CROSSMARK
GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	1.34%	-4.36%
S&P 500	0.79%	-6.93%
NASDAQ	0.02%	-11.96%
RUSSELL 2000	-0.97%	-12.30%
RUSSELL 1000 GROWTH	1.13%	-11.25%
RUSSELL 1000 VALUE	0.20%	-3.44%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	0.54%	-8.40%
CONSUMER DISCRETIONARY	-0.95%	-12.99%
CONSUMER STAPLES	-0.42%	-1.85%
ENERGY	5.09%	18.58%
FINANCIALS	1.36%	-0.84%
HEALTHCARE	0.77%	-7.38%
INDUSTRIALS	-1.47%	-5.77%
INFORMATION TECHNOLOGY	2.27%	-9.32%
MATERIALS	-0.93%	-8.16%
REAL ESTATE	-0.20%	-9.65%
UTILITIES	-1.35%	-5.06%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-1.06%	-6.54%
MSCI ACWI EX U.S.	-3.64%	-4.82%
MSCI EAFE	-3.61%	-5.73%
MSCI EM	-4.26%	-3.28%

SUMMARY:

U.S. equities finished last week mostly higher (S&P 500 +0.8%), coming off intraweek lows and rallying strongly on Friday. The S&P 500 moved into double-digit percentage loss territory several times before the end of the week rally. The market reacted negatively to the FOMC meeting, judging that the recent hawkish Fed repricing has more room to run. The Q4 earnings season also continued to prove mediocre, with supply disruptions and cost pressures showing up in too many reports. Best sectors were energy (+5.0%) and technology (+2.3%); worst performers were industrials (-1.5%) and utilities (-1.4%).

KEY TAKEAWAYS:

1. The FOMC noted that: "supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation." As a result and as expected, the Fed signaled that they were set to end QE asset purchases, raise interest rates (likely in March), and then let the balance sheet decline.
2. The Fed's dual mandate doesn't include supporting the stock market. Investors should not assume the Fed will step in to placate volatile markets as inflation is at multi-decade highs, and the unemployment rate is sub-4%. Given the Central Bank's dual mandate, tightening is wholly appropriate.
3. U.S. real GDP for 4Q looked solid (+6.9% q/q), but digging into the report, the components painted a weaker picture. +4.9% points of the growth were due to inventory rebuilding. Consumer spending added +2.3%. We look for U.S. real GDP growth to slow in 1Q (to about 2%) mainly due to COVID.
4. We expect inflation to moderate over the coming twelve months as consumption patterns normalize and some supply chains are restored. But core inflation is not going back to 1-2%.
5. There are growing worries that Russia is planning a full-scale invasion of Ukraine. Our assumption has been that a more limited incursion is more likely.
6. It's still early, but the percentage of companies beating estimates (77%) is at the lowest level since the first quarter of 2020.
7. With the U.S. stock market down approximately 10%, 60% of stocks are down more than 20%, and more than 20% of stocks are down more than 50%.
8. Despite the Russell 3000 being down > 10% since the beginning of the year, 18% of the overall index has a price to sales ratio that is greater than 10x (down from 19% at year-end, but up from 14% at the tech bubble peak in 2000).
9. The valuation gap between growth and value has been cut roughly in half as a result of massive outperformance of value over growth over the last few weeks.
10. The stock market has reached an oversold condition and is attempting a reflex rally. We continue to believe monetary and economic uncertainties and valuation will limit upside, while economic and earnings growth and cash/liquidity will limit the downside. As a result, we continue to expect a volatile, somewhat trendless market.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.36%	-2.13%
BLOOMBERG U.S. CORP HIGH YIELD	-1.28%	-2.80%
BLOOMBERG U.S. GOV/ CREDIT	-0.51%	-2.39%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.00%	0.00%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
FTSE NAREIT (REAL ESTATE)	-0.10%	-8.89%
DJ COMMODITIES	1.38%	8.01%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	-3.31%	-12.01%
DB G10 CURRENCY FUTURES	0.93%	0.68%

NO BEAR MARKET, BUT THE BEST OF THE BULL MARKET IS OVER

The first bout of pessimism since early 2020 to hit global equity markets was triggered by mounting signs that inflation will pressure central banks to unwind the liquidity boom more rapidly than anticipated. Increased uncertainties about how high bond yields might rise and how much monetary conditions will need to tighten have triggered a de-rating in equity valuations. The abruptness of the equity market decline reflects the speculative froth in parts of the market in recent months.

Fed Chair Powell finally acknowledged that emergency policy settings no longer fit the economic and inflation backdrop. He didn't lift rates, although he did note that the Fed will have to get moving. The Fed has a long way to go before rates threaten the economy, but at least the path is set, albeit at a slow pace given the monumental task ahead.

We do not envision a recession in the next year and thus are not turning negative on equities. Rather, we are sticking with a neutral weight within a multi-asset portfolio. Our Ten Predictions asserted a 4500 S&P 500 target for year-end, indicating a modest down year. The continued increase in corporate earnings should somewhat offset De-rating pressures as interest rates rise. After persistent solid gains since March 2020, the equity backdrop has given way to a more volatile and less profitable phase.

To summarize:
- Equity valuations were stretched into 2022, and corporate earnings had already recovered meaningfully.
- Corporate profit margins have performed well, hitting a record high in the U.S. Rising input costs will make it more challenging to maintain high margins. However, most companies have (so far) been able to pass on higher costs to end-users.
- Monetary conditions are changing from hyper-accommodative to something less supportive. Bond yields are in a cyclical uptrend, and the liquidity boom is rolling over. The massive tailwind for risk asset markets is turning into a headwind.

Implications:
- The buy-and-hold phase for risk assets is over, with equity market volatility likely to be meaningfully higher than the past 18 months. Investors should lower their expectations for overall returns.
- Such an investment landscape implies that those seeking high returns will need to make more frequent, tactical moves.
- The most profitable phase of the equity bull market is over. Still, we do not expect a recession or cyclical bear market in 2022 and thus do not (yet) recommend underweighting equities.

CONCLUSION:

Due to Omicron, the global economy has slowed temporarily, but we expect another year of above-trend growth. The build-up of inflationary pressures will persist. Central banks and bond-bulls are belatedly waking up to this risk, reinforcing our underweight bond stance. For equities, a bumpy phase is underway, but we doubt that it marks the start of a bear market. Overall gains will diminish, and volatility will increase as the best of the bull market is over.

Data from Morningstar Direct, as of 01/31/2022.

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