Brinker Capital Market Barometer

MAY 2021

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Growth has picked up as the economy continues to reopen. Fiscal policy remains supportive and there is a good chance of another fiscal spending package later this year; however, it will require tax increases as an offset. The Fed is committed to accommodative monetary policy until we see full employment and sustained higher inflation, neither of which we are close to achieving yet. Earnings growth has been very strong, reflecting the strength in nominal GDP. Treasury yields have normalized in response to the improved economic outlook, but we will continue to watch the pace of further increases. The barometer has shifted even further into positive territory in May, still aligned with our overweight risk positioning across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains strong; breadth is impressive
Trend				●	US markets remain above 50-day and 200-day moving averages
Investor sentiment	←	●			Sentiment at excessive optimism levels, but mitigated by strong momentum
Seasonality			●		Seasonality relatively benign until July

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional fiscal stimulus likely in '21; concern over potential higher taxes
Monetary policy				●	Fed and global central banks remain very supportive
Inflation				●	Inflation has picked up recently but expect increases to be more transitory
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 vaccine/reopening
Business sentiment				●	CEO confidence increased sharply in 1Q21 to a 17-year high
Consumer sentiment	→			●	Consumer confidence surveys have shown significant improvement
Corporate earnings				●	Earnings growth has continued to surge in 1Q21
Credit environment				●	Credit environment remains stable; little volatility in spreads

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations well 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

SUMMARY

Within the **short-term factors**, investor sentiment was moved from neutral to negative. Survey data shows investor sentiment is in excessive optimism territory, and equity funds and ETFs have experienced net inflows over the last month. While a concern, investor sentiment can remain elevated for extended periods of time and is somewhat mitigated by the current strong momentum and breadth of the equity market.

The **intermediate factors** now all sit in positive territory. Consumer confidence moved from neutral to a positive factor. The latest readings of consumer confidence measures have shown significant improvement, which should lead to increased consumer spending as the economy reopens. The interest rate environment also moved to from a neutral to a positive. Interest rates are normalizing in response to better economic growth prospects and higher inflation. While the pace of the normalization was concerning earlier in the year, it has moderated since. Rates remain at absolute low levels.

There were no changes to the **long-term factors**.

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1515-BCI-5/4/2021