CROSSMARK
GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	-1.91%	-8.93%
S&P 500	-2.84%	-11.53%
NASDAQ	-3.51%	-17.79%
RUSSELL 2000	-1.03%	-11.66%
RUSSELL 1000 GROWTH	-3.59%	-17.89%
RUSSELL 1000 VALUE	-2.22%	-5.56%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-3.13%	-17.73%
CONSUMER DISCRETIONARY	-2.54%	-18.19%
CONSUMER STAPLES	-5.77%	-7.15%
ENERGY	1.98%	38.66%
FINANCIALS	-2.20%	-6.75%
HEALTHCARE	-2.72%	-8.48%
INDUSTRIALS	-2.43%	-7.39%
INFORMATION TECHNOLOGY	-3.79%	-17.23%
MATERIALS	-1.46%	-9.70%
REAL ESTATE	-1.72%	-11.42%
UTILITIES	-0.68%	-1.54%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-2.27%	-11.88%
MSCI ACWI EX U.S.	-1.13%	-11.09%
MSCI EAFE	0.55%	-12.18%
MSCI EM	-5.08%	-11.68%

SUMMARY:

Stocks fell again last week (S&P 500 -2.9%). Bonds fell also as the 10-year Treasury yield climbed back above 2%. The widely watched 2 yr/10 yr spread narrowed to the lowest level since the beginning of the pandemic. Best performers were energy (+1.9%) and utilities (-0.7%); worst performers were consumer staples (-5.8%) and technology (-3.8%).

KEY TAKEAWAYS:

1. Headline inflation rose to a fresh 40-year high of 7.9% y/y while core CPI grew 6.4% y/y. While inflation will likely peak soon, it will likely end the year above the Fed's two percent target (say 3-4%).
2. The economy's solid pre-war momentum amounts to a meaningful growth buffer to the exogenous shock posted by the Ukraine situation.
3. Among the reasons we remain hopeful the U.S. can avoid a significant economic slowdown or worse is that gasoline represented 6.5% of the consumer's wallet in the 1980 energy crisis, 4.5% in the 2008 crisis, and less than 3% today.
4. A settling down of war tensions will lead to higher interest rates across the curve. Higher yields will start doing the heavy lifting in tightening financial conditions, which means stocks that benefit from rising yields will likely outperform.
5. Putin needs an off-ramp. His starting point could be guarantees of neutrality and non-alliance by Ukraine along with Ukraine relinquishing control over eastern territory.
6. Russia may become almost completely dependent on China moving forward as it will be forced to move further away from integration with the European economy.
7. The Russia/Ukraine situation has created a new debate over globalization, energy sourcing, and an elevated geopolitical premium for risk assets.
8. The war in Ukraine is a boost for the dollar due to safe-haven flows into U.S. assets, positive rate differentials for the U.S. and a relatively smaller negative impact on the U.S. economy. While the dollar is stretched, it will likely remain strong until the Ukraine crisis subsides.
9. This year's equity selloff has taken some froth off S&P valuations. Many valuation measures were running 2+ standard deviations above fair value and are now much less extreme.
10. Value has been the best performing equity market factor this year, but nearly all that performance came in January before rising inflation expectations started to push implied real yields lower.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-1.76%	-4.79%
BLOOMBERG U.S. CORP HIGH YIELD	-1.54%	-5.55%
BLOOMBERG U.S. GOV/ CREDIT	-1.98%	-5.35%
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)	-1.44%	-9.83%
DJ COMMODITIES	-1.26%	28.15%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	1.12%	-20.67%
DB G10 CURRENCY FUTURES	-0.21%	3.96%

THE DEBATE HAS SHIFTED TO POTENTIAL ECONOMIC WEAKNESS

The repercussions from the Ukrainian war continue to dominate global financial market trends, and this influence will continue until a resolution comes into view. The longer the war persists, the greater the possible economic downside and the higher inflation will rise in the interim. That said, it must be remembered that the war erupted when the global economy had both solid momentum and with the strongest underlying foundations since well before the 2008 crisis. Thus, the global economic expansion should be able to withstand a moderate hit without suffering significant damage.

Our views on the impact of the Ukrainian war are:
- Handicapping the outcome in Ukraine is difficult, but the best bet is that a negotiated settlement occurs before too much damage is done to the global economy.
- While a soft spot in growth may develop in the near run, primarily in Europe, financial market indicators show that a significant slowdown in global growth is already discounted.
- Equities should have some upside on a 6-12 month horizon, with U.S. stocks remaining a safe-haven for equity investors in the short run, while euro area equities and especially financials have decent absolute and relative upside if a negotiated settlement occurs reasonably soon.

Poor valuation and the budding normalization in policy rates have undermined the safe-haven role of government bonds, absent a full-blown recession and deflation scare. This backdrop was reinforced by the bond market's reaction to the ECB's statement last week that it intends to proceed with a gradual unwinding of its hyper-accommodative stance, despite the Ukrainian war.

We anticipate that the global economic expansion will endure and proceed at only a modestly less robust pace than we had anticipated prior to the war. Meanwhile, the underlying uptrend in inflation has become even more entrenched, as supply problems will be dragged out longer than was expected. Bond yields are still likely to continue their pattern of moving higher in waves in 2022-2023, after the current pause ends. Investors have sought safety in the U.S. dollar, oil, and gold. An unwinding of these gains is probable once the impact from Ukraine crests, although it will be risky to short these objects of speculation given near-run uncertainties.

While some have pointed to soaring energy prices and the nearly flat U.S. yield curve as early recession signals, we remain of the view that the overall level of real and nominal rates matters more than the shape of the yield curve. Yields are still extremely depressed. Moreover, the U.S. and euro area economies have much greater buffers (savings, and income and balance sheet trends) to withstand higher energy prices than during previous price spikes.

CONCLUSION:

Near-run uncertainty will stay elevated until a resolution to the Ukrainian war is in sight. This is bearish for equities but conditions are approaching oversold levels. The near-term outlook is more mixed for government bonds via offsetting factors (the possibility of weaker economic growth, yet even higher inflation). Cyclically, we remain bearish on bonds and expect higher policy rates before the cycle ends. In the interim, a relief rally in equities will develop should war-related concerns subside.

Data from Morningstar Direct, as of 03/14/2022.

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