# Weekly Wire

NOVEMBER 14, 2022

BRINKER CAPITAL INVESTMENTS
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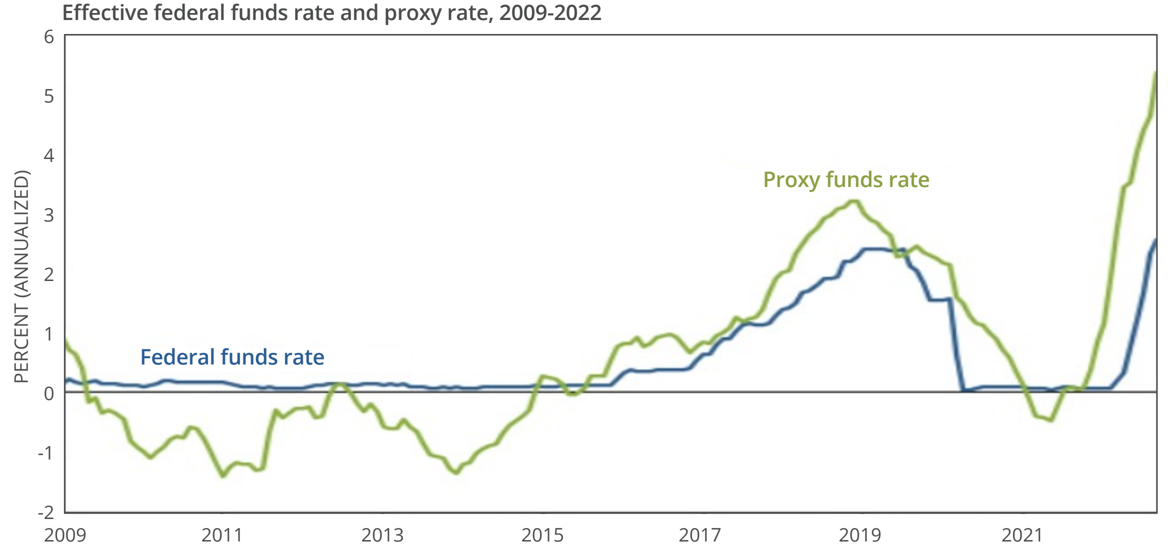
## Will the Real Fed Funds Rate Please Stand Up?

We have written often about the quality and quantity of the macroeconomic research produced by the regional banks that make up the Federal Reserve System, with two of our favorite sources being the St. Louis Fed's FRED **website** and the Atlanta Fed's GDPNow **website** (which, as of November 9th puts Q4 real GDP at a very healthy 4%). If you haven't yet investigated either site, we highly recommend doing so. And this week we turn our attention to a third regional bank and a bit of research that – given the market's focus on inflation and monetary policy – strikes us as particularly timely, and those are the Federal Reserve Bank of San Francisco and its Economic Letter that looks at a "proxy" Federal Funds Rate (you can find the FRBSF Economic Letter on the bank's **economic research page)**.

In a nutshell, the authors of the Letter compare the stated Fed Funds Rate (which, as we know today sits between 3.75% and 4.0%) and a proxy Fed Funds Rate that considers the impact of the Fed's forward guidance (which as we know has been quite hawkish of late) and the impact of the Fed's balance sheet activity (which as we know has been shrinking of late as the Fed has moved from quantitative easing to quantitative tightening, which is also quite hawkish) on monetary policy. According to the Economic Letter, when those two additional factors are considered, the result is a proxy Fed Funds Rate which is meaningfully higher than the stated Fed Funds Rate (at 5.25%+ vs 3.75% to 4.0%, see chart), which makes sense to us, again, given the Fed has more than once stated its determination to bring down the rate of inflation and the Fed is aggressively shrinking its balance sheet.

If the research is on point, and monetary policy is much tighter than previously thought, we think a few conclusions, positive and negative, can be drawn – on the positive side of the ledger, it is possible that the Fed is much closer to winning its battle against inflation and much closer to the end of its rate hiking cycle than we thought; on the negative side of the ledger, it is possible that the Fed has already gone too far, too fast in tightening monetary policy, and in so doing has made an economic hard landing more likely than we thought.

Effective federal funds rate and proxy rate, 2009-2022




**Stocks, bonds, and commodities** (11/11/2022)

| Security name | Last | QTD chg | YTD chg | 12mo chg |
|---|---|---|---|---|
| S&P 500 | 3992.93 | 11.36% | -16.22% | -14.73% |
| MSCI AC World ex USA | 278.49 | 12.73% | -19.12% | -20.88% |
| MSCI EAFE | 1918.41 | 15.46% | -17.88% | -18.86% |
| MSCI EM | 935.73 | 6.84% | -24.05% | -27.21% |
| Bloomberg Barclays US Agg | 87.97 | 0.30% | -16.00% | -16.23% |
| Crude Oil WTI | 88.86 | 11.79% | 18.15% | 9.99% |
| Natural Gas | 6.31 | -6.78% | 77.31% | 29.24% |

**Treasury rates** (11/11/2022)

| | Price | Yield |
|---|---|---|
| 2Y | 100.0 / 0.00 | 4.319 |
| 3Y | 100.2 / 0.00 | 4.201 |
| 5Y | 100.2 / 0.00 | 3.946 |
| 7Y | 100.2 / 0.00 | 3.873 |
| 10Y | 102.1 / 0.00 | 3.817 |
| 30Y | 81.26 / 0.00 | 4.055 |

**Weekly reports**

**This week** (11/14/2022)
- Oct PPI NSA Y/Y
- Nov NAHB Housing Market Index SA

**Week of 11/7/2022**
- Oct NFIB Small Business Index 91.3
- Nov UofM Sentiment NSA 54.7

Source: Federal Reserve Bank of San Francisco

# Brinker Capital Market Barometer

NOVEMBER 2022

Markets staged a much-needed comeback in October. Although the Consumer Price Index (CPI) remains elevated, year-over-year changes have slowed for several months, aiding sentiment. There was no Federal Open Market Committee meeting (FOMC) in October, fueling hopes of any sign of a policy change or reduction in the pace of interest rate hikes. Despite this, yields continued to rise, as the yield curve shifted upward in near parallel fashion. Economic activity showed resilience in the labor market and consumer sector and slowing in other areas such as housing. Both the US dollar and commodities eased off of their highs during the month. Third quarter earnings began in October, and early results were mixed as fewer companies than average beat estimates, but growth overall remained positive. Markets are entering the strongest seasonal period of the year in November, which has historically been amplified in midterm election years. Going forward, even the slightest monetary policy reprieve may have the power to support and build on October's rally.

## SHORT-TERM FACTORS (< 6 months)

| | CHANGE | NEGATIVE | NEUTRAL | POSITIVE | |
|---|---|---|---|---|---|
| Momentum | | ● | | | Solid October gains across markets, but intermediate-term returns remain depressed |
| Trend | | ● | | | Markets have rebounded off of lows, but major indices remain below major moving averages |
| Investor sentiment | | | | ● | Surveys continue to show significantly more bears than bulls; tends to be a contrarian signal |
| Seasonality | → | | | ● | Markets are in the strongest seasonal period of the year, particularly following midterm elections |

## INTERMEDIATE-TERM FACTORS (6-36 months)

| | CHANGE | NEGATIVE | NEUTRAL | POSITIVE | |
|---|---|---|---|---|---|
| Fiscal policy | | | ● | | Upcoming midterm election results will shed light on likelihood of major policy initiatives |
| Monetary policy | | ● | | | Rate hikes continue at a rapid pace; still unclear that the pace of hikes has peaked |
| Inflation | | ● | | | Headline inflation has moderated, but y/y numbers 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 the past few months but near the lowest recorded levels |
| Corporate earnings | ← | | ● | | Earnings growth and the number of companies beating estimates continues to slow during Q3 season |
| Credit environment | | | | ● | Level of credit spreads at long-term averages, defaults remain low, credit conditions modest |

## 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 | | | ● | | Strong initial Q3 GDP release diminishes near-tearm recession risk |
| Demographics | | | ● | | Emerging markets possess more favorable trends overall than developed markets |



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