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Weekly Market Guide

Short-Term Summary:

The S&P 500 has now pulled back ~9% over the past two weeks, fueled last Friday by the market's reaction to Fed Chair Powell's hawkish tone at Jackson Hole. The Chairman's message echoed recent comments from other FOMC members with an intent to firmly state that inflation is too high, the Fed is determined to bring it under control, and it will likely take a prolonged period of higher rates (and slower economic growth) to achieve this goal. The result is "higher for longer" rate expectations in the aftermath, pushing the 2-year yield to new highs (~3.5%) and the 10-year yield moving higher as well- reinvigorating weakness in equities.

The market's move since mid-June (a 17% two-month rally, followed by the current 9% pullback) has provided a lot for the bulls and bears. Bears believe the market's gains were nothing more than a bear market rally, failing at obvious 200-day moving average resistance, and that a much lower low will occur. Conversely, the bulls believe that the lows are in and that the current pullback is normal. Our view is we do not expect a 2001 (dotcom bubble) or 2008 (credit crisis) type market where significant bear market rallies preceded much lower prices. Supply has been hard-pressed to match demand in this cycle, there is a lack of widespread excess, the banks are very well-capitalized, and technology companies are real (far from the speculation of the dotcom era). Additionally, commodity prices have broadly pulled in since mid-June and inflation has likely peaked. Therefore we still favor odds that the lows are in. However, even if not, we doubt that stocks will decline significantly below the lows barring a catalyst that alters the path of inflation and interest rates. We do believe the bear market (at least, in terms of time) will continue. Economic normalization after the pandemic (and the resulting impact on inflation) will take time to play-out. Therefore, volatile/confusing data remains likely. Plus, the lag effect of tightening on the economy will cause a moderation in earnings for a while. Retests and choppiness are a high probability, such as being experienced now.

In the short-term, equities are broadly oversold enough for a bounce; and we would like to see technical support around 3900 hold. This area represents horizontal support (resistance in June & July, and support in late July), the uptrend line that connects the June low to the July low, and the 61.8% Fibonacci retracement from the June low to August high. Failing to hold this area likely sees a retest closer to the lows (3720-3636). Overall, we continue to view this as a rebuilding phase/bottoming process, but Fed actions and market reactions will be highly dependent on the path of inflation ahead. Today's ISM Manufacturing showed a continued decline in prices paid, which bodes well for inflation trends. Up next, investors will be watching the August jobs report tomorrow (including wage growth), followed by August ISM Services on Tuesday, and August CPI on 9/13.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-13.3%	-10.9%
S&P 500	-17.0%	-12.6%
S&P 500 (Equal-Weight)	-13.6%	-10.0%
NASDAQ Composite	-24.5%	-22.6%
Russell 2000	-17.9%	-18.9%
MSCI All-Cap World	-18.8%	-17.3%
MSCI Developed Markets	-21.2%	-21.9%
MSCI Emerging Markets	-19.3%	-24.0%
NYSE Alerian MLP	21.8%	23.6%
MSCI U.S. REIT	-20.0%	-13.2%

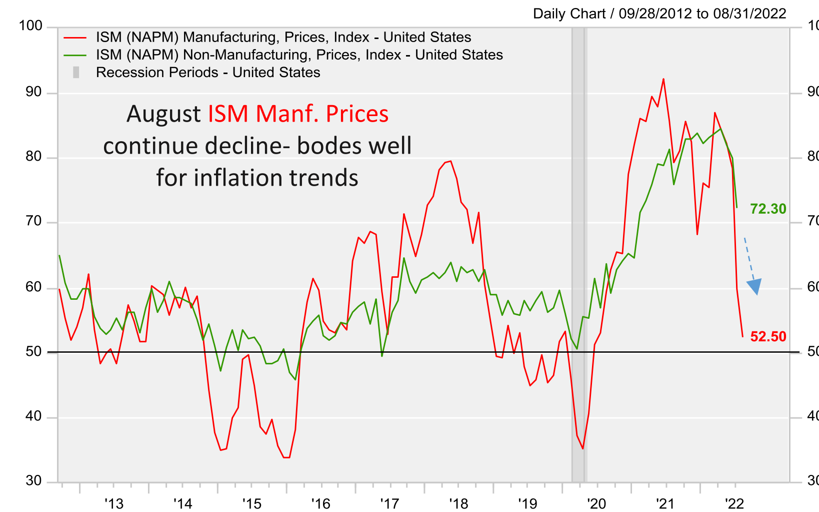
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	44.7%	4.7%
Utilities	3.4%	3.1%
Consumer Staples	-5.7%	6.8%
Health Care	-11.7%	14.1%
Industrials	-12.5%	7.9%
Financials	-15.7%	10.9%
Materials	-16.9%	2.5%
S&P 500	***-17.0%***	-
Real Estate	-19.4%	2.9%
Information Technology	-22.6%	27.3%
Consumer Discretionary	-24.2%	11.4%
Communication Svcs.	-31.0%	8.4%

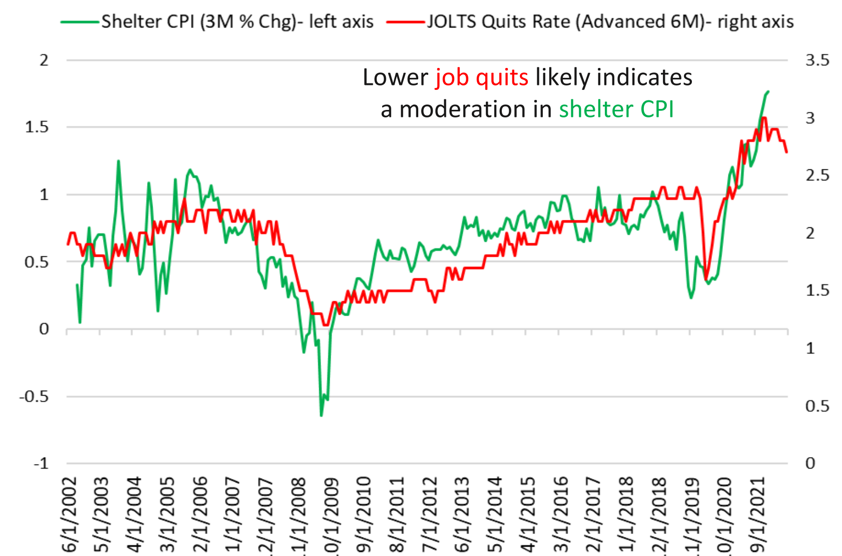
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

August ISM Manufacturing remained unchanged at a positive 52.8 with new orders rebounding to 51.3 from 48.0. While this provides some reassurance to the current economic backdrop, global weakness (i.e. EU and China) is likely to weigh on manufacturing trends. Importantly, prices paid continued its move meaningfully lower to 52.5- the latest reading that bodes well for inflation moderating ahead. This view on easing inflationary pressures is supported by the JOLTS Quits Rate reported this week, with lower quits likely a leading indicator for a moderation in shelter inflation (one of the more concerning metrics within July CPI). Up next, investors will be watching the August jobs report tomorrow (including wage growth), followed by August ISM Services on Tuesday, and August CPI on 9/13.

Event	Period	Actual	Consensus	Prior
Core PCE Deflator M/M	JUL	0.08%	0.30%	0.61%
Core PCE Deflator Y/Y	JUL	4.6%	4.7%	4.8%
Personal Consumption Expenditure SA M/M	JUL	0.10%	-	1.0%
Personal Income SA M/M	JUL	0.20%	0.60%	0.70%
Wholesale Inventories SA M/M (Preliminary)	JUL	0.80%	1.4%	1.9%
Michigan Sentiment NSA (Final)	AUG	58.2	55.2	55.1
FHFA Home Price Index	JUN	398.0	-	397.6
S&P/Case-Shiller comp.20 HPI M/M	JUN	0.40%	0.90%	1.2%
S&P/Case-Shiller comp.20 HPI Y/Y	JUN	18.6%	19.4%	20.5%
Consumer Confidence	AUG	103.2	97.4	95.3
JOLTS Job Openings	JUL	11,239K	10,338K	11,040K
ADP Employment Survey SA	AUG	132.0K	300.0K	-
Chicago PMI SA	AUG	52.2	51.5	52.1
Continuing Jobless Claims SA	08/20	1,438K	1,420K	1,412K
Initial Claims SA	08/27	232.0K	250.0K	237.0K
Unit Labor Costs SAAR Q/Q (Final)	Q2	10.2%	10.8%	10.8%
Productivity SAAR Q/Q (Final)	Q2	-4.1%	-4.6%	-4.6%
Markit PMI Manufacturing SA (Final)	AUG	51.5	51.3	51.3
Construction Spending SA M/M	JUL	-0.40%	0.0%	-0.53%
ISM Manufacturing SA	AUG	52.8	52.0	52.8

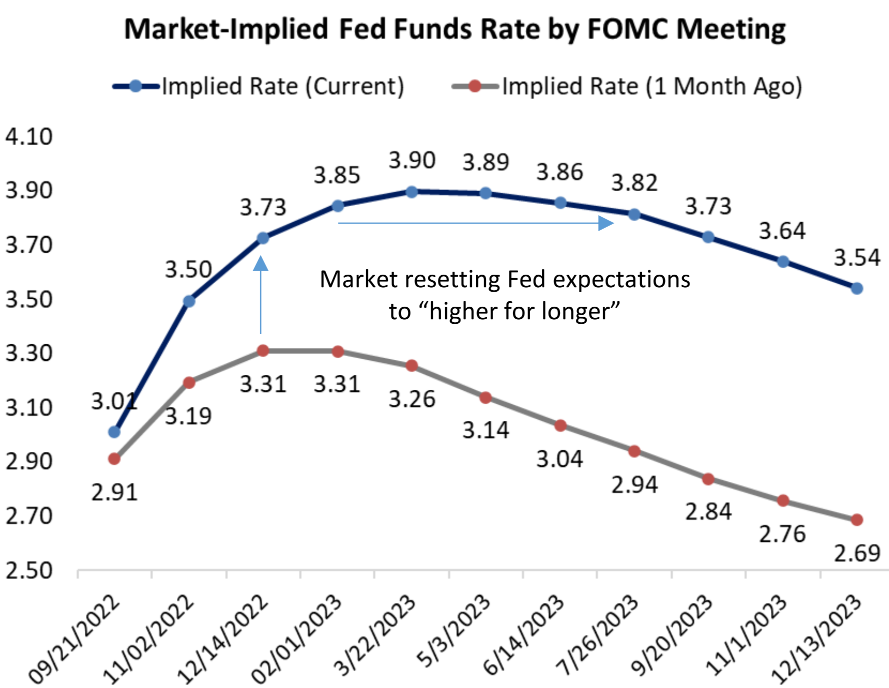


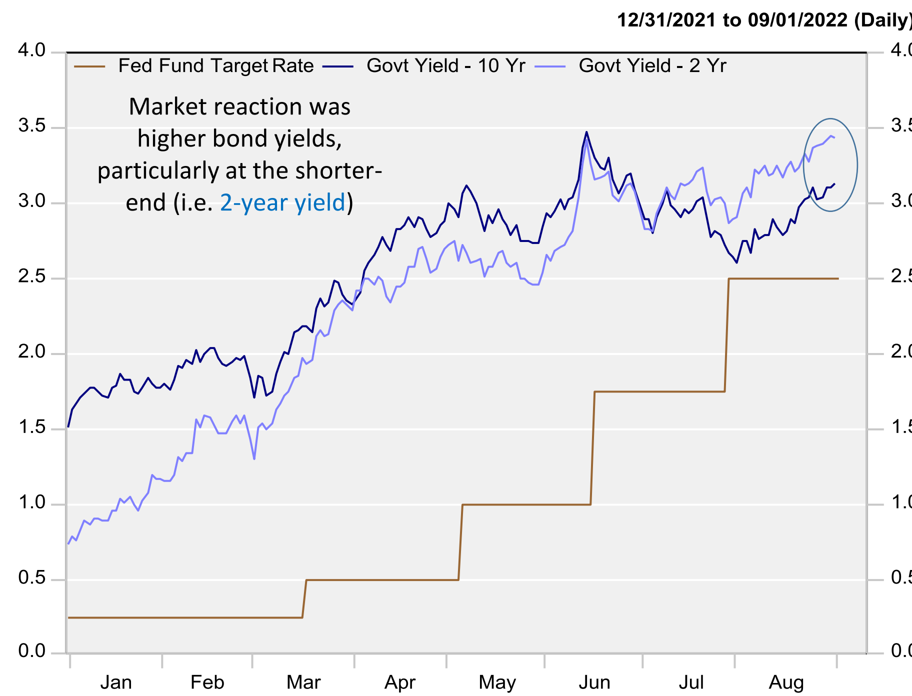


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FED EXPECTATIONS

Fed Chair Jerome Powell delivered a hawkish tone in his Jackson Hole speech last Friday, echoing commentary from other FOMC members over recent weeks. The message was to firmly state that inflation is too high, the Fed is determined to bring it under control, and it will likely take a prolonged period of higher rates (and slower economic growth) to achieve this goal. The result was "higher for longer" rate expectations in the aftermath, pushing the 2-year yield to new highs (~3.5%) and the 10-year yield moving higher as well- contributing to the weakness in equities. The Fed is between a rock and a hard place. They cannot improve supply chains to meet demand (and reduce price pressure), but they can negatively impact demand toward supply through rate hikes. The downside is an increased likelihood of economic contraction, but the alternative of high inflation becoming entrenched for a long-term period (i.e. 1970s stagflation) is far worse- Powell specifically called out this period as what he wants to avoid. The main takeaway is that the Fed needs to get rates higher and keep them higher for awhile, until clear signs of achieving price stability (even if the economy weakens). This challenging environment contributes to our belief that equities are unlikely to sprint back to previous highs.

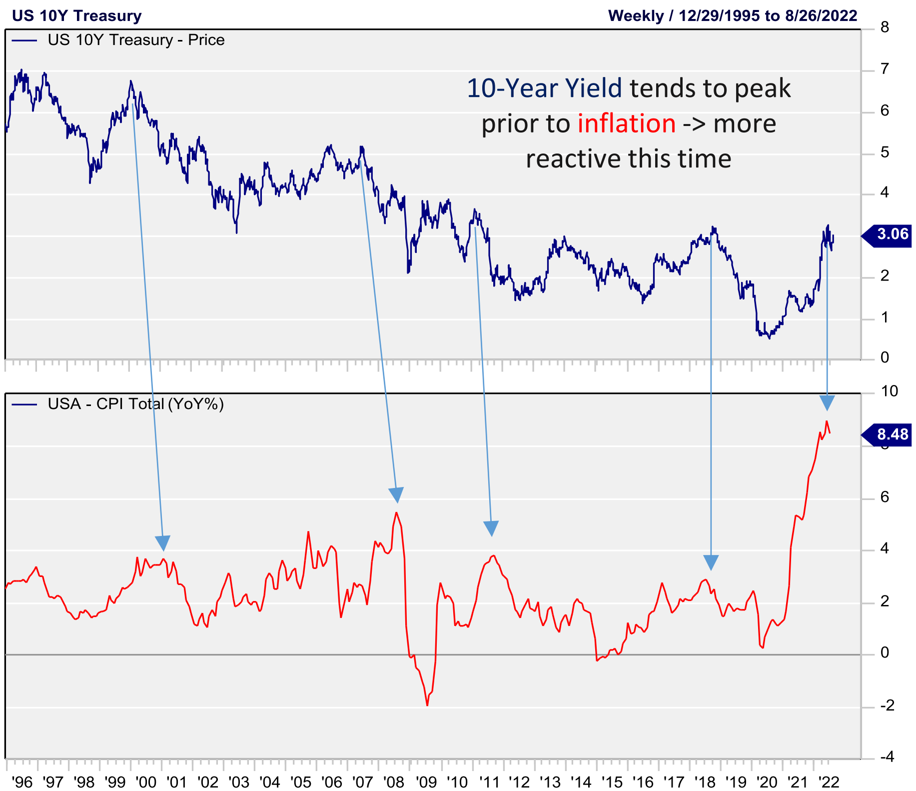


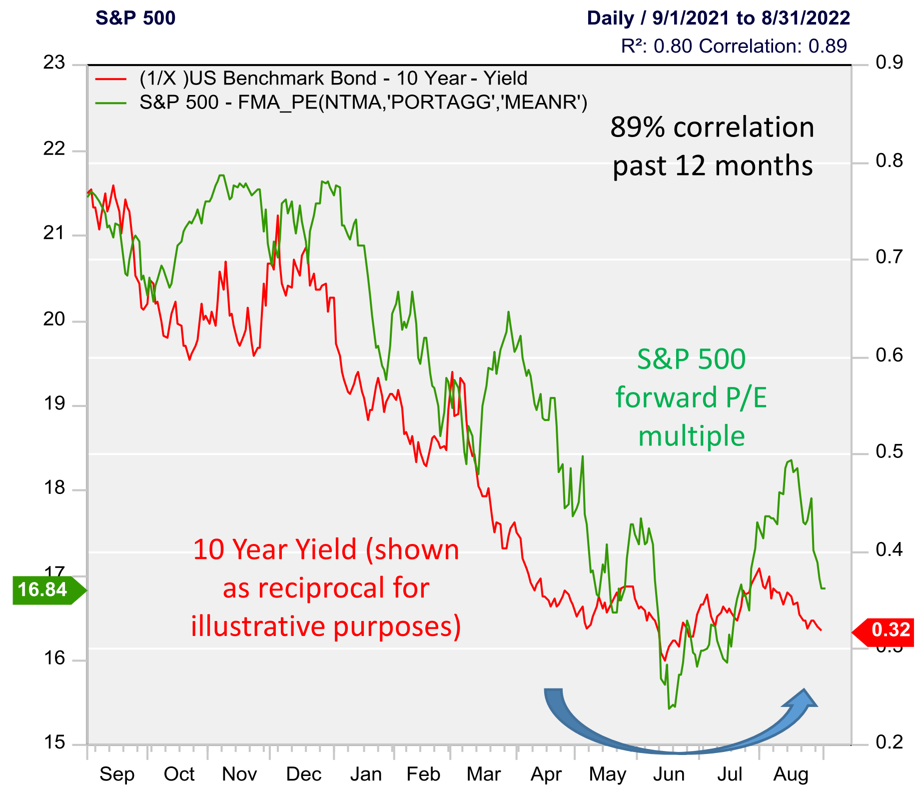


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

WHERE IS THE US 10-YEAR YIELD GOING?

With the US 10-year yield rising in the aftermath of Jackson Hole on higher rate expectations, the question is "where is the 10-year yield going?" We believe that the mid-June high of 3.5% is likely the peak due to our view of inflation coming down. We expect a normalization in inflation (albeit over time) as economic growth weakens and supply chains improve. Broadly lower commodity prices since mid-June have also taken some of the steam out of pricing expectations. And as you can see in the bottom left chart, peaks in inflation have corresponded with peaks in the 10-year yield over prior cycles. As long as inflation expectations do not shoot higher, we do not believe that the 10-year yield has to follow the fed funds rate (current market-implied peak of ~3.9%). This is a big deal because bond yields are a large influence on market valuation and positioning. Given our view of a peak in the 10yr yield, we believe that valuation multiples have priced in a lot of negative news ahead (economic and fundamental weakness likely coming). This should provide some support for equity market trends.

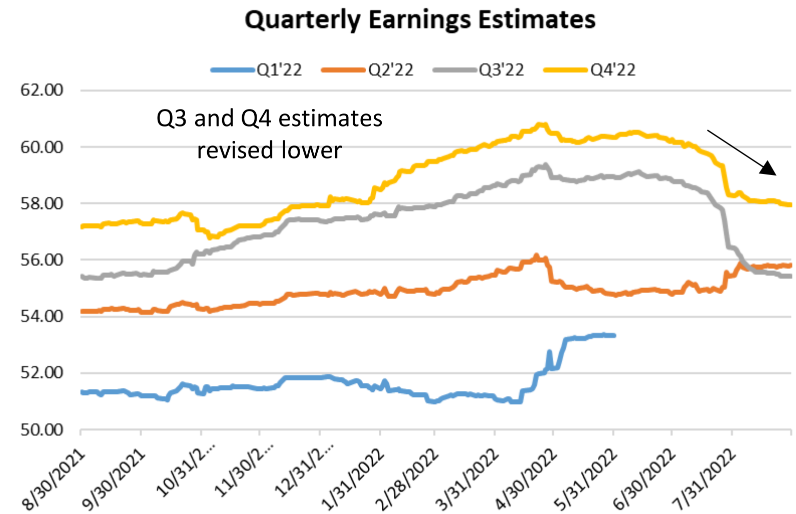


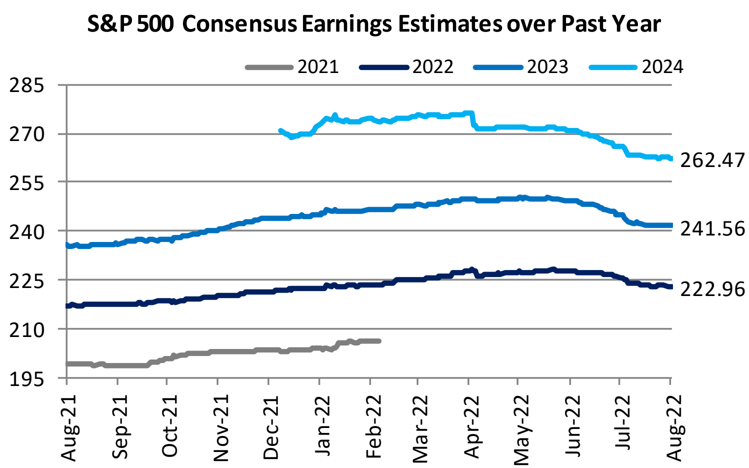


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

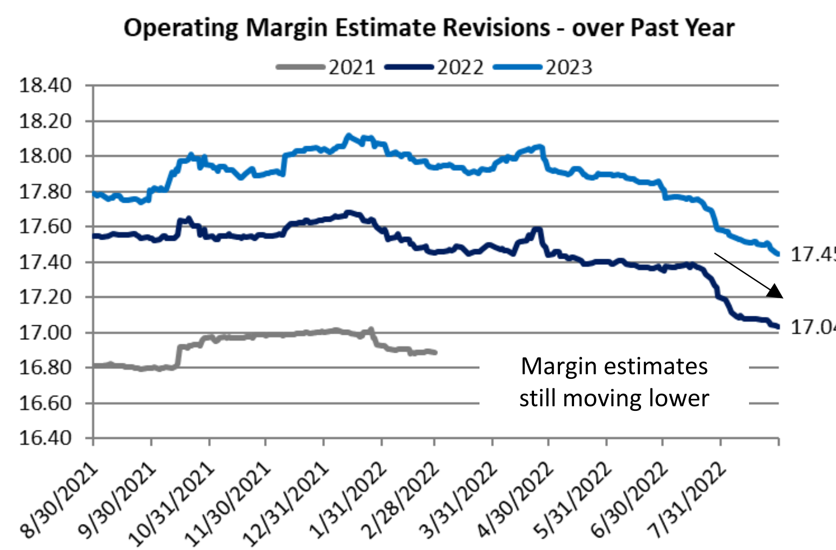
FUNDAMENTALS

High inflation weighing on consumer disposable income is resulting in slower sales growth. Additionally, Fed tightening acts with a lag on the economy as decreased lending dampens confidence and demand. Numerous retailers have noted price-sensitive consumers, along with conservative expectations for the coming quarter. While lower fuel prices have relieved some pressure recently, an improvement in margins is likely to take some time. S&P 500 operating margin estimates have continued to be revised lower lately and, combined with the slower sales expectations, are resulting in lower earnings expectations- a trend we believe will continue. The current consensus S&P 500 earnings estimate for 2023 is $241, and we see material downside to this. Our base case economic expectation includes a mild recession in early 2023, which could see 2023 earnings get revised down to $215. The challenging economic environment and lower earnings expectations are headwinds to the market, but we do believe that equities will bottom before the economy and fundamentals (stocks discount the future).





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



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500 – BULL VS BEAR DEBATE

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The sharp decline from 200-day moving average resistance has given a lot of fuel to the bull vs bear debate.

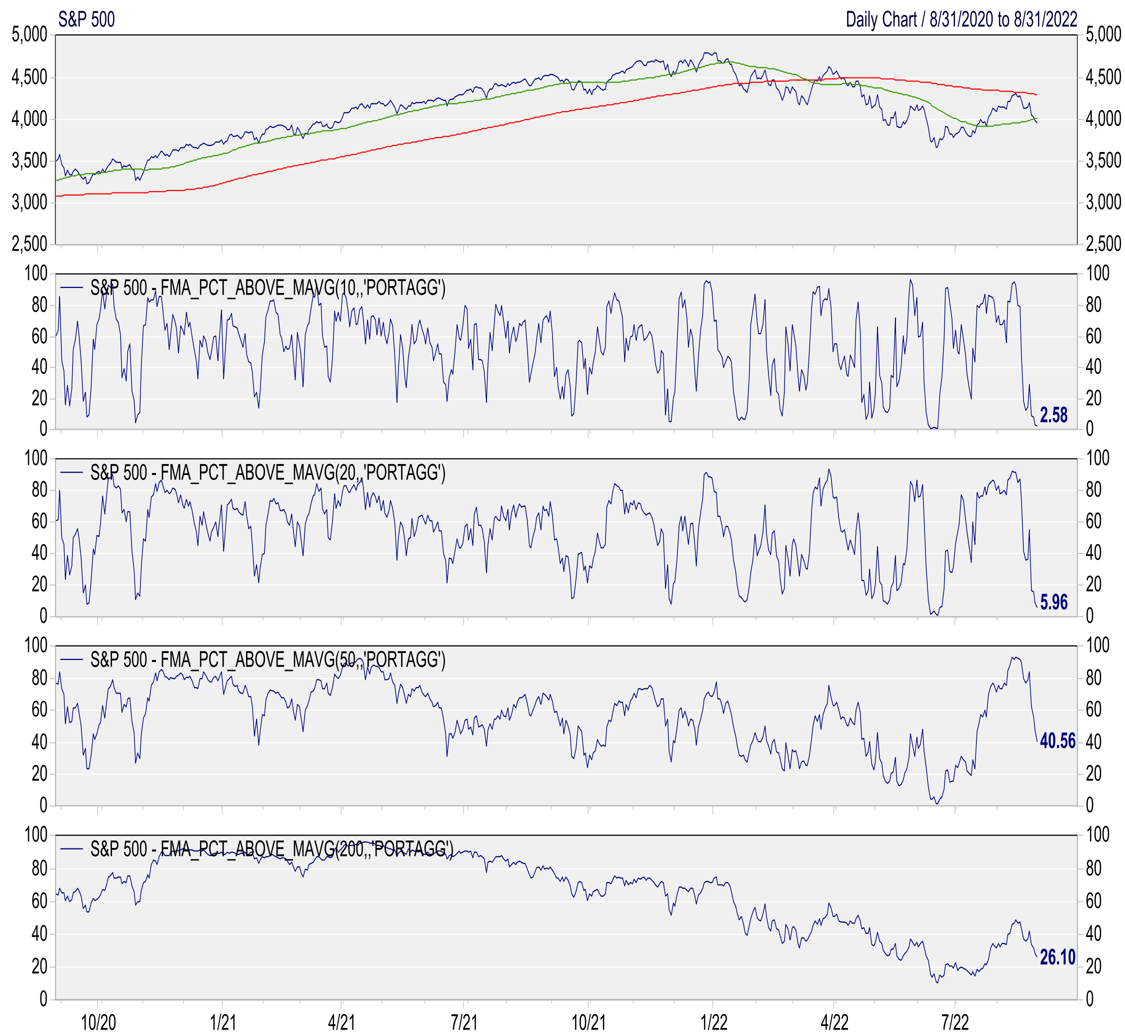
For the Bears: Nothing more than a bear market rally. S&P 500 failed at the 200 DMA. They believe a much lower low will occur.

For the Bulls: The lows are in. The pullback is normal.

Our view: We do not expect a 2001 (dotcom bubble) or 2008 (credit crisis) type market where significant bear market rallies preceded much lower prices. Therefore, we favor the low being in. However, even if it is not, we doubt that stocks will decline significantly below it (barring a catalyst that alters the path of inflation and interest rates).

We do believe that the bear market (at least, in terms of time) will continue. Economic normalization after the pandemic (and the resulting impact on inflation) will take time to play-out. Therefore, volatile/confusing data remains likely. Another big unknown is the labor market (participation). Plus, the lag effect of tightening on the macro will cause moderation in earnings for a while. Retests and choppiness are a high probability, such as being experienced now.

SHORT-TERM OVERSOLD



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

After retreating ~9% over the past two weeks, equities are oversold enough in the short-term for a bounce. The table below shows just how broad the oversold conditions are with almost every sector approaching 0% of stocks above their 10- and 20-day moving averages.

We note technical support around 3900. This area represents horizontal support (resistance in June & July, and support in late July), the uptrend line that connects the June low to the July low, and the 61.8% Fibonacci retracement from the June low to the August high. Failing to hold this area likely sees a retest closer to the lows (3720-3636).

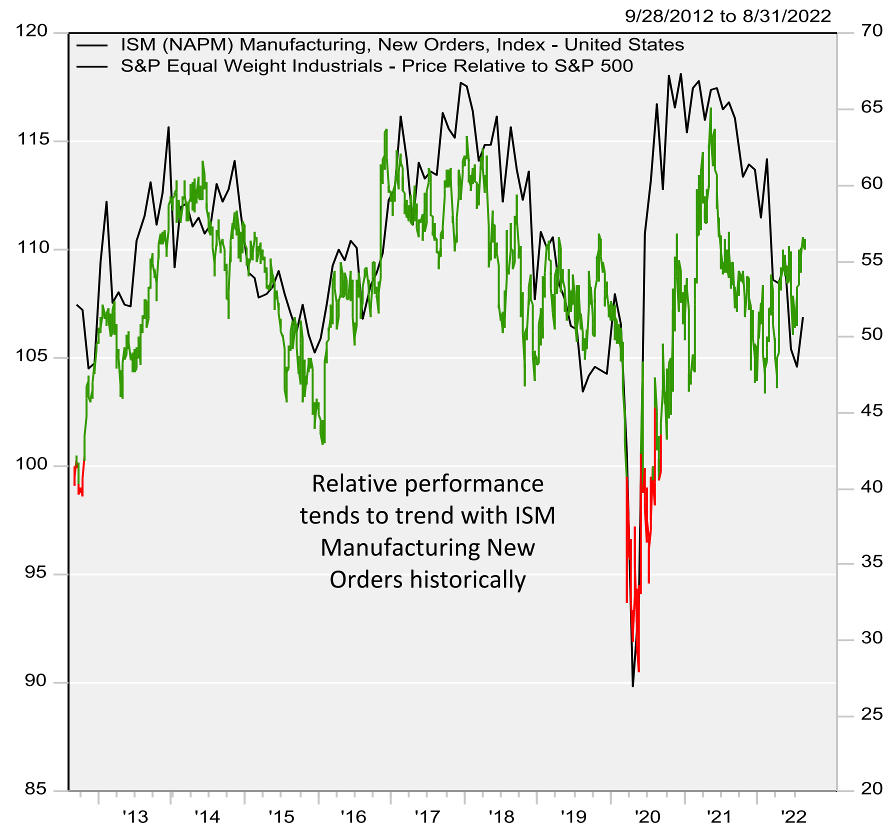
Reaching >90% of stocks above their 50-day moving average in the rally was a positive development for the overall market trend, but a rebuilding phase is needed. We believe it most likely that a bottoming formation is taking place.

Sector Trends and Moving Averages

Sector	10 DMA % Above	20 DMA % Above	50 DMA % Above	200 DMA % Above
Financials	0	0	41	14
Comm. Services	4	0	27	8
Real Estate	0	0	16	13
Technology	1	1	30	22
Cons. Discretionary	3	2	45	14
Industrials	1	3	49	21
Materials	0	4	46	18
Health Care	5	5	19	20
Consumer Staples	0	6	39	48
Utilities	3	10	79	86
Energy	19	81	95	86
S&P 500	3	6	41	26

INDUSTRIALS

The Industrials have been surprisingly strong over the past couple of months with relative performance breaking out to new highs. This comes in stark contrast to growing concerns over economic contraction. And this morning's better-than-expected ISM manufacturing new orders supports the outperformance- as you can see in the bottom right chart, relative performance has tended to trend with ISM Manufacturing New Orders historically. While we are encouraged by the recent strength (and positive market divergence), global economic weakness (i.e. Europe and China) is likely to weigh on manufacturing trends ahead. With this in mind, we recommend accumulating favored names in the pullback but would temper unbridled enthusiasm.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4931835)

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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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