

# DOLL'S DELIBERATIONS

## WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	0.62%	15.28%
S&P 500	0.52%	19.87%
NASDAQ	0.03%	17.32%
RUSSELL 2000	0.51%	14.59%
RUSSELL 1000 GROWTH	0.31%	19.64%
RUSSELL 1000 VALUE	0.67%	18.57%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	-0.72%	26.02%
CONSUMER DISCRETIONARY	0.31%	13.72%
CONSUMER STAPLES	-0.31%	7.67%
ENERGY	4.70%	39.84%
FINANCIALS	2.21%	31.54%
HEALTHCARE	-0.38%	17.66%
INDUSTRIALS	0.80%	14.97%
INFORMATION TECHNOLOGY	0.97%	20.98%
MATERIALS	0.12%	13.22%
REAL ESTATE	-1.48%	28.37%
UTILITIES	-1.17%	6.26%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	0.08%	14.32%
MSCI ACWI EX U.S.	-0.49%	7.93%
MSCI EAFE	-0.30%	11.01%
MSCI EM	-1.02%	-0.35%

### SUMMARY:

Stocks shook off a big slide on Monday (9/20/21) on global risk concerns emanating from China and rallied on Thursday (9/23/21) in the wake of a generally in-line September FOMC meeting. For the week, the S&P 500 closed up 0.5% and above its 50-day moving average. Treasuries were weaker, with the 10-year yield moving above 1.45%. Strongest sectors were energy (+4.7%) and financials (+2.2%); weakest sectors were REITs (-1.5%) and utilities (-1.2%).

### KEY TAKEAWAYS:

- FOMC takeaways are 1) tapering will most likely start in November and will last until next summer and, 2) Chairman Powell is still far from thinking about rate hikes. We believe underlying inflationary pressures will be strong enough for the Fed to lift rates at the end of 2022.
- We believe the Fed's forecast on inflation is too low, and with the Fed not raising interest rates anytime soon, inflation is likely to become more persistent than the Fed hopes. ([Click here to for my new inflation whitepaper](#))
- U.S. CPI inflation will likely not stay at the current 5% CPI level, but it could settle at 3% rather than reverting to sub 2%. Small businesses, in particular, continue to report inflation pressure.
- The debt ceiling will be resolved, BUT significant drama and chaos may be present first.
- The dysfunctional Congress has complicated the Federal Reserve's plans. The issue is whether the central bankers can set a clear path on tapering when fiscal policy is in chaos.
- The possibility of Chinese real estate developer Evergrande's collapse could significantly impact the Chinese economy and, by extension, the global economy.
- Manufacturing and service flash PMIs for September were weaker than expected. While we expect growth momentum to ease, temporary forces due to the Delta variant accentuated the moderation in activity between August and September.
- U.S. growth momentum is starting to rotate away from the U.S. to other economies, a process that is likely dollar negative.
- At the low last Monday, the S&P 500 had fallen 5% from its recent high. However, the average stock is down more than 12% from recent highs.
- The outlook for Treasury yields is key to the continued performance of technology stocks. A shift towards higher rates is the most likely catalyst for a pause in these sector's leadership, as we witnessed late last year and the first few months of this year..

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	-0.40%	-1.16%
BLOOMBERG U.S. CORP HIGH YIELD	-0.13%	4.87%
BLOOMBERG U.S. GOV/ CREDIT	-0.46%	-1.39%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.00%	0.03%

## STOCK MARKETS REMAIN CHOPPY AS RISKS INCREASE

With another reminder last week from the FOMC that it will move at a glacial pace in pulling back from its hyper-accommodative policy stance and is reluctant to take any economic risk, we remain positive on the global economic outlook and moderately positive on risk assets. Virus-related lockdowns (still generally in Asia-Pacific), persistent supply chain woes, and, as seen last week, occasional jolts from China have been sufficient to moderate economic growth. However, the net impact will only be to defer spending into the future and prolong the re-opening/normalization of the economic recovery and expansion. The corporate profit outlook has stayed upbeat despite the moderation in economic growth, helping to mute periodic bumps in global risk asset markets. Fixed income quality spreads are a key indicator for economic growth and equity markets, and they remain healthy, with spreads stable near their cycle and historic lows.

The U.S. and European economies have remained open despite COVID-19 setbacks as policymakers, politicians, and investors have come to accept that economic restrictions must be avoided. The hope is that vaccination rates will ultimately be high enough to prevent medical systems from being severely overloaded, allowing domestic mobility and spending to return to more normal levels eventually. Even international mobility is set to improve in some regions as vaccination rates in many countries have now reached high enough levels, although travel remains constrained by ever-changing regulations. Hiring intentions in the major developed economies are strong and are an important leading economic signal, and this strength underscores that companies perceive positive profit opportunities. Valuations for almost all markets are stretched, but they will likely remain so until government bond markets correct meaningfully.

While peak thrust in monetary stimulus is past, conditions will stay accommodative for a long time. Therefore, bond yields may remain depressed for a while longer. Looking out over the next year and beyond, however, the failure of U.S. and German government bond yields to decline much during recent bouts of risk-off and softer economic data underscore that the cyclical turn has occurred, i.e., the underlying trend in yields is up. Our expectation has been that the up move in bond yields will occur in waves, with pauses in between. There are still forces acting to hold down yields, such as hyper-dovish central banks and bond investors' wariness to abandon the secular stagnation narrative. The newfound belief that the world is past peak growth and that peak inflation will soon occur should also help keep yields in a holding pattern for a while longer. It will take greater confidence in the sustainability of the economic expansion, including in China, and a recognition that some of this year's spike in inflation is not transitory before investors upgrade their outlook for bond yields. We expect such an outcome over the coming 3-6 months.

Last week's PMI flash estimates for the major developed economies were consistent with a moderation in growth but still suggest historically solid increases in economic activity. A considerable amount of the recent cooling in global economic activity is likely being driven by supply-chain setbacks, which will eventually be resolved. This is profoundly different than saying that growth is moderating because of slowing hiring plans and a deterioration in the corporate profit outlook.

## CONCLUSION:

Global growth is moderating, but the conditions for weak growth or worse do not exist. Aside from the impact following unsustainable re-opening surges in spending, most of the moderation is being caused by supply bottlenecks that will eventually be resolved. A more moderate growth profile is, for now, positive for risk asset markets as it will help sustain low bond yields and keep central banks accommodative.

Data from Morningstar Direct, as of 9/27/2021.

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