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Weekly Market Guide

Short-Term Summary:

Equities continued their rally over the past week with the S&P 500 now up 16%, Nasdaq Composite up 22%, and Russell 2000 up 20% since the mid-June lows. Better-than-expected July inflation readings were the catalyst for continued upside, as headline CPI was flat m/m and headline PPI was -0.5% m/m. However, the majority of downside in these numbers was driven by lower energy prices, while items such as food and shelter remained more sticky. This is a positive start; and we believe that improved supply/demand imbalances, accompanied by broadly lower commodity prices since June, should support moderating inflation over the coming months. The net result is a Fed that remains in tightening mode (inflation still too high), but likely reduces its pace of hikes (assuming easing price pressure continues). At its September FOMC meeting, the Fed is likely to hike by 50bps, lower than the 75bps hike at the past two consecutive meetings.

Lower inflation expectations are supporting lower bond yields which, in turn, are resulting in higher equity market valuations in the rally. If inflation has peaked, the US 10-year Treasury yield likely has as well in our view. This is a positive as more stable bond yields (or further downside) will provide a much more supportive environment for equities. That said, earnings estimates are clearly weakening. The inverted yield curve (influencing tighter credit conditions) and soft economic demand surveys (i.e. contracting ISM new orders) indicate economic and fundamental challenges ahead, as tighter Fed policy works with a lag on the economy.

Importantly, the market will bottom before the economy and fundamentals- and market internals have drastically improved in the rally. The percentage of S&P 500 stocks above their 50-day moving average is up to 84% (approaching the 90+% seen out of bear market lows historically). CDS spreads (cost of insurance on bonds) have been a good indicator of market trends this year and recently broke down technically. Moreover, the breadth of advancers in the up-move has been solid and percentage of stocks reaching 4-week highs went above the desired 55%. All of this represents a more supportive technical backdrop and increases the odds that the June lows may prove durable as the bear market lows.

Nonetheless, we still expect market setbacks over the coming weeks and months, as the Fed continues its hike cycle and market concerns shift from inflation toward the economy. We also note that the S&P 500 is overbought near resistance in the short-term. So within a technical backdrop that has shown improvement (from the downtrend in 1H'22) but expected back-and-forth trading ahead, we recommend using pullbacks as opportunity to accumulate favored stocks.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-8.3%	-5.5%
S&P 500	-11.7%	-5.1%
S&P 500 (Equal-Weight)	-8.7%	-3.7%
NASDAQ Composite	-17.8%	-13.1%
Russell 2000	-12.3%	-12.1%
MSCI All-Cap World	-13.9%	-11.2%
MSCI Developed Markets	-15.7%	-16.2%
MSCI Emerging Markets	-19.1%	-23.3%
NYSE Alerian MLP	17.1%	18.5%
MSCI U.S. REIT	-13.9%	-3.7%

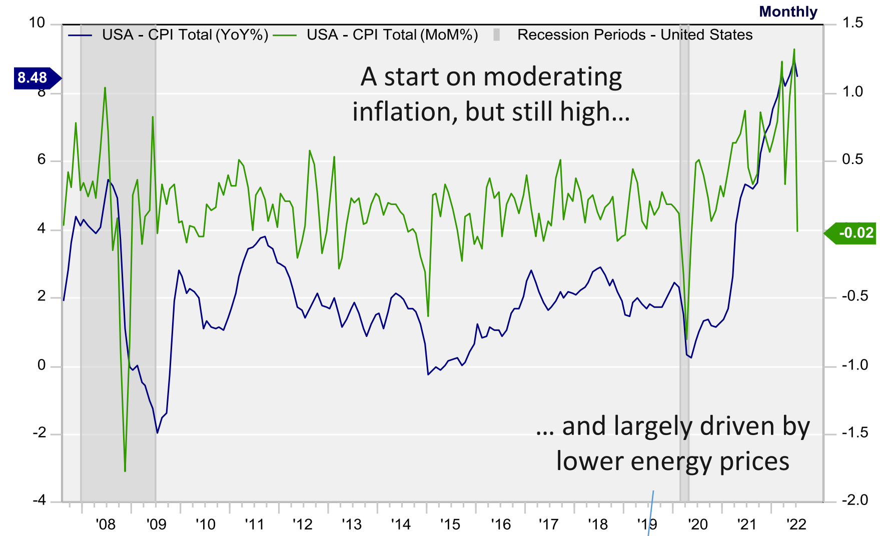
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	35.9%	4.1%
Utilities	5.4%	3.0%
Consumer Staples	-3.2%	6.5%
Health Care	-5.9%	14.1%
Industrials	-7.6%	7.9%
Financials	-11.6%	10.7%
S&P 500	***-11.7%***	-
Materials	-12.4%	2.5%
Real Estate	-13.3%	2.9%
Information Technology	-15.1%	28.2%
Consumer Discretionary	-18.2%	11.6%
Communication Svcs.	-25.4%	8.6%

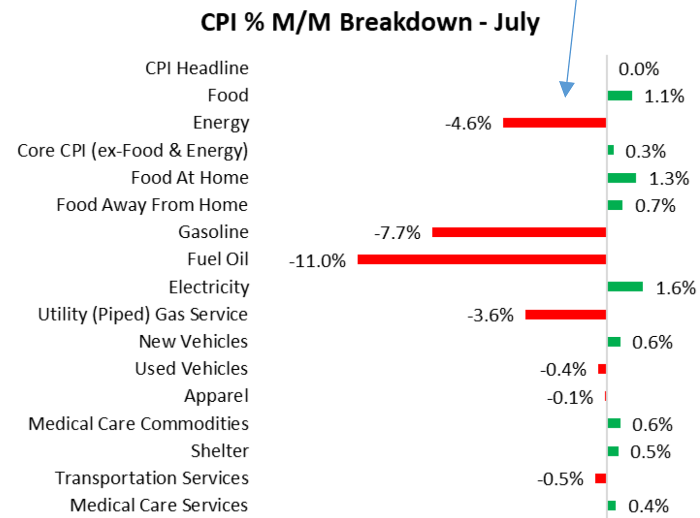
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

July nonfarm payrolls surged by 528k (well ahead of the 250k estimate), and the unemployment rate improved to 3.5%. Within the report, wage growth rose by a strong 0.5% m/m (5.2% y/y). While this supports consumer spending and the economy, it also emboldens the Fed's hike cycle with inflation pressures still high. Moreover, July CPI was flat m/m, but this was largely driven by lower energy prices. Food rose 1.1% m/m and shelter 0.5% m/m. While we expect inflation to moderate over the coming months as broadly lower commodity prices flow through, inflation is still too high. The Fed needs to continue to raise rates, though the pace is likely to slow. We expect a 50bp hike in September, lower than the 75bp hike at the past two consecutive meetings.

Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	JUL	528.0K	250.0K	398.0K
Unemployment Rate	JUL	3.5%	3.6%	3.6%
Consumer Credit SA	JUN	$40.2B	$25.5B	$23.8B
NFIB Small Business Index	JUL	89.9	-	89.5
Unit Labor Costs SAAR Q/Q (Preliminary)	Q2	10.8%	8.9%	12.7%
Productivity SAAR Q/Q (Preliminary)	Q2	-4.6%	-4.6%	-7.4%
CPI ex-Food & Energy SA M/M	JUL	0.30%	0.50%	0.70%
CPI ex-Food & Energy NSA Y/Y	JUL	5.9%	6.1%	5.9%
CPI SA M/M	JUL	0.0%	0.20%	1.3%
CPI NSA Y/Y	JUL	8.5%	8.7%	9.1%
Hourly Earnings SA M/M (Final)	JUL	0.50%	0.50%	0.50%
Hourly Earnings Y/Y (Final)	JUL	5.2%	5.2%	5.2%
Wholesale Inventories SA M/M (Final)	JUN	1.8%	1.9%	1.9%
Treasury Budget NSA	JUL	-$211.1B	-$162.0B	-$88.8B
Continuing Jobless Claims SA	07/30	1,428K	1,388K	1,420K
Initial Claims SA	08/06	262.0K	264.0K	248.0K
PPI ex-Food & Energy SA M/M	JUL	0.20%	0.40%	0.40%
PPI ex-Food & Energy NSA Y/Y	JUL	7.6%	7.8%	8.4%
PPI SA M/M	JUL	-0.50%	0.30%	1.0%
PPI NSA Y/Y	JUL	9.8%	10.4%	11.3%





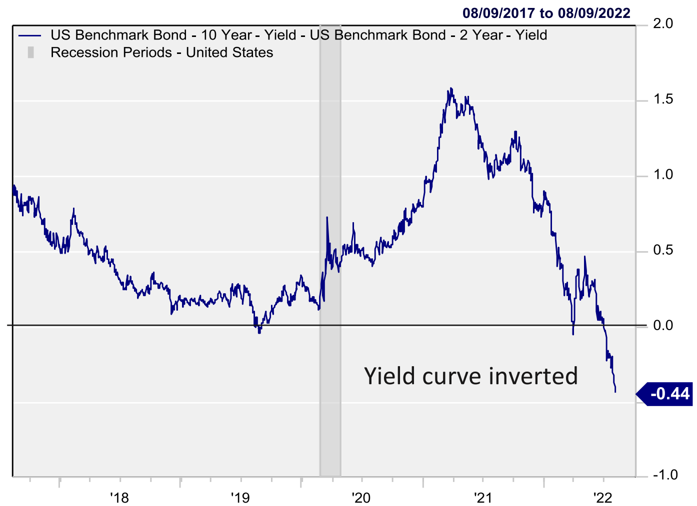
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

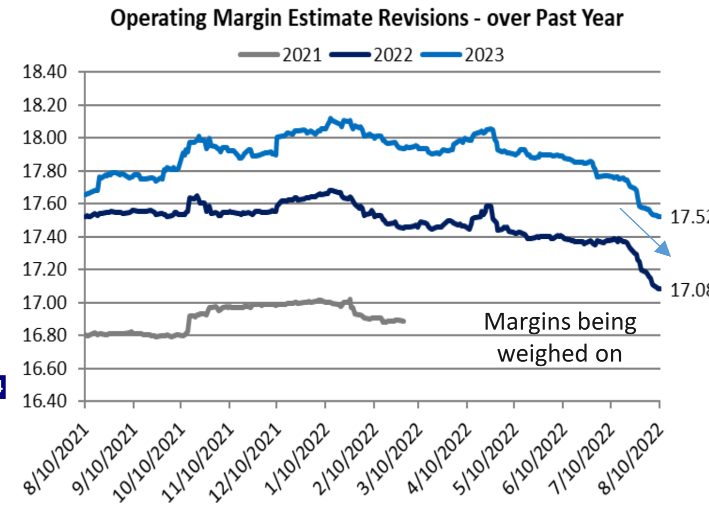
ECONOMY AND EARNINGS SLOWING

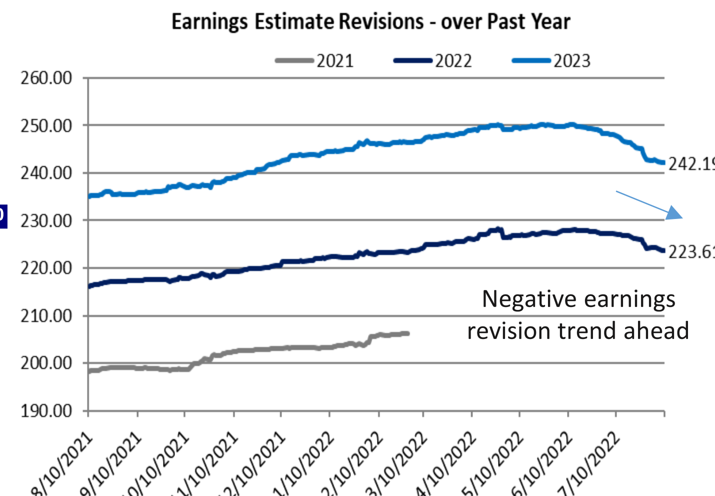
Q2 earnings have beaten estimates by 3.3%, but forward estimates are being revised sharply lower. Q3 earnings estimates have been revised -5.1% lower since 6/30, and Q4 estimates by -3.6%. Full-year earnings estimates are now down to $223.61, approaching our $220 base case estimate.

We believe this negative revision trend will continue, as the economy weakens. High inflation is weighing on purchasing power, the inverted yield curve is resulting in tighter credit conditions, and economic demand surveys are softening. Earnings estimates are still too high in our view.

That said, we do not expect an economic collapse. Banks are very well-capitalized, balance sheets are not overextended (supply has been hard-pressed to meet demand this cycle), and inflation is importantly showing signs of potential moderation ahead. It is also important to remember that the market will bottom before the economy and earnings.

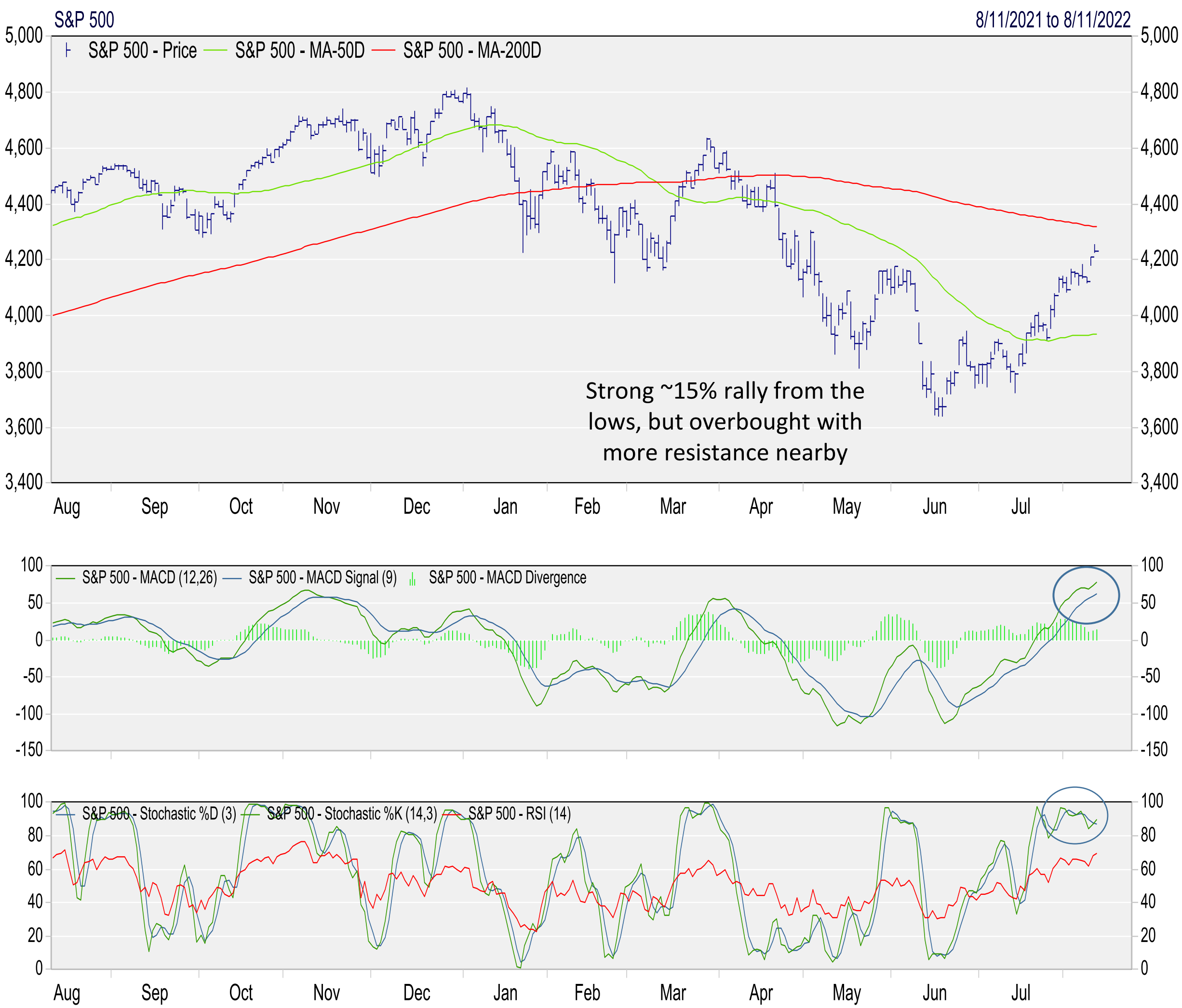






Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 has continued its rally over the past week, breaking above another resistance level (~4200) in the process.

The technical picture has improved dramatically over the past several weeks, and we note improved breadth in the rally. While we haven't seen a single day reach a breadth thrust in advancing to declining data, we have seen a cluster of strong readings in the past ~2 months (6 readings above 4.5x since ~June).

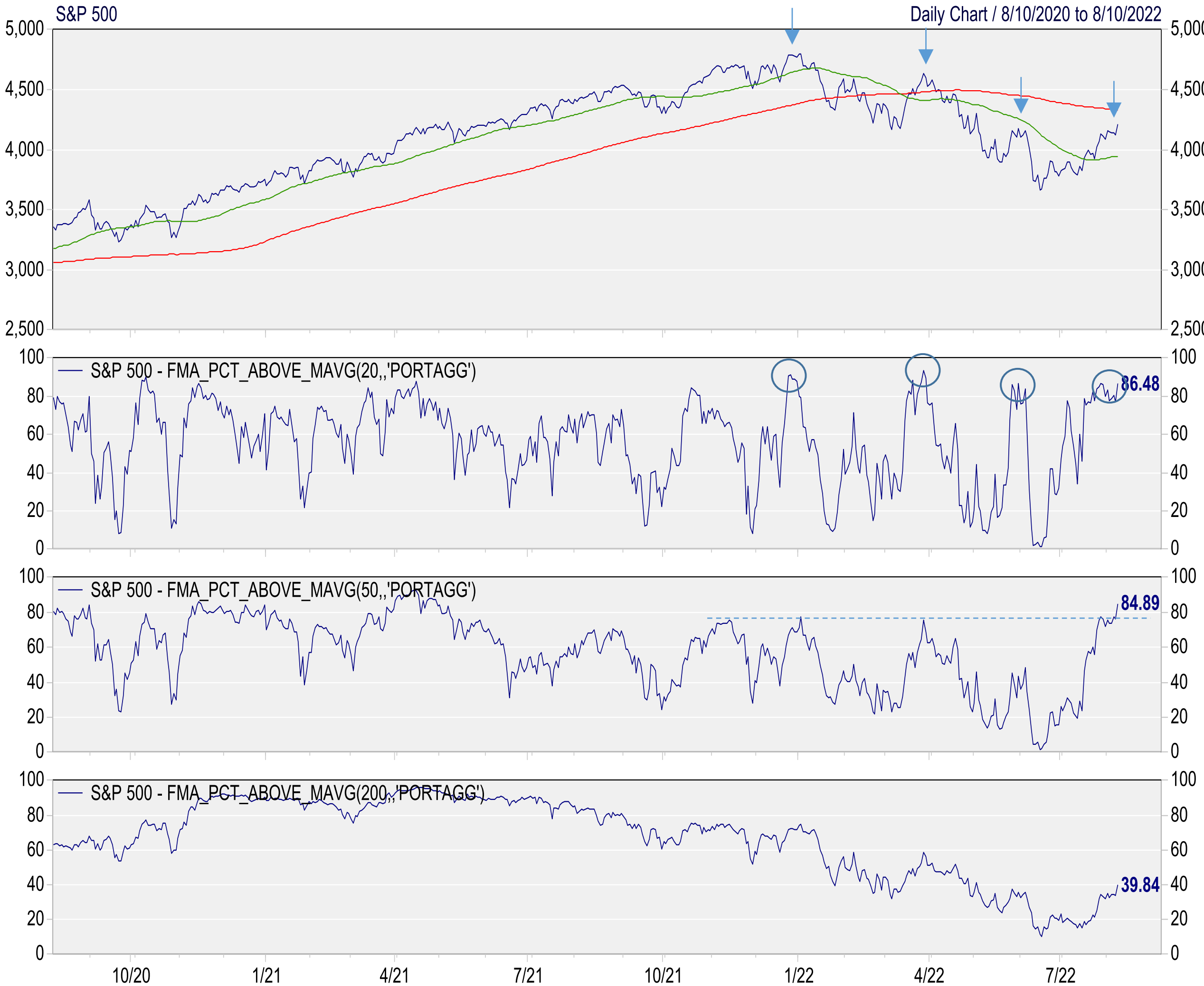
Additionally, one of the metrics we watch is the percentage of members making new 4-week highs. It recently moved above 55%, which is historically a good sign of longer-term strength. We would also like to see the percentage of S&P 500 members trading above the 50DMA get above 90% to show strong broad-based participation (latest reading is at 84.29%).

We likely have a bit of base building to do in coming weeks, but the technical indicators in the bullish column are accumulating.

Short-term resistance resides at 4229 (50% retracement of bear market decline) and 4330 (200 DMA). And we note overbought conditions with RSI and MACD at elevated levels.

We expect back-and-forth trading to occur (rather than unbridled upside), and would use those pullback periods as opportunity.

MARKET BREADTH



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The percentage of S&P 500 stocks above their 20-day moving average is up to 86% again, an area that has marked short-term peaks a few times this year.

With short-term conditions overbought and resistance nearby (such as the 200 DMA), we are reluctant to chase the rally at current levels. Our overall view of normal back-and-forth trading plays into this view too, with a dovish Fed pivot unlikely for now.

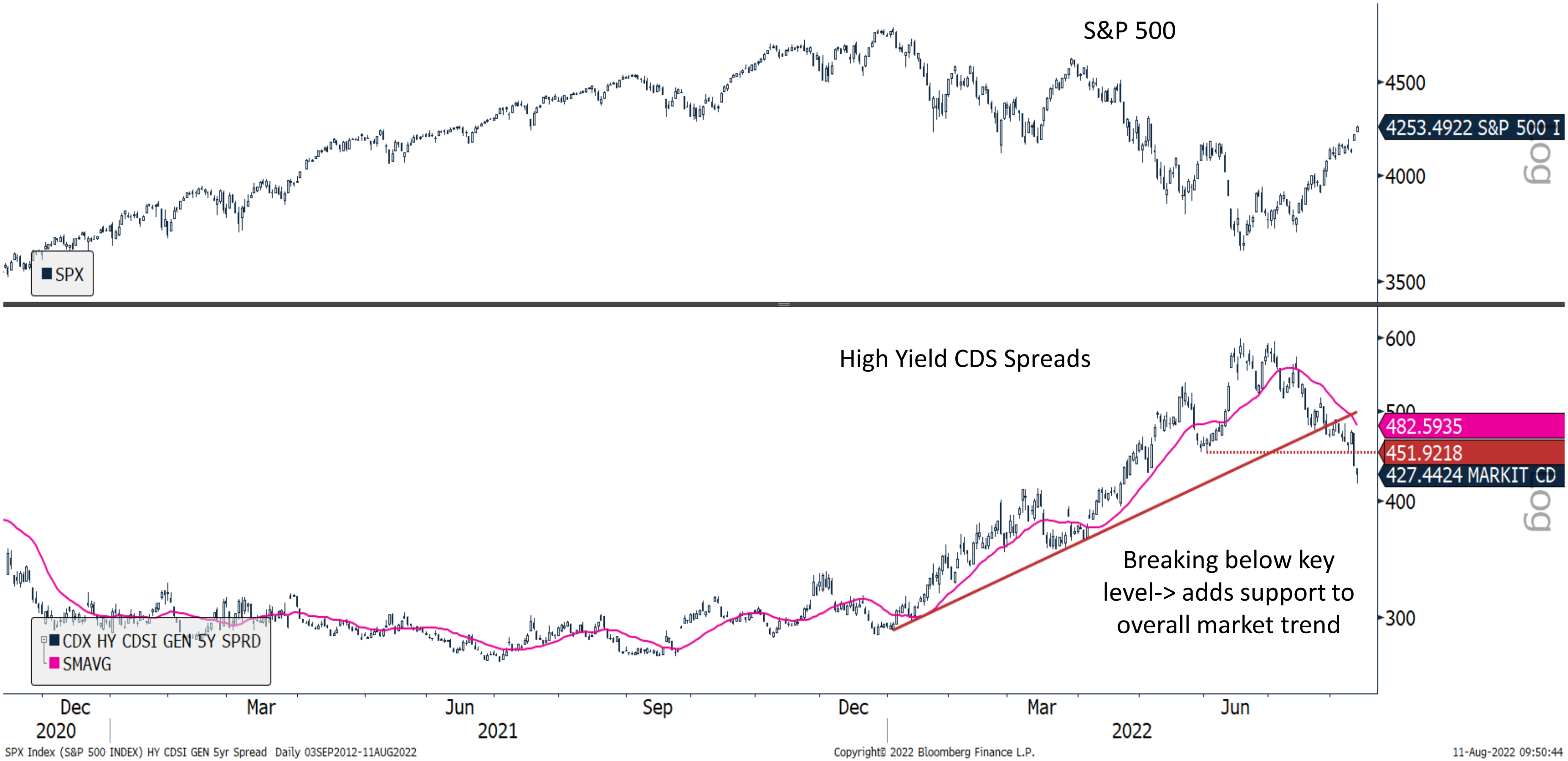
That said, market breadth has improved in the recent rally. The percentage of stocks above their 50 DMA has broken above the ~78% cap seen over the past 12 months.

And at 85%, the percentage of stocks is now approaching the >90% area that has been consistent with durable lows historically out of weak periods.

Within a technical backdrop that has shown improvement (from the downtrend in 1H'22) but a normal rebuilding expected, we recommend using pullbacks as opportunity to accumulate favored stocks.

CREDIT DEFAULT SWAPS

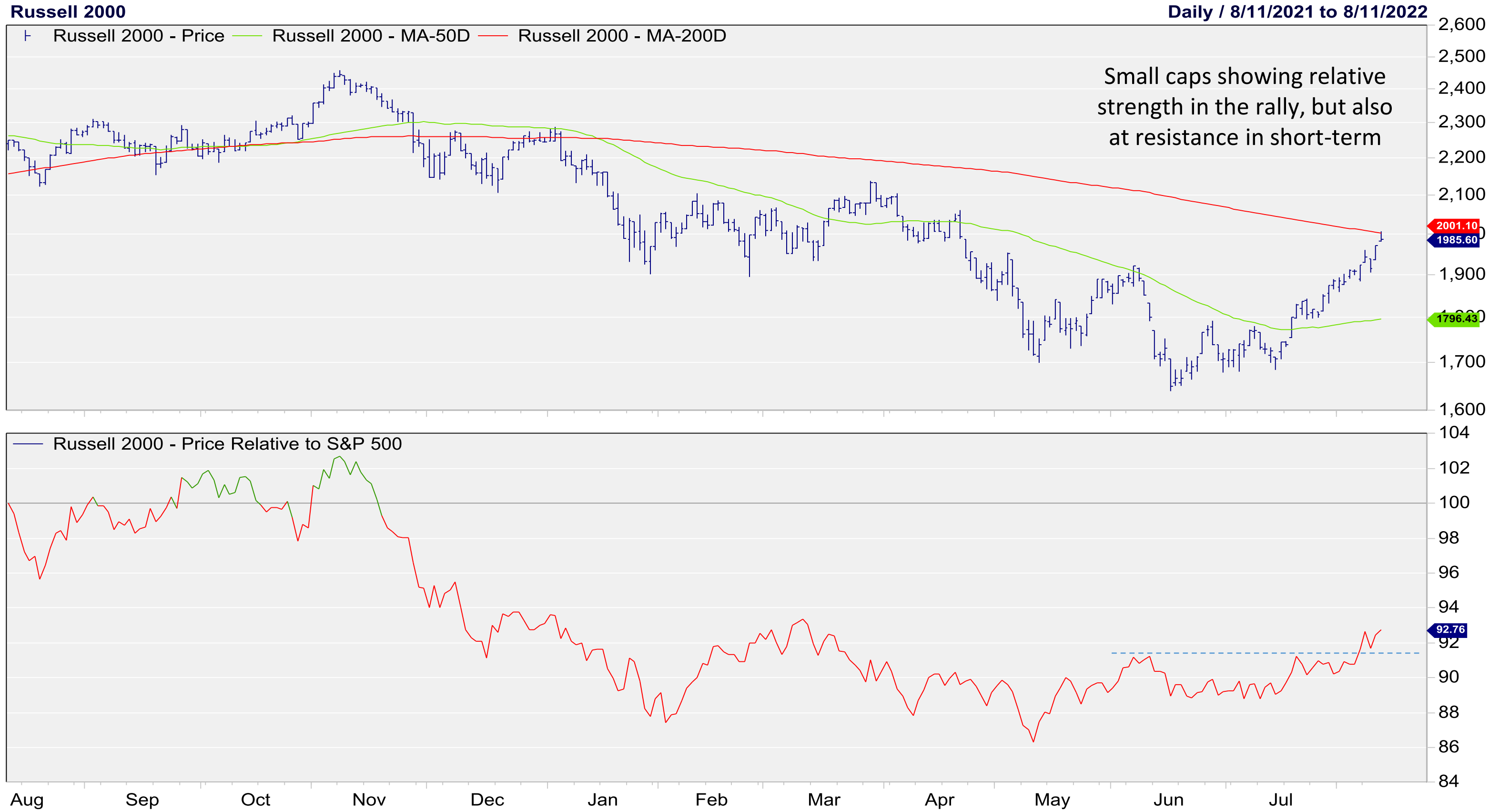
CDS spreads (cost of insurance on bonds) have been a good indicator of market trends this year and recently broke down below a key level technically. This supports the view that the bear market lows may be in. Even if the worst of the downside is behind us, we do not expect unbridled upside back to new highs. Rebuilding periods of back-and-forth trading are normal historically, and a move directionally toward the recent lows is still possible. But the downward market trend appears to be subsiding, and we would use pullbacks as opportunity.



Source: Bloomberg, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

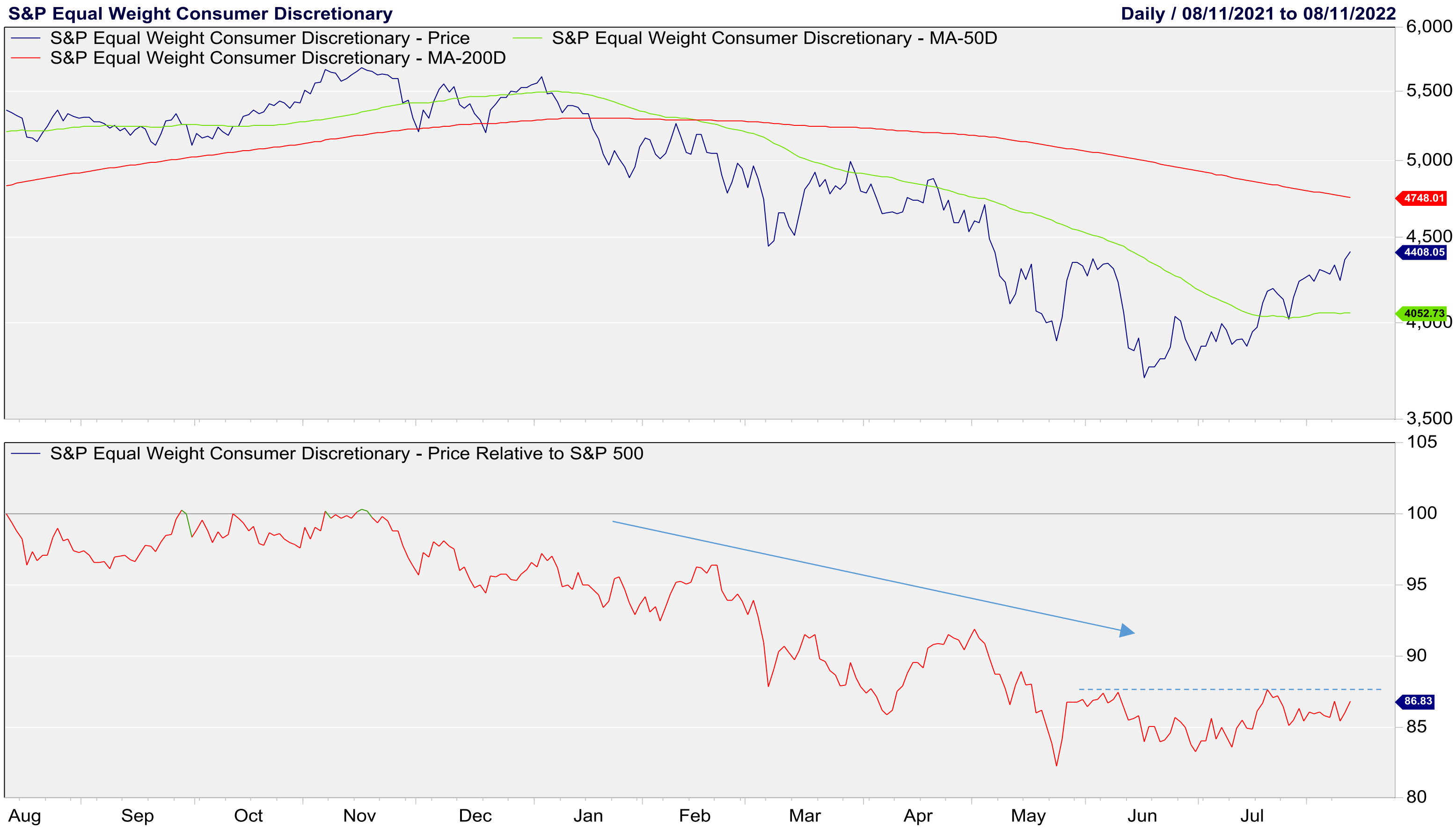
A positive within the recent rally has been relative strength from the higher beta, more economic-sensitive small caps. Outside of the credit crisis and Covid shutdown, the small caps trade at their lowest P/E multiple in over 20 years (13.7x). And relative to the large caps, they trade at a 30% discount (vs. 6% premium on average historically). Outside of the Covid shutdown lows, this is the cheapest relative P/E in over 20 years. We believe the small caps can outperform into the next bull market and are encouraged by their recent relative strength improvement. But the group is now at 200-day moving average resistance, so we are reluctant to chase at current levels. We recommend using a pullback as opportunity.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CONSUMER DISCRETIONARY

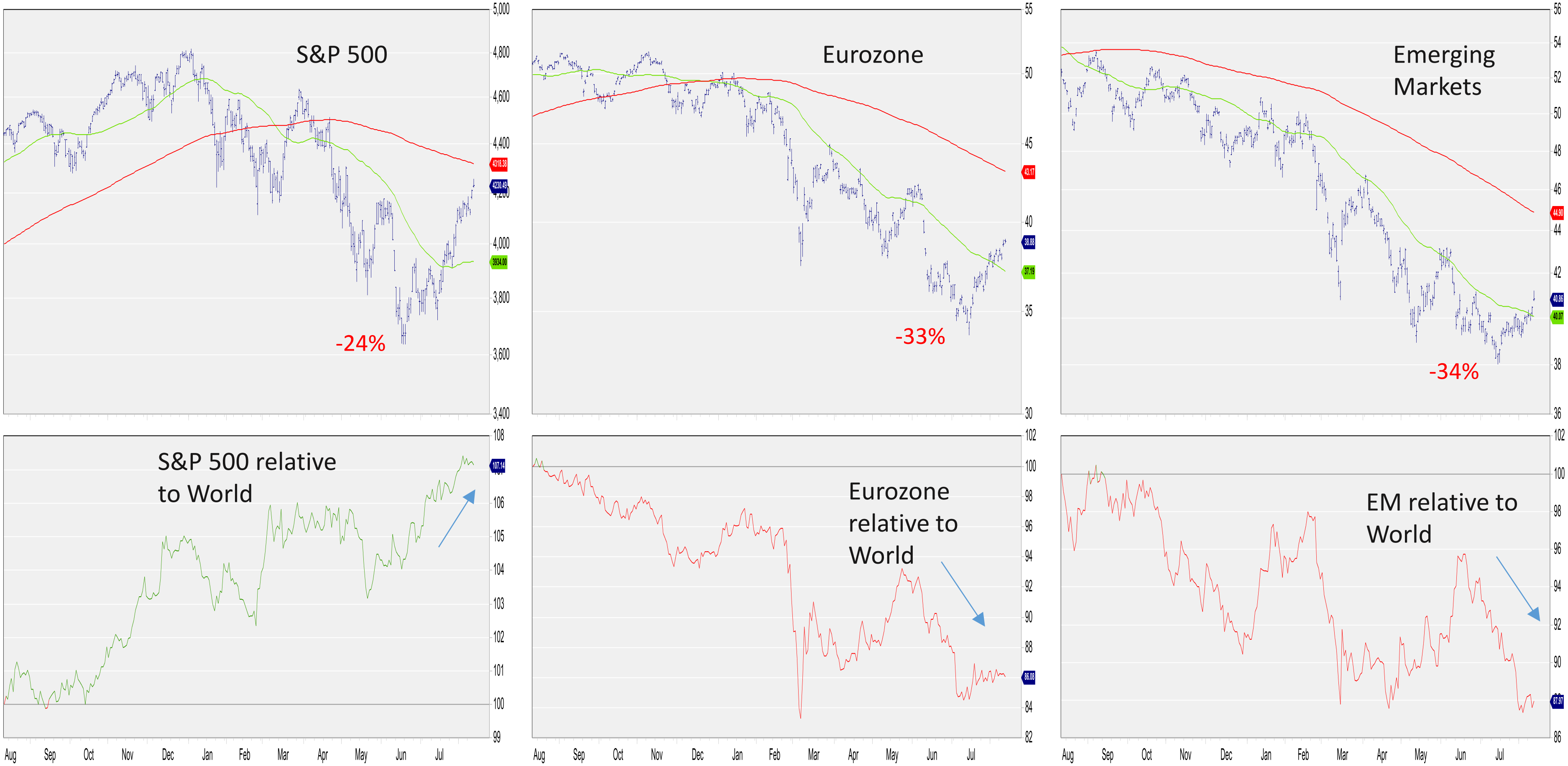
A negative divergence in the rally has been the inability for the equal-weight Consumer Discretionary sector to show relative strength. High inflation has significantly weighed on the sector this year, but the drop in commodity prices since June has not resulted in outperformance. Several key retail companies report earnings next week, and we will be curious to hear from them and analyze the market's reaction. Is the lack of recent outperformance indicating weakness to come from the group or will earnings act as a catalyst to improve this key area?



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GLOBAL EQUITIES

The US continues to be a relative outperformer globally. Despite some consolidation in the US dollar over the past month, the Emerging Markets have not been able to outperform the World. The lack of relative strength from the hardest hit areas globally is a headwind for global equity market trends in our view. We continue to recommend an overweight allocation to the US for global investors.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy- All Charts As Of Close 8/11/2022 (M22-4899646)

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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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