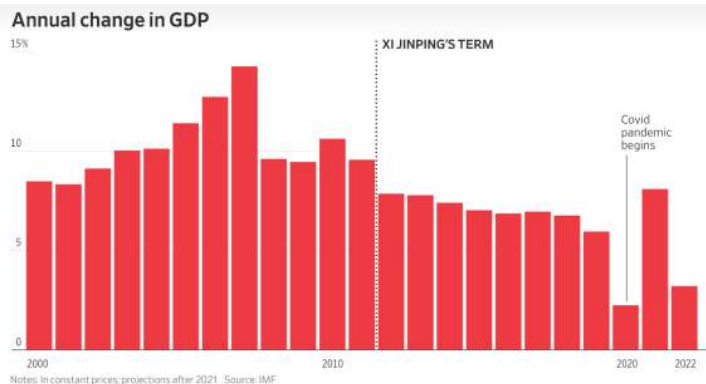


[TACTICAL] The stock market gained positive momentum after a rocky start in October. Major banks and airlines posted surprise positive earnings buoying weaker key economic indicators. Sowell's tactical signal remains in defensive territory as highly anticipated 3Q corporate earnings guidance continues throughout the upcoming week.

This past week has seen major indexes climbing to recover some of the losses of the past month, with investors positively reacting to the latest batch of corporate earnings and the possibility of a slower pace of interest-rate increases after recent economic indicators signaled a cooling economy.

UK Prime Minister Truss resigned on Thursday, a day after UK inflation for September was reported at 10.1 percent, a 40-year high. The Tory's disastrous six-week reign has been characterized by continuous market unrest and a near financial crisis following her announcement of a maxi tax cut and large government spending funded by new debt.

On Wednesday, Vladimir Putin declared martial law in the occupied territories of Donetsk, Luhansk, Zaporizhzhia, and Kherson, which Russia recently recognized as part of its territory despite condemnation from the international community.



The Rise of the Dragon This week marked the beginning of the National Congress of the Chinese Communist Party, arguably the most solemn and important event in Chinese politics, where changes to the top-level leadership and to the Party's Constitution are formally announced every five years. This year's event will be remembered in history as the first time a third consecutive mandate was handed over to a Chinese president, paving the way for Xi Jinping's lifetime rule. Since the Mao era, China has undergone a profound transformation of its economic and social structure, bringing it closer to a Western nation than ever before.

The country's rise to a global superpower began just 40 years ago when Deng Xiaoping's government initiated economic reforms and trade liberalization. Deng's goal was to energize an economy that was poor, stagnant, vastly inefficient, and relatively isolated from global markets due to Mao's faulty economic and political policies. The move has had an astonishing effect on the country, whose GDP growth averaged 9.5% a year through 2018, a pace described by the World Bank as "the fastest sustained expansion by a major economy in history." Notably, such growth has helped raise an estimated 800 million people out of poverty.

In less than four decades, China has become the largest US merchandise trading partner, the biggest source of imports, and the third-largest US export market. Furthermore, a consistent trade surplus has allowed the country to invest billions in foreign national debt, becoming the largest foreign holder of US Treasury securities. But as predicted, China's real GDP growth has slowed significantly as the economy has matured. The Chinese government has embraced slower economic growth as the "new normal" and acknowledged the need for China to embrace a new growth model that relies less on fixed investment and exports and more on private consumption, services, and innovation. Xi's government especially has made innovation a top priority in its economic planning through a number of high-profile initiatives, such as "Made in China 2025," a plan announced in 2015 to upgrade and modernize China's manufacturing in 10 key sectors through extensive government assistance, to make China a major global player in these sectors.

But despite welcoming and continuing many of the economic ideas that have made China the powerhouse it is today, Xi's leadership and ideology differ considerably from its predecessors. The leader's view is that "without stability and unity, nothing is possible," and the way to achieving stability (for him) is to rule over every aspect of society, from the economy to politics, to the individual. Like a mechanical clock, where each gear, balance wheel, and spring must synchronize precisely for the machine to work, each citizen must abide by a specified set of rules for the nation to work.

The way to enforce this vision? Enhanced surveillance, heavy censorship, control of education, and heavy-handed repression. The past two years have shown that everyone has to adhere to the Party line of thought, as evidenced by Xi's crackdown on the largest Chinese tech companies, accused of having excessive power, and by the hyper-restrictive rules imposed on the population to reach Xi's utopic zero-covid goal.

But if these decisions have mostly affected Chinese citizens and global investors, Xi's expansion plans are destined to affect us all. China has recently reinstated its plan to annex Taiwan to the mainland by 2040, although US officials warn that the move may come sooner. Considering Taiwan's position as a strategic and loyal ally of the US, any Chinese military operation would likely result in a coordinated response from the West.

Xi's ambition has been overlooked by the West for years, dazzled by China's enormous resources and cheap labor cost. Now, perhaps woken up by Putin's "unforeseen" attack on Ukraine, we have realized that the risk of a new war is alive and well. In the words of FT's Martin Wolf: "Xi Jinping's third term is a tragic error... The advantage of democracies is not that they necessarily choose wise and well-intentioned leaders. Too often, they choose the opposite. But these can be opposed without danger and dismissed without bloodshed." Xi's third mandate, which opens the door for a potential lifetime mandate, means giving up on the one democratic right that may safeguard China and the World from a new devastating conflict.

On Monday, China delayed the release of its most recent economic indicators, including the latest GDP figures, amid Xi's coronation for a third consecutive term as PRC President.

The Week Ahead Next week some of the world's largest multinational companies, including tech giants Microsoft and Apple, are scheduled to report their latest results.

The week will also provide several economic updates, including the advance estimate for third-quarter gross domestic product (GDP) growth, the August S&P Case-Shiller Home Price Index and Freddie Mac's National House Price Index, and September new and pending home sales.

Updates on consumer confidence will arrive with the Conference Board's Consumer Confidence Index (CCI) on Tuesday and the University of Michigan's Consumer Sentiment Index (MCSI) on Friday.

*"We're probably looking at a red-wave election that will enable them to easily take back the House and maybe the Senate."
— David Brooks, New York Times columnist, October 22, 2022.
With the midterm elections weeks away, the wind is blowing in favor of the Republicans as recent New York Times polls show voters 49% vs. 45% over the Democrats.*

MON OCTOBER 24, 2022

- Manufacturing PMI
- Services PMI
- Euro Zone Mfg PMI
- Bank of Hawaii, Brown & Brown, Cadence, Discover Financial, Hexcel, Logitech, and Zions Banc earnings

TUE OCTOBER 25, 2022

- CB Consumer Confidence
- House Price Index
- Redbook
- Alphabet, Ameriprise, JetBlue, Biogen, Chubb, Coca-Cola, GE, GM, Hubbell, Invesco, Kimberly-Clark, MSCI, Mattel, Microsoft, Moody's, NCR, Paccar, PulteGroup, Raytheon, Sherwin-Williams, Sketchers, Synchrony, Texas Instrument, TriNet, Twitter, UPS, Valero, Visa, Wyndham Hotels, and Xerox earnings

WED OCTOBER 26, 2022

- Mortgage Market Index
- Wholesale Inventories
- Gasoline Production
- Annaly Capital, ADP, Avery Dennison, Boeing, Boston Scientific, Bristol-Myers Squibb, CME Group, Churchill Downs, Ford, Garmin, Graco, Hess, KLA, Meta Platforms (aka Facebook), Morningstar, Norfolk Southern, O'Reilly Automotive, Otis, Owens-Corning, Raymond James, Roper, Spirit Airlines, Taylor Morrison, and The Kraft Heinz, and Waste Management earnings

THU OCTOBER 27, 2022

- Initial jobless claims (weekly)
- Continuing jobless claims
- GDP
- Real Consumer Spending
- Altria, Apple, Amazon, American Tower, Ares, AutoNation, Baxter, Bio-Rad, CBRE, Caterpillar, Check Point, Comcast, Edwards Lifesciences, Hertz, Intel, Mastercard, McDonald's, Merck, Northrup Grumman, PG&E, Republic Services, S&P Global, Shopify, Southern Co, Starbucks, Verisign, Western Digital, and Xcel Energy earnings

FRI OCTOBER 28, 2022

- UK Retail Sales
- Euro Zone Consumer Confidence
- Canada Retail Sales
- Charter Communications, Chevron, Colgate-Palmolive, DaVita, Exxon Mobil, and W.W. Grainger 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	(20.25)	4.75	4.75	(5.76)	(16.23)	6.11	9.45
S&P 500 Growth Index	(28.06)	5.46	3.38	(8.78)	(23.23)	1.40	10.92
S&P 500 Value Index	(11.53)	4.11	6.04	(2.80)	(8.78)	11.23	6.59
NASDAQ Composite	(30.16)	5.22	2.71	(9.76)	(28.09)	(2.06)	10.86
Bloomberg US Agg Bond	(16.74)	(1.07)	(2.49)	(8.05)	(16.11)	(9.00)	(3.96)
Bloomberg Long Term US Treasury	(34.59)	(4.95)	(8.09)	(18.34)	(31.76)	(21.06)	(10.22)
Basic Materials	(18.04)	6.42	7.28	(2.22)	(11.66)	9.71	11.39
Communication Services	(37.45)	4.86	4.49	(14.06)	(40.72)	(10.50)	(2.84)
Consumer Cyclical	(30.66)	4.91	0.52	(8.42)	(27.84)	(1.36)	10.45
Consumer Defensive	(9.69)	2.52	3.67	(4.51)	(2.41)	5.65	8.15
Energy	61.02	7.75	19.90	22.57	57.09	80.50	21.78
Financial Services	(17.60)	3.55	5.94	(2.96)	(20.21)	11.14	5.64
Healthcare	(11.94)	2.17	3.87	(3.53)	(7.13)	7.59	12.11
Industrials	(16.15)	4.48	6.58	(1.72)	(14.20)	7.20	6.41
Real Estate	(30.72)	2.52	(2.64)	(15.79)	(25.50)	1.55	(3.30)
Technology	(31.49)	6.92	4.00	(11.14)	(25.98)	1.35	15.24
Utilities	(9.27)	2.02	(2.82)	(6.69)	(2.06)	3.38	2.31

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