Weekly Wire

JANUARY 17, 2022

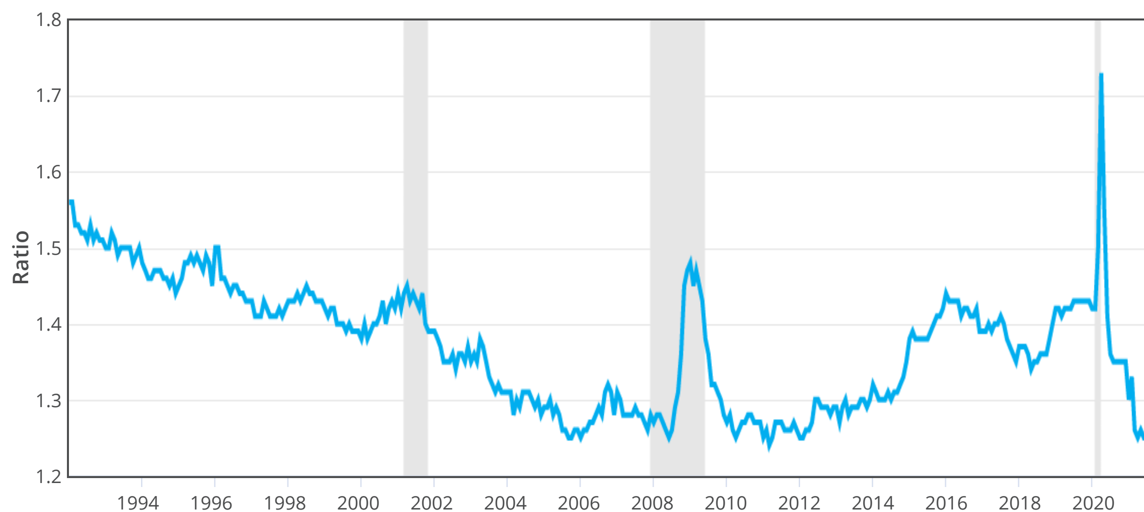
BRINKER CAPITAL INVESTMENTS

You Can't Buy What They Don't Have to Sell

Nearly two years into the pandemic, our country continues to confront production and sourcing challenges that are leaving, at least episodically, any number of small-ticket items (think toilet paper) and big-ticket items (think new cars) in short supply. Those supply chain challenges along with a US consumer that is, on balance, flush with cash and focused on spending on goods rather than services (as the services side of the economy remains encumbered by the pandemic), have helped drive inflation sharply higher, as evidenced by the 7% jump in December's Consumer Price Index—the greatest in nearly 40 years.

Regardless of how one thinks about or analyzes the economy, if one associates with the Keynesian school of economics or the Monetarist school of economics or another school, or none at all, most economy watchers would agree, we think, that we have a lot of money chasing too few goods. One indicator of a lot of demand and not a lot of stuff is November's Total Business Inventories to Sales Ratio, coming in marginally above its all-time low (see chart).

At some point, and history tells us this always happens—and we are confident it will—supply will catch up with demand, which should moderate the gains in the prices of goods specifically, and inflation more broadly. And considering we prefer to take an optimistic view of things—and history tells us we should—there is an upside to limited inventories in the face of strong demand. That is production levels should continue to run at a high rate, supporting employment and corporate earnings, as well as ongoing investment in capital equipment; and as inventories are at modest levels, were demand to moderate it is unlikely companies would have to respond with steep cuts in jobs and investment, a dynamic that should help keep any economic slowdown from turning into a recession.



Stocks, bonds, and commodities (1/14/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4662.85	-2.17%	-2.17%	23.74%
MSCI AC World ex USA	346.54	0.64%	0.64%	3.20%
MSCI EAFE	2333.00	-0.13%	-0.13%	6.78%
MSCI EM	1257.46	2.07%	2.07%	-7.41%
Bloomberg Barclays US Agg	102.73	-1.91%	-1.91%	-5.73%
Crude Oil WTI	84.27	12.05%	12.05%	60.94%
Natural Gas	4.04	13.52%	13.52%	49.78%

Treasury rates (1/14/2022)

	Price		Yield
2Y	99.18 /	0.00	0.961
3Y	99.18 /	0.00	1.266
5Y	98.19 /	0.00	1.544
7Y	97.25 /	0.00	1.714
10Y	96.14 /	0.00	1.769
30Y	94.23 /	0.00	2.113

Weekly reports

This week (1/17/2022)

- Empire State Index SA Jan
- Existing Home Sales SAAR Dec

Week of 1/10/2022

- Consumer Price Index NSA Y/Y Dec 7.0%
- Producer Price Index NSA Y/Y Dec 9.7%

Chart source: The Federal Reserve Bank of St. Louis, January 2022. The views expressed are those of Brinker Capital and are not intended as investment advice or recommendation. For informational purposes only.

Brinker Capital Market Barometer

JANUARY 2022

The US economy is on track for solid growth to start the year as we expect the impact from the Omicron variant to be more transitory. The labor market continues to improve, with the unemployment rate falling to 3.9% and wage growth increasing meaningfully. The housing market is very strong and helped by favorable supply and demand dynamics. Monetary policy remains accommodative; however, we are watching for persistent higher inflation that could force the Fed to adopt a more hawkish stance on rate hikes, and possibly quantitative tightening, in 2022. Fiscal policy is less of a tailwind this year, and we do not see a high likelihood of either a large-scale stimulus package or sweeping tax increases. With economic growth more broad-based, we expect another strong quarter of growth in corporate profits, which is supportive of equities. Longer-term Treasury yields edged higher recently; however, we are far from levels that would impact the economy and equity markets. Although a couple of factors slid into neutral territory in January, the weight of the evidence still leans largely positive, aligned with our modest overweight risk positioning across portfolios. We expect elevated market volatility as we experience normalization of liquidity and policy, a backdrop that is favorable for our active approach.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Overall market momentum is still positive but breadth has deteriorated
Trend				●	US large caps are in an uptrend; above 50-day and 200-day moving averages
Investor sentiment			●		Not at an extreme; average level of bullish sentiment; equity flows strong
Seasonality	←		●		Seasonality relatively weaker entering 1Q

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	←		●		Fiscal drag a headwind in 2022; major stimulus unlikely but pressure on Democrats to act
Monetary policy				●	Fed has pivoted to rate hikes in 2022, but balance sheet still supportive
Inflation		●			Persistent high inflation may cause Fed to adjust timeline; weighing on sentiment
Interest rate environment				●	Treasury yields have edged higher but still far from impacting economy or markets
Macroeconomic				●	Economy strong (e.g. housing, consumer spending); Omicron impact is transitory
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				●	Corporate credit spreads remain well behaved; credit conditions supportive

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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of January 12, 2022. 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.

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