Weekly Wire

JULY 18, 2022

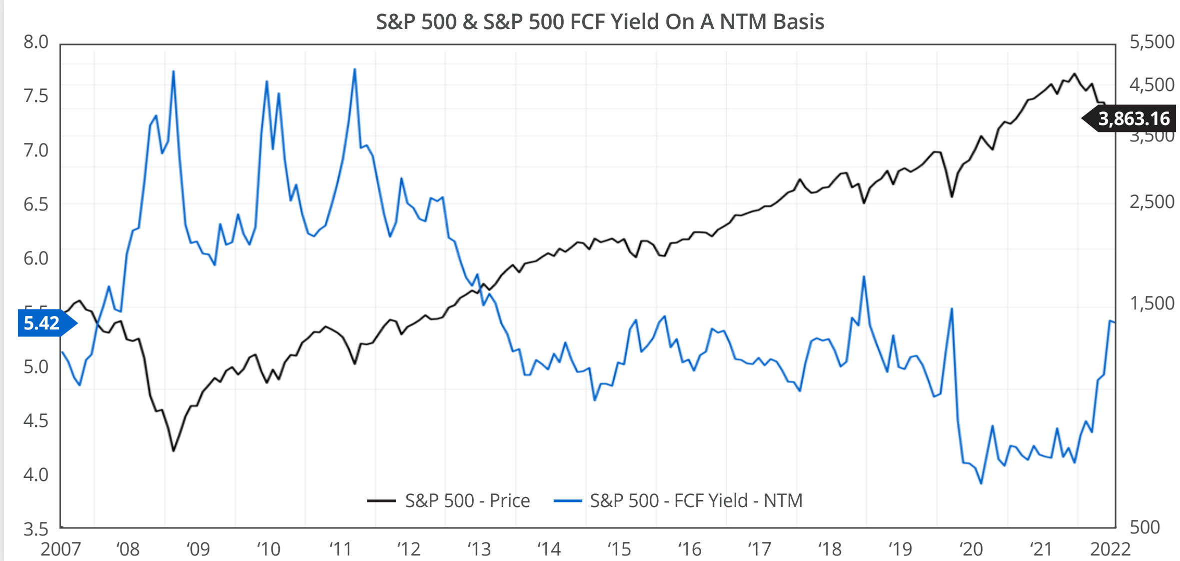
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

“Cash is a Fact: Profit is an Opinion”

Cash – even in a credit card, Venmo, PayPal, Apple Pay, or cryptocurrency world – remains king. In fact, despite the ever-present calls for the pending demise of cash money, there are more dollars in circulation today than ever, about $2.3 trillion worth, according to the US Federal Reserve. And what got us thinking about cash, at least as it concerns corporate America and the stock market, was the news last week that companies in the S&P 500 paid out a record $141 billion in dividends in the second quarter, according to S&P Dow Jones Indices. Dividend payments by those companies for 2022 are expected to jump 10%+ from last year’s record $511 billion, which would mark the first double-digit increase in payouts since 2014. And those dividends are so important, from an investing perspective, because companies can’t pay out what they don’t have; or to lean on the classic quote from noted economist Alfred Rappaport, “cash is a fact; profit is an opinion.”

To think about that just a bit differently, even with all the economic uncertainty of late, the companies that make up the S&P 500 just paid out more in quarterly dividends than ever before, a dynamic that should speak to strong profits, strong balance sheets, and an at least somewhat optimistic world view.

As investors think about the markets and companies and how to value both, they often come back to another cash-driven metric, which is free cash flow yield – which is how much cash the market or a company throws off relative to the total market capitalization of the market or company. On a go-forward, twelve-month basis, the free cash flow yield of the S&P 500 is back to about 5.5% (see chart; blue line), a level that, at least over the past 10 years or so, has lined up with near-term market bottoms, and – knock on wood – better future returns.



Stocks, bonds, and commodities (7/15/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3863.16	2.05%	-18.95%	-10.72%
MSCI AC World ex USA	269.70	-2.44%	-21.67%	-22.60%
MSCI EAFE	1817.05	-1.58%	-22.22%	-21.09%
MSCI EM	961.85	-3.88%	-21.93%	-28.22%
Bloomberg Barclays US Agg	93.10	0.51%	-11.11%	-12.92%
Crude Oil WTI	97.57	-7.74%	29.73%	35.87%
Natural Gas	7.04	30.62%	98.00%	91.70%

Treasury rates (7/15/2022)

	Price		Yield
2Y	99.23 /	0.00	3.132
3Y	99.18 /	0.00	3.143
5Y	100.2 /	0.00	3.055
7Y	101.1 /	0.00	3.034
10Y	99.16 /	0.00	2.931
30Y	95.21 /	0.00	3.097

Weekly reports

This week (7/18/2022)

- June Housing Starts SAAR
- June Existing Home Sales SAAR

Week of 7/11/2022

- June CPI NSA Y/Y 9.1%
- July UofM Sentiment NSA 51.1

Brinker Capital Market Barometer

JULY 2022

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

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