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

JUNE 17, 2022 | 8:02 AM EDT

Weekly Market Guide

Short-Term Summary:

Inflation remains the primary driver of equity markets currently, and last week's hot CPI report resulted in a sharp -9% selloff over just four days- pushing the S&P 500 to new lows (and bear market territory). The longer inflation stays at stubbornly high levels, the more problematic it becomes for the economy and the Fed (as it attempts to bring inflation under control). Supply challenges, contributed greatly by the Russia/Ukraine war and China's zero-tolerance Covid policy, have made it hard for supply to improve toward demand. The Fed cannot help supply, but it can negatively impact demand through tighter monetary policy. The Committee elected to raise the fed funds rate by 75bps yesterday, taking its target range to 1.5-1.75% (matching consensus expectations). And in its commentary has attempted to gain more credibility- being hawkish but not too much, and tight but also flexible based on the data ahead. Ultimately, the trajectory of inflation moving forward will remain a significant influence on equity market trends. Unless the narrative changes in regard to Russia backing off or China ending lock-downs, it will be difficult for equities to sustainably move to the upside without better inflation data in our view.

Given our base case economic outlook of positive (albeit slower) economic growth and moderating inflation, we believe that equities will be higher than current prices over the next 12 months. However, the path of least resistance remains lower for equities in the shorter-term, and we do not expect inflation to rapidly improve overnight- leaving the Fed in tightening mode. Our favored area of potential downside continues to be the 3400-3600 area, as we see plenty of fundamental and technical justification for this level. The S&P 500 is currently trading at a 17.3x P/E, which is much cheaper than multiples witnessed in the post-Covid era and very reasonable historically. We note that severe draw-downs in the 2015/16 US manufacturing recession, 2018 trade war, and 2020 Covid shutdown found lows in the 14-16x P/E range. At 16x, the S&P 500 would trade at 3458 (interestingly, very near the pre-Covid peak) and would be -43% multiple compression (in line with that seen in the dotcom bubble and credit crisis). Additionally, 3648 represents the average -24% non-recessionary bear market decline historically. Technically, the S&P 500 200-week moving average has been a good level of support over the past decade in major market weakness- and is currently 3500.

Inflation remains the main variable to watch for market movements, and we expect investors to remain reactive to the data. If inflation can begin to improve, sharp upward pressure on bond yields is likely to abate- in turn, removing downward pressure on equity valuations. Once the dust settles on the current bear market, we believe that long-term investors will find compelling risk/reward from current valuations- it's more a matter of timing in the shorter-term (weeks-months). With this in mind, we recommend using the downdrafts as opportunity to accumulate high quality stocks with a long-term perspective.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-15.6%	-10.6%
S&P 500	-20.5%	-10.8%
S&P 500 (Equal-Weight)	-16.9%	-10.8%
NASDAQ Composite	-29.1%	-21.1%
Russell 2000	-22.9%	-25.4%
MSCI All-Cap World	-20.5%	-16.7%
MSCI Developed Markets	-20.4%	-21.9%
MSCI Emerging Markets	-17.2%	-26.0%
NYSE Alerian MLP	12.3%	-3.4%
MSCI U.S. REIT	-23.0%	-13.2%

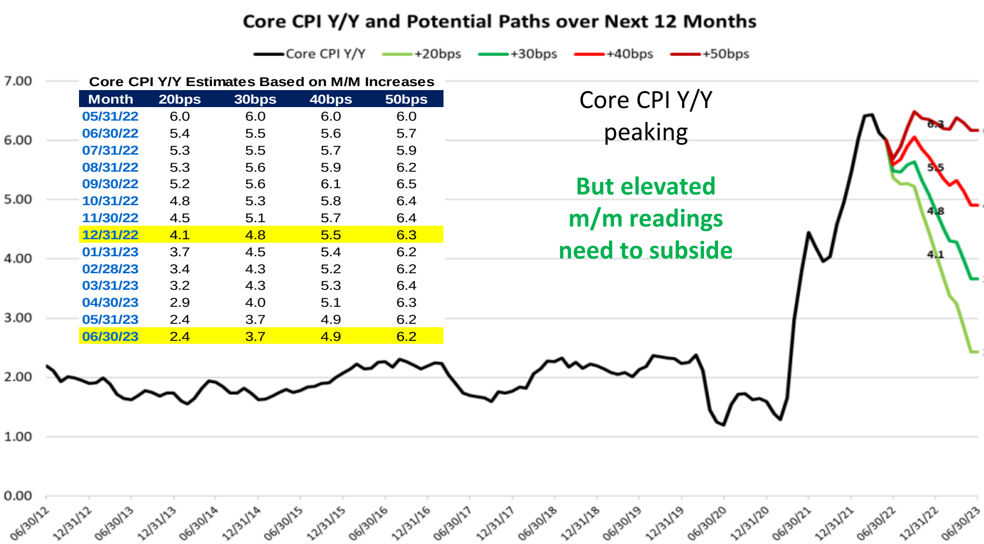
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	47.4%	5.0%
Utilities	-7.4%	2.9%
Materials	-14.5%	2.7%
Consumer Staples	-10.6%	6.6%
Health Care	-14.0%	14.3%
Industrials	-16.4%	7.9%
Financials	-19.3%	10.9%
S&P 500	***-20.5%***	-
Real Estate	-23.6%	2.8%
Information Technology	-26.5%	27.0%
Communication Svcs.	-29.9%	8.9%
Consumer Discretionary	-31.4%	10.8%

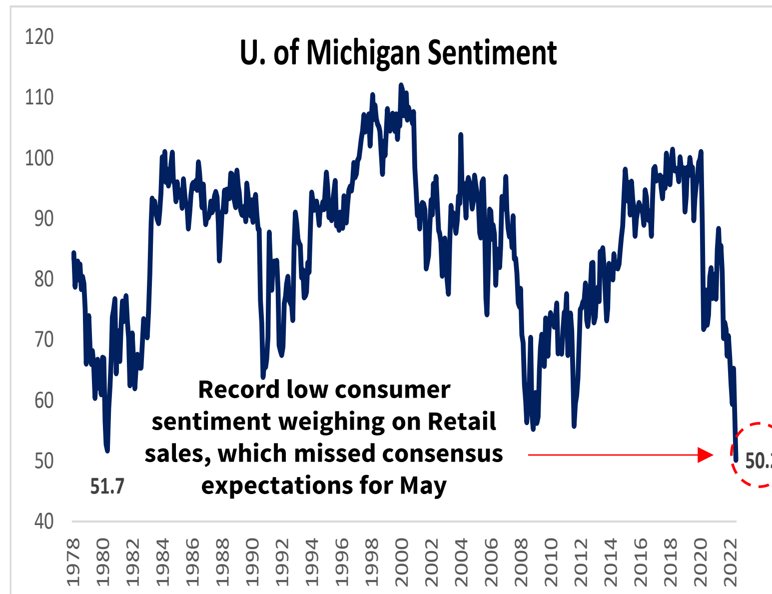
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The U.S. macro picture continues to be a large influence on day-to-day market trends, and the last week has been a busy week on the macro front, which caused increased volatility for equities. Last Friday, CPI came in hotter than expected with headline CPI increasing 1% MoM to 8.6% YoY growth (ahead of consensus of 0.7% MoM). While core CPI may be seeing peaking growth YoY, elevated MoM readings need to subside to see a downward normalization in inflation (as seen below). This higher-than-expected CPI reading caused a more hawkish about-face by the Fed, which raised its fed fund rates by 75 bps at yesterday's FOMC meeting (instead of 50 bps) to fight the persistently high inflation. Additionally, other macro data continues to point to some softening of the US economy as consumer confidence moved to a new low at 50.2 while retail sales ex-auto missed consensus expectations at 0.5% MoM vs. expectations of 0.7%. Additionally, some of the manufacturing survey data was weaker-than-expected with Philly Fed Business Optimism for June coming in at -3.3 vs. consensus of 5.0 and Empire Manufacturing declining 1.2 vs. consensus of a rise of 2.3. Housing is also an area to keep an eye on as Housing Starts for May saw a big miss vs. consensus with home starts declining 14.4% MoM vs. consensus expectations of a decline of 1.8%.

Event	Period	Actual	Consensus	Prior	Revised
CPI MoM	May	1.0%	0.7%	0.3%	-
Core CPI (ex-food and energy) MoM	May	0.6%	0.5%	0.6%	-
CPI YoY	May	8.6%	8.3%	8.3%	-
Core CPI (ex-food and energy) YoY	May	6.0%	5.9%	6.2%	-
U. of Mich. Sentiment	Jun P	50.2	58.1	58.4	-
U. of Mich. Current Conditions	Jun P	55.4	62.9	63.3	-
U. of Mich. Expectations	Jun P	46.8	55.3	55.2	-
U. of Mich. 1 Yr Inflation	Jun P	5.4%	5.3%	5.3%	-
U. of Mich. 5-10 Yr Inflation	Jun P	3.3%	-	3.0%	-
NFIB Small Business Optimism	May	93.1	93.0	93.2	-
PPI Final Demand MoM	May	0.8%	0.8%	0.5%	0.4%
Core PPI (ex-food and energy) MoM	May	0.5%	0.6%	0.4%	0.2%
MBA Mortgage Applications	10-Jun	6.6%	-	-6.5%	-
Empire Manufacturing	Jun	-1.2	2.3	-11.6	-
Retail Sales Advance MoM	May	-0.3%	0.1%	0.9%	0.7%
Retail Sales Ex Auto MoM	May	0.5%	0.7%	0.6%	0.4%
Import Price Index MoM	May	0.6%	1.1%	0.0%	0.4%
Export Price Index MoM	May	2.8%	1.3%	0.6%	0.8%
Business Inventories	Apr	1.2%	1.2%	2.0%	2.4%
NAHB Housing Market Index	Jun	67	67	69	-
Housing Starts MoM	May	-14.4%	-1.8%	-0.2%	5.5%
Building Permits MoM	May	-7.0%	-2.5%	-3.2%	-3.0%
Philly Fed Business Optimism	Jun	-3.3	5.0	2.6	-
Initial Jobless Claims	11-Jun	229k	217k	229k	232k
Continuing Claims	4-Jun	1,312k	1,304k	1,306k	1,309k



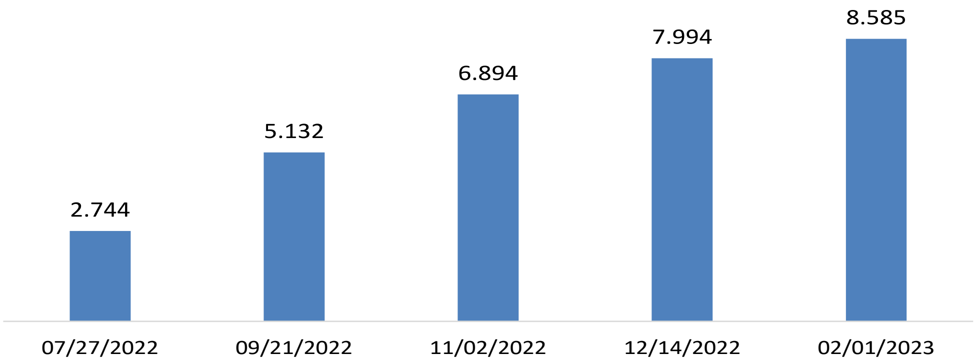


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

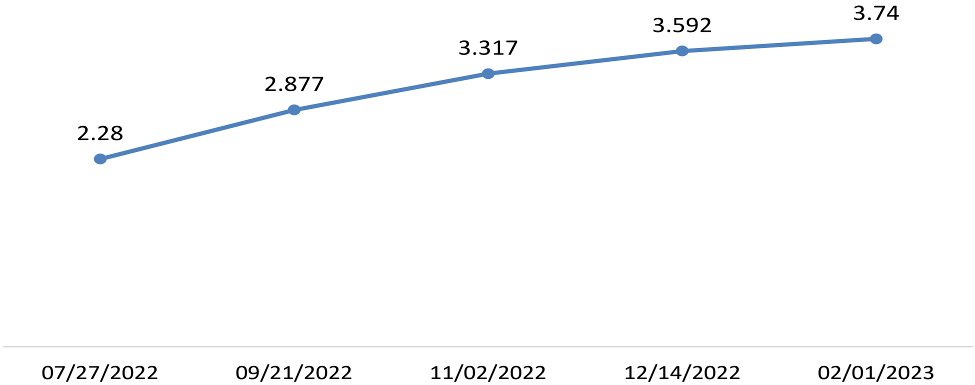
Fed Policy

The hotter-than-expected CPI report last week caused a quick pivot by the Fed, increasing the federal funds rate by 75 bps, to fight stubbornly high inflation. Currently, the market expectation is for another 75 bps increase at the July meeting, which would raise the upper end of the Fed fund target to 2.5%. Historically, the 2-year Treasury yield has been an indicator for where the Fed is heading, with the 2-year currently at 3.15%, the Fed is quickly playing catch up to where the bond market believes the Fed needs to go with rates. The Fed has a challenging task of being hawkish, but not over tightening.

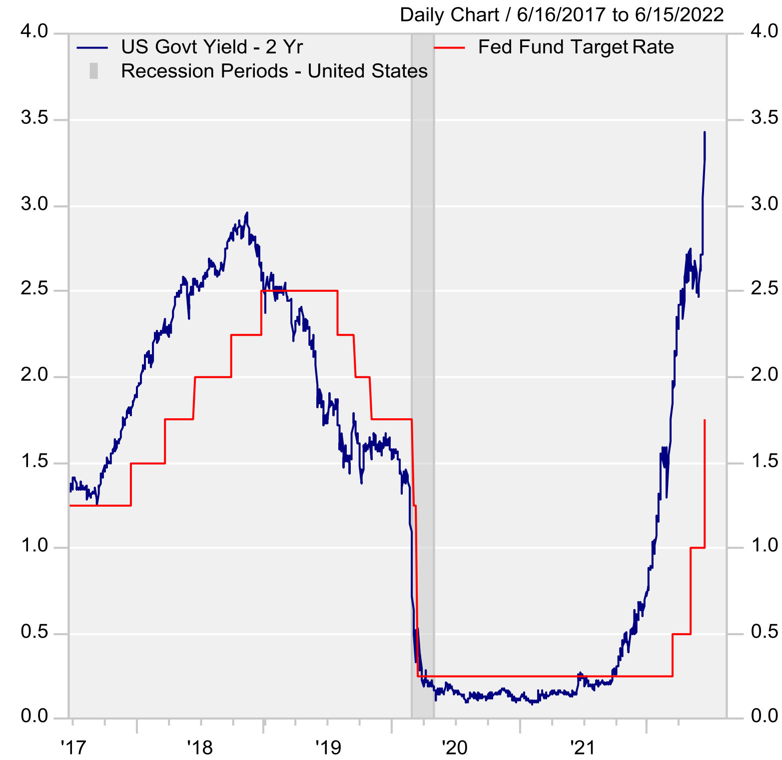
Market-Implied # of Hikes by FOMC Meeting



Market-Implied Fed Funds Rate by FOMC Meeting



2yr Treasury yield has been pretty accurate historically on where the Fed is heading

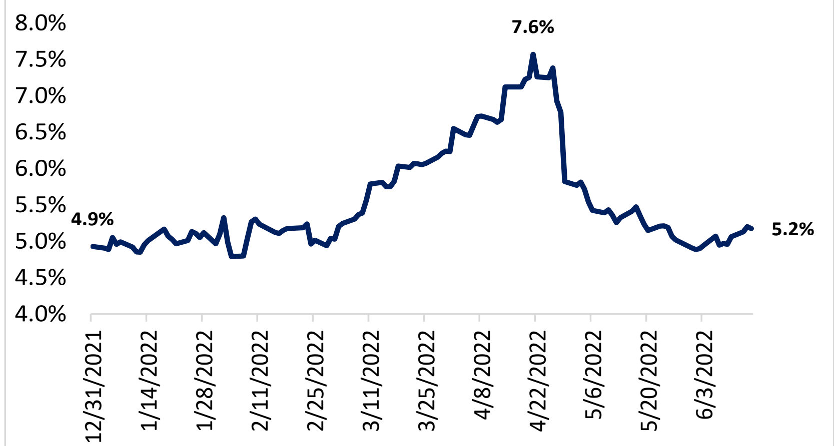


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

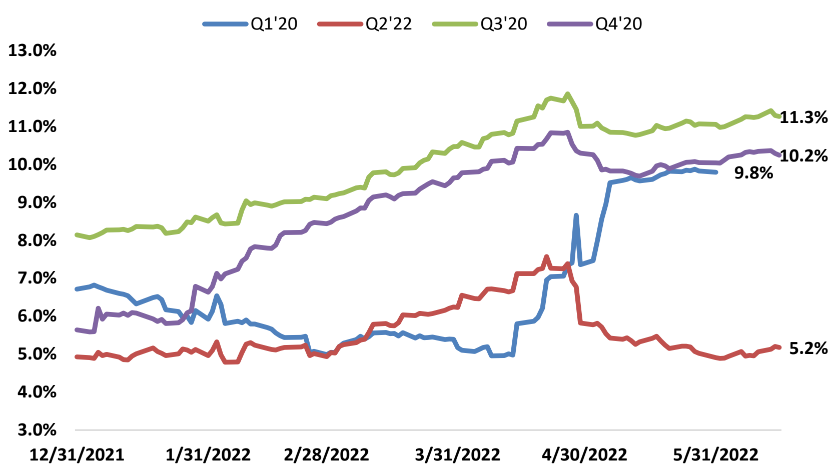
FUNDAMENTALS

S&P 500 earnings continue to be resilient with consensus earnings growth YoY for 2022, 2023, and 2024 remaining in the high-single digits aided by strength in the Energy sector. However, with just a couple weeks remaining during the 2nd quarter of calendar 2022, we examined the consensus earnings trends. As seen above to the right, 2Q'22 S&P 500 EPS growth is marginally higher than entering the year, as growth expectations were revised sharply lower since April. The moderate increase in earnings expectations recently comes despite the backdrop of several high-profile retail companies lowering guidance. Despite some softening, 3Q and 4Q expectations call for a re-acceleration of growth back to double digits YoY. Our below consensus estimate of $220 would expect some moderation in Q3-Q4 estimates given high inflation and input costs within a slowing economic backdrop. We use $220 as our 2022 S&P 500 earnings estimate, which implies similar sales growth as consensus but lower margin assumptions. $220 earnings would still be a healthy ~7% growth rate y/y, resulting in a more cautious fundamental outlook (but not negative). Much of the resulting pullback has been due to contraction in multiples. While stocks have become more attractive, valuation is a poor timing mechanism, but we believe the pullback presents a more attractive setup for long-term opportunity once the dust settles.

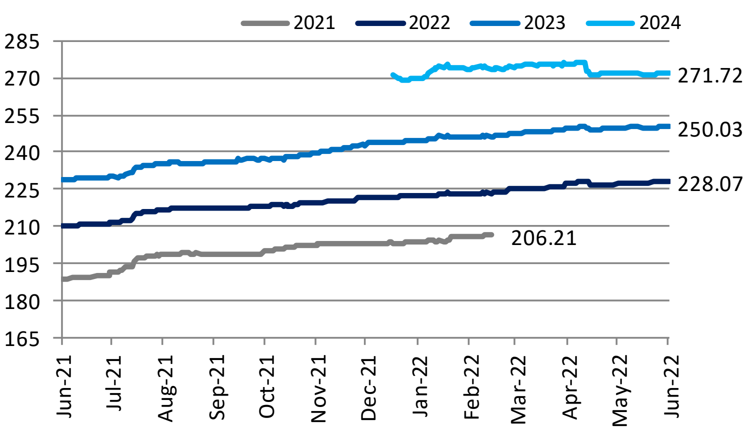
2Q'22 S&P 500 Earnings Growth Estimate Revision Trend



S&P 500 Quarterly Earnings Growth Estimates



S&P 500 Consensus Earnings Estimates over Past Year



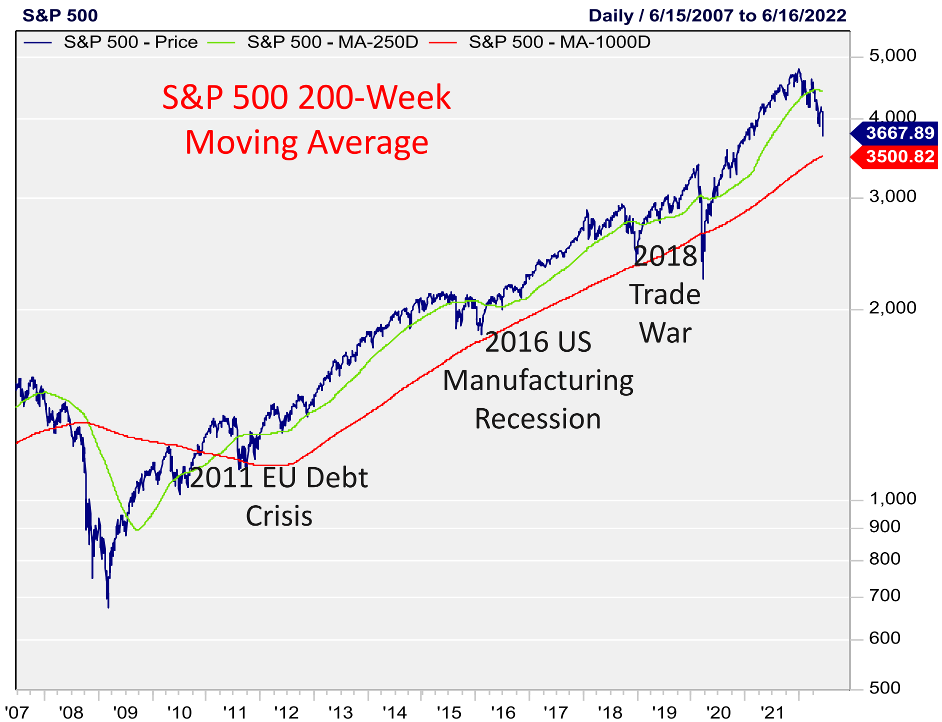
EPS Growth Estimates	
2021	50.2%
2022	10.7%
2023	9.6%
2024	8.7%

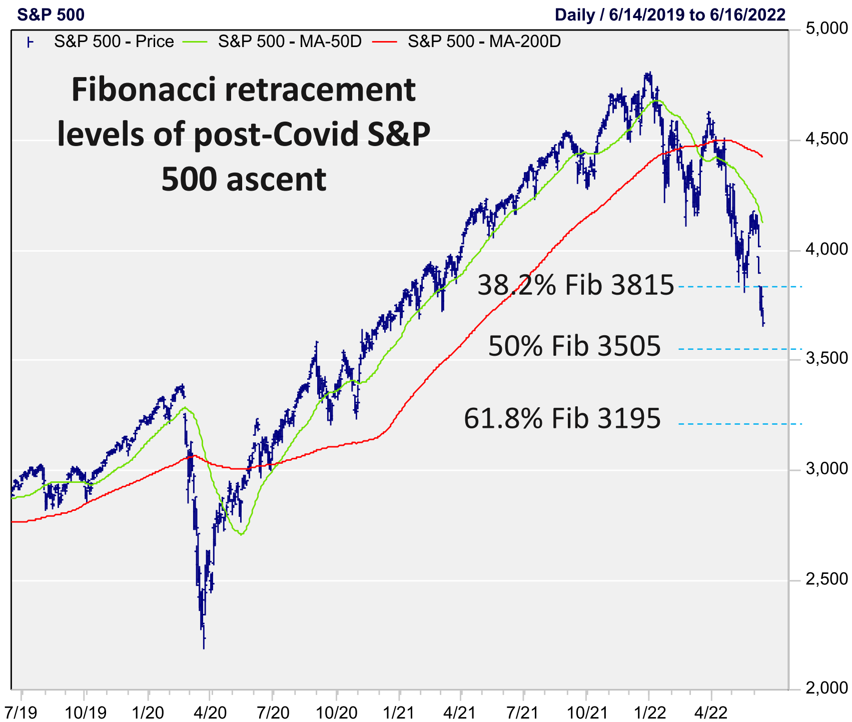
RJ '22 Estimate
$220 (base case)

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Long-term Technical Support

We continue to view 3400-3600 as our favored level for potential downside. From a valuation basis, the S&P 500 currently trades at 17.3x, which we believe is reasonable historically and well below the post-COVID era. However, during severe drawdowns (2015/2016 manufacturing recession, 2018 trade war, and COVID), we have seen the P/E multiple trough around the 14x-16x. Applying 16x to the current trailing 12-month S&P 500 earnings of $216.15, this would put the downside around 3458, which is very close to the pre-pandemic peak. Complementary, we also see several long-term technical support levels right in the middle of that 3400-3600 level (the 200-week moving average and Fibonacci retracement levels from the COVID lows). As seen below, the 200-Week moving average has provided support during the 2011 EU Debt Crisis, 2015/2016 US manufacturing recession, and the 2018 trade war. While it is not unusual during waterfall sell-offs for slight undercuts of the absolute level, we see the 200-week moving average at 3500 as a nice area of downside support. Additionally, this coincides with the 50% retracement level since the COVID bottom. We see both the fundamental case and long-term technical support backing up our favored 3400-3600 levels for downside.

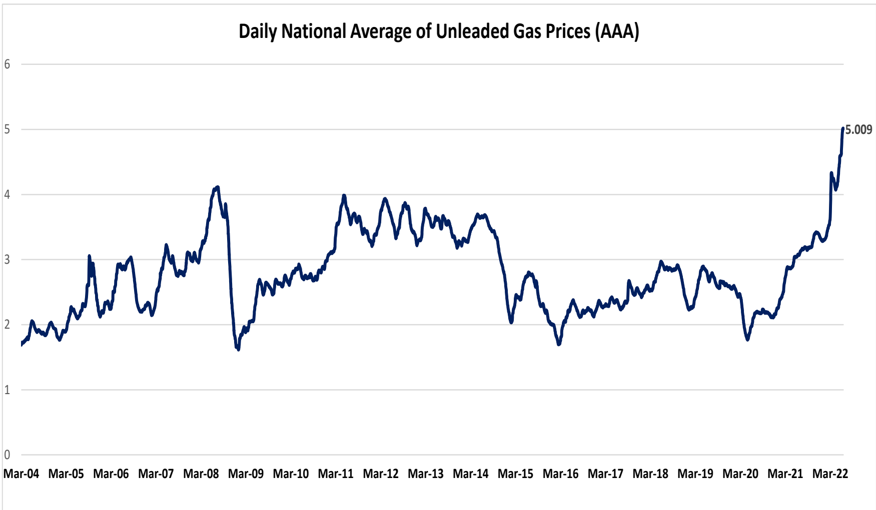


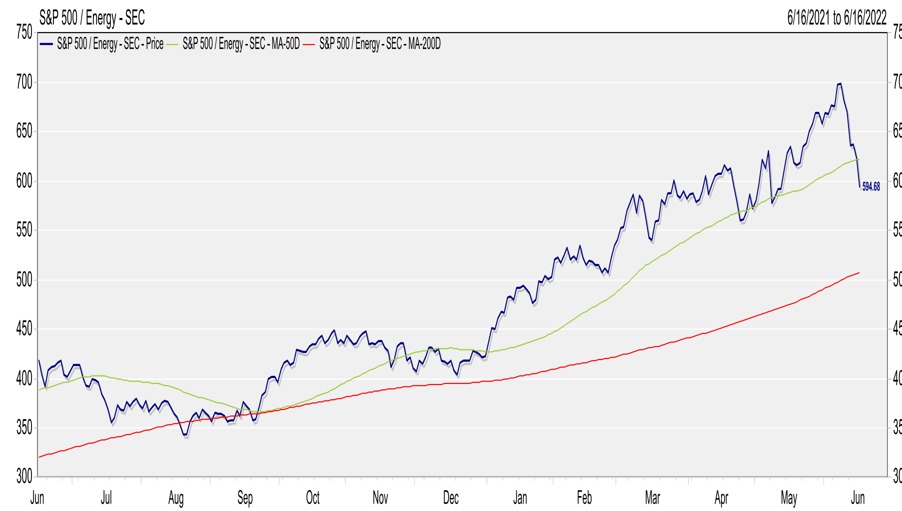


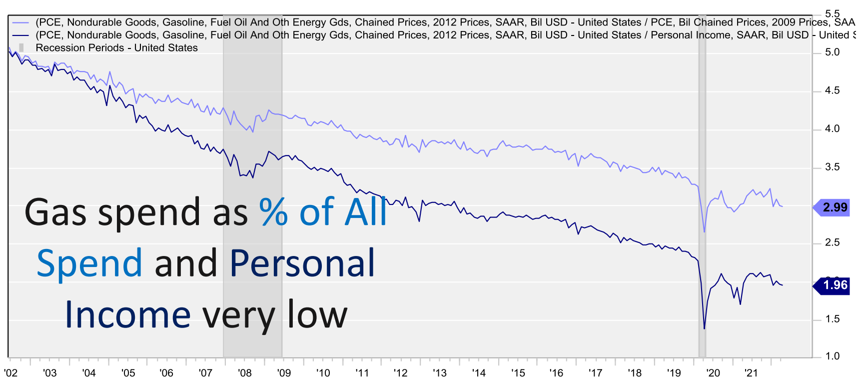
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

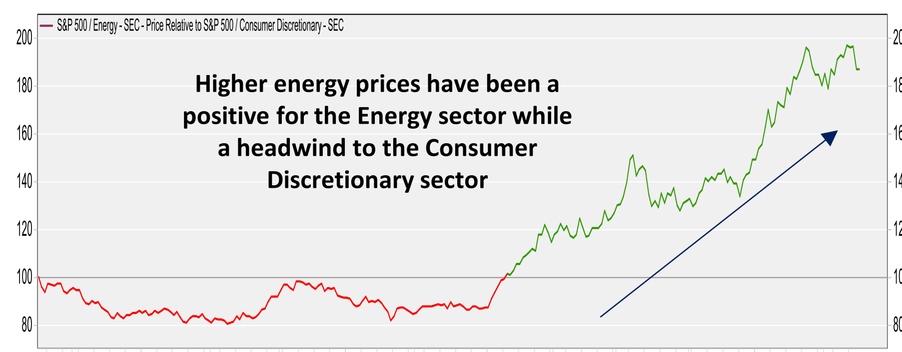
Energy

The higher Energy and gasoline prices (over $5/gallon nationwide on average) have been a nice tailwind for the Energy sector while serving as a headwind to the consumer. Despite gas spending as a % of all spend and personal income very low, it has pressured the Consumer Discretionary space. As reflected below, the Energy sector relative performance has been in a nice uptrend for much of the year compared to the Consumer Discretionary sector, which is feeling the brunt of the higher Energy prices. If Energy prices remain elevated, this could continue to be a headwind for the Consumer sector.





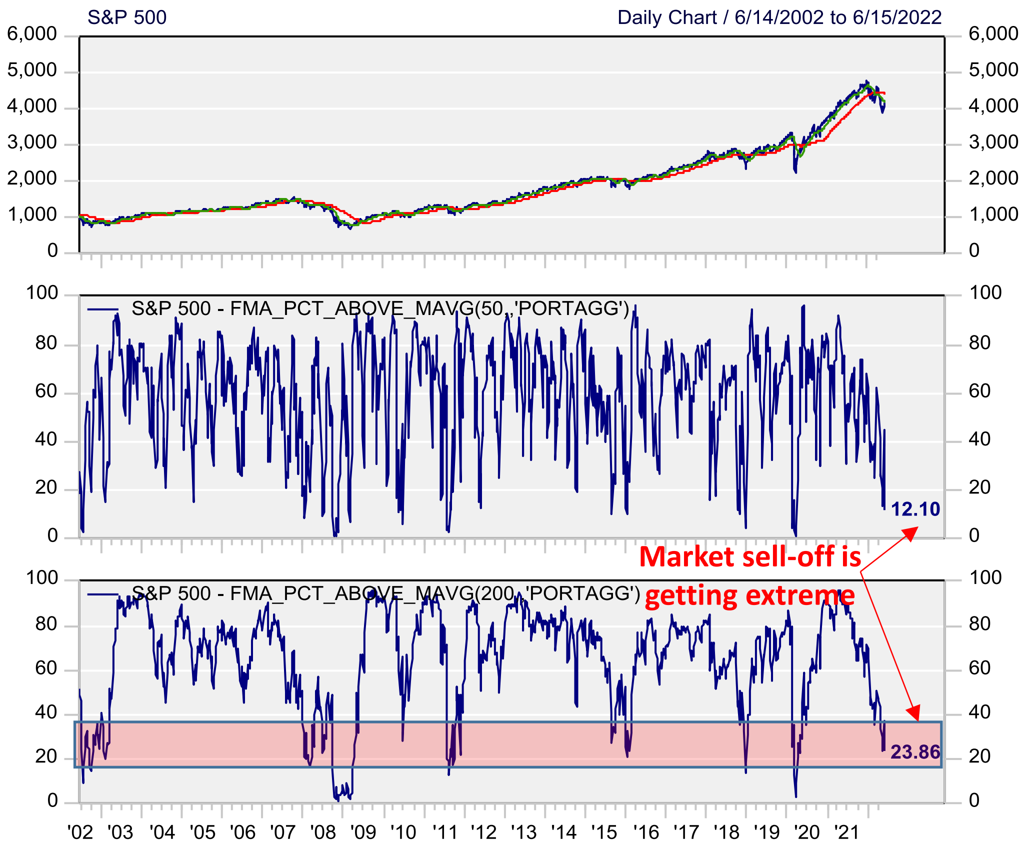




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Sectors

On a relative basis, Commodity-oriented and defensive sectors have been areas of leadership during the market sell-off. Currently, the Energy sector is only 11% off its 52-week high while 95% of constituents sit above its 200-DMA. On the other side, some of the hardest hit areas with more consumer and technology-centric exposure are down more than 20% with very low percentage of members back above the 200-DMA. While technical damage has been done, areas under the most pressure are likely to have the largest bounces on “the other side” of this bear market sell-off. Generally, we view the sell-off as overdone with the % of members under its 200-DMA only moving below 20% during extreme recessionary periods.



Commodity-oriented and defensive areas leading now

But areas under most pressure likely to have largest bounces on “the other side” of this bear market

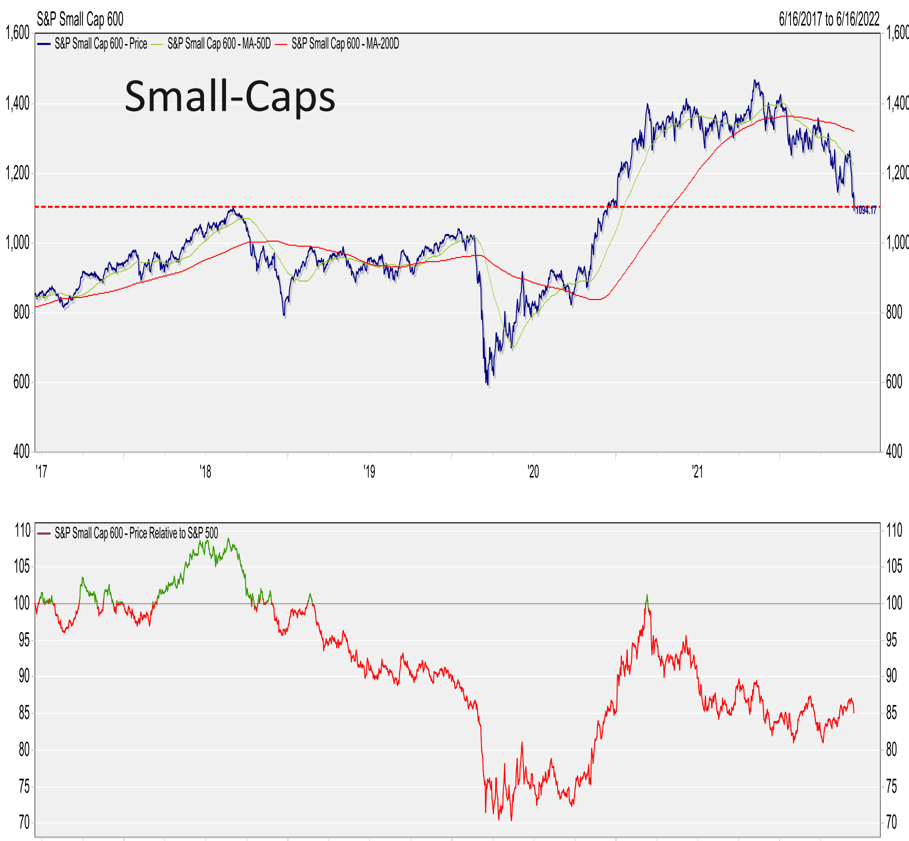
Sector Trends and Moving Averages

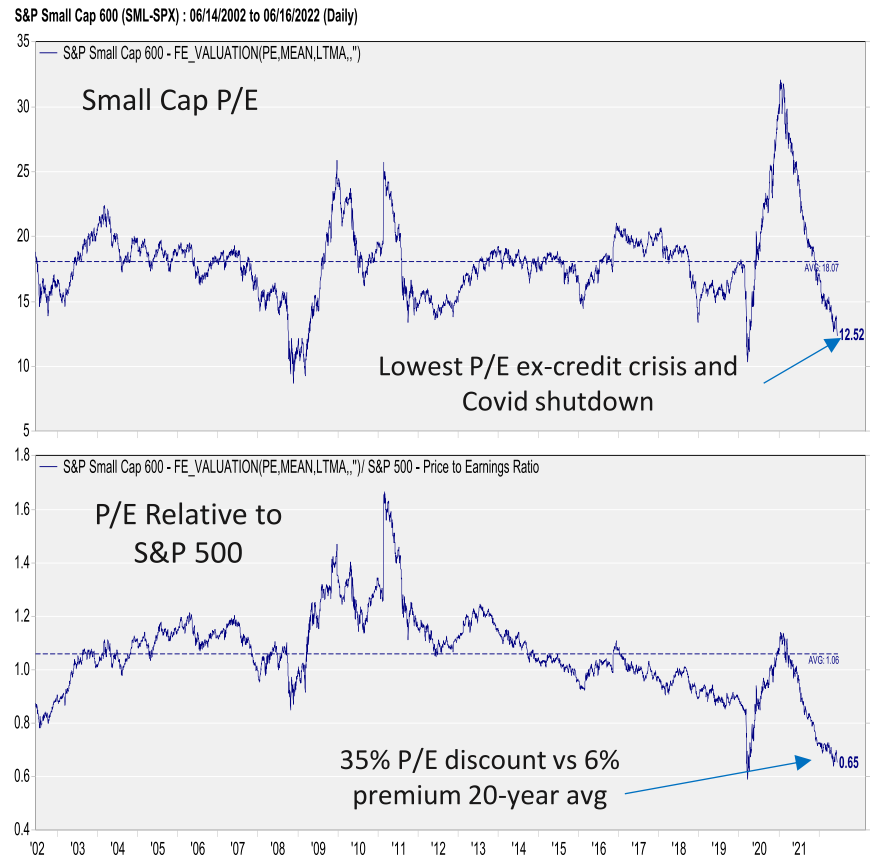
Sector	50 DMA % Above Current	200 DMA % Above Current	Index % from 52 Week High
Energy	52	95	-11%
Consumer Staples	6	34	-15%
Health Care	3	19	-15%
Materials	0	18	-14%
Utilities	0	14	-14%
Industrials	6	14	-17%
Comm. Svcs.	8	12	-35%
Cons. Discretionary	5	8	-34%
Financials	0	8	-24%
Technology	7	4	-28%
Real Estate	0	3	-24%
S&P 500	**6**	**16**	-21%

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Small-Caps

Small-caps valuation remains attractive relative to the S&P 500 as it is currently trading at a 35% P/E discount vs. the 20-year average a premium multiple of 6%. While valuation is not a good timing indicator, we are seeing the S&P 500 small-cap 600 pull back to horizontal support. Overall, the technical picture needs to improve (downward sloping 50/200-DMA, relative strength remains negative), but it is an area we would continue to watch given the attractive valuation and faster growth expectations than the large-cap.

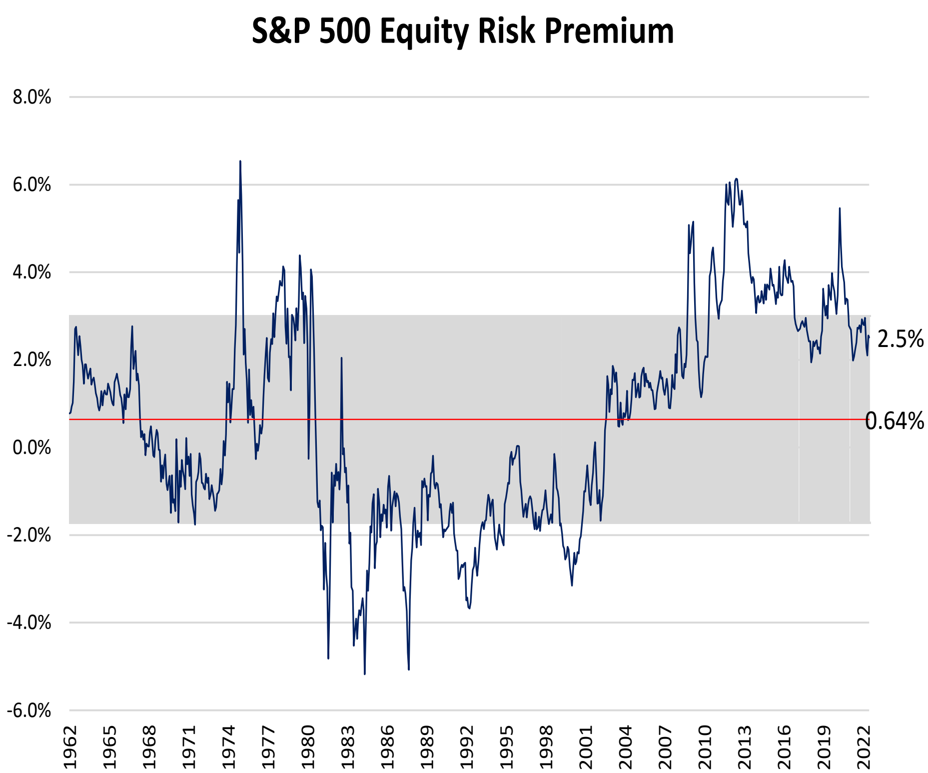


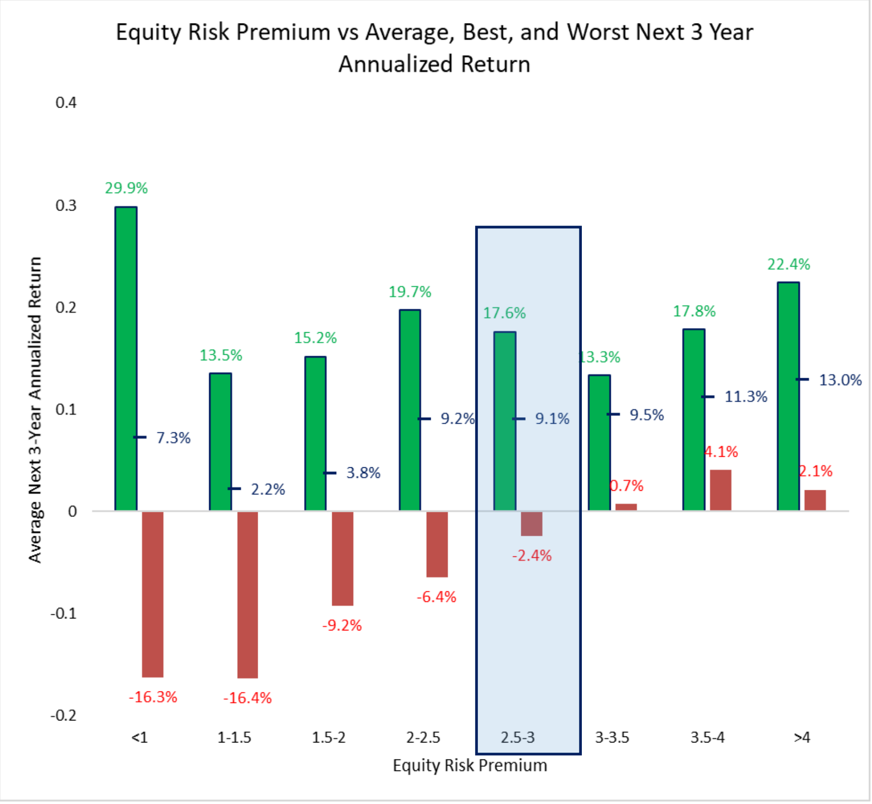


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

Stocks vs. Bonds

Despite the rise in interest rates, we still see stocks as attractive to bonds. Currently, the equity risk premium for stocks is 2.5% (earnings yield (earnings/price) for the S&P 500 is currently 5.9%- the 10-year yield as of yesterday's close around 3.4%). As seen below to the right, historically, at this equity risk premium, the 3-year forward annualized return has been on average just north of 9%. While valuation is not a great timing tool, an increase in the equity risk premium likely improves the odds for positive future returns and less variation.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4794832)

IMPORTANT INVESTOR DISCLOSURES

This material is being provided for informational purposes only. Expressions of opinion are provided as of the date above and subject to change. Any information should not be deemed a recommendation to buy, hold or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. This report is not a complete description of the securities, markets, or developments referred to in this material and does not include all available data necessary for making an investment decision. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Links to third-party websites are being provided for informational purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any websites users and/or members.

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.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

International Disclosures

For clients in the United Kingdom:

For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Investment Services, Ltd.: This document is for the use of professional investment advisers and managers and is not intended for use by clients.

For clients in France:

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monetaire et Financier" and Reglement General de l'Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

For clients of Raymond James Euro Equities: Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

For institutional clients in the European Economic rea (EE) outside of the United Kingdom:

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

For Canadian clients:

This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Broker Dealer Disclosures

Securities are: NOT Deposits • NOT Insured by FDIC or any other government agency • NOT GUARANTEED by the bank • Subject to risk and may lose value