RAYMOND JAMES

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## Weekly Market Guide

**Short-Term Summary:**

The first half of 2022 is coming to a close with the S&P 500 in a bear market and down ~21% year-to-date. The year was expected to be marked by a normalization of economic and earnings growth, valuation, and returns as the Fed ended its unprecedented level of monetary stimulus out of the Covid shutdown. But volatility intensified with inflation reaching 40-year highs, contributed greatly by the Russia/Ukraine war and China's zero-tolerance Covid policy. Stubbornly high inflation is putting increasingly more pressure on consumer disposable income and corporate margins- and complicating the Fed's objective of bringing inflation to a more comfortable level within a slowing economic backdrop. For example, the expected fed funds rate by December has risen to 3.4% from 0.8% when the year began.

Ultimately, convincing improvement on inflation is what is needed to ease strains through the broad market. A durable bottom in stocks likely comes in conjunction with a peak in oil prices, inflation, and bond yields. There has been some progress lately as the sharp uptrend in commodities and bond yields has subsided a bit, but it may be premature to call a definitive top in them yet. Accordingly, we have seen positives on the underlying drivers of inflation, but a moderation from lofty levels is likely to take some time.

Over the next 12 months, we do expect inflation to moderate and for equities to be higher than current levels. Though not necessarily at "wash out" levels, valuation has become very compelling for many stocks- resulting in opportunity for long-term investors. But the shorter-term (weeks to months) is likely to remain challenged with additional weakness. The predominant market trend remains lower for now, leadership continues to skew defensively, and market indicators such as CDS spreads have yet to improve. And it may take some time for equities to ultimately climb out of the current weakness. The potential for a sharp V-bottom back to the old highs is low in the current environment due to high inflation- we do not have the luxury of the Fed coming to the rescue yet (like the quick dovish pivots out of the 2018 trade war and 2020 Covid shutdown).

With this in mind, we continue to err on the side of caution in the shorter-term. But recommend long-term investors use the market downdrafts as opportunity to accumulate high quality, favored names for the inevitable recovery on the other side of this bear market.

| Equity Market Indices | Price Return Year to Date | Price Return 12 Months |
|---|---|---|
| Dow Jones Industrial Avg | -14.6% | -9.5% |
| S&P 500 | -19.9% | -11.0% |
| S&P 500 (Equal-Weight) | -16.9% | -10.1% |
| NASDAQ Composite | -28.6% | -23.1% |
| Russell 2000 | -23.4% | -25.5% |
| MSCI All-Cap World | -20.0% | -16.4% |
| MSCI Developed Markets | -19.8% | -19.5% |
| MSCI Emerging Markets | -17.8% | -26.4% |
| NYSE Alerian MLP | 6.8% | -0.9% |
| MSCI U.S. REIT | -21.2% | -9.3% |

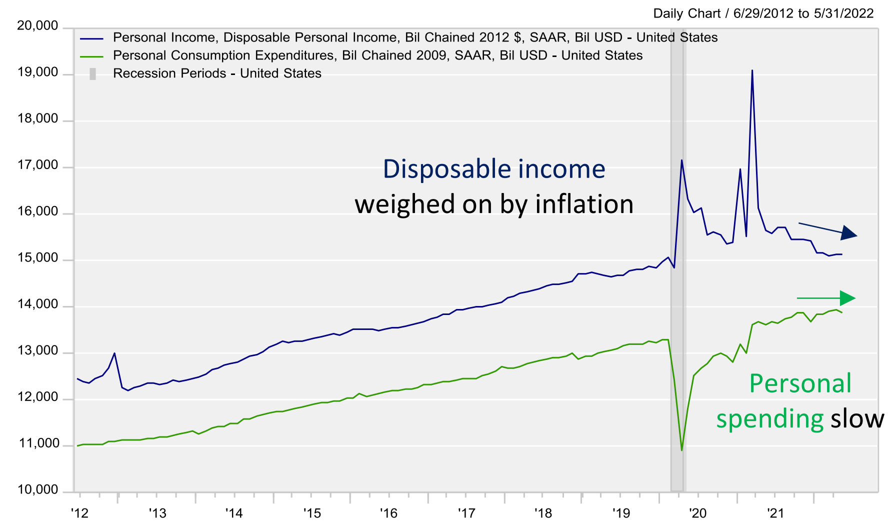
| S&P 500 Sectors | Price Return Year to Date | Sector Weighting |
|---|---|---|
| Energy | 31.9% | 4.4% |
| Utilities | -3.1% | 3.0% |
| Consumer Staples | -6.7% | 6.9% |
| Health Care | -8.8% | 15.1% |
| Materials | -17.7% | 2.6% |
| Industrials | -17.7% | 7.7% |
| Financials | -18.8% | 10.8% |
| ***S&P 500*** | ***-19.9%*** | - |
| Real Estate | -21.3% | 2.9% |
| Information Technology | -26.3% | 27.0% |
| Communication Svcs. | -29.4% | 8.9% |
| Consumer Discretionary | -32.0% | 10.6% |

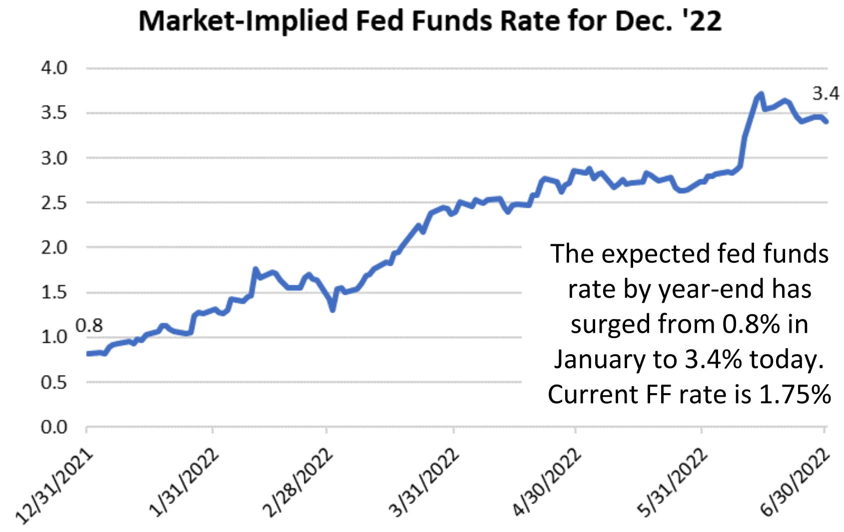
Source: FactSet, RJ Equity Portfolio & Technical Strategy

## MACRO: US

Personal consumption rose by just 0.2% in May, below the 0.6% rise in PCE inflation – indicating real consumption growth was negative during the month. This is another data point showing high inflation is weighing on disposable income and purchasing power. Additionally, disposable income has contracted slightly since January despite total personal income continuing to trend higher. The overall takeaway, in conjunction with regional surveys and consumer confidence this week, is that the economic backdrop is slowing. On the plus side, this weakening growth should be a headwind for inflation. Core PCE rose just 0.35% in May, below the 0.5% consensus estimate, and ticked down to 4.7% y/y (from 4.9%). This is likely not enough to alter the Fed in July (75bp hike expected), but inflationary progress in July and August may ease expectations for later in the year (4-5 additional 25bp hikes expected in Sep-Dec).

| Event | Period | Actual | Consensus | Prior |
|---|---|---|---|---|
| Building Permits SAAR (Final) | MAY | 1,695K | 1,695K | 1,695K |
| Michigan Sentiment NSA (Final) | JUN | 50.0 | 50.2 | 50.2 |
| New Home Sales SAAR | MAY | 696.0K | 590.0K | 629.0K |
| Durable Orders ex-Transportation SA M/M (Preliminary) | MAY | 0.70% | 0.30% | 0.20% |
| Durable Orders SA M/M (Preliminary) | MAY | 0.70% | 0.05% | 0.38% |
| Pending Home Sales M/M | MAY | 0.70% | -4.0% | -4.0% |
| Dallas Fed Index | JUN | -17.7 | -0.50 | -7.3 |
| Wholesale Inventories SA M/M (Preliminary) | MAY | 2.0% | 1.9% | 2.3% |
| S&P/Case-Shiller comp.20 HPI M/M | APR | 1.8% | 1.5% | 2.4% |
| S&P/Case-Shiller comp.20 HPI Y/Y | APR | 21.2% | 21.0% | 21.1% |
| Consumer Confidence | JUN | 98.7 | 101.0 | 103.2 |
| Richmond Fed Index | JUN | -19.0 | 1.0 | -9.0 |
| GDP Chain Price SAAR Q/Q (Final) | Q1 | 8.2% | 8.1% | 8.1% |
| GDP Chain Price SA Y/Y (Final) | Q1 | 6.8% | 6.8% | 6.8% |
| GDP SAAR Q/Q (Final) | Q1 | -1.6% | -1.5% | -1.5% |
| GDP SA Y/Y (Final) | Q1 | 3.5% | 3.5% | 3.5% |
| Continuing Jobless Claims SA | 06/18 | 1,328K | 1,310K | 1,331K |
| Initial Claims SA | 06/25 | 231.0K | 227.0K | 233.0K |
| Core PCE Deflator M/M | MAY | 0.35% | 0.50% | 0.33% |
| Core PCE Deflator Y/Y | MAY | 4.7% | 4.8% | 4.9% |
| PCE Deflator SA M/M | MAY | 0.59% | 0.70% | 0.24% |
| PCE Deflator Y/Y | MAY | 6.3% | 6.5% | 6.3% |
| Personal Consumption Expenditure SA M/M | MAY | 0.20% | 0.20% | 0.60% |
| Personal Income SA M/M | MAY | 0.50% | 0.50% | 0.50% |
| Chicago PMI SA | JUN | 56.0 | 58.3 | 60.3 |

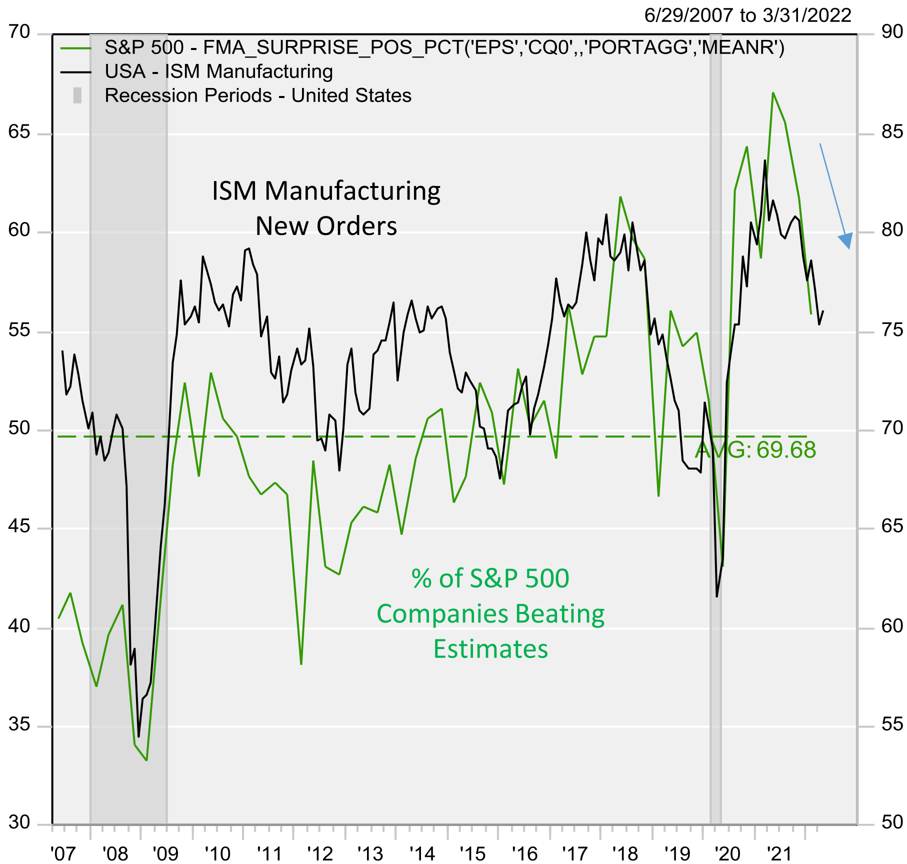


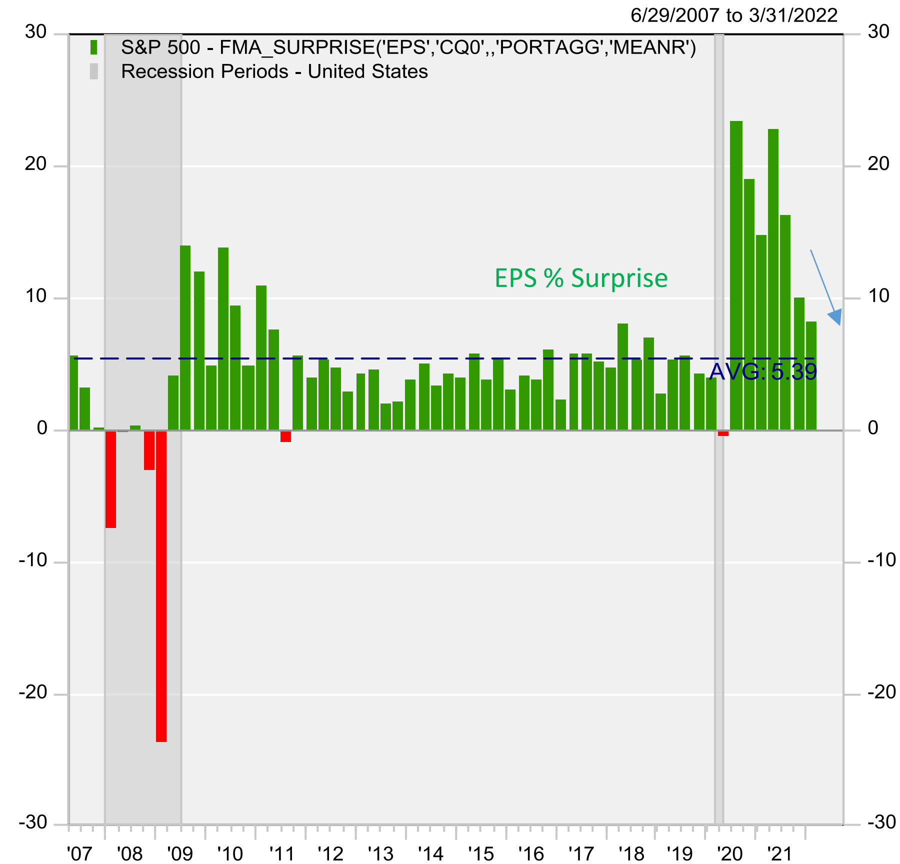




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## Q2 EARNINGS SEASON

With June ending, Q2 earnings season will begin in a couple of weeks. In our view, the slowing economic backdrop will likely lead to a lower number of companies beating estimates, along with a lower level of earnings upside, than investors have grown accustomed to since the Covid shutdown. In fact, 73% of the “early Q2 reporters” are beating estimates by just 2.3% right now. This is in line with the downward trend in economic surveys, and below the long-term average of 5.4% upside to earnings results. *Continued on next page*



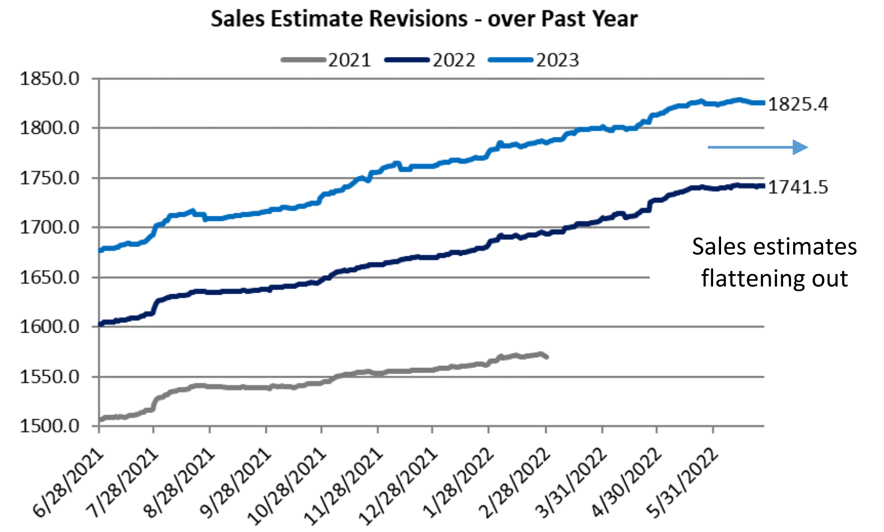

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

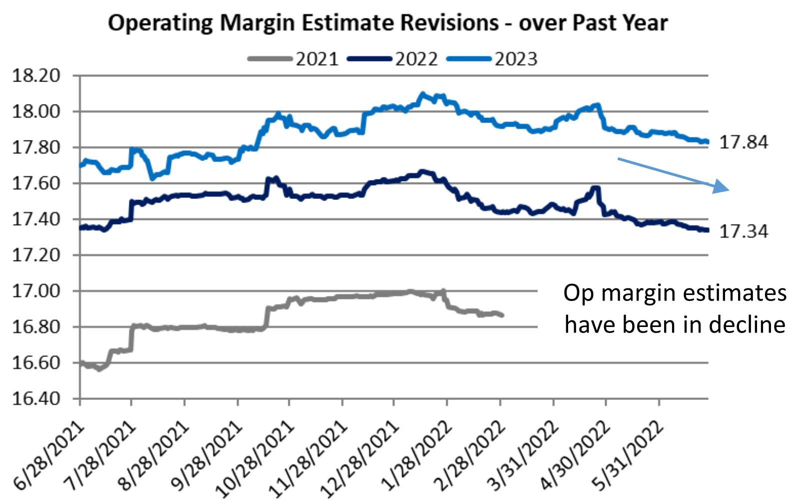
## Q2 EARNINGS SEASON

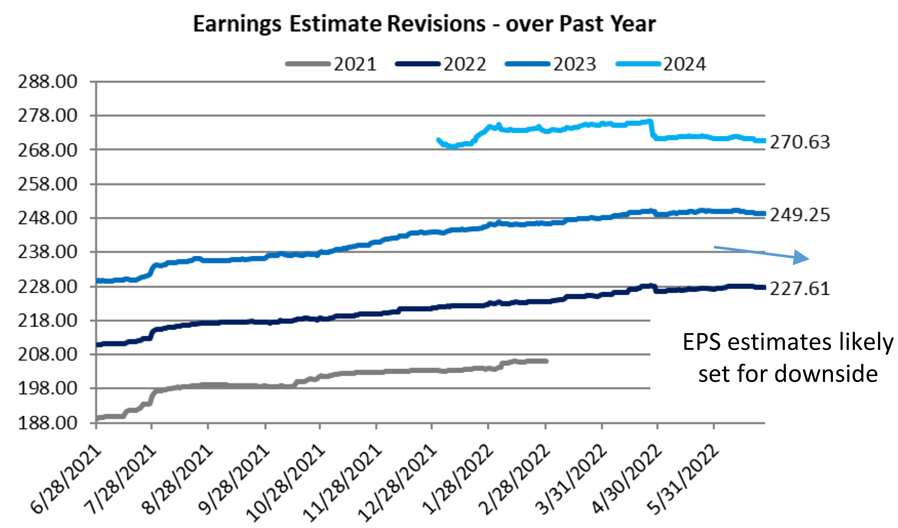
Of course, forward guidance will also be very important (if not more important) for investors. S&P 500 earnings estimates have held up very well so far, boosted by strong upward revisions from Energy and stable revisions from the large Tech sector. However, there have been plenty of negative revisions beneath the surface, particularly in areas such as Consumer Discretionary.

For the S&P 500 overall, positive sales estimate revisions have offset the decline in margin estimates over recent months- resulting in relatively healthy S&P earnings trends.

However, we believe forward estimates are too high and are likely set for downward revisions ahead. We have a $220 earnings estimate for 2022, below the consensus estimate of $227- on slightly lower sales estimates and lower margin assumptions. *Continued on next page*



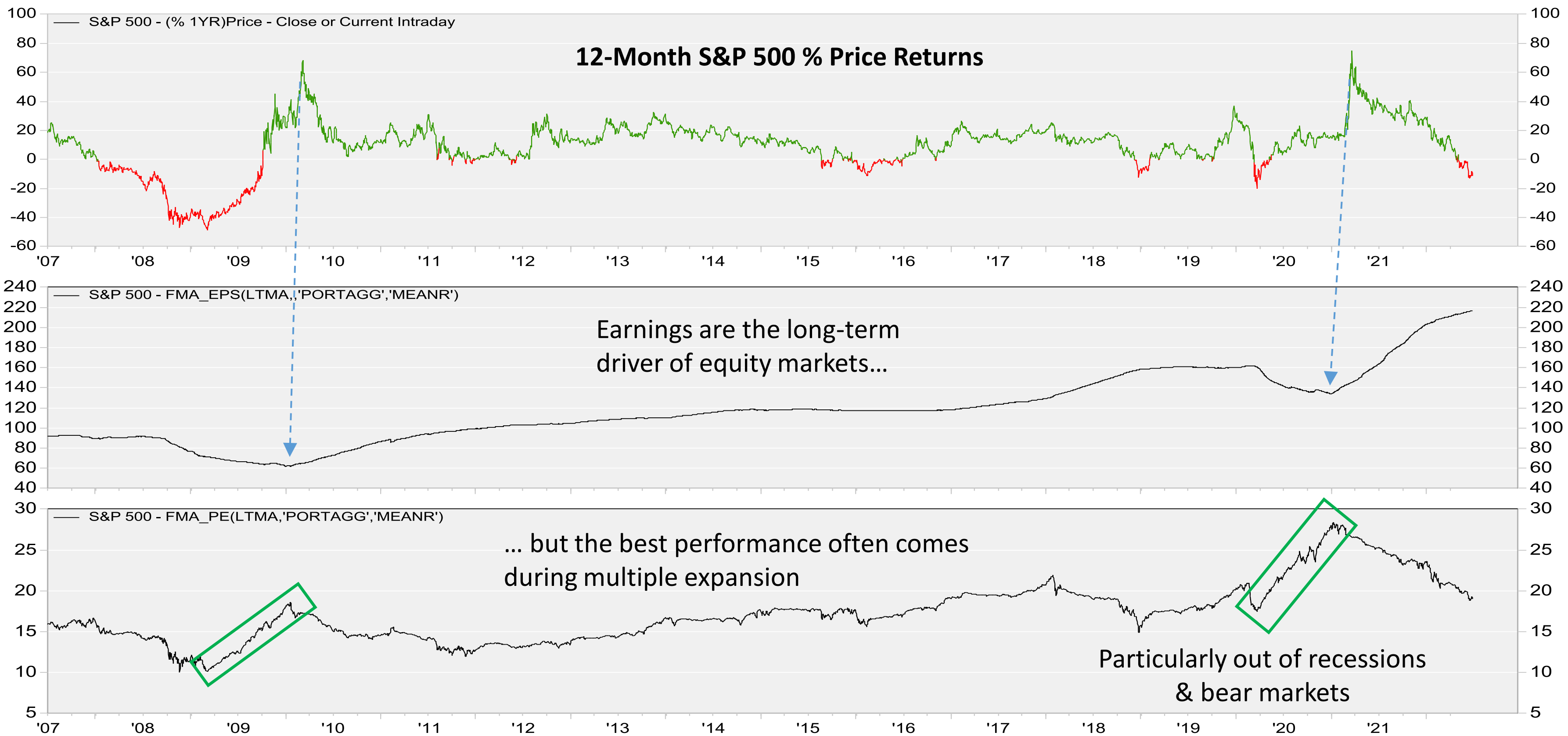




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

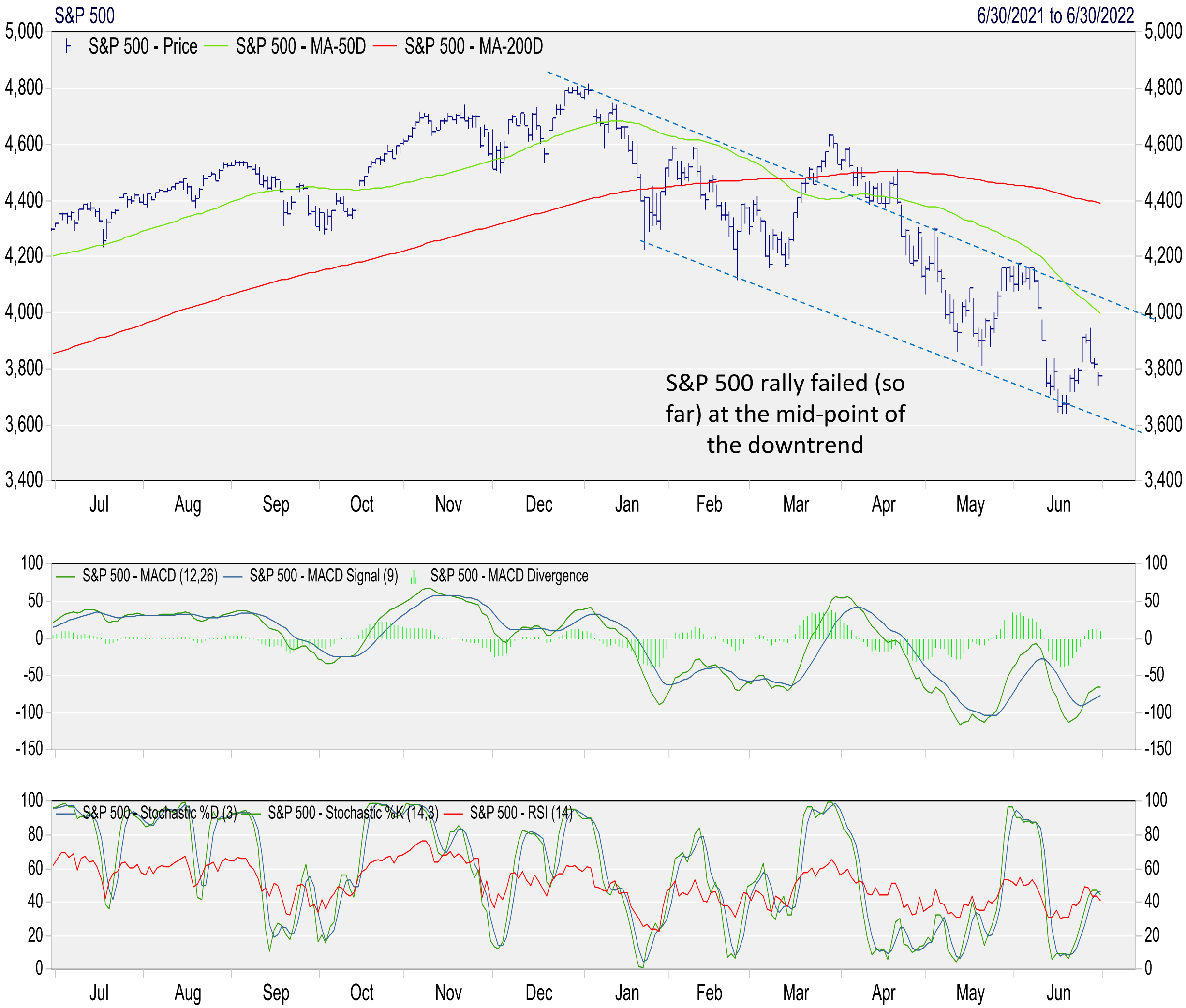
## EARNINGS

While we are likely at the stage where earnings estimates start to move lower (and earnings are the long-term driver of stock returns), the most significant "runs for price" are fueled by expanding multiples. A lot of negative news has been priced in with the S&P 500 -24% off its highs (and P/E multiple down to 17x from 28x). And the market will bottom before the economy and earnings. As you can see below, in the last two recessions (2009 and 2020), the 12-month S&P 500 price return was already very strong by the time earnings bottomed due to multiple expansion (stocks discount the future). We are not yet ready to say P/E multiples have bottomed; but when they do, forward returns are likely to be positive despite lower earnings to come.




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## TECHNICAL: S&P 500




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The 5-day 8.4% bounce failed at the mid-range of the current downtrend channel so far. Earnings season kicks off in 9 trading days (July 14th with the banks) and likely influences the next wave for the market.

We will be watching for potential support between 3500-3600, which contains the 50% Fibonacci retracement measured from the Covid low to the January 2022 high. The 200-week moving average also comes in near the lower end of this range around 3510.

A move higher could be met with initial resistance around the 21DMA, currently at 3915, and then at the short-term downtrend line, currently around 4028.

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 in the months ahead (and recession ensues).

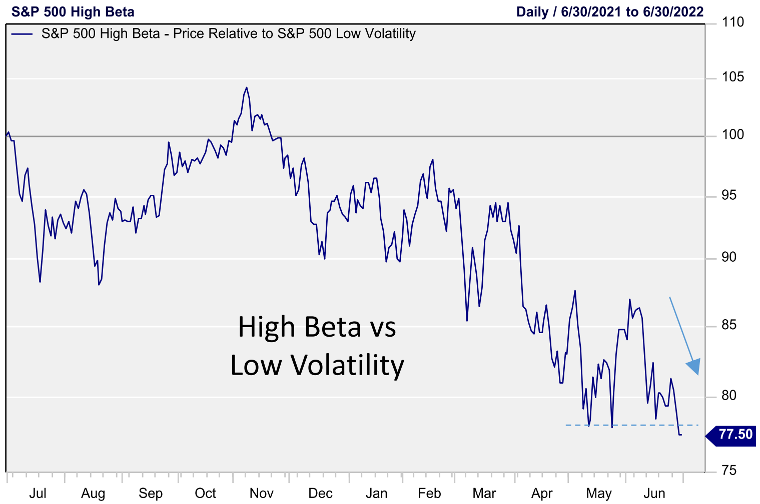
That said, we do believe that equities are likely higher over the next 12 moths given our base case economic outlook of moderating inflation. As such, expect continued challenges in the shorter-term but use the downdrafts as opportunity to accumulate for the longer-term.

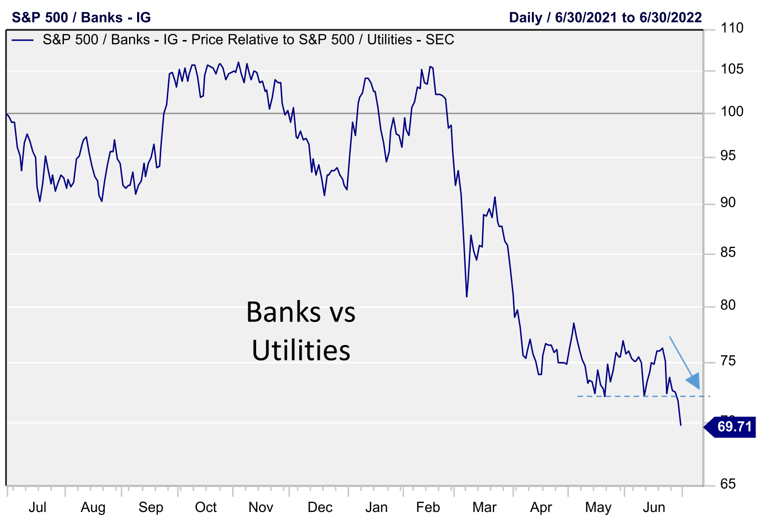
## CREDIT DEFAULT SWAPS

High yield credit default swaps have been a good indicator on market trends this year, and we continue to monitor them for signs of improvement. As a reminder, credit default swaps are essentially the price of insurance on bonds- with higher premiums as economic concerns rise. Unfortunately, after pulling back during the market's recent bounce, CDS spreads held their 20-day moving average support and have resumed higher. They are closer to new highs than equities currently to new lows- indicating to us that stocks likely need to be lower.


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

## MARKET LEADERSHIP STILL DEFENSIVE

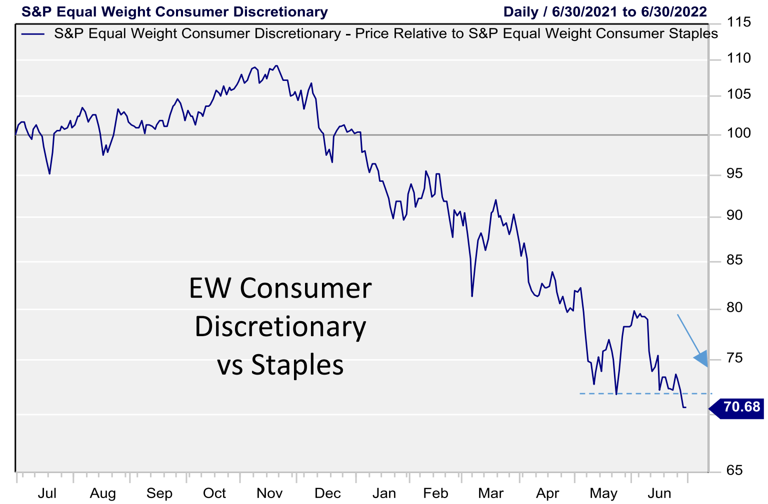


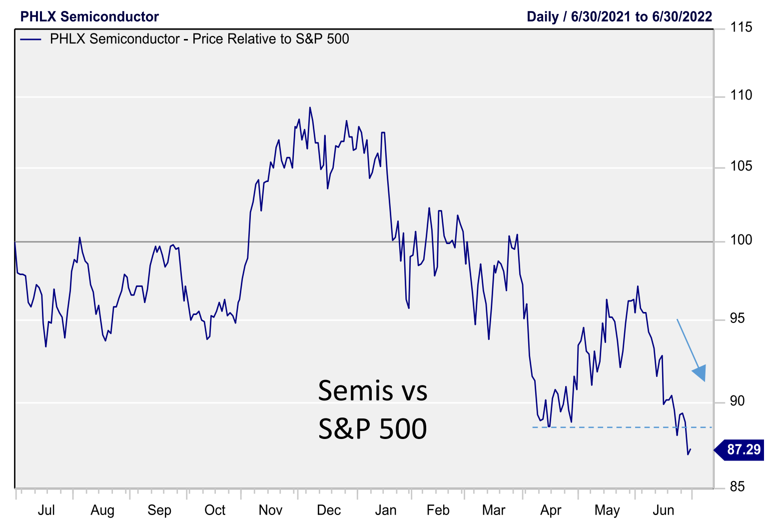




The relative performance of High Beta vs Low Volatility, Consumer Discretionary vs Consumer Staples, Banks vs Utilities, and Semiconductors vs S&P 500 are all breaking to new lows.

This is not the type of underlying performance trends we would like to see in order to get more constructive on the overall market trend.

Their relative strength breakdowns support the weak, downward trend that persists for the broader market right now.

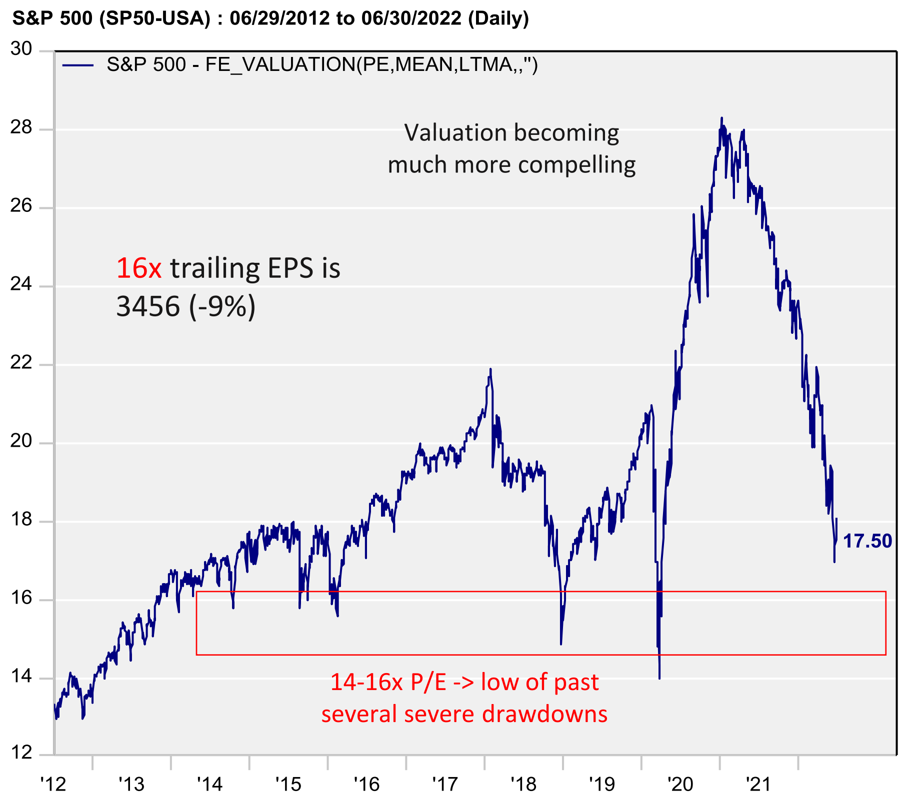



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## POTENTIAL DOWNSIDE

In assessing where the S&P 500 may ultimately find a bottom, we find credence for the 3400-3600 area both fundamentally and technically. Fundamentally, the S&P 500 has found a bottom at 14-16x P/E in the last several severe drawdowns (i.e. 2015/16 manufacturing recession, 2018 trade war, 2020 Covid shutdown). At 16x, the S&P 500 would trade at 3456. And the 43% P/E contraction to 16x (from the peak P/E of 28x) would be in line with that seen during the dotcom bubble and credit crisis recessions. Technically, this area comes in conjunction with the 200-week moving average (3510) which has generally been a good level of support in major weakness over the past decade. Also, it is interestingly near pre-Covid highs (completely round-tripping the historic ascent out of the shutdown). Ultimately, inflation will determine when and where the market is able to put in a bottom and rebuild for renewed upside.


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4827987)

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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.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

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