

Brinker Capital Five Factor US Stock Market Barometer



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. Current analyst expectations are for S&P 500 earnings growth of roughly 10% in 2024 and for nearly 15% earnings growth in 2025.
- Analysts have reduced S&P 500 earnings growth estimates for 3Q24 more than the 5-year average; estimated growth was 8% (YoY) at the outset of the 3rd quarter but actual earnings finished at 6% (YoY).
- 3Q24 real GDP growth actually accelerated to 3.1% (QoQ annualized) per the final reading; consensus estimate for Q4 GDP is also 3.1%.
- While market breadth has improved from a return standpoint, the Mag 7 within the S&P 500 is still expected to drive net income growth through 2Q25.

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.

- Numerous valuation measures point to an expensive domestic equity market.
- Most standard valuation metrics are above historical averages 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.
- Despite high valuations, market breadth has continued to improve; pockets of opportunity exist in the US equity market within small cap, mid-cap, and natural resource equities.

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.

- Despite the recent rate cuts, inflation-adjusted interest rates remain high which is typically a headwind for risk assets.
- The yield curve was inverted for the longest consecutive period in history; while areas of the curve (notably between 2 and 10-year maturities) have un-inverted, we are closely watching the shorter end of the curve that remains inverted, as this has historically been a bearish indicator for risk assets.
- Investment grade and high yield spreads remain tight vs historical averages but remain "well-behaved"; wider spreads are often a precursor to equity weakness. However, the elevated absolute yields are still a headwind as they drive a higher cost of capital.

Policy

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

Policy indicators include factors such as monetary and fiscal policy.

- The Fed cut rates aggressively in September (-50 bps) but November cut (-25 bps) was more moderate; path ahead in 2025 is uncertain.
- With GOP sweep of presidency and both houses of Congress, fiscal policy is expected to be pro-cyclical; regulatory burden should be eased.
- Money supply growth (M2) is off its pandemic peak; however, the YoY growth rate is approximately 2.0%.
- Rising federal debt service continues to pose risk of "crowding out" more productive fiscal spending.

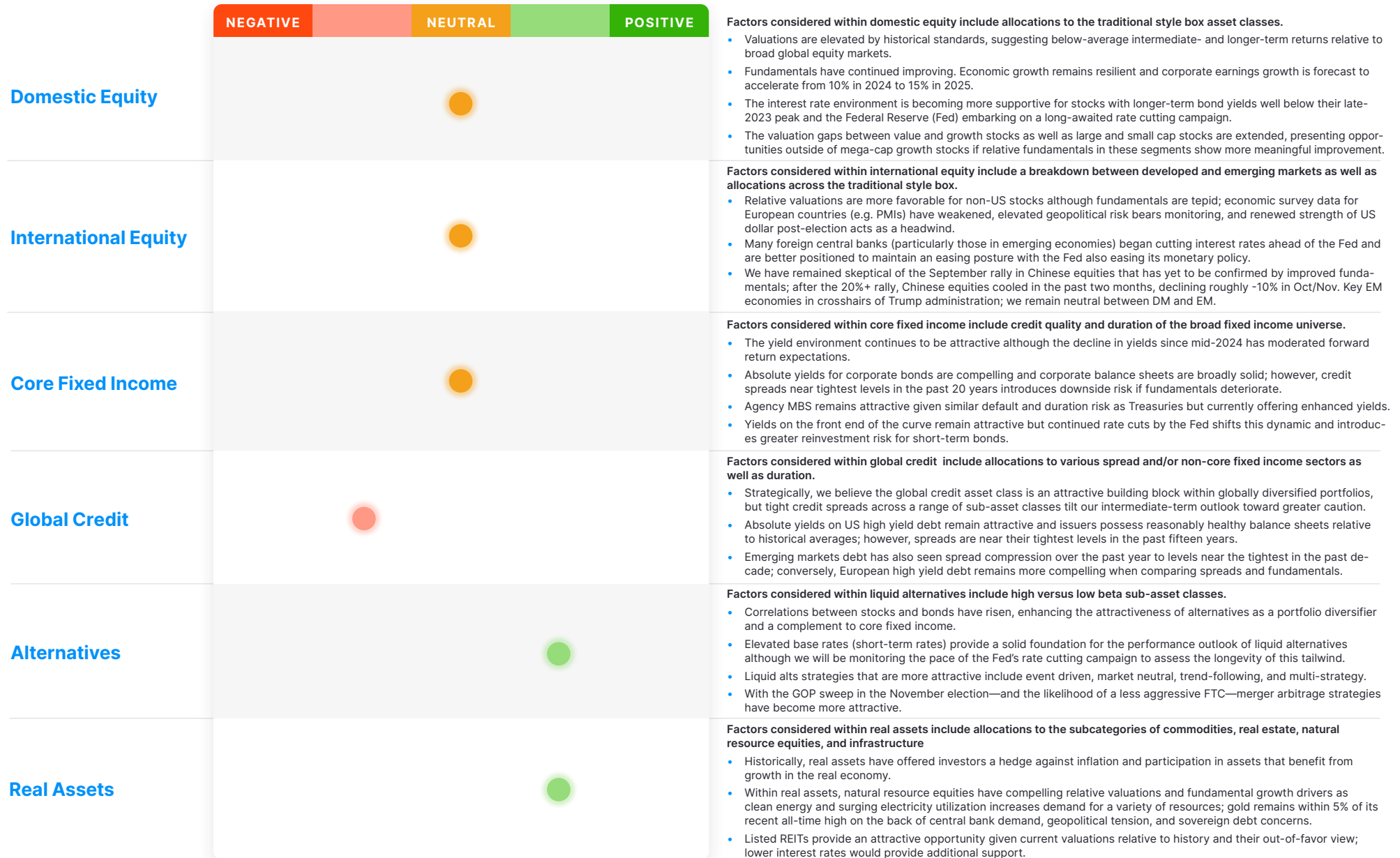
Behavioral

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

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

- The US equity market is in a longer-term bullish trend.
- In the most recent GDP release, the savings rate for 3Q24 held relatively steady at 4.8% vs. 5.2% in Q2. While modestly below the savings rate in the years leading up to the pandemic, this recent stability suggests that consumers may be in better financial shape than anticipated.
- Sentiment remain bullish which tends to be a contrary indicator for equity markets. The Conference Board Consumer Confidence Index jumped to 113 in November (highest level in past year) and the bull/bear spread in the AAI Investor Sentiment survey is 11% higher than historical average.
- The VIX (volatility index) receded in November after election uncertainty was resolved; ended November ~15% below the one-year average.

Brinker Capital Asset Class Barometer





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¹ 2024 Top 100 RIA Firms, Barron's, 2024.

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