Brinker Capital

MARCH 2019

Market review and outlook

Market review

Positive momentum helped risk assets generate strong returns for the second consecutive month in February. Boosting performance was a combination of improving signals from trade talks between the US and China and substantial softening in the Federal Reserve (Fed) rhetoric. GDP growth moderated with fourth quarter numbers coming in below the previous quarter but is still above trend growth this cycle at 2.6%. Capital expenditures remain depressed and inflation muted. Overall fundamentals are supportive, but we have seen some weakening data which may lead to a slower pace of economic growth in 2019.

The S&P 500 Index was up 3.2% for the month and 11.5% year-to-date. All sectors posted positive returns in February. Information technology (6.9%) and industrials (6.4%) led returns, helped by trade negotiation advancements that led to an extension of a truce between US and China past the March 1 deadline. Consumer services (+0.8%) posted the smallest gain, negatively impacted by weaker retail sales data. Small cap equities outperformed large and mid cap equities for the month and year-to-date. Growth outpaced value.

The MSCI EAFE Index was up 2.6% for February and 9.3% year-to-date. Weaker momentum was evident within the eurozone region, hurt by ongoing political concerns within many of the countries. Uncertainty surrounding Brexit also weighed on equity markets with the impending deadline to leave the European Union set for the end of March. The MSCI Emerging Markets Index was up 0.2% for the month and 9.0% year-to-date. The headwinds that persisted throughout last year have somewhat abated year-to-date with evidence of a more dovish Fed and resulting possibility of a weaker US dollar. Increased stimulus within China will also help boost growth in the region.

The Bloomberg Barclays US Aggregate Index was flat for the month and up 1.0% year-to-date. The 10-year Treasury yield was rangebound, ending the month slightly higher at a level of 2.7%. The yield curve slightly steepened but the short-end of the curve remained inverted. Credit spreads continued to contract with high-yield spreads down 158 basis point from the peak reached in the beginning of the year. Municipals outperformed taxable counterparts, helped by a decrease in supply.

Market outlook

As we continue moving through the business cycle, we still find a number of factors supportive of the economy and markets; however, we remain cognizant of the risks. In the short term, a number of factors are adding to global uncertainty and increasing the potential for additional volatility.

The following factors should provide support to the economy and markets over the near term:

- **US economic growth:** We may see a moderation of US economic growth as the benefits of tax reform begin to fade in 2019. However, fundamentals remain solid and we see continued strength in the labor market.
- **Solid US earnings growth continues:** The outlook for corporate earnings growth remains favorable. Earnings estimates have declined, providing opportunity for upside surprises.
- **Fed pause:** The Fed has backed off their more aggressive tightening stance with recent dovish rhetoric. Expectations are for the Fed to pause to assess the impact of their rate hikes so far this cycle.

However, risks facing the economy and markets include:

- **Global policy uncertainty:** On the monetary policy side, too aggressive policy could impede global growth and lead to a recession. On the fiscal policy side, the development of tariffs and other restrictive trade policies have led to tensions between the US and its global trading partners. Rising populism and political turmoil have increased the possibility for global geopolitical missteps.
- **Interest rate environment/yield curve:** The yield curve has flattened meaningfully, but the curve has not yet inverted between longer- and shorter-dated maturities, which would be cause for further concern.
- **Potential for higher inflation:** Inflation is manageable at current levels and inflation expectations remain muted. Should inflation move meaningfully higher, the Fed may be forced to shift to a more aggressive tightening stance.

Despite the recent heightened volatility, we believe the positives outweigh the negatives. US economic growth, while moderating, is still positive helped by a strong labor market, elevated consumer confidence, solid corporate earnings growth, and muted levels of inflation. Credit conditions are still supportive. Global policies and actions of governments and central banks may lead to higher volatility, but our view on risk assets remains positive over the intermediate term. The higher volatility should result in wider dispersion of returns across and within asset classes, an attractive environment for our diversified, active investment approach.

Brinker Capital Market Barometer (as of 3/01/19)

Factors		Change	Negative	Neutral	Positive	Commentary
Short-term factors (<6 months)	Momentum	→			●	Market momentum strong; rally broad-based
	Trend	→		●		Global equity market indices at 200-day moving averages
	Investor sentiment			●		Survey data in optimism territory but equity fund flows are negative
	Seasonality			●		Seasonality less of a tailwind in the first quarter
Intermediate-term factors (6-36 months)	Fiscal policy				●	Fiscal stimulus in 2019 greater than 2018; watching trade
	Monetary policy			●		Global monetary policy directionally tighter; Fed to pause rate hikes
	Inflation			●		Wage growth has ticked higher; few signs of broader inflation
	Interest rate environment			●		Rates have remained range-bound; yield curve still positively sloped
	Macroeconomic				●	Global growth moderating but still positive; strong US labor market
	Business sentiment			●		Decline in CEO confidence; small business confidence off record high
	Consumer sentiment				●	Measures declined in January, but levels still supportive
	Corporate earnings				●	US earnings growth still solid; softer outside US
	Credit environment				●	Credit spreads still behaved; few signs of credit market stress
Long-term factors (36+ months)	Valuation	←		●		Moved higher due to recent market action; at longer-term averages
	Business cycle				●	Long recovery but has been muted; few signs point to recession
	Demographics			●		Mixed (US and emerging markets positive; developed intl negative)

Brinker Capital
BrinkerCapital.com
800.333.4573

1055 Westlakes Drive, Suite 250
Berwyn, PA 19312

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