MAY 2023

Brinker Capital Market Barometer

The balancing act for markets continued in April as participants continue to weigh the probability of an economic slowdown versus a recession. Despite the variety of headlines and risks, both equity and fixed income markets eked out small gains during the month. Inflation continues to moderate, and the consensus expectation is that the Federal Reserve will pause rate hikes after the additional 25 bp increase at the beginning of May. Despite the additional hike, the market is calling a bluff on the Fed's hawkish rhetoric as the 2-Year Treasury has continued to rally leading to a widening gap between the fed funds rate and two-year yield. The banking sector continues to be in focus as First Republic Bank was taken into receivership by the FDIC and ultimately purchased by JPMorgan. The big banks continue to get bigger, but for now additional financial stress on the regional banks appears to have subsided. The labor market remains robust as payrolls continue to come in above expectations. Actual payroll growth has now outpaced forecasts for 13 consecutive months, an unprecedented streak for a historically mean reverting dataset. The consumer continues to prop up an otherwise slowing economy which was highlighted by the Q1 GDP report released during the month. Earnings season got off to a solid start with over half the companies reporting and earnings declines less negative than analysts expected. This resiliency removes a headwind for the bullish trending market as we move into the summer months amid a cloudy macro environment.

Short-term Factors *(< 6 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Market momentum continued in April; 12-month US returns are flat but foreign markets faring better
Trend				●	Most global equity markets are above upward-sloping moving averages (small cap notable exception)
Investor sentiment				●	Sentiment remains subdued despite strong market YTD; tepid equity flows amid competition for capital
Seasonality	←		●		Sell in May heuristic is overstated but forward 3-month returns in this period only about average

Intermmediate-term Factors *(6-36 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Yellen has stated a June 1st X-date; increasing pressure for a deal to suspend or raise debt ceiling
Monetary policy			●		Fed hiked rates by an additional 25 bps but messaging opens the door for a pause moving forward
Inflation		●			Inflation continues its moderating trajectory but remains well above Fed's long term target
Interest rate environment		●			Deep yield curve inversion signals growth warning; elevated rate volatility 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		●			Q1 earnings growth negative but decline not as bad as feared; margin compression stabilized for now
Credit environment				●	Spreads widened modestly on banking stress but 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			●		Q1 GDP growth positive but well below expectations; consumer spending sustaining economic activity
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

Summary

Short-term factors
had a change in seasonality from positive to neutral. While the sell in May heuristic is overstated, the forward return outlook at this point in the calendar cycle is roughly average.

Intermediate-term factors
were unchanged during the month.

Long-term factors
remain neutral and are unchanged from the previous month.

Ready to learn more? Contact us today for more information

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