Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

APRIL 16, 2020 | 3:54 PM EDT

Weekly Market Guide

Short-Term Summary:

Record fiscal and monetary stimulus (estimated ~30% of US GDP!), along with a stall in the number of COVID-19 hospitalizations and new cases, has led to the sharpest 15 day rally for the S&P 500 since the 1930s (+27%). While the market bounce has been impressive and we are hopeful that the lows are in, there is plenty of uncertainty and market-moving information in the coming days and weeks ahead (volatility and 5-10% moves are likely to be the norm). Just as the 35% collapse in 26 days was “too far, too fast,” the rally has been as well.

Investor focus is now shifting toward restarting the economy, in which President Trump is set to release guidelines on relaxing social distancing today. Challenges around testing, therapeutics, and contact tracing remain. Preliminary NYC hydroxychloroquine results will be revealed on Monday (4/20) and is likely the biggest item for the short term, as positive results can improve the recovery trajectory, whereas negative results will be a setback to the timeline. Raymond James analyst Steven Seedhouse has been optimistic on the results for some time but lowered his expectations to a “coin flip” this week following disappointing China test results. Additionally, there still remains limited progress on widespread testing (with capacity issues), as well as contact tracing (although this could ramp up rapidly if the American public buys in). There are also risks to reopening the economy too quickly, i.e. potential for a resurgence of the virus. We will be watching countries ahead of us for clues on the virus spread, as well as their citizens’ confidence/willingness to get back to normalcy. Our base case outlook is for a restart of the US economy in phases around the Memorial Day to July 4th timeframe.

With so much uncertainty remaining, we would not be surprised to at least see the market “cool off” from current levels (18x P/E vs 13.8x at the low). In assessing previous recessionary bear markets, it would be highly unusual for the S&P 500 to just glide back to the previous highs. On the other hand, it is very common for exhaustive selloffs to be followed by sharp bounces, and then a “grind it out” pattern with potential “retests” as more information surrounding the issues of the day are gained (and the market has time to digest its sharp pullback). An actual “retest” of the March 23rd lows may not have to happen, but a ~10% pullback to the 2400-2500 range could occur very easily. Even if the lows are in, long term investors have not missed the long term opportunity, as we would only be 17 days (and up 25%) into the next bull market. Bull markets have historically lasted 1233 days with gains of 155% on average. In sum, we would use pullbacks as opportunities to accumulate stocks for the long term.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
S&P 500	-13.8%	-4.2%
S&P 500 (Equal-Weight)	-22.3%	-16.4%
Dow Jones Industrial Avg	-17.6%	-10.9%
NASDAQ Composite	-6.5%	5.2%
Russell 2000	-29.0%	-25.0%
MSCI All-Cap World	-17.3%	-10.4%
MSCI Developed Markets	-22.0%	-17.3%
MSCI Emerging Markets	-20.3%	-18.2%
NYSE Alerian MLP	-51.5%	-58.9%
MSCI U.S. REIT	-24.1%	-20.8%

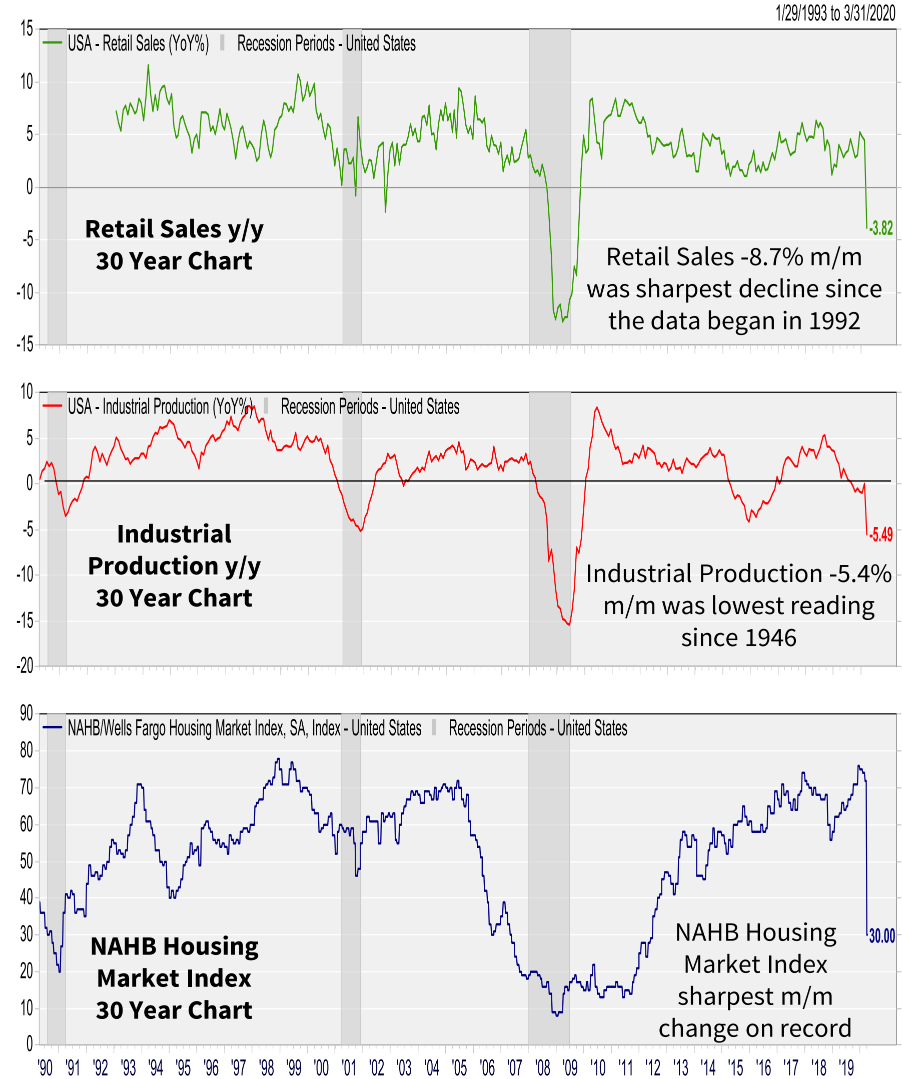
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	-5.0%	25.6%
Health Care	-5.3%	15.6%
Consumer Staples	-6.0%	7.8%
Utilities	-9.3%	3.5%
Consumer Discretionary	-9.9%	10.2%
Communication Svcs.	-11.0%	10.8%
Real Estate	-13.0%	3.0%
S&P 500	***-13.8%***	-
Materials	-20.8%	2.4%
Industrials	-25.3%	7.9%
Financials	-29.8%	10.5%
Energy	-46.3%	2.7%

MACRO: US

The economic shutdown is starting to show up in the monthly data, as economic readings are hitting historically negative superlatives across the board (April data will likely be even worse). For example, retail sales plunged -8.7% m/m which was the sharpest decline since the data began in 1992, industrial production fell -5.4% m/m which was lowest reading since 1946, and the NAHB Housing Market index saw its sharpest m/m change on record. Not to mention, 12% of the US workforce has filed for unemployment in just the last four weeks! We did not need this data to know that economic activity has understandably fallen off of a cliff. This is why the Fed and Administration have proactively enacted enormous fiscal and monetary stimulus (estimated ~30% of US GDP) in order to help bridge the gap until the economy can restart. With COVID-19 hospitalizations and new daily cases appearing to stall, investor focus is shifting toward the timeline of restarting the economy. There are many challenges and much uncertainty surrounding this, and we will be monitoring additional data for clues on the timeline and eventual trajectory of the economic recovery. Our base case outlook assumes the US economy begins the rebuilding process between Memorial Day and 4th of July (consistent with Raymond James Health Care Policy Analyst, Chris Meekins). We assume that there is a U-shape pattern, with the bottom of the U not extended. Therefore, economic growth picks up in Q3, Q4, and into 2021.

US economic data reported in the past week:

Event	Period	Actual	Consensus	Prior
CPI ex-Food & Energy SA M/M	MAR	-0.10%	0.10%	0.20%
CPI ex-Food & Energy NSA Y/Y	MAR	2.1%	2.3%	2.4%
CPI SA M/M	MAR	-0.40%	-0.30%	0.10%
CPI NSA Y/Y	MAR	1.5%	1.6%	2.3%
Hourly Earnings Y/Y (Final)	MAR	3.1%	-	3.1%
Export Price Index NSA M/M	MAR	-1.6%	-2.0%	-1.1%
Import Price Index NSA M/M	MAR	-2.3%	-3.3%	-0.70%
Retail sales ControlGroup M/M	MAR	1.7%	-1.5%	-0.22%
Retail Sales ex-Auto SA M/M	MAR	-4.5%	-5.0%	-0.40%
Retail Sales SA M/M	MAR	-8.7%	-7.0%	-0.40%
Industrial Production SA M/M	MAR	-5.4%	-4.0%	0.50%
NAHB Housing Market Index SA	APR	30.0	52.5	72.0
Building Permits SAAR (Preliminary)	MAR	1,353K	1,300K	1,452K
Housing Starts SAAR	MAR	1,216K	1,307K	1,564K
Housing Starts M/M	MAR	-22.3%	-17.5%	-3.4%
Initial Claims SA	04/11	5,245K	5,803K	6,615K



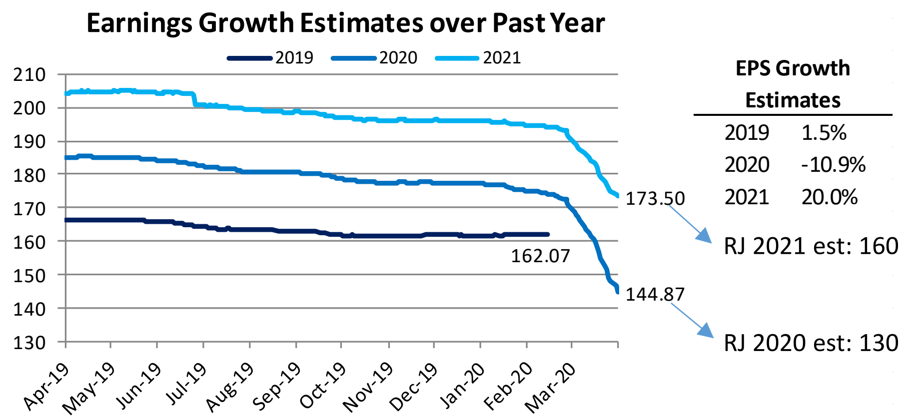
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

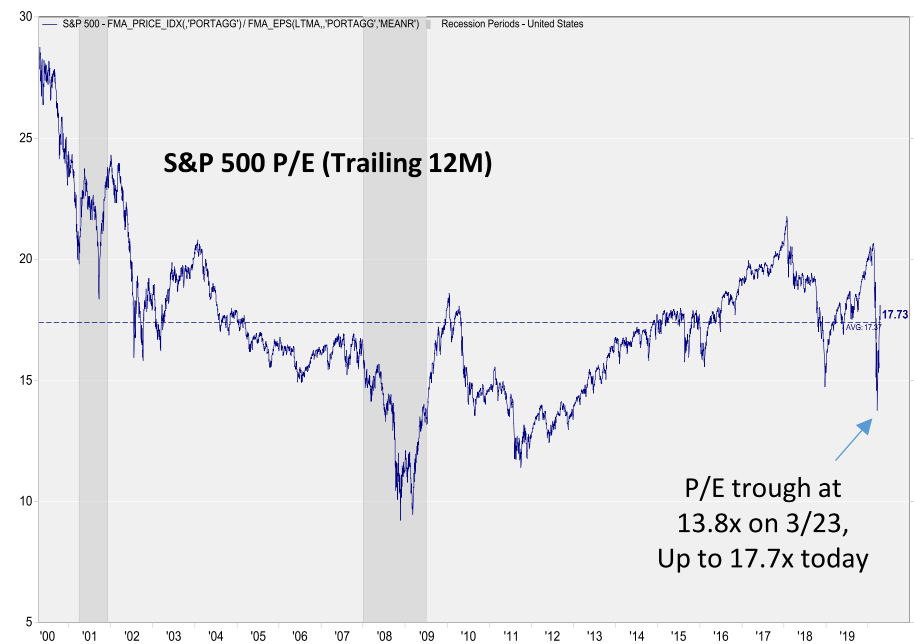
FUNDAMENTALS

Q1 earnings season began this week with fairly positive price reactions in sectors, outside of Financials (which included large credit loss provisions). We will be interested to hear from companies on not only their fundamentals and outlook, but also on how they are adjusting to the "new economy" and what their potential path is to reopen business. S&P 500 earnings estimates reflect -12% growth expectations for the quarter currently with the most impacted sectors being Energy, Consumer Discretionary, Industrials, and Materials. The Technology and Health Care sectors have see very resilient earnings expectations so far, contributing to their outperformance through the bear market. For the full year, 2020 S&P 500 earnings estimates are cascading lower to $144.87 (-11% y/y). While earnings (and sharply negative estimate revisions) are a headwind to the market, we believe 2021 estimates will hold more importance as investors turn their focus toward the trajectory of the recovery.

In our base case outlook, we apply $130 (-20% y/y) in 2020 earnings which improves to $160 (using 3% GDP growth) in 2021. Applying a 19x P/E multiple and discounting back 1 year, we arrive at a year-end 2020 price objective of 2,797. This 19x P/E is the average P/E since 1985, and is also in line with the historical average when inflation is in the 2% range. We believe this is appropriate in a scenario of economic recovery, given the low inflation and interest rate environment.

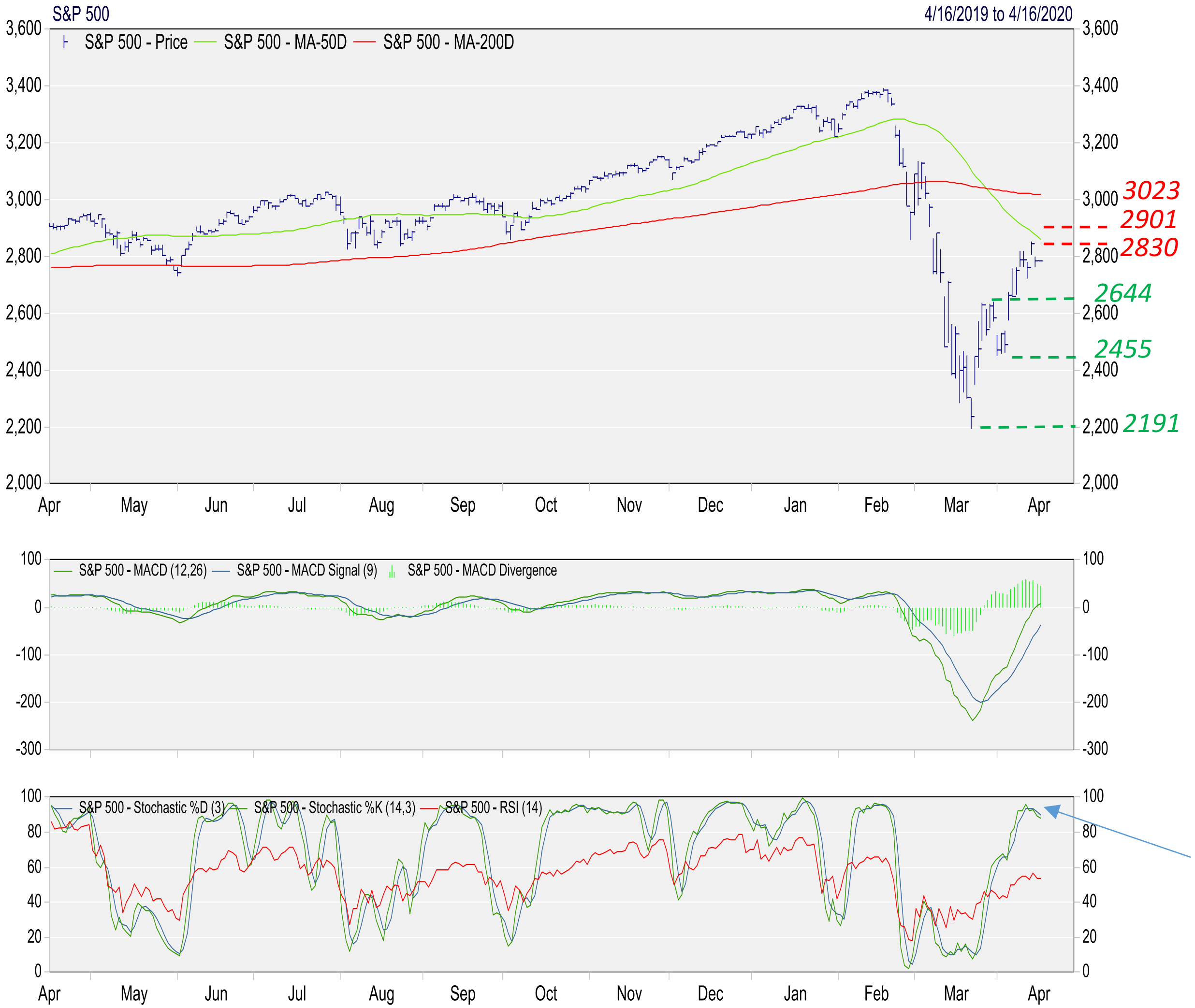
With the S&P 500 currently trading near our 2020 base case price target of 2797, we believe the market has gotten a little ahead of itself on some of the recent optimism surrounding the stall in COVID-19 hospitalizations and talks of restarting the economy. Markets often overreact to the downside (i.e. -34% in 26 days) and can overreact to the upside (i.e. +27% in 15 days) as the "fear of missing out" compounds on itself. We expect volatility to continue with uncertainty high and plenty of market-moving information in the coming days and weeks (5-10% moves are likely the norm). Also given the very fluid nature of the current situation (virus spread, testing capabilities, therapeutics, economy opening timeline, etc.), our base case target can quickly shift toward our bull or bear case scenarios. In an upside scenario, we arrive at a price objective of 3,128 by year end. Whereas in a downside scenario, we arrive at a year end 2020 price objective of 1,914 for the S&P 500.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: SHORT TERM



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 rally stalled near the 2830 technical resistance level, which is also coinciding with the downward-trending 50 day moving average (2872) and 50% Fibonacci retracement level of the current bear market (2793).

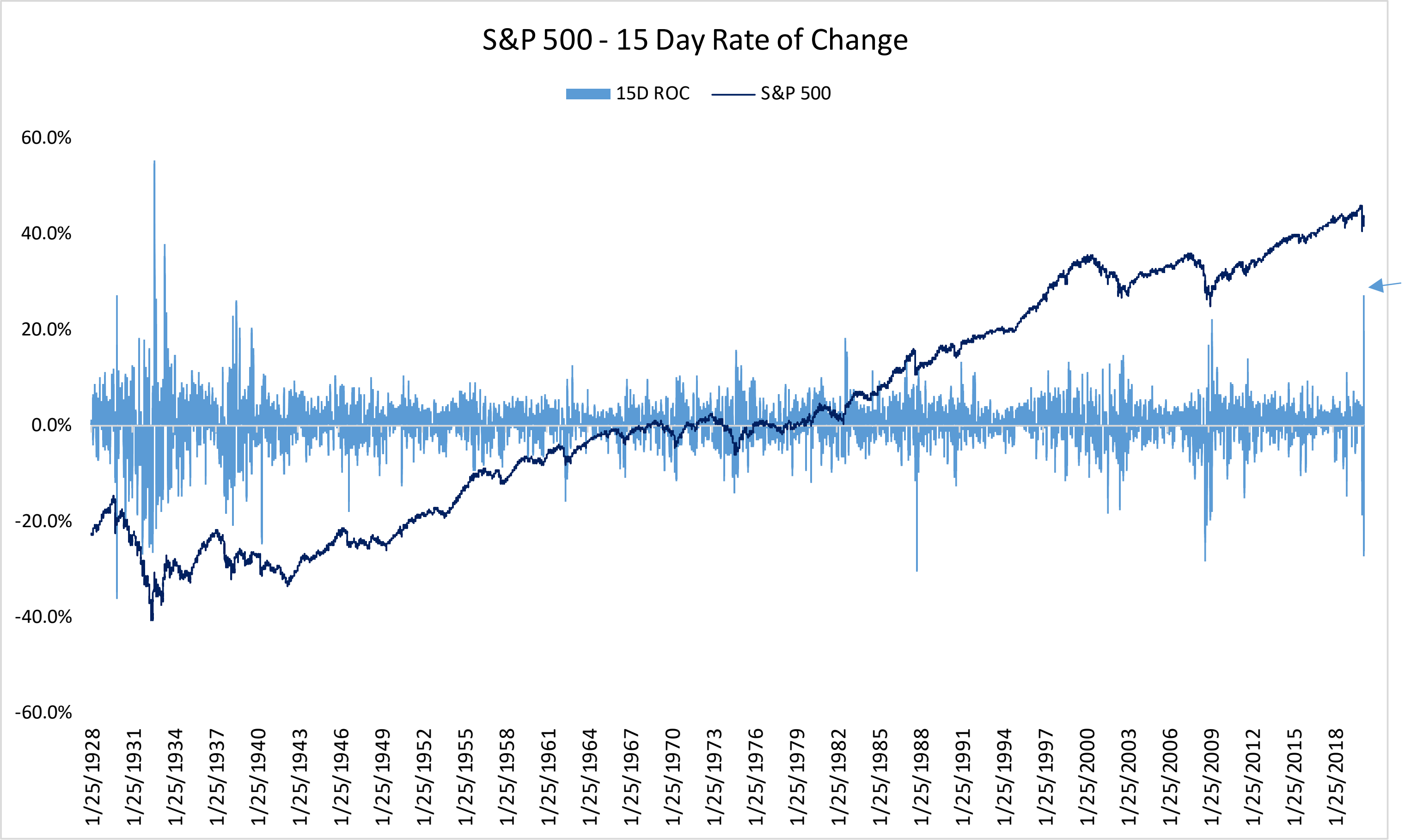
The S&P 500 has rallied a great deal in a short amount of time, and just as it “went too far too fast” on the way down, it has done the same thing on the way up. With a large band of technical resistance between 2850 and 3000, we believe the index will likely need to at least rest in the short term.

Initial downside support is ~2644 with more support at 2538 and 2455. A 5-12% downside move to these levels could occur very easily, and if able to hold (keeping the trend of higher lows in place) would be healthy.

Overall in assessing the magnitude of the rally since 3/23, the type of momentum we have seen is not typical of a “bear market rally.” It is more indicative of a bottom being put in, in our view. Thus while the market has gotten ahead of itself in the short term and is due for a pause or pullback, the overall picture looks promising 12 months out.

TECHNICAL: LONG TERM

The chart below shows the S&P 500 15-day price change since 1928. As you can see, the 27% rally from 3/23 to 4/14 was the sharpest 15 day up-move since 1933 (coming out of the Great Depression)! Looking at other bear market pullbacks throughout history, similar surges in price (especially after collapses in price) are often seen *near* the lows. This does not mean that we have seen the lows of this bear market, but it does increase our conviction that a pullback that even approaches those 3/23 lows will be a good opportunity for the long term investor.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BULL AND BEAR MARKETS

The longest-lasting bull market in history came to an end on 2/19, corresponding with the current bear market (which almost assuredly will be recessionary). On average, recessionary bear markets see an average price decline of -33% over 12 months, and take 27 months to return to the prior highs. The median recessionary bear market has pulled back -24% over 10 months, only taking 12 months to return to the prior highs.

It is also fairly normal for the sharpest recessionary bear markets to recover the quickest as well. For example, 1960, 1980, 1982, and 1990 declined for 10, 2, 6, and 3 months respectively… and had returned to their previous highs 6, 4, 3, and 4 months later respectively.

The current bear market declined -34% in 1 month (sharpest ever), in line with the average recessionary bear market decline. It has largely been valuation-driven, while earnings will decline over time (trailing 12 month earnings has only contracted -4% so far). In every recessionary bear market (except for 2002), the market bottomed before earnings (often months before) and we expect that to hold true this time.

In looking at these historical examples, it is not surprising to see how sharp the potential recovery could be. However, we believe the S&P 500 has gotten a little ahead of itself in the short term. Even if the lows of this bear market were seen on 3/23, the long term opportunity remains for investors. For example, if the 3/23 lows are not undercut, we are just 17 days and 25% into the next bull market today. The average bull market historically has lasted for 1,233 days with an average price appreciation of 155%. Bear markets have historically been fast and violent, while bull markets last for years.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Bull Markets

Trough	Peak	Price Change	# of Days	Peak P/E - Inflation Adjusted [1]	Peak P/E - Core Inflation
6/13/1949	8/2/1956	267%	1,789	15.9	13.5
10/22/1957	12/12/1961	86%	1,042	22.7	22.8
6/26/1962	2/9/1966	80%	913	20.2	21.3
10/7/1966	11/29/1968	48%	516	22.7	23.2
5/26/1970	1/11/1973	74%	665	22.8	24.2
10/3/1974	11/28/1980	126%	1,555	21.7	21.3
8/9/1982	8/25/1987	231%	1,277	27.7	24.2
10/20/1987	7/16/1990	71%	691	21.4	20.2
10/11/1990	7/20/1998	304%	1,963	27.0	30.8
10/8/1998	3/24/2000	68%	368	33.0	32.0
3/6/2009	2/19/2020	396%	2,758	23.0	23.1
10/10/2002	10/11/2007	105%	1,259	20.8	21.7
Average		***155%***	***1,233***	***23.2***	***23.2***
Median		***96%***	***1151***	***22.7***	***22.9***

Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Jul-57	Oct-57	3	-20%	12	-16%	-23%
Jan-60	Oct-60	10	-18%	6	-9%	-15%
Dec-68	May-70	17	-36%	31	-24%	-18%
Jan-73	Oct-74	22	-48%	75	-60%	-22%
Feb-80	Apr-80	2	-21%	4	-12%	-8%
Feb-81	Aug-82	6	-24%	3	-18%	-26%
Jul-90	Oct-90	3	-21%	4	-15%	-37%
Mar-00	Oct-02	27	-49%	60	-39%	-24%
Oct-07	Mar-09	17	-59%	50	-37%	-52%
Average		***11.9***	***-33%***	***27***	***-26%***	***-25%***
Median		***10.0***	***-24%***	***12***	***-18%***	***-23%***
Feb-20	*Mar-20*	*1*	*-34%*	*?*	*-24%*	*?*

TECHNICAL: BEAR MARKETS

On the following pages, we take a look at each of the recessionary bear markets since 1957. We compare the current bear market to these, since it will almost assuredly be "recessionary."

As you can see, the current bear market that fell -34% in 26 days has been the sharpest of all. The ultimate path will play itself out, but it would be very unusual for the S&P 500 to just glide back to its prior highs.

We are sympathetic to the current bear market being very unusual itself, in that it was a self-inflicted economic shutdown with record stimulus coming into play very early on. However, there remains much work to be done on reopening the economy and uncertainty abounds surrounding the trajectory and timeline of the eventual economic recovery.

For these reasons (among others), we remain guarded in the short term following the sharpest 15 day rally since 1933.

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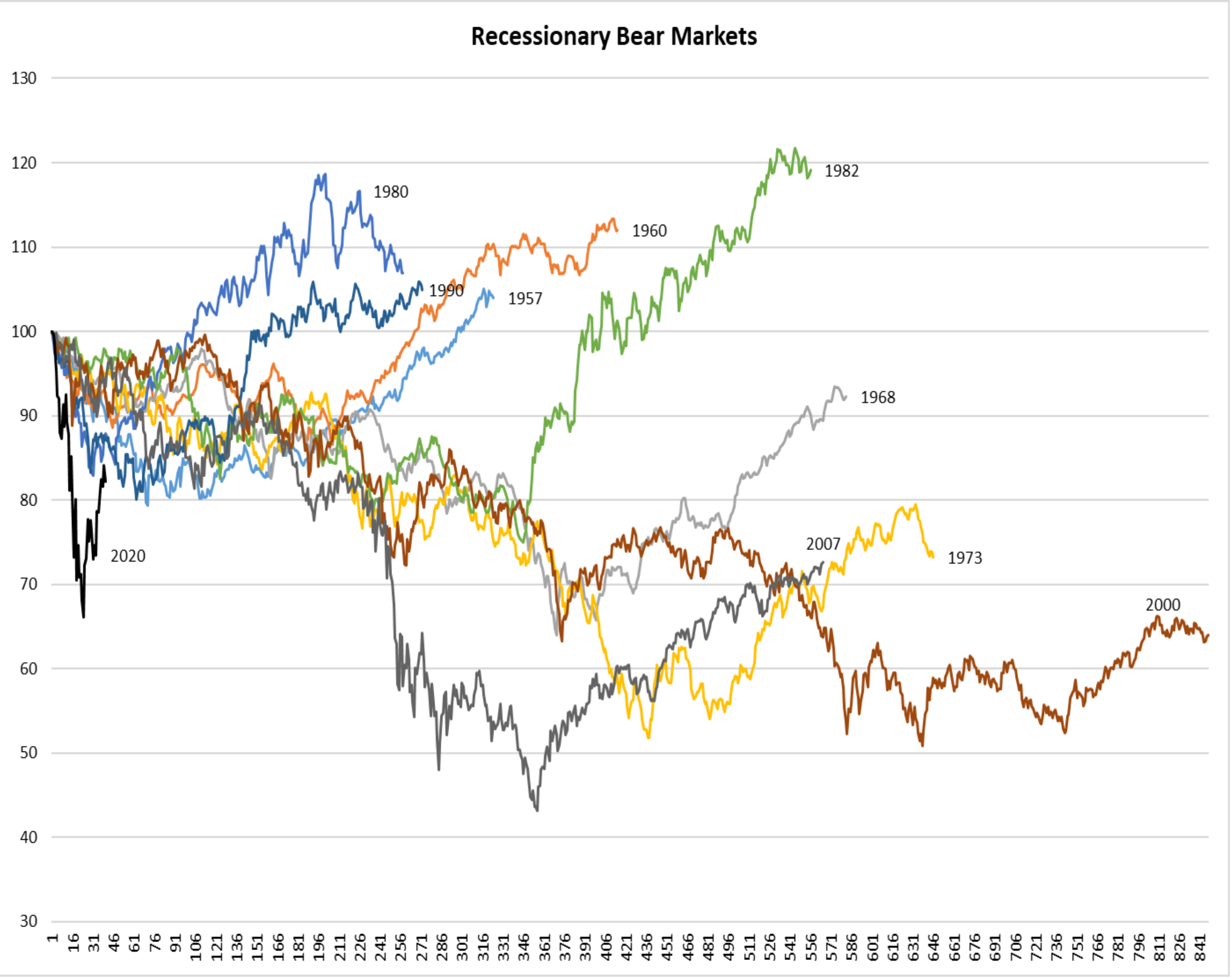

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: BEAR MARKETS

The last 9 recessionary bear markets are shown on this page and the next, followed by the current market.

It is very normal in these prior bear market examples for exhaustive selloffs to be followed by sharp bounces, and then a “grind it out” pattern with potential “retests” as more information surrounding the issues of the day are gained. At the same time, the market has time to digest its sharp pullback and rebuild itself internally.

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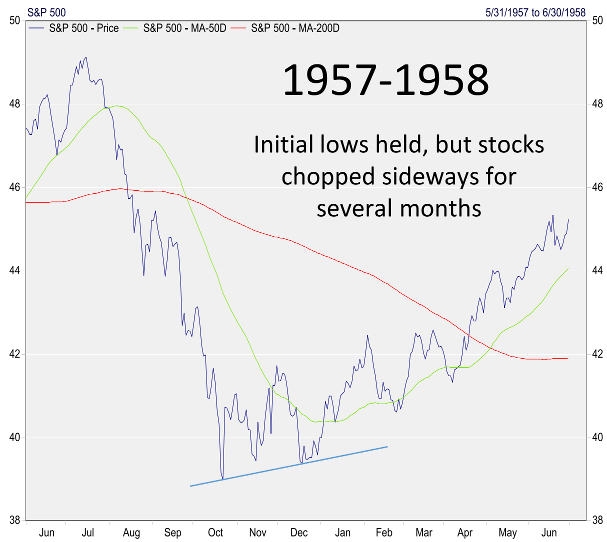
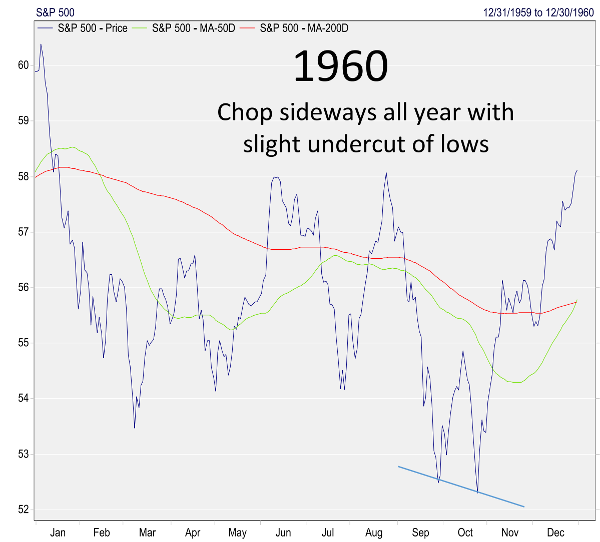
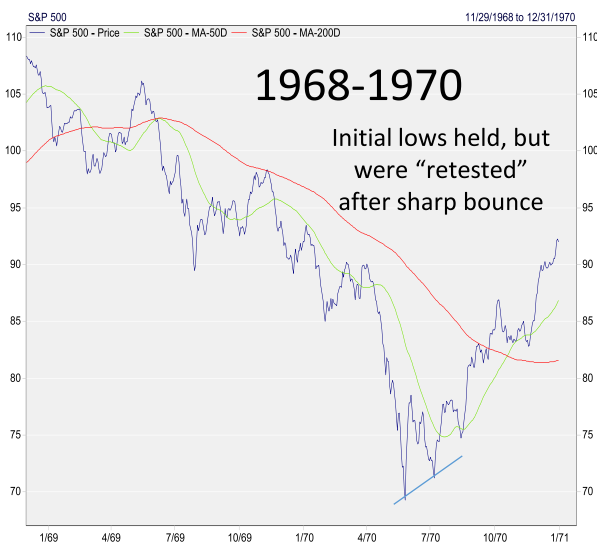
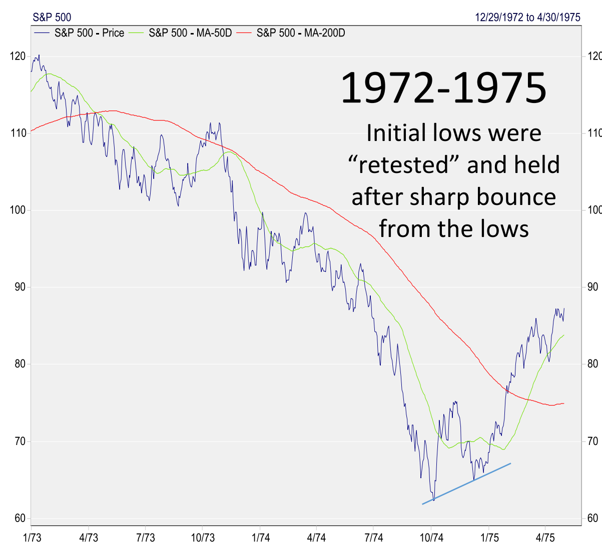
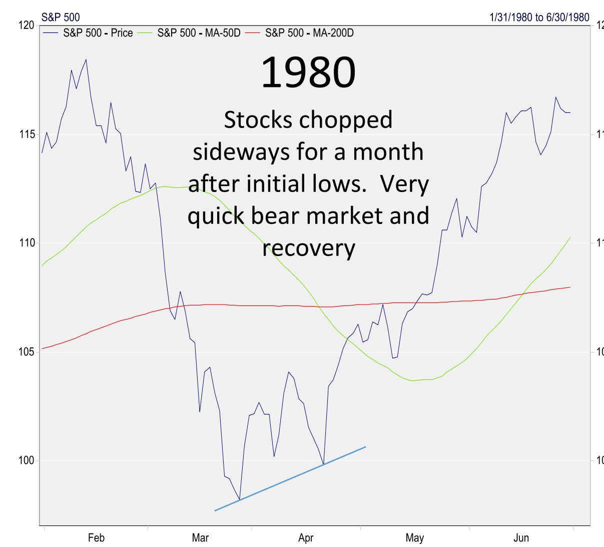








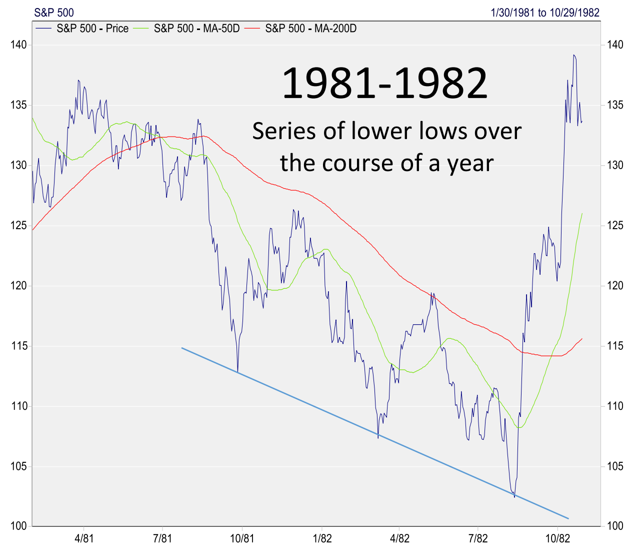


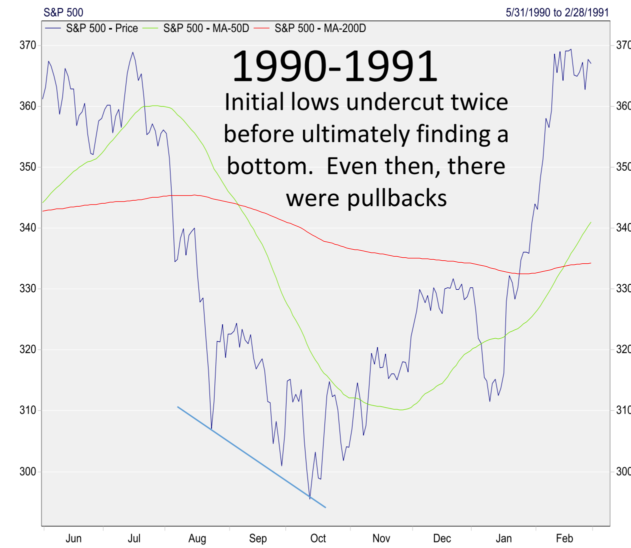
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: BEAR MARKETS

The last four recessionary bear markets all saw the initial lows undercut as the market "retested" them. In the current market action, an actual "retest" of the March 23rd lows may not have to happen, but a ~10% pullback to the 2400-2500 range could occur very easily. And if able to hold, would keep the trend of higher lows intact (healthy technically).

We are hopeful that the lows were seen on 3/23, but the information gained in the weeks (or months) ahead will ultimately decide if that is the case. With a positive outlook on the next 12-24 months but guarded short term stance, we would use pullbacks as opportunities to accumulate stocks for the long term.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M20-3046167)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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