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

JULY 21, 2022 | 4:07 PM EDT

Weekly Market Guide

Short-Term Summary:

The S&P 500 is in the midst of its fourth ~10% oversold relief rally this year, up 8% from its mid-June lows. A positive development in the current bounce that differs from the previous ones has been broad weakness across the commodity complex, indication that underlying inflation drivers are improving. While this is progress, there remain a multitude of headwinds for the market to move sustainably higher and the predominant trend is still downward for now. Despite this bear market likely having more challenges before all is said and done, it is important to remember that the odds of strong long-term returns from current levels are stacked in investors' favor. We believe economic and fundamental weakness is on its way, but a lot of negative news has been priced in with the S&P 500 -24% off its highs. We encourage long-term investors to focus on the bull market opportunity on the other side of the current weak trend, rather than overemphasizing what may be left in this bear market.

Q2 earnings season has begun, and results have generally been as expected- an ability for the majority of companies to meet or beat estimates slightly, but for guidance to be tempered. Forward earnings estimates are rolling over, and we believe this will continue. High inflation is resulting in lower disposable income and savings rates. Accompanied by weak asset prices, real consumer spending is likely to be slow- weighing on sales growth and, in turn, earnings growth as high input costs dent margins. Nonetheless, we believe economic weakness will likely be relatively mild. Corporate balance sheets are not over-extended, supply has been hard-pressed to meet demand this cycle, and banks are very well-capitalized. Moreover, we believe inflation is set to moderate over the coming months which should ease economic strains and Fed policy in the aftermath.

With this in mind, we would continue to use the market downdrafts as opportunity. The market will bottom before the economy and fundamentals in our view. Technically, there have been some positives in the recent rally- but overall, we still need to see more before raising conviction that the recent lows can prove durable. And with the Fed firmly in a tightening cycle (an additional 7-8 more 25bps hikes expected this year), we do not believe equities are ready for sustainable multiple expansion quite yet. In sum, the S&P 500 is experiencing a good oversold bounce on underlying inflation progress, but this bear market likely takes more time. That said, a lot has been priced in already; and we believe investors should be more interested in positioning for the next bull market at this stage.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-12.3%	-7.6%
S&P 500	-16.9%	-8.4%
S&P 500 (Equal-Weight)	-13.8%	-6.2%
NASDAQ Composite	-24.0%	-17.9%
Russell 2000	-18.6%	-16.7%
MSCI All-Cap World	-18.4%	-13.6%
MSCI Developed Markets	-19.6%	-16.7%
MSCI Emerging Markets	-19.9%	-24.8%
NYSE Alerian MLP	12.8%	10.6%
MSCI U.S. REIT	-19.6%	-10.9%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	31.8%	4.2%
Utilities	-4.6%	2.9%
Consumer Staples	-6.4%	6.7%
Health Care	-9.0%	14.5%
Industrials	-14.9%	7.7%
Financials	-16.3%	10.8%
S&P 500	***-16.9%***	-
Materials	-17.7%	2.5%
Real Estate	-20.0%	2.8%
Information Technology	-21.4%	27.7%
Consumer Discretionary	-25.8%	11.2%
Communication Svcs.	-26.4%	9.0%

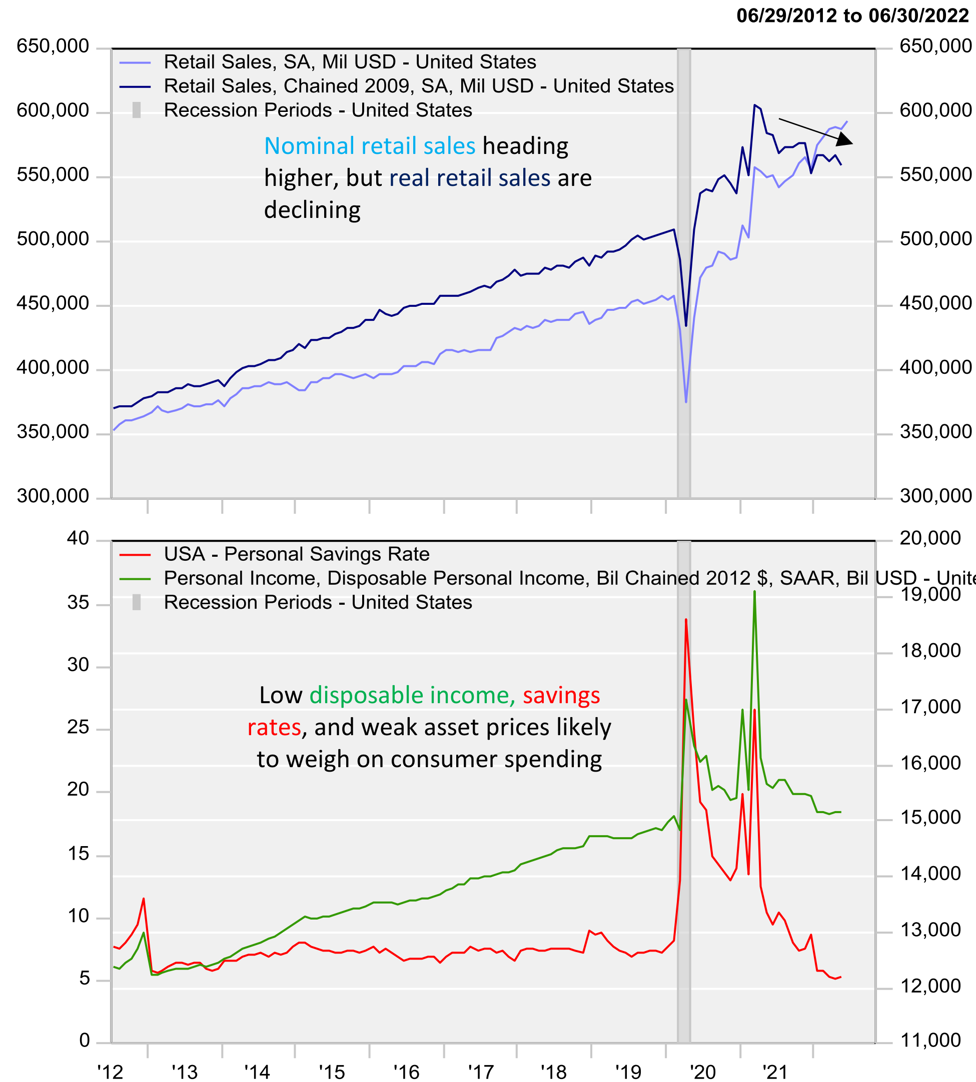
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

June retail sales rose 1.0% on a nominal basis due to high inflation. Real retail sales tell the story though- and are declining. With very high inflation eating away at disposable income and savings rates, accompanied by weak asset prices, real consumption is likely to remain slow.

And this is likely to impact employment. Jobless claims are clearly in an uptrend lately, and we expect this to continue as corporations plan for economic weakness ahead. Employment has not weakened enough to take the Fed off of its tightening stance, particularly with inflation at 40+ year highs. We expect a 75bps hike at next week's FOMC meeting with additional hikes through year-end.

Event	Period	Actual	Consensus	Prior
Export Price Index NSA M/M	JUN	0.70%	1.2%	2.9%
Import Price Index NSA M/M	JUN	0.20%	0.80%	0.50%
Empire State Index SA	JUL	11.1	-0.50	-1.2
Retail sales Ex AutoFuel M/M	JUN	0.68%	0.10%	-0.11%
Retail Sales ex-Auto SA M/M	JUN	1.0%	0.75%	0.60%
Retail Sales SA M/M	JUN	1.0%	0.90%	-0.10%
Capacity Utilization NSA	JUN	80.0%	80.6%	80.3%
Industrial Production SA M/M	JUN	-0.20%	0.10%	0.0%
Business Inventories SA M/M	MAY	1.4%	1.2%	1.3%
Michigan Sentiment NSA (Preliminary)	JUL	51.1	50.0	50.0
NAHB Housing Market Index SA	JUL	55.0	65.5	67.0
Building Permits SAAR (Preliminary)	JUN	1,685K	1,680K	1,695K
Housing Starts SAAR	JUN	1,559K	1,585K	1,591K
Housing Starts M/M	JUN	-2.0%	3.9%	-11.9%
Existing Home Sales SAAR	JUN	5,120K	5,385K	5,410K
Continuing Jobless Claims SA	07/09	1,384K	1,350K	1,333K
Initial Claims SA	07/16	251.0K	242.0K	244.0K
Philadelphia Fed Index SA	JUL	-12.3	-1.0	-3.3
Leading Indicators SA M/M	JUN	-0.80%	-0.50%	-0.60%



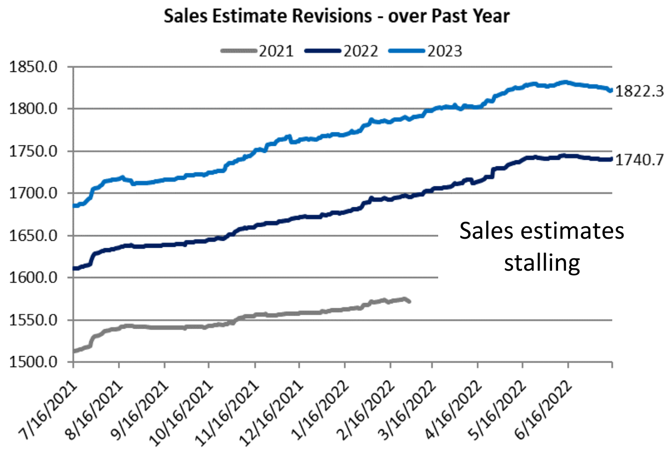
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

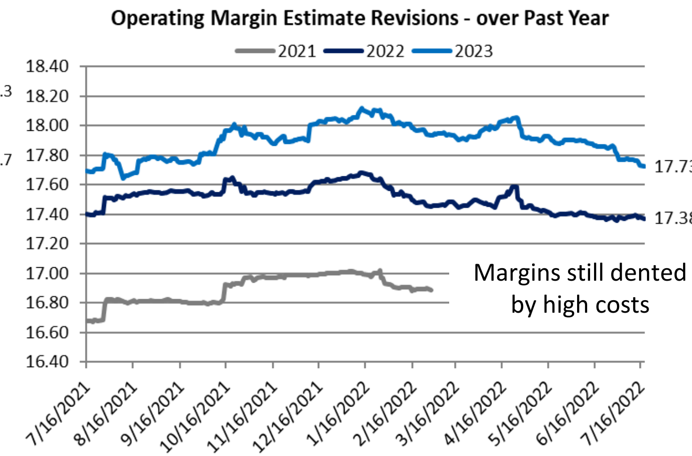
FUNDAMENTALS

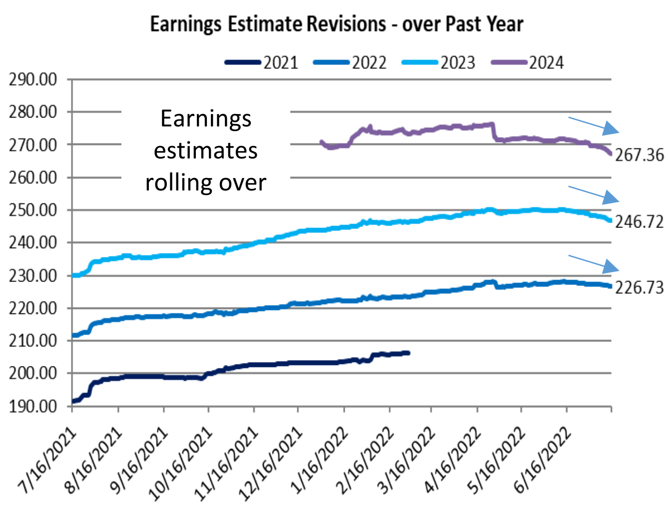
Q2 earnings season has begun, and results have generally been what we expect- an ability for the majority of companies to meet or beat estimates slightly, but for guidance to be tempered. About 10% of the S&P 500 has reported at this point, and 64% of companies are beating estimates by 1.6%.

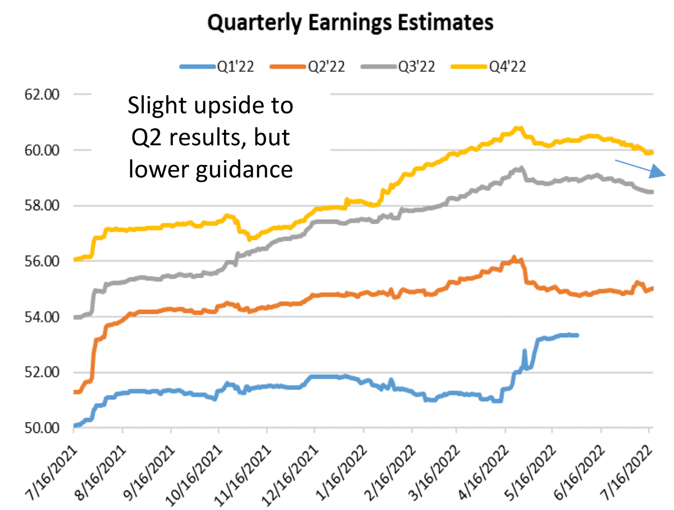
Forward earnings estimates are rolling over, and we believe this will continue. As discussed on the previous page, real consumption is slow and will likely continue with high inflation and weak asset prices weighing on purchasing power.

This is likely to weigh on sales growth and, in turn, earnings growth as high input costs dent margins. That said, we believe inflation is set to moderate over the coming months and economic weakness will be relatively mild. Corporate balance sheets are not over-extended, supply has been hard-pressed to meet demand this cycle, and banks are very well-capitalized. We use a $220 earnings estimate for 2022, below $227 consensus; and believe 2023 earnings could be $215 if the economy moves into a mild recession.









Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

WHAT'S PRICED IN?

While we expect economic and fundamental weakness ahead, a lot of negative news has been priced in already with the S&P 500 24% off of its highs- and the market will bottom before the economy and fundamentals. In our opinion, the weight of evidence still leans toward more time or challenges before all is said and done. With the Fed firmly in a tightening cycle (an additional 7-8 more 25bps hikes expected this year), we do not believe equities are ready for sustainable multiple expansion quite yet. Our favored level of potential downside, should equities undercut the recent lows, remains 3400-3600- as we see plenty of fundamental and technical justification for this area. As such, we recommend accumulating favored equities on weakness. Furthermore, we encourage long-term investors to focus on the bull market opportunity on the other side of the current weak trend, rather than overemphasizing what may be left in this bear market.

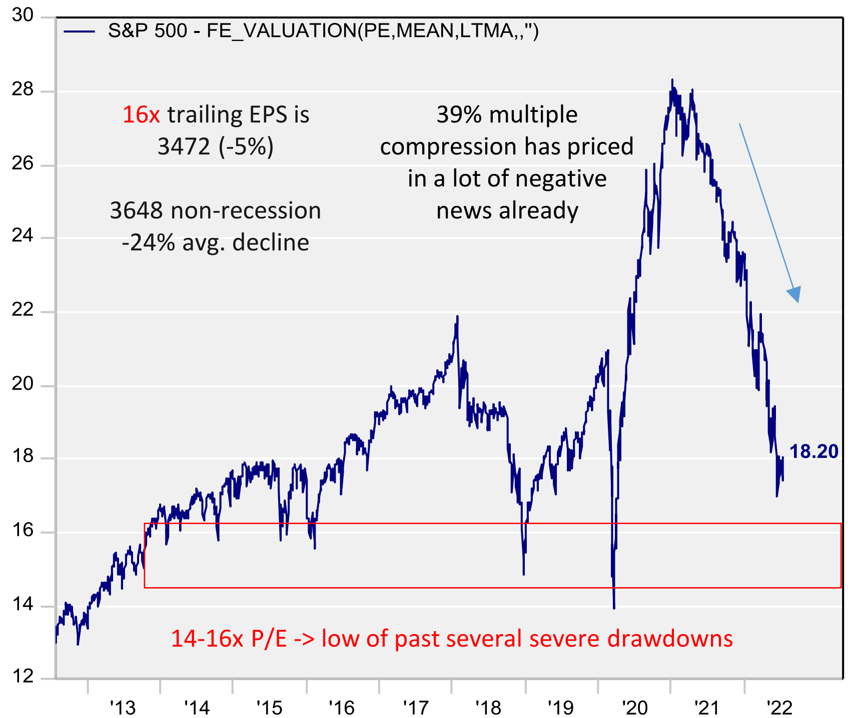
Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Jul-57	Oct-57	3	-20%	11	-24%	-23%
Jan-60	Oct-60	10	-18%	3	-27%	-15%
Nov-68	May-70	18	-36%	22	-32%	-18%
Jan-73	Oct-74	21	-48%	69	-64%	-22%
Feb-80	Apr-80	2	-21%	4	-31%	-6%
Nov-80	Aug-82	21	-27%	3	-27%	-26%
Jul-90	Oct-90	3	-21%	4	-18%	-35%
Mar-00	Oct-02	31	-49%	55	-45%	-26%
Oct-07	Mar-09	17	-59%	49	-43%	-33%
Feb-20	Mar-20	1	-34%	5	-32%	-17%
Average		***13***	***-33%***	***23***	***-34%***	***-22%***

Non-Recessionary Bear Markets

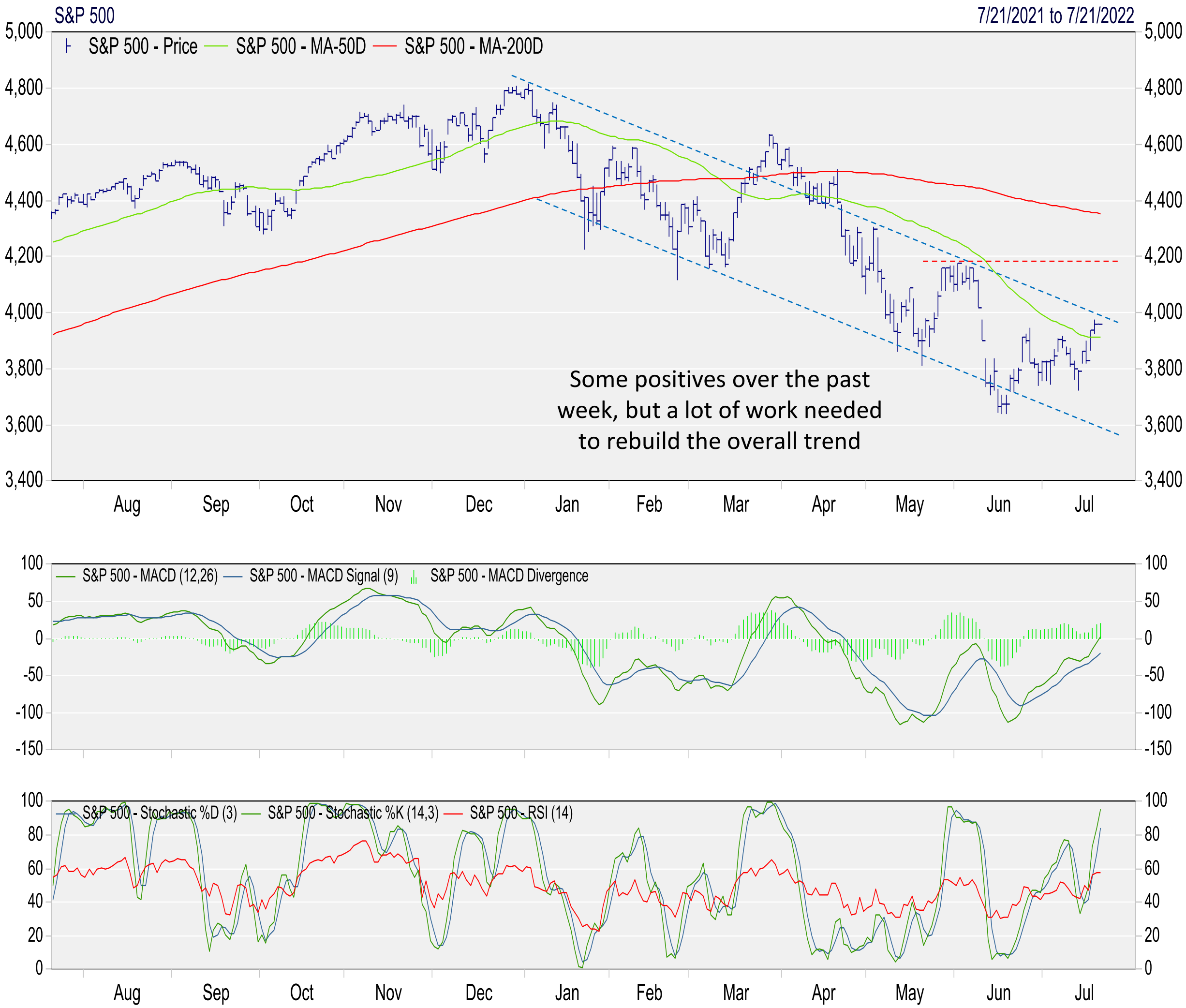
Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Dec-61	Jun-62	6	-28%	15	-35%	6%
Feb-66	Oct-66	8	-22%	7	-36%	-3%
Sep-76	Mar-78	18	-19%	18	-40%	13%
Aug-87	Dec-87	4	-34%	20	-38%	-13%
Jul-98	Oct-98	3	-23%	2	-20%	-1%
Apr-11	Oct-11	6	-19%	5	-39%	5%
Sep-18	Dec-18	3	-20%	4	-32%	5%
Average		***7***	***-24%***	***10***	***-34%***	***2%***
Jan-22		6	-24%		-39%	6%

S&P 500 (SP50-USA) : 07/20/2012 to 07/20/2022 (Daily)



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 was able to hold above 3742 support over the past week and break above 50-day moving average resistance. Additionally, internals were very positive on the move- this is an encouraging development but follow-through is needed to build sustainable momentum.

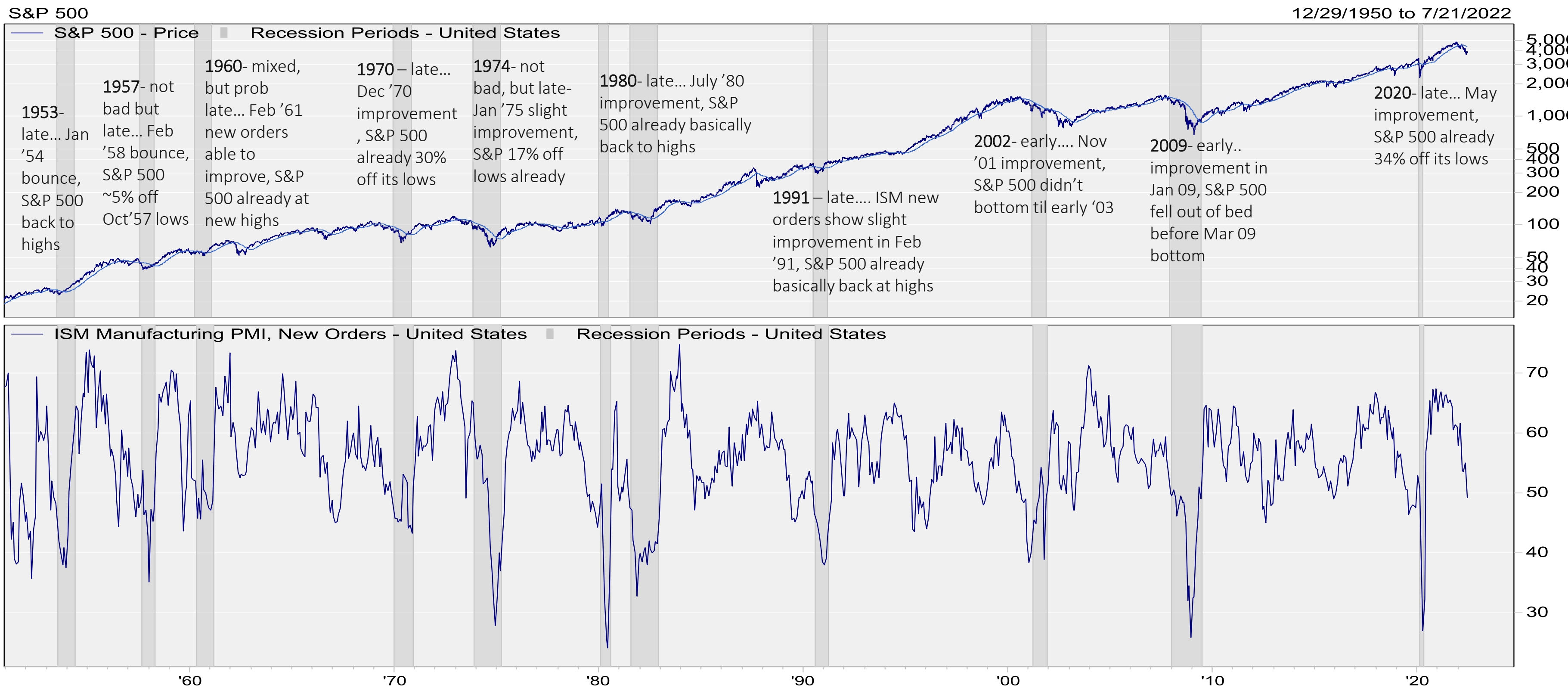
The predominant trend still remains lower for now, and there remains plenty of overhead resistance as the S&P 500 approaches short-term overbought levels. Price action at resistance, along with the market reaction to overbought conditions, will provide clues on the potential path ahead.

We have seen some positives in the past week, but have also seen the S&P 500 experience three other ~10% oversold rallies that quickly rolled over and pushed to new lows. We would like to see the series of lower highs and lower lows end before increasing conviction that the worst may be behind us. Additionally, with the Fed still firmly in a tightening cycle, we are not convinced that equities are ready to sustainably rally back to previous highs in V-bottom fashion.

Given our positive stance over the next 12 months and beyond, as inflation moderates, we recommend using the market downdrafts as opportunity to position for the inevitable bull market on the other side of the current weak trend.

ISM NEW ORDERS IN RECESSIONS

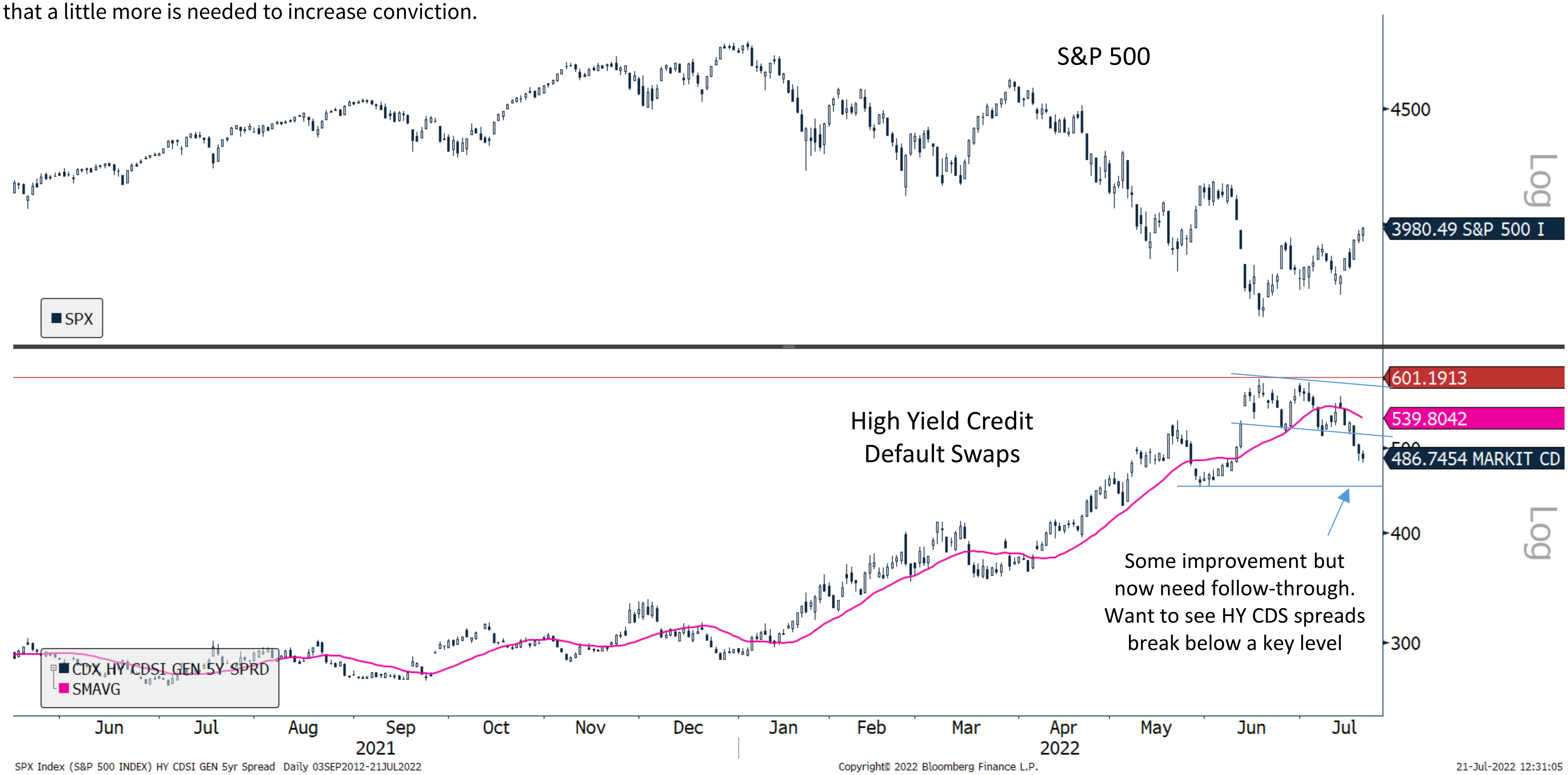
ISM new orders are often used as an indicator for future demand, and the June reading moved south of 50 (at 49.2) indicating weaker economic trends ahead. The chart below shows the relationship of the S&P 500 to new orders since 1950; and on a long-term chart, recessionary bear market bottoms appear to come near lows in new orders. However, zooming into each individual period, the S&P 500 has already bottomed (oftentimes well off its lows) by the time ISM new orders improve the vast majority of the time. This is an example of the market typically bottoming well ahead of the economy. If you wait for the economy to improve, odds are you will be late to the market recovery. That said, ISM new orders are typically in the mid-40s or lower at a market bottom (still below the current 49.2). In fact the highest ISM new orders reading at a recessionary bear market low was 46.4- another economic variable that leads us to believe market challenges are likely not over yet.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CREDIT DEFAULT SWAPS

We highlighted CDS spreads tracing out a short-term range last week, as we awaited their next move to signal which direction equities may in the short-term. Positively, they were able to break below their recent range for the first time this year. This is an encouraging development technically, but we now need follow-through and would like to see CDS spreads break below a prior consolidation level. Breakdowns below key levels are typically seen coming out of bear markets, and would increase the likelihood of recent lows proving durable. Like many of the short-term indicators we are watching- there are positives emerging, but we still feel that a little more is needed to increase conviction.



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

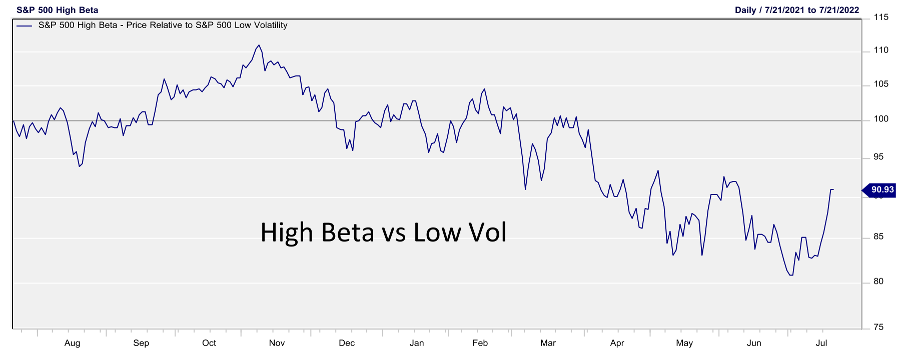
SECTORS

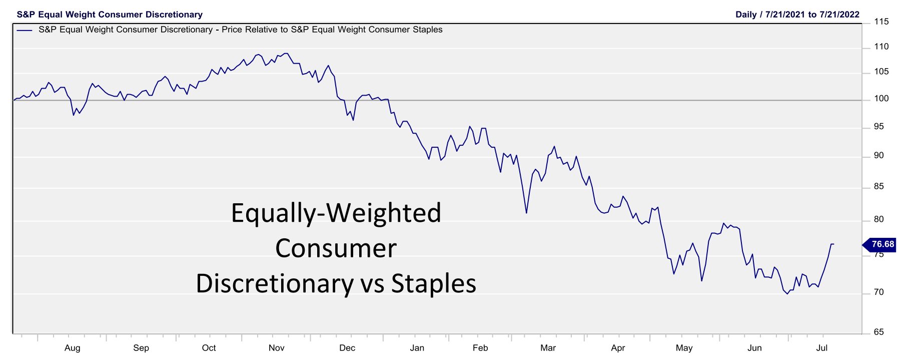
Underlying performance during the recent bounce is generally what we expect into the next bull market with the higher-beta, more beaten-up areas (i.e. Technology and Consumer Discretionary) seeing the best performance; while the areas that have held up best this year generally underperform. Investors need to determine their risk tolerance and time horizon when positioning for the bull market opportunity ahead. Given our bias for short-term patience but positive longer-term returns, we recommend using the market downdrafts as opportunity to accumulate favored areas.

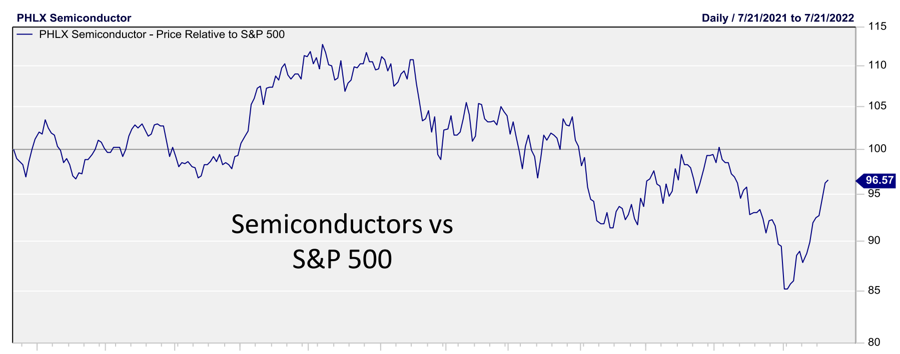
S&P 500 Industry Group	Beta (3Yr)	Since 6/16 Low	YTD
Energy	1.14	-2.4%	28.3%
Food Beverage & Tobacco	0.69	2.7%	-0.9%
Telecommunications Services	0.61	-1.8%	-2.7%
Utilities	0.76	6.1%	-4.5%
Insurance	1.00	2.6%	-4.9%
Pharmaceuticals Biotechnology & Life	0.67	7.6%	-5.3%
Food & Staples Retailing	0.61	12.4%	-7.4%
Health Care Equipment & Services	0.91	9.5%	-11.7%
Commercial & Professional Services	0.89	11.8%	-12.6%
Capital Goods	1.01	4.8%	-14.6%
Technology Hardware & Equipment	1.15	15.6%	-15.2%
Transportation	0.99	6.3%	-15.7%
Household & Personal Products	0.62	6.2%	-15.8%
Diversified Financials	1.06	8.4%	-16.5%
S&P 500	***1.00***	***8.3%***	***-16.5%***
Materials	0.98	0.9%	-16.9%
Real Estate	0.94	6.9%	-20.0%
Software & Services	1.14	8.6%	-20.9%
Banks	1.25	5.5%	-21.2%
Consumer Services	1.06	7.2%	-21.2%
Retailing	0.95	13.7%	-24.1%
Automobiles & Components	1.41	22.5%	-26.3%
Semiconductors & Semiconductor Equ	1.39	12.4%	-27.5%
Media & Entertainment	1.03	8.1%	-30.0%
Consumer Durables & Apparel	1.11	9.1%	-30.2%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Some improvement lately, but overall leadership trends still skew defensive

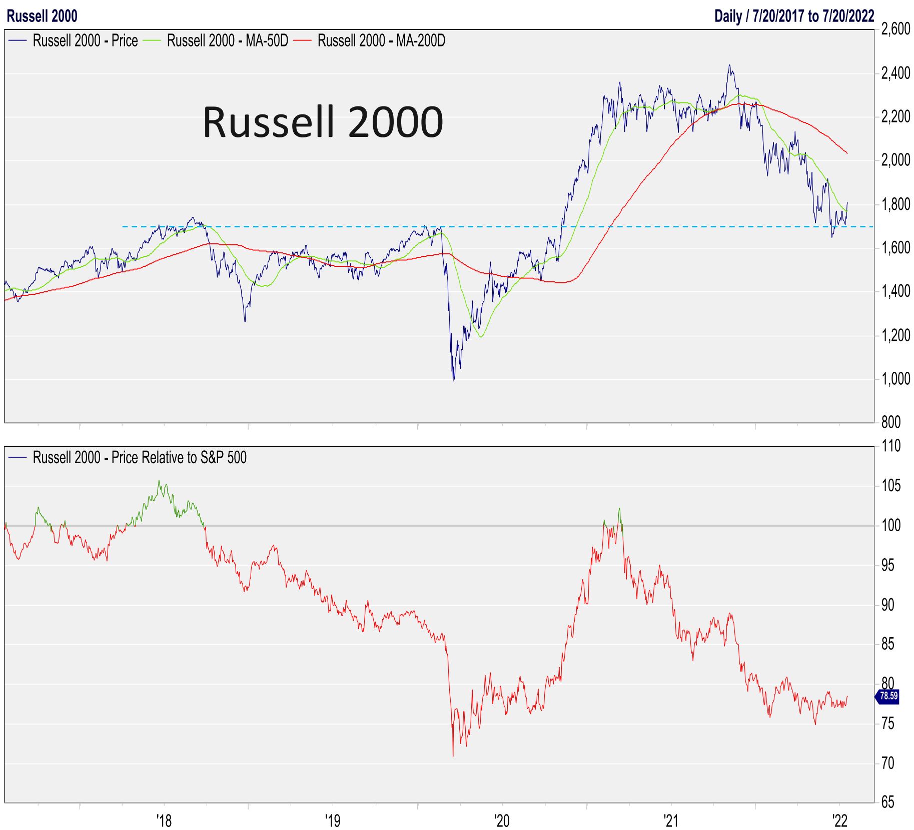


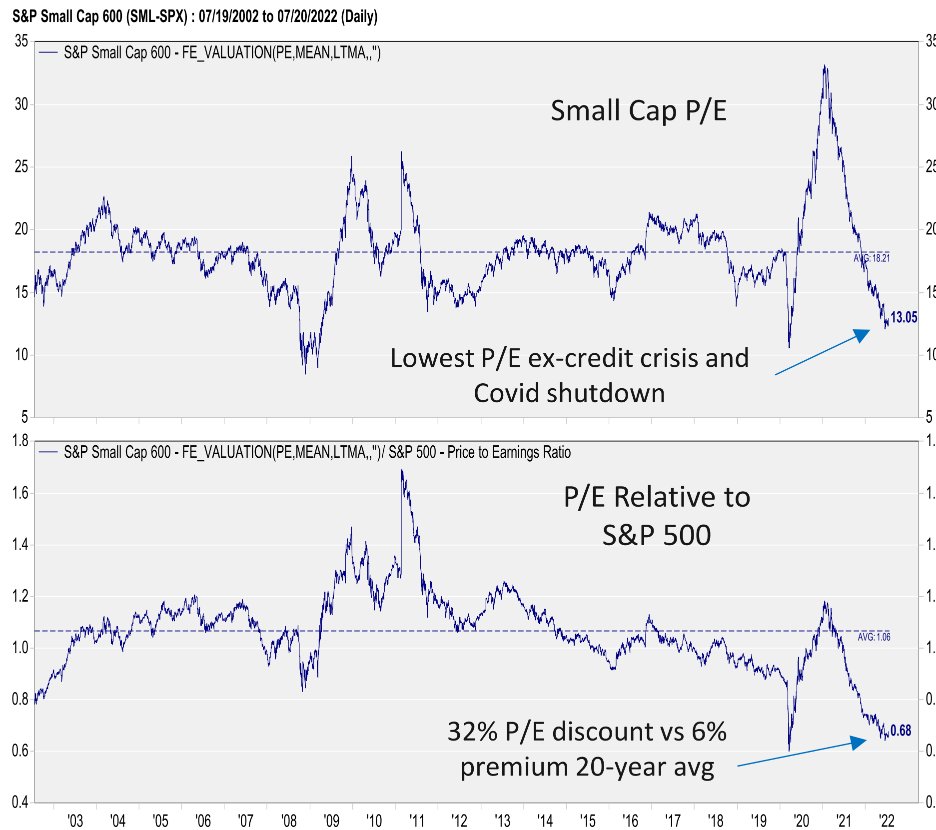




SMALL CAPS

The small caps are another area likely to provide opportunity for outperformance on the other side of this bear market. The group trades at just a 13x P/E (vs 18.2x average), which is the lowest valuation of the past 20 years other than the Covid shutdown and credit crisis lows. On a relative basis, the small caps trade at a 32% discount to the large caps (vs 6% premium on average), which is the lowest relative multiple outside of the Covid shutdown low. Technically, the small caps have pulled back to long-term support at their 2018 and 2019 highs. From a timing standpoint, the more economic-sensitive group will likely underperform if the market has additional challenges ahead (our bias) but is also likely to outperform in the early stages of the next bull market. Thus, we continue to recommend accumulating on weakness.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4866601)

IMPORTANT INVESTOR DISCLOSURES

This material is being provided for informational purposes only. Expressions of opinion are provided as of the date above and subject to change. Any information should not be deemed a recommendation to buy, hold or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. This report is not a complete description of the securities, markets, or developments referred to in this material and does not include all available data necessary for making an investment decision. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Links to third-party websites are being provided for informational purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any websites users and/or members.

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.

International Disclosures

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This document is for the use of professional investment advisers and managers and is not intended for use by clients.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monetaire et Financier" and Reglement General de l'Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

For institutional clients in the European Economic rea (EE) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Broker Dealer Disclosures

Securities are: NOT Deposits • NOT Insured by FDIC or any other government agency • NOT GUARANTEED by the bank • Subject to risk and may lose value