Weekly Wire

DECEMBER 19, 2022

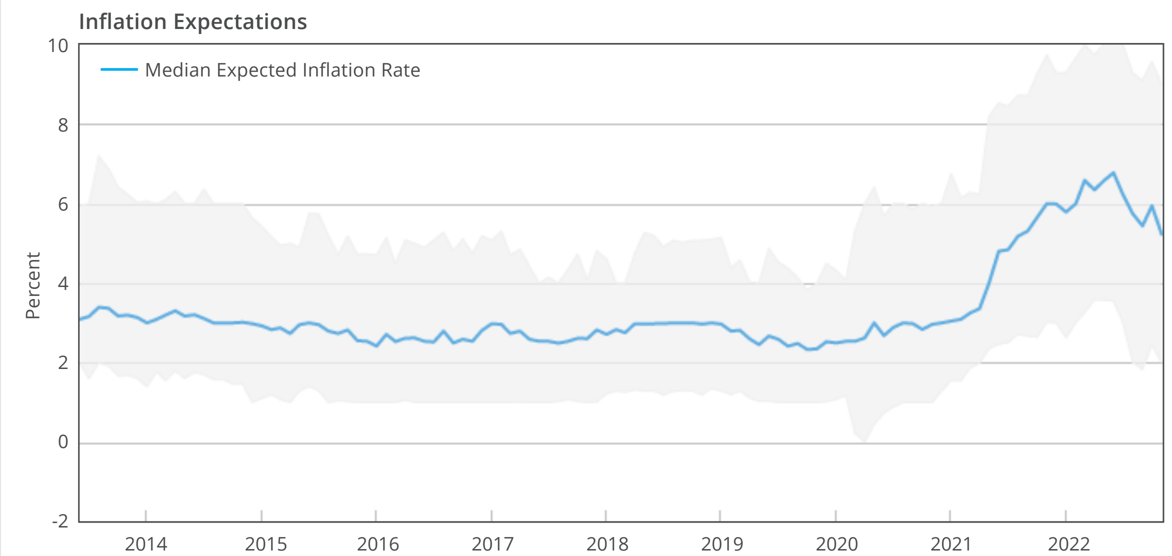
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

The Ghosts Of Inflation Past And Future Have Become Less Frightening

My favorite Christmas movie of all time is “It's A Wonderful Life” (I cry every time Harry Bailey raises a glass and toasts “To my big brother George, the richest man in town.”). That said, there are any number of classic Christmas films to choose from when picking a favorite, including “A Christmas Carol” (the original movie was released in 1938; the Charles Dickens' novella has been reimagined for the big screen and small screen more than a few times since). So, in the spirit of the season, and “A Christmas Carol,” we bring you this week's Weekly Wire and the issue that has haunted markets more than any this year – inflation (and while we are having a bit of fun this week, we don't mean to make light of the financial pain caused by a year that has seen US equities sell off 19%).

Inflation has been such a headwind because its level and persistence have been catalysts for the US Federal Reserve to raise interest rates at an unprecedented pace – consider that on January 1st, the Fed Funds Rate sat between 0% and 0.25%; today the Fed Funds Rate sits between 4.25% and 4.50%. And we have reached a point where many investors – and we think rightly so – are worried the Fed will go too far on the rate hiking front and push the economy into a meaningful recession. We think it is fortunate the Fed won't meet again until January 31st, as we expect key inflation data to trend lower between now and then.

Which brings us back to the ghosts of inflation past and future – as it concerns the former, the November Consumer Price Index came in at 7.1%, it's lowest reading since December of 2021; as it concerns the latter, the November one-year ahead consumer inflation expectations survey from the New York Fed came in at 5.2%, it's lowest reading since August of 2021 (see chart). With inflation coming down, we are hopeful the Fed can stop playing Scrooge sooner than it thinks and pivot to a more benign interest rate policy footing, which would be a substantial positive for markets. And we want to wish you and your loved ones, Happy Holidays and a Happy New Year!!!



Stocks, bonds, and commodities (12/16/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3852.36	7.44%	-19.17%	-16.63%
MSCI AC World ex USA	284.28	15.07%	-17.44%	-15.59%
MSCI EAFE	1964.12	18.21%	-15.92%	-13.81%
MSCI EM	963.58	10.02%	-21.79%	-20.78%
Bloomberg Barclays US Agg	90.89	3.62%	-13.22%	-13.54%
Crude Oil WTI	74.50	-6.28%	-0.94%	5.35%
Natural Gas	6.61	-2.29%	85.86%	79.16%

Treasury rates (12/16/2022)

	Price	Yield
2Y	100.1 / 0.00	4.195
3Y	100.0 / 0.00	3.902
5Y	101.0 / 0.00	3.619
7Y	101.2 / 0.00	3.575
10Y	105.1 / 0.00	3.478
30Y	108.1 / 0.00	3.531

Weekly reports

This week (12/19/2022)

- Nov Housing Starts SAAR
- Nov New Home Sales SAAR

Week of 12/12/2022

- Nov NFIB Small Business Index 91.9
- Nov CPI NSA Y/Y7.1%

Source: Federal Reserve Bank of New York

Brinker Capital Market Barometer

DECEMBER 2022

Global stocks added to their recent rally in November, as intermediate-to-long-term interest rates declined significantly. The Federal Reserve raised their key short-term interest rate by 75-basis points for the 4th consecutive time. However, shortly after the FOMC meeting we learned that the y/y increase in the Consumer Price Index (CPI) decelerated for the fourth consecutive month and came in softer than expectations. This marked a near-term peak in long-term bond yields, and the reversal led to a significant rally in risk assets. US midterm elections led to some short-term uncertainty but proved to be virtually a non-event as the market accepted a split government. Nonfarm payrolls, retail sales, new and existing home sales, and consumer sentiment all came in above expectations for the month. This positive economic data coupled with somewhat softer Federal Reserve rhetoric throughout the month led the market to assign a greater probability to the potential for a soft landing. Negative year-over-year growth was expected for third quarter corporate earnings; however, earnings managed to settle at a positive growth rate and exceed expectations. While broad commodity prices rose slightly during the month, the price of oil and its distillates like gasoline continue to decline. Coupling this with recent drops in mortgage rates has helped to buoy consumer sentiment somewhat. Looking forward, both stock and bond markets have become more attractive this year. While risks of policy mistakes and recession remain, today's market environment is presenting longer-term opportunities across multiple asset classes.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Solid gains in November build on October's rally, but y/y returns remain negative
Trend	→		●		Major indices have moved above both short-term and long-term moving averages
Investor sentiment				●	Survey data is off of extremes, but contrarian view still indicates positive returns going forward
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			●		Split government unlikely to pass any meaningful legislation, particularly in the near-term
Monetary policy		●			Indications point towards the pace of rate hikes slowing in December, but still tightening
Inflation		●			Headline inflation has moderated, but y/y price increases remain at elevated levels
Interest rate environment		●			Longer-term rates declined significantly in December, but curve remains deeply inverted
Macroeconomic			●		Economic data continue to show mixed signals, with labor market and consumer spending resilient
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 remains depressed
Corporate earnings			●		Earnings growth and surprises are below average, but Q3 earnings managed to deliver y/y growth
Credit environment				●	Level of credit spreads at or below 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			●		Revised Q3 GDP shows moderate growth, avoiding near-term recession risk
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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