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MAY 26, 2022 | 4:40 PM EDT

Weekly Market Guide

Short-Term Summary: After selling off ~16% over the past two months and reaching bear market territory, the S&P 500 is attempting to bounce from oversold levels. A few technical indicators we monitor support a continued rally in the short-term.

- High yield 5-year CDS spreads ("insurance" on corporate bonds), which have shown a strong inverse correlation with the S&P 500 year to date, are breaking below their recent trend line. Remember, increasing HY CDS spreads are a sign that bond investors are getting nervous about the economy. The only other time this has occurred this year was in March when the S&P 500 rallied 11% in 11 days.
- We are also encouraged by a positive MACD cross, which can often be an indication of short-term momentum. Given the overall down-trend for the equity market, the sign is not a "game-changer" for the general trend but is another indicator supporting a short-term bounce for stocks.
- Additionally, we have been waiting for a "thrust" in advancers vs. decliners as indication of higher conviction from investors in buying the pullback. Earlier today, we saw this at ~8x advancers vs. decliners though it moderated by the close to ~5x- still positive and the strongest reading this year, but more in line with our view that we are likely not "out of the woods" yet.

The bounce (within a dominant declining trend) is developing as the market seizes on messaging from the Fed that a pause could develop after two more rate hikes. The recent equity market weakness is likely a contributor to this "less-hawkish" messaging. For example, the Nasdaq has only exceeded its current stretch below the 200-DMA (-20% now) during one period (2008-2009 financial crisis) in the past 15 years. Hence, a bounce was due.

However, there remains much uncertainty regarding inflation, which will ultimately be a signficant influence on the path of the Fed. Consequently, it will be a large determinant on whether or not the market lows have been seen, along with the timeline for equities to rebuild themselves for renewed upside. And 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.

Accordingly, we are treating this as only a bounce for now. Nonetheless, there is plenty to do as the market rallies. Traders can finally play the long side. We suggest using high-beta stocks, which can see meaningful price moves from depressed levels. Longer-term investors can accumulate favored, quality names; and consider lightening holdings they desire to reposition in the rally. Also, watching how certain stocks and sectors trade during the bounce 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	-11.6%	-6.4%
S&P 500	-16.5%	-5.0%
S&P 500 (Equal-Weight)	-11.8%	-3.9%
NASDAQ Composite	-26.9%	-16.3%
Russell 2000	-19.9%	-18.4%
MSCI All-Cap World	-16.5%	-10.9%
MSCI Developed Markets	-14.5%	-14.4%
MSCI Emerging Markets	-17.2%	-24.2%
NYSE Alerian MLP	20.9%	15.9%
MSCI U.S. REIT	-16.5%	-0.5%

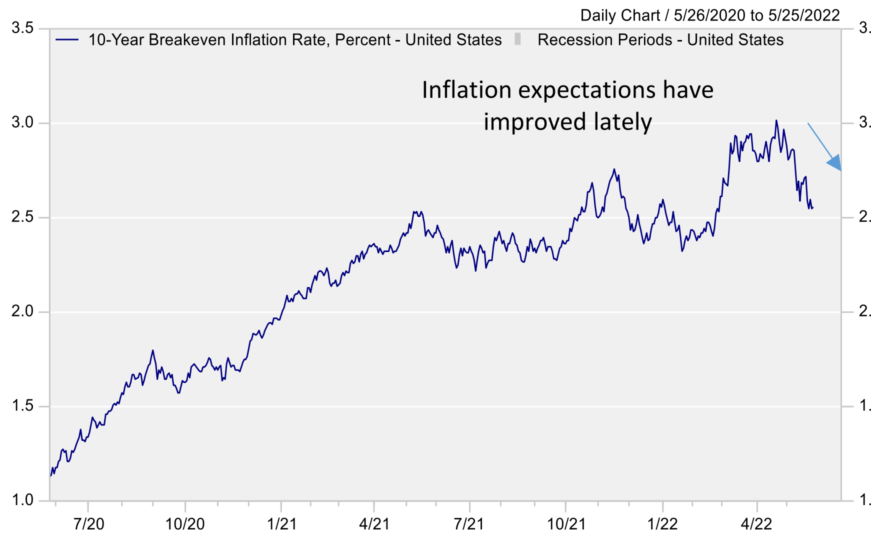
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	53.9%	4.9%
Utilities	2.9%	3.1%
Consumer Staples	-5.4%	6.6%
Health Care	-7.1%	14.8%
Materials	-7.7%	2.8%
Financials	-12.7%	11.3%
Industrials	-13.6%	7.8%
Real Estate	-16.0%	2.8%
S&P 500	***-16.5%***	-
Information Technology	-23.7%	26.7%
Communication Svcs.	-28.3%	8.7%
Consumer Discretionary	-31.3%	10.4%

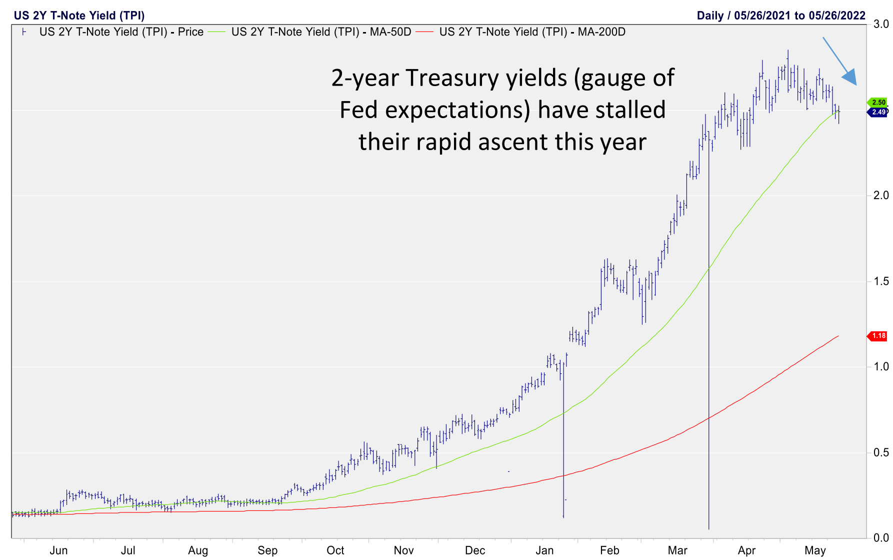
Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

The economy remains healthy, as evidenced by a 59.2 Manufacturing PMI and 55.7 Services PMI in May. But the market is concerned about what is to come if inflation does not come under control. Positively, inflation expectations have moved lower over the past month and the 2-year Treasury yield has stalled its rapid year-to-date ascent. The Fed's recent messaging of a potential pause in hikes after the next two meetings (where 50bp hikes are likely) is a contributor to the recent moderation in bond yields, and has also likely been influenced by the weakness in equities. A continued move lower or stall for bond yields would provide added support for equity market valuations as investors gain more data on the potential path of inflation ahead.

Event	Period	Actual	Consensus	Prior
Chicago Fed National Activity Index	APR	0.47	0.50	0.36
Building Permits SAAR (Final)	APR	1,823K	1,819K	1,819K
PMI Composite SA (Preliminary)	MAY	53.8	55.5	56.0
Markit PMI Manufacturing SA (Preliminary)	MAY	57.5	57.9	59.2
Markit PMI Services SA (Preliminary)	MAY	53.5	56.0	55.6
New Home Sales SAAR	APR	591.0K	750.0K	709.0K
Richmond Fed Index	MAY	-9.0	12.0	14.0
Durable Orders ex-Transportation SA M/M (Preliminary)	APR	0.30%	0.60%	1.1%
Durable Orders SA M/M (Preliminary)	APR	0.40%	0.60%	0.60%
Continuing Jobless Claims SA	05/14	1,346K	1,310K	1,315K
GDP Chain Price SAAR Q/Q (Second Preliminary)	Q1	8.1%	8.0%	8.0%
GDP Chain Price SA Y/Y (Second Preliminary)	Q1	6.8%	6.6%	6.8%
GDP SAAR Q/Q (Second Preliminary)	Q1	-1.5%	-1.3%	-1.4%
GDP SA Y/Y (Second Preliminary)	Q1	3.5%	3.6%	3.6%
Initial Claims SA	05/21	210.0K	209.0K	218.0K
Pending Home Sales Index SAAR	APR	99.3	101.7	103.3
Pending Home Sales M/M	APR	-3.9%	-1.7%	-1.6%
Kansas City Fed Manufacturing Index	MAY	23.0	16.5	25.0



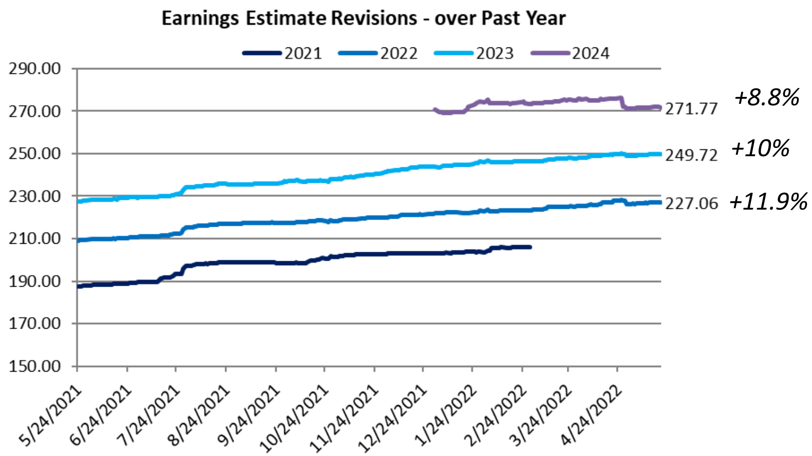


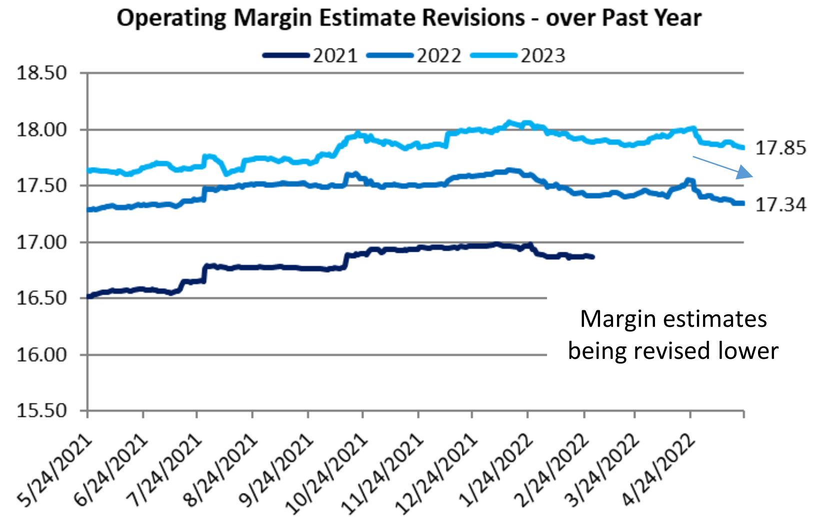
Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

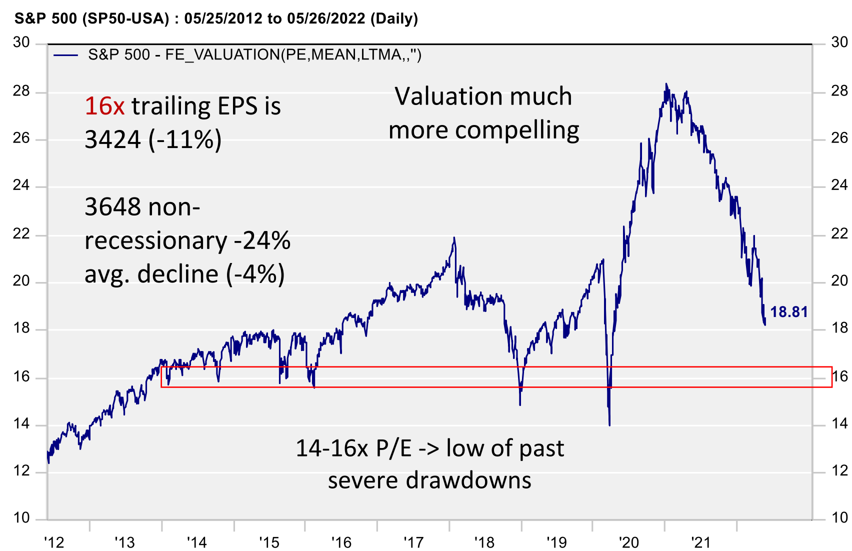
FUNDAMENTALS

Earnings results, particularly of late, suggest forward estimates are likely to be revised lower. Companies are highlighting disruptions from China's lockdowns, input costs weighing on margins, and shifting consumer spending toward services resulting in elevated goods inventories. Overall demand remains healthy, but margins are being pressured, resulting in a slower earnings outlook in our view. On the positive side, an improving inventory/sales ratio should put downward pressure on inflation over time.

We lowered our 2022 earnings estimate to $220 (from $225), below the consensus estimate of $227 due to lower economic growth expectations and lower margin assumptions ahead as inflationary pressures improve ***some*** throughout the year. Our new base case S&P 500 target of 4180 applies a 19x P/E multiple on this new earnings estimate. Given the uncertainty over the very near-term, equities may see lower lows at some point during the year. However based on some inflation improvement and still positive economic growth, valuation multiples and equities can climb into year-end in our view. For more information on our updated base, bull, and bear case scenarios, please see our recent report HERE.







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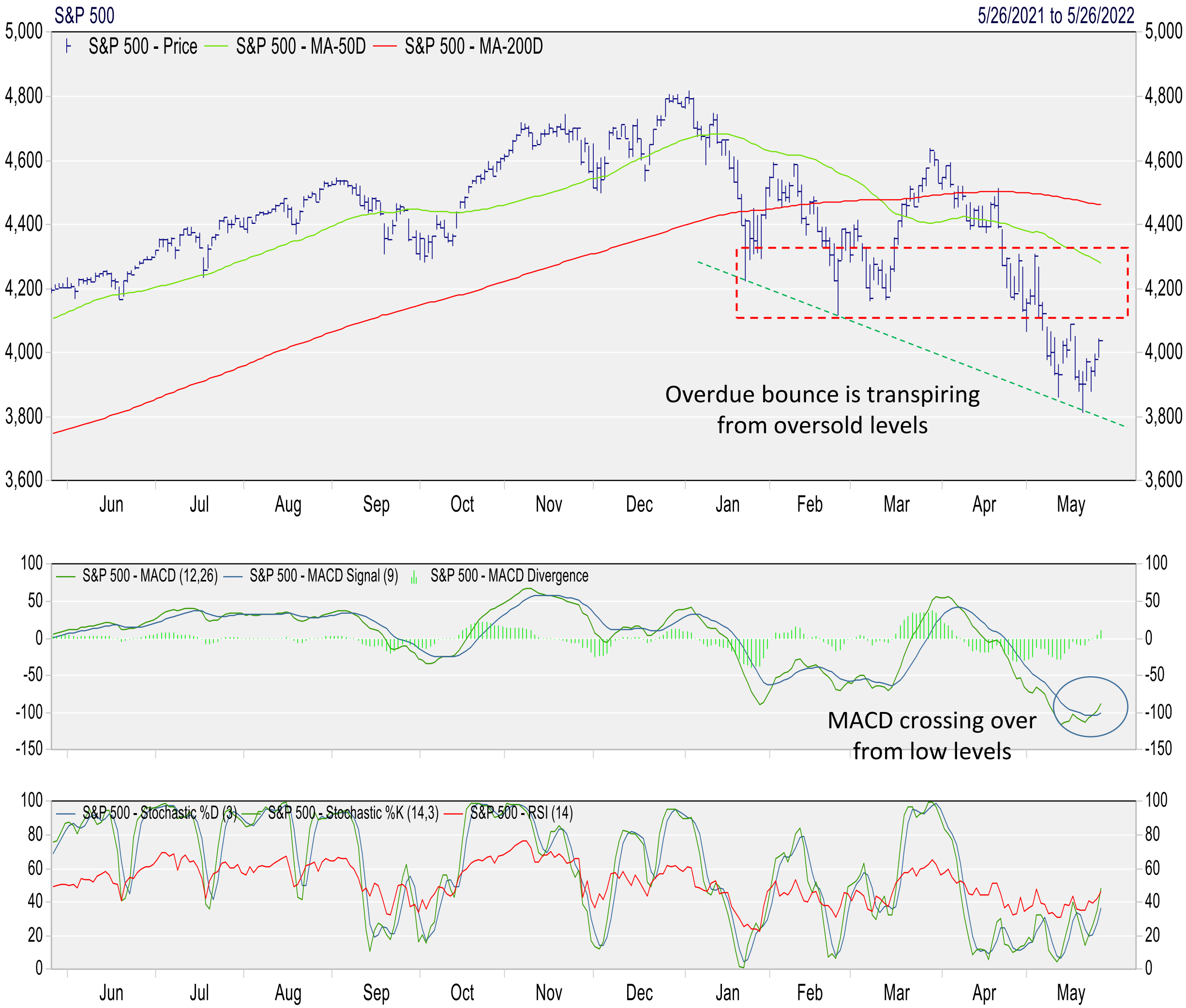
TECHNICAL: S&P 500



Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

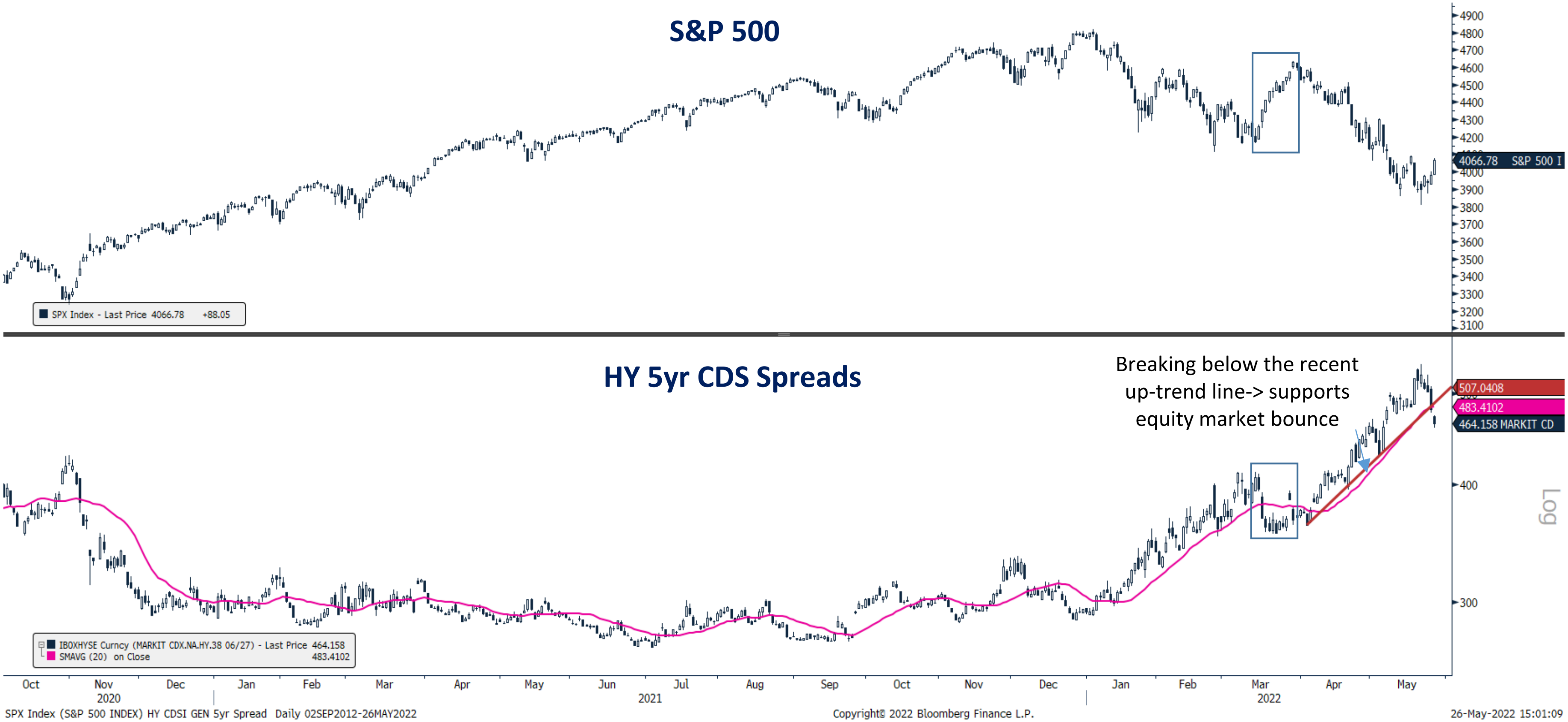
Equities are bouncing from oversold levels, and we see several positives supporting our view that the bounce could continue in the short-term. The degree is tough to peg. It could be a bounce that fails at the short-term resistance areas (20 EMA- 4043, 30-EMA- 4130) or something a little more generous (price break-down near 4200 and the 50-EMA 4193 or the 50-SMA is 4280). Nevertheless, the range of 3%-10% is well within the 3-7% we have suggested is possible at any time.

The bounce is occurring within a dominant declining trend, as Fed messaging suggests the potential for a pause in rate hikes developing after the next two meetings (where 50bp hikes are likely). And the recent equity market weakness is likely a contributor to this “less hawkish” message. However, there remains much uncertainty regarding inflation, which will ultimately be a significant influence on the path of the Fed. Accordingly, we are treating this as only a bounce for now.

Nonetheless, there is plenty to do as the market rallies. Traders can finally play the long side. We suggest using high-beta stocks, which can see meaningful price moves from depressed levels. Longer-term investors can accumulate favored, quality names; and consider lightening holdings they desire to reposition in the rally. Also, watching how certain stocks and sectors trade during the bounce 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.

HIGH YIELD CREDIT DEFAULT SWAPS

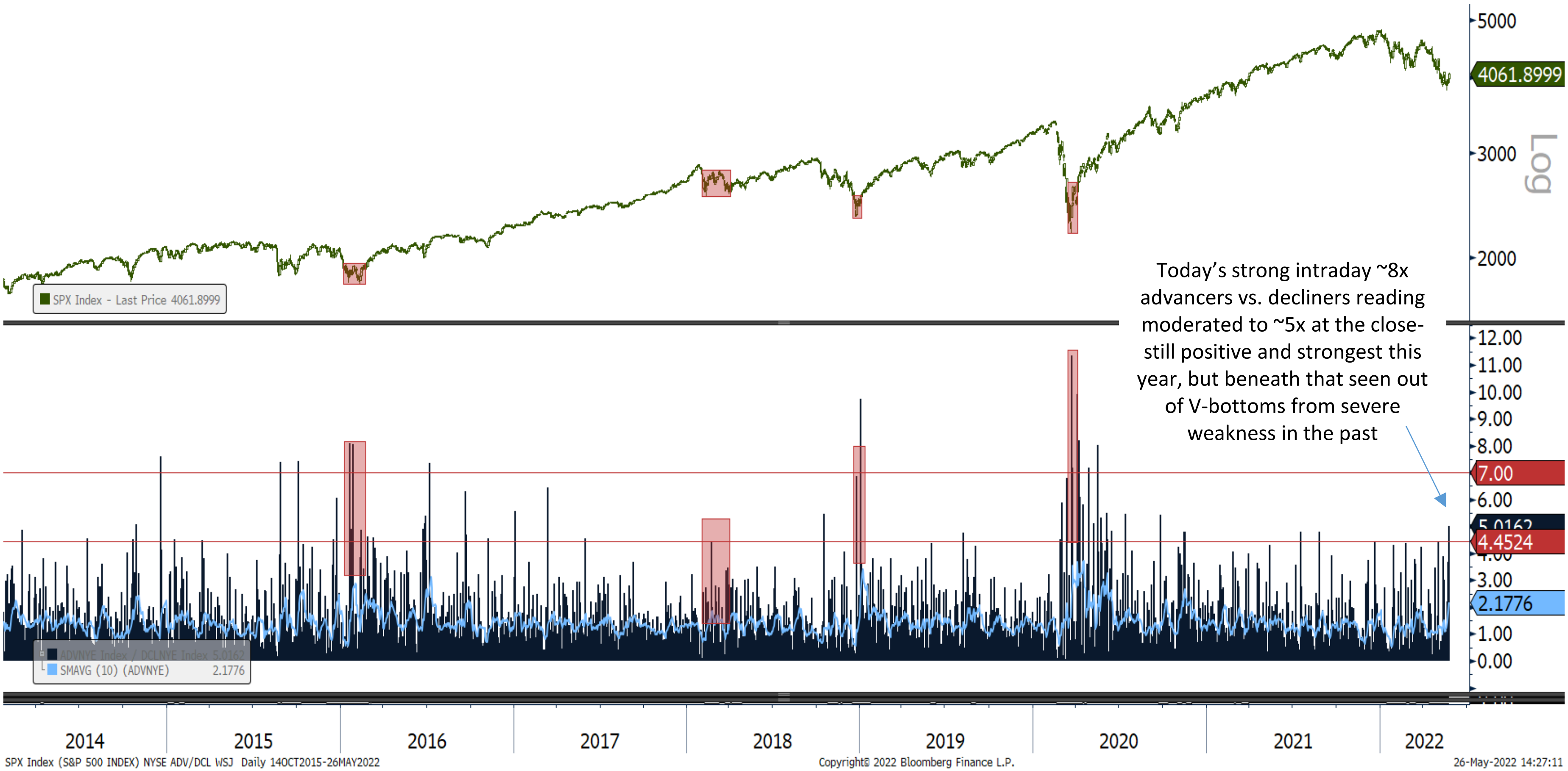
We have been using High Yield 5-year Credit Default Swaps (CDS) as an indicator of market moves this year, given the strong inverse correlation it has had with the S&P 500 year-to-date. Remember, increasing HY CDS spreads (price of "insurance" on corporate bonds) are a sign that bond investors are getting more nervous about the economy. While it remains in an uptrend, HY CDS spreads are breaking below the 20-day moving average trend line. The last time this occurred was back in March, when the S&P 500 rallied 11% in 11 days. This supports the likelihood for a continued rally in the short-term, and we will continue to monitor the move in HY CDS spreads for indications on degree and sustainability of the bounce. We do not want to see a reversal and continuation of the uptrend in HY CDS spreads, which occurred in April and corresponded with new lows for equities.



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

ADVANCERS VS. DECLINERS

Internals will provide clues on the strength of the rally. What we would like to see is a “thrust” of advancers vs. decliners, indicating strong conviction to buy from investors. This morning, advancers vs. decliners were above the ~7x level often seen coming out of severe market weakness. However, this number faded to ~5x by the close- still the strongest seen this year and a positive development, but more in line with our view that we are likely not “out of the woods” yet.

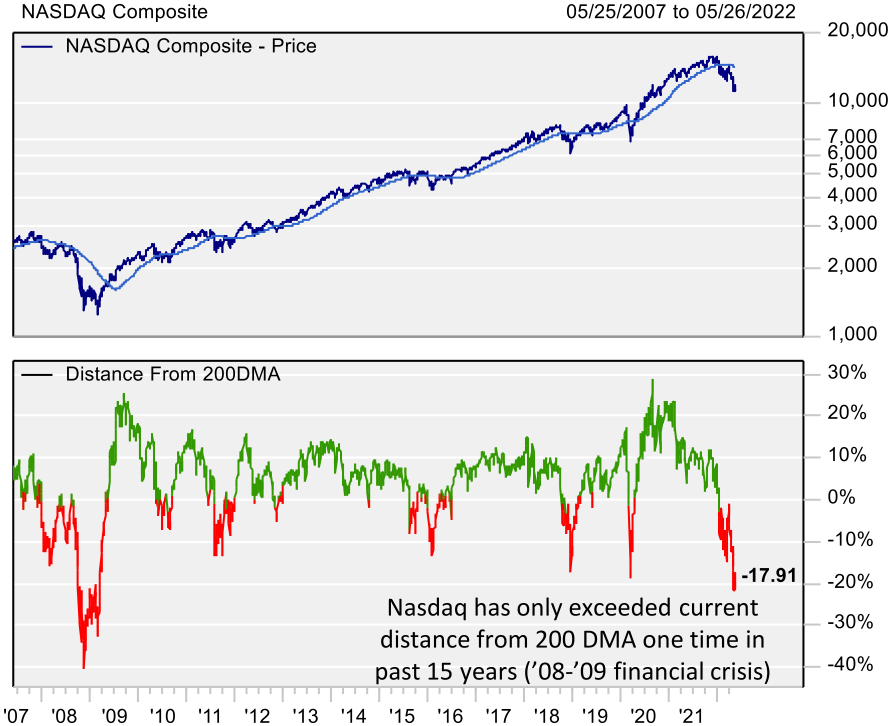


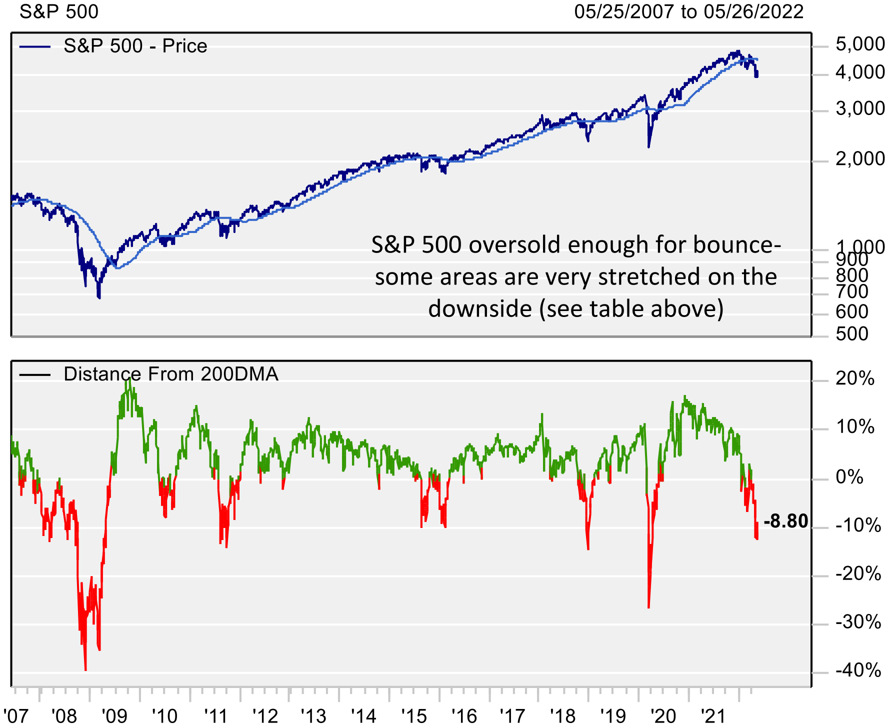
Source: Bloomberg Charting Platform, Raymond James Equity Portfolio & Technical Strategy

DISTANCE FROM 200-DAY MOVING AVERAGE

Equities were overdue a bounce, as many stocks reached oversold levels in the latest downdraft. For example, the S&P 500 reached over 10% below its 200 DMA, which is on par with some of the weakest periods of the past 15 years (i.e. '11 EU debt crisis, '15-'16 US manufacturing recession, late 2018 trade war). Only the '08-'09 financial crisis and 2020 Covid shutdown got noticeably more stretched on the downside. Additionally, the most weakness has come from areas such as Consumer Discretionary, Communication Services, and Technology, followed by Financials and Industrials. In fact, the Nasdaq has only exceeded its current stretch below the 200-DMA (-20%) during one period (2008-2009 financial crisis) in the past 15 years. It is within these areas that we believe the most opportunity resides to play the rally for short-term traders and accumulate quality holdings for long-term investors.

Sector	Avg Stock % from 200 DMA
Energy	35.4%
Utilities	8.3%
Consumer Staples	0.8%
Materials	-0.3%
Health Care	-6.9%
Real Estate	-7.5%
Industrials	-9.9%
Financials	-10.1%
Information Technology	-14.8%
Communication Services	-17.1%
Consumer Discretionary	-20.8%

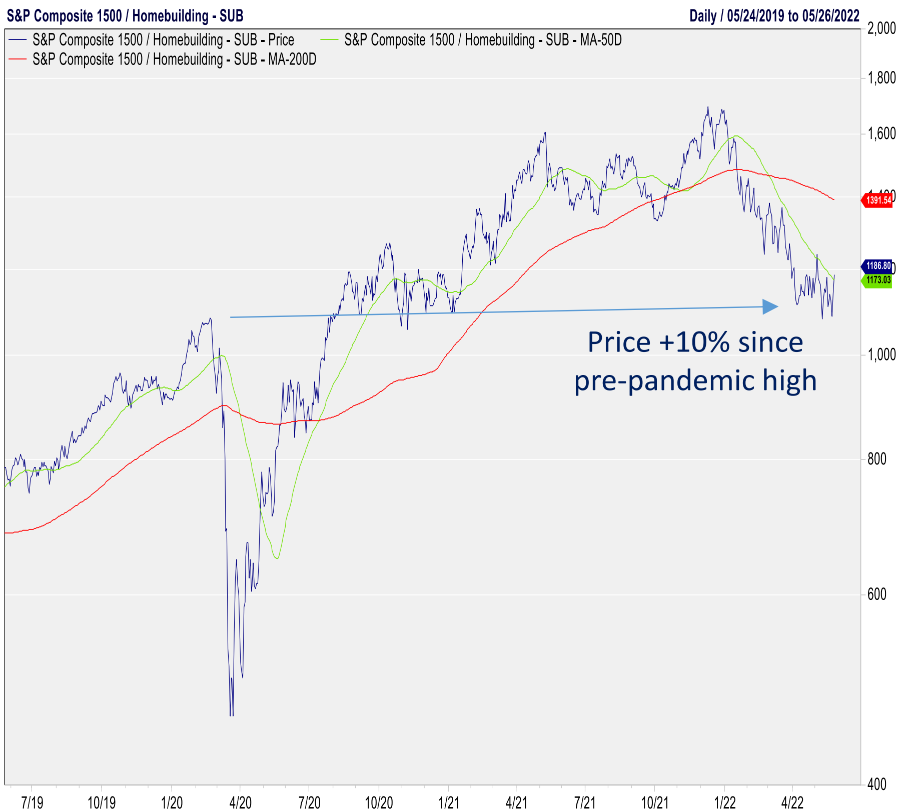


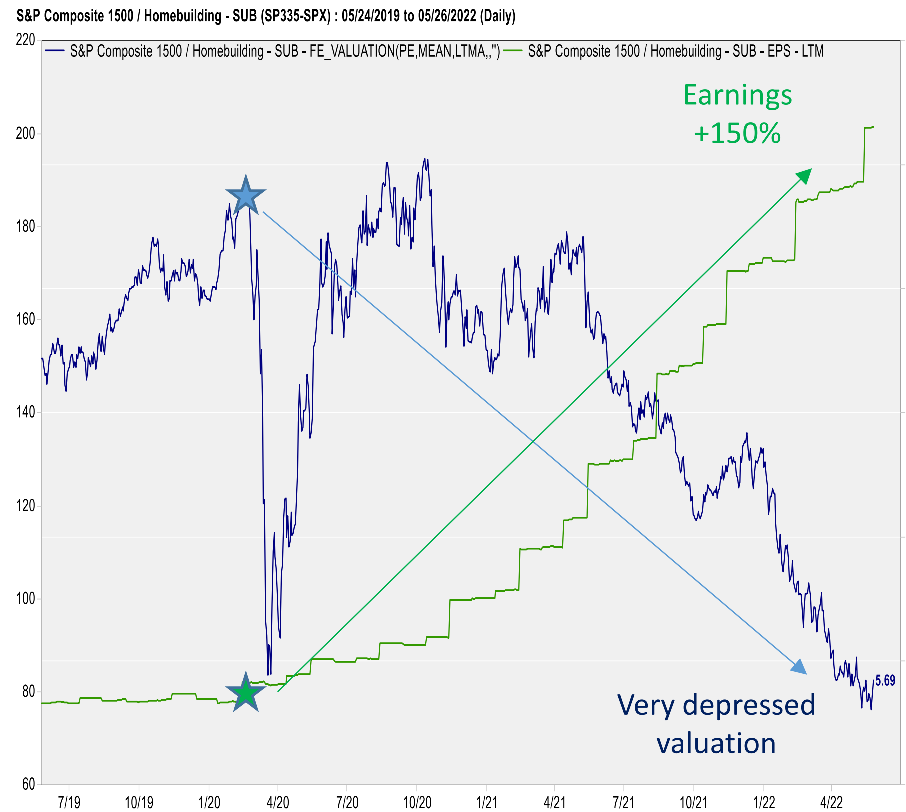


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

HOMEBUILDERS

The homebuilders are a good example of what we are seeing for certain stocks in the current market selloff- where earnings are significantly above pre-Covid levels while prices are near or below those levels, resulting in attractive valuation. The homebuilders are 30% off their highs and now only 10% above February 2020 prices. However, earnings are over 150% higher since 2019- resulting in a very depressed P/E multiple (below the Covid shutdown low P/E). Now, this is likely a result of the coming housing slowdown with mortgage rates up to multi-year highs. However, the structural fundamentals of the housing market are solid with supply still unable to meet demand (unlikely we see a '08-'09 housing collapse). Valuation is a poor timing indicator, but "once the dust settles" from this current macro uncertainty and market pullback, the homebuilders will present opportunity for investors in our view.





Source: FactSet, Raymond James Equity Portfolio & Technical Strategy (M22-4762976)

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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.

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