BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

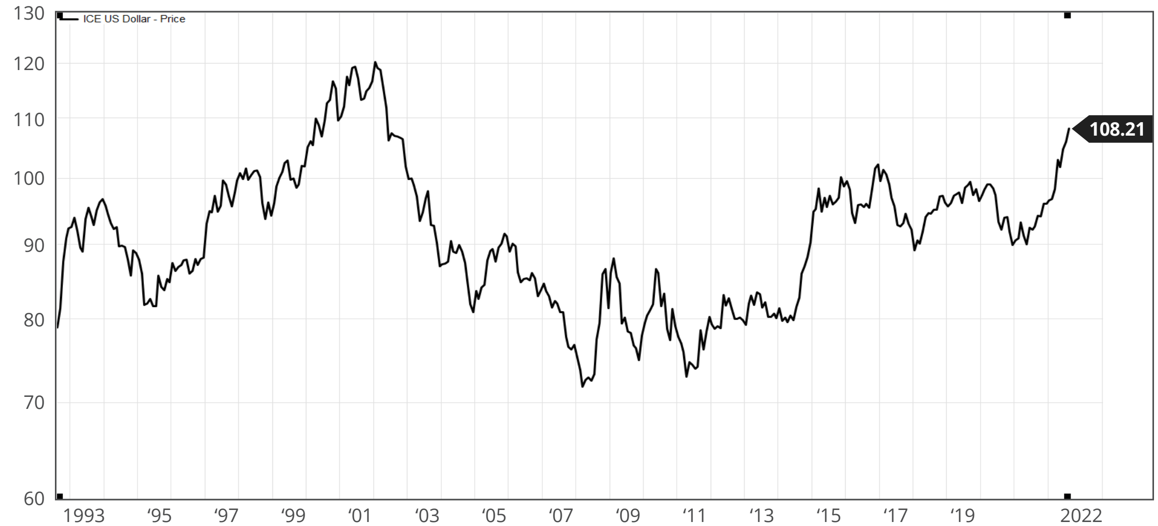
Exorbitant Privilege

A privilege–a special right, advantage, or immunity granted or available only to a particular person or group–is one thing. An exorbitant–exceeding the customary or appropriate limits in intensity, quality, amount, or size–privilege is a different matter altogether and how some 60 years ago, Valery Giscard d'Estaing, then French Minister of Finance, famously referred to the benefits that accrue to the U.S. given our currency–the U.S. dollar–was the world's reserve currency. That dynamic persists to this day, as the U.S. continues to print the world's most important and most transacted-in currency, which means, among other things, that we should never be exposed to exchange rate risk, among other currency-related challenges that most countries regularly confront.

We have been thinking about the U.S. dollar as it just came within a whisker of hitting a 20-year high relative to a basket of world currencies, per the ICE U.S. Dollar Index (see chart). As to why the U.S. dollar has been doing so well of late, market participants would likely point to the Federal Reserve aggressively raising interest rates in the face of historically high inflation; strong economic fundamentals (the U.S. created 528K jobs in July and our unemployment rate is 3.5%) and global capital seeking safe harbor during very uncertain geo-political times (consider the economic and energy challenges facing Western Europe due to Russia's invasion of Ukraine).

The benefits of a stronger dollar include a moderating influence on inflation here at home (most commodities are priced in dollars; as the dollar goes up in value, they should go down in price for the U.S. consumer) and greater purchasing power for U.S. companies and consumers abroad (today, it costs 99c to "purchase" one Euro; in 2008, it cost $1.57). The drawbacks of a stronger dollar include a reduction in ex-U.S. earnings for U.S. multi-national corporations (overseas profits are worth less as they are converted into dollars) and greater financial stress for most nations in general as a stronger U.S. dollar pushes up their import prices and for those nations in particular that have borrowed in U.S. dollars (as it becomes harder to make interest and principal payments as the dollar rises in value and their currency falls in value). Finally, at a very macro level, the strength of our currency reflects, I think, an economic, military, and energy profile that, collectively, is the envy of the world.

ICE US Dollar



Stocks, bonds, and commodities (8/26/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4057.66	7.19%	-14.87%	-10.02%
MSCI AC World ex USA	281.17	1.71%	-18.34%	-19.23%
MSCI EAFE	1882.33	1.95%	-19.42%	-19.88%
MSCI EM	1006.50	0.58%	-18.30%	-20.91%
Bloomberg Barclays US Agg	92.69	0.06%	-11.50%	-13.16%
Crude Oil WTI	92.97	-12.09%	23.61%	35.25%
Natural Gas	9.31	72.03%	161.60%	112.06%

Treasury rates (8/26/2022)

	Price		Yield
2Y	99.22 /	0.00	3.400
3Y	99.07 /	0.00	3.399
5Y	99.21 /	0.00	3.197
7Y	99.29 /	0.00	3.138
10Y	97.17 /	0.00	3.037
30Y	96.00 /	0.00	3.207

Weekly reports

This week (8/29/2022)

- JJune FHFA Home Price Index
- Aug Chicago PMI SA

Week of 8/22/2022

- July New Home Sales SAAR 511.0K
- July Personal Consumption Expenditure SA M/M 0.10%

Source: Factset, August 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

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