JANUARY 16, 2024

Weekly Wire

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Are The Markets Vulnerable?

By Rusty Vanneman, CMT, CFA, BFA™

It was a solid week in the markets last week, which helped recover the losses from earlier this year. The consensus view among most investors is that we're currently in a Goldilocks economy that is neither too hot nor too cold, with steady growth and falling inflation. The expectation is also for the Federal Reserve to sharply cut short-term interest rates soon, and last week that view was baked into market expectations even more according to the CME FedWatch Tool . Entering this week, the market is currently pricing a 70% chance of a rate cut by March, but more remarkably a near 100% chance that short-term rates drop by 1% or more by September 18th. There has indeed been a positive correlation between stock market movement and market expectations regarding what the Federal Reserve will do. Expectations of rate cuts has been supportive of stock market prices.

Some, however, wonder if these Fed expectations are too aggressive. For example, the December CPI (Consumer Price Index) negatively surprised to the upside last week, revealing a 3.4% headline inflation rate and 3.9% core (ex-food and energy) year-over-year rate. Indeed, these year-over-year numbers have not fallen in recent months. Given that these numbers remain well-above the Fed's target of 2%, coupled with the over-all employment situation still close to its strongest levels in decades (though deteriorating of late), the markets could be vulnerable to the possibility that rate cuts won't be as fast and as deep as expected. Then again, it is Presidential Election season, and that generally means fiscal and monetary policy will be favorable for the economy and markets. Indeed, a new tax deal is in the works, and that could mean the US economy could get another nice liquidity boost.

Last week was also notable for the introduction of Bitcoin ETFs and the retirement of two legendary football coaches, Bill Belichick and Nick Saban. Regarding the former, Bitcoin remains a love 'em or hate 'em asset class, but also a signal of risk-on or risk-off investor appetite. As for the latter, these two highly successful coaches displayed the traits that successful long-term investors and portfolios share: discipline, consistency, and resilience. Football fans will miss rooting for them, or against them, but I'm betting they won't get too far away from the game.

This week will be full of headlines and data including Retail Sales, more corporate earnings, continued tensions in the Red Sea and of course the Presidential Election season has finally officially begun.

Add it all up…

Stay invested. Stay diversified. Stay disciplined.

If you have any questions or comments, please let us know at strategists@brinkercapital.com or at Rusty@Orion.com. See you next week.

Interest Rates as of January 13, 2024

Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.20%	-0.02%
10-Yr Treasury Yield	3.95%	-0.09%
Bloomberg US Agg Yield	4.70%	-0.15%
Avg Money Mkt Yield	5.17%	-0.03%
Avg 30-Yr Mortgage Rate	7.06%	0.00%

Sources: Yahoo Finance, S&P Global, Crane Data, BankRate

Key Economic Data This Week

nt	Expectation	Release Date
Retail Sales MoM	0.4%	1/17/2024
Buidling Permits Prel	1.467M	1/18/2024
Michigan Consumer Sentiment Prel	0.70	1/19/2024

Key Economic Data Last Week

Data Point	Expectation	Actual
Core Inflation Rate Mom	0.3%	0.3%
Core Inflation Rate YoY	3.8%	3.9%
Inflation Rate MoM	0.2%	0.3%
Inflation Rate YoY	3.2%	3.4%
PPI MoM	0.1%	-0.1%

Stocks, Bonds, Alternatives, & Real Assets as of January 13, 2024

Security Name	Risk Score	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	1.26%	3.42%	-0.36%	-0.36%	16.31%	5.25%
S&P 500 Total Return	102	1.87%	3.15%	0.34%	0.34%	22.08%	9.67%
Dow Jones Industrial Average	97	0.35%	2.84%	-0.21%	-0.21%	12.35%	8.74%
NASDAQ 100 Total Return	122	3.23%	2.99%	0.07%	0.07%	48.15%	10.18%
TV Benchmark	107	1.82%	2.99%	0.07%	0.07%	27.53%	9.53%
Morningstar US Large Cap	102	2.31%	3.25%	0.76%	0.76%	26.40%	9.53%
Morningstar US Mid Cap	113	0.58%	3.10%	-1.31%	-1.31%	8.84%	4.58%
Morningstar US Small Cap	125	0.33%	3.80%	-2.83%	-2.83%	9.89%	1.30%
Morningstar US Value	98	-0.84%	3.13%	-0.63%	-0.63%	7.05%	9.64%
Morningstar US Growth	126	2.75%	2.73%	-1.27%	-1.27%	30.03%	2.42%
MSCI ACWI Ex USA	98	0.37%	3.60%	-1.10%	-1.10%	8.25%	0.66%
MSCI EAFE	101	0.87%	3.95%	-0.39%	-0.39%	11.57%	3.67%
MSCI EM	98	-0.57%	2.25%	-2.65%	-2.65%	0.79%	-7.03%
Bloomberg US Agg Bond Index**	27	0.92%	2.30%	-0.29%	-0.29%	2.06%	-3.06%
Bloomberg Commodity Index	70	-0.58%	2.12%	-0.49%	-0.49%	-6.98%	9.39%
Wilshire Liquid Alternative Index	25	0.72%	0.25%	0.27%	0.27%	3.26%	0.93%
US Dollar	10	-0.13%	-1.73%	0.95%	0.95%	-0.87%	4.18%
Bloomberg US Treasury Bill 1-3mo	1	0.12%	0.49%	0.20%	0.20%	5.23%	2.28%

Source: Morningstar
The TV Benchmark represents an average of the S&P 500, Dow Jones IA, and NASDAQ 100 return indexes
The Orion Risk Score represents risk relative to the global equity market.

*The Orion Risk Score represents risk relative to the global equity market. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

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Brinker Capital Five Factor Stock Market Barometer

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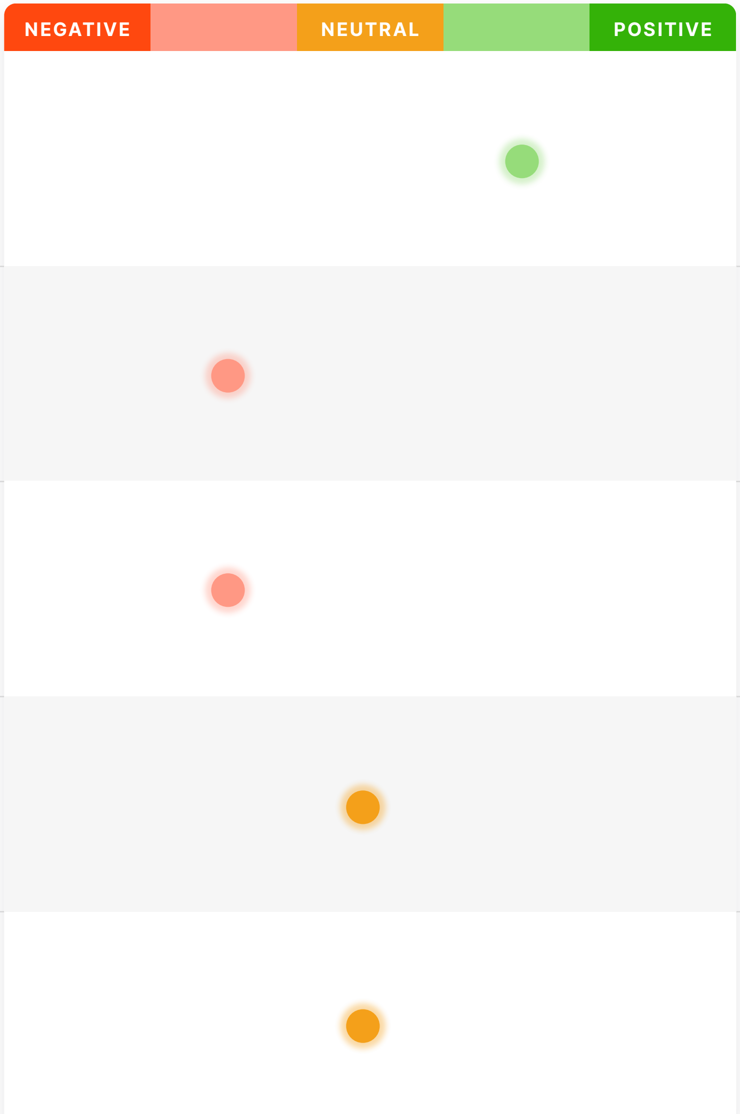

Fundamentals

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 have likely troughed, leading to a more constructive forward-looking outlook
- At the end of Q3 earnings season, unofficial year-over-year earnings growth was positive for the first time in the last four quarters and analyst guidance is strong for 2024
- Several leading indicators, however, still suggest some potential weakness in 2024.
- Domestic return on equity ratios have potentially troughed as their downtrend has flattened leading to a more constructive forward-looking outlook

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.

- Valuation measures point to an expensive domestic equity market.
- Current CAPE ratio is nearly 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

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.

- 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 recession
- Markets are pricing the end of the Fed's rate hike cycle with four cuts currently expected in 2024; though short-term US interest rates remain among highest levels globally
- Investment grade and high yield spreads have remained tight and well-behaved
- Elevated CMBS and MBS spreads signal heightened stress in real estate market

Policy

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

Policy indicators include factors such as monetary and fiscal policy.

- Monetary and fiscal policy are expected to be accommodative with current election cycle
- 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
- Year-over-year change in M2 money supply remains negative, but is still above long-term trend
- With short-term government shutdown fears abated, markets are experiencing a broad boost in liquidity

Behavioral

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

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

- Markets have remained in an uptrend through the end of 2023, consistent with seasonal patterns
- Market breadth has improved; broader participation will need to be sustained to maintain market uptrend
- Extreme optimism among investor surveys has returned to multi-year highs, pronouncing a contrarian signal headwind to forward returns
- Seasonality is bullish in fourth year of presidential election cycle

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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Asset Class	NEGATIVE		NEUTRAL		POSITIVE
Domestic Equity		●			
International Equity				●	
Core Fixed Income				●	
Global Credit			●		
Alternatives			●		
Real Assets			●		

Domestic Equity

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

- Less constructive on US large cap stocks; although fundamental outlook could begin justifying elevated multiples
- Monetary policy environment is a headwind for broader market appreciation as economy tightens and cost of capital rises
- The valuation gaps between value and growth stocks as well as large and small cap stocks are highly extended, thus favoring value-oriented and smaller market capitalization companies
- Recent domestic equity rally could be overblown when considering looming economic headwinds in US

International Equity

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

- Remain cautiously positive on international equities with consideration given to geopolitical risks; more attractive valuations versus domestic equities with roughly similar fundamental outlook
- On a relative basis, international equities broadly have stronger cash flows and higher dividends than US equities providing a buffer to volatility and higher total return potential
- Within international equity, we are neutral on developed vs. emerging markets
- The strength of the US Dollar is facing vulnerability going into next year, this could prove a tailwind for international equities relative to domestic

Core Fixed Income

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

- Modestly positive on core fixed income with the most attractive yield environment in nearly two decades; higher starting yields generally point to higher expected forward returns
- Cautiously navigating tight credit spreads combined with higher forward inflation expectations; risk/ return trade-off for Treasuries is compelling
- While net neutral on duration, capital appreciation has likely been mostly realized from recent rate retraction in anticipation of Fed cutting

Global Credit

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

- Modestly positive on global credit; while high yield securities have remained resilient, tight spreads leading to a less attractive risk/return tradeoff
- Compelling opportunities in several areas of global credit with attractive total return potential
- Despite spreads being tight relative to long-term averages, starting yields provide a buffer against potential risks that could lead to declining market values

Alternatives

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

- Neutral on liquid alternatives as core fixed income has become more attractive
- Correlations between stocks and bonds have risen, making alternatives an attractive diversifier
- Positioning within alternatives has been tilted toward lower-volatility complements 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

Real Assets

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

- Neutral on real assets; geopolitical risk and potential for reacceleration in inflation are tailwinds for real assets
- Within real assets, REITs and natural resource stocks have seen strong recent relative performance
- The green energy transition provides elevated demand for a variety of industrial metals
- REITs are attractive as rates have fallen, forward expectations for a slow down in these rate reductions

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.

Disclosures

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