Michael Gibbs, Director of Equity Portfolio & Technical Strategy | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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Weekly Market Guide

The eagerly-anticipated September inflation report was a disappointment. Core CPI rose 0.6% m/m (above the 0.4% consensus estimate), taking the y/y reading up to a new high of 6.6%. Shelter rose another 0.7% m/m and food 0.8% m/m. The bottom line is this report will keep the Fed hawkish. A 75bp hike in November is all but certain, and increases the likelihood of an additional 75bp hike in December.

Inflation remains the primary influence on equity markets. The longer it remains sticky, the more pressure it puts on the US consumer and Fed. We remain encouraged by the soft, survey-based economic data indicating that inflation should moderate over the next year. For example, this week's NFIB Small Business survey showed a continued decline in both price plans and compensation plans (in the next 3 months). However, investors are still waiting on the leading indicators of inflation to show up in the hard, actual data. It will be difficult for equities to sustain upside without convincing improvement in inflation. We believe that inflation is set to moderate over the next year, but the timing and degree of improvement in the shorter-term are likely to keep equities volatile.

It is important to keep the current market weakness in perspective. Recessionary bear markets decline 33% over 13 months on average- but the S&P 500 is down 25% over 9 months already. Fed tightening will work with a lag on the economy- we expect weaker economic growth and earnings growth ahead. But we do not expect a deep recessionary bear market like 2002 (dotcom bubble) and 2008 (financial crisis). Banks are well-capitalized, Tech fundamentals are real, and supply has been hard-pressed to meet demand this cycle. As such, we do not see widespread excess on corporate and consumer balance sheets. Because of this (accompanied by our expected improvement in inflation), we believe this recessionary bear market to be more of the mild, average variety. The current weak trend could certainly persist for the next several months with additional downside, but the majority of this bear market is likely behind us at this point.

Technically, the S&P 500 is bouncing strongly from support in the low 3500s today (~16x P/E), which will be the initial area to watch in the short-term. Below this, the next area of key support is 3394 which was the pre-Covid highs- interesting to think that the market may completely round-trip performance since Covid (surging higher on enormous stimulus and now declining as the Fed takes it away). In a worst case scenario, we could see the S&P 500 move all the way to 3000-3200 (in line with the average -33% recessionary bear market decline historically and a 14x P/E). But the market is oversold enough to bounce at any point. Another key catalyst at the individual stock level is Q3 earnings season (beginning tomorrow with the banks). We expect dampened guidance, but it will be interesting to see the market reactions (as a gauge on how much negativity is already built in).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-19.6%	-15.0%
S&P 500	-24.9%	-17.8%
S&P 500 (Equal-Weight)	-21.3%	-15.9%
NASDAQ Composite	-33.4%	-28.0%
Russell 2000	-24.8%	-24.5%
MSCI All-Cap World	-27.1%	-22.8%
MSCI Developed Markets	-29.5%	-27.3%
MSCI Emerging Markets	-29.8%	-31.0%
NYSE Alerian MLP	16.6%	7.8%
MSCI U.S. REIT	-32.5%	-24.4%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	45.7%	5.2%
Consumer Staples	-12.4%	7.0%
Health Care	-13.5%	15.2%
Utilities	-14.1%	3.0%
Industrials	-19.9%	8.0%
Financials	-22.6%	11.0%
Materials	-24.3%	2.5%
S&P 500	***-24.9%***	-
Consumer Discretionary	-31.9%	11.5%
Information Technology	-33.2%	25.9%
Real Estate	-34.4%	2.6%
Communication Svcs.	-39.8%	8.0%

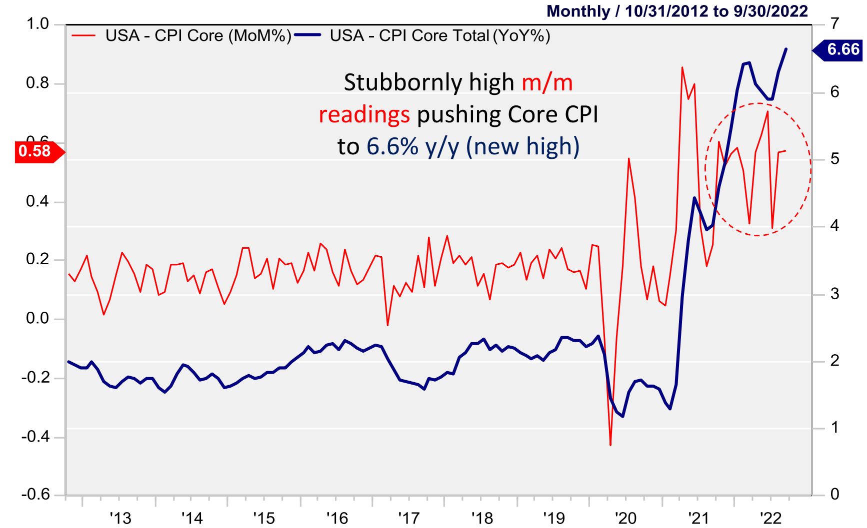
Source: FactSet, RJ Equity Portfolio & Technical Strategy

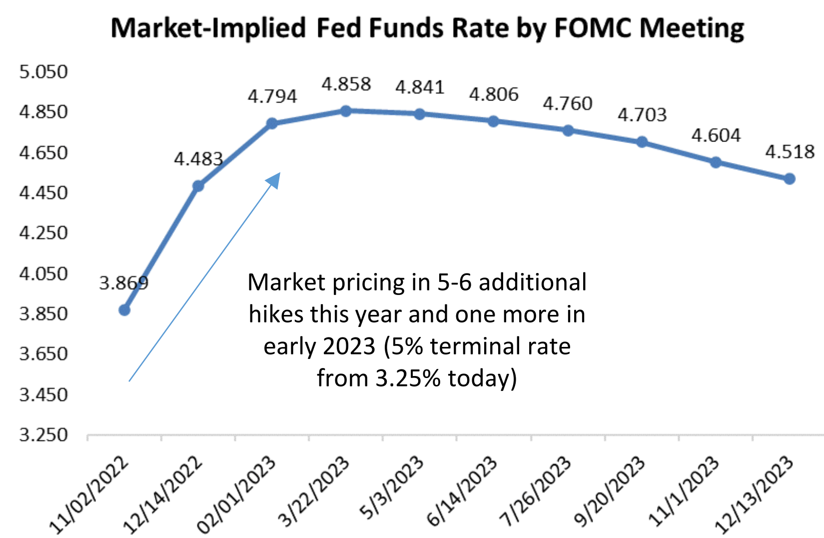
MACRO: US

The eagerly-anticipated September inflation report was a disappointment. Core CPI rose 0.6% m/m (above the 0.4% consensus estimate), taking the y/y reading up to a new high of 6.6%. Shelter rose another 0.7% m/m and food 0.8% m/m. The bottom line is this report will keep the Fed hawkish.

Fed expectations have increased to new highs in the aftermath of the report with the terminal rate approaching 5% (vs 4.5% previously). A 75bp hike in November is all but certain, and there is increased likelihood of an additional 75bp hike in December. The market is pricing in 5-6 additional 25bp hikes this year with one more in early 2023. We believe the Fed will be successful in bringing inflation to a more reasonable level over time, but its tool to do so- tighter monetary policy- is also likely to put the economy into recession.

Event	Period	Actual	Consensus	Surprise	Prior
Hourly Earnings SA M/M (Preliminary)	SEP	0.30%	0.35%	-0.05%	0.28%
Hourly Earnings Y/Y (Preliminary)	SEP	5.0%	5.1%	-0.10%	5.2%
Nonfarm Payrolls SA	SEP	263.0K	250.0K	13.0K	315.0K
Unemployment Rate	SEP	3.5%	3.7%	-0.20%	3.7%
Wholesale Inventories SA M/M (Final)	AUG	1.3%	1.3%	0.0%	1.3%
Consumer Credit SA	AUG	$32.2B	$25.0B	$7.2B	$26.1B
NFIB Small Business Index	SEP	92.1	-	-	91.8
PPI ex-Food & Energy SA M/M	SEP	0.30%	0.30%	-0.0%	0.30%
PPI ex-Food & Energy NSA Y/Y	SEP	7.2%	7.2%	0.05%	7.2%
PPI SA M/M	SEP	0.40%	0.10%	0.30%	-0.20%
PPI NSA Y/Y	SEP	8.5%	8.4%	0.15%	8.7%
CPI ex-Food & Energy SA M/M	SEP	0.60%	0.40%	0.20%	0.60%
CPI ex-Food & Energy NSA Y/Y	SEP	6.6%	6.5%	0.10%	6.3%
Continuing Jobless Claims SA	10/01	1,368K	1,380K	-12.0K	1,365K
CPI SA M/M	SEP	0.40%	0.20%	0.20%	0.10%
CPI NSA Y/Y	SEP	8.2%	8.1%	0.10%	8.3%
Initial Claims SA	10/08	228.0K	225.0K	3.0K	219.0K
Treasury Budget NSA	SEP	-	-$177.0B	-	-$219.6B

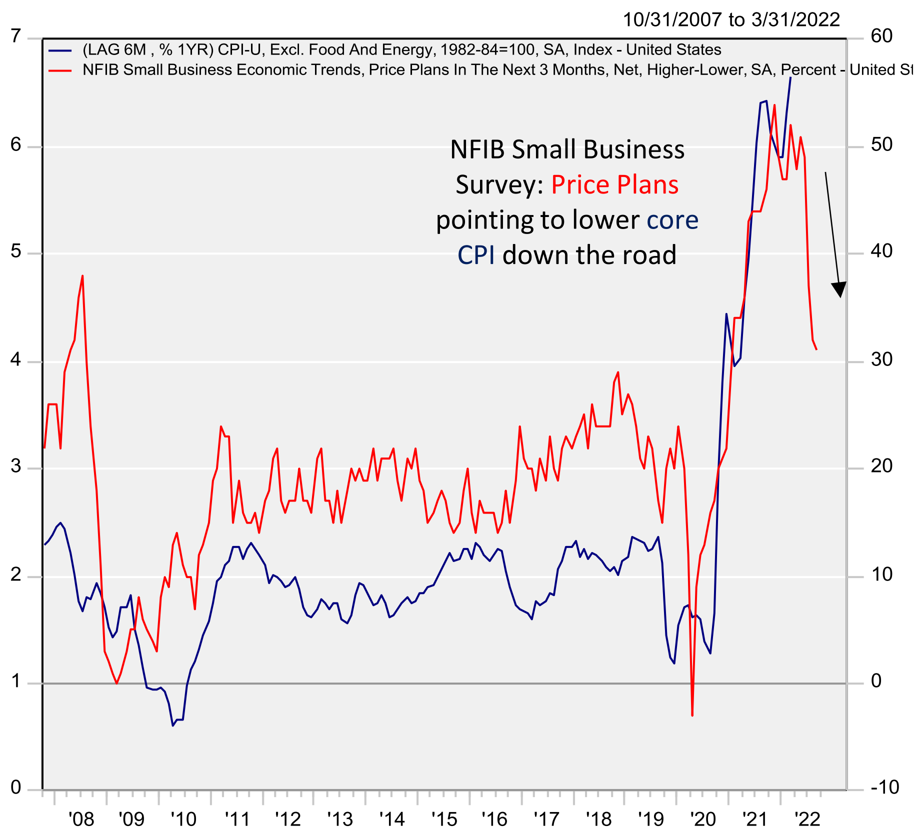


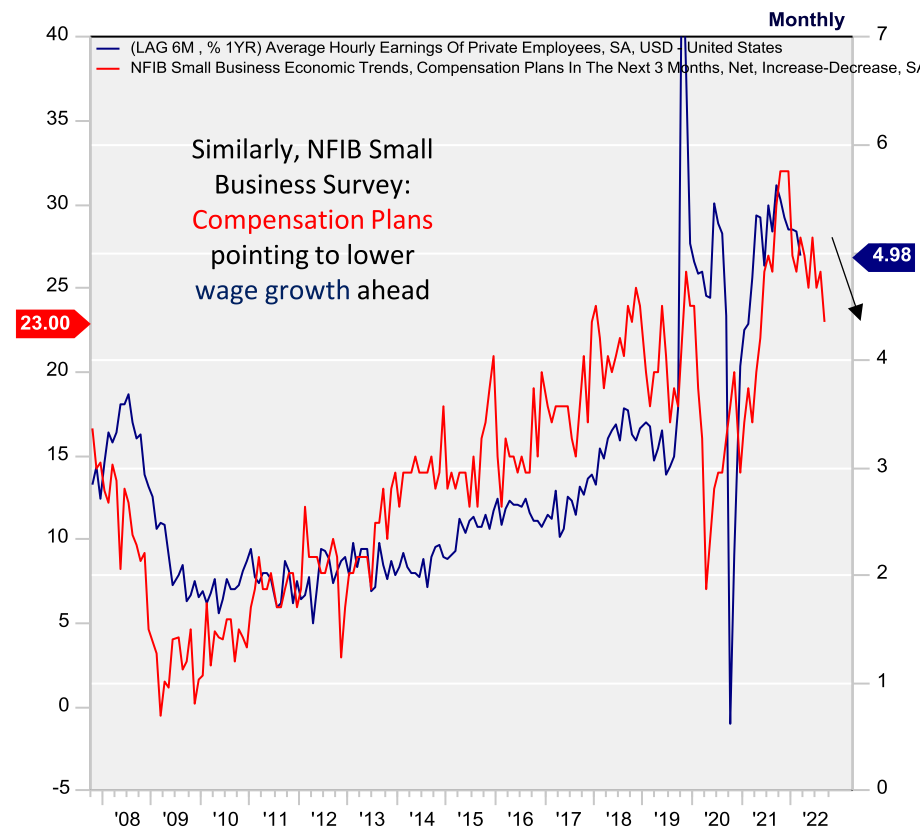


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

SURVEY-BASED INFLATIONARY DATA SHOWING IMPROVEMENT

While sticky CPI continues to put pressure on the US consumer and Fed, we remain encouraged by the soft, survey-based economic data indicating that inflation should moderate over time. For example, this week's NFIB Small Business survey showed a continued decline in both Price Plans and Compensation Plans (in the next 3 months). This supports our view that inflation is set to moderate over the next year, but the timing and degree of improvement in the shorter-term are likely to keep equities volatile- as investors are still waiting on the leading indicators of inflation to show up in the hard, actual data. Without convincing improvement in inflation, it will be difficult for equities to sustain upside due to its impact on the economy and Fed policy.



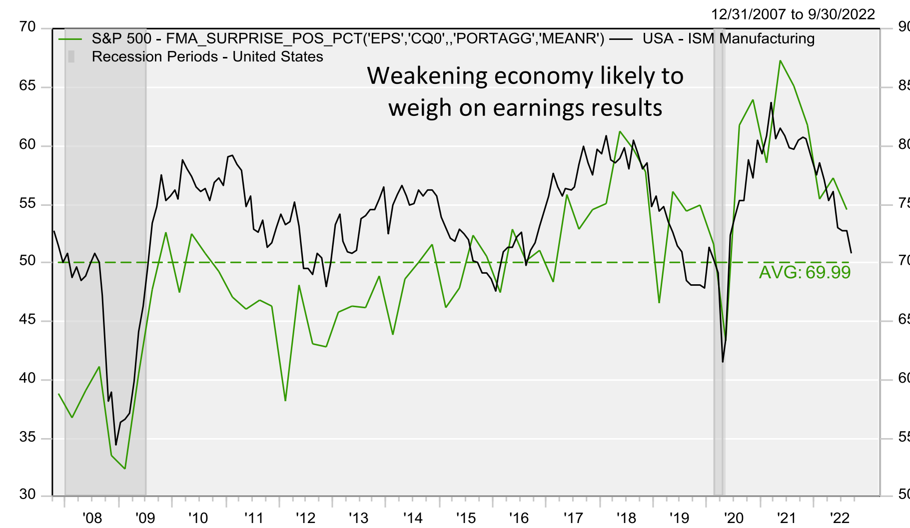


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

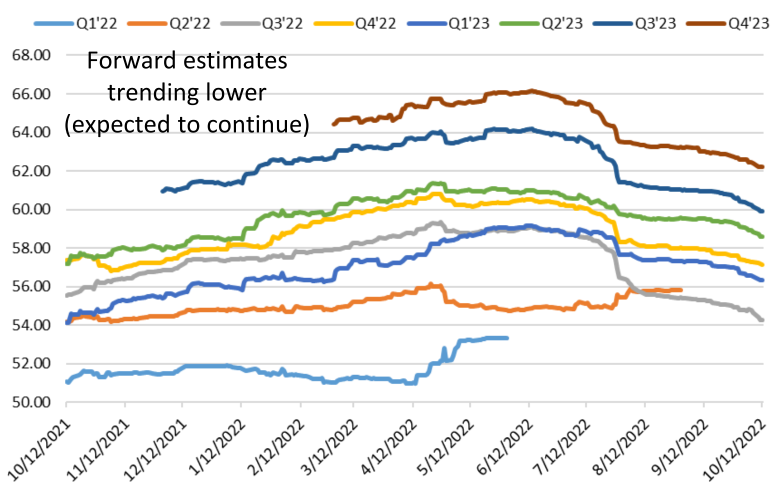
FUNDAMENTALS

Q3 earnings season unofficially kicks off tomorrow morning with the big banks. S&P 500 earnings estimates have been moving decidedly lower since June (-7.7% Q3 estimate revision since 6/30) with the average stock's estimate revision even worse than the index. Energy trends have been the standout, followed by Real Estate and Utilities. On the flip side, Materials, Comm. Services, and Consumer Discretionary have seen estimates come under the most pressure over the past few months. For the S&P 500, Q3 earnings are expected to contract -2.8% q/q (+2.2% y/y).

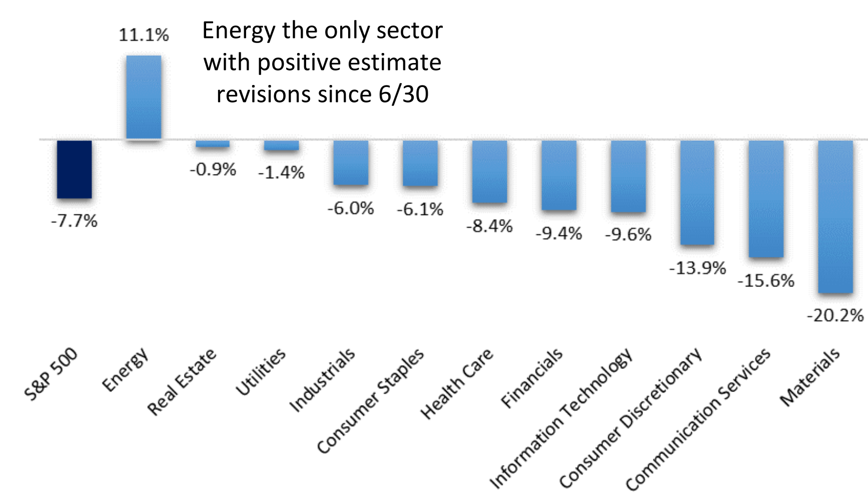
The weakening economic environment is likely to result in lower beat rates and surprises than investors have been accustomed to over the past couple years. 48% of the "early reporters" are beating estimates for an aggregate surprise of -7.1% (vs 15-year averages of 70% and +5.4%). We expect companies to dampen guidance and analysts to cut forward estimates throughout the quarter. However, we are interested to evaluate the market's reaction- as a gauge on how much negativity is already built into stock prices.



Quarterly Earnings Estimates



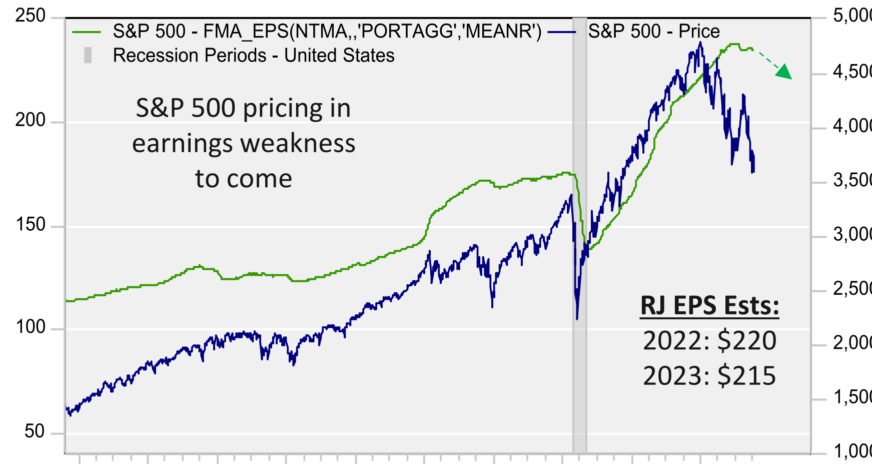
Q3'22 EPS Revisions since 6/30



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUATION

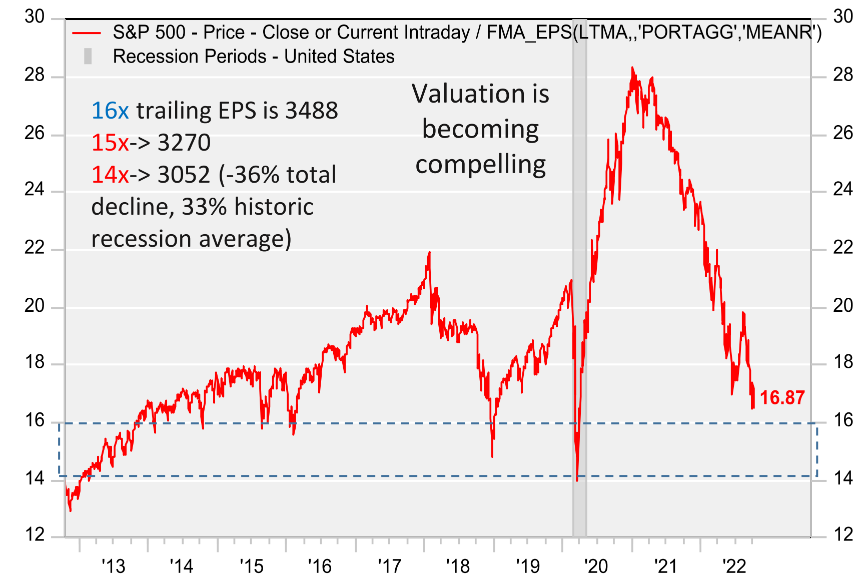
We expect slower economic and earnings growth ahead, as Fed tightening works with a lag on the economy. However, with the S&P 500 already down 25% from its highs, the question is how much bad news is already priced in- and we believe a lot already has been. The S&P 500 P/E has already contracted 40% (from 28x peak P/E to 16.5x). This is in line with large multiple compression experienced in the dotcom bubble (45%) and credit crisis (43%). Additionally, the S&P 500 P/E multiple has bottomed in the 14-16x P/E range over the past decade (14x in Covid shutdown, 15x trade war, 16x US manufacturing recession). We believe 14x represents a worst case scenario, and would be consistent with ~3000 on the S&P 500. Additionally, we believe stocks can rise over the next year despite lower earnings, due to higher P/E multiples as investors price in the inevitable recovery (stocks discount the future). For example- On average, the S&P 500 P/E has expanded 75% from market bottom to EPS trough out of recessions- the market will bottom well ahead of the economy and earnings. While valuation is not a great short-term timing indicator, we do believe the long-term risk/reward is favorable from current prices. There are plenty of high quality companies trading at their lowest valuations in a long time.



Recessionary Bear Markets

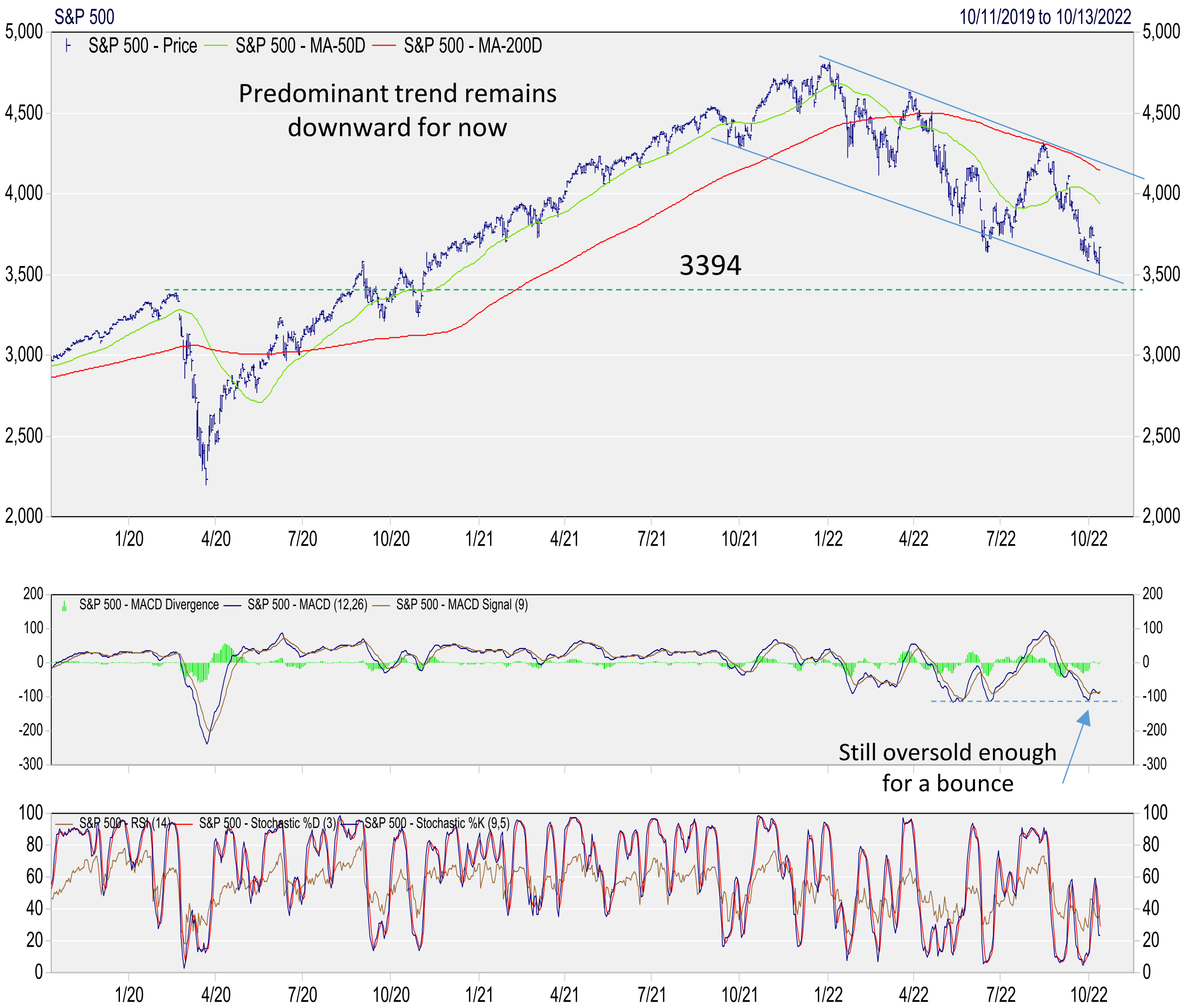
Market Top	Market Bottom	P/E Chg from Mkt Bottom to EPS Trough
Jul-57	Oct-57	87%
Jan-60	Oct-60	41%
Nov-68	May-70	51%
Jan-73	Oct-74	81%
Feb-80	Apr-80	40%
Nov-80	Aug-82	93%
Jul-90	Oct-90	107%
Mar-00	Oct-02	64%
Oct-07	Mar-09	95%
Feb-20	Mar-20	95%
Average		***75%***

S&P 500 P/E multiples expand significantly by the time earnings bottom in recessions- ***the market will bottom well ahead of the economy and earnings***.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



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Technically, the S&P 500 is bouncing strongly from support in the low 3500s today (~16x P/E), which will be the initial area to watch in the short-term.

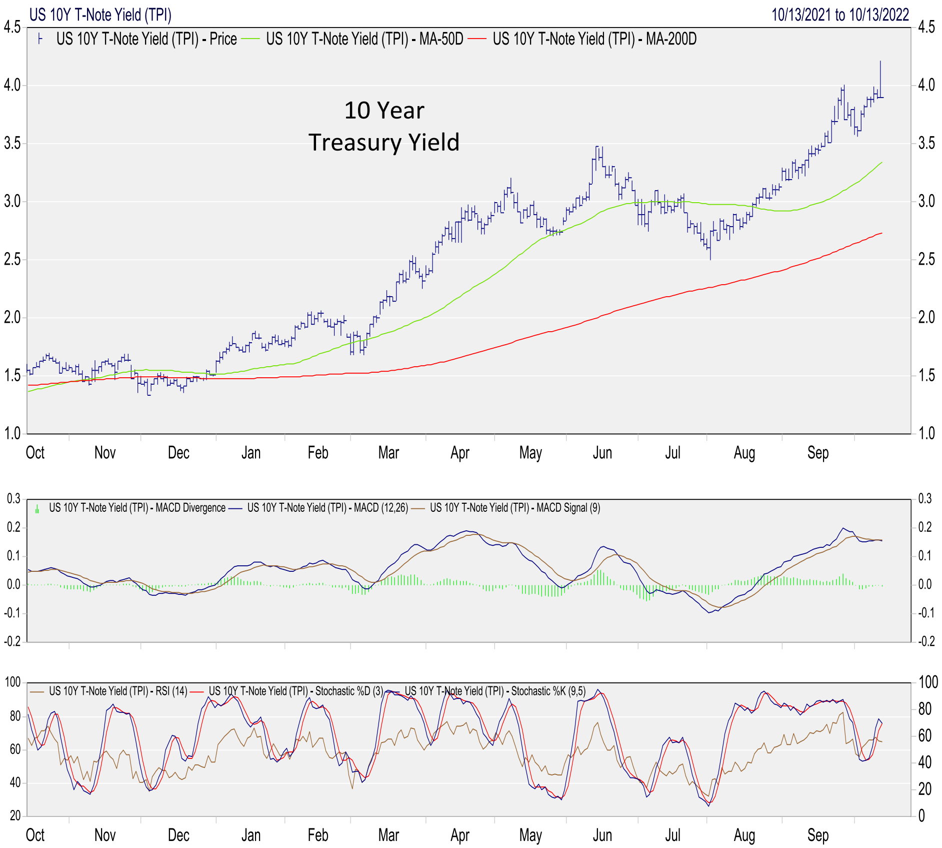
Below this, the next area of key support is 3394 which was the pre-Covid highs- interesting to think that the market may completely round-trip performance since Covid (surging higher on enormous stimulus and now declining as the Fed takes it away).

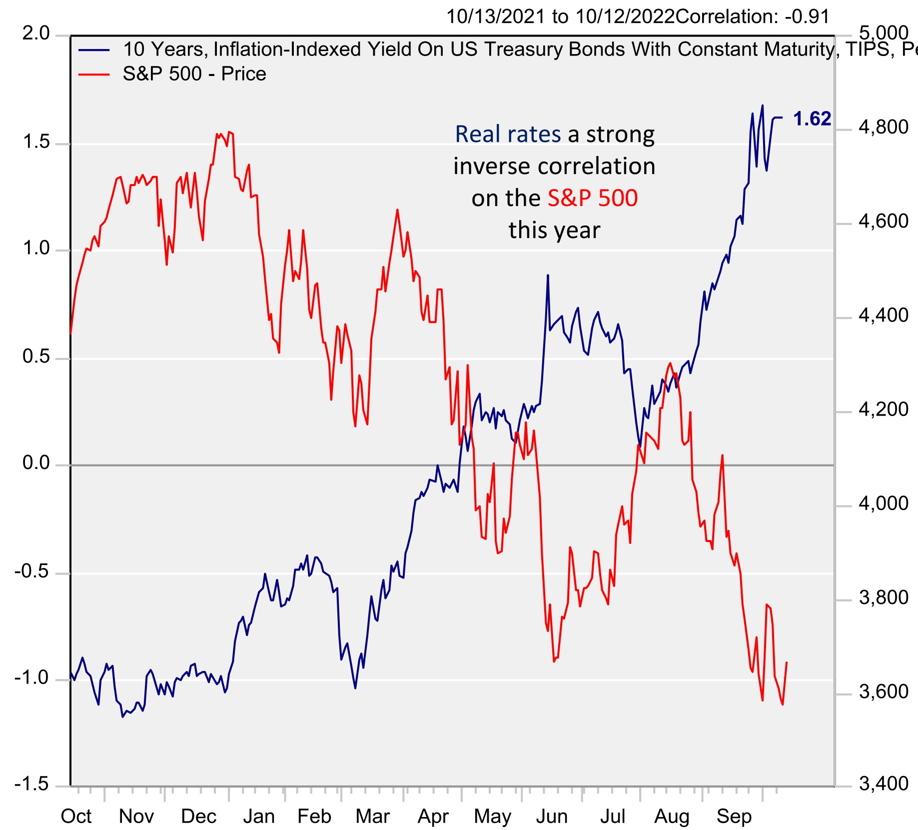
In a worst case scenario, we could see the S&P 500 move all the way to 3000-3200 (in line with the average -33% recessionary bear market decline historically and a 14x P/E). But the market is oversold enough to bounce at any point.

Until investors can gain convincing evidence that inflation is indeed heading lower, we believe it will be difficult for equities to sustain upside. The current weak trend could certainly persist for the next several months with additional downside on volatile inflationary data, but the majority of this bear market is likely behind us at this point.

BOND YIELDS

The US 10-year Treasury yield shot above 4% this morning in the initial aftermath of the September CPI report- hitting 4.07% (new high) before falling back to 3.94% by the close. This reversal is likely a key reason for equities rebounding from losses earlier today. Real rates (inflation-adjusted bond yields) have held a strong inverse correlation with the S&P 500 this year. And as they hold at elevated levels, the S&P 500 is holding its lows so far. We expect inflation to moderate and bond yields to subside over the next year (supporting upside in equities), however questions over the timing and degree of improvement in the shorter-term may keep equities volatile for now.





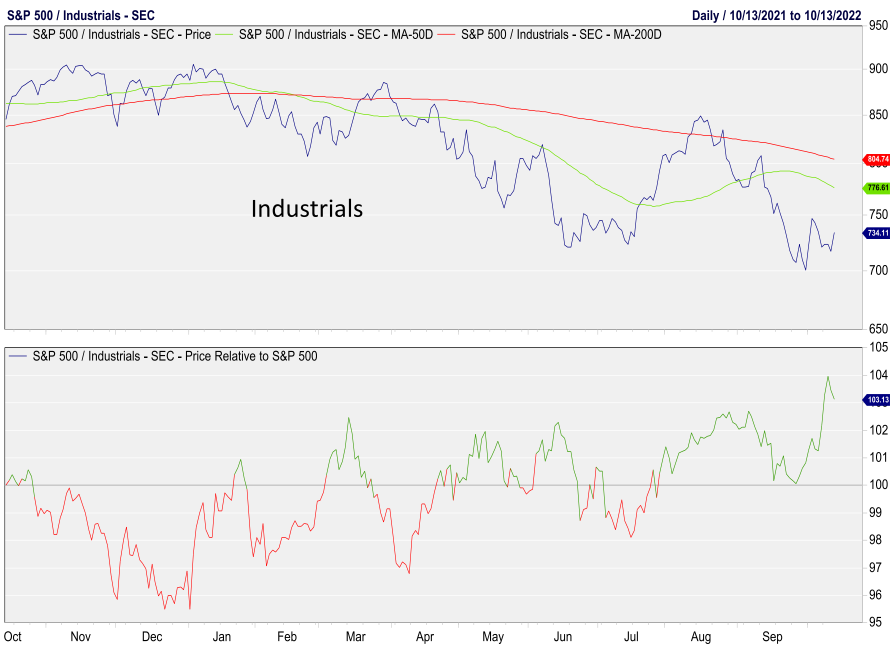
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

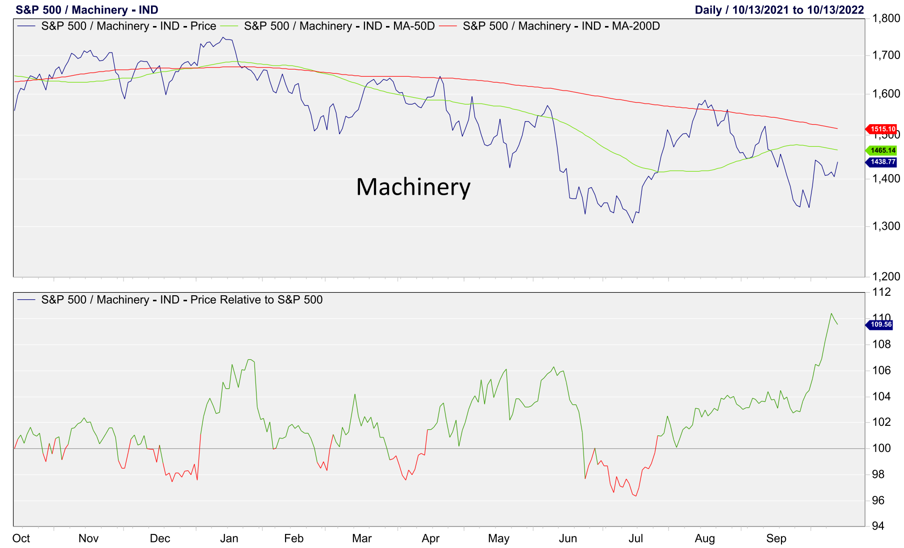
INDUSTRIALS

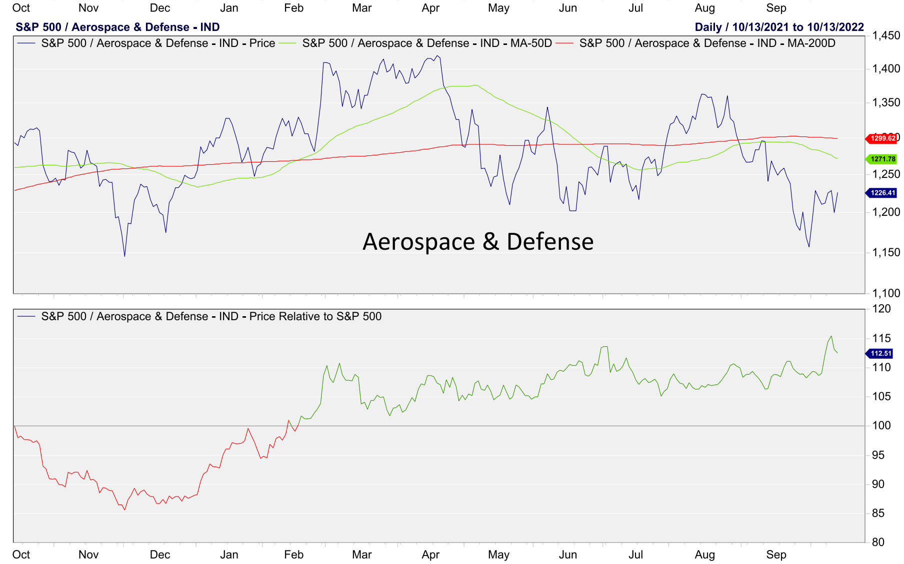
Industrials relative strength broke out to new highs- begging the question what is this telling us about the economy?

The standouts are Aerospace & Defense and Machinery- making up 42% of the entire sector. Aerospace & Defense is obvious- geopolitical risk and a 0.69 beta. Machinery typically has a beta below 1, but the outperformance is also a combination of leverage to ag prices, onshoring capex, and EV exposure with the IRA bill passing. These would be our favored areas of Industrials to accumulate currently.

The rest of the cyclical sector is holding up ok but more middle of the road. So we would not put too much on sector read-throughs to the economy.



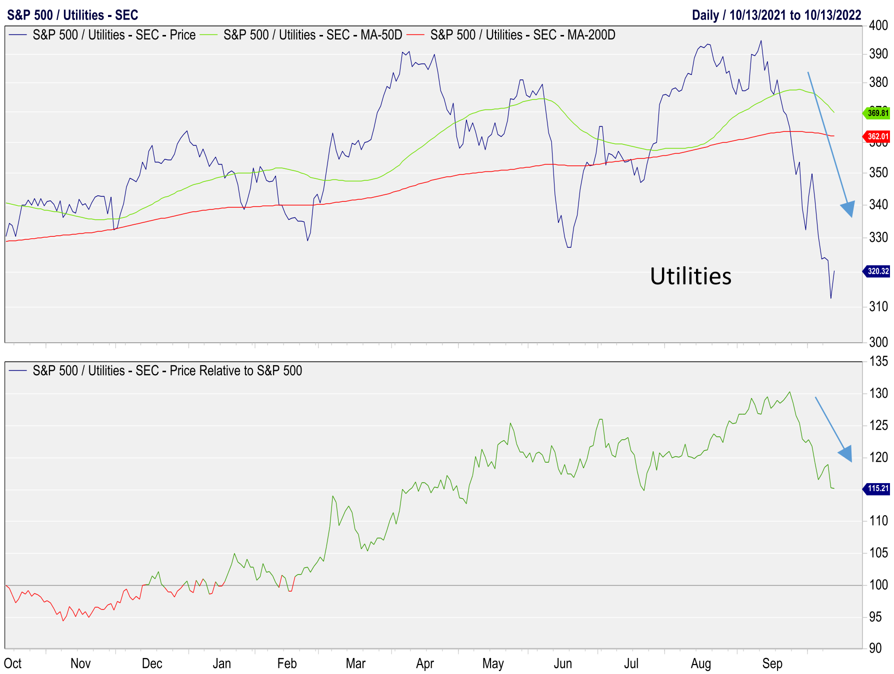


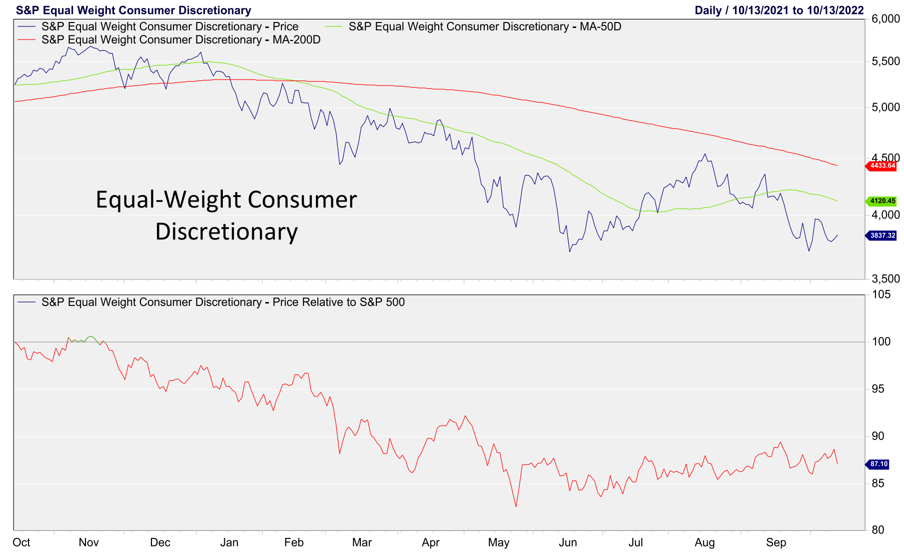


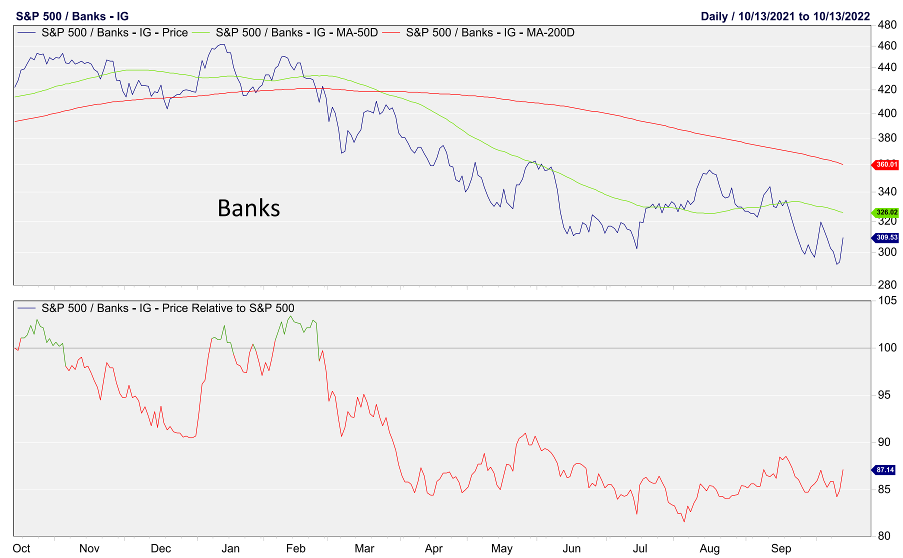
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

UNDERLYING PERFORMANCE

The defensive Utilities sector has continued to underperform lately, down 20% from its highs one month ago. This may be a function of the "market getting to them all," but it is also notable to see the most "defensive" sector underperforming in the recent weakness. Additionally, the average Consumer Discretionary stock's performance (which is very levered to high inflation and consumer spending) has held up relatively well, as has the cyclical banking sector. These are positive divergences. There are plenty of negatives within the market, but there are at least some underlying performance indicators holding up for now. Earnings season and economic data flow (particularly as it relates to inflation) will remain key influences ahead.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-23306)

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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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