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

MAY 12, 2022 | 3:42 PM EDT

Weekly Market Guide

Short-Term Summary:

The S&P 500 is now down 19% from its highs, approaching the 20% "bear market" threshold, as high inflation continues to weigh on equities. In fact, the average S&P 500 stock is already in a bear market (24% off its highs), as is the Nasdaq Composite (-29% from highs) and the Small Cap index (-22% from highs). The S&P 500 is oversold enough for a short-term bounce but there is much to repair technically. And though the selloff feels extreme, we have not seen a capitulation in several technical indicators that would be consistent with durable lows historically. That said, the majority of stocks are trading at compelling valuation levels (i.e. prices have contracted signficantly despite strong earnings growth). While we expect market trends to remain challenged until more clarity is gained on inflation (given its elevated risks) and that equities may see further weakness, we would use the current down-draft as an opportunity to selectively accumulate favored stocks for the long-term.

High inflation remains the issue, and the ongoing Russia/Ukraine war along with China Covid lockdowns are the latest bouts of uncertainty impacting the potential timeline of inflation improvement. April core CPI was able to decline to 6.0% y/y from 6.2%, however the higher m/m increase of 0.6% m/m was disappointing- indicating stronger inflationary pressures than hoped. The more elevated m/m inflation numbers we get, the harder it becomes for the y/y reading to get to a more comfortable level. This, in turn, puts further pressure on the Fed to raise rates aggressively in order to get inflation under control- potentially to the point of economic contraction if necessary. We believe that inflation has likely peaked on a y/y basis, contributed in part by favorable base effects (as the calendar begins to lap last year's high numbers). In addition, we are encouraged by a narrowing supply/demand imbalance as inventories rise, along with an improving labor market that can ease wage pressures. However, the degree and duration of Russian escalation, along with China's zero-tolerance Covid policy, remain headwinds to the potential path of inflation improvement.

Inflation's path ahead will ultimately be the primary driver of equity markets in our view. The market has been in a "high inflation and accelerating" regime, in which valuation multiples historically see the most pressure on average. However, we believe this is transitioning into a "high inflation but decelerating" regime, where valuation can stabilize or expand. This is important, as the pullack this year has been completely valuation-driven with earnings remaining strong. In fact, there has been a strong correlation between multiple compression and higher interest rates this year. A lot will depend on how quickly inflation can moderate. If inflation really starts to improve, Fed pressure will ease, market expectations for hikes will come down, interest rates are likely to at least stall their sharp ascent, and equities can begin to rebuild for renewed upside.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-12.4%	-7.1%
S&P 500	-17.4%	-5.2%
S&P 500 (Equal-Weight)	-13.6%	-5.9%
NASDAQ Composite	-27.4%	-15.1%
Russell 2000	-23.5%	-22.1%
MSCI All-Cap World	-17.9%	-11.3%
MSCI Developed Markets	-17.0%	-15.3%
MSCI Emerging Markets	-17.9%	-23.9%
NYSE Alerian MLP	11.3%	9.0%
MSCI U.S. REIT	-18.6%	-1.1%

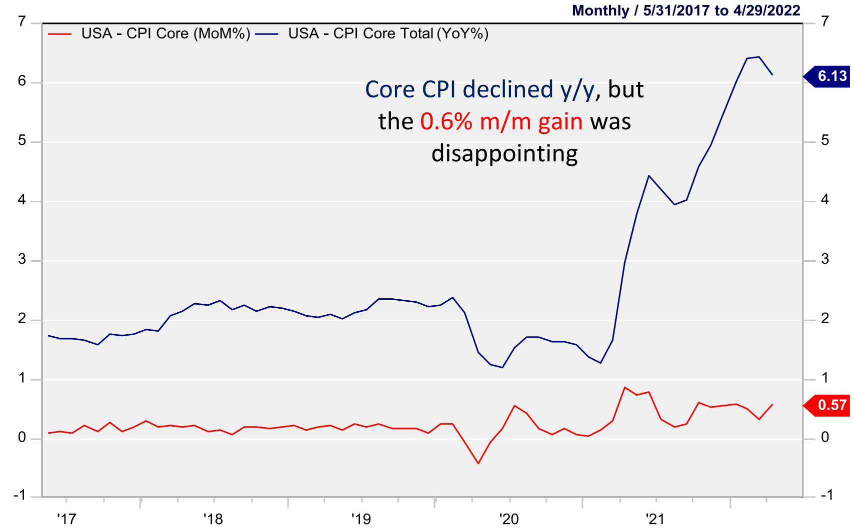
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	40.0%	4.5%
Utilities	-0.5%	3.0%
Consumer Staples	-1.7%	7.0%
Materials	-10.3%	2.8%
Health Care	-10.7%	14.4%
Industrials	-13.3%	7.9%
Financials	-15.0%	11.1%
S&P 500	***-17.4%***	-
Real Estate	-19.7%	2.7%
Information Technology	-24.0%	26.9%
Communication Svcs.	-27.5%	8.9%
Consumer Discretionary	-29.8%	10.7%

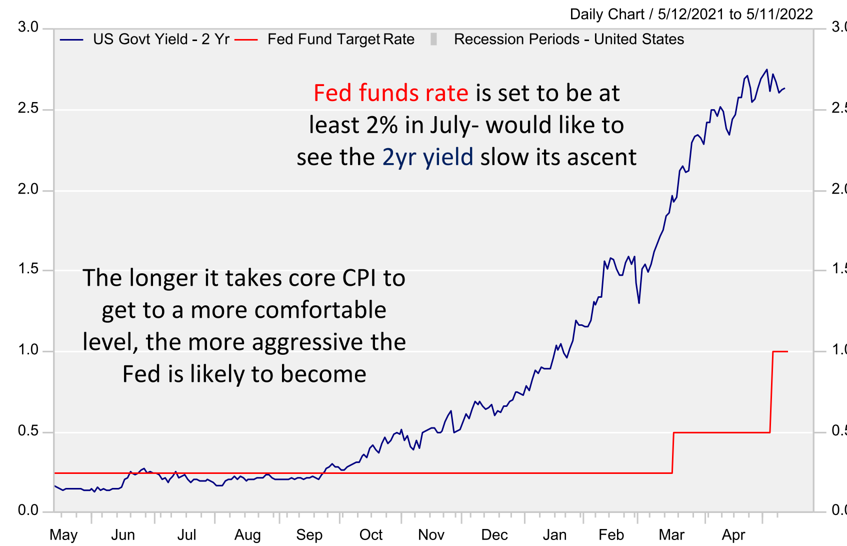
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Inflation, and its effects on Fed policy and interest rates, remains the largest influence on equity markets. April Core CPI was able to decline, and March was likely the y/y peak. However, the 0.6% m/m gain was disappointing and indicates continued inflationary pressures. The higher the m/m readings are moving forward, the harder it becomes for the y/y reading to improve to a level that the Fed would become more comfortable. This will ultimately be a large determinant on the path forward for equities. The market is pricing in 11 rate hikes this year (up from 3 when the year began), putting upward pressure on interest rates and weighing on valuation multiples. The 2yr yield is a good gauge on where the market expects the Fed funds rate to head; and we would like to see its sharp ascent slow down or stall out, as an indication that the market's inflation expectations are improving. For now, this has not occurred- remaining a market headwind. There are plenty of unknowns, in particular from China lockdowns and the Russia/Ukraine war. But if these pressures can improve over the coming months, inflation can begin to moderate at a quicker pace- easing pressure on the Fed and supporting equity markets.

Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	APR	428.0K	400.0K	428.0K
Unemployment Rate	APR	3.6%	3.6%	3.6%
Consumer Credit SA	MAR	$52.4B	$23.0B	$37.7B
Wholesale Inventories SA M/M (Final)	MAR	2.3%	2.3%	2.3%
NFIB Small Business Index	APR	93.2	-	93.2
CPI ex-Food & Energy SA M/M	APR	0.60%	0.40%	0.30%
CPI ex-Food & Energy NSA Y/Y	APR	6.2%	6.0%	6.5%
CPI SA M/M	APR	0.30%	0.20%	1.2%
CPI NSA Y/Y	APR	8.3%	8.1%	8.5%
Hourly Earnings SA M/M (Final)	APR	0.30%	-	0.30%
Hourly Earnings Y/Y (Final)	APR	5.5%	-	5.5%
Treasury Budget NSA	APR	$308.2B	$218.0B	-$192.6B
Continuing Jobless Claims SA	04/30	1,343K	1,390K	1,387K
Initial Claims SA	05/07	203.0K	200.0K	202.0K
PPI ex-Food & Energy SA M/M	APR	0.40%	0.60%	1.2%
PPI ex-Food & Energy NSA Y/Y	APR	8.8%	8.9%	9.6%
PPI SA M/M	APR	0.50%	0.50%	1.6%
PPI NSA Y/Y	APR	11.0%	10.7%	11.5%





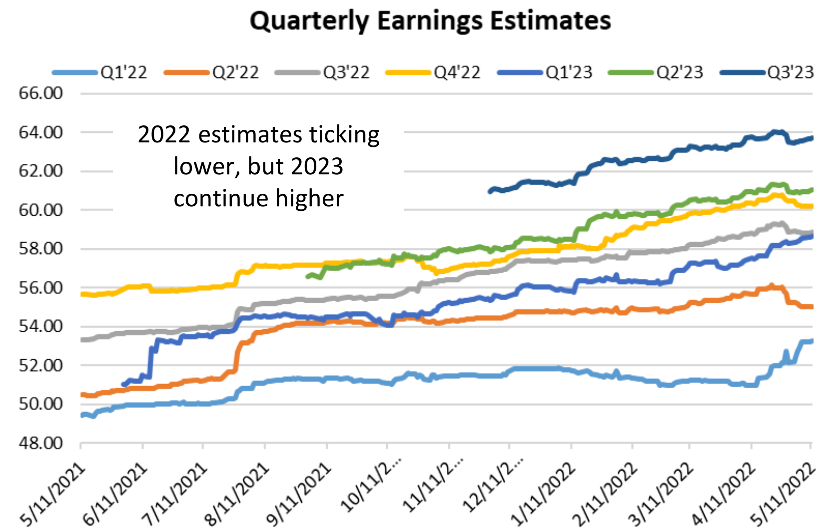
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

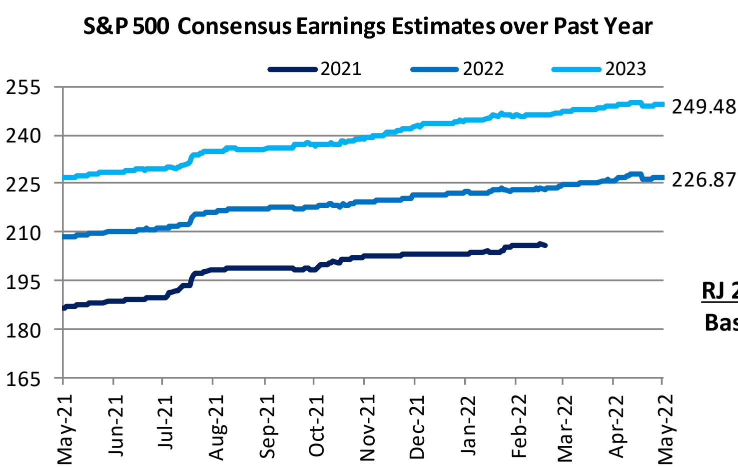
FUNDAMENTALS

Q1 earnings season is approaching an end, but there are a decent number of key reports in the next two weeks- primarily Consumer Discretionary companies and also a few Tech. It will be interesting to hear about more recent trends from them.

Overall, results have been solid and toward historic norms as expected. 78% of S&P 500 companies beat estimates by 5.2% (vs 69% and 5.3% 15-year averages). Q2-Q4 estimates have declined slightly over the past couple of weeks. However, the overall message from corporations is that of supply issues, but not demand. Sales growth and estimate revision trends remain strong, but margin estimates have ticked slightly lower. The longer these supply and inflationary pressures persist, the bigger issue it becomes for corporate fundamentals. 2023 earnings estimates have continued to get revised higher lately, due to expectations of the current inflationary pressures hopefully abating into next year.

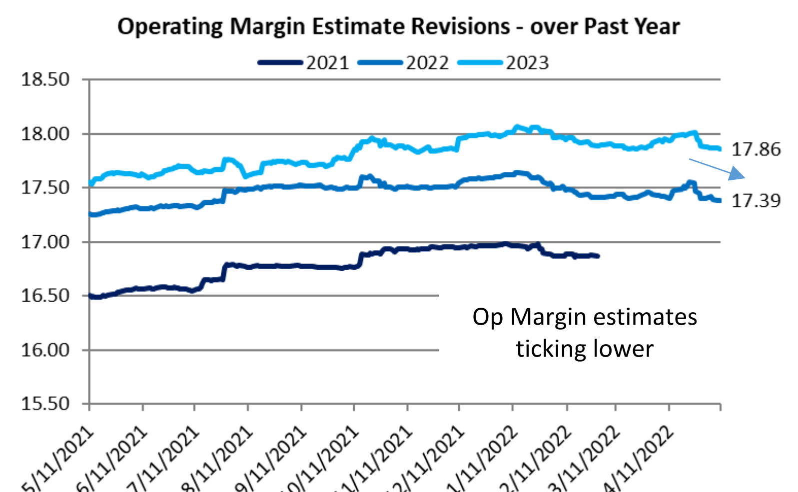
We maintain our base case earnings estimate of $225 for 2022 and believe a moderation in inflation would be supportive of not only fundamentals, but also valuation (continued on next page).





EPS Growth Estimates	
2021	50.2%
2022	10.1%
2023	10.0%

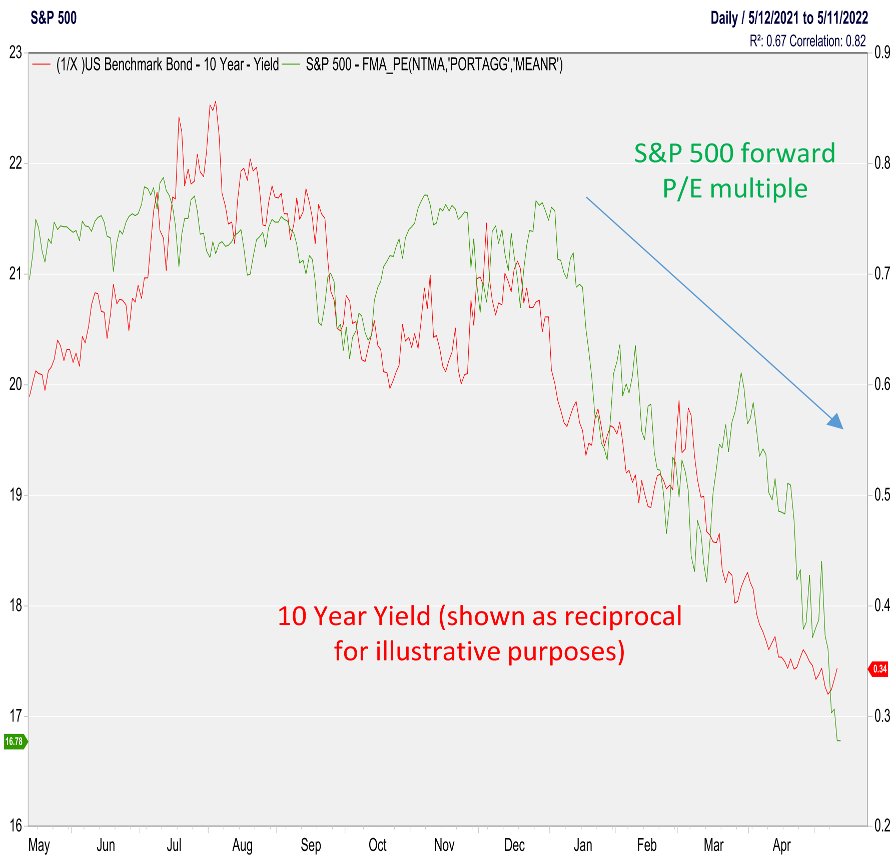
RJ 2022 Earnings Est.:
Base Case: 225 (+9%)
Bull Case: 235
Bear Case: 215

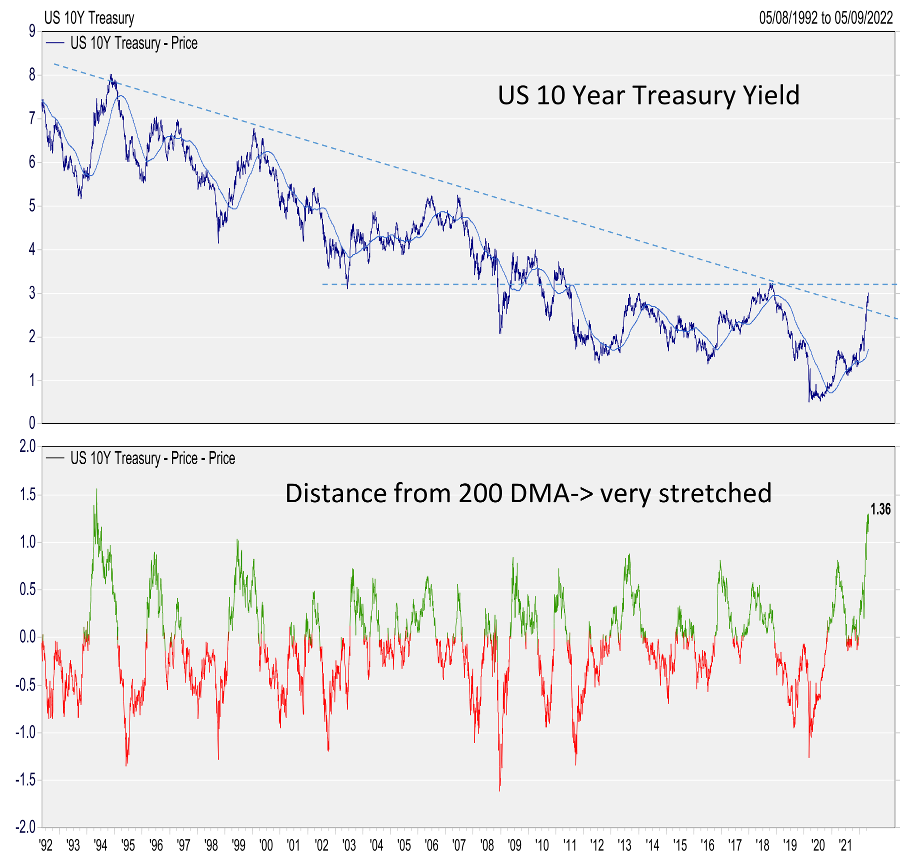


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

S&P 500 P/E vs US 10-YEAR TREASURY YIELD

The S&P 500 selloff this year has been purely valuation-driven, as stubbornly high inflation and sharply higher interest rates have weighed on multiples. As you can see below, there has been a fairly strong correlation this year between higher interest rates and multiple compression. With the US 10 Year Treasury yield very stretched technically and near long-term resistance, we would not be surprised to see bond yields stall or slow their ascent in the short-term. Inflation and Fed policy will remain very large influences, but a moderation in bond yields would go a long way into taking pressure off of valuation compression.



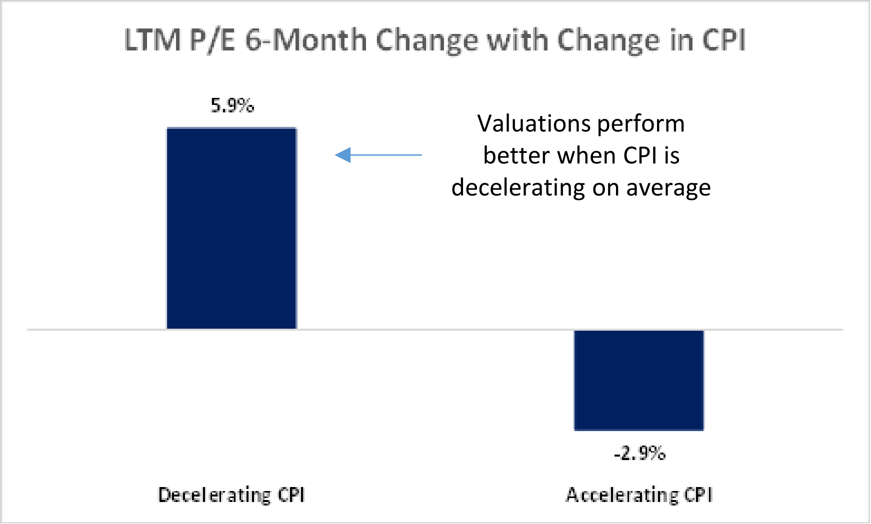


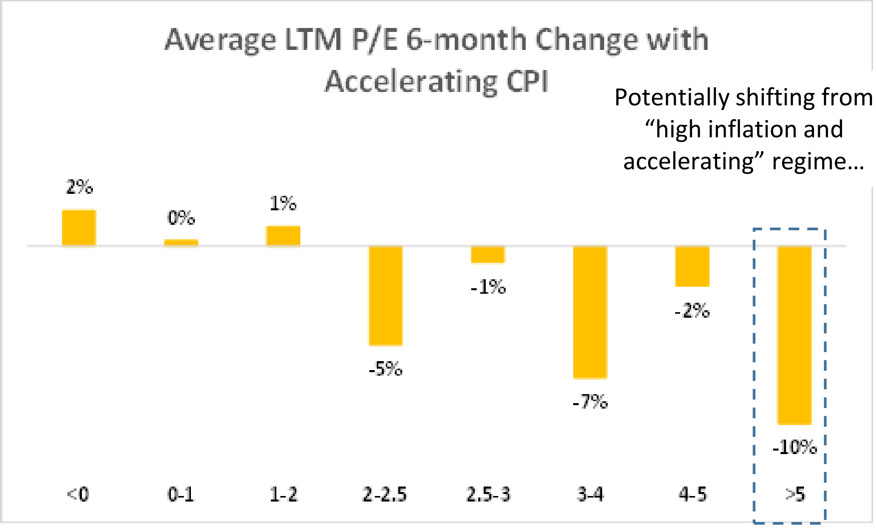
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

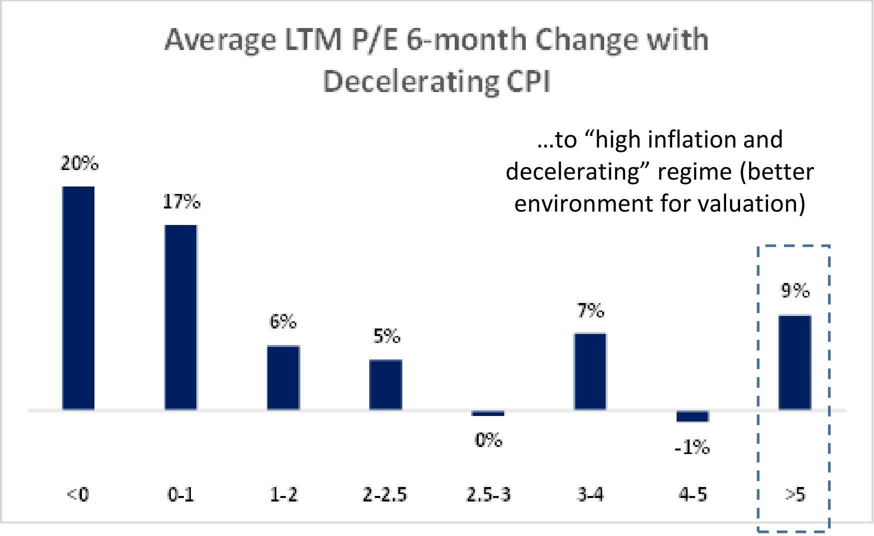
INFLATION AND P/E MULTIPLES

Inflation's path ahead will ultimately be the primary driver of equity markets in our view. The ranges are wide historically, but on average multiples compress when inflation rises- and on the flip side, multiples expand on average when inflation decreases. This is even more pronounced when looking at the level of CPI (i.e. high).

The market has been in a "high inflation and accelerating" regime, in which valuation multiples historically see the most pressure on average. However, we believe this is transitioning into a "high inflation but decelerating" regime, where valuation can stabilize or expand. A lot will depend on how quickly inflation can moderate. If inflation really starts to improve, Fed pressure will ease, market expectations for hikes will come down, interest rates are likely to at least stall their sharp ascent, and investors can regain focus on fundamentals (which are strong) with valuation at more compelling levels.



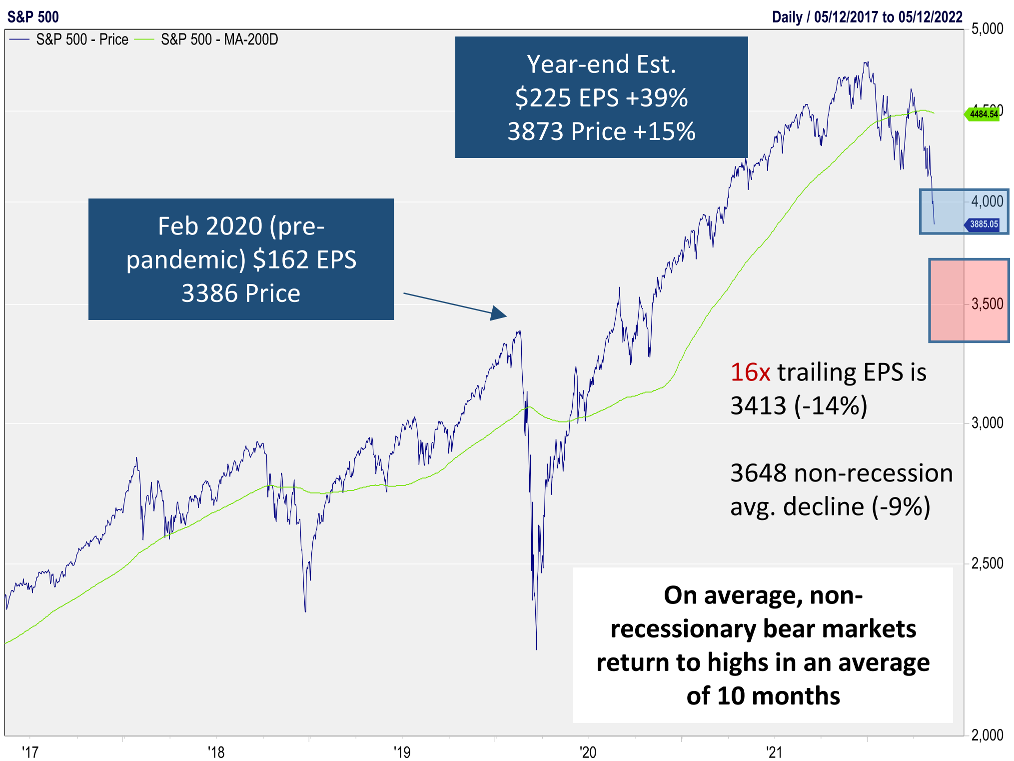


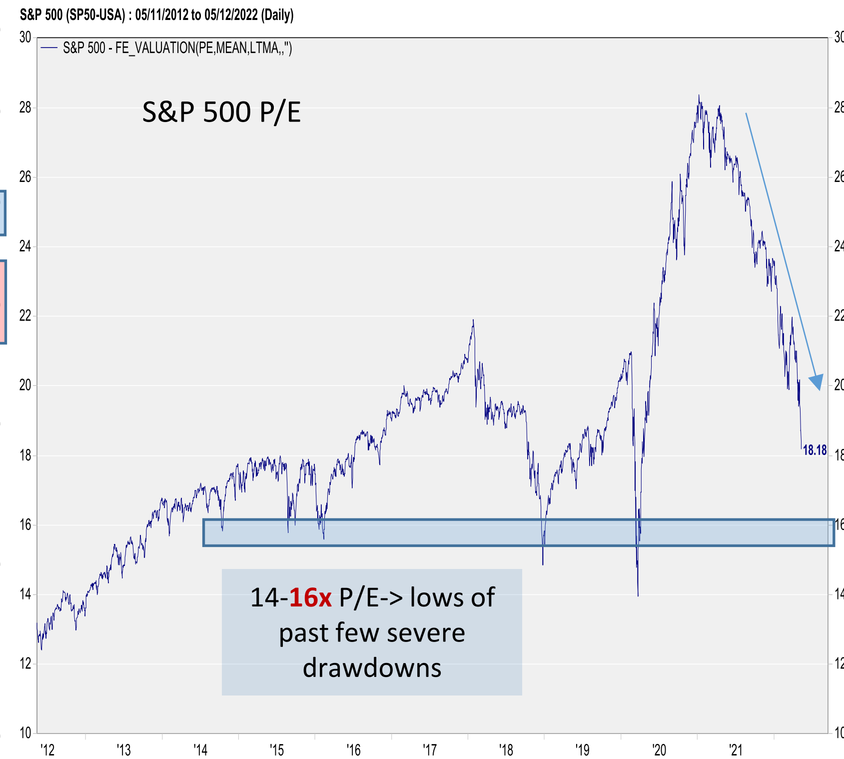


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

S&P 500 VALUATION

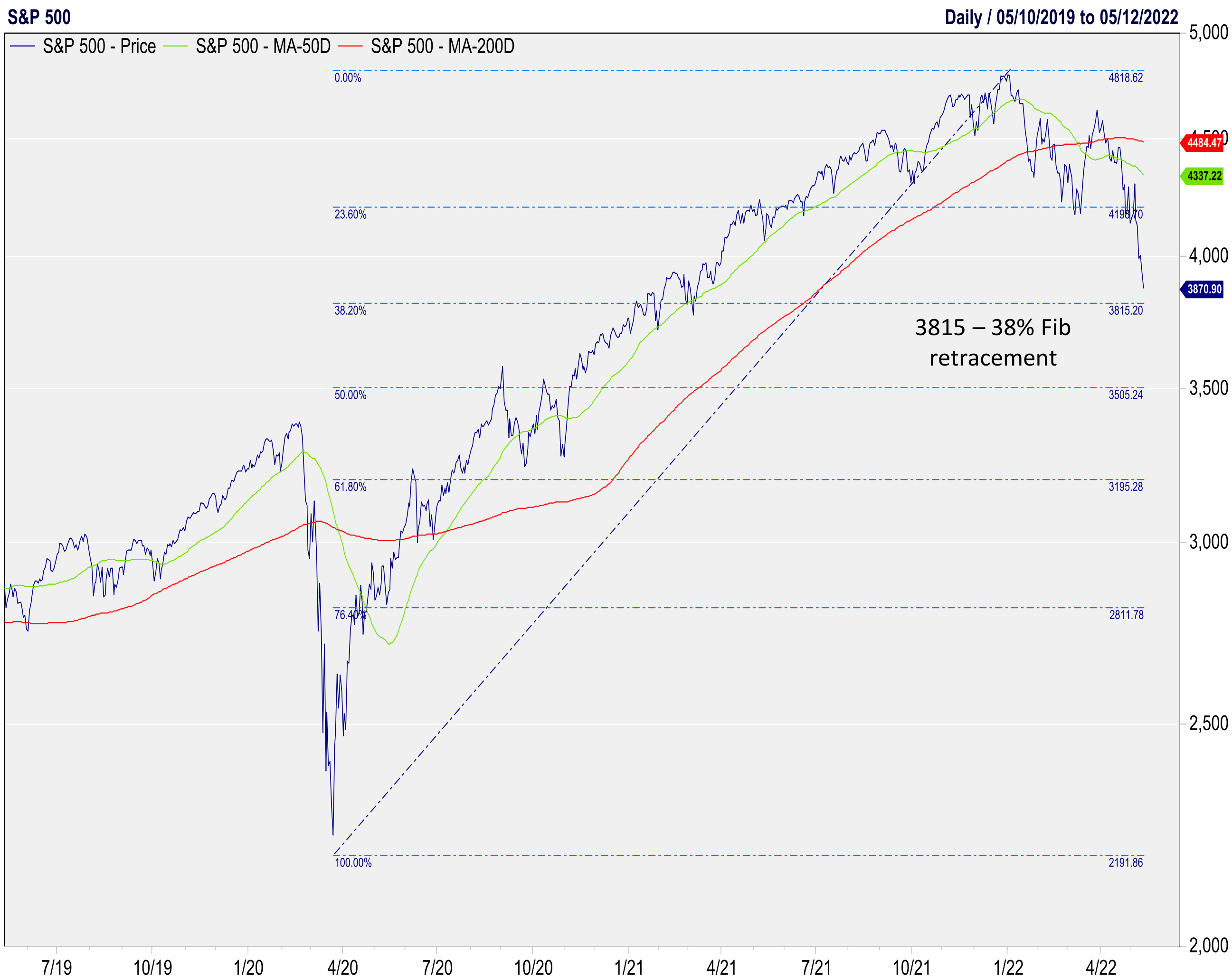
Strong earnings growth, accompanied by the pullback, is resulting in a more compelling valuation for equities. Earnings are the long-term driver of equities- and while we expect 2022 earnings to be 39% above 2019 levels, price is currently only 15% above. Additionally, the vast majority of stocks have seen more earnings growth than price performance since the pandemic occurred. So if the macro concerns can clear, investors will be left with some attractive opportunity in our view. Also in assessing what a worst case downside could be, we note that a 16x P/E multiple has been a good level through the past few severe drawdowns- i.e. 2015 manufacturing recession, 2018 trade war (and Fed overtightening), and 2020 Covid shutdown. At current trailing earnings, this would put the S&P 500 at 3413 (roughly another 14% lower in a "washout" situation). While the risks for this are more elevated than usual (if inflation remains sticky), we do note that non-recessionary bear markets return to their highs in an average of 10 months. So while equities may have more downside, we expect them to be higher 12 months from now. With this in mind, we would use the current down-draft as opportunity to selectively accumulate favored stocks for the long-term.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Some technical indicators are flashing oversold levels, i.e. the % of members above their 50 DMA fell to 15% (good sign for exhaustive selling), the AAII bearish sentiment recently showed an extreme reading, the TRIN index shows elevated selling pressure, and the VIX is inverted.

However, there are others that are not yet to levels often consistent with durable lows, i.e. we are still waiting for a spike in the put/call ratio, the VIX remains below 40, would like to see the % of stocks making 52-week lows exceed 50% (~24% now), the uncertainty index is still relatively low, and new 52-week lows continues to climb.

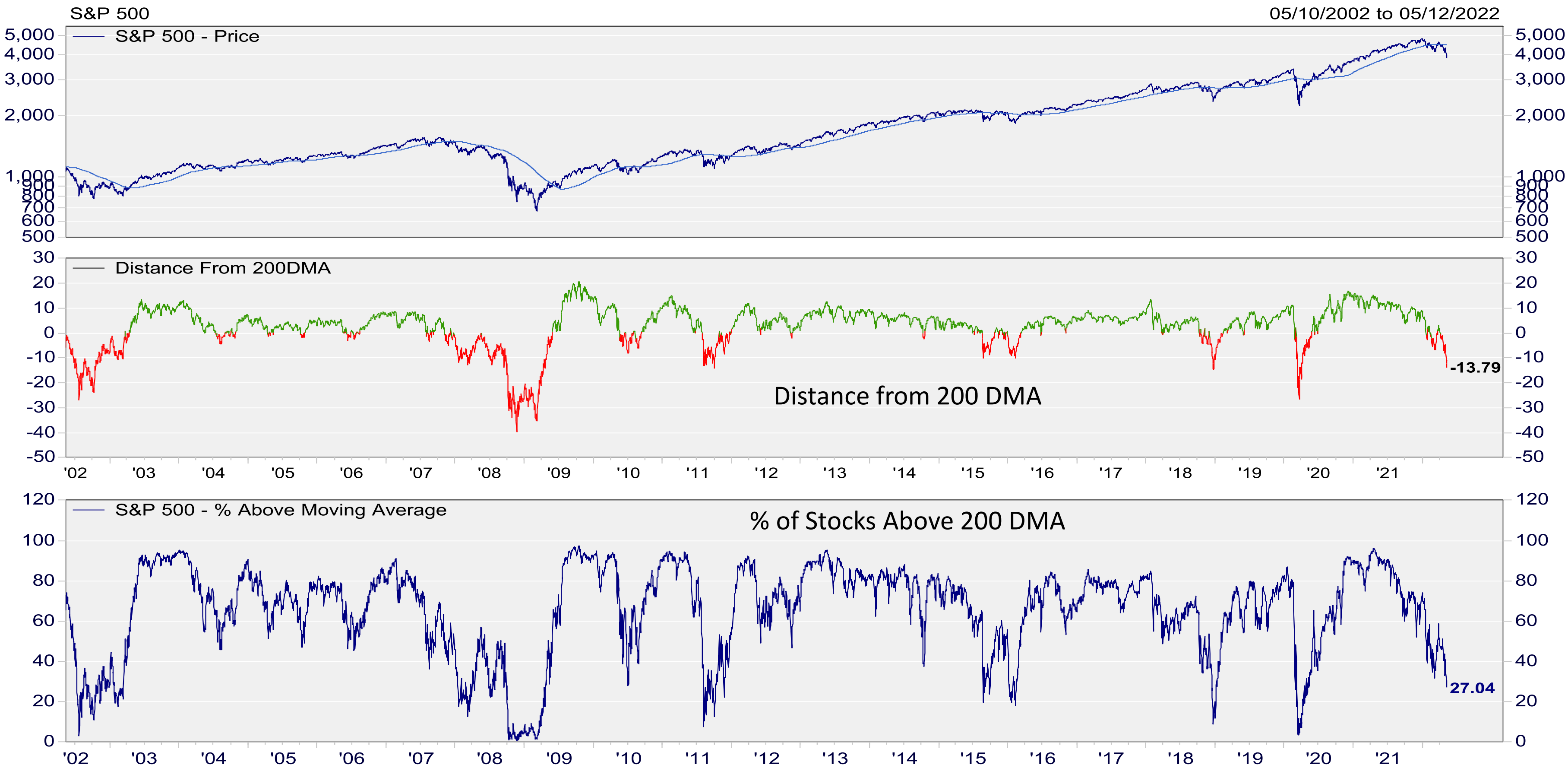
Equities are oversold enough to bounce at any time, but downside momentum has picked up enough that we can see accelerated selling in the near term.

The 3815 38% Fibonacci retracement level is an interesting price to monitor, and also corresponds with the technical price target of the recent breakdown below the prior ~4200-4600 range.

Our worst case scenario drawn out on the previous page of 3400-3600 also has technical justification- with support from pre-Covid highs and 2020 pre-vaccine levels.

S&P 500 VS 200-DAY MOVING AVERAGE

The S&P 500 is currently ~14% below its 200DMA, which is a 2 standard deviation move over the past 20 years (occurs less than 5% of the time). This is obviously an extreme move and while the market could certainly bounce from here, it has not yet reached an oversold level synonymous with market lows based on other factors such as the % of stocks above their 200 DMA. 27% of S&P 500 stocks are trading above their 200 DMA and may have more to go before being "washed out." This is consistent with the overall technical message we see- equities are oversold but not yet to what we would describe as "capitulation."



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BEAR MARKETS

Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	Top P/E	Bottom P/E	% Decline of P/E	% Decline of Earnings	Months from Mkt Peak to EPS Trough	P/E at EPS Trough	P/E Chg from Mkt Bottom to EPS Trough
Jul-57	Oct-57	3	-20%	11	14.6	11.2	-24%	-23%	20	20.9	87%
Jan-60	Oct-60	10	-18%	3	20.9	15.2	-27%	-15%	17	21.3	41%
Nov-68	May-70	18	-36%	22	19.0	12.9	-32%	-18%	32	19.5	51%
Jan-73	Oct-74	21	-48%	69	20.2	7.3	-64%	-22%	37	13.2	81%
Feb-80	Apr-80	2	-21%	4	9.9	6.8	-31%	-6%	18	9.6	40%
Nov-80	Aug-82	21	-27%	3	9.6	7.0	-27%	-26%	32	13.5	93%
Jul-90	Oct-90	3	-21%	4	16.0	13.1	-18%	-35%	23	27.1	107%
Mar-00	Oct-02	31	-49%	55	30.7	17.0	-45%	-26%	25	27.8	64%
Oct-07	Mar-09	17	-59%	49	16.7	9.5	-43%	-33%	27	18.5	95%
Feb-20	Mar-20	1	-34%	5	21.0	14.4	-32%	-17%	11	28.0	95%
Average		***13***	***-33%***	***23***	***17.8***	***11.4***	***-34%***	***-22%***	***24***	***19.9***	***75%***

Non-Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	Top P/E	Bottom P/E	% Decline of P/E	% Decline of Earnings
Dec-61	Jun-62	6	-28%	15	22.4	14.7	-35%	6%
Feb-66	Oct-66	8	-22%	7	20.0	12.9	-36%	-3%
Sep-76	Mar-78	18	-19%	18	13.6	8.1	-40%	13%
Aug-87	Dec-87	4	-34%	20	23.4	14.4	-38%	-13%
Jul-98	Oct-98	3	-23%	2	27.1	21.8	-20%	-1%
Apr-11	Oct-11	6	-19%	5	18.6	11.4	-39%	5%
Sep-18	Dec-18	3	-20%	4	22.0	14.9	-32%	5%
Average		***7***	***-24%***	***10***	***21.0***	***14.0***	***-34%***	***2%***
Jan-22		4	-19%		28.4	18.1	-36%	5%

The 36% multiple contraction experienced this year in 4 months is in line with that experienced during non-recessionary bear markets historically. If the pullback continues to intensify, we believe we see non-recessionary type action, as a recession (if it comes) is unlikely this year. Non-recessionary bear markets have averaged -24% historically over 7 months (vs -19% now), but have also traded back to highs 10 months on average. So while the selloff may have more to go, we expect equities to be higher in 12 months.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4741200)

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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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