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

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Weekly Market Guide

Short-Term Summary:

Following the sharp pullback from the 200-DMA over the last few weeks, the market has been able to find some footing around the 3,900 area after getting oversold, which gave a valid excuse for a bounce rally. Overall, we believe the 3900 level is a critical junction for the market. For now, the downtrend remains in place, and while bounce rallies, like the one we are experiencing are possible, we will wait for more clarity on the path of the Fed, inflation, and macro, which we believe could be upcoming catalysts with inflation readings set to be released next week followed by the FOMC's decision on September 21st. In the near-term, technicals will be useful as they will be impacted by the daily sentiment as the debate between the bulls and bears continues. We will also watch the US Dollar closely. The US Dollar has been strong lately, which has been a headwind for equities, as over the last year the S&P 500 price has seen an inverse correlation of 0.80 to the performance of the US Dollar. In the event that the dollar could see the pace of acceleration moderate, this could be another positive for equities.

If the 3900 level is held, we believe this raises the odds that the lows are in despite our belief that the macro and earnings can continue to move lower. There have been several accumulation readings along with the retracement of 50% following a 20% decline, which have historically coincided with lows being established.

From a fundamental standpoint, earnings season is not expected to kick off for another month. 3Q 2022 earnings growth is expected to be the slowest YoY growth in 2022 at 4.3%. While the challenging economic environment and lower earnings expectations present headwinds to the market, we do believe that equities will bottom (or may have already bottomed) before the economy and fundamentals finish declining as stocks discount the future. Historically, the market bottoms 2-6 months prior to the end of the recession while earnings continue to move lower and do not bottom until ~9 months after the end of the recession.

However, if the 3900 level fails to hold, technically the market could move towards the mid-3700's and possibly see a formidable test of the June lows. The overall downtrend remains in place with lower highs, failure to break above the 200-DMA, and price below both the 50-DMA and 200-DMA. If this does happen, we do not expect a 2001 (dotcom bubble) or 2008 (credit crisis) type market where significant bear market rallies preceded much lower prices and volatile/confusing data remains likely. For now, with the litany of potential issues on the horizon and September historically being one of the weakest months for equities, we would continue to be patient, but for long-term investors would continue to use pullbacks as buying opportunities.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-13.1%	-10.0%
S&P 500	-16.5%	-12.0%
S&P 500 (Equal-Weight)	-12.6%	-8.4%
NASDAQ Composite	-24.6%	-23.3%
Russell 2000	-18.4%	-19.5%
MSCI All-Cap World	-19.5%	-18.5%
MSCI Developed Markets	-23.8%	-25.8%
MSCI Emerging Markets	-22.4%	-27.8%
NYSE Alerian MLP	21.0%	20.3%
MSCI U.S. REIT	-18.6%	-12.3%

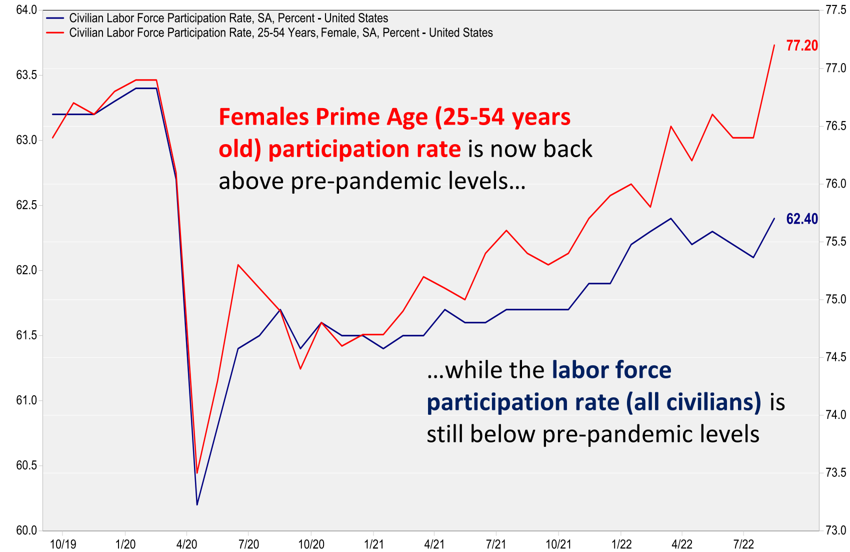
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	40.8%	4.5%
Utilities	7.2%	3.2%
Consumer Staples	-5.3%	6.8%
Health Care	-10.1%	14.3%
Industrials	-11.7%	7.9%
Financials	-14.7%	10.9%
Materials	-16.2%	2.5%
S&P 500	***-16.5%***	-
Real Estate	-18.2%	2.9%
Consumer Discretionary	-22.1%	11.7%
Information Technology	-23.3%	26.9%
Communication Svcs.	-31.1%	8.4%

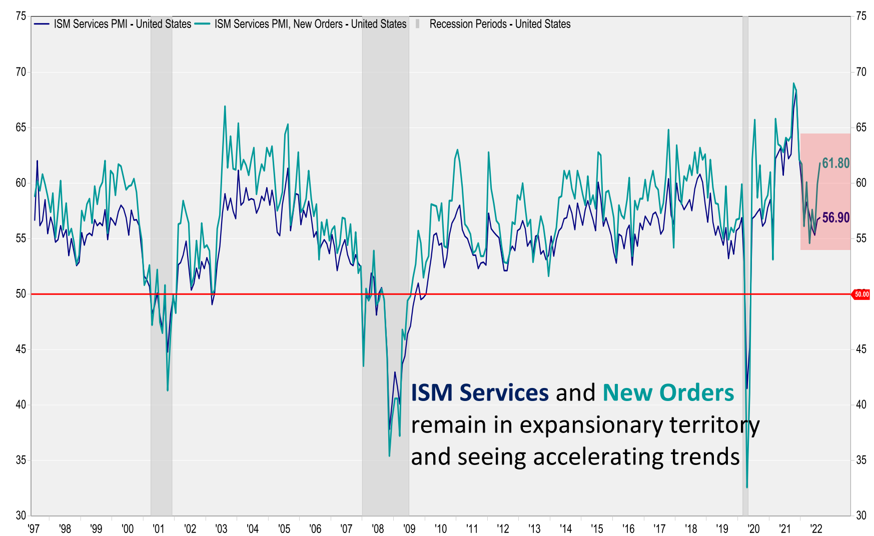
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The macro calendar has been relatively light over the last week with the Labor Day holiday on Monday. However, last Friday, the U.S. Jobs report continues to point to a strong labor market with non-farm payrolls increasing 315K, which was above consensus expectations of 298K. While the unemployment rate rose slightly to 3.7% vs. 3.5% in the prior reading, it was due to a rise in the labor force participation rate which increased to 62.4% vs. 62.1% in the prior month. Adding to the goldilocks Jobs report was the fact that wages were slightly lower than expected with average earnings coming in at 5.2% YoY vs. consensus expectations of 5.3%. This week, we received positive news on the Services side of the economy with the ISM Services Index for August showing strength with a reading of 56.9 which was well above consensus of 55.3 as new orders accelerated to 61.8.

Event	Period	Actual	Consensus	Prior	Revised
Change in Non-farm Payrolls	Aug	315K	298K	528K	526K
Change in Private Payrolls	Aug	308K	300K	471K	477K
Change in Manufacturing Payrolls	Aug	22K	15K	30K	36K
Unemployment Rate	Aug	3.70%	3.50%	3.50%	
Average Hourly Earnings YoY	Aug	5.20%	5.30%	5.20%	
Average Weekly Hours	Aug	34.5	34.6	34.6	
Labor Force Participation Rate	Aug	62.40%	62.20%	62.10%	
Factory Orders	Jul	-1.00%	0.20%	2.00%	1.80%
Durable Goods Orders	Jul F	-0.10%	0%	0%	
Cap Goods Orders Nondef ex Air	Jul F	0.30%		0.40%	
ISM Services Index	Aug	56.90	55.30	56.70	
S&P Global US Services PMI	Aug F	43.70	44.20	44.10	
S&P Global US Composite PMI	Aug F	56.90	55.30	56.70	
MBA Mortgage Applications	2-Sep	-0.80%		-3.70%	
Initial Jobless Claims	3-Sep	222K	235K	232K	228K
Continuing Claims	27-Aug	1,473K	1,438K	1,438K	1,437K

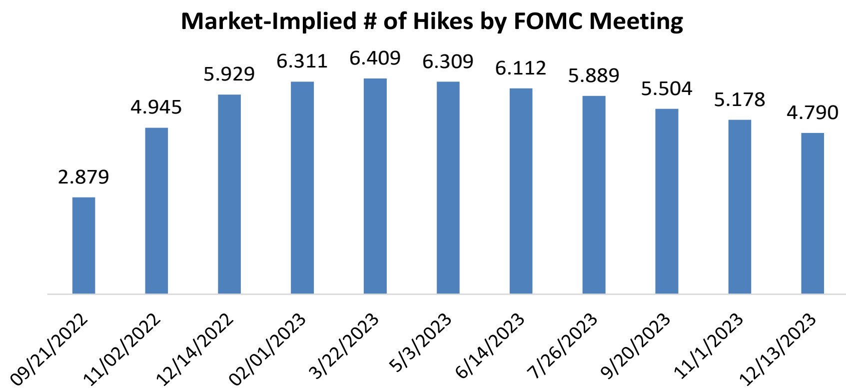


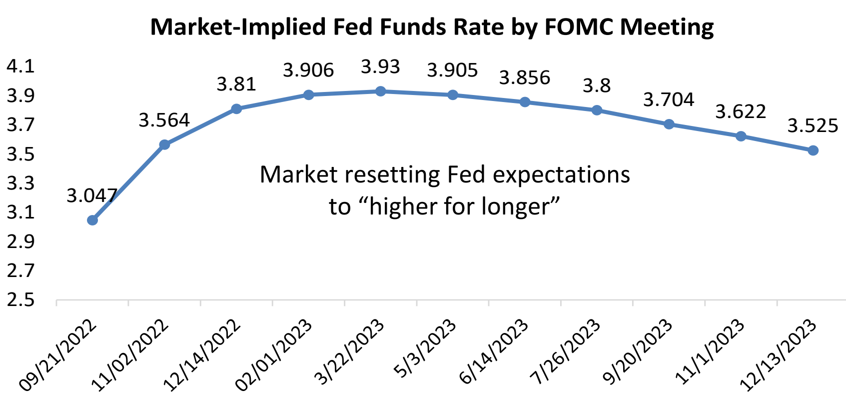


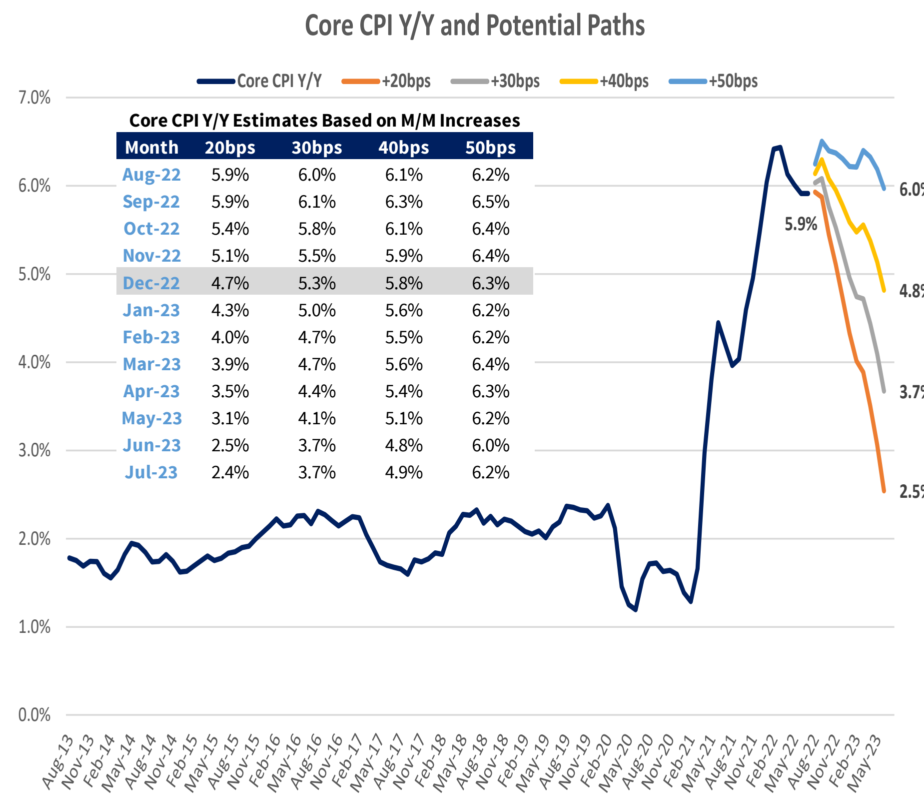
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

UPCOMING CATALYSTS

Inflation and the Fed remain big influences on U.S. equities. Following the last 75 bps rate hike followed by a better July CPI reading, the market interpretation was the Fed was headed towards a pivot and that inflation was moderating, which pushed equities higher. However, expectations have been rising of more aggressive actions by the Fed ever since the Jackson Hole meeting, when the Fed made it clear that they are likely to keep rates higher for longer in order to combat inflation. Based on consensus expectations of +0.39% MoM increase in Core CPI next week, which would see a re-acceleration in YoY to 6.1% and 88% odds of a 75 bps rate hike at the meeting on September 21st, could lead to volatility over the coming weeks.







Core CPI Y/Y Estimates Based on M/M Increases

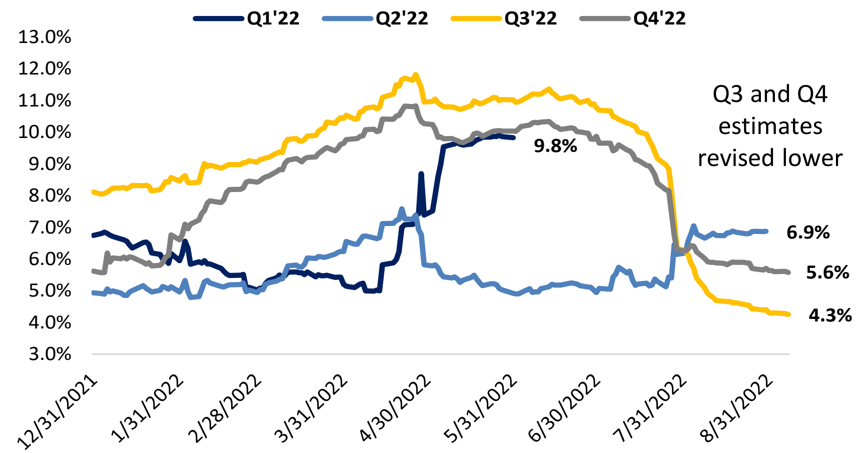
Month	20bps	30bps	40bps	50bps
Aug-22	5.9%	6.0%	6.1%	6.2%
Sep-22	5.9%	6.1%	6.3%	6.5%
Oct-22	5.4%	5.8%	6.1%	6.4%
Nov-22	5.1%	5.5%	5.9%	6.4%
Dec-22	4.7%	5.3%	5.8%	6.3%
Jan-23	4.3%	5.0%	5.6%	6.2%
Feb-23	4.0%	4.7%	5.5%	6.2%
Mar-23	3.9%	4.7%	5.6%	6.4%
Apr-23	3.5%	4.4%	5.4%	6.3%
May-23	3.1%	4.1%	5.1%	6.2%
Jun-23	2.5%	3.7%	4.8%	6.0%
Jul-23	2.4%	3.7%	4.9%	6.2%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

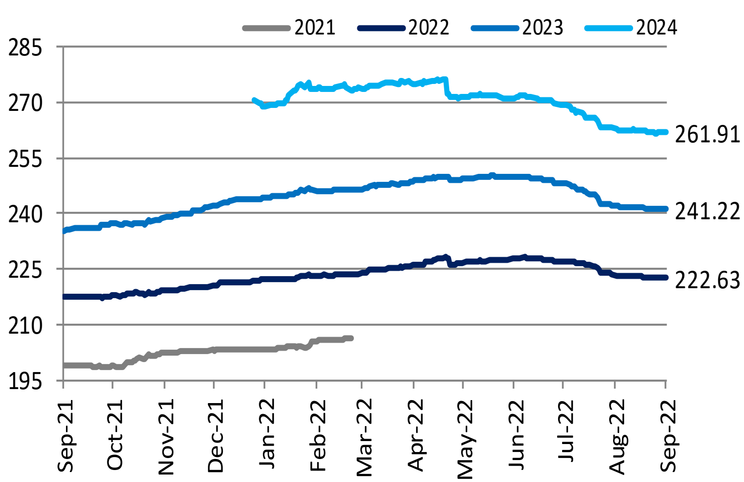
FUNDAMENTALS

With Q3'22 earnings season still over a month away, estimates continue to be revised lower. Currently, the 3rd quarter earnings growth of 4.3% YoY is expected to be the slowest earnings growth of the year and a deceleration from the 6.9% YoY in 2Q. Elevated inflation and softening macro is leading to earnings estimates moving lower as net margins appear to have peaked in 2021. For full year 2022, consensus is currently at ~$223 in earnings, which is slightly above our estimate of $220. However, we expect material downside to consensus estimates in 2023. Currently, consensus S&P 500 earnings estimate for 2023 is $241 vs. our base case earnings estimate of $215, which includes our assumption of a mild recession in early 2023. The challenging economic environment and lower earnings expectations will continue to be headwinds to the market, but we do believe that equities will bottom before the economy and fundamentals (stocks discount the future). Historically, the market bottoms 2-6 months prior to the end of the recession while earnings continue to move lower and do not bottom until ~9 months after the end of the recession.

S&P 500 Quarterly Earnings Growth Estimates

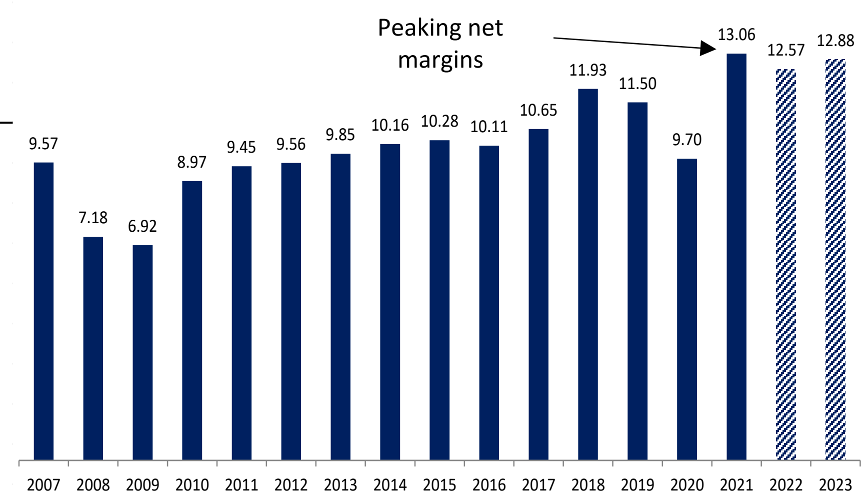


S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2021	50.1%
2022	8.0%
2023	8.4%
2024	8.6%

Net Margin



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

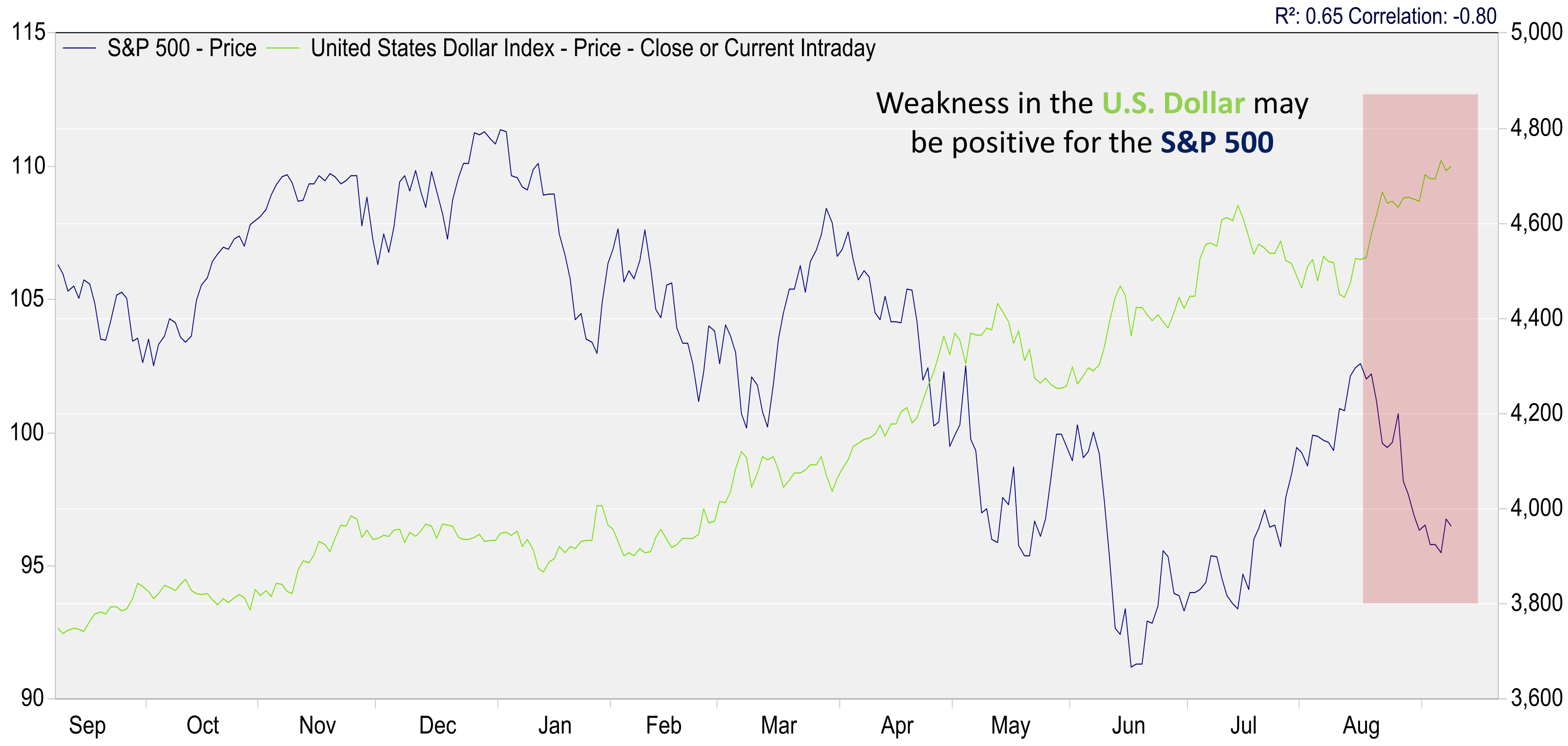
We believe the 3900 level is a critical junction for the market. After rallying up to the 200-DMA, the market pulled back hard over the last few weeks, breaking through the 50-DMA and trading down right to the 3900 level. For now, the downtrend remains in place, but bounce rallies are possible, which is what we believe we are experiencing now as the markets moved into oversold levels. While we wait for more clarity on the path of the Fed, inflation, and macro, technicals will be useful as they will be impacted by the daily sentiment as the debate between the bulls and bears continues.

If the 3900 level is held, we believe this raises the odds that the lows are in despite our belief that the macro and earnings can continue to move lower. There have been several accumulation readings along with the retracement of 50% following a 20% decline, which have historically coincided with lows being established.

However, if the 3900 level fails to hold, technically the market could move towards the mid-3700's and possibly see a formidable test of the June lows. The overall downtrend remains in place with lower highs, failure to break above the 200-DMA, and price below both the 50-DMA and 200-DMA. If this does happen, we do not expect a 2001 (dotcom bubble) or 2008 (credit crisis) type market where significant bear market rallies preceded much lower prices and volatile/ confusing data remains likely.

US DOLLAR

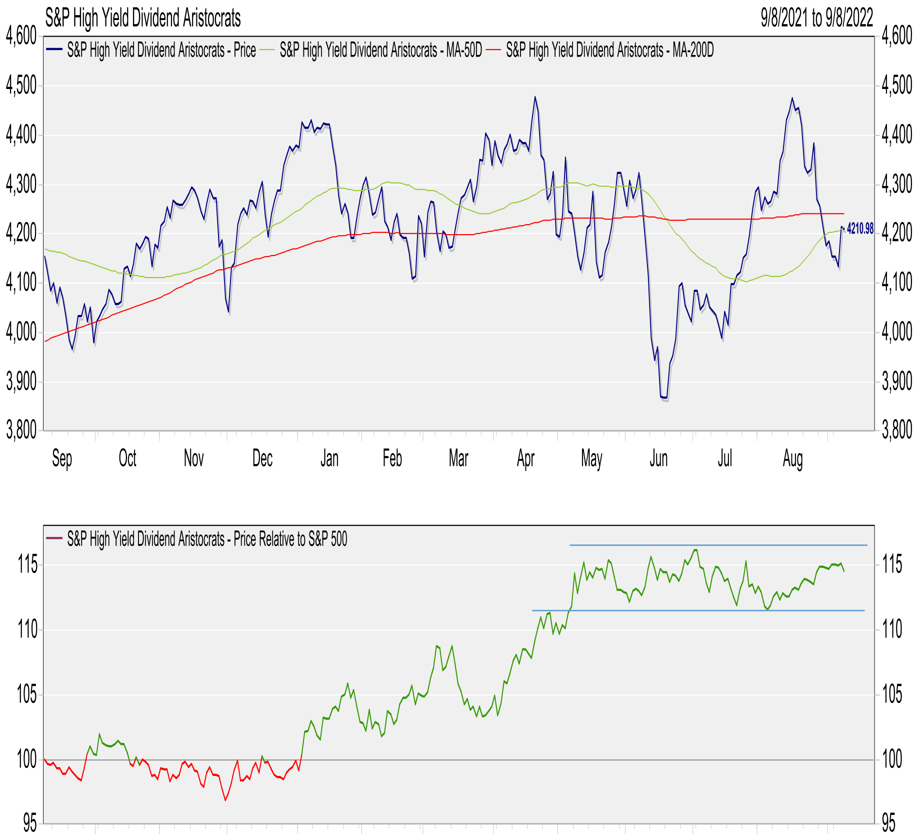
Over the last year, we have seen a strong inverse correlation between the US dollar and the price of the S&P 500. While this inverse correlation has not held over the long-term, a moderation in the pace of acceleration for the US Dollar could lend itself to a rebound for equities. As seen below, the recent pullback in equities has coincided with the rapid rise in the US dollar. We will continue to closely monitor the US dollar for signs of weakness, as this may not only be positive for a bounce rally in U.S. equities, but also for other areas such as like Emerging markets.

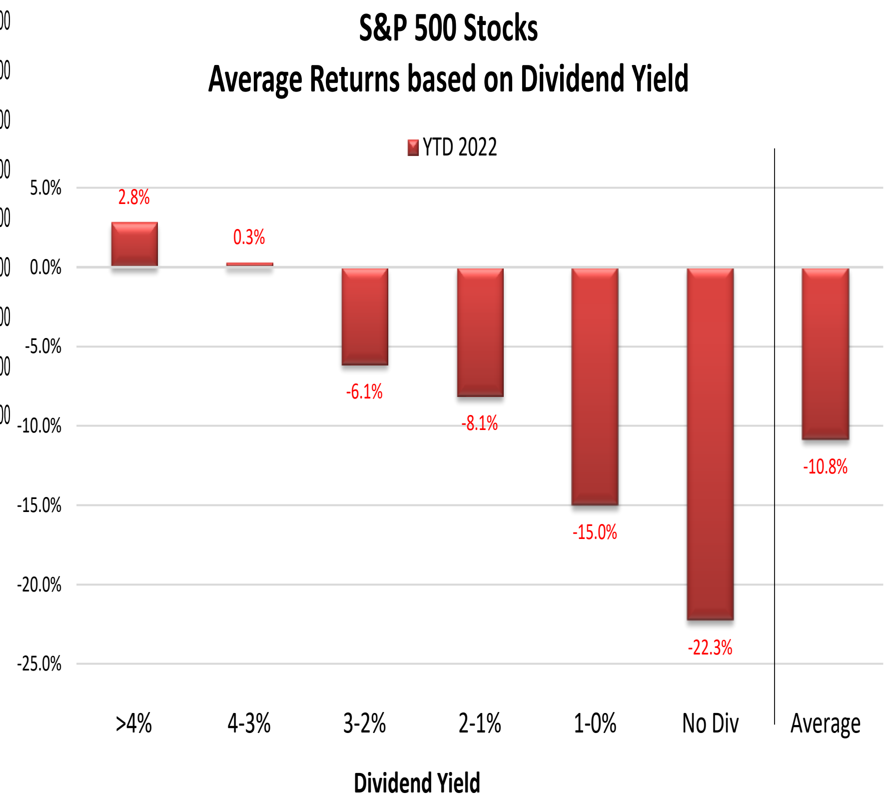


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

DIVIDEND PAYING STOCKS

Dividend paying stocks, especially those with dividend yields greater than 3%, have held up well in 2022. As seen below, the average stock performance for stocks with dividends yields >4% and between 3-4%, are both positive on the year at 2.8% and 0.3%, respectively. This is a drastic outperformance compared to the average stock within the S&P 500, which is down over 10% YTD and tranche of stocks that do not pay dividends which are down over 22% YTD. We would continue to invest in high quality companies that have the ability to pay dividends and grow those dividends over time, like the Dividend Aristocrats, as seen below, which have held up well during 2022.

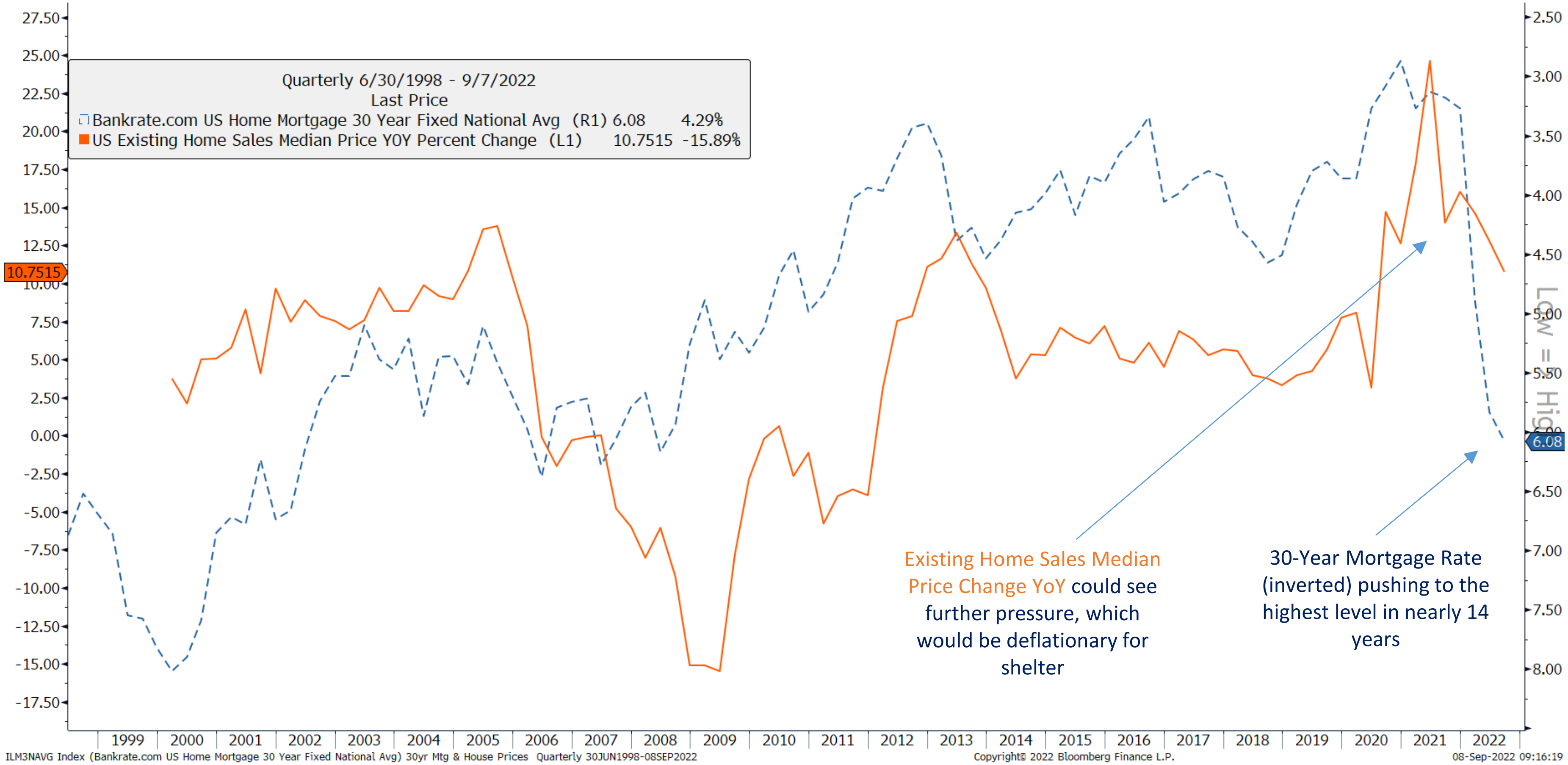




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

MORTGAGE RATES

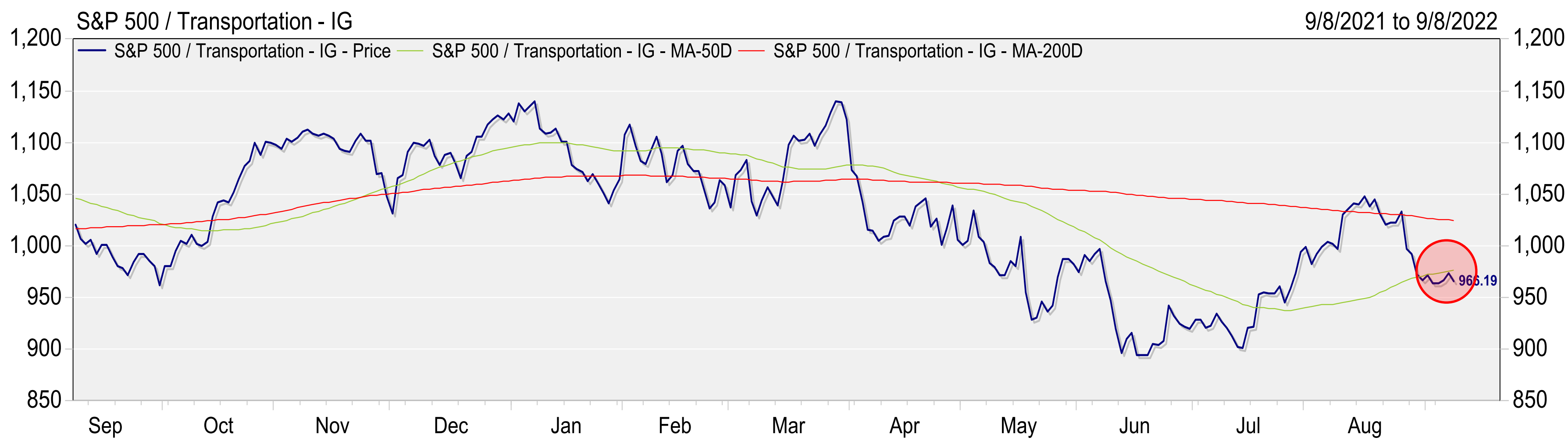
With 30-year mortgage rates moving to the highest level in nearly 14 years, we believe median home sale prices growth has further downside. As seen below, the average 30-year mortgage rate is near 6%, which has been consistent with median home sale prices seeing flattish YoY growth, which is a far stretch from the greater than 20% YoY growth seen in home prices in 2021. We believe this could put downward pressure on inflation for shelter.

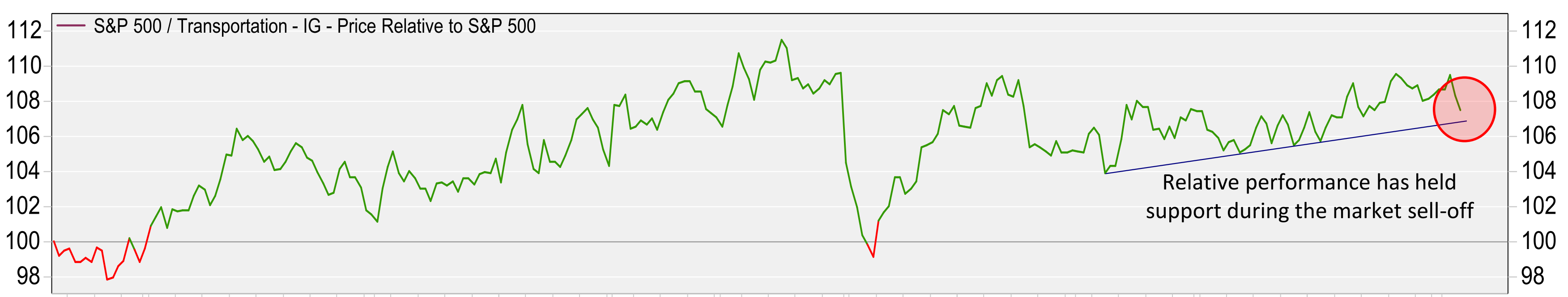


Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

TRANSPORTS

One area we will continue to monitor will be the transports. Overall, the Industrials sector, one of the more cyclical sectors, has held up relatively well despite recessionary fears continuing to mount. Within the sector, we believe the technical setup for transports is looking promising as relative performance has held upward sloping support during the market pullback. We would like to see price hold around the upward sloping 50-DMA, but the overall trend is a step in the right direction for a more cyclical part of the economy.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4940545)

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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.

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