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Weekly Market Guide

The market is at highs, but the backdrop has moderated a bit beneath the surface lately. It starts with the economy, where there are signs of “higher for longer” interest rates being felt by the consumer. Q1 GDP was revised down to 1.3% (due to slower consumption) and April real consumption was a soft -0.1% m/m. Now, it’s not all bad, as the economy is solid overall and the May ISM Services survey reflected consumer resiliency with a reading of 53.8.

Nonetheless, softer economic data is contributing to narrower market participation. For example, the percentage of S&P stocks above their 50-day moving average has waned to 47%, despite the index moving to highs. Additionally, the regional banks and industrials are pushing to new relative lows, and consumer discretionary is one of the weakest performers year-to-date. **While cyclicity is softening (not ideal), there is not an overly defensive tone either-** with low-beta health care and consumer staples also pushing to new relative lows.

These mixed signals indicate slower internal momentum and raise the importance of stock selection. They also reflect how one-sided performance has been with Tech resuming its dominance in recent weeks (due to fundamental strength). Importantly, the majority of stocks are coming from a position of strength and remain in an uptrend.

When you take a step back and consider the macro-environment, choppy price action should be expected. Sustainably lower inflation is likely to come with some economic challenges- leading to a bumpy path. Economic volatility will probably result in stock volatility. However, the silver lining for investors is that the Fed stands ready to support material economic concerns, as they showed in the March banking crisis last year. And a market that has been enamored by Fed policy for the past 15 years is likely to find some comfort in lower rates.

In sum, there are some cracks beneath the surface which may be indicative of slower market momentum, although this should be viewed within an overall uptrend. In other words, we recommend a positive stance to equities but expect setbacks/pullbacks along the way. Use weakness as long-term opportunity.

What to watch: There is a heavy dose of market-influencing economic data over the next week. The May jobs report comes out this Friday, followed by May CPI and FOMC announcement next Wednesday. The market is looking for continued labor market normalization (with job gains and wage growth moderation), along with core inflation to slow its pace from earlier this year (consensus estimate is 0.3% m/m for May). A sustained monthly cadence below 0.3% m/m is needed for core CPI to move toward the Fed’s 2-2.5% y/y target. Watch the data’s effects on the 10yr yield, which is at a key technical level and has exhibited an inverse correlation with equity markets over the past couple years.

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	2.7%	14.7%
S&P 500	10.9%	23.6%
S&P 500 (Equal-Weighted)	3.9%	14.2%
NASDAQ Composite	12.3%	27.3%
Russell 2000	0.3%	11.1%
MSCI All-Cap World	8.3%	18.7%
MSCI Developed Markets	6.0%	12.9%
MSCI Emerging Markets	2.8%	6.9%
NYSE Alerian MLP	8.0%	21.5%
MSCI U.S. REIT	-3.8%	3.5%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	21.4%	9.3%
Information Technology	18.6%	30.9%
Utilities	12.7%	2.4%
S&P 500	10.9%	-
Financials	9.2%	12.7%
Consumer Staples	9.1%	6.1%
Energy	6.7%	3.7%
Industrials	6.5%	8.4%
Health Care	6.2%	12.1%
Materials	4.7%	2.3%
Consumer Discretionary	0.7%	9.9%
Real Estate	-4.6%	2.1%

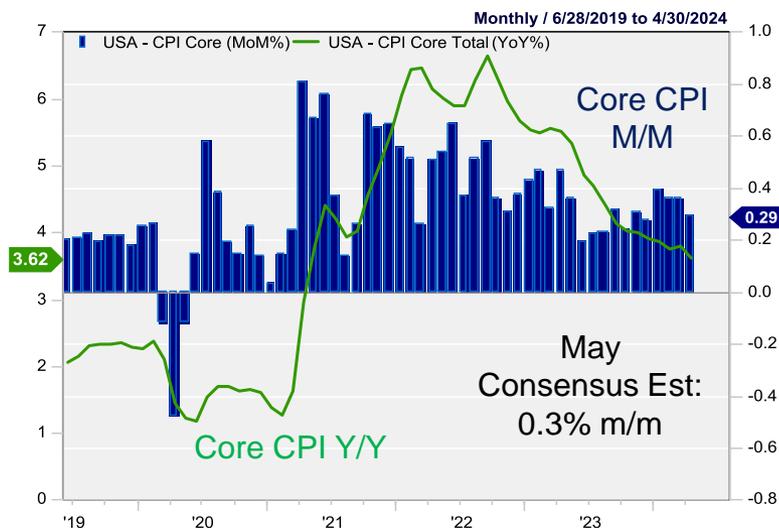
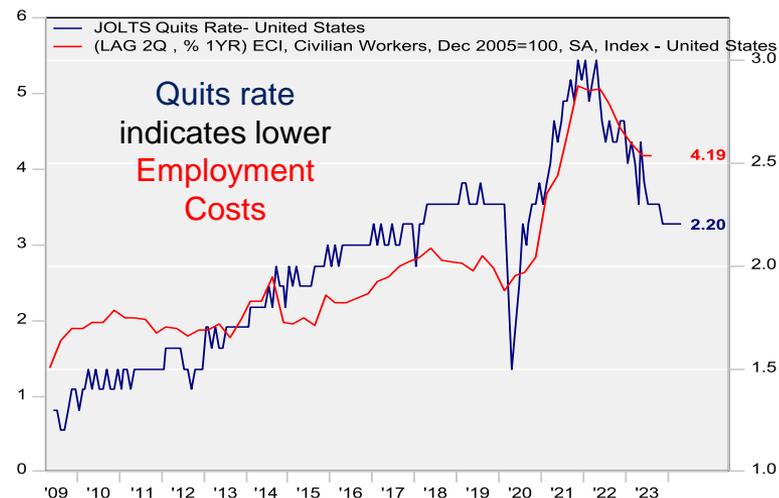
Source: FactSet

Macro: US

The economy remains in good shape overall, though there are signs of a softening consumer lately. “Higher for longer” rates are having an effect on consumption, which is also visible within the market price action of late. Over the next week, there is plenty of market-influencing economic data. The May jobs report comes on Friday- expectations are for solid job gains and a continued moderation in wage growth. This week’s JOLTS jobs report was consistent with a normalizing labor market, and the Quits rate suggests downward pressure on wage growth ahead (a positive for inflation). Then, investor attention will shift to next Wednesday’s May CPI report. We believe that inflation is on a downward path, and softer consumption of late supports that view. But the Fed (and market) want to see core CPI come out consistently below 0.3% m/m, which is needed to move toward the Fed’s y/y target of 2-2.5%.

Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	05/18	1,791K	1,800K	1,787K
GDP SAAR Q/Q (Second Preliminary)	Q1	1.3%	1.6%	1.6%
GDP SA Y/Y (Second Preliminary)	Q1	2.9%	3.0%	3.0%
Initial Claims SA	05/25	219.0K	218.0K	216.0K
Wholesale Inventories SA M/M (Preliminary)	APR	0.20%	0.0%	-0.43%
Pending Home Sales M/M	APR	-7.7%	0.0%	3.6%
Core PCE Deflator M/M	APR	0.25%	0.30%	0.33%
Core PCE Deflator Y/Y	APR	2.8%	2.8%	2.8%
Personal Consumption Expenditure SA M/M	APR	0.20%	0.30%	0.70%
Personal Income SA M/M	APR	0.30%	0.30%	0.50%
Chicago PMI SA	MAY	35.4	41.0	37.9
Markit PMI Manufacturing SA (Final)	MAY	51.3	50.8	50.9
Construction Spending SA M/M	APR	-0.10%	0.20%	-0.19%
ISM Manufacturing SA	MAY	48.7	49.5	49.2
BEA Domestic Auto Sales SAAR (Preliminary)	MAY	2.2M	-	2.1M
BEA Domestic Light Truck Sales SAAR (Preliminary)	MAY	10.2M	10.1M	9.9M
BEA Total Light Vehicle Sales (Preliminary)	MAY	15.9M	15.9M	15.8M
Durable Orders ex-Transportation SA M/M (Final)	APR	0.42%	0.40%	0.40%
Durable Orders SA M/M (Final)	APR	0.65%	0.70%	0.70%
Factory Orders SA M/M	APR	0.70%	0.70%	0.70%
JOLTS Job Openings	APR	8,059K	8,360K	8,355K
ADP Employment Survey SA	MAY	152.0K	175.0K	188.0K
PMI Composite SA (Final)	MAY	54.8	-	54.4
Markit PMI Services SA (Final)	MAY	54.8	54.7	54.8
ISM Services PMI SA	MAY	53.8	50.8	49.4

Source: FactSet

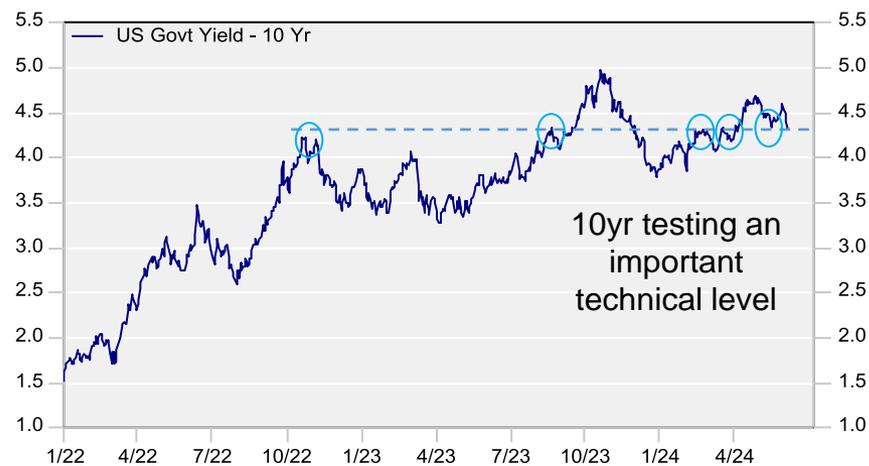


Watch Bond Yields

The 10yr Treasury yield is revisiting a significant technical level that has served as both support and resistance in recent years. Economic data over the next week (i.e. May jobs report, CPI, FOMC announcement) will be key influences on the next move for yields and equities. Another thing to consider is the high amount of net short positioning in the 10-year Treasury. If yields break below technical support levels, it may result in short-covering which would perpetuate the down-move in yields (positive for equities).



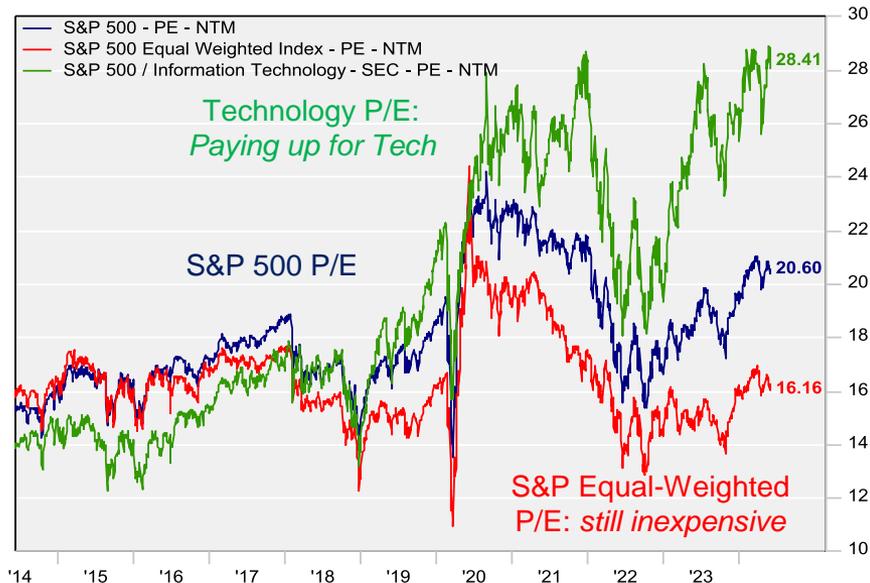
Source: FactSet



Fundamentals

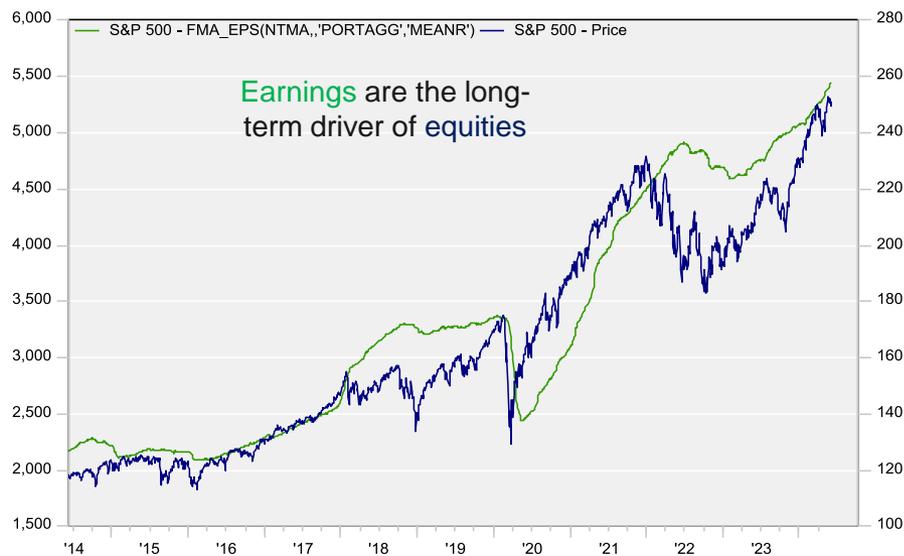
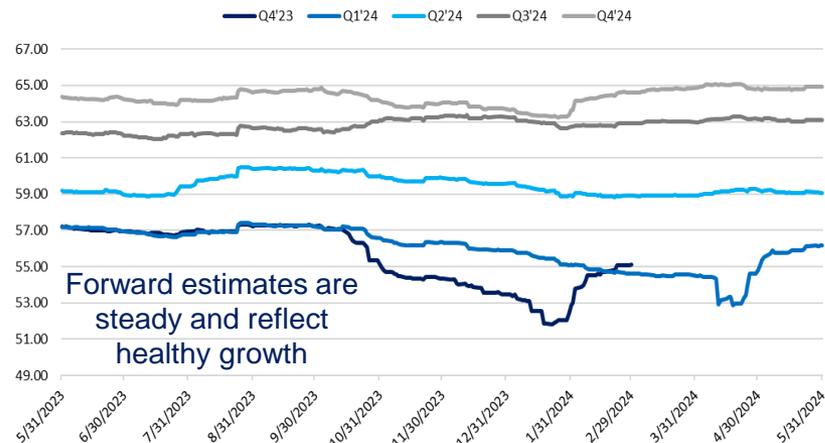
A solid Q1 earnings season supported the uptrend in equities; and importantly, forward estimates have held steady at healthy growth rates (i.e. double-digit S&P 500 earnings growth expectations for 2024 and 2025). This is resulting in an uptrend for forward earnings, which is the #1 correlation with stock prices over the long-term. Additionally, valuations are still inexpensive for the majority of stocks. While the S&P 500's P/E is somewhat elevated at 20.6x, this is due to Technology's P/E of 28.4x which is being fueled by fundamental strength and AI enthusiasm. Economic challenges may occur at some point (due to the lagged effects of Fed tightening), but inexpensive valuations offer some support beneath the surface- as well as opportunity for rotation when the economic outlook clears up a bit.

S&P 500 (SP50-USA) : 06/05/2014 to 06/05/2024 (Daily)



Source: FactSet

S&P 500 Quarterly Earnings Estimates



Narrow Participation

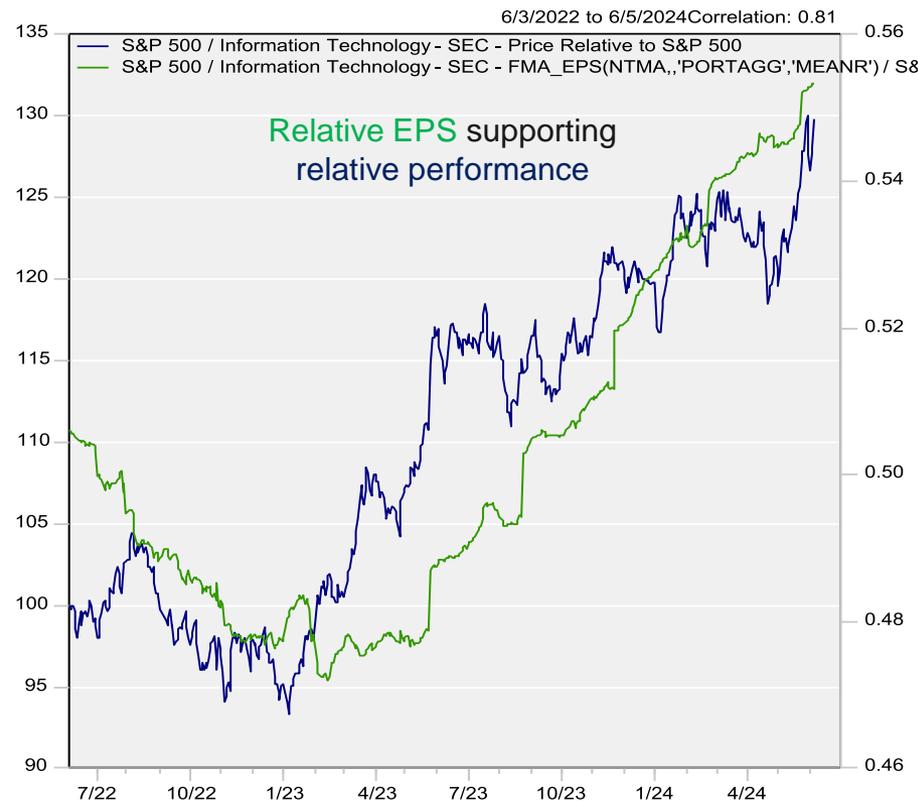
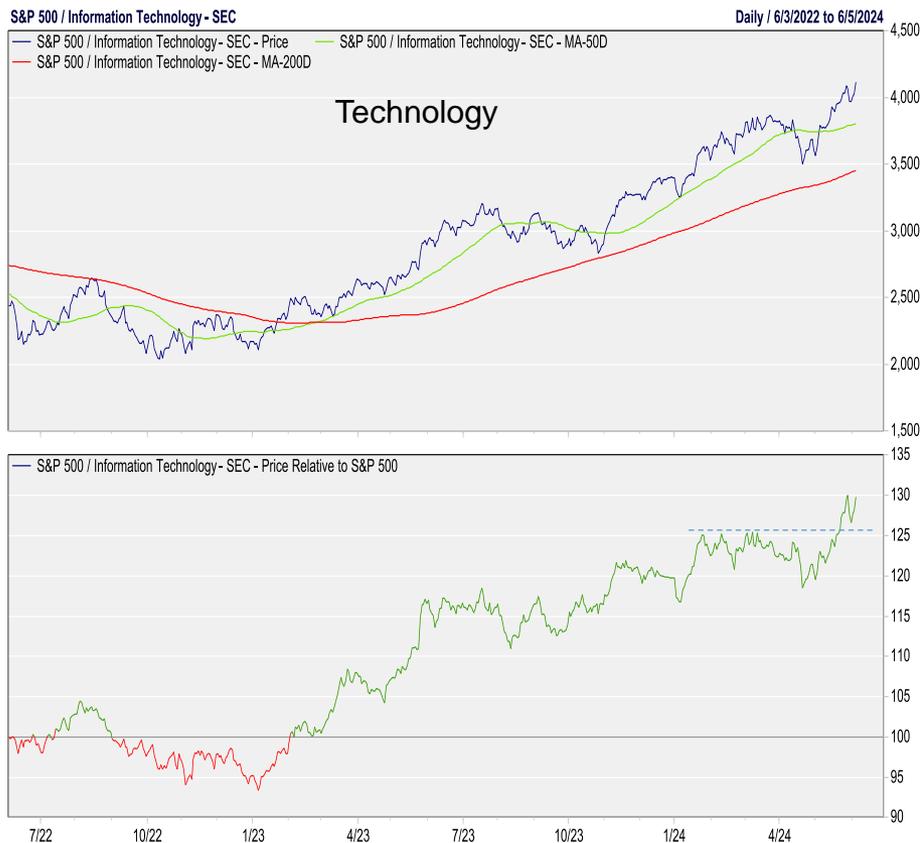
The backdrop has moderated a bit beneath the surface lately. For example, the percentage of S&P stocks above their 50-day moving average has waned to 47%, despite the index moving to highs. The equal-weighted S&P 500 remains below highs, and relative strength has pushed to new lows. This indicates slower internal momentum and raises the importance of stock selection. Importantly, the majority of stocks are coming from a position of strength and remain in an uptrend.



Source: FactSet

Technology

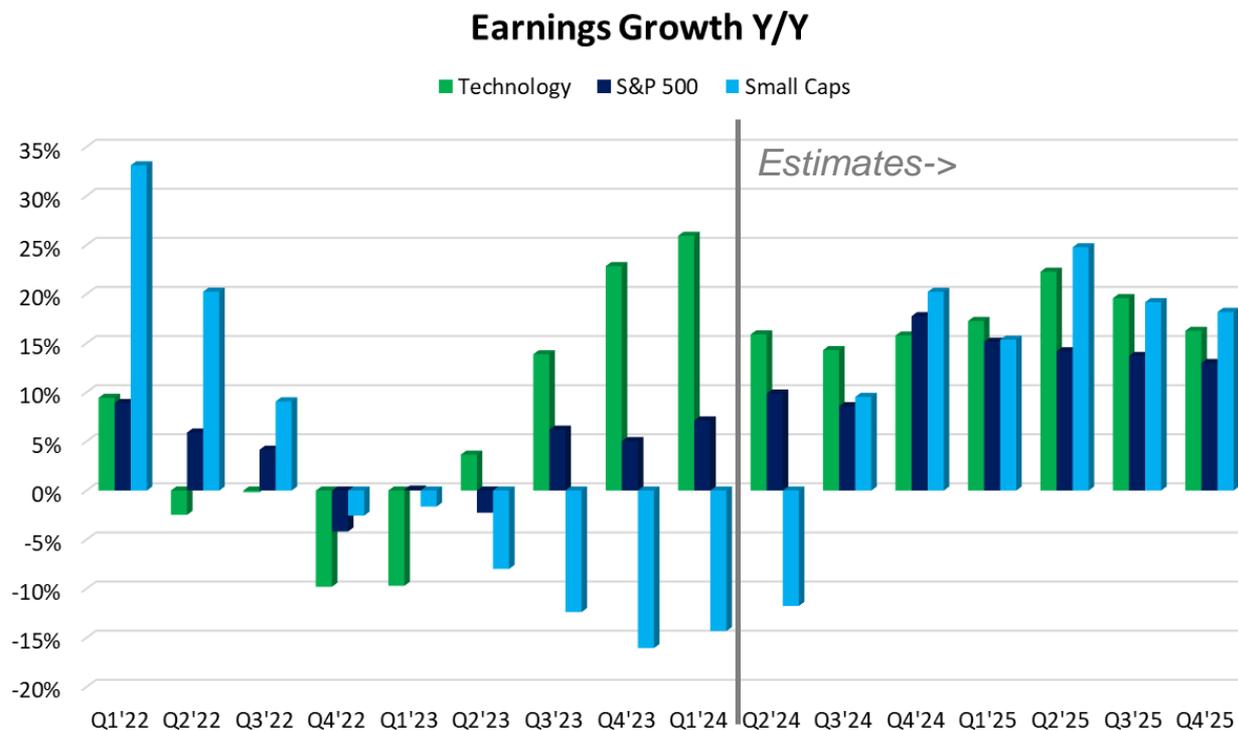
A big reason for the weak relative strength in many areas is Technology resuming its dominance in recent weeks. Market action reflects how one-sided performance has become again. For example, since Nvidia reported earnings on 5/22, Technology is +4% and the equal-weighted S&P 500 is -1%. Technology relative strength broke out to new highs, reinforcing its status as the market leader. While valuation is elevated, fundamentals continue to beat the “high bar.” As long as Tech’s fundamental strength (i.e. higher earnings growth and better revision trends vs. the S&P 500) remains in place, the sector is likely to perform well.



Source: FactSet

When Will Relative Earnings Narrow For Tech?

Tech's dominance over the past ~1½ years begs the question of when will market performance sustainably broaden out? Relative earnings trends are likely to be a key influence. For example, Tech's relative earnings weakness (green bars) in 2022 led to the sector's drastic underperformance that year, whereas relative earnings strength in 2023 led to its significant outperformance. When looking at current estimates, Technology's earnings growth differential narrows later this year which may result in better relative performance trends elsewhere. However, a big caveat to this is Technology earnings estimates are getting revised higher, whereas areas like the Small Caps (that reflects some higher growth) are seeing estimates get revised lower. How the economy shakes out over the coming month will be a key factor for earnings growth within the market as well. All in all, fundamental trends remain favorable for Tech which is supporting its relative strength. We will be closely monitoring for changes to this dynamic, as sustainable market rotation will provide a significant opportunity at some point.

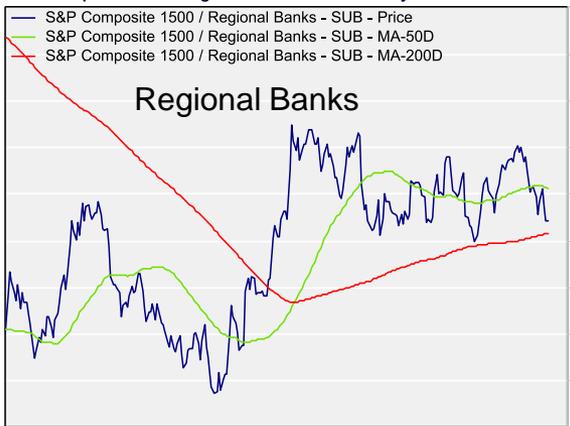


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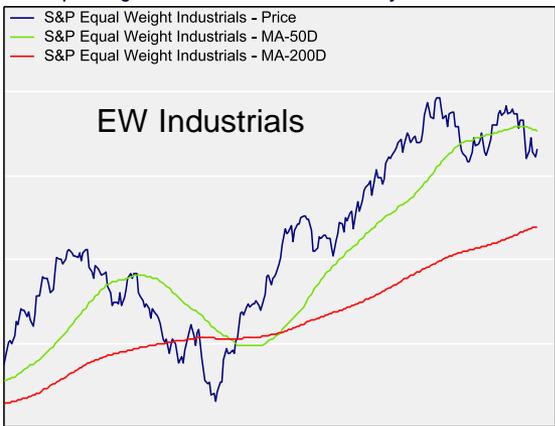
Mixed Signals- Be Selective

The regional banks and industrials are pushing to new relative lows, and consumer discretionary is one of the weakest performers year-to-date. Soft cyclicality is not ideal in a market trading at highs. *(Continued on next page)*

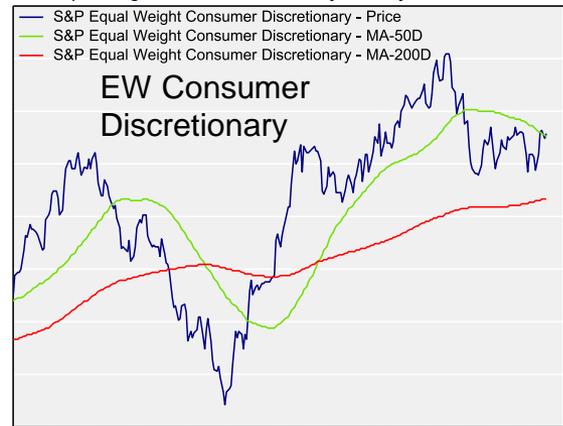
S&P Composite 1500 / Regional Banks - SUB Daily / 6/5/2023 to 6/5/2024



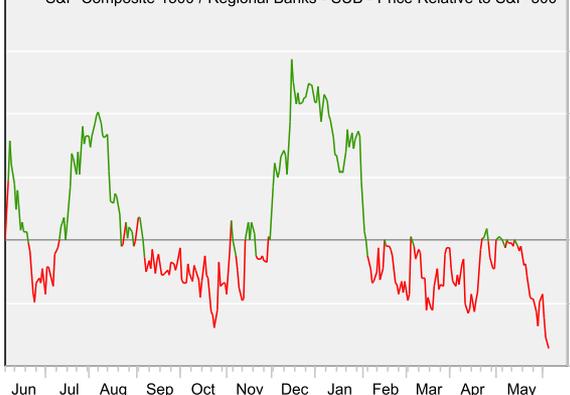
S&P Equal Weight Industrials Daily / 6/5/2023 to 6/5/2024



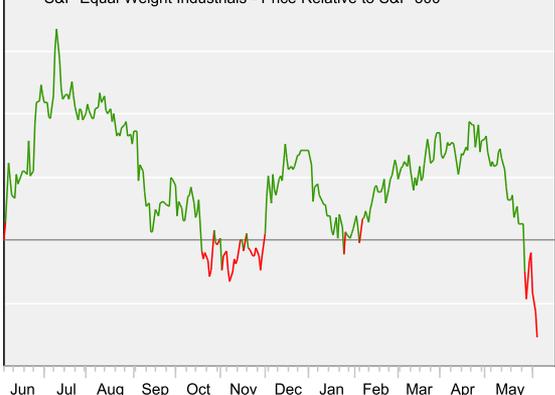
S&P Equal Weight Consumer Discretionary Daily / 6/5/2023 to 6/5/2024



S&P Composite 1500 / Regional Banks - SUB - Price Relative to S&P 500



S&P Equal Weight Industrials - Price Relative to S&P 500



S&P Equal Weight Consumer Discretionary - Price Relative to S&P 500



Source: FactSet

Mixed Signals- Be Selective

On the flip side, there is not an overly defensive tone either. Utilities have been trading better, but the low-beta Health Care and Consumer Staples sectors are also pushing to new relative lows (continuing their trends of underperformance). As mentioned previously, these mixed signals indicate slower internal momentum and raise the importance of stock selection. They also reflect how one-sided performance has been with Tech resuming its dominance in recent weeks (due to fundamental strength). Importantly, the majority of stocks are coming from a position of strength and remain in an uptrend.

S&P 500 / Utilities - SEC Daily / 6/5/2023 to 6/5/2024



S&P Equal Weight Consumer Staples Daily / 6/5/2023 to 6/5/2024



S&P Equal Weight Health Care Daily / 6/5/2023 to 6/5/2024



S&P 500 / Utilities - SEC - Price Relative to S&P 500



S&P Equal Weight Consumer Staples - Price Relative to S&P 500



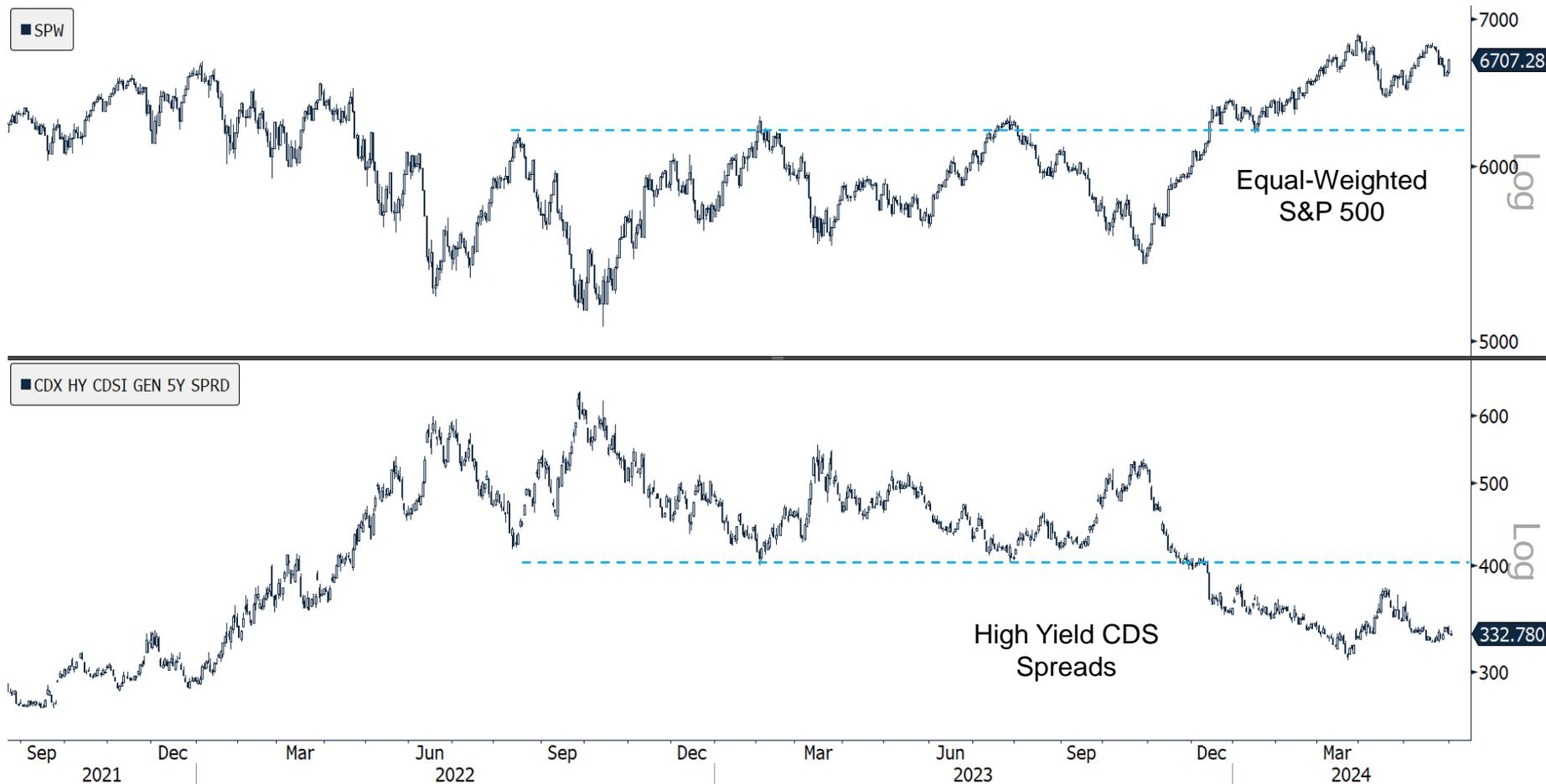
S&P Equal Weight Health Care - Price Relative to S&P 500



Source: FactSet

Credit Conditions Have Not Deteriorated

Credit conditions remain supportive of the overall uptrend in equities. High yield CDS spreads are narrow, reflecting a lack of fear for widespread credit concerns within the bond market.



SPW Index (S&P 500 Equal Weighted Index) High Yield CDS Spread Daily 21AUG2021-03JUN2024

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Source: FactSet (M24-513925)

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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.