CROSSMARK GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	-1.23%	-7.15%
S&P 500	-1.24%	-8.94%
NASDAQ	-2.76%	-14.80%
RUSSELL 2000	-1.92%	-10.74%
RUSSELL 1000 GROWTH	-2.49%	-14.84%
RUSSELL 1000 VALUE	-0.45%	-3.41%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-2.66%	-15.08%
CONSUMER DISCRETIONARY	-2.59%	-16.06%
CONSUMER STAPLES	0.02%	-1.47%
ENERGY	9.31%	35.97%
FINANCIALS	-4.79%	-4.66%
HEALTHCARE	1.18%	-5.92%
INDUSTRIALS	1.23%	-5.09%
INFORMATION TECHNOLOGY	-3.01%	-13.97%
MATERIALS	-1.54%	-8.35%
REAL ESTATE	1.80%	-9.87%
UTILITIES	4.96%	-0.86%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-2.72%	-9.83%
MSCI ACWI EX U.S.	-4.67%	-10.07%
MSCI EAFE	-6.51%	-12.66%
MSCI EM	-2.29%	-6.95%

SUMMARY:

Russia's invasion of Ukraine dominated the news cycle and weighed heavily on equities last week as the S&P 500 fell 1.2% (NASDAQ fell 2.8%). The yield on the 10-year Treasury note ended the week down 25 basis points at 1.73%. Best sectors were energy (+9.3%) and utilities (+4.9%); worst sectors were financials (-4.8%) and technology (-3.0%).

KEY TAKEAWAYS:

1. The Russia/Ukraine conflict presents a slower growth and higher inflation picture for 2022. Fears are increasing that Russia may intensify its assault on Ukraine and perhaps beyond.
2. We expect inflation to peak soon but to retreat by year-end to a still unacceptable level of 3-4%.
3. Fed Chair Powell said he is "inclined to propose and support a 25-bp rate hike". This level of detailed communication is unprecedented.
4. Consensus GDP forecasts for 2022 have been trimmed slightly but are still well above average. Economic surprises, which briefly turned negative on Omicron impacts, have returned to positive territory.
5. In the wake of higher oil prices, the call for more oil, coal, and natural gas production in the U.S. is increasing.
6. Jobs grew 678,000 in February (ahead of the 400k consensus). Unemployment fell from 4.0% to 3.8%. Most importantly, average hourly earnings were flat (Y/Y +5.1%). This could signify that inflation is peaking, although there were other crosscurrents.
7. The February U.S. manufacturing PMI showed that the U.S. economy was emerging from the Omicron-related softness during the previous three months.
8. More than eight million Americans exited the labor force following the onset of the pandemic ("The Great Resignation"). Some of these job leavers have begun to trickle back into the labor market, but not enough to satisfy surging demand leading to labor shortages and upward wage pressure.
9. Profit margins have peaked and are beginning to roll over. Historically, this is a warning sign for future equity returns.
10. The latest reading of the Insider Intelligence Bull-Bear Ratio fell to 0.87. Readings of 1.00 or less have had a very good record of calling bottoms in the market.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	0.95%	-3.09%
BLOOMBERG U.S. CORP HIGH YIELD	-0.16%	-4.07%
BLOOMBERG U.S. GOV/ CREDIT	1.02%	-3.44%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.00%	0.01%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	1.59%	-8.52%
COMMODITIES (DJ)	14.02%	29.78%
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	-7.85%	-21.55%
CURRENCIES (DB G10 CURRENCY FUTURE)	2.29%	4.18%

UKRAINE SITUATION OVERWHELMS ALMOST ALL OTHER VARIABLES

Short-term volatility in both directions is likely to continue with events in Ukraine, but the investment climate will likely remain challenging for some time. An optimistic scenario in which the major Russian invasion soon calms down before doing much damage to the global economy would bring a sigh of relief to equity and credit markets. Yet it will likely also promptly return investors' attention to the unwinding of global monetary accommodation with all its associated uncertainties, albeit accompanied by healthy global growth. The pessimistic scenario of a protracted and intense military conflict would likely weaken confidence in the European economic recovery, with adverse spillover implications for global growth, while muting the rate-hiking cycle.

While shorter-term ramifications of the Ukraine war are slower economic growth and higher inflation, long-term implications are unclear. The war is testing European unity and will turn countries inward to shore up supply chains. Russia will be ostracized as long as President Putin is in power. While we expect the Russian military invasion to soon settle into a messy anti-insurgency operation, it is premature to dismiss a more negative outcome that further damages investor sentiment, drives oil prices higher, induces more crippling economic and financial sanctions against Russia, and materially weakens the European economic recovery in the coming months. In such a case, a more broad-based rotation back into safe-havens from pro-growth assets would be warranted.

Beyond the near-term, we expect the global economic recovery to continue, although at a slightly less vigorous pace than before the war began. Before the crisis, the U.S. and European economies were back on track for a pickup in growth as the Omicron variant eases, mobility improves, and service sectors more fully open. Headline inflation should gradually come down because of base effects, an easing of some supply chain disruptions, and eventually even a decline in oil prices. At the same time, underlying inflationary pressures will remain stickier and higher than central banks or markets are expecting. In this scenario, the Fed will still be on a course of steady interest rate hikes, with many other major central banks following suit. The Fed will acknowledge events in Ukraine to justify "only" a 25 basis point rate hike this month, but it now recognizes it is far behind the inflation curve and needs to catch up quickly. That said, it will still be careful not to jeopardize the economic expansion to rapidly bring down inflation. We continue to believe that bond yields will trend higher over the next year, while earnings will provide some tailwinds for equities despite some downward pressure on equity valuation multiples. With bond and equity market volatility expected to remain high for the near term, we remain overweight cash, neutral on equities, and underweight bonds. The recent correction is equity prices improves the return outlook on a 6-12 month horizon, but for now, we are content to maintain our neutral equity weighting.

CONCLUSION:

Equity markets will likely remain volatile in the near term while the military escalation in Ukraine persists and subsequently as the Fed's hiking cycle gets underway. Although geopolitical jitters could keep bonds well bid in the near term, central banks will ultimately hike rates as they try to contain underlying inflationary pressures, which will inevitably put upward pressure on bond yields across the curve.

Data from Morningstar Direct, as of 03/07/2022.

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