

# Doll's Deliberations<sup>®</sup>

## Weekly Investment Commentary



**Robert C. Doll, CFA<sup>®</sup>**  
CEO/CIO

### Summary:

Stocks were higher last week (S&P 500 +1.47%) as all major averages gained. Most averages remained below the July all-time high. The big focus was on the Fed and Chairman Powell's strong endorsement of lower rates. Best sectors were real estate (+3.68%), materials (+2.39%), and consumer discretionary (+2.10%); worst sectors were energy (-0.28%), technology (+1.08%), and communication services (+1.21%).

### Key takeaways:

- Chairman Powell stated clearly, "... the balance of risks to our two mandates has changed," implying rate cuts are on the table starting next month.
- The Bureau of Labor Statistics (BLS) revised down the number of workers on payrolls by 818,000 over the 12-month period ending March 2024. This largest downward revision since 2009 implies that the labor market has been far less resilient than originally thought.
- The Conference Board's U.S. Leading Economic Index (LEI) disappointed yet again in July, contracting 0.6% m/m from a 0.2% decline in June, and below expectations of -0.4%.
- U.S. manufacturing PMI experienced its most significant contraction of the year in August.
- Although consumers' perceptions of current economic conditions unexpectedly deteriorated in August, they are becoming increasingly optimistic about the future, a strange juxtaposition. (This is according to the University of Michigan monthly consumer survey.)
- Continued labor market softening will likely depress compensation growth and continue to pressure consumption. We continue to expect the job market's deterioration to culminate in a noticeable slowdown/recession in the next six to 12 months.
- Earnings growth expectations for 3Q have weakened significantly from just six weeks ago. Consensus expectations have moved from +7.3% to +4.4%.
- Small cap stocks tend to underperform going into economic slowdown/recession ... but handily outperform leading out of recession.
- Price controls have a long and sordid history all over the world. The best way to fight inflation is to have the Fed focus on price stability while the government minimizes taxes and regulation to encourage competition and risk-taking. Competition, not new regulations, is the best way to keep prices down. The good news is that we think price controls are very unlikely to pass in Congress.
- One area where both political parties agree is their desire to pursue protectionism, specifically in the form of tariffs on goods from China and/or other major trading partners. We believe protectionism is bearish for risk assets, due in part to inevitable retaliation.

EQUITY MARKETS (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
DJIA	1.29	10.56
S&P 500	1.47	19.20
NASDAQ	1.41	19.66
RUSSELL 1000	0.34	16.89
RUSSELL 1000 GROWTH	1.25	21.95
RUSSELL 1000 VALUE	1.92	13.59
RUSSELL 2000	0.40	6.99

S&P EQUITY SECTORS (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	1.21	23.97
CONSUMER DISCRETIONARY	2.10	6.55
CONSUMER STAPLES	1.64	16.72
ENERGY	-0.28	10.22
FINANCIALS	1.55	19.06
HEALTHCARE	1.73	15.04
INDUSTRIALS	1.82	14.31
INFORMATION TECHNOLOGY	1.08	29.05
MATERIALS	2.39	9.38
REAL ESTATE	3.68	10.25
UTILITIES	1.29	21.13

## Fed rate cut expectations buoy markets

The last 12 months' payroll revision was -818,000 jobs. That is causing some to renew calls for multiple Fed cuts sooner rather than later. However, while the economy is clearly slowing, the pace of slowing is arguably slow. We are not yet seeing the typical employment conditions approaching a recession, such as weak hiring plans and a parallel rise in layoffs and new unemployment insurance claims. And, of course, the payroll revisions do not change the trend in consumption, profit, and income—all of which are still historically healthy.

Still, the bond market is discounting a significant rate-cutting cycle starting next month, and the Fed confirmed that it will at least partially fulfill these hopes. The net impact will provide some stimulus to an economy that is still growing, with inflation well above the Fed's target. It is possible this will sustain a backdrop conducive to asset inflation. As has become increasingly apparent, Powell and company do not seem to mind price gains (and easy financial conditions), as long as the inflation is in asset prices and not consumer prices.

After the volatile start to the month, equity markets have charged back and some indexes are at or close to new highs for the cycle. Credit spreads remain low and conducive to higher equity prices. And the rebound in global financial stocks bodes well for both a broadening in equity market performance and overall economic conditions. So while the economy is slowing, the debate remains: Will this be a soft or hard landing?

The U.S. dollar has been weakening, as investors are discounting a lower Fed funds rate. Non-U.S. economic growth is gradually firming and there is a good case for investors to eventually seek out better relative valuations in markets/sectors where they are currently underweight.

Fears that a recession might develop took hold in 2022 when the Fed was forced to raise its policy rate by far more than investors (and the Fed) anticipated, and a severe risk-off phase developed. The opposite situation currently exists: The Fed is dovish and there is the near certainty of lower rates starting next month, credit spreads are narrow, equity markets are buoyant, and there is no shortage of liquidity for investment and spending purposes. Banking on a recession or even weak growth may be a losing bet, at least in the near term.

## Conclusion

In the near term, risk-on should persist with central banks lowering rates at a time when the global economy is already in decent shape. Low banking system stresses in the U.S. and euro area bode well for financial stocks and the overall economic/asset market backdrop. Inflation will remain sticky in domestic service sectors. Inflation risks could increase if the economy stays reasonably robust. Recession risks, while present, continue to get pushed out in time.

Data from Bloomberg as of Aug. 23, 2024

**Crossmark Global Investments Inc. (Crossmark)** is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

**All investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.**

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax, or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

This content may not be reproduced, copied, or made available to others without the express written consent of Crossmark.

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN) (%)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	0.68	14.42
MSCI ACWI EX U.S.	1.36	9.88
MSCI EAFE	1.71	10.15
MSCI EM	0.72	9.62

FIXED INCOME MARKETS (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	0.27	3.19
BLOOMBERG U.S. CORP HIGH YIELD	0.45	5.80
BLOOMBERG U.S. GOV/ CREDIT	0.26	3.10
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.06	3.48

ALTERNATIVES (INDEX TOTAL RETURN) (%)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	1.54	7.77
COMMODITIES (DJ)	0.88	1.24
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	1.68	10.95
CURRENCIES (DB CURRENCY FUTURE HARVEST)	-0.59	7.45