CROSSMARK
GLOBAL INVESTMENTS

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DOLL'S DELIBERATIONS

WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DOW JONES	-2.11%	14.63%
S&P 500	-1.68%	19.91%
NASDAQ	-1.61%	17.82%
RUSSELL 2000	-2.80%	13.50%
RUSSELL 1000 GROWTH	-1.50%	19.94%
RUSSELL 1000 VALUE	-2.03%	18.18%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-1.20%	28.51%
CONSUMER DISCRETIONARY	-0.33%	12.75%
CONSUMER STAPLES	-1.24%	8.82%
ENERGY	-1.70%	29.27%
FINANCIALS	-1.28%	28.77%
HEALTHCARE	-2.68%	18.31%
INDUSTRIALS	-2.52%	15.86%
INFORMATION TECHNOLOGY	-1.77%	20.64%
MATERIALS	-1.59%	16.82%
REAL ESTATE	-3.84%	30.34%
UTILITIES	-1.50%	10.88%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	-1.21%	15.35%
MSCI ACWI EX U.S.	-0.46%	10.27%
MSCI EAFE	-0.31%	12.90%
MSCI EM	-0.47%	2.94%

SUMMARY:

U.S. equities fell each day last week with the S&P 500 -1.7%. There was a buildup of concerns contributing to a more pessimistic outlook including the degree to which the Delta variant could slow the economic recovery, worries about cost pressures and supply chain constraints, renewed angst about Fed tapering, China slowdown and stretched valuations. All sectors fell with the worst being REITs (-3.8%) and industrials (-2.5%).

KEY TAKEAWAYS:

1. August producer prices climbed at the fastest annual pace on record (+8.3% y/y) for the fifth consecutive month due to supply chain disruptions and materials shortages.
2. Watch U.S. CPI for August on Tuesday. Elevated shipping costs, global production disruptions, and the tight labor market all pose upside pressures to consumer inflation.
3. August payroll grew only by 235,000 jobs, which was significantly below expectations. A low jobs number may have resulted from a Delta hit to the service industries. We suspect the August jobs report was an aberration and expect September results will be better.
4. Last week's unemployment claims data represent the final week of pandemic benefits. As a result, we imagine that claims are going to fall precipitously from here. Millions of people will likely go back to work.
5. The Fed is unlikely to hike rates for at least 12 months, and it will take longer than that for monetary policy to turn restrictive. Historically, cyclical stocks have done well during this phase of the business cycle. Non-U.S. stocks, which tend to be more cyclical, trade at a substantial valuation discount to their U.S. peers.
6. Biden's fiscal package will be a key focus in September. This is a massive re-writing of the safety net in the United States, significant incentives to change the production and consumption of energy, and a healthcare bill bigger than Obamacare.
7. The debt ceiling is looming. We do not think the U.S. will default, but the perceived risk is likely to increase from here until an agreement is reached.
8. There are lingering concerns about China's recent regulatory crackdown as well as credit problems.
9. The share of market capitalization of equities within portfolios is elevated by historical standards. The threat now is that this elevated level could trigger a rebalancing of flows away from equities in favor of bonds.
10. Volatility is likely to increase in the coming months. But by year-end, we will know the fate of both large spending bills. The lingering pandemic will help concentrate lawmakers' minds on passing more stimulus.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	0.02%	-0.74%
BLOOMBERG U.S. CORP HIGH YIELD	0.11%	4.86%
BLOOMBERG U.S. GOV/ CREDIT	0.03%	-0.94%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.00%	0.03%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
FTSE NAREIT (REAL ESTATE)	-4.01%	26.10%
DJ COMMODITIES	-0.02%	24.39%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	-1.75%	25.74%
DB G10 CURRENCY FUTURES	-0.13%	3.93%

IS THE MARKET TAKING A PAUSE THAT REFRESHES?

The recent risk-off tone has not yet led to meaningful setbacks in equity markets. Investors have turned a bit more cautions due to concerns about slower growth, and indications that monetary policies in the U.S. and the euro area will turn slightly less accommodative. We do not expect either risk factor to derail the cyclical uptrend in the coming year. Economic growth prospects remain upbeat and central banks are not yet interested in taking any economic risks and want a sustained period of above-target inflation. Despite less robust economic data of late, government bond yields have not only stopped falling, but have bounced modestly. This has coincided with narrowing credit spreads after mild widening this summer. The tightness in credit spreads reflects the upbeat corporate profit backdrop and is supportive of equity markets.

As we have noted, the greater long-term risk is that bond yields will eventually move higher on the back of a durable economic expansion and sticky inflation, which will ultimately force monetary policies to become less accommodative. We expect bond yields to adjust higher in a series of waves as investors gradually revise up their economic and inflation forecasts, while monetary policy will lag in order to try to prevent the cost of capital from becoming an economic headwind.

For now, U.S. investors are still hesitant to bet on a weaker U.S. dollar and better relative non-U.S. equity performance because of their lack of confidence in the sustainability of the global economic expansion. These concerns have been reinforced by signs that global trade growth is peaking and renewed uncertainty about the Chinese economy. Nevertheless, many non-U.S. equity markets have managed to hit new cyclical highs in the past month. Even the beleaguered euro has been resilient in the face of the U.S. dollar strength and appears to have formed a bottom, although it has been unable to sustain a rally in recent months. We ultimately expect a rotation in favor of non-U.S. currencies and equities because we expect the global economic recovery to prove durable.

The U.S. has benefitted from a powerful re-opening path this year, although some economic measures look to be peaking, albeit only in growth terms and from elevated levels. Meanwhile, the previously-lagging euro area is still benefitting from its later re-opening and, as a result, it has struggled to sustain an economic recovery. We expect a more synchronized global expansion to eventually take hold once supply chain problems diminish and vaccination rates rise to the point where international, rather than just domestic, mobility improves.

CONCLUSION:

A moderation in growth rates in the developed world and China could cause equity markets to churn further. However, we expect the global economic expansion to prove resilient and become more synchronized, unless there are more notable headwinds from COVID-19 than has been the case this summer. If equity valuations were not so elevated, we would likely be fully bullish on stocks. Nevertheless, equities usually still generate positive returns whenever the level of corporate profits is rising, and we expect such an outcome in the coming year, despite the fact that peak profit growth has passed.

Data from Morningstar Direct, as of 9/13/2021.

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