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Weekly Market Guide

Short-Term Summary:

After dropping ~12% over just 7 days surrounding the hot May inflation report (taking the S&P 500 -24% from its highs), the index has attempted to bounce from oversold levels. And we note that oversold levels can allow for modest bear market bounces. Ultimately, inflation remains top-of-mind for investors- its stickiness at high levels is weighing on consumer disposable income and corporate margins, along with complicating the Fed's situation as it attempts to bring inflation under control within a slowing economic backdrop. Unless the narrative changes in regard to Russia backing off or China ending lockdowns, it will be difficult for equities to sustainably move to the upside without better inflation data in our view.

With the path of least resistance lower for now, the economy slowing, inflation high, and the Fed in tightening mode, we expect the market trend to remain challenged over the coming weeks and months. That said, we do believe equities are likely to be higher than current prices over the next 12 months given our expectation for inflation to moderate. Accordingly, we recommend using the downdrafts as opportunity to accumulate high quality, favored stocks for the longer-term.

A positive on the inflation front over the past week has been the breakdown in Copper, along with broad weakness across the commodity complex. There has been a strong correlation between Copper prices and inflation expectations, so the technical breakdown in Copper may be foreshadowing a decline in inflation expectations ahead. Increasing odds of recession are likely contributing to the decline in Copper, so this does not indicate that we are "out of the woods yet" on economic weakness and market challenges. However, it is a move in the right direction that supports our view of moderating inflation in the economic outlook- and positive equity market returns over the next 12 months.

To show how the market is so intertwined, lower inflation expectations are likely to ease the upward trend in bond yields. Whereas bond yields have typically peaked before inflation over the past 30 years, we believe the market will be more reactive to inflation in the current environment due to multiple unforseen hiccups in inflation's trajectory over the past year (i.e. Delta variant, Omicron variant, Russia/Ukraine war, China lockdowns). If inflation is at a peak and can show convincing improvement, bond yields are also likely to be at or near a peak. And there has been a strong inverse correlation between bond yields and S&P 500 P/E multiples this year. So a stall or decline in bond yields is likely to correspond with a pause or bounce in valuations. The longer these trends can persist and prove durable, the more conviction investors can have on the outlook and apply higher multiples to stocks.

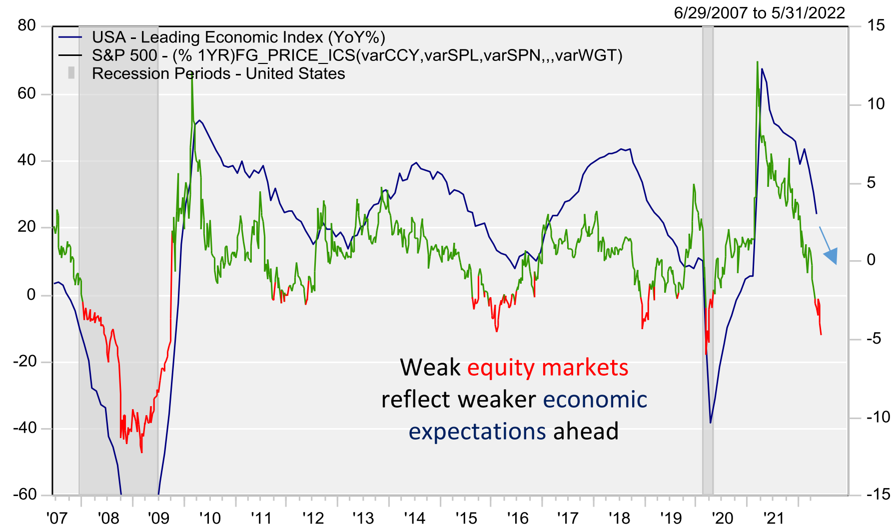
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-16.1%	-10.2%
S&P 500	-21.1%	-11.5%
S&P 500 (Equal-Weight)	-18.4%	-11.1%
NASDAQ Composite	-29.4%	-22.5%
Russell 2000	-24.7%	-26.4%
MSCI All-Cap World	-21.2%	-16.8%
MSCI Developed Markets	-20.8%	-20.5%
MSCI Emerging Markets	-19.4%	-26.2%
NYSE Alerian MLP	4.6%	-6.4%
MSCI U.S. REIT	-22.9%	-12.1%
S&P 500 Sectors	**Price Return Year to Date**	**Sector Weighting**
Energy	32.4%	4.5%
Utilities	-7.4%	3.0%
Consumer Staples	-9.2%	6.9%
Health Care	-11.8%	14.8%
Materials	-17.6%	2.6%
Industrials	-18.4%	7.8%
Financials	-19.8%	10.9%
S&P 500	***-21.1%***	-
Real Estate	-22.5%	2.9%
Information Technology	-27.3%	27.0%
Communication Svcs.	-30.2%	9.0%
Consumer Discretionary	-32.1%	10.8%

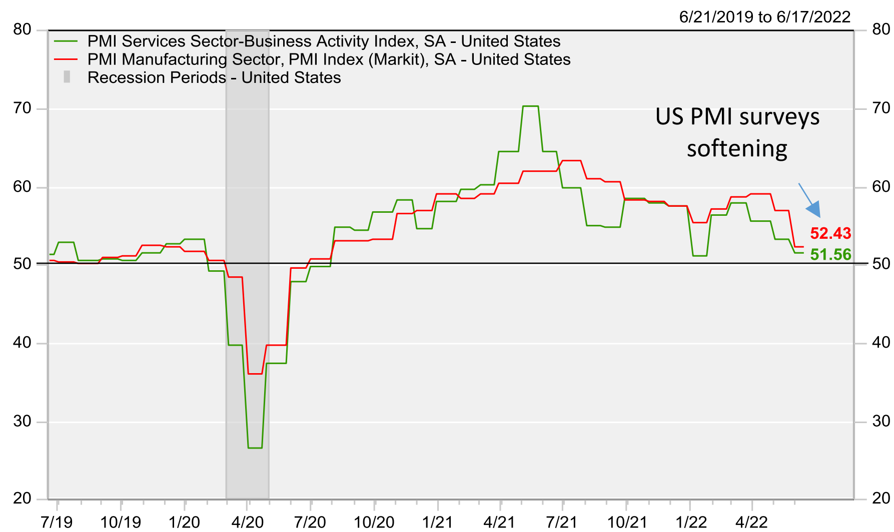
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Economic momentum continues to slow, as high inflation weighs on consumer disposable income. Leading economic indicators contracted -0.4% m/m in May and are clearly in a downtrend. Additionally, June PMI showed expectations of continued softness, as manufacturing PMI fell to 52.4 from 57 and services PMI to 51.6 from 53.4. High inflation and a slowing economic backdrop puts the Fed in a very difficult position. As Fed Chair Powell stated this week, a soft landing is becoming "very challenging;" but "the other risk though is that we would not manage to restore price stability and that we would allow this high inflation to get entrenched in the economy. We can't fail on that task. We have to get back to 2% inflation." This supports investor fears of economic weakness ahead (and increasing likelihood of a recession- albeit potentially mild). The path ahead for inflation remains very important for these potential economic outcomes, and we believe investors will remain hyper-sensitive to the incoming inflationary data because of that. We believe that inflation is likely to moderate by year-end, but it is also unlikely to show convincing improvement overnight- supporting our view of continued market challenges over the shorter-term (weeks to months) but higher prices in the longer-term outlook (next 12-18 months).

Event	Period	Actual	Consensus	Prior
Capacity Utilization NSA	MAY	79.0%	79.2%	78.9%
Industrial Production SA M/M	MAY	0.20%	0.40%	1.4%
Manufacturing Production M/M	MAY	-0.07%	0.40%	0.77%
Leading Indicators SA M/M	MAY	-0.40%	-0.30%	-0.40%
Chicago Fed National Activity Index	MAY	0.01	0.35	0.40
Existing Home Sales SAAR	MAY	5,410K	5,360K	5,600K
Current Account SA	Q1	-$291.4B	-$269.5B	-$224.8B
Continuing Jobless Claims SA	06/11	1,315K	1,318K	1,310K
Initial Claims SA	06/18	229.0K	225.0K	231.0K
PMI Composite SA (Preliminary)	JUN	51.2	52.7	53.6
Markit PMI Manufacturing SA (Preliminary)	JUN	52.4	56.3	57.0
Markit PMI Services SA (Preliminary)	JUN	51.6	53.5	53.4
Kansas City Fed Manufacturing Index	JUN	12.0	-	23.0

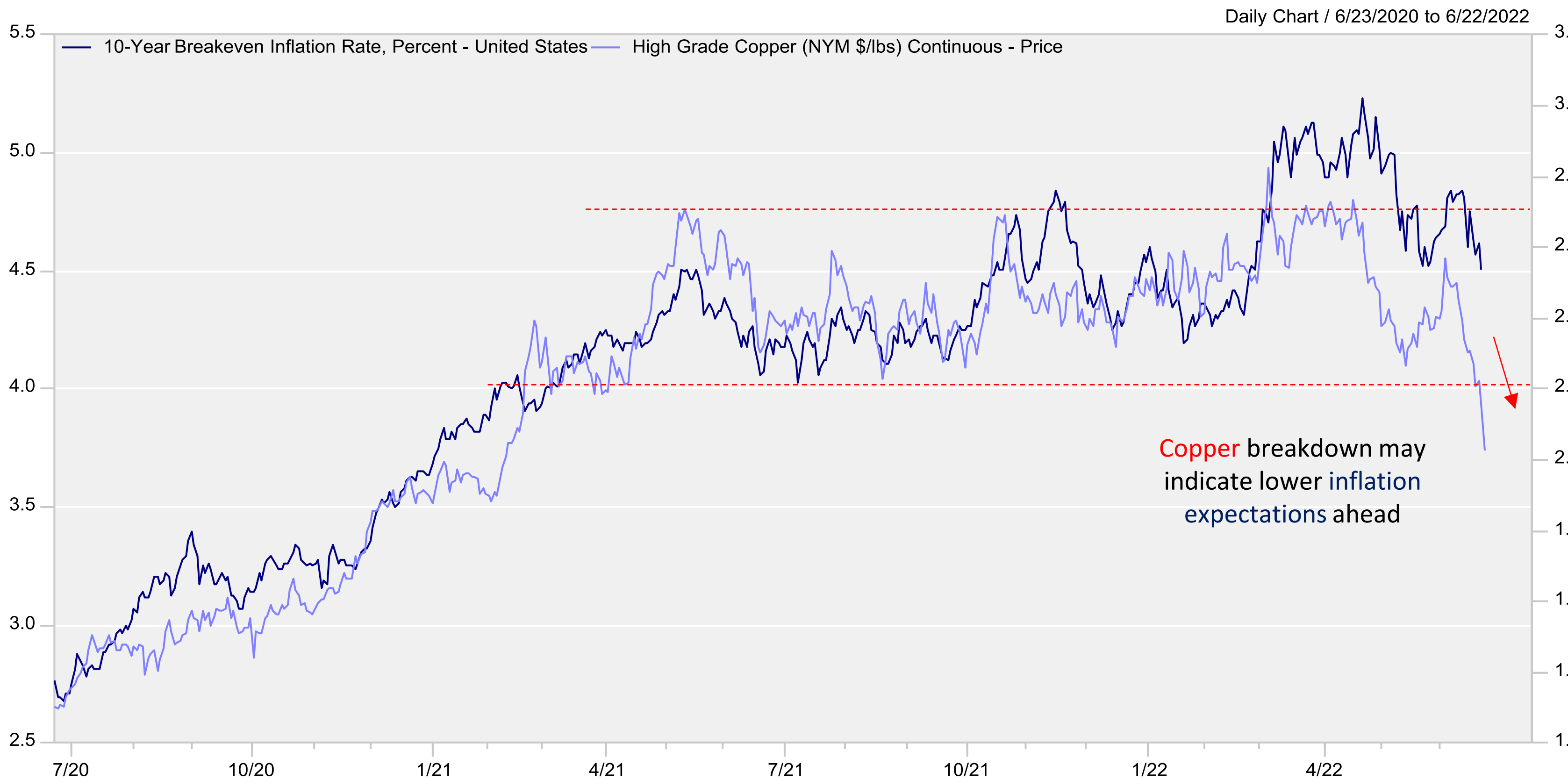




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INFLATION EXPECTATIONS

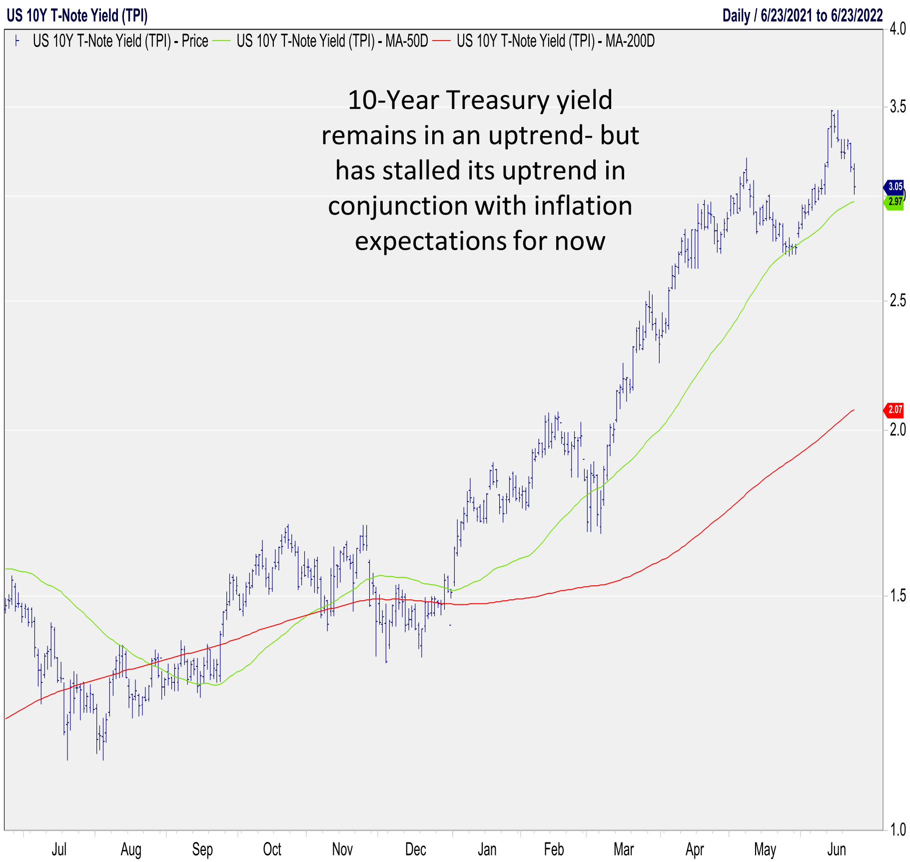
A positive on the inflation front over the past week has been the breakdown in Copper, along with broad weakness across the commodity complex. There has been a strong correlation between Copper prices (red below) and inflation expectations (dark blue below), so the technical breakdown in Copper may be foreshadowing a decline in inflation expectations ahead. Increasing odds of recession are likely contributing to the decline in Copper, so this does not indicate that we are "out of the woods yet" on economic weakness and market challenges. However, it is a move in the right direction that supports our view of moderating inflation in the economic outlook- and positive equity market returns over the next 12 months. *(Continued on next page)*

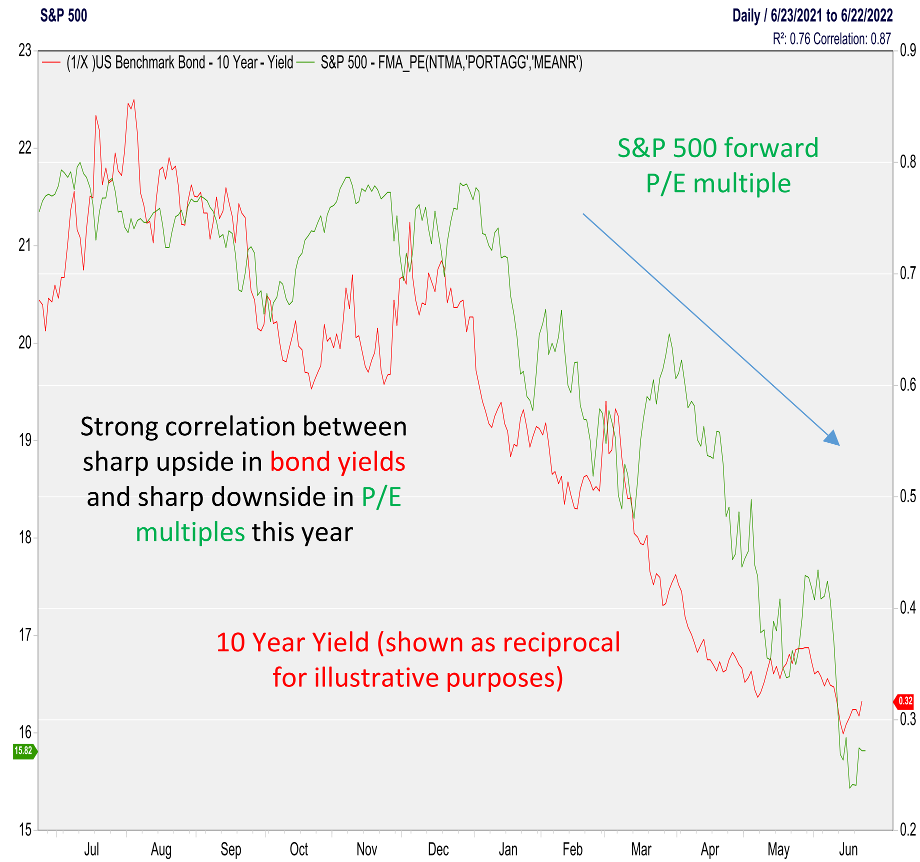


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INFLATION EXPECTATIONS

As stated on the previous page, inflation expectations may be set to moderate. To show how the market is so intertwined, lower inflation expectations are likely to ease the upward trend in bond yields. We do believe that a case can be made for bond yields to be at or near a peak if inflation can peak. And there has been a strong inverse correlation between bond yields and S&P 500 P/E multiples this year. So a stall or decline in bond yields is likely to correspond with a pause or bounce in valuations. The longer these trends can persist and prove durable, the more conviction investors can have on the outlook and apply higher multiples to stocks.



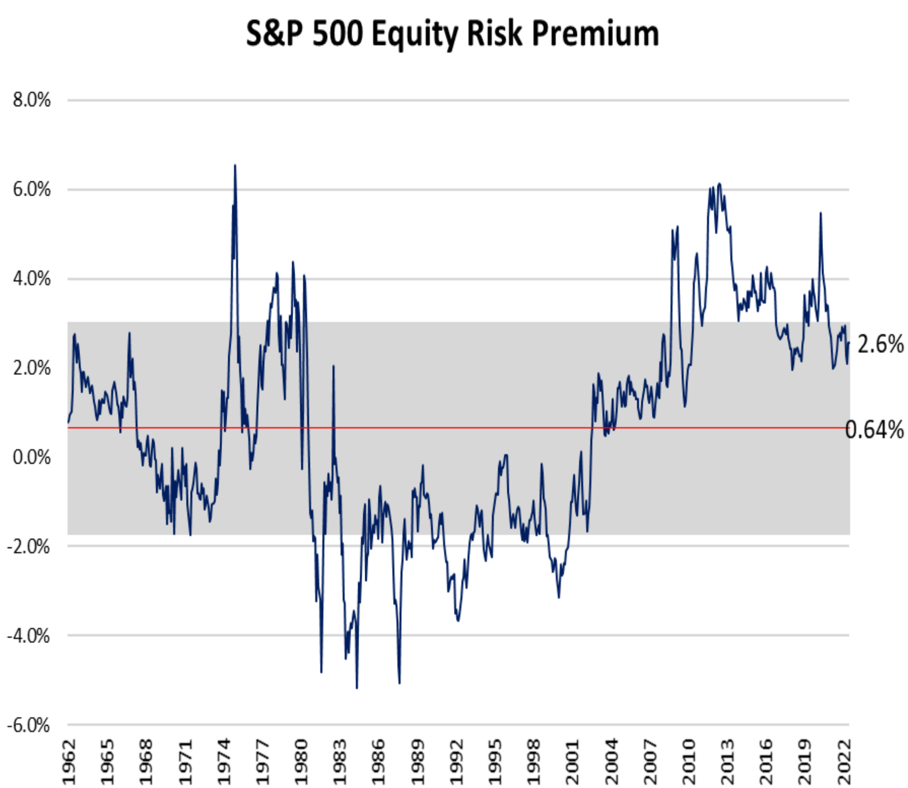


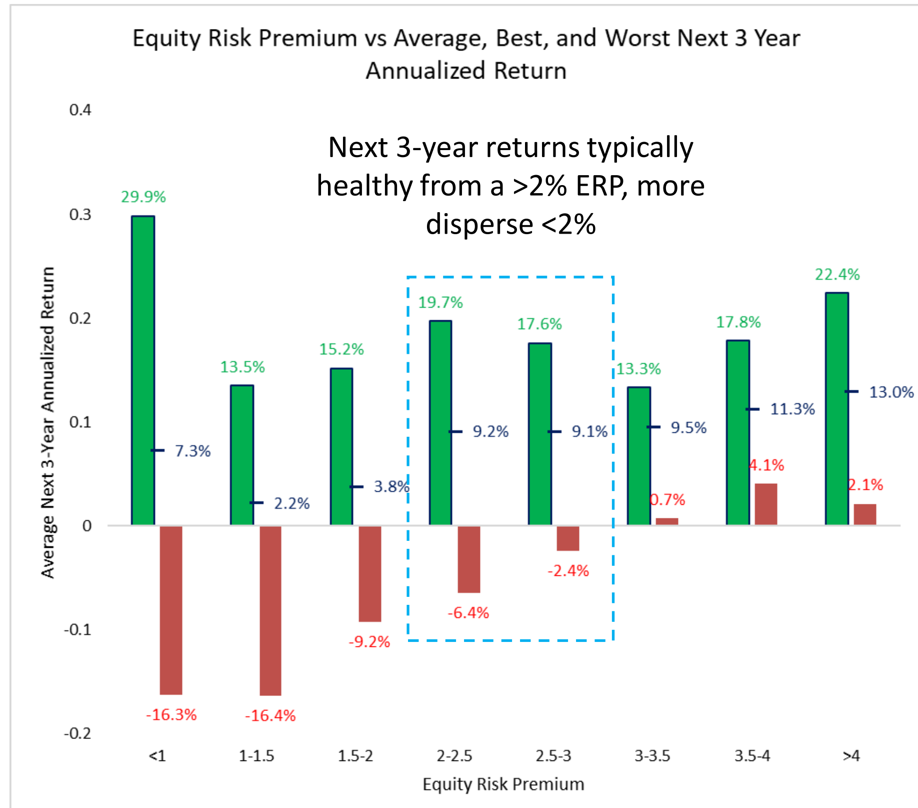
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUATION

Despite the sharp rise in interest rates, the equity risk premium (difference between S&P 500 earnings yield and 10-year Treasury yield) is an elevated 2.6%. Historically, this has been an attractive level for long-term investors with ~9% compounded annual returns seen over the following 3 years (and high odds of positive returns). This value proposition would improve in our view should the 10-year Treasury yield be at or near a peak (as our fixed income strategists believe). So while valuation is not a great timing mechanism, we do believe the long-term outlook is becoming more attractive for investors "once the dust settles" on this bear market.

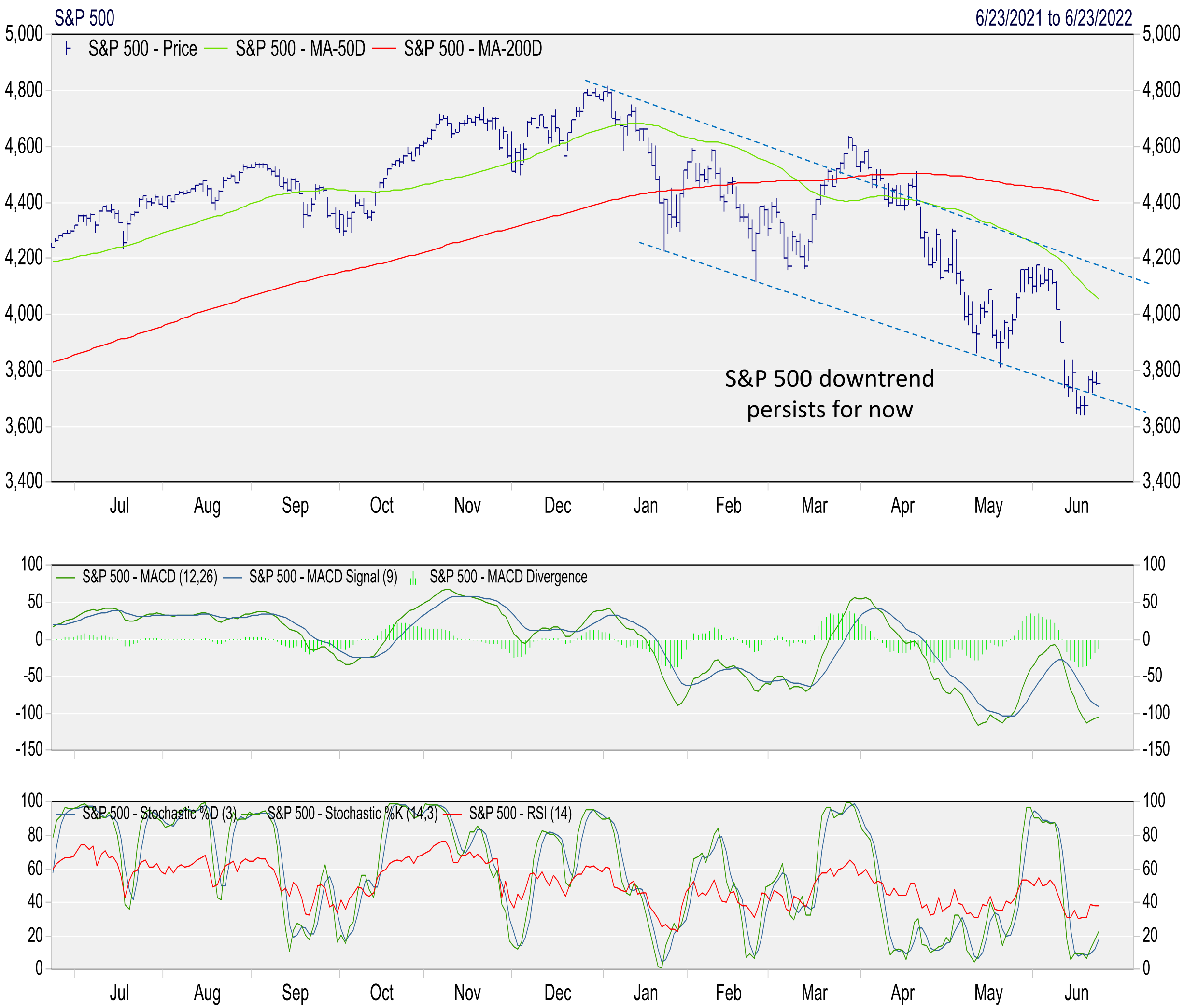
Value proposition improving for long-term investors





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

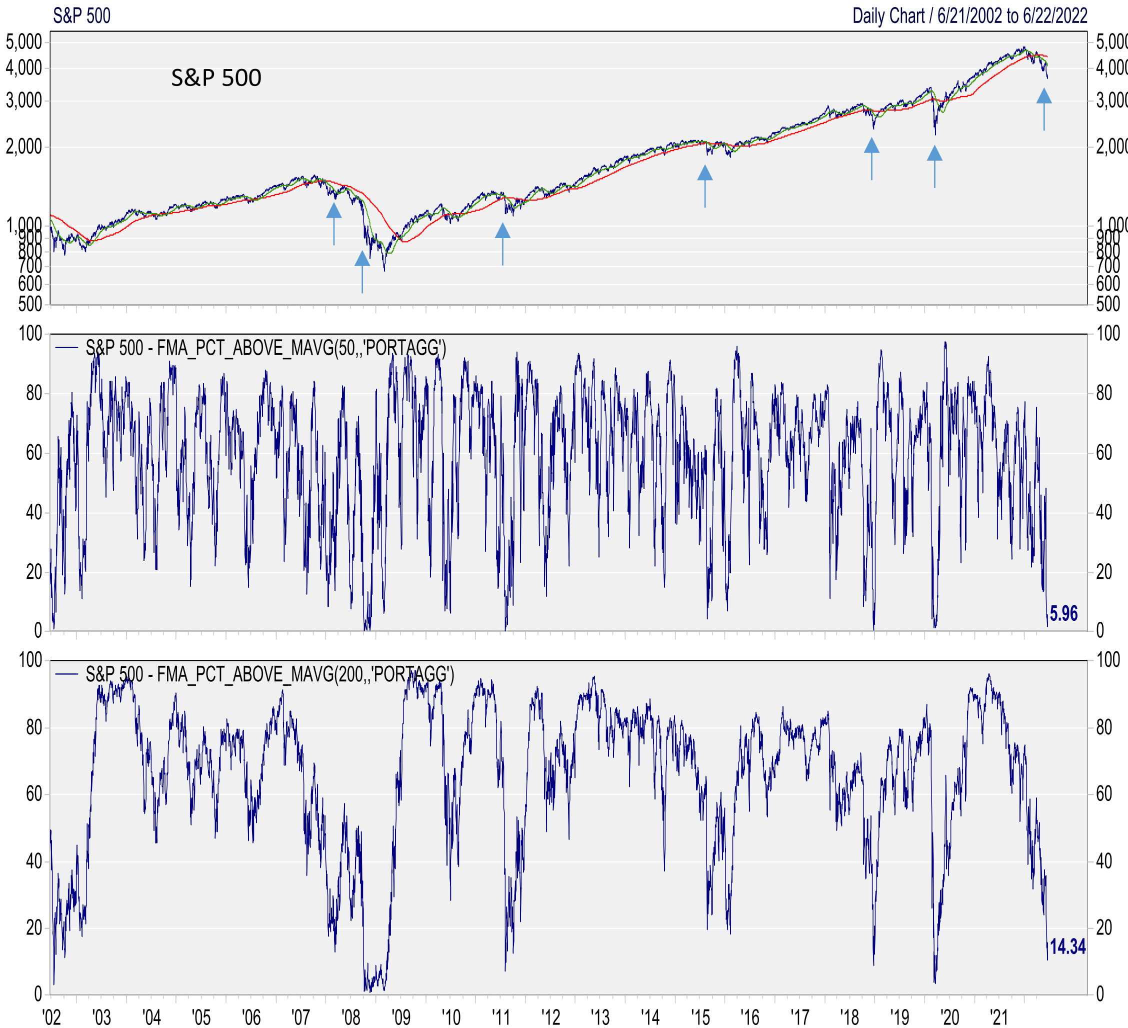
After dropping ~12% over just 7 days surrounding the hot May inflation report, the S&P 500 has attempted to bounce from oversold levels. The rally has not amounted to much yet, and the index remains below the ~3800 breakdown point of previous lows. That said, internals are still oversold and can allow for modest bear market bounces.

We have seen two very quick ~10% rallies this year that were unable to hold up. What we would like to see is an ability to take out resistance in rallies and hold support on pullbacks- i.e. break the downward trend that has persisted all year (continuous sequence of lower highs and lower lows). Inflationary data will remain a large influence on the market trend.

With the path of least resistance lower for now, economy slowing, inflation high, and the Fed in tightening mode, we continue to err on the side of caution. We see fundamental and technical justification for the 3400-3600 area as downside potential, followed by 3000-3200 if inflation is unable to improve (and recession ensues).

We do believe that equities are likely to be higher than current prices over the next 12 months given our base case economic outlook of moderating inflation. However, we are not convinced that the bear market lows have been met yet. In sum, expect continued challenges in the shorter-term- but use the downdrafts as opportunity to accumulate for the longer-term.

PERCENTAGE OF STOCKS ABOVE MOVING AVERAGES



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

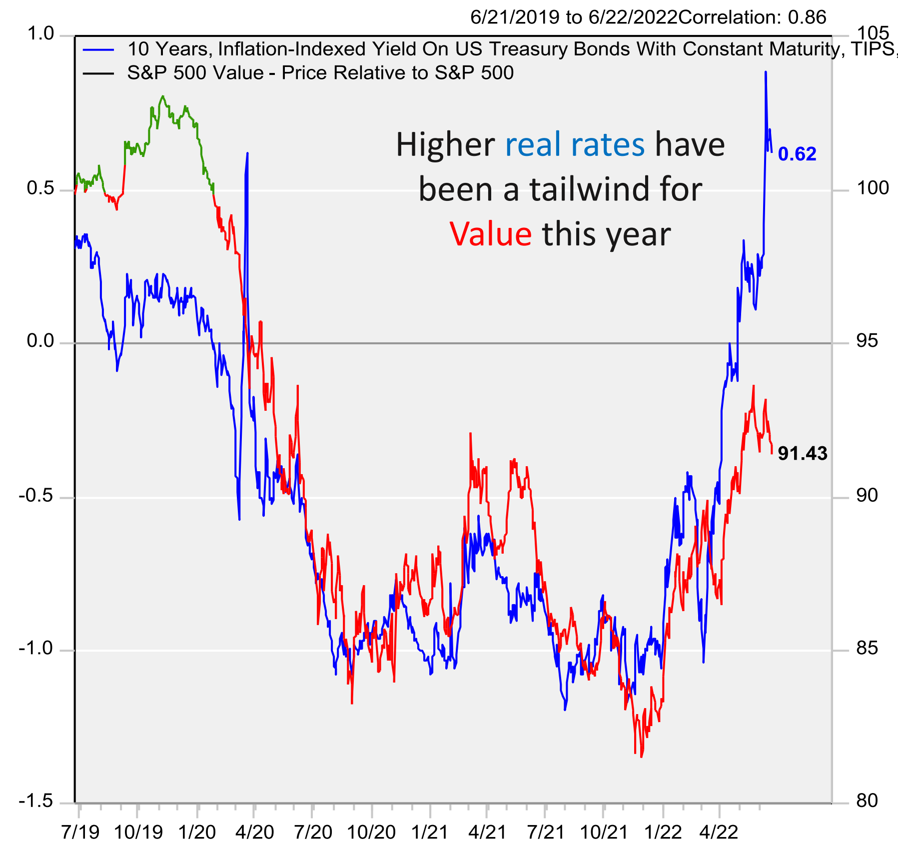
For all of the negative headlines and concern, equities are oversold. The percentage of S&P 500 stocks above their 50-day moving average is down to 5% and percentage above their 200 DMA is down to 14% (these reached 2% and 11% respectively over the past week at the lows). These are the types of readings that can occur near market lows.

Some periods ultimately have to move lower (i.e. 2008 credit crisis), while others take time to digest the weakness chopping sideways (i.e. 2011 EU debt crisis and 2015 manufacturing recession). We do not believe the environment is right currently for a V-bottom like that seen in late 2018 (trade war) and 2020 (Covid shutdown) due to inflation being so high and the Fed behind the curve. Unfortunately, we do not have the luxury at the moment for a quick dovish pivot, which came to the rescue in those periods. But even in the instances where the S&P 500 ultimately moves lower or chops sideways for a period of time, there are typically short-term bounces first from similar oversold levels.

At the sector level, Energy and more defensive areas have held up best through the volatility this year- and they are likely to remain leadership as long as the bear market persists. But on the other side of the current weak trend, we believe the beaten-up areas such as Technology and Consumer Discretionary could see the sharpest rallies. Accordingly, we would use the market downdrafts as opportunity to accumulate favored stocks with a longer-term perspective (and more levered to a recovery into the next bull market).

GROWTH

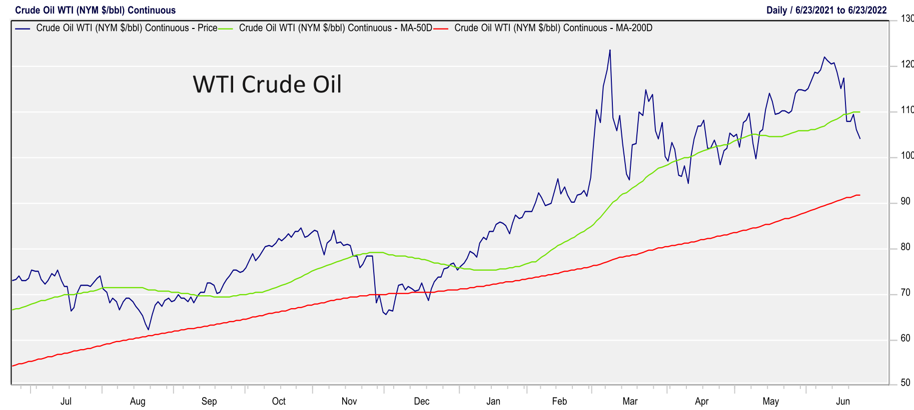
Value relative performance has been strongly correlated to real rates over the past few years, and belief that they would rise has supported our positive stance on Value this year. However despite the sharp rise in real rates lately, Growth was able to put in a higher relative strength low recently. This is an interesting technical divergence and could signal that Growth is due to make up some relative performance vs Value in the short-term- particularly if bond yields can continue to stall their ascent. As stated previously, we are not convinced that the recent market lows will prove durable yet; but we do believe Growth is an area that can outperform once the market's weak trend turns. Accordingly, we would use the market downdrafts as opportunity to accumulate Growth in portfolios.

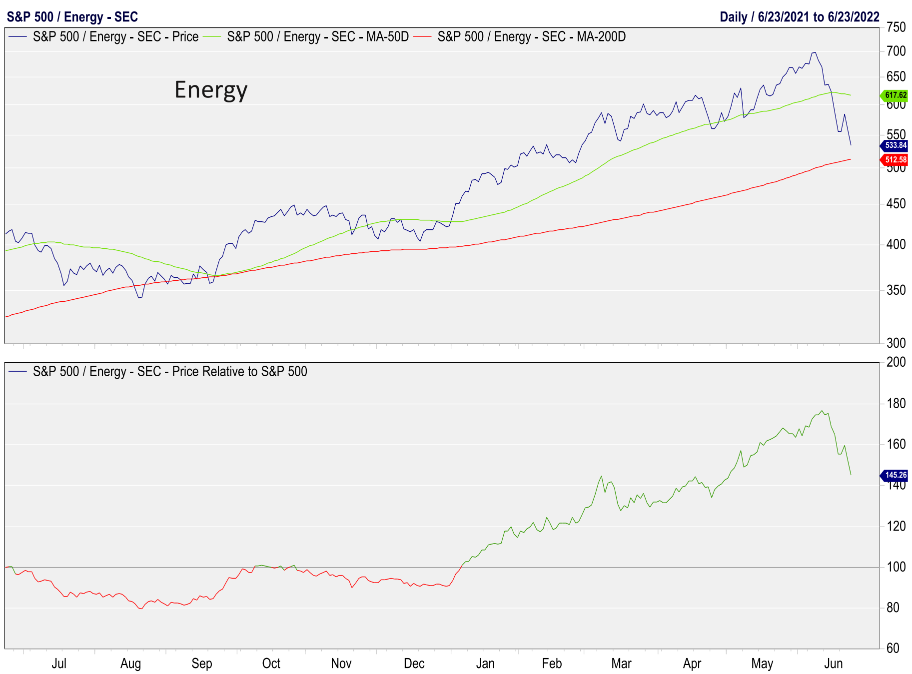


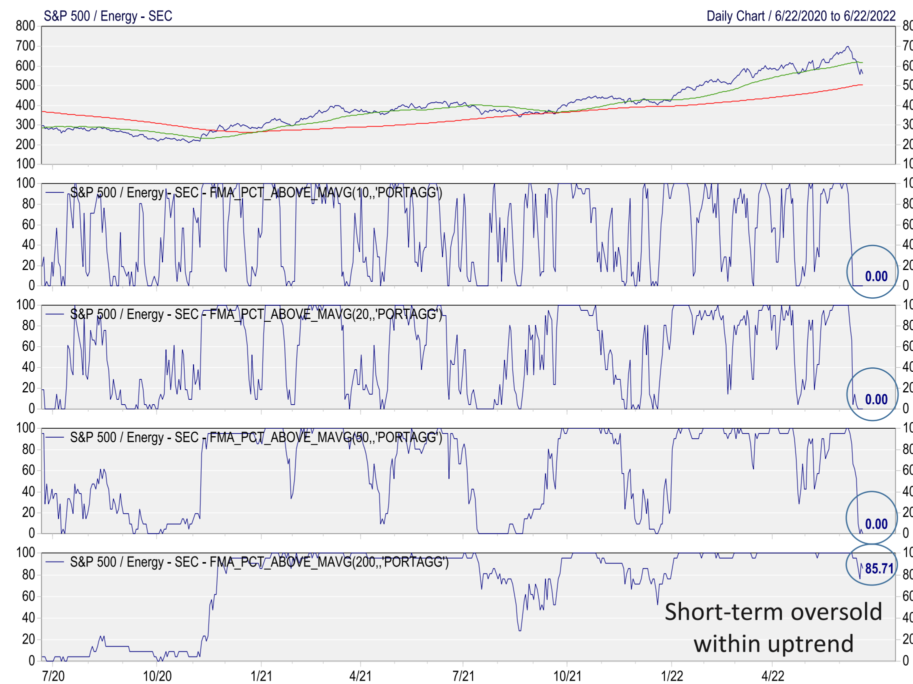
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ENERGY

We have been stating for several weeks that the fundamental and technical backdrop was strong for Energy but that the group needed to consolidate its notable up-move. In just 9 days, the sector has pulled back -24% with a decline in oil prices. For investors wanting to increase their exposure to this group, we would use the sharp pullback as a buying opportunity. The sector is very oversold in the short-term within a positive longer-term uptrend. Additionally, WTI crude oil prices are still north of $100/barrel and operators remain very disciplined on the cost-front, resulting in immense cash flow generation. Valuation is also attractive in our view at just a 10.9x P/E. This is a 43% discount to the S&P 500 P/E, which is at the lower end of its past 20-year relative P/E range.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4803452)

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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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