JANUARY 22, 2024

Weekly Wire

BRINKER CAPITAL INVESTMENTS

A N   O R I O N   C O M P A N Y

New All-Time Highs

By Rusty Vanneman, CMT, CFA, BFA™

Last week was another good week for US stocks. Both the S&P 500 and Dow Jones Industrials hit new all-time highs, the first time they've done so in two years.

There was indeed a lot of supportive economic data last week. Unemployment initial claims dropped to their lowest levels in over 2 years. Retail Sales surprised to the upside. Consumer sentiment (according to the University of Michigan survey) showed its largest increase on a 2-month basis since 1991, in turn reaching its highest levels since July 2021. Inflation expectations dropped to 3-year lows. Bottom line, the consumer and labor markets remain strong and inflation expectations remain well-behaved.

Last week, however, longer-term interest rates had their biggest one-week jump higher in three months. The 10-year Treasury yield, for example, moved to 4.15%. Expectations for the Federal Reserve to start sharply cutting short-term interest rates cuts were also notably reduced. This is interesting. In recent months this would have suggested price weakness in the stock market, especially in larger cap growth names. That was not the case last week.

A few additional reasons for the gains last week were (1) the renewed enthusiasm regarding artificial intelligence propelling some of the larger growth names, and (2) the money that continues to flow into passive/index funds. Regarding the latter, these passive flows, for the most part, don't care about fundamentals, valuations, interest rates, policy decisions, or behavioral/technical factors. In fact, the total AUM in passive assets just surpassed actively-managed assets despite some of the richest valuations in history.

Lasty, while it's still early, we are getting more numbers regarding 4Q23 earnings. So far, the earnings season has been surprisingly underwhelming. With 10% of S&P 500 companies reporting actual results, the blended (year-over-year) earnings decline for the S&P 500 is just under -2%. On December 31, the estimated (year-over-year) earnings growth rate for the S&P 500 for Q4 2023 was just under +2%. At this point though, year-over-year earnings growth is still expected to be nearly 12% in 2024 and +13% in 2025. Though do note that forecasted earnings per share (EPS) progression typically fall over the course of the year so these numbers will also surely decline in the quarters ahead.

In addition to more earnings report, this week has a few key economic reports, including 4Q GDP and more importantly the Fed's favorite inflation indicator (PCE) released this Friday. Regarding the former, which is released Thursday, the expectation is for 1.7%. If that's the case, that would be the lowest quarter of growth since 2Q22. Interestingly, the Atlanta Fed's GDPNow is predicting Q4 2023 GDP at 2.4% (as of January 17th). As for the latter, the current estimate for PCE is for 3.0% year-over-year. That's still well above the Fed's preferred target of 2%.

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. Thank you for your time and trust. See you next week.

Interest Rates as of January 19, 2024

Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.20%	0.00%
10-Yr Treasury Yield	4.15%	0.20%
Bloomberg US Agg Yield	4.89%	0.19%
Avg Money Mkt Yield	5.16%	-0.01%
Avg 30-Yr Mortgage Rate	7.01%	-0.05%

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

Key Economic Data This Week

Data Point	Expectation	Release Date
Q4 GDP (Preliminary)	1.7%	1/25/2024
Initial Jobless Claims	200,000	1/25/2024
Durable Goods Orders	1.50%	1/25/2024
New Home Sales	650,000	1/25/2024
Personal Income	0.3%	1/26/2024
Personal Consumption Expenditures (PCE)	--	1/26/2024
Core PCE	3.0%	1/26/2024

Source: MarketWatch

Key Economic Data Last Week

Data Point	Expectation	Actual
Retail Sales MoM	0.4%	0.6%
Housing Starts	1.43M	1.46M
Existing Home Sales	3.83M	3.78M

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of January 19, 2024

Security Name	Risk Score	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	-0.22%	0.29%	-0.58%	-0.58%	17.24%	5.10%
S&P 500 Total Return	102	1.19%	1.60%	1.54%	1.54%	26.18%	10.12%
Dow Jones Industrial Average	97	0.76%	0.90%	0.55%	0.55%	17.08%	9.17%
NASDAQ 100 Total Return	122	2.86%	3.02%	2.93%	2.93%	54.60%	10.92%
TV Benchmark	107	1.60%	1.84%	1.67%	1.67%	32.62%	10.07%
Morningstar US Large Cap	102	1.58%	2.31%	2.35%	2.35%	30.95%	10.11%
Morningstar US Mid Cap	113	-0.19%	-1.11%	-1.50%	-1.50%	11.40%	4.61%
Morningstar US Small Cap	125	0.06%	-2.49%	-2.78%	-2.78%	12.24%	1.14%
Morningstar US Value	98	-0.17%	-0.49%	-0.80%	-0.80%	10.22%	9.60%
Morningstar US Growth	126	1.15%	-0.11%	-0.13%	-0.13%	33.18%	2.68%
MSCI ACWI Ex USA	98	-2.15%	-1.26%	-3.23%	-3.23%	5.37%	-0.28%
MSCI EAFE	101	-2.13%	-0.81%	-2.52%	-2.52%	8.76%	2.93%
MSCI EM	98	-2.54%	-2.58%	-5.12%	-5.12%	-2.70%	-8.45%
Bloomberg US Agg Bond Index**	27	-1.10%	-0.70%	-1.39%	-1.39%	0.67%	-3.55%
Bloomberg Commodity Index	70	-1.08%	-2.35%	-1.57%	-1.57%	-8.81%	9.26%
Wilshire Liquid Alternative Index	25	1.58%	1.45%	1.85%	1.85%	5.07%	1.40%
US Dollar	10	1.22%	0.95%	2.17%	2.17%	1.15%	4.49%
Bloomberg US Treasury Bill 1-3mo	1	0.09%	0.47%	0.29%	0.29%	5.24%	2.31%

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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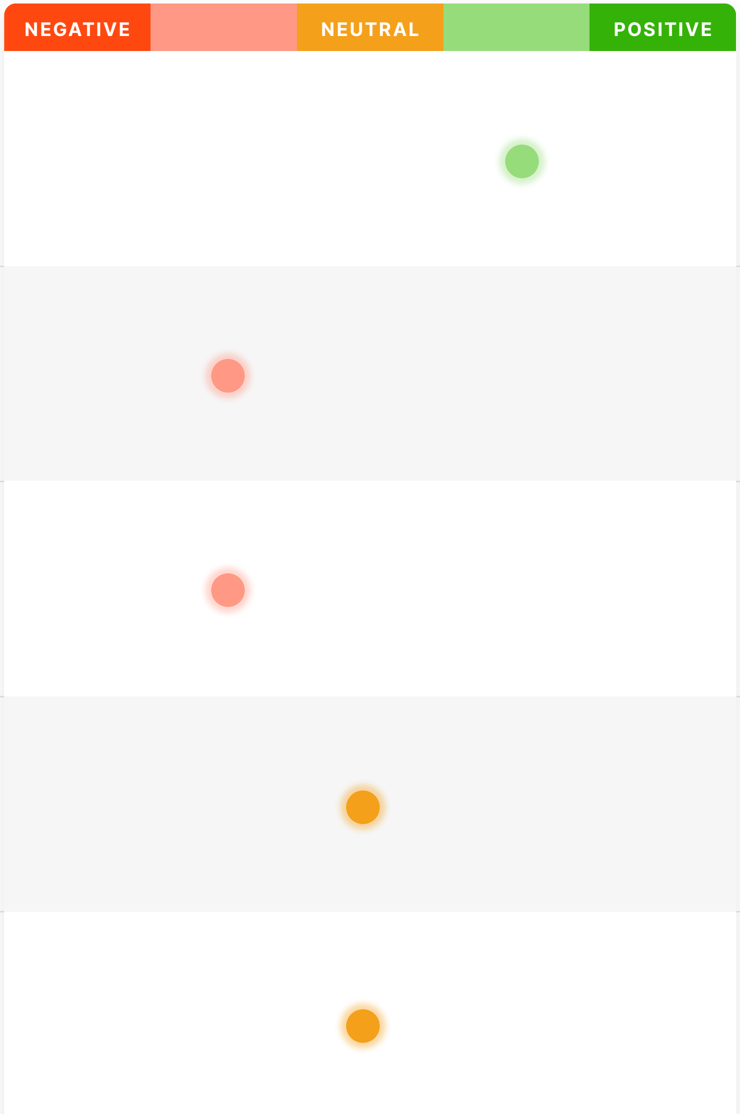

Fundamentals

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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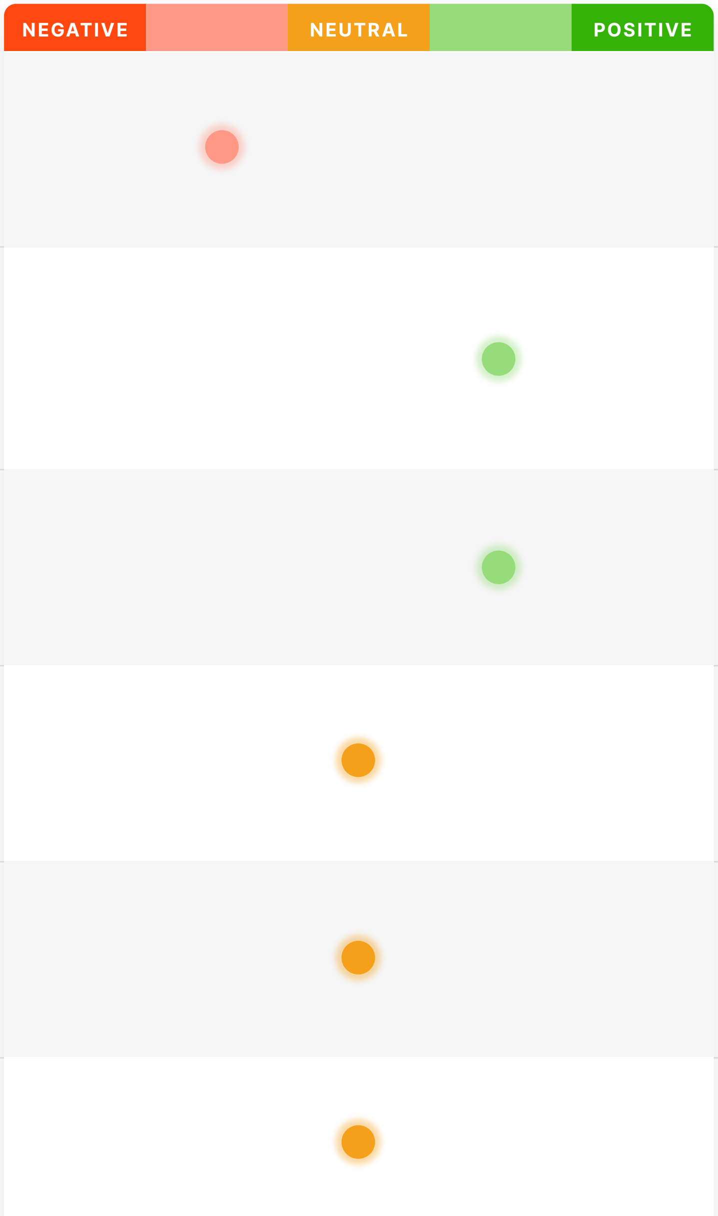

Domestic Equity

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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The S&P 500 Index is an unmanaged index of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Nasdaq Composite Index is an index that follows approximately 5000 stocks that trade on the Nasdaq exchange. It is considered a good benchmark for smaller company stocks. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

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