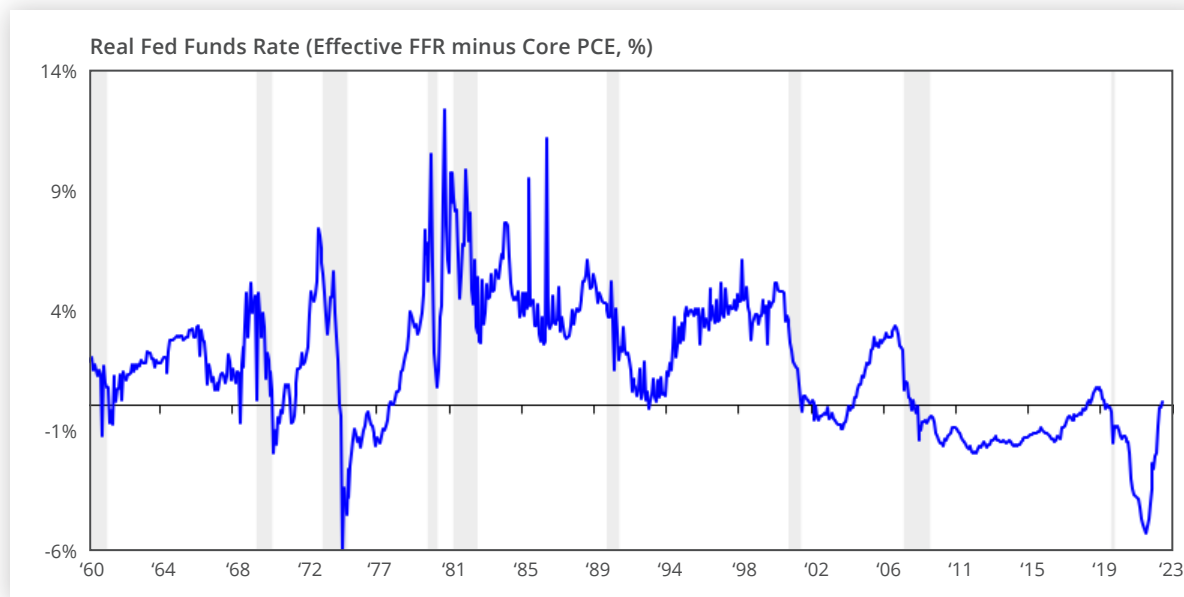


## However We Measure It, the Real Fed Funds Rate is Positive

In April of 2021, we published a Weekly Wire carrying the headline When People Stop Being Polite and Start Getting Real, which was both a nod to the 30th-anniversary reboot of the original MTV reality series and a nod to the Real Fed Funds Rate and what it might mean for the economy. As we know, the Real Fed Funds Rate considers the Fed Funds Rate relative to the rate of inflation, with a Fed Funds Rate above the rate of inflation translating into a positive Real Fed Funds Rate (which is more of a headwind for economic growth) and a Fed Funds Rate below the rate of inflation translating into a Negative Real Fed Funds Rate (which is more of a tailwind for economic growth). At the time, the Real Fed Funds Rate was deeply negative (see chart) as the Fed had taken the Fed Funds Rate to zero as we managed through the worst of the pandemic.

A few months back we revisited the idea of the Real Fed Funds Rate in a Weekly Wire that looked at the rate of inflation relative to a “proxy” Fed Funds Rate that considered the impact of quantitative tightening, or the shrinking of the Fed’s balance sheet, on interest rates, and by that metric, the Real Fed Funds Rate had flipped positive. Now, with the Federal Reserve raising the Fed Funds Rate last week by 25bps to a range of 4.50% to 4.75%, and the Fed’s preferred inflation gauge, the Core Personal Consumption Expenditures Index or PCE dropping to 4.4%, the Real Fed Funds Rate is now positive for the first time since 2019 (see chart). A positive Real Fed Funds Rate doesn’t mean a recession is imminent (see chart; we have had long periods of a positive Real Fed Funds Rate and positive economic growth – the shaded vertical bars in the chart are periods of recession). That said, a positive Real Fed Funds Rate should prove a drag on economic growth, and we do expect the economy to weaken as we move through 2023.



### Stocks, bonds, and commodities (2/3/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4136.48	7.73%	7.73%	-8.09%
MSCI AC World ex USA	306.24	8.86%	8.86%	-8.59%
MSCI EAFE	2119.00	9.01%	9.01%	-5.73%
MSCI EM	1038.71	8.61%	8.61%	-14.94%
Bloomberg Barclays US Agg	91.39	2.83%	2.83%	-9.73%
Crude Oil WTI	73.23	-8.76%	-8.76%	-20.67%
Natural Gas	2.38	-41.89%	-41.89%	-47.83%

### Treasury rates (2/3/2023)

	Price	Yield
2Y	99.22 / 0.00	4.286
3Y	99.23 / 0.00	3.968
5Y	99.07 / 0.00	3.671
7Y	99.11 / 0.00	3.602
10Y	104.2 / 0.00	3.531
30Y	106.2 / 0.00	3.630

### Weekly reports

This week (2/6/2023)
• Dec Consumer Credit SA
• Feb UofM Sentiment NSA
Week of 1/30/2023
• Jan Chicago PMI SA 44.3
• Jan Nonfarm Payrolls SA 517.0K

# 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	STATUS			
		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	STATUS			
		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	STATUS			
		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-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.