RAYMOND JAMES

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Weekly Market Guide

Short-Term Summary:

The technical backdrop remains heavy with equities staging an unimpressive rally from oversold levels over the past week, and the S&P 500 experiencing its sharpest 1-day decline in almost two years yesterday. Short-term momentum indicators continue to point lower, and positioning has yet to reach capitulation levels. Investor sentiment, i.e. the AAII bull-bear survey (contrarian indicator), is bearish enough to form a bottom but the equity put/call ratio has yet to spike to levels often consistent with durable lows historically. Additionally, the 5-year high yield CDS (credit default swaps) index has been one of the best indicators for short-term trends this year and continues to push to new highs- indicating the S&P 500 is likely to push to new lows.

The #1 market influence right now is high inflation and uncertainty over its path moving forward. Investors have been continually disappointed by inflation over the past 6+ months, as the Omicron variant, Russia/Ukraine war, and China lockdowns have consecutively disrupted its potential trajectory. The longer inflation stays high, the more pressure it puts on the Fed to hike rates aggressively- potentially to the point of economic contraction (in order to bring inflation down). We believe inflation has peaked, but the degree of inflation improvement will ultimately be a large determinant of market trends. Last week's 0.6% m/m reading was disappointing, as it will take m/m readings in the 0.2-0.3% m/m range over the rest of the year to bring core CPI to a ~4% level that the Fed can become more comfortable with. We believe this is possible; but the market has gotten to the point where it needs to see inflation coming down in order for Fed expectations to ease.

While market momentum remains lower, valuation has become more compelling. There are many companies with earnings significantly above pre-pandemic levels while prices are now near or below 2019 levels. Earnings typically win out in the long-term, so when the dust settles, this pullback will present attractive opportunity in our view. In assessing potential downside, we believe there is fundamental and technical justification for the 3400-3600 range. At 16x trailing earnings, which corresponds with the P/E seen in the 2015-2016 manufacturing recession, late 2018 trade war selloff, and 2020 Covid shutdown, the S&P 500 could trade to 3424 (-11% lower than current levels) in a downside scenario. But the degree of the recent selloff can produce sharp bounces at any point and we believe equities will be higher over the next 12 months. With this in mind, we recommend long-term investors use the downdrafts as opportunities to selectively accumulate favored stocks- while increasing conviction once the technical backdrop becomes more supportive. For more on what we're looking for at a bottom, please see our recent note HERE.

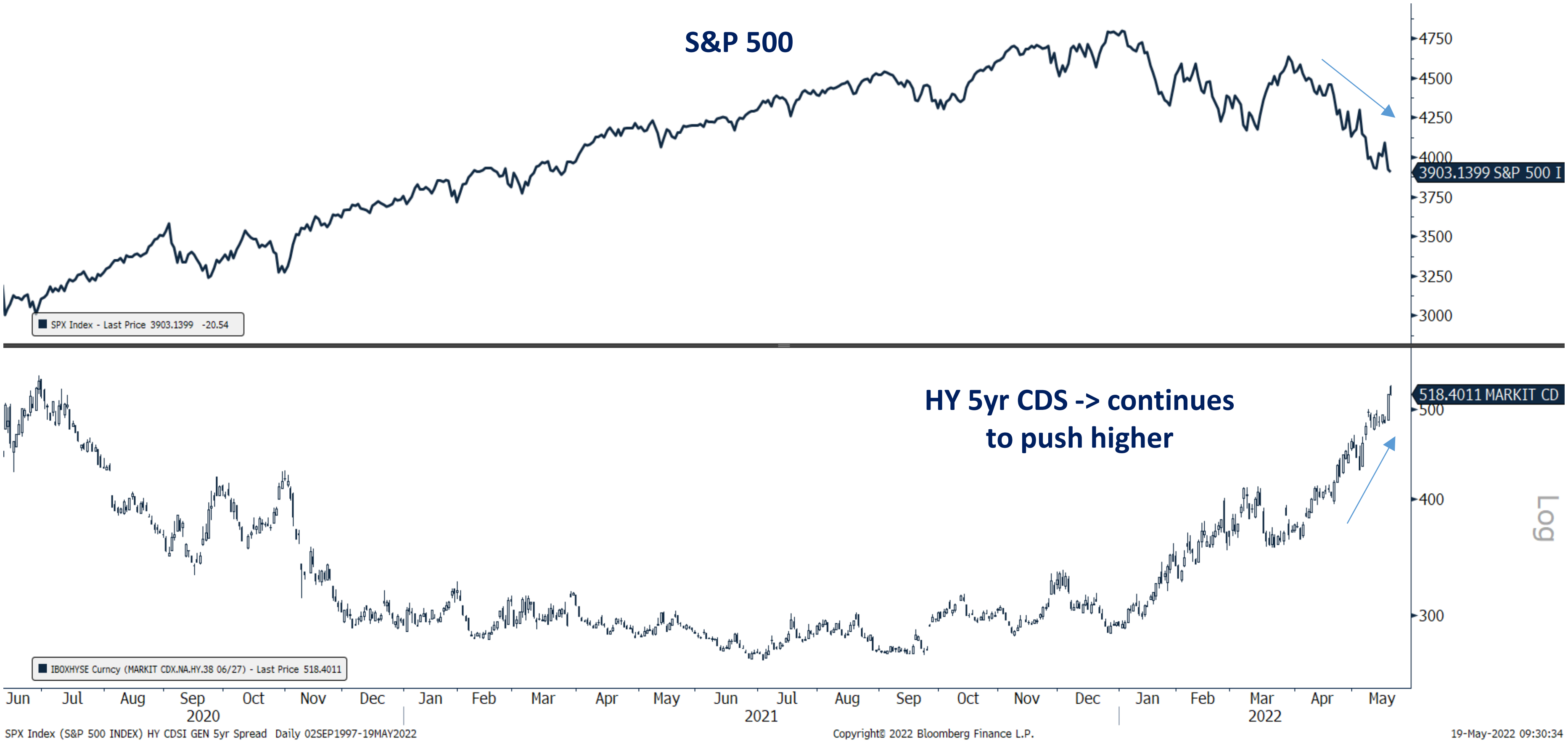
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-13.3%	-7.5%
S&P 500	-17.7%	-4.9%
S&P 500 (Equal-Weight)	-13.2%	-5.1%
NASDAQ Composite	-27.0%	-14.2%
Russell 2000	-21.0%	-19.7%
MSCI All-Cap World	-17.4%	-10.8%
MSCI Developed Markets	-15.5%	-14.9%
MSCI Emerging Markets	-16.1%	-22.5%
NYSE Alerian MLP	16.5%	10.8%
MSCI U.S. REIT	-18.0%	-0.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	46.2%	4.7%
Utilities	-0.3%	3.0%
Consumer Staples	-7.3%	6.6%
Health Care	-9.4%	14.7%
Materials	-9.6%	2.8%
Industrials	-13.7%	7.9%
Financials	-15.2%	11.1%
S&P 500	***-17.7%***	-
Real Estate	-19.3%	2.8%
Information Technology	-24.5%	26.8%
Communication Svcs.	-27.0%	9.0%
Consumer Discretionary	-30.8%	10.6%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

HIGH YIELD CREDIT DEFAULT SWAPS

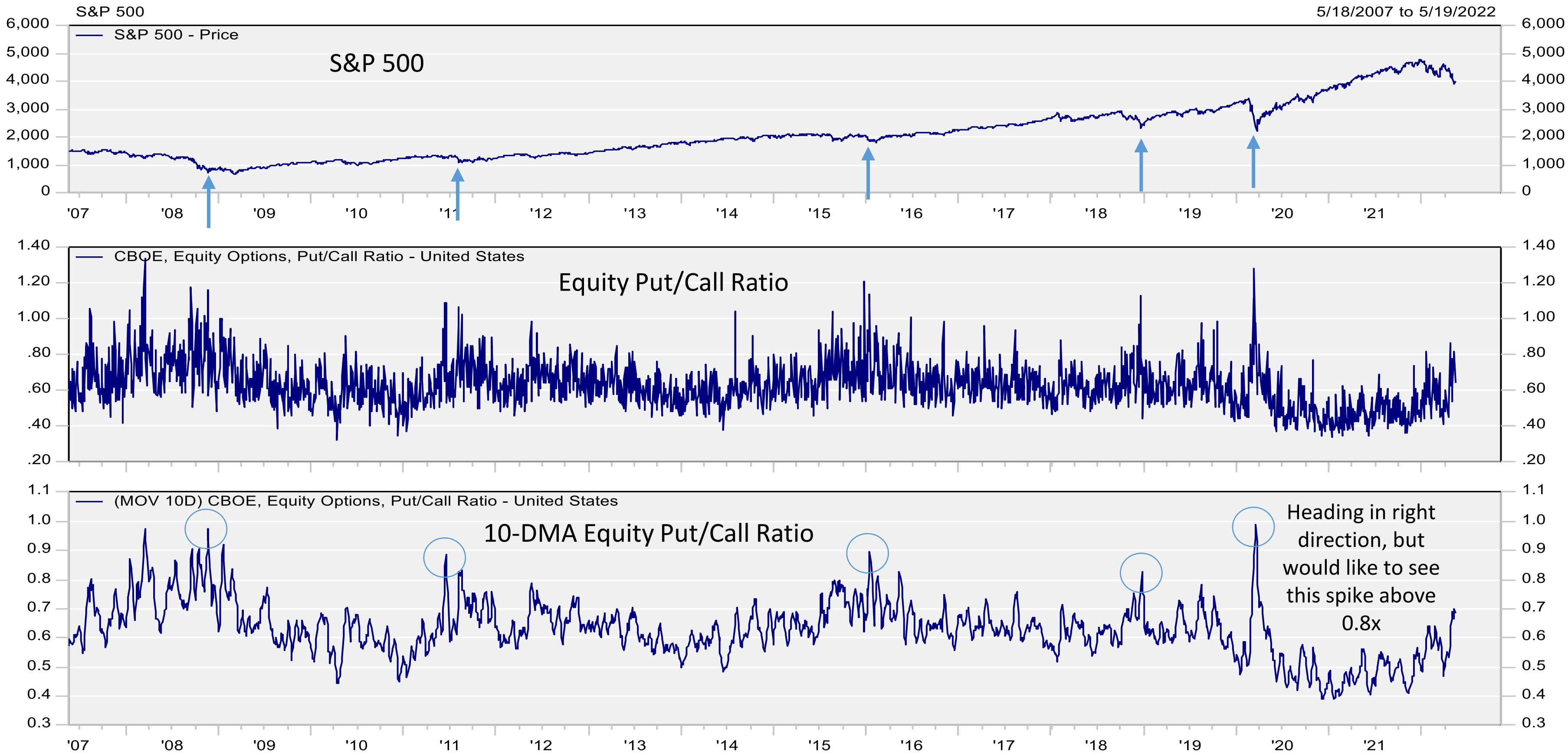
One of the best indicators for market trends this year has been the High Yield 5-year Credit Default Swaps index. Credit default swaps are basically the cost of "insurance" in the event of default, so as the price of this "insurance" rises it indicates growing concerns from the bond market. After staying at elevated levels in the market's attempted bounce recently, this HY CDS index broke out to new highs yesterday and is pushing higher today. What we want to see is an end to the 5yr HY CDS index's series of higher highs and higher lows. For now, it remains in an uptrend and raises the odds that the S&P 500 prints new lows.



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

EQUITY PUT/CALL RATIO

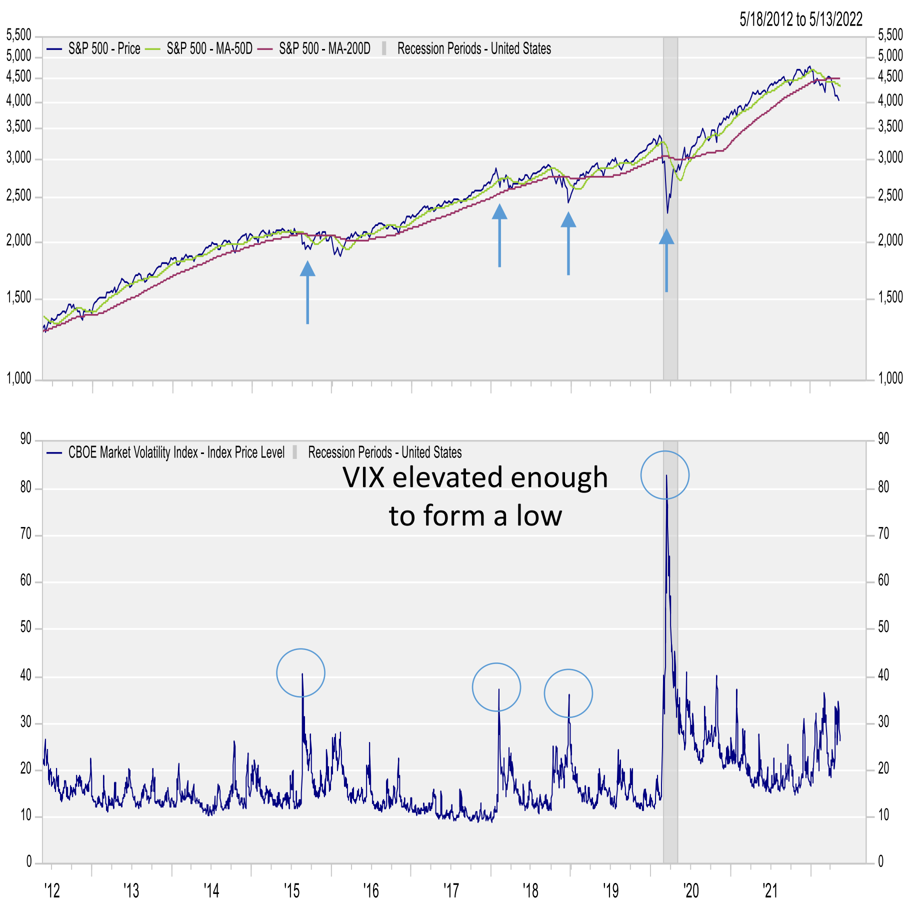
Another indicator we monitor as a signal of investor fear is the equity put/call ratio, which often spikes as investors "throw in the towel" in a "get me out at any price" move. Accordingly, this positioning typically occurs near major market lows. The equity put/call ratio is moving in the right direction, but has been unable to reach "capitulation" levels yet. Unfortunately, this may need to occur before equities can sustainably rally out of this environment- raising the odds that things may have to get worse before they get better.

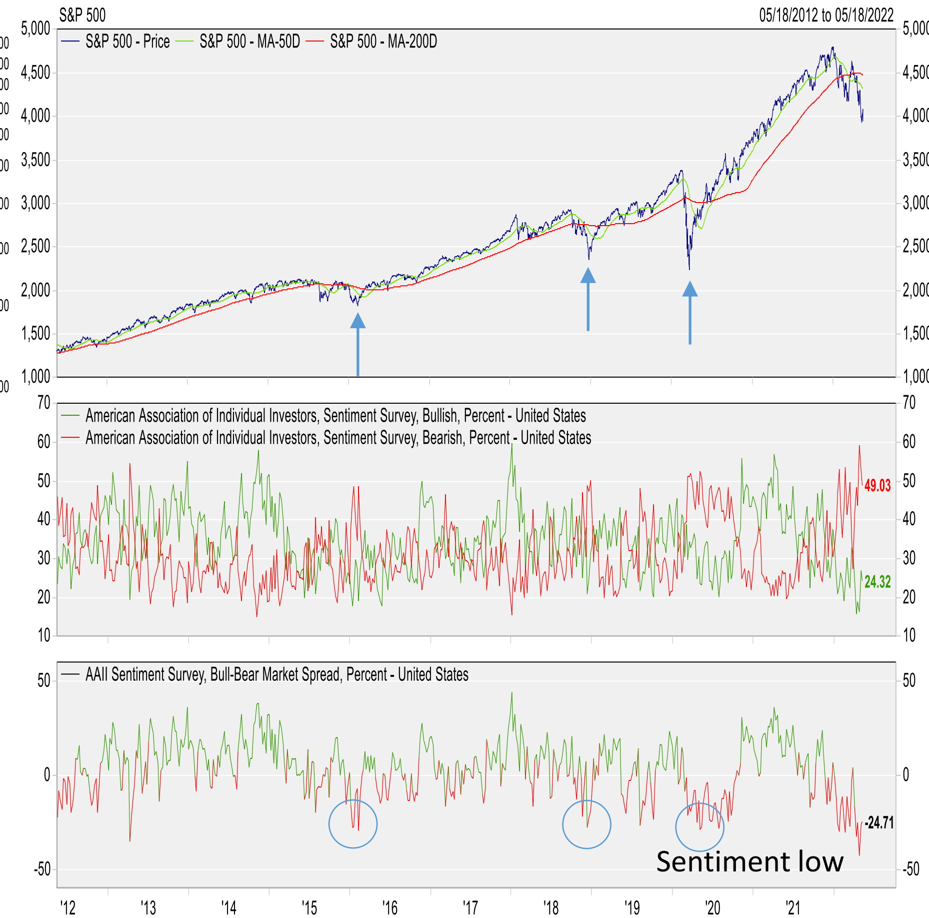


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INVESTOR SENTIMENT

While positioning has yet to get "washed out," sentiment is negative enough for a bottom to form. As you can see below, the Volatility Index (VIX) is near levels seen near market lows in 2015 and 2018. Additionally, the AAII bull-bear sentiment survey is at decade lows. These indicators can be early but, on the positive side of the technical ledger, are negative enough for the market to form a bottom.

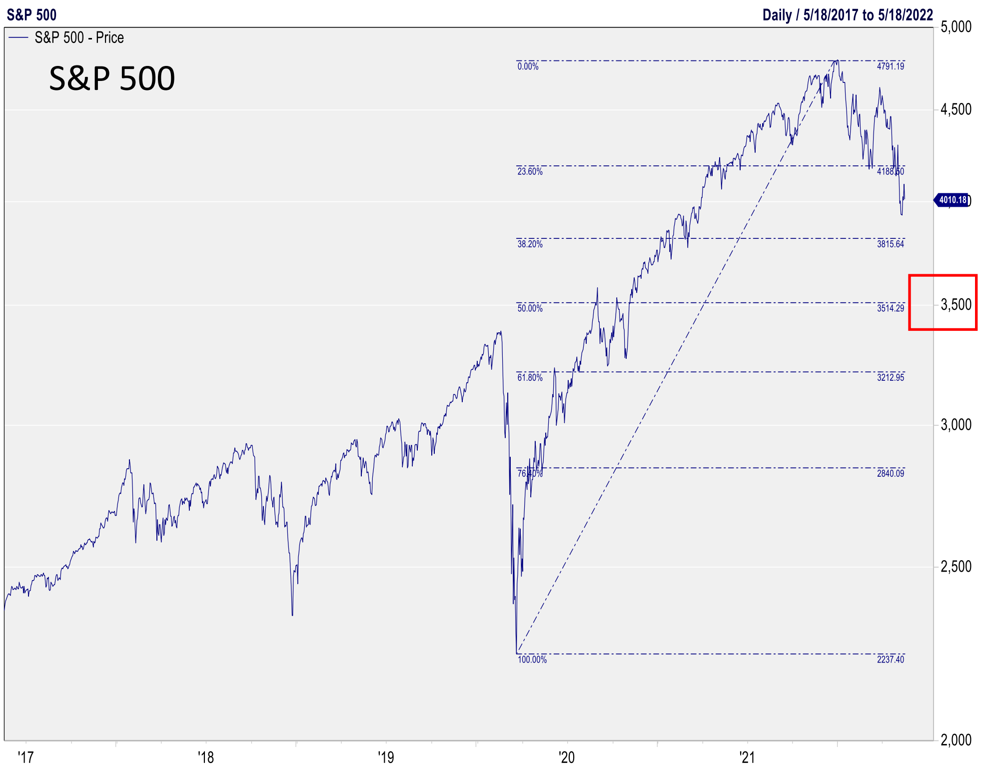


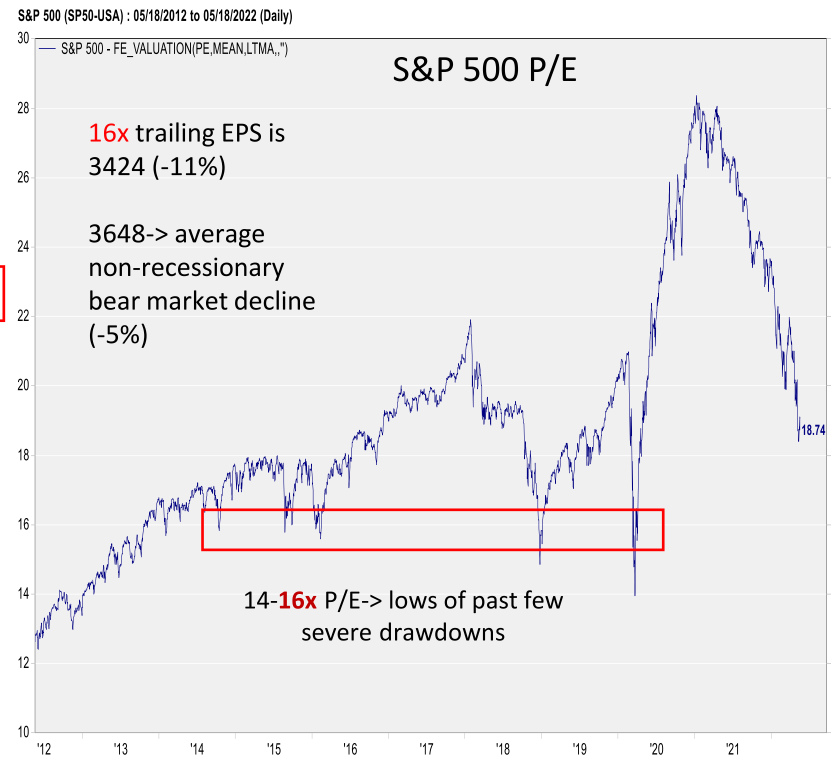


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

WHERE COULD THE S&P 500 TRADE TO?

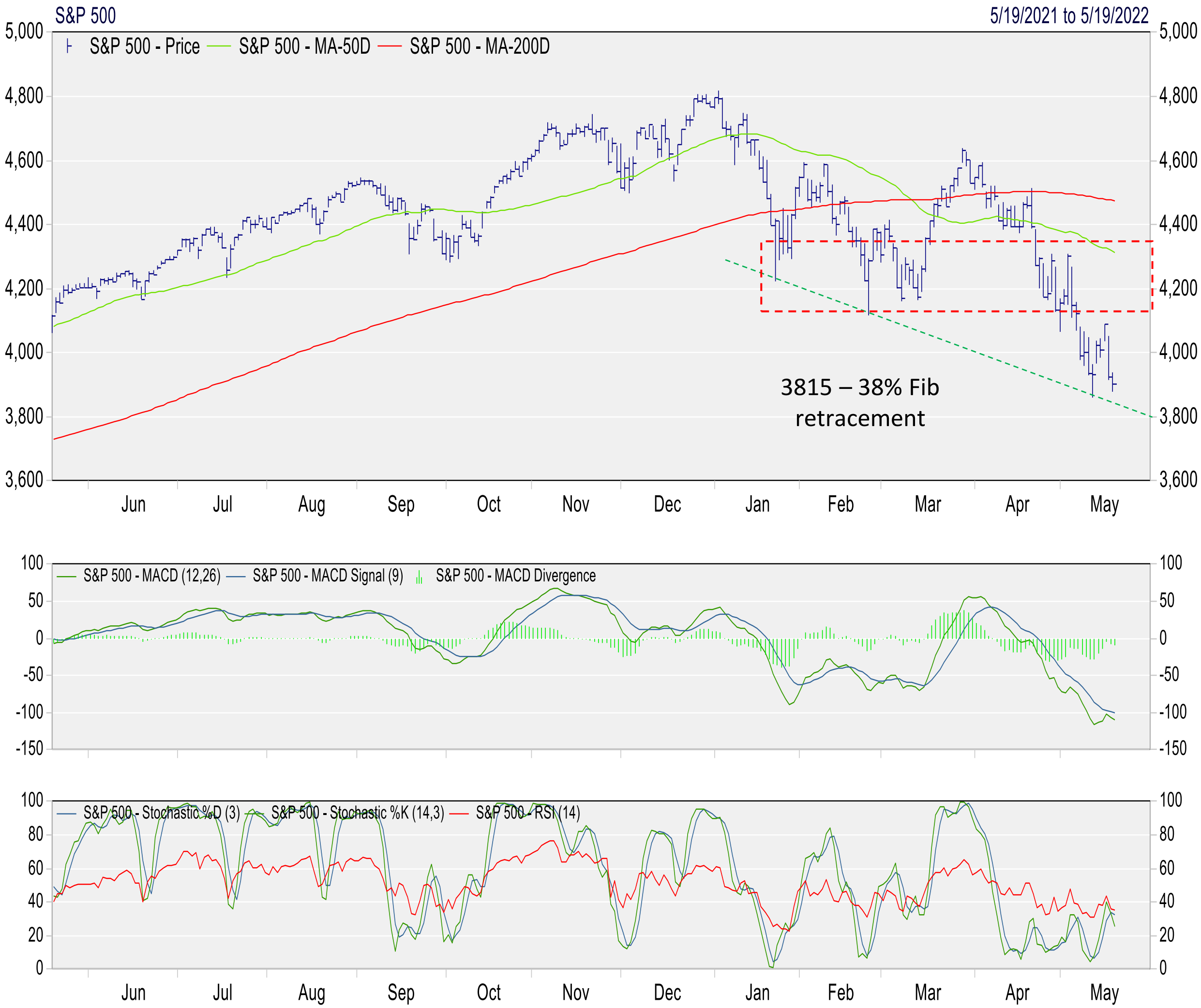
The S&P 500 P/E has contracted 33% from its peak of 28x to 18.7x currently. This is in line with the average -35% bear market decline historically, but we believe could move to the 14-16x range seen at recent severe drawdowns (i.e. 2015-2016 US manufacturing recession, late 2018 trade war collapse, and 2020 Covid shutdown). At 16x current trailing earnings ($214), the S&P 500 would trade at 3424 (-11% from current levels) in a downside scenario. This would be on par with some of the largest P/E contractions historically (i.e. dotcom bubble and credit crisis). We see technical justification for this level as well, as it would coincide with the 50% Fibonacci retracement level of the post-Covid ascent (and very near pre-Covid prices). Of course, the path of inflation will be a large determinant on how severe the drawdown will need to be; but a move to the 3400-3600 area is where we believe the S&P 500 could get to if the current inflation situation does not improve. It is also important to remember that while the bottom of a bear market can be violent, the rally out of them can also come in a hurry. On average historically, the S&P 500 has traded 15% higher in the first 30 days from bear market lows.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The technical backdrop remains heavy with equities staging an unimpressive rally from oversold levels over the past week, and the S&P 500 experiencing its sharpest 1-day decline in almost two years yesterday.

The small bounce occurred from downtrend support, but it was unable to take out any technical resistance- with the ensuing drawdown putting the S&P 500 back on its lows.

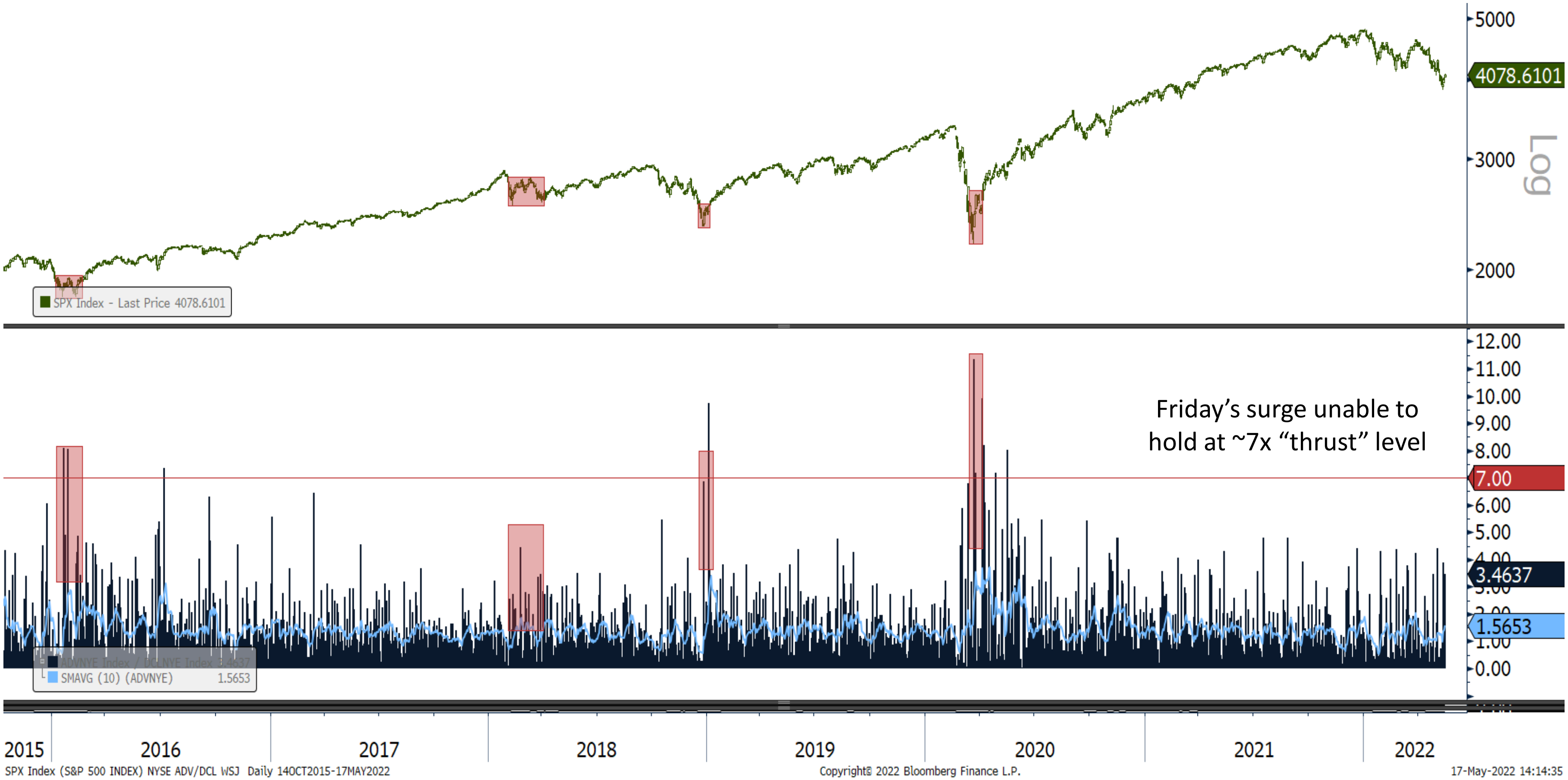
Downside momentum continues to place the path of least resistance lower. And when the trend is negative as it is now, the bar is higher for positive technical developments. What is often needed is time of back-and-forth trading for internals to rebuild, or a capitulation selloff that trends can begin to improve from a washout.

We are watching initial support at ~3815, which corresponds with the technical price target after breaking below the previous 4200-4600 range, along with the 38.2% Fibonacci retracement level of the post-Covid ascent. Below this, we see the next level of technical support at 3730.

There are many stocks oversold enough for sharp percentage rallies at any point, and we will be monitoring price action near resistance in those periods. For the S&P 500, we will be watching the 21-DMA (currently at 4142) followed by 4310 and then 4370 for resistance.

ADVANCERS VS. DECLINERS

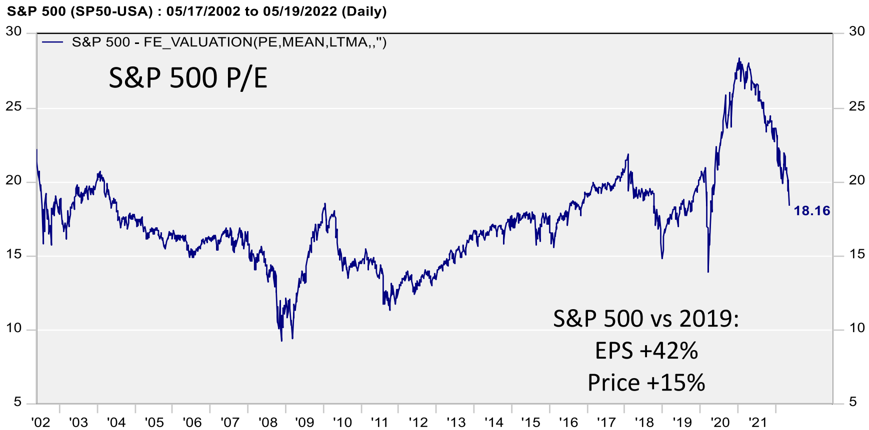
We continue to wait on that strong ~7x "thrust" of advancers vs. decliners, which often occurs out of V-bottoms. Friday and Monday's strong price rallies were solid at ~4x but still off the ideal ~7x scenario that would increase our conviction that we have seen the market lows. The S&P 500 is extended enough to the downside for sharp rallies to occur at any point in the short-term, but what we want to see on those days is a higher conviction level internally from investors.

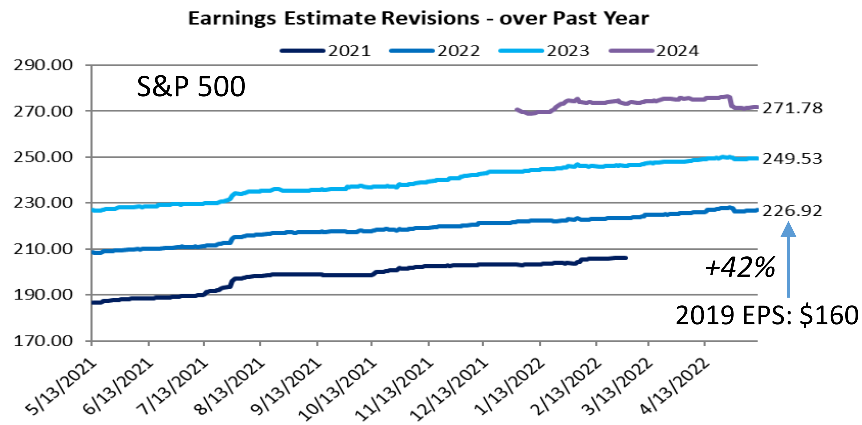


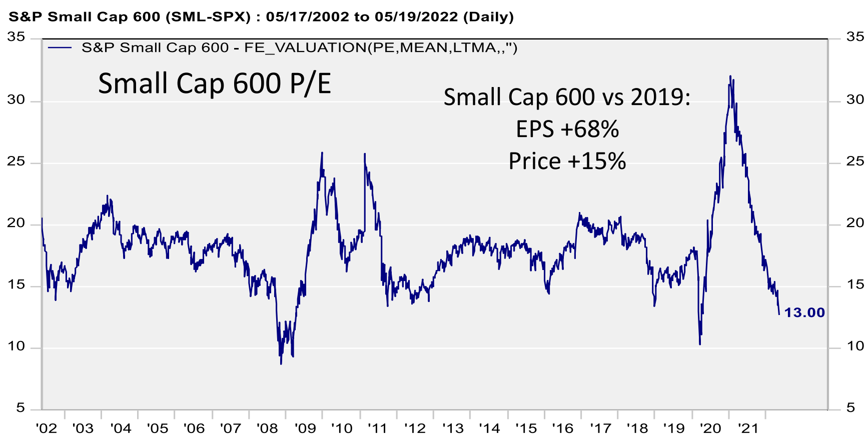
Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

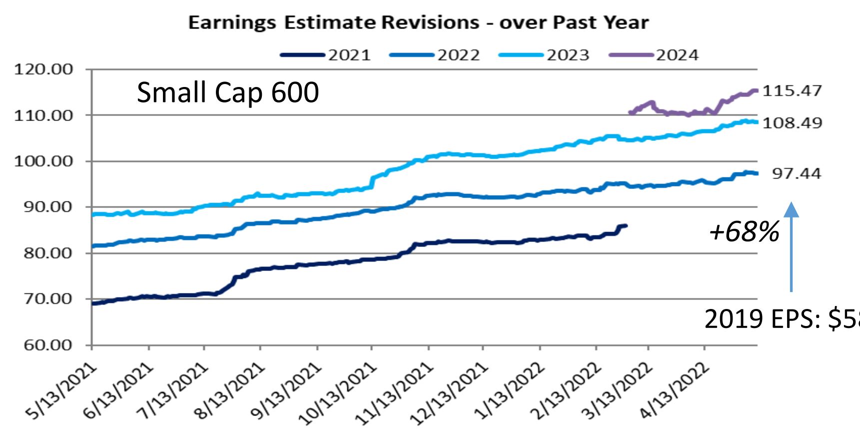
VALUATION HAS BECOME MORE COMPELLING

The equity market pullback this year has been completely valuation-driven thus far, and we see a lot of stocks out there with earnings significantly above pre-Covid levels while their prices are now near or below pre-Covid levels. In fact, the small caps now trade at a 13x P/E (lower end of their 20-year range) with earnings 68% above 2019. Valuation is a poor timing indicator (just as it was high while equities continued to glide higher last year); but once the "dust settles," we believe that long-term investors will find attractive opportunity from these valuations. Earnings typically win out in the long-term.





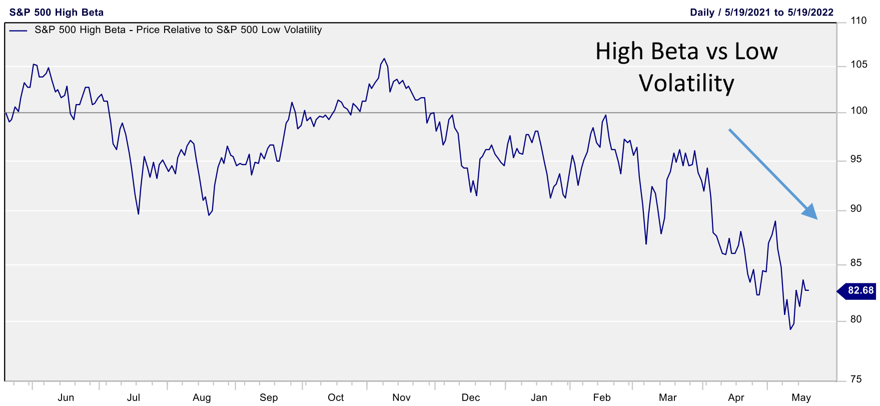


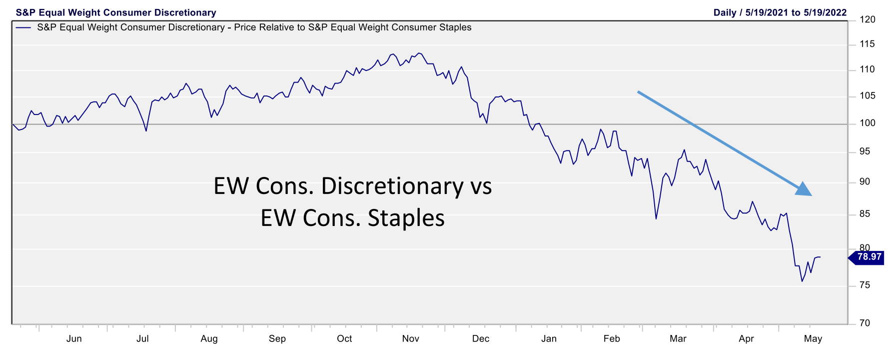


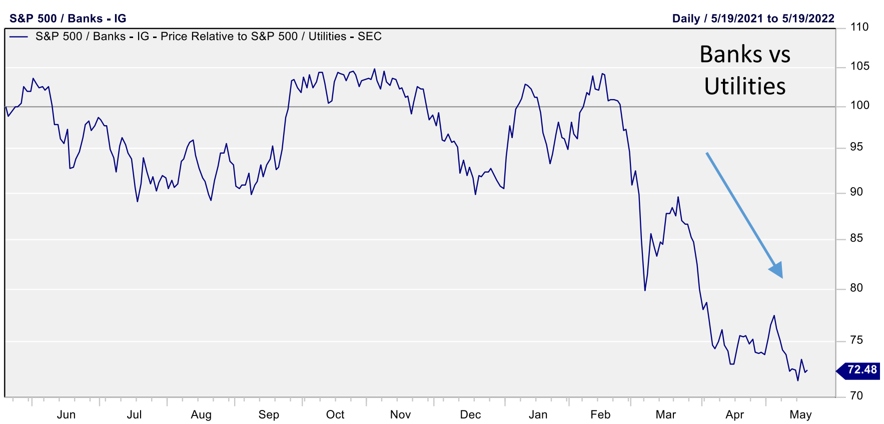
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

DEFENSIVE LEADERSHIP

The leadership backdrop remains defensive, as relative strength continues its downtrend for High Beta vs Low Volatility, equally-weighted Consumer Discretionary vs Consumer Staples, and Banks vs. Utilities. For now, these trends indicate the importance of diversification and a tilt toward defensive positioning. However, we believe it is also important to keep in mind that quality stocks in the most beaten-up areas are also likely to see the greatest upside in a recovery (when that time comes). Though timing is difficult and the market trend continues to indicate lower prices, this is where we believe the most opportunity lies (i.e. Consumer Discretionary, Technology, Financials, and Industrials). With this in mind, we recommend long-term investors use the downdrafts as opportunities to selectively accumulate favored stocks- while increasing conviction once the technical backdrop becomes more supportive.







Sector Trends and Moving Averages

Sector	10 DMA % Above	20 DMA % Above	50 DMA % Above	200 DMA % Above	Index % From 52 Week High
Cons. Discretionary	10	5	8	3	-33.0%
Comm. Services	38	35	12	15	-32.7%
Technology	30	12	7	9	-26.4%
Financials	20	8	5	20	-20.8%
Real Estate	17	0	3	13	-19.3%
Industrials	10	7	11	17	-15.1%
Consumer Staples	6	6	22	47	-13.2%
Health Care	42	25	20	35	-10.6%
Materials	50	32	32	36	-8.9%
Utilities	45	28	31	86	-8.1%
Energy	90	81	71	100	-2.5%
S&P 500	28	16	15	27	-19.0%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4752055)

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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.

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