# WEEK AHEAD August 8-12, 2022

MARKET COMMENTARY by Sowell Management

SOWELL MANAGEMENT


GAUGE OF THE GRADE

[TACTICAL] As the market grapples with the technical definition of a recession, the forward sentiment indicates uncertainty and a slowdown, and the markets have been behaving as such. Beneath the broad markets, growth stocks during slowdowns typically outperform value stocks, and that was the result of last week, with growth stocks gaining 1.25% while value stocks returned -0.46%. Sowell's tactical signal for the second week is encroaching on a neutral rating.

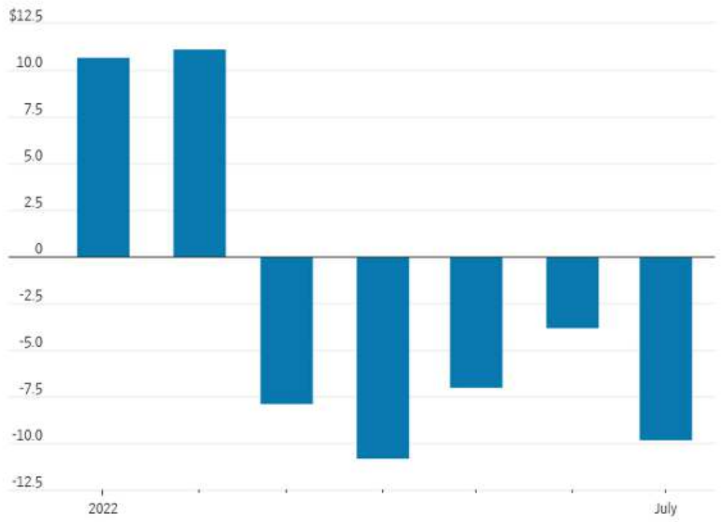
This past week was off to a good start, with a good amount of positive sentiment flooding the markets. Investors favorably received the Federal Reserve comments at the July 27 meeting and dipped back into bonds under the idea that interest rates increase were coming to an end. Stocks also edged higher on Monday amid strong earnings reports across different sectors. Tuesday's markets were left unsettled by Nancy Pelosi's visit to Taiwan on fears of China's retaliation. The event marked a U.S. House Speaker's first official visit to the island in 25 years. Soon after the Speaker's landing, Beijing announced several military exercises in areas around Taiwan. Wednesday's U.S. services Industry and Friday's U.S. Nonfarm Payroll reports showed that economic activity is not cooling as much as expected. Demand picked up in July, and unemployment went down to a half-century low, at 3.5%, supporting the view that the economy is not in a recession and prompting more selloffs in the bonds and equity markets.

The 10-2 Treasury Yield Spread, which measures the difference between the 10-year and 2-year treasury rates, further increased after the most recent unemployment figures were released, extending curve inversion. An inverted yield curve typically signals an expected slowdown in economic activity and a decline in longer-term interest rates.

The coming week will be marked again by inflation concerns, with investors focusing on the latest U.S. Consumer Price Index (CPI) announcement on Wednesday and the U.S. Producer Price Index (PPI) announcement on Thursday. The CPI figure is expected to be down from the latest report (when inflation was recorded at a 40-years high of 9.1%) following the FED's aggressive tightening in recent months. Additionally, the PPI figure will hint at "what lies ahead" for future inflation. The Producer's report is a leading indicator of the increasing manufacturing costs that may be passed on to consumers in the coming months. On Tuesday, President Biden is expected to sign the so-called "Chips Act" into law. The legislation aims to boost the production of semiconductors in the United States, a strategic move that aims to capture back shares in a market that Asian countries have dominated in recent years. The move echoes the increasing tensions with China and the global chips shortage that has made it harder for U.S. companies to obtain new chips.

Lastly, next week will provide additional quarterly results from names like Walt Disney, Coinbase, Softbank, Wynn Resorts, and Wendy's.

**Portfolio flows to emerging-market equities and bonds**




Source: Institute of International Finance

**A harsh period for emerging markets—** Raising inflation, an endless supply chain crunch, and increasing geopolitical tensions have brought back fear and anxiety in financial markets in the first half of the year. Historically, periods of uncertainty have raised investors' risk aversion on fears of economic recession. We had seen this most recently in March 2020, when COVID-19 began wreaking havoc worldwide. This time is no different. Investors have rushed to liquidate their risky positions, triggering large selloffs across multiple asset classes. And emerging markets (EM) securities, which often carry the largest risk in foreign investors' portfolios, have been deeply affected. Since March 2022, emerging economies have witnessed considerable cash outflows, which continued for the fifth straight month in July. Outflows mean currency depreciation and, therefore, more expensive imports for economies that are often heavily dependent on foreign goods and materials. Outflows also mean reduced funds availability and increased borrowing costs. Easing in the global supply chain crunch in the year's second half may help alleviate the inflation burden that has hit global economies, stabilizing markets and potentially reducing the pace at which funds are withdrawn from emerging markets. If outflows had to continue, however, we should expect more turmoil in the coming months, as some of these countries may be unable to roll over their debt and may end up defaulting on their loans.

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| **MON AUGUST 8, 2022** |
| CB Employment Trend Index |
| Acadia, AIG, BioNTech, Dominion Energy, News Corp, Palantir, Take-Two, Tyson Foods, and Viatris earnings |
| **TUE AUGUST 9, 2022** |
| Redbook |
| Nonfarm Productivity |
| NFIB Small Business Optimism |
| China CPI |
| Aramark, Coinbase, Dolby, Emerson Electric, H&R Block, Hyatt, Planet Fitness, Plug Power, Ralph Lauren, Roblox, Sysco, Trade Desk, Warner Music, and Wynn earnings |
| **WED AUGUST 10, 2022** |
| Mortgage Market Index |
| CPI and Core CPI |
| Gasoline Production |
| Fox, NIO, and Walt Disney earnings |
| **THU AUGUST 11, 2022** |
| Initial jobless claims (weekly) |
| Continuing jobless claims |
| PPI and Core PPI |
| China Outstanding Loan Growth |
| Baidu, Cardinal Health, Hanesbrands, Mister Car Wash, and Rivian earnings |
| **FRI AUGUST 12, 2022** |
| UMich Consumer Sentiment |
| UMich Inflation Expectations |
| Euro Zone Industrial Production |

**SELECT INDICES**

| | YTD Daily | 1 Wk Daily | 1 Mo Daily | 3 Mo Daily | 1 Yr Daily | 2 Yr Daily | 3 Yr Annualized Daily |
|---|---|---|---|---|---|---|---|
| S&P 500 Index | (12.24) | 0.39 | 8.30 | 0.40 | (5.01) | 13.31 | 15.27 |
| S&P 500 Growth Index | (17.31) | 1.25 | 11.74 | 3.46 | (9.14) | 11.24 | 17.92 |
| S&P 500 Value Index | (6.61) | (0.46) | 5.08 | (2.48) | (0.71) | 15.39 | 11.38 |
| NASDAQ Composite | (18.73) | 2.18 | 11.84 | 3.00 | (14.40) | 8.06 | 18.86 |
| Bloomberg US Agg Bond | (9.11) | (1.04) | 0.39 | 1.15 | (10.08) | (5.52) | (0.96) |
| Bloomberg Long Term US Treasury | (19.68) | (0.65) | 0.17 | 1.59 | (20.24) | | (3.74) |
| Basic Materials | (13.48) | (0.43) | 7.99 | (9.04) | (4.03) | 15.39 | 14.85 |
| Communication Services | (27.86) | 1.51 | 1.64 | (4.37) | (31.82) | (1.37) | 5.68 |
| Consumer Cyclical | (20.27) | 1.05 | 14.52 | 2.78 | (12.77) | 11.24 | 17.10 |
| Consumer Defensive | (3.09) | 0.44 | 2.96 | (2.68) | 4.84 | 12.22 | 13.26 |
| Energy | 34.33 | (6.58) | 6.23 | (7.60) | 56.21 | 47.63 | 14.54 |
| Financial Services | (12.88) | 0.36 | 6.98 | (1.76) | (10.43) | 15.63 | 9.97 |
| Healthcare | (7.53) | (0.12) | 2.61 | 2.48 | (3.93) | 10.43 | 15.08 |
| Industrials | (9.32) | 0.71 | 11.51 | 1.30 | (5.49) | 16.19 | 11.19 |
| Real Estate | (14.61) | (1.69) | 5.50 | (2.64) | (6.02) | 12.29 | 6.75 |
| Technology | (18.37) | 2.69 | 14.34 | 3.37 | (7.96) | 13.45 | 25.05 |
| Utilities | 4.97 | 0.17 | 6.96 | 4.29 | 13.20 | 14.70 | 10.48 |



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