Weekly Wire

AUGUST 15, 2022

BRINKER CAPITAL INVESTMENTS
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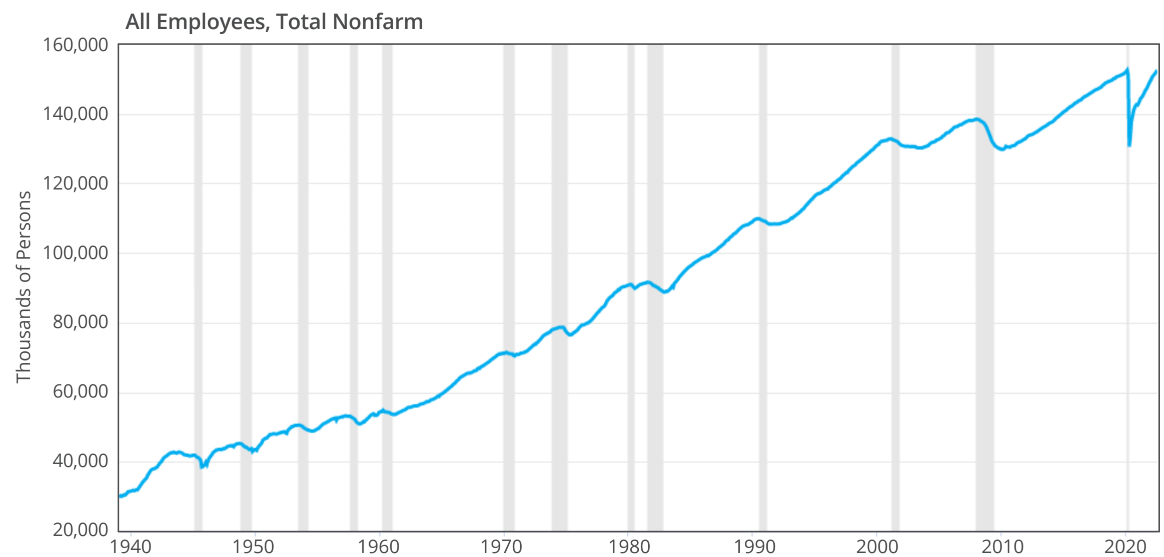
All The Way Back

As we know, the July jobs report came in much stronger than expected, with the US economy adding 528,000 jobs last month vs. Wall Street's estimate for 250,000 new jobs. For now, despite two consecutive quarters of slightly negative GDP growth, the jobs report has quieted talk – at least a bit, it seems – of the US economy being in recession.

The other important data point that the July jobs report delivered is that, with the economy adding those 528,000 new jobs, the US labor market has fully recovered from its pandemic-driven collapse of 2020. To put a finer point on it, when the US economy was shut down in early 2020 in an attempt to mitigate the spread and impact of the coronavirus, our labor market imploded, with 22 million jobs disappearing as total US employment fell from 152,040,000 to 130,513,000 and the unemployment rate shot up to 14.7%. Now, two and a half years on, those 22 million jobs – and a few more – have been clawed back, with total US employment in July coming in at an all-time high of 152,536,000 (see chart). And total US GDP is also well above its pre-pandemic high of $21.7 trillion, most recently clocking in at approximately $24.9 trillion on a seasonally adjusted basis.

While not linear, and not without its ongoing challenges, the recovery of the US economy has been extraordinary. And speaking of challenges, at the top of that list sits historically high inflation, which is being driven, in part, by wage inflation, as employers continue to compete for employees. Which brings us to another important data point that the July jobs report delivered and that is the labor force participation rate, or what percentage of the civilian population 16 years and older is working or actively looking for work. For July, that number came in at 62.1%, down from 62.2% in June and well below its pre-pandemic level of 63.4%.

Two things drive economic growth – productivity and people. For the US economy to generate consistent growth with a reasonable level of inflation, we will likely need to see labor force participation move higher over time.



Stocks, bonds, and commodities (8/12/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4280.15	13.07%	-10.20%	-4.20%
MSCI AC World ex USA	290.33	5.03%	-15.68%	-17.45%
MSCI EAFE	1963.88	6.37%	-15.93%	-17.45%
MSCI EM	1016.83	1.62%	-17.47%	-20.61%
Bloomberg Barclays US Agg	93.93	1.40%	-10.31%	-12.06%
Crude Oil WTI	91.88	-13.12%	22.16%	34.25%
Natural Gas	8.78	62.83%	146.84%	127.40%

Treasury rates (8/12/2022)

	Price	Yield
2Y	99.156 / 99.16	3.253
3Y	99.276 / 99.28	3.169
5Y	99.002 / 99.00	2.960
7Y	98.076 / 98.08	2.902
10Y	99.082 / 99.09	2.834
30Y	97.254 / 97.27	3.112

Weekly reports

This week (8/15/2022)

- Aug NAHB Housing Market Index SA
- July Existing Home Sales SAAR

Week of 8/8/2022

- July CPI NSA Y/Y 8.5%
- July PPI NSA Y/Y 9.8%

Brinker Capital Market Barometer

AUGUST 2022

From a macroeconomic lens, the numerous data releases over the past month have done little to change the mixed economic outlook. Inflationary pressures continue to challenge global economies and are forcing central banks into difficult trade-offs between fighting inflation and supporting economic growth. Financial markets are hanging on central bankers' every word and dissecting how each new piece of data might influence monetary policy. The recent economic softening and a hopeful interpretation of Chair Powell's comments after the late-July FOMC meeting unleashed the bulls who are in a "bad news is good news" mindset. U.S. equity markets surged higher by nearly 10% in July alongside declining long-term Treasury yields. We believe this optimism may be tempered somewhat in coming months if the economy continues to display just enough resilience to provide the Fed cover for more aggressive policy action.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Even after July rally, most global equity markets are still exhibiting technical weakness
Trend		●			Major equity indices below longer-term moving averages but short-term trends improving
Investor sentiment				●	Surveys continue to 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			●		Increased likelihood of slimmed-down BBB passing via reconciliation; fiscal impact modest
Monetary policy			●		Fed continuing on path to more restrictive policy but negative real yields remain supportive
Inflation		●			Headline inflation at 40-year high in June; core inflation also elevated but moderating slightly
Interest rate environment			●		Inverted yield curve signals economic slowdown but decline in long rates tailwind for equities
Macroeconomic			●		Labor market healthy and consumer resilient but wide array of economic data decelerating
Business sentiment		●			Business confidence measures remain subdued with elevated inflation as a primary driver
Consumer sentiment		●			Consumer sentiment decidedly pessimistic; expectations over next 6-12 months deteriorating
Corporate earnings				●	Earnings growth remains positive despite modest downward pressure from higher input costs
Credit environment				●	Credit spreads narrowed over past month and remain tight relative to historical ranges

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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