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2019 1st Quarter Equity Market Update

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Outlook: Following a 19.5% decline that ended on Christmas Eve, the market has followed the path of least resistance higher (with limited volatility) to begin the year (up over 20%+ from the December lows). However, unsurprisingly given the sharp move higher, the market began to stall around the 2800-2815 level as slowing macro, yield curve inversion, and trade (recent takeaways suggest talks may linger into June) dominate headlines. Despite the potential risks facing the market, we believe it is important to take into account the economic backdrop, which generally remains supportive of equities, and not look at only one data point (such as inverted yield curve). While the increased risks may make the market more vulnerable to shocks, we continue to believe the positives outweigh the negatives. Overall, we continue to believe the US economy is generally healthy, albeit there are some areas that are slowing, and earnings, while being revised lower, still point to growth in 2019. Our base case scenario of 2946 (applying 17.75x P/E multiple to $166 in earnings) for year-end 2019 implies 4% upside from current levels, prior to dividends.

Over the quarter, the Fed has shifted to a more dovish stance (kept rates unchanged at the most recent FOMC meeting and now expects zero rate increases in 2019, down from prior expectations of two); global manufacturing growth has slowed; inflation has remained muted; trade talks with China have been constructive (and the 25% tariffs going into effect on $200 billion of goods in early March were delayed), but there has not been a final trade agreement yet; potential to levy tariffs on European autos; concerns around Brexit have increased (although largely overlooked by the market); and the spread between the 10-year and 3-month recently inverted. We believe the inverted yield curve (10-year to 3-month) deserves investors' attention, given its historical track record of preceding recessions, but given that other spreads (10/2 year and 30 year/3 month) have not inverted and US economic data points have been mixed, we would continue to caution investors from overreacting, as there has historically been a long lead time from the initial inversion until a recession actually begins. Trade remains the biggest wildcard for the market. Despite constructive talks with China and the delay in 25% tariffs going into effect, there has not been a final agreement as there remains several sticking points (IP transfer, trade enforcement rules, etc.). Although our base case assumes that enough progress is made on trade to deliver a positive tone, in the event that trade talks fall apart, this would present a downside shock for the market.

Please read domestic and foreign disclosure/risk information beginning on page 57 and Analyst Certification on page 57.

Contents

2019 U.S. Equity Market: Influencing Factors

Potential Positive Forces

1) Earnings are still expected to grow in 2019 (albeit at a slower pace than previously expected). Fiscal stimulus such as infrastructure spending may spur further growth in earnings (if the two parties ever come together and produce a package).

2) Relative to the rest of the world, U.S. macro environment remains on solid footing with 2019 Real GDP expected to grow at 2.4% y/y.

3) While data points have been mixed, the U.S. economy generally remains strong (job growth; non-manufacturing strength) mixed with low interest rates and low inflation on historical measures.

4) U.S. leading economic indicators remain positive

5) Inflation remains subdued allowing the Fed to be more patient and data dependent as global macro data sees pockets of weakness.

Potential Negative Forces

1) U.S. Protectionism remains the biggest wildcard for the market. Despite positive takeaways recently, there has not been a final resolution, which leaves the door open for potential risk if trade talks fall apart. If 25% tariffs are implemented on all goods between US and China, this could be another 2-4% hit to S&P 500 earnings. If all tariffs between US and China are removed, this could add 1-2% to S&P 500 earnings. Any new tariffs imposed on EU autos by the White House would dampen economic activity and lessen any positive sentiment scored by a trade agreement with China.

2) Slowing, but still positive, earnings in 2019 (currently, consensus expectations for 2019 earnings growth is 4.2% y/y). Global manufacturing has slowed and several international PMI has shifted from expansionary territory to contractionary.

3) Curve inversion– spread between 10-year and 3-month recently inverted, but other spreads (10-2 year and 30 year-3 month) have not inverted yet, but still narrow. Spreads tend to invert prior to recessions. Low global yields, slowing growth, and muted inflation are keeping long-term yields lower.

4) Central bank errors and limits: Monetary policy error if Fed tightens too rapidly or too slow (inflation picks up); currently the implied probability of a rate cut in 2019 is 68% vs. expectations for a rate increase at 0%; ECB likely to begin tapering, while the US Fed is slowing its tapering

5) U.S. budget deficit limits flexibility if economic conditions deteriorate

6) Dislocation of synchronized global growth-global PMIs moving into contractionary territory while US remains expansionary

Summary Forward Overview: Near Term (1-3 Months): Stalling near the 2800-2815 level
Longer Term (12-18 Months): Supportive of Continued Upside in Equities

Near term (1-3 months): To start the year, the S&P 500 raced higher encountering very little resistance as 77% of the weeks have seen positive returns.

After the best quarterly return since 3Q09 and best first quarter since 1998, the S&P 500 stalled near the 2800-2815 before breaking above this level on the final day of the quarter.

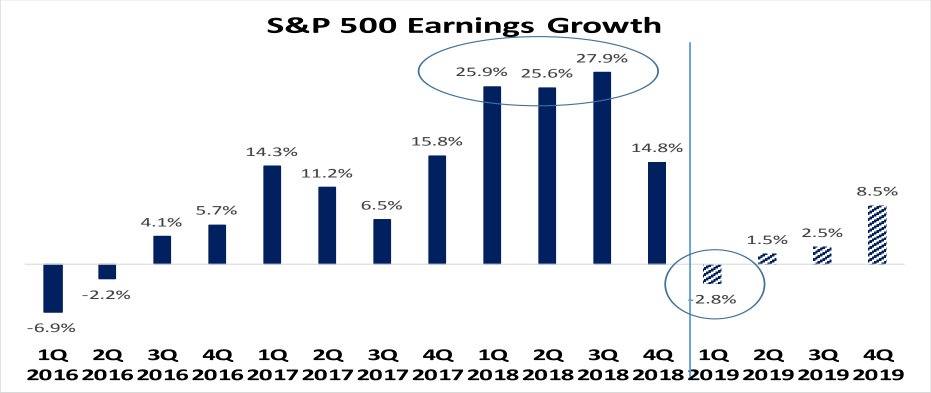
Despite pockets of weakness in the global economy and concerns of an earnings recession (1Q earnings expectations for the S&P 500 are for -2.8% growth y/y), the S&P 500 moved higher as the Fed shifted to a more dovish posture and optimism on trade talks increased.

Broad-based participation, positive volume readings, ease of penetration through overhead resistance, and the lack of downside follow-through to days of market declines all are positive characteristics from a technical trading perspective. Such actions raise the odds for a higher equity market over the next six to twelve months. However, after the rapid move YTD, some slowing of ascent or even a pullback or basing would not be a surprise. With trade talks possibly lingering into June and with recent economic readings causing cautiousness, the slight pick up in volatility seen in the latter half of March is likely to continue for the near term.

As of the end of March, the S&P 500 is fluctuating near the October to December topping levels of 2800-2815. We would not be surprised to see the market remain near this level until we move deeper into 2Q19.

We believe trade remains the biggest wildcard in the near term. Despite optimistic takeaways recently, a meaningful deal, which includes real action on IP theft and forced transfer along with strict enforcement procedures, may take time to resolve, increasing the odds of continued volatility. A comprehensive trade deal is likely necessary to catapult stocks higher as much has already been priced into the market. Additionally, given the concerns over a slowing global economy, surprises to the upside in macro data could also move equities out of the current range.

If trade talks disappoint or the macro concerns worsen, stocks may push below the bottom-end of the support levels near 2700. If softer macro data (or deepening of the yield curve inversion) triggers further weakness, support is likely in the 2600-2650 area. While the macro may soften in the near-term, we generally expect better readings as we move away from the historically seasonally weak 1Q. A major disappointment in trade negotiations could result in the S&P 500 testing the 2500 level. Such an outcome is not in our base case expectation.



Source: FactSet, RJ Equity Portfolio & Technical Strategy

Valuation is no longer a big tailwind as the trailing 12-month P/E moved from a low just above 14x on 12/24 to 17.2x at the end of 1Q. Moreover, the current P/E compares to the its five-year historical average of 18.0x and the 15-year average of 16.1x. We rate valuation as neutral

Bigger picture (12 months): While the market may stall in the near-term while the market sorts out some of the current issues, we believe the positives outweigh the negatives for U.S. equities. Much has been made about the negative inversion of the yield curve. However, historically, there tends to be around a 1-1.5 year lag between the initial inversion and recession. Also, macro data points have been mixed with leading indicators, while decelerating, still pointing to positive expansion, leading us to still favor US equities as the best place globally, on a relative basis. Moreover, earnings are expected to reaccelerate throughout 2019 after 1Q19 earnings are expected to decline y/y.

2019 Fair Value: Our base case fair value estimate for 2019 is 2946. Under this assumption, 2019 earnings estimate is $166 (down from prior estimate of $169) and apply a 17.75x P/E, or a price gain of ~4% (plus another ~1-2% dividend yield for a potential total return of ~5-6%) above current levels.

S&P 500 Fair Value 2019 Year-End Level: Base/Bull/Bear Case: 2946/3334/2415

Base Case (75% Probability): 2946 – Loosening financial conditions (bond yields down, equities up, credit spreads lower, clear pause by the Fed) during the quarter influenced us to increase our assumed probability of the base case to 75% (from the prior assumption of 65%) and increase our assumed P/E multiple to 17.75x (from our prior assumption of 17.5x). Slower economic growth and rising input costs caused us to lower our 2019 S&P 500 earnings estimate to $166 (from our prior assumption of $169).
In our base case scenario for 2019, trade issues continue to make progress with no new tariffs going into effect (by year-end), the US economy does not falter, the spread between the 10-year and 3-month does not invert significantly further from current levels (or may even come back slightly and remain narrow), Fed pauses the tightening cycle, and earnings rise as expected. We apply a P/E of 17.75x to $166 in earnings to reach 2,946 (+4% upside). We believe our P/E adequately discounts late stage economic risks which will likely linger. We place a 75% probability of this scenario playing out.

Bull Case (10% Probability): 3334 -- Within the quarter, we increased the assumed probability of the bull case to 10% from the prior assumption of 5%; increased our assumed P/E multiple to 19.5x from the prior assumption of 19.0x; and decreased the 2019 bull case earnings estimate to $171 from the prior assumption of $174 (consensus at the end of 2018).
In our bull case scenario, we use a "Goldilocks" environment where trade differences are worked out and recent tariffs between US and China are removed, the US economy reaccelerates and some of the recent weakness reverts, inflation remains muted, the yield curve steepens, the unemployment rate stops falling, and investor optimism returns. We use a 19.5x P/E which has been the historical median P/E when inflation is in the 2-2.5% range. Earnings surpass consensus estimates and our estimates and reach $171 (take consensus expectations of $167.62 and add 2% for the removal of tariffs). Applying a 19.5x P/E to this $171 earnings gets a 3,334 bull case scenario (+18% upside). We give a low 10% probability to this scenario.

Bear Case (15% Probability): 2415 --Within the quarter, we decreased the assumed probability of the bear case to 15% from the prior assumption of 30%.
In our bear case scenario, the optimistic takeaways from trade reverse and conflict escalates, which weighs on sentiment, economic and earnings growth continue to slow (without entering a recession), the US 10 year – 3 month inverts further and other spreads (10/2 year or 30 year/3 month) follow its lead and invert also, and the Fed leans towards looser policy as economic conditions weaken (which helps to limit the downside in stocks). In this scenario, we feel earnings will be flat with 2018 (~$161). Negative sentiment could push the S&P 500 P/E down near 15x (~9% below the historical average of 16.5x). Applying a 15x P/E multiple to $161 earnings results in a bear case scenario of 2415 on the S&P 500 (-15% downside) before dividends. We apply 15% odds to this outcome given the uncertainty.

S&P 500 Potential Prices (Using Earnings and P/E Forecasts)

	Price to Earnings Ratio - Last 12M						
EPS - 2019	15.0	16.0	17.0	**17.75**	18.0	19.0	19.5
$ 157.00	2355	2512	2669	2787	2826	2983	3062
$ 159.00	2385	2544	2703	2822	2862	3021	3101
$161.00	2415	2576	2801	2858	2898	3059	3140
$ 163.00	2445	2608	2771	2893	2934	3097	3179
$ 165.00	2475	2640	2805	2929	2970	3135	3218
$ 166.00	2490	2656	2822	**2946**	2988	3154	3237
$ 167.00	2505	2672	2839	2964	3006	3173	3257
$ 169.00	2535	2704	2873	3000	3042	3211	3296
$ 171.00	2565	2736	2907	3035	3078	3249	3334

Base

Bull

Bear

Source: FactSet, RJ Equity Portfolio & Technical Strategy

S&P 500 Fair Value Range: Rationale for 2019 Estimates

		Assumptions					
Scenario	S&P 500 2019 Year End Price Target	2019 EPS	Assumption Change vs. End of Year	P/E Multiple	Assumption Change vs. End of Year	Probability	Assumption Change vs. End of Year
Bull Case	**3,334**	$171	↓	19.5x	↑	10%	↑
Base Case	**2,946**	$166	↓	17.75x	↑	75%	↑
Bear Case	**2,415**	$161	→	15.0x	→	15%	↓

Source: RJ Portfolio & Technical Strategy

Factors	Latest	Change vs. 2018 End of Year	Change vs. 1 Year Ago
Nominal GDP	20,865	→	↑
Industrial Production	110.48	↓	↑
ISM Manufacturing	55.30	↑	↓
US Markit PMI Composite	54.26	↓	↑
Housing Starts	1,162.0	↑	↓
New Home Sales	667.0	↑	↑
Existing Home Sales	5,510,000	↑	↓
Building Permits	1,291.0	↓	↓
Nonfarm Payrolls	150,606.0	↑	↑
JOLTS Total Job Openings	7,581.0	↑	↑
Weekly Jobless Claims	211,000.0	↓	↓
Stock Price	2,834.40	↑	↑
Orders for Durable Goods	255,307.0	↑	↑
Orders for Capital Goods	80,367.0	↑	↑

Input Costs			
Factors	Latest	Change vs. 2018 End of Year	Change vs. 1 Year Ago
Core PCE Growth Y/Y	1.8%	↓	↑
CPI Growth Y/Y	1.5%	↓	↓
Avg. Hourly Earnings Growth Y/Y	3.4%	↑	↑
Commodity Inflation*	$334.10	↑	↓
Oil Inflation**	$60.20	↑	↓
USD Change***	$97.28	↑	↑

Source: FactSet and RJ Portfolio & Technical Strategy

*Based on S&P GSCI Commodity Non-Energy Index Price

**Based on WTI Crude Oil Price

***Based on ICE US Dollar Index Price

Source: Bloomberg, RJ Equity Portfolio & Technical Strategy

	2019 Estimates	
	Raymond James	Consensus (Bottoms-Up)
Sales Per Share	**$1,406.88**	**$1,407.45**
Growth Y/Y	4.6%	4.6%
Operating Margins	**16.12%**	**16.18%**
EPS	**$166.00**	**$167.60**
Growth Y/Y	3.2%	4.2%

Lowering 2019 EPS Estimates

Macro data during the quarter has been mixed, but have generally seen some softening while input costs have generally been rising (during the quarter) with wages, commodities, oil, and the USD dollar moving higher while CPI has been moving lower.

Recap of 4Q Earnings; Earnings Growth Expected to Decelerate in 1Q19

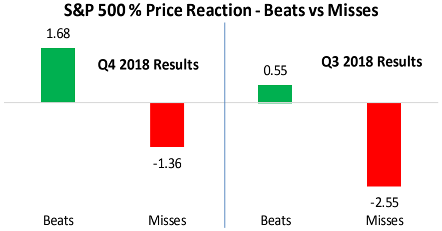
4Q18 Earnings Recap

Recapping 4Q Earnings: S&P 500 earnings results came in better than expected in 4Q with earnings growth of **14.8% on sales growth of 7.6%.** On average, 4Q earnings results surprised by 1.89% vs. expectations, with the average next day return for the S&P 500 of +0.85%. Utilities were the only sector to surprise on the downside with Communication Services seeing the highest upside surprise on earnings.

Overall, earnings beats this earnings season were rewarded (proxied by average next day price movement) much more favorably than during 3Q and earnings misses were not nearly as punished. On average, earnings beats saw returns of 1.68% the following day while misses only declined 1.36%. This compares to 3Q in which misses declined, on average, 2.55% the next day while beats only increased 0.55%.

	Q4 2018 Average % Surprise		Q4 2018 Average Price Reaction		
Sector	EPS	Sales	All	Beats	Misses
Communication Services	8.39	0.08	-1.40	-1.80	-0.22
Consumer Discretionary	6.25	0.65	3.14	4.45	-1.61
Consumer Staples	3.67	-0.06	-0.98	1.72	-7.19
Energy	0.08	4.09	0.18	1.37	-1.29
Financials	-5.44	1.25	1.32	3.00	-1.08
Health Care	5.75	2.75	0.22	0.83	-2.59
Industrials	4.78	0.33	1.16	1.26	0.64
Information Technology	6.72	0.54	1.44	1.49	1.15
Materials	0.53	-0.17	0.14	1.33	-1.66
Real Estate	0.87	0.43	0.04	0.60	-0.67
Utilities	-21.93	1.25	-0.03	0.44	-0.97
S&P 500	**1.89**	**1.03**	**0.85**	**1.68**	**-1.36**

S&P 500 % Price Reaction - Beats vs Misses



Source: FactSet, Bloomberg, and RJ Equity Portfolio & Technical Strategy

1Q19 Earnings Outlook

Looking ahead to 1Q19 earnings season, consensus estimates are looking for earnings to turn negative on a y/y basis. Overall, S&P 500 earnings for 1Q have been revised 7.1% lower since the beginning of the year. Currently, consensus estimates are looking for **2.8% earnings contraction y/y on sales growth of 5.6%.** Health Care is expected to see healthy trends in 1Q with the highest expected earnings growth at 5% on sales growth of 13.5% (second highest y/y sales growth behind Communication Services (+15.2%)). Energy is expected to see the most slowdown y/y with earnings expected to decline 22% followed by Materials with 17% y/y decline.

While many continue to point to an earnings recession, given that earnings are turning negative y/y, as we highlight on page 9, the average stock within the S&P 500 is expected to fair much better than the aggregate with earnings still expected to growth 2% in 1Q (vs. -2.8% for the aggregate) and 6.3% for 2019 (vs. 4.2% for the aggregate S&P 500).

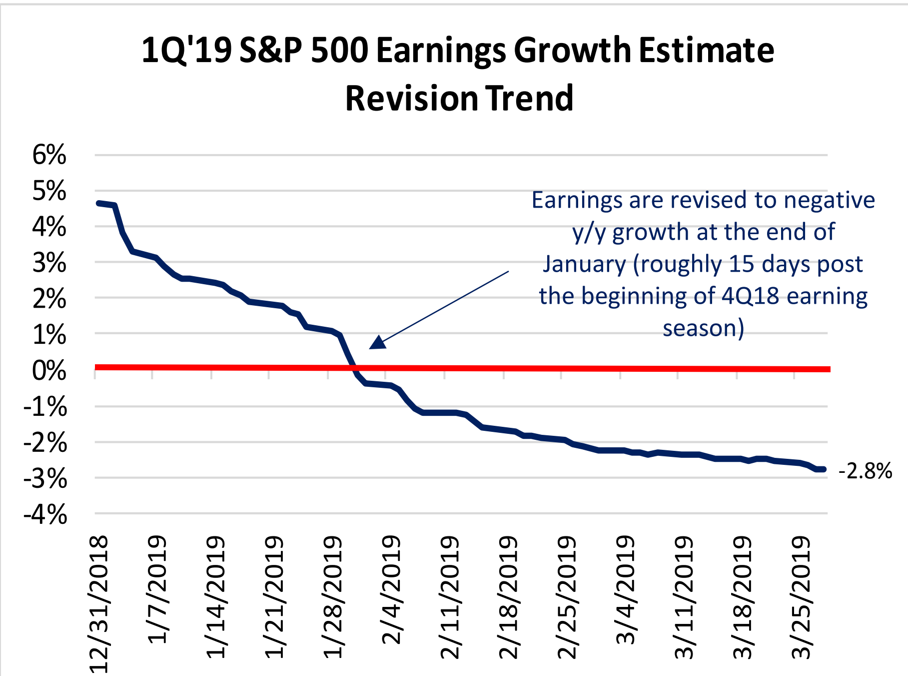
	1Q19		
Sector	EPS* Estimated Growth	Revenue Estimated Growth	P/E Next 12M
Health Care	5.0%	13.5%	15.6x
Industrials	2.9%	5.8%	15.4x
Financials	1.0%	7.1%	11.0x
Real Estate	0.7%	2.1%	19.3x
Communications Services	0.5%	15.2%	17.5x
Consumer Staples	-2.3%	4.2%	18.6x
S&P 500	-2.8%	5.6%	16.4x
Consumer Discretionary	-3.1%	6.0%	21.2x
Utilities	-3.3%	-2.2%	18.4x
Information Technology	-9.2%	-0.2%	18.3x
Materials	-17.0%	-2.2%	15.4x
Energy	-22.2%	-3.0%	18.0x

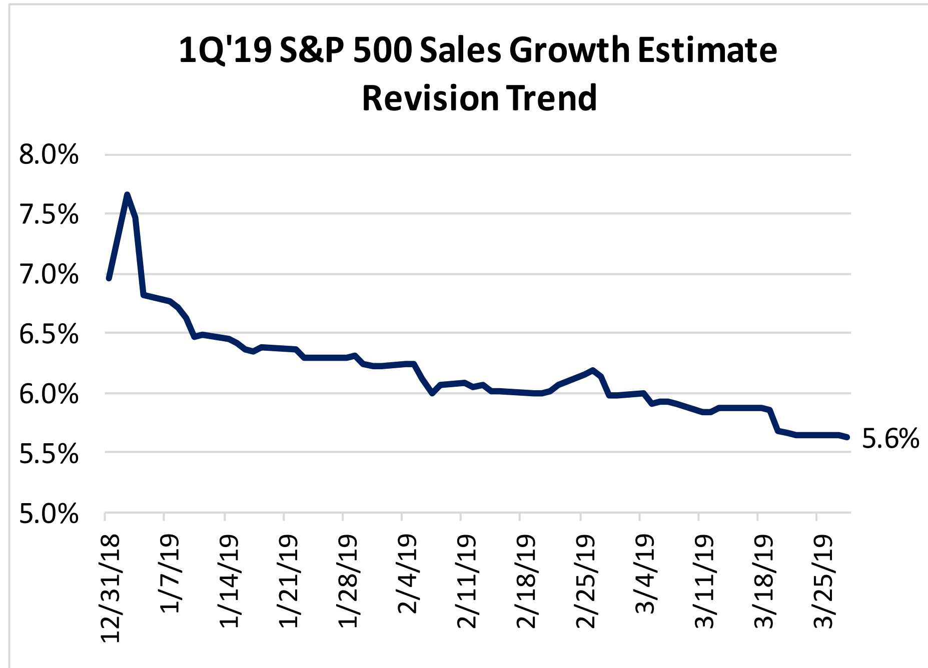
*Sorted by EPS Estimated Growth

1Q19 Earnings Revisions

As mentioned on the prior page, earnings have been revised lower by 7.1% since the beginning of the year as macro data has slowed, despite some optimistic takeaways on the trade front. However, sales revision trends have held up much better than earnings with sales on being revised lower by 1.2% since the beginning of the year. Overall, 1Q19 earnings are expected to see a decline of 2.8%, which is a drastic slowdown from the 20%+ growth seen during the first 3 quarters of 2018. Sales are still expected to growth 5.6% y/y in 1Q19.

The Energy and Materials sectors have seen the largest revision lower to 1Q earnings while earnings for the Real Estate and Utilities sectors have been revised down the least at only 1.3% and 2.0%, respectively. As seen on the next page, despite the Energy sector seeing a sharp revision to earnings, the YTD performance has outperformed the S&P 500 as the P/E multiple has expanded by 520 bp since the end of the year (from 13.8x to 19.0x), which compares to the P/E multiple for the S&P 500 which has expanded by only 240 bp from year end.





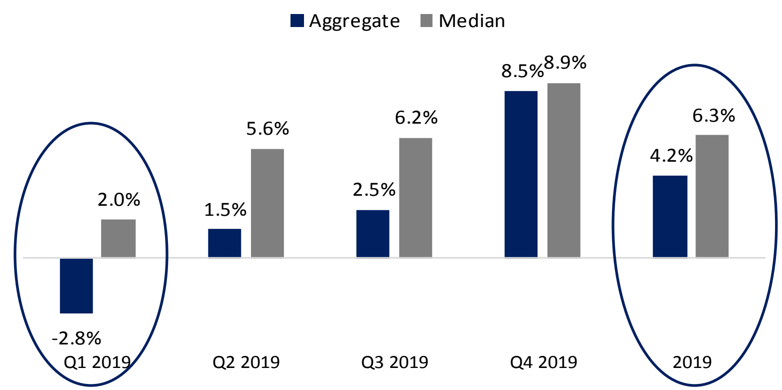
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Earnings Revised Lower, but Earnings Recession Unlikely

As seen below, earnings across all sectors have been revised lower for 1Q19, 2019, and 2020. Despite earnings being revised lower throughout 1Q, all sectors saw its P/E multiple expand to drive strong price returns of 13.1%. Despite fears of an earning recession as earnings growth are expected to decline 2.8% for the S&P 500 in 1Q19, for the full year 2019, earnings are still expected to expand 4.2% followed by 11.5% growth in 2020.

Additionally, we continue to see the average stock in the S&P 500 with better growth prospects than the cap-weighted aggregate, leading us to believe the earnings recession narrative is overblown. Despite the aggregate S&P 500 earnings growth expected to decline 2.8% in 1Q fueling fears of an earnings recession, the average company in the S&P 500 is actually expected to see y/y growth in every quarter of 2019. This is consistent with our thesis that peak earnings growth does not equate to peak earnings. Despite slowing earnings growth (from very high levels in 2018), overall earnings are still in an uptrend and likely provide fuel for the market to move higher.

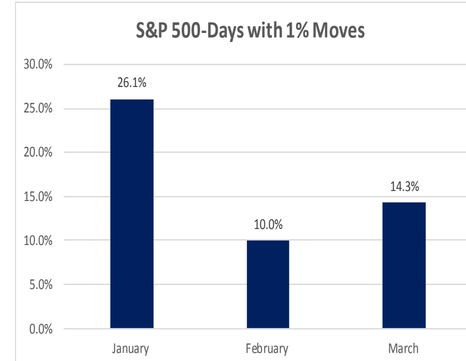
S&P 500 Earnings Growth Estimates



	EPS Growth Ests.			EPS Δ Since 12/31/18				P/E			
	1Q19	2019	2020	1Q19	2019	2020	Price Δ Since 12/31/18	2019	Δ Since 12/31/18	2020	Δ Since 12/31/18
S&P 500	-2.8%	4.2%	11.5%	-7.1%	-3.2%	-2.7%	13.1%	16.8x	2.3x	15.06	2.0x
Communication Services	0.6%	3.7%	11.4%	-4.2%	-1.0%	-0.6%	13.6%	17.9x	2.3x	16.10	2.0x
Consumer Discretionary	-3.2%	8.0%	14.0%	-6.0%	-1.1%	-0.9%	15.3%	21.8x	3.0x	19.13	2.6x
Consumer Staples	-2.3%	2.1%	7.0%	-4.2%	-1.3%	-1.2%	11.2%	18.9x	2.0x	17.67	1.9x
Energy	-22.1%	-12.2%	29.3%	-33.6%	-16.4%	-9.8%	15.4%	19.1x	5.3x	14.75	3.2x
Financials	1.0%	8.6%	10.1%	-5.0%	-2.6%	-2.1%	7.9%	11.3x	1.1x	10.25	0.9x
Health Care	5.0%	5.5%	10.1%	-4.3%	-1.5%	-1.5%	6.1%	15.9x	1.0x	14.45	0.9x
Industrials	2.8%	8.9%	11.8%	-4.4%	-0.9%	-1.7%	16.6%	15.8x	2.3x	14.17	2.1x
Information Technology	-9.2%	2.5%	11.7%	-8.5%	-5.0%	-4.5%	19.4%	18.8x	3.7x	16.79	3.2x
Materials	-16.9%	-1.3%	13.2%	-16.0%	-7.5%	-5.4%	9.7%	15.9x	2.4x	14.03	1.8x
Real Estate	1.0%	1.9%	5.8%	-1.3%	-1.3%	-1.9%	16.8%	19.5x	3.0x	18.44	2.9x
Utilities	-3.3%	4.6%	5.9%	-2.0%	-1.9%	-1.2%	9.9%	18.7x	1.9x	17.62	1.7x

Source: FactSet and RJ Equity Portfolio & Technical Strategy

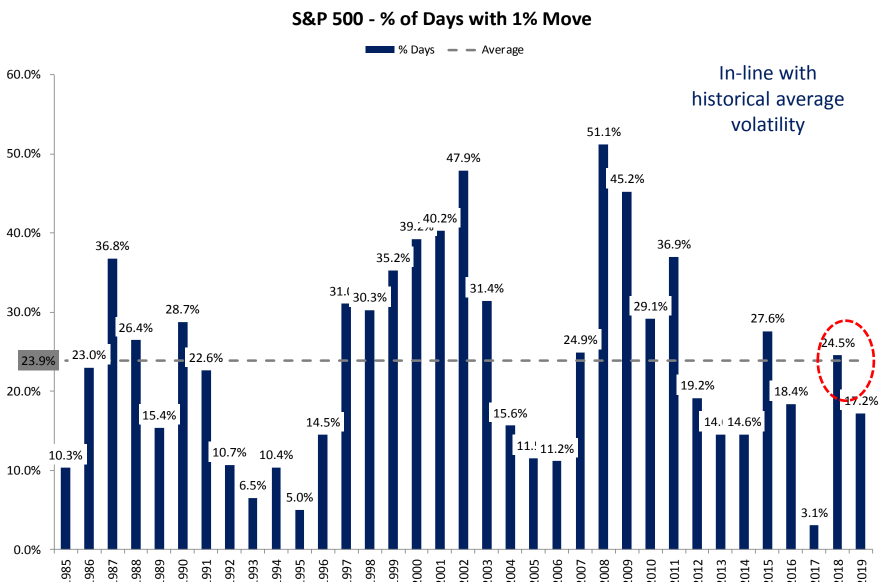
Volatility

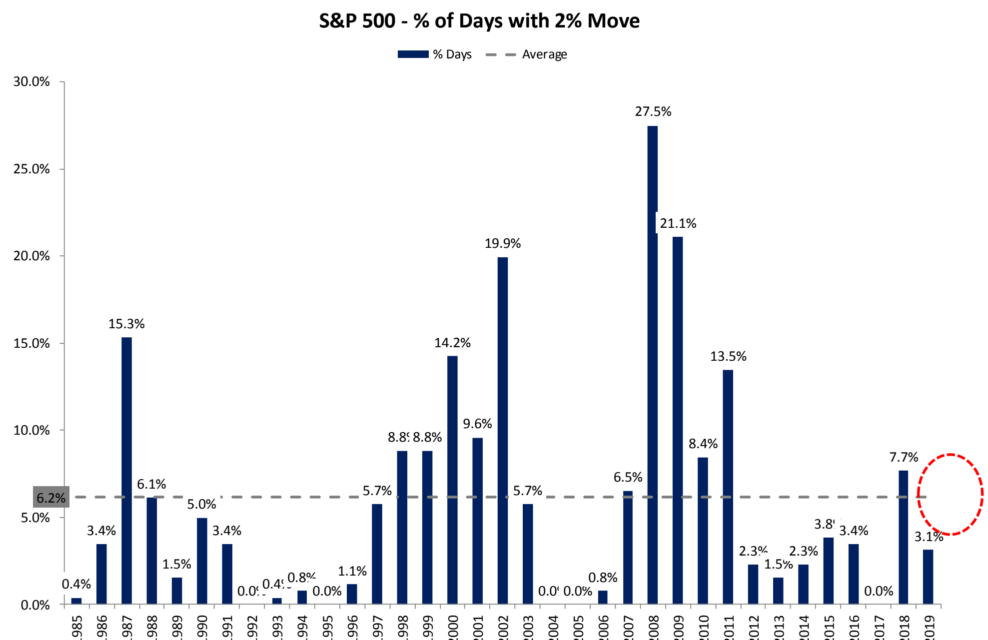


After what proved to be a rather volatile year in 2018, with 24.5% of days with 1% moves and 7.7% with 2% moves, 2019 has been rather uneventful (from a volatility standpoint) despite improving over 20% from the December lows. Only 17.2% of days during 1Q have seen moves of 1% with 8 of the 11 days seeing moves of 1% to the upside (only 3 days that saw moves greater than 1% to the downside). Only 2 total days, or 3.1% of days during 1Q, saw moves greater than 2%.

January was the most volatile month during the quarter (26.1% of days had moves greater than 1%), but most of the volatility was to the upside, as 4 of the 6 days making 1% moves were up with only 2 down days over 1%. The two days with moves greater than 2% were both at the beginning of January (January 3 the S&P 500 declined by 2.5% followed by January 4 which saw the S&P 500 increase by 3.4%). February and March were less volatile than average historically.

Looking from a historical perspective, 1Q19 has been less volatile. Since 1985, the S&P 500 has average 23.9% of days per year with moves over 1% and 6.2% of days with moves greater than 2%.





Source: FactSet, RJ Equity Portfolio & Technical Strategy

Don’t Panic if a Period of Consolidation Takes Place

While pullbacks in the market tend to create an uneasy feeling for investors, market sell-offs intra-year are healthy and normal, and often create opportunities. Since 1980, the average intra-year sell-off is 15.1%, however, the average annual return over this time has been 9.7%.

As mentioned previously, 1Q was the strongest quarter since 3Q09 and the strongest first quarter since 1998. As seen to the right, historically, returns for the remainder of the year have been positive following strong 1Q equity returns. Looking at the strongest 1Q returns over the last 20 years, the average return for the remainder of the year is 8.4% This does not mean the markets moved in a straight line higher. Once again, pullbacks are normal and the average drawdown (in years with strong 1Qs) has been 8.8%. However, the largest pullback during 1Q from the intraday high to the intraday low was 3.36%. If this were to hold, it would rank amongst the most shallow intraday pullbacks on record since 1980.

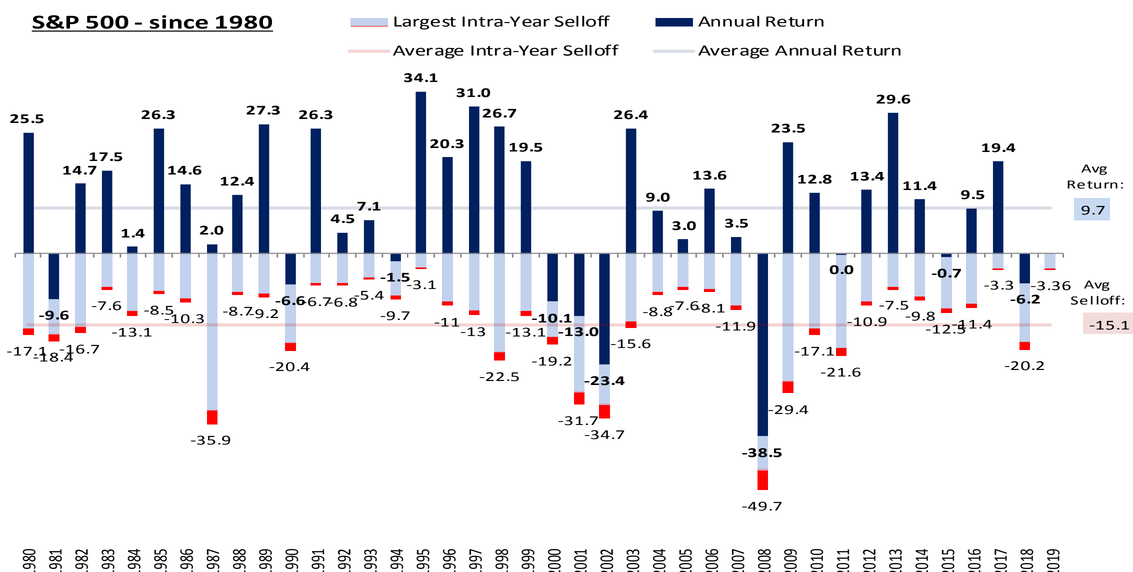
Given that markets do not tend to move in straight lines higher, periods of consolidation are likely normal. We would recommend not panicking if sell-offs do take place (given the strong start to the year) as opportunities can arise.

Best Q1 of Past 20 Years			Rest of	Max
Date	Return	Next Q	Year	Drawdown
3/31/1987	20.45	4.22	-15.30	-33.51
3/28/1991	13.63	-1.08	11.16	-5.60
3/31/1998	13.53	2.91	11.57	-19.34
3/31/1986	13.07	5.00	1.37	-4.30
3/29/2019	13.07	?	?	?
3/30/2012	12.00	-3.29	1.26	-9.94
3/28/2013	10.03	2.36	17.79	-3.25
3/31/1995	9.02	8.80	23.01	0.00
3/31/1983	8.76	9.90	7.83	-1.26
3/29/1985	8.02	6.19	16.95	-1.79
Average	12.16	3.89	8.40	-8.78

Selloffs are common:

- Average largest Intra-year selloff -15.1%
- Average Annu:al return is : +9.7%

In 1Q19, the largest sell-off was 3.36% from the intraday high on March 4 (2816.88) to the intraday low on March 8 (2722.27)



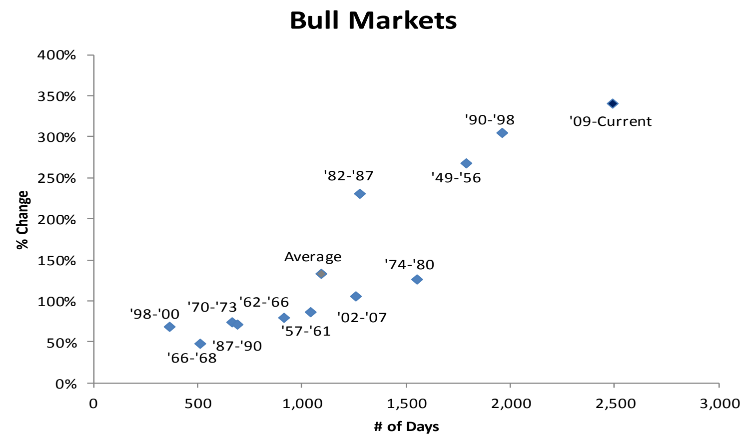
Source: FactSet, RJ Equity Portfolio & Technical Strategy

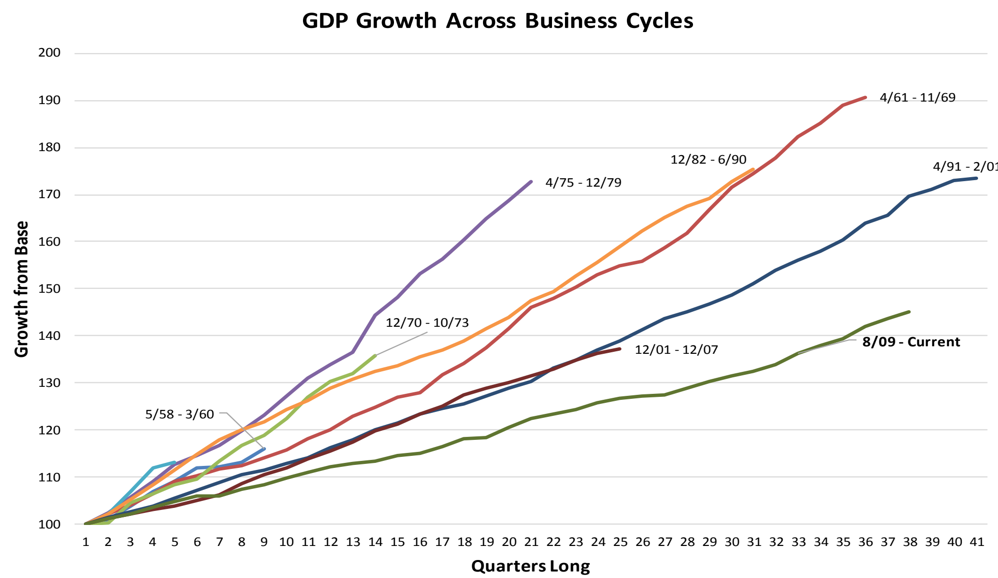
Analyzing the Current Bull Market

As this bull market continues to age and the "wall of worry" continues to grow, it is important to look back and analyze the bull market compared to prior bull markets. From the trough of March 2009 to the high on September 21, 2018, the market has risen 341% over 2,491 days. This compares to the average length of prior bull markets of 1,094 days and an average return of 133% and the prior longest bull market of 1,963 days.

Despite being the longest bull market in history, GDP growth across this business cycle has lagged that of prior business cycles. We view this as more of a "slow and steady wins the race" type of bull market, which gives us comfort that the current bull market may continue for some time more as growth continues to improve.

The largest potential headwind that could derail the current bull market would be a trade war. Additionally, a rapid rise in inflation, miscalculation on the pace of rate hikes by the Fed, rising oil and commodity prices, increasing interest rates, a rising USD, and/or a further slowdown in the economy would be additional risks to the thesis that the market still has further upside. Recently, the US has seen some slowing, which is common at this point in the economic cycle. Moreover, the spread between the 10-year and 3-month interest rate recently inverted. While this has been a solid predictor of recession historically, there is a large lead time before a recession begins. Given the expectations for continued earnings growth (albeit slowing) and strong relative economic backdrop for the U.S. continues to outweigh these potential negatives.



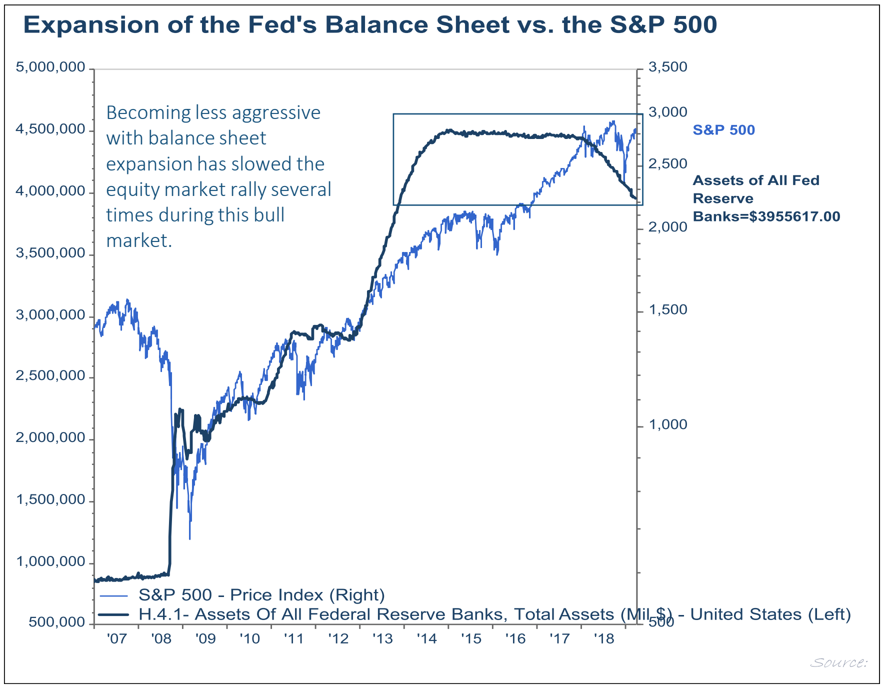


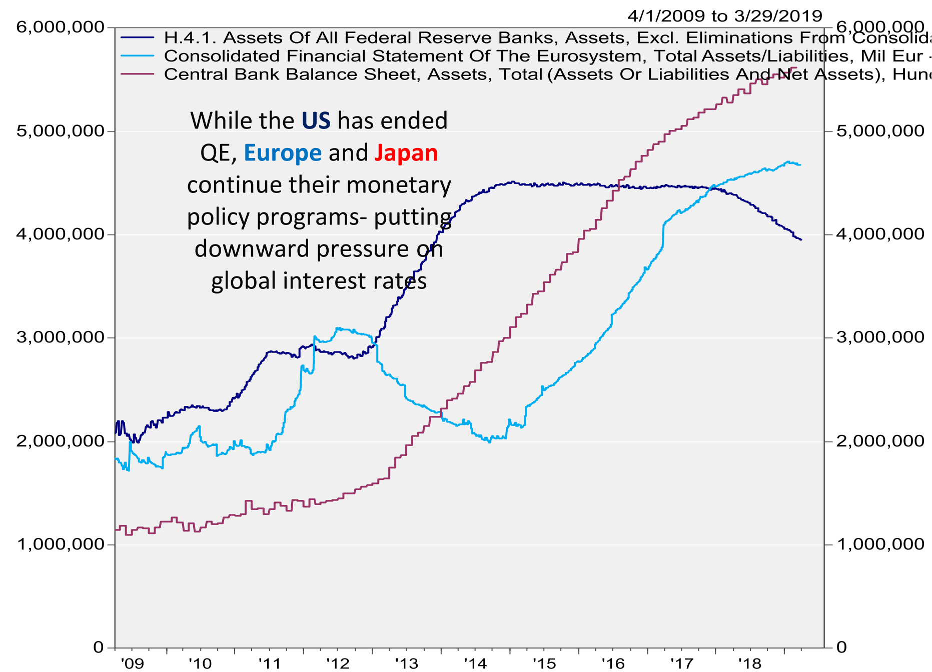
Source: FactSet, RJ Equity Portfolio & Technical Strategy

2019: Fed Shifts More Dovish

With a still fragile global economy, the actions of central banks globally, with a sharp eye on the U.S. Fed, will likely be a tone setter for the market. While, globally, central banks kept global yields low by continuing to use their balance sheets as part of their monetary policies, this recently shifted with the ECB announcing the end of QE. While the ECB is not expected to begin raising rates until summer of 2019, this could alleviate some of the pressure on European yields.

On the other hand, US yields have been more attractive as the Fed had been reducing its balance sheet (after juicing the market higher) for many years. However, the Fed's actions (to reduce its balance sheet) have become restrictive mixed with rising short-term rates. During the most recent FOMC meeting, the Fed decided to reduce its balance sheet runoff and keep rates unchanged as economic conditions have began to slow and fears over an inverted yield curve (which happened shortly following this decision). The Fed now expects no increases in rates during 2019 (down from its prior expectation of two) and only one in 2020. Moreover, beginning in May, the Fed will reduce its maximum monthly run-off of Treasuries by half to $15B and beginning in October, the Fed will keep the balance sheet steady (although run-offs of agency and MBS will continue offset by purchases of Treasuries). The shift to a more dovish strategy by the Fed hopes to cushion itself through continued economic momentum, fiscal stimulus, and continued growth in absolute earnings.

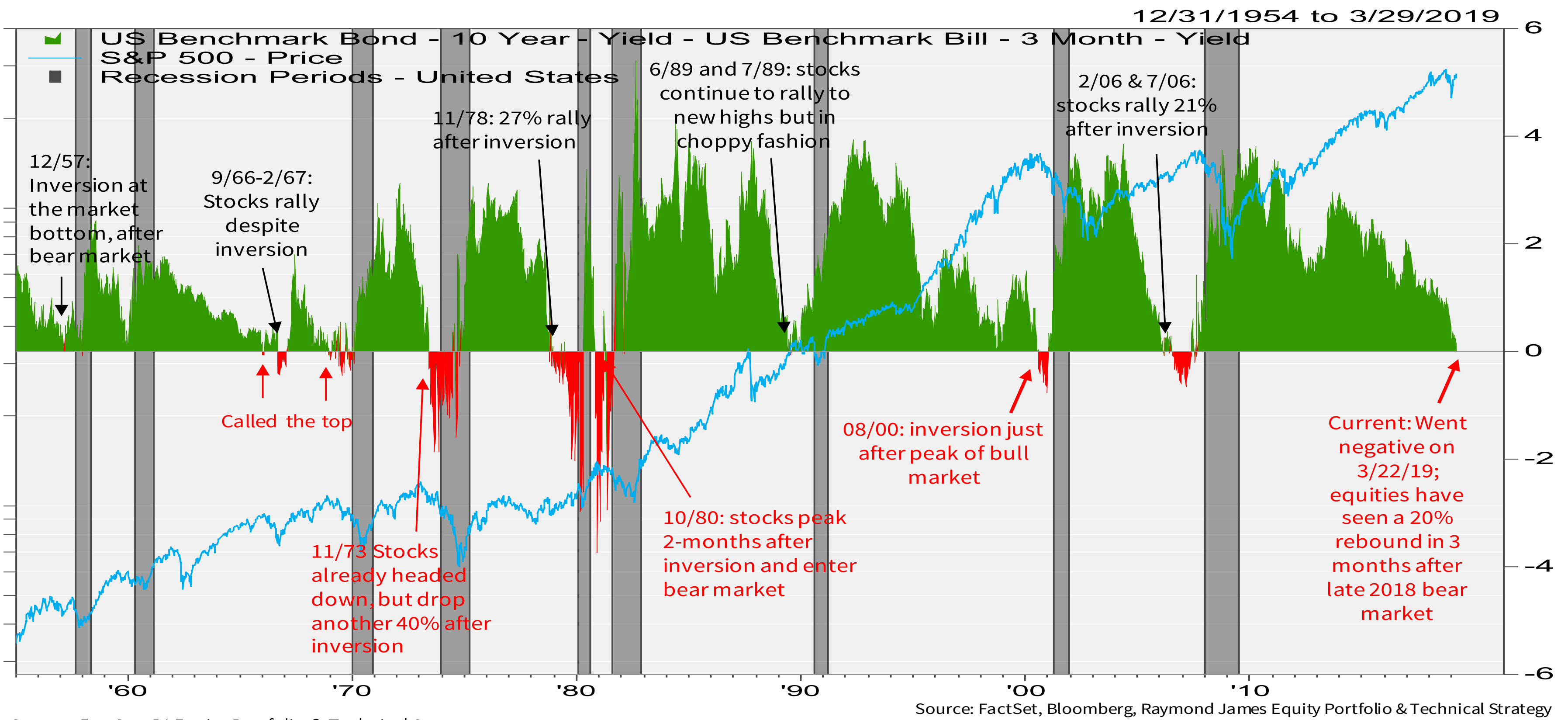




Source: FactSet, RJ Equity Portfolio & Technical Strategy

Will Equities Follow the Yield Curve Lower in 2019?

Much has been made of the inversion of the yield curve, following the inversion of the 10-year to 3-month on 3/22/19. While this is something we believe warrants attention given the historical predictive power of impending recessions following an inversion (please reference Historical Perspective of Yield Curve Inversions for more information), it tends to have a long lead time before a recession begins and other spreads are not confirming the fears of the market (10/2 year and 30 year/3 month are not near inversion). Until we get further evidence of a further deterioration in the US economy, we continue to believe the positives outweigh the negatives and US equities still have more upside in 2019.



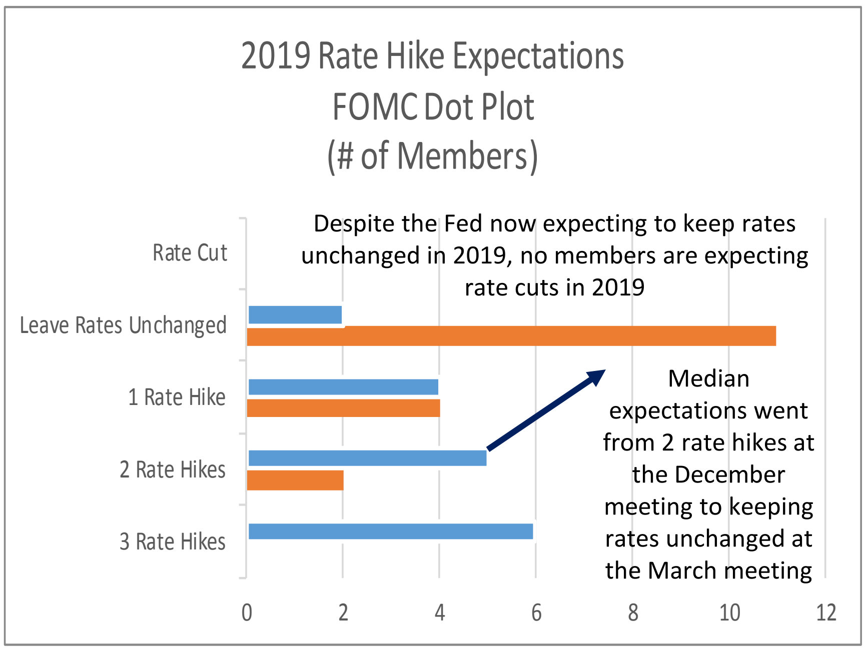
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Fed Becoming More Dovish, but is the Market Too Optimistic About a Rate Cut?

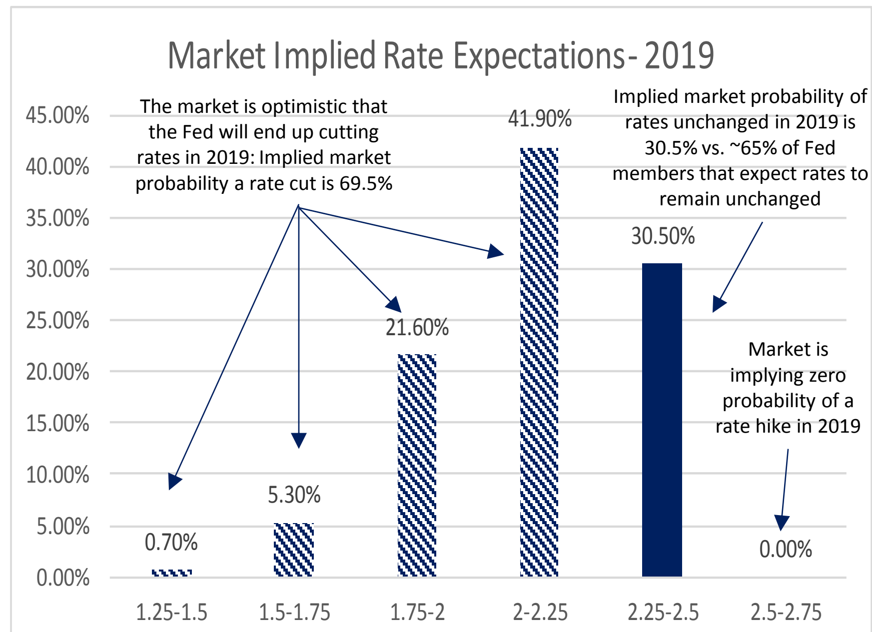
As mentioned previously, the Fed is shifting to a more dovish posture and recently took its expectations down from two rate hikes in 2019 to zero. However, the market is much more optimistic that the Fed will have to reduce rates this year than Fed members. Who will be right or will the market force the Fed to become more accommodative with a rate cut so spreads don't invert further?

At its most recently FOMC meeting, 11 of the 17 Fed members expected no changes in rates in 2019 with 6 still thinking at least one rate hike would be warranted. Zero members of the Fed thought a rate cut was appropriate at this time. However, currently, the market is implying 69.5% probability of a rate cut this year with zero probability of a rate hike.

Fed Expectations



Market Implied Expectations

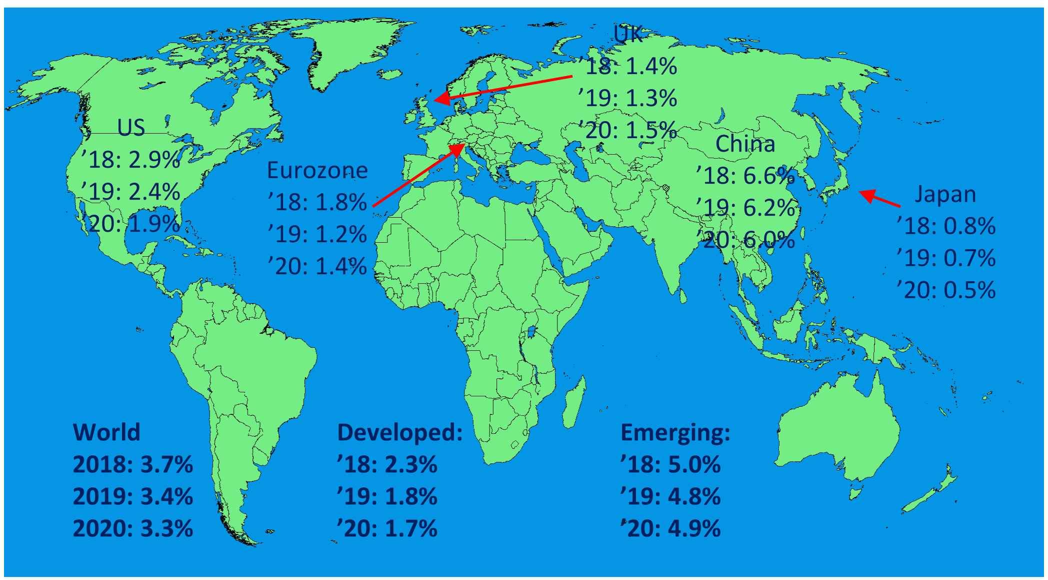


Source: Bloomberg, FactSet, Federal Reserve, and RJ Equity Portfolio & Technical Strategy

Global Manufacturing Slowdown

As seen below, global real GDP expectations for 2019 are expected to decelerate from 2018's level in part due to the slowdown in global manufacturing. The expected real GDP growth for the US in 2019 of 2.4% is above the expected growth for developed economies at only 1.8% as Eurozone and UK expected growth is expected to decelerate as slowdown in manufacturing weighs on growth.

As seen to the right, globally manufacturing PMI have moved lower over the last year and many over the last few months. The Eurozone has been one of the hardest hit areas with manufacturing PMI declining across all areas from a year ago pushing several countries including Italy, France, Germany and the Eurozone into contractionary territory. Also as seen, ISM non-manufacturing in the US has held up better than the manufacturing data as it has accelerated from the a year ago period vs. the declining in the manufacturing data.



Source: Bloomberg, FactSet, Federal Reserve, and RJ Equity Portfolio & Technical Strategy

		Latest	Change from Prior Period	Prior	Change from 1 Year Ago	1 Year Ago
	Global Manufacturing PMI	50.55	↓	50.57	↓	53.2
	Americas					
Expansionary	US ISM Non-Manufacturing	59.7	↑	56.7	↑	59.1
Expansionary	US ISM Manufacturing	55.3	↑	54.2	↓	60.7
Expansionary	Canada Manufacturing PMI	50.5	↓	52.6	↓	55.6
Contractionary	Mexico Manufacturing PMI	49.8	↓	52.6	↓	51.6
	Eurozone					
Expansionary	Denmark Manufacturing PMI	56.1	↓	61.6	↓	65.7
Expansionary	UK Manufacturing PMI	55.1	↑	52.0	↓	55.3
Expansionary	Ireland Manufacturing PMI	53.9	↓	54.0	↓	56.2
Expansionary	Netherlands Manufacturing PMI	52.5	↓	52.7	↓	63.4
Expansionary	Spain Manufacturing PMI	50.9	↑	49.9	↓	56.0
Expansionary	Switzerland Manufacturing PMI	50.3	↓	55.4	↓	65.1
Neutral	Austria Manufacturing PMI	50.0	↓	51.8	↓	59.2
Contractionary	France Manufacturing PMI	49.7	↓	51.5	↓	55.9
Contractionary	**Eurozone Manufacturing PMI**	**47.5**	↓	**49.3**	↓	**58.6**
Contractionary	Italy Manufacturing PMI	47.4	↓	47.7	↓	56.8
Contractionary	Germany Manufacturing PMI	44.1	↓	47.6	↓	60.6
	Asia Pacific					
Expansionary	New Zealand Manufacturing PMI	53.7	↑	53.0	↑	53.5
Expansionary	Australia Manufacturing PMI	51.0	↓	54.0	↓	57.5
Expansionary	China Manufacturing PMI	50.8	↑	49.9	↓	51.6
Contractionary	Japan Manufacturing PMI	49.2	↑	48.9	↓	54.1
Contractionary	So. Korea Manufacturing PMI	48.8	↑	47.2	↓	50.3
	BRIC Countries					
Expansionary	India Manufacturing PMI	54.3	↑	53.92	↑	52.1
Expansionary	Russia Manufacting PMI	52.8	↑	50.1	↑	50.2
Expansionary	Brazil Manufacturing PMI	52.8	↓	53.4	↓	53.2
Expansionary	China Manufacturing PMI	50.8	↑	49.9	↓	51.6

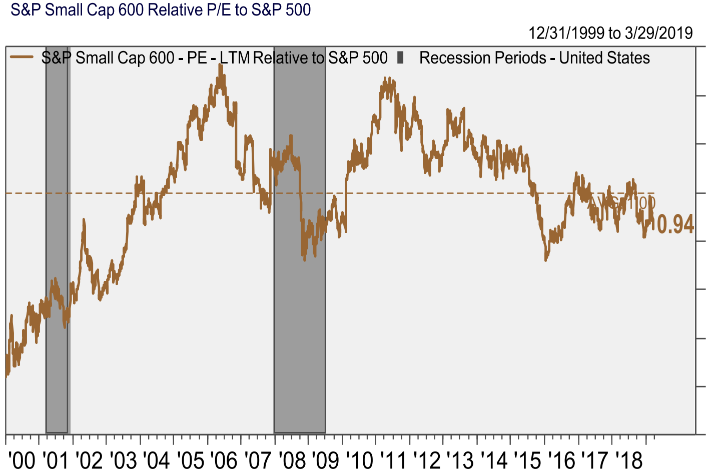
*PMI reading above 50 is expansionary

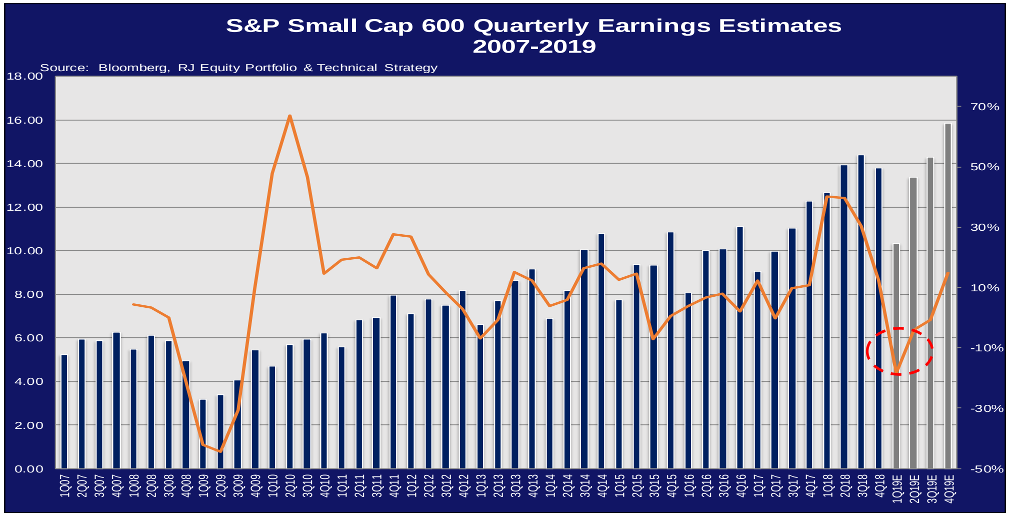
Performance: U.S. Small Caps Underperformance

After seeing a strong rebound in small-caps following the December lows, small-caps were not able to break above the 200 DMA. Since this time, the small-caps have seen relative performance break down and move to new lows and sitting just under the 50 DMA.

Small-cap earnings continue to be more volatile than the large caps. Fundamentally, small-caps are expected to see a sharp reduction in earnings throughout the first three quarters of 2019. This is worse than the S&P 500, which is only expected to see negative y/y earnings growth in 2019. Currently, consensus expectations for the small-caps call for an 18.3% reduction in earnings in 1Q19. For full year 2019, small-caps are expected to see earnings contraction of 0.1% vs. the S&P 500 in which earnings are expected to grow 4.2%.

Valuation for small caps remains attractive, in our view, with the index trading below its long-term relative P/E ratio.





Source: FactSet, RJ Equity Portfolio & Technical Strategy

Growth Continues to Dominate Value

After Growth outperformed Value in 2018, Value saw a sharp relative performance catch-up trade to begin 2019. However, this outperformance was short lived and Value quickly reversed and is now moving to new lows on a relative performance basis vs. Growth. Given the large weightings in Energy and Financials, Value has struggled to gain relative performance with the yield curve inverting.

Mid-cap Growth has been the best performing style to begin the yield followed closely by large-cap Growth. As mentioned on the prior page, small-caps have seen relative underperformance, and the small-cap Growth has been the worst performing style YTD.

Source: FactSet, RJ Equity Portfolio & Technical Strategy

S&P Styles

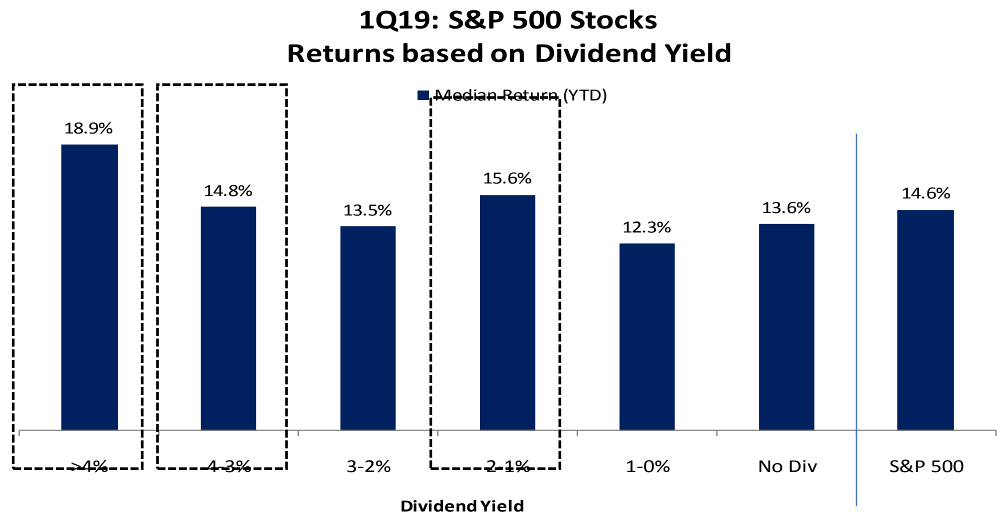
Year to Date (Price Return)

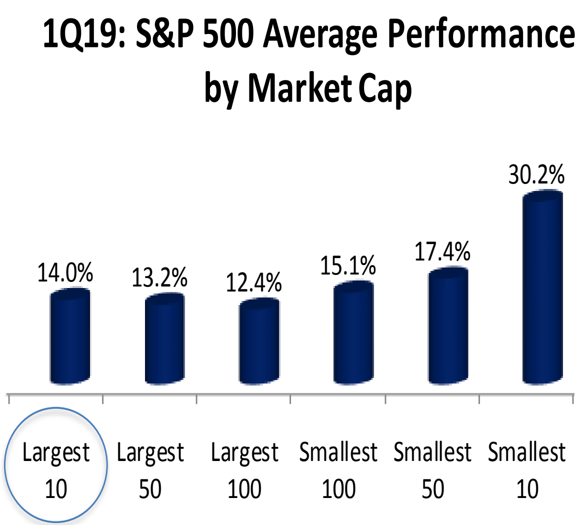
	Growth	Blend	Value
Large Cap	14.5%	13.1%	11.5%
Mid Cap	14.6%	14.0%	13.5%
Small Cap	10.5%	11.2%	11.9%

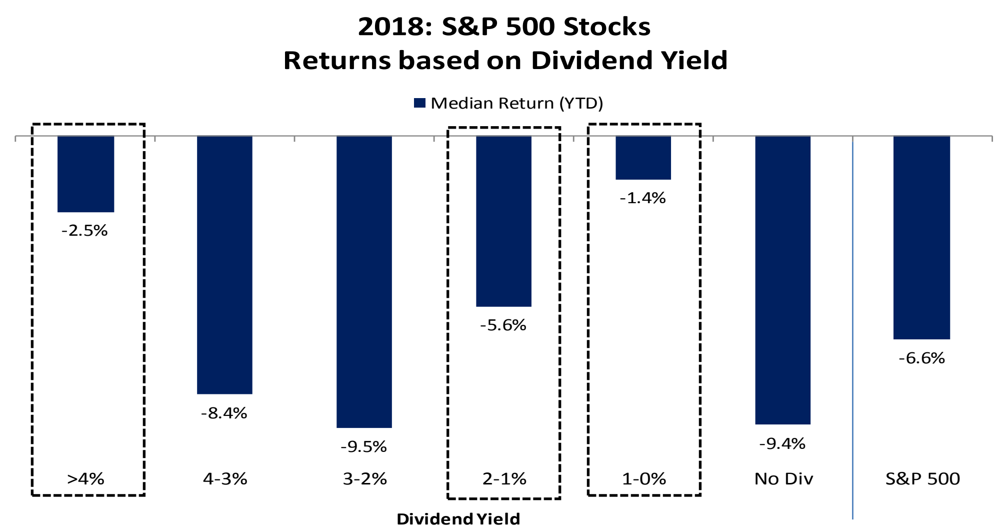
1Q19 Returns by Style

While small-caps have given up significant relative performance to the large-caps recently, a few of the smallest names, which would be given less weighting in a cap-weighted model, have seen sharp YTD gains. Currently, the smallest 10 names in the S&P 500 have seen average gains of 30.2% YTD. The largest 10 names in the S&P 500 on average have gained 14.0% outperforming the S&P 500 which saw price-only returns of 13.1% in 1Q19.

Looking at the returns for 1Q19 based on dividend yield, the best performing segment was the highest dividend paying names, with the companies paying dividends but have a dividend yield less than 1% seeing the worst performance YTD. This compares to 2018 in which this segment had the best relative performance, but still declined 1.4%.

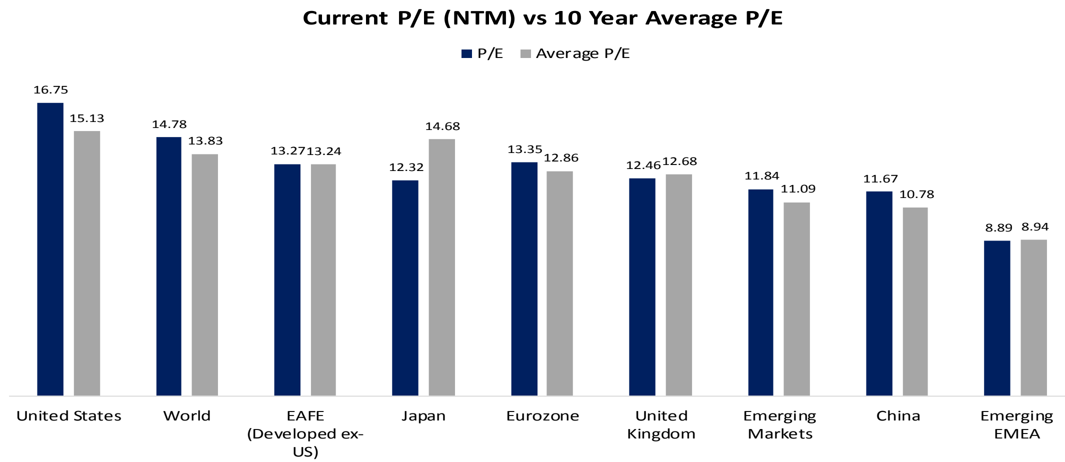


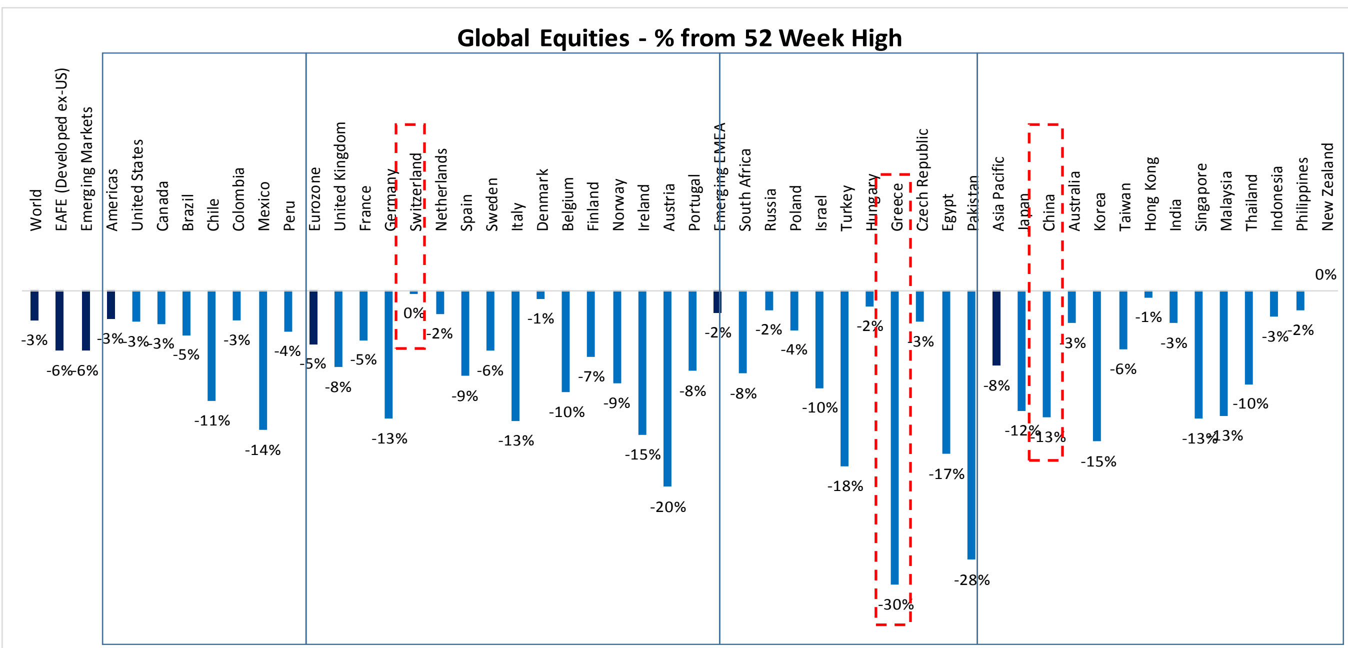




Source: FactSet, RJ Equity Portfolio & Technical Strategy

Global Markets





Source: MSCI, FactSet, RJ Equity Portfolio & Technical Strategy

Sector Growth Rates

2019 EPS Growth	
Sector	Growth
Industrials	8.8%
Financials	8.5%
Consumer Discretionary	8.0%
Health Care	5.5%
Utilities	4.5%
S&P 500	4.2%
Communications Services	3.8%
Technology	2.6%
Consumer Staples	2.1%
Real Estate	1.9%
Materials	-1.5%
Energy	-12.1%

*Based on consensus estimates

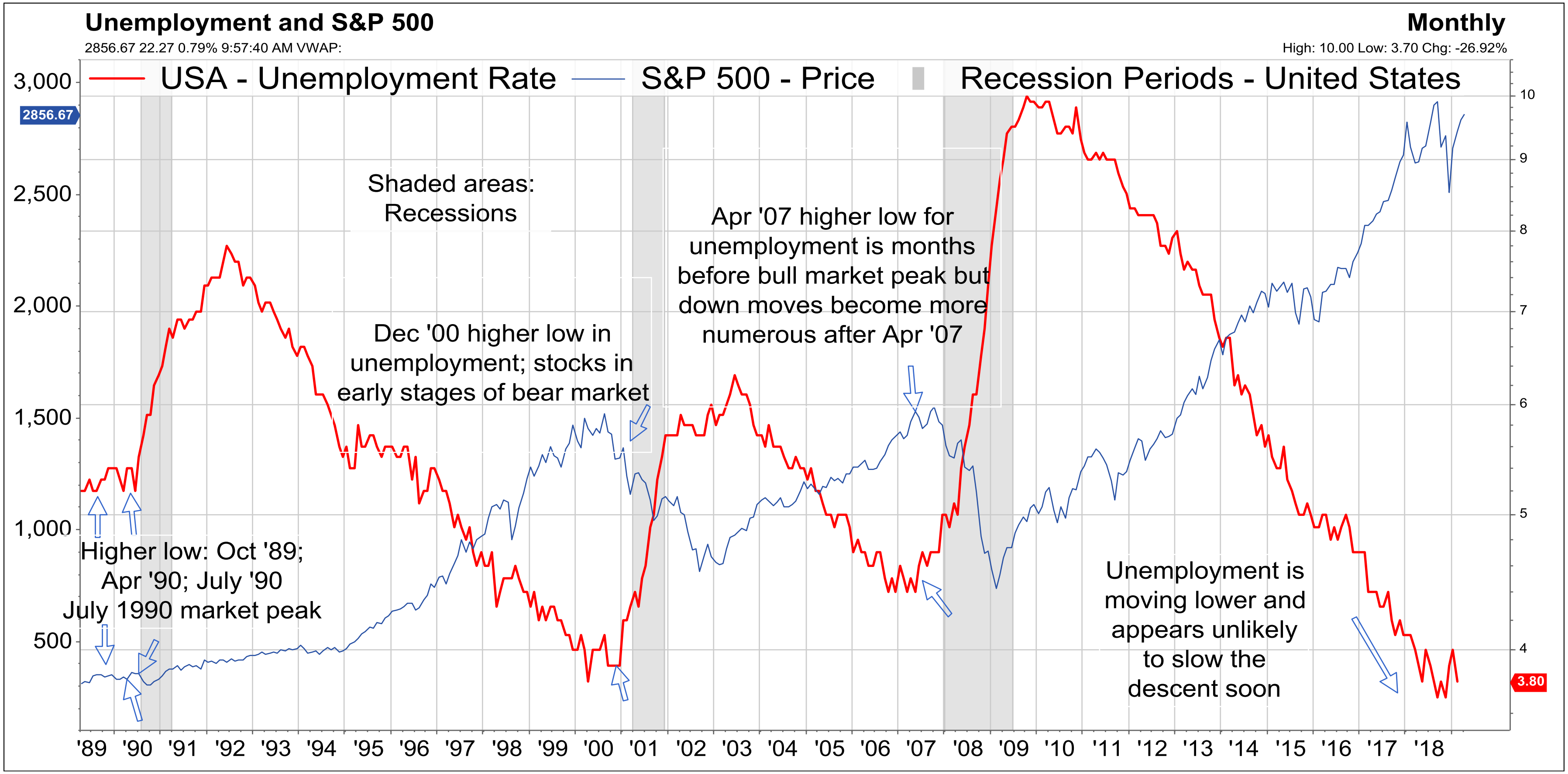
2020 EPS Growth	
Sector	Growth
Energy	29.0%
Consumer Discretionary	14.0%
Materials	13.1%
Industrials	11.9%
Technology	11.7%
S&P 500	11.5%
Communications Services	11.5%
Financials	10.1%
Health Care	10.1%
Consumer Staples	7.0%
Real Estate	6.0%
Utilities	5.9%

*Based on consensus estimates

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Employment trends are important for a consumption driven economy

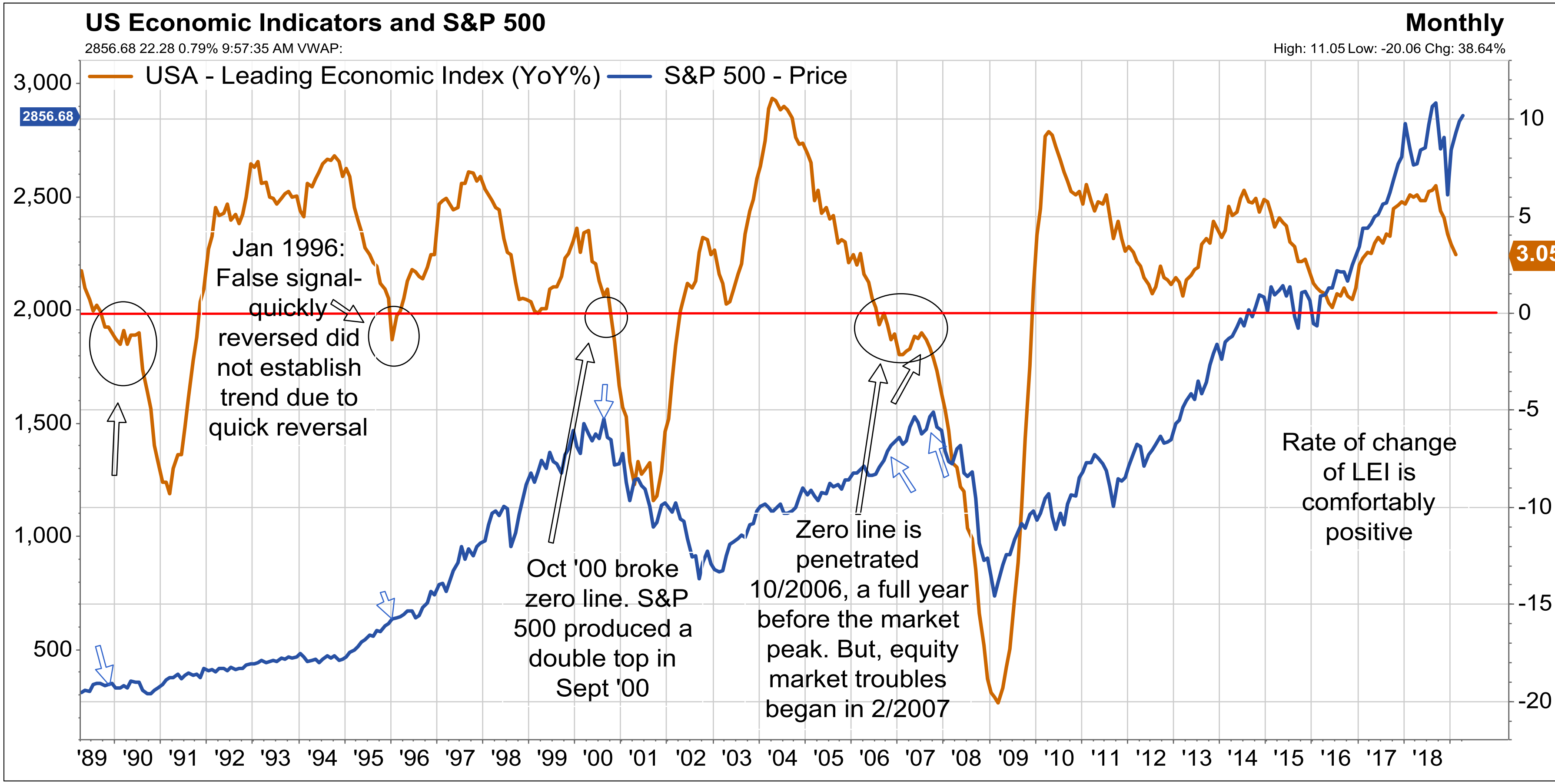
Unemployment and S&P 500



Source: FactSet, RJ Equity Portfolio & Technical Strategy

The strength of the US economy and solid earnings growth influence our positive bias toward equities

YOY change Leading indicators and S&P 500

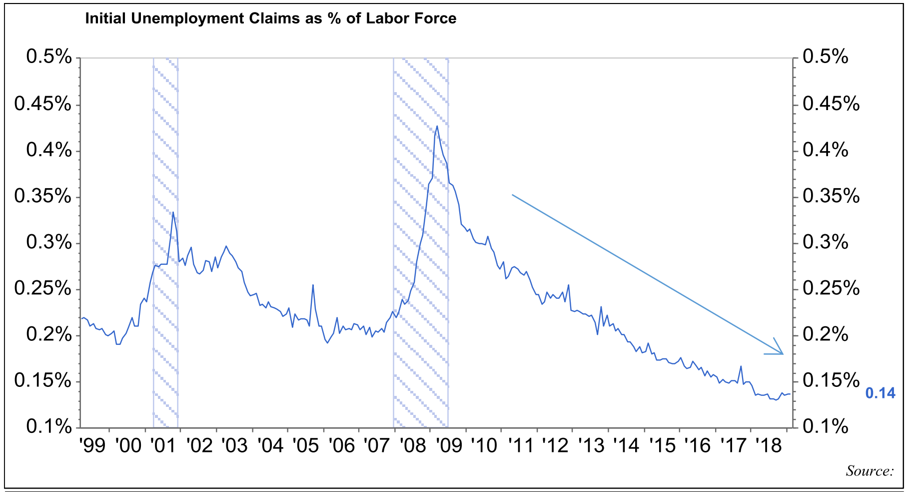


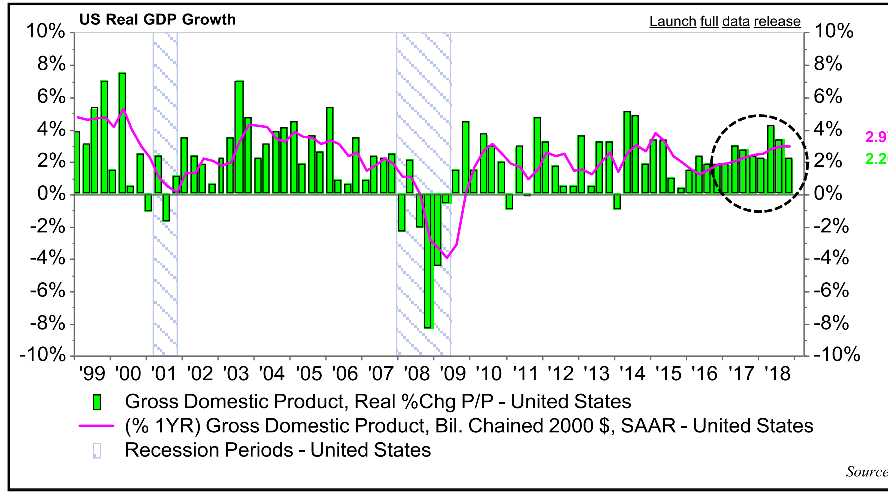
Source: FactSet, RJ Equity Portfolio & Technical Strategy

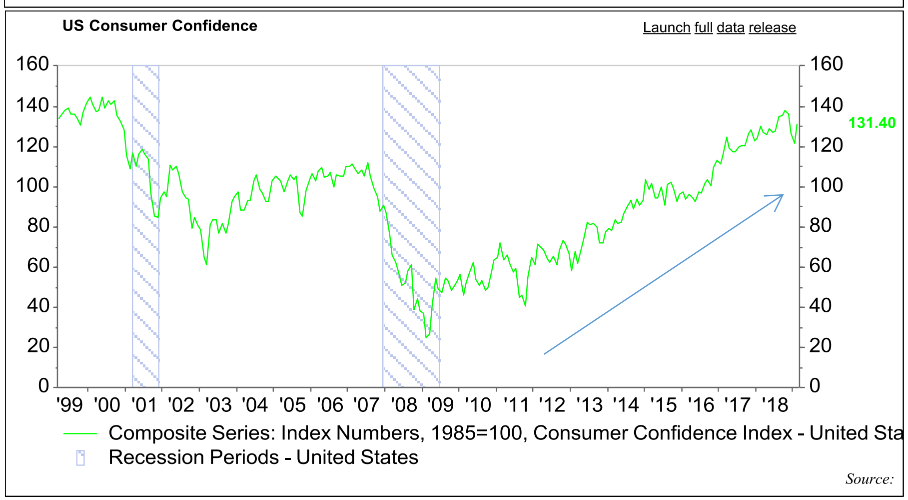
Stat Pack of Forecasts (S&P 500 2,834.40)		
	2018 Estimates	2019 Estimates
Consensus EPS S&P 500[1]	$160.83 (Bottom up- Analysts) $160.64 (Top down- Strategists)	$167.60 (Bottom up- Analysts) $172.22 (Top down- Strategists) $166 (our number)
EPS Growth S&P 500	22.1% bottom up	4.2% bottom up; 7.2% top down
Margins (EPS/Sales-using bottom up est.)	12.0% (consensus[1])	11.9% E (consensus[1]) (11.8% our number)
EPS if Margins stay flat (high probability from elevated levels)		$168.89 (based on consensus revenues) $168.89 (based on our revenues)
GDP	RJ 3.1%[5] consensus 2.9%[3]	RJ 1.9%[5] consensus 2.4%[3]
CPI	RJ: Core: 2.1%; headline 2.4%[5]	RJ Core: 2.1%; headline 1.5%[5]
PCE (Personal Consumption Expenditures)	RJ: 1.9% (ex-F&E)[5]	RJ: 1.9% (ex-F&E)[5]
Dividend/Dividend Growth S&P 500	$54.17[1] +9.5% Payout ratio: 33.7% (of bottom up est.)	$57.88[1] +6.8% Payout ratio: 34.5% (of bottom up est.)
Revenue Growth Per Share S&P 500 (only bottom up available)	+10.2% ($1,345.66/share)	+4.6% ($1,407.45/share)
P/E	~17.6x[4]	~16.5x [4]
Earnings Yield S&P 500	5.7% (using bottom up est.)	6.1% (using top down est.)
Fed Funds (average)	RJ: 1.83[5]	RJ: 2.40[5]
10 Year Treasury Yield	RJ 2.9%[5]	RJ 2.9%[5]

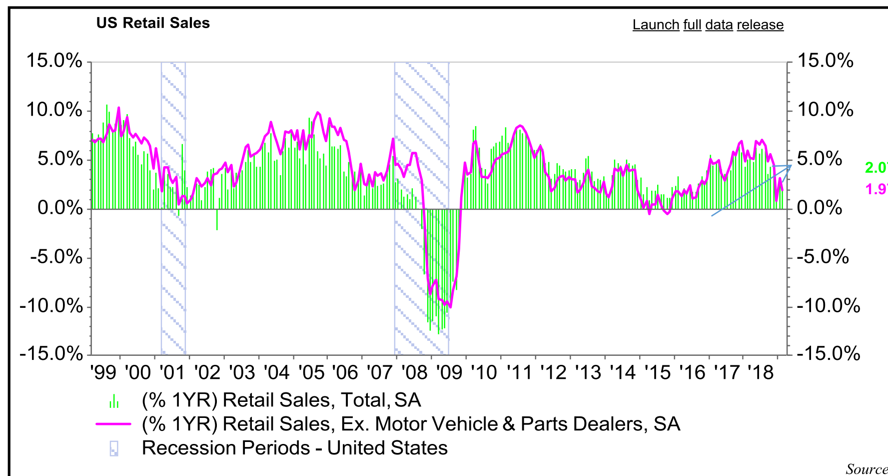
[1] FactSet;
[2] Due to differing levels between top down and bottom up results for 2016.
[3] Bloomberg
[4] Current PE applied to blend of 2018 bottom up estimates; 2019 top down estimate utilized due to more realistic forecast
[5] Raymond James Chief Economist Dr. Scott Brown

U.S. Economic Conditions Remain Supportive







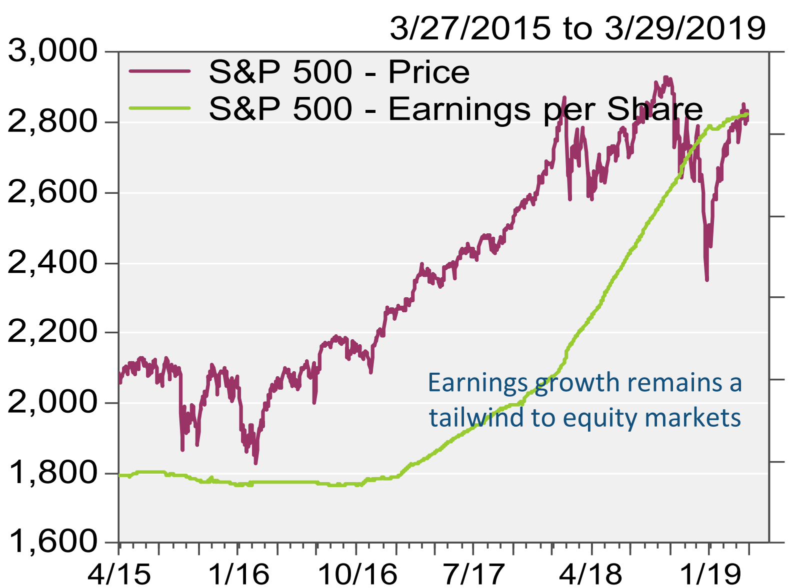


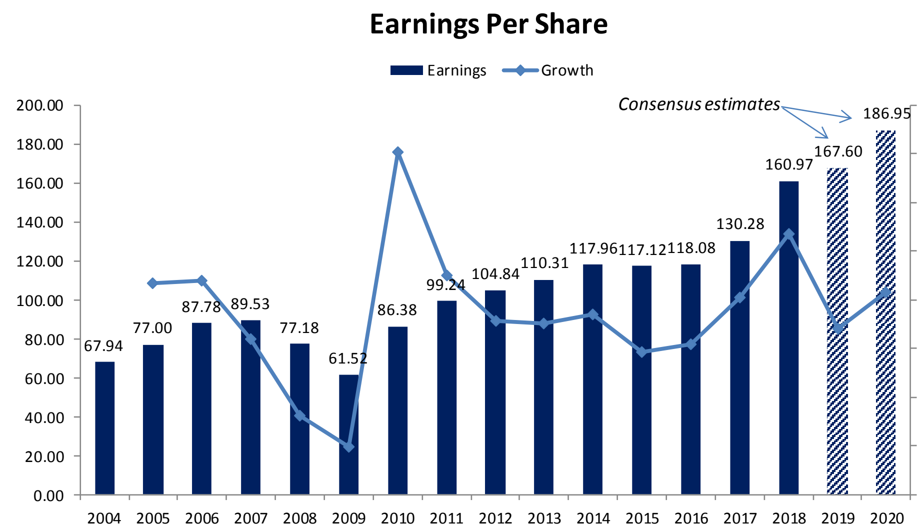
Source: FactSet, RJ Equity Portfolio & Technical Strategy

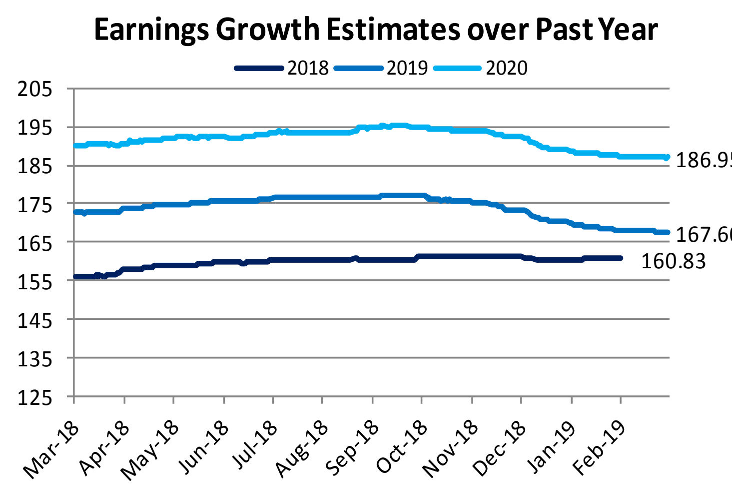
Earnings Continue to be a Tailwind Despite Revisions Lower

Earnings have been revised lower during 2019 given the weakening macro data and ongoing trade war. Despite the slowdown in the pace of earnings growth, 2019 and 2020 earnings are still expected to grow y/y, which should continue to be a tailwind for equities markets. Currently, 2019 and 2020 consensus earnings expectations are 4.2% and 11.5% y/y growth, respectively.

We continue to see an upward trend in earnings. Historically, there has been a strong correlation between price returns in the S&P 500 and earnings per share. If earnings are able to continue to show nice improvement, this could prove to be a nice catalyst to propel the market higher.







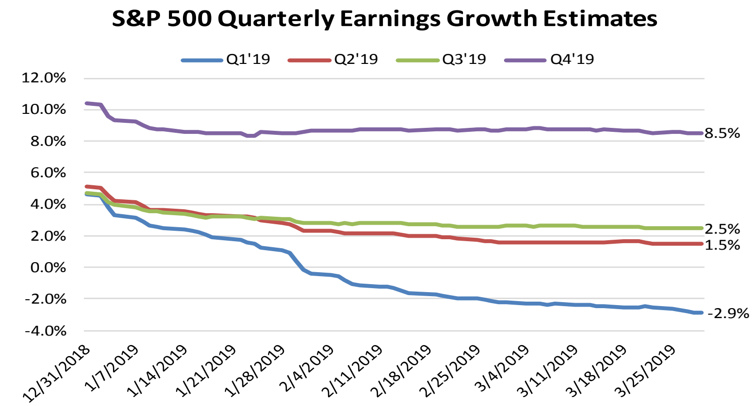
EPS Growth Estimates	
2018	22.1%
2019	4.2%
2020	11.5%

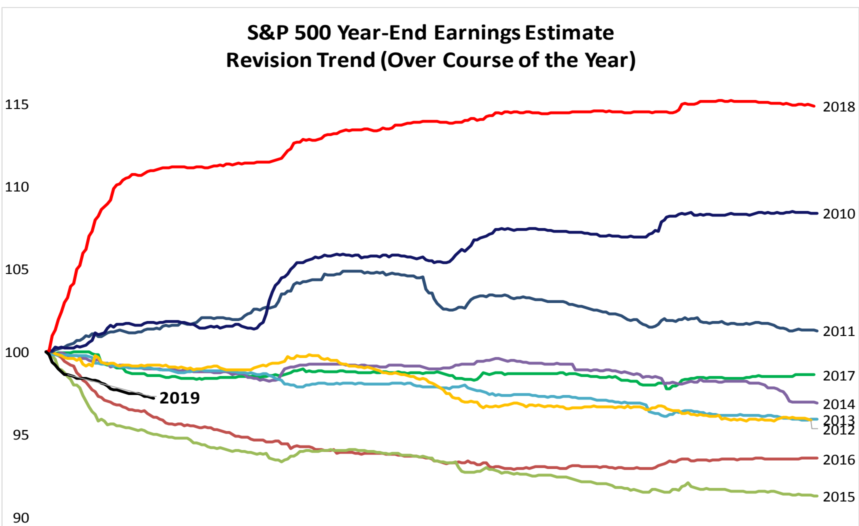
Source: FactSet, RJ Equity Portfolio & Technical Strategy

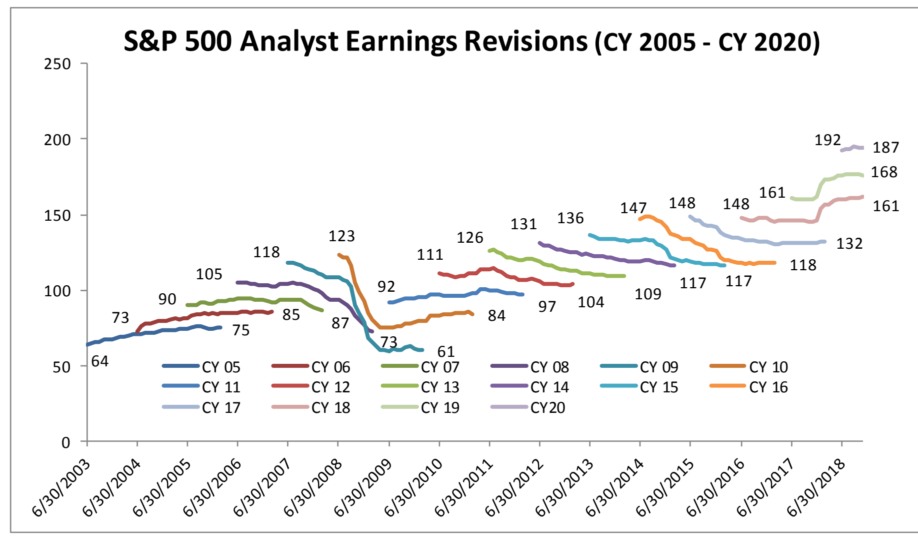
Earnings Estimate Revisions Following a More Normal Revisions Path

As seen in the chart in the bottom right, it has been commonplace in recent years for S&P earnings estimates to start high and be revised lower over time. On average over the past 15 years, actual earnings have come in 5.5% below estimates from one year prior, and down 9.8% from two years prior.

2018 was an unusual year in which earnings started the year low and were revised higher over time (aided by tax reform). However, 2019 is following a more normal revisions path, in which earnings are revised lower over the course of the year. If 2019 followed the normal retracement of 5.5%, year end earnings would be around $164.



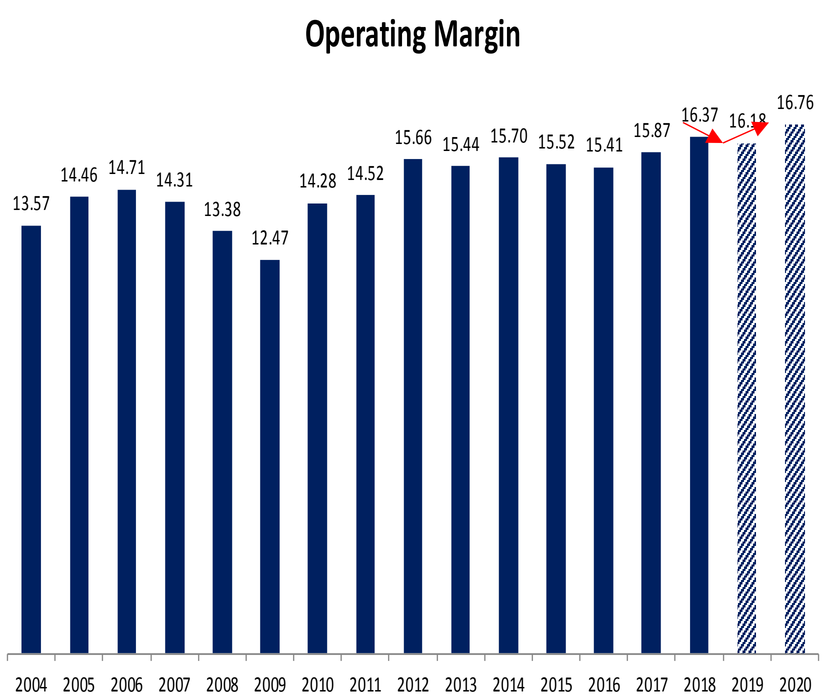


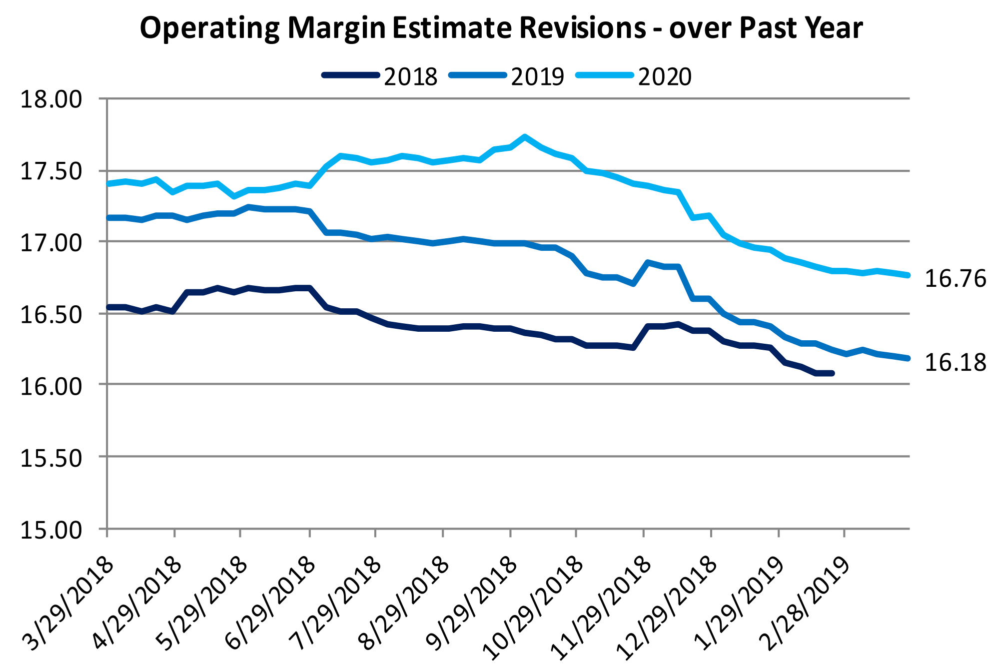


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Negative Revisions to Margins

While overall inflation remains relatively tame, most input costs have gradually been increasing since year end. The slowing top-line growth mixed with rising input costs has driven margins lower. Currently, 2019 operating margins are expected to contract to 16.18% and then reaccelerate in 2020 to 16.76%. Negative revisions lower in operating margins is something to keep an eye on going forward. However, given that earnings are still expected to grow and reaccelerate in 2020, we are not overly concerned by the negative revisions to the operating margins.





Source: FactSet, RJ Equity Portfolio & Technical Strategy

Valuation: Neutral

We see valuation as neutral currently. Since year end, P/E has expanded 160 bp. While valuation is still below the 5-year average, it is trading over 100 bp above the 15-year average. After troughing at 14.7x during the December 2018 lows, the S&P 500 has seen its P/E expand to 17.2x. However, this is well below (21%) the 21.8x multiple from January 2018.

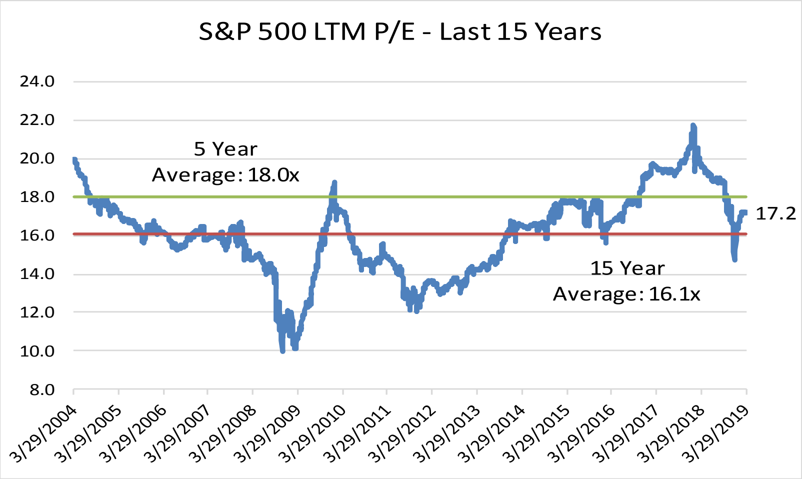
Our base case assumes a 17.75x LTM P/E, which is still a discount to the 5-year historical average of 18x. In a low interest rate environment and low inflationary environment, it is common for multiples to expand.

While we are seeing some slowdown, overall, economic conditions generally remain supportive of equities, in our view, given U.S. GDP growth, low inflation, and low interest rates. While our base case assume LTM P/E multiple expansion in 2019, our base case assumption also assumes earnings growth (albeit at a slower pace than 2018 levels).

S&P 500 Valuation

Metric	Current	1 Yr Ago	3 Yr Avg	5 Yr Avg	10 Yr Avg	15 Yr Avg
Price to Earnings (Last 12M)	17.2	19.7	18.6	18.0	16.3	16.1
Price to Earnings (Next 12M)	16.5	16.5	17.0	16.6	14.8	14.6
Long Term EPS Growth	11.3	12.7	11.9	11.6	11.1	11.4
Price to Book Value	3.10	3.00	2.93	2.78	2.39	2.43
Price to Cash Flow	12.17	12.13	12.15	11.78	10.27	10.26
Price to Sales	1.99	2.01	1.95	1.86	1.57	1.52
P/E to Growth (PEG Ratio)	1.46	1.30	1.44	1.43	1.33	1.28
Free Cash Flow Yield	5.2%	5.3%	5.2%	5.2%	5.7%	5.8%
Dividend Yield	2.08%	2.05%	2.10%	2.14%	2.18%	2.16%

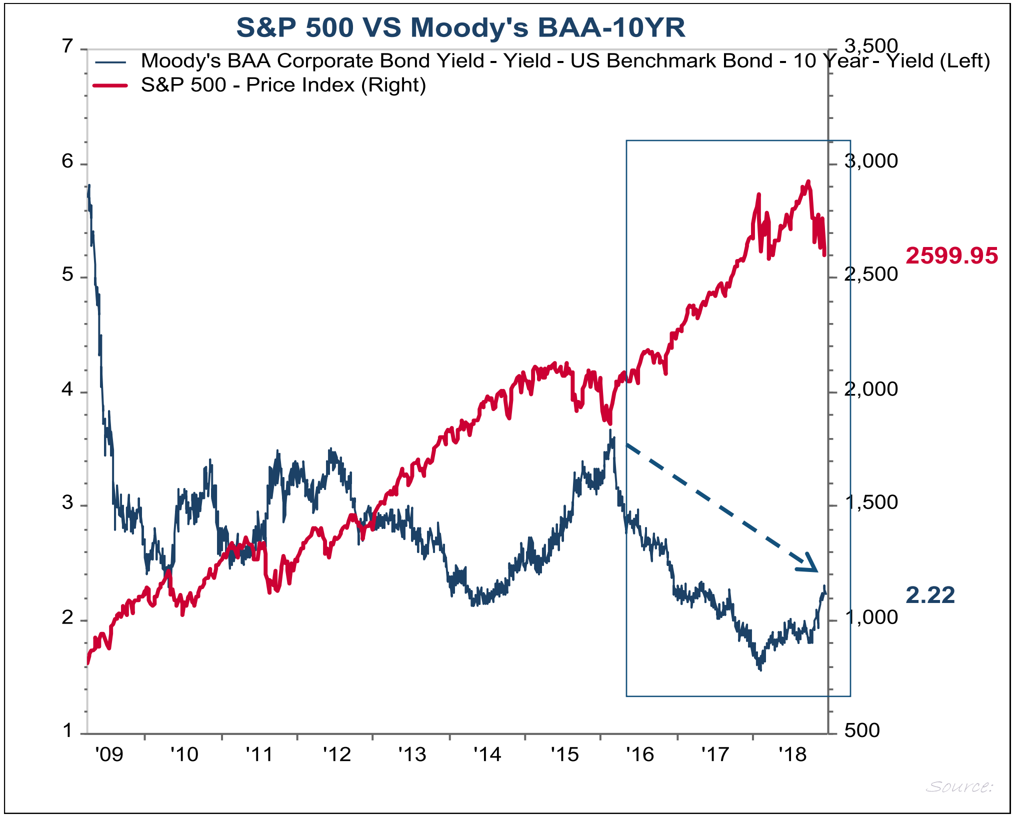
RJ Portfolio Strategy; FactSet

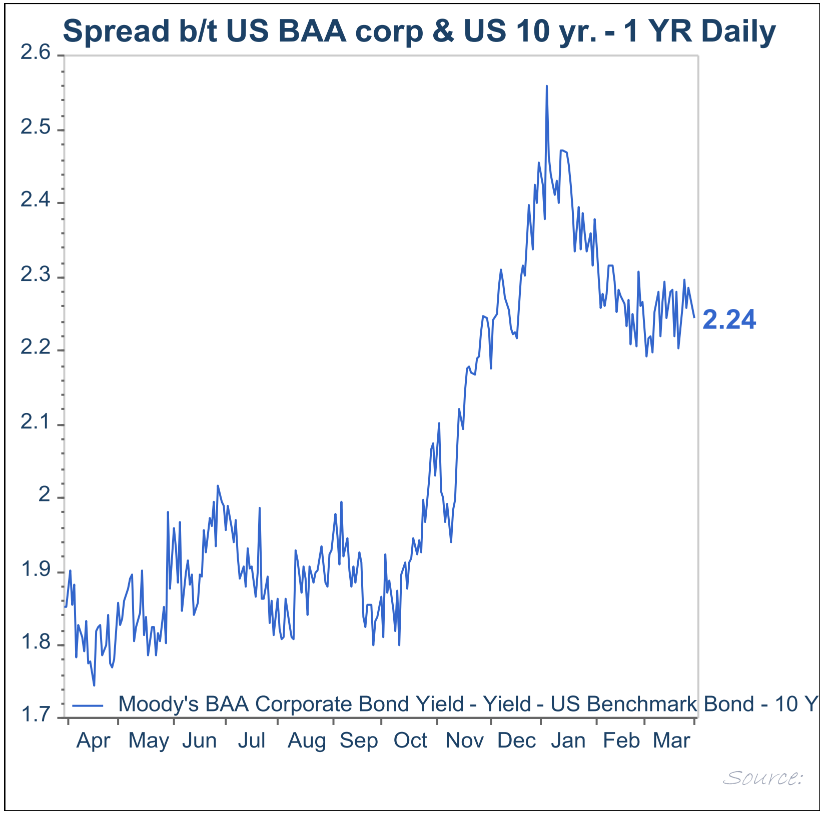


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Credit Conditions Not a Cause for Concern....yet

Despite a slowing macro environment, credit conditions are not a cause for concern yet, in our view. Surprisingly, credit conditions have actually seen some narrowing despite earnings and macro data being revised lower during this time period. Typically, credit conditions would expand if the market was anticipating challenging conditions ahead. Following a sharp increase in the spread between the BAA corporates and the U.S. 10-year Treasury to end the year, credit spreads have narrowed in 2019 and remain narrow compared to historical measures. While the spread is higher than where it was one year ago, which tends to be an indicator of slight deterioration in economic activity, we are not overly concerned as most economic indicators remain solid (despite a mounting wall of worry). While this is worth monitoring, it does not cause us concern right now.

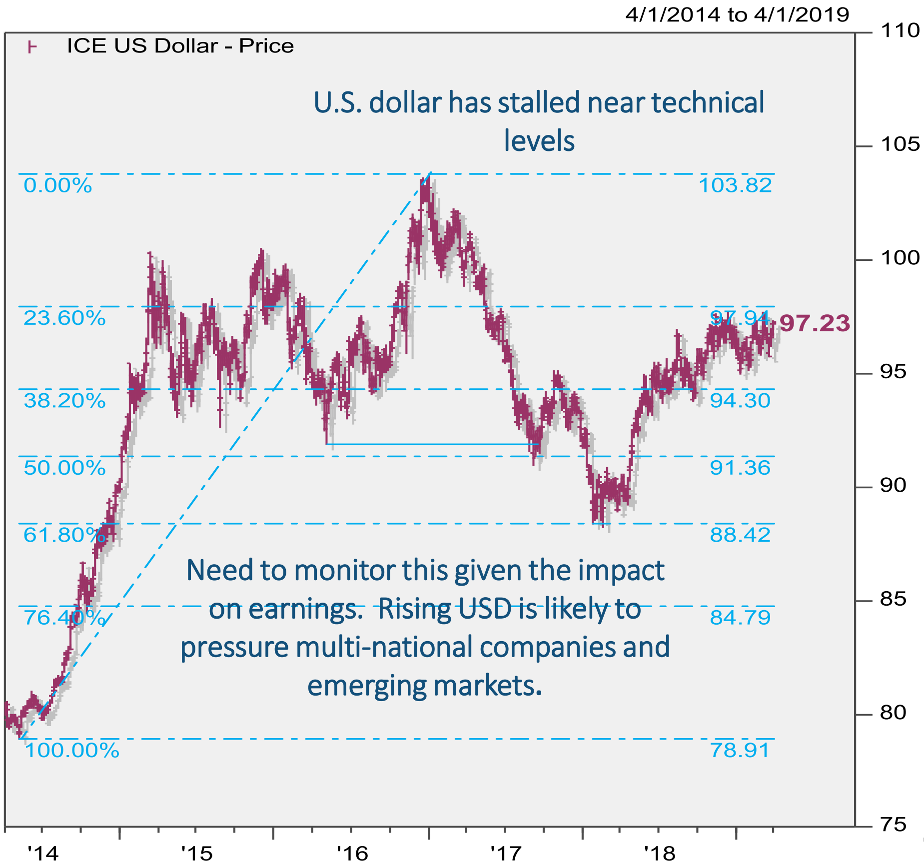


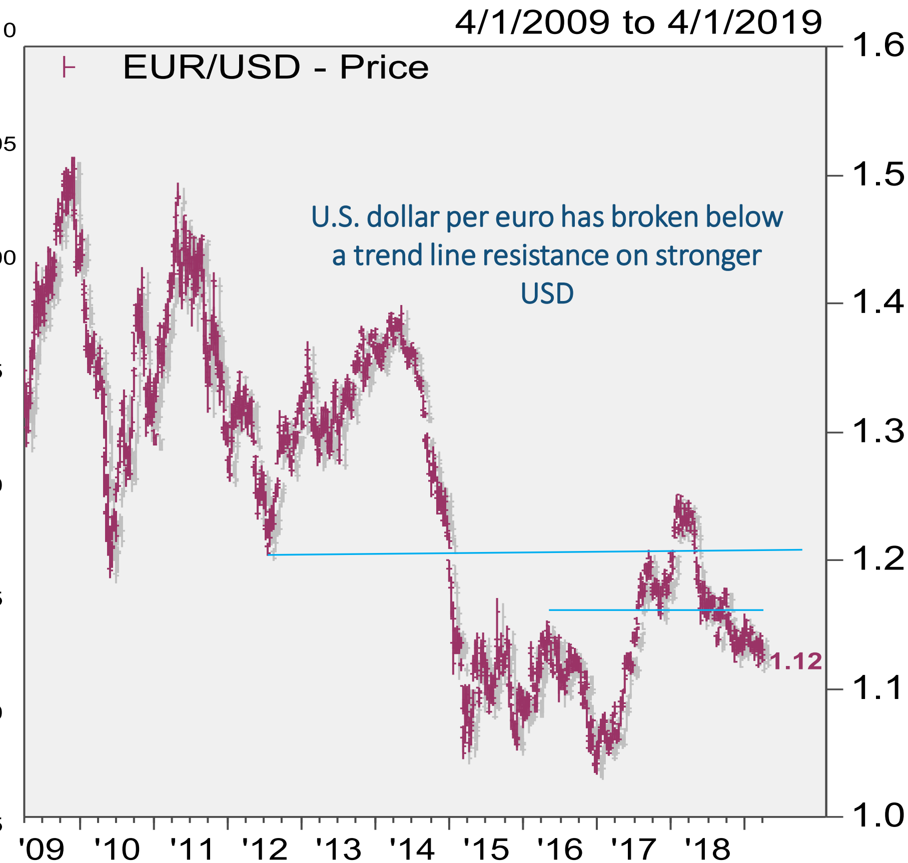


Source: FactSet, RJ Equity Portfolio & Technical Strategy

2019: Areas to Watch: U.S. Dollar

The USD rallied sharply throughout 2018 after falling for most of 2017. A rising USD could provide a headwind to margin expansion for multi-national companies and emerging markets. The USD has stalled at recent technical levels. Currently, the USD is near the 23.6% retracement level, which is worth monitoring as a rising USD could impact margin expansion and earnings growth.

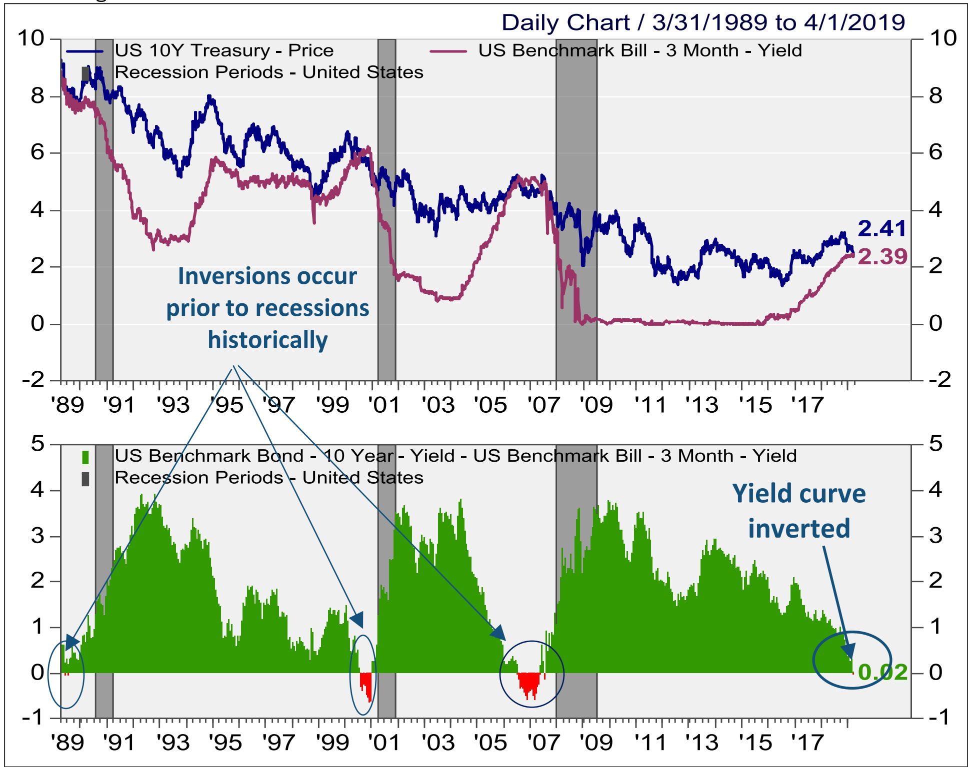




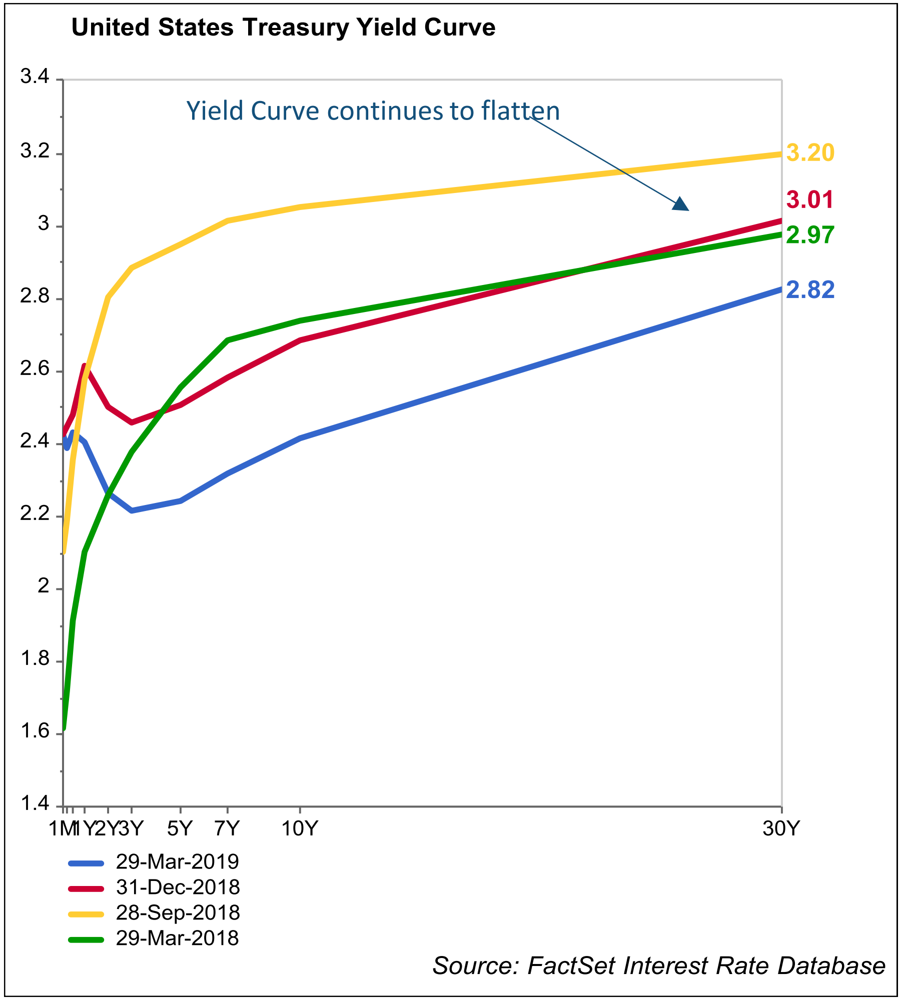
Source: FactSet, RJ Equity Portfolio & Technical Strategy

2019: Areas to Watch: Inverted Yield Curve

An inversion of the yield curve continues to be a major risk for the markets, especially the Financial sector. We recently saw the yield curve invert before turning back positive. We will continue to monitor the yield curve as it can signal recessions, but at this time, economic data continues to be expansionary (despite some air pockets of softness) and other yield curves (10-2 year and 30 year-3 month) are not inverted. It is important to note there has historically been a long lag time between an inversion and the start of a recession. Moreover, solid returns are possible in the short-term periods following an inversion.

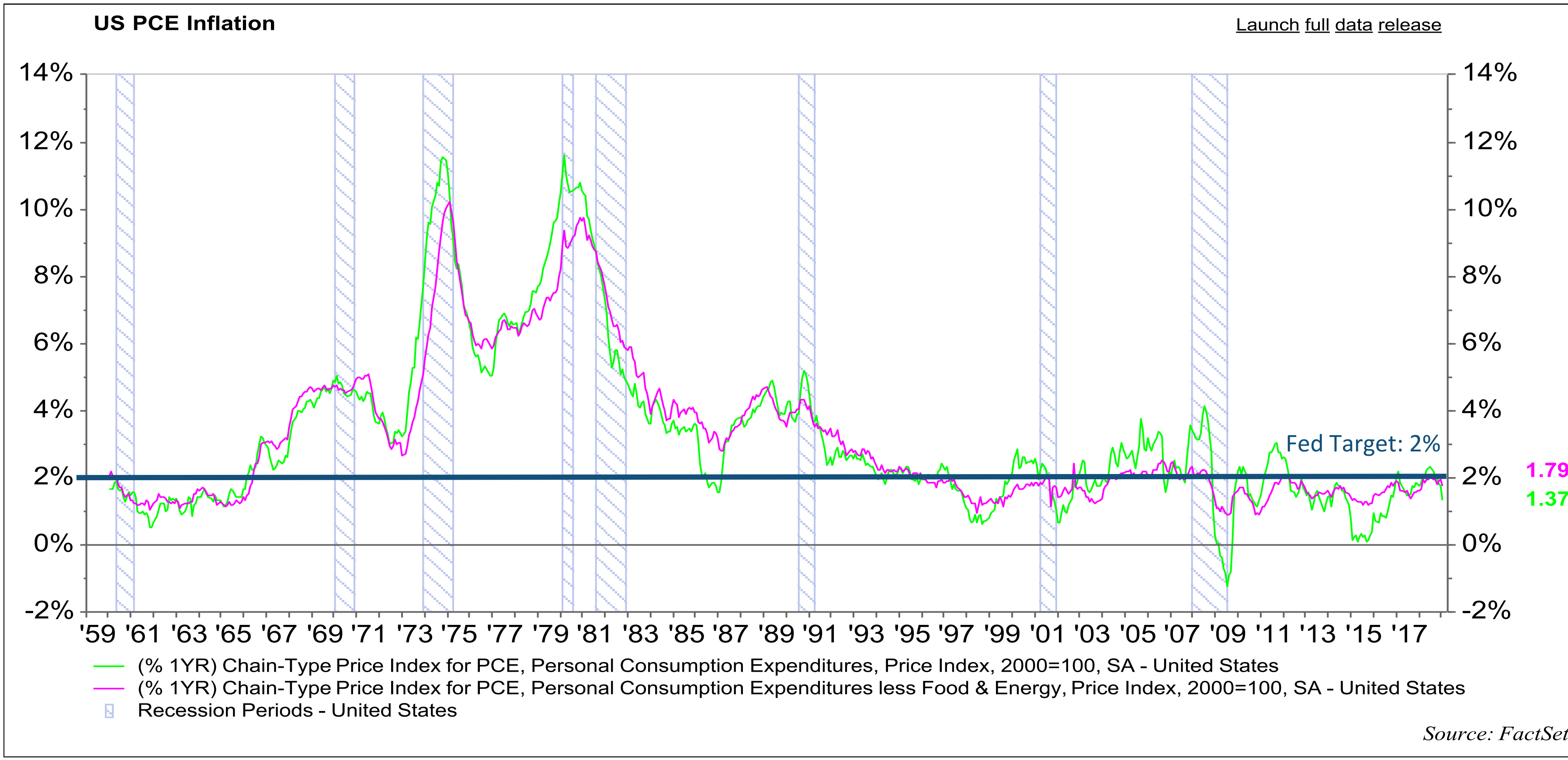


Source: FactSet, RJ Equity Portfolio & Technical Strategy



2019: Areas to Watch: Inflation

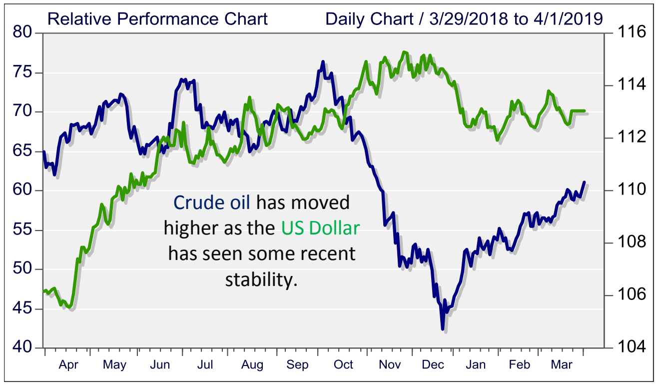
Inflation continues to be below the Fed's target rate of 2%. We will continue to monitor inflation as a rise in inflation could be a hindrance to margin expansion (but currently remains contained). Additionally, increasing commodity prices could cause overall inflation to rise (the recently decline in oil may be a positive).

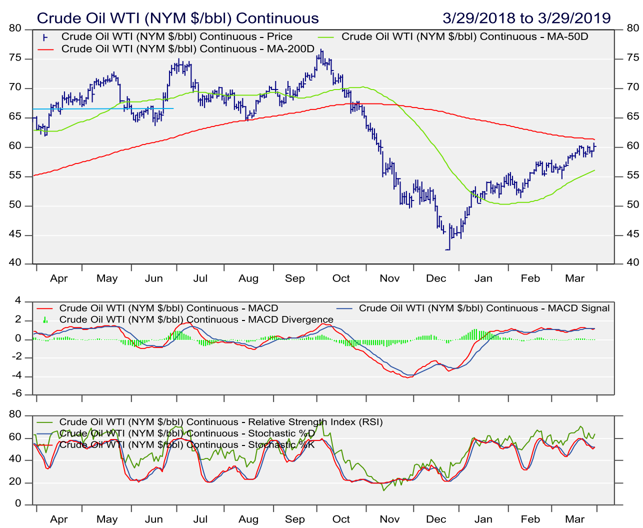


Source: FactSet, RJ Equity Portfolio & Technical Strategy

2019: Areas to Watch: Crude Oil

The recent improvement in Crude is something to watch. If oil prices continues to move higher for an extended period of time, it could prove to be a negative for the consumer. YTD crude oil has increased over 30% to $60.20. The Raymond James Energy team maintains a bullish expectation for oil to be significantly higher in 2020 from today's levels. We will continue to monitor the price of crude as a continued move higher in the commodity could create inflationary pressure.





Source: FactSet, RJ Equity Portfolio & Technical Strategy

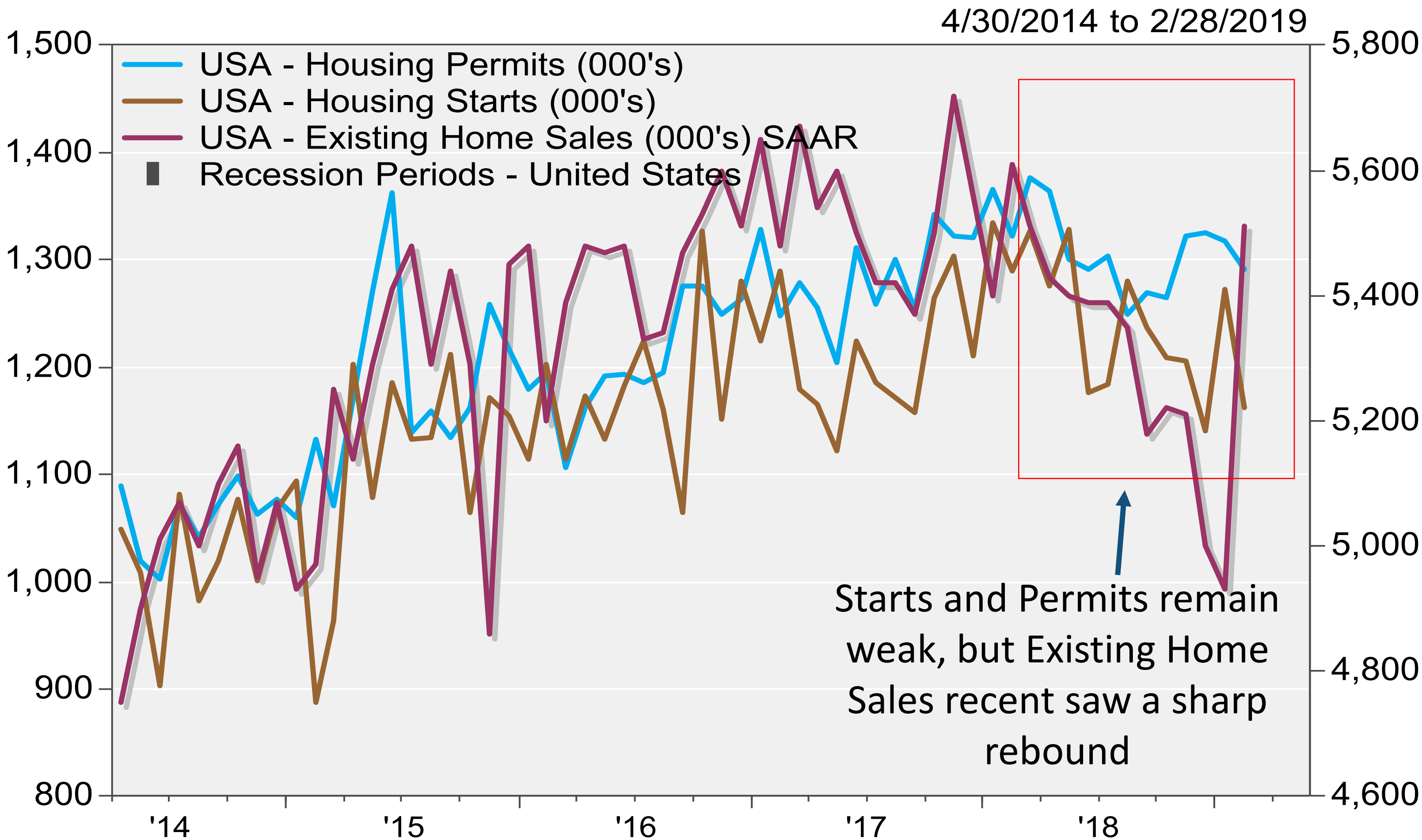
RJ&A Oil Price Forecast

2018	Q1 18A	Q2 18A	Q3 18A	Q4 18A	2018E
RJ WTI	$62.89	$67.97	$69.61	$59.32	$64.95
RJ Brent	$66.97	$74.55	$75.26	$68.10	$71.22
Brent-WTI Spread	$4.08	$6.58	$5.66	$8.79	$6.28
2019	**Q1 19E**	**Q2 19E**	**Q3 19E**	**Q4 19E**	**2019E**
RJ WTI	$52.00	$56.00	$65.00	$75.00	$62.00
RJ Brent	$62.00	$66.00	$75.00	$85.00	$72.00
Brent-WTI Spread	$10.00	$10.00	$10.00	$10.00	$10.00
2020	**Q1 20E**	**Q2 20E**	**Q3 20E**	**Q4 20E**	**2020E**
RJ WTI	$90.00	$97.50	$92.50	$90.00	$92.50
RJ Brent	$100.00	$105.00	$100.00	$95.00	$100.00
Brent-WTI Spread	$10.00	$7.50	$7.50	$5.00	$7.50
2021 (+)	**Long-Term Forecast**				**2021E+**
RJ WTI					$75.00
RJ Brent					$80.00
Brent-WTI Spread					$5.00

Source: *Bloomberg, FactSet, Raymond James research*

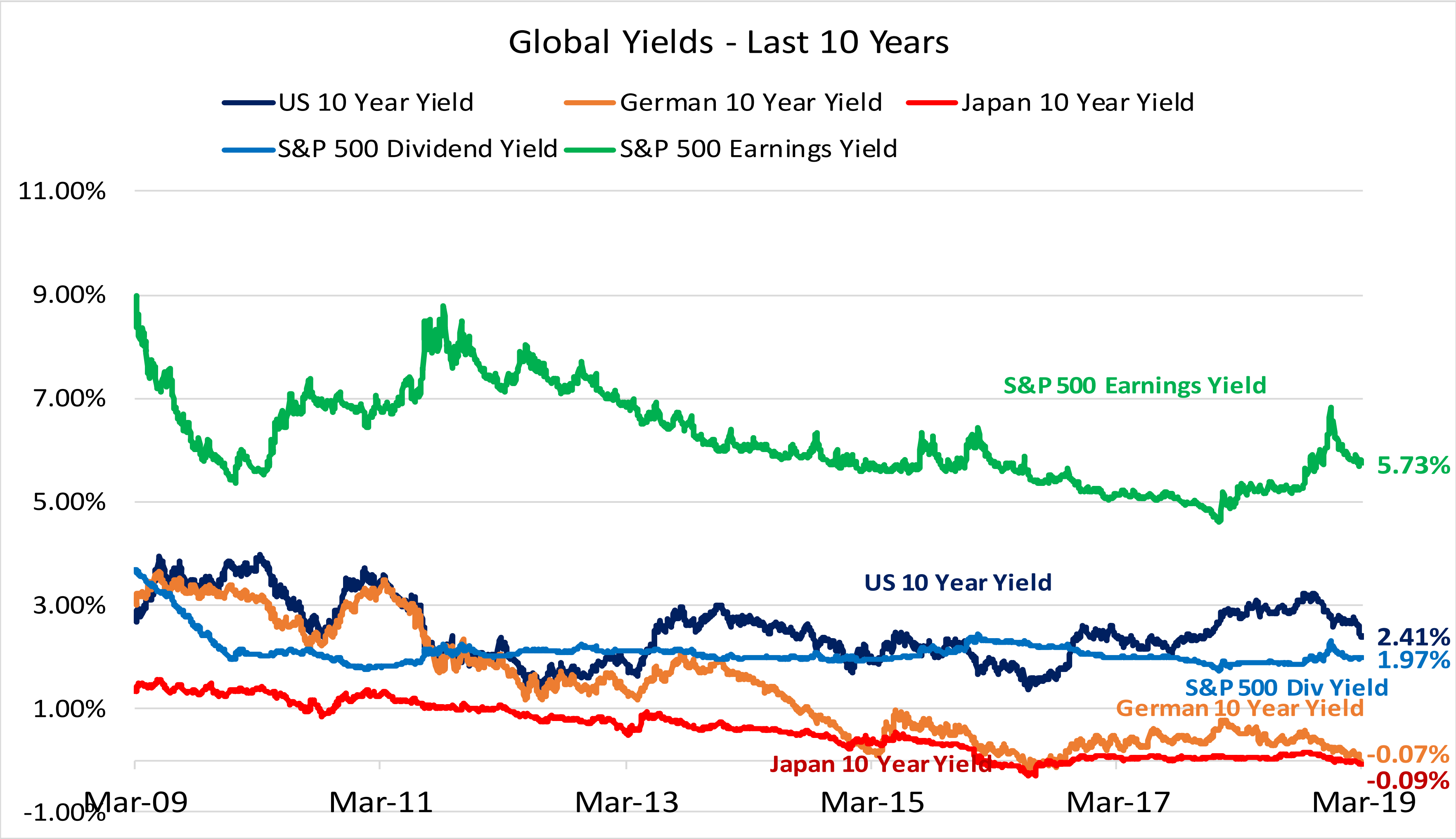
2019: Areas to Watch: Soft Housing Data

One Area of weakness has been the Housing market



Source: FactSet, RJ Equity Portfolio & Technical Strategy

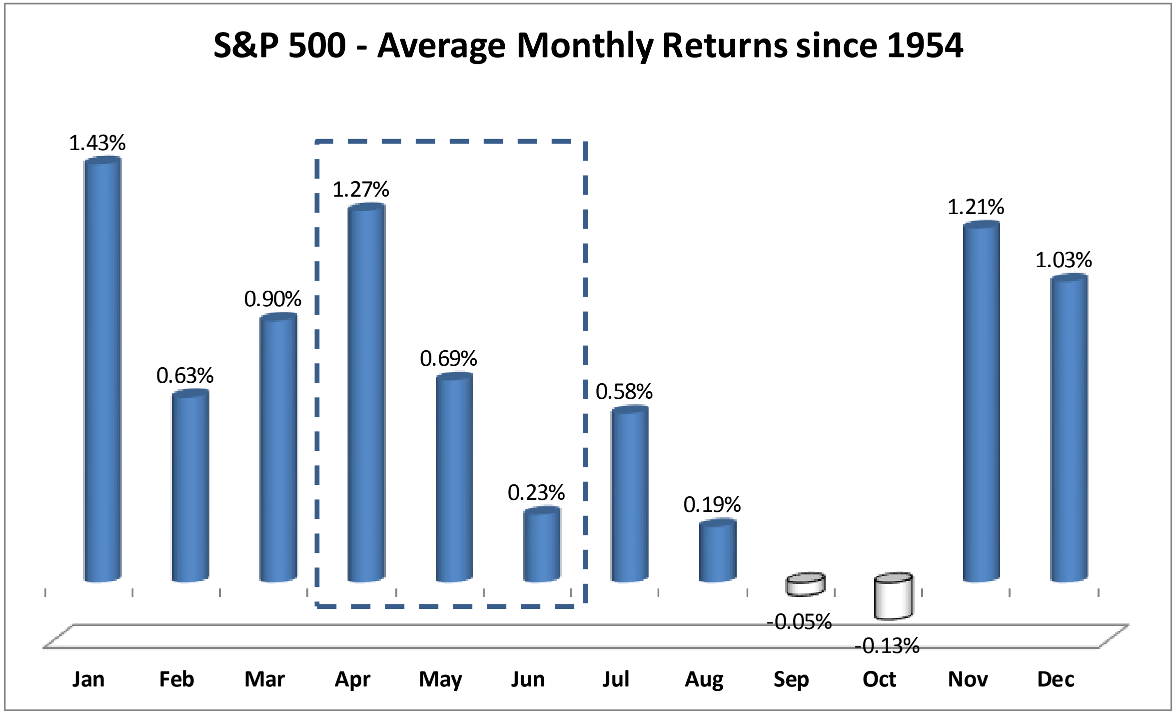
Fed Action: Forcing Investors to Move to Equities

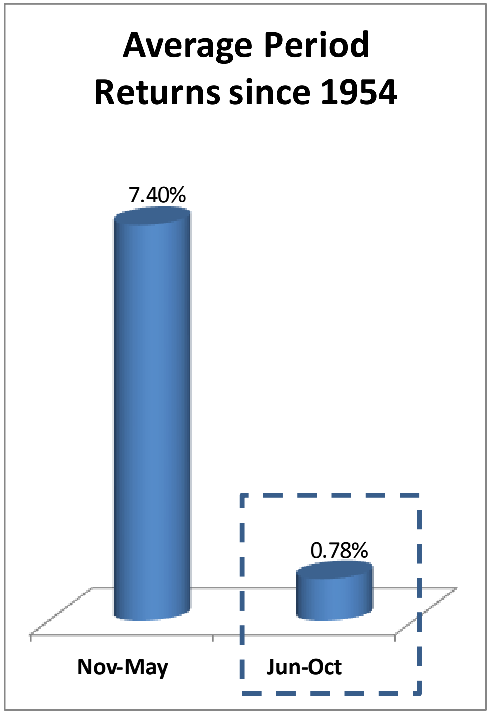


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Seasonality

While we do not recommend making investment decisions on the calendar alone, equity markets typically open the year in a seasonally strong period. Moreover, April tends to be a relative strong month historically, but following April, the market tends to see a seasonally slower period of returns historically. On average since 1954, the returns from June-October November-May have been 0.78% vs. 7.4% from November-May.



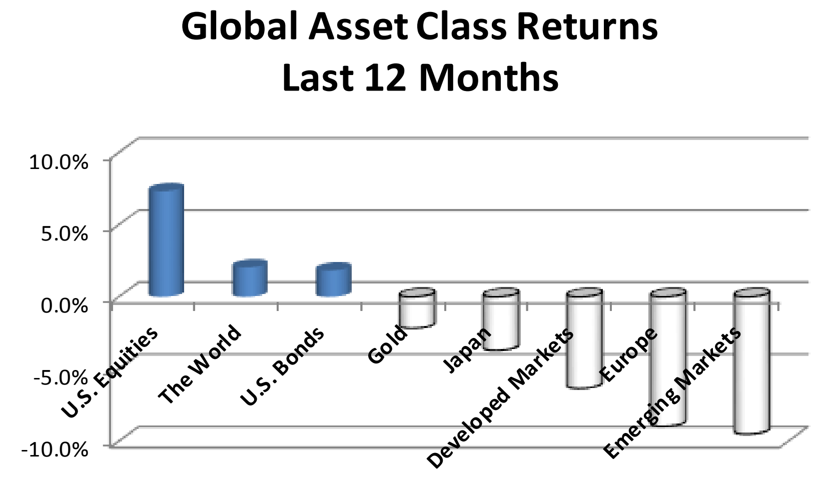


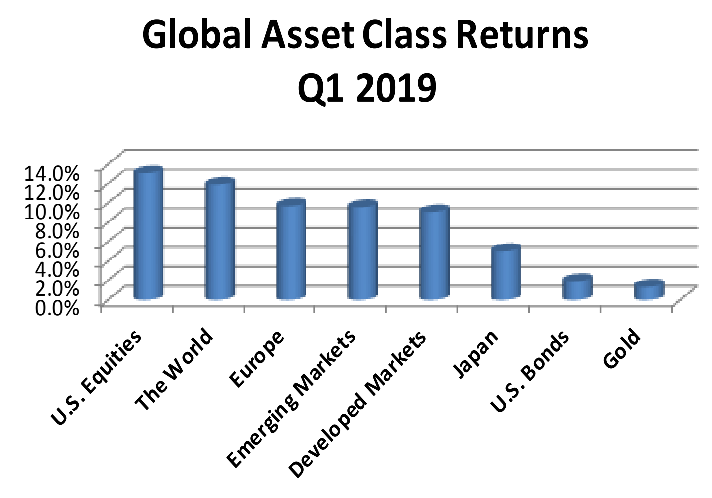
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Global Asset Class Returns

		Price Change		
Indices	**Close**	**Q1 '19**	**YTD**	**12 Mo**
S&P 500	2834.40	13.07%	13.07%	7.33%
Dow Jones	25928.68	11.15%	11.15%	7.57%
NASDAQ Composite	7729.32	16.49%	16.49%	9.43%
Russell 2000	1539.74	14.18%	14.18%	0.67%
NYSE Alerian MLP	255.01	14.48%	14.48%	6.27%
MSCI U.S. REIT	1217.06	15.11%	15.11%	15.67%
Barclays Int. G/C Bond	110.26	1.89%	1.89%	1.83%
MSCI The World	2107.74	11.88%	11.88%	2.04%
MSCI EAFE (Developed)	1875.43	9.04%	9.04%	-6.33%
MSCI Emerging Markets	1058.13	9.56%	9.56%	-9.50%
Euro Stoxx	3351.71	9.69%	9.69%	-8.97%
Japan Nikkei 225	21205.81	5.02%	5.02%	-3.70%
Commodities				
Crude Oil ($/bbl)	61.01	32.44%	32.44%	-7.39%
Natural Gas ($/btu)	2.73	-6.63%	-6.63%	-2.60%
Gold ($/ozt)	1296.40	1.34%	1.34%	-2.17%
Currencies				
Euro per US $	0.89	1.81%	1.81%	9.53%
Japanese Yen per US $	110.69	0.88%	0.88%	4.08%
Sovereign Bond Yields		**Current**	**10 Yr Avg**	
U.S. 10-Year Treasury		2.41	2.51	
S&P 500 Metrics		**Current**	**15 Yr Avg**	
Dividend Yield		2.08	2.16	
P/E Ratio - Next 12 Mo.		16.49	14.63	
P/E Ratio - Last 12 Mo.		17.22	16.12	

Source: FactSet, RJ Equity Portfolio & Technical Strategy

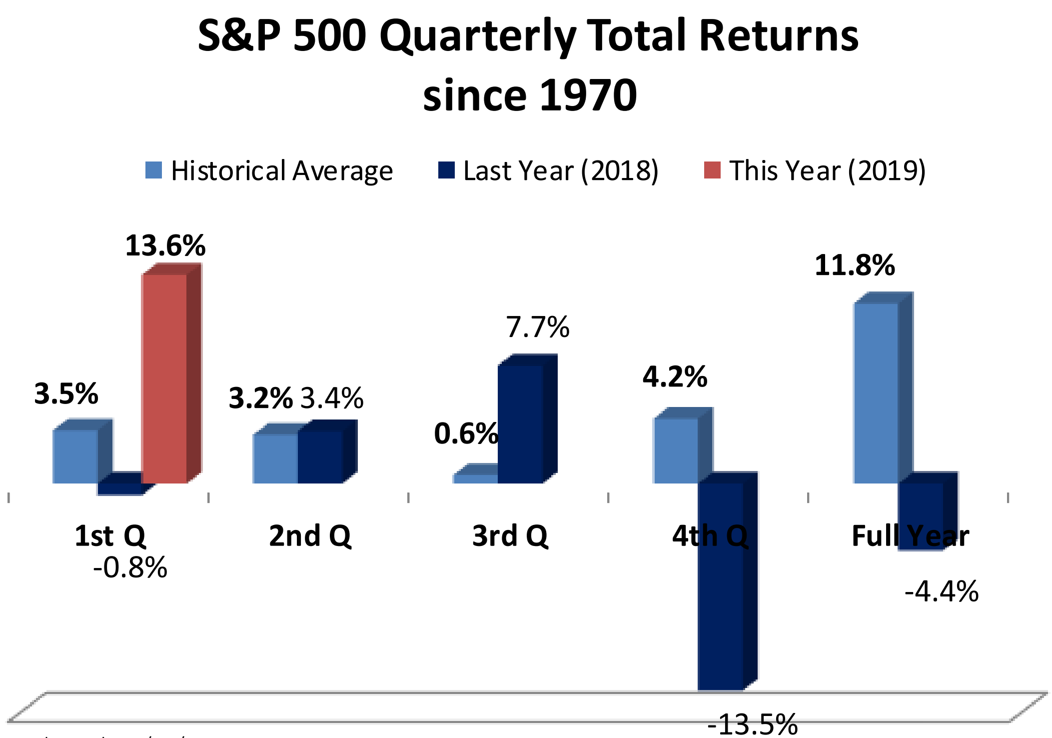




S&P Quarterly Returns

The total return for 1Q19 was much stronger than historic returns for the first quarter of the year. As mentioned previously, 1Q19 was the strongest quarterly returns since 3Q09 and the strongest first quarter since 1998. With a total return of 13.6%, this compares favorably to the historical average of 3.5% total return since 1970 for the S&P 500.

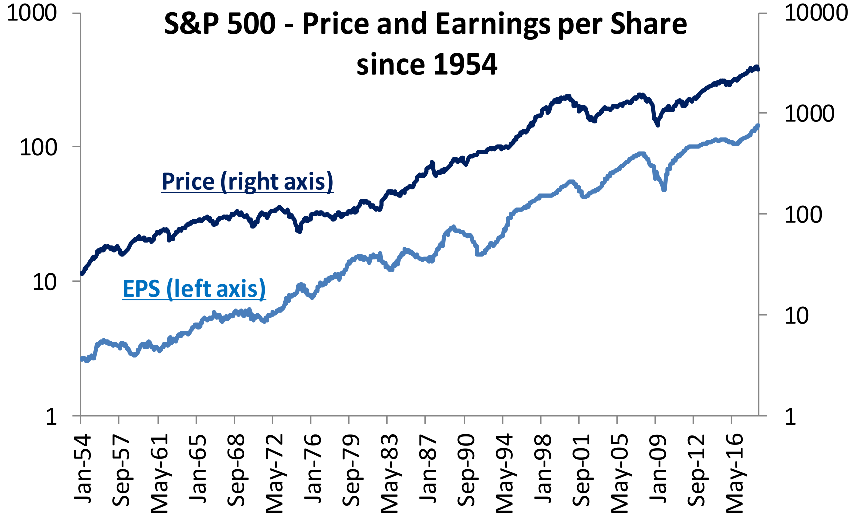
Looking towards a slower seasonal period of the year, near-term upside in equities may be more challenging given the consolidation around the 2800-2815 level seen in the markets.

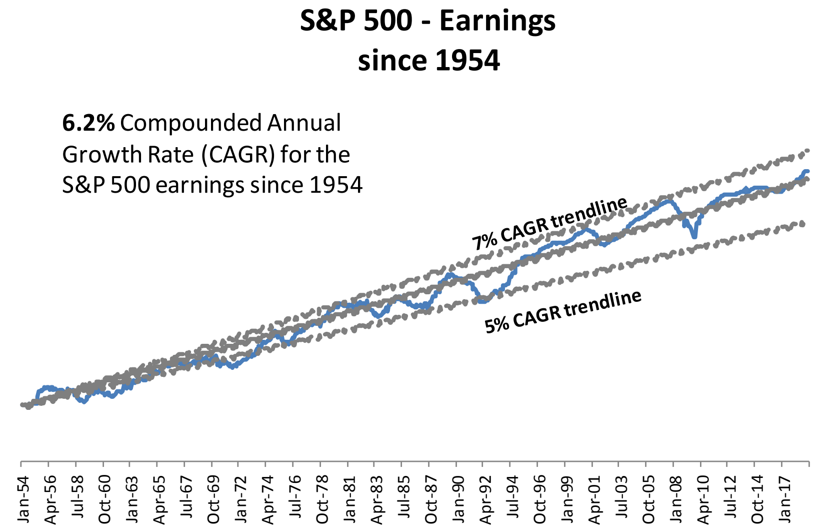


*Data through 12/17/18

Source: FactSet, RJ Equity Portfolio & Technical Strategy

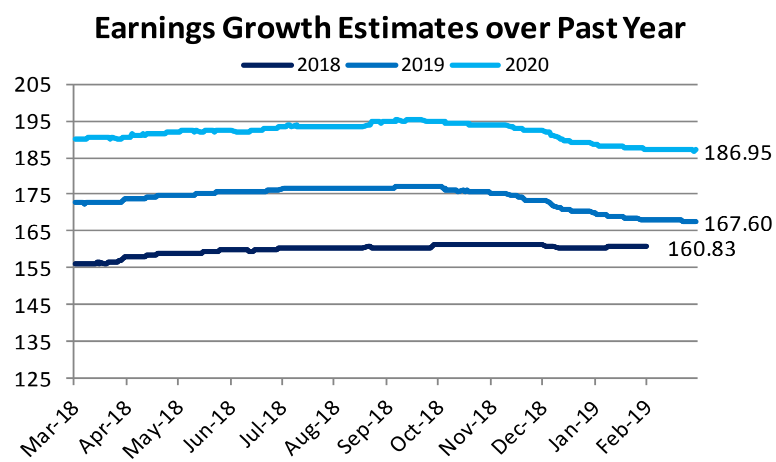
S&P 500 Earnings – Long-Term Mother's Milk of the Market





S&P 500 since 1954:

- **Earnings CAGR**: 6.2%
- **S&P 500 Price CAGR**: 7.6%



EPS Growth Estimates	
2018	22.1%
2019	4.2%
2020	11.5%

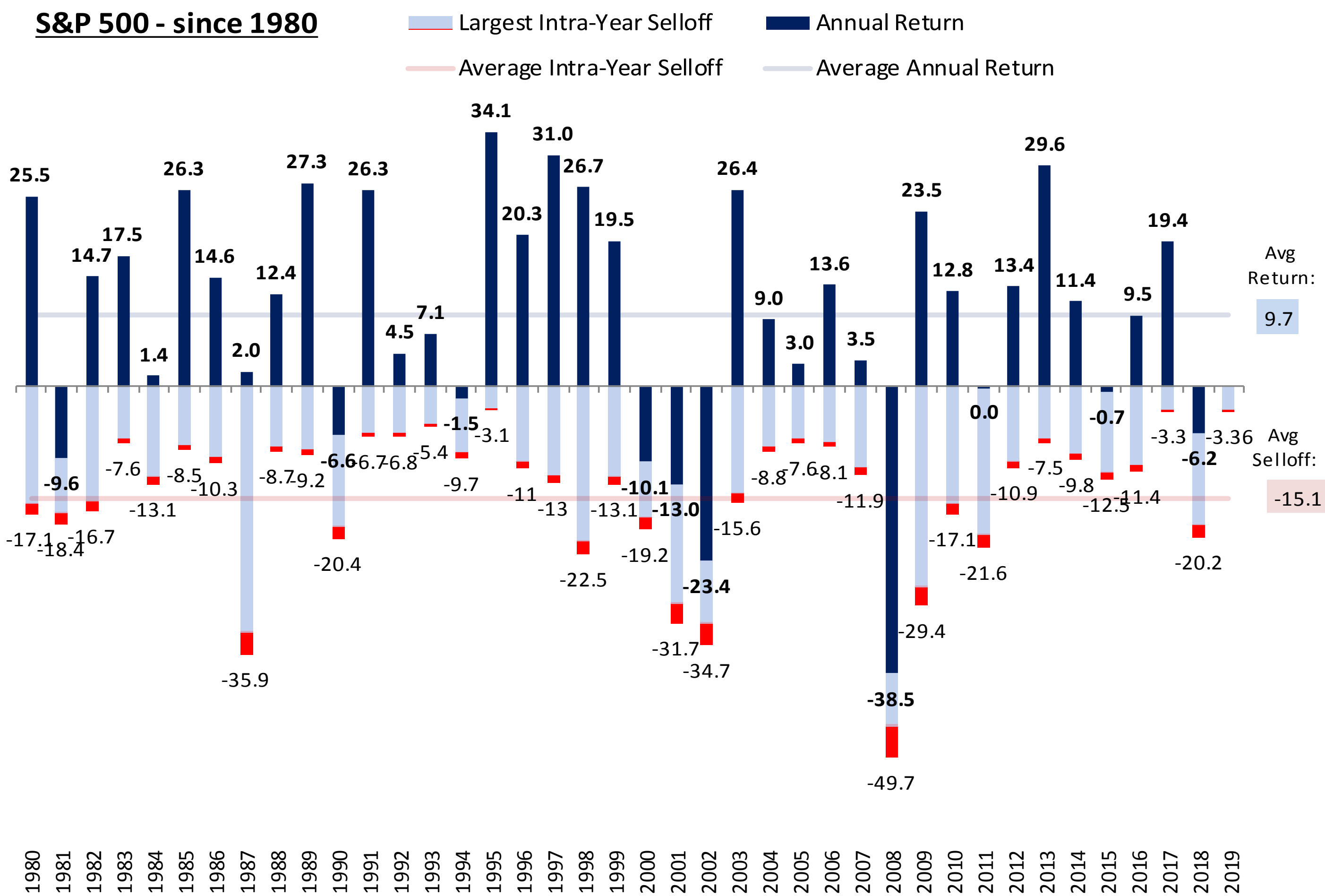
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Market Sell-Off Stats

Selloffs are common:

- Average largest Intra-year selloff: -15.1%
- Average Annual return is: +9.7%

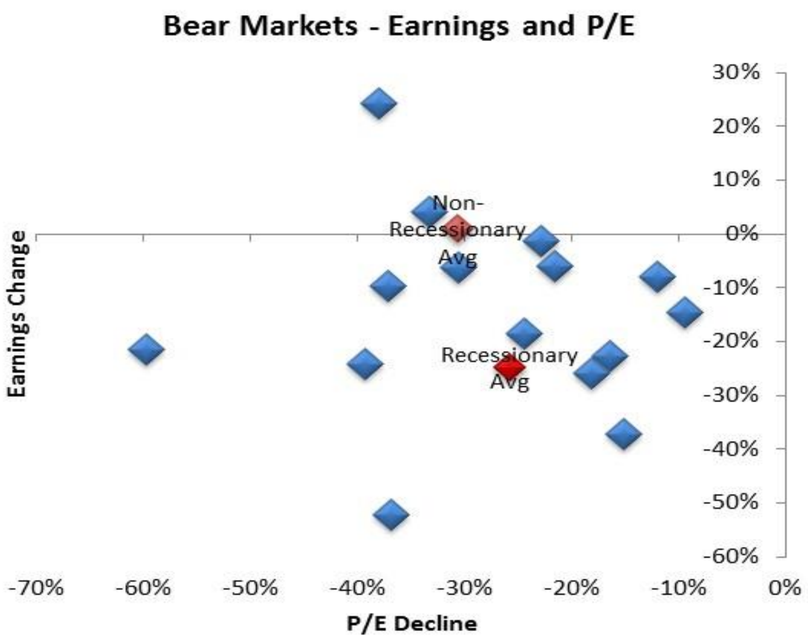
In 1Q19, the largest sell-off was 3.36% from the intraday high on March 4 (2816.88) to the intraday low on March 8 (2722.27)

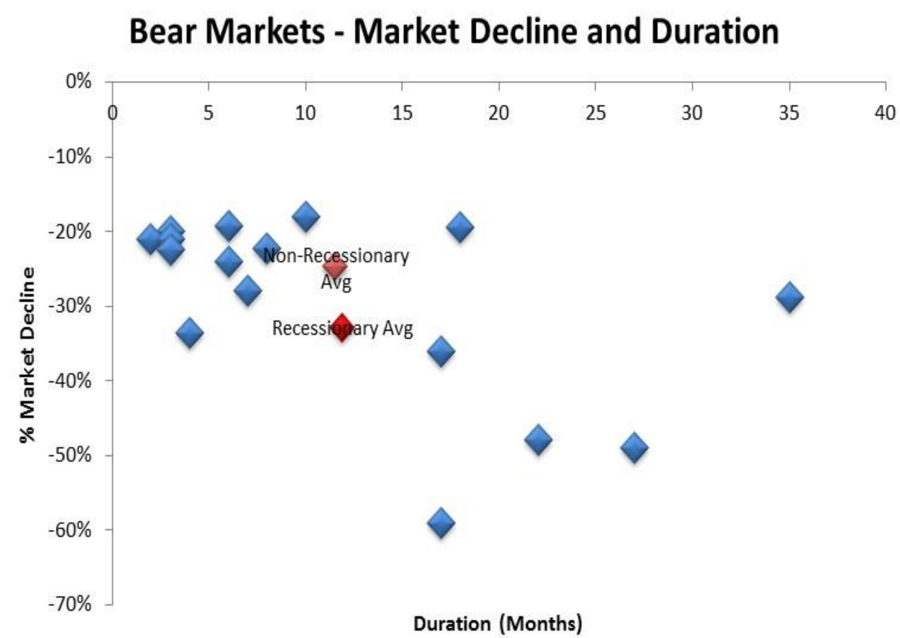


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Analyzing Bear Markets

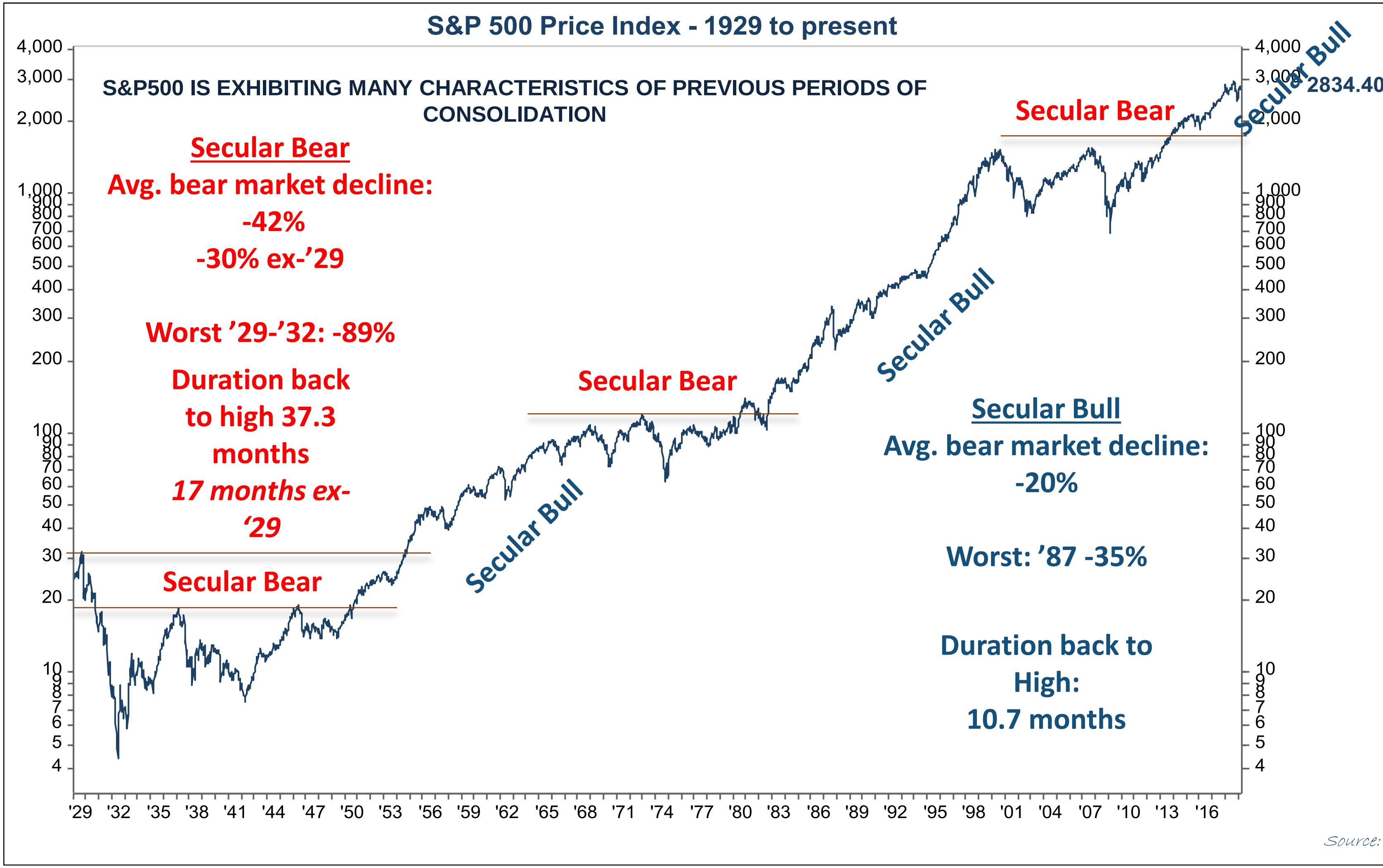
As seen on the prior page, intra-year pullbacks in the markets are common. Given the pullback at the end of 2018 (just shy of 20% from closing peak to closing trough), we decided it is appropriate to analyze bear markets (as the current bull market is long in the tooth and risks are increasing) using historical data. Overall, bear markets are classified as a pullback of 20% or more. Over the long term, we have had nine periods of recessionary bear markets (average pullback of 33% and average duration of 11.9 months) and seven periods of non-recessionary bear markets (average pullback of 25% with an average duration of 11.6 months). While we continue to monitor potential wage inflation, impact from tariffs, inflation, and other factors impacting earnings, we would be more concerned with consolidation (non-recessionary bear markets), which tend to see a sharp reduction in P/E multiple rather than earnings declines. While we are not building in a recessionary bear market into our bear case scenario, we are baking in flat earnings and a 15x P/E multiple (down 31% from the peak LTM P/E of 21.5x), which would be consistent with a non-recessionary bear market. **When analyzing the prior non-recessionary bear markets, these periods tend to see earnings growth flattening (with average earnings growth of ~1%) and see retracement in P/E of ~31%.** If a recessionary bear markets ensues, the market may see further downside as significant reduction in earnings, along with P/E compression, would likely take place.





Source: FactSet, RJ Equity Portfolio & Technical Strategy

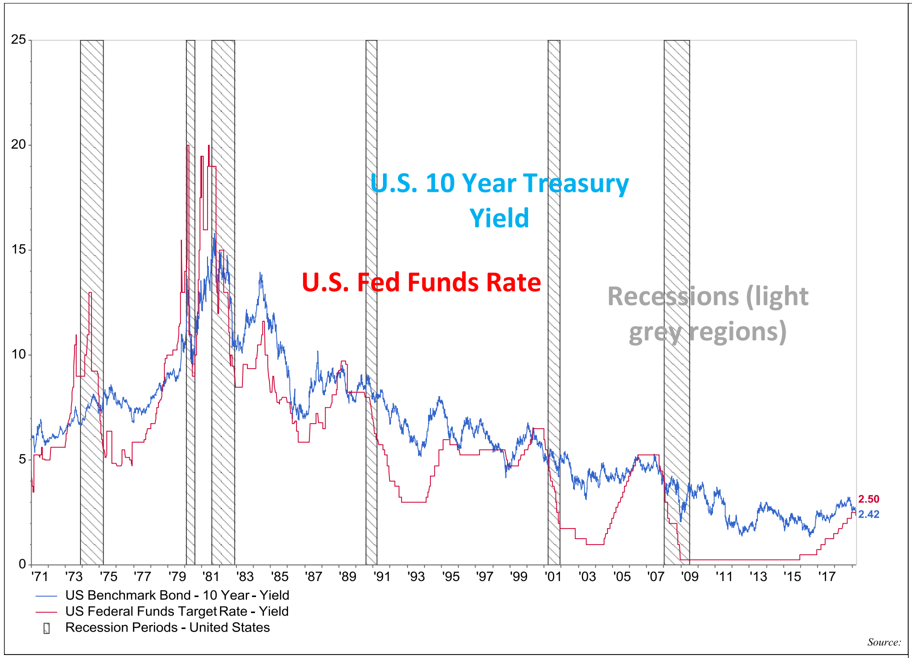
Secular Bull and Bear Markets

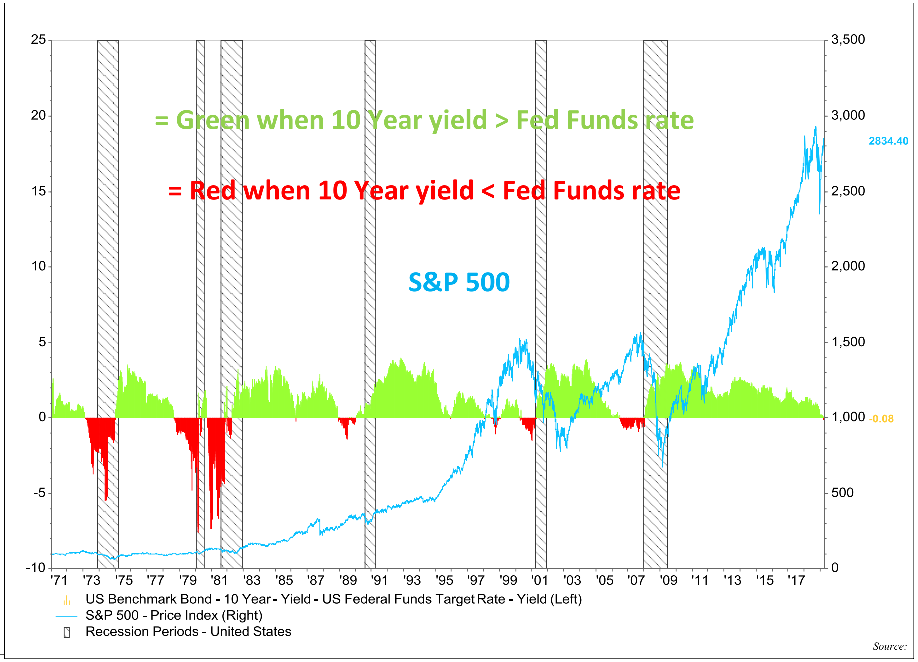


Source: FactSet, RJ Equity Portfolio & Technical Strategy

U.S. 10 Year Yield vs. U.S. Fed Funds Rate, since 1970

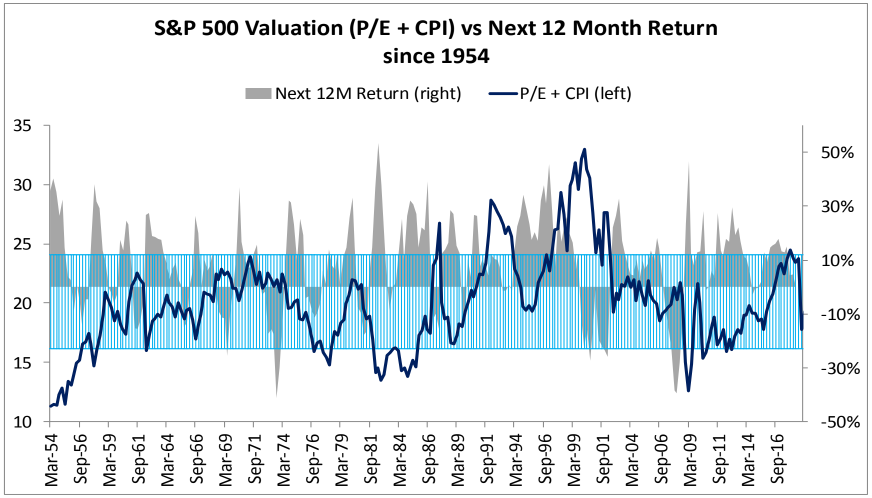
Note that when the Fed Funds rate lifts above the 10-year Treasury yield (i.e. inverted yield curve—chart on right), recessions often follow. For this reason, yield curve inversion is a major concern. As you can see, the yield curve has inverted recently. This is something to note going forward, but at this point we would want to see more confirming evidence before getting overly concerned..

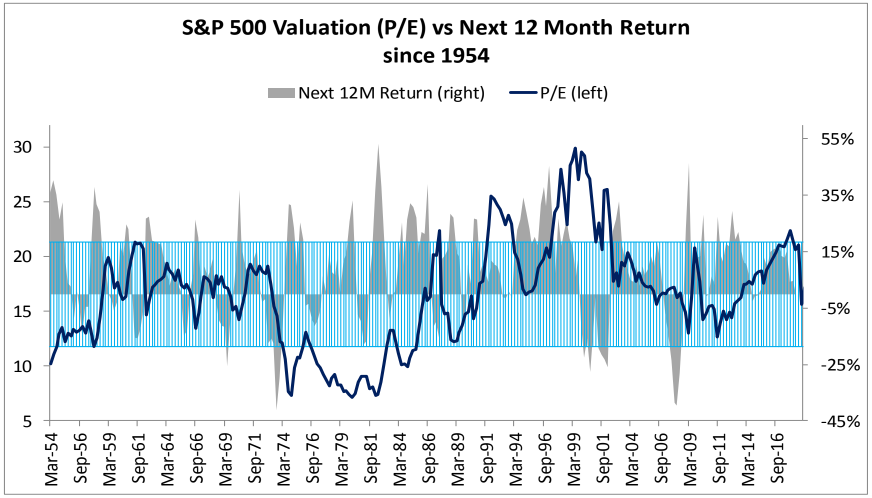




Source: FactSet, RJ Equity Portfolio & Technical Strategy

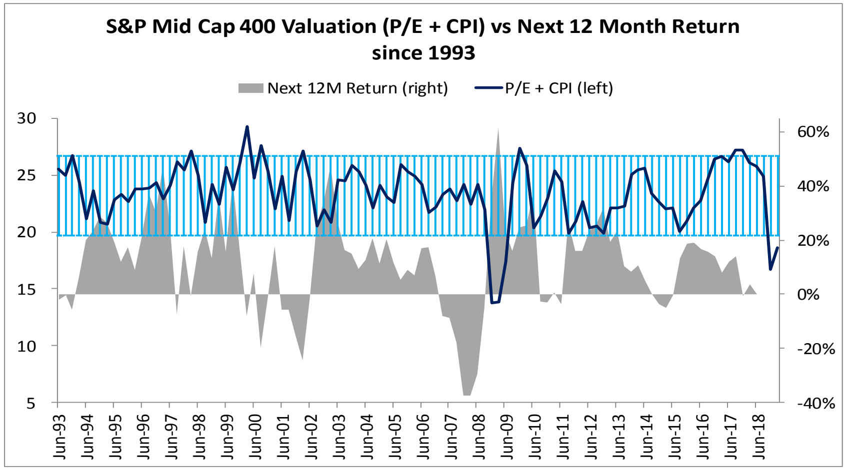
S&P 500 Valuation

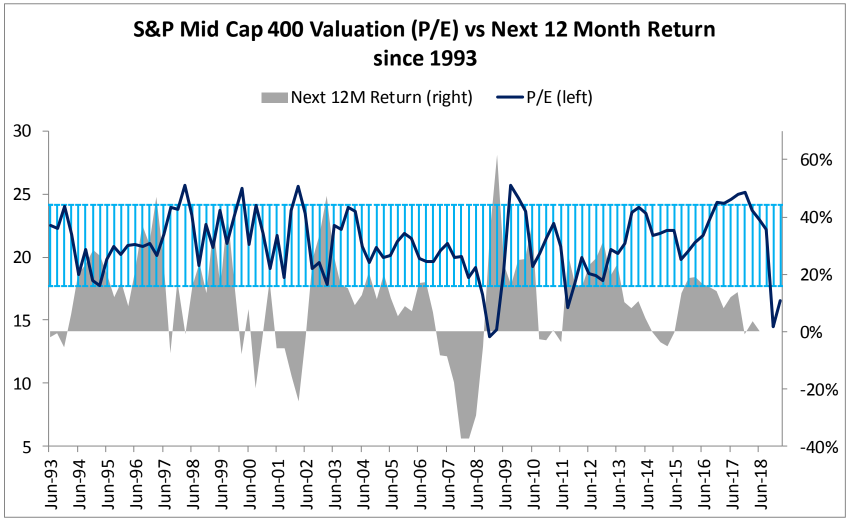




Source: FactSet, RJ Equity Portfolio & Technical Strategy

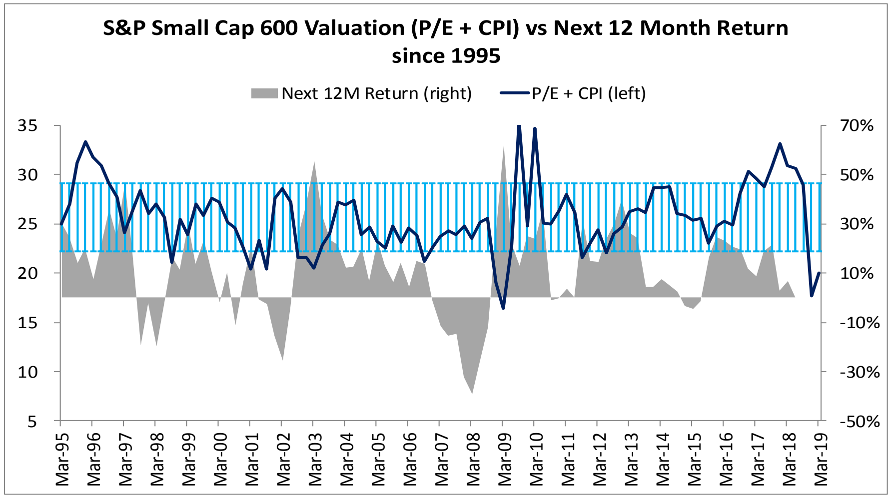
S&P Mid-Cap 400 Valuation

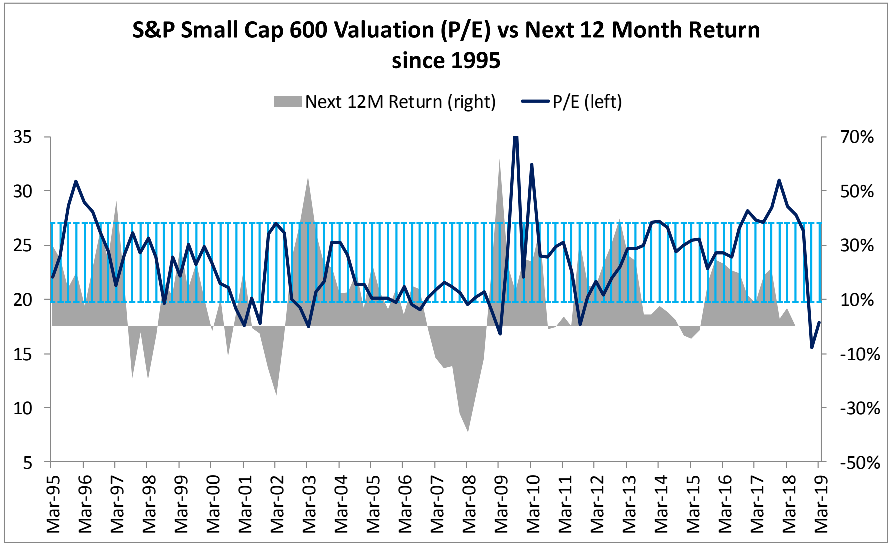




Source: FactSet, RJ Equity Portfolio & Technical Strategy

S&P Small Cap 600 Valuation





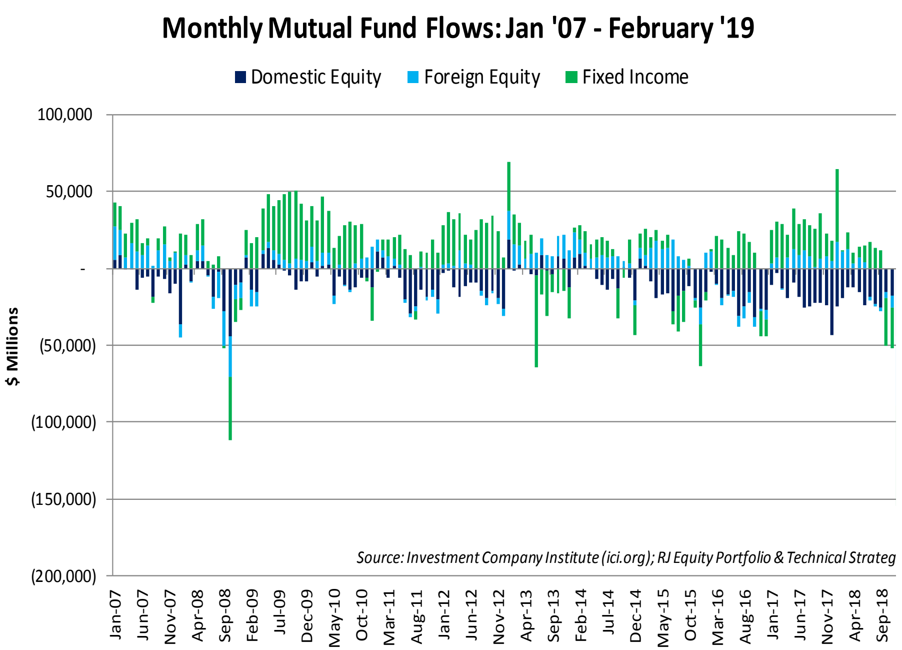
Source: FactSet, RJ Equity Portfolio & Technical Strategy

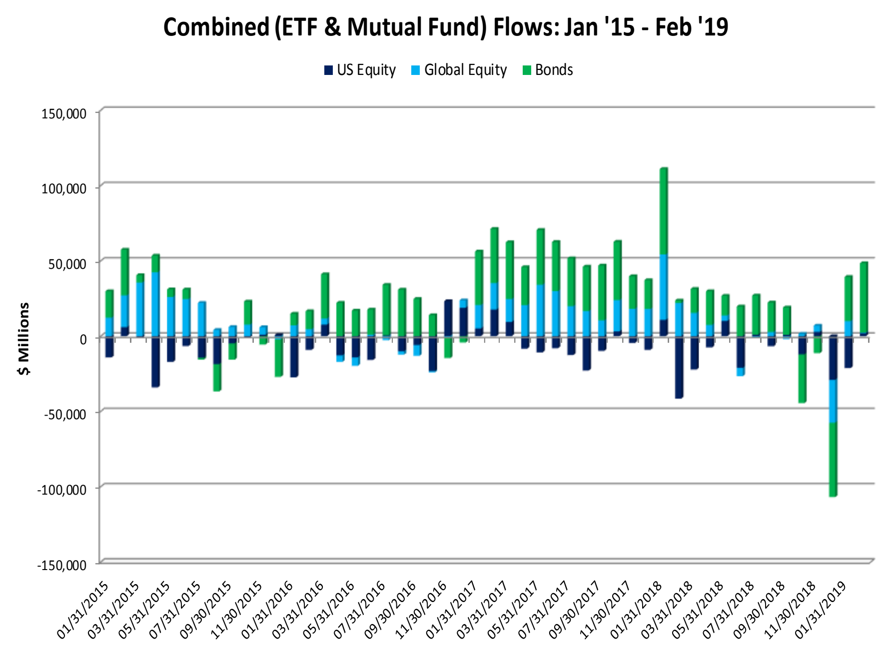
Fund Flows

Mutual Fund Flows (below on the left): After a rash of distribution to end the year, Equities saw some accumulation in the month of January. Funds continue to flow to Bond funds with fund flows in February seeing a sharp acceleration.

- Since the end of the credit crisis in March 2009, the S&P 500 is up ~341% to its peak on September 21.
- During the month of February, domestic equities saw an outflow of $10.8 billion, while foreign equities saw a $1.7 billion outflow, this follows inflows in total equities of $9.5 billion in January. December was the largest outflow on record since 2007 with monthly outflows of $89.4 billion.

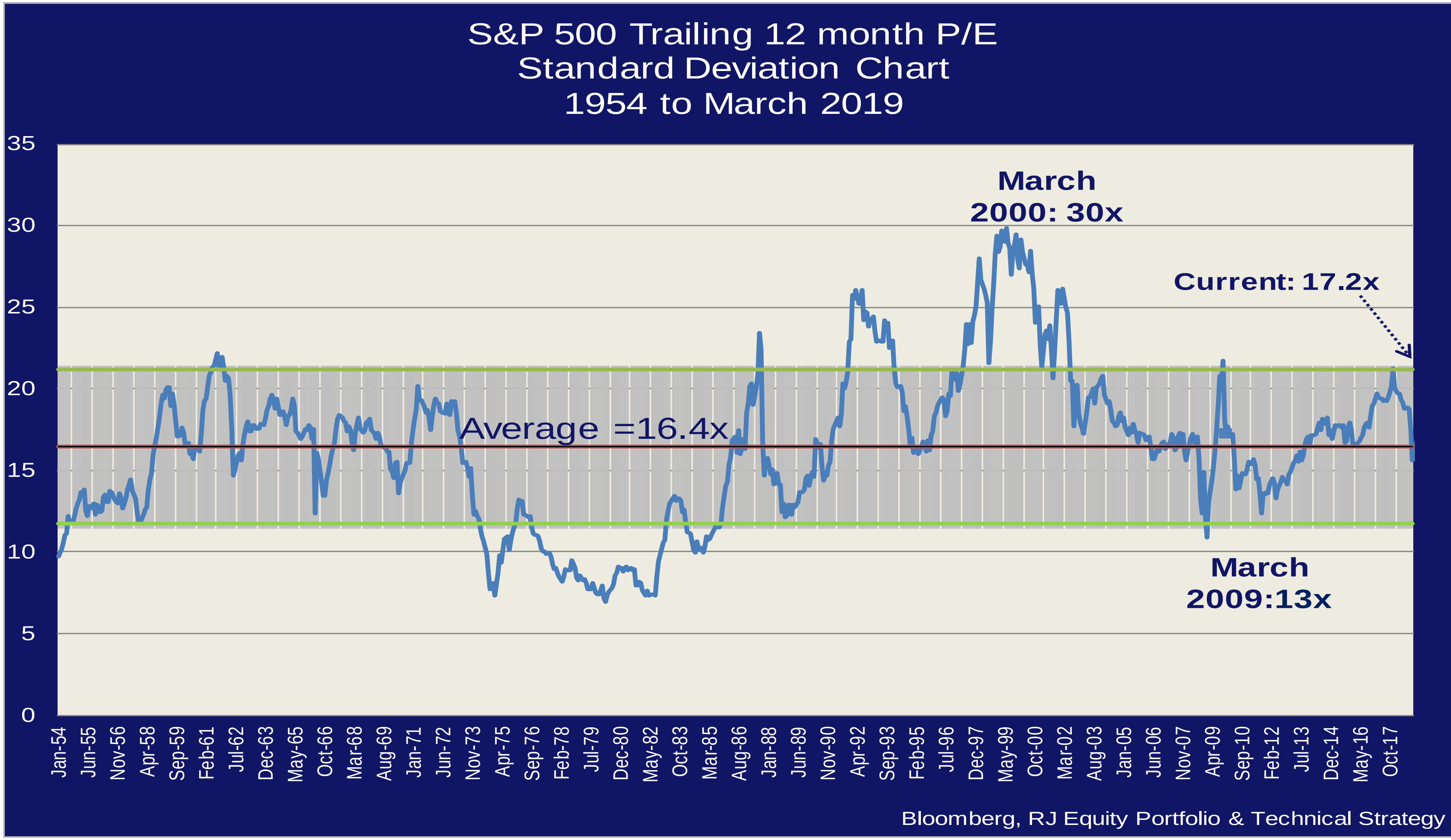
Combined ETF and Mutual Fund Flows (below on the right): After seeing $133.8 billion of total outflows across all asset classes in the month of December, January and February has been progressively better with total inflows of $19.4 billion and $45.3 billion, respectively. Over the first two months of the year, Domestic equities saw outflows totaling $19.2 billion while Global equities saw inflows of $10.4 billion. Total inflows into Bond Mutual Funds and ETFs to begin the year have been $75.3 billion.



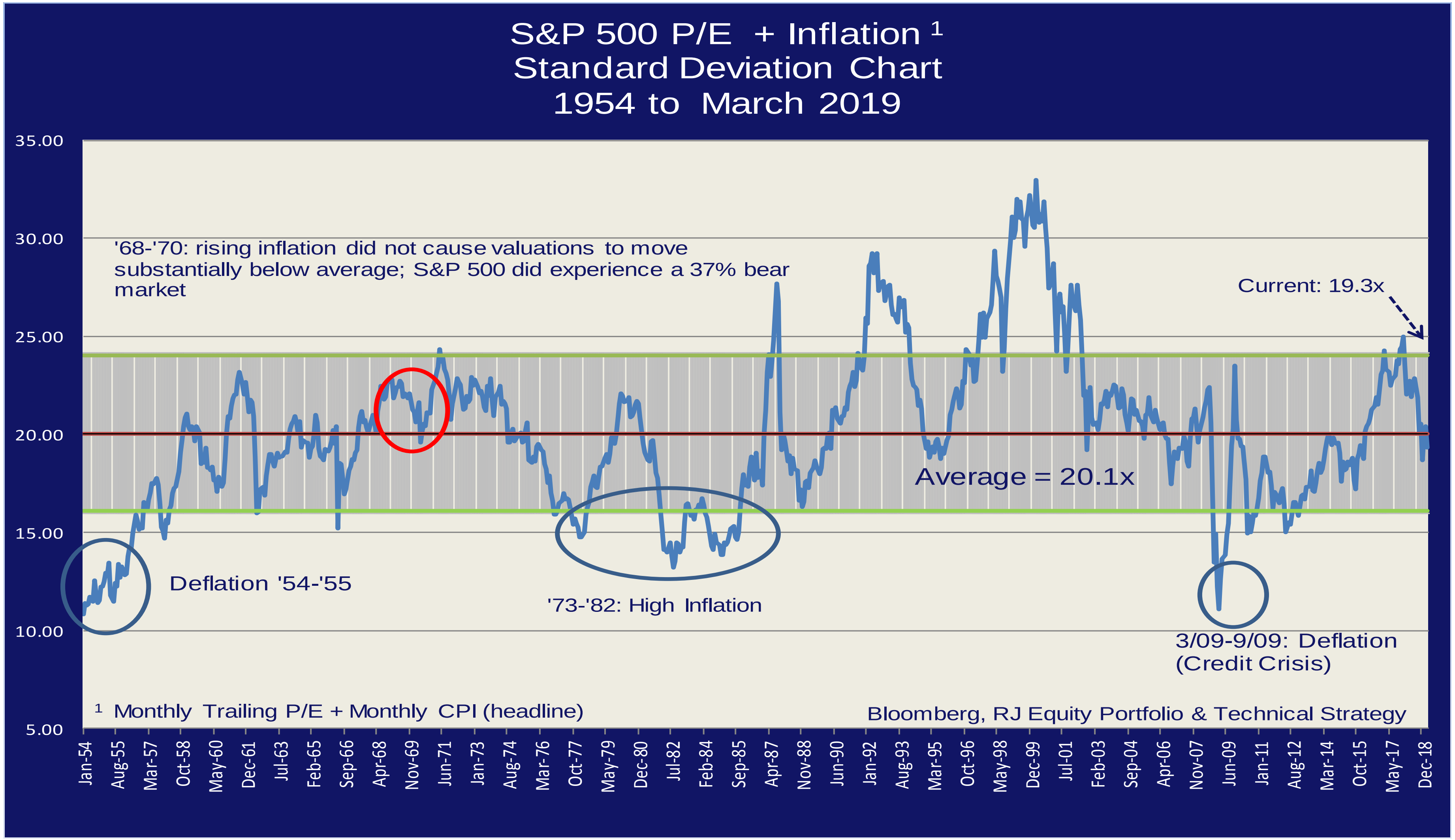


Source: Investment Company Institute (ici.org); RJ Equity Portfolio & Technical Strategy

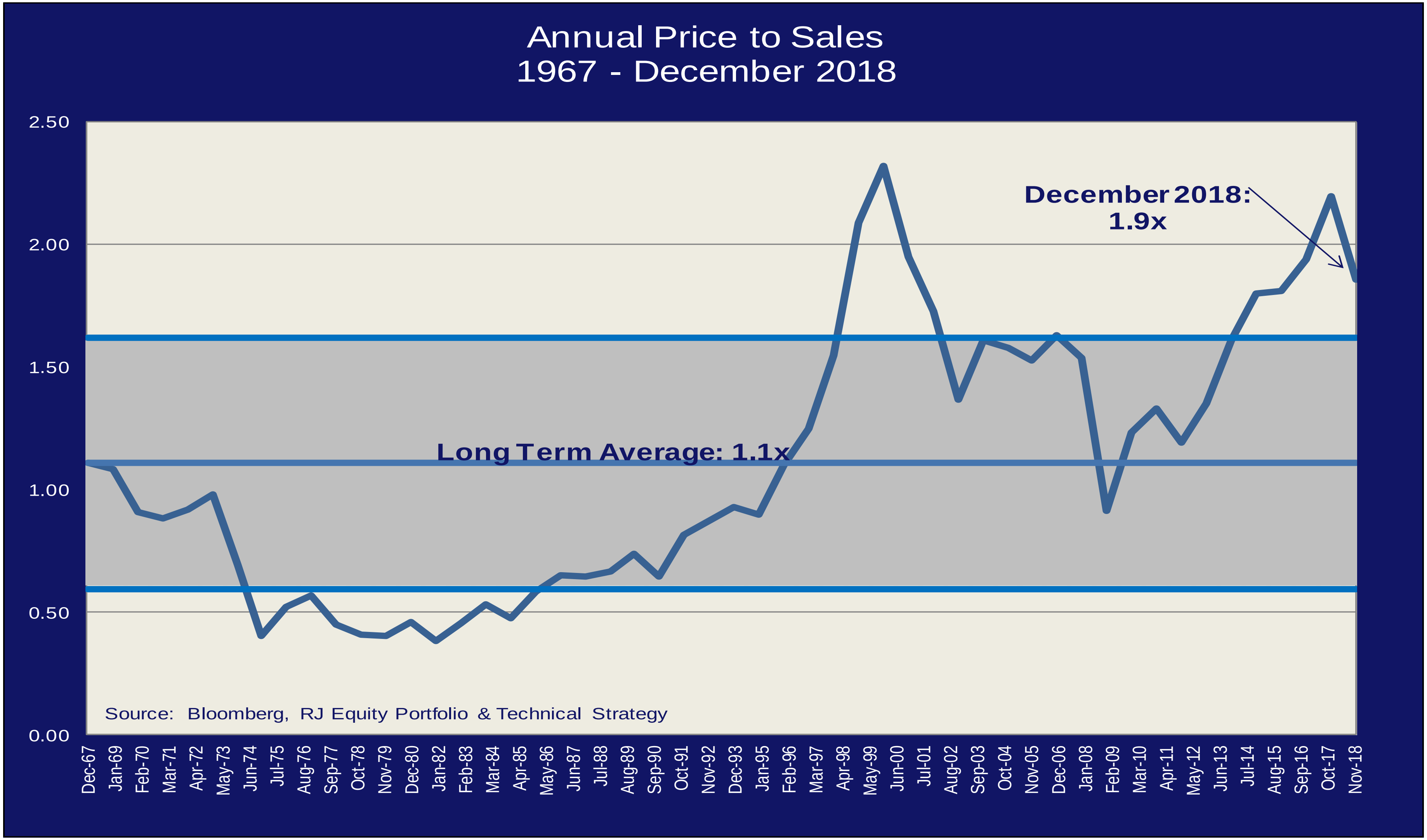
S&P 500: Long Term P/E



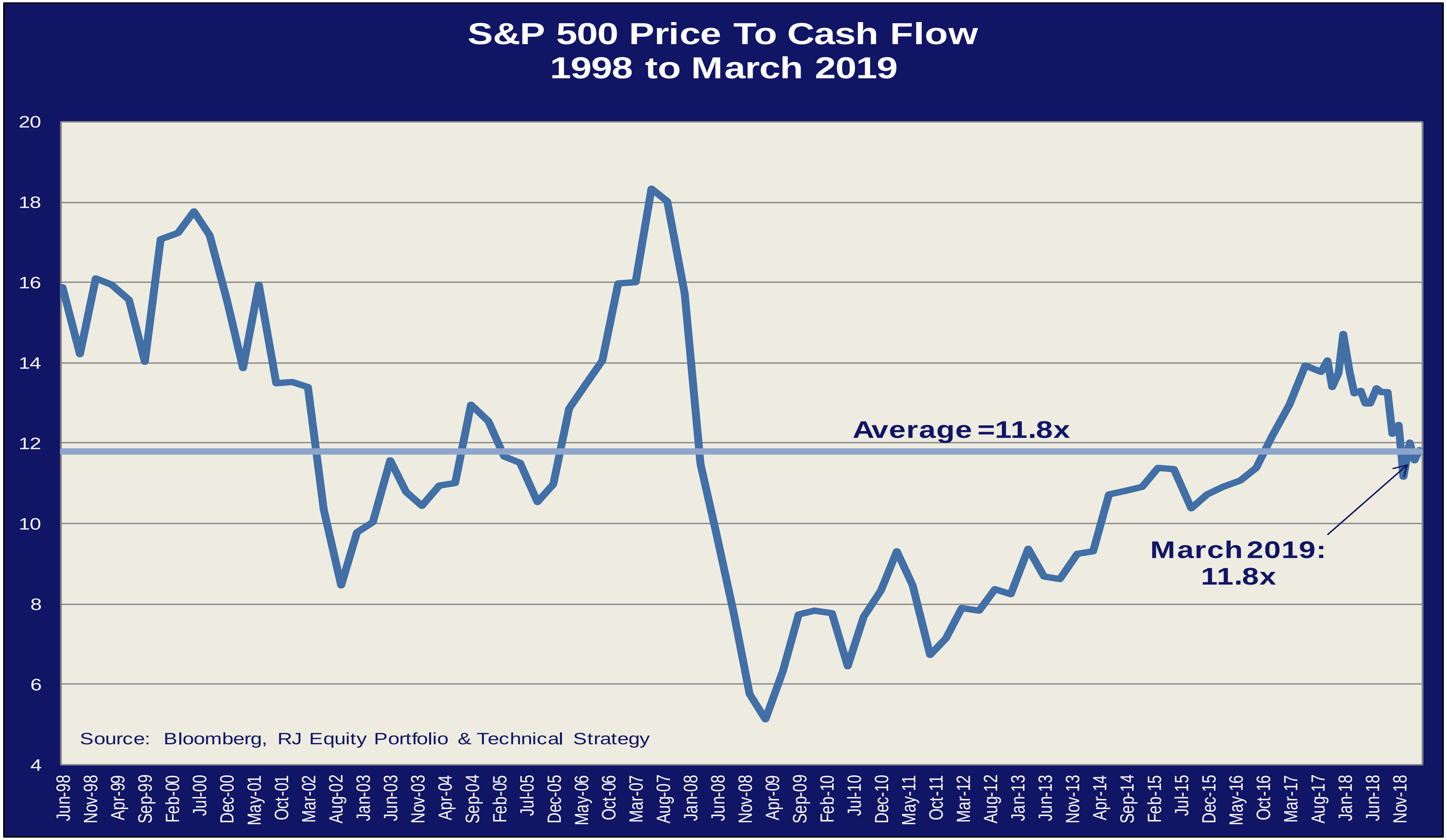
S&P 500: Inflation-Adjusted P/E



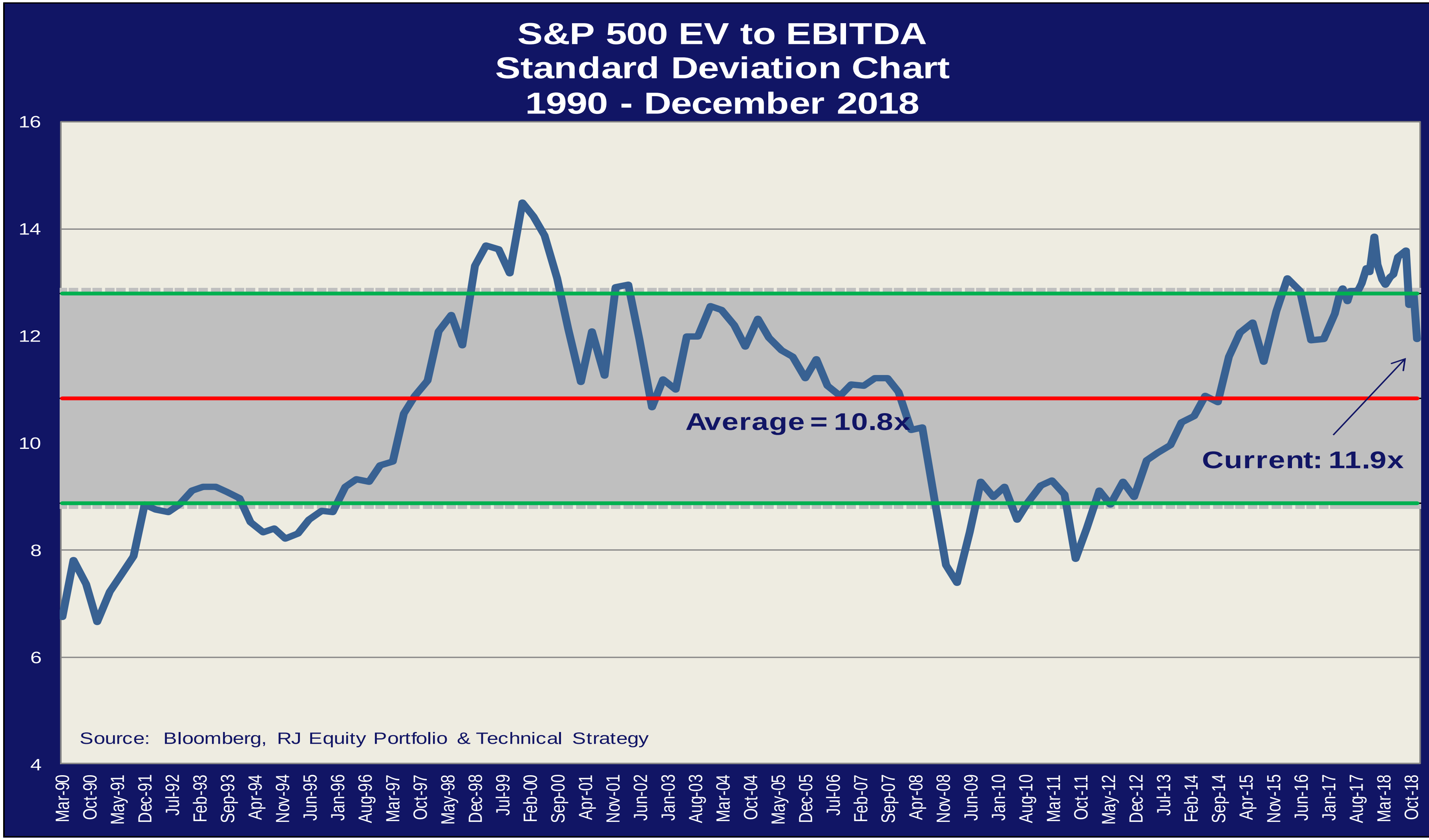
S&P 500: Price to Sales



S&P 500: Price to Cash Flow



S&P 500: EV to EBITDA



Sector Recommendations

Link to the full March *2019 Sector Analysis* report

RECOMMENDATIONS

Sector	S&P 500 Weighting	Recommend
Information Technology	21.2%	Overweight
Health Care	14.6%	Overweight
Communications Services	10.3%	Overweight
Consumer Discretionary	10.1%	Overweight
Industrials	9.3%	Overweight
Financials	12.7%	Equal Weight
Energy	5.4%	Equal Weight
Real Estate	3.1%	Equal Weight
Consumer Staples	7.3%	Underweight
Utilities	3.4%	Underweight
Materials	2.6%	Underweight

S&P 500 Sector	Weighting Current	Weighting Recommend			Sector Thoughts: Fundamental Momentum (F), Valuation (V), Technical (T1- short term, T2- longer term)
Information Technology	21.2%	Overweight	F	⇨	Aggregate earnings estimates remain uninspiring, but underlying growth for the average tech stock looks more supportive
			V	↘	Some of the best multiple expansion YTD, on expected 2H improvement and positive US/China trade developments
			T1	↗	Relative to other sectors, technology scores as one of the best technically
			T2	↗	Relative strength for both the equal weight and cap-weight indexes broke to new highs- positive for intermediate term strength
Health Care	14.6%	Overweight	F	↗	Expected to have the best earnings growth of all sectors in Q1 at 5.0%
			V	↗	Sector has experienced some of the least multiple expansion this year
			T1	↘	Relative strength continues to trend lower
			T2	↗	Overall technical set up is favorable- the 200 DMA is trending up, 50 DMA recently crossed 200 DMA, and relative strength still positive
Comm. Svcs.	10.3%	Overweight	F	⇨	Earnings estimates have held up relatively well this year, albeit reflecting sluggish growth. However, expected 2-year sales growth is strong
			V	↗	Continue to view valuaton as inexpensive, as the sector's relative P/E remains below its 15 year average
			T1	↗	Technical trends improved in recent weeks
			T2	↗	Relative strength is nearing a breakout above the early January peak, while the 50 DMA is close to a positive cross above the 200 DMA
Consumer Discretionary	10.1%	Overweight	F	↗	We continue to view the consumer as strong, and full year 2019 earnings are expected to grow 8.1% (third highest of all sectors)
			V	↗	Valuation of the average stock remains inexpensive, in our view. Relative P/E and P/Sales remain just below their 15 year averages
			T1	⇨	Recent relative performance has shifted in favor of the cap-weighted index
			T2	⇨	At this point, equal weight realtive strength remains in an uptrend and price is above the 200 DMA
Industrials	9.3%	Overweight	F	↗	2019 earnings estimates have been the most stable of all sectors this year, and 2019 expected earnings growth is highest of all sectors
			V	↗	Continue to view as attractive- relative EV/EBITDA remains over one standard deviation below its 15 year average
			T1	⇨	Fears regarding slowing global growth weighed on the cyclical sector
			T2	⇨	For now, we do not see enough technical deterioration to alter our positive stance toward the sector
Financials	12.7%	Equal Weight	F	⇨	Earnings estimates have held up so far and reflect solid growth. Nonetheless, the yield curve is a headwind for sector profitability
			V	↗	The sector has experienced the least amount of multiple expansion of all sectors YTD, and relative P/Book and P/E are at low levels
			T1	↘	Relative strength and stock prices fell victim to the dovish Fed tone and resulting flattening yield spreads
			T2	↘	The tight correlation of relative strength and the yield curve makes relative strength gains difficult
Energy	5.4%	Equal Weight	F	↘	Earnings estimates have plunged following the late 2018 oil price collapse. The oil price rebound has helped trends stabilize though
			V	⇨	The rebound in oil prices has contributed to Energy seeing the most P/E expansion YTD, but relative valuation is still above average historically
			T1	↘	Energy scores unfavorably technically. Relative strength is languishing and current price is below a downwardly sloping 200 DMA
			T2	↘	Relative strength still suggest wait-and-see mode on the Energy sector
Real Estate	3.1%	Equal Weight	F	⇨	Slow growth in this sector. Fundamental trends are decent with approximately 4% FFO growth expected by the RJ Real Estate team
			V	↗	Lower interest rates have boosted multiples, but relative P/FFO and EV/EBITDA remain below their 15 year averages
			T1	↗	One of the most attractive sectors technically. Key moving averages (50 and 200 DMA) are both upward sloping
			T2	↗	One year relative strength is positive and continues to add to gains. Price broke out of a 4-year base in mid-February as it moved to all time highs
Consumer Staples	7.3%	Underweight	F	↘	Numerous companies and subsectors are facing fundamental challenges ranging from sluggish end market volume trends to rising input costs
			V	↗	Continue to view as inexpensive, as relative valuation multiples remain below their 15 year averages
			T1	⇨	Relative strength trends is lagging, despite some consolidation in the overall market
			T2	↘	Overall trend is less desirable with equal weight 50 DMA still below the 200 DMA (which is downward sloping)
Utilities	3.4%	Underweight	F	⇨	Utilities earnings have held up relatively well, but expected to contract by -3.3% in Q1 and grow by 4.5% for the full year
			V	↘	Lower interest rates have further boosted valuation, which we continue to view as expensive
			T1	⇨	Technical trends are attractive, however the sector is overbought in the short term
			T2	↗	Price is at an all-time high, key moving averages are upward sloping, and relative strength is positive
Materials	2.6%	Underweight	F	↘	Earnings estimates have plunged this year, and earnings are expected to contract in both Q1 and full year 2019
			V	↗	Valuation is inexpensive in our view- relative P/E and EV/EBITDA remain one standard deviation below their 15 year averages
			T1	↘	Relative strength is negative and trending lower
			T2	⇨	Overall technical trend is unattractive- the 200 DMA is downward sloping, the 50 DMA is below the 200 DMA, and price is below the 200 DMA

Source: FactSet, RJ Equity Portfolio & Technical Strategy

S&P Industry Group Returns

S&P 500 Industry Group	Class	Beta (3Yr)	1 Month	3 Month	YTD	12 Month
Technology Hardware & Equipment	Cycl.	1.24	6.5%	21.4%	20.1%	12.0%
Retailing	Cycl.	1.19	6.0%	17.5%	16.1%	17.4%
Household & Personal Products	Def.	0.51	5.3%	14.6%	13.8%	19.7%
Food Beverage & Tobacco	Def.	0.55	4.6%	12.2%	12.1%	-0.8%
Real Estate	Cycl.	0.54	4.5%	16.7%	16.6%	16.8%
Semiconductors & Semiconductor Equ	Cycl.	1.45	4.2%	19.7%	19.1%	0.3%
Software & Services	Cycl.	1.24	4.1%	20.4%	19.1%	19.8%
Utilities	Def.	0.26	2.7%	10.1%	9.9%	15.2%
Media & Entertainment	Cycl.	0.96	2.5%	15.7%	15.5%	10.3%
Consumer Services	Cycl.	0.77	2.3%	14.3%	12.8%	11.7%
Telecommunications Services	Def.	0.57	2.1%	7.5%	6.5%	2.9%
Energy	Cycl.	1.01	2.0%	15.9%	15.4%	-1.8%
Commercial & Professional Services	Cycl.	0.84	1.9%	18.2%	17.2%	13.3%
S&P 500	-	***1.00***	***1.8%***	***14.0%***	***13.1%***	***7.3%***
Materials	Cycl.	1.02	0.9%	10.6%	9.7%	-2.5%
Pharmaceuticals Biotechnology & Life	Def.	0.92	0.4%	7.5%	5.9%	11.3%
Health Care Equipment & Services	Def.	0.95	0.3%	7.7%	6.4%	15.4%
Transportation	Cycl.	1.09	-0.1%	15.4%	14.5%	7.3%
Insurance	Cycl.	0.90	-0.6%	13.2%	11.9%	0.1%
Food & Staples Retailing	Def.	0.71	-0.7%	6.5%	5.7%	14.1%
Consumer Durables & Apparel	Cycl.	1.00	-1.3%	16.7%	15.8%	2.0%
Diversified Financials	Cycl.	1.14	-1.4%	6.7%	5.6%	-6.2%
Capital Goods	Cycl.	1.04	-1.9%	18.6%	17.3%	-1.6%
Automobiles & Components	Cycl.	1.08	-3.9%	12.4%	13.6%	-10.9%
Banks	Cycl.	1.11	-4.8%	9.2%	8.3%	-9.6%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Definitions

S&P 500 – The S&P 500 is an unmanaged index of 500 widely held stocks. It is not possible to invest directly in an index.

Weighting – Sector percentage (%) of S&P 500

Total Return – Price return including dividends received

Beta – Measure of volatility in comparison to the market as a whole

Dividend Yield – Dividends received divided by price; reflects the percentage return off of dividends received.

Dividend Payout Ratio – Dividends distributed divided by net income; reflects the percentage of net income distributed in dividends.

Long-Term EPS Growth – Estimated earnings per share growth over the next three to five years, as received from consensus analyst forecasts.

Free Cash Flow Yield – Free cash flow divided by price. The free cash flow per share a company is expected to earn against its market price per share.

Price to Sales – Market cap divided by sales of companies in the sector or S&P 500

Price Earnings Ratio (P/E) – The price of the stock divided by its earnings per share.

- **LTM P/E** – P/E calculated with the last 12 months earnings reported.
- **NTM P/E** – P/E calculated with the consensus earnings estimates over the next 12 months.

Relative P/E – The sector's multiple divided by the S&P 500 multiple; represents a premium or discount relative to the S&P 500's valuation. We use last 12-month P/E in this report.

Relative Ratio – The sector's relative P/E multiple vs. its respective 10-year average relative P/E.

Relative Strength – Calculates price performance relative to the S&P 500 over time.

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** Columns may not add to 100% due to rounding.*

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