

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).

US Benchmark Bond - 10 Year



Stocks, bonds, and commodities (1/20/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3972.61	3.47%	3.47%	-9.67%
MSCI AC World ex USA	302.05	7.37%	7.37%	-11.16%
MSCI EAFE	2080.41	7.02%	7.02%	-8.93%
MSCI EM	1036.24	8.35%	8.35%	-16.72%
Bloomberg Barclays US Agg	91.41	2.84%	2.84%	-11.00%
Crude Oil WTI	81.69	1.78%	1.78%	-4.05%
Natural Gas	3.03	-26.22%	-26.22%	-19.94%

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

Weekly reports

This week (1/23/2023)
• Q4 GDP SAAR Q/Q
• Dec New Home Sales SAAR
Week of 1/16/2023
• Dec PPI NSA Y/Y 6.2%
• Jan NAHB Housing Market Index SA 35.0

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-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.