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Weekly Market Guide

Equities have extended their rally over the past week, now up 10% from the recent lows. Less hawkish takeaways on the potential Fed path have been the primary catalyst, i.e. a WSJ article stating the Fed may be leaning toward a 50bp hike in December (breaking the streak of 75bp hikes), the Bank of Canada hiking by 50bp this week (below expectations for 75bp), and discussions that the Fed may act to increase liquidity in the bond market. These influences have contributed to a stall in real yields and pullback in the US dollar, in turn pushing equities higher.

We are also in the heart of Q3 earnings season with nearly 50% of the S&P 500's market cap already reported. Overall, current results are coming in near expectations, but the -0.6% aggregate earnings surprise is the weakest rate since Q1 2020 (Covid shutdown). Additionally, forward estimates are moving sharply lower as analysts cut their outlooks into a slowing economic backdrop. We expect this trend to continue and remain well below consensus estimates for 2023 S&P 500 earnings at $215 vs $235 consensus given our expectation for a mild recession in early 2023. That said, a lot of negative news has already been priced in. Despite the deteriorating fundamental outlook, the average S&P stock has rallied 1.7% on results (3-day price reaction). This supports our view that the market pullback was overdone into earnings season, but also that the most important influences are currently macro, inflation, and interest rate driven.

Market-implied Fed expectations have retracted slightly over the past week, with higher odds of a 50bp hike in December vs. 75bp previously and the 5% terminal rate in 1st half 2023 shifting toward 4.8%. Upcoming catalysts over the next week include September PCE and Q3 Employment Costs tomorrow (Fed's favored measures of inflation and wages), followed by the FOMC rate decision next Wednesday 11/2. A fourth consecutive 75bp hike is expected at the Fed meeting, but investors will be closely monitoring any clues toward the potential outlook for December and beyond in the release and press conference.

Technically, the current bounce is just a bear market rally for now that may extend a bit further in the short-term. While the overall trend is attempting to become more sideways (vs down), we continue to believe that the market will remain data-dependent on the economy and inflation. As investors gain clarity that inflation is on a sustainable path lower, the Fed is likely to back off, bond yields should moderate, and valuations will be more supportive for equity markets. We expect this to occur over the next 12 months, but it also may take time – and volatile data is likely to correlate with volatile markets. Given our expectation that this bear market is likely in its later stages but also that volatility may persist over the coming months (with the potential for further downside), we believe it is important to maintain balance in portfolios between managing risk while also keeping an eye on the longer-term opportunity.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-12.4%	-11.0%
S&P 500	-19.6%	-16.3%
S&P 500 (Equal-Weight)	-15.6%	-13.4%
NASDAQ Composite	-29.9%	-28.0%
Russell 2000	-19.6%	-21.4%
MSCI All-Cap World	-22.6%	-21.7%
MSCI Developed Markets	-24.3%	-24.7%
MSCI Emerging Markets	-30.9%	-34.3%
NYSE Alerian MLP	24.8%	14.2%
MSCI U.S. REIT	-28.4%	-23.4%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	60.7%	5.3%
Health Care	-6.9%	15.3%
Consumer Staples	-7.4%	6.9%
Utilities	-9.1%	2.9%
Industrials	-13.6%	8.1%
Financials	-15.4%	11.2%
Materials	-18.1%	2.6%
S&P 500	***-19.6%***	-
Information Technology	-28.0%	26.1%
Consumer Discretionary	-29.0%	11.2%
Real Estate	-30.6%	2.6%
Communication Svcs.	-37.7%	7.8%

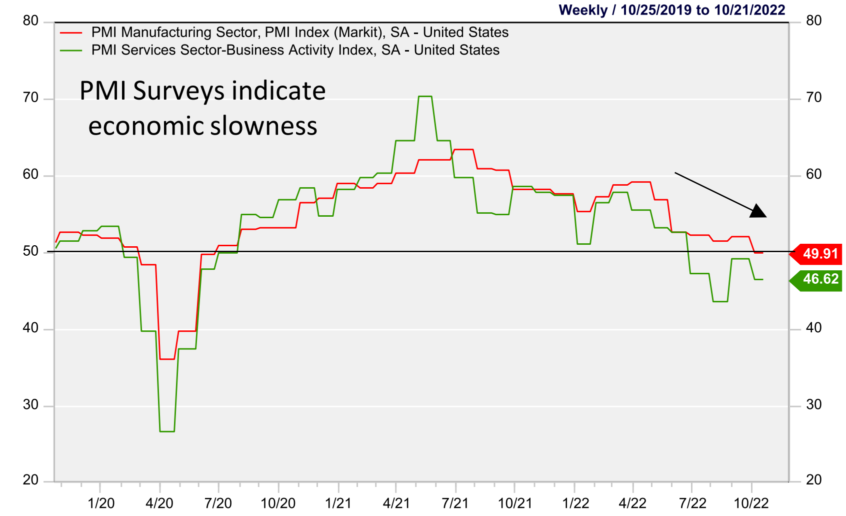
Source: FactSet, RJ Equity Portfolio & Technical Strategy

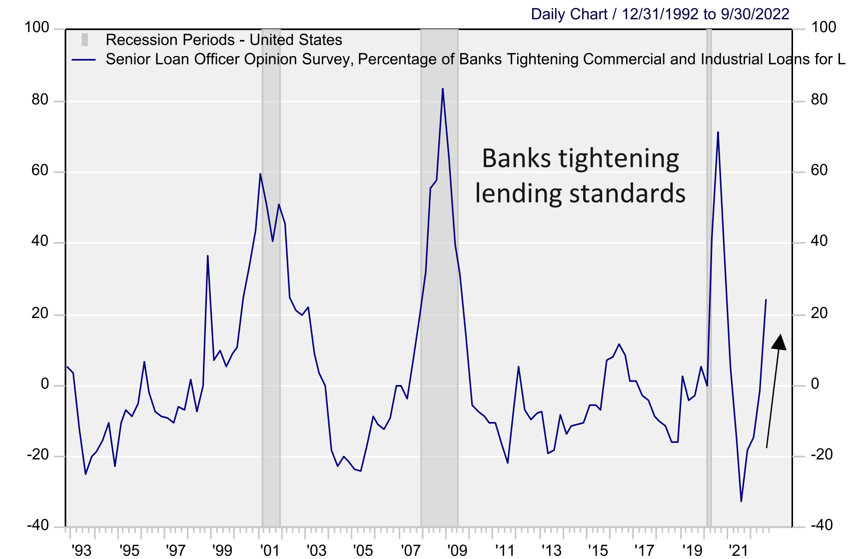
MACRO: US

US GDP rose 2.6% in Q3, but the underlying data was far less encouraging than the headline. The upside was entirely due to net exports growing 2.8%, while final sales to private domestic purchasers (a better indication of economic demand) grew by just 0.1%. This was its slowest rate of growth since Q2 2020 in the Covid shutdown.

We expect the economic slowdown to continue- a view supported by the October PMI surveys showing a contraction in both Manufacturing and Services. Moreover, Fed tightening acts with a lag on the economy- as higher interest rates impact bank lending, confidence, and demand. Our base case economic outlook remains a mild recession in early 2023. A 75bp rate hike is expected at next Wednesday's FOMC meeting (fourth consecutive 75bp hike), but clues on the outlook for December and beyond will be paramount for investors.

Event	Period	Actual	Consensus	Prior
Treasury Budget NSA	SEP	-$429.7B	-$230.0B	-$219.6B
Chicago Fed National Activity Index	SEP	0.10	0.0	0.0
PMI Composite SA (Preliminary)	OCT	47.3	49.3	49.5
Markit PMI Manufacturing SA (Preliminary)	OCT	49.9	51.1	52.0
Markit PMI Services SA (Preliminary)	OCT	46.6	49.5	49.3
FHFA Home Price Index	AUG	392.0	-	394.6
S&P/Case-Shiller comp.20 HPI M/M	AUG	-1.3%	-0.70%	-0.69%
S&P/Case-Shiller comp.20 HPI Y/Y	AUG	13.1%	14.1%	16.0%
Consumer Confidence	OCT	102.5	105.4	107.8
Richmond Fed Index	OCT	-10.0	1.0	0.0
Building Permits SAAR (Final)	SEP	1,564K	1,564K	1,564K
Wholesale Inventories SA M/M (Preliminary)	SEP	0.80%	0.85%	1.4%
New Home Sales SAAR	SEP	603.0K	580.0K	677.0K
Continuing Jobless Claims SA	10/15	1,438K	1,388K	1,383K
Durable Orders ex-Transportation SA M/M (Preliminary)	SEP	-0.50%	0.20%	0.0%
Durable Orders SA M/M (Preliminary)	SEP	0.40%	0.60%	0.20%
GDP SAAR Q/Q (First Preliminary)	Q3	2.6%	2.0%	-0.60%
GDP SA Y/Y (First Preliminary)	Q3	1.8%	1.5%	1.8%
Initial Claims SA	10/22	217.0K	222.5K	214.0K
Kansas City Fed Manufacturing Index	OCT	-7.0	0.0	1.0

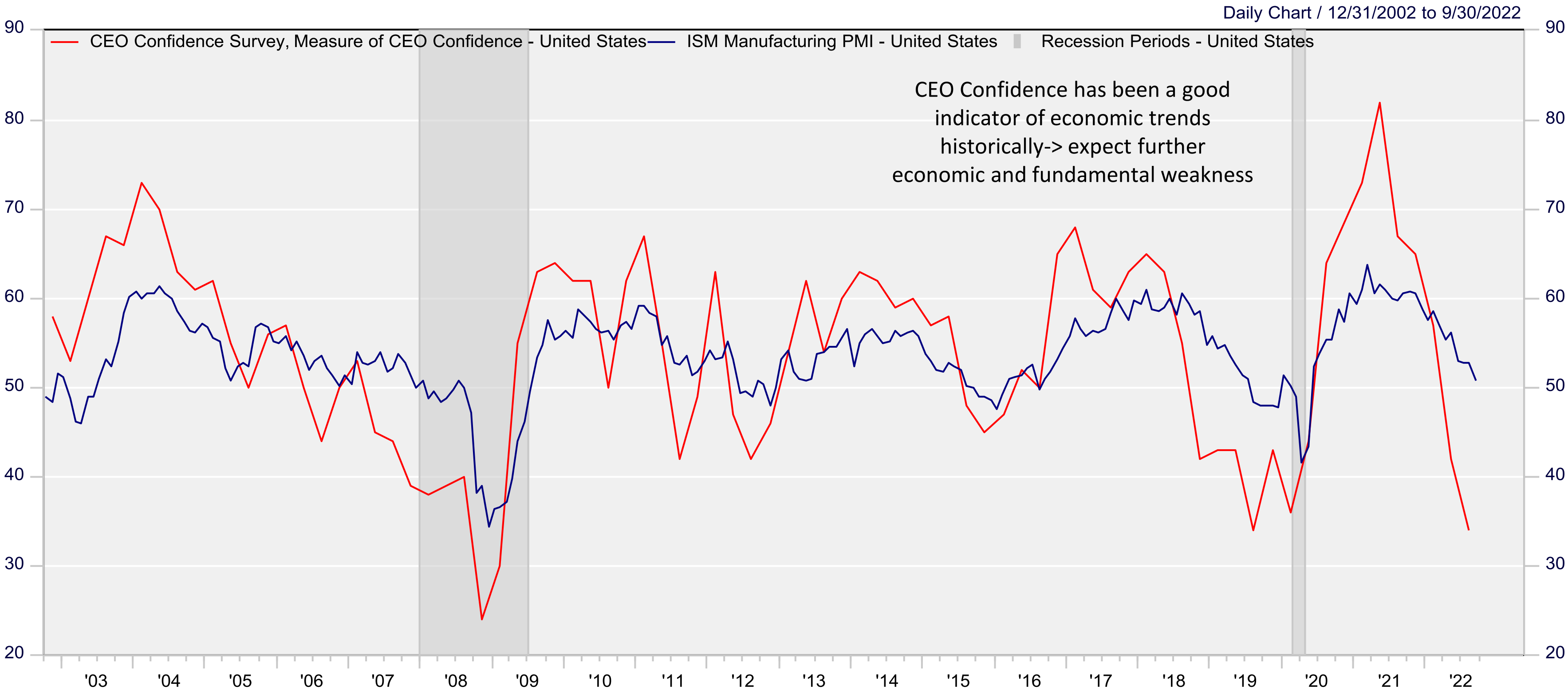




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

CEO CONFIDENCE IS LOW

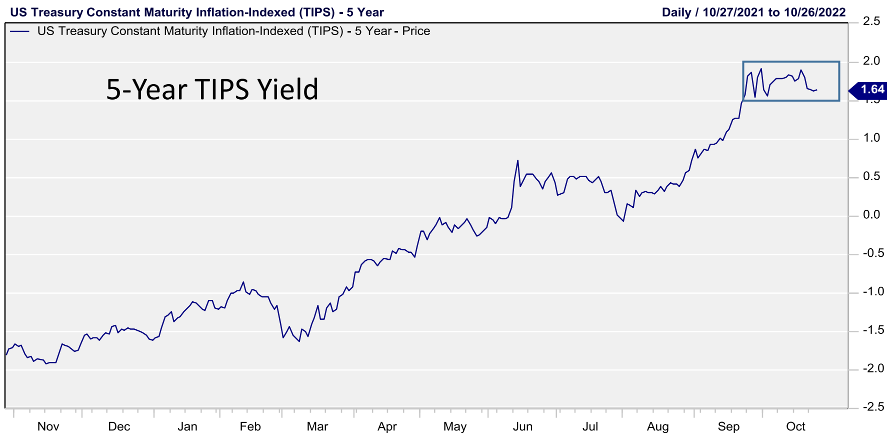
The October CEO Confidence survey received this week moved to one of its lowest levels in the past 20 years- matching that seen in Q2 2019 and only weaker during the credit crisis. On the positive side, this indicates that corporations are bracing for an economic downturn and we do not see widespread excesses on corporate balance sheets that can sometimes plague the economy in recessions (supply has been hard-pressed to meet demand this cycle). Also, banks have learned a lot since the 2008 financial crisis and are very well-capitalized. Moreover, leading indicators suggest that inflationary pressures should moderate over the next 6-12 months. This contributes to our view that a recession is likely to be more mild in nature. However, the CEO Confidence survey has been a good indicator of manufacturing trends, which in turn is a good indicator on earnings trends. So we expect economic and earnings weakness ahead. But it is also important to keep in mind that equities bottom well ahead of the economy and fundamentals historically (often when the news is worst).

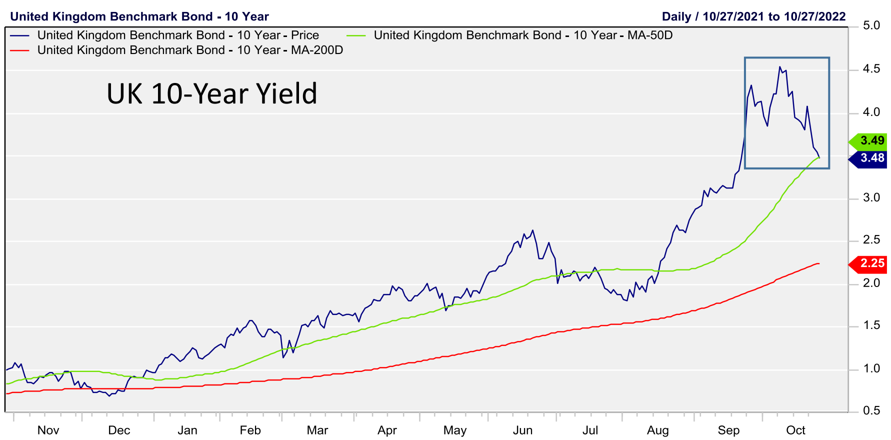


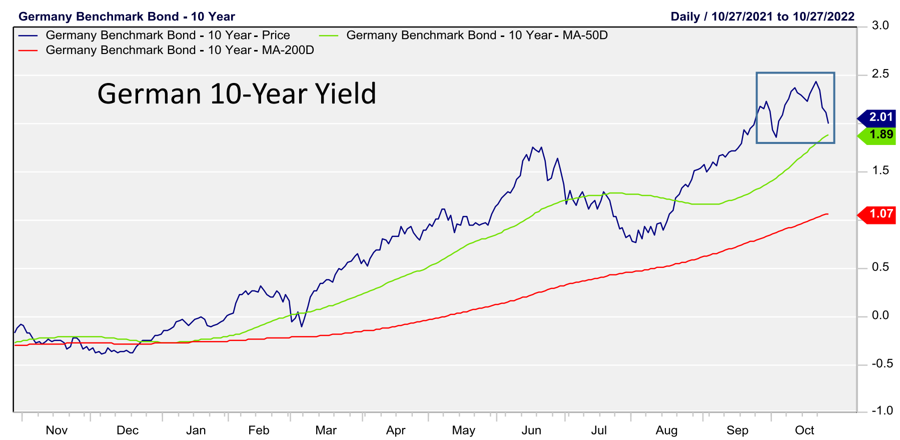
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BIGGEST MARKET INFLUENCES

The path of inflation and central bank policy remain the most important market influences- impacting real yields, the US dollar, and global bond yields. Positively, all of these have moderated within their uptrends recently, which has supported the bounce in equities. What we would like to see next is follow-through technically, which likely will have to build over time with the economic data flow. Conversely, breakouts to new highs in these will likely correspond with renewed pressure on equities.





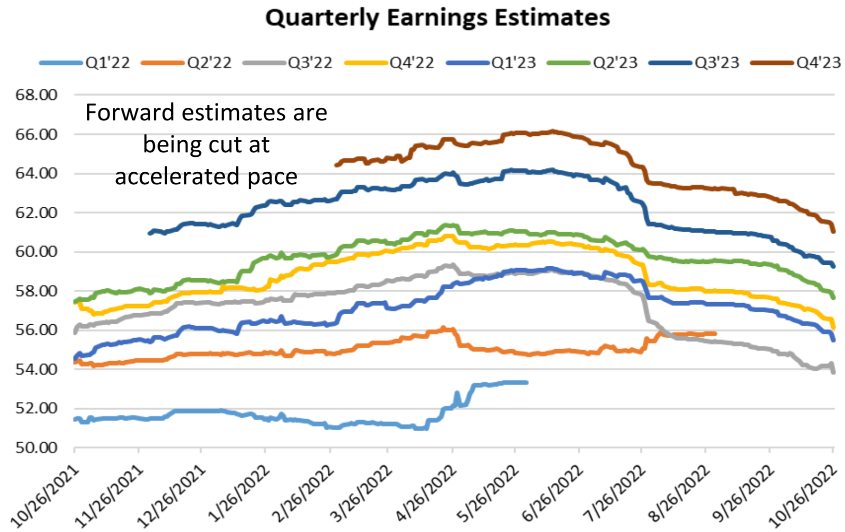


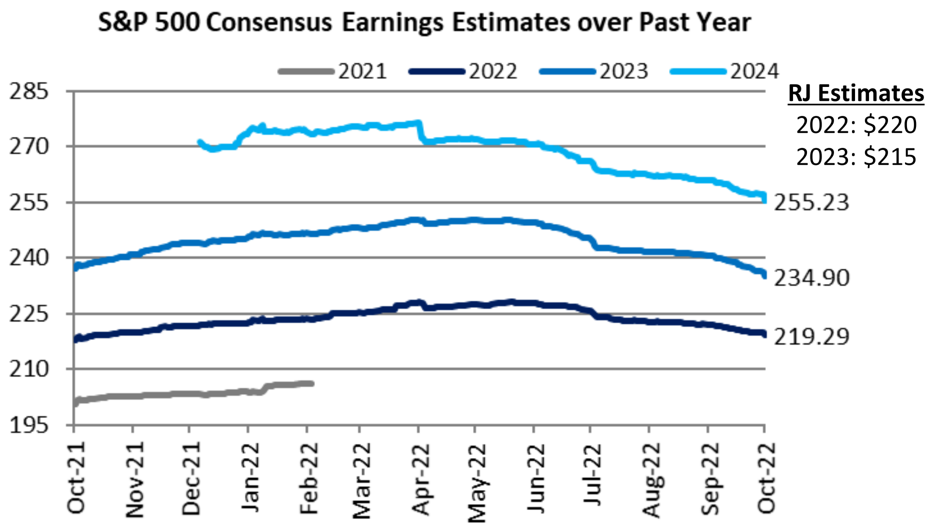
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

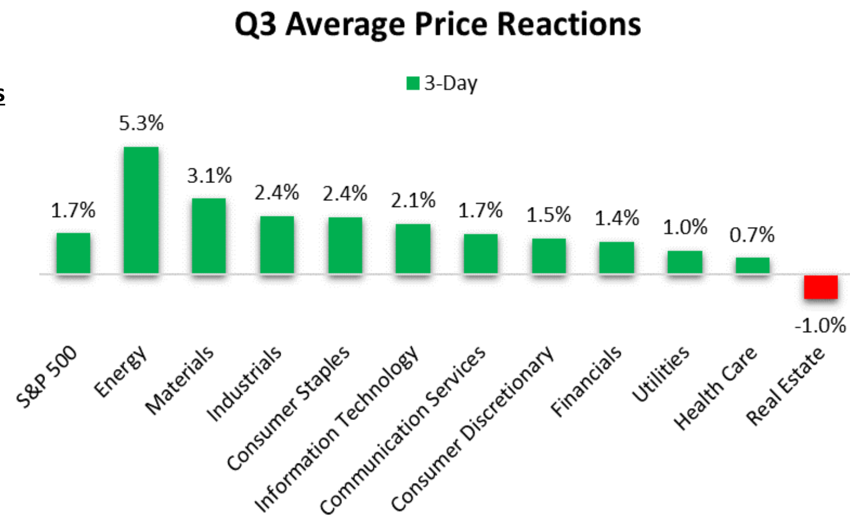
Q3 EARNINGS SEASON

We are now in the heart of Q3 earnings season- 203 S&P 500 companies have now reported and another 200 are set to come through next Friday. Overall, current results are coming in near expectations, but the -0.6% aggregate earnings surprise is the weakest rate since Q1 2020 (Covid shutdown). Additionally, forward estimates are moving sharply lower as analysts cut their outlooks into a slowing economic backdrop.

We expect this trend to continue and remain well below consensus estimates for 2023 S&P 500 earnings at $215 vs $235 consensus given our expectation for a mild recession in early 2023. That said, a lot of negative news has already been priced in. Despite the deteriorating fundamental outlook, the average S&P stock has rallied 1.7% on results (3-day price reaction). This supports our view that the market pullback was overdone into earnings season, but also that the most important influences are currently macro, inflation, and interest rate driven.

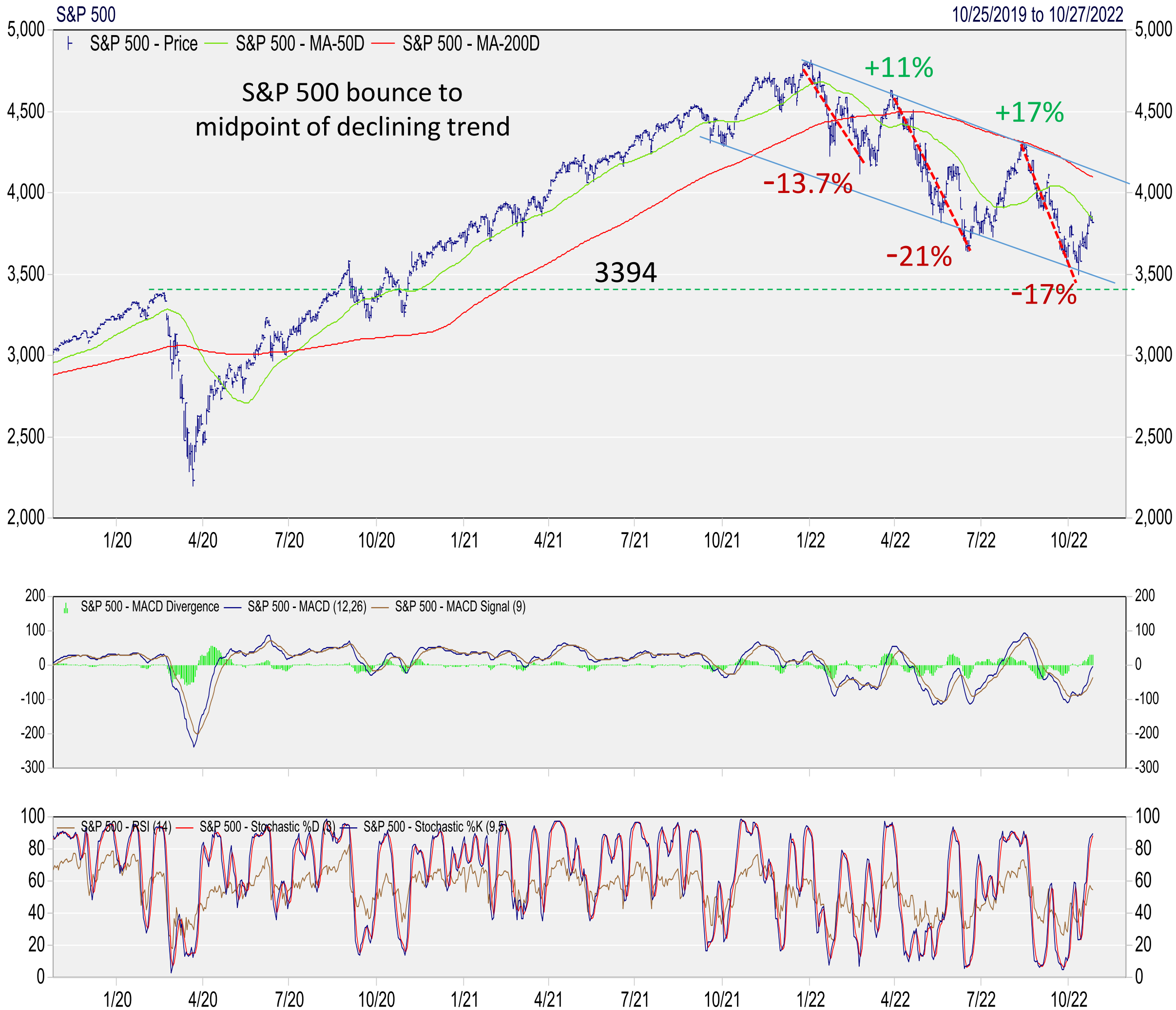






Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Equities have extended their rally over the past week, now up 10% from the recent lows. The index is now up to the midpoint of its declining trend and testing resistance at the 50-day moving average.

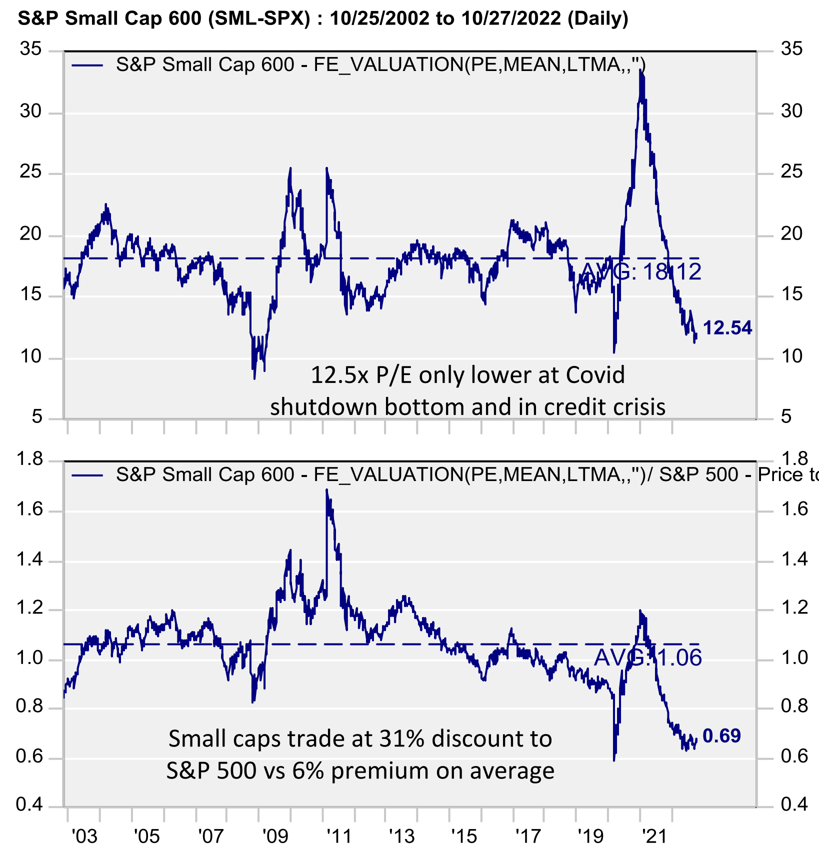
We view the current bounce as just a bear market rally for now that may extend a bit further in the short-term. Internals are approaching overbought levels but can also stay overbought and extend the rally.

While the overall trend is attempting to become more sideways (vs down) in our view, we continue to believe that the market will remain data-dependent on the economy and inflation.

In the short-term, continue to watch the 50DMA for initial resistance (currently at 3859), horizontal resistance around 3910 and then 4083. On the downside, we view potential support at 3739, followed by 3518.

SMALL CAPS

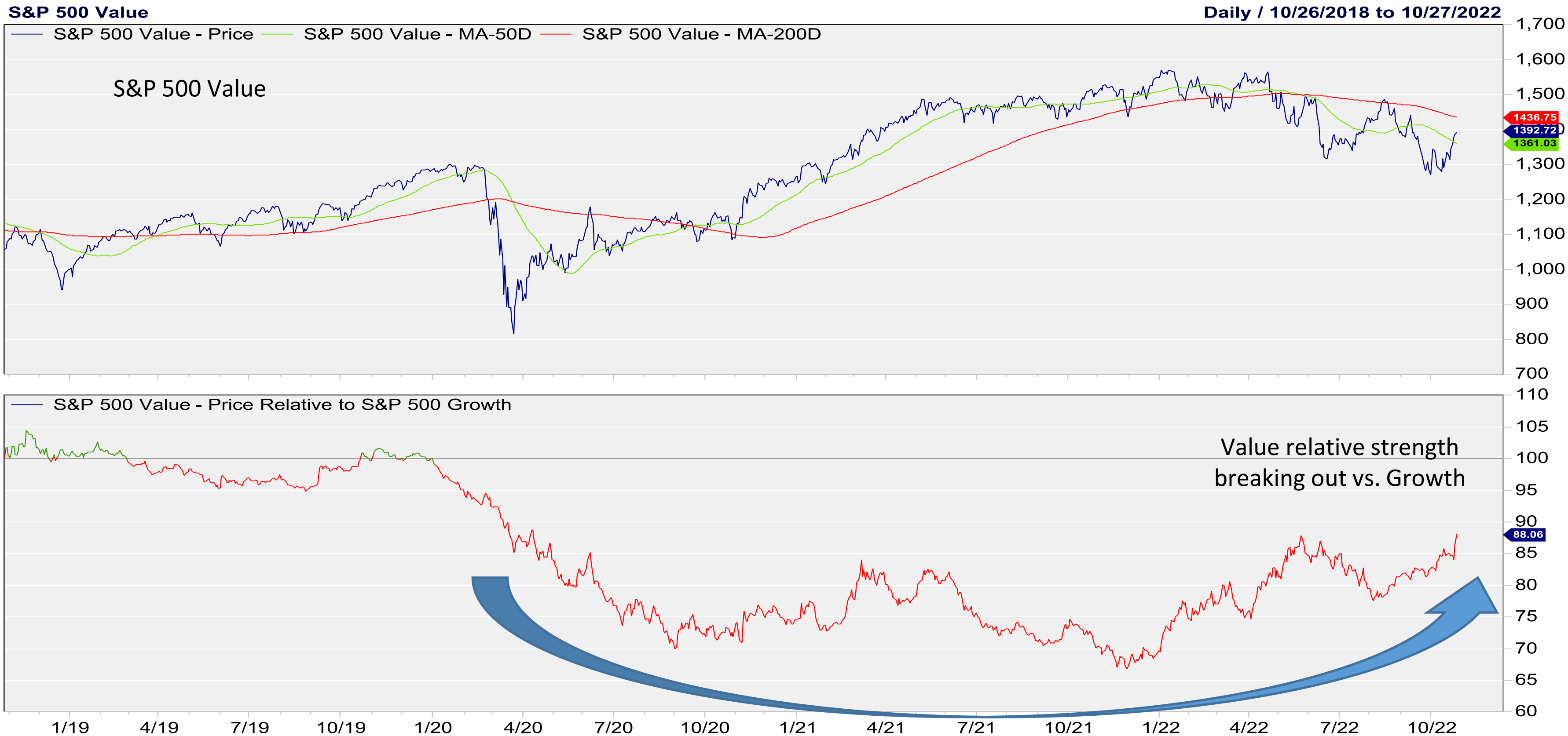
The small caps are showing some relative strength in the market rally, breaking out on a relative basis vs. the large caps. Relative strength trends can often precede price, so this is encouraging technically- as is the Russell 2000's ability to hold its lows in September/October. Moreover, valuation is very cheap for the small caps- trading at a 12.5x P/E which was only lower at the Covid shutdown bottom and in the credit crisis over the past 20 years. We continue to believe that the small caps are set up for outperformance on the other side of this bear market, but would accumulate over time as we gain further evidence that the worst of the market weakness is behind us given the group's higher beta.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUE

Despite a stall in real yields, Growth stocks have underperformed this week on weak price reactions to earnings results. On the flip side, Value is breaking out to new highs on a relative basis. From a long-term standpoint, Growth and Value tend to outperform over long periods of time- i.e. Growth into the dotcom bubble, then Value into the financial crisis, then Growth until this year. There is the potential for a regime change coming out of this recessionary bear market as well where a higher interest rate environment and lower valuations support Value outperformance. Much can still happen to affect longer-term trends; but for now, the relative strength break out for Value supports a tilt in portfolios toward Value.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-35266)

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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.

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