Weekly Market Guide

On one hand, technical indicators are becoming encouraging; while on the other hand, economic data (and fundamentals) are weakening. Oftentimes, the technicals will improve prior to the fundamentals (particularly out of bear markets), so this grabs our attention and supports our view that trends may be turning. However, we also do not believe that equity markets are ready for sustainable upside yet with the Fed still tightening (and unlikely to quickly pivot), economic indicators weakening, lower EPS estimate revisions, valuation not at "washed out" levels, and the market still in an overall downtrend. We remain positive on equity market returns over the next 12 months, but headwinds to durable upside remain in the shorter-term.

Many things technically have improved, but (ultimately) the big picture has not changed yet- the dominant trend is still down for now. The S&P 500 has been capped numerous times over the past year at its downtrend line near the 200-day moving average, and yesterday's weakness came from that point. What we are watching following yesterday's weakness is if the pullback gains momentum in the coming days or is quickly shaken off. **Overall, we believe the net result is a market that may become more range-bound over the coming months, potentially between ~3700-4300. For the pragmatic investor with marginal cash, we recommend accumulating on weakness and building allocations over time as the trend continues to evolve.**

Q4 Earnings Season: It is only just the beginning of Q4 earnings season, but so far results are coming in below historic averages. 63% of S&P 500 companies are beating estimates by 4% (vs 15-year averages of 70% and 5.4%, respectively). Guidance is also being cut with 2023 earnings estimates moving broadly lower. For example, the banks are setting aside extra reserves for an expected rise in loan delinquencies. Performance has been mixed so far on results with an average 1-day price change of 0.2%. Whereas stocks were able to rally in Q3 earnings season, they were also coming off their lows with better-than-expected inflation data. With the average S&P 500 stock now well off its lows, weak results this earnings season may be more of a headwind. Q4 earnings season ramps up next week with 85 S&P 500 companies reporting.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	0.5%	-5.9%
S&P 500	2.3%	-14.2%
S&P 500 (Equal-Weight)	3.6%	-7.8%
NASDAQ Composite	4.7%	-24.5%
Russell 2000	5.3%	-11.5%
MSCI All-Cap World	4.6%	-13.6%
MSCI Developed Markets	8.2%	-9.0%
MSCI Emerging Markets	7.7%	-17.0%
NYSE Alerian MLP	3.7%	13.8%
MSCI U.S. REIT	5.1%	-19.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Discretionary	6.8%	10.2%
Communication Svcs.	5.9%	7.5%
Real Estate	5.4%	2.8%
Materials	5.3%	2.8%
Information Technology	3.9%	26.1%
Financials	2.8%	11.7%
S&P 500	***2.3%***	-
Industrials	1.5%	8.5%
Energy	1.0%	5.2%
Utilities	-1.4%	3.1%
Health Care	-2.3%	15.2%
Consumer Staples	-2.4%	6.9%

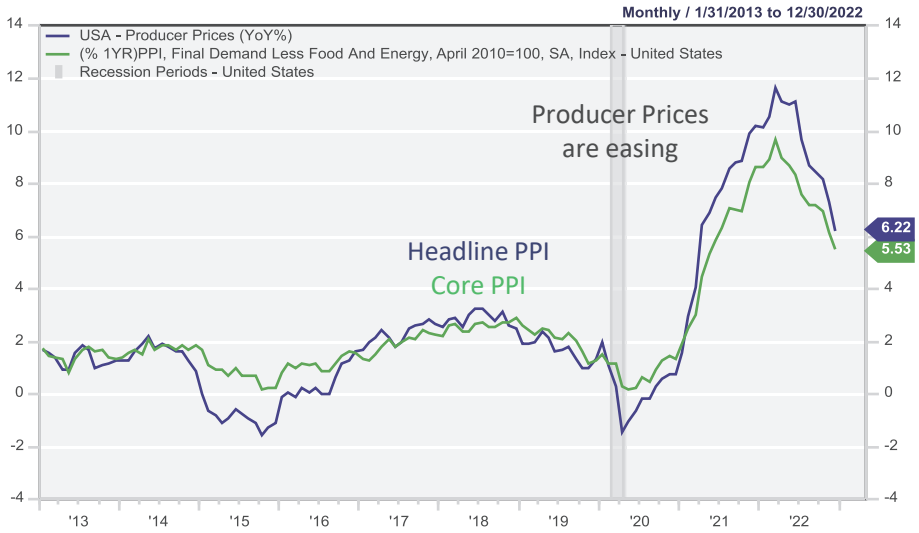
Source: FactSet, RJ Equity Portfolio & Technical Strategy

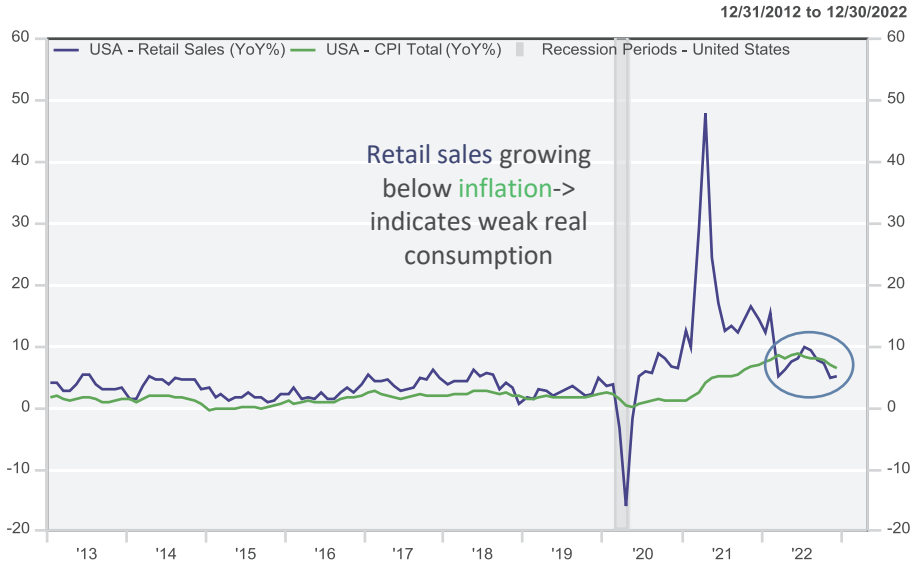
MACRO: US

Retail sales and industrial production both contracted in December (on a month/month basis) by more than expected. Additionally, retail sales growth of 5.2% y/y has been due to high inflation. In essence, US consumers have been spending "more for less" over the past year- as "real" consumption declines. This has created financial strains, eating into disposable income levels and savings rates- and is unsustainable for the US consumer. Importantly, it does appear that price pressures are easing, which we expect to continue over the coming year. But economic leading indicators are still declining, and we expect economic weakness ahead as Fed tightening works with a lag.

Event	Period	Actual	Surprise	Prior
Michigan Sentiment NSA (Preliminary)	JAN	64.6	4.4	59.7
Empire State Index SA	JAN	-32.9	-24.6	-11.2
PPI ex-Food & Energy SA M/M	DEC	0.10%	-0.0%	0.20%
PPI ex-Food & Energy NSA Y/Y	DEC	5.5%	0.03%	6.2%
PPI SA M/M	DEC	-0.50%	-0.40%	0.20%
PPI NSA Y/Y	DEC	6.2%	-0.56%	7.3%
Retail sales Ex AutoFuel M/M	DEC	-0.69%	-0.84%	-0.48%
Retail Sales ex-Auto SA M/M	DEC	-1.1%	-0.65%	-0.60%
Retail Sales SA M/M	DEC	-1.1%	-0.30%	-1.0%
Industrial Production SA M/M	DEC	-0.70%	-0.60%	-0.60%
Business Inventories SA M/M	NOV	0.40%	-0.0%	0.20%
NAHB Housing Market Index SA	JAN	35.0	4.0	31.0
Building Permits SAAR (Preliminary)	DEC	1,330K	-40.0K	1,351K
Continuing Jobless Claims SA	01/07	1,647K	4.5K	1,630K
Housing Starts M/M	DEC	-1.4%	3.3%	-1.8%
Housing Starts SAAR	DEC	1,382K	24.0K	1,401K
Initial Claims SA	01/14	190.0K	-25.0K	205.0K
Philadelphia Fed Index SA	JAN	-8.9	2.1	-13.7

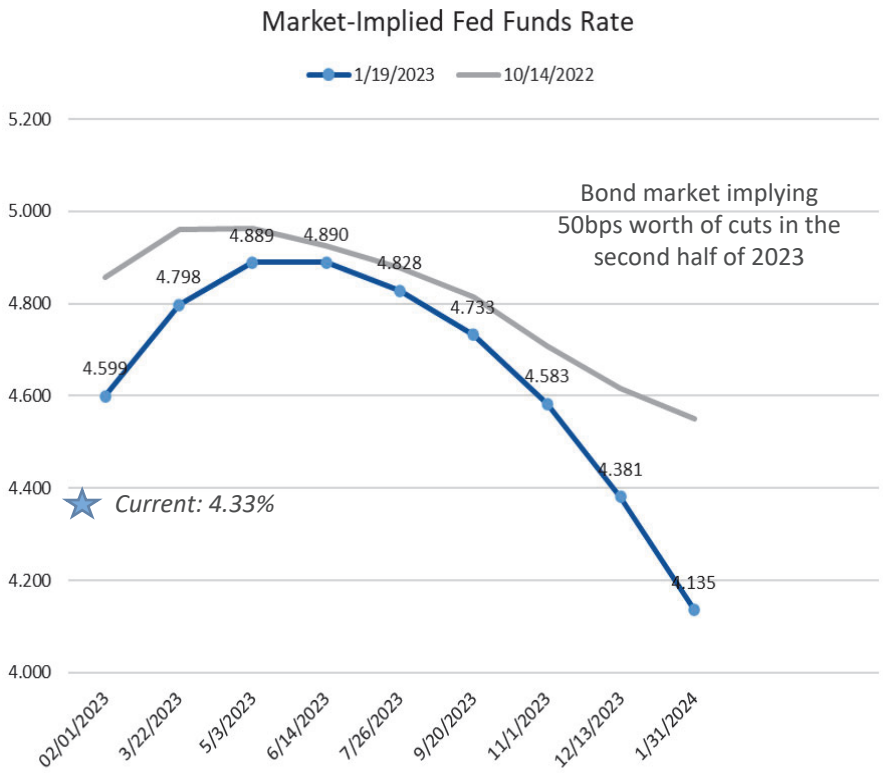
Source: FactSet, Gibbs Capital Management





MARKET-IMPLIED FED EXPECTATIONS

The 2-year Treasury yield recently moved below the Fed funds rate for the first time since the tightening cycle began. In both bond yields and in breakeven rates, the bond market is indicating that inflation has peaked- and that the Fed likely only has 50bps of tightening left in the first half of 2023. This is a big deal for equity markets, as Fed expectations have been a significant influence on markets over the past year. For example, the S&P 500 low in October corresponds with the peak in Fed funds expectations- supporting valuation multiple expansion since then. However, the bond market is also expecting ~50bps of Fed cuts in the back half of 2023. That likely requires real economic and labor market weakness in our view, which we do not believe is fully priced in by equity markets. This disconnect creates pause to our market expectations. While the worst of this bear market may be behind us at this point, we are also not convinced that equities are ready for durable upside yet either.



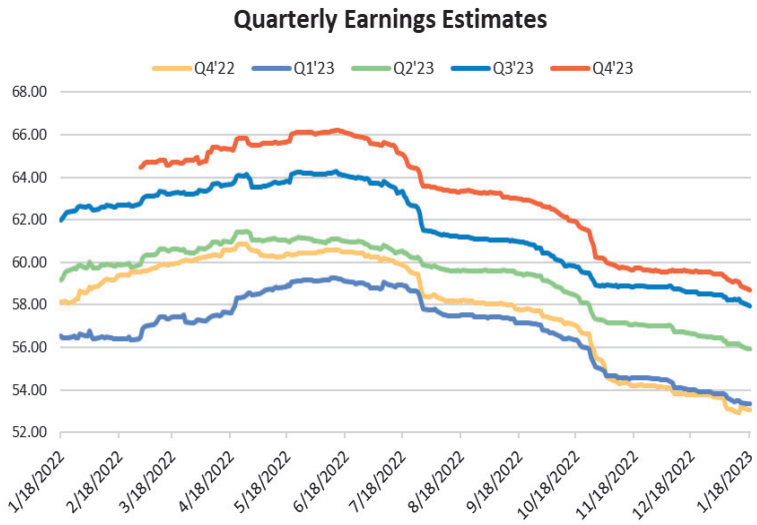
Source: FactSet, Gibbs Capital Management

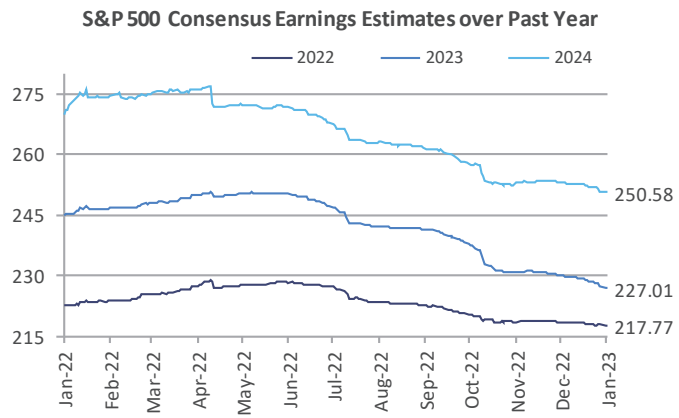
Q4 EARNINGS SEASON

It is only just the beginning of Q4 earnings season, but so far results are coming in below historic averages. 63% of S&P 500 companies are beating estimates by 4% (vs 15-year averages of 70% and 5.4% 15-year averages, respectively). Guidance is also being cut with 2023 earnings estimates moving broadly lower. For example, the banks are setting aside extra reserves for an expected rise in loan delinquencies. The most significant earnings estimate declines have been from Energy and Financials this month.

Performance has been mixed so far on results with an average 1-day price change of 0.2%. Whereas stocks were able to rally in Q3 earnings season, they were also coming off their lows with better-than-expected inflation data. With the average S&P 500 stock now well off its lows, weak results this earnings season may be more of a headwind. Q4 earnings season ramps up next week with 85 S&P 500 companies reporting.

Given our base case expectation for a mild recession, we use a 2023 earnings estimate of $215 (below the current bottom-up analyst estimate of $227). Despite our expectations for an earnings contraction this year, we do believe equity markets will be higher by year-end 2023 due to valuation multiple expansion as investors gain clarity on inflation, Fed policy, and the economic damage done.





EPS Growth Estimates	
2022	5.4%
2023	4.2%
2024	10.4%

Source: FactSet, Gibbs Capital Management

TECHNICAL: S&P 500

Source: FactSet, Gibbs Capital Management

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The S&P 500 has been capped numerous times over the past year at its downtrend line near the 200-day moving average, and yesterday's weakness came from that point. What we are watching following yesterday's weakness is if the pullback gains momentum in the coming days or is quickly shaken off.

Short-term stochastics are rolling over. Watch for initial support at the 21DMA (currently at 3876). Below 3876 watch for support at 3800, 3700, and then 3518. The downtrend line, which currently comes in at 4035 will continue to be the resistance area to watch on the upside.

Overall, we believe the market may become more range-bound over the coming months, potentially between ~3700-4300. For the pragmatic investor with marginal cash, we recommend accumulating on weakness and building allocations over time as the trend continues to evolve.

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