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JULY 14, 2022 | 3:27 PM EDT

Weekly Market Guide

Short-Term Summary:

Wednesday's much hotter-than expected CPI report was the latest upside surprise on inflation, pushing the year-over-year reading to 9.1% (41-year high). In fact, the month-over-month reading of 1.3% was one of the highest on record as well (largest since Sep 2005's Hurricane Katrina-induced 1.4%). The ugly inflation report puts further pressure on the Fed for a heavier hike at its July 27th FOMC meeting. The market-implied odds of another 75bp hike are now 100%, and odds of a 100bp hike are up to 70%- which will take the fed funds rate up to ~2.5%. The Fed is unable to improve supply issues, but it can negatively impact demand toward supply. This is what is playing out to bring inflation under control, with high odds of economic contraction as it takes place.

That said, inflation is a lagging indicator and we expect it to moderate in the months ahead. Oil prices are trading at their lowest level since February today (and down 24% over the past month). The ag commodities (i.e. cotton, wheat, corn, soybeans) have also shown significant weakness since mid-June, which will trickle through the system and lower consumer price pressures. Moreover, many major retailers have noted over-supply. With supply improving and overall demand moderating (low disposable income and weak asset prices weigh on spending), inflation is very likely to moderate over the coming months in our view.

Equities have discounted a lot of negative news (down 24% from prior highs), but the predominant market trend still remains downward. The S&P 500 P/E multiple has contracted to a reasonable level (~17x) but may ultimately need to get to 14-16x as it did in the last several severe drawdowns (2020 Covid recession, 2018 trade war, 2016 US manufacturing recession). Q2 earnings season also began this week, and we believe forward guidance will need to be lowered (current estimates are too high in our view). The initial price reaction from the handful of companies reporting so far has been weak, supporting our continued downward bias for the short-term. We expect a retest or undercut of the lows at some point, and highlight the 3400-3600 area as our favored level of potential downside. At 16x trailing 12-month $217 earnings, the S&P 500 would trade at 3472. This P/E contraction would be in line with that seen during the dotcom bubble and credit crisis recessions. Technically, this level coincides with the 200-week average (3519) which has largely held as support over the past decade and is near pre-Covid prices.

Despite our cautious short-term stance, long-term investors should refrain from getting overly negative with the S&P 500 already down over 20% from its highs, and should turn their focus to bull market potential rather than what may be left on the downside of this bear market. Recessionary bear markets average -33% historically, but bull markets gain 152% on average. Don't lose sight of the opportunity on the other side of the current weak trend.

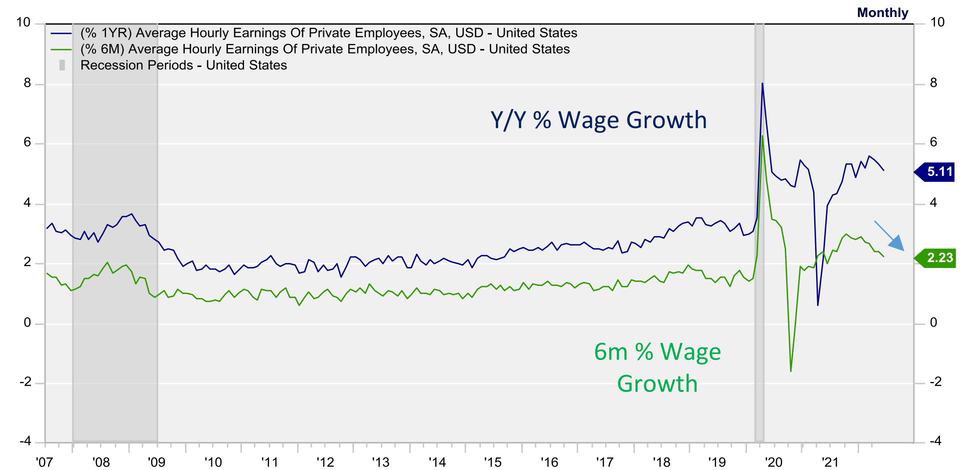
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-15.3%	-11.8%
S&P 500	-20.2%	-13.0%
S&P 500 (Equal-Weight)	-17.4%	-11.0%
NASDAQ Composite	-28.1%	-23.4%
Russell 2000	-23.1%	-22.9%
MSCI All-Cap World	-21.3%	-18.2%
MSCI Developed Markets	-22.0%	-22.0%
MSCI Emerging Markets	-21.2%	-27.6%
NYSE Alerian MLP	6.3%	-0.3%
MSCI U.S. REIT	-21.9%	-12.1%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	24.1%	4.2%
Utilities	-2.8%	3.1%
Consumer Staples	-6.3%	7.0%
Health Care	-9.6%	15.0%
Industrials	-18.7%	7.7%
Financials	-19.9%	10.7%
Materials	-20.2%	2.5%
S&P 500	***-20.2%***	-
Real Estate	-21.4%	2.9%
Information Technology	-26.2%	27.1%
Communication Svcs.	-29.7%	8.9%
Consumer Discretionary	-30.6%	10.9%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

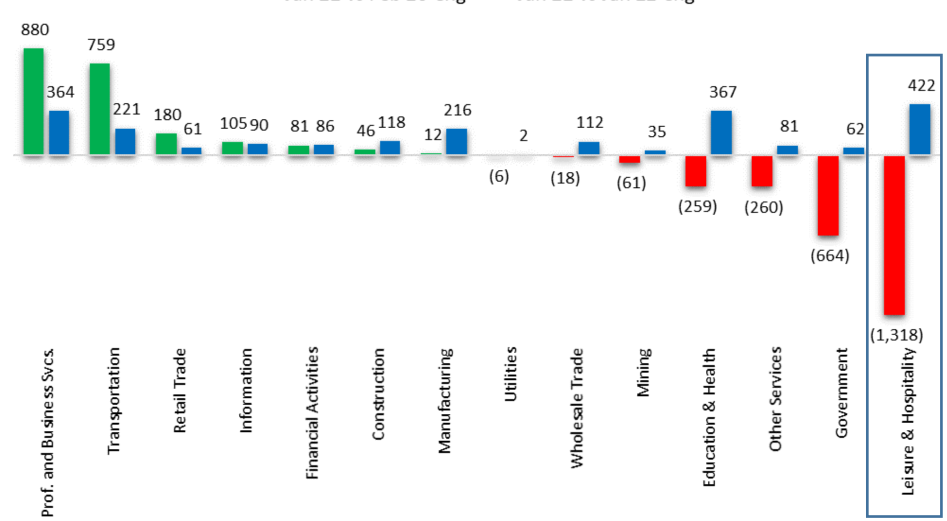
MACRO: US

June nonfarm payrolls rose by a strong 372k, and the unemployment rate stayed at 3.6%. Importantly, hard-hit areas of the pandemic, such as Leisure & Hospitality, have seen the most job growth since Omicron fears declined at the end of January (bottom right chart). With employment improving in the areas that need it most, wage pressures are moderating. The 6-month wage growth rate has continued to decline which should lead to lower y/y numbers ahead- improving inflationary pressure from wages. Overall, the strong jobs report, accompanied by high inflation, emboldens the Fed to hike aggressively this month. *Continued on next page*



Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	JUN	372.0K	276.5K	384.0K
Unemployment Rate	JUN	3.6%	3.6%	3.6%
Wholesale Inventories SA M/M (Final)	MAY	1.8%	2.0%	2.0%
Consumer Credit SA	MAY	$22.3B	$28.5B	$36.8B
NFIB Small Business Index	JUN	89.5	-	93.1
CPI ex-Food & Energy SA M/M	JUN	0.70%	0.60%	0.60%
CPI ex-Food & Energy NSA Y/Y	JUN	5.9%	5.7%	6.0%
CPI SA M/M	JUN	1.3%	1.1%	1.0%
CPI NSA Y/Y	JUN	9.1%	8.8%	8.6%
Hourly Earnings SA M/M (Final)	JUN	0.30%	0.30%	0.30%
Hourly Earnings Y/Y (Final)	JUN	5.1%	-	5.1%
Treasury Budget NSA	JUN	-$88.8B	-$54.0B	-$66.2B
Continuing Jobless Claims SA	07/02	1,331K	1,355K	1,372K
Initial Claims SA	07/09	244.0K	235.0K	235.0K
PPI ex-Food & Energy SA M/M	JUN	0.40%	0.50%	0.60%
PPI ex-Food & Energy NSA Y/Y	JUN	8.2%	8.3%	8.5%
PPI SA M/M	JUN	1.1%	0.80%	0.90%
PPI NSA Y/Y	JUN	11.3%	10.7%	10.9%

Employment By Industry (in Thousands)

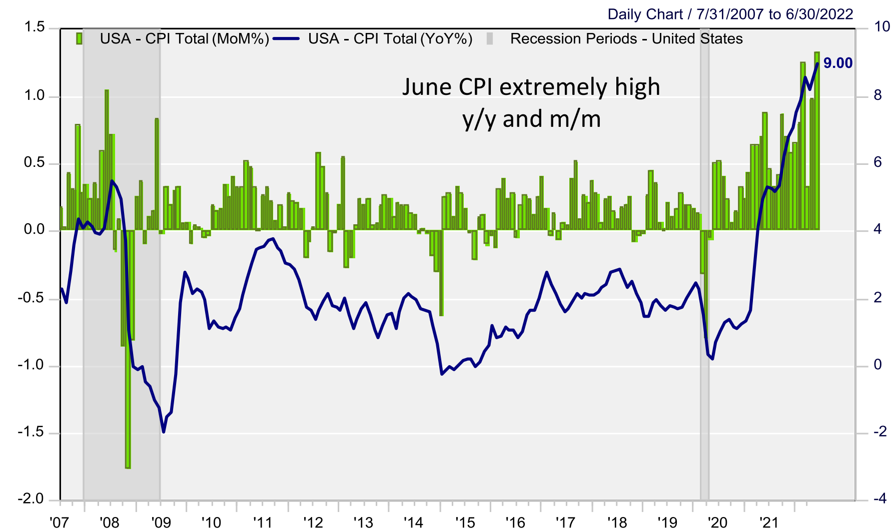


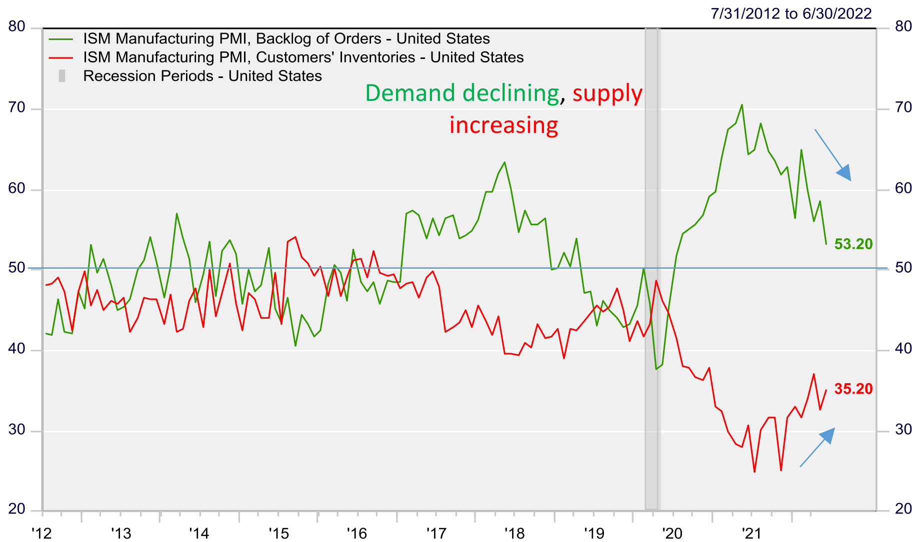
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

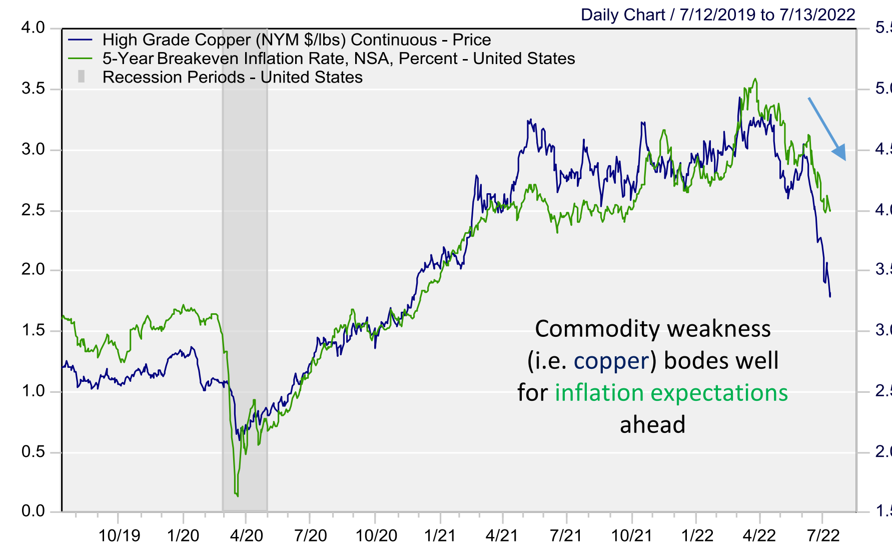
INFLATION

Wednesday's much hotter-than expected CPI report was the latest upside surprise on inflation, pushing the year-over-year reading to 9.1% (41-year high). In fact, the month-over-month reading of 1.3% was one of the highest on record as well (largest since Sep 2005's Hurricane Katrina-induced 1.4%). The ugly inflation report puts further pressure on the Fed for a heavier hike at its July 27th FOMC meeting and places high odds on economic contraction.

That said, inflation is a lagging indicator and we expect it to come down ahead. Oil prices are trading at their lowest level since February today (and down 24% over the past month). The ag commodities (i.e. cotton, wheat, corn, soybeans) have also shown significant weakness since mid-June, which will trickle through the system and lower consumer price pressures. Moreover, many major retailers have noted over-supply. With supply improving and overall demand moderating (low disposable income and weak asset prices weigh on spending), inflation is very likely to moderate over the coming months in our view.

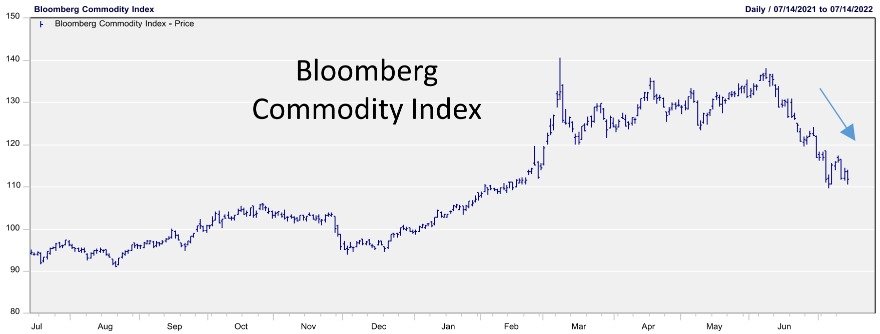


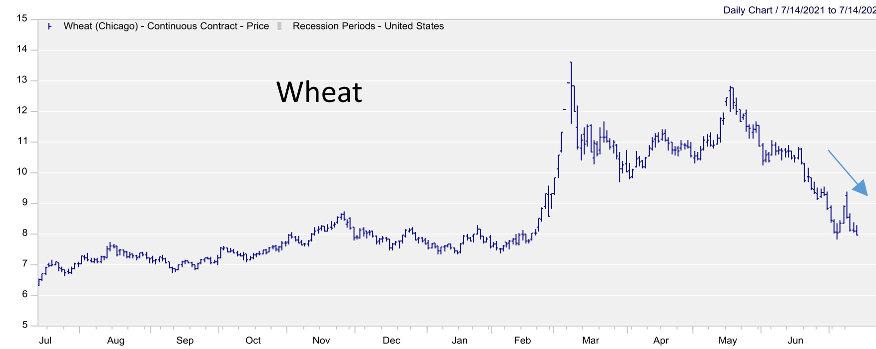


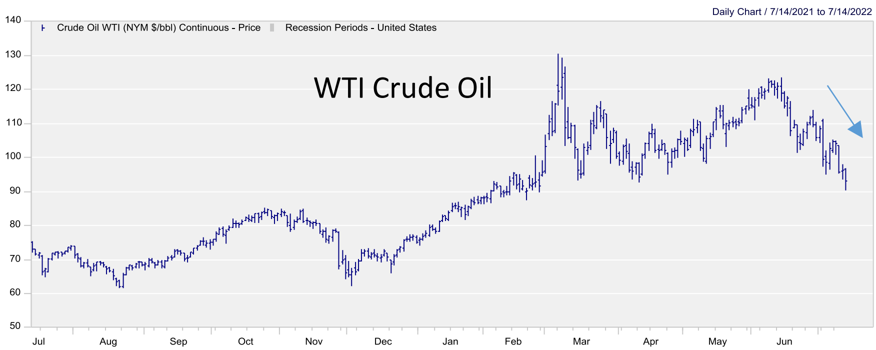


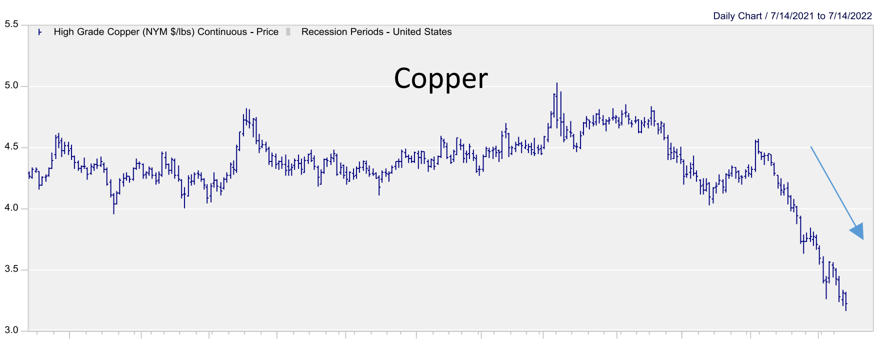
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

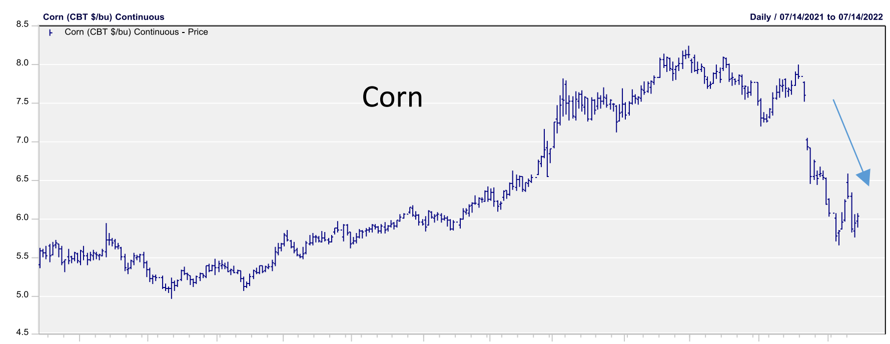
LOWER COMMODITY PRICES IN RECENT WEEKS SHOULD DECREASE PRICE PRESSURES AHEAD











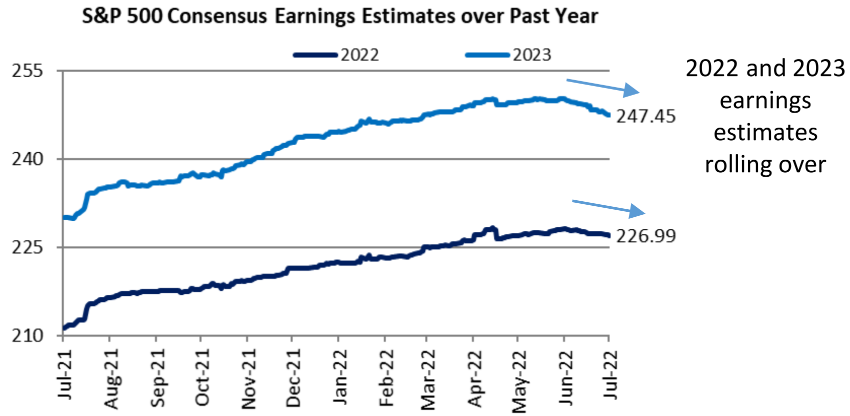
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

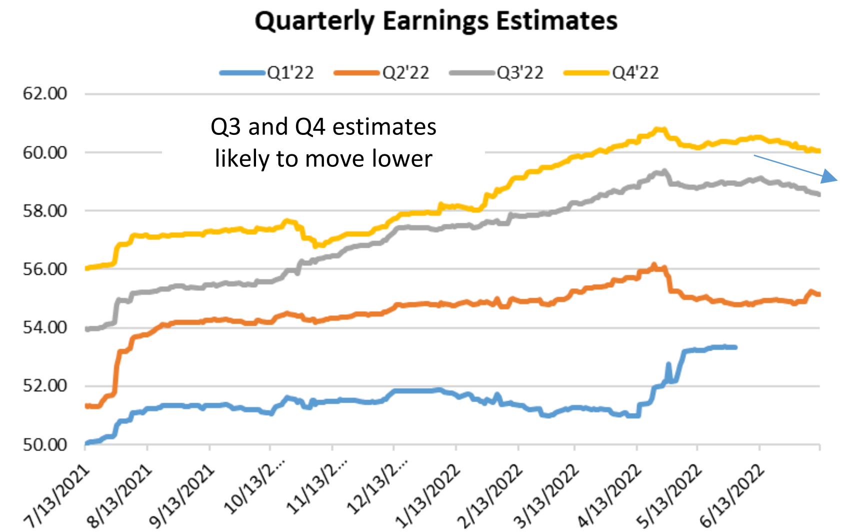
FUNDAMENTALS

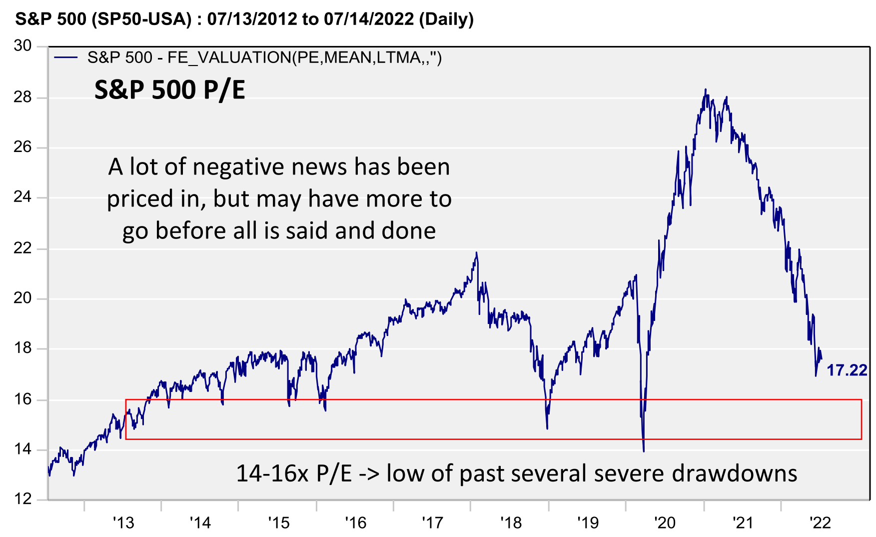
Q2 earnings season began this week, and the initial price reactions from the handful of companies so far has been weak. We believe forward estimates are too high for the S&P 500 overall and are likely to be revised lower ahead on lower corporate guidance. The bear market has been driven by multiple compression but is transitioning toward earnings weakness. We have a $220 earnings estimate for 2022 (vs current consensus of $227).

The weak reaction to Q2 results so far supports our cautious stance on the short-term market trend. We expect a retest or undercut of the lows at some point, and highlight the 3400-3600 area as our favored level of potential downside. At 16x trailing 12-month $217 earnings, the S&P 500 would trade at 3472. This P/E contraction would be in line with that seen during the dotcom bubble and credit crisis recessions.

However, equities have discounted a lot of negative news (down 24% from prior highs) and the market will bottom before the economy and earnings do (i.e. stocks discount the future). We believe long-term investors should refrain from getting overly negative at this point, and turn their focus to bull market potential rather than what may be left on the downside of the current weak trend.

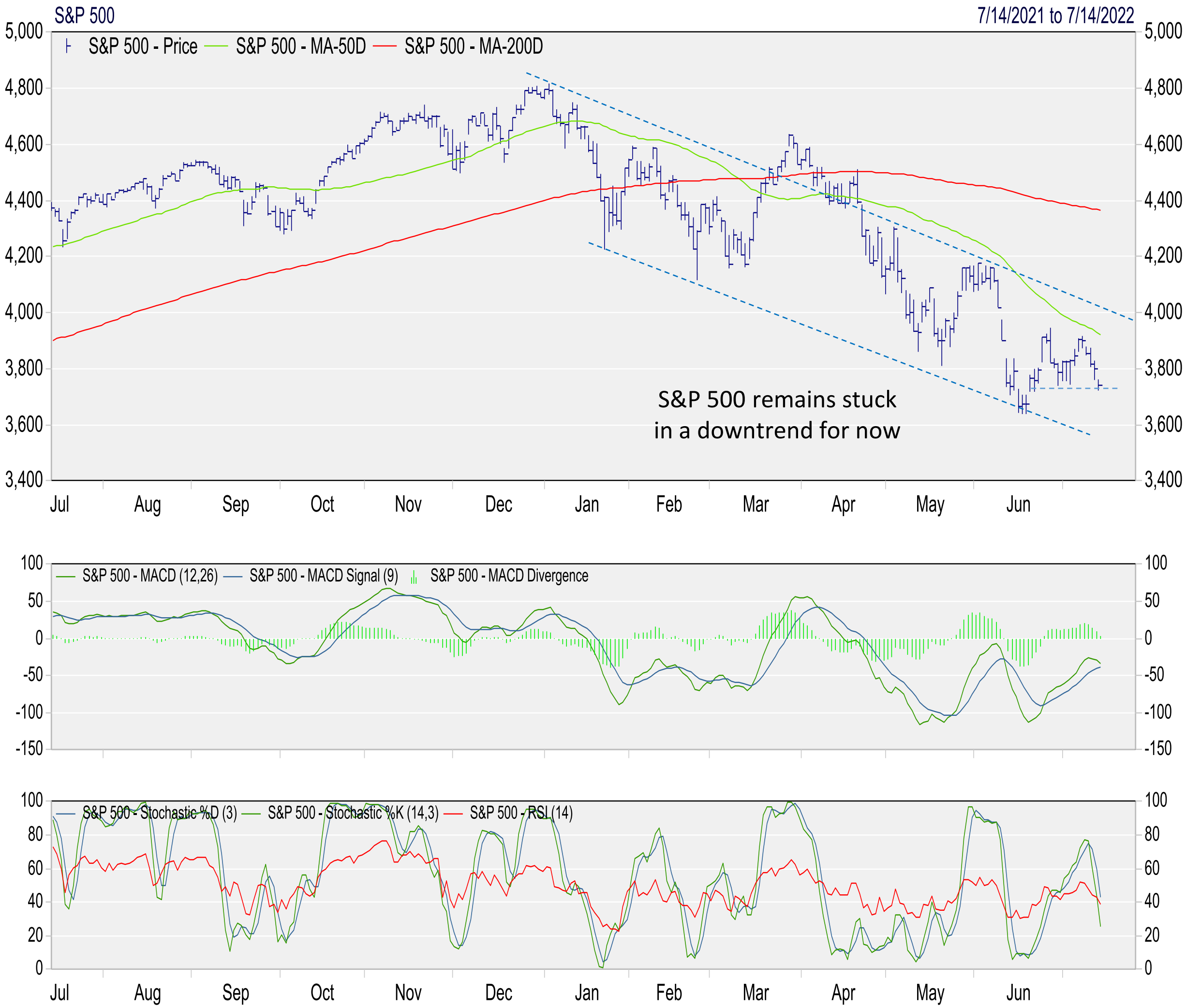






Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



The S&P 500 remains in a clear downtrend for now, below the short-term downtrend line, which corresponds closely to the 50DMA (currently at 3942).

A positive development is the index holding above 3742 support so far today, along with yesterday's intraday rally in the aftermath of the hot June inflation report. This is encouraging, but we need follow-through next. If nothing else, it lowers the odds of a steep drop like that seen in early June following the hot May inflation report (-11% over 6 days). Sharp weakness in commodity prices recently is likely playing a role on this more muted reaction, as it may lead to softer CPI readings in the months ahead.

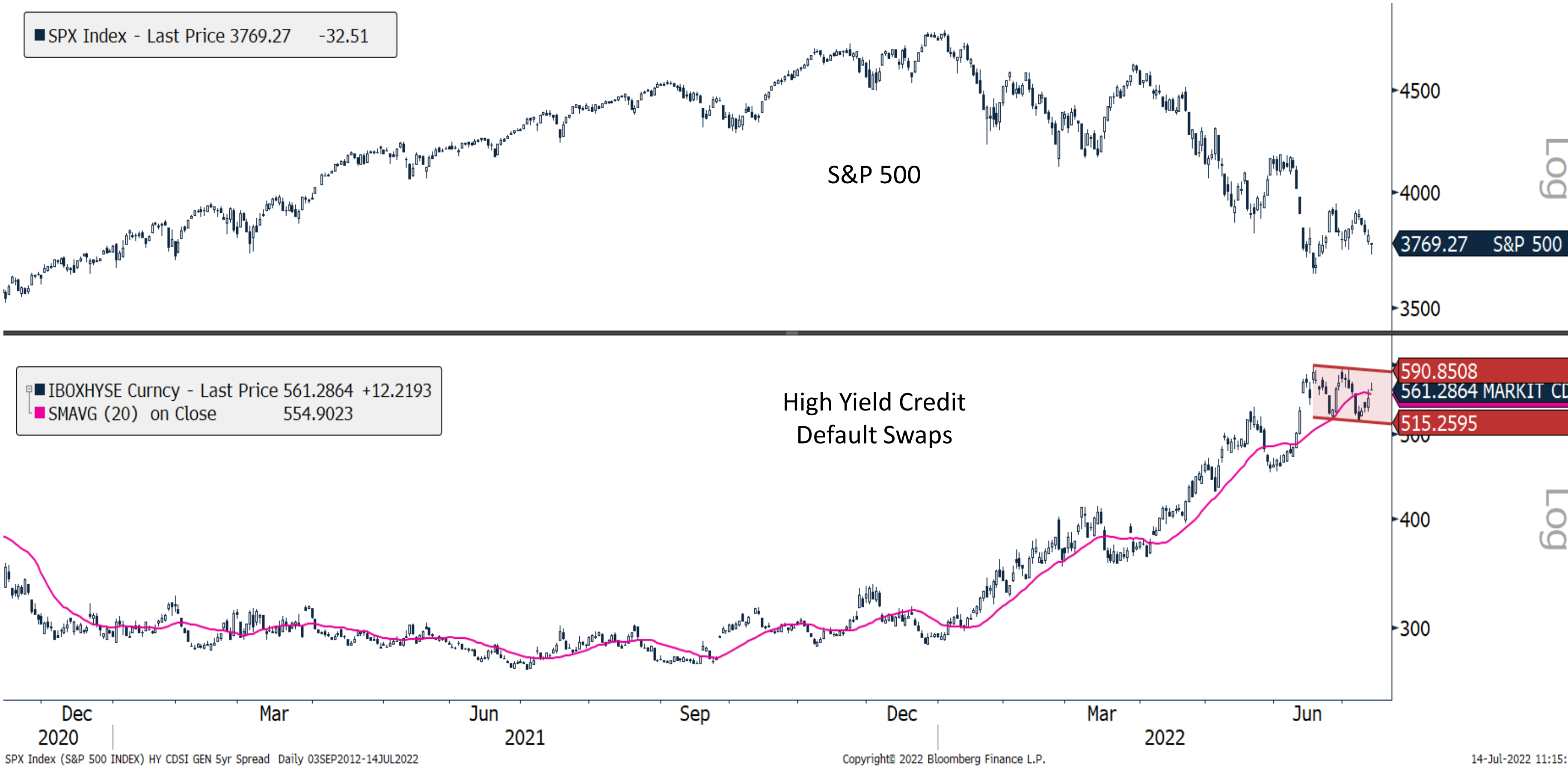
Below 3742, the next area to watch would be recent lows around 3636. We expect a retest or undercut of the lows at some point, and highlight the 3400-3600 area as our favored level of potential downside. Technically, this level coincides with the 200-week average (3519) which has largely held as support over the past decade and is near pre-Covid prices.

Any rally attempts will likely face initial resistance around 3950. A move above 3950 opens the door for a run to horizontal resistance at 4161.

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CREDIT DEFAULT SWAPS

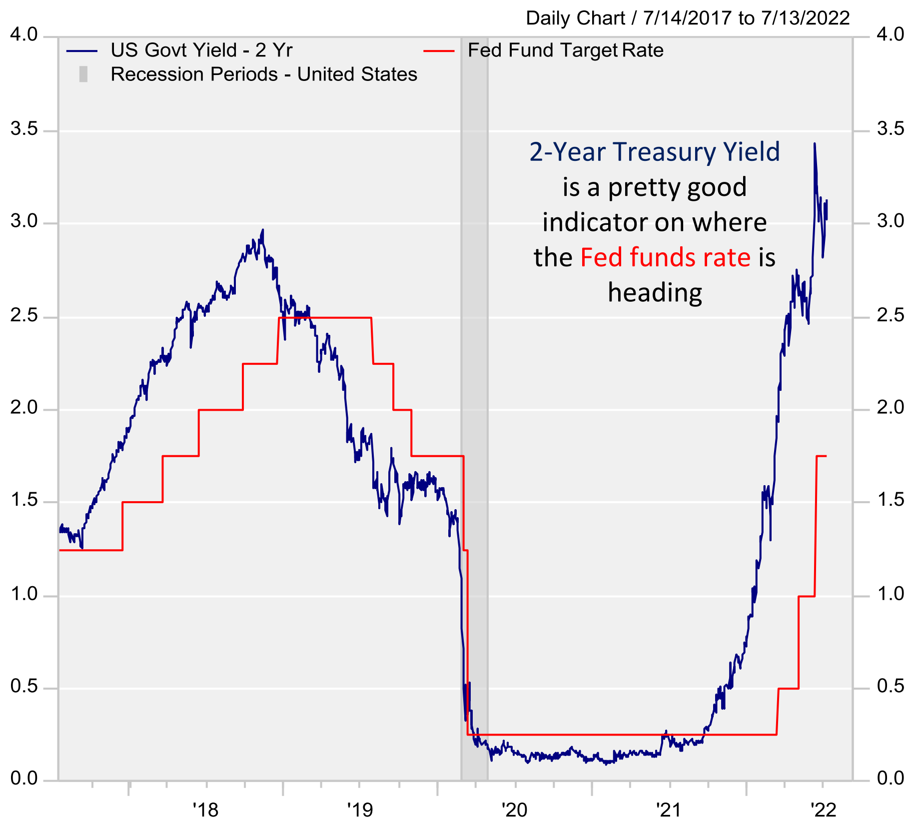
We continue to watch CDS spreads as a gauge on short-term market trends this year. As a reminder, credit default swaps are basically the price of insurance on bonds- rising in price as economic concerns intensify. They have been tracing out a range since the market lows in June, and we await a signal from them for clues on which direction the market may move next. We would like to see CDS spreads break below the recent range, but note they are trading back above their 20 DMA today. A CDS breakout to new highs will likely correspond with equities at least retesting (and likely undercutting) the recent lows.

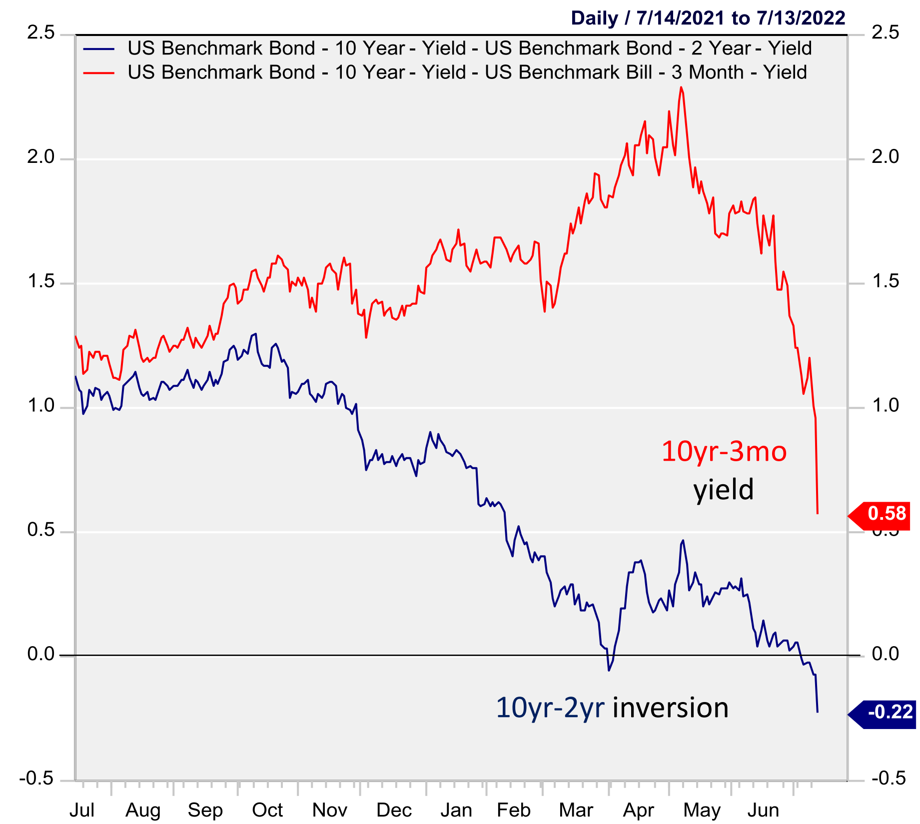


Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

YIELD CURVE INVERSIONS

The yield curve is often used as a good indicator of economic conditions, given its history of inversion (where short-term rates rise above long-term rates) prior to economic contractions and bear markets. We put the most credence on the 10-year vs 3-month spread for a gauge of economic conditions, but the 2-year Treasury spread offers indication on where the Fed is likely heading. And with the Fed becoming increasingly transparent and the 10-2yr spread inverted, the odds of economic contraction are high in our view. That said, inversions typically occur prior to or near bull market peaks. With the S&P 500 already down -24%, we wonder how much negative news is already priced in. *Continued on next page*

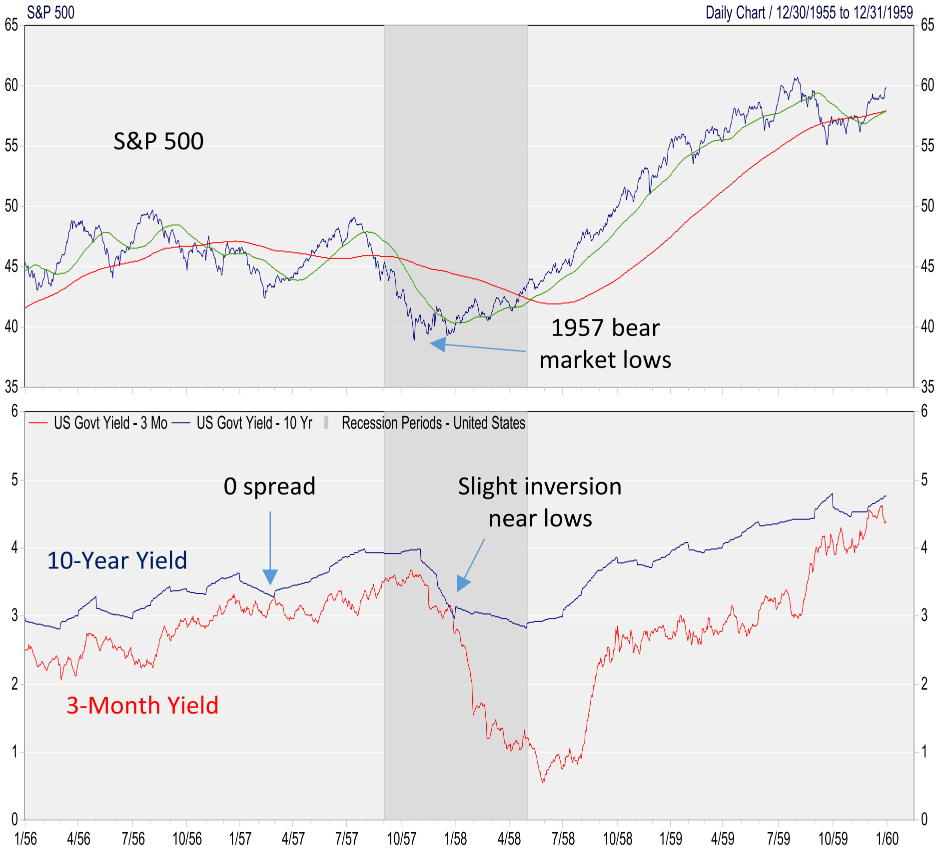


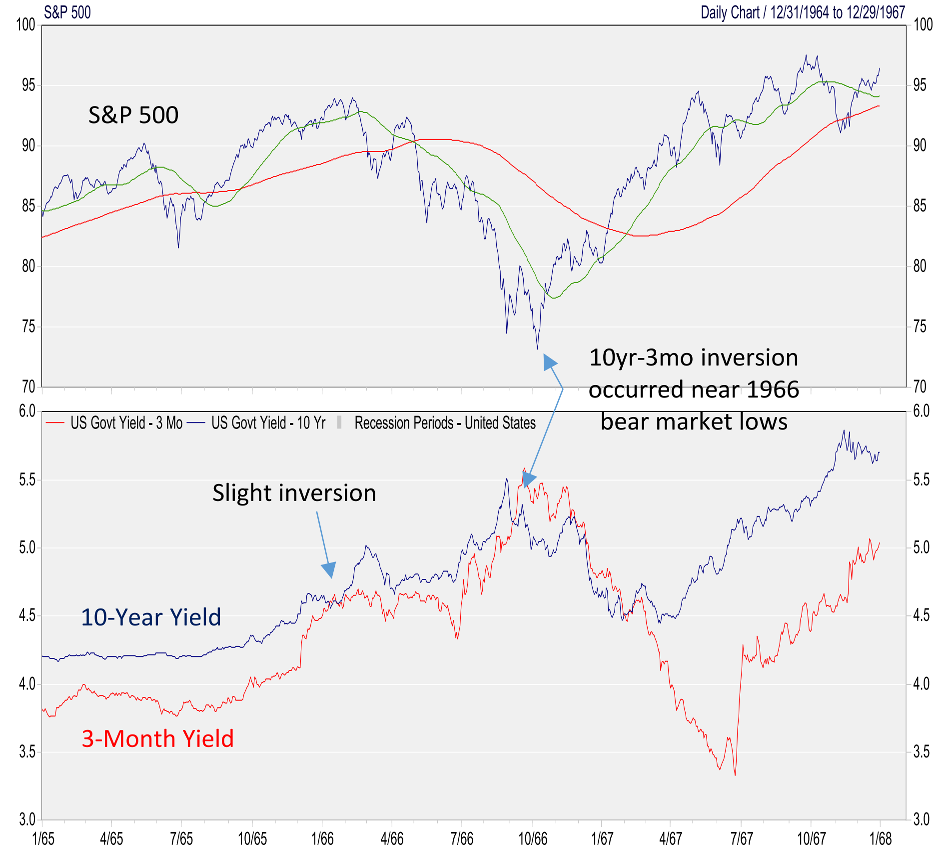


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

YIELD CURVE INVERSIONS

We do not want to put too much emphasis on this, but there is at least historical precedent for the 10yr-3mo yield spread inverting near bear market lows (1957 and 1966). With the S&P 500 already down 24% and given our expectation for inflation to improve over the next 6-12 months, it is possible that the current bear market lows may come near inversion in the 10yr-3mo spread. At a 3% 10-year yield, the 10yr-3mo spread is likely to invert in September. Our bias for the S&P 500 remains lower for now, and we see both fundamental and technical support for the 3400-3600 area should the index break to new lows. But ultimately, the path of inflation will be a large determinant on the magnitude and duration of market weakness.

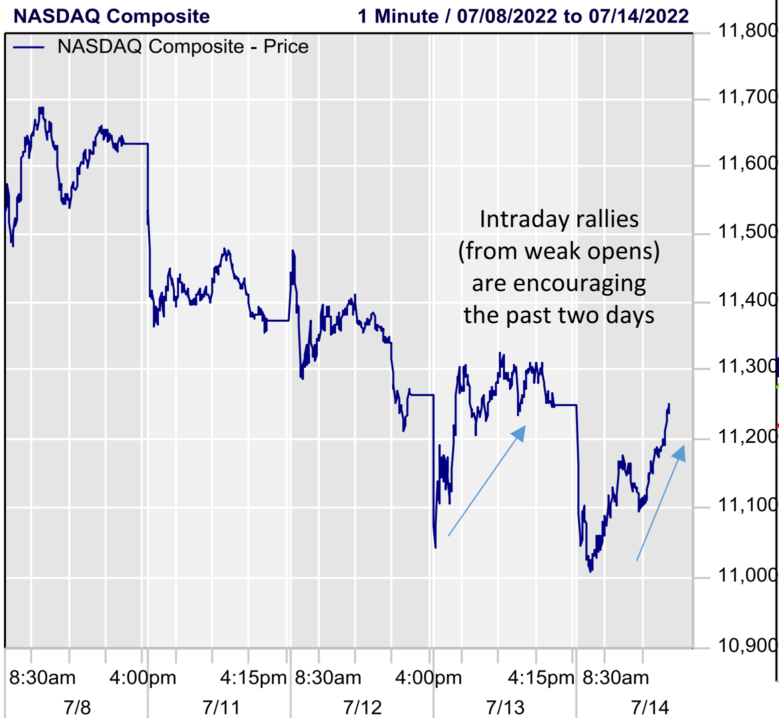




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

NASDAQ COMPOSITE

The Nasdaq Composite has been able to hold its 200-week moving average, which has acted as support in major market weakness since the 2009 credit crisis. Additionally, we find it encouraging technically that the Nasdaq has been able to rally intraday over the past couple of days after starting the day much weaker (in the aftermath of June CPI). This is a positive development but needs follow through next. Also, earnings season is likely to be an influence on trends over the coming weeks.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4847583)

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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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