Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

FEBRUARY 10, 2022 | 4:10 PM EST

Weekly Market Guide

Short-Term Summary: The S&P 500 has experienced a good bounce over the past couple of weeks- up ~8% from the lows. It is not abnormal to get sharp snapbacks like this after getting too stretched to the downside. But it is also normal for back-and-forth trading to transpire in the aftermath as the market rebuilds itself internally. We do not believe the market is ready to rush back to highs, but also do not believe it is justified to go much below the recent lows. And it could take months for equities to fully digest the recent volatility, along with investors gaining information on inflation and adjusting to the Fed's rate hike cycle. Technically, we will be watching resistance at ~4600 and support at 4222-4279. We would not be surprised for range-bound trading to transpire in the lead-up to the March FOMC meeting over the next several weeks. But with overall conditions likely to remain healthy, we recommend using pullbacks in favored stocks (particularly to support levels) as opportunity.

January CPI rose to a 40-year high at 7.5% y/y. While the hard inflation data has yet to positively inflect, we do continue to see indications of thawing bottlenecks and lower inflation in the soft data. This week's January NFIB Small Business survey shows the decoupling of actual price changes and expectations for price plans in the months ahead. Likewise, actual compensation changes (wage growth) were very high in January but expected compensation has rolled over. We also see indications of thawing bottlenecks in the supply chain data, which collectively should be a precursor to easing inflationary pressures. Some inflation is good, but investors need these expectations of a moderation in inflation to come to fruition in the coming months in order to take pressure off corporate margins, valuations, and the need for an aggressive Fed.

The Fed is not only set for liftoff in March, but investors are now putting 82% odds of a 50bp hike at the meeting. Policy normalization alone is not a major risk to equities, but it does leave the market more vulnerable to negative influences. Just as ultra-accommodation acted as a backstop for investor sentiment over the past year and half, negative headlines and uncertainty should lead to more volatility and weak periods for equities as the backstop gets removed. The trajectory of inflation will ultimately be a large determinant on whether or not the market lows have been seen or can rebuild for renewed upside. We are hopeful that inflationary pressures can ease over the coming year, but we also do not expect a linear trend- and choppiness in the data is likely to lead to uncertainty and choppiness for equities in the lead-up to rate hikes. With the market now pricing in 1.8 rate hikes in March, at least 1 rate hike at each of the next 3 meetings, and 6 rate hikes this year, easing inflation could potentially lead to positive surprises in Fed actions- which would obviously be a welcome sign for investors.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-1.6%	14.0%
S&P 500	-3.8%	17.3%
S&P 500 (Equal-Weight)	-1.8%	19.3%
NASDAQ Composite	-7.4%	3.4%
Russell 2000	-7.2%	-9.4%
MSCI All-Cap World	-2.9%	8.3%
MSCI Developed Markets	-1.8%	3.8%
MSCI Emerging Markets	0.6%	-12.0%
NYSE Alerian MLP	14.5%	35.9%
MSCI U.S. REIT	-6.9%	23.7%

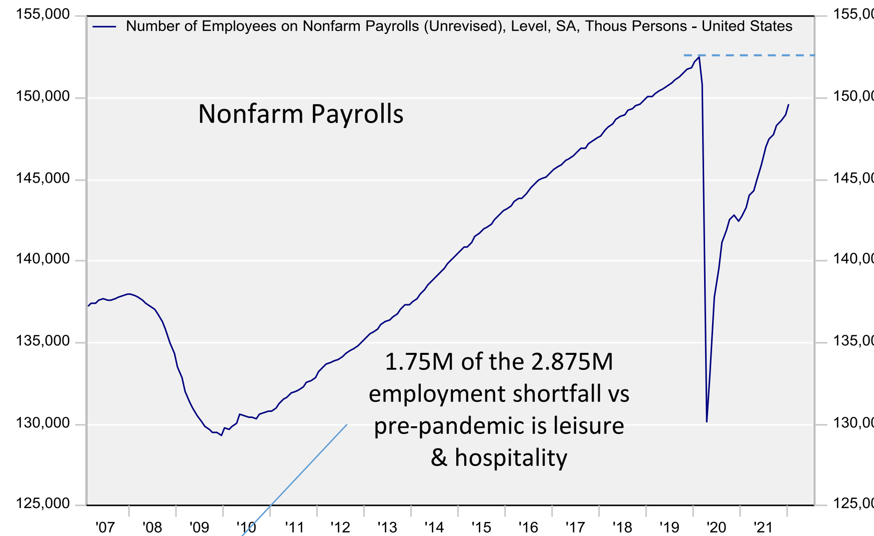
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	23.9%	3.4%
Financials	4.9%	11.6%
Consumer Staples	-1.2%	6.0%
Industrials	-3.1%	7.8%
S&P 500	***-3.8%***	-
Utilities	-4.0%	2.5%
Health Care	-4.9%	13.1%
Materials	-5.3%	2.5%
Information Technology	-5.7%	28.6%
Consumer Discretionary	-7.4%	12.1%
Real Estate	-8.6%	2.6%
Communication Svcs.	-8.8%	9.6%

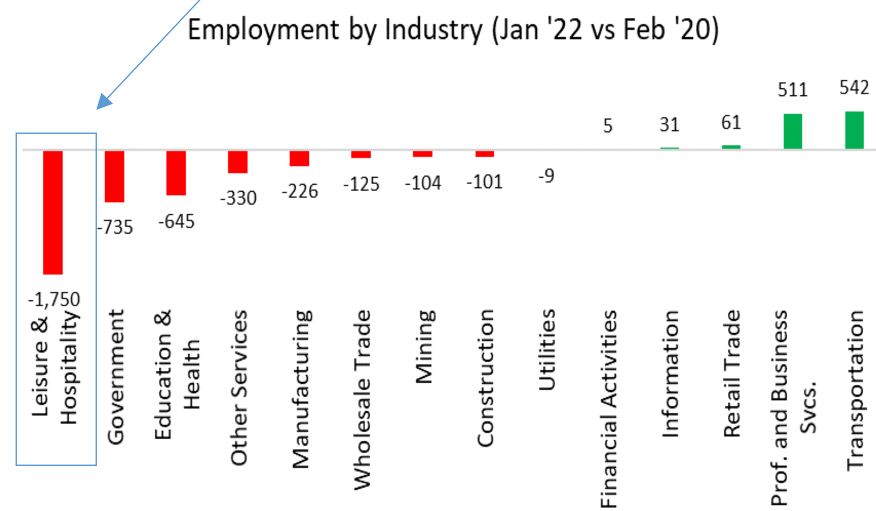
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The January jobs report was very strong- rising by 467k and well ahead of consensus estimates for 155k. Additionally, the November and December numbers were upwardly revised by an impressive 709k! The labor force participation rate improved, and unemployment rate was 4%. Despite the improvement, nonfarm payrolls are still 2.875M short of pre-pandemic levels; and this tight labor market is spurring high wage growth (5.7% average hourly earnings y/y in January). In looking at areas with the biggest labor challenges, the leisure & hospitality sector stands out as making up 1.75m of the 2.875m employment shortfall, followed by government, education, and health care. We remain hopeful that people re-enter the labor force as Covid subsides (which it is now- Omicron past peak), and that wage pressures can moderate over the course of the year. The incentives are there with an end to direct government payments, end to the eviction moratorium, and expired child tax credit expansion- along with plentiful job openings. This will be an important dynamic to monitor due to its significant influence on economic growth, margins, and Fed policy.

Event	Period	Actual	Consensus	Prior
Hourly Earnings SA M/M (Preliminary)	JAN	0.70%	0.50%	0.50%
Hourly Earnings Y/Y (Preliminary)	JAN	5.7%	5.2%	4.9%
Nonfarm Payrolls SA	JAN	467.0K	155.0K	510.0K
Unemployment Rate	JAN	4.0%	3.9%	3.9%
Consumer Credit SA	DEC	$18.9B	$17.3B	$38.8B
NFIB Small Business Index	JAN	97.1	-	98.9
Trade Balance SA	DEC	-$80.7B	-$83.0B	-$79.3B
Wholesale Inventories SA M/M (Final)	DEC	2.2%	2.1%	2.1%
CPI ex-Food & Energy SA M/M	JAN	0.60%	0.50%	0.60%
CPI ex-Food & Energy NSA Y/Y	JAN	6.0%	5.9%	5.5%
Continuing Jobless Claims SA	01/29	1,621K	1,614K	1,621K
CPI SA M/M	JAN	0.60%	0.40%	0.60%
CPI NSA Y/Y	JAN	7.5%	7.3%	7.0%
Initial Claims SA	02/05	223.0K	230.0K	239.0K

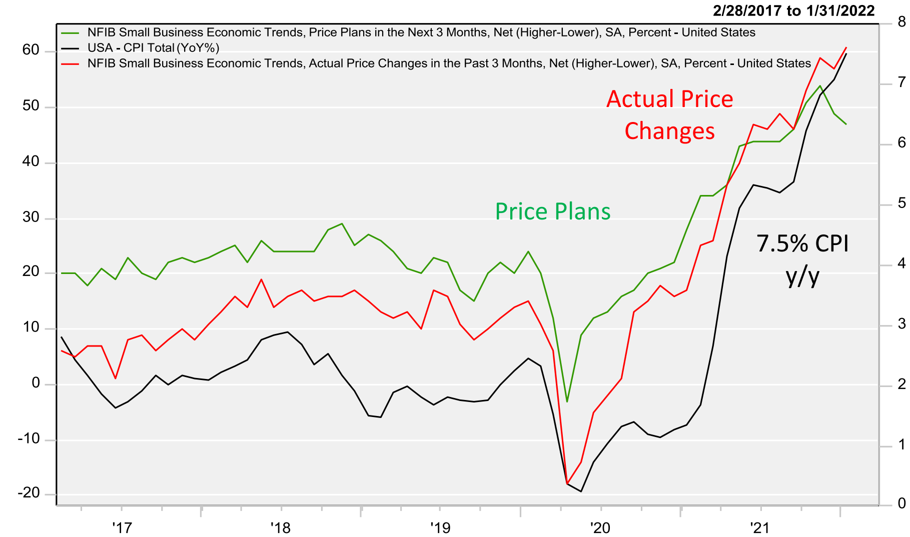


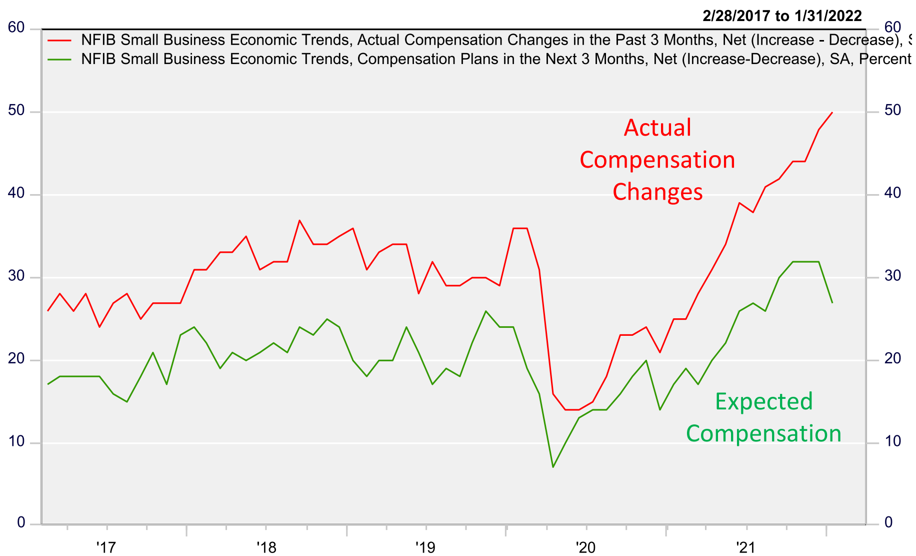


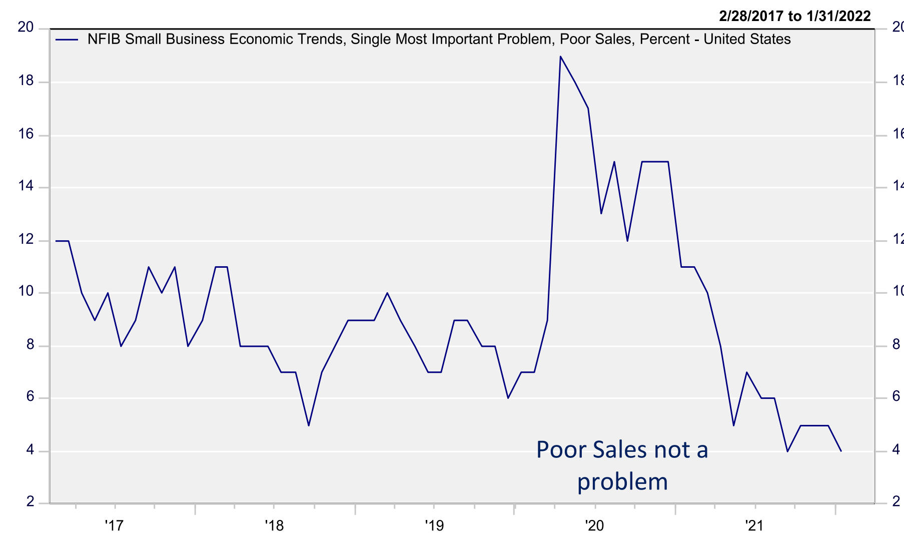
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INFLATIONARY TRENDS

January CPI rose to a 40-year high at 7.5% y/y. Inflation was expected to rise further in January, but this was even above lofty expectations and puts added upward pressure to interest rates and expectations for a more hawkish Fed. While the hard data has yet to inflect (leaving high uncertainty over the path of inflation and Fed policy), we do continue to see indications of thawing bottlenecks and inflationary pressures in the soft data. This week's January NFIB Small Business survey shows the decoupling of actual price changes and expectations for price plans in the months ahead. As you can see, price plans have rolled over. Likewise, actual compensation changes (wage growth) was very high in January but expected compensation has rolled over. We also see indications of thawing bottlenecks in the supply chain data, which should be a precursor to easing inflationary pressures. Some inflation is good, but investors need these expectations to come to fruition in the coming months in order to take pressure off corporate margins, valuations, and the need for an aggressive Fed.





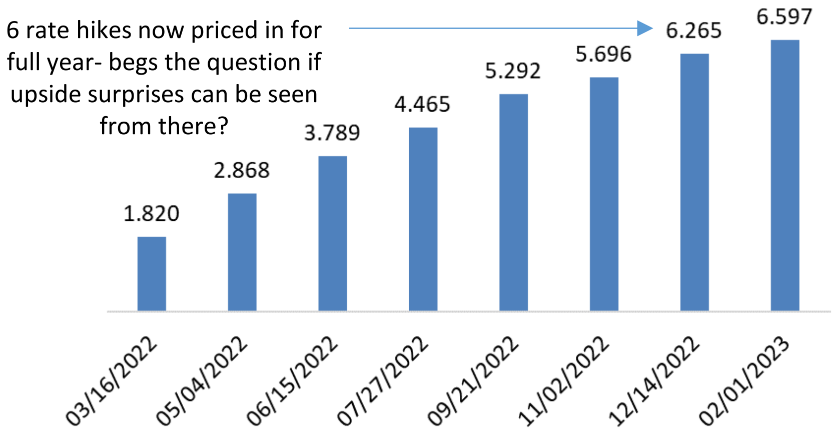


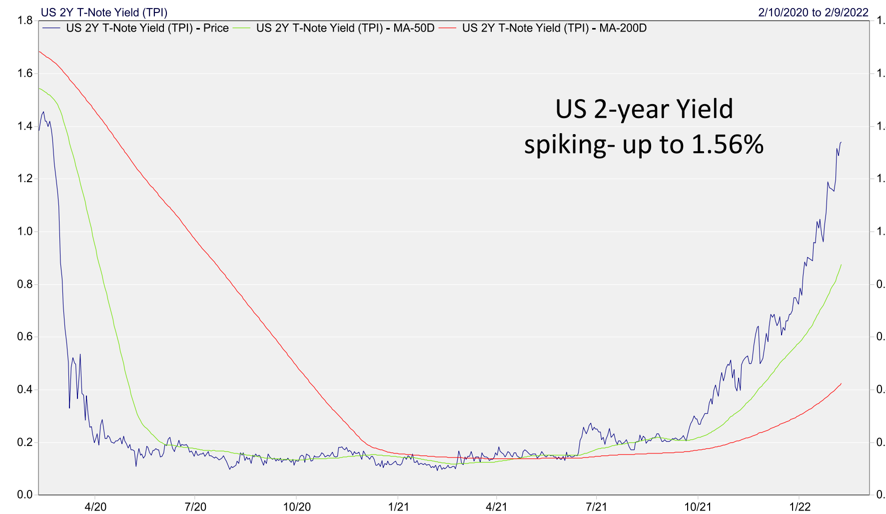
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FED POLICY

All of the analysis on supply chains, wages, and inflation leads to Fed policy- where the market has been making a swift adjustment to tighter policy this year. The Fed is not only set for liftoff in March, but investors are now putting 82% odds of a 50bp hike at the meeting. Policy normalization alone is not a major risk to equities, but it does leave the market more vulnerable to negative influences. Just as ultra-accommodation acted as a backstop for investor sentiment over the past year and half, negative headlines and uncertainty should lead to more volatility and weak periods for equities as the backstop gets removed. The trajectory of inflation will ultimately be a large determinant on whether or not the market lows have been seen or can rebuild for renewed upside. We are hopeful that inflationary pressures can ease over the coming year, but we also do not expect a linear trend- and choppiness in the data is likely to lead to uncertainty and choppiness for equities in the lead-up to rate hikes. With the market now pricing in 1.8 rate hikes in March, at least 1 rate hike at each of the next 3 meetings, and 6 rate hikes this year, easing inflation could potentially lead to upside surprises in Fed actions- which would obviously be a welcome sign for investors.

Market-Implied # of Hikes by FOMC Meeting

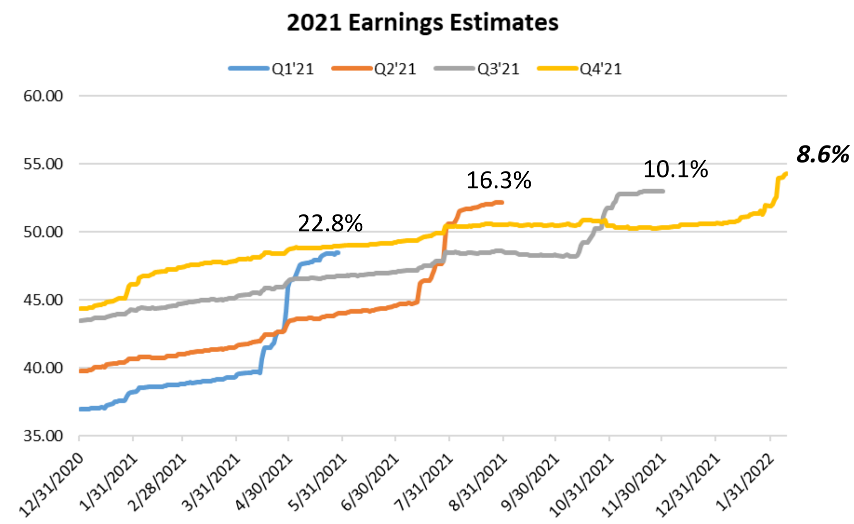


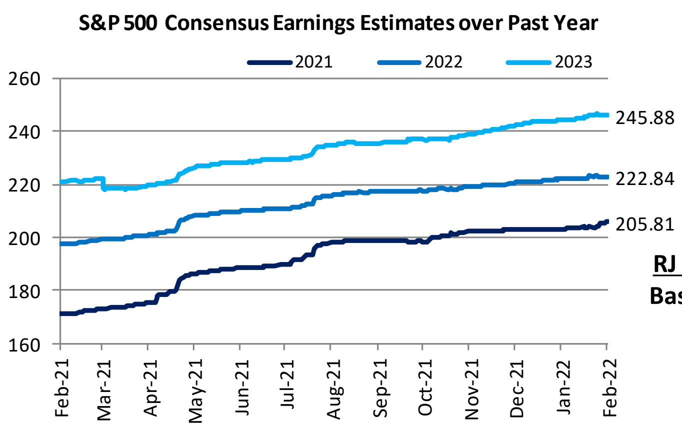


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

The heart of Q4 earnings season is passed with 72% of the S&P 500's market cap having reported up to this point. As expected, results have been solid- providing upside to estimates but also moderating toward historical averages. 76% of companies are beating by an aggregate 8.6% (above 15-year averages of 70% and 5.3% respectively). Costs and margins remain a hot topic on calls with those select companies expecting margin growth in 2022, along with upside to estimates, increasing 2.9% on average following results vs -1.2% on average for the others. On the whole, S&P 500 2022 operating margin estimates have ticked down slightly; but for now it seems Q4'21 and Q1'22 cost issues are expected to improve as the year progresses- as Covid concerns hopefully subside and supply and labor issues improve. The NFIB survey results reflect what we are seeing and hearing from companies- revenues remain strong (and showing upside), allowing for upside to earnings despite a challenging cost environment (that has the potential to improve over the course of the year. Additionally, valuations have moderated close to the 5-year average with roughly half of S&P 500 stocks trading below their pre-pandemic P/E. We expect valuations to continue to moderate, but at a more gradual pace than earnings growth- providing upside to equities by year-end. We maintain our 5053 base case S&P 500 target.

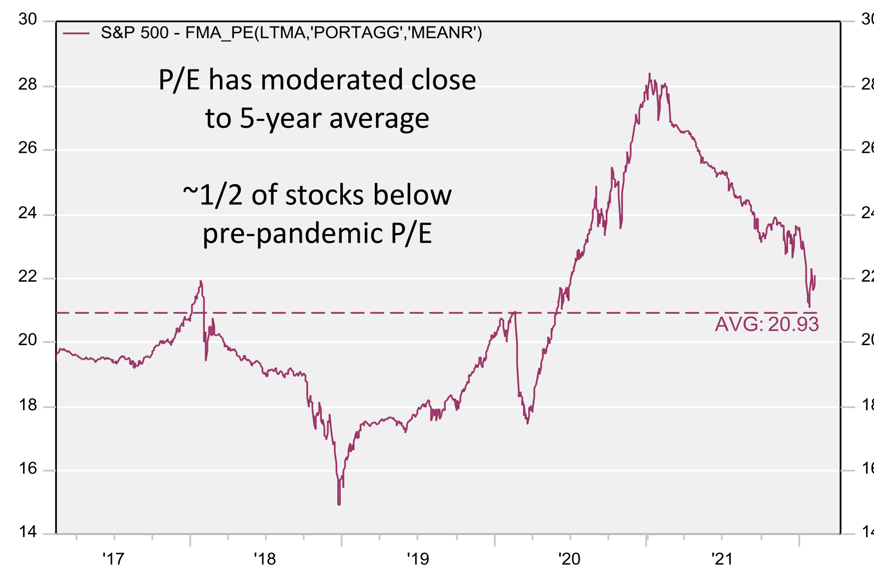




EPS Growth Estimates

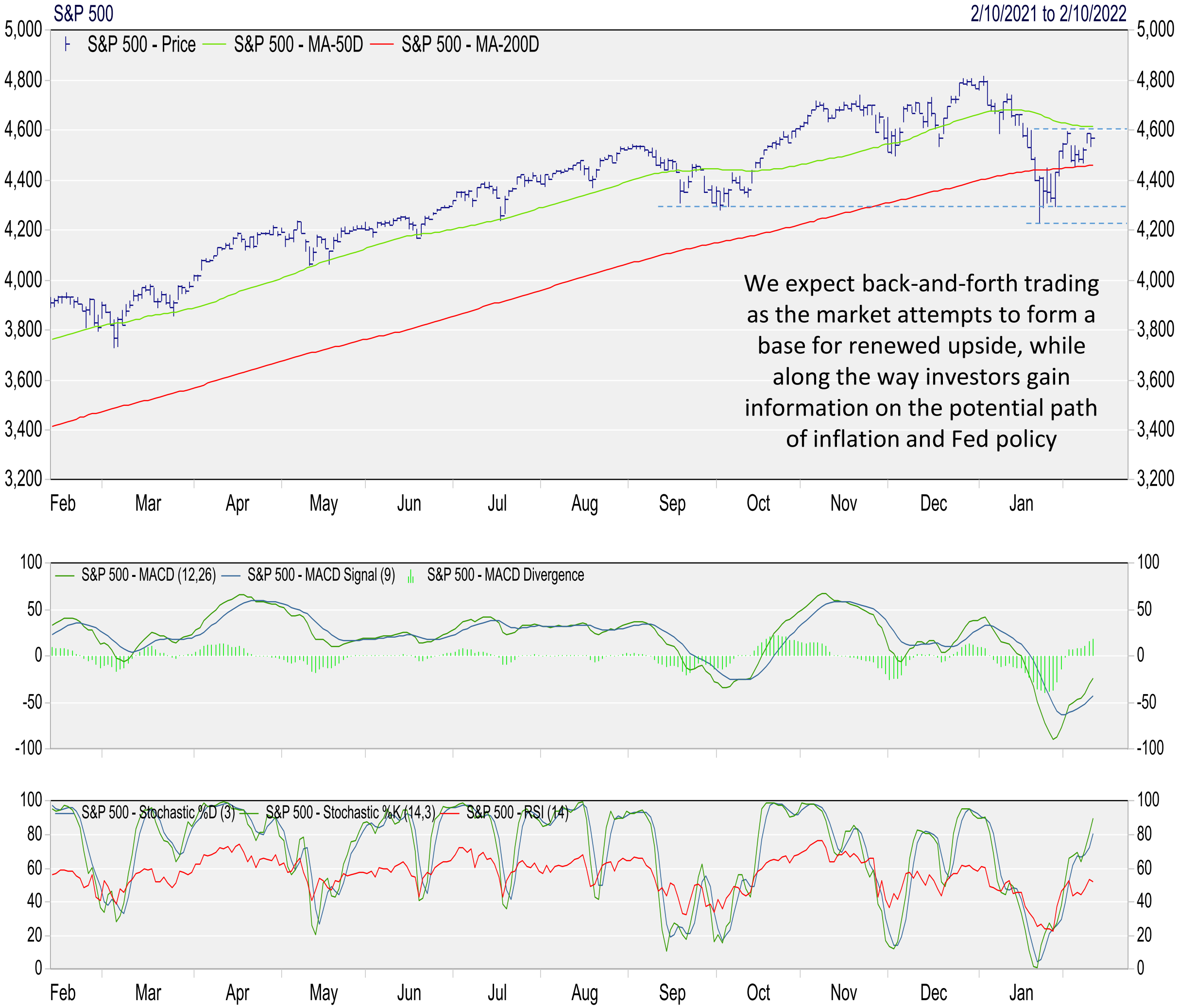
2021	50.0%
2022	8.3%
2023	10.3%

RJ 2022 Earnings Est.:
Base Case: 235 (+15%)
Bull Case: 245
Bear Case: 225



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 has experienced a good bounce over the past couple of weeks- up ~8% from the lows. It is not abnormal to get sharp snapbacks like this after getting too stretched to the downside.

But it is also normal for back-and-forth trading to transpire in the aftermath as the market rebuilds itself internally. We do not believe the market is ready to rush back to highs, but also do not believe it is justified to go much below the recent lows.

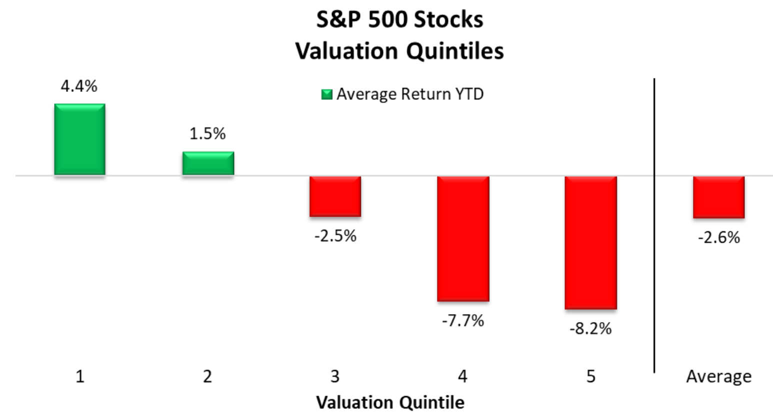
It could take months for equities to fully digest the recent volatility, along with investors gaining information on inflation and adjusting to the Fed's rate hike cycle. The focus will be on inflation, interest rates, and the Fed- and these variables will ultimately determine whether or not the lows have been seen.

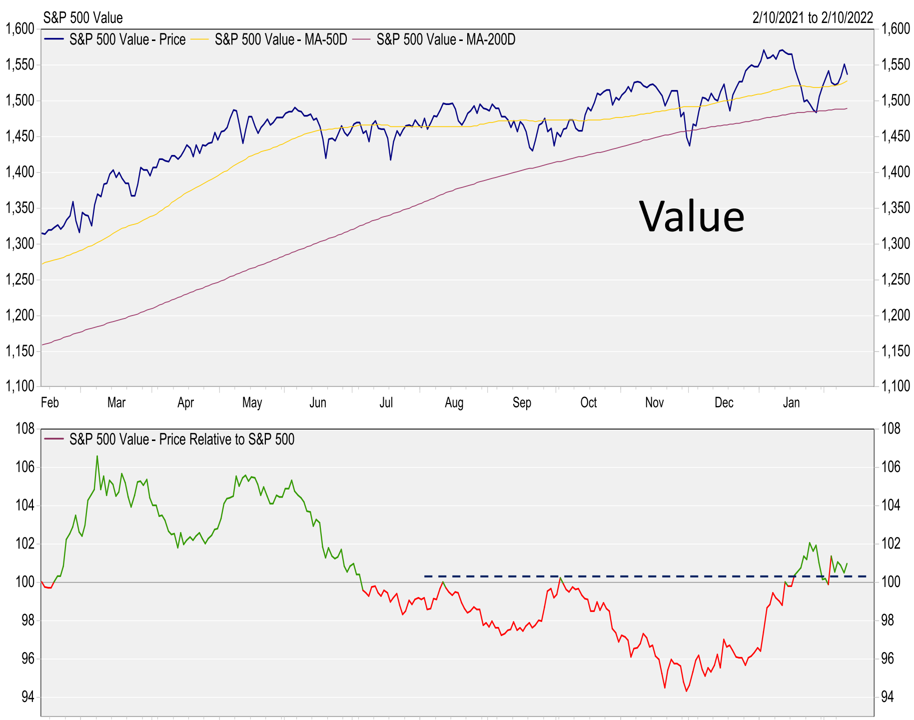
Technically, we will be watching resistance at ~4600 and support at 4222-4279. We would not be surprised for range-bound trading to transpire in the lead-up to the March FOMC meeting over the next several weeks.

With overall conditions likely to remain healthy, we recommend using pullbacks in favored stocks (particularly to support levels) as opportunity.

VALUE vs. GROWTH

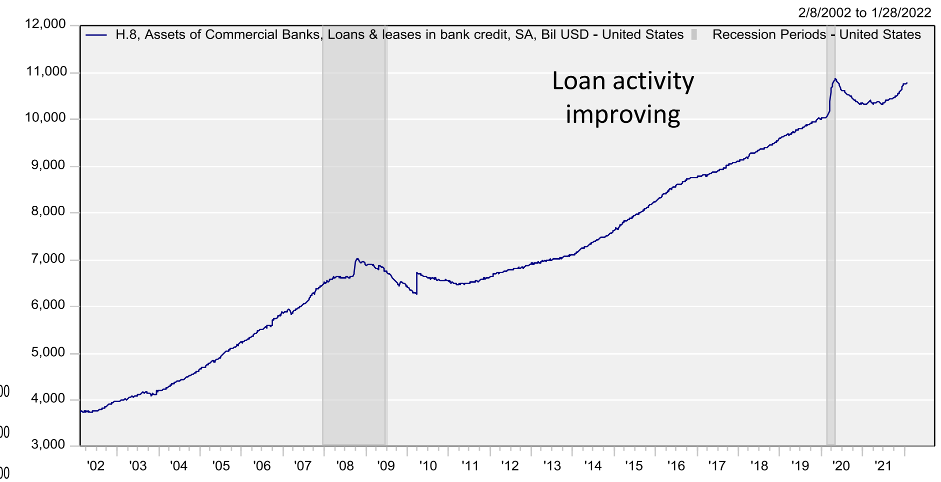
High inflation and global central bank tightening are putting upward pressure on bond yields globally, which continue to have a significant influence on equity performance. Within investment styles, Value continues to build momentum. We note that the cheapest quintile of S&P 500 stocks (based on 2022 est. P/E) are up 4.4% on average year-to-date vs the most expensive quintile down -8.2% on average. Valuation is still below historical averages and fundamental trends remain solid for Value. In conjunction with our bias for rates to grind higher over the next 6-12 months, we believe Value can maintain leadership. Value also has more leverage to the reopening, more economic-sensitive areas. We would look to build exposure to Value as needed within portfolios.

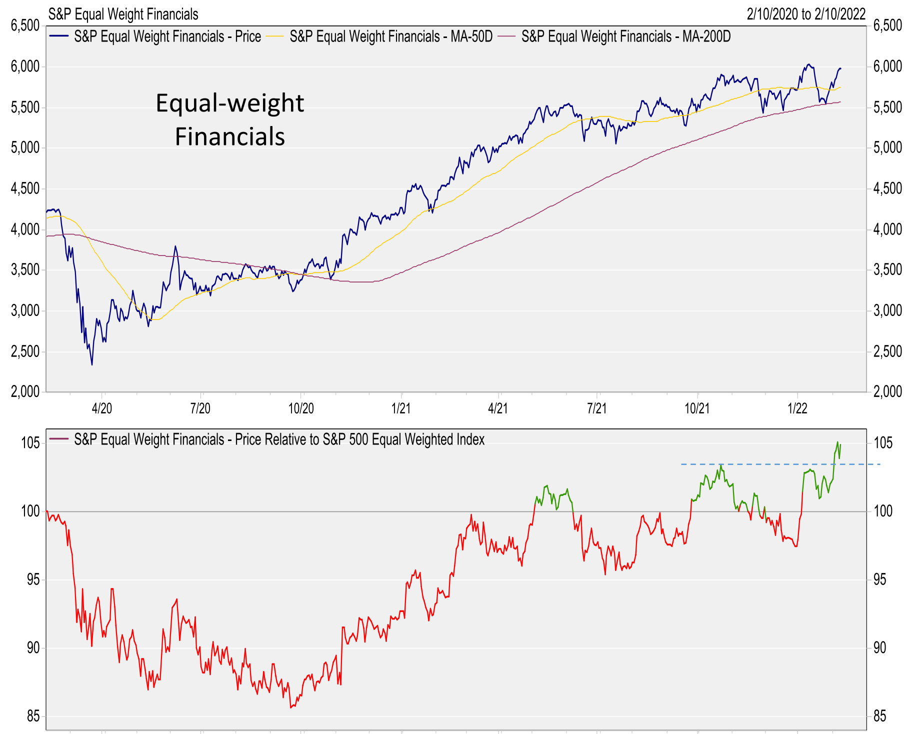


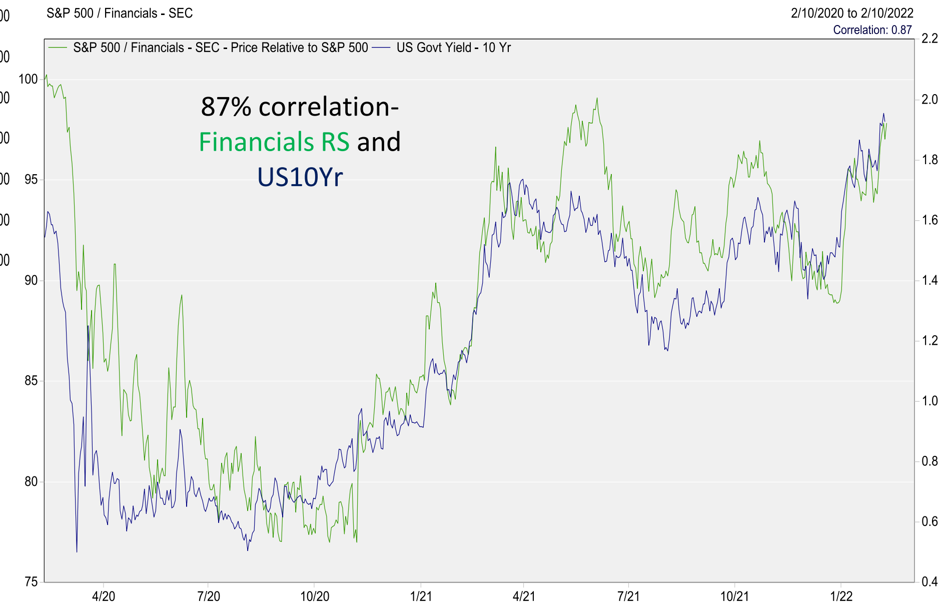


FINANCIALS

The equal-weight Financials sector is approaching new highs, and relative strength has already broken out. We maintain an Overweight recommendation on the sector, contributed in part by a relatively attractive valuation, strong credit backdrop, and improving loan activity. Also, Financials relative performance has been strongly correlated to the US 10 year Treasury yield over the past couple of years, and we expect rates to continue grinding higher over the next 6-12 months. Improving loan activity on higher rates is a good backdrop fundamentally for the banks and Financials in our view.



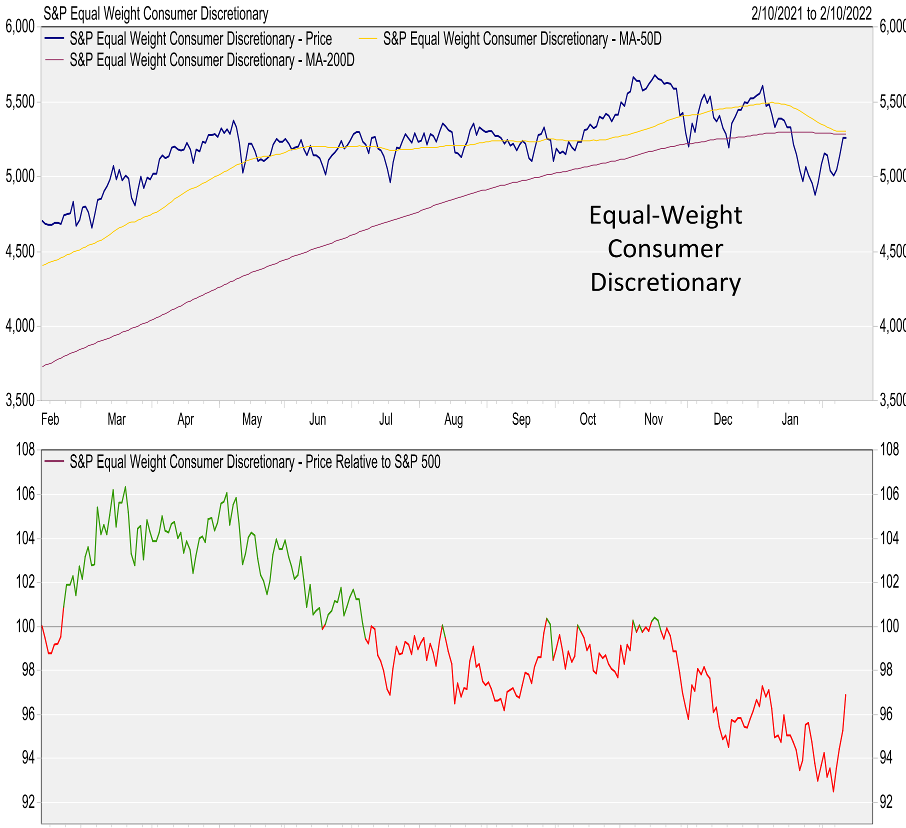


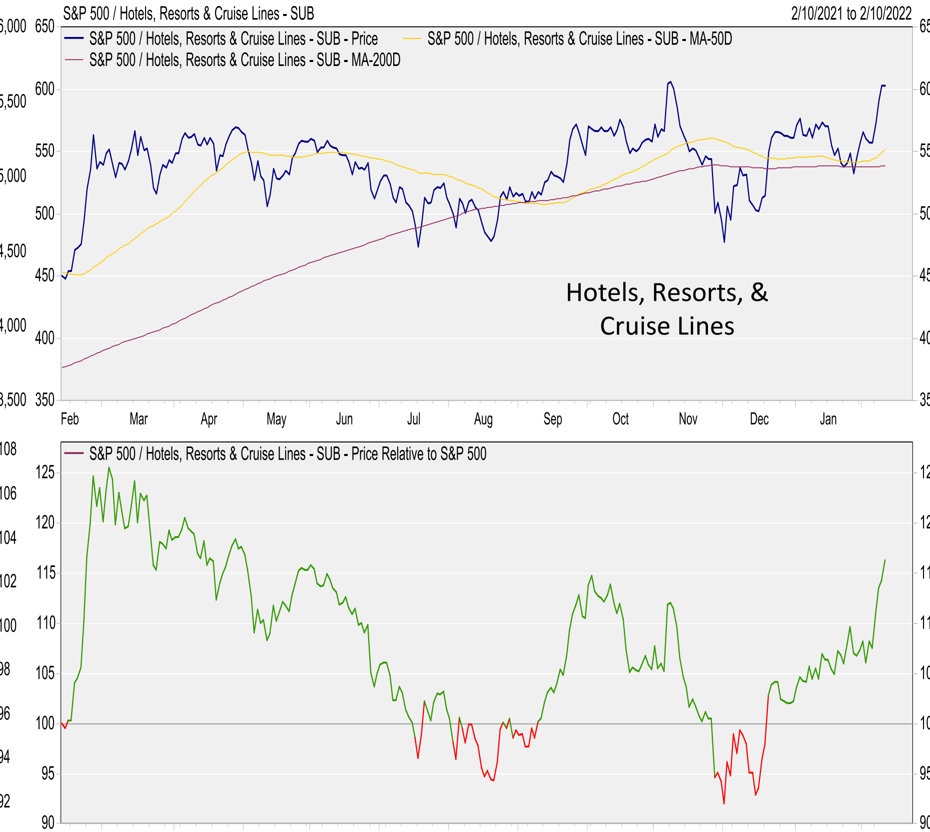


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CONSUMER DISCRETIONARY

Consumer Discretionary is still not acting well technically with many of the concerns surrounding cost inflation and labor pressures having an outsized impact on companies in the sector. Relative strength has largely been in a downtrend since last Spring through the Delta and Omicron variants. However, valuations have become more attractive with the average stock now trading in line with its pre-pandemic P/E. Many consumer companies are set to report Q4 earnings in the coming weeks, so we will learn more about these inflationary trends- and with the group up against resistance, this will be an important catalyst for the sector's next move. For those looking for an area of Consumer Discretionary showing good momentum currently, we highlight the Hotels building on relative strength.

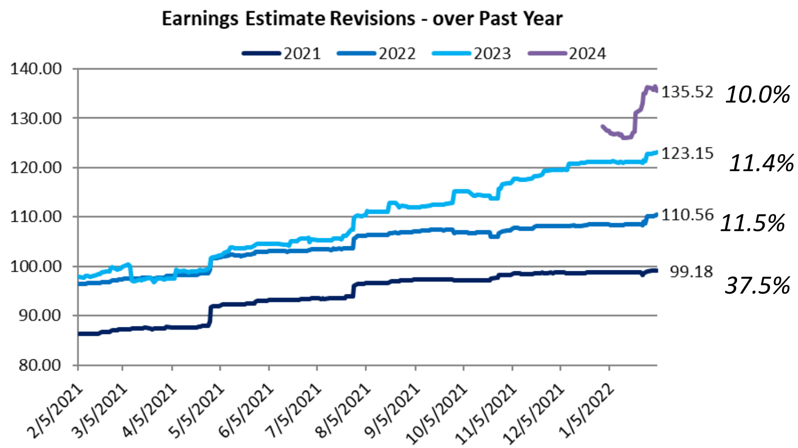


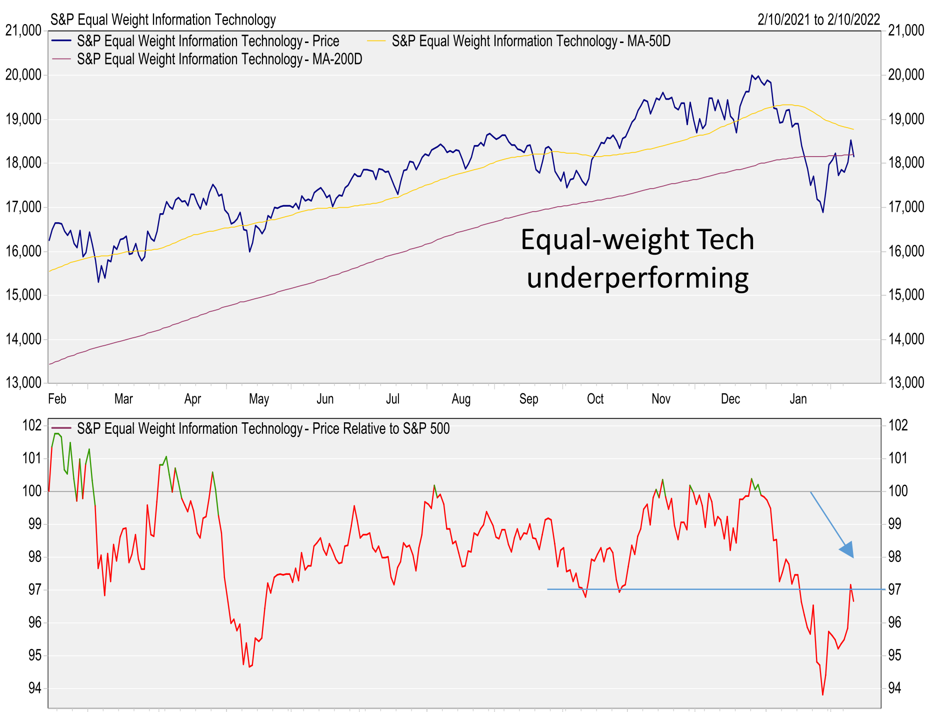


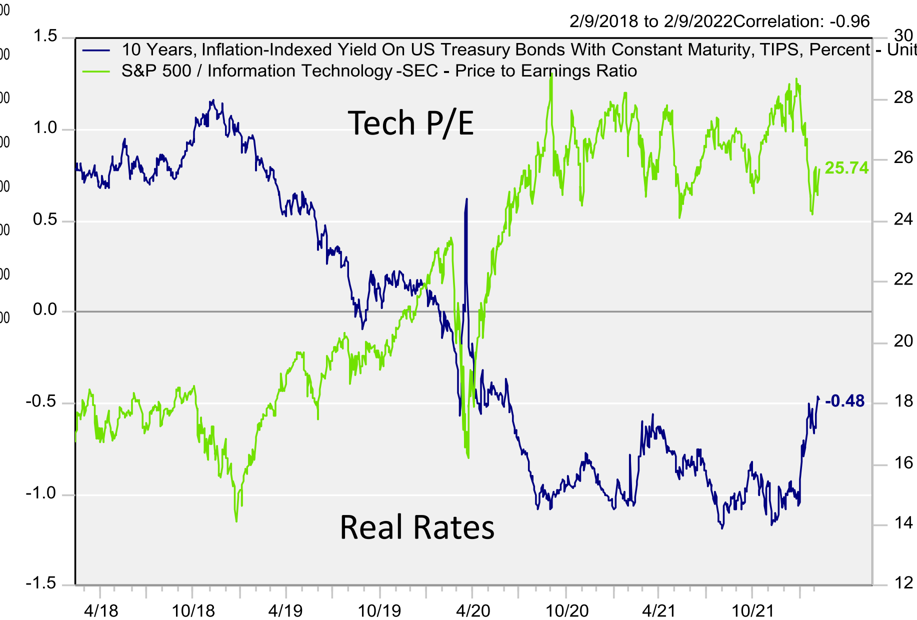
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

The equally-weighted Technology index was able to bounce from oversold levels over the past couple of weeks, but relative strength trends remain lackluster to begin 2022. The cap-weight sector has held up better, but we continue to view elevated valuation as a headwind for sector performance given the rising rate environment. There has been a 96% inverse correlation between Tech's P/E and real rates over the past several years. That said, fundamental trends remain strong, so it is hard to get too negative. Net/net, we maintain an equal-weight recommendation and do not believe the sector is set to regain market leadership at this time. We also recommend using caution within the more speculative, high valuation areas of Tech.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4301279)

IMPORTANT INVESTOR DISCLOSURES

This material is being provided for informational purposes only. Expressions of opinion are provided as of the date above and subject to change. Any information should not be deemed a recommendation to buy, hold 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. This report is not a complete description of the securities, markets, or developments referred to in this material and does not include all available data necessary for making an investment decision. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Links to third-party websites are being provided for informational 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 websites users and/or members.

Index Definitions

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.

International Disclosures

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 document is for the use of professional investment advisers and managers and is not intended for use by clients.

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 Monetaire et Financier" and Reglement General de l'Autorite des marches 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 Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

For institutional clients in the European Economic rea (EE) 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 document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Broker Dealer Disclosures

Securities are: NOT Deposits • NOT Insured by FDIC or any other government agency • NOT GUARANTEED by the bank • Subject to risk and may lose value

Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. **Raymond James Financial Services, Inc.,** member FINRA/SIPC. Raymond James® is a registered trademark of Raymond James Financial, Inc.