Weekly Wire

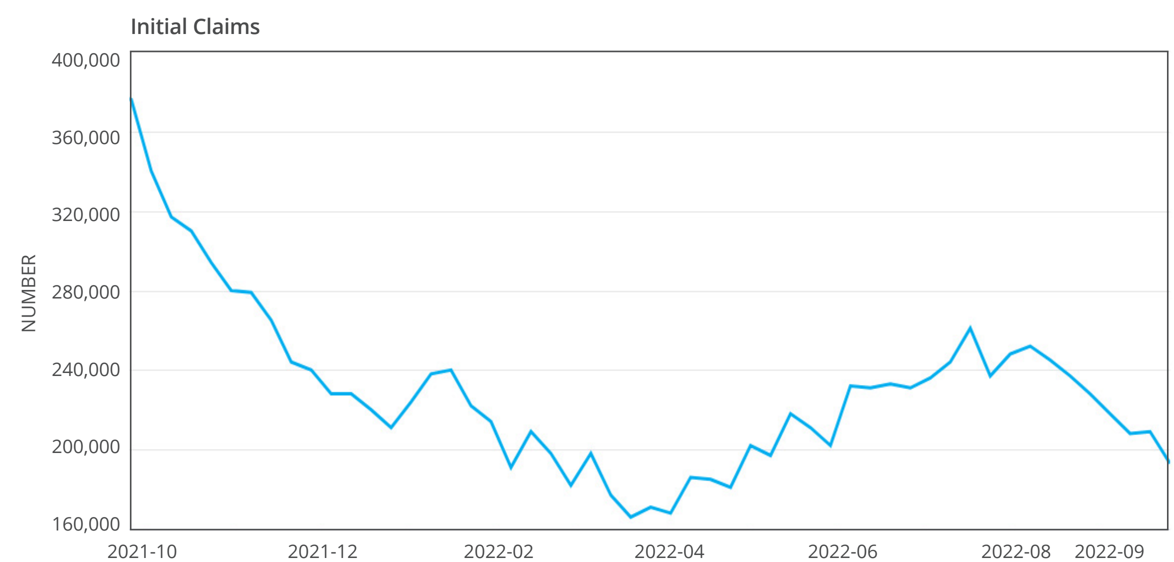
OCTOBER 3, 2022

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

An Unofficial Fed Check List - Energy, Housing, Employment

As we know, the US Federal Reserve has two primary responsibilities—what is known as its dual mandate: price stability and full employment. As it concerns the former, the Fed's long-term inflation target is 2% based on the core Personal Consumption Expenditures Index or PCE (though the bank is comfortable letting inflation run above or below that number for some time). As it concerns the latter, most pundits seem to think a mid-3% unemployment rate is indicative of full employment. During the worst of the pandemic, the Fed emphasized supporting the job market and restoring the millions of jobs lost when the economy was shut down before pivoting to an emphasis on inflation fighting late last year when it became clear historically high inflation was proving more persistent than expected.

As we kick off the fourth quarter, investors are wondering when the Fed might feel comfortable easing up on the rate hiking front (as hawkish monetary policy more than anything else, we think, has weighed on stocks and bonds in 2022). The Fed won't continue to hike at a 75 bps-per-meeting pace until the PCE hits 2% but should moderate its rate hiking efforts as the inflation data comes in more benign, and consistently so. As it concerns the inflation data, the Fed, like the rest of us, will be paying attention to headline data points including the PCE and Consumer Price Index. That said, there are other data points that could also help us determine when the Fed is closer to taking its foot off the break, and those include energy (energy might be excluded from core inflation readings but it's hard to ignore the price of a barrel of oil has plunged from \$123 to \$80, and the impact that has on consumers' inflation expectations); housing (the Case-Shiller Home Price Index fell 0.2% in July, the first monthly drop since 2012) and employment (which hasn't shown the type of deterioration that might convince the Fed its efforts to slow growth – and with it inflation – is taking hold as last week initial unemployment claims came in below expectations at 193,000, and at a five-month low; see chart). We think we can credibly check off the energy and housing data points, but not employment. It feels wrong to root for a weaker jobs market, but until the labor market softens, it seems likely the Fed won't soften its stance concerning interest rates.



Stocks, bonds, and commodities (9/30/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3585.62	0.00%	-24.77%	-17.71%
MSCI AC World ex USA	247.05	0.00%	-28.25%	-26.74%
MSCI EAFE	1661.48	0.00%	-28.88%	-26.61%
MSCI EM	875.79	0.00%	-28.91%	-29.75%
Bloomberg Barclays US Agg	87.71	0.00%	-16.25%	-17.14%
Crude Oil WTI	79.74	0.31%	6.02%	5.09%
Natural Gas	6.83	0.89%	91.90%	21.48%

Treasury rates (9/30/2022)

	Price		Yield
2Y	99.30 /	99.3	4.275
3Y	98.01 /	0.00	4.294
5Y	100.1 /	0.00	4.090
7Y	99.10 /	99.1	3.938
10Y	91.13 /	0.00	3.827
30Y	86.09 /	0.00	3.775

Weekly reports

This week (10/3/2022)

- Aug JOLTS Job Openings
- Sep Nonfarm Payrolls SA

Week of 9/26/2022

- Sep Conf. Board Consumer Conf. 108
- Sep Chicago PMI SA 45.7

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

1834-BCI-10/3/22