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Weekly Market Guide

Short-Term Summary:

Equities have consolidated some of their recent gains over the past week (down ~4% following the two-month 17% rally). Investors will be closely listening to Fed Chair Powell's speech at Jackson Hole tomorrow for indications on the path of Fed policy ahead. Fed members have been talking hawkish in the aftermath of the market's positive reaction to the July CPI report, reminding that inflation remains high and that the Fed is intent on bringing it under control. But it might take hearing the message from Powell to have more weight. It will be paramount for the Fed and equity markets to see inflation improve in a clear and convincing way over the coming months- its path forward will be a large determinant on how long this tightening cycle transpires.

Because inflation is so high and the Fed is likely to increase the fed funds rate by an additional 100bps by year end, we do not expect a sharp V-bottom recovery out of this bear market. It is normal to have back-and-forth trading as equities rebuild themselves for renewed upside. The last two bear markets (2018 and 2020) saw sharp recoveries from the lows, but inflation was low then and the Fed was able to ease policy- we do not have that luxury right now. Additionally, Fed tightening will act with a lag on the economy, as lending tightens and demand softens. This is likely to weigh on corporate fundamentals over the next year, and we believe current earnings estimates need to be revised lower. Market concerns may shift from inflation toward economic and fundamental growth. The question is how much negative news is priced in because we believe the market will bottom before the economy and fundamentals (stocks discount the future).

Valuation is much more reasonable (and supportive) throughout the equity market, particularly if interest rates continue to subside their sharp ascent from the first half of the year. We believe that inflation and interest rates have likely peaked, but their movements moving forward will be a large influence on investor confidence toward the outlook (and, in turn, valuation multiples). We also lean on the technical backdrop for clues on market movements. The underlying strength and participation in the recent rally bodes well for the overall market trend- increasing the odds that the lows are in. While we believe the worst of this bear market may be behind us, we do not believe that equities are set for unbridled enthusiasm to the upside. We expect setbacks and normal back-and-forth trading ahead, as investors gain more clarity on the path of inflation within a tightening cycle. With this in mind, we would refrain from chasing the rallies and use pullbacks in favored stocks as opportunity for the next bull market.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-9.3%	-6.8%
S&P 500	-13.1%	-7.7%
S&P 500 (Equal-Weight)	-9.9%	-5.4%
NASDAQ Composite	-20.5%	-17.2%
Russell 2000	-13.8%	-13.3%
MSCI All-Cap World	-15.9%	-13.6%
MSCI Developed Markets	-19.1%	-19.5%
MSCI Emerging Markets	-20.0%	-22.4%
NYSE Alerian MLP	26.0%	28.9%
MSCI U.S. REIT	-16.8%	-7.3%

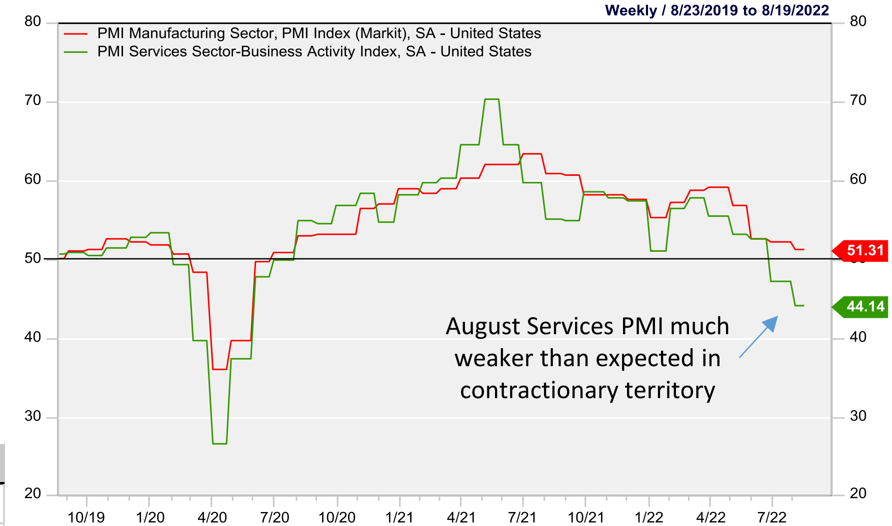
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	49.4%	4.6%
Utilities	6.4%	3.1%
Consumer Staples	-2.0%	6.7%
Industrials	-8.1%	7.9%
Health Care	-8.4%	14.0%
Financials	-12.6%	10.8%
Materials	-13.0%	2.5%
S&P 500	***-13.1%***	-
Real Estate	-16.4%	2.8%
Information Technology	-17.8%	27.7%
Consumer Discretionary	-20.0%	11.5%
Communication Svcs.	-28.6%	8.3%

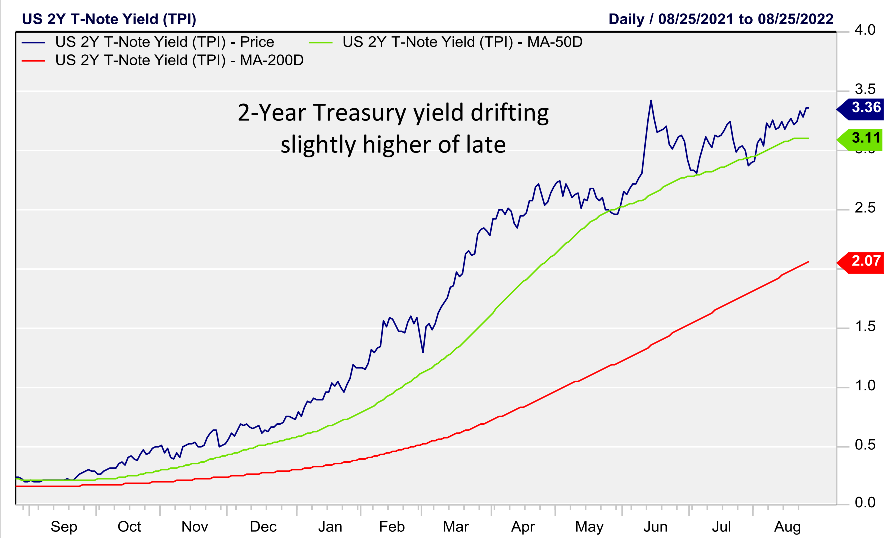
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

August PMI surveys continue to point toward a softening macro-economic environment. Manufacturing PMI dropped to 51.3, while Services PMI dropped further into contractionary territory at 44.1 (and much lower than expectations). High inflation is weighing on disposable income and savings rates, resulting in reduced purchasing power when accompanied by weak asset prices. Additionally, the Fed remains in tightening mode as it battles high inflation. The 2-year yield has been a good indicator on where the Fed funds rate may be heading and is drifting slightly higher of late. We will be watching Fed expectations closely, as it will influence market trends. A coming catalyst to watch may be the Jackson Hole Economic Symposium, where Fed Chair Powell speaks tomorrow.

Event	Period	Actual	Consensus	Prior
Chicago Fed National Activity Index	JUL	0.27	-0.10	-0.25
Building Permits SAAR (Final)	JUL	1,674K	-	1,674K
PMI Composite SA (Preliminary)	AUG	45.0	49.0	47.7
Markit PMI Manufacturing SA (Preliminary)	AUG	51.3	51.8	52.2
Markit PMI Services SA (Preliminary)	AUG	44.1	49.8	47.3
New Home Sales SAAR	JUL	511.0K	575.0K	585.0K
Richmond Fed Index	AUG	-8.0	-2.0	0.0
Durable Orders ex-Transportation SA M/M (Preliminary)	JUL	0.30%	0.20%	0.35%
Durable Orders SA M/M (Preliminary)	JUL	0.0%	0.60%	2.2%
Pending Home Sales Index SAAR	JUL	89.8	93.0	90.7
Pending Home Sales M/M	JUL	-1.0%	-2.3%	-8.9%
Continuing Jobless Claims SA	08/13	1,415K	1,439K	1,434K
GDP SAAR Q/Q (Second Preliminary)	Q2	-0.60%	-0.90%	-0.90%
GDP SA Y/Y (Second Preliminary)	Q2	1.7%	1.6%	1.6%
Initial Claims SA	08/20	243.0K	255.0K	245.0K
Kansas City Fed Manufacturing Index	AUG	3.0	5.0	13.0



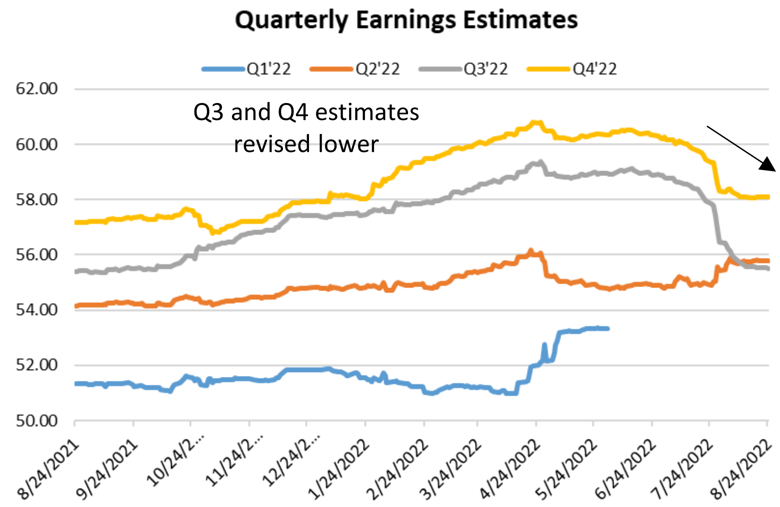


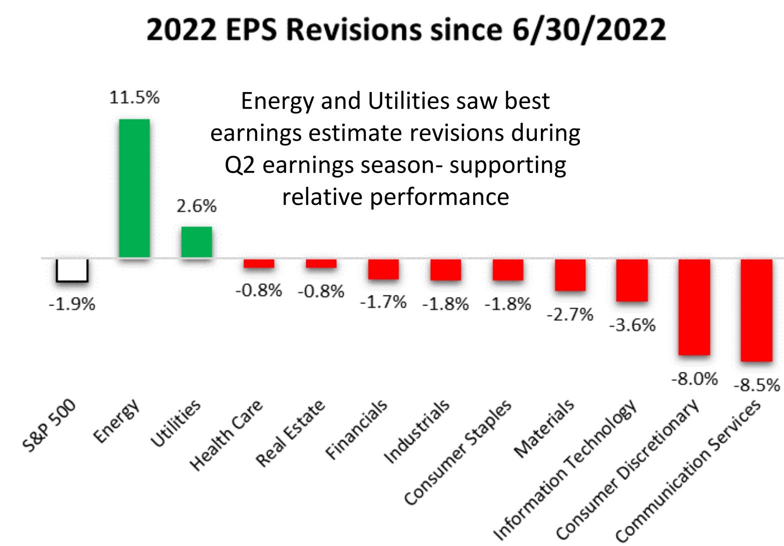
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

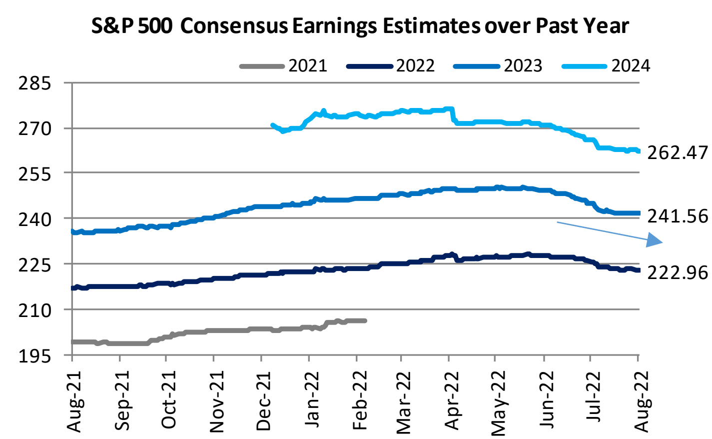
FUNDAMENTALS

Q2 S&P 500 earnings rose 4.6% q/q and 6.8% y/y with results finishing 3.1% ahead of estimates entering the quarter. This was the lowest beat rate in the post-shutdown recovery and below the long-term average of 5.4%. Additionally, forward estimates are being revised lower. S&P 500 Q3 and Q4 earnings estimates have been revised -6% and -4% respectively since the end of June. Likewise, 2023 estimates have been revised -3% lower since June, and we expect this downward revision trend to continue over the next year as economic growth slows. Our base case S&P 500 earnings estimate is $220 for 2022; and we use a $215 estimate for 2023 which assumes a mild recession early in the year.

At the sector level, Energy remains the standout fundamentally. Earnings grew 78% q/q in Q2, buoyed by high oil prices and capital discipline- and these results were 9% ahead of estimates. Energy's 2022 earnings estimate was revised 11.5% higher and 2023 estimate 8% higher. Utilities have seen slight upside to earnings estimates for 2022. This is likely contributing to the good performance of Energy and Utilities lately. On the flip side, areas such as Consumer Discretionary and Communication Services have seen markedly lower earnings estimates, likely weighing on their relative performance.





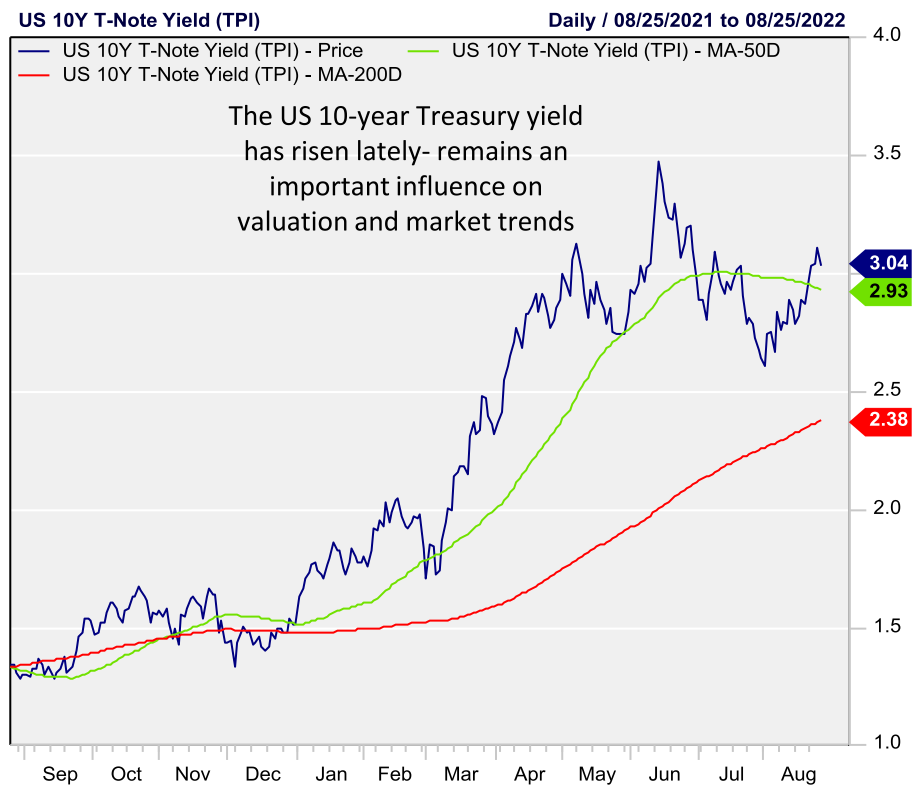


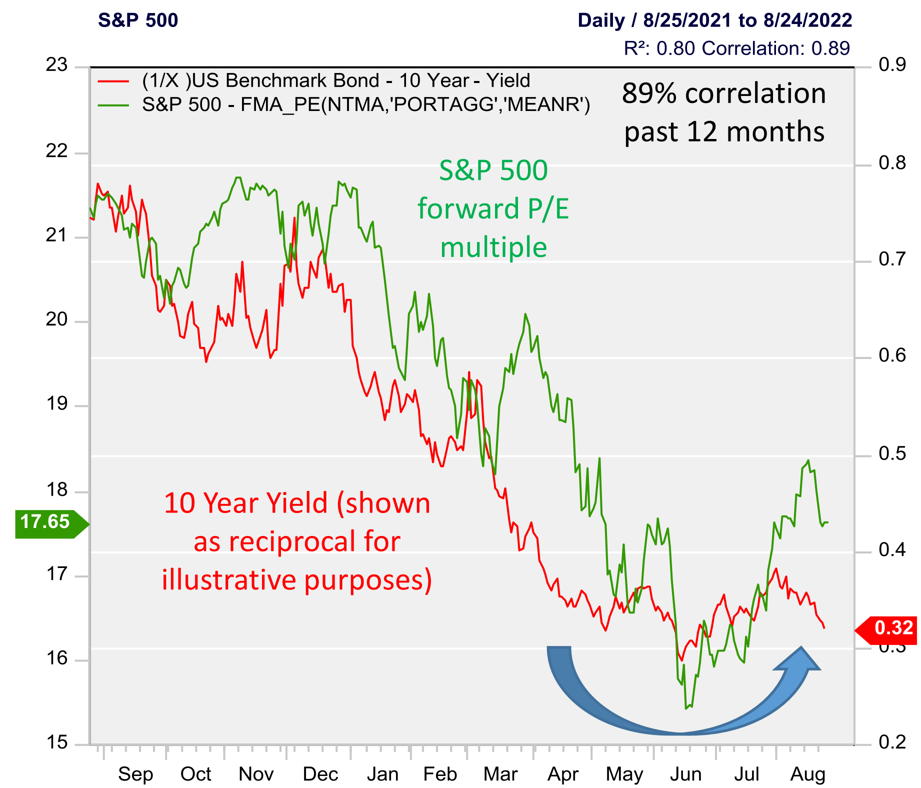
EPS Growth Estimates	
2021	50.1%
2022	8.2%
2023	8.3%
2024	8.7%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BOND YIELDS AND VALUATION

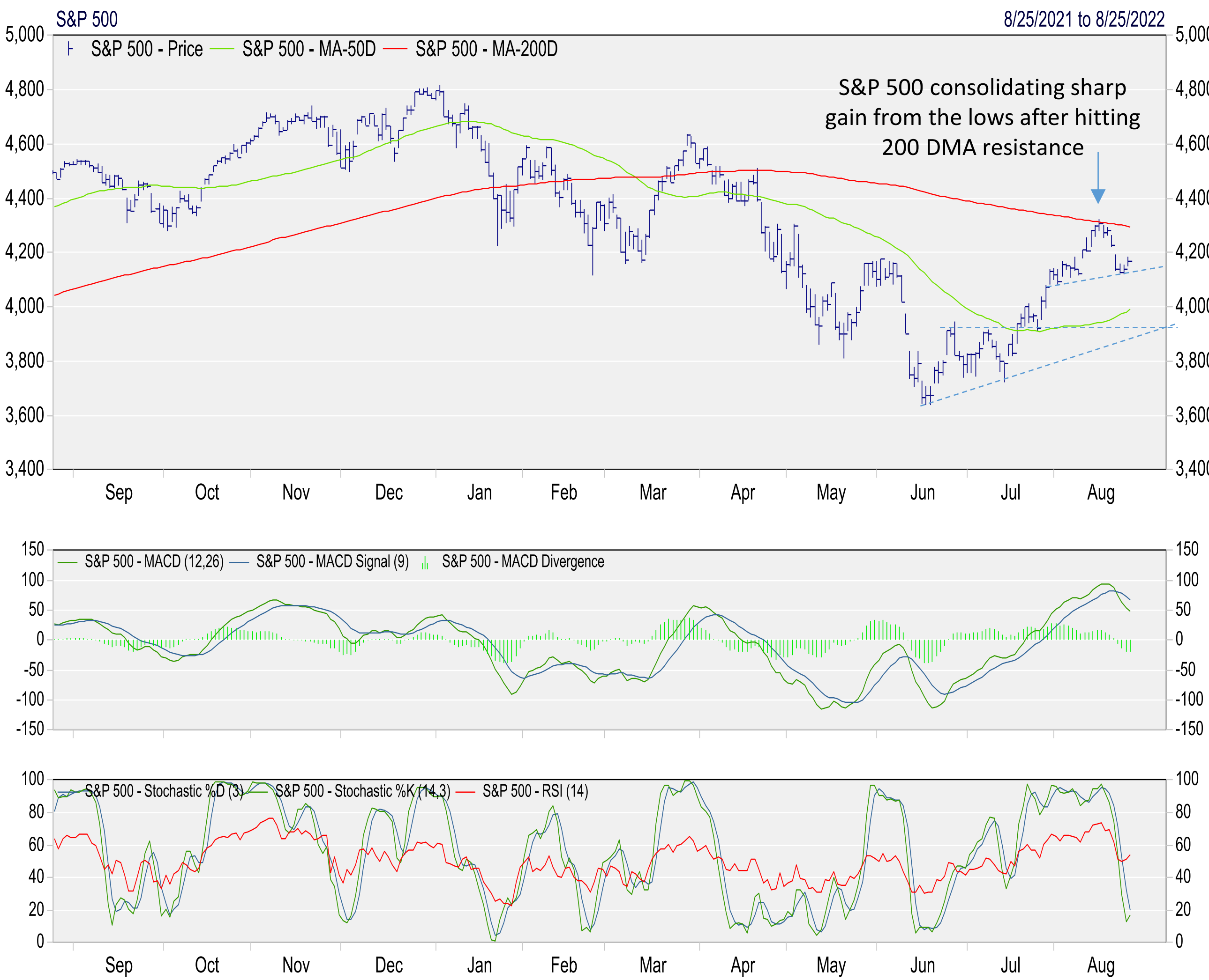
This bear market has been completely valuation-driven so far, as investors price in economic and fundamental weakness from high inflation and Fed tightening. In fact, we note an 89% inverse correlation between the S&P 500 P/E multiple and 10-year Treasury yield over the past twelve months. Since the 10-year yield peaked in mid-June, the S&P 500 P/E has been able to expand following significant multiple compression that took it to 15.5x on a forward basis. We believe that the 10-year yield has likely peaked if inflation has peaked (and can moderate in a clear and convincing way). This should provide a more stable backdrop for valuations. But we do note some recent upside from the 10-year yield, which needs to be monitored due to its impact on valuation and market trends. If this upside continues, it is likely a headwind to equities in the short-term (and vice versa a positive if bond yields subside). The Jackson Hole Economic Symposium, and tomorrow's speech by Fed Chair Powell, may be a catalyst for the next move in the short-term.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Technically, the pullback is not alarming yet. Given the strength off the lows, one of the support levels is likely to hold (barring some major negative news).

The number of support levels that fail and the degree of distribution (measured by advancers/decliners and volume readings) will signal how deep this draw-down will need to run.

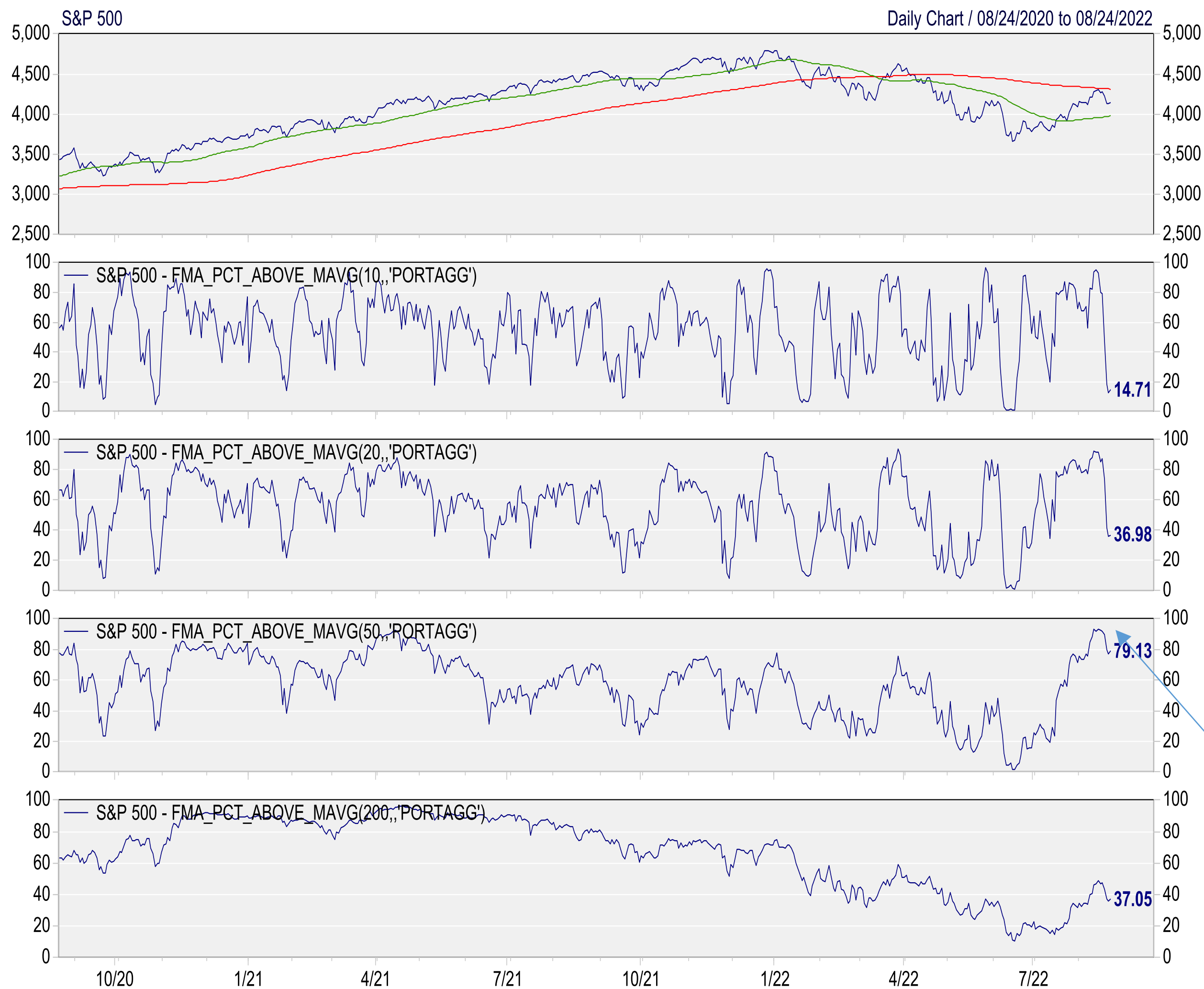
Given the degree of decline and the degree of rally, in conjunction with all of the current uncertainty, a decline ranging from 5-15% is possible in our opinion.

Unless the narrative deteriorates in a major way and momentum builds on the downside, we feel it is a low probability we go to the lows.

While we believe the worst of this bear market may be behind us, we do not believe that equities are set for unbridled enthusiasm to the upside.

With this in mind, we would refrain from chasing the rallies and use pullbacks in favored stocks as opportunity for the next bull market.

MARKET INTERNALS



We have noted (over the past several weeks) the strong improvement in participation during the market rally with the percentage of stocks getting above their 50-day moving average reaching 90+%.

This bodes well for the underlying technical backdrop as similar readings have been seen out of weak periods of the past 20+ years. While the underlying breadth of the rally was impressive and raises the odds that the lows prove durable, pullbacks can obviously still occur.

The index has consolidated some of its strength of late with the percentage of stocks above their 10- and 20-day moving averages approaching short-term oversold levels.

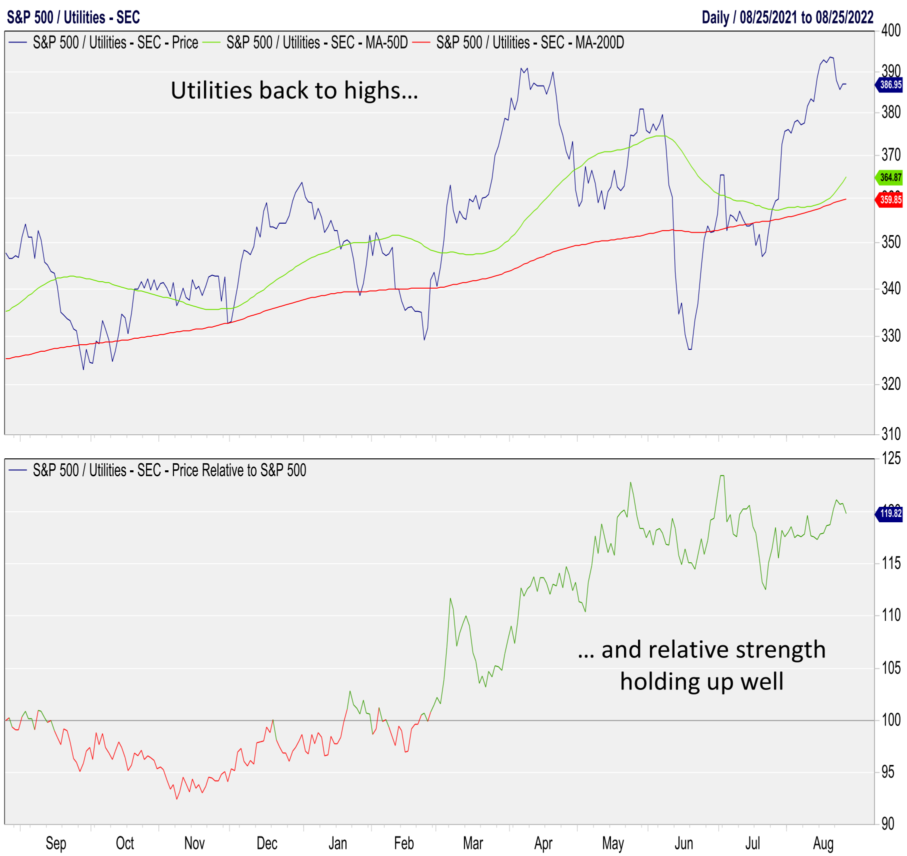
We expect setbacks and normal back-and-forth trading ahead, as investors gain more clarity on the path of inflation within a tightening cycle.

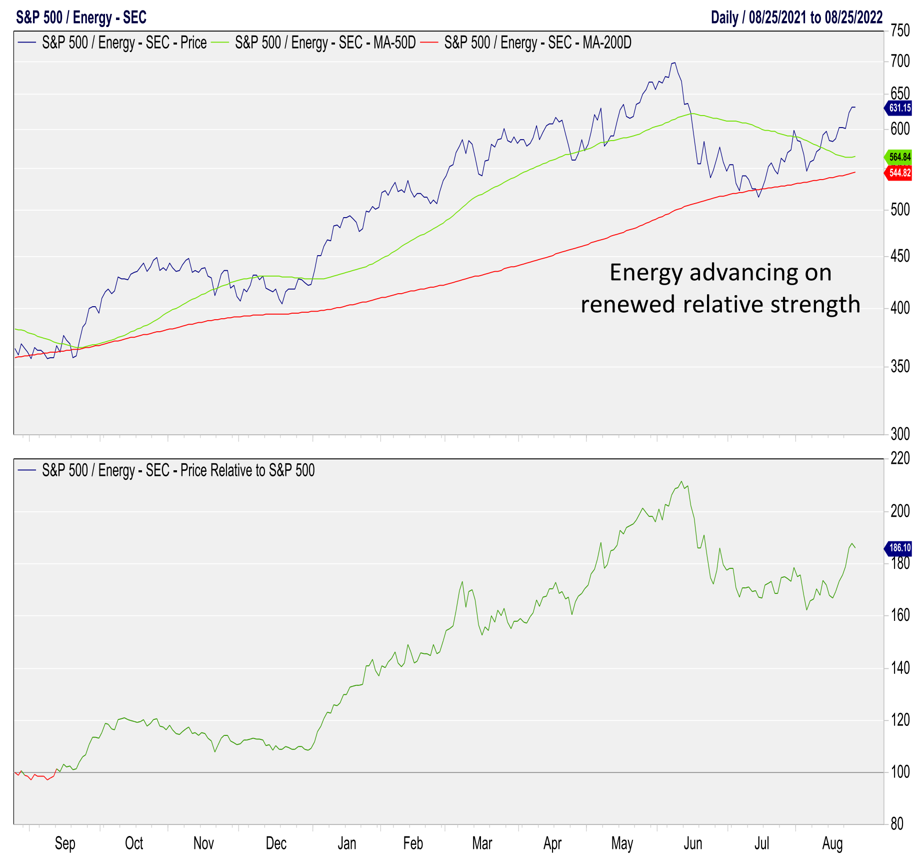
>90% of stocks above 50 DMA was a positive development for market trend, but rebuilding phase likely ahead

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

LEADERSHIP LESS THAN IDEAL

While the technical backdrop has improved overall from the lows, market leadership has been less than ideal. The commodity-sensitive Energy sector and defensive Utilities sector are the only two sectors positive year-to-date- performing relatively well through this year's market weakness and commodity strength. In strong advances, we would like to see a rotation from these winners into the more beaten-up areas. However, we have not necessarily seen this in a definitive way. The defensive Utilities sector reached new highs and relative performance has held up well through the two-month market advance. Additionally, Energy is approaching its previous highs on renewed relative strength. This underlying performance supports our view of market choppiness ahead.

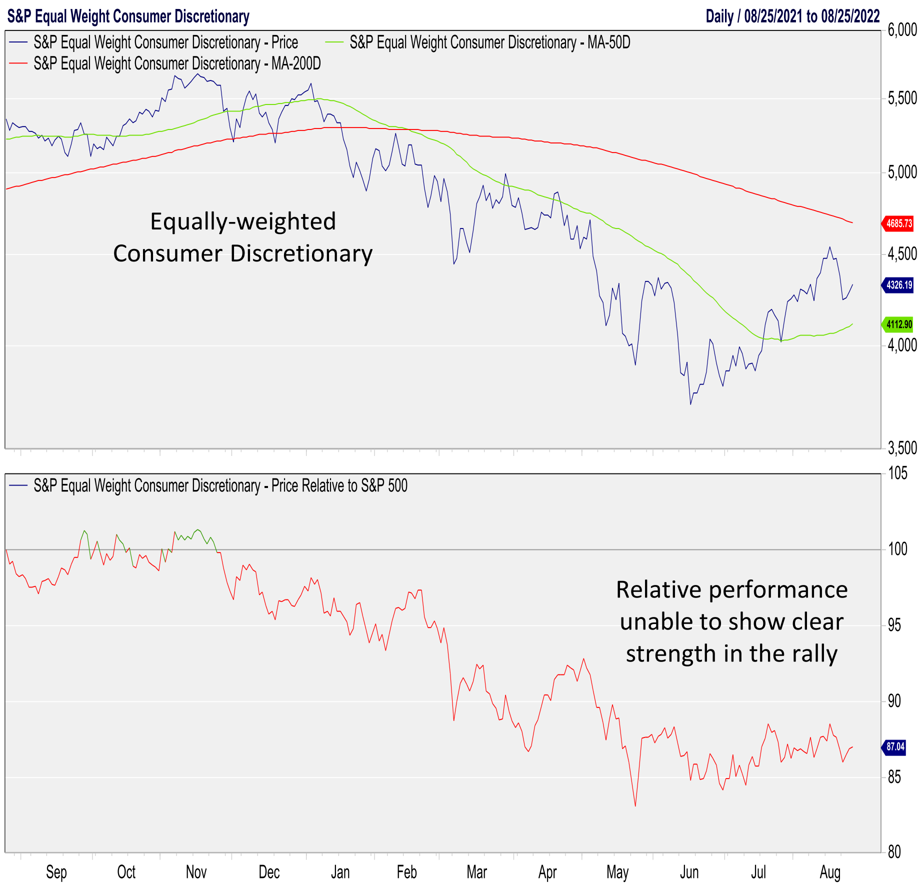


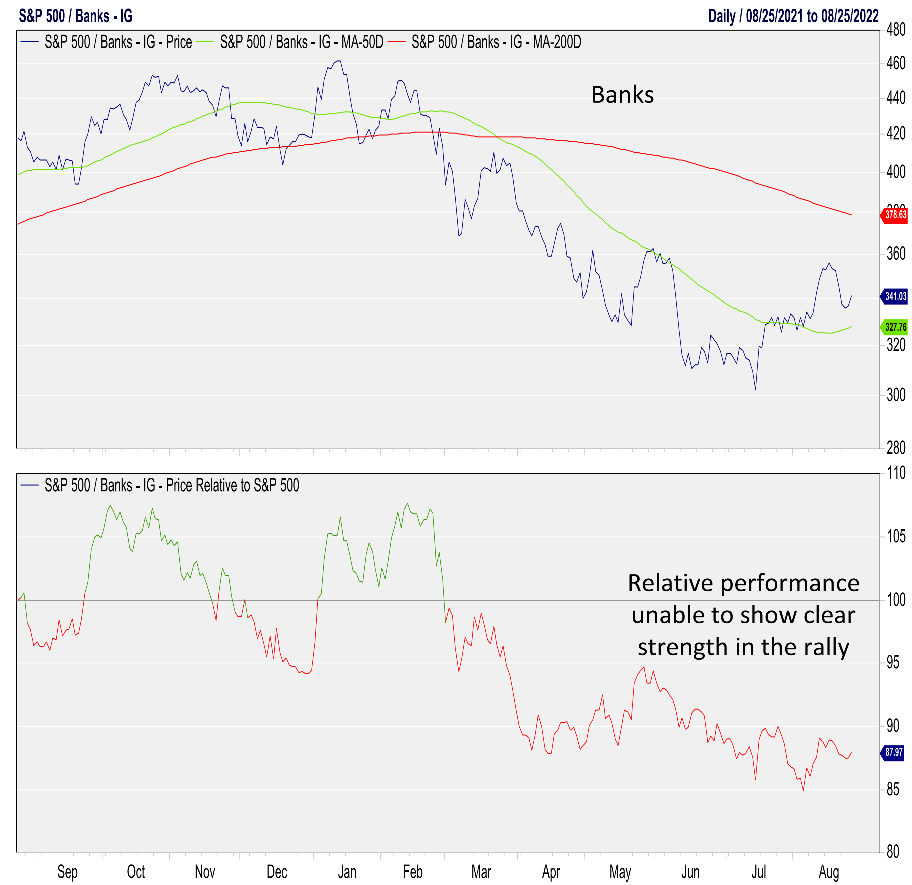


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

LEADERSHIP LESS THAN IDEAL

Continued from the previous page… Conversely, the more beaten-up areas have not been able to show relative strength in the advance. Consumer Discretionary has experienced significant weakness due to high inflation; and while the sector has bounced from the lows, relative performance (of the average consumer stock) has not been able to show meaningful strength. Likewise, the economic-sensitive banks remain near relative strength lows. As discussed previously, this is not ideal leadership within a strong rally- and supports our view of market setbacks and pullbacks ahead.

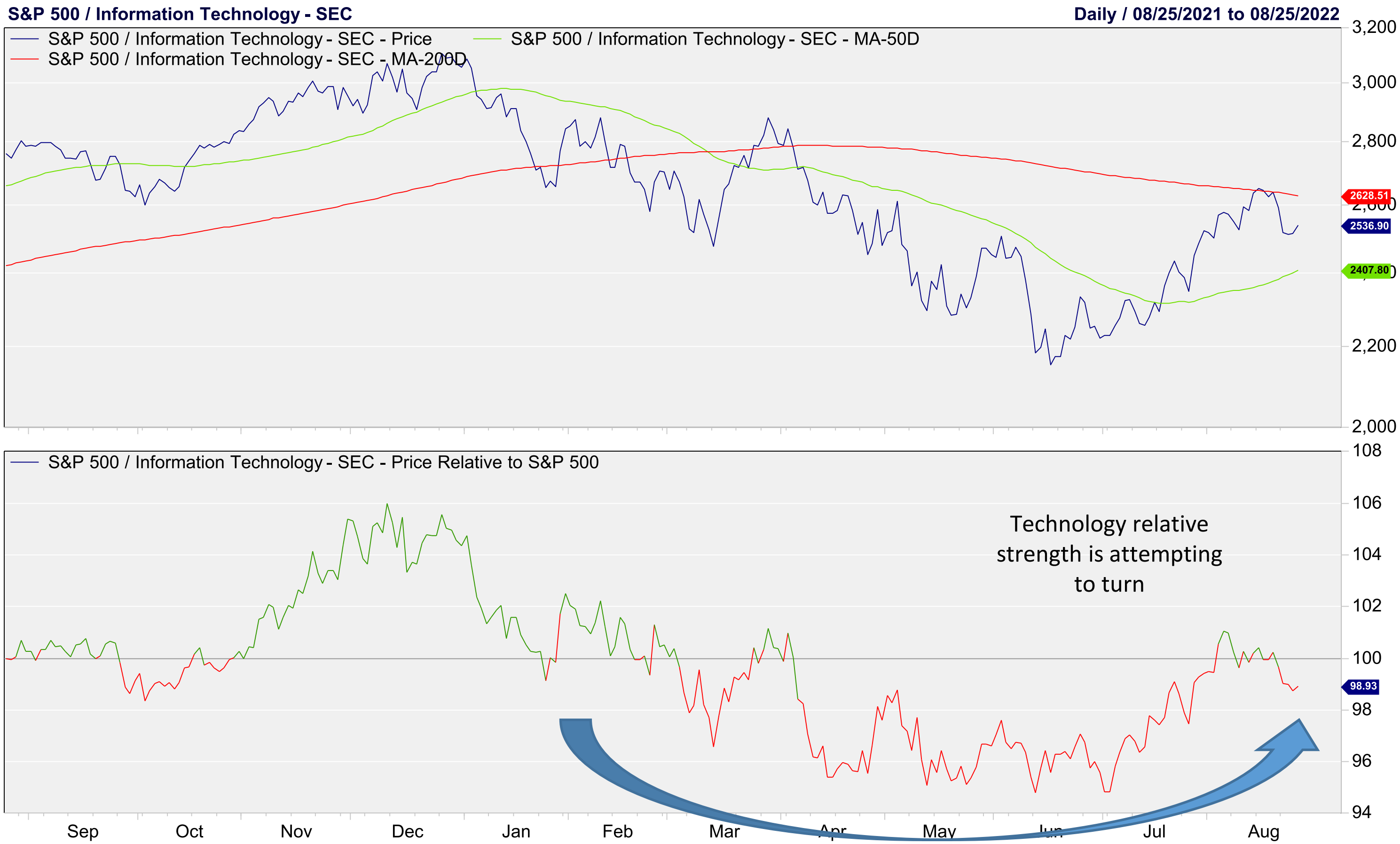




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNOLOGY

Technology has been able to show improved relative strength since the peak in bond yields in mid-June and would be one of our favored areas to accumulate on market weakness. Long-term fundamental growth potential remains strong given the secular trends of increased technological spending, uses, and needs. The major issue in the first half of the year was sharply higher bond yields acting as a negative for the sector's high valuations. Valuations have since pulled back to more reasonable levels, and if bond yields have indeed peaked, that valuation headwind should subside moving forward.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4920442)

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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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