CROSSMARK
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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	-0.23%	-3.94%
S&P 500	-1.24%	-5.46%
NASDAQ	-3.85%	-12.19%
RUSSELL 2000	-4.60%	-10.88%
RUSSELL 1000 GROWTH	-3.15%	-11.62%
RUSSELL 1000 VALUE	0.15%	-0.12%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-2.61%	-13.46%
CONSUMER DISCRETIONARY	-3.27%	-11.81%
CONSUMER STAPLES	2.75%	2.99%
ENERGY	3.21%	44.71%
FINANCIALS	-0.89%	-2.56%
HEALTHCARE	3.44%	1.69%
INDUSTRIALS	-2.60%	-5.56%
INFORMATION TECHNOLOGY	-4.00%	-12.17%
MATERIALS	-0.78%	-2.03%
REAL ESTATE	0.77%	-3.59%
UTILITIES	1.91%	8.33%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-1.44%	-6.58%
MSCI ACWI EX U.S.	-1.40%	-6.95%
MSCI EAFE	-1.38%	-7.65%
MSCI EM	-1.53%	-8.07%

SUMMARY:

After three weeks of gains, equities declined last week (S&P 500 -1.2%). Value handily beat growth, and bonds fell again. March FOMC minutes outlined a $95B/mo runoff of the Fed's balance sheet, which underscored a hawkish turn of the Fed. Some weaker economic data points have increased focus on the rising number of recession calls. Best sectors were healthcare (+3.4%) and energy (+3.2%); worst sectors were technology (-4.0%) and consumer discretionary (-3.3%).

KEY TAKEAWAYS:

1. U.S. initial jobless claims fell to the lowest level since November 1968. This is further support for a decent economy and wage rate increases. The U.S. economy will likely not experience a recession without labor market weakness.
2. The strong labor market will give the Fed comfort in hiking interest rates to address surging inflation, increasing the odds of a 50bps rate hike at its meeting in May.
3. After nearly 30 years of interest expense as a percent of total debt declining, it appears that interest expense will be one of several profit margin pressures over the next several years.
4. Global growth is under increasing pressure with geopolitical risks rising and investor sentiment falling – all a headwind to equities.
5. While support for the U.S. dollar is likely to persist short-term (Fed rate hikes, stronger relative growth, and geopolitical tensions in Europe), we anticipate that the U.S. dollar will gradually weaken as the rest of the world economy fully reopens.
6. Democratic leaders will try once more to pass a scaled-back bill containing a few of the elements of President Biden's Build Back Better agenda. We suspect the odds of something significant passing are low.
7. Ten-year yields increased by approximately 30bps last week, with last Tuesday recording the biggest daily yield increase (15bp) since the pandemic began.
8. Among trends in the market, tactically, we think bonds are oversold (and should be bought), and utilities are overbought (and should be trimmed).
9. The sharp drop in bulls in recent investor surveys supports the idea that sentiment has already taken a major hit and some of the bad news is in the market.
10. According to Canaccord Genuity, April is historically the best month for the market over the last 50+ years. (Average return is 1.7%, with stocks up 74% of the time.)

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-1.82%	-7.89%
BLOOMBERG U.S. CORP HIGH YIELD	-1.34%	-6.25%
BLOOMBERG U.S. GOV/ CREDIT	-1.89%	-8.30%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.00%	0.03%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
FTSE NAREIT (REAL ESTATE)	-0.47%	-3.84%
DJ COMMODITIES	1.62%	27.16%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	-3.19%	-17.49%
DB G10 CURRENCY FUTURES	0.95%	7.54%

ECONOMY RESILIENT SO FAR DESPITE HIGHER RATES, WAR, AND INFLATION

Escalating sanctions on Russia and the war in Ukraine have kept investors wary of taking risk. In addition, the progressively more hawkish rhetoric from the Fed and various other central banks continues to drive up interest rate expectations and bond yields. Nevertheless, this past week's PMI surveys showed remarkable economic resilience, even in the vulnerable euro area, as well as a persistent surge in price pressures. Ongoing COVID waves, rising bond yields, and war have not been able to undermine the powerful head of steam in the global economy. The economic resilience, and indications that inflation is becoming much more entrenched than the bond market and central banks expected, have increased the risk that monetary policy will eventually have to become economically restrictive. That said, the world is still a long way from such a juncture. While the rate of increase in bond yields and abrupt shift in central bank rhetoric have been significant, one should not lose sight of the massive unspent fiscal stimulus from last year and starting point of zero or even lower policy rates. In other words, it is premature to look into the next valley (recession).

The danger is that a wholesale panic might erupt in bond markets if perceptions of open-ended losses start to develop, which would have negative contagion in credit and equity markets. High-yield corporate bond spreads have actually narrowed lately, a plus for equity markets. A potential positive is that government bond markets are technically stretched and thus due for a pause in the uptrend or even a countertrend dip. A plateauing or even modest easing in core inflation for a period of time could provide an excuse for central banks to temporarily cool their rhetoric and provide a reprieve for bonds and boost risk asset prices. We expect headline inflation numbers to peak before mid-year.

We believe that a self-reinforcing inflationary process has taken hold and will persist. The huge and historically rapid swing in central banks' perception of the inflation risk over the past six to nine months has been remarkable: they have gone from believing there was no need to change policy to now telegraphing quick and aggressive rate hikes. In other words, having been massively complacent, the bond market and central banks have swung sharply. This abrupt and sharp swing is creating concerns among some investors that policy will overshoot and trigger a recession. Overall borrowing costs are rising but are far from being restrictive given the strength in nominal GDP growth.

Some easing in price pressures will occur once economic activity normalizes and economies are more fully open. However, the underlying inflation picture will remain problematic, especially given the tightening labor market conditions in many economies and solid final demand. The U.S. labor market has tightened significantly in the past 18 months, causing a historically huge breakout in wage growth. The danger is that a self-reinforcing process of rising prices, greater wage gains, and increasing longer-term inflation expectations are taking hold, which will be challenging to reverse absent a recession. The Fed is far behind the inflation curve. Most are starting to realize this fact and claim they will act aggressively. It is unknown whether they will actually follow through and ultimately take significant economic risks since they have had a strongly entrenched dovish bias for so long.

CONCLUSION:

The economic backdrop is proving resilient despite the surge in bond yields and war in Ukraine. Bonds are approaching oversold, and yet yields have not seen cycle highs. Equities need a pause in the bond market selloff to sustain a durable upleg. First-quarter earnings releases and outlook will be key. The inflation backdrop is a serious longer-term concern and points to a more difficult investment backdrop than in the past two years.

Data from Morningstar Direct, as of 04/11/2022.

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