Weekly Wire

JANUARY 9, 2023

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Here's Hoping We Didn't Jinx It!

As we take pen to paper this week, the S&P 500 is up over the first four trading days of 2023, returning about 1.5%. Market history tells us that if the index can remain in the green for the year-to-date period through the close on Monday, January 9th, the full-year outlook for US equities is positive. More specifically, since 1929, when the S&P 500 has been up over the first five trading days of the year it has gone on to deliver a positive return for the full year 75% of the time, producing an average return of 11.9%.

There are a few other historical trading patterns that bode well for US stocks in 2023, including the fact that we are in the third year of the Presidential Cycle (which has been marked by well above-average annual returns regardless of what party holds the White House) and it is quite rare for stocks to deliver two or more consecutive years of negative returns - that pattern unfolding just four times in the past 95 years (see chart).

From a fundamental perspective, we do think inflation and the economy are slowing; while those dynamics could pressure corporate pricing and earnings power, they should also push bond yields lower and ultimately push the Fed to stop raising rates - two developments that would be very well received on Wall Street. Beyond that, investor sentiment remains pessimistic, and the market's valuation has improved. As we move deeper into the new year, we continue to expect bumpy days ahead for the real economy but better days ahead for risk assets.

S&P 500 Calendar Year Returns

Year	Return	Year	Return	Year	Return	Year	Return
1928	44%	1952	18%	1976	24%	2000	-9%
1929	-8%	1953	-1%	1977	-7%	2001	-12%
1930	-25%	1954	53%	1978	7%	2002	-22%
1931	-44%	1955	33%	1979	19%	2003	28%
1932	-9%	1956	7%	1980	32%	2004	11%
1933	50%	1957	-10%	1981	-5%	2005	5%
1934	-1%	1958	44%	1982	20%	2006	16%
1935	47%	1959	12%	1983	22%	2007	5%
1936	32%	1960	0%	1984	6%	2008	-37%
1937	-35%	1961	27%	1985	31%	2009	26%
1938	29%	1962	-9%	1986	18%	2010	15%
1939	-1%	1963	23%	1987	6%	2011	2%
1940	-11%	1964	16%	1988	17%	2012	16%
1941	-13%	1965	12%	1989	31%	2013	32%
1942	19%	1966	-10%	1990	-3%	2014	14%
1943	25%	1967	24%	1991	30%	2015	1%
1944	19%	1968	11%	1992	7%	2016	12%
1945	36%	1969	-8%	1993	10%	2017	22%
1946	-8%	1970	4%	1994	1%	2018	-4%
1947	5%	1971	14%	1995	37%	2019	31%
1948	6%	1972	19%	1996	23%	2020	18%
1949	18%	1973	-14%	1997	33%	2021	28%
1950	31%	1974	-26%	1998	28%	2022	-18%
1951	24%	1975	37%	1999	21%		

Stocks, bonds, and commodities (1/6/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3895.08	1.45%	1.45%	-16.72%
MSCI AC World ex USA	289.39	2.87%	2.87%	-15.63%
MSCI EAFE	1995.78	2.67%	2.67%	-14.31%
MSCI EM	988.68	3.38%	3.38%	-19.36%
Bloomberg Barclays US Agg	90.45	1.77%	1.77%	-12.27%
Crude Oil WTI	73.72	-8.15%	-8.15%	-6.57%
Natural Gas	3.45	-16.03%	-16.03%	-7.51%

Treasury rates (1/6/2023)

	Price	Yield
2Y	99.30 / 0.00	4.266
3Y	100.0 / 0.00	3.985
5Y	100.2 / 0.00	3.708
7Y	101.1 / 0.00	3.649
10Y	104.1 / 0.00	3.584
30Y	105.1 / 0.00	3.694

Weekly reports

This week (1/9/2023)
- Dec CPI NSA Y/Y
- Jan UofM Sentiment NSA

Week of 1/2/2023
- Nov JOLTS Job Openings 10,458K
- Dec Nonfarm Payrolls SA 223.0K

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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