CROSSMARK GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	-0.83%	-8.62%
S&P 500	-1.15%	-13.23%
NASDAQ	-0.96%	-22.96%
RUSSELL 2000	0.55%	-15.05%
RUSSELL 1000 GROWTH	-0.90%	-22.15%
RUSSELL 1000 VALUE	-1.36%	-5.01%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-0.14%	-24.76%
CONSUMER DISCRETIONARY	0.11%	-25.19%
CONSUMER STAPLES	-1.64%	-4.05%
ENERGY	1.20%	63.03%
FINANCIALS	-2.05%	-10.37%
HEALTHCARE	-3.13%	-7.51%
INDUSTRIALS	0.09%	-9.32%
INFORMATION TECHNOLOGY	-1.12%	-19.73%
MATERIALS	-0.82%	-3.97%
REAL ESTATE	-2.20%	-14.85%
UTILITIES	-1.33%	4.71%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	0.59%	-12.33%
MSCI ACWI EX U.S.	0.66%	-11.13%
MSCI EAFE	-0.12%	-11.55%
MSCI EM	1.84%	-13.06%

SUMMARY:

Stocks fell last week (S&P 500 -1.2%) after the big gain the prior week. Inflation fears were somewhat reignited, particularly around oil prices and some stronger economic releases. The strongest sectors were energy (+1.2%) again; weakest sectors were healthcare (-3.1%), REITs (-2.2%), and financials (-2.1%).

KEY TAKEAWAYS:

1. Nonfarm payrolls rose a solid 390,000. The unemployment rate remained low at 3.6%, with average hourly earnings rising +0.3%. Bottom line: the U.S. economy won't go into recession without labor market weakness.
2. We have moved into a period where bad news is good news and vice versa. For example, the strong labor report on Friday (presumably good news) is viewed as bad because of the probability of further Fed tightening increases.
3. Disinflationary pressures are emerging. We cite base effects, some supply chain easing, and congressional gridlock, among others.
4. There has been a considerable slowdown in M2 growth recently. Getting money growth under control is a key prerequisite for lowering inflation.
5. We expect inflation pressures to moderate in the second half of the year, which will reduce the likelihood that the Fed continues an aggressive pace of 50bp hikes for more than 2-3 meetings.
6. Negative real wage growth is sapping consumer confidence and is cutting into their purchasing power. Excess savings may help achieve a "soft landing." On the other hand, the wealth effect could be an offsetting negative.
7. The Russia-Ukraine war is tipping a fragile world towards mass hunger. Ukraine's grain exports have mostly stopped, and Russia's are threatened.
8. Senators Manchin and Schumer have been talking about a $1T tax raise, with half going to deficit reduction and half to various expenditures. We believe there are enough hurdles that this will not likely become law.
9. We repeat our view on the election as stated in our 10 Predictions this year. Republicans add 20-25 seats in the House and narrowly win the Senate. If accurate, that will create a gridlock until 2024.
10. Insider buying has exceeded insider selling for the first time since the pandemic.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.73%	-9.13%
BLOOMBERG U.S. CORP HIGH YIELD	0.04%	-8.02%
BLOOMBERG U.S. GOV/ CREDIT	-0.75%	-9.85%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.01%	0.10%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
FTSE NAREIT (REAL ESTATE)	-0.63%	-12.43%
DJ COMMODITIES	-0.02%	35.25%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	0.21%	-25.05%
DB G10 CURRENCY FUTURES	0.79%	4.90%

VOLATILITY PREVAILS

Investors should expect capital markets to remain choppy during the summer against a backdrop of resilient economic growth, sticky inflation, tightening liquidity conditions, disrupted markets, and high prices for energy and food. Both equity and bond market volatility will remain well above historical norms. The end of the economic and investment cycles is not yet on the horizon, and we expect both higher global stock prices and G7 government bond yields a year from now.

The global economy will likely prove resilient, even if growth concerns may linger in the near term. The latest PMI data were clear evidence that the U.S. and European economies are still expanding at a healthy pace, and businesses generally remain upbeat about their outlook, despite heightened geopolitical and other risks. Consumers are being challenged on many fronts but remain in spending mode because of a strong job market and healthy cash balances.

Barring a new negative shock, the forces supporting growth in most of the developed markets should persist even if they moderate somewhat in the U.S. Economic growth should steadily improve in China as severe COVID restrictions ease, and policy stimulus accelerates the return of suppressed demand. A rebound in China should also eventually ease both global supply-chain strains and goods price inflation in the rest of the world.

However, resilient global economic growth carries with it the consequence of more stubborn inflation and hawkish central bank rhetoric. U.S. headline and core inflation should continue to ease in the months ahead, but the Fed will be hard-pressed to temper its message if the labor market stays hot, as we expect. The Ukraine war notwithstanding, steady euro area growth will leave the ECB with no alternative but to continue to shift to a more aggressive policy bias to contain intensifying inflationary pressures.

While we expect capital markets to be choppy in the next few months, stocks and bonds are still oversold, implying the potential for further near-term price upside for both in the absence of worse-than-expected inflation. The continuation of a resilient economic expansion combined with sticky, albeit moderately lower inflation than current readings should permit higher global stock prices and higher G7 government bond yields. Further increases in bond yields will cap or dampen equity P/E ratios, but moderately rising earnings should support stock prices.

Accordingly, we recommend a moderate tilt in favor of stocks versus bonds, expressed through an underweight stance on bonds and a neutral weighting on equities. We continue to recommend an overweight stance on cash, both to reflect our short-duration stance within bonds and to provide flexibility for possible tactical portfolio shifts.

CONCLUSION:

Capital markets will remain in flux in the near term, given worries about both growth and inflation. However, oversold stocks and bonds should help limit downside portfolio risks. Beyond the near term, an expected ongoing economic expansion and another upleg in bond yields warrants a moderate tilt in favor of equities versus bonds. Overall, the investment climate will remain challenging with above-average volatility combined with poor returns on balanced portfolios.

Data from Bloomberg, as of 06/03/2022.

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