SOWELL'S WEEK AHEAD

JAN 17-21, 2022

Equity markets struggled to take a stand on mixed, but within consensus, economic results while corporate earnings, especially financial services, exceeded consensus estimates. Sowell's tactical indicators remain in conservative positive territory with extended inflation concerns. With rising bond yields, the market rotation, evidenced by value stocks holding steady and growing their momentum stocks backing off, is consistent with the current market cycle.

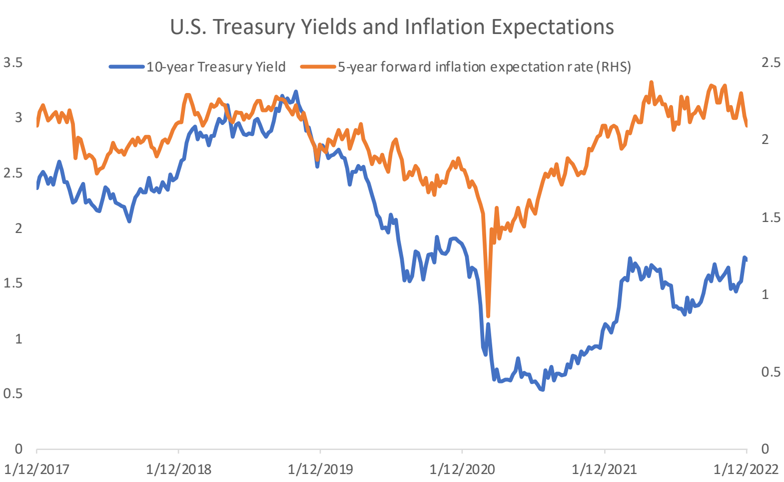
GAUGE OF THE GRADE

BEARISH NEUTRAL BULLISH

Volatility in the equities market continued last week, with equity indexes ending the week mixed as inflation remains the focus of investors. Consumer inflation in December rose at the fastest pace in almost four decades. Financials shares came under pressure as JP Morgan Chase, and Citigroup reported lower profits in the fourth quarter. Utilities, real estate, technology, and health care all underperformed during the week. Energy stocks outperformed as oil prices continued to climb higher. Technology stocks performance near term will remain linked to the moves in the 10-year Treasury. Higher rates will affect technology shares negatively through higher discount rates used to value them. The 10-year Treasury closed the week just below 1.8%. Consumer sentiment remains low as the University of Michigan Consumer Sentiment Index for January fell to the second-lowest level in a decade. With inflation high, rising yields, and valuation concerns, economically sensitive value stocks continue to do relatively well this year.

The focus this week turns to fourth-quarter company earnings, which in general is expected to be a stronger profit growth for economically sensitive value stocks such as energy, materials, and industrials compared to high growth technology companies. These economically sensitive sectors do better when there is inflation as their margins increase. The earnings reports will also show how companies are handling inflation. Notable names are reporting this week, such as Goldman Sachs, Travelers, and Bank of America, along with Netflix, United Airlines, and Procter & Gamble. We will get multiple data on the housing market on the economic front. The NAHB/Wells Fargo Housing Market Index for January will be released on Tuesday, and the Census Bureau will report U.S. housing starts and building permits for December on Wednesday. Existing home sales data will be released on Thursday.

Source: Refinitiv Datastream/Fathom Consulting



December's U.S. employment report showed that employment grew at half the rate that economists had expected. The report also showed that wages increased, and the unemployment rate dropped to 3.9%. Despite the tight labor market, the expectations are for inflation to come down this year and into next. The gradual withdrawal of fiscal and monetary policy will prompt inactive workers to re-enter the labor market, increasing labor supply and pressuring wages lower. Inflation will remain above the Fed's target of 2% despite the Fed's likely increase in the federal funds rate in March and the ending of the quantitative easing program. Therefore, the gap between the U.S. treasury yield and the 5-year forward inflation expectation rate will begin to close, as was the case before the pandemic, which means that the 10-year Treasury yield will continue to rise.

MONDAY **JANUARY 17, 2022**
Martin Luther King, Jr. Day - all market closed
Euro Zone CPI and Core CPI
TUESDAY **JANUARY 18, 2022**
NAHB Housing Market Index
OPEC Monthly Report
US Foreign Buying , T-Bonds
Bank of New York, Charles Schwab, Goldman Sachs, Interactive Brokers, J.B. Hunt, Old National Bancorp, PNC Financial Services, and Truist Financial earnings
WEDNESDAY **JANUARY 19, 2022**
Redbook
Mortgage Market Index
Housing Starts
Alcoa, ASML, Bank of America, Comerica, Discover Financial, Kinder Morgan, Morgan Stanley, Prologis, Umpqua, United Airlines, and UnitedHealth earnings
THURSDAY **JANUARY 20, 2022**
Initial jobless claims (weekly)
Continuing jobless claims
Gasoline Production
American Airlines, Baker Hughes, CSX, Fifth Third Bancorp, Intuitive Surgical, M&T Bank, Netflix, Northern Trust, and Union Pacific earnings
FRIDAY **JANUARY 21, 2022**
US Leading Index
Euro Zone Consumer Confidence
UK Retail Sales
Ally Financial, First Hawaiian, Huntington Bancshares, IHS Markit, and Schlumberger earnings

SELECT INDICES

	YTD *Daily*	1 Wk *Daily*	1 Mo *Daily*	3 Mo *Daily*	6 Mo *Daily*	1 Yr *Daily*	3 Yr *Annualized Daily*
S&P 500 Index	(2.11)	(0.29)	0.73	5.42	7.33	24.59	23.91
S&P 500 Growth Index	(5.10)	(0.65)	(2.66)	4.35	6.19	26.20	28.71
S&P 500 Value Index	1.20	0.10	4.55	6.34	8.34	22.48	17.80
Basic Materials	(1.99)	(0.36)	2.22	7.28	9.80	19.87	23.09
Communication Services	(2.67)	0.32	(0.84)	(6.27)	(6.20)	15.74	21.55
Consumer Cyclical	(4.48)	(1.53)	(1.32)	2.95	5.47	13.06	28.25
Consumer Defensive	(0.65)	(0.89)	2.59	7.69	8.32	18.76	18.85
Energy	15.77	5.23	17.47	13.67	30.10	53.02	6.83
Financial Services	3.51	(0.68)	5.13	2.60	7.34	26.29	20.74
Healthcare	(5.60)	(0.51)	(1.32)	2.20	1.90	10.21	17.26
Industrials	(1.01)	(0.75)	2.04	3.80	4.04	17.70	18.84
Real Estate	(5.62)	(1.38)	(0.12)	3.68	5.81	33.24	15.27
Technology	(5.91)	(0.19)	(3.23)	4.80	8.74	25.98	38.98
Utilities	(2.83)	(1.30)	0.78	6.42	8.77	14.46	12.93

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.

SOWELL MANAGEMENT
5320 Northshore Dr. | N. Little Rock, AR 72118 | 501-219-2434 Ph | 501-812-6380 Fax
800-399-2391 | sowellmanagement.com