Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

JANUARY 19, 2023 | 3:57 PM EST

Weekly Market Guide

On one hand, technical indicators are becoming encouraging; while on the other hand, economic data (and fundamentals) are weakening. Oftentimes, the technicals will improve prior to the fundamentals (particularly out of bear markets), so this grabs our attention and supports our view that trends may be turning. However, we also do not believe that equity markets are ready for sustainable upside yet with the Fed still tightening (and unlikely to quickly pivot), economic indicators weakening, lower EPS estimate revisions, valuation not at “washed out” levels, and the market still in an overall downtrend. We remain positive on equity market returns over the next 12 months, but headwinds to durable upside remain in the shorter-term.

Many things technically have improved, but (ultimately) the big picture has not changed yet- the dominant trend is still down for now. The S&P 500 has been capped numerous times over the past year at its downtrend line near the 200-day moving average, and yesterday’s weakness came from that point. What we are watching following yesterday’s weakness is if the pullback gains momentum in the coming days or is quickly shaken off. **Overall, we believe the net result is a market that may become more range-bound over the coming months, potentially between ~3700-4300. For the pragmatic investor with marginal cash, we recommend accumulating on weakness and building allocations over time as the trend continues to evolve.**

Q4 Earnings Season: It is only just the beginning of Q4 earnings season, but so far results are coming in below historic averages. 63% of S&P 500 companies are beating estimates by 4% (vs 15-year averages of 70% and 5.4%, respectively). Guidance is also being cut with 2023 earnings estimates moving broadly lower. For example, the banks are setting aside extra reserves for an expected rise in loan delinquencies. Performance has been mixed so far on results with an average 1-day price change of 0.2%. Whereas stocks were able to rally in Q3 earnings season, they were also coming off their lows with better-than-expected inflation data. With the average S&P 500 stock now well off its lows, weak results this earnings season may be more of a headwind. Q4 earnings season ramps up next week with 85 S&P 500 companies reporting.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	0.5%	-5.9%
S&P 500	2.3%	-14.2%
S&P 500 (Equal-Weight)	3.6%	-7.8%
NASDAQ Composite	4.7%	-24.5%
Russell 2000	5.3%	-11.5%
MSCI All-Cap World	4.6%	-13.6%
MSCI Developed Markets	8.2%	-9.0%
MSCI Emerging Markets	7.7%	-17.0%
NYSE Alerian MLP	3.7%	13.8%
MSCI U.S. REIT	5.1%	-19.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Discretionary	6.8%	10.2%
Communication Svcs.	5.9%	7.5%
Real Estate	5.4%	2.8%
Materials	5.3%	2.8%
Information Technology	3.9%	26.1%
Financials	2.8%	11.7%
S&P 500	***2.3%***	-
Industrials	1.5%	8.5%
Energy	1.0%	5.2%
Utilities	-1.4%	3.1%
Health Care	-2.3%	15.2%
Consumer Staples	-2.4%	6.9%

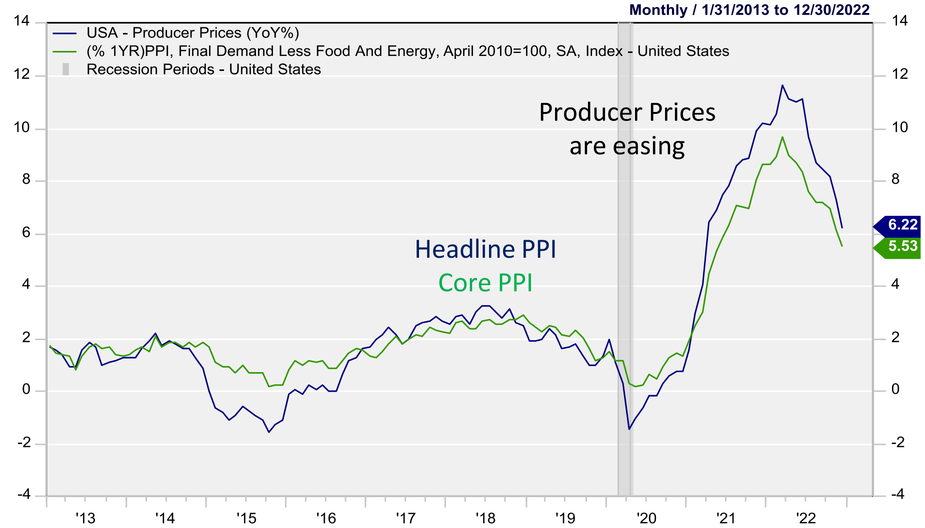
Source: FactSet, RJ Equity Portfolio & Technical Strategy

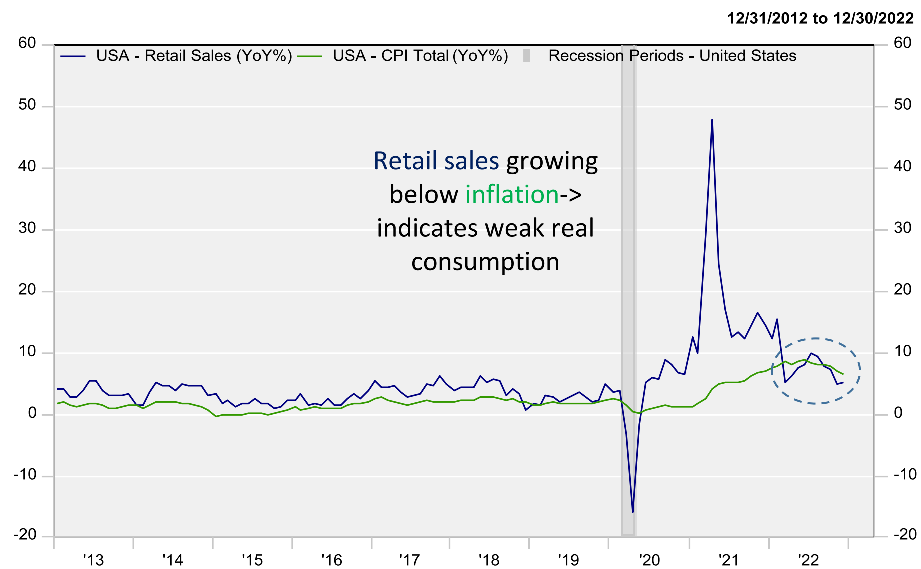
MACRO: US

Retail sales and industrial production both contracted in December (on a month/month basis) by more than expected. Additionally, retail sales growth of 5.2% y/y has been due to high inflation. In essence, US consumers have been spending "more for less" over the past year- as "real" consumption declines. This has created financial strains, eating into disposable income levels and savings rates- and is unsustainable for the US consumer. Importantly, it does appear that price pressures are easing, which we expect to continue over the coming year. But economic leading indicators are still declining, and we expect economic weakness ahead as Fed tightening works with a lag.

Event	Period	Actual	Surprise	Prior
Michigan Sentiment NSA (Preliminary)	JAN	64.6	4.4	59.7
Empire State Index SA	JAN	-32.9	-24.6	-11.2
PPI ex-Food & Energy SA M/M	DEC	0.10%	-0.0%	0.20%
PPI ex-Food & Energy NSA Y/Y	DEC	5.5%	0.03%	6.2%
PPI SA M/M	DEC	-0.50%	-0.40%	0.20%
PPI NSA Y/Y	DEC	6.2%	-0.56%	7.3%
Retail sales Ex AutoFuel M/M	DEC	-0.69%	-0.84%	-0.48%
Retail Sales ex-Auto SA M/M	DEC	-1.1%	-0.65%	-0.60%
Retail Sales SA M/M	DEC	-1.1%	-0.30%	-1.0%
Industrial Production SA M/M	DEC	-0.70%	-0.60%	-0.60%
Business Inventories SA M/M	NOV	0.40%	-0.0%	0.20%
NAHB Housing Market Index SA	JAN	35.0	4.0	31.0
Building Permits SAAR (Preliminary)	DEC	1,330K	-40.0K	1,351K
Continuing Jobless Claims SA	01/07	1,647K	4.5K	1,630K
Housing Starts M/M	DEC	-1.4%	3.3%	-1.8%
Housing Starts SAAR	DEC	1,382K	24.0K	1,401K
Initial Claims SA	01/14	190.0K	-25.0K	205.0K
Philadelphia Fed Index SA	JAN	-8.9	2.1	-13.7

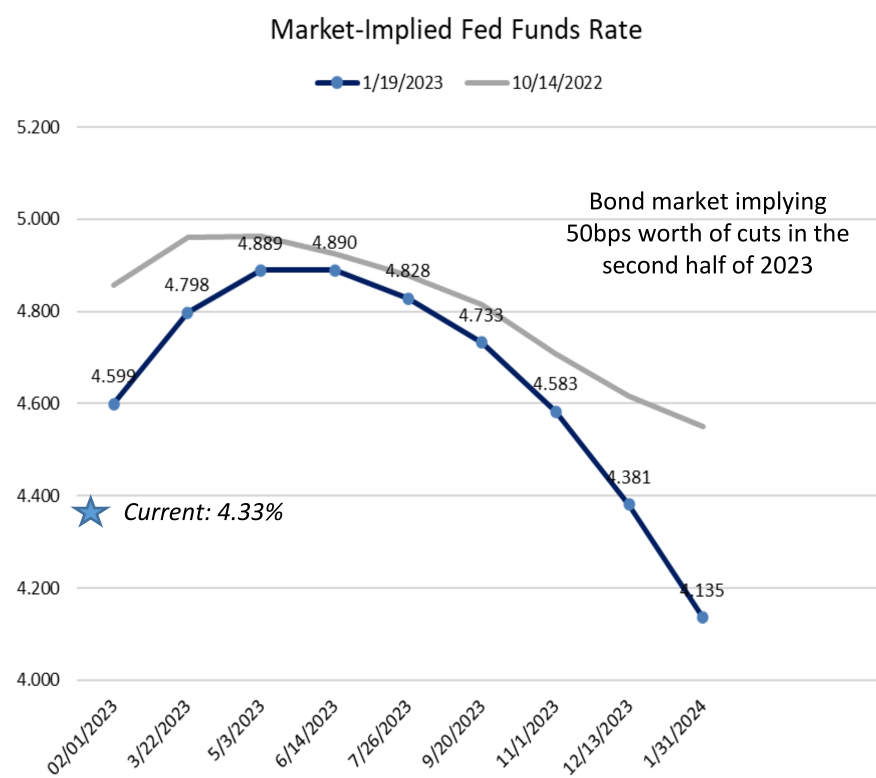
Source: FactSet, Gibbs Capital Management





MARKET-IMPLIED FED EXPECTATIONS

The 2-year Treasury yield recently moved below the Fed funds rate for the first time since the tightening cycle began. In both bond yields and in breakeven rates, the bond market is indicating that inflation has peaked- and that the Fed likely only has 50bps of tightening left in the first half of 2023. This is a big deal for equity markets, as Fed expectations have been a significant influence on markets over the past year. For example, the S&P 500 low in October corresponds with the peak in Fed funds expectations- supporting valuation multiple expansion since then. However, the bond market is also expecting ~50bps of Fed cuts in the back half of 2023. That likely requires real economic and labor market weakness in our view, which we do not believe is fully priced in by equity markets. This disconnect creates pause to our market expectations. While the worst of this bear market may be behind us at this point, we are also not convinced that equities are ready for durable upside yet either.



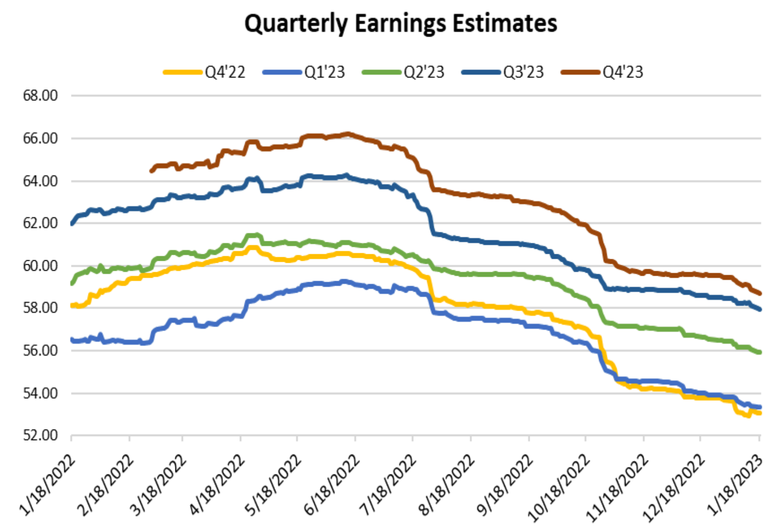
Source: FactSet, Gibbs Capital Management

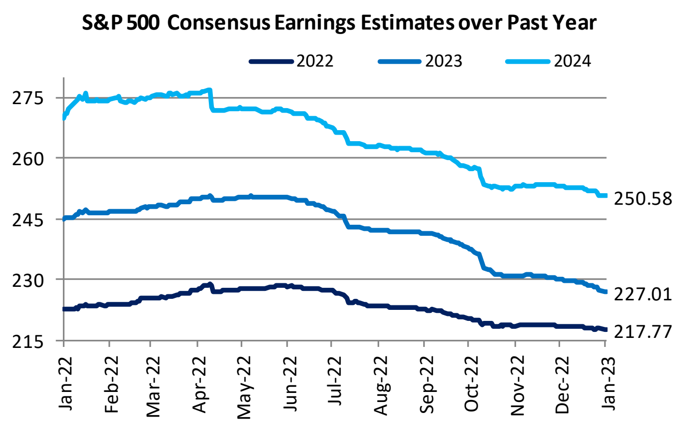
Q4 EARNINGS SEASON

It is only just the beginning of Q4 earnings season, but so far results are coming in below historic averages. 63% of S&P 500 companies are beating estimates by 4% (vs 15-year averages of 70% and 5.4% 15-year averages, respectively). Guidance is also being cut with 2023 earnings estimates moving broadly lower. For example, the banks are setting aside extra reserves for an expected rise in loan delinquencies. The most significant earnings estimate declines have been from Energy and Financials this month.

Performance has been mixed so far on results with an average 1-day price change of 0.2%. Whereas stocks were able to rally in Q3 earnings season, they were also coming off their lows with better-than-expected inflation data. With the average S&P 500 stock now well off its lows, weak results this earnings season may be more of a headwind. Q4 earnings season ramps up next week with 85 S&P 500 companies reporting.

Given our base case expectation for a mild recession, we use a 2023 earnings estimate of $215 (below the current bottom-up analyst estimate of $227). Despite our expectations for an earnings contraction this year, we do believe equity markets will be higher by year-end 2023 due to valuation multiple expansion as investors gain clarity on inflation, Fed policy, and the economic damage done.





EPS Growth Estimates	
2022	5.4%
2023	4.2%
2024	10.4%

Source: FactSet, Gibbs Capital Management

TECHNICAL: S&P 500

Source: FactSet, Gibbs Capital Management

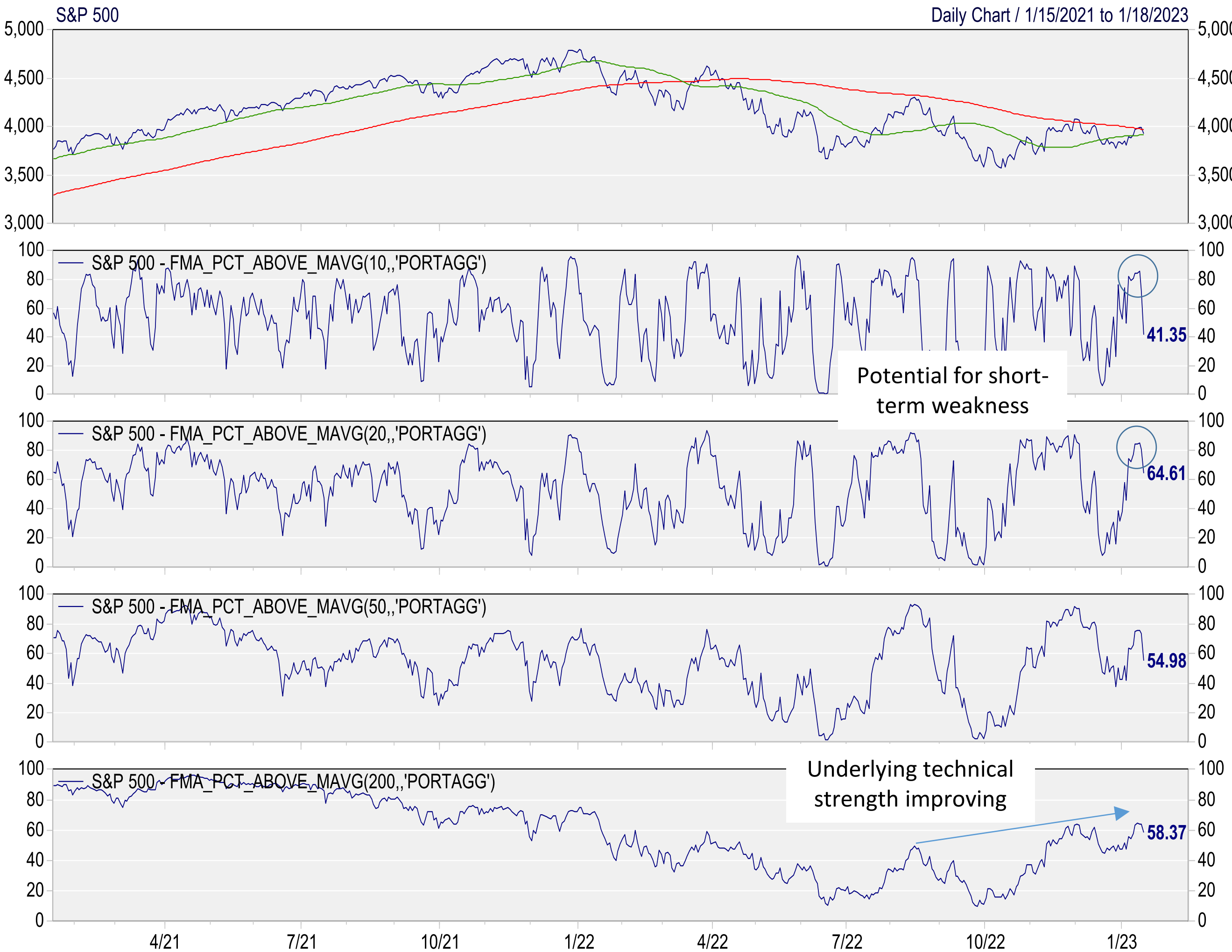
Many things technically have improved, but (ultimately) the big picture has not changed yet- the dominant trend is still down for now.

The S&P 500 has been capped numerous times over the past year at its downtrend line near the 200-day moving average, and yesterday's weakness came from that point. What we are watching following yesterday's weakness is if the pullback gains momentum in the coming days or is quickly shaken off.

Short-term stochastics are rolling over. Watch for initial support at the 21DMA (currently at 3876). Below 3876 watch for support at 3800, 3700, and then 3518. The downtrend line, which currently comes in at 4035 will continue to be the resistance area to watch on the upside.

Overall, we believe the market may become more range-bound over the coming months, potentially between ~3700-4300. For the pragmatic investor with marginal cash, we recommend accumulating on weakness and building allocations over time as the trend continues to evolve.

MARKET BREADTH IMPROVING



Source: FactSet, Gibbs Capital Management

Technically, a positive development in the current rally is the expansion of S&P 500 stocks trading above their 200-day moving averages.

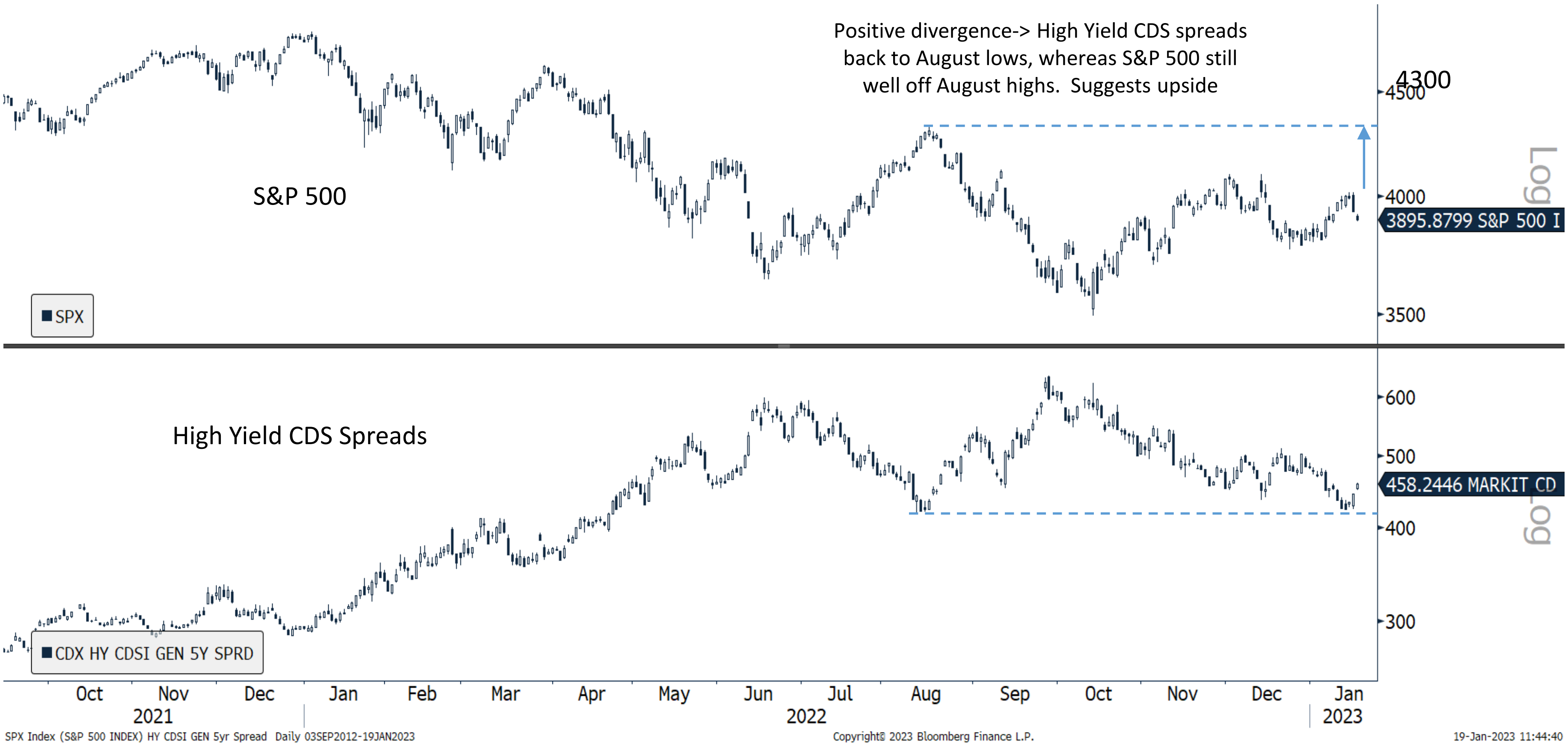
There was a lower high for price, but higher high for participation, as 65% of stocks traded above their 200-day moving average (highest reading since last January).

This indicates improved breadth beneath the surface and is supportive of underlying market trends in our view.

However, in the short-term, there may be some weakness as equities pull back from overhead resistance. The % of stocks above their 10- and 20-day moving averages is rolling over from overbought levels.

HIGH YIELD CREDIT DEFAULT SWAPS

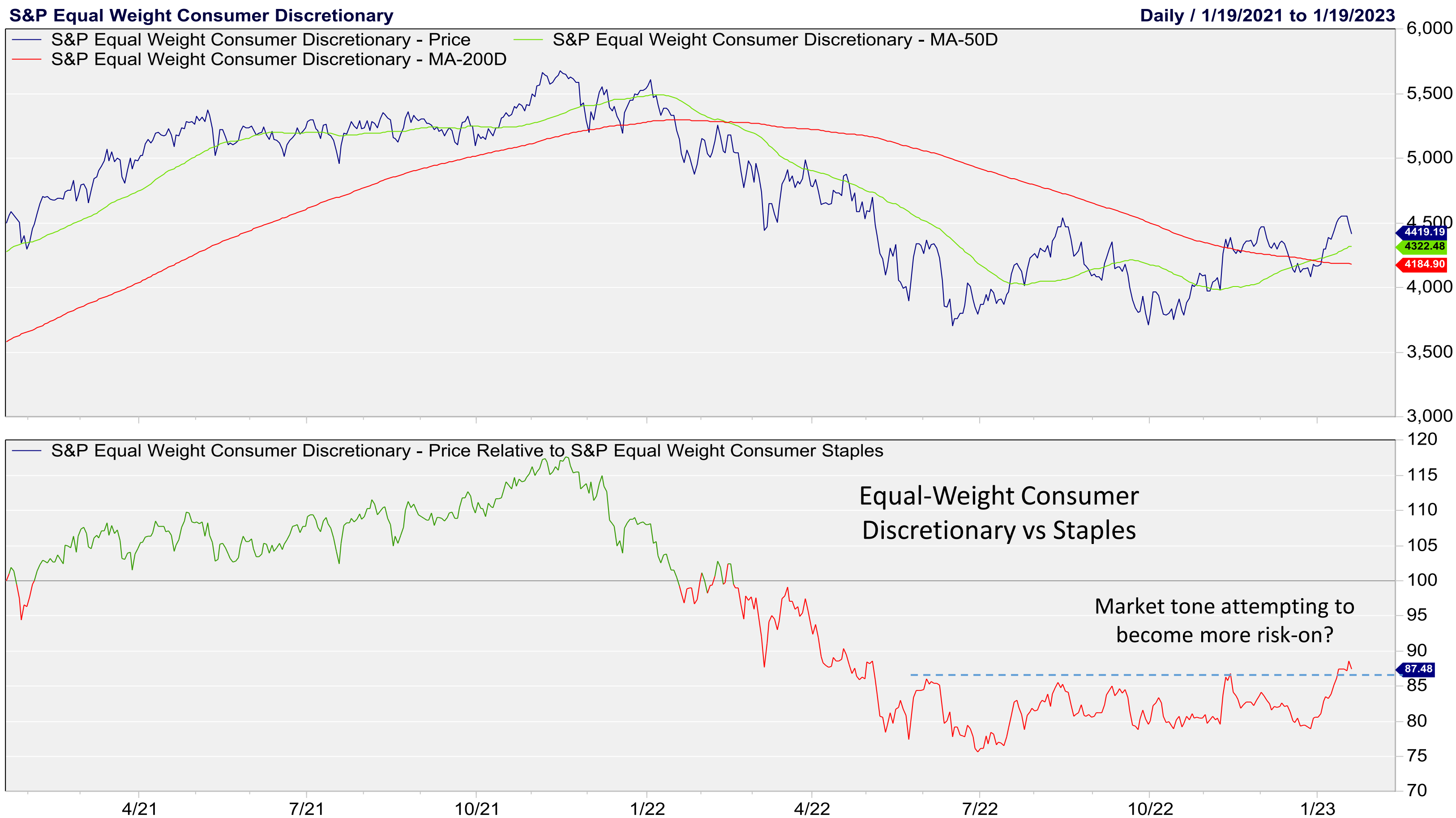
High yield CDS spreads essentially reflect the cost to insure against company defaults- and have been a good indicator on equity market trends over the past year. After trending solidly upward in the first half of 2022 (as inflation concerns intensified), CDS spreads have trended generally sideways since mid-2022. Consequently, this has correlated with a S&P 500 trend that has also become more sideways over the past six months. A positive divergence can be seen lately in our view- while CDS spreads have narrowed back to August lows, the S&P 500 is still well below its August highs of 4300. This suggests further upside, and odds are the S&P 500 retests ~4300 at some point.



Source: Bloomberg, Gibbs Capital Management

RISK-ON TONE

Relative performance of consumer discretionary is breaking out vs. consumer staples on an equally-weighted basis. It was a good indicator for the broad market on the way down, which begs the question if its breakout now is telling us that the market is turning up. If nothing else, underlying trends have improved and suggest that the market is in a fairly risk-on mode right now. We would like to see this relative strength trend continue to build, and don't want to see it roll over.



Source: FactSet, Gibbs Capital Management (M23-102134)

IMPORTANT INVESTOR DISCLOSURES

This material is being provided for informational purposes only. Expressions of opinion are provided as of the date above and subject to change. Any information should not be deemed a recommendation to buy, hold or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. This report is not a complete description of the securities, markets, or developments referred to in this material and does not include all available data necessary for making an investment decision. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Links to third-party websites are being provided for informational purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any websites users and/or members.

Index Definitions

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.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

International Disclosures

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This document is for the use of professional investment advisers and managers and is not intended for use by clients.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monetaire et Financier" and Reglement General de l'Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

For institutional clients in the European Economic rea (EE) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Broker Dealer Disclosures

Securities are: NOT Deposits • NOT Insured by FDIC or any other government agency • NOT GUARANTEED by the bank • Subject to risk and may lose value

Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. **Raymond James Financial Services, Inc.,** member FINRA/SIPC. Raymond James® is a registered trademark of Raymond James Financial, Inc.