SOWELL'S WEEK AHEAD

MAY 9-13, 2022

Last week's stormy market was prompted by investor anxiety over Fed Chairman Powell's outlook on inflation and higher interest rates, even though the Fed has been fully transparent about its actions. From the highs of 3% gains on May 4 to the lows' of -3.6% loss on May 5, the S&P 500 ended the week flat. Let us not forget equity markets are not a risk-free return - S&P 500's annualized volatility is approximately 18%. While broad market bonds, with historical volatility averaging 4%, have declined 10% YTD. Sowell's tactical signal cautiously maintains a neutral rating based on strong economic fundamentals with attention to volatility, yield curve, and hyperinflation.

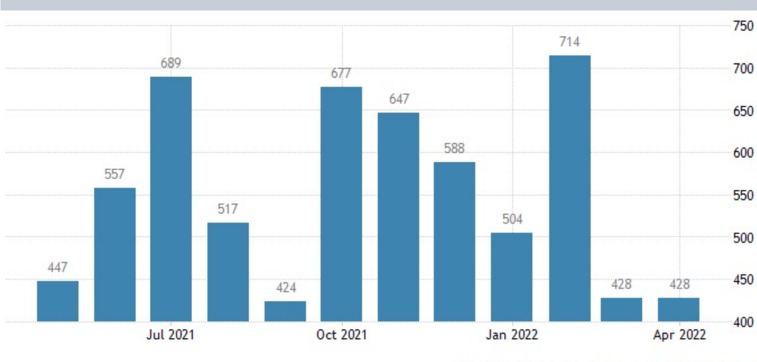
GAUGE OF THE GRADE

BEARISH — 5 — BULLISH

After another week of equities finishing lower, US stocks have suffered the worst streak of weekly losses in more than a decade. The streak stands at five straight weeks of weekly decline. Strong rallies and even sharper selloffs marked last week's decline as investors tried to position themselves after the Fed raised its main interest rate 50 bps, the first rise of that magnitude in more than two decades. From across the Atlantic, the Bank of England's decision to raise interest rates on Thursday, along with a forecast for a recession soon, brought additional volatility. For the week, technology stocks underperformed while the energy sector outperformed. Crude oil futures rose to above $110 per barrel as the European Union decided to phase out all Russian oil and natural gas products. The US labor market continues to show strength as the non-farm payrolls for the month of April came in strong, beating expectations. A strong labor market translates to stronger wage growth, which makes inflation more embedded, pushing higher yields. The 10-year yield crossed 3 percent to end the week above 3.1%.

This week, we will get new updates on inflation with the release of April's Consumer Price Index (CPI) and Producer Price Index (PPI) on Wednesday and Thursday. Inflationary gains have been driven by higher energy costs and food prices caused by supply issues, but the expectation is for inflation to slow for the month of April. On Friday, the University of Michigan will release the preliminary reading of its Consumer Sentiment Index, and the consensus is for consumer confidence to fall. We will also expect earnings from some notable companies such as Disney, Electronic Arts, Occidental Petroleum, and Fox Corporation. Some of the largest automakers, such as Toyota and Honda, will also report.

MONTHLY NON-FARM PAYROLLS FOR PAST 12 MONTHS



The US labor market shows strength as non-farm payrolls grew more than 400,000 in April, exceeding forecasts. The unemployment rate stayed at 3.6%, close to the level before the pandemic began. Job growth was widespread, with the leisure and hospitality sector recording a large portion of the gain. Manufacturing, retail, and transportation sectors also added jobs. Job creation has been running very strong over the past year, and the unemployment rate has fallen more rapidly than economists expected. Employers' struggle to fill positions has caused wages to rise. Although positive for the consumer, wage gains are negative for the inflation outlook and the Fed. Wages have shot higher as employers have been forced to compete for workers. Average hourly earnings in April climbed at an annual rate of 5.5%. The monthly non-farm payrolls going back 12 months, charted by Trading Economics, are shown in the chart. SOURCE: https://tradingeconomics.com/united-states/non-farm-payrolls

MONDAY **MAY 9, 2022**
CB Employment Trends
Wholesale Trade Sales
FOMC Atlanta President Bostic Speaks
Brighthouse, Cargurus, and Energizer earnings
TUESDAY **MAY 10, 2022**
National Federation of Independent Small Business Optimism Index
Redbook
China CPI
Alcon, Coinbase, Electronic Arts, Fox, Occidental Petroleum, Sysco, Trade Desk, Warner Music, and Wynn earnings
WEDNESDAY **MAY 11, 2022**
CPI and Core CPI
Real Earnings
Mortgage Market Index
Beyond Meat, Krispy Kreme, Rivian, Sonos, Walt Disney, and Yeti earnings
THURSDAY **MAY 12, 2022**
Initial jobless claims (weekly)
Continuing jobless claims
PPI and Core PPI
OPEC Monthly Report
Alibaba, Legal Zoom, Mister Car Wash, Motorola Solutions, and Six Flags Entertainment earnings
FRIDAY **MAY 13, 2022**
Unemployment Rate
Participation Rate
Consumer Credit

SELECT INDICES

	YTD Daily	1 Wk Daily	1 Mo Daily	3 Mo Daily	1 Yr Daily	3 Yr Annualized Daily
S&P 500 Index	(13.07)	(0.18)	(7.90)	(8.05)	(0.47)	13.94
S&P 500 Growth Index	(20.75)	(0.93)	(11.54)	(12.89)	(3.17)	15.45
S&P 500 Value Index	(4.51)	0.53	(4.23)	(3.04)	1.64	11.08
Bloomberg US Agg Bond	(22.19)	(1.50)	(12.51)	(13.69)	(10.31)	15.31
Bloomberg Long Term US Treasury	(10.51)	(1.11)	(3.54)	(7.69)	(9.78)	(0.02)
Basic Materials	(6.25)	(0.61)	(3.93)	2.96	(0.19)	17.85
Communication Services	(25.71)	0.50	(14.94)	(18.19)	(24.07)	7.81
Consumer Cyclical	(23.56)	(2.97)	(12.02)	(14.78)	(14.15)	13.72
Consumer Defensive	(0.56)	(1.52)	(1.36)	2.14	9.87	14.46
Energy	49.15	9.54	7.66	21.70	64.58	14.69
Financial Services	(12.17)	(0.09)	(7.48)	(13.19)	(9.57)	9.12
Healthcare	(10.32)	(0.83)	(8.16)	(3.24)	1.42	13.38
Industrials	(11.25)	(0.10)	(4.89)	(4.73)	(8.26)	8.98
Real Estate	(13.29)	(3.63)	(9.40)	(4.32)	5.72	7.55
Technology	(21.94)	(1.10)	(10.32)	(13.29)	0.36	21.47
Utilities	1.43	1.34	(5.89)	6.11	12.67	10.22

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