Brinker Capital

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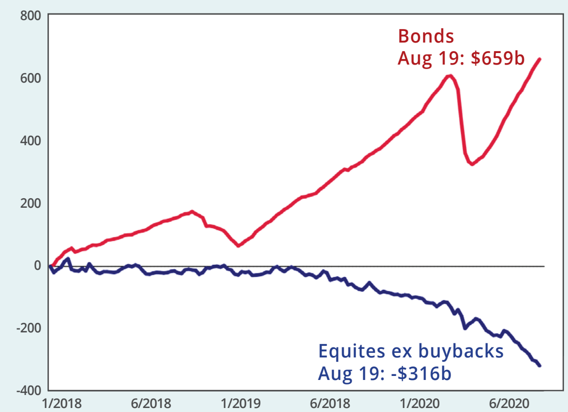
Show me the money

You can count us among the world's cinephiles, with a particular and deep appreciation for the cinematic work of the late, great Burt Reynolds. When it comes to remarkable movies, they all seem to have a few things going for them, including a first-rate cast, compelling characters, an engaging narrative, and of course a memorable tag line. Think "To infinity, and beyond" (Toy Story); "I'll be back" (The Terminator); and "Show me the money" (Jerry McGuire), which brings us to the subject of this Weekly Wire – the money that has – or has not – gone into US equities these past few years, and what it might mean for the durability of this new bull market.

At a high level, Americans have been net buyers of bonds and net sellers of stocks since January 2018, with approximately $659 billion going into fixed income facing mutual funds and ETFs, and $316 billion coming out of equity facing mutual funds and ETFs (excluding share buybacks), with much of that capital exiting stocks in 2020. We are sure many of those trades were driven by any number of financial planning factors, including age and approaching retirement. Yet, we are also sure many of those trades were driven by skepticism over the outlook for the US economy and stock market—an understandable point of view considering the impact of COVID-19 on both.

Let's set aside what -- we hope and expect -- is a once in a century pandemic as a catalyst for a bear market, and focus on what has historically happened at – or caused – a stock market top. The economy is running flat out, inflation and interest rates are moving up, valuation is becoming quite stretched, and investors have fully embraced equities as an asset class. This means there is no one left to buy, but plenty of folks in a position to sell. Today, the economy is only just getting back on its feet; inflation and interest rates are low; valuation for the S&P 500 Index is elevated, but much of that is driven by companies carrying P/E multiples, justified by disruptive business models, and investors have, on balanced, shunned equities. Odds are this young bull market will be showing investors the money for years to come.

Fund Flows | Mutual Funds and ETFs Cumulative since 2018



Stocks, bonds, and commodities (8/28/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3508.01	13.15%	8.58%	21.47%
MSCI AC World ex USA	288.09	8.71%	-4.50%	7.44%
MSCI EAFE	1902.25	6.83%	-6.61%	4.41%
MSCI EM	1117.22	12.27%	0.23%	15.73%
Bloomberg Barclays US Agg	--	--	--	--
Crude Oil WTI	42.93	9.32%	-29.69%	-23.04%
Natural Gas	2.65	51.57%	21.24%	19.44%

Treasury rates (8/21/2020)

	Price		Yield
2Y	99.30 /	99.3	0.152
3Y	99.30 /	99.3	0.144
5Y	99.29 /	99.3	0.263
7Y	100.0 /	100.	0.488
10Y	99.03 /	99.0	0.718
30Y	96.30 /	97.0	1.500

Weekly reports

This week
- Markit PMI Manufacturing
- Nonfarm Payrolls August

Last week
- Consumer Confidence 84.8
- Chicago PMI 51.2

Image source: https://miro.medium.com. Chart source: Evercore ISI , as of 8/27/2020. 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