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DECEMBER 22, 2022 | 9:21 AM EST

Weekly Market Guide

As the calendar turns to 2023, we believe that equities in the year ahead will be heavily influenced by the degree of inflation moderation, central bank policy, and amount of demand destruction inflicted by central banks on the economy (in order to bring inflation down).

We do believe that inflation will moderate over the next year, but clear and convincing evidence is also likely to take time. It is becoming evident that core goods inflation is moving lower (i.e. manufacturing supply has met demand and commodity prices have declined since mid-2022). However, the tight labor market (still excess jobs demand vs. supply) is resulting in elevated wage growth which is contributing to stickier core services inflation. Leading indicators suggest this dynamic should improve over the next year, which will allow the Fed to back off; but this is also likely to come in conjunction with economic weakness in our view. And **investor focus will shift from inflation concerns toward pain inflicted on the economy.**

We expect a mild recession in 2023, as swift Fed tightening (450bps of hikes in 2022) acts with a lag on the economy. The effects are already showing up in some areas, i.e. the housing market where mortgage applications are now at 25-year lows (due to the surge higher in rates). Bank lending is becoming tighter, CEO confidence is low, economic leading indicators are negative, the yield curve is inverted, and layoffs/hiring freezes are being announced. While recessions are painful, we do believe it will be mild- i.e. we do not see widespread excess on corporate and consumer balance sheets, supply has been hard-pressed to meet demand this cycle (inventory levels are low), and banks are very well-capitalized. Moreover, we believe inflationary pressures will ease.

This economic weakness will result in earnings weakness, and we take a below consensus view on 2023 S&P 500 earnings ($215 estimate vs $230 current consensus). **However, stocks also discount the future- and we believe a lot of negative news has been priced in already**. On average historically, recessionary bear markets have resulted in a -33% S&P 500 decline over 13 months- but we are already -25% over 11 months into this one. Additionally, equities are likely to bottom in advance of the economy and fundamentals. For example, earnings bottom 8-9 months <u>after</u> recession ends historically, while valuations bottom 2-6 months <u>prior</u> to recession end (often when headlines and sentiment are worst).

While we are not convinced that a mild recession has been fully priced in at this point, we do believe that we are in the late stages of this bear market and expect the S&P 500 to be climbing by year-end 2023- resulting in our current 2023 S&P 500 target of 4365 (probability-weighted). We expect volatility to persist into the new year, and believe that the bottoming process and recovery may be elongated. Therefore, it is important to maintain balance in portfolios between managing risk while also keeping an eye on the longer-term opportunity. With this in mind, we recommend refraining from chasing the rally periods and build exposure to favored areas in the weak periods as long-term risk/reward improves.

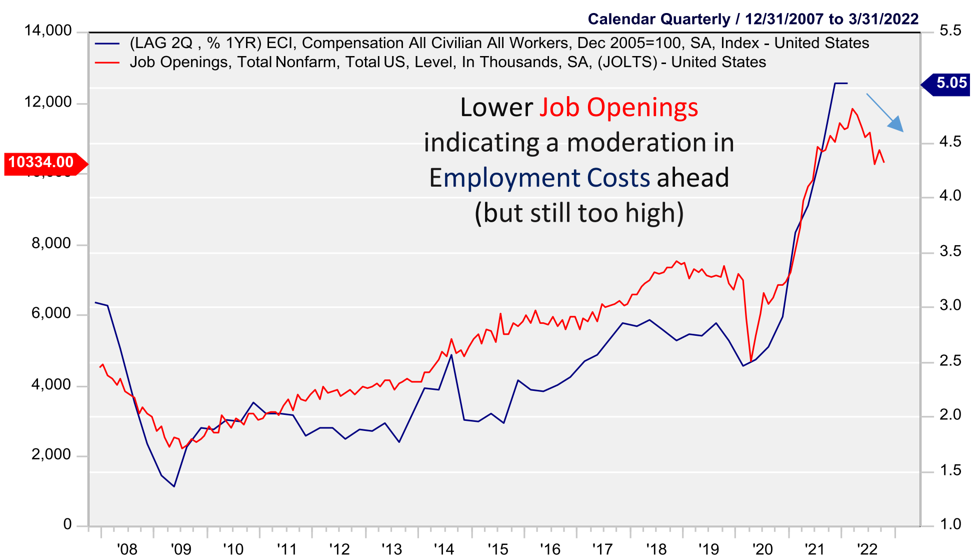
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-8.2%	-6.0%
S&P 500	-18.6%	-16.6%
S&P 500 (Equal-Weight)	-12.7%	-10.1%
NASDAQ Composite	-31.5%	-30.2%
Russell 2000	-20.9%	-19.3%
MSCI All-Cap World	-19.2%	-17.1%
MSCI Developed Markets	-16.2%	-13.9%
MSCI Emerging Markets	-22.6%	-20.8%
NYSE Alerian MLP	19.6%	25.1%
MSCI U.S. REIT	-27.1%	-24.4%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	56.9%	5.1%
Utilities	-1.2%	3.2%
Consumer Staples	-1.6%	7.2%
Health Care	-3.3%	15.8%
Industrials	-6.3%	8.6%
Financials	-12.6%	11.5%
Materials	-12.8%	2.7%
S&P 500	***-18.6%***	-
Information Technology	-27.0%	26.2%
Real Estate	-28.4%	2.7%
Consumer Discretionary	-36.2%	9.9%
Communication Svcs.	-40.3%	7.2%

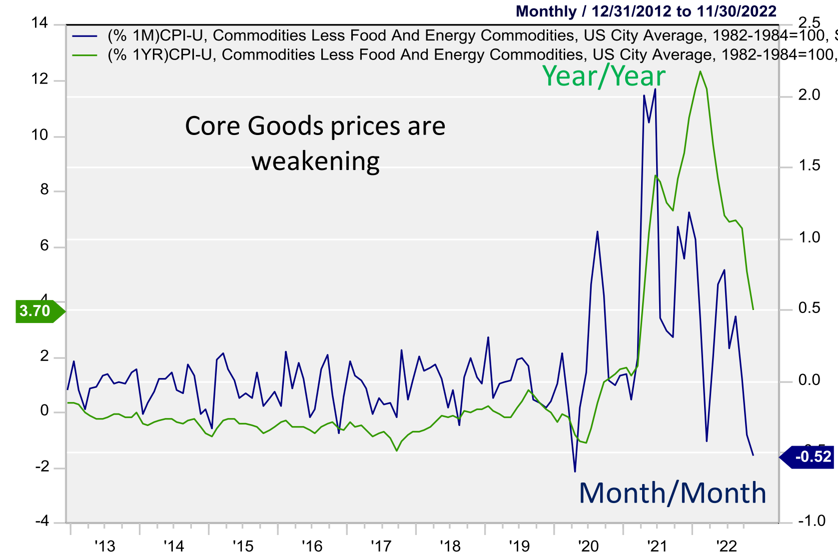
Source: FactSet, RJ Equity Portfolio & Technical Strategy

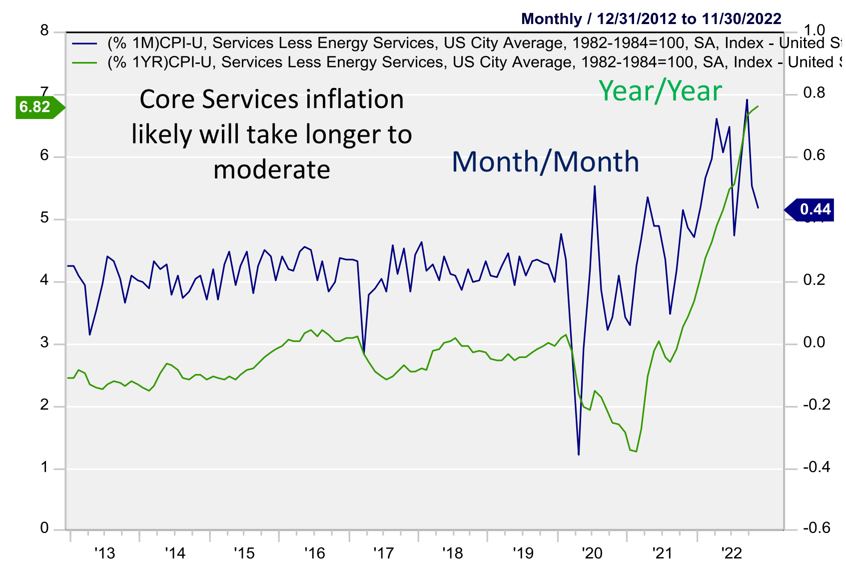
INFLATION

We believe that inflation will moderate over the next year, but also take time. It is becoming clear to us that core goods prices are on a sustainable path lower- i.e. m/m growth has been at or below zero for the past three consecutive months. Supply has caught up with demand in the manufacturing sector and commodity prices have been declining since mid-2022- supporting improved core goods inflation. However, core services inflation is proving stickier, buoyed by the tight labor market. There is still a demand vs. supply imbalance in the jobs market- i.e. an estimated 1.7 job openings for every unemployed person. This is putting upward pressure on wage growth (to attract and retain employees), which in turn puts pressure on companies to raise prices in order to maintain profitability. We believe this dynamic will work itself out over the next year (leading indicators suggest wage pressure should moderate), and this will allow the Fed to back off. But it will also likely take time and come in conjunction with economic weakness. Investor focus will shift from inflation concerns to degree of economic damage.



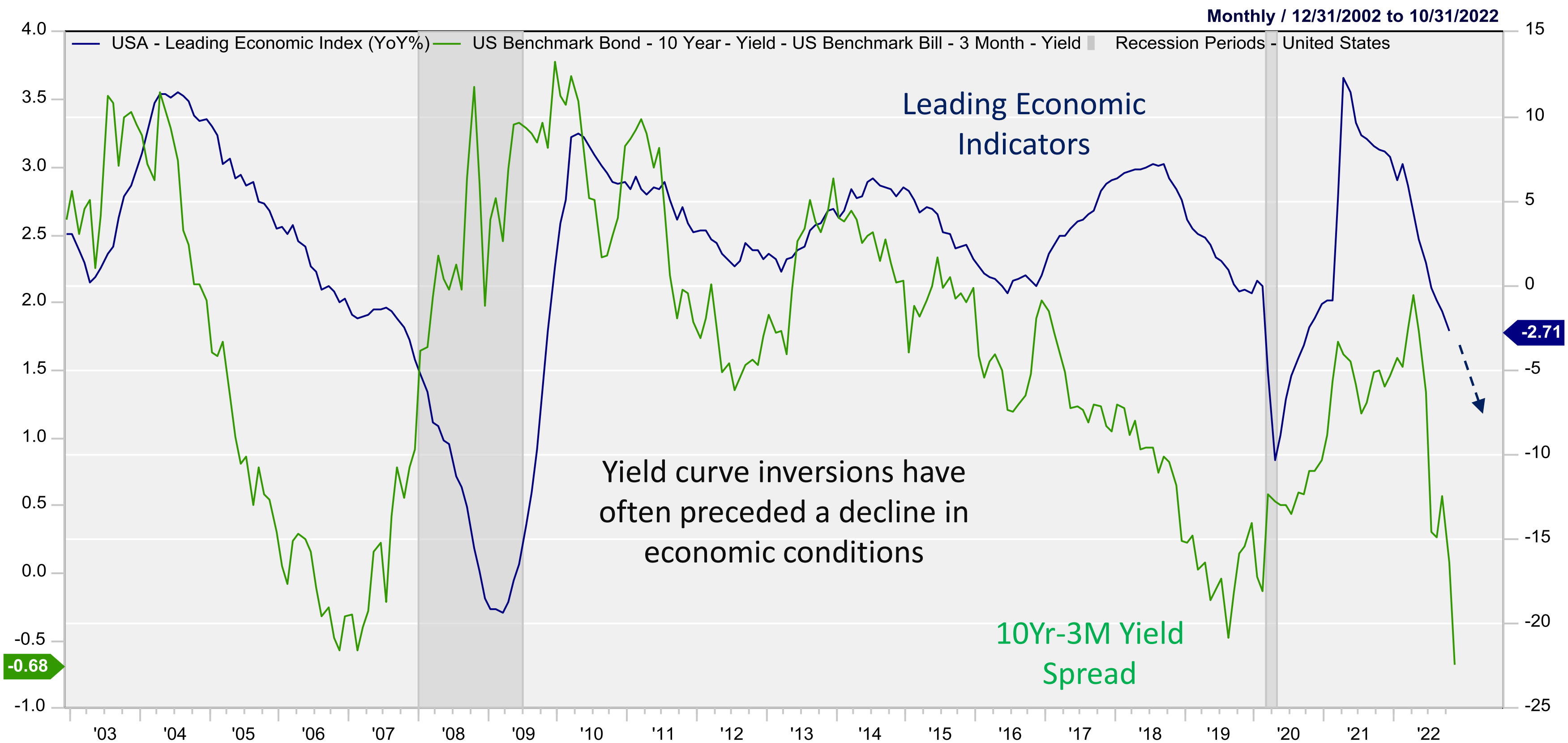
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy





WEAKER ECONOMY A HIGH LIKELIHOOD IN 2023

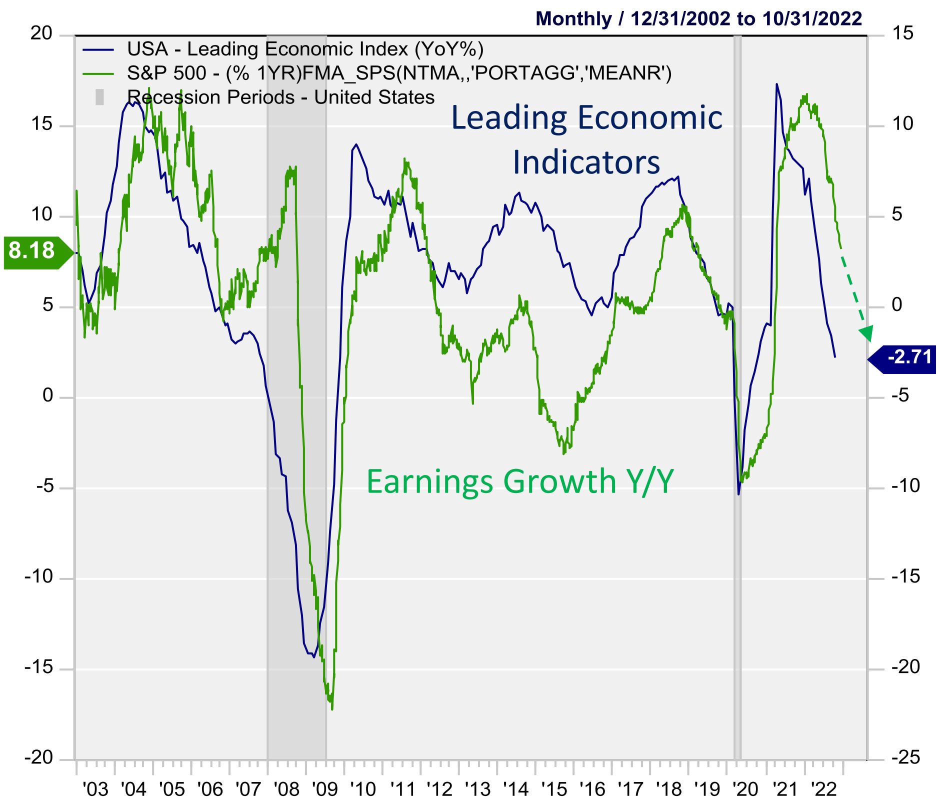
There is a high likelihood of economic contraction ahead. The yield curve (10yr-3m spread) has been a good predictor of economic conditions historically- often becoming negative ahead of recessions- and is deeply inverted. As swift Fed tightening works with a lag on the economy, we expect economic growth to deteriorate in 2023. This is already showing up in some of the economic data, i.e. the housing sector where mortgage applications are at 25-year lows (due to the surge higher in rates). Bank lending standards are tightening, CEO confidence is low, and layoffs/hiring freezes are being announced. We believe there will be a mild recession in 2023.

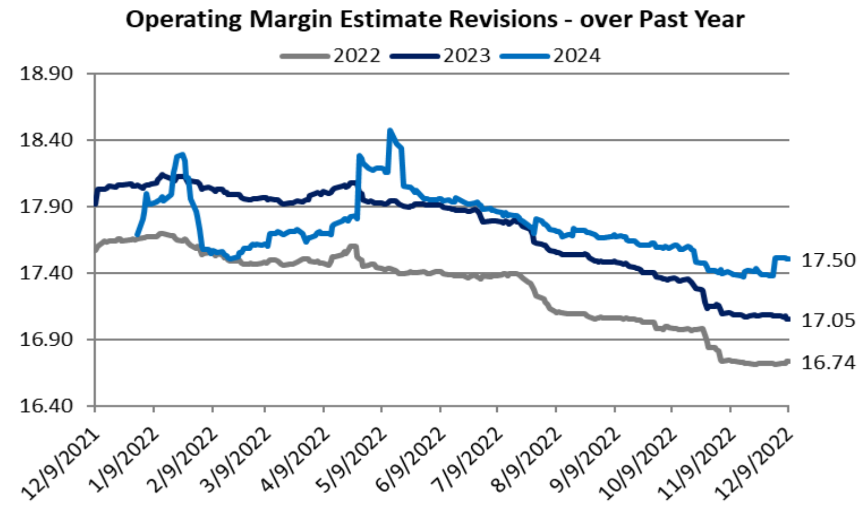


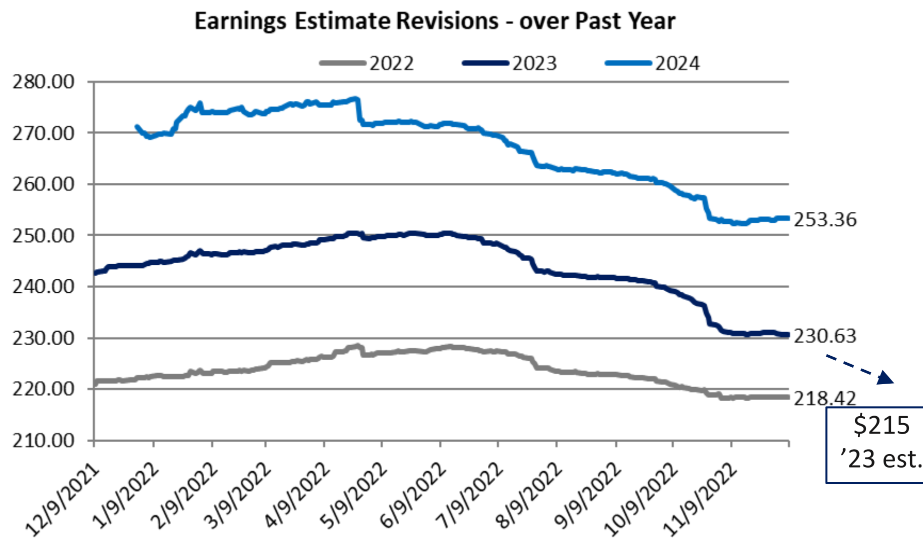
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS LIKELY TO COME UNDER PRESSURE

Economic weakness will result in earnings weakness- and we use a $215 S&P 500 earnings estimate for 2023. This is below the current consensus bottom-up earnings estimate of $230, suggesting to us that equities may not have fully priced in the mild recession that we expect yet. As nominal GDP growth slows, sales growth will slow. And when accompanied by relatively high costs, margins will come under pressure- resulting in lower earnings for 2023.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

HOW MUCH IS PRICED IN?

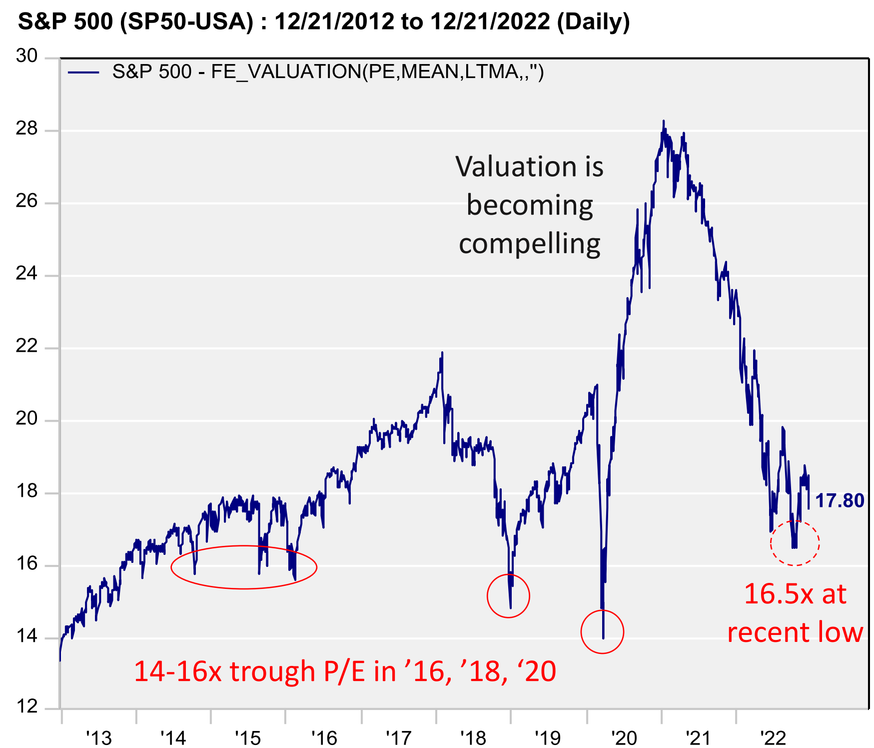
But the question also becomes- How much negative news has been priced in? P/E multiples have already compressed 41% from their peak, which is near that seen in extremes such as the dotcom bubble and financial crisis. We have yet to see a capitulation selloff that can often come at bear market lows, as investors "throw in the towel" and exit stocks at any price. Valuations can briefly reach depressed levels when that occurs, such as 15x and 14x in the 2018 trade war and 2020 Covid shutdown. Bear market lows also typically come further along the economic weakness and earnings path- i.e. earnings growth is usually negative already at a low (while earnings are still growing today). While these things do not necessarily have to transpire for the market to bottom, they do support our view that there is at least more time left in this bear market before equity markets are ready for durable upside- and the bottoming and recovery process may be more elongated in this environment. Our S&P 500 2023 price objective is 4365 (probability-weighted), as we believe equities will be climbing into year-end.

Recessionary Bear Markets

Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Jul-57	Oct-57	3	-20%	11	-24%	-23%
Jan-60	Oct-60	10	-18%	3	-27%	-15%
Nov-68	May-70	18	-36%	22	-32%	-18%
Jan-73	Oct-74	21	-48%	69	-64%	-22%
Feb-80	Apr-80	2	-21%	4	-31%	-6%
Nov-80	Aug-82	21	-27%	3	-27%	-26%
Jul-90	Oct-90	3	-21%	4	-18%	-35%
Mar-00	Oct-02	31	-49%	55	-45%	-26%
Oct-07	Mar-09	17	-59%	49	-43%	-33%
Feb-20	Mar-20	1	-34%	5	-32%	-17%
Average		***13***	***-33%***	***23***	***-34%***	***-22%***
Jan-22		11	-25%		-41%	6%

Non-Recessionary Bear Markets

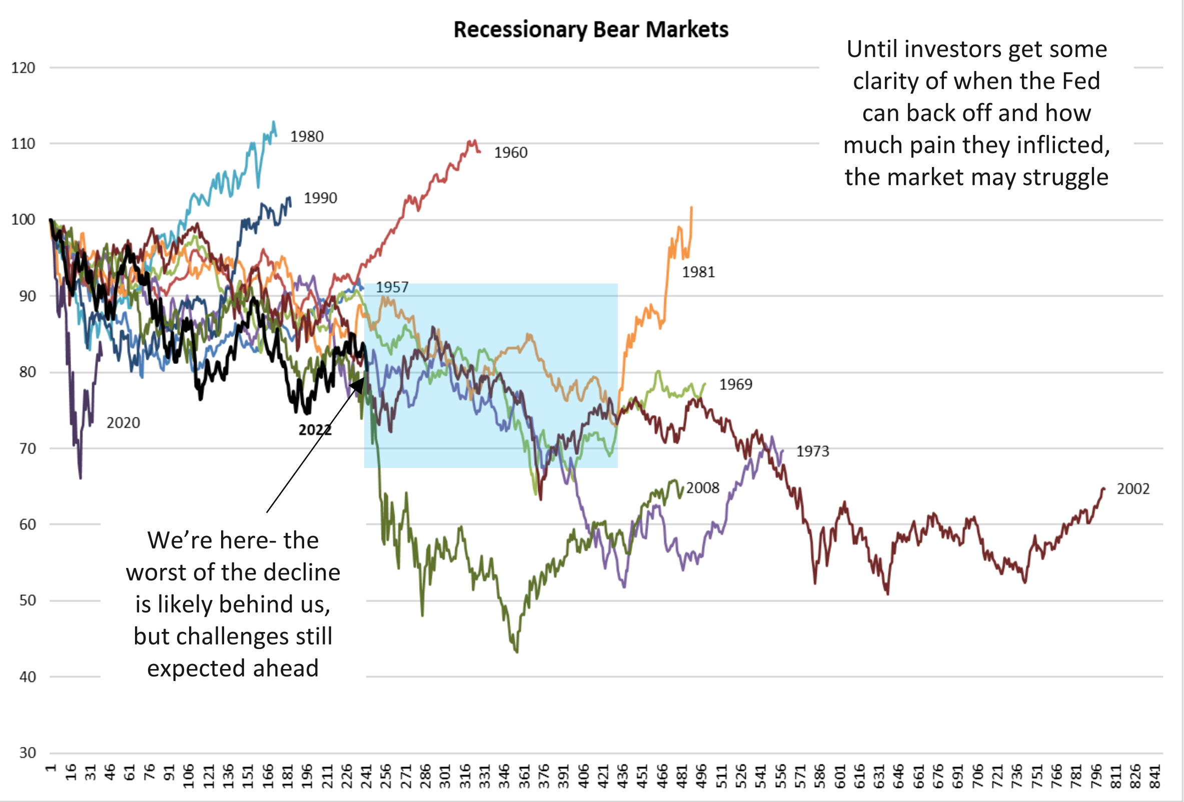
Market Top	Market Bottom	Total Months	Bear Market Decline	Months to return to high from bottom	% Decline of P/E	% Decline of Earnings
Dec-61	Jun-62	6	-28%	15	-35%	6%
Feb-66	Oct-66	8	-22%	7	-36%	-3%
Sep-76	Mar-78	18	-19%	18	-40%	13%
Aug-87	Dec-87	4	-34%	20	-38%	-13%
Jul-98	Oct-98	3	-23%	2	-20%	-1%
Apr-11	Oct-11	6	-19%	5	-39%	5%
Sep-18	Dec-18	3	-20%	4	-32%	5%
Average		***7***	***-24%***	***10***	***-34%***	***2%***



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

RECESSIONARY BEAR MARKETS

We expect a recession in 2023, but believe it will be mild. A unique characteristic of the current cycle is supply being hard-pressed to meet demand. Inventories are low, and we do not see widespread excess on corporate and consumer balance sheets that can often plague downturns. Banks are also very well-capitalized, and importantly we believe inflation will moderate which will ease financial strains. So, we do not believe a deep 50% decline is warranted (i.e. financial crisis, dotcom bubble). On average, recessionary bear markets contract -33% on average over 13 months- but we are already -25% and 11 months into this one. Regardless of the potential downside and volatility that may occur over the next 3-6 months, we do believe that long-term returns are skewed in investors' favor from current levels- and believe that we are likely in the late stages of this bear market. It is also important to not lose sight of the bull market opportunity on the other side. Bear markets may contract 25-33% over a year or so, but bull markets appreciate 152% on average over 4-5 years.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

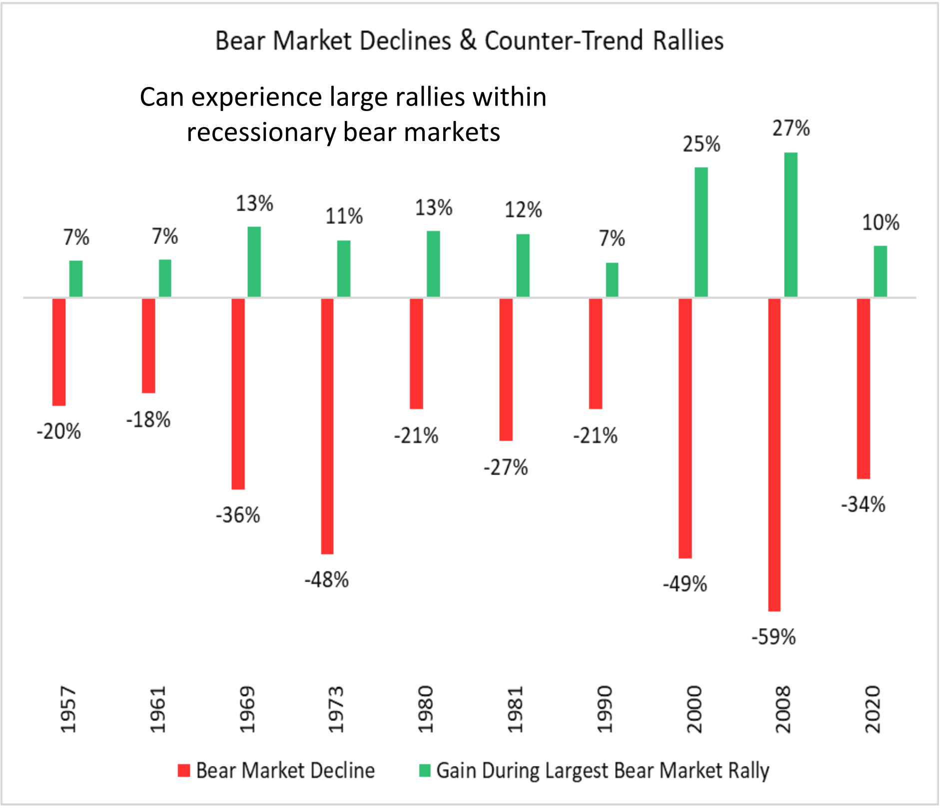
Don't lost sight of bull market opportunity on the other side

Bull Markets

Trough	Peak	Price Change	# of Days
6/13/1949	8/2/1956	267%	1,789
10/22/1957	12/12/1961	86%	1,042
6/26/1962	2/9/1966	80%	913
10/7/1966	11/29/1968	48%	516
5/26/1970	1/11/1973	74%	665
10/3/1974	11/28/1980	126%	1,555
8/9/1982	8/25/1987	231%	1,277
10/20/1987	7/16/1990	71%	691
10/11/1990	7/20/1998	304%	1,963
10/8/1998	3/24/2000	68%	368
10/10/2002	10/11/2007	105%	1,259
3/6/2009	2/19/2020	396%	2,758
3/23/2020	1/3/2022	114%	450
Average		***152%***	***1173***

TECHNICAL BACKDROP

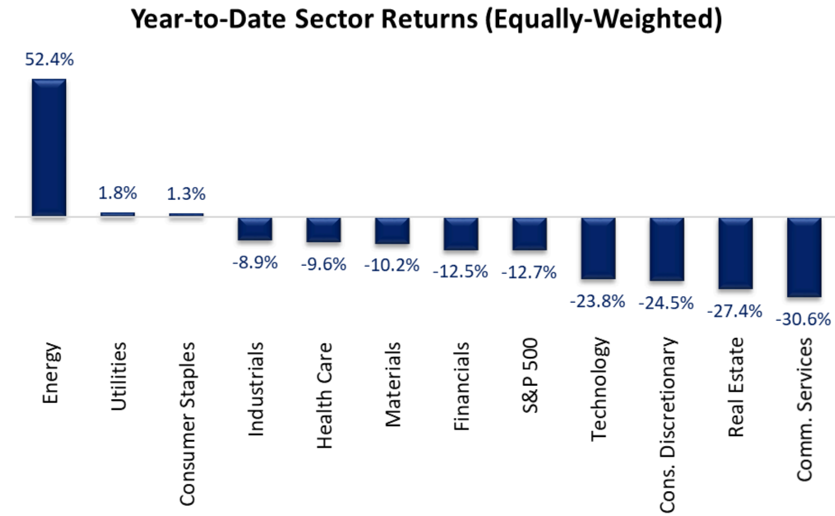
Technically, there have been some positives over recent months suggesting the market is attempting to turn out of its downtrend. For example, the S&P 500 has held its 200-week moving average and 50% retracement of its post-Covid advance (so far), investor sentiment has reached depressed levels, net positioning is very negative, the equity put/call ratio spiked, high yield CDS spreads have receded, and the percentage of stocks above their 50-day moving average reached >90% twice. These are typically things you see near lows. 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. 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.

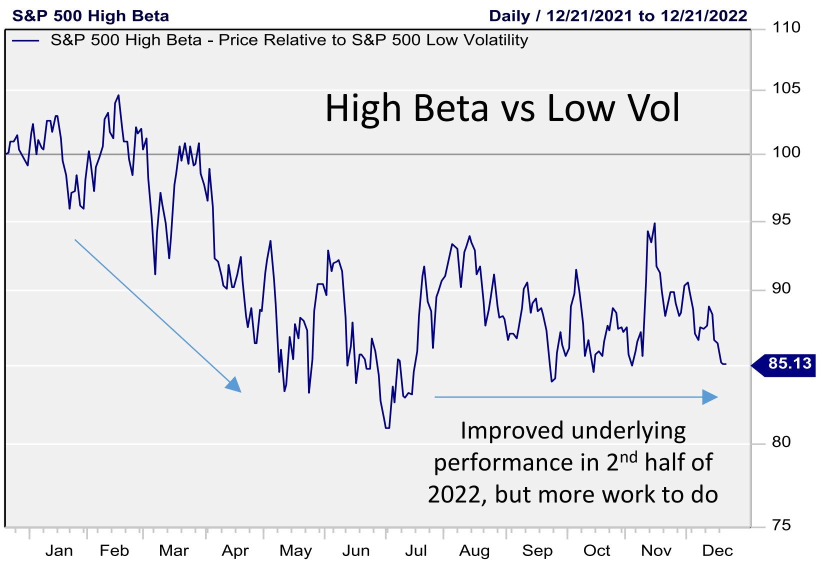


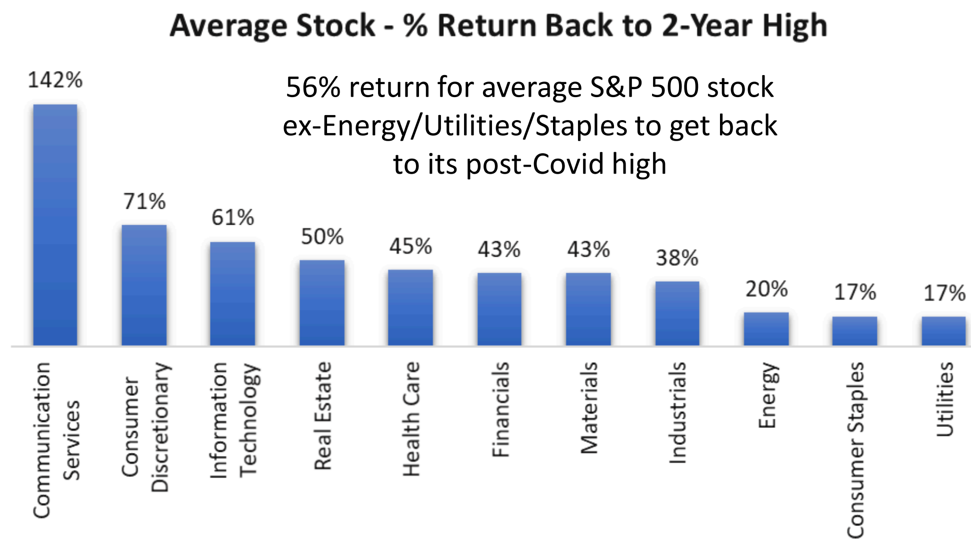
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

POSITIONING

The best returns this year have come from Energy, Utilities, and Consumer Staples, along with the more defensive areas and stocks within sectors. However, underlying performance has broadened out in the second half of 2022- with relative strength trends of high beta vs low volatility becoming more sideways. We are not convinced the market is ready for durable upside yet; but when market momentum does turn, it is likely to result in outsized potential from some of the more beaten-up areas (i.e. tech-oriented, consumer discretionary, and higher beta areas). In fact, the average S&P 500 stock (ex-Energy, Utilities, and Consumer Staples) would return 56% if it reached its post-Covid high again. Potential upside in high quality stocks (within the lagging areas) are intriguing, but they also carry more risk in the short-term. For example, if the market has another down leg, they are likely to underperform. Striking the right balance in portfolios is paramount in volatile periods, as you manage risk while also keeping an eye out on the long-term opportunity.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-80763)

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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.

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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.

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