Brinker Capital Market Barometer

JULY 2022

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

A healthy labor market and solid balance sheets for both consumers and corporations are providing support to the U.S. economy despite the headwinds from high inflation, tightening monetary policy, and geopolitical stress. Financial markets are more acutely focused on the downside pressures with most major global equity markets falling into bear market territory during the second quarter. The Fed's last-minute pivot to a 75 basis point increase in the Fed funds rate at the most recent FOMC meeting led to greater skepticism that they will be able to engineer a "soft landing" without tipping the U.S. economy into a recession. Longer-term Treasury yields have shown some stability over recent weeks, and consensus expectations for CY 2022 earnings growth remain resilient (+10%). The trajectory of inflation over the coming months will be critical in determining the outlook for the economy and markets in the back half of the year.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Despite sporadic attempts to rally, most equity markets remain in 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 in midst of 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 moving toward more restrictive stance; money supply and negative real yields supportive
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 maintains modestly positive slope
Macroeconomic	←		●		Labor market remains healthy but consumer spending and other economic data moderating
Business sentiment		●			Business confidence measures have continued to decline with inflation as a primary driver
Consumer sentiment		●			Consumer sentiment decidedly pessimistic; expectations over next 6-12 months deteriorating
Corporate earnings				●	Earnings remain resilient; margin pressures causing modest rise in negative estimate revisions
Credit environment				●	Widening in corporate credit spreads orderly in nature; 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	←		●		Decelerating GDP growth and negative LEI increasing the potential for shallow recession
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

SUMMARY

Short-term factors were unchanged from the prior month with global equity markets below their moving averages, pessimistic investor sentiment, and weak seasonality that is more pronounced in midterm election years.

Within **intermediate-term factors**, macroeconomic was changed to neutral amid moderation in a wide swath of economic data despite a resilient labor market that continues to be supportive.

Within **long-term factors,** business cycle was changed to neutral as the likelihood of a shallow mid-cycle recession increased.

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