Weekly Wire

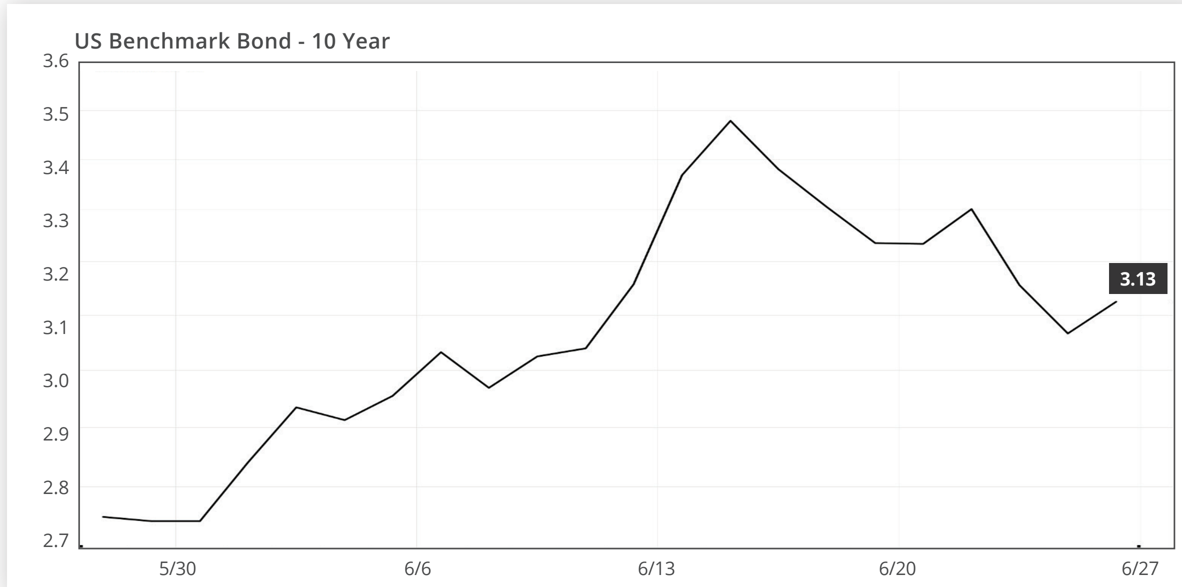
JUNE 27, 2022

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

A Recession is Not Preordained

We try to construct these weekly pieces as narrative or mini-narrative essays. This week we are taking a different approach, simply listing the reasons why we think a US recession isn't pre-ordained. Before we get to those reasons, we would point out that since 1980, the US economy has been in recession just 13% of the time, and that the yield on the US 10 Year Note has come in by about 40bps, a possible sign the market is increasingly confident the Fed will win the battle against inflation (see chart).

- Corporate America, the US consumer is in fantastic financial shape
- Companies hold $7 trillion in cash; excess household savings total $2 trillion
- The labor market is exceptionally strong – sub 4% unemployment rate
- Home prices are at an all-time high; record tappable equity
- Some inflation data points appear to have peaked/have rolled over
- No signs of meaningful sector or industry imbalance
- Credit conditions aren't overly tight
- Recession call seems the consensus on Wall Street



Stocks, bonds, and commodities (6/24/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3911.74	-13.66%	-17.93%	-8.62%
MSCI AC World ex USA	280.08	-13.45%	-18.66%	-21.38%
MSCI EAFE	1874.19	-14.09%	-19.77%	-19.99%
MSCI EM	1011.18	-11.44%	-17.92%	-26.70%
Bloomberg Barclays US Agg	92.05	-5.90%	-12.11%	-13.04%
Crude Oil WTI	107.08	6.78%	42.37%	44.60%
Natural Gas	6.18	9.45%	73.60%	75.43%

Treasury rates (6/24/2022)

	Price		Yield
2Y	98.29 /	98.3	3.072
3Y	99.06 /	99.0	3.161
5Y	97.14 /	97.1	3.184
7Y	97.06 /	97.0	3.202
10Y	97.25 /	97.2	3.134
30Y	92.20 /	92.2	3.261

Weekly reports

This week (6/27/2022)

- June Conf Board Consumer Confidence
- June Chicago PMI SA

Week of 6/20/2022

- June Markit PMI Services SA 51.6
- May New Home Sales SAAR 696.0K

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)

	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)

	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)

	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

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