Weekly Wire

OCTOBER 4, 2021

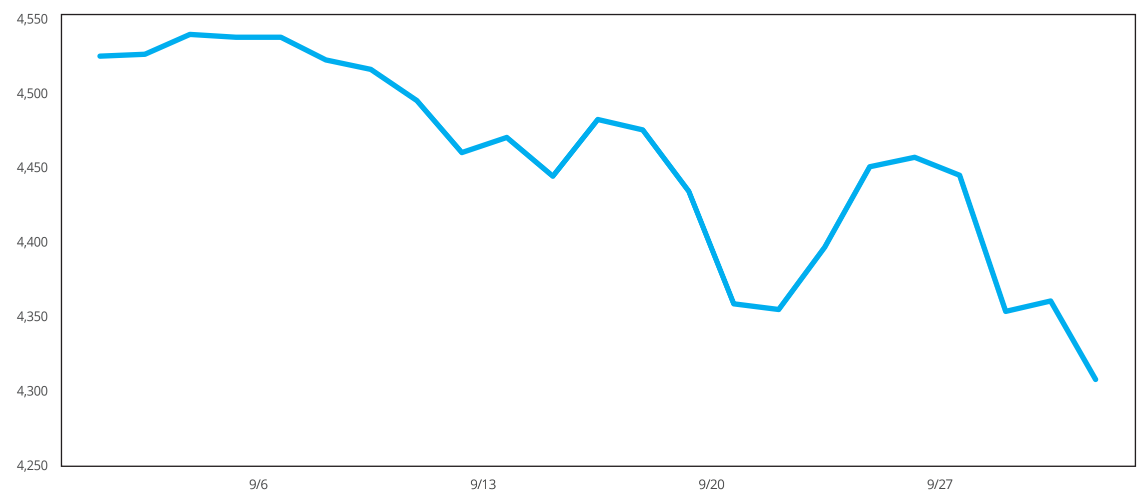
BRINKER CAPITAL INVESTMENTS

Stocks Stumble Through September

We have written about seasonality and the markets often of late, both that we have been working our way through the part of the calendar that has historically proven challenging for stocks ("Sell in May and go away") and that September has been the only month over the past 70 years in which the S&P 500 has averaged a negative return (that number being down 0.5%). Unfortunately, September lived up to its reputation as a bumpy month for the market and then some, with the S&P 500 selling off approximately 4.7%. It wasn't just US large cap stocks that struggled last month; the Russell 2000 pulled back 4.4% while emerging and developed international equities were also in the red. While most investors are glad to see September in the rearview mirror, the return stream for risk assets last month begs the question, Why did markets sell off, and where do we go from here?

We can point to several catalysts for the move lower, including uncertainty around US fiscal policy; the persistency of higher inflation; supply chain and labor challenges dinging economic growth; a pivot toward tighter US monetary policy as the Fed announced its intention to begin tapering its securities purchase program, and the struggles of China's Evergrande Group. That is some list. With that said, those headwinds are now known and, we think, understood by investors and likely to fade over the coming months. Consider that we will get clarity on taxes, spending, and the debt ceiling from DC; supply chains and hiring should catch up with demand (the former would be a meaningful positive as it concerns inflation); markets will adjust as the Fed begins tapering in November, and there should be an orderly unwinding or restructuring of Evergrande Group. It has been a rough few weeks, but we remain optimistic about the economy and risk assets as we move into the fourth quarter.

S&P 500 Price Index in September 2021



Stocks, bonds, and commodities (10/1/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4357.04	1.15%	16.00%	30.12%
MSCI AC World ex USA	337.23	-0.61%	3.30%	20.48%
MSCI EAFE	2263.90	-0.76%	5.42%	22.04%
MSCI EM	1246.60	-0.52%	-3.46%	15.24%
Bloomberg Barclays US Agg	105.86	0.34%	-3.65%	-3.86%
Crude Oil WTI	75.75	0.96%	56.12%	104.45%
Natural Gas	5.55	-5.47%	119.56%	127.48%

Treasury rates (10/1/2021)

	Price			Yield
2Y	99.30	/	99.3	0.266
3Y	99.21	/	99.2	0.485
5Y	99.23	/	99.2	0.920
7Y	99.31	/	99.3	1.262
10Y	98.01	/	98.0	1.462
30Y	99.09	/	99.1	2.030

Weekly reports

This week

- Hourly Earnings Y/Y Sep
- Nonfarm Payrolls Sep

Last week

- Richmond Fed Index Sep -3.0
- Chicago PMI Sep 64.7

Brinker Capital Market Barometer

OCTOBER 2021

Growth is likely to pick up again as concerns over the Delta variant fade. We are seeing economic strengths on many fronts, including corporate earnings, capital expenditures, housing, and employment. Monetary policy remains a tailwind, and the Fed has been transparent in its plan, assuming desired economic conditions have been met. Fiscal policy is currently supportive; however, uncertainty exists near term as Congress works through several fiscal initiatives, including addressing the debt ceiling. Depending on where the legislation ends up, it could result in higher taxes, causing the fiscal backdrop to shift. The increase in inflation measures look more persistent than transitory, but we are still working through supply chain issues. Treasury yields have moved slightly higher, but credit conditions remain favorable. Overall, the barometer remains tilted positively in October, aligned with our overweight risk positioning across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains positive although the rate of change is slowing
Trend				●	S&P 500 index dropped below 50-day moving average, but still in an uptrend
Investor sentiment	→		●		Bearish sentiment has increased; outflows from equity funds/ETFs
Seasonality		●			Seasonally weak period until end of October

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Remains supportive but watching for level of tax increases in final bill
Monetary policy				●	Fed has clearly communicated plan for tapering ('21) and potential rate hikes ('22)
Inflation			●		Inflation appears more persistent than transitory; supply chain issues remain
Interest rate environment				●	Treasury yields have risen modestly since August but remain at low levels
Macroeconomic				●	Economic strength on many fronts - employment, capex, personal income, housing
Business sentiment				●	Small business confidence remains at elevated level; labor shortage a concern
Consumer sentiment				●	Improved slightly in September; higher inflation weighing on purchases
Corporate earnings				●	Earnings picture remains strong; pace of growth may decelerate in 2H21
Credit environment				●	High yield spreads have remained relatively stable; credit conditions constructive

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle				●	In an economic 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 October 4, 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.

2564-BCI-10/4/21