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Weekly Market Guide

The Fed elected to raise rates by 75bps at its eagerly-anticipated September FOMC meeting (below some estimates of 100bps) but increased forward rate expectations above what was priced into the market. The Committee now expects the fed funds rate to reach 4.4% by year-end 2022 and peak at 4.6% in 2023. This implies a 75bp hike in November, 50bp hike in December, and one more 25bp hike early next year. While the even "higher for longer" rate path will be helpful to dampen inflation, it also further increases the odds of economic contraction. Bond yields rose in the meeting's aftermath, and equities continued their downward slide (now approaching the June bear market lows).

Of course, the major influence remains the trajectory of inflationary pressures ahead. We expect inflation to moderate over the next year, but the path is unlikely to be quick or smooth- volatile data is likely to correspond with volatile markets. And with the inverted yield curve signaling an increased likelihood of recession, equity risks skew to the downside for now. Despite the recent dataflow and Fed message supporting our position that equities may struggle in the coming months, it does not dissuade our long-term positive view. Nor does it change our belief that a lot of negative news is already priced in.

In assessing risk/reward for the long-term investor, we believe worst case S&P 500 downside resides in the 3000-3200 area (not saying this has to happen)- which would be on par with the -33% average decline experienced in recessionary bear markets historically. Recessionary bear markets also bottom 13 months from their peak on average, which would line up as early 2023. The index has already declined 24% over ~9 months, so the majority of this bear market's weakness is likely behind us at this point. The depth and/or length of economic weakness and earnings decline will determine the depth and length of market struggles. But we do believe this bear market will avoid resemblance to the deeper and longer declines historically, such as 1974 (deep recession), 2002 (dotcom bubble), and 2008 (banking system in disarray). We do not see widespread excess on corporate balance sheets, supply has been hard-pressed to meet demand this cycle, Technology sector fundamentals are solid, and banks are very well-capitalized. Moreover, CPI is a lagging indicator. Leading indicators on inflation show some promise- though the timing and degree of improvement remain unknown.

Regardless of potential downside over the coming months, the long-term risk/reward from current prices skews heavily in investors' favor. Applying historical averages of earnings and P/E growth out of recessionary bear markets results in a 5-year potential S&P 500 value of ~6000, or ~10% compounded annual growth before dividends from current prices. So while we expect equities to remain volatile for now (with a bias for further downside), we encourage long-term investors to keep their focus. Picking a bottom is a challenge when volatility is high; but even in further downside, investors are still looking at strong returns over the next several years.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-16.9%	-11.0%
S&P 500	-20.5%	-13.0%
S&P 500 (Equal-Weight)	-17.1%	-10.0%
NASDAQ Composite	-28.3%	-23.9%
Russell 2000	-21.5%	-19.4%
MSCI All-Cap World	-22.4%	-18.5%
MSCI Developed Markets	-24.7%	-24.5%
MSCI Emerging Markets	-24.3%	-26.1%
NYSE Alerian MLP	20.1%	25.0%
MSCI U.S. REIT	-25.6%	-16.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	38.2%	4.5%
Utilities	1.8%	3.2%
Consumer Staples	-8.2%	6.9%
Health Care	-12.9%	14.5%
Industrials	-17.1%	7.9%
Financials	-17.8%	11.0%
S&P 500	***-20.5%***	-
Materials	-21.8%	2.5%
Consumer Discretionary	-25.3%	11.9%
Real Estate	-25.9%	2.8%
Information Technology	-27.3%	26.7%
Communication Svcs.	-36.4%	8.0%

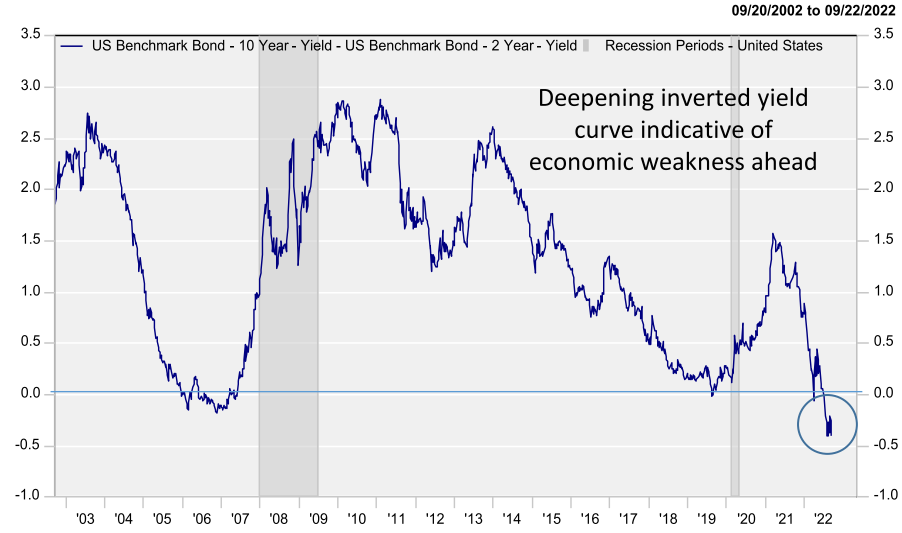
Source: FactSet, RJ Equity Portfolio & Technical Strategy

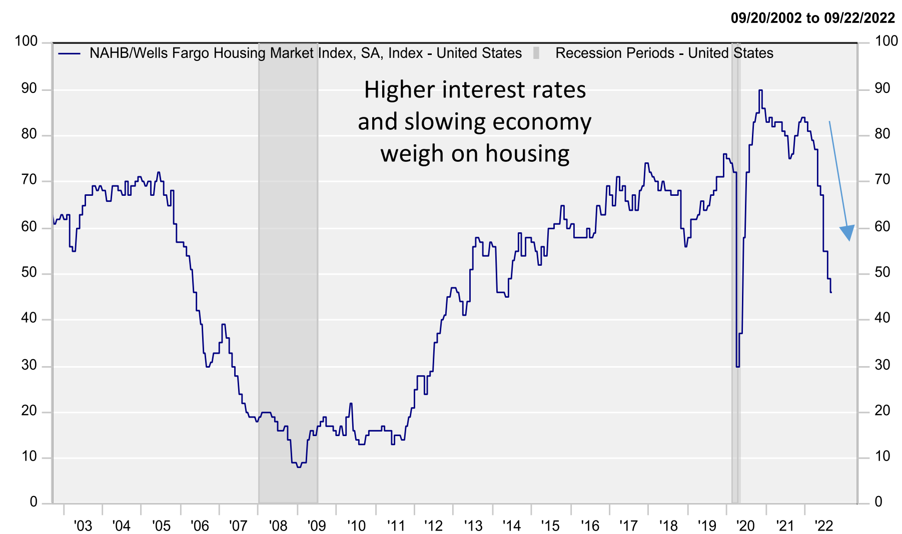
MACRO: US

The Fed elected to raise rates by 75bps to a target range of 3-3.25%. This was slightly below some estimates for a 100bp hike, though the forward dot plot was higher than priced in. The Fed now expects the fed funds rate to hit 4.4% by year-end, implying a 75bp hike in November and 50bp hike in December- though the Committee was split between 125bps left this year or 100bps based on the current data. The median Fed projection for the terminal rate is 4.6% in 2023, implying one more 25bp rate hike early next year before holding steady (with no cuts) for the remainder of 2023. Also, economic growth projections are very slow and below trend (0.2% GDP growth for 2022, 1.2% for 2023), though estimates for core inflation are 2.8% in 2023 and 2.3% in 2024. In sum, the Fed believes it will have to raise higher, stay there for longer, and hurt economic growth more in order to bring inflation down.

Of course, the path of inflation remains the primary influence that can alter the outlook over the coming months. Leading indicators on inflation continue to show promise for a moderation ahead, though the timing and degree of improvement remain unknown. Because inflation has remained so sticky, swift rate hikes and the inverted yield curve further increase the likelihood of economic contraction.

Event	Period	Actual	Consensus	Prior
Michigan Sentiment NSA (Preliminary)	SEP	59.5	59.3	58.2
NAHB Housing Market Index SA	SEP	46.0	48.0	49.0
Building Permits SAAR (Preliminary)	AUG	1,517K	1,626K	1,685K
Housing Starts M/M	AUG	12.2%	2.3%	-10.9%
Housing Starts SAAR	AUG	1,575K	1,455K	1,404K
Existing Home Sales SAAR	AUG	4,800K	4,700K	4,820K
Fed Funds Target Upper Bound	-	3.25%	3.25%	2.50%
Current Account SA	Q2	-$251.1B	-$258.4B	-$282.5B
Continuing Jobless Claims SA	09/10	1,379K	1,400K	1,401K
Initial Claims SA	09/17	213.0K	220.0K	208.0K
Leading Indicators SA M/M	AUG	-0.30%	0.0%	-0.50%
Kansas City Fed Manufacturing Index	SEP	1.0	-10.0	3.0

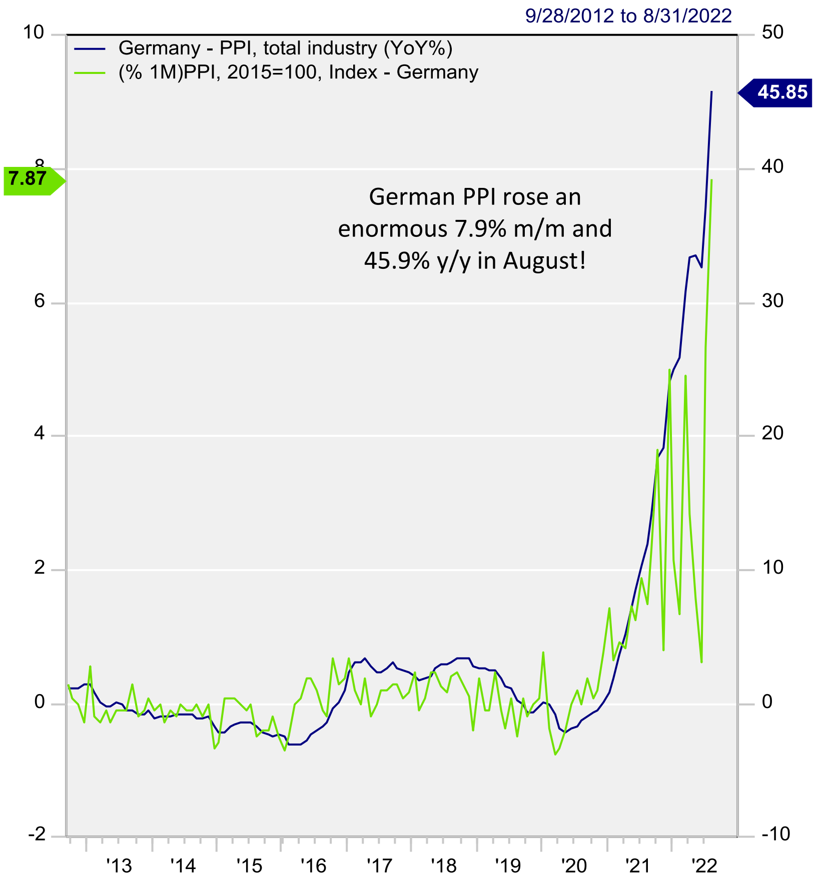


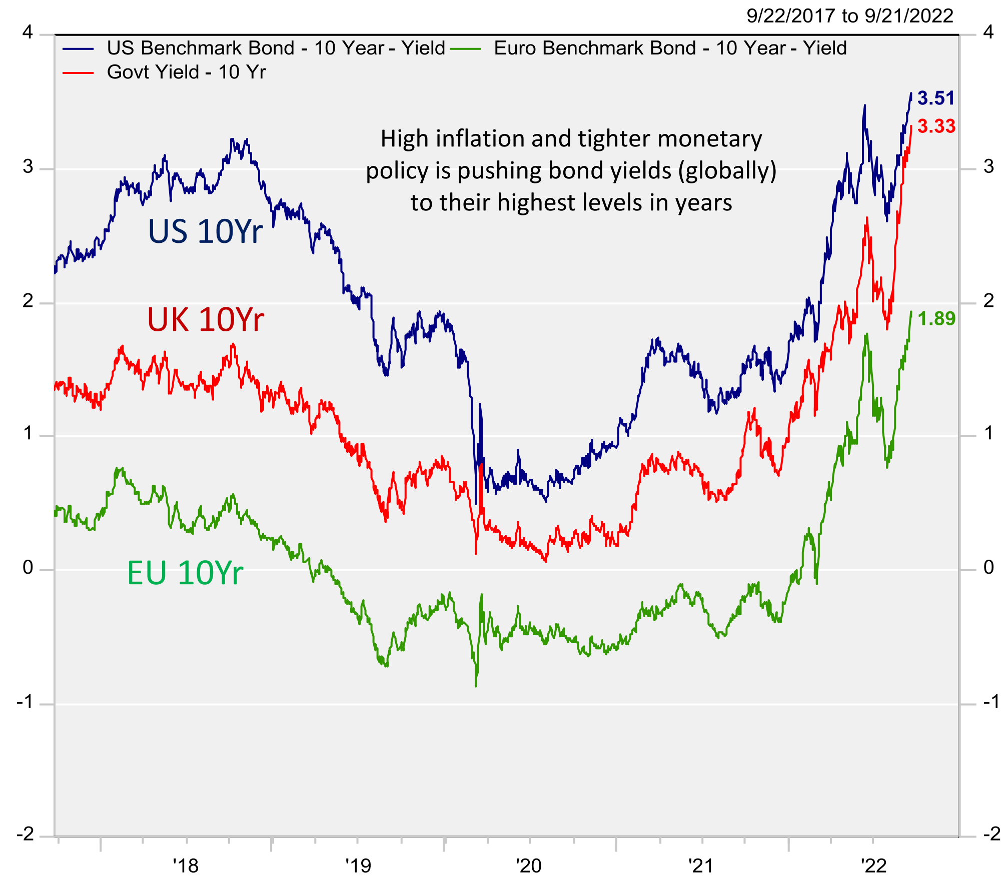


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GLOBAL BOND YIELDS

Inflation is a global problem. For example, German August PPI rose 7.9% m/m and is now up 45.9% y/y! Elevated inflationary readings like this are resulting in tighter monetary policy and higher bond yields around the globe. As you can see, the 10-year benchmark bond yield in the Eurozone, United Kingdom, and US all broke out recently to their highest levels in years. While admittedly the moves appear overdone in the short-term, their continued ascent is a negative influence on equity market valuations and trends globally.



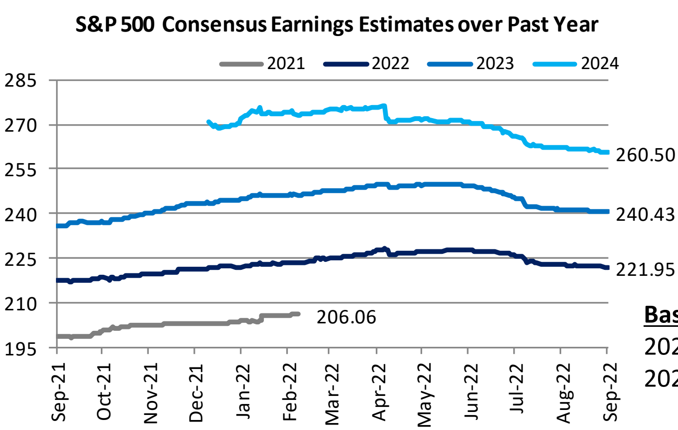


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

The slowing economic backdrop and high inflation continue to weigh on corporate margins and earnings growth. S&P 500 earnings estimates for the Q3 and Q4 of this year, along with all four quarters of 2023, are getting revised lower. In fact, Q3 earnings estimates now reflect negative q/q growth (-1.3%). We expect this trend to continue over the next year, as Fed tightening acts with a lag on the economy. Consensus estimates are pulling closer to our $220 earnings estimate for 2022, and we believe that analyst estimates could move materially lower next year given our base case assumption for a mild recession. We use $215 as our 2023 earnings estimate, well below the current $240 consensus.

That said, the market will bottom well ahead of the economy and fundamentals. For example, P/E multiples are substantially higher by the time earnings trough in recessions. Bond yields are likely to be a significant influence on this. For now, sharply higher bond yields continue to weigh on multiples. But at some point, inflation moderation is likely to correspond with lower bond yields, and this will provide a more supportive backdrop for equities in our view (despite earnings weakness).

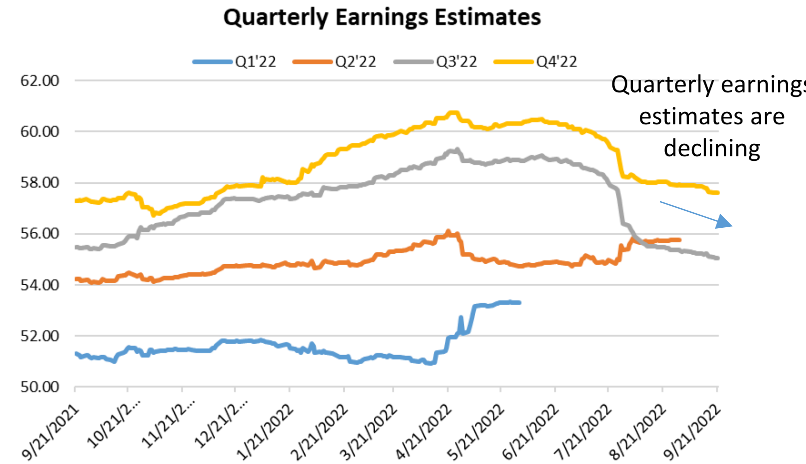


EPS Growth Estimates	
2021	49.9%
2022	7.7%
2023	8.3%
2024	8.3%

Base Case Estimates

2022: 220

2023: 215



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Yesterday's intraday rally took the S&P 500 to a high of 3907, before the index was rejected at resistance. Testing and failing the important area around 3900 increases the odds that we are looking at a retest or undercut of June lows (3637). The market could find support at 3742 as it is nearing oversold territory, while the dollar and Treasury yields (headwinds for equities) are stretched.

For now, the predominant trend remains downward- and that's where risks lie in the short-term.

The technical picture has deteriorated, following the two-month rally off of the June lows. Strong internal readings registered as the market ran up to the 200 DMA are proving false as negative readings occur during the downdraft.

Investor uncertainty is very elevated, and volatility in the inflation readings are a high probability as the world normalizes. Hence, during the more troubling periods (like now), the technical readings will signal sell signals. All it takes is one less negative data point (like slowing inflation in July) for investors to rally stocks higher and turn technical indicators back positive.

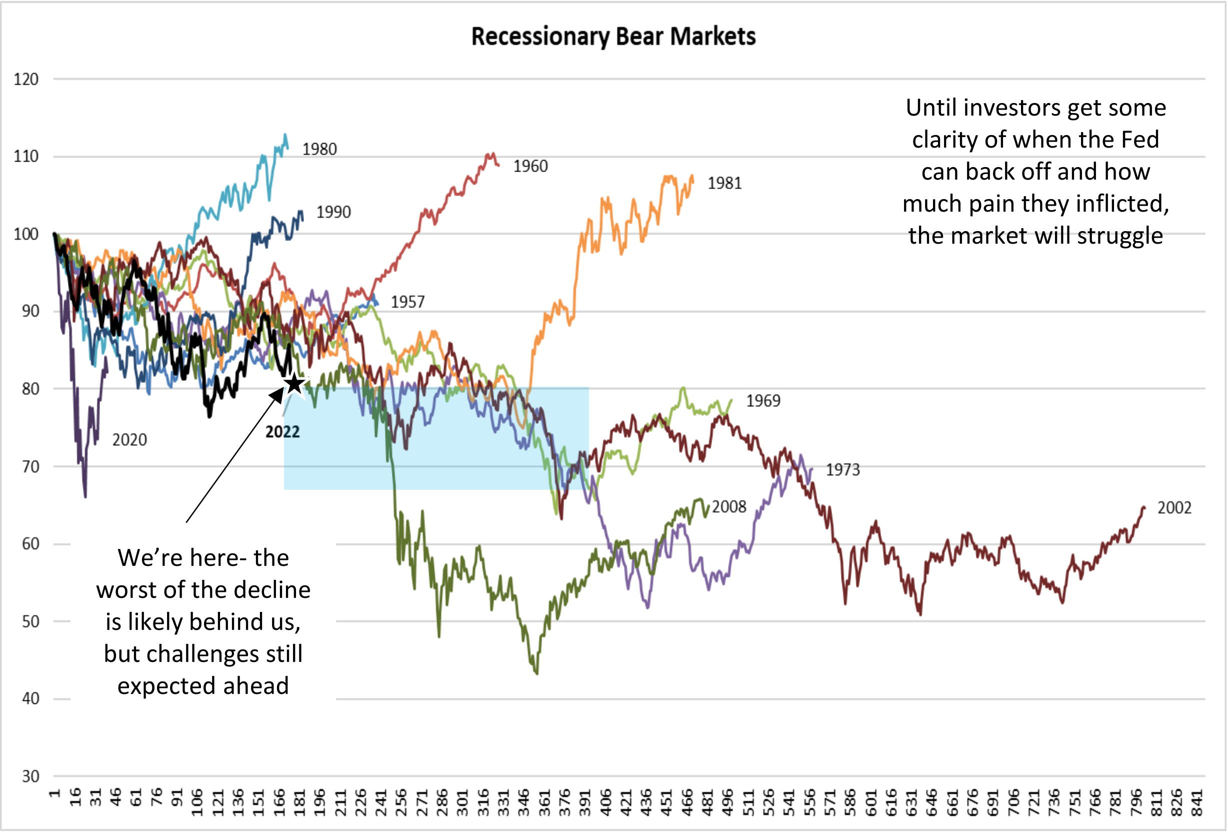
RECESSIONARY BEAR MARKETS

Despite the recent dataflow and Fed message supporting our position that equities may struggle in the coming months, it does not dissuade our long-term positive view. Nor does it change our belief that a lot of negative news is already priced in. We believe that a worst case scenario could bring S&P 500 downside to the 3000-3200 area (not saying this has to happen), which would be on par with the 33% average decline experienced in recessionary bear markets. There is also fundamental and technical support for the 3400-3600 area. Moreover, recessionary bear markets bottom 13 months from their peak on average, which would line up as early 2023. The index has already declined 24% over ~9 months, so the majority of this bear market's weakness is likely behind us at this point.

As you can see in the chart to the right, we are currently 180 days into this bear market, whereas recessionary bear markets historically have taken 276 days on average to bottom. The bear market could certainly drag on for longer, particularly considering high inflation and Fed tightening into a slowing economic backdrop. But even if we haven't seen the lows yet, a lot of negative news is likely priced in already.

The depth and/or length of economic weakness and earnings decline will determine the depth and length of market struggles. But we do believe this bear market will avoid resemblance to the deeper and longer declines historically, such as 1973 (deep recession), 2002 (dotcom bubble), and 2008 (banking system in disarray).

We do not see widespread excess on corporate balance sheets, supply has been hard-pressed to meet demand this cycle, Technology sector fundamentals are solid, and banks are very well-capitalized. Moreover, CPI is a lagging indicator. Leading indicators on inflation show some promise- though the timing and degree of improvement remain unknown.

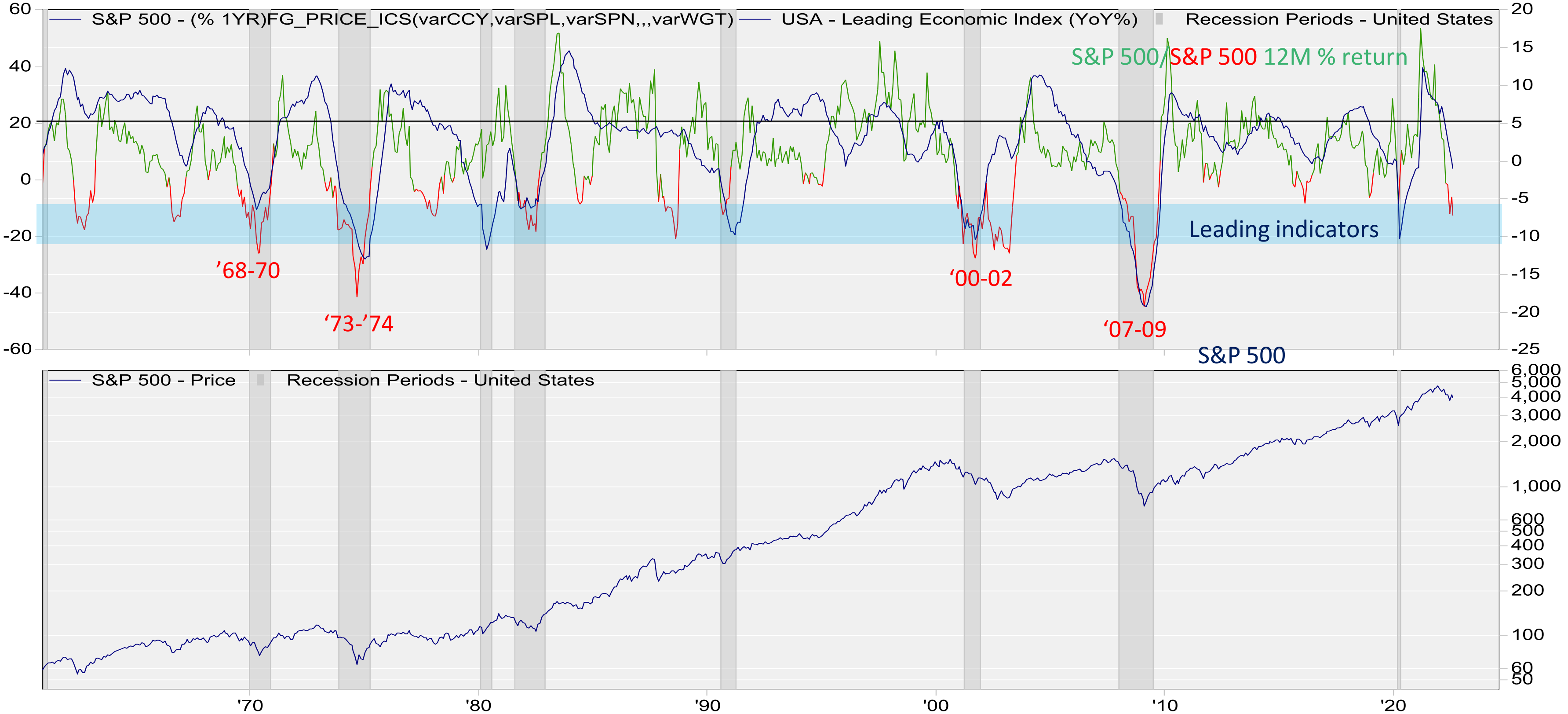


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

LEADING INDICATORS AND S&P 500

The degree of macro weakness is a factor to gauge how much is currently priced in. While leading economic indicators are moving downward (and likely to continue), you can see how the S&P 500 decline has been deeper than the LEI index so far. Additionally, the ~20% 12-month decline area that the S&P 500 is currently near has been consistent in recessionary bear markets. As mentioned previously, we don't believe we see a deep decline like that experienced in 1973 (deep recession), 2002 (dotcom bubble), and 2008 (credit crisis). So while we may have not seen the depths of this bear market yet, we believe a lot is priced in already.

S&P 500 (SP50-USA) : 12/30/1960 to 08/31/2022 (Monthly)



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

LONG-TERM RISK/REWARD IS FAVORABLE

Regardless of potential downside over the coming months (3-12 months), the long-term risk reward (3 years +) skews heavily in investors' favor from current levels. It is easy to get sucked into the day-to-day volatility in uncertain periods like this, but we encourage long-term investors to remain focused.

Below we run a hypothetical "back-of-the-envelope" calculation to show potential returns over the next 5 years. On average, S&P 500 earnings have grown 52% in the 5 years after a bear market bottom and P/E expansion has been 30%. If we assume a probably conservative $205 earnings estimate ($218 is current earnings) and 15x P/E multiple at the bear market bottom (~3075 price), and then apply historical averages in the recovery, the S&P 500 P/E likely gets to 19.5x and earnings to $311 over the next 5 years. This seems reasonable as 19.5x interestingly represents the average P/E since 1985. In terms of price, the S&P 500 could reach ~6000, or 10% compounded annual growth (prior to dividends) from current levels.

Picking a bottom is a challenge when volatility is high. But even in further downside over the coming months, investors are still looking at strong returns over the next several years.

Avg EPS Growth - From Bear Market Bottom

	5 Years
Recessionary	52%
Non-Recessionary	19%
All Bear Markets	39%

Avg P/E Growth - From Bear Market Bottom

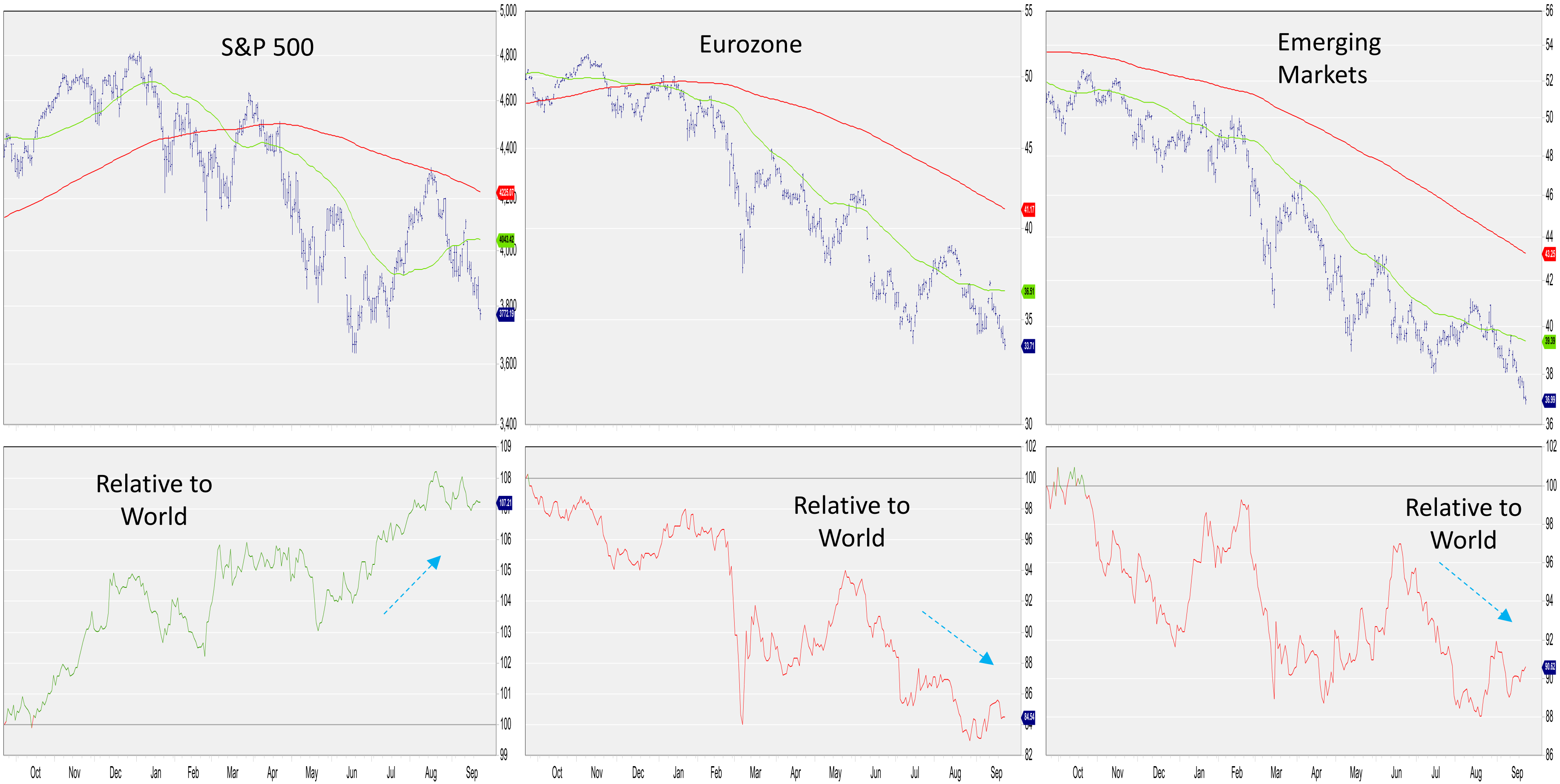
	5 Years
Recessionary	30%
Non-Recessionary	33%
All Bear Markets	31%

	Hypothetical Calculation
	EPS at Bear Bottom
	205
	5Yr EPS Growth Est.
	52%
	P/E Assumption
	19.5
	5Yr Price
	6,076
from Price of	
3762	**5Yr Upside**
	62%
CAGR	**10%**

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GLOBAL EQUITIES

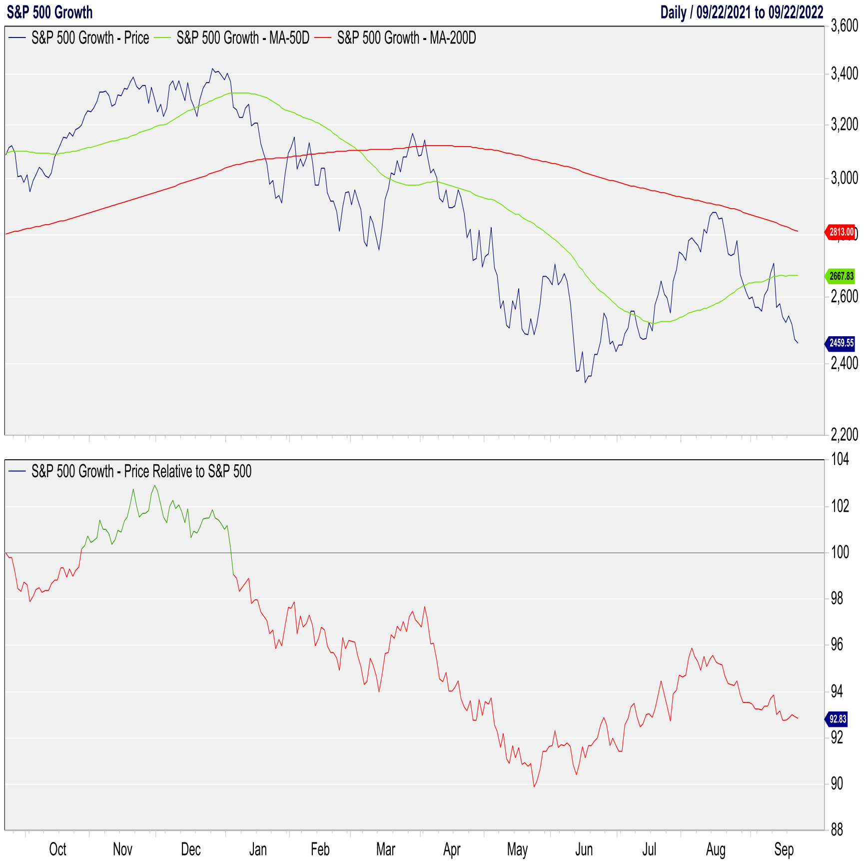
The US remains favored vs major regions globally and is more insulated from global economic pressures. The Eurozone (more levered to the Russia/Ukraine war and high energy costs) and Emerging Markets (debt concerns with the strong dollar) both broke to new lows and relative strength remains in a downtrend.

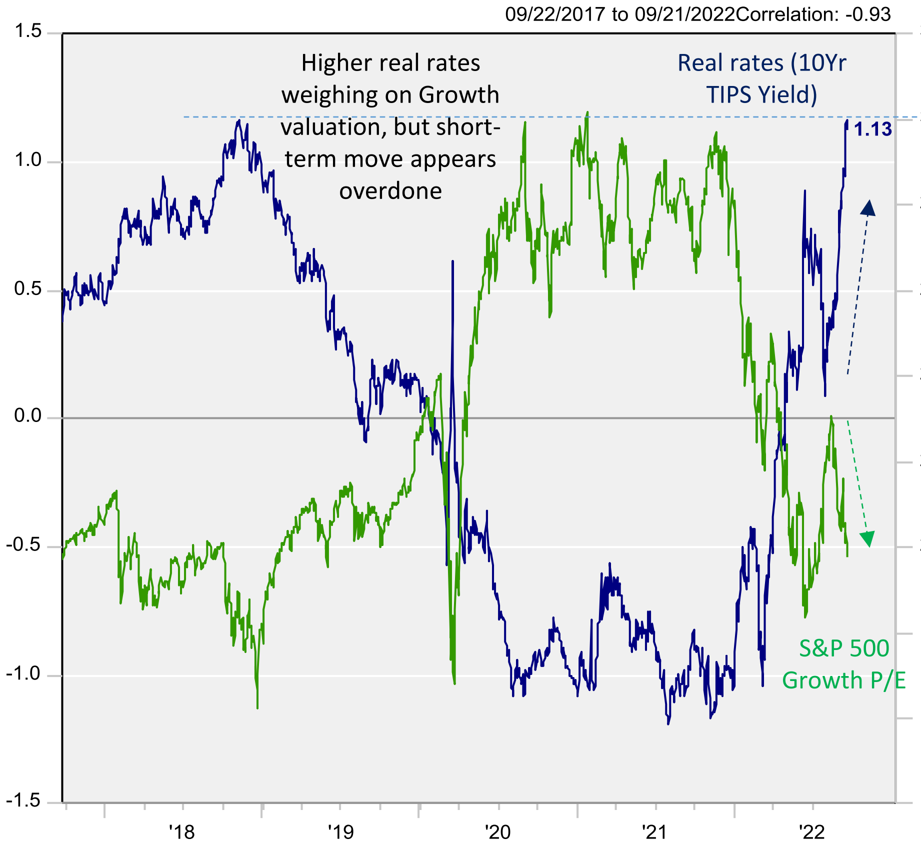


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

GROWTH

Sharply higher real rates over the past month have had a particularly hard impact on Growth stocks, due to the group's higher valuations. The reason is higher real rates increase the discount rate used by analysts on future cash flows, resulting in lower net present values. As you can see, there has been a 93% inverse correlation between real rates and Growth P/E over the past 5 years. While higher real rates are undoubtedly a headwind for Growth stocks, the move does appear overdone in the short-term and we would not be surprised for some consolidation to take place.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-11252)

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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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