Weekly Wire

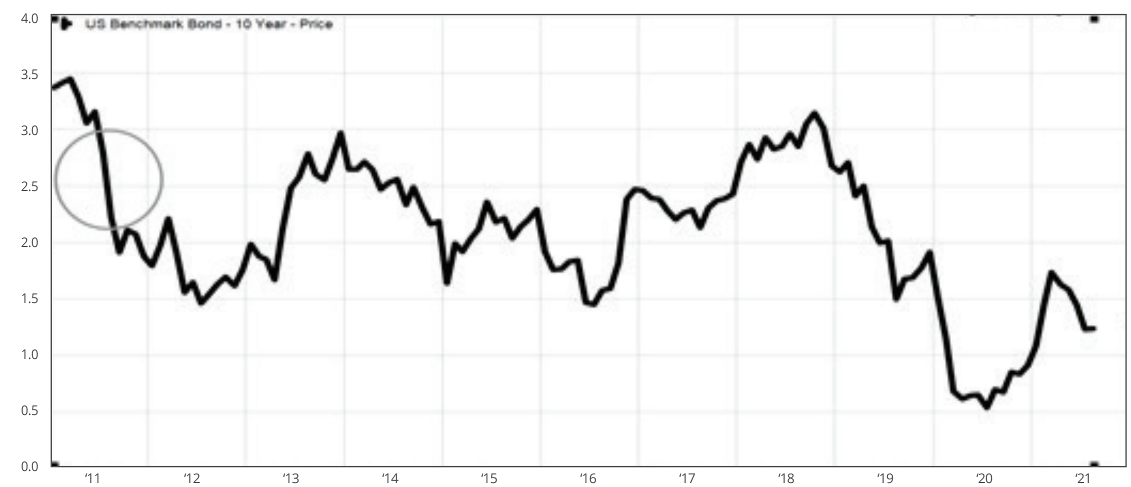
AUGUST 23, 2021

BRINKER CAPITAL INVESTMENTS

The US Debt Downgrade 10 Years On

There has been much written in the financial press the past few weeks about the just-passed 50th anniversary of President Richard Nixon taking the US off the gold standard. While that was for certain a momentous event in the financial history of our country, it is the just-passed 10th anniversary of another momentous financial event that is the focus of this Weekly Wire, and that is the downgrading of the country's credit rating from AAA to AA+ by Standard & Poor's on August 5, 2011. At a high level, S&P downgraded America's credit rating over concerns about the country's level of indebtedness, the sustainability of Federal entitlement programs, and a political dynamic that made compromises between the two parties on taxing and spending less likely, particularly considering the then-recent dust-up over the raising of the government's debt ceiling. Well, despite the downgrade and its implication that the US was now a riskier credit than before, US bonds caught a bid on the S&P downgrade as the yield on the US 10 Year Bond fell almost immediately from 2.6% to 2.1%. Now, 10 years later, despite a much greater amount of total US debt, no changes to key entitlement programs, and a still very challenging political dynamic, the yield on the US 10 Year sits near 1.25%. Despite all our challenges, the US remains the world's most important country and economy, the US dollar remains the world's reserve currency, and the US 10 Year yield remains the world's risk-free rate. Since August 2011, the S&P 500 has risen from 1,292 to 4,442, a gain of approximately 243%.

US Benchmark Bond - 10 Year



Stocks, bonds, and commodities (8/20/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4441.67	3.35%	18.25%	30.75%
MSCI AC World ex USA	339.22	-3.64%	3.91%	19.59%
MSCI EAFE	2307.19	0.10%	7.43%	22.73%
MSCI EM	1220.78	-11.19%	-5.46%	11.81%
Bloomberg Barclays US Agg	106.86	0.58%	-2.74%	-3.69%
Crude Oil WTI	61.86	-15.80%	27.49%	46.10%
Natural Gas	3.84	5.12%	51.90%	56.74%

Treasury rates (8/20/2021)

	Price	Yield
2Y	99.256 / 99.26	0.222
3Y	99.252 / 99.25	0.444
5Y	99.074 / 99.08	0.782
7Y	99.200 / 99.20	1.055
10Y	99.286 / 99.29	1.259
30Y	102.310 / 103.0	1.859

Weekly reports

This week

- Markit PMI Manufacturing SA Aug
- Richmond Fed Index Aug

Last week

- Capacity Utilization NSA July 76.1%
- Philadelphia Fed Index SA Aug 19.4

Chart source: Factset, as of 7/31/21. 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

AUGUST 2021

The US economy is on track to experience strong growth in the second half of the year despite recent concern regarding COVID-19 variants. 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 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		●			Currently in the weakest point of the calendar 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				●	Federal Reserve and global central banks remain very supportive
Inflation			●		Inflation has picked up; Fed expects it to be transitory but watching closely
Interest rate environment				●	Treasury yields have continued to fall
Macroeconomic				●	Expect continued solid economic growth in the second half of 2021
Business sentiment				●	CEO confidence increased again in 2Q to a record high level
Consumer sentiment				●	Consumer confidence rose further in July for the sixth consecutive month
Corporate earnings				●	Continued strength in earnings growth
Credit environment				●	Credit spreads remain tight; high yield spreads at levels last seen in 2007

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 August 5, 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-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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