Brinker Capital

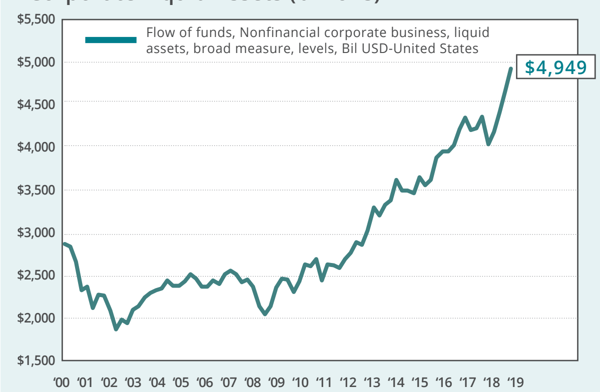
WEEKLY WIRE | APRIL 6, 2020

What could go right

Someone somewhere was the first to say, "Hope is not a strategy." Now, that is true in all walks of life, but especially in investing. You can't hope the market will go up. You can't hope your portfolio will provide an adequate rate of return. You can't hope you will have enough to retire on. You, me, all of us, need to plan appropriately when it comes to investing, to invest what we need to meet our long-term objectives and invest that capital in a thoughtfully constructed portfolio that should deliver the maximum rate of return for the level of risk we are comfortable taking. With that said, we are living through an unusually scary period as the COVID-19 pandemic impacts our people and our economy in an unparalleled manner. As such, we think a bit of hope is not only appropriate but necessary. Below are four things we hope will come to pass that could meaningfully mitigate the impact of the ongoing healthcare and economic crises:

- **The price of oil bounces** – the price of oil collapsed due to a COVID-19 driven drop in demand and a production war between Russia and OPEC. While lower oil, and gasoline, prices are a tailwind for the US consumer, the drop in price is hurting the very significant US oil and gas industry. A bounce in price would help the US oil patch and push up inflation, which would also be welcome. A hoped-for Saudi/Russia agreement on a cut in production pushed the price of oil up a record 24% on April 2, 2020.
- **Companies step up** – US companies are in fantastic financial shape, with many in a position to prevent some of the financial pain American workers would be expected to experience during the coming economic slowdown. To that point, Comcast set aside $500 million to pay the salaries and benefits of workers impacted by COVID-19, as opposed to laying off those workers.
- **Expedited government relief** – the Federal Government is trying to push out $2.1 trillion in economic aid to states, businesses, and workers - an unprecedented amount and administrative undertaking. The quicker that aid reaches those in need, the less meaningful and less severe the impact of the COVID-19 driven slowdown.
- **COVID-19 testing and treatment** – it is worth remembering that a significant amount of capital – intellectual and financial – is being directed at containing, treating, and curing COVID-19. We know the news will get worse before it gets better, but it will get better. Last week, Johnson & Johnson announced a vaccine candidate it hopes will be available by early next year, and Abbott Laboratories launched a rapid test kit. After a slow start, the US is conducting 100,000 COVID-19 tests daily.

Corporate Liquid Assets (billions)



Stocks, bonds, and commodities (4/3/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2488.65	-3.71%	-22.97%	-13.97%
MSCI AC World ex USA	220.98	-3.79%	-26.75%	-22.63%
MSCI EAFE	1487.08	-4.65%	-26.99%	-22.20%
MSCI EM	831.72	-1.99%	-25.38%	-23.35%
Bloomberg Barclays US Agg	108.52	0.30%	2.76%	6.40%
Crude Oil WTI	29.00	41.60%	-52.51%	-54.03%
Natural Gas	1.66	1.16%	-24.21%	-37.73%

Treasury rates (4/3/2020)

	Price	Yield
2Y	100.094 / 100.1	0.221
3Y	100.190 / 100.1	0.294
5Y	100.176 / 100.1	0.386
7Y	100.240 / 100.2	0.514
10Y	108.204 / 108.2	0.595
30Y	119.192 / 119.2	1.214

Weekly reports

This week

- Initial Claims
- Hourly Earnings Y/Y

Last week

- Chicago PMI 47.8
- Nonfarm Payrolls (-713K)

Brinker Capital Market Barometer

APRIL 2020

The COVID-19 pandemic remains a weight on the economy, financial markets, and confidence. We continue to view this crisis as more of a temporary disruption to the economy, where a coordinated healthcare response and a powerful policy response—both fiscal and monetary—is needed to bridge the gap. The Federal Reserve (Fed) has swiftly gone all-in on promoting liquidity and market functioning, and we can expect easy monetary policy for the foreseeable future. Congress followed through last week with a $2 trillion fiscal package that provides support to individuals and businesses until we can reopen the economy again.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Markets have bounced off bottom but momentum still weak
Trend		●			Trend remains weak despite recent bounce; likely retest of lows
Investor sentiment				●	Extreme pessimism levels with bears outnumbering bulls; equity fund outflows
Seasonality			●		Seasonality neutral in second quarter

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	→			●	Strong response but unclear on speed of implementation and if more is needed
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 remain at low levels; yield curve has normalized
Macroeconomic		●			Significant growth decline 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			●		Virus has started to have a negative impact on consumer confidence
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment			●		Credit environment challenging but Fed has implemented support measures

LONG-TERM FACTORS (36+ months)

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