CROSSMARK
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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	0.98%	17.26%
S&P 500	1.54%	21.20%
NASDAQ	2.82%	17.90%
RUSSELL 2000	5.06%	15.98%
RUSSELL 1000 GROWTH	2.08%	20.19%
RUSSELL 1000 VALUE	1.55%	20.72%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	2.81%	28.83%
CONSUMER DISCRETIONARY	2.63%	11.69%
CONSUMER STAPLES	-1.36%	8.41%
ENERGY	7.34%	33.35%
FINANCIALS	3.49%	33.60%
HEALTHCARE	-1.12%	19.54%
INDUSTRIALS	2.24%	19.24%
INFORMATION TECHNOLOGY	1.44%	21.73%
MATERIALS	2.62%	19.58%
REAL ESTATE	-0.34%	30.31%
UTILITIES	-2.03%	10.98%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	2.05%	15.26%
MSCI ACWI EX U.S.	2.65%	8.33%
MSCI EAFE	1.86%	11.24%
MSCI EM	4.28%	0.00%

SUMMARY:

Equities increased last week (S&P 500 +1.5%), with the NASDAQ at a new all-time high. Reasons given for the rise include "buy the dip," "there is no alternative," and aggressive monetary policy, among others. Market positives include monetary stimulus, significant consumer net worth increases, and continued re-openings; market negatives include Delta variant concerns, supply chain problems, and eventual Fed tapering and rate increase concerns. Strongest sectors were energy (+7.3%) and financials (+3.4%); weakest sectors were utilities (-2.1%) and consumer staples (-1.4%).

KEY TAKEAWAYS:

1. As expected, Fed Chair Powell signaled that conditions will likely permit the Fed to begin tapering its fixed income purchases by year-end.
2. The disruption from global supply chains continues to be a significant concern. The longer these supply-driven cost increases continue, the more the markets will question the Fed's belief that the recent rise in inflation is "transitory".
3. We expect the stock-bond disconnect to be resolved with higher Treasury yields. Inflation pressures fueled by tightening global labor markets and persistent supply chain disruptions will linger for much longer than the Delta surge.
4. High yield spreads have been quietly rising from the lows reached in early July. While they are still near historically low levels, the rise should not be ignored.
5. A collection of concerns, including a spike in the Delta variant infections, troubling stories on the U.S. withdrawal from Afghanistan, and Fed minutes indicating that tapering is just around the corner, has so far resulted in only a 3% decline from the peak.
6. Despite the up week for the S&P 500, internal breadth remains weak. Moving averages, cumulative breadth, new high/new low measures all indicate market choppiness and churning, not higher levels
7. 3Q earnings estimates peaked in early August and have fallen some due to supply chain constraints, Covid cases rising, and potentially slower consumer spending.
8. RBC Capital Markets reports, "a sizable majority of companies have emphasized strong demand, with a noteworthy minority commenting on decelerating growth. Despite discussing pressures from supply chains, raw materials, and labor, more than half have emphasized margin expansion with many highlighting strong pricing power".
9. President Biden's approval rating has fallen significantly due to pandemic struggles and the Afghanistan withdrawal. Investors should not conclude that Biden's administration is mortally wounded, as Biden's approval rating is still above most prior presidents at this stage.
10. We expect the $1 trillion infrastructure package passed by the Senate to be signed into law eventually. We also estimate the eventual Democratic reconciliation bill will need to be scaled down to about $2 trillion (from $3.5 trillion) and will raise taxes by about $1 trillion.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.05%	-0.70%
BLOOMBERG U.S. CORP HIGH YIELD	0.70%	4.31%
BLOOMBERG U.S. GOV/ CREDIT	-0.10%	-0.88%
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)	0.33%	26.94%
DJ COMMODITIES	5.31%	24.02%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	2.36%	26.20%
DB G10 CURRENCY FUTURES	2.08%	3.01%

COVID AND PEAK GROWTH CONCERNS WILL GIVE WAY TO A SLOWER, BUT STILL GOOD ECONOMY

Investor caution continues to revolve around the threat of escalating new COVID cases, which could trigger fresh (government-mandated and/or self-imposed) lockdowns and concerns that the global economy has already passed its peak growth phase and will subsequently slow significantly (but to still above-trend levels). We see these risks as bumps, rather than serious threats, with the caveat that a new virus variant does not cause a lasting economic setback. Despite peak growth fears, policymakers have learned to be wary of turning less stimulative too soon from the last decade. We anticipate that the peak in growth rates will lead to a moderation in growth rather than stagnation in the coming year. This year's extremely elevated growth rates are unsustainable and primarily reflect a one-time re-opening of economies boosted by massive policy stimulus.

The U.S. dollar has firmed of late due to its safe-haven status, but the uptick has been small relative to the magnitude of last year's slide. We believe the dollar will eventually weaken again as oil and other commodities enter a trading range. The key to relative strength in non-U.S. equities and currencies will be when investors finally gain conviction in the durability of the global trade cycle.

Resilient economic activity will eventually cause central banks to turn less accommodative. For now, however, bond yields are likely to stay in a trading range, which will help to keep valuations in most risk asset markets elevated given the upbeat corporate profit environment. Continued good economic growth will sustain the inflation threat, and PMI surveys show broad-based increases in both the input and output price indexes.

Since both input and output prices are increasing, companies have been able to defend profit margins in comparison to periods where the increases were predominantly on the input side. Earnings reports indicate that service companies have been able to defend margins, implying that they can pass along higher input costs to end-users (consumers). A key issue in terms of the inflation outlook is whether the rise in input/output prices will prove to be mostly a one-off rise in price levels followed by a return to sub-2% inflation, or if it will prove to be the start of a more durable, self-reinforcing process and impact long-run inflation expectations. Many of the current supply-constrained price increases should calm over time as these issues are resolved. However, the odds are still tilted to the side of higher inflation, based on measures of economic slack, the growth outlook, and policy backdrop. Businesses are gaining comfort in lifting selling prices, which is generally accepted due to sizable wealth transfers and an upbeat job market outlook. This argues for some ongoing inflation pressures.

CONCLUSION:

We remain mildly positive in terms of our investment positioning. Near-run headwinds for equities will persist, given heightened virus anxiety and peak growth concerns. However, we expect the economic recovery to prove durable and for underlying inflation pressures to persist even after the re-opening price spikes peter out. Bonds are vulnerable on a 6-12 month basis, and non-U.S. assets offer the best upside once investors gain confidence in the sustainability of the trade cycle.

Data from Morningstar Direct, as of 8/30/2021.

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