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Weekly Market Guide

Fed Chair Powell's much-anticipated speech yesterday was far less hawkish than anticipated, resulting in lower market-implied rate hike expectations in the outlook, lower bond yields, and sharply higher equities. For example, the S&P 500 and Nasdaq were up 3.1% and 4.4% in yesterday's trading with strong internals.

There was a sense of investor hesitancy in the lead-up to yesterday's speech with many expecting Powell to suppress the market's optimism since the October CPI report, as the Fed does not want financial conditions to ease too early. To be sure, he discussed the high uncertainty in predicting the inflationary outlook, that inflation is still far too high, and that the Fed has more work to do (none of which was new news). However, his tone seemed more balanced between the risk management of being careful not to hike too aggressively or not enough. He all but confirmed a slower 50bp hike for December, and likely what got markets excited was spending time to discuss the still plausible chance of a soft landing (potential for rate hikes to hit high job openings, rather than resulting in spiked unemployment). The shift in tone to a more delicate approach is justifiably positive for equities, but we do not believe the market is ready to exit this bear market that easily.

Ultimately, the degree of inflation moderation ahead, in turn Fed policy, and how much damage will be inflicted on the economy (to bring inflation under control) will remain the primary influences on earnings and multiples in our view. We do believe that we are in the late stages of this bear market, due to our belief that inflation is set to moderate over the next year and that the recession will be mild. However, the Fed remains in tightening mode, tightening acts with a lag on the economy, and it will likely take time for the Fed and investors to have high conviction on the inflationary and economic outlook- resulting in more time needed before equities are able to show sustainable upside in our view. Next major catalysts include the FOMC decision and press conference on 12/14, along with November CPI the prior day on 12/13.

The underlying technical backdrop has improved in the second half of this year, and the percentage of stocks above their 200 DMA is now at its highest level since January. There are encouraging signs technically that market trends are attempting to become more supportive, however equities are also now overbought in the short-term (following a 17% rally since the 10/13 lows). With overbought conditions, along with expected choppiness ahead, we maintain our overall stance to refrain from chasing the rally periods and to build exposure in the weak periods.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-4.8%	0.3%
S&P 500	-14.4%	-10.7%
S&P 500 (Equal-Weight)	-8.6%	-3.1%
NASDAQ Composite	-26.7%	-26.2%
Russell 2000	-16.0%	-14.2%
MSCI All-Cap World	-16.4%	-13.2%
MSCI Developed Markets	-16.8%	-12.6%
MSCI Emerging Markets	-21.1%	-19.8%
NYSE Alerian MLP	27.6%	32.2%
MSCI U.S. REIT	-22.8%	-16.5%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	64.2%	5.1%
Consumer Staples	-0.1%	7.0%
Utilities	-0.7%	3.0%
Health Care	-1.5%	15.2%
Industrials	-4.1%	8.4%
Financials	-7.3%	11.6%
Materials	-8.8%	2.7%
S&P 500	***-14.4%***	-
Information Technology	-22.4%	26.4%
Real Estate	-24.3%	2.7%
Consumer Discretionary	-29.6%	10.4%
Communication Svcs.	-35.3%	7.5%

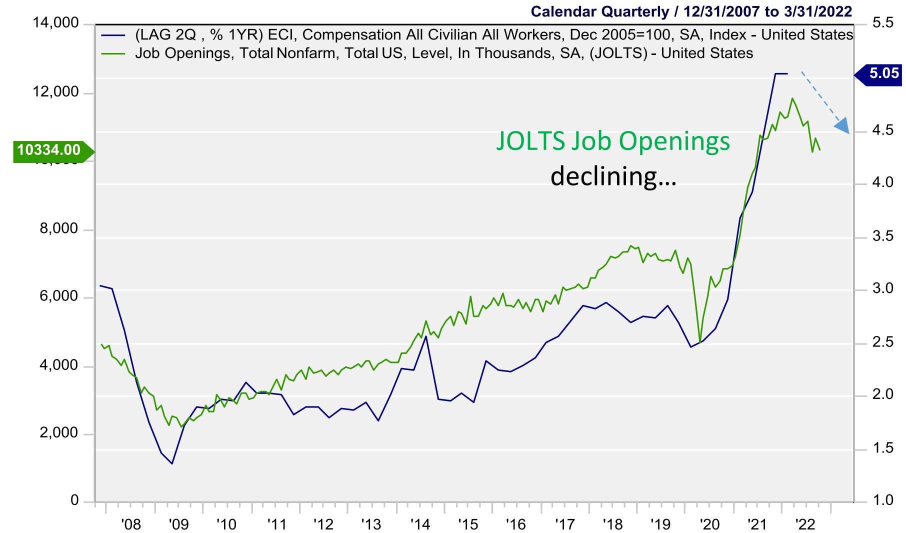
Source: FactSet, RJ Equity Portfolio & Technical Strategy

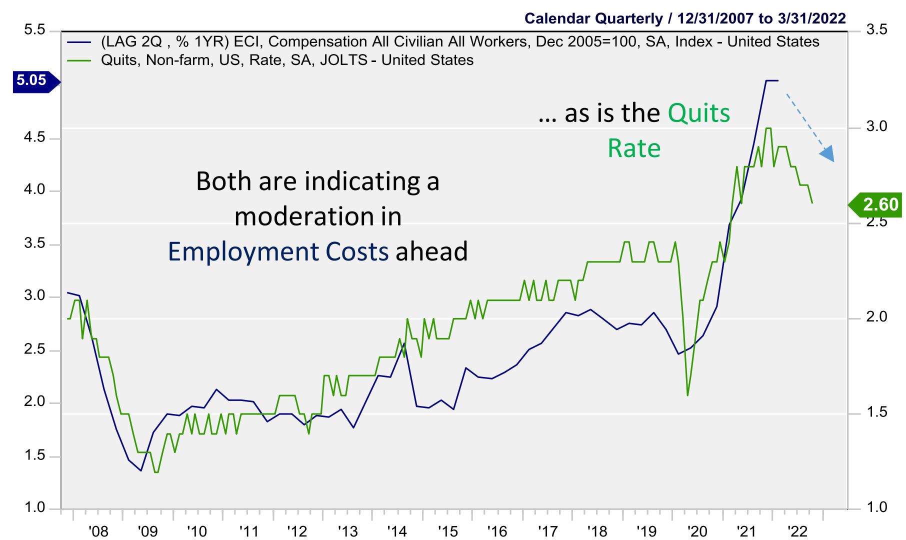
MACRO: US

A very important piece of the inflation equation is employment costs, given they make up the vast majority of corporate costs in the services sector (where inflation has been particularly high). The Employment Cost index is at a very elevated 5.0%, putting pressure on the services sector to offset these costs with price increases. While wage growth remains too high and may take time to move considerably lower, this week's JOLTS data showed a continued decline in Job Openings and the Quits Rate. These are both leading indicators for employment costs and suggest that wage growth should moderate as people feel less comfortable quitting their job and finding a new one. The degree of inflation moderation ahead will also play a large part in whether employment has to deteriorate or if the hit comes primarily out of elevated job openings, with obvious effects on economic growth.

Event	Period	Actual	Consensus	Surprise	Prior
Dallas Fed Index	NOV	-14.4	-21.5	7.1	-19.4
S&P/Case-Shiller comp.20 HPI M/M	SEP	-1.2%	-1.1%	-0.07%	-1.3%
S&P/Case-Shiller comp.20 HPI Y/Y	SEP	10.4%	10.6%	-0.22%	13.1%
Consumer Confidence	NOV	100.2	99.9	0.25	102.2
ADP Employment Survey SA	NOV	127.0K	199.0K	-72.0K	239.0K
GDP Chain Price SAAR Q/Q (Second Preliminary)	Q3	4.3%	4.1%	0.20%	4.1%
GDP Chain Price SA Y/Y (Second Preliminary)	Q3	7.1%	7.0%	0.10%	7.0%
GDP SAAR Q/Q (Second Preliminary)	Q3	2.9%	2.6%	0.30%	2.6%
GDP SA Y/Y (Second Preliminary)	Q3	1.9%	1.8%	0.10%	1.8%
Wholesale Inventories SA M/M (Preliminary)	OCT	0.80%	0.55%	0.25%	0.60%
Chicago PMI SA	NOV	37.2	47.0	-9.8	45.2
JOLTS Job Openings	OCT	10,334K	10,363K	-28.5K	10,687K
Pending Home Sales Index SAAR	OCT	77.1	78.0	-0.90	80.8
Pending Home Sales M/M	OCT	-4.6%	-5.0%	0.40%	-8.7%
Continuing Jobless Claims SA	11/19	1,608K	1,568K	40.0K	1,551K
Initial Claims SA	11/26	225.0K	240.0K	-15.0K	241.0K
Core PCE Deflator M/M	OCT	0.22%	0.30%	-0.08%	0.46%
Core PCE Deflator Y/Y	OCT	5.0%	5.0%	-0.02%	5.2%
PCE Deflator SA M/M	OCT	0.34%	0.40%	-0.06%	0.34%
PCE Deflator Y/Y	OCT	6.0%	6.0%	0.02%	6.3%
Personal Consumption Expenditure SA M/M	OCT	0.80%	0.70%	0.10%	0.63%
Personal Income SA M/M	OCT	0.70%	0.40%	0.30%	0.40%
Markit PMI Manufacturing SA (Final)	NOV	47.7	47.6	0.10	47.6
Construction Spending SA M/M	OCT	-0.30%	-0.25%	-0.05%	0.13%
ISM Manufacturing SA	NOV	49.0	49.8	-0.80	50.2

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

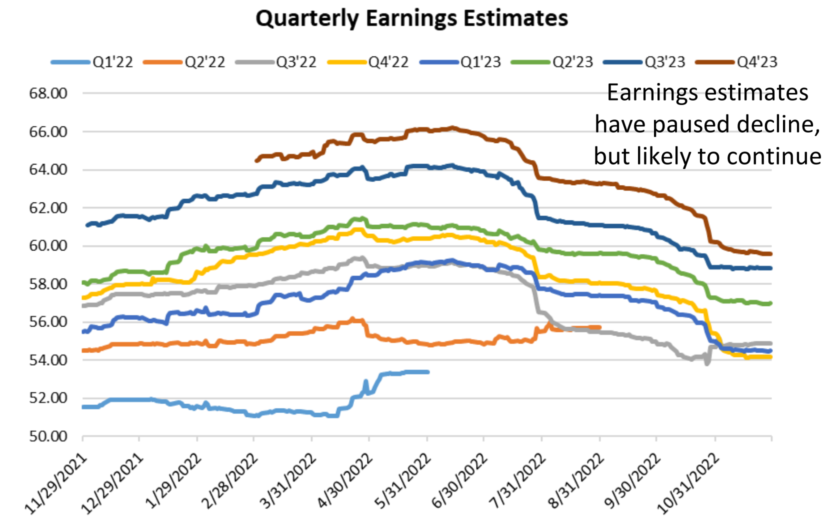


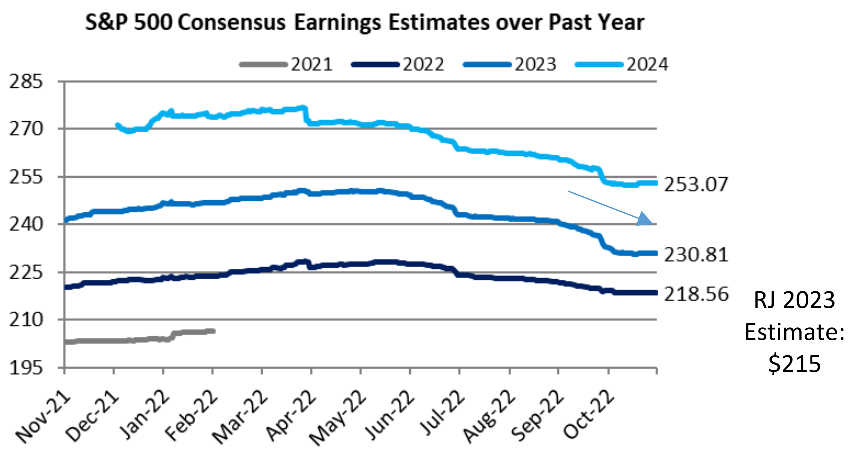


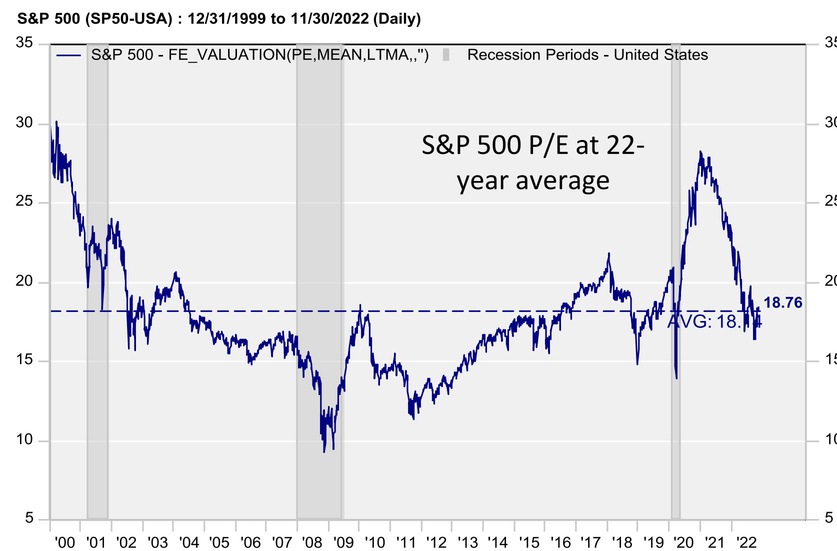
FUNDAMENTALS

Earnings estimates accelerated their decline during Q3 earnings season, as companies reduced their fundamental outlooks due to uncertainty and the economic slowdown. While this negative estimate revision trend has paused of late, we expect it to continue lower over the next year as swift Fed tightening works with a lag on the economy. Consumer purchasing power is being diminished due to high inflation, and company pricing power is declining as a result. Sales growth is likely to slow, particularly in recession, and still elevated employment costs are likely to weigh on margins. That said, we do expect a mild recession as supply has been hard-pressed to meet demand this cycle (lack of widespread excesses on balance sheets) and banks are well-capitalized. Moreover, we expect inflationary pressures to moderate over the coming year.

However, the market will bottom well ahead of earnings. The S&P 500 recently bottomed at a P/E of 16.5x and is currently at 18.8x in the rally (more balanced risk/reward in our view). P/E multiples can expand considerably in recessionary bear markets, however we expect volatility to continue with the Fed still tightening, easing a long way off, and the inflation outlook very uncertain. We, therefore, view the risk/reward as more attractive in the pullback periods.



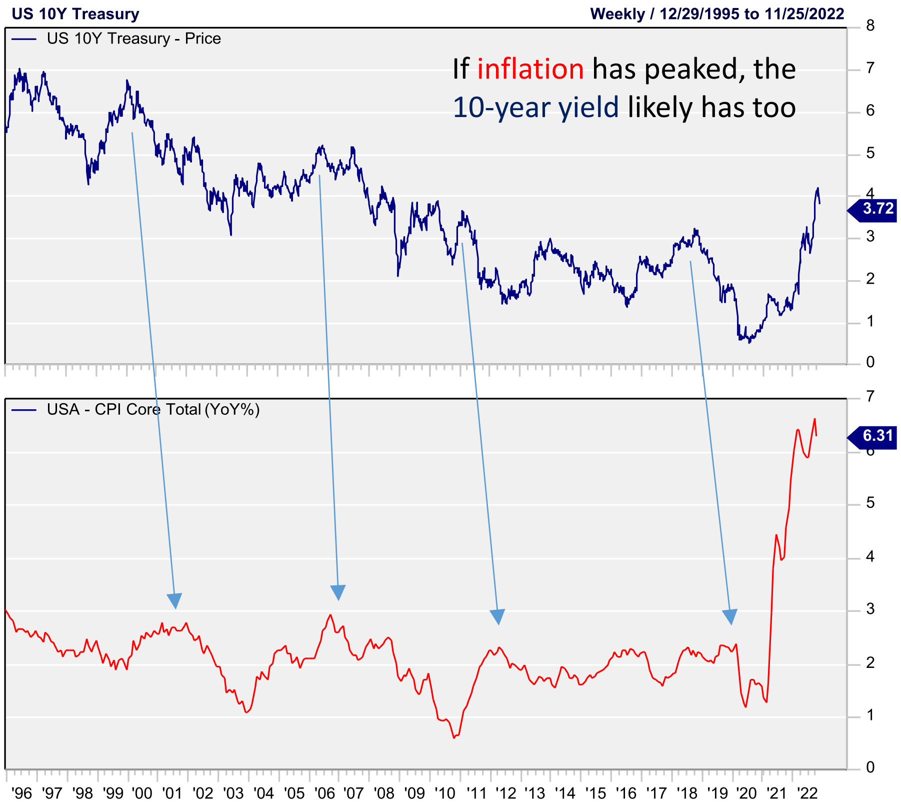


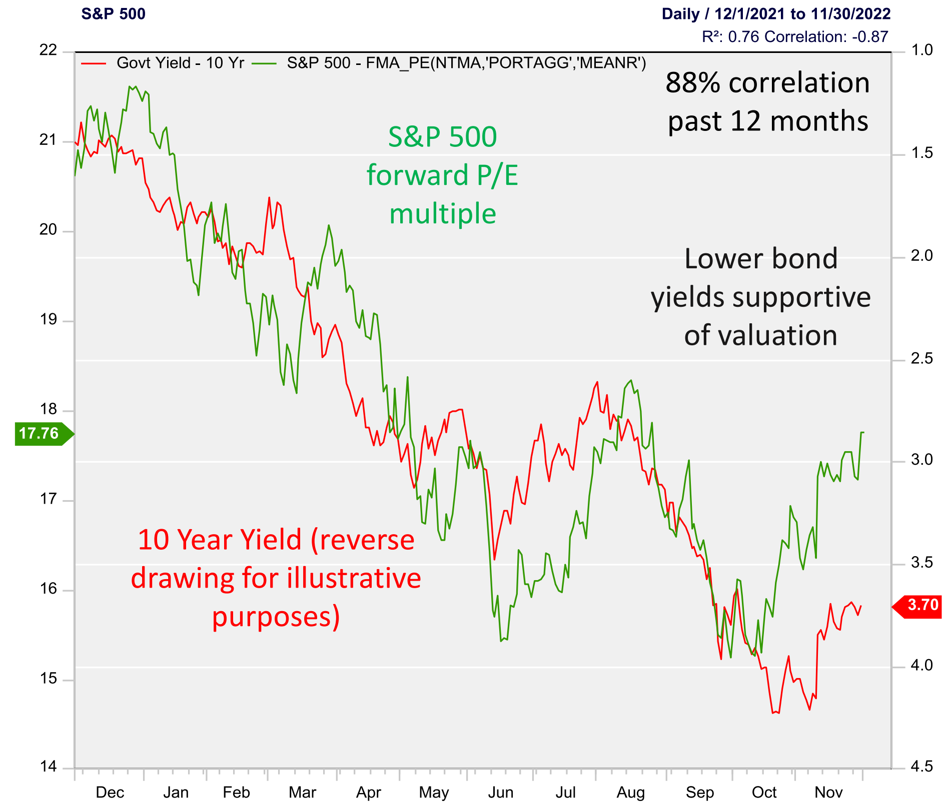


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BOND YIELDS AND VALUATION

To show how intertwined inflation is to equity markets, the charts below show the relationship between core inflation, bond yields, and the S&P 500 P/E. For the past several decades, bond yields have peaked prior to inflation but we believe it to be more reactive this time due to inflation being so high (the stakes are high) and various hiccups in the inflation trajectory over the past year (i.e. Covid variants, Russia/Ukraine war, China lockdowns). We do believe that core inflation has likely peaked; and if this proves true, the US 10-year yield may have peaked and the S&P 500 P/E may have bottomed. This would provide a more supportive backdrop fundamentally for equity markets. Of course, the path of inflation remains uncertain and expectations are fluid. Moreover, in looking at the correlation between bond yields and the S&P 500 P/E, the current rally has likely gotten a little ahead of itself.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

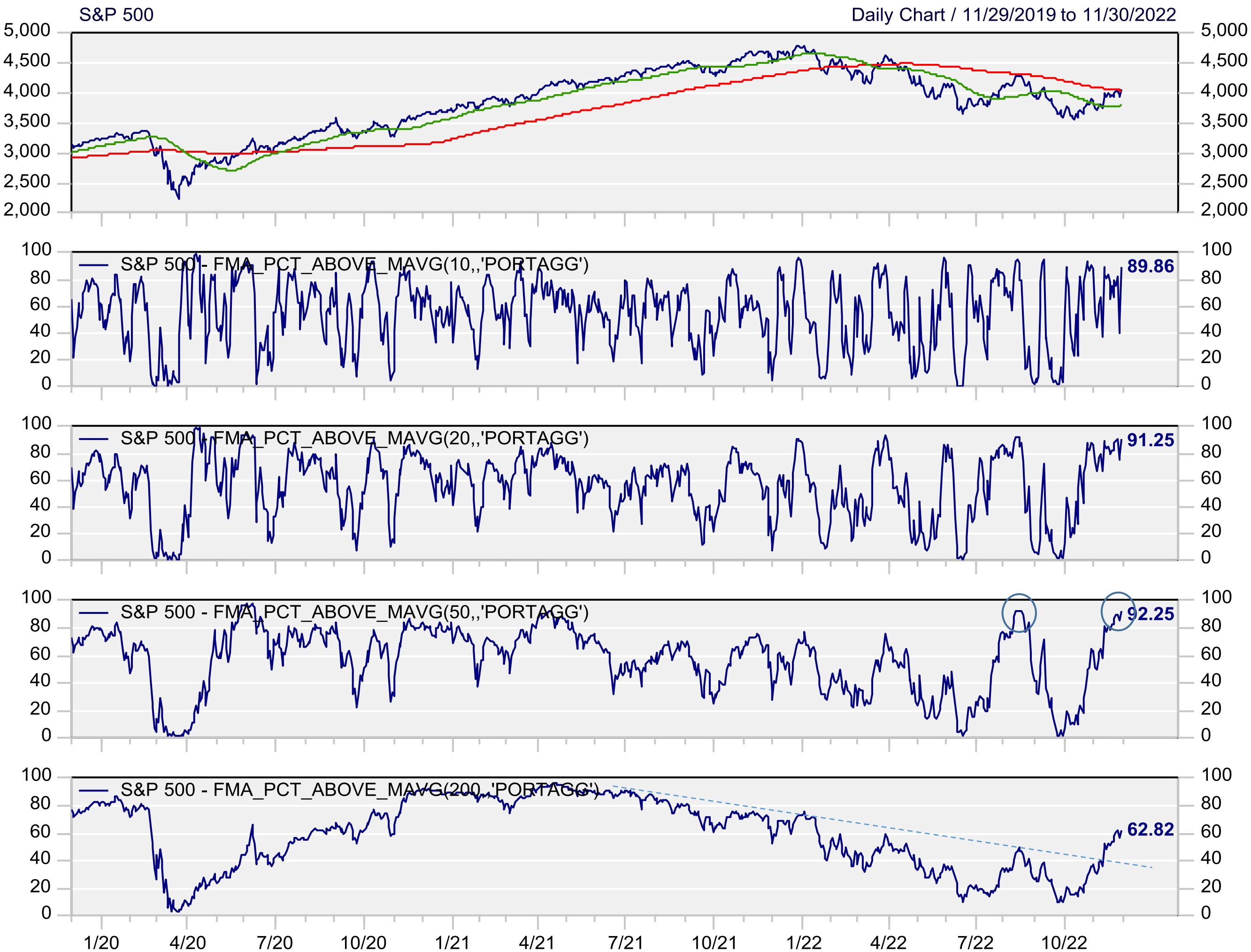
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Yesterday's market reaction to Fed Chair Powell's speech saw the S&P 500 close above its 200-day moving average for the first time in 8 months. The index is now very close to testing the downtrend line, which comes in at ~4125.

Seasonality is often supportive this time of year, but we do view the market as overbought in the short-term (following a ~17% rally from the lows on 10/13). With resistance just overhead and our expectations for market choppiness to continue, we maintain our overall stance to refrain from chasing the rally periods and to build exposure in the weak periods.

If the S&P 500 consolidates its recent rally, we view initial support at 3910 followed by the 3800 area (50-day moving average).

MARKET BREADTH



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The percentage of S&P 500 stocks above their 200-day moving average had been in decline all year with a smaller reading seen at each rally high. However, the current rally is seeing this trend break with increased participation beneath the surface. In fact, 63% of stocks are trading above their 200 DMA- highest reading since January.

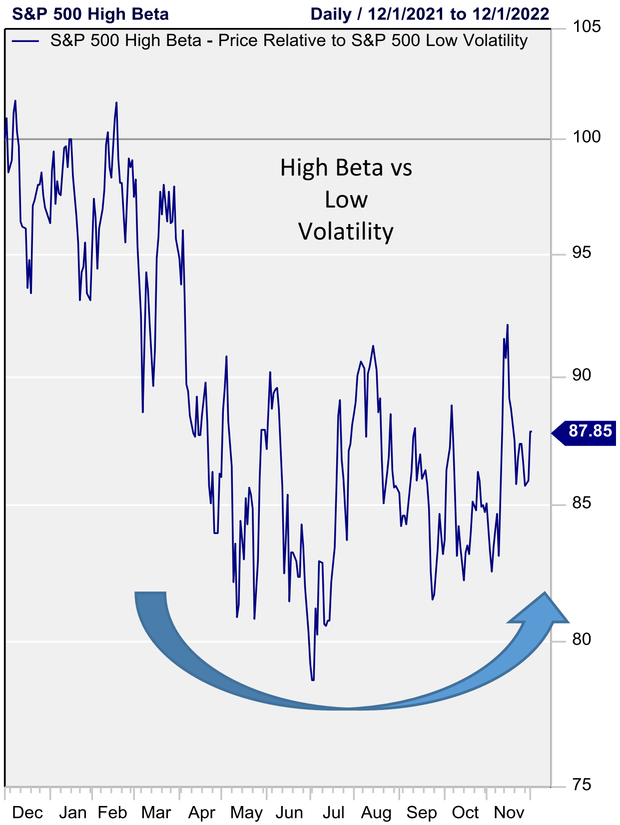
Following the 90%+ reading of stocks above their 50 DMA seen in the August rally (which is being met again today), this is another positive indication that underlying market breadth is improving and that equity trends may be attempting to turn.

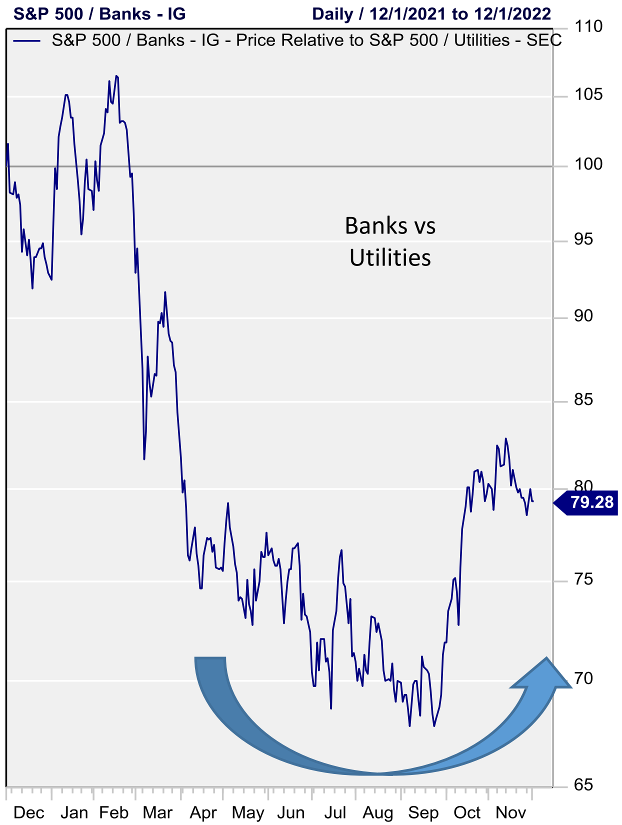
However, the index is also now overbought in the short-term and trading near resistance.

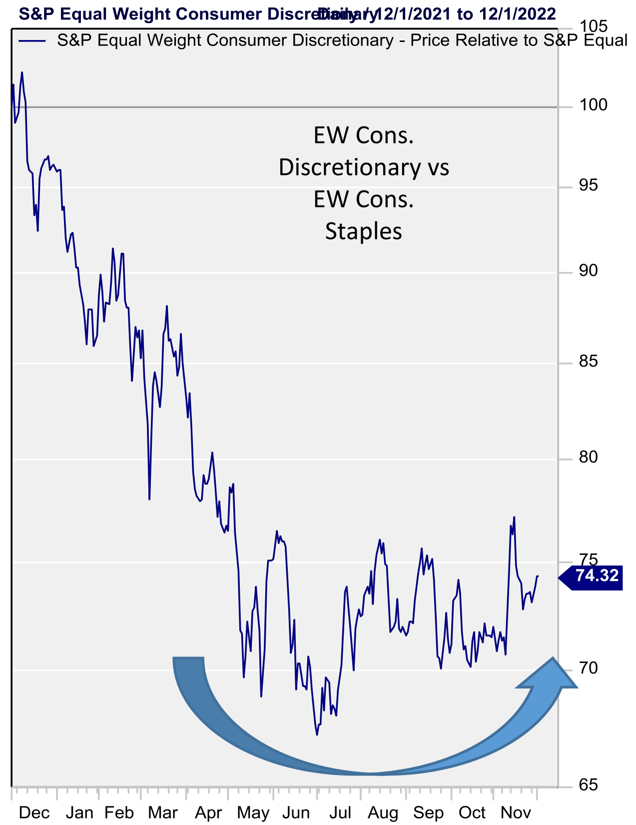
We are encouraged by indications that the technical backdrop may become more supportive, but we would refrain from rushing into purchases at current levels. Instead, continue to use the weak periods as opportunity to accumulate favored names.

MARKET LEADERSHIP

Leadership has showed some improvement in the second half of this year. As you can see, relative strength of High Beta vs. Low Volatility, Banks vs. Utilities, and Equally-weighted Consumer Discretionary vs. Staples has become more sideways vs. straight down in the first half of the year. This less defensive leadership is encouraging for technical trends, but it does not mean that pullbacks cannot still occur. As stated previously, we believe that market trends are attempting to become more supportive but also that volatility is likely to continue. We recommend using the weak periods as opportunity.



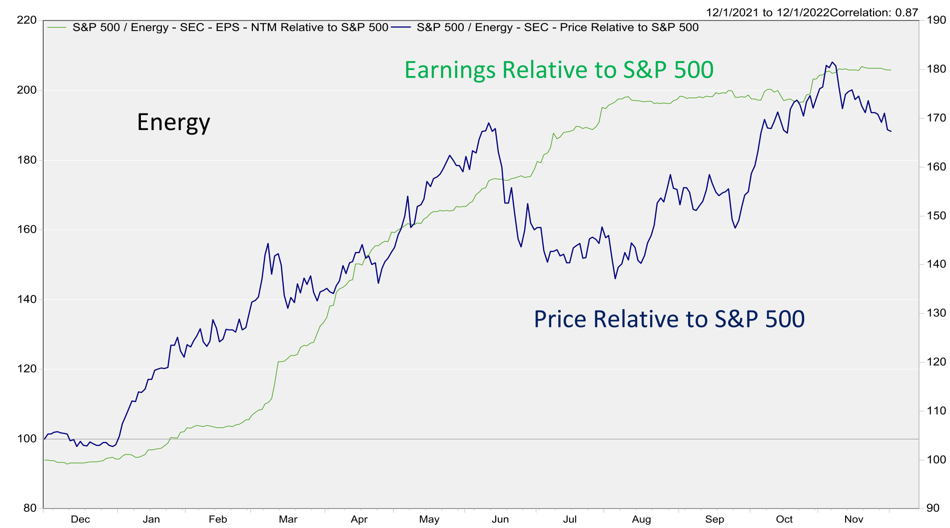


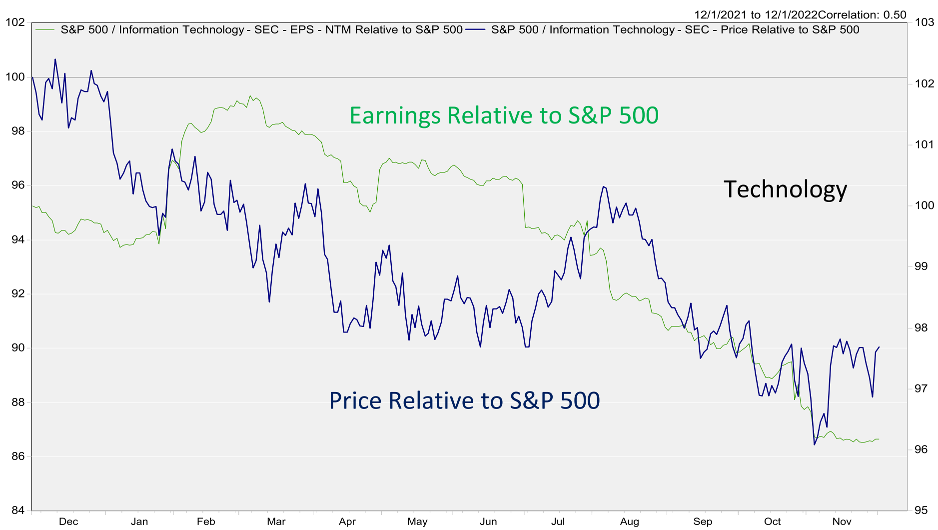


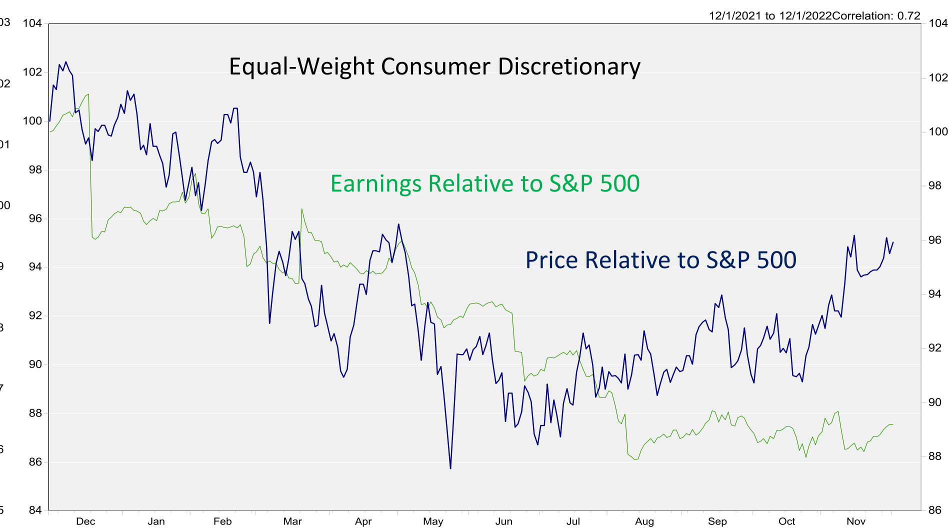
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

EARNINGS MOMENTUM DRIVING RELATIVE STRENGTH

Relative earnings trends (vs. S&P 500) are driving relative strength trends (vs. S&P 500). For example, Energy earnings estimates continue to get revised higher (while S&P 500 earnings estimates are declining), supporting outperformance for the sector. On the flip side, Technology earnings estimates are getting revised downward at a quicker pace than the S&P 500, which is a headwind for sector performance. We have also recognized improvement in equal-weight Consumer Discretionary relative performance in the second half of this year. This has been a positive divergence with inflation staying high and the market being volatile, in what should have outsized effects on the Consumer Discretionary sector. As you can see, relative earnings trends have become more sideways vs the S&P 500, rather than downward- supporting this relative performance improvement. The main takeaways here are to stay long Energy, stay patient on Technology, and warm up to Consumer Discretionary (though the sector does appear overbought at the moment).







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-63641)

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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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