Weekly Wire

JANUARY 3, 2023

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

What Are the Odds?

Given what a difficult year 2022 proved to be – a highly contentious mid-term election cycle; a tragic war and humanitarian crisis in Eastern Europe; the ongoing impact of Covid 19; historically high inflation and the S&P 500 off 19% (the worst annual return for the benchmark since 2008) and the Bloomberg Barclays Aggregate Index off 15% (the worst annual return in the history of the fixed income benchmark), the less said about last year the better.

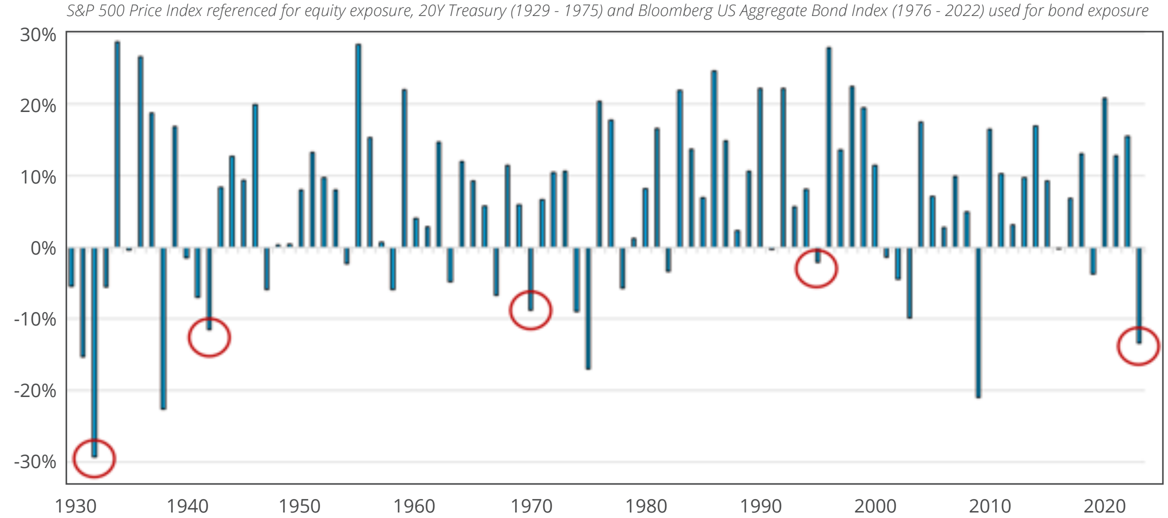
So, we will keep this note brief, and make just two broad points: one, the US has endured an incredibly difficult few years, yet, at the risk of being overly dramatic, we are still here and are still the world's largest and most important economy, still the world's longest-lived democracy and still – in the words of Abraham Lincoln – "the last best hope of Earth."

And, as it concerns markets more specifically, 2022 will prove to be just the fifth year in 93 where both US equities and US fixed income produced a negative return (see chart; and if we measure US equities on a total return basis instead of a price return basis, 2022 will prove to be just the fourth year in 93 where both asset classes finished in the red).

Given that inflation is rolling over and that the US Federal Reserve is likely much closer to the end of its rate hiking cycle than the beginning, we think the odds are quite low that risk assets will struggle this year the way they struggled last year. With that said, we wish you and your loved ones a happy, healthy, and prosperous New Year!

60 / 40 Portfolios; Calendar Year Returns 1929 - 2022

S&P 500 Price Index referenced for equity exposure, 20Y Treasury (1929 - 1975) and Bloomberg US Aggregate Bond Index (1976 - 2022) used for bond exposure



Stocks, bonds, and commodities (12/30/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3839.50	0.00%	0.00%	-19.44%
MSCI AC World ex USA	284.28	1.06%	1.06%	-17.44%
MSCI EAFE	1964.12	1.04%	1.04%	-15.92%
MSCI EM	963.58	0.75%	0.75%	-21.79%
Bloomberg Barclays US Agg	88.88	0.00%	0.00%	-15.13%
Crude Oil WTI	80.51	0.31%	0.31%	7.05%
Natural Gas	4.08	-0.56%	-0.56%	14.73%

Treasury rates (12/30/2022)

	Price		Yield
2Y	99.21 /	0.00	4.420
3Y	99.11 /	0.00	4.236
5Y	99.13 /	0.00	4.004
7Y	99.13 /	0.00	3.968
10Y	101.3 /	0.00	3.878
30Y	100.1 /	0.00	3.970

Weekly reports

This week (1/3/2023)

- Nov JOLTS Job Openings
- Dec Nonfarm Payrolls SA

Week of 12/26/2022

- Nov Pending Home Sales M/M (-4.0%)
- Dec Chicago PMI SA 44.9

Source: FactSet

Brinker Capital Market Barometer

DECEMBER 2022

Global stocks added to their recent rally in November, as intermediate-to-long-term interest rates declined significantly. The Federal Reserve raised their key short-term interest rate by 75-basis points for the 4th consecutive time. However, shortly after the FOMC meeting we learned that the y/y increase in the Consumer Price Index (CPI) decelerated for the fourth consecutive month and came in softer than expectations. This marked a near-term peak in long-term bond yields, and the reversal led to a significant rally in risk assets. US midterm elections led to some short-term uncertainty but proved to be virtually a non-event as the market accepted a split government. Nonfarm payrolls, retail sales, new and existing home sales, and consumer sentiment all came in above expectations for the month. This positive economic data coupled with somewhat softer Federal Reserve rhetoric throughout the month led the market to assign a greater probability to the potential for a soft landing. Negative year-over-year growth was expected for third quarter corporate earnings; however, earnings managed to settle at a positive growth rate and exceed expectations. While broad commodity prices rose slightly during the month, the price of oil and its distillates like gasoline continue to decline. Coupling this with recent drops in mortgage rates has helped to buoy consumer sentiment somewhat. Looking forward, both stock and bond markets have become more attractive this year. While risks of policy mistakes and recession remain, today's market environment is presenting longer-term opportunities across multiple asset classes.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Solid gains in November build on October's rally, but y/y returns remain negative
Trend	→		●		Major indices have moved above both short-term and long-term moving averages
Investor sentiment				●	Survey data is off of extremes, but contrarian view still indicates positive returns going forward
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			●		Split government unlikely to pass any meaningful legislation, particularly in the near-term
Monetary policy		●			Indications point towards the pace of rate hikes slowing in December, but still tightening
Inflation		●			Headline inflation has moderated, but y/y price increases remain at elevated levels
Interest rate environment		●			Longer-term rates declined significantly in December, but curve remains deeply inverted
Macroeconomic			●		Economic data continue to show mixed signals, with labor market and consumer spending resilient
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 remains depressed
Corporate earnings			●		Earnings growth and surprises are below average, but Q3 earnings managed to deliver y/y growth
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			●		Revised Q3 GDP shows moderate growth, avoiding near-term recession risk
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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