Weekly Wire

APRIL 17, 2023

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

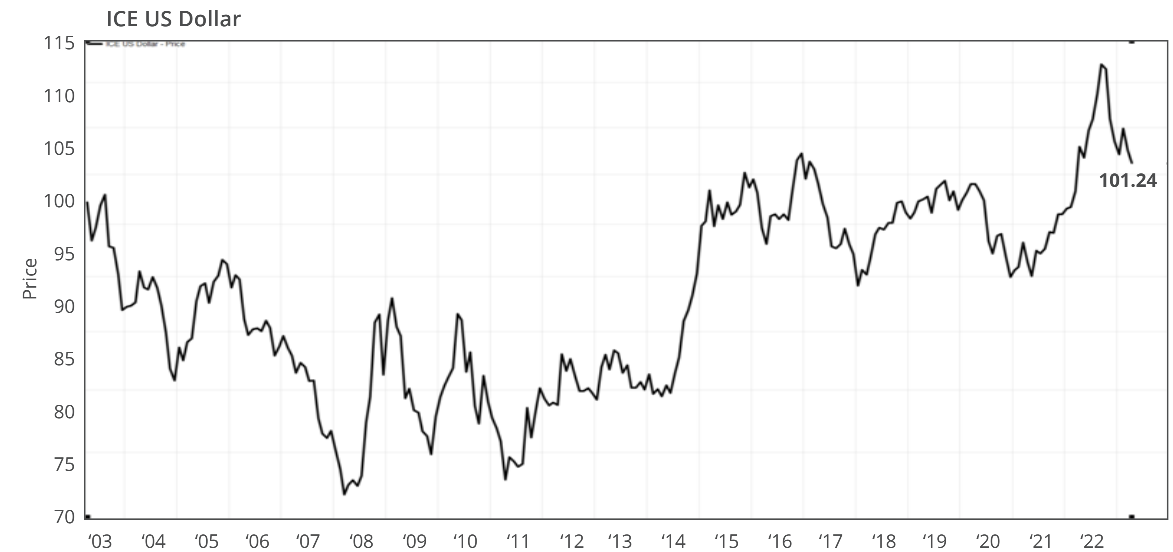
Checking In On King Dollar

By Tim Holland, CFA

Three months ago to the day, we published a note that took a look at the recent weakness in the US Dollar (What Ails The US Dollar – January 17, 2023). When we took pen to paper in January, the US Dollar had corrected about 10% from a late 2022 high that also marked a 20+ year high for the Greenback relative to a basket of other currencies. At the time, the weakness in the US Dollar seemed more of a curiosity than anything else and a development that we ascribed to several pretty straightforward and pretty benign economic developments, including the Federal Reserve being closer to the end of its rate hiking cycle than the beginning; ex-US central banks becoming more hawkish and an improvement in fundamentals for key economies around the world, including lower energy prices in Western Europe.

Three months on from that note, the US Dollar remains on the back foot, and its weakness now seems to be much more of a point of concern, with many investors wondering if the closer relationship between Russia and China and Saudi Arabia's willingness to consider trading in currencies besides the US Dollar means the days of the US Dollar serving as the world's reserve currency might be coming to an end. While our crystal ball is as blurry as the next one, we don't think the US Dollar is at risk of losing its status as the world's reserve currency – even if any number of countries would like to see that happen. Consider that the US Dollar accounts for 60% of foreign exchange reserves of global central banks (the Euro comes in at 20% and the Chinese Yuan at just 3%) and was on one side of 88% of all foreign currency trades last year.

The US has its challenges for sure, but we are still home to the world's largest and most important economy; the world's largest and most liquid capital markets and a rules-based economic and political system that ensures capital – both foreign and domestic – will be treated fairly and transparently. And as we did in January, it is important to put the recent weakness of the US Dollar in perspective – again, it remains only about 10% off a multi-decade high (see chart). King Dollar may be knocked off its throne someday, but not today, and not, we think, for years to come.



Stocks, bonds, and commodities (4/14/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4137.64	0.69%	7.77%	-5.80%
MSCI AC World ex USA	305.29	2.21%	8.53%	-3.18%
MSCI EAFE	2145.72	2.54%	10.38%	1.28%
MSCI EM	1000.49	1.03%	4.61%	-10.46%
Bloomberg Barclays US Agg	90.98	-0.12%	2.36%	-4.19%
Crude Oil WTI	82.68	9.26%	3.02%	-22.69%
Natural Gas	2.11	-4.96%	-48.68%	-71.15%

Treasury rates (4/14/2023)

	Price		Yield
2Y	99.18 /	99.1	4.105
3Y	99.23 /	99.2	3.842
5Y	100.0 /	100	3.609
7Y	100.1 /	100	3.557
10Y	99.26 /	99.2	3.518
30Y	97.30 /	98.0	3.738

Weekly reports

This week (4/17/2023)

- Apr NAHB Housing Market Index SA
- Mar Existing Home Sales SAAR

Week of 4/10/2023

- Mar CPI NSA Y/Y 5.0%
- Mar PPI NSA Y/Y 2.7%

Source: FactSet

Earnings Season Has Begun

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By Rusty Vanneman, CMT, CFA, BFA™

Earnings growth is key for long-term stock market investors. We invest in the stock market to participate in the gains of successful businesses and since the economy grows over time, corporate earnings also grow over time. Over time, stock prices track corporate earnings.

That said, earnings season for the 1Q23 has begun. While less than 10% of companies had reported earnings by the end of last week, and while the early reports have exceeded expectations for both revenues and earnings (as they typically do), the blended earnings expectation for the S&P 500 for the first quarter of this year is still -6.5%. If that growth rate holds, it will mark the largest earnings decline reported by the index since Q2 2020 and this could be the second straight quarter for a decline in earnings.

That ending earnings growth rate for the market, however, will most likely get better. According to data provider Factset, the actual earnings growth rate exceeded the estimated earnings growth rate at the end of the quarter in 37 of the past 40 quarters for the S&P 500. During that period, 73% of companies in the S&P 500 reported actual earnings above the estimates by 5.3 percentage points on average.

Notable companies reporting this week include leading companies in the financial (such as Goldman Sachs and Bank of America) sector. It should be noted that some financials (like JPMorgan, Citi, and Wells Fargo) reported earnings numbers late last week that were better than expected. That's notable given the bank scares earlier this year. Let's hope that continues.

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
Existing Home Sales	0.2%	4/20/2023
US Leading Economic Indicators	5.2%	4/20/2023

Source: MarketWatch

Interest Rates as of April 14, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	4.90%	0.19%
10-Yr Treasury Yield	3.52%	0.23%
Bloomberg US Agg Yield	4.52%	0.19%
Avg Money Mkt Yield	4.62%	0.00%
Avg 30-Yr Mortgage Rate	6.81%	-0.07%

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

Key Economic Data Last Week		
Data Point	**Expectation**	**Result**
Wholesale Inventories	0.2%	0.1%
Consumer Price Index (CPI) YoY	5.1%	5.0%
Core CPI YoY	5.6%	5.6%
Producer Price Index (PPI) MoM	0.0%	-0.5%
Core PPI MoM	0.3%	-0.1%
US Retail Sales	-0.4%	-1.0%

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of April 14, 2023						
Security Name	**Risk Score***	**1 Wk Δ%**	**1 Mo Δ%**	**QTD Δ%**	**YTD Δ%**	**12 Mo Δ%**
S&P 500	104	0.82%	5.71%	0.75%	8.31%	-4.17%
Morningstar US Large Cap	104	0.77%	6.38%	0.95%	9.68%	-4.43%
Morningstar US Mid Cap	112	1.21%	2.38%	-0.73%	2.93%	-7.58%
Morningstar US Small Cap	122	1.61%	1.66%	-0.98%	3.86%	-7.34%
Morningstar US Value	94	1.12%	4.38%	1.44%	1.62%	-1.96%
Morningstar US Growth	127	0.99%	5.28%	-0.73%	13.95%	-11.45%
MSCI ACWI Ex USA	91	2.03%	6.61%	2.36%	9.53%	0.08%
MSCI EAFE	94	2.21%	6.68%	2.70%	11.56%	4.67%
MSCI EM	88	1.39%	6.22%	1.12%	5.19%	-7.45%
Bloomberg US Agg Bond Index	22	-0.48%	1.36%	0.01%	2.97%	-2.07%
Bloomberg Commodity Index	58	1.60%	3.89%	2.38%	-3.10%	-15.85%
Wilshire Liquid Alternative Index**	26	0.38%	1.77%	0.66%	1.87%	-1.96%
US Dollar**	10	-0.80%	-2.49%	-1.46%	-2.43%	1.14%
Bloomberg US Treasury Bill 1-3mo	1	0.11%	0.40%	0.20%	1.30%	2.80%

*The Orion Risk Score represents risk relative to the global equity market. **As of 4/13/2023. Source: Morningstar.

Brinker Capital Market Barometer

APRIL 2023

Despite the high-profile banking troubles, both equity and fixed income markets saw positive returns during March. While the stress on the banking system and fear of further contagion led to discussions of a potential pause in rate hikes, the Fed delivered their second consecutive 25 bp hike at the March meeting. Chairman Powell alluded to the inherent tightening that the failures of SVB and Signature Bank would have on financial markets and how that could take the place of additional rate hikes. Inflation prints were in line with analyst estimates and while peak inflation seems to be behind us, 6% inflation continues to subdue consumer and business sentiment. Manufacturing PMIs have continued their deterioration further into contraction territory and while the services side of the economy remains robust, inflation data is proving stickier there as well. A dispersion in market expectations and the dot plot has developed as the market is expecting Fed cuts in 2023, while the dots and rhetoric remain stern on a higher for longer stance. While risks abound and the lagged effects of rate hikes remain unknown, markets are proving resilient and exhibit attractive trends moving forward.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Market bounced strongly in the back half of March, but breadth remains underwhelming
Trend	→			●	Most global equity markets are above upward-sloping moving averages (small cap notable exception)
Investor sentiment				●	Banking scare evident in very bearish sentiment throughout the month; fund flows remain tepid
Seasonality				●	Q2 has historically delivered above-avg equity market returns; April strongest month over past 20 yrs

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Debt ceiling debate likely to drive fiscal changes; higher debt service cost is longer-term consideration
Monetary policy	→		●		Banking failures led to temporary liquidity injection; market is pricing limited additional rate hikes
Inflation		●			While inflation is off its peak, data remains choppy and well above Fed target
Interest rate environment		●			Deep curve inversion signals growth warning; rate volatility remains elevated 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 is off its lows, but remains at depressed levels
Corporate earnings	←	●			Expectations for negative YoY earnings growth in Q1/Q2; full year estimates continue to decline
Credit environment				●	While spreads widened on banking stress, overall environment remains relatively tame

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			●		Despite recession fears, Q4 US GDP was stronger than expected and Q1 forecasts are positive as well
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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