

Inflation Expectations Are Up Greatly, But Aren't So Great

There are lots of ways to think about and measure inflation. We come back to inflation again this week as we continue to believe inflation – and its potential impact on monetary policy – remain the greatest points of concern for investors today. Among the better known and better followed inflation gauges are the Consumer Price Index (CPI), the Producer Price Index (PPI) and the Personal Consumption Expenditures Index (PCE). PCE is the Fed's preferred inflation indicator and was up 3.4% year over year in May, which marked the biggest year on year jump since 1992 and follows on recent multi-year jumps in the CPI and the PPI.

But despite these dramatic jumps in inflation, the Federal Reserve, and Federal Reserve Chairman Jerome Powell, remain convinced that the ongoing spike in inflation will prove to be transitory – a point Mr. Powell made again two weeks ago during his testimony before the U.S. House of Representatives. And if another important but much less followed inflation indicator is correct, then Chairman Powell and his colleagues at the Federal Reserve are correct in their outlook for inflation – that is the 5-Year Breakeven Inflation Rate. This rate measures what market participants expect inflation to be in the next five years, on average.

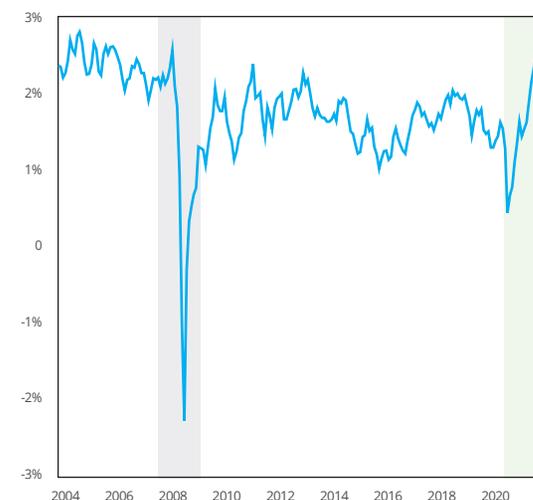
While that number, which plunged during the worst of the pandemic-driven economic downturn, has shot meaningfully higher of late, it sits only at 2.45%. This is not too far north of the Fed's long-term inflation target of 2%+ and no higher than where it sat for most of the 2000s. We continue to think the market is giving the

Fed the benefit of the doubt when it comes to the outlook for inflation, and we think the market is correct to do so.

"Inflation has increased notably in recent months. This reflects, in part, the very low readings from early in the pandemic falling out of the calculation; the pass-through of past increases in oil prices to consumer energy prices; the rebound in spending as the economy continues to reopen; and the exacerbating factor of supply bottlenecks, which have limited how quickly production in some sectors can respond in the near term. As these transitory supply effects abate, inflation is expected to drop back toward our longer-run goal."

- Fed Chairman Jerome Powell, June 22, 2021

5-Year Breakeven Inflation Rate



Stocks, bonds, and commodities (6/25/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4280.70	7.75%	13.97%	42.26%
MSCI AC	356.26	6.01%	9.13%	34.57%
World ex USA				
MSCI EAFE	2342.43	6.07%	9.08%	31.62%
MSCI EM	1379.59	4.80%	6.84%	38.11%
Bloomberg Barclays US Agg	105.85	0.65%	-3.66%	-4.19%
Crude Oil WTI	74.00	25.08%	52.51%	92.26%
Natural Gas	3.54	35.66%	40.06%	129.15%

Treasury rates (6/25/2021)

	Price	Yield
2Y	99.22 / 99.2	0.274
3Y	99.10 / 99.1	0.473
5Y	99.24 / 99.2	0.925
7Y	99.25 / 99.2	1.282
10Y	100.2 / 100.	1.526
30Y	104.2 / 104.	2.149

Weekly reports

This week
• Avg Hourly Earnings Y/Y June
• Nonfarm Payrolls June
Last week
• Existing Home Sales May: 5,800K
• Markit PMI Manufacturing June: 62.6

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 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-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.