# Weekly Wire

SEPTEMBER 6, 2022

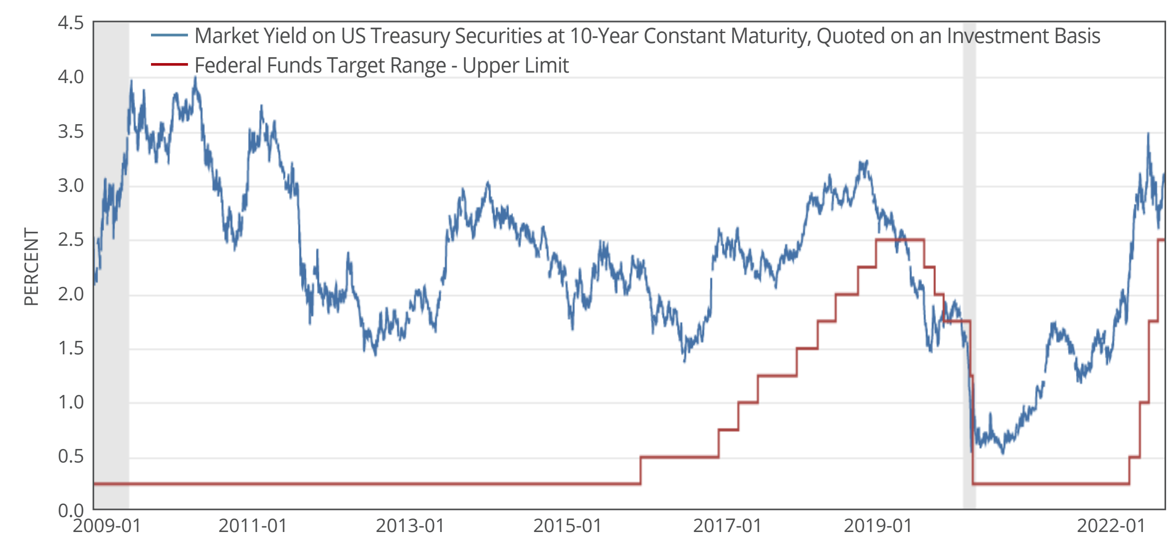
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

## “What’s Your Prediction for the Fight? Prediction? Yes, Prediction. Pain.”

So went the exchange between Clubber Lang – played by the iconic Mr. T – and a reporter in 1982’s Rocky III as the reporter asked for Mr. T’s prediction of his upcoming fight with Rocky Balboa – played by the iconic Sylvester Stallone. Before we dig into this week’s Weekly Wire, I feel compelled to point out that my brothers and I – after viewing Rocky III in the local movie theater 40 years ago – promptly went home and cut the sleeves and the bottom half off every t-shirt we owned (those who have seen the movie will understand; our parents were not pleased).

What got us thinking about Clubber Lang’s prediction was Fed Chair Powell’s Jackson Hole speech in which he said the Fed – as it seeks to tamp down historically high inflation – expects to continue raising rates in a way that will cause some pain to the US economy. While we are having some fun with a great quote from a great movie, we don’t mean to dismiss the strain higher borrowing costs inflict on US companies and consumers, including the real risk of recession (and we might be in recession, even if one has not been declared by the National Bureau of Economic Research).

As we move into September, we think the appropriate path forward for monetary policy is much less clear than a few months ago. Consider the Fed has raised rates by 225 basis points this year (yet much of the impact from those hikes has yet to hit the economy); inflation is well above the Fed’s long-term target of 2%, but there is much evidence inflation has peaked and is moving lower (and the Fed’s preferred inflation index – the PCE – sits at 4.6%, just above the bank’s year-end target of 4.3%); several US economic datapoints have proven disappointing, but the consumer has remained resilient (our unemployment rate is just 3.5%), and the US 2 Year to US 10 Year Note section of the yield curve has inverted, which is a historic harbinger of recession (yet the Fed Fund’s rate has not moved above the yield on the US 10 Year Note, another historic harbinger of recession; see chart). We appreciate the Fed’s desire to restore price stability and applaud it. That said, we worry the Fed could go too far, too fast, and believe the bank should consider moderating the pace of interest rate hikes at its September meeting.



Shaded areas indicate US Recessions

**Stocks, bonds, and commodities** (9/2/2022)

| Security name | Last | QTD chg | YTD chg | 12mo chg |
|---|---|---|---|---|
| S&P 500 | 3924.26 | 3.67% | -17.66% | -13.48% |
| MSCI AC World ex USA | 271.97 | -1.62% | -21.01% | -23.55% |
| MSCI EAFE | 1823.46 | -1.24% | -21.94% | -23.69% |
| MSCI EM | 972.02 | -2.86% | -21.10% | -26.13% |
| Bloomberg Barclays US Agg | 91.62 | -1.09% | -12.52% | -14.13% |
| Crude Oil WTI | 87.25 | -17.50% | 16.01% | 25.92% |
| Natural Gas | 8.90 | 65.10% | 150.27% | 88.92% |

**Treasury rates** (9/2/2022)

| | Price | | Yield |
|---|---|---|---|
| 2Y | 99.22 / | 99.2 | 3.398 |
| 3Y | 99.04 / | 99.0 | 3.432 |
| 5Y | 99.06 / | 99.0 | 3.296 |
| 7Y | 99.01 / | 99.0 | 3.281 |
| 10Y | 96.06 / | 0.00 | 3.197 |
| 30Y | 93.14 / | 93.1 | 3.346 |

**Weekly reports**

**This week** (9/6/2022)

- Aug ISM Services PMI SA
- Initial Claims SA

**Week of 8/29/2022**

- June FHFA Home Price Index 398.0
- Aug Chicago PMI SA 52.2

Source: Federal Reserve Bank of St. Louis. 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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