Weekly Wire

SEPTEMBER 19, 2022

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

"It's Like Déjà Vu All Over Again"

Last week's August Consumer Price Index release – and the stock market's reaction to it – got us thinking of a famous quote from Yogi Berra, "It's like déjà vu all over again," which was how the New York Yankee great explained how events tend to repeat themselves. Unfortunately for investors, the market's response to the hotter-than-expected August CPI data repeated its response to the hotter-than-expected May CPI data, with stocks moving sharply lower. You will recall that the May CPI report, released on June 10th, showed headline inflation running at 8.6%, the highest since 1981, and core inflation – ex-food and energy – running at 6%, year over year, both readings above Wall Street's estimates. You will also recall that report pushed the Fed to raise the Fed Funds Rate by 75bps at its June meeting, its largest interest rate hike since 1994. The May CPI data and the very hawkish response from the Fed were primary contributors to a 13% move lower in the S&P 500 through late June (see chart; far left). That written, as we moved through summer and got increasing evidence that inflation had peaked, US stocks rallied, and the S&P 500 stood 13% higher than its late June low heading into the release of the August CPI on September 13th.

Unfortunately, that report revealed year-on-year inflation up 8.3% and core inflation up 0.60% on a month-to-month basis, bigger increases than Wall Street expected. If anything, it was the core data that was most concerning, as the report showed pricing pressures broadening out beyond categories like energy to include rents and autos. We also learned food costs were up 11% year-on-year in August, the largest jump since 1979. As noted above, the August CPI data sparked a steep selloff on Wall Street, with the S&P 500 moving lower by more than 4% on the 13th, its biggest down day in more than 2 years (see chart; far right).

Some think the latest CPI report will push the Fed to raise rates by 100bps this week. We don't know what the Fed will do, but we do believe the August CPI reading has made its goal of tamping down inflation without putting the economy into a recession much more difficult. When it comes to the battle against inflation, as Yogi would say, "It ain't over 'till it's over."

Stocks, bonds, and commodities (9/16/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3873.33	2.32%	-18.73%	-12.62%
MSCI AC World ex USA	266.26	-3.68%	-22.67%	-23.50%
MSCI EAFE	1788.60	-3.12%	-23.44%	-23.84%
MSCI EM	944.12	-5.65%	-23.37%	-26.20%
Bloomberg Barclays US Agg	90.908	-2.75%	-13.99%	-15.46%
Crude Oil WTI	85.40	-19.25%	13.55%	18.66%
Natural Gas	7.82	44.97%	119.76%	53.12%

Treasury rates (9/16/2022)

	Price		Yield
2Y	98.27 /	98.2	3.863
3Y	99.03 /	99.0	3.818
5Y	97.22 /	97.2	3.636
7Y	97.10 /	97.1	3.564
10Y	94.04 /	94.0	3.451
30Y	90.14 /	90.1	3.516

Weekly reports

This week (9/19/2022)

- Sep NAHB Housing Market Index SA
- Aug Housing Starts SAAR

Week of 9/12/2022

- Aug CPI NSA Y/Y 8.3%
- Aug PPI NSA Y/Y 8.7%

Source: FactSet, September 2022.

Brinker Capital Market Barometer

SEPTEMBER 2022

Global equities continued their rebound in early August until met by strong technical resistance levels in thin, late-summer trading. There was not a Federal Reserve FOMC meeting in August, but that did not stop Fed officials from reiterating a tough stance towards inflation at the annual Jackson Hole policy forum. Despite data releases throughout the month showing some indications of cooling prices, FOMC Chair Jerome Powell confirmed the central bank's commitment to 2% inflation. Treasury yields moved higher across the yield curve, and the U.S. Dollar continues to show strength. Volatility will likely remain a factor across asset classes until market participants find more clarity on monetary policy and mid-term elections.

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 indices are well off their lows, but failed to break above long-term moving averages
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			●		Total impact of recently passed Inflation Reduction Act unclear; deficit continues to shrink
Monetary policy			●		Fed has stated their intention to make policy more restrictive; low real yields supportive
Inflation		●			Headline inflation has moderated, but y/y numbers are still at very elevated levels
Interest rate environment			●		Curve remains inverted despite shift higher in August; absolute level of rates still modest
Macroeconomic			●		Labor market healthy and consumer resilient but wide array of economic data is 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				●	Second quarter earnings were generally better than expected; we continue to monitor input costs
Credit environment				●	Credit spreads have recently widened but remain tight relative to long-term averages

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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