Weekly Wire

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FEBRUARY 13, 2023

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

One BIG Reason Not to Bank on a Recession

Over the past several weeks we have pointed to signs that we think point to coming weakness, if not outright recession, for the US economy. Those signs have included The Conference Board's Leading Economic Index, or LEI, dropping 3.8% over the six months through December, a trajectory that signals a recession is likely within the next 12 months; the contraction in the US money supply, as measured by M2, in 2022, the first time that has happened on an annual basis and a dynamic that speaks to liquidity being drained out of the economy; and maybe most importantly the inversion of the US 3 Month Bill and the US 10 Year Note and the US 2 Year Note and US 10 Year Note parts of the US Yield Curve, something that has taken place prior to every US recession of the past 33 years. We have also pointed out that betting on a recession is not the best bet to make as they are rare (the US economy has been in recession only about 12% of the time over the past 45 years) and that we don't want to see the economy contract as the financial and emotional consequences of a downturn would be devastating for millions of Americans.

That said, we do think Wall Street would welcome a slowdown as it should prove the hope that bond yields have peaked, and the Fed is about finished raising rates (both points which should prove supportive of stocks). And while there remains, we think, multiple data points that point to a weaker economy into the back half of the year, there is one BIG reason not to bank on a recession and that is the US consumer. The US consumer accounts for about 70% of the US economy (see chart), so it stands to reason that if the consumer is okay the economy should be okay. And though there are signs of growing financial strain across our economy (total US household debt and US credit card debt are at record levels and more Americans are using savings to pay for everyday expenses), the consumer – and consumer spending – is supported by a very robust labor market. To put a finer point on the consumer spending point, we learned last week that January retail sales increased 3%, smashing expectations. Maybe the most important point to point out is that it's never a good idea to bet against the US consumer.

How is GDP Calculated? There is a four-part formual: **C + I + G + NX = GDP**

Personal **C**onsumption Expenditures	Also called ***consumer spending***: the goods and services people buy, such as groceries, clothing, cellphone service and health care.
+ ***I***nvestment	This is ***business spending*** on fixed assets such as land, buildings and equipment, plus investment in unsold inventory; also includes purchases of homes by consumers.
+ **G**overnment Spending	***Spending by federal, state and local governments*** to provide goods and services, such as schools, roads or national defense.
+ **N**et E**X**ports	Also known as ***exports minus imports (X – M)***: the value of exports to other countries minus the value of imports into the United States. *Why are imports subtracted? Consumers, businesses and governments spend some of their money on imports. U.S. production would be overstated if the formula didn't remove imports.*
= ***GDP***	The total market value of the goods and services produced within the United States in a year.

Stocks, bonds, and commodities (2/17/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4079.09	6.24%	6.24%	-6.20%
MSCI AC World ex USA	299.51	6.47%	6.47%	-10.44%
MSCI EAFE	2087.04	7.36%	7.36%	-6.66%
MSCI EM	999.42	4.50%	4.50%	-18.86%
Bloomberg Barclays US Agg	89.64	0.85%	0.85%	-10.80%
Crude Oil WTI	76.56	-4.61%	-4.61%	-15.13%
Natural Gas	2.26	-44.86%	-44.86%	-48.93%

Treasury rates (2/17/2023)

	Price	Yield
2Y	99.03 / 0.00	4.613
3Y	99.03 / 0.00	4.321
5Y	97.20 / 0.00	4.031
7Y	97.09 / 0.00	3.946
10Y	97.08 / 0.00	3.831
30Y	95.14 / 0.00	3.882

Weekly reports

This week (2/21/2023)

- Feb Markit PMI Manufacturing SA
- Feb Markit PMI Services SA

Week of 2/13/2023

- Jan CPI NSA Y/Y 6.4%
- Jan PPI NSA Y/Y 6.0%

Source: US Department of Commerce

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)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
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)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
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)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of February 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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