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JANUARY 20, 2022 | 4:37 PM EST

Weekly Market Guide

Short-Term Summary:

The S&P 500 has pulled in ~5% to begin the year with sharp rotation, spurred by the Fed's hawkish tone and rapid rise in interest rates, continuing to be the main theme beneath the surface. For the market as a whole, the weakness has been valuation-driven, and we expect multiples to continue normalizing over the year at a more gradual pace. Importantly, fundamental trends remain healthy which is supportive of overall market trends. Despite the market volatility, credit spreads remain very narrow- suggesting a lack of anxiousness beneath the surface. Additionally, earnings estimates continue to get revised higher. In our base case scenario, we have an above-consensus 2022 earnings estimate of $235 which, accompanied by our 21.5x P/E assumption, produces a S&P 500 price objective of 5053 (+10% from current levels before dividends). So while volatility is normal and should be expected this year, we would use those periods as opportunity.

In terms of rotation beneath the surface, S&P 500 stocks with the cheapest valuations (Quintile 1) have seen a 2.5% return on average year-to-date, while those with the most expensive valuations (Quintile 5) have pulled back 9.7% on average. There has been a similar rotation from last year's winners into last year's laggards- which is not unusual when beginning a new calendar year. While Value may ultimately outperform this year, it is too soon to make wholesale changes to allocations in our view. We believe the rotation will ebb and flow and be influenced by sentiment on inflation and interest rates. Accordingly, we would increase conviction as the momentum builds. Growth is near oversold; and though it may not go back to being the market driver, it is due for a short-term bounce. The degree of the bounce, along with earnings, will determine the intermediate term.

9% of the S&P 500's market cap has reported Q4 earnings up to this point, and results have been as expected- moderating upside but positive overall. The Financials have been the bulk of reports with strong credit, loan growth, and benefits from higher rates, although the expense outlook has been the focus. All in all, 73% of S&P 500 companies have beaten estimates so far by an aggregate 6% (just above 15-year averages of 70% and 5.3% respectively). Earnings season heats up over the coming weeks with much attention to some mega-cap Tech stocks next week given their market significance and ongoing volatility. We expect solid results, but the market's reaction will be a big deal for technical trends and indications on performance moving forward. Costs appear to be the focus and biggest risk.

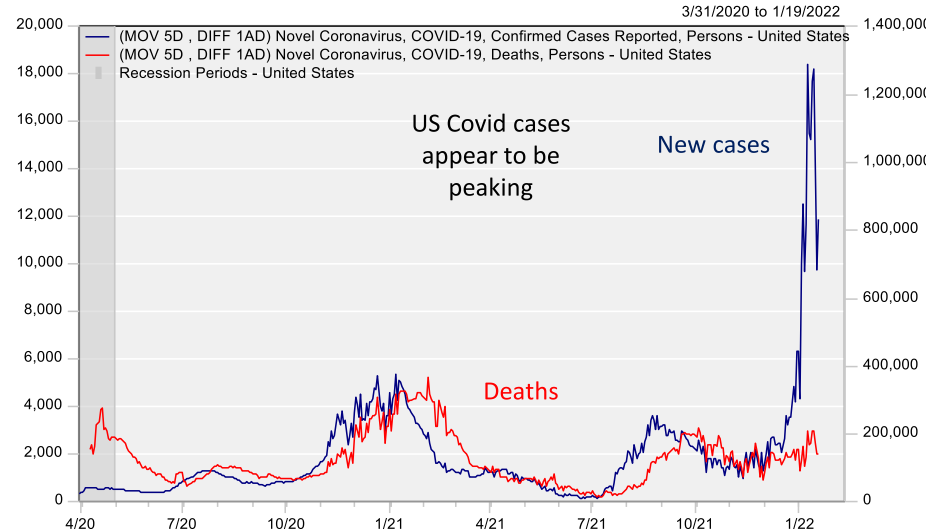
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-3.6%	13.2%
S&P 500	-4.9%	19.3%
S&P 500 (Equal-Weight)	-3.3%	19.3%
NASDAQ Composite	-8.3%	8.7%
Russell 2000	-8.1%	-4.1%
MSCI All-Cap World	-3.6%	10.1%
MSCI Developed Markets	-1.5%	5.0%
MSCI Emerging Markets	0.6%	-10.2%
NYSE Alerian MLP	9.9%	23.8%
MSCI U.S. REIT	-6.3%	31.0%

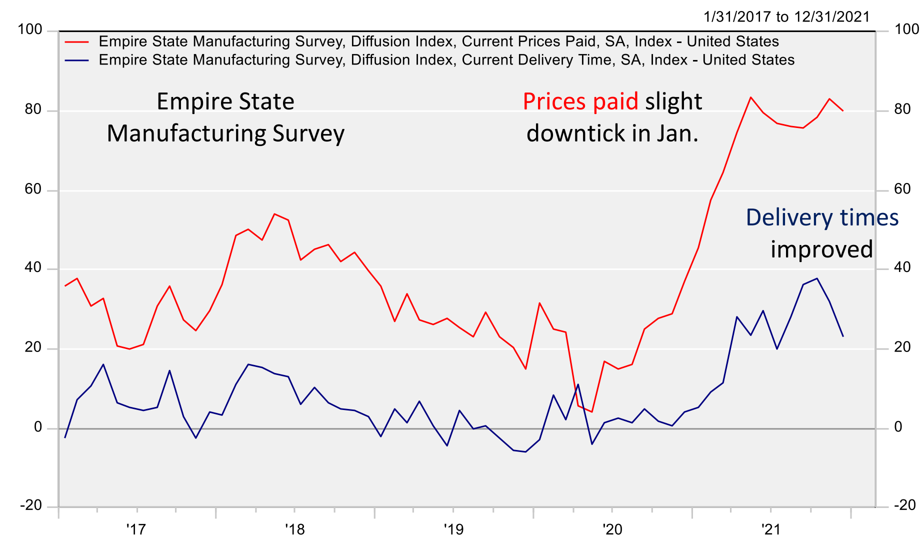
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	16.1%	3.3%
Financials	0.4%	11.3%
Consumer Staples	-0.9%	6.1%
Industrials	-2.3%	8.0%
Materials	-3.6%	2.6%
Utilities	-3.7%	2.5%
Communication Svcs.	-4.3%	10.2%
S&P 500	***-4.9%***	-
Health Care	-6.7%	13.0%
Consumer Discretionary	-7.6%	12.2%
Information Technology	-8.4%	28.1%
Real Estate	-8.6%	2.7%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

We are seeing some signs of a potential thawing in bottlenecks, and it appears that the Omicron surge has peaked in the US. So there are reasons to be hopeful that inflationary pressures can ease over the course of the year, although China's zero tolerance Covid policy adds risk that the issues could drag out longer. The issue is that the Fed is getting anxious that "transitory" inflation could be transitioning toward "sticky." So as these pressures persist, the Fed is likely to become more hawkish. We will receive more data in the January manufacturing and services PMI data early next week, and investors will then be closely listening to commentary out of the FOMC meeting next Wednesday. The Fed appears set to get past the recent soft economic patch (spurred by the Omicron variant) before rate liftoff, but a March hike is becoming the base case market expectation. Inflation, interest rates, and expectations on the path of Fed policy will remain key influences on equity markets over the course of the year. We remain positive on the overall backdrop, but believe Fed policy normalization will lead to more moderate returns and normal periods of volatility.



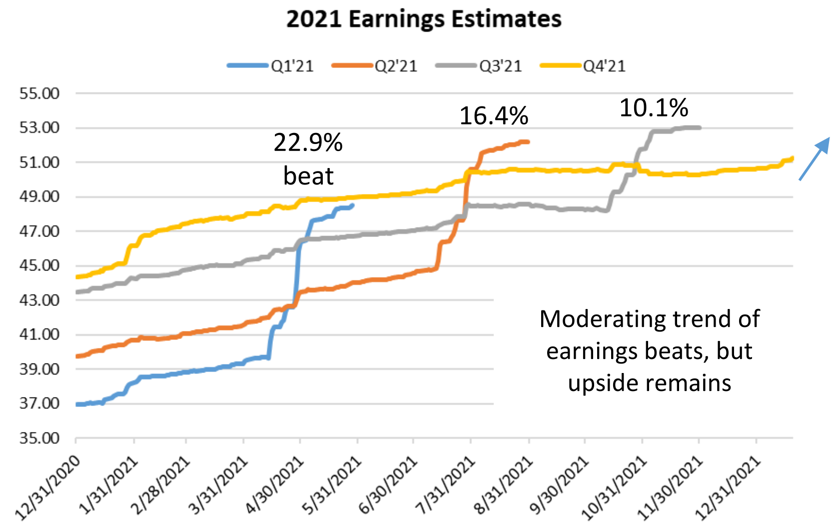


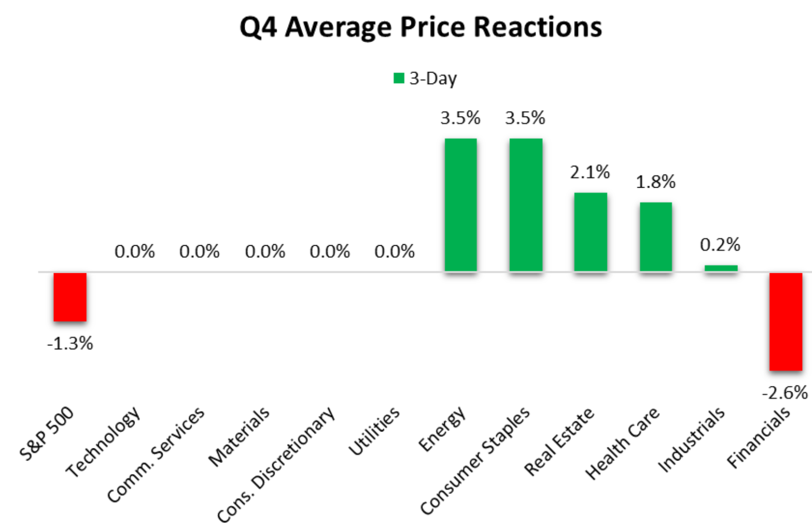
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

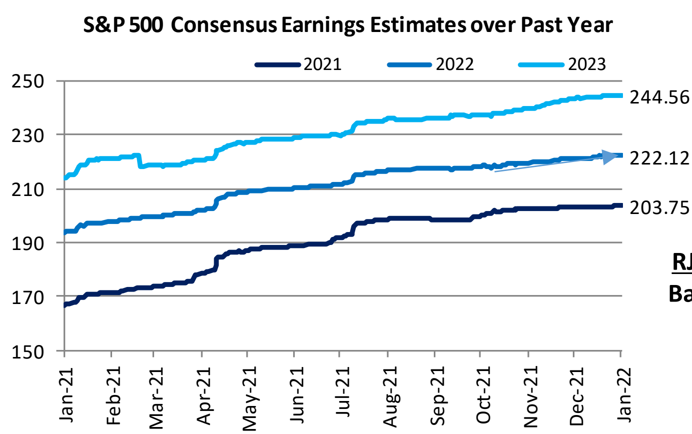
Event	Period	Actual	Consensus	Prior
Retail Sales ex-Auto SA M/M	DEC	-2.3%	0.20%	0.10%
Retail Sales SA M/M	DEC	-1.9%	0.0%	0.20%
Industrial Production SA M/M	DEC	-0.10%	0.30%	0.70%
Business Inventories SA M/M	NOV	1.3%	1.3%	1.3%
Michigan Sentiment NSA (Preliminary)	JAN	68.8	70.0	70.6
Empire State Index SA	JAN	-0.70	25.0	31.9
NAHB Housing Market Index SA	JAN	83.0	84.0	84.0
Building Permits SAAR (Preliminary)	DEC	1,873K	1,705K	1,717K
Housing Starts SAAR	DEC	1,702K	1,650K	1,678K
Housing Starts M/M	DEC	1.4%	-1.9%	8.1%
Continuing Jobless Claims SA	01/08	1,635K	1,715K	1,551K
Initial Claims SA	01/15	286.0K	220.0K	231.0K
Philadelphia Fed Index SA	JAN	23.2	20.0	15.4
Existing Home Sales SAAR	DEC	6,100K	6,395K	6,490K

FUNDAMENTALS

9% of the S&P 500's market cap has reported Q4 earnings up to this point, and results have been as expected- moderating upside but positive overall. The Financials have been the bulk of reports with strong credit, loan growth, and benefits from higher rates, although the expense outlook has been the focus. Higher expense outlooks have weighed on price reactions for those reporting them. 14 of the 23 Financials stocks reporting Q4 results over the past week have traded lower in the aftermath for a 3-day average price reaction of -2.6%. Industrials have seen the next most reports (6) with muted stock reactions, followed by initial (1 or 2 reports), albeit positive reactions from Energy, Consumer Staples, Real Estate, and Health Care. All in all, 73% of S&P 500 companies have beaten estimates so far by an aggregate 6% (just above 15-year averages of 70% and 5.3% respectively). Additionally, forward estimates continue to trend higher. We remain above consensus for 2022 earnings at a $235 (15% growth) base case estimate vs. $222 consensus. Earnings season heats up over the coming weeks with much attention to some mega-cap Tech stocks next week given their market significance and ongoing volatility. We expect solid results, but the market's reaction will be a big deal for technical trends and indications on performance moving forward. Costs appear to be the focus and biggest risk.







EPS Growth Estimates	
2021	48.6%
2022	9.0%
2023	10.1%

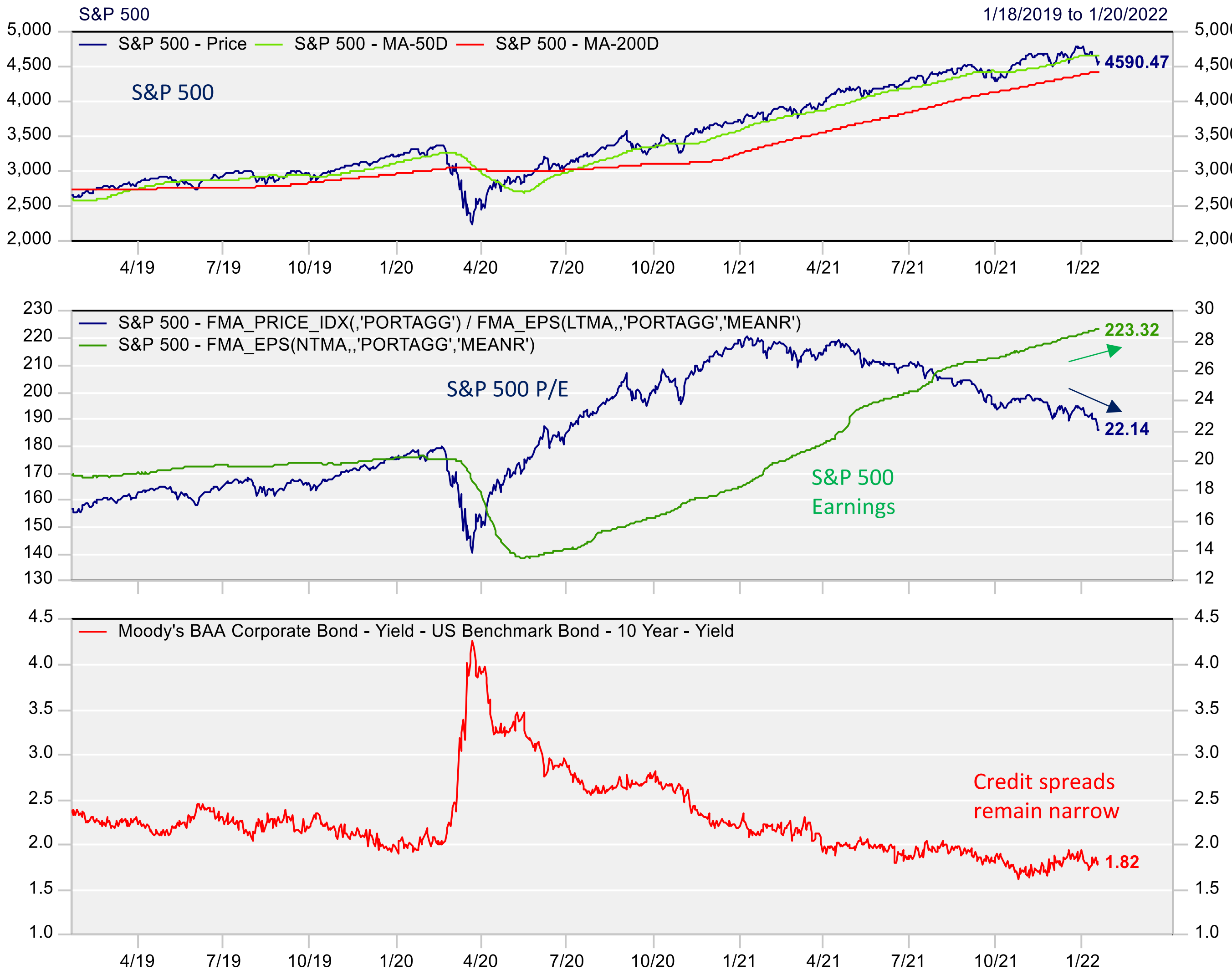
RJ 2022 Earnings Est.:
Base Case: 235 (+15%)
Bull Case: 245
Bear Case: 225

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

FUNDAMENTALS

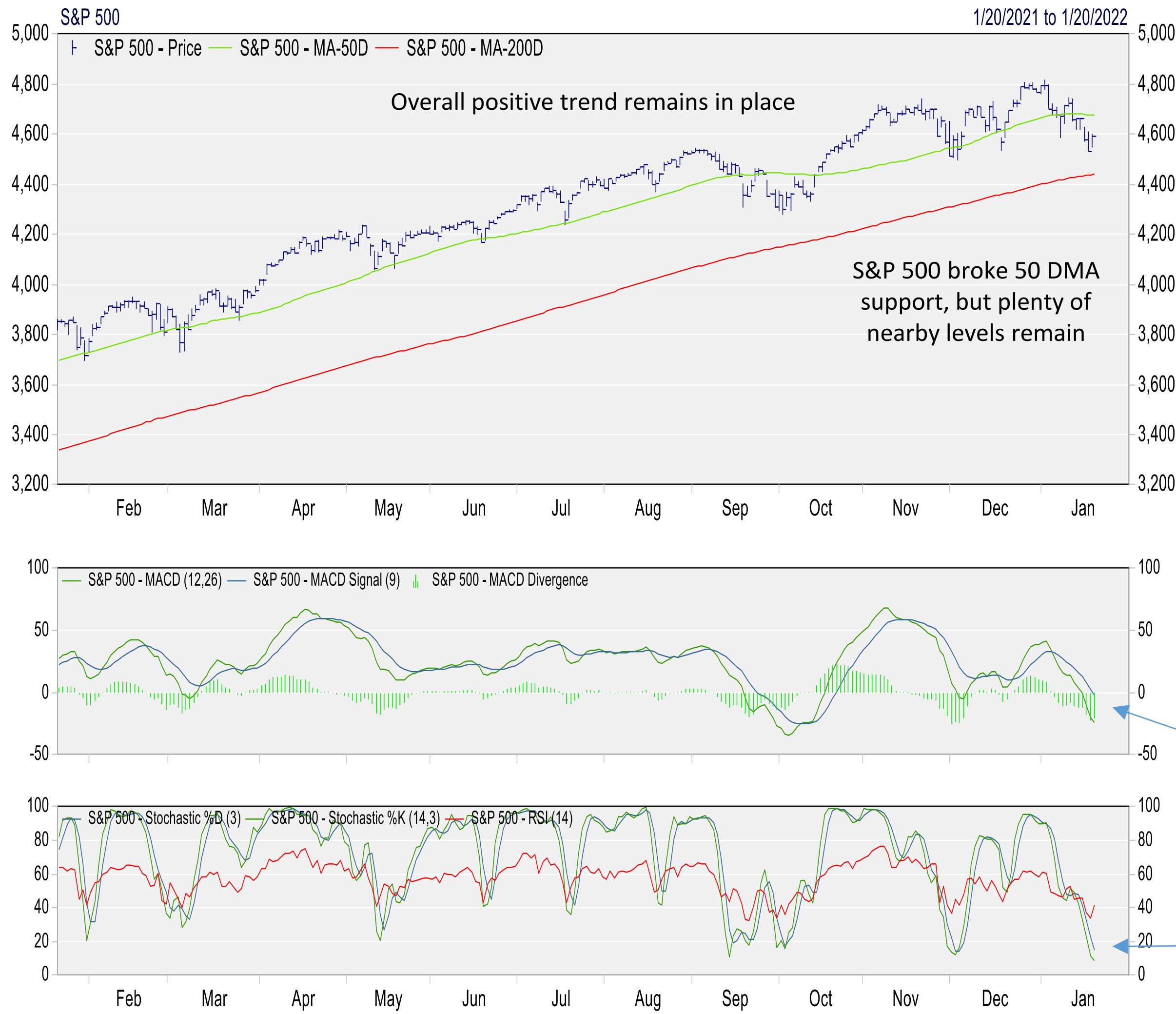
The pullback in the S&P 500 has been valuation driven to begin the year. The Fed's hawkish tone, along with the rapid rise in interest rates, have sped up the downward migration of the S&P 500's P/E toward more normal levels. We expect this normalization of valuation to continue over the course of the year but at a more gradual pace. In our base case scenario, we see the S&P 500 P/E getting to 21.5x by year-end and note the pre-pandemic P/E was 21x.

Importantly, fundamental trends remain healthy which is supportive of overall market trends. Despite the market volatility, credit spreads remain very narrow- suggesting a lack of anxiousness beneath the surface. Additionally, earnings estimates continue to get revised higher. In our base case scenario, we have an above-consensus 2022 earnings estimate of $235 which, accompanied with our 21.5x P/E assumption, produces a S&P 500 price objective of 5053 (+10% from current levels before dividends). So while volatility is normal and should be expected this year, we would use those periods as opportunity.



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500



The S&P 500 finally broke below its 50-day moving average after a rapid succession of tests since Thanksgiving. The index is approaching oversold, but the overall positive trend remains in place.

We see plenty of nearby support levels, beginning with horizontal support at 4530 which the index was able to just stay above at yesterday's close. Our attention below this would turn to the 200-day moving average at 4428. On the upside, the 50-day moving average now becomes resistance (4673), followed by 4795 (recent highs).

If trying to be timely or tactical, remember that an oversold bounce may not V-bottom back to new highs. The trend may turn out more like the September-October period of digestion. But given the rotational nature of the market over the past year, we would focus more at the stock level for opportunity when favored names are oversold near support.

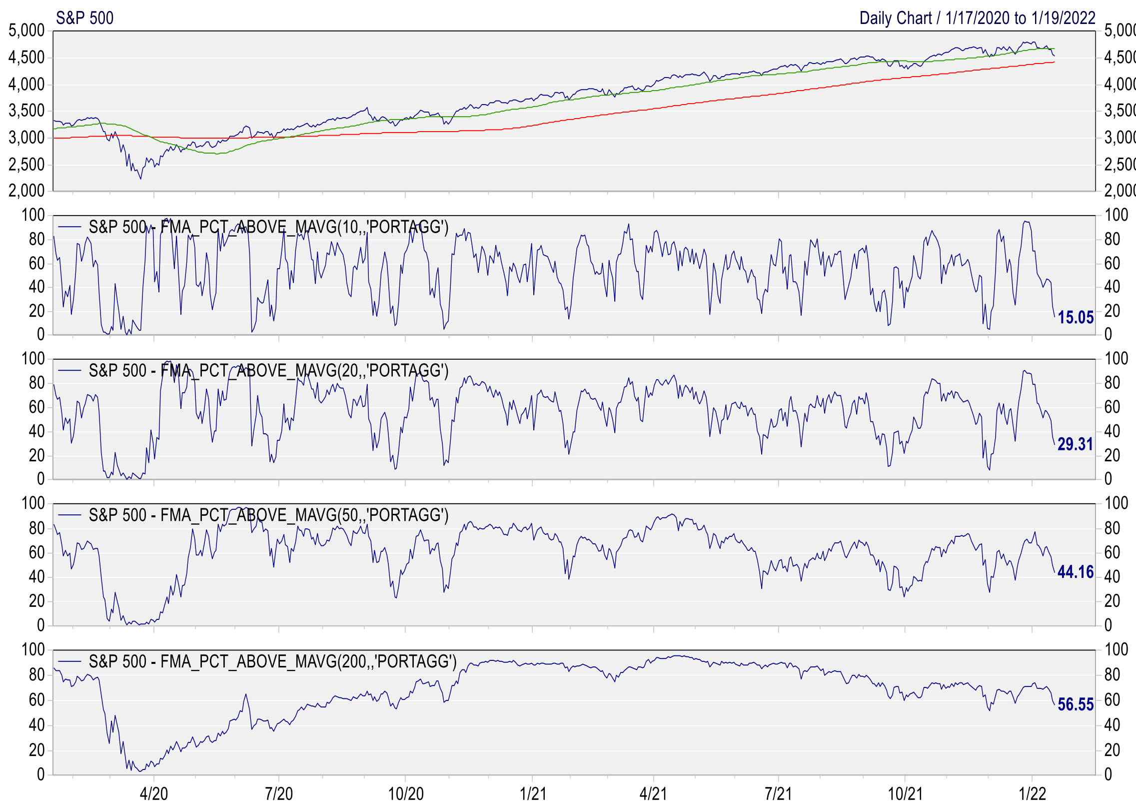
MACD downtrend continues. Upside reversal will increase confidence of rally

Stochastics oversold. Upside reversal will increase confidence for rally

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

TECHNICAL: S&P 500

The S&P 500 is approaching oversold territory with the percentage of stocks above their 10 DMA down to 15%. In the pullbacks experienced since March 2020, this number seemed to bottom in the 5-10% area, while the percentage above their 20 DMA reached 10-15% vs 29% now. So there may be some more downside to go for the index. Many stocks have dropped by more than the S&P 500's -4.6% from 52-week highs. 55% of S&P 500 stocks are down over 10% from their highs and 20% are in bear markets (over 20% from highs) with the most weakness seen from Comm. Services, Consumer Discretionary, and Technology. With the overall backdrop likely to remain healthy, we would use pullbacks as opportunity to accumulate favored stocks near support levels. And for the S&P 500 as a whole, we would like to see the percentage of stocks above their 200 DMA stay above the recent low at 51%- would be an indicator of further deterioration beneath the surface if not.



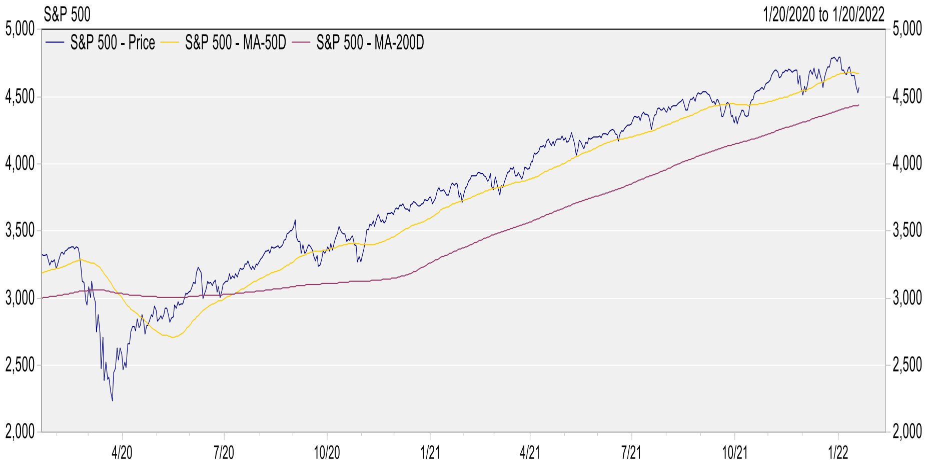
Sector	% of Companies Down 20% from 52 Wk High	10% from 52 Wk High
Communication Services	54%	77%
Consumer Discretionary	36%	80%
Information Technology	34%	79%
Health Care	30%	70%
Industrials	15%	53%
Materials	11%	46%
Financials	7%	36%
Utilities	4%	21%
Consumer Staples	3%	28%
Real Estate	0%	41%
Energy	0%	0%
S&P 500	20%	55%

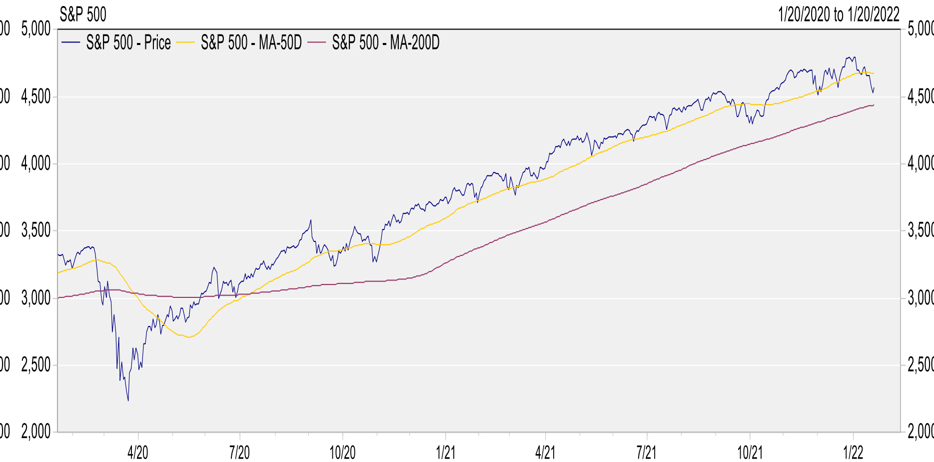
S&P 500 Sectors	% from 52 Wk High
Communication Svcs.	-11.1%
Consumer Discretionary	-9.4%
Information Technology	-8.7%
Real Estate	-7.5%
Health Care	-6.6%
S&P 500	***-4.6%***
Utilities	-4.2%
Financials	-3.7%
Materials	-3.4%
Industrials	-2.3%
Consumer Staples	-2.0%
Energy	0.0%

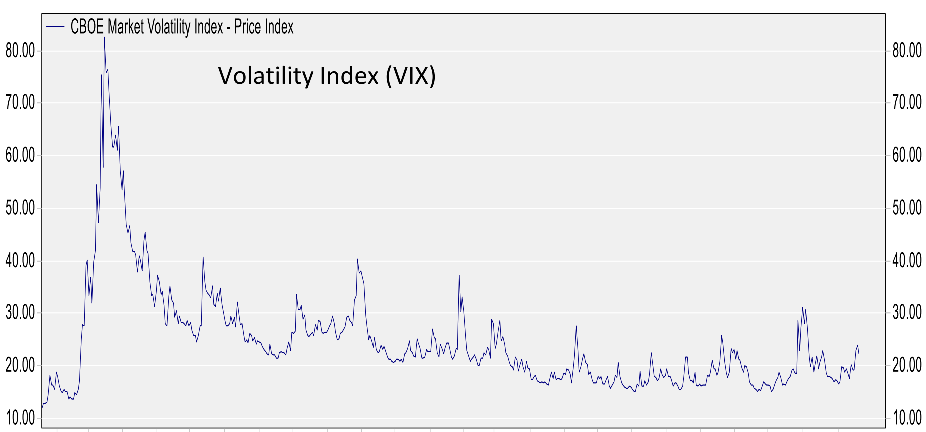
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

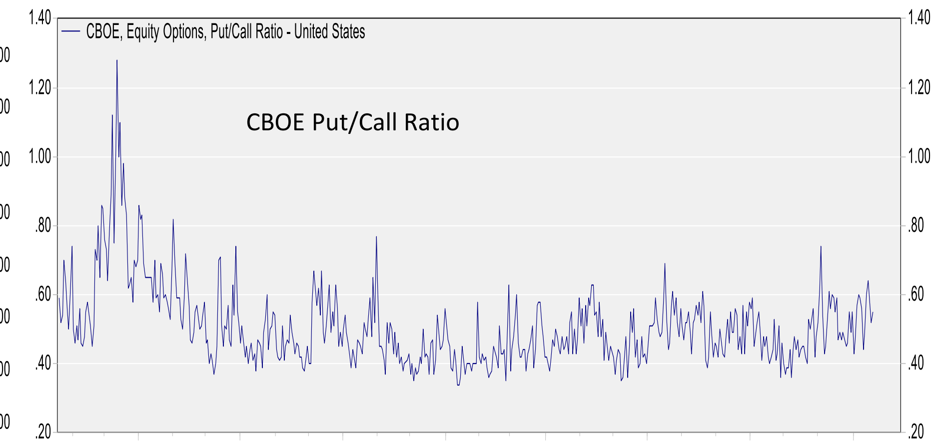
FEAR GAUGES

The market's drawdown to begin the year has felt dramatic in some areas, but "investor fear" has not risen to a great degree. We often look at fear gauges from a contrarian standpoint in order to assess when sentiment may have swung too far negative. As such, the Volatility Index and CBOE put/call ratio have not yet spiked to levels often consistent with deeply oversold conditions.





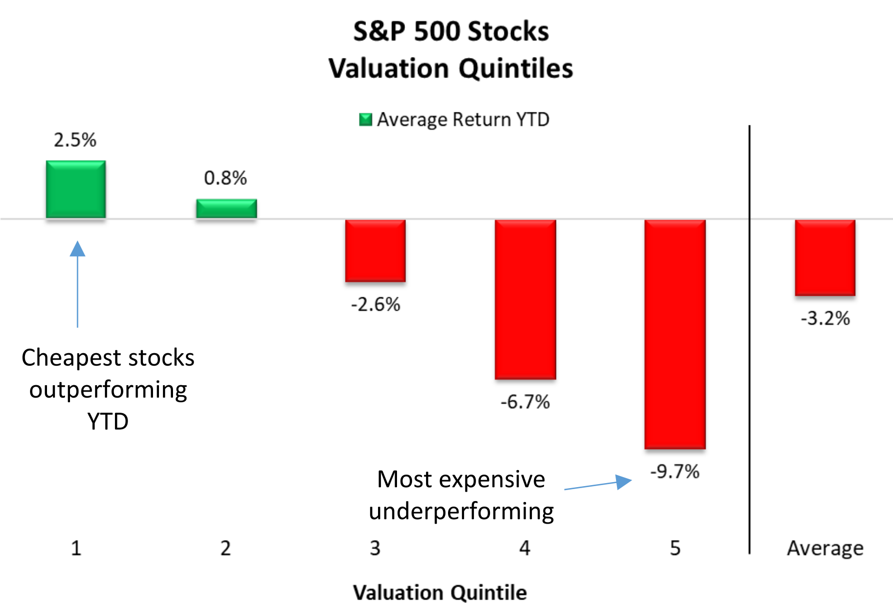




Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

VALUE vs GROWTH

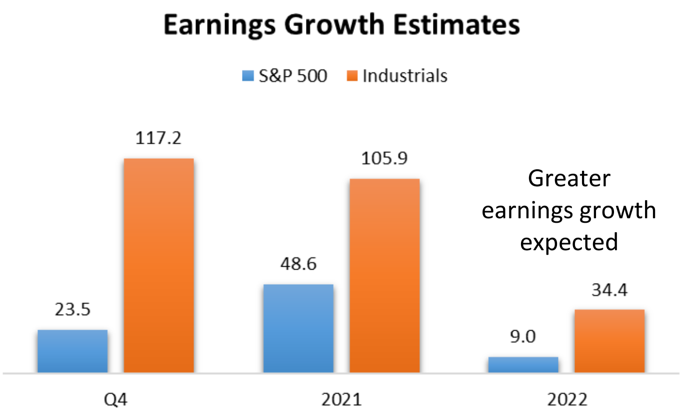
The sharp rise in interest rates to begin the year has fueled a sharp rotation from high-valued stocks toward low-valued stocks. For example, S&P 500 stocks with the cheapest valuations (Quintile 1 below) have seen a 2.5% return on average year-to-date, while those with the most expensive valuations (Quintile 5 below) have pulled back 9.7% on average. There has been a similar rotation from last year's winners into last year's laggards- which is not unusual when beginning a new calendar year. While Value may ultimately outperform this year, it is too soon to make wholesale changes to allocations. We believe the rotation will ebb and flow and be influenced by sentiment on inflation and interest rates. Accordingly, we would increase conviction as the momentum builds. Growth is near oversold; and though it may not go back to being the market driver, it is due for a short-term bounce. The degree of the bounce, along with earnings, will determine the intermediate term.

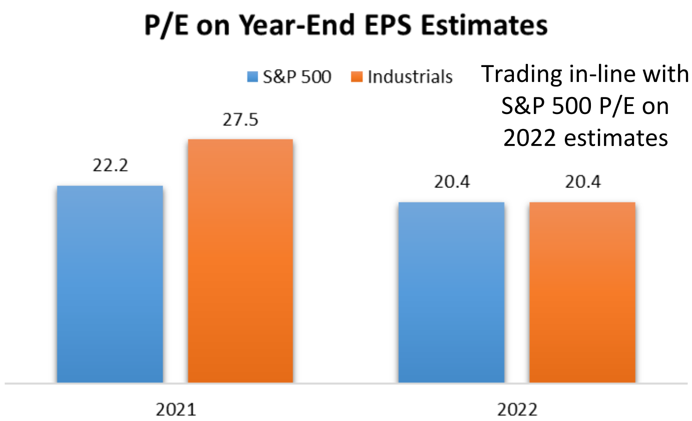


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

INDUSTRIALS

The Industrials sector has posted impressive relative gains over the past few weeks and is oversold at 200-day moving average support. We also favor the fundamental setup, due to outsized leverage to the economic recovery as corporate capex increases and inventories get replenished. Earnings growth expectations are well ahead of the S&P 500 over the next year, while the sector trades at the same P/E (20.4x) as the S&P 500. We recommend an overweight recommendation and would use the current market weakness as opportunity to accumulate favored stocks.

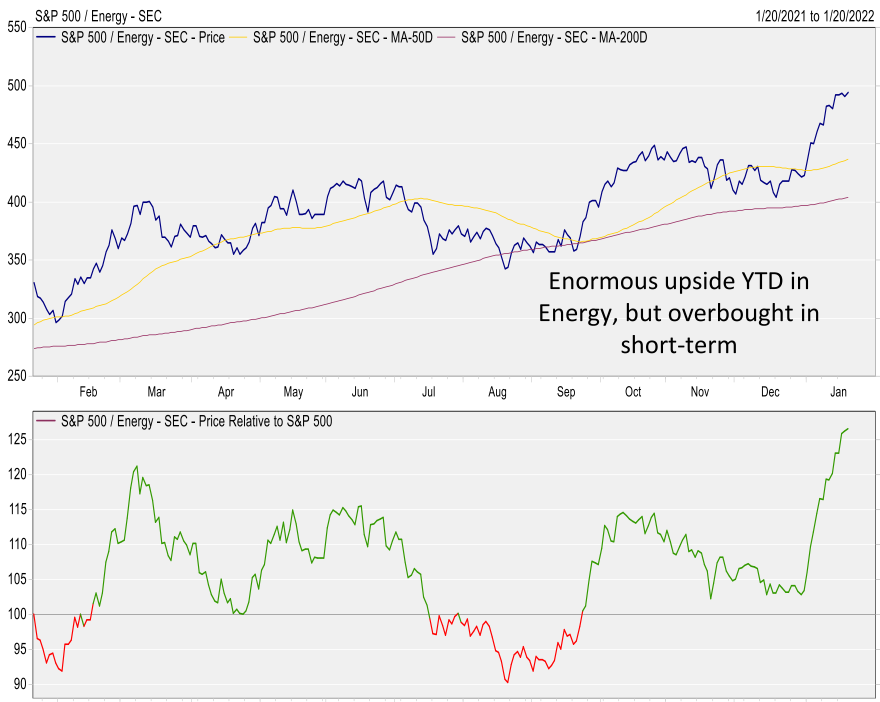


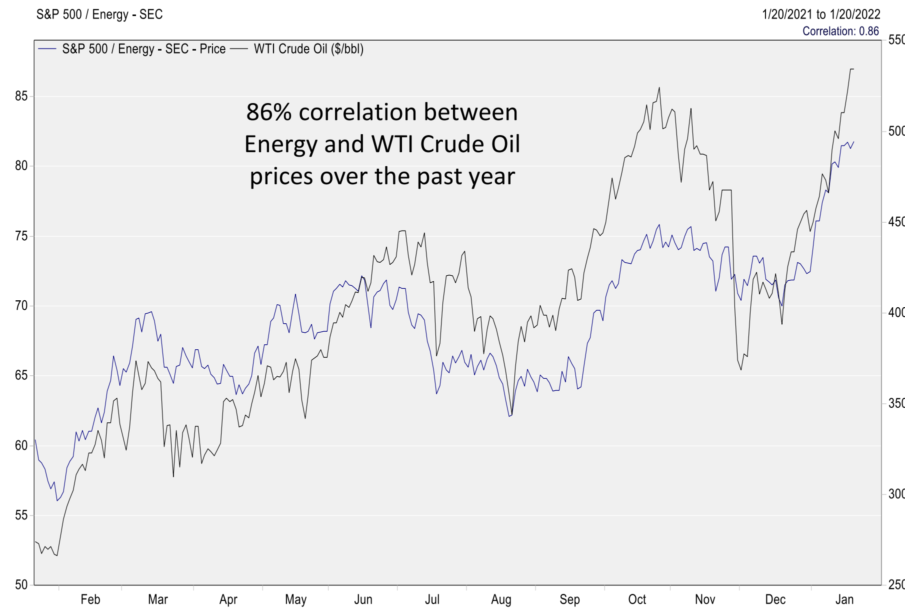


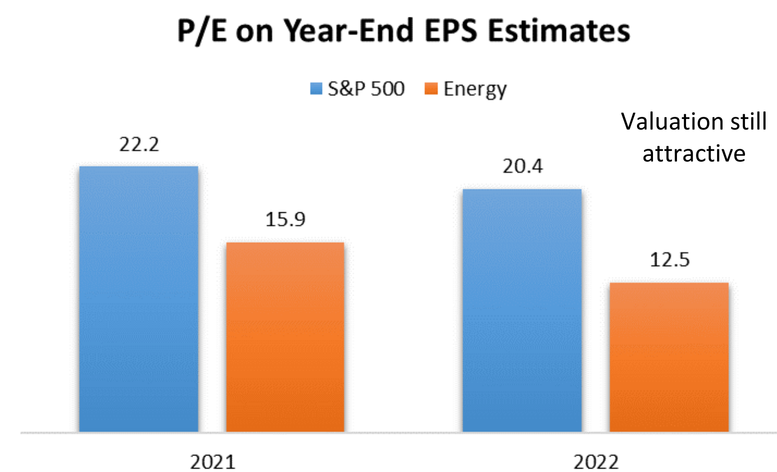
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

ENERGY

Energy is up 16% to begin 2022, outperforming the S&P 500 by 21% in just three weeks. Energy is expected to have the best earnings growth of all sectors this year, and continues to see the best estimate revision trends. This is likely to remain the case with oil prices continuing higher (up to $87/barrel), fueling robust free cash flow that corporations continue to use in shareholder-friendly ways. Additionally, valuation remains attractive at a sector-low 12.5x P/E on 2022 estimates. While we maintain our Overweight recommendation, the sector is overbought in the short-term. If needing to add exposure, we recommend using partial positions and increasing on a pullback.







Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4211078)

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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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