Weekly Wire

AUGUST 22, 2022

BRINKER CAPITAL INVESTMENTS

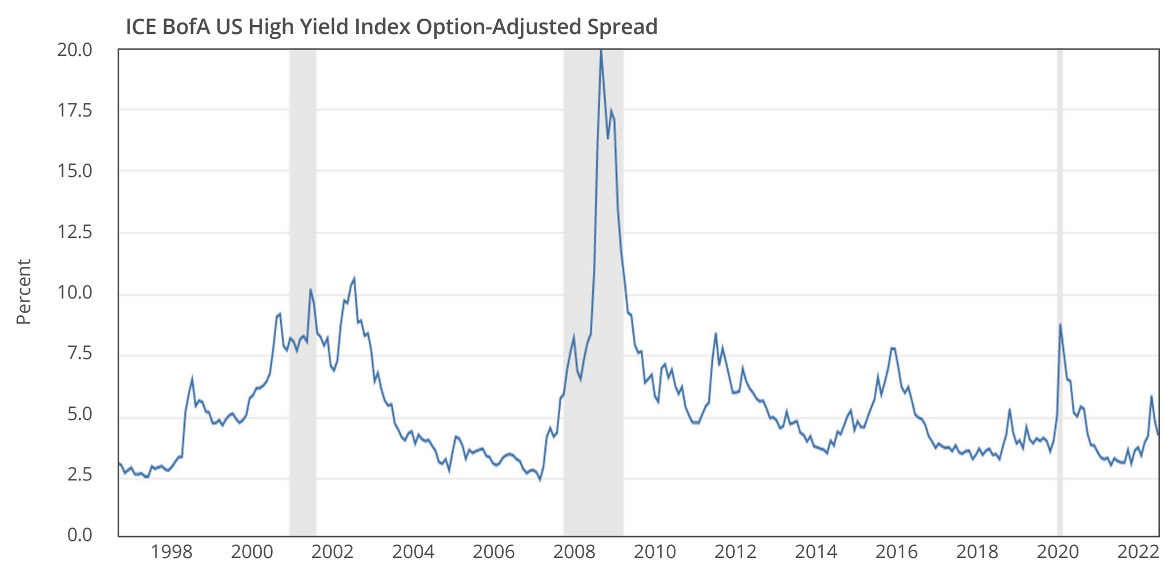
AN ORION COMPANY

Covering (Or We Guess We Should Say Closing) The Spread

I come to capital markets through the equity end of things, having served as an analyst and portfolio manager on long/short and long-only equity-facing strategies earlier in my career before transitioning into a Chief Investment Officer role. During my career, I have been fortunate to work with brilliant equity analysts and portfolio managers. I have also been fortunate to work with brilliant fixed income analysts and portfolio managers, which brings us to the focus of this week's Weekly Wire and that is the bond market, or more specifically, what the cost of capital for non-investment grade (i.e., high yield or junk bond issuing) companies might be telling us about the outlook for the economy.

Before we dig in on that front, most fixed income investors will gladly let you know that 1) the bond market is more important than the stock market and 2) fixed income investors are smarter than equity investors (for my 2 cents, I agree with the former point; I take great umbrage with the latter). So, what might the all-important bond market be telling us about the outlook for the economy? Using the spread or difference between the yield on an index of non-investment grade bonds and a spot US Treasury curve (or "risk-free" rate), the signal seems to be one of diminishing concern over the outlook for the US economy. To put a finer point on it, the spread or difference between the yield on non-investment grade bonds and Treasuries has fallen to 4.25% or 425 basis points, which is above recent lows of 3% or 300 basis points but well off the recent high of 6% or 600 basis points and far removed from levels reached during periods of economic distress, including early 2020 when the gap approached 10% or 1000 basis points (see chart).

Another way to think about the dataset as it ties back to the outlook for the US economy is that investors are demanding a higher yield on bonds from non-investment grade companies relative to a risk-free alternative – which is to be expected – but not a yield that speaks to real concern for the outlook for those non-investment grade companies. The second half has been much better for risk assets than the first, and recent economic data has been, on balance, solid. We are hopeful both trends will persist into year-end.



Stocks, bonds, and commodities (8/19/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4228.48	11.71%	-11.28%	-4.80%
MSCI AC World ex USA	284.52	2.92%	-17.37%	-16.12%
MSCI EAFE	1919.50	3.97%	-17.83%	-16.80%
MSCI EM	1001.46	0.08%	-18.71%	-17.97%
Bloomberg Barclays US Agg	93.07	0.47%	-11.14%	-12.91%
Crude Oil WTI	89.62	-15.26%	19.16%	44.22%
Natural Gas	9.28	72.11%	160.89%	140.98%

Treasury rates (8/19/2022)

	Price		Yield
2Y	99.17 /	99.1	3.221
3Y	99.18 /	99.1	3.275
5Y	98.14 /	98.1	3.087
7Y	97.11 /	97.1	3.047
10Y	98.02 /	98.0	2.971
30Y	95.28 /	95.3	3.213

Weekly reports

This week (8/22/2022)

- July New Home Sales SAAR
- July Personal Consumption Expenditure SA M/M

Week of 8/15/2022

- Aug NAHB Housing Market Index SA 49.0
- July Existing Home Sales SAAR 4,810K

Source: Ice Data Indices, LLC, ICE BofA US High Yield Index Option-Adjusted Spread [BAMLH0A0HYM2], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BAMLH0A0HYM2, August 18, 2022. For informational purposes only.

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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of August 5, 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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