Weekly Wire

SEPTEMBER 26, 2022

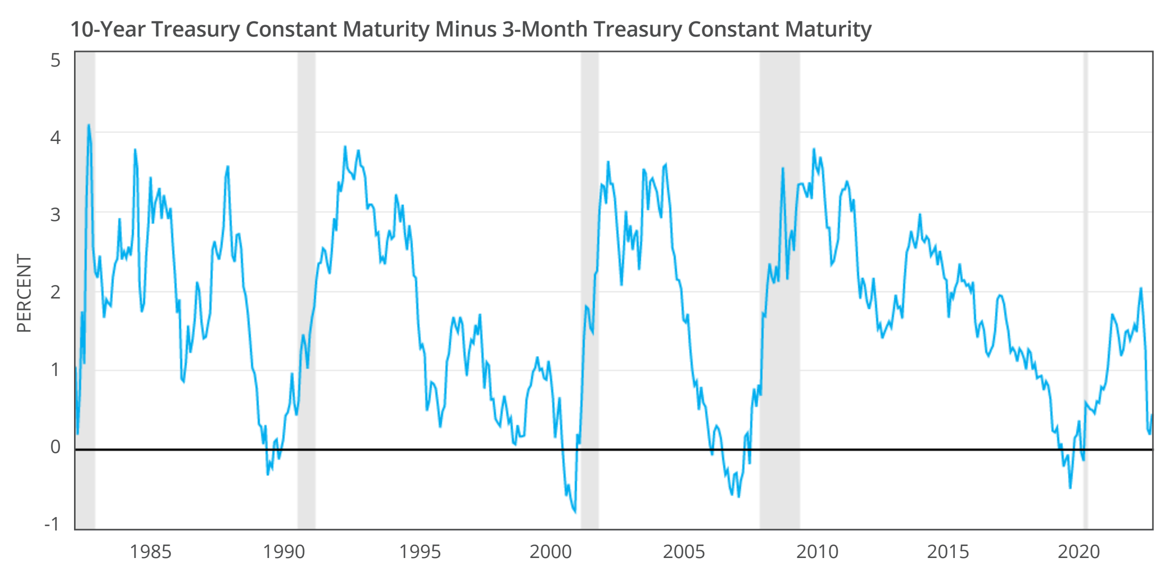
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

3 Thoughts For Q4 And One Thing That Might Matter Most

As we kick off the last week of the third quarter, risk assets are very much on the back foot, with the S&P 500 off 22% year-to-date (and trading only 57 points above its low for 2022 of 3,636) and the yield on the US 10 Year Note at 3.69% (just 12 basis points off its multi-year high of 3.81% reached Friday). While inflation and an incredibly unsettled geopolitical construct continue to weigh on investor sentiment and investment returns, we think the primary drag on markets is the growing concern that an increasingly hawkish Federal Reserve will go too far, too fast in raising rates, pushing the economy past a possible "soft landing" and into a meaningful recession. It is a point of concern we share, and our colleagues Tom Wilson, CFA, and Brian Storey, CFA, do a first-rate job explaining the ongoing interplay between monetary policy and the markets here. For those who don't have time to read their write-up, we want to call out three points they touch on that we think should be top of mind for investors as the fourth quarter gets underway:

1. Politics – markets tend to sell off into a mid-term election and rally once the votes are counted. Also, investors tend to welcome a divided Congress – a likely outcome post-election day – and 2023 will be the third year of the presidential cycle, which has historically been very favorable for markets.
2. Profits – corporate profits have held up remarkably well in 2022 and are expected to grow high single digits for the year. JP Morgan Chase kicks off Q3 earnings season on October 14th. If Q3 earnings don't disappoint, it would be a meaningful positive for equities into year-end.
3. Peak (we think) inflation – despite a hotter-than-expected August CPI report, we think inflation has peaked and will be moving lower (commodity prices, including oil, are down sharply and even rent and wage growth are weakening). That should allow the Fed to ease up on the rate hiking front into year-end – we hope.

Finally, one thing that might matter most of all as it concerns the outlook for the economy is that the yield on the US 3 Month Treasury Bill remains below the yield on the US 10 Year Treasury Note (see chart). We haven't entered a recession in the past 40 years without that part of the yield curve inverting.



Stocks, bonds, and commodities (9/23/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3693.23	-2.43%	-22.51%	-17.11%
MSCI AC World ex USA	252.26	-8.75%	-26.74%	-27.15%
MSCI EAFE	1688.02	-8.57%	-27.74%	-27.91%
MSCI EM	905.84	-9.48%	-26.47%	-28.40%
Bloomberg Barclays US Agg	88.66	-4.29%	-15.35%	-16.35%
Crude Oil WTI	79.43	-24.90%	5.61%	7.37%
Natural Gas	6.84	26.87%	92.32%	31.56%

Treasury rates (9/23/2022)

	Price		Yield
2Y	98.07 /	98.0	4.208
3Y	97.31 /	97.3	4.229
5Y	96.05 /	96.0	3.986
7Y	95.17 /	95.1	3.865
10Y	92.09 /	92.1	3.686
30Y	88.28 /	88.3	3.610

Weekly reports

This week (9/26/2022)
- Sep Conf. Board Consumer Conf.
- Sep Chicago PMI SA

Week of 9/19/2022
- Sep NAHB Housing Market Index SA 46.0
- Aug Housing Starts SAAR 1,575K

Source: Federal Reserve Bank of St. Louis, 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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of September 6, 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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