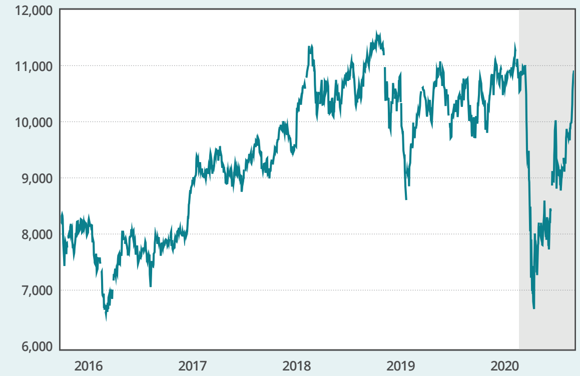
Why planes, trains, and automobiles are worth watching – the index, not the movie

We are big fans of the late director John Hughes. In fact, this is the second Weekly Wire where we have leaned on one of his films – this time it is "Planes, Trains, and Automobiles" – as a means of hopefully making our market and economic commentary more entertaining and relatable. Believe us, if we could find a way to incorporate the John Candy classic "Uncle Buck" into a Weekly Wire we would, in an instant (and all suggestions on that front are welcomed).

This week our focus is on planes, trains, and automobiles, specifically as those modes of transport and transportation tie back to the most economically sensitive – and the oldest – of US stock market indices, the Dow Jones Transportation Average. Constructed in 1884 by Charles Dow, the Dow Jones Transportation Average ("The Dow Transports") is a price-weighted index of 20 US-traded transportation stocks. Among its better-known members are American Airlines, Union Pacific, and Avis Budget Group. Investors pay close attention to the Dow Transports for a read on the direction of the US economy which makes sense considering how closely the fortunes of its underlying component companies are tied to general economic conditions.

Well, the index has our attention this week. After peaking at 11,360 in mid-January, the Dow Transports corrected 43% as the COVID-19 driven recession racked the US economy. It ultimately bottomed out at 6,481 on March 18 (a few days before the S&P 500 Index made its low for this cycle) and then began a rally, which has seen the index gain 69% through the market close on Friday, August 14. While there is more than one way to interpret the strong absolute and relative performance of the Dow Transports, from where we sit its performance speaks to a broadening out of the ongoing economic recovery, and better economic times to come.

Dow Jones Transportation Average



Stocks, bonds, and commodities (8/14/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3372.85	8.79%	4.40%	16.76%
MSCI AC World ex USA	285.58	7.77%	-5.33%	6.81%
MSCI EAFE	1899.51	6.68%	-6.75%	4.84%
MSCI EM	1093.16	9.85%	-1.93%	12.67%
Bloomberg Barclays US Agg	110.79	0.32%	4.91%	3.58%
Crude Oil WTI	42.23	7.54%	-30.84%	-23.04%
Natural Gas	2.35	33.92%	7.13%	6.59%

Treasury rates (8/14/2020)

	Price		Yield
2Y	99.31 /	0.00	0.133
3Y	99.26 /	0.00	0.177
5Y	99.25 /	0.00	0.290
7Y	99.04 /	0.00	0.502
10Y	99.06 /	0.00	0.706
30Y	98.11 /	0.00	1.442

Weekly reports

This week
- Empire State Index
- Markit PMI Manufacturing

Last week
- Hourly Earnings Y/Y 4.8%
- Capacity Utilization 70.6%

Image source: https://assets.kcbier.com. Chart source: FRED, S&P Dow Jones Indices LLC, as of 8/13/2020. The views expressed are those of Brinker Capital and are not intended as investment advice or recommendation. For informational purposes only.

Brinker Capital Market Barometer

AUGUST 2020

The COVID-19 pandemic remains the key driver for the economy, financial markets, and confidence over the near term. Fiscal and monetary policy continue to be supportive, and the economy has started to rebound. We expect the equity market to remain range-bound in the near term as we anticipate measured improvement in the COVID-19 data, the November election, and a slow, uneven economic recovery. Overall, the barometer leans neutral to slightly positive, in-line with our modest overweight to risk across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains solid
Trend	→			●	US markets above 50-day and 200-day moving averages
Investor sentiment			●		Sentiment still bearish but not extreme; equity outflows continue
Seasonality		●			Seasonality weaker through October

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Very strong fiscal response; more debate on fourth package but will get done
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			●		Macroeconomic data has bottomed; uneven improvement following reopenings
Business sentiment		●			CEO confidence improved in 2Q but still weak; small biz optimism improving
Consumer sentiment	←	●			Consumer confidence declined in June, led by the expectations component
Corporate earnings		●			Looking for improvement after negative impact of COVID-19 on 1H results
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 exited recession that began in February; recovery will be uneven
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of August 5, 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.