Weekly Wire

OCTOBER 11, 2021

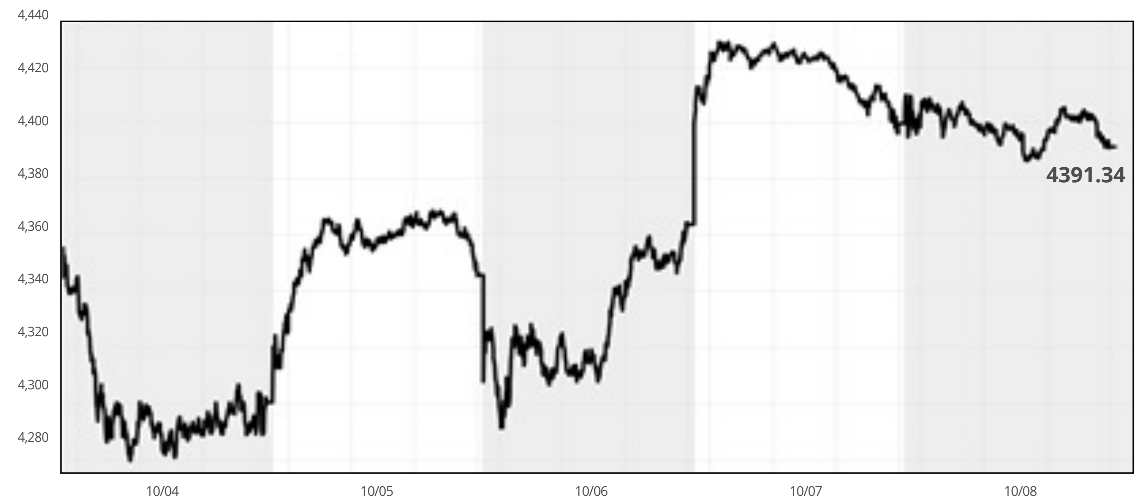
BRINKER CAPITAL INVESTMENTS

What's Behind Door #3?

"What's behind door number 3?" is a question very familiar to fans of the long-running TV game show "Let's Make A Deal." Well, maybe to fans of a certain age as it seems the latest incarnation of the show has moved on from doors to curtains (in the spirit of full disclosure, most of my viewing of LMAD took place during the 1970s when the show's original host and co-creator, the late, great Monty Hall, was handling the hosting duties). For those of you who enjoy probability puzzles, we suggest you check out this video that explains "The Monty Hall Problem," which is a pretty famous—and pretty cool—brain teaser, loosely based on the TV show.

With that said, we pivot this week to the news last week that Democrats and Republicans had reached an agreement to raise the U.S. debt ceiling into December – hence the focus on Let's Make A Deal. More specifically, the Senate agreed to raise the U.S. borrowing limit by $480 billion, which is the amount of money the Treasury Department has said is needed to meet the country's cash needs until December 3rd. The bill now goes to the House, where it should pass, and then onto the White House where it would be signed by President Biden. This is only a temporary solution to the debt ceiling dynamic, and the path forward from December 3rd is unclear, as Republicans continue to argue that Democrats should use the budget reconciliation process to raise the debt ceiling, while the Democrats continue to argue that the reconciliation process is too risky and time consuming to be used to raise the debt ceiling. So, there is a very good chance we will all be right back here in two months' time. For now, though, we think investors are cheering the deal as stocks rallied during the first full week in October, after enduring a rough September. The market hates uncertainty; and at least for the next few months, there is certainty as it concerns the government's ability to pay its bills.

S&P 500 The Week of October 4, 2021



Stocks, bonds, and commodities (10/8/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4391.34	1.95%	16.91%	26.29%
MSCI AC World ex USA	339.41	0.03%	3.97%	17.44%
MSCI EAFE	2269.79	-0.50%	5.69%	18.82%
MSCI EM	1257.04	0.31%	-2.65%	11.99%
Bloomberg Barclays US Agg	104.96	-0.51%	-4.46%	-4.42%
Crude Oil WTI	79.59	6.08%	64.04%	96.03%
Natural Gas	5.61	-4.45%	121.93%	104.52%

Treasury rates (10/8/2021)

	Price		Yield
2Y	99.28 /	0.00	0.310
3Y	99.12 /	99.1	0.577
5Y	99.03 /	99.0	1.048
7Y	99.00 /	99.0	1.398
10Y	96.24 /	0.00	1.611
30Y	96.11 /	96.1	2.161

Weekly reports

This week

- Hourly Earnings Y/Y Sep
- Nonfarm Payrolls Sep

Last week

- Hourly Earnings Y/Y Sep 4.6%
- Nonfarm Payrolls Sep 194K

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

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