Weekly Wire

JULY 19, 2021

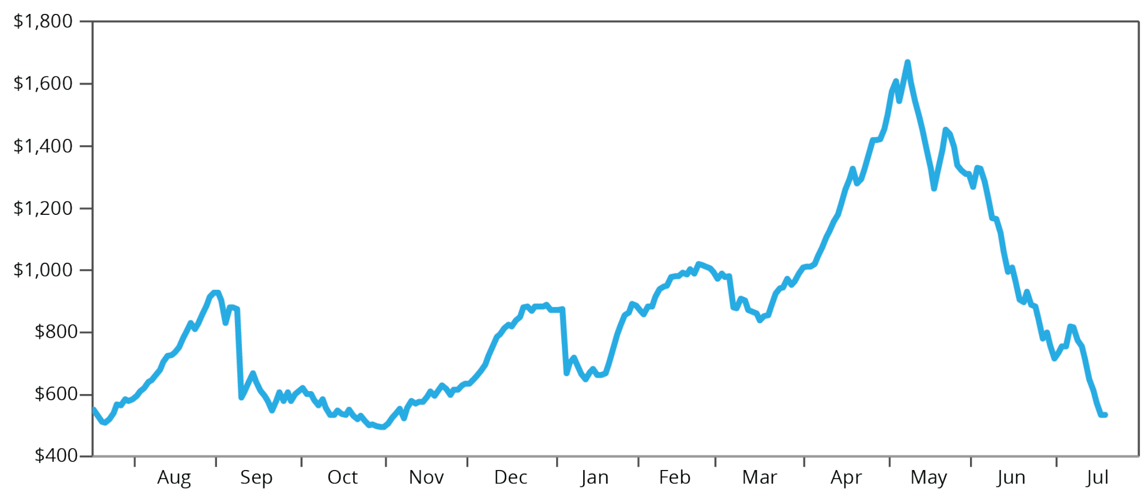
BRINKER CAPITAL INVESTMENTS

Price -Usually- Cures Price

Among the bits of wisdom I first received as a young analyst was from a commodities trader who told me, "Price cures price." Meaning when the price of a commodity had plunged, producers would likely curtail production of that commodity as it was no longer in their economic interest to produce more of it and that curtailing of production would lead to a dwindling of supply and a rebound in price. Conversely, when the supply of a commodity was limited and prices were rising, producers would likely increase production to take advantage of the favorable economics until – eventually – too much supply would cause the price of the commodity to decline. Additionally, consumers refusing to purchase high-cost commodities or finding suitable substitutes can trigger a price drop - low prices cure low prices, and high prices cure high prices.

While the comments by the trader were directed toward commodities, one could argue in a free market where capital goes where it is best treated the dynamic of price cures price should hold – broadly speaking – across any part of an economy that is commoditized. We mention this as we are living through a meaningful spike in the price of any number of goods and services, and there are questions as to whether this time the spike in prices might prove different, that high prices won't bring on enough incremental supply to lower prices either because of a lack of workers or the unraveling of global supply chains, or some other reason. It will likely be months before we know if enough supply of goods and services has come online to meet surging demand and temper recent price inflation, though we find it interesting lumber prices have corrected 65% from their recent all-time high as demand cooled in the face of high prices (though prices remain 30% above their pre-pandemic level). For now, we still believe that price ultimately cures price.

Lumber (CME &/bft) Continuos Contract - Futures Price Close



Stocks, bonds, and commodities (7/19/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4327.16	0.69%	15.20%	34.19%
MSCI AC World ex USA	348.43	-1.02%	6.73%	25.69%
MSCI EAFE	2302.81	-0.09%	7.23%	24.31%
MSCI EM	1340.08	-2.51%	3.78%	27.01%
Bloomberg Barclays US Agg	106.90	0.62%	-2.70%	-3.87%
Crude Oil WTI	71.45	-2.75%	47.26%	75.34%
Natural Gas	3.68	0.82%	45.68%	114.20%

Treasury rates (7/19/2021)

	Price	Yield
2Y	99.25 / 99.2	0.234
3Y	99.27 / 99.2	0.425
5Y	100.1 / 100.	0.782
7Y	101.0 / 101.	1.061
10Y	103.0 / 103.	1.292
30Y	110.0 / 110.	1.921

Weekly reports

This week

- Housing Start SAAR Jun
- Markit PMI Manufacturing Jul

Last week

- CPI Y/Y Jun 5.4%
- PPI Y/Y Jun 7.3%

Brinker Capital Market Barometer

JULY 2021

The US economy is on track to experience strong growth in the second half of the year as COVID-19 vaccination rates climb and restrictions are eliminated. Fiscal policy is currently supportive; however, the additional spending package expected later this year will require tax increases as an offset. The Fed has reaffirmed its commitment to support the economy; however, recent higher inflation readings have caused concern for an earlier than expected unwinding of stimulus. Our base case is that the increase in inflation is more transitory in nature, driven by base effects and temporary supply and demand mismatches, but we continue to watch closely for signs it could become structural. Intermediate and long-term Treasury yields have declined from levels seen in April. Consumer and business sentiment continue to improve, and earnings growth is expected to reflect the strength in nominal GDP. Overall, the barometer remains tilted positively in July, aligned with our 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		●			Bullish sentiment has retreated in recent weeks but remains above its LT average
Seasonality	←	●			Entering more seasonally weak period historically

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 fell throughout the second quarter
Macroeconomic				●	Expect strong economic growth in 2021 driven by the vaccine/reopening
Business sentiment				●	CEO confidence increased again in 2Q to a record high level
Consumer sentiment				●	Consumer confidence surveys improved further in June
Corporate earnings				●	Expect continued strong earnings growth in 2Q
Credit environment				●	Credit spreads continue to tighten

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

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