

2022 OUTLOOK

Raymond James Investment Strategy Committee members share their 2022 outlook

10 THEMES

Going the distance

2021 was all about speed – the fastest economic recovery on record and a history-making equity market run. This year, investors should look for precise execution – from the Federal Reserve (Fed), corporate CEOs and OPEC, among others – to help maintain last year’s momentum and overcome any challenges. We forecast another gold medal year for the markets and the economy.*

KEY CONSIDERATIONS FOR 2022

- Economy poised to set above-trend pace again even without policy support.**
- Undervalued small caps in cyclical sectors could offer investors an edge.**
- Expect at least two interest rate hikes from the Fed to help stem inflation.**
- Not much to limit tech’s outsized contributions to productivity, earnings power or valuations.**
- Yields will likely end the year slightly higher; however, bonds often provide ballast during normal volatility.**
- Seasoned investors might look to Asia for attractive valuations and exposure to high-growth tech.**
- Despite past legislative support from both parties, anticipate gridlock after the midterms.**
- Supply and demand should help oil prices stabilize and encourage the development of renewable energy.**
- Cyclical sectors could benefit from above-trend economic growth.**
- For 2022, look below the surface for selective opportunities to bolster your portfolio.**

*Financial forecasts should NOT be considered a guarantee of future performance or a guarantee of achieving overall financial objectives. Expressions of opinion are as of 1/4/2022 and are subject to change. Past performance is not a guarantee or a predictor of future results.

2022 ECONOMIC OUTLOOK

Time will tell

The outlook for the coming year is likely to be more volatile, with inflation and Fed policy as the major factors. Investors should be prepared for the ground to shift repeatedly in 2022.

INFLATION	GDP	SAVING AND SPENDING
Near-term inflation expectations have risen, but longer-term inflation expectations remain consistent with the Fed’s goal.	Expect GDP growth to be ~3.5% in 2022. Labor market constraints may impede faster growth, though higher wages should pull many back into the workforce, providing some upside.	Consumer spending growth should remain supported by job and wage growth as well as some savings from the 2021 government stimulus (implying some reduction in consumer purchasing power).

2022 EQUITY OUTLOOK

Bullish on earnings

As we move into 2022, we remain positive on equity markets but believe the pace of market ascent should moderate and normal periods of volatility should return as Fed policy normalizes, along with the rate of economic and earnings growth. We recommend a balanced, pro-cyclical tilt and would look to use pullbacks and rotation in favored stocks and sectors as an opportunity.

Positives Outweigh Negatives

Positives	Negatives
Above-trend economic growth	Potential sticky inflation
Solid earnings growth	Investor perception of the Fed’s path
Healthy US consumer	Virus mutations
Relative value of stocks versus bonds	Elevated valuation

SECTOR VIEWS

OVERWEIGHT:	Consumer Discretionary	Financials	Communication Services	Energy	Industrials
EQUAL WEIGHT:	Technology	Health Care	Materials	Real Estate	
UNDERWEIGHT:	Consumer Staples	Utilities			

2022 FIXED INCOME OUTLOOK

Rethinking fixed income

Predictability is a central part of income investing, but we think it will take more than a 50/50 or 60/40 static split and simple rules-based allocations to meet objectives and outpace cost of living. Capital markets are in transition to a redefining mindset.

Successful income planning and investing require actively managing market and inflation risk.	Income investors can manage volatility, optimize cash flow and mitigate inflation risk by comparing risk/income tradeoffs in different income-producing instruments.	Using bonds, preferred shares, and select dividend-oriented equities – domestic and international – retail investors have a variety of income versus risk tradeoffs.
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2022 ENERGY OUTLOOK

Energy ended up being the best-performing sector of 2021, up 60%. This reflects the post-crisis rebound in the oil and natural gas markets. The lesson here is that the market is always forward looking – with the commodity futures curve pointing to price declines in the years ahead, stocks are pricing in solid profitability in the future.



WTI CRUDE
\$80/Bbl

We forecast that West Texas Intermediate (WTI) crude will average \$75/Bbl in 2022, ending the year at \$80/Bbl. Brent, the global benchmark, should remain a few dollars above WTI.



BRENT CRUDE
\$83/Bbl

Energy transition to renewable is an irreversible megatrend – and, ultimately, more important for the energy sector than either COVID-19 or geopolitics.



NATURAL GAS
\$4.50/Mcf

Pandemic-related headwinds, especially in aviation, are still a headwind for demand.

Source: Raymond James Equity Research

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21-BDMKT-5282 BS 1/22