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Weekly Market Guide

After closing at new bear market lows on Friday (25% from its highs), the S&P 500 has rallied ~5% to begin October. While equities were broadly oversold enough for a bounce, economic data this week has also been supportive of the move. Monday's September ISM Manufacturing showed order backlog, supplier delivery times, and prices paid all at their lowest levels since the Covid shutdown. This moderation in pricing pressures was also reflected in yesterday's ISM Services prices paid. Moreover, on the labor side, JOLTS Job Openings saw a 1.1M drop which was its largest ever monthly decline (outside of February and March 2020). This is a step in the right direction, as a cooler labor market should lead to slower wage growth and shelter inflation. This week's survey-based "soft" data continues the recent trend of improvement in inflationary leading indicators, however investors need to see this follow-through to the "hard" actual data for market upside to prove durable. Next week's September CPI and PPI readings, in addition to tomorrow's September jobs report (updating employment and wage growth), will be significant catalysts on the market's next move.

Because inflation has stayed so high for so long, it has increasingly weighed on the backbone of the US economy- the consumer. Low disposable income levels and savings rates, combined with weak asset prices, are headwinds to purchasing power. And the Fed, which has come to the rescue in weak economic times over the past decade, does not have that ability right now due to its objective of bringing inflation down to a more reasonable level. Therefore, the path of inflation will remain highly influential on the economy, Fed expectations, and the market. Overall, we believe that inflation will moderate over the next 12 months, but the timing and degree are unknowns. Also, the path to improvement is unlikely to be smooth. We expect volatile data to result in volatile markets in the short-term (weeks to months), but believe the risk/reward is favorable for long-term investors from current levels.

Technically, the predominant market trend remains downward for now; but there have at least been some positives beneath the surface. As the S&P 500 broke to new lows recently, the percentage of stocks making new lows declined. This is a positive development and can be seen near market turns, as underlying breadth improves prior to price. It is also notable that relative performance of High Beta (vs Low Volatility) did not break to new lows with the market, and the more defensive areas (i.e. Utilities and Consumer Staples) have shown significant weakness lately. This could be an indication of an aging bear market, as "bear markets eventually get to them all." In terms of positioning, we are encouraged by relative strength holding up recently in some of the more economic-sensitive areas such as the Small Caps, Technology, Consumer Discretionary, Financials, and Industrials, but more work needs to be done technically. Real rates (inflation-adjusted bond yields) and the US dollar- both correlated to the economic data flow- will continue to heavily influence underlying positioning and performance.

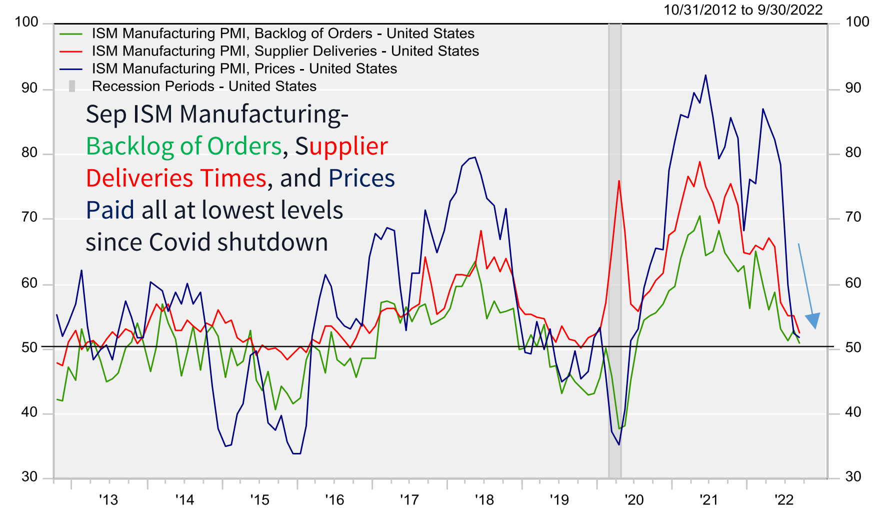
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-16.7%	-11.8%
S&P 500	-20.6%	-12.9%
S&P 500 (Equal-Weight)	-17.1%	-11.3%
NASDAQ Composite	-28.7%	-22.8%
Russell 2000	-21.5%	-20.9%
MSCI All-Cap World	-23.0%	-18.2%
MSCI Developed Markets	-26.1%	-23.7%
MSCI Emerging Markets	-26.2%	-26.4%
NYSE Alerian MLP	18.7%	12.7%
MSCI U.S. REIT	-29.0%	-18.7%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	47.2%	4.9%
Utilities	-6.0%	3.1%
Health Care	-10.0%	15.0%
Consumer Staples	-11.2%	6.7%
Industrials	-17.0%	7.9%
Financials	-17.9%	11.0%
Materials	-20.5%	2.5%
S&P 500	***-20.6%***	-
Information Technology	-27.2%	26.7%
Consumer Discretionary	-28.1%	11.5%
Real Estate	-29.4%	2.7%
Communication Svcs.	-36.3%	8.0%

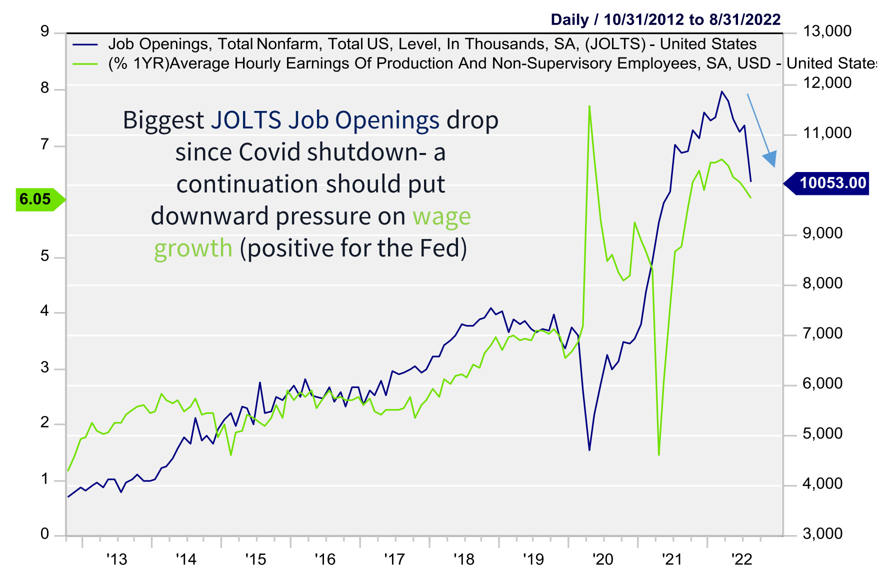
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Economic data this week has supported the bounce in equities. Monday's September ISM Manufacturing showed order backlog, supplier delivery times, and prices paid all at their lowest levels since the Covid shutdown. This continues the trend of leading indicators showing inflationary pressures are moderating. Moreover, on the labor side, JOLTS Job Openings saw a 1.1M drop which was its largest ever monthly decline (outside of February and March 2020). This is a step in the right direction, as a cooler labor market should lead to slower wage growth and shelter inflation. While this week's survey-based "soft" data was encouraging (supporting our belief that inflation will moderate over the coming months), it will take clear improvement in the actual "hard" data for equity market upside to prove sustainable. Next week's September CPI and PPI readings, in addition to tomorrow's September jobs report (updating employment and wage growth), will be significant catalysts on the market's next move.



Event	Period	Actual	Consensus	Surprise	Prior
Core PCE Deflator M/M	AUG	0.56%	0.50%	0.06%	0.04%
Core PCE Deflator Y/Y	AUG	4.9%	4.7%	0.21%	4.7%
PCE Deflator SA M/M	AUG	0.29%	0.10%	0.19%	-0.12%
PCE Deflator Y/Y	AUG	6.2%	6.0%	0.25%	6.4%
Personal Consumption Expenditure SA M/M	AUG	0.40%	0.20%	0.20%	-0.20%
Personal Income SA M/M	AUG	0.30%	0.30%	-0.0%	0.30%
Chicago PMI SA	SEP	45.7	51.8	-6.1	52.2
Construction Spending SA M/M	AUG	-0.70%	-0.30%	-0.40%	-0.57%
ISM Manufacturing SA	SEP	50.9	52.2	-1.3	52.8
BEA Domestic Auto Sales SAAR (Preliminary)	SEP	2.1M	-	-	2.0M
BEA Domestic Light Truck Sales SAAR (Preliminary)	SEP	8.5M	-	-	8.3M
BEA Total Light Vehicle Sales (Preliminary)	SEP	13.5M	13.6M	-0.11M	13.1M
Factory Orders SA M/M	AUG	0.0%	0.20%	-0.20%	-1.0%
JOLTS Job Openings	AUG	10,053K	11,100K	-1047K	11,170K
ADP Employment Survey SA	SEP	208.0K	200.0K	8.0K	185.0K
Trade Balance SA	AUG	-\$67.4B	-\$68.0B	\$0.60B	-\$70.5B
ISM Services PMI SA	SEP	56.7	56.0	0.70	56.9
Continuing Jobless Claims SA	09/24	1,361K	1,335K	26.0K	1,346K
Initial Claims SA	10/01	219.0K	202.5K	16.5K	190.0K



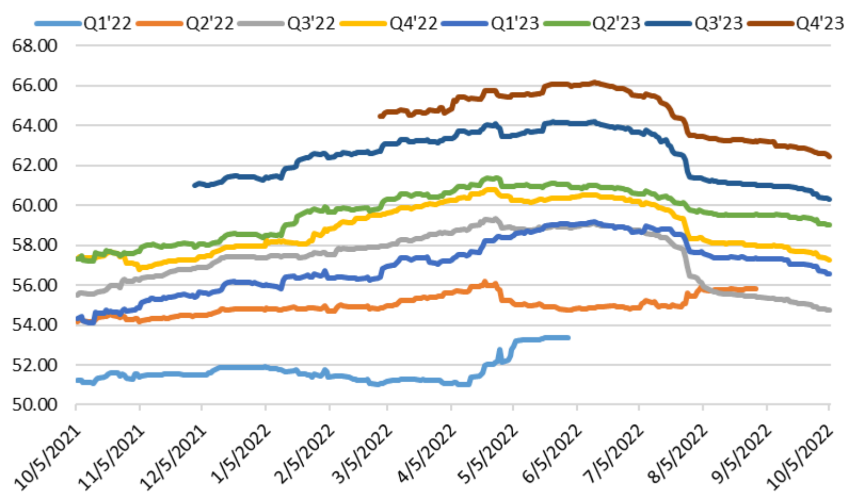
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

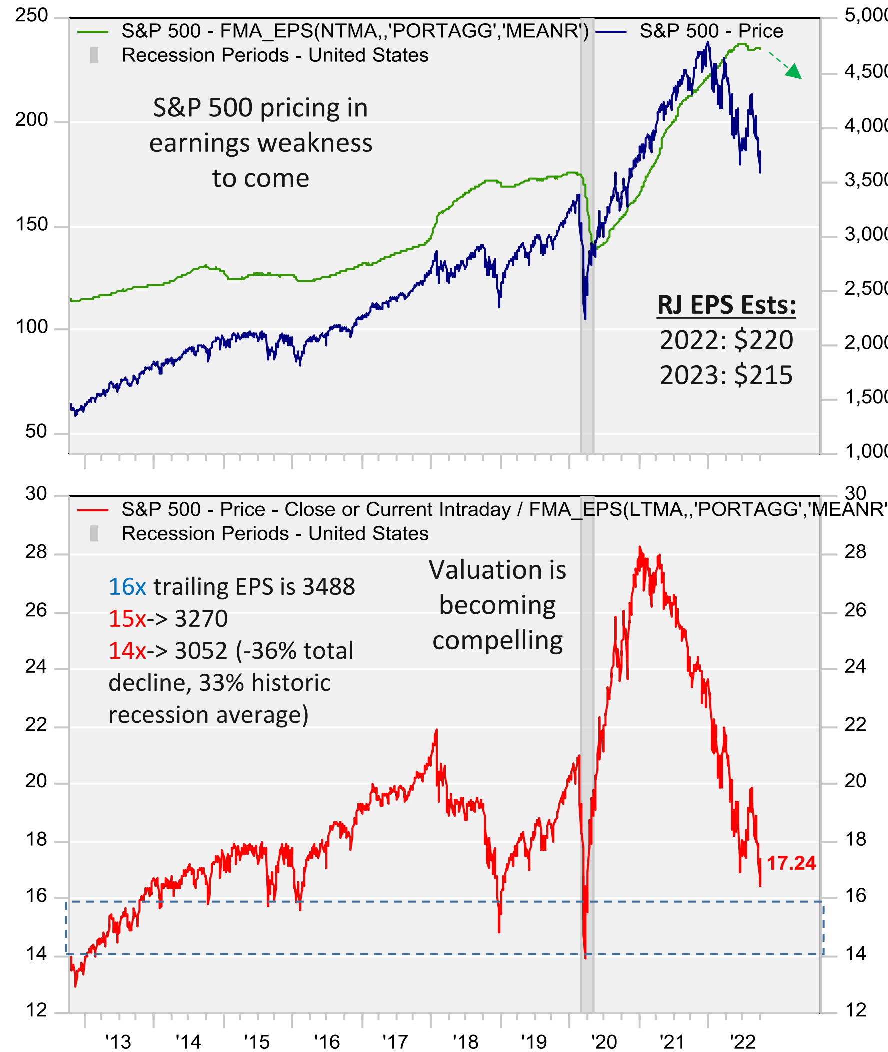
FUNDAMENTALS

Q3 earnings season kicks off next week, and current estimates reflect earnings growth of -1.9% q/q and 3.1% y/y. We believe the weakening economic environment will weigh on results, and expect companies to reset guidance lower. The majority of "early Q3 reporters" are missing estimates by an aggregate -7% surprise. Additionally, forward estimates are clearly trending lower. We believe this will continue and have a below-consensus view on earnings growth over the next year given our expectation of a mild recession.

However, the question is how much has already been priced in- and we believe a lot already has. There are plenty of high quality companies trading at their lowest valuations in a long time. While valuation is not a great timing indicator, we do believe the long-term risk/reward is favorable from current prices. It will be interesting to hear from companies and see the market's reaction to results, as a gauge for how much downside to estimates investors have already priced in.

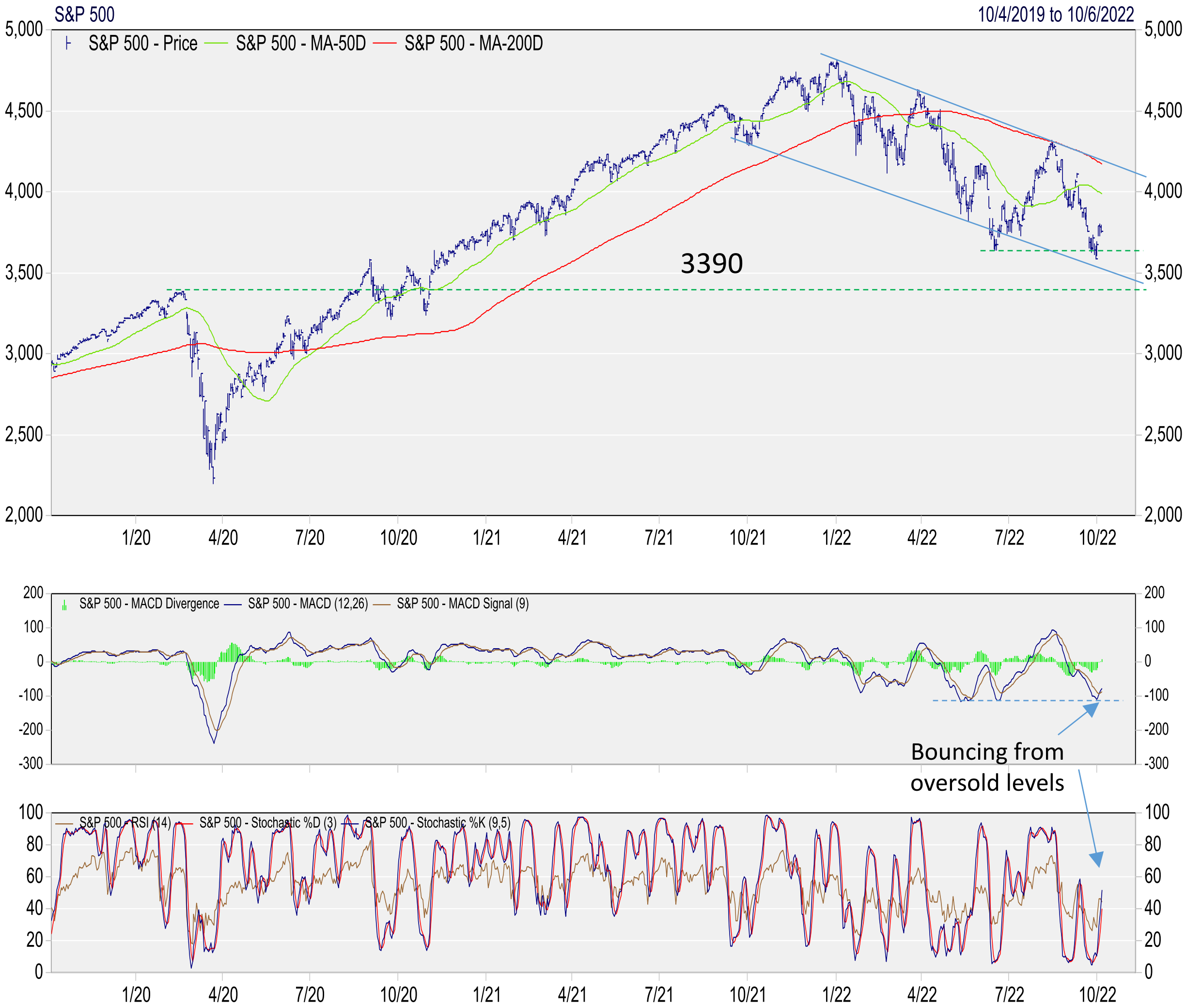
Quarterly Earnings Estimates





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

After briefly undercutting June lows last week, the S&P 500 has bounced ~5% to begin October (and Q4) this week. While the index was oversold enough for a bounce, economic data supported the move (as previously discussed). The index is still coming from oversold levels and may contain more upside in the short-term, but it will depend highly on the economic data flow over the next week.

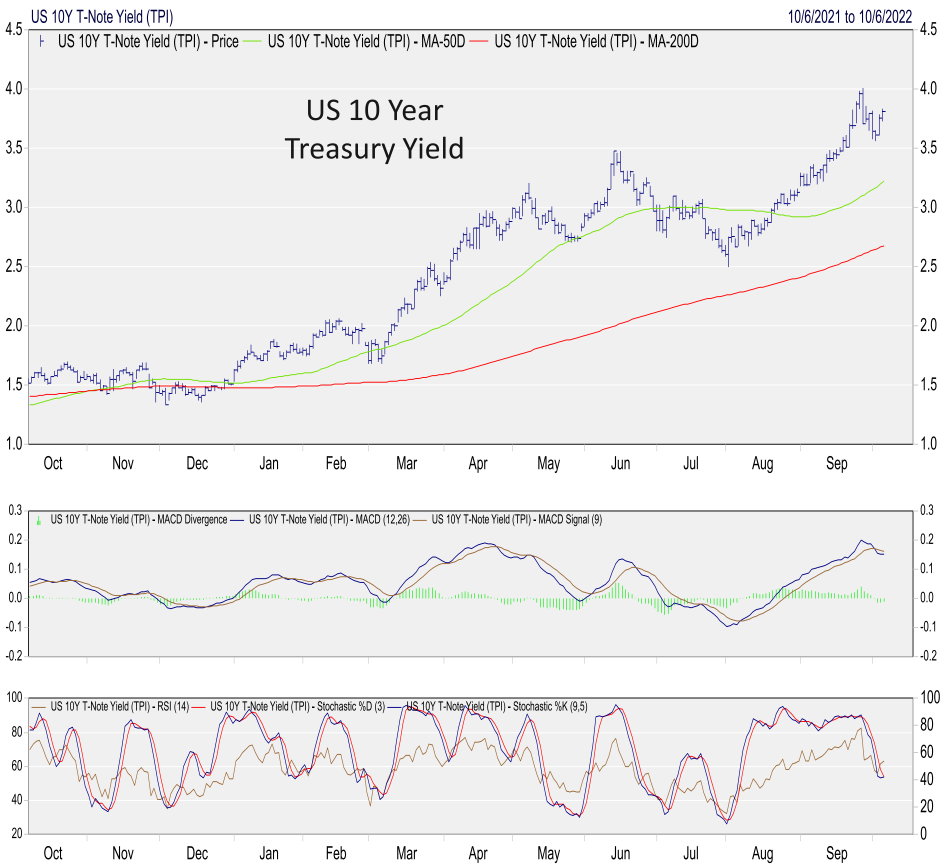
Investors will be watching tomorrow's September jobs report and next week's CPI and PPI readings as the latest "hard" data gauges on the potential path of inflation and the Fed- such is the reality of the current "data-dependent" environment with inflation being so stubbornly high.

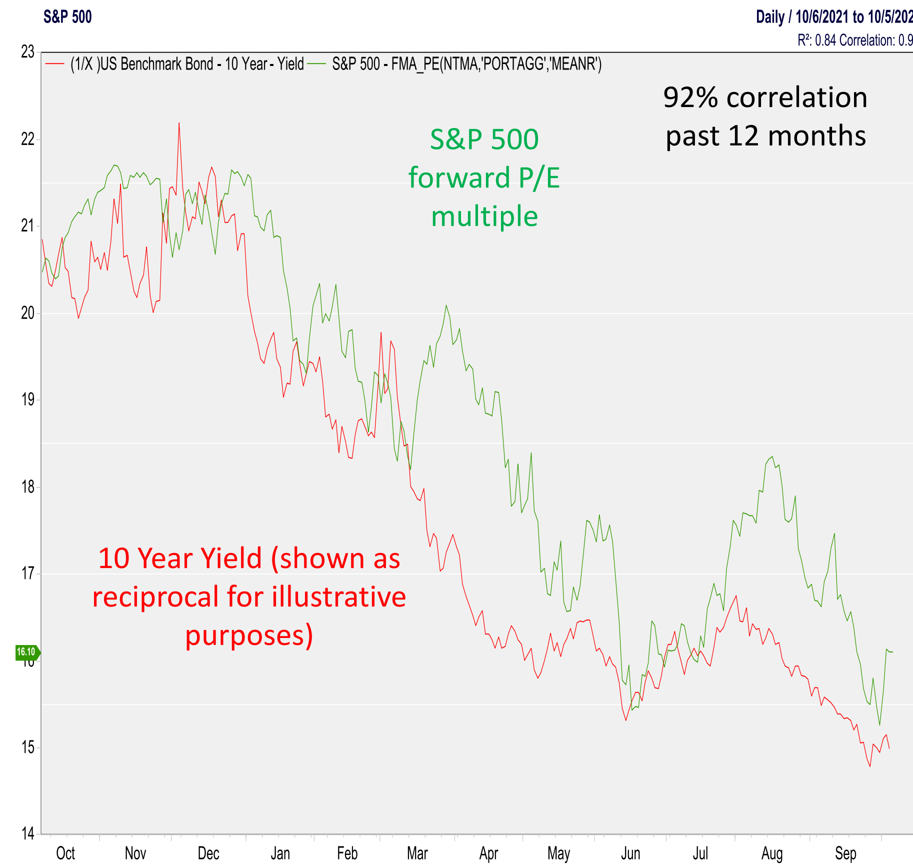
In terms of short-term support and resistance, there is a gap from Monday's high at 3698, which the market might fill in coming days. Below 3698, watch 3544 and 3518 for potential support. On the flip side, the 21DMA (currently at 3824) could serve as minor resistance, as the average capped several counter-trend rallies in recent months. Above the 21DMA. watch for the horizontal resistance area around 3910, which also represents a short-term downtrend line.

Overall, the predominant trend remains downward for now with plenty of overhead resistance. Without clear and convincing improvement on the inflation front (and lower bond yields), it will be difficult for the market to move sustainably higher.

BOND YIELDS

The US 10-year Treasury yield surged higher in August and September on "sticky" inflationary data and higher Fed expectations. Technically- While the overall trend is upward, the slope has gotten excessive in the short-term and may be due for some consolidation from overbought levels. Inflationary dataflow will remain highly influential on bond yields; but if they can halt their ascent, it will provide support for equity markets. Conversely, if bond yields make a further run higher, equity valuations will need to contract. The S&P 500's P/E multiple remains heavily correlated with the 10-year yield.

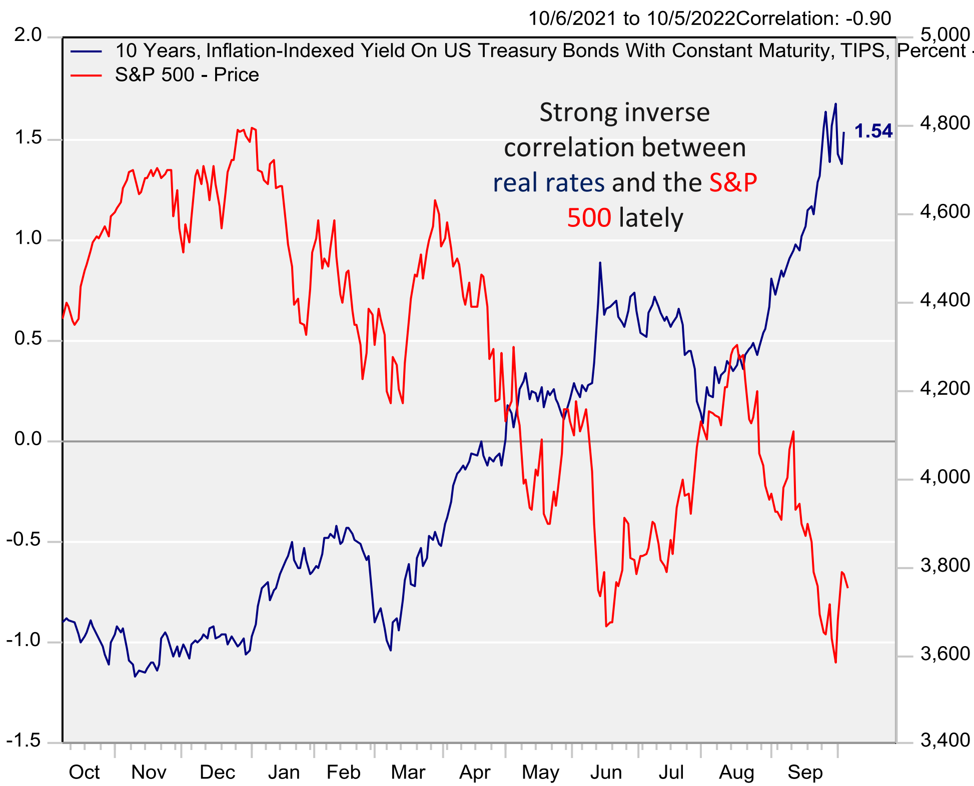




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

REAL RATES AND SECTOR PERFORMANCE

In this week's market rally, we were encouraged to see strong performance from the more beaten-up areas- such as Technology and Consumer Discretionary- along with weak performance from the more defensive areas- such as Utilities and Consumer Staples. Energy continues its outperformance, which has persisted all year. Sector performance is being highly influenced by real rates (inflation-adjusted bond yields) in our view, which have stalled their sharp ascent over the past week. If real rates can continue to consolidate, it would support equity market trends and rotation into the more risk-on areas. We believe this is where the opportunity lies for the next bull market, but would look to build exposure in favored stocks as the trends build for durable upside over time. Timing will be important because the areas that are likely to outperform on the other side of this bear market are also likely to underperform if we have more downside to go.

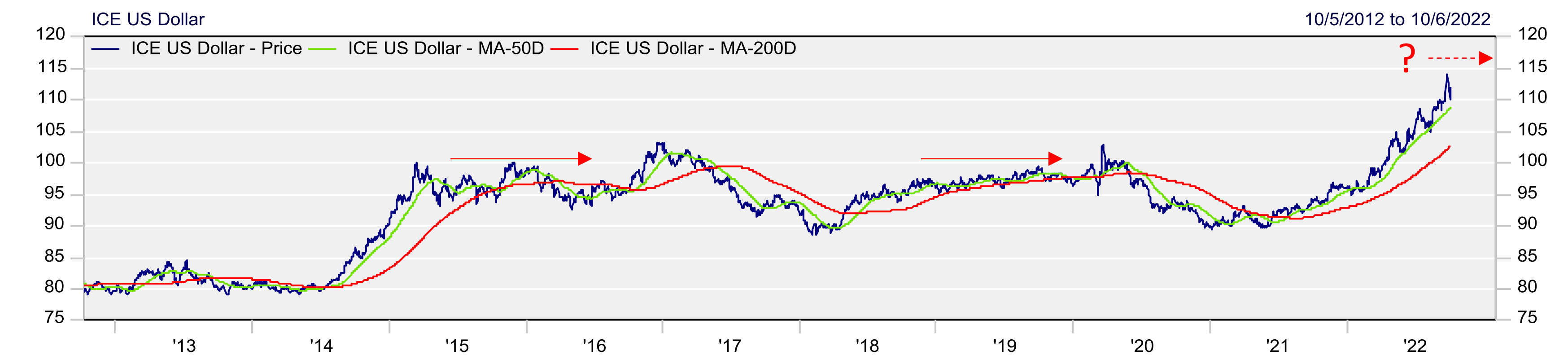


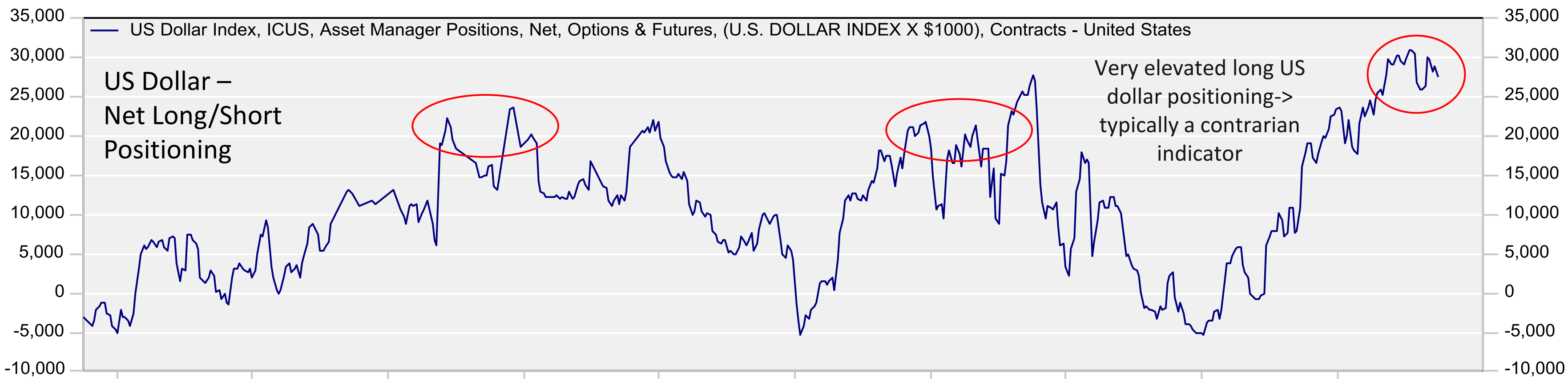
S&P 500 Industry Group	Beta (3Yr)	This Week	YTD
Energy	1.12	13.6%	47.2%
Semiconductors & Semiconductor Equ	1.39	8.4%	-39.0%
Consumer Durables & Apparel	1.13	7.6%	-41.0%
Software & Services	1.14	6.5%	-26.4%
Capital Goods	1.01	6.0%	-15.2%
Retailing	0.97	5.8%	-25.5%
Technology Hardware & Equipment	1.15	5.7%	-19.9%
Insurance	0.98	5.5%	-1.0%
Media & Entertainment	1.04	5.1%	-39.1%
Materials	0.99	5.1%	-20.5%
Health Care Equipment & Services	0.90	4.9%	-12.0%
S&P 500	***1.00***	4.8%	***-20.6%***
Consumer Services	1.06	4.7%	-21.8%
Diversified Financials	1.05	4.6%	-18.7%
Banks	1.24	4.5%	-24.7%
Transportation	0.99	4.2%	-24.0%
Food & Staples Retailing	0.62	3.3%	-12.6%
Pharmaceuticals Biotechnology & Life	0.66	3.2%	-8.4%
Commercial & Professional Services	0.89	3.1%	-11.8%
Telecommunications Services	0.61	2.5%	-14.7%
Food Beverage & Tobacco	0.68	1.8%	-3.8%
Real Estate	0.94	1.5%	-29.4%
Household & Personal Products	0.62	1.4%	-23.2%
Utilities	0.78	0.4%	-6.0%
Automobiles & Components	1.41	-7.7%	-33.6%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US DOLLAR

The US dollar is also a significant influence on underlying equity market performance. Through the global volatility, the US dollar has experienced strong appreciation this year. While it can certainly continue higher, we do note that its slope is becoming very steep as the currency gets stretched to the upside technically. Additionally, positioning has become very "Long the Dollar." This has historically been a contrarian indicator, as you can see in the chart below, with dollar upside subsiding after reaching similarly elevated levels over the past ten years. If the US dollar can cool off technically, it would add support to equity markets and ease some of the pressure on companies operating globally in our view.

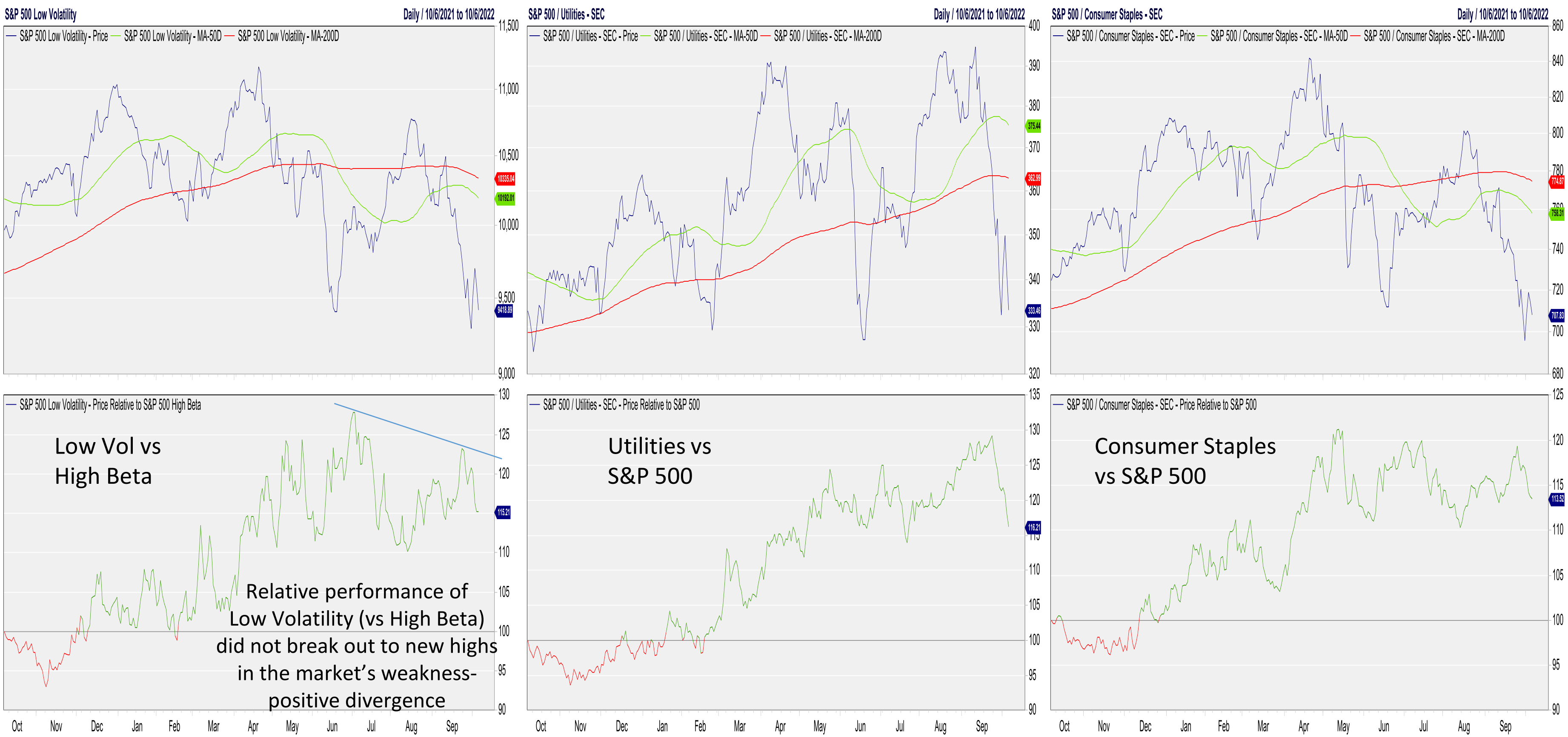




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

"RISK-OFF" PERFORMANCE

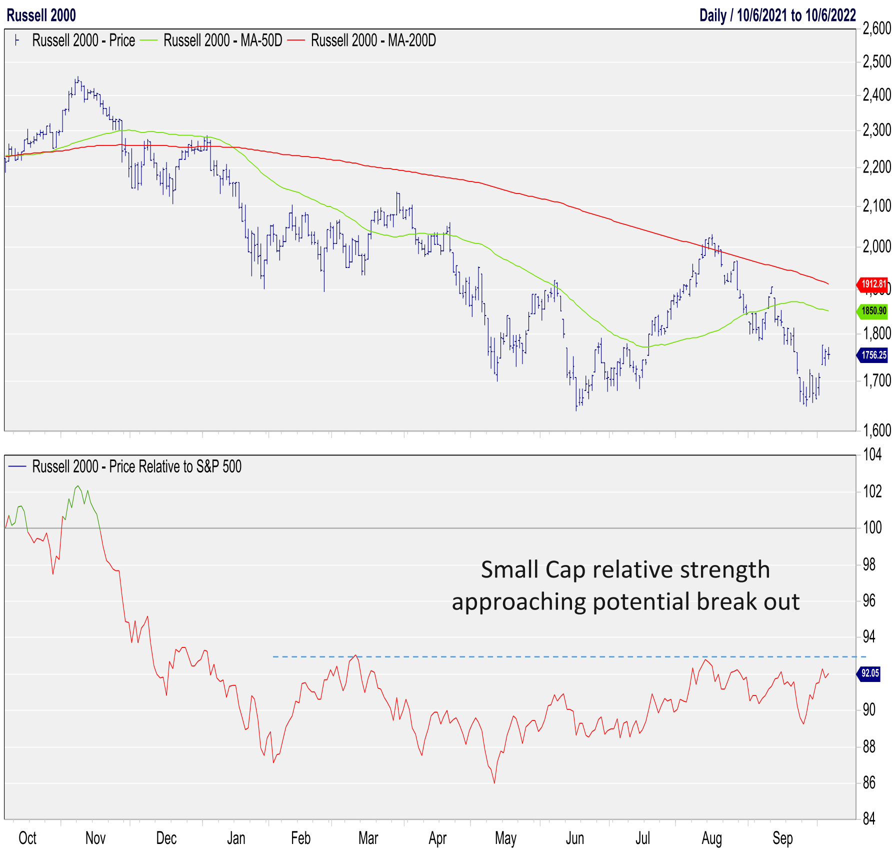
Technically, the predominant market trend remains downward for now; but there have at least been some positives beneath the surface. As the S&P 500 broke to new lows recently, the percentage of stocks making new lows declined. This is a positive development and can be seen near market turns, as underlying breadth improves prior to price. It is also notable that relative performance of High Beta (vs Low Volatility) did not break to new lows with the market, and the more defensive areas (i.e. Utilities and Consumer Staples) have shown significant weakness lately. This could be indication of an aging bear market, as "bear markets eventually get to them all."

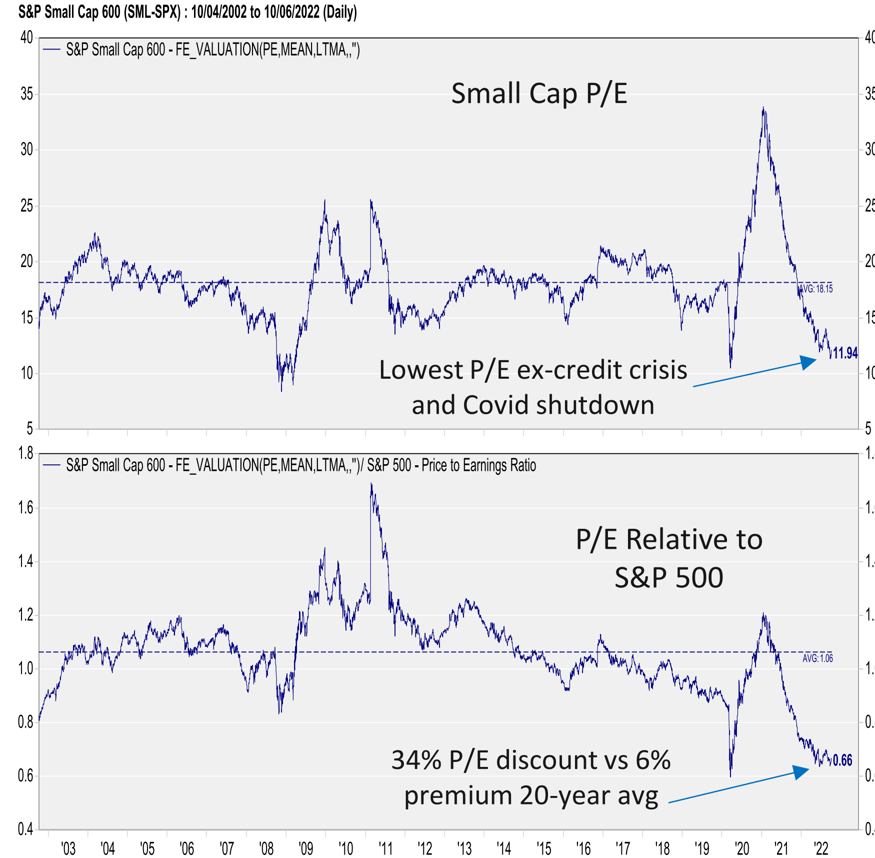


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SMALL CAPS

Small cap valuation grabs our attention at an 11.9x P/E. This is the lowest P/E they have traded at in the past 20 years outside of the Covid shutdown lows and credit crisis. Relative to the S&P 500, this is a 34% discount which is the cheapest relative multiple for small caps outside of the absolute lows of the Covid shutdown (small caps on average trade at a 6% premium to the S&P 500). While valuation is not a great timing indicator, we do believe the small caps are set for outperformance on the other side of this bear market. Additionally, relative strength did not break down in the recent market weakness and is actually approaching a potential breakout point. This is a positive divergence, and a relative strength break out would indicate a potential turn for the group.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-18157)

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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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