BRINKER CAPITAL INVESTMENTS

WEEKLY WIRE | OCTOBER 19, 2020

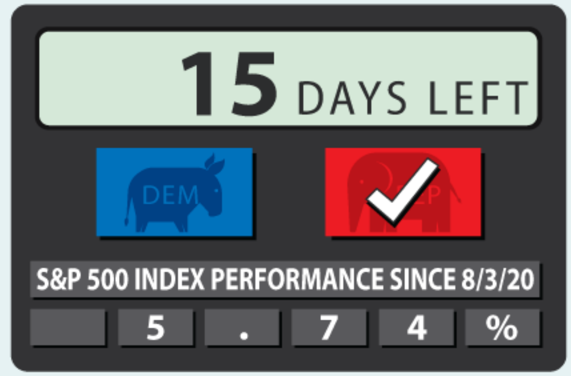
When it comes to the election, what is the market "pricing in?"

SQUAWK BOX

Options market is pricing in a 'blue wave,' strategist says

Investors pay attention to the stock market not just because they are investing in it, but because they consider the market one of – if not the most – accurate of all leading indicators. Said differently, the market, in its infinite wisdom, will lead the real economy and will tell us where the world is headed. Recall the market peaked on February 19 while the US economy was still humming along and few grasped the coming consequences of COVID-19 and bottomed on March 23 while the coronavirus case count was moving meaningfully higher and US economic performance was going from historically bad to worse. Which brings us to the subject of this Weekly Wire; what might recent market performance indicate about the upcoming election and the policy implications of the vote? Historically, an upward trending market through the three months leading into the election has boded well for the party holding the White House, and indeed the S&P 500 Index is up 5.74% since August 3 (see our Election Countdown Calculator), and up about 3.5% in October. But a (the?) prevailing narrative on Wall Street of late is the market isn't pricing in a win for President Trump but is "pricing in" a decisive win for Joe Biden and, potentially, a Democrat sweep of Capitol Hill. We think the market is concerned about a contested election and would welcome certainty around the November 3 vote. As it concerns a potential "blue wave," if it was to lead to a meaningful amount of additional government spending in support of the economy, we think Wall Street would welcome it. That all said, we are three weeks away from the election, and we think calling a winner – at least as it concerns the White House and the Senate – is a very tricky proposition.

Election countdown calculator



Stocks, bonds, and commodities (10/16/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3483.81	3.59%	7.83%	16.66%
MSCI AC World ex USA	286.19	2.28%	-5.13%	1.31%
MSCI EAFE	1882.36	1.46%	-7.59%	-1.96%
MSCI EM	1124.08	3.89%	0.85%	9.77%
Bloomberg Barclays US Agg	110.02	-0.06%	4.17%	3.88%
Crude Oil WTI	41.03	2.01%	-32.80%	-23.71%
Natural Gas	2.69	6.33%	22.75%	15.82%

Treasury rates (10/16/2020)

	Price		Yield
2Y	99.30 /	99.3	0.141
3Y	99.26 /	99.2	0.180
5Y	99.20 /	99.2	0.320
7Y	98.30 /	98.3	0.526
10Y	98.27 /	98.2	0.744
30Y	96.08 /	96.1	1.531

Weekly reports

This week
- NAHB Housing Market Index
- Markit PMI Manufacturing

Last week
- Empire State Index 10.5
- Capacity Utilization 71.5%

Brinker Capital Market Barometer

OCTOBER 2020

We continue to focus on the COVID-19 pandemic and the upcoming election as key drivers for the economy, financial markets, and confidence over the near term. The Federal Reserve remains extremely supportive from a monetary policy perspective, while it remains to be seen whether Washington, DC can agree on another fiscal package. Due to our uneven economic recovery, and uncertainty surrounding the upcoming election, we expect the equity market to remain range-bound in the near term. 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 surveys show optimism but equity outflows continue
Seasonality		●			Seasonality weaker through October, especially during election cycle

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Strong initial fiscal response; debate on additional package continues
Monetary policy				●	Fed all in to support markets and economy; Global central banks also supportive
Inflation				●	Global inflation low; Fed committed to more flexibility with inflation target
Interest rate environment				●	Treasury yields remain at low levels but stable; yield curve positively sloped
Macroeconomic			●		Macroeconomic data has bottomed; uneven improvement as economy reopens
Business sentiment		●			CEO confidence improved but still weak; small biz optimism improving
Consumer sentiment		●			Increased sharply in August, but remains below pre-pandemic levels
Corporate earnings		●			Looking for improvement after negative impact of COVID-19 on 1H2020 results
Credit environment				●	Credit environment is stable 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