Weekly Wire

NOVEMBER 7, 2022

BRINKER CAPITAL INVESTMENTS
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One Day Out

It seems everything matters more on Wall Street these days...due to historically high inflation, each new inflation data point is parsed and reparsed; due to a historically hawkish Fed, every comment by a member of our central bank is scrutinized and scrutinized again, and due to recession worries, each quarterly earnings report is analyzed and reanalyzed. And then there is tomorrow's election. All mid-terms matter, but given how divided Washington, DC is and how markets have historically performed once the mid-term votes are counted, this election might matter more.

As it concerns the former point and the current makeup of Congress, Democrats hold an eight-seat advantage in the House of Representatives (excluding three vacancies), while the US Senate is split 50/50 between the two parties (it is true two US Senators are Independents, but both caucus with the Democrats, while Vice President Kamala Harris, as President of the US Senate, has the sole power to cast a tie-breaking vote). Said differently, Republicans need to pick up just five House seats and a single Senate seat to take control of Congress and usher in an era of fully divided government.

As it concerns the latter point, going back to 1962, the S&P 500 has always been higher 12 months on from a mid-term election, producing an average return of 16.3% (see grid). As we take pen to paper, the online prediction market PredictIt shows the most likely outcome of Tuesday's vote being the Republicans taking the House and the Senate. That is an outcome which, at least from the perspective of the markets, should be welcome as the S&P 500 has, going back to 1933, produced above average returns when the balance of power in DC was divided. As to why markets seem to favor "gridlock," many pundits put it down to policy certainty, as in nothing of significance is likely to get done when one party holds the White House and the other party Congress (or Congress is split between the two parties); as to why markets have historically rallied post-election day, many pundits put it down to simply getting through the uncertainty surrounding the vote.

We will dig into these issues and others, including how the election might impact the economy in 2023, this Friday, November 11th on a special post-election webinar with Steve Pavlick, Head of Policy at Renaissance Macro and an expert on all things political. **Please join us by registering for the webinar here.**

Politics - What to Expect From Markets

Year	President	Party	12-Months Before Election	3-Months After	6-Months After	12-Months After
1962	John F. Kennedy	D	-18%	17%	24%	31%
1966	Lyndon Johnson	D	-13%	8%	17%	17%
1970	Richard Nixon	R	-14%	15%	25%	13%
1974	Gerald Ford (Nixon)	R	-32%	4%	18%	21%
1978	Jimmy Carter	D	1%	7%	9%	9%
1982	Ronald Reagan	R	10%	9%	23%	22%
1986	Ronald Reagan	R	29%	12%	18%	3%
1990	George Bush	R	-11%	13%	24%	29%
1994	Bill Clinton	D	1%	0%	9%	23%
1998	Bill Clinton	D	20%	17%	22%	24%
2002	George W. Bush	R	-16%	-3%	4%	19%
2006	George W. Bush	R	14%	4%	8%	12%
2010	Barack Obama	D	14%	9%	15%	6%
2014	Barack Obama	D	15%	-1%	3%	3%
2018	Donald Trump	R	5%	0%	9%	12%
		Average	**0.3%**	**7.3%**	**15.1%**	**16.3%**

Stocks, bonds, and commodities (11/4/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3770.55	5.16%	-20.89%	-19.73%
MSCI AC World ex USA	259.38	4.99%	-24.67%	-26.11%
MSCI EAFE	1770.32	6.55%	-24.22%	-25.41%
MSCI EM	884.98	1.05%	-28.17%	-29.99%
Bloomberg Barclays US Agg	85.96	-2.00%	-17.93%	-18.82%
Crude Oil WTI	92.60	16.49%	23.12%	13.94%
Natural Gas	6.83	0.95%	92.02%	21.40%

Treasury rates (11/4/2022)

	Price		Yield
2Y	99.13 /	99.1	4.688
3Y	99.01 /	99.0	4.594
5Y	99.02 /	99.0	4.333
7Y	98.15 /	98.1	4.254
10Y	88.23 /	88.2	4.162
30Y	78.30 /	79.0	4.251

Weekly reports

This week (11/7/2022)

- Oct NFIB Small Business Index
- Nov UofM Sentiment NSA

Week of 10/31/2022

- Sep JOLTS Job Openings 10,717K
- Oct Nonfarm Payrolls SA 261K

Source: FactSet

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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