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Weekly Market Guide

Short-Term Summary:

As expected, the Fed accelerated/doubled its tapering pace at this month's FOMC meeting with asset purchases set to end in Q1'22. Messaging moved more hawkish with the median dot plot reflecting three fed funds rate hikes in 2022 and another three in 2023. The initial rate hike is likely by the end of Q2 and could come as early as March. Labor market data will be key to this timeline with inflation well above desired levels, i.e. December core CPI and PPI pushed higher to 5% and 9.7% respectively. The Fed's hawkish pivot is prudent in our view with very loose financial conditions and elevated inflation. The Fed revised its 2022 GDP estimate to 4% growth, 2.6% core inflation, and 3.5% unemployment rate- a solid economic backdrop should it prove accurate. That said, given that the Fed has been so important to equity markets since the credit crisis, a normalization of policy (and more hawkish pivot) could come with more moderate returns and normal volatility/choppiness over the next 3-6 months.

With investors preparing for rate hikes in 2022, we look to previous examples for clues on how this might progress. Historically, 3-6 month returns prior to the first rate hike have been solid with more moderate returns afterward. However, Fed policy has become much more telegraphed and uniform over time. In looking at the last two rate hike cycles (and granted each period is different), choppiness occurred more in the lead-up (i.e. US was in a manufacturing recession during the 12-14% pullback in 2015, and there was a more normal 8% pullback around the first hike in 2004). The Fed's hawkish pivot from ultra-lenient policy toward more normalized policy could come with more moderate returns and normal periods of volatility in 2022 (vs what investors have grown accustomed to since March 2020). Rate hikes alone do not derail equity markets and concerns become more heightened following a yield curve inversion, which is far off. Volatility can be purchased with conditions likely to remain healthy.

The S&P 500 has been basing since early November. And beneath the surface lately, there has been some defensive rotation- at least in part as caution ahead of yesterday's FOMC announcement. We have a bias for the Fed's hawkish pivot to be a headwind for appreciably higher equity prices and may result in more range-bound trading. Basing may continue but positive seasonal factors, along with a healthy macro and overall earnings growth supports accumulating when the market is near technical support or if a deeper decline (normal pullback) develops. Key resistance to monitor is nearby at recent highs in the 4715-4745 area. Support levels include 4594 (50 DMA), 4465-4495 (horizontal support), and the 200 DMA (upward-trending at 4338).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	17.4%	19.0%
S&P 500	25.4%	27.5%
S&P 500 (Equal-Weight)	24.6%	25.7%
NASDAQ Composite	20.8%	23.6%
Russell 2000	11.2%	12.0%
MSCI All-Cap World	14.8%	17.0%
MSCI Developed Markets	5.5%	7.7%
MSCI Emerging Markets	-5.9%	-2.9%
NYSE Alerian MLP	22.7%	13.3%
MSCI U.S. REIT	33.5%	33.4%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	45.1%	2.7%
Real Estate	36.6%	2.7%
Information Technology	33.2%	29.5%
Financials	31.8%	10.8%
S&P 500	***25.4%***	-
Consumer Discretionary	21.9%	12.5%
Health Care	21.3%	13.1%
Materials	20.7%	2.5%
Communication Svcs.	20.0%	10.2%
Industrials	17.2%	7.7%
Consumer Staples	13.3%	5.8%
Utilities	12.0%	2.5%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

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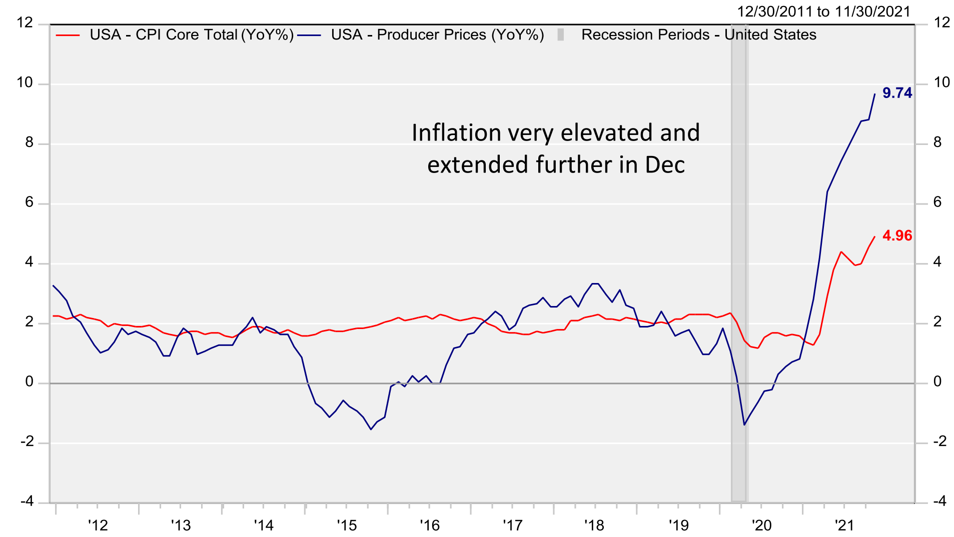
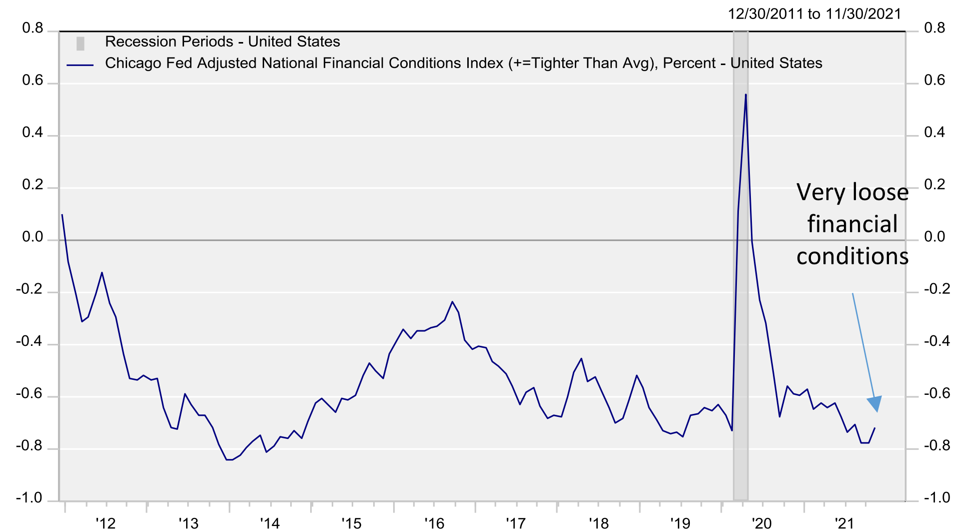
Event	Period	Actual	Consensus	Prior
CPI ex-Food & Energy SA M/M	NOV	0.50%	0.50%	0.60%
CPI ex-Food & Energy NSA Y/Y	NOV	4.9%	4.9%	4.6%
CPI SA M/M	NOV	0.80%	0.70%	0.90%
CPI NSA Y/Y	NOV	6.8%	6.7%	6.2%
Hourly Earnings SA M/M (Final)	NOV	0.30%	0.30%	0.30%
Hourly Earnings Y/Y (Final)	NOV	4.8%	-	4.8%
Michigan Sentiment NSA (Preliminary)	DEC	70.4	67.0	67.4
NFIB Small Business Index	NOV	98.4	-	98.2
PPI ex-Food & Energy SA M/M	NOV	0.70%	0.40%	0.40%
PPI ex-Food & Energy NSA Y/Y	NOV	7.7%	7.2%	7.0%
PPI SA M/M	NOV	0.80%	0.50%	0.60%
PPI NSA Y/Y	NOV	9.6%	9.2%	8.8%
Retail Sales ex-Auto SA M/M	NOV	0.30%	0.80%	1.8%
Retail Sales SA M/M	NOV	0.30%	0.80%	1.8%
NAHB Housing Market Index SA	DEC	84.0	84.0	83.0
Building Permits SAAR (Preliminary)	NOV	1,712K	1,655K	1,653K
Continuing Jobless Claims SA	12/04	1,845K	1,915K	1,999K
Housing Starts M/M	NOV	11.8%	3.3%	-3.1%
Initial Claims SA	12/11	206.0K	199.0K	188.0K
Industrial Production SA M/M	NOV	0.50%	0.70%	1.70%



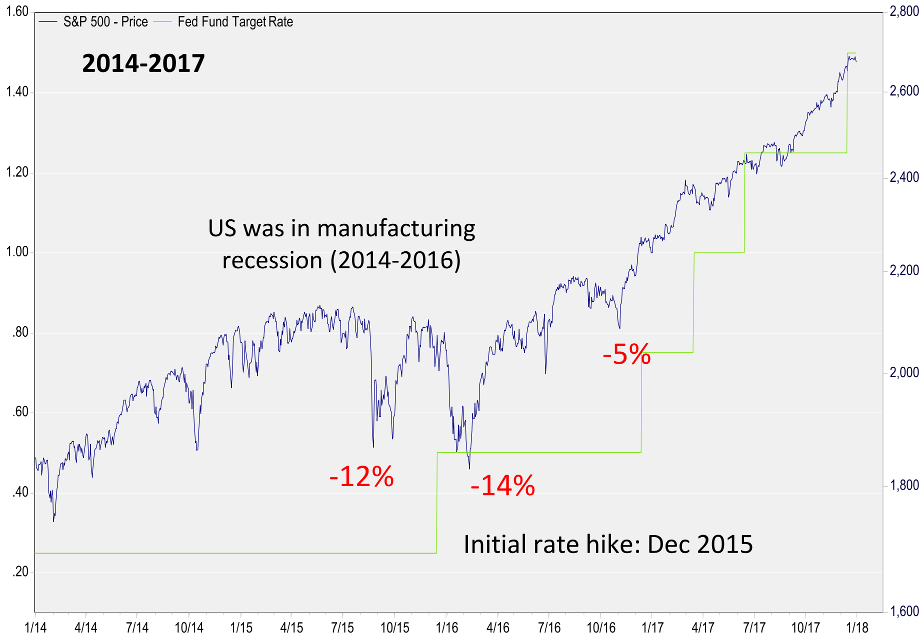


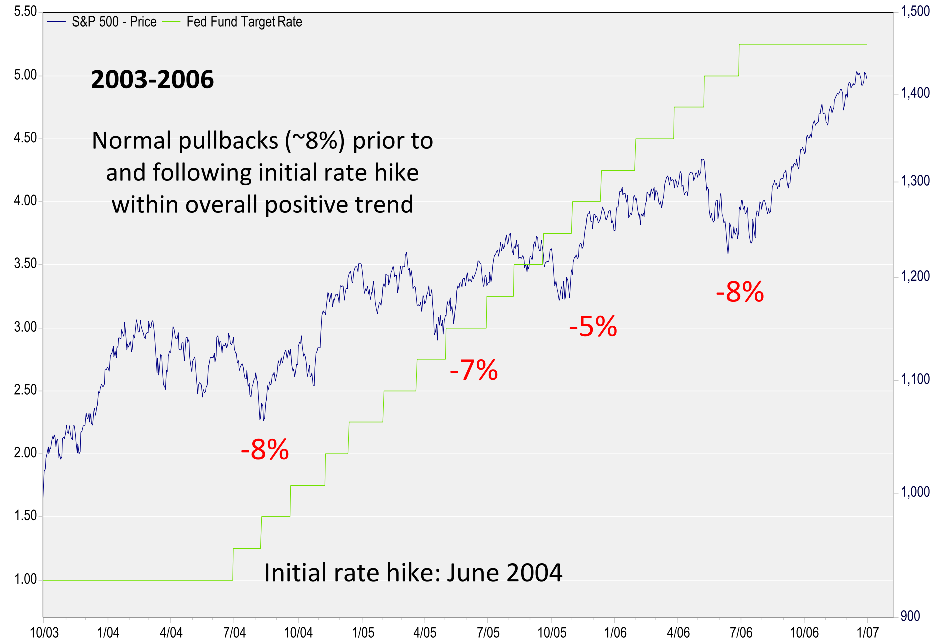
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

RATE HIKES

With investors preparing for rate hikes in 2022, we look to previous examples for clues on how this might progress. Historically, 3-6 month returns prior to the first rate hike have been solid with more moderate returns afterward. However, Fed policy has become much more telegraphed and uniform over time. In looking at the last two rate hike cycles (and granted each period is different), choppiness occurred more in the lead-up (i.e. US manufacturing recession during the 12-14% pullback in 2015 and a more normal 8% pullback around the first hike in 2004). The Fed's hawkish pivot from ultra-lenient policy toward more normalized policy could come with more moderate returns and normal periods of volatility in 2022 (vs what investors have grown accustomed to since March 2020). Rate hikes alone do not derail equity markets and concerns become more heightened following a yield curve inversion, which is far off. Volatility can be purchased with conditions likely to remain healthy.

Cycles	Before First Hike			After First Hike		
First Hike	-3M	-6M	-12M	3M	6M	12M
12/16/2015	3.9	-1.1	5.1	-2.2	0.2	8.9
6/30/2004	1.2	2.8	17.1	-2.3	6.4	4.4
6/30/1999	5.5	11.4	21.1	-6.6	6.7	6.0
2/4/1994	2.7	4.7	4.5	-3.9	-2.4	1.9
3/29/1988	12.2	5.7	22.7	-9.8	-14.7	4.8
12/16/1986	7.9	1.6	17.9	15.3	21.9	-0.8
5/2/1983	13.1	17.9	39.2	-0.1	1.7	-0.1
8/7/1980	15.0	6.0	16.7	4.8	5.9	6.9
Average	**7.7**	**6.1**	**18.0**	**-0.6**	**3.2**	**4.0**



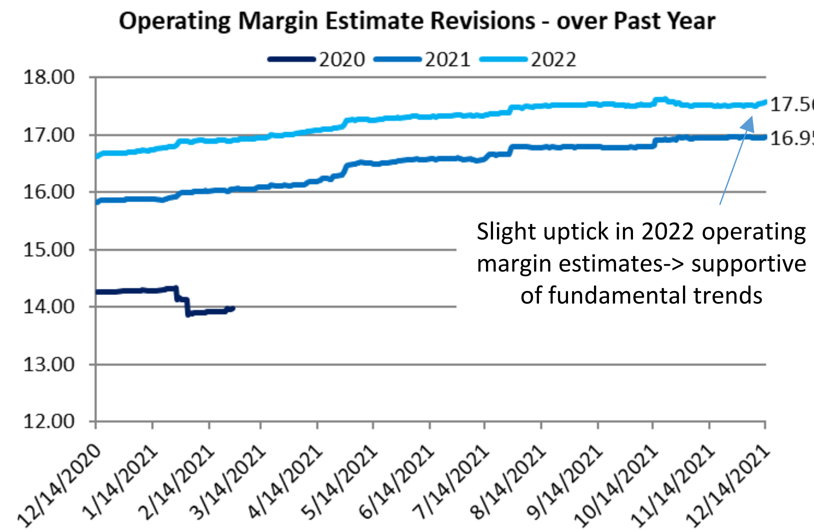


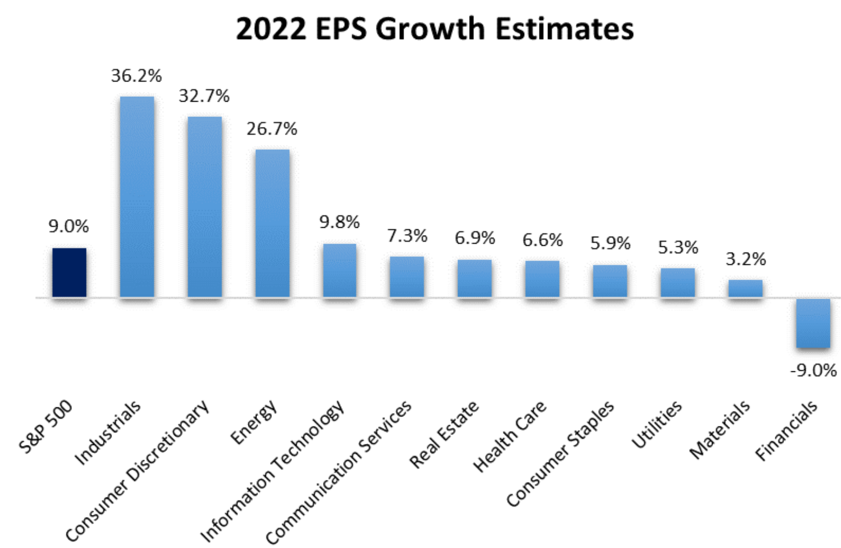
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

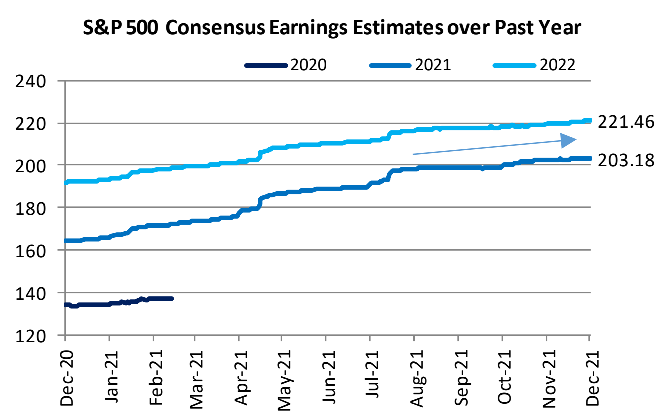
FUNDAMENTALS

Q4 2021 S&P 500 earnings estimates have nudged higher lately- still reflecting a -4.6% sequential contraction, though results have beaten estimates by very high rates in recent quarters (i.e. 10% earnings surprise in Q3). All quarters of 2022 are seeing S&P 500 earnings estimates get revised higher, in particular the back half of the year (Q3 and Q4). We also notice a slight uptick in 2022 operating margin estimates lately, despite all the consternation surrounding inflationary and labor costs. This is supportive of fundamental trends, which we believe still contain upside to consensus estimates. Our 2022 S&P 500 earnings estimate is $235 (above $221 consensus).

In looking at sector earnings, Technology fundamentals remain strong with earnings growth likely coming in at above market rates in 2022. However, more recovery-oriented areas (such as Industrials, Consumer Discretionary, and Energy) are set to see the strongest growth rates. Energy is also seeing the strongest estimate revision trends by far. The Financials stand out as having weak earnings expectations, but we see upside to these estimates on strong credit, improving loan activity, and the likelihood for higher rates. This contributes to our recommended sector positioning- that being a balanced, but pro-cyclical tilt (with underweight exposure to the defensives).







EPS Growth Estimates	
2020	-14.2%
2021	48.1%
2022	9.0%

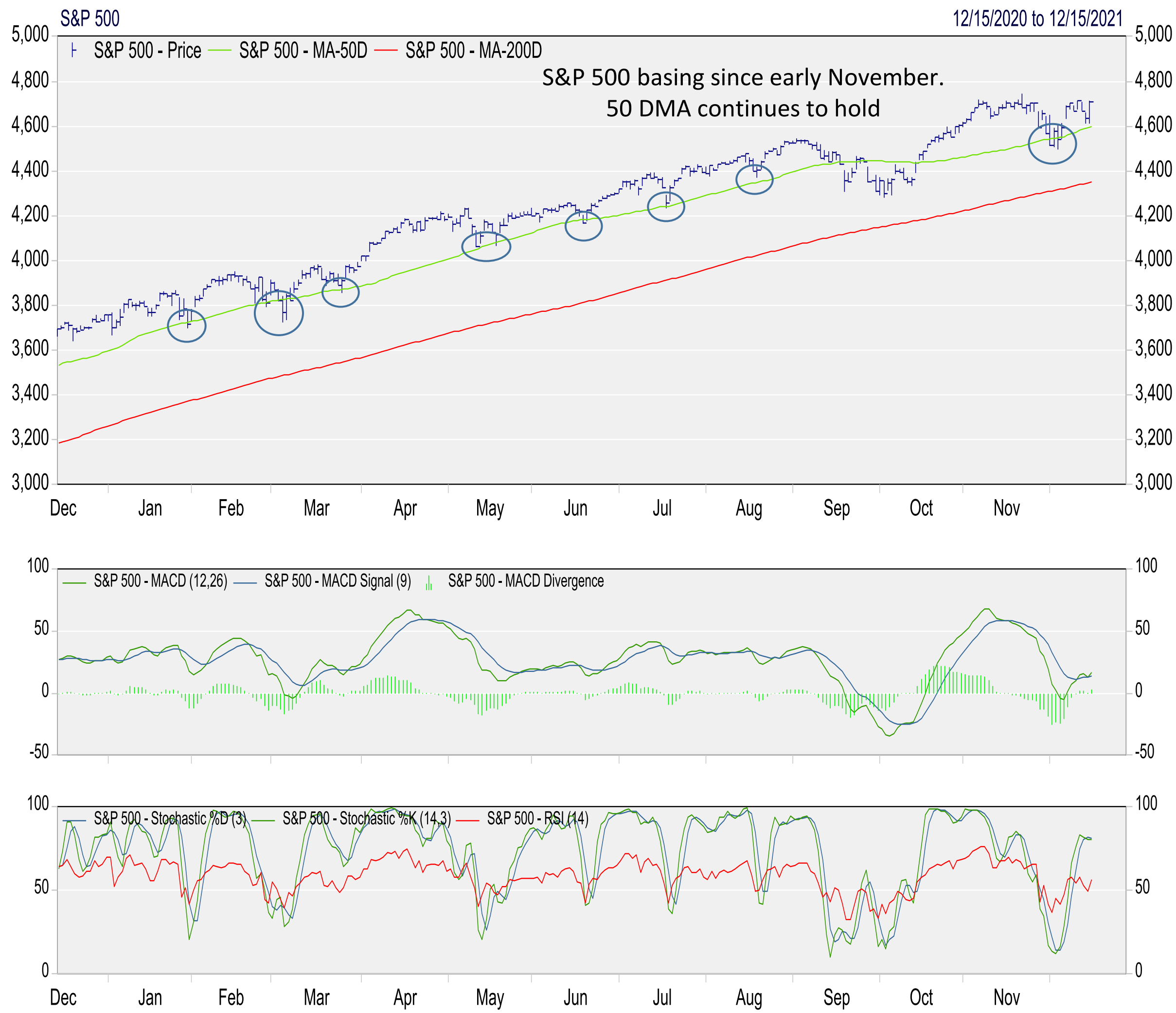
RJ Estimates

2021: 205

2022: 235

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



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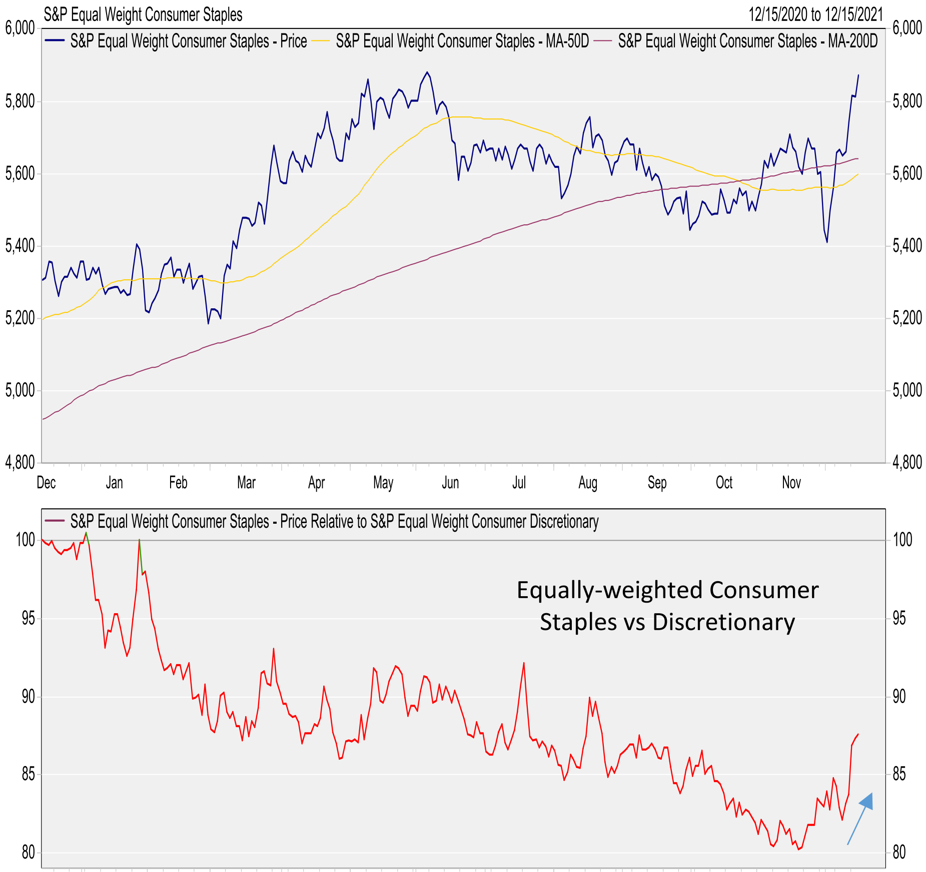
Basing may continue but positive seasonal factors, along with a healthy macro and overall earnings growth supports accumulating when the market is near technical support or if a deeper decline (normal pullback) develops.

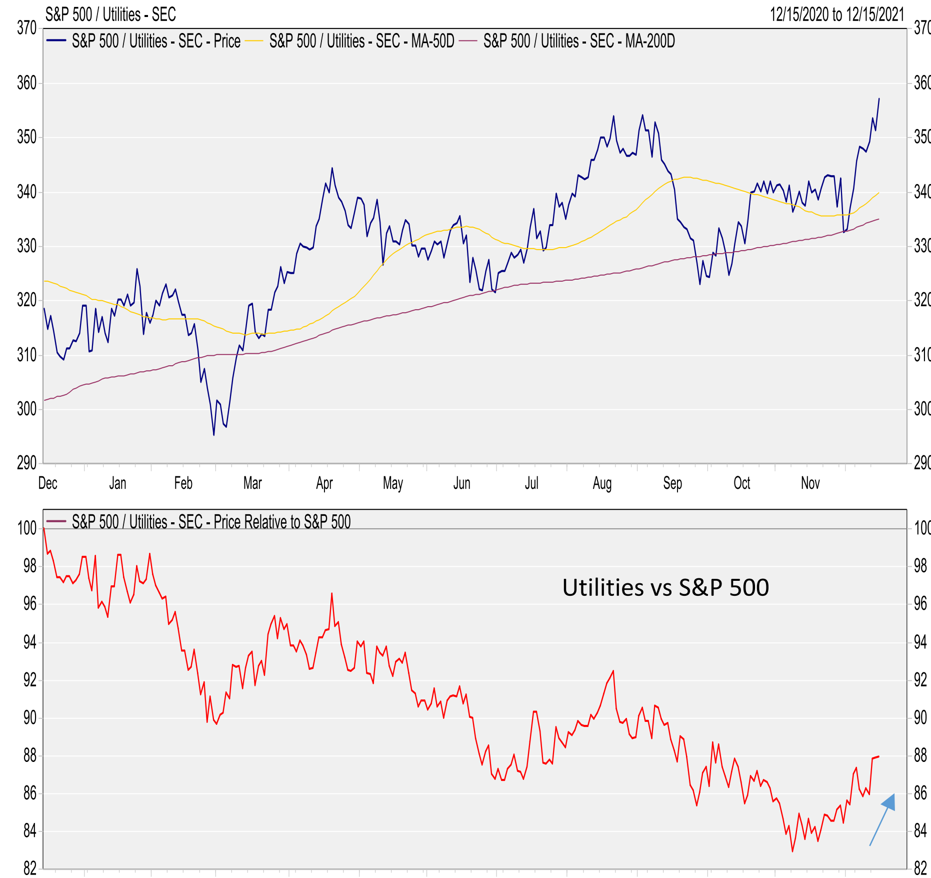
Key resistance to monitor is nearby at recent highs in the 4715-4745 area.

Support levels include 4594 (50 DMA), 4465-4495 (horizontal support), and the 200 DMA (upward-trending at 4338).

DEFENSIVE ROTATION

Defensive sectors have bounced lately through the market's volatility and their relative strength can sometimes be a precursor to headwinds in market momentum. For example, late in bull market cycles, defensive sectors often gain relative to cyclicals as investors rotate. We are not there yet. For now, these are just short-term bounces within a prolonged relative performance downtrend, and we do not expect the recent relative gains to prove sustainable. We will watch the charts but recommend giving them room to prove sustainable before doubting the cyclical bull run.

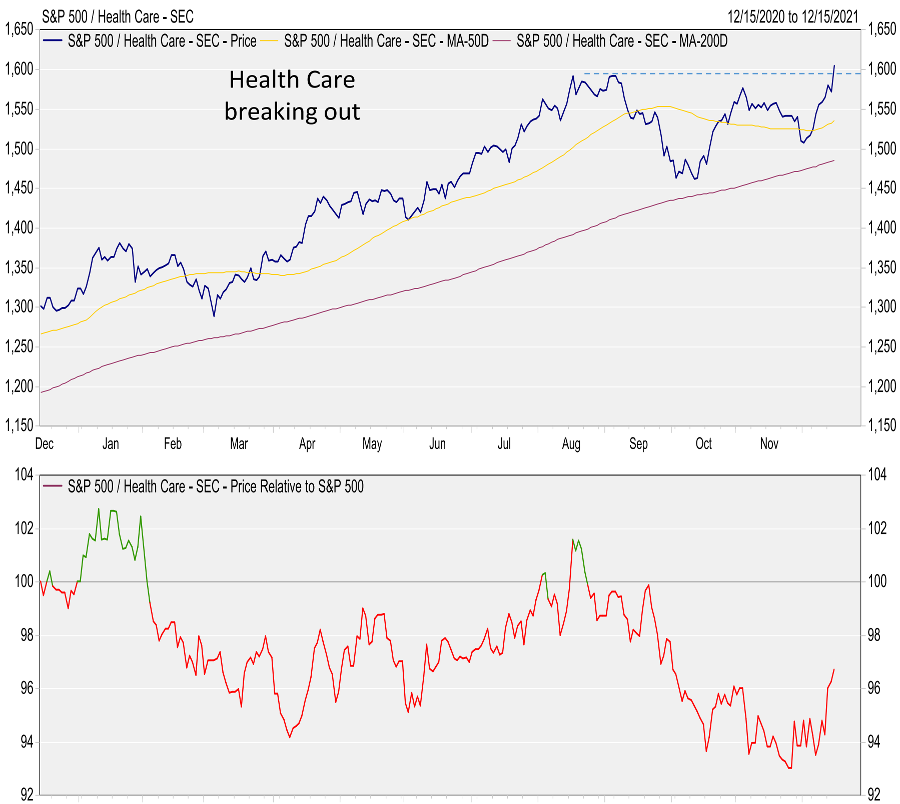


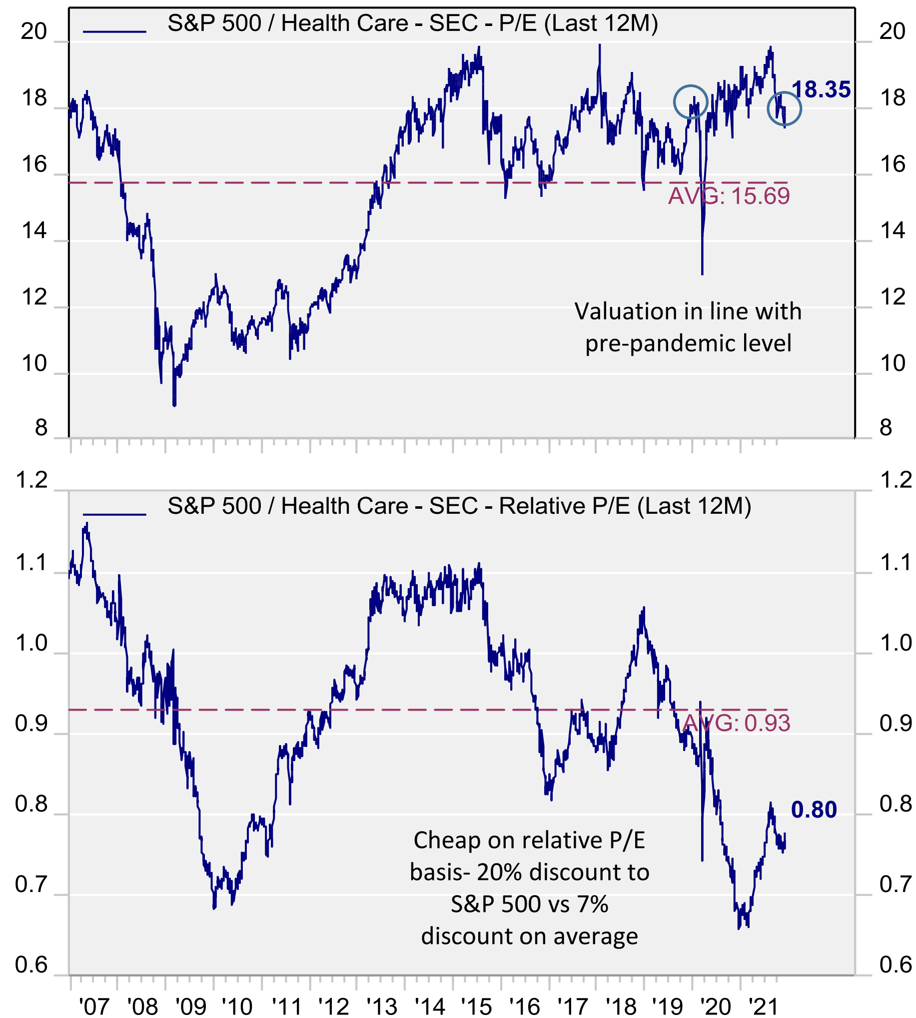


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

HEALTH CARE

Health Care is breaking out to new highs. The group has been held back in our view on the political debate over drug pricing, along with Covid impacts to elective surgeries and hospitals. And though earnings growth is relatively slower in the recovery, the sector does offer a consistent growth profile and cheap valuation. Health Care trades in line with its pre-pandemic P/E at 18.3x which is a 20% discount to the S&P 500 P/E and low end of its historical relative P/E range.

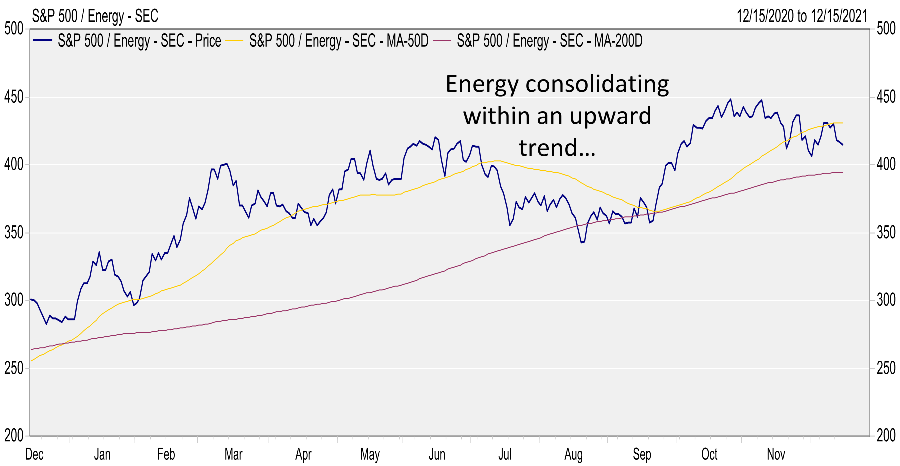


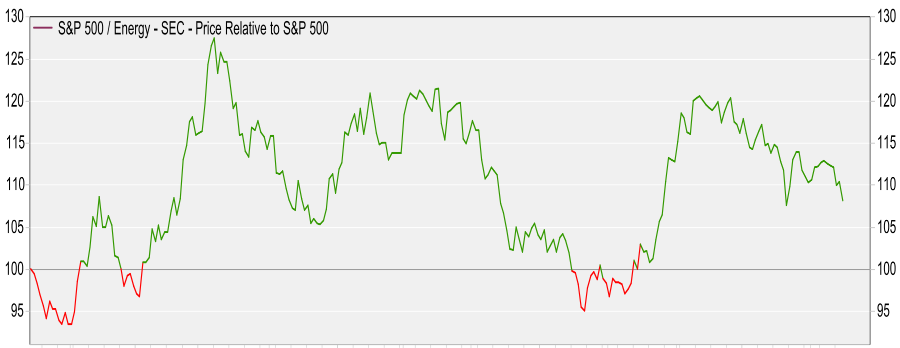


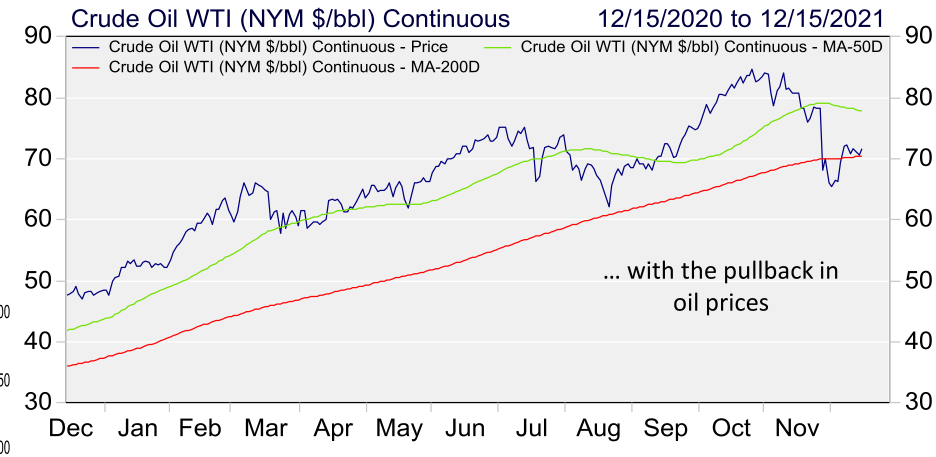
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

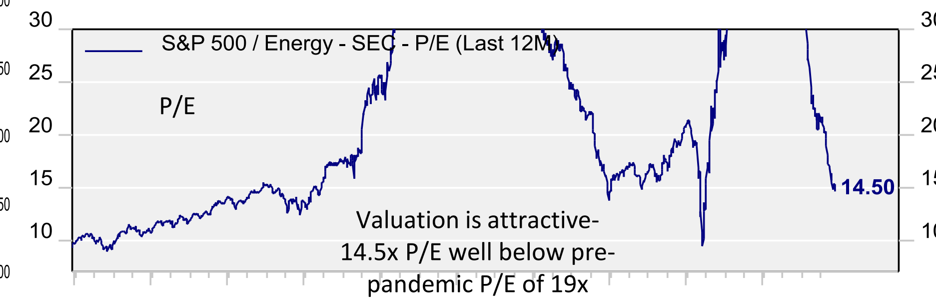
ENERGY

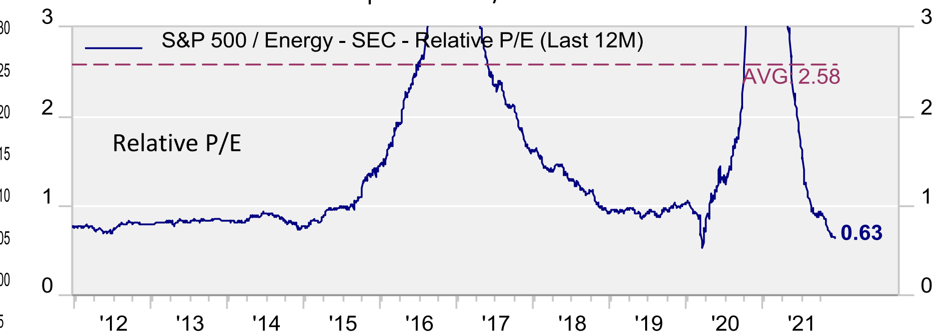
Energy has pulled in with oil prices during the Omicron spread. We would use the current consolidation phase as opportunity to accumulate favored stocks in the sector, particularly within the E&Ps. We find the backdrop as attractive, driven by free cash flow growth and shareholder-friendly uses of that cash, along with relatively cheap valuations based on fundamental momentum and elevated oil prices.







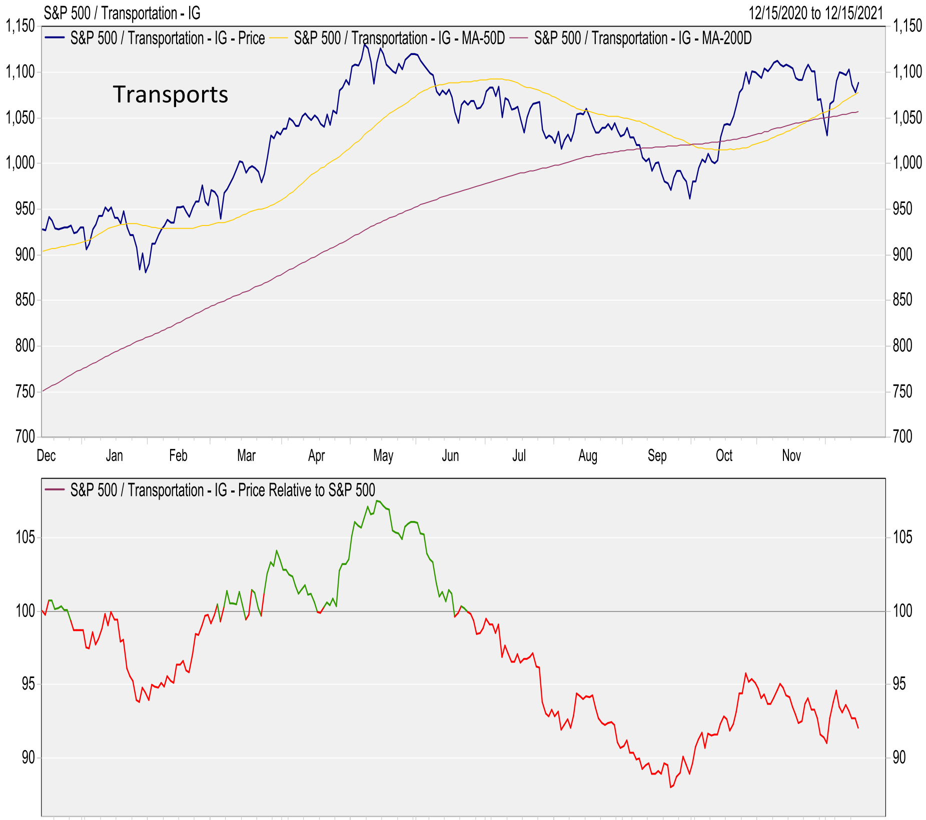


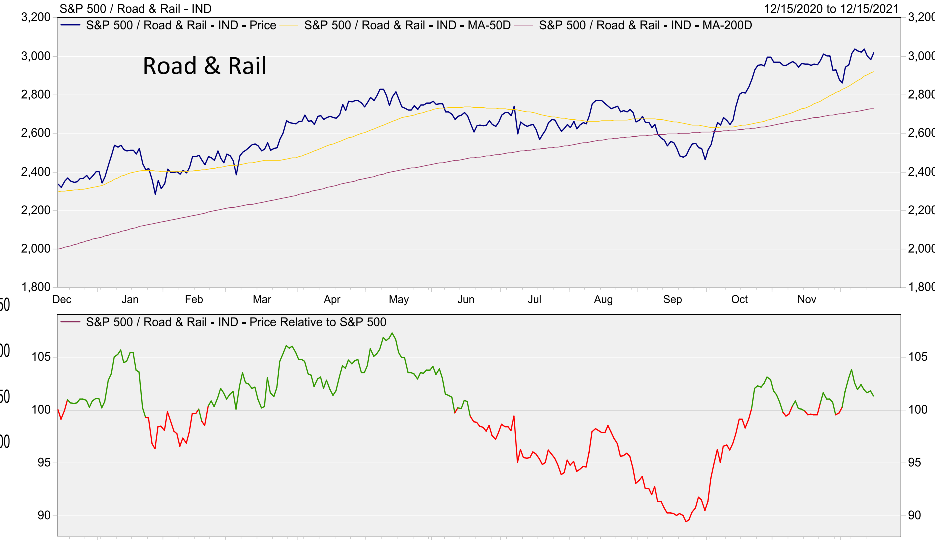


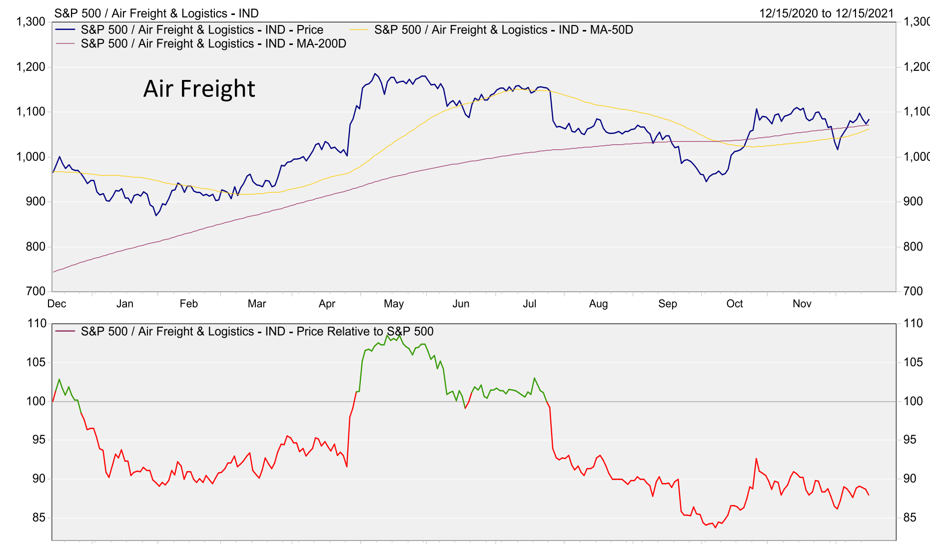
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TRANSPORTS

The transports are an area of opportunity in our view, particularly the rails and air freight subsectors. As Covid concerns likely abate over the coming months and the global recovery ensues, along with replenishing inventories from very low levels, fundamental momentum should become a tailwind. With these areas trading near support levels, we would look to accumulate favored stocks.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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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.

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