RAYMOND JAMES

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Weekly Market Guide

A new year marks a new beginning, but for now the story remains the same for equity markets. Rapid Fed tightening in order to fight high inflation in 2022 will work with a lag on the economy in 2023. This is already showing up in some economic indicators, such as housing where mortgage applications are at 25-year lows. Additionally, banks are tightening lending standards, CEO confidence is low, some layoffs/hiring freezes are being announced (particularly in the Tech sector), and leading economic indicators are negative. We believe the odds are high that a recession occurs in 2023, but we do expect it to be mild.

The big R-word can be scary and it is human nature to recall some of your most recent experiences. However, we view the current environment as far different than the 2000 dotcom bubble and 2008 financial crisis (two of the worst market drawdowns in history). A unique characteristic of the current cycle (coming out of the Covid shutdown) is that supply has been very hard-pressed to meet demand. Inventories are low, and we do not see widespread excess on balance sheets that can often plague economic downturns. Banks are also well-capitalized (much has changed since the credit crisis), and importantly we do believe inflation is set to come down (but take time) over the coming year which will ease financial strains.

This lends itself to a recessionary bear market likely more similar to historical averages, which have seen S&P 500 contractions of -33% over 13 months. We have already experienced a -25% drawdown over 12 months, and believe that this bear market is in its late stages- although sometimes bear markets end with that last capitulation selloff. Regardless of potential downside or volatility in the coming months, the long-term risk/reward skews heavily in investors' favor. And we remind investors to not lose sight of the bull market opportunity on the other side of the current weak trend. Bull markets can last 4-5 years and appreciate 152% on average. We do believe that equities will be climbing by year-end 2023, despite lower earnings, due to multiple expansion (as stocks discount the future)- and use a probability-weighted S&P target of 4365.

Over the coming months, investor focus will likely shift from inflation concerns toward economic damage. We believe a lot of negative news has already been priced in and see underlying technical improvement over the past several months. However, the S&P 500 still remains in a downtrend for now. Volatility is likely to persist, and the bottoming process and recovery may be elongated in this environment. With this in mind, we recommend being patient and pragmatic with positioning- use the weak periods as opportunity (with a long-term perspective) and refrain from chasing the rally periods.

Best wishes for a healthy and prosperous 2023!

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	0.4%	-9.6%
S&P 500	0.4%	-19.6%
S&P 500 (Equal-Weight)	1.5%	-12.6%
NASDAQ Composite	-0.1%	-33.1%
Russell 2000	0.6%	-21.9%
MSCI All-Cap World	0.9%	-19.4%
MSCI Developed Markets	1.9%	-16.0%
MSCI Emerging Markets	1.9%	-21.1%
NYSE Alerian MLP	-1.0%	14.9%
MSCI U.S. REIT	1.9%	-25.7%

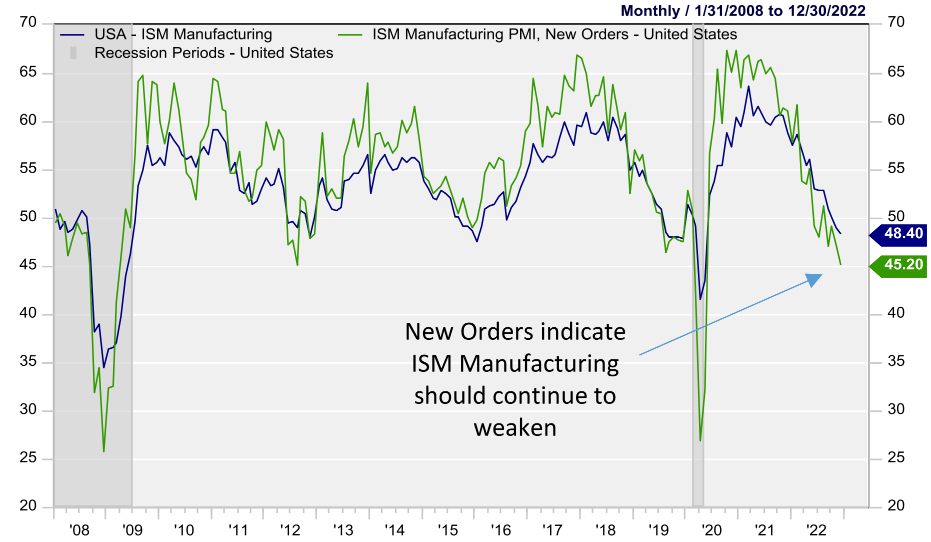
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Real Estate	2.6%	2.8%
Communication Svcs.	2.5%	7.4%
Financials	2.0%	11.9%
Materials	1.6%	2.8%
Industrials	1.1%	8.7%
Utilities	0.9%	3.2%
Consumer Discretionary	0.8%	9.8%
S&P 500	***0.4%***	-
Consumer Staples	0.1%	7.2%
Health Care	0.0%	15.8%
Information Technology	-0.8%	25.5%
Energy	-3.6%	5.0%

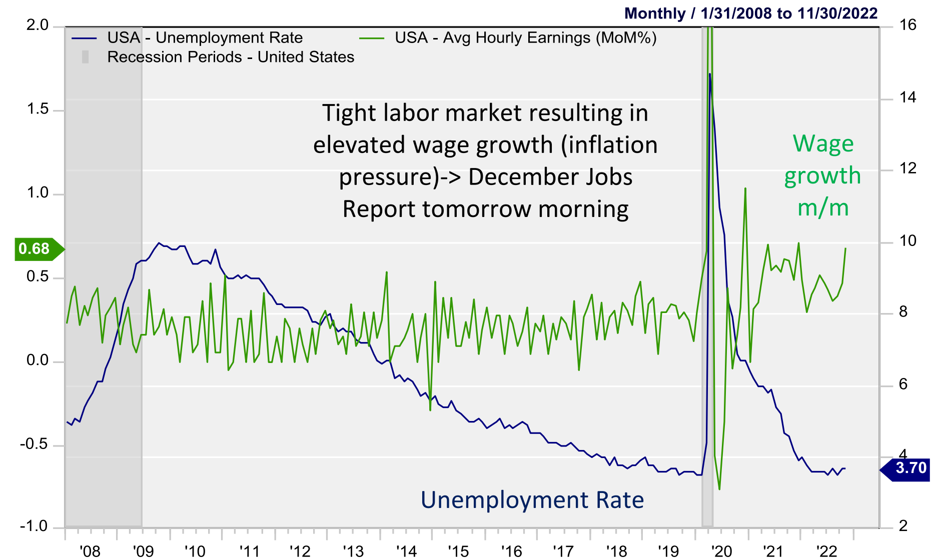
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

December ISM Manufacturing continued to contract (down to 48.4), and New Orders down to 45.2 indicate that the manufacturing backdrop should continue to weaken ahead. (More on this discussed on page 4).

An important catalyst for equity markets is coming tomorrow morning with the December jobs report. Investors have become fairly comfortable with goods inflation, which has declined significantly over recent months. However, core services inflation remains elevated, which is being contributed to in part by the tight labor market. Employers are still increasing wages at a high rate to attract and retain employees, which is pressuring them to raise prices in order to maintain profitability. We believe this dynamic will correct itself over the coming year (as economic weakness ensues), but will also take some time. The next reading on nonfarm payrolls, the unemployment rate, and wage growth comes tomorrow morning- and is a hot topic for the Fed and investors. (Continued on next page)



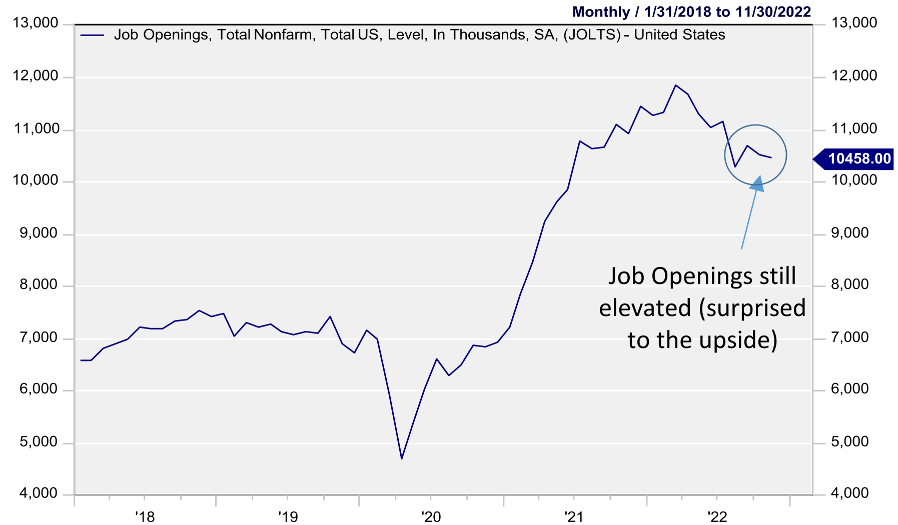


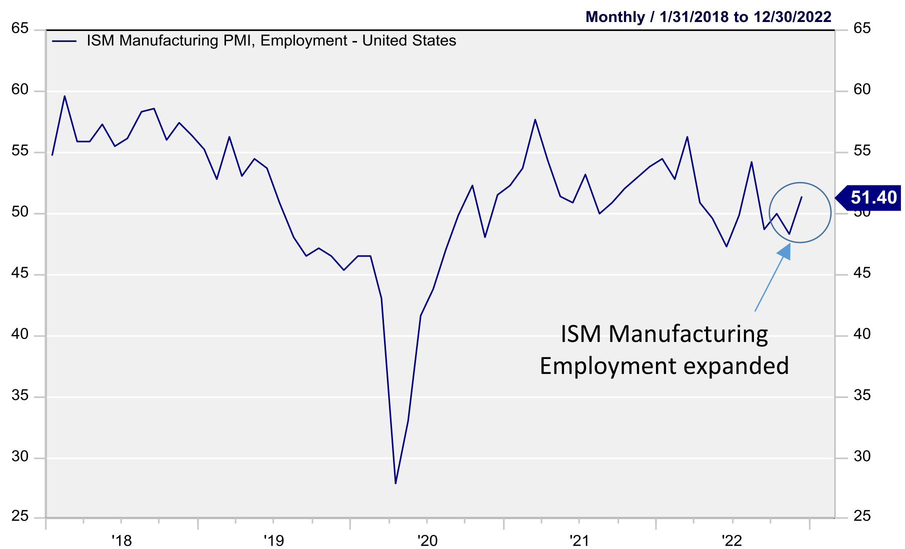
Event	Period	Actual	Consensus	Prior
Chicago PMI SA	DEC	44.9	40.0	37.2
Markit PMI Manufacturing SA (Final)	DEC	46.2	46.2	46.2
Construction Spending SA M/M	NOV	0.20%	-0.40%	-0.24%
ISM Manufacturing SA	DEC	48.4	48.5	49.0
JOLTS Job Openings	NOV	10,458K	10,000K	10,512K
BEA Total Light Vehicle Sales	DEC	13.3M	14.1M	14.2M
ADP Employment Survey SA	DEC	235.0K	145.0K	182.0K
Continuing Jobless Claims SA	12/24	1,694K	1,716K	1,718K
Initial Claims SA	12/31	204.0K	230.0K	223.0K
Trade Balance SA	NOV	-$61.5B	-$72.0B	-$77.8B
PMI Composite SA (Final)	DEC	45.0	44.6	44.6
Markit PMI Services SA (Final)	DEC	44.7	44.4	44.4

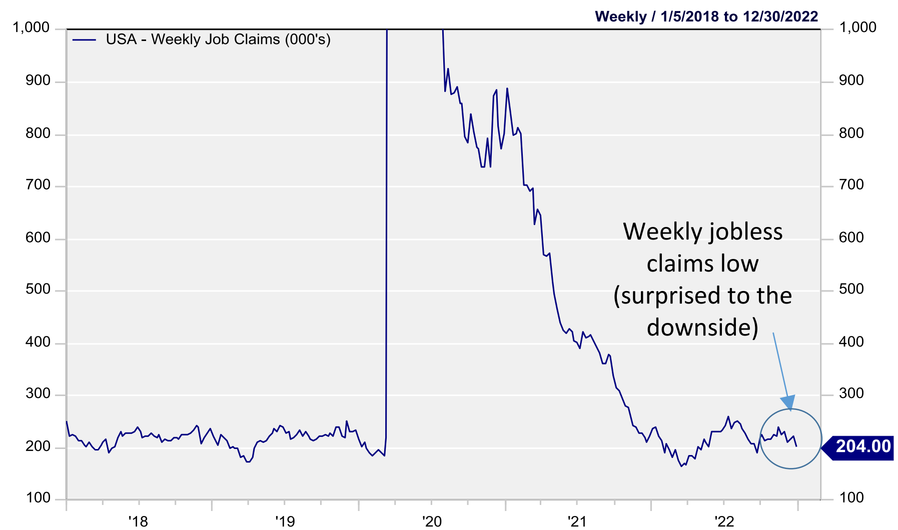
Source: FactSet, Gibbs Capital Management

EMPLOYMENT DATA THIS WEEK

As discussed previously, the December jobs report tomorrow morning will be closely monitored by investors (and the Fed)- due to the tight labor market and high wage growth putting upward pressure on inflation. We received a few data points on employment this week that pointed to a still strong labor market, which in turn was a headwind to equity markets in our view. For example, despite weak ISM Manufacturing new orders, employment actually expanded (seems counterintuitive)- the wide spread of weak ISM new orders to positive ISM employment is rare historically. Additionally, JOLTS Job Openings came in above expectations and the prior month was revised higher. The JOLTS Quits Rate ticked higher for the month (sign of confidence in finding a new job). Moreover, weekly jobless claims are still low. These readings are good for economic growth, but not for inflation. However, other than weekly jobless claims, they are also surveys. Tomorrow's jobs report will be an updated look at the hard data.



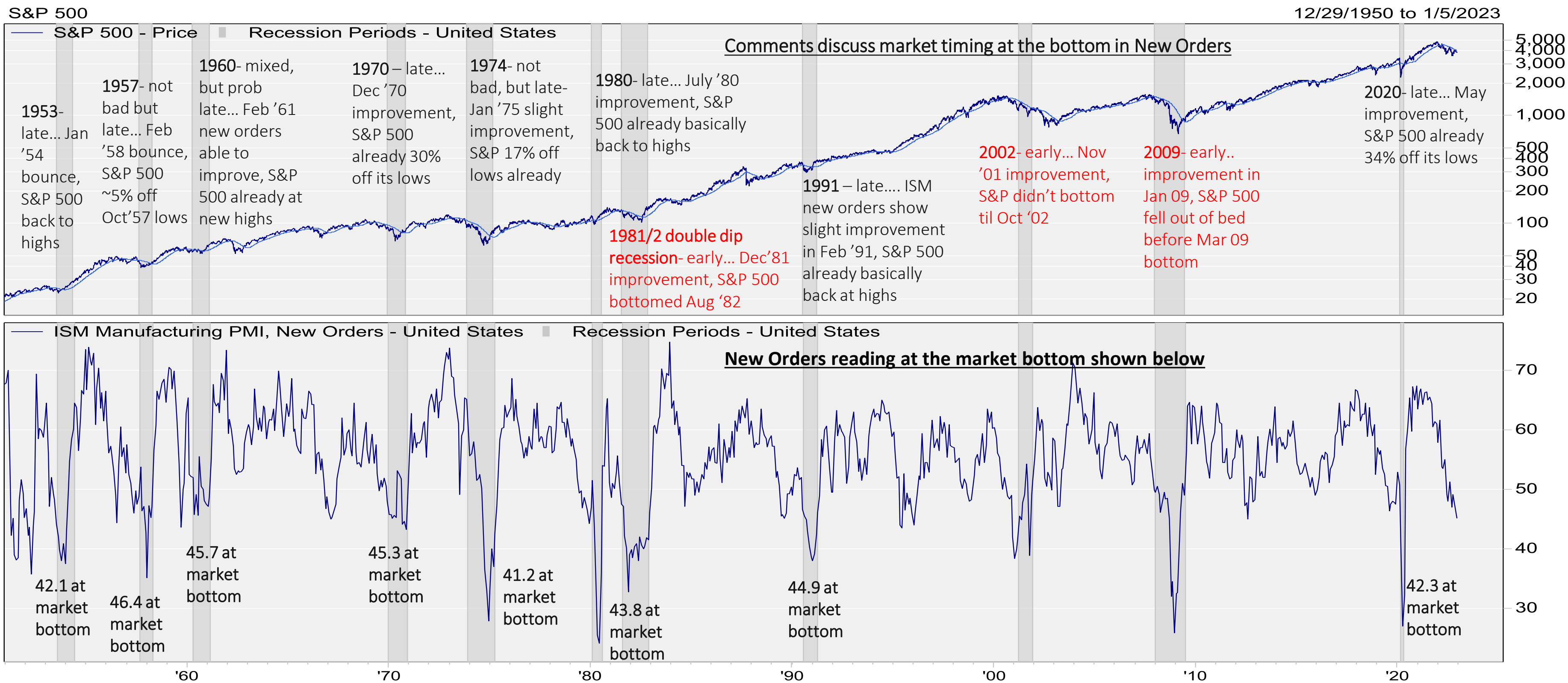




Source: FactSet, Gibbs Capital Management

ISM NEW ORDERS IN RECESSIONS

ISM new orders are often used as an indicator for future demand, and the December reading of 45.2 indicates weaker economic trends ahead. The chart below shows the relationship of the S&P 500 to new orders since 1950; and on a long-term chart, recessionary bear market bottoms appear to come near lows in new orders. However, zooming into each individual period, the S&P 500 has already bottomed (oftentimes well off its lows) by the time ISM new orders improve the majority of the time. This is an example of the market typically bottoming well ahead of the economy. If you wait for the economy to improve, odds are you will be late to the market recovery. Historically, ISM new orders are typically in the mid-40s or lower at a market bottom- so December's 45.2 is finally getting into an area where lows can be formed. To be sure, this is just one indicator on timing and does not mean that market challenges are over. But it does support our view that we are likely in the late stages of this bear market.

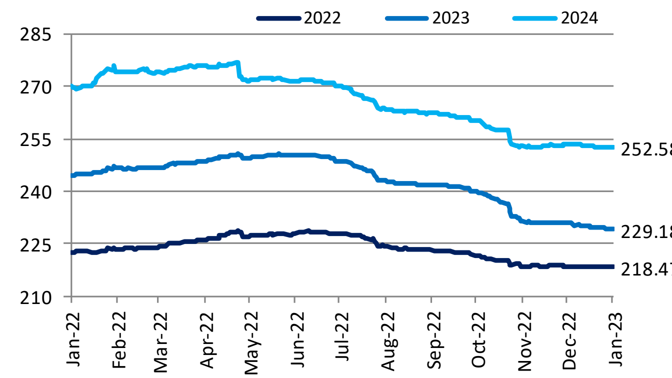


Source: FactSet, Gibbs Capital Management

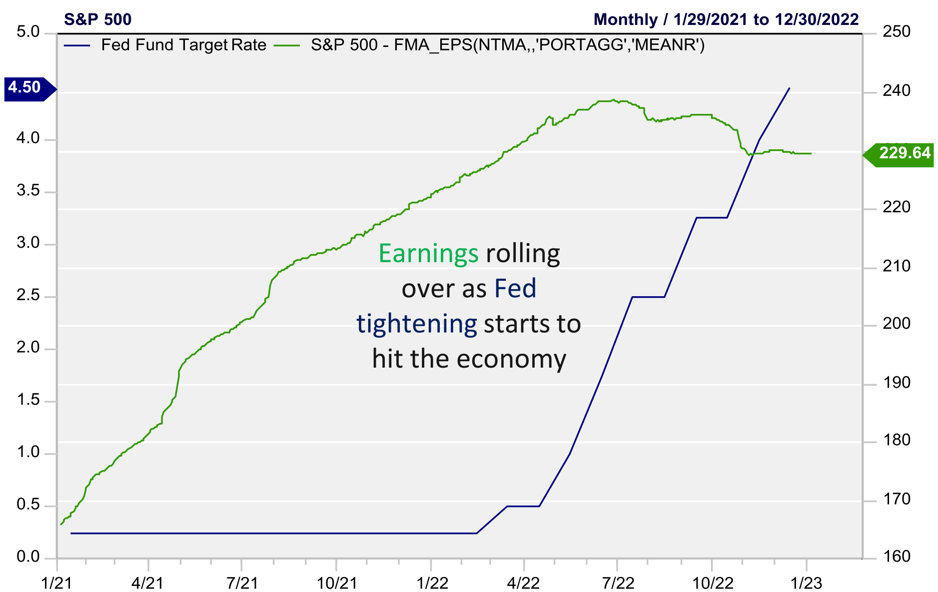
FUNDAMENTALS

As Fed tightening works with a lag on the economy, we expect lower economic growth and earnings ahead. Bottom-up earnings estimates of $229 for 2023 are still too high in our view. Our base case earnings estimate is $215. We are not convinced that a mild recession is fully priced in at this point, but we do believe a lot of negative news already has been. Bear markets can sometimes end with a capitulation selloff where valuations briefly reach depressed levels (i.e. 14-15x in 2018 trade war and 2020 Covid shutdown respectively), but a 16.5x P/E at the recent lows is already compressed 41% from the peak P/E in 2021 (in line with 43-45% P/E compressions in the severe dotcom bubble and financial crisis). Once investors can gain clarity on the inflation and economic outlook, P/E multiples will be able to expand despite lower earnings. On average in recessions, earnings bottom 8-9 months after recession end, while valuations bottom 2-6 months prior to recession end.

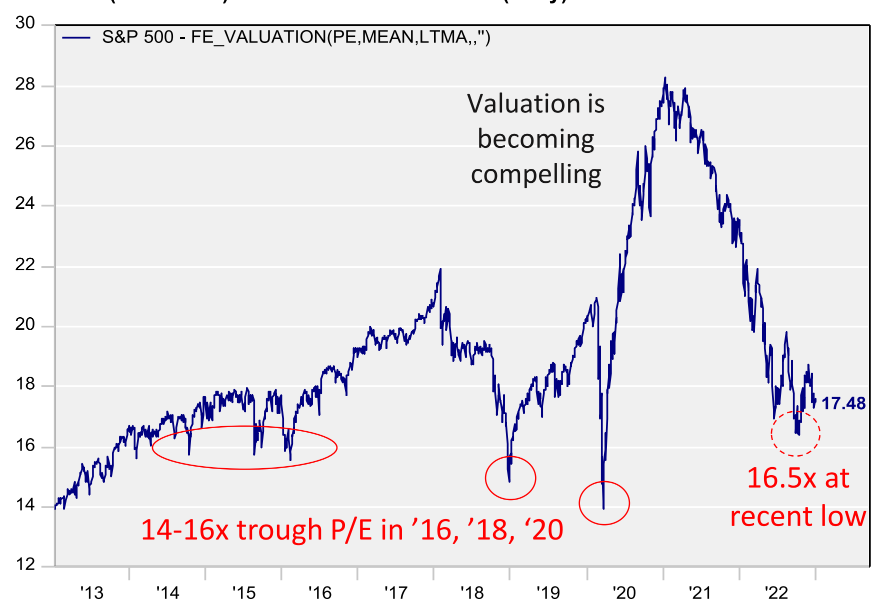
S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2022	5.8%
2023	4.9%
2024	10.2%



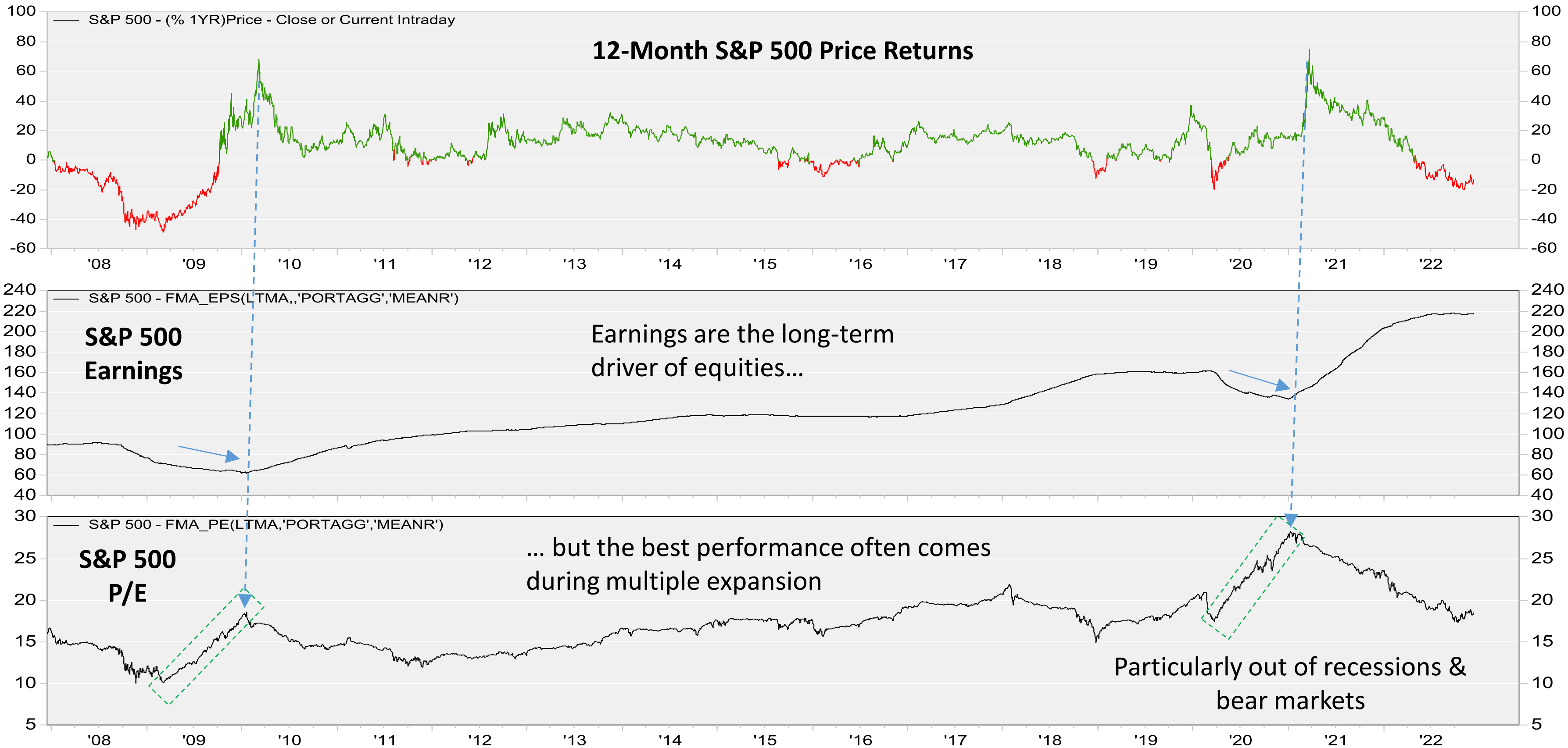
S&P 500 (SP50-USA) : 01/04/2013 to 01/05/2023 (Daily)



Source: FactSet, Gibbs Capital Management

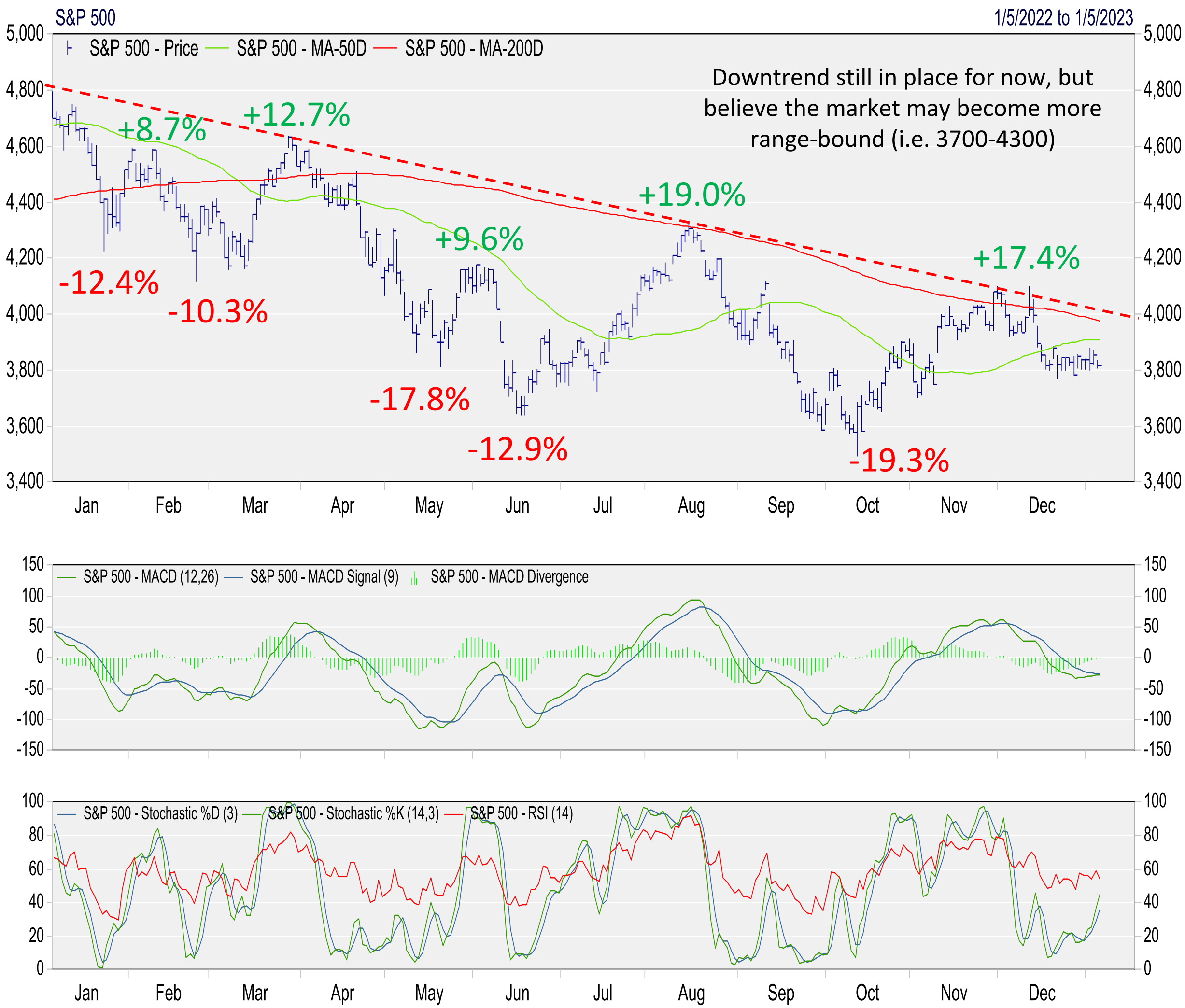
VALUATION

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 12 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. Thus, we recommend accumulating favored stocks in the weak periods as risk/reward improves.



Source: FactSet, Gibbs Capital Management

TECHNICAL: S&P 500



Source: FactSet, Gibbs Capital Management

Over the second half of 2022, some underlying technical positives have emerged that indicate the market may be 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
- 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.

In the short-term, watch the 21DMA for potential resistance (currently at 3890) and then the downtrend line (currently at 4059). The next area of support is around the 3700-area followed by ~3518.

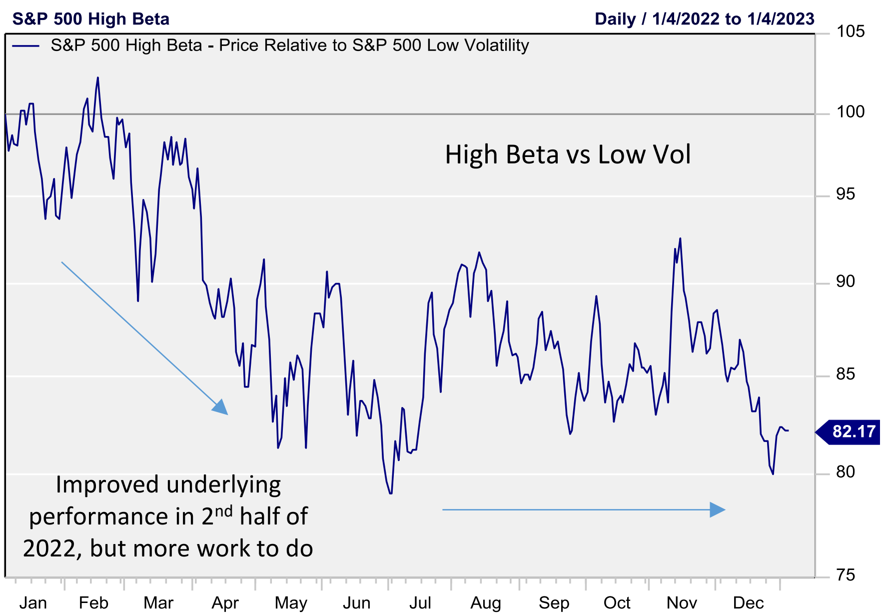
US DOLLAR

The US dollar's pullback since October has been a boost to global equities, i.e. China. In fact, China broke above its 200-day moving average for the first time since June 2021! This is encouraging, and we do believe that the US dollar may be set for a consolidation phase following its sharp ascent. However, the US dollar is also oversold in the short-term and approaching long-term support. This makes us reluctant to chase the rally in some global equities in the short-term, but there may be opportunity in accumulating within a potential pullback given many areas are well off their highs (i.e China was down over 60% at its lows).

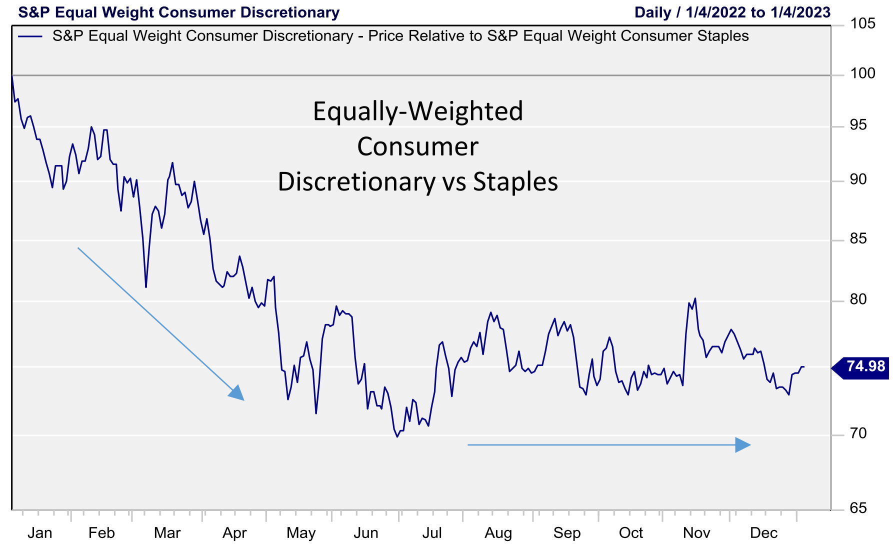
Source: FactSet, Gibbs Capital Management

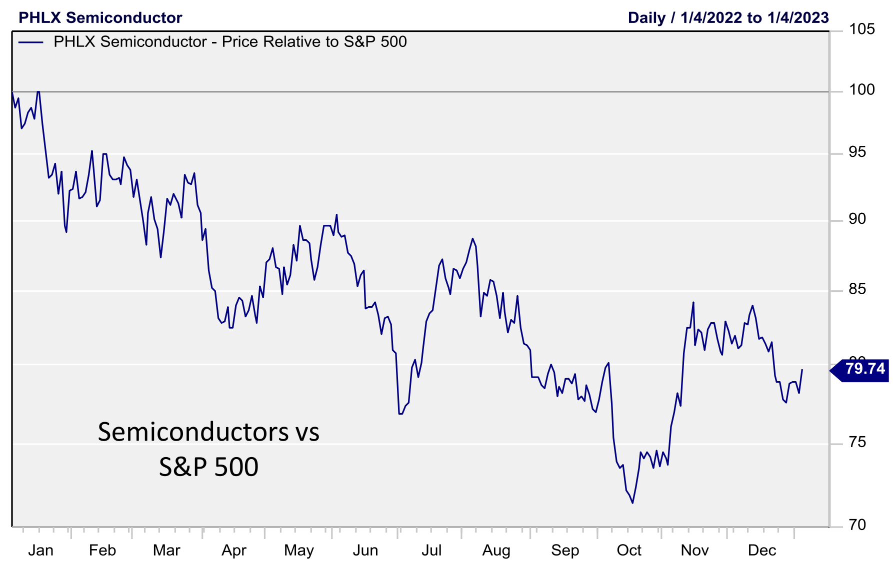
MARKET LEADERSHIP

We note some improved underlying performance over the second half of 2022. Relative performance of many risk-on areas underperformed consistently in the first half of 2022, but those relative strength trends became more sideways in the back half of the year. This is encouraging and supports our view that market trends are attempting to turn. However, the lack of significant improvement also lends itself to market trends that likely remain volatile and potentially become more range-bound. We are not convinced that the market is ready for durable upside yet; but when 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). 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.



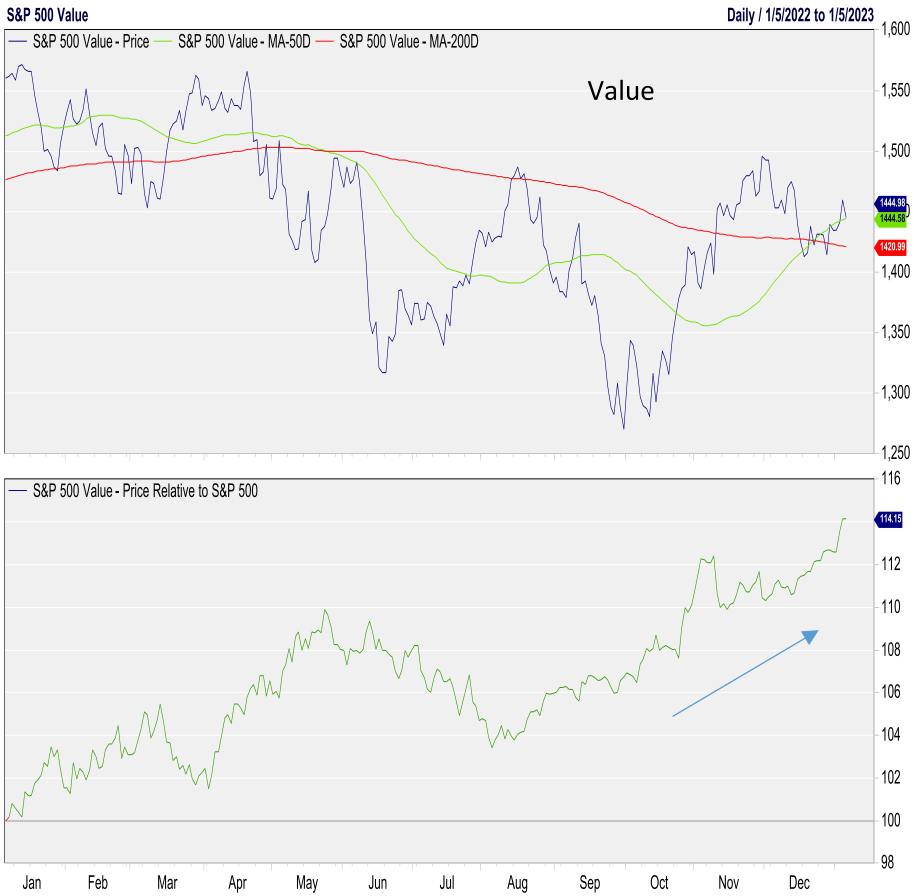
Source: FactSet, Gibbs Capital Management

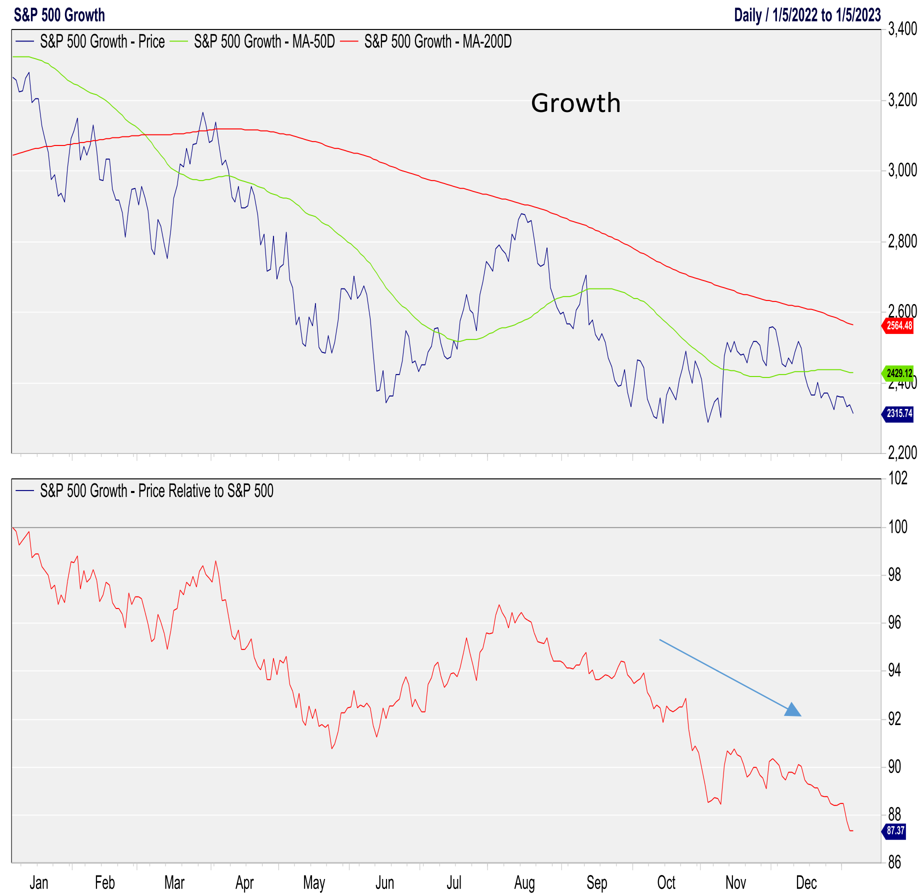




VALUE vs. GROWTH

Value continues to be our favored area over Growth. Despite lower interest rates and a lower US dollar, Growth stocks continue to underperform. In fact, Growth relative strength pushed to new lows this week, while Value relative strength pushed to new highs. Value has been a fairly consistent outperformer over the past 6 months, and this will consolidate at some point. However, following significant underperformance over the past 15 years, Value may also have a runway to longer-term outperformance.





Source: FactSet, Gibbs Capital Management (M23-90177)

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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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