Weekly Wire

MAY 31, 2022

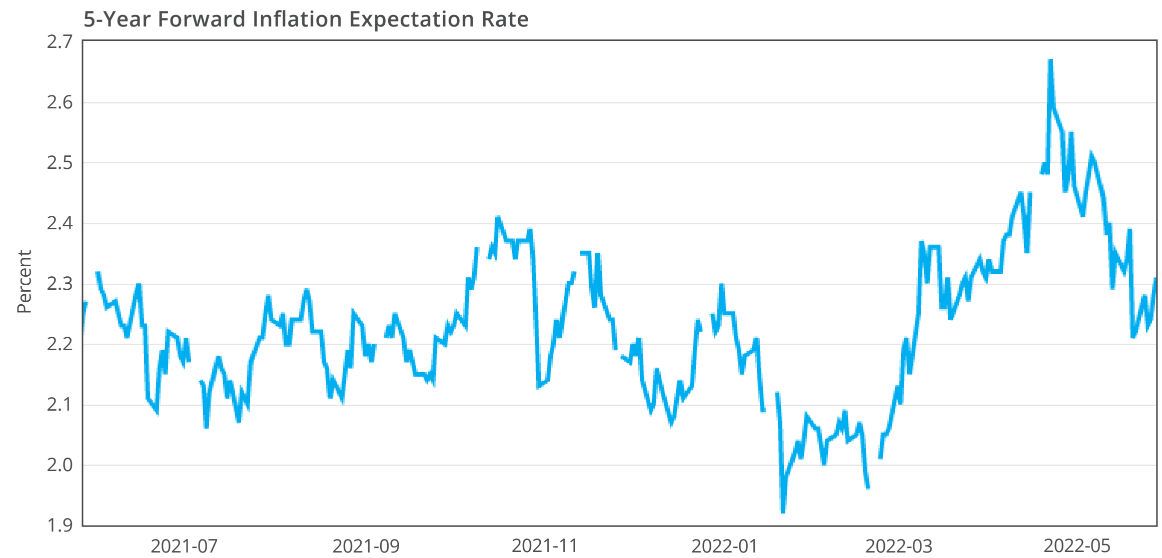
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Is the Market Buying What the Fed is Selling?

As we know, Congress tasked the Federal Reserve with a dual mandate: full employment and price stability - which means the central bank should foster an economic environment where everyone who wants a job has a job and inflation remains constrained - which, for the Fed, is a general increase in prices of 2% year on year long-term. Coming through and out of the pandemic, the Fed emphasized the employment aspect of its mandate, wanting to mitigate the economic damage done by the pandemic and see the US economy come back to and exceed its pre-pandemic peak (and it succeeded as the unemployment rate is back below 4% and GDP is larger than ever). The inflation aspect of the mandate, if not dismissed, was downplayed through 2021 as the bank was confident the spike in prices for goods and services that began manifesting in 2021 would prove transitory.

In hindsight, the Fed did not pivot to the changing and increasing inflation dynamic soon enough and is now focused intensely on tamping down historically high inflation, which means raising the Fed Funds Rate and shrinking the bank's balance sheet. Jawboning is another powerful tool in the Fed's toolbox, and Chairman Jay Powell has been adamant that the hawkish policy stance will persist until the Fed sees "clear and convincing evidence that inflation pressures are abating."

What is interesting about the Fed and its inflation fight is while the Fed has only begun moving the needle on tightening monetary policy, markets seem to have begun pricing in a more benign inflation environment, at least as evidenced by the drop in the US 10 Year Yield from 3.13% to 2.74% and the drop in inflation expectations over the five-year period that begins five years out from 2.67% to 2.28% (see chart). If, and it is a BIG IF, the market believes the Fed will succeed in its battle to tame inflation, yields and inflation expectations should stabilize, and maybe come in further; either outcome should prove very positive for the economy, investor sentiment and risk assets.



Stocks, bonds, and commodities (5/27/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4158.24	-8.21%	-12.76%	-1.09%
MSCI AC World ex USA	300.05	-7.27%	-12.86%	-15.38%
MSCI EAFE	2035.83	-6.68%	-12.85%	-13.05%
MSCI EM	1043.17	-8.64%	-15.33%	-23.34%
Bloomberg Barclays US Agg	94.79	-3.10%	-9.50%	-10.38%
Crude Oil WTI	115.07	14.75%	53.00%	73.51%
Natural Gas	8.71	54.34%	144.81%	191.63%

Treasury rates (5/27/2022)

	Price		Yield
2Y	100.0 /	100	2.464
3Y	100.1 /	100	2.636
5Y	99.18 /	99.1	2.716
7Y	99.28 /	99.2	2.769
10Y	101.0 /	101	2.743
30Y	98.03 /	98.0	2.969

Weekly reports

This week (5/31/2022)

- Chicago PMI SA May
- Consumer Confidence May

Week of 5/23/2022

- New Home Sales SAAR Apr 591.0K
- PCE SA M/M Apr 0.90%

Chart source: Federal Reserve Bank of St Louis, May 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

MAY 2022

A strong labor market, wage growth, and healthy consumer balance sheets are boosting the US economy, although geopolitics, inflation, and Federal Reserve policy are taking center stage. Global markets have fallen back to year-to-date lows as interest rates continue their upward ascent. Expectations are high for the Federal Reserve to raise interest rates more than 0.25% during the May FOMC meeting. The conflict in Ukraine rages on, with related headlines contributing to price volatility across asset classes. The second quarter earnings season is in full swing, and early results are favorable. Company commentary around controlling costs and maintaining margins will be important to monitor throughout the season. A strong consumer bodes well for economic cycle durability, but we are watching to see if the persistence of inflation and geopolitical worries may curtail spending.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	←	●			Market has returned to year-to-date lows, giving back the recent recovery
Trend	←	●			Index levels have dropped back below moving averages
Investor sentiment				●	Surveys show significantly more bears than bulls, a contrarian indicator
Seasonality	←←	●			Markets are entering a period of seasonal weakness, particularly in a midterm election year

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Fiscal drag a headwind in 2022; unlikely to see any major new fiscal spending
Monetary policy				●	Markets have tightened ahead of the Fed, but financial conditions are still accomodative
Inflation		●			Persistently high inflation may cause Fed to adjust timeline; weighing on sentiment
Interest rate environment			●		Rates remain historically low, but the effects of future rate hikes remain to be seen
Macroeconomic				●	Consumer balance sheets remain strong and the labor market remains healthy
Business sentiment				●	Business confidence measures declined from recent highs, but remain elevated
Consumer sentiment		●			Consumer sentiment is deteriorating as inflation persists
Corporate earnings				●	Broad-based strength in earnings, closely watching margin pressures and basing effects
Credit environment				●	Corporate credit spreads are widening but still at tight levels relative to history

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		Equity valuations have moved closer to long-term averages
Business cycle				●	In an economic expansion period with positive GDP growth since 3Q20
Demographics			●		Emerging markets with more favorable trends overall than developed markets

943-BCI-5/31/2022