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Weekly Market Guide

Short-Term Summary:

Inflation rose to multi-decade highs in December (7% y/y) and its impact on Fed policy remains top-of-mind for investors. The current trend makes an initial hike in March highly likely (93% market-implied odds and rising); and the question moving forward is if inflation will prove sticky at high levels (resulting in much tighter Fed policy) or if it will peak in the coming months. As discussed in our recent report Inflation and What It Means for Equities, our base case expectation is for inflation to moderate as the year progresses. We expect thawing bottlenecks to lead to inventory replenishment, which should ease inflationary pressures. Additionally, we are hopeful that Covid concerns can subside, allowing reluctant workers to return to the workforce and ease wage pressure. For these reasons, as the year develops, we expect investor perception to remain positive on the belief that the Fed will successfully navigate through current inflation concerns.

Nonetheless, uncertainty regarding this outcome will lead to weak periods for equities, such as that seen to begin 2022. And as the Fed embarks on the process of reducing its no-longer-needed stimulative measures, it seems logical that the equity market may find it more difficult to glide higher as it did in 2021. Historically, returns in the lead up to the first rate hike are solid with more moderate, but positive returns afterward. But we think this time could be different, as Fed policy has become much more telegraphed over time. This leads us to believe that normal volatility and choppiness may occur more in the lead-up to the initial rate hike (discussed in further detail here- Implications of Fed Policy Normalization on Equities). Nonetheless, we remain constructive on equities and would use pullbacks and rotation as opportunity. Our base case 2022 price objective for the S&P 500 remains 5053 (+8.5% from current levels before dividends).

Q4 earnings season begins tomorrow with several large banks and will likely be the dominant influence for several weeks. Over the next week, results will be Financials-heavy but with also initial indications from areas such as trucking, managed care, real estate, rails, media, and energy. The impact from Omicron's surge over the past month, along with company outlooks on inflation and margins will be key to monitor. We expect a positive earnings season overall as demand remains elevated and margins continue to hold up well at high levels. The number of surprises and magnitude of beats are likely to be above historical averages, but the trend is also likely to continue moderating. In fact, 80% of the "early Q4 reporters" are beating earnings estimates by 7.5% (vs 71% and 5.3% longer-term averages).

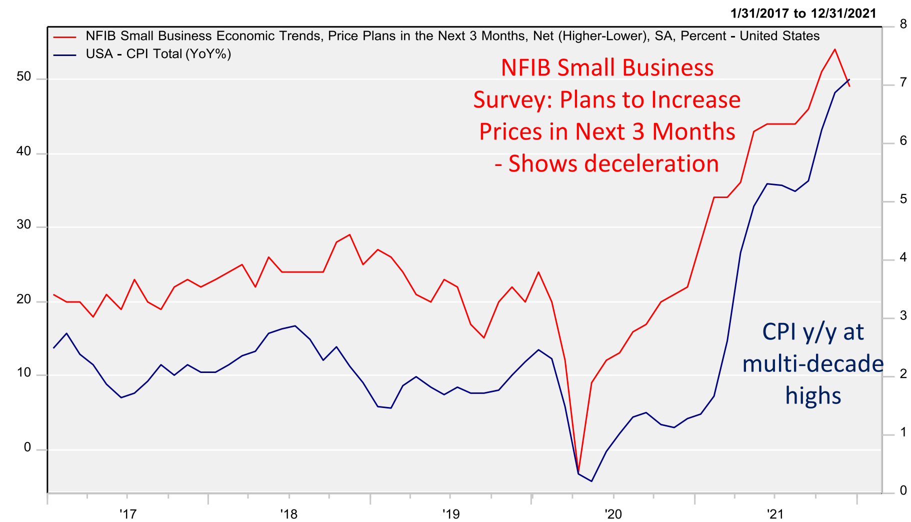
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-0.1%	16.8%
S&P 500	-0.8%	24.3%
S&P 500 (Equal-Weight)	-0.1%	23.0%
NASDAQ Composite	-2.9%	16.2%
Russell 2000	-3.1%	2.3%
MSCI All-Cap World	-0.2%	14.2%
MSCI Developed Markets	0.7%	7.3%
MSCI Emerging Markets	2.9%	-6.4%
NYSE Alerian MLP	10.7%	24.7%
MSCI U.S. REIT	-3.4%	38.9%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	14.3%	3.1%
Financials	6.0%	11.4%
Industrials	0.4%	7.9%
Materials	-0.4%	2.6%
Consumer Staples	-0.4%	5.9%
S&P 500	***-0.8%***	-
Communication Svcs.	-1.3%	10.1%
Consumer Discretionary	-1.5%	12.5%
Utilities	-2.8%	2.4%
Information Technology	-3.0%	28.5%
Health Care	-3.2%	13.0%
Real Estate	-5.4%	2.6%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

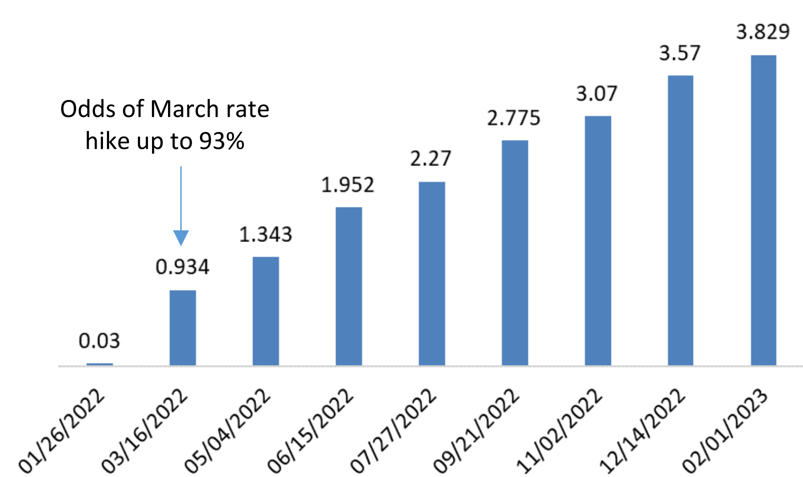
MACRO: US

December inflation rose to multi-decade highs with CPI y/y at 7% and core CPI up to 5.5% as inflation broadens out. Producer prices also remain very elevated with core PPI up 8.3% y/y. Inflation will be a key influence on Fed policy over the coming year, and the current trend puts an initial rate hike in March as highly likely. In fact, the market-implied odds of a hike in March are currently 93% and rising. The question moving forward is if inflation will prove sticky at high levels (resulting in a tighter Fed) or if it will peak in the coming months. We expect inflation to moderate over the course of the year as Covid concerns abate- supported by positive indications in soft macro data, such as the NFIB Small Business Plans to Increase Prices showing a deceleration this week. We are hopeful that supply constraints can ease over the coming year and that reluctant workers will re-enter the workforce as the economy reopens. This will allow investor perception to remain positive on the belief that the Fed will successfully navigate through current inflation concerns, though we expect periods of volatility as uncertainty ebbs and flows regarding this outcome.



Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	DEC	199.0K	400.0K	249.0K
Unemployment Rate	DEC	3.9%	4.1%	4.2%
Consumer Credit SA	NOV	$40.0B	$20.0B	$16.0B
Wholesale Inventories SA M/M (Final)	NOV	1.4%	1.2%	1.2%
NFIB Small Business Index	DEC	98.9	-	98.4
CPI ex-Food & Energy SA M/M	DEC	0.60%	0.50%	0.50%
CPI ex-Food & Energy NSA Y/Y	DEC	5.5%	5.4%	4.9%
CPI SA M/M	DEC	0.50%	0.40%	0.80%
CPI NSA Y/Y	DEC	7.0%	7.0%	6.8%
Hourly Earnings SA M/M (Final)	DEC	0.60%	0.60%	0.60%
Hourly Earnings Y/Y (Final)	DEC	4.7%	-	4.7%
Treasury Budget NSA	DEC	-$21.3B	$30.0B	-$191.3B
Initial Claims SA	01/08	230.0K	205.0K	207.0K
PPI ex-Food & Energy SA M/M	DEC	0.50%	0.50%	0.90%
PPI ex-Food & Energy NSA Y/Y	DEC	8.3%	7.8%	7.9%
PPI SA M/M	DEC	0.20%	0.40%	1.0%
PPI NSA Y/Y	DEC	9.7%	9.8%	9.8%

Market-Implied # of Hikes by FOMC Meeting

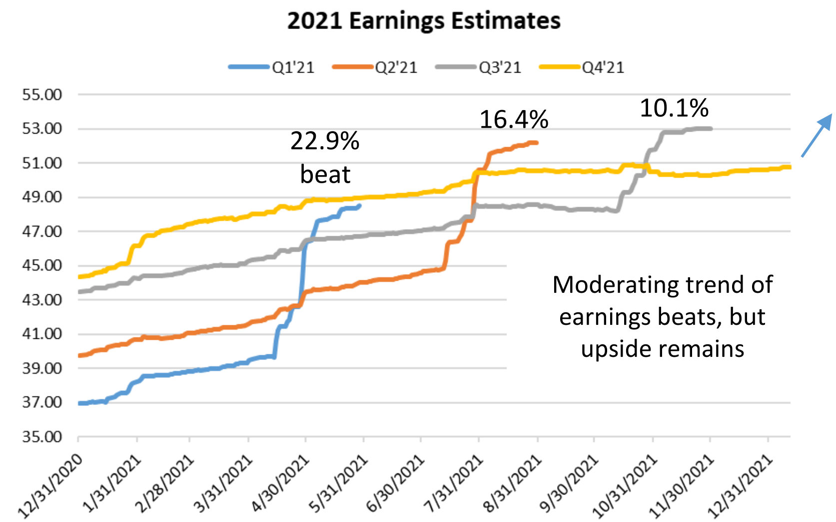


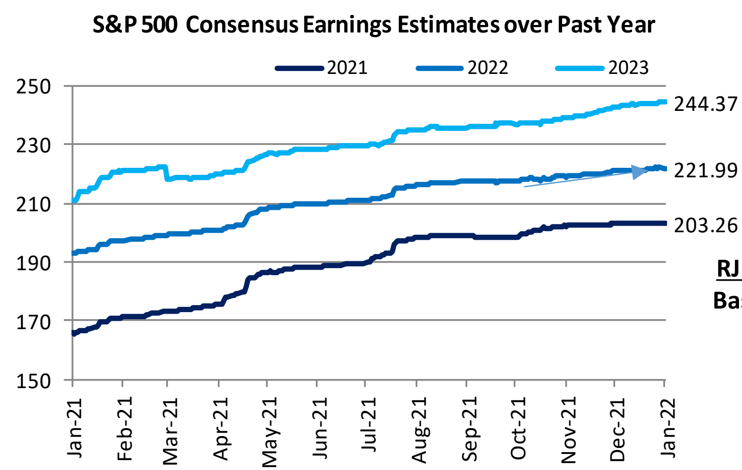
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Q4 earnings season begins tomorrow with several large banks and will likely be the dominant influence for several weeks. Over the next week, results will be Financials-heavy but with also initial indications from areas such as trucking, managed care, real estate, rails, media, and energy. The impact from Covid's surge over the past month, along with company outlooks on inflation and margins will be key to monitor. We expect a positive earnings season overall as demand remains elevated and margins continue to hold up well at high levels. The number of surprises and level of beats are likely to be above historical averages, but the trend is also likely to continue moderating (as shown on the next two pages). In fact, 80% of the "early Q4 reporters" are beating earnings estimates by 7.5% (vs 71% and 5.3% averages).

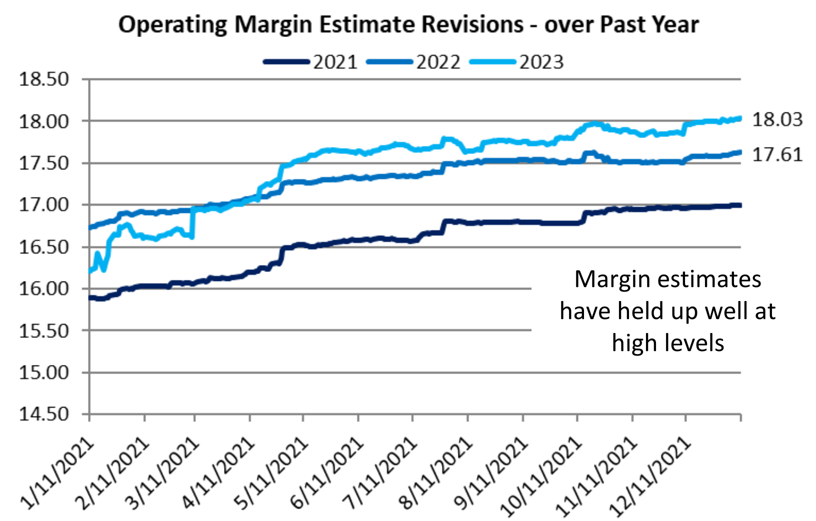
The best sequential earnings growth at the moment is expected to come from Energy and Technology. And since Omicron came into the picture in late November, we note the best Q4 estimate revisions have come from Energy, Industrials, Consumer Staples, and Consumer Discretionary in aggregate. Health Care and Materials stand out as the best estimate revisions for 2022 of late.





EPS Growth Estimates	
2021	48.3%
2022	9.2%
2023	10.1%

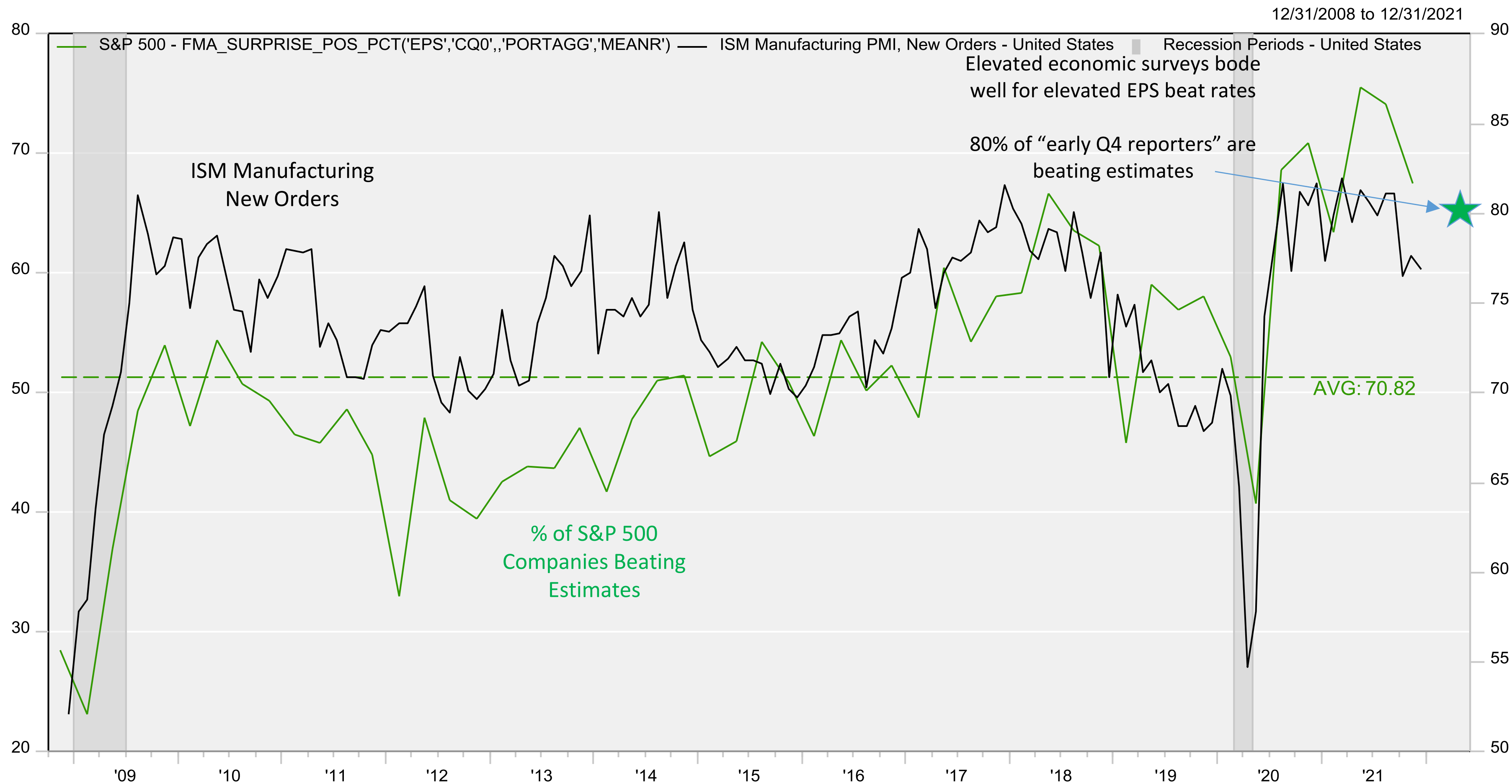
RJ 2022 Earnings Est.:
Base Case: 235 (+16%)
Bull Case: 245
Bear Case: 225



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

EARNINGS SURPRISES

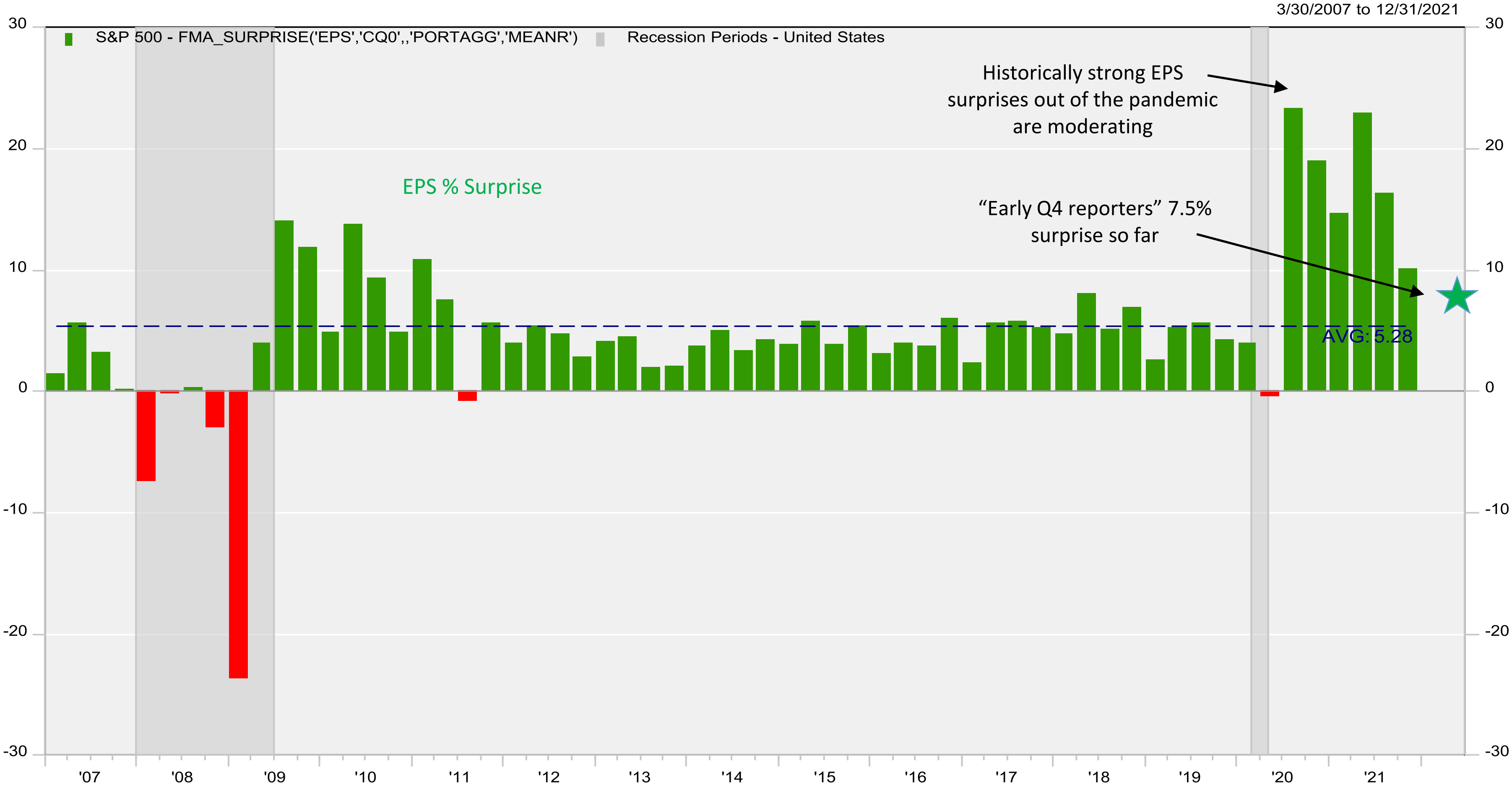
As noted previously, elevated economic surveys in Q4 bode well for elevated earnings beats, though we expect a moderation from the past few quarters. 80% of the "early Q4 reporters" are beating earnings estimates so far (still well ahead of the 70.8% longer-term average)…



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

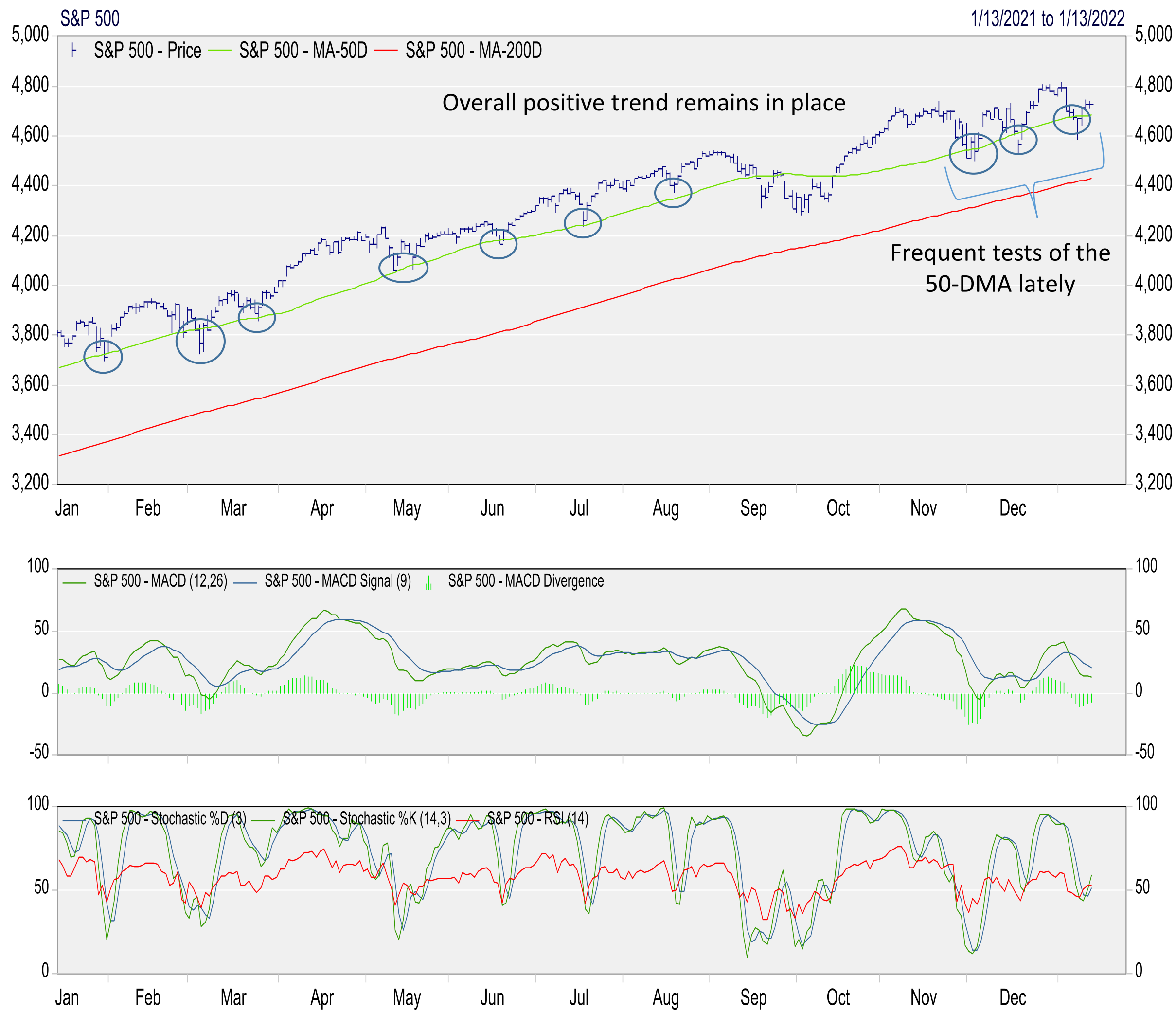
EARNINGS SURPRISES

… The magnitude of earnings surprises is also likely to moderate in Q4, continuing the recent trend following historically sharp beats out of the 2020 pandemic shutdown. The "early Q4 reporters" are beating estimates by 7.5% (below Q3's 10.1% but above the 5.3% 15-year average).



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The 50-day moving average remains a key level of technical support for the S&P 500 and is being tested once again.

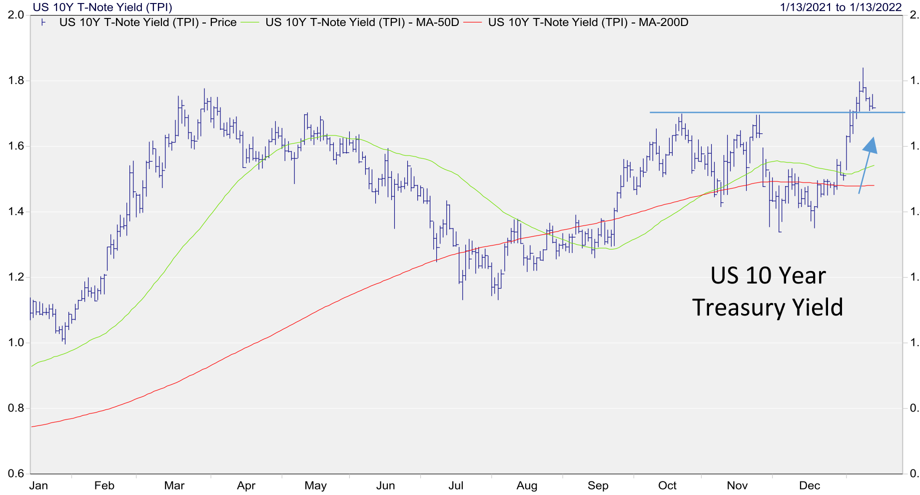
These 50 DMA tests are becoming more frequent (three times since November), and eventually will break at some point. However, this would not be alarming with the overall trend remaining positive and plenty of support nearby.

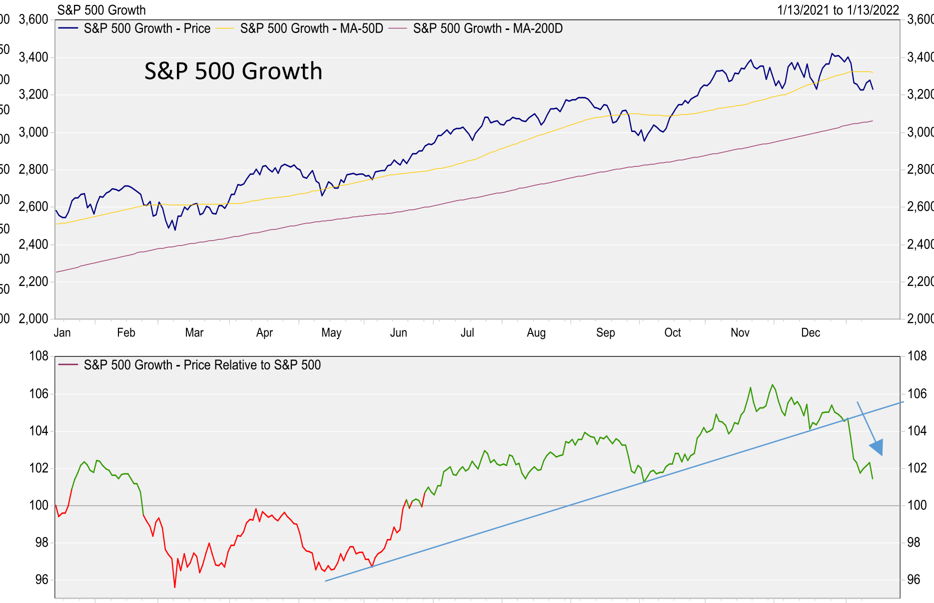
Below the 50 DMA (4681), we see initial support at 4675 (lower end of trend channel), followed by 4530-4600 and the 200-day moving average at 4414. On the upside, technical resistance resides at 4795.

Beneath the surface, market rotation has been sharp to begin the year. For positioning, we believe it is too soon to make wholesale changes. Some of the moves are overdone in the short-term, but as relative price momentum builds we would accumulate as needed. The widest differentials and most potential is in Value, Small Caps, and International if a sustainable shift does occur.

VALUE

Value breaking out of its relative strength downtrend vs Growth is a good first step for momentum. And the fundamental backdrop is supportive with solid earnings growth expected and an attractive valuation. But we now need to see it build on this relative strength, which it was unable to do last Spring (as interest rates pulled back and Delta concerns ramped up), if this move will prove to be a sustainable shift in leadership toward Value. The rotation from Growth to Value is a little stretched in the short-term (i.e. Growth oversold, Value overbought), but there is enough evidence technically to accumulate Value after both adjust. Bank earnings over the next week will be influential on this rotation, followed by Tech earnings the next week. Additionally, interest rates are consolidating some of their strength, but it remains our bias for rates to grind higher as the economic recovery progresses and the Fed removes ultra-lenient policy.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

RECOVERY STOCKS VS PANDEMIC WINNERS

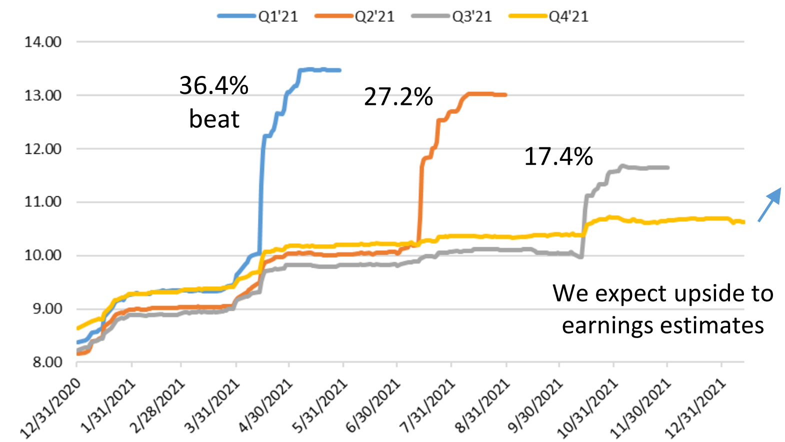
Market rotation has favored the more recovery-oriented stocks lately. Our gauge on recovery stocks is breaking out to new highs, while the pandemic winners pull back to their 200 DMA. We believe this overall pro-cyclical tilt to market performance can build over the coming year, but in the short-term the pandemic winners are oversold and the recovery stocks likely need to consolidate. That will be the time to make moves for those looking to lighten exposure to the pandemic winners and add to recovery stocks. Also, it does not have to be one-or-the-other. Even if deep-cyclical stocks outperform this year, we still believe investors can do well in long-duration secular growers. We recommend being balanced with a pro-cyclical tilt, and using rotation as opportunity to adjust positioning as needed.

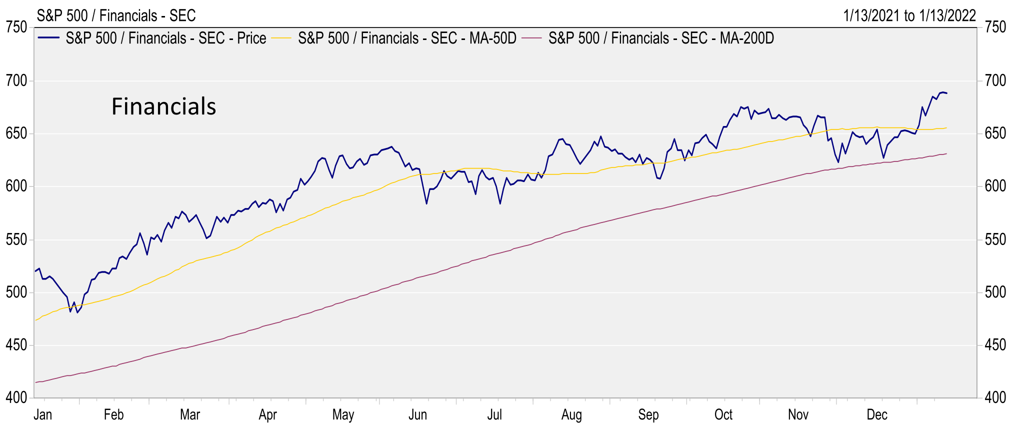
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

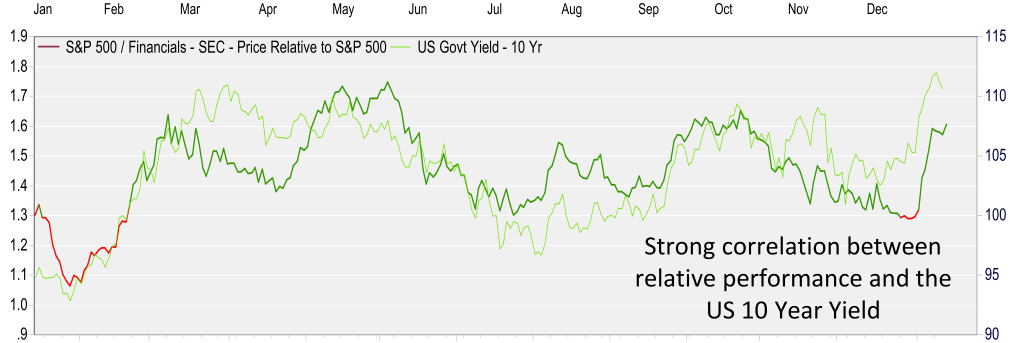
FINANCIALS

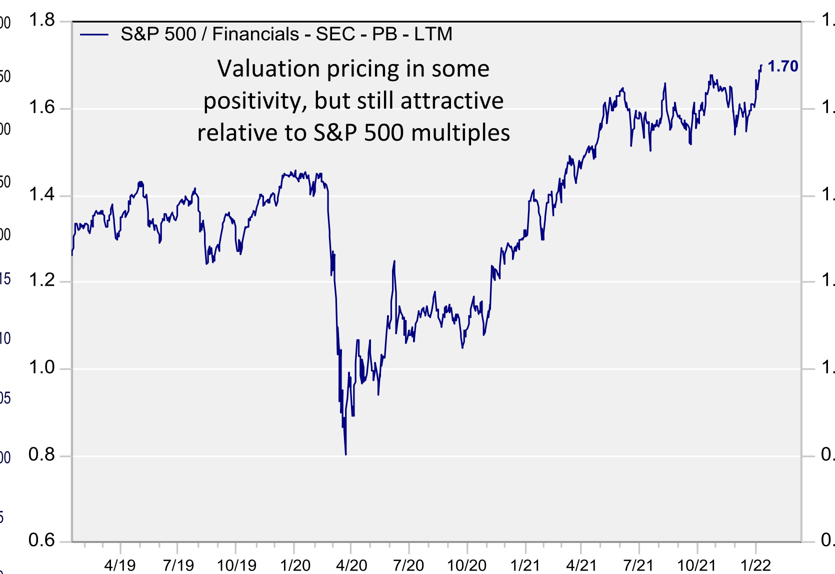
Financials relative performance continues its strong correlation with interest rates. While the sector is overbought in the short term, we recommend an Overweight allocation and would use consolidation or weakness as opportunity. Consensus earnings expectations are lackluster, but results have beaten estimates handily in recent quarters. We expect continued reserve releases and credit quality, along with the likelihood for improving loan growth and higher interest rates, to support fundamental trends. Valuation is high at a 1.7x P/Book ratio (likely pricing in some of our positive fundamental expectations), but still attractive relative to the S&P 500.

2021 Earnings Estimates





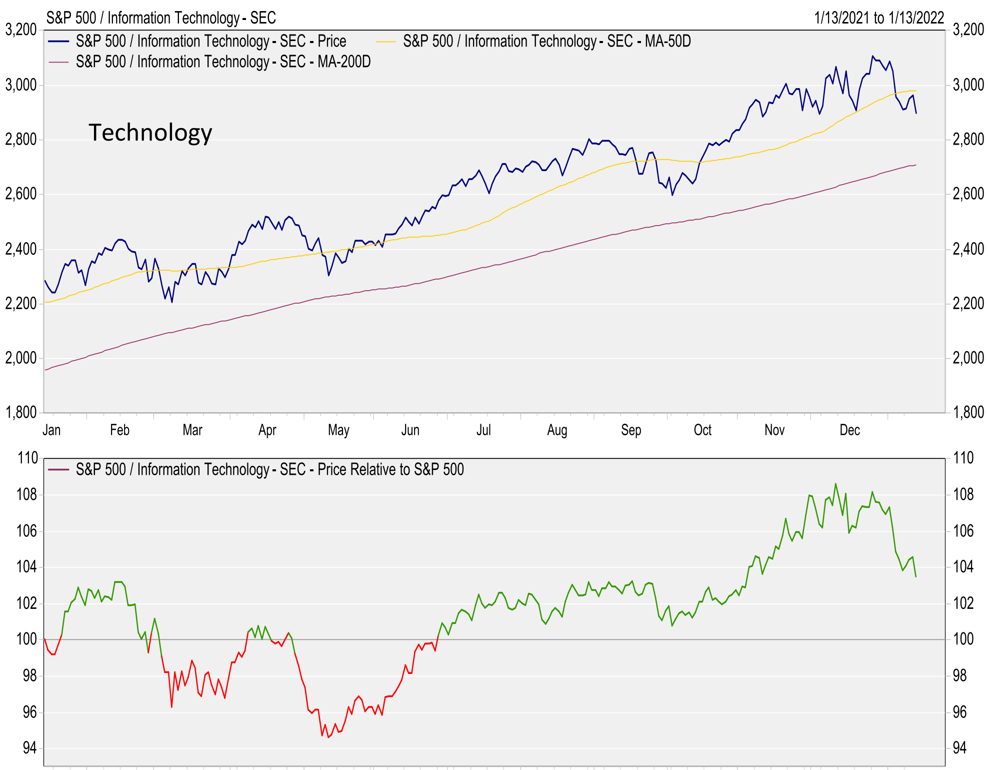


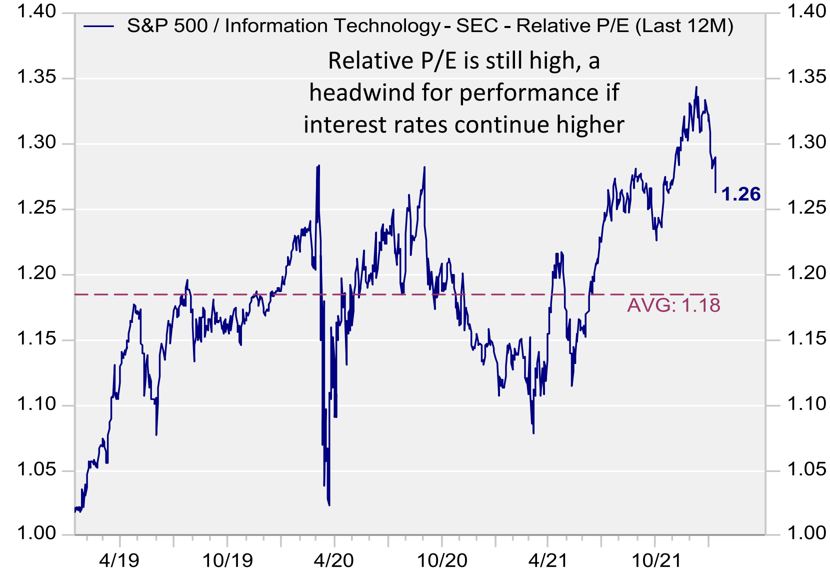


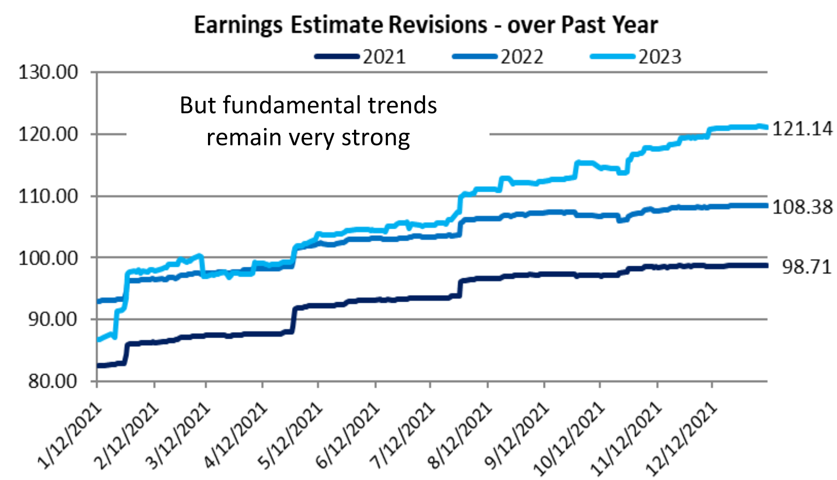
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

Higher interest rates (especially the sharp rate of change) are acting as a headwind to high valuation, long-duration growth stocks. Technology valuation was very high before the recent weakness and still remains relatively expensive. Many stocks in the sector are getting short-term oversold close to support levels (i.e. 200 DMA). And it is hard to get too negative with fundamental trends so strong for Tech. If underexposed, use the weakness as opportunity to accumulate favored names- although the group as a whole may not dominate like it has in the past.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy
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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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