BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Rooting Against Atlanta

As I sit in my office in southeastern Pennsylvania, taking pen to paper on this week's Weekly Wire, fall is in full bloom (or full foliage, I should say) and so is playoff baseball, with the upstart Philadelphia Phillies giving the Atlanta Braves more than they can handle in the National League divisional series. Before I get angry emails from any fans of the Atlanta Braves about the headline, let me say 1) I am a New York Yankees fan (getting a love for the Yankees from my late father who got to see the great Babe Ruth and Lou Gehrig play ball) and 2) this week's headline isn't weighing in against the Atlanta Braves but rather the Federal Reserve Bank of Atlanta, or more specifically, the Atlanta Fed's GDPNow "nowcast," which, as of October 14, puts estimated Q3 GDP growth at a very – maybe even shockingly – robust 2.8% (see chart).

More specifically, if the US economy grew near 3% in the third quarter, it remains on very firm footing, which presents a real problem for the US Federal Reserve and, in turn, the US stock market. The Fed is desperate to see economic growth slow, and with it inflation, as it continues to confront historically high prices and continues to remind Wall Street that it won't—and can't—ease up on the pace of interest rate hikes until it sees clear and credible evidence that inflation is slowing.

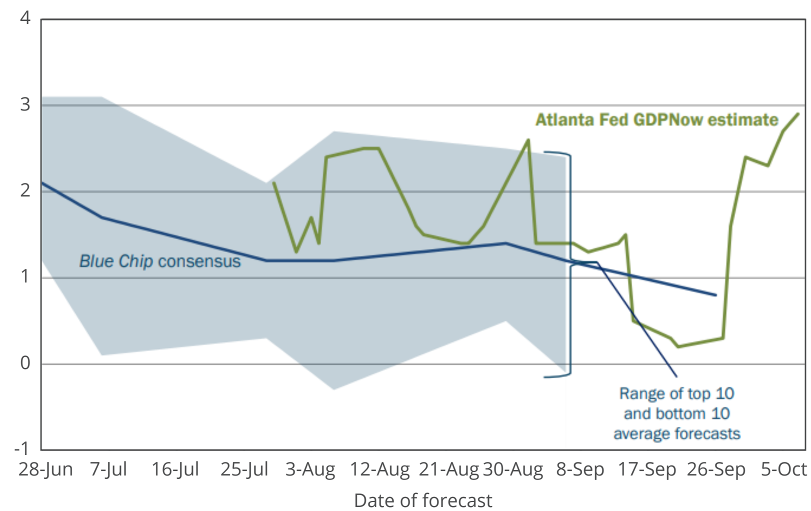
That said, it is unlikely that an economy growing just shy of 3% is contemporaneous with a meaningful decline in prices and demand, particularly for labor (which won't come as a surprise given September's 3.5% unemployment rate). The longer the Fed must maintain an extremely hawkish monetary policy stance, the more likely it will go too far on the rate-hiking front and put the US economy into a recession, and the less likely it is that the stock market will enjoy a sustained rally. We are not rooting against the American worker, and we are not rooting for a recession – they do untold economic, emotional, and physical harm to millions of Americans, particularly to those more vulnerable communities and population cohorts. What we are rooting for is moderating inflation, a Fed that can credibly assume a less hawkish monetary policy stance, and an economic soft landing.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q3 [Quarterly percent change (SAAR)]

FEDERAL RESERVE BANK of ATLANTA GDPNow

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

In particular, **it does not capture the impact of COVID-19 and social mobility** beyond their impact on GDP source data and relevant economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports beyond the standard internal dynamics of the model.



Stocks, bonds, and commodities (10/14/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3583.07	-0.07%	-24.82%	-19.87%
MSCI AC World ex USA	246.56	-0.20%	-28.39%	-29.06%
MSCI EAFE	1670.64	0.55%	-28.48%	-28.13%
MSCI EM	863.33	-1.42%	-29.92%	-32.75%
Bloomberg Barclays US Agg	86.29	-1.62%	-17.61%	-18.01%
Crude Oil WTI	85.55	7.62%	13.75%	3.97%
Natural Gas	6.48	-4.29%	82.06%	19.70%

Treasury rates (10/14/2022)

	Price	Yield
2Y	99.164 / 99.17	4.507
3Y	99.112 / 99.11	4.481
5Y	99.116 / 99.12	4.266
7Y	98.070 / 98.07	4.171
10Y	89.236 / 89.24	4.021
30Y	82.230 / 82.25	3.995

Weekly reports

This week (10/17/2022)

- Sep Capacity Utilization NSA
- Sep Housing Starts SAAR

Week of 10/10/2022

- Sep PPI NSA Y/Y 8.5%
- Sep CPI NSA Y/Y 8.2%

Source: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*. Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

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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