Weekly Market Guide

The Fed elected to hike by 75bps at yesterday's FOMC meeting, taking the fed funds rate up to a target range of 3.75-4.0%. While Fed Chair Powell's tone leaned toward a slowdown in the pace of hikes (to 50bp in December), he also indicated a higher (and for longer) peak rate than previously anticipated. Market expectations moved the terminal rate up to 5.1% in the first half of 2023, suggesting an additional three 25bp hikes early next year (following a potential 50bp in December).

With the Fed in tightening mode and Powell's tone still resolutely hawkish, we expect the market to remain very data-dependent on inflation and the labor market. A Fed pivot to pause rate hikes still appears a long way off, with inflation needing to slow and labor market tightness to ease in a clear and convincing way (likely to take time). The next major catalysts will be the October jobs report tomorrow (11/4) and October CPI report next Thursday (11/10). The current consensus estimate for next week's core CPI release is 0.5% m/m, which is still much too high. In addition to next Thursday's report, there will be one more CPI reading (on 12/13) before the next FOMC announcement on December 14th.

In the aftermath of the FOMC release, the US 2-year Treasury yield moved to a new cycle high of 4.7%, and equities experienced a heavy selling day (93% down-volume) that is extending into today. Real yields and the US dollar remain very influential to short-term equity market trends- and both are bouncing from oversold conditions with equities short-term overbought. Following the S&P 500's ~12% run up since mid-October, we may have seen an end to the recent bounce rally. Technically, monitor 3739 for initial support, followed by 3574 and 3518. Ideally, we will see less participation on the downside if the market continues to slide from here.

Our overall view is that this bear market has not fully run its course (at least in terms of time). Expect choppiness with Fed hikes hitting economic and earnings growth ahead, and tighter policy still needed. The most important variables are inflation and the economy with the biggest question being when does inflation begin to moderate and by how much. This will affect Fed policy, which in turn will affect how bad the economy has to get before inflation is under control. Despite this, we also believe that equities have priced in 75% of the downside even in a worst case scenario- and believe that long-term investors should be accumulating the weak periods. We see plenty of opportunity at current levels for the long-term with many quality stocks already so far off their highs. In fact, the average S&P 500 stock ex-Energy would return 53% just to get back to its prior high, with even greater potential gains for stocks in the beaten-up areas of Technology and Consumer Discretionary.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-11.5%	-10.8%
S&P 500	-21.1%	-18.8%
S&P 500 (Equal-Weight)	-16.1%	-14.4%
NASDAQ Composite	-32.7%	-32.7%
Russell 2000	-20.3%	-24.2%
MSCI All-Cap World	-23.4%	-22.9%
MSCI Developed Markets	-24.5%	-25.2%
MSCI Emerging Markets	-29.1%	-30.9%
NYSE Alerian MLP	25.9%	17.1%
MSCI U.S. REIT	-29.1%	-24.9%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	61.1%	5.5%
Utilities	-7.3%	3.0%
Health Care	-7.5%	15.5%
Consumer Staples	-7.8%	7.0%
Industrials	-12.5%	8.4%
Financials	-14.0%	11.7%
Materials	-20.1%	2.5%
S&P 500	***-21.1%***	-
Information Technology	-29.8%	25.9%
Real Estate	-31.1%	2.6%
Consumer Discretionary	-33.7%	10.6%
Communication Svcs.	-42.4%	7.2%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

MACRO: US

Event	Period	Actual	Consensus	Surprise	Prior
ECI Civilian Workers SA Q/Q	Q3	1.2%	1.2%	-0.0%	1.3%
ECI Civilian Workers SA Y/Y	Q3	5.0%	5.1%	-0.10%	5.1%
Core PCE Deflator M/M	SEP	0.45%	0.50%	-0.05%	0.54%
Core PCE Deflator Y/Y	SEP	5.1%	5.2%	-0.05%	4.9%
PCE Deflator SA M/M	SEP	0.33%	0.30%	0.03%	0.26%
PCE Deflator Y/Y	SEP	6.2%	6.3%	-0.06%	6.2%
Personal Consumption Expenditure SA M/M	SEP	0.60%	0.40%	0.20%	0.60%
Personal Income SA M/M	SEP	0.40%	0.40%	-0.0%	0.40%
Pending Home Sales Index SAAR	SEP	79.5	87.4	-7.9	88.5
Pending Home Sales M/M	SEP	-10.2%	-3.8%	-6.5%	-1.9%
Chicago PMI SA	OCT	45.2	47.2	-2.0	45.7
Dallas Fed Index	OCT	-19.4	-8.5	-10.9	-17.2
Markit PMI Manufacturing SA (Final)	OCT	50.4	49.9	0.50	49.9
Construction Spending SA M/M	SEP	0.20%	-0.50%	0.70%	-0.60%
ISM Manufacturing SA	OCT	50.2	50.0	0.20	50.9
JOLTS Job Openings	SEP	10,717K	9,800K	917.0K	10,280K
BEA Domestic Auto Sales SAAR (Preliminary)	OCT	2.4M	-	-	2.1M
BEA Domestic Light Truck Sales SAAR (Preliminary)	OCT	9.5M	-	-	8.6M
BEA Total Light Vehicle Sales (Preliminary)	OCT	14.9M	14.7M	0.20M	13.6M
ADP Employment Survey SA	OCT	239.0K	195.0K	44.0K	192.0K
Continuing Jobless Claims SA	10/22	1,485K	1,450K	35.0K	1,438K
Initial Claims SA	10/29	217.0K	222.5K	-5.5K	218.0K
Unit Labor Costs SAAR Q/Q (Preliminary)	Q3	3.5%	4.0%	-0.50%	8.9%
Productivity SAAR Q/Q (Preliminary)	Q3	0.30%	0.40%	-0.10%	-4.1%
Trade Balance SA	SEP	-$73.3B	-$72.0B	-$1.3B	-$65.7B
PMI Composite SA (Final)	OCT	48.2	47.3	0.90	47.3
Markit PMI Services SA (Final)	OCT	47.8	46.6	1.2	46.6
Durable Orders ex-Transportation SA M/M (Final)	SEP	-0.52%	-	-	-0.50%
Durable Orders SA M/M (Final)	SEP	0.39%	0.40%	-0.01%	0.40%
Factory Orders SA M/M	SEP	0.30%	0.30%	-0.0%	0.20%
ISM Services PMI SA	OCT	54.4	55.4	-1.0	56.7

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

There was a lot of US economic data reported over the past week, highlighted by yesterday's FOMC meeting where the Fed raised the fed funds rate by 75bps to a target range of 3.75-4.0%.

This statement from the Fed on the cumulative effect of significant tightening this year working with a lag on the economy indicates a **potential slower pace of hikes ahead**- "In determining the pace of future increases in the target range, the Committee will take into account the **cumulative tightening of monetary policy**, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."

However, inflation remains sticky at far too high of levels and the labor market is extremely tight- so **more restrictive policy is needed**.

Additionally, on the timeline for an eventual pause in rates, Fed Chair Powell stated, "It's premature to discuss pausing. I would want people to understand our commitment to getting this done and to not making the mistake of not doing enough or the mistake of withdrawing our strong policy and doing that too soon."

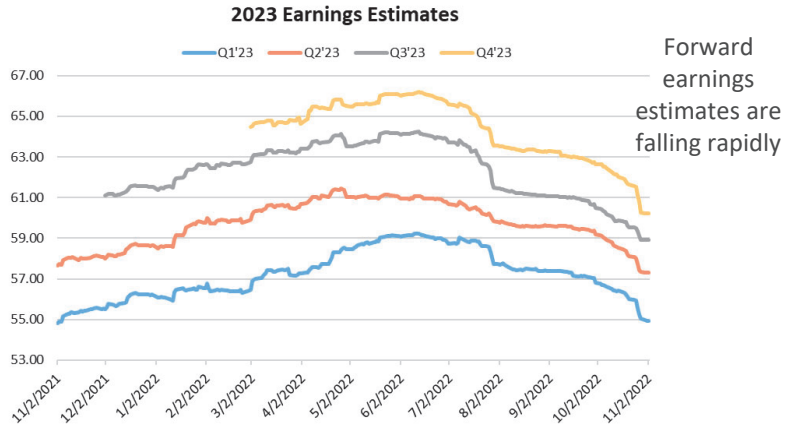
The result is a current Fed outlook of higher rates that stay high for an extended period. Monetary policy has to be more restrictive and expectations for the necessary peak Fed funds rate have gone up since the last meeting- the market is now implying the peak rate may be above 5%, suggesting 50bps in December and three more 25 bp hikes in the first half of 2023.

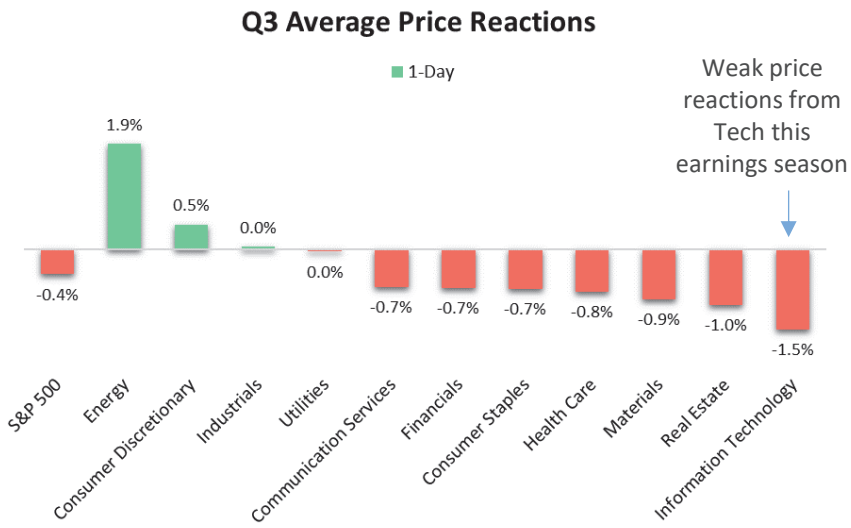
In sum: It will be difficult for equities to show durable upside with inflation so high in our view. We believe inflation will moderate over the next year and the Fed will be able to back off, supporting market upside. However, the question is when will moderation begin and to what degree in the coming months- impacting market volatility and price levels in the meantime.

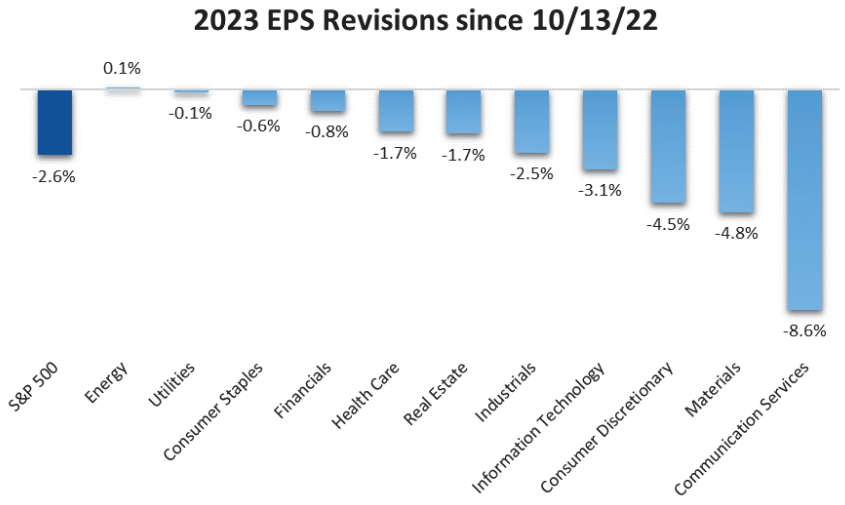
Q3 EARNINGS SEASON

78% of the S&P 500's market cap has reported Q3 results. 70% of the stocks have beaten expectations by an aggregate 2.8% (lowest rate since Covid). Stock price reactions have been mixed with roughly half of stocks trading higher on the reports and the other half trading lower. On average, the 1-day price reaction to earnings has been -0.4% with the best sector reactions coming from Energy, Consumer Discretionary, Industrials, and Utilities. Technology (the market's largest sector) stands out as the worst reactions on average. Additionally, with the exception of Energy, forward earnings estimates are being revised lower across the board.

As rapid Fed tightening works with a lag on the economy, we expect earnings expectations to continue to get revised lower. Our 2023 base case S&P 500 earnings estimate is $215 vs the current consensus estimate of $232, given our view of a mild recession. However, recessionary bear markets bottom well ahead of the economy and fundamentals (i.e. stocks discount the future). The most important variables are inflation and the economy with the biggest question being when does inflation begin to moderate and by how much. This will affect Fed policy, which in turn will affect how bad the economy has to get before inflation is under control. As investors can gain clarity on the outlook (when inflation comes down), valuation multiples will provide more support for equity market upside.



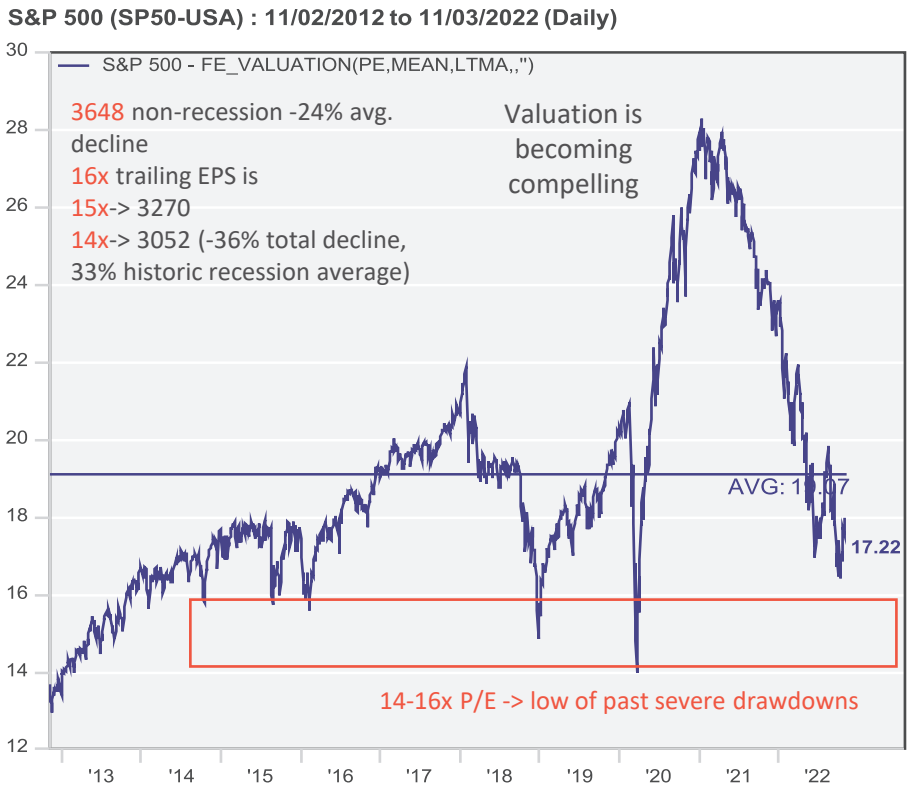


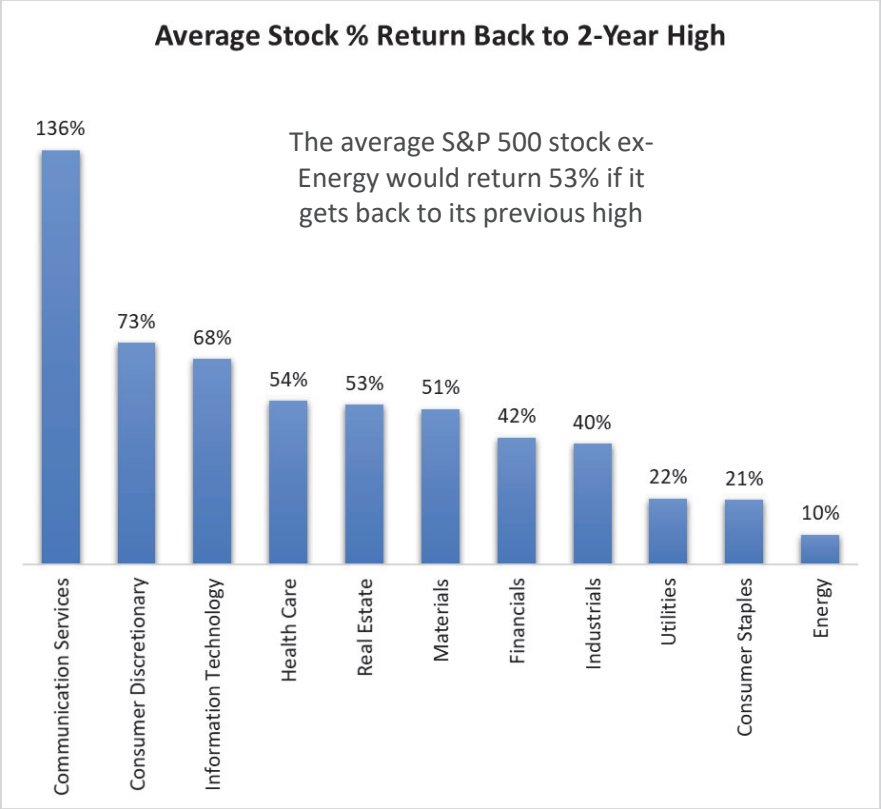


Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

STOCKS PRESENTING LONG-TERM OPPORTUNITY

Despite the obvious negatives in terms of the economic and earnings outlook, we also believe that equities have priced in a lot of negative news. The S&P 500 P/E has already re-rated lower over 40% from its highs and is approaching the 14-15x capitulation P/E multiples seen very briefly at 2018 and 2020 lows. We believe that 75% of the downside in a worst case scenario is already behind us- and with this in mind, long-term investors should be accumulating the weak periods. While valuation is not a great timing indicator, we see plenty of opportunity at current levels for the long-term with many quality stocks already so far off their highs. In fact, the average S&P 500 stock ex-Energy would return 53% just to get back to its prior high, with even greater potential gains for stocks in the beaten-up areas of Technology, Consumer Discretionary, and Communication Services.





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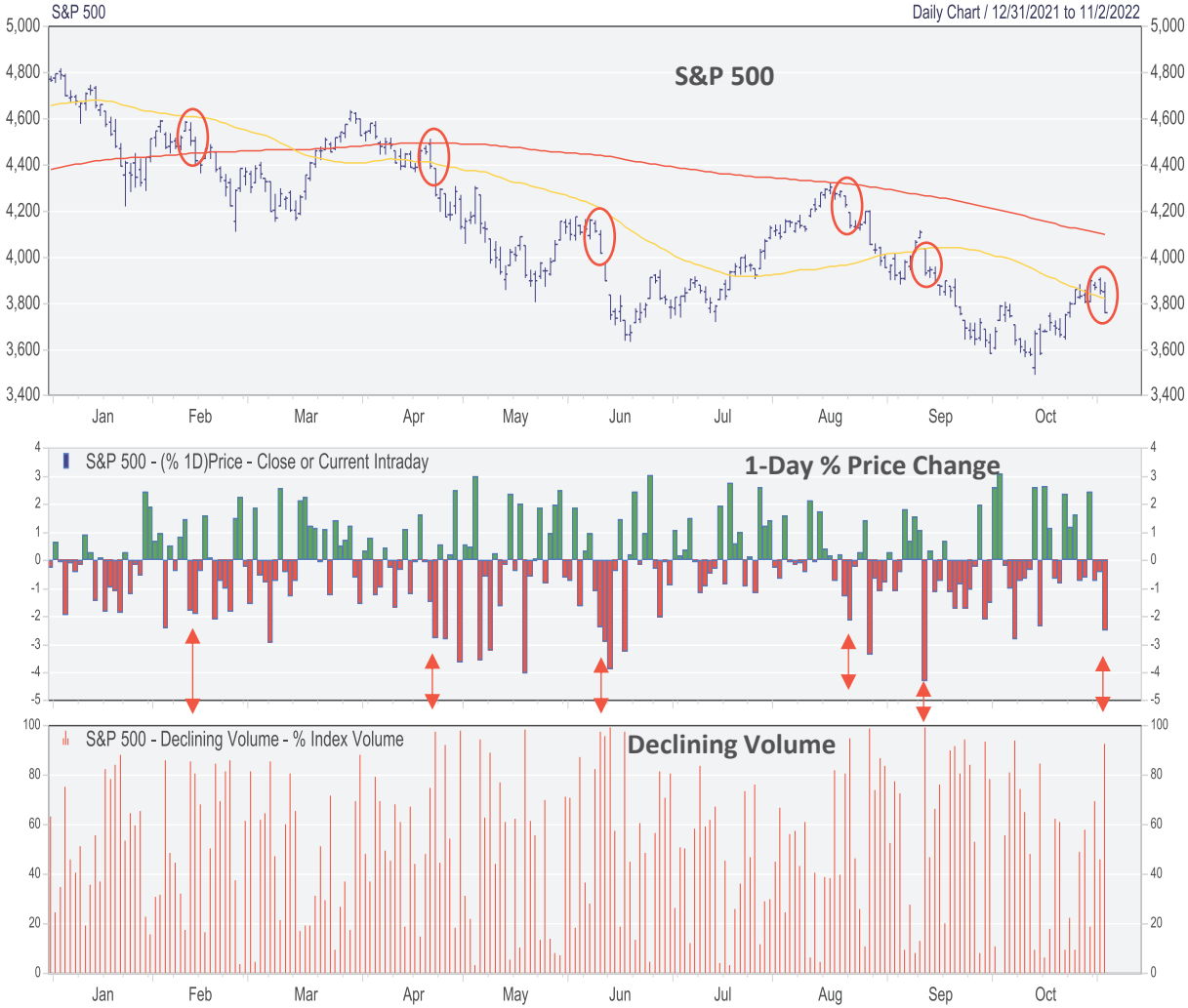
TECHNICAL: S&P 500



Equities experienced heavy selling pressure post-Fed meeting yesterday- finishing down over 2% with 90%+ declining volume. And that weakness is extending into today.

The decline also comes from technical resistance at ~3910 and follows a ~12% gain from the lows in mid-October.

As you can see in the left chart, similar declines from resistance this year (and following bounce periods) have seen equities continue to pull in over the short-term. Thus, we may have seen an end to the recent bounce rally.

Technically, monitor 3739 for initial support, followed by 3574 and 3518. Ideally, we will see less participation on the downside if the market continues to slide from here (would be an indication that downside momentum is waning).

Source: FactSet, Raymond James Equity Portfolio & Technical Strategy

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