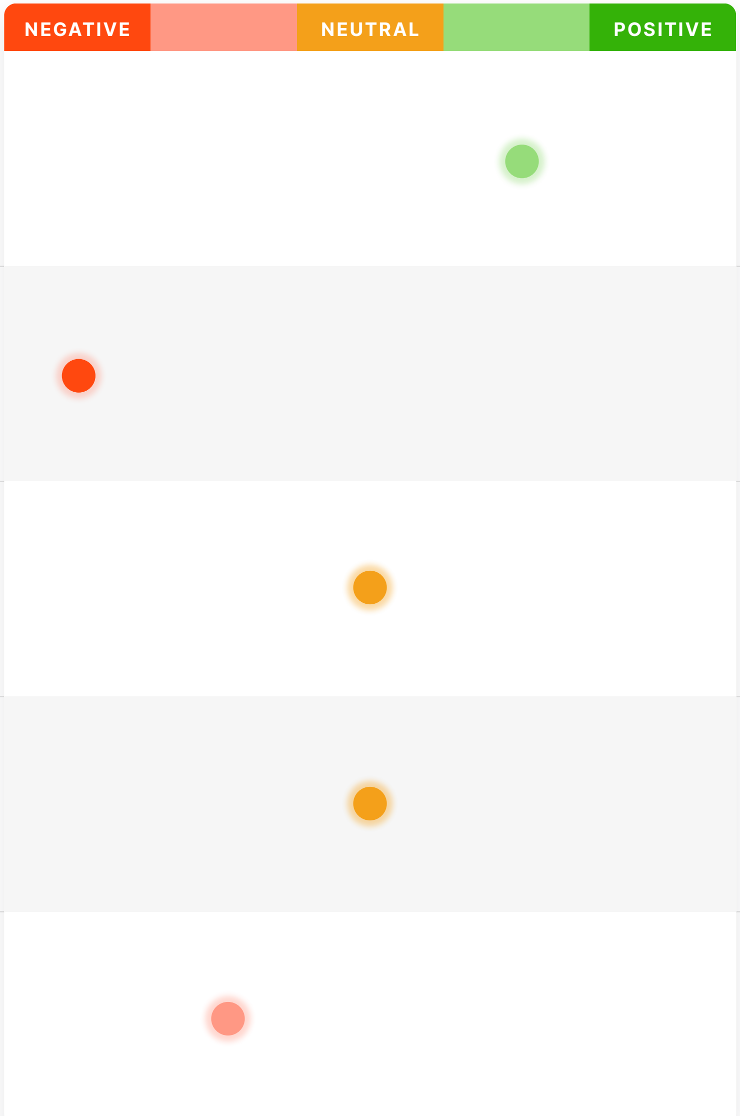
AUGUST 2024

Brinker Capital Five Factor US Stock Market Barometer

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY



Fundamentals

We invest to participate in company success. Over time, stock prices follow earnings.

Fundamental indicators include factors such as corporate earnings, profitability, and the credit environment.

- Earnings growth is expected to continue improving throughout 2024 and into 2025. Most recent analyst expectations are for 11% earnings growth for CY 2024 and for nearly 15% in 2025.
- Thus far through Q2 earnings season, 78% of S&P 500 companies have reported a positive EPS surprise and 60% have reported a positive revenue surprise.
- 1QGDP surprised to the downside, but 2Q24 real GDP growth surprised to the upside at 2.8%. Current estimates for Q3 GDP are near 3%. For a frame of reference, the 20-year average growth rate of GDP is 2.0%.
- Concerns include higher interest rates and commodity prices (food and energy) that could suggest some potential weakness later in 2024. Continued yield curve inversion and weakening of leading economic indicators point to cracks forming in the economy.

Valuation

How much do we pay for those fundamentals? Starting points matter.

Valuation indicators include factors such as price multiples, the CAPE ratio, and earnings yield vs. other asset classes.

- Multiple valuation measures point to an expensive domestic equity market.
- The current CAPE ratio is well above historical average which is consistent with below-average forward returns.
- Fed Funds rate exceeds the forward earnings yield of the S&P 500 which is historically a bearish indicator.
- Small cap, mid-cap, natural resource equities are relatively attractively valued; pockets of opportunity exist in the US equity market as valuations and concentration levels are near all-time-highs.

Interest Rates

Both the level and trend of interest rates impact earnings and valuations.

Interest rate indicators include factors such as the interest rate environment, credit spreads, and inflation.

- Inflation-adjusted interest rates remain high which is typically a headwind for risk assets.
- The first rate cut is now expected in September, with potentially 1-2 additional cuts before year-end. Lower rates are a tailwind for risk assets.
- Yield curve has been inverted for the longest consecutive period in history; inversion has been a bearish market signal and fairly accurate indicator of future recessions.
- Investment grade and high yield spreads remain tight vs historical averages. They are “well-behaved” but potentially vulnerable. Wider spreads are often a precursor of equity weakness.

Policy

Monetary and fiscal policy impact interest rates, valuations, and earnings.

Policy indicators include factors such as monetary and fiscal policy.

- Fiscal policy is expected to be accommodative with current election cycle.
- Though the Fed hasn’t cut short-term rates as soon as many expected, the bias is still for a downward trajectory in short-term rates.
- Money supply growth has contracted off its peak, but the 5-year growth in money supply remains well above-average; 1-year M2 growth is also now positive.
- Rising federal debt service continues to pose risk of “crowding out” more productive fiscal stimulus.

Behavioral

Over the short term, the market is like a voting machine.

Behavioral indicators include factors such as sentiment, momentum, trend, and breadth.

- The stock market is in a longer-term bullish trend; while market breadth has been poor in 2024, July has seen some broadening out across equity styles.
- New price highs have typically led to above-average returns moving forward.
- Investor (and consumer) optimism is at higher levels. Retail investor interest is also back at new highs. These sentiment readings typically suggest below average (albeit positive) returns in the months and quarters to follow.
- The VIX index is up approximately 25% quarter-over-quarter, pointing to a rapid increase in market volatility.

THE MARKET BAROMETER

The Market Barometer captures the Brinker Capital’s 12-month plus market outlook. It is updated each month by the Orion Asset Allocation Committee. Standard inputs include proprietary reports produced by the Orion Discretionary Investment Team. The Barometer reflects current positioning in investment portfolios. The Barometer is also used as a basis for market outlook presentations.

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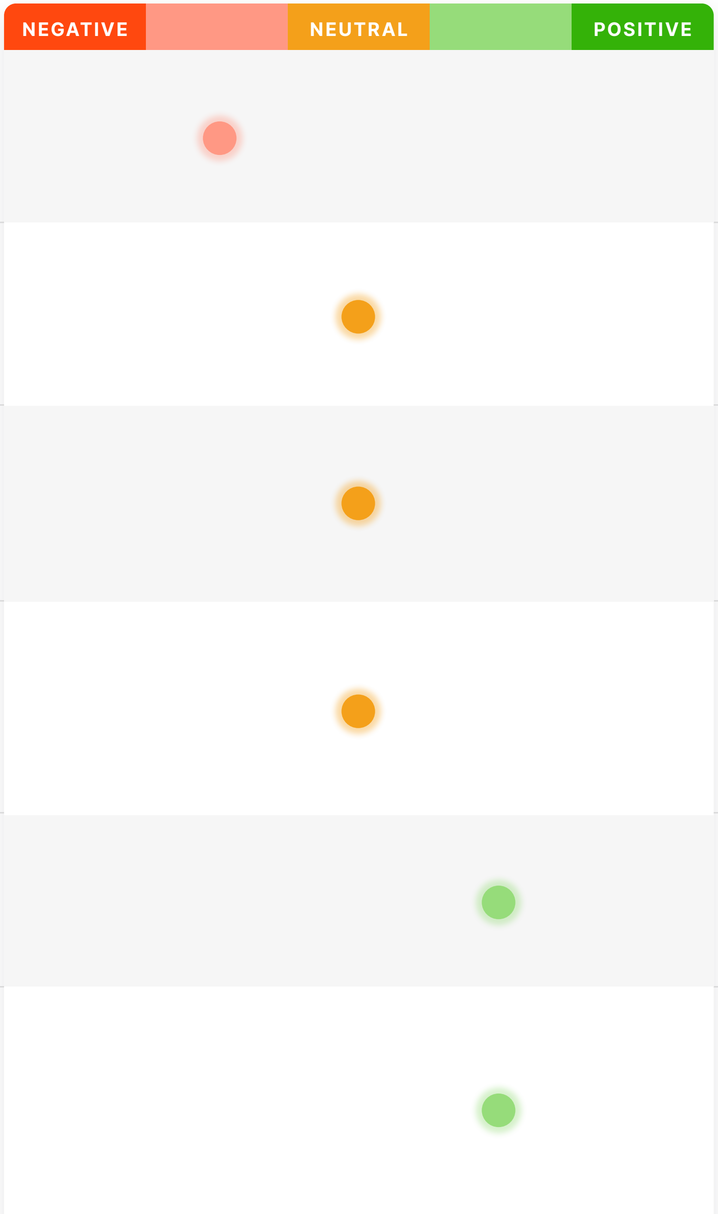
Brinker Capital Asset Class Barometer



Domestic Equity

Factors considered within domestic equity include allocations to the traditional style box asset classes.

- Valuations are high by historical standards, suggesting below-average intermediate- and longer-term returns relative to broad global equity markets.
- The interest rate environment isn't friendly for stocks: though lower than their 2023 peaks, high absolute real rates and inverted yield curve are two leading reasons.
- Fundamentals, however, are improving. Better economic and corporate earnings growth rates are expected, at least through second quarter.
- The valuation gaps between value and growth stocks as well as large and small cap stocks are highly extended which point to pockets of opportunity.

International Equity

Factors considered within international equity include a breakdown between developed and emerging markets as well as allocations across the traditional style box.

- Relative valuations are considerably more favorable for non-US stocks. We are keeping our eyes on political volatility abroad.
- PMIs for European countries are rolling over. Asian markets have been stronger, led by South Korea, Japan, and India.
- Interest rate and economic stage differentials abroad may provide an attractive source of diversification.
- Currently favor emerging markets relative to developed markets given access to cheaper inputs, demographics, and higher potential growth rates.

Core Fixed Income

Factors considered within core fixed income include credit quality and duration of the broad fixed income universe.

- Neutral on core fixed income. Currently experiencing the most attractive yield environment in nearly two decades; though rate decreases put downward pressure on forward expected returns.
- Absolute yields are attractive for corporate bonds, but still cautious on this sector given tight credit spreads. This leads to an outlook that leans toward higher quality and neutral duration positioning.
- Agency MBS is an attractive sector given similar default and duration risk as Treasuries, but currently offer enhanced yields.
- Yields on the front end of the curve are currently attractive; however incorporating a barbell approach between shorter and longer maturities could benefit long term investors

Global Credit

Factors considered within global credit include allocations to various spread and/or non-core fixed income sectors as well as duration.

- Strategically, we believe in the benefits of an allocation to global credit but currently neutral on a tactical basis.
- High yield bond spreads are tight by historical standards offering little excess return relative to excess risk. High yield has been resilient so far, but the tight spreads increase downside risk if economic conditions become less favorable.
- Despite spreads being tight relative to long-term averages, starting absolute yields still remain attractive in light of US equity valuations. More attractive, yields off lows.
- High yield market looks healthy from a credit perspective relative to historical averages based on leverage, interest coverage, and default rates.

Alternatives

Factors considered within liquid alternatives include high versus low beta sub-asset classes.

- Correlations between stocks and bonds have risen, making alternatives an attractive diversifier and complement to core fixed income.
- Liquid alternatives offer a relatively stable risk profile with the potential for little correlation to equity beta or fixed income duration. Higher base interest rates provide a solid foundation for liquid alternative outperformance outlook.
- Liquid alts strategies that are more attractive include event driven, market neutral, trend-following and multi-strategy.
- More wary of merger arbitrage strategies given FTC's increased challenging of merger activity.

Real Assets

Factors considered within real assets include allocations to the subcategories of commodities, real estate, natural resource equities, and infrastructure

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- Historically, real assets have been an effective diversifier, especially during periods of high/rising inflation.
- A decline in inflation toward the longer-term trend would remove a tailwind from the relative attractiveness of real assets.
- Within real assets, natural resource stocks have compelling relative valuations; the green energy transition provides elevated demand for a variety of industrial metals. Gold hit all-time highs despite high real interest rates on the back of central bank demand, geopolitical concerns, and inflation.
- Publicly traded REITs provide an attractive opportunity given their current valuations relative to history and their current out-of-favor view. Lower interest rates would provide an additional tailwind.

ASSET CLASS BAROMETER

The Brinker Asset Class Barometer serves as the team's outlook on the six major asset classes that comprise the multi-asset class portfolios. It is updated each month by the Orion Asset Allocation Committee. Standard inputs include proprietary reports produced by the Brinker Discretionary Investment Team as well as industry-leading external research providers.

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Source: Brinker Capital. Information is accurate as of July 31, 2024. 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. Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor.

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