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JUNE 2, 2022 | 4:30 PM EDT

Weekly Market Guide

Short-Term Summary:

After selling off ~18% from 3/29 to 5/20, the S&P 500 has bounced ~9% (from oversold levels) over the past two weeks with many of the most beaten-up names seeing the sharpest rallies. There have been a few positive technical developments within the bounce, such as high yield 5-year CDS spreads pulling back, a positive MACD cross supporting short-term trends, and a couple of strong readings in advancers vs. decliners. However, with the overall level of uncertainty high (regarding inflation and economic growth), we view the move as only a bounce for now until additional momentum develops. Overall, the S&P 500 remains in a downtrend, and the ~4200-4300 area looks like stout resistance.

The path ahead for inflation will ultimately be a significant influence on market movements. We believe that inflation has peaked and can moderate over the course of the year, but the degree of moderation will be a large determinant on Fed policy. Consequently, it will be a big factor on whether or not the market lows have been seen, along with the timeline for equities to rebuild themselves for renewed upside on the other side of this bear market. The degree and duration of Russian escalation remain large unknowns affecting economic growth and inflation, along with China lockdowns (which appear to be easing). Investors will remain hyper-sensitive to inflationary data points moving forward, as its trajectory results in a wide range of potential outcomes over the coming months.

Over the next twelve months, we believe that stocks will be higher than today and above our 2022 base case target of 4180 (bull case 4830). But we also expect additional weakness in the weeks and months ahead. The technical trend is broken, and summer is traditionally a little more challenging for market upside. Also, Fed tightening and balance sheet runoff, combined with uncertainty regarding inflation and the economy, raise the odds of additional weakness for equities.

With this in mind, we would use the market downdrafts as opportunities to accumulate high quality, favored stocks with a longer-term perspective- increasing conviction as the inflation picture and/or market momentum improves. Investors can also use the relief rallies as opportunities to lighten exposure as needed for repositioning. Watching how certain stocks and sectors trade during the bounces will help formulate positioning for the inevitable elongated rally that stocks will see on the other side of the current weak trend, regardless of where or when the market finds the ultimate low.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-9.7%	-5.1%
S&P 500	-14.0%	-2.4%
S&P 500 (Equal-Weight)	-9.7%	-2.9%
NASDAQ Composite	-23.3%	-12.7%
Russell 2000	-17.4%	-19.2%
MSCI All-Cap World	-14.2%	-9.2%
MSCI Developed Markets	-13.4%	-13.9%
MSCI Emerging Markets	-13.3%	-23.2%
NYSE Alerian MLP	25.8%	17.4%
MSCI U.S. REIT	-15.3%	-1.8%

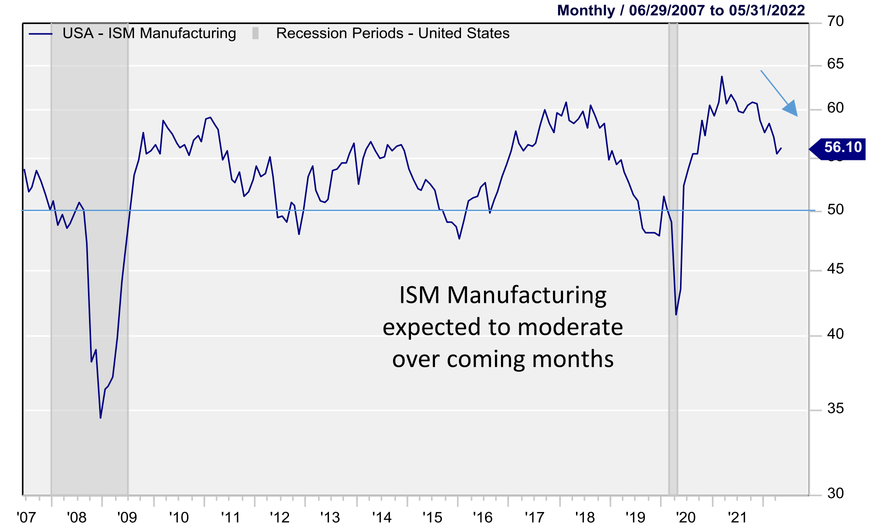
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	58.4%	4.9%
Utilities	3.1%	3.0%
Consumer Staples	-5.3%	6.5%
Materials	-6.3%	2.8%
Health Care	-7.8%	14.3%
Financials	-11.0%	11.1%
Industrials	-11.4%	7.8%
S&P 500	***-14.0%***	-
Real Estate	-15.8%	2.8%
Information Technology	-20.0%	27.2%
Communication Svcs.	-25.2%	8.8%
Consumer Discretionary	-25.5%	10.9%

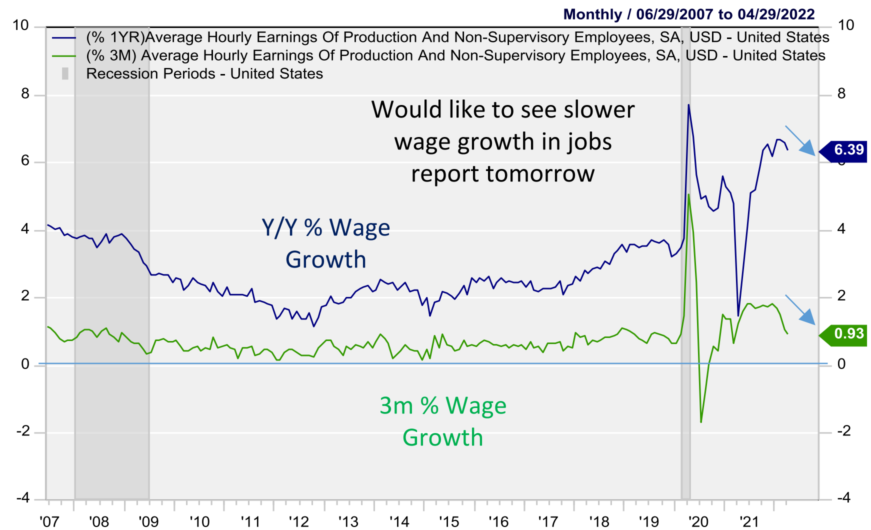
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The combination of a slowing economic environment (more so globally) and high inflation places the Fed in a tough situation (the longer these issues persist) as the Committee attempts to navigate the current environment. May ISM manufacturing was able to bounce to 56.1 (healthy), but this is unlikely the beginning of an extended up-move. We expect manufacturing trends to moderate over the coming months. Inflation is top-of-mind for investors, and there were some positive signs in the ISM data supporting the view that prices have likely peaked. Tomorrow's jobs report will provide an update on wage growth, which we would like to see slow. A sustained moderation in inflation and wages would ease pressure on the Fed, and in turn support equity markets in our view. On the contrary, stubbornly high inflation and wages will add to market pressure as the risk of the Fed overtightening increases. Investors are likely to remain hyper-sensitive to this data due to its wide range of potential outcomes.

Event	Period	Actual	Consensus	Prior
Core PCE Deflator M/M	APR	0.34%	0.30%	0.33%
Core PCE Deflator Y/Y	APR	4.9%	4.9%	5.2%
Personal Consumption Expenditure SA M/M	APR	0.90%	0.80%	1.4%
Personal Income SA M/M	APR	0.40%	0.60%	0.50%
Wholesale Inventories SA M/M (Preliminary)	APR	2.1%	1.1%	2.7%
S&P/Case-Shiller comp.20 HPI M/M	MAR	2.4%	2.0%	2.4%
S&P/Case-Shiller comp.20 HPI Y/Y	MAR	21.2%	20.2%	20.3%
Consumer Confidence	MAY	106.4	103.7	108.6
Markit PMI Manufacturing SA (Final)	MAY	57.0	57.5	57.5
Construction Spending SA M/M	APR	0.20%	0.50%	0.25%
ISM Manufacturing SA	MAY	56.1	54.5	55.4
JOLTS Job Openings	APR	11,400K	11,400K	11,855K
ADP Employment Survey SA	MAY	128.0K	302.0K	202.0K
Continuing Jobless Claims SA	05/21	1,309K	1,341K	1,343K
Initial Claims SA	05/28	200.0K	205.0K	211.0K
Unit Labor Costs SAAR Q/Q (Final)	Q1	12.6%	11.6%	11.6%
Productivity SAAR Q/Q (Final)	Q1	-7.3%	-7.5%	-7.5%
Durable Orders ex-Transportation SA M/M (Final)	APR	0.37%	-	0.30%
Durable Orders SA M/M (Final)	APR	0.48%	0.50%	0.40%
Factory Orders SA M/M	APR	0.30%	0.90%	1.8%



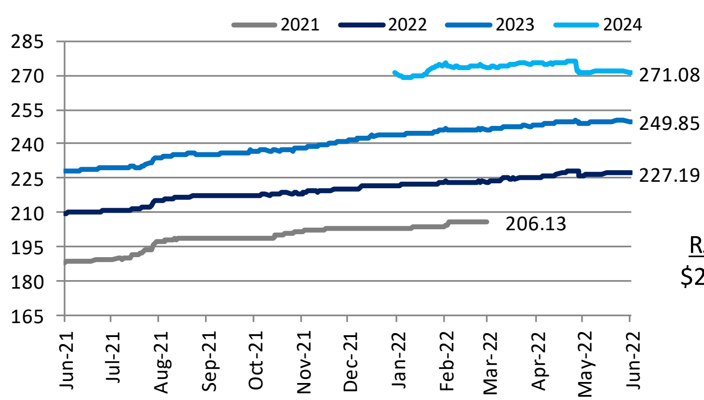


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

S&P 500 earnings estimates are holding up well, despite lower margin assumptions, as sales trends remain strong. However, this masks what is taking place beneath the surface with many stocks seeing negative revisions to 2022 estimates. Energy is the stand out for earnings trends (buoyed by high oil prices and capital discipline), followed by Materials (benefitting from higher commodity prices), and Real Estate. Technology, given its size, has importantly seen fundamental strength (with tech demand still outstripping supply). On the flip side, Consumer Discretionary, Communication Services, Industrials, and Consumer Staples stocks are seeing pressure as high input costs weigh on margins. In our base case economic outlook, we expect some downside to S&P 500 earnings estimates- to $220 for 2022 (below consensus of $227). Our estimate represents a still healthy ~7% earnings growth y/y, but we expect more moderate sales growth and lower margins than the consensus currently estimates. While we expect downward earnings estimate revisions, valuation has become more compelling for many areas and stocks. Valuation is a poor timing mechanism and far from “washed-out” levels across the board, but the majority of stocks are trading at reasonable multiples now. This presents a more attractive setup for long-term opportunity in our view, once the dust settles on this current bear market.

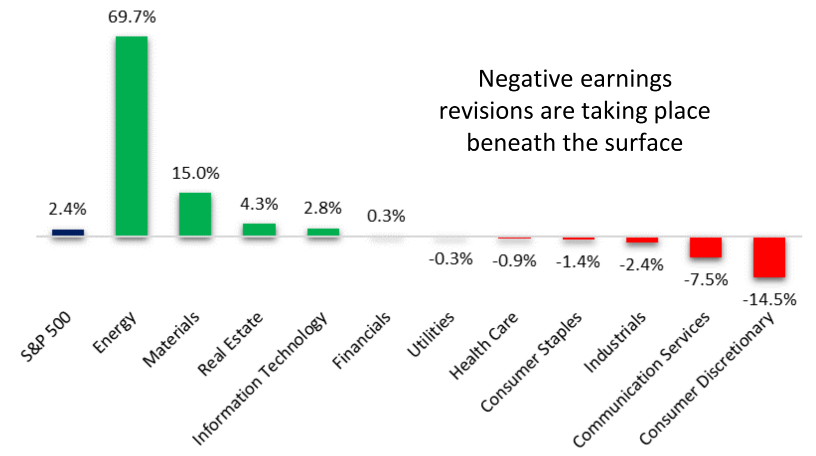
S&P 500 Consensus Earnings Estimates over Past Year

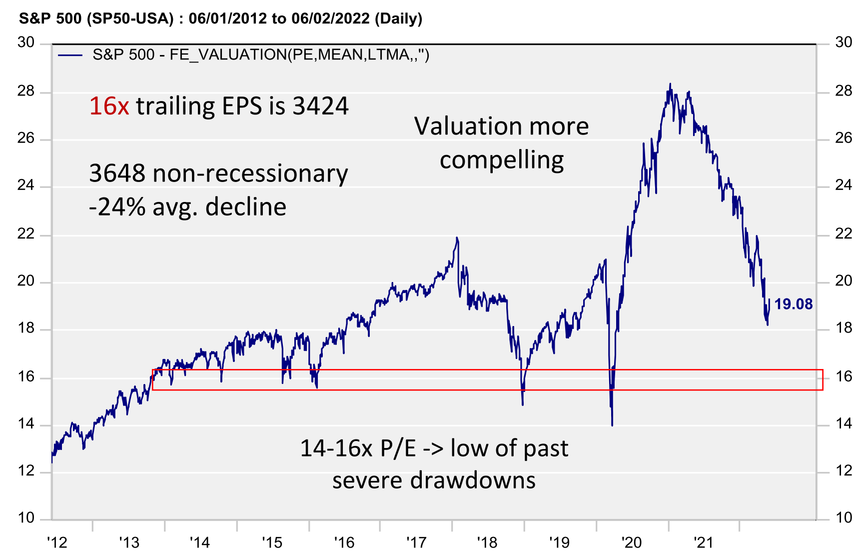


EPS Growth Estimates	
2021	50.2%
2022	10.2%
2023	10.0%
2024	8.5%

RJ ’22 Estimate
$220 (base case)

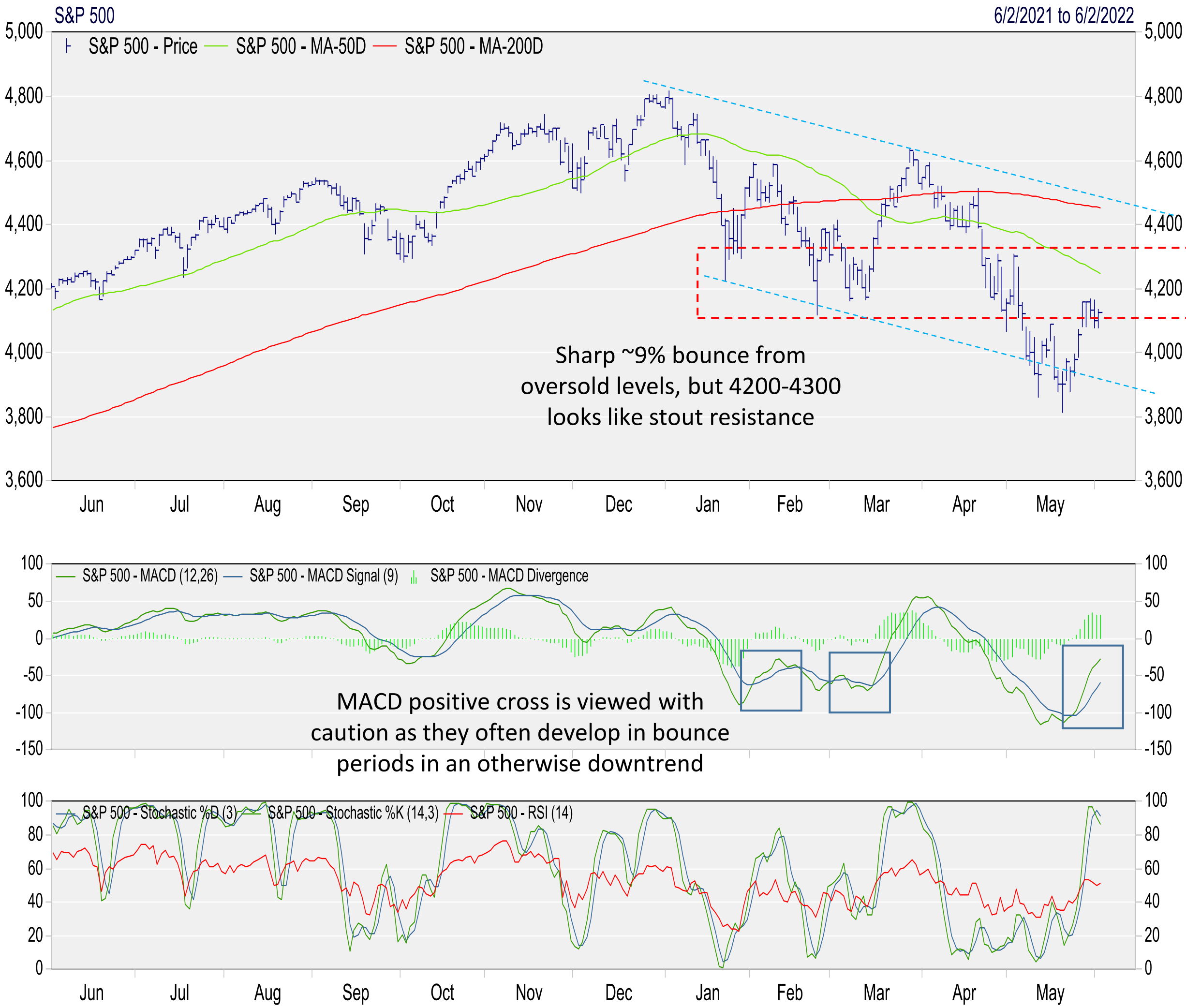
2022 EPS Revisions since Year End





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

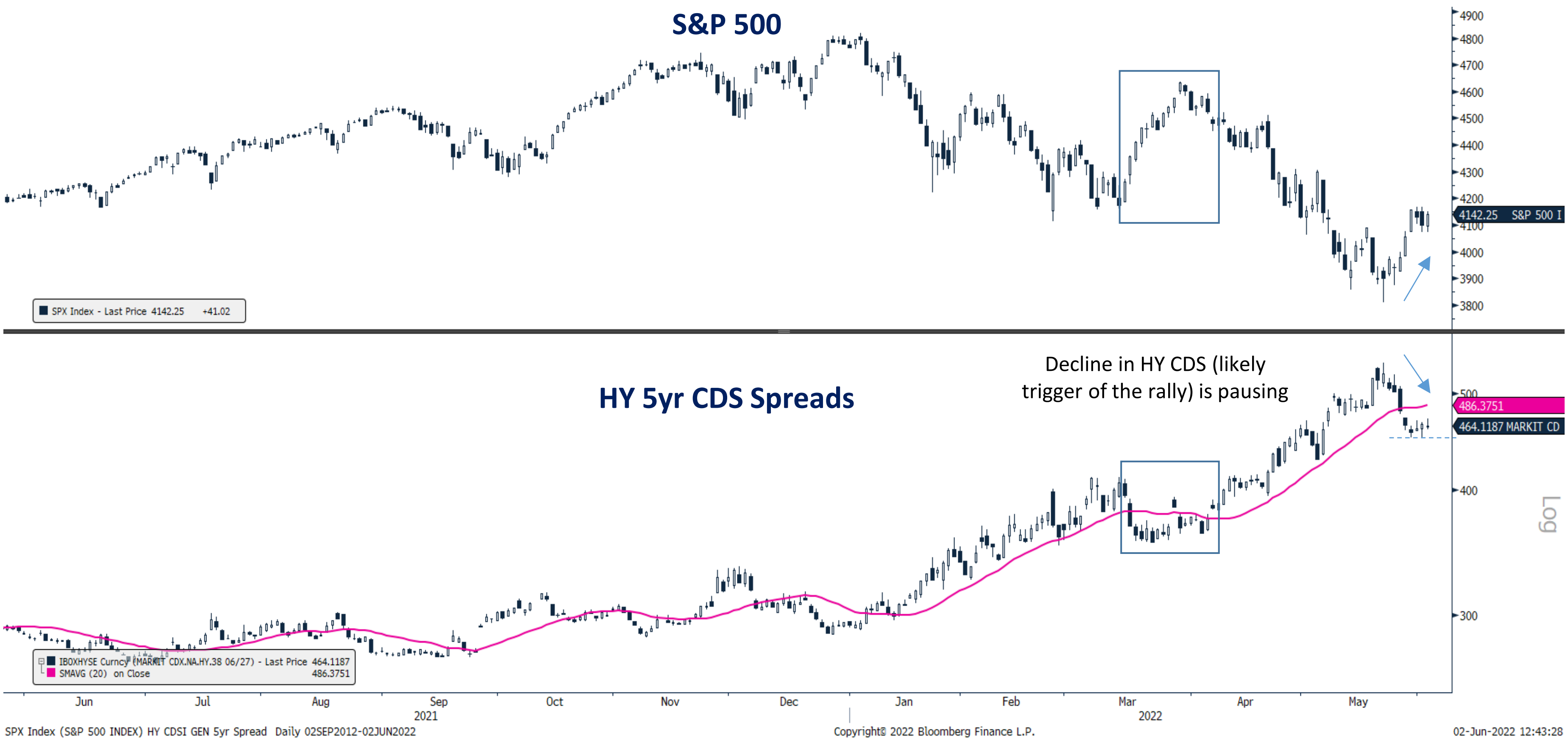
Short-term: The quick recovery back above a key breakdown point is normally a constructive technical sign. Therefore, it may support some additional upside to this bounce. However, with the overall level of uncertainty high (inflation and economic growth), we view the move as a bounce within a downtrend for now until additional momentum develops. On a positive note, the quick recovery lessens the odds for a collapse.

Intermediate term: We believe that stocks will be higher than today over the next 12 months and somewhere above our base case of 4180 (bull case 4830). But we expect additional weakness in the weeks and several months ahead. The technical picture is broken, and summer is traditionally a little more challenging for upside. Fed tightening and balance sheet runoff, along with uncertainty regarding inflation and the economy, raise the odds of additional weakness.

Continue to watch the 4161 area for resistance as it capped yesterday's advance as well. An additional move higher will likely be met with resistance around ~4200-4300. We would like to see the 21-DMA (currently at 4038) hold on weakness. A move below the 21-DMA will likely cause a move lower to 3925, and if breached then to 3815.

HIGH YIELD CREDIT DEFAULT SWAPS

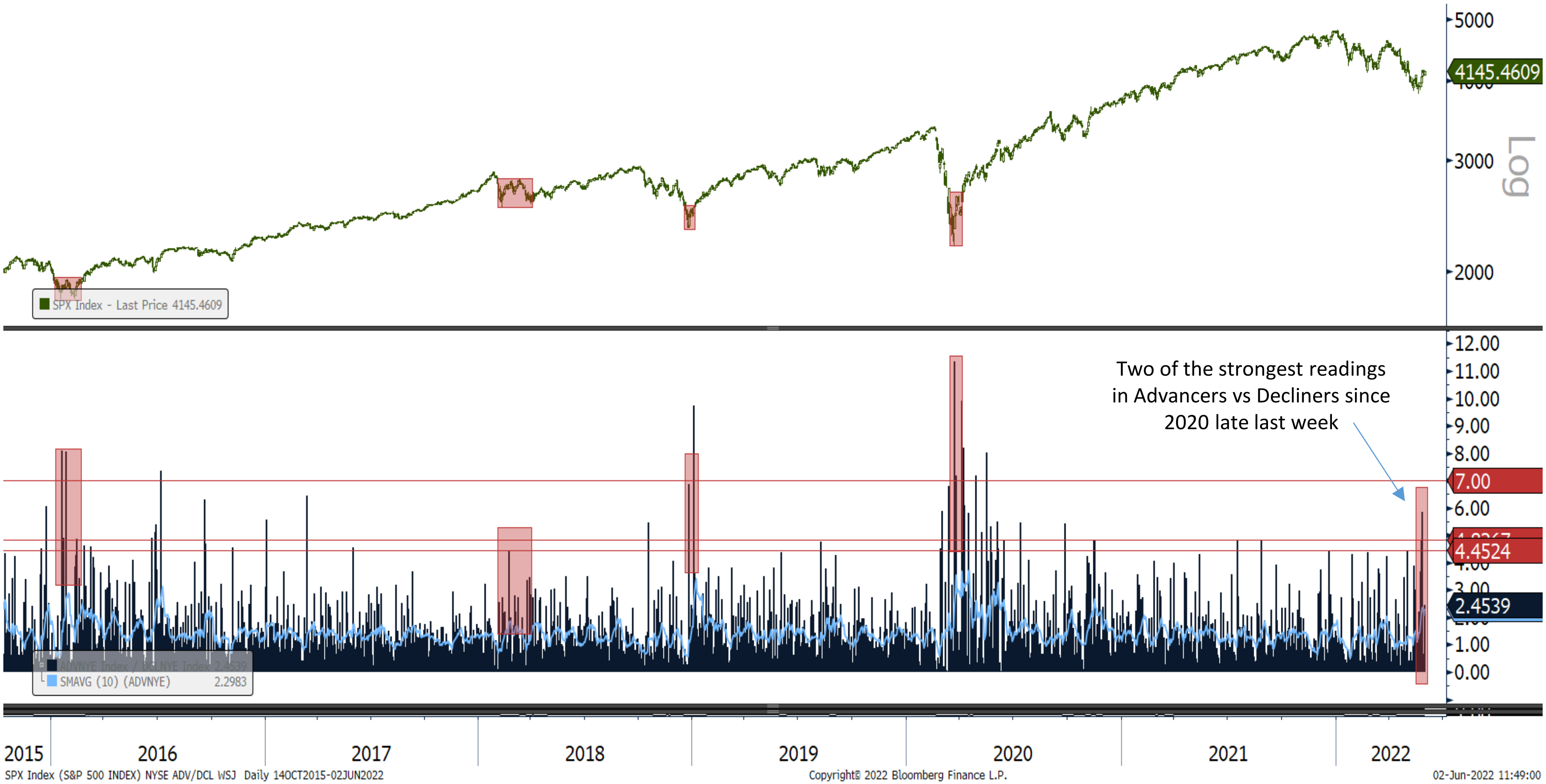
High Yield 5-year CDS spreads remain in an uptrend, but the recent break below its 20-day moving average (bottom portion of chart below) is supporting the sharpest rally seen since March- which was the last time CDS spreads broke below 20 DMA support (S&P 500 rallied 11% in 11 days). This decline in HY CDS spreads has paused in recent days. While a sideways move could support further equity gains in the short-term, what we do not want to see is the HY CDS uptrend continue- as it did in April. We will continue to update you on this indicator due to its significance in correlating to market moves this year.



Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

ADVANCERS VS. DECLINERS

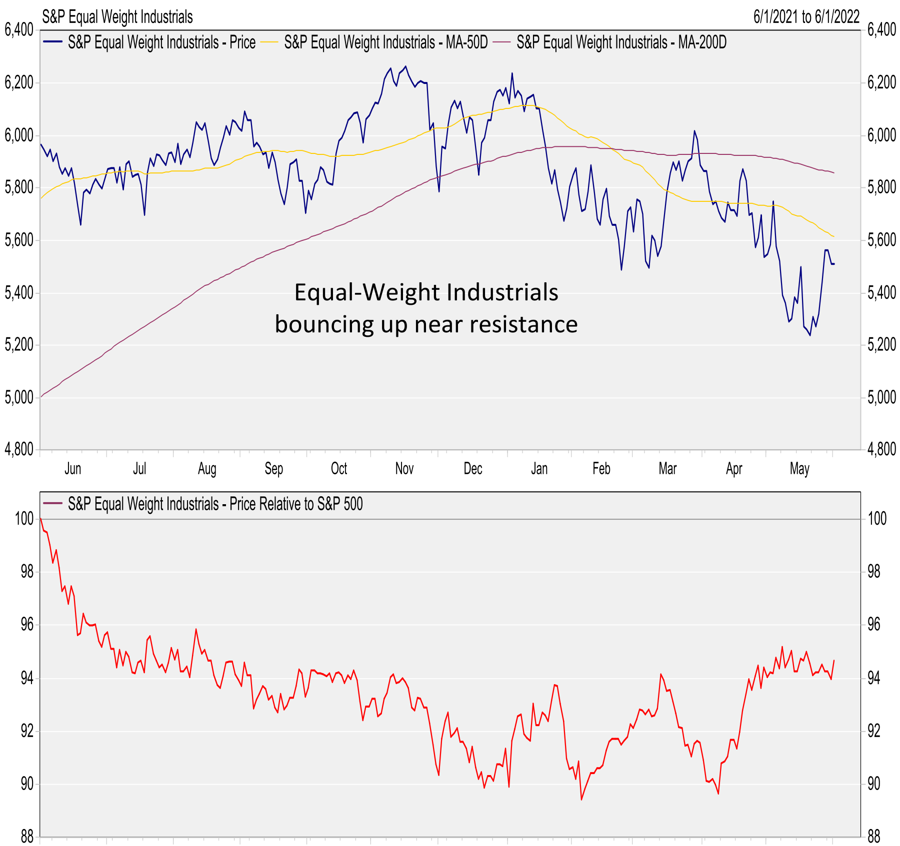
Some indicators are moving in the right direction, supporting our positive 12-month view. On Thursday, NYSE advancers vs. decliners registered a reading of 4.83 to 1, which was the highest since September 2020. Then on Friday, it registered 5.86 to 1, which was the highest since May 2020. These are excellent readings; and while there is no magic number, we would like to see an even larger reading soon, in the 7 to 1 or higher range, that often occur at major turning points.

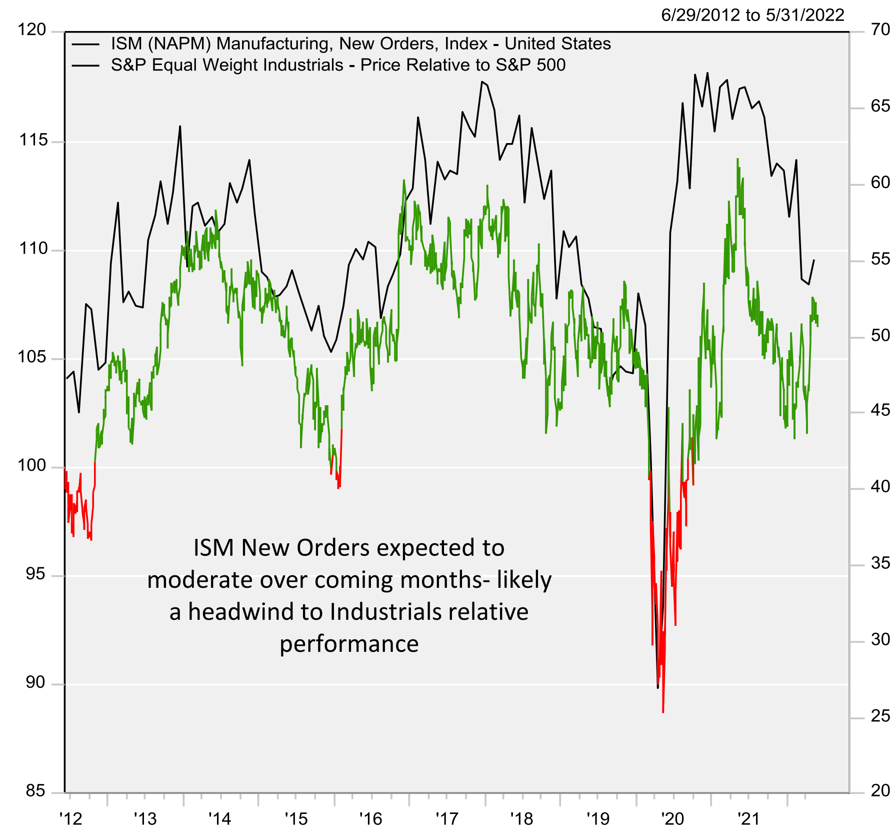


Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

INDUSTRIALS

We are lowering our Industrials recommendation to Equal Weight (from Overweight). Manufacturing trends remain positive overall, indicated by a rise in the ISM Manufacturing index to 56.1 (from 55.4) in May. However, we believe new orders could soften over the coming months as a weakening global economic backdrop transpires (affected by the Russia/Ukraine war and supply chain constraints)- and softening new orders are likely to act as a headwind to relative performance. There are pockets of strength and opportunity at the subsector (i.e. aerospace & defense) and stock level, but we lower our expectations for the broad sector in the current environment.

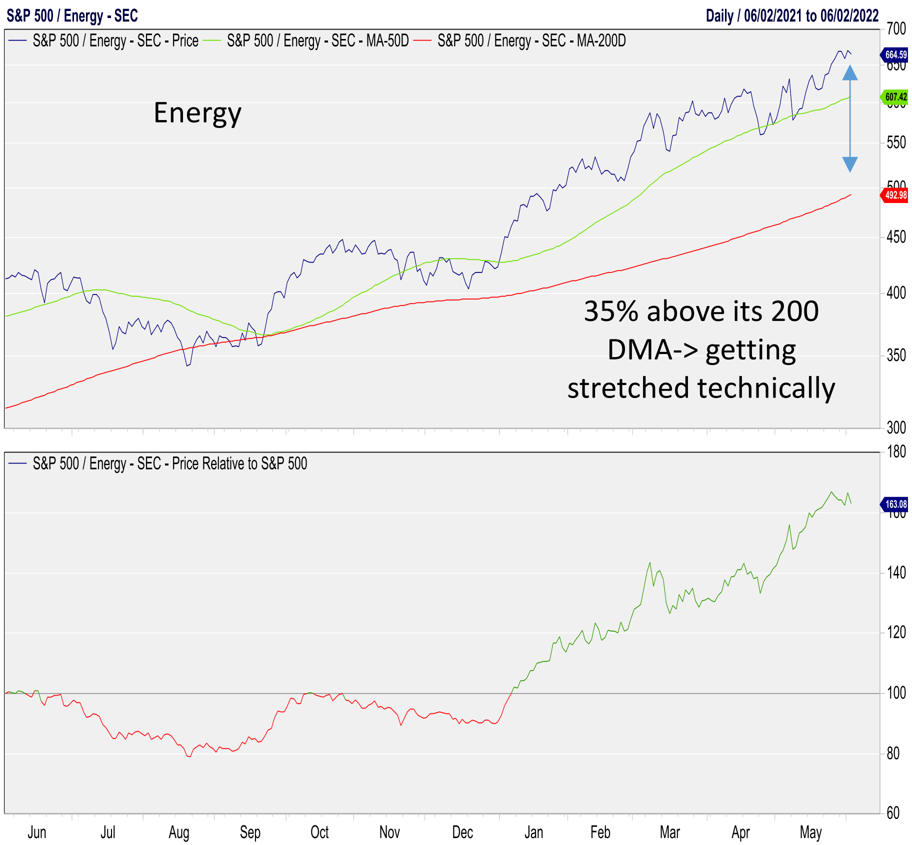


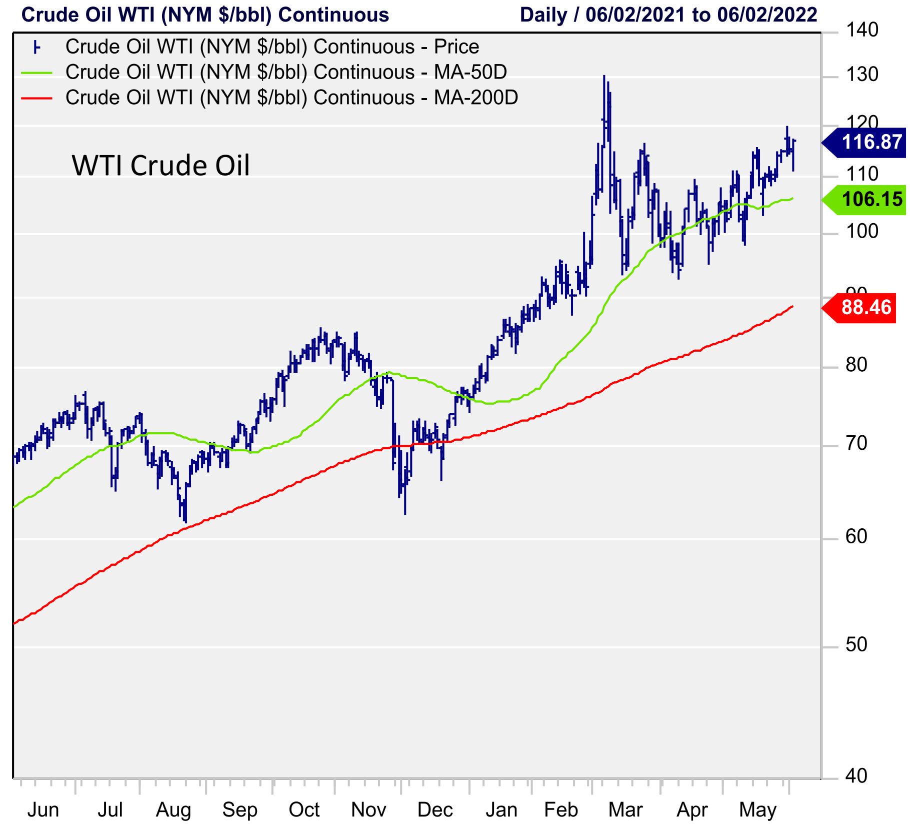


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ENERGY

Energy continues its strong performance, as high oil prices ($117/barrel) accompanied by capital discipline result in very strong fundamental trends. Additionally, valuation remains attractive in our view despite this outperformance. Energy's EV/EBITDA of 7x is below its 10-year average (8.1x), and the sector's P/E of 15x is a 25% discount to the S&P 500. Additionally, Energy has a market-leading 9.5% free cash flow yield. However, at some point, the sector will need to consolidate its enormous move to the upside. The sector is stretched technically- trading ~35% above its 200 DMA. For now, trends remain supportive of maintaining an Overweight allocation. But for new purchases, we would refrain from piling in at current levels.

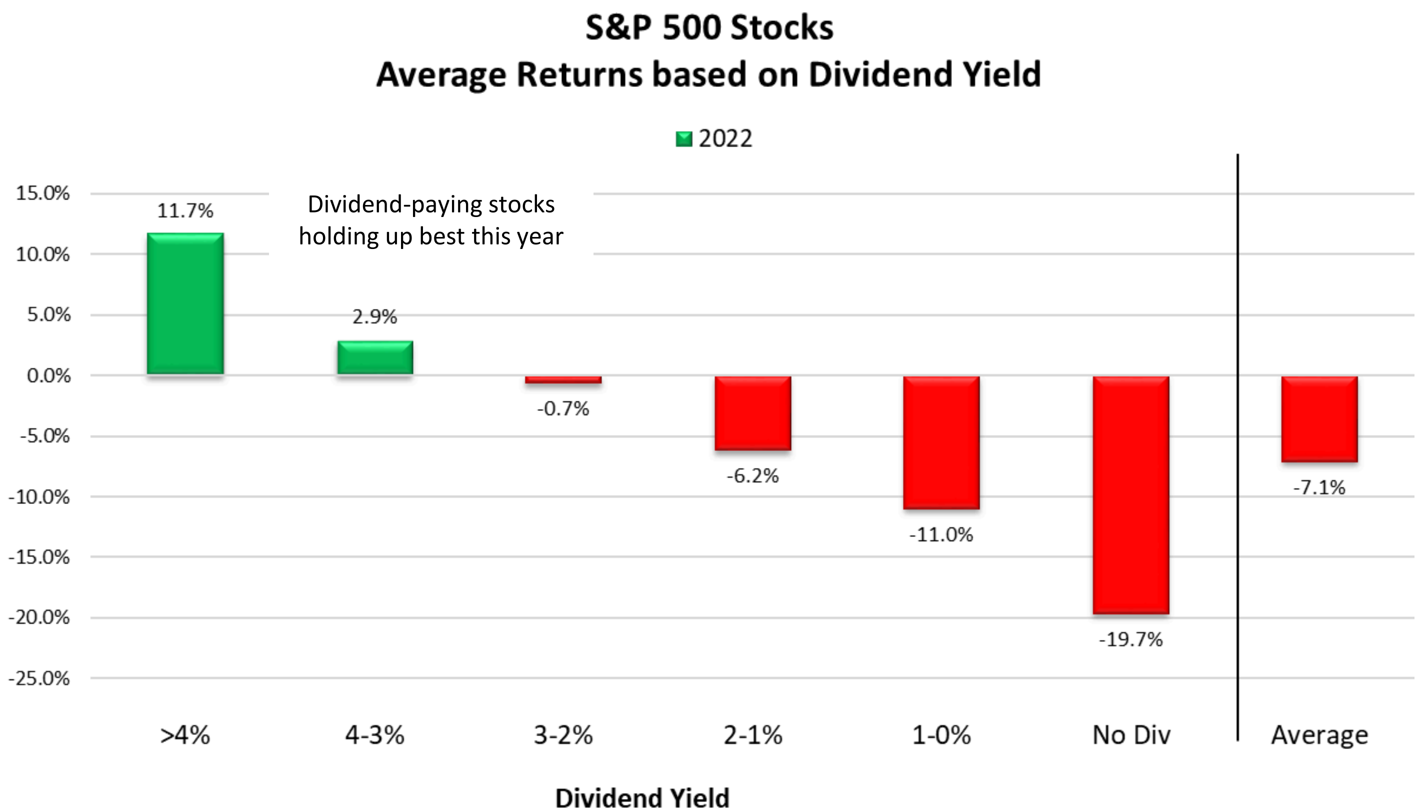




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

S&P 500 YTD RETURNS BASED ON DIVIDEND YIELD

This should not come as a surprise, but dividend-paying stocks usually hold up better in times of market volatility. These companies are typically more stable with lower betas, and dividends become increasingly important for investor returns in pullbacks. For investors looking to water-down volatility in the current environment, we recommend increasing attention on companies with a healthy dividend yield and also dividend growth. However, it is also important to keep in mind that quality, non-dividend paying companies seeing severe drawdowns may also see the sharpest rallies on the other side of the current bear market. Your time horizon, risk tolerance, and attempt to being as timely as possible will play a role in how you balance the current environment with the eventual recovery.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4772168)

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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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