Brinker Capital

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A bear market bottom checklist

A bear market bottom has historically been marked by several economic and market signposts, including depressed investor sentiment, widening credit spreads and a policy response to the systemic shock facing the country. More importantly, as we try to identify when we might hit a bottom in the ongoing bear market we see several signs that we are very close, with a key caveat being the uncertainty caused by COVID-19 might overwhelm the meaningful fiscal policy response we think is imminent. With that written, below is the Brinker Capital Bear Market Bottom Checklist. History may not repeat, but we do believe it rhymes, and right now there is so much bad news priced into the market we think we can all begin feeling just a bit optimistic.

Investor sentiment, not there yet: investor sentiment has almost reached an extreme bearish point, with the number of bears nearly outnumbering the number of bulls in one investor survey

Volatility, yes: market volatility has reached an extreme level, with the VIX (also known as Wall Street's "Fear Index") hitting an all-time high of 85

Credit spreads, not there yet: high-yield spreads have widened meaningfully, but not yet reached levels seen in 2008/2009; the widening of spreads represents a level of fear commensurate with a bear market bottom

Yield curve, yes: the US Yield Curve has steepened dramatically over the past few weeks; the steepening of the curve has historically taken place at a bear market bottom

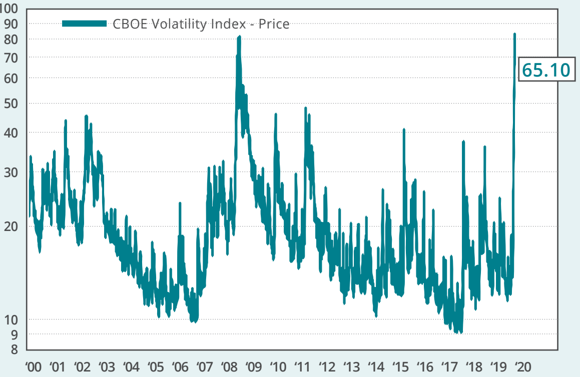
Peak to trough correction, yes: the S&P 500 Index is off 32%, a correction that is a bit greater than the average drawdown during the 11 bear markets since 1946

Fund flow data, yes: over the past four weeks $17 billion ($204 billion annualized) has come out of US equity mutual funds; indiscriminate selling has taken place at prior bear market bottoms

Market structure, not there yet: Near a bottom, we see a contraction in the number of stocks making new lows, even while the market continues to make new lows. We see some progress on that front but need to see the dynamic persist (Strategas).

Policy response, not there yet: Historically, it has taken a significant policy response to put a floor under investor sentiment and risk assets. To date, we have seen a massive monetary policy response to the market selloff and economic uncertainty created by COVID-19; what we are waiting on is a meaningful US fiscal policy response to the economic crisis facing the country.

The VIX / Wall Street's "Fear Index" (monthly)



Stocks, bonds, and commodities (3/20/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2304.92	-28.66%	-28.66%	-18.39%
MSCI AC World ex USA	204.60	-32.18%	-32.18%	-27.65%
MSCI EAFE	1382.01	-32.15%	-32.15%	-27.13%
MSCI EM	766.41	-31.24%	-31.24%	-28.27%
Bloomberg Barclays US Agg	104.30	-1.24%	-1.24%	2.70%
Crude Oil WTI	23.64	-61.28%	-61.28%	-60.75%
Natural Gas	1.58	-27.96%	-27.96%	-44.08%

Treasury rates (3/20/2020)

	Price	Yield
2Y	101.162 / 101.1	0.340
3Y	100.110 / 100.1	0.381
5Y	103.060 / 103.0	0.470
7Y	102.204 / 102.2	0.733
10Y	106.036 / 106.0	0.853
30Y	113.314 / 114.0	1.423

Weekly reports

This week

- PMI Composite
- Michigan Consumer Sentiment

Last week

- Retail Sales Y/Y 4.3%
- Existing Home Sales 5,770K

Brinker Capital Market Barometer

MARCH 2020

The weight of the evidence has shifted negative moving through March as the response to the COVID-19 pandemic results in significant negative impacts on global growth and confidence. Portfolios are positioned with an underweight to risk, which is in-line with this view.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Momentum weak; indiscriminate, liquidation selling
Trend		●			Trend weakened meaningfully; extreme oversold contidition
Investor sentiment				●	Short-term sentiment in extreme pessimism; longer-term getting very close
Seasonality			●		Seasonality a neutral approaching second quarter

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Expect a fiscal policy response, but nature and timing is unclear
Monetary policy				●	Fed all in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment		●			Treasury yields have fallen to record lows, a concerning signal for growth
Macroeconomic	←	●			US economic growth negative in 2Q due to measures taken to prevent the spread
Business sentiment		●			CEO confidence likely to remain weak due to virus and election uncertainty
Consumer sentiment	←		●		Beginning to see impact of virus on consumer confidence
Corporate earnings	←	●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment			●		Credit environment has worsened; selective by industry

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation	→			●	Equity valuations now more attractive relative to long-term averages
Business cycle	←	●			US recession now the base case given disruptions caused by COVID-19
Demographics			●		Mixed with US and emerging markets positive; developed intl. negative

Source: Brinker Capital. Information is accurate as of March 17, 2020. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. Brinker Capital Inc., a registered investment advisor. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. Barclays US Aggregate Index: A market capitalization-weighed index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries.