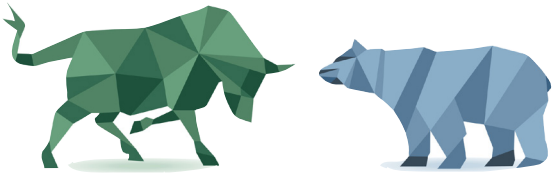
Braeburn Observations



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LOWRY'S 8/12/2022

The coast is not fully clear yet, especially with such overbought short-term conditions, so we believe that incremental buying is better than an all-in approach. This would lower investor risk whether the bottom is in or not. If this is indeed the start of a new intermediate-term uptrend, there will be ample time for profiting as it progresses.

U.S. MARKETS

U.S. stocks rallied after data showed signs that inflation had started to slow, supporting the view that the rise in the consumer prices may have peaked. Federal Reserve officials reiterated that the central bank still had work to do in taming inflation, but the market nonetheless appeared to lower its expectations for a 75-basis-point (0.75%) rate hike in September. The Dow Jones Industrial Average finished the week up 958 points, finishing at 33,761, a gain of 2.9%. The technology-heavy NASDAQ Composite rallied 3.1% to close at 13,047. By market cap, the large cap S&P 500 added 3.3%, while the mid cap S&P 400 surged 4.4% and the small cap Russell 2000 finished the week up 4.9%.

INTERNATIONAL MARKETS

Major international markets were all positive for the week. Canada's TSX rose 2.9%, while the United Kingdom's FTSE 100 added 0.8%. On Europe's mainland, France's CAC 40 and Germany's DAX added 1.3% and 1.6%, respectively. In Asia, China's Shanghai Composite rose 1.5%, logging its first positive week in three. Japan's Nikkei finished the week up 1.3%. As grouped by Morgan Stanley Capital International, developed markets added 2.7%. Emerging markets finished up 2.5%.

U.S. ECONOMIC NEWS

The number of Americans filing for first-time unemployment benefits rose to its highest level since last November, another sign of the cooling labor market. The Labor Department reported initial jobless benefits rose by 14,000 to 262,000 last week. Economists had expected just an increase of 4,000 new claims. The four-week moving average of claims, smoothed to iron-out the weekly volatility, rose by 4,500 to 252,000. Claims have been slowly trending higher over the past few months, consistent with softening demand for workers. The Federal Reserve has been intent on cooling the labor market to help get the rate of inflation under control. Stuart Hoffman, senior economic advisor at PNC Financial Services Group wrote in a research note, "The rise in initial claims since early April is a cool breeze blowing at the hot labor market this summer."

Confidence among the nation's small business owners rose last month, reflecting improved expectations about business conditions. The National Federation of Independent Businesses (NFIB), a small-business lobbying group, reported its Small Business Optimism Index climbed 0.4 points to 89.9 in July. Economists were expecting the index to remain unchanged. Of the 10 index components, four increased while six decreased. Inflation remained a key concern, with 37% of small business owners reporting it as their single most important problem in operating their business. That reading was at its highest level since the end of 1979. On a positive note, the sub-index that measures the percentage of owners expecting better business conditions over the next six months recorded the biggest rise, up nine points from June's record low.

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Consumers got a reprieve from higher prices in July, according to the latest report from the government. The Labor Department's Consumer Price Index (CPI) remained unchanged in July, down from a 1.3% increase the prior month and below economists' expectations of a 0.2% advance. Over the past year, inflation retreated to 8.5% from its 41-year high of 9.1% in June. The closely-watched "core" measure of inflation that omits volatile food and energy rose 0.3% in July, down from a 0.7% gain in the prior month. The 12-month rate remained steady at 5.9%. The big rise in inflation was the cost of food, which rose 1.1% in July. Over the past year, food prices alone are up 10.9%, the highest since May 1979. Energy prices fell 4.6% in July, with gasoline prices down 7.7%. Sal Guatieri, senior economist at BMO Capital Markets wrote, "The July CPI report may be the first clear indication that consumers are pushing back against high inflation in response to tighter monetary policy." In addition, he stated his view that inflation was close to peaking, though the "climb down the mountain will be slow."

Prices at the wholesale level pulled back as well, implying more good news for consumer prices in the near future. The Labor Department reported its Producer Price Index fell -0.5% in July, its first negative monthly print since April of 2020. The reading was a surprise to the downside--economists had expected an increase of 0.2%. In annual terms, the headline PPI was up 9.8% in July, down from 11.3% in the prior month. The core producer price index, which excludes volatile food and energy prices, rose 0.2% in July, down from a 0.3% gain in the prior month. The decline appears to be largely result in the decline in energy prices. Energy prices dropped 9% in July, down sharply from their 9.4% gain in the prior month.

A survey of U.S. consumers showed sentiment rose in August, but remains near its all-time low seen in July. The University of Michigan's index of Consumer Sentiment rose to 55.1 in its preliminary reading for this month—up 4 points from July. Economists had expected a reading of just 52.5. Consumer expectations for inflation over the next year ticked down to 5% from 5.2% last month, while expectations for inflation over the next five years ticked up to 3% from 2.9% in July, which was a six-month low. Americans remain concerned about the rapidly rising costs of key goods like food and rent, though declines in the price of gasoline in recent weeks helped lift the national mood. "All components of the expectations index improved this month, particularly among low and middle-income consumers for whom inflation is particularly salient," wrote Joanne Hsu, director of the survey.

In a pair of speeches by Federal Reserve governors, Charles Evans, President of the Federal Reserve Bank of Chicago stated the July CPI data was "positive", but "nobody can be happy" with an 8.5% annual inflation rate. Evans now sees the Fed's benchmark policy rate rising to 3.25% - 3.5% by end of year, implying a slower pace of hikes ahead. On the economy, Evans said he didn't think the economy would "turn down in a significant fashion anytime soon." Minneapolis Fed President Neel Kashkari stated July's CPI print was the "first hint" of possible good news on the inflation front. "I was certainly happier to see a surprise to the downside," Kashkari said, but the Fed is "far, far away from declaring victory," he added.

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perspectives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time professional money manager who developed an in-depth expertise in computerized analysis and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.