# Weekly Wire

OCTOBER 24, 2022

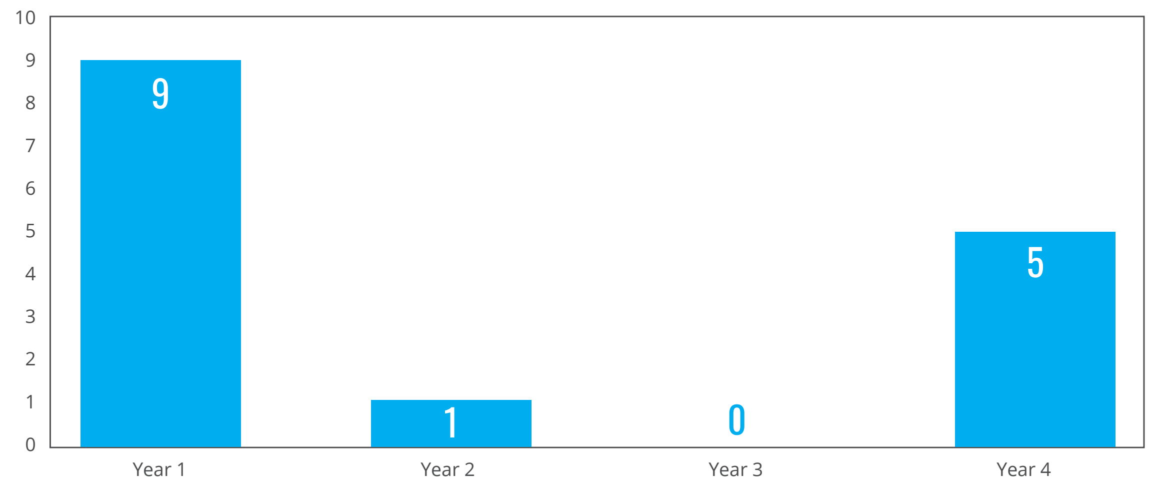
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

## The Other Presidential Cycle

Most stock market investors are familiar with The Presidential Cycle—the fact that the US market, as measured by the S&P 500, has on average, meaningfully outperformed its long-term rate of return in the third year of the President's term, regardless of whether the White House is held by a Republican or Democrat. More specifically, according to Strategas, a leading institutional research firm and investment manager, the S&P 500 has returned an average of 16.8% in the third year of the President's term since 1948, easily outdistancing its average annual return over the same time period of about 11%. Now considering that the S&P 500 is down about 21% year-to-date, 2023 – which will be year three of the Presidential Cycle – can't come soon enough!

That written, there is another, albeit less well-known, Presidential Cycle that ties back to the real economy, which, if past is prologue, also points to brighter days to come in 2023. Again, according to Strategas, going all the way back to 1929, the US has never experienced a negative year of GDP growth during the third year of a President's term, regardless of who is sitting in the White House (see chart). We find the data point particularly compelling and timely given that most major Wall Street firms and US banks seem to be calling for a recession in the new year. Now, why markets and the economy tend to do well during the third year of The Presidential Cycle is very much up for debate – some think there is no rhyme or reason to the pattern, just simply chance while others think that any President will do all they can to push the economy and the markets up and to the right in the third year of their term to better ensure their own reelection or the election of their party's nominee come the next general election. Truth be told, no one really knows why the patterns have held for so long. But given how difficult a year it has been for the US economy and US stock market, we will take all the positive data points we can get!

# of Recessions Starting in the Year of The Presidential Cycle (1929 - 2021)




*Financial Crisis/Great Recession considered Jan 2008 (Year 4) start.

**Stocks, bonds, and commodities** (10/21/2022)

| Security name | Last | QTD chg | YTD chg | 12mo chg |
|---|---|---|---|---|
| S&P 500 | 3752.75 | 4.66% | -21.26% | -17.43% |
| MSCI AC World ex USA | 248.34 | 0.52% | -27.88% | -29.05% |
| MSCI EAFE | 1679.67 | 1.09% | -28.10% | -28.18% |
| MSCI EM | 865.04 | -1.23% | -29.79% | -33.11% |
| Bloomberg Barclays US Agg | 85.37 | -2.67% | -18.48% | -18.50% |
| Crude Oil WTI | 85.14 | 7.11% | 13.20% | 1.65% |
| Natural Gas | 4.99 | -26.22% | 40.34% | -5.45% |

**Treasury rates** (10/21/2022)

| | Price | Yield |
|---|---|---|
| 2Y | 99.17 / 99.1 | 4.500 |
| 3Y | 99.08 / 99.0 | 4.511 |
| 5Y | 99.00 / 99.0 | 4.348 |
| 7Y | 97.15 / 97.1 | 4.297 |
| 10Y | 88.07 / 88.0 | 4.226 |
| 30Y | 77.20 / 77.2 | 4.342 |

**Weekly reports**

**This week** (10/24/2022)

- Aug FHFA Home Price Index
- Q3 GDP SA Y/Y

**Week of 10/17/2022**

- Sep Capacity Utilization NSA 80.3%
- Sep Housing Starts SAAR 1,439K

Source: Strategas

# 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 |



1997-BCI-10/24/22