Weekly Wire

AUGUST 1, 2022

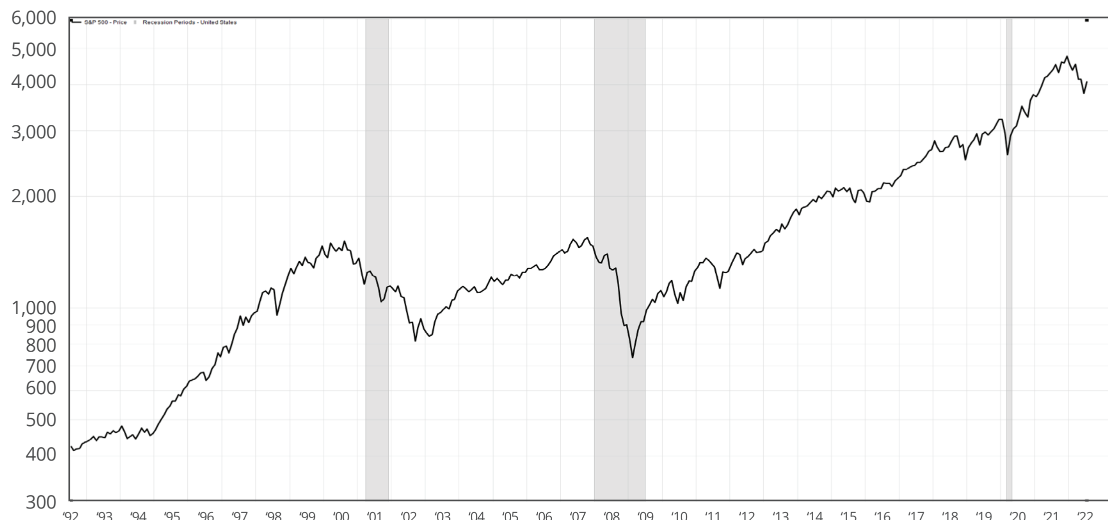
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

We Are In A Recession.....Right?

Semantics—or the study of meanings, per Merriam-Webster—isn't a term we hear often on Wall Street but with the Bureau of Economic Analysis letting us know last week that Q2 GDP contracted by 0.9%, following on a Q1 negative GDP print of 1.6%, the word is being bandied about as market observers debate whether the data points mean we are in a recession. There is room for debate as many investors believe a recession is marked by two consecutive quarters of economic contraction, while the official arbiter of our business cycle, the National Bureau of Economic Research (NBER), considers a recession to be a significant decline in economic activity spread across the economy for more than a few months (and the NBER has yet to weigh in on the current economic environment).

While we are having a bit of fun with the semantics of this, we don't mean to make light of recent economic weakness—official recession or not—as any slowdown in economic activity tends to fall hardest on the most financially vulnerable of Americans. To put a finer point on the competing recession definitions, GDP is a broad measure of the goods and services produced across the economy while the NBER, or more specifically its Business Cycle Dating Committee, considers factors including employment, output, and household income when determining if we are in a recession (something it tends to do only after the economy has exited a downturn).

We do have a hard time believing the economy is in recession today (per the NBER) given a strong labor market and corporate earnings growth. We also remind ourselves that recessions are uncommon, as our economy was in recession just 8% of the time over the past 30 years (see chart; vertical bars mark periods of contraction). Maybe more importantly, as investors, it is worth reminding ourselves that the stock market was up much more than it was down over that time period, with the S&P 500 gaining 860% from 1992 through 2022 (see chart; the black line plots out the S&P 500). The S&P 500 is up 12% since its late June low of 3,636. We continue to think markets will be biased higher into year-end, aided by depressed investor sentiment, moderating inflation, and solid earnings growth.



Stocks, bonds, and commodities (7/29/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4130.29	9.11%	-13.34%	-6.03%
MSCI AC World ex USA	285.38	3.24%	-17.12%	-17.45%
MSCI EAFE	1937.26	4.93%	-17.07%	-16.54%
MSCI EM	993.78	-0.69%	-19.34%	-22.23%
Bloomberg Barclays US Agg	94.75	2.29%	-9.53%	-11.61%
Crude Oil WTI	98.30	-7.05%	30.70%	32.93%
Natural Gas	8.29	53.67%	132.95%	111.70%

Treasury rates (7/29/2022)

	Price	Yield
2Y	100.0 / 100.	2.844
3Y	100.1 / 100.	2.797
5Y	100.0 / 100.	2.702
7Y	99.12 / 99.1	2.718
10Y	101.2 / 101.	2.650
30Y	98.14 / 98.1	3.058

Weekly reports

This week (8/1/2022)

- June JOLTS Job Openings
- July Nonfarm Payrolls SA

Week of 7/25/2022

- Q2 GDP SAAR Q/Q (0.9%)
- July Chicago PMI SA 52.1

Chart source: FactSet, July 2022. The views expressed are those of Brinker Capital and are not intended as investment advice or recommendation. For informational purposes only.

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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of July 1, 2022. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. Barclays US Aggregate Index: A market capitalization-weighed index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries. Brinker Capital Investments, LLC a registered investment advisor.

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