



[TACTICAL] While the broad markets teeter-totter between economic “bad news is good news” and “good news is bad news,” Sowell’s tactical signal remains composed by last week’s market giveback and remains in neutral territory. Minimal negative surprises are expected from this week’s economic releases, but all ears will be on Jerome Powell’s news conference this Wednesday.

Equity markets gave back recent gains, with the S&P 500 ending the week down 3.35% as there are clear signs the economy is cooling, with crude oil breaking below \$80 per barrel and consumer debt rising. Inflation concerns remain as producer prices, albeit lower than the previous month, were above the consensus estimates. Fears of the Fed going too far are on the rise as investors attempt to define the signs of the Fed’s willingness for the economy to suffer some pain to lower inflation. Expectations are on the rise after this month’s rate hike; the Fed may be done raising rates for a while and be “more talk than action.”

Luxury homebuilder Toll Brothers reported an expected pullback in near-term activity but gave a positive forward long-term guidance due to home shortages, and housing starts not keeping pace with population growth. TOL stock rose 1.73% for the week. Athletic apparel retailer Lululemon stock fell 15.4% during the week due to a rise in inventory and pointed to clear signs of a slowing economy. Lastly, wholesaler and bellwether Costco did

not exceed consensus earnings resulting in the stock modestly dipping 2.33%.

For the upcoming week, all the focus and attention will be on Tuesday’s inflation release and Wednesday’s FOMC statement regarding forward guidance on interest rates and inflation. Equally important is Thursday’s report on retail sales, business inventories, and industrial production, highlighting the underpinnings and strength of the U.S.’s consumer and core manufacturing.

Is the world still flat? “Not only do I think the world is flat, it is flatter than ever... Globalization is not just trade; it’s actually the ability to act globally. It’s the ability to act globally to compete, connect and collaborate globally.” – Thomas Friedman, New York Times Foreign Affairs Columnist, Global Views Leaders Forum, Jan. 4, 2021.

Ranking	Company	Country	Market Share 3Q22 (%)
1	TSMC	Taiwan	56.1
2	Samsung United	Korea	15.5
3	Microelectronics	Taiwan	6.9
4	GlobalFoundries	UAE	5.8
5	SMIC	China	5.3
6	HuaHong Group	China	3.3
7	PSMC	Taiwan	1.6
8	VIS	Taiwan	1.2
9	Tower	Israel	1.2
10	Nexchip	China	1.0
11	Others		2.1
			100

Source: TrendForce

Supply chain bottlenecks, anti-China political rift, and export controls have sparked a global movement to shift manufacturing away from mainland China.

A major milestone of such was marked by last week’s opening of Taiwan’s TSMC \$40 billion manufacturing site in Arizona, attended by President Biden. TSMC accounts for over 50% of the world’s chip manufacturing, followed by Samsung, a distant second. The top 5 world’s foundries account for 90% of the global chip production & supply, while over 65% of the foundries’ market share is from Taiwan companies.

The recent U.S. Chips and Science Act to fund domestic research and manufacturing of semiconductors is met with mixed emotions among Asian nations, especially Taiwan. Shifting production locally to the U.S. is also considered a shift in geopolitical balance accompanied by the fear that this would diminish the U.S.’s presence and support for Taiwan and its Southeast Asian neighbors. Strong ties with the U.S. have always been viewed as a protective shield from China’s Communist Party.

That faith, hope, and dependency in the U.S. go back as early as 1943 when Madame Chiang Kai-Shek, First Lady of the Republic of China, addressed the U.S. House of Representatives, “I have reached your country, therefore, with no misgivings, but with my belief that the American people are building and carrying out a true pattern of the nation conceived by your forebears, strengthened and confirmed. You, as representatives of the American people, have before you the glorious opportunity of carrying on the pioneer work of your ancestors beyond the frontiers of physical and geographical limitations. Their brawn and thews braved undauntedly almost unbelievable hardships to open up a new continent. The modern world lauds them for their vigor and intensity of purpose and for their accomplishment. You have today before you the immeasurably greater opportunity to implement these same ideals and to help bring about the liberation of man’s spirit in every part of the world.”

Several experts view today’s approach to U.S.-China relations bilateral approach as hostile. Instead, from a commerce perspective, it should be the World versus China on the universal global norms around commerce. This would fundamentally trigger a domestic desire within to reform China instead of nationalizing China.

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MON DECEMBER 12, 2022

- Consumer Inflation Expectations
- Federal Budget Balance
- UK GDP Freedom Holdings, and Oracle earnings
- Freedom Holdings, and Oracle earnings

TUE DECEMBER 13, 2022

- CPI and Core CPI
- NFIB Small Business Optimism Index
- Real Earnings

WED DECEMBER 14, 2022

- Fed Interest Rate Decision and FOMC Statement
- Mortgage Market Index
- Gasoline Production

THU DECEMBER 15, 2022

- Initial jobless claims (weekly)
- Continuing jobless claims
- Retail Sales
- Industrial Production
- Business Inventories
- Lennar earnings

FRI DECEMBER 16, 2022

- Service PMI
- Mfg PMI
- Euro Zone CPI and Core CPI
- Accenture, Darden, and Winnebago 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	(16.17)	(3.35)	(3.52)	(2.84)	(14.33)	5.09	9.62
S&P 500 Growth Index	(26.63)	(3.81)	(3.99)	(7.92)	(25.71)	0.10	10.10
S&P 500 Value Index	(4.43)	(2.94)	(3.11)	2.05	(1.23)	9.65	7.61
NASDAQ Composite	(29.10)	(3.98)	(4.02)	(8.93)	(28.50)	(4.86)	9.34
Bloomberg US Agg Bond	(11.84)	(0.44)	0.89	(0.31)	(11.72)	(6.57)	(2.26)
Bloomberg Long Term US Treasury	(25.70)	(0.67)	3.24	(1.09)	(25.80)	(15.46)	(6.45)
Basic Materials	(8.33)	(3.45)	(2.16)	4.74	(4.81)	10.30	13.73
Communication Services	(39.15)	(5.41)	(5.12)	(12.57)	(38.93)	(15.56)	(3.36)
Consumer Cyclical	(30.79)	(4.56)	(4.47)	(13.17)	(30.34)	(5.65)	9.75
Consumer Defensive	(1.54)	(2.21)	(2.37)	2.41	4.32	8.29	10.30
Energy	52.70	(8.59)	(9.65)	2.68	51.05	50.33	18.54
Financial Services	(11.81)	(4.01)	(4.92)	0.38	(11.11)	8.01	6.11
Healthcare	(4.22)	(1.69)	(1.11)	4.71	0.77	8.50	11.97
Industrials	(7.29)	(3.40)	(2.77)	3.10	(6.07)	6.28	8.37
Real Estate	(23.63)	(1.99)	(2.47)	(9.35)	(19.28)	3.89	0.50
Technology	(28.08)	(3.34)	(3.74)	(5.46)	(27.21)	0.69	14.53
Utilities	1.45	(0.27)	(0.97)	(7.10)	6.30	9.81	6.96