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DECEMBER 15, 2022 | 3:23 PM EST

## Weekly Market Guide

Inflation and Fed policy remain top-of-mind for investors, and we received updates on both this week. The November CPI report contained a second consecutive month of promise (0.2% m/m core CPI), particularly in terms of goods inflation. It is becoming clear that core goods prices are on a good trajectory, influenced by improved supply and weakened demand across the manufacturing sector, along with weaker commodity prices since mid-year. Services inflation is proving a little more sticky, influenced by the tight labor market. There are currently an estimated 1.7 job openings for every unemployed person, putting upward pressure on wages (in order for companies to attract and retain employees)- which in turn puts upward pressure on prices to maintain profitability. These are the biggest questions on inflation in our view- services inflation and wage growth. We do expect a moderation in both over the next year as the economy weakens, but the path is unlikely to be quick or smooth.

This is filtering into Fed projections, which came with a more hawkish tone than market expectations in yesterday's FOMC meeting. Fed Chair Powell acknowledged the consecutive months of improvement in CPI, but noted that there is still a long way to go in order to make sure inflation comes down to a reasonable level. The Fed's projected peak 2023 fed funds rate moved higher to 5.1-5.4% with no cuts in 2023. This is relative to market-implied expectations of a ~4.8% peak and 50bps of cuts in the back half of next year. It could be that the Fed is simply talking tough in order to keep a lid on financial conditions- i.e. an equity market surging higher is inflationary. But we do believe that the Fed is likely to err on the side of caution (justifiably) in order to kill high inflation and minimize the risk of a prolonged (and more damaging) period of sustained high inflation.

We believe that the Fed will be successful in bringing inflation lower, but 450bps of tightening this year (a negative influence on demand) will act with a lag on the economy- and investor focus will transition from inflation toward how much pain will be inflicted on the economy. We expect a mild recession in 2023 and are not yet convinced that equity markets have fully priced that in yet. For example, bottom-up earnings estimates are still too high in our view. That said, we also believe that a lot of negative news has been priced in already. Recessionary bear markets contract 33% over 13 months on average, and we have seen a 25% pullback over 11 months up to this point.

Technically, there have been some positives over recent months suggesting the market is attempting to turn. But ultimately, we need to see the series of lower highs and lower lows come to an end. The S&P 500 is currently overbought and pulling back from 200-day moving average resistance once again. Overall, we expect at least more time left in this bear market and believe the S&P 500 could be set for a 3700-4300 range over the next several months. Thus, we do not feel the need to chase the rally periods, and recommend using the weak periods as opportunity to accumulate favored stocks for the next bull market.

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	-6.5%	-4.4%
S&P 500	-16.2%	-13.8%
S&P 500 (Equal-Weight)	-10.3%	-7.2%
NASDAQ Composite	-28.6%	-26.7%
Russell 2000	-18.9%	-15.7%
MSCI All-Cap World	-16.8%	-14.6%
MSCI Developed Markets	-13.8%	-11.0%
MSCI Emerging Markets	-21.0%	-20.3%
NYSE Alerian MLP	21.2%	28.5%
MSCI U.S. REIT	-23.5%	-19.4%
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	54.3%	4.9%
Utilities	0.7%	3.1%
Health Care	-0.9%	15.6%
Consumer Staples	-1.1%	7.1%
Industrials	-4.9%	8.6%
Materials	-9.9%	2.7%
Financials	-11.7%	11.3%
<b>S&amp;P 500</b>	<b>-16.2%</b>	-
Information Technology	-23.5%	26.6%
Real Estate	-24.8%	2.7%
Consumer Discretionary	-31.1%	10.1%
Communication Svcs.	-37.7%	7.3%

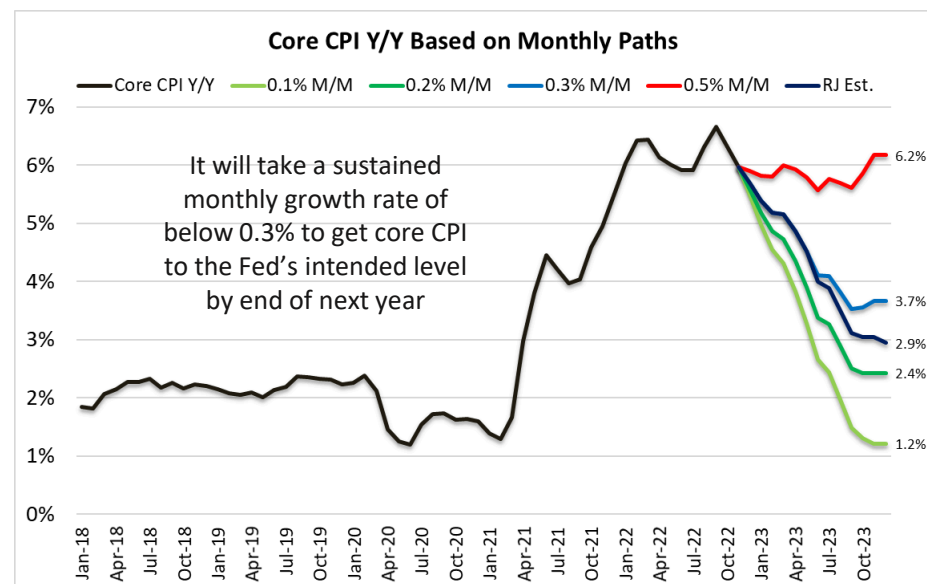
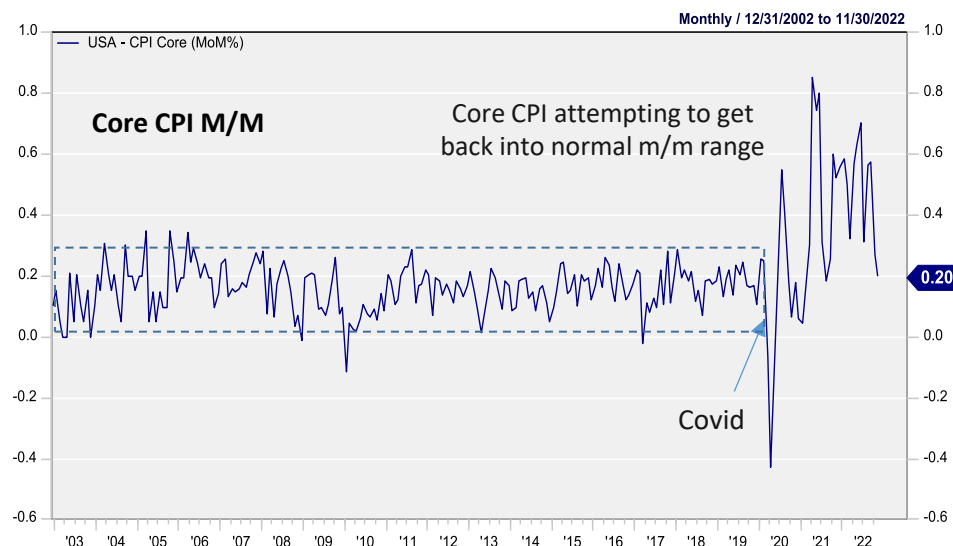
Source: FactSet, RJ Equity Portfolio & Technical Strategy

## MACRO: US

The combination of high inflation, higher borrowing costs (450bps of Fed tightening this year), low savings rates, and weak markets is weighing on consumer purchasing power. November retail sales contracted -0.6% m/m. We expect a mild recession in 2023, as Fed tightening (which remains ongoing) works with a lag on demand. The Fed will bring inflation down in our view, but that will come at the expense of economic growth. The degree of inflation moderation, Fed policy, and pain inflicted on the economy will be large influences on equity markets in 2023.

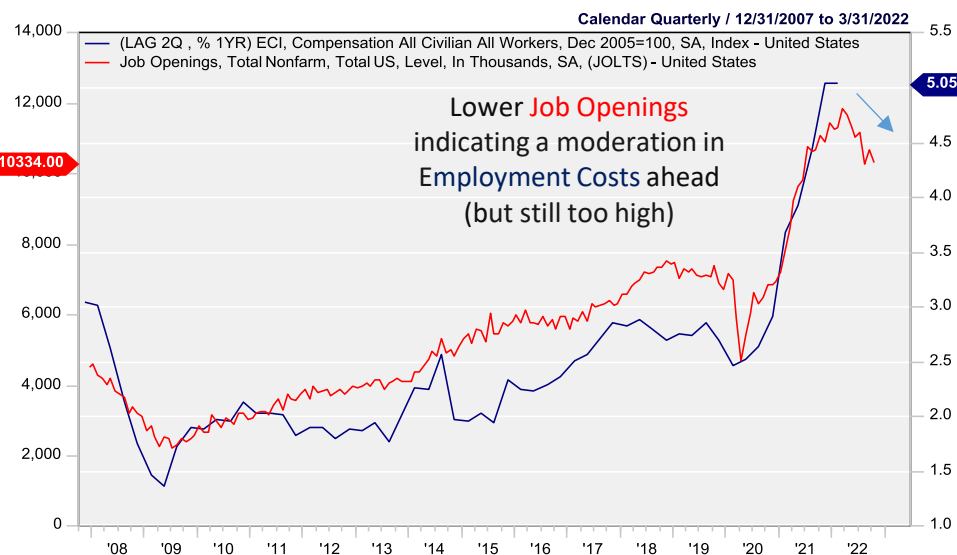
Event	Period	Actual	Consensus	Surprise	Prior
PPI ex-Food & Energy SA M/M	NOV	0.40%	0.20%	0.20%	0.10%
PPI ex-Food & Energy NSA Y/Y	NOV	6.2%	5.9%	0.35%	6.8%
PPI SA M/M	NOV	0.30%	0.20%	0.10%	0.30%
PPI NSA Y/Y	NOV	7.4%	7.2%	0.20%	8.1%
Michigan Sentiment NSA (Preliminary)	DEC	59.1	57.0	2.1	56.8
Wholesale Inventories SA M/M (Final)	OCT	0.50%	0.80%	-0.30%	0.80%
Treasury Budget NSA	NOV	-\$248.5B	-\$200.0B	-\$48.5B	-\$87.9B
NFIB Small Business Index	NOV	91.9	-	-	91.3
CPI ex-Food & Energy SA M/M	NOV	0.20%	0.30%	-0.10%	0.30%
CPI ex-Food & Energy NSA Y/Y	NOV	6.0%	6.1%	-0.10%	6.3%
CPI SA M/M	NOV	0.10%	0.30%	-0.20%	0.40%
CPI NSA Y/Y	NOV	7.1%	7.3%	-0.20%	7.7%
Hourly Earnings SA M/M (Final)	NOV	0.60%	0.60%	-0.0%	0.60%
Hourly Earnings Y/Y (Final)	NOV	5.1%	5.1%	0.0%	5.1%
Export Price Index NSA M/M	NOV	-0.30%	-0.70%	0.40%	-0.40%
Import Price Index NSA M/M	NOV	-0.60%	-0.50%	-0.10%	-0.40%
Fed Funds Target Upper Bound	-	4.50%	4.50%	0.00%	4.00%
Continuing Jobless Claims SA	12/03	1,671K	1,680K	-9.0K	1,670K
Initial Claims SA	12/10	211.0K	234.0K	-23.0K	231.0K
Empire State Index SA	DEC	-11.2	-1.0	-10.2	4.5
Philadelphia Fed Index SA	DEC	-13.8	-12.0	-1.8	-19.4
Retail Sales ex-Auto SA M/M	NOV	-0.20%	0.20%	-0.40%	1.2%
Retail Sales SA M/M	NOV	-0.60%	-0.15%	-0.45%	1.3%
Industrial Production SA M/M	NOV	-0.20%	0.10%	-0.30%	-0.06%
Business Inventories SA M/M	OCT	0.30%	0.35%	-0.05%	0.20%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

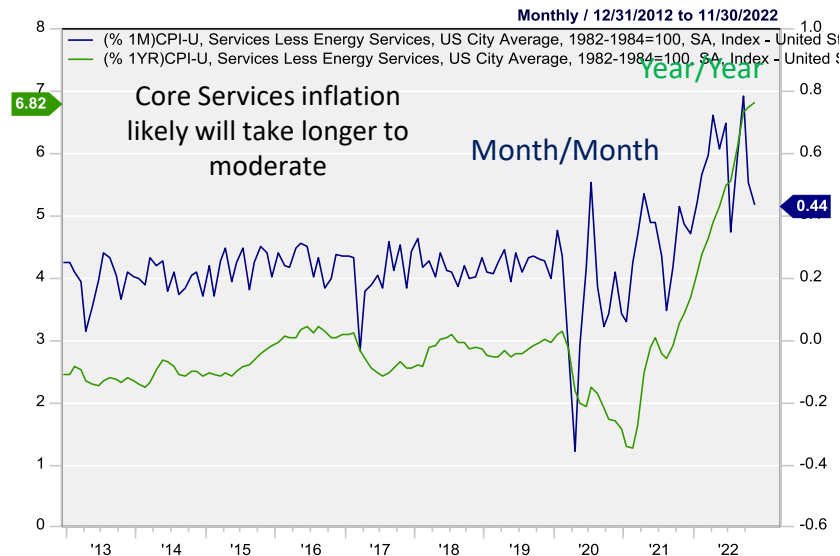
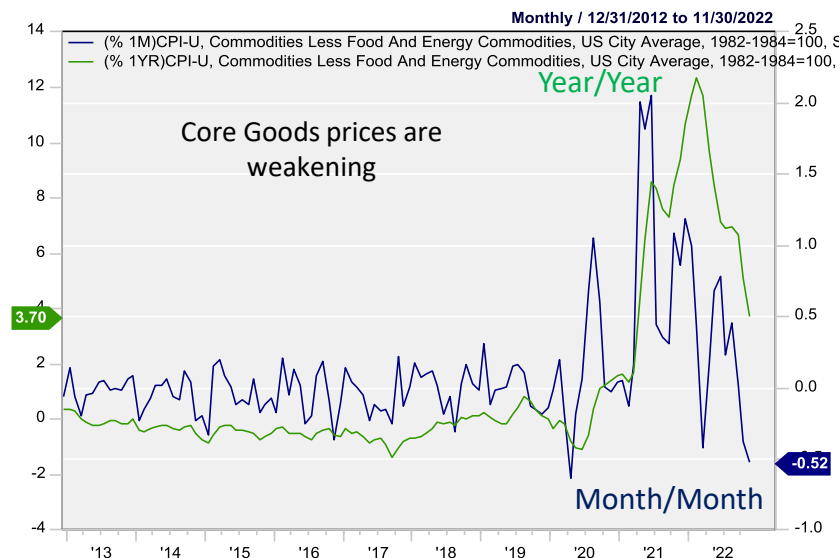


## INFLATION

The November CPI report contained a second consecutive month of promise (0.2% m/m core CPI). This is obviously a welcome sign for investors and two months becomes the beginning of a trend. But there is still a long way to go. It will take a sustained rate of below 0.3% m/m core CPI growth to get the y/y number down to the Fed's target. Nonetheless, it is becoming clear that core goods prices are on a good trajectory, influenced by improved supply and weakened demand across the manufacturing sector, along with weaker commodity prices since mid-year. Services inflation is proving a little more sticky, influenced by the tight labor market. There are currently an estimated 1.7 job openings for every unemployed person, putting upward pressure on wages (in order for companies to attract and retain employees)- which in turn puts upward pressure on prices to maintain profitability. These are the biggest questions on inflation in our view- services inflation and wage growth. We do expect a moderation in both over the next year as the economy weakens, but clear improvement is likely to take time.

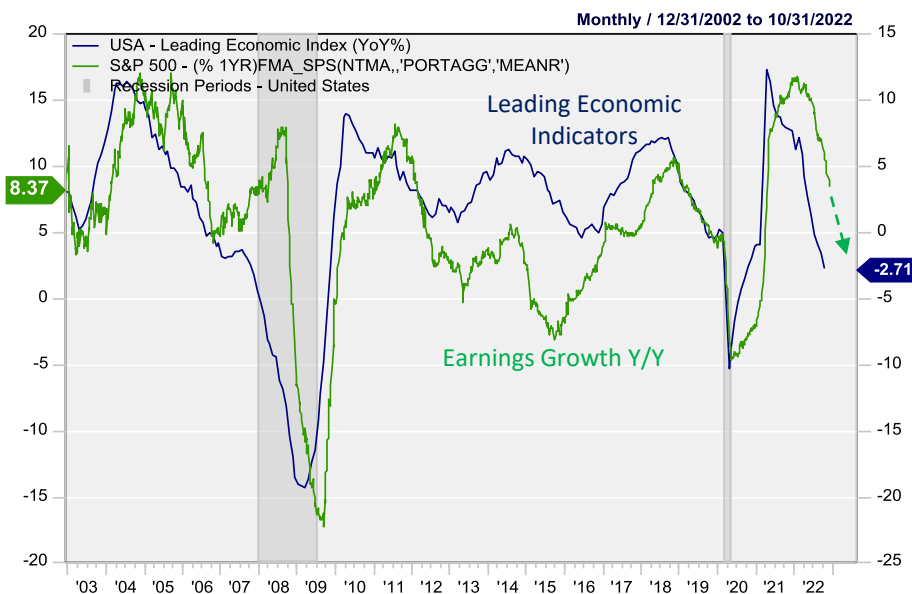


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

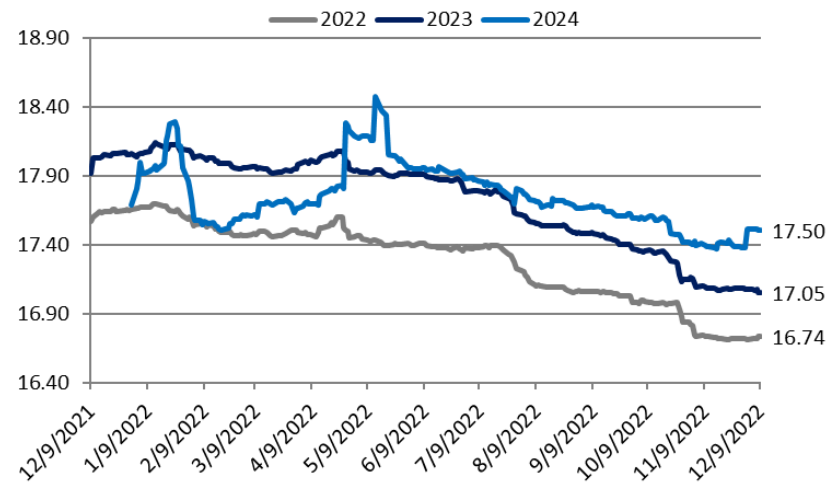


## FUNDAMENTALS

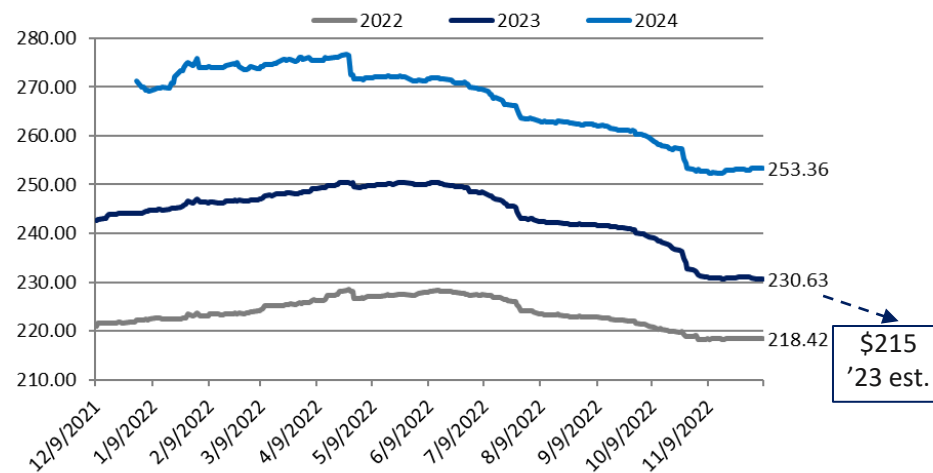
We believe economic growth will weaken ahead, with the yield curve inverted and leading economic indicators moving negative. And we are starting to see the effects of rapid Fed tightening on the economy with mortgage applications at 25-year lows, cracks emerging (i.e. crypto collapse), and layoffs/hiring freezes being announced. As economic growth weakens, earnings growth will weaken in our view. Corporate pricing power and consumer purchasing power will diminish and, accompanied by relatively high costs, result in lower earnings growth. We believe bottom-up earnings estimates are still too high, and do not reflect the mild recession that we expect. We use a \$215 base case S&P 500 earnings estimate for 2023 with risks likely to the downside on that estimate. That said, valuation multiples will bottom well ahead of the economy and fundamentals (continued on next page).



### Operating Margin Estimate Revisions - over Past Year



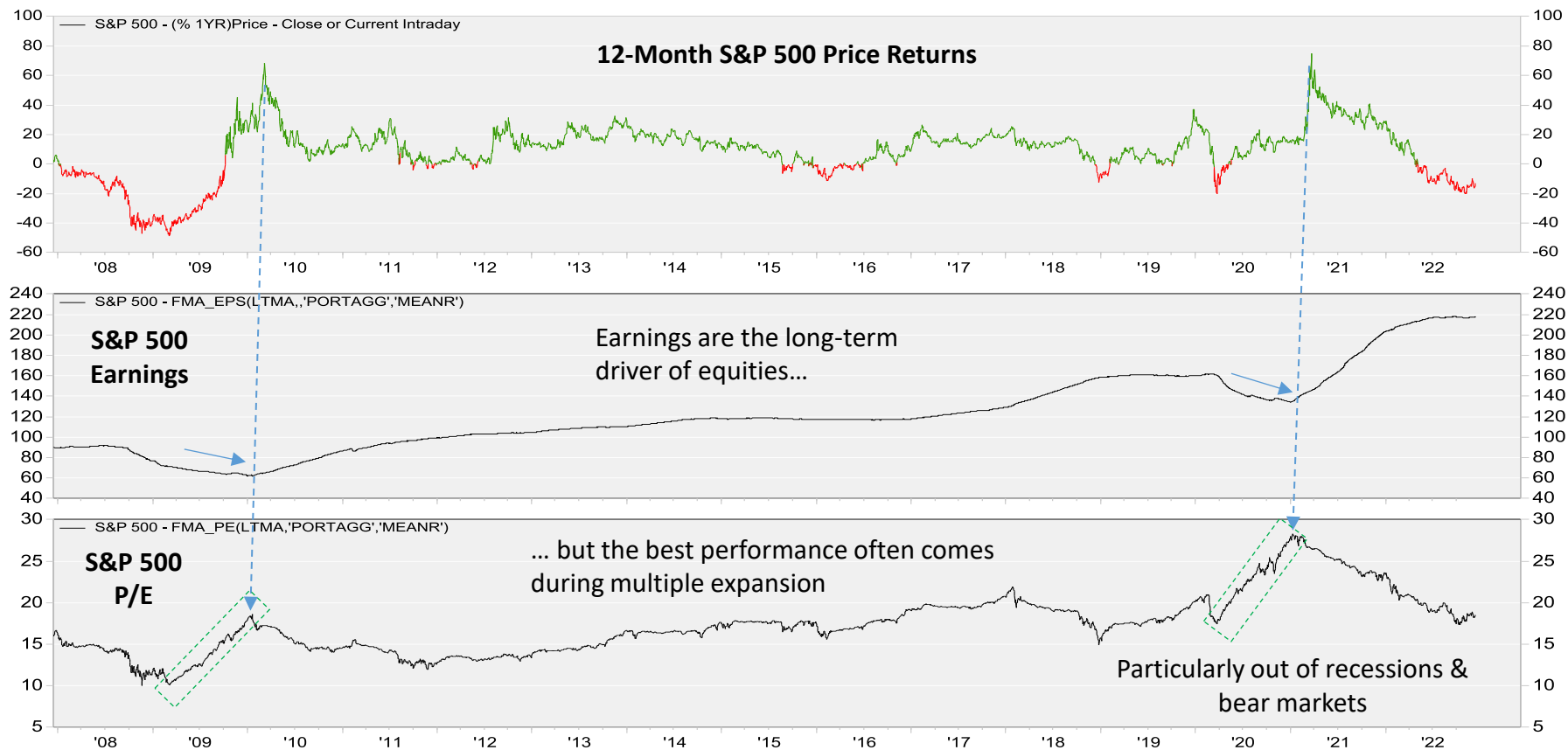
### Earnings Estimate Revisions - over Past Year



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## VALUATION

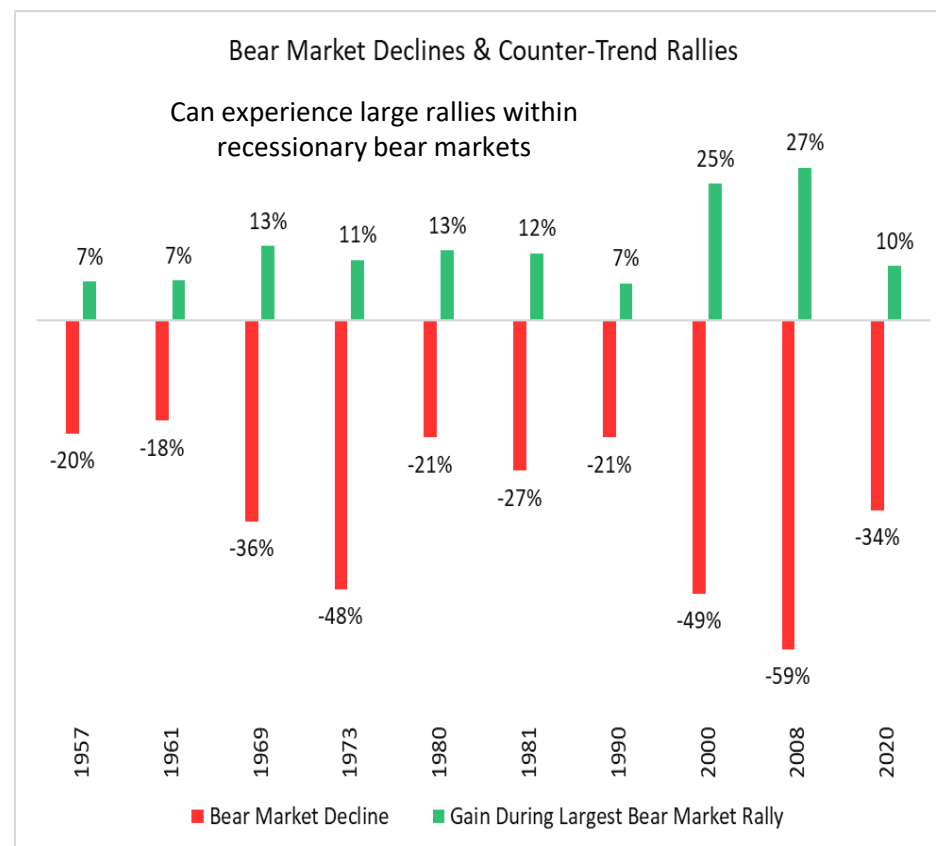
As you can see in the last two recessions, the best 12-month price returns actually occurred prior to earnings bottoming due to multiple expansion. Stocks discount the future and often bottom when the headlines and sentiment are at their worst. We are not convinced that equities are ready for durable upside yet, but a lot of negative news has been priced in already. The S&P 500 has contracted -25% over 11 months vs. recessionary bear markets dropping -33% over 13 months on average historically. While volatility is expected to continue, we are also likely in the late stages of this bear market- and want to keep an eye on the bull market opportunity ahead of us as well. Thus, we recommend accumulating favored stocks in the weak periods as risk/reward improves.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

## S&P 500 SWINGS

Technically, there have been some positives over recent months suggesting the market is attempting to turn out of its downtrend. But ultimately, we need to see the series of lower highs and lower lows come to an end. It is also very common to have sharp counter-trend rallies in recessionary bear markets. For example, the 2000 and 2008 recessions saw multiple 20+% rallies before the lows were in. With the S&P 500 overbought and pulling back sharply from resistance near the 200 DMA again, we recommend patience with purchases. Overall, we expect at least more time left in this bear market and believe the S&P 500 could be set for a 3700-4300 range over the next several months. Thus, we do not feel the need to chase the rally periods, and recommend using the weak periods as opportunity to accumulate favored stocks.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-75527)

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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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