CROSSMARK
GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	4.05%	19.71%
S&P 500	3.85%	27.16%
NASDAQ	3.62%	22.03%
RUSSELL 2000	2.45%	13.00%
RUSSELL 1000 GROWTH	4.39%	27.33%
RUSSELL 1000 VALUE	2.88%	22.21%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	2.94%	21.00%
CONSUMER DISCRETIONARY	2.53%	24.70%
CONSUMER STAPLES	3.60%	13.51%
ENERGY	3.79%	57.45%
FINANCIALS	2.67%	34.43%
HEALTHCARE	3.17%	20.00%
INDUSTRIALS	3.06%	20.14%
INFORMATION TECHNOLOGY	5.99%	35.09%
MATERIALS	3.58%	23.41%
REAL ESTATE	2.80%	37.55%
UTILITIES	2.63%	12.87%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	3.06%	17.11%
MSCI ACWI EX U.S.	2.02%	6.35%
MSCI EAFE	2.44%	8.99%
MSCI EM	1.15%	-2.20%

SUMMARY:

U.S. equities finished higher last week (S&P 500 +3.8%). Technology was the only sector that outperformed the broader market. Upside came primarily as initial Omicron data indications were milder than other variants. Best sectors were technology +6.0% and energy +3.7%; worst sectors were consumer discretionary +2.5% and utilities +2.6%.

KEY TAKEAWAYS:

1. The annual rate of inflation rose to 6.8% year-over-year, with core up by 4.9%. In both cases, these were the highest annual inflation rates in decades. The Fed is facing material pressure to begin unwinding monetary accommodation next year as underlying growth and inflation trends no longer warrant emergency policy settings.
2. We expect inflation to dip over the next 12 months as the demand for goods moderates and supply-chain disruptions abate. But the rate will likely drop from the current 6-7% down to 3-4% (not < 2% where it was for so long).
3. The Fed's first rate hike has not historically been detrimental for equity markets. On average, the S&P 500 is up 6.6% in the six months following the first rate hike.
4. Market participants and FOMC members have brought down their estimates of the neutral rate of interest significantly over the years. While this decline was justified in the aftermath of the Global Financial Crisis, it is no longer the case. U.S. household balance sheets have been repaired, and consumers are now capable of handling higher interest rates. A realization that the current consensus view on the level of the neutral rate is too low is a risk to equities. It could lead to an increase in bond yields that could turn into a headwind for stocks.
5. Initial jobless claims came in at the lowest levels since 1969, suggesting employment is at or near full employment levels.
6. The Atlanta Fed GDPNow is suggesting Q4 GDP of 8.5%. Most private economists estimate 4-5%.
7. 2021 earnings appear to be borrowing from 2022 earnings. 2022 EPS estimates have remained relatively stable as 2021 estimates have increased. Growth expectations for 2022 are down to +7-8%.
8. President Biden's Build Back Better Bill still faces many obstacles, including its costs and many disagreements over the details. This Bill will likely be deferred until January.
9. A more balanced oil market in 2022 and somewhat lower oil prices are likely after a short supply/strong demand recovery in 2021.
10. Retail flows into U.S. equities have been very strong this year, contributing to the market's strong performance. The T.I.N.A. ("there is no alternative") environment still prevails, reducing the likelihood of sudden deterioration in demand for stocks.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.72%	-1.67%
BLOOMBERG U.S. CORP HIGH YIELD	0.65%	4.44%
BLOOMBERG U.S. GOV/ CREDIT	-0.92%	-1.88%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.00%	0.04%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
FTSE NAREIT (REAL ESTATE)	2.62%	32.78%
DJ COMMODITIES	1.82%	26.87%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	2.02%	25.66%
DB G10 CURRENCY FUTURES	1.67%	3.83%

COVID CONCERNS RETREAT AND INFLATION CONCERNS ARE (SO FAR) MUTED

Volatility has moved up in financial markets, driven mainly by the news on COVID-19 variants, as well as indications that the liquidity boom will start to unwind next year. While there is still considerable uncertainty about how the Omicron variant will impact the world, so far, economic sentiment and momentum are holding up while inflation continues to surge in most economies. Providing that the pandemic does not deteriorate to the point where meaningful economic restrictions are enacted, which most authorities are wary of pursuing, then we expect more of the same: economic resilience, higher inflation than central banks (and the bond market) will ultimately be willing to tolerate, and a generally risk-on backdrop, albeit with dwindling net returns due to stretched valuations and higher volatility.

To the extent that concerns about COVID-19 persist and periodically create a possible economic headwind, it will tend to prolong the cycle by holding back a full recovery in service sector activity. However, the pattern seems to be that each new wave has progressively less economic bite. Confidence in the efficacy of the vaccinations and new medical treatments will likely continue to progressively lift mobility restrictions and bolster overall global economic activity, albeit with an occasional bump along the way.

Supply problems may be peaking. These issues have contributed to the rise in inflation, but the main drivers have been strong demand, dwindling economic slack, and rising wage demands. Our forecast for 2022 and beyond remains intact: inflationary pressures will persist, absent a marked deterioration in the pandemic, and will ultimately force policy rates higher than bond markets are currently discounting. At that point, risk asset markets will enter a cyclically risky phase.

Policy settings are the most accommodative in memory and the surge in inflation has failed to result in a tangible response from most major central banks, nor triggered any turmoil in the government bond market. In fact, long-term bond yields have been remarkably calm since early this year. The short end of the Treasury yield curve is taking notice that the rise in inflation will not be transitory and less accommodative policy settings are on the horizon. This week's FOMC meeting should see the speech of QE tapering notch higher, after Chair Powell abandoned the "transitory" characterization of inflation. The likelihood of earlier rate hikes in 2022 has also increased. We expect the uptrend at the short end of the U.S. yield curve to eventually push up the yield at the long end.

In summary, further patience is warranted in order to determine the severity of the Omicron threat. If the outcome is not significant in economic terms and the authorities around the globe remain keen to not pursue harsh economic restrictions, then the inflationary backdrop will persist. There will be further asset price inflation until the consumer price inflation backdrop is finally seen as being serious enough to bring about an end to the great liquidity boom. Such an end point likely lies beyond 2022, given lingering COVID-19 angst and uncertainties about future variants, entrenched reflationary biases at central banks, and still-behaved bond markets.

CONCLUSION:

We remain mildly constructive in our investment stance, albeit mostly due to our bearish weighting in bonds rather than an aggressive overall equity weighting. The cyclical advance in inflation will persist and eventually put upward pressure on long-term bond yields and force central banks to turn less accommodative.

Data from Morningstar Direct, as of 12/13/2021.

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