

GAUGE OF THE GRADE



[TACTICAL] Last week's inflation reading of 8.3% came in higher than consensus, although lower than the previous month sending the S&P 500 down by 4.73% for the week. Several weeks ago, Fed Chair Powell indicated they can only control inflation by moderating demand by raising rates to combat inflation. Instead, could the secret weapon be the strengthening of the USD, reducing import prices with all things being equal: YTD, the Yen has depreciated by 25% to the USD, the Chinese Yuan depreciated by 10%, and Taiwan Dollar depreciated by 13%. After the equity market declines over the last several weeks, Sowell's tactical signal remains in neutral territory.

After an optimistic start on the first day of the week, larger-than-expected inflation results on Tuesday sent major indexes down as investors fear more Fed tightening is coming. The broad selloff continued Friday after FedEx's CEO Raj Subramaniam warned that (in his view) a recession is looming. The company shares fell more than 20 percent following the announcement and the reported downturn in shipping volumes. Nonetheless, Stifel analysts believe FedEx's results are not driven by the current economic environment. In a note, they stated: "There are questions about the direction of the global economy, especially in Europe and Asia, but we struggle to see how that accounts for the entirety of this quarter's miss... We believe a meaningful portion of FedEx's missteps here are company-specific."

Meanwhile, mortgage rates hit 6.02% this week for the first time since 2008. Rates were less than half just a year ago.

The Week Ahead

Major central banks' decisions on future short-term interest rates

will be in the spotlight next week, with the Fed, BoE, and BoJ expected to report their next monetary policy decisions between Tuesday and Thursday.

On Tuesday, the new Housing starts and building permits report will provide the latest news on the strength of the U.S. housing market, while Wednesday's Home sales report will show how demand is being affected by the surge in mortgage rates.

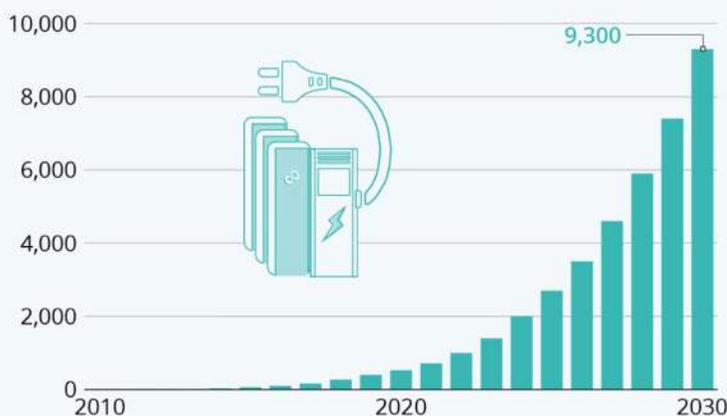
On Friday, S&P Global will release its Composite Purchasing Managers Index (PMI) reading for the U.S. and eurozone, tracking the health of the manufacturing and service sectors across both economies.

MON SEPTEMBER 19, 2022
NAHB Housing Market Index
Euro Zone Construction Output
Japan CPI
AutoZone earnings
TUE SEPTEMBER 20, 2022
Redbook
Housing Starts
20-Yr Bond Auction
Neogen Earnings
WED SEPTEMBER 21, 2022
Fed Rate Decision
Existing Home Sales
Mortgage Market Index
General Mills, KB Home, Lennar, and Steelcase earnings
THU SEPTEMBER 22, 2022
Initial jobless claims (weekly)
Continuing jobless claims
US Leading Index
Current Account
Accenture, Costco, Darden, FedEx, and Scholastic earnings
FRI SEPTEMBER 23, 2022
Fed Chair Powell Speaks
Manufacturing PMI
Services PMI

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	(17.80)	(4.73)	(9.87)	6.07	(12.09)	8.59	10.72
S&P 500 Growth Index	(24.86)	(5.70)	(12.31)	7.77	(19.20)	5.00	12.53
S&P 500 Value Index	(9.91)	(3.80)	(7.44)	4.53	(4.30)	12.22	7.58
NASDAQ Composite	(26.40)	(5.46)	(12.54)	7.75	(24.03)	2.51	12.88
Bloomberg US Agg Bond	(12.38)	(0.93)	(3.97)	(1.00)	(13.19)	(6.89)	(2.11)
Bloomberg Long Term US Treasury	(25.78)	(1.20)	(7.31)	(3.28)	(26.17)	(17.13)	(6.22)
Basic Materials	(18.58)	(6.98)	(10.93)	(1.47)	(9.33)	8.82	10.71
Communication Services	(34.81)	(6.34)	(13.84)	(2.04)	(39.46)	(7.55)	(0.74)
Consumer Cyclical	(23.68)	(4.25)	(9.35)	16.83	(17.70)	4.58	13.95
Consumer Defensive	(7.36)	(3.65)	(7.62)	4.44	(0.21)	8.33	9.59
Energy	44.77	(2.65)	2.30	3.12	65.06	60.97	14.32
Financial Services	(15.56)	(3.88)	(8.23)	7.90	(13.78)	12.93	6.65
Healthcare	(10.85)	(2.55)	(5.31)	7.47	(7.01)	8.84	12.74
Industrials	(15.67)	(6.21)	(11.25)	6.25	(10.56)	8.34	6.08
Real Estate	(20.67)	(5.83)	(11.10)	5.07	(13.01)	6.74	2.42
Technology	(28.70)	(6.27)	(14.95)	5.04	(21.71)	5.95	17.14
Utilities	5.31	(3.57)	(4.11)	14.28	14.09	15.16	8.36

High Demand for Lithium-Ion Batteries

Cumulative lithium-ion battery demand for electric vehicle/energy storage applications (in GW hours)



The Green Danger With the Inflation Reduction Act and the European Climate Law, the West is pushing to exit oil and natural gas to prevent severe climate change and reduce dependence on foreign suppliers. As a result of the new laws and economic incentives, electric vehicle (EV) sales are expected to dominate the car market for the years to come. And the battery industry will grow along with it.

Common lithium-ion batteries in use nowadays are made of various combinations of metals that include Lithium, Cobalt, and Copper: Lithium is mainly extracted from underground ponds in Australia, Chile, China, and Argentina. Miners drill a hole in salt flats and pump salty, mineral-rich brine to the surface, where the water evaporates. The process is very water-expensive and often causes damage to the land and trouble to the local communities; Cobalt is mainly extracted in the Democratic Republic of Congo (DRC), which supplies about 70% of global production. Unlike mines in developed nations, where heavy machines accelerate operations and safeguard workers, human hands dig up much of the cobalt. Often children's hands. In 2016, Amnesty International released a report condemning the human rights abuses involved with mining in the region; Copper is mainly produced in South America, China, and Africa. Mining and refining metal is an energy-intensive business, and the energy used often comes from coal and other fossil fuels.

Therefore, the push to quickly abandon fossil fuels brings several hidden costs. But there is more. Over the years, China has slowly gained control over most of the battery components' supply. Besides being among the lithium-richest countries in the world, the Communist Republic has been buying stakes in mining operations across Australia and South America, where most other lithium reserves can be found. The Country has also obtained control of 70 percent of the DRC's mining sector and currently controls over 80 percent of the cobalt refining industry.

If a major shift from the oil industry means less dependence on the OPEC+ cartel, relying exclusively on electric batteries is destined to build an even larger dependence on China in a period when tensions among the world superpowers are already at a critical level.

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