Weekly Wire

JANUARY 23, 2023

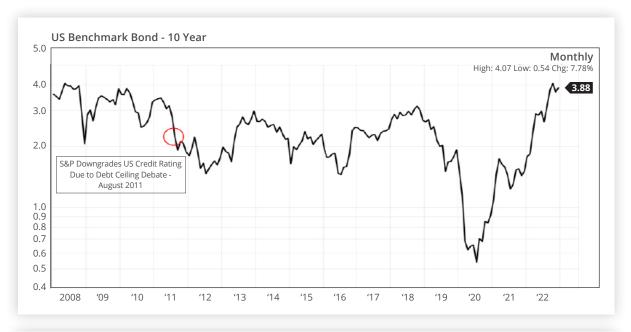


US Debt Ceiling Drama Déjà Vu

The headwinds that buttressed the market and the economy last year are still with us...high inflation; an aggressive Fed and an unsettled geo-political construct. To that list we can add the risk of the US government defaulting on its financial obligations; more specifically, and more importantly from a macroeconomic perspective, the risk that the US will miss interest and/ or principal payments on its bills, notes, and bonds (said differently, the US would default on its debt). We have arrived at this moment as our government hit its self-imposed debt ceiling of \$31.4 trillion on January 19th (which means the government cannot raise new funds by issuing new debentures). This is a big problem as our government spends much more than it takes in from tax revenues and other sources of income.

From a practical point of view, the government is not at risk of running out of funds immediately – according to the Treasury Department the government has the funds to meet its financial obligations into June; past that point, the government will still have incoming tax revenues that would enable it to meet some but not all its obligations (e.g., the government could make principal and interest payments on outstanding debt but skip payments into Federal retirement funds). Of course, were Congress to raise, suspend or eliminate the debt ceiling the government could sell the bonds necessary to fund its previously agreed-to spending and financing obligations. But, given the state of our country's political discourse, many on Wall Street are doubtful Republicans and Democrats will reach a deal on the debt ceiling.

Our political crystal ball is as fuzzy as any, but we are optimistic a deal that ties cuts or caps in spending to a raising of the debt ceiling will get done (for no other reason than the economic and political risks of not doing a deal are too great). And it is worth noting that since 1960 Congress has raised the debt ceiling 78 times and we have lived through prior periods of debt ceiling drama, including in 2011, when Standard & Poor's downgraded the US credit rating due to Congress's inability to get a debt ceiling deal done. Well, that deal did get done and US interest rates, which should have moved higher on the downgrade, moved lower (see chart).



Stocks, bonds, and commodities (1/20/2023) Security name Last QTD chg YTD chg 12mo chg S&P 500 3.47% 3.47% MSCI AC 7.37% 7.37% World ex USA MSCI EAFE MSCI EM 1036.24 Bloomberg 91.41 Barclays US Agg Crude Oil WTI Natural Gas

Treasury rates (1/20/2023)				
	Price		Yield	
2Y	100.0 /	0.00	4.202	
3Y	100.0 /	0.00	3.838	
5Y	101.1 /	0.00	3.583	
7Y	102.0 /	0.00	3.524	
10Y	105.0 /	0.00	3.483	
30Y	106.1 /	0.00	3.650	

/2023)		Weekly reports		
	Yield	This week (1/23/2023)		
0	4.202	• Q4 GDP SAAR Q/Q		
_	2.020	Dec New Home Sales		
0	3.838	SAAR		
0	3.583	W154/46/2022		
_	2.524	Week of 1/16/2023		
0	3.524	• Dec PPI NSA Y/Y 6.2%		
0	3.483	Jan NAHB Housing		
0	2.650	Market Index SA 35.0		
U	3.650			

Brinker Capital Market Barometer

Business cycle

Demographics

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** POSITIVE Momentum December losses dampened an otherwise strong quarter, positive momentum yet to be sustained US markets have fallen back below moving averages, but short term averages remain upward sloping Trend 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 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** POSITIVE Valuation U.S. equity valuations near long-term averages; overseas markets below average valuations

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Q3 GDP showed moderate growth, Q4 expectations show recession fears yet to come to fruition

Emerging markets possess more favorable trends overall than developed markets