



[TACTICAL] As the market remains in a transitional phase and interest rates approach the Fed's restricted level, Sowell's tactical signal remains favorably in neutral territory.

As the Fed broke records aggressively raising rates throughout 2022, December ended the year giving back the positive gains from November as stocks and bonds returned -5.76% and -0.45%, respectively. Last week's economic report affirmed weakness in the economy with a rise in business inventories, weaker than consensus Mfg Business Index, and a rise in Continuing Jobless Claims.

With the last trading month of the year, investors were presented with several dilemmas or opportunities:

- Do they maximize realized losses?
- Do they increase their fixed income allocation for yield?
- Do they invest in high-yielding short-term CDs?
- Do they take advantage of the low asset prices and dollar cost average, or should they invest in alternatives like structured products?

The right decision will depend on the investor's risk tolerance, investment horizon, and financial planning goals. The first week kickstarting 2023 will be light on economic and earning reports.

"The largest combined monetary and fiscal experiment in recorded history is ending now, and a major growth slowdown is coming to the US and Europe. But be prepared to take advantage of equity market declines when they occur since a slowdown is already reflected in a lot of asset prices. US inflation will cool enough for the Fed to pause rate hikes at 5% in the spring."

– Michael Cembalest, Chairman of Market and Investment Strategy for J.P. Morgan Asset Management, The End of the Affair, 1/1/23.

MON JANUARY 2, 2023

New Year's Day Holiday - markets closed

TUE JANUARY 3, 2023

Mfg PMI

Construction Spending

Germany CPI

WED JANUARY 4, 2023

Mortgage Market Index

JOLTs Job Openings

ISM Manufacturing PMI

THU JANUARY 5, 2023

Initial jobless claims (weekly)

Continuing jobless claims

Challenger Job Cuts

Trade Balance

Services PMI

ConAgra, Constellation Brands, Walgreens Boots, and Simply Good Foods Company earnings

FRI JANUARY 6, 2023

Unemployment Rate

Participation Rate

Factory Orders

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	(18.11)	(0.11)	(5.76)	7.56	(18.11)	2.66	7.66
S&P 500 Growth Index	(29.41)	(0.46)	(7.62)	1.45	(29.41)	(3.46)	7.54
S&P 500 Value Index	(5.22)	0.27	(3.91)	13.59	(5.22)	8.80	6.26
NASDAQ Composite	(32.54)	(0.28)	(8.67)	(0.79)	(32.54)	(9.21)	6.10
Bloomberg US Agg Bond	(13.01)	(0.65)	(0.45)	1.87	(13.01)	(7.45)	(2.71)
Bloomberg Long Term US Treasury	(29.26)	(1.66)	(1.70)	(0.59)	(29.26)	(17.87)	(7.40)
Basic Materials	(11.41)	(1.06)	(5.45)	15.97	(11.41)	7.45	11.28
Communication Services	(40.94)	(0.03)	(7.92)	(1.35)	(40.94)	(17.33)	(4.83)
Consumer Cyclical	(35.52)	(0.36)	(11.00)	(6.52)	(35.52)	(10.75)	5.90
Consumer Defensive	(2.61)	(0.67)	(3.43)	11.79	(2.61)	7.08	9.43
Energy	62.50	0.22	(3.85)	21.00	62.50	58.82	19.08
Financial Services	(12.34)	0.72	(5.49)	12.71	(12.34)	5.70	5.14
Healthcare	(5.18)	(0.12)	(2.10)	11.85	(5.18)	7.12	10.44
Industrials	(8.08)	(0.14)	(3.60)	16.84	(8.08)	5.75	7.61
Real Estate	(25.55)	(0.37)	(4.93)	4.62	(25.55)	1.46	(0.46)
Technology	(31.55)	(0.05)	(8.38)	3.91	(31.55)	(4.08)	10.85
Utilities	1.65	(0.57)	(0.77)	8.88	1.65	9.18	5.82

Back to Basics

Ring in the new year, inflation, interest rates, and jobs will be the key global factors for 2023's market outlook. Our initial focus will be on an aspect of inflation. The Federal Reserve's definition of Inflation is "the increase in the prices of goods and services over time." Inflation cannot be measured by an increase in the cost of one product, service, or even several products or services.

Instead, inflation is a general increase in the overall price level of the goods and services in the economy. Inflation is a measure of the end reaction. The catalyst is the basis of a number of fundamental inputs, including monetary policy, supply-demand, prices of goods and services, productivity, and cost of labor, to name a few.

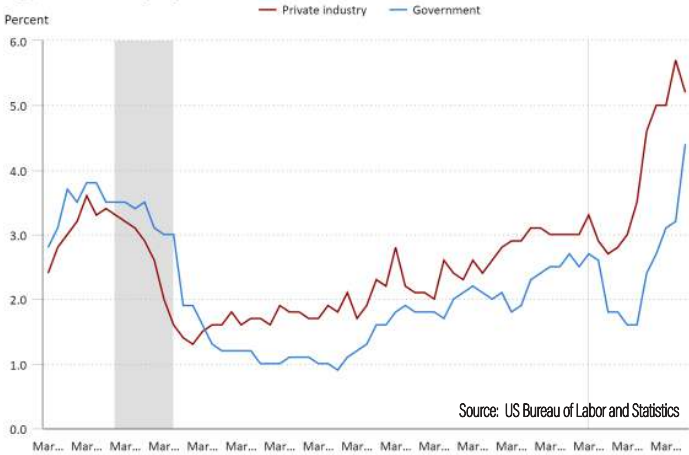
The causality dilemma between wage inflation and rising hourly wages at the rate of inflation to maintain the cost of living is a major basis input to rising inflation. As illustrated by select major states, minimum wages such as CA, FL, IL, and NJ have been rising at rates well above the rate of inflation. The rise in labor costs eventually has to be absorbed by increased prices of goods and services; hence, inflation.

State Minimum Wages

(\$/hr)	2019	2020	2021	2022	2023	2020/2019				2022/2021				2023/2022			
						Change	Change	Change	Change	Change	Change	Change	Change	Change	Change	Change	Change
Arkansas	9.25	10.00	11.00	11.00	11.00	8.1%		10.0%		0.0%		0.0%		0.0%		0.0%	
Arizona	11.00	12.00	12.15	12.80	13.85	9.1%		1.3%		5.3%		8.2%		8.2%			
California	12.00	13.00	14.00	15.00	15.50	8.3%		7.7%		7.1%		3.3%		3.3%			
District of Columbia	14.00	15.00	15.20	16.10	16.10	7.1%		1.3%		5.9%		0.0%		0.0%			
Florida	8.46	8.56	8.65	10.00	11.00	1.2%		1.1%		15.6%		10.0%		10.0%			
Illinois	8.25	10.00	11.00	12.00	13.00	21.2%		10.0%		9.1%		8.3%		8.3%			
Massachusetts	12.00	12.75	13.50	14.25	15.00	6.3%		5.9%		5.6%		5.3%		5.3%			
New York	11.10	11.80	12.50	13.20	14.20	6.3%		5.9%		5.6%		7.6%		7.6%			
New Jersey	10.00	11.00	12.00	13.00	14.13	10.0%		9.1%		8.3%		8.7%		8.7%			
Texas	7.25	7.25	7.25	7.25	7.25	0.0%		0.0%		0.0%		0.0%		0.0%			
Washington	12.00	13.50	13.69	14.49	15.74	12.5%		1.4%		5.8%		8.6%		8.6%			
Average	10.48	11.35	11.90	12.64	13.34	8.2%		4.9%		6.2%		5.5%		5.5%			

Source: Labor Law Center

Wages and salaries in private industry and state and local government, 12-month percent change, not seasonally adjusted



Source: US Bureau of Labor and Statistics

As that broad market attempts to battle prices of goods and services by addressing supply and consumer demand, another effect of the Fed monetary policy, unless state policymakers moderate rising minimum wages, is to control labor costs by employment supply and demand – an increase in unemployment.

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