Weekly Wire

JANUARY 17, 2023

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

What Ails the US Dollar?

The US dollar enjoyed an extraordinary rally in 2022, with the ICE U.S. Dollar Index jumping from 96 in January to 114 on September 28th, a 20-year high (the index measures the value of the dollar against a basket of foreign currencies). We think the forces that pushed the dollar higher were the Federal Reserve raising interest rates at the fastest pace in 40 years (higher rates tend to make a currency more attractive to own) and investors seeking a safe haven (the dollar has historically benefitted from periods of global distress). That strong dollar was both a blessing and a curse to the global economy and market. Here at home, it tamped down inflation, but around the world, it drove inflation higher (as most commodities are priced in dollars, so goods priced in dollars became more expensive outside the US); it weighed on ex-US earnings for US multi-nationals (as overseas earnings were worth less when converted into dollars); it drove up borrowing costs for companies and countries around the world that had issued dollar-denominated debt (as they needed more dollars to service their debts), and it aided US consumer spending (as a strong dollar allowed us to buy more of what other countries were exporting).

But, since hitting that late 2022 high, the ICE U.S. Dollar Index has fallen to 102, which has many market participants wondering what ails the dollar, and what a declining dollar means for the global economy and markets in 2023. We think a few forces have pushed the dollar lower, including the Fed being closer to the end of its rate hiking campaign than the beginning; ex-US central banks becoming more hawkish and an improvement in fundamentals for key economies around the world, including lower energy prices in Western Europe and China moving on from its Covid 19 driven lockdown policy. And that drop in the dollar has both aided a meaningful rally in ex-US equities (over the prior three months developed market equities are up 23% and emerging market equities are up 18%) and should prove to be a tailwind for US multi-national earnings this year (as those overseas earnings will be worth more when converted into dollars). All things being equal, a weaker dollar should be a positive for the global economy and risk assets in 2023.

ICE US Dollar - Daily Price

Stocks, bonds, and commodities (1/13/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3999.09	4.16%	4.16%	-14.24%
MSCI AC World ex USA	301.38	7.14%	7.14%	-13.03%
MSCI EAFE	2080.35	7.02%	7.02%	-10.83%
MSCI EM	1029.84	7.68%	7.68%	-18.10%
Bloomberg Barclays US Agg	91.27	2.69%	2.69%	-11.15%
Crude Oil WTI	80.06	-0.25%	-0.25%	-4.49%
Natural Gas	3.23	-21.30%	-21.30%	-20.85%

Treasury rates (1/13/2023)

	Price		Yield
2Y	100.0 /	0.00	4.215
3Y	99.30 /	0.00	3.889
5Y	101.0 /	0.00	3.612
7Y	101.2 /	0.00	3.567
10Y	105.0 /	0.00	3.507
30Y	106.2 /	0.00	3.623

Weekly reports

This week (1/17/2023)

- Dec PPI NSA Y/Y
- Jan NAHB Housing Market Index SA

Week of 1/9/2023

- Dec CPI NSA Y/Y 6.5%
- Jan UofM Sentiment NSA 64.6

Source: FactSet

Brinker Capital Market Barometer

JANUARY 2023

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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of January 6, 2023. 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-weighed 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.

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