

MARCH 2025

# Brinker Capital US Stock Market Barometer



## Fundamentals

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

NEGATIVE

NEUTRAL

POSITIVE



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

- While fundamentals remain solid, cracks have begun to form in the US economy due to a slowing labor market, sticky inflation, and increased consumer uncertainty.
- According to FactSet's Earnings Insight (3/7/2025), the estimated YoY earnings growth rate for the S&P 500 for 1Q25 is 7.3%, this is revised lower from the estimated 11.6% at year-end 2024 due to downward EPS estimate revisions.
- The Atlanta Fed's estimate for 1Q 2025 real GDP growth stands at -2.4% but many believe there are distortions in the data from net exports.
- The unemployment rate ticked up to 4.1% in February from 4% in January as layoffs are increasing and hiring is slowing.

## 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.**

- Most standard valuation metrics for the domestic equity market are handily above historical averages which has been consistent with below-average forward returns over longer-term horizons; the S&P 500's forward 12-month P/E ratio is currently 20.7 vs. the 5-yr average of 19.8.
- The market capitalization of the US stock market is approximately 193.8% of US GDP which is approaching the highest all-time readings.
- Despite high overall valuations, 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 recent Fed rate cuts, inflation-adjusted (real) interest rates remain high, and this is typically a headwind for risk assets.
- The 10-year US Treasury yield has declined to roughly 4.3%, driven lower by factors such as increased liquidity, economic softening, and political/business uncertainty.
- Credit spreads remain tight vs. historical averages but have begun to widen; widening spreads often foretell equity weakness.
- The recent "re-inversion" of the Treasury yield curve between 10-yr and 3-month maturities signals market concerns about economic growth prospects.

## Policy

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



**Policy indicators include factors such as monetary and fiscal policy.**

- Despite increased near-term policy uncertainty, fiscal policy is still expected to be pro-cyclical and regulatory burdens are expected to decline.
- We continue to expect a more patient Fed in 2025 as further progress on inflation is made; in January, rates were held steady between 4.25% and 4.5%.
- Money supply growth (M2) is off its pandemic peak; however, the YoY growth rate has accelerated to ~4%, still below its 6.9% long term average.
- 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.**

- Despite recent pullbacks, the US equity market remains in a longer-term bullish trend based on moving average indicators.
- As markets have pulled back from their all-time highs, US factor and sector returns have shifted to more conservative leadership. This is best reflected by the underperformance of high beta securities relative to low beta securities and the High Price Momentum factor showing underperformance.
- Investor sentiment has weakened significantly over the past month, with the bull/bear spread in AAI's Investor Sentiment survey at -37.8%; this is well below the -9.6% reading of four weeks ago and the historical average of 6.5%. The bullish signal from this contrarian indicator is offset by the fact that individual investor stock allocations remain elevated at close to 70%.

## THE MARKET BAROMETER →

The US Stock Market Barometer captures Brinker Capital's 12+ month market outlook. It is updated each month by the Orion Asset Allocation Committee. Standard inputs include proprietary reports produced by the Brinker investment team as well as industry-leading external research providers. The Barometer reflects current positioning in investment portfolios.

# Brinker Capital Asset Class Barometer





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<sup>1</sup> 2024 Top 100 RIA Firms, Barron's, 2024.

Source: Brinker Capital. Information is accurate as of March 12, 2025. 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.