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Weekly Market Guide

Equity markets have experienced a strong start to the year- the average S&P 500 stock is up ~8% YTD with outperformance coming from the higher-beta, harder-hit areas in last year's decline. This is significant, as technical improvements often come well ahead of the fundamentals out of bear markets.

On one hand, the technical positives are becoming difficult to ignore. For example, the S&P 500 held its 200-week moving average at the October lows (a good level of long-term support). Investor sentiment and net positioning reached depressed levels, and selling conviction decreased at the October lows vs. June lows. Additionally, the S&P 500 staged impressive breadth thrusts in the advance and broke above its 12-month downtrend with a risk-on tone. These are characteristics often consistent with a market attempting to turn out of bear market lows. *We do view equities as overbought in the short-term and due some consolidation.*

On the other hand, we also believe that a glide path higher (V-bottom) is unlikely at this point. 2023 will be heavily influenced by the degree of inflation moderation, central bank policy, and ultimately the level of economic weakness inflicted (in order to bring inflation down). This week's stickier-than-expected CPI and PPI reports support our view that the path to inflation normalizing is unlikely to be smooth. Core CPI and core PPI rose 0.4% and 0.5% respectively- both likely to keep the Fed uneasy and more restrictive. To be sure, we do believe the Fed will be successful in bringing inflation down, but this process will also take some time.

Market-implied Fed expectations have shifted toward a hike-and-hold Fed strategy over the past two weeks, rather than optimism for a dovish pivot in the back half of this year- and this is resulting in higher bond yields. The US 2-year yield is back up to 4.67% (near cycle highs from early November), and the US 10-year yield has risen to 3.85% (from 3.40% two weeks ago). This is a headwind to equities in our view, as P/E multiples have held a strong inverse correlation to bond yields over the past two years. Moreover, earnings estimates continue to get revised lower- and we expect this trend to continue as Fed tightening (which remains ongoing) works with a lag on economic growth.

The net result is a bottoming process and recovery that are likely elongated- with normal back-and-forth trading along the way. We believe that stocks will be higher over the next 12 months as investors gain clarity on inflation, Fed policy, and their impacts on economic growth. Multiple expansion will drive upside despite weak earnings growth (as stocks discount the future). However, that clarity needed for sustained appreciation is also likely to take some time. And with equities short-term overbought in our view, we recommend exercising some patience at current levels- using weakness as opportunity to accumulate favored stocks for the longer-term.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	3.0%	-2.5%
S&P 500	8.0%	-7.2%
S&P 500 (Equal-Weight)	8.2%	-2.0%
NASDAQ Composite	15.3%	-14.6%
Russell 2000	11.3%	-5.6%
MSCI All-Cap World	7.8%	-9.1%
MSCI Developed Markets	7.5%	-7.2%
MSCI Emerging Markets	5.1%	-18.2%
NYSE Alerian MLP	7.0%	14.9%
MSCI U.S. REIT	10.0%	-11.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Discretionary	18.8%	10.8%
Information Technology	15.6%	27.6%
Communication Svcs.	15.4%	7.8%
Real Estate	8.6%	2.7%
S&P 500	***8.0%***	-
Financials	7.2%	11.6%
Materials	6.8%	2.7%
Industrials	5.2%	8.4%
Energy	0.5%	4.9%
Consumer Staples	-1.7%	6.6%
Health Care	-2.9%	14.3%
Utilities	-3.4%	2.8%

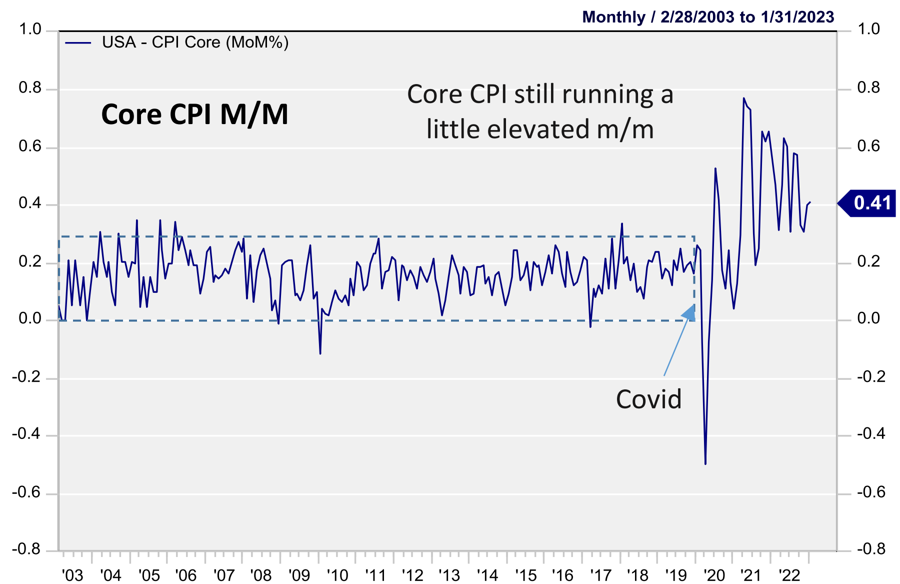
Source: FactSet

MACRO: US

Event	Period	Actual	Consensus	Prior
Michigan Sentiment NSA (Preliminary)	FEB	66.4	65.0	64.9
Treasury Budget NSA	JAN	-$38.8B	$110.0B	-$85.0B
NFIB Small Business Index	JAN	90.3	-	89.8
CPI ex-Food & Energy SA M/M	JAN	0.40%	0.40%	0.40%
CPI ex-Food & Energy NSA Y/Y	JAN	5.6%	5.5%	5.7%
CPI SA M/M	JAN	0.50%	0.50%	0.10%
CPI NSA Y/Y	JAN	6.4%	6.2%	6.5%
Hourly Earnings SA M/M (Final)	JAN	0.30%	-0.20%	0.30%
Hourly Earnings Y/Y (Final)	JAN	4.4%	-	4.4%
Empire State Index SA	FEB	-5.8	-20.0	-32.9
Retail sales Ex AutoFuel M/M	JAN	2.6%	0.45%	-0.44%
Retail Sales ex-Auto SA M/M	JAN	2.3%	0.70%	-0.90%
Retail Sales SA M/M	JAN	3.0%	1.7%	-1.1%
Industrial Production SA M/M	JAN	0.0%	0.50%	-1.0%
Business Inventories SA M/M	DEC	0.30%	0.30%	0.30%
NAHB Housing Market Index SA	FEB	42.0	36.0	35.0
Building Permits SAAR (Preliminary)	JAN	1,339K	1,350K	1,337K
Continuing Jobless Claims SA	02/04	1,696K	1,688K	1,680K
Housing Starts M/M	JAN	-4.5%	-1.5%	-3.4%
Housing Starts SAAR	JAN	1,309K	1,358K	1,371K
Initial Claims SA	02/11	194.0K	200.0K	195.0K
PPI ex-Food & Energy SA M/M	JAN	0.50%	0.30%	0.30%
PPI ex-Food & Energy NSA Y/Y	JAN	5.4%	4.9%	5.8%
PPI SA M/M	JAN	0.70%	0.40%	-0.20%
PPI NSA Y/Y	JAN	6.0%	5.4%	6.5%

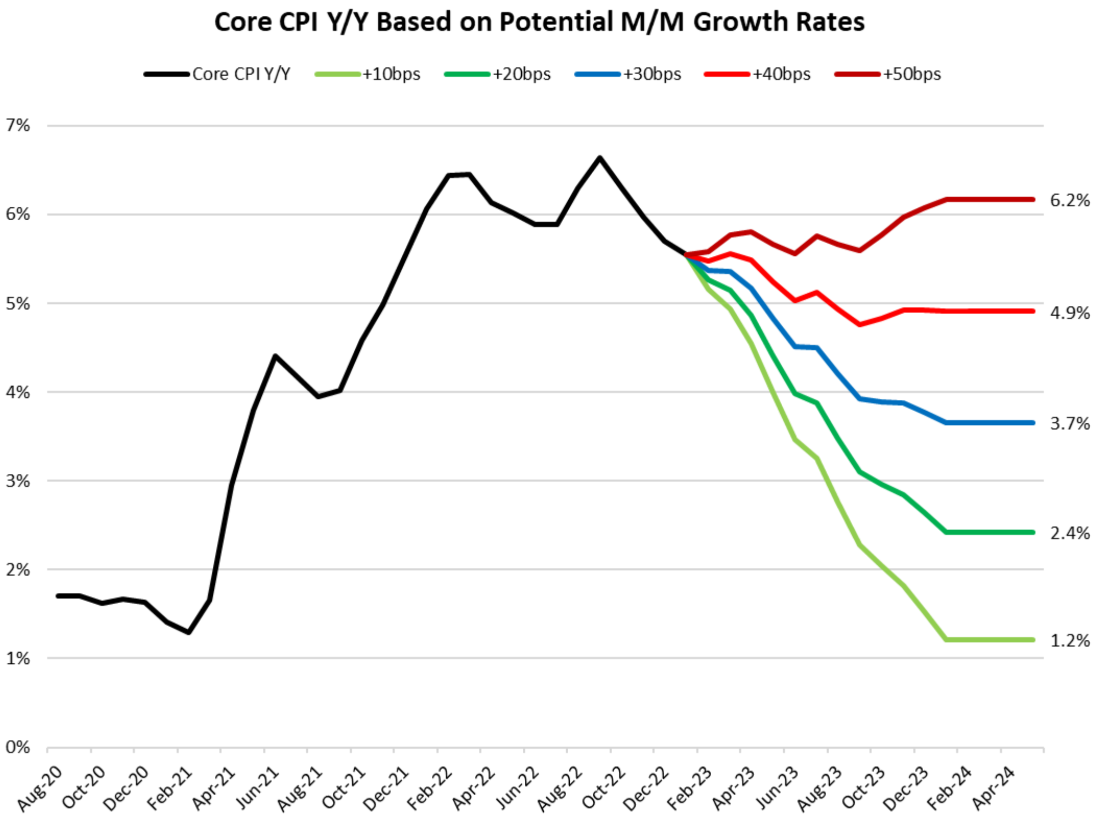
Source: FactSet

We believe that inflation has peaked- however the Fed's objective is to not only bring inflation down, but also keep it there. January core CPI rose 0.4% m/m and core PPI rose 0.5% m/m. These are still too high to bring inflation sustainably down to a 2-2.5% target level. The issue remains core services inflation, which appears "sticky" and is being supported by a still tight labor market (resulting in elevated wage growth). We do believe that these pressures will ease over the course of the year, but the path is unlikely to be easy or smooth. The latest economic data should provide some unease for the Fed, resulting in more restrictive policy. Consequently, over the past two weeks, the market's expected peak fed funds rate has increased from 4.88% to 5.24%- now baking in another 2-3 more rate hikes (vs 1 previously) with decreased chances of rate cuts in the second half of the year. **This hike-and-hold strategy is more in-line with our base case view- that inflation moderation will take time and the Fed will be reluctant to ease too quickly (avoiding the stop-and-go policy that plagued economic growth in the 1970s).**



CORE INFLATION BASED ON POTENTIAL MONTHLY PATHS

As the previous page shows, core CPI continues to run "too hot" on a monthly basis. We have seen the m/m reading touch 0.3% m/m a few times, but the general trend has remained elevated vs. the pre-Covid normal range of roughly 0.0-0.3%. The chart below portrays where core CPI y/y would trend over time based on m/m readings. **As you can see, we need to see sustained monthly growth rates below 0.3% in order to get core inflation down to the Fed's target range of 2-2.5%.** Anything above that should be viewed as disappointment by investors, likely extending the timeline of tight Fed policy. This week's core CPI m/m reading of 0.4% for January is having that effect on market moves- higher Fed expectations, higher bond yields, and lower P/E multiples.



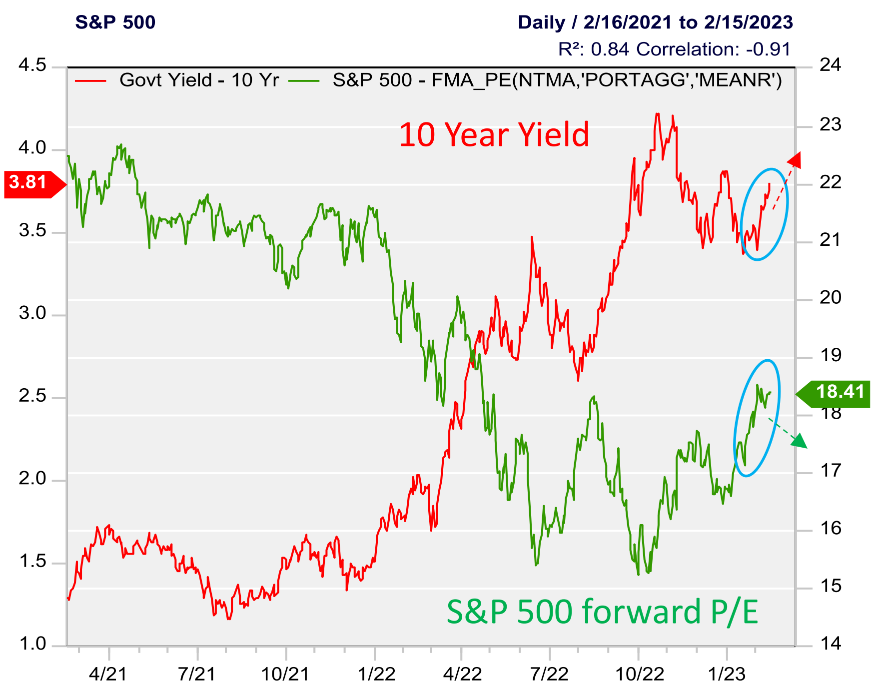
Core CPI Based on Potential M/M Growth Rates

Date	+10bps	+20bps	+30bps	+40bps	+50bps
May-24	1.2%	2.4%	3.7%	4.9%	6.2%
Apr-24	1.2%	2.4%	3.7%	4.9%	6.2%
Mar-24	1.2%	2.4%	3.7%	4.9%	6.2%
Feb-24	1.2%	2.4%	3.7%	4.9%	6.2%
Jan-24	1.2%	2.4%	3.7%	4.9%	6.2%
Dec-23	1.5%	2.6%	3.8%	4.9%	6.1%
Nov-23	1.8%	2.8%	3.9%	4.9%	6.0%
Oct-23	2.0%	3.0%	3.9%	4.8%	5.8%
Sep-23	2.3%	3.1%	3.9%	4.8%	5.6%
Aug-23	2.8%	3.5%	4.2%	4.9%	5.7%
Jul-23	3.3%	3.9%	4.5%	5.1%	5.8%
Jun-23	3.5%	4.0%	4.5%	5.0%	5.6%
May-23	4.0%	4.4%	4.8%	5.2%	5.7%
Apr-23	4.5%	4.9%	5.2%	5.5%	5.8%
Mar-23	4.9%	5.1%	5.4%	5.6%	5.8%
Feb-23	5.2%	5.3%	5.4%	5.5%	5.6%
Jan-23	**5.5%**	**5.5%**	**5.5%**	**5.5%**	**5.5%**

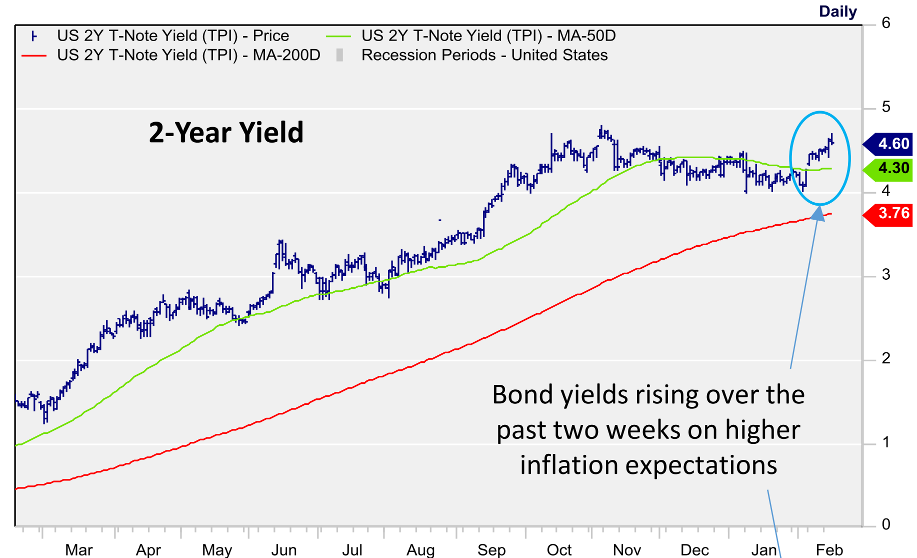
Source: FactSet

INTEREST RATES AND VALUATION

Higher inflation expectations over the past couple of weeks, resulting in higher odds of tighter Fed policy, are pushing bond yields higher. The US 2-year yield is back up to 4.67% (near cycle highs from early November), and the US 10-year yield has risen to 3.85% (from 3.40% two weeks ago). This should act as a headwind to equities in our view, as **P/E multiples have held a strong inverse correlation to bond yields over the past two years**. So far, this relationship has broken somewhat with equities rallying despite higher bond yields. However, the moves do give us some caution at short-term levels. And if bond yields continue to rise, the market rally has likely gotten a little ahead of itself.



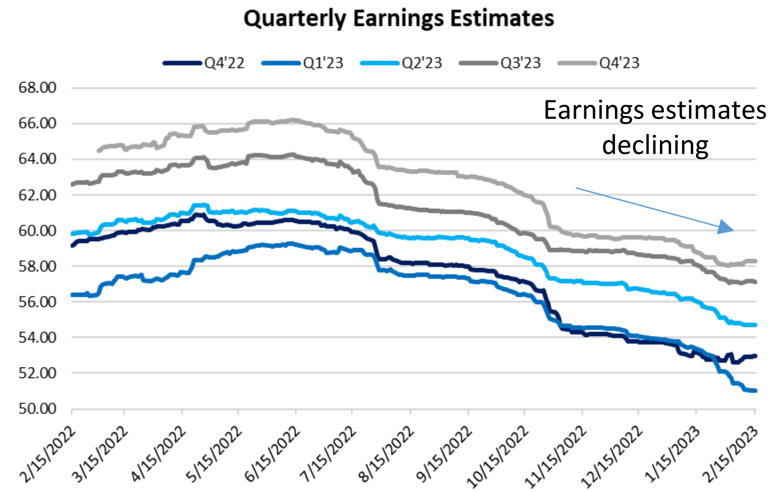
Source: FactSet



FUNDAMENTALS

Q4 earnings season is approaching an end, as 80% of the S&P 500's market cap has reported up to this point. Over the next week, we will hear from a number of retailers. Results have been roughly in line with downwardly revised estimates. For example, Q4 estimates were revised 14% lower since last June and results are beating them by an aggregate 1.2% below the 5.4% 15-year average). Additionally, forward guidance continues to contract. Q1 and Q2 estimates have been revised lower by -5.2% and -3.2% respectively since the year began. Q3 and Q4 estimates are down roughly 2% over the same period, but have shown some stabilization lately. We will continue to watch those late year trends, but we expect them to resume their downward revisions as the year progresses. **Our 2023 S&P earnings estimate of $215 remains below bottom-up consensus estimates of $222**.

Despite weakening earnings, the average price performance through earnings season has been good (0.8% average 3-day price reaction). Relative earnings estimate revision trends remain a significant influence on relative performance. Communication Services have been a recent standout with respect to estimate revisions, particularly given their drastic underperformance last year.



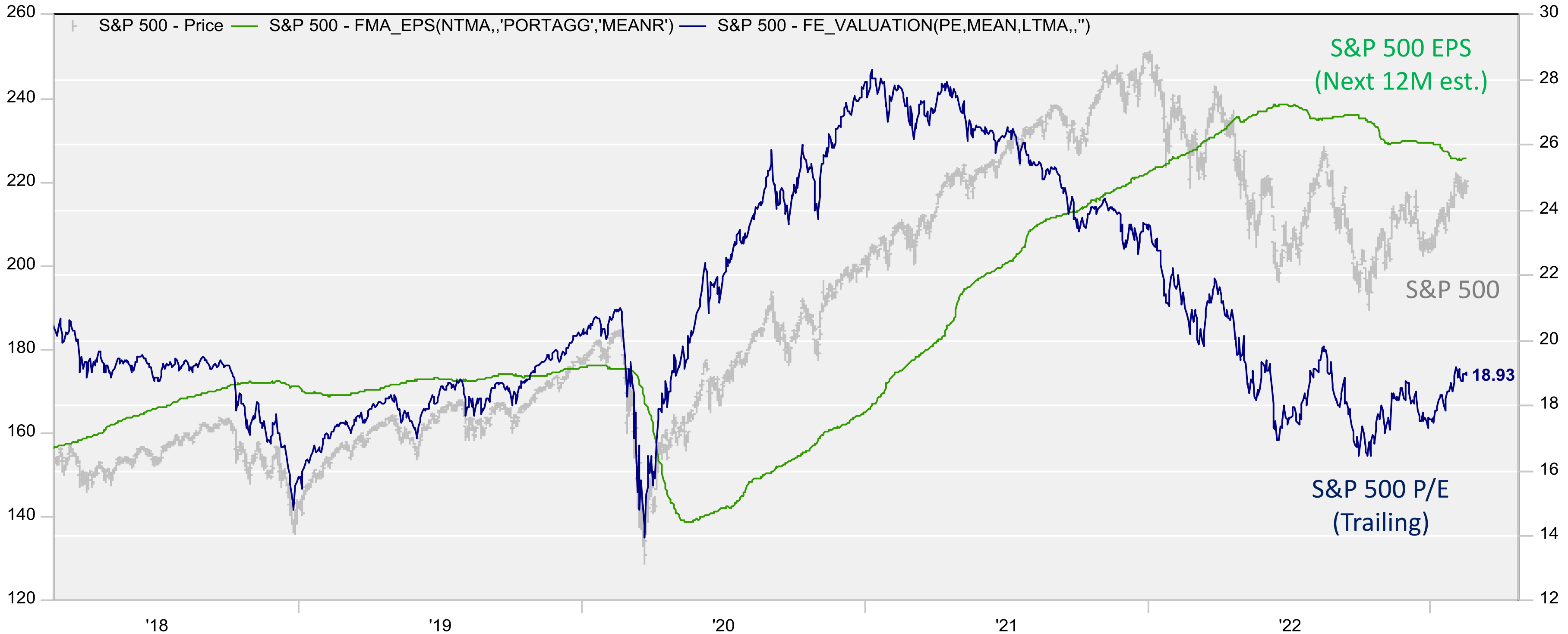
	% Q4 Est. EPS Growth		% EPS	% Companies	# of Companies Reporting			Est. Chg Since 1/1/2023			Avg 1D Price	3-Day	YTD	2022 EPS	2023 EPS	P/E	
S&P 500 Sector	Y/Y	Q/Q	Surprise	w/ Beats	Positive	Inline	Negative	Q4'22	2022	2023	Reaction	Reaction	Return	Growth	Growth	2022	2023
S&P 500	**-3.6**	**-3.6**	**1.2**	**69**	**256**	**19**	**97**	**-1.3%**	**-0.5%**	**-3.1%**	**0.7%**	**0.8%**	**7.28**	**5.2%**	**2.3%**	**19.09**	**18.65**
Consumer Staples	-1.0	-5.1	3.4	75	18	1	5	2.3%	0.1%	0.3%	1.4%	1.7%	-2.13	2.6%	3.9%	21.31	20.51
Communication Services	-24.4	4.1	-4.2	52	11	1	9	-5.1%	-1.9%	0.0%	0.2%	-0.1%	14.46	-18.2%	12.3%	18.58	16.54
Utilities	5.5	-35.4	1.6	60	6	1	3	-0.3%	0.3%	-0.3%	-1.2%	-1.1%	-4.00	1.6%	6.8%	19.42	18.18
Real Estate	5.7	-4.4	2.4	65	11	1	5	0.7%	0.1%	-1.0%	0.1%	0.7%	8.62	10.5%	1.5%	18.33	18.06
Industrials	40.3	4.9	-1.2	66	39	4	16	-2.0%	-0.3%	-3.1%	1.1%	0.1%	4.51	29.8%	11.5%	21.90	19.64
Financials	-12.7	4.9	0.7	64	41	2	21	-6.9%	-2.0%	-3.2%	0.6%	0.2%	6.43	-16.6%	13.3%	14.83	13.09
Information Technology	-9.0	8.1	0.6	78	47	4	9	0.0%	-0.4%	-3.3%	1.0%	2.0%	14.55	4.0%	0.8%	24.27	24.08
Materials	-21.1	-12.0	6.2	61	14	2	7	5.2%	0.9%	-3.5%	2.2%	3.2%	6.49	6.2%	-15.5%	14.73	17.43
Energy	61.5	-19.5	1.8	58	7	0	5	-2.8%	-0.6%	-3.9%	0.2%	0.4%	0.41	155.2%	-16.9%	8.55	10.29
Health Care	-4.9	-8.2	5.7	77	37	2	9	4.4%	1.3%	-4.3%	0.5%	0.3%	-3.45	5.1%	-9.0%	16.23	17.83
Consumer Discretionary	-19.9	-13.2	0.8	74	25	1	8	-3.5%	-2.5%	-6.3%	-0.5%	-2.4%	17.97	-13.3%	29.1%	34.77	26.94

Source: FactSet

EARNINGS DECLINING, WHAT'S THE RIGHT MULTIPLE?

Earnings are declining, and we expect this to continue as Fed tightening (which remains ongoing) works with a lag on economic growth. However, stocks discount the future- and valuation multiples (which declined 41% from their peak) have priced in a lot of earnings weakness to come in our view. We believe that stocks will be higher over the next 12 months (driven by multiple expansion) as investors gain clarity on inflation, Fed policy, and their impacts on economic growth. However that clarity for sustained appreciation is likely to take some time. **A V-bottom (glide path higher), like that seen out of the 2018 and 2020 bear markets, is unlikely in our view.** Inflation was low, and the Fed dropped interest rates to stimulate the economy in those periods. We do not have that luxury right now with inflation still very elevated. The net result is a bottoming process and recovery that are likely elongated- with back-and forth trading along the way to higher prices. Our probability-weighted 2023 price target is ~4400, using 20.5x P/E on $215 earnings.

S&P 500 (SP50-USA) : 02/16/2018 to 02/16/2023 (Daily)



Source: FactSet

TECHNICAL: S&P 500

Source: FactSet

Equity markets have experienced a strong start to the year- the average S&P 500 stock is up ~8% YTD with outperformance coming from the higher-beta, harder-hit areas in last year's decline. This is significant, as technical improvements often come well ahead of the fundamentals out of bear markets.

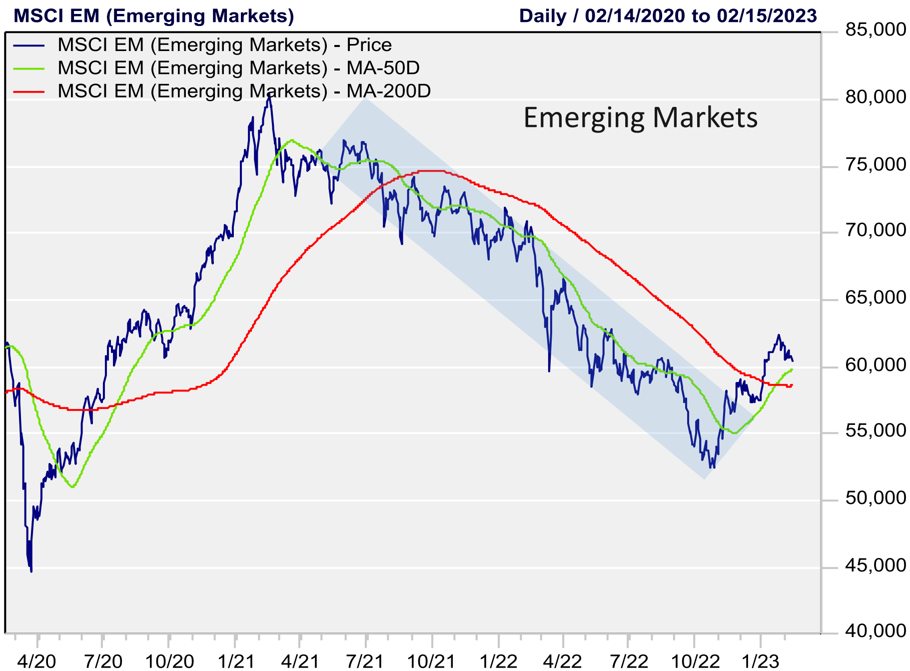
The technical positives are stacking up and becoming difficult to ignore. For example, the S&P 500 held its 200-week moving average at the October lows (a good level of long-term support). Investor sentiment and net positioning reached depressed levels, and selling conviction decreased at the October lows vs. June lows. Additionally, the S&P 500 staged impressive breadth thrusts in the advance and broke above its 12-month downtrend with a risk-on tone. These are data points often consistent with a market attempting to turn out of bear market lows.

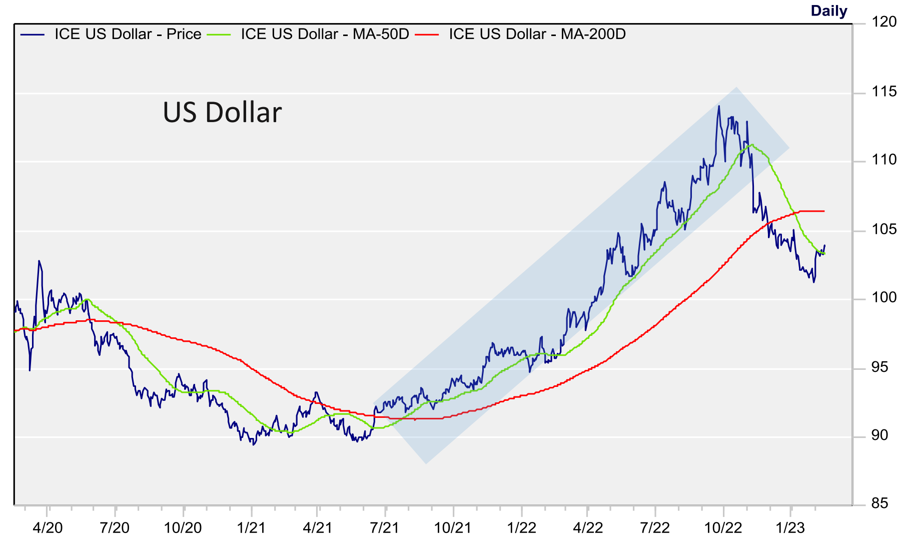
That said, **we do view equities as overbought in the short-term**. MACD appears to be crossing over, which may be indication of some due consolidation in the short-term. We recommend exercising some patience at current levels, but would use weakness as opportunity to accumulate favored stocks for the longer-term.

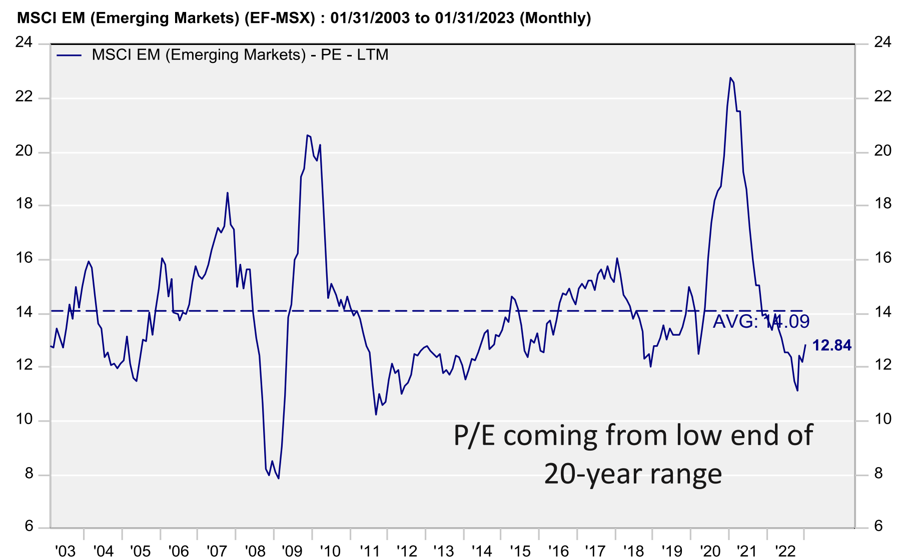
We see short-term resistance at ~4200 and ~4300, while short-term support resides at 3975 (50 DMA), 3944 (200 DMA), and ~3918 (uptrend line), followed by ~3800 and ~3700.

EMERGING MARKETS

The emerging markets have an interesting set up technically. After underperforming substantially since early 2021 (in conjunction with a surge higher in the US dollar), emerging market equities have shown some technical improvement since October in conjunction with a peak in the US dollar. Currency movements will remain a significant influence on performance in our view; but **the EM index is 25% off its highs, near support at moving averages, and valuation is on the lower end of its historical range**. For long-term investors wanting to build exposure to emerging markets, we recommend an initial position, while building your position as the trend evolves.



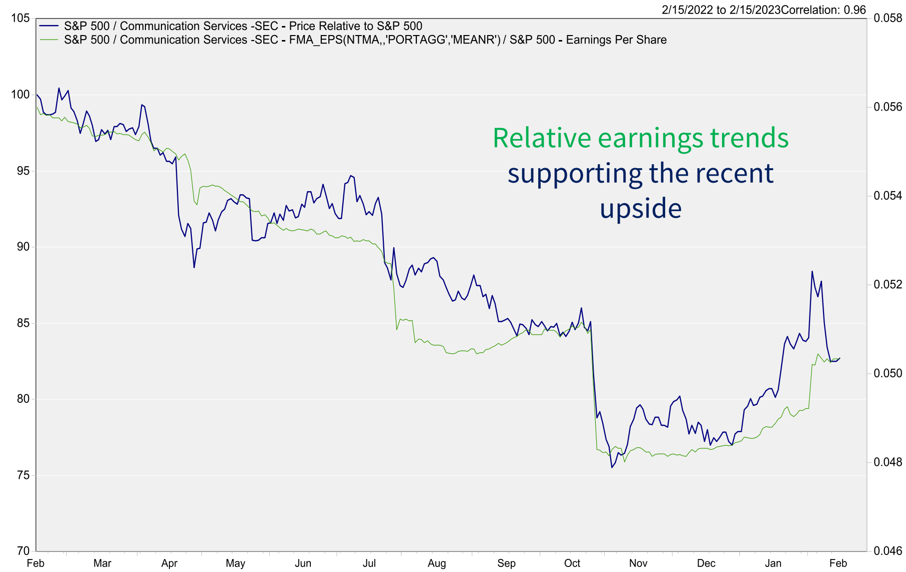


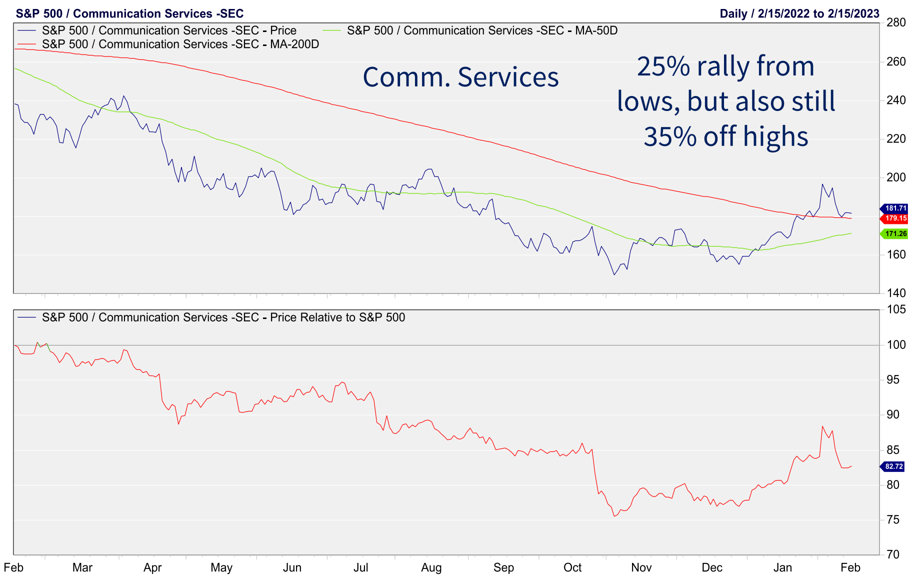


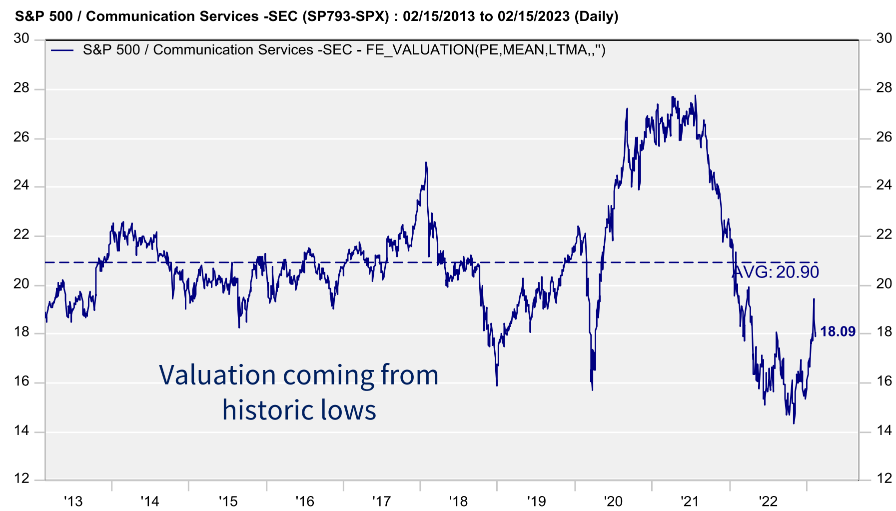
Source: FactSet

COMMUNICATION SERVICES

Communication Services were the worst-performing sector in 2022 at -40.4%. Mean reversion to begin 2023 has led to last year's worst performers seeing some of the best performance to begin the new year (i.e. Communication Services are up 15.1% YTD). Importantly, Comm. Services outperformance is being supported by improved earnings estimate revision trends. For example, the sector's earnings estimates were consistently revised lower last year (at worse rates than the S&P 500), which supported underperformance- but these earnings estimates have held steady of late (better than the S&P 500). Additionally, valuation had reached very cheap levels at the recent lows (sector P/E was below that seen during the 2018 trade war and 2020 Covid shutdown lows). **Improved performance, along with cheap valuations and improved fundamental trends, grabs our attention**. And with the sector still 35% off its highs and near support, we recommend long-term investors underweight Comm. Services to add exposure.







Source: FactSet (M23-127243)

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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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