Weekly Wire

JUNE 21, 2021

BRINKER CAPITAL INVESTMENTS

Who Let The Hawks Out?

Maybe the only thing catchier than the 2000 dance hit "Who let the dogs out?" from the Baha Men was the parody of the song that same year, "Who let the Mets out?" Yup, for those of you who weren't in NYC at the time or aren't diehard Mets fans, "Who let the Mets out?" was the unofficial anthem of the Mets as they made their run to the 2000 World Series, and the first subway series since 1956, where they fell to the Yankees in five games.

Well, since everything that is old is new again, we propose dusting off the Baha Men classic one more time but reworking the title and the lyrics to "Who let the hawks out?" with a tip of the cap (baseball or otherwise) to the Federal Reserve and the hawkish posture adopted by the central bank at its June meeting. More specifically, the Fed revealed that 13 Fed officials now expect interest rate hikes in 2023, compared to seven Fed officials at its March meeting, and its median forecast for the Fed Funds rate in 2023 moved from 0.1% to 0.6% (see table). Now, 2023 is a ways off, and a 0.6% Fed Funds rate isn't particularly restrictive, but given the Fed's focus of late on getting back to full employment, and its lack of focus on inflation, the pivot toward a tighter monetary policy rattled the market.

And for us, the most interesting line from Fed Chair Powell during his post FOMC meeting press conference was, "price stability is half our mandate" (the other half being full employment). The Fed is responding to a surging economy and what it expects will be a temporary spike in inflation. We think the Fed is on the right path. And we also think investors should get used to a bit more volatility as capital markets come to grips with a new monetary policy regime.

Variable	Median				Central Tendency			
	2021	2022	2023	Longer Run	2021	2022	2023	Longer Run
Change in Real GDP	7.0	3.3	2.4	1.8	6.9 - 7.3	2.8 - 3.8	2.0 - 2.5	1.8 - 2.0
March Projection	6.5	3.3	2.2	1.8	5.8 - 6.6	3.0 - 3.8	2.0 - 2.5	1.8 - 2.0
Unemployment Rate	4.5	3.8	3.5	4.0	4.4 - 4.8	3.5 - 4.0	3.2 - 3.8	3.8 - 4.3
March Projection	4.5	3.9	3.5	4.0	4.2 - 4.7	3.6 - 4.0	3.2 - 3.8	3.8 - 4.3
PCE Inflation	3.4	2.1	2.2	2.0	3.1 - 3.5	1.9 - 2.3	2.0 - 2.2	2.0
March Projection	2.4	2.0	2.1	2.0	2.2 - 2.4	1.8 - 2.1	2.0 - 2.2	2.0
Core PCE Inflation	3.0	2.1	2.1		2.9 - 3.1	1.9 - 2.3	2.0 - 2.2	
March Projection	2.2	2.0	2.1		2.0 - 2.3	1.9 - 2.1	2.0 - 2.2	
Memo: Projected Appropriate Policy Path								
Federal Funds Rate	0.1	0.1	0.6	2.5	0.1	0.1 - 0.4	0.1 - 1.1	2.3 - 2.5
March Projection	0.1	0.1	0.1	2.5	0.1	0.1 - 0.4	0.1 - 0.9	2.3 - 2.5

Stocks, bonds, and commodities (6/18/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4166.45	4.87%	10.93%	34.50%
MSCI AC World ex USA	350.98	4.44%	7.51%	31.09%
MSCI EAFE	2308.52	4.54%	7.50%	27.99%
MSCI EM	1361.25	3.41%	5.42%	35.94%
Bloomberg Barclays US Agg	106.39	1.16%	-3.17%	-3.59%
Crude Oil WTI	71.50	20.86%	47.36%	79.87%
Natural Gas	3.23	24.00%	28.03%	93.77%

Treasury rates (6/18/2021)

	Price		Yield
2Y	99.23 /	0.00	0.258
3Y	99.10 /	0.00	0.477
5Y	99.11 /	0.00	0.883
7Y	100.0 /	0.00	1.220
10Y	101.1 /	0.00	1.447
30Y	107.2 /	0.00	2.025

Weekly reports

This week

- Existing Home Sales May
- Markit PMI Manufacturing June

Last week

- Capacity Utilization May: 75.2%
- Philadelphia Fed Index June: 30.7

Chart source: U.S. Federal Reserve, 6/19/21. Performance data provided by Morningstar. 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

JUNE 2021

With the US economy reopened, growth is picking up. Fiscal policy remains supportive and while there is a good chance of another fiscal spending package later this year, 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. Inflation measures have picked up, but we expect the increase to be more transitory in nature as it is primarily driven by temporary supply and demand mismatches. Overall, the barometer remains tilted positively in June, aligned with our overweight risk positioning across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains strong
Trend				●	US markets remain above 50-day and 200-day moving averages
Investor sentiment		●			Excessive optimism and strong equity flows, 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; expect to be transitory but watching closely
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

Source: Brinker Capital. Information is accurate as of June 20, 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 indi-cator 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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