

Brinker Capital Five Factor 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. Most recent analyst expectations are for 13% earnings growth for CY 2024. Earnings troughed in 2023, leading to a more constructive forward-looking outlook.
- 1Q GDP surprised to the downside, but 2Q24 GDP real growth is currently estimated to be 3.9%.
- Several leading indicators, however, such as an inverted yield curve, still suggest some potential weakness in 2024.
- Higher interest rates and gasoline prices are also economic headwinds.

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.

- Various valuation measures point to an expensive domestic equity market.
- This includes the current CAPE ratio is well above historical average which is consistent with below-average returns.
- Fed Funds rate exceeds the forward earnings yield of the S&P 500.
- Small cap, foreign developed, and emerging markets 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, and moving higher, which is typically a headwind for risk assets.
- Expectations for rate cuts have been pushed later into 2024, delaying potential tailwinds for risk assets. Expectations have moved from a potential 6-7 cuts down to 1.
- Yield curve has been inverted for the longest consecutive span since 1980; 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. Next year with most likely second term president the conditions could change.
- Expectations on the Fed Funds rate between the Fed and market participants have started to converge.
- Year-over-year change in M2 money supply remains negative, but is still above long-term trend.
- Increased government spending in the face of rising debt service continues to pose longer-term threats to government funding and potential for robust fiscal policy response.

Behavioral

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

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

- Investor (and consumer) optimism is at higher levels, suggesting below average (albeit positive) returns in the months and quarters to follow.
- Insider buying also at multi-decade lows; also suggesting below average returns.
- The stock market remains in a bullish trend, however, as prices remain above quarterly and annual moving averages.
- New highs typically mean above-average returns moving forward.

Brinker Capital Asset Class Barometer



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