Weekly Wire

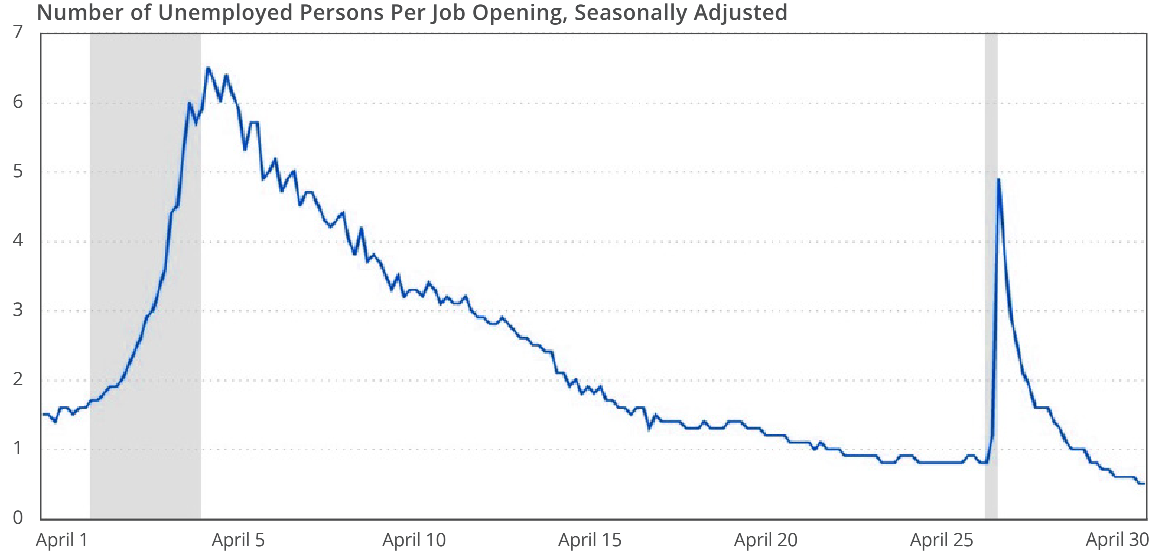
JUNE 6, 2022

Hoping for Some Bad News

Don't let the headline fool you - we are optimists at heart, always trying to find the positive in any situation. And it is hard, despite these challenging times, not to feel optimistic as we step back and consider that great American engine of wealth creation, Wall Street. There is its longevity (traders first gathered under a buttonwood tree in Lower Manhattan in 1792); the larger than life characters who have dominated the markets and made incredible fortunes (John Pierpont Morgan); the sheer scale of the markets (the market capitalization of all US listed companies is approximately $42 trillion), and the language that is Wall Street's own ("bull market," "bear market," "sell in May and go away," "don't fight the Fed").

And that language is at the heart of this week's note, specifically that confusing, albeit timely Wall Street classic, "when good news is bad news," as it seems Wall Street might have gotten more good news about the economy last week than it wanted. Consider, last week investors received better-than-expected readings on the US consumer (Conference Board's Consumer Confidence Survey), manufacturing (Chicago PMI), services (Non-Manufacturing ISM Report), and the labor market (Nonfarm Payrolls Report For May). And another way to gauge the health of the labor market is last week's JOLTS report which showed "half a worker" available for every job opening (see graph). While the strong data points are welcome and should dimmish talk of recession, they are a reminder the Federal Reserve has work to do to slow the economy and tamp down historically high inflation.

Which brings us back to our headline. It isn't so much that Wall Street is rooting for bad news, but rooting for economic news that is less good, if that makes sense, with the idea being that a clearly slowing (but still expanding) economy would allow the Fed to ease up on the rate hiking front just a bit. The better-than-expected economic news likely means the Fed will raise rates by 50bps at its June and July meetings, and that a 50bps hike is still on the table for its September meeting. We remain optimistic on the economy and the markets and believe the Fed can engineer a soft landing, but we aren't there just yet.



Stocks, bonds, and commodities (6/3/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4108.54	-9.31%	-13.80%	-2.87%
MSCI AC World ex USA	301.20	-6.92%	-12.52%	-15.86%
MSCI EAFE	2029.06	-6.99%	-13.14%	-13.94%
MSCI EM	1060.74	-7.10%	-13.90%	-23.22%
Bloomberg Barclays US Agg	93.86	-4.05%	-10.38%	-11.41%
Crude Oil WTI	120.26	19.92%	59.90%	72.74%
Natural Gas	8.54	51.35%	140.06%	175.72%

Treasury rates (6/3/2022)

	Price	Yield
2Y	99.20 / 0.00	2.687
3Y	99.20 / 0.00	2.875
5Y	98.16 / 0.00	2.949
7Y	98.16 / 0.00	2.986
10Y	99.09 / 0.00	2.955
30Y	95.12 / 0.00	3.111

Weekly reports

This week (6/6/2022)

- May CPI NSA Y/Y
- UofM June Consumer Sentiment NSA

Week of 5/31/2022

- Chicago PMI SA May 60.3
- Consumer Confidence May 106.4

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

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