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Weekly Market Guide

The S&P 500 is attempting to bounce after pulling in ~17% since the mid-August peak. While the predominant market trend remains lower for now, we do believe an oversold rally could transpire to the 3900-4000 area in the short-term for several reasons:

- A two-month **17% decline** from mid-August to recent low is enough to produce a bounce. The two prior down waves experienced this year contracted -14% and -21%.
- **Earnings season:** companies do a good job of managing expectations to allow for upside surprises. Since Q3 earnings season began last week, 80% of companies announcing have beaten by an average of 4.2%. The average 3-day price reaction on earnings has been 0.8%. To be sure, forward estimates are still trending lower and we expect that to continue as Fed tightening acts with a lag on the economy- but a lot of negative news has already been priced in with the S&P 500 -25% off its highs. Additionally, the sharp decline of equities into earnings announcements may have been "too far, too fast" based on the actual results coming out.
- **Real Yields** appear to be in a basing period. The previous basing period coincided with a 19% rally from the mid-June lows to mid-August peak. As a reminder, the sharp upside in real yields experienced this year has a strong inverse correlation on market valuations and positioning.
- The S&P 500 found support near the **200-week moving average**, which has been a good level over the past decade in weak periods. Although the index may undercut it ultimately as the bear market runs its course, the key support level is unlikely to fail in the first attempt.
- **3900-4000** is the 61.8% retracement level of the recent down wave and would be a 14% rally from the recent low. The two prior bear market rallies this year saw similar retracements of 11% and 17%. Moreover, the 3900-4000 price area resides between the 50- and 200-day moving average and is near horizontal resistance.

Our underlying view remains that inflation should moderate over the next year, easing strains on monetary policy, bond yields, and equity valuations. However, the timeline of this improvement remains uncertain in the shorter-term, and volatile economic data is likely to correspond with volatile markets for now. Despite this, we believe a lot of economic and earnings downside is already priced in at current levels. Recessionary bear markets go down 33% on average over 13 months, but the S&P 500 is already down 25% over 9 ½ months. With this in mind, we recommend investors maintain focus on the long-term bull market opportunity from current levels, despite the elevated likelihood of further volatility over the coming weeks and months.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-16.3%	-14.2%
S&P 500	-22.5%	-18.2%
S&P 500 (Equal-Weight)	-19.2%	-16.1%
NASDAQ Composite	-31.7%	-29.4%
Russell 2000	-23.1%	-24.2%
MSCI All-Cap World	-25.1%	-23.5%
MSCI Developed Markets	-27.6%	-27.4%
MSCI Emerging Markets	-29.7%	-33.1%
NYSE Alerian MLP	21.6%	9.1%
MSCI U.S. REIT	-31.6%	-25.1%

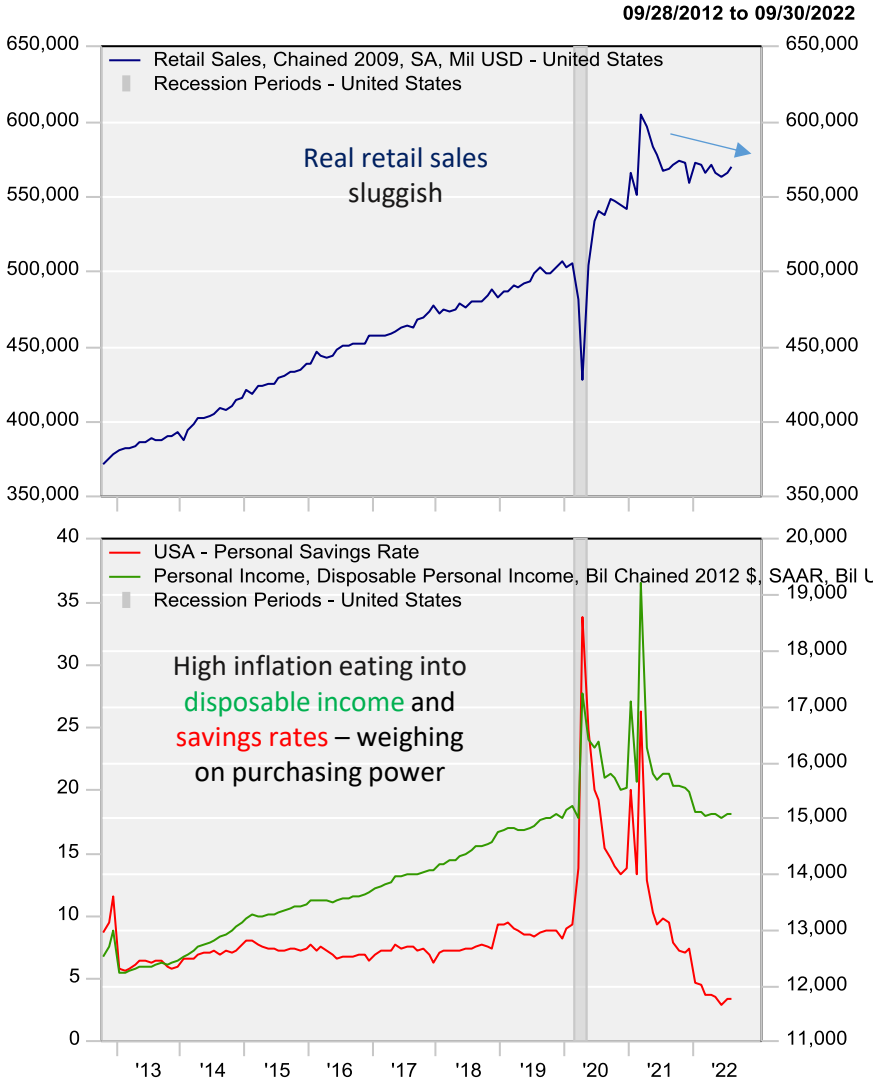
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	53.3%	5.3%
Consumer Staples	-10.8%	6.9%
Utilities	-10.9%	3.0%
Health Care	-11.5%	15.1%
Industrials	-16.8%	8.1%
Financials	-18.8%	11.2%
Materials	-22.2%	2.5%
S&P 500	***-22.5%***	-
Information Technology	-30.6%	26.1%
Consumer Discretionary	-31.0%	11.3%
Real Estate	-33.2%	2.6%
Communication Svcs.	-37.4%	8.1%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Core retail sales did pick up slightly in September, but real consumption (ex-inflation) continues to be very sluggish. High inflation is eating into disposable income as well as savings rates and, when combined with weak asset prices, is resulting in weak purchasing for the US consumer (the backbone of our economy). The longer high inflation persists, the more pressure it will put on real consumption. And the Fed is unwilling to provide support yet with the labor market solid for now. We expect a 75bps hike at the 11/2 FOMC meeting and for the Fed to maintain its overall hawkish bias for now. Influences to monitor over the next few weeks include Q3 earnings season (through November), September PCE and Q3 Employment Costs on 10/28 (Fed's favored measures of inflation and wages), FOMC rate decision on 11/2, Q3 Productivity (inflation offset) on 11/3, October Jobs report on 11/4, and October CPI on 11/10.

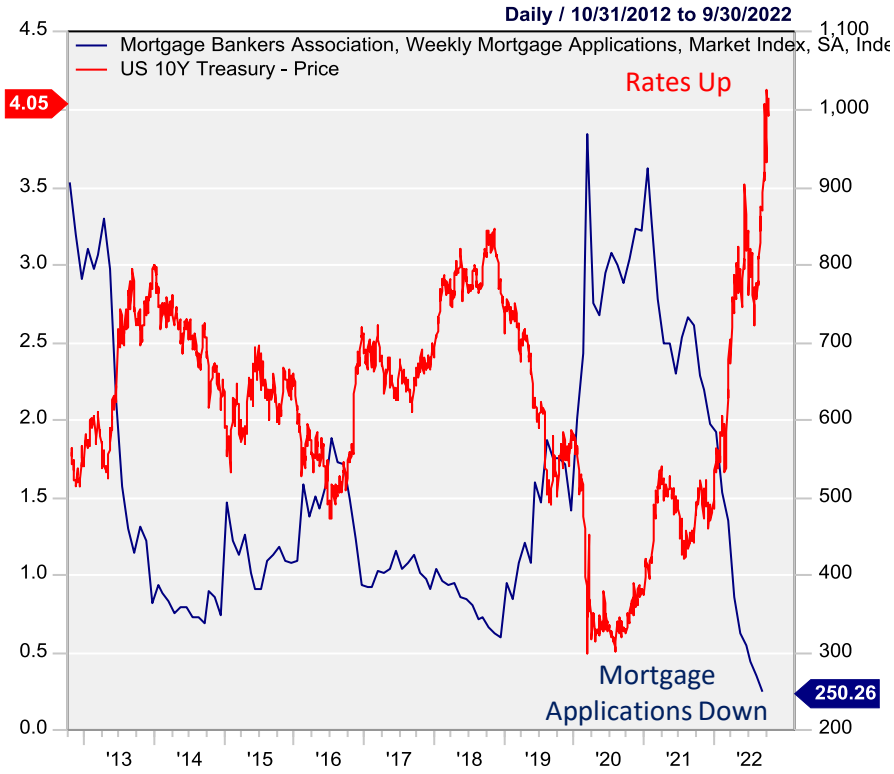
Event	Period	Actual	Consensus	Surprise	Prior
Export Price Index NSA M/M	SEP	-0.80%	-0.90%	0.10%	-1.7%
Import Price Index NSA M/M	SEP	-1.2%	-1.1%	-0.10%	-1.1%
Retail sales ControlGroup M/M	SEP	0.35%	0.10%	0.25%	0.22%
Retail sales Ex AutoFuel M/M	SEP	0.28%	0.20%	0.08%	0.58%
Retail Sales ex-Auto SA M/M	SEP	0.10%	0.0%	0.10%	-0.10%
Retail Sales SA M/M	SEP	0.0%	0.20%	-0.20%	0.40%
Business Inventories SA M/M	AUG	0.80%	0.90%	-0.10%	0.50%
Michigan Sentiment NSA (Preliminary)	OCT	59.8	59.0	0.80	58.6
Empire State Index SA	OCT	-9.1	-4.0	-5.1	-1.5
Capacity Utilization NSA	SEP	80.3%	79.9%	0.35%	80.1%
Industrial Production SA M/M	SEP	0.40%	0.10%	0.30%	-0.10%
NAHB Housing Market Index SA	OCT	38.0	43.0	-5.0	46.0
Building Permits SAAR (Preliminary)	SEP	1,564K	1,530K	34.0K	1,542K
Housing Starts M/M	SEP	-8.1%	-6.7%	-1.5%	13.7%
Housing Starts SAAR	SEP	1,439K	1,465K	-26.0K	1,566K
Continuing Jobless Claims SA	10/08	1,385K	1,375K	10.0K	1,364K
Initial Claims SA	10/15	214.0K	235.0K	-21.0K	226.0K
Philadelphia Fed Index SA	OCT	-8.7	-5.0	-3.7	-9.9
Existing Home Sales SAAR	SEP	4,710K	4,690K	20.0K	4,780K
Leading Indicators SA M/M	SEP	-0.40%	-0.30%	-0.10%	0.0%

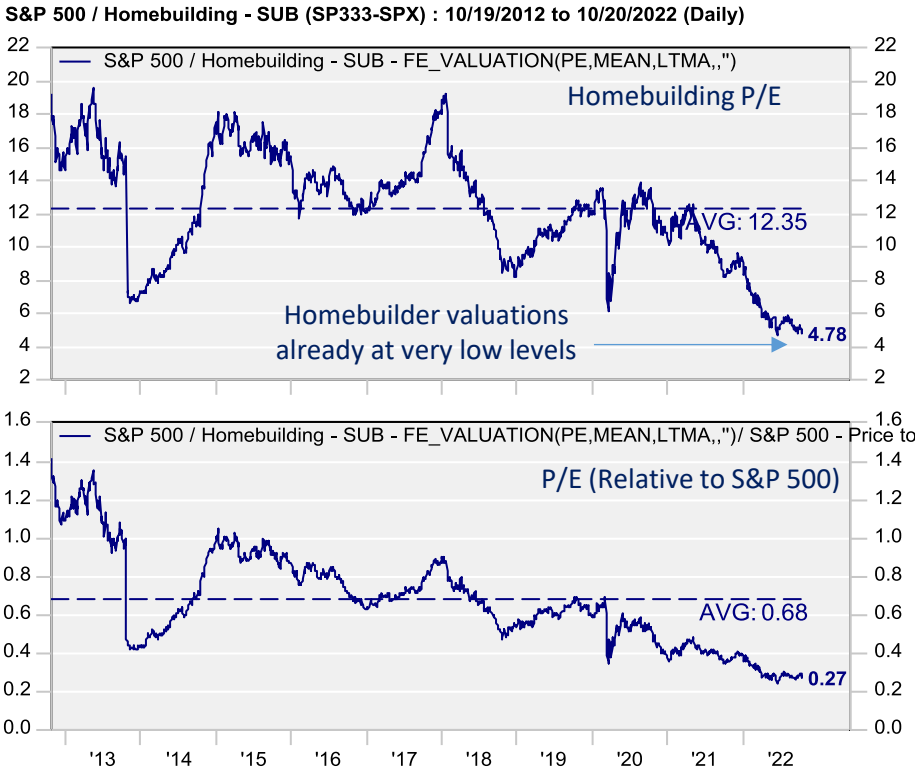


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

HOUSING EXAMPLE FOR BROADER MARKET - EXPECTATIONS VS. VALUATION

Fed actions have a lag effect on the economy (often thought of as a 6-9 month lag), as higher rates impact liquidity throughout the system and decrease investment and economic growth. However, certain areas will feel it first- an example is housing. The 30-year fixed mortgage rate has doubled since the year began to over 7%! As a result, mortgage applications are at their lowest level in over 10 years. We do not expect anything like a 2008 housing collapse, but this leaves a grim outlook for housing. In looking at the Homebuilding stocks, they are already trading at 10-year low valuation multiples (4.8x P/E vs 12x 10-year average). This is an example of the dynamic going on within the broad market- the fundamental outlook is weakening, but many stocks have priced in a lot already. Keep in mind, valuation is not a great timing indicator (cheap valuations can get cheaper). But over the long run, these low valuations present opportunity for above average returns.



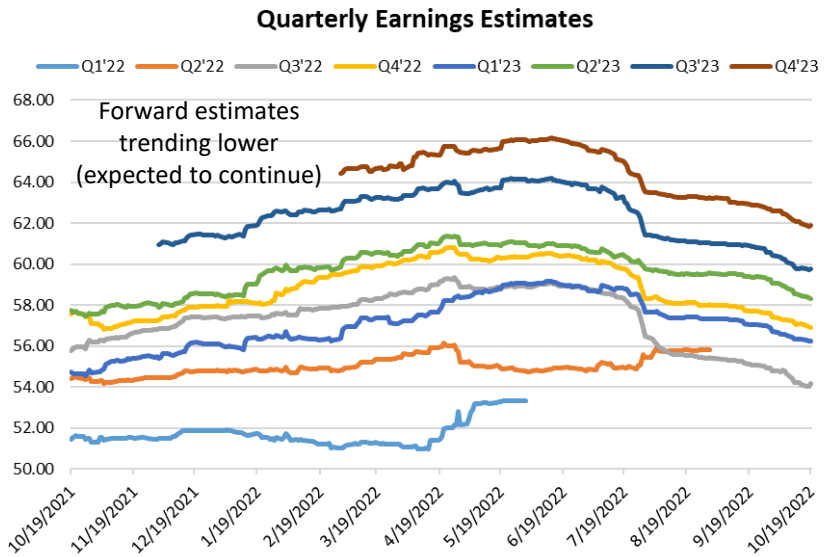


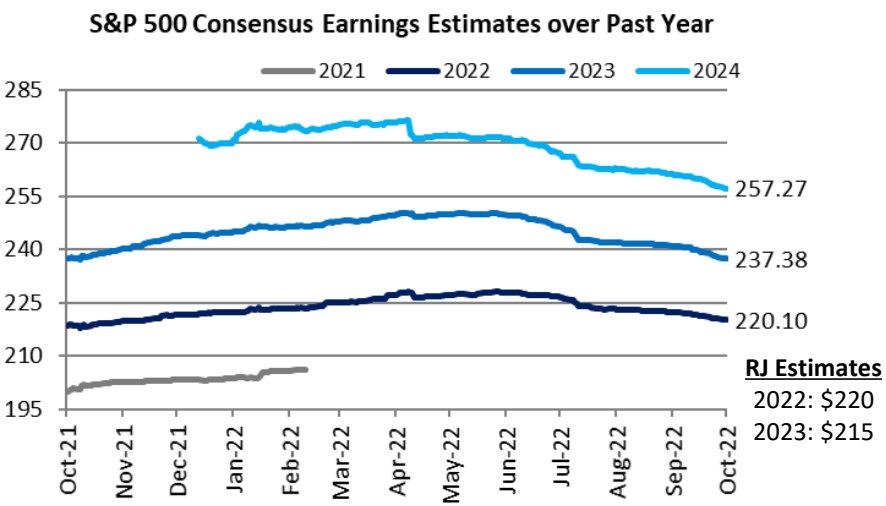
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Q3 EARNINGS SEASON

Q3 earnings season kicked off over the past week, and 18% of the S&P 500 market cap has already reported results. Since last Thursday, 80% of those reporting are announcing earnings beats by an average of 4.4%. This is an improvement from some of the weak "early reporters" pre-announcing well below expectations. Consequently, the market reaction to results has been good with stocks trading up 0.8% on average (3-day price reaction).

To be sure, forward estimates are still trending lower and we expect that to continue as Fed tightening acts with a lag on the economy- but a lot of negative news has already been priced in with the S&P 500 -25% off its highs. Additionally, the sharp decline of equities into earnings announcements may have been "too far, too fast" based on the actual results coming out. Q3 earnings season really heats up over the next couple of weeks with 161 S&P 500 stocks reporting next week (including numerous big Tech companies) and 154 the following week.





S&P 500 Sector	% Q3 Est. EPS Growth Y/Y	Q/Q	% EPS Surprise	% Companies w/ Beats	Est. Chg Q3'22
S&P 500	**2.1**	**-2.9**	**0.0**	**62**	**-0.1%**
Utilities	-7.2	33.3	-	-	-0.2%
Communication Services	-17.8	-0.9	34.2	100	0.8%
Health Care	-5.9	-8.7	6.5	100	1.0%
Energy	120.2	-13.9	4.0	100	-1.2%
Real Estate	10.8	1.2	3.6	100	0.2%
Consumer Staples	-2.6	-0.6	3.5	80	-0.1%
Financials	-14.8	-3.7	0.5	67	-1.0%
Industrials	26.0	0.4	-5.3	56	0.3%
Information Technology	-4.0	-1.4	-8.6	50	-0.1%
Consumer Discretionary	10.3	23.4	-16.0	20	-0.3%
Materials	-11.1	-26.8	-22.5	0	-0.7%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 is attempting to bounce after pulling in ~17% since the mid-August peak. While the predominant market trend remains lower for now, we do believe an oversold rally could transpire to the 3900-4000 area (14% bounce off recent low) in the short-term for several reasons:

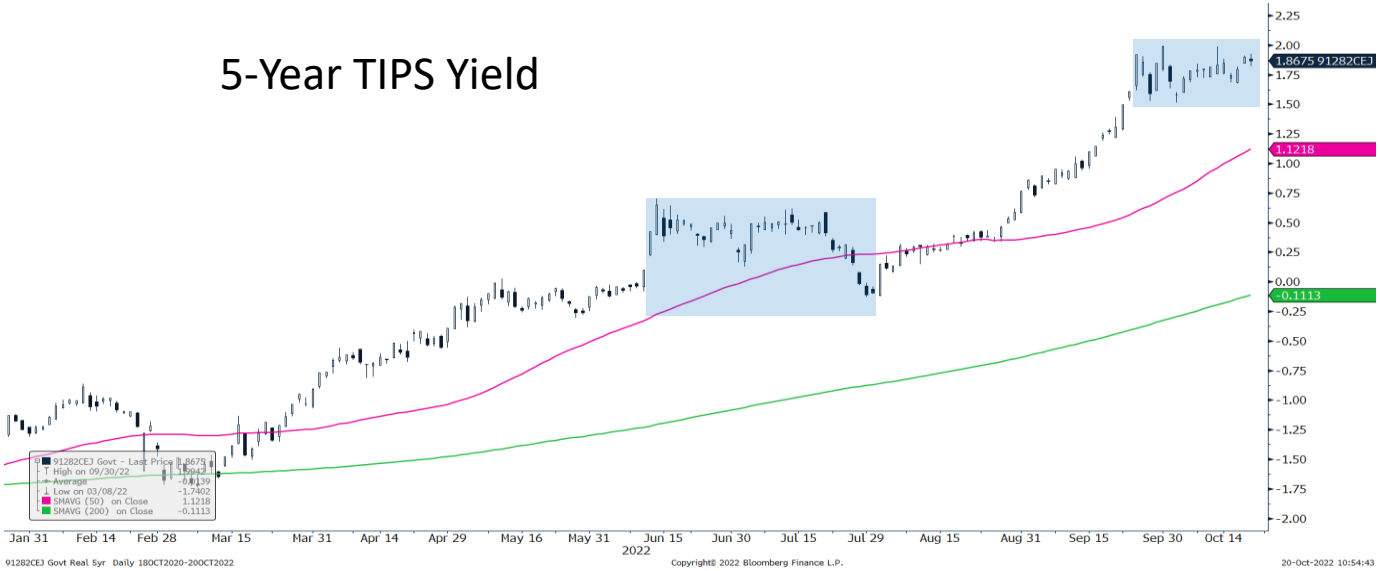
- **17% decline** from mid-August to recent low is enough to produce a bounce
- **Earnings season**: companies do a good job of managing expectations to a point to allow for upside surprises
- **Real Yields** look to be in a basing period. Previous basing period coincided with 19% rally from June to August peak
- **200-week moving average-** although it may be undercut as the bear market runs its course, it is unlikely to fail in the first attempt
- **3900-4000**- 61.8% retracement of recent down-wave. This technical area is between the 50- and 200-day moving average resistance levels, and near horizontal price resistance

Conversely, if the market turns over, watch for support at 3558-3518 (closing basis). If 3518 is broken, the next support levels are at 3394 and 3234. There is plenty of economic releases over the next couple of weeks that could influence market action, including the FOMC announcement on 11/2.

REAL YIELDS

Real yields have been a significant influence on market trends and positioning this year. As they have surged higher in 2022, the equity market has come under pressure. And overall, real rates are still trending higher and the S&P 500 is still trending lower.

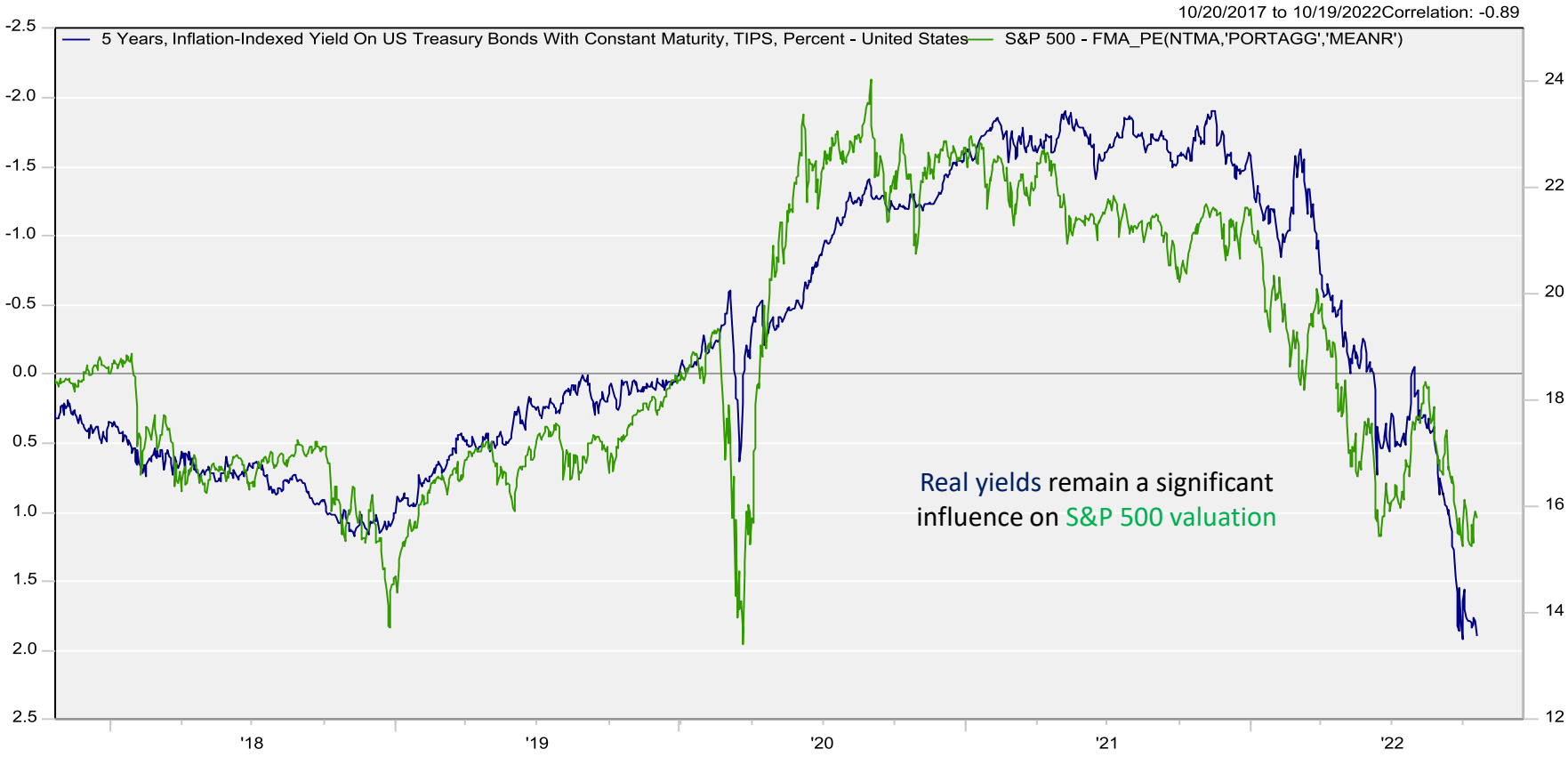
However, in the short-term real yields appear to be in a basing period as they consolidate from extended levels on the upside. And this may allow equities to experience a bear market rally. The previous basing period in the 5-year TIPS yield coincided with a 19% rally for the S&P 500 from the mid-June lows to mid-August peak.



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

REAL YIELDS AND VALUATION

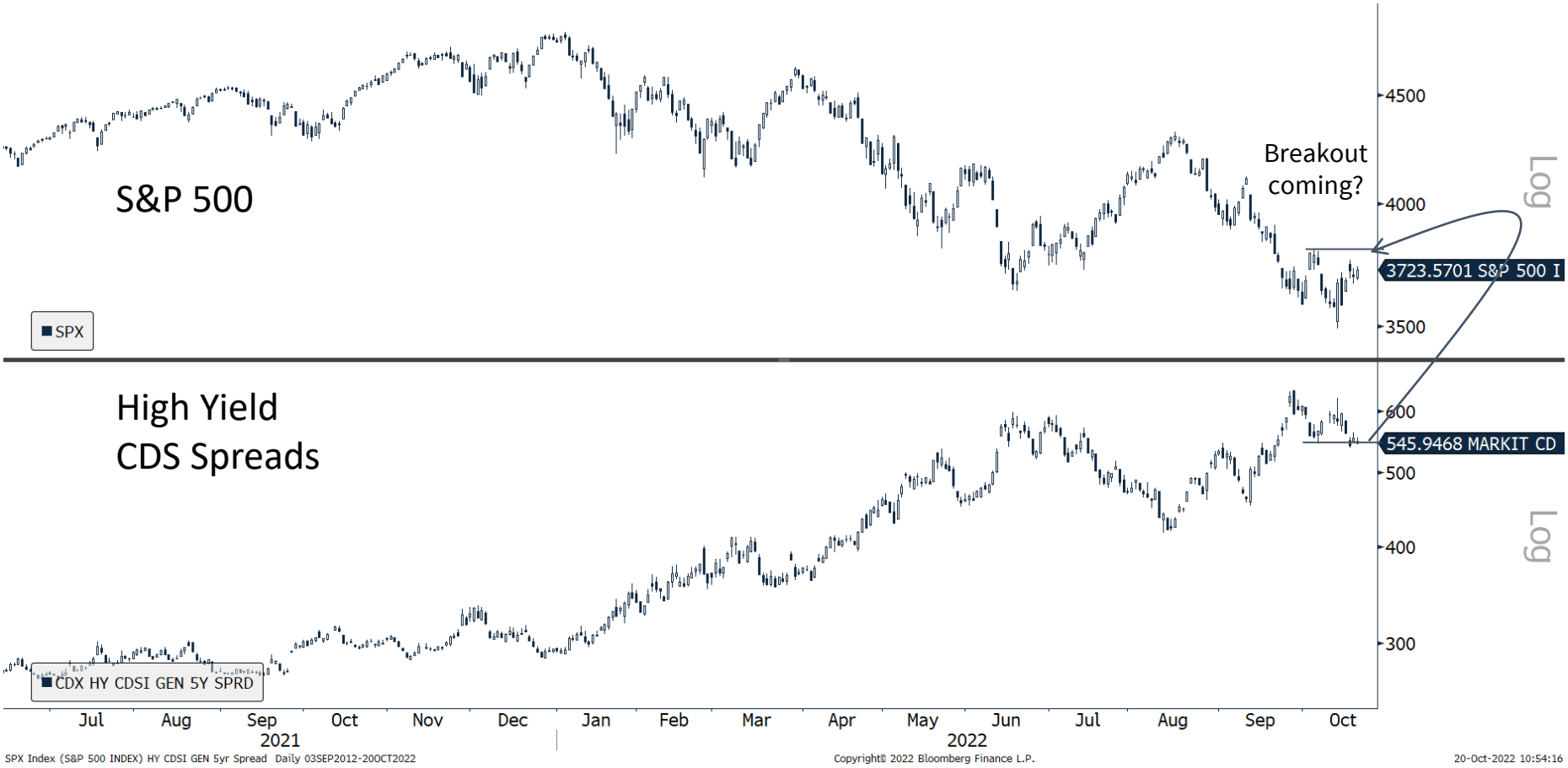
The chart below shows the strong relationship between real rates and equity market valuation over the past 5 years (89% inverse correlation). The reciprocal of the 5-year TIPS yield is shown below for illustrative purposes- so as real yields have surged higher this year, it has put significant pressure on valuation multiples. As stated on the previous page, real yields appear to be in a basing period that may ease pressure on multiples in the short-term. But we need to see the overall uptrend in real yields subside (which is likely to happen over time as inflation moderates and the Fed backs off), in order for equities to show sustainable upside.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CREDIT DEFAULT SWAPS

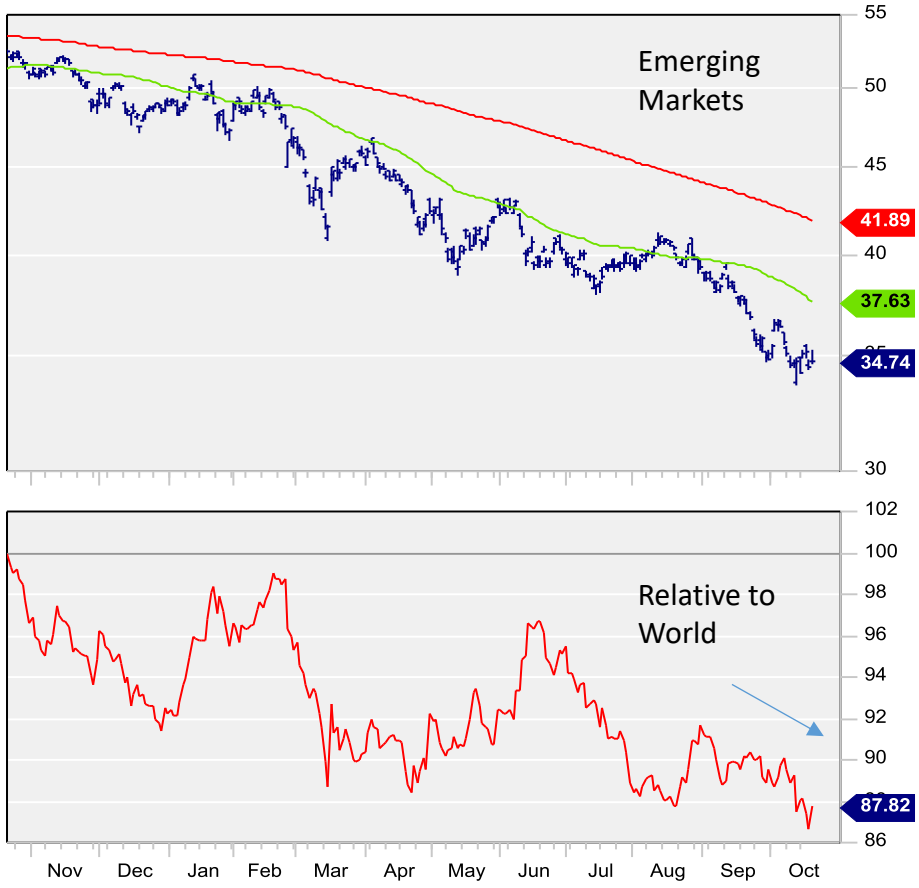
High yield CDS spreads have offered valuable clues on market direction over the course of this year, and we note a recent divergence that may bode positively for equities in the short-term. As the S&P 500 printed a new low recently, CDS spreads made a lower top. This was a signal that equities could rally (and they have). Now, CDS spreads broke the previous low while the S&P 500 is still below its recent high- suggesting that equities may break-out above their recent high (at ~3800).



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

US DOLLAR

The US dollar has resumed its uptrend, which weighs in particular on US companies with high overseas revenues (likely a reason the US-centric small caps have outperformed the large caps slightly through the volatility this year). From a global perspective, it is also often a negative influence on Emerging Markets (given they typically hold a large amount of US debt- making that debt more expensive to pay off). As you can see, Emerging Markets broke to new relative lows vs the World recently. And with the US dollar maintaining its uptrend for now, we continue to favor US equities globally.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-29229)

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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.

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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