Brinker Capital

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Don't fight the Fed. And, maybe the Federal Government too

FEDERAL RESERVE

The Fed says it is going to start buying individual corporate bonds

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ELECTION 2020

Trump Team Weighs $1 Trillion for Infrastructure to Spur Economy

By Jenny Leonard and Josh Wingrove
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Among the better-known Wall Street maxims is "Don't fight the Fed," which speaks to the idea that monetary policy and the trend in interest rates determines the direction of the stock market. Or, more specifically, when the Fed is lowering, or keeping interest rates low, with an eye toward stimulating the economy, equities should do well, and when the Fed is raising, or keeping interest rates high, with an eye toward slowing the economy, equities should struggle. Directionally, the maxim holds, though incorporating Fed policy as a market timing tool is a tricky proposition as monetary policy tends to lag. Instead, it is more appropriate to approach monetary policy, the economy, and the markets from a high level - as is monetary policy supportive of economic growth and risk assets? Clearly, the answer to that question today is "Yes." In response to the COVID-19 driven downturn, the Fed took interest rates to zero, injected trillions into short-term lending markets, and launched an unprecedented securities purchase program, which last week was expanded to include individual corporate bonds. Just when we think monetary policy can't become any more supportive, it becomes more supportive. On the other side of the policy ledger we have fiscal policy - is the Federal Government taking steps likely to hinder economic growth and the markets (raising taxes, cutting spending, etc.)? Or, is it taking steps that would likely support economic growth and the markets (cutting taxes, increasing spending, etc.)? Similar to the Fed, the Federal Government and fiscal policy are all in when it comes to supporting the economy and risk assets today, as Washington, D.C. runs a massive deficit and so far has allocated $3 trillion in aid due to COVID-19. Just when we think fiscal policy can't become any more supportive, there are rumblings out of Washington of a $1 trillion infrastructure package. The unprecedented policy response to COVID-19 was a key reason we were comfortable calling the March 23 low in the market as the low for this cycle. Maybe the maxim needs to be expanded to, "Don't fight the Fed, or the Federal Government."

Where we are: Brinker Capital Bear Market Bottom Checklist

	2002/03	2008/09	2020	Current environment
Investor sentiment: Investors Intelligence Survey % bears > % bulls with bulls < 30%	•	•	•	In the most recent survey, bears outnumbered bulls 42% to 30%.
Volatility: VIX measure of volatility reaches extreme level	•	•	•	VIX hit a record-high level of 85 on March 16
Credit spreads: Significant widening of credit spreads pricing in a wave of corporate defaults	•	•		High-yield spreads have widened meaningfully, but not yet reached levels seen in the financial crisis
Yield curve: Yield curve steepens	•	•	•	Spread between the 10 Yr and 2 Yr Treasury widened 30bps in March
Peak to trough correction: Average decline of 30% during 11 bear markets since 1946	•	•	•	S&P 500 Index has declined -32% from the February 19 high
Fund flow data: Indiscriminate, panic selling of equity funds/ ETFs	•	•	•	Investors have fled equities in March, with outflows from US equity funds of $17 billion
Market structure: Contraction in the number of stocks making new lows	•	•	•	The number of stocks making new lows peaked in late March, and has continued to decline in April
Policy response: Meaningful fiscal and monetary policy response	•	•	•*	*The Fed and Federal Government are engaged; will it be enough to offset the impact of COVID-19?

Stocks, bonds, and commodities (6/19/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3097.74	19.85%	-4.12%	4.86%
MSCI AC World ex USA	267.75	16.57%	-11.25%	-5.94%
MSCI EAFE	1803.74	15.65%	-11.45%	-5.98%
MSCI EM	1001.36	18.00%	-10.16%	-4.97%
Bloomberg Barclays US Agg	110.34	1.98%	4.48%	5.40%
Crude Oil WTI	39.43	92.53%	-35.42%	-30.91%
Natural Gas	1.67	1.71%	-23.80%	-23.66%

Treasury rates (6/19/2020)

	Price		Yield
2Y	99.27 /	99.2	0.194
3Y	100.0 /	100	0.218
5Y	99.20 /	99.2	0.322
7Y	99.25 /	99.2	0.530
10Y	99.09 /	99.1	0.698
30Y	94.28 /	94.3	1.460

Weekly reports

This week

- Markit PMI Manufacturing
- Richmond Fed Index

Last week

- Capacity Utilization 64.8%
- Philadelphia Fed Index 27.5

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Brinker Capital Market Barometer

JUNE 2020

The COVID-19 pandemic remains the key driver for the economy, financial markets, and confidence. A powerful monetary and fiscal policy response has helped bridge the gap, and we are now seeing the economic data bottom as areas of the economy begin the slow process of reopening. We expect the equity market to remain range-bound in the near term as we wait for continued improvement in the COVID-19 data and as we assess the gradual reopening of the economy.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	→			●	Momentum has been broad and impressive
Trend			●		Expect continued trading range until more clarity on economy reopening
Investor sentiment			●		Sentiment still leans bearish but not at extreme pessimism levels
Seasonality			●		Seasonality relatively neutral

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Very strong fiscal response; more debate expected on next round
Monetary policy				●	Fed all in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations continue to fall
Interest rate environment				●	Treasury yields remain at low levels but stable; yield curve has normalized
Macroeconomic		●			Significant decline in 2Q due to lockdowns; starting to show signs of improvement
Business sentiment		●			CEO confidence likely to remain weak due to virus and election uncertainty
Consumer sentiment		●			Consumer confidence dropped to levels last seen in 2011
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment	→			●	Credit environment continues to improve and Fed remains supportive

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation	←	●			Equity valuations above long-term averages but not a near-term driver
Business cycle		●			US recession expected given disruptions caused by COVID-19
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of June 2, 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.