Brinker Capital Market Barometer

JANUARY 2023

BRINKER CAPITAL INVESTMENTS
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Global stocks couldn't maintain positive momentum as a bounce in rates and a hawkish Federal Reserve led to losses in December. The Federal Reserve did vote to slow its pace of rates hikes to 0.50% in December following four consecutive 0.75% moves. This was generally viewed as a positive outcome, but Chairman Powell was quick to turn away any narrative of a dovish pivot from the committee. This marked a near term peak in US equity markets and led to a selloff in fixed income markets as well. Congress came together to pass the Omnibus Bill which will lead to $1.7 Trillion in government spending, nearly half of which is focused on defense programs. Nonfarm payrolls and unemployment claims continue to show a strong labor market, proving to be a thorn in the side of the Fed looking to slow growth to cool inflation. Higher interest rates have taken a toll on the housing market as numerous data have declined significantly. While hope remains for a potential soft landing, growing consensus is that a recession is more likely than not in 2023. A key point to watch in the coming year will be the resiliency of corporate earnings. While expectations are for a slight decline in Q4, to this point companies have continued to deliver better than expected results. Any significant decline in earnings or negative guidance during 4th quarter reports may lead to further pain in equity markets. Commodity prices have continued to cool in December, leading to consumers seeing the lowest prices at the gas pump in over a year. While this will no doubt be a boost to sentiment, food inflation as well as the cost of services continue to rise at a steady clip. Despite the challenges 2022 presented across markets, expected returns look more favorable as yields have risen across asset classes and valuations have reverted closer to long term averages. While many risks remain, the broad opportunity set for multi-asset portfolios looks as attractive as it has in many years.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			December losses dampened an otherwise strong quarter, positive momentum yet to be sustained
Trend			●		US markets have fallen back below moving averages, but short term averages remain upward sloping
Investor sentiment				●	Survey data is off of extremes, but contrarian view still indicates positive returns going forward
Seasonality				●	Seasonality remains strong through January, though not to the degree that we see in the 4th quarter

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		The Omnibus Bill provides fiscal spend, but lack of tax changes increases the burden on corporations
Monetary policy		●			December should have signaled the peak in pace of hikes, but Fed rhetoric remains hawkish into 2023
Inflation		●			Headline inflation has moderated, but y/y numbers remain at elevated levels
Interest rate environment		●			Rates rose in December, but long term rates remain below the highs of 2022; deep inversion persists
Macroeconomic			●		Strong labor market and consumer spending persists, housing showing slowdown from higher rates
Business sentiment		●			Business confidence measures remain subdued as a growth slowdown is expected
Consumer sentiment		●			Consumer sentiment has rebounded over the past few months but remains depressed
Corporate earnings			●		Q4 to solidify earnings growth for 2022, degree of further forward revisions lower bears watching
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			●		Q3 GDP showed moderate growth, Q4 expectations show recession fears yet to come to fruition
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

SUMMARY

Short-term factors were unchanged from November. While domestic markets remain under pressure below moving averages, short term averages remain upward sloping and we find some green shoots in foreign markets.

Intermediate-term factors were unchanged from the previous month. The Omnibus Bill provides significant fiscal spending and the labor market and consumer remain in a strong position, but restrictive monetary policy and persistently high inflation weigh on the global economy.

Long-term factors remain neutral and are unchanged from the previous month.

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