SOWELL'S WEEK AHEAD

JAN 10-14, 2022

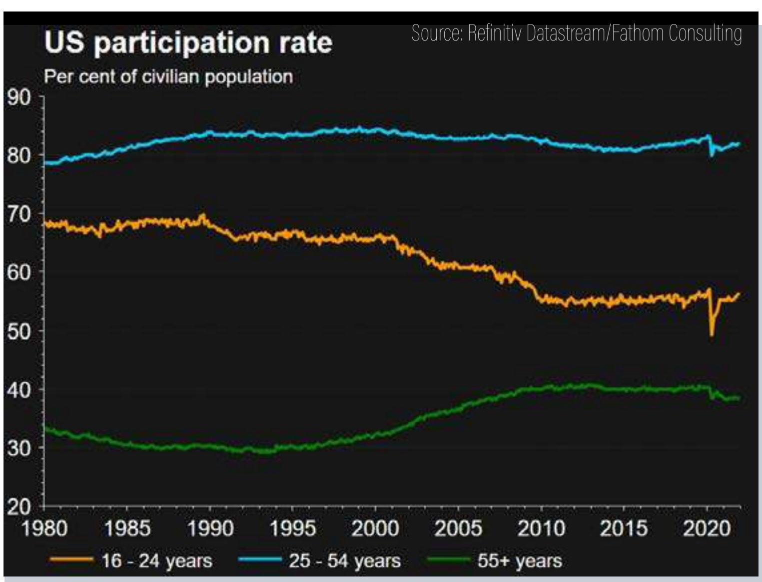
Aside from the state of the pandemic and strength in the U.S. economy, the key difference between the start of 2022 and 2021 is a change in monetary policy. While the market was fully expecting rates to rise in 2021, the Fed kept believing inflation was transitory. That reality is no longer the case with the current inflation rate at 6.8% and the Fed now planning to decrease the money supply and raise interest rates. The Fed, in our opinion, is playing catch-up and Sowell's tactical indicators anchored to economic fundamentals remain conservatively in positive territory heading into a likely value rotation, which sputtered and stopped in 2021.

GAUGE OF THE GRADE

BEARISH NEUTRAL BULLISH

The equity markets started last week recording new records. Still, all three of the major U.S. equity indices finished the week lower after the Federal Reserve minutes were released on Wednesday. The minutes suggested that the Federal Reserve could hike interest rates sooner than expected. Technology stocks underperformed, having one of its worst weeks in almost a year. Higher interest rates result in higher discount rates used to value stocks. With loftier expected cash flows for technology companies, the higher discount rate results in lower valuations. Value stocks performed relatively better as financials and energy stocks outperformed. The 10-Year U.S. Treasury yield closed below 1.8%, continuing its run from the end of the year where the yield was around 1.5%. We also saw on Friday a disappointing jobs report as the U.S. economy added fewer jobs in December than expected. Despite a lower number, the jobs report showed a rise in hourly earnings, and the unemployment fell to 3.9%. According to Reuters, a record 6.4 million jobs were created in 2021, the highest annual increase in employment since record-keeping started in 1939.

This week, the focus will be on inflation as several inflation measures will be released. On Monday, the Federal Bank of New York will release its survey of consumer inflation expectations for December. Annual inflation expectations are expected to rise. The Consumer Price Index (CPI) and the Producer Price Index (PPI) for December will be released on Wednesday and Thursday, respectively. Both inflation measures are expected to be higher than the previous month. The University of Michigan's preliminary Consumer Sentiment Index reading for January is released on Friday. This week, earnings are also being reported for major financial institutions such as JPMorgan Chase, Wells Fargo, BlackRock, and Citigroup reporting. The University of Michigan Consumer Sentiment report showed that one in four respondents cited a hit in their living standards due to higher prices (www.sca.isr.umich.edu).



The labor force participation rate, the proportion of working-age Americans who have a job or are looking for one, fell sharply during the pandemic. It declined in all age groups, especially in the youngest between 16 and 24 years. It has since recovered as has for the age group 25 to 54 years, but not among those aged 55 and higher. Those aged 55 and higher may have left the labor market permanently. The latest labor market report released last Friday showed that the overall labor force participation rate was unchanged at 61.9%, according to Reuters. It is still below the 63.4% rate before the pandemic. Women's participation in the labor force has dropped significantly more than men's since the pandemic. More women had decided to stay home for caregiving responsibilities because of school and childcare closures.

MONDAY **JANUARY 10, 2022**
Wholesale Inventories
CB Employment Trends
Euro Zone Unemployment Rate
TUESDAY **JANUARY 11, 2022**
NFIB Small Business Optimism
Fed Chair Powell Testifies
China CPI
Albertsons, and TD Synnex earnings
WEDNESDAY **JANUARY 12, 2022**
CPI and Core CPI Index
Gasoline Production
Euro Zone Industrial Production
IHS Markit, Infosys, Jefferies Financial, KB Home, and Shaw Communications earnings
THURSDAY **JANUARY 13, 2022**
Initial jobless claims (weekly)
Continuing jobless claims
PPI and Core PPI Index
Delta Airlines, Progress Software, Sandersons Farms, Taiwan Semiconductor, and Washington Federal earnings
FRIDAY **JANUARY 14, 2022**
Retail Sales
Industrial Production
Business Inventories
BlackRock, Citigroup, First Republic, JP Morgan, and Wells Fargo earnings

SELECT INDICES	YTD Daily	1 Wk Daily	1 Mo Daily	3 Mo Daily	6 Mo Daily	1 Yr Daily	3 Yr Annualized Daily
S&P 500 Index	(1.83)	(1.83)	(0.09)	6.67	8.08	24.71	24.58
S&P 500 Growth Index	(4.47)	(4.47)	(3.74)	6.32	7.47	25.63	29.51
S&P 500 Value Index	1.10	1.10	4.18	6.78	8.51	23.37	18.34
Basic Materials	(1.64)	(1.64)	2.20	10.81	9.76	19.70	23.66
Communication Services	(2.98)	(2.98)	(2.69)	(6.88)	(6.47)	12.23	21.90
Consumer Cyclical	(2.99)	(2.99)	(3.85)	5.79	6.67	16.54	29.50
Consumer Defensive	0.24	0.24	5.60	9.96	10.17	18.79	19.37
Energy	10.01	10.01	7.90	12.15	20.88	55.90	5.71
Financial Services	4.22	4.22	4.51	3.63	8.68	27.99	21.70
Healthcare	(5.11)	(5.11)	0.40	2.82	1.73	11.15	17.84
Industrials	(0.26)	(0.26)	0.81	5.48	3.89	18.94	20.40
Real Estate	(4.30)	(4.30)	0.47	7.94	8.71	36.85	17.08
Technology	(5.73)	(5.73)	(5.41)	7.19	9.41	26.01	39.70
Utilities	(1.55)	(1.55)	2.89	8.92	10.31	16.90	13.20

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