CROSSMARK GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	-0.03%	-5.99%
S&P 500	0.84%	-7.80%
NASDAQ	1.10%	-12.37%
RUSSELL 2000	1.59%	-8.99%
RUSSELL 1000 GROWTH	1.05%	-12.66%
RUSSELL 1000 VALUE	0.87%	-2.97%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	1.84%	-12.76%
CONSUMER DISCRETIONARY	-2.16%	-13.82%
CONSUMER STAPLES	-0.31%	-1.49%
ENERGY	1.37%	24.40%
FINANCIALS	-0.26%	0.14%
HEALTHCARE	2.72%	-7.01%
INDUSTRIALS	0.89%	-6.24%
INFORMATION TECHNOLOGY	1.30%	-11.31%
MATERIALS	0.60%	-6.92%
REAL ESTATE	2.69%	-11.46%
UTILITIES	2.08%	-5.55%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-0.64%	-7.31%
MSCI ACWI EX U.S.	-2.97%	-5.66%
MSCI EAFE	-2.49%	-6.58%
MSCI EM	-4.85%	-4.78%

SUMMARY:

U.S. Equities were higher last week (S&P 500 Index +0.8%) thanks to big rallies on Thursday and Friday after big losses earlier in the week resulting from Russia's invasion of Ukraine. The rally came as new sanctions on Russia were seen as less severe than expected. Oil prices briefly exceeded $100 per barrel. Best performers included REITs (+2.7%) and utilities (+2.0%); worst performers were consumer discretionary (-2.2%) and consumer staples (-0.3%).

KEY TAKEAWAYS:

1. Russia's invasion of Ukraine is probably the most important geopolitical event since the fall of the Berlin Wall. Likely implications include higher energy prices, more risk-off tendencies in markets, less likelihood of any Build Back Better legislation, and higher defense spending.
2. Putin has been willing to take the enormous risk of starting the most significant war in Europe in 80 years because he believes that his enemies will respond in a limited way.
3. Putin's invasion is already having its desired effect on Russia as his approval ratings are soaring. The Russian public largely believes that the Kremlin is defending them by standing up to the West.
4. Investors need to keep an eye on oil prices and Taiwan as much as, if not more than, the Russia-Ukraine battle.
5. While the Russia-Ukraine war might have been a pretext for an extension of the selloff in stock prices, the true culprit behind falling share prices is the anticipation of Fed tightening, high inflation, and a softening U.S. economy.
6. U.S. initial jobless claims declined to 232,000, indicating a tight U.S. labor market. Also, the preliminary estimate of the Markit PMI suggests that U.S. economic activity rebounded in January. The U.S. economy remains in a reasonably strong full employment position.
7. We expect the Fed to proceed with a 25 basis point rate hike at its meeting in March. (The probability of a 50 basis point move has lessened.)
8. With the fourth-quarter reporting season nearly 90% completed, earnings growth is estimated to be 32% (up from the beginning of the year expectation of 24%).
9. The initial steep sell-off from Russia's invasion of Ukraine quickly gave way to a rebound in stocks as the uncertainty shock faded. This is consistent with most geopolitical events where the build-up of tensions lowers asset prices, but the act itself creates a tradeable low. Many technical and sentiment observations cause us to believe that last week's S&P 500 4114 low could be the low for the year.
10. Trends in place before the Ukraine invasion (metals outperforming, gold improving, value beating growth, equally-weighted averages outperforming capital-weighted averages) have continued.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.33%	-4.00%
BLOOMBERG U.S. CORP HIGH YIELD	0.37%	-3.92%
BLOOMBERG U.S. GOV/ CREDIT	-0.41%	-4.41%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.00%	0.01%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
FTSE NAREIT (REAL ESTATE)	2.11%	-9.95%
DJ COMMODITIES	0.69%	13.82%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	-1.53%	-14.87%
DB G10 CURRENCY FUTURES	1.35%	1.84%

VOLATILITY IN BOTH DIRECTIONS CONTINUES AS UNCERTAINTY INCREASES

The Russian attack on Ukraine has intensified the risk-off phase. Angst about policy rate hikes has temporarily been put on the back-burner. Although the near-run impact from Ukrainian developments might create a bit more inflation via higher energy prices and further supply bottlenecks, it isn't easy to forecast how developments will unfold and, therefore, the possible impact on economic sentiment and growth in the euro area and globally. At a minimum, uncertainty has increased and will linger for some time. A silver lining is that the world economy, including the euro area, is in solid shape, and previously lagging service sector activity has been gaining momentum. The foundations under the private sector in the euro area and the U.S. are more solid than last decade, suggesting that the economic expansion should withstand some headwinds, depending on the severity of sanctions, which so far do not appear to be unduly harsh.

Whether there is the lasting and meaningful economic impact will depend on what sanctions are applied and whether it leads to an escalation in military actions/sanctions to the point where economic confidence is undermined and activity stalls. For now, we anticipate limited fallout but acknowledge that there are many unknowns. All sides will lose in economic terms if there is an escalation that does not preclude such an outcome, as rational behavior does not always win the day. Investors will be cautious until the breadth and depth of sanctions and counter-responses become clear. Therefore, the second upleg in bond yields has halted, i.e., yields have entered a pause phase in the cyclical wave pattern that we expect to persist in the coming years. If meaningful damage to European and U.S. economic sentiment and hiring and investment plans does not occur in the next month or two, we would expect the global economic expansion to persist and for interest rates to resume their upward trajectory.

U.S. economic prospects are quite upbeat and are unlikely to be held back by events in Ukraine. In addition, input and output price indexes are strong and far stronger than readings in recent decades. The gains are far broader than just energy or food prices. Wage demands have also heated up and tend to be stickier than commodity price trends. It is quite likely that increased inflation has taken hold, even if the surge in the past year moderates after mobility and supply issues normalize.

From the early January peak to last week's trough, U.S. equities have fallen nearly 15%. Price/earnings ratios have fallen from 22x to 19x. While still not cheap, selective additions to equity holdings are warranted as our year-end target for the S&P 500 remains 4500. Technically, last week, the market likely made an important bottom at S&P 500 4114.

CONCLUSION:

The market outlook is highly uncertain, so continued volatility in both directions is likely. We do not expect Ukrainian developments to produce a meaningful hit to global growth and thus anticipate that the cyclical outlook will remain bond-bearish and neutral for equities. However, equity markets became oversold and made a significant low last week.

Data from Morningstar Direct, as of 2/28/2022.

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