CROSSMARK GLOBAL INVESTMENTS

April 15, 2024 | Issue 4.16

Doll's Deliberations

Weekly Investment Commentary

Robert C. Doll, CFA®
Chief Executive Officer,
Chief Investment Officer

Summary:

Equities were lower as the S&P 500 (-1.52%) finished lower for a second straight week, while the NASDAQ has its third straight weekly decline and fifth decline in past six weeks. The biggest story of the week was a third straight month of hotter than expected inflation data as the probability of a June Fed rate cut fell to around 20% from 60% a week earlier. Best sectors were technology (-0.21%), communication services (-0.39%) and consumer discretionary (-0.68%); worst sectors were financials (-3.58%), healthcare (-3.05%) and materials (-3.08%).

Key takeaways:

With much to highlight, we decided to expand our key points from 10 to 20 this week and forgo the essay.

EQUITY MARKETS (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
DJIA	-2.36	1.32
S&P 500	-1.52	7.86
NASDAQ	-0.45	7.97
RUSSELL 1000	-0.14	9.07
RUSSELL 1000 GROWTH	-0.61	9.99
RUSSELL 1000 VALUE	-2.80	4.53
RUSSELL 2000	-1.00	1.15

S&P EQUITY SECTORS (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-0.39	18.26
CONSUMER DISCRETIONARY	-0.68	2.30
CONSUMER STAPLES	-1.17	3.44
ENERGY	-1.92	15.85
FINANCIALS	-3.58	6.97
HEALTHCARE	-3.05	2.31
INDUSTRIALS	-2.21	8.27
INFORMATION TECHNOLOGY	-0.21	11.34
MATERIALS	-3.08	5.44
REAL ESTATE	-2.96	-6.33
UTILITIES	-1.49	2.24

1. March CPI was the third hotter than expected monthly reading in a row. Core CPI was +0.4% vs. 0.3% consensus. It is likely the Fed will lower rates at most twice this year (if at all).

2. The firming in inflation has further confirmed that monetary conditions are not restrictive. A significant easing cycle is unlikely for the foreseeable future, and further increases in rates for longer dated paper are possible.

3. Economic conditions remain robust. The ISM Manufacturing PMI crossed into expansion for the first time since September 2022; the number of job openings ticked up in February; and nonfarm payroll employment growth accelerated in March.

4. U.S. nonfarm payrolls surged +303,000 m/m in March, a notable upside surprise. The unemployment rate fell -0.1% points to 3.8%. Average hourly earnings were up +0.3% month-on-month and 4.1% year-on-year in March.

5. The U.S. unemployment rate has been below 4% for 25 consecutive months, the longest stretch in over 50 years.

6. The Sahm Rule states that when the unemployment rate rises by 0.5% from its low, a recession always follows. (So far, we are up 0.3%.)

7. Small-business confidence weakened again in March and is clearly in recession territory. This weakening is likely a result of the lagged impacts of higher interest rates and tighter bank lending standards.

8. Wage growth is a key determinant of consumption fundamentals and our recession view. Average hourly earnings eased y/y. The employment components of both the manufacturing and services ISM PMIs continue to contract.

9. Rallies in the prices of gold, bitcoin, oil, some industrial metals, and global equity markets all suggest that both a global reflation trades is unfolding and that financial conditions may be too easy to give central banks confidence that they can give the "all clear" sign when it comes to inflation.

10. Interest expense for the S&P 500 as a percentage of total debt reached the highest level since 2013 (4.2%, up from a low of 3.6% in 2022).

11. According to BCA, 71% of the 112 S&P 500 companies that have issued EPS guidance for Q1 2024 have lowered estimates, the second highest share since Q3 2019.

12. According to Goldman Sachs, the 10 largest stocks will post sales and EPS growth of +15% and +32% respectively, vs. +2% and -4% for the remaining 490 constituents. (Overall, +3% in revenues and +5% in EPS for Q1.)

13. The Shiller P/E of 34 is in the top 1% of history. Margins and multiples are both at or near record levels at the same time.

14. The potential for further valuation expansion will be limited by already elevated multiples and high interest rates. Earnings need to be the driver for any further stock price appreciation.

15. The Investors Intelligence Bull/Bear Ratio climbed to 4.5, the highest since February 2018.

16. While stocks have pulled back recently, the 1.7% maximum drawdown in Q1 was the smallest in over 80 years.

17. With stocks overbought and still little fear priced in, we expect choppier trading ahead due to rate cut uncertainty, growing risks for an inflation scare, fading Fed liquidity, and higher oil prices.

18. Perhaps only a 20% probability, but there is some possibility the Middle East situation drives the price of oil above $100 a barrel. That would trigger expectations of resurgent inflation, eliminate expectations of Fed easing this year, weigh on stocks, and push the 10-year Treasury bond yield back up to 5.00%.

19. The marked deterioration in public finances across advanced economies over the past four years means there is now a need for governments across the developed world to undertake significant fiscal consolidation or bond markets will eventually riot.

20. President Biden has put up stronger polling numbers over the past 2-3 weeks and has displayed some momentum since his State of the Union address. Much of the improvement is coming from voters leaving RFK Jr. and migrating to Biden.

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN) (%)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-0.18	7.04
MSCI ACWI EX U.S.	-0.38	3.45
MSCI EAFE	-0.80	3.53
MSCI EM	0.93	3.61

FIXED INCOME MARKETS (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.97	-2.78
BLOOMBERG U.S. CORP HIGH YIELD	-0.47	0.50
BLOOMBERG U.S. GOV/ CREDIT	-0.87	-2.66
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.05	1.48

ALTERNATIVES (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	-1.43	-5.67
COMMODITIES (DJ)	0.13	5.95
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	-0.28	5.47
CURRENCIES (DB CURRENCY FUTURE HARVEST)	0.59	6.46

Data from Bloomberg, as of 4/12/2024.