Weekly Wire

OCTOBER 10, 2022

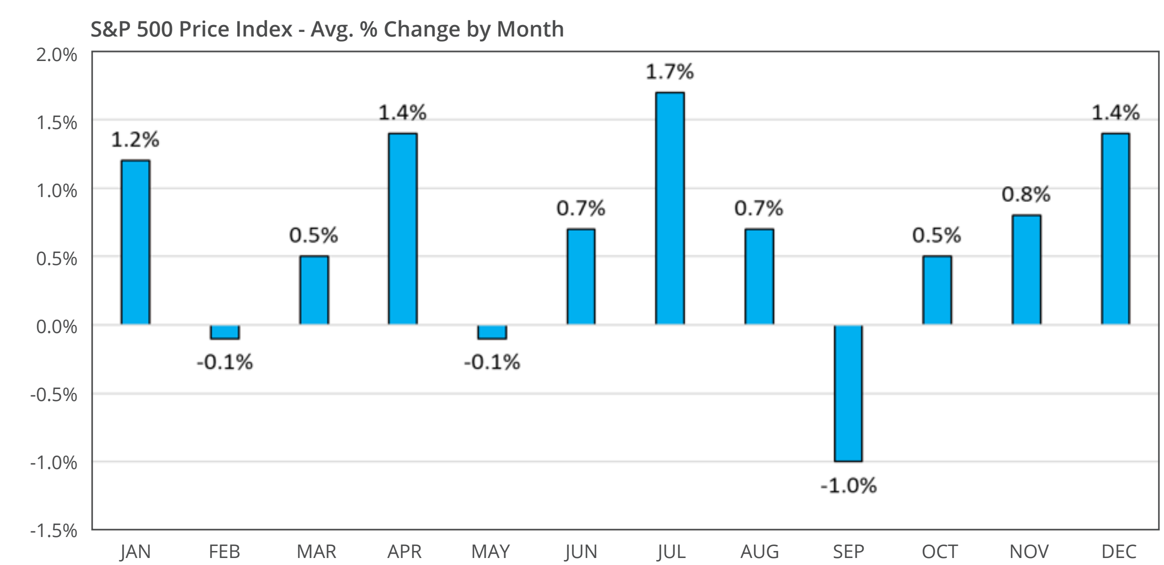
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Sending Out an S.O.S.

As a child of the 1970s and 1980s, I was a huge fan of the rock band The Police (I desperately wanted to look like and sing like Sting—I failed miserably on both fronts). While The Police produced a tremendous amount of hits in a very short period, including "Every Breath You Take" (which, by some estimates, is the most played song in the history of radio having been aired more than 15 million times), my favorite Police song was always "Message in a Bottle." So, in the spirit of "Message in a Bottle" and with an eye toward giving us investors something to lean on after a very tough September and a very tough third quarter – we are sending out an S.O.S for the markets.

- **Sentiment:** Investor sentiment just hit a historically bearish level, with just 17.7% of respondents to the September 21 2022 AAII Investor Sentiment Survey calling themselves bullish, a level of despondency not even seen during the Great Recession or the darkest days of the pandemic. When sentiment is this bearish markets have historically been higher 12 months out.
- **Oversold:** During the worst of the September selloff, only 15% of New York Stock Exchange stocks were trading above their respective 200-day moving average, a measure of extreme selling pressure and a data point that has typically only manifested at or close to a market bottom.
- **Seasonality:** September has historically been, by a wide margin, the worst month for the S&P 500 (see graph). And while we are in the final month of the seasonally weak stretch of the year marked by "Sell In May And Go Away," markets tend to do well into year-end (particularly in mid-term election years, once election day has come and gone) and early in a new year.

These are challenging times for owners of US equities, as markets struggle in the face of still historically high inflation, a very hawkish Fed, and an extremely unsettled geo-political backdrop. Ultimately, fundamentals – think earnings and interest rates in particular – will drive market returns. That said, investor sentiment is historically bearish, markets have endured a tremendous amount of selling and the calendar is about to turn in the market's favor. Those are all positive data points that we can lean on as we move into year-end.



Stocks, bonds, and commodities (10/7/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3639.66	1.51%	-23.64%	-17.12%
MSCI AC World ex USA	252.06	2.03%	-26.80%	-25.73%
MSCI EAFE	1693.58	1.93%	-27.50%	-25.39%
MSCI EM	897.74	2.51%	-27.13%	-28.58%
Bloomberg Barclays US Agg	87.36	-0.40%	-16.59%	-16.77%
Crude Oil WTI	93.20	17.25%	23.92%	17.45%
Natural Gas	6.61	-2.34%	85.77%	18.74%

Treasury rates (10/7/2022)

	Price	Yield
2Y	99.28 / 0.00	4.304
3Y	97.24 / 0.00	4.323
5Y	99.29 / 0.00	4.139
7Y	99.02 / 0.00	4.027
10Y	90.24 / 0.00	3.885
30Y	85.02 / 0.00	3.843

Weekly reports

This week (10/10/2022)

- Sep PPI NSA Y/Y
- Sep CPI NSA Y/Y

Week of 10/3/2022

- Aug JOLTS Job Openings 10,053K
- Sep Nonfarm Payrolls SA 263.0K

Source: FactSet, October 2022.

Brinker Capital Market Barometer

OCTOBER 2022

Global equities fell in September to end a third consecutive quarter of negative performance. Elevated price pressures and another 0.75% interest rate hike by the Federal Reserve fueled asset price volatility around the globe. Treasury yields shifted higher across the still-inverted yield curve, the U.S. Dollar continues to climb, and commodities slumped. Volatility will likely remain elevated across asset classes until market participants gain more clarity on monetary policy and mid-term elections in the United States. Despite this economic and geopolitical uncertainty, a high percentage of corporations were able to beat second quarter earnings estimates. Looking forward, how both corporations and consumers deal with increased costs will be important gauges of the path of the economy. Once the Fed signals a moderation in its rate-hiking campaign and the dollar appreciation abates, the reset in equity and fixed income valuations over the past year provides the potential for a durable, longer-term recovery in asset prices.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Global markets gave up summer gains in September; y/y returns remain negative
Trend		●			Major indices retouched year-to-date lows and are below moving averages
Investor sentiment				●	Surveys continue to show significantly more bears than bulls; tends to be a contrarian signal
Seasonality	→		●		Market entering a seasonally strong period, particularly in mid-term 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	←	●			Rate hikes continue at a rapid pace on top of hawkish Fed rhetoric that is affecting asset volatility
Inflation		●			Headline inflation has moderated but y/y readings are still at very elevated levels
Interest rate environment	←	●			Absolute level of rates is moderate but rate volatility and curve inversion are at historical levels
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 has rebounded over past few months but still near the lowest recorded levels
Corporate earnings				●	Second quarter earnings were generally better than expected; we continue to monitor input costs
Credit environment				●	Credit spreads have widened this year 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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