Brinker Capital Market Barometer

DECEMBER 2021

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The US economy is still on track for very strong growth in the fourth quarter despite any headwinds from the new COVID-19 variant. The labor market continues to improve, as the unemployment rate has fallen to 4.2% and wages have meaningfully increased. Monetary policy remains accommodative, however, the more persistent inflation we are experiencing may cause the Fed to accelerate its timeline for tapering, followed by rate increases, in 2022. Fiscal policy is currently supportive, and we avoided a government shutdown for now, but the debt ceiling and President Biden's Build Back Better plan must be addressed. With broad-based economic growth, we expect another strong quarter of growth in corporate profits, which is supportive of equities. Longer-term Treasury yields have fallen recently, and the yield curve has steepened, but credit conditions remain favorable. While the weight of the evidence still leans largely positive, which is aligned with our modest overweight risk positioning across portfolios, the few changes to the barometer in December were negative.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	←		●		Overall market momentum still positive but breadth has deteriorated
Trend				●	US large cap above LT moving average, but international and small cap weaker
Investor sentiment			●		Bullish sentiment has come down recently but not in extreme territory
Seasonality				●	Seasonality a tailwind through year-end

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Fiscal support remains; tax impact of BBB looks relatively benign
Monetary policy				●	Fed has clearly communicated plan; watching for speeding up of timeline
Inflation	←	●			Persistent inflation causing Fed to adjust timeline; weighing on sentiment
Interest rate environment				●	Longer-term Treasury yields have fallen in recent weeks; yield curve has flattened
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			●		Survey data negative but not in sync with consumer behavior
Corporate earnings				●	Broad-based strength in earnings although pace of growth should decelerate
Credit environment				●	Modest widening of corporate credit spreads; 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			●		Emerging markets with more favorable trends overall than developed markets

SUMMARY

Within the **short-term factors**, momentum moved from a positive to a neutral factor. Overall market momentum is still positive, but market breadth has deteriorated.	Within the **intermediate-term factors**, inflation moved from neutral to a negative factor. The Fed's acknowledgment that inflation has become more persistent than transitory has potentially accelerated their timeline for removing monetary stimulus. Inflation is also weighing on consumer sentiment. We expect wages and rents to put upward pressure on inflation, causing it to remain elevated, even if we see some easing of supply chain issues.	There were no changes to the **long-term factors**.

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