Weekly Wire

JULY 25, 2022

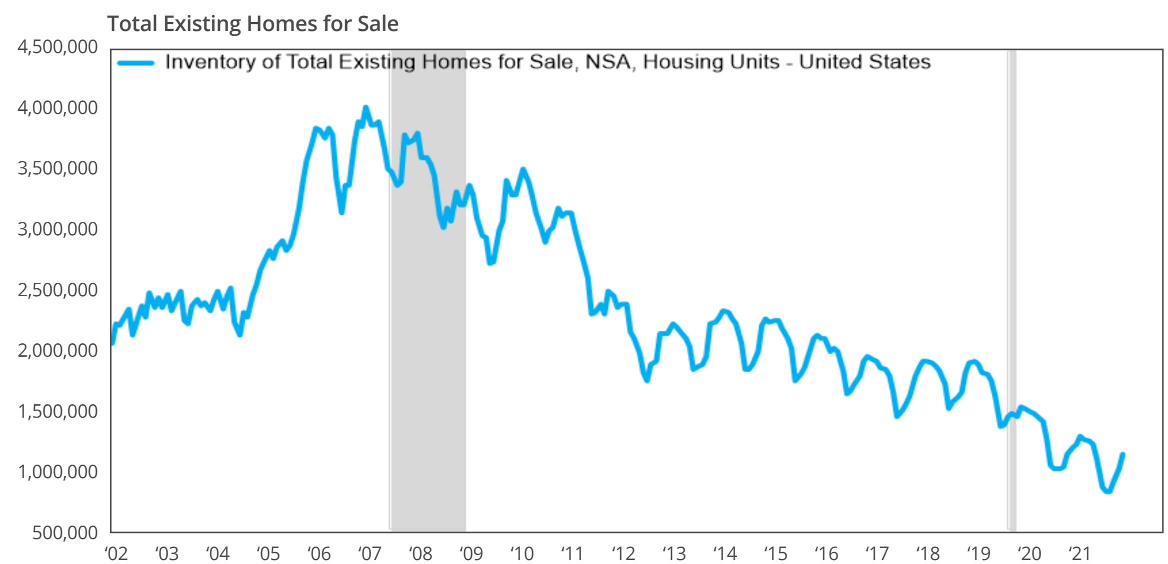
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

What About Housing

The housing market, we think, is always worth paying attention to; a sentiment that is doubly true during periods of economic uncertainty. Our thinking on that front is straightforward—a house is the most significant asset most Americans own, and it is a levered asset, where most homeowners borrow a meaningful amount of money to purchase a home. When the housing market is humming along, typically the economy is too—think the mid-2000s. When the housing market is struggling, typically the economy is too—think the late-2000s.

We believe The Great Recession was so great because it was housing-led; not only did the value of most American's primary asset decline in value significantly but most Americans were saddled with a mortgage greater than the house it financed (one reason, we think, lower interest rates did so little to stimulate the economy through the 2010s; millions of Americans were unable to refinance mortgages as they had no equity in their homes).

Well, last week was an interesting week for the housing market, as we learned mortgage applications declined 19% year on year, existing home sales fell 5.4% in June, and homebuilder sentiment dropped a stunning 12 points as measured by July's NAHB Housing Market Index. Clearly, higher borrowing costs—the average rate on a 30-year mortgage is just shy of 6%—are having an impact on demand. That said, we learned last week that the median price of an existing home sold in June hit a record $416,000, that builder sentiment (as measured by the NAHB Housing Market Index) remains five points above the 50 threshold that is still considered positive, and there were 1.26 million homes for sale as of the end June, which, at the current sales pace, equates to an exceptionally low three-month supply. In fact, if there is one data point more than any other that has us not expecting a meaningful downturn in housing, it is supply. There are just 1.26 million homes for sale today; on the precipice of The Great Recession, there were 4.0 million homes for sale (see chart).



Stocks, bonds, and commodities (7/22/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3961.63	4.66%	-16.88%	-10.20%
MSCI AC World ex USA	280.54	1.48%	-18.53%	-19.11%
MSCI EAFE	1897.38	2.77%	-18.78%	-17.76%
MSCI EM	990.37	-1.03%	-19.61%	-24.47%
Bloomberg Barclays US Agg	94.20	1.70%	-10.06%	-11.95%
Crude Oil WTI	95.09	-10.09%	26.43%	31.94%
Natural Gas	8.18	51.76%	130.05%	101.55%

Treasury rates (7/22/2022)

	Price	Yield
2Y	100.0 / 100.	2.987
3Y	100.0 / 100.	2.922
5Y	101.2 / 101.	2.850
7Y	102.1 / 102.	2.833
10Y	100.3 / 101.	2.757
30Y	98.00 / 98.0	2.974

Weekly reports

This week (7/25/2022)

- Q2 GDP SAAR Q/Q
- July Chicago PMI SA

Week of 7/18/2022

- June Housing Starts SAAR 1,559K
- June Existing Home Sales SAAR 5,120K

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

1309-BCI-7/25/22