Weekly Wire

NOVEMBER 21, 2022

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

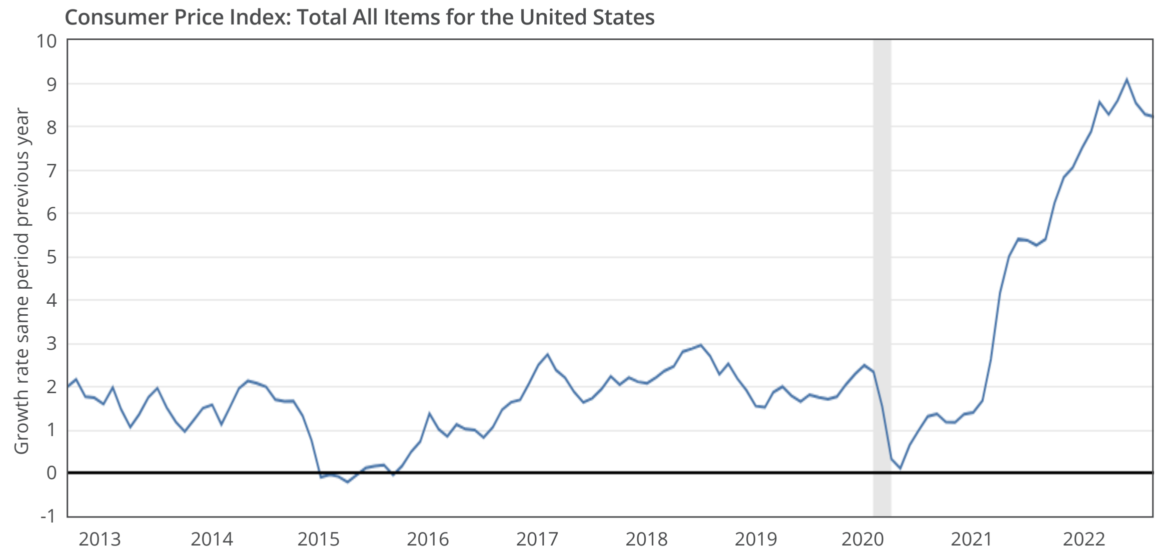
Two Down; Two to Go

With the mid-term election mostly in the rearview mirror (a few House races have yet to be called and the Georgia Senate race is headed to a runoff next month) and the outcome of the vote being what we would consider a market-friendly divided Congress (even if the degree of division or gridlock isn't as pronounced as many had expected), and with Q3 earnings season mostly in the rearview mirror (475 S&P 500 companies have reported to date) and the results coming in a bit better than expected (70% of companies that have reported topped Wall Street's EPS expectations), we can turn our attention fully to the issue that, more than any other, has driven and should drive the direction of the stock market – and that is inflation.

On that front, we have gotten some very good news of late, with the October Producer Price Index and the October Consumer Price Index (CPI) both coming in lower than expected. In fact, as it concerns the CPI – which has arguably become the most watched data point on Wall Street – the October print of 7.7% was the first print below 8% since February of this year and marked the fourth consecutive month of year-on-year decline in the data point (on a year over year basis, the CPI peaked out at 9.06% in June; see chart).

While some inflation data points continue to be worrisome (wage inflation has proved stickier than many had hoped), others continue to point to a much more benign inflation environment as we move into year-end (commodity prices are down dramatically and the housing market is weakening rapidly), and, importantly, we are finally seeing an improvement in key headline inflation data, particularly the PPI and CPI. The US Federal Reserve holds its final meeting of the year on December 13th and 14th.

We think the Fed very much wants to downshift to a 50 bps interest rate hike at next month's meeting. Between now and then, we will get a look at the November PPI and the November CPI (set to be released on December 9th and 13th, respectively). If those data points come in as expected or a bit lower than expected, we think the Fed can credibly moderate the degree of interest rate hikes, a development that should be most welcomed on Wall Street.



Stocks, bonds, and commodities (11/18/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3965.34	10.59%	-16.80%	-15.59%
MSCI AC World ex USA	279.14	12.99%	-18.93%	-19.90%
MSCI EAFE	1922.38	15.70%	-17.71%	-18.02%
MSCI EM	943.01	7.68%	-23.46%	-25.70%
Bloomberg Barclays US Agg	88.41	0.80%	-15.58%	-15.81%
Crude Oil WTI	80.26	0.97%	6.71%	5.69%
Natural Gas	6.79	0.41%	91.00%	32.05%

Treasury rates (11/18/2022)

	Price	Yield
2Y	99.24 / 0.00	4.497
3Y	100.1 / 0.00	4.277
5Y	100.1 / 0.00	3.991
7Y	100.1 / 0.00	3.914
10Y	102.1 / 0.00	3.813
30Y	101.0 / 0.00	3.927

Weekly reports

This week (11/21/2022)

- Nov Markit PMI Manufacturing SA
- Oct New Homes Sales SAAR

Week of 11/14/2022

- Oct PPI NSA Y/Y 8.0%
- Nov NAHB Housing Market Index SA 33.0

Source: Federal Reserve Bank of St. Louis

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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