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Weekly Market Guide

The market finally took a breather this week after a strong start to the calendar year. While we thought a "rest" was inevitable as the market was in overbought territory, the market had been resilient and the technical momentum was becoming difficult to ignore. However, the technical picture has quickly reversed course with the S&P 500 down nearly 5% off its recent high and over 2% over the last week after a failed break-out amid a rally in break-even inflation expectations, interest rates and the U.S. Dollar.

The index now is sitting right near key support levels (uptrend support at 3995, 50-DMA at 3980, and 200-DMA at 3940) as MACD is moving lower and RSI is suggestive that the market may be near-term oversold levels. We believe the S&P 500's failed break-out is a reality check and reminder that **1) markets are not ready to see an easy glide path back to new all-time highs and 2) volatility is likely to continue even within the 3700-4300 range over the coming weeks/months.**

For now, we continue to see inflation and the path forward from the Fed as the main focus for investors. The eventual terminal rate for federal funds will continue to be hotly debated, but it appears **the market is now pricing in more of a hike-and-hold strategy by the Fed vs. prior expectations of pivot in the back half of the year**, which is likely pressuring equities as interest rates move higher. Yesterday's, FOMC minutes suggest that while the Fed members see more increases as warranted as "inflation is unacceptably high", the members will continue to debate the pace of rate hikes, as more aggressive actions can allow the Fed to reach its intended targets quicker while a more measured approach will allow the Fed to assess the impact of the rate hikes. However, the market has increased expectations for the terminal rate of hikes since the beginning of February as inflation has proved stickier as seen by market implied break-even inflation expectations.

Tomorrow, PCE data, a favored inflation metric for the Fed, is expected to be released, and we believe this could be a catalyst. A PCE reading showing moderation in inflation could entice buyers, pushing equities above the recent peak. A more neutral report could cause a short-term relief rally as the market seems to be oversold in the near-term with both RSI and the % of equities above the 10-day confirming the recent selling pressure. However, a PCE reading suggestive that inflation may be stickier, could further pressure equities. A break below the 200-DMA, the technical picture deteriorates, and the S&P 500 could slide to the 3850-3900 area followed by 3800 level. We would use weakness as opportunity to accumulate favored stocks for the longer-term as the percentage of equities trading above the longer-term averages (50-DMA and 200-DMA) remain in uptrends and supportive for equities.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-0.3%	-1.6%
S&P 500	3.9%	-7.3%
S&P 500 (Equal-Weight)	4.2%	-2.9%
NASDAQ Composite	9.9%	-14.0%
Russell 2000	7.6%	-4.3%
MSCI All-Cap World	4.7%	-8.8%
MSCI Developed Markets	6.4%	-6.1%
MSCI Emerging Markets	2.7%	-18.6%
NYSE Alerian MLP	4.1%	16.3%
MSCI U.S. REIT	6.1%	-13.4%

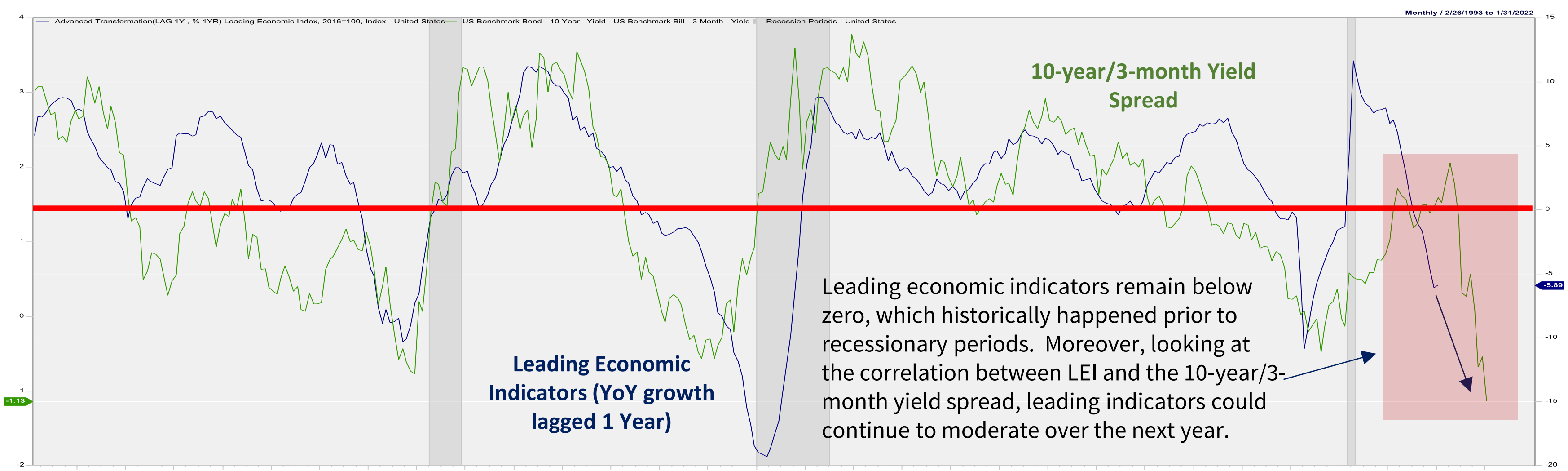
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Discretionary	13.0%	10.7%
Communication Svcs.	10.5%	7.7%
Information Technology	9.4%	27.1%
Real Estate	4.0%	2.7%
S&P 500	***3.9%***	-
Financials	3.7%	11.6%
Materials	3.6%	2.7%
Industrials	2.1%	8.4%
Consumer Staples	-1.8%	6.8%
Health Care	-4.7%	14.6%
Energy	-5.2%	4.8%
Utilities	-5.5%	2.9%

Source: FactSet

MACRO: US

The macro calendar was relative light during the holiday shortened week and following last week's busy economic calendar. However, this week's data continues to point to more of the same. The economy is showing signs of slowdown (leading economic indicators -0.3% MoM in January), but not suggestive of a hard landing (Markit PMI Services for February surprised to the upside and are back into expansionary territory). The housing market remains challenged with existing home sales for January missing estimates at 4 million vs. consensus at 4.1 million and MBA Mortgage Applications falling 13.3% W/W from the prior reading of 7.7%. And finally, the jobs market remains tight with initial claims for the week falling to 192K, which was below consensus expectations of 200K and the prior reading of 195K. **The path forward for the Fed remains challenging with the recent FOMC minutes suggestive that while the Fed members see more increases as warranted as "inflation is unacceptably high", the members will continue to debate the pace of rate hikes,** as more aggressive actions can allow the Fed to reach its intended targets quicker while a more measured approach will allow the Fed to assess the impact of the rate hikes. Tomorrow's PCE reading, will hopefully provide more clarity on the stickiness of inflation, as this remains a favored metric for the Fed.

Event	Period	Actual	Consensus	Prior
Export Price Index NSA M/M	JAN	0.80%	0.0%	-3.2%
Import Price Index NSA M/M	JAN	-0.20%	-0.05%	-0.10%
Leading Indicators SA M/M	JAN	-0.30%	-0.30%	-0.80%
PMI Composite SA (Preliminary)	FEB	50.2	47.6	46.8
Markit PMI Manufacturing SA (Preliminary)	FEB	47.8	47.2	46.9
Markit PMI Services SA (Preliminary)	FEB	50.5	47.0	46.8
Existing Home Sales SAAR	JAN	4,000K	4,100K	4,030K
MBA Mortgage Applications SA W/W	02/17	-13.3%	-	-7.7%
Chicago Fed National Activity Index	JAN	0.23	-	-0.46
Continuing Jobless Claims SA	02/11	1,654K	1,696K	1,691K
GDP Chain Price SAAR Q/Q (Second Preliminary)	Q4	3.9%	3.5%	3.5%
GDP Chain Price SA Y/Y (Second Preliminary)	Q4	6.4%	6.3%	6.3%
GDP SAAR Q/Q (Second Preliminary)	Q4	2.7%	2.9%	2.9%
GDP SA Y/Y (Second Preliminary)	Q4	0.90%	-	1.0%
Initial Claims SA	02/18	192.0K	200.0K	195.0K



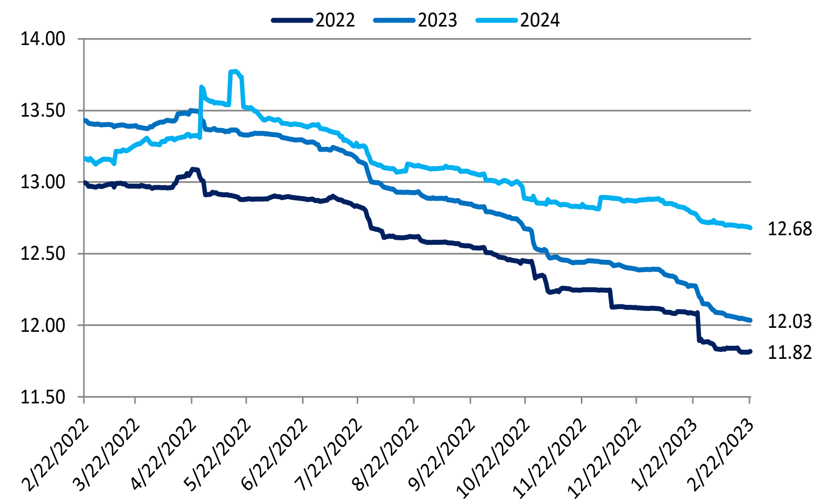
Source: FactSet

FUNDAMENTALS

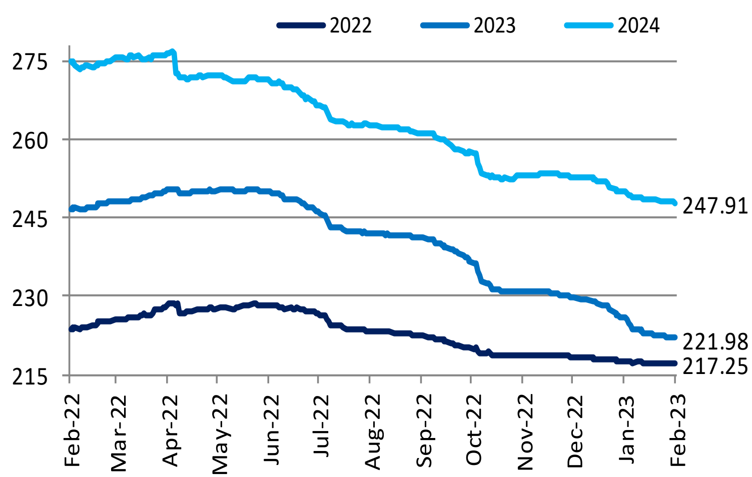
Earnings revisions continue to be pressured and could continue to move lower. Our estimate for 2023 is $215 vs. the consensus estimate of $221.98. As seen in the prior slide, leading economic indicators could continue to move lower, which would put further pressure on earnings and margins. Currently, 4Q’22 earnings are projected to finish with a negative growth rate YoY. However, 1Q’22 earnings are projected to see further YoY declines. While 1Q’22 is projected to see the worst of the declines in YoY comparisons, we would expect earnings to continue their downward revision path as the year progresses, and 2023 estimates to continue to be revised lower.

Margins will continue to be a major focal point as inflation is likely to continue to eat into profits for companies. Mixed with the potential for top-line growth to be pressured, this could lead to further margin compression and challenges to the bottom-line growth, which is our rationale for seeing a slight compression in earnings in 2023 vs. the projected growth by consensus of 2.2%.

Net Margin Estimate Revisions - over Past Year

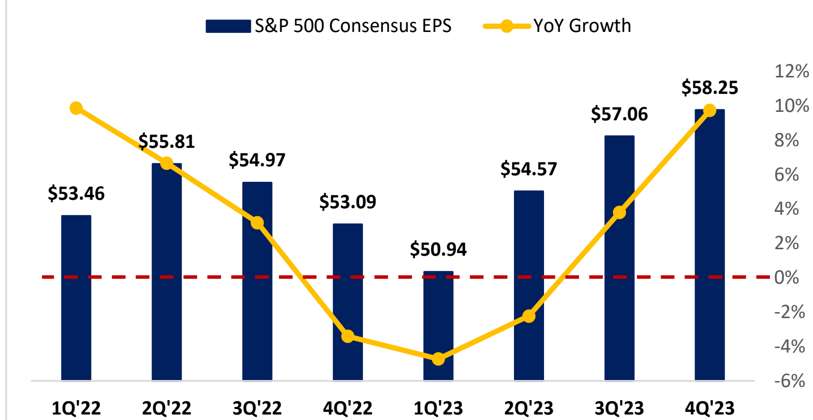


S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth Estimates	
2022	5.2%
2023	2.2%
2024	11.7%

Quarterly EPS Trends



Source: FactSet

TECHNICAL: S&P 500

Source: FactSet

The technical picture has quickly reversed course with the S&P 500 now sitting right on key support levels and RSI suggestive of near-term oversold and MACD moving lower. While we continue to believe the technical positives remain difficult to ignore, we believe the S&P 500's failed break-out is a reality check and reminder that 1) markets are not ready to see an easy glide path back to new all-time highs and 2) volatility is likely to continue even within the 3700-4300 range over the coming weeks/months.

Inflation continues to be a key focus for investors. Tomorrow, PCE data, a favored inflation metric for the Fed, is expected to be released, and we believe this could be a catalyst. A PCE reading showing moderation in inflation could entice buyers, pushing equities above the recent peak. A more neutral report could cause a short-term relief rally. However, a PCE reading suggestive that inflation may be stickier, could further pressure equities.

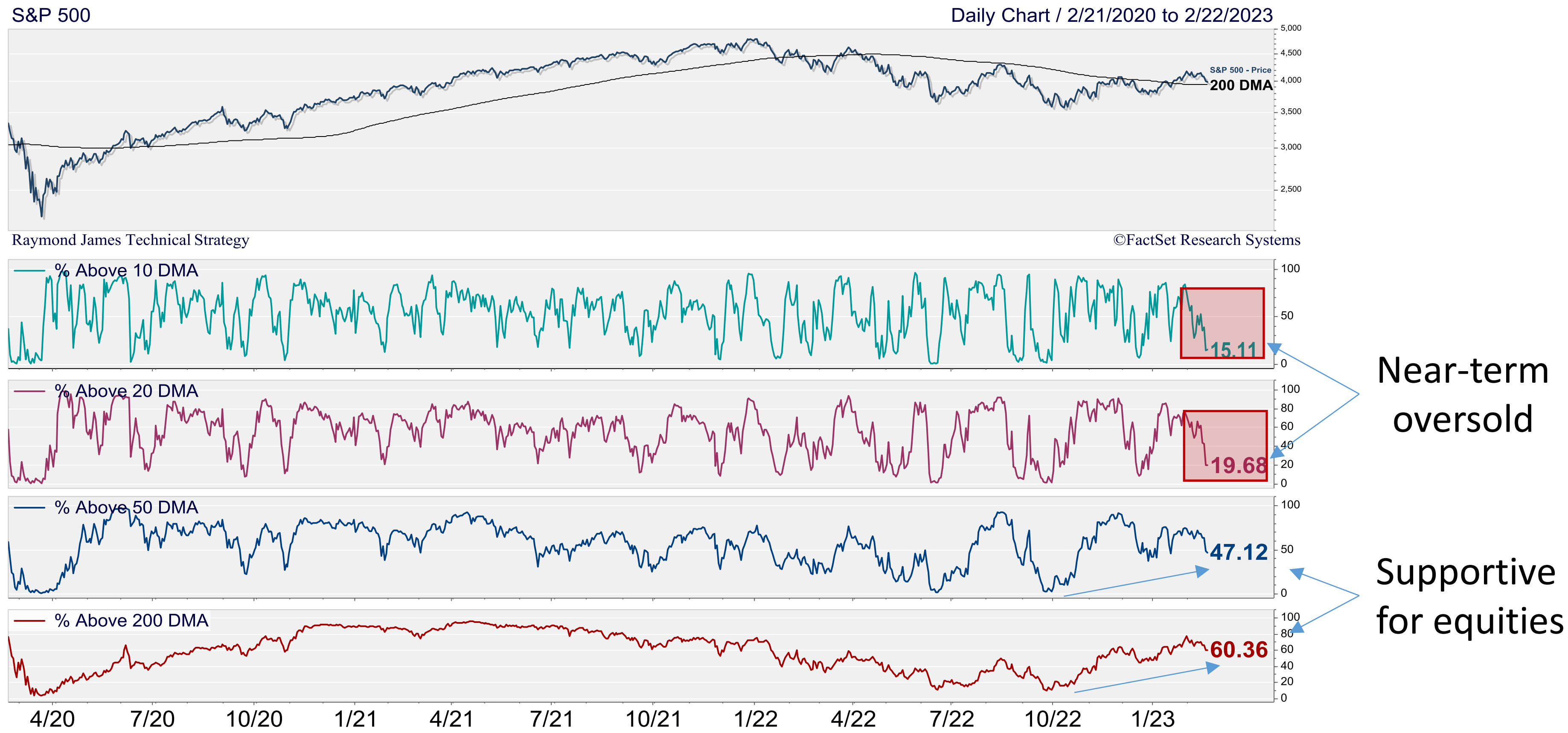
Converging on several key support levels: The S&P 500 is currently trading near several key support levels including:

- **Uptrend Support: 3995**
- **50-DMA: 3980**
- **200-DMA: 3940**

However, a break below the 200-DMA, the technical picture deteriorates, and the S&P 500 could slide to the 3850-3900 area followed by 3800 level. We would use weakness as opportunity to accumulate favored stocks for the longer-term.

TECHNICAL: % ABOVE MOVING AVERAGES

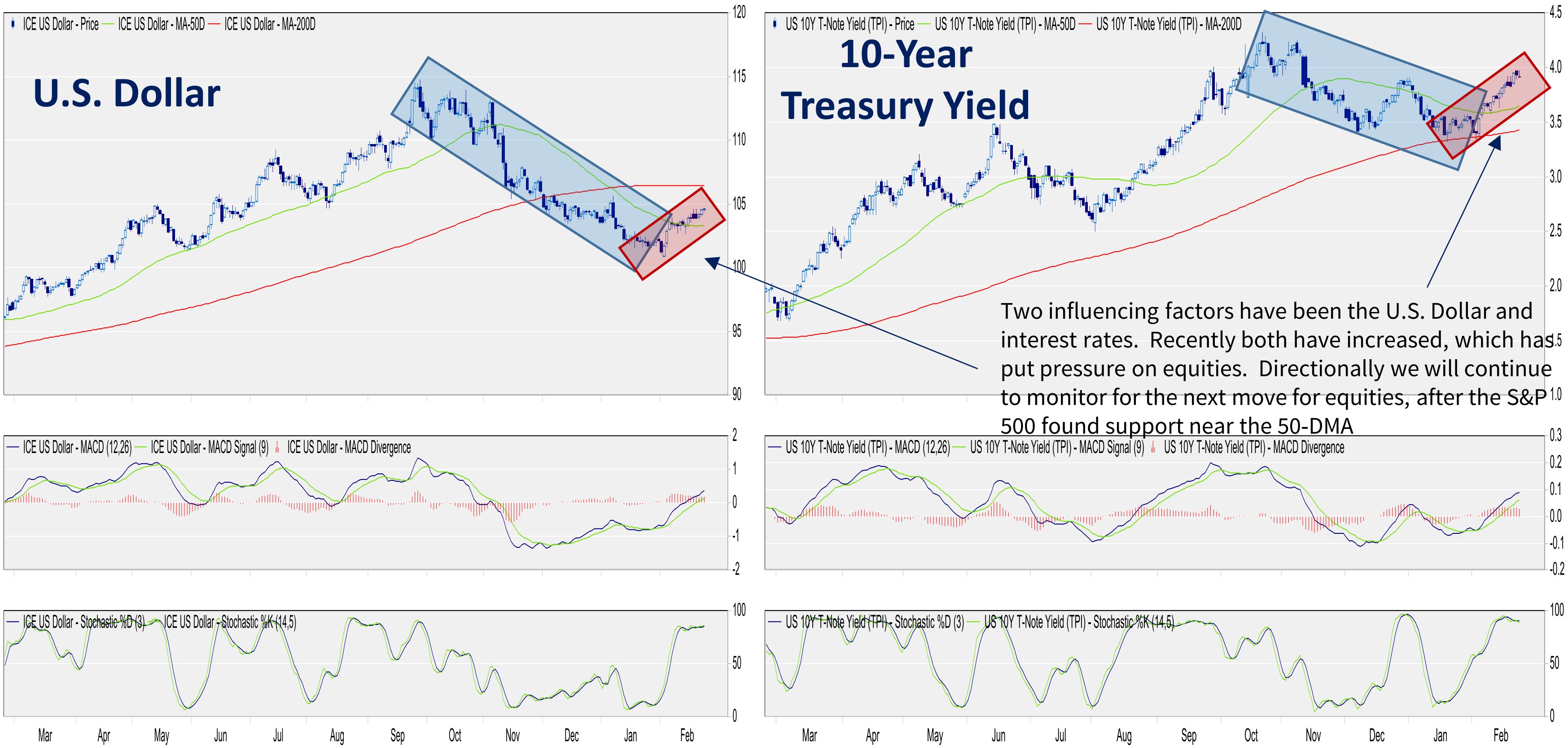
While the percentage of stocks above the 10-DMA and 20-DMA has been moving lower during the recent pullback, the longer-term averages (50-DMA and 200-DMA) remain in an uptrend, suggestive of long-term support for equities. In the near-term, the recent pullback near the 50-DMA and 200-DMA is suggestive of near-term oversold conditions. With the long-term conditions remaining favorable, we would use these pauses as an opportunity to accumulate favored sectors.



Source: FactSet

US DOLLAR AND INTEREST RATES

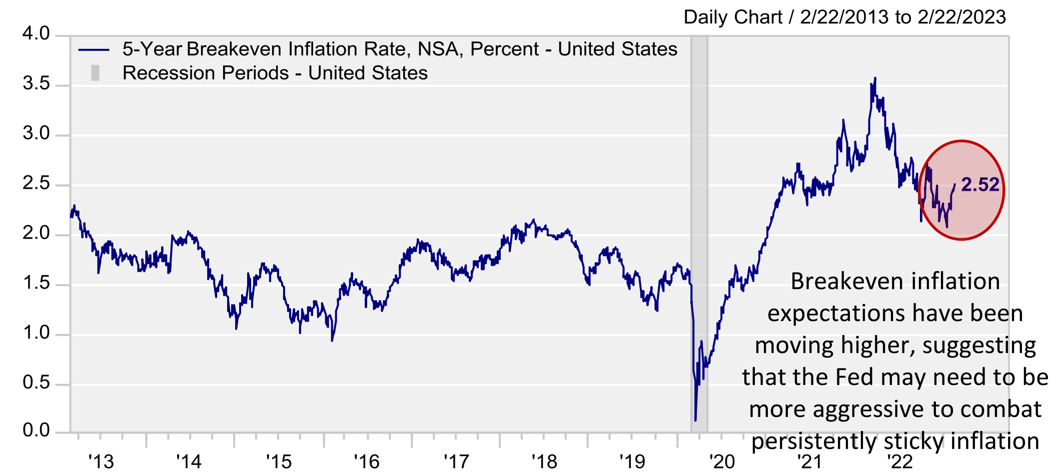
Two influencing factors for the direction of stocks recently have been the U.S. Dollar and Interest rates. As the dollar and rates moved lower, the path of least resistance seemed to be to the upside and stocks gained momentum. However, with the recent increase in both the dollar and 10-year yield, equities have given back some strength as the S&P 500 pulled back to support around the 50-DMA. We will continue to closely monitor the dollar and interest rates as to the direction of equities in the near-term.

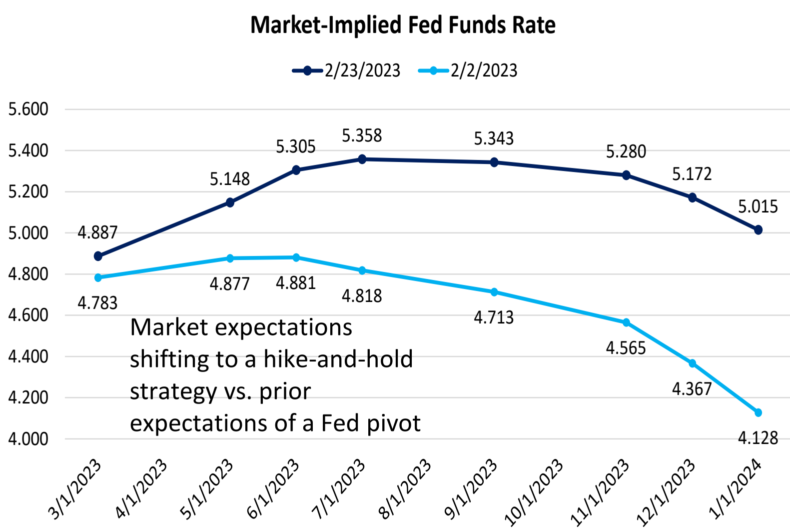


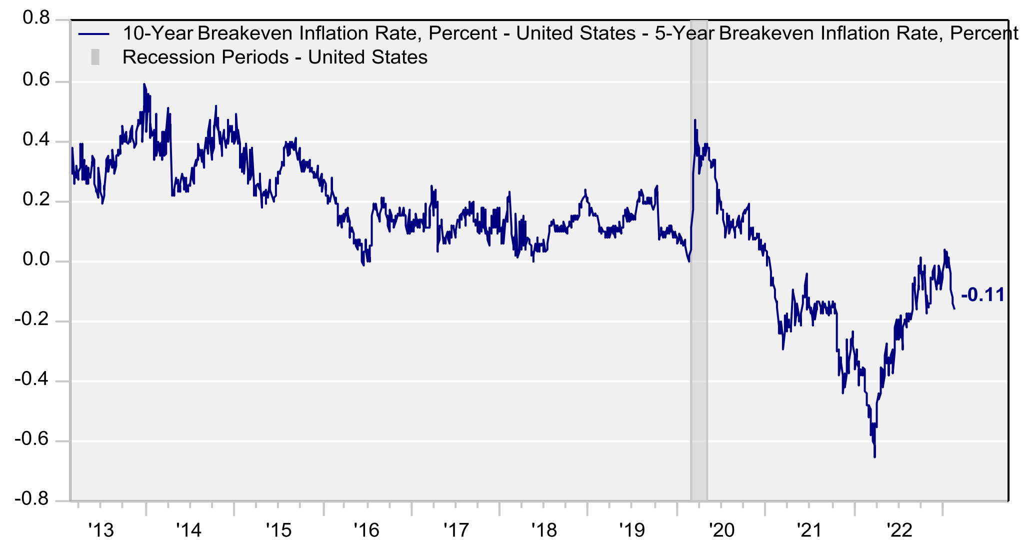
Source: FactSet

FED EXPECTATIONS

The eventual terminal rate for federal funds will continue to be hotly debated, but it appears the market is now pricing in more of a hike-and-hold strategy by the Fed vs. prior expectations of pivot in the back half of the year, which is likely pressuring equities as interest rates move higher. **Yesterday's, FOMC minutes suggest that while the Fed members see more increases as warranted as "inflation is unacceptably high", the members will continue to debate the pace of rate hikes,** as more aggressive actions can allow the Fed to reach its intended targets quicker while a more measured approach will allow the Fed to assess the impact of the rate hikes. However, the market has increased expectations for the terminal rate of hikes since the beginning of February as inflation has proved stickier as seen by market implied break-even inflation expectations.



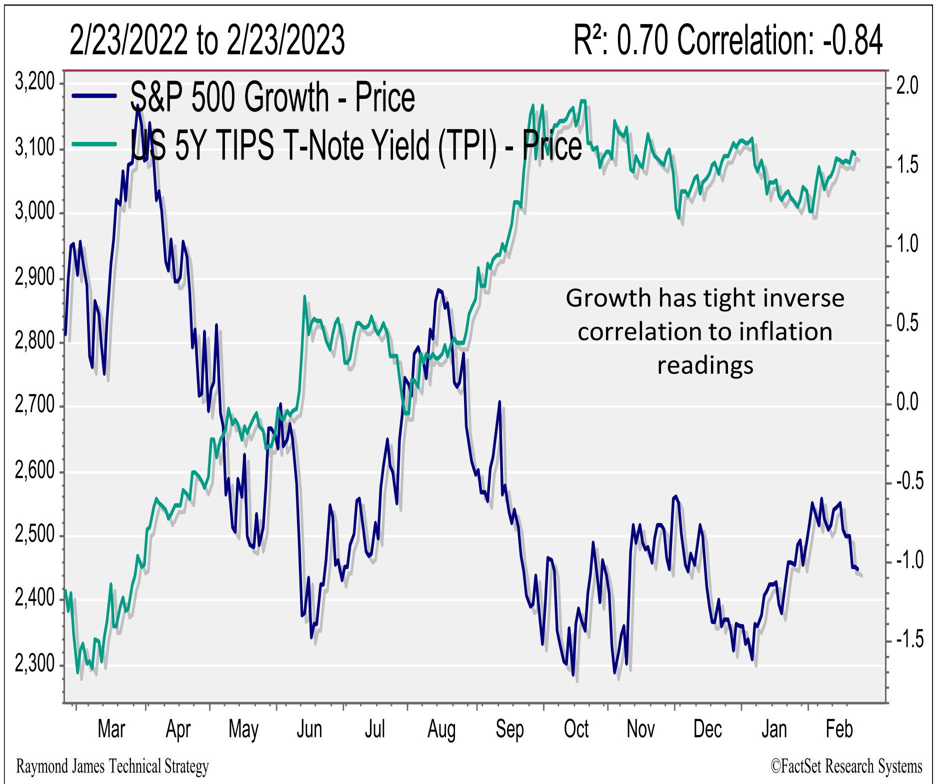




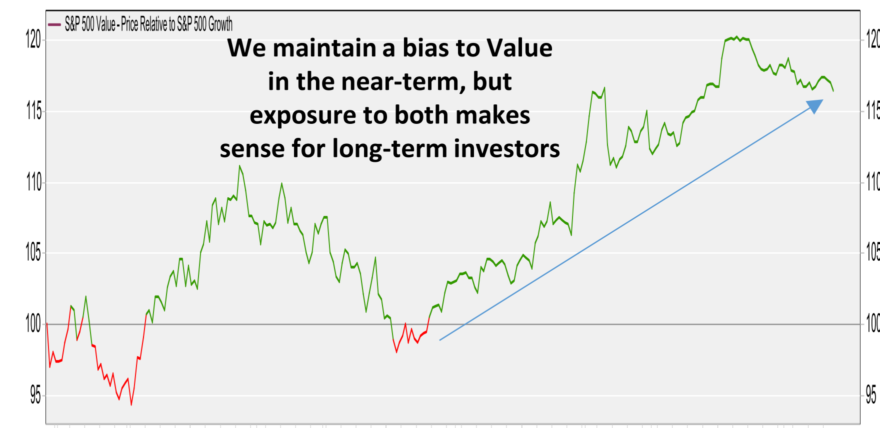
Source: FactSet

GROWTH VS VALUE

In our opinion, a well diversified portfolio should have a mix of both Growth and Value stocks. From a tactical perspective, we maintain a bias towards Value as Growth stocks tend to be more inversely correlated to inflation readings. With inflation expectations moving higher and inflation on the top of mind for investors, we would believe the outperformance from Value can continue. However, long-term, exposure to both makes sense as the index composition can evolve over time.

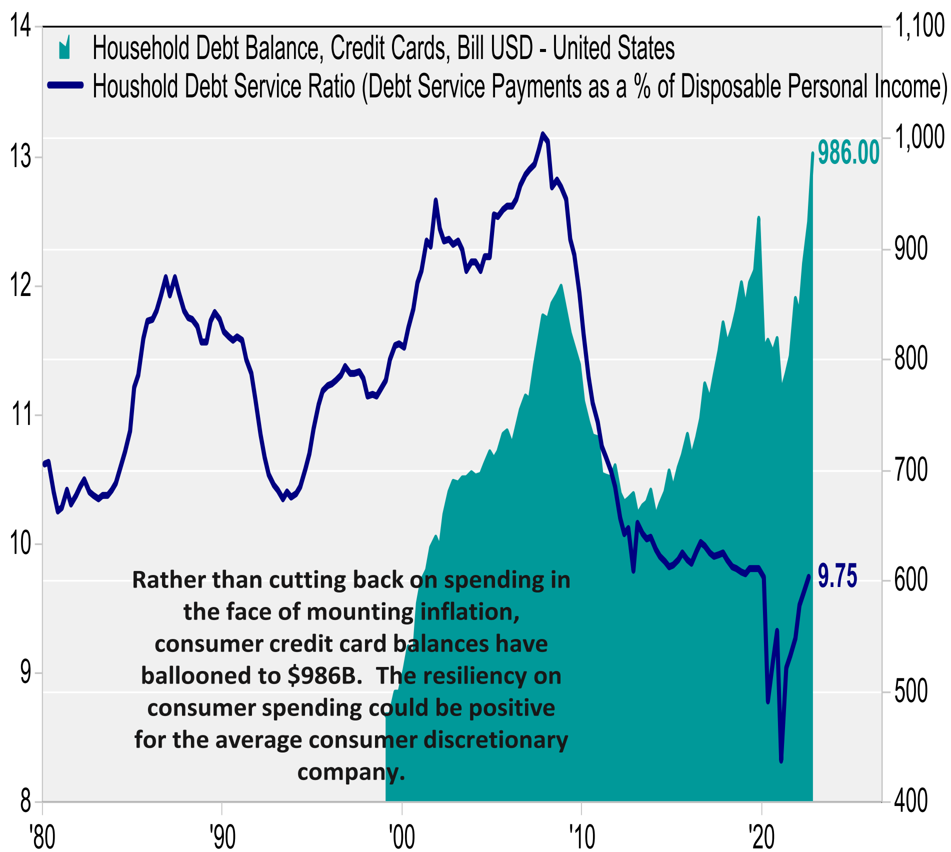


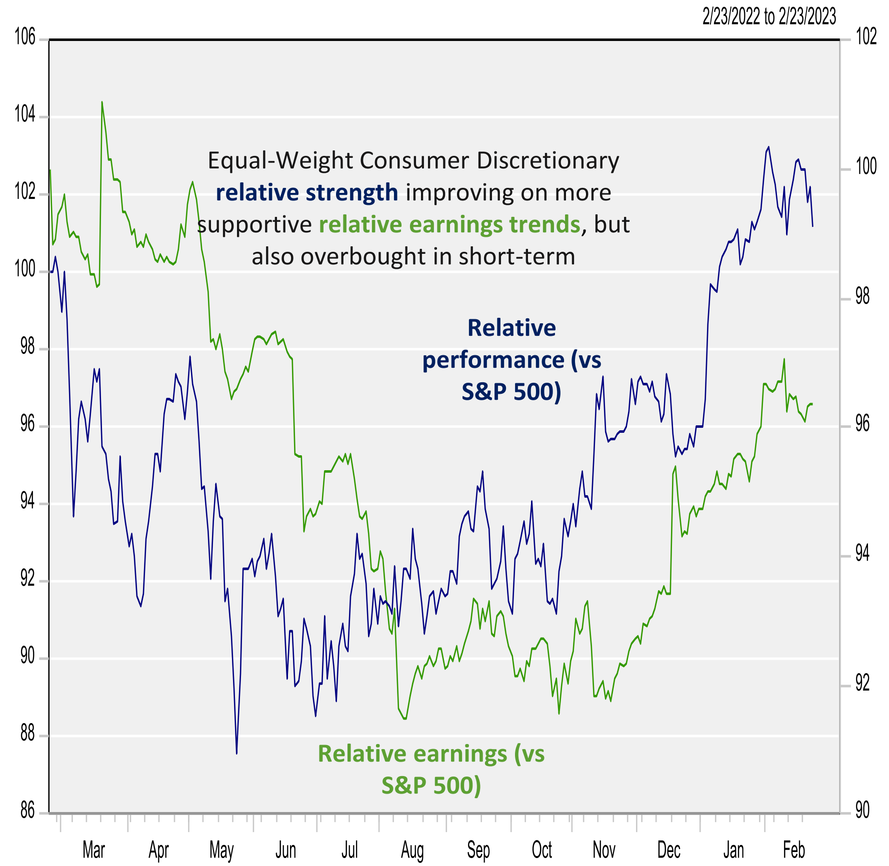
Source: FactSet



CONSUMER DISCRETIONARY

Rather than cutting back on spending, the consumer has remained resilient, which is likely a positive for the average consumer discretionary company. Consumer credit card debt has ballooned to $986B as consumers have maintained spending despite increasing inflation. However, given the tight labor market, the debt service ratio (debt service payments as a % of disposable personal income) remain manageable vs. historical standards. As seen to the right, the equal-weight consumer discretionary relative strength has been improving on more supportive relative earnings trends on the back of strength from the consumer, and we would use weakness as an opportunity to add to the sector.





Source: FactSet (M23-132195)

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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.

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