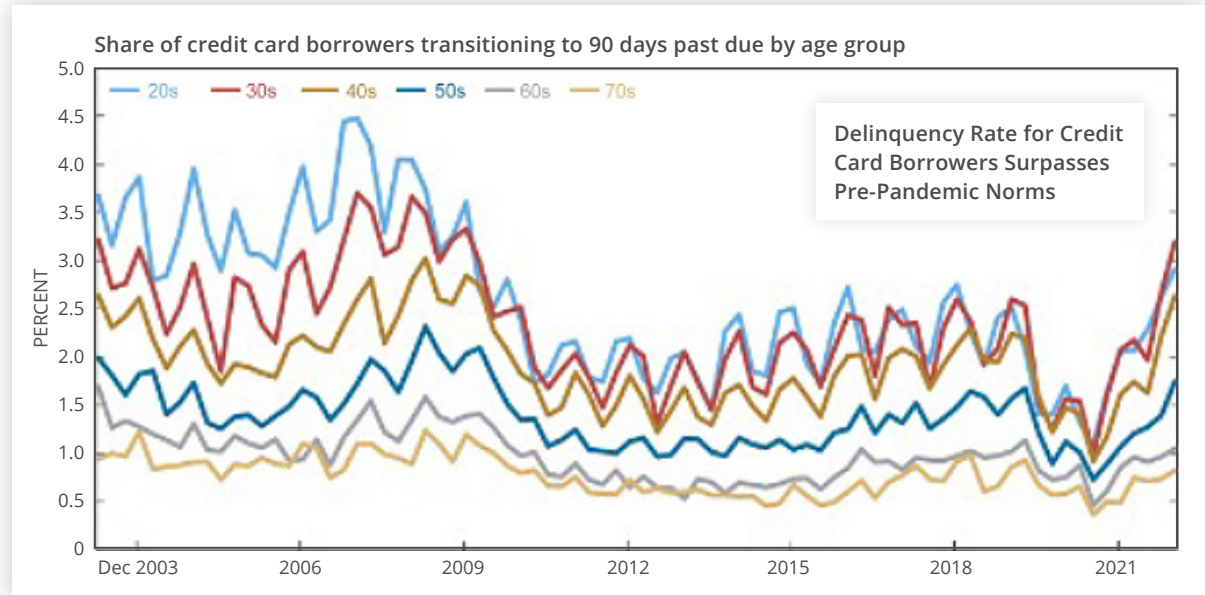


## Is the Consumer Beginning to Crack?

The title of this week's Weekly Wire might seem a bit off considering that the US economy added 517,000 jobs in January, the US unemployment rate sits at 3.4%, retail sales were up 3% in January and last week's Weekly Wire made the case that one BIG reason not to bank on a recession was the resiliency of the US consumer, noting that with consumer spending accounting for about 70% of US GDP, if the consumer was okay, the economy should be okay. So, have we had a change of heart about the outlook for the US consumer and in turn the US economy, at least in the near term?

The answer is no, the US consumer, supported by a still robust labor market (last week, initial and continuing jobless claims both came in lower than expected) continues to spend liberally (last week we learned personal spending in January increased a greater than expected 1.8%). That said, in trying to understand the outlook for the economy and, in turn, capital markets, it is always best to keep an open mind and consider data points that both align with one's thinking and run contrary to one's thinking. As it concerns the latter, the data point that we are calling out this week, that we have built this week's note around comes courtesy of the Federal Reserve Bank of New York, or more specifically its very well-regarded Liberty Street Economics blog, which noted in a recent posting that Q4 2022 credit card delinquency rates had surpassed pre-pandemic levels for nearly all demographic cohorts (see chart).

If—and it is a big if—the consumer is beginning to crack just a bit under the weight of higher borrowing costs and higher inflation, that dynamic would likely present itself early in credit card data. As we noted last week, the US consumer and the US economy have largely exceeded Wall Street's expectations year to date. We wonder if that will prove to be the case through the back half of 2023.



### Stocks, bonds, and commodities (2/24/2023)

| Security name             | Last    | QTD chg | YTD chg | 12mo chg |
|---------------------------|---------|---------|---------|----------|
| S&P 500                   | 3970.04 | 3.40%   | 3.40%   | -9.46%   |
| MSCI AC World ex USA      | 291.85  | 3.75%   | 3.75%   | -9.99%   |
| MSCI EAFE                 | 2035.26 | 4.70%   | 4.70%   | -6.54%   |
| MSCI EM                   | 971.87  | 1.62%   | 1.62%   | -17.08%  |
| Bloomberg Barclays US Agg | 88.78   | -0.11%  | -0.11%  | -11.30%  |
| Crude Oil WTI             | 76.45   | -4.75%  | -4.75%  | -16.53%  |
| Natural Gas               | 2.50    | -38.99% | -38.99% | -44.17%  |

### Treasury rates (2/24/2023)

|     | Price        | Yield |
|-----|--------------|-------|
| 2Y  | 99.22 / 0.00 | 4.778 |
| 3Y  | 98.19 / 0.00 | 4.508 |
| 5Y  | 99.03 / 0.00 | 4.201 |
| 7Y  | 99.12 / 0.00 | 4.100 |
| 10Y | 96.11 / 0.00 | 3.943 |
| 30Y | 94.18 / 0.00 | 3.934 |

### Weekly reports

| This week (2/27/2023)                  |
|--|
| • Dec FHFA Home Price Index            |
| • Jan Construction Spending SA M/M     |
| Week of 2/20/2023                      |
| • Feb Markit PMI Manufacturing SA 47.8 |
| • Feb Markit PMI Services SA 50.5      |

# 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             |

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-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.