RAYMOND JAMES

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Weekly Market Guide

As expected the Fed raised the federal funds rate by 25 bps yesterday, the smallest increase since March 2022 at the beginning of the rate hike cycle. The market interpretation was positive with the S&P 500 rallying despite Chairman Powell hinting that a couple more rate hikes from here may be necessary, a suggestion that the market seems to be ignoring for now, with market expectations seeming to be more optimistic that the rate hike cycle is coming to an end much sooner than the Fed suggests.

Overall, equity markets continue to show resiliency with the S&P 500 up 7.3% to begin the year. Despite mixed messages, where on one hand the economy appears to be weakening and companies remain cautious, the interpretation by the market has been positive and the technicals seem to be telling a much different story than headlines would suggest as positives continue to mount. The S&P 500 broke above its recent downtrend, and If the old adage "as goes January, so goes the year" holds true, 2023 should be a positive year for the S&P 500. Moreover, the 50-DMA is attempting to break above the 200-DMA while cyclicals are beginning to see relative performance improvement vs. defensive areas.

Overall, the interpretation seems to reflect a goldilocks scenario: 1) inflation, which was the biggest headwind over the last year, seems to be moderating as reflected by the ECI data this week, 2) the job market remains strong (with JOLTS job openings increase to almost 2 jobs per unemployed person), and 3) despite some softening in the macro and risk to further earnings revisions lower, the expectations is that the Fed is nearing the end of the rate hike cycle and a potential slowdown/recession will likely be mild and short-lived. Given that equities are forward looking, it appears the market is discounting the positives for now.

That said, we believe given the quickly shifting economic backdrop and market interpretations of every move by the Fed, we would favor equities to remain in the 3700-4300 range as volatility is likely to persist. 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	2.9%	-3.7%
S&P 500	7.3%	-9.4%
S&P 500 (Equal-Weight)	8.4%	-2.2%
NASDAQ Composite	12.9%	-17.6%
Russell 2000	11.3%	-4.4%
MSCI All-Cap World	8.1%	-9.6%
MSCI Developed Markets	8.6%	-6.2%
MSCI Emerging Markets	9.0%	-14.1%
NYSE Alerian MLP	5.6%	13.4%
MSCI U.S. REIT	11.0%	-12.8%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Discretionary	17.2%	10.7%
Communication Svcs.	15.8%	7.9%
Information Technology	11.8%	26.8%
Real Estate	10.7%	2.8%
Materials	9.7%	2.8%
S&P 500	***7.3%***	-
Financials	6.7%	11.6%
Industrials	4.4%	8.4%
Energy	0.8%	4.9%
Consumer Staples	-0.3%	6.7%
Health Care	-1.6%	14.6%
Utilities	-1.9%	2.9%

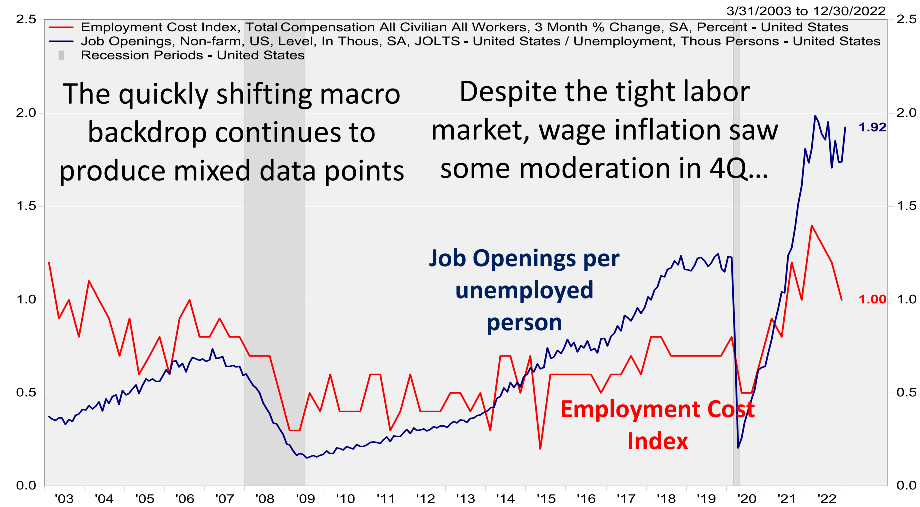
Source: FactSet, RJ Equity Portfolio & Technical Strategy

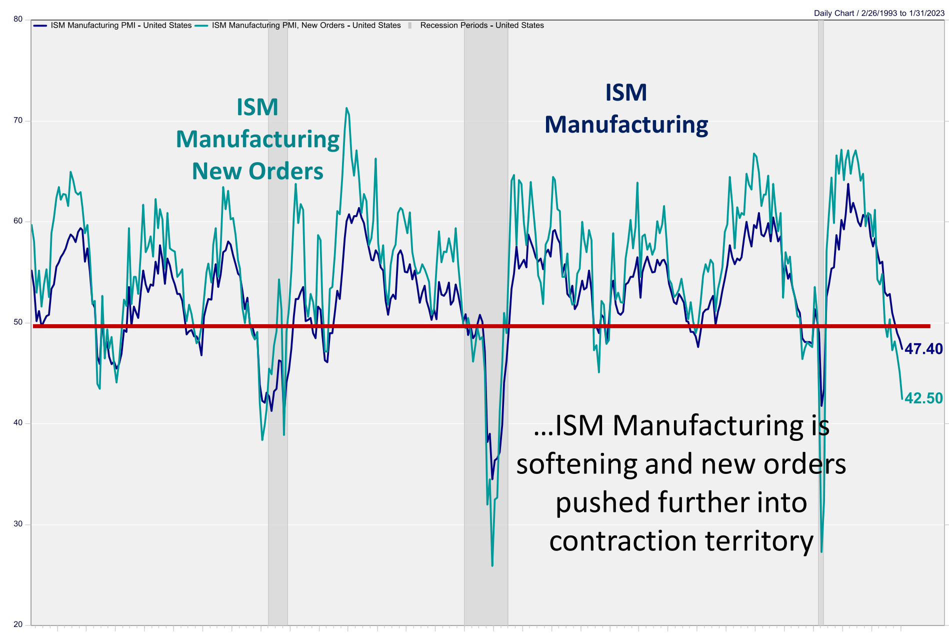
MACRO: US

The macro calendar was busy this week with several key reports include PCE, which is the Fed's favored gauge of inflation, along with employment cost index, which both suggested that inflation is moderating (from elevated levels). While slowing inflation is a positive, there continues to be mounting data that the economy is on the precipice of a slowdown, excluding the jobs market, with ISM Manufacturing and New Orders pushing deeper into contraction territory. The quickly shifting data is likely to continue to produce mixed messages, which will make the debate around the pace of rate hikes ongoing. But for now, the Fed is, as expected, continuing to point to ongoing rate increases, albeit at a much slower pace.

Economic Report	Period	Actual	Consensus	Prior	Revised
Personal Income	Dec	0.20%	0.20%	0.40%	0.30%
Personal Spending	Dec	-0.20%	-0.20%	0.10%	-0.10%
Real Personal Spending	Dec	-0.30%	-0.10%	0%	-0.20%
PCE Deflator YoY	Dec	5%	5%	5.50%	
PCE Core Deflator YoY	Dec	4.40%	4.40%	4.70%	
Pending Home Sales MoM	Dec	2.50%	-1%	-4%	-2.60%
U of Michigan Sentiment	Jan F	64.9	64.6	64.6	
U of Michigan Current Conditions	Jan F	68.4	68.6	68.6	
U of Michigan Expectations	Jan F	62.7	62.0	62.0	
Dallas Fed Manufacturing Activity	Jan	-8.40	-15.00	-18.80	-20.00
Employment Cost Index	4Q	1%	1.10%	1.20%	
FHFA House Price Index MoM	Nov	-0.10%	-0.50%	0.00%	
MNI Chicago PMI	Jan	44.3	45.0	44.9	45.1
Conf. Board Consumer Confidence	Jan	107.1	109.0	108.3	109.0
MBA Mortgage Applications	27-Jan	-9%	-	7.00%	
ADP Employment Change	Jan	106K	180K	235K	253K
S&P Global US Manufacturing PMI	Jan F	46.9	46.8	46.8	
Construction Spending MoM	Dec	-0.40%	0%	0.20%	0.50%
ISM Manufacturing	Jan	47.4	48.0	48.4	
ISM Prices Paid	Jan	44.5	40.4	39.4	
ISM Employment	Jan	50.6	-	51.4	50.8
ISM New Orders	Jan	42.5	-	45.2	45.1
JOLTS Job Openings	Dec	11.012M	10.300M	10.458M	10.440M
Nonfarm Productivity	4QP	3%	2.40%	0.80%	1.40%
Unit Labor Costs	4QP	1.10%	1.50%	2.40%	2.00%
Initial Jobless Claims	28-Jan	183K	195K	186K	
Continuing Claims	21-Jan	1,655K	1,684K	1,675K	1,666K

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

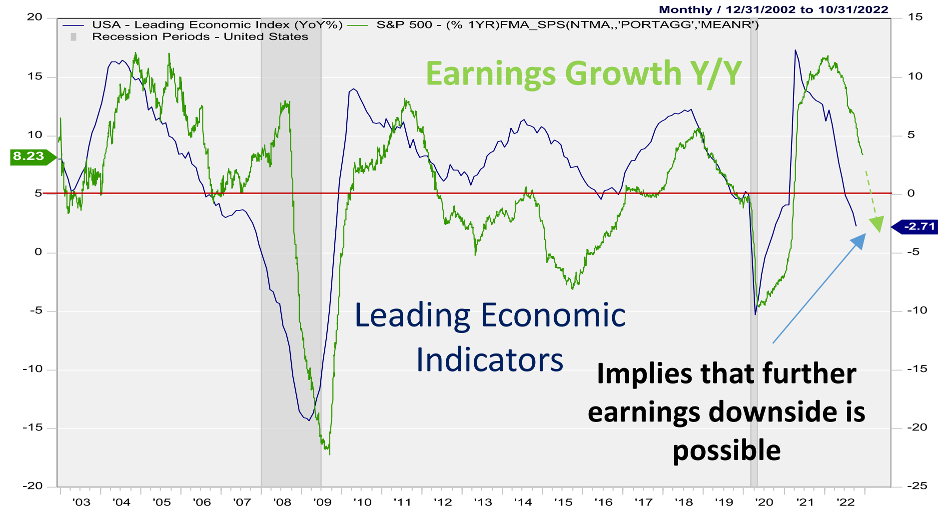




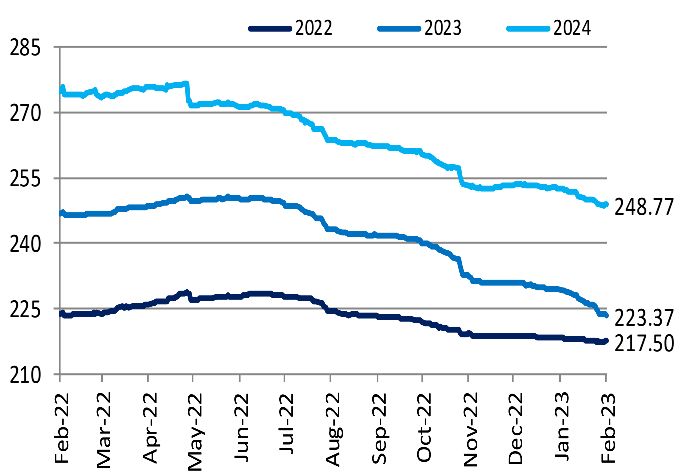
FUNDAMENTALS

Earnings expectations continue to moderate with the 2023 S&P 500 EPS estimate revised 2.6% lower since the beginning of the year. Currently, consensus is expecting 2.7% earnings growth in 2023 in contrast to our expectation for earnings to see a slight contraction to $215 in 2023. Based on leading economic indicators (as seen to the right), consensus earnings are likely to continue to moderate as we go through the year.

From a sector standpoint, the more defensive sectors, as expected during economic uncertainty, are seeing the fundamentals hold up better on a relative basis. Consumer Discretionary is interesting as it has seen sharp revisions lower since the beginning of the year, however, during earnings season, as seen later, this sector is seeing some of the highest percentage of surprises. Overall, throughout earnings season, company comments on the earnings outlook have continued to steer increasingly cautious.



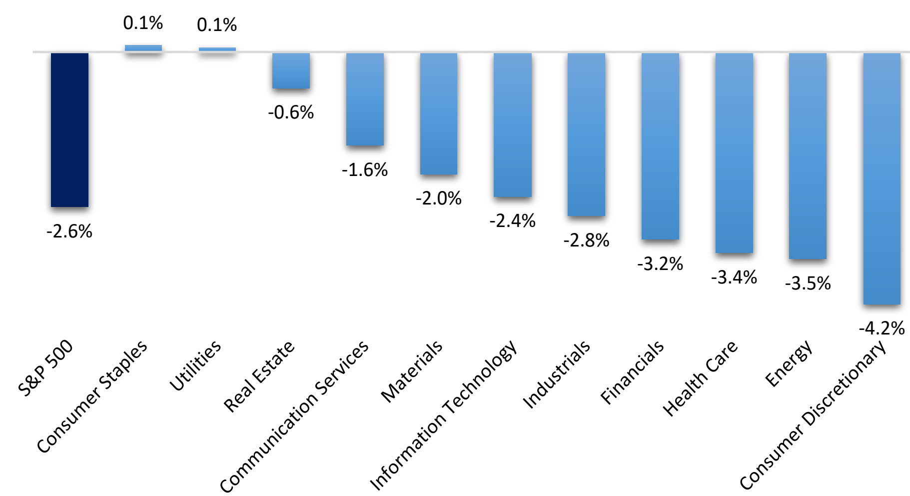
S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2022	5.3%
2023	2.7%
2024	11.4%

RJ 2023 Base Case: $215

2023 EPS Revisions since Year End



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

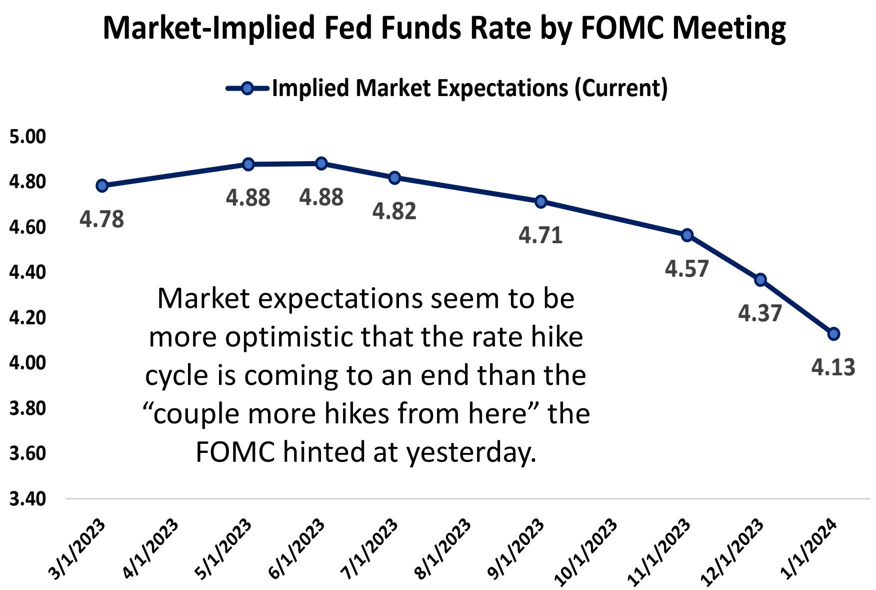
The S&P 500 remains resilient with technical momentum improving despite the data flow from earnings season pointing to some sluggishness at the corporate level and the economic backdrop softening. The market seems to be optimistic that a goldilocks scenario may transpire. Inflation, which has been one of the biggest headwinds over the last year, looks to be moderating and the U.S. jobs market remains strong, with nearly 2 jobs openings per unemployed worker.

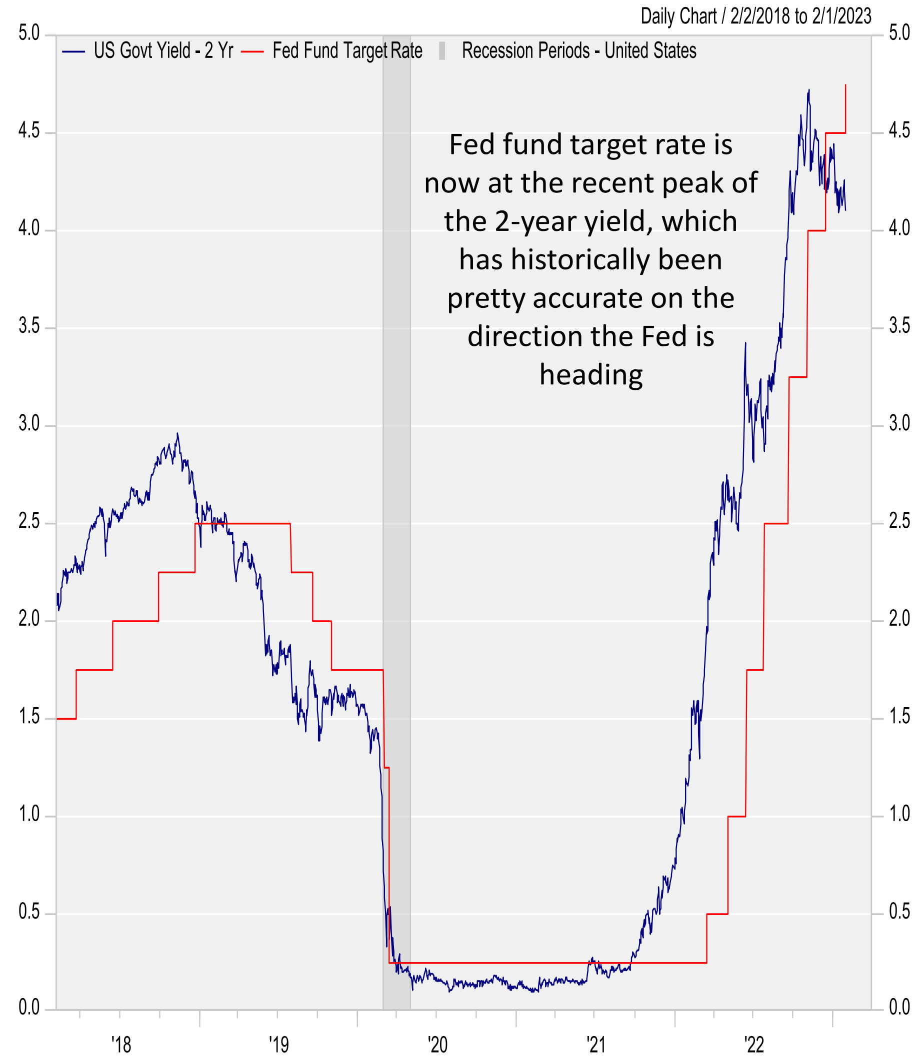
For now, the data points will remain mixed given the quickly shifting macro outlook, but it appears the charts are telling a slightly different story than the headlines suggest as the positives continue to mount—the S&P 500 recently broke above its downtrend, January effect has historically been positive for equities, the 50-DMA is attempting to break above 200-DMA, cyclical relative performance is positive vs. defensive, and credit spreads remain contained.

We would continue to remain in the camp the market is rangebound in the 3700-4300 level until we get further clarity, but the recent data points are increasing the odds in our favorable long-term outlook for equities. The next areas of resistance is 4244 (Fibonacci projection) followed by horizontal resistance around 4300 while initial support would be around the short-term uptrend line around 3917, followed by 3853 and 3800.

FOMC DECISION

As expected, the FOMC continued to increase rates yesterday, this time 25 bps (which is the slowest pace of increase since March 2022 when the rate hike cycle began). However, it appears the market is more convinced that the rate hike cycle is coming to an end (as seen below) than what the Fed continues to talk about. While there was no mention of the terminal rate in the statement, Chairman Powell continues to hint that a couple more rate hikes from here may be necessary, of course while remaining data dependent. The recent inflation data continues to point to moderation, which likely is due to the lagging impact from 450 bps of rate increases thus far this cycle. Moreover, looking to the right, the 2-year yield, which has historically been pretty accurate on the direction of where the Fed is heading, has been moving lower, and the Fed fund target rate is near the recent peak, suggesting that a pause in the rate hike cycle may be near.



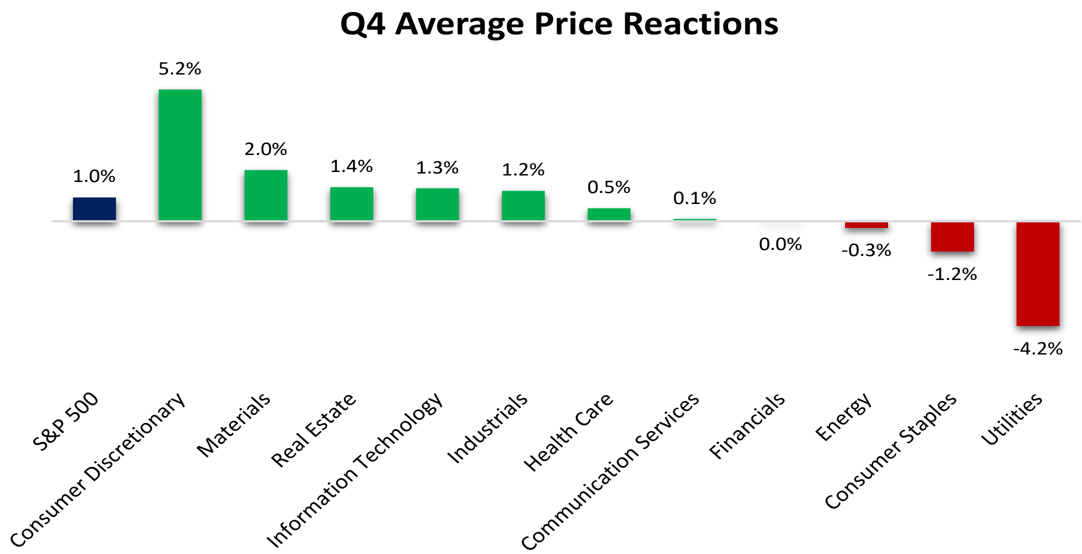


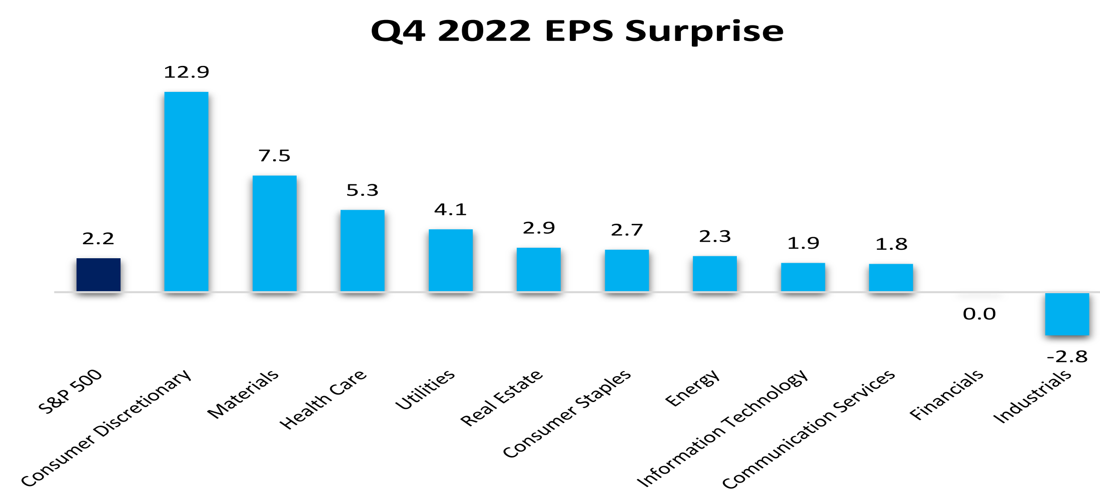
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

PRICE REACTION DURING EARNINGS SEASON

Despite below average earnings surprises during this earnings season, the average stock reaction has been strong for those areas beating earnings and those with a more cyclical bias. On average, earnings have surprised to the upside by 2.2%, which is well below the 15-year average of 5.4% and 3-year average of 10.6% (which includes big earnings surprises coming out of COVID). Despite the moderation in earnings surprises, signaling some of the softening in the macro environment, the average 1-day price reaction following the earnings release has been 1% with areas such as Consumer Discretionary and Materials seeing both the best returns and highest level of surprise.

Beyond those two sectors, the price reaction tends to be more reflective of the risk-on bias of the market, rather than EPS surprises. For example, Health Care, a more defensive sector, has the third highest EPS surprise this earnings season, but prices have reacted about half of what the average price reaction has been for the S&P 500. Also, another defensive sector, Utilities, has seen EPS surprise by 4.1% as fundamentals hold up, but has seen the biggest price reaction to the downside of 4.2% following the release. We will continue to see if the market overlooks softening fundamentals as it maintains its risk-on bias.



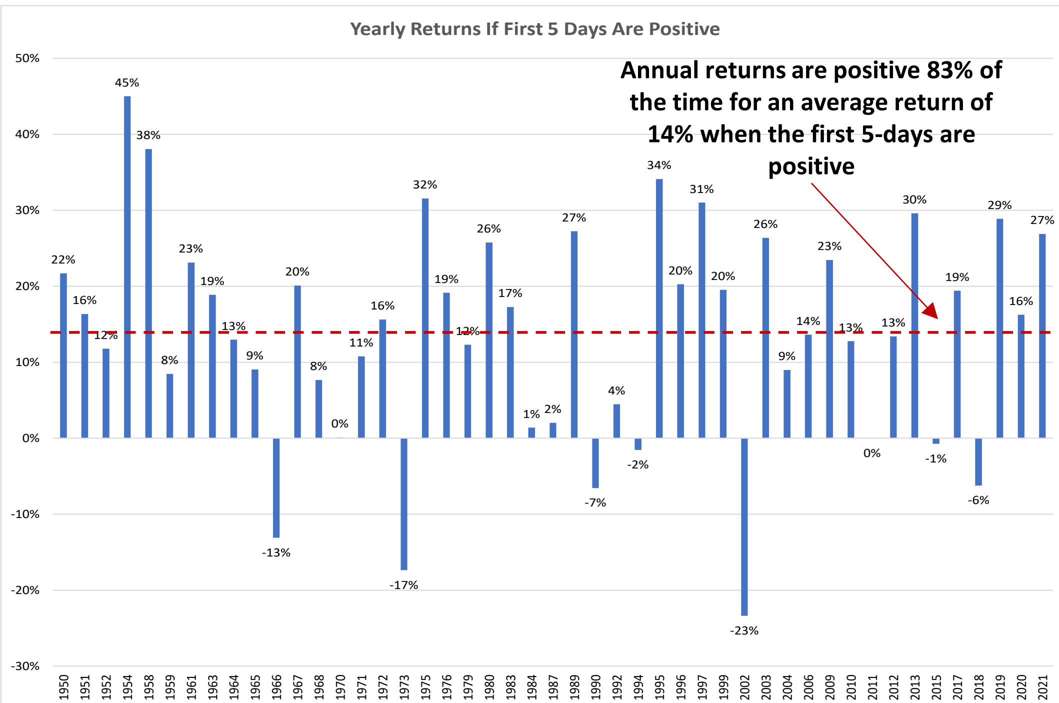


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

JANUARY SIGNALS

If the old adage "as goes January, so goes the year" holds true, 2023 should be a positive year for the S&P 500. Technical momentum continues to improve with the trifecta of early year indicators with a Santa rally producing a return of 0.8% (which compares to the 0.24% average for any 7-day period), the first 5-day rally of ~1.4%, and finally the January returns of 6.2%. While we do not make investment decisions solely off seasonal factors, we do find the technical momentum from January to be a positive sign for equities and would like to see additional follow through.

Annual Returns if First 5-Days Are Positive



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

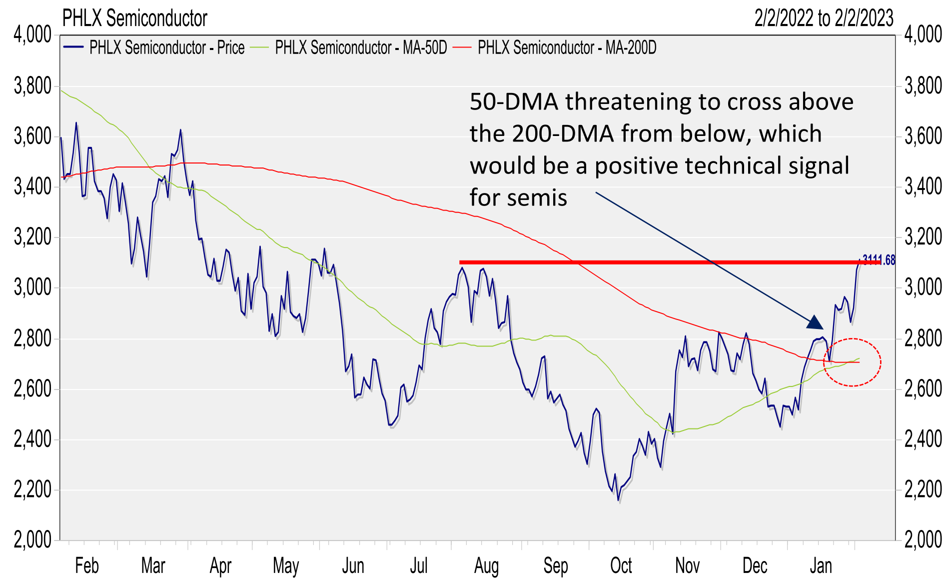
Annual Returns if January is Positive

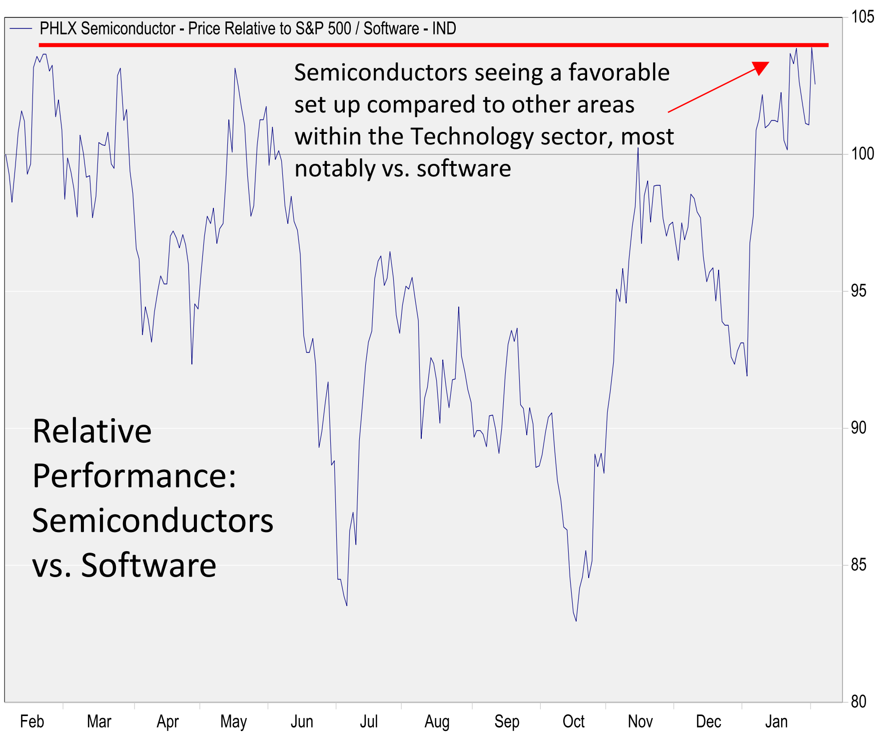
Jan Return	Return	Year
5% - 6%	-11.91%	1929
January 2023 return of 6.2%	-47.07%	1931
	45.02%	1954
	25.77%	1980
	29.60%	2013
	-6.24%	2018
	5.86%	**Avg**

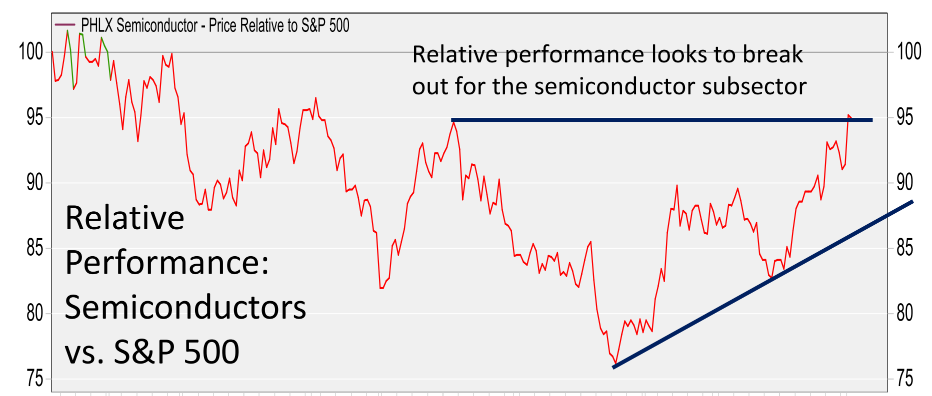
As noted in Charts of the Week-January 31, 2023, while the average annual return when January returns are in the 5-6% does not seem overly impressive, although positive, it is worth noting the large negative returns from 1929 and 1931 are weighing down the averages greatly. Overly, January's strength seems to be a positive technical signal.

SEMICONDUCTORS

The technicals for the semiconductor subsector seem to be improving. Overall, semiconductors have been trading well following earnings and technicals are improving with the 50-DMA threatening to cross above the 200-DMA from below. Additionally, semis are seeing relative performance improvement compared to the S&P 500 and more importantly compared to software. From a positioning standpoint, we see the technical momentum improving for semiconductors and see a favorable set up compared to other areas within the Technology sector.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M23-114777)

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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.

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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.

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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.

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