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2022 Equity Market Outlook

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Outlook:

The S&P 500 is poised to finish 2021 up over 20% as it has fed on very loose financial conditions and the re-opening of the economy. Despite inflation moving higher and ongoing supply chain issues, the U.S. consumer remains healthy and overall demand continues to be strong. With this backdrop, the macro environment is support for equities to continue to move higher in 2022 with our **year-end S&P 500 base case price target of 5,053**. GDP (FOMC is projected 4%) is expected to remain above trend in 2022, which we believe should drive sales growth to be in excess of inflation leading to margin expansion in excess of consensus expectations and EPS growth of double digits (**our 2022 EPS estimate is $235 vs. $205 for 2021**).

Overall, we see tapering and tightening as more of a process beginning with a transition from rapid expansion of the Fed's balance sheet to a slowing/stabilization period and eventually reducing the balance sheet and raising fed funds rates. At each step, stocks could see some added volatility, but unless other factors (macro slowdown, fears of runaway inflation, etc.) evolve, we believe draw downs should not be terminal for the bull market- although some may be deeper than "normal" and reach beyond 10%. We continue to have a **pro-cyclical bias, but believe it is prudent to remain balanced** with areas levered to the **pandemic recovery along with pandemic winners**. Secondly, we have a **bias towards small-caps** given the expectation for better growth and relative valuation is at a 27% discount (vs. the 15-year average of an 8% premium) to large-caps. Finally, we continue to believe **dividend paying stocks** offer an attractive alternative to bonds with the S&P 500 dividend yield roughly in-line with the 10-year yield. **However, it will be important to not get complacent and have a willingness to adapt to changes in 2022 as there continues to be a lot of wildcards, as supply chains remain in flux, inflation remains elevated, and the Fed begins to tighten.**

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Summary of key data points

Moderating, but Still Positive Returns for Equities: Our 2020 base case S&P 500 price objective of 5053 (pg. 4 and pg.6) assumes 8.7% upside from current levels. While this is still healthy equity returns, it will be a moderation from the lofty levels seen in 2021 of greater than 20%. As seen on pg 16, Based on our base case 2022 estimates, the earnings yield is 4.7% vs. the 10-year yield of 1.4% suggesting an equity risk premium (ERP) of 3.3%. At this level, annualized 3-year returns are ~9%, and there remains lots of cushion for rising rates before the ERP <2%.

Double Digit EPS Growth: Pg. 8- Earnings growth, which we project to grow double digits, will continue to be the primary driver of equity market returns in 2022. While growth will decelerate from the nearly 49% projected growth in 2021, we still believe our projected EPS growth of double digits in 2022, provides a nice backdrop for equities, given our belief that consensus expectations remain too conservative, which can continue the recent trend of nice earnings surprises (pg. 9).

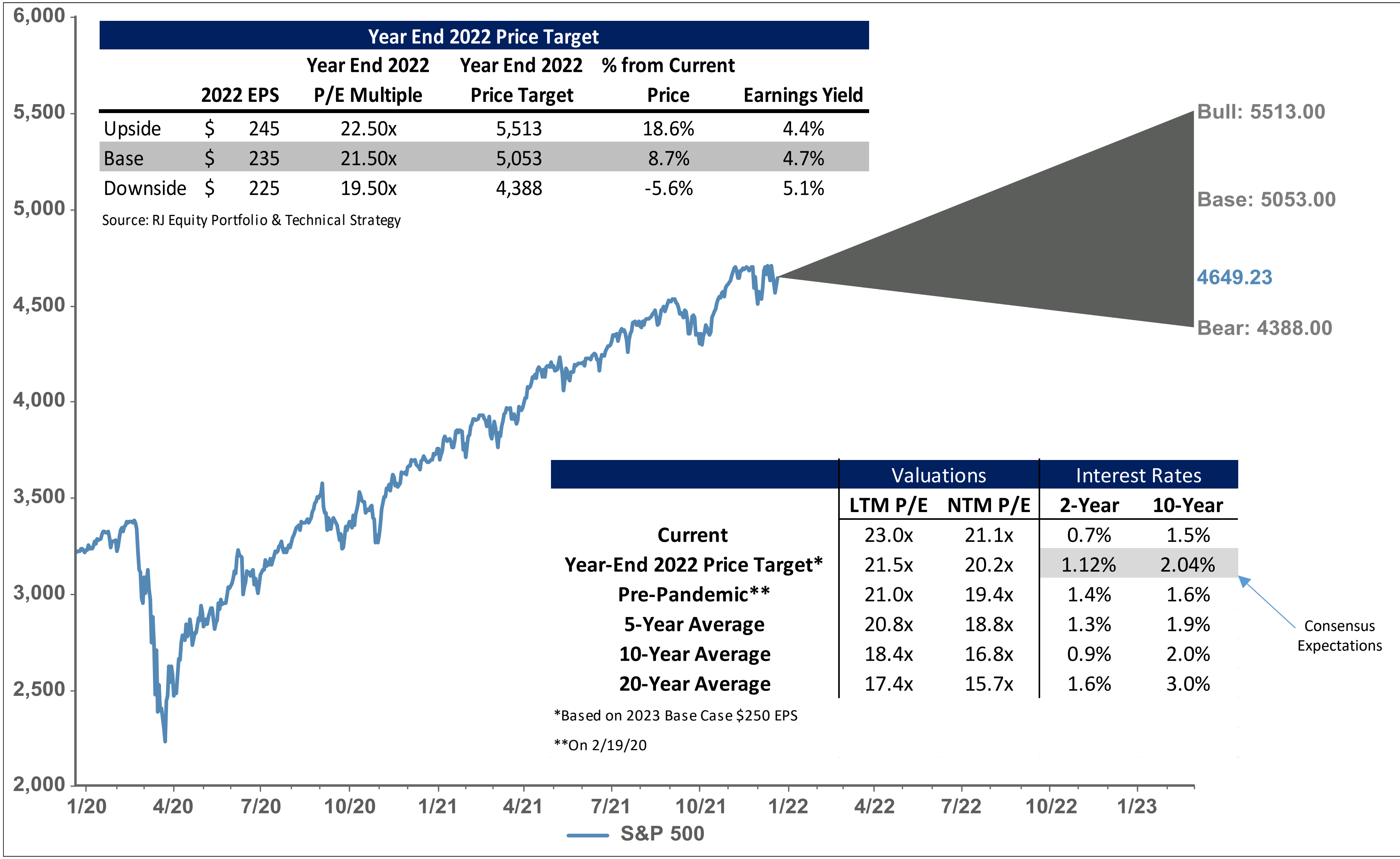
Above Trend GDP Growth: GDP growth is expected to remain above the FOMC's longer-run target for the foreseeable future. While there will be some moderation in 2022 towards 4% (after posting in 2021 what will likely be the highest GDP growth since 1984), however, when GDP growth is over 2%, which is projected through 2024, tends to be favorable for equity market returns (pg. 10).

Early Innings of a Bull Market: Pg. 14- Despite being nearly 2 years in, the current bull market, which started in March of 2020, remains in the early innings as the average duration of bull markets is just shy of 5 years historically, increasing the odds that the increasing wildcards will not derail equity markets. It will be important to keep a longer-term perspective that this bull market is still young, if and when volatility picks up.

Inflation: The rise in inflation continues to dominate headlines; however, S&P 500 sales growth (driven by strong demand and price increases) of 7.3% is expected to remain in excess of inflation (pg. 12), which should drive margins to expand in both 2022 and 2023 (we believe consensus remains too conservative and our model suggests further upside to margins than are currently projected). Additionally, we are starting to see some early signs that inflation expectations could be peaking (pg. 19-20) with the 5-year breakeven inflation expectations turning lower recently and the 10-year breakeven suggesting further compression from these elevated levels longer-term.

Lots of Wildcards: It is important not to get complacent and be willing to adapt in 2022 given numerous wildcards, as supply chains remain in flux, inflation remains elevated, and the Fed begins to tighten (as seen on pgs. 24-29). The Fed's hawkish pivot (pg. 28) from ultra-lenient policy toward more normalized policy could come with more moderate returns and normal periods of volatility over the next 3-6 months (vs what investors have grown accustomed to since March 2020). Rate hikes alone do not derail equity markets and concerns become more heightened following a yield curve inversion, which is far off. So prepare for the possibility of more volatile periods in 2022; but with conditions likely to remain healthy, we would use such periods as opportunity.

2022 Price Objective



Year End 2022 Price Target						
	2022 EPS		Year End 2022 P/E Multiple	Year End 2022 Price Target	% from Current Price	Earnings Yield
Upside	$	245	22.50x	5,513	18.6%	4.4%
Base	$	235	21.50x	5,053	8.7%	4.7%
Downside	$	225	19.50x	4,388	-5.6%	5.1%

Source: RJ Equity Portfolio & Technical Strategy

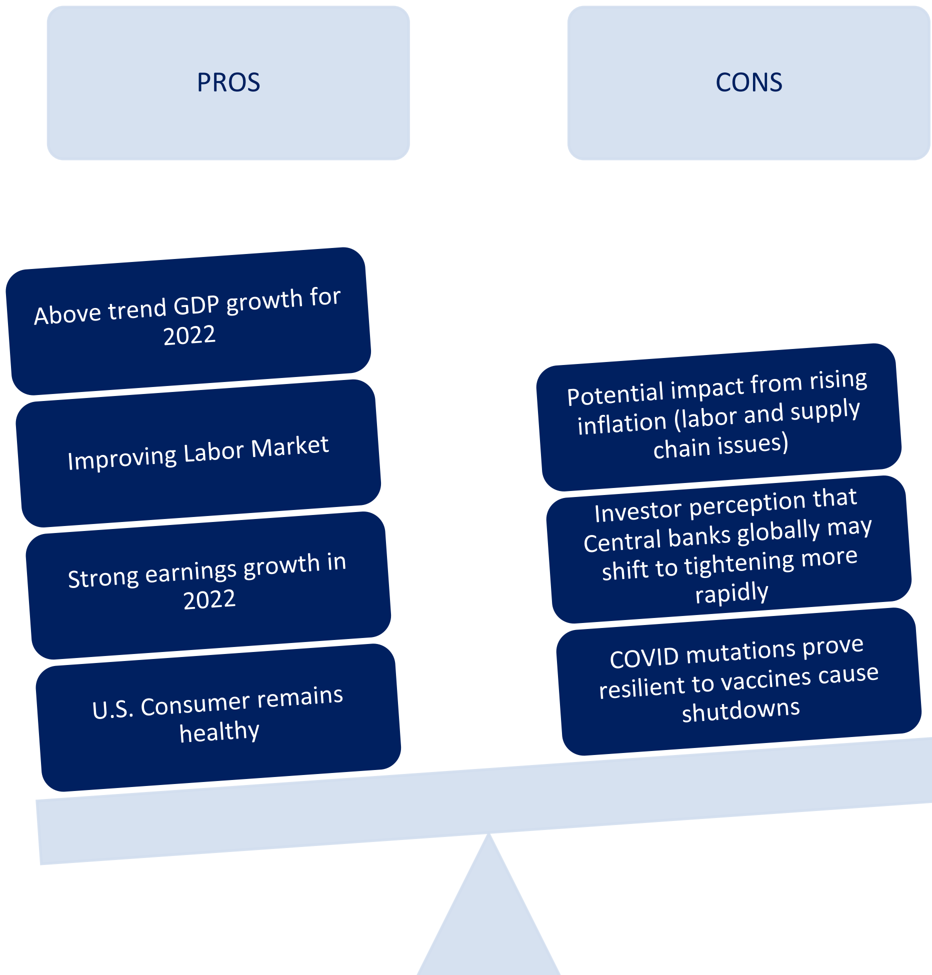
	Valuations		Interest Rates	
	LTM P/E	NTM P/E	2-Year	10-Year
Current	23.0x	21.1x	0.7%	1.5%
Year-End 2022 Price Target*	21.5x	20.2x	1.12%	2.04%
Pre-Pandemic**	21.0x	19.4x	1.4%	1.6%
5-Year Average	20.8x	18.8x	1.3%	1.9%
10-Year Average	18.4x	16.8x	0.9%	2.0%
20-Year Average	17.4x	15.7x	1.6%	3.0%

*Based on 2023 Base Case $250 EPS

**On 2/19/20

Source: FactSet and RJ Equity Portfolio & Technical Strategy
Price data used as of the close on December 21, 2021 of 4649.23

Outlook



Positives outweigh the negatives

Source: FactSet and RJ Equity Portfolio & Technical Strategy

2022 S&P 500 Fair Value

Year End 2022 Price Target						
	2022 EPS		Year End 2022 P/E Multiple	Year End 2022 Price Target	% from Current Price	Earnings Yield
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Overall, we see tapering and tightening as more of a process beginning with a transition from rapid expansion of the Fed's balance sheet to a slowing/stabilization period and eventually reducing the balance sheet and raising fed funds rates. At each step, stocks could see some added volatility, but unless other factors (macro slowdown, fears of runaway inflation, etc.) evolve, we believe draw downs should not be terminal for the bull market- although some may be deeper than "normal" and reach beyond 10%. It will be important to not get complacent and have a willingness to adapt to changes in 2022 and there continue to be a lot of wildcards, such as supply chain disruptions, inflation, and the Fed tightening cycle.

Macro: Remains a nice tailwind with re-openings globally as vaccination rates accelerate; however, Omicron variant is altering the timeline for reopening

- GDP growth is projected to remain above trend for 2022
- Pent-up demand and the need to rebuild inventories provides macro support thru next year
- Supply chain issues are causing disruptions, but we see them prolonging the recovery rather than stifling it.
- Labor markets continue to see nice improvement and would expect fewer labor shortages to be a nice lever to remove some of the supply chain bottlenecks

Earnings: Revision trends remain positive for earnings with strong earnings surprises

- 2022 earnings are projected to grow double digits YoY as higher taxes looks to be tabled for now
- Sales growth (price increases and strong demand) is likely to remain above input cost growth, which should be positive for margins
- Inflation remains robust with it proving to be more sustainable than previously expected, however, we do believe some will prove temporary caused by supply chain disruptions. Starting to see some early signs of some moderation/improvements.

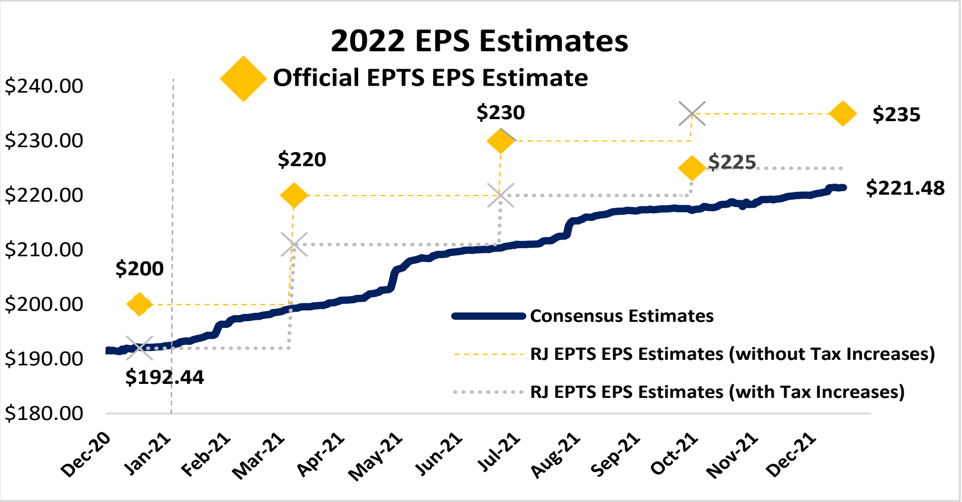
Valuation: Continue to expect some normalization from elevated levels, but likely to remain above trend due to low interest rates

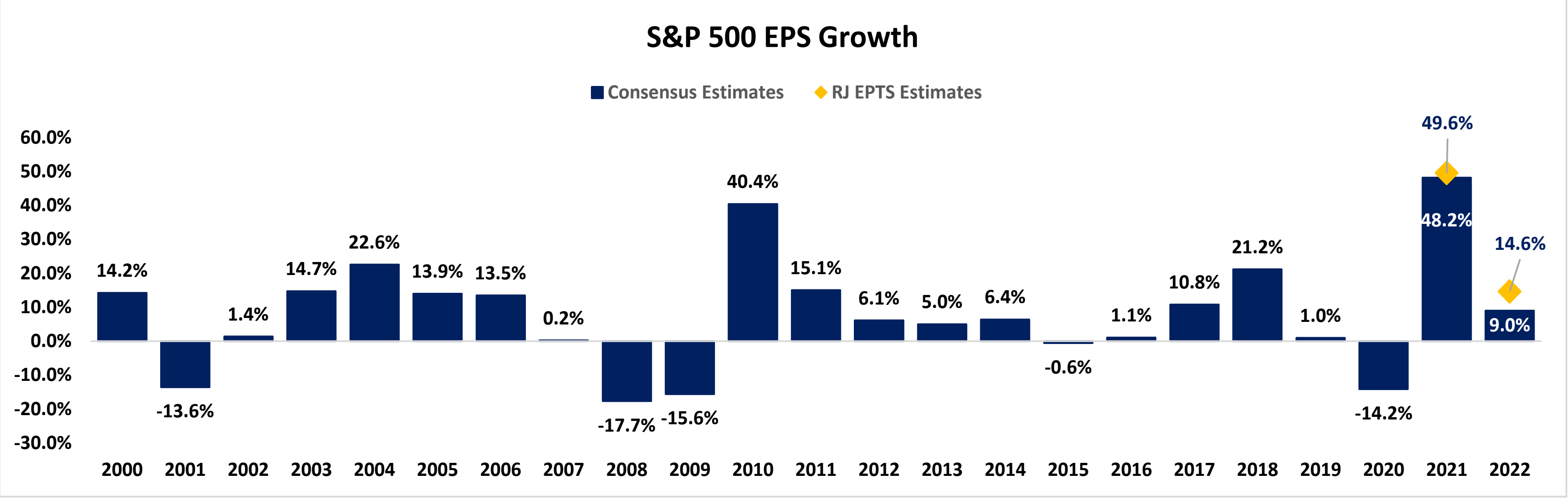
- Equity Risk Premium (ERP) still supports positive forward equity returns--historically, forward 3-yr returns are mostly positive when ERP is above 2%, which suggests the 10-year yield could move north of ~2.5% before the rise in yields hurts our equity outlook.
- Fed is likely going to begin raise rates sometime in 2Q22. While this can cause some near-term disturbances initially after the hike, the disruption is short-lived and the 6-months before and 6-months after combine for healthy equity gains.

Support for Equities

Double Digit EPS Growth

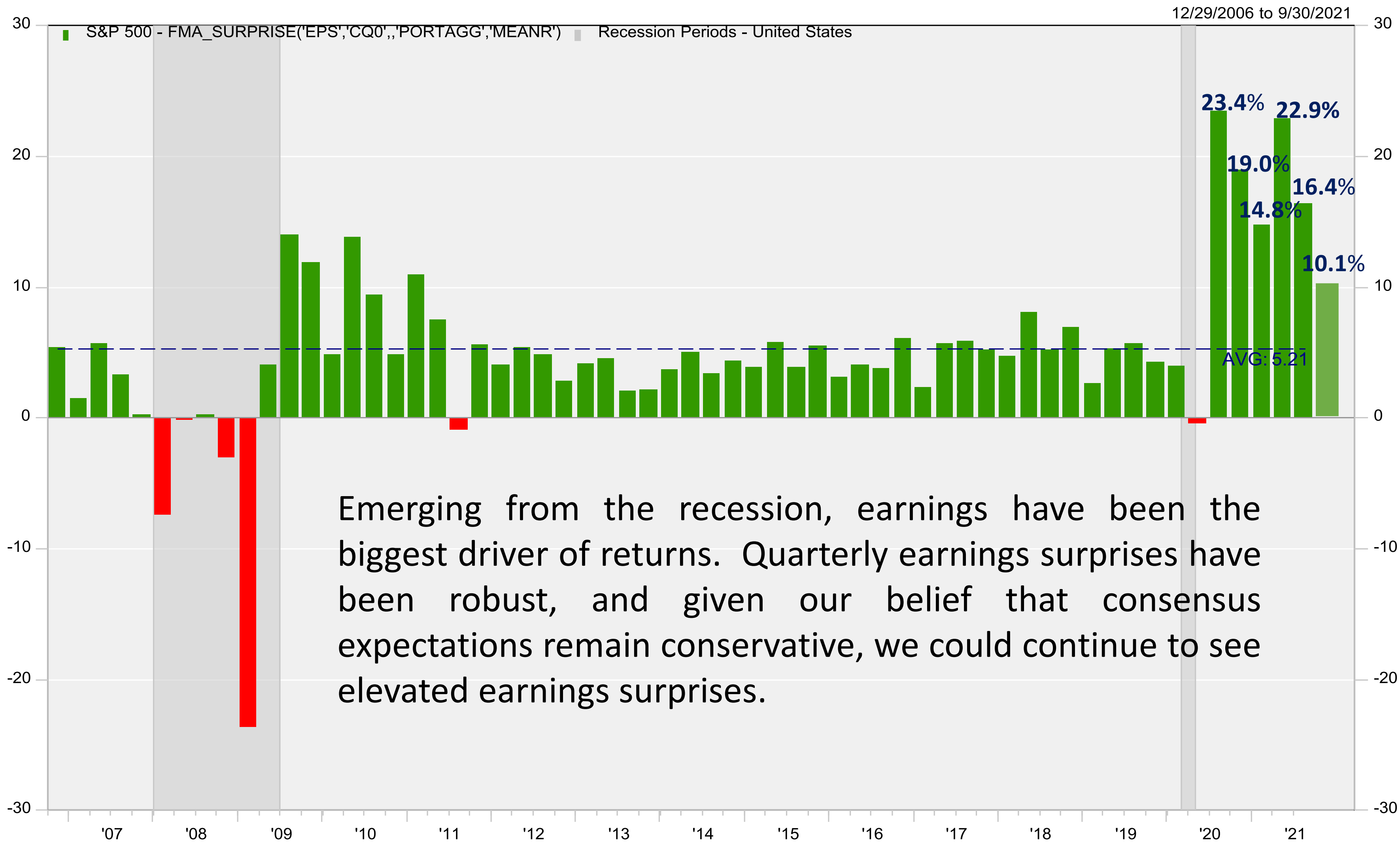
Earnings growth, which we project to grow double digits, will continue to be the primary driver of equity market returns in 2022. While growth will decelerate from the nearly 49% projected growth in 2021, we still believe our projected EPS growth of double digits in 2022, provides a nice backdrop for equities, given our belief that consensus expectations remain too conservative.





Source: FactSet and RJ Equity Portfolio & Technical Strategy

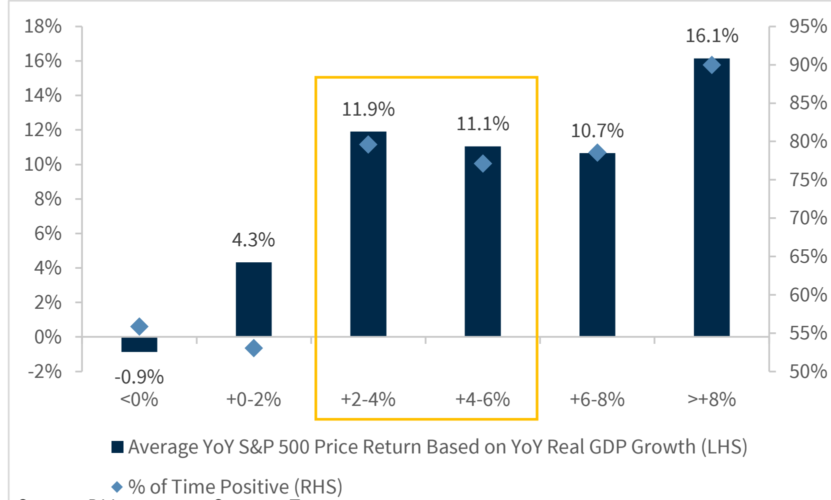
Earnings Surprises Stay Elevated



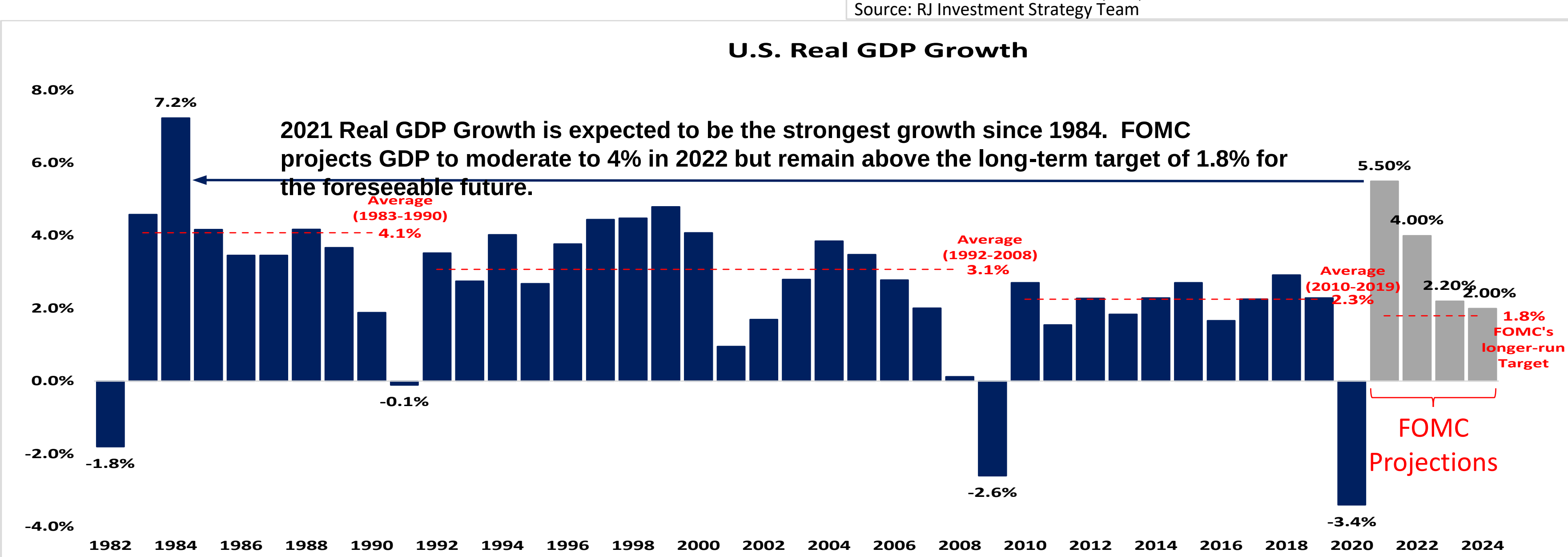
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Above Trend GDP Growth to Persist

GDP growth is expected to remain above the FOMC's longer-run target for the foreseeable future. While there will be some moderation in 2022 towards 4% (after posting in 2021 what will likely be the highest GDP growth since 1984), as seen to the right, GDP growth over 2%, which is projected through 2024, tends to be favorable for equity market returns. Additionally, as we will explore further, strong GDP growth should be positive for both sales growth and margin expansion for the S&P 500.



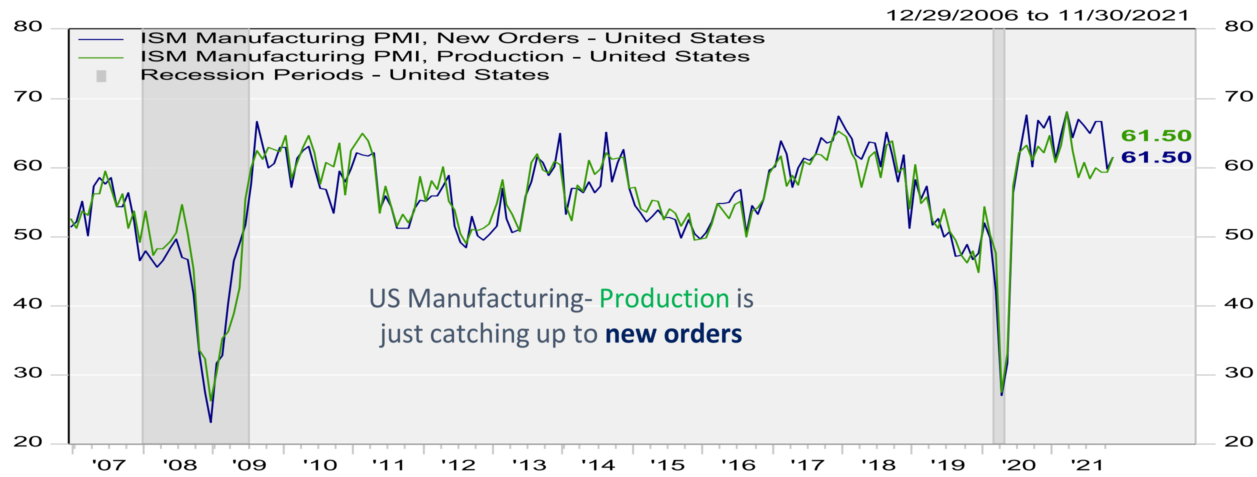
Source: RJ Investment Strategy Team

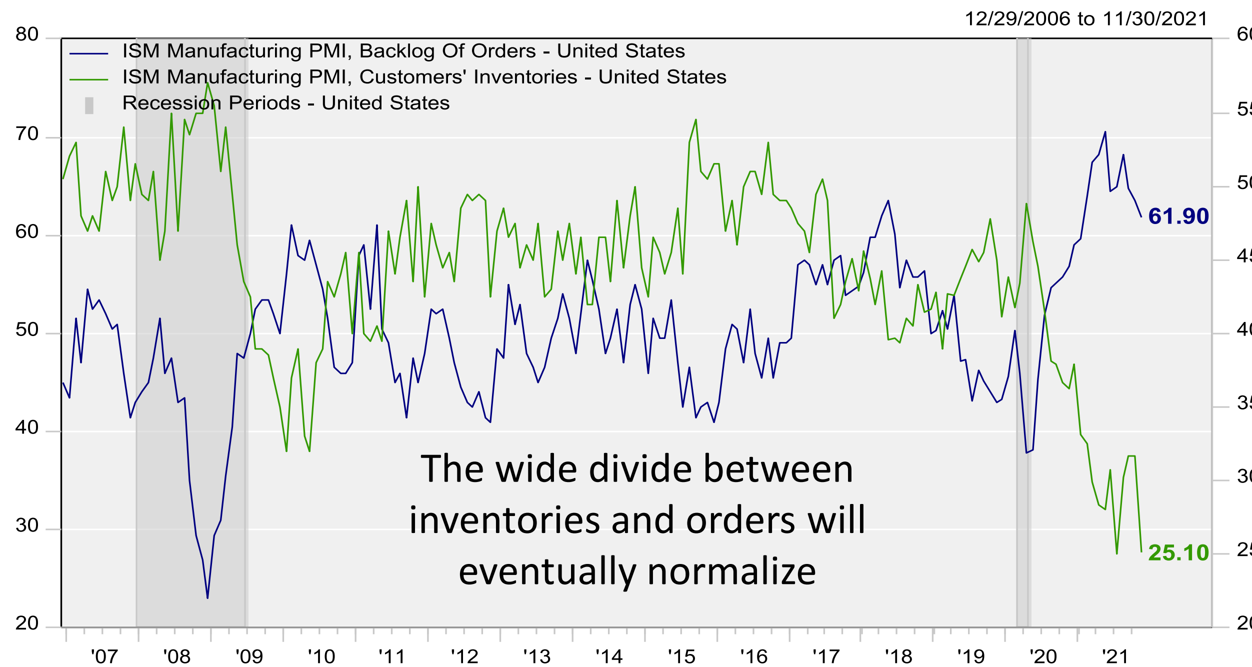


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Prolonged Recovery

We view the current supply chain issues as prolonging the economic recovery rather than stifling it. Looking to the top chart to the right, U.S. manufacturing is finally seeing production catch up to the new orders suggesting that both supply and demand remain at elevated levels (well into expansionary territory). However, there continues to be a wide divide between inventories and backlog of orders. Given the low customer inventory levels, we believe production will need to continue to remain elevated to build back the inventories suggesting continued economic strength for longer.

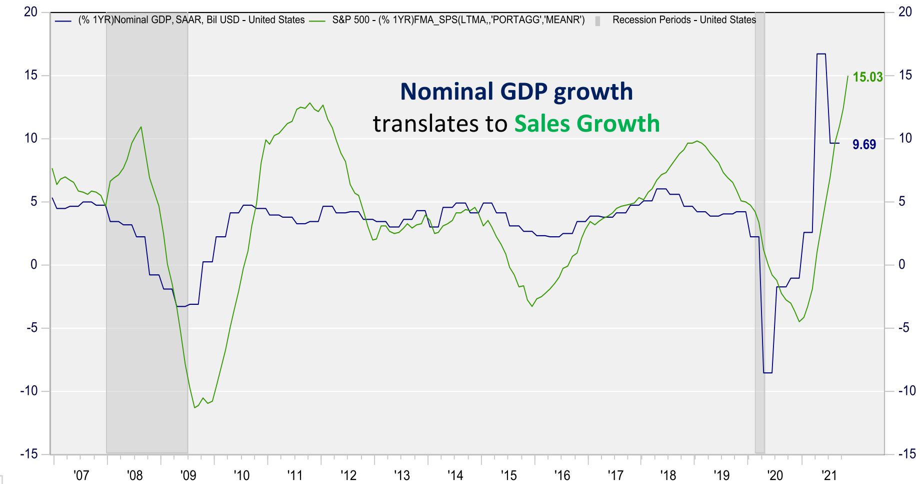


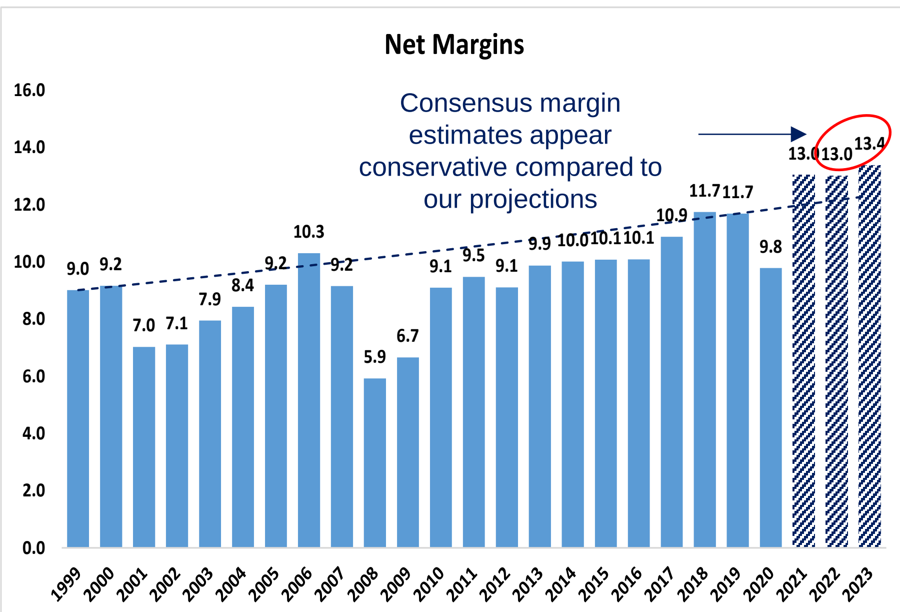


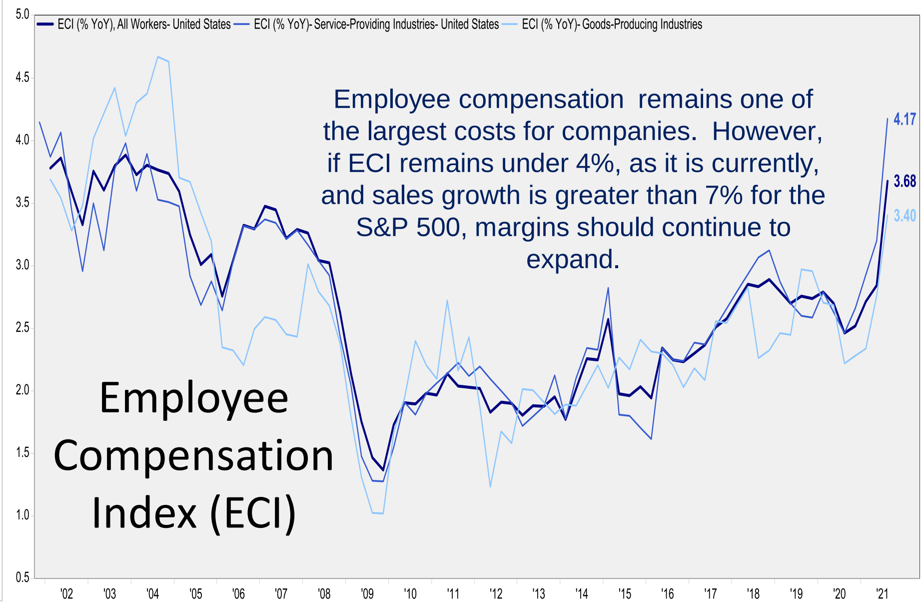
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Margin Expansion to Continue

We continue to believe margins are poised to improve and consensus expectations (below) for net margins of 13% in 2022 and 13.4% in 2023 may prove to be conservative. The backdrop remains supportive for sales growth (currently consensus is at 7.3% for 2022) to be stronger than inflation, which should lead to some margin improvement and upside to current consensus expectations. An upward trend in margins along with a healthy macro backdrop will dispel many of the perceived inflationary risks to earnings in the near-term.



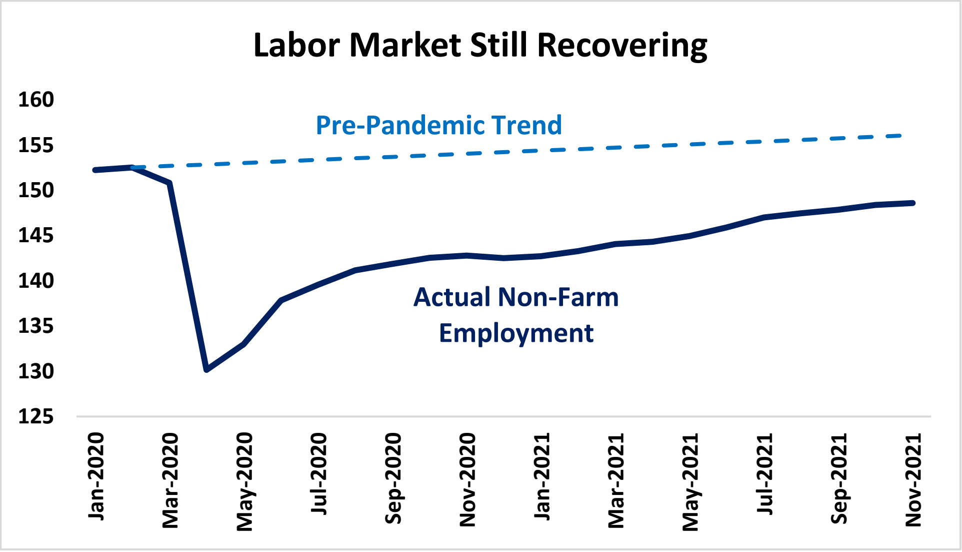


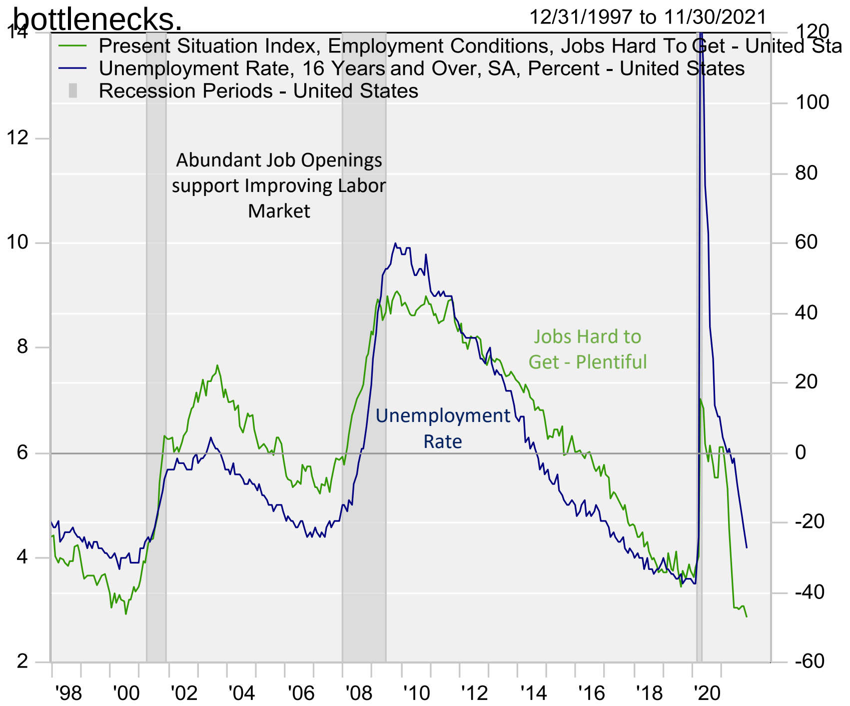


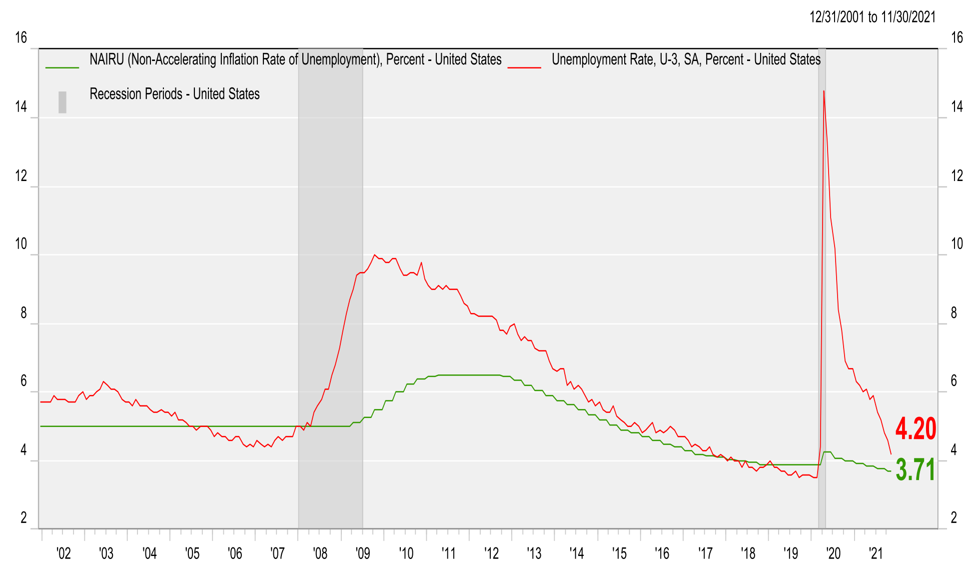
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Improving Labor Market

Overall, we believe the labor market is improving, but far from recovered, with the unemployment rate continuing to move back towards pre-pandemic levels and abundant job openings. However, non-farm employees remains ~7 million below the pre-pandemic trend and the unemployment rate remains above the NAIRU suggesting additional slack in the labor market. Our expectation is for labor to continue to recover in 2022 and labor shortages become less of a headwind to the economy, potentially improving some of the supply chain bottlenecks.



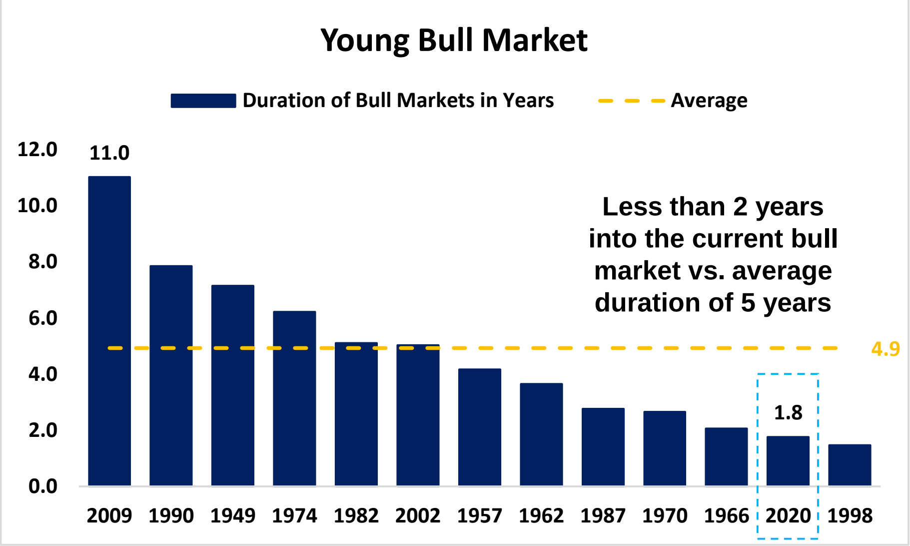


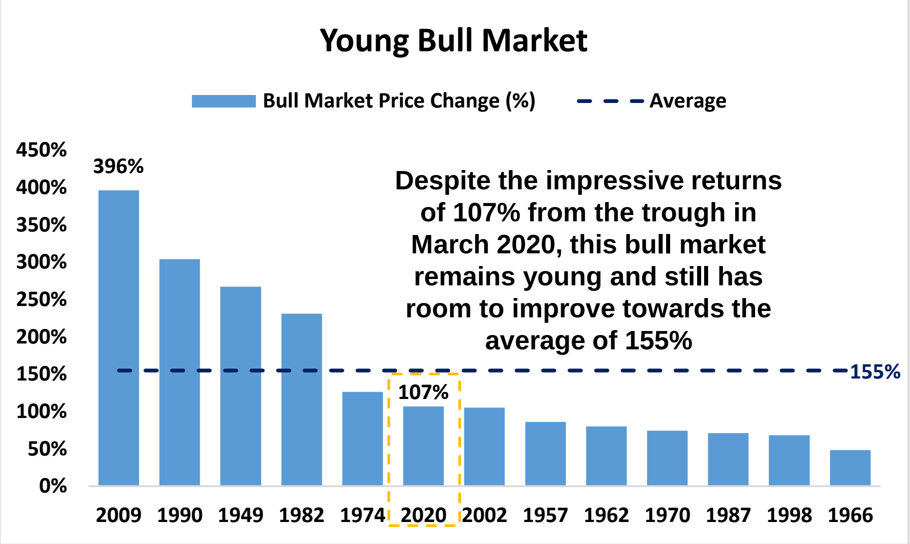


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Early Innings of a Bull Market

Despite being nearly 2 years in, the current bull market, which started in March of 2020, remains in the early innings. As seen to the right, bull markets have on average lasted just shy of 5 years. Despite the impressive gains of ~107% from the trough, we continue to believe this bull market has room to run. As seen in the lower right, the average bull market price change is still in excess of the current run. And secondly, the bull market has been driven by the US market, so as the world also starts to reopen its economy, we believe this can be another leg to push returns higher. It will be important to keep a longer-term perspective that this bull market is still young, if and when volatility picks up.

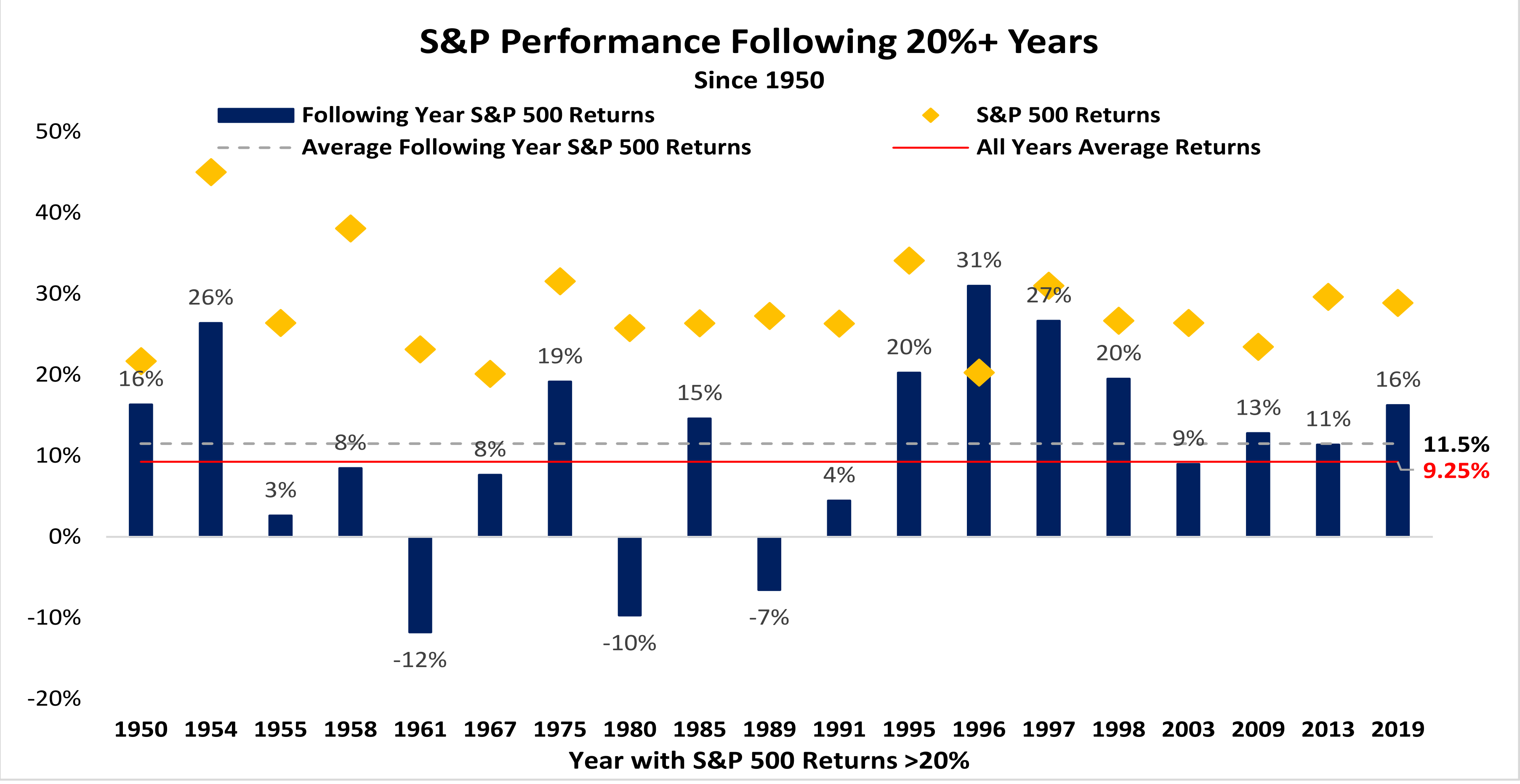




Source: FactSet and RJ Equity Portfolio & Technical Strategy

Positive Returns Following 20%+ Years

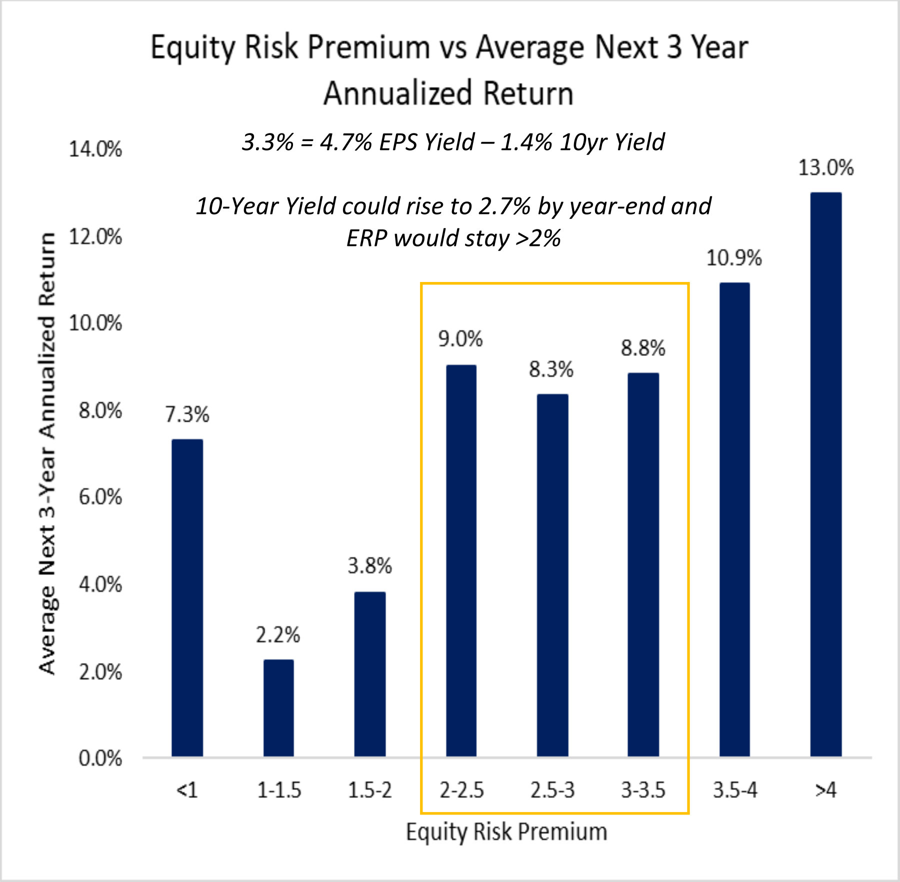
The old adage "strength begets strength" holds true for equities. Since 1950, there have been 19 years in which the S&P 500 price change was in excess of 20%. Rather than robbing performance from the future year, the following year's performance for the S&P 500 was on average higher with 11.5% returns vs. 9.25% for all years. Additionally, of those years with >20% returns, the following year was positive 84% of the time.

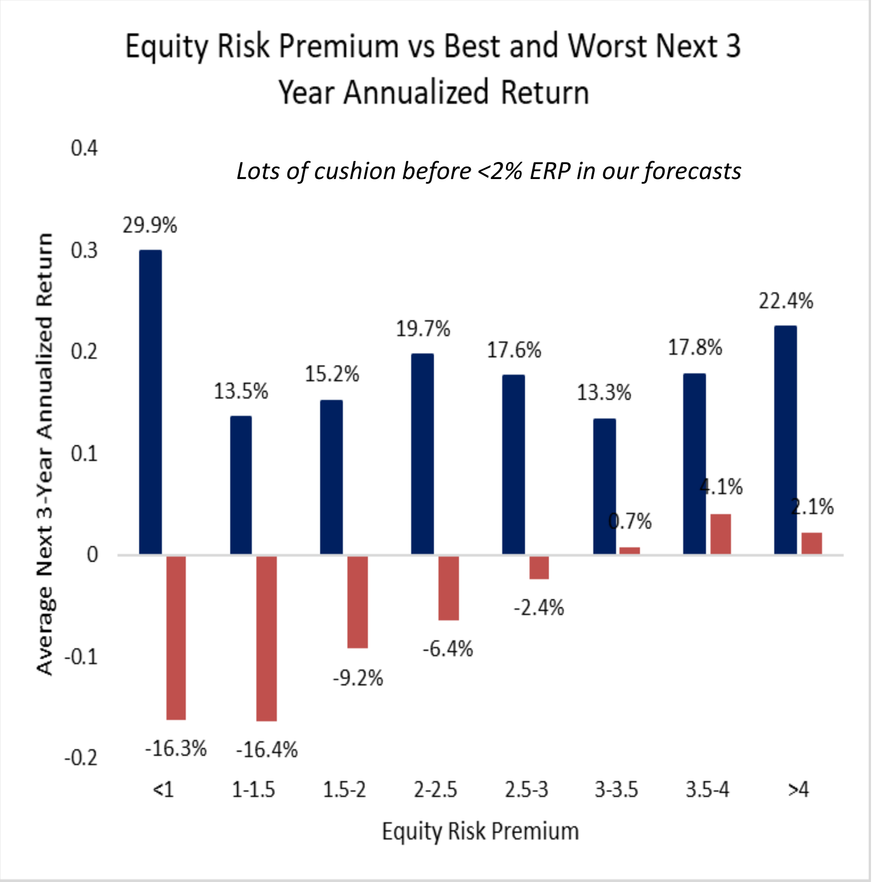


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Positive, but Moderating Returns

We are projecting some moderating equity returns from the lofty levels seen over the last few years; however, we still believe the equity markets can achieve nearly 9% price returns in our base case 2022 outlook. As seen below, the equity risk premium is supportive of our view that returns remain positive but may moderate slightly. Based on our base case 2022 estimates, the earnings yield is 4.7% vs. the 10-year yield of 1.4% suggesting an equity risk premium (ERP) of 3.3%. At this level, annualized 3-year returns are ~9%, and there remains lots of cushion for rising rates before the ERP <2%.

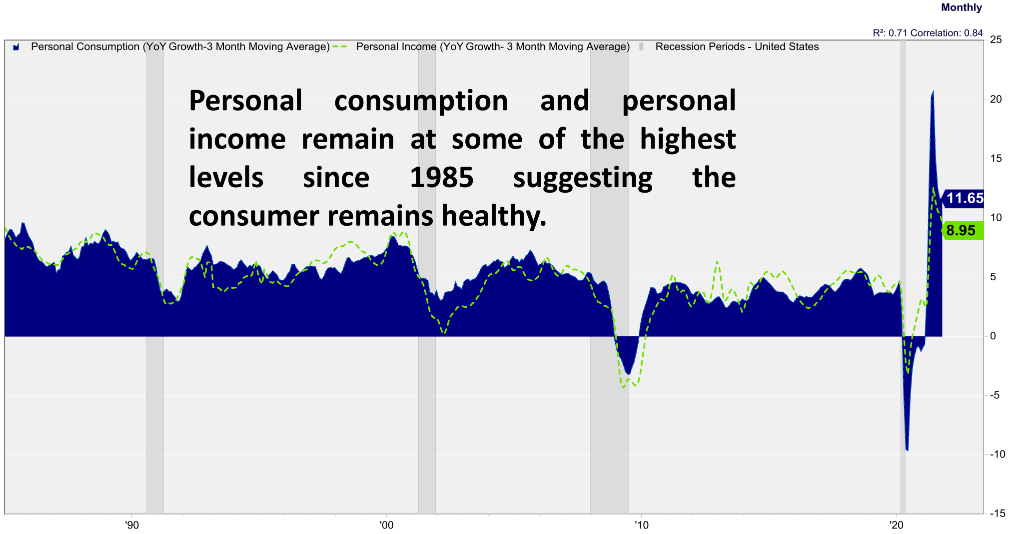


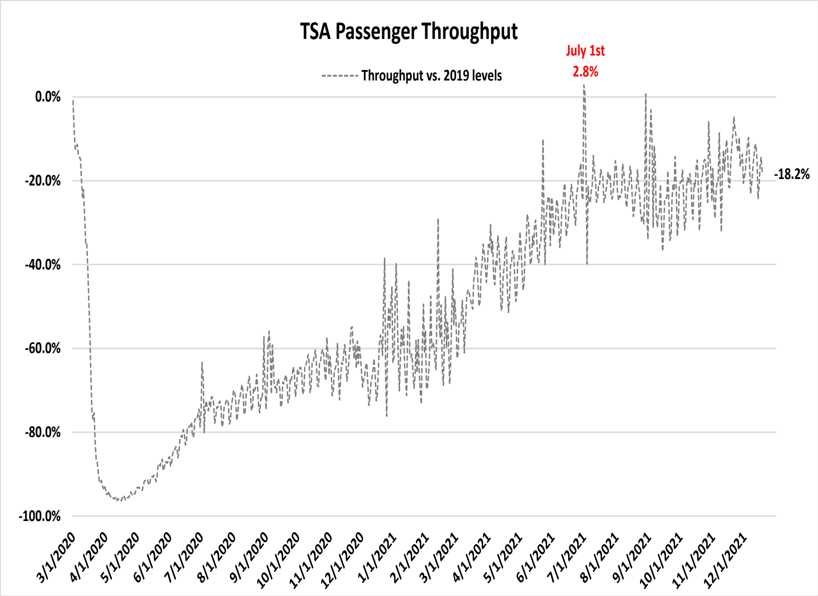


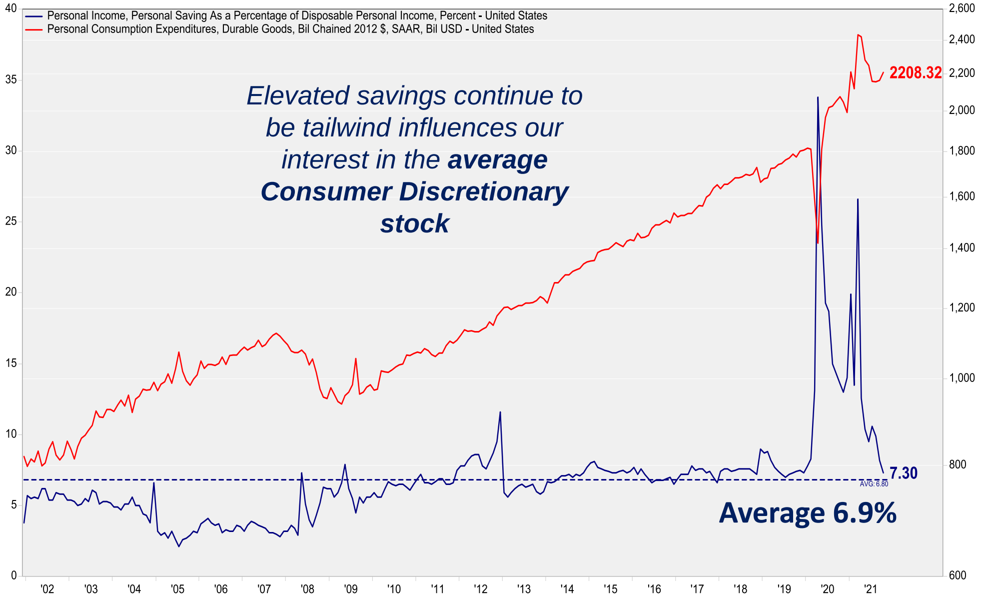
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Consumer Remains Healthy

Overall, we continue to believe the consumer remains healthy with personal consumption and personal income remaining at some of the highest levels since 1985, and elevated savings continuing to be a tailwind. While several companies have indicated they are seeing consumer spending back to pre-pandemic patterns, such as increased spending on travel, some of the new variants have caused a near-term air pocket (as seen below in TSA data).



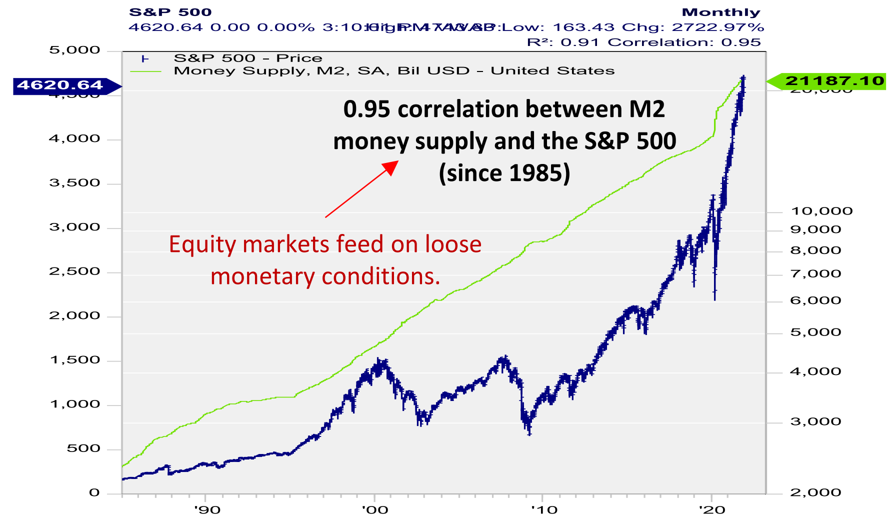


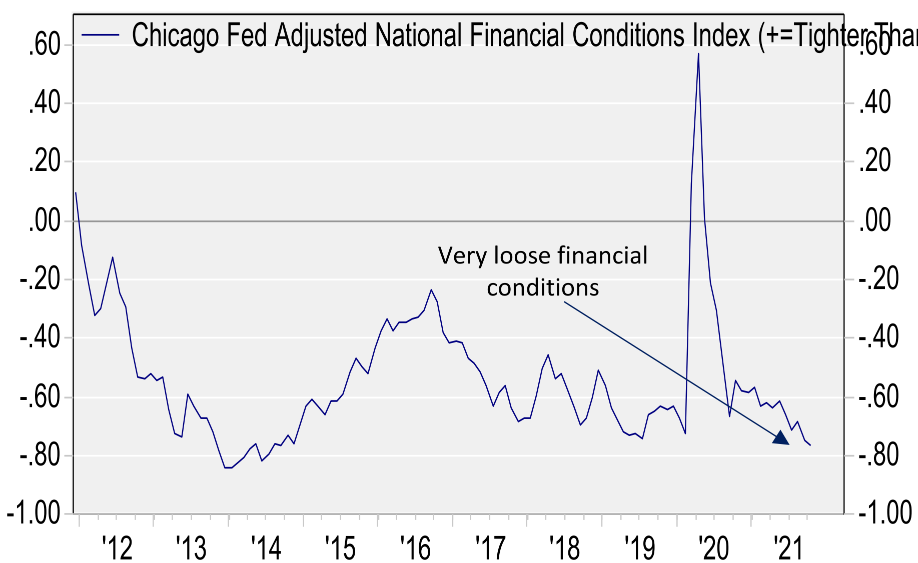


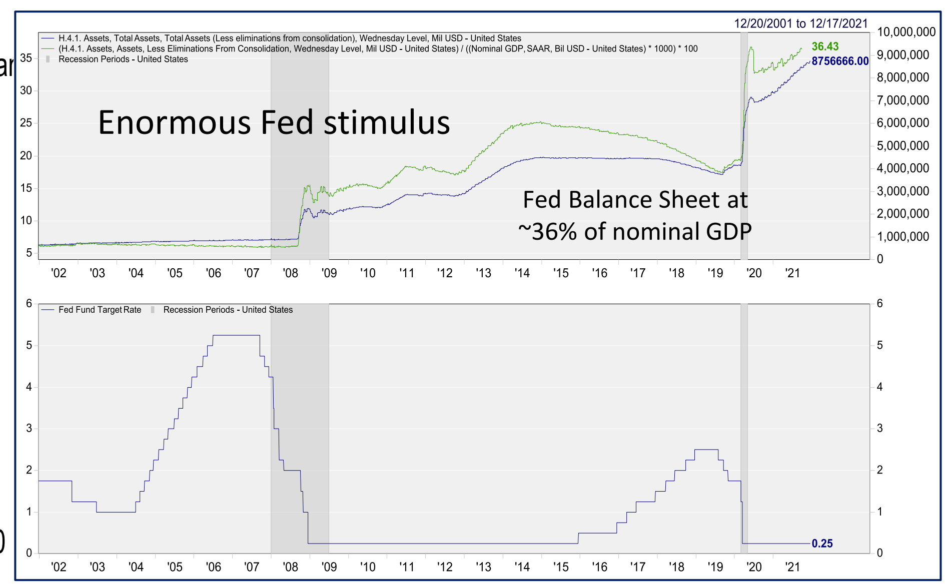
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Loose Financial Conditions

As expected, the Fed accelerated/doubled its tapering pace at this month's FOMC meeting with asset purchases set to end in Q1'22. Messaging moved more hawkish with the median dot plot reflecting three fed funds rate hikes in 2022 and another three in 2023. The initial rate hike is likely by the end of Q2 and could come as early as March. The Fed's hawkish pivot is prudent in our view with very loose financial conditions, above trend GDP, and elevated inflation caused by significant stimulus over the last couple years. That said, given that the Fed has been so important to equity markets since the credit crisis, a normalization of policy (and more hawkish pivot) could come with more moderate returns and normal volatility/choppiness over the next 3-6 months.



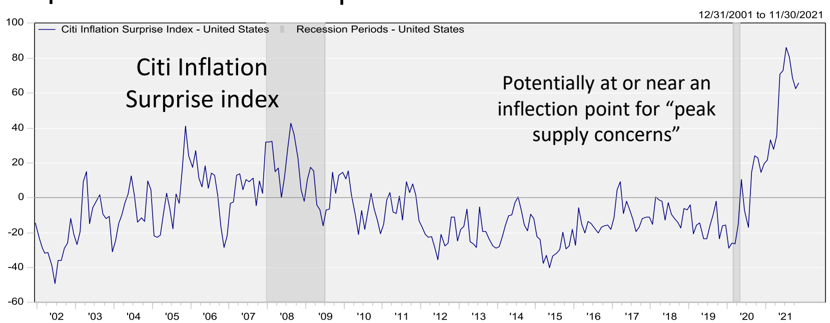


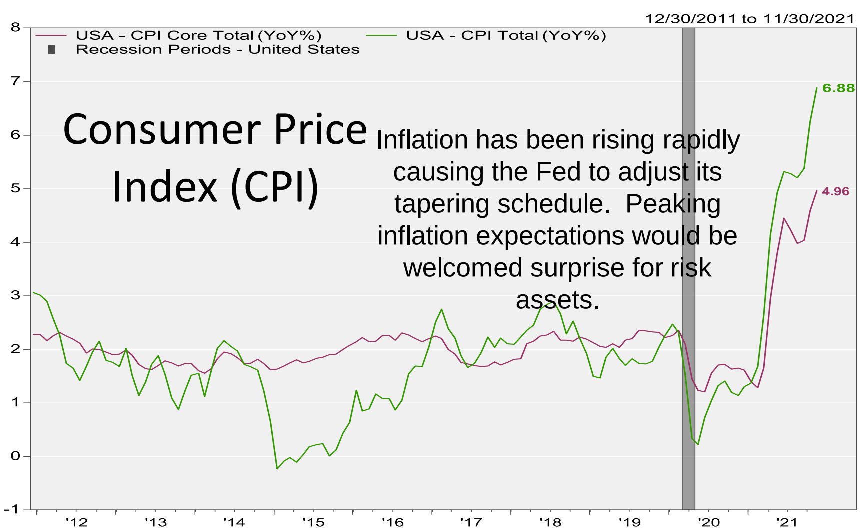


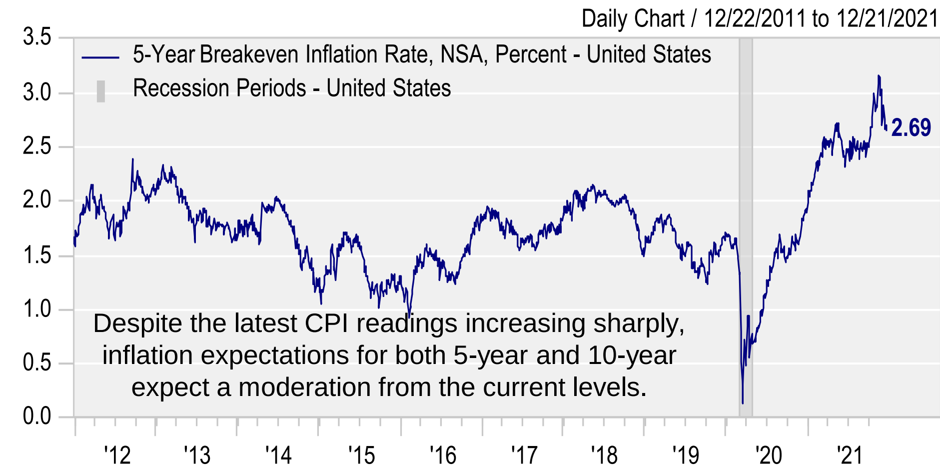
Source: FactSet and RJ Equity Portfolio & Technical Strategy

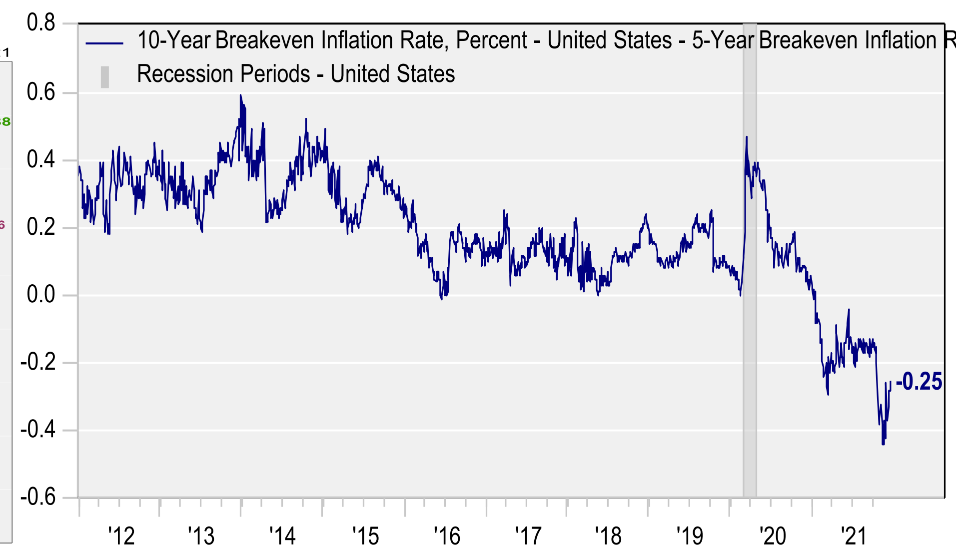
Peaking Inflation Expectations

Despite robust inflation readings (as seen below), 5-year inflation expectations are moderating slightly off its peak at 2.65% and 10-year expectations show a further moderation to 2.38%. We believe peaking inflation expectations would be positive for risk assets.



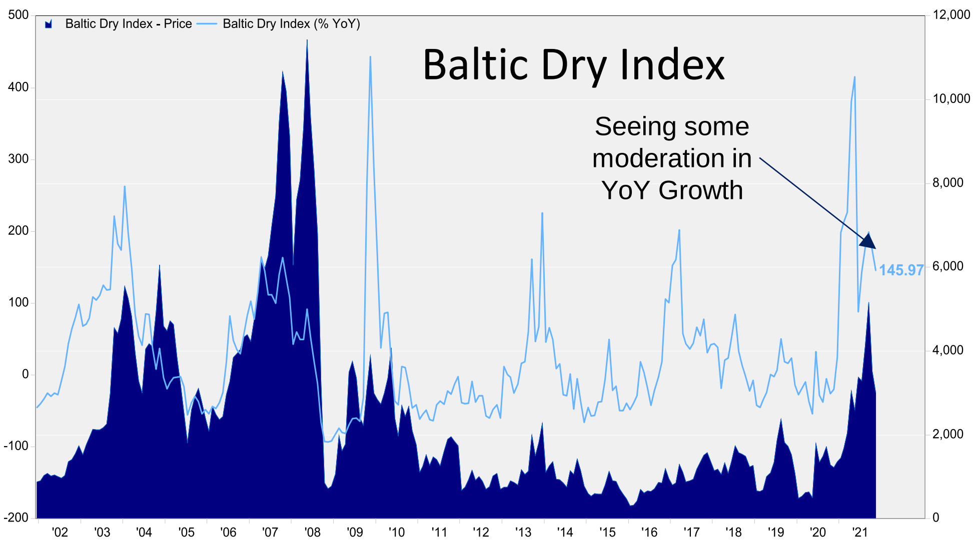


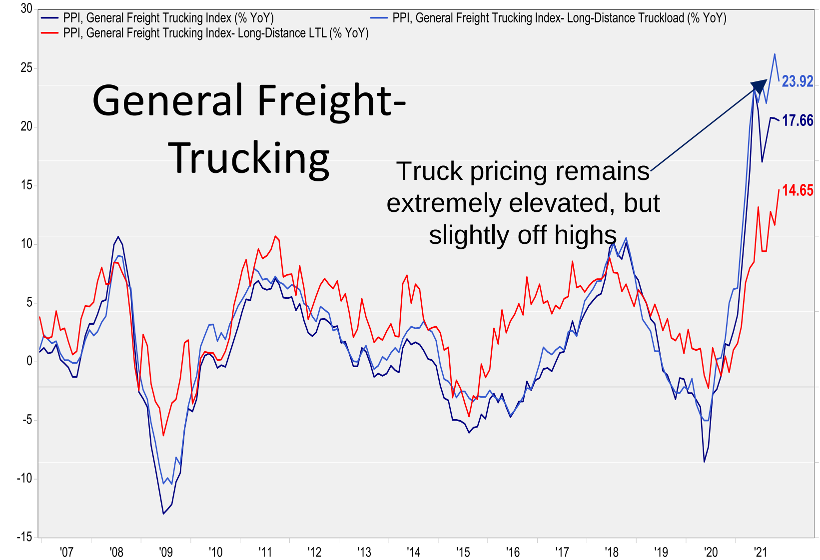


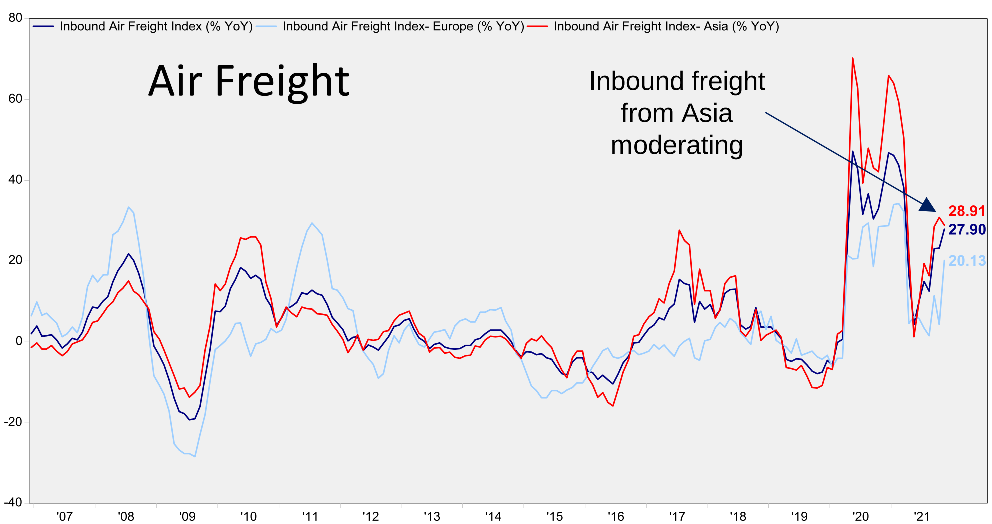


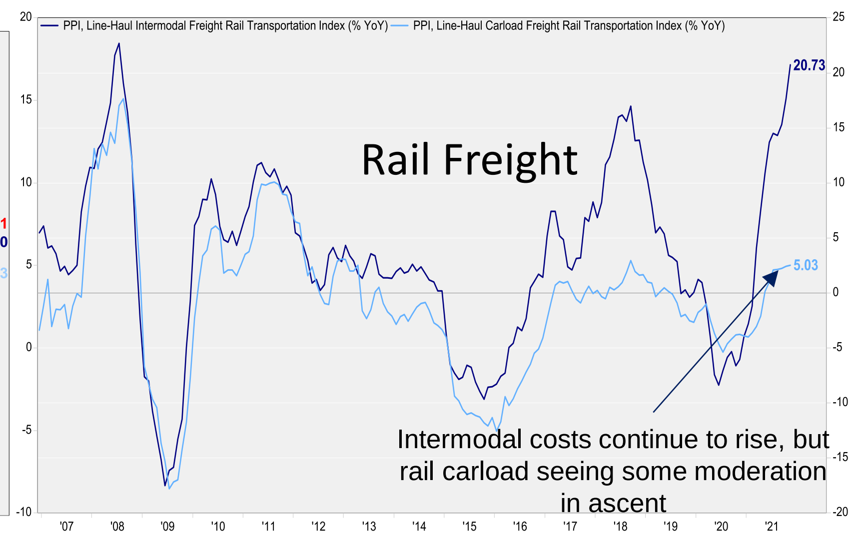
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Input Costs Elevated, but seeing some moderation







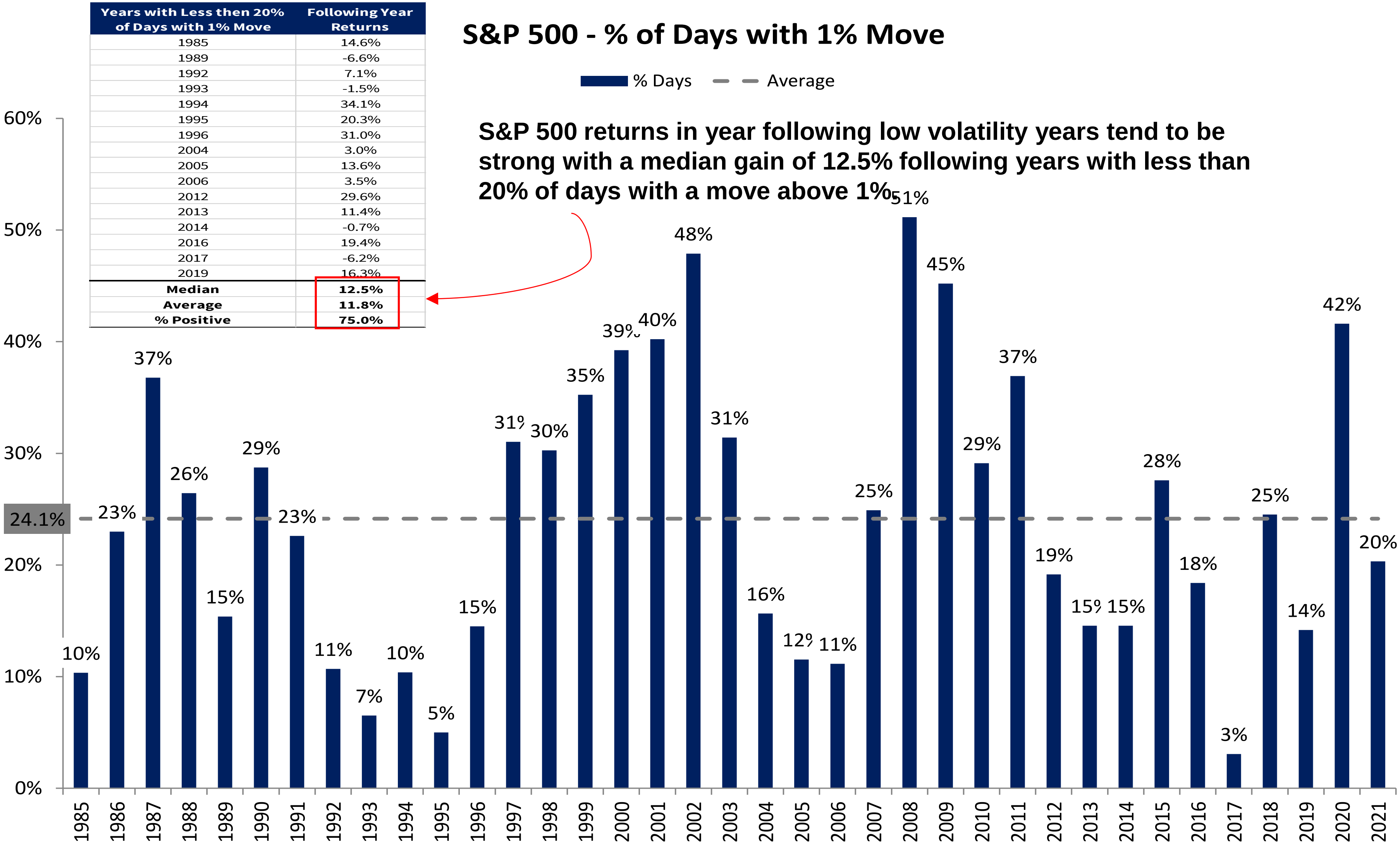


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

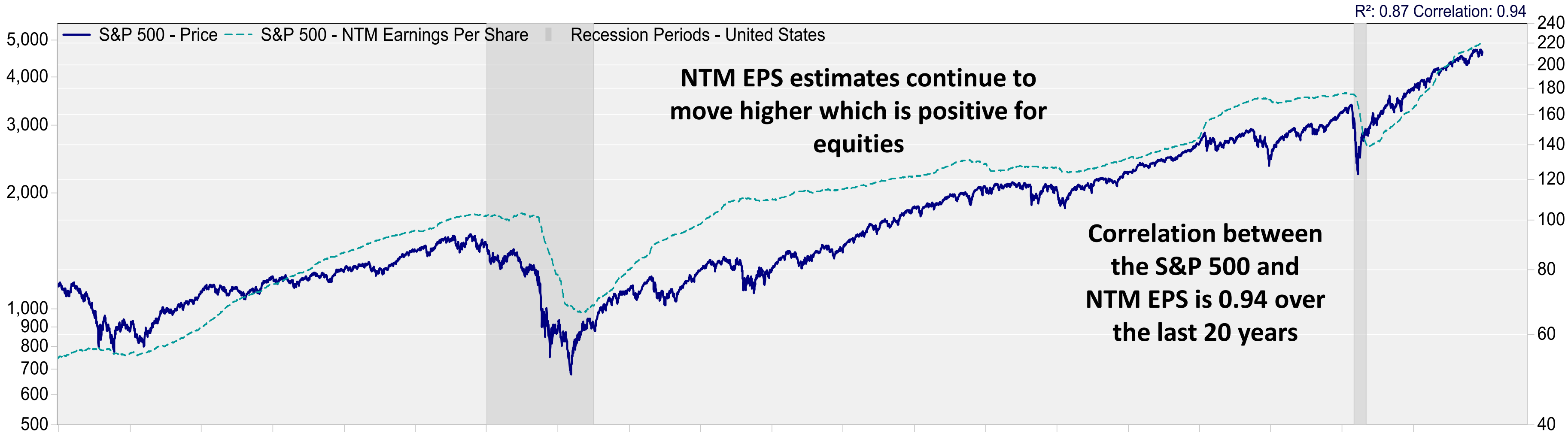
Returns After Non-Volatile Years

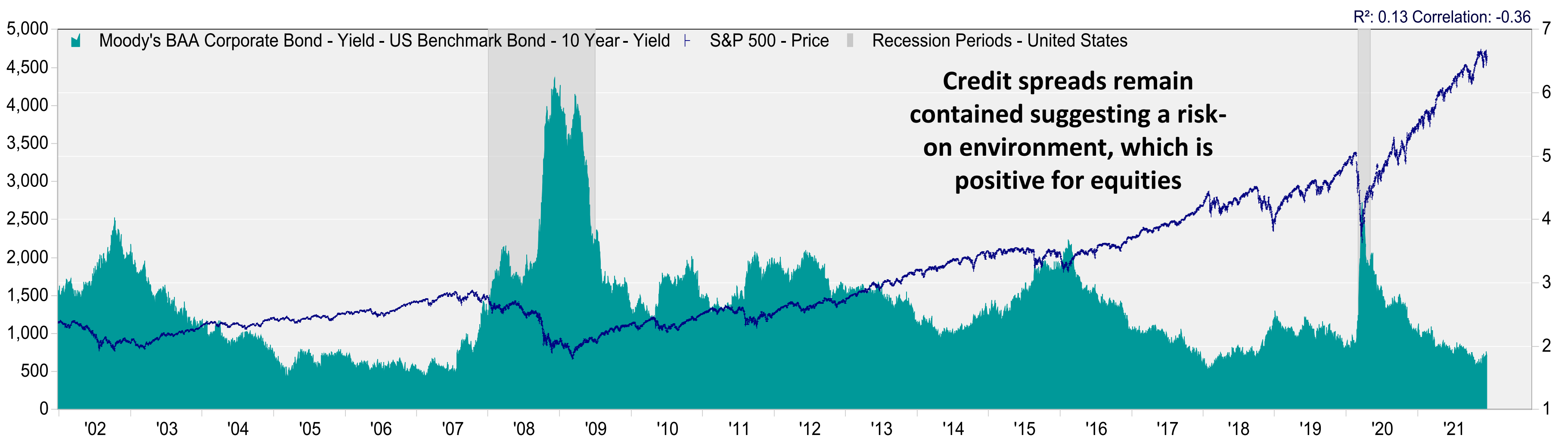
Years with Less then 20% of Days with 1% Move	Following Year Returns
1985	14.6%
1989	-6.6%
1992	7.1%
1993	-1.5%
1994	34.1%
1995	20.3%
1996	31.0%
2004	3.0%
2005	13.6%
2006	3.5%
2012	29.6%
2013	11.4%
2014	-0.7%
2016	19.4%
2017	-6.2%
2019	16.3%
Median	**12.5%**
Average	**11.8%**
% Positive	**75.0%**



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Credit Spread and EPS Growth Positive for Equities



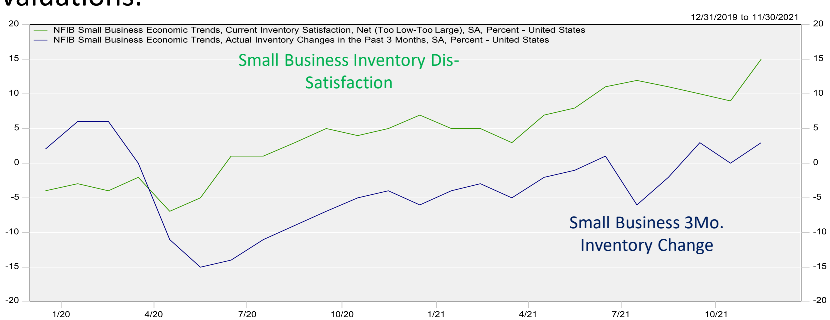


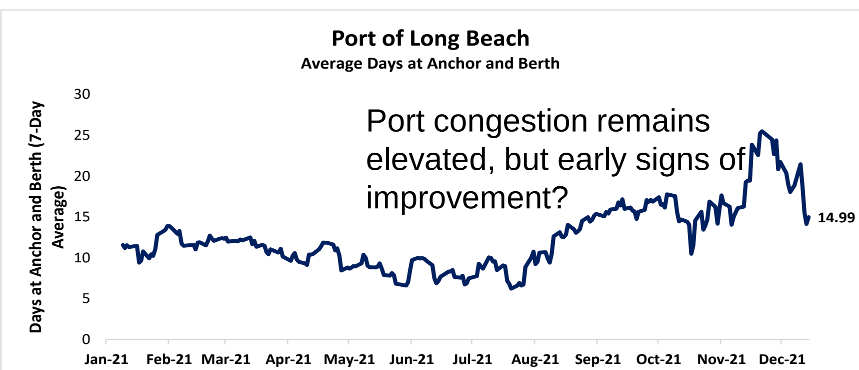
Source: FactSet and RJ Equity Portfolio & Technical Strategy

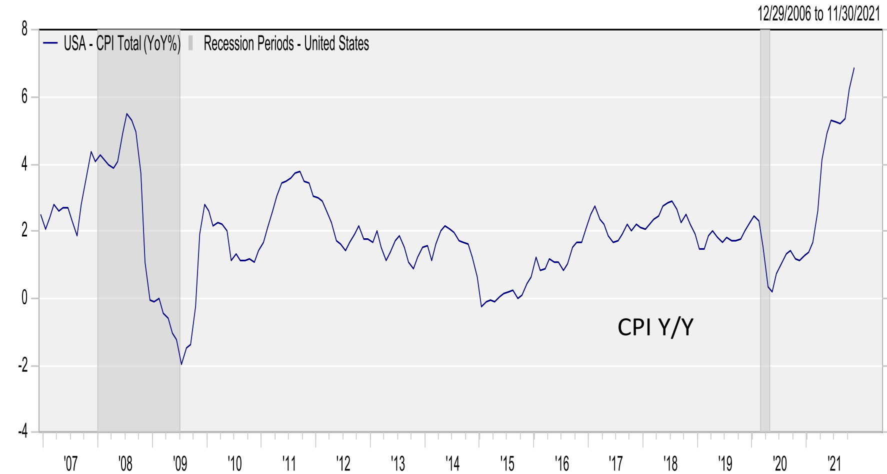
Risks to Equities

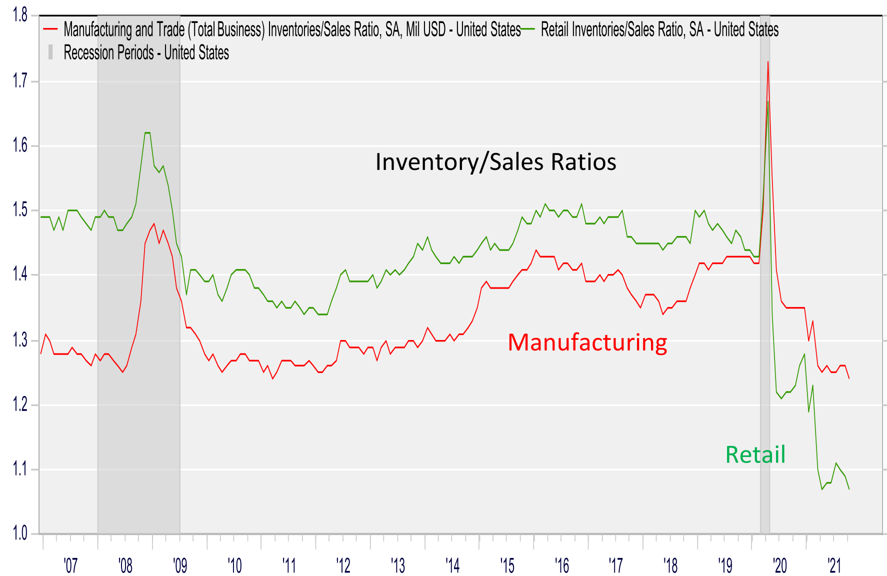
Supply Chain

Supply chain disruptions have been a major area of disturbance this year exacerbated by COVID issues. However, we may be seeing some early signs of improvement as small business inventories rise and the average days at anchor and berth in Long Beach seems to be improving slightly as the ports increase hours and new policies to reduce ships from anchoring close to shore. However, any reprieve from some of the bottlenecks, could allow for CPI to moderate. As we will see on the next page, inflation has a major influence on valuations.





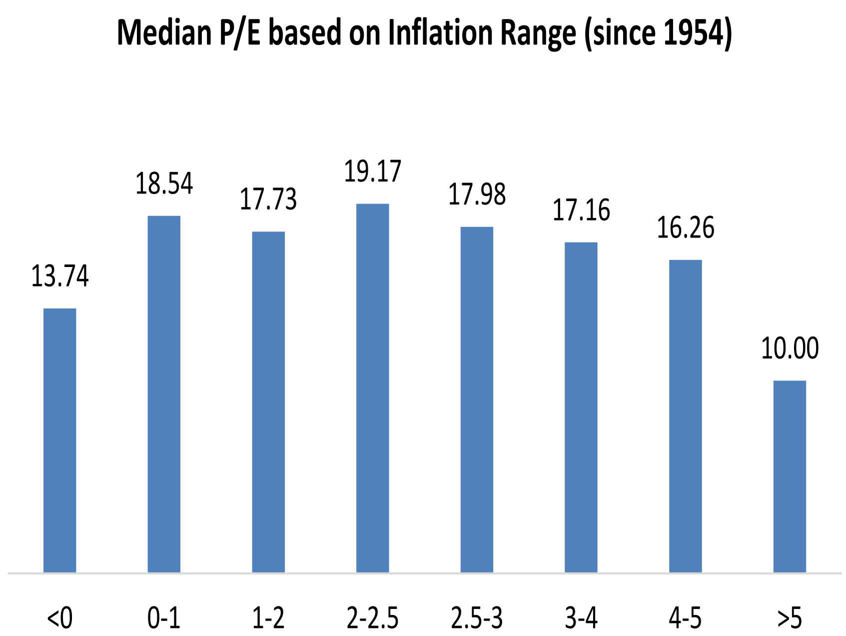


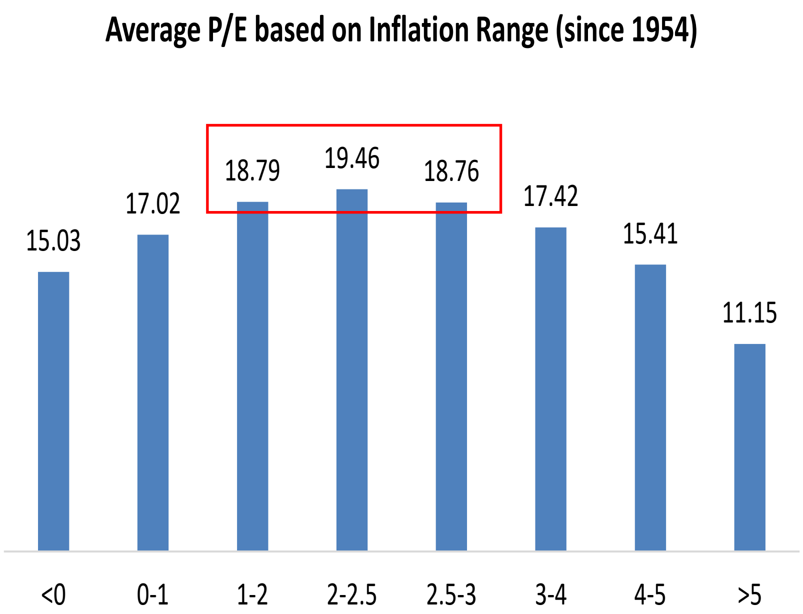


Source: FactSet, Bloomberg, and RJ Equity Portfolio & Technical Strategy

Inflation

It is not a surprise that so much focus has been on the recent inflation readings as higher inflation is often associated with lower P/E multiples. However, for now, we see inflation as largely contained, but if inflation starts to get over 3%, we could see some more significant moderation to valuations.





On average, P/E have been the highest when inflation is growing at 1-3%

Source: FactSet and RJ Equity Portfolio & Technical Strategy

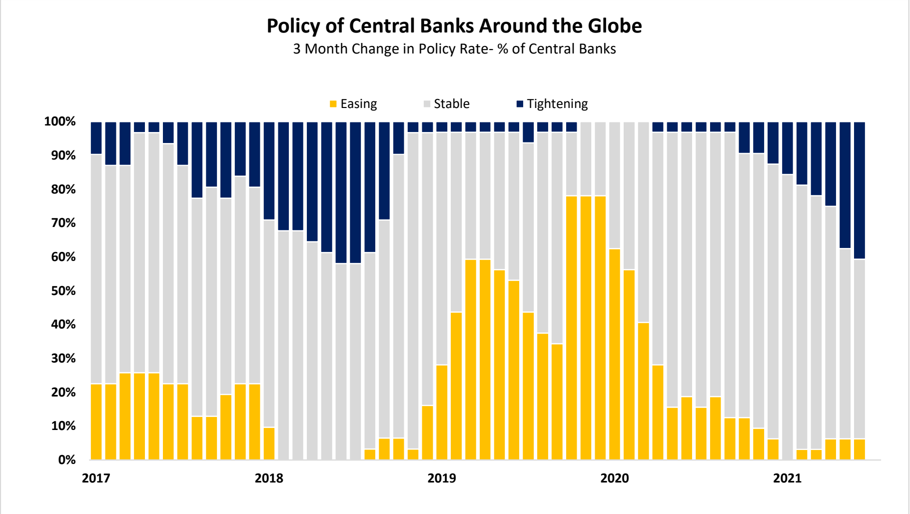
Tapering Alone is not a Big Risk for Equities

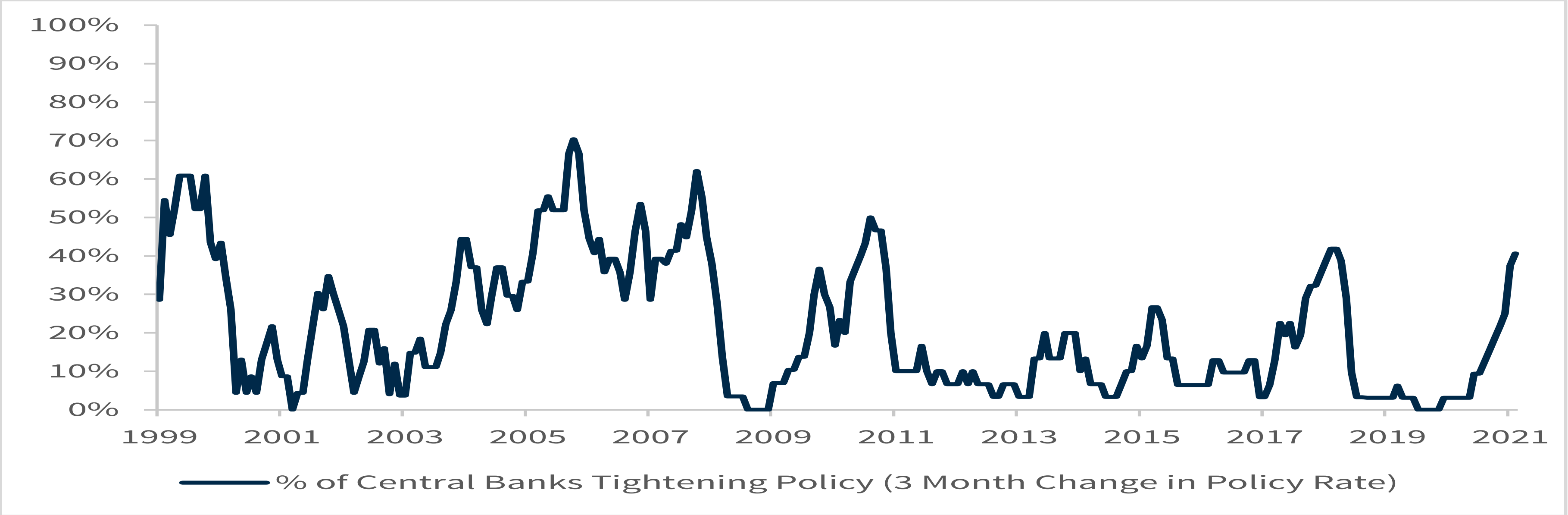
The Fed accelerated/doubled its tapering pace at this month's FOMC meeting with asset purchases set to end in Q1'22. Despite a more hawkish tone, we do not believe tapering alone is a big risk for equities longer-term, but could cause some brief periods of disturbances, especially given how important the Fed has been to equity markets since the credit crisis. We would expect some return to normal volatility/choppiness over the next 3-6 months.

Source: FactSet and RJ Equity Portfolio & Technical Strategy

Central Banks Around the Globe

In order to combat inflation globally, there has been a sharp increase in the % of central banks tightening policy in the last 3 months. The Fed is likely to join the global tightening soon, which could add some volatility to the U.S. markets.



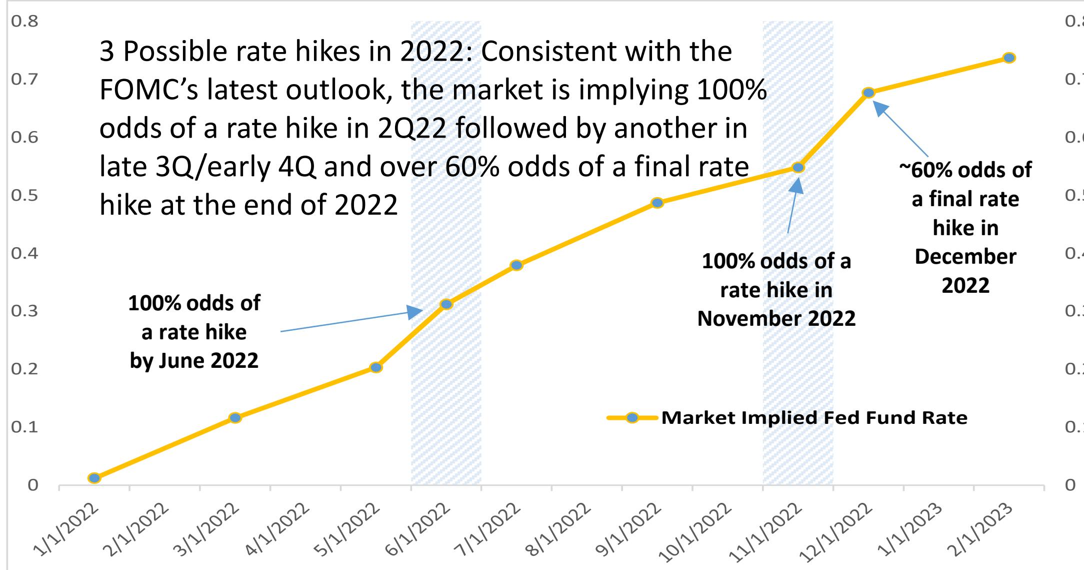


Source: FactSet and RJ Equity Portfolio & Technical Strategy

Fed Tightening Cycle

With investors preparing for rate hikes in 2022, we look to previous examples for clues on how market performance might transpire. Historically, 3-6 month returns prior to the first rate hike have been solid with more moderate returns afterward. However, Fed policy has become much more telegraphed and uniform over time. In looking at the last two rate hike cycles (and granted each period is different), choppiness occurred more in the lead-up (and this is our general bias).

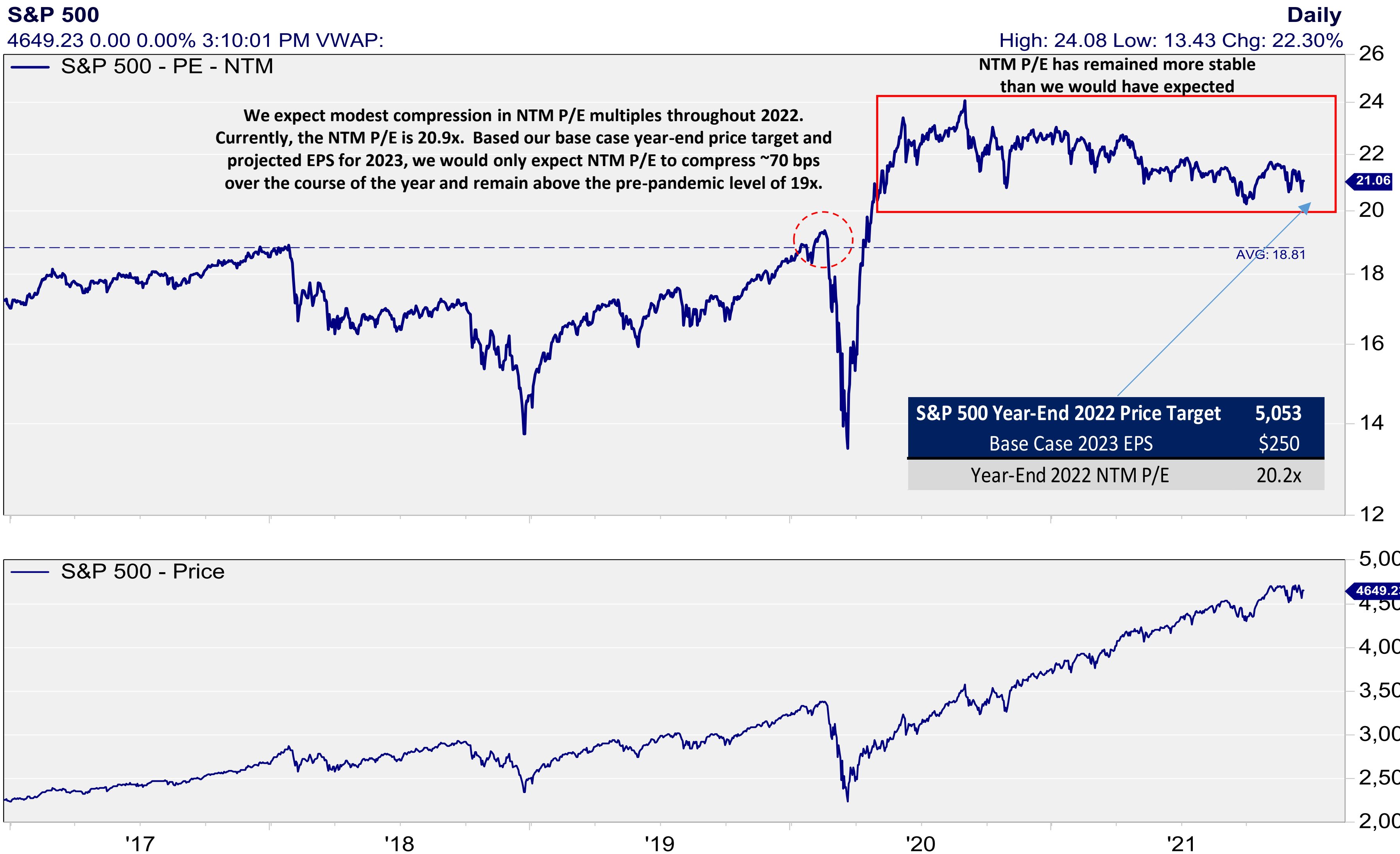
The Fed's hawkish pivot from ultra-lenient policy toward more normalized policy could come with more moderate returns and normal periods of volatility over the next 3-6 months (vs what investors have grown accustomed to since March 2020). Rate hikes alone do not derail equity markets and concerns become more heightened following a yield curve inversion, which is far off. So prepare for the possibility of more volatile periods in 2022; but with conditions likely to remain healthy, we would use such periods as opportunity.



Cycles	Before First Hike			After First Hike		
First Hike	-3M	-6M	-12M	3M	6M	12M
12/16/2015	3.9	-1.1	5.1	-2.2	0.2	8.9
6/30/2004	1.2	2.8	17.1	-2.3	6.4	4.4
6/30/1999	5.5	11.4	21.1	-6.6	6.7	6.0
2/4/1994	2.7	4.7	4.5	-3.9	-2.4	1.9
3/29/1988	12.2	5.7	22.7	-9.8	-14.7	4.8
12/16/1986	7.9	1.6	17.9	15.3	21.9	-0.8
5/2/1983	13.1	17.9	39.2	-0.1	1.7	-0.1
8/7/1980	15.0	6.0	16.7	4.8	5.9	6.9
Average	**7.7**	**6.1**	**18.0**	$\boxed{\textbf{-0.6}}$	**3.2**	**4.0**

Source: FactSet and RJ Equity Portfolio & Technical Strategy

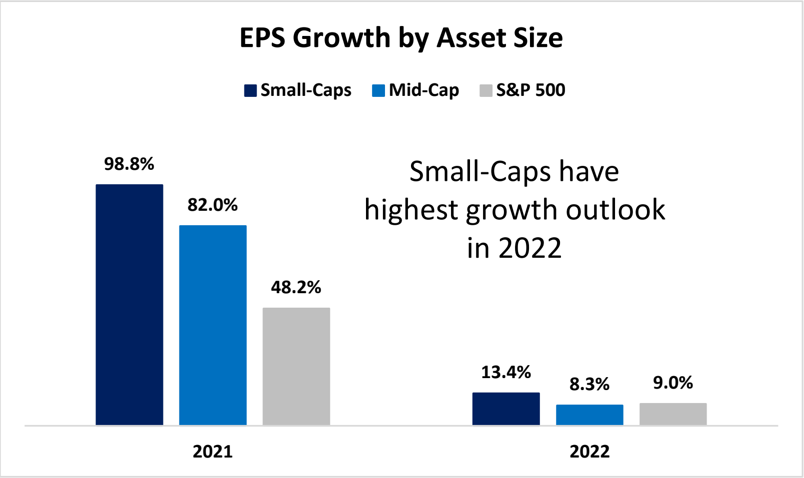
Valuation



Source: FactSet and RJ Equity Portfolio & Technical Strategy

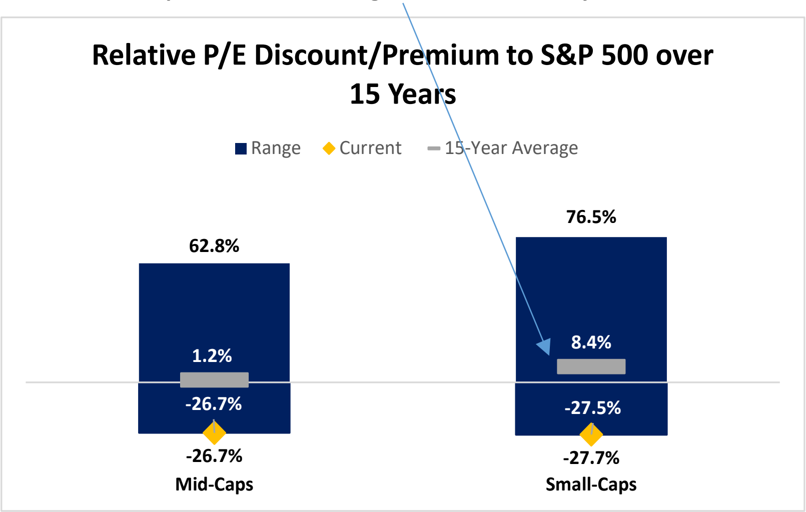
Areas of Interest

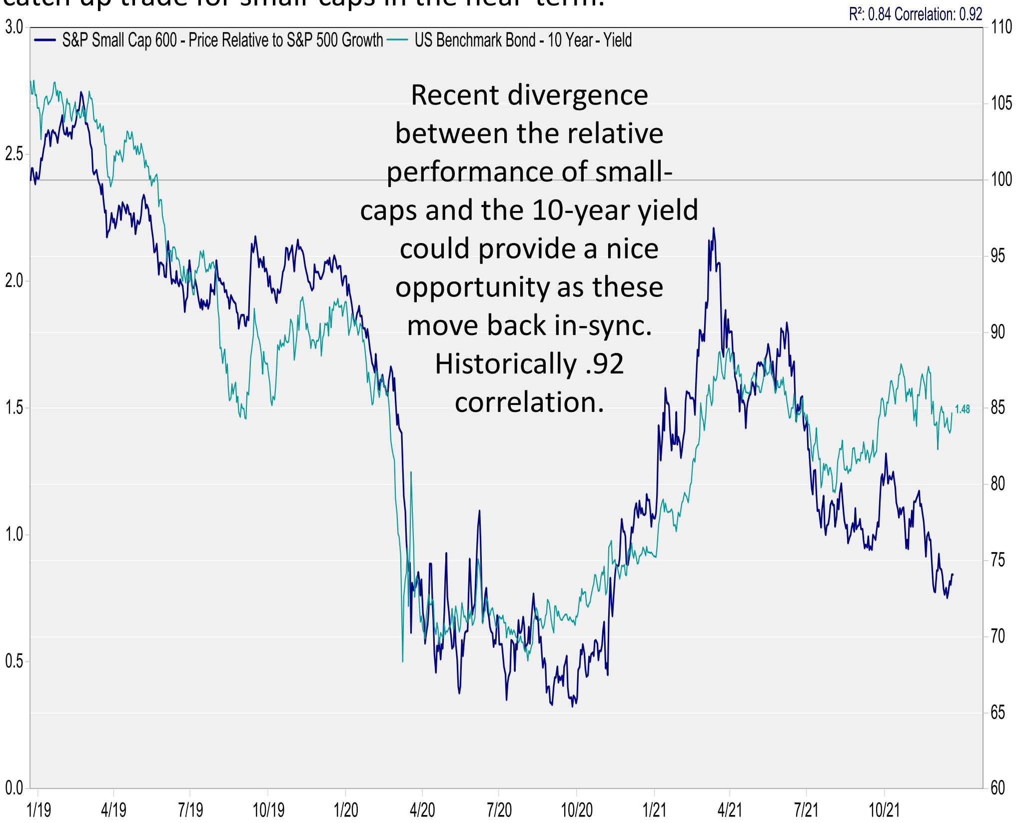
Small-Caps



The fundamental case for small-caps remains as earnings growth is expected to accelerate faster in 2022 than large-cap and mid-caps. Moreover, valuation remains compelling as small-caps trade at a 25-30% discount to large caps vs. an ~8% premium on average over the last 15-years. Finally, the recent relative performance of small-caps has diverged from its strong correlation with the 10-year yield, which provides a little catch up trade for small-caps in the near-term.

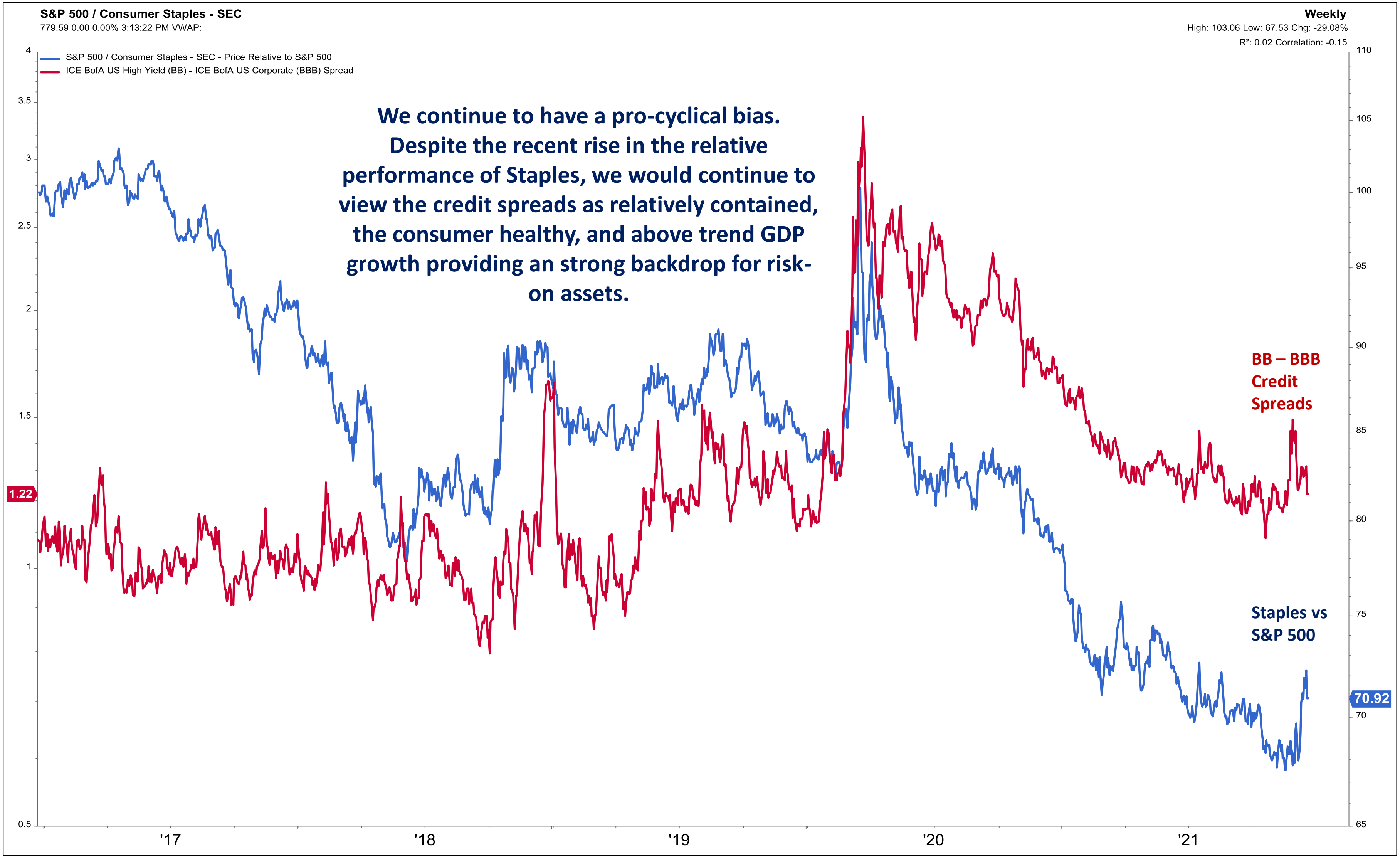
Small cap index trades at a 25-30% discount to large caps vs. a ~8% premium on average over the last 15-years





Source: FactSet and RJ Equity Portfolio & Technical Strategy

Pro-Cyclical Tilt

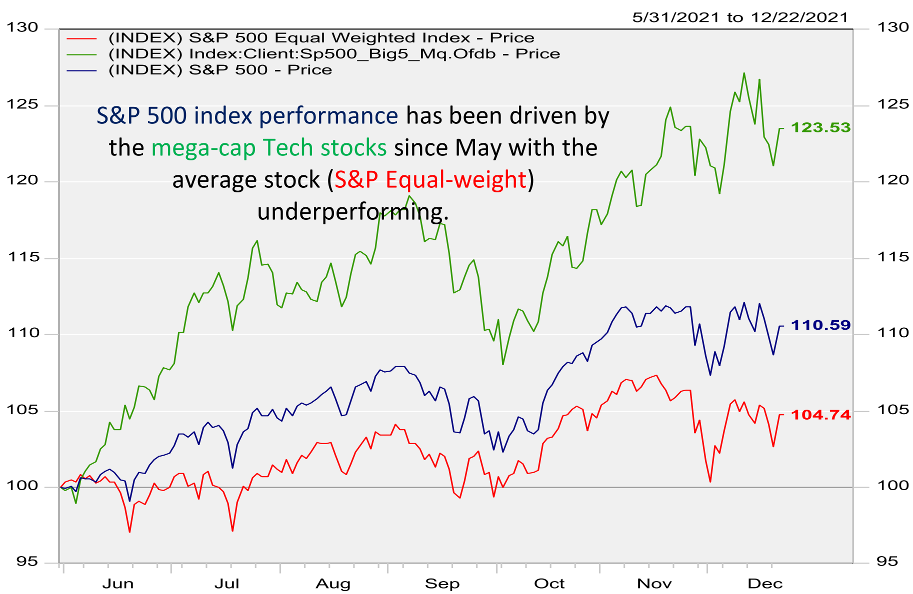


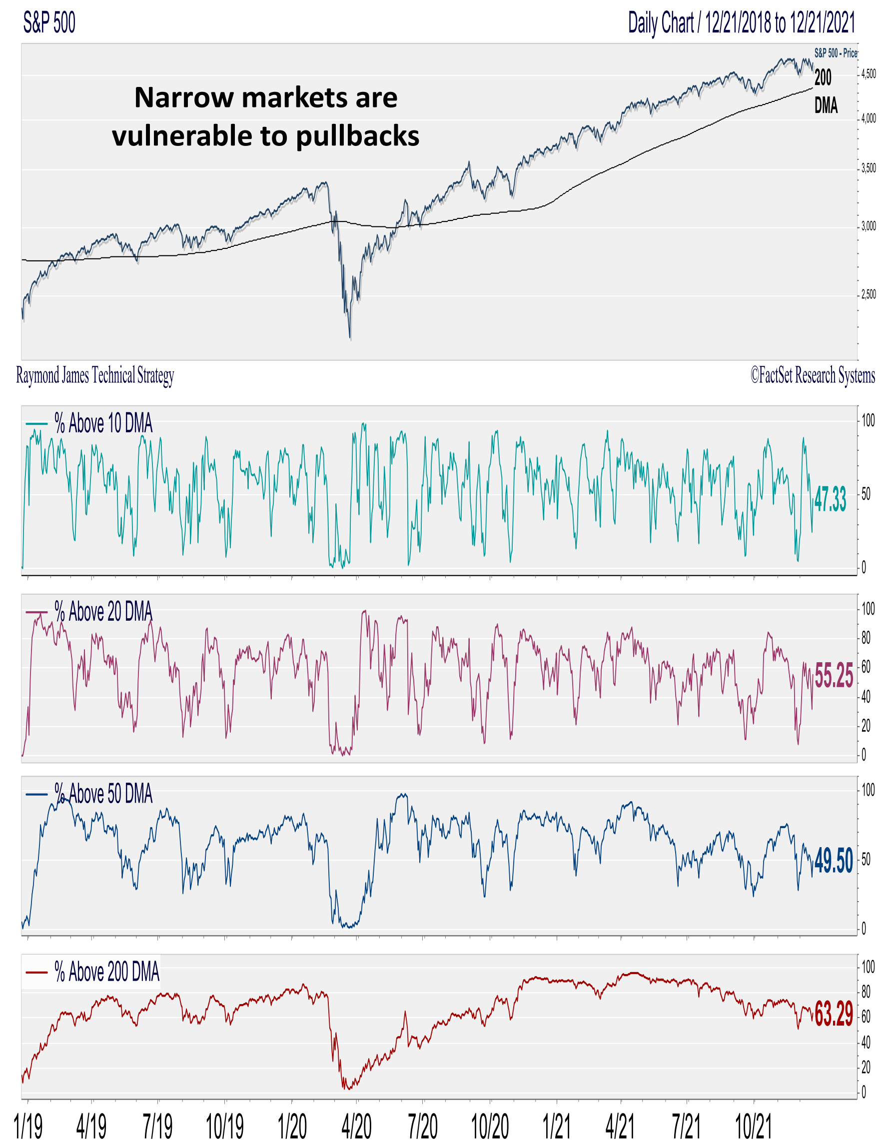
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Remain Balanced

We recommend remaining balanced. Since May, S&P 500 index performance has been driven by the mega-cap Tech stocks with the average stock (S&P Equal-weight) underperforming. For now, we would remain balanced with a pro-cyclical bias with exposure to both reopening winners and pandemic winners.

Additionally, the market remains vulnerable to pullbacks given its narrowness. As we have discussed, the % of stocks above its 50-DMA is making lower highs. Back in 2019 when we saw a similar pattern, a 7% pullback was triggered. If a pullback does transpire, we would opportunistically add to favored sectors.

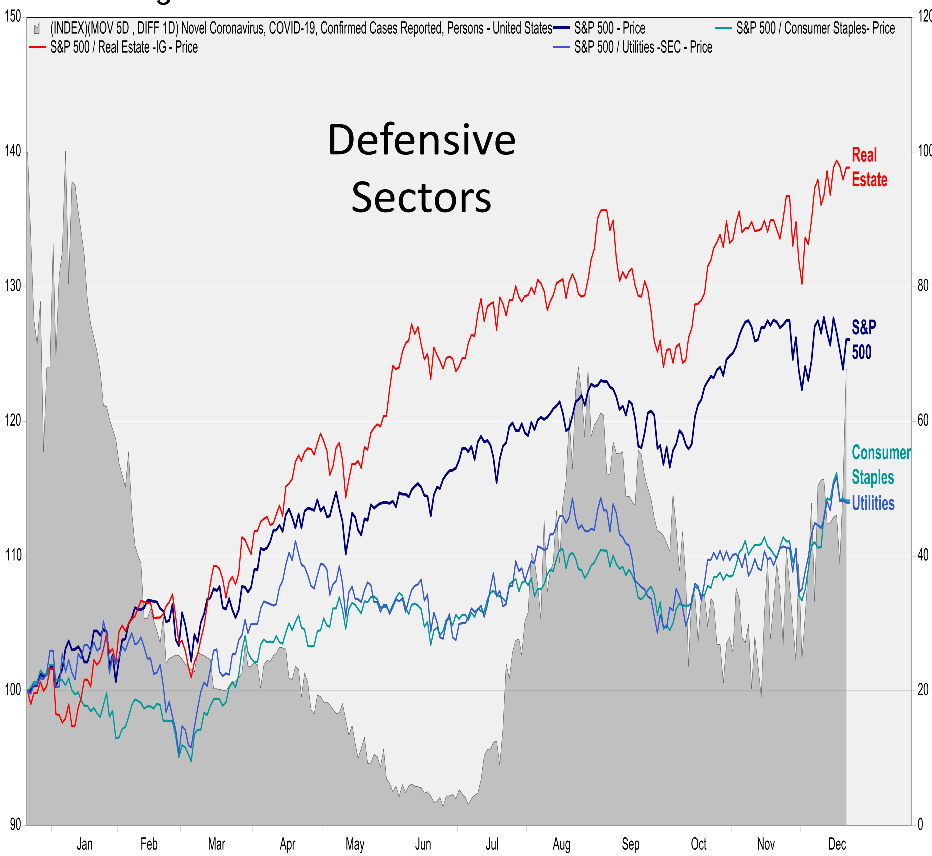


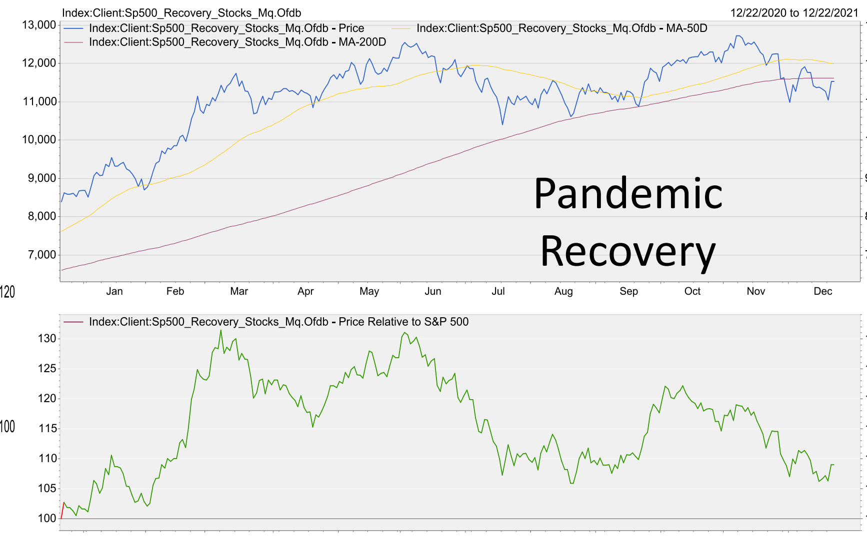


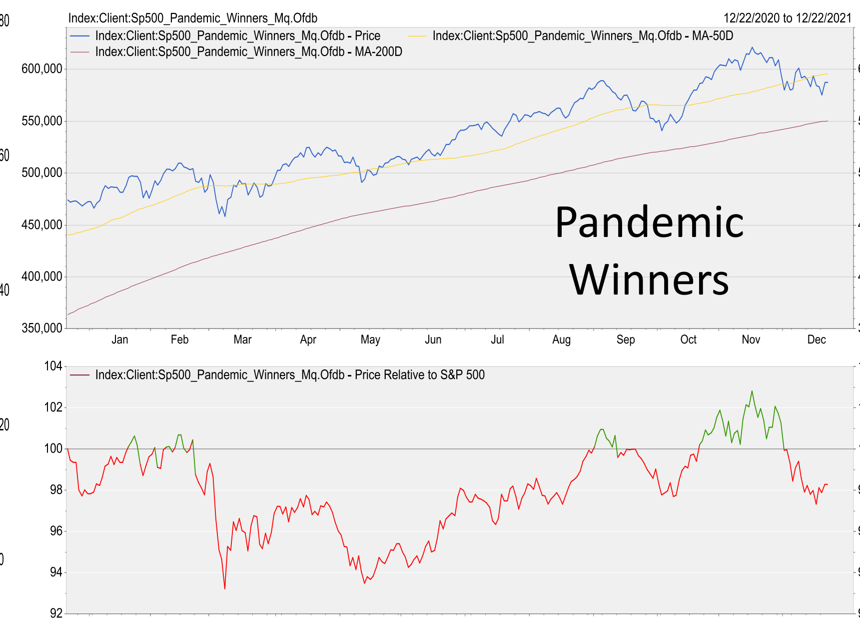
Source: FactSet and RJ Equity Portfolio & Technical Strategy

Remain Balanced

We recommend remaining balanced in areas leveraged to the pandemic recovery along with the pandemic winners, and would fade the recent strength in some of the more Defensive sectors, namely Utilities and Consumer Staples, as projected growth in 2022 remains well below the projected S&P 500 growth.



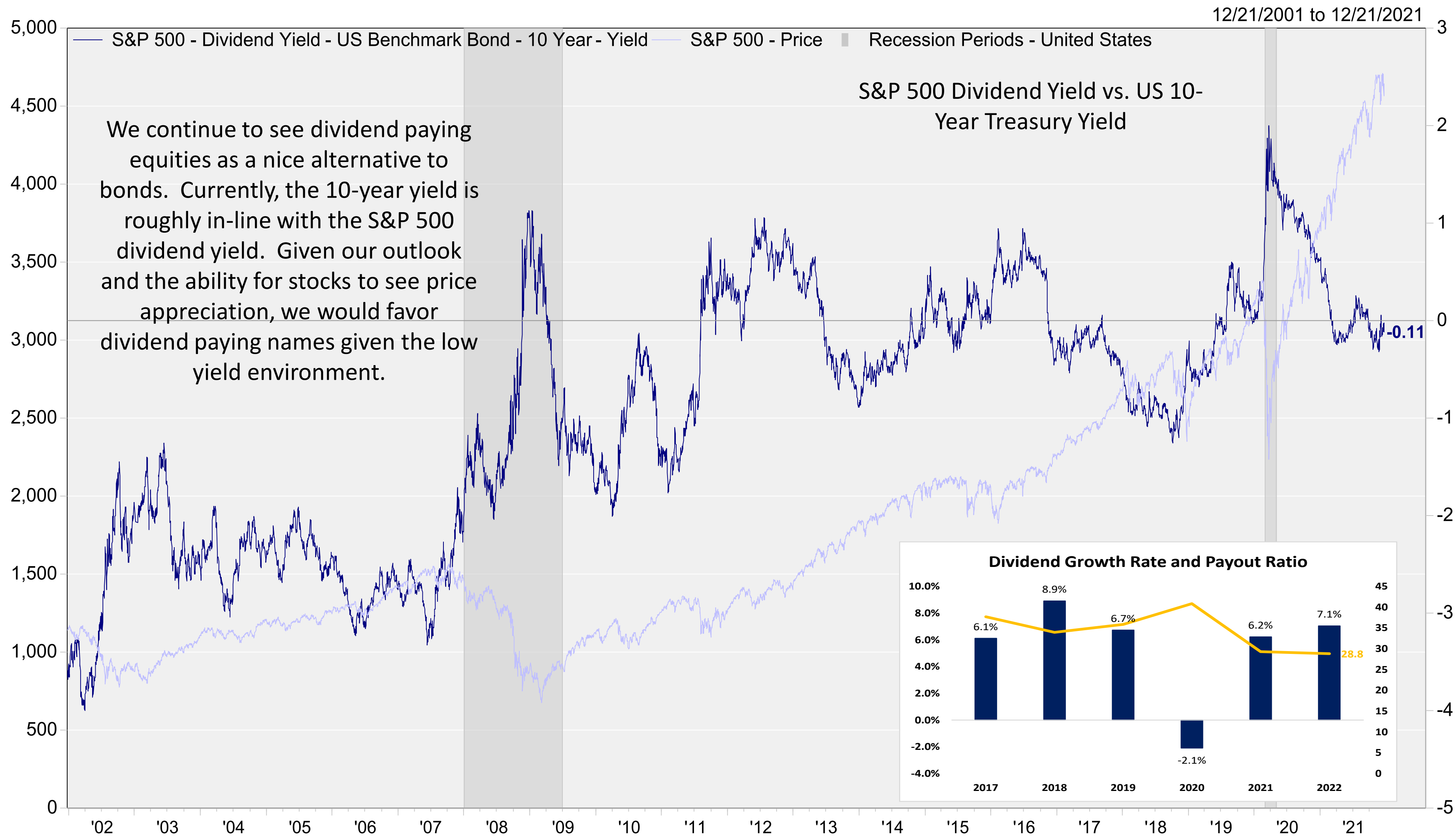




Source: FactSet and RJ Equity Portfolio & Technical Strategy

Dividend Paying Stocks

We continue to see dividend paying equities as a nice alternative to bonds. Currently, the 10-year yield is roughly in-line with the S&P 500 dividend yield. Given our outlook and the ability for stocks to see price appreciation, we would favor dividend paying names given the low yield environment.



Source: FactSet and RJ Equity Portfolio & Technical Strategy

Supplemental Slides

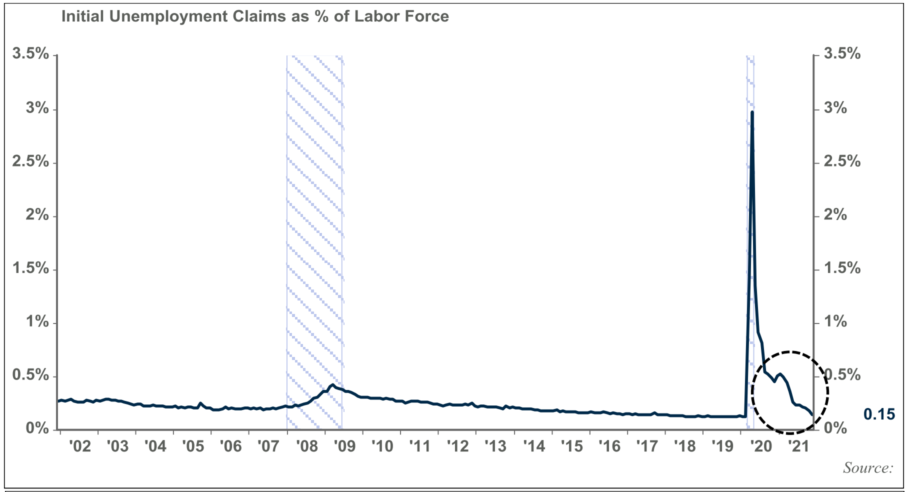
Supplemental Pages

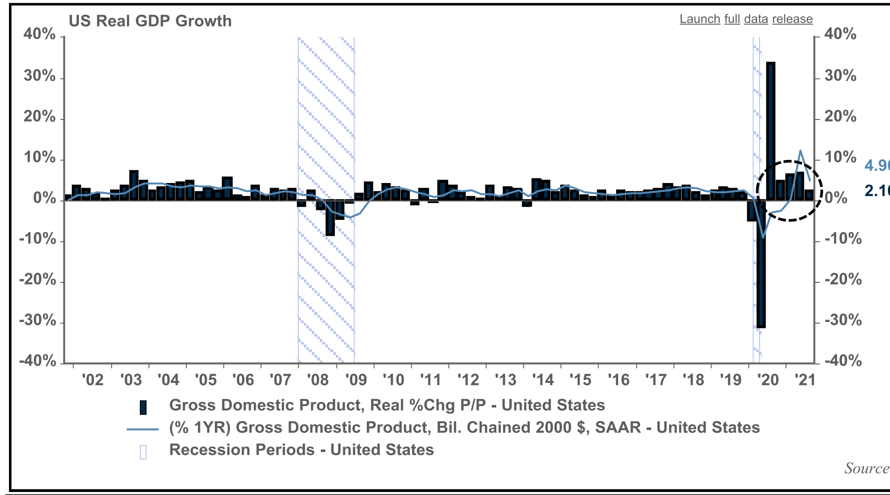
Stat Pack Estimates (December 21, 2021: S&P 500 4649.23)

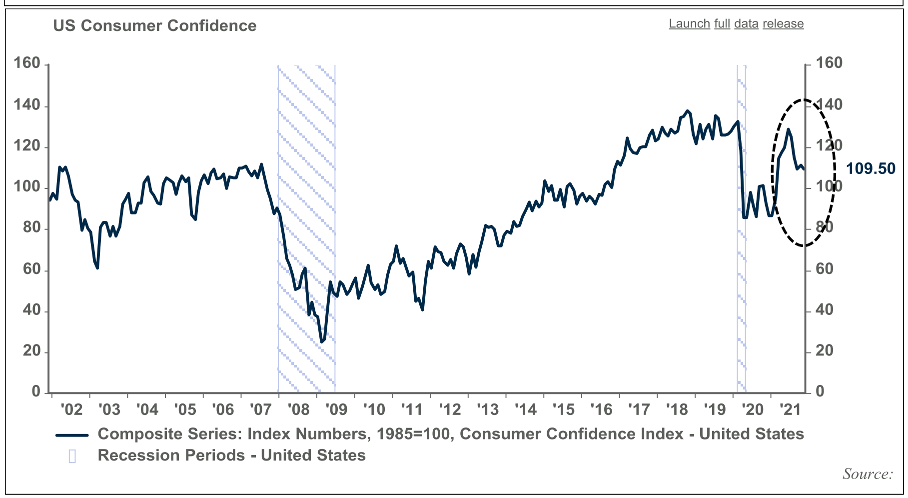
Stat Pack of Forecasts		
	2021 Estimates	2022 Estimates
Consensus EPS S&P 500[1]	$203.28 (Bottom up- Analysts) $205- RJ estimate (base case)	$221.48 (Bottom up- Analysts) $235- RJ estimate (base case)
EPS Growth S&P 500	48.2% bottom up; 49.4% RJ (base case)	9.0% bottom up; 14.6% RJ (base case)
Margins (EPS/Sales-using bottom up est.)	13.0% E(consensus[1])	13.0% E (consensus[1])
EPS if Margins stay flat (high probability from elevated levels)		$217.31 (based on consensus revenues)
GDP	Fed 5.5%; Consensus 5.6%	Fed 4.0%; Consensus 3.9%
CPI	Headline 4.7%[1]	Headline 4.4%[1]
PCE (Personal Consumption Expenditures)	3.3% (ex-F&E)[1]	3.3% (ex-F&E)[1]
Dividend/Dividend Growth S&P 500	$59.72[1] +6.2% Payout ratio: 29.4% (of bottom up est.)	$63.93[1] +7.1% Payout ratio: 28.8% (of bottom up est.)
Revenue Growth Per Share S&P 500 (only bottom up available)	+16.6% ($1,557.63/share[1])	+7.3% ($1,671.65/share[1])
P/E	~22.9x[2]	~21.0x [2]
Earnings Yield S&P 500	4.4% (using bottom up est.)	4.8% (using bottom up est.)
Fed Funds (average)	0.25[1]	0.75[1]
10 Year Treasury Yield	1.57%[1]	2.04%[1]

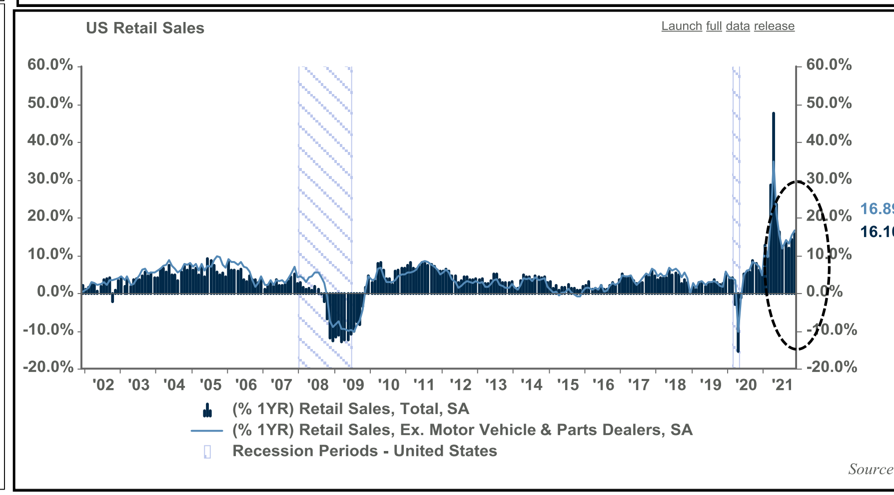
[1] FactSet;
[2] Current PE based on consensus 2021 and 2022 bottom up estimates

U.S. Economic Conditions Improving with Some Air Pockets





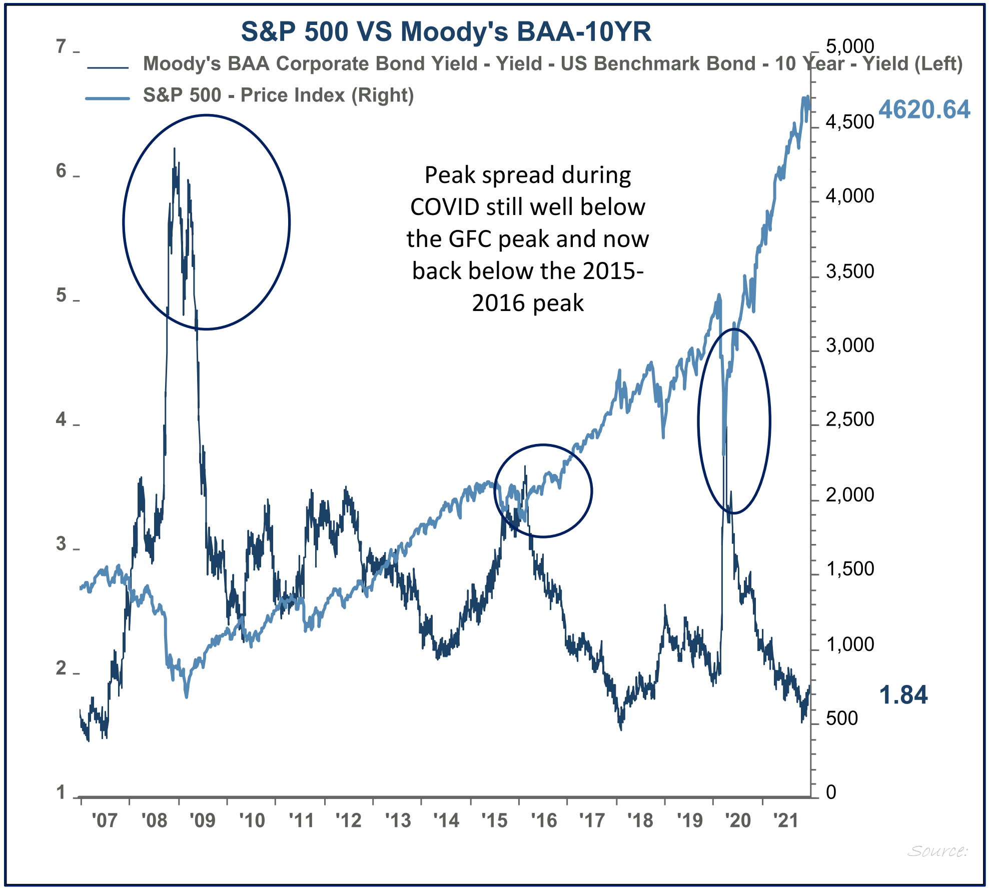


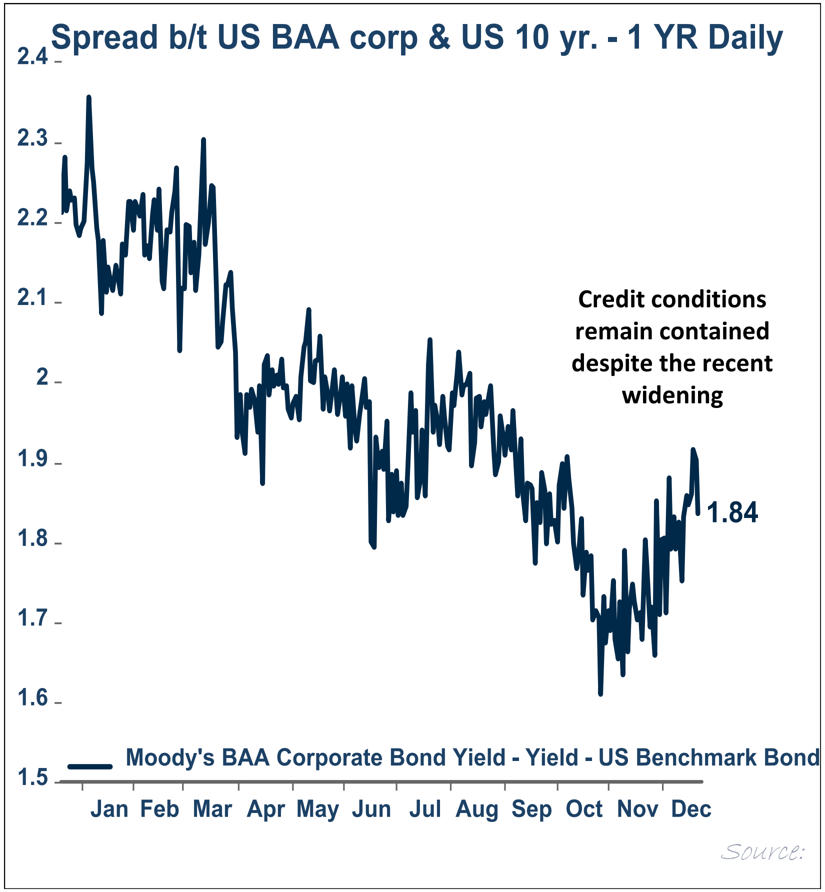


Source: FactSet, RJ Equity Portfolio & Technical Strategy

Credit Conditions

The credit markets remain contained after seeing an uptick during the height of the pandemic. Overall, credit conditions are not concerning as despite the recent widening. We will continue to keep a keen eye on the credit markets for signs of further deterioration, but as of now, despite some lingering risks, we are not overly concerned.

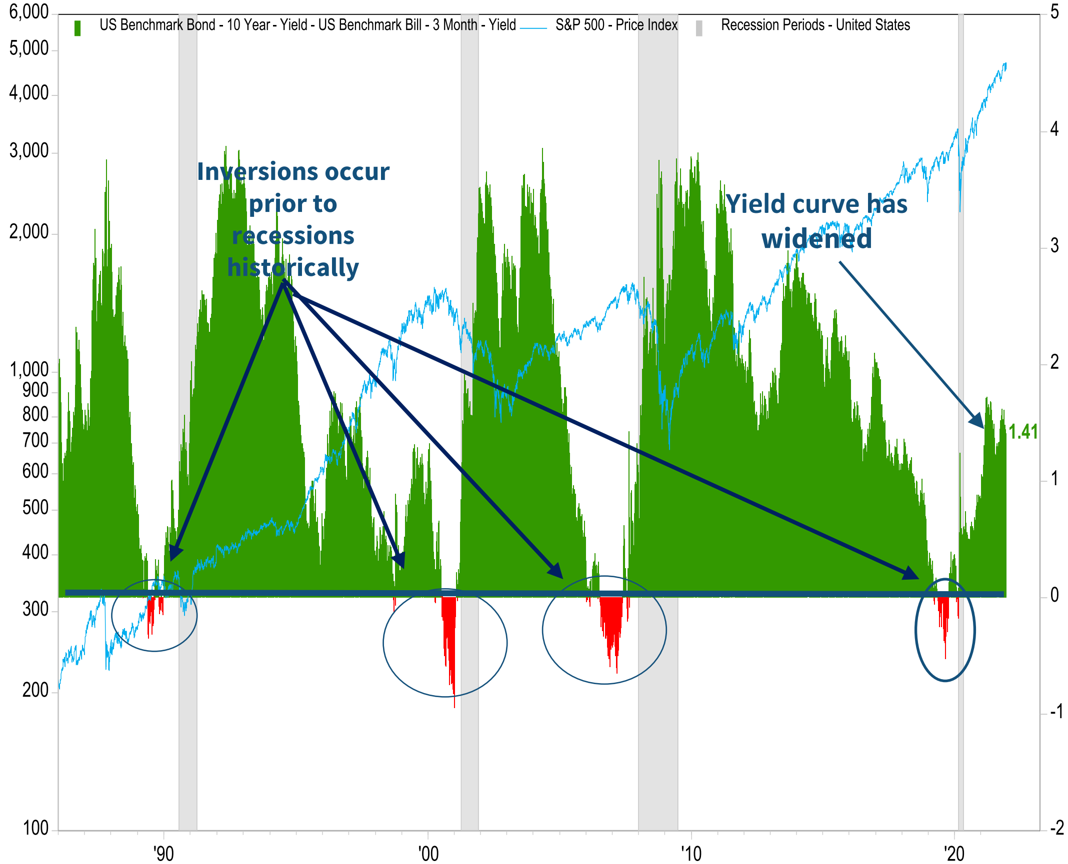


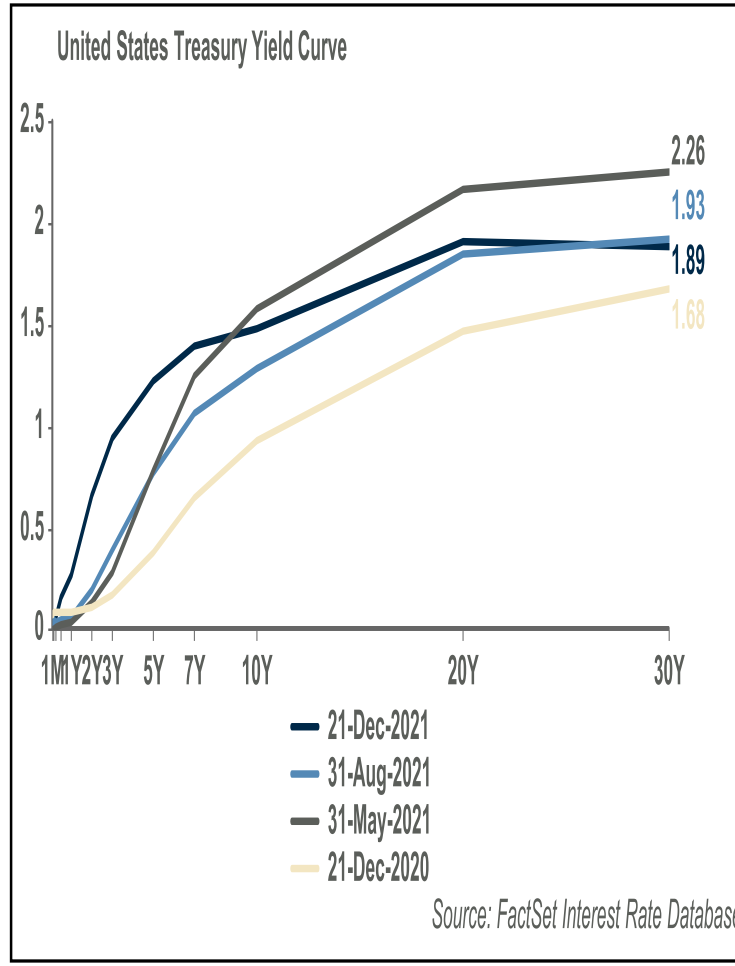


Source: FactSet, RJ Equity Portfolio & Technical Strategy

2022: Areas to Watch: Inversion of Yield Curve

The swift move by the Fed to lower rates (after the yield curve inverted again) has pushed the spread between the 10-year and 3-month back into positive territory. A narrowing of the yield curve would likely be negative for the Financial sector and Value index.

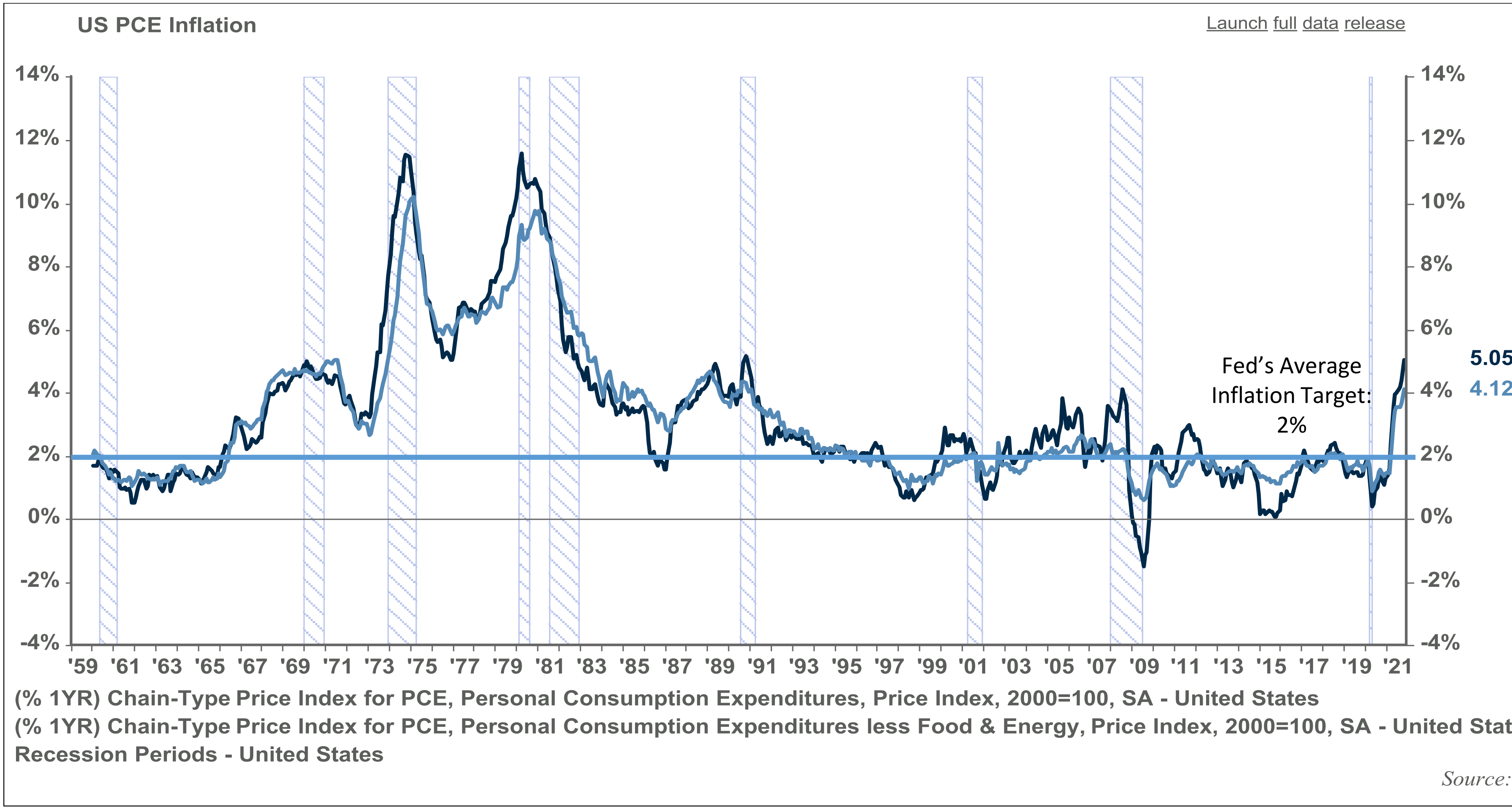




Source: FactSet, RJ Equity Portfolio & Technical Strategy

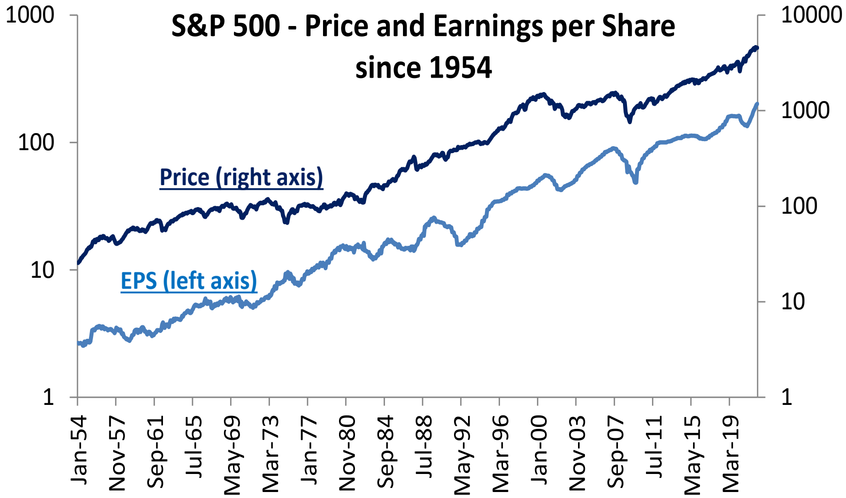
2022: Areas to Watch: Inflation

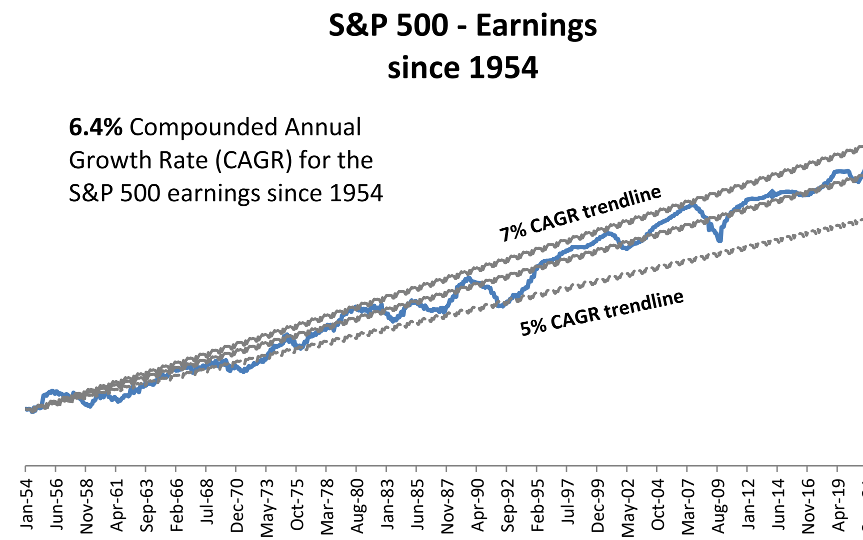
This is an area we continue to watch closely. Inflation is one of the biggest concerns right now as it is debated if the recent rise is transitory or more long-lasting. We believe some will prove to be transitory, but could remain above the Fed's average inflation target rate of 2% for some time before it normalizes.



Source: FactSet, RJ Equity Portfolio & Technical Strategy

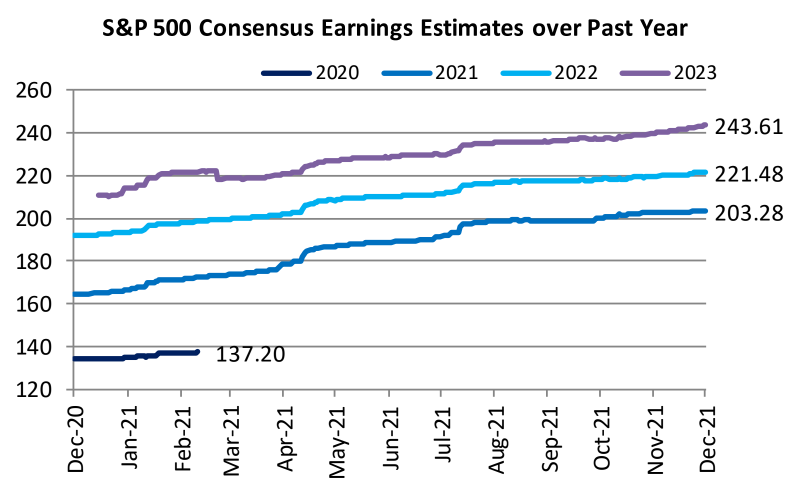
S&P 500 Earnings – Long-Term Mother's Milk of the Market





S&P 500 since 1954:

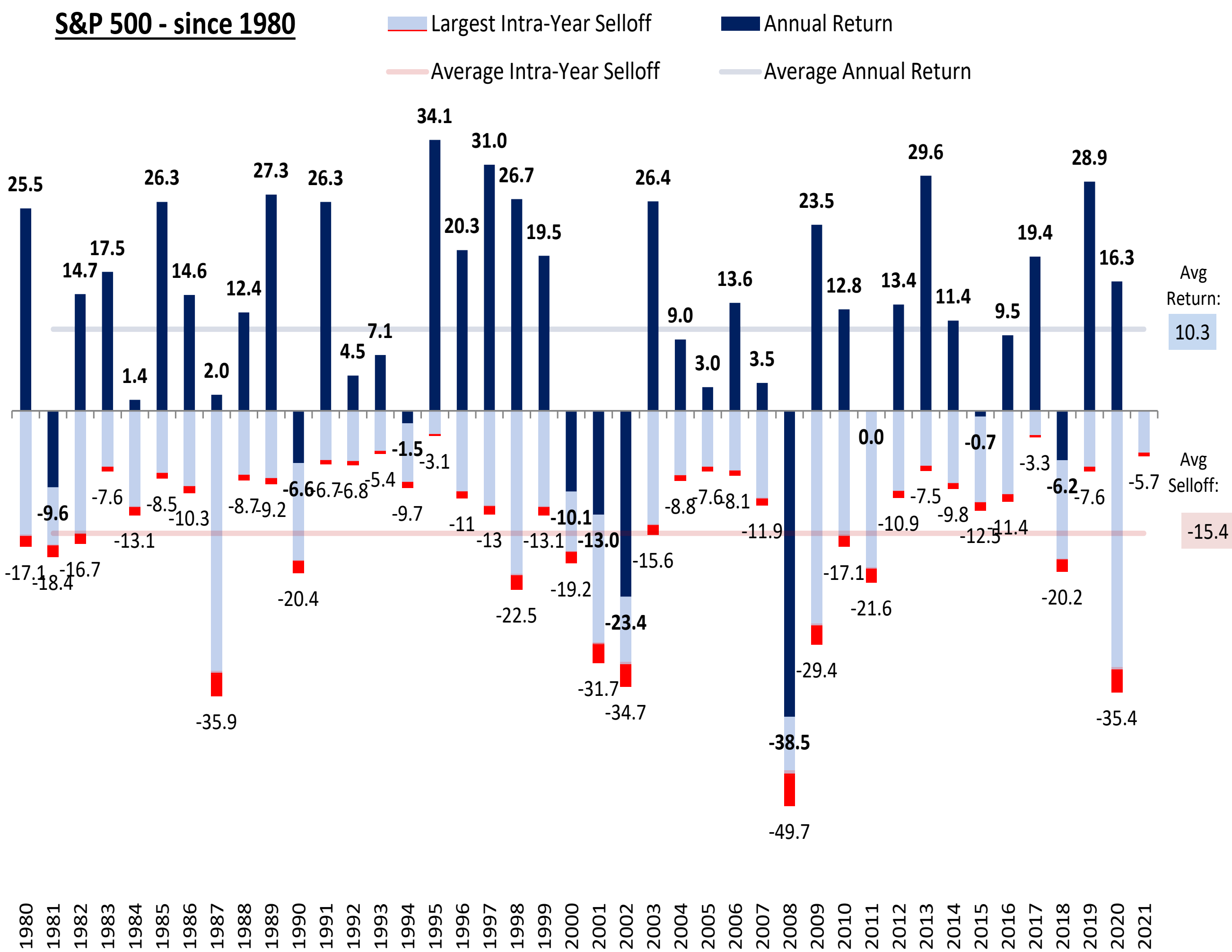
- **Earnings CAGR**: 6.4%
- **S&P 500 Price CAGR**: 7.6%



EPS Growth Estimates	
2020	-14.2%
2021	48.2%
2022	9.0%
2023	10.0%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Market Selloff Stats

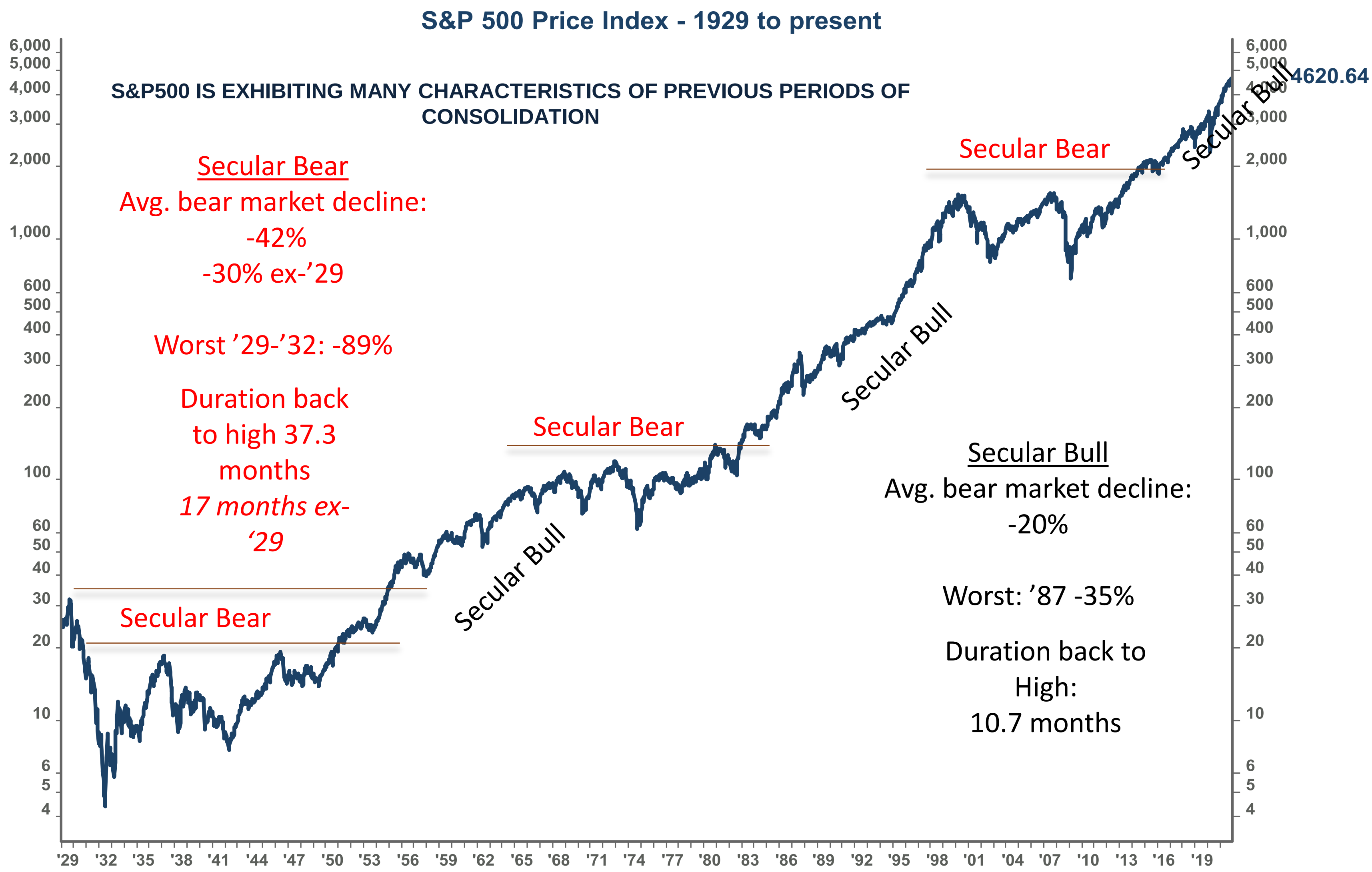


Selloffs are common:

- Average Largest Intra-year selloff: -14.9%
- Ex-bear market years still normal to get 8-12% drawdown intra-year
- Average Annual return is : +10.1%

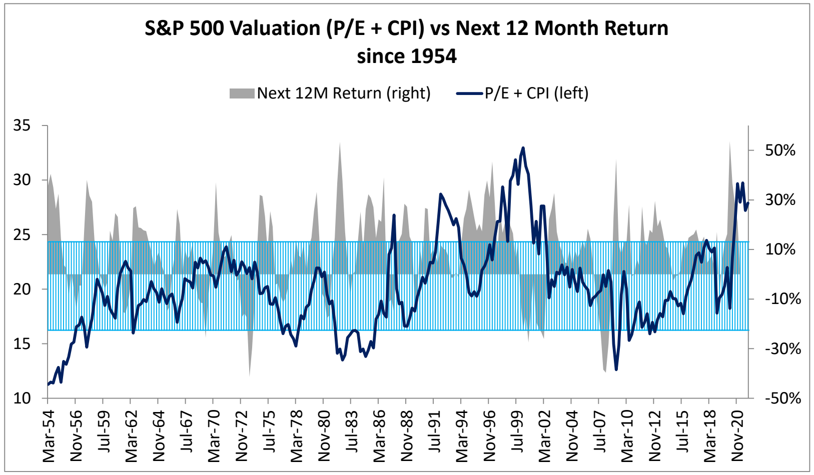
Source: FactSet, RJ Equity Portfolio & Technical Strategy

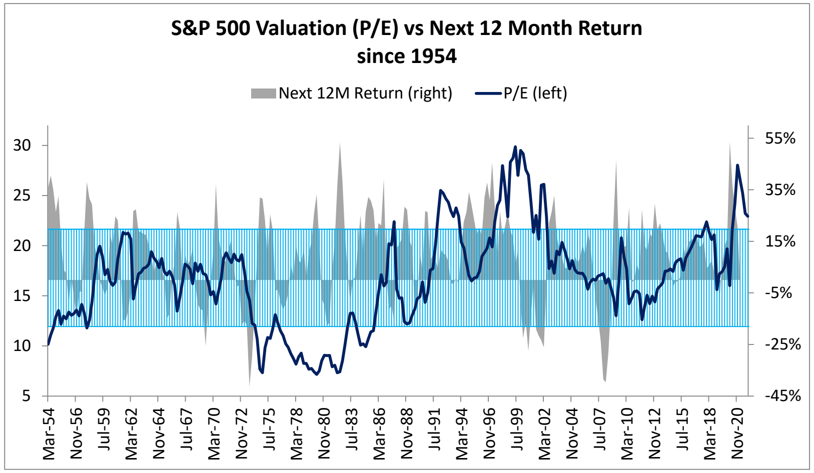
Secular Bull and Bear Markets



Source: FactSet, RJ Equity Portfolio & Technical Strategy

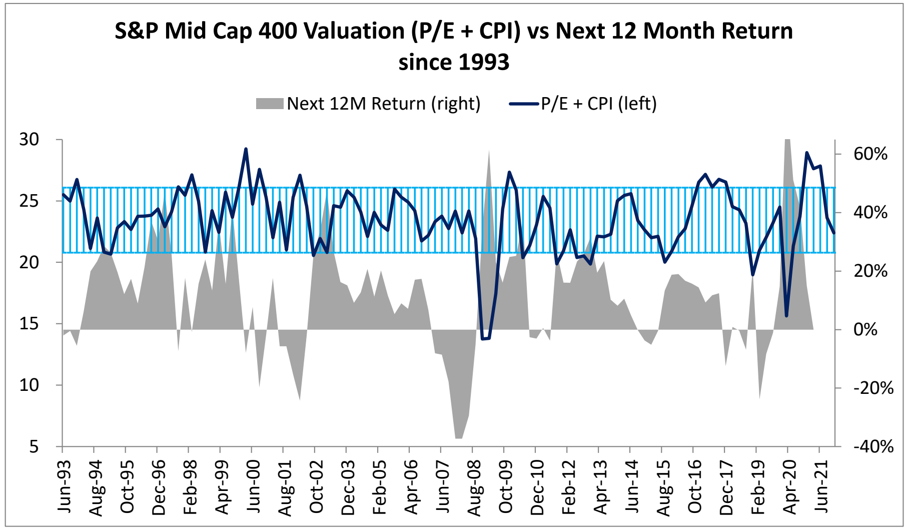
S&P 500 Valuation

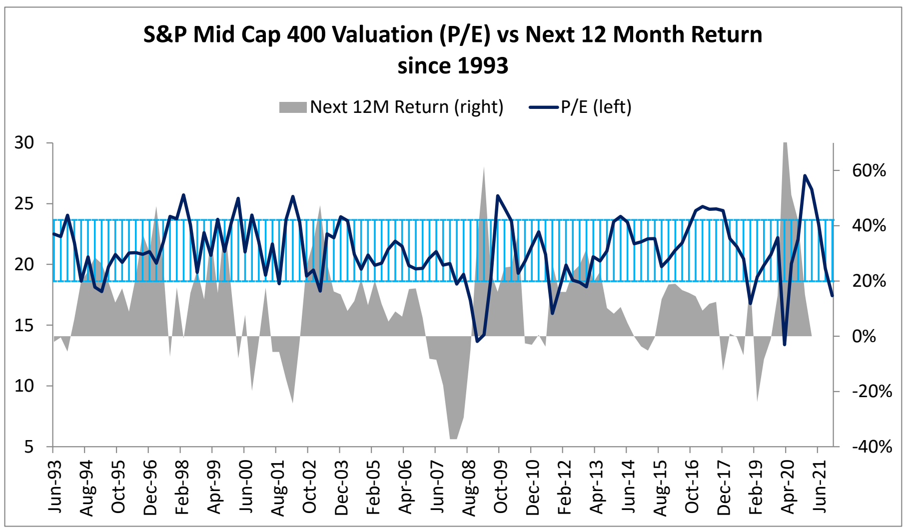




Source: FactSet, RJ Equity Portfolio & Technical Strategy

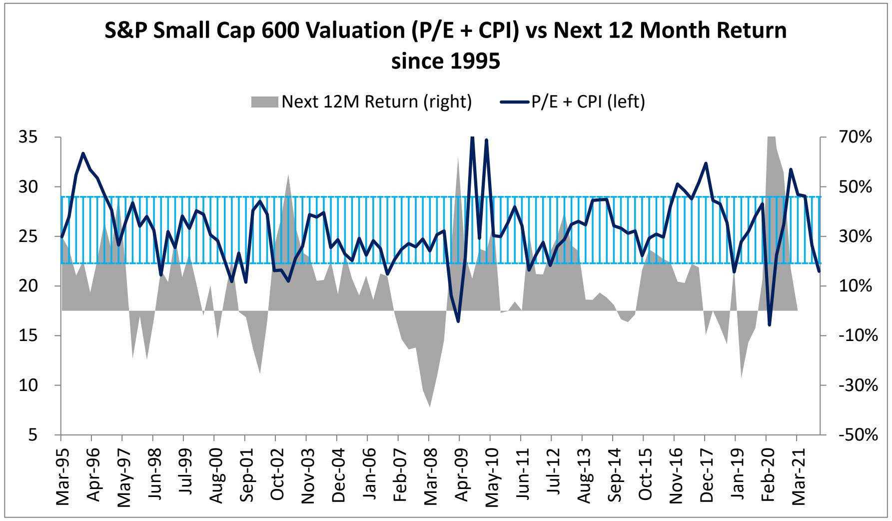
S&P Mid Cap 400 Valuation

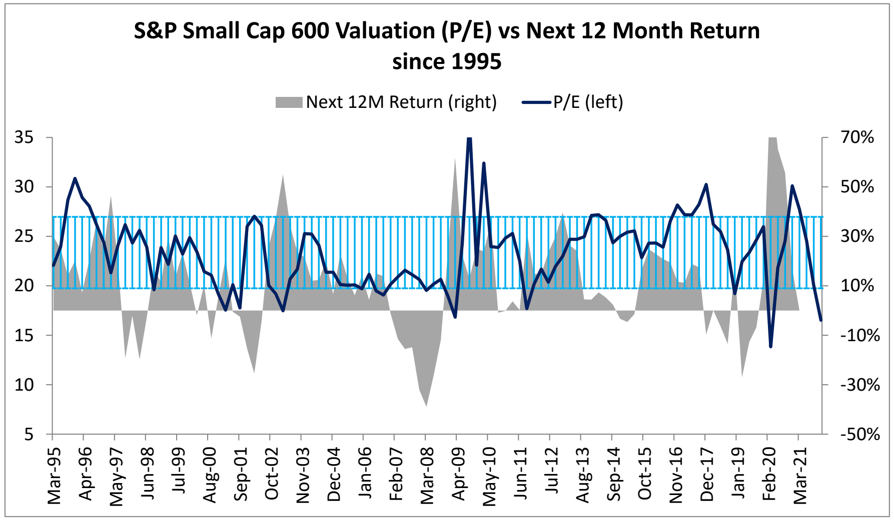




Source: FactSet, RJ Equity Portfolio & Technical Strategy

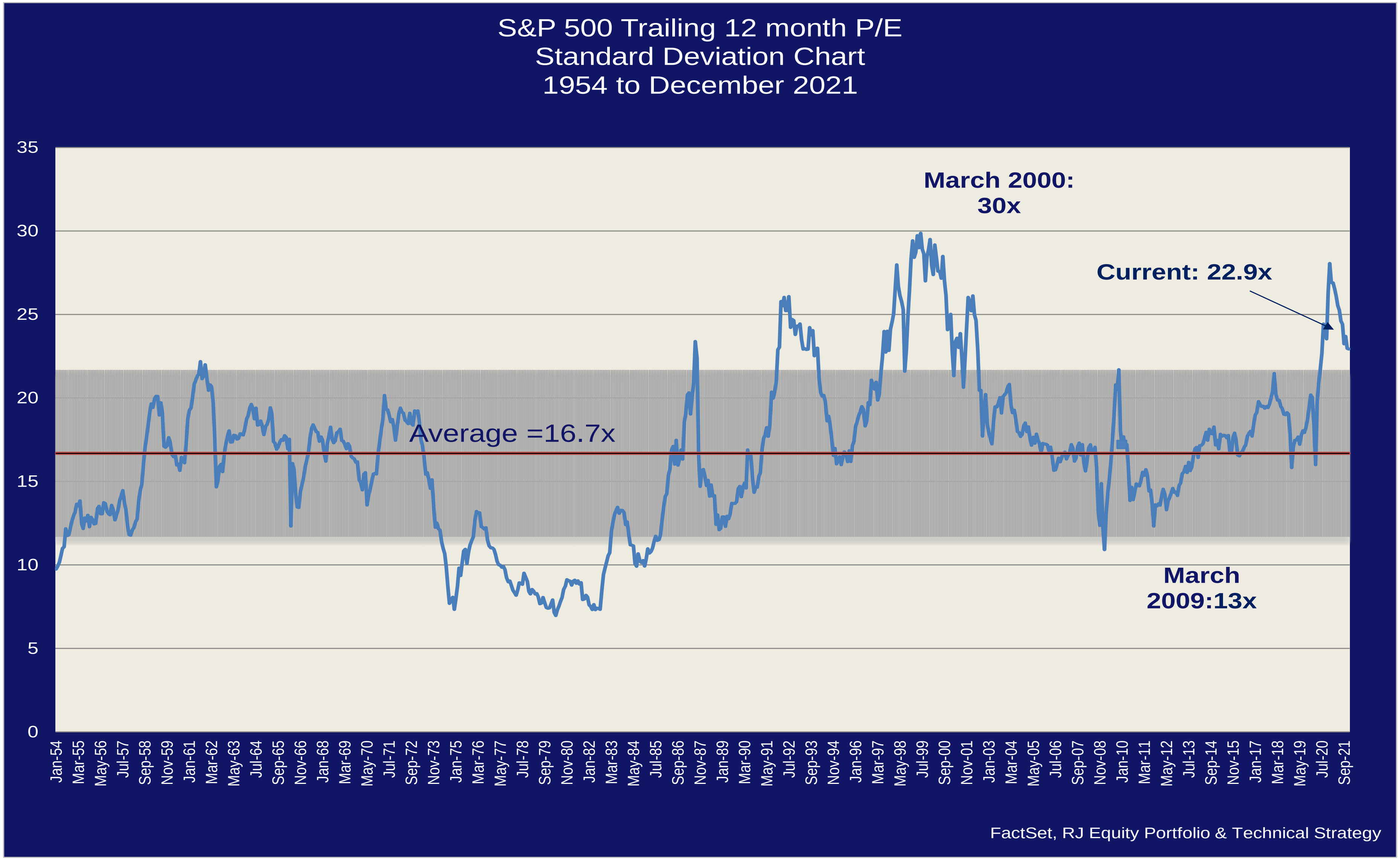
S&P Small Cap 600 Valuation



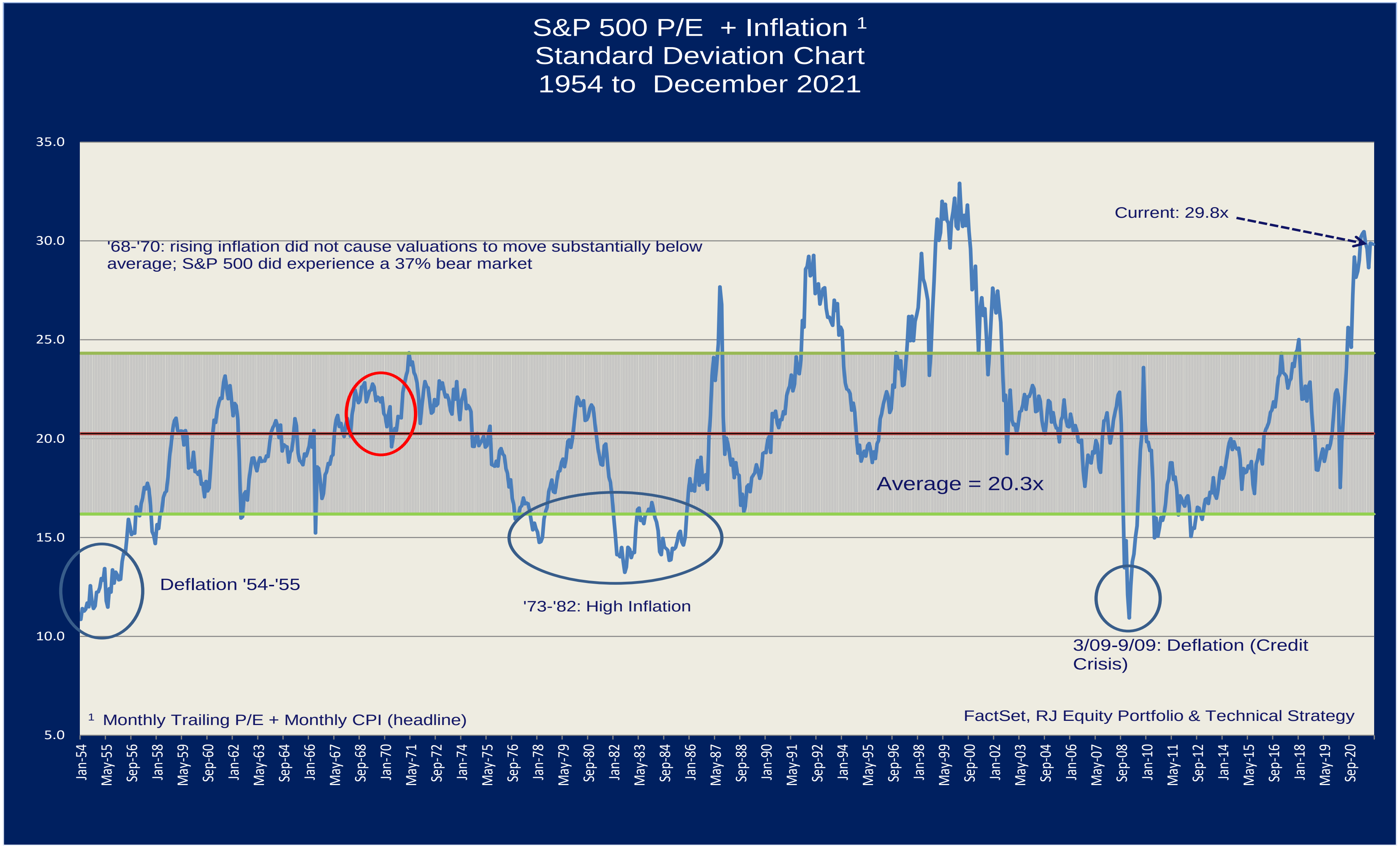


Source: FactSet, RJ Equity Portfolio & Technical Strategy

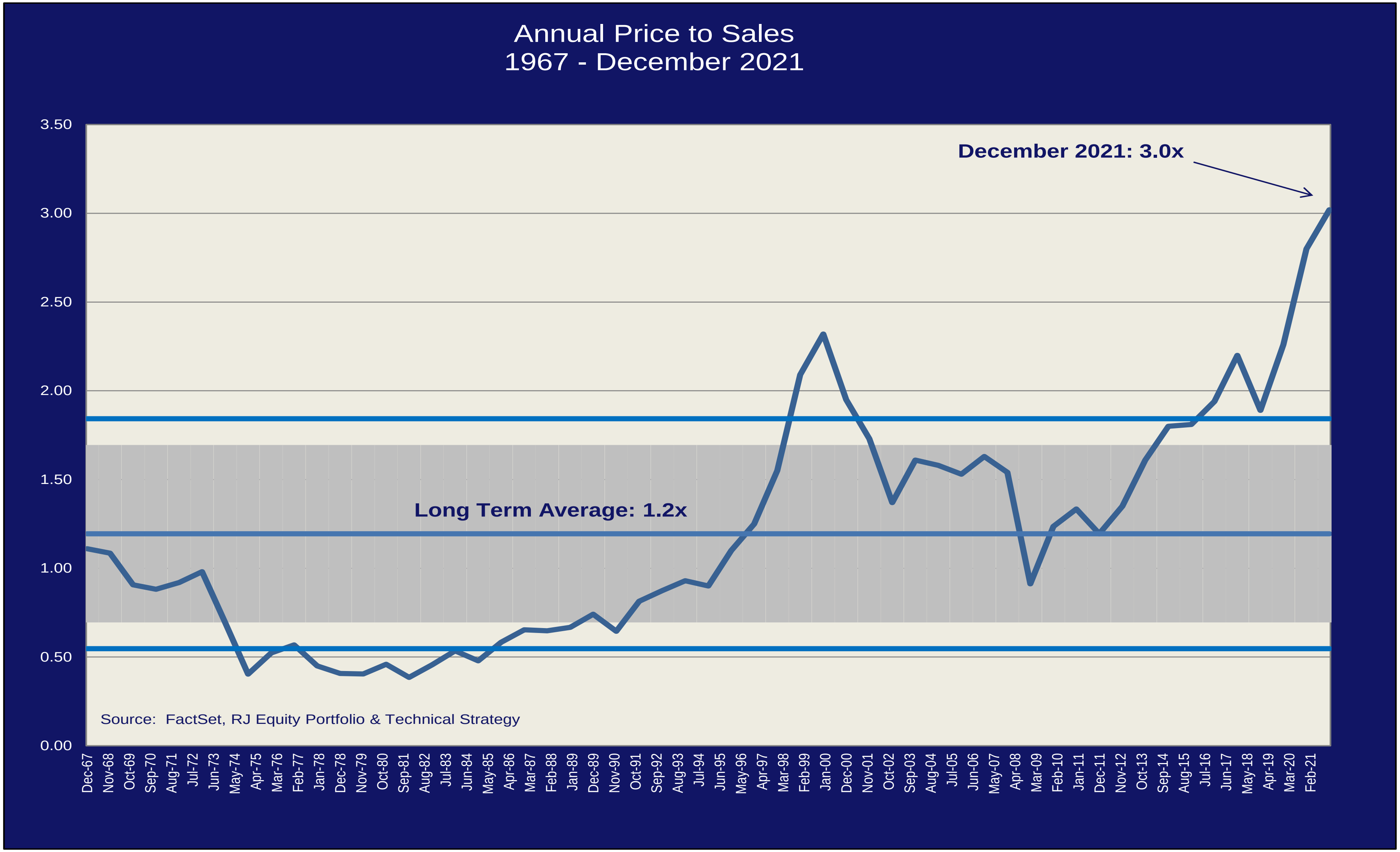
S&P 500: Long Term P/E



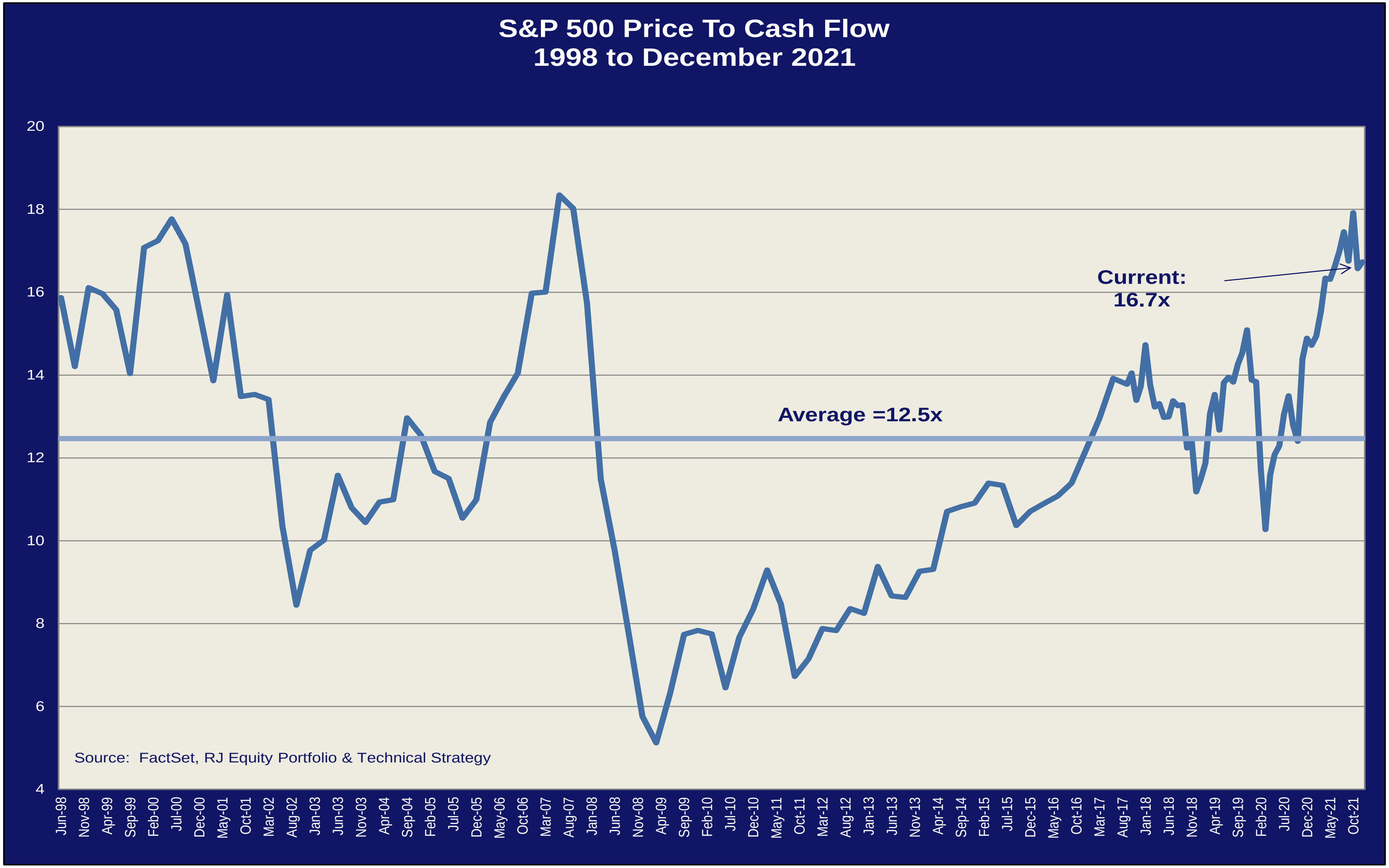
S&P 500: Inflation-Adjusted P/E



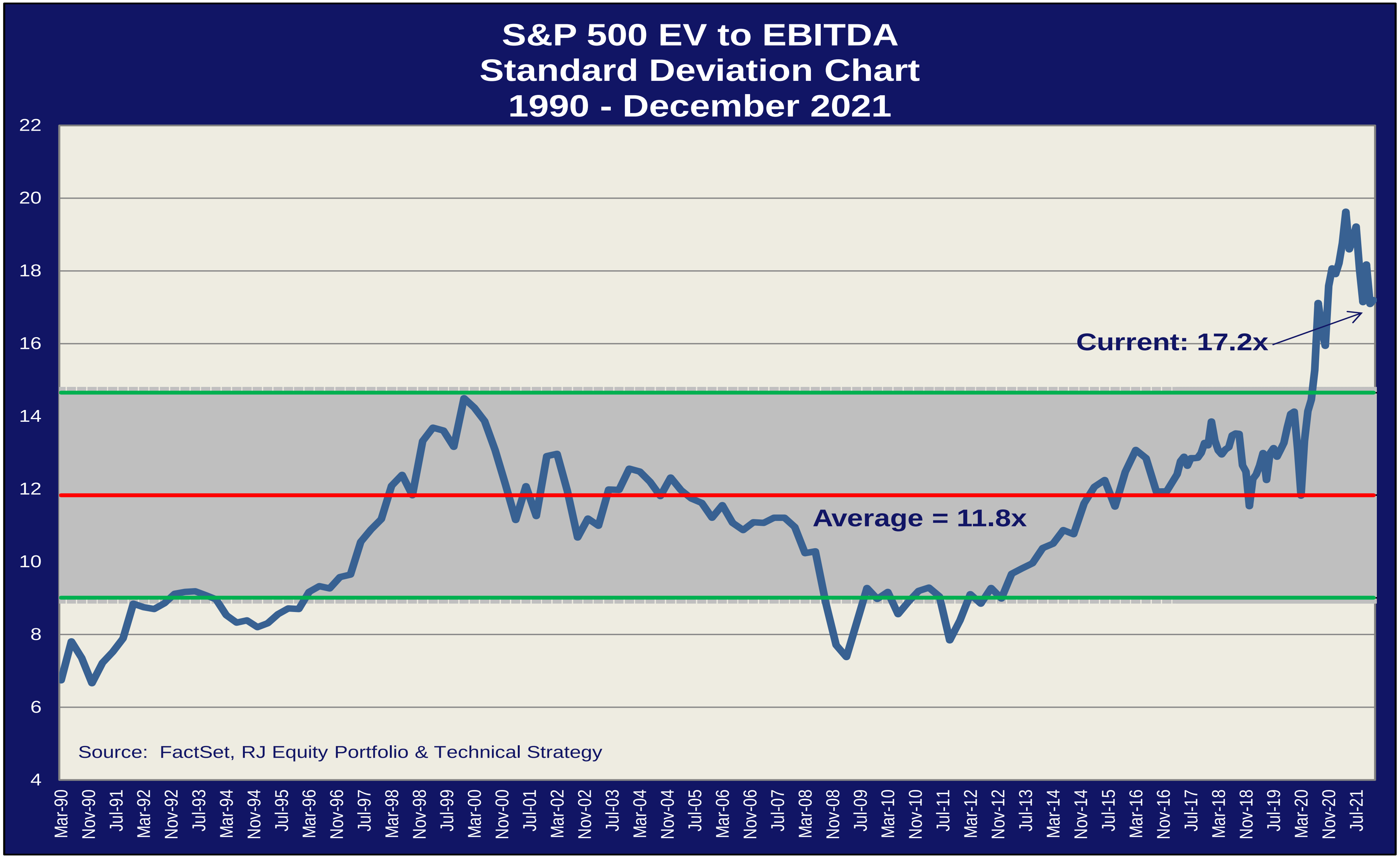
S&P 500: Price to Sales



S&P 500: Price to Cash Flow



S&P 500: EV to EBITDA



Sector Recommendations

Link to the full December *2021 Sector Analysis* report… CLICK HERE

RECOMMENDATIONS

Sector	S&P 500 Weighting	Recommend
Consumer Discretionary	13.2%	Overweight
Financials	10.8%	Overweight
Communications Services	10.4%	Overweight
Industrials	7.8%	Overweight
Energy	2.7%	Overweight
Information Technology	29.3%	Equal Weight
Health Care	12.7%	Equal Weight
Materials	2.5%	Equal Weight
Real Estate	2.6%	Equal Weight
Consumer Staples	5.6%	Underweight
Utilities	2.4%	Underweight

S&P 500 Sector	Weighting Current	Weighting Recommend	Sector Thoughts	Favored Subsectors
Consumer Discretionary	13.2%	Overweight	We remain Overweight Consumer Discretionary. Consumer demand trends remain strong in our view, and we are hopeful that supply chain issues and labor costs can ease over the next 6-12 months as Covid concerns abate. The recent Omicron news may delay this improvement and lengthen supply challenges, but we would use weakness as opportunity to accumulate favored stocks.	Specialty Retail
Financials	10.8%	Overweight	We remain Overweight-rated the Financials and view the recent weakness as opportunity. Interest rate movements remain a key influence on performance trends, and global Omicron concerns are providing downward pressure on the US 10-year yield for now. It is hard to know how long this will transpire, but we maintain our bias for rates to grind higher over the next year as the Fed begins to taper and the economic recovery progresses. Accompanied by the likelihood for improved loan growth, fundamental trends should remain solid; and we see the potential for upside to current estimates. Valuation remains attractive, and the renomination of Fed Chair Powell decreases some of the headline risk/uncertainty surrounding potential financial regulation.	Capital Markets
Comm. Services	10.4%	Overweight	The Communication Services sector has seen its relative performance come under pressure over the past couple of months, and the equal-weight index broke down/below its ~9 month trading range. We maintain our Overweight stance for now as fundamental and technical trends remain favorable for several of the largest constituents, and most of the sector appears oversold in the short term. Steady earnings estimate revisions and inexpensive valuation also contribute to our stance.	Media & Entertainment
Industrials	7.8%	Overweight	The equal-weight Industrials were attempting to build relative strength on the recent price break out in our view, as Delta variant challenges showed signs of abating. However, the recent Omicron concerns globally are renewing pressure on the sector. While this can continue for the short term, we remain positive on the intermediate term fundamental backdrop as inventories get replenished from very low levels within an improving global manufacturing environment. We would use the current weakness as opportunity to accumulate favored stocks.	Professional Svcs. Road & Rail
Energy	2.7%	Overweight	Energy has pulled back recently with oil prices, as global demand concerns ramp up on the Omicron variant. While this volatility may persist in the short-term, we believe that fundamental strength and substantial free cash flow (along with shareholder-friendly uses of this cash) remain supportive. Additionally, valuation is attractive with WTI crude at current levels in our view. We maintain our Overweight rating to Energy and would use the recent weakness as an opportunity to accumulate as needed.	E&Ps
Information Technology	29.3%	Equal Weight	Technology was able to break out of its ~13 month relative strength trading range in a powerful way. Strong earnings results were the catalyst, and fundamental momentum (accelerated economic digitization) continues to be a tailwind for the sector. Additionally, Omicron concerns are likely to weigh on global bond yields, supporting current elevated valuations. We continue to recommend a healthy allocation to Technology, and relative strength may persist in the short term, though we see the potential for greater upside in more recovery-oriented areas over the intermediate term.	Semis
Health Care	12.7%	Equal Weight	Aging demographics, along with increased consumer and governmental attention/spending, bode well for fundamental trends. Additionally, valuation remains attractive. However, relatively lower earnings growth in the recovery and lackluster relative strength trends support our equal-weight recommendation.	Providers & Services
Materials	2.5%	Equal Weight	We maintain our equal-weight recommendation on the Materials sector. Earnings estimate revision trends and valuation remain attractive, but tough comps next year and the appreciating US dollar are headwinds. Relative strength continues to trend sideways-supporting our equal-weight stance.	Construction Materials
Real Estate	2.6%	Equal Weight	We continue to view Real Estate as a stock-picker's sector with opportunity for varying degrees of economic sensitivity to the recovery. Valuation is elevated relative to growth projections, but FFO estimate revision trends remain healthy and the Omicron variant is likely to put downward pressure on interest rates (positive for Real Estate). This may support relative strength in the short term, though we maintain an Equal-Weight stance.	Industrial REITs Residential REITs
Consumer Staples	5.6%	Underweight	We maintain our Underweight recommendation on the Consumer Staples sector. Many companies are experiencing challenges with cost inflation and pricing power, leading to margin pressures. Weak relative strength trends also support our stance-maintaining their downward trend and pushing to new lows again.	Food & Staples Retailing
Utilities	2.4%	Underweight	We maintain our Underweight recommendation on Utilities. The sector has held up better in recent days through the Omicron volatility, but intermediate term relative strength trends remain downward. Slow earnings growth and weak estimate revision trends also contribute to our stance on the more defensive sector.	

Source: FactSet, RJ Equity Portfolio & Technical Strategy

S&P Industry Group Returns (through December 20, 2021)

S&P 500 Industry Group	Beta (3Yr)	1 Month	3 Month	YTD	12 Month
Technology Hardware & Equipment	1.16	9.4%	15.2%	30.2%	33.6%
Household & Personal Products	0.65	5.3%	8.5%	10.8%	11.2%
Pharmaceuticals Biotechnology & Life Sci	0.70	4.2%	4.9%	19.2%	19.6%
Utilities	0.81	3.8%	5.5%	10.8%	11.5%
Food Beverage & Tobacco	0.74	3.3%	4.1%	10.1%	10.4%
Real Estate	0.94	3.0%	6.8%	36.7%	36.2%
Health Care Equipment & Services	0.94	1.5%	2.2%	22.8%	24.7%
Food & Staples Retailing	0.62	1.2%	5.9%	18.1%	18.1%
Telecommunications Services	0.64	0.0%	-7.2%	-12.0%	-13.5%
Insurance	1.04	-0.8%	2.9%	25.5%	26.3%
Diversified Financials	1.08	-0.9%	3.6%	32.4%	36.4%
Transportation	1.03	-1.4%	9.0%	15.9%	14.6%
S&P 500	***1.00***	***-1.5%***	***4.2%***	***23.0%***	***24.1%***
Materials	1.01	-1.6%	7.8%	20.4%	21.8%
Semiconductors & Semiconductor Equipn	1.32	-2.4%	14.5%	41.8%	41.3%
Commercial & Professional Services	0.91	-3.4%	5.4%	25.1%	26.9%
Consumer Services	1.03	-3.5%	-1.8%	7.7%	9.1%
Retailing	0.89	-3.9%	2.7%	17.3%	17.4%
Software & Services	1.12	-4.6%	1.4%	22.6%	24.3%
Capital Goods	1.07	-4.9%	-0.6%	13.4%	13.9%
Energy	1.27	-5.2%	10.7%	42.8%	37.0%
Consumer Durables & Apparel	1.08	-5.2%	1.6%	16.3%	15.8%
Media & Entertainment	0.97	-5.5%	-5.9%	24.2%	25.6%
Banks	1.29	-6.0%	1.4%	30.3%	35.9%
Automobiles & Components	1.27	-13.2%	21.9%	36.0%	35.9%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Charts as of 10/1/2021

M21-4020444

Definitions

S&P Mid-Cap 400 – Provides investors with a benchmark for mid-sized companies.

S&P Small Cap 600 – Provides investors with a benchmark for small-sized companies.

U.S. Treasury – Securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

200-DMA– The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

50-DMA– The 50-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 50 days.

Weighting – Sector percentage (%) of S&P 500

Total Return – Price return including dividends received

Beta – Measure of volatility in comparison to the market as a whole

Dividend Yield – Dividends received divided by price; reflects the percentage return off of dividends received.

Dividend Payout Ratio – Dividends distributed divided by net income; reflects the percentage of net income distributed in dividends.

Long-Term EPS Growth – Estimated earnings per share growth over the next three to five years, as received from consensus analyst forecasts.

Free Cash Flow Yield – Free cash flow divided by price. The free cash flow per share a company is expected to earn against its market price per share.

Price to Sales – Market cap divided by sales of companies in the sector or S&P 500

Price Earnings Ratio (P/E) – The price of the stock divided by its earnings per share.

EV to EBITDA – Enterprise Value (EV) divided by EBITDA (Earnings Before Interest, Tax, Depreciation, & Amortization).

- **LTM P/E** – P/E calculated with the last 12 months earnings reported.
- **NTM P/E** – P/E calculated with the consensus earnings estimates over the next 12 months.

Relative P/E – The sector's multiple divided by the S&P 500 multiple; represents a premium or discount relative to the S&P 500's valuation. We use last 12-month P/E in this report.

Relative Ratio – The sector's relative P/E multiple vs. its respective 10-year average relative P/E.

Relative Strength – Calculates price performance relative to the S&P 500 over time.

Standard Deviation – Measures the fluctuations of returns around the arithmetic average return of investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

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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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