CROSSMARK
GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	2.00%	-11.24%
S&P 500	2.57%	-16.17%
NASDAQ	3.33%	-24.05%
RUSSELL 2000	5.30%	-17.62%
RUSSELL 1000 GROWTH	3.13%	-23.27%
RUSSELL 1000 VALUE	2.33%	-10.12%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-1.16%	-29.33%
CONSUMER DISCRETIONARY	6.81%	-24.30%
CONSUMER STAPLES	0.52%	-4.05%
ENERGY	3.54%	31.06%
FINANCIALS	2.91%	-15.39%
HEALTHCARE	-0.32%	-7.14%
INDUSTRIALS	4.14%	-13.80%
INFORMATION TECHNOLOGY	3.61%	-21.03%
MATERIALS	4.15%	-16.28%
REAL ESTATE	3.02%	-17.24%
UTILITIES	-0.45%	-1.50%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	3.64%	-16.94%
MSCI ACWI EX U.S.	3.49%	-17.52%
MSCI EAFE	3.55%	-18.00%
MSCI EM	3.02%	-18.14%

SUMMARY:

U.S. equities finished higher last week (S&P 500 +2.6%) as Treasury yields fell and growth nicely outperformed value. 2Q earnings are coming in less bad than feared. Best sectors were consumer discretionary (+6.8%), materials (+4.1%), and industrials (+4.1%); worst sectors were communication services (-1.2%), utilities (-0.5%), and healthcare (-0.3%).

KEY TAKEAWAYS:

1. U.S. LEIs (Leading Economic Indicators) deteriorated further in June with weakness coming from consumer sentiment, the labor market, stock prices, and manufacturing new orders.
2. The economy is a long was way from meeting the NBER's actual definition of a recession, which has three dimensions: - "(1) a significant decline in economic activity, (2) that is spread across the economy, and (3) lasts more than a few months."
3. The ECB hiked interest rates for the first time in 11 years, raising the deposit rate by 50bps to zero.
4. While inflation may have peaked in Q2, generally speaking Fed tightening cycles don't end until the Fed Funds rate is above the CPI.
5. We believe inflation has a relatively easy path back to 4-5%, but a move to 2% will require a higher unemployment rate and economic pain.
6. The strong dollar has helped bring down market-based inflation expectations, as well as gold and copper, historically barometers of inflation risks.
7. Earnings estimates have remained relatively resilient due to 1) soaring energy prices boosting energy earnings estimates and (2) earnings are expressed in nominal terms (price increases have boosted revenue growth).
8. Stocks are now internally overbought. We still haven't seen enough internal momentum to convince us that this is something more than a bear market rally, although last Tuesday's rally showed some promise that a bottoming process may have started.
9. The recent rally has occurred as inflation risks are easing, 2Q earnings results are better than feared, supply chain problems show signs of easing, and sentiment remains very cautious.
10. The bear market in stocks is well along and prices will likely be higher on December 31 than they were on June 30 even though the Fed remains a headwind.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	0.38%	-9.45%
BLOOMBERG U.S. CORP HIGH YIELD	1.97%	-10.94%
BLOOMBERG U.S. GOV/ CREDIT	0.42%	-10.19%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.02%	0.19%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	2.33%	-16.66%
COMMODITIES (DJ)	2.74%	18.05%
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	6.80%	-31.02%
CURRENCIES (DB G10 CURRENCY FUTURE)	-0.66%	5.25%

SO MANY CROSSCURRENTS…

After a very difficult first half of the year, a period of side-wise volatility is probable in the months ahead. Global growth is slowing, particularly manufacturing activity and goods demand. Headline inflation will sequentially ease due to the recent decline in energy/commodity prices, and so will core CPI as the spikes in various goods prices soften. After further aggressive rate hikes this summer, we expect developed market central banks to tone down their hawkish rhetoric. These factors should ease the panic associated with the surge in inflation followed by the hawkish pivot by central banks after the dovish norm in the past several decades. This has led to a pause in the cyclical uptrend in bond yields which likely will persist for some time. Nevertheless, we remain cyclically bearish on bonds.

Given the deeply oversold conditions and with valuations now consistent with a mild recession, we are a bit more constructive on equities. Global growth is indeed slowing, but the typical painful recession when excesses are purged is unlikely in the coming year. Final demand growth should remain as service sector spending stays solid. Nevertheless, corporate earnings have deteriorated a bit with probably more to come, underscoring our hesitancy to overweight stocks. The coming improvement in the investment backdrop might prove temporary, because our multi-year view is that a return to low inflation is unlikely barring a significant rebuilding of economic slack via a meaningful recession or long period of sub-potential growth. Our bet is that central banks are not yet willing to take such a path, as there remains an entrenched bias that near-target inflation can be achieved. It is unlikely that the inflation debate will be settled in the next twelve months, as the rate of inflation is likely to decelerate and, thus, a reprieve from this year's investment decline is possible. The sell-off started in bonds and spread to equities, and the same calming pattern in reverse is likely – first with bonds as we have seen and then in equities.

After holding up even as equities headed lower this year, commodities have recently been hit hard. The strong U.S. dollar has contributed to their downfall, although the sudden plunge likely reflects mounting fears of a global recession. Inflation will decelerate in the next twelve months due to the downturn in energy/commodity prices, a partial reversal in select goods prices, and weaker overall global growth. However, we are anticipating that inflation will level off at levels well above the Fed's 2% target. The next inflation uptrend may be driven by rising service sector inflation, rather than spikes in goods prices.

CONCLUSION:

The ingredients needed to end the risk-off environment are coming together, namely, a consolidation in government bond yields, a reversal in the commodity price runup, and an easing in inflation and rolling over in measured inflation expectations. The combination of less hawkish central banks and a revival in economic sentiment might prove brief, depending on how inflation trends unfold. For a sustained risk-on phase to develop, the major developed central banks will also need to become less hawkish and investor recession fears will need to subside.

Data from Bloomberg, as of 07/22/2022.