

## Growth vs Value – Are We Setting Up For A Photo Finish?

A few questions have dominated our client conversations in 2021:

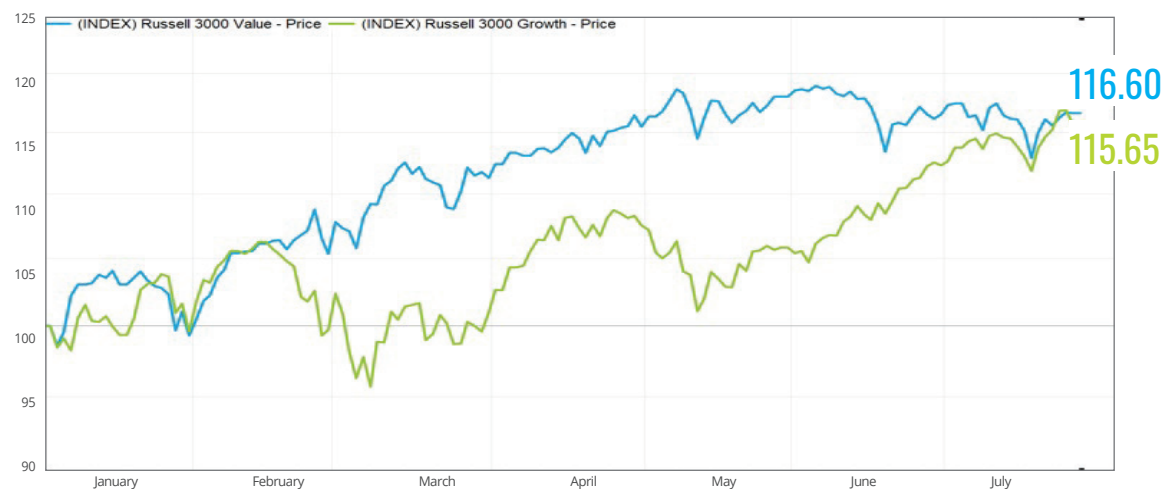
- Will inflation prove transitory or persistent?
- How might changes to the tax code impact the markets?
- When will The Fed taper and tighten?
- What investment style wins out this year: growth or value?

And that final question is the focus of this week's Weekly Wire. As we head into the last five months of 2021 the growth vs. value race is setting up for a photo finish. Consider that through July 30th, the Russell 3000 Growth Index is up 15.4% YTD, and the Russell 3000 Value Index is up 16.9%.

What makes the closeness of those return streams even more interesting is that in early May the Value Index was outperforming the Growth Index by nearly 17%. At that time, many on Wall Street thought the global recovery would run hotter for longer and bond yields would continue to move higher - both dynamics that favor economically sensitive value stocks. Then, as we moved further through Q2, growth stocks came roaring back as bonds caught a bid and investors grew concerned about the durability of the expansion - with the Delta variant of the Covid-19 only adding to those worries as of late.

We continue to maintain a neutral position between growth and value in our discretionary portfolios, leaning on the portfolio managers of the actively managed strategies we use to navigate that style dynamic and find the most compelling opportunities at the stock level. And ultimately, those factors that have and will continue to influence the trajectory of growth and value stocks - the pace and durability of the economic recovery, the persistency of the inflationary spike, the direction of bond yields - will also heavily influence the direction of monetary and fiscal policy into year-end.

Russell 3000 Value vs Russell 3000 Growth YTD



### Stocks, bonds, and commodities (7/30/2021)

| Security name             | Last    | QTD chg | YTD chg | 12mo chg |
|---------------------------|---------|---------|---------|----------|
| S&P 500                   | 4395.26 | 2.27%   | 17.02%  | 34.37%   |
| MSCI AC                   | 345.72  | -1.79%  | 5.90%   | 25.17%   |
| World ex USA              |         |         |         |          |
| MSCI EAFE                 | 2321.09 | 0.70%   | 8.08%   | 27.52%   |
| MSCI EM                   | 1277.80 | -7.04%  | -1.04%  | 18.43%   |
| Bloomberg Barclays US Agg | 107.20  | 0.90%   | -2.43%  | -4.11%   |
| Crude Oil WTI             | 73.81   | 0.46%   | 52.12%  | 83.29%   |
| Natural Gas               | 3.91    | 7.21%   | 54.91%  | 117.51%  |

### Treasury rates (7/30/2021)

|     | Price        | Yield |
|-----|--------------|-------|
| 2Y  | 99.28 / 0.00 | 0.184 |
| 3Y  | 100.0 / 0.00 | 0.346 |
| 5Y  | 99.21 / 99.2 | 0.703 |
| 7Y  | 99.29 / 0.00 | 1.009 |
| 10Y | 103.1 / 0.00 | 1.234 |
| 30Y | 111.0 / 0.00 | 1.889 |

### Weekly reports

| This week                 |
|---------------------------|
| • Hourly Earnings Y/Y Jul |
| • Nonfarm Payrolls Jul    |
| Last week                 |
| • Richmond Fed Index 27   |
| • Q2 GDP SAAR Q/Q 6.5%    |

# 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 |

Source: Brinker Capital. Information is accurate as of July 15, 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.