Weekly Wire

APRIL 5, 2021

BRINKER CAPITAL INVESTMENTS

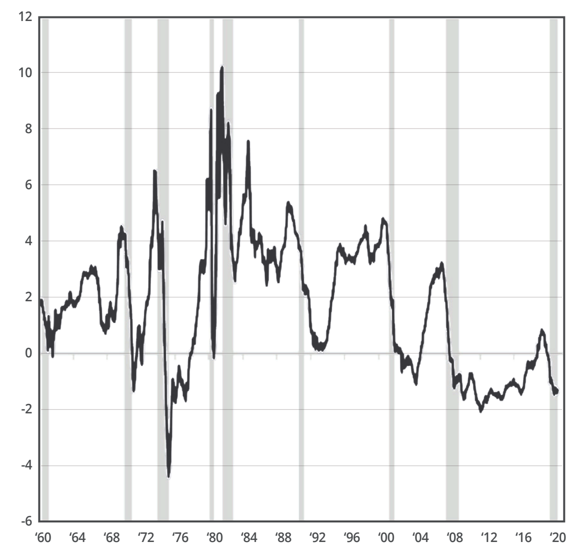
When People Stop Being Polite, and Start Getting Real

As if I wasn't feeling old enough already with my 30-year college reunion on the horizon (COVID-19 permitting) the folks at Paramount+ go and reboot the original "Real World" as "Real World Homecoming: New York." The original launched 29 years ago, and introduced many of us to reality TV as well as the show's famous opening, which includes the iconic line "When people stop being polite, and start getting real."

It ties nicely with the focus of this week's Weekly Wire, real interest rates, which are among the more important barometers for the economy and risk assets, but a subject not frequently covered by the financial media. When folks in our business talk about real rates, they are typically discussing the Fed Funds rate. This is the rate banks charge other banks for lending excess cash from their reserve balances on an overnight basis and is set by the Federal Reserve, minus the rate of inflation – as established by a broad and accepted measure of inflation, like the Core PCE. The Core PCE measures the price consumers pay for a basket of goods and services excluding food and energy.

At a high level, real rates at or below zero tend to be a positive for the economy because that should mean the cost of capital is low and that consumers and companies are incented to borrow, spend and invest. What we have seen over the past 30 years – excluding the recent pandemic-driven downturn – is that real rates need to get north of 3% before the U.S. economy is at risk of recession. Well, with the Fed Funds rate at zero, and the Core PCE at approximately 1.4%, real rates are deeply negative here in the U.S., and we should add, around the world. Monetary policy remains exceptionally supportive of the economy and risk assets.

Real Fed Funds Rate (Effective FFR minus Core PCE, %)



Stocks, bonds, and commodities (4/1/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4019.87	1.18%	7.02%	61.53%
MSCI AC World ex USA	339.56	1.04%	4.01%	53.66%
MSCI EAFE	2217.82	0.69%	3.54%	49.53%
MSCI EM	1338.23	1.66%	3.64%	60.90%
Bloomberg Barclays US Agg	105.59	0.41%	-3.89%	-2.71%
Crude Oil WTI	61.45	3.87%	26.65%	116.83%
Natural Gas	2.64	1.19%	4.47%	62.80%

Treasury rates (4/1/2021)

	Price	Yield
2Y	99.280 / 99.28	0.184
3Y	99.192 / 99.19	0.384
5Y	98.290 / 98.29	0.974
7Y	98.284 / 98.29	1.416
10Y	94.200 / 94.21	1.718
30Y	89.214 / 89.23	2.357

Weekly reports

This week

- Initial Claims
- PPI NSA Y/Y

Last week

- Chicago PMI: 66.3
- Unemployment Rate: 6.0%

Chart source: Strategas, as of 3/31/21. 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

MARCH 2021

We expect a broadening of economic growth as the vaccine rollout ramps up further which will lead to a more robust reopening of the US economy. Another large fiscal package should be passed in the coming weeks, leading to stimulus checks in the hands of consumers in April. The Fed is committed to an accommodative monetary policy until we see full employment and sustained higher inflation, neither of which we are close to achieving yet. We view the recent sharp move higher in Treasury yields as more of a normalization process given the improved economic outlook rather than expectations for a less dovish Fed; however, the pace of the increase has resulted in a pickup in volatility which could continue in the near term. The barometer has shifted even further into positive territory in March, still aligned with our modest overweight risk positioning across portfolios.

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 $1.9 trillion fiscal stimulus headed for passage in March
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 but pace of normalization is of concern
Macroeconomic	→			●	Expect strong economic growth in 2021 driven by the vaccine/reopening
Business sentiment	→			●	CEO confidence increased sharply in 1Q21 to a 17-year high
Consumer sentiment		●			Consumer confidence measures remain relatively weak
Corporate earnings	→			●	Year-over-year earnings growth turned positive in 4Q20
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 3Q20
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of March 2, 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-weighed 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.

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