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MARCH 10, 2022 | 12:48 PM EST

Weekly Market Guide

Short-Term Summary:

We lowered our 2022 S&P 500 target yesterday to account for the Russia/Ukraine war and its potential effects on the macro and fundamental outlook. To be sure, the *degree* and *duration* of Russian escalation are very big unknowns that can change rapidly and have large implications on economic growth, inflation, and interest rates, along with complicating the Fed's situation. In our base case expectation, we believe the war can subside over the coming months, inflation still moderate by year-end, US economic growth stay positive, and the Fed not overtighten. We lower our earnings estimate to $225 (from $235) as a result of softer economic growth and discretionary spending expectations from higher commodity prices. This is just above the current consensus estimate of $224, and reflects 9% growth y/y. We also believe valuation has become more compelling at current levels; and although multiples can contract further in the short-term as geopolitical tensions potentially escalate further, we believe they can rebound by year-end as the current headwinds clear up. The result is a likely choppy market as it deals with the headwinds of Russian war, higher commodity prices, softer economic growth, and a Fed rate hike cycle- but is still able to get back toward prior highs by year-end (4725 base case target). For further detail on the target changes, please see our full note here.

Technically, the S&P 500 remains in a downtrend with the series of lower highs and lower lows since January still in place. In assessing the potential for a market bottom, we are watching for price reversals and then follow-through. We have seen price reversals from weakness over the past two months, but have yet to penetrate obvious resistance levels on the rallies. After posting a new closing low on Tuesday, the S&P 500 had a good *thrust* day on Wednesday with the S&P 500 +2.6%, Nasdaq +3.6%, and Russell 2000 +2.7% (though internals were not as strong). This is a positive step, but we now need to see follow-through. We would like to see the S&P 500 take out the 4363-4400 resistance level and then eventually get through the 4600 level. Additionally, we are monitoring the price of oil as a potential indicator for the market's trend- as lower or more stable commodity prices (when/if it occurs) may reduce economic concerns and, in turn, allow equities to stabilize/recover. This was the case in the 1990 Gulf War (and recession) in which the market bottom came in conjunction with a peak in the oil price spike. After reaching extreme levels, WTI crude oil pulled back yesterday- a step in the right direction, but follow-through is needed next technically (one day does not make a trend and we note numerous head-fakes during the 1990 oil spike). The path of the Russia/Ukraine war ahead remains an obvious influence (in either direction).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-8.4%	4.6%
S&P 500	-10.2%	10.4%
S&P 500 (Equal-Weight)	-7.3%	9.5%
NASDAQ Composite	-15.3%	1.4%
Russell 2000	-10.2%	-10.2%
MSCI All-Cap World	-10.9%	1.4%
MSCI Developed Markets	-11.9%	-6.3%
MSCI Emerging Markets	-11.5%	-17.2%
NYSE Alerian MLP	15.2%	23.0%
MSCI U.S. REIT	-8.3%	20.7%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	34.4%	4.0%
Utilities	-2.5%	2.7%
Consumer Staples	-5.5%	6.2%
Financials	-5.7%	11.3%
Industrials	-6.8%	8.0%
Health Care	-8.0%	13.7%
Materials	-9.5%	2.6%
S&P 500	***-10.2%***	-
Real Estate	-11.2%	2.7%
Information Technology	-14.4%	27.8%
Communication Svcs.	-15.7%	9.5%
Consumer Discretionary	-17.8%	11.5%

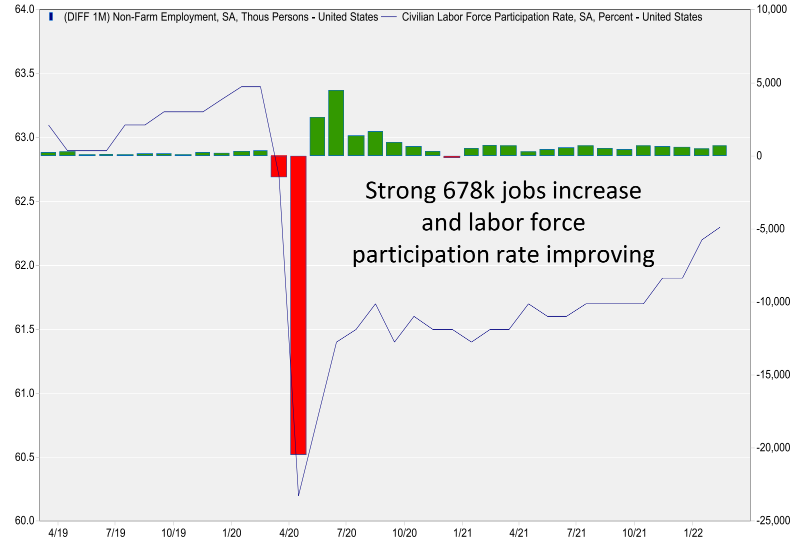
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The February jobs report was much stronger than expected with a 678k rise in nonfarm payrolls (vs 400k consensus estimate), along with upward revisions to prior months. Additionally, strength came from the hardest-hit areas for labor since the pandemic began- leisure & hospitality up 178k and education & health care up 112k as Omicron subsided. The labor force participation was able to improve to 62.3% and unemployment rate to 3.8%. Importantly, wage growth came in lower than expectations- flat m/m vs 0.5% estimate, bringing the y/y measure down to 5.1% from 5.7%. One data point does not make a trend and wage growth is still elevated, but it is a positive sign that labor pressures may be easing and wage growth stabilizing.

Inflation remains hot with February CPI rising to a 40-year high of 7.9% y/y (up 0.8% m/m), and the recent rise in gas and food prices will likely lead to further growth in March. Core CPI (ex-food and energy) also rose to 6.4% y/y (up 0.5% m/m), though we still expect easing supply chain constraints, an eventual peak in commodity prices, and more favorable base effects to enable a moderation in inflation by year-end. The net of the data would likely be a more hawkish Fed at next week's FOMC meeting, though a 25bp rate hike has largely been telegraphed. Investors will be listening to the commentary for clues on the Fed's path ahead, along with how the Russia/Ukraine war and higher oil prices affect their outlook.

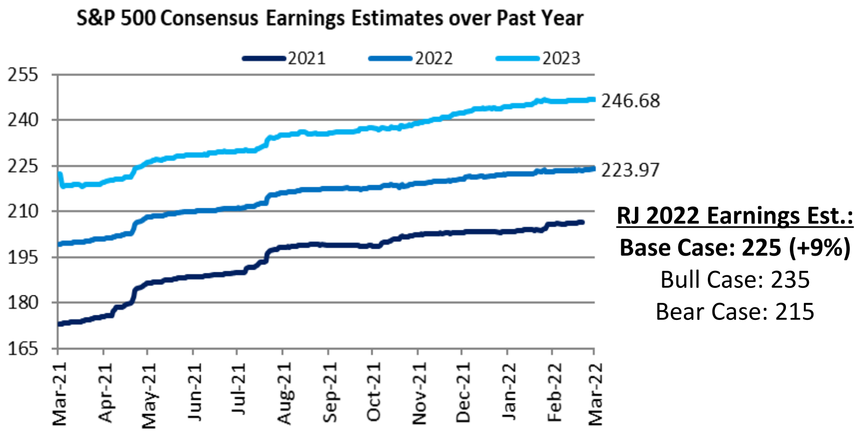
Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	FEB	678.0K	400.0K	481.0K
Unemployment Rate	FEB	3.8%	3.9%	4.0%
Consumer Credit SA	JAN	$6.8B	$20.0B	$22.4B
NFIB Small Business Index	FEB	95.7	-	97.1
Trade Balance SA	JAN	-$89.7B	-$86.0B	-$82.0B
Wholesale Inventories SA M/M (Final)	JAN	0.80%	0.80%	0.80%
JOLTS Job Openings	JAN	11,263K	10,930K	11,448K
CPI ex-Food & Energy SA M/M	FEB	0.50%	0.50%	0.60%
CPI ex-Food & Energy NSA Y/Y	FEB	6.4%	6.4%	6.0%
Continuing Jobless Claims SA	02/26	1,494K	1,470K	1,469K
CPI SA M/M	FEB	0.80%	0.70%	0.60%
CPI NSA Y/Y	FEB	7.9%	7.9%	7.5%
Hourly Earnings SA M/M (Final)	FEB	0.0%	-	0.0%
Hourly Earnings Y/Y (Final)	FEB	5.1%	-	5.1%
Initial Claims SA	03/05	227.0K	213.5K	216.0K



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

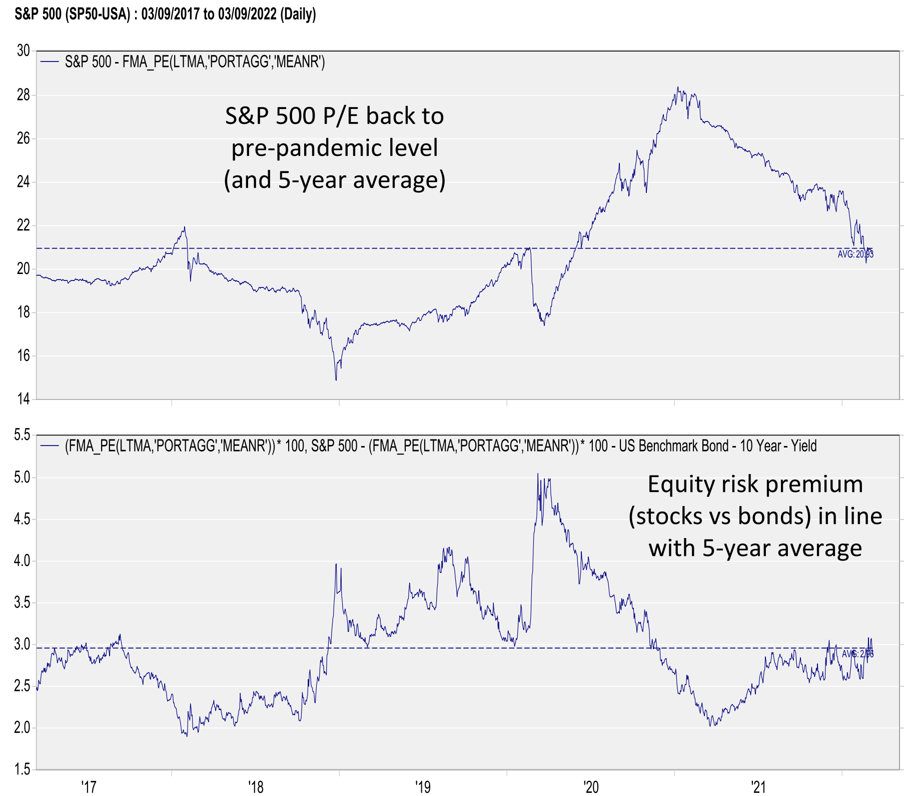
FUNDAMENTALS

We lowered our 2022 S&P 500 target yesterday to account for the Russia/Ukraine war and its potential effects on the macro and fundamental outlook. To be sure, the degree and duration of Russian escalation are very big unknowns that can change rapidly and have large implications on economic growth, inflation, and interest rates, along with complicating the Fed's situation. In our base case expectation, we believe the war can subside over the coming months, inflation still moderate over the year, US economic growth stay positive, and the Fed not overtighten. We lower our earnings estimate to $225 (from $235) as a result of softer economic growth and discretionary spending expectations from higher commodity prices. This is just above the current consensus estimate of $224, and reflects 9% growth y/y. We also believe valuation has become more compelling at current levels; and though multiples can contract further in the short-term as geopolitical tensions potentially escalate further, we believe they can rebound by year-end as the current headwinds clear up. The result is a likely choppy market that deals with the headwinds of Russian war, higher commodity prices, softer economic growth, and a Fed rate hike cycle- but is still able to get back toward prior highs by year-end (4725 base case target). For further detail, please see our [full note here](#).



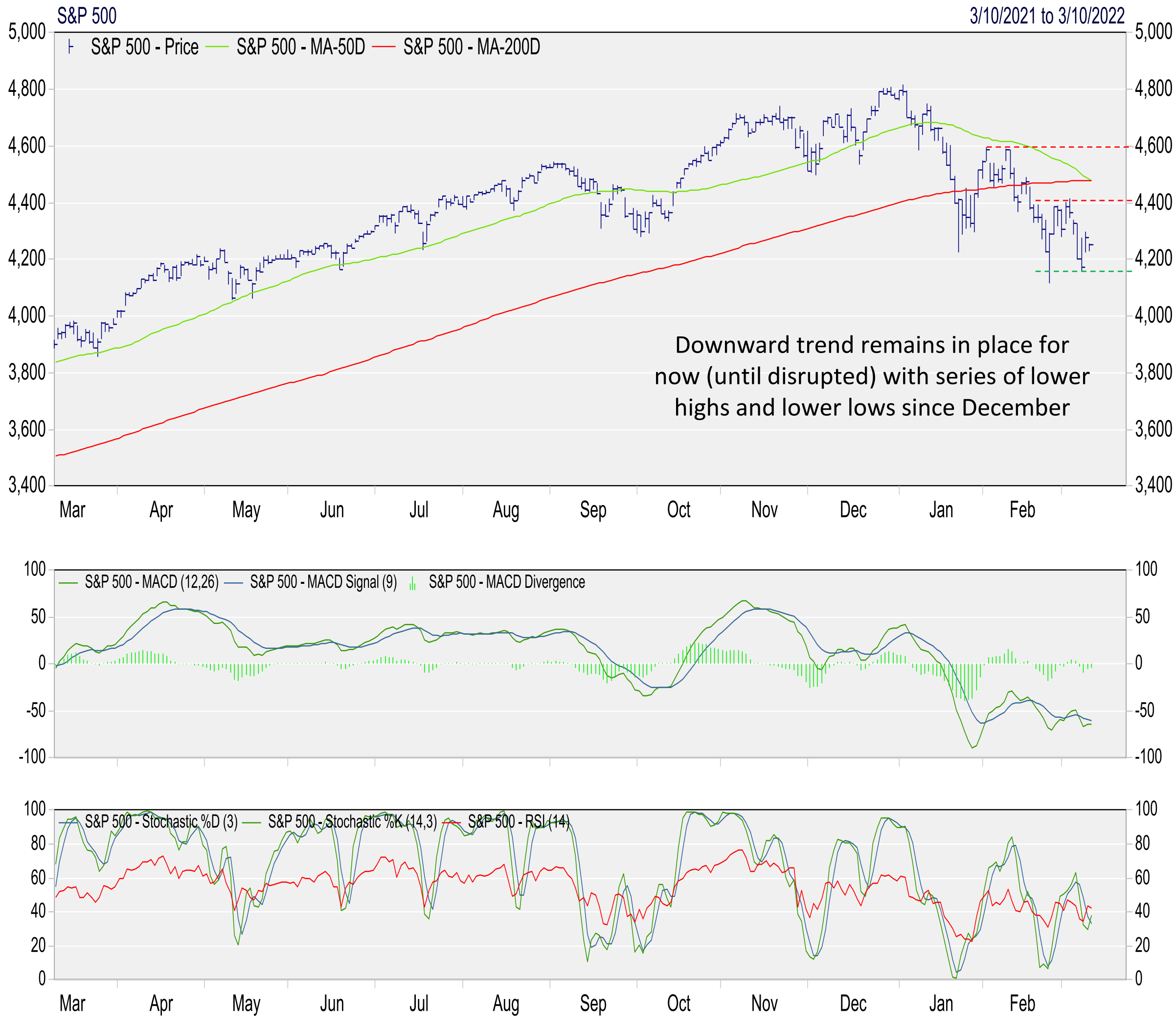
New S&P 500 estimates and targets

	Year End 2022 Price Target		
	EPS Estimate	P/E	Price
Upside	235	21.0	4935
Base Case	225	21.0	4725
Downside	215	19.5	4193



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 remains in a downtrend with the series of lower highs and lower lows since January still in place. In assessing the potential for a market bottom, we are watching for price reversals and then follow-through. We have seen price reversals from weakness over the past two months, but have yet to penetrate obvious resistance levels on the rallies.

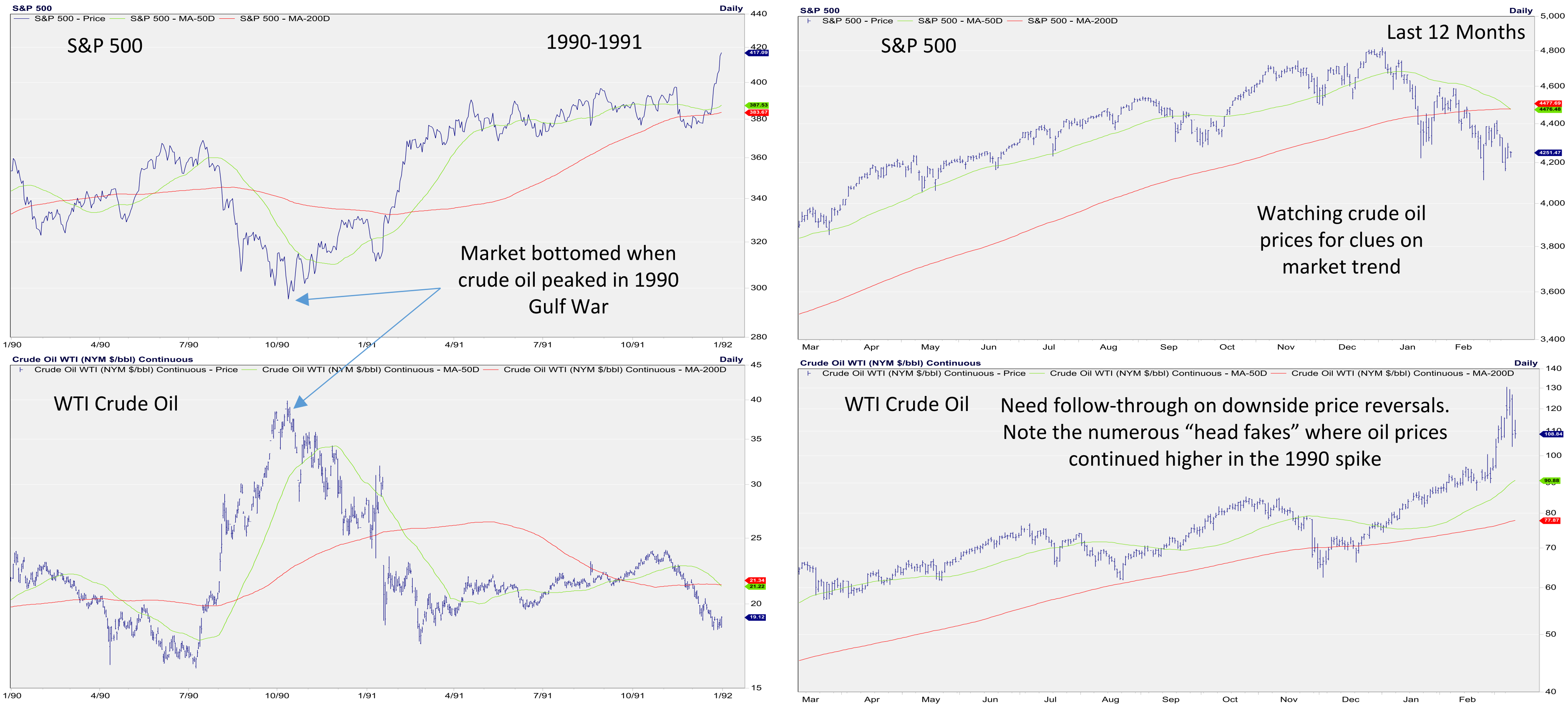
After posting a new closing low on Tuesday, the S&P 500 had a good *thrust day* on Wednesday with the S&P 500 +2.6%, Nasdaq +3.6%, and Russell 2000 +2.7% (though internals were not as strong). This is a positive step, but we now need to see follow-through. We would like to see the S&P 500 take out the 4363-4400 resistance level and then eventually get through the 4600 level.

Also if there is a Russia/Ukraine ceasefire soon, we do not believe the market simply surges back to new highs because the focus will shift back to the Fed and inflation. Despite our belief that equities gain over the next 12 months, we expect choppy markets until more clarity is received on the obvious headwinds of inflation, Fed's rate hike cycle, and Russia/Ukraine war.

On the flip side, if we reverse lower, the S&P 500 is likely headed for the 4000-4100 area next, which is between the 23.6% and 38.2% Fibonacci retracement levels of the March 2020 to January 2022 market ascent. The S&P 500 would trade at ~19x P/E at the low end of this range (~10% below the 5-year average P/E).

OIL AS A GUIDE?

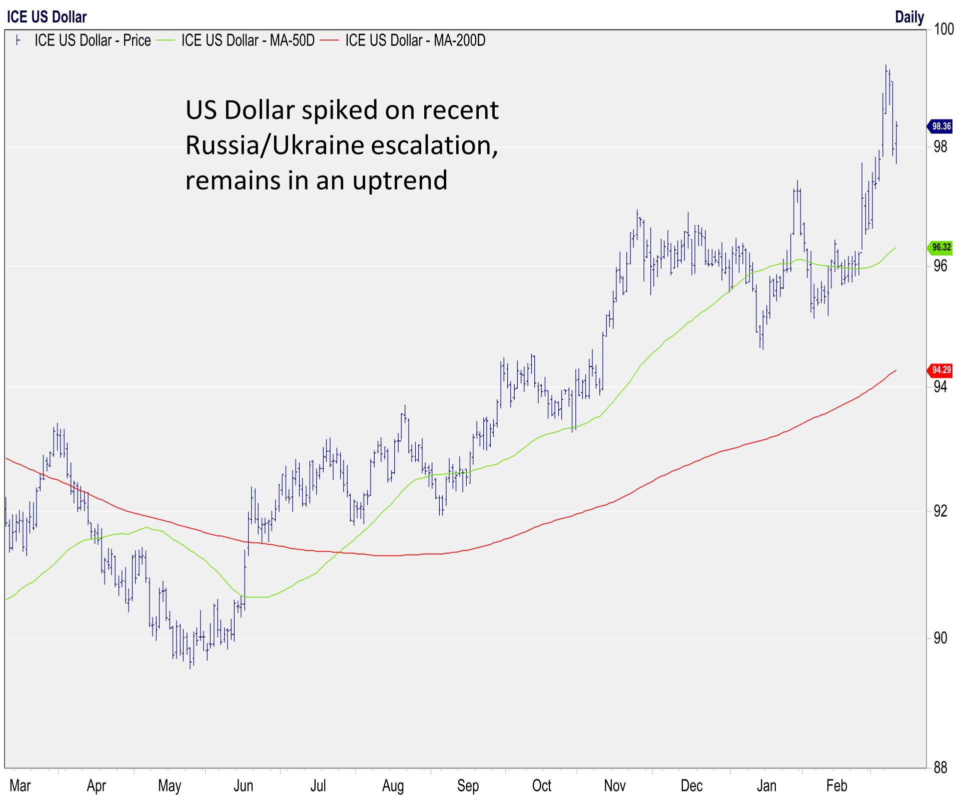
Uncertainty remains high regarding the Russia/Ukraine war, but the result of higher commodity prices (such as crude oil) is heightened investor concern over the impact on inflation and consumer spending. So, the price of oil may act as an indicator for the market's trend- with the thought that lower or more stable commodity prices (when/if it occurs) may reduce economic concerns and, in turn, allow equities to stabilize/recover. This was the case in the 1990 Gulf War (and recession) in which the market bottom came in conjunction with a peak in the oil price spike. After reaching extreme levels, WTI crude oil pulled back yesterday- a step in the right direction, but follow-through is needed next technically (one day does not make a trend) with obvious influences (in either direction) coming from the path of the Russia/Ukraine war ahead. Nonetheless, we will be closely monitoring price action of crude oil as a potential indicator for the equity market.

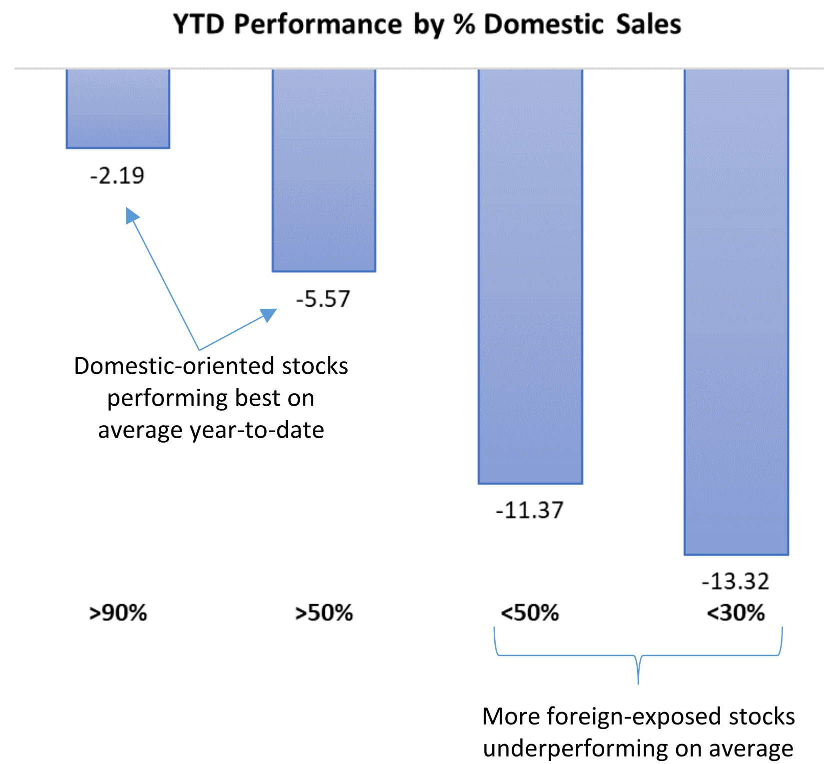


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US DOLLAR

The US dollar has strengthened sharply of late through global volatility and the Russia/Ukraine war- playing a large part on relative performance of S&P 500 stocks to begin the year. For example, S&P 500 companies with over 90% of revenues coming from the US are down just -2.2% on average, while those with less than 30% of US revenues are down -13.3% on average. There are plenty of moving parts on the actual effects to corporate earnings; but intuitively, the higher conversion rate (from a higher US dollar) for revenues coming back to the US from overseas results in lower earnings (all else equal). So while domestic vs. foreign revenue exposure should not be the most important variable considered for long-term investors, it is something to at least keep in mind when stock-picking in this environment. Additionally, the degree and duration of the Russia/Ukraine war remain very large unknowns- and the path of the war moving forward will remain a key influence on currency movements.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

NON-RECESSIONARY BEAR MARKET HYPOTHETICAL

If the S&P 500 is heading for a bear market (already halfway there), we believe it would be non-recessionary. During non-recessionary bear markets, valuation multiples contract an average of -31% (max has been 38%) while earnings are still able to grow. Our updated fundamental projections lead to $225 S&P 500 earnings in 2022 (or 9% growth y/y) as economic growth slows but remains positive.

In order to produce an expectation of where the S&P 500 could trade to in a bear market scenario, we use the historic metrics shown on the bottom of the chart to the right. Applying the 31% average P/E contraction, the S&P 500 would trade at 19.3x (vs 20.5x now). Applying the 38% max P/E contraction seen in the 1976-1978 bear market, the P/E would contract to 17.4x. Then, using a bear market duration of 3-7 months (3 being the quickest, 7 being the average), we use an earnings estimate of $210 and $217 (as earnings grow toward our year-end $225 estimate).

Using this max multiple contraction and applying these earnings estimates results in a potential price level of 3650-3750 (or 22-24% market pullback from the January highs). **This should be viewed as a potential downside scenario.** And if it were to occur, valuation at these levels would become very attractive, particularly relative to bond yields- increasing the value proposition for returns on the other side. We also remind investors that non-recessionary bear markets can V-bottom with sharp plunges but also very quick recoveries. **On average, non-recessionary bear markets have moved back to prior highs in 10 months.**

Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Jul-57	Oct-57	3	-20%	12	-16%	-23%
Jan-60	Oct-60	10	-18%	6	-9%	-15%
Dec-68	May-70	17	-36%	31	-24%	-18%
Jan-73	Oct-74	22	-48%	75	-60%	-22%
Feb-80	Apr-80	2	-21%	4	-12%	-8%
Feb-81	Aug-82	6	-24%	3	-18%	-26%
Jul-90	Oct-90	3	-21%	4	-15%	-37%
Mar-00	Oct-02	27	-49%	60	-39%	-24%
Oct-07	Mar-09	17	-59%	50	-37%	-52%
Feb-20	Mar-20	1	-34%	5	-33%	-13%
Average		***10.8***	***-33%***	***25***	***-26%***	***-24%***

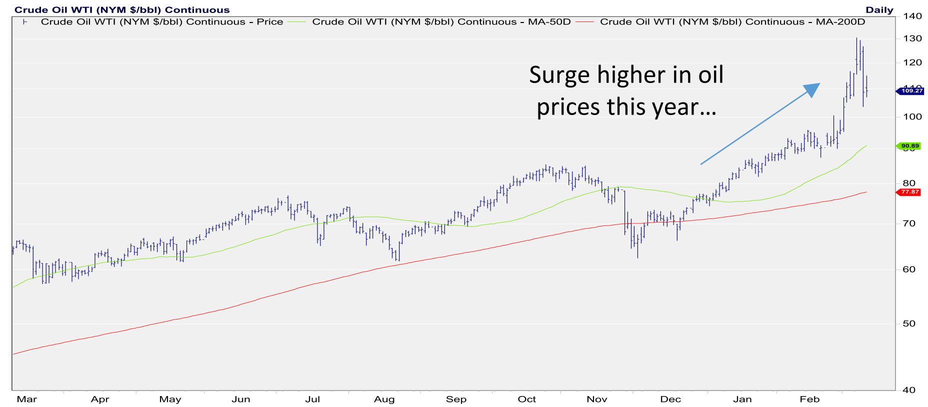
Non-Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Nov-61	Jun-62	7	-28%	15	-33%	4%
Feb-66	Oct-66	8	-22%	7	-31%	-6%
Sep-76	Mar-78	18	-19%	17	-38%	24%
Aug-87	Dec-87	4	-34%	21	-37%	-10%
Jul-98	Oct-98	3	-23%	1.75	-23%	-1%
Apr-11	Oct-11	6	-19%	4.5	-22%	-6%
Sep-18	Dec-18	3	-20%	5	-32%	5%
Average		***7.0***	***-24%***	***10.2***	***-31%***	***1%***

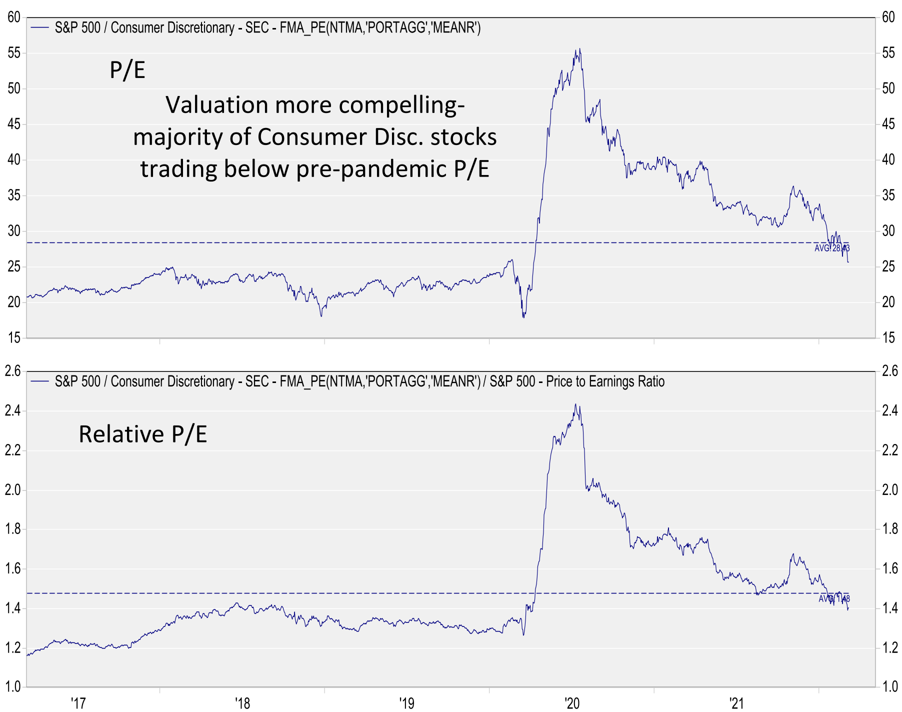
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

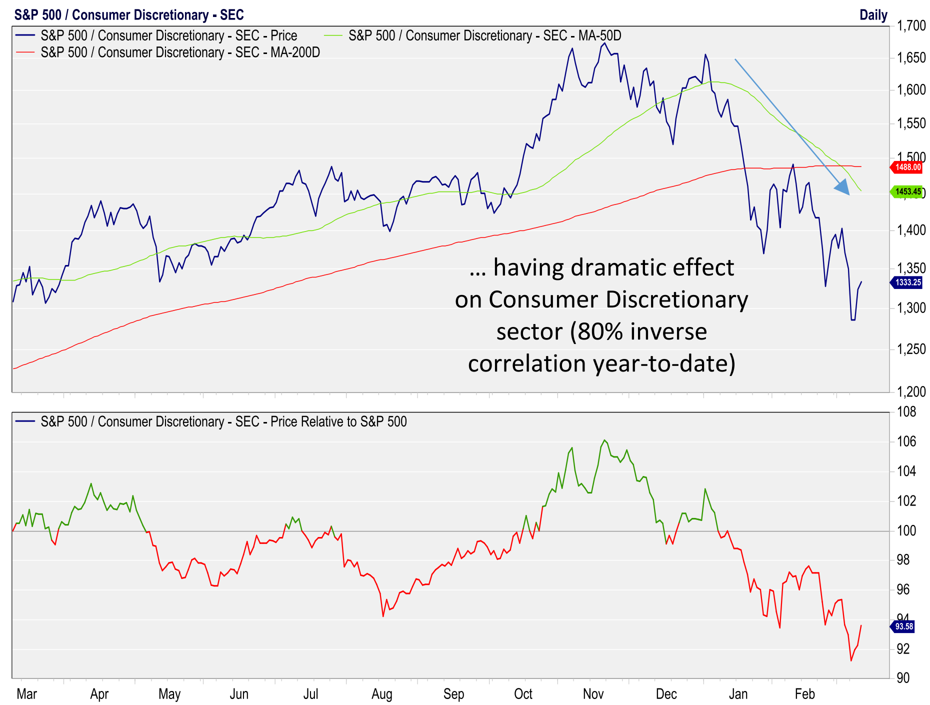
CONSUMER DISCRETIONARY

The Consumer Discretionary sector is in a bear market (down over 20% from its highs) with the surge higher in oil prices having a dramatic effect on performance year-to-date (80% inverse correlation). The downside has been excessive in the short-term, and we expect any reprieve in oil prices to give the beaten-up sector a boost. But it is also unlikely for geopolitical tensions to be completely removed overnight, and consumer discretionary companies will still have to navigate a tough environment with inflation, labor, and growth uncertainty. We do see some value in quality stocks, but recommend using partial positions if looking to accumulate favored stocks.



S&P 500 / Consumer Discretionary - SEC (SP285-SPX) : 03/09/2017 to 03/09/2022 (Daily)

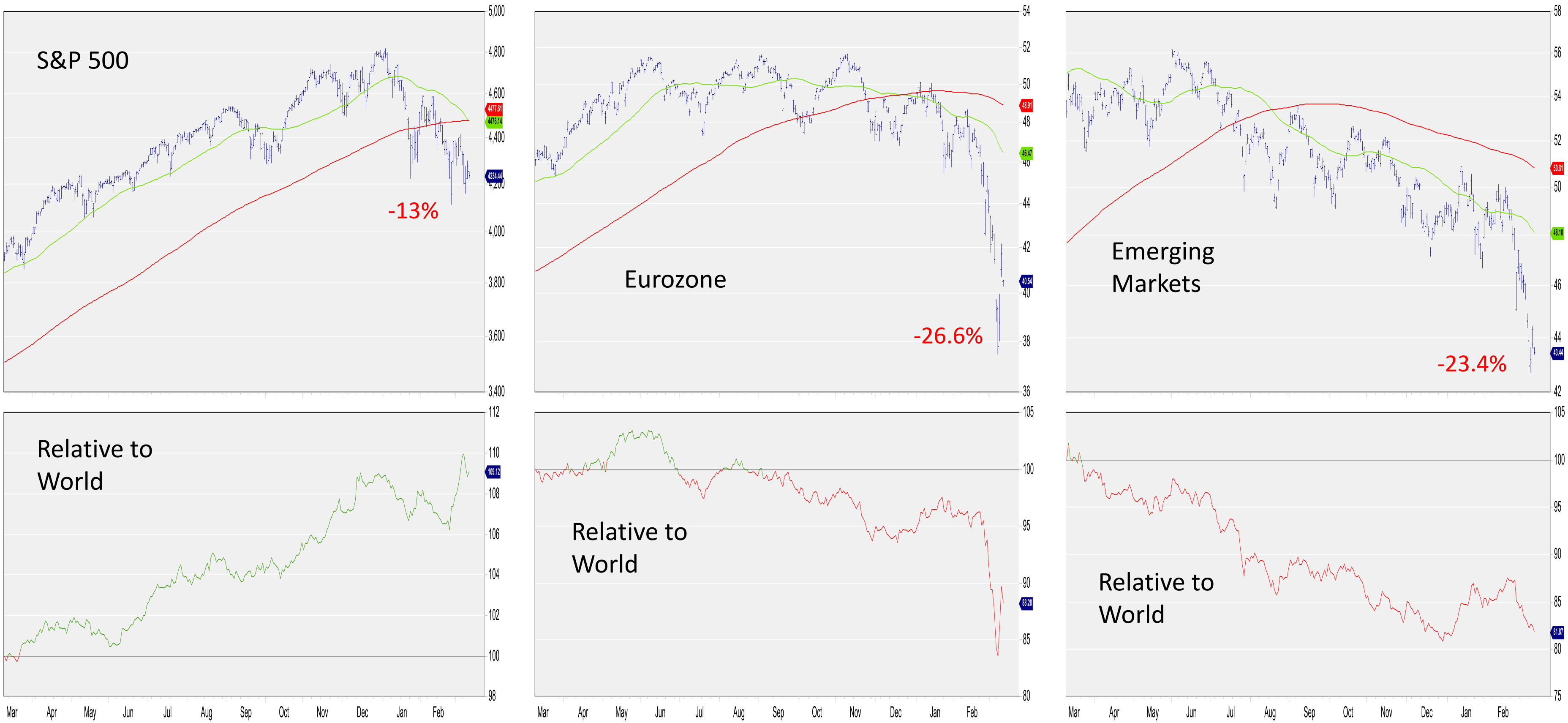




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GLOBAL EQUITIES

Global equities are broadly weak, but we note the S&P 500 has held up relatively well through the volatility (which we expect) due to its relatively more stable and strong economy and capital markets. The Eurozone has entered a bear market, down 26% from its highs, and is less insulated from the Russia/Ukraine war's implications on commodities and economic growth. Additionally, the Emerging Markets have not (yet) put in a new relative low vs. the World this year, though the ongoing (12-month long) downtrend remains in place. The appreciating US dollar is a headwind for relative performance in our view. All in all, we continue to recommend an overweight allocation to US equities vs. the World as the current geopolitical tensions play out.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4502760)

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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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