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MAY 5, 2022 | 5:13 PM EDT

Weekly Market Guide

Short-Term Summary:

Market uncertainty remains elevated, and reflected in daily price action. After the best daily S&P 500 price change (2.99%) in almost two years yesterday, today's -3.6% decline was one of the worst.

The S&P 500 surged yesterday following the May FOMC announcement that contained an underlying more careful tone from Fed Chair Powell. Comments such as 75bp rate hikes are "not something the FOMC is actively considering" offered a mild shift from the increasingly hawkish verbiage exhibited since the year began. The 2-year Treasury yield and market-implied Fed funds rate by year-end both pulled back on the meeting, and 96% of S&P 500 stocks finished higher on the day. This came in part due to oversold conditions leading into the report. But despite the market surge, internals were not as impressive. The advancing vs. declining ratio hit a supportive 4.4:1 but is still below the ~7% "thrust" seen near V-bottoms historically.

So while yesterday's move was positive, it is far from an "all-clear" event, as reflected by today's lack of follow-through and heavy selling pressure. Today's response indicates further challenges technically, and a new low will raise the odds of a S&P 500 downtrend (as opposed to sideways trend). On the flip side, an ability to hold the lows and rally that takes out some resistance levels (even if it fails at ~4600 horizontal resistance) will favor the sideways grind continuing. Technical resistance resides at ~4310 (where S&P 500 finished yesterday), followed by 4373 (50 DMA) and 4490 (200 DMA); while technical support should be monitored at 4061 and 3980. With this in mind, we believe investors should focus on high quality names and be selective with purchases- using the down-drafts as opportunity to accumulate with a long-term perspective.

Inflation and interest rates remain highly influential to the market at their current levels. Additionally, the Russia/Ukraine war and China's zero-tolerance Covid policy remain big unknowns- both acting as net negatives to global growth and net increases to inflation, in turn further complicating the Fed's situation. We believe that inflation can move in the right direction over the course of the year and bond yields stall their sharp ascent higher; but uncertainty is elevated and the path of improvement is unlikely to be linear. Moreover, inflationary pressures are hitting S&P earnings in aggregate, making the inflationary trend ahead all-the-more paramount for equities. Sales growth (and demand) remains strong, but higher costs are taking a toll on margins- resulting in a recent downtick in S&P 500 earnings estimates. A moderation in inflation would not only be supportive of fundamentals, but also valuation in our view. And there are plenty of inflationary data points over the coming weeks that will remain influential to equity market trends in the short-term- i.e. April jobs report tomorrow, NFIB Small Business survey next Tuesday, April CPI Wednesday, and April PPI Thursday.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-6.3%	-0.2%
S&P 500	-9.8%	3.3%
S&P 500 (Equal-Weight)	-5.9%	2.8%
NASDAQ Composite	-17.1%	-4.9%
Russell 2000	-13.2%	-13.3%
MSCI All-Cap World	-11.6%	-4.4%
MSCI Developed Markets	-14.2%	-11.1%
MSCI Emerging Markets	-13.7%	-20.3%
NYSE Alerian MLP	22.9%	23.5%
MSCI U.S. REIT	-9.5%	8.7%

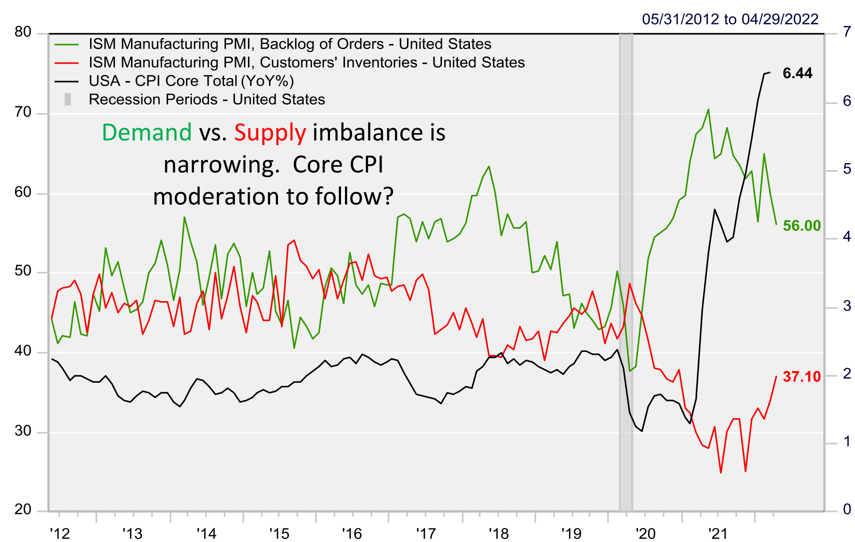
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	47.0%	4.4%
Consumer Staples	1.3%	6.6%
Utilities	1.0%	2.8%
Materials	-2.5%	2.8%
Health Care	-5.9%	13.9%
Industrials	-6.7%	7.8%
Financials	-7.9%	11.0%
S&P 500	***-9.8%***	-
Real Estate	-10.5%	2.8%
Information Technology	-14.6%	27.7%
Consumer Discretionary	-17.9%	11.4%
Communication Svcs.	-21.0%	8.9%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Fed Chair Powell offered a more careful tone to Fed hikes at yesterday's May FOMC meeting, a mild shift from the increasingly hawkish verbiage exhibited this year. He lowered expectations of 75bp hikes, noting it is "not something the FOMC is actively considering." This should provide a bit more clarity for market participants that 50bp rate hikes are likely at the next two meetings- bringing the Fed funds rate to ~1.87% by the end of July. The Fed also released details on its balance sheet reduction plan- beginning in June with a ramp up to $95B monthly runoff. The path of inflation ahead will be the ultimate driver of Fed rate hikes, particularly in the back half of the year. The Fed noted some evidence that core PCE is at a peak but also that it remains high and that we need to see it move lower. This is our view as well- we are cautiously optimistic that inflation can begin to moderate; but until it does, the risk of Fed overtightening to get it under control, remains elevated. There are plenty of inflationary data points over the coming weeks that will remain influential to equity market trends- i.e. April jobs report tomorrow, NFIB Small Business survey next Tuesday, April CPI Wednesday, and April PPI Thursday.

Event	Period	Actual	Consensus	Prior
ECI Civilian Workers SA Q/Q	Q1	1.4%	1.1%	1.0%
ECI Civilian Workers SA Y/Y	Q1	4.5%	4.3%	4.0%
Core PCE Deflator M/M	MAR	0.29%	0.30%	0.29%
Core PCE Deflator Y/Y	MAR	5.2%	5.3%	5.3%
Personal Consumption Expenditure SA M/M	MAR	1.1%	0.30%	0.60%
Personal Income SA M/M	MAR	0.50%	0.40%	0.70%
Markit PMI Manufacturing SA (Final)	APR	59.2	59.7	59.7
Construction Spending SA M/M	MAR	0.10%	0.70%	0.55%
ISM Manufacturing SA	APR	55.4	57.6	57.1
Durable Orders ex-Transportation SA M/M (Final)	MAR	1.4%	1.1%	1.1%
Durable Orders SA M/M (Final)	MAR	1.1%	0.80%	0.80%
Factory Orders SA M/M	MAR	2.2%	1.1%	0.10%
JOLTS Job Openings	MAR	11,549K	11,296K	11,344K
ADP Employment Survey SA	APR	247.0K	400.0K	478.7K
Trade Balance SA	MAR	-$109.8B	-$106.8B	-$89.8B
PMI Composite SA (Final)	APR	56.0	55.1	55.1
Markit PMI Services SA (Final)	APR	55.6	54.7	54.7
ISM Non Manufacturing SA	APR	57.1	58.5	58.3
Initial Claims SA	04/30	200.0K	180.0K	181.0K
Unit Labor Costs SAAR Q/Q (Preliminary)	Q1	11.6%	8.0%	1.0%
Productivity SAAR Q/Q (Preliminary)	Q1	-7.5%	-1.8%	6.3%



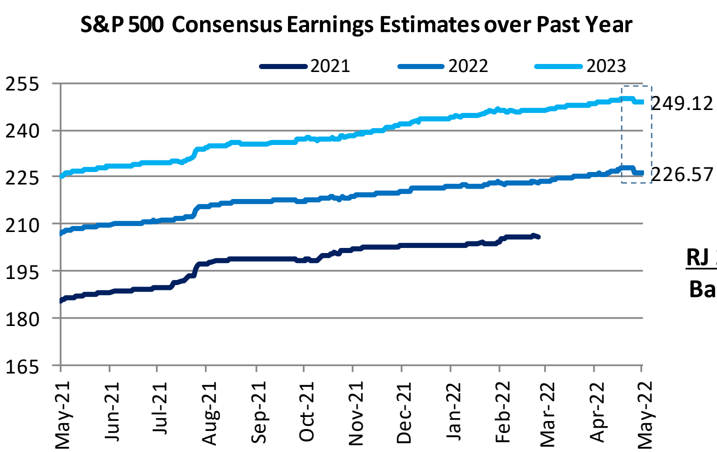
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

The bulk of Q1 earnings season is over with 77% of the S&P 500 market cap having reported. 80% of companies are beating by an aggregate 4.5%. While this level of upside is healthy, it does continue the moderation in rate of earnings surprises over recent quarters toward historic norms.

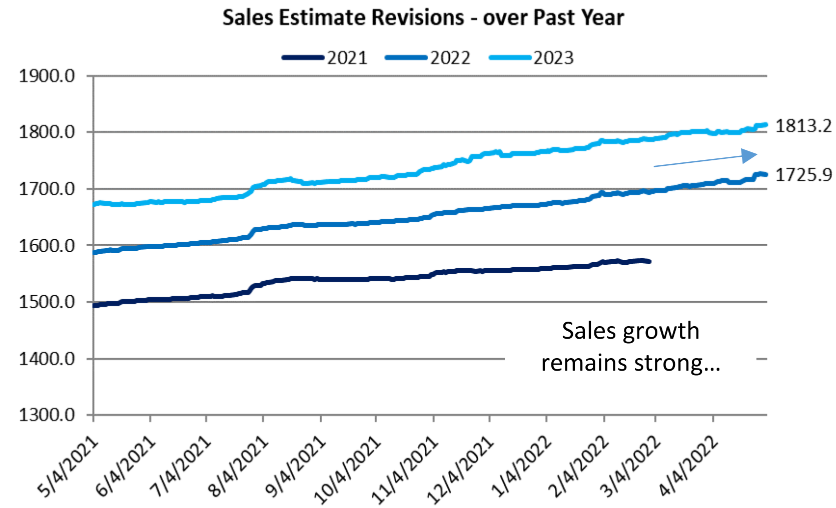
Within the recent results, forward earnings estimates are being revised lower. Sales trends remain strong, however high costs are taking a toll on margins. 62% of S&P 500 companies have seen their 2022 operating margin estimates revised lower since the year began- by an average of -3.2%. The hardest hit areas (in terms of margin reduction) have been Comm. Services, Consumer Discretionary, Utilities, Industrials, and Consumer Staples. On the flip side, Energy has seen the best margin revisions (in a big way) followed by Materials; and Tech margins have been stable/supportive.

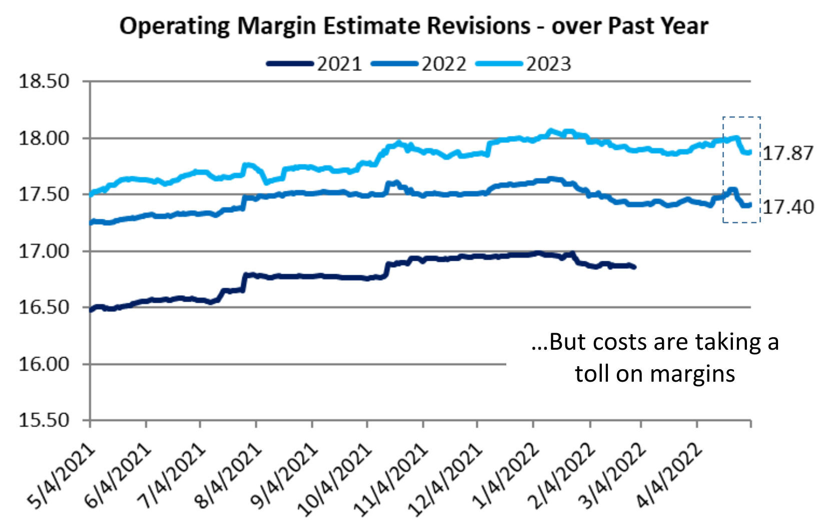
With inflationary pressures hitting S&P earnings estimates, the path of inflation ahead is all-the-more paramount for equities. We maintain our base case earnings estimate of $225 for 2022 and believe a moderation in inflation would be supportive of not only fundamentals, but also valuation.



EPS Growth Estimates	
2021	50.2%
2022	9.8%
2023	10.0%

RJ 2022 Earnings Est.:
Base Case: 225 (+9%)
Bull Case: 235
Bear Case: 215

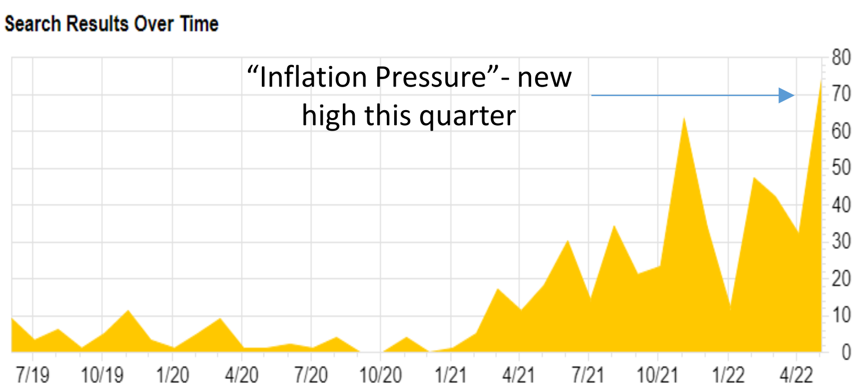


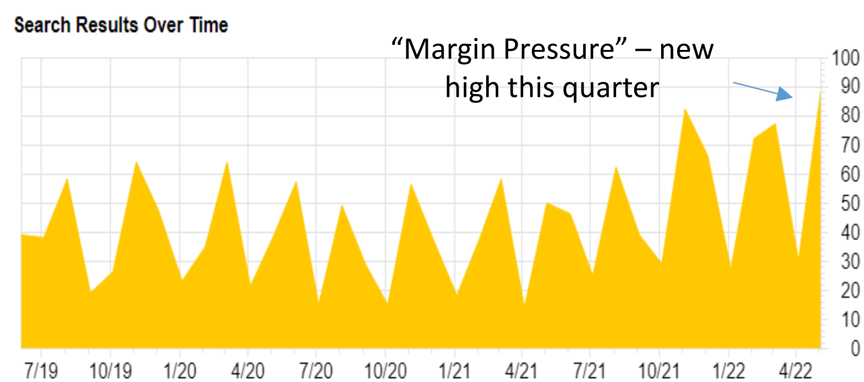


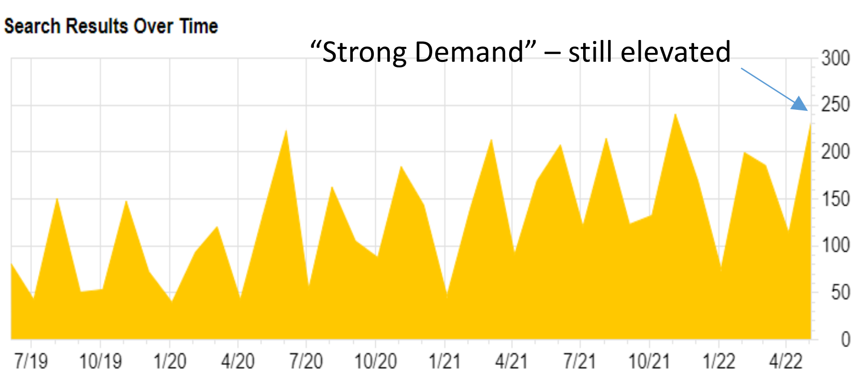
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

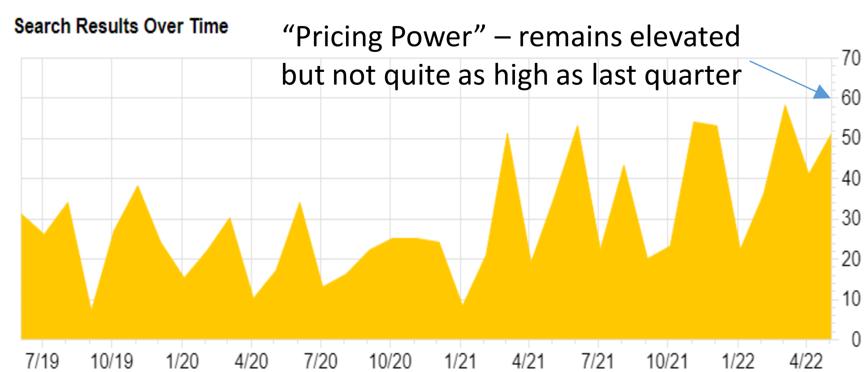
Q1 EARNINGS TRANSCRIPTS

The view of inflationary pressures becoming an ever-increasing problem for corporations is supported by Q1 earnings transcripts. Mentions of "inflation pressure" moved to new highs this quarter, along with "margin pressure." Positively, mentions of "pricing power" and "strong demand" both remain elevated, indicating the problem is not sales growth. However, supply and cost pressures are a headwind to S&P margins and earnings the longer they persist. The Russia/Ukraine war, along with China Covid shutdowns, remain big unknowns and influential on inflation ahead. We are cautiously optimistic that inflationary pressures can moderate over the course of the year, in turn easing pressure on the Fed and supporting equities. But this has not happened yet, contributing to market uncertainty and volatility in the short-term.



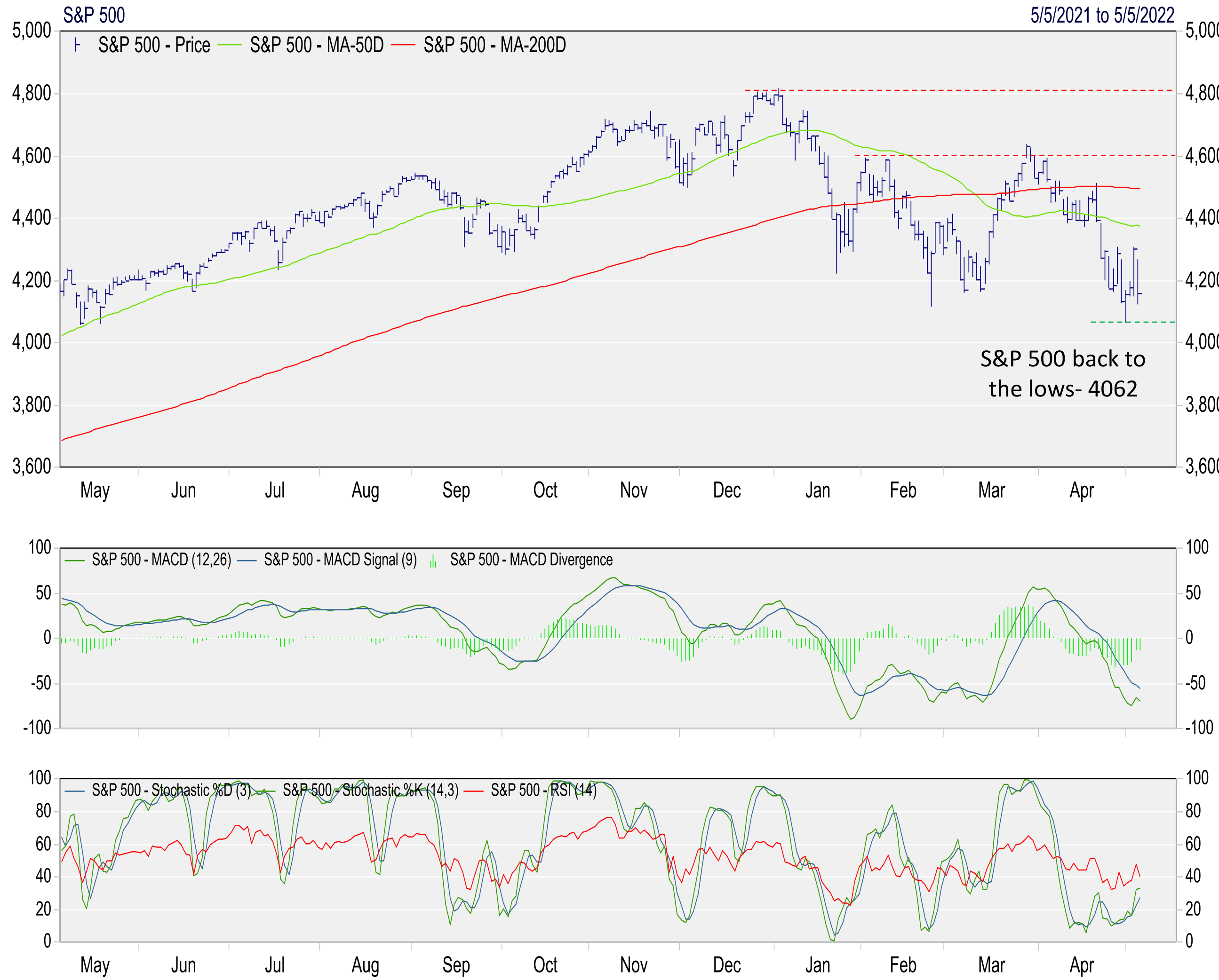






Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Market uncertainty continues to be reflected in the chart. After the best daily price change (2.99%) in almost two years yesterday, today's -3.6% decline is the worst in almost two years.

The next phase questions to answer: Does the S&P 500 continue a back-and-forth sideways (i.e. early-to-mid 2018) pattern while the market waits for more information regarding inflation, war, slowing macro, etc. or does the index breakdown (late 2018) and approach a bear market?

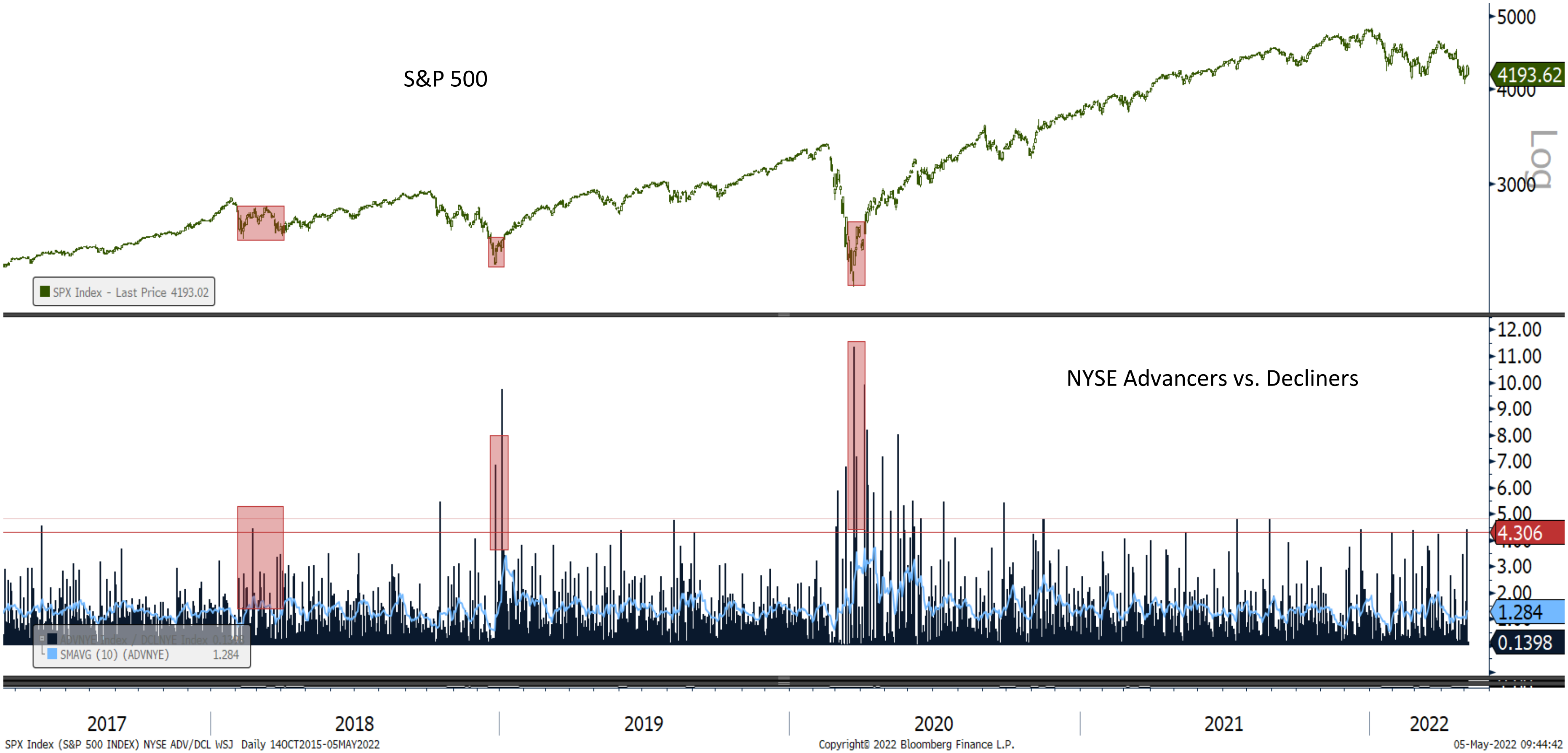
Today's lack of follow-through on yesterday's gain indicates further challenges technically and a new low will raise the odds of a S&P 500 downtrend (as opposed to sideways trend).

On the flip side, an ability to hold the lows and rally that takes out some resistance levels (even if it fails at ~4600 horizontal resistance) will favor the sideways grind continuing.

Technical resistance resides at ~4310 (where S&P 500 finished yesterday), followed by 4373 (50 DMA) and 4490 (200 DMA); while technical support should be monitored at 4061 and 3980.

ADVANCERS VS. DECLINERS

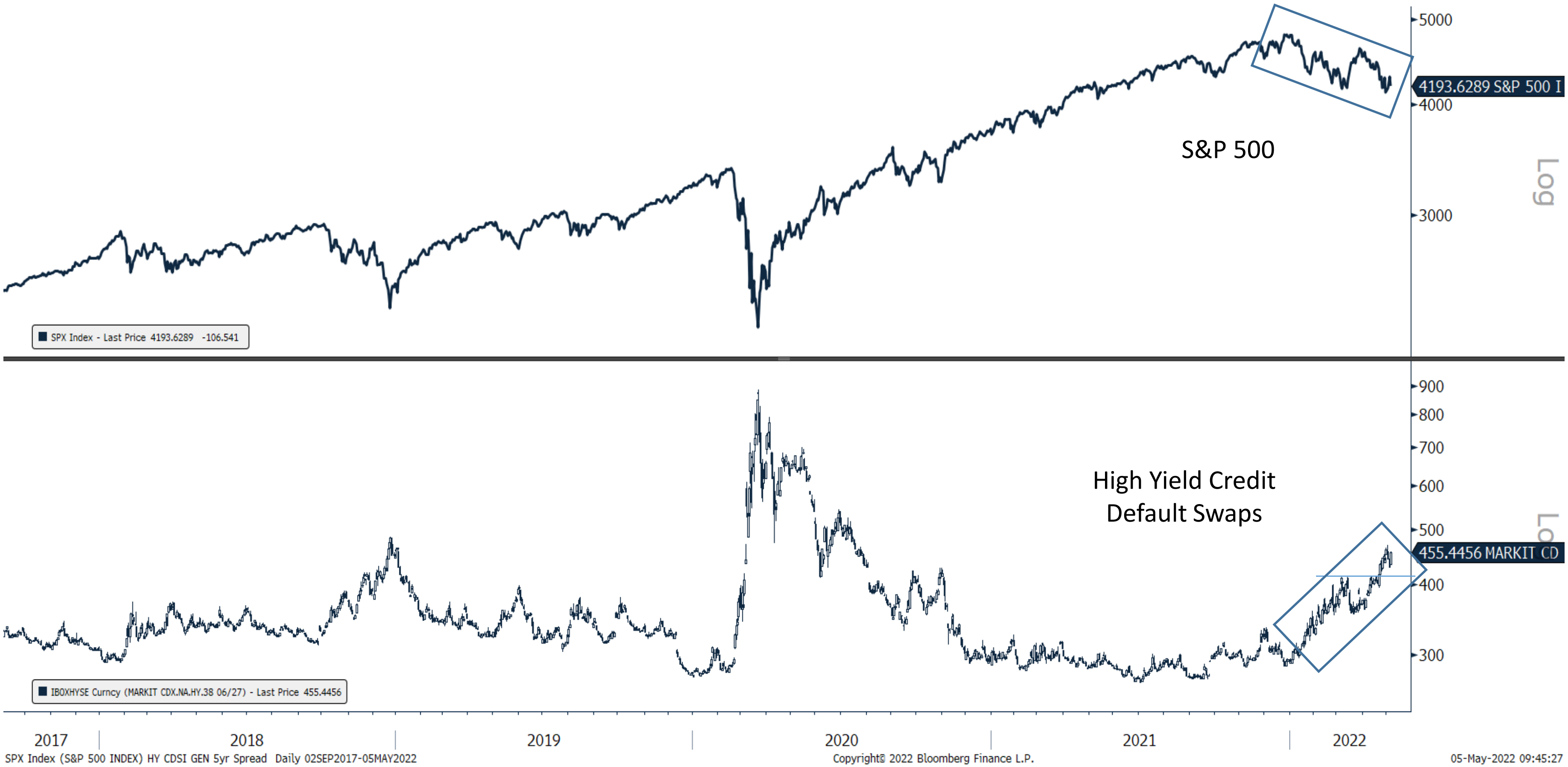
We have been waiting to see a "thrust" in the number of advancers vs. decliners for increased conviction that the lows have been seen. It does not necessarily have to happen, but would be ideal to see extremely broad participation in strong daily advances. Yesterday's 4.4:1 advancers vs. decliners was positive in that regard but still well below the ~7:1 level seen out of V-bottoms historically. This, along with today's extreme weakness (and lack of follow-through), continues to indicate challenges technically for the short-term.



Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

HIGH YIELD CDS

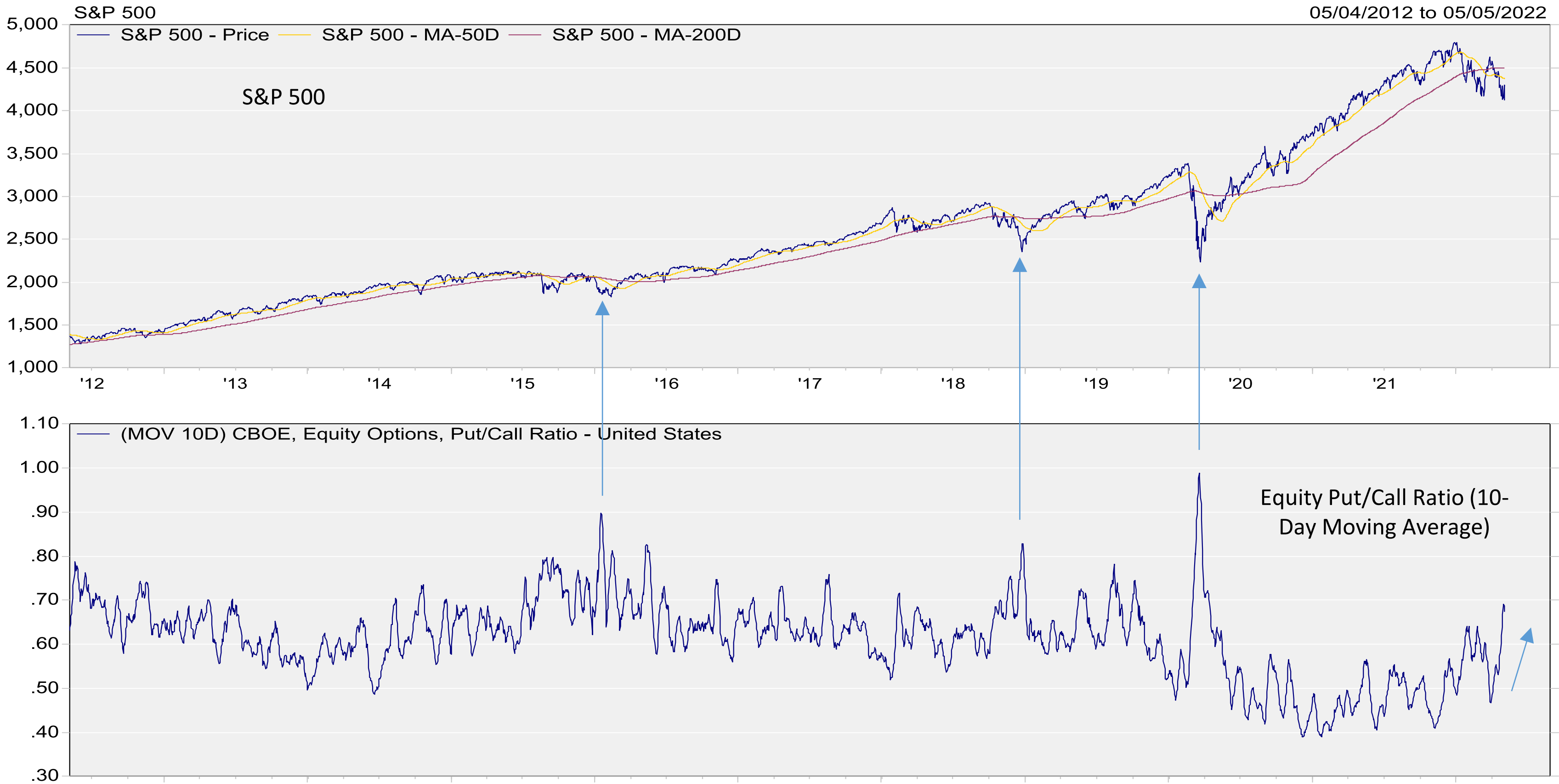
We are also watching the trend in High Yield Credit Default Swaps (HY CDS), which has been inversely correlated to the S&P 500. For example, the HY CDS breakout on 4/22 preceded the S&P 500 drop to new lows recently. There was some improvement yesterday for HY CDS, but that is being reversed today. On a positive note, it has not pushed to new highs today. What we would like to see is this trend stabilize or decline, which would be viewed as supportive technically in our view.



Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

EQUITY PUT/CALL RATIO

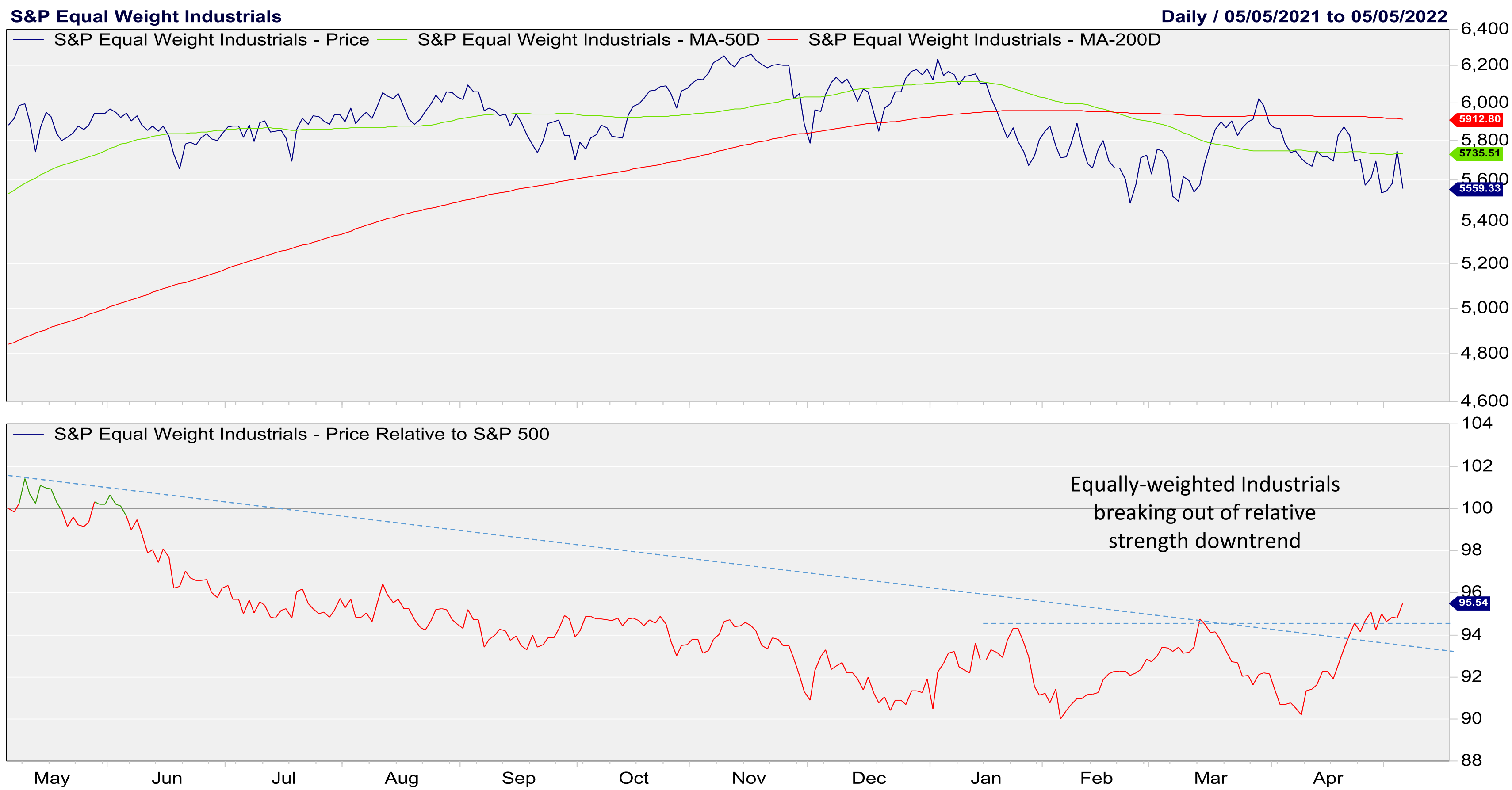
The equity put/call ratio is a "fear gauge," often used as a contrarian indicator for investor sentiment near market bottoms. The equity put/call ratio typically spikes to very elevated levels at capitulation/exhaustive market selloffs. The 10-day moving average of the equity put/call ratio is rising, but not quite to levels consistent with durable market lows historically. We believe that time or price is still needed before the current market drawdown has run its course. That said, stocks are oversold enough for a short-term bounce at current levels. Investors should focus on high quality names and be selective with purchases- using the down-drafts (like today) as opportunity to accumulate.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INDUSTRIALS

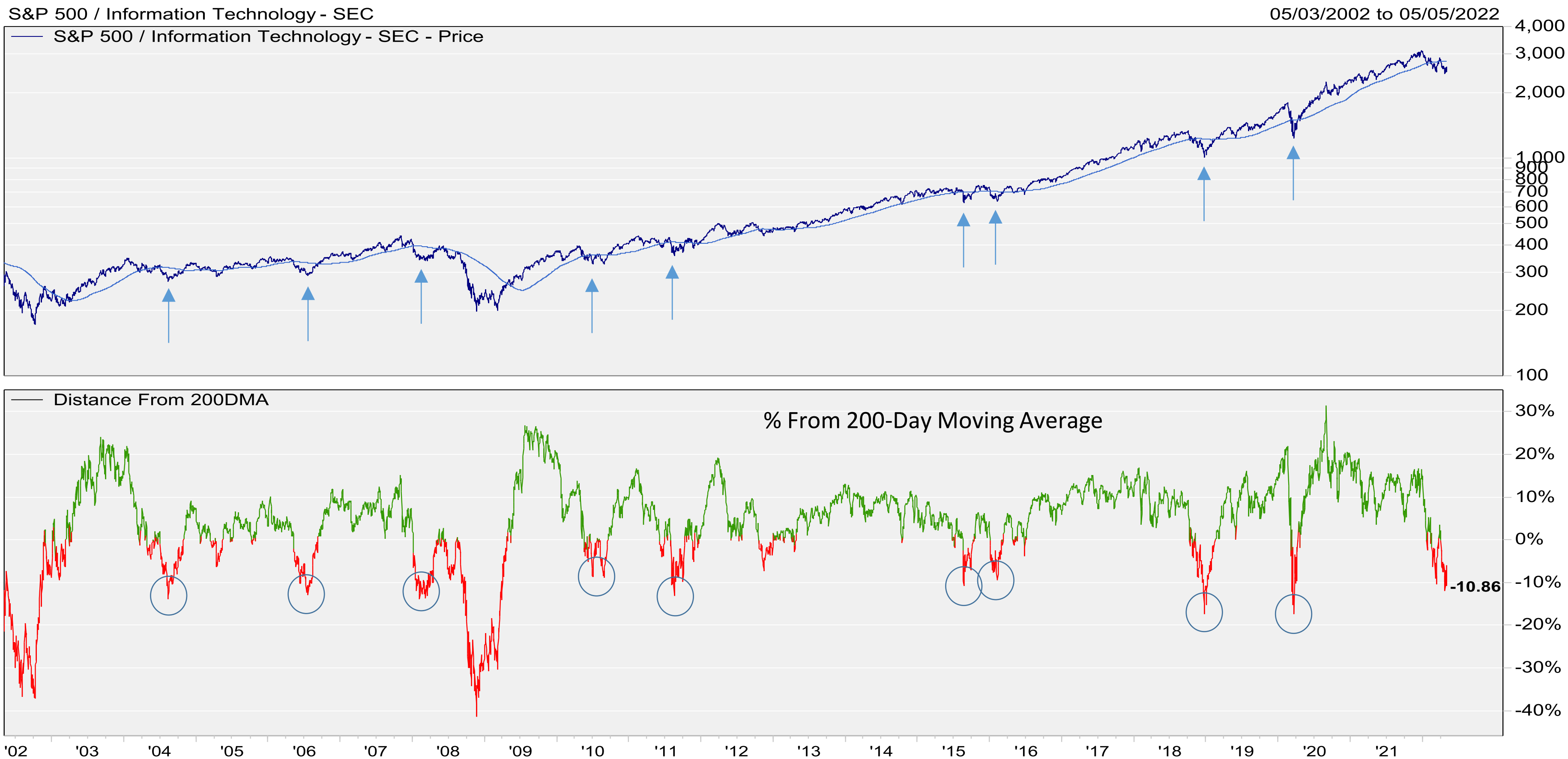
The equally-weighted Industrials sector is breaking out of a relative strength downtrend- a positive divergence through the recent market downdraft. We would like to see follow-through in price trends, but would use the pullback as opportunity to accumulate favored names in the space. Positive reads on demand and pricing power from areas such as the airlines and rails in Q1 earnings season are encouraging, as is newfound interest in the aerospace & defense subsector (largest Industrials weighting). We maintain an Overweight recommendation for portfolio allocations.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

The Technology sector has borne the brunt of the market weakness, as sharply higher interest rates continue to weigh on higher-valuation stocks. While this remains a headwind and the sector is breaking down technically, fundamentals remain fairly strong. Additionally, the sector is now 11% below its 200-day moving average, which has been in the realm of short-term lows historically (ex-dotcom bubble and credit crisis). We maintain an Equal-Weight recommendation, but would use the pullback as opportunity to accumulate favored, high-quality names with a long-term perspective.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4729522)

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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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