Weekly Wire

FEBRUARY 27, 2023

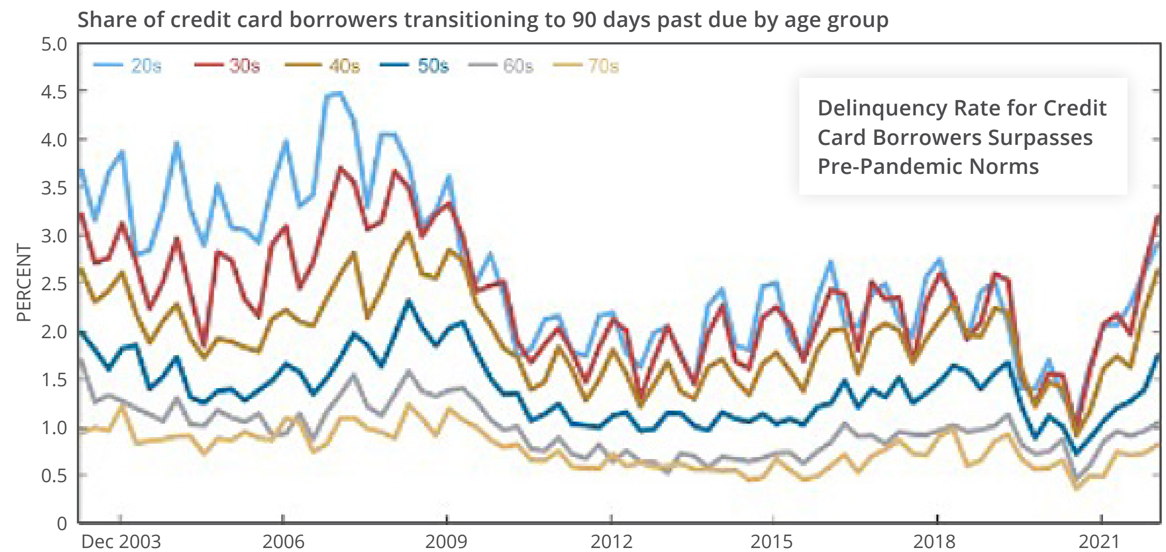
BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

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

Source: Federal Reserve Bank of NY

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

631-BCI-2/27/23