



[TACTICAL] Major averages posted positive gains buoyed by the jobs report and the highly expected rate hike maintaining the momentum signal for Sowell's tactical neutral position (60/40). The week ahead will largely await trade and manufacturing reports, followed by a broad range of industrial earnings reports.

Last week's economic reports pointing to a slowing housing market with a -0.5% price decline, -0.4% decline in construction spending, and the widely expected Fed rate hike of 25 bps helped support the S&P 500 index gaining 1.64%, at least initially. But a careful analysis of the FOMC's forward statement points to the Fed's expectation for ongoing rate hikes, albeit at a slower pace, better than expected jobs reports, and disappointing earnings releases from Apple and Google gave back some of the week's earlier gains. The carefully watched ISM survey for factory orders fell to 47.4%, trending lower month after month, raising concerns of a recession. Bond yields, currently inverted, ended the week flat, confused by the strong jobs report and the implication of the Fed's next steps.

The week ahead will largely focus on the wholesale inventory report, the state of U.S. manufacturing, and speeches by the Fed regarding future interest rate guidance. Markets will be concerned with the Fed getting too far ahead with its hawkish rhetoric, risking bursting the market gains YTD and further risking a recession. Closing the quarter will be another week of key earnings reports from industry leaders Activision-Blizzard, Tyson Foods, Kellogg, MGM Resorts, PayPal, and Walt Disney, providing forward guidance for consumer spending and the economy.

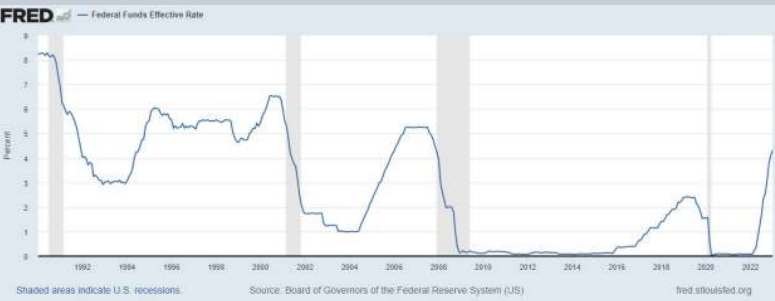
"With today's action, we have raised interest rates by 4-1/2 percentage points over the past year. We continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. We are seeing the effects of our policy actions on demand in the most interest-sensitive sectors of the economy, particularly housing. It will take time, however, for the full effects of monetary restraint to be realized, especially on inflation." – Fed Chair Jerome Powell, Feb. 1, 2023, FOMC Press Conference.

Disinflationary Process Has Started

This week, Chair Powell was quoted as carefully saying the "disinflationary process has started" during the Feb. 1, 2023, FOMC Press Conference. Not to be confused with the expletive term deflation, which is a fall in prices and typically negative inflation - bad for the economy. Disinflation is a slowdown in the rate of inflation while consumer prices are still rising, just slower. Deflation historically leads to a recession and a significant rise in unemployment. The U.S. has experienced deflation twice in its history: The Great Depression of 1929 and the Great Recession of 2007-2009.

The Fed has aggressively raised the Fed Funds rate by 4.5% since the end of the pandemic's zero-interest rate policy to a level not seen since the pre-2008 Financial Crisis. Investors and consumers have been complacent with below-average interest rates over the last 15 years, and they have forgotten the Fed Funds rate pre-2008 has averaged at the 4% range +/- in more "normal" markets.

Millennials and Gen Z, accustomed to seeing mortgage rates below 3% and discontent with the current rates, may not see those low rates again for a while.



The Federal Reserve continues to stress a goal for interest rates to reach a restrictive level where consumer prices rise at 2% over time. Consumers should distinguish that from prices decreasing back to prices levels before the pandemic, given the parallel rise in wage costs. Should consumer prices rise at the 2% target rate from this point forward, consumers may need to adjust their absolute expectations for what they pay for food and services – not lower prices.

Whether it's inflation, disinflation, or deflation, the Fed must carefully maneuver policy rates to keep the economy in a tight lane, alike driving on icy roads in the snow that doesn't further trigger re-inflation or deflation and only achieves disinflation.

MON FEBRUARY 6, 2023
Conference Board Employment Trends Index
Germany Factory Orders
Euro Zone Retail Sales
Activision-Blizzard, Cummins, IDEXX Labs, James Hardie, Loews, Orix, Skyworks Solutions, Take-Two Interactive, Timken, and Tyson Foods earnings
TUE FEBRUARY 7, 2023
Trade Balance
Consumer Credit
Fed Chair Powell Speaks
Aramark, Carrier, Chipotle, Crown, Dupont de Nemours, Enphase Energy, FMC, Fiserv, Gartner, H&R Block, Hertz Global, Incyte, KKR, Madison Square Garden Sports, NCR, Omnicom, Paycom Software, Prudential Financial, Red Rock Resorts, Royal Caribbean, The Carlyle Group, Valvoline, and Vertex earnings
WED FEBRUARY 8, 2023
Wholesale Inventories
Mortgage Market Index
Gasoline Production
CDW, CVS, Dominion Energy, Emerson Electric, Equifax, Fox, MGM Resorts, O'Reilly Automotive, Penske, Reynolds Consumer, Sun Life, Teva, Uber, U-Haul, Under Armour, Walt Disney, and Yum Brands earnings
THU FEBRUARY 9, 2023
Initial jobless claims (weekly)
Continuing jobless claims
China CPI
Germany CPI
Factory Orders
AbbVie, Alteryx, Apollo Global, Baxter, Duke Energy, Expedia, Global Payments, Hilton Worldwide, Kellogg, Lyft, Mohawk, Motorola Solutions, PayPal, Philip Morris, Ralph Lauren, S&P Global, VeriSign, Warners Music, and Yelp earnings
FRI FEBRUARY 10, 2023
Unemployment Rate
Participation Rate
Services PMI
Aon, CBOE Global, Cigna, Regeneron, and Zimmer Biomet 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	7.86	1.64	1.48	11.69	(6.07)	5.53	10.16
S&P 500 Growth Index	7.33	1.50	1.61	10.96	(15.64)	(1.45)	8.90
S&P 500 Value Index	8.43	1.80	1.33	12.70	4.10	12.70	10.03
NASDAQ Composite	14.77	3.33	3.65	16.38	(12.74)	(5.37)	9.86
Bloomberg US Agg Bond	3.02	0.03	(0.05)	6.67	(8.18)	(5.60)	(2.37)
Bloomberg Long Term US Treasury	6.22	0.15	(0.18)	11.82	(21.08)	(13.18)	(7.68)
Basic Materials	8.86	0.48	(0.82)	17.09	4.23	11.57	16.44
Communication Services	20.65	5.08	5.52	27.81	(20.92)	(11.31)	0.55
Consumer Cyclical	17.78	2.52	1.96	13.71	(13.11)	(5.59)	10.84
Consumer Defensive	0.02	0.92	(0.29)	4.51	(0.99)	8.77	9.59
Energy	(1.78)	(5.61)	(4.41)	(4.88)	32.11	49.72	23.70
Financial Services	8.37	1.27	0.55	11.61	(4.99)	9.18	8.09
Healthcare	(1.48)	0.06	(0.25)	3.22	0.56	4.88	10.53
Industrials	6.18	2.23	1.31	11.54	3.84	9.03	9.87
Real Estate	10.92	1.64	0.85	15.37	(9.77)	5.57	2.40
Technology	15.30	4.10	4.57	20.45	(11.33)	1.08	14.39
Utilities	(3.05)	(1.09)	(1.42)	3.20	2.39	7.48	2.53

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