

Jeffrey D. Saut, Chief Investment Strategist, (727) 567-2644, Jeffrey.Saut@RaymondJames.com

August 30, 2018

Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	26124.57	60.55	0.23%	5.69
Dow Jones Transports	11395.94	5.36	0.05%	7.38
Dow Jones Utilities	729.97	4.26	0.59%	0.91
S&P 500	2914.04	16.52	0.57%	8.99
S&P 400 Midcap	2050.23	6.29	0.31%	7.87
S&P 600 Smallcap	1094.34	1.70	0.16%	16.88
NASDAQ	8109.69	79.65	0.99%	17.47
Russell 2000 (Smallcaps)	1734.75	6.33	0.37%	12.98
BKX (Banking)	111.02	-0.27	-0.24%	4.04
BTK (Biotech)	5336.79	68.23	1.30%	26.40
XOI (Oil Index)	1527.51	12.85	0.85%	14.37
SOXX (Semiconductor)	1406.38	3.43	0.24%	12.24
XAU (Gold/Silver)	67.60	0.15	0.23%	-20.72

"The Most Hated Economic Recovery Ever!"

So a concerned Raymond James financial advisor (FA) emailed us yesterday with the question:

Jeff, I know you have connections in Washington and wanted your take on how the mid-term elections are shaping up and how they will affect the market, if at all. I have a couple of clients that are concerned that the market will be hurt if the Republicans lose their majority in the House.

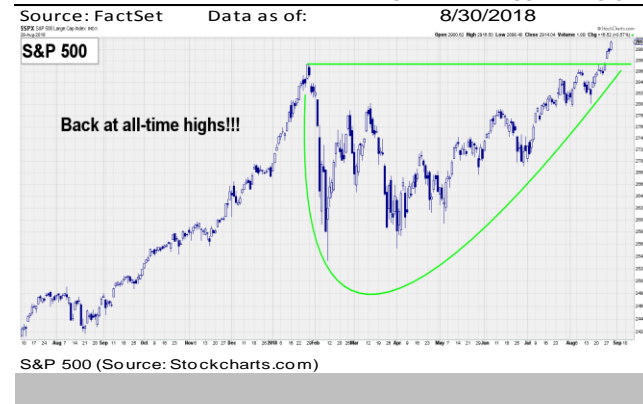
Our answer read, "All the experts I know tell me the House will fall, but those same folks told me Trump would never be President!" Alas, under this president, the polls seem to be worthless. Time will certainly tell, but Andrew and I do not think much will change even if the House falls to the Democrats. Remember the famous President Obama quote, "I have a pen and a phone." The same can be said about DJT! Meanwhile, as expected since the February 9 undercut low, the stock market continues to trade to new all-time highs. So yesterday, on Fox Business, our friend Neil Cavuto played a video excerpt from David Stockman about all the issues facing our Republic. We were asked, "What do you think?" Our response was (as paraphrased), "Well, David Stockman is much smarter than we are, but he has been 'smartly wrong' for a very long time." Indeed, the last time we spoke personally with him was at Minyanville's Christmas Festivus party in 2009. He was bearish then, and he is bearish now, believing the economy is going to go into a tailspin. Shortly thereafter, a portfolio manager sent us this quip from Bloomberg:

For years you used to hear people call the rally in stocks "the most hated bull market of all time." It caused ire for various reasons: some people were under-invested, others just thought that we hadn't solved the underlying issues that caused the crisis, and maybe a few were just upset because they didn't like President Obama or the Fed. You don't hear that phrase too much anymore, but I wonder if soon we'll be able to talk about "the most hated economic expansion of all time." Once again, you have a lot of people who, for whatever reason, are predisposed to thinking that a downturn is coming. (Continued on page 2)

"Jeff, I know you have connections in Washington and wanted your take on how the mid-term elections are shaping up and how they will affect the market, if at all. I have a couple of clients that are concerned that the market will be hurt if the Republicans lose their majority in the House."

... A concerned Raymond James financial advisor

Index	Cur Future	Change		
Dow Jones	26,085	-62.00		
S&P 500	2,911	-3.70		
NASDAQ	7,657	-11.00		
ADV/DEC				
Volume	1 Day Volume	Volume	Issues	
NYSE	647,570,758	1.58	1.47	
NASDAQ	1,876,689,938	1.91	1.55	
Foreign Markets		Intraday	Net	% Chg
U.K.	FTSE 100	7,563	0.00	0.00%
Germany	Germany DAX (TR)	12,501	-60.80	-0.48%
Brazil	Brazil Bovespa In	78,389	0.00	0.00%
Japan	Japan Nikkei 225	22,848	0.00	0.00%
Hong Kong	Hang Seng Index	28,164	-252.39	-0.89%
S&P Sectors		Close	% Chg	1 mo %
S&P 500 / Consumer Discretic		931.43	1.12%	4.97
S&P 500 / Consumer Staples -I		553.01	0.08%	1.15
S&P 500 / Health Care -SEC		1072.53	0.66%	5.64
S&P 500 / Information Techno		1329.47	1.01%	5.52
S&P 500 / Telecommunicatio		155.24	-0.76%	4.98
S&P 500 / Energy -SEC		553.39	0.63%	-1.74
S&P 500 / Financials -SEC		473.44	-0.02%	1.61
S&P 500 / Industrials -SEC		650.52	0.07%	2.16
S&P 500 / Materials -SEC		377.29	0.73%	1.59
S&P 500 / Utilities -SEC		270.56	0.59%	1.94
S&P 500 / Real Estate -SEC		208.76	-0.10%	4.53
Key Commodity Prices		Last	Net	
Crude Oil WTI (NYM \$/bbl) Con		69.940	0.48	
Natural Gas (NYM \$/mmbtu) C		2.885	0.02	
eMini Gasoline (NYM \$/gal) Cc		2.106	0.00	
Gold (NYM \$)		1211.000	-0.90	
Silver (NYM \$/ozt) Continuous		14.595	-0.11	
United States Dollar Index		94.613	0.01	
eMini Copper (NYM \$/lbs) Con		2.710	0.00	
Cotton #2 (IFUS \$/lbs) Continu		0.829	0.00	
Market Valuation		2017E	2018E	2019E
Consensus S&P 500 EPS		\$125	\$158	\$177
P/E		23.3	18.4	16.5
Earnings Yield			5.4%	6.1%
Equity Risk Premium (10 yr)			2.5%	3.2%
Treasury Yields		90D	10 Yr	30 Yr
		2.13	2.88	3.02



Some think the tariffs will cause a recession. Others worry that U.S. capacity is near maxed out and that the timing of the tax cuts was irresponsible. Some just don't like President Trump. Others may just be thinking that the economic expansion is getting long in the tooth. But in the meantime, there's a lot of good news out there. Corporate profits on a pre-tax basis are growing at their fastest pace in seven years. Consumer confidence is absolutely soaring by multiple measures. And arguably, U.S. households are just getting warmed up. Remember, household savings were recently revised up and are substantially higher than the pre-crisis period, meaning those same exuberant consumers may have untapped spending power. Toss in a loosening of consumer credit standards into the mix, and it's not hard to imagine this expansion having more legs.

Our comment, "Well said!" And to all disbelievers, we are reminded of the famous Groucho Marx lament, "Who are you going to believe, me or your own eyes?!" Verily, just look at the chart on page 1, and then consider what happened in previous instances when the S&P 500 (SPX/2914.04) broke out above previous upside consolidation patterns. Bear in mind when the SPX broke out of the 14-month upside consolidation in 2016, it tacked on ~35%. That was reminiscent of the upside consolidation between 1994 and 1995 when, after said upside breakout, the SPX gained some 40%! You can see these events in the excellent report released yesterday by our colleague Andrew Adams. To be sure, "Who are you going to believe, me or your own eyes?!"

Ladies and gentlemen, this is a secular bull market, and the cuties that called for a crash, and/or a range bound stock market, are missing the fact that secular bull markets last for 14+ years (1949-1966 or 1982-2000). Have we raised some cash from time to time when we thought a pullback was coming? You bet! Have we rebalanced and re-allocated capital from time to time? You bet! However, it has ALWAYS been within the construct of a secular bull market. In past missives, we have discussed where it began: in October 2008 when most stocks bottomed, March 2009 when the averages hit their nominal lows, or in April 2013 when the averages finally exceeded their previous all-time highs. You pick it! But, wherever you're starting point, there should be years left in this bull market.

We think the recent upside break-out above 2900 is sustainable, and we anticipated it! Whether it spikes higher here is doubtful, but a grinding higher scenario is likely in the cards. The short-term energy mix has been used up, suggesting the 2930-2935 level may stall the equity markets. So the S&P 500 looks poised to stand near its all-time highs with a more negative energy mix arriving next week, but nothing should carry the SPX back towards 2850. In Tuesday's Morning Tack, we suggested the SPX should "stall" for a while, and this morning, that's exactly what's happening as worries about China have surfaced again.

U.S. Markets Index Information: *U.S. Treasury securities* are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The *Dow Jones Industrial Average* is an unmanaged index of 30 widely held securities. The *Dow Jones Transportation Average* is the most widely recognized gauge of the American transportation sector. The *Dow Jones Utility Average* keeps track of the performance of 15 prominent utility companies. The *S&P 500* is an unmanaged index of 500 widely held stocks. The *S&P Mid Cap 400 Index* is a capitalization-weighted index that measures the performance of the mid-range sector of the U.S. stock market. The *S&P Small Cap 600 Index* is an unmanaged index of 600 small-cap stocks. The *NASDAQ Composite Index* is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The *Russell 2000 index* is an unmanaged index of small cap securities which generally involve greater risks. The *KBW Bank Sector (BKX)* is a capitalization-weighted index composed of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The *NYSE Arca Biotechnology Index (BTK)* is an equal dollar weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services. The *NYSE Arca Oil Index (XOI)* is a price-weighted index of the leading companies involved in the exploration, production, and development of petroleum. The *PHLX Semiconductor Sector Index (SOXX)* measures the performance of U.S.-traded securities of companies engaged in the semiconductor business, which includes companies engaged in the design, distribution, manufacture, and sales of semiconductors. The *Philadelphia Gold and Silver Index (XAU)* is an index of 16 precious metal mining companies that is traded on the Philadelphia Stock Exchange.

Futures: Futures prices are current as of the publication of this report, but will fluctuate. Please contact your financial advisor for updated information.

Foreign Markets Information: The FTSE 100 Index is a share index of the stocks of the 100 companies with the highest market capitalization listed on the London Stock Exchange. The *DAX* (German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The *Bovespa* Index is a gross total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The *Nikkei 225* is a price-weighted index consisting of 225 prominent stocks on the Tokyo Stock Exchange. The *Hang Seng Index* is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Commodity Price Information: The *CRB Index* measures the overall direction of commodity sectors. The *US Dollar Index (USDIX)* is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies. Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.

Market Valuation Information: The *McClellan Oscillator* is a market breadth indicator that is based on the difference between the number of advancing and declining issues on the NYSE. Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share. The earnings yield is earnings per share divided by the current market price per share. The equity risk premium is the earnings yield minus the current rate on the 10-year U.S. Treasury note and is the excess return that the stock market provides over a risk-free rate.

International securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Small-cap stocks generally involve greater risks. Dividends are not guaranteed and will fluctuate. Past performance may not be indicative of future results.

Investors should consider the investment objectives, risks, and charges and expenses of mutual funds and exchange-traded funds carefully before investing. The prospectus contains this and other information about mutual funds and exchange-traded funds. The prospectus is available from your financial advisor and should be read carefully before investing.

All expressions of opinion reflect the judgment of the Research Department of Raymond James & Associates, Inc. (RJA) as of the date of this research and are subject to change. Information has been obtained from third-party sources we consider reliable, but we do not guarantee that the facts cited in the foregoing are accurate or complete. Other departments of RJA may have information that is not available to the Research Department about companies mentioned in this report. RJA or its affiliates may execute transactions in the securities mentioned in this report that may not be consistent with the report's conclusions.

Important Investor Disclosures

Raymond James & Associates (RJA) is a FINRA member firm and is responsible for the preparation and distribution of research created in the United States. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Non-U.S. affiliates, which are not FINRA member firms, include the following entities that are responsible for the creation and distribution of research in their respective areas: in Canada, Raymond James Ltd. (RJL), Suite 2100, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200; in Europe, Raymond James Euro Equities SAS (also trading as Raymond James International), 40, rue La Boetie, 75008, Paris, France, +33 1 45 64 0500, and Raymond James Financial International Ltd., Broadwalk House, 5 Appold Street, London, England EC2A 2AG, +44 203 798 5600.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. **Investors should consider this report as only a single factor in making their investment decision.**

For clients in the United States: Any foreign securities discussed in this report are generally not eligible for sale in the U.S. unless they are listed on a U.S. exchange. This report is being provided to you for informational purposes only and does not represent a solicitation for the purchase or sale of a security in any state where such a solicitation would be illegal. Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details and to determine if a particular security is eligible for purchase in your state.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

Raymond James ("RJ") research reports are disseminated and available to RJ's retail and institutional clients simultaneously via electronic publication to RJ's internal proprietary websites ([RJ Investor Access](#) & [RJ Capital Markets](#)). Not all research reports are directly distributed to clients or third-party aggregators. Certain research reports may only be disseminated on RJ's internal proprietary websites; however such research reports will not contain estimates or changes to earnings forecasts, target price, valuation, or investment or suitability rating. Individual Research Analysts may also opt to circulate published research to one or more clients electronically. This electronic communication distribution is discretionary and is done only after the research has been publically disseminated via RJ's internal proprietary websites. The level and types of communications provided by Research Analysts to clients may vary depending on various factors including, but not limited to, the client's individual preference as to the frequency and manner of receiving communications from Research Analysts. For research reports, models, or other data available on a particular security, please contact your RJ Sales Representative or visit [RJ Investor Access](#) or [RJ Capital Markets](#).

Links to third-party websites are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any website's users and/or members.

Additional information is available on request.

Simple Moving Average (SMA) - A simple, or arithmetic, moving average is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods.

Exponential Moving Average (EMA) - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.

Relative Strength Index (RSI) - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

International securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Small-cap stocks generally involve greater risks. Dividends are not guaranteed and will fluctuate. Past performance may not be indicative of future results.

Investors should consider the investment objectives, risks, and charges and expenses of mutual funds and exchange-traded funds carefully before investing. The prospectus contains this and other information about mutual funds and exchange-traded funds. The prospectus is available from your financial advisor and should be read carefully before investing.

Not approved for rollover solicitations.

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (High net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This report is for the use of professional investment advisers and managers and is not intended for use by clients.

For purposes of the Financial Conduct Authority requirements, this research report is classified as independent with respect to conflict of interest management. RJFI, and Raymond James Investment Services, Ltd. are authorised and regulated by the Financial Conduct Authority in the United Kingdom.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monétaire et Financier" and Règlement Général de l'Autorité des Marchés Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers.

For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This report is not prepared subject to Canadian disclosure requirements, unless a Canadian analyst has contributed to the content of the report. In the case where there is Canadian analyst contribution, the report meets all applicable IROC disclosure requirements.

Proprietary Rights Notice: By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement. No copyright claimed in incorporated U.S. government works.