



[TACTICAL] Another rocky week of volatility fueled by an inflation report of 8.2% year-over-year, higher than expected, 8.1%, and declining at a pace slower than expectations. With the S&P 500 down 23.87% YTD, the gap between growth and value stocks has widened to a degree not seen since the post-internet bubble period: YTD, technology stocks returned -35.9%, and financial stocks returned -20.4%, a spread of 1,550 bps. Heading into the financial sector's reporting period, Sowell's tactical signal remains in defensive territory awaiting visibility from 3Q corporate earnings guidance.

This past week has seen markets swinging between negative and positive territory on news of a potentially escalating war in Ukraine, continuing talks of an incoming recession, and the largest increase in core inflation in 40 years.

After Russian President Putin's proclaimed annexation of up to 18% of Ukraine on Sept 30, and Ukraine President Zelensky subsequently announced his country's application for an accelerated accession to NATO, Alexander Venediktov, deputy secretary of Russia's Security Council, mentioned that this would "guarantee escalation to World War Three."

The core CPI (Consumer Price Index that excludes food and energy) climbed 6.6% in September, showing that inflation has spread across the economy, and supporting expectations of further Fed tightening in the November FOMC meeting. Although the market initially dropped on the news on Thursday, it ended up closing strong. On Friday, banks posted their latest results, showing resilience even in the current economic environment. JPMorgan beat expectations, though it set aside hundreds of millions of dollars preparing for the recession that CEO Jamie Dimon has been calling for months.

The Week Ahead

The week ahead will be one of the busiest corporate earnings seasons, with Bank of America, Goldman Sachs, Netflix, Tesla, and others, scheduled to report their most recent results. Data including September housing starts, building permits, and existing home sales released Wednesday through Thursday will give the latest insight into the health of the U.S. housing market. On Monday, China will release its third-quarter GDP figures, providing a key update on the world's second-largest economy, while on Wednesday, the U.K.'s Office for National Statistics will release inflation figures for the month of September.

"Inflation helps debtors, and deflation hurts debtors. So, in the sense that homeowners now have equity in their home than they did two years ago."

- Ben Bernanke, Former Fed Chair, Brookings Institution Speech October 10, 2022.



The man who saved the global financial system

This past week the Royal Swedish Academy of Sciences awarded the Nobel prize in economics to three distinguished American economists for their work on banks and financial crises. Bernanke's nomination sparked a debate, as the former Federal Reserve chief decisions during his 8 years tenure are still a matter of controversy. Bernanke is considered by many as the man who wrote about the danger of financial crises, and yet failed to anticipate and do enough to prevent the crash that set off the Great Recession. At the same time, he is accused to have started a set of reckless practices that are largely responsible for today's economic troubles.

But let's start from the beginning.

Dr. Ben Shalom Bernanke was an associate professor of Economics at the Graduate School of Business at Stanford University, before becoming professor of Economics and Public Affairs and chair of the Economics Department at Princeton. While in academia, he published several articles on a wide variety of economic issues, receiving international recognition for his research on financial crises.

Bernanke joined the Board of Governors of the Federal Reserve in 2002 and was appointed as Chairman of the United States Federal Reserve in 2006, just months before the near collapse of the global economy.

In the midst of the breakdown, Bernanke embraced a number of programs to use the Fed's limitless supply of money to backstop one market after another. Commercial paper, money market mutual funds, mortgage-backed securities, credit card lending. You name a financial vehicle, and by early 2009, the Federal Reserve under Bernanke's watch was doing something to support it.

Under his control, the Fed became lender of last resort to the global financial system, opening swap lines with other central banks around the world. A vital effort to make sure everyone had access to the dollar in the moment of need. It also intervened to support domestic institutions, bailing out both Bear Stearns and AIG, poisoned by billions of dollars of bad loans and drained by the market's lack of liquidity.

As we all know, however, he also failed to prevent the Lehman Brothers collapse. And in the effort to stabilize the global economy at first, and to bring the American economy back on its feet later, he pumped trillions of new money into the system and gave start to the monetary practices of the last decade, which fueled the longest bull market in history but also ended up creating today's giant inflationary bubble.

So, does he deserve the Nobel prize?

Despite anyone's political views, the Nobel prize awards Bernanke's academic work, not his public service work. And his research undeniably changed economists' thinking about the role banks play in exacerbating—or stanching—an economic crisis. His 1983 paper, "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," combined historical research with deep theoretical insight to show that bank failures weren't simply an unfortunate consequence of economic downturns, but that they instead could help deepen and prolong them.

Although the consequences of Bernanke and his successors' moves will be clear with time, he is undeniably one of the most influential economic thinkers of our age, and we cannot fail to acknowledge that he helped save the U.S's financial system in 2008.

MON OCTOBER 17, 2022

Federal Budget Balance
China GDP
China Industrial Production
Bank of America, Bank of NY, Charles Schwab, and Zions Bancorp earnings

TUE OCTOBER 18, 2022

Industrial Production
Capacity Utilization Rate
NAHB Housing Market Index
Albertsons, First Horizon, Hasbro, Intuitive Surgical, JB Hunt, Johnson & Johnson, Lockheed Martin, Netflix, Signature Bank, State Street, and United Airlines earnings

WED OCTOBER 19, 2022

Housing Starts
Mortgage Market Index
Euro Zone CPI and Core CPI
Comerica, Crown Castle, Elevance Health, Equifax, IBM, Kinder Morgan, Lam Research, Las Vegas Sands, M&T Bank, Nasdaq, NextEra Energy, Northern Trust, Procter & Gamble, SEI, Tesla, Travelers, and WD-40 earnings

THU OCTOBER 20, 2022

Initial jobless claims (weekly)
Continuing jobless claims
Existing Home Sales
US Leading Index
AT&T, American Airlines, Blackstone, Boston Beer, CSX, Danaher, Dow, Fifth Third Banc, Marsh McLennan, Nucor, Robert Half, Snap, Snap-on, Tenet Healthcare, and Whirlpool earnings

FRI OCTOBER 21, 2022

UK Retail Sales
Euro Zone Consumer Confidence
Canada Retail Sales
AMEX, Goldman Sachs, HCA, Huntington Bancshares, and Verizon Communications earnings

SELECT INDICES

	YTD Daily	1 Wk Daily	MTD (Daily)	3 Mo Daily	1 Yr Daily	2 Yr Daily	3 Yr Daily
S&P 500 Index	(23.87)	(1.53)	(0.00)	(5.07)	(18.01)	2.89	8.26
S&P 500 Growth Index	(31.78)	(2.87)	(1.97)	(7.30)	(24.99)	(2.26)	9.29
S&P 500 Value Index	(15.01)	(0.29)	1.86	(2.94)	(10.70)	8.62	5.86
NASDAQ Composite	(31.51)	(3.83)	0.72	(5.13)	(26.36)	(4.58)	10.62
Bloomberg US Agg Bond	(15.84)	(1.19)	(1.44)	(6.39)	(15.90)	(8.71)	(3.64)
Bloomberg Long Term US Treasury	(31.18)	(2.14)	(3.29)	(13.26)	(29.81)	(19.92)	(9.05)
Basic Materials	(22.98)	(1.81)	0.82	(1.65)	(15.70)	5.77	9.44
Communication Services	(40.35)	(2.15)	(0.35)	(13.17)	(42.55)	(12.69)	(3.65)
Consumer Cyclical	(33.91)	(3.64)	(4.19)	(4.38)	(28.77)	(4.78)	9.26
Consumer Defensive	(11.90)	1.08	1.12	(6.11)	(4.51)	3.69	7.51
Energy	49.44	(1.85)	11.28	21.61	46.72	70.55	18.90
Financial Services	(20.42)	(0.11)	2.31	0.51	(21.12)	9.19	5.24
Healthcare	(13.82)	0.52	1.66	(2.96)	(6.70)	5.45	12.11
Industrials	(19.74)	(0.87)	2.01	0.04	(15.84)	4.48	5.21
Real Estate	(32.42)	(1.82)	(5.03)	(14.39)	(25.76)	(0.46)	(3.35)
Technology	(35.92)	(4.36)	(2.73)	(10.38)	(28.63)	(3.26)	12.92
Utilities	(11.07)	(2.34)	(4.75)	(9.74)	(2.60)	2.66	1.93

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