

[TACTICAL] "The current high inflation in the United States is the product of strong demand and constrained supply, and the Fed's tools work principally on aggregate demand. None of this diminishes the Federal Reserve's responsibility to carry out our assigned task of achieving price stability. There is clearly a job to do in moderating demand to better align with supply." – Fed Chair Jerome Powell, Jackson Hole, August 26th, 2022. The Fed's awareness and public acknowledgment of its past mistakes were revealing and disconcerting with Chairman Powell's Jackson Hole speech last Friday. Yet to engineer a soft landing, there has to be a corresponding focus on the "supply" side. Sowell's tactical signal cautiously remains in neutral territory.

After several positive weeks that made investors wonder if the current "bear market" was ending, the U.S. Stock Market went back on the roller coaster this week. Indexes went down on the first two days of the week, recovered some ground on Wednesday and Thursday, and fell sharply on Friday, following Jerome Powell's statement that the monetary tightening will continue until the Fed is confident that inflation is under control. Natural gas hit new highs on Tuesday as European countries rush to fill storage in preparation for the winter. On Wednesday, President Biden announced a plan to forgive up to \$20,000 in federal student loan debt for Americans earning less than \$125,000 a year, a major proposal that relies on a 2003 law named HEROES act. The law gives the Education secretary authority to waive rules relating to student financial aid programs in times of war or national emergency (like the coronavirus pandemic). Still, the law has never been used to forgive such a large amount of outstanding debt. The move is likely to face several legal challenges. On Friday, the U.S. and China agreed to allow American audit inspection of Chinese companies listed in N.Y. The deal could prevent several Chinese companies from being delisted from U.S. exchanges.

Next week, investors will be paying close attention to the U.S. labor market:

- Tuesday's Job Openings and Labor Turnover Survey (JOLTS) report will provide the latest information on July hires, quits, and separations.
- On Wednesday, the ADP Research Institute's National Employment report will provide information about changes in U.S. non-farm private sector employment.
- The Bureau of Labor Statistics (BLS)'s August non-farm

payrolls report on Friday will show whether the job market is cooling down. Experts expect a sharp reduction in non-farm payroll growth, with August figures predicted to come in at 290K compared to 580K for the previous month.

Additionally, on Tuesday, the Case-Shiller National Home Price Index will reveal the change in the value of U.S. Homes for June, a further indicator of the status of the economy.

MON AUGUST 29, 2022

- Dallas Fed Mfg Business Index
- Japan Leading Index
- China Industrial Profit

TUE AUGUST 30, 2022

- Redbook
- S&P Case-Shiller House Price Index
- JOLTs Job Openings
- Baidu, Best Buy, Chewy, CrowdStrike, HP, and Hewlett Packard Enterprise earnings

WED AUGUST 31, 2022

- ADP Nonfarm Employment Change
- Mortgage Market Index

THU SEPTEMBER 1, 2022

- Gasoline Production
- Brown Forman, Cooper Co., Designer Brands, Donaldson, National Steel, Pure Storage, and Veeva earnings

FRI SEPTEMBER 2, 2022

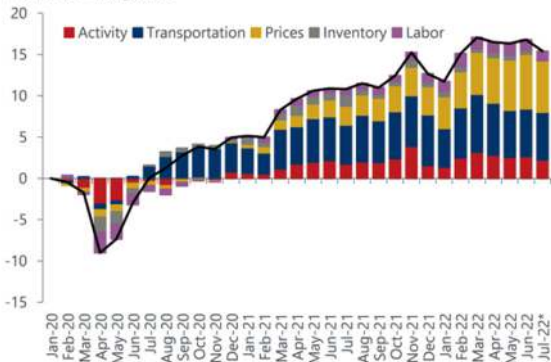
- Unemployment Rate
- Participation Rate
- Factory Orders
- Initial jobless claims (weekly)
- Continuing jobless claims
- Nonfarm Productivity
- Manufacturing PMI
- Construction Spending
- Broadcom, Campbell Soup, Ciena, Hormel Foods, Lululemon Athletica, and Toro earnings



Chart 1: Supply chain pressures eased through mid-year

US: Supply chain stress tracker

Index: > 0 = rising stress



Shifts in demand, labor shortages, and lockdowns that began in 2020 with the worldwide spread of Covid-19 are some of the main drivers of the global supply chain crunch that has largely affected the prices of goods and services in the past two years. The invasion of Ukraine in 2022 and its geopolitical consequences have added more stress to an already chaotic situation. According to research from the Federal Reserve Bank of San Francisco (published in June 2022), these issues account for two-thirds of the elevated inflation in the U.S. On the one hand, this is negative - neither the Central Bank nor the Government has the power or ability to fix these global issues, which exposes the economy to the risk of low output and high prices for a sustained period. On the other hand, however, this could mean that high inflation may last less than forecasted. Decreasing demand for new products due to high prices and borrowing rates, and relaxation of the strict covid rules that have disrupted the supply chain for months, could be enough to lower the inflationary pressure in the next year. According to the Oxford Economics supply chain tracker, the situation has been improving over the past few months, and supply-chain conditions in the U.S. offered encouraging signs to start Q3. Cargo ship backlogs in Southern California have declined for six straight months now, and other modes of transport also signaled reduced stress. Shipping prices were flat or fell, as well. Though Ukraine War adds uncertainty to the mix, making it hard to predict when the supply chain issues will resolve, there are signs that the situation is improving and demand and supply are slowly converging towards an equilibrium.

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	(14.00)	(4.02)	3.65	0.41	(7.86)	9.63	13.99
S&P 500 Growth Index	(20.44)	(4.87)	4.86	3.79	(13.46)	5.58	15.64
S&P 500 Value Index	(6.82)	(3.19)	2.52	(2.63)	(1.95)	14.44	11.08
NASDAQ Composite	(18.79)	(2.51)	7.39	10.77	(15.36)	5.74	18.65
Bloomberg US Agg Bond	(10.02)	(0.36)	(1.09)	(1.64)	(10.59)	(5.60)	(1.62)
Bloomberg Long Term US Treasury	(21.60)	0.33	(2.89)	(3.54)	(21.25)	(14.96)	(5.97)
Basic Materials	(12.06)	(0.78)	5.54	(7.48)	(4.01)	15.05	16.37
Communication Services	(30.77)	(4.77)	2.00	(4.29)	(35.01)	(7.47)	2.74
Consumer Cyclical	(22.41)	(4.49)	7.47	6.67	(14.71)	4.72	15.92
Consumer Defensive	(3.74)	(3.46)	1.62	1.08	3.91	10.17	11.25
Energy	52.55	4.15	13.60	(2.49)	81.26	60.87	21.23
Financial Services	(13.59)	(3.78)	3.25	(2.69)	(13.04)	13.74	9.69
Healthcare	(10.74)	(4.09)	(2.64)	(1.96)	(7.88)	8.70	13.42
Industrials	(9.98)	(3.52)	6.05	3.25	(6.94)	12.93	10.77
Real Estate	(16.06)	(3.80)	1.24	(0.93)	(6.55)	11.59	4.88
Technology	(22.50)	(5.23)	5.02	2.58	(13.80)	7.12	22.06
Utilities	7.10	(2.54)	6.76	2.71	14.06	17.19	9.49

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