JANUARY 8, 2024

Weekly Wire

What Moves Markets

By Rusty Vanneman, CMT, CFA, BFA™

Last week the 9-week winning streak for the US stock market was snapped. The S&P lost less than 2% and the NASDAQ losses were nearly double that at less than 4%. Losses were more about profit-taking in a new calendar year than any meaningful economic data. That said, we did get the critical employment data last Friday. It revealed a still low 3.7% unemployment rate and more jobs were added than expected. More on the labor market in a moment.

This coming week is full of important data. It is the start of 4Q23 earnings season, particularly the large banks reporting at week's end. In short, expect a strong earnings season. Currently, according to S&P Global Market Intelligence, year-over-year (YOY) operating earnings for the S&P 500 should be over +8%. This is an improvement over last quarter's +3% YOY growth and the third straight quarter of growth. Reported earnings are currently expected to grow 12%.

This week, we will also get inflation data, with both Consumer Price Index (CPI) and Producer Price Index (PPI) toward the end of the week too. As for the former, the CPI is expected to be 3.2%, a slight uptick from last month. Core CPI (removing food and energy prices) is expected to be 3.8% (down from 4.0%).

As for what to expect moving forward, let's talk about levels, trends and expectations. This is what moves markets. Defining these terms, "level" is where things are now relative to historical averages, "trend" is how that level has been changing, and "expectations" are what investors are expecting in terms of how "trends" might be changing.

For the economy, current levels do suggest a Goldilocks Economy. GDP growth has been solid and is still expected to be just under 3% for the 4Q23. Inflation, when looking at the 6-month rate of change for the Fed's preferred inflation index, Personal Consumption Expenditure (PCE), is now below its ideal inflation target of 2%. The level of the economy is strong. That said, trends are more important than levels for moving markets. When things are getting less bad, that's typically good for the market. When things are getting less good, that's generally not good for the markets. Here, the trend in inflation is supportive of the market.

The economy, however, at least defined by the employment situation, is deteriorating. First, let's clearly state that the labor market is still strong. Unemployment is low by historical standards. Job openings are still historically high. The employee quit rate is high by historical averages, which also suggests labor market strength. The problem is that each of these numbers is now deteriorating. The trend here is clear.

These trends are why we believe investors are expecting sharply lower short-term interest rates, arguably the leading reason for market gains in recent months. According to the CME FedWatch Tool , the market is currently pricing an over a 50% chance now that the short-term rates drop over 1% by September 18th and a nearly 20% chance that that the short-term rates drop ~2% by December 18th. If expectations change, however, for less rate cuts, that could put pressure on the market – even if earnings (the real reason why stocks go up over time) are the best they've been since early 2022.

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 05, 2024		
Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.22%	0.04%
10-Yr Treasury Yield	4.04%	0.17%
Bloomberg US Agg Yield	4.85%	0.15%
Avg Money Mkt Yield	5.20%	0.01%
Avg 30-Yr Mortgage Rate	7.06%	0.13%

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

Key Economic Data This Week		
	Expectation	Release Date
Consumer Credit	$8B	1/8/2024
Consumer Price Index (CPI) YoY	3.3%	1/11/2024
Core CPI YoY	3.8%	1/11/2024
Producer Price Index (PPI) YoY	--	1/12/2024
Core PPI YoY	--	1/12/2024

Source: MarketWatch

Key Economic Data Last Week		
Data Point	Expectation	Actual
US Job Openings	8.8M	8.8M
ISM Manufacturing	47.2%	47.4%
ADP Employment	130,000	164,000
Nonfarm Payrolls	170,000	216,000
US Unemployment Rate	3.8%	3.7%
ISM Services	52.5%	50.6%

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of January 05, 2024							
Security Name	Risk Score	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	-1.59%	3.51%	-1.59%	-1.59%	20.35%	5.60%
S&P 500 Total Return	102	-1.50%	2.97%	-1.50%	-1.50%	25.39%	9.73%
Dow Jones Industrial Average	97	-0.56%	3.80%	-0.56%	-0.56%	16.25%	9.43%
NASDAQ 100 Total Return	122	-3.62%	2.86%	-3.21%	-3.21%	50.46%	9.53%
TV Benchmark	107	-1.89%	3.21%	-1.76%	-1.76%	30.70%	9.56%
Morningstar US Large Cap	102	-1.51%	2.62%	-1.51%	-1.51%	29.19%	9.24%
Morningstar US Mid Cap	113	-1.88%	4.55%	-1.88%	-1.88%	14.16%	6.03%
Morningstar US Small Cap	125	-3.15%	4.85%	-3.15%	-3.15%	16.81%	3.51%
Morningstar US Value	98	0.21%	5.45%	0.21%	0.21%	11.25%	11.50%
Morningstar US Growth	126	-3.91%	1.80%	-3.91%	-3.91%	35.62%	1.91%
MSCI ACWI Ex USA	98	-1.47%	4.03%	-1.47%	-1.47%	12.88%	1.12%
MSCI EAFE	101	-1.26%	4.19%	-1.26%	-1.26%	16.29%	3.83%
MSCI EM	98	-2.09%	3.34%	-2.09%	-2.09%	4.92%	-6.07%
Bloomberg US Agg Bond Index**	27	-1.20%	1.40%	-1.20%	-1.20%	3.45%	-3.61%
Bloomberg Commodity Index	70	0.09%	-0.49%	0.09%	0.09%	-3.23%	9.74%
Wilshire Liquid Alternative Index	25	-0.45%	-0.17%	-0.45%	-0.45%	3.96%	0.88%
US Dollar	10	1.18%	-1.24%	1.07%	1.07%	-1.75%	4.45%
Bloomberg US Treasury Bill 1-3mo	1	0.08%	0.48%	0.08%	0.08%	5.18%	2.24%

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.

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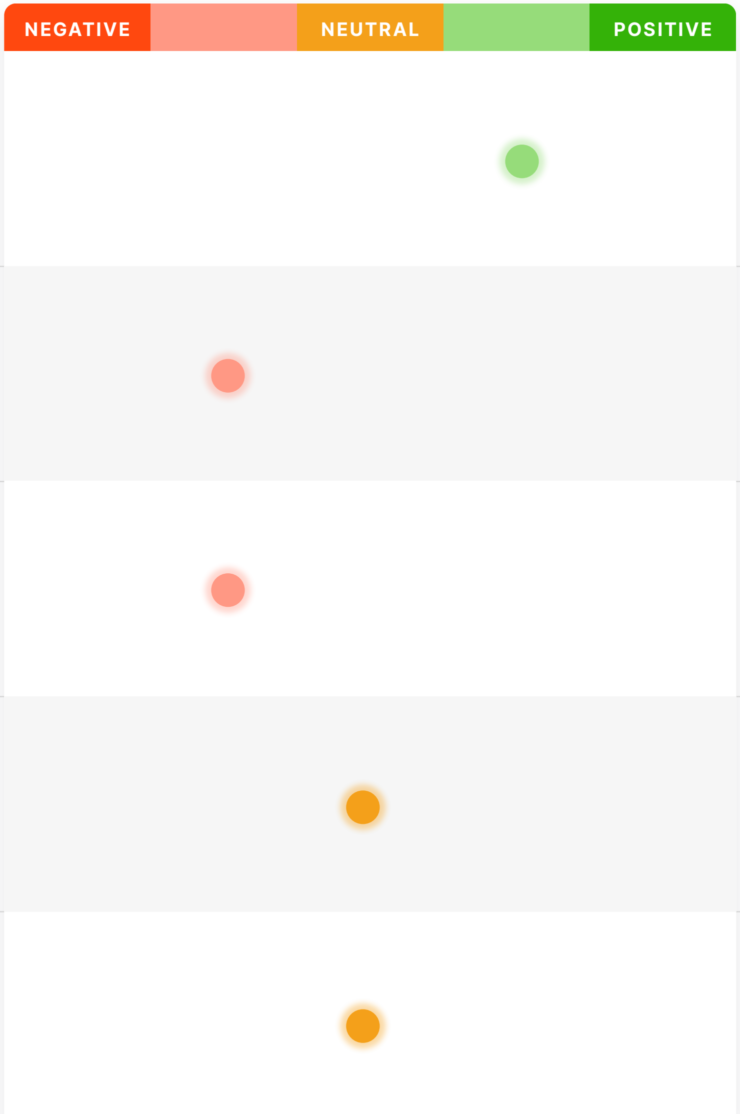
Brinker Capital Five Factor Stock Market Barometer

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 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 bear-ish 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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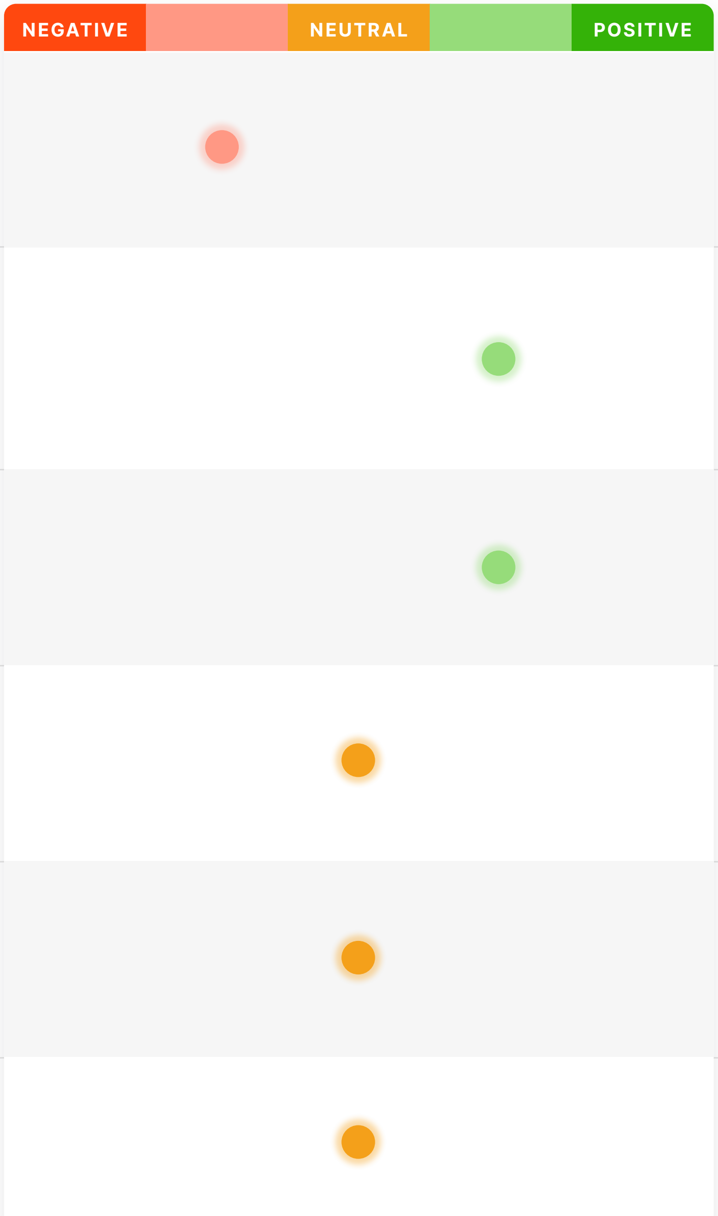
Brinker Capital Asset Class Barometer



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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