



Economic & Investment Outlook Update



2Q and YTD Returns

Index

	<u>2022-Q2</u>	<u>2022 First Half</u>
90-Day Treasury Bills (Bloomberg US Treasury Bill 1-3 Month TR)	0.12%	0.15%
10-Year U.S. Treasury (Bloomberg US Treasury 10+ Yr TR)	-11.93%	-21.25%
U.S. Bonds (Bloomberg US Agg Bond TR)	-4.70%	-10.35%
High-Yield Corporate Bonds (Bloomberg US Corp High Yield TR)	-9.82%	-14.19%
S&P 500 TR Index	-16.10%	-19.96%
MSCI World ex. U.S. (MSCI ACWI Ex USA NR)	-13.73%	-18.42%
MSCI Emerging Markets (MSCI EM NR)	-11.45%	-17.63%
Commodities (DJ Commodity TR)	-5.70%	18.44%

Source: Morningstar Direct. As of June 30, 2022.

2022 Outlook

Tug of war between earnings tailwinds and valuation headwinds.





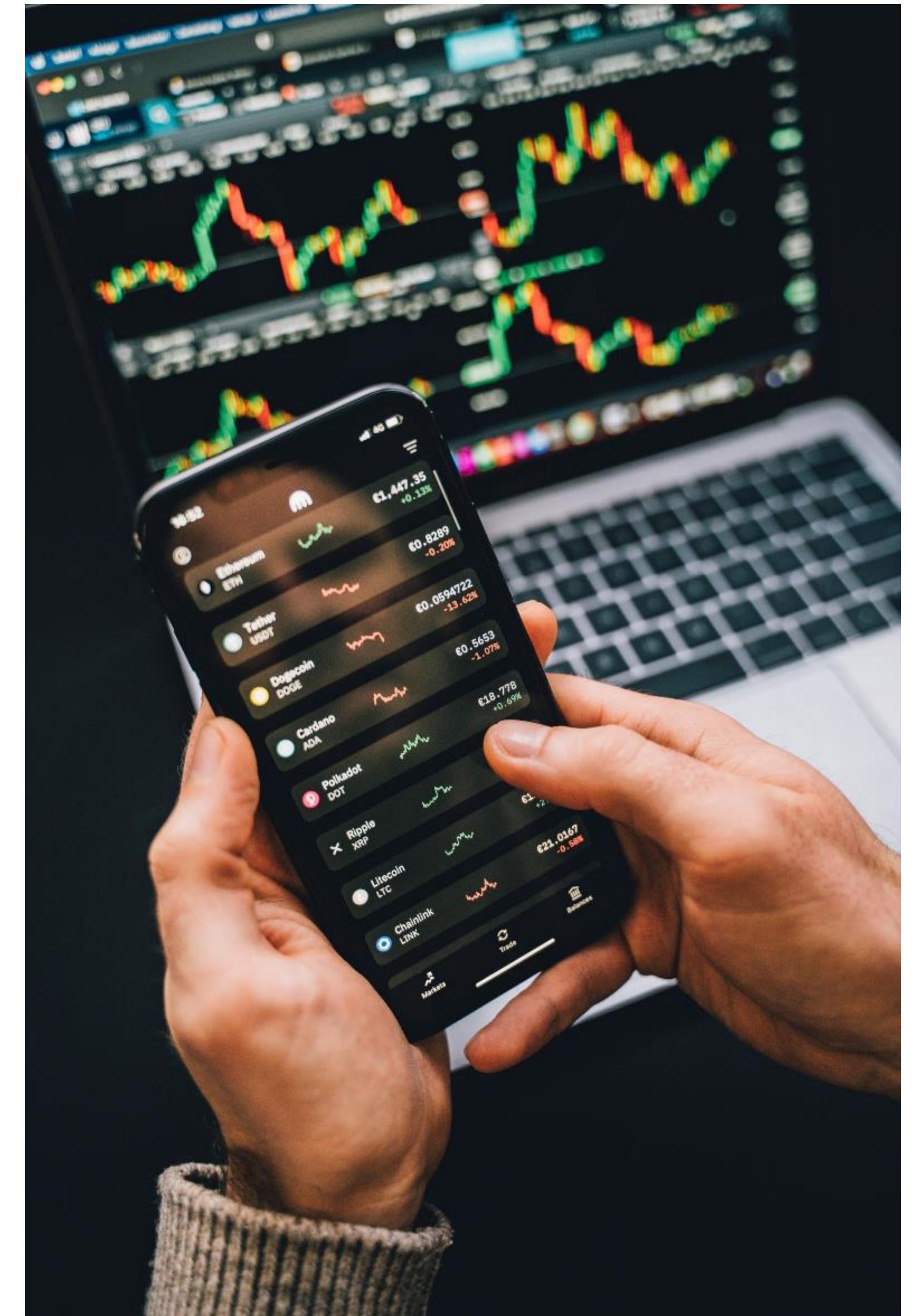
Volatility



90% of days
YTD >1%
change in S&P
500

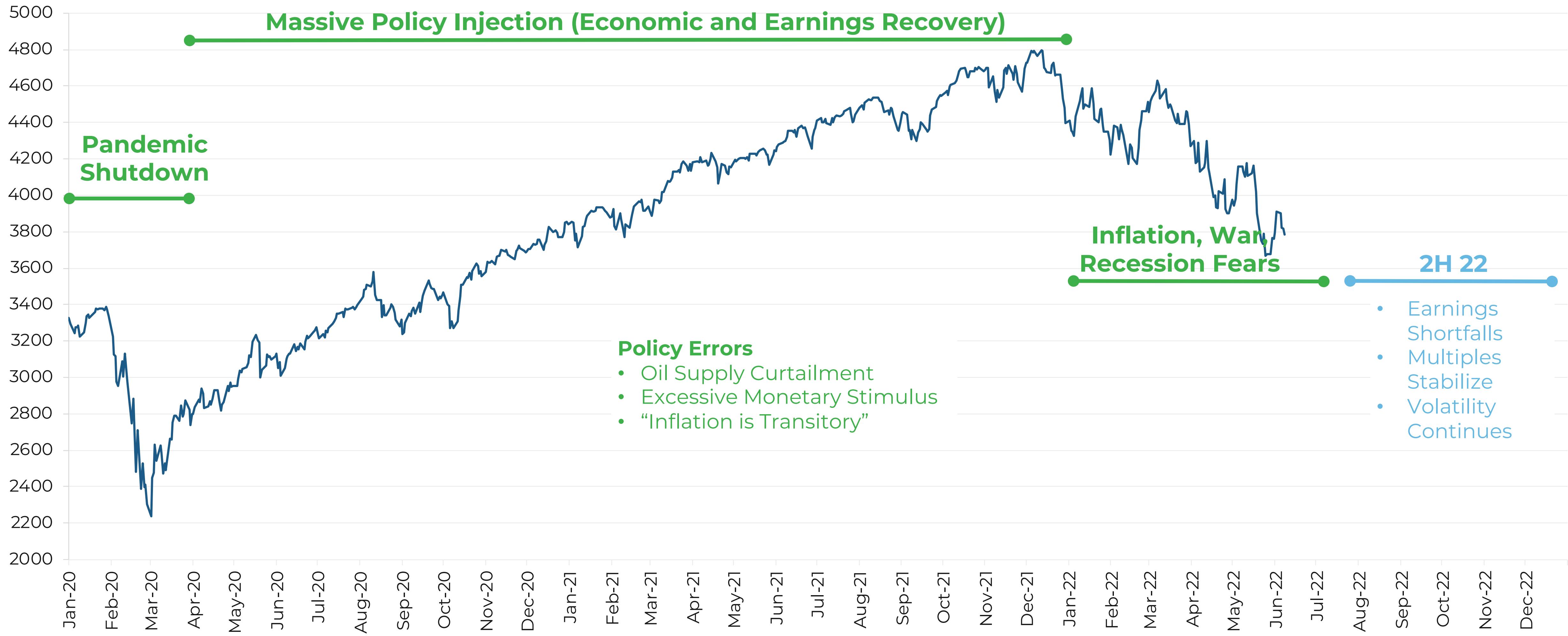


Equals 2000
and 2009
(records)





S&P 500 Recent History

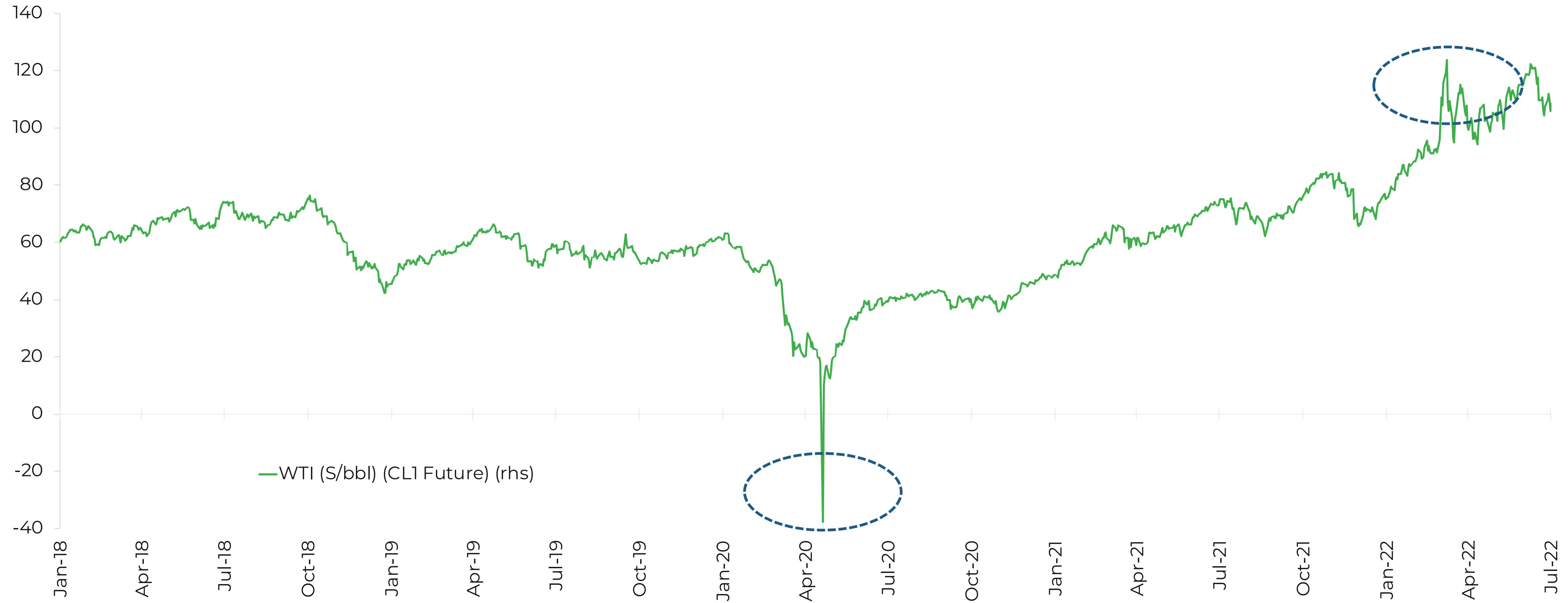


Source: Bloomberg. As of June 30, 2022.

Only 23 Months Apart... (Oil: Negative Price → >\$100)



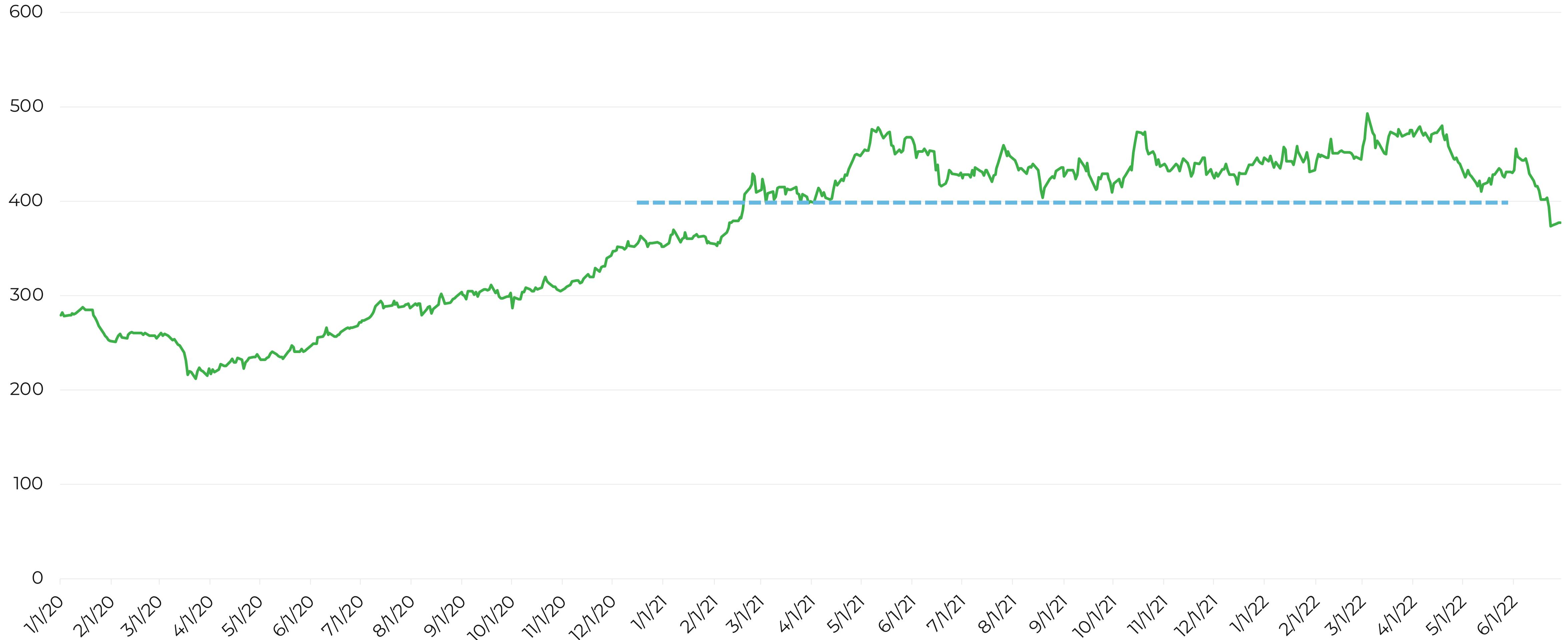
WTI Crude Oil



Source: Bloomberg. As of April 7, 2022.



52-Week Low for Copper Can't Be Ignored



Source: Bloomberg. As of June 30, 2022.



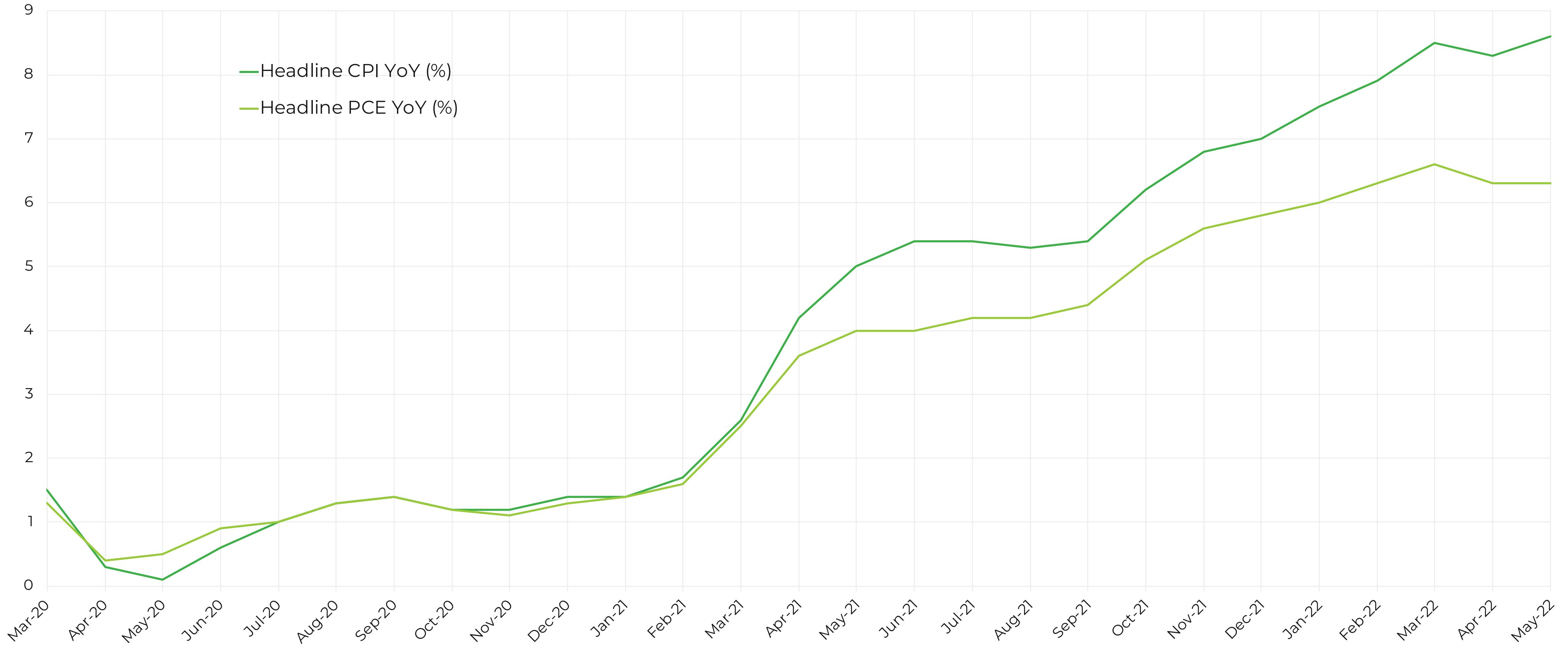
US 10 Yr Yield



Source: Bloomberg. As of July 8, 2022.



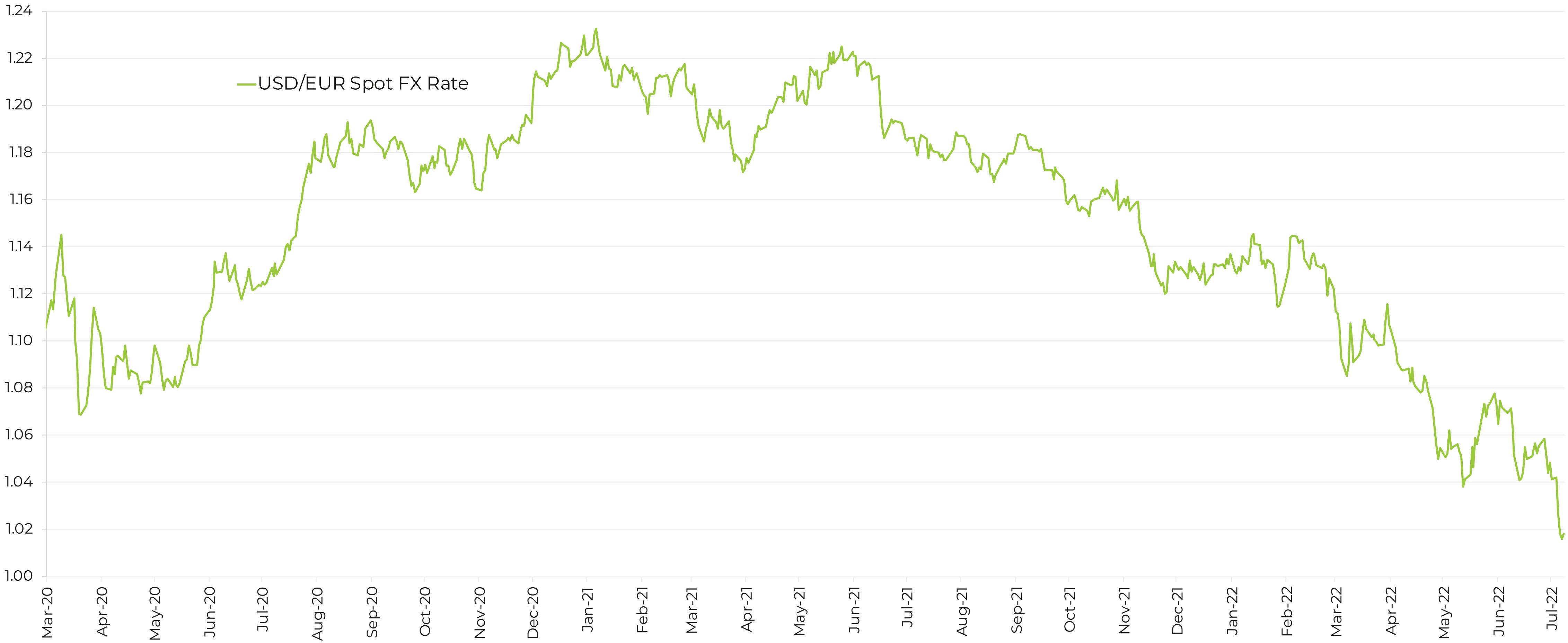
CPI/PCE



Source: Bloomberg. As of July 8, 2022.



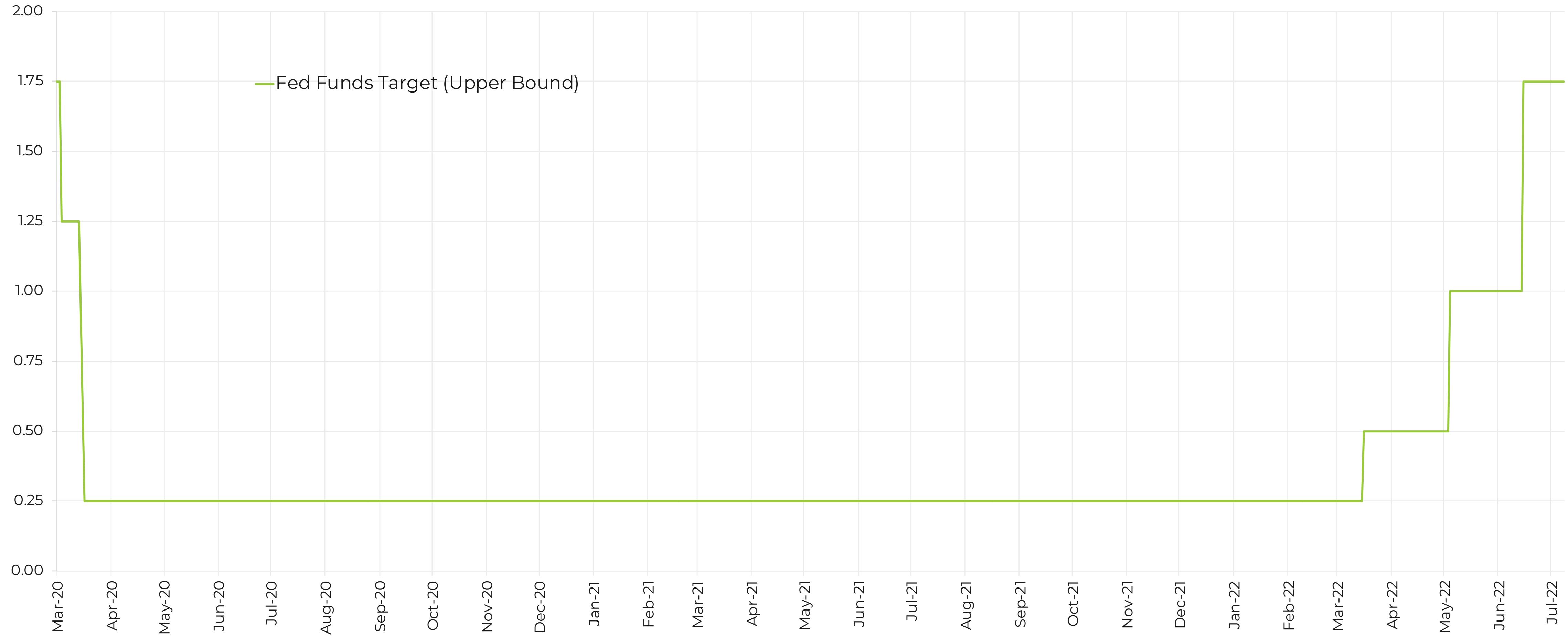
EUR/USD



Source: Bloomberg. As of July 8, 2022.



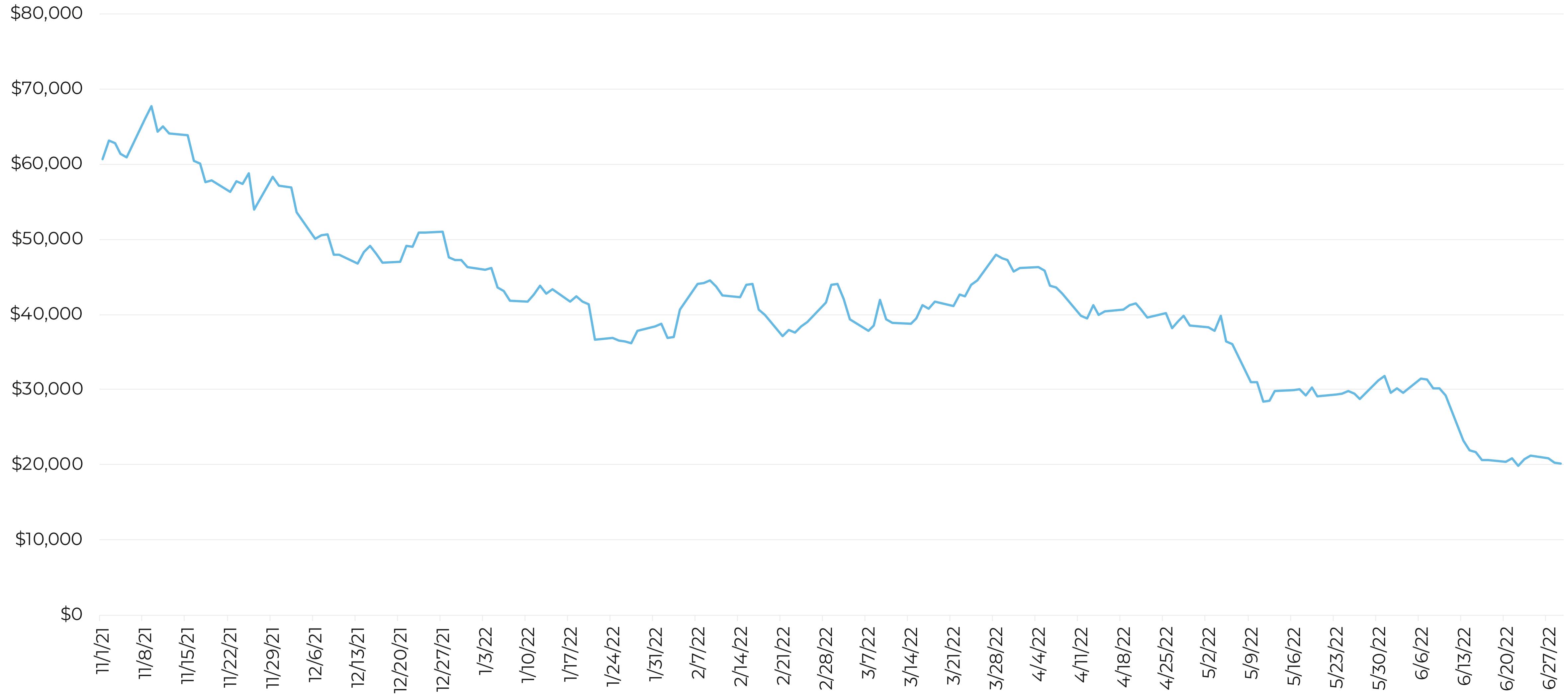
Feds Funds



Source: Bloomberg. As of July 8, 2022.



Crypto Collapse



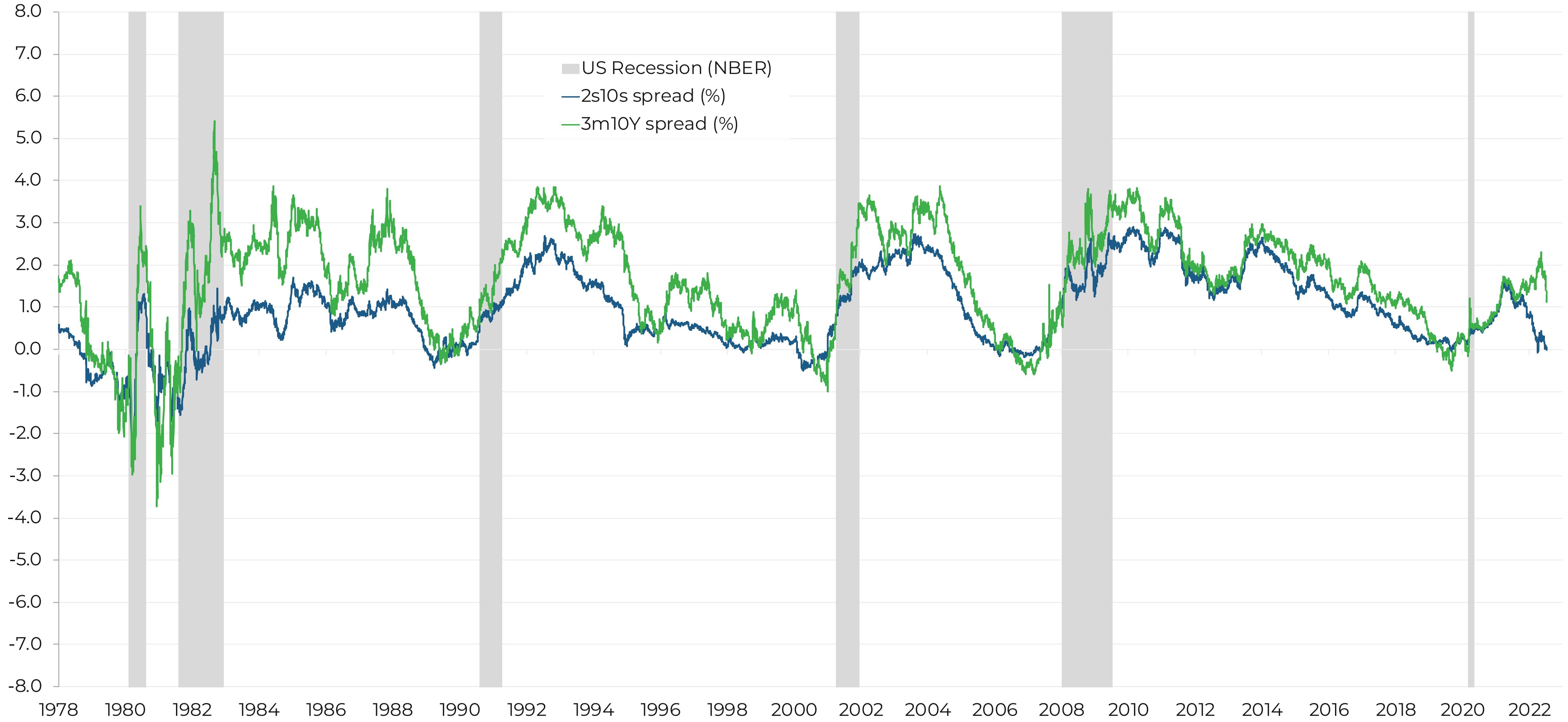
Source: Bloomberg. As of June 29, 2022.



Signals



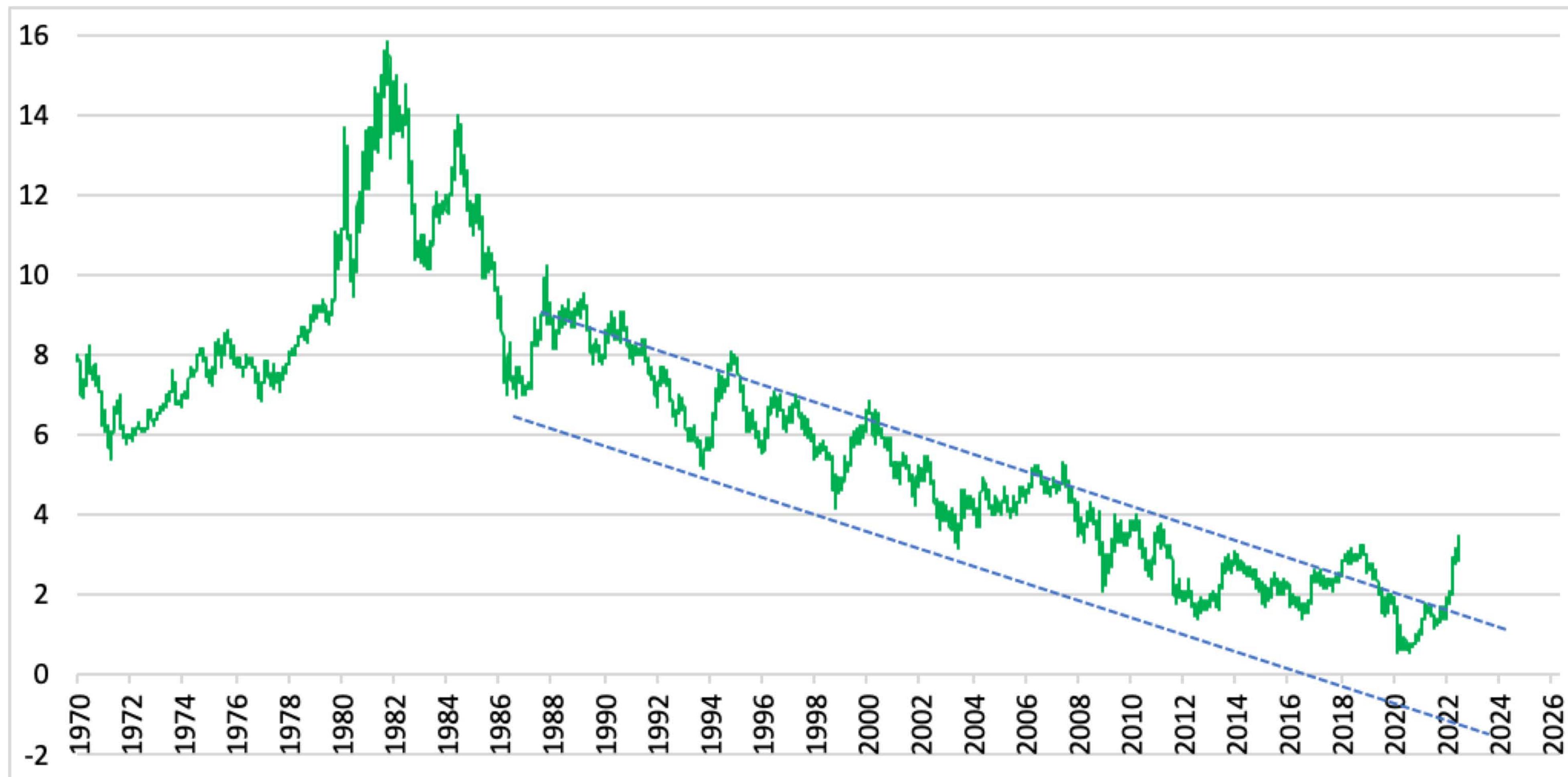
2s10s vs 3m10y Spreads





The End Of A 40-Year Downtrend In Yields

10Y US Treasury Yield (%)



Source: Bloomberg. As of 4/22/22.



Valuation Levels Have Fallen But Are Still High

S&P 500 Forward P/E



Source: Bloomberg. As of June 10, 2022.



Bear Market Rallies

	Bottom	Rally High	
February 24	4114	4367 (March 29)	+12.7%
May 20	3810	4177 (June 2)	+9.6%
June 16	3637	?	

The Bottom

- Probably not in yet
- Possible requirements:

Technical

- VIX > 40
- Capitulation
- High volume

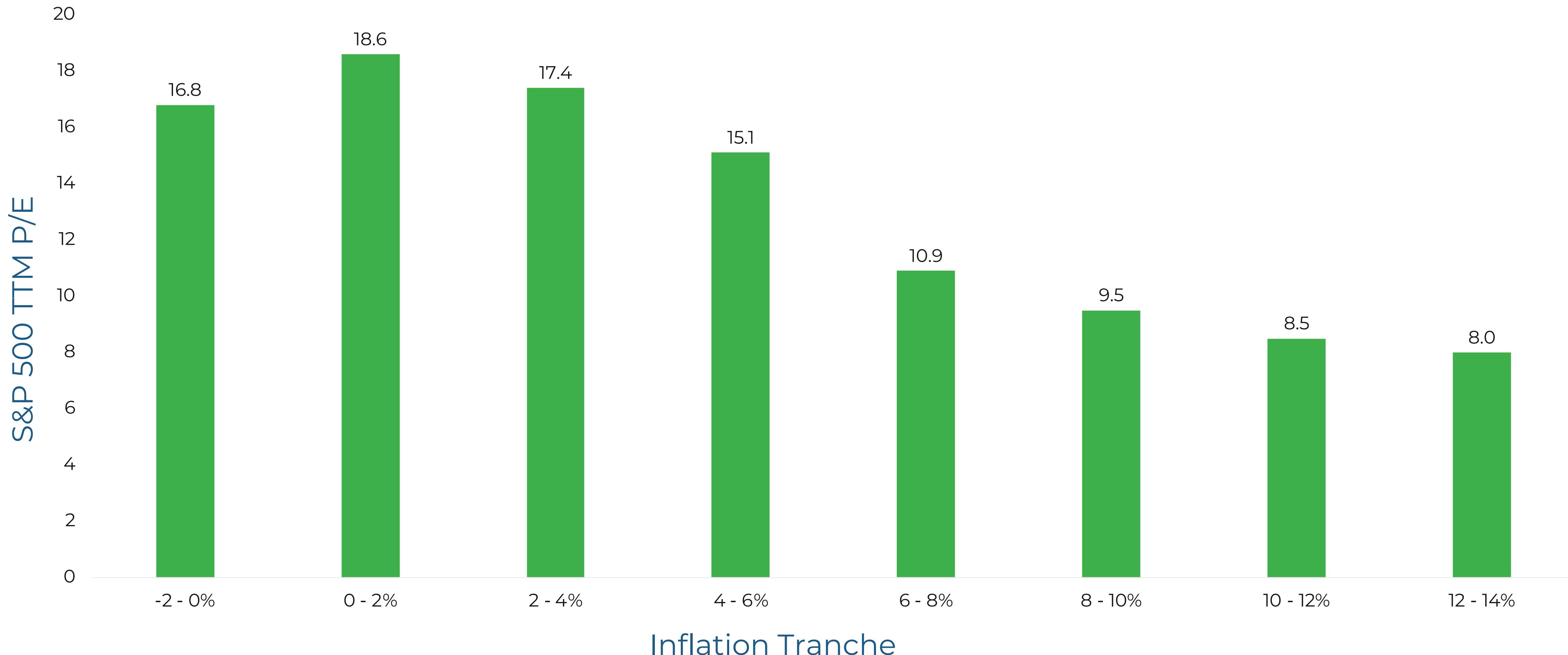
Fundamental

- Inflation peaks
- Bond yields peak
- Visibility on Fed tightening ending



S&P 500 P/E Vs. Inflation

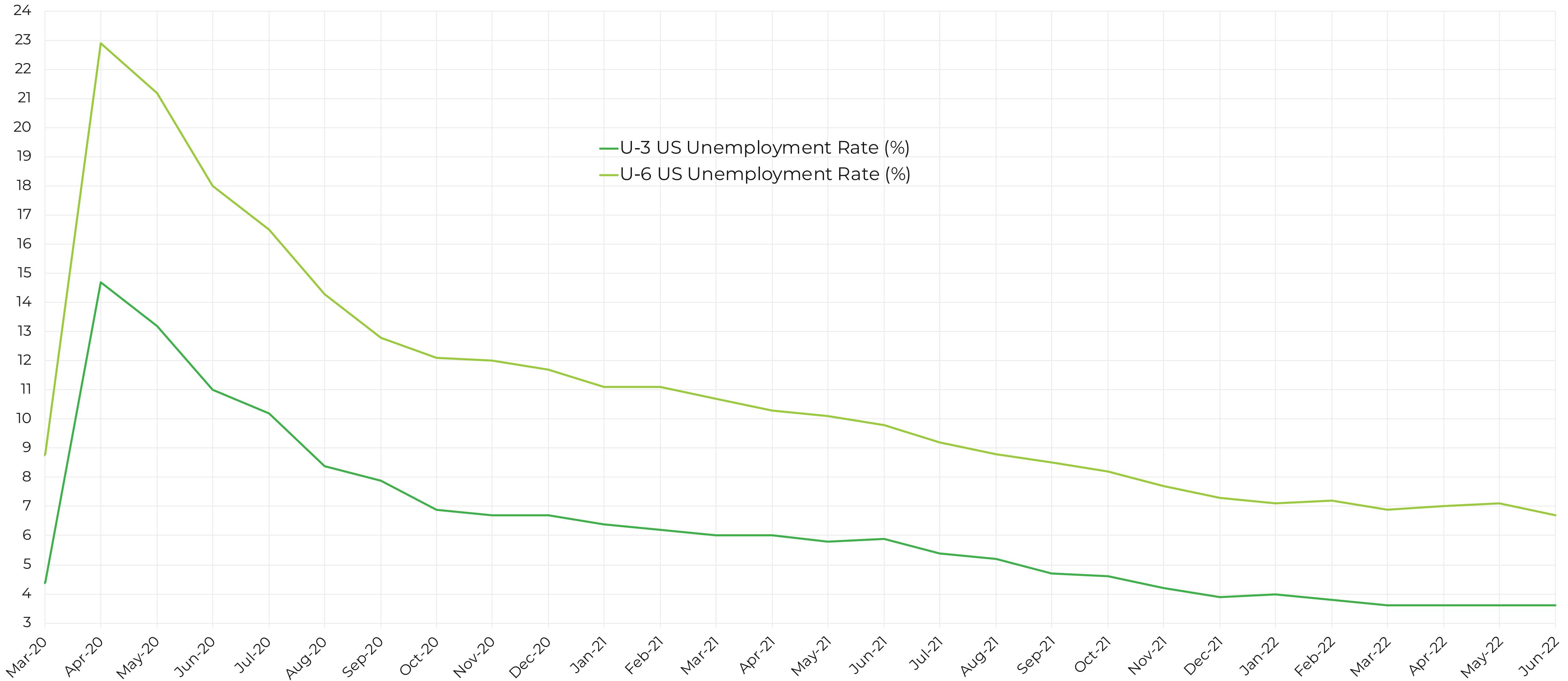
Average S&P 500 TTM P/E by CPI Y/Y Tranche (1950 – 2021)



Source: Strategas. Used with permission.



U3/U6 Unemployment



Source: Bloomberg. As of July 8, 2022.



BBB Credit Spreads



Source: Bloomberg. As of July 8, 2022.



Economy - Observations

- 1** Parts of the U.S. economy are slowing, but overall economy remains in reasonable shape.
- 2** Shift from goods to services is underway.
- 3** Recession rarely starts with decent consumer balance sheets, healthy corporate sector, and strong labor market.
- 4** Expect employment to slow...spotty layoffs.
- 5** Housing downturn is underway.
- 6** Inflation is stubborn, but likely peaked in 2Q.
- 7** Fed hawkishness has followed stubborn inflation.
- 8** “Threading the needle” for a soft landing is a tough task.
- 9** Profit expectations probably too high.
- 10** War impact especially on Europe and China COVID lockdowns remain wildcards.



Recession – Yes or No?

<u>Yes</u>	<u>No</u>
1. Persistent inflation	1. Inflation peaking
2. Massive monetary tightening cycle	2. Will peaking inflation cause some slowing in the tightening phase?
3. Stay at home conservatism lingers	3. Pent up service demand
4. High/rising energy prices	4. Energy importance much lower than earlier cycles
5. Higher bond yields	5. Have yields peaked, at least for now?
6. Fiscal contraction	6. Fed largesse still on balance sheets
7. Profits recession likely	7. Corporate financials healthy
8. Rising dollar	8. Could dollar be peaking?
9. Wealth effect from market decline	9. Still massive excess savings on balance sheets
10. Widening credit spreads	10. ...but from historic tight levels



What's Next



U.S. Stock Market

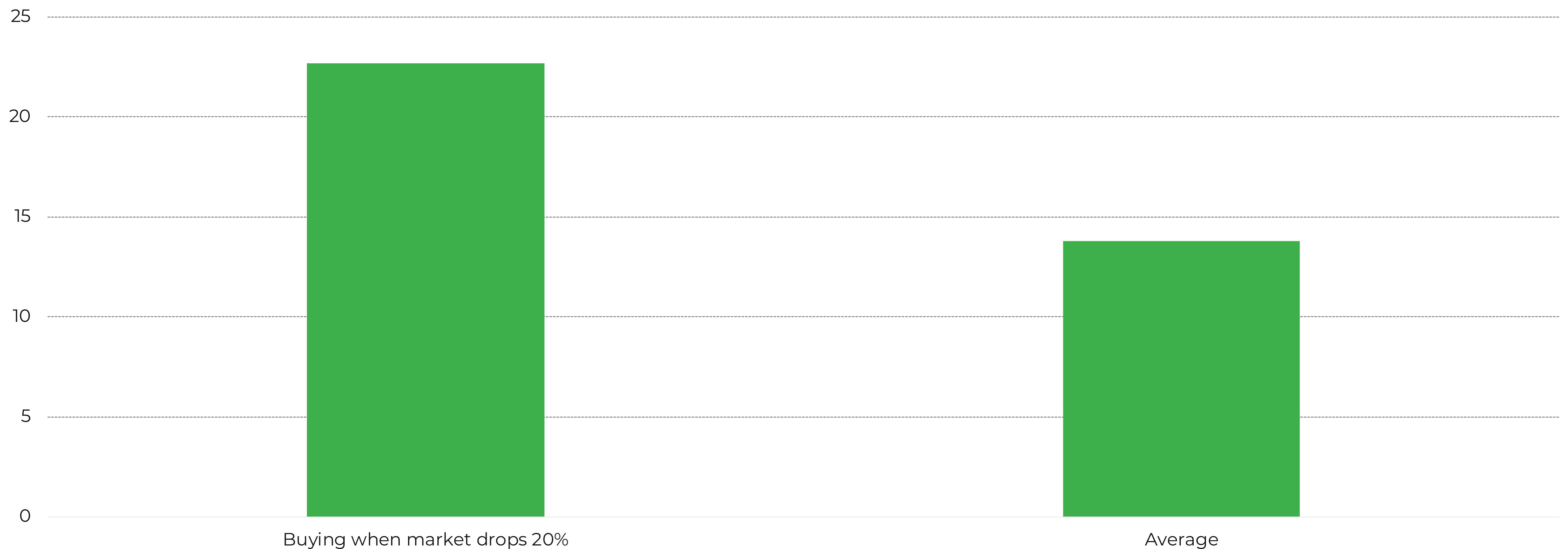
	First 5 Months of 2022	Rest of Year
Earnings	↑	↓
P/E	↓↓	↑
Stocks	↓	↔





Buying When Market Drops 20%

**S&P 500's annualized total return
Next 12 months**



Source Marketwatch. Data since WWII. As of June 14, 2022.

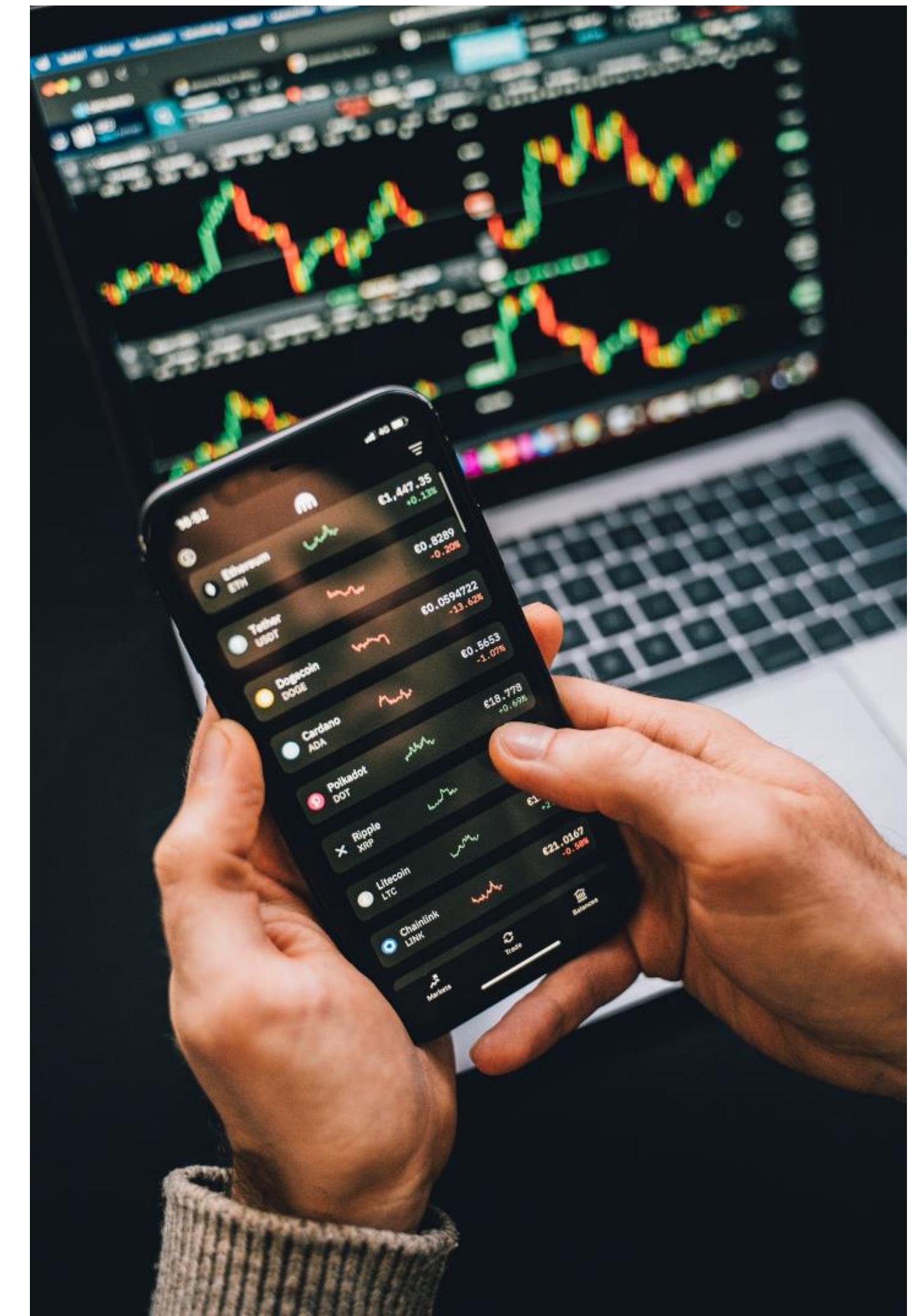


S&P 500 Returns By Time Frame

1926 - 2020

Time Frame	Positive	Negative
Daily	56%	44%
1 Year	75%	25%
5 Years	88%	12%
10 Years	95%	5%
20 Years	100%	0%

Source: Dimensional Fund Advisors.



Republicans Gain At Least 20-25 Seats & Barely Win The Senate



Historical Patterns

73% % of years S&P 500 higher

62% % of mid-term election years S&P 500 higher

44% % of first presidential mid-term election years S&P 500 higher

Average Market Drawdown in Election Cycle

Year 1	-13.4%
Year 2	-19.0%
Year 3	-11.7%
Year 4	-13.7%

Source: FactSet, Bloomberg.



Aligning Investments With Values

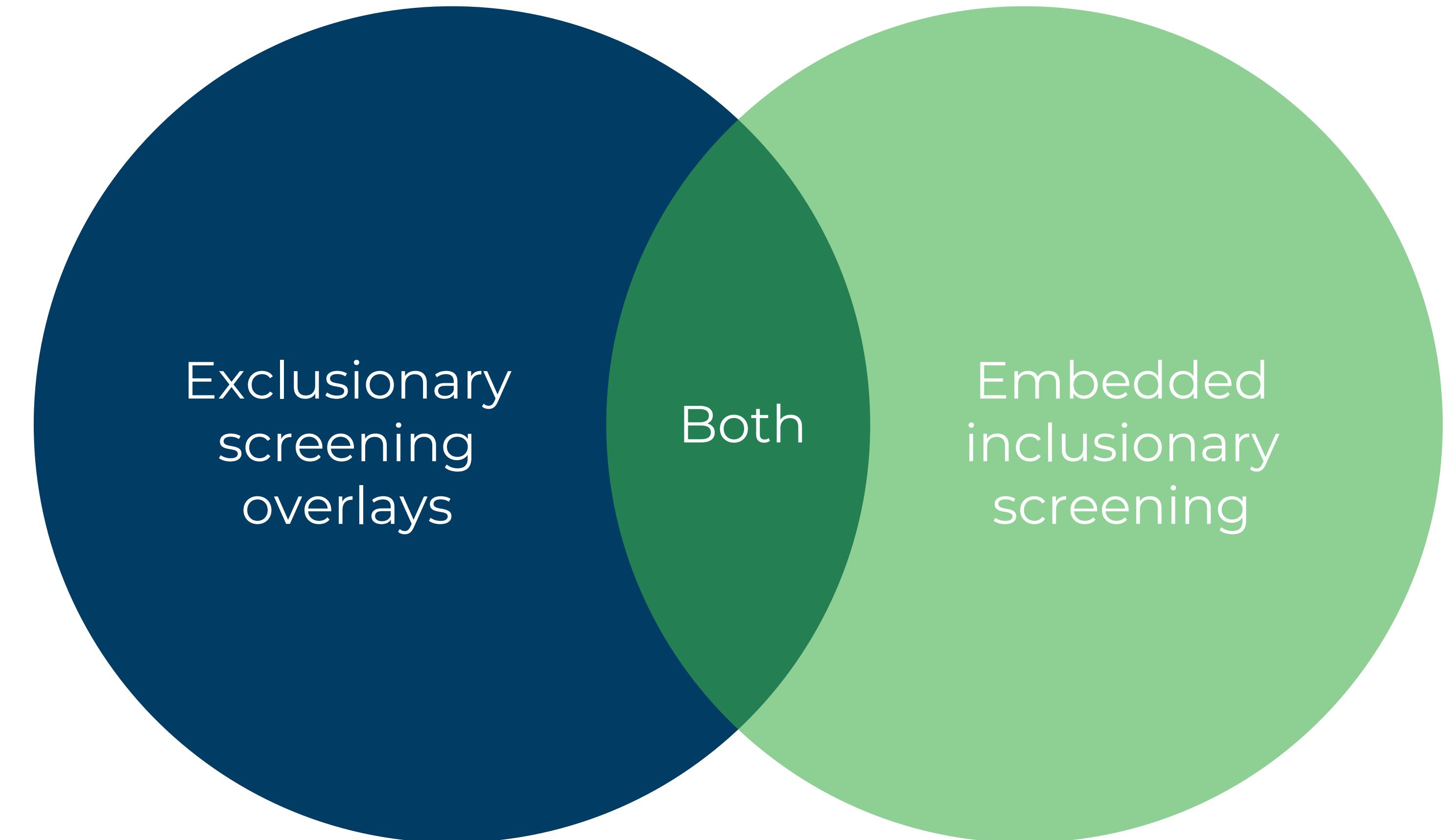
Each client has a different set of priorities and values that affect how they invest. We help investors align their values with a broad spectrum of values-based investment solutions that align with the following three themes: **Avoid** (do no harm), **Embrace** (do good), and **Engage** (promote change from within).





Incorporating Values

Values are incorporated into the investment process by either applying **exclusionary screening overlays** to the core investment strategy, **embedding inclusionary screening** elements directly within the investment process, or doing **both**.





Values-Based Report Card

Equities	Rating
Large Cap Core	AAA
Large Cap Growth	AAA
Large Cap Value	AA
Equity Market Neutral*	AAA
Global Equity Income	AAA
Covered Call Income*	AA
Small Cap Growth	A
Israel Impact	AA

Fixed Income	Rating
Core Fixed Income**	AAA
Intermediate Fixed Income**	AAA
Current Income Portfolio**	AA
Corporate Fixed Income**	AAA
Income Opportunities**	AA

Steward Funds	Rating
Steward Large Cap Core Fund	AAA
Steward Large Cap Growth Fund	AAA
Steward Large Cap Value Fund	AA
Steward Equity Market Neutral Fund*	AAA
Steward Global Equity Income Fund	AAA
Steward Covered Call Income Fund*	AA
Steward Small Cap Growth Fund	A
Steward International Enhanced Index Fund	AAA
Steward Values-Focused Large Cap Enhanced Index Fund	AA
Steward Values-Focused Small Cap Enhanced Index Fund	A
Steward Select Bond Fund**	AAA

Crossmark Average Rating	AA+
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*Long Only

**Corporate Bonds Only

Source: MSCI ESG Fund Ratings as of 3/31/22, based on holdings as of 3/31/22.

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10 Conclusions

- 01.** Global economic growth will slow.
- 02.** Peak policy rates will not necessarily cause a recession.
- 03.** Peak inflation likely occurred in Q2, which should provide for some capital markets relief.
- 04.** If we have a recession, it will likely be short and shallow given absence of imbalances.
- 05.** Bonds could rally more as inflation declines, but cycle high in yields may still be ahead.
- 06.** Stocks unlikely to make significant upward progress until earnings expectations are downgraded.
- 07.** Sadly, cash is still king.
- 08.** Absent recession, next twelve months may be okay for stocks.
- 09.** Stock-bond correlation will likely turn negative if economic growth resumes.
- 10.** Elevated uncertainty → continued elevated volatility.



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