RAYMOND JAMES

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Weekly Market Guide

Short-Term Summary:

After bouncing from oversold levels, the S&P 500 stalled out at 4590 and is currently pulling in to the midpoint of its recent ~4600-4200 trading range on Russia/Ukraine concerns. The geopolitical uncertainty comes at a time when the Fed backstop is being removed- where negative headlines are likely to come with more market volatility (rather than shaken off quickly when the Fed was ultra-accommodative). Additionally, the market has been anxious this year over high inflation and the Fed's rate hike cycle ahead- and a potential Russian oil embargo would only add to those inflation concerns, while also being a negative impact on global economic growth.

This supports our belief that the market is likely stuck in a back-and-forth trading range right now that might take awhile to play out. Pullbacks and corrections can be *time* as much as *degree*. We think *time* is the more likely path right now as opposed to the need for a greater *degree* (% decline) than seen at 4222. We have likely had the downside, but now time needs to pass in our view. Along the way, investors will receive more information surrounding Russia/Ukraine, but more importantly inflationary pressures. If inflation can moderate as the year progresses (as we expect), this should provide upside to a market pricing in 6-7 hikes this year.

The US 10-year Treasury yield (10yr) has risen to its pre-pandemic level around 2%, and the sharpness of the recent rise has been a negative influence on equity valuations to begin the year. While we expect the 10yr to grind higher over the next 6-12 months, we are not convinced it is set to rise appreciably higher. The moderation in economic growth this year may act as a headwind to bond yields; and technically, we note 35-year downtrend resistance for the US 10-year Treasury yield at ~2.19%.

This is important because low interest rates can support equity valuations. The S&P 500 P/E is above average (albeit approaching its pre-pandemic level), but remains attractive vs. bond yields in our view. The differential in S&P 500 earnings yield (4.7%) and US 10-year Treasury yield (2%) currently stands at 2.7% (vs the 60-year average of 0.6%). On average, when this equity risk premium has been between 2.5-3%, the next 3-year annualized return has averaged 8.3% with a high of 17.6% and low of -2.4%. So, odds favor healthy forward equity market returns for long-term investors (while acknowledging the potential for further volatility in the short term)- particularly if our base case expectations for above trend economic growth, 15% earnings growth, moderating inflation, and grind higher in interest rates prove accurate.

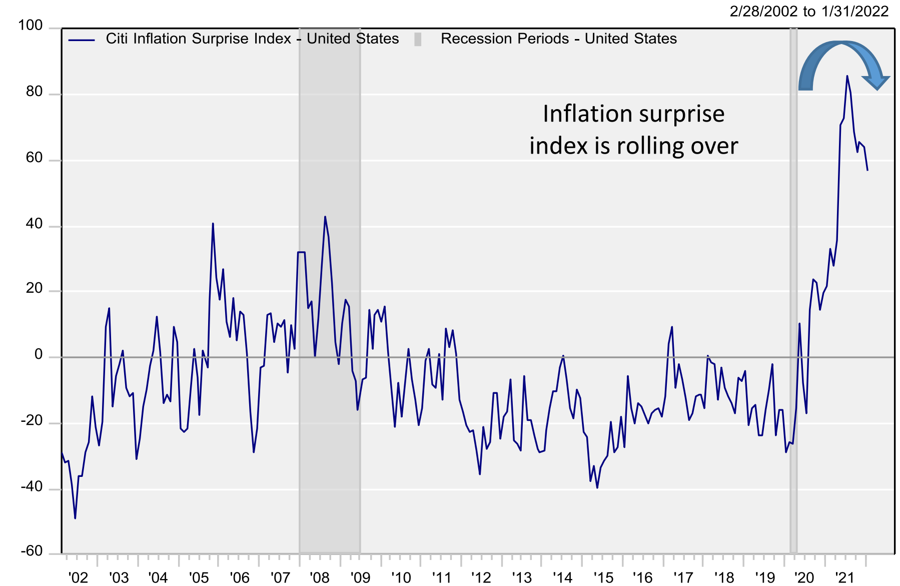
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-3.9%	10.8%
S&P 500	-6.1%	13.8%
S&P 500 (Equal-Weight)	-3.7%	15.8%
NASDAQ Composite	-9.7%	0.5%
Russell 2000	-7.4%	-8.5%
MSCI All-Cap World	-4.6%	5.1%
MSCI Developed Markets	-3.0%	0.4%
MSCI Emerging Markets	1.0%	-13.7%
NYSE Alerian MLP	13.0%	29.9%
MSCI U.S. REIT	-9.3%	20.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	22.9%	3.5%
Financials	2.7%	11.7%
Consumer Staples	-2.4%	6.1%
Industrials	-4.6%	7.9%
Materials	-5.8%	2.6%
S&P 500	***-6.1%***	-
Health Care	-7.5%	13.1%
Utilities	-7.6%	2.5%
Information Technology	-8.8%	28.3%
Consumer Discretionary	-9.0%	12.1%
Communication Svcs.	-11.1%	9.6%
Real Estate	-12.7%	2.6%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Yesterday's FOMC minutes continued to indicate that liftoff should be expected at the March 16th meeting but fell short of leaning toward a 50bp hike being the base case assumption. The market-implied odds of a 50bp March hike are down to 38% today. The Committee also noted that much of the current high inflation is due to supply constraints from Covid, which they believe can ease over the course of the year- more indicative of a wait-and-see approach (rather than a rush to hike quickly). Hard data such as January CPI and PPI are very high, but we continue to see signs of easing pressures from the soft data, including the Inflation Surprise index (shown on the top right) that is rolling over. We also note that easier CPI comps (lapping last year's rise) are coming by April (bottom right table). It will be important for this soft data (easing inflationary pressures) to come to fruition in order to take pressure off the Fed needing to move too aggressively. And with the market currently expecting 6-7 rate hikes this year, this scenario could act as an upside surprise.



Event	Period	Actual	Consensus	Prior
PPI ex-Food & Energy SA M/M	JAN	0.80%	0.50%	0.60%
PPI ex-Food & Energy NSA Y/Y	JAN	8.3%	8.1%	8.5%
PPI SA M/M	JAN	1.0%	0.50%	0.40%
PPI NSA Y/Y	JAN	9.7%	9.3%	9.8%
Retail sales Ex AutoFuel M/M	JAN	3.8%	0.55%	-3.2%
Retail Sales ex-Auto SA M/M	JAN	3.3%	0.85%	-2.8%
Retail Sales SA M/M	JAN	3.8%	1.9%	-2.5%
Capacity Utilization NSA	JAN	77.6%	76.8%	76.6%
Industrial Production SA M/M	JAN	1.4%	0.40%	-0.11%
Business Inventories SA M/M	DEC	2.1%	2.0%	1.5%
NAHB Housing Market Index SA	FEB	82.0	83.0	83.0
Building Permits SAAR (Preliminary)	JAN	1,899K	1,765K	1,885K
Continuing Jobless Claims SA	02/05	1,593K	1,617K	1,619K
Housing Starts SAAR	JAN	1,638K	1,690K	1,708K
Housing Starts M/M	JAN	-4.1%	-0.25%	0.29%
Initial Claims SA	02/12	248.0K	220.0K	225.0K

Date	CPI Core (YoY%)	CPI (YoY%)
12/31/20	1.60	1.28
01/31/21	1.39	1.36
02/28/21	1.29	1.68
03/31/21	1.66	2.66
$\boxed{04/30/21}$	$\boxed{2.97}$	$\boxed{4.15}$
05/31/21	3.81	4.94
06/30/21	4.45	5.34
07/31/21	4.20	5.28
08/31/21	3.96	5.21
09/30/21	4.04	5.39
10/31/21	4.59	6.24
11/30/21	4.95	6.83
12/31/21	5.48	7.10
01/31/22	6.04	7.53

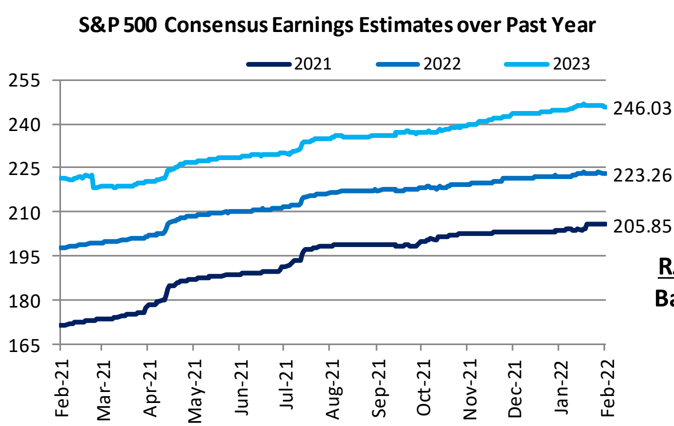
Not only thawed bottlenecks, improving inventories, and expectations for lower compensation growth, but easier CPI comps ahead by April

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

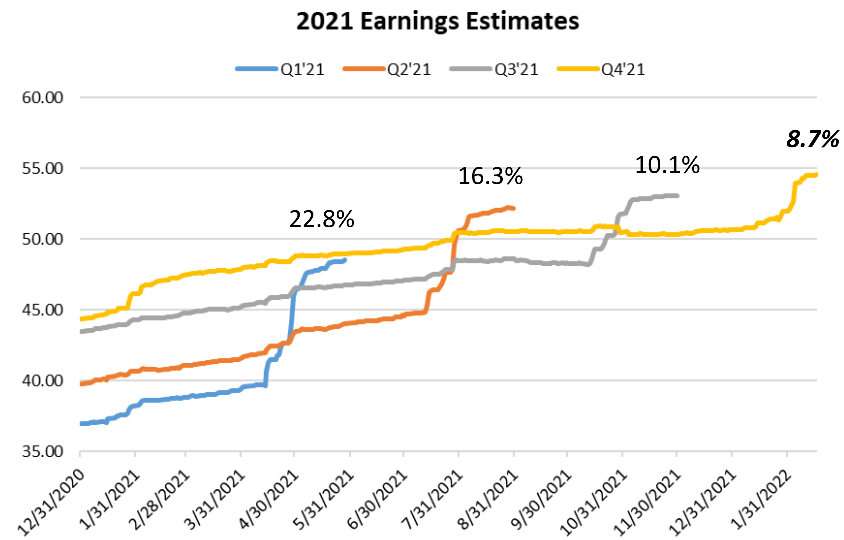
Q4 earnings season is close to an end with 80% of the S&P 500's market cap having reported over the past five weeks. It has been a solid earnings season with 77% of companies beating earnings estimates by an aggregate 8.7%- both of these are above historical averages but also continue to moderate (as expected) from previous quarters. Technology had a good quarter, reflecting still strong demand trends (with upside). This is important (and ultimately supportive) given the valuation-driven volatility coming from the sector to begin the year.

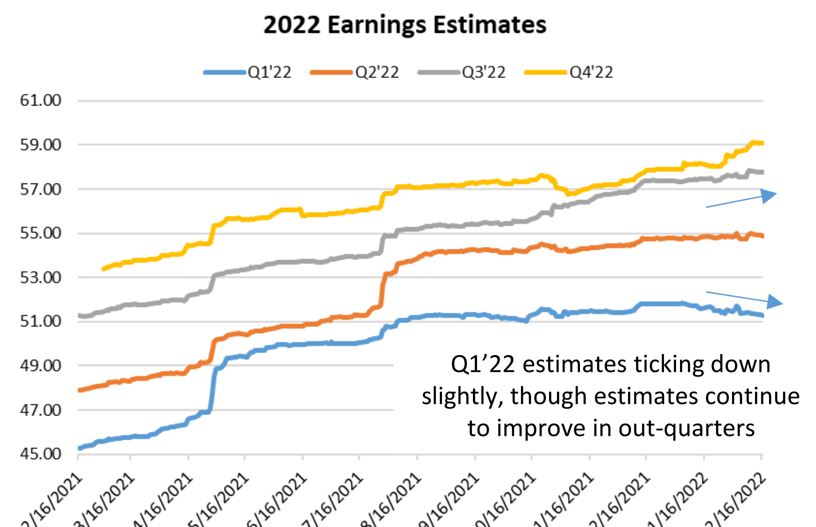
Rising input costs and supply chain issues remain a hot topic on earnings calls- with margin impacts likely to continue in Q1 2022. This has Q1'22 earnings estimates ticking slightly lower to begin the year, although corporate guidance indicates (as we believe) that these pressures can ease as the year progresses. Sales remain strong, and full-year earnings estimates remain in an uptrend. This is important, as earnings are the lifeblood of the stock market; and we continue to expect upside to consensus earnings estimates. The S&P 500's forward P/E multiple has also moderated close to its pre-pandemic level (19.4x), and we note that the average stock now trades at a discount to its pre-pandemic multiple on 2/19/2020.



EPS Growth Estimates	
2021	50.0%
2022	8.4%
2023	10.2%

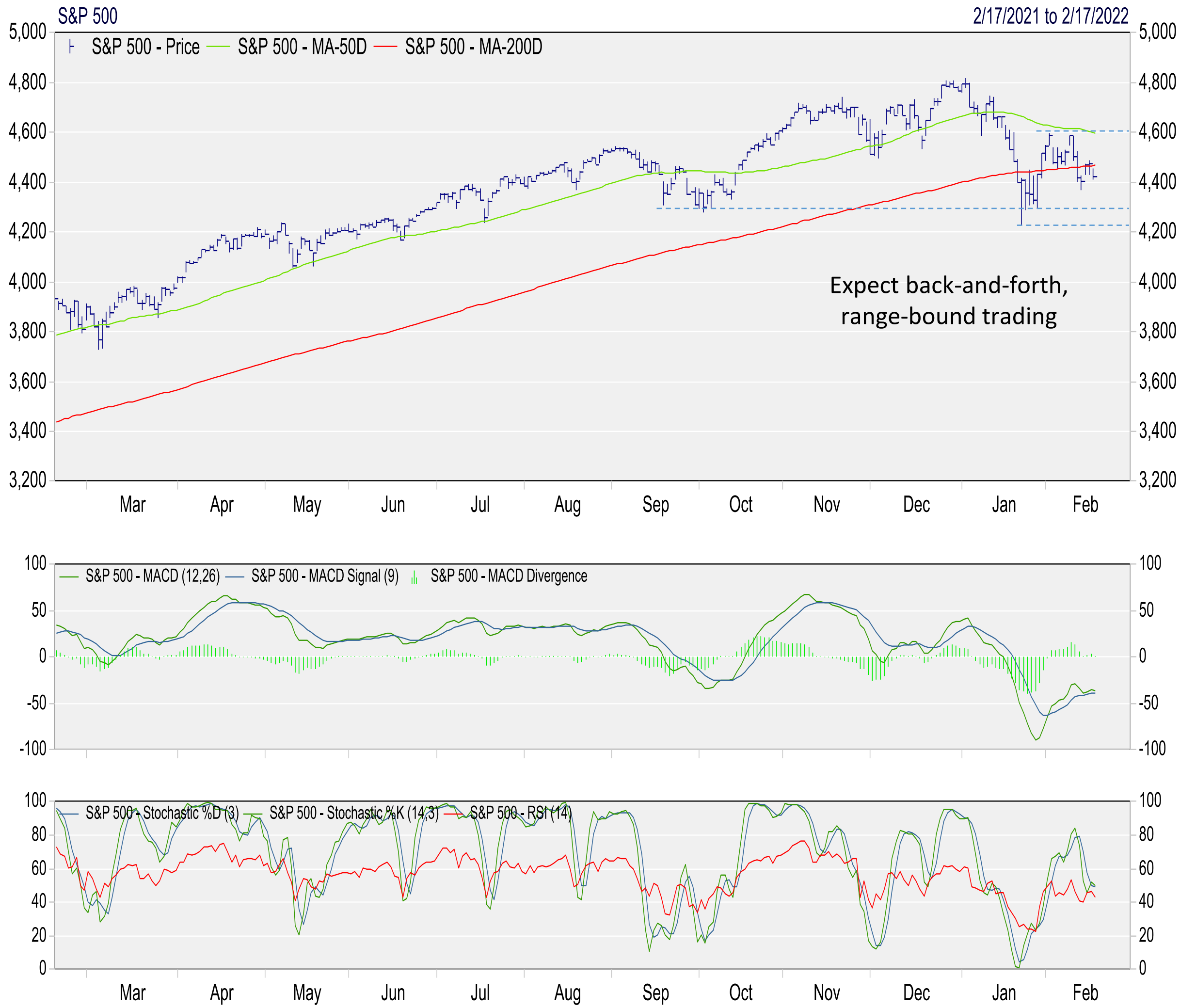
RJ 2022 Earnings Est.:
Base Case: 235 (+15%)
Bull Case: 245
Bear Case: 225





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500's oversold rally stalled out at 4590, failing at this resistance level just under the 50-day moving average multiple times this month. This increases its importance technically, and we will continue to pay close attention to 4590 along with its nearby 50-day moving average as resistance on the upside.

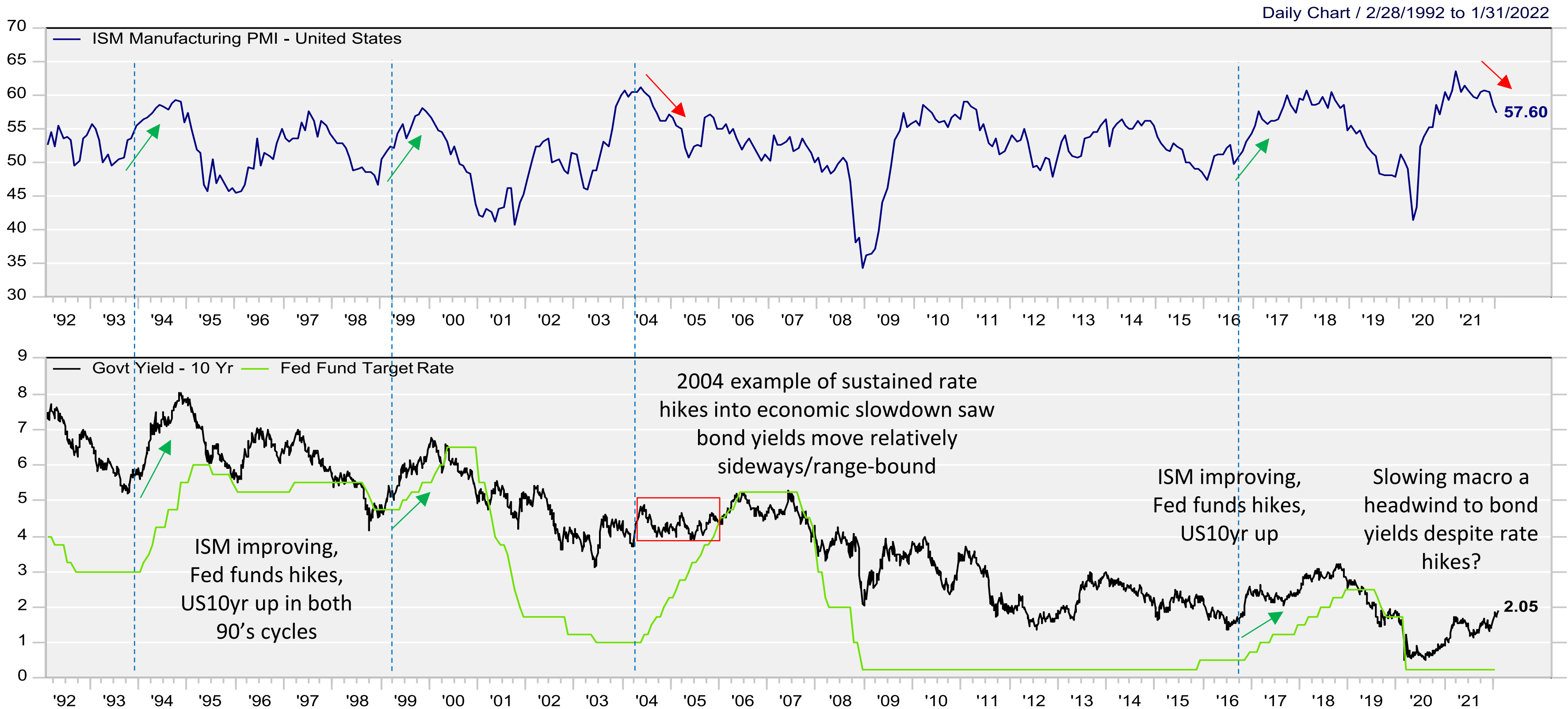
We are also monitoring ~4400 as nearby support- give it a 1-3 day time filter. If the index breaks below, we may have to test the recent lows again (4292-4222).

We are in one of those periods of time that influences such as the Fed, interest rates, and Russia have the market in a corrective phase that has turned into a sideways pattern. The S&P 500 has traced out a range between ~4600-4200 for now, and range-bound trading can last a while. Pullbacks and corrections can be *time* as much as *degree*. We think *time* is the more likely path right now as opposed to the need for a greater *degree* (% decline) than seen at 4222. We have had the downside, but now time needs to pass in our view.

However, when markets are in an uncertain phase, sharp downside moves can develop on short notice. Regardless, absent a catalyst for recession or long-lasting elevated inflation, should a deeper draw-down develop, it should not be long-lasting.

BOND YIELDS

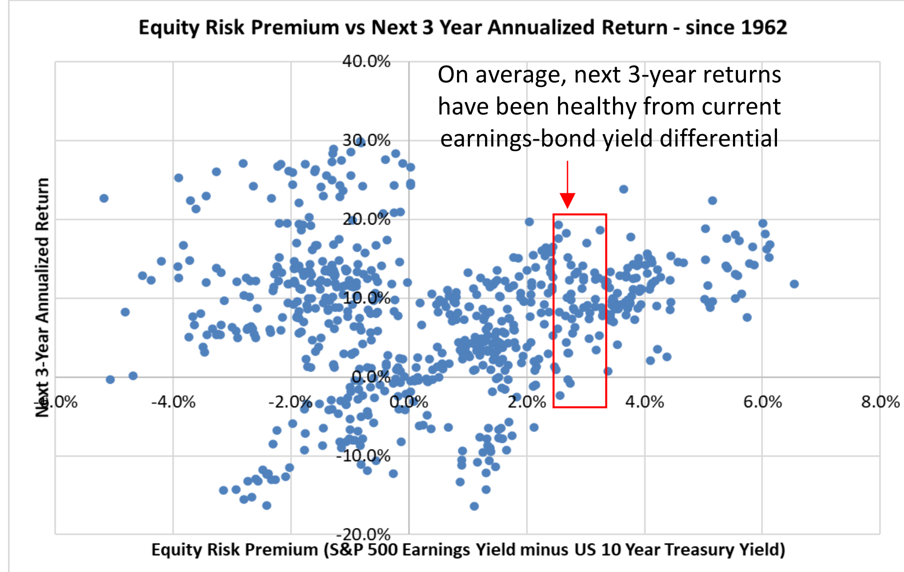
The US 10-year Treasury yield (10yr) has risen to its pre-pandemic level around 2%, and the sharpness of the recent rise has been a negative influence on equity valuations to begin the year. While we expect the 10yr to grind higher over the next 6-12 months, we are not convinced it is set to rise appreciably higher. In looking to prior rate hike cycles, we note that bond yields typically rise- however liftoff typically occurs in an improving economic environment. The difference is the Fed is set to hike into a slowing macro environment this time. The 2004 example may provide a clue on this scenario, where a sustained rate hike cycle came as economic growth slowed- and the 10yr moved generally sideways/more range-bound. So, the moderation in economic growth this year may act as a headwind to bond yields; and technically, we note 35-year downtrend resistance for the US 10-year Treasury yield at ~2.19%.

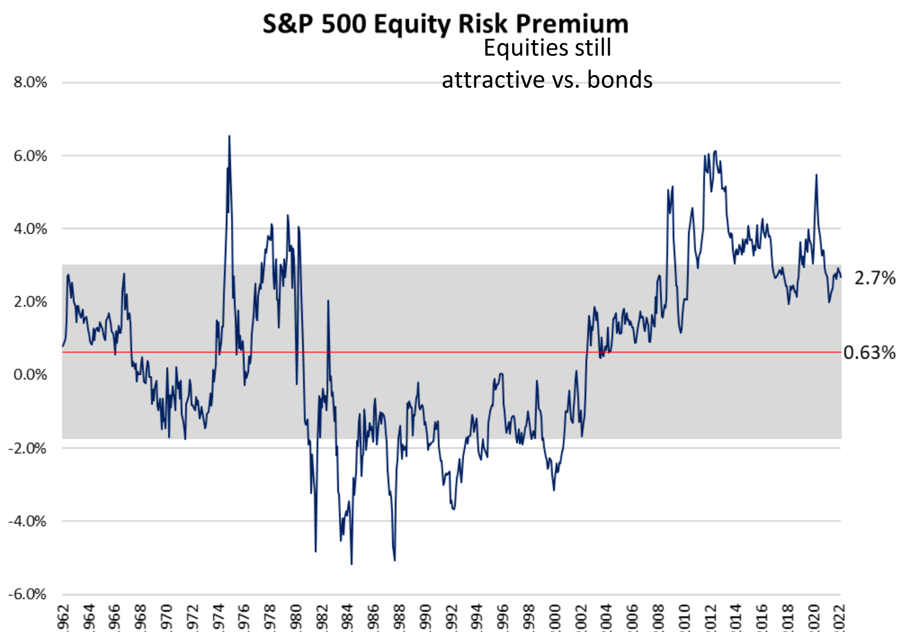


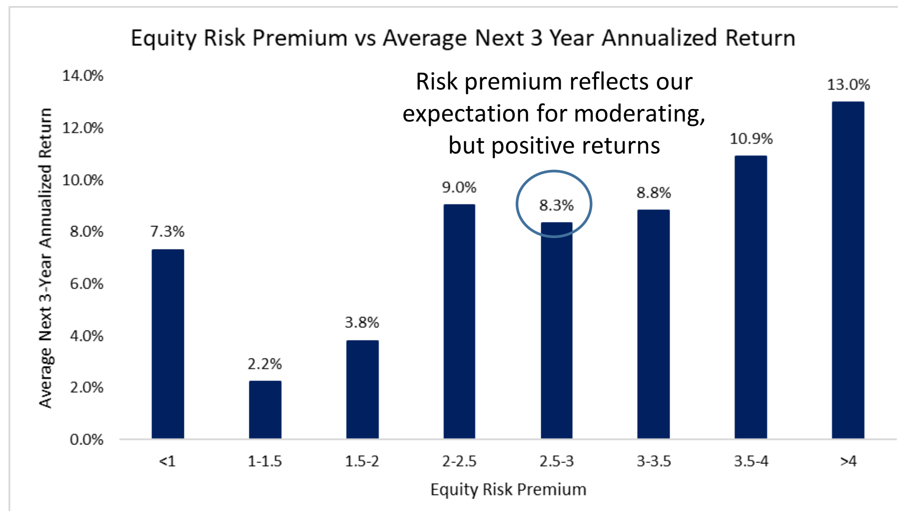
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUATION

Low interest rates can support above average equity valuations. As noted previously, the S&P 500 P/E is above average (albeit approaching its pre-pandemic level), but remains attractive vs. bond yields in our view. The differential in S&P 500 earnings yield (4.7%) and US 10-year Treasury yield (2%) currently stands at 2.7%. This equity risk premium is still elevated historically (0.6% average since 1962). On average, when the equity risk premium has been between 2.5-3%, the next 3-year annualized return has averaged 8.3% with a high of 17.6% and low of -2.4%. So if bond yields do not move appreciably higher (or can just grind higher over time), the odds favor healthy forward equity market returns for long-term investors (while acknowledging the potential for further volatility in the shorter-term).



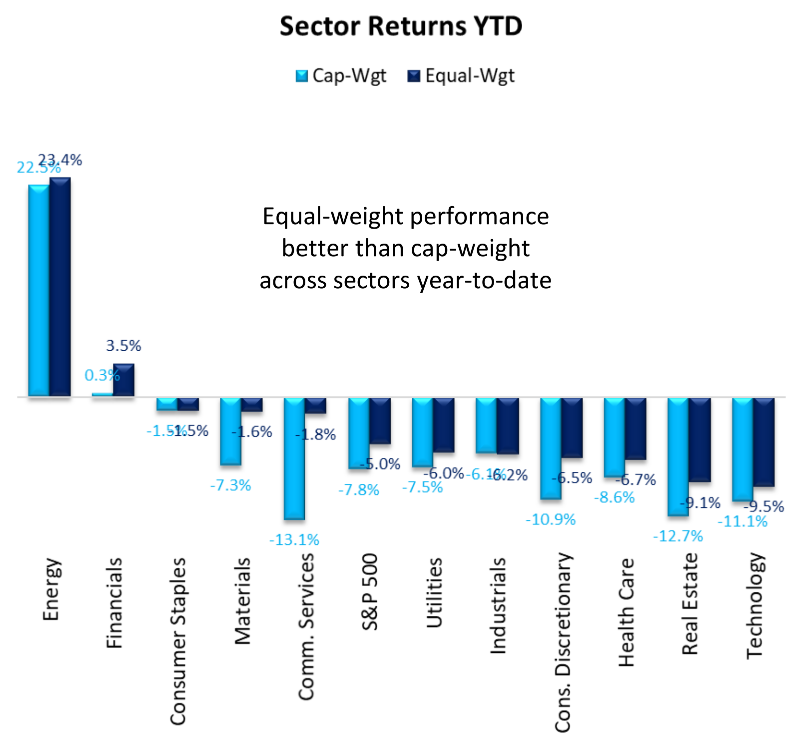




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

AVERAGE STOCK DOING BETTER

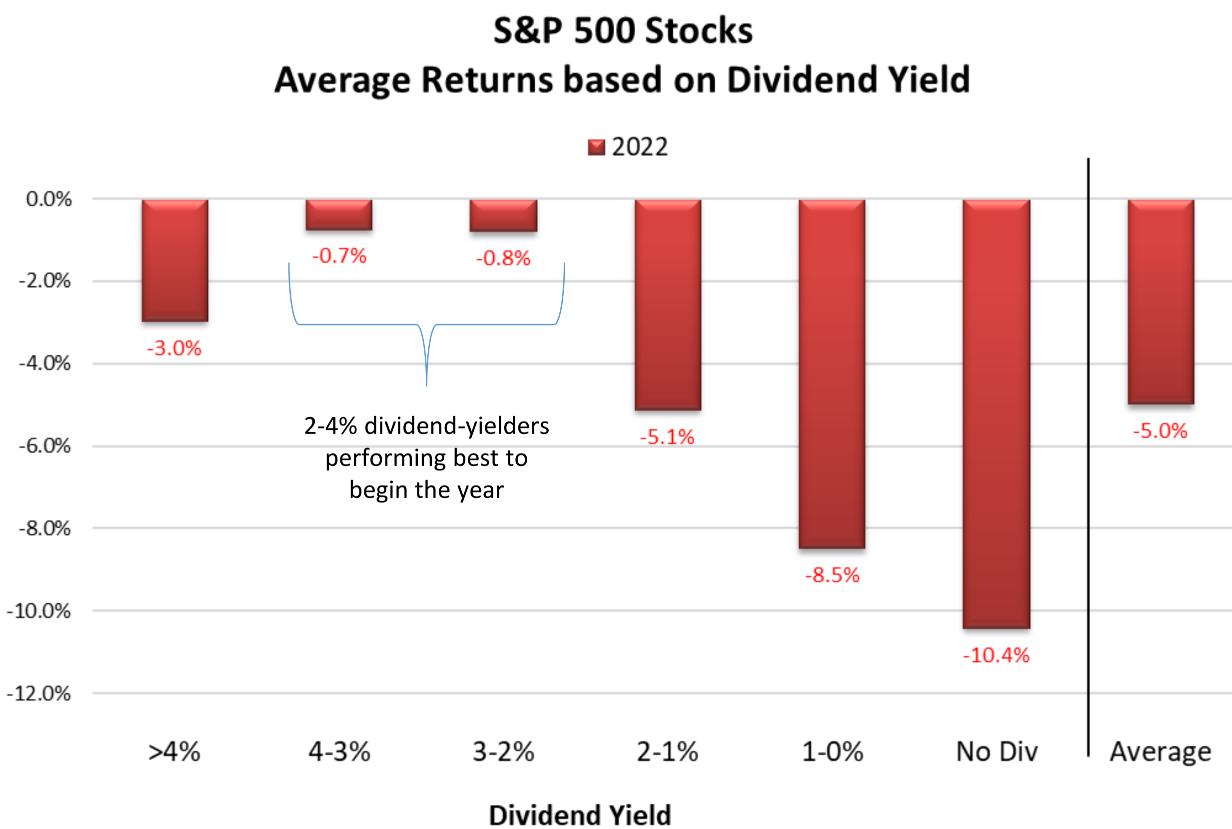
A positive data point through the market's volatility is that the average stock is gaining relative momentum- and this is the case broadly across all sectors. To be sure, equities are broadly lower and choppy to begin the year (outside of Energy), but this suggests that outsized weakness is coming from the top of the market and the average stock is outperforming. Not only is this positive for stock-pickers but is also supportive of technical trends beneath the surface.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

DIVIDEND-PAYERS GAINING IMPORTANCE

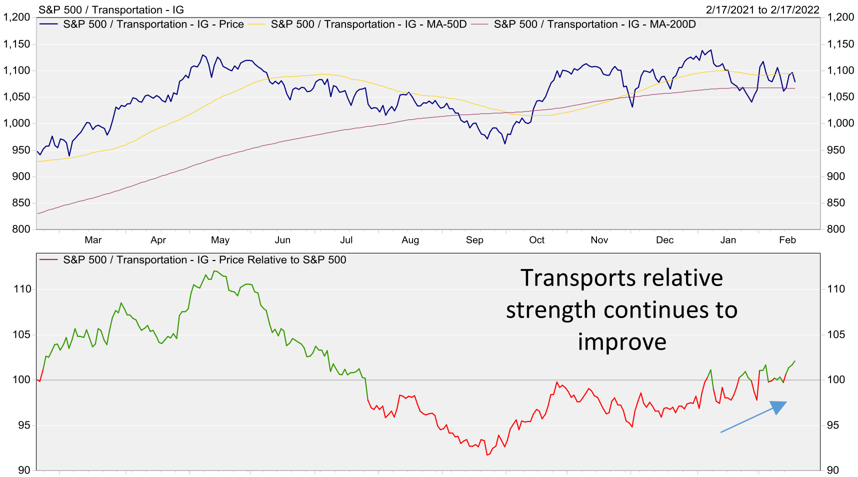
Dividend-payers have held up better through the market's volatility to begin the year. For example, the best S&P 500 performance is coming from the 2-4% dividend-yielders, while the worst performance year-to-date has come from those with no dividend. It is normal for dividend-payers to outperform in market volatility, as they typically have lower betas and more stable business models. Also please note, we would not sacrifice dividend growth for the highest yield and believe it is important to balance a healthy dividend yield with healthy dividend growth potential for income-oriented investors.

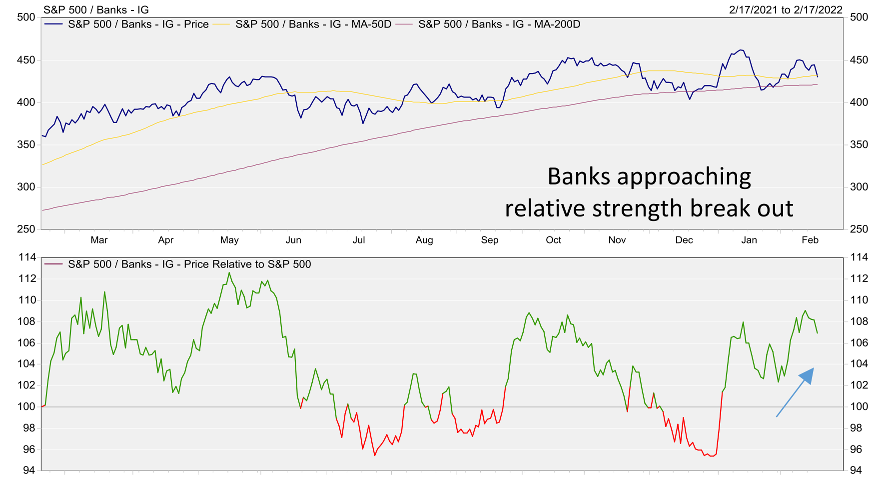


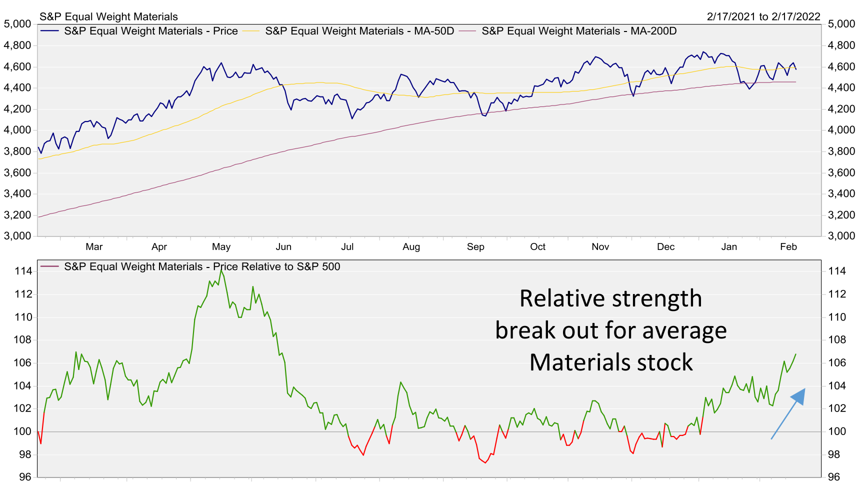
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

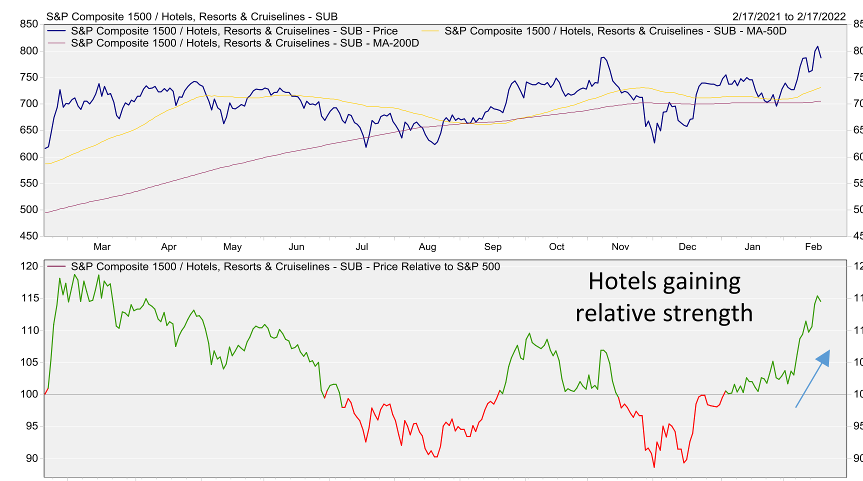
IMPROVING RELATIVE MOMENTUM FROM CYCLICAL AREAS

Several cyclical areas are showing signs of relative momentum through the volatility- these include the Transports, Banks, Materials, and Hotels. We would look to accumulate favored stocks in these sectors as needed.





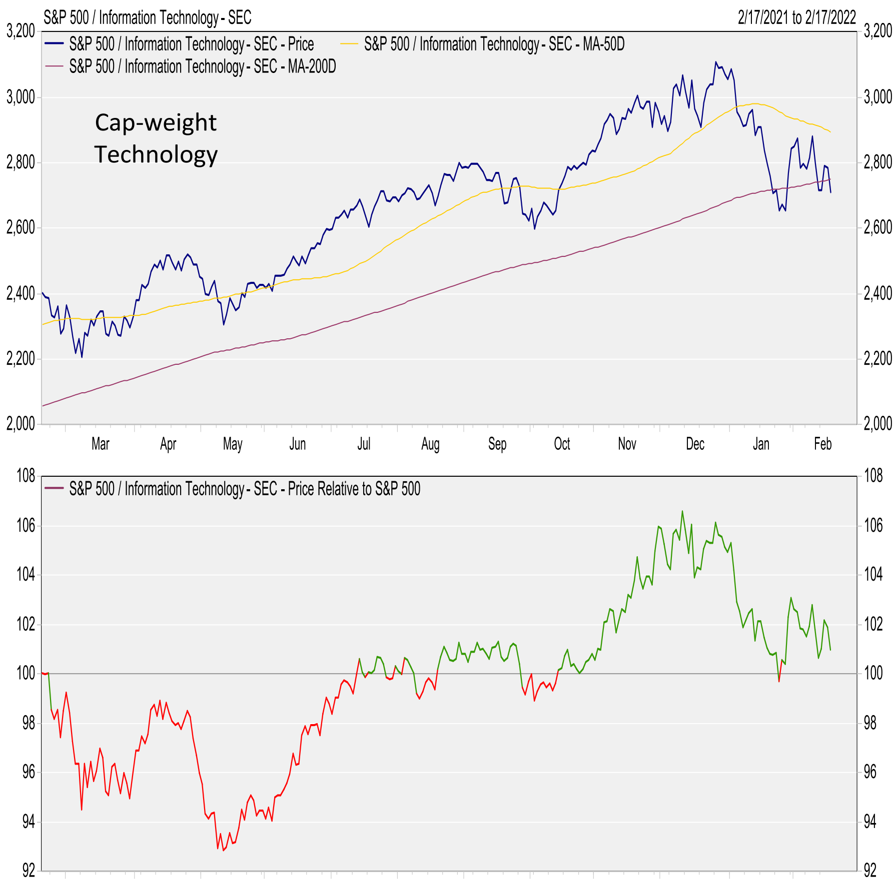




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

The equal-weight Technology sector has not been able to exhibit much follow-through after bouncing from oversold levels, and relative strength is close to new lows. Although cap-weight Technology relative strength trends are a little better, this supports our view that Technology is unlikely to regain leadership yet. We recommend an equal-weight allocation in portfolios. Additionally, we recommend sticking with the larger, more stable companies with good fundamentals in Technology, rather than the smaller, more speculative ones with typically higher valuations.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4337541)

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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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