Weekly Wire
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BRINKER CAPITAL INVESTMENTS
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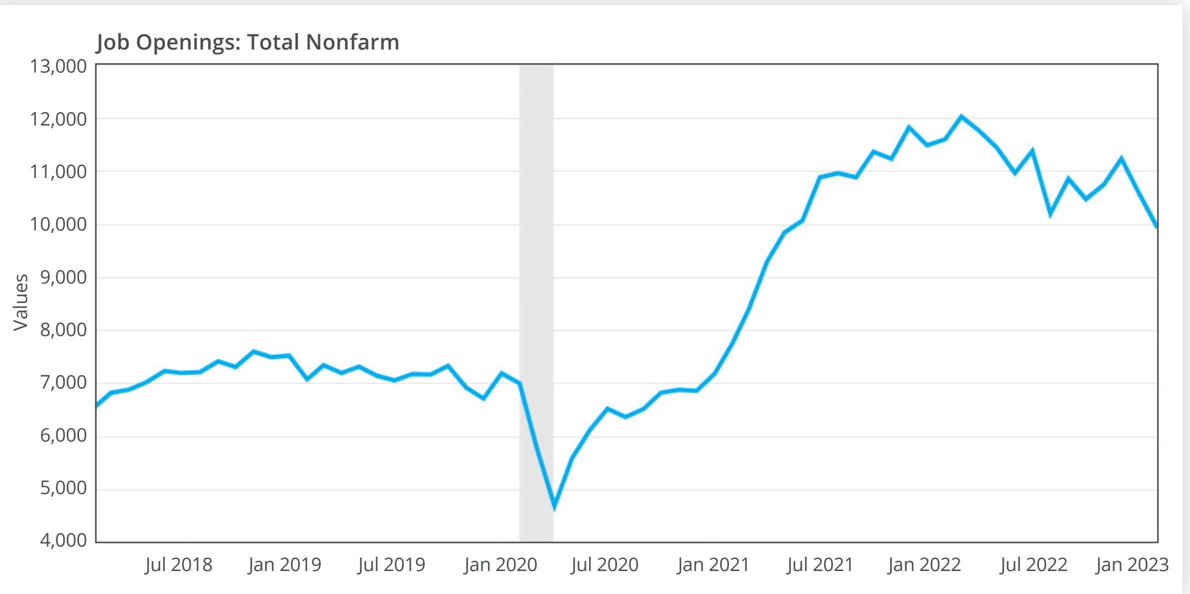
Is This the End of the Beginning for the Intensely Tight, Post-Pandemic Jobs Market?

By Tim Holland, CFA

Last week's Weekly Wire turned to William Shakespeare – "A rose by any other name would smell as sweet" – to help make a point about tightening financial conditions. This week's Weekly Wire turns to Winston Churchill – "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning" – to help make a point about the US labor market. Those famous lines were delivered by Prime Minister Churchill in late 1942 following British victories over Nazi Germany in North Africa, victories that followed years of setbacks and defeats for the British in World War II. The lines spoke to a possible inflection point in the war effort. Now, in no way are we trying to equate macroeconomic analysis with the desperate struggle to defend representative democracy against the forces of totalitarianism that was World War II, but we do think we are close to, or even at, an inflection point for the intensely tight, post-pandemic jobs market.

As we have written about of late, several data points indicate the US economy should weaken through the back half of the year, if not move into outright recession, including an inverted yield curve, the Conference Board Leading Economic Index, and consumer sentiment surveys. A meaningful outlier from a weakening data point perspective has been the robust US jobs market, characterized by a sub-4% unemployment rate, 305,000 new jobs created on average each month from September through February, and more than 10 million job openings since June 2021, per the JOLTS Job Openings Survey. Well, last week we learned that the JOLTS Job Openings Survey number for February came in at 9.93 million, below Wall Street's estimate for 10.4 million vacancies, and the first sub-10 million job vacancy number since May 2021 (see chart). We do not want anyone to lose their job; unemployment takes too great a toll financially and emotionally on those out of work. But if the labor market is softening, it likely means inflation is biased lower and the Fed is closer to a rate cut than many expect.



Stocks, bonds, and commodities (4/7/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4105.02	-0.10%	6.92%	-8.78%
MSCI AC World ex USA	299.13	0.15%	6.34%	-5.59%
MSCI EAFE	2100.33	0.37%	8.05%	-1.23%
MSCI EM	984.43	-0.59%	2.93%	-12.58%
Bloomberg Barclays US Agg	92.01	1.02%	3.52%	-4.36%
Crude Oil WTI	80.70	6.65%	0.55%	-15.96%
Natural Gas	2.01	-9.25%	-51.00%	-68.38%

Treasury rates (4/7/2023)

	Price		Yield
2Y	99.26 /	99.2	3.958
3Y	102.1 /	102	3.735
5Y	100.2 /	100	3.475
7Y	101.0 /	101	3.427
10Y	101.0 /	101	3.377
30Y	100.1 /	100	3.599

Weekly reports

This week (4/10/2023)

- Mar CPI NSA Y/Y
- Mar PPI NSA Y/Y

Week of 4/3/2023

- Feb JOLTS Job Openings 9.93 Million
- Mar Nonfarm Payrolls SA 236.0K

Source: Federal Reserve Bank of St. Louis

Stay Invested, Stay Diversified, Stay Disciplined

By Rusty Vanneman, CMT, CFA, BFA™

This year is off to a great start for investors. The **January Effect** first got the ball rolling, but other positive technical factors included the typical bounce after disappointing years in the markets plus the strong cyclical response after mid-term election years. That said, it was an even better quarter than might have been expected. We won't argue. We'll take it. Moving forward though, how much juice has been squeezed from this year's prospective returns? As for what investors are thinking about, an industry-leading asset manager recently surveyed investors and found three major cohorts. First, participants still expect "sticky inflation" as the primary driver of market returns. They expect the Fed to still raise short-term interest rates, commodity prices to move higher, and for below-average equity returns. Next, investors are expecting a "recession" and below-average equity returns. They don't expect the Federal Reserve to keep raising rates though, so bonds should do better in their view. The last major cohort was for "cycle extension", where they expect continued strength in the US economy. The Fed is not expected to be the key factor here, but better than expected earnings growth is. The last cohort is the most optimistic on future stock market returns. How do we see it? We lean toward the more optimistic in terms of outlooks, especially for globally diversified portfolios, but we do recognize and will be watching the dark storm clouds on the horizon, especially the various clues that earnings growth may disappoint in the quarters ahead. Stay invested, stay diversified, and stay disciplined.

For more: **OPS Risk Scores and Benchmarks Explanation Video** and **OPS Risk Score Whitepaper**.

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
Wholesale Inventories	-	4/10/2023
Consumer Price Index (CPI) YoY	-	4/12/2023
Core CPI YoY	-	4/12/2023
Producer Price Index (PPI) YoY	-	4/13/2023
Core PPI YoY	-	4/13/2023
US Retail Sales	-	4/14/2023

Source: MarketWatch

Interest Rates as of April 06, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	4.71%	0.12%
10-Yr Treasury Yield	3.29%	-0.20%
Bloomberg US Agg Yield	4.33%	-0.19%
Avg Money Mkt Yield	4.62%	0.01%
Avg 30-Yr Mortgage Rate	6.88%	0.00%

Source: Yahoo Finance, S&P Global, Crane Data, BankRate

Key Economic Data Last Week		
Data Point	**Expectation**	**Result**
ISM Manufacturing	47.3%	46.3%
Job Openings	10.5M	9.9M
ISM Services	54.3%	51.2%
US Employment	+238,000	+236,000
US Unemployment Rate	3.6%	3.5%

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of April 06, 2023						
Security Name	**Risk Score***	**1 Wk Δ%**	**1 Mo Δ%**	**QTD Δ%**	**YTD Δ%**	**12 Mo Δ%**
S&P 500	104	-0.06%	1.57%	-0.06%	7.43%	-6.79%
Morningstar US Large Cap	104	0.17%	2.83%	0.17%	8.84%	-7.41%
Morningstar US Mid Cap	112	-1.92%	-4.97%	-1.92%	1.69%	-8.84%
Morningstar US Small Cap	122	-2.55%	-6.39%	-2.55%	2.22%	-8.96%
Morningstar US Value	94	0.32%	-1.91%	0.32%	0.50%	-2.38%
Morningstar US Growth	127	-1.71%	0.61%	-1.71%	12.83%	-16.51%
MSCI ACWI Ex USA	91	0.23%	0.68%	0.23%	7.24%	-3.22%
MSCI EAFE	94	0.44%	1.32%	0.44%	9.11%	1.44%
MSCI EM	88	-0.53%	-0.55%	-0.53%	3.47%	-10.86%
Bloomberg US Agg Bond Index	22	1.12%	3.97%	1.12%	4.11%	-2.38%
Bloomberg Commodity Index	58	0.77%	-0.61%	0.77%	-4.63%	-11.89%
Wilshire Liquid Alternative Index	26	0.28%	-0.11%	0.28%	1.49%	-2.26%
US Dollar	10	-0.67%	-2.42%	-0.67%	-1.64%	2.23%
Bloomberg US Treasury Bill 1-3mo	1	0.09%	0.41%	0.09%	1.18%	2.69%

The Orion Risk Score represents risk relative to the global equity market. Source: Morningstar.

Brinker Capital Market Barometer

MARCH 2023

Equity markets couldn't continue the strong gains to start the year as global markets declined in February. Fixed income markets also saw losses as rates rose across the yield curve. The extremely hot January jobs number marked the year-to-date peak for risk assets. The Federal Reserve continues to stick to its hawkish tone, noting that further rate increases are needed and rates will need to remain higher for longer. The fourth-quarter earnings period all but wrapped up with fewer than average companies beating expectations and the first YoY decline in earnings since Q2 2020. While domestic earnings are under pressure, developed foreign markets managed a slight increase and have seen smaller downward revisions to future earnings estimates. The trend of lower inflation readings took a pause during the month as most data was slightly above expectations and led to a renewed fear that inflation may prove to be stickier than many hoped. The 2Y/10Y yield curve remains highly inverted and the 1-Yr Treasury yield crossed above 5% for the first time since 2007. Economic data during the month generally proved more resilient than some had feared. While this may put additional pressure on the Fed to destroy demand, recession fears continue to be kept at bay. The market environment remains highly uncertain, but the opportunity set for multi-asset class portfolios continues to expand on a forward-looking basis.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Six month returns remain positive despite the February pullback; choppy market environment persists
Trend			●		Markets remain above long term moving averages but are testing upward trend of shorter averages
Investor sentiment				●	Survey data bearish but off extremes; fund flows remain tepid
Seasonality				●	Strong January as well as 3rd year of presidential cycle tends to 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		●			While the pace of rate hikes has slowed, rhetoric from Fed remains fairly hawkish
Inflation		●			Negative January surprise drives importance of next few months in establishing inflation trend
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 continue 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 were first YoY decline since Q3 2020; foreign earnings and revisions proving resilient
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 March 13, 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. Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor.

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