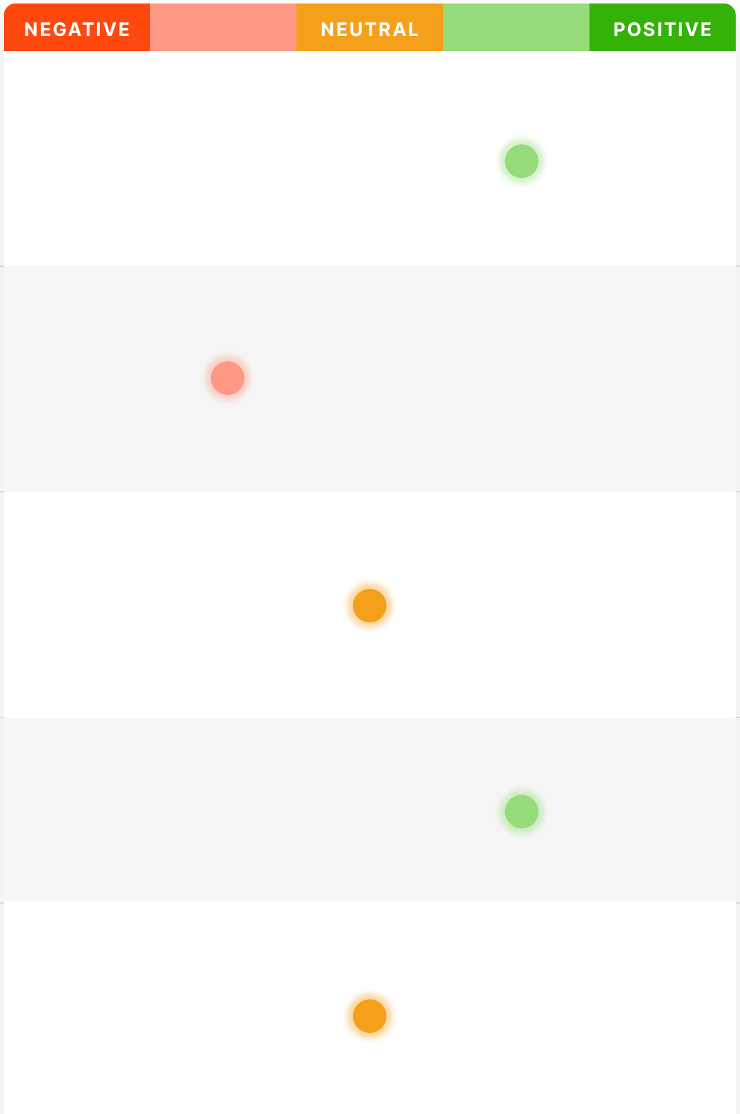
NOVEMBER 2024

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. 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 has been revised downwards to 5% (YoY).
- 3Q24 real GDP growth eased slightly to 2.8% (QoQ annualized) per the advance reading; consensus estimate for Q4 GDP is 2.5%.
- 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 cut, 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 first Fed rate cut of 50bps occurred in September, with potentially 1-2 additional cuts before year-end; lower rates are a tailwind for risk assets.
- Fiscal policy is expected to be accommodative regardless of the outcome of the current election cycle.
- 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.
- Investor sentiment remains bullish—fueled by continued retail investor participation—and the Conference Board Consumer Confidence Index rebounded in October to 108.7 from 99.2 in September as consumers were more positive on both present conditions and future expectations.
- The VIX index ended October near its highest level in three months, with readings currently ~40% above the average over the past year.

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

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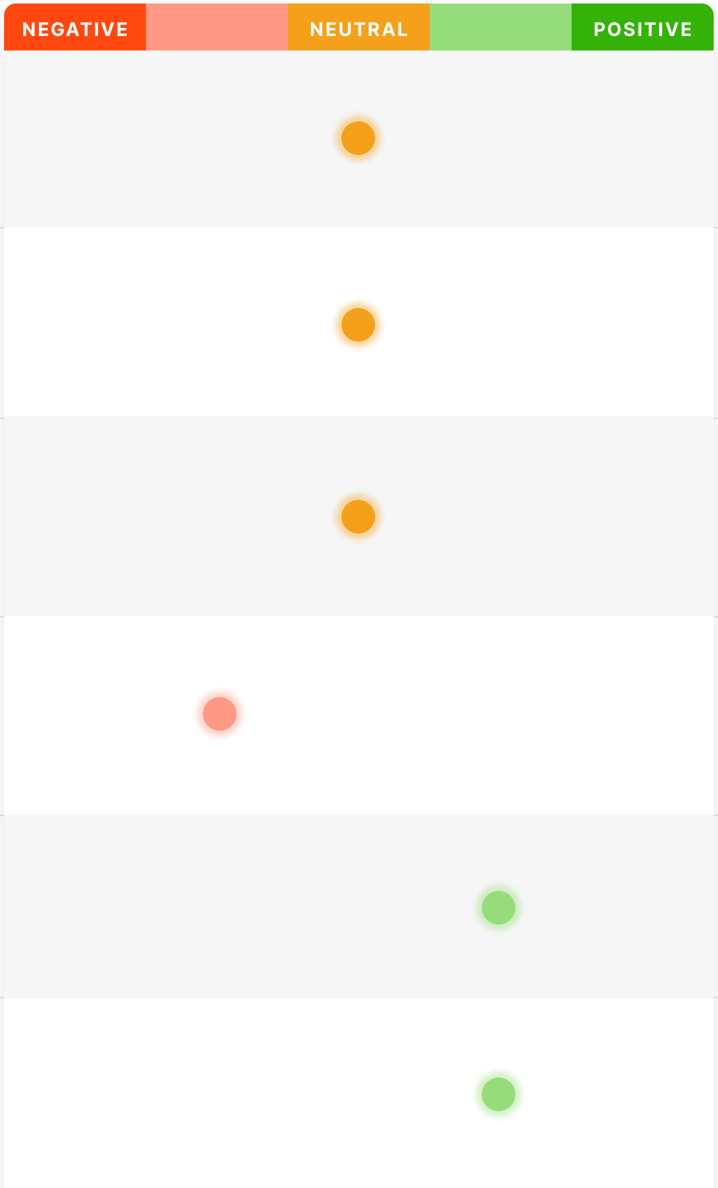

Domestic Equity

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

- Valuations are elevated by historical standards, suggesting below-average intermediate- and longer-term returns relative to broad global equity markets.
- Fundamentals have continued improving. Economic growth remains resilient and corporate earnings growth is forecast to accelerate from 10% in 2024 to 15% in 2025.
- The interest rate environment is becoming more supportive for stocks with longer-term bond yields well below their late-2023 peak and the Federal Reserve (Fed) embarking on a long-awaited rate cutting campaign.
- The valuation gaps between value and growth stocks as well as large and small cap stocks are extended, presenting opportunities outside of mega-cap growth stocks if relative fundamentals in these segments show more meaningful improvement.

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 more favorable for non-US stocks although fundamentals are tepid; economic survey data for European countries (e.g. PMIs) have weakened and elevated geopolitical risk bears monitoring.
- Many foreign central banks (particularly those in emerging economies) began cutting interest rates ahead of the Fed and are better positioned to maintain an easing posture with the Fed also easing its monetary policy.
- We are approaching the sharp rally in Chinese equities with some skepticism and awaiting follow-through in fundamentals; after rallying 20%+ in September, Chinese equities cooled off in October, declining roughly -6%. Recent EM strength has reduced its relative attractiveness, leaving us neutral between DM and EM.

Core Fixed Income

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

- The yield environment continues to be attractive although the decline in yields over the past year has moderated forward return expectations.
- Absolute yields for corporate bonds are compelling and corporate balance sheets are broadly solid; however, credit spreads near tightest levels in the past 20 years introduces downside risk if fundamentals deteriorate.
- Agency MBS remains attractive given similar default and duration risk as Treasuries but currently offering enhanced yields.
- Yields on the front end of the curve remain attractive but continued rate cuts by the Fed shifts this dynamic and introduces greater reinvestment risk for short-term bonds.

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 the global credit asset class is an attractive building block within globally diversified portfolios, but tight credit spreads across a range of sub-asset classes tilt our intermediate-term outlook toward greater caution.
- Absolute yields on US high yield debt remain attractive and issuers possess reasonably healthy balance sheets relative to historical averages; however, spreads are near their tightest levels in the past fifteen years.
- Emerging markets debt has also seen spread compression over the past year to levels near the tightest in the past decade; conversely, European high yield debt remains more compelling when comparing spreads and fundamentals.

Alternatives

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

- Correlations between stocks and bonds have risen, enhancing the attractiveness of alternatives as a portfolio diversifier and a complement to core fixed income.
- Elevated base rates (short-term rates) provide a solid foundation for the performance outlook of liquid alternatives although we will be monitoring the pace of the Fed's rate cutting campaign.
- Liquid alts strategies that are more attractive include event driven, market neutral, trend-following, and multi-strategy.
- We are less constructive on narrow merger arb strategies with the FTC's aggressiveness in challenging merger activity.

Real Assets

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

- Historically, real assets have offered investors a hedge against inflation and participation in assets that benefit from growth in the real economy.
- Within real assets, natural resource equities have compelling relative valuations and fundamental growth drivers as the green energy transition increases demand for a variety of industrial metals; gold hit an all-time high (despite high real rates) on the back of central bank demand, geopolitical concerns, and bloated levels of sovereign debt.
- Listed REITs provide an attractive opportunity given current valuations relative to history and their out-of-favor view; lower interest rates would provide additional support.

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.

About Orion

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

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