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Weekly Market Guide

Equities are surging today in response to the October CPI report, which showed the lowest monthly growth rate of core CPI in a year- S&P 500 +5.5%, Nasdaq Composite +7.4%, and Russell 2000 +6.0%. Leading indicators have been suggesting that inflation should moderate, but the hard/actual CPI data has remained sticky for months. With October's better-than-expected Core CPI reading of 0.3% m/m, the question may shift from "when will inflation start to come down" toward "how quickly will inflation come down." It is clearly a step in the right direction, but will also take follow-through in the coming months for the Fed and investors to get clear and convincing evidence that inflation is indeed on a better path. Overall, the report supports the Fed slowing its pace of hikes but remaining hawkish as inflation is still too high. Nonetheless, the potential "light at the end of the tunnel" is a welcome sign for markets.

Fed expectations remain an important influence on bond yields, which in turn are affecting equity market valuations. In the initial aftermath of today's CPI report, market expectations for the peak Fed funds rate ticked lower to 4.84% from ~5%. Additionally, we note that in prior Fed tightening cycles, the 2-year and 10-year Treasury yields have reached (at least) that peak Fed funds rate. So if Fed expectations (which remain very fluid) can continue to recede, it would ease the upward pressure on bond yields in our view- which would be supportive of equity market trends. Today's drop in the US 10-year Treasury yield and US dollar are encouraging- and could be the beginning of a more stable trend for bond yields and the dollar- but we need to see follow-through next. One day does not make a trend.

Technically, today's strength (which was the largest S&P 500 price change since the Covid lows) may support additional upside for equities in the short-term. We believe that the S&P 500 may be set to challenge resistance at the 4000-4100 area, which would be consistent with the recent decline in high yield CDS spreads (a good indicator for short-term trends this year). Additionally, advancers vs. decliners reached an elevated 7.7x today- the type of "thrust" you like to see as market trends attempt to rebuild themselves from low levels.

In sum: There is a lot to like about today's CPI report finally showing the potential for a slowdown in inflation. This is supporting lower Fed expectations, lower bond yields, and higher equity valuations. We believe that this recipe for equity market upside will transpire over the next 12 months, however the Fed remains in tightening mode and more data will be needed over time to gain clarity that inflation is indeed moving to a more reasonable level. With this in mind, the worst may be behind us, but we continue to expect choppiness over the coming months.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-10.5%	-10.5%
S&P 500	-21.4%	-20.0%
S&P 500 (Equal-Weight)	-15.6%	-15.0%
NASDAQ Composite	-33.8%	-34.8%
Russell 2000	-21.6%	-27.5%
MSCI All-Cap World	-22.9%	-23.1%
MSCI Developed Markets	-22.6%	-23.7%
MSCI Emerging Markets	-26.9%	-29.3%
NYSE Alerian MLP	23.3%	15.1%
MSCI U.S. REIT	-28.5%	-24.5%

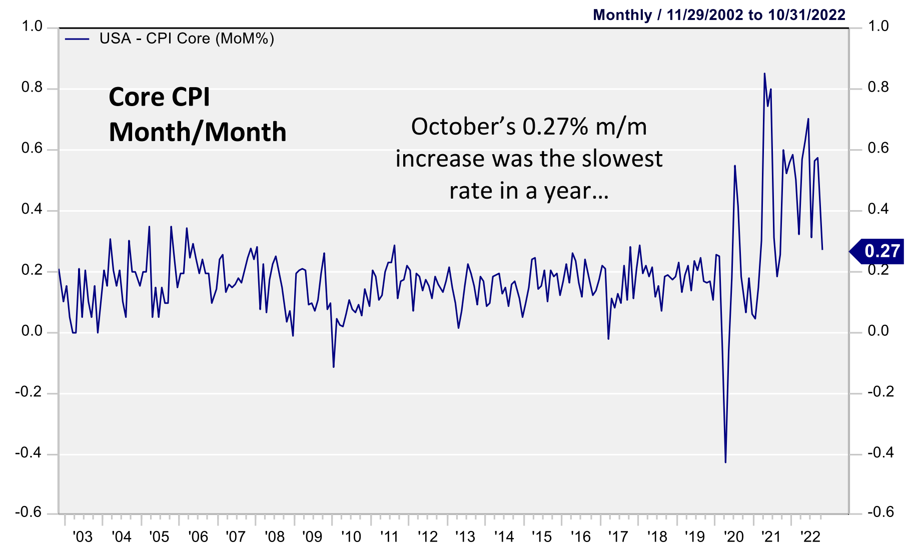
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	60.8%	5.5%
Health Care	-6.9%	15.7%
Consumer Staples	-7.0%	7.1%
Utilities	-8.3%	3.0%
Industrials	-9.8%	8.6%
Financials	-13.5%	11.8%
Materials	-16.0%	2.7%
S&P 500	***-21.4%***	-
Real Estate	-30.6%	2.7%
Information Technology	-30.9%	25.6%
Consumer Discretionary	-36.4%	10.2%
Communication Svcs.	-42.9%	7.2%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

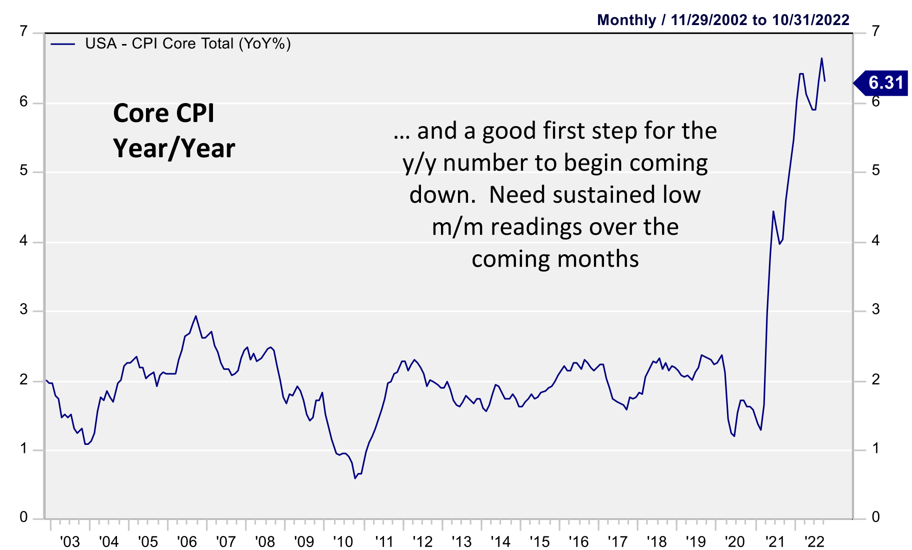
Leading indicators have been suggesting that inflation should moderate, but the hard/actual CPI data has remained sticky for months. With October's downward surprise to 0.3% m/m growth in Core CPI, the question may shift from "when will inflation start to come down" toward "is this the start of a sustainable downtrend." It is clearly a step in the right direction, but will also take follow-through in the coming months for the Fed and investors to get clear and convincing evidence that inflation is indeed on a better path.

The effects of higher interest rates hitting demand, along with supply improvements, are finally starting to show up in the hard data. Core goods fell 0.4% m/m, clothing prices -0.7% m/m, and IT goods -1.0% m/m. Rent was up 0.7% m/m, but this was down from September and current rental agreement pricing suggest moderation over the year ahead. Overall, the report supports the Fed slowing its pace of hikes but remaining hawkish as inflation is still too high. Nonetheless, the potential "light at the end of the tunnel" is a welcome sign for markets.



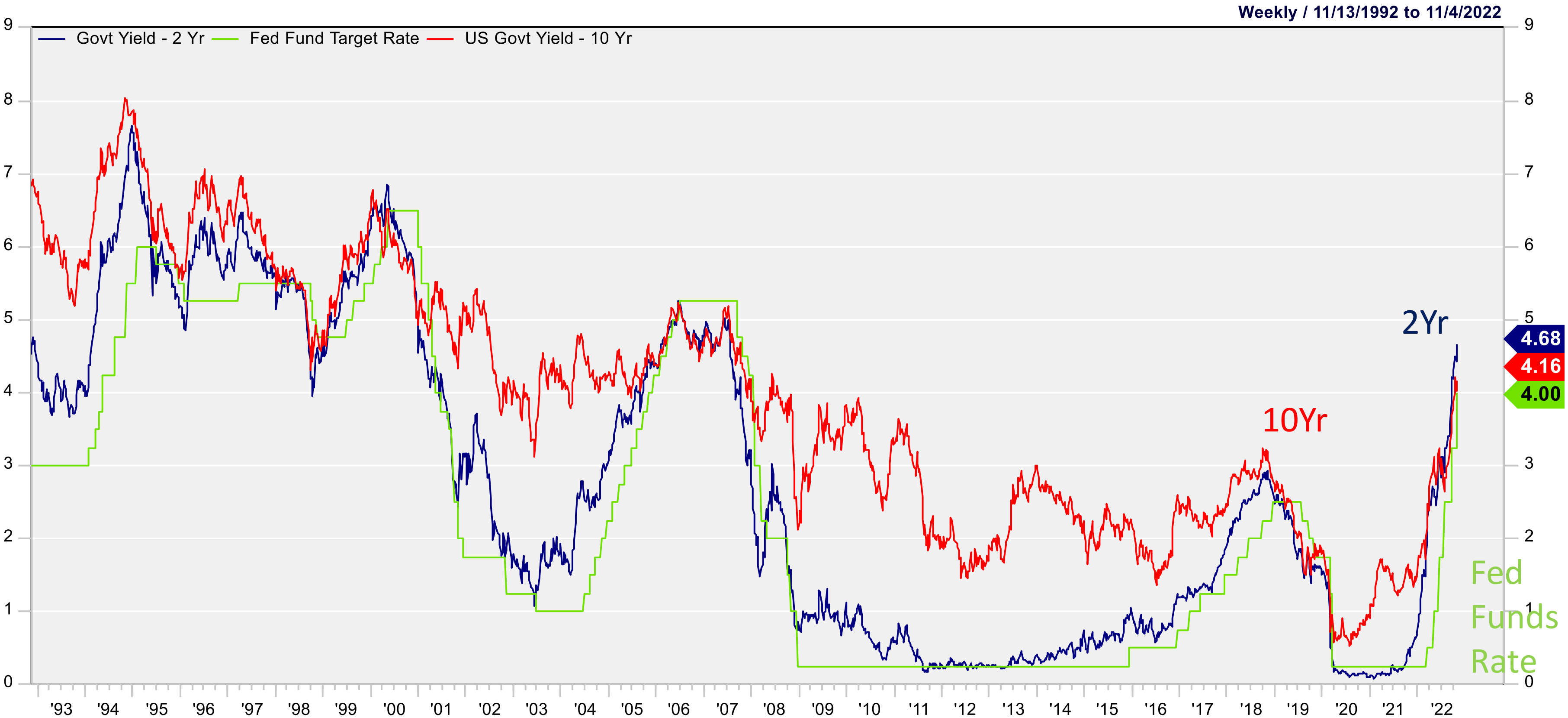
Event	Period	Actual	Consensus	Surprise	Prior
Nonfarm Payrolls SA	OCT	261.0K	200.0K	61.0K	315.0K
Unemployment Rate	OCT	3.7%	3.6%	0.10%	3.5%
Consumer Credit SA	SEP	$25.0B	$26.5B	-$1.5B	$30.2B
NFIB Small Business Index	OCT	91.3	-	-	92.1
Wholesale Inventories SA M/M (Final)	SEP	0.60%	0.80%	-0.20%	0.80%
CPI ex-Food & Energy SA M/M	OCT	0.30%	0.50%	-0.20%	0.60%
CPI ex-Food & Energy NSA Y/Y	OCT	6.3%	6.5%	-0.20%	6.6%
Continuing Jobless Claims SA	10/29	1,493K	1,500K	-7.0K	1,487K
CPI SA M/M	OCT	0.40%	0.60%	-0.20%	0.40%
CPI NSA Y/Y	OCT	7.7%	8.0%	-0.30%	8.2%
Hourly Earnings SA M/M (Final)	OCT	0.40%	-	-	0.40%
Hourly Earnings Y/Y (Final)	OCT	4.7%	-	-	4.7%
Initial Claims SA	11/05	225.0K	220.0K	5.0K	218.0K
Treasury Budget NSA	OCT	-	-$115.0B	-	-$429.7B

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy



BOND YIELDS IN TIGHTENING CYCLES

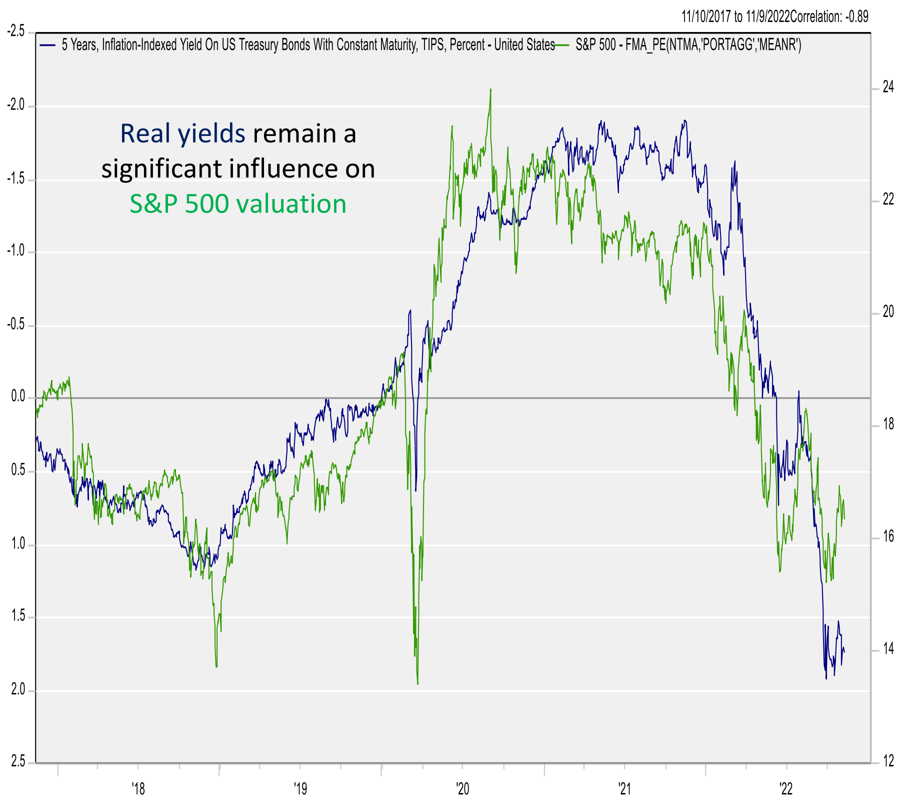
Fed expectations will play a large role in bond yields, which in turn are affecting equity market valuations. In previous cycles, the US 10-year and 2-year yields have reached (at least) the same level as the peak Fed funds rate. Prior to today's CPI report, the market-implied peak Fed funds rate was 5%, suggesting additional upside in bond yields (and lower equities). However after today's report, there was a downtick in that implied peak Fed funds rate to 4.84% in early 2023. Fed expectations remain very fluid; but if they can continue to recede, it would ease the upward pressure on bond yields in our view which would be supportive of equity market trends.

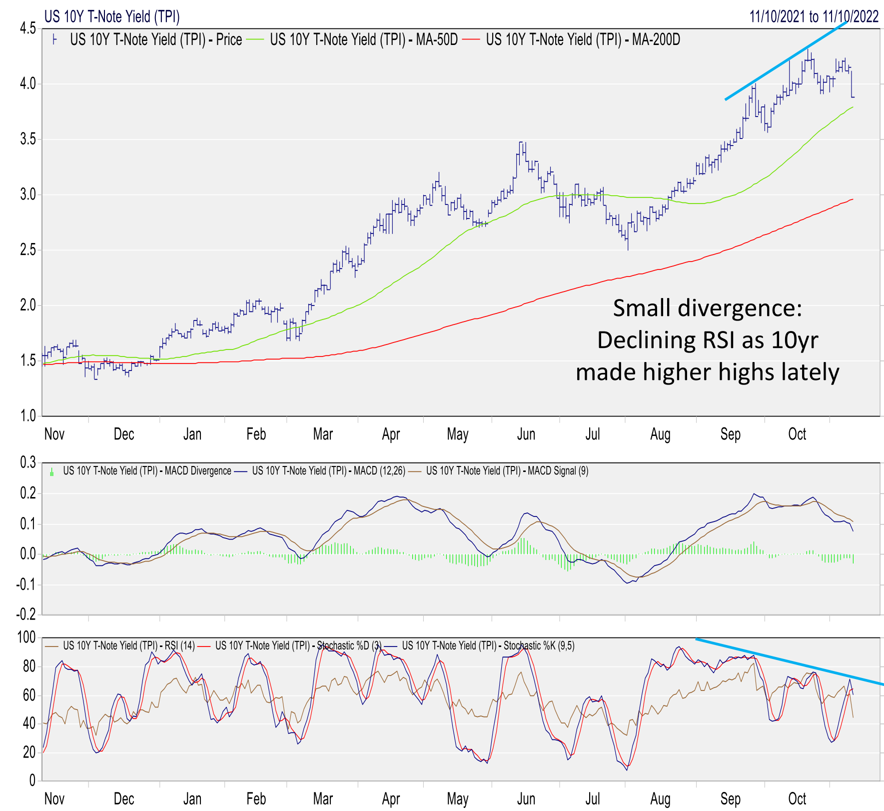


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BOND YIELDS IMPACTING EQUITY VALUATION

As noted on the previous page, bond yields remain a very significant influence on equity market valuation. The bottom left chart shows an 89% inverse correlation between the S&P 500 P/E and 5-year real yields (reciprocal shown for illustrative purposes) over the past several years. Equity markets need bond yields to moderate their ascent, as the current level of bond yields suggests valuations may need to be lower. Fortunately, today's CPI report was a catalyst for lower bond yields which are supporting equity markets. Technically, there have been some signs that the 10-year yield may be due a consolidation of its sharp upside, and today's sharp decline complements that view. What we need to see next is follow-through, as the overall trend for bond yields still remains higher. Moreover, a break below the 50-day moving average for the US 10-year yield would be a welcomed sign for overall market trends.

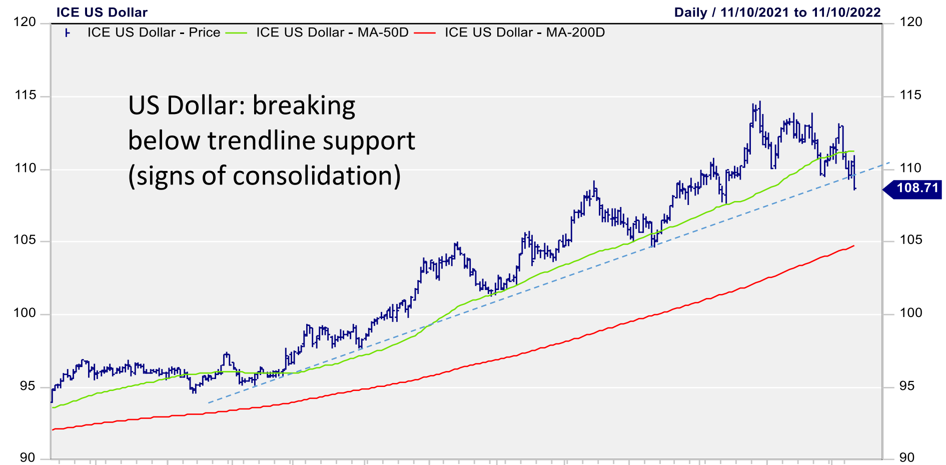


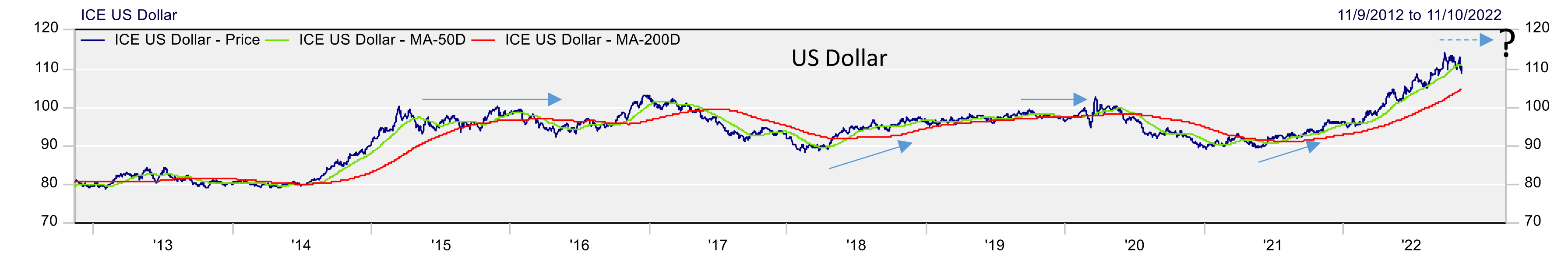


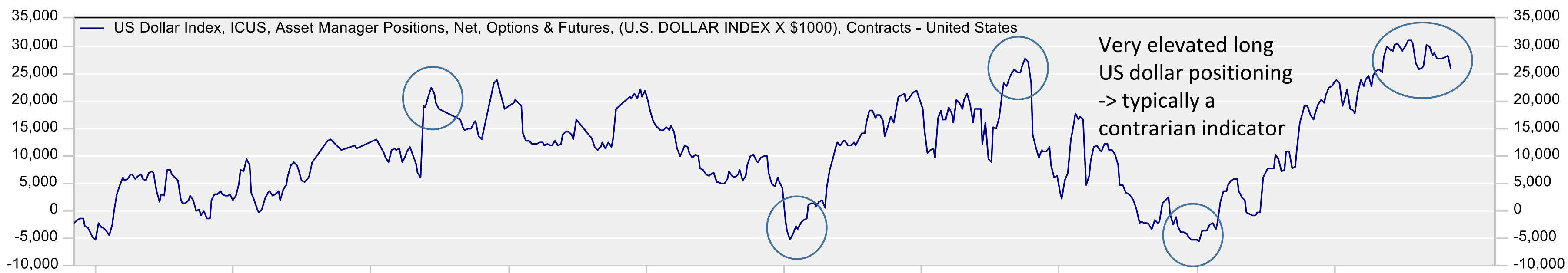
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US DOLLAR

The US dollar's ascent this year has (like higher bond yields) been a headwind to equity markets, and we are seeing some positive signs technically that the Dollar may be moderating that uptrend. In today's CPI reaction, the US dollar is pushing below the lower-end of its upward trend channel that has been in place all year. Additionally, the strong move this year has gotten extended with long US dollar positioning. This has been suggesting to us that eventually the Dollar would need to consolidate, as positioning has typically been a contrarian indicator historically (just not great at timing). In sum, today's move may be the beginning of a more stable trend for the US dollar, which would be supportive of equity market trends if that indeed plays out over the coming months.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

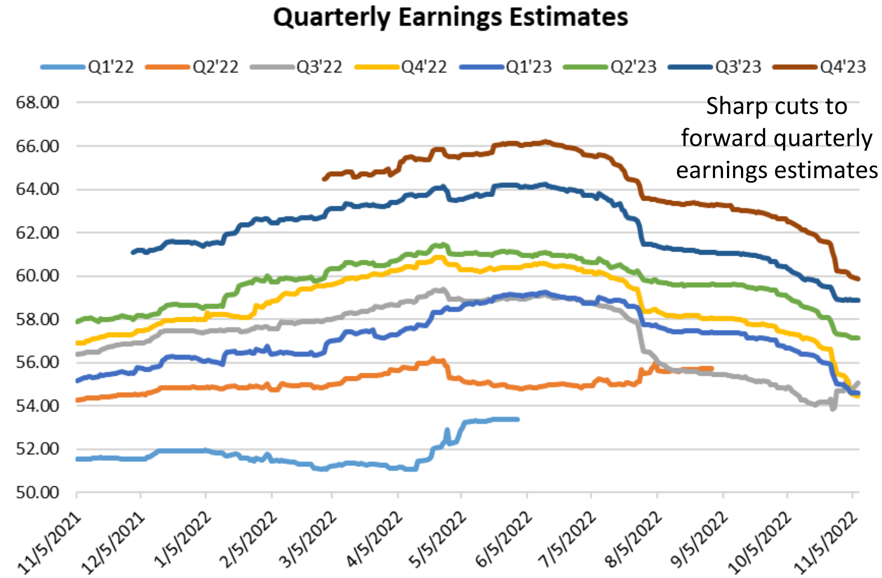
TECHNICAL: S&P 500

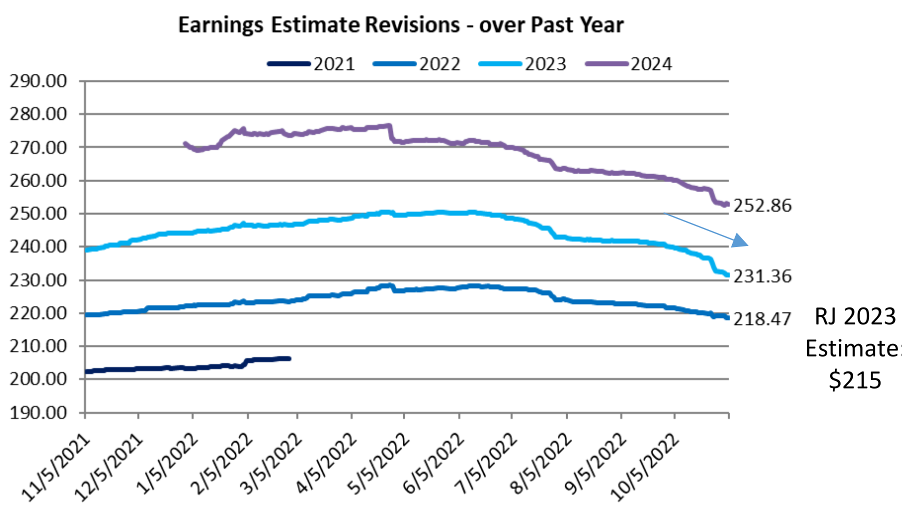
High yield CDS spreads have been a good indicator of short-term market trends this year, and they have moved down to trendline support recently. This supports further S&P 500 upside in the short-term, as the index may be set to challenge downtrend resistance at ~4100. This level also coincides with the 200-day moving average. Technically, that ~4000-4100 area will be the next area to watch in the short-term to assess how equities respond at resistance.

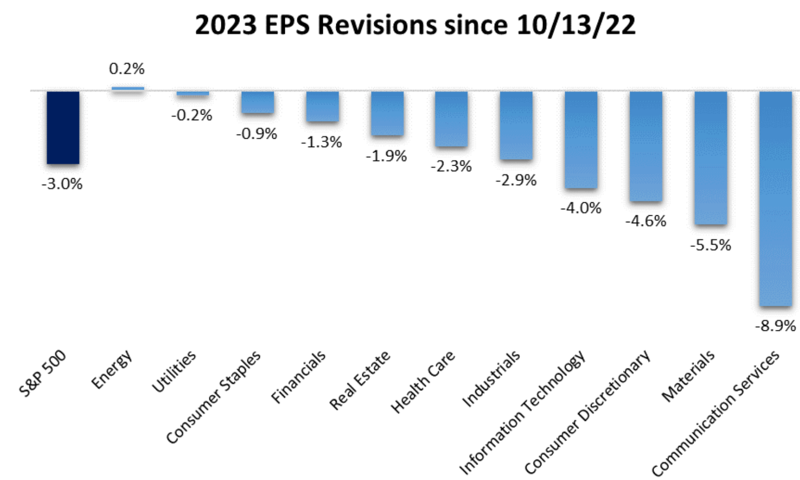
Source: Bloomberg, Raymond James Equity Portfolio & Technical Strategy

Q3 EARNINGS SEASON

Q3 earnings season is nearing an end with a handful of Consumer stocks and a few Tech stocks left on the calendar over the next week. 70% of S&P 500 companies have beaten on the bottom-line by an aggregate 2.2% EPS surprise (lowest rate since Covid). But forward estimates are being cut very sharply, as companies and analysts bake in economic weakness to come. We remain below consensus for 2023 earnings, and our $215 estimate assumes a mild recession in early 2023. Thus, we still believe earnings estimates are too high and have much further negative revisions to go. However, we also believe that stocks have discounted a lot of negative news already. On average historically, the equity market bottoms 2-6 months <u>before</u> recession end, while earnings trough 8-9 months <u>after</u> recession end. So we believe the headlines will worsen with respect to the economy and earnings over the next year, but we also believe that stocks discount the future. And as investors can get better clarity on the inflationary and Fed outlook, they will begin to discount the eventual recovery.



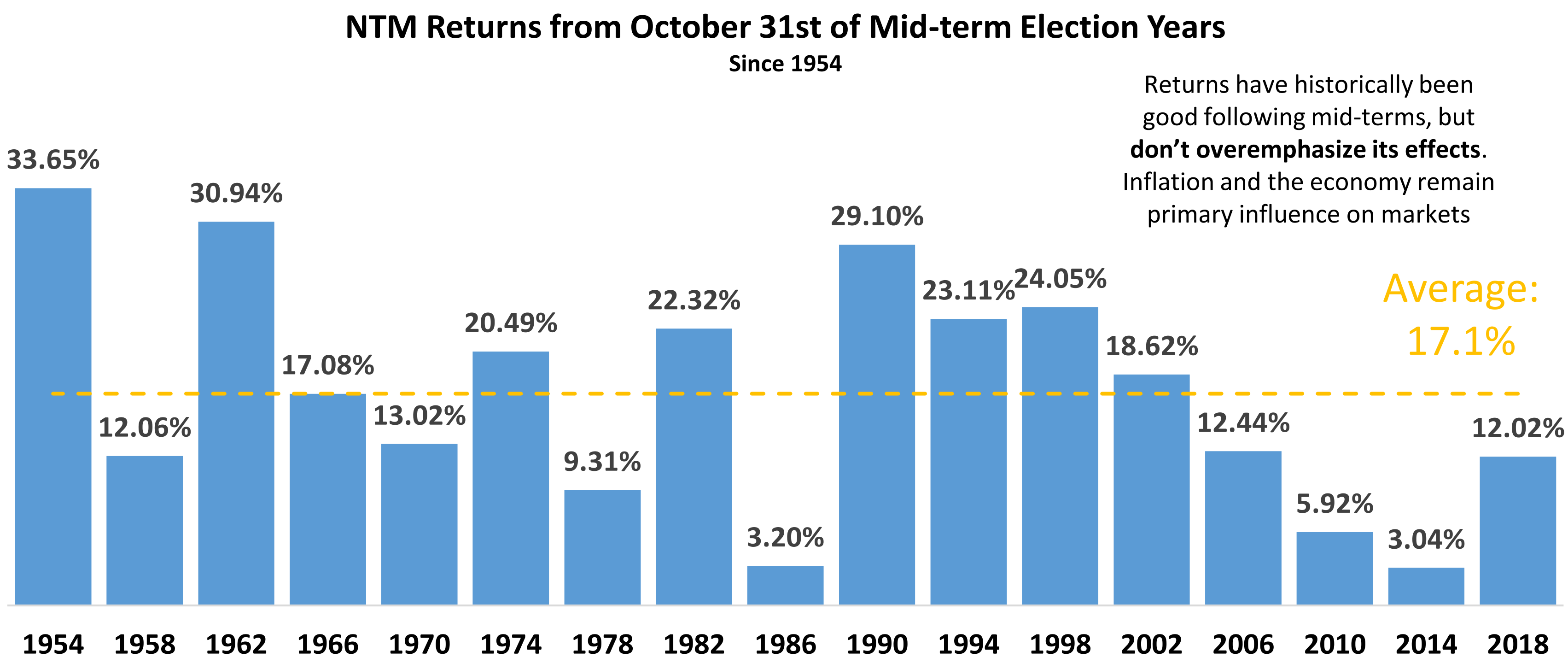




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

MIDTERM ELECTIONS

Big news this week surrounded the mid-term elections, in which the House appears set for a narrow Republican majority and Senate split. The result is a high likelihood of political gridlock over the next two years, which is not necessarily a bad thing for equity markets. Split governments are often favored by markets. There will surely be plenty of market research reports stating how returns have been above average in the year following mid-term elections. As you can see in the chart below, next 12 month returns following mid-terms have been positive every time in the past 50 years by an average of 17.1%. We do expect positive market returns over the next year, but do not want to over-emphasize the effects of the midterms. The primary influence on equity markets remains inflation and the economy. We expect equity markets to be higher over the next year given our view that inflation will come down, the Fed will be able to back off, and bond yields will peak. However, we also expect volatility to continue over the coming months as inflation may take time to convincingly show moderation- and the Fed remains in tightening mode.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-48639)

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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.

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