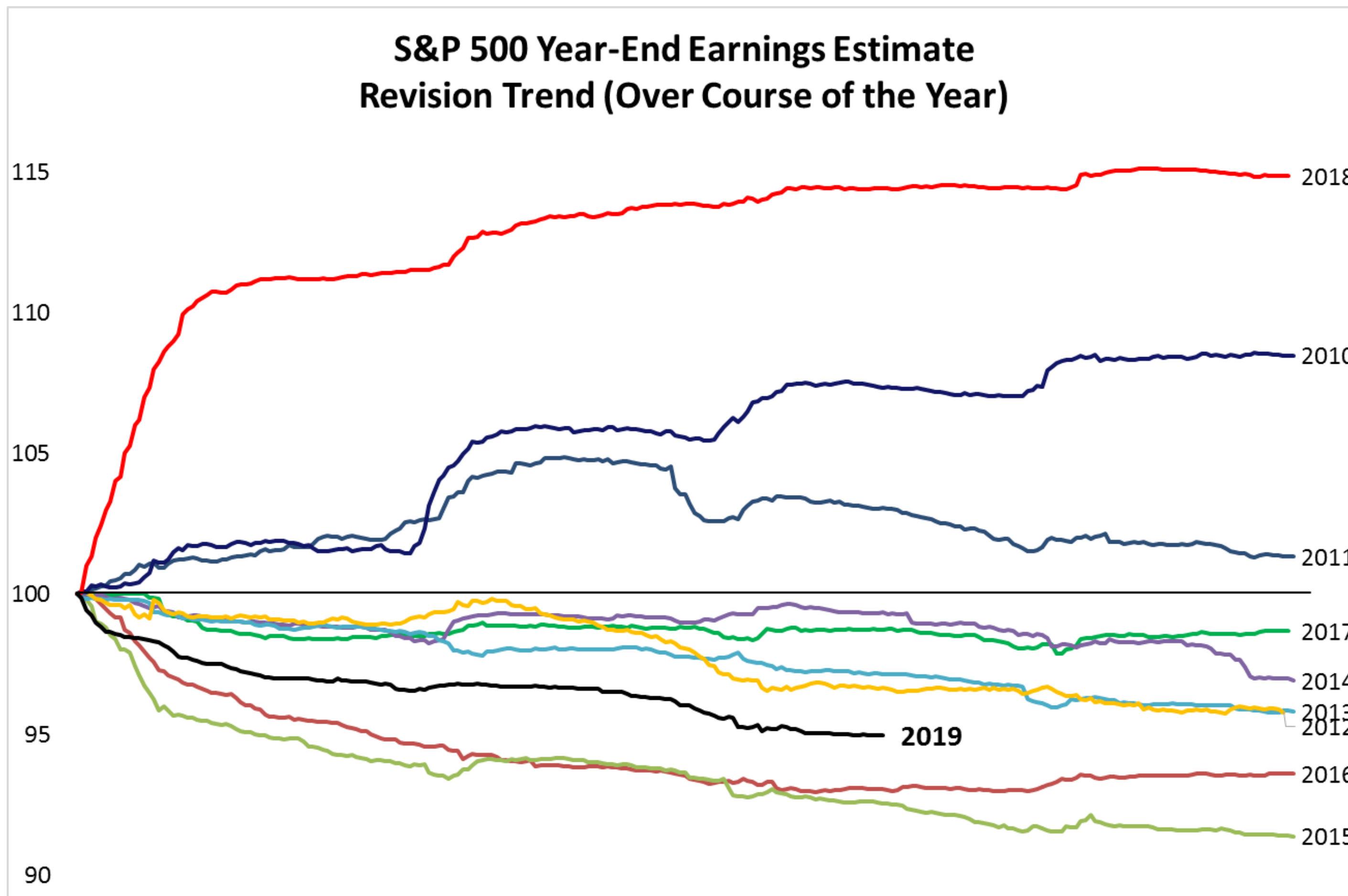




Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS: EARNINGS ESTIMATE REVISIONS WEAK

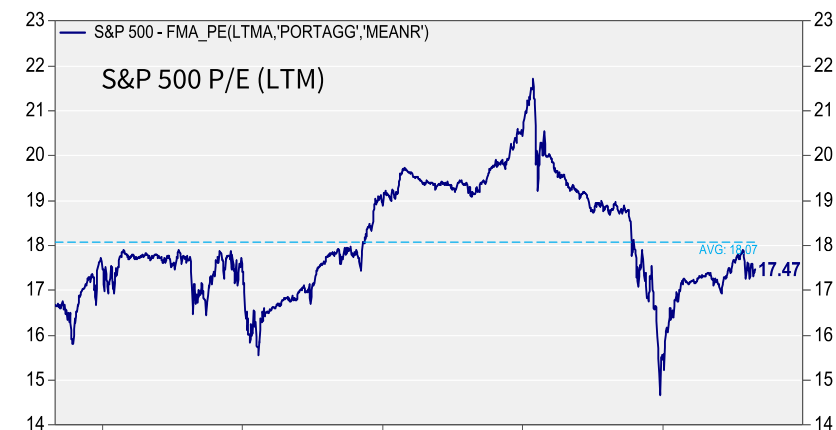
The 2019 earnings estimate revision trend is similar to the "manufacturing recession" period of 2015-2016 when S&P 500 earnings growth flattened out (Fed ended QE, US dollar spiked, oil collapsed, industrial production went negative). Lower margin estimates from global manufacturing weakness and trade tensions/tariffs are weighing on earnings estimates this year. This contrasts to last year, where earnings estimates trended higher all year long following tax reform.



Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

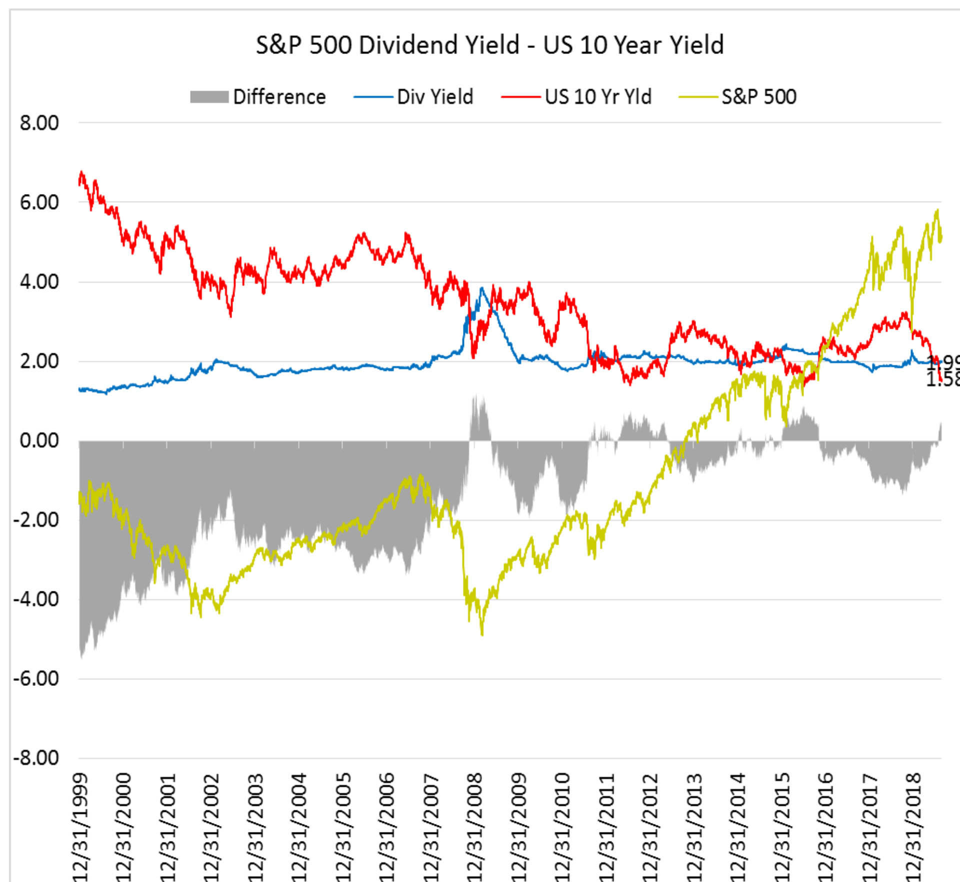
FUNDAMENTALS

Valuation: The S&P 500 currently trades at a P/E of 17.5x. In our base case outlook, we use a next 12 month P/E of 18.5x- just below the historical median P/E when inflation is in the 2-2.5% range of 19.1x, due to trade headwinds.



Source: FactSet, Bloomberg, Raymond James Equity Portfolio & Technical Strategy

The drop in interest rates has increased the equity risk premium (relative value of equities vs bonds) to well above historical averages. An interesting data point also depicting this is the S&P 500 dividend yield vs the US 10 year yield, which is positive right now (S&P 500 dividend yield 1.99% vs US 10 year yield 1.58%). In fact 74% of dividend-paying S&P 500 companies currently have a higher yield than the US 10 year Treasury yield. Although it is an incentive to buy stocks over bonds, we believe it reflects the unusual activity in the bond market as opposed to giving a glaring sign to buy equities.



TECHNICAL: SHORT TERM

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technical:

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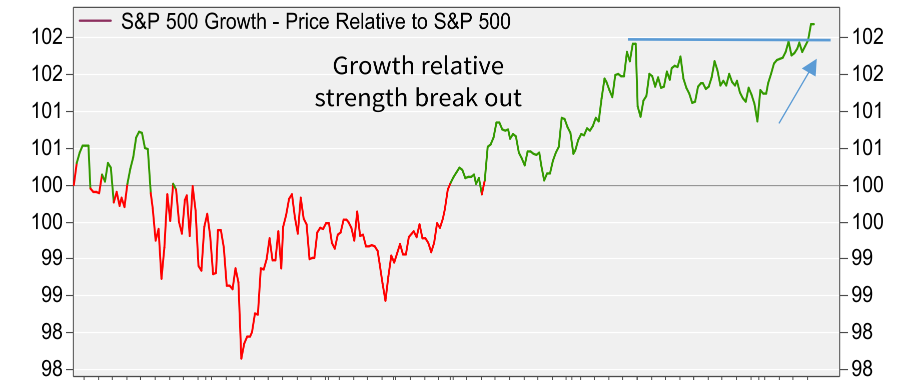
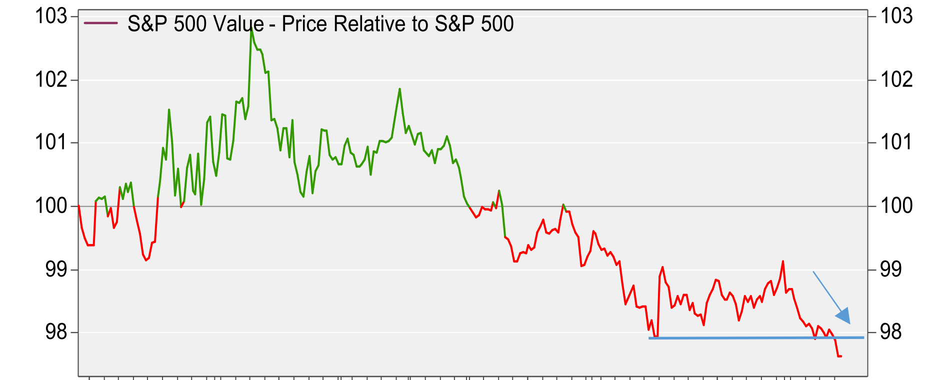
TECHNICAL: GROWTH VS VALUE

Large cap growth broke out to new relative highs vs large cap value this week- continuing its positive trend that has been in place for the better part of this bull market cycle.

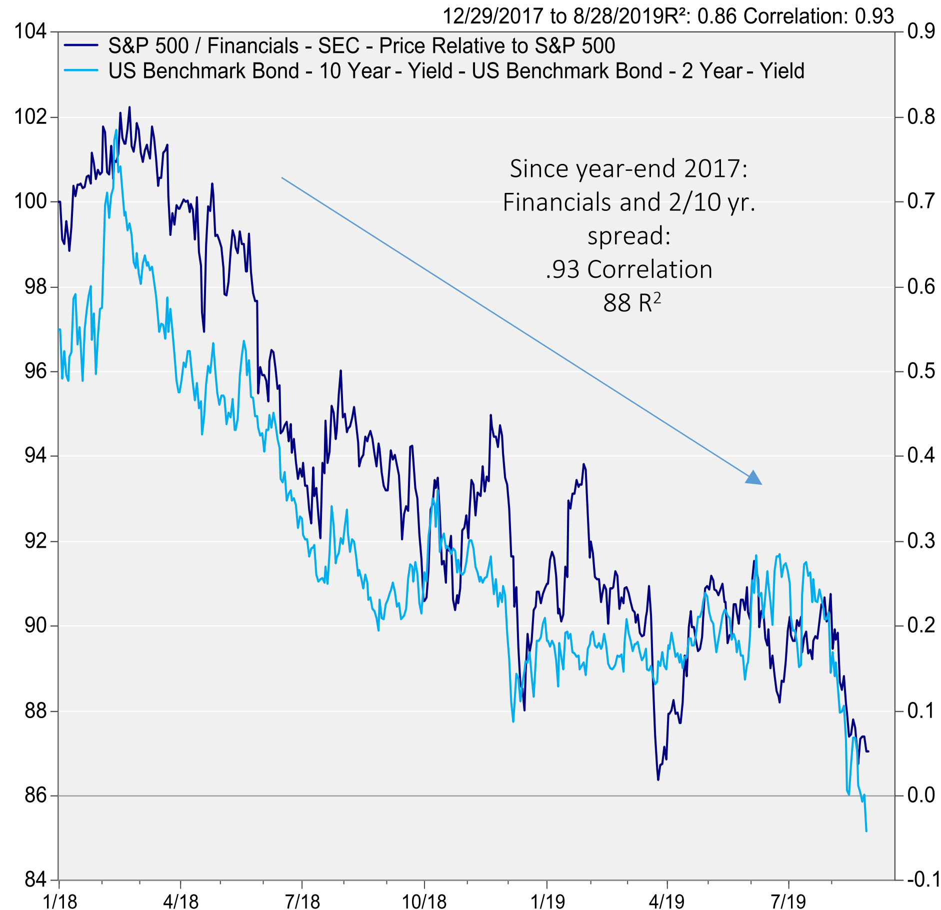


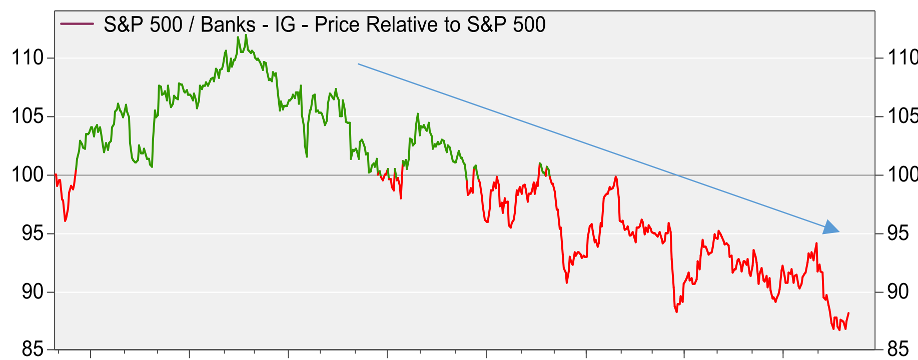


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: FINANCIALS

A reason for the recent outperformance of Growth is the underperformance of the Financials (largest weighting of Value). Lower interest rates and the narrowing yield curve continue to weigh on the banks. There has been a 93% correlation between Financials relative strength and the US 10yr-2yr spread since the start of 2018. The sector is exhibiting good fundamentals this year and has a cheap valuation, but the technical trend (caused by yield curve) suggests patience is needed.

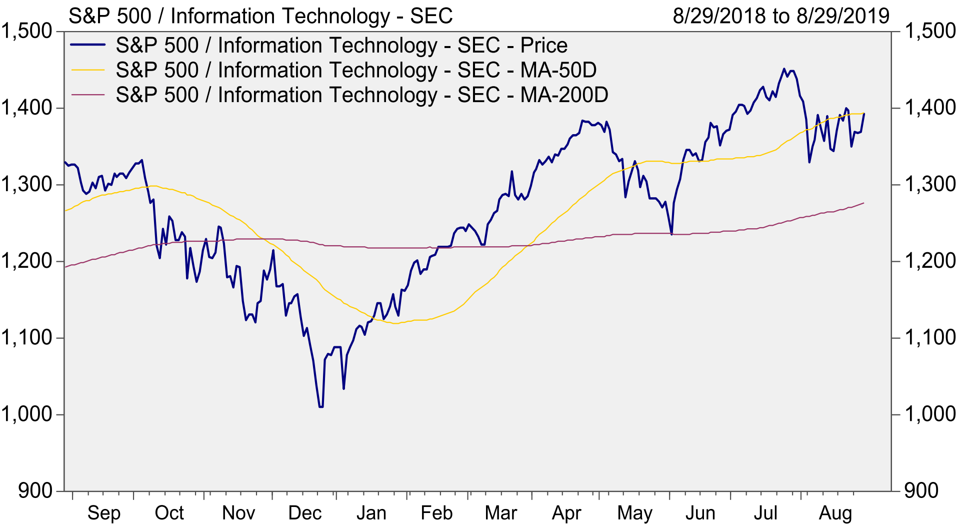


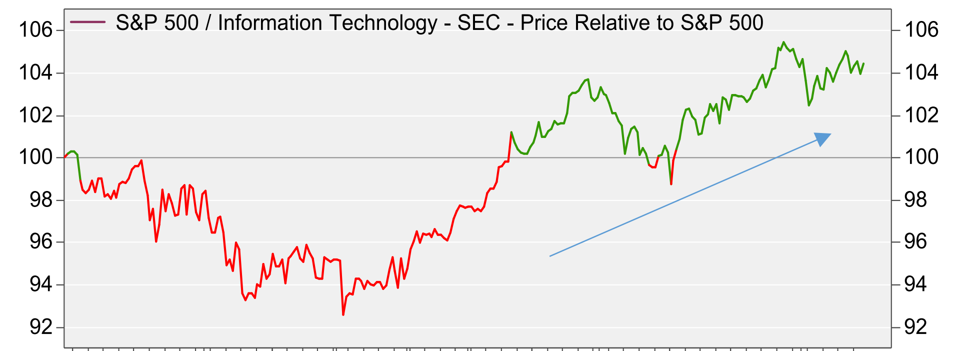


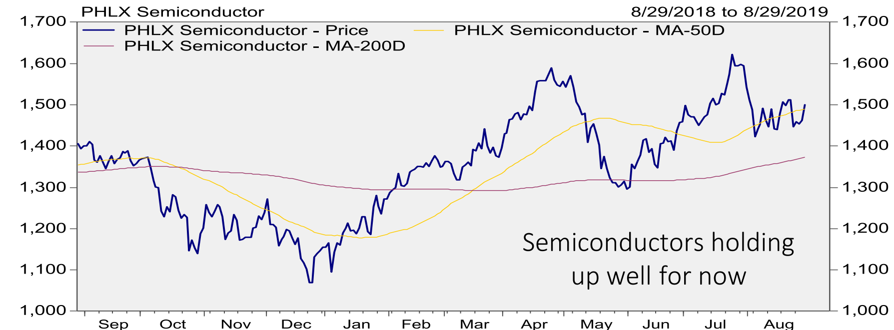
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

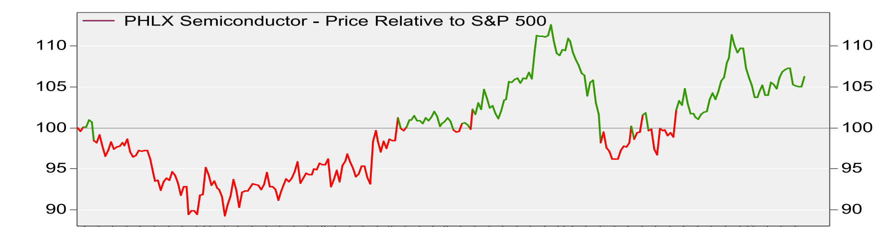
TECHNICAL: TECHNOLOGY

On the other hand, Technology (largest weighting in Growth) continues to trade fairly well despite being one of the areas most negatively impacted by trade tensions.









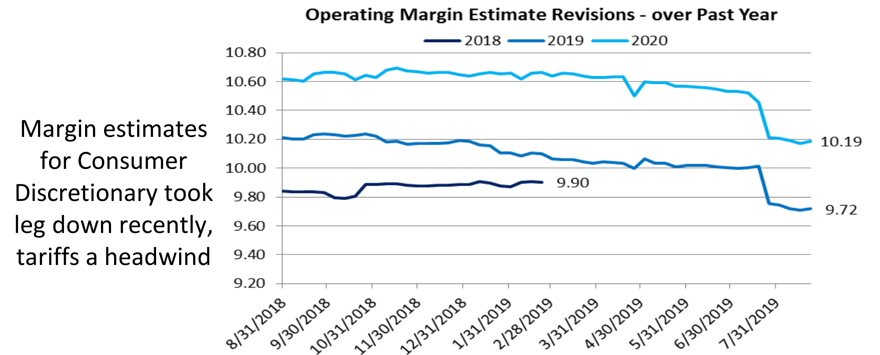
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

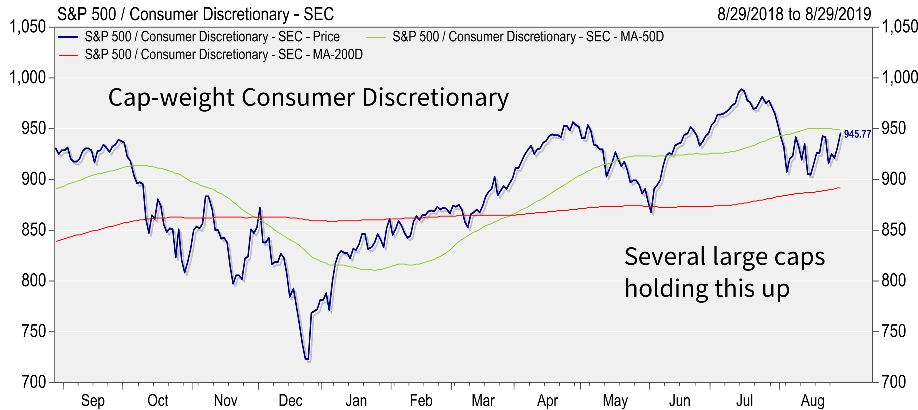
TECHNICAL: CONSUMER DISCRETIONARY

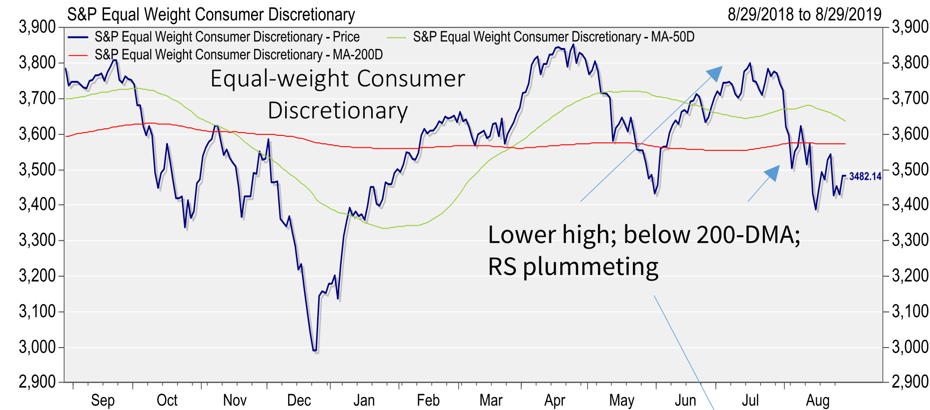
Another sector with heavy China exposure is Consumer Discretionary. If tariffs stay (and increase), downward margin estimate revisions will weigh on what is strong earnings growth right now.

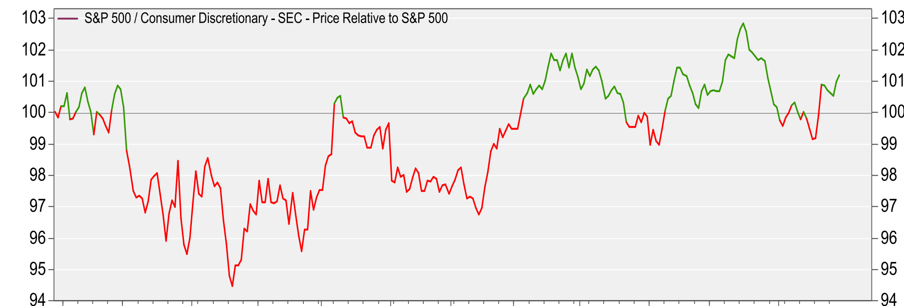
Technically, there is a divergence of the equal weight Consumer Discretionary sector (reflects average stock) vs the cap-weight Consumer Discretionary sector (influenced by fewer large stocks). The equal weight sector has put in a series of lower highs, is below its 200 DMA, and relative strength is plummeting- suggests careful stock selection in the sector.

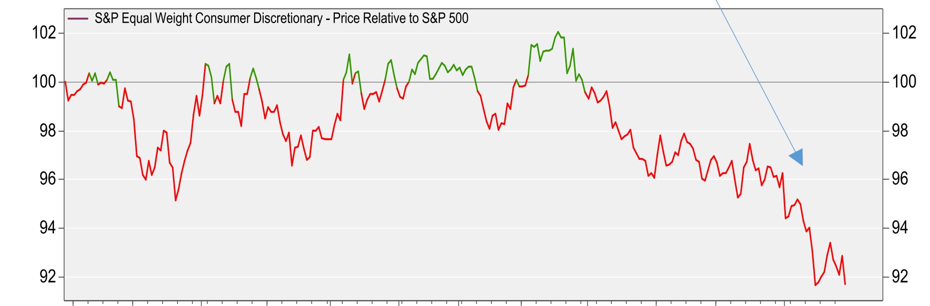
Margin estimates for Consumer Discretionary took leg down recently, tariffs a headwind











Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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.

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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.

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