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Weekly Market Guide

Short-Term Summary:

We don't enjoy the phrase "data-dependent" any more than you, but it is the environment we are in right now. Investors have been conditioned for years to take "bad news as good news" because inflation was low and the Fed could come to the rescue (with supportive stimulus). We do not have that luxury right now with inflation so high (and the jobs market still solid). Because of this, inflationary data will be highly influential on the Fed's path ahead- and in turn, market movements. Good news last week- i.e. ISM prices paid showing lower price pressures and August wage growth moderating- contributed to equities bouncing out of a weak trend. Then, this week's stickier-than-expected August CPI reading saw equities give back those gains.

The major issue continues to be high inflation increasingly weighing on consumer disposable income and, in turn, purchasing power. And the longer inflation stays high, the increased risk of it becoming entrenched. In response, the stickier inflation becomes, the more hawkish the Fed will need to be in order to bring it down to a more reasonable level. This increased Fed tightening and the inverted yield curve will negatively impact lending and economic growth ahead. Additionally, bond yields have risen on the higher Fed expectations this week, which weighs on equity market valuations. For example, stock valuation (relative to bonds) has not become more attractive on the pullback due to the higher bond yields.

The path of inflation ahead obviously remains paramount for equities. Overall, we expect inflation to moderate over the next year due to lower commodity prices, an improved supply/demand imbalance, and lower wage pressures. Because of this, we still favor the worst of this bear market likely being behind us. However, the path is unlikely to be quick or smooth. And it will be difficult for equities to show sustainable upside with inflation so high and the Fed in tightening mode. Technically, we are monitoring support at ~3900, but weakness (in the aftermath of Tuesday's hot CPI report) raises the odds that this level does not hold. A move below 3900 will increase the odds of a retest or undercut of the lows at 3637 with potential support around 3800 and 3742 on the way.

The result is a bear market that likely takes time to digest the inflationary data flow with back-and-forth trading over the coming weeks and months. With this in mind, we recommend not chasing the rallies and using the pullback periods (which could be double digits) as opportunity to accumulate favored stocks for the next bull market.

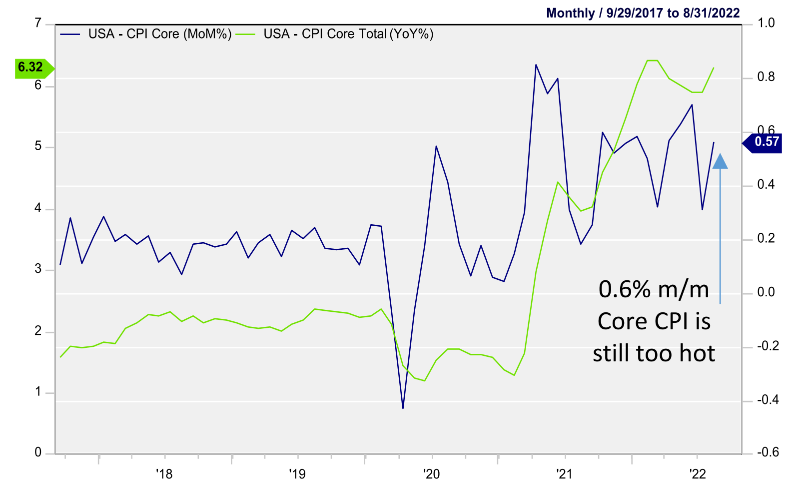
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-14.3%	-10.0%
S&P 500	-17.2%	-11.2%
S&P 500 (Equal-Weight)	-13.4%	-7.8%
NASDAQ Composite	-25.1%	-22.1%
Russell 2000	-18.1%	-16.8%
MSCI All-Cap World	-19.3%	-17.2%
MSCI Developed Markets	-22.2%	-24.0%
MSCI Emerging Markets	-21.9%	-25.7%
NYSE Alerian MLP	25.1%	25.9%
MSCI U.S. REIT	-20.9%	-12.4%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	47.9%	4.8%
Utilities	6.5%	3.2%
Consumer Staples	-7.4%	6.7%
Health Care	-10.1%	14.4%
Industrials	-13.3%	7.9%
Financials	-15.2%	11.0%
S&P 500	***-17.2%***	-
Materials	-17.4%	2.5%
Real Estate	-20.8%	2.8%
Consumer Discretionary	-22.1%	11.8%
Information Technology	-24.2%	26.8%
Communication Svcs.	-33.1%	8.2%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

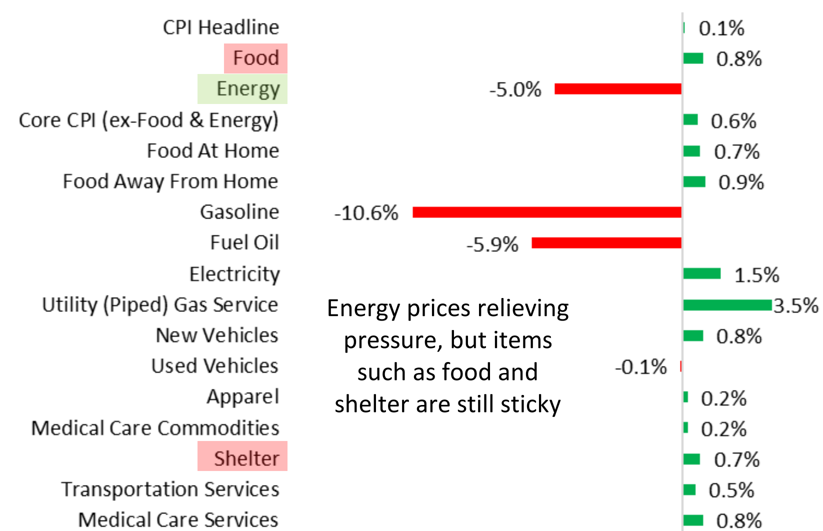
MACRO: US

August CPI grew just 0.1% m/m, bringing the y/y reading down to 8.3% from 8.5%. However, this was driven almost entirely by energy. Core CPI rose by 0.6% m/m, doubling the consensus expectation of 0.3% m/m growth. Within the report, food rose 0.8% m/m and shelter 0.7% m/m. The result was higher Fed expectations, higher bond yields, and lower equities. While CPI tells us what has happened, forward indicators continue to point to inflation pressures easing ahead. For example, August PPI showed food prices flat m/m. We expect inflation to moderate over the next year, but the path is unlikely to be quick or smooth. Expect volatility within the data- i.e. last month's July CPI report invigorated the *trading/hot money bulls* that were already celebrating the misinterpreted Fed message from the July meeting. It is unwise to over-emphasize one report (good or bad). Nonetheless, with the Fed educated by history (wanting to avoid 1970's stagflation), the August print supports staying tighter for longer to make sure inflation does not become embedded. Another 75bp hike is likely coming at next week's FOMC meeting, and higher rates than expected will increase the odds of economic weakness.



Event	Period	Actual	Consensus	Surprise	Prior
Wholesale Inventories SA M/M (Final)	JUL	0.60%	0.80%	-0.20%	0.80%
NFIB Small Business Index	AUG	91.8	-	-	89.9
CPI ex-Food & Energy SA M/M	AUG	0.60%	0.35%	0.25%	0.30%
CPI ex-Food & Energy NSA Y/Y	AUG	6.3%	6.1%	0.20%	5.9%
CPI SA M/M	AUG	0.10%	-0.10%	0.20%	0.0%
CPI NSA Y/Y	AUG	8.3%	8.1%	0.20%	8.5%
Hourly Earnings SA M/M (Final)	AUG	0.30%	0.30%	-0.0%	0.30%
Hourly Earnings Y/Y (Final)	AUG	5.2%	5.2%	0.0%	5.2%
PPI ex-Food & Energy SA M/M	AUG	0.40%	0.30%	0.10%	0.30%
PPI ex-Food & Energy NSA Y/Y	AUG	7.3%	7.1%	0.16%	7.7%
PPI SA M/M	AUG	-0.10%	-0.10%	0.0%	-0.40%
PPI NSA Y/Y	AUG	8.7%	8.9%	-0.18%	9.8%
Continuing Jobless Claims SA	09/03	1,403K	1,480K	-77.0K	1,401K
Export Price Index NSA M/M	AUG	-1.6%	-0.75%	-0.85%	-3.7%
Import Price Index NSA M/M	AUG	-1.0%	-1.2%	0.20%	-1.5%
Initial Claims SA	09/10	213.0K	225.0K	-12.0K	218.0K
Empire State Index SA	SEP	-1.5	-15.0	13.5	-31.3
Philadelphia Fed Index SA	SEP	-9.9	3.3	-13.2	6.2
Retail sales ControlGroup M/M	AUG	-0.0%	0.60%	-0.60%	0.41%
Retail sales Ex AutoFuel M/M	AUG	0.29%	0.65%	-0.36%	0.27%
Retail Sales ex-Auto SA M/M	AUG	-0.30%	0.10%	-0.40%	0.0%
Retail Sales SA M/M	AUG	0.30%	0.0%	0.30%	-0.40%
Capacity Utilization NSA	AUG	80.0%	80.3%	-0.30%	80.2%
Industrial Production SA M/M	AUG	-0.20%	0.20%	-0.40%	0.50%
Business Inventories SA M/M	JUL	0.60%	0.65%	-0.05%	1.4%

CPI % M/M Breakdown - August



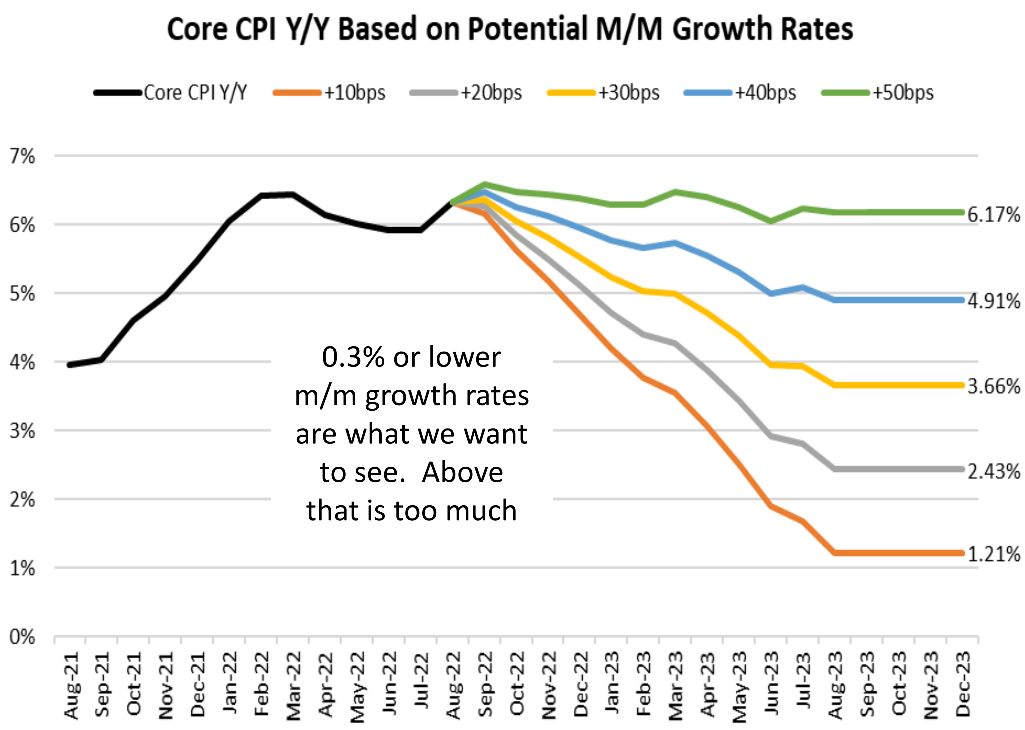
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INFLATION

The path to inflation normalization post-pandemic is expected to be choppy. The data will continue to be volatile and so will the markets. We believe that inflation will moderate as the supply of goods and workers normalize, but the timing and absolute level is unknown. Over the past year, core CPI has generally grown in a monthly range between 0.3-0.6%- and this is too high. In order to bring core CPI y/y to a level that the Fed can be more comfortable with, the growth rate needs to start moving below a 0.3% m/m trajectory. As you can see in the chart and table below, the more elevated m/m readings we receive (i.e. upper end of the past year's range, such as this week's 0.6%), the more difficult it becomes for inflation to drop to a more reasonable level. On the other hand, 0.3% m/m growth rates or lower put the path on a better trajectory for investors. Moreover, while inflation may not ultimately reach the Fed's desired 2% goal by the end of next year, the equity market may well be headed higher if inflation is trending down in convincing fashion based on the discounting tendencies of the stock market (which we expect).

Core CPI Based on Potential M/M Growth Rates

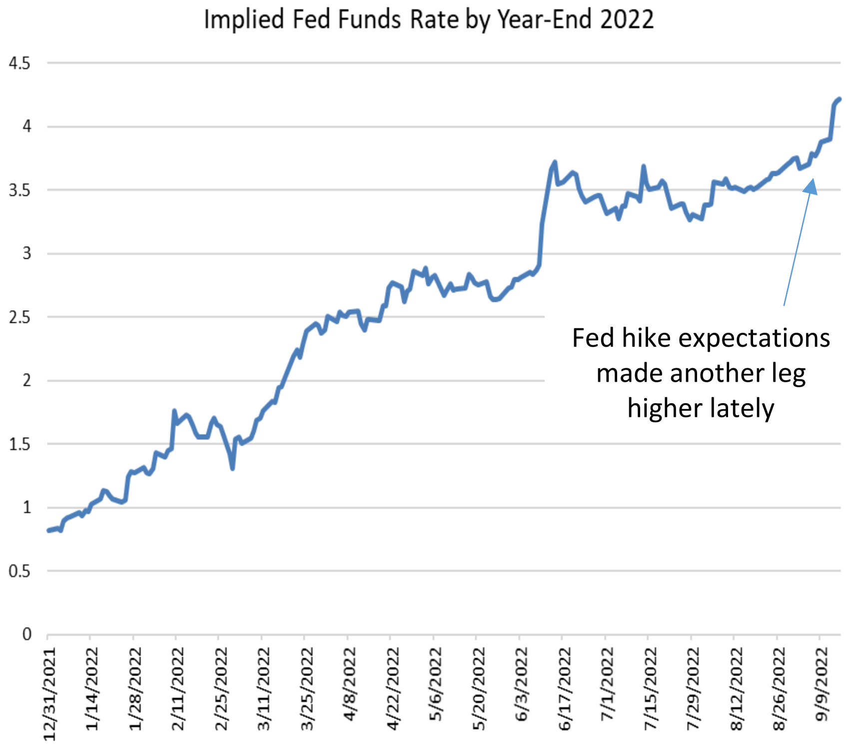
Date	+10bps	+20bps	+30bps	+40bps	+50bps
Dec-23	1.2%	2.4%	3.7%	4.9%	6.2%
Nov-23	1.2%	2.4%	3.7%	4.9%	6.2%
Oct-23	1.2%	2.4%	3.7%	4.9%	6.2%
Sep-23	1.2%	2.4%	3.7%	4.9%	6.2%
Aug-23	1.2%	2.4%	3.7%	4.9%	6.2%
Jul-23	1.7%	2.8%	3.9%	5.1%	6.2%
Jun-23	1.9%	2.9%	3.9%	5.0%	6.0%
May-23	2.5%	3.4%	4.4%	5.3%	6.3%
Apr-23	3.1%	3.9%	4.7%	5.6%	6.4%
Mar-23	3.5%	4.3%	5.0%	5.7%	6.5%
Feb-23	3.8%	4.4%	5.0%	5.7%	6.3%
Jan-23	4.2%	4.7%	5.2%	5.8%	6.3%
Dec-22	4.7%	5.1%	5.5%	6.0%	6.4%
Nov-22	5.2%	5.5%	5.8%	6.1%	6.4%
Oct-22	5.6%	5.8%	6.0%	6.3%	6.5%
Sep-22	6.2%	6.3%	6.4%	6.5%	6.6%
Aug-22	**6.3%**	**6.3%**	**6.3%**	**6.3%**	**6.3%**

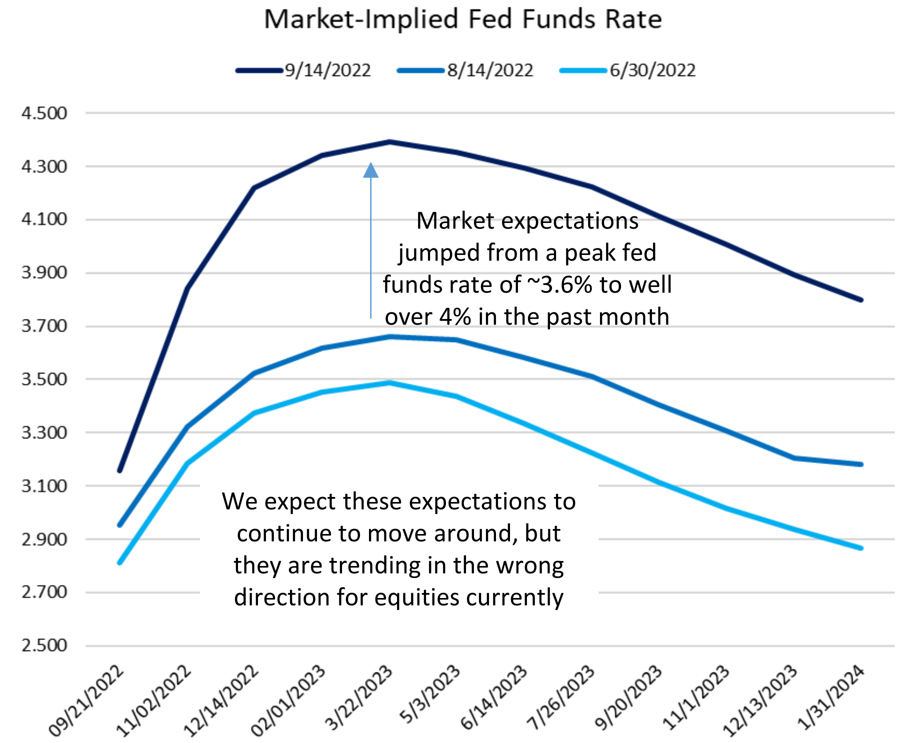


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FED EXPECTATIONS

Continuous hiccups in the potential for inflation improvement over the past year- i.e. Omicron variant, Russia/Ukraine war, and China lockdowns- have resulted in stubbornly high inflation. The Fed cannot improve supply challenges, but they can impact demand in the form of monetary tightening if supply cannot meet demand. We see many indicators leading to inflation moderating ahead; but the stickier inflation remains, the further the Fed will need to tighten. As you can see in the charts below, the implied Fed funds rate has risen dramatically this year and is now above 4% expectations for year-end. There has also been a sharp re-pricing in Fed expectations over the past month with the shape of Fed policy becoming much higher (and holding there for longer). While this should put downward pressure on inflationary pressures, it will also increase the probability of recession. A risk for the market is that the likelihood of recession may not be fully reflected in stock prices, but also keep in mind that Fed funds expectations can change very rapidly. Nonetheless, stocks will struggle to register sustainable upside as long as Fed expectations continue to increase (coming with it, higher recession risk).

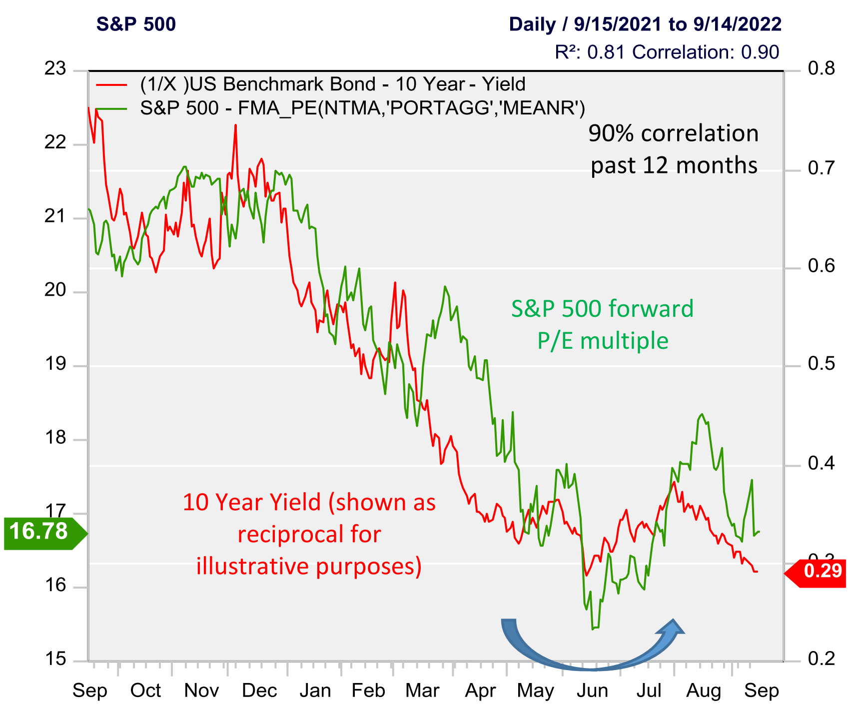


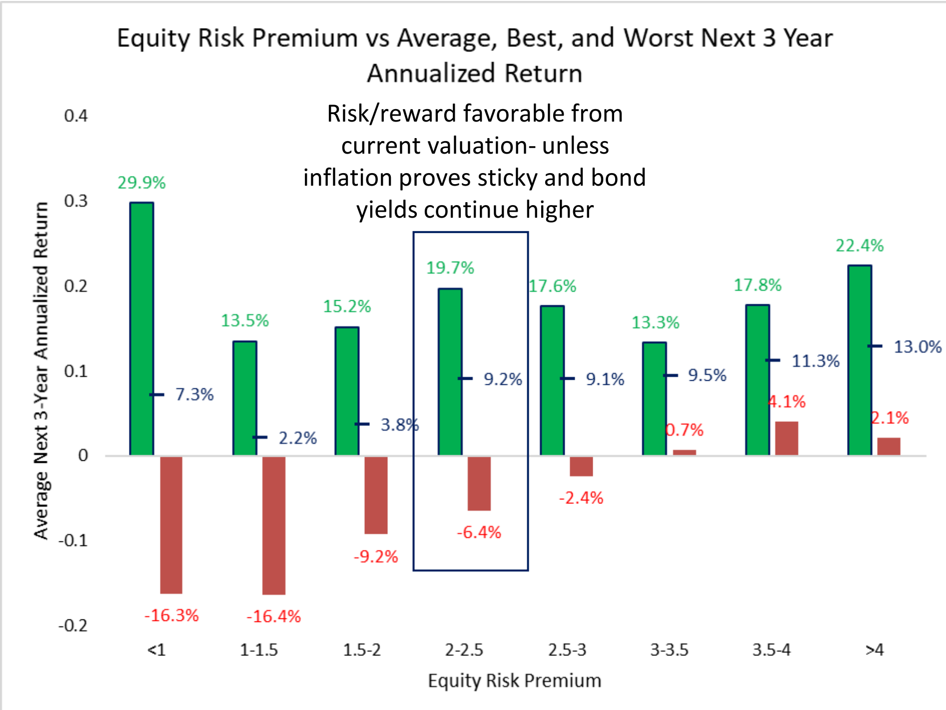


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

BOND YIELDS AND VALUATION

Higher Fed expectations are putting upward pressure on bond yields- which in turn are weighing on equity market valuation. There has been a strong inverse correlation between the US 10 year Treasury yield and S&P 500 P/E over the past year, and the 10-year yield has moved back near highs at 3.5% on the August CPI reading. The market remains data-dependent, and volatile data is likely to result in volatile stocks. With the hot hedge fund money flip-flopping with every data point, the long-term investor risks getting pulled into the fray with this group that has a totally different agenda and time horizon. We are comfortable with the belief that inflation will moderate, but the timing and degree are uncertain. Despite all of the uncertainty, the issues are known; and with stocks down 24% at the low, the odds are high that the long-term investor has likely seen the majority of this bear market decline. We feel the odds are low for a 2001 or 2008 50%+ decline with inflation likely to moderate and with the economy in a good place (even if forced into a recession). Consumer debt levels are modest relative to income, we do not see widespread excesses on corporate balance sheets, banks are very well-capitalized, and the jobs market is healthy. If inflation does begin to moderate in convincing fashion, stocks offer an attractive risk vs. reward from current valuations for the long-term investor.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

The S&P 500 is retesting support at ~3900 in the aftermath of the August CPI reading. Sharp weakness, along with a very weak bounce attempt following the 4% down-day, increase the odds that this level fails to hold.

Absent a data point to remove the focus on the hot CPI report, we expect the market to under-cut 3900. If it fails and if stocks don't quickly rebound (days), expect a test of the mid-3700's and possibly a formidable test of the June lows.

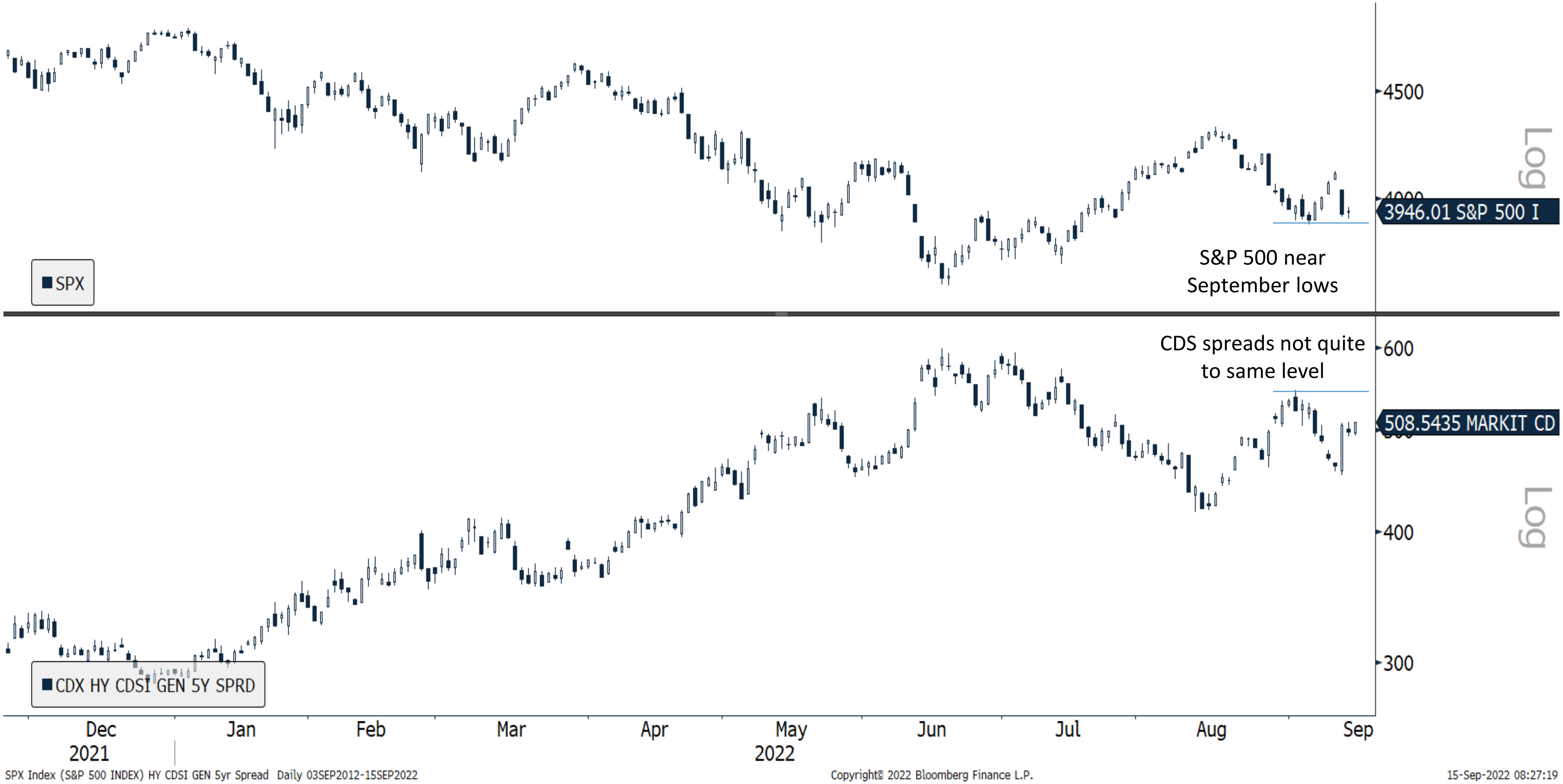
Don't fret- retests of market lows happen more often than they do not. Since the credit crisis, the presence of loose monetary policy efforts allowed equities to not follow the typical-retest tendency. A retest does not necessarily mean that stocks go to the low, it simply means they go through a meaningful draw-down (like now) that seems to break the new up-trend.

Even if the mid-June lows are eventually undercut, we do not feel the environment is such that a 2001 or 2008 for equities is in the cards. Our base case expectation is still that the market is in a bottoming process, supported by our view on inflation moderating ahead. However, we believe the overall trend is also likely to struggle because of Fed tightening and inflation improvement taking time.

The market was down 24% at the low vs. 33% average decline in recessionary bear markets. Most of the price damage is in… even if it takes a while for the market to put together a sustained-up move.

CREDIT SPREADS

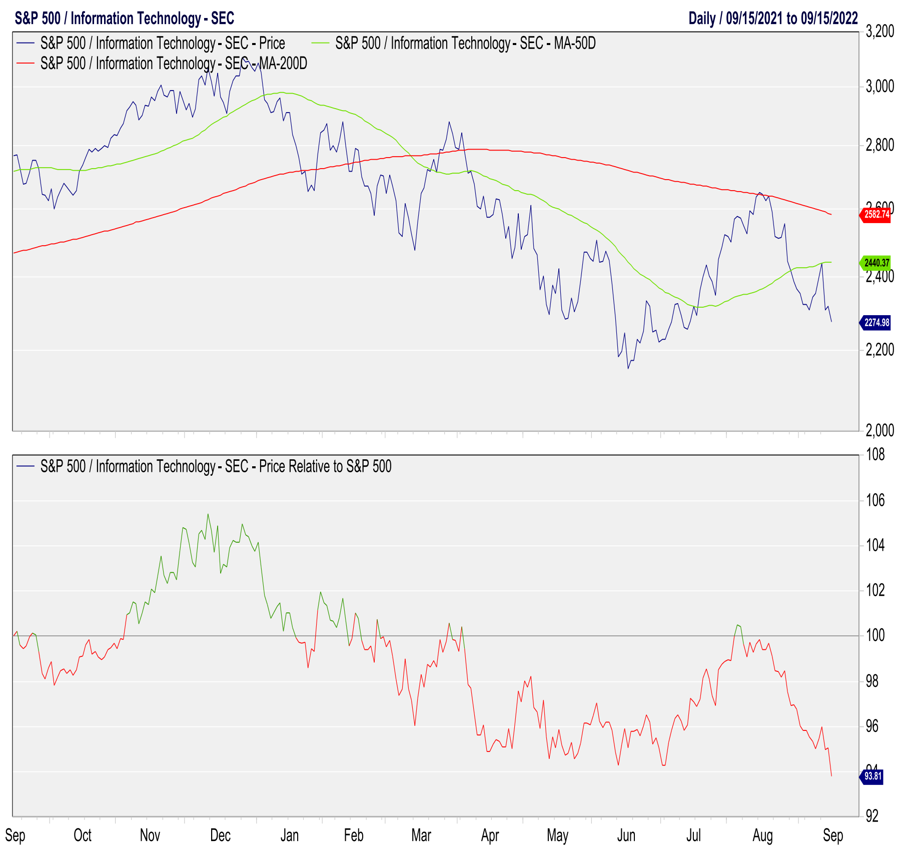
We have been keeping a watchful eye on credit spreads in the market's fluctuations, due to its significance as a market indicator over the course of this year. And we see a slight positive divergence in the recent weakness. For example, while the S&P 500 has pulled back to its early September lows, high yield credit default swaps have not quite moved to their September highs. The relatively calm response from credit spreads for now adds some underlying support to the market's reaction this week.

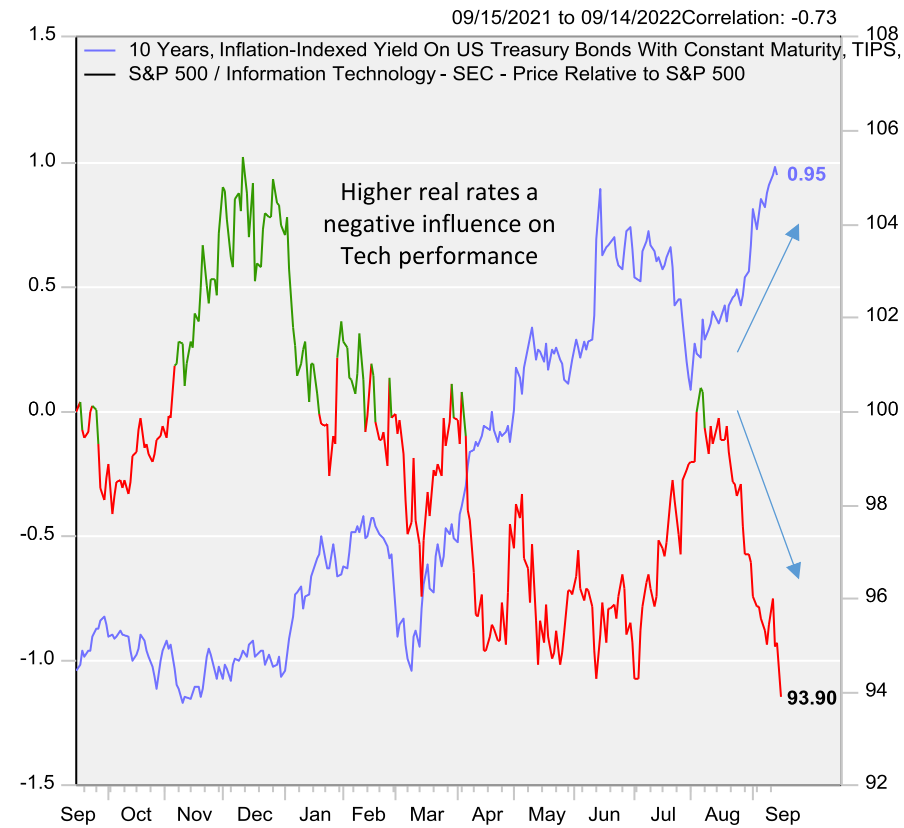


Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

REAL YIELDS AND TECH

The push higher in real rates (inflation-adjusted yields, i.e. 10-year TIPS yield) has been an inverse influence on Technology performance. This is due to long-term cash flow estimates being discounted back at higher rates, resulting in a lower valuation. Higher real rates also reflect tighter policy which is a macro headwind (and potentially recession-producing). Accordingly, the recent rise in real rates to new highs (on the 10-year TIPS yield) has corresponded with Tech relative performance pushing to new lows. As long as real rates continue higher, they will remain a headwind for Technology stocks in our view. And given Tech's size within the market, higher real rates will also be a headwind for the overall market.

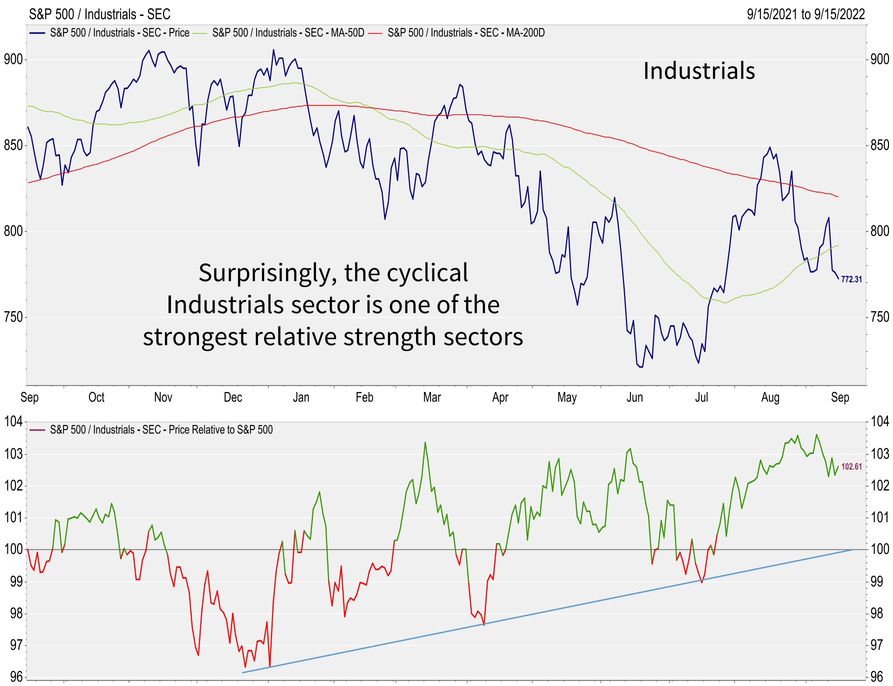


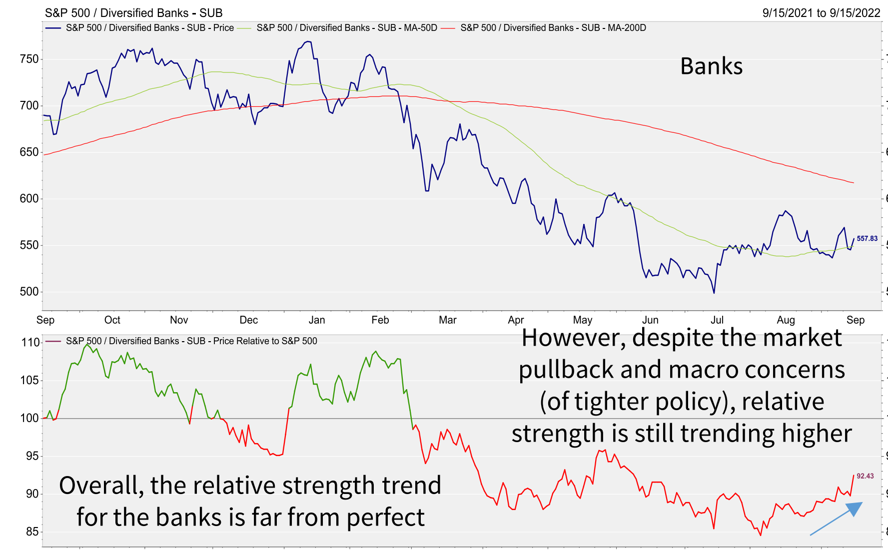


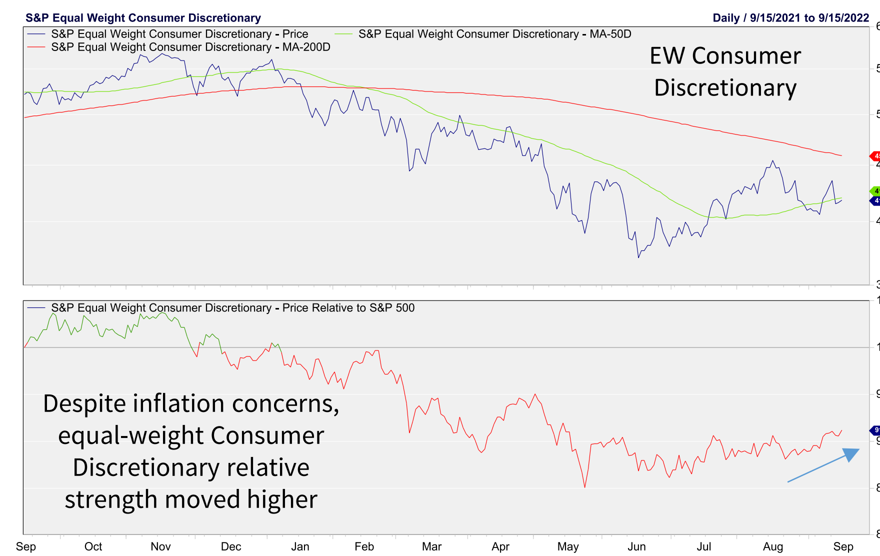
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

LEADERSHIP- POSITIVE DIVERGENCES

The cyclical Industrials, Banks, and Equal-Weight Consumer Discretionary sectors have been surprisingly strong lately and not trading as if a recession is lurking. For all of the inflation fears this week, the average Consumer Discretionary stock actually traded to its highest relative performance level in several months. The banks and consumer discretion are not among the market leaders overall yet, but improving relative strength is a positive divergence that should be noted. This performance is either signaling the macro-environment may not be as bad as feared or that the stocks have already discounted it. We will continue to monitor their performance, as the situation remains very fluid.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-9292)

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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.

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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.

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