Weekly Wire

OCTOBER 18, 2021

BRINKER CAPITAL INVESTMENTS

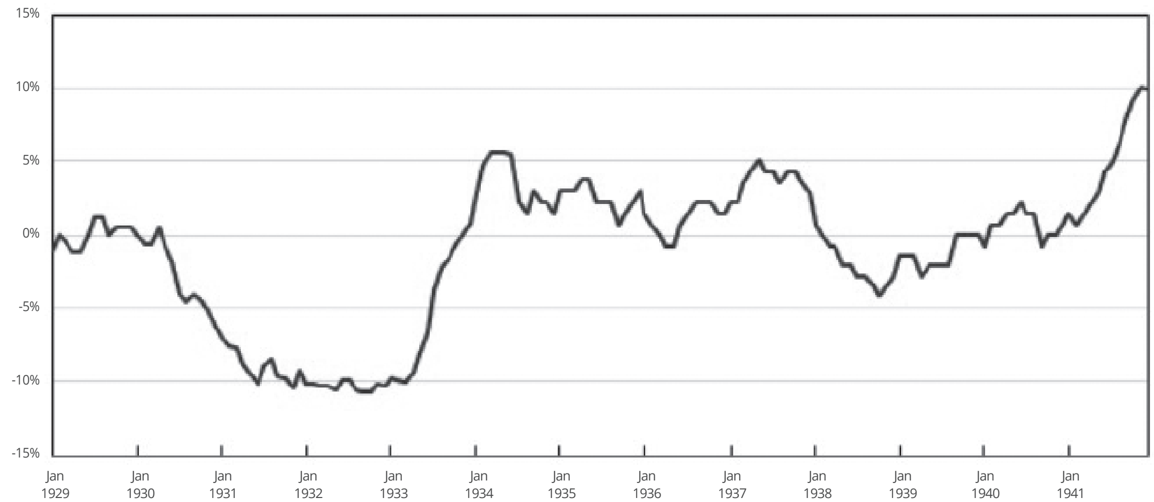
What's More Concerning Than Too Much Inflation?

Investors are rightly concerned about the recent level and persistency of inflation, which, depending on what metric one uses to measure it, is running at 4% to 5% year over year, well above the Federal Reserve's long-term inflation target of 2%+ (to be fair to the Fed, our central bank has long made the case that a spike in inflation was expected – and would be tolerated – as the economy reopened, and that said spike would dissipate as supply caught up with demand; the Fed was spot on concerning the first half of its analysis and time will tell if its right on the second half).

While we don't mean to dismiss the financial pain that higher prices for goods and services cause for millions of Americans, particularly those who spend a disproportionate amount of their income on day-to-day necessities such as gasoline and food, we would argue there is something more concerning for an economy than too much inflation and that is too little inflation—more specifically deflation—which is a decrease in consumer and asset prices over time. Deflation is unwelcome as it leads to lower consumer spending, which is the most meaningful contributor to US GDP (consider if you know the price of a good will be lower next year, you will wait to purchase it; when next year arrives and you know the price will be lower still in another year's time you will again delay your purchase, and so on. That dynamic will force companies to cut back on productive resources, which will cause the economy to slow and eventually slip into a recession, while also making it very difficult for borrowers to service their debts).

Fortunately, deflation is rare, and last occurred in the US in a meaningful manner during the Great Depression, when consumer prices fell 10%+. We are concerned about the spike in prices for goods and services, but on a relative basis, it is much better than a dramatic drop in the price for goods and services.

All-Items Consumer Price Index, 12-month change, 1929-1941



Stocks, bonds, and commodities (10/15/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4471.37	3.80%	19.04%	28.35%
MSCI AC World ex USA	347.55	2.43%	6.46%	21.44%
MSCI EAFE	2324.50	1.89%	8.24%	23.49%
MSCI EM	1283.67	2.44%	-0.59%	14.20%
Bloomberg Barclays US Agg	105.25	-0.24%	-4.21%	-4.34%
Crude Oil WTI	82.66	10.17%	70.36%	101.02%
Natural Gas	5.42	-7.58%	114.65%	95.53%

Treasury rates (10/15/2021)

	Price		Yield
2Y	99.23 /	99.2	0.391
3Y	99.25 /	99.2	0.690
5Y	98.25 /	98.2	1.124
7Y	98.29 /	98.3	1.411
10Y	97.01 /	97.0	1.573
30Y	99.01 /	99.0	2.041

Weekly reports

This week
- Housing Starts SAAR Sep
- Philadelphia Fed Index SA Oct

Last week
- CPI NSA Y/Y Sep 5.4%
- PPI NSA Y/Y Sep 8.6%

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

For financial professional use only. Not intended for public distribution. Indices are unmanaged, and an investor cannot invest directly in an index. 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. Brinker Capital Investments, LLC a registered investment advisor.

2677-BCI-10/18/2021