Weekly Wire

JUNE 13, 2022

BRINKER CAPITAL INVESTMENTS
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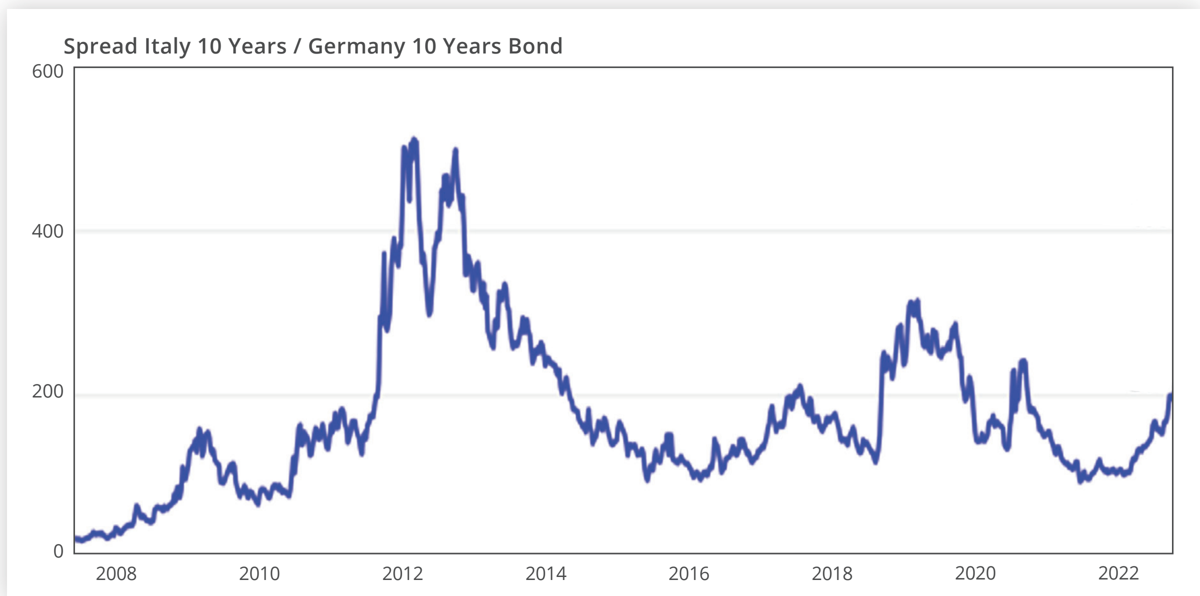
"Whatever It Takes"....Ten Years On

Central bankers aren't known for oratorical flourishes. It could be that the subject matter – think rates and reserve requirements – doesn't lend itself to stirring speeches. Or it might be that bankers prefer opaqueness in their communications, playing their cards close to the vest in case pivots in policy are necessary. That said, 10 years ago, European Central Bank President Mario Draghi made global news – and one could argue, geo-political history – when he promised the ECB would do "whatever it takes" to hold the Eurozone together.

At the time, investors feared highly-indebted, economically-challenged European countries, including Italy and Greece, would be forced out of the Eurozone, leading to the fragmentation of an institution that was key to an unprecedented era of peace and cooperation for the continent. The thinking was strong Eurozone economies – including Germany – were unwilling to support weaker economies, or those weaker nations would exit the Euro so they could return to their legacy currencies and inflate away their debt. Investor concerns manifested in soaring bond yields and borrowing costs for Italy and other countries. In response, the ECB took interest rates below zero and injected more than half a trillion Euros into the banking system, eventually stabilizing economic and credit conditions on the continent, and keeping the Eurozone intact.

Today, bond yields have moved up across the Eurozone in response to historically high inflation and an ECB that is poised to raise rates for the first time in years. The ECB, like the Fed, faces the tricky task of tamping down inflation without putting Europe into a recession, a job made more difficult by the conflict in Ukraine. But we don't think the Eurozone faces the existential risk of a decade ago and believe tighter spreads between bond yields of stronger and weaker members support that thinking, as 10-Year Italian debt is yielding 200bps more than 10-Year German debt, compared to 470bps when Mr. Draghi delivered his history-making speech in July 2012 (see chart). Europe, like the US, is working through a very difficult economic period. Both will make it through to the other side.



Stocks, bonds, and commodities (6/10/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3900.86	-13.90%	-18.16%	-8.16%
MSCI AC World ex USA	290.82	-10.13%	-15.54%	-18.93%
MSCI EAFE	1934.20	-11.34%	-17.20%	-18.23%
MSCI EM	1054.64	-7.63%	-14.40%	-23.69%
Bloomberg Barclays US Agg	92.39	-5.55%	-11.78%	-13.14%
Crude Oil WTI	120.49	20.15%	60.20%	69.92%
Natural Gas	8.76	55.18%	146.13%	165.62%

Treasury rates (6/10/2022)

	Price		Yield
2Y	98.30 /	0.00	3.045
3Y	99.00 /	0.00	3.216
5Y	97.04 /	0.00	3.255
7Y	97.00 /	0.00	3.233
10Y	97.19 /	0.00	3.157
30Y	93.25 /	0.00	3.197

Weekly reports

This week (6/13/2022)

- May PPI NSA Y/Y
- June NAHB Housing Market Index SA

Week of 6/6/2022

- May CPI NSA Y/Y 8.6%
- UofM June Consumer Sentiment NSA 50.2

Chart source: http://www.worldgovernmentbonds.com/. 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

JUNE 2022

A strong labor market, robust wage growth, and healthy consumer balance sheets are providing support to the U.S. economy, but financial markets continue to be more acutely focused on the downside potential from inflation, geopolitics, and tightening monetary policy. Global equity markets staged a modest rally at the end of May alongside an easing in long-term Treasury yields. However, most major indices remain near bear market territory amid uncertainty regarding the Fed's ability to engineer a 'soft landing' without tipping the U.S. economy (and global economy) into a recession. Nevertheless, the first quarter earnings season has been solid with S&P 500 earnings growth of 9.2% and over 75% of companies exceeding earnings forecasts. A strong consumer bodes well for economic cycle durability, but we are watching to see if the negative sentiment from persistent inflation and geopolitical turmoil will curtail spending.

SHORT-TERM FACTORS (< 6 months)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
Momentum		●			Despite the recent bounce, most equity markets remain near bear market territory
Trend		●			Major global equity indices remain below moving averages
Investor sentiment				●	Surveys show significantly more bears than bulls; tends to be a contrarian signal
Seasonality		●			Markets entering seasonally-weak period; more pronounced in midterm election years

INTERMEDIATE-TERM FACTORS (6-36 months)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
Fiscal policy			●		Diminshed likelihood of significant legislation; surging tax revenues aiding deficit reduction
Monetary policy	←		●		Fed rate hikes and forecasts of tightening throughout 2022 have moderated easy conditions
Inflation		●			Might have reached peak inflation but prices are still rising at historically high rates
Interest rate environment			●		Rates moving higher but still historically low; yield curve has steepened after brief inversion
Macroeconomic				●	Healthy labor market supporting consumer spending despite higher interest rates
Business sentiment	←←	●			Business confidence measures have continued to deteriorate with inflation as a primary driver
Consumer sentiment		●			Consumer sentiment at lowest level since 2013 but hasn't negatively impacted spending
Corporate earnings				●	Continued strength in revenues/earnings and analyst estimates; margin pressures materializing
Credit environment				●	Corporate credit spreads widening in orderly fashion; remain tight relative to history

LONG-TERM FACTORS (36+ months)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
Valuation			●		U.S. equity valuations near long-term averages; overseas markets below average valuations
Business cycle				●	In economic expansion with positive year-over-year GDP growth despite modest dip in Q1
Demographics			●		Emerging markets possess 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 June 6, 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. 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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