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Weekly Market Guide

Last week's market enthusiasm following Fed Chair Powell's speech has quickly turned to focus on the sharply inverted yield curve (which continues to worsen) and hesitancy ahead of the catalyst rich upcoming week which includes important readings on inflation (PPI and CPI) along with the FOMC announcement, in which the market is expecting a 50 bps increase, a slowdown from the recent pace of 75 bps per meeting. The sharp inversion of the yield curve is giving investors pause as sharp inversions have historically been a precursor to a future recession.

However, for now, the labor market remains strong with the unemployment rate remaining low at 3.7% and the change in non-farm payrolls of 263K topping consensus estimates of 200K. The strong labor market could continue to give the Fed cover to maintain a more restrictive monetary policy. Additionally, a major area of focus within the upcoming inflation reports will be wage growth, which remains stubbornly high given the tight jobs market, and could pressure the Fed to maintain its current restrictive stance for longer.

From a technical perspective, after improving over 17% from the October lows and despite breaking above the 200-DMA for the first time in 8 months, the S&P 500 has been turned back at the downtrend line for now, which has been in place since the beginning of the year, as short-term indicators got into overbought territory. We would continue to watch 3910 on a closing basis for support following by 3867 (38.2% Fibonacci retracement level). If this level is unable to hold, the 3800 area (50% Fibonacci level) provides the next level of support. On the upside, a breach of the downtrend, which is currently at 4109 will be key for further upside. We would expect some continued back-and-forth volatility and would be buyers on weakness, but cautious on chasing bear market rallies.

In the past week, sectors such as Industrials and Financials have been under pressure, but we have seen strength within Health Care, which remains one of our favored sectors. Emerging Markets is another area that has seen momentum, but we would be cautious of chasing the improving relative performance with the US Dollar sitting near its 200-DMA. For the S&P 500, we continue to believe over the next year, the Fed is likely to reach the peak of the tightening cycle, which is likely to shift the focus from inflation/pace of rate increases to economic/earnings data, in which we believe there is risk that earnings for the S&P 500 could come down further. Typically, there tends to be a lag between the rate hike cycle and when the higher rates begin to impact the economic environment by 6-9 months with another 12-18 months before it will be fully realized. In this environment, rallies and sell-offs are likely as we get a better picture of the economy, but remain favorable on equities long-term.

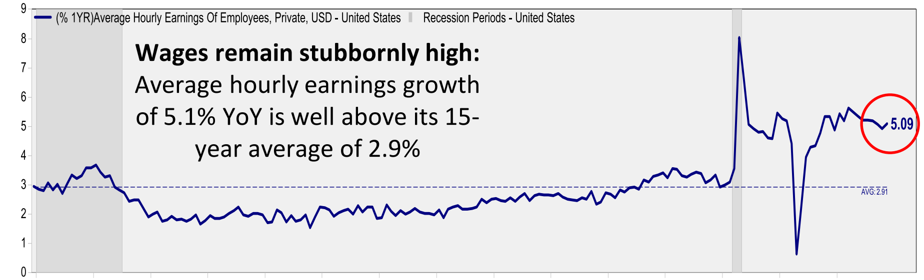
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-7.5%	-5.9%
S&P 500	-17.5%	-16.1%
S&P 500 (Equal-Weight)	-11.5%	-9.5%
NASDAQ Composite	-30.0%	-30.1%
Russell 2000	-19.5%	-19.8%
MSCI All-Cap World	-18.4%	-17.3%
MSCI Developed Markets	-16.2%	-14.8%
MSCI Emerging Markets	-22.2%	-22.4%
NYSE Alerian MLP	20.7%	23.0%
MSCI U.S. REIT	-25.0%	-21.8%

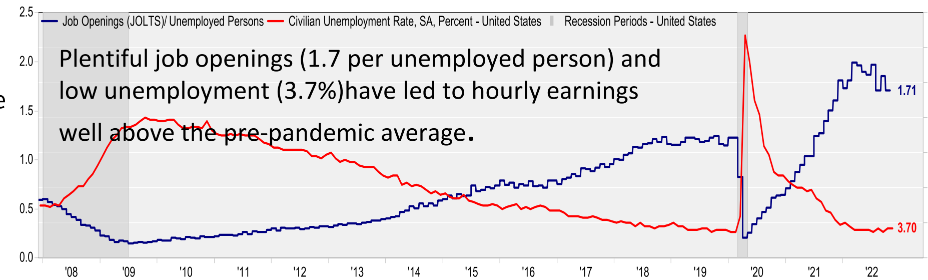
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	53.2%	5.0%
Consumer Staples	-1.6%	7.1%
Utilities	-1.7%	3.1%
Health Care	-2.0%	15.7%
Industrials	-6.4%	8.5%
Financials	-11.8%	11.5%
Materials	-10.6%	2.7%
S&P 500	***-17.5%***	-
Information Technology	-26.0%	26.1%
Real Estate	-26.5%	2.7%
Consumer Discretionary	-33.3%	10.2%
Communication Svcs.	-38.3%	7.4%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The macro data over the last week has been dominated by the labor market. Currently, the labor market remains strong with the unemployment rate remaining low at 3.7% with the change in non-farm payrolls of 263K topping consensus estimates of 200K with the biggest increase MoM coming from the Leisure and Hospitality sector, which has been one of the hardest hit segments during the pandemic. The strong labor market could continue to give the Fed cover to maintain a more restrictive monetary policy. Moreover, wages remain stubbornly higher, which also could pressure the Fed to maintain its current restrictive stance. In November, the average hourly earnings increase of 0.6% MoM, was much sharper than expected with consensus estimates of 0.3%. The 0.6% MoM change in November pushed the YoY to 5.1%, which is well above the 15-year average of 2.9% for hourly earnings. The upcoming week is likely to provide several macro catalysts with a focus on inflation with PPI expected to be released tomorrow, CPI results next Tuesday, and the FOMC announcement on Wednesday.





Event	Period	Actual	Consensus	Prior	Revision
Change in Non-farm Payrolls	Nov	263K	200K	261K	284K
Change in Private Payrolls	Nov	221K	185K	233K	248K
Change in Manufacturing Payrolls	Nov	14K	18K	32K	36K
Unemployment Rate	Nov	3.7%	3.7%	3.7%	
Average Hourly Earnings MoM	Nov	0.6%	0.3%	0.4%	0.5%
Average Hourly Earnings YoY	Nov	5.1%	4.6%	4.7%	4.9%
Average Weekly Hours All Employees	Nov	34.4	34.5	34.5	
Labor Force Participation Rate	Nov	62.1%	62.3%	62.2%	
S&P Global US Services PMI	Nov F	46.2	46.1	46.1	
S&P Global US Composite PMI	Nov F	46.4	46.3	46.3	
Factory Orders	Oct	1.0%	0.7%	0.3%	0.3%
Factory Orders ex-Transportation	Oct	0.8%		-0.1%	-0.2%
Durable Goods Orders	Oct F	1.1%	1.0%	1.0%	
Durable Goods Orders ex-Transportation	Oct F	0.5%	0.5%	0.5%	
Cap Goods Orders Nondef ex-air	Oct F	0.6%		0.7%	
ISM Services Index	Nov	56.5	53.5	54.4	
Trade Balance	Oct	-$78.2B	-$80.0B	-$73.3B	-$74.1B
MBA Mortgage Applications	2-Dec	-1.9%		-0.8%	
Nonfarm Productivity	3Q F	0.8%	0.6%	0.3%	
Unit Labor Costs	3Q F	2.4%	3.1%	3.5%	
Initial Jobless Claims	3-Dec	230K	230K	225K	226K
Continuing Claims	26-Nov	1,671K	1,618K	1,608K	1,609K

Leisure & Hospitality has been one of the hardest hit areas of the economy with 980K employees fewer vs. pre-pandemic levels, however, over the last month and YTD is has been one of the strongest areas of employee increases

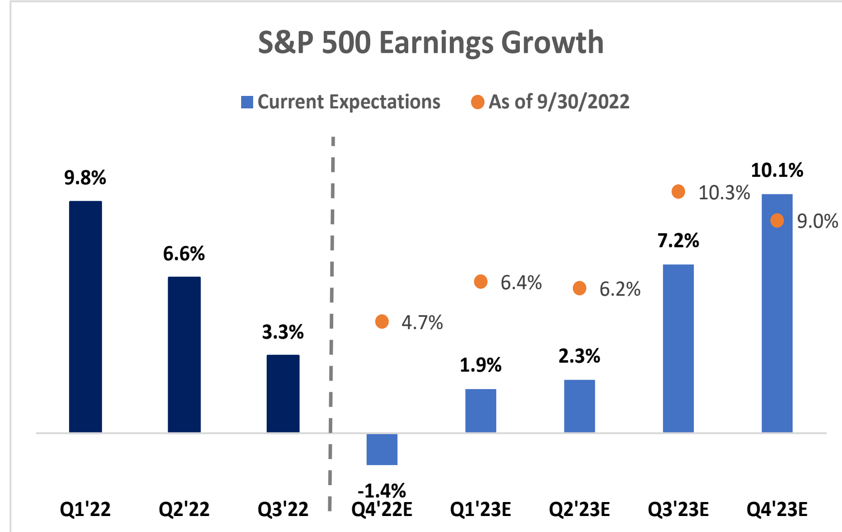
# in thousands	Difference vs. Pre-Pandemic Level	Difference vs. Prior Month
Industry	Employment	Employment
Leisure & Hospitality	-980.0	88
Education & Health	208.0	82
Government	-461.0	42
Other Services	-186.0	24
Construction	126.0	20
Information	162.0	19
Manufacturing	149.0	14
Financial Activities	127.0	14
Prof. and Business Svcs.	1,066.0	6
Mining	-47.0	3
Utilities	-4.0	-0.5
Wholesale Trade	16.5	-3.3
Transportation	698.1	-15.1
Retail Trade	169.6	-29.9
Total	**1,044.0**	**263**

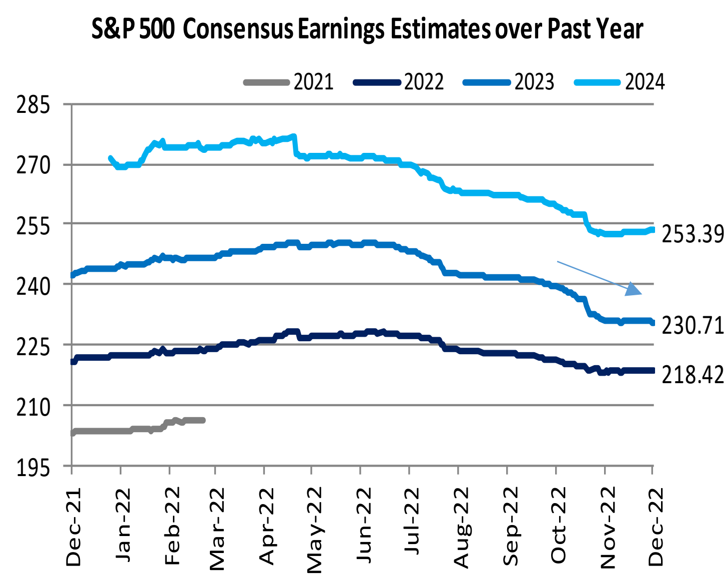
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

Despite earnings estimates already moving lower, we believe earnings can continue to move lower in 2023. Our base case EPS estimate of $215 reflects a slight contraction in earnings in 2023 vs. 2022 as our assumptions incorporate a shallow recession. However, despite most of the new headlines talking about the slowing economy and impending recession, consensus estimates are still pointing to 5.6% EPS growth in 2023 with net margins expected to expand ~20 bps. We believe this poses some risk to consensus EPS estimates.

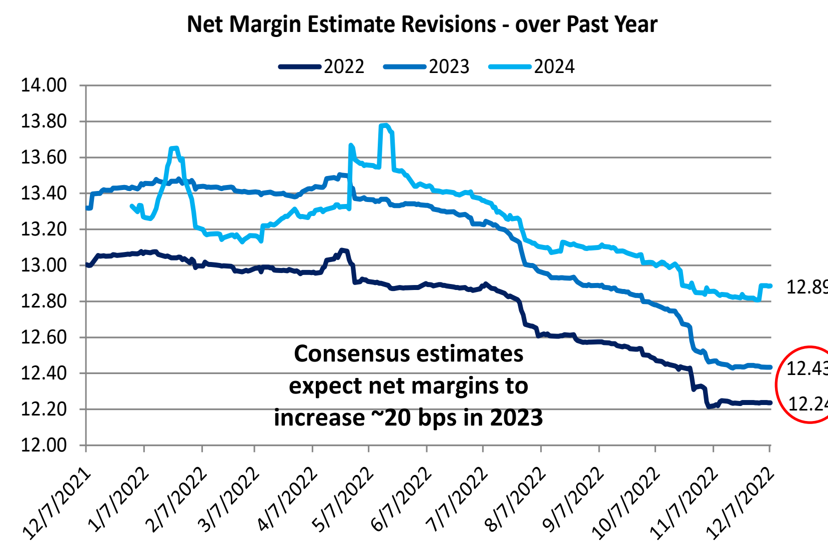
On a quarterly cadence, 4Q'22 earnings are projected to decline on a YoY base by 1.4%, which is a sharp decline from the 4.7% projected at the end of the third quarter (9/30/22). While consensus is expecting some improvement in earnings growth throughout the year, it is well below the expectations from just a few months ago with the exception of 4Q'22 earnings growth, which is now projected to increase 10.1% YoY, and ahead of the expected growth of 9% as of 9/30/22.





EPS Growth Estimates	
2021	49.6%
2022	6.0%
2023	5.6%
2024	9.8%

RJ 2023 Estimate: $215



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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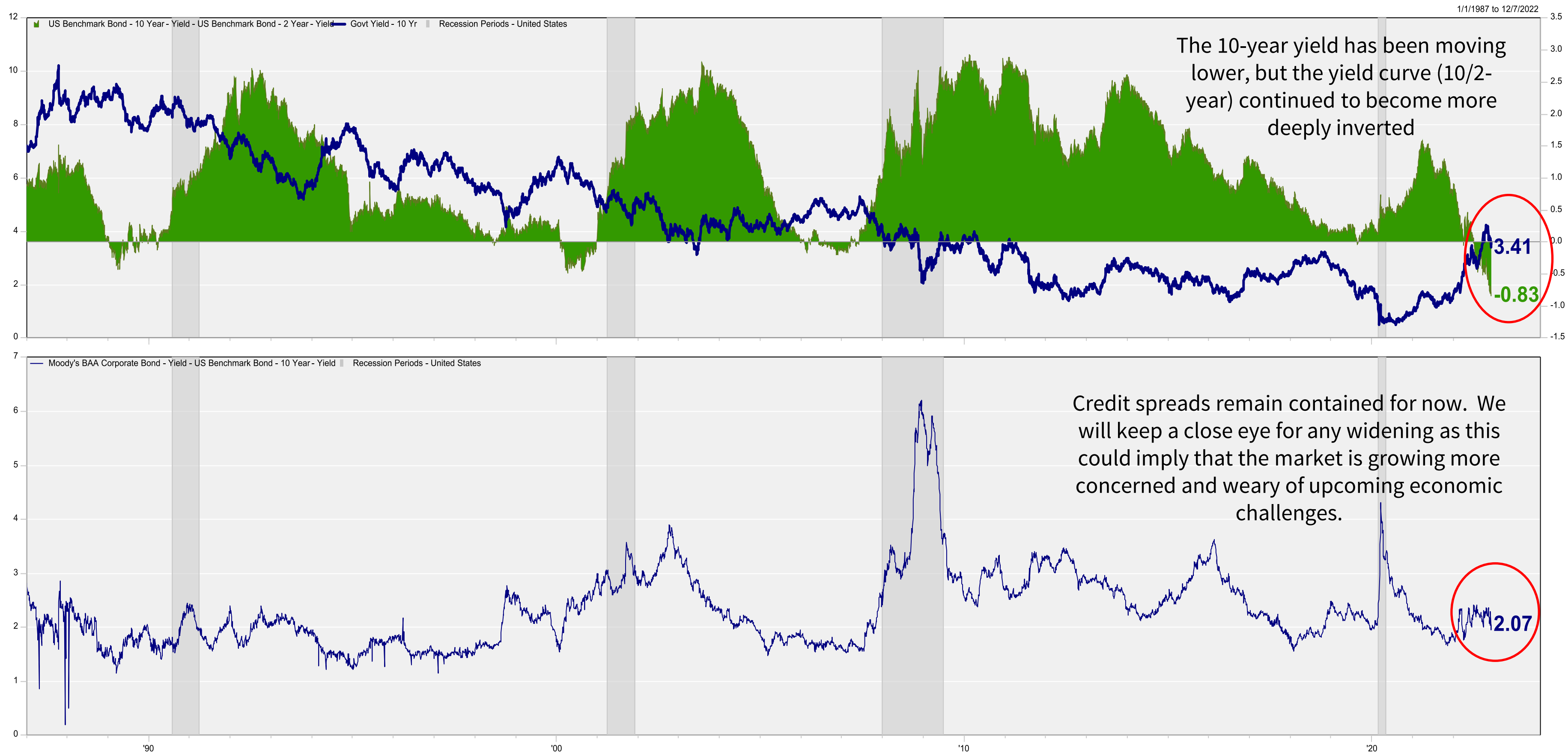
INVERTED YIELD CURVE

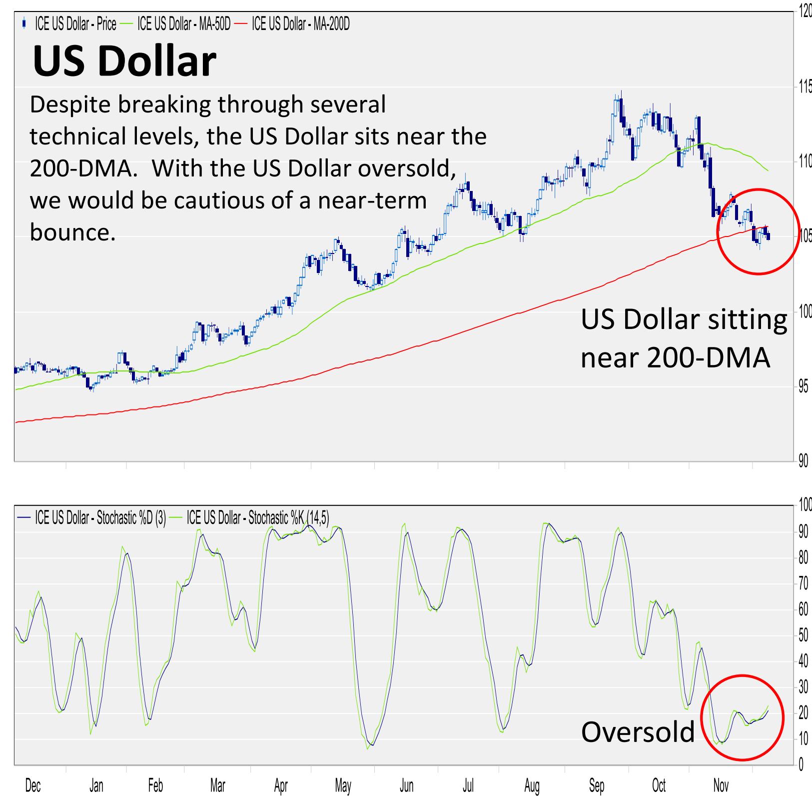
While not a good timing indictor, inversions in the yield curve have often been a precursor for an upcoming recession or challenged macro environment. With the 10/2-year yield curve moving deeper into negative territory and the most inverted since 1987, risks has increased that an impending recession may be around the corner. However, credit spreads continue to be rather contained. As seen at the bottom, the Moody's BAA Corporate Bond Yield to 10-year yield remains contained. We will continue to closely watch for any widening, as this would imply that the market is growing more concerned and weary of upcoming economic challenges.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

US DOLLAR AND EMERGING MARKETS

We would be cautious on getting too aggressive adding to Emerging Markets despite the recent improvement in relative performance. We believe the recent weakness in the US Dollar has been a nice tailwind for EM. However, despite the US Dollar breaking through several technical levels, it currently oversold and sitting near the 200-DMA, which could be a nice set up for a bounce near-term, and serve as a headwind for Emerging Markets.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

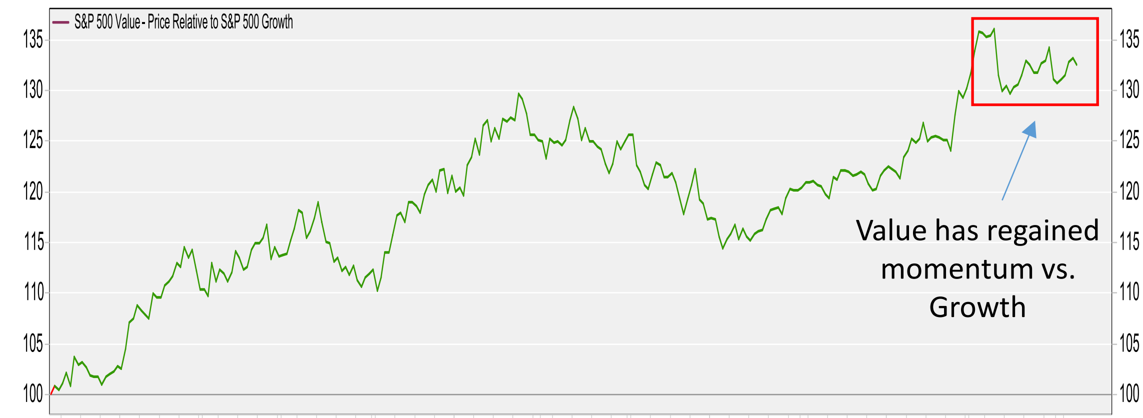
VALUE

We continue to maintain a bias towards Value as relative performance has been able to regain some recent momentum. While Financials, the second highest weighting in Value, have been challenged, the strength in Health Care and underweight to the Technology sector are likely to remain tailwinds if the trading environment remains choppy. From a valuation perspective, Value still trades at a 13.5% discount to the S&P 500 and a 28% discount the Growth segment.

Sector Weightings by Style

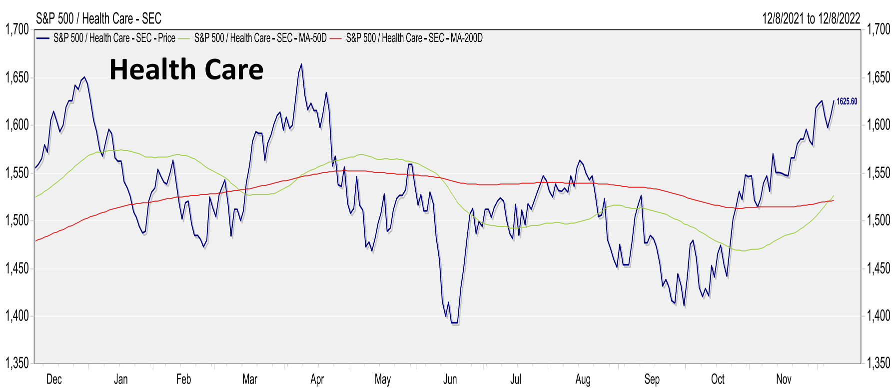
S&P 500 Sector	S&P 500	Growth	Value
Health Care	15.7	13.4	17.7
Financials	11.5	7.5	14.8
Industrials	8.5	3.8	12.7
Consumer Staples	7.1	1.9	11.7
Information Technology	26.1	43.9	10.6
Energy	5.0	1.4	8.0
Consumer Discretionary	10.2	14.4	6.5
Utilities	3.1	0.1	5.7
Communication Services	7.4	9.7	5.3
Materials	2.7	1.5	3.8
Real Estate	2.7	2.3	3.0

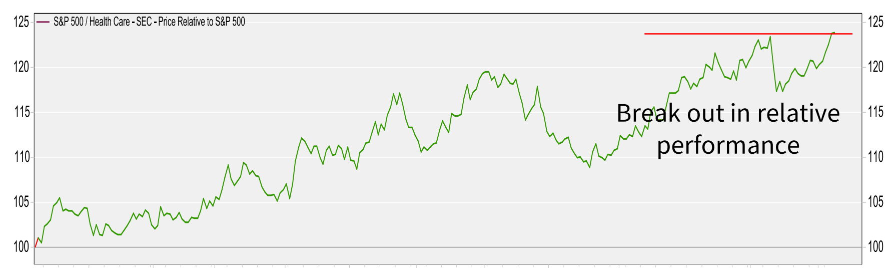
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

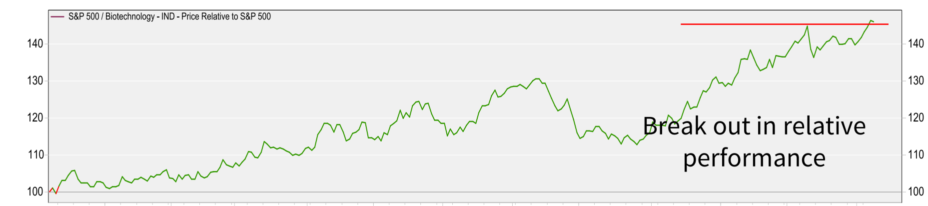


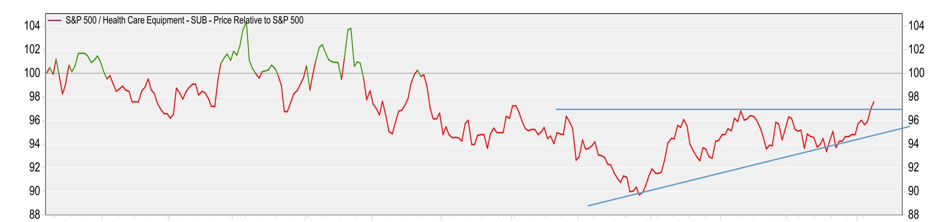
HEALTH CARE

Health Care, which remains our favored "defensive" area for the current volatile backdrop, is showing nice relative strength and recently broke out on a relative basis. The technical backdrop for Health Care remains favorable. Biotech, which has been an area we have highlighted for a while, has followed and also broke out on a relative basis (as highlighted on top to the right). Health Care Equipment (as seen below to the right), an area impacted by COVID concerns and impact on elective surgeries, is one area that has been an underperformer within the sector, but is recently showing some technical improvement. On an absolute level, we would like to see a breakout above the 200-DMA following the nice improvement in relative strength.









Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-69556)

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The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

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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.

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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.

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