



[TACTICAL] Sowell’s tactical signal sits comfortably in neutral territory, affirmed by improving key economic gauges and positive market momentum over the last several weeks. VIX, the CBOE volatility index, remains subdued dismissing recession fears and challenging bear market pundits.

The markets celebrated another week of gains following another relative decline in U.S. inflation – from a high of 9.1% in June 2022, U.S. inflation was 6.5% YoY to the end of December. Last week, the S&P 500 index gained 2.71%, while the Bloomberg Long-Term U.S. Treasury index gained 1.43% in anticipation that the Federal Reserve will be less aggressive in raising interest rates and stabilizing prices. Major banks, including JP Morgan, Bank of America, and Wells Fargo, posted strong earnings by not only beating consensus earnings expectations but also affirming the economy’s current strength.

This week, short from Martin Luther King Jr’s Day, brings several closely watched economic reports as investors seek confidence in the economy. Wednesday’s report on Retail Sales and Industrial Production, followed by the Housing Starts and Existing Home Sales report, will hopefully reveal that the economy could be on its way to a “soft landing,” or at least cooling inflation without a significant recession. 4Q earnings sneak peek will be led by Charles Schwab, Morgan Stanley, Proctor & Gamble, and State Street before heading into peak earnings week starting the week of Jan. 22nd.

“The new standard for inflation is closer to 4 percent than 2 percent, so interest rates won’t be falling back to zero. As this phase wears on, tycoons, companies, currencies, and countries that thrived on easy money will stumble, making ways for new winners. Some things will improve. The time of lavishly ridiculous digital coins and T.V. shows will pass. An age of more discriminating judgment will shape the trends of 2023.” – Ruchir Sharma, FT contributing editor, and chair of Rockefeller International, 1/5/2023.

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	4.22	2.71	4.22	9.46	(12.74)	4.04	8.49
S&P 500 Growth Index	2.82	2.75	2.82	3.22	(23.31)	(2.24)	7.37
S&P 500 Value Index	5.74	2.67	5.74	15.83	(1.07)	10.31	8.20
NASDAQ Composite	5.88	4.83	5.88	4.30	(24.54)	(7.45)	6.95
Bloomberg US Agg Bond	2.74	0.88	2.74	5.76	(9.44)	(5.84)	(1.96)
Bloomberg Long Term US Treasury	5.97	1.43	5.97	8.13	(22.74)	(14.07)	(6.02)
Basic Materials	8.35	4.79	8.35	20.32	(2.78)	8.22	15.07
Communica- tion Services	8.12	4.28	8.12	4.90	(34.12)	(13.17)	(3.54)
Consumer Cyclical	8.71	6.08	8.71	2.19	(27.05)	(9.08)	8.25
Consumer Defensive	0.99	(1.01)	0.99	9.31	(1.06)	8.22	9.73
Energy	2.62	3.11	2.62	7.35	47.55	50.62	20.36
Financial Services	6.12	2.37	6.12	14.85	(10.79)	6.43	6.83
Healthcare	0.10	0.20	0.10	9.03	0.42	5.27	10.30
Industrials	4.93	2.16	4.93	17.39	(3.15)	7.27	8.54
Real Estate	6.76	4.42	6.76	14.66	(16.61)	6.16	1.45
Technology	5.12	5.19	5.12	8.85	(22.87)	(2.05)	11.10
Utilities	1.29	0.51	1.29	14.00	5.39	9.89	6.23

	1999 (Pre-Tech Bubble)	2006 (Pre- Financial Crisis)	2022 (Post- CoronaVirus)
Technology	29.2	15.1	25.70
Financials	13.0	22.3	11.70
Health Care	9.3	12.0	15.80
Consumer Discretionary	12.7	10.6	9.80
Industrials	9.9	10.8	8.70
Consumer Staples	7.2	9.3	7.20
Energy	5.6	9.8	5.20
Utilities	2.2	3.6	3.20
Materials	3.0	3.0	2.70
Communication Services (aka Telecom)	7.9	3.5	7.30
Real Estate			2.70
Total	100.0	100.0	100.00

Source: Bloomberg

Is Style Still in Fashion Series: #2 S&P 500 Index Regime Changes

By the end of 2021, the S&P 500 index, with 39% of the index weight concentrated in Technology and Communication stocks, was arguably a concentrated growth portfolio instead of a diversified index. The market-cap weighted index led by six of the largest stocks, including Apple, Microsoft, Amazon, Alphabet, Tesla, and Meta, which accounted for approximately 25% of the index weight. Like market cycles, even the S&P 500 index experiences regime changes in the top-weighted stocks and major sector leaders.

Whether history will repeat, the last several times the index experienced major sector weight changes was during the post-Dot-com Bubble period from 2000 to 2006 and since the post-Financial Crisis period until now. After the height of the Dot-com bubble, by 2006, Financial stocks, and not Technology stocks, were the major sector leader accounting for over 22% of the index weight – today, Financials account for only 11.7% of the index weight and yet again Technology account for over 25% of the index weight. Changes are occurring albeit slowly as Exxon and JP Morgan have resurfaced to be among the top 10 stocks, not seen in several years.

Will we see another regime shift in sector leadership remains to be seen? But with the end of easy money, higher interest rates, and above-average inflation rates, valuations and growth rates are bound to re-calibrate, benefiting select sectors and unfavorable to certain sectors.

MON JANUARY 16, 2023
Martin Luther King, Jr. Day - Markets closed.
China GDP
China Industrial Production
TUE JANUARY 17, 2023
OPEC Monthly Report
NY Empire State Manufacturing Index
Germany CPI and Core CPI
Alcoa, Charles Schwab, Discover Financial, First Horizon, Kinder Morgan, PNC Financial, and Prologis earnings
WED JANUARY 18, 2023
Initial jobless claims (weekly)
Continuing jobless claims
Housing Starts
Gasoline Production
Building Permits
Comerica, Fifth Third Bancorp, KeyCorp, Netflix, Northern Trust, Procter & Gamble, SVB Financial, and Truist Financial earnings
THU JANUARY 19, 2023
Initial jobless claims (weekly)
Continuing jobless claims
CPI and Core CPI
Real earnings
TSMC earnings
FRI JANUARY 20, 2023
Existing Home Sales
FOMC Member Harker Speaks
UK Retail Sales
Ally Financial, Ericsson, and State Street earnings

Advisory services offered through Sowell Management, a Registered Investment Advisor. The views expressed represent the opinion of Sowell Management. The views are subject to change and are not intended as a forecast or guarantee of future results. This material is for informational purposes only. It does not constitute investment advice and is not intended as an endorsement of any specific investment. Stated information is derived from proprietary and non-proprietary sources that have not been independently verified for accuracy or completeness. While Sowell Management believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Sowell Management’s view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements. Investing in securities involves risks, including the potential loss of principal. While equities may offer the potential for greater long-term growth than most debt securities, they generally have higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Past performance is not indicative of future results.