CROSSMARK
GLOBAL INVESTMENTS

Doll's Deliberations

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SUMMARY:

Equities were lower again last week as the S&P 500 (-2.5%) fell for the second straight week and finished the week at the lowest levels since April. NASDAQ is now 12% below the recent July peak. Treasuries yields fell on the week, though not before the 10-year yield on Monday rose above 5% for the first time since 2007. The only positive sector for the week was utilities (+1.2%); worst sectors were communication services (-6.3%), and energy (-6.2%).

KEY TAKEAWAYS:

1. U.S. real GDP grew at a strong 4.9% in Q3, with consumption the key driver.
2. While the bulk of employment data remains positive, hiring rates are slowing and the number of unemployed people is growing.
3. Over 40% of S&P 500 companies have recorded earnings, with more than 75% exceeding consensus expectations.
4. Financial conditions are tightening, e.g., the notable back-up in long-term interest rates, the widening of the corporate credit spreads, and the nearly 10% sell-off in stocks.
5. Problems investors face include uncertainty regarding the scope of the Middle East war, out of control fiscal policy, a dysfunctional central government, above-target inflation levels, recently rising interest rates, and some concerns with credit.
6. The S&P 500 is up 8% YTD, but the average stock is down 5%.
7. More than 75% of money market fund AUM is yielding 5% or more – this compares to just 10% of the S&P 500 having a yield that high.
8. The rise in geopolitical risk is a trend stemming from the Russia-China-Iran challenge to the U.S. world order and domestic divisions which have prevented a coherent strategic response.
9. Jamie Dimon, the CEO of JPMorgan, sounded an alarm on the wars in the Middle East and Ukraine, saying, "this may be the most dangerous time the world has seen in decades."
10. The four big banks (BAC, C, JPM, and WFC) reported their 3Q results. All four beat consensus expectations, but all four stocks have underperformed since their earnings release. There is a market adage or rule of thumb that states – "you cannot have a bull market when banks are in a bear market."

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	-2.14%	-0.51%
S&P 500	-2.52%	8.66%
NASDAQ	-2.62%	21.59%
RUSSELL 1000	-2.08%	8.82%
RUSSELL 1000 GROWTH	-2.62%	21.01%
RUSSELL 1000 VALUE	-2.55%	-3.66%
RUSSELL 2000	-1.41%	-4.76%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-6.29%	34.84%
CONSUMER DISCRETIONARY	-1.05%	18.64%
CONSUMER STAPLES	-0.98%	-7.70%
ENERGY	-6.15%	-0.91%
FINANCIALS	-2.39%	-6.73%
HEALTHCARE	-3.87%	-8.26%
INDUSTRIALS	-2.31%	-0.54%
INFORMATION TECHNOLOGY	-1.67%	32.35%
MATERIALS	-0.44%	-2.07%
REAL ESTATE	-1.23%	-10.21%
UTILITIES	1.24%	-14.68%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-1.77%	5.73%
MSCI ACWI EX U.S.	-1.17%	0.72%
MSCI EAFE	-0.89%	2.46%
MSCI EM	-1.57%	-2.60%

STOCKS BREAK BELOW THE RECENT TRADING RANGE: STOCKS AND BONDS ARE BOTH OVERSOLD

We have been concerned about bonds over the past three-plus years since the 10-year Treasury yielded 0.52% in August 2020. Value in bonds has improved considerably and the world is now closer to the end of the business/investment cycle. The catalyst for a sustained bond bull market, however, is still lacking and, thus, any easing in yields could prove temporary. We now lean toward being buyers of bond price weakness, rather than selling on strength. It is possible that another Silicon Valley Bank type bond rally could emerge since many financial institutions have additional portfolio losses as the bond bear market regained momentum in recent months. In addition, the rapid and significant rise in yields increases the probability of a financial accident.

Equity markets are caught between acceptable economic and earnings growth and tightening liquidity conditions. The post-October 2022 rally has ended and another downleg in stocks could develop if monetary conditions progress to restrictive territory, as we anticipate will eventually occur.

It is remarkable how calm the oil market has been in the face of the sudden deterioration in geopolitical conditions in the Middle East. The global economy performs best when oil prices are not expensive. Oil prices should be firm in the year ahead given the trends in supply and demand. However, there is greater uncertainty with regards to both oil prices and the global economic expansion due to possible extreme outcomes in the Middle East.

Geopolitical developments are inherently unforecastable. However, events in the Middle East will likely go through a series of relatively constrained escalation, such as: the timing and nature of any sustained ground offensive in Gaza, the reaction function of Iranian proxies, the military and political response by Israel to the actions of Iranian proxies, etc. There are some potential risk factors that could cause bond yields to resume rising without much of a pause. For example, global manufacturing activity and trade have been quite weak over the past year as an historically unprecedented rotation has occurred as the world has gradually returned to normal mobility. Of course, demand was mostly focused on goods spending in 2020-2022, but has since shifted to favoring services.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	0.67%	-2.49%
BLOOMBERG U.S. CORP HIGH YIELD	0.38%	4.30%
BLOOMBERG U.S. GOV/ CREDIT	0.59%	-1.96%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.06%	4.11%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	0.05%	-9.14%
COMMODITIES (DJ)	-0.07%	-2.31%
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	-0.94%	4.35%
CURRENCIES (DB CURRENCY FUTURE HARVEST)	0.34%	7.64%

CONCLUSION:

Oversold bond markets are due for a consolidation period, which should ease selling pressure in struggling equity markets. However, reprieves may be short-lived. The bond bear market is likely in its later stages. The growth outlook for the U.S. while weakening, still remains positive. However, cracks are developing in China, emerging markets and some parts of the U.S. economy while debt servicing burdens will continue to worsen.

Data from Bloomberg, as of 10/27/2023.

