CROSSMARK GLOBAL INVESTMENTS

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Doll's Deliberations®

Weekly Investment Commentary

Bob Doll, CFA
CEO/CIO

Summary

Stocks advanced (S&P 500 1.76%) as investors began to digest Trump 2.0, which appears to be mostly positive for risk assets. However, significant uncertainties regarding tariffs continue. Best sectors were communication services (4.01%) and healthcare (2.97%); worst sectors were energy (-2.89%) and materials (0.74%).

Equity markets (Index total return %)	Last week	Year-to-date
DJIA	2.19	4.50
S&P 500	1.76	3.81
NASDAQ	1.65	3.35
Russell 1000	2.01	4.37
Russell 1000 Growth	2.18	3.56
Russell 1000 Value	1.26	4.77
Russell 2000	1.70	3.81

S&P equity sectors (Index total return %)	Last week	Year-to-date
Communication services	4.01	6.28
Consumer discretionary	0.81	3.54
Consumer staples	1.08	0.10
Energy	-2.89	6.05
Financials	1.24	5.24
Heathcare	2.97	4.96
Industrials	2.42	7.07
Information technology	1.88	1.72
Materials	0.74	5.82
Real estate	1.17	2.16
Utilities	0.87	5.06

Key takeaways

1. The slow process of higher unemployment continues. Initial jobless claims for the week ending Jan. 18 rose by 6,000 to 223,000, putting some upward pressure on unemployment, particularly permanent job losers.
2. While a 4.5% 10-year Treasury has several times recently put pressure on stocks, longer-term analysis suggests that the rate of change in interest rates is more important than the level for impacting the stock market.
3. With profit margins at, or very near, all-time highs, it is difficult to forecast double-digit earnings growth, especially given a series of wage settlements, putting pressure on productivity to improve profit margins.
4. Equities are experiencing a broad rally, supported by cooler inflation data, upbeat earnings, a recovery from short-term oversold conditions, and the return of Trump's "business and investor-friendly" policies.
5. After very bullish sentiment readings in December (bearish for markets), sentiment is now close to neutral.
6. The S&P 500 is trading over 22x forward earnings, levels only seen in the post-pandemic rally and the early 2000s. The VIX is relatively low, and speculators remain net short on VIX futures. One has to wonder if investors are complacent.
7. The S&P 500 has produced positive returns in the first year of a new president nine of the past 10 times.
8. Over the past four years, the surge in government regulations created economic headwinds while contributing to inflation. The new administration is already rolling out deregulation/cost-cutting moves that should help boost business confidence, and perhaps ease inflationary pressures.
9. The policies Trump changed on the first day of his second term were wide-ranging, touching on energy, immigration, technology, and tariffs. The overarching themes include his desire to reduce government bureaucracy, increase American oil and gas production, and boost American competitiveness via tariffs.
10. The U.S. has just 4% of the world's population, but 26% of the GDP, 31% of the household wealth, and 61% of the 100 most valuable companies. (Source: BTIG)

Trump 2.0 dominates the dialogue

International equity markets (Index total return %)	Last week	Year-to-date
MSCI ACWI	1.98	3.71
MSCI ACWI EX U.S.	1.84	2.59
MSCI EAFE	2.23	3.47
MSCI EM	1.05	0.66

Fixed income markets (Index total return %)	Last week	Year-to-date
Bloomberg U.S. Aggregate Bond	-0.04	-0.06
Bloomberg U.S. Corp High Yield	0.25	1.09
Bloomberg U.S. Gov/Credit	-0.02	-0.05
Bloomberg U.S. T-Bill 1-3 Month	0.03	0.25

Alternatives (Index total return %)	Last week	Year-to-date
Real estate (FTSE NAREIT)	0.56	1.04
Commodities (DJ)	-0.17	5.02
Global listed private equity (Red Rocks)	3.53	6.69
Currencies (DB Currency Future Harvest)	0.54	0.21

It was a particularly volatile week, as investors reacted to President Trump's daily comments about upcoming policy changes. The intra-day fluctuations, especially in FX markets, are not surprising based on Trump's past behavior, and are likely to persist over the next four years. (Prediction 5 – Markets likely to become more volatile.) The key investment challenge is to determine whether such changes will ultimately impact underlying market and economic trends, or just cause daily noise.

Trump 2.0 has arrived while the U.S. economy has solid momentum and durable underlying fundamentals, especially in terms of corporate profitability. The rest of the world is less robust than the U.S. economy, but has decent prospects on a rate-of-change basis, with global trade improving and ongoing developed market policy rate cuts. The bad news is that inflation is not tamed. Rather, it is sticky and holding above most central bank's targets, especially in the U.S.

President Trump made it clear during his campaign that tariffs were coming, and he has spent his first week issuing a number of statements about upcoming tariffs and other trade restrictions. Higher tariffs are not risk-free for the U.S. economy, but that does not mean Trump will back down, based on his record during his first term. As a reminder during Trump's first term, after initially enacting aggressive tax cuts, he subsequently followed with various trade tariffs which triggered retaliation. In turn, the global trade cycle turned negative and a meaningful downshift in economic growth occurred, even in the U.S. In the end, we still anticipate that upcoming protectionism will be less than Trump has suggested.

While the Fed still believes that inflation is well on its way to returning to 2%, consumers remain unhappy with the level of consumer prices. The latter will not contract, nor return to pre-pandemic levels, absent a full-blown recession. Therefore, the inflation backdrop squeezes Trump's room to maneuver in pursuing his top economic goals: good/better economic growth and increased tariffs. The importance of this view on inflation is that financial markets are not priced for such an outcome. We believe inflation will remain higher than the consensus and central banks expect, even independent of increased tariffs.

Meanwhile, so far, earnings reports are generally exceeding expectations.

Conclusion

Risk-on should persist at least until there is clarity on U.S. trade policy. In turn, U.S. economic growth will remain solid (albeit slowing) and the rest of the world should gradually strengthen going forward. The downside of this economic outlook is that it will put a floor under inflation (and bond yields). The positive corporate profit trend will persist (but likely not meet consensus expectations). Investors will need to de-risk portfolios if higher bond yields develop and/or trade actions become disruptive.

Source: Bloomberg as of Jan. 24, 2025

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