CROSSMARK
GLOBAL INVESTMENTS

2H23 INVESTMENT OUTLOOK

Robert C. Doll, CFA®
Chief Investment Officer

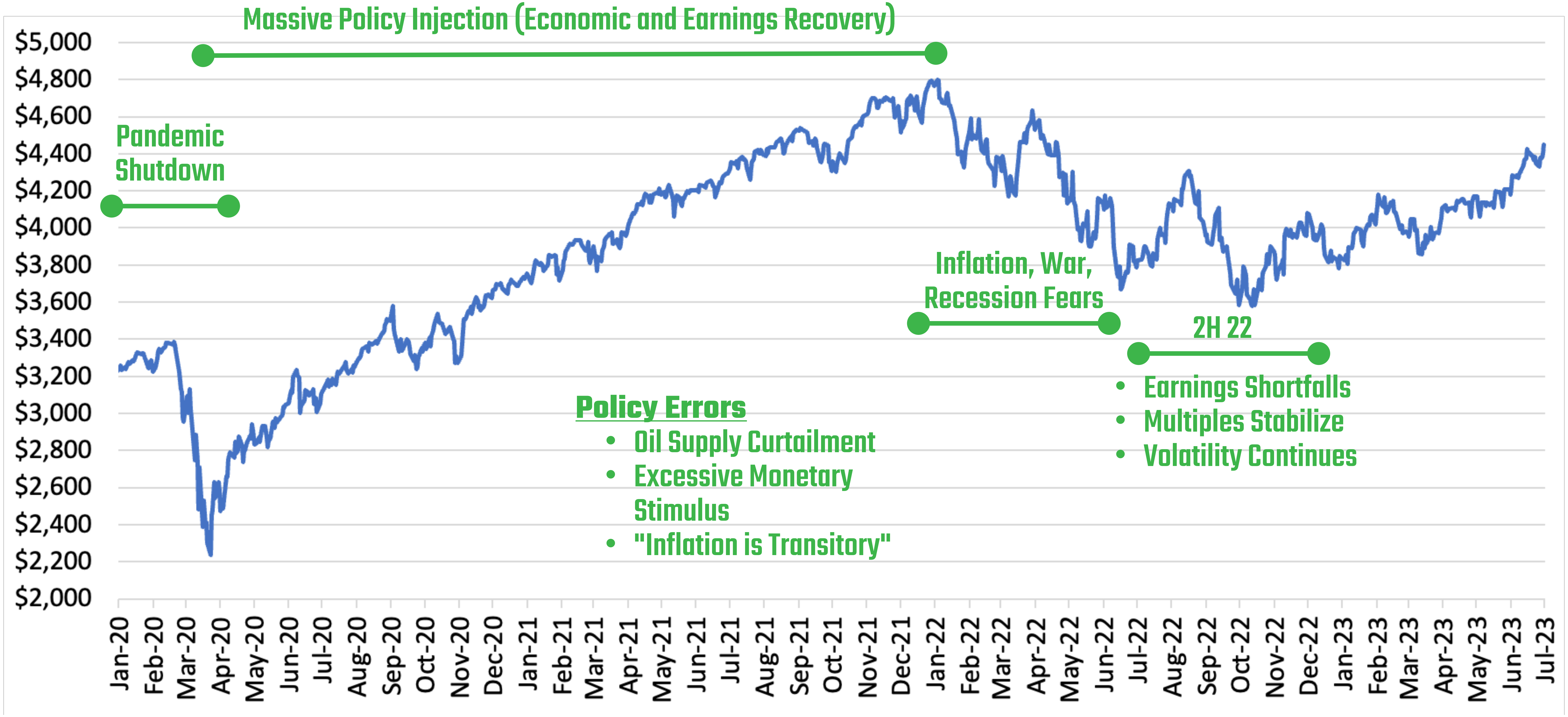
Financial services industry veteran, with over 40 years of experience. Experienced portfolio manager for large-cap equity strategies, as well as long and long-short equity strategies. Author of weekly, quarterly, and annual investment commentaries focusing on key themes and risks driving equity markets, monetary policy, and the global economy. Regular guest and contributor to multiple media outlets such as CNBC, Bloomberg TV, Moneywise, and Fox Business News.

Recent Returns

Index	2022	1H23
90-Day Treasury Bills (Bloomberg U.S. Treasury Bill 1-3 Month TR)	1.5%	2.3%
10-Year U.S. Treasury (Bloomberg U.S. Treasury 10+ Yr TR)	-16.5%	2.2%
U.S. Bonds (Bloomberg U.S. Agg Bond TR)	-13.0%	2.1%
High-Yield Corporate Bonds (Bloomberg U.S. Corp High Yield TR)	-11.2%	5.4%
S&P 500 TR Index	-18.1%	16.9%
S&P 500 Equal Weighted Index	-11.5%	7.0%
MSCI World Ex. U.S. (MSCI World Ex USA NR)	-14.3%	11.3%
MSCI Emerging Markets (MSCI EM NR)	-20.1%	4.9%
Commodities (DJ Commodity TR)	16.1%	-7.8%

Source: Bloomberg. As of June 30, 2023.

S&P 500 3 ½ Year History



Source: Bloomberg. As of June 30, 2023.

2023 Theme: The Fed Calls the Shots

Question	Likely Consequence
Q: Will the Fed insist on 2% inflation?	Normal Recession
OR	
Q: Will the Fed blink, raise the inflation target to 3%, and possibly tolerate 4% inflation?	Soft Landing
OR	
Q: Will the Fed attempt to thread the needle?	Shallow Recession

10 Predictions for 2023

Theme: The Fed Calls the Shots

?	1	The U.S experiences a shallow recession as real GDP is in bottom ten of last 50 years.
✓	2	Inflation falls substantially, but remains above Fed's target.
✓	3	Fed funds reaches 5% and remains there for the balance of the year.
✓	4	Earnings fall short of expectations in 2023 due to cost pressures and revenue shortfalls.
?	5	No major asset class is up or down by a double-digit percentage for only the fourth time this century.
✗	6	Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.
✗	7	The average active equity manager beats the index in 2023.
?	8	International stocks outperform the U.S. for the second year in a row (first time since 2006-2007).
✓	9	India surpasses China as the world's largest population and is the fastest growing large economy.
✓	10	A double-digit number of candidates announce for President.

✓	5	Heading in Right Direction
?	3	Too Soon to Tell
✗	2	Likely Incorrect

Why Have Stocks Done So Well in 2023?

1. Investors moved from expecting a recession to a soft landing.
2. Progress on inflation.
3. 1Q earnings less bad than feared.
4. AI hype/enthusiasm.
5. Sentiment: bearishness moved to bullishness (FOMO).

N.B. – while the S&P 500 is up 17%, the average stock is only up 7% (and was down at May 31.)

How Long Can This “Melt Up” Continue?

1. Momentum
2. Short Covering
3. Inflation Progress
4. 2Q Earnings Likely Okay
5. AI Optimism
6. Financial Conditions Easing
7. Sentiment Bullish Recently

2H 2023 Outlook

Bull Case		Bear Case
Rate Cuts to Follow	The Fed	Higher for Longer
Inflation to Fall Below 3%	Inflation	Core Inflation Remains Sticky
Soft/No Landing	Growth Outlook	Mild Recession Likely
Fed Put Remains in Place	"Blow Up" Risks	Consequences of 0 → 5% Fed Funds
Estimates Have Stopped Falling	Earnings	Estimates Still Too High
Above Average, But Reasonable	Valuations	Too High Given Inflation and Interest Rates

Source: Wolfe Research

Investment Outlook – Positives

1. Inflation: Headline 9% → 4%
2. Looser financial conditions
3. Labor market strength
4. Federal spending contribution to nominal GDP last 12 months: +4%
5. Oil price decline
6. Inventories now under control

Investment Outlook – Negatives

1. Recession Indicators – lagged impact of Fed increases, yield curve, LEIs, money growth
2. Valuation P/E Top 10 29x (normal 20x); overall 19.5x (normal 14x)
3. Core Inflation: 5 ½ → 5%
4. Fed not done (2 more?)
5. Narrow breadth
6. Slowing in bank lending
7. Commercial Real Estate
8. Geopolitical: Russia, China, Iran
9. Federal Debt/Interest Expense
10. Federal spending contribution to nominal GDP next 12 months: -2% (swings of -6%)

Recession

Wall street has had recession on the brain since early/mid 2022. We have been talking about it since the beginning of this year, still expecting one to commence between Labor Day and year-end.

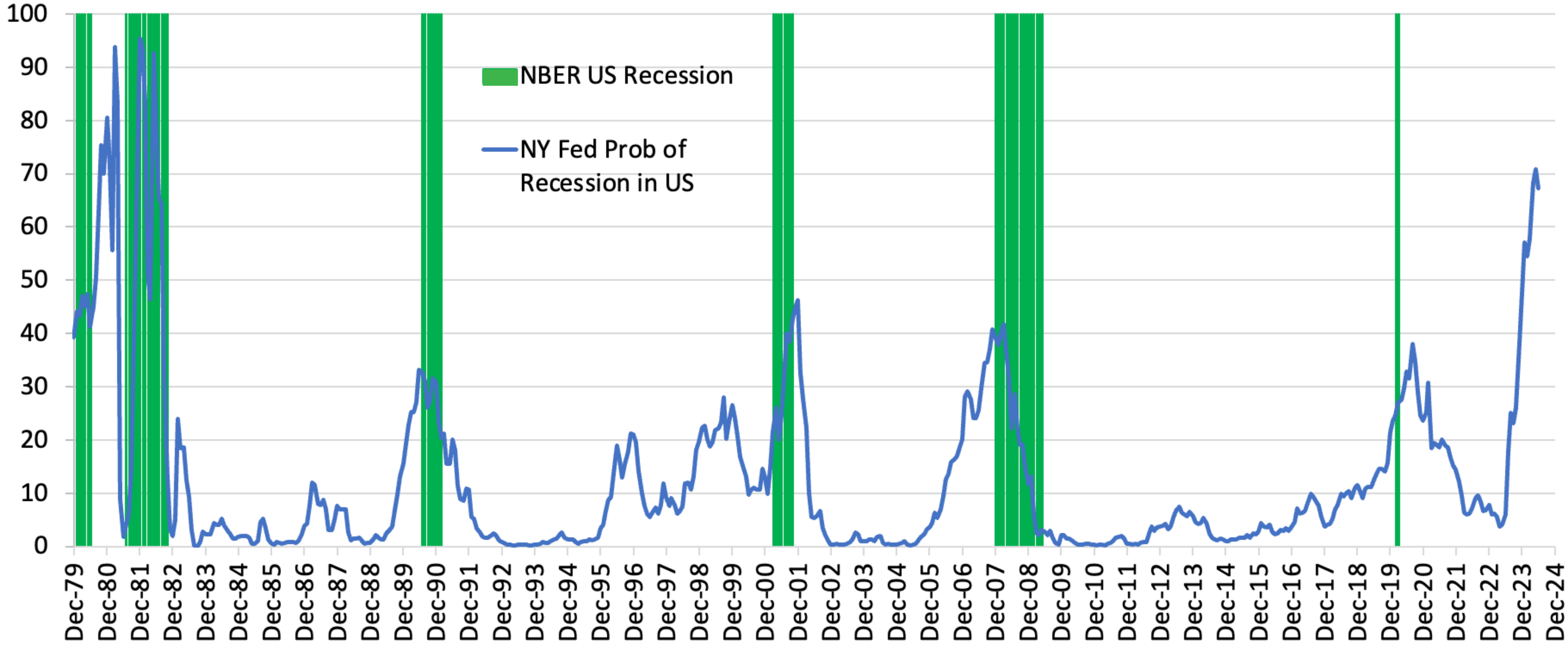
Our Recession Concerns Remain

- "Lagged" impact of Fed action.
- Yield curve deeply inverted (deepest in 40 years)
- Leading economic indicators down 14 months in a row (a record) and the six-month rate of decline has always led to a recession.
- Money growth remains negative (a first in U.S. history)
- Manufacturing PMIs under 50

Still Believe Recession Will Be Mild

- Consumer cash balances and balance sheets
- Healthy corporate sector
- Bank balance sheets in generally good shape

Probability of a Recession



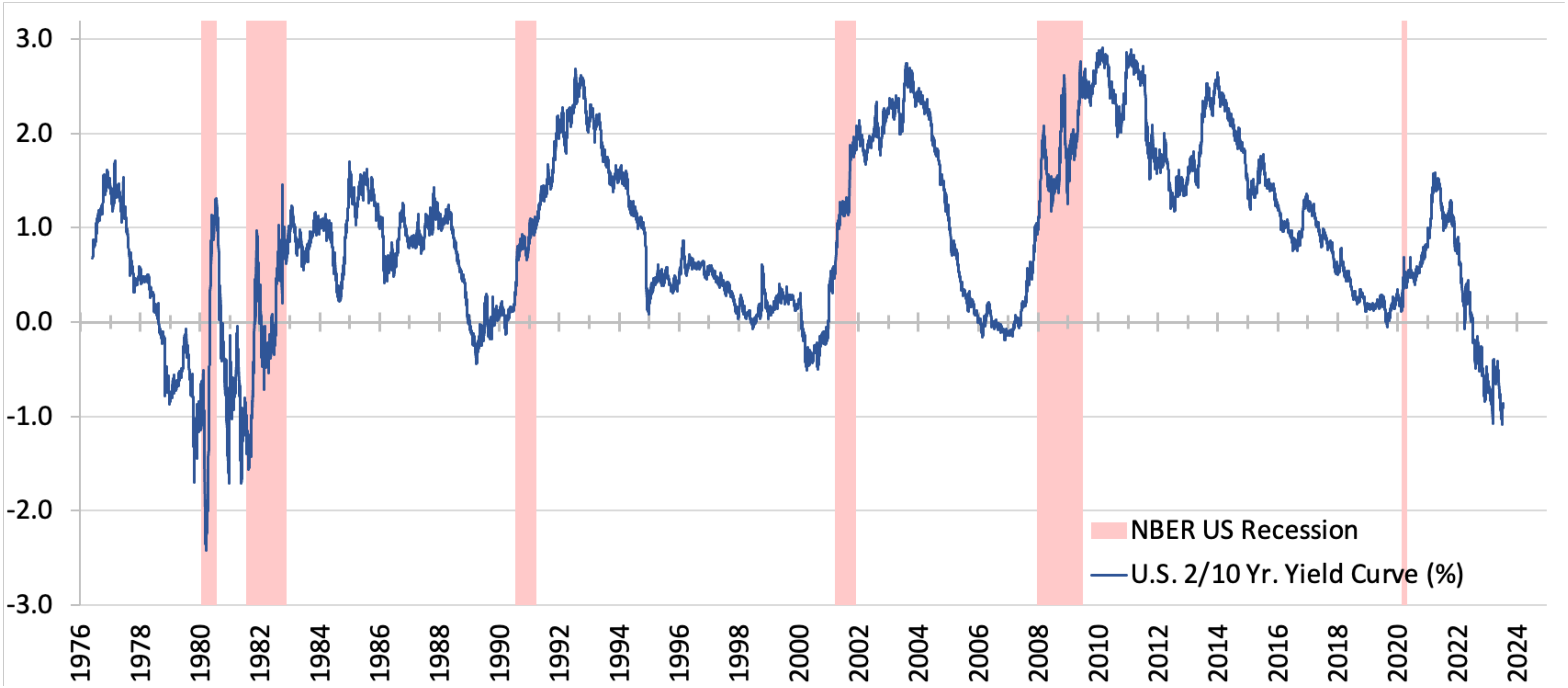
Source: Bloomberg.

Negatives

There are consequences to raising interest rates from 0 to 5% in just thirteen months.

Negative - Inverted Yield Curve

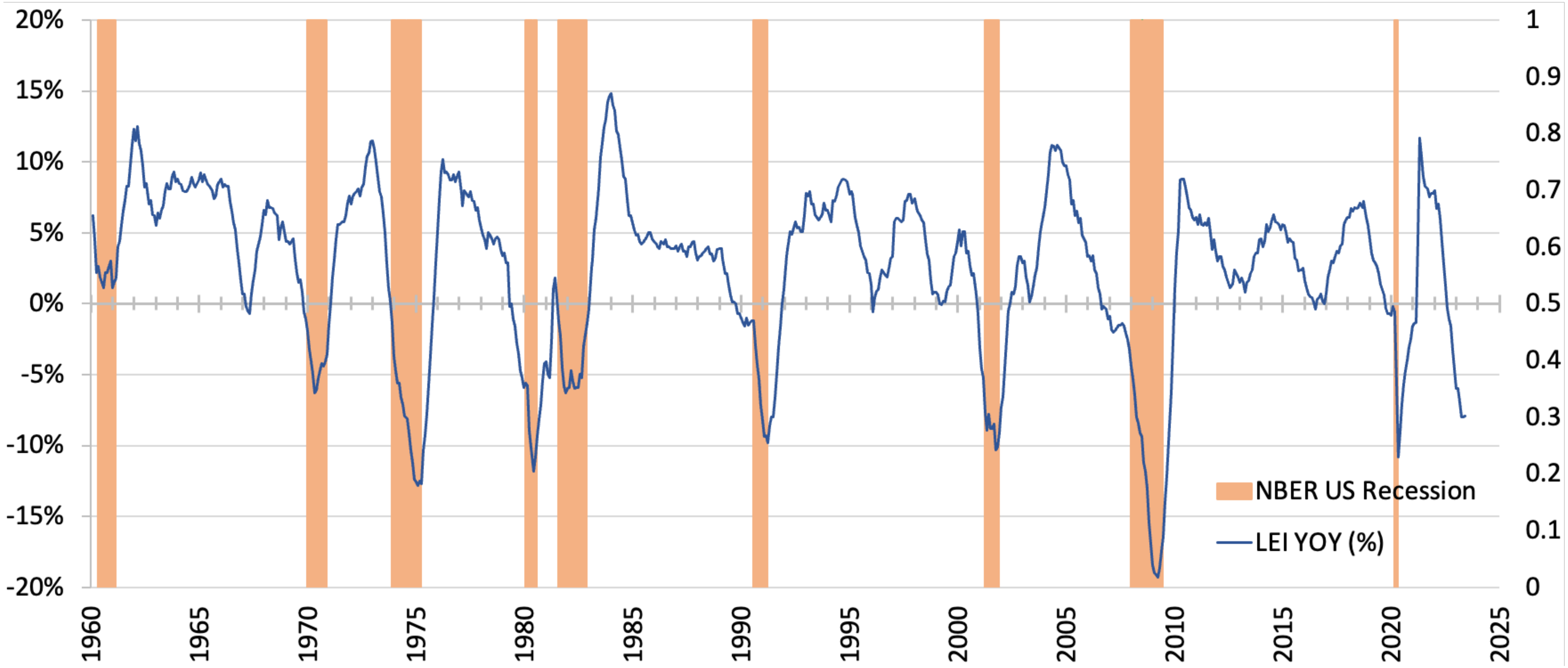
U.S. 2/10 Yield Curve



Source: Bloomberg.

Negative - Leading Economic Indicators

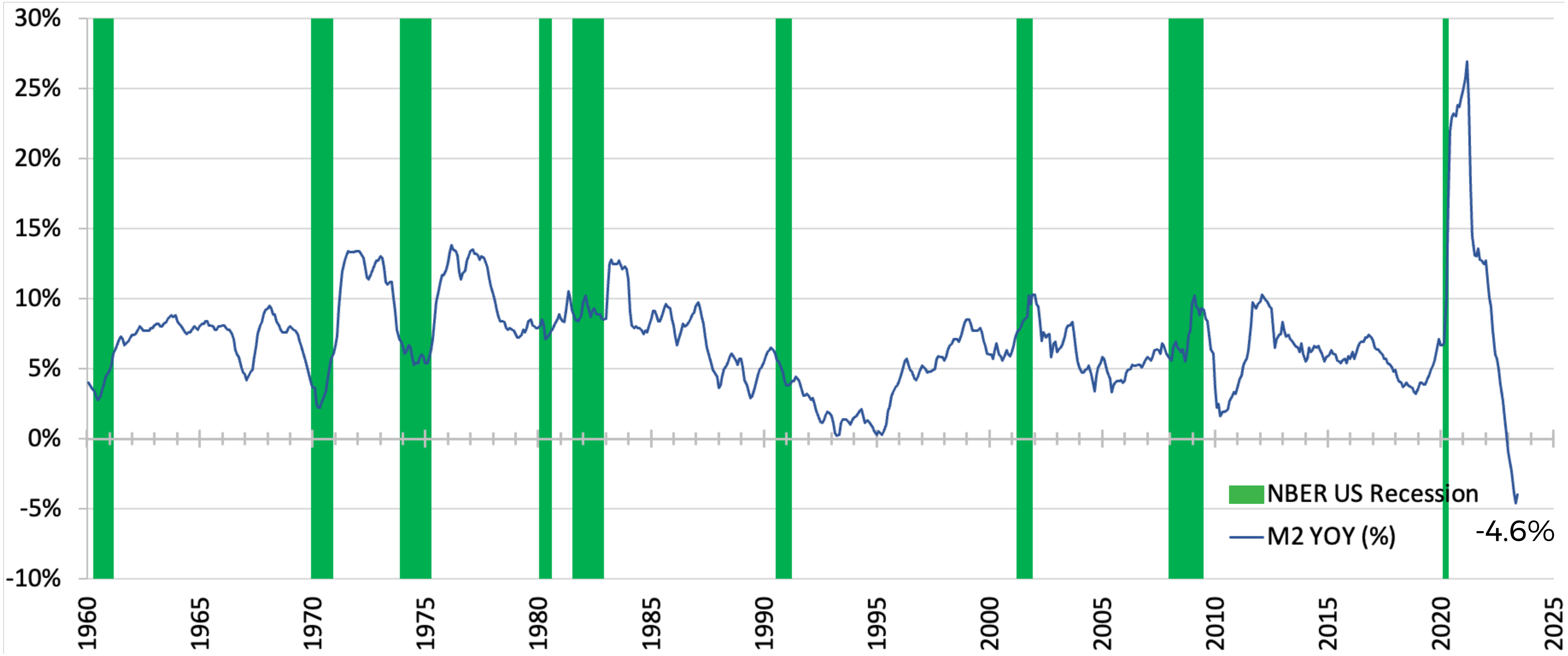
U.S. Leading Economic Indicators



Source: Bloomberg.

Negative - Declining Money Growth

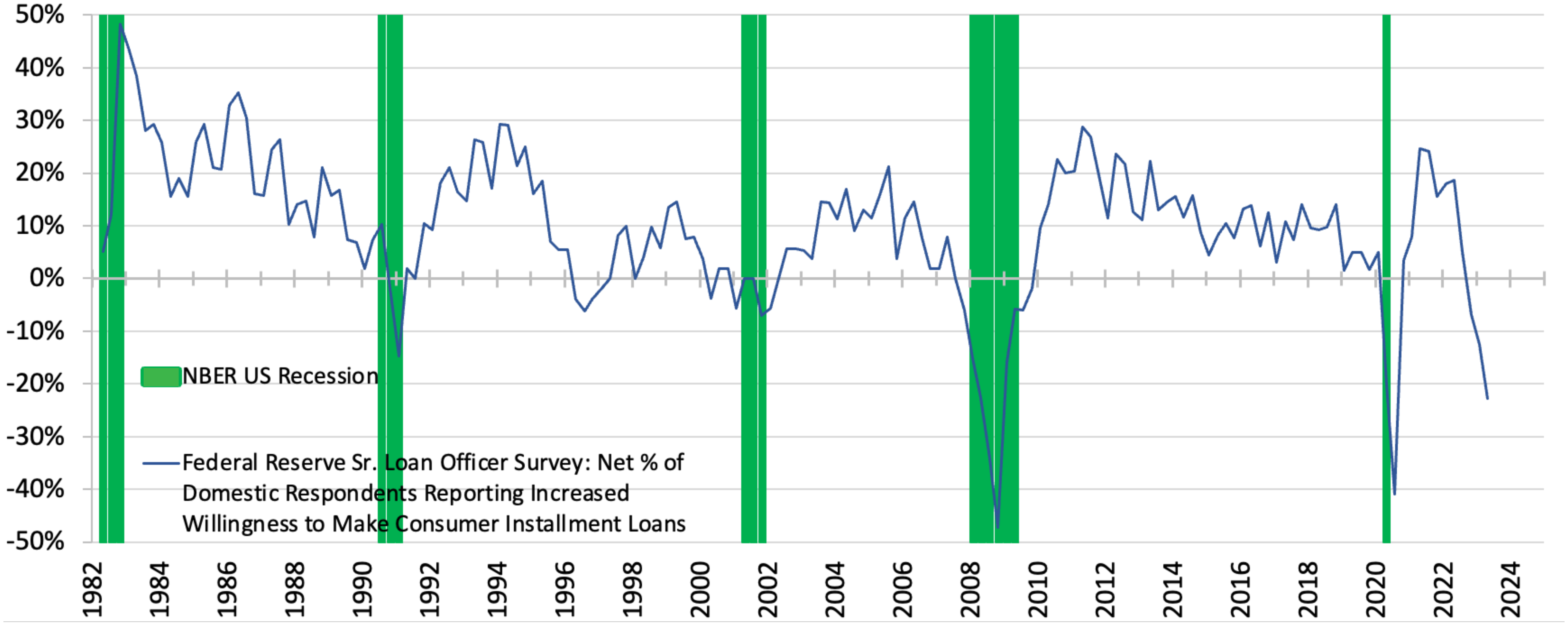
Year-Over-Year Percentage Change In M2 (%)



Source: Bloomberg.

Negative - Banks Willingness to Lend

Net % Of Banks Easings



Source: Bloomberg.

Inflation Down, But Still Far From Target

Review of Inflation

WAS	0-2%
PEAKED	8-9%
ENTERING 2023	6-7%
CURRENTLY	4-5%
FED GOAL	2%

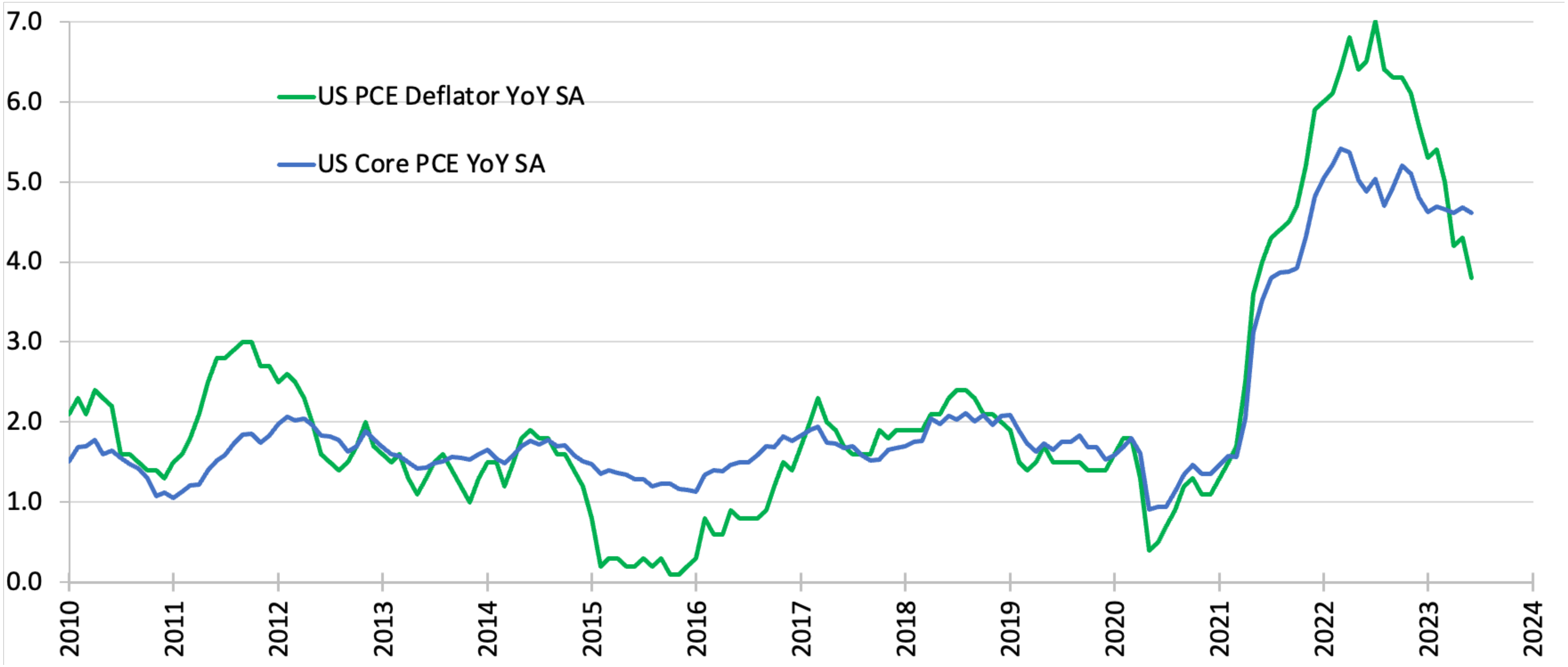
If Fed insists on 2% → Recession probability near 100%

- Stocks vulnerable (earnings cuts severe), bonds good

If Fed raises target to 3% and can tolerate 4% → Soft landing possible

- Stocks okay, earnings targets achieved, valuation questionable
- Bonds trading range

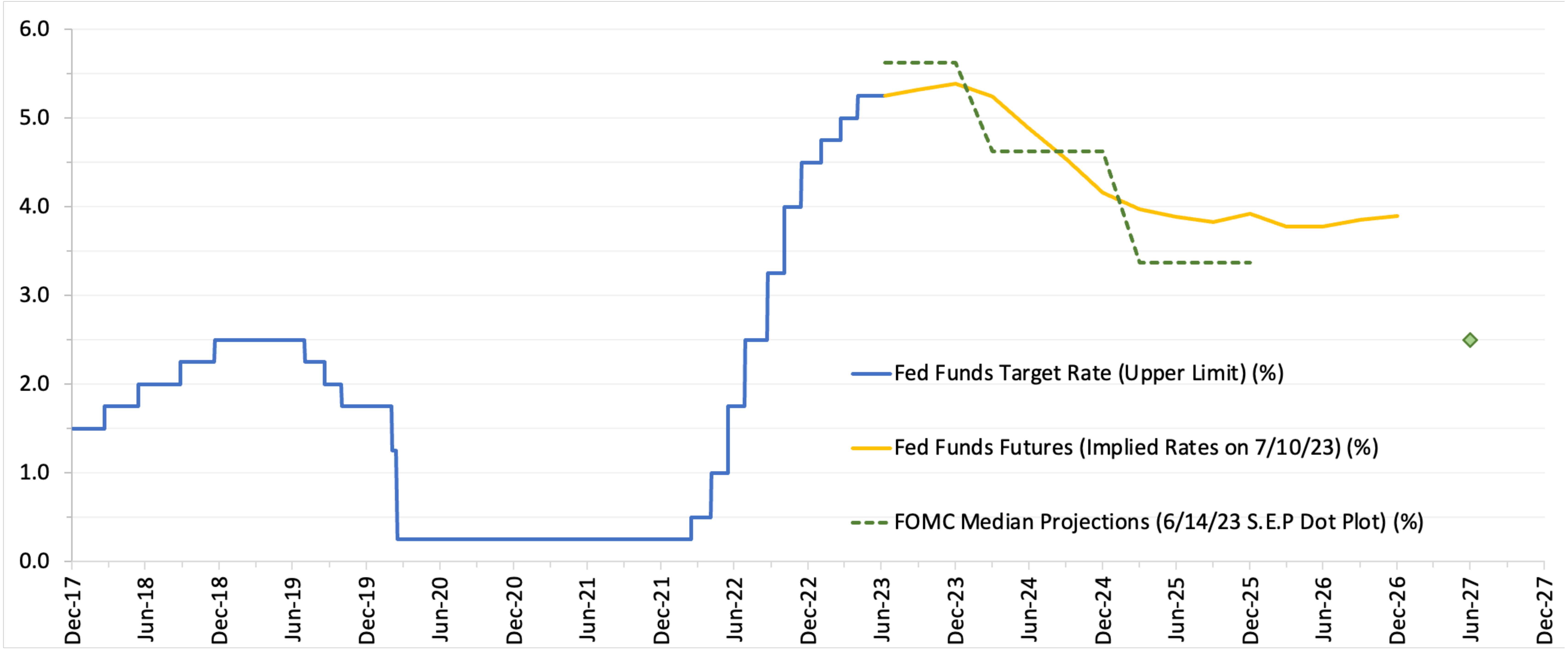
Inflation Still Problematic



Source: Bloomberg.

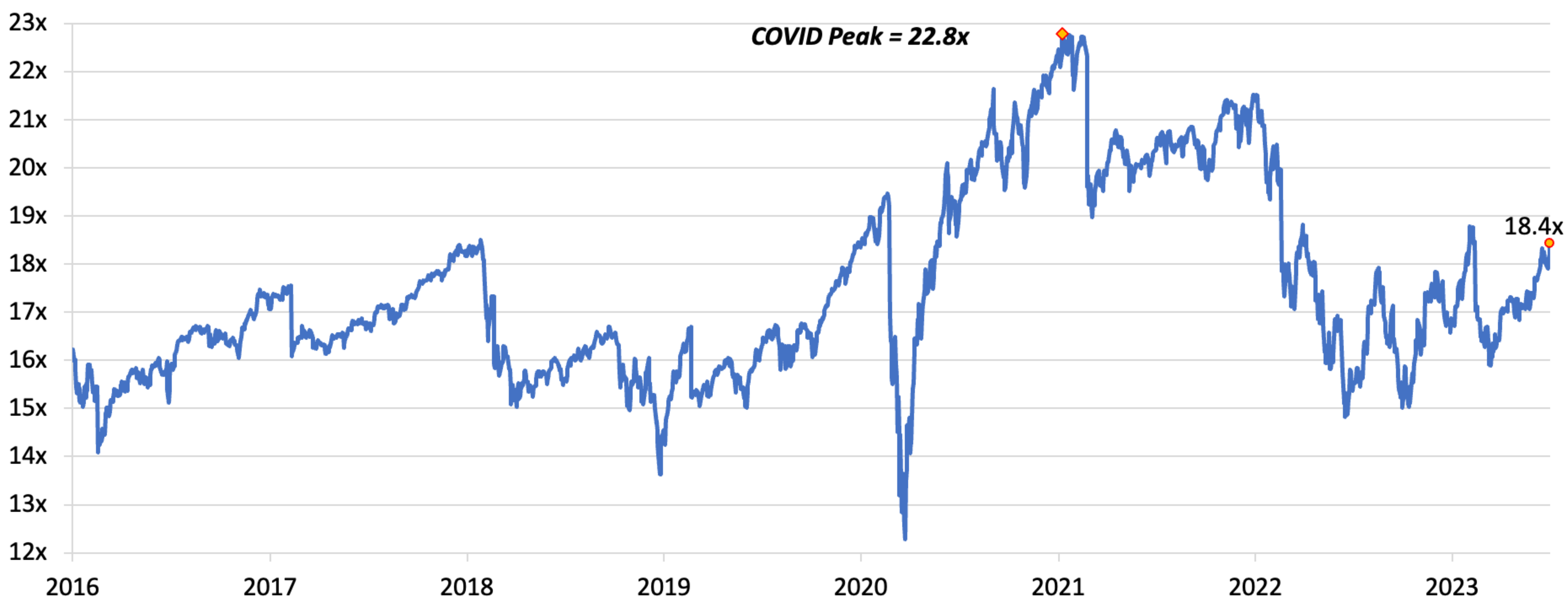
Fed Funds - Declines Ahead Soon???

Federal Funds Rate



Valuation Expensive

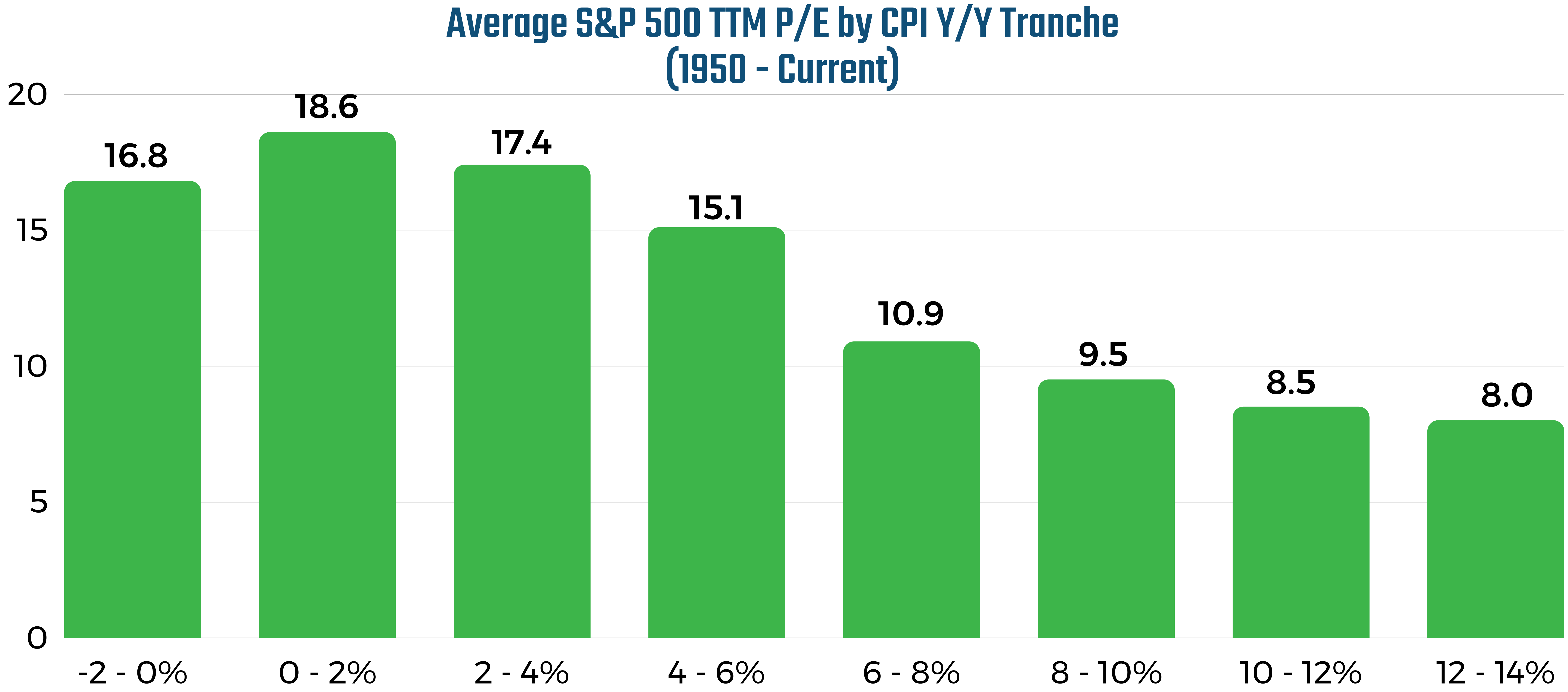
S&P 500 Forward P/E



Sources: Wolfe Research Portfolio Strategy, NASDAQ, Refinitiv, Standard & Poor's, Bloomberg and FactSet.

Stocks Expensive Relative To Inflation Rate

S&P 500 P/E vs. Inflation



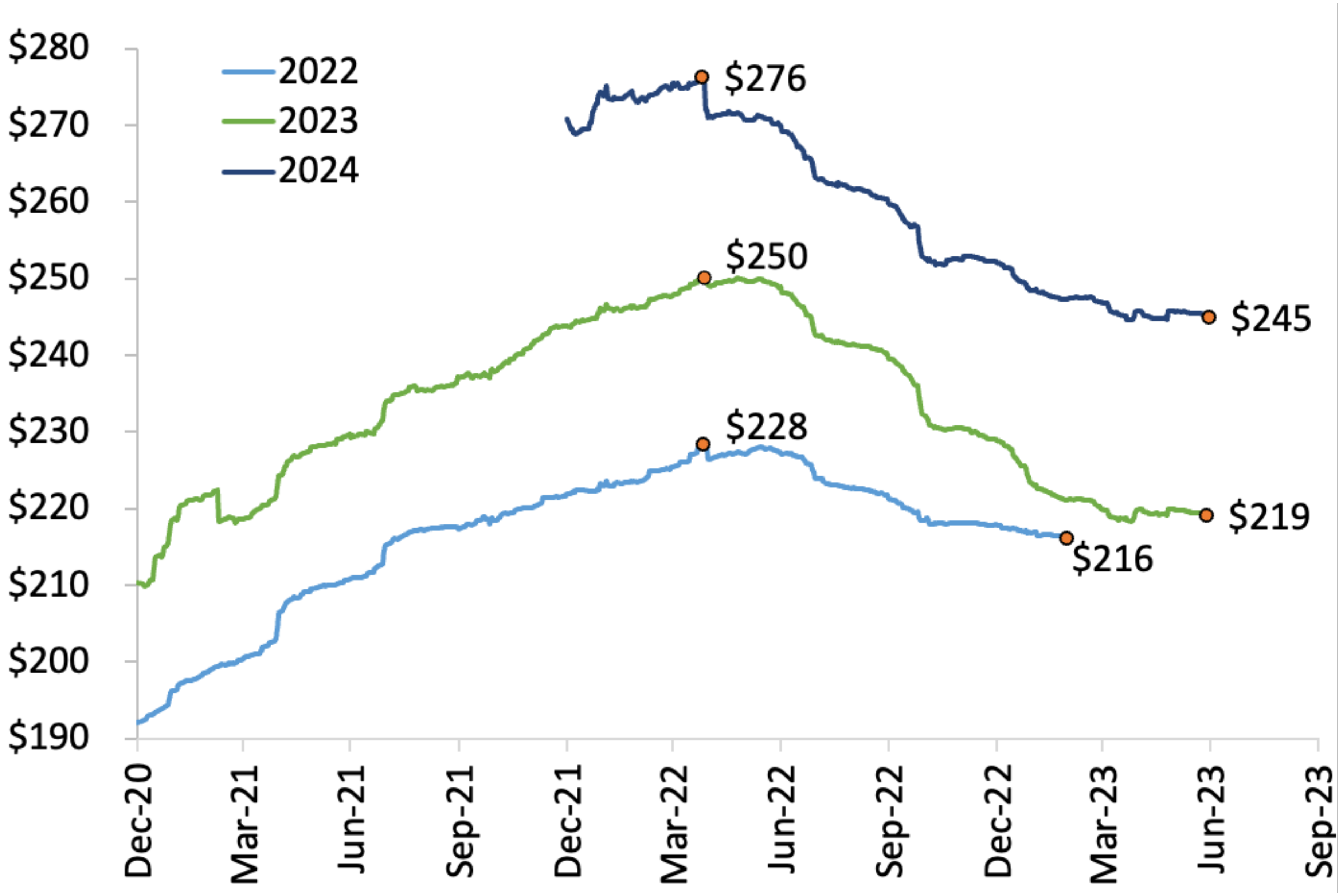
Source: Strategas.

Earnings Estimates Too High

S&P Earnings		
	Consensus	Our Guess
2021	$204 (Actual)	$204 (Actual)
2022	$216 (Actual)	$216 (Actual)
2023	$219 +1%	$200 -7%
2024	$246 +13%	$230 +15%

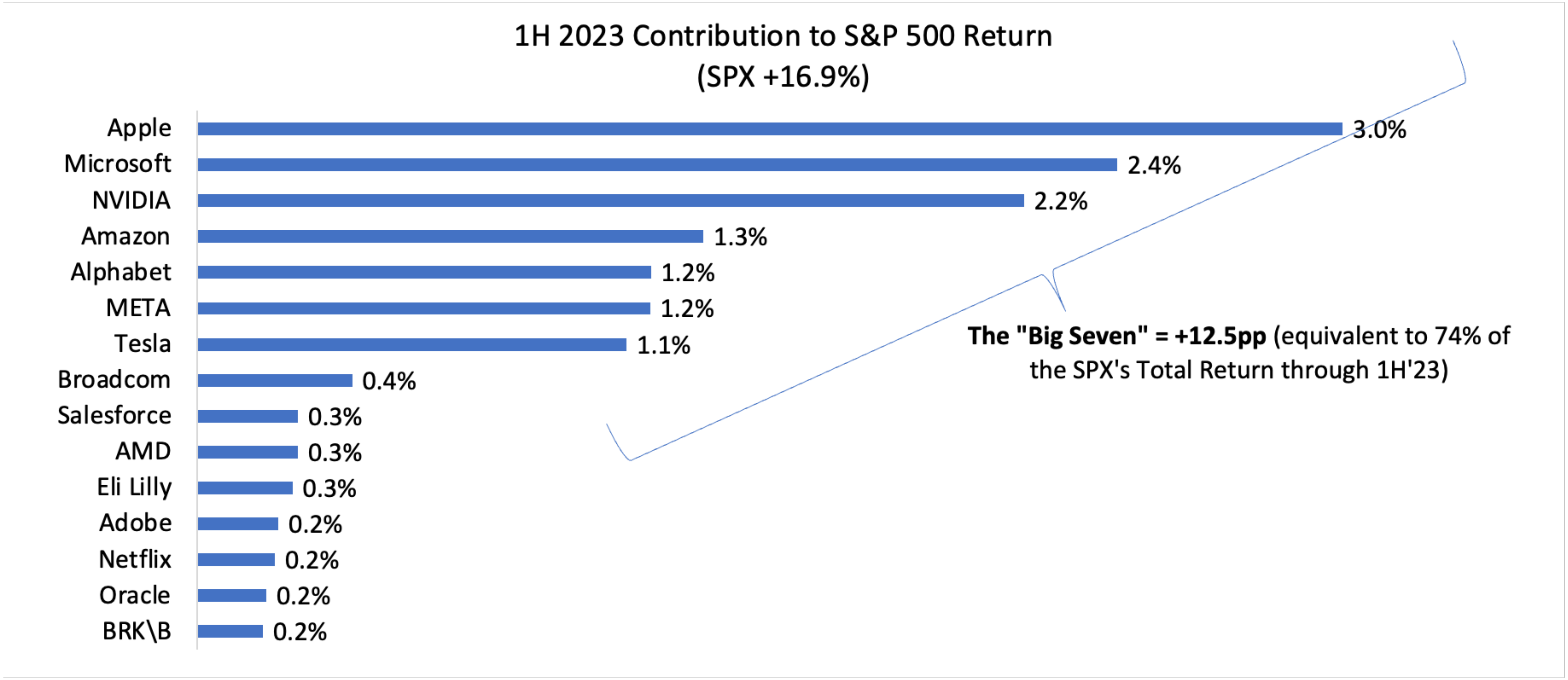
Source for "Consensus": FactSet.

S&P 500 Operating EPS - Consensus



Source: FactSet.

Mega-Cap Stocks Carry The Day



Sources: Wolfe Research Portfolio Strategy, NASDAQ, Russell, Standard & Poor's and Bloomberg.

Breadth Is Poor …Rare To See Small-Caps Lag By This Much

S&P 500 & Russell 2000 Performance +7 Months Off Major Low

S&P Low Date	S&P 500	Russell 2000
8/12/1982	49.3%	72.3%
12/4/1987	21.4%	41.6%
10/11/1990	29.7%	46.1%
8/31/1998	35.9%	17.9%
10/9/2002	18.5%	24.6%
3/9/2009	51.5%	69.0%
10/31/2011	27.9%	33.9%
12/24/2018	28.4%	24.7%
3/23/2020	55.7%	63.0%
10/12/2022	15.5%	3.4%

Sources: Strategas.

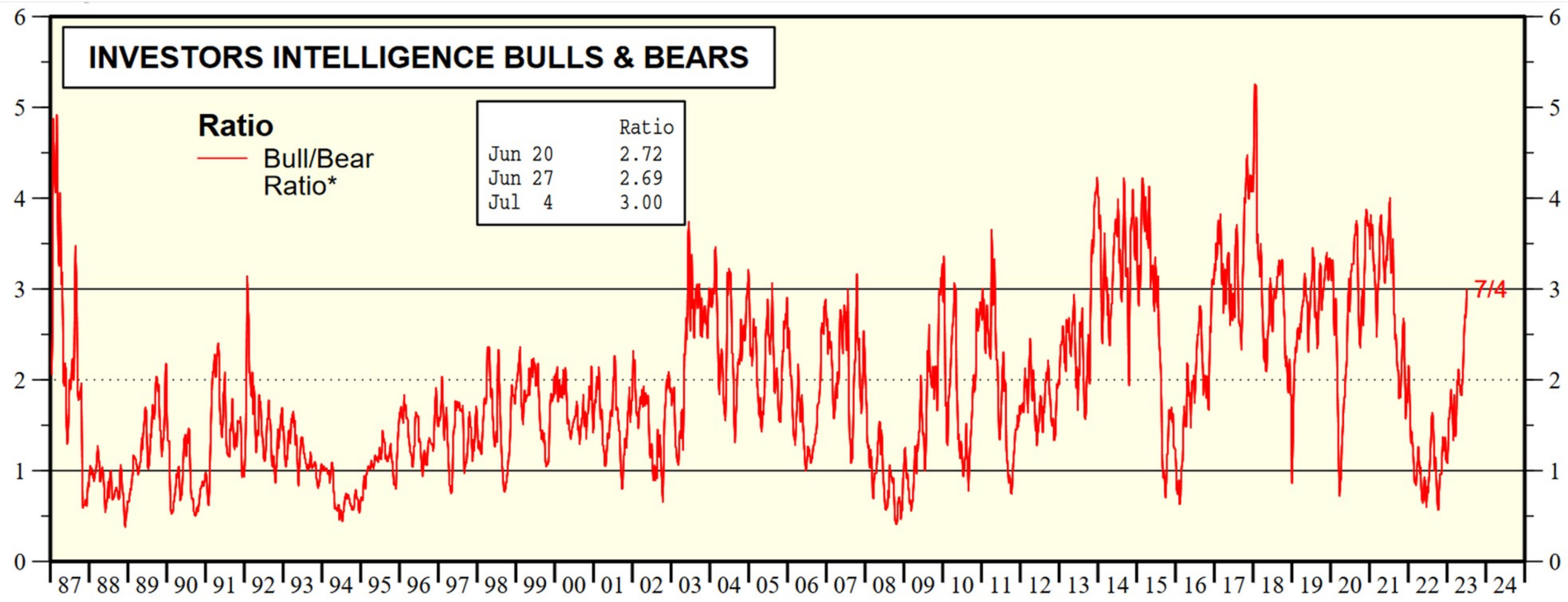
Banks Problematic For Overall Market

S&P 500 & Bank Index Performance +7 Months Off Major Low

S&P Low Date	S&P 500	Bank Index
6/1/1932	53.4%	68.5%
3/14/1935	42.8%	22.0%
3/31/1938	56.8%	87.6%
4/28/1942	25.4%	45.2%
6/13/1949	23.7%	32.3%
10/22/1957	11.9%	31.2%
6/26/1962	25.4%	29.1%
10/7/1966	29.2%	34.1%
5/26/1970	30.2%	31.3.%
10/3/1974	41.5%	46.5%
8/12/1982	49.3%	68.8%
12/4/1987	21.4%	33.4%
10/11/1990	29.7%	66.9%
8/31/1998	35.9%	32.6%
10/9/2002	18.5%	30.0%
3/9/2009	51.5%	128.7%
10/31/2011	27.9%	45.3%
12/24/2018	28.4%	26.7%
3/23/2020	55.7%	38.9%
10/12/2022	15.5%	-22.6%

Sources: Strategas.

Sentiment Has Turned From Bearish To Bullish



Source: Yardeni Research.

The Starting Unemployment Rate Makes A Big Difference

Through Date	Unemployment Rate	S&P 500 +12 Months	Peak Date	Unemployment Rate	S&P 500 +12 Months
9/30/1968	3.4%	-8.3%	12/31/1970	6.1%	2.3%
10/31/1973	4.6%	-18.2%	5/31/1975	9.0%	9.8%
5/31/1979	5.6%	4.8%	7/31/1980	7.8%	1.1%
12/31/1980	7.2%	-6.6%	12/31/1982	10.8%	-1.9%
3/31/1989	5.0%	-2.6%	6/30/1992	7.8%	3.4%
4/30/2000	3.8%	-12.6%	6/30/2003	6.3%	2.6%
12/31/2006	4.4%	-2.3%	10/31/2009	10.0%	-0.3%
1/31/2020	3.5%	13.5%	4/30/2020	14.7%	5.6%
Average	**4.7%**	**-4.0%**	**Average**	**9.1%**	**5.6%**

Source: Strategas.

Mixed Forward Results Given Strong First Half

3Q & 2H Performance Following Best 1H S&P Performance				
Rank	**Year**	**1H**	**3Q**	**2H**
1.	1933	57.7%	-10.9%	-8.6%
2.	1975	38.8%	-11.9%	-5.3%
3.	1943	26.4%	-2.2%	-5.5%
4.	1987	25.5%	5.9%	-18.7%
5.	1983	19.5%	-1.2%	-1.9%
6.	1997	19.5%	7.0%	9.6%
7.	1986	18.7%	-7.8%	-3.5%
8.	1995	18.6%	7.3%	13.1%
9.	1954	17.7%	10.6%	23.2%
10.	2019	17.3%	1.2%	9.8%
11.	1998	16.8%	-10.3%	8.4%
12.	2023	15.9%	?	?
13.	1976	15.6%	0.9%	3.0%
14.	1985	14.7%	-5.1%	10.1%
15.	1989	14.5%	9.8%	11.1%
		Average	**-0.5%**	**3.2%**
		% Positive	**42.9%**	**57.1%**

Source: Strategas.

2023 Market Targets (From Dec. 31, 2022)

S&P 500					
Probability	**Scenario**	**Close**	**%△**	**10-Year Yield**	**%△**
30%	Soft Landing	4200	+9.4%	4.25%	+38bp
50%	Mild Recession	3900	+1.6%	3.50%	-37bp
20%	Normal Recession	3600	-6.2%	2.75%	-112bp
Probability Weighted Average		3930		3.60%	

Reminder: Stocks have never bottomed before a recession started.
Biggest Risk: Without exception, every tightening cycle has been associated with a financial shock/crisis.

Equity Observations

1. This is either the strongest bear market rally we have ever seen, or the weakest start to a bull market.

2. Stocks have <u>never</u> bottomed before a recession started.

3. October low (3577) reflected peak Fed hawkishness. It may have been the low if no recession. If a recession occurs, a new low is possible.

4.
   - If the Fed requires a 2% inflation rate, probability of a recession ≈100%
   - If the Fed blinks and says 3% inflation is okay, and 4% is close enough to 3%, we may have a soft landing.

5. Most likely is a mild recession. Economic recessions have always been accompanied by earnings recessions.

6. Consumer cash, corporate balance sheets, soundness of banking system should enable a soft landing or moderate recession, not a deep recession.

7. If no recession, our year-end S&P 500 target was and remains 4200.

10-Year Treasury Returns (Since 1928)

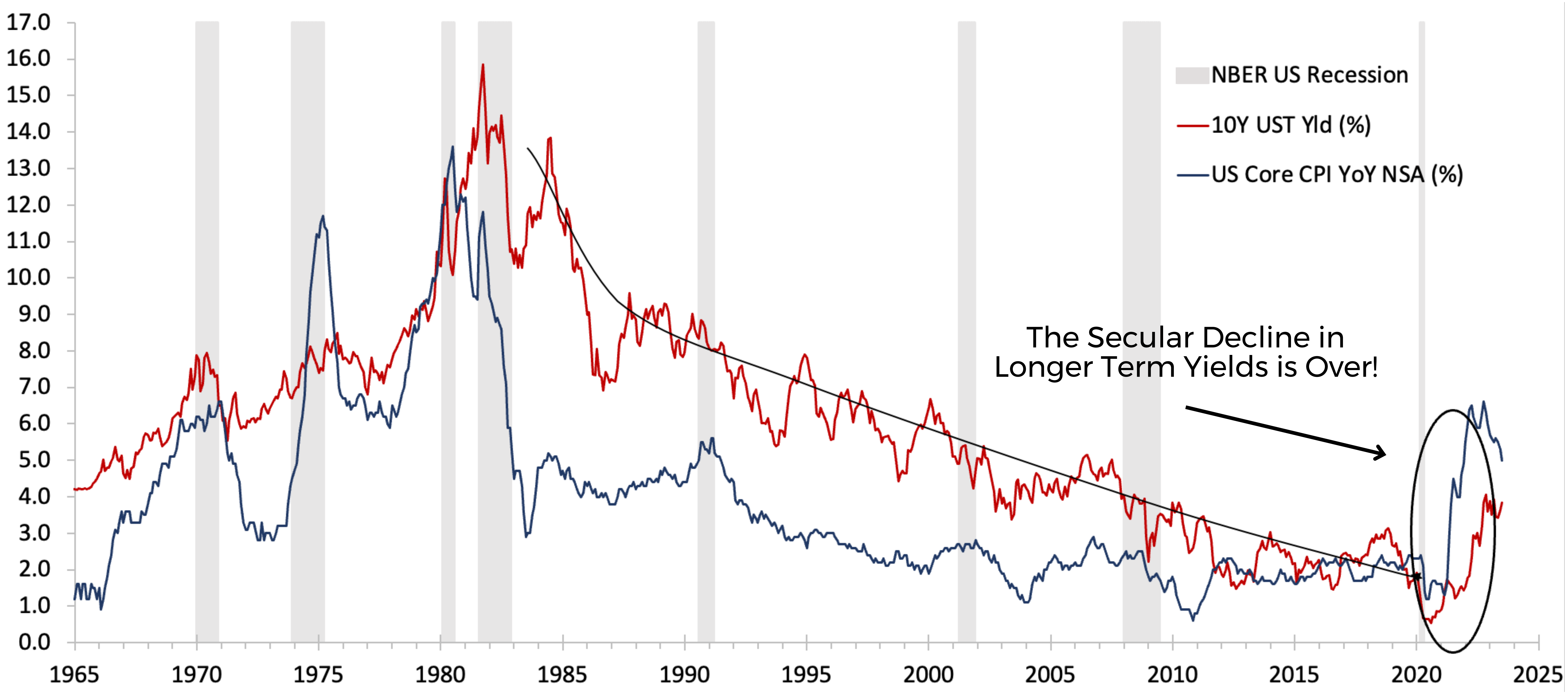
Number of down years (Total Returns)	19/95	20%
Number of back to back down years	3/94	3%
Number of three down years in a row (In fact, never in the 250-year history of U.S. Treasuries)	0/94	0%

Note: Total return for 2021-2022 was worst in over 100 years.

Potential Fixed Income Positioning

1. Legitimate alternative to equities (No longer TINA)
2. Neutral duration until outlook is clearer
3. Consider a barbell approach - own some short term 4-5% paper and some longer maturities
4. Selectivity in spread products
5. Muni's attractive, where tax positioning permits

U.S. Core CPI YoY vs. 10Y Yield Graph



Source: Wolfe Research.

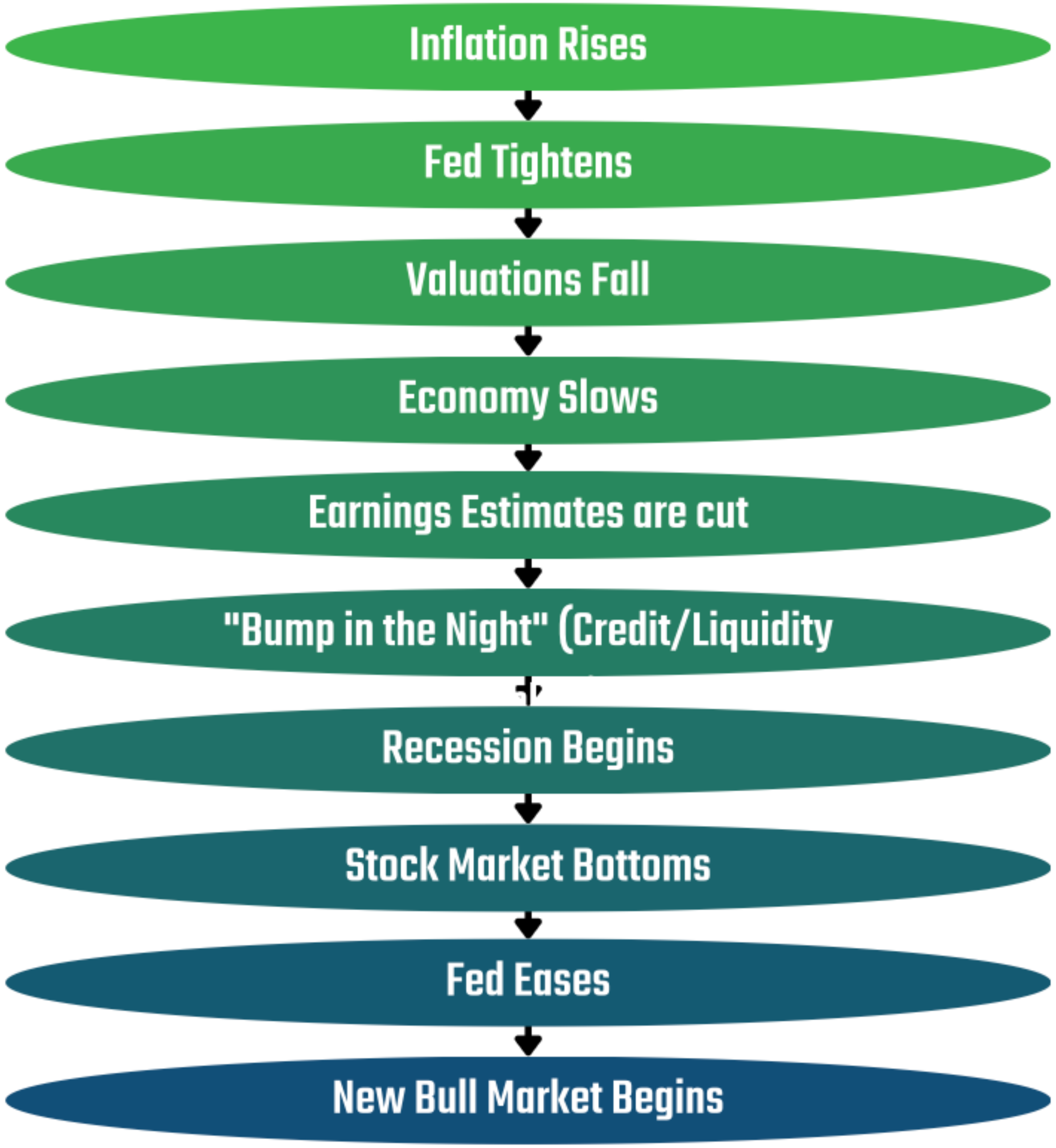
Sector Observations

Picks	Sector Weight	Earnings Weight	Difference
Energy	4.6%	12.7%	+8.1%
Consumer Staples	7.2%	6.1%	-1.1%
Financials	12.9%	15.0%	+2.1%
Pans			
Utilities	2.9%	2.6%	-0.2%
Technology	10.1%	7.3%	-2.8%

Bear Markets Are A Process

WE ARE HERE!

(Will We Stop Here?)



Geopolitical Threats Abound

Russia:

- "It is totally unclear what is really happening inside Russia." Russian instability will remain one of the greatest sources of geopolitical risk." – BCA Research

China:

- A growing number of China experts warn that Xi Jinping has likely set a timeframe to annex Taiwan.
- 11% of EU companies have moved out of China. 7% more plan to. U.S. companies are following. "Western companies have finally begun to wake up to the fact that China steals all your intellectual property and then competes with you by underpricing you." (On a positive note, watch India. It is a better place to invest and manufacture. They need to cut bureaucracy and develop more infrastructure.)

Iran:

- Is nuclear capability right around the corner?

Debt And Debt Service Explosion

Consequences

- Counter-cyclical fiscal policy less likely in a recession
- Tough to extend Trump tax cuts (2017)
- Additional social spending agenda stymied
- More economic and market volatility and potential crises
- Dollar pressure

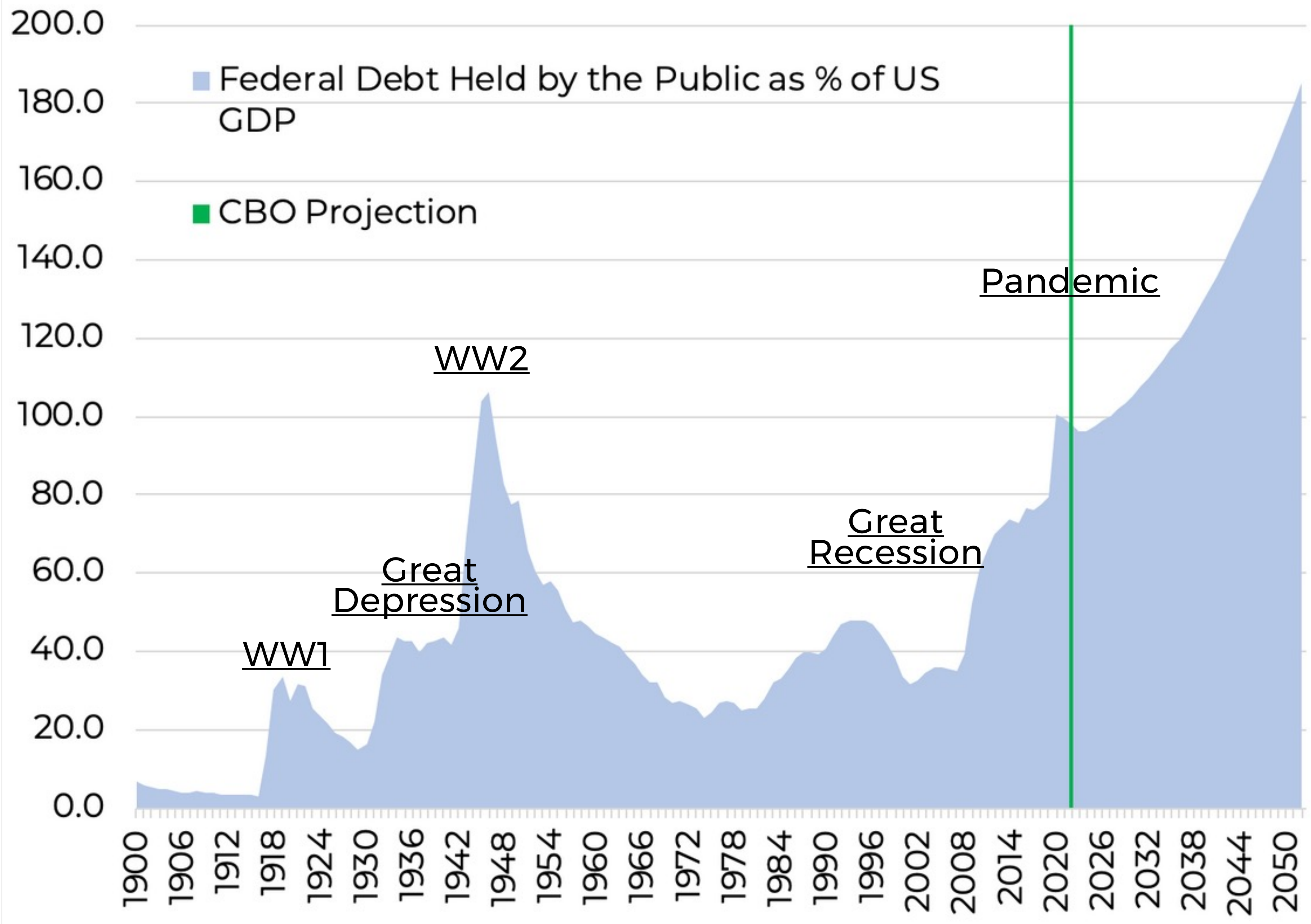
Consequences

- More debt issuance
- Higher inflation
- Financial repression
- Increased taxes
- Spending restraint (reduced benefits)

How will the debt be paid off?

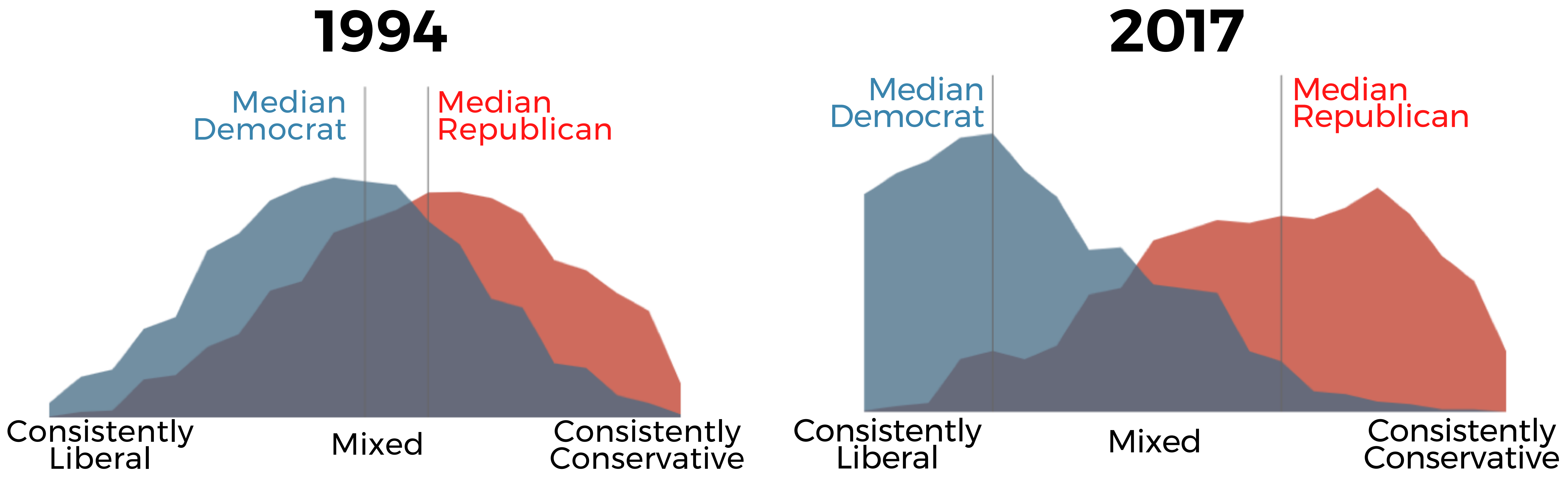
- It won't be unless the U.S. runs budget surpluses which is highly unlikely.

Large Deficits Will Drive Federal Debt Held By The Public To Unprecedented Levels



Source: Congressional Budget Office.

Political Polarization Continues



Source: Pew Research Center. https://www.pewresearch.org/politics/interactives/political-polarization-1994-2017/.

Globalization Has Paused

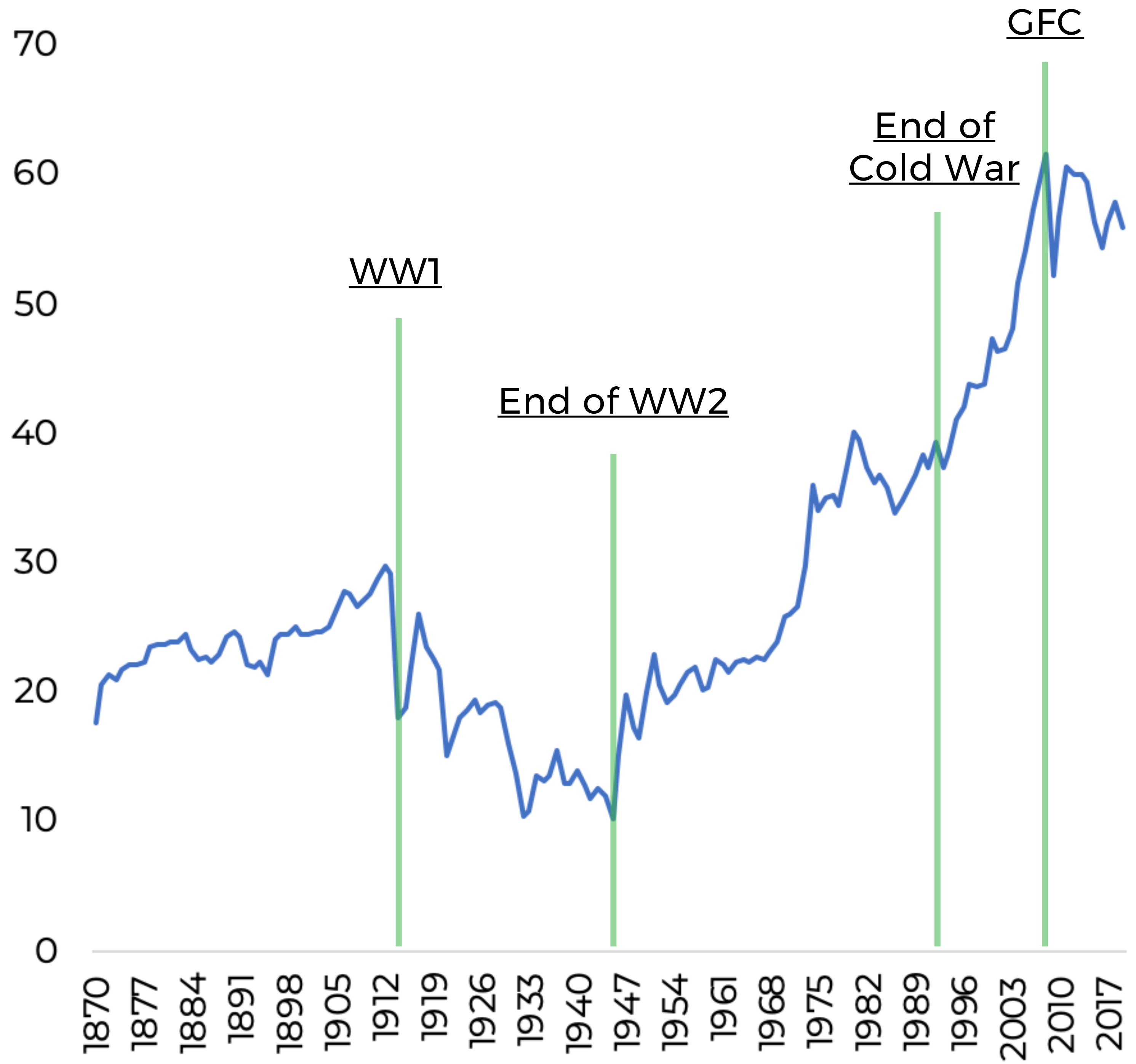
Consequences of Less Globalization

- Higher inflation
- Weaker profit margins
- Slower economic growth
- Greater levels of defense spending
- More political volatility
- Could be a positive for energy investments
- Many companies re-shoring production (despite higher labor costs

Source: Goldman Sachs.

Total Trade As a Share of World GDP

(Our World in Data, Globalization over 5 Centuries)



Source: Strategas.

Economy Has Determined Whether Presidents Get Re-Elected

No Recession Two Years Before Re-Election

President	Recession?	Re-Elected?
Obama	No	Yes
Bush II	No	Yes
Clinton	No	Yes
Reagan	No	Yes
Nixon	No	Yes
LBJ	No	Yes
Eisenhower	No	Yes
Truman	No	Yes
FDR	No	Yes
FDR	No	Yes
FDR	No	Yes
Wilson	No	Yes

Recession Two Years Before Re-Election

President	Recession?	Re-Elected?
Trump	Yes	No
Bush I	Yes	No
Carter	Yes	No
Ford	Yes	No
Hoover	Yes	No
Taft	Yes	No

Source: Strategas.

Conclusions

1. We expect a mild recession to commence between Labor Day and year-end.
2. The weakest GDP quarters are ahead of us.
3. The resilient labor market is beginning to show some cracks.
4. Inflation remains a significant problem and isn't falling fast enough.
5. Fed is likely to follow a higher-for-longer path.
6. Corporate profit estimates remain too high.
7. Sentiment has moved from bearish to bullish.
8. Valuation levels are high (given inflation and interest rates).
9. Stock risk/reward is unfavorable.
10. Domestic and geopolitical risks are multiple.

What To Do?

1. Expect choppy markets (buy dips/trim rallies)
2. Own some bonds.
3. Diversify across asset classes and geographies (more non-U.S.)
4. Focus on free cash flow and high predictability in earnings.
5. Own high quality value and less expensive growth.
6. Consider an absolute return strategy to complement market exposures.
7. At the moment, one has to choose between fighting the Fed and fighting the tape. Accordingly, avoid extreme positions.

The Dilemma

Don't Fight The Fed → Be Cautious
Don't Fight The Tape → Be Invested

Conclusion → No Extreme Bets

Important Information

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<u>**All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.**</u>

Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

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Q&A

Crossmark Global Investments

888-845-6910

www.crossmarkglobal.com

advisorsolutions@crossmarkglobal.com

Thank You!