SOWELL'S WEEK AHEAD

APR 11-15, 2022

After more than two years of Covid being the top issue, inflation, interest rates, and the economy have come back to the center stage. Sowell's tactical signals remain neutral with strong employment fundamentals and defensive but predictable interest rate sentiment.

GAUGE OF THE GRADE

BEARISH — BULLISH

Equity markets ended last week lower as the Federal Reserve minutes and Fed officials suggested that more aggressive steps would be taken to tame inflation. The technology-heavy Nasdaq underperformed both the Dow and the S&P 500. The jump in government yields resulting from the Fed's hawkish tone caused bond prices to fall dramatically. The oil markets were volatile as oil prices fluctuated under $100 per barrel. The U.S. and other nations are preparing to release strategic crude oil reserves to reduce high energy prices. The U.S. labor market continues to show strength as jobless claims came in at the lowest level since 1968, according to MarketWatch.com, the second-lowest reading since recordkeeping began. This is great news for workers as they are tempted to jump positions for higher-paying jobs. Less good news for businesses as their cost are going up, and they cannot find enough labor to produce enough goods and services to meet high demand. Overall, the good news is that a strong labor market is a buffer against recession, which gives ammunition for the Fed to be more aggressive in raising rates to tame inflation. The 10 minus 2-year yield spread turned positive as the 10-year yield closed last week above 2.7%.

This week, earnings season picks up with some of the largest financial firms reporting, such as Goldman Sachs, Wells Fargo, BlackRock, Citigroup, and JPMorgan Chase. On the economic front, the Consumer Price Index (CPI) and Producer Price Index (PPI) will be released on Tuesday and Wednesday, which all investors will be paying close attention to. CPI is expected to increase from the previous month as costs of goods and services continue to rise. Retail sales data and the University of Michigan's preliminary reading of its Consumer sentiment Index for April will be released on Thursday. The preliminary reading of the Consumer sentiment index will provide insight into inflation's effect on consumers. Consumer sentiment has been at a multi-year low. Retail sales have held strong over recent months despite rising prices.

The U.S. Treasury 10-year yield rose to near a three-year high last week, and the 10 minus 2-year yield spread widened as investors adjusted their view of how aggressive the Federal Reserve will be in raising rates. Hawkish comments from Fed Governor Lael Brainard and confirmation from the Fed minutes that the Fed will be aggressive in reducing its balance sheet led the 10-year yield higher versus the 2-year. The 10-2 yield curve went positive last week as the previous week it had inverted. The 10-year yield closed last week above 2.7%, and the 2-year closed above 2.5%. The brief inversion of the yield curve sounded alarms about a pending recession over the next 18 months. Inversions reflect the Fed's belief to move strongly to push interest rates above the long-term neutral estimates embedded in 10-year rates to slow demand. Thus, the economy will control inflation. History shows that the Fed usually ends most economic cycles. Here is the 10 minus 2-year yield spread as of Friday. SOURCE: https://fred.stlouisfed.org/series/T10Y2Y

MONDAY **APRIL 11, 2022**
Factory orders
Durables ex-Defense
K Industrial Production
TUESDAY **APRIL 12, 2022**
CPI and Core CPI
Redbook
NFIB Small Business Optimism
Albertsons, CarMax, and Washington Federal earnings
WEDNESDAY **APRIL 13, 2022**
PPI and Core PPI
Gasoline Production
Euro Zone Industrial Production
Bed Bath & Beyond, Blackrock, Delta, First Republic, and JP Morgan earnings
THURSDAY **APRIL 14, 2022**
Initial jobless claims (weekly)
Continuing jobless claims
Retail Sales
UMich Consumer Sentiment
Ally Financial, Citigroup, Ericsson, Goldman Sachs, Morgan Stanley, PNC Financial, Rite Aid, State Street, U.S. Bancorp, UnitedHealth, and Wells Fargo earnings
FRIDAY **APRIL 15, 2022**
Industrial Production
Mfg Production
Capacity Utilization Rate

SELECT INDICES

	YTD *Daily*	1 Wk *Daily*	1 Mo *Daily*	3 Mo *Daily*	1 Yr *Daily*	3 Yr *Annualized Daily*
S&P 500 Index	(5.46)	(1.24)	7.76	(3.69)	11.08	17.71
S&P 500 Growth Index	(10.90)	(2.69)	8.73	(6.73)	9.92	20.76
S&P 500 Value Index	0.60	0.25	6.81	(0.49)	11.78	13.38
Bloomberg US Agg Bond	(7.89)	(1.82)	(4.01)	(6.46)	(6.71)	1.10
Bloomberg Long Term US Treasury	(15.10)	(5.29)	(8.96)	(11.40)	(8.03)	2.09
Basic Materials	(1.52)	(1.46)	10.69	0.12	14.65	18.52
Communication Services	(13.95)	(2.88)	6.16	(11.31)	(11.83)	13.30
Consumer Cyclical	(13.63)	(3.53)	8.83	(10.97)	(2.09)	19.54
Consumer Defensive	2.62	2.69	9.58	2.37	16.30	16.53
Energy	43.99	2.86	4.30	30.89	72.55	11.15
Financial Services	(4.67)	(1.85)	7.04	(8.53)	4.38	13.83
Healthcare	(0.29)	2.75	11.68	5.08	17.66	16.79
Industrials	(7.14)	(3.04)	2.94	(6.89)	0.24	11.20
Real Estate	(5.05)	(0.60)	7.79	(0.78)	19.47	10.93
Technology	(14.14)	(4.65)	5.48	(8.92)	7.11	26.62
Utilities	7.87	1.73	9.42	9.57	21.51	12.78

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