WEEK AHEAD September 12-16, 2022

MARKET COMMENTARY by Sowell Management

GAUGE OF THE GRADE

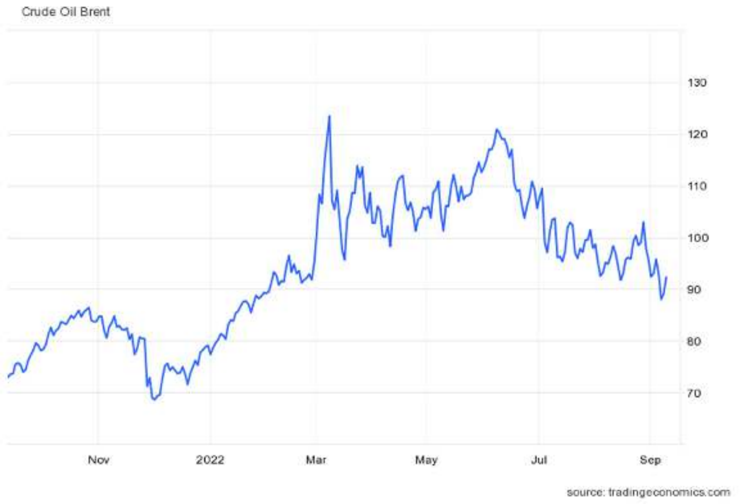
[TACTICAL] With the rising market volatility experienced during the 3rd quarter, Sowell's tactical signal cautiously remains neutral based on the present interest rate and moderating inflation factors heading into the week. As the upcoming U.S. mid-term elections on November 8th approaches, the jobs reports, inflation, interest rates, and the state of the economy will remain key market watch factors.

In the week following a relaxing labor-day weekend, indexes fluctuated between gains and losses, eventually closing higher on Friday. The EURUSD wavered around parity for most of the week and recovered some ground on Friday after the ECB (European Central Bank) decision to raise its key interest rate by 0.75 points. Oil was down for the week after an initial spike following OPEC+ decision to cut daily production by 100,000 barrels. The nearest Crude Oil contract touched a 7-month low at $81.5 before climbing to $86 on Friday. What we are seeing is market concern about high inflation and the Ukraine War and the uncertainty that these factors bring to global economic prospects:

· The U.S. economy is cooling as the Fed rates hikes and increased energy costs have been weighing on demand. Still, the labor market remains strong, as shown by the most recent unemployment claims report, swaying market expectations of an additional 75 basis point rate increase in the next FOMC meeting. Overall, we believe the Fed has the situation under control.

· We cannot say the same about the ECB. Over the years, heavy reliance on cheap Russian gas has exposed the nations in the Euro area to wide energy cost swings. The spike in prices in the past year has hit households and businesses across the continent with unbearable utility bills that were quickly followed by a general increase in goods prices (as businesses adjusted to larger production costs). Both Demand and Sentiment have been suffering as a result, as highlighted by McKinsey [https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/survey-european-consumer-sentiment-during-the-coronavirus-crisis]. In its July survey, more than a third of respondents reported spending on nonfood discretionary items decreased due to the pricing pressure. And consumption could fall even more in the winter, as energy takes an even larger portion of consumers' budgets.

Nonetheless, on Thursday, the ECB opted for a raise in its key interest rate by 0.75 points, the largest in 23 years, and signaled more increases could come. A decision that may have a limited effect on global supply-driven inflation but is likely to have a considerable negative impact on the weakest economies of the block. Increasing borrowing costs and a weak underlying economy is the right recipe to send the eurozone into recession.



The Slippery Oil Situation Following an oil production boost of 100,000 barrels a day in the last month, OPEC+ (the 14 members of the Organization of Petroleum Exporting Countries and ten other non-OPEC members, including Russia) has decided to cut production this week once again. The amount? The same 100,000 barrels a day were added just a month ago. This is the group's first cut in oil production in more than a year and, according to some, is OPEC's attempt to support crude oil prices that fell over 25% in the past three months. However, 100,000 barrels a day is a relatively small amount, about 0.1% of global demand. If supporting prices were the group's objective, why limit the cut to a meager 0.1%? The move appears more as a warning shot to the West. It came only a few days after the G-7 countries (U.S., Canada, France, Germany, Italy, the U.K., and Japan) reached an agreement to cap Russian oil prices to limit Putin's ability to continue the invasion of Ukraine. OPEC+ fears that political interference in the energy market's economic laws will affect all producers, not only Russia. Their message is that the cartel will act in its own best interest. Not the West's. Following a 3% jump on the news, oil prices resumed their fall over the week, with Brent Crude's nearest contract trading at below $90 on Wednesday, for the first time in months, before recovering some ground on Friday. Speculators are betting that a global economic slowdown will negatively affect oil prices and demand. Even though high inflation is likely to weigh on oil demand, the growing tensions between Russia and the West may have a far larger effect on the market. And potential Russian retaliation against international Price Caps could increase oil prices over the following months.

THE WEEK AHEAD

On Tuesday: The release of the August CPI will provide evidence of the effectiveness of the recent Fed rate hikes. Numbers are expected to be around 8% YoY.

The API (American Petroleum Institute) Weekly Crude Inventories will overview current U.S. petroleum demand.

On Wednesday: The release of the August PPI will hint at the increasing costs that producers face and are likely to transfer to consumers. The EIA (U.S. Energy and Infrastructure Administration) Weekly Crude Oil Inventories will provide additional numbers about recent U.S. petroleum demand.

On Thursday: The release of the U.S. Retail Sales report will indicate demand for goods and services

the release of the U.S. Industrial Production report will give yet another clue to consumer's demand

On Friday: The U.S. Michigan Consumer Sentiment Index will provide a preliminary hint at the perceived strength of the economy. It is expected to increase slightly from the past month.

MON SEPTEMBER 12, 2022
Oracle earnings
TUE SEPTEMBER 13, 2022
CPI and Core CPI
Real Earnings
NFIB Small Business Optimism Index
WED SEPTEMBER 14, 2022
Mortgage Market Index
PPI and Core PPI
Gasoline Production
THU SEPTEMBER 15, 2022
Initial jobless claims (weekly)
Continuing jobless claims
Industrial Production
Retail Sales
Business Inventories
Adobe earnings
FRI SEPTEMBER 16, 2022
UMich Inflation Expectations
UMich Consumer Expectations
Euro Zone CPI and Core CPI

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	(13.72)	3.68	(1.14)	1.66	(8.10)	11.06	12.79
S&P 500 Growth Index	(20.32)	4.15	(2.48)	3.81	(14.65)	7.52	14.77
S&P 500 Value Index	(6.35)	3.22	0.17	(0.30)	(0.92)	14.89	9.52
NASDAQ Composite	(22.15)	4.15	(2.96)	3.26	(19.98)	5.01	15.33
Bloomberg US Agg Bond	(11.56)	(0.70)	(2.91)	(1.83)	(12.44)	(6.39)	(2.13)
Bloomberg Long Term US Treasury	(24.88)	(1.54)	(7.43)	(4.40)	(25.21)	(16.47)	(7.00)
Basic Materials	(12.47)	5.31	1.09	(6.32)	(3.61)	13.83	14.43
Communication Services	(30.40)	3.02	(3.11)	(4.69)	(35.98)	(4.96)	1.58
Consumer Cyclical	(20.30)	5.82	1.19	8.31	(13.73)	7.83	15.38
Consumer Defensive	(3.85)	2.16	(0.57)	3.53	3.12	10.06	10.49
Energy	48.71	0.71	8.27	(8.72)	76.43	63.54	17.34
Financial Services	(12.15)	4.38	0.90	1.86	(10.67)	15.16	8.53
Healthcare	(8.52)	4.57	(0.90)	3.45	(5.76)	10.74	14.18
Industrials	(10.08)	3.71	(0.41)	2.96	(5.66)	13.18	9.05
Real Estate	(15.75)	4.37	(2.74)	2.37	(8.12)	11.28	4.37
Technology	(23.93)	3.82	(4.74)	0.66	(16.36)	8.73	20.00
Utilities	9.21	3.48	2.74	7.82	14.81	17.43	10.01

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