Weekly Wire

MARCH 13, 2023

BRINKER CAPITAL INVESTMENTS
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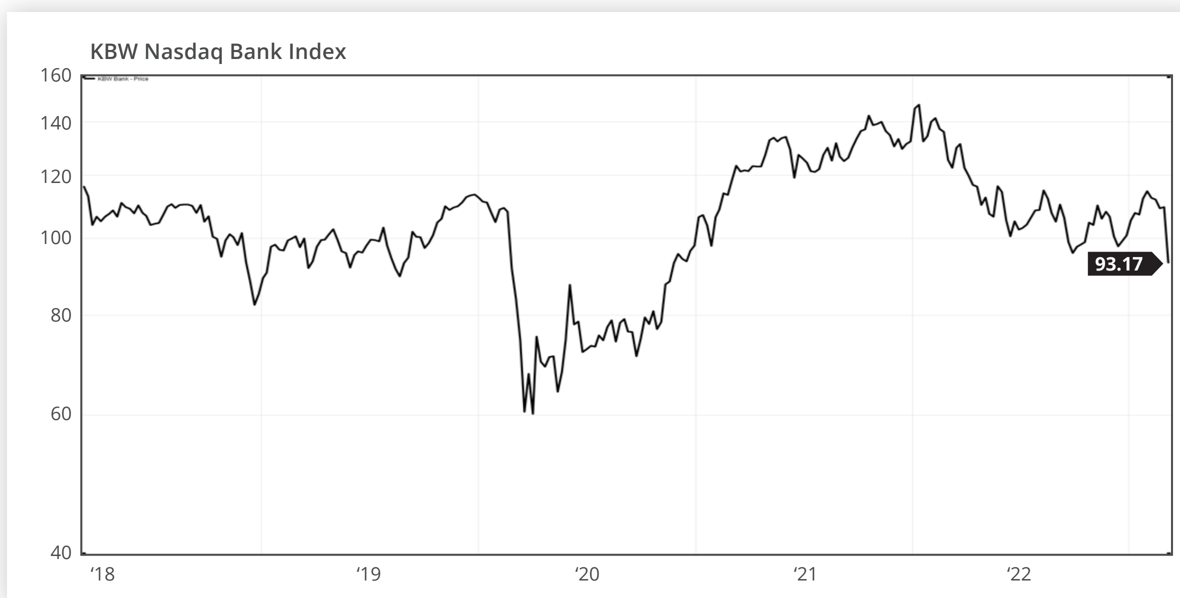
The Fed Doesn't Want to Break the Bank

We believe monetary policy acts with a lag, that it takes months, if not years, for changes in the Fed Funds Rate to impact the economy. That dynamic is one reason why the Fed often goes too far one way or the other, leaving rates too low for too long which leads to more inflation than the bank desires, or raising rates too fast and too far which leads to the recessions the bank seeks to avoid. We think this is a point worth making now for two reasons: we are about to mark the anniversary of the first Fed Funds Rate hike of this cycle and Fed policy decisions of the past three years had a meaningful impact on the US banking sector last week, particularly Silicon Valley Bank (SVB).

As it concerns the former, the Fed raised the Fed Funds Rate by 25 bps at its March 2022 meeting, and the market – despite the hawkish testimony of Chairman Jay Powell before Congress last week – expects the Fed to raise rates by 25 bps when it meets next week, taking the Fed Funds Rate to a range of 4.75% to 5.0% (a year ago, the Fed Funds Rate was in a range of 0% to 0.25%). As it concerns the latter, Wall Street was unnerved last week as it came to appreciate that many banks are sitting on significant – if unrealized – losses in their fixed income portfolios, as the bonds they purchased when rates and yields were near zero are worth much less today now that rates and yields are much higher. These "paper losses" are typically not an issue for banks as they tend to hold bonds to maturity. But in the case of SVB, the bank last week recognized a loss of $1.8 billion on the sale of $21 billion worth of securities, a development that sparked a 60% fall in its share price and the sharpest drop in the KBW Nasdaq Bank Index since 2020 (see chart).

As we took pen to paper on this week's note, SVB had been shut down by regulators, making it the second-biggest bank failure in US history. We don't think the failure of SVB portends systemic risk for the banking sector – we think the industry is too well-capitalized and the economy is too robust. We do think the failure of SVB is a reason for the Fed to consider again the impact its rate hikes of the past year have had (and will have) on the economy and to consider again the importance of raising the Fed Funds Rate by only 25 bps at its upcoming meeting.



Stocks, bonds, and commodities (3/10/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3861.59	0.58%	0.58%	-8.15%
MSCI AC World ex USA	291.31	3.56%	3.56%	-4.54%
MSCI EAFE	2052.22	5.57%	5.57%	0.40%
MSCI EM	955.28	-0.11%	-0.11%	-12.01%
Bloomberg Barclays US Agg	89.82	1.05%	1.05%	-9.40%
Crude Oil WTI	76.68	-4.46%	-4.46%	-29.86%
Natural Gas	2.57	-37.43%	-37.43%	-46.12%

Treasury rates (3/10/2023)

	Price		Yield
2Y	100.0 /	0.00	4.590
3Y	100.3 /	0.00	4.278
5Y	100.0 /	0.00	3.951
7Y	100.2 /	0.00	3.854
10Y	98.10 /	0.00	3.702
30Y	98.23 /	0.00	3.694

Weekly reports

This week (3/13/2023)

- Feb CPI NSA Y/Y
- Feb PPI NSA Y/Y

Week of 3/6/2023

- Feb Nonfarm Payrolls SA 311.0K
- Feb Unemployment Rate 3.6%

Source: FactSet

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-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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