

## Tremble Before B.A. Baracus? Always. Tremble Before the Baa Spread? Not Today.

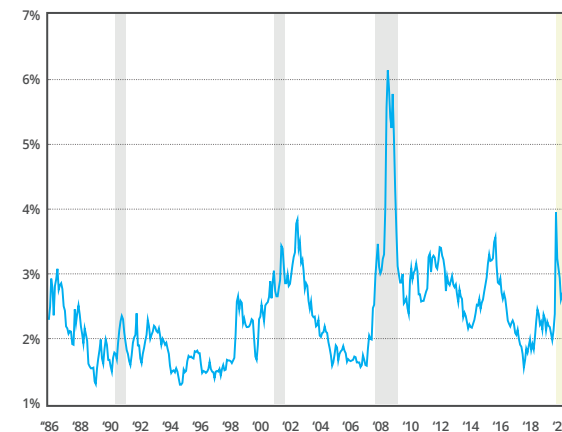
In the 1980s, no actor was tougher or more intimidating than Mr. T, who was made famous by his role as the hard-hitting Clubber Lang in Rocky III (“What’s your prediction for the fight? Prediction? Yes, prediction. Pain.”). Mr. T also starred in “The A Team,” one of the great TV shows of all time, as B.A. Baracus. And if you doubt the greatness of “The A Team” consider the catchphrase of George Peppard’s character, Hannibal Smith: “I love it when a plan comes together” (all great TV shows have a great catchphrase). The bad guys would tremble before B.A. – which brings us to the point of this week’s Weekly Wire: Moody’s seasoned Baa Corporate Bond Yield Relative to the Yield on the US 10 Note, also known as the Baa spread.

By way of background, bonds rated Baa by Moody’s occupy the lowest rung on the investment grade ladder. When the yield spread between Baa bonds and the U.S. 10 Year Note is wide it means investors are pessimistic on the asset class and the economy (maybe too pessimistic), and when the spread is narrow it means investors are optimistic on the asset class and the economy (maybe too optimistic). Well, that spread, which hit over 400 basis points or 4% in early 2020 has narrowed to 210 basis points or 2.1%, leading some market pundits to posit investors are too bullish on the asset class and the economy.

We don’t share that point of view. While the spread has narrowed dramatically as corporate bonds have rallied, it has been much narrower in the past (as recently as 2018 and for a very long stretch in the 1990s) and is reflective of both a resurgent economy and extraordinarily supportive monetary policy.

As the economy continues to recover, we think corporate bonds can continue to perform well. And as a firm that has always worked with and for financial advisors, we just hope some advisor somewhere, when delivering a financial plan to a client or a prospective client, says, “I love it when a plan comes together” – sorry we couldn’t help ourselves.

Moody’s Seasoned Baa Corporate Bond Yield Relative to Yield on 10-Year Treasury Constant Maturity



### Stocks, bonds, and commodities (1/22/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3841.47	2.27%	2.27%	16.57%
MSCI AC World ex USA	339.90	4.12%	4.12%	12.13%
MSCI EAFE	2199.96	2.44%	2.44%	7.58%
MSCI EM	1392.85	7.87%	7.87%	24.43%
Bloomberg Barclays US Agg	108.83	-0.94%	-0.94%	1.95%
Crude Oil WTI	51.98	7.13%	7.13%	-4.08%
Natural Gas	2.46	-2.65%	-2.65%	31.50%

### Treasury rates (1/22/2021)

	Price	Yield
2Y	100.0 / 0.00	0.121
3Y	99.26 / 0.00	0.180
5Y	99.22 / 0.00	0.438
7Y	99.01 / 0.00	0.764
10Y	98.00 / 0.00	1.089
30Y	94.21 / 0.00	1.858

### Weekly reports

- This week**
- Consumer Confidence
  - Q4 GDP SAAR Q/Q
- Last week**
- NAHB Housing Market Index: 83
  - Philadelphia Fed Index: 26.5

# Brinker Capital Market Barometer

JANUARY 2021

Our focus continues to be on the COVID-19 pandemic and its impact on economic growth. News on the vaccine has been very positive; however, the rollout has been slower than expected. The Federal Reserve remains extremely supportive from a monetary policy perspective, and we expect additional fiscal support from Washington, D.C. in the coming months. This policy support should continue to provide a bridge for the economy in the near term until we can fully reopen. Overall, the barometer tilts positive, in-line with our modest overweight to risk across portfolios.

## SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains solid and has improved recently
Trend				●	Market trend positive; US markets above 50-day and 200-day moving averages
Investor sentiment		●			Surveys and other sentiment measures pointing toward excess optimism
Seasonality	←		●		Entering relatively weaker seasonal period post election

## INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional fiscal stimulus likely in near-term with Democratic sweep
Monetary policy				●	Fed and global central banks remain supportive
Inflation				●	Inflation at low levels but watch for increasing inflation expectations
Interest rate environment				●	Treasury yields remain low but biased higher; yield curve to steepen
Macroeconomic			●		Macroeconomic data has improved; recovery will be driven by vaccine/reopening
Business sentiment			●		Both CEO confidence and small business confidence surveys have improved
Consumer sentiment		●			Consumer confidence measures declined in 4Q2020
Corporate earnings			●		Expect improvement in earnings growth to continue in 4Q2020
Credit environment				●	Credit environment is stable; spreads continue to tighten

## 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 uneven in short term
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of January 11, 2021. 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-weighted 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.