Brinker Capital

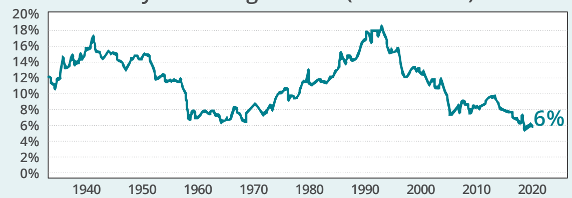
WEEKLY WIRE | FEBRUARY 3, 2020

Taking a long-term view when the long-term has been awesome

Investors understand they should take a long-term view of things, and put unsettling market, economic and geopolitical events – and any associated volatility – in proper perspective. Of course, that is both easier said than done, and most needed when it is also most difficult to do – when the world has indeed become a more frightening place and markets have become more turbulent. Today seems like such a period, with all of the concerns and questions associated with the coronavirus, impeachment, and the 2020 election weighing on investor sentiment and risk assets. As we have written, we don't see the coronavirus as being a meaningful, long-term risk to the markets or economy, and we aren't concerned about impeachment and the election. However, politics and policy are very different things, with markets caring about policy and dismissing politics, and today policy remains supportive of risk assets and economic growth.

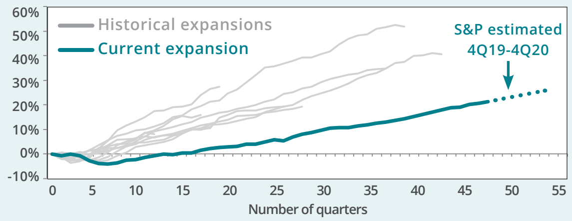
But what is particularly interesting about our recent client conversations is not only the risks that many clients are raising – including the coronavirus, politics, and valuation - but the context in which they are raising them – that since we haven't had a recession or bear market in more than 10 years we are due for at least one of the two, and more likely both. Said differently, many investors are having a difficult time taking a long-term view of things due to the fact that the long term has been awesome. While we are living through the longest economic expansion (start date June 2009) and the longest bull market (start date March 2009) in our nation's history, it is important to put both in perspective. Our long-lived recovery has been modest by historical standards, with cumulative real GDP growth of about 20%, while the S&P 500 Index, on a rolling 20-year basis, has provided investors with an annualized return of 6.06%, pretty much its lowest 20-year rolling return ever (the 2010s were great for the market; the 2000s were awful). As always, the economy doesn't know if it has been expanding for a day or a decade and the market doesn't know if it has been rallying for a minute or a month. When it comes to allocating capital, ignore the calendar and keep your focus on monetary policy, fiscal policy, and fundamentals. For now, all are supportive of an optimistic view of risk assets.

S&P 500 - 20 year rolling returns (1936 - 2019)



Strength of economic expansions

Cumulative real GDP growth since prior peak %



Stocks, bonds, and commodities (2/3/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3225.52	-0.16%	-0.16%	19.18%
MSCI AC World ex USA	378.22	-1.66%	-1.66%	8.68%
MSCI EAFE	1993.72	-2.12%	-2.12%	8.94%
MSCI EM	1062.34	-4.69%	-4.69%	1.16%
Bloomberg Barclays US Agg	107.36	1.66%	1.66%	6.61%
Crude Oil WTI	51.58	-15.64%	-15.64%	-6.71%
Natural Gas	1.84	-11.87%	-11.87%	-31.78%

Treasury rates (2/3/2020)

	Price	Yield
2Y	100.030 / 0.000	1.323
3Y	100.182 / 0.000	1.299
5Y	100.084 / 0.000	1.318
7Y	100.144 / 0.000	1.431
10Y	102.034 / 0.000	1.515
30Y	108.036 / 0.000	2.010

Weekly reports

This week

- ISM Manufacturing
- Unemployment

Last week

- Richmond Fed Index 20.0
- Chicago PMI 42.9

Brinker Capital Market Barometer

FEBRUARY 2020

The weight of the evidence shifted even further into positive territory. The strong market rally following our November reallocation led portfolios to drift further overweight to risk, which is aligned with this view.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum has strengthened
Trend				●	Trend remains supportive
Investor sentiment	←	●			Sentiment has reached excessive optimism levels
Seasonality				●	Seasonality not as constructive as in 4Q, but still positive

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	→			●	Fiscal policy supportive in 2020
Monetary policy				●	Fed on pause but remains accommodative; global central banks easing
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment			●		US yield curve has un-inverted but remains flat through 5 years
Macroeconomic	→			●	Continued strength in US labor market; improvement on trade
Business sentiment		●			CEO confidence remains a concern; small biz confidence more positive
Consumer sentiment				●	Consumer confidence solid
Corporate earnings			●		Expect improvement in global earnings in 2020
Credit environment				●	Credit spreads tight; little signs of credit market stress

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US valuations > LT avgs but supported by low rates; more attractive ex-US
Business cycle			●		Longest expansion on record but also the slowest
Demographics			●		Mixed with US and emerging markets positive; developed intl negative