



GAUGE OF THE GRADE

[TACTICAL] This week was marked by the Fed raising the federal funds rate to an expected range of 3%–3.25%, the highest since early 2008. Sowell’s tactical signal remains south of neutral territory as we attempt to weather through this storm of volatility.

History repeats with the ghost of the September Effect resurfacing as the worst-performing month on average. This is the worst September since 2002, with the S&P 500 declining 9.21%, culminating in the YTD return to –23.87%. What might surprise the average investor is bonds, represented by the Barclay US Aggregate and Long Treasuries YTD, have also posted losses of –14.61% and –28.84%, respectively. The market attempted to find its footing early in the week from the prior week’s decline. Still, it was subdued by recession fears with a rise in wholesale inventories, a slowdown of the housing market, and the Fed’s unwavering rate hike of three-quarters of a percentage point. History has shown that investors’ emotional tendencies often impact rational decision-making during stressed markets.

A reminder of Warren Buffett’s simple rule, “Be fearful when others are greedy, and be greedy when others are fearful.” This quote is from an op-ed during the 2007–2008 Financial Crisis. If history repeats, the October Effect ahead tends to be net positive months.

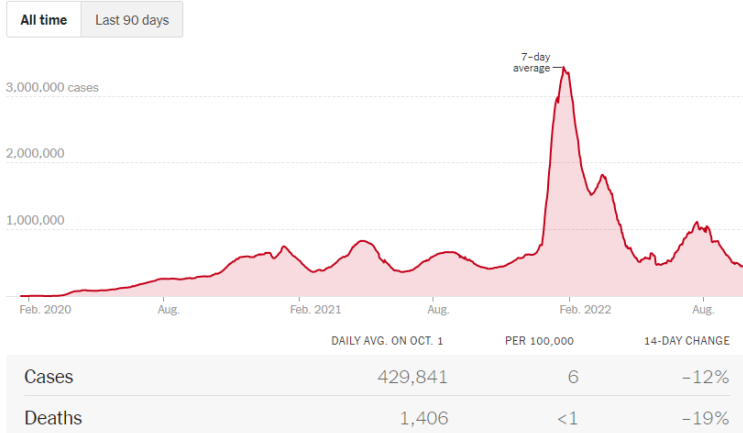
The coming week is filled with third quarter key economic releases, including factory orders, jobs, and the state of the consumer. Critically more important in the weeks ahead are third-quarter company earnings releases and their forward guidance heading into 2023.

“Greed, for lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit”

– Michael Douglas: Gordon Gekko, Wall Street, 1987.

MON OCTOBER 3, 2022
ISM Manufacturing PMI
Construction Spending
Dallas Fed Personal Consumption Expenditures
TUE OCTOBER 4, 2022
Redbook
JOLTS Job Openings
Factory Orders
Acuity Brands earnings
WED OCTOBER 5, 2022
Trade Balance
OPEC Meeting
ISM Non-Manufacturing PMI
THU OCTOBER 6, 2022
Initial jobless claims (weekly)
Continuing jobless claims
Challenger Job Cuts
Euro Zone Retail Sales
ConAgra, Constellation Brands, Levi’s, and McCormick earnings
FRI OCTOBER 7, 2022
Unemployment Rate
Participation Rate
Consumer Credit

New reported cases



Source: Center for Systems Science and Engineering (CSSE) at Johns Hopkins University. Daily cases are the number of new cases reported each day. The seven-day average is the average of a day and the previous six days of data.

The underpinnings of what might prevent a global recession are, in fact, the ongoing Covid recovery and re-opening. The U.S. and Euro Zone re-opened much of their economies well before many other nations. However, even though that is still a work in progress with government stimulus and benefits not expiring until the end of 2022, companies are still working hybrid and yet to return to the office. Outside of the U.S. update:

- Canada removed all Covid-19 entry restrictions on Oct. 1st
- Hong Kong, Japan and Taiwan will lift all foreign travel restrictions and quarantine requirements to enter the country by mid-October.
- Yet China still has foreign entry restrictions and a 10-day quarantine at the point of entry in place.

Total daily deaths globally have fallen below 1,400. With a full re-opening, imagine the surge in travel, hospitality, consumer spending, and demand for jobs as we have seen in the U.S., which might conflict with inflation but at the same time support the softening demand.

SELECT INDICES

	YTD Daily	1 Wk Daily	1 Mo Daily	3 Mo Daily	1 Yr Daily	2 Yr Daily	3 Yr Annualized Daily
S&P 500 Index	(23.87)	(2.88)	(9.21)	(4.88)	(15.47)	4.83	8.16
S&P 500 Growth Index	(30.41)	(3.06)	(9.98)	(3.86)	(21.11)	0.83	9.92
S&P 500 Value Index	(16.56)	(2.72)	(8.47)	(5.82)	(9.63)	9.23	5.11
NASDAQ Composite	(32.00)	(2.68)	(10.44)	(3.91)	(26.25)	(1.99)	10.63
Bloomberg US Agg Bond	(14.61)	(0.99)	(4.32)	(4.75)	(14.60)	(8.00)	(3.26)
Bloomberg Long Term US Treasury	(28.84)	(2.79)	(7.90)	(9.63)	(26.65)	(18.87)	(8.51)
Basic Materials	(23.61)	(0.53)	(9.69)	(6.16)	(11.36)	7.63	8.43
Communication Services	(40.14)	(3.00)	(12.14)	(12.72)	(41.32)	(10.84)	(3.33)
Consumer Cyclical	(31.02)	(2.37)	(8.65)	3.21	(23.30)	(0.21)	10.81
Consumer Defensive	(12.88)	(3.57)	(7.95)	(6.39)	(2.74)	5.06	6.75
Energy	34.29	2.32	(9.40)	3.13	43.97	63.45	13.82
Financial Services	(22.22)	(2.41)	(8.14)	(3.24)	(20.10)	9.69	4.15
Healthcare	(15.22)	(1.17)	(3.10)	(4.94)	(8.06)	6.00	11.40
Industrials	(21.33)	(2.10)	(10.14)	(3.49)	(14.11)	6.02	4.16
Real Estate	(28.84)	(4.14)	(12.88)	(10.71)	(18.26)	3.42	(1.79)
Technology	(34.13)	(3.52)	(12.06)	(6.12)	(23.47)	0.73	14.40
Utilities	(6.64)	(8.52)	(11.19)	(5.87)	5.75	8.58	2.96

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