A glimpse of the year ahead from the members of the Raymond James Investment Strategy Committee

10 THEMES

The evolution of markets—scarier than Jurassic Park?

Celebrating its 30th anniversary this year, the film Jurassic Park explores what happens when investors get jumpy about disrupting the laws of nature. By contrast, today's investors are concerned about the markets' natural evolution. Shifts in the investment landscape present new situations to adapt to, but also new opportunities to discover. As we unearth our 10 themes for 2023, we believe it's better to be prepared than petrified.

1. **While a mild recession is likely, ongoing, sector-specific "rolling recessions" have contained some of the downturn.**
2. **With Fed policy cutting into demand, inflation won't be at the top of the market-risk food chain for much longer.**
3. **As the impacts of major events—midterms, war and more restrictive international COVID-19 policies—recede, so will volatility.**
4. **Globalization isn't headed toward extinction; it's evolving. And that evolution could make domestic multinational firms more attractive.**
5. **Security will be a priority, with measures to protect natural resources, supply chains and technologies ramping up.**
6. **Fixed income rates may have peaked, but yields remain attractive. However, it will be important to prioritize quality.**
7. **Despite predictions of a rocky year, a focus on cost-cutting and shareholder-friendly activities could help equities beat expectations.**
8. **Emerging market growth is expected to outpace that of the developed market by the widest margin since 2013.**
9. **Investors would be wise to avoid "speculative hotspots" and stick to basics in what could be a "survival of the fittest" environment.**
10. **For 2023, lean contrarian—a willingness to move outside the "herd" could be the key to growth in a muted environment.**

2023 ECONOMIC OUTLOOK

These 20s aren't roaring

INTEREST RATES

Our view is that the Fed will need two years to bring inflation back down, but this process started last year, so we are probably halfway to achieving low and stable prices. However, we expect inflation to be below 3% by the end of 2023.

ADJUSTMENT PERIOD

The biggest concern today is that economic actors (i.e., individuals, businesses, the external sector as well as the US government) are adjusting to higher interest rates. And the way in which these economic actors adjust will determine the economy's path forward in 2023.

GOODS VS. SERVICES

This economic cycle is very different from previous ones in that the service sector is expected to continue to expand while goods sectors struggle. High interest rates will continue to push the price of high-ticket items down, bringing the sectors into a better equilibrium.

The three potential reasons for higher interest rates

- The economy is growing too fast compared to potential output
- Inflation is too high, independent of what is happening to economic growth
- Inflation and economic growth are too high

2023 EQUITY OUTLOOK

Equities in need of clarity

2023 will be heavily influenced by three questions:

1. To what degree will inflation moderate?
2. How will central bank policy progress?
3. How much demand-driven pressure will the Fed need to inflict on the economy in order to bring inflation down?

While equities may have further downside or time left before durable upside can occur, we do believe that the majority of this bear market is behind us and recommend not losing sight of the bull market opportunity that will occur on the other side of the current weak trend.

2023 Year-End Outlook

	Bull Case	Base Case	Bear Case
S&P 500 TARGETS	~4,935	~4,400	~3,675
FACTORS	Soft landing, inflation comes down quickly	Mild recession, inflation moderates, equities exit bear market	Inflation stickier than expected, Fed policy tightens

Source: Raymond James Equity Portfolio & Technical Strategy

2023 FIXED INCOME OUTLOOK

The "income" is back in fixed income

Market forces will likely continue to move the yield needle in a distorted pattern in 2023, yet investors seeking income and cash flow may relish in the current attainable yield levels. And fixed income may provide multiple benefits in 2023, rewarding both total return investors as well as income/cash flow investors.

The inverted yield curve is thought to precede a recession but is also an indicator of lower future rates. In our view, value lies in the intermediate part of the curves.

Locking in these rates may give investors strong income benefits to work alongside individual bonds' protective asset qualities.

Whether you are an investor seeking total return or just earning income, there appears to be a window of opportunity in fixed income.

2023 ENERGY OUTLOOK

Volatility moves energy security and diversification into the spotlight

In a period of epic turbulence in geopolitics and economics—and for the second straight year—energy was the best-performing sector of the S&P 500 in 2022, up more than 40%. However, energy remains less than 5% of S&P 500 market cap, illustrating that it remains an under-owned, somewhat contrarian sector for investors. In 2023, some of the biggest forces at work will be how the European energy crisis continues to accelerate the push toward energy diversity and the influence of climate policy.

WTI CRUDE	BRENT CRUDE	NATURAL GAS
$100/Bbl	$103/Bbl	$6.00/Mcf

Source: FactSet, as of 9/30/2022

2023 GLOBAL OUTLOOK

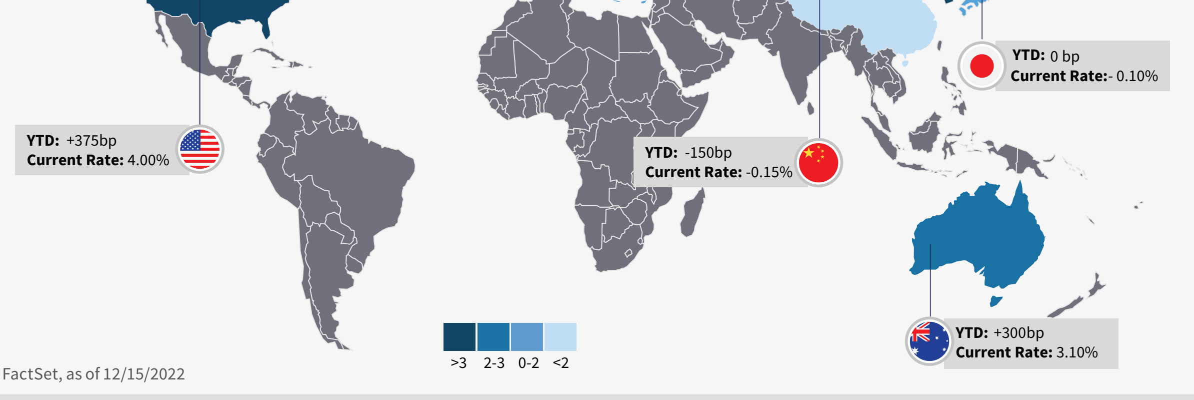
Global economy on an uneven path

Persistently high inflation and the monetary policy response are driving the global economy into recession. The coming global weakness will see sluggish growth or even outright GDP contractions in most developed economies outside the United States, with the eurozone likely to fare worst.

MAJOR FORECASTS

- A comparatively shallow recession is likely.
- Global inflation will dissipate in 2023.
- Recovery across developed economies will be rapid. Recovery across developed economies will be rapid.
- A preference for specific themes (renewable energy, energy infrastructure rebuild) should serve investors well.

WHERE GLOBAL CENTRAL BANKS STOOD AT THE END OF 2022



Source: FactSet, as of 12/15/2022

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