



[TACTICAL] Sowell’s tactical signal is soundly in neutral territory (60/40), affirmed by a contracting economy. This week’s economic reports and corporate earnings forecast will signal whether the soft landing will deepen.

Core segments of the market are pointing to a contracting economy. Last week’s economic report on Retail Sales and Industrial Production was weaker than consensus forecasts. Capacity utilization, the gauge for production capacity in the U.S., was lower than expected. In addition, regional markets for Philly and NY Empire State are all reflecting worse-than-expected declines. The one bright spot is Housing Starts and the Mortgage Market Index, showing improving fundamentals with moderating mortgage rates.

After last week’s core banks earnings, this week will spotlight prominent earnings across a broad spectrum of industrials, including core Dow companies highlighting the strength of the overall economy alongside U.S. GDP ranging from AT&T, Boeing, Chevron, J&J, Microsoft, Verizon, and Visa. Further, Thursday’s report on GDP, Inventories, and Durable Goods will shed light on the heartland of manufacturing.

“Failure to meet the government’s obligations would cause irreparable harm to the U.S. economy, the livelihoods of all Americans, and global financial stability. Indeed, in the past, even threats that the U.S. government might fail to meet its obligations have caused real harm, including the only credit rating downgrade in the history of our nation in 2011. Increasing or suspending the debt limit does not authorize new spending commitments or cost taxpayers money. It simply allows the government to finance existing legal obligations that Congresses and Presidents of both parties have made in the past.”  
– Secretary of the Treasury Janet L. Yellen Sends Letter to Congressional Leadership on the Debt, 1/13/2023.

Russell 1000 Value (as of 12/31/2022)	Portfolio Weighting %
Berkshire Hathaway Inc Class B	3.03
Johnson & Johnson	2.53
Exxon Mobil Corp	2.47
JPMorgan Chase & Co	2.13
Chevron Corp	1.89
Pfizer Inc	1.58
Bank of America Corp	1.27
Meta Platforms Inc Class A	1.16
Procter & Gamble Co	1.12
Walmart Inc	1.10

Source: Morningstar

Russell 1000 Value (12/31/2015)	Portfolio Weighting %
Exxon Mobil Corporation	3.30
General Electric Co	2.96
Wells Fargo & Co	2.56
Johnson & Johnson	2.51
JPMorgan Chase & Co	2.48
Berkshire Hathaway Inc Class B	2.32
Procter & Gamble Co	2.18
Pfizer Inc	2.01
Microsoft Corp	1.97
AT&T Inc	1.81

Is Style Still in Fashion Series: #3 Growth and Value Stocks

Growth investing and growth stocks have undeniably outperformed over the last decade, helped by the U.S. economy evolving from a traditionally manufacturing-based to a technology-driven and service-oriented economy. But what defines a Growth and Value stock can evolve over time and change depending on shifts in the economy, recalibration of an index, and a change in growth rates. Russell Investments, the mainstay index firm for institutional investors, especially in style indices, expresses growth and value stocks by the Russell 1000 Growth Index and Russell 1000 Value index.

The Russell Style Indexes combines three variables to determine whether a company is part of the growth or value index: book-to-price, I/B/E/S 2-year forecast growth, and historical 5-year sales per share growth. The combined composite score for each stock is then ranked and assigned growth and value weights. Generally, a stock with a lower composite score is considered growth, a stock with a higher composite score is considered value, and a stock with a middle range is considered to have both growth and value characteristics. It is weighted proportionately in the growth and value index. Can you imagine, in 2015, Microsoft, due to its forecast growth and 5-year sales growth, was considered a value stock? Today, at the end of 2022, Meta Platforms, aka Facebook, has regressed to a value stock as well, at least proportionally, due to its much lower book-to-price and growth factors.

Although growth stocks have been associated with Technology stocks in this low interest rate environment, do not confuse growth stocks with growth investing. By definition growth investing typically seeks companies that are rapidly growing revenues, earnings and cash flow and may not be sector specific. As was previously mentioned, regime shift in sector leadership and index constitution is also driven by regime changes in the economy in this new normal.

MON JANUARY 23, 2023
US Leading Index
Baker Hughes, Bank of Hawaii, Crane, Logitech, Synchrony Financial, Umqua, and Zions Banc earnings
TUE JANUARY 24 2023
Services PMI
Manufacturing PMI
Redbook
3M, D.R. Horton, GE, Invesco, Johnson & Johnson, Lockheed Martin, Microsoft, Paccar, Raytheon, Texas Instruments, Union Pacific, and Verizon earnings
WED JANUARY 25, 2023
Mortgage Market Index
Gasoline Production
UK PPI and Core PPI Output
Abbott, ADP, AT&T, Boeing, CSX, General Dynamics, Hexcel, Kimberly-Clark, Lam Research, Las Vegas Sands, Lending Club, Levi Strauss, Norfolk Southern, Seagate, SEI, Teradyne, and Tesla earnings
THU JANUARY 26, 2023
Initial jobless claims (weekly)
Continuing jobless claims
GDP
Wholesale Inventories
Durable Goods Orders
Alaska Air, American Airlines, Archer-Daniels, Blackstone, Comcast, Dow, East West Bank, Eastman Chemical, Intel, KLA, Mastercard, McCormick, Northrup Grumman, Old Republic, ResMed, Robert Half, Rockwell, Sherwin-Williams, Southwest Airlines, T.Rowe, Valero Energy, and Visa earnings
FRI JANUARY 27, 2023
Personal Income
Personal Spending
UMich Consumer Sentiment
AMEX, Booz Allen, Charter Communications, Chevron, Colgate-Palmolive, and Roper 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	3.55	(0.65)	3.55	8.85	(9.90)	3.12	7.80
S&P 500 Growth Index	2.99	0.16	2.99	3.57	(19.59)	(3.11)	6.93
S&P 500 Value Index	4.15	(1.50)	4.15	14.11	0.50	9.38	7.25
NASDAQ Composite	6.47	0.55	6.47	5.22	(20.62)	(8.33)	6.71
Bloomberg US Agg Bond	2.89	0.15	2.89	7.55	(8.60)	(5.83)	(1.95)
Bloomberg Long Term US Treasury	5.63	(0.32)	5.63	12.26	(21.81)	(14.12)	(6.12)
Basic Materials	7.12	(1.14)	7.12	20.00	0.39	8.18	14.19
Communication Services	11.32	2.96	11.32	5.83	(30.10)	(13.81)	(3.13)
Consumer Cyclical	8.14	(0.52)	8.14	3.44	(22.63)	(9.88)	7.70
Consumer Defensive	(1.58)	(2.55)	(1.58)	7.92	(1.80)	7.40	8.41
Energy	3.28	0.64	3.28	6.94	47.68	50.22	21.05
Financial Services	4.38	(1.64)	4.38	13.88	(7.71)	6.15	5.88
Healthcare	(0.95)	(1.05)	(0.95)	8.89	2.34	3.87	9.19
Industrials	1.89	(2.89)	1.89	14.60	(1.71)	5.64	7.03
Real Estate	6.13	(0.59)	6.13	14.89	(13.27)	4.16	0.79
Technology	5.95	0.79	5.95	8.69	(18.43)	(2.52)	10.94
Utilities	(1.68)	(2.93)	(1.68)	12.17	3.68	7.92	4.15

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