

Laverne & Shirley; Jordan & Pippen; Earnings & Interest Rates

History is full of great duos, both fictional – Cagney & Lacey, Holmes & Watson – and real – Venus & Serena, Sonny & Cher. When it comes to investing, we have our own great duo, a pairing that more than any other determines the direction of the stock market: earnings & interest rates. When one owns a stock they have a claim on a share of a company's earnings – and growing earnings should, on balance, reflect a company and a business model that is performing well, and importantly, generating capital that can be reinvested back into the business and/or distributed to shareholders. Stating the obvious, growing earnings are a good thing, and declining earnings are a bad thing. Interest rates (and here we can think of interest rates broadly, from the Federal Funds Rate to yields on high quality, traditional fixed income, including the yield on the US 10-Year Note, which is the global risk-free rate) are important in that high rates make a company's future earnings worth less and low rates make a company's future earnings worth more. Again, stating the obvious, low rates are good for the market and high rates are bad for the market. Well, the yield on the US 10-Year Note sits at a very low 1.35% and S&P 500 earnings are expected to grow 35%+ this year. Said plainly, rates are low and earnings growth is high – something to keep in mind as we navigate a summer likely to be marked by concerns and questions over new variants of the coronavirus, slowing global growth, and less supportive fiscal and monetary policy.

S&P 500 (Black Line) / Expected S&P 500 EPS NTM (Blue Line)



Stocks, bonds, and commodities (7/9/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4369.55	1.68%	16.33%	37.19%
MSCI AC	348.22	-1.08%	6.67%	27.08%
World ex USA	2313.37	0.37%	7.72%	27.61%
MSCI EAFE	1318.17	-4.11%	2.08%	23.28%
MSCI EM	106.70	0.44%	-2.88%	-3.88%
Bloomberg Barclays US Agg	106.70	0.44%	-2.88%	-3.88%
Crude Oil WTI	74.63	1.58%	53.81%	84.04%
Natural Gas	3.68	0.71%	45.53%	103.66%

Treasury rates (7/9/2021)

	Price	Yield
2Y	99.26 / 99.2	0.213
3Y	99.18 / 99.1	0.395
5Y	100.1 / 100.	0.787
7Y	100.2 / 100.	1.116
10Y	102.1 / 102.	1.358
30Y	108.1 / 108.	1.990

Weekly reports

This week
• CPI Y/Y Jun
• PPI Y/Y Jun
Last week
• ISM Non-Manufacturing Jun 60.1
• JOLTS Job Openings May 9,209K

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.