Market Review and Outlook

•••

1Q2021

BRINKER CAPITAL INVESTMENTS

Risk assets delivered positive returns for the first quarter. Driving the market rally was the rollout and successful distribution of the COVID-19 vaccine as investors became optimistic of a sustained reopening of economies. A better-than-expected corporate earnings season also boosted markets with fourth-quarter earnings exceeding analyst expectations. The outcome of the Georgia election early in the quarter led to a Democratic sweep that paved the way for an additional $1.9 trillion fiscal stimulus bill passed in March. The Federal Reserve (Fed) remained steadfast in its accommodative policy despite rising inflation expectations over concerns of the size of US stimulus coupled with pent-up consumer demand. As we move through the year, we expect the economy reopening to accelerate as the vaccine becomes available to larger subsets of the population and herd immunity begins to set in.

The S&P 500 Index gained +6.2% in the first quarter and increased +53.5% for the one year ending March 31, 2021. All 10 GICS sectors finished positive for the quarter. Energy (+30.9%) experienced a strong rebound, helped by increases in global demand. Financials (+16%) benefitted from rising Treasury yields and a steepening yield curve. The economy reopening served as a tailwind for the industrials (+11.4%) sector. Consumer staples (+1.2%) and information technology (+2.0%) posted the most muted returns for the quarter. The rotation in leadership that began in the fourth quarter of 2020 continued into the first quarter with value outperforming growth by a large margin. Small cap equities outpaced mid and large cap equities.

Developed international equities, as measured by the MSCI EAFE Index, gained +3.6% for the quarter and lagged US equities. The Eurozone experienced headwinds as the region saw an increase in infection rates combined with a COVID-19 vaccine rollout program that significantly lagged the US. However, accommodative monetary policy and expanded fiscal stimulus across European Union governments continued to help support economies. Emerging markets, as measured by the MSCI Emerging Markets Index, gained +2.3% for the quarter. A pick-up in global trading activity benefitted the region but challenges in containing infection rates within specific areas such as Brazil led to more muted returns.

Investment-grade fixed income, as measured by the Bloomberg Barclays US Aggregate Index, fell -3.4% for the first quarter. We saw a significant steepening of the yield curve with the 10-year Treasury yield rising 82 basis points, to end the quarter at 1.7%. The dramatic rise in yields was fueled by increasing concerns of inflation and the Fed's steadfast decision to let Core PCE inflation run above its 2% target. High-yield credit spreads slightly contracted 50 basis points, generating modest positive returns for the sector. Municipals outpaced taxable counterparts for the quarter.

We remain positive on risk assets and are constructive on the economic recovery. The development and distribution of the COVID-19 vaccine have created a potential endpoint for the pandemic, and we expect the reopening of the economy to continue accelerating as the vaccine becomes more widely available. The Federal Reserve remains extremely accommodating and the amount of fiscal support has been massive with an additional $1.9 trillion COVID-19 relief stimulus package passed in March. While the Democratic sweep increases the odds for tax increases and a more stringent regulatory environment, both potential negatives for financial markets, we believe the focus will remain on defeating the COVID-19 virus before any sweeping policy changes are made. Given these factors, our overall outlook tilts positive which argues for a bias toward risk assets over the near term. We remain vigilant in assessing opportunities and positioning appropriately to take advantage of the compelling opportunities through our active multi-asset class approach.

Brinker Capital Market Barometer

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains solid
Trend				●	US markets remain above 50-day and 200-day moving averages
Investor sentiment			●		Investor sentiment survey data has retreated from recent highs
Seasonality			●		Relatively weaker seasonal period post election

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional spending package likely later in '21 but uncertainty around higher taxes
Monetary policy				●	Fed and global central banks remain very supportive
Inflation				●	Inflation at low levels but short-term inflation expectations have moved higher
Interest rate environment			●		Treasury yields still at low absolute levels and pace of normalization has slowed
Macroeconomic				●	Expect strong economic growth in 2021 driven by the COVID-19 vaccine/reopening
Business sentiment				●	CEO confidence increased sharply in 1Q2021 to a 17-year high
Consumer sentiment	→		●		Consumer confidence measures increased sharply in March
Corporate earnings				●	Year-over-year earnings growth turned positive in 4Q2020
Credit environment				●	Credit environment remains stable; little volatility in spreads

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle				●	We've entered a new expansion period with positive GDP growth since 3Q2020
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information accurate as of April 5, 2021.

BRINKER
CAPITAL INVESTMENTS

BrinkerCapital.com | 800.333.4573 | Connect: BLOG

1329-BCI-04/19/2021