

[TACTICAL] A lower-than-expected inflation reading of 7.7% YoY propelled equity markets this week from an MTD loss of -2.59% to an MTD gain of 3.19%. Although one data point is far from a trend, it is a much-needed pause to attempt to slow down the Fed's hawkish rate hikes. Albeit Sowell's tactical signal remains in neutral territory, it is a positive relief.

Markets opened up last Monday as investors prepared for the latest inflation data and the Midterm results. The October CPI (Consumer Price Index) came in lower than expected on Thursday, potentially signaling that the economy is finally cooling down. Markets rallied on the news, in the best trading day since April 2020. The Nasdaq alone gained over 7 percent.

On Tuesday, news of crypto exchange FTX's liquidity issues triggered a large selloff in the crypto market, with Bitcoin touching a two-year low. CEO Sam Bankman-Fried (SBF) asked for \$8 billion in emergency funding to cover a shortfall due to withdrawal requests received in recent days. After days of rumors of potential acquirers and liquidity backers that never materialized, the exchange filed for chapter 11 bankruptcy on

Friday, and CEO SBF resigned.

Also of note last week, U.S. Mortgage rates rose to 7.14%, nearing the highest level since 2001.

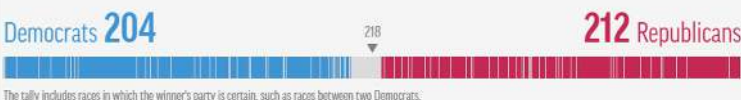
The Week Ahead

This week will be one of the last weeks of this corporate earnings season, with big retailers, including Walmart, Target, Macy's, and Home Depot, scheduled to report earnings. On Wednesday, the U.S. Census Bureau will release retail sales data for October, providing a key update on consumer spending heading into the holiday shopping season. October housing starts, building permits, and existing home sales, as well as the National Association of Home Builders (NAHB) Housing Market Index, will provide a look at the state of the real estate sector. Lastly, industrial production data for October and the Philadelphia Fed Manufacturing Index for November will hint at the strength of consumer demand.

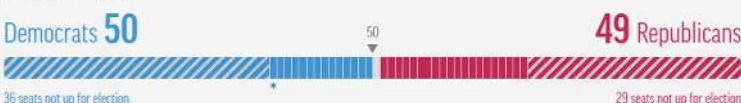
"We are not going to respond to the short-term slack in the economy by priming the pumps of inflation with new deficit spending or with a new easing of credit or with tax cuts that would only make inflation worse. The actions would be like pouring gasoline on a raging fire."

– Richard Nixon, Address to the Nation About Inflation and the Economy, 1974.

BALANCE OF POWER U.S. HOUSE
Updated Nov 13, 2022, 8:59 PM



BALANCE OF POWER U.S. SENATE
Updated Nov 13, 2022, 8:58 PM



Comments on Midterms

In a week when inflation results appeared to confirm that the U.S. economy is cooling down, American voters have been called to the polls to decide which party will hold control of the House and the Senate in the next two years of Joe Biden's Presidency. Republican gains were much smaller than anticipated, defying expectations of a so-called "Red Wave." While conservatives seem poised to assume control of the House with Democrats retaining control of the Senate after a decisive win in Nevada, there are some implications for 2024 that are not likely to change as the final votes are counted.

The first implication is that Joe Biden has a chance of being reelected and may thus run in the next Presidential elections:

If we look at history, the party of the sitting President has lost seats in the U.S. House of Representatives in all but two midterms since 1946, with an average loss of 27 seats. Republicans needed to take five seats to win the chamber, and it remains likely that they'll get them in the hours and days ahead. But the fact that they haven't already — and that Democrats have a non-trivial chance of actually keeping the chamber — is highly significant. The Democrats may have had the best midterm a president's party has experienced in 20 years, boosting the chances of Biden's reelection in the next run.

The second implication is that Donald Trump is losing momentum. The former President's hand-picked candidates did not do well, which may result in Republicans supporting a different candidate in 2024. After the extreme success in the recent ballots, this new candidate will likely be Florida's Governor Ron DeSantis, who just won 57% of the State's Hispanic vote and swept historically Democratic Miami-Dade County.

There are also more immediate consequences of this week's results. Perhaps the most imminent has to do with the IRS, which has some \$80 billion in additional funding to spend, thanks to the Inflation Reduction Act.

Republicans want to repeal that provision, saying they don't want the IRS to use the money to hire workers who will go after taxpayers with unnecessary audits. Meanwhile, Democrats claim that there's not enough compliance accountability because the IRS can't seem to hire anyone.

A second consequence relates to federal spending. Republicans have focused their midterms pitch largely on concerns about high inflation and the likelihood of a recession. A GOP majority would mean tighter control of federal spending, which they have blamed for high inflation.

Lastly, some of the politicians elected in these midterms will end up dealing with the expiration of the 2017 Tax Cuts and Jobs Act (TCJA). The TCJA reduced statutory tax rates at almost all levels of taxable income and shifted the thresholds for several income tax brackets. Republicans will want to expand those tax cuts; Democrats will want to set new priorities.

With control of the House still hanging in the balance, the results of the Midterms are not yet clear. The anticipated dominance of the Republican party did not concretize, and it may take days to know if the GOP will win anything in these elections.

What is certain is that the party that wins control of Congress will only have a small majority. And a small majority will complicate passing new legislation. It will increase the chance of government shutdowns, or even a debt limit default, at a moment when the country and the economy are desperately in need of stability.

MON NOVEMBER 14, 2022

- M2 Money Supply
- Consumer Inflation Expectations
- Euro Zone Industrial Production
- Freedom Holding, Getty Images, Tower Semiconductor, and Tyson Foods earnings

TUE NOVEMBER 15, 2022

- PPI and Core PPI
- Euro Zone GDP
- Advance Auto Parts, Aramark, Home Depot, Valvoline, and Walmart earnings

WED NOVEMBER 16, 2022

- Retail Sales
- Industrial Production
- Business Inventories
- Bath & Body Works, Cisco, Lowe's, Nvidia, Sonos, Target, TJX, and Victoria Secret earnings

THU NOVEMBER 17, 2022

- Initial jobless claims (weekly)
- Continuing jobless claims
- Housing Starts
- Euro Zone CPI and Core CPI
- Alibaba, Applied Materials, BJ's, Dolby, Gap, Kohl's, Macy's, Palo Alto Networks, and William-Sonoma earnings

FRI NOVEMBER 18, 2022

- US Leading Index
- Existing Home Sales
- UK Retail Sales
- Foot Locker, and Spectrum Brands 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	(15.08)	5.93	3.19	(4.69)	(12.76)	7.33	10.75
S&P 500 Growth Index	(24.90)	8.40	3.27	(10.12)	(22.57)	2.16	11.80
S&P 500 Value Index	(4.06)	3.83	3.12	0.68	(1.89)	12.46	8.17
NASDAQ Composite	(27.13)	8.11	3.10	(11.21)	(27.33)	(1.28)	11.06
Bloomberg US Agg Bond	(14.10)	2.24	1.91	(5.84)	(14.11)	(7.49)	(2.83)
Bloomberg Long Term US Treasury	(31.00)	4.12	2.65	(12.67)	(30.56)	(18.01)	(7.87)
Basic Materials	(8.05)	7.62	9.60	2.87	(6.47)	12.90	13.72
Communication Services	(38.12)	9.42	2.94	(16.26)	(40.15)	(13.01)	(3.11)
Consumer Cyclical	(28.32)	6.20	1.68	(11.34)	(28.76)	(0.45)	11.50
Consumer Defensive	(3.45)	2.49	1.32	(0.71)	1.69	8.34	10.74
Energy	72.91	1.93	3.76	20.61	67.79	74.54	23.02
Financial Services	(8.23)	5.84	5.13	2.15	(10.29)	13.17	8.17
Healthcare	(7.10)	2.13	0.58	0.10	(3.26)	7.84	12.82
Industrials	(6.59)	5.10	5.04	0.61	(6.66)	9.64	8.44
Real Estate	(22.64)	6.60	4.84	(11.76)	(17.76)	4.59	1.58
Technology	(26.49)	10.69	4.37	(10.30)	(24.23)	3.87	16.07
Utilities	(2.41)	1.56	1.88	(8.63)	5.29	4.74	6.41

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