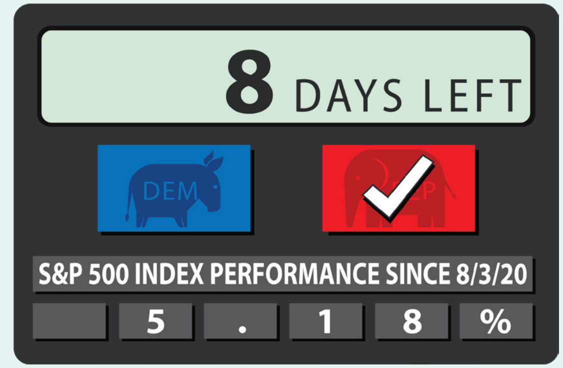
Something worth paying attention to other than the election

10-Year Treasury Constant Maturity
Minus 2-Year Treasury Constant Maturity

What – other than the election – should be commanding investor attention these days? Our vote would be the bond market. To help put politics and the bond market in the same neat little box, we turn to renowned political consultant James Carville, who in the early 1990s said, "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."

The catalyst for the quote was a spike in the US 10-Year yield to 8%, a move that forced Washington, DC to pivot to deficit reduction. One can only wonder what the bond market of the early 1990s would make of today's Federal deficit equivalent to 16% of GDP! Consider, the bond market is larger than the stock market, a constant source of capital for companies and governments, and particularly attuned to changes in economic conditions. All of which makes the bond market's recent behavior worth paying attention to - the yield on the US 10-Year note has jumped to 0.86% (still exceptionally low by historical standards but up from just 0.50% in August) and the US Yield Curve (the spread between the yield on the US 2-Year note and the US 10-Year note) has steepened to 70 basis points, or 0.70%, up from 40 basis points two months ago. Some argue the backing up of yields has been driven by concern over the coming election, while others interpret the move, and the steepening of the curve, as indicative of greater government spending and economic growth to come. We are not yet sure which argument merits our support, but we are leaning toward the latter. Finally, with the S&P 500 Index up 5.18% since August 3rd, our Election Countdown Calculator indicates Donald Trump will win reelection.

Election countdown calculator



Stocks, bonds, and commodities (10/23/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3465.39	3.04%	7.26%	14.65%
MSCI AC World ex USA	287.20	2.64%	-4.80%	0.46%
MSCI EAFE	1884.26	1.56%	-7.50%	-3.08%
MSCI EM	1136.45	5.03%	1.95%	9.71%
Bloomberg Barclays US Agg	109.36	-0.66%	3.55%	3.50%
Crude Oil WTI	39.78	-1.09%	-34.85%	-29.79%
Natural Gas	2.94	16.34%	34.31%	19.56%

Treasury rates (10/23/2020)

	Price		Yield
2Y	99.30 /	99.3	0.145
3Y	99.25 /	99.2	0.194
5Y	99.13 /	99.1	0.365
7Y	98.14 /	98.1	0.605
10Y	97.28 /	97.2	0.849
30Y	93.22 /	93.2	1.642

Weekly reports

This week

- New Home Sales / Sept.
- Q3 GDP Q/Q

Last week

- NAHB Housing Market Index 85.0
- Markit PMI Manufacturing 53.3

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