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Weekly Market Guide

Short-Term Summary:

After reaching oversold conditions, in which fear indicators spiked and prices plunged too far too fast, the rebound in equities from the lows on January 24th has been constructive as the S&P 500 surpassed two significant breakdown points: the 200-DMA and the horizontal break at ~4500, and daily MACD turned higher and crossed, which often signals a positive momentum shift, fueled by earnings strength from key market-leading stocks. However, if the market fails to hold support and quickly undercuts the ~4500 level, a retest of the lows will be likely. Odds remain elevated, for now, that the low is in, but we believe returning to a new high in short order is unlikely unless the narrative shifts dramatically. Likewise, we don't feel a meaningful move below the recent intra-day low (4222) is justified either, and we would expect back-and-forth trading as the market attempts to form a base for renewed upside, while investors gain information on the potential path of inflation and Fed policy.

The highlight over the past week has been strong fundamental trends overall for Tech. Throughout 4Q'21 earnings season, the Tech sector has posted the largest EPS surprise at 8.8% vs. the S&P 500 at 4.7%. Overall, earnings remain strong, with close to 60% of the S&P 500's market cap having reported Q4 results up to this point. 78% of the companies are beating estimates by 4.7%- a moderation toward historical averages of 70% and 5.3% respectively. Margins continue to garner much of the focus given rising inflation. In general, operating margin estimates have come down slightly for Q4 and into Q1, resulting in full-year 2022 operating margins estimates to tick slightly lower, however, operating margins are still expected to improve from just shy of 17% to over 17.5% in 2022.

In the coming days/weeks, we will be watching the 50-DMA (4626) as resistance along with the ~4500 level and 200-DMA 4,442 for support. Investors will continue to digest earnings with several key market leaders reporting in the coming days. Tomorrow's U.S. Jobs report will be a good barometer of the labor market, following the ADP employment survey that suggests some downside risk. However, perception around the path of the Fed policy and inflation are likely to remain the biggest driver of returns in the weeks/months ahead. Given our belief that equities tend to overreact (up or down) to headlines and perception, we would use periods of extreme sentiment moves to be opportunistic. As sentiment turns negative and the market moves into oversold territory, we would use as an opportunity to be selective. While there remains work to do and back-and-forth trading is likely to transpire, we continue to believe the path forward is for equities to finish the year higher as the positives outweigh the negatives.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-2.0%	16.1%
S&P 500	-3.7%	19.9%
S&P 500 (Equal-Weight)	-3.0%	21.6%
NASDAQ Composite	-7.8%	5.9%
Russell 2000	-9.6%	-5.7%
MSCI All-Cap World	-3.4%	10.3%
MSCI Developed Markets	-2.5%	5.6%
MSCI Emerging Markets	-1.5%	-12.2%
NYSE Alerian MLP	14.6%	39.7%
MSCI U.S. REIT	-6.2%	27.1%

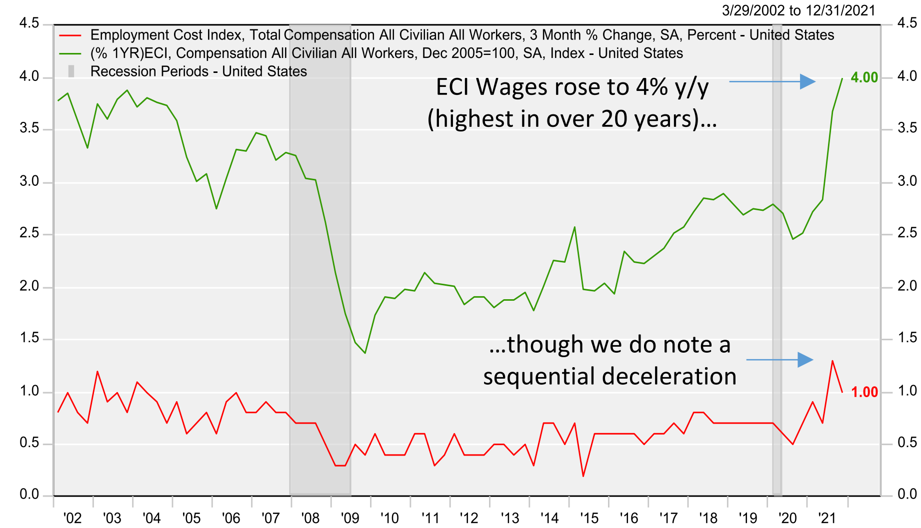
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	23.7%	3.4%
Financials	2.0%	11.3%
Consumer Staples	-0.4%	6.1%
Communication Svcs.	-2.3%	10.3%
Industrials	-2.8%	7.9%
Utilities	-3.1%	2.5%
S&P 500	***-3.7%***	-
Materials	-5.1%	2.5%
Health Care	-5.5%	13.0%
Information Technology	-5.9%	28.5%
Real Estate	-7.7%	2.7%
Consumer Discretionary	-9.6%	11.8%

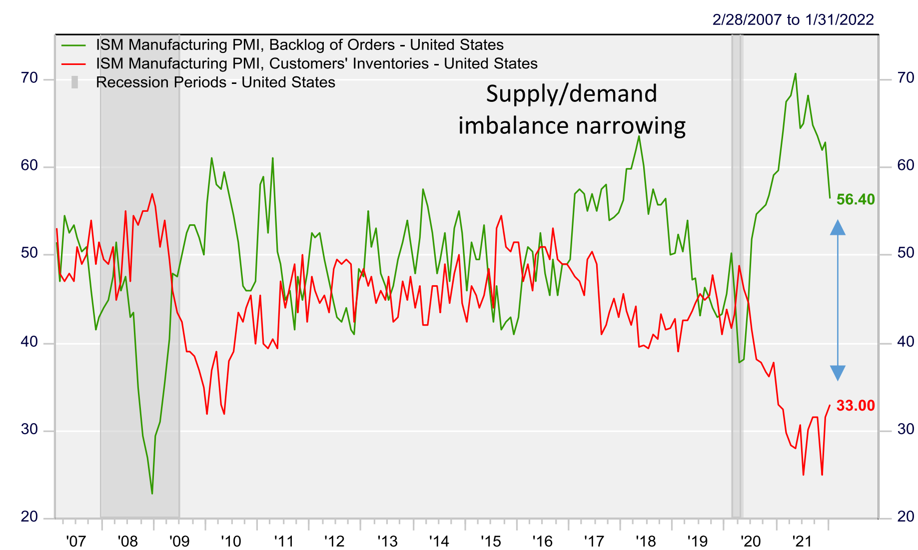
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Two areas of focus are the supply chain and labor, due to their impact on inflation and consequently the path of Fed policy ahead. This week's ISM Manufacturing report suggests that supply chain issues are thawing. Production met demand, delivery times moderated, and the gap between order backlog and inventories narrowed. The supply chain imbalance will eventually be resolved, and this should ease inflationary pressures. However, it is still a work in progress and will take some time. On the labor front, negatives remain but may be skewed by the lingering Covid overhang. The employment cost index rose to a very high 4% y/y, however we note a sequential deceleration in Q4. The January jobs report comes on Friday, and the ADP employment survey suggests downside risks. However, with job openings plentiful, inflation eating into savings, government benefits expired, and Covid cases subsiding, we expect the labor market to rebound in the months ahead. We will continue to monitor labor and supply challenges for clues on inflationary trends ahead, but our base case remains for inflation to moderate as the year progresses. And this may allow the Fed to not be as aggressive as some market participants are fearing.

Event	Period	Actual	Consensus	Prior	Revised
Employment Cost Index	4Q	1%	1.20%	1.30%	
Personal Income	Dec	0.3%	0.5%	0.4%	0.5%
Personal Spending	Dec	-0.6%	-0.6%	0.6%	0.4%
PCE Deflator YoY	Dec	5.8%	5.8%	5.7%	
PCE Core Deflator YoY	Dec	4.9%	4.8%	4.7%	
U. of Michigan Sentiment	Jan F	67.2	68.8	68.8	
U. of Mich. 5-10 Inflation	Jan F	3.1%		3.1%	
MNI Chicago PMI	Jan	65.2	61.5	63.1	64.3
Dallas Fed. Manf. Activity	Jan	2.0	8.0	8.1	7.8
Markit US Manufacturing PMI	Jan F	55.5	55.0	55.0	
Construction Spending MoM	Dec	0.2%	0.60%	0.40%	0.60%
ISM Manufacturing	Jan	57.6	57.5	58.7	58.8
ISM Prices Paid	Jan	76.1	67.0	68.2	
ISM New Orders	Jan	57.9	58.0	60.4	61.0
JOLTS Job Openings	Dec	10.925M	10.300M	10.562M	10.775M
ADP Employment Change	Jan	-301K	180K	807K	776K
Nonfarm Productivity	4Q P	6.6%	3.90%	-5.20%	-5.00%
Unit Labor Costs	4Q P	0.3%	1.00%	9.60%	9.30%
Initial Jobless Claims	29-Jan	238K	245K	260K	261K
Continuing Claims	22-Jan	1628K	1620K	1675K	1672K
Markit US Services PMI	Jan F	51.2	50.9	50.9	
Markit US Composite PMI	Jan F	51.1	50.8	50.8	
ISM Services Index	Jan	59.9	59.5	62.0	62.3



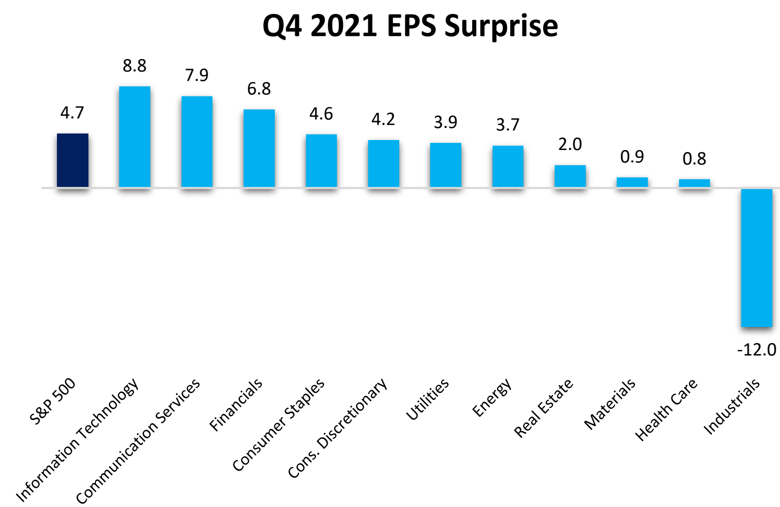


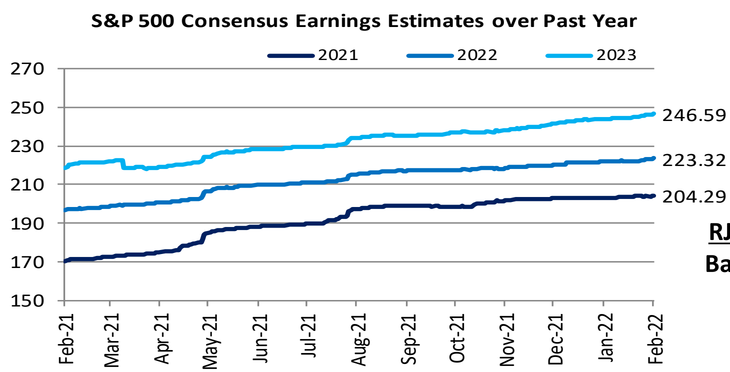
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

The highlight over the past week has been strong fundamental trends overall for Tech. Demand is still exceeding supply, providing good reads on growth into Q1 earnings. This is constructive for a group that has borne the brunt of the market weakness year-to-date (and continues to trade at elevated valuations). Many of the mega-cap Tech companies were able to trade higher on results and close near the highs of the day. There are several more reporting over the coming week, and we would like to see follow-through as the sector attempts to rebuild a base for renewed upside.

With close to 60% of the S&P 500's market cap having reported Q4 results up to this point, 78% of the companies are beating estimates by 4.7%- a moderation toward historical averages of 70% and 5.3% respectively. Margins remain a hot topic for investors, and we note that general operating margins have come in slightly for Q4 and into Q1. S&P 500 operating margin estimates are ticking down for the full-year 2022 as a result, although upside to revenue guidance is supporting continued upward earnings estimate revisions. Moreover, this is important to consider in stock selection, as companies forecasting operating margin growth in 2022 (and upside to estimates) have traded 2.8% higher on average following results vs -0.9% on average for the others.





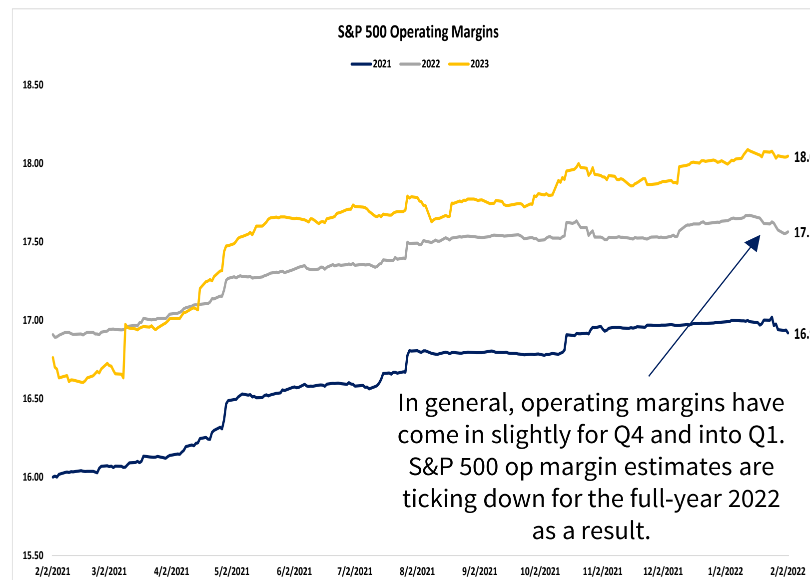
EPS Growth Estimates	
2021	48.9%
2022	9.4%
2023	10.5%

RJ 2022 Earnings Est.:

Base Case: 235 (+15%)

Bull Case: 245

Bear Case: 225



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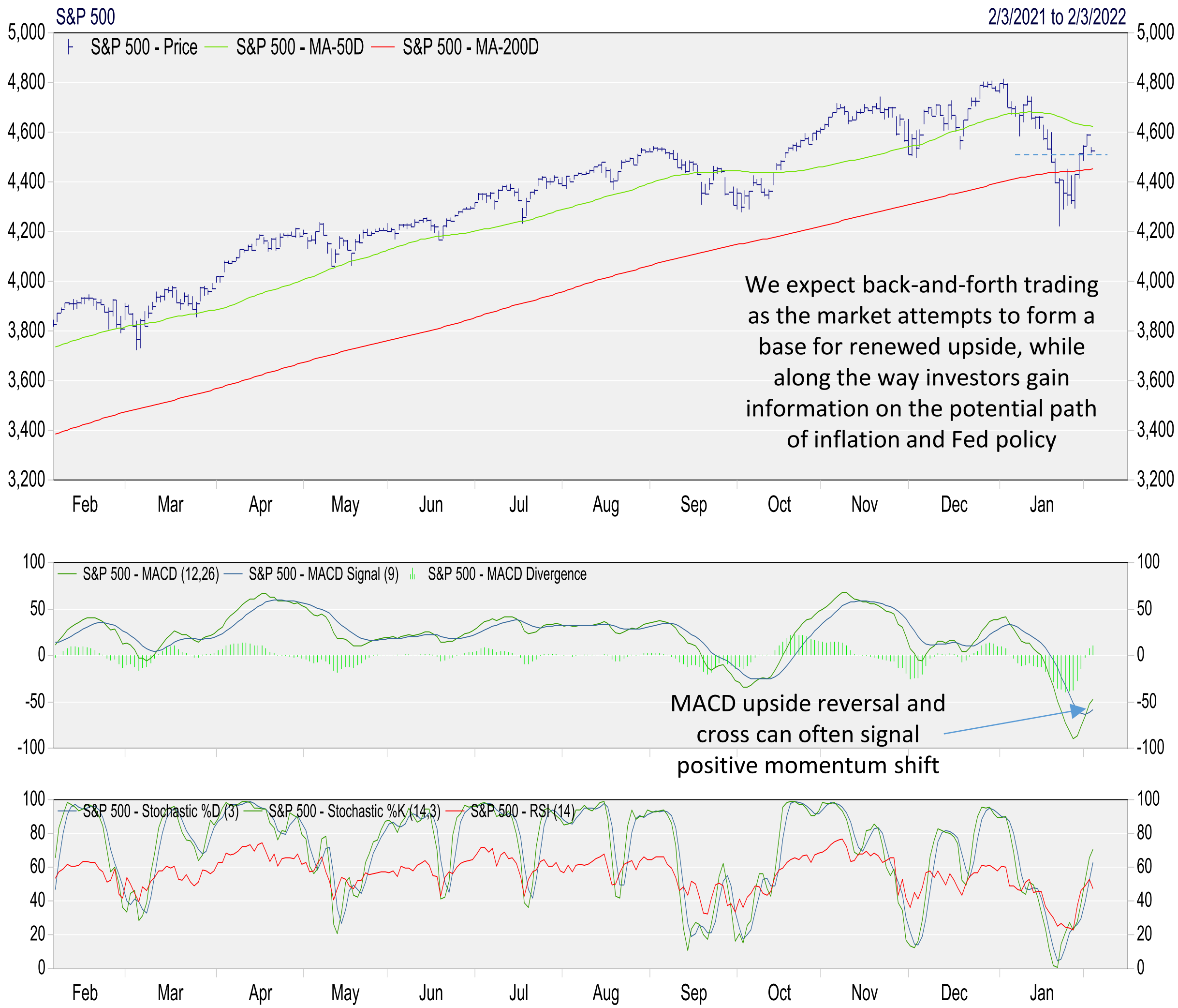
TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

After reaching oversold conditions, in which fear indicators spiked and prices plunged too far too fast, a short-term bounce is not unusual.

The rally has been constructive in our view-

- The rally surpassed two significant break-down points: the 200-DMA and the horizontal break at 4500.
- Daily MACD turned up from a deeply negative area and crossed over. This is often a good sign of improving momentum… and momentum often begets momentum
- The rally was aided by positive earnings reports by key market-leading stocks, i.e. MSFT, APPL, TXN, GOOGL

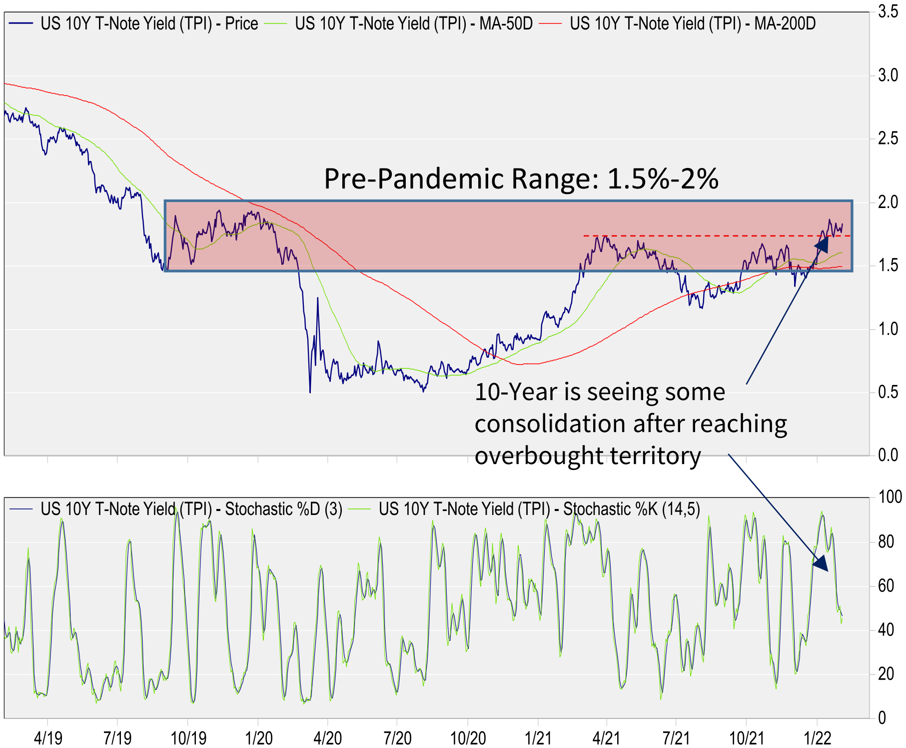
But more work remains:

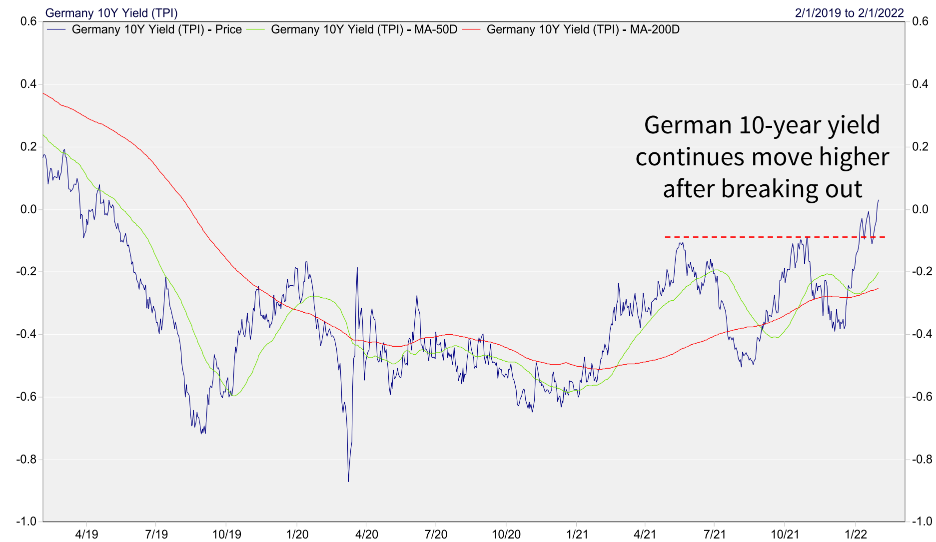
- The near-term resistance is meaningful (50 DMA-4626) and could turn-back the rally
- If the market fails at resistance and quickly rolls back below ~4500 level, the recovery back above the key 4500 level will be considered a failure and a clear negative technically. At that point, a retest of the low will be likely.
- The Nasdaq and Small Caps (S&P 600 are modestly below, Russell 2000 significantly below) are still below the 200-DMA

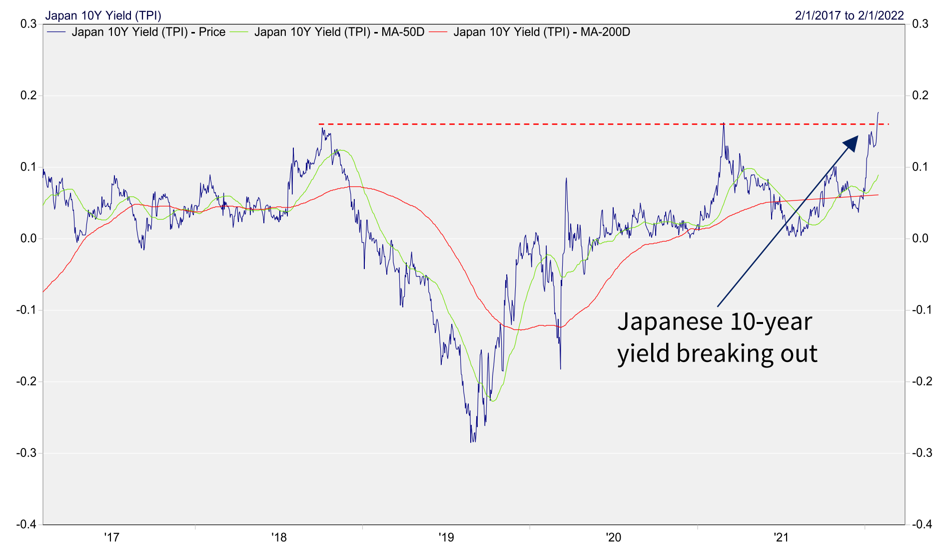
Although the rally thus far raises the odds the low is in for now, we believe returning to a new high in short order is unlikely unless the narrative shifts dramatically. Likewise, we don't feel a meaningful move below the recent intra-day low (4222) is justified either.

GLOBAL BOND YIELDS

Bond yields globally continue their upward momentum, with the German and Japan 10-year yield recently breaking out. With global bond yields continuing to move higher, we maintain our bias for yields in the U.S. to continue to grind higher. After breaking above the high seen in late March/early April of last year near 1.75%, the U.S. 10-year is seeing some consolidation after reaching overbought territory. We will continue to watch inflation as it will likely determine if rates are able to breakout of the pre-pandemic range of 1.5-2%.



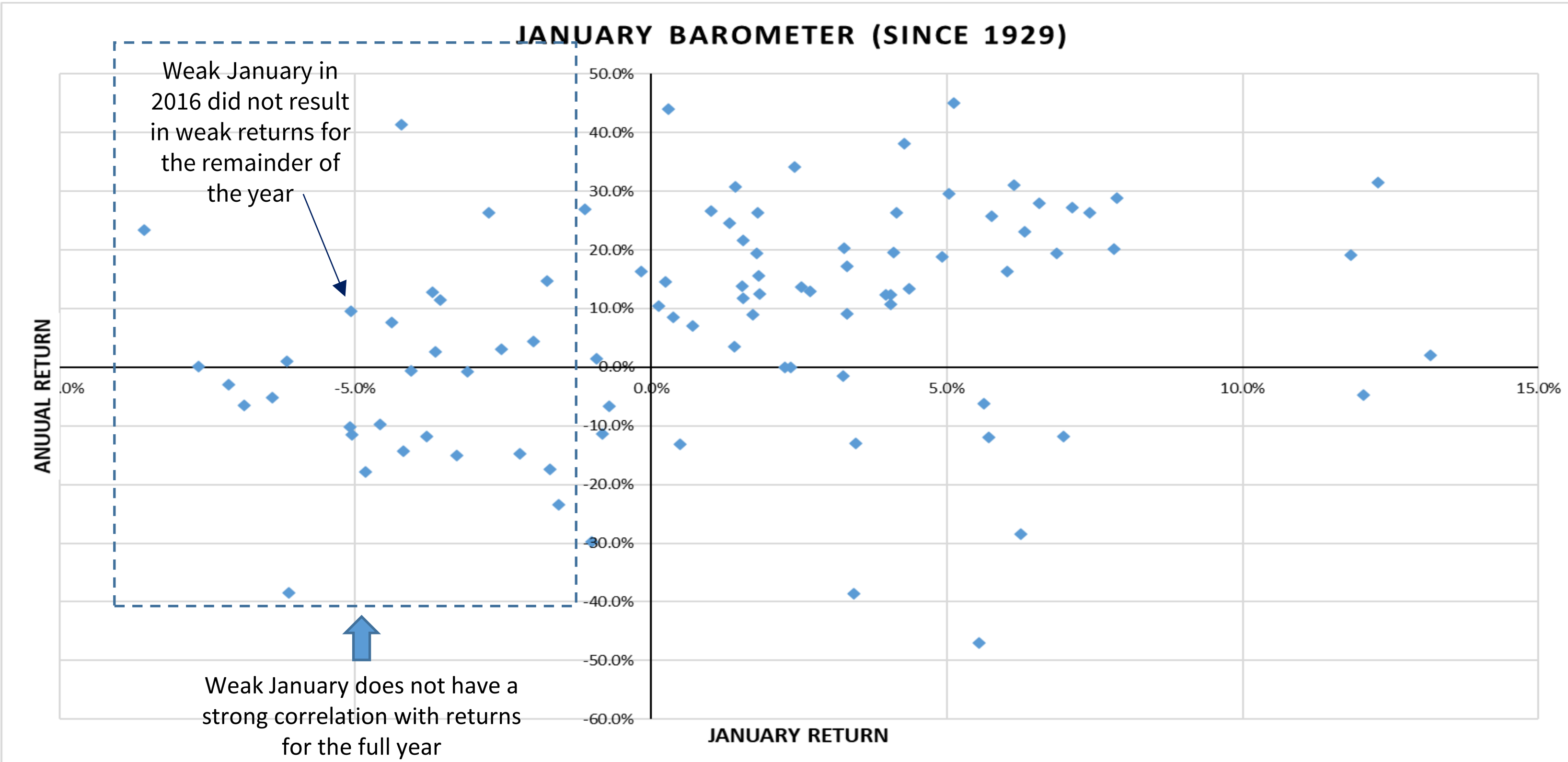




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

JANUARY BAROMETER

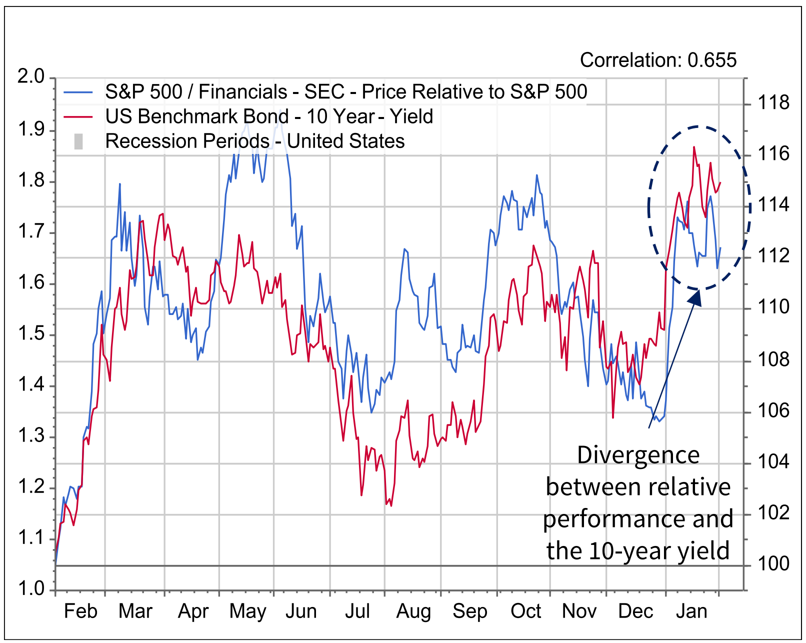
January was a challenging month for the S&P 500 with the market pulling back over 5% and much is made of the January Barometer, in which many believe "so goes January, so goes the year". However, there has not historically been a strong correlation between a weak January and returns for the full year, so we would not read too much into the returns seen in January for the outlook for the remainder of the year. As seen in the most recent example of January returns down over 5% (back in 2016), returns can finish solidly positive. Despite a -5% pullback in January back in 2016, the S&P 500 finished up 9.5% for the full year (+15.4% from January). However, to be fair, we do expect choppiness/volatility in 2022 as investors gain more information on inflationary trends and the path forward for the Fed and would expect some moderation in returns at this point in the recovery, but overall conditions remain healthy, and we expect the market to finish higher.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FINANCIALS

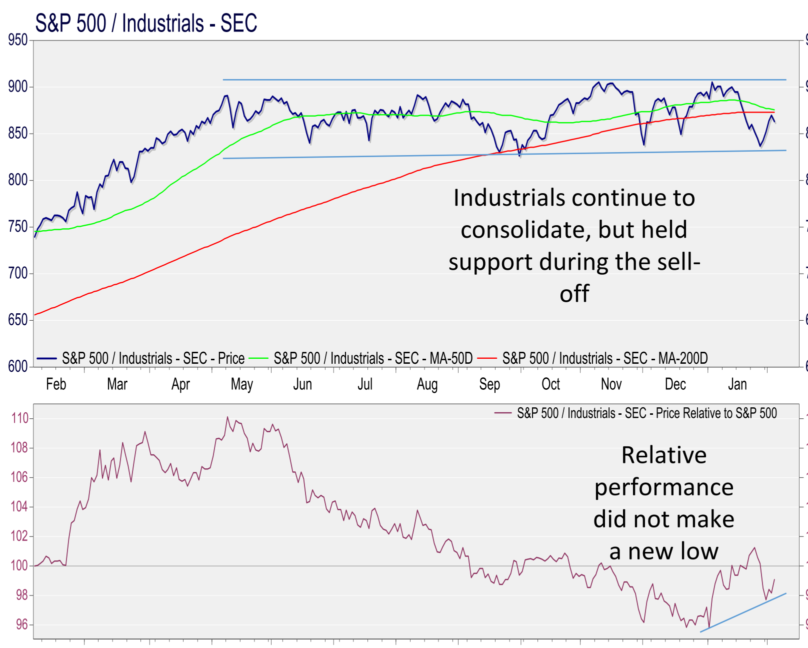
Financials have seen the 3rd best earnings surprise during 4Q earnings season thus far. Despite this and the move higher in yields, the sector pulled-back to its 200-DMA and into oversold territory. However, we remain constructive on the sector as price was able to hold the 200-DMA and relative performance (despite the move to oversold levels and divergence from the 10-year yield) has remained strong, which we believe could lead to further upside in Financials as stochastics continue to rebound out of oversold territory. Strength in the Financials could also continue to drive strength in Value given its high weighting for the index.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TRANSPORTS

The transports continue to impress with the group moving back above the 50-DMA following the sharp sell-off. During the sell-off, the transport group moved into oversold territory as the price broke below the 200-DMA, but relative performance support was held. However, as the group has rebounded off oversold levels, the price has regained the 50-DMA and relative performance broke out without returning to overbought conditions. We view the technical picture for the Transports as favorable and an area of leadership within the Industrials that have yet to regain the 200-DMA after the sell-off. However, a positive sign for the sector is that relative performance did not post a new low despite the Industrials being hard hit during the sell-off.



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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.

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