Brinker Capital

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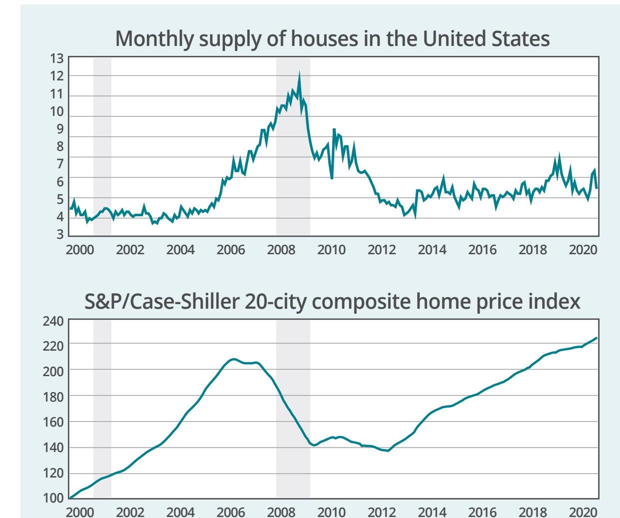
There's no place like home

Most of us have been spending an extraordinary amount of time at home, and if we are lucky – as I am – we have been healthy, employed, and surrounded by loved ones. There really is no place like home, which brings us to the housing market, and what it might mean for the US economy and US consumer as we battle back from the COVID-19 caused recession. First, we argue that for most Americans their house is far and away the most significant asset they own or will ever own (most Americans have nominal exposure to risk assets, such as stocks). In fact, it is the primacy of the house as a financial asset (and a levered one at that) which made the Great Recession "great." Fortunately, the housing market of today doesn't resemble the housing market of the 2000s. In the middle part of that decade we built about 2 million new homes a year, a pace of construction that pushed the supply of homes for sale to 10 months in 2007, a supply spike contributing to, and helping pop, the housing bubble. In contrast, during the back half of the last decade we built about 1.1 million new homes a year, a pace of construction leaving supply well short of demand, and has the current supply of homes for sale at about six months. Beyond the favorable supply/demand dynamic for housing, home prices have more than recovered what they lost through and following the Great Recession, with the S&P 500/Case-Shiller Home Price Index recently hitting an all-time high. Those price gains, along with a reluctance among homeowners to treat their homes like an ATM, has led to an extraordinary increase in homeowner equity over the past 10 years. In fact, according to CoreLogic, homeowners saw an aggregate increase of $6.2 trillion in home equity from Q1 2010 through Q1 2020, or about $106,100 per homeowner, and as of the end of Q1 2020, 1.8 million homes had negative equity, compared to 12.1 million homes ten years ago. Today's housing market is a pillar of support for consumer sentiment and spending, and if Americans did want to lever their home equity or buy a new house, they could do so at rock bottom interest rates. Consider that the US 30-year fixed rate mortgage sits at a record low 3.13%, compared to 1981 when the 30 year fixed rate mortgage was 18.5%.



Stocks, bonds, and commodities (6/26/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3009.05	16.42%	-6.86%	2.88%
MSCI AC World ex USA	264.74	15.26%	-12.24%	-6.82%
MSCI EAFE	1779.71	14.11%	-12.63%	-7.01%
MSCI EM	998.90	17.71%	-10.39%	-5.31%
Bloomberg Barclays US Agg	110.48	2.11%	4.61%	5.54%
Crude Oil WTI	38.16	86.33%	-37.50%	-35.79%
Natural Gas	1.55	-5.61%	-29.28%	-33.39%

Treasury rates (6/26/2020)

	Price	Yield
2Y	99.29 / 99.2	0.164
3Y	100.0 / 100.0	0.187
5Y	99.23 / 99.2	0.302
7Y	100.0 / 100.0	0.489
10Y	99.25 / 99.2	0.645
30Y	96.31 / 97.0	1.372

Weekly reports

This week
- Chicago PMI
- Unemployment Rate

Last week
- Markit PMI Manufacturing 49.6
- Richmond Fed Index 0.0

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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.