CROSSMARK
GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	-1.38%	-9.33%
S&P 500	-3.31%	-19.83%
NASDAQ	-5.62%	-32.60%
RUSSELL 2000	-3.63%	-19.87%
RUSSELL 1000 GROWTH	-5.61%	-30.08%
RUSSELL 1000 VALUE	-1.19%	-9.94%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-7.43%	-42.53%
CONSUMER DISCRETIONARY	-5.77%	-33.33%
CONSUMER STAPLES	-1.82%	-5.02%
ENERGY	2.41%	71.61%
FINANCIALS	-0.76%	-11.84%
HEALTHCARE	-1.54%	-6.04%
INDUSTRIALS	0.45%	-8.97%
INFORMATION TECHNOLOGY	-6.83%	-30.20%
MATERIALS	0.86%	-15.41%
REAL ESTATE	-1.73%	-28.50%
UTILITIES	-0.49%	-4.18%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-3.07%	-23.23%
MSCI ACWI EX U.S.	-0.33%	-24.63%
MSCI EAFE	-1.02%	-24.01%
MSCI EM	1.83%	-28.35%

SUMMARY:

After two weeks of gains, stocks fell last week (S&P 500 -3.3%). The focus during the week was the Fed's 75bp rate increase, a strong jobs report, rumors of China reopening, and continued acceptable earnings reports. Best sectors for the week were energy (+2.4%), materials (+0.9%), and industrials (+0.4%); worst sectors were communication services (-7.4%), technology (-6.9%), and consumer discretionary (-5.8%). Our essay this week focuses exclusively on Tuesday's election implications.

KEY TAKEAWAYS:

1. As expected, the Fed raised rates 75bps. The market expected some softening language about slowing (and perhaps soon ending) the pace of increases. These hopes were dashed ("it is very premature to be thinking about pausing" – Chair Powell).

2. The October employment report showed a non-farm payroll increase of 261K, with a modest jump in unemployment (+0.2%). Average hourly earnings rose 0.4% (4.5% at an annual rate). Wage growth, while no longer accelerating, is still too strong for the Fed's inflation fighting efforts.

3. The U.S. economy remains resilient due to savings balances fueling consumer spending, a solid job market, and robust capital spending. This feeds the Fed's need and desire to continue raising rates, and ironically, increases the probability of a 2023 recession. ("Incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected." – Chair Powell).

4. Money supply (M2) growth has plummeted from 25% in February 2021 to -6% currently (this will eventually have a noticeable negative impact on economic growth).

5. With more than 80% of S&P 500 companies reporting 3Q earnings, over 70% of reports have exceeded expectations by an average of 6%.

6. 2023 EPS estimates have now fallen below $235. Our estimate of $200 for next year indicates a roughly 10% decline year over year.

7. With mortgage rates above 7%, the estimated monthly mortgage payment now exceeds $2500, the highest in more than 20 years. Without a significant decline in rates or home prices, housing activity will remain depressed.

8. Falling inflation will eventually allow bond yields to decline. Structurally, however, a depletion of the global savings glut could put upward pressure on yields out in time.

9. There is some evidence that the low for this bear market has been seen. However, it is likely that a test of the lows will need to occur. If the U.S. experiences a recession, the stock market will likely have to decline further.

10. IF October 12 was the bear market low, the stock market will have discounted a soft landing (stocks -25%, P/E's -30%, and earnings +5%).

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.74%	-15.99%
BLOOMBERG U.S. CORP HIGH YIELD	-1.34%	-13.34%
BLOOMBERG U.S. GOV/ CREDIT	-0.63%	-16.43%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.06%	0.89%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	-3.11%	-27.78%
COMMODITIES (DJ)	5.22%	20.12%
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	-2.92%	-40.00%
CURRENCIES (DB G10 CURRENCY FUTURE)	0.88%	7.43%

Data from Bloomberg, as of 11/4/2022.

MID-TERM ELECTION ANALYSIS

Introduction

Our tenth prediction for 2022 made last December was "Republicans gain at least 20-25 House seats and narrowly win the Senate." We are retaining that call and expect it will be one of our correct predictions.

Any president's political party tends to suffer midterm losses when that president is unpopular. While Democrats experienced a "summer surge" in the polls and betting markets, the current landscape suggests history will repeat itself and Republicans will sweep.

Elections often reflect momentum swings and the state of the economy, and that certainly is the case this year. Voter interest in the election is exceptionally high, with Republicans more likely to turn out. Polls show deep anxiety over the economy, urban crime, the southern border and government spending, which voters believe has exacerbated inflation.

Likely Outcome

Two weeks ago, betting odds for the midterm elections flipped to a Republican sweep for the first time since early August. We put 99% odds on Republicans taking the House and 70% odds they take the Senate.

The House: Consistent with our beginning of the year prediction, we expect Republicans will win at least 20-25 seats in the House. (They need 5 wins to have a majority.)

Governorships: In several high profile gubernatorial races, momentum clearly has swung to the Republicans.

The Senate: In the Senate, there are 35 contests. 21 races are in seats currently held by Republicans, and 14 are in seats currently held by Democrats. (In 2024 there will be 33 Senate election contests, 23 will be Democrat-held seats, compared with only 10 for Republicans.) Most pundits suggest there are seven toss-up races. Republicans need to win five of them to have a majority. Our best guess is that when the dust settles (which may be after election night if some races are so close that recounts/voter fraud allegations delay results and/or Georgia goes to a December 6 run-off), Republicans will have 51-53 seats.

Policy Implications

1. A Republican takeover of Congress would probably have the following policy implications: 1) Tax increases on corporations and individuals are unlikely, 2) defense spending goes up, 3) higher odds of modest pro-oil and gas legislation, 4) lower odds of legislation regulating tech companies, and 5) lower odds of legislation favorable for cannabis.

2. Control of the Senate would give Republicans the ability to block nominations to the Supreme Court and executive branch. Therefore, President Biden would be much less likely to nominate progressives to key cabinet and regulatory agencies since they would likely be blocked by Senate Republicans.

3. One area where a GOP sweep isn't likely to have much of an impact is foreign policy and trade. There is bi-partisan support for most foreign policy issues (i.e., Ukraine, Russia, China).

4. A significant Republican House win will likely result in a major house-cleaning in the Biden Administration, a spending bill focused on aid to Ukraine and a debate on whether Joe Biden should seek a second term. (Most Democratic voters say no.)

5. If the GOP picks up the Senate in 2022 with a seat or two to spare, a Democratic Senate majority in 2024 would become a long shot. That means a Democratic sweep would not be possible absent an unusual set of circumstances, so Medicare for All/the public option and legislation that forces a shift out of oil and gas would be unlikely for the foreseeable future.

Market Implications

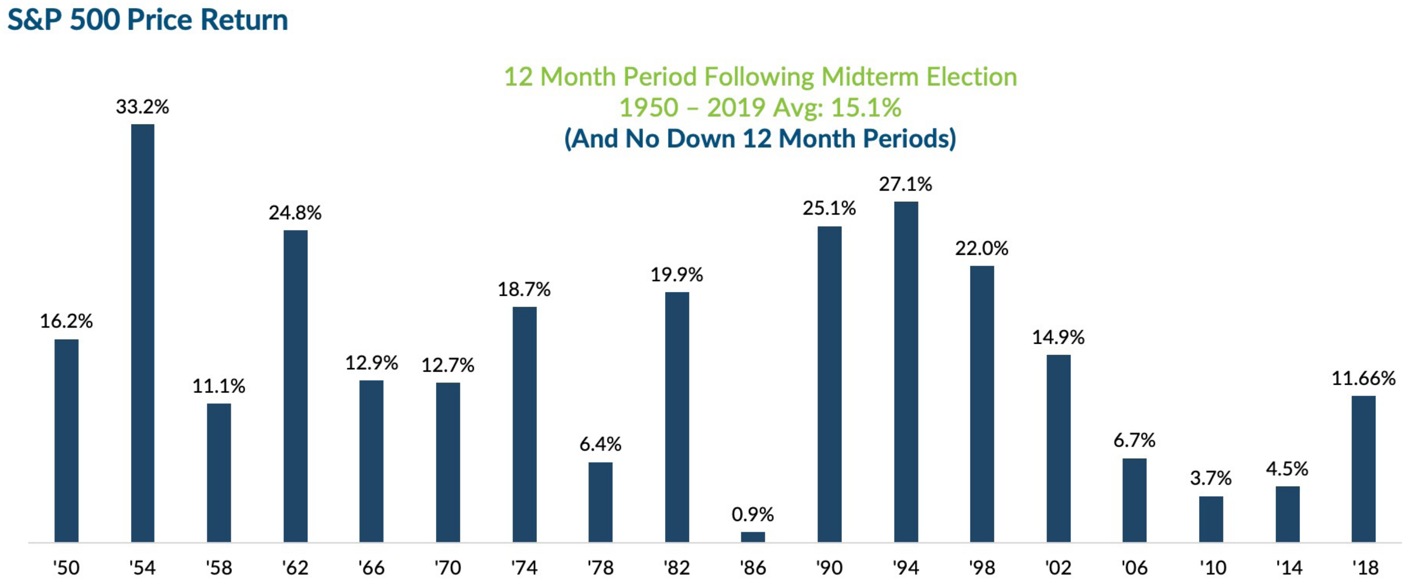
1. For the financial markets, the prospect of gridlock or a Republican tilt would be positive. (Activist legislation would stall, there's no chance that any major taxes could win enactment, and a less hostile climate for fossil fuels would emerge.)

2. If the Republicans win the House, voters will have removed the party in power in eight of the last nine elections. Political instability inevitably leads to policy uncertainty which makes running a business more difficult.

3. Yardeni Research reports that since 1942, during each of the 3-month, 6-month, and 12-month periods following each of the 20 mid-term elections, the S&P 500 was up on average by 7.6%, 14.1%, and 14.9%, respectively. Of the 60 data sets over this period, only three were negative.

4. The twelve months following mid-term elections since 1950 have all been positive (no exceptions!) with an average of 15.1%.

REPUBLICANS GAIN AT LEAST 20-25 HOUSE SEATS AND BARELY WIN THE SENATE



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