Weekly Wire

JUNE 21, 2022

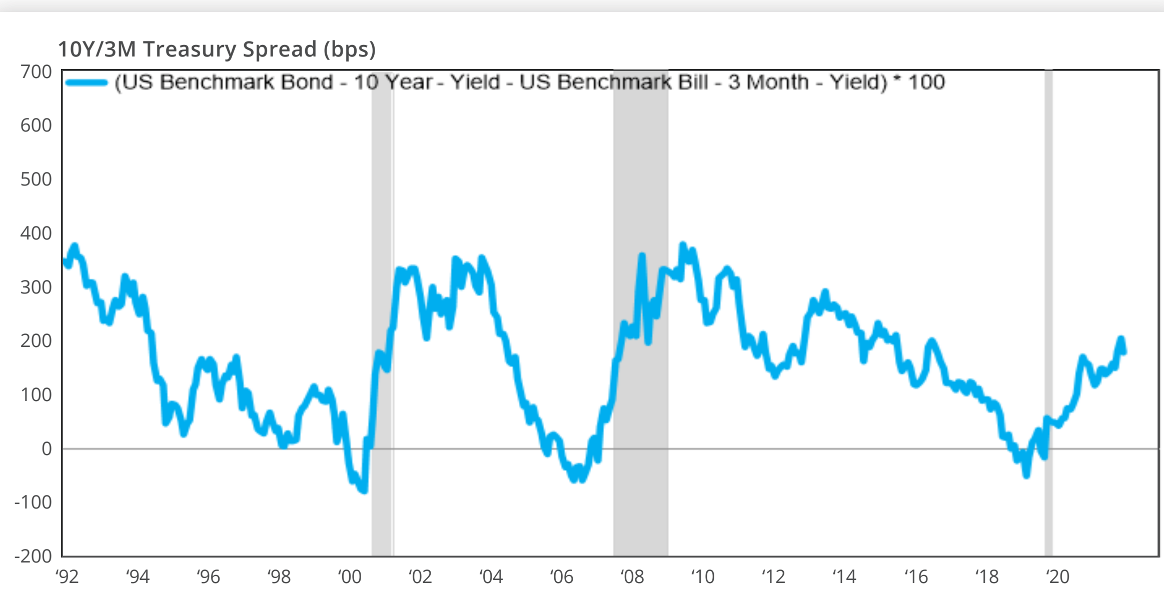
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Some Thoughts on a Very Difficult Week

Last week proved to be an exceptionally difficult week in what has been a very difficult year for US investors. The S&P 500 entered a bear market on Monday, June 13 when it sold off nearly 4% on the day to close nearly 22% lower from its all-time high of 4,819, before moving lower still and closing out the week off almost 23% year to date and nearly 24% from its all-time high. It was the worst week for the S&P since March of 2020.

As has been the case for much of 2022, concerns about interest rates and inflation weighed on risk assets, as investors continued to digest the prior week's hotter-than-expected May CPI report, while the US Federal Reserve – somewhat surprisingly – telegraphed and then moved ahead with a 75 bps hike in the key Fed Funds rate—the largest increase since 1994, and indicated it could hike rates another 75 bps at its July meeting. While markets did initially rally on the more hawkish move by the Fed, they faltered soon thereafter over worries the Fed might be tightening too far, too fast, and putting the US economy at risk of recession. And beyond the nascent bear market, talk of possible recession dominated Wall Street last week, with some market observers pointing to disappointing data on housing, retail sales, and initial jobless claims as proof the economy is rolling over. What is somewhat ironic is that investors should be rooting for weaker economic data as that should induce weaker inflation data which should allow the Fed to ease up on its rate hiking campaign into the fall (the proverbial "soft landing"), an inflection point that should put a meaningful bid under the market.

It won't be easy, but we think the US economy can avoid a recession as we move through the back half of 2022 and into 2023. Quite simply, economic downturns tend not to happen when the labor market is this strong (the unemployment rate is 3.6%) and the spread between the yield on the US 3 Month Bill and the US 10 Year Note is this positive (see chart; that part of the yield curve has inverted prior to each of the last three recessions). Finally, as it concerns the market, when investor sentiment is as negative as it is today, stock prices have historically been meaningfully higher 12 months out.



Stocks, bonds, and commodities (6/17/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3674.84	-18.89%	-22.90%	-11.80%
MSCI AC World ex USA	274.36	-15.21%	-20.32%	-21.83%
MSCI EAFE	1823.08	-16.44%	-21.96%	-21.03%
MSCI EM	1004.63	-12.01%	-18.46%	-26.20%
Bloomberg Barclays US Agg	91.48	-6.48%	-12.65%	-14.01%
Crude Oil WTI	108.88	8.58%	44.77%	51.98%
Natural Gas	7.01	24.16%	96.94%	117.88%

Treasury rates (6/17/2022)

	Price		Yield
2Y	98.22 /	98.2	3.188
3Y	98.20 /	98.2	3.357
5Y	96.23 /	96.2	3.347
7Y	96.12 /	96.1	3.334
10Y	96.30 /	96.3	3.234
30Y	92.09 /	92.1	3.280

Weekly reports

This week (6/21/2022)

- June Markit PMI Services SA
- May New Home Sales SAAR

Week of 6/6/2022

- May PPI NSA Y/Y 10.8%
- June NAHB Housing Market Index SA 67.0

Chart source: Factset, June 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

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	
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	
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	
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.

1080-BCI-6/21/22