Weekly Wire

DECEMBER 13, 2021

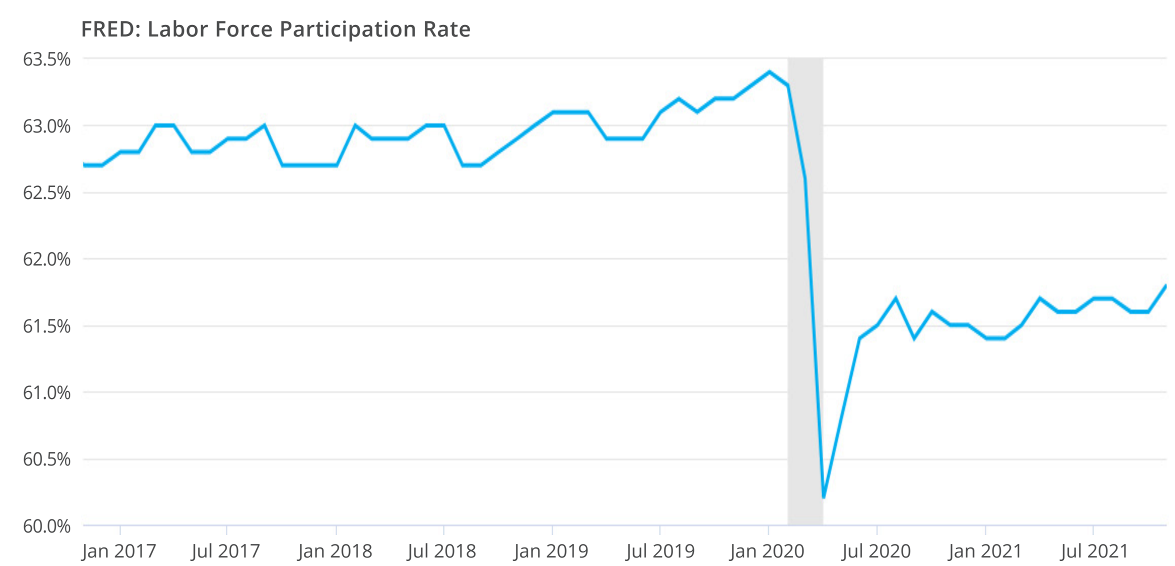
BRINKER CAPITAL INVESTMENTS

It's Not Much, But We'll Take It

Excluding this awful pandemic, we think most market observers would cite inflation as the greatest risk to the economy and markets. More specifically, the risk that inflation remains high or moves higher, forcing the Fed to tighten monetary policy quicker than it wants, putting the economy and bull market in jeopardy. We also think most market observers would cite the still shockingly low labor force participation rate – and the still missing (estimated) 3+ million jobs relative to where we were pre-pandemic – as the biggest conundrum of the economic recovery.

Setting aside the possible causes for the labor market shortfall, that risk and conundrum are intertwined, with inflation being pushed along by both higher wages (as employers compete for employees) and stressed supply chains (stressed, at least somewhat, due to a lack of available workers). Inflation could ease, all things being equal, as more Americans return to the workforce. And, as the economy continues to reopen, consumers could spend more on services and less on goods, further destressing supply chains, and further mitigating inflation.

We have gotten some good news of late as it concerns Americans coming back to – and not leaving – the workforce. The labor force participation rate ticked up ever so slightly to a post-pandemic high of 61.8% in November (see chart) and the number of Americans quitting their jobs (as a percentage of the workforce) dropped from a record 3% in September to 2.8% in October, per the latest Job Openings and Labor Turnover Survey. We think the labor market moving in the right direction is a big deal as it concerns inflation and monetary policy in 2022. It's not much, but we'll take it.



Stocks, bonds, and commodities (12/10/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4712.02	9.39%	25.45%	28.62%
MSCI AC World ex USA	339.95	0.19%	4.13%	6.75%
MSCI EAFE	2289.62	0.37%	6.62%	9.54%
MSCI EM	1238.54	-1.16%	-4.08%	-1.52%
Bloomberg Barclays US Agg	104.79	-0.68%	-4.62%	-4.59%
Crude Oil WTI	71.96	-4.09%	48.31%	54.52%
Natural Gas	3.89	-33.73%	53.92%	50.06%

Treasury rates (12/10/2021)

	Price	Yield
2Y	99.21 / 0.00	0.664
3Y	100.0 / 0.00	0.987
5Y	99.31 / 0.00	1.252
7Y	100.1 / 0.00	1.421
10Y	98.30 / 0.00	1.486
30Y	99.26 / 0.00	1.881

Weekly reports

This week (12/13/2021)

- NFIB Small Business Index Nov
- NAHB Housing Market Index SA Dec

Last week (12/6/2021)

- CPI Nov NSA Y/Y 6.8%
- UofM Dec Consumer Sentiment NSA 70.4

Brinker Capital Market Barometer

DECEMBER 2021

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

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