Weekly Wire

FEBRUARY 13, 2023

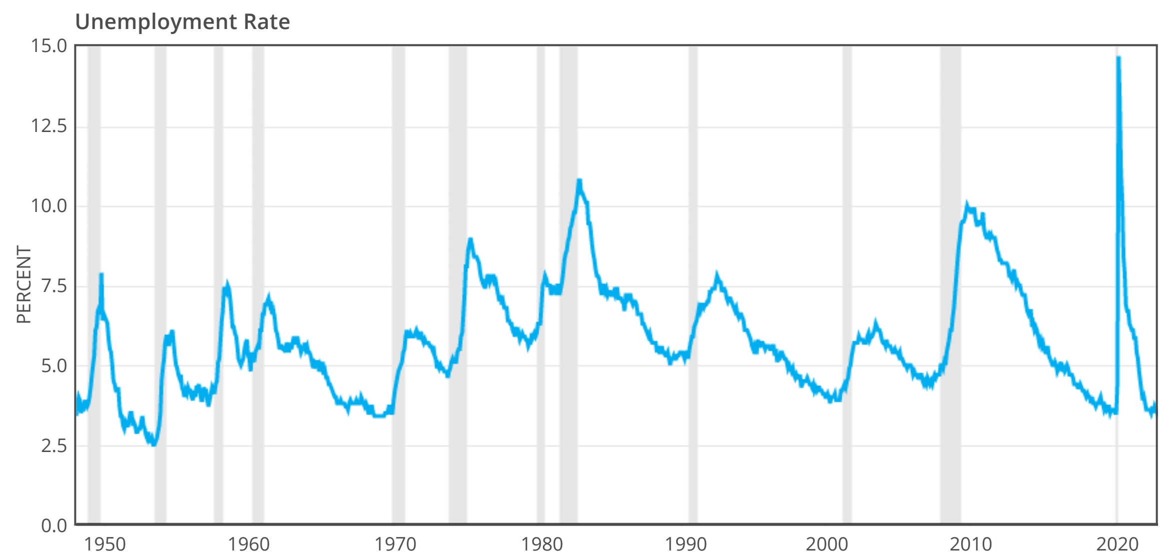
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

As The Labor Market Heats Up, Can Inflation Continue To Cool Down?

The January jobs data released on Friday, February 3rd continued to reverberate on Wall Street last week and not in a favorable fashion, as good news for the economy was interpreted as bad news for investors. More specifically, in January, the US added a greater-than-expected 517,000 new jobs and the unemployment rate fell to 3.4% (see chart). While we are happy to see more Americans working, Wall Street is growing concerned an accelerating labor market will force the Federal Reserve to raise interest rates higher than hoped for (as of now, the market is "pricing in" a 25bps increase in the Fed Funds Rate at the bank's March and May meetings).

At the risk of stating the obvious, a strong jobs market should translate into competition for workers, which should translate into wage inflation, which should push broader gauges of inflation higher, which should keep the Fed on a hawkish policy footing. What is interesting is that even as job growth has accelerated, wage inflation has moderated and layoff announcements have spiked. As we have noted before, the labor market is a famously backward-looking economic indicator and we are not yet convinced recent labor market strength will prove sustainable or is proof the Fed is losing its battle with inflation. As it concerns the stock market, last week the S&P 500 fell 1.1%, its worst weekly performance of 2023. What we found more disconcerting was that the BBAgg fell 1.1% and the yield on the US 10 Year Note jumped 20bps to 3.73%.

Our generally optimistic outlook for risk assets is predicated on the real economy slowing if not contracting outright and inflation continuing to come in, allowing the Fed to credibly pause its rate hiking campaign. With its downshift to a 25bps rate hike at its February meeting, the Fed has moved in our hoped-for direction, while the surprisingly robust labor market has made the path forward for monetary policy a bit less certain. And as it concerns those broader gauges of inflation, this week we get a look at the January Consumer Price Index and the January Producer Price Index. Benign readings on both inflation fronts should undo much of the investor anxiety caused by the January jobs data.



Stocks, bonds, and commodities (2/10/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4090.46	6.54%	6.54%	-9.18%
MSCI AC World ex USA	300.93	6.98%	6.98%	-12.20%
MSCI EAFE	2085.32	7.27%	7.27%	-9.28%
MSCI EM	1013.67	5.99%	5.99%	-18.98%
Bloomberg Barclays US Agg	90.43	1.74%	1.74%	-9.71%
Crude Oil WTI	79.76	-0.62%	-0.62%	-11.26%
Natural Gas	2.58	-37.13%	-37.13%	-34.83%

Treasury rates (2/10/2023)

	Price		Yield
2Y	99.09 /	0.00	4.506
3Y	99.14 /	0.00	4.196
5Y	98.02 /	0.00	3.928
7Y	97.26 /	0.00	3.858
10Y	98.00 /	0.00	3.738
30Y	96.14 /	0.00	3.824

Weekly reports

This week (2/13/2023)

- Jan CPI NSA Y/Y
- Jan PPI NSA Y/Y

Week of 2/6/2023

- Dec Consumer Credit SA $11.6B
- Feb UofM Sentiment NSA 66.4

Source: Federal Reserve Bank of St. Louis

Brinker Capital Market Barometer

FEBRUARY 2023

Global stocks got off to a strong start in 2023, a welcome development after a challenging 2022. Positive returns in January have historically led to positive calendar year returns in equity markets. Fixed income markets also saw positive returns during the month as longer-term yields declined and credit spreads compressed. The Federal Reserve once again slowed its pace of hikes to 0.25% while maintaining that further increases are needed. The degree of decline in corporate earnings remains under scrutiny; expectations are for a decline in Q4 earnings, and—to this point—companies have reported earnings below expectations. Forward guidance and analyst revisions will be in focus to see how restrictive monetary policy is affecting earnings prospects and, in turn, equity market multiples. Several measures of inflation continue to show moderation, providing hope that the trend has changed and global central banks will be able to end their rate-hiking campaigns. The often-quoted 2Y/10Y Treasury spread remains deeply inverted, signaling an elevated risk of recession moving forward. Wall Street consensus continues to align with this signal of an approaching recession, but there is a growing sense that it could be shallow in nature. While most economic data is pointing to a slowdown in growth, employment data remains robust as there continues to be multiple job openings for each unemployed person. While global economies and markets remain subject to many risks, January provided a much-needed reprieve of positive returns, and we remain cautiously optimistic that markets can grind higher over the remainder of the year.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	→		●		January saw strong gains leading to positive six-month performance but YoY returns remain negative
Trend			●		Markets have held above 200-day MAs; global markets portraying stronger trends than US
Investor sentiment				●	Survey data is off bearish extremes, but contrarian view still indicates positive returns going forward
Seasonality				●	Strong start to the year as well as 3rd year of presidential cycle bode well for forward returns

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Spending increases unlikely; debt ceiling debate bears watching
Monetary policy		●			Latest Fed meeting saw another shift lower to 25 bp hike; Powell states further hikes necessary
Inflation		●			Numerous measures pointing to cooling inflation but levels remain well above Fed target
Interest rate environment		●			Deep curve inversion signals growth warning; higher short term rates affecting cost of capital
Macroeconomic			●		Global PMIs show contraction; labor market strength continues despite slowdown/recession fears
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 earnings have modestly lagged expectations; forward guidance, analyst revisions bear 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			●		Q4 GDP came in higher than expectations, but underlying components stoke slowdown fears
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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