RAYMOND JAMES

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 26, 2023 | 3:47 PM EST

Weekly Market Guide

The equity market has been resilient to begin the new year (up 5% YTD), and we believe that it is attempting to turn.

When considering the equity market outlook, on one hand we have an economy that appears set to weaken. For example, the yield curve is deeply inverted, leading economic indicators are negative, banks are tightening lending standards, and demand surveys are pointing lower. We believe the odds of economic contraction are high, which will lead to lower corporate earnings. This view is supported by company comments regarding their earnings outlooks during Q4 earnings season. For example, the banks are increasing reserves on expectations of higher loan delinquencies, technology companies are citing broad-based weakness, and the rails are noting muted volume growth.

On the other hand, stocks discount the future and are likely to bottom well ahead of the economy and fundamentals. This is where technical analysis can help, and the positive developments are stacking up. Recent additions to the list are relative strength breakouts of high beta vs. low volatility and equal-weight consumer discretionary vs. consumer staples. This risk-on tone bodes well for the underlying backdrop of the market. Additionally, the percentage of Russell 3000 stocks making new 4-week highs recently moved above 50%. This bullish reading did not occur in the bear market rallies of the '01 dotcom bubble and '08 financial crisis, and adds further support that the worst of this bear market may be behind us.

That said, we do not believe that equities are ready for sustainable upside quite yet. A disconnect lies in Fed expectations in our view. The market-implied fed funds rate bakes in ~50bps worth of hikes left in the first half of 2023, followed by ~50bps worth of cuts in the second half. We believe that the Fed will be hesitant to begin cutting rates and risk disrupting the moderation in high inflation. They wish to avoid the stop-and-go policy of the 1970s that led to a prolonged period of high inflation and was very damaging to the economy. Thus, we believe they will be tighter for longer than the market currently expects, in order to bring inflation down to their target. *Updated Fed comments come at next Wednesday's FOMC meeting, which along with a full slate of economic data and Q4 earnings season, will be catalysts over the coming week.*

The result is a bottoming and recovery process that may be more elongated this cycle. We expect volatility to persist and for the S&P 500 to trade in more range-bound fashion over the coming months (potentially between ~3700-4300). Longer-term, we believe that equities present attractive risk/reward for investors and that stocks will be climbing by year-end. But for those investors trying to be timely, we recommend pragmatism and patience. Accumulate favored stocks over time as the trend evolves, refrain from chasing the rally periods, and use the weak periods as opportunity within a long-term perspective.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	1.8%	-1.6%
S&P 500	4.6%	-7.8%
S&P 500 (Equal-Weight)	5.6%	-2.2%
NASDAQ Composite	8.1%	-16.4%
Russell 2000	7.3%	-5.7%
MSCI All-Cap World	6.3%	-8.1%
MSCI Developed Markets	8.4%	-4.7%
MSCI Emerging Markets	8.9%	-14.0%
NYSE Alerian MLP	6.6%	18.8%
MSCI U.S. REIT	7.2%	-15.1%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	11.9%	7.8%
Consumer Discretionary	9.7%	10.3%
Information Technology	7.6%	26.5%
Materials	7.2%	2.8%
Real Estate	7.0%	2.8%
Financials	5.3%	11.7%
S&P 500	***4.6%***	-
Energy	2.9%	5.1%
Industrials	2.0%	8.4%
Consumer Staples	-1.7%	6.8%
Health Care	-1.8%	14.9%
Utilities	-2.6%	3.0%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

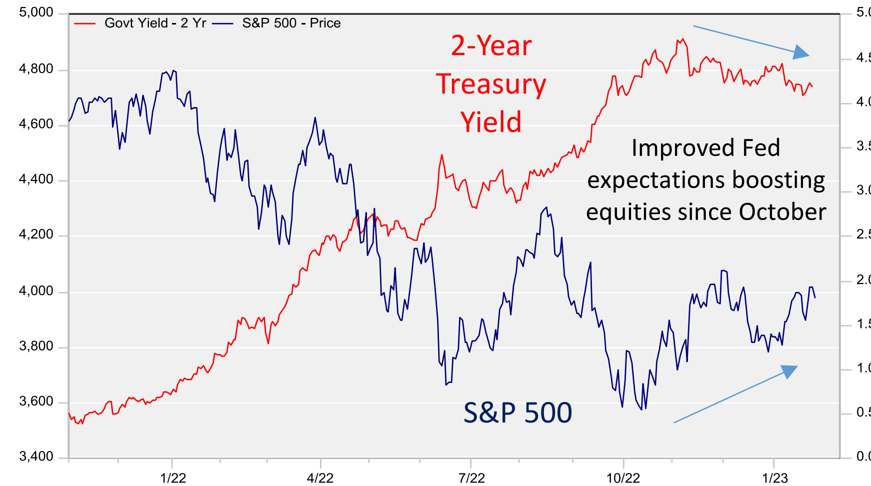
MACRO: US

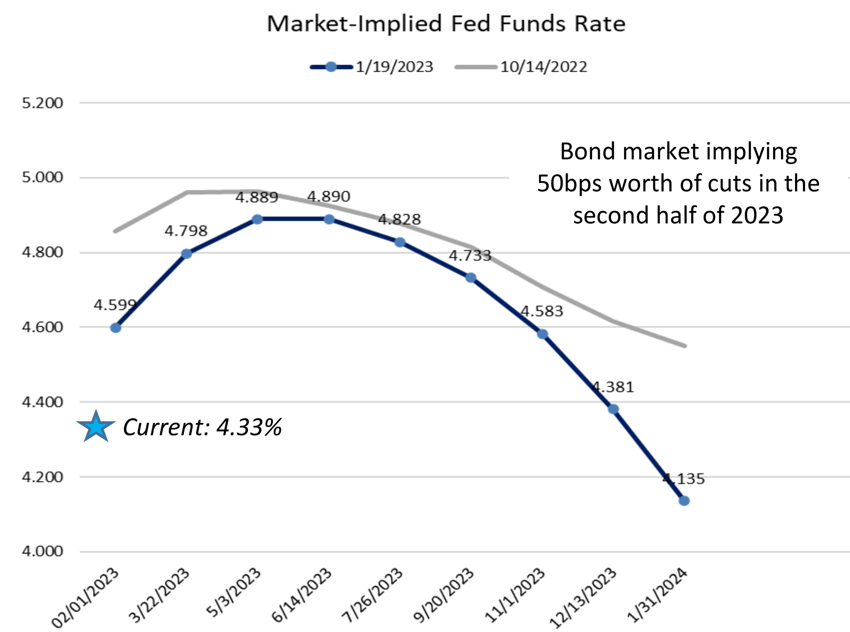
There is a full slate of economic data over the coming week, including:
1/27 Core PCE (Dec)- Fed's favored gauge of inflation
1/31 Employment Cost Index (Q4)
2/1 ISM Manufacturing (Jan), JOLTS Job Openings (Dec), FOMC Decision
2/2 Unit Labor Costs and Productivity (Q4)
2/3 Jobs Report (Jan), ISM Services (Jan)

This data, along with Fed commentary at next week's FOMC meeting, will be fresh catalysts for the market's interpretation of inflation moderation, Fed policy, and economic growth over the coming year. Market-implied expectations of Fed policy have eased since the market lows in October, now reflecting 50bps worth of cuts in the back half of this year. There is a good chance that the Fed talks down the market, as a ripping higher equity market would be inflationary. It is likely the language tilts hawkish, as they want to keep a lid on financial conditions to not stunt ongoing progress. This may be a headwind to equities, but we will also see if the market believes the Fed.

Economic Report	Period	Actual	Consensus	Prior
Existing Home Sales SAAR	DEC	4,020K	3,950K	4,080K
Leading Indicators SA M/M	DEC	-1.0%	-0.70%	-1.1%
PMI Composite SA (Preliminary)	JAN	46.6	46.4	45.0
Markit PMI Manufacturing SA (Preliminary)	JAN	46.8	46.5	46.2
Markit PMI Services SA (Preliminary)	JAN	46.6	45.3	44.7
Richmond Fed Index	JAN	-11.0	-5.0	1.0
Building Permits SAAR (Final)	DEC	1,337K	-	1,330K
Chicago Fed National Activity Index	DEC	-0.49	-	-0.51
Continuing Jobless Claims SA	01/14	1,675K	1,647K	1,655K
Durable Orders ex-Transportation SA M/M (Preliminary)	DEC	-0.10%	-0.10%	0.10%
Durable Orders SA M/M (Preliminary)	DEC	5.6%	2.5%	-1.7%
GDP SAAR Q/Q (First Preliminary)	Q4	2.9%	2.3%	3.2%
GDP SA Y/Y (First Preliminary)	Q4	1.0%	0.50%	1.9%
Initial Claims SA	01/21	186.0K	205.0K	192.0K
Wholesale Inventories SA M/M (Preliminary)	DEC	0.10%	0.75%	0.90%
New Home Sales SAAR	DEC	616.0K	610.0K	602.0K

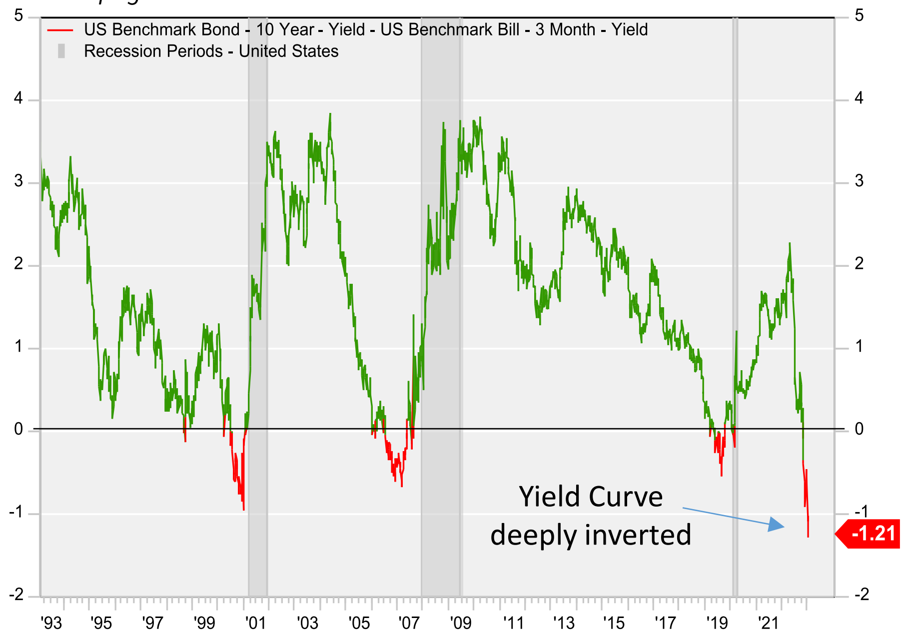
Source: FactSet, Gibbs Capital Management

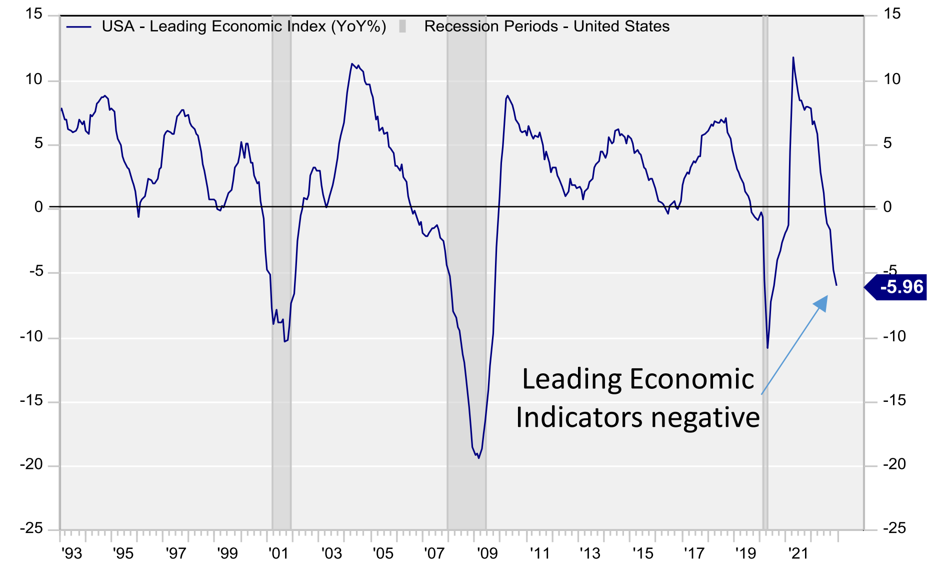


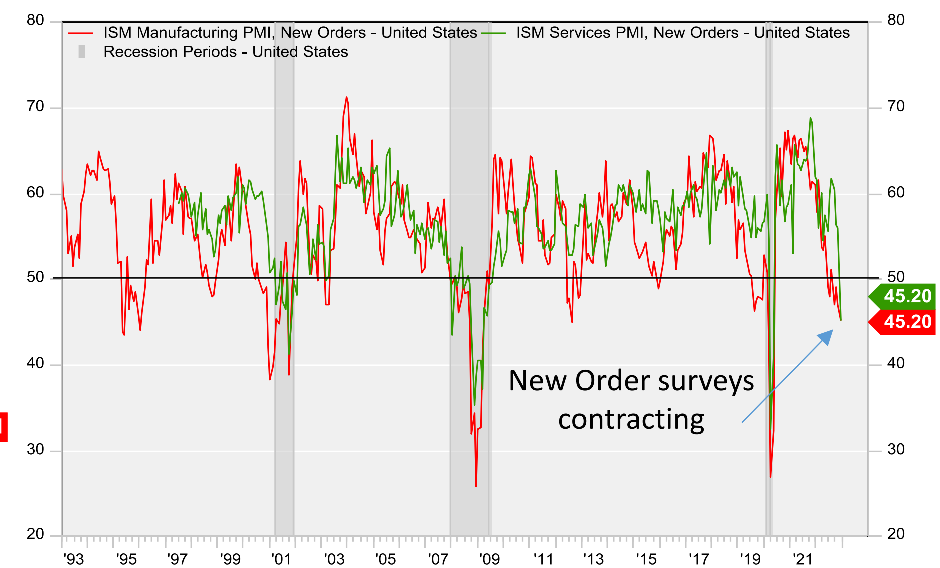


SOFT LANDING OR RECESSION?

With the market having a risk-on tone recently, we have seen many financial articles discussing the higher likelihood of an economic soft landing. Nobody knows what the future holds with 100% certainty and anything is possible, but we continue to believe that a mild economic recession is what is most probable. Most economic indicators are pointing toward economic contraction, and support our view of rapid Fed tightening (which remains ongoing) acting with a lag on the economy ahead. For example, the yield curve is deeply inverted and has been a good predictor of economic recessions historically. Additionally, leading economic indicators are very negative and demand surveys (i.e. both ISM Manufacturing and Services New Orders) are contracting at levels often consistent with recession. *Continued on next page*



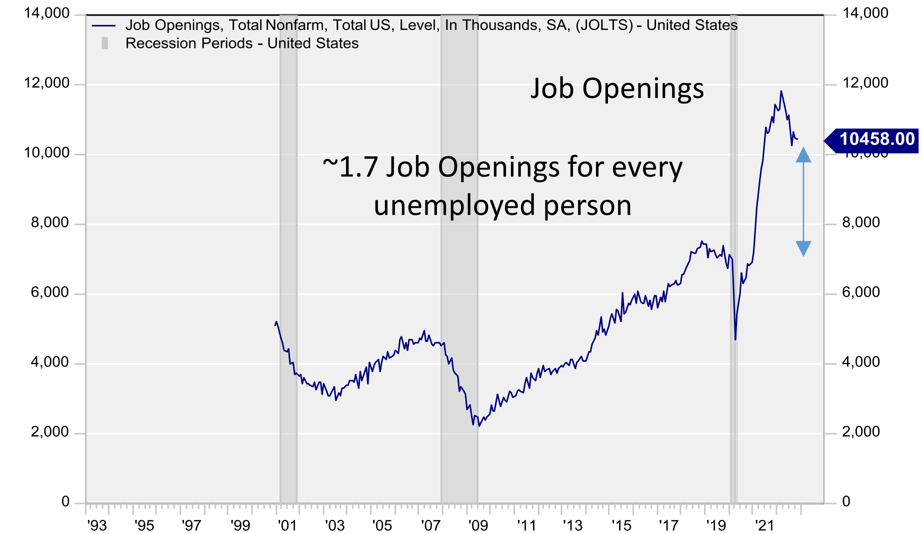


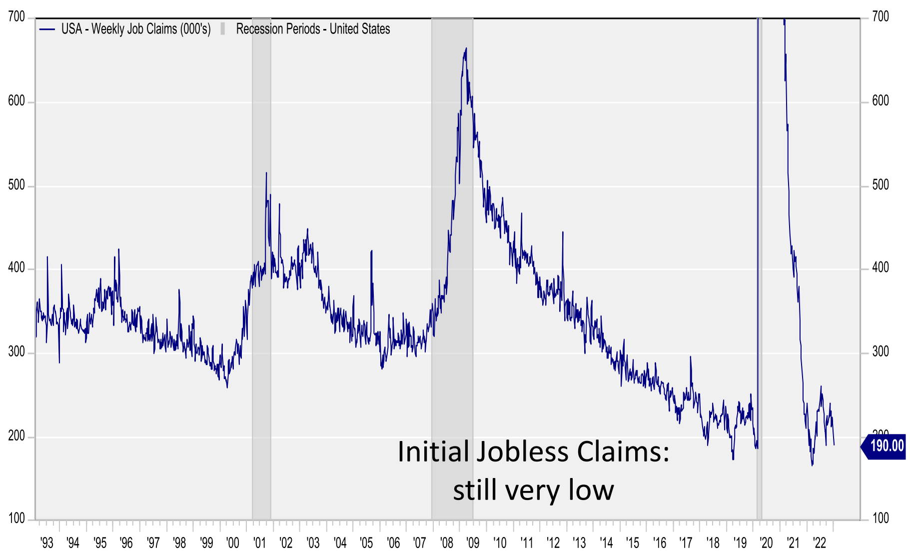


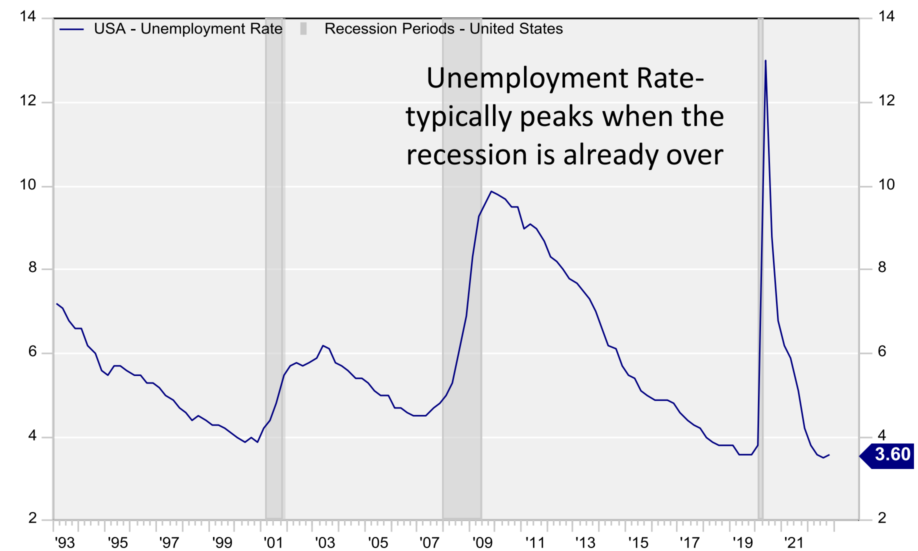
Source: FactSet, Gibbs Capital Management

SOFT LANDING OR RECESSION?

On the flip side, employment weakens in recessions- and we have yet to see much deterioration yet. Initial jobless claims are still very low, and there are still an estimated ~1.7 job openings for every unemployed person. Company layoff announcements appear to be focused on the technology sector, as Covid beneficiaries reduce headcount that may be finding work in the areas harder-hit from Covid. In the ISM surveys, it is rare to see employment expectations hold up so well compared to how weak these same companies state their demand expectations are currently. In essence, companies in industries outside of technology may be "hoarding" workers due to how difficult it has been to attract and retain employees post-Covid. This would be the soft-landing, bull case economic scenario- where Fed tightening hits elevated job openings rather than drastically hitting employment. We will continue to watch for signs of employment deterioration, but it is worth noting that the jobs market is also more of a lagging indicator.





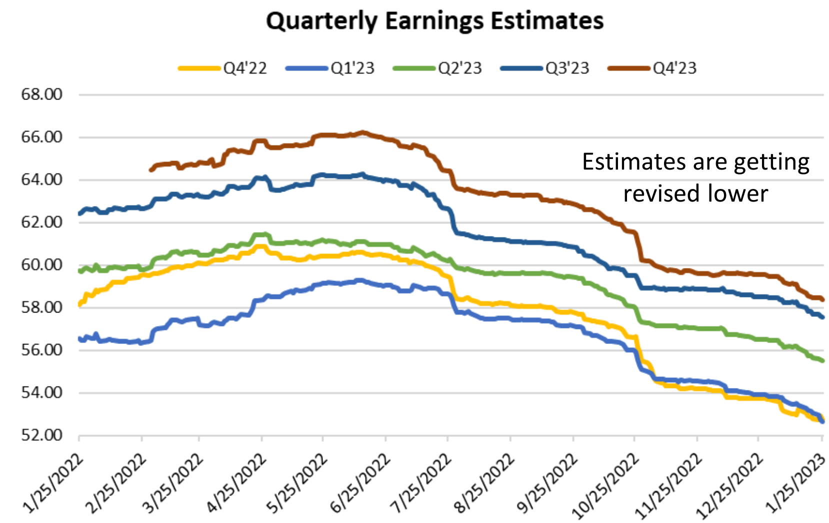


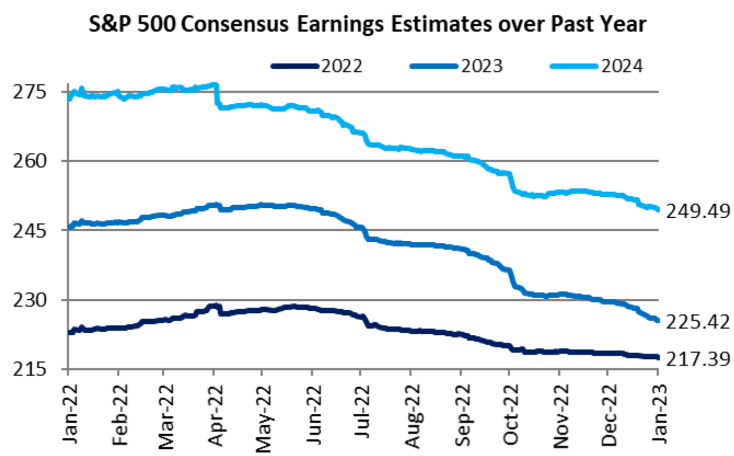
Source: FactSet, Gibbs Capital Management

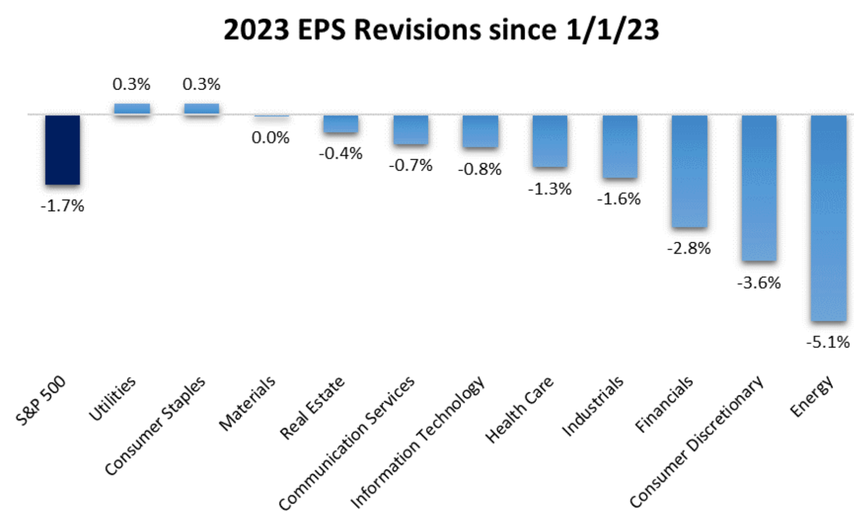
Q4 EARNINGS SEASON

Q4 earnings season is ramping up- 30% of the S&P 500's market cap has reported Q4 earnings season with an additional 123 S&P stocks reporting by the end of next week. Results have been decent, though below historic averages. 67% of companies so far have beaten their quarterly earnings estimates by an aggregate 1.5% (vs. 70% and 5.4% 15-year averages, respectively). Roughly half of those reporting have traded higher and the other half lower following results for an average 3-day price reaction of 0.8%.

Company comments on the earnings outlook have continued to steer increasingly cautious. For example, the banks are increasing reserves on expectations of higher loan delinquencies, technology companies are citing broad-based weakness, and the rails are noting muted volume growth. Earnings estimate revision trends are pointing lower, and we use a $215 S&P 500 earnings estimate for 2023 (vs. bottom-up analyst consensus at $225). 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.







Source: FactSet, Gibbs Capital Management

TECHNICAL: S&P 500

Source: FactSet, Gibbs Capital Management

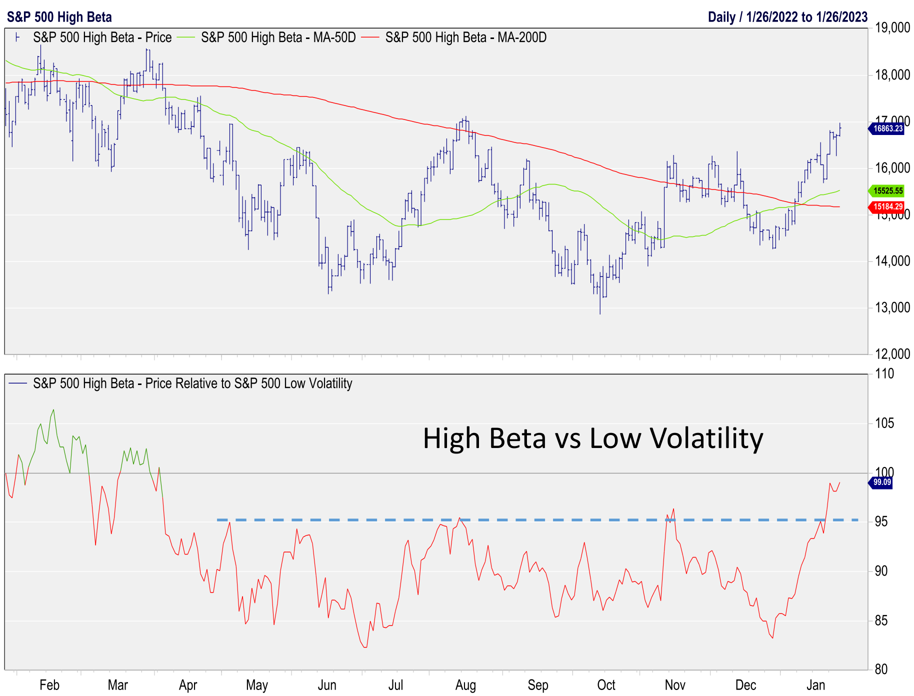
Despite an economic and earnings picture that appears to be deteriorating, stocks discount the future. Oftentimes, equity markets will bottom well ahead of the economy and fundamentals. This is where technical analysis can help, and the positive developments are stacking up.

- S&P 500 held 200-Week MA and 50% Fib retracement (so far)
- Investor Sentiment reached depressed levels
- Net Positioning very negative
- Equity Put/Call ratio spiked (though at odds with Composite and VIX)
- HY CDS Spreads have receded
- Advancers vs. Decliners has experienced some elevated readings
- Declining number of new lows as index made new lows
- % of stocks above their 50 DMA reached >90% twice
- % of Russell 3000 stocks making new 4-week highs recently moved above 50% (never occurred in ’01 and ’08 bear market rallies)

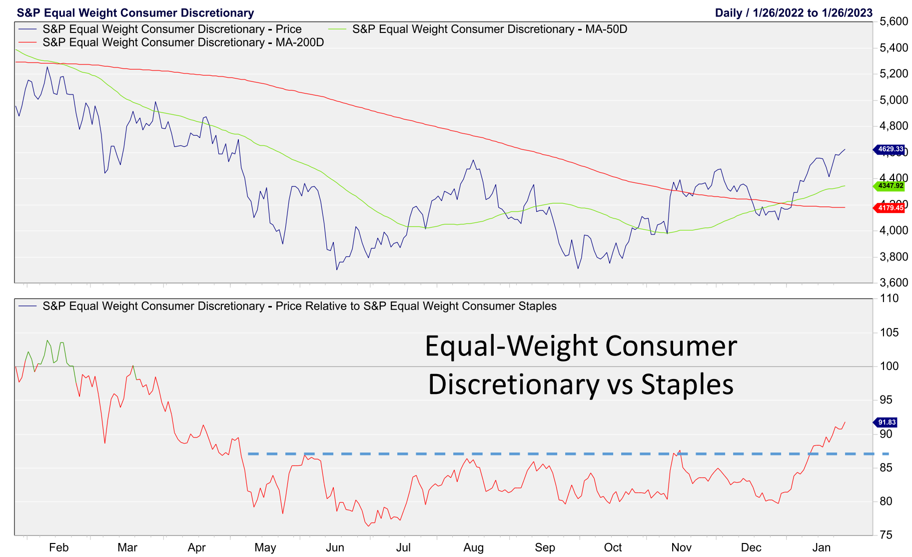
But ultimately, we need to see the downtrend end. The S&P 500 is right on its downtrend line at ~4032. We view this level as initial resistance, followed by 4083-4100. Initial support could be found around the 21DMA, which currently comes in at 3911. Below the 21DMA watch 3800, 3700, and then 3518.

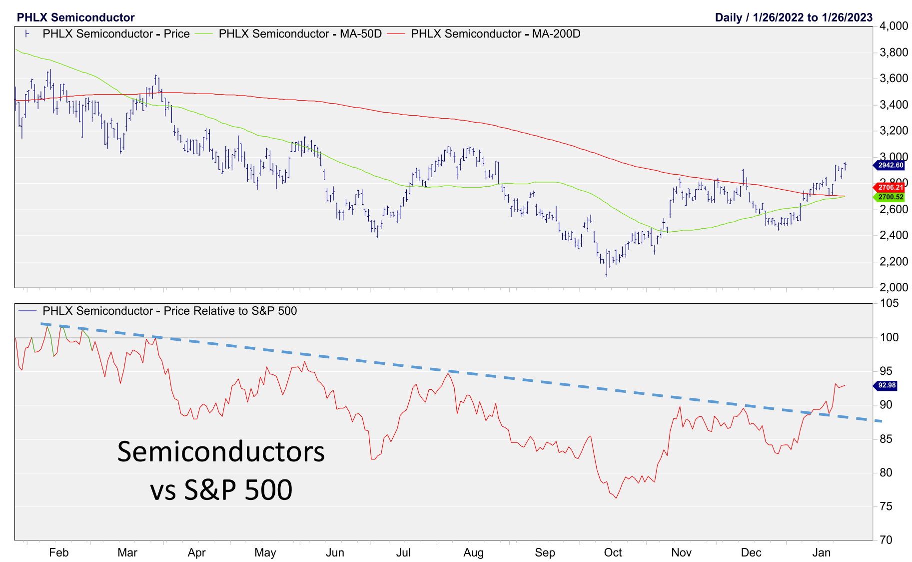
RISK-ON TONE DEVELOPING

The underlying tone to market performance has continued to improve in the recent rally. As you can see, relative strength of high beta vs. low volatility has broken out, as has equal-weight consumer discretionary vs. staples and semiconductors vs. S&P 500. These are positive developments technically, and add support to the view that overall market trends are attempting to turn up. That said, we do not believe that equities are ready to go straight back to previous highs. We believe the bottoming and recovery process may be more elongated this cycle. We expect volatility to persist and for the S&P 500 to trade in more range-bound fashion over the coming months (potentially between ~3700-4300).



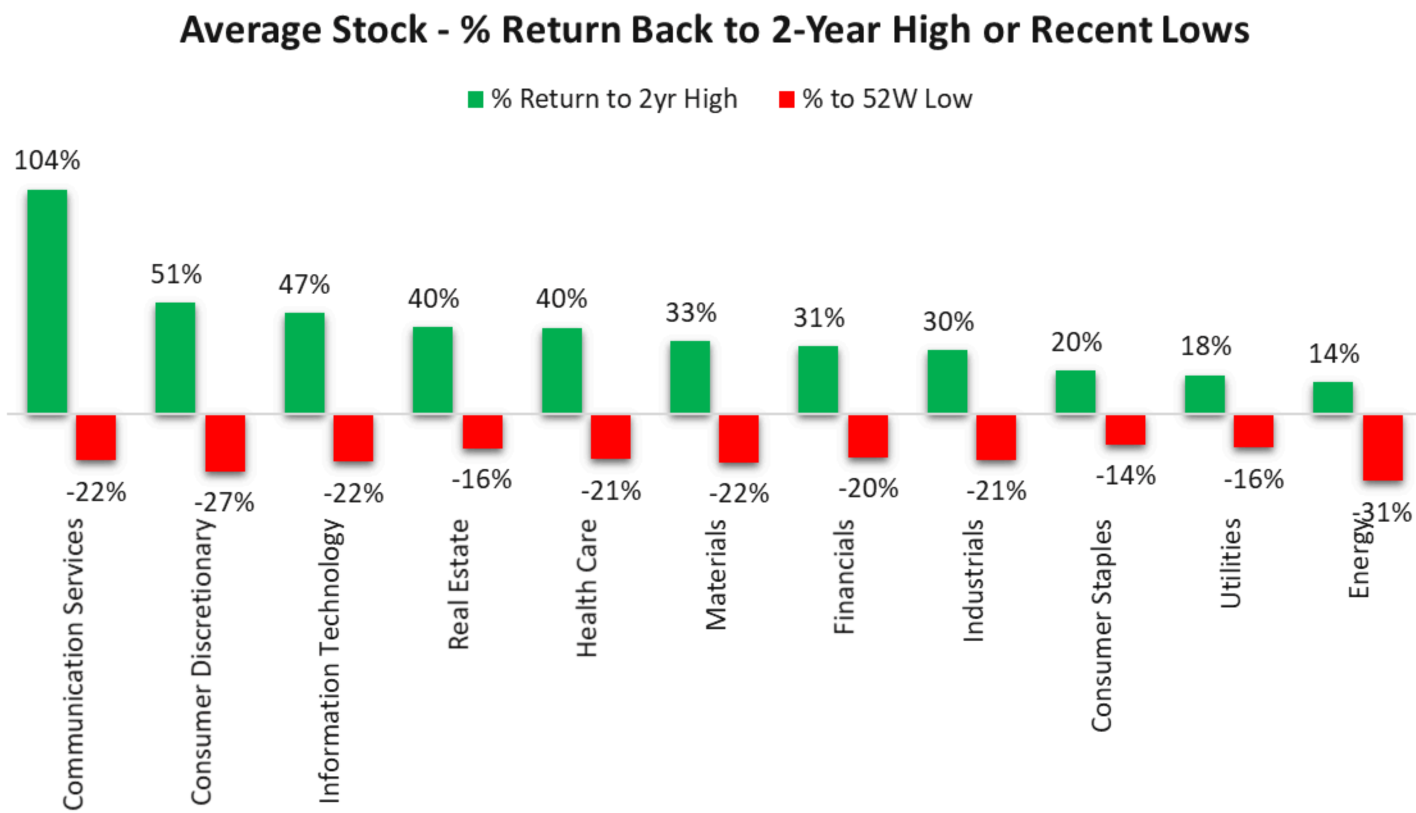
Source: FactSet, Gibbs Capital Management





POSITIONING

It is important to find the right balance in portfolio positioning- managing risk while also keeping an eye on the long-term opportunity. Longer-term, we believe that equities present an attractive risk/reward for investors and that stocks will be climbing by year-end. In fact, the average S&P 500 stock ex-Energy/Utilities/Staples would return 43% to get back to its post-Covid high. However, these same stocks would also experience a -22% decline on average if they go back to their recent lows. Given our expectations for volatility to persist, we recommend pragmatism and patience for those investors attempting to be timely. Accumulate favored stocks over time as the trend evolves, refrain from chasing the rally periods, and use the weak periods as opportunity within a long-term perspective.



Source: FactSet, Gibbs Capital Management (M23-108536)

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.