

# DOLL'S DELIBERATIONS

## WEEKLY INVESTMENT COMMENTARY

EQUITY MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
DJIA	6.28%	-7.85%
S&P 500	6.62%	-12.21%
NASDAQ	6.85%	-22.21%
RUSSELL 2000	3.68%	-17.75%
RUSSELL 1000 GROWTH	7.27%	-21.44%
RUSSELL 1000 VALUE	5.99%	-3.71%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	3.60%	-24.65%
CONSUMER DISCRETIONARY	9.26%	-25.27%
CONSUMER STAPLES	6.18%	-2.46%
ENERGY	8.21%	61.09%
FINANCIALS	8.08%	-8.50%
HEALTHCARE	3.27%	-4.52%
INDUSTRIALS	6.40%	-9.40%
INFORMATION TECHNOLOGY	8.08%	-18.82%
MATERIALS	6.05%	-3.17%
REAL ESTATE	5.84%	-12.94%
UTILITIES	5.09%	6.12%

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	2.85%	-14.66%
MSCI ACWI EX U.S.	1.23%	-13.00%
MSCI EAFE	2.19%	-12.55%
MSCI EM	-1.06%	-16.30%

### SUMMARY:

Stocks were sharply higher (S&P 500 +6.6%), breaking the multi-week downward trend. As we covered in recent weeks, stocks rallied on a large oversold condition and extreme negative sentiment. Best sectors were consumer discretionary (+9.3%), energy (+8.2%), technology (+8.1%), and financials (+8.1%); worst sectors were healthcare (+3.3%) and communication services (+3.6%).

### KEY TAKEAWAYS:

1. 1Q U.S. GDP declined at a 1.5% annual pace (a downward revision to the previous estimate of 1.4%). But importantly, consumption spending grew at 3.1% (stronger than the previously reported 2.7%).
2. Although so far anecdotal, there are more and more signs of certain goods turning from a seller's market to a buyer's market, meaning the upward price spiral seems to be moderating.
3. Some slowing in the housing market is an important part of reducing inflation and increases the odds of avoiding a recession.
4. Interest rates and inflation expectations are moving lower as investors are surmising that the tightening of financial conditions so far this year is enough to slow economic growth meaningfully.
5. Despite some notable high-profile misses, aggregate Q1 earnings results were solid, although reports from some retailers in the past couple of weeks have raised concerns about forward earnings.
6. Profit margins will get harder to maintain as demand growth moderates, making it more difficult for companies to raise prices to offset increasing input costs.
7. Stocks remain oversold enough for further rally. But a durable bottom may require more extreme technical conditions and some signal from the Fed that they are close to done raising rates.
8. In the ten cases where stocks have fallen 20% since 1950, three, six, and twelve months later, stocks were up on average 3.8%, 3.6%, and 14.8%, respectively.
9. High-duration stocks (especially expensive technology stocks) have struggled as rates moved higher in a rapid fashion in recent months. With the bond market stabilizing, that headwind has been reduced.
10. Daily changes in the S&P 500 so far this year have exceeded 1% nearly 90% of the time, equating modern highs of 2002 and 2008.

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	0.72%	-8.52%
BLOOMBERG U.S. CORP HIGH YIELD	2.70%	-8.62%
BLOOMBERG U.S. GOV/ CREDIT	0.76%	-9.20%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.01%	0.09%

ALTERNATIVES (INDEX TOTAL RETURN)	LAST WEEK	YEAR-TO-DATE
FTSE NAREIT (REAL ESTATE)	3.10%	-14.09%
DJ COMMODITIES	2.57%	35.28%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	3.29%	-27.01%
DB G10 CURRENCY FUTURES	0.79%	4.08%

supply chain issues or cost inflation rather than expected revenue headwinds. In other words, the demand backdrop for a large majority of U.S. firms remains positive. However, the downside to this still fairly upbeat economic picture is that companies are protecting profitability by lifting selling prices, which will likely have limits.

Therefore, while we see a reprieve for financial markets in the near term, the cyclical outlook is still worrisome. Returning to a world of 2% (or even 3%) inflation seems improbable absent a recession and contraction in corporate profits. Perhaps central banks will be willing to accept 3-4% core inflation for a period of time in the face of somewhat weaker economic growth, in expectation/hope that this would just represent a transition towards returning to a 2% inflation environment.

## CONCLUSION:

A window of opportunity for equity markets to rebound has developed as global growth conditions should prove resilient, and interest rate expectations and bond yields have calmed, at least for now. Nonetheless, investors should have tempered expectations and be selective given the macro environment.

## A WELCOME PAUSE THAT REFRESHES

Recession fears have come to dominate global financial market action, helping to cap the relentless rise in government bond yields while putting downward pressure on equities (at least until recently). Growth is moderating as even the powerful U.S. expansion is cooling a bit. However, much of the shift in growth involves activity rotating from goods and manufacturing to spending on services, where pent-up demand is high due to the pandemic.

We expect recession fears to fade in the coming months, first because of the resilience of the U.S. economy and then because of positive surprises in the euro area and relaxation in harsh lockdowns in China. Due to base effects, less goods demand, and supply woes easing, a deceleration in U.S. core inflation this summer will enable Fed Chair Powell to calm the hawkish rhetoric for a period, reducing the odds of a non-stop market rout and the potential for negative knock-on effects on economic activity. It is even possible that the Fed might be open to a pause in its rate hikes later this year, depending on the economic environment.

Bond market conditions had recently become extremely oversold, and we're due for a pause or countertrend easing in yields. Nevertheless, any calming/pausing will likely prove temporary. Real yields and inflation expectations probably have more cyclical upside, and additional up waves in nominal yields are likely over the next year or so. Central banks will still validate the rate hikes that are already discounted in the forward markets, with significant interest rate increases in the coming months. However, a further escalation in rate expectations should stop for a period of time. If so, then current poor equity and credit market sentiment should improve, as the perceived odds of recession will diminish. Prospective policy rates and current bond yields are still below restrictive territory, underscoring that recession risks, absent some new shock, are low for this year.

Despite some high-profile misses in the first-quarter reporting season, the corporate sector remains in good shape. Many companies that have lowered profit guidance have cited

Data from Bloomberg, as of 05/27/2022.

**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.