CROSSMARK GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	2.72%	-10.16%
S&P 500	3.68%	-13.72%
NASDAQ	4.15%	-22.15%
RUSSELL 2000	4.07%	-15.39%
RUSSELL 1000 GROWTH	4.07%	-20.97%
RUSSELL 1000 VALUE	3.69%	-7.05%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	2.86%	-29.22%
CONSUMER DISCRETIONARY	5.63%	-19.43%
CONSUMER STAPLES	1.94%	-2.92%
ENERGY	0.73%	49.22%
FINANCIALS	4.42%	-11.21%
HEALTHCARE	4.41%	-6.65%
INDUSTRIALS	3.40%	-9.18%
INFORMATION TECHNOLOGY	3.25%	-20.97%
MATERIALS	5.03%	-12.89%
REAL ESTATE	4.21%	-15.75%
UTILITIES	3.74%	9.81%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	2.66%	-16.38%
MSCI ACWI EX U.S.	0.77%	-18.69%
MSCI EAFE	0.89%	-19.52%
MSCI EM	-0.13%	-19.42%

SUMMARY:

U.S. equities rallied this week (S&P 500 +3.7%) to break three-straight weekly declines. The gains were driven by factors including oversold conditions, some more traction in the peak-inflation narrative, and firmer labor market data. Treasuries sold off sharply with the curve flattening. Best sectors were consumer discretionary (+5.6%) and materials (+5.0%); worst sectors were energy (+0.7%) and consumer staples (+1.9%).

KEY TAKEAWAYS:

1. The three major economies of the world continue to weaken – the U.S. due to monetary tightening, Europe due to the energy crisis, and China due to zero-COVID policy.

2. The point of monetary tightening is to fight inflation which is weakening demand. The delayed effects of tightening will become increasingly apparent in the months ahead.

3. Data that has come out during the past month points to a labor market that is not cooling very quickly. We conclude, therefore, that the Fed's tightening cycle is not close to over.

4. Supply chain pressures continue to ease suggesting that goods inflation could fall rapidly in coming months.

5. The headline CPI report on Tuesday could be negative or at least close to zero. (But the core CPI is likely to remain problematic.)

6. YTD, the dollar has appreciated nearly 15% (the strongest year-to-date move in almost 35 years), which weighs on the economies of companies with international sales.

7. OPEC+ reduced its production target for October, signaling that the cartel is more concerned about propping up oil prices than it is about a global recession.

8. After falling roughly $9 (or 4%) during the 2Q earnings season, the 2023 earnings estimate has stabilized at approximately $243, with 2023 earnings growth expected to be about 8%. (We believe 2023 estimates are still too high.)

9. The bear case for the economy and equities is well-known – slowing or declining profit growth and monetary tightening to bring down inflation. Getting less attention is the significant decline in money growth and the just begun in earnest shrinking of the Fed's balance sheet.

10. Investors Intelligence Bull-Bear Ratio (BBR) slipped to 1.00 (it had advanced the previous six weeks from 0.76 to 1.64). BBR readings of 1.00 or less tend to be associated with good buying opportunities for stocks.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.70%	-11.56%
BLOOMBERG U.S. CORP HIGH YIELD	1.31%	-10.21%
BLOOMBERG U.S. GOV/ CREDIT	-0.56%	-12.23%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.05%	0.49%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	4.13	-14.95
COMMODITIES (DJ)	-0.43	20.51
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	2.69	-33.05
CURRENCIES (DB G10 CURRENCY FUTURE)	-0.15	6.59

CROSSCURRENTS IN BOTH DIRECTIONS CONTINUE TO LEAD TO SIDEWAYS CHOP

The investment climate is likely to remain challenging over the balance of this year. Global growth is slowing, and while we believe it will be more resilient than the consensus expects, investor growth worries are likely to persist in the near term, especially for Europe and China. Meanwhile, central banks have upped their hawkish rhetoric to combat inflation, driving up bond yields and driving down equity multiples and risk asset prices more generally. A positive is that U.S. inflation will moderate in the coming months, and, despite its tough talk, the Fed will acknowledge external risks as it tries to engineer a soft landing.

The unusual character of the economic, policy and capital markets landscape since early-2020 is complicating investment strategy and asset allocation. The U.S. economy is cooling from an earlier unsustainably robust pace, but there are few signs of underlying excesses in the household, corporate or financial sector and the job market remains strong. Market fears of an overshoot in interest rates are overdone. U.S. real interest rates will likely remain low by historical standards even assuming the Fed meets current market expectations of further rate hikes in the months ahead. Europe's underlying economic fundamentals are also better than in the last decade and than consensus expectations. However, the exogenous energy shock is weighing heavily on expectations and uncertainty about both the availability and cost of energy will linger at least well into the winter. There are clear signs that policymakers are taking steps to limit the economic fallout, but investors will likely err on the cautious side in the coming months. China's shock is endogenous rather than exogeneous, with the economy severely hampered by COVID-zero policy. An easing of restrictions seems inevitable at some point in the coming months, but the lesson this year is that the government's tolerance for economic weakness should not be underestimated.

Against a backdrop of many risks and limited prospective rewards, aggressive positioning is not warranted. We continue to recommend an overweight in cash within a multi-asset portfolio, which now offers a comparatively reasonable yield versus longer-dated bonds along with downside protection and flexibility to re-reposition if circumstances warrant. We remain underweight bonds on a 6-12 month horizon, although there are decent odds of a pause or modest pullback in yields in the next several months as global growth slows, before another upleg ensues. Tactics aside, longer-dated G7 government bonds offer poor value.

In the near-term, investors are caught between a proverbial rock and a hard place with adverse implications for portfolio performance. Bonds need weaker growth and a prospect of a pause in the Fed/central bank hiking cycle to generate positive returns. Weaker growth, an eventual rate pause, and lower bond volatility could ease de-rating pressure on equities, but would undermine the earnings outlook. The flipside is that signs of economic resilience will keep pressure on central banks to keep hiking, which in turn would weigh on valuations of both equities and bonds.

CONCLUSION:

Both equities and bonds will likely remain volatile in the near term with ongoing uncertainty about the growth and monetary policy outlook. We expect equity prices to continue to be choppy in the coming months against a backdrop of elevated growth and monetary policy uncertainty. Stocks will be at risk of further de-rating until there are signs of a central bank shift towards less hawkish policy and that downside risk for earnings expectations are limited.

Data from Bloomberg, as of 09/09/2022.