RAYMOND JAMES

PORTFOLIO STRATEGY | PUBLISHED BY RAYMOND JAMES & ASSOCIATES

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DECEMBER 23, 2019 | 2:55 PM EST

2020 Equity Market Outlook

Executive Summary: In 2020, we expect the trade war to simmer, the slump in the US and global manufacturing to improve, the global macro to benefit from central bank policy actions over the past year or so, while corporate profits will re-accelerate to the upside. All of the above paint a positive picture for the US and global equities. Despite our positive bias, we warn the path to equity gains will not be devoid of typical periods of volatility, with global manufacturing only appearing to stabilize as opposed to recover at this writing. Also, set-backs with trade remain a possibility with adherence to final terms of the phase I trade deal necessary. After the nearly 30% 2019 gain for US stocks, valuation, with a PE over 19x trailing 12-month earnings, leaves little room for valuation expansion. For this reason, the expected resumption in earnings per share growth is paramount to our theme.

2020 Price Target

	EPS	Multiple	Price Target	Potential Return*	Probability
Bull	$ 177	20.5x	3,629	13.2%	20%
Base	$ 174	19.3x	3,350	4.5%	70%
Bear	$ 165	16.0x	2,640	-17.6%	10%

Source: RJ Equity Portfolio & Technical Strategy

*Upside calculated based on closing price of 3205.37 on 12/19/2019

We produce a year-end target of 3350 for the S&P 500 by combing a forecast of 5.5% earnings growth and a slightly expanded PE of 19.25x. The modest 6.4% total return (dividend of 1.9%) highlights the importance of buying the pullbacks as they develop throughout the year to maximize gain.

We apply 70% odds to this 3350 base case S&P 500 target, which hinges on our view of a generally positive trade tone, solid jobs market and consumer, supportive Fed (on hold), and positive yield curve. In the event that trade negotiations significantly improve, economic conditions expand above expectations, earnings surprise to the upside, sentiment improves, inflation and interest rates remain low, and the Fed remains on hold, we use a **bull case scenario of 3628** on the S&P 500. This uses $177 in earnings (just below consensus estimate) and a P/E of 20.5x. We apply 20% odds of this scenario playing out at this point. On the other hand, if President Trump "digs in hard" on trade, sentiment deteriorates, economic conditions disappoint, but a dovish Fed becomes more accommodative, we use a **bear case scenario of 2640**. In this scenario, we apply 30% tariffs on all trade between the US and China (a long way off at this point) and see S&P 500 earnings of $165 (flat growth). We also use a 16x P/E, which is near the low end of the past 5-year range (seen during stressful times) and use 10% odds of this scenario currently.

From an execution standpoint, we **currently favor Large US Equities, but this could shift rapidly.** We are closely **monitoring US small caps** due to our expectations of a recovering manufacturing as well as resumed earnings growth. In recent years, manufacturing cycles and US small-cap relative performance reveal a tight correlation. For now, we are waiting for additional evidence of manufacturing improvement, and a breakout of relative price momentum for the small caps before increasing allocations.

Globally, e**merging and developed ex-US markets are possibly more favorably positioned than in recent years**. Easing by many central banks around the world, an expected improvement in global trade and manufacturing, due to the simmering trade war, and a slightly weaker US dollar are all catalysts for relative outperformance versus the US. But like the small caps, we take a pragmatic approach and wait for additional evidence to develop in all these areas before increasing global allocations.

At the US Sector level, **we favor cyclical over defensive** given the favorable back-drop for US equities. The recovery, should it develop, for manufacturing could influence a slight uptick in longer interest rates, which will hold back the relative performance of many of the interest-sensitive defensive sectors.

Table of Contents

2020 Outlook

Valuation	Earnings	S&P 500 Price Target- $3350
We see P/E for the S&P 500 as stable in 2020. Most of the market gains in 2019 were driven by P/E expansion, rather than earnings growth. We believe a LTM P/E multiple of 19.25x is appropriate given our expectation for growth to reaccelerate in 2020.	Estimate earnings growth of 5.5% ($174 EPS in 2020) vs. 9.7% consensus expectations ($177.65) Normal earnings revisions since 2000 have been 4.6%. Given our expectation is ~2.0% below consensus, we are expecting less than normal revisions.	Based on December 19th closing price of 3205.37, our price target offers 4.5% potential upside (prior to dividends) for the S&P 500 for 2020. Returns following a >20% return year have on average been higher (7.38% vs. 5.28% returns for any other year).

2020 EPS $174 × **P/E Multiple 19.25x** = **2020 Price Target $3350**

PROS

- US Consumer Remains Strong
- Phase One Trade Deal
- Fed on Hold, but Dovish Tone
- Reaccelerating Earnings in 2020

CONS

- Trade (tariffs; risk of set-back in talks)
- Macro Growth Remains Tepid
- Politics- impeachment; Election

Valuation is Neutral

Positives outweigh the negatives

Bullish on US Equities with 4.5% potential upside (prior to dividends) in 2020

2020 Price Target

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Source: RJ Equity Portfolio & Technical Strategy

*Upside calculated based on closing price of 3205.37 on 12/19/2019

2020 Outlook

US Dollar

We have a **downward bias to the US Dollar** as it likely stabilizes or moves lower in 2020.

After outperforming strongly for the first 3 quarters of 2019, the US Dollar started rolling over on better trade headlines, improving global manufacturing PMI, and a more risk-on trading environment post Labor Day.

Historically, there has been a inverse correlation of 0.85 between the US Dollar and relative performance of Emerging Markets, so a **weaker dollar would be a positive for the relative performance of Emerging Markets.**

Interest Rates

We have an **upward bias to the 10-year yield in 2020**. After moving lower for much of 2019, the 10-year Treasury yield has started to move higher. With the yield curve no longer negative, our expectation of improving manufacturing, bond yields around the globe moving higher, and simmering trade tensions, we believe this provides a nice backdrop for the 10-year to move higher.

Low inflation is likely to limit some of the upside potential for the 10-year yield.

Given the strong correlation to US ISM Manufacturing, a higher 10-year is likely positive to resumption of growth in the US.

US Small-Caps

Currently, **favor US Large Caps**, but this could shift rapidly.

Small-caps could offer an attractive “catch up” trade vs. large caps (but need further confirmation). **Potential upside of double digits in 2020**.

Small-caps earnings growth was volatile in 2019—should begin to reaccelerate (consensus estimates of over 30% growth).

Small-caps relative performance has been 86% correlated to improvements in US manufacturing over the past 3 years

Cyclicals to Outperform

Since Labor Day, there has been a rotation from the more defensive sectors into the cyclicals. We would expect **cyclical sectors to continue to outperform in 2020** as global manufacturing improves and trade tensions simmer.

Overall, we see the cyclical/growth sectors of (Financials, Energy, Materials, Industrials, Consumer Discretionary and Technology) contributing nearly 70% of EPS growth to the S&P 500 in 2020 despite only accounting for just over 60% of the S&P 500 market cap.

Global Asset Allocation

While we continue to favor US Large Caps, we believe **Emerging Markets** and **European equities** may be well positioned in 2020.

EM tends to have an inverse correlation to the US Dollar. **If the USD falls against other currencies, EM may be well positioned to outperform on a relative basis.**

European equities have underperformed as global PMIs have moved lower. However, given the high correlation, as global PMIs improve (which we expect), European equities may outperform on a relative basis.

Growth vs. Value

We take a balance approach to Growth and Value in 2020.

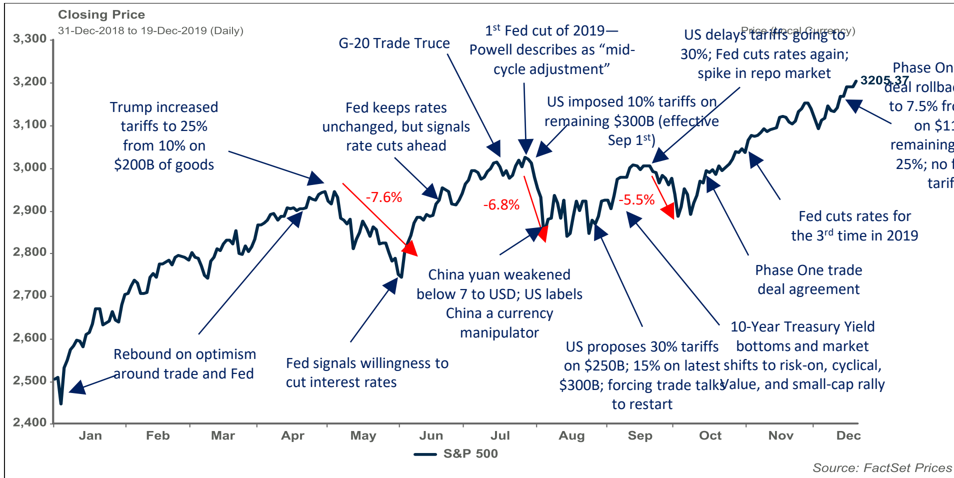
After leading the market higher for much of 2018 and early 2019, Growth has ceded its leadership position to Value in the 2H19.

However, going forward, given our bias for cyclicals and growth sectors to outperform, we take a balanced approach to growth and value.

Given our expectations for the 10-year yields to rise, we see this as a positive for Financials (largest weighting in Value). However, improving global growth is still a positive for sectors such as Technology (which is a large contributor to the Growth sector).

2019 Review- 27.9% YTD Return*

Trade Tensions and Tariffs- "Trump Put"



Talks tensions intensified as the market moved to new highs in May and late July/early August; however, an accommodative Fed and willingness by President Trump to soften initial "hardline" stance acted as support during periods of weakness. As the Fed moved to a posture to hold rates (no longer cutting), the Phase One trade deal moved the market to new highs.

Tariffs Impact to Earnings			
Amount	Current Tariff Rate	Total Impact to Earnings at Current Rate	Total Impact if All Tariffs Went to 30%
$50B	25%	0.5%	0.6%
$200B	25%	2.0%	2.5%
$112B	7.50%	0.50%	1.5%
$160B	0%	0%	2.0%

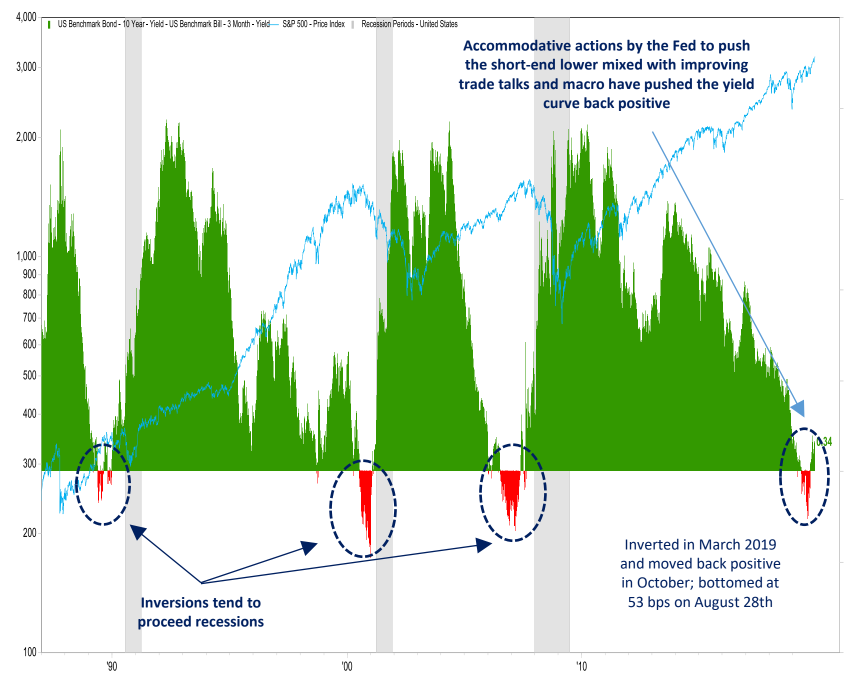
Source: Raymond James Portfolio & Technical Strategy

Not expected; would be worse case scenario

Themes of 2019:

- ❑ Trade Tensions and Tariffs- "Trump Put"
- ❑ Accommodative Fed- "Fed Put"
- ❑ 10-Year Yield and Yield Curve Inversion and Reversion
- ❑ Slowdown in Global Manufacturing; US Consumer Remains Strong
- ❑ Sector Rotation, but Technology is a Standout
- ❑ Returns Driven by P/E Expansion

Accommodative Fed- "Fed Put"



*Return based on 12/19/2019 closing price of 3205.37

2019 Review- Technology Sector is a Standout; Post Labor Day Cyclical Recovery to Continue in 2020

Sectors	YTD	2018
Information Technology	44.0%	-1.6%
Communication Svcs.	28.5%	-16.4%
Financials	28.2%	-14.7%
Industrials	26.6%	-15.0%
S&P 500	26.4%	-6.2%
Consumer Discretionary	23.3%	-0.5%
Consumer Staples	22.9%	-11.2%
Real Estate	20.5%	-5.6%
Materials	19.2%	-16.4%
Utilities	19.0%	0.5%
Health Care	16.2%	4.7%
Energy	4.1%	-20.5%

Pro Cyclical Sector Rotation Post Labor Day

Sectors	2H18 Through Labor Day 2019
Real Estate	20.1%
Utilities	20.0%
Consumer Staples	17.4%
Information Technology	14.3%
Communication Svcs.	12.5%
Health Care	8.4%
Consumer Discretionary	8.1%
S&P 500	7.7%
Industrials	5.7%
Financials	1.0%
Materials	-2.6%
Energy	-24.3%

Defensive/ Interest Sensitive Sectors Outperformance

Cyclicals Underperformance

Technology outperformed in both the more defensive pre-Labor day period and post-Labor Day cyclical rotation

Health Care, despite defensive characteristics, has seen a divergence in performance from other defensive sectors in 2019

Sectors	Labor Day Through Today
Financials	14.4%
Information Technology	14.0%
Health Care	12.9%
S&P 500	9.5%
Communication Svcs.	9.3%
Industrials	7.5%
Materials	7.4%
Energy	6.3%
Consumer Discretionary	3.8%
Consumer Staples	3.8%
Utilities	3.1%
Real Estate	-2.5%

Defensive/ Interest Sensitive Sectors Underperformance

Sector Performance By Quarter

Technology outperformed the S&P 500 in every quarter of 2019

Health Care was one of the worst performing sectors in the first 3 quarters of 2019 before having the best performance in 4Q—viable sector for defensive positioning as "Medicare for All" losing steam

Defensive sectors were the top performing sectors in 3Q

Sectors	1Q Performance
Information Technology	19.4%
Real Estate	16.6%
Industrials	16.6%
Energy	15.4%
Consumer Discretionary	15.3%
Communication Svcs.	13.6%
S&P 500	13.1%
Consumer Staples	11.2%
Utilities	9.9%
Materials	9.7%
Financials	7.9%
Health Care	6.1%

Sectors	2Q Performance
Financials	7.4%
Materials	5.7%
Information Technology	5.6%
Consumer Discretionary	4.9%
Communication Svcs.	4.2%
S&P 500	3.8%
Industrials	3.1%
Consumer Staples	3.0%
Utilities	2.7%
Real Estate	1.6%
Health Care	0.9%
Energy	-3.7%

Sectors	3Q Performance
Utilities	8.4%
Real Estate	6.9%
Consumer Staples	5.4%
Information Technology	3.0%
Communication Svcs.	1.8%
Financials	1.4%
S&P 500	1.2%
Industrials	0.5%
Consumer Discretionary	0.2%
Materials	-0.7%
Health Care	-2.7%
Energy	-7.2%

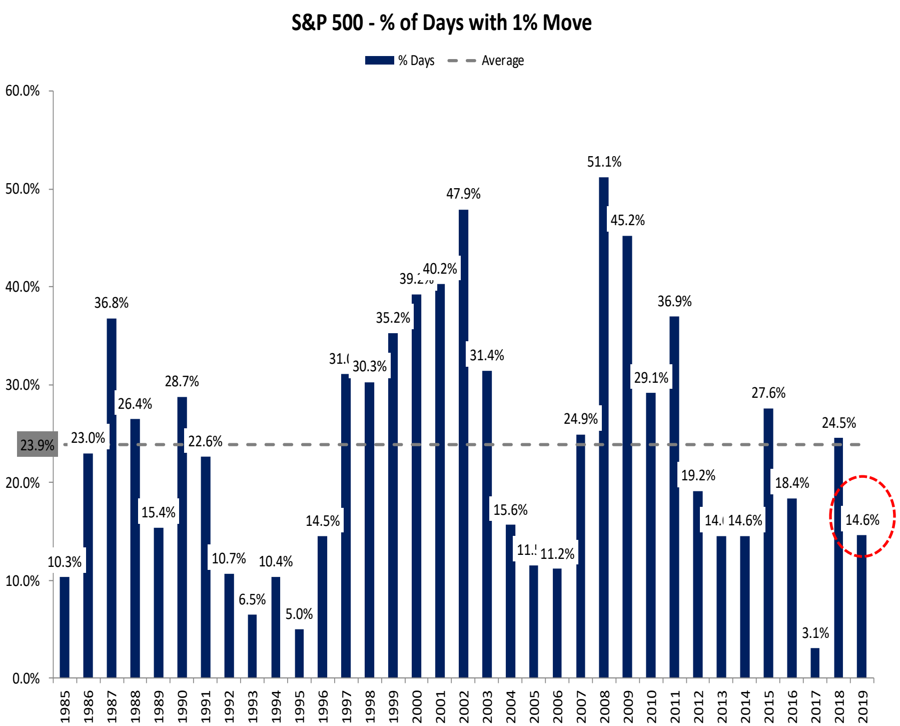
Sectors	4Q Performance*
Health Care	13.2%
Information Technology	12.4%
Financials	9.5%
Communication Svcs.	8.9%
S&P 500	7.7%
Industrials	4.4%
Materials	4.3%
Consumer Discretionary	3.1%
Energy	2.6%
Consumer Staples	2.4%
Utilities	-0.8%
Real Estate	-3.0%

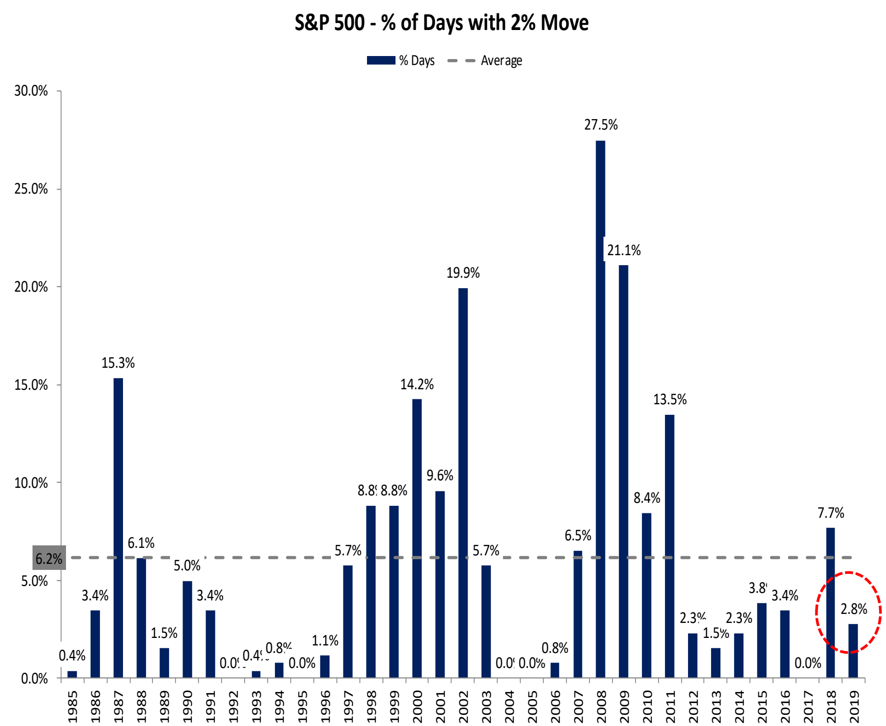
*Data through 12/19/19 closing

Source: FactSet and RJ Equity Portfolio & Technical Strategy

2019 Review- Volatility

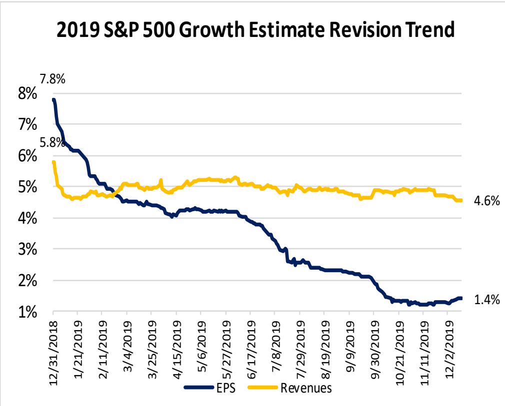
Headlines were much more volatile in 2019 than stocks reactions. Despite a presidential impeachment, slowing macro environment, central banks forced to turn more accommodative, and rising trade tensions and tariffs, as seen below, 2019 stock reactions were less volatile than "normal". Only 14.6% of days in 2019 saw market moves of greater than 1%, which is below the long-term average (since 1985) of 23.9% of days.





Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

2019 Review- Slowdown in Global Manufacturing; US Consumer Remains Strong



S&P 500 Sales Growth Held Up Better Than EPS Growth

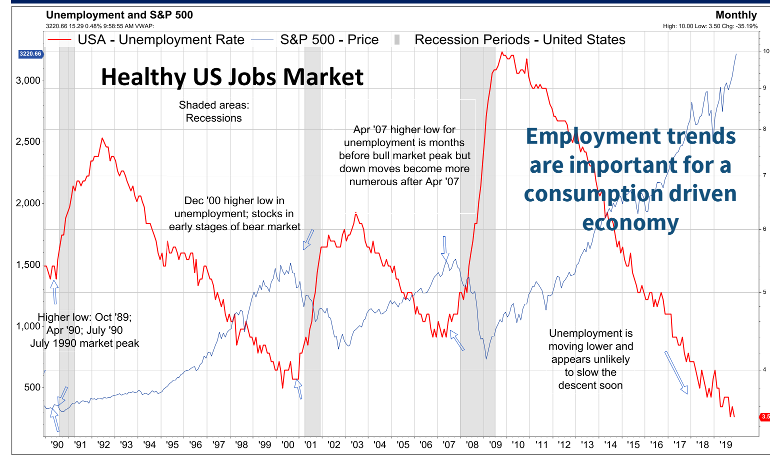
- ❑ US Consumer Remains Healthy
- ❑ Healthy US Jobs Market
- ❑ US Manufacturing PMI still expansionary

Impact to EPS Growth:

Rising Labor Costs

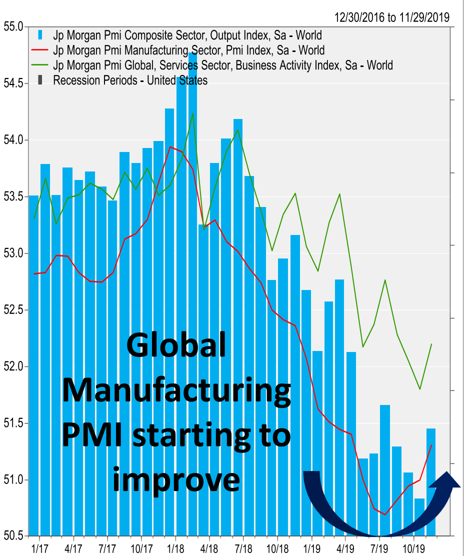
Tariffs

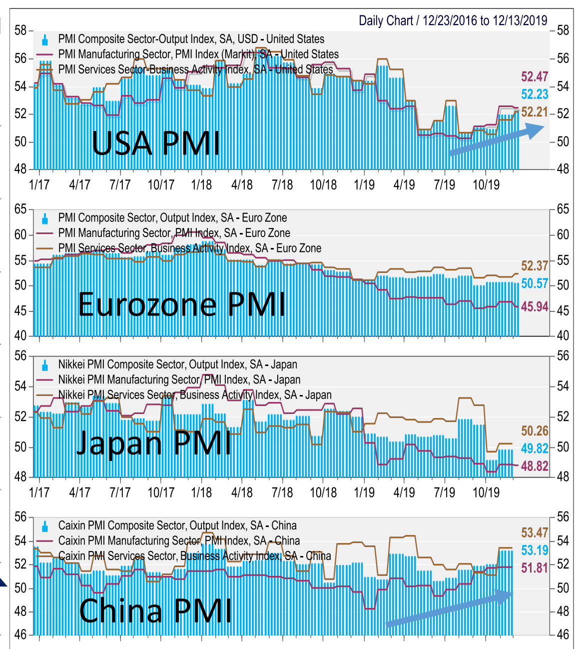
Consumer Strength Remains Workhorse for US Economy

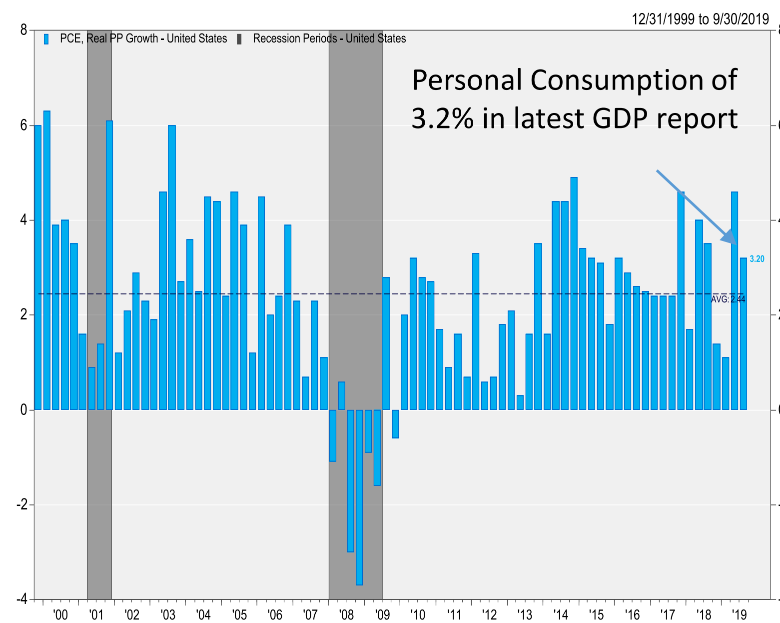


Global Manufacturing Weakness Starting to Improve

Global Services and Manufacturing PMI support a global economy that has sustained its momentum







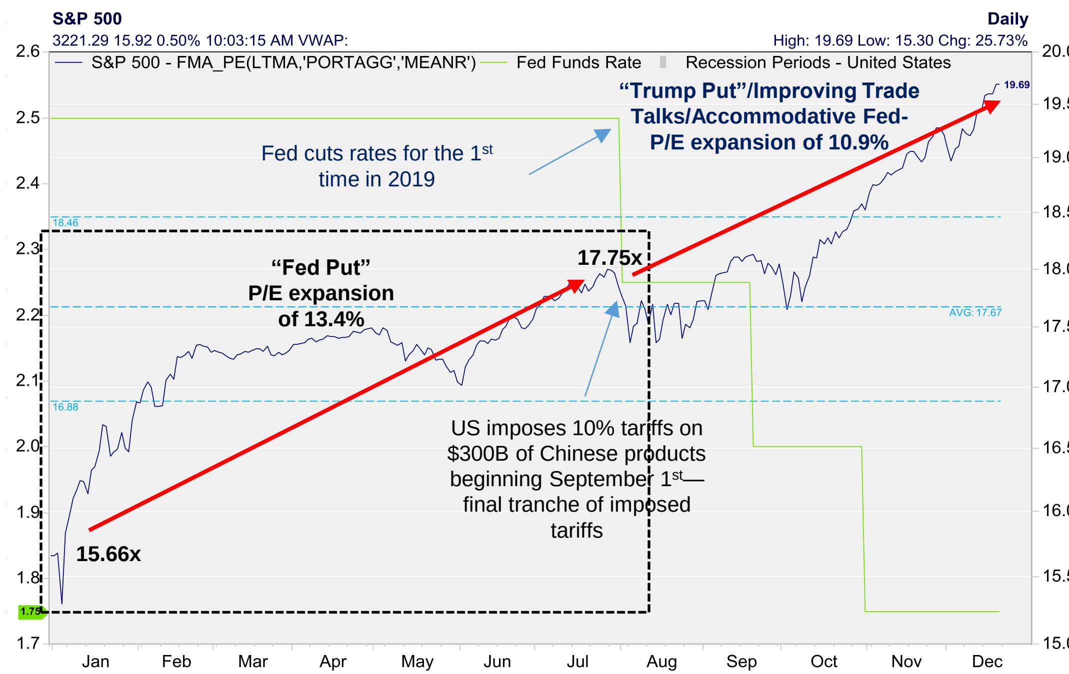
Source: FactSet and RJ Equity Portfolio & Technical Strategy

2019 Review

	EPS Growth	P/E Expansion	Price Return
2019	1.2%	25.7%	27.9%
2018	23.0%	-23.7%	-6.2%
2017	10.1%	8.5%	19.4%
2016	0.9%	8.6%	9.5%
2015	-0.6%	-0.1%	-0.7%
2014	7.1%	4.0%	11.4%
2013	5.1%	23.3%	29.6%
2012	5.4%	7.5%	13.4%
2011	14.8%	-12.9%	0.0%
2010	39.7%	-19.3%	12.8%
2009	-19.8%	53.8%	23.5%
2008	-13.8%	-28.6%	-38.5%
2007	2.1%	1.4%	3.5%
2006	14.0%	-0.4%	13.6%
2005	13.3%	-9.1%	3.0%
2004	23.9%	-12.0%	9.0%
2003	11.9%	12.9%	26.4%
2002	1.6%	-24.6%	-23.4%
2001	-12.1%	-1.1%	-13.0%

Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

2019 S&P 500 market returns were driven by P/E expansion rather than EPS growth. As seen to the left, the 27.3% price return for the S&P 500 saw only 1.3% earnings growth while P/E expansion was 25.1%. As seen below, the P/E expansion can be broken down between the Fed Put and the Trump Put/Improving Trade Talks. From the beginning of the year to the first rate cut of 2019, the market P/E expanded 13.4% from 15.66x at year-end to 17.75x. However, in the 2H19, the market multiple continued to expand as trade talks (albeit volatile) were much more constructive after the final tranche of tariffs in early August and the Fed remained accommodative. This led to further P/E expansion of 183 bps, or 10.3%. As you will see on the next page, we believe multiple expansion is likely to remain capped in 2020, and earnings will need to reaccelerate to drive S&P 500 equity returns.



2020 Outlook

2020 S&P 500 Returns to be Driven by Earnings Reacceleration, not Multiple Expansion: With strong equity returns in 2019 (above 20%) and the market sitting at all-time highs, the concern is that the market will struggle to advance in 2020. However, as seen below, since 1929, the market has experienced above average returns in years following >20% returns in prior year. Moreover, consistent with our thinking for 2020, the sharp P/E expansion seen in 2019 will not repeat itself. Instead, S&P 500 market returns will be driven by a reacceleration in earnings growth.

S&P 500	Return	Return Following A >20% Return Year
12/29/1933	44.08%	-4.71%
12/31/1935	41.37%	27.92%
12/31/1936	27.92%	-38.59%
12/30/1938	24.55%	-5.18%
12/31/1945	30.72%	-11.87%
12/29/1950	21.68%	16.35%
12/31/1954	45.02%	26.40%
12/30/1955	26.40%	2.62%
12/31/1958	38.06%	8.48%
12/29/1961	23.13%	-11.81%
12/29/1967	20.09%	7.66%
12/31/1975	31.55%	19.15%
12/31/1980	25.77%	-9.73%
12/31/1985	26.33%	14.62%
12/29/1989	27.25%	-6.56%
12/31/1991	26.31%	4.46%
12/29/1995	34.11%	20.26%
12/31/1996	20.26%	31.01%
12/31/1997	31.01%	26.67%
12/31/1998	26.67%	19.53%
12/31/2003	26.38%	8.99%
12/31/2009	23.45%	12.78%
12/31/2013	29.60%	11.39%
Average Return Any Year		5.28%
Average Return Following >20% Year		7.38%
% Win Rate		70.00%

Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

2020 Outlook of 4.5% return is slightly lower, but consistent with the mid-to-high single digit price returns (before dividends) experienced in years following >20% return years.

Above average returns in years following a 20% return in the prior year; positive returns 70% of the time (since 1929).

Date	EPS chg	P/E chg
12/31/2014	5.5%	5.5%
12/31/2010	38.5%	-18.6%
12/31/2004	21.0%	-9.9%
12/31/1999	14.9%	4.0%
12/31/1998	0.0%	26.6%
12/31/1997	11.9%	17.1%
12/31/1996	12.7%	6.7%
12/31/1992	14.3%	-8.5%
12/31/1990	-10.0%	3.9%
12/31/1986	-5.5%	21.2%
12/31/1981	1.4%	-10.9%
12/31/1976	26.5%	-5.8%
12/31/1968	4.9%	2.7%
12/31/1962	8.9%	-19.1%
12/31/1959	17.6%	-7.7%
12/31/1956	-3.9%	6.8%
Averages	**9.9%**	**0.9%**
Median	**10.4%**	**3.3%**
Average (excluding '96-'98 dotcom bubble)	**10.3%**	**-2.8%**

Baked into our expectations: EPS growth to poised to reaccelerate to drive returns for the equity markets while upside in P/E expansion to be capped in 2020.

2020 Expectations:

Price Returns: 4.5% (prior to dividends)

EPS: $174

EPS Growth: 5.5%

P/E Multiple: 19.25x

P/E Contraction: -2.2%

2020 Outlook- Earnings

Base Case (70% probability): There is a lot of optimism as we move into 2020. While multiple upside is likely capped in our base case, we are expecting multiples to remain above long-term averages given the low inflation, low interest rate environment. However, we expect the reacceleration of EPS growth in 2020 to drive upside for equities. We expect the trade war to simmer, the consumer and jobs market to remain solid, the Fed to remain supportive (on hold), the yield curve to remain positive, the slump in US and global manufacturing to improve, the global macro to improve from central bank policy actions over the past year, and corporate profits to accelerate to the upside. Our base case EPS is $174 with a P/E multiple of 19.25x, for a year-end price target of 3350.

Bull Case (20% probability): In the event that trade talks significantly improve (roll back of current tariffs), sentiment increases, manufacturing increases globally faster than expected, and inflation remains low leading to further margin expansion, we may see a "melt up" type scenario. In this scenario, market multiple P/E expands further to 20.5x and EPS growth reaccelerates to high-single digit growth, or $177. In this scenario, we see a year-end bull case price target of 3629.

Bear Case (10% probability): Upside in equities is highly predicated on earnings growth resuming. Our base case would be that manufacturing does not recover, as expected, and earnings growth does not re-accelerate. Moreover, President Trump digs in on trade prior to the election and trade tensions could intensify again, which could be another negative headwind if additional tariffs go into effect and limit upside to earnings growth. In the scenario of no operational earnings lift (potentially due to tighter margins as a result of higher wages and other input costs, higher interest rates, and a higher dollar), we could see the multiple contract to 16x. In this scenario (of no earnings growth), our bear case downside is ~2640 (16x P/E on $165 earnings).

2020 Estimates:

Revenue Growth:
3.6% vs. consensus 5.2%

Operating Margins:
16.1% vs. consensus 16.2%

Earnings Per Share (EPS):
$174 vs. consensus $177.65

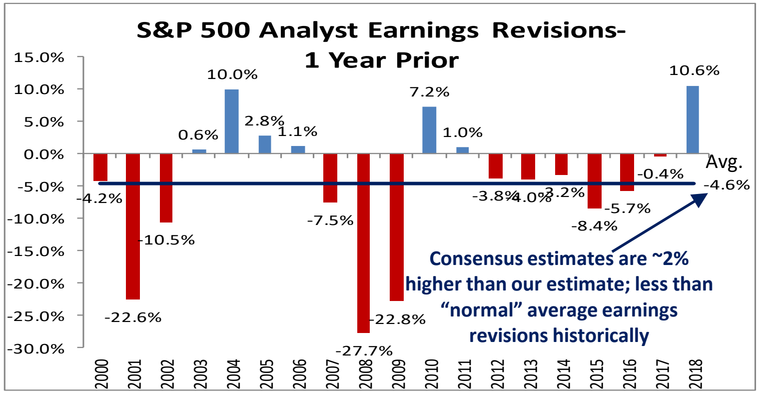
EPS Growth:
5.5% vs. consensus 9.6%

	% Contribution to Earnings Growth
Revenues	2.6%
Margins	1.5%
Interest	0.5%
Buybacks	0.9%
Total EPS Growth	5.5%

Source: RJ Equity Portfolio & Technical Strategy

Revenue growth and resumption in margin expansion are the largest contributors to earnings growth in 2020

2020 Estimate Below Consensus: Given our estimate of $174 is ~2% below consensus estimate of $177.65, we are expecting slightly less than normal earnings revisions in 2020 (which has averaged 4.6% since 2000). On the other hand, 2019 saw a revision to earnings of ~6%.



Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

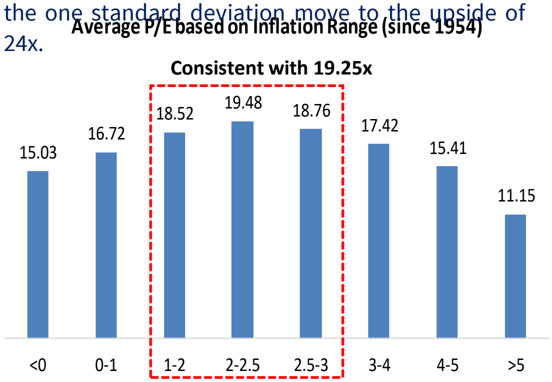
2020 Outlook- Valuation

Supporting our **fair value P/E valuation of 19.25x** is the low inflation and interest rate environment, narrow (but positive) yield curve, easing trade tensions with the potential for improving manufacturing trends, and accommodative Fed tend to be supportive of this valuation.

Low Inflation

LTM P/E multiples tend to expand when inflation is low. Since 1954, P/E multiples for the S&P 500 have been the highest when inflation is in the 1-3% range. As seen below, average P/E multiples (since 1954) have been in the range of ~18.5x-~19.5x at this level of inflation. While we believe P/E multiples could expand towards the upper end of the average range (if inflation gets into the 2-2.5% range), we believe 19.25x is adequate to reflect inflation rates below the Fed's target of 2% currently.

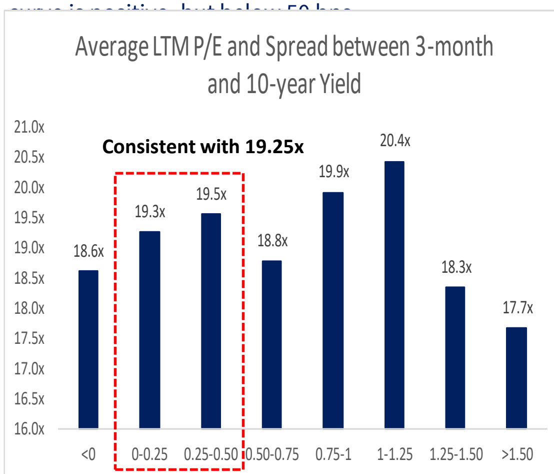
Additionally, Inflation adjusted P/E since 1954 has averaged 20.1x. Using the current multiple of 19.69x and y/y CPI of 2.1%, puts the current inflation-adjusted P/E around 21.79x. While it is above the long-term average, it is still well below the one standard deviation move to the upside of 24x.



Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

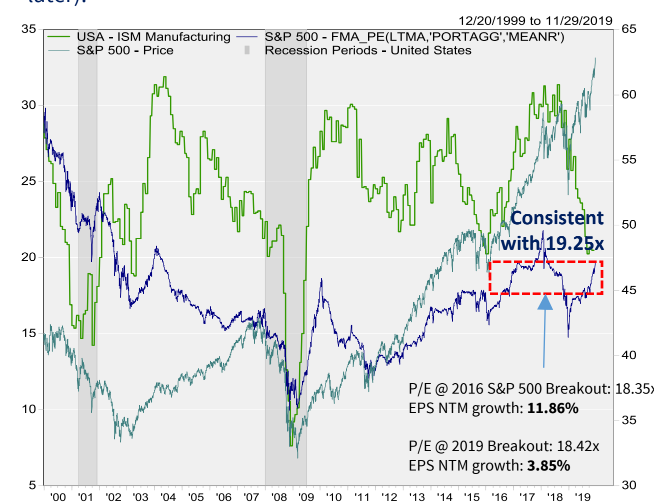
Low Interest Rates

By historical standards, interest rates on the 10-year Treasury are low. However, we believe the yield curve is important to monitor. As seen below, when the yield curve moves from inverted territory back into positive territory, there tends to be multiple expansion. For much of 2019, the yield curve has been inverted. However, looking at the current spread and looking into 2020, it is our expectation that the yield curve will remain in positive territory. Our prior multiple of 18.5x is roughly in-line with the average LTM P/E multiple (since 1982) when the 10-year to 3-month yield curve is inverted. However, our new multiple of 19.25x is just below the average when the yield curve is positive, but below 50 bps.



Improving Manufacturing

When the market broke out in 2016 following manufacturing weakness, the S&P 500 P/E multiple was 18.35x and eventually "found a home" in the 19-19.5x range (excluding the tax reform euphoria when the market multiple peaked at 21.5x). As such, when the market broke out at the end of October, the P/E was 18.4x. Manufacturing surveys have recently been moving higher (not only in the US, but also globally), which should provide a nice tailwind to multiple expansion (we believe in a similar fashion seen after the 2016 manufacturing recession). Moreover, we have recently started to see PMIs around the globe start to show some improvement. This is likely due to more accommodate/ stimulative actions by central banks around the globe (which we will discuss later).



2020 Outlook- Valuation

Accommodative Fed

The Fed has been accommodative for much of the second half of 2019 as the global macro deteriorated and the trade war added uncertainty to global growth. However, looking ahead to 2020, we believe the Fed is likely to remain accommodative (even if rates are on hold for now) while other central banks around the world continue to be stimulative. We believe this is supportive of not only improving global growth, but also multiple expansion. As seen below, since 1980, the Fed has made three consecutive rate cuts eight times with the median expansion over the next year (following the third rate cut) of 0.6x and the average of 1.3x. Applying the median to the LTM P/E multiple (~18.5x) as of October 30, 2019 (date of the third rate cut this cycle), this would get to a 19.1x multiple over the next year (consistent with our 19.25x base case multiple). Moreover, there would likely be room for upside: 1) adding the average P/E expansion would take the multiple towards 19.8x; 2) looking back over this period of time in which the Fed easing cycle acted as a mid-cycle adjustment and prolonged economic expansion (our base case scenario), we identified 3 periods of time (1984, 1985, and 1996) with the median P/E expansion during these periods of 1.8x.

Date of 3rd Rate Cut	LTM P/E	Date Year After Cut	LTM P/E	Change in P/E
11/19/1982	9.7x	11/19/1983	13.5x	3.8
10/11/1984	10.0x	10/11/1985	11.6x	1.6
7/11/1985	11.5x	7/11/1986	16.6x	5.1
2/11/1988	16.2x	2/10/1989	13.1x	-3.1
10/16/1989	14.6x	10/16/1990	13.6x	-0.9
1/31/1996	18.4x	1/30/1997	20.2x	1.8
3/20/2001	21.8x	3/20/2002	22.8x	1.0
12/11/2007	16.3x	12/10/2008	11.6x	-4.7
			Average	**1.3**
			Median	**0.6**

P/E at third rate cut in 2019: 18.5x

+

Median Expansion:0.6x

Average Expansion:1.3x

Average Mid-Cycle Expansion:1.8x

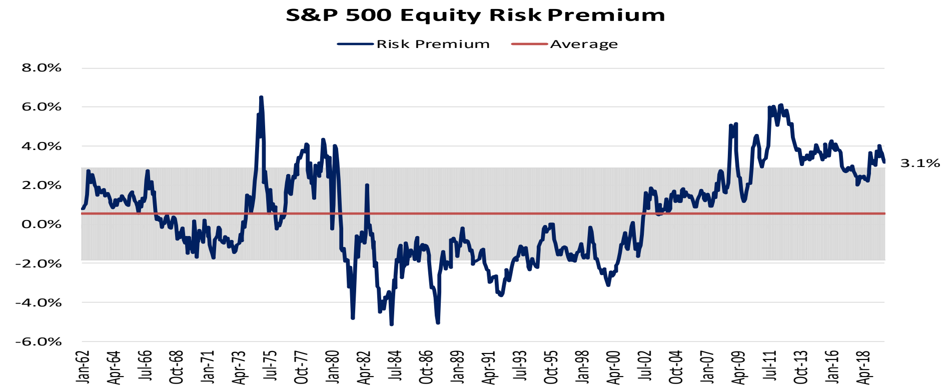
=

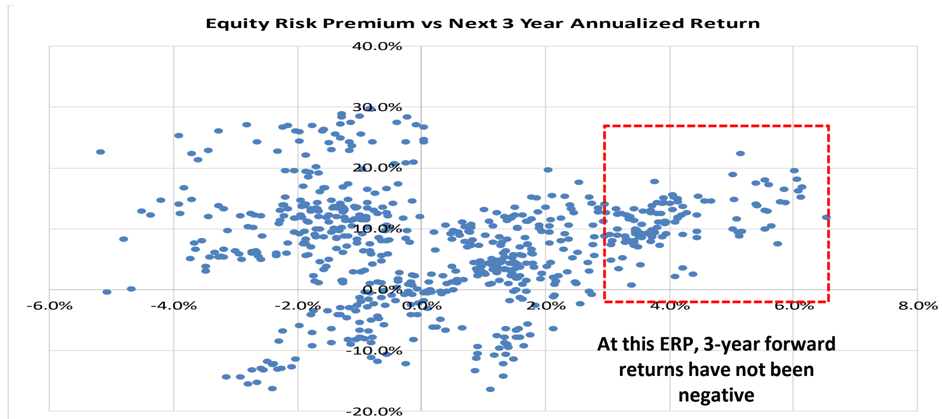
Consistent with 19.25x

P/E Range: 19.1x-20.3x

Equity Risk Premium is Favorable for Equities

As seen below, the equity risk premium (ERP) is favorable for multiple expansion. Given the current ERP of 3.1%, which is above 1 standard deviation of historical standards (since 1962), we believe equities offer attractive opportunities. Given that since 1962, the 3-year forward return has not been negative when the ERP is above 3.0%, we would expect demand for equities to remain strong and likely keeping valuations above long-term average with the possibility of moving higher as investors continues to find equities attractive vs. alternative investment opportunities.





Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

2020 Outlook- US Dollar

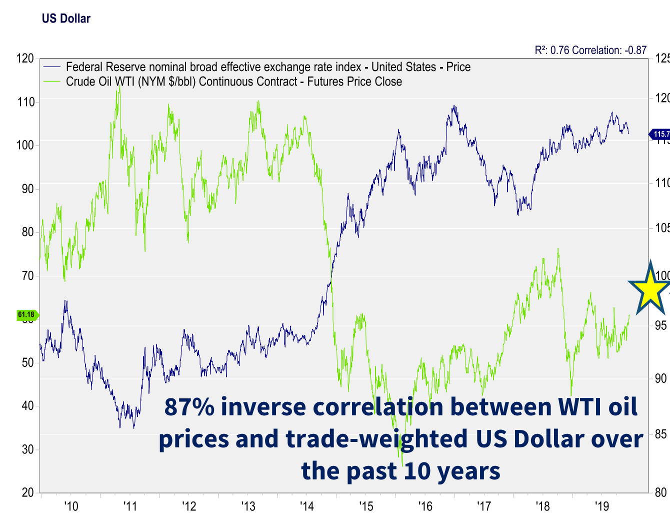
The **US has been the "best house in a bad neighborhood"** for much of the last two years with fiscal policy providing a nice tailwind in 2018 and then a strong consumer and accommodative monetary policy **putting upward pressure on the US Dollar in 2019.**

Overall, **US macro has held up better** than most other areas around the world, which was a **nice tailwind to the US dollar**. With the central banks around the globe lowering rates, a re-acceleration from the stimulative actions could be a nice tailwind to other economies globally that were hit harder by the slowing macro environment. This **may put downward pressure on the US Dollar against these economies that rebound faster (as they were hit harder).**

Moreover, there has been a strong inverse relationship historically between WTI oil prices and the US Dollar. **If growth reaccelerates, this is likely to put upward pressure on oil, which should be a negative to the US Dollar.** Looking at the **RJ Energy Research expectations for oil prices of $65 in 2020 suggests the US Dollar may have a downward bias in 2020.**

A **weakening US Dollar would likely be positive for the Emerging Markets** as there has historically been a strong inverse relationship between the US Dollar and relative performance of Emerging Markets.

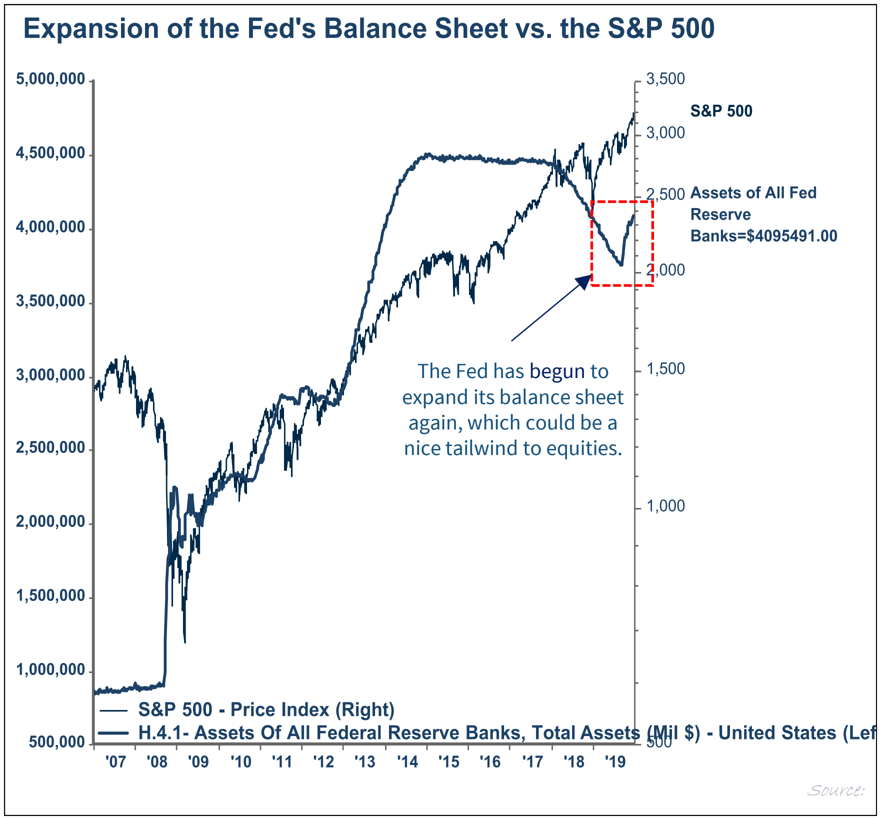
Source: FactSet and RJ Equity Portfolio & Technical Strategy

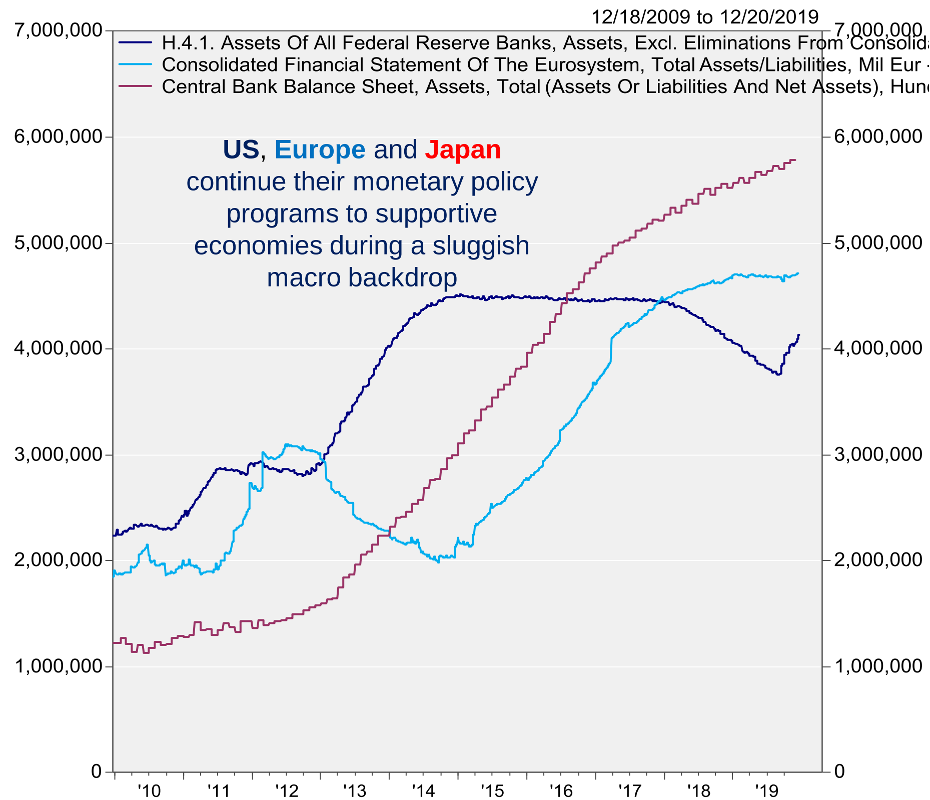


If RJ 2020 WTI price target of $65 is achieved this could put further pressure on the US Dollar

2020 Outlook- Accommodative Monetary Policy a Tailwind

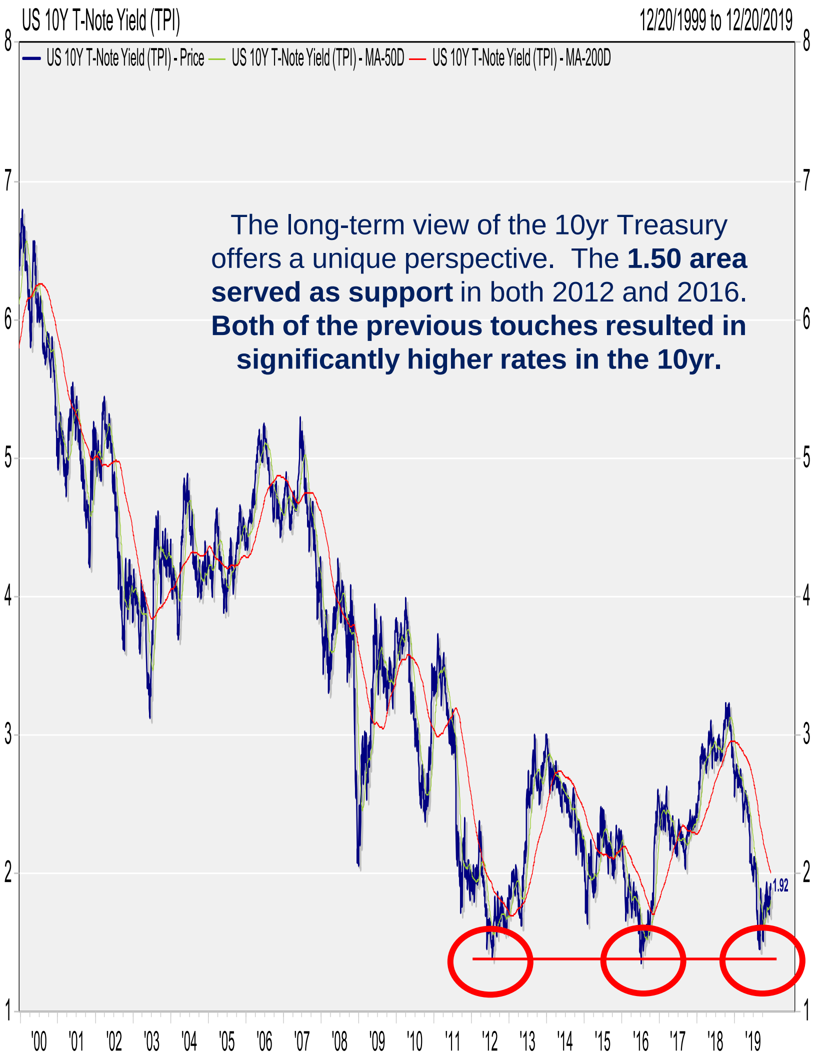
After overshooting in 2018, the Fed became much more accommodative in 2019--not only lowering rates three times, but also beginning to expand its balance sheet again. We see the Fed's expanded balance sheet, along with other central banks continuing to expand their balance sheets, as supportive of continued upside in equities in 2020.



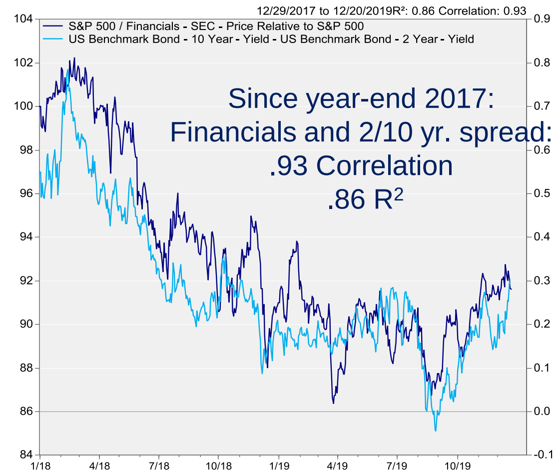


Source: FactSet, RJ Equity Portfolio & Technical Strategy

2020 Outlook- Interest Rates



Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

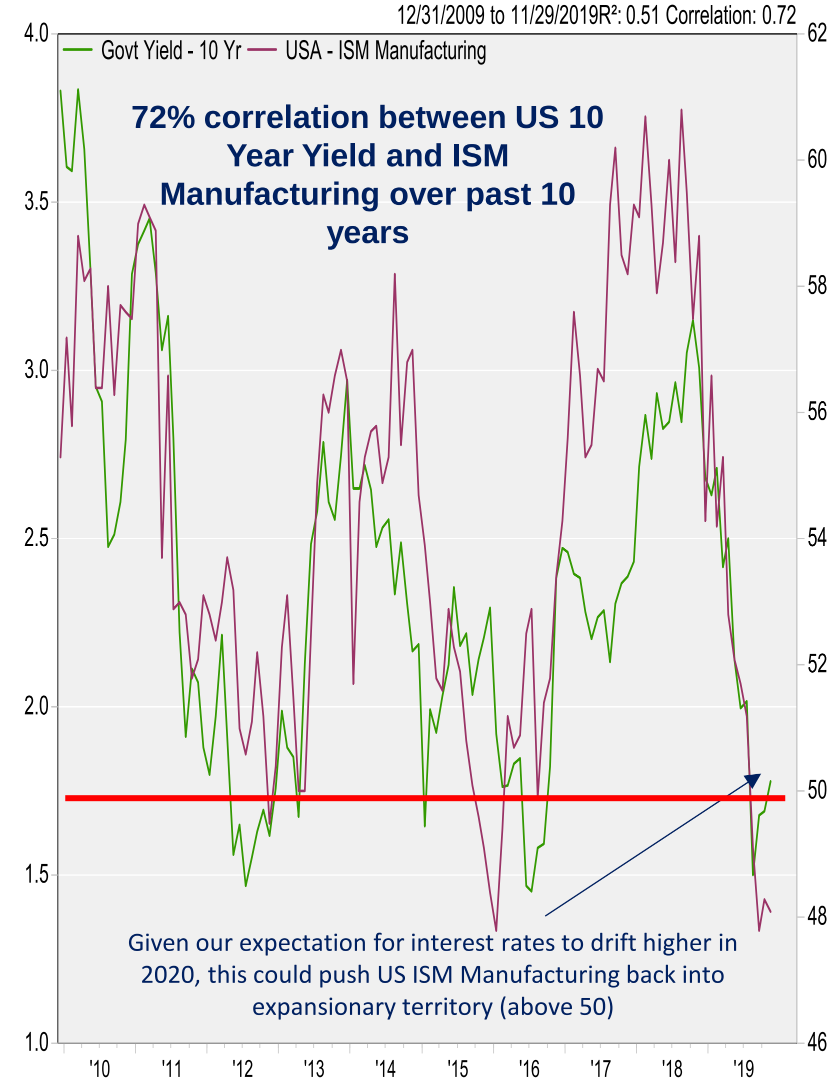


We have an **upward bias to the 10-year in 2020.** After moving lower for much of 2019, the 10-year Treasury has started to move higher. With the yield curve no longer negative, expectation for improving manufacturing, global bond yields moving higher, simmering trade tensions, we believe this provides a nice backdrop for the 10-year to move higher.

Low inflation is likely to keep the 10-year from running to the upside.

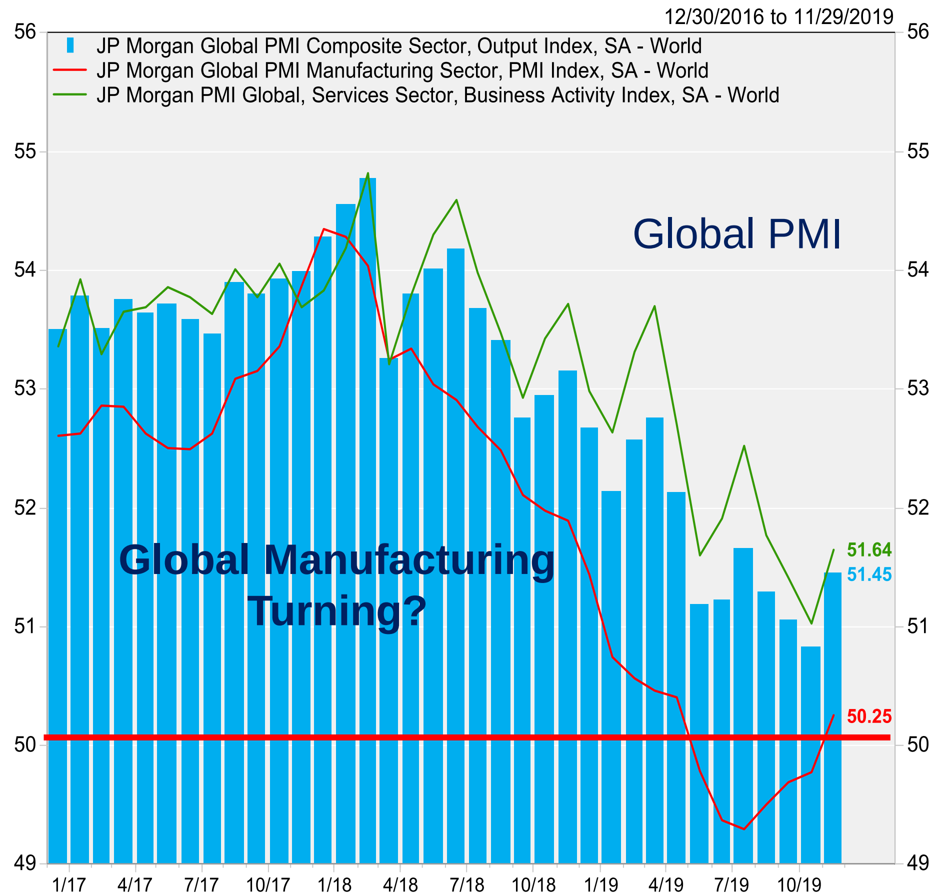
Given the strong correlation to US ISM Manufacturing, a higher 10-year is likely positive to resumption of growth in the US.

2020 Outlook- Manufacturing to Improve



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Looking at the correlation of US ISM Manufacturing and the 10-year Treasury (which has >70% correlation over the last 10 years), the current yield would imply a ISM Manufacturing above current levels and back closer to 50 (which is the line of delineation between contractionary and expansionary).



2020 Outlook- Cyclicals

Sectors with the Easiest Comps in 2020: Those sectors hit the hardest in 2019 are expected to see the strongest EPS growth in 2020.

	EPS Growth	
Sector	2019*	2020*
Energy	-26.9%	20.2%
Industrials	-2.0%	15.3%
Materials	-15.1%	13.5%
Consumer Discretionary	0.5%	12.6%
Communication Services	3.2%	12.1%
Information Technology	1.5%	9.6%
S&P 500	1.4%	9.6%
Health Care	9.8%	8.6%
Consumer Staples	0.9%	6.0%
Real Estate	2.1%	5.6%
Utilities	4.8%	4.8%
Financials	7.6%	4.8%

*Growth rate based on consensus estimates

Source: FactSet and RJ Portfolio & Technical Strategy

Since Labor Day, there has been a rotation from the more defensive sectors into the cyclicals. We would expect **cyclical sectors to continue to outperform in 2020** as global manufacturing improves and trade tensions simmer.

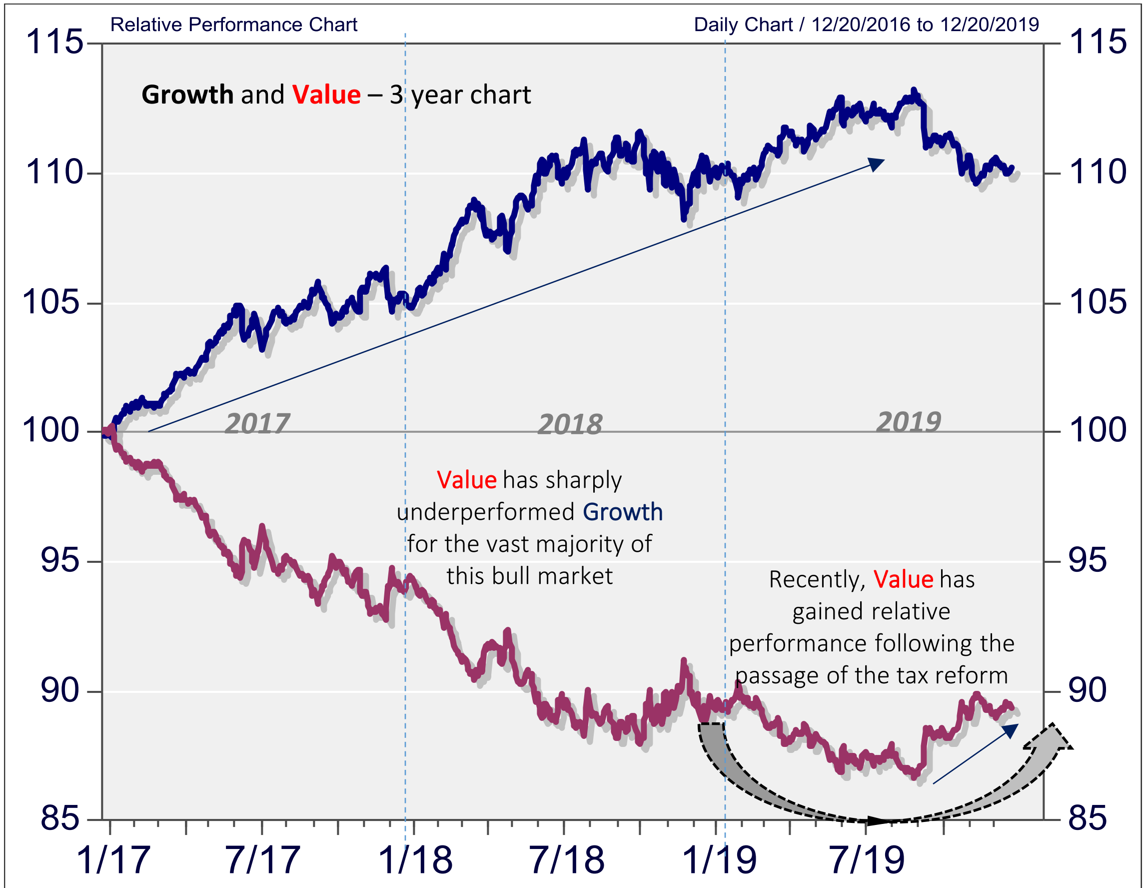
Overall, we see the cyclical/growth sectors of (Financials, Energy, Materials, Industrials, Consumer Discretionary and Technology) contributing nearly 70% of growth to the S&P 500 in 2020 despite only accounting for just over 60% of the S&P 500 market cap.

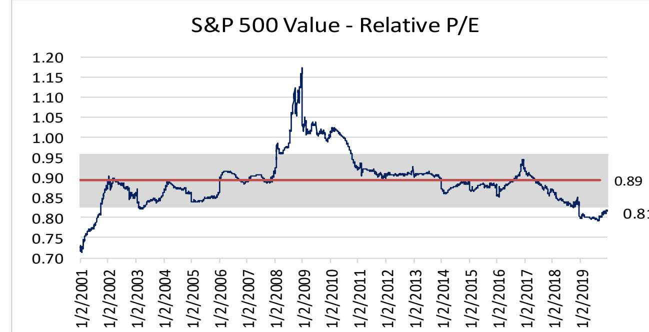
	% Contribution to EPS Growth	S&P 500 Weighting
Cyclical/Growth Sectors	67.4%	62.0%
Defensive/Interest Sensitive Sectors	32.6%	38.0%

Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

2020 Outlook: Balanced Approach to Growth and Value

The back up in bond yields has led to a nice shift to Value from Growth since early September. Value has lagged Growth for the vast majority of this bull market, but the tide seems to be turning for Value. While fundamentals (rising yields positive for Financials) and valuation (relative P/E well below average) remain supportive for Value, we are going to take a balanced approach to Growth and Value as we still see nice fundamentals for sectors such as Technology, which dominate the Growth style.





Sector Weightings by Style

S&P 500 Sector	S&P 500	Growth	Value
Consumer Discretionary	9.7%	12.1%	8.3%
Consumer Staples	7.2%	6.7%	11.2%
Energy	4.3%	2.6%	5.5%
Financials	13.2%	6.9%	18.8%
Health Care	14.2%	15.3%	12.2%
Industrials	9.1%	8.8%	10.2%
Information Technology	23.0%	22.8%	16.7%
Real Estate	2.9%	3.1%	3.3%
Materials	2.6%	2.3%	3.4%
Communication Services	10.5%	17.4%	6.5%
Utilities	3.3%	1.9%	4.0%

2019: S&P Styles

Year to Date (Price Return)

	Growth	Blend	Value
Large Cap	27.9%	27.9%	27.9%
Mid Cap	23.7%	23.5%	23.3%
Small Cap	19.7%	21.0%	22.4%

Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Opportunities in 2020 that need Further Confirming Evidence

Small-Caps

We **still favor US large caps**; however, we see opportunities for small-caps to outperform on a relative basis in 2020. Given the relative underperformance since fall of 2018, small-caps could be well positioned in 2020 to "catch up". While we would like further confirmation of a break-out in relative performance to get more constructive, our analysis suggests **double digit upside opportunity in small-caps in 2020**. Valuation is not cheap, but earnings are set to re-accelerate (from 24% contraction in EPS in 2019). Moreover, small cap relative performance has been 86% correlated with US manufacturing over the past three years (which we expect to improve). Given our expectations for manufacturing to improve, small-caps could be well positioned.

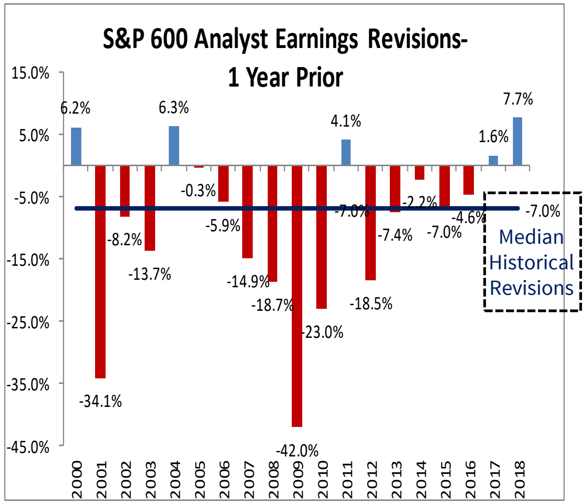
S&P Small-Cap 600	
2020 S&P 600 Consensus Estimate	**$57.29**
Median Historical Earnings Revisions	-5.0%
2020 Adjusted Consensus Estimates	**$54.43**
15-Year Average Relative P/E to S&P 500	**1.10x**
Discount	2.5%
Estimated Fair Value Relative P/E	**1.07x**
Fair Value P/E for S&P 500	19.25x
Estimated Fair Value LTM P/E- Small-Caps	**20.6x**
Estimated Fair Value for S&P Small-Cap 600	**$1,122.52**
Current Price (Small-Caps)	1019.53
Upside in Small-Caps	**10.1%**

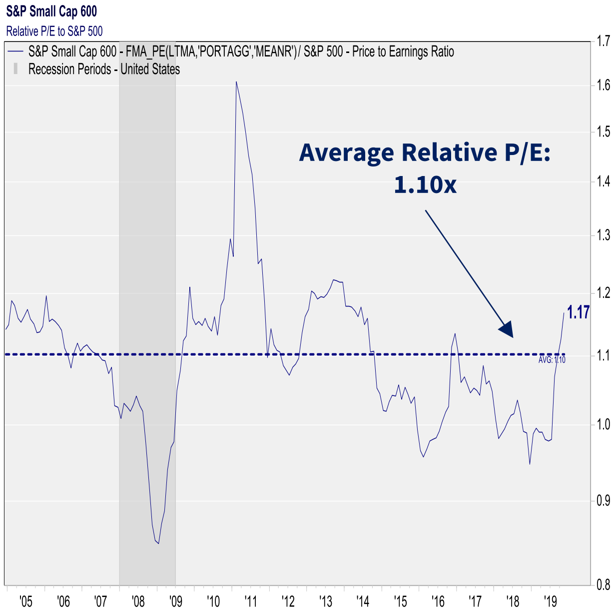
Source: FactSet and RJ Equity Portfolio & Technical Strategy

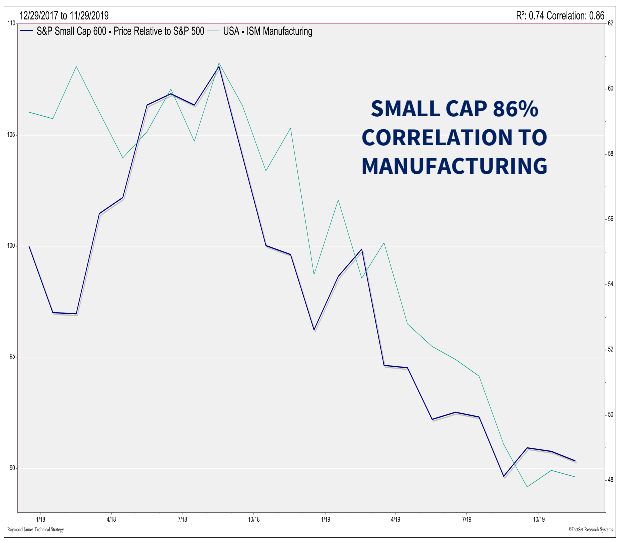
Median historical revisions of 7%; however, given our expectations for manufacturing to improve (and high correlation of small-caps—expect less than 'normal' earnings revisions in 2020

Valuation for small-caps is not cheap thus giving a small discount to 15-year average relative P/E to S&P 500

Expectation of double digit return opportunity in small-caps in 2020

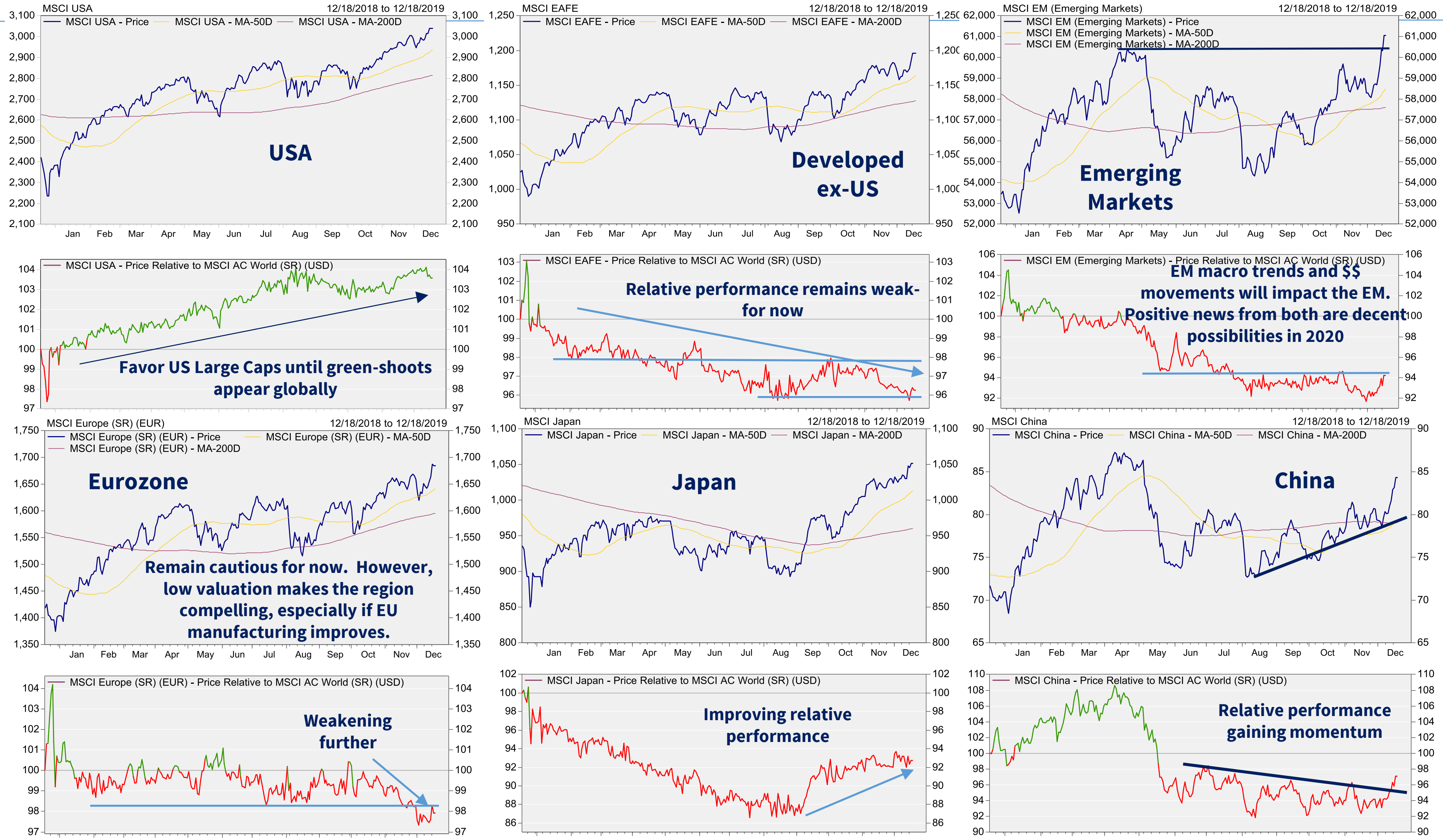






Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Global Asset Allocation- Favor US Large Caps, but watching Emerging Markets and

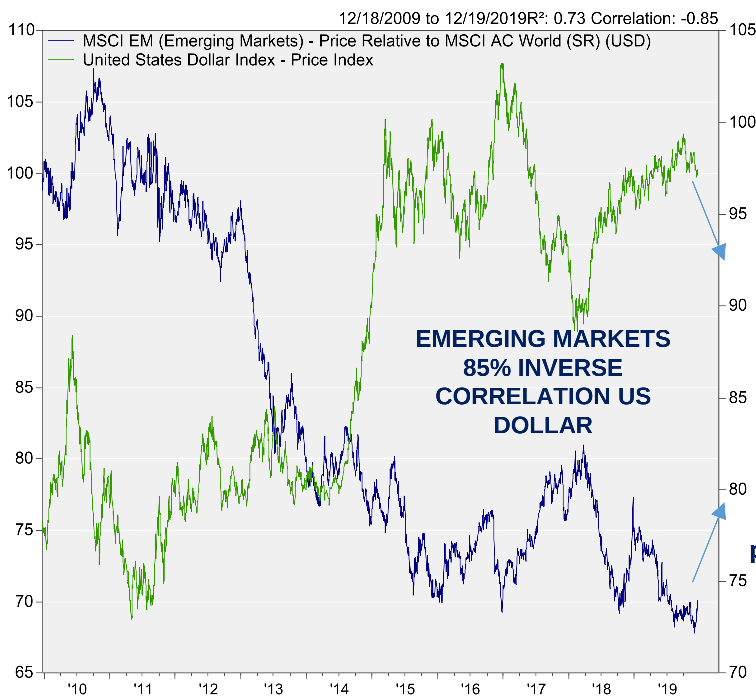


Data through 12/19/19 closing

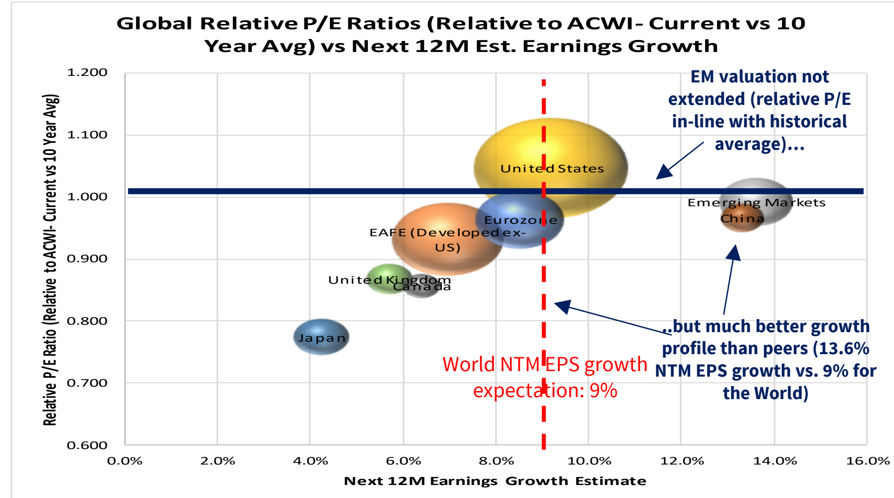
Source: FactSet and RJ Equity Portfolio & Technical Strategy

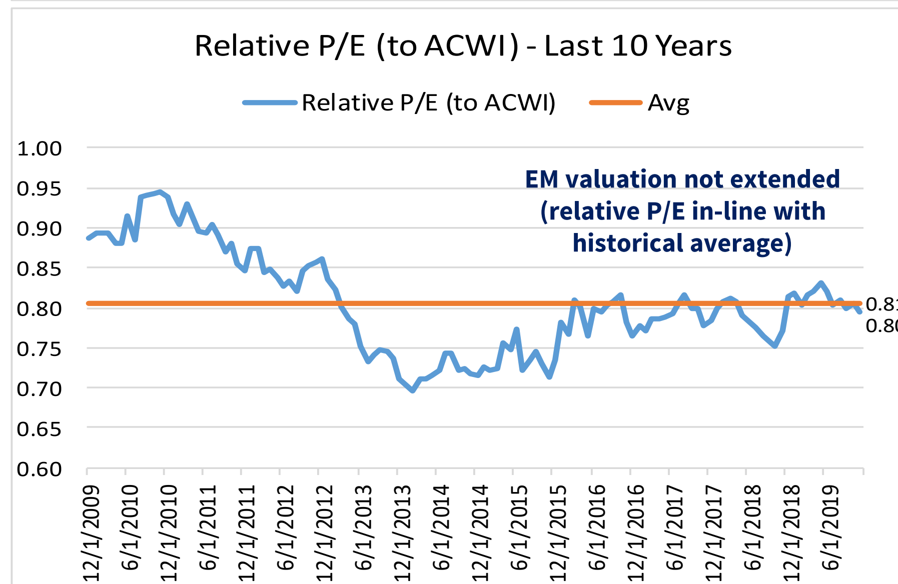
Global Opportunities- Emerging Markets

As seen on the prior page, Emerging Markets are breaking out on a absolute basis. However, the relative performance continues to lag. While we believe Emerging Markets may offer an attractive opportunity in 2020 as a likely outsized beneficiary of an improving manufacturing environment, we would like to see further confirmation of an improvement in relative performance. Moreover, the US Dollar tends to have a high inverse correlation to the relative performance of EM. While our expectation is a downward bias on the US Dollar, we have not had a confirmed breakdown in USD yet. From a fundamental standpoint, relative valuation for Emerging Markets is in-line with its historical average, but offers a much more attractive growth profile. Given this optimistic outlook and opportunity for further improvement if the US Dollar comes under pressure (as global growth reaccelerates), we have a **positive bias to Emerging Markets equities in 2020.**



Given our downward bias toward US Dollar— could be positive to Emerging Markets relative performance

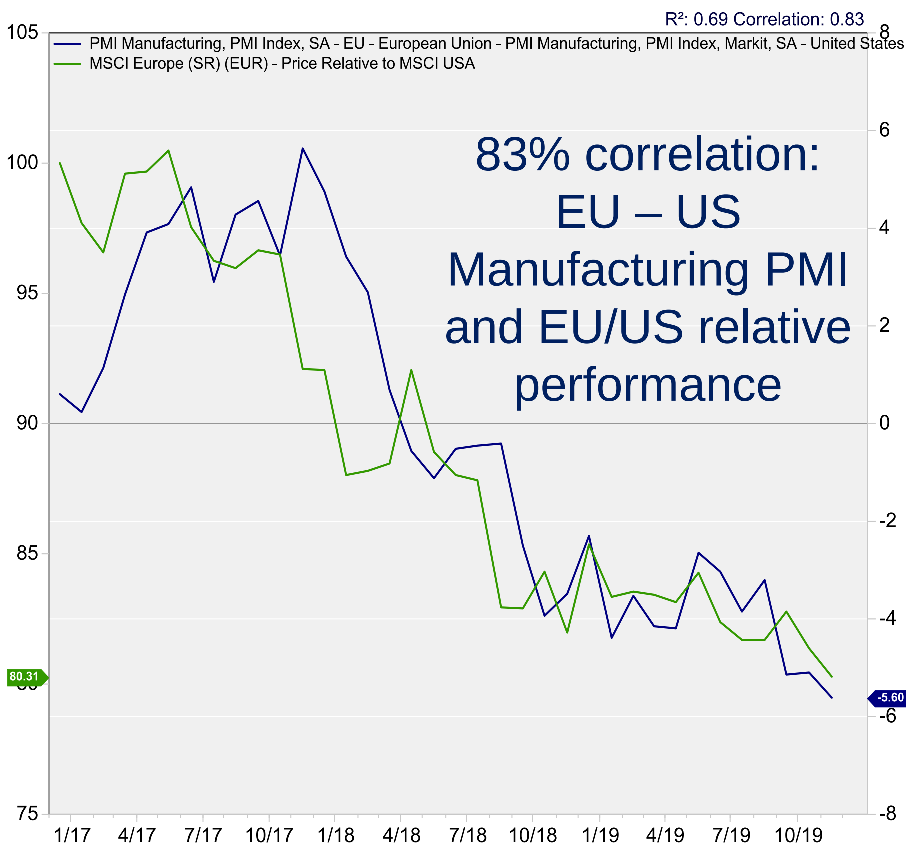


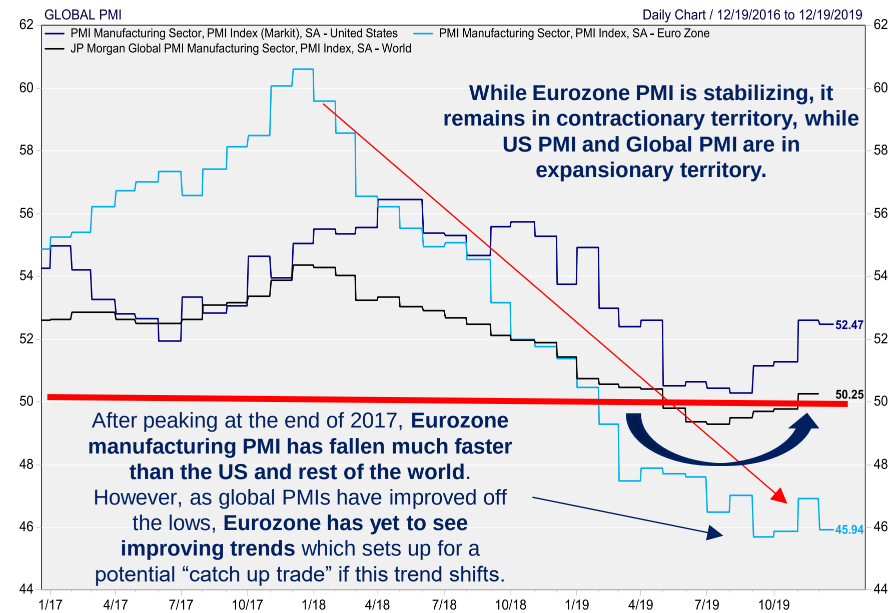


Data through 12/19/19 closing
Source: MSCI Global, FactSet, and RJ Equity Portfolio & Technical Strategy

Global Opportunities- Developed ex-US and Eurozone

Eurozone has been a relative laggard compared to the ACWI world index, and has pulled the overall Developed ex-US index lower (despite the strength from areas such as Japan). However, we are seeing some constructive signs from the Eurozone. While we need further confirmation of improving relative performance and improving Eurozone Manufacturing PMI to get more constructive, it may offer an attractive opportunity in 2020. Historically, there has been a high correlation (83%) between accelerating improvement in EU PMI (fast than the US) and relative performance. While this trend is still moving lower, given our expectations for resurgence in manufacturing global, this could set up a nice opportunity for Eurozone if easing trade tensions and simulative actions by the ECB prove productive and move the Eurozone back into expansionary territory (as PMI likely rise faster than other areas given the sharp reduction).





Data through 12/19/19 closing
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Supplemental Slides

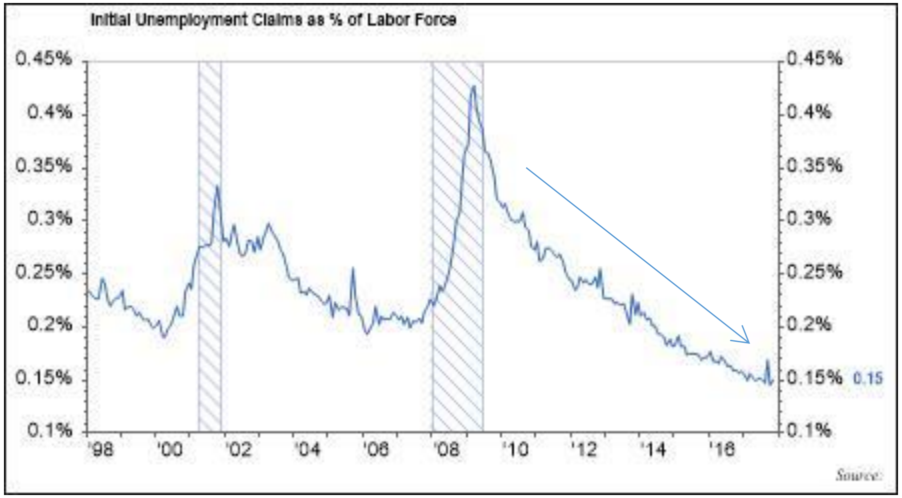
Supplemental Pages

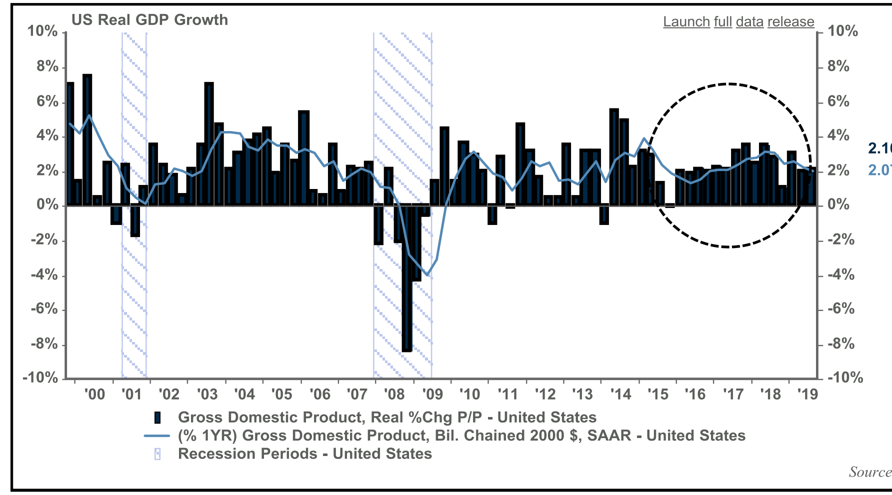
Stat Pack Estimates (December 20, 2019: S&P 500 3205.37)

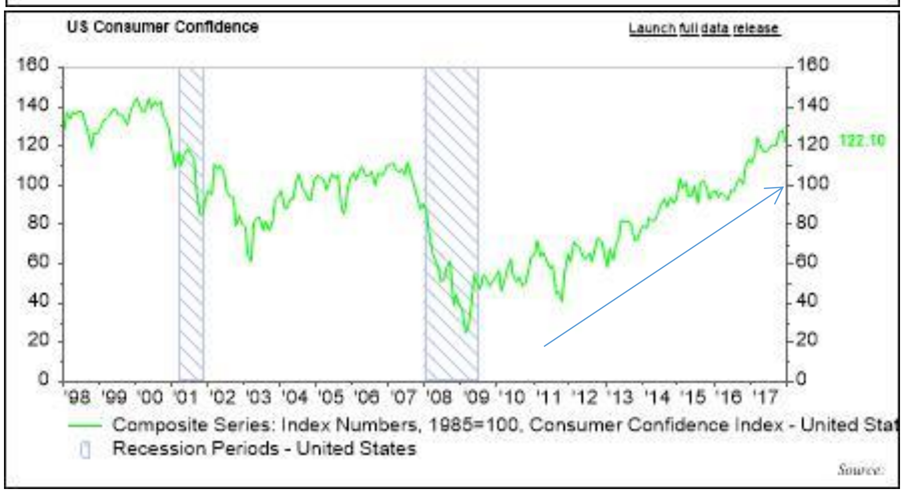
Stat Pack of Forecasts		
	2019	**2020 Estimates**
Consensus EPS S&P 500[1]	\$162.15 (Bottom up- Analysts) \$162.75 (Top down- Strategists)	\$177.65 (Bottom up- Analysts) \$174.39 (Top down- Strategists) \$174 (our number)
EPS Growth S&P 500	1.4% bottom up	9.6% bottom up; 7.2% top down
Margins (EPS/Sales-using bottom up est.)	11.5% (consensus[1])	12.0% E (consensus[1]) (12.0% our number)
EPS if Margins stay flat (high probability from elevated levels)		\$170.2
GDP	RJ 2.1%[4] consensus 2.3%[2]	RJ 1.7%[5] consensus 1.8%[2]
CPI	RJ: Core: 2.3%; headline 2.0%[4]	RJ Core: 2.1%; headline 2.1%[4]
PCE (Personal Consumption Expenditures)	RJ: 1.6% (ex-F&E)[4]	RJ: 1.8% (ex-F&E)[4]
Dividend/Dividend Growth S&P 500	\$58.29[1] +7.4% Payout ratio: 35.9%	\$62.31[1] +6.9% Payout ratio: 35.1% (of bottom up est.)
Revenue Growth Per Share S&P 500 (only bottom up available)	+4.6% (\$1,406.51/share)	+5.2% (\$1,479.82/share)
P/E	~19.8x[3]	~18.4x [3]
Earnings Yield S&P 500	5.1% current trailing	5.4% (using top down est.)
Fed Funds (average)	RJ: 2.17[4]	RJ: 1.57[4]
10 Year Treasury Yield	RJ 2.2%[4]	RJ 2.0%[4]

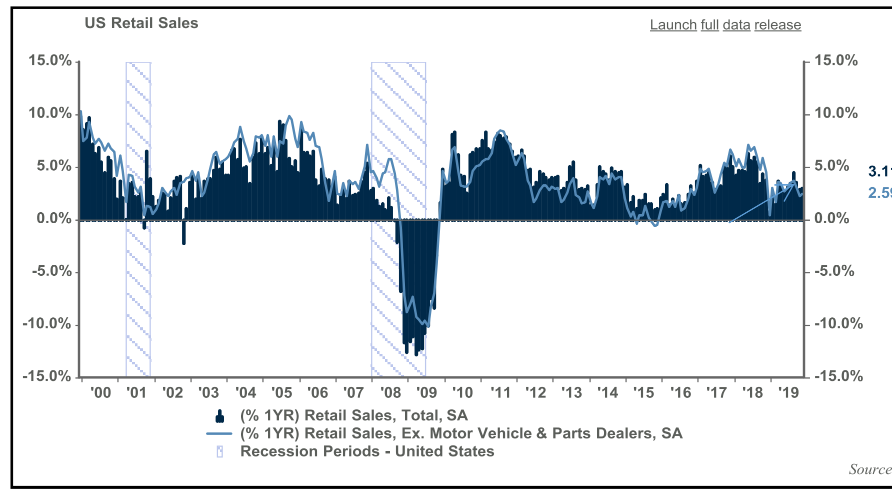
[1] FactSet;
[2] Bloomberg
[3] Current PE applied to bottom up estimates for 2019; 2020 top down estimate utilized due to more realistic forecast
[4] Raymond James Chief Economist Dr. Scott Brown

U.S. Economic Conditions Remain Supportive





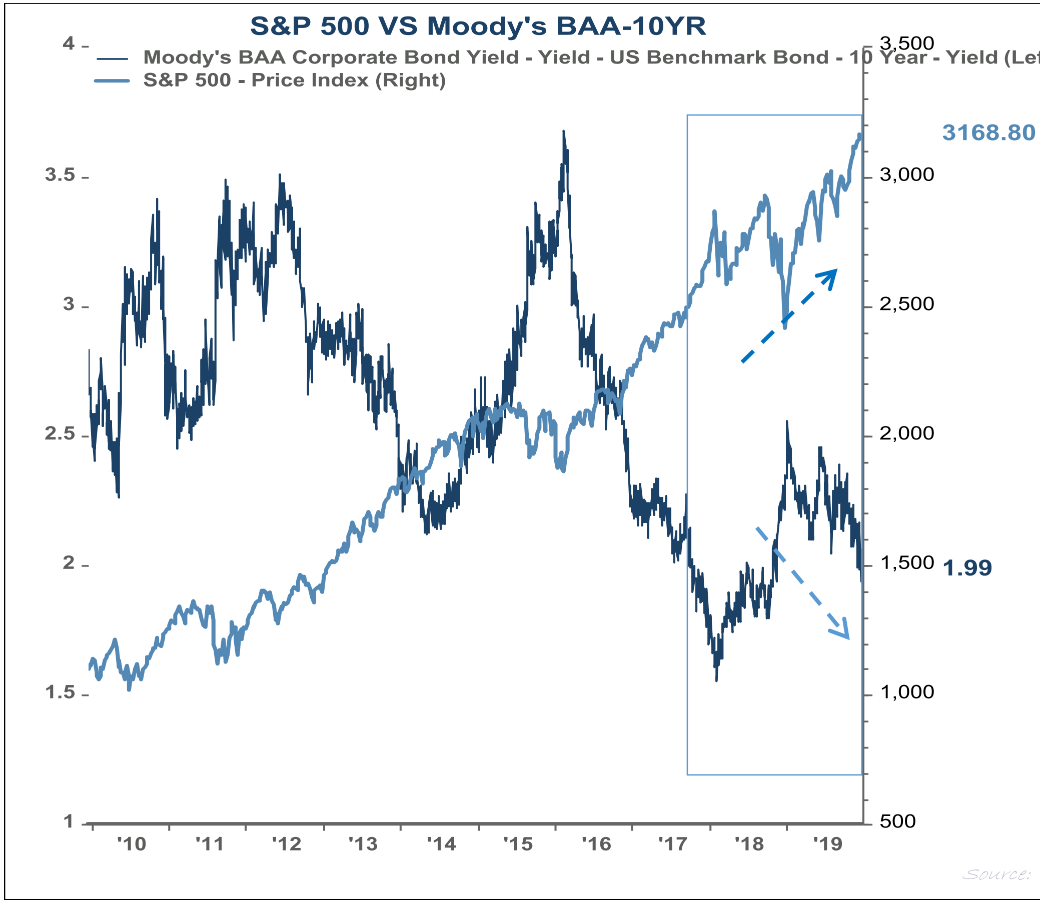


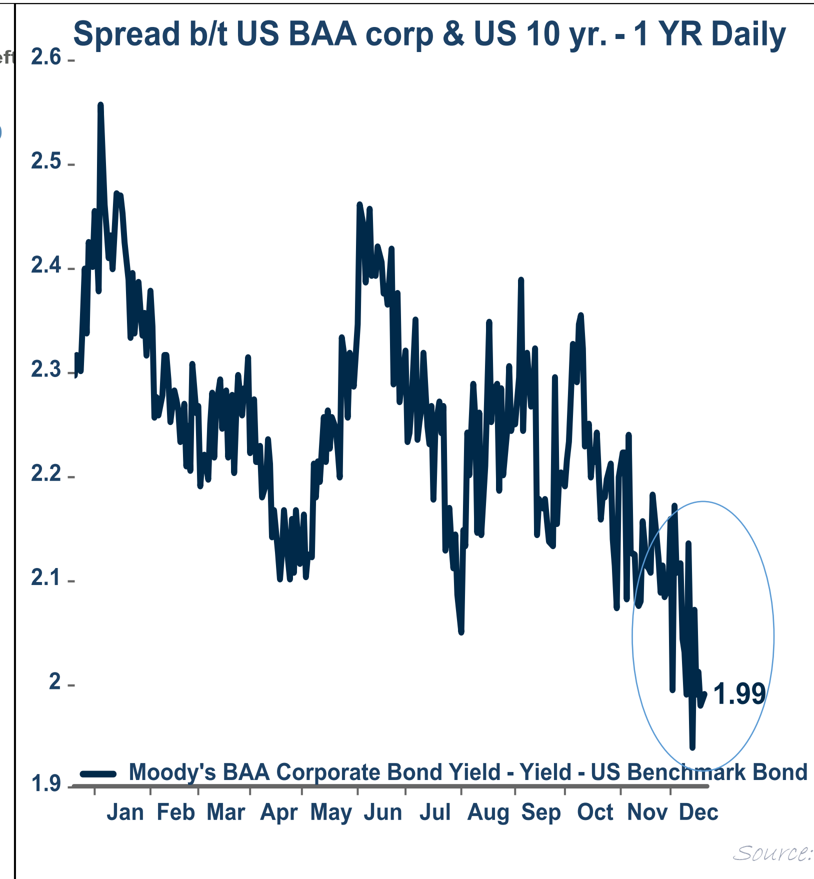


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Credit Conditions Remain Supportive

We continue to look towards the credit markets for signs of possible trouble ahead. We continue to see the spread of BAA corporate bonds to 10 year treasuries tightening, which tends to be a sign of improved economic conditions. So far, the credit market is pointing to positive economic conditions.

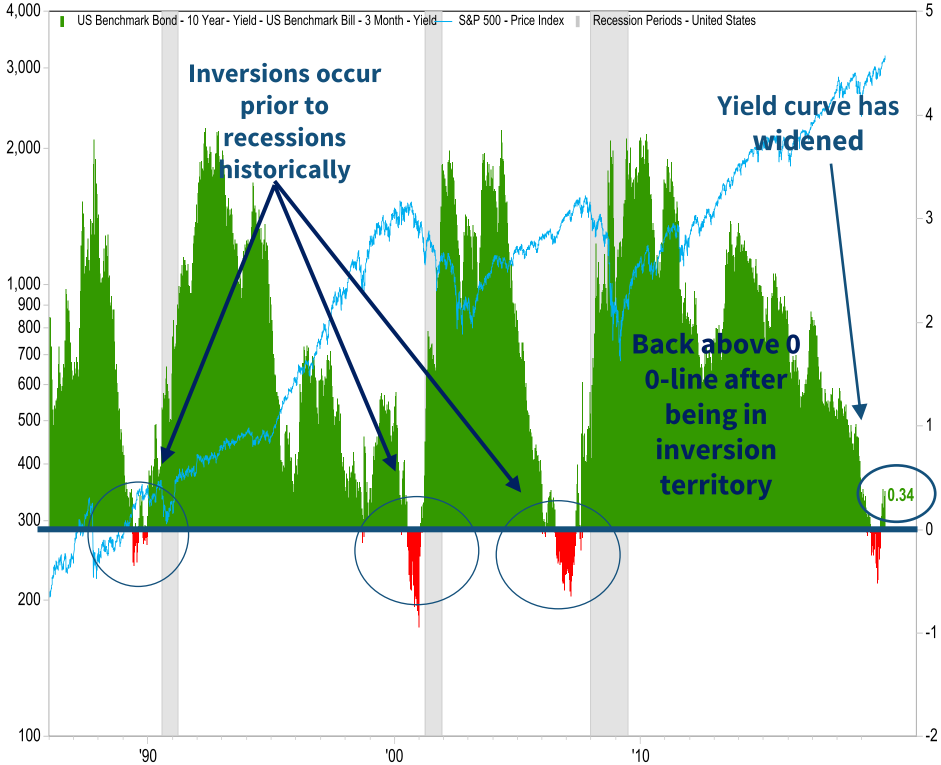




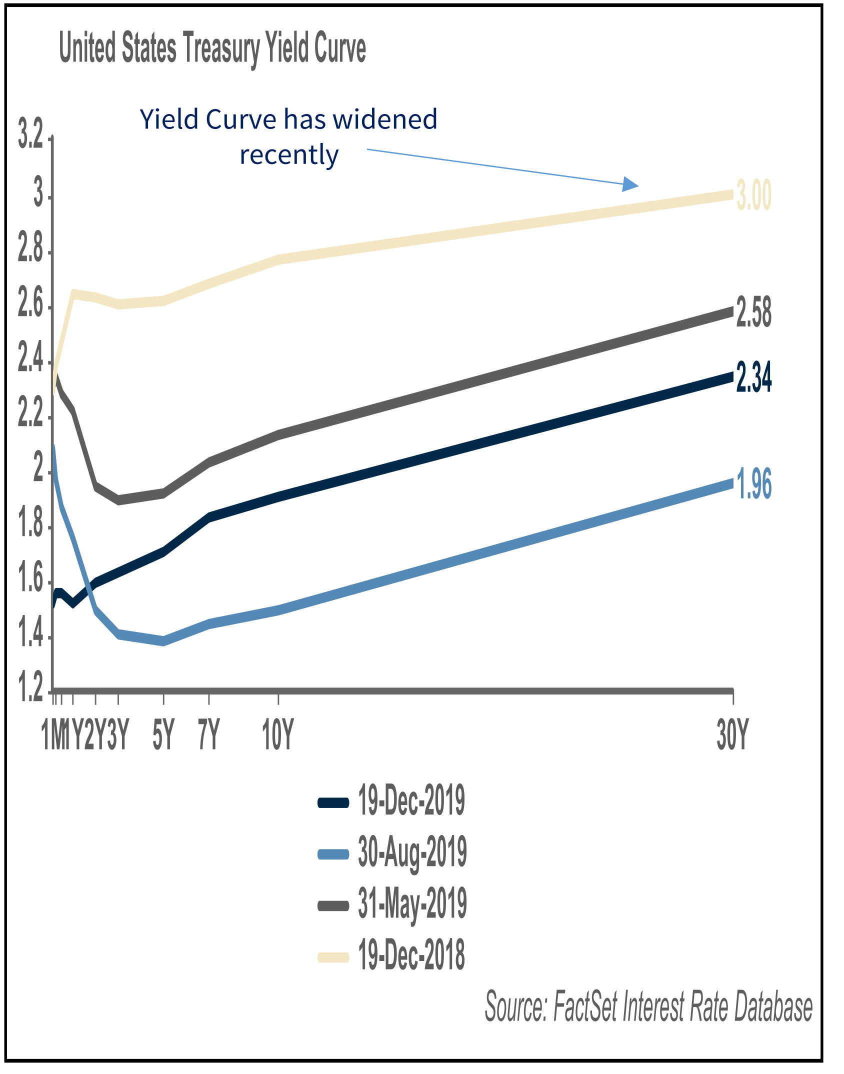
Source: FactSet, RJ Equity Portfolio & Technical Strategy

2020: Areas to Watch: Inversion of Yield Curve

Another inversion of the yield curve would likely be a negative indicator for the equities market. Currently, after inverting for a good portion of 2019, the yield curve has widened as the 10-year Treasury yield rebounded. In the event that the recent rebound is not sustainable or if the Fed begins raise short-term rates (putting downward pressure on the spread), this could be a negative headwind for the market.

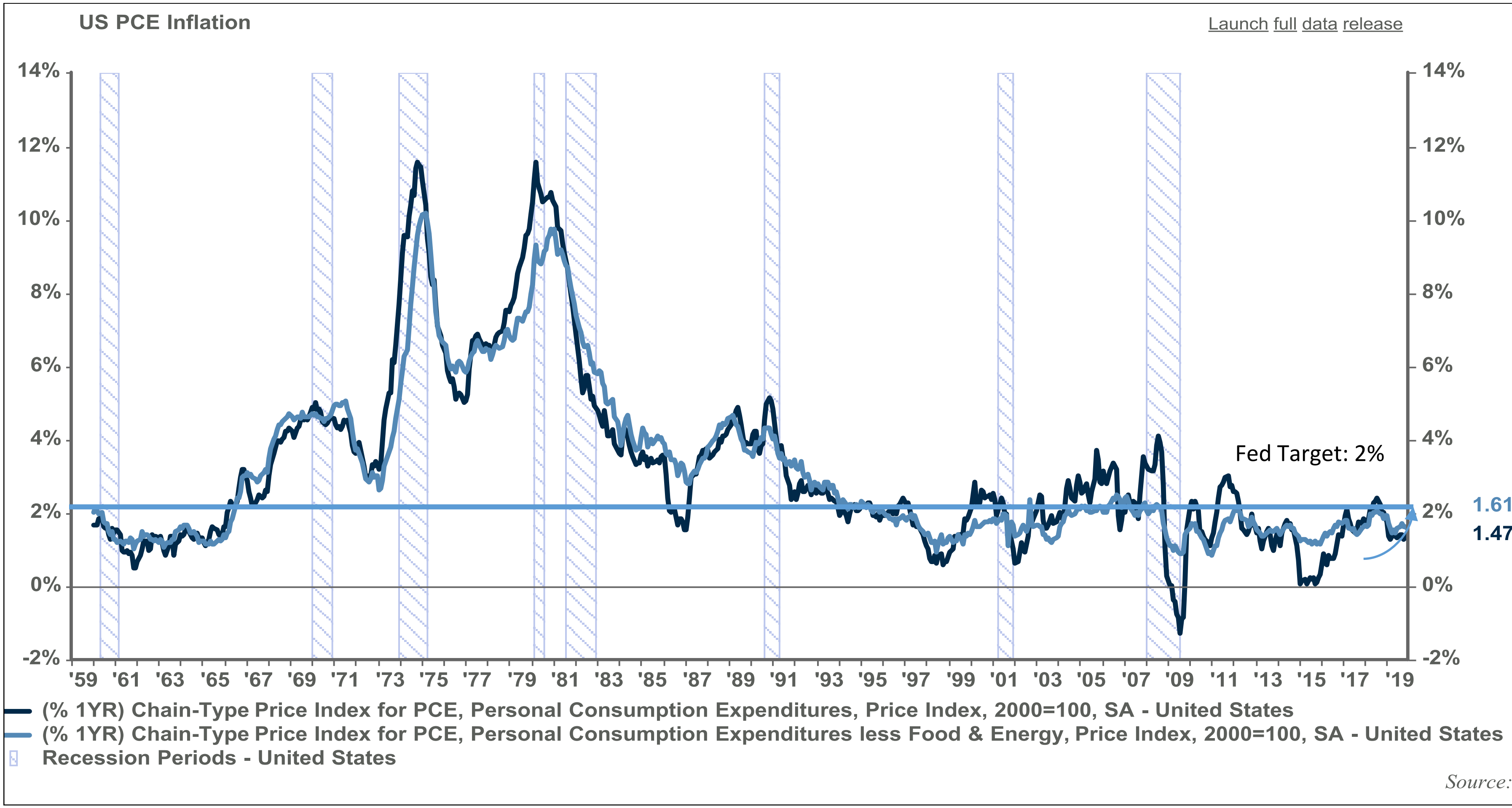


Source: FactSet, RJ Equity Portfolio & Technical Strategy



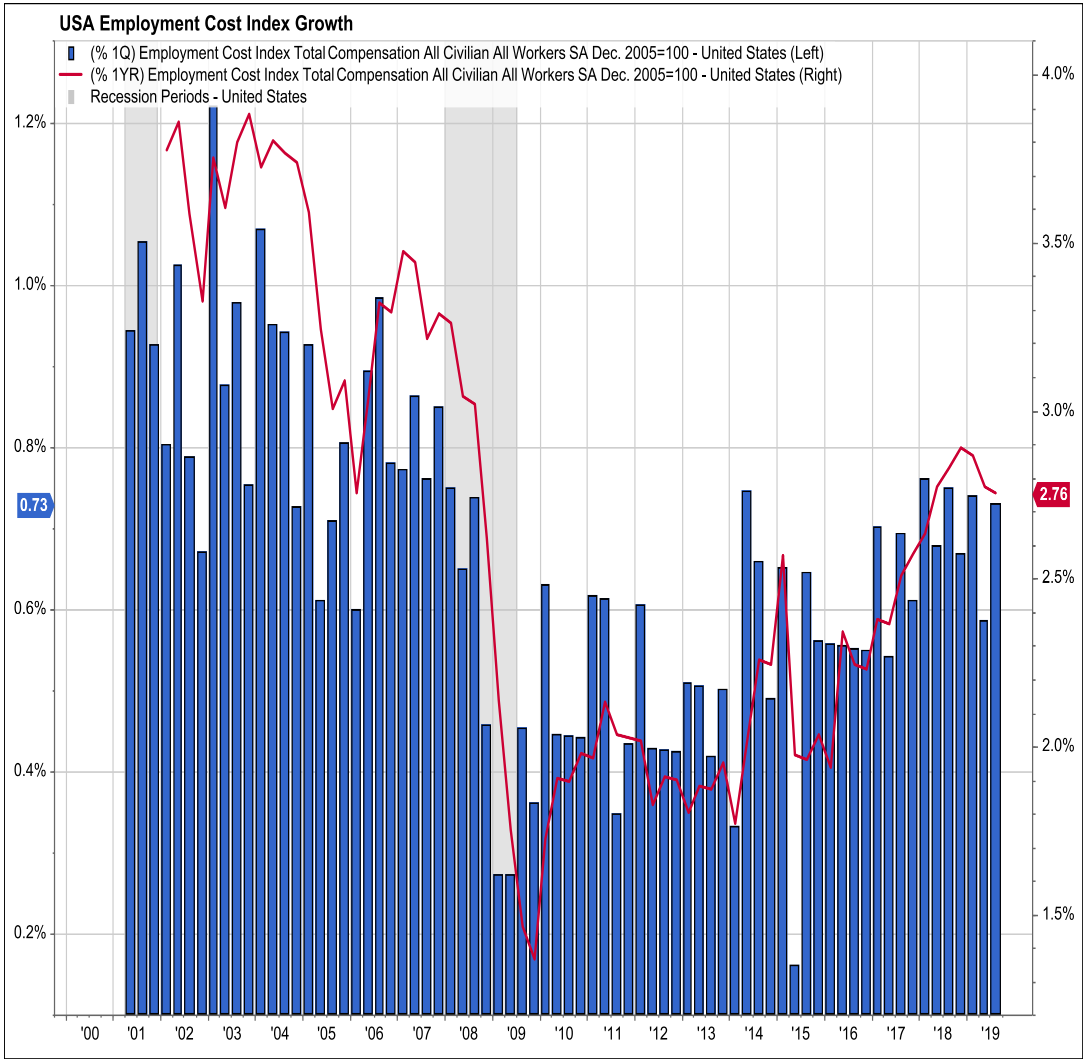
2020: Areas to Watch: Inflation

Inflation continues to be below the Fed target rate of 2%. We will continue to monitor inflation, which seems to be increasing recently, as a rise in inflation could be a hindrance to margin expansion. Additionally, increasing commodity prices could cause overall inflation to rise.



Source: FactSet, RJ Equity Portfolio & Technical Strategy

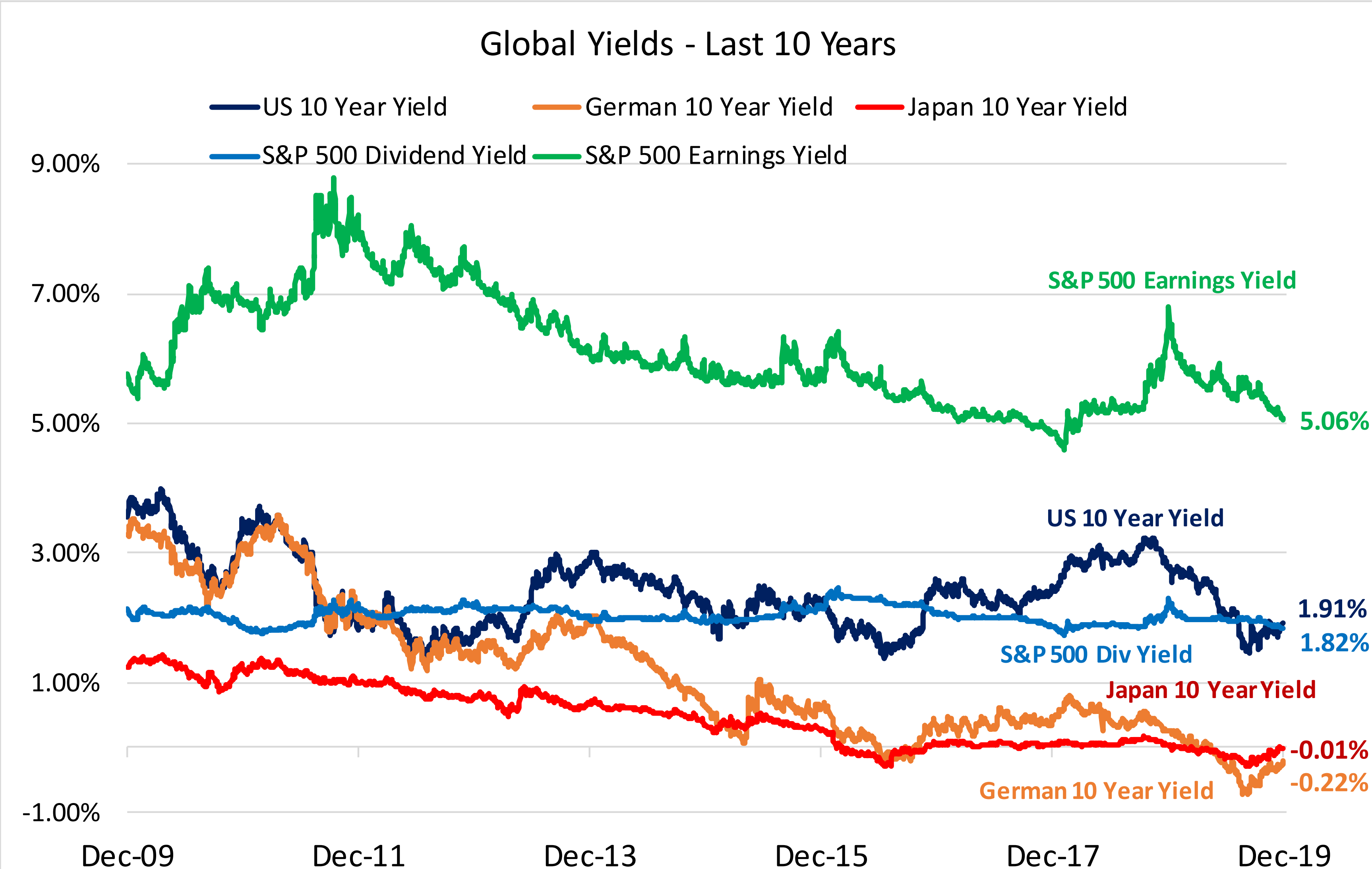
2020: Areas to Watch: Wage Pressure Potential Negative



Our expectation is for margins to reaccelerate in 2020. If employment costs reverse the recent trend and turn higher (rising faster than revenue growth), this could be a headwind to margins. Given that most of our earnings growth is coming from both revenue growth and margin expansion, any headwind to margins could be negative to equities, given our expectations that earnings growth is going to drive returns in 2020 (not multiple expansion).

Source: FactSet, RJ Equity Portfolio & Technical Strategy

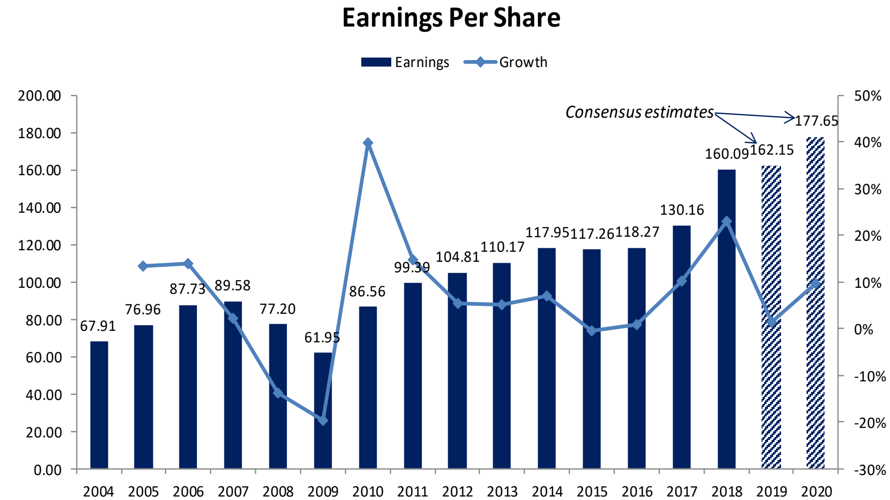
Yields Around the Globe

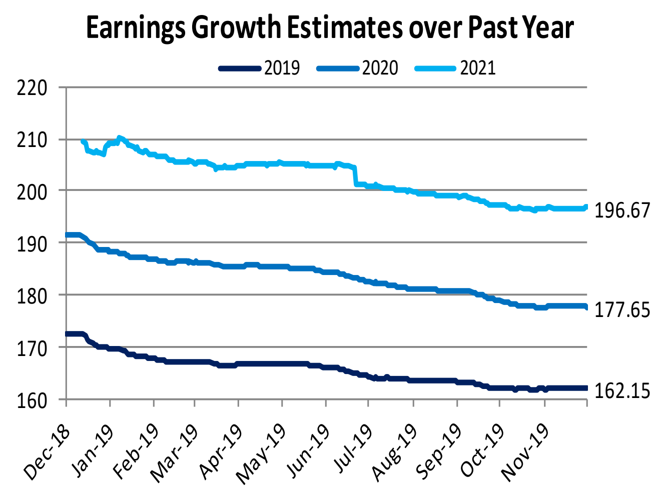


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Earnings Growth Has Been a Tailwind

After earnings came under pressure in 2019 with only 1.4% growth, earnings are expected to re-accelerate in 2020, which should be supportive of continues equity upside. Our estimate of $174 is ~2% below consensus estimates of $177.65 in 2020.



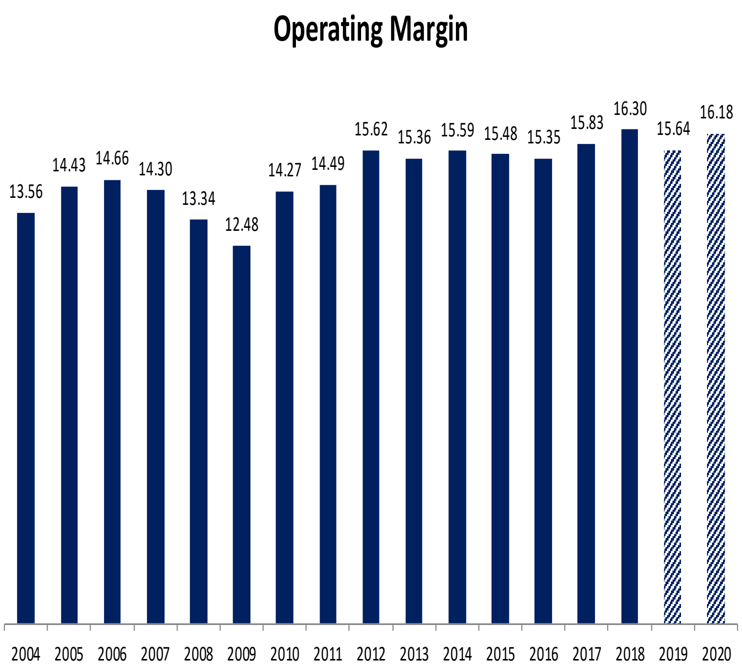


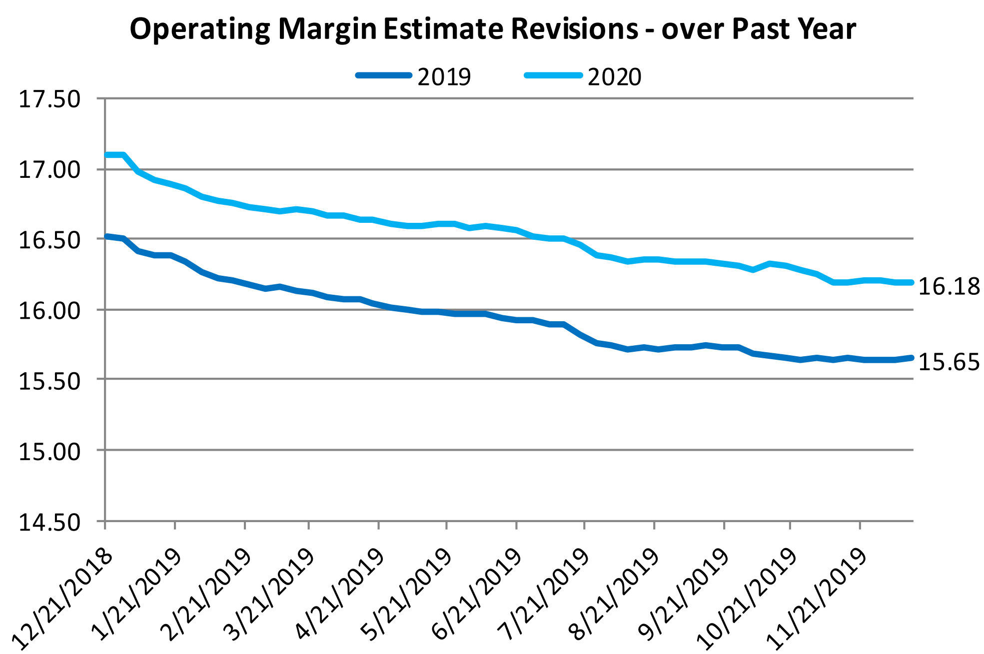
EPS Growth Estimates	
2019	1.4%
2020	9.6%
2021	10.7%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Margins

After moving lower for most of 2019, operating margins are expected to rebound in 2020. Given the sluggish macro environment, rising tariffs, and rising labor costs, operating margins came under pressure. However, it is expected that revenues should continue to grow nicely and with trade tensions simmering, additionally tariffs are not expected, which should be supportive of re-accelerating margin expansion.



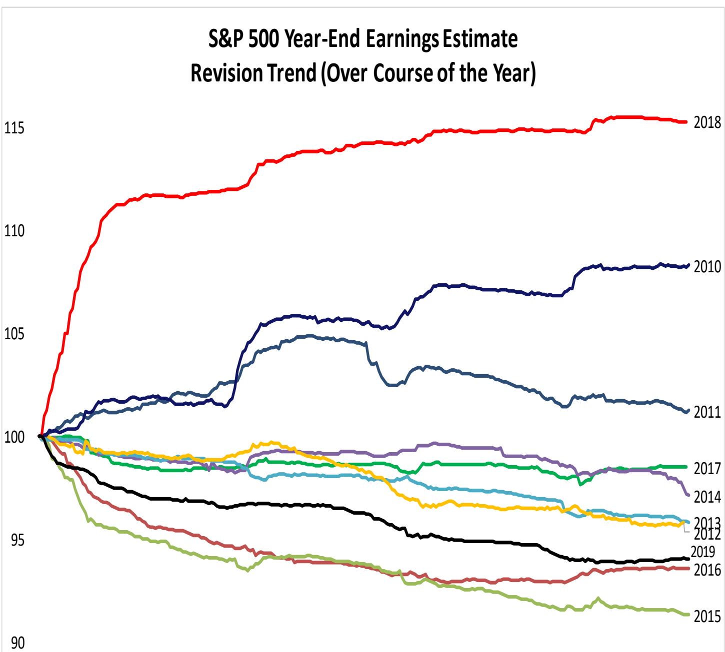


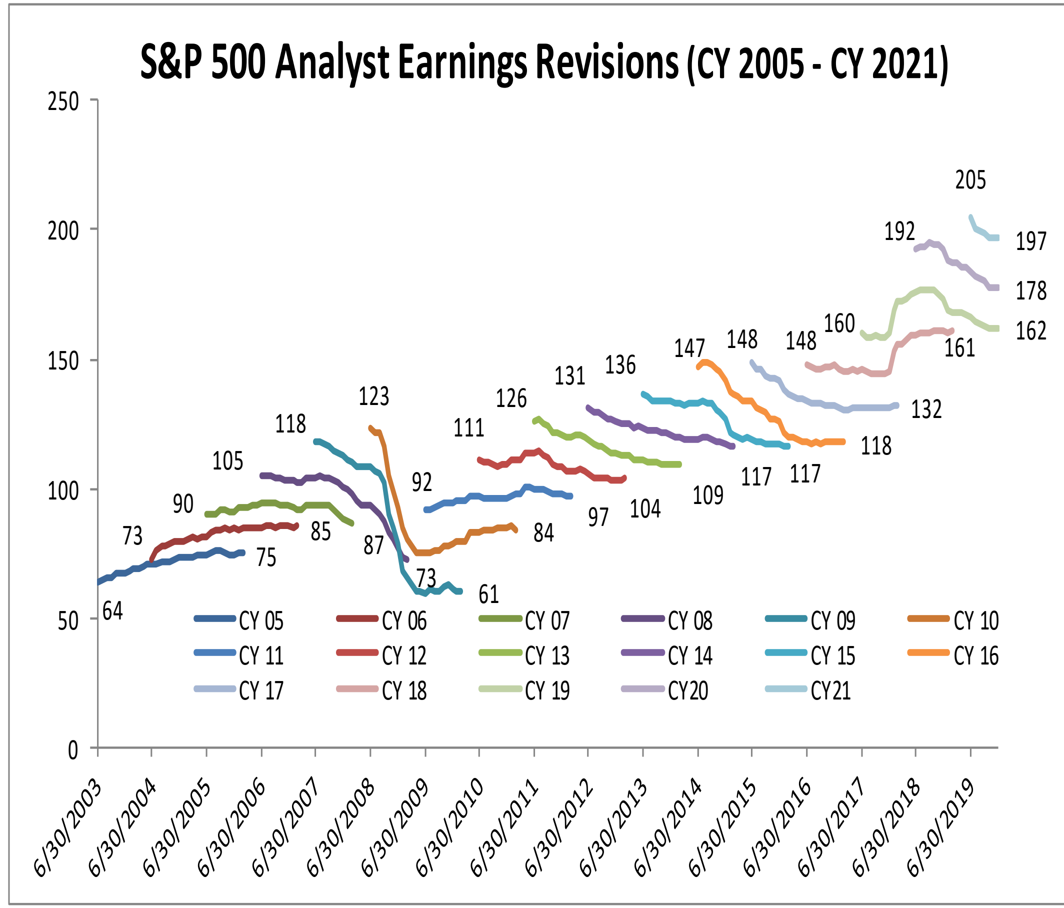
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Earnings Estimate Revisions

As you can see in the chart to the right, it has been commonplace in recent years for estimates to start high and be revised lower over time. On average over the past 15 years, actual earnings have come in 4.6% below estimates from one year prior, and down 9.9% from two years prior.

2019 saw earnings revised sharply lower (down ~6%) from the end of the year. However, we are expecting less than "normal" earnings revisions in 2020.



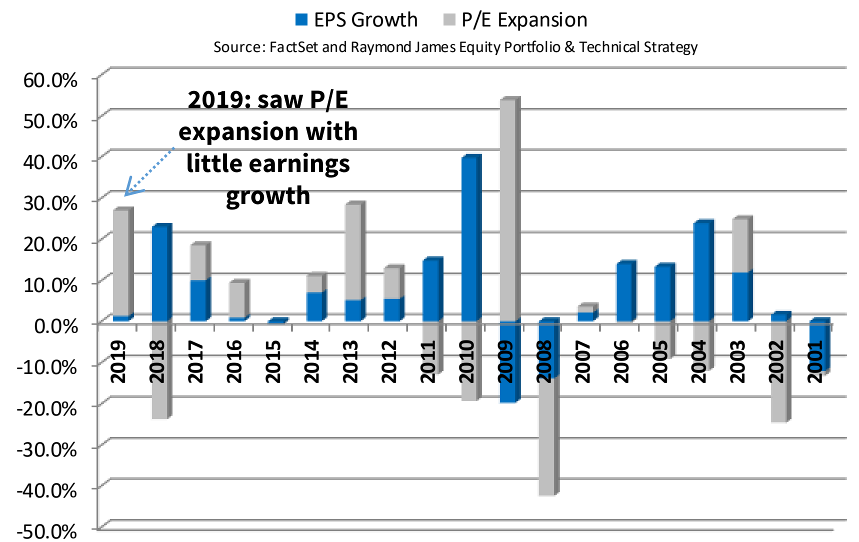


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Earnings Must Grow as Valuation is Neutral

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)	19.7	15.8	18.8	18.2	16.5	16.1
Price to Earnings (Next 12M)	18.1	14.6	17.1	16.8	15.0	14.7
Long Term EPS Growth	10.5	12.8	12.1	11.6	11.2	11.4
Price to Book Value	3.33	2.77	3.06	2.89	2.49	2.46
Price to Cash Flow	12.88	10.74	12.29	12.00	10.56	10.31
Price to Sales	2.17	1.78	2.00	1.91	1.63	1.54
P/E to Growth (PEG Ratio)	1.72	1.13	1.42	1.46	1.34	1.29
Free Cash Flow Yield	4.8%	5.9%	5.2%	5.2%	5.7%	5.7%
Dividend Yield	1.94%	2.32%	2.06%	2.14%	2.17%	2.17%

RJ Portfolio Strategy; FactSet

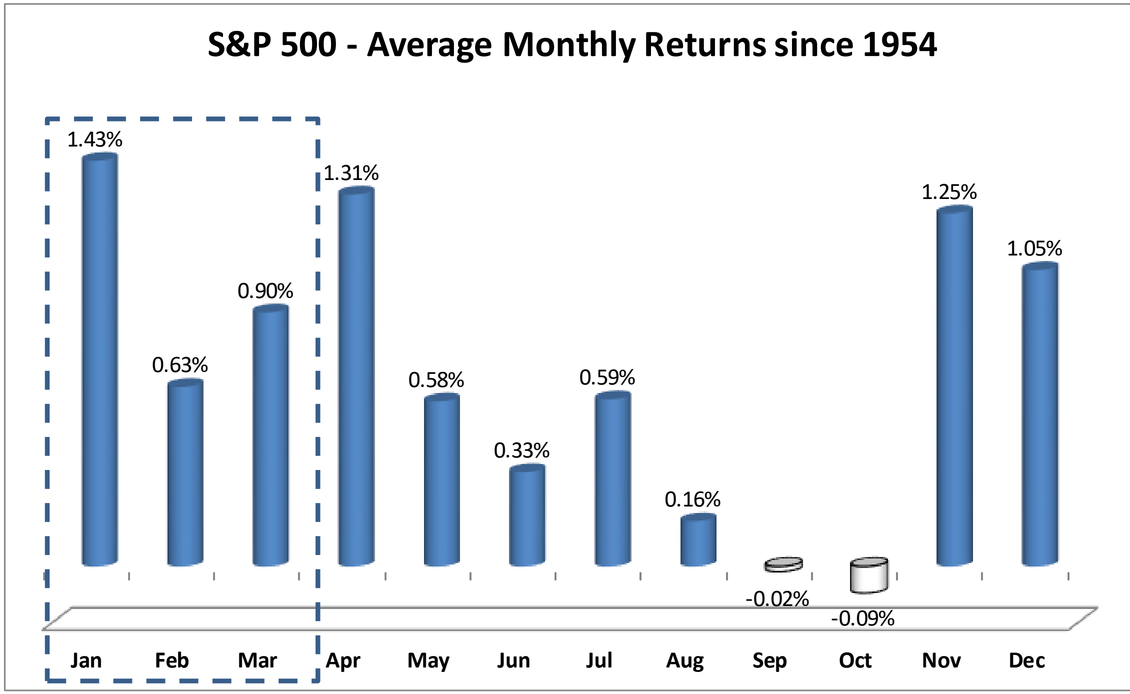


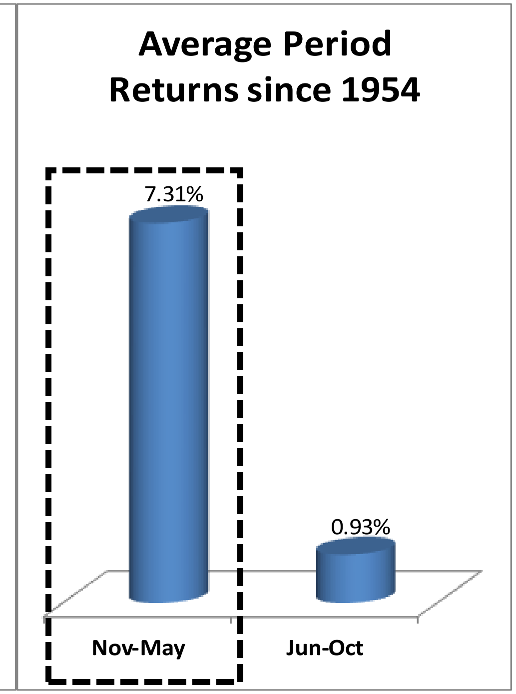
Data as of 12/19/19

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Seasonality

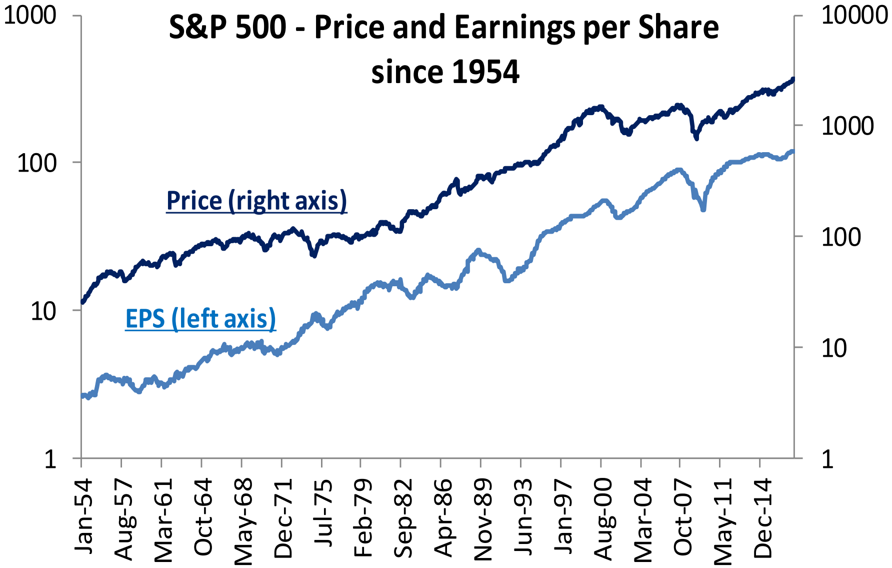
While we do not recommend making investment decisions on the calendar alone, as we enter the beginning of the new year it is worth noting that historically this period sees above average returns for equities.

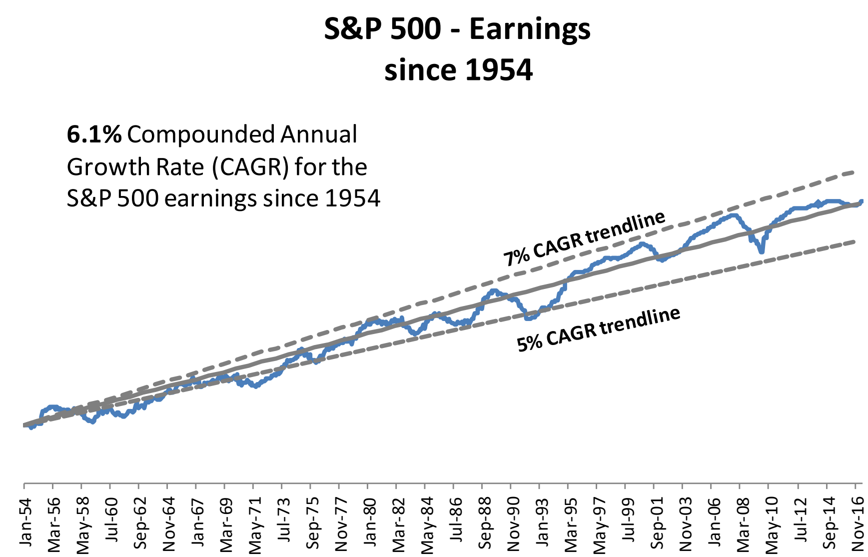




Source: FactSet, RJ Equity Portfolio & Technical Strategy

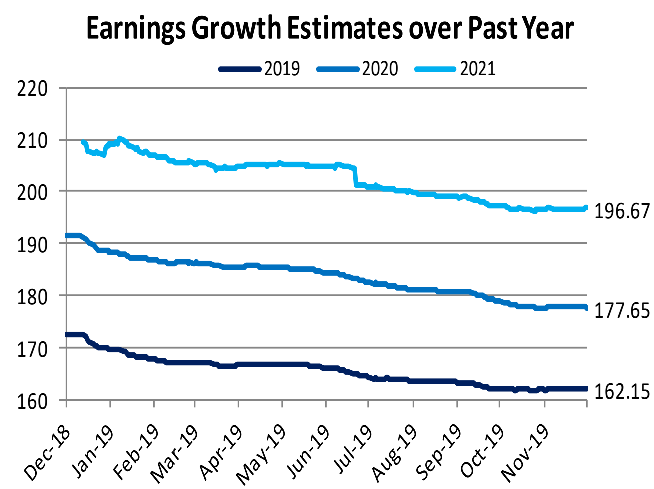
S&P 500 Earnings – Long-Term Mother's Milk of the Market





S&P 500 since 1954:

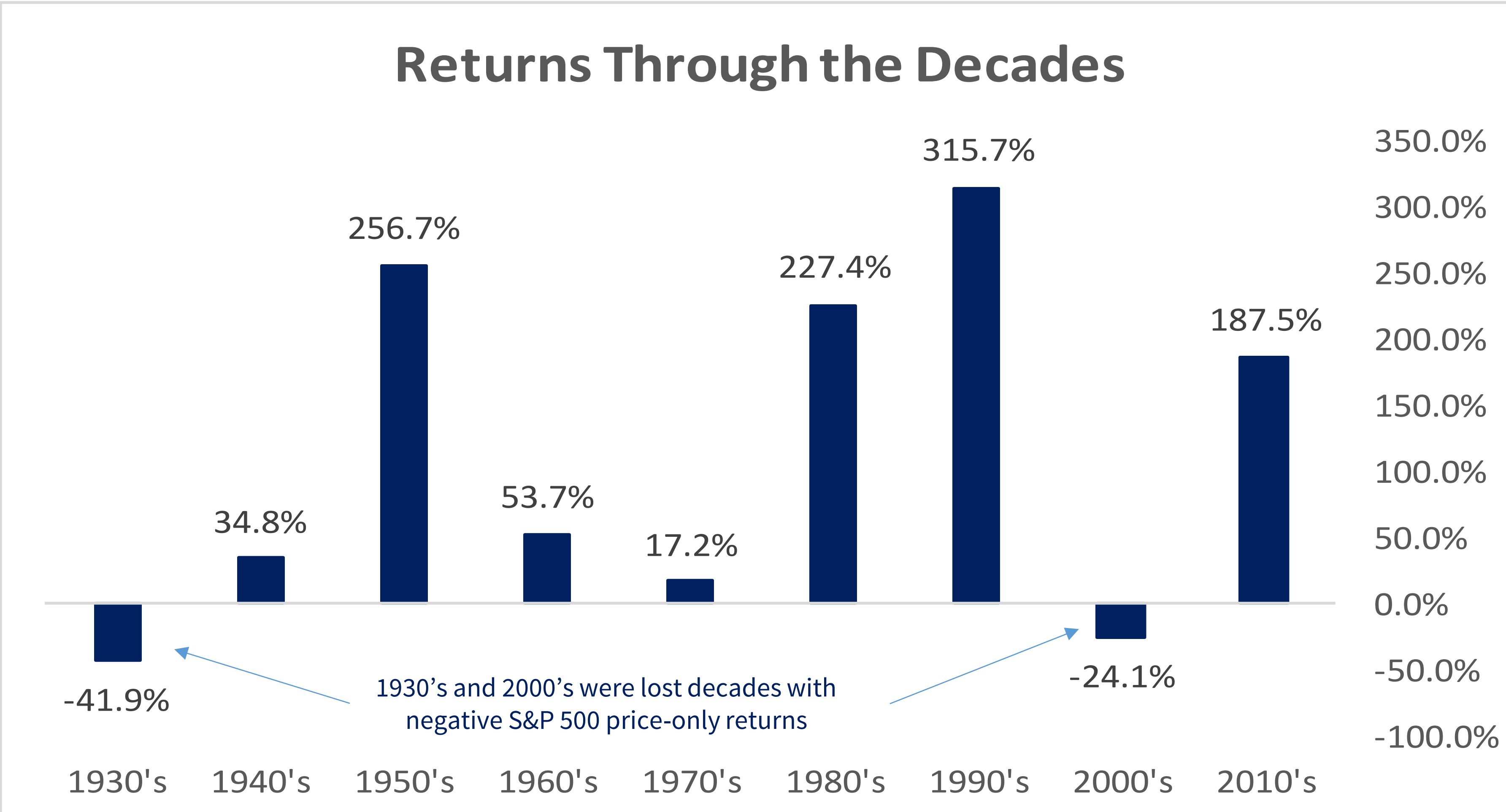
- **Earnings CAGR**: 6.1%
- **S&P 500 Price CAGR**: 7.5%



EPS Growth Estimates	
2019	1.4%
2020	9.6%
2021	10.7%

Data as of 12/19/19
Source: FactSet, RJ Equity Portfolio & Technical Strategy

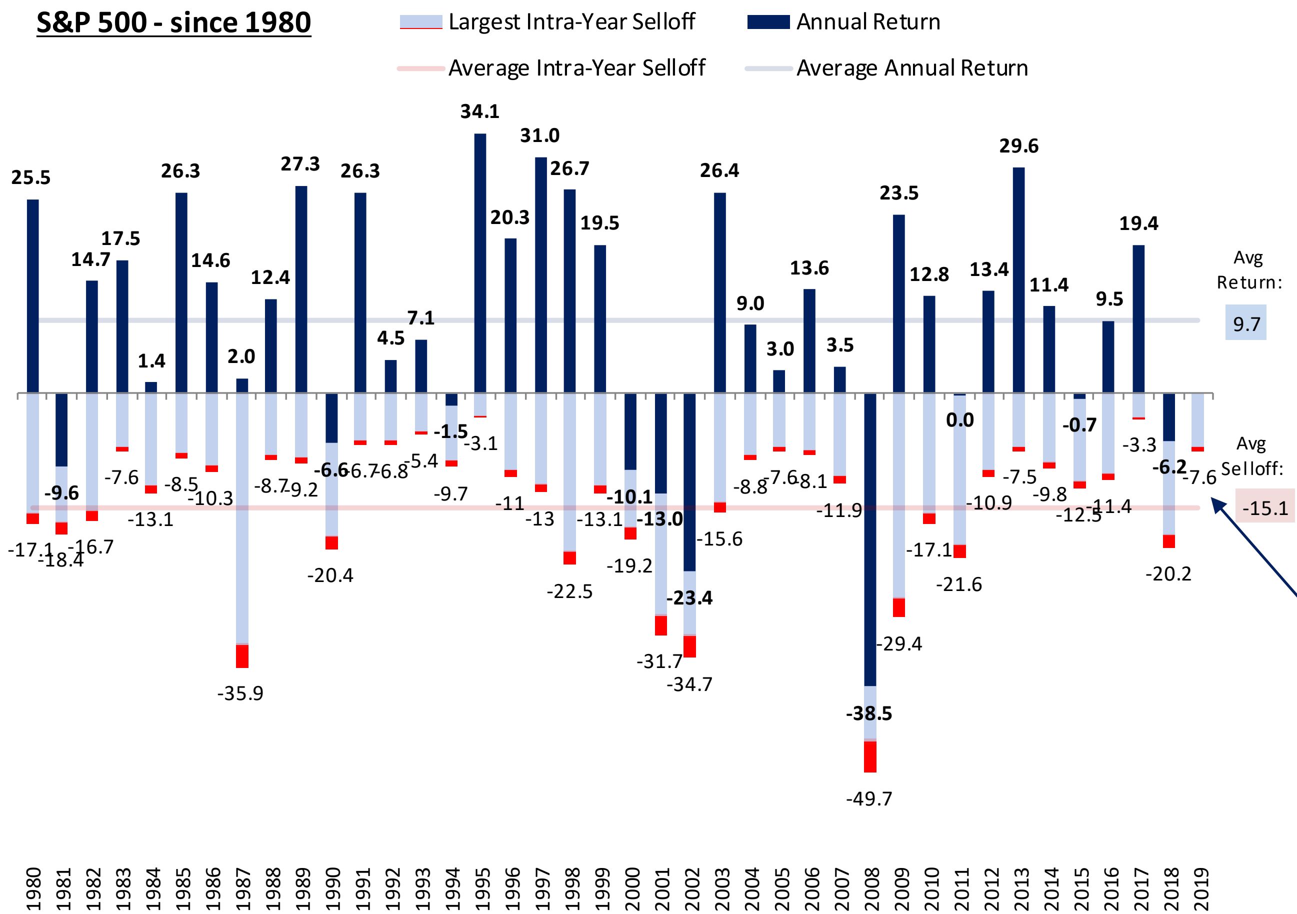
Returns Through the Decades



Source: FactSet, RJ Equity Portfolio & Technical Strategy

Market Selloff Stats

S&P 500 - since 1980



Selloffs are common:

- Average Largest Intra-year selloff: -15.1%
- Ex-bear market years still normal to get 8-12% drawdown intra-year

- Average Annual return is : +9.7%

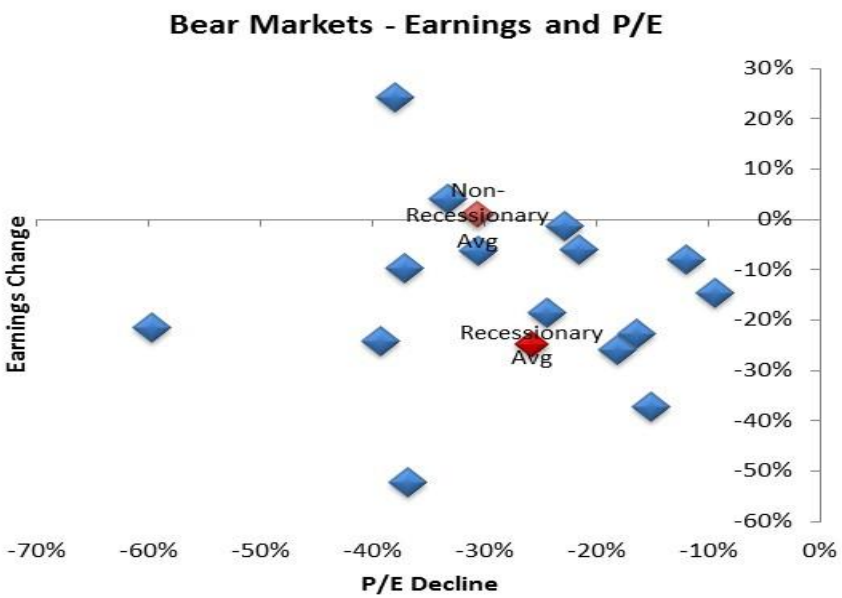
Following President Trump increasing tariffs to 25% on $200B

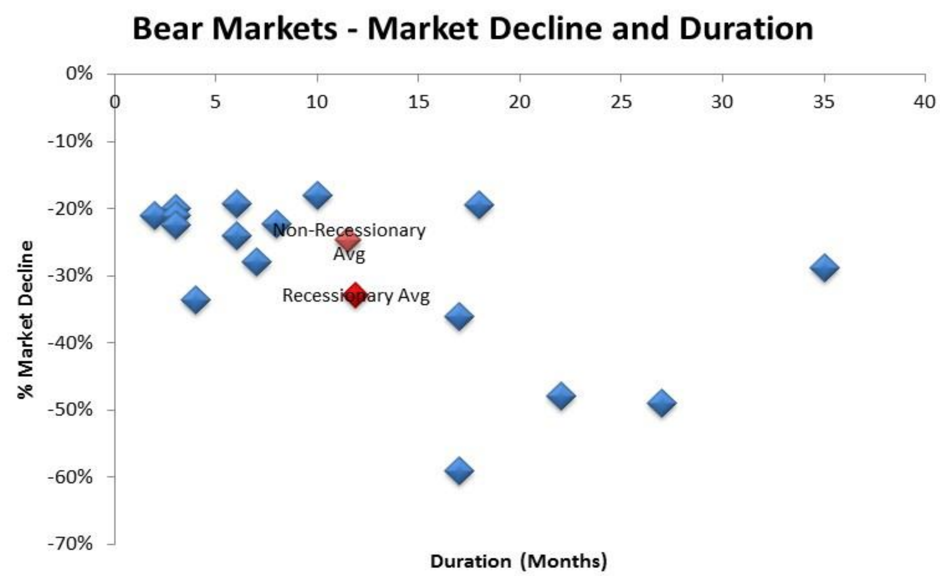
Source: FactSet, RJ Equity Portfolio & Technical Strategy

Analyzing Bear Markets

As seen on the prior page, pullbacks in the markets are normal, so we decide it is appropriate to analyze bear markets 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 durance 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 the flattening yield curve as this can be a foretelling of recessions, we would be more concerned with consolidation (non-recessionary bear markets), which tends to see a sharp reduction in P/E multiple rather than earnings declines.

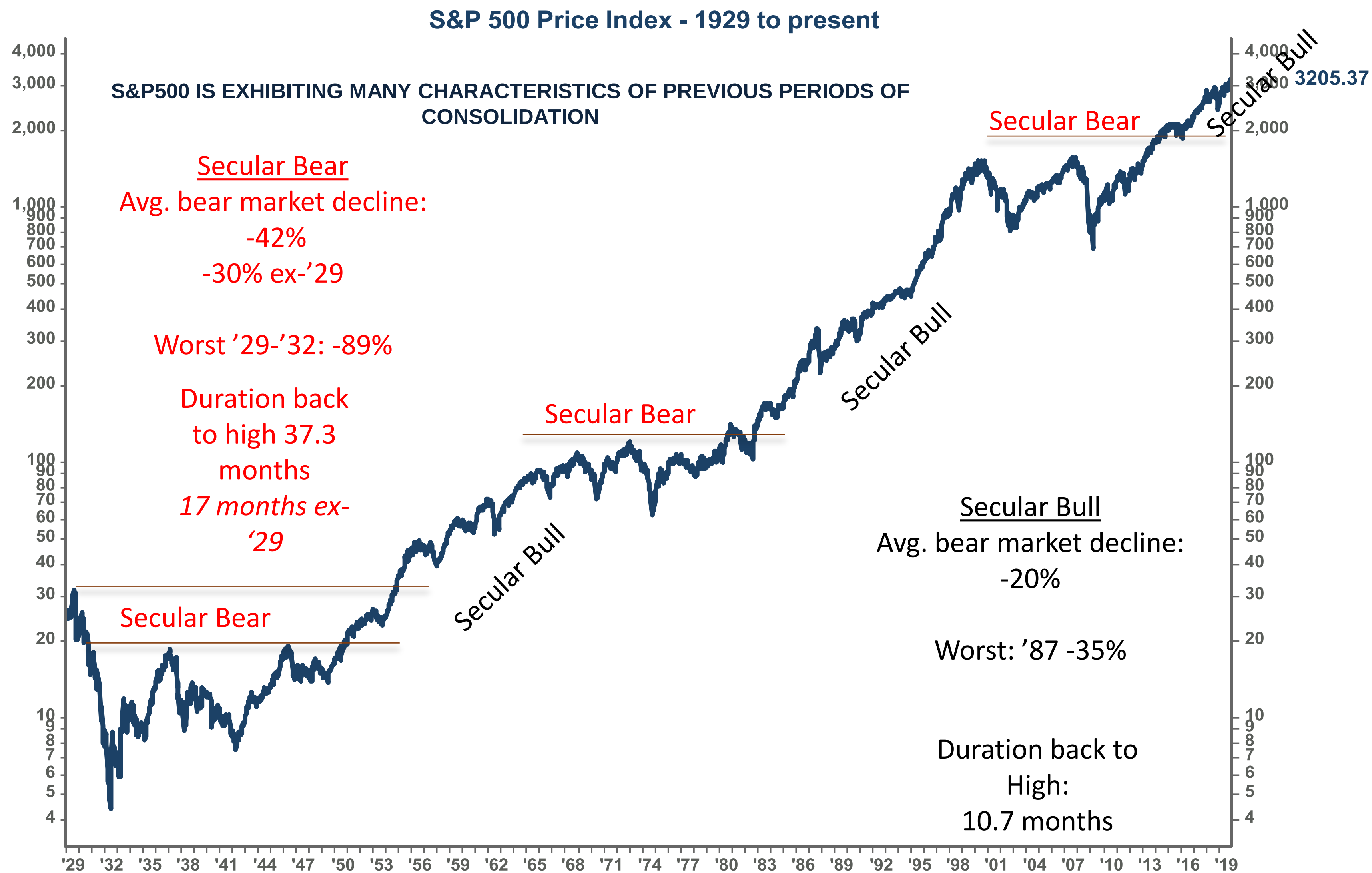
When analyzing the prior non-recessionary bear markets, these periods tend to see earnings growth flattening (with average earnings growth of ~1%) and see retracement in P/E of ~30%.





Source: FactSet, RJ Equity Portfolio & Technical Strategy

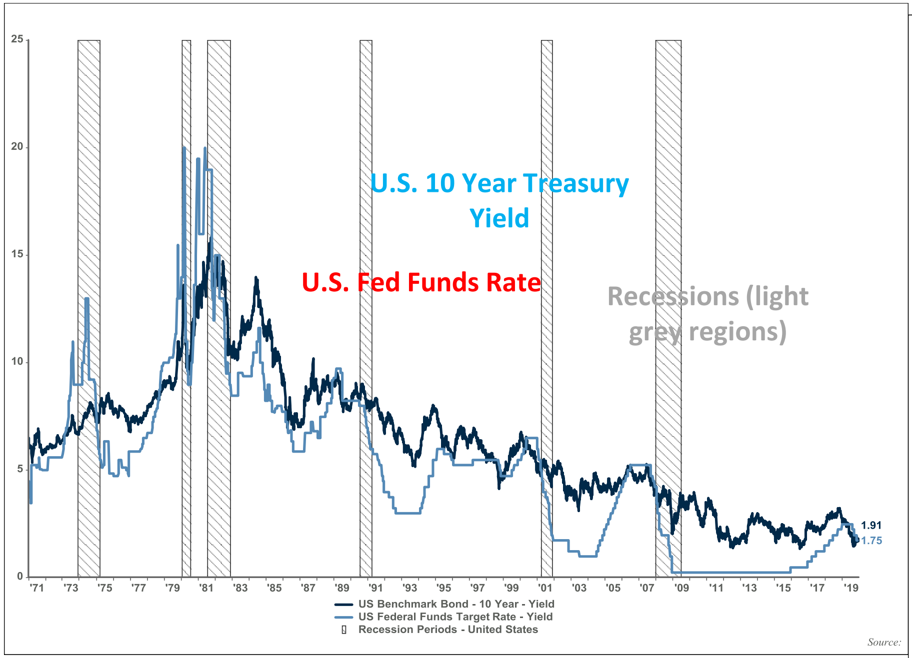
Secular Bull and Bear Markets

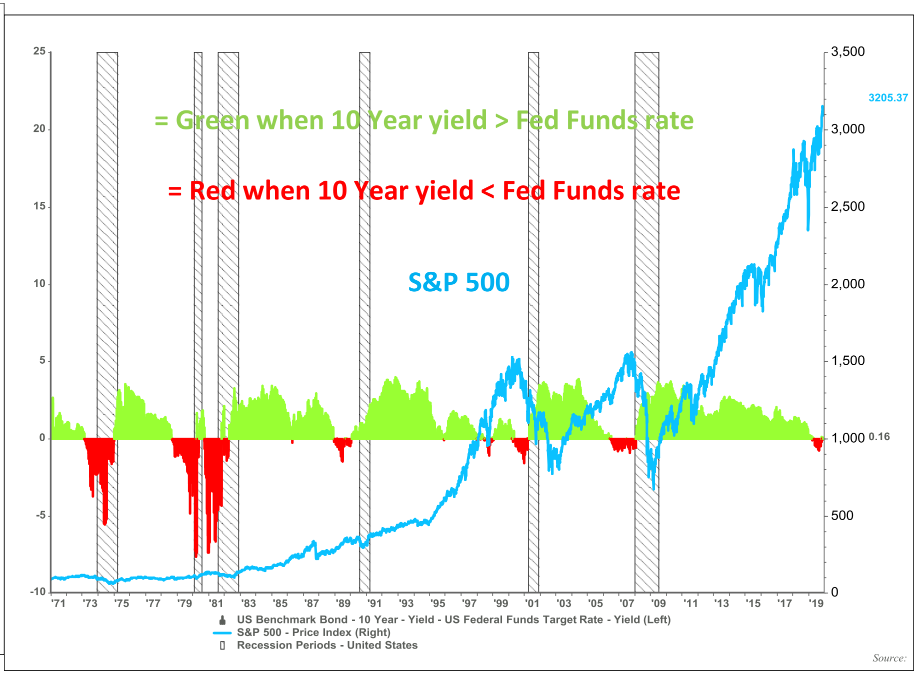


Source: FactSet, RJ Equity Portfolio & Technical Strategy

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

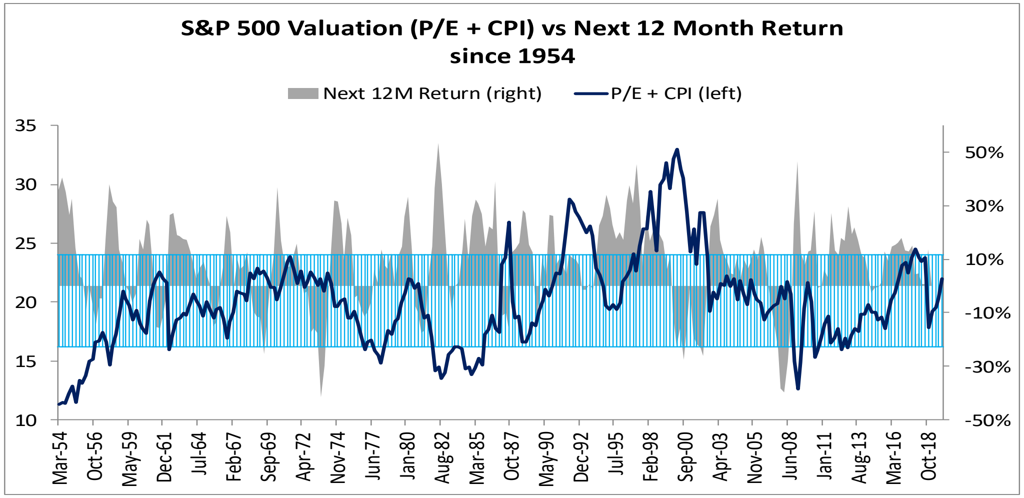
Note that when the fed funds rate lifts above the 10 -year Treasury yield (i.e. inverted yield curve—chart on right), recessions often follow. For this reason, yield curve flattening is a major concern. As you can see, the yield curve has been flattening recently; however, the yield curve has not inverted, but it is something to note going forward.

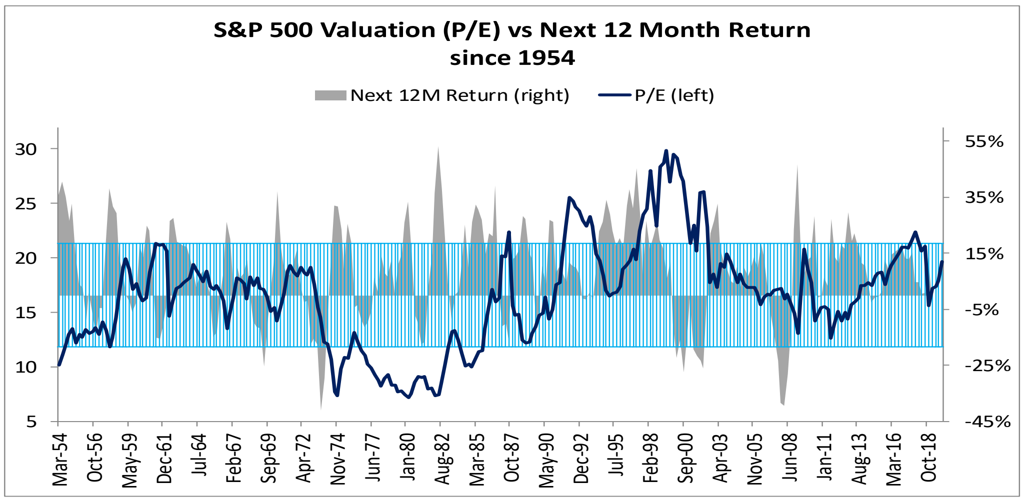




Source: FactSet, RJ Equity Portfolio & Technical Strategy

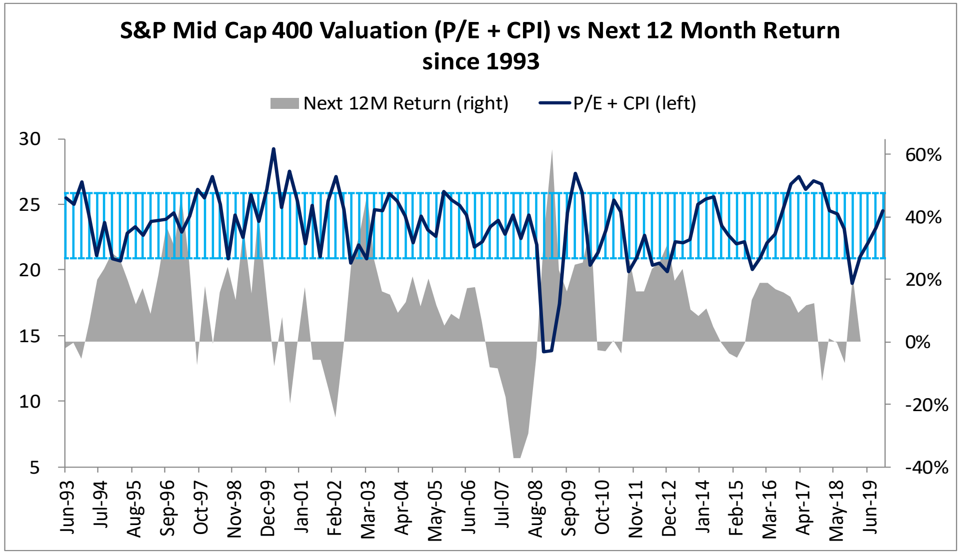
S&P 500 Valuation

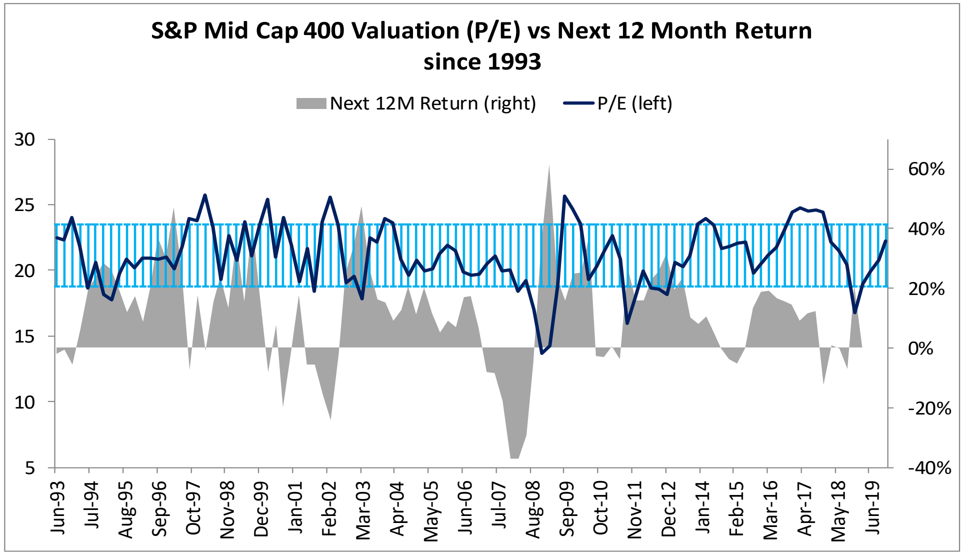




Source: FactSet, RJ Equity Portfolio & Technical Strategy

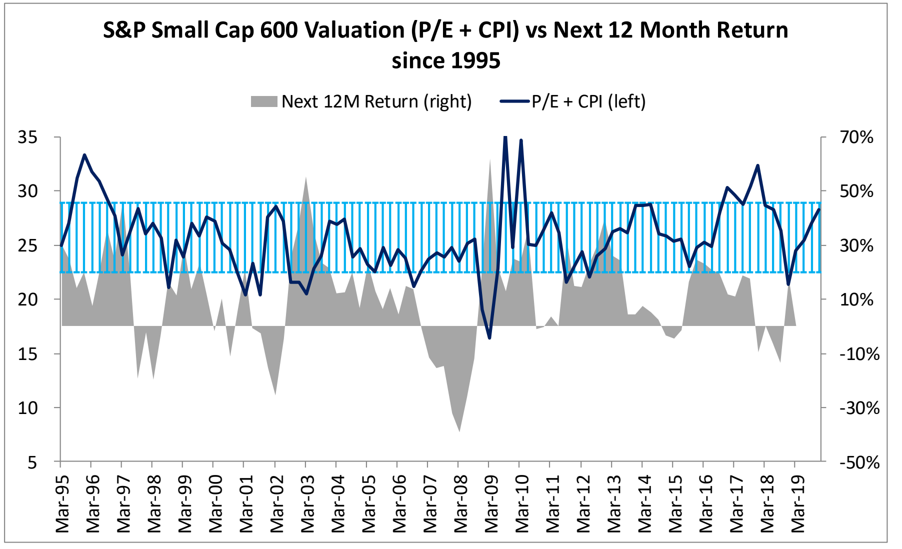
S&P Mid Cap 400 Valuation

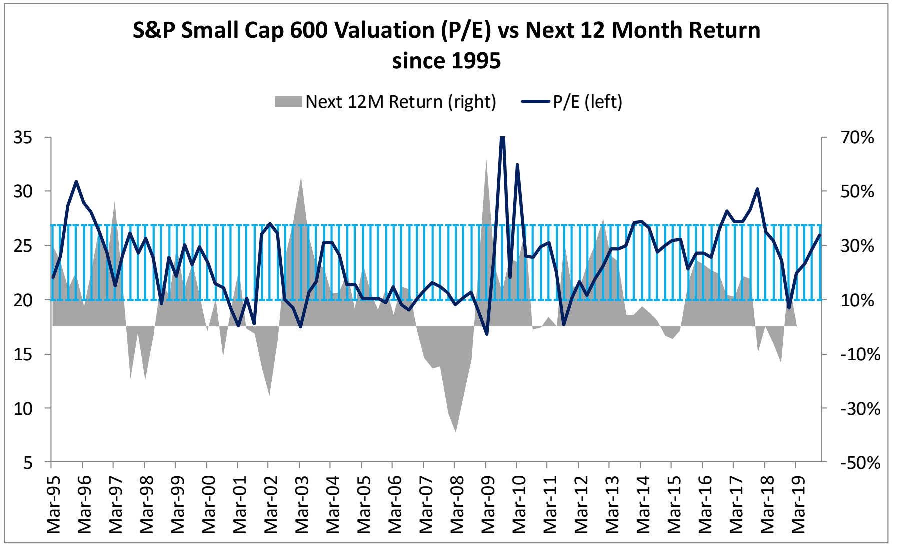




Source: FactSet, RJ Equity Portfolio & Technical Strategy

S&P Small Cap 600 Valuation

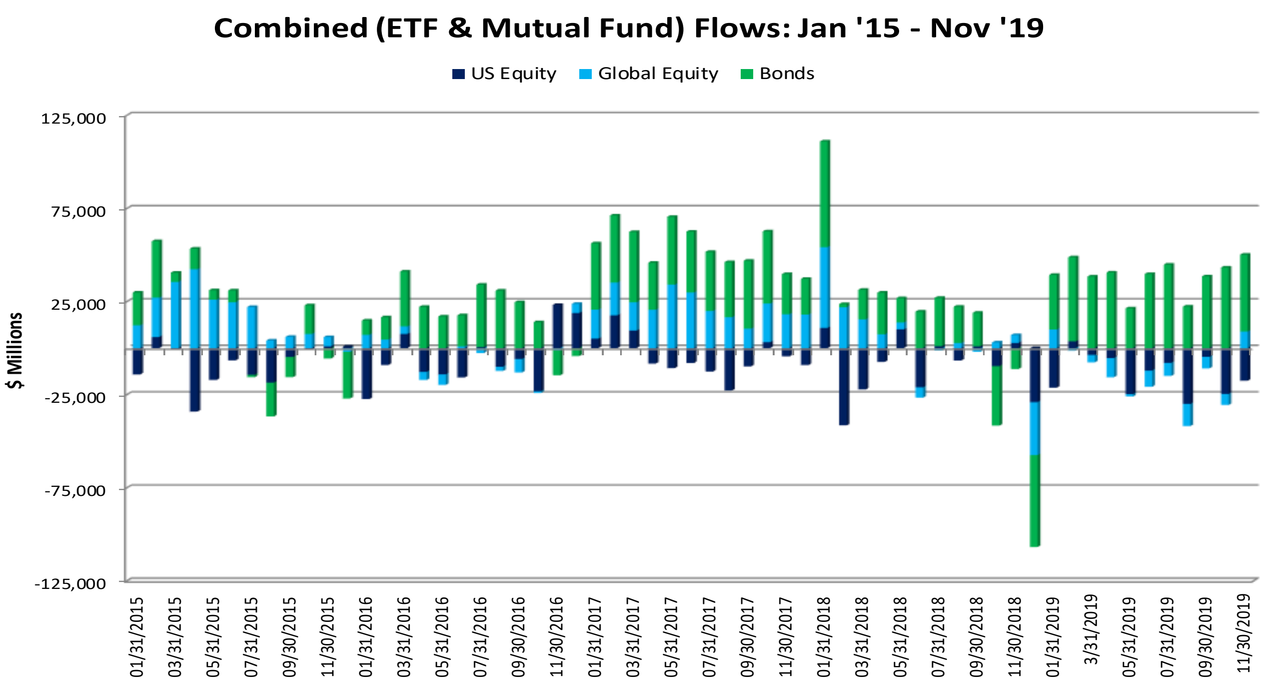




Source: FactSet, RJ Equity Portfolio & Technical Strategy

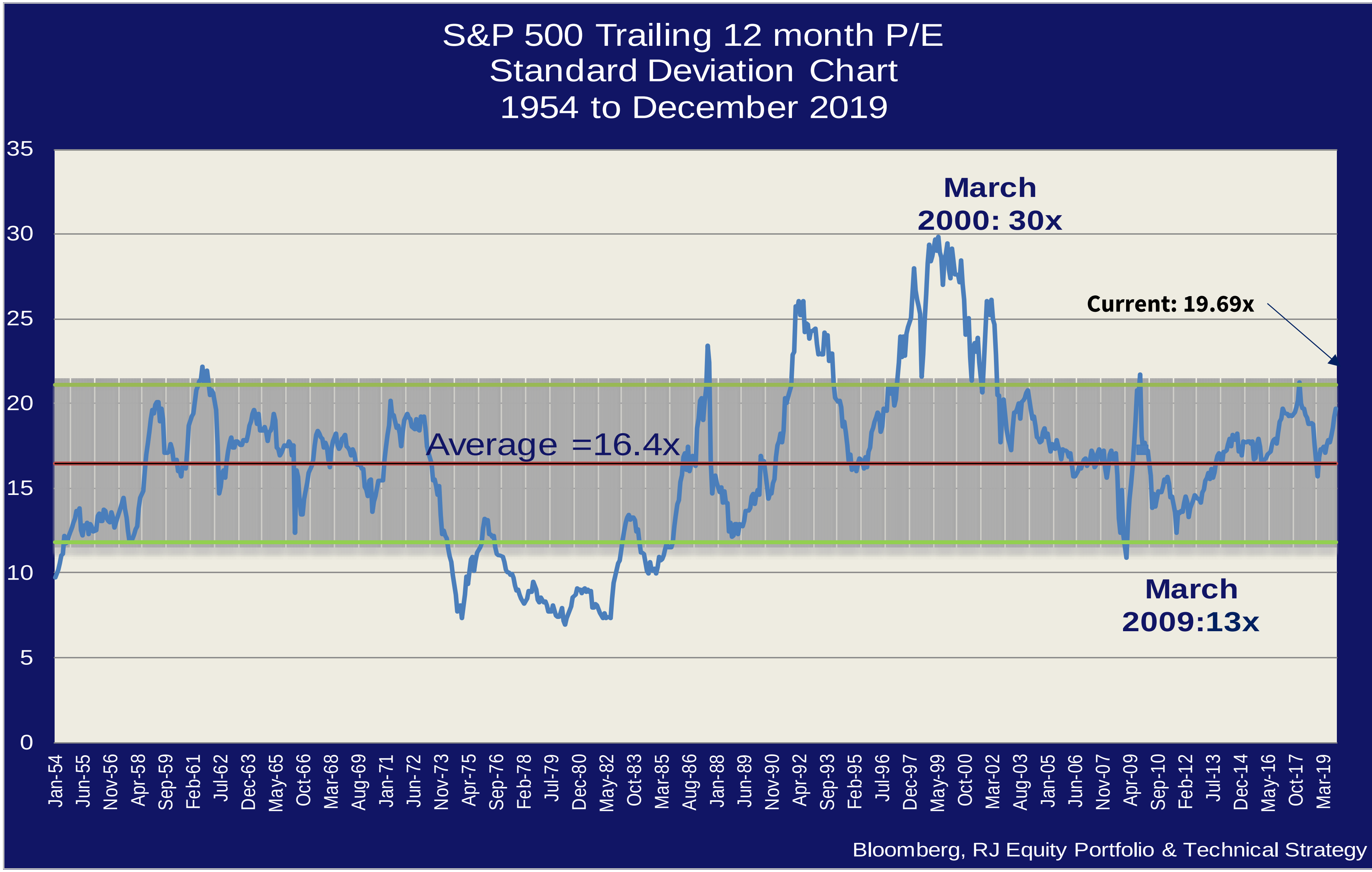
Fund Flows

Combined ETF and Mutual Fund Flows (below on the right): U.S. equities saw $17.5 billion in outflows during the month of November while Global Equities saw inflows of $8.9 billion during the month. Overall, this year (through the end of November), domestic equities have distributed $147.7 billion while foreign equities saw outflows of $37.8 billion. Total inflows into fixed income investments has been $404.5 billion this year.

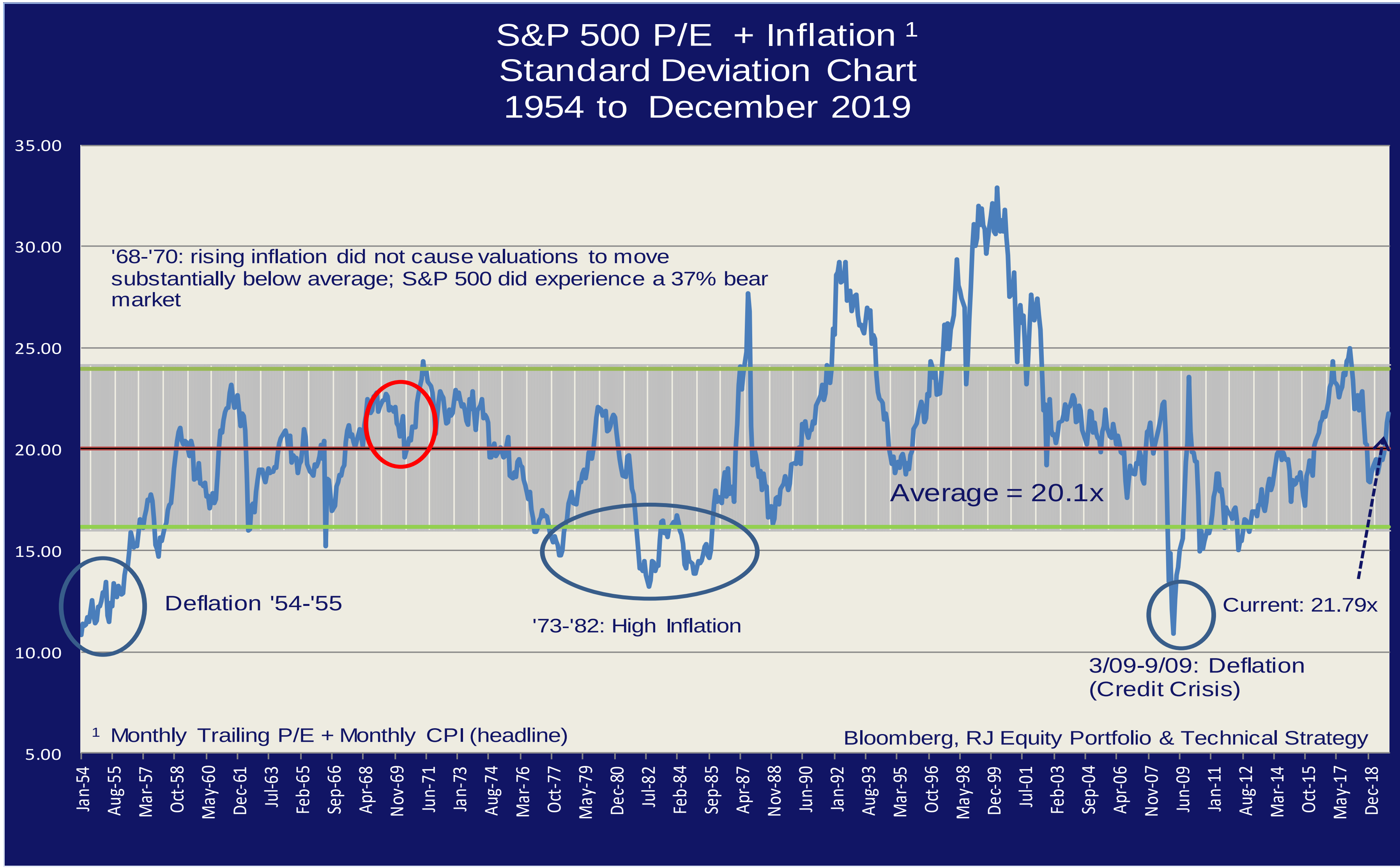


Source: Investment Company Institute (ici.org); RJ Equity Portfolio & Technical Strategy

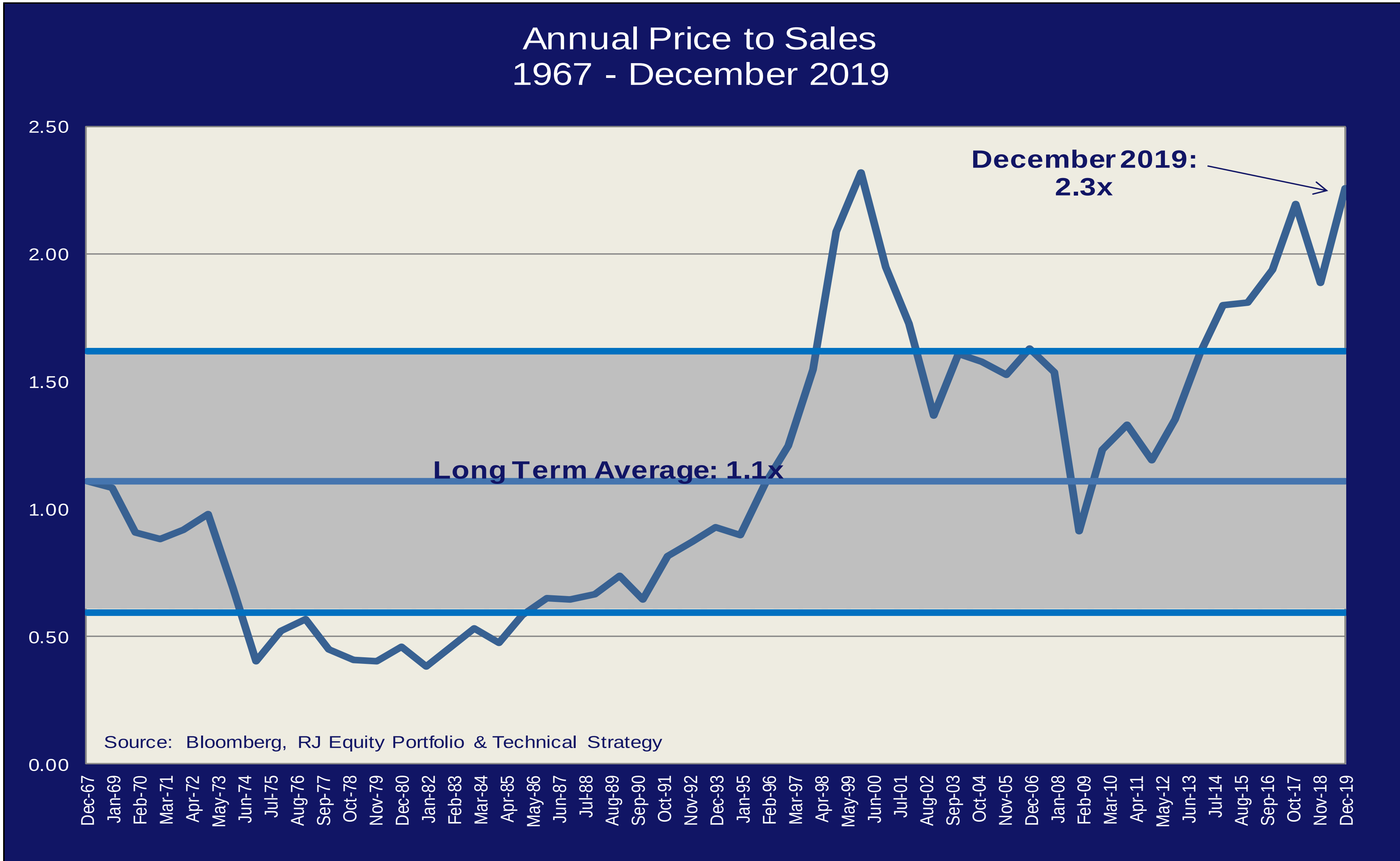
S&P 500: Long Term P/E



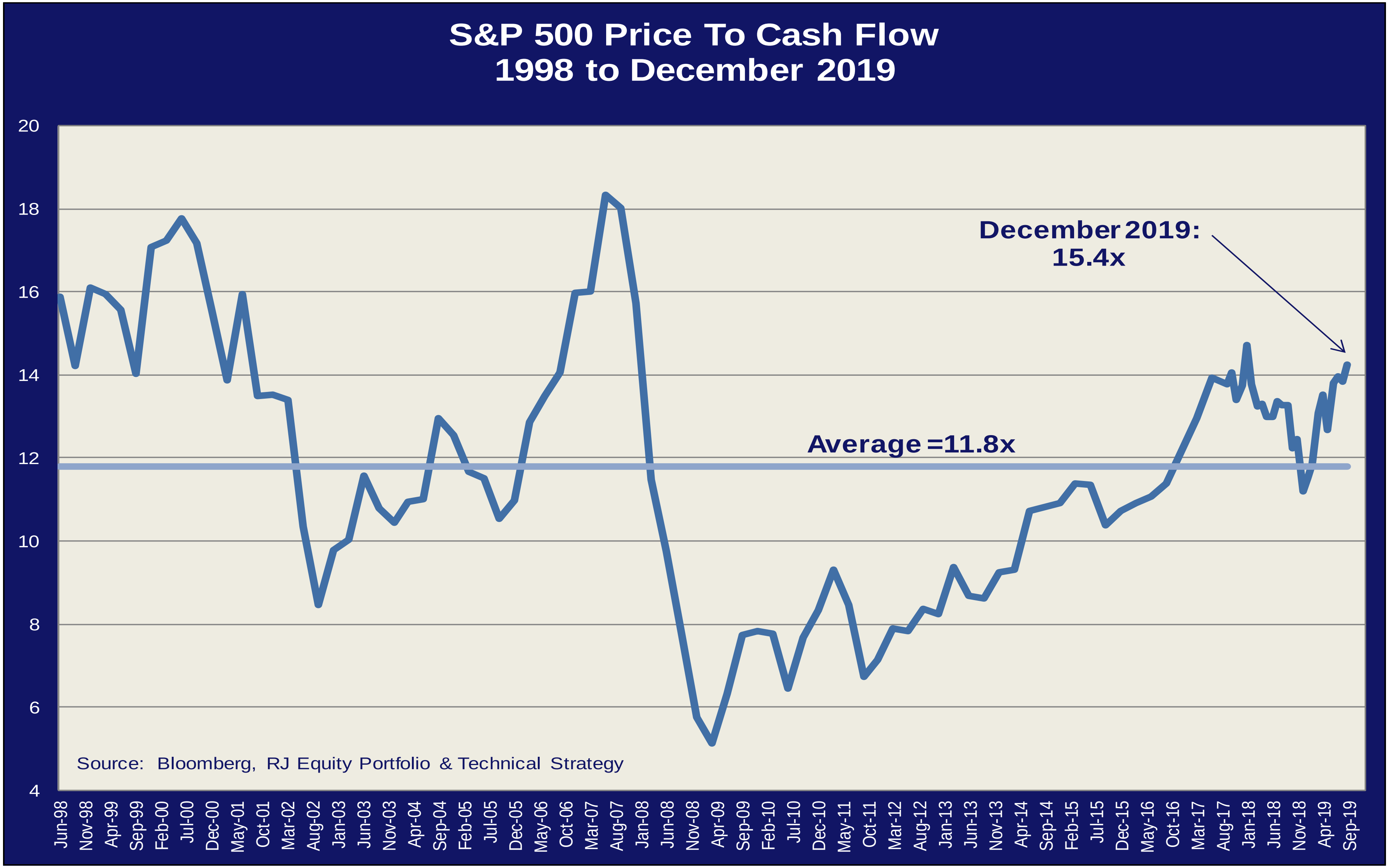
S&P 500: Inflation-Adjusted P/E



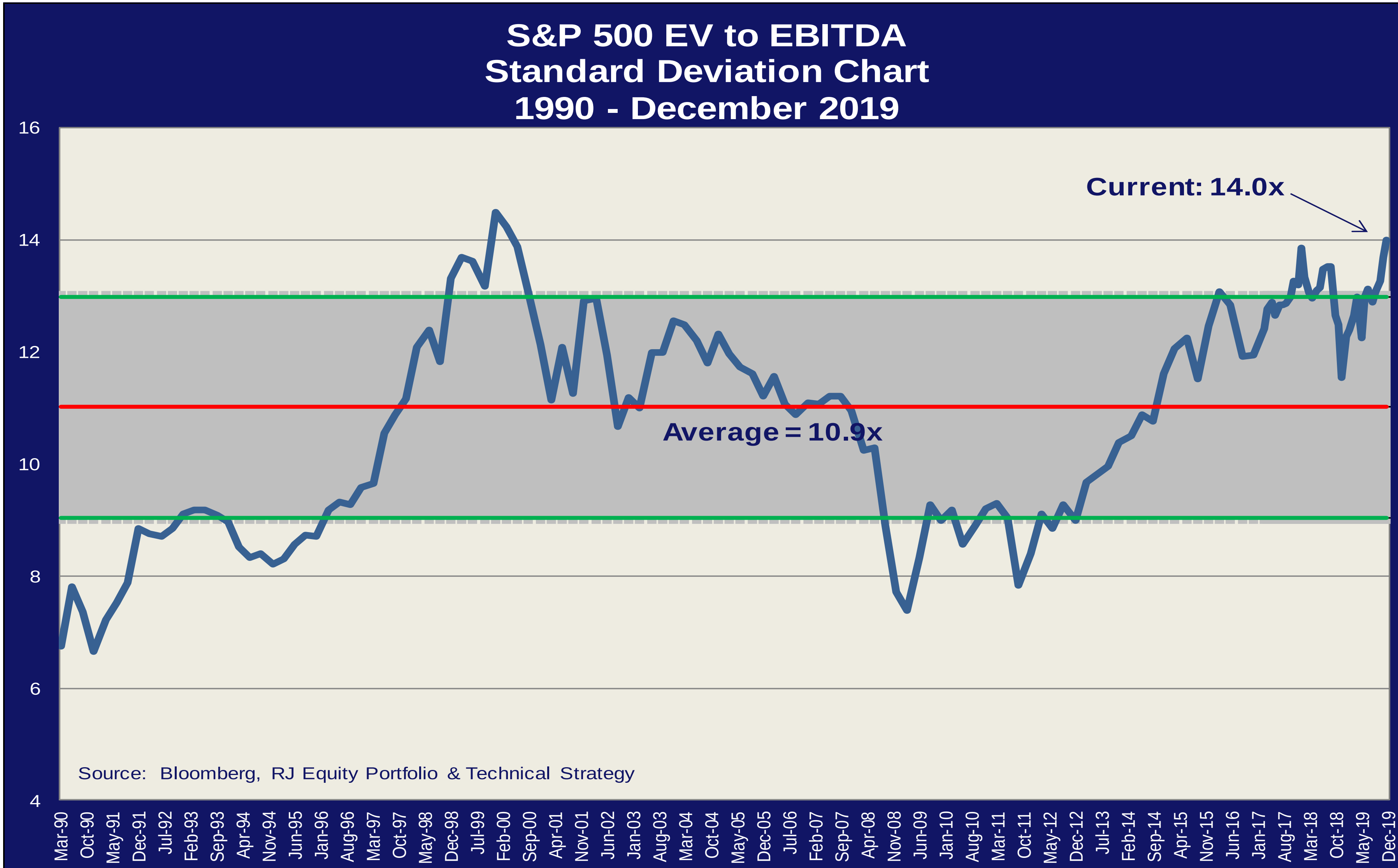
S&P 500: Price to Sales



S&P 500: Price to Cash Flow



S&P 500: EV to EBITDA



Sector Recommendations

Link to the full *December 2019 Sector Analysis* report… [CLICK HERE]

RECOMMENDATIONS

Sector	S&P 500 Weighting	Recommend
Information Technology	23.0%	Overweight
Health Care	14.1%	Overweight
Financials	13.3%	Overweight
Communications Services	10.4%	Overweight
Industrials	9.2%	Overweight
Consumer Discretionary	9.7%	Equal Weight
Energy	4.3%	Equal Weight
Consumer Staples	7.3%	Underweight
Utilities	3.3%	Underweight
Real Estate	2.9%	Underweight
Materials	2.6%	Underweight

Source: FactSet, RJ Equity Portfolio & Technical Strategy

S&P 500 Sector	Weighting Current	Weighting Recommend		Sector Thoughts: Fundamental Momentum (F), Valuation (V), Technical (T1- short term, T2- longer term)
Information Technology	23.0%	Overweight	F	Earnings estimates have been very stable and growth is set to accelerate in 2020, as trade tensions ease
			V	Relative P/E has expanded to its highest level of this economic cycle, however valuation is just in line with its average on a PEG basis
			T1	Technology's leadership remains steadfast as both price and relative strength ran to new highs over the past 30 days
			T2	When (if) relative strength breaks out for the equal weight index, it will be a positive sign and a signal to move down to smaller cap Tech names
Health Care	14.1%	Overweight	F	Looking to report the strongest earnings growth of all sectors in 2019 and estimate revisions are trending higher (best of all sectors)
			V	Valuation metrics are still near the lower end of their historical range. With headwinds easing, we see upside to the sector multiple
			T1	Very impressive run higher from the October low, resulting in a 13%+ price gain
			T2	We expect the sector base in the near term given it is ~11% above its 200 DMA. Would accumulate during the basing period
Comm. Services	10.4%	Overweight	F	More stable estimates on better earnings growth than the overall market still remains
			V	Continue to view valuation as attractive with a relative P/E below its 15 year average and a PEG ratio 19% below the S&P 500.
			T1	The sector is attractive with prices moving to new highs along with the overall market
			T2	Although relative strength trends are flattish over the past six months, we expect positive relative momentum to continue
Financials	13.3%	Overweight	F	The average financials stock is expecting 6.3% earnings growth in 2020, and estimate revisions have stabilized with the yield curve
			V	We view valuation as attractive. Relative P/Book is just under its post-credit crisis average, while relative P/E is near 15 year lows
			T1	Positive momentum continues to build as price and relative strength move higher
			T2	With prices extended in the near term, we suggest new purchases only in those less extended from breakout points while waiting for a broader consolidation
Industrials	9.2%	Overweight	F	We do believe manufacturing trends should show improvement in 2020 as trade tensions ease, which should support sector fundamentals
			V	We continue to view valuation as attractive with relative EV/EBITDA near 15 year lows
			T1	Overall price momentum is positive, however relative strength is unimpressive (disappointing on the heels of the announced trade deal)
			T2	Meager bounces in relative strength in early December proved unsustainable. Recent manufacturing data softened, contributing to this give-back
Consumer Discretionary	9.7%	Equal Weight	F	Solid consumer trends should drive sales growth, while an easing in trade tensions should support margins for the average stock
			V	We view valuation as supportive. The average stock's relative P/E remains below average
			T1	Relative performance has been a disappointment given positive developments on the trade front
			T2	Technically, a relative strength break out is necessary to influence a more positive bias toward the sector
Energy	4.3%	Equal Weight	F	Earnings estimates have stabilized recently as oil prices have firmed. If this can continue, earnings growth should improve dramatically in 2020
			V	We view valuation as mixed. Relative EV/EBITDA is at the low end of its range, while the sector is not as attractive on a P/E or PEG basis
			T1	The sector is once again approaching resistance at the 200 DMA (which has halted the index 4 times in the past 7 months)- coincided with oil peaks
			T2	With relative strength yet to penetrate the downtrend and with the 200 DMA overhead, pragmatic traders will wait for resistance to fail
Consumer Staples	7.3%	Underweight	F	Earnings growth remains slow, but stable
			V	We do not view valuation as attractive due to the sector trading well above its historical average on a relative P/E to Growth basis
			T1	The sector is gliding higher (albeit at a slower rate than the overall market), reflected in the relative strength near lows
			T2	Our positive bias toward the overall equity market contributes to our view that relative performance is likely to continue to lag
Utilities	3.3%	Underweight	F	Earnings are expected to consistently deliver ~5% growth, which we view as unattractive given our belief of improved global economic activity in 2020
			V	Valuation has compressed as interest rates have risen since August, however not enough to be considered attractive by us
			T1	Rising interest rates moved relative strength to a new low in recent weeks
			T2	The weak relative strength trend supports avoidance of the sector for now
Real Estate	2.9%	Underweight	F	Our expectation of a cyclical improvement and better economic trends in 2020, leaves the sector's slow and stable earnings as less desired
			V	Valuation multiples are below historic averages, and we view as supportive. However sentiment has shifted negative due to a pick up in interest rates
			T1	Soon after the US 10 year yield produced a higher low in early October, relative performance for the interest sensitive sector retreated
			T2	A positive relative strength bounce is likely given the sharp degree of underperformance in recent weeks. We would use any bounce to lighten positions
Materials	2.6%	Underweight	F	2020 and 2021 earnings growth estimates look strong, but we would like to see stabilization in the revisions
			V	Relative valuation metrics are in line with their averages, and we do not view them particularly attractive here
			T1	The sector continues to gain on an absolute basis with the overall market, however relative strength remains weak as it tests 7-month lows
			T2	We view other cyclical sectors as more attractive at this point

S&P Industry Group Returns (through December 19, 2019)

S&P 500 Industry Group	Class	Beta (3Yr)	1 Month	3 Month	12 Month
Technology Hardware & Equipment	Cycl.	1.33	5.5%	19.3%	56.2%
Semiconductors & Semiconductor Equ	Cycl.	1.51	6.0%	16.2%	51.2%
Software & Services	Cycl.	1.26	2.7%	8.3%	43.4%
Commercial & Professional Services	Cycl.	0.81	1.7%	1.2%	37.6%
Banks	Cycl.	1.08	4.8%	13.5%	37.0%
Consumer Durables & Apparel	Cycl.	1.00	5.2%	11.0%	36.3%
Media & Entertainment	Cycl.	1.02	3.4%	8.1%	35.2%
Household & Personal Products	Def.	0.50	2.2%	1.5%	31.1%
S&P 500	-	***1.00***	3.1%	7.1%	29.9%
Capital Goods	Cycl.	1.06	-0.5%	4.9%	29.6%
Insurance	Cycl.	0.87	1.5%	1.1%	29.2%
Consumer Services	Cycl.	0.77	5.5%	1.1%	29.1%
Food & Staples Retailing	Def.	0.72	-0.1%	3.9%	28.7%
Retailing	Cycl.	1.19	2.4%	2.0%	28.2%
Diversified Financials	Cycl.	1.09	3.2%	8.5%	27.4%
Health Care Equipment & Services	Def.	0.93	3.0%	10.2%	26.6%
Materials	Cycl.	1.00	2.3%	3.9%	23.7%
Real Estate	Cycl.	0.48	-1.5%	-2.7%	20.8%
Telecommunications Services	Def.	0.56	3.0%	1.6%	20.7%
Transportation	Cycl.	1.10	0.9%	3.0%	20.0%
Automobiles & Components	Cycl.	1.07	7.1%	4.7%	18.7%
Utilities	Def.	0.22	1.9%	0.5%	18.3%
Food Beverage & Tobacco	Def.	0.52	2.7%	5.7%	18.3%
Pharmaceuticals Biotechnology & Life	Def.	0.87	6.1%	11.3%	17.8%
Energy	Cycl.	0.99	3.7%	-0.8%	6.9%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Definitions

S&P Mid-Cap 400 – Provides investors with a benchmark for mid-sized companies.

S&P Small Cap 600 – Provides investors with a benchmark for small-sized companies.

U.S. Treasury – Securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

200-DMA– The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

50-DMA– The 50-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 50 days.

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.

EV to EBITDA – Enterprise Value (EV) divided by EBITDA (Earnings Before Interest, Tax, Depreciation, & Amortization).

- **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.

Standard Deviation – Measures the fluctuations of returns around the arithmetic average return of investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

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

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

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