

## The Fed's Crystal Ball is as Foggy as Mine

The title of this week's Weekly Wire is not meant to denigrate in any way the US Federal Reserve as an institution or the thousands of Americans who work at the world's most important central bank. As we have written about before, correctly managing monetary policy for the world's largest economy strikes us as a near impossible task, and that is before even considering that every decision the Fed makes on interest rates and balance sheet management is both relentlessly scrutinized on Wall Street and in Washington and has a meaningful impact on economies and central banks around the world. Instead, the title speaks to the fact that any macroeconomic forecast – even one from an institution that employs 400 Ph.D. economists – should be taken with a grain of salt.

By way of example, coming out of its December 2021 meeting, the Fed predicted that inflation, based on the Personal Consumption Expenditures Index (or PCE) would sit at 2.6% in 2022 and the Fed Funds Rate would hit 0.9% in 2022 (see the Fed's December 2021 Summary of Economic Projections, lower and mid-left). Well, as 2022 winds down, the PCE sits at 6.0% and the Fed Funds Rate sits between 3.75% and 4.0%. Clearly, the Fed badly missed the mark when it came to its projections for inflation and interest rates in 2022.

This turn of events is worth keeping in mind as the Fed gets set for its final meeting of the year on December 13th and 14th and gets set to release an updated Summary of Economic Projections (coming out of its September 2022 meeting the Fed predicted the Fed Funds Rate would hit 4.6% in 2023; it is most likely the December Summary will show that target moving higher still). We wonder – given growing evidence of waning inflation and a weakening US economy – if the Fed, after underestimating where the Fed Funds Rate would get to in 2022, might end up overestimating where the Fed Funds Rate might get to in 2023.

### Percent

Variable	Median <sup>1</sup>					Central Tendency <sup>2</sup>					Range <sup>3</sup>				
	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run
Change in real GDP	5.5	4.0	2.2	2.0	1.8	5.5	3.6-4.5	2.0-2.5	1.8-2.0	1.8-2.0	5.3-5.8	3.2-4.6	1.8-2.8	1.7-2.3	1.6-2.2
September projection	5.9	3.8	2.5	2.0	1.8	5.8-6.0	3.4-4.5	2.2-2.5	2.0-2.2	1.8-2.0	5.5-6.3	3.1-4.9	1.8-3.0	1.8-2.5	1.6-2.2
Unemployment rate	4.3	3.5	3.5	3.5	4.0	4.2-4.3	3.4-3.7	3.2-3.6	3.2-3.7	3.8-4.2	4.0-4.4	3.0-4.0	2.8-4.0	3.1-4.0	3.5-4.3
September projection	4.8	3.8	3.5	3.5	4.0	4.6-4.8	3.6-4.0	3.3-3.7	3.3-3.6	3.8-4.3	4.5-5.1	3.0-4.0	2.8-4.0	3.0-4.0	3.5-4.5
PCE inflation	5.3	2.6	2.3	2.1	2.0	5.3-5.4	2.2-3.0	2.1-2.5	2.0-2.2	2.0	5.3-5.5	2.0-3.2	2.0-2.5	2.0-2.2	2.0
September projection	4.2	2.2	2.2	2.1	2.0	4.0-4.3	2.0-2.5	2.0-2.3	2.0-2.2	2.0	3.4-4.4	1.7-3.0	1.9-2.4	2.0-2.3	2.0
Core PCE inflation <sup>4</sup>	4.4	2.7	2.3	2.1		4.4	2.5-3.0	2.1-2.4	2.0-2.2		4.4-4.5	2.4-3.2	2.0-2.5	2.0-2.3	
September projection	3.7	2.3	2.2	2.1		3.6-3.8	2.0-2.5	2.0-2.3	2.0-2.2		3.5-4.2	1.9-2.8	2.0-2.3	2.0-2.4	
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.9	1.6	2.1	2.5	0.1	0.6-0.9	1.4-1.9	1.9-2.9	2.3-2.5	0.1	0.4-1.1	1.1-2.1	1.9-3.1	2.0-3.0
September projection	0.1	0.3	1.0	1.8	2.5	0.1	0.1-0.4	0.4-1.1	0.9-2.1	2.3-2.5	0.1	0.1-0.6	0.1-1.6	0.6-2.6	2.0-3.0

### Stocks, bonds, and commodities (12/2/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4071.70	13.56%	-14.57%	-10.28%
MSCI AC World ex USA	287.73	16.47%	-16.44%	-13.66%
MSCI EAFE	1983.24	19.37%	-15.10%	-11.27%
MSCI EM	973.85	11.20%	-20.95%	-20.48%
Bloomberg Barclays US Agg	90.60	3.29%	-13.50%	-14.22%
Crude Oil WTI	80.34	1.07%	6.82%	21.25%
Natural Gas	6.22	-8.04%	74.92%	50.58%

### Treasury rates (12/2/2022)

	Price	Yield
2Y	100.1 / 0.00	4.292
3Y	101.1 / 0.00	4.005
5Y	100.2 / 0.00	3.671
7Y	101.1 / 0.00	3.611
10Y	105.0 / 0.00	3.511
30Y	108.0 / 0.00	3.560

### Weekly reports

This week (12/5/2022)
• Nov PPI NSA Y/Y
• Dec UofM Sentiment NSA
Week of 11/28/2022
• Nov ISM Manufacturing SA 49.0
• Nov Nonfarm Payrolls SA 263.0K

# 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-term recession risk
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of November 7, 2022. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. Barclays US Aggregate Index: A market capitalization-weighted index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries. Brinker Capital Investments, LLC a registered investment advisor.