CROSSMARK GLOBAL INVESTMENTS

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Doll's Deliberations®

Weekly Investment Commentary

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Summary

Equities rose last week (S&P 500 1.52%) as NASDAQ (2.60%) outperformed. A large number of issues made the news: AI, earnings, Ukraine war truce rumors, tariffs, etc. Best sectors were technology (3.79%) and communication services (1.99%); the only sectors that declined were healthcare (-1.06%) and financials (-0.03%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	0.65	4.89
S&P 500	1.52	4.11
NASDAQ	2.60	3.76
Russell 1000	1.38	4.36
Russell 1000 Growth	2.03	3.76
Russell 1000 Value	0.65	5.12
Russell 2000	0.12	2.41

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	1.99	8.92
Consumer discretionary	0.30	0.98
Consumer staples	1.78	5.50
Energy	1.58	4.82
Financials	-0.03	7.22
Heathcare	-1.06	5.33
Industrials	0.19	4.41
Information technology	3.79	1.62
Materials	1.78	6.86
Real estate	0.24	3.39
Utilities	1.22	4.49

Key takeaways

1. Retail sales in fell 0.9% in January (the largest decline since March 2023), an indication that the consumer is slowing.
2. Headline CPI surged 0.5% m/m (3.0% y/y) and core was 0.4% m/m (3.3% y/y). Both were upside surprises, and the PPI was also disappointing. Core inflation numbers are worrisome, so the Fed needs to pause longer and maybe for the entire year. (Prediction #2.)
3. Still-low initial unemployment claims, alongside 4% unemployment, portray a still-healthy labor market. And the higher-than-expected January PPI and CPI (with upward back-month revisions) confirms that inflation remains sticky at a too-elevated growth rate.
4. The hot inflation prints will keep the Fed on the sidelines for now. Barring any sudden labor market weakness, the FOMC will only cut rates once it sees several weak, sequential inflation prints.
5. The futures market has pared back its number of rate cuts to just one for the remainder of the year, and it isn't expected until the fourth quarter. The potential for the Fed to be done cutting rates is very real.
6. The combination of 1) monetary, 2) fiscal, 3) trade, and 4) regulatory policies will determine future growth and inflation direction. In the meantime, there is considerable investment uncertainty.
7. The 4Q EPS growth is close to 15% and sales growth is approaching 5%, implying significant margin improvement. Despite a strong reporting season, 2025 EPS now anticipates 11% growth (down from +14%). Consensus for 2025 is $271 for the S&P 500 (we are at $265).
8. Stocks reacted positively toward Trump's announcement on reciprocal tariff plans. They will likely be approached on a country-by-country basis with no decisions until April 1. The market viewed the delays and the more reserved measures as positives.
9. We expect volatility to remain elevated and for yields to remain the key driver of equities in the near term. (Stocks have moved sideways since December when the 10-year Treasury yield crossed 4.5%.)
10. Trump-Musk policies are supported by a majority of Americans. However, the communication and implementation are less popular. At some point, this could impact approval ratings and therefore pace of method and policy change and implementation.

The tariff discussion continues

The Fed's primary stated goal is to return inflation to 2%. It is failing, and with hindsight, the 100 basis points (bps) in rate cuts since September were a mistake. U.S. monetary conditions were never restrictive, despite Chair Powell's repeated assertions. Rate cuts have only further stoked asset price inflation and provided additional stimulus to an already warm economy, putting a floor under inflation. Unless anti-growth trade policies or some other set of events undermine economic activity, inflation and interest rates could move higher.

We and most investors assumed that President Trump would lead with some pro-growth policies before taking riskier anti-growth actions, such as a trade tariffs. So far, he has done the opposite, which is in contrast to Trump 1.0, and potentially threatens risk asset markets. Budget negotiations, and presumably tax cuts and deregulation moves, are approaching, so Trump may yet match his prior pattern. Last week's conversation with Russia may be designed to be such a step, via potentially lower energy prices and capping the geopolitical risk premium.

While Trump has also not yet enacted aggressive trade actions, he has repeatedly threatened to do so. Such threats have generated considerable uncertainty, although this is more of a problem for other economies than the U.S. so far. Aside from the strength in gold prices, which likely reflects increased worries about an even more chaotic geopolitical backdrop, asset markets have generally ignored the threats in the belief that Trump would not risk undermining the still-solid U.S. economy.

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.51	4.97
MSCI ACWI EX U.S.	1.59	6.34
MSCI EAFE	2.10	7.72
MSCI EM	0.45	3.67

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.12	0.80
Bloomberg U.S. Corp High Yield	0.05	1.41
Bloomberg U.S. Gov/Credit	-0.12	0.79
Bloomberg U.S. T-Bill 1-3 Month	0.05	0.50

Alternatives (Index total return %)	**Last week**	**Year-to-date**
Real estate (FTSE NAREIT)	0.77	3.20
Commodities (DJ)	1.68	7.78
Global listed private equity (Red Rocks)	0.09	5.09
Currencies (DB Currency Future Harvest)	0.05	-0.56

The initial stampede into all things U.S. when Trump won the election has given way to broader participation this year, and a softer U.S. dollar. U.S. equities (and the dollar) were pushed last year to historic extremes relative to other markets, and we have been expecting some rotation to less expensive laggard markets and sectors, which has begun to be realized.

Investors have been chronically unprepared for higher inflation, and thus have not demanded compensation for such a risk. This sentiment has been puzzling relative to the trend in inflation and reflects the entrenched belief in secular stagnation at the Fed and in the Treasury market—or at least the belief that inflation will always return to 2% without the need for a recession.

The global economic outlook was on a gradually firming path, led by the still solid U.S. economy, before trade threats arrived. The easing in developed market policy rates is providing some support. However, trade tariffs are a losing proposition and could yet halt any improvement.

Conclusion

The ongoing threat of an escalating trade war has not yet impacted asset market prices, but remains a wild card. The U.S. economy still has good momentum, and global growth is slowly improving. Inflation is sequentially firming and will prevent further policy rate cuts. The stampede into U.S. equities (and the dollar) has slowed this year.

Source: Bloomberg as of Feb. 14, 2025

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