FEBRUARY 12, 2024

# Weekly Wire

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

## A New Risk

**By Rusty Vanneman, CMT, CFA, BFA™**

Last week was the 5th consecutive gain for the S&P 500. Fourteen of the last 15 weeks have been positive. Prices are now up for the index over 20% since the lows from last October. The S&P is above 5,000 and at new all-time price highs. It's been a great start for the stock market this year.

A big reason for the market gains is that the economy has been stronger than expected. For example, nearly 2/3rds of companies have reported earnings so far for the last quarter, and over 80% have bested expectations. That compares to a typical beat rate of 67% in a typical quarter (data going back to 1994).

There is a tide change, however, in what is driving the stock market. For months, it was primarily about interest rates — both what long-term rates were doing, and what the Federal Reserve might do. If rates went up, stock prices went down, and vice versa. Over the last few weeks, however, rates have moved higher and so has the stock market. In short, this is a stock market that wants to go higher. It is classic bull market behavior. Bull markets ignore bad news, and any good news is a reason to rally.

That said, I believe that a new risk may be starting to develop: the potential for a "melt-up market." This is when prices shoot higher as more investors jump into the market based off of increasingly positive sentiment and FOMO ("fear of missing out") on attractive short-term gains. Just like bear markets and corrections, melt-up markets can be destabilizing to many investors, threatening their focus on the proper investment principles of maintaining balanced and diversified portfolios created on their investment goals, and maintaining a long-term discipline.

It is notable that the top names in the stock continue to dominate the index gains so far this year. It is normal that markets can get concentrated at times, and it is also natural for that concentration to unwind. To everything there is a season. On that last point, despite strong relative performance in recent years, did you know that the largest names in the market tend to underperform — and by a far margin at that? In fact, according to a new paper by GMO last week, since 1957, the top ten stocks have underperformed the equal-weighted average of the remaining 490 stocks in the S&P by 2.4% per year. Since 2013, however, the top ten names have outperformed by 4.9% per year. The large cap outperformance in recent years really has been exceptional.

This week will bring the latest readings on inflation and consumer spending. On the corporate earnings side, about 15% of the S&P 500 is set to report earnings.

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 February 09, 2024**

| Rate | This Week | 1 Wk Δ% |
|---|---|---|
| 13-Wk Treasury Yield | 5.22% | 0.01% |
| 10-Yr Treasury Yield | 4.19% | 0.16% |
| Bloomberg US Agg Yield | 4.95% | 0.13% |
| Avg Money Mkt Yield | 5.15% | -0.02% |
| Avg 30-Yr Mortgage Rate | 7.10% | 0.14% |

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

**Key Economic Data This Week**

| Data Point | Expectation | Release Date |
|---|---|---|
| Consumer Price Index (CPI) YoY | 2.9% | 2/13/2024 |
| Core CPI YoY | 3.7% | 2/13/2024 |
| US Retail Sales | -0.2% | 2/15/2024 |
| Industrial Production | 0.2% | 2/15/2024 |
| Housing Starts | 1.47M | 2/15/2024 |
| Producer Price Index (PPI) YoY | -- | 2/16/2024 |
| Core PPI YoY | -- | 2/16/2024 |

*Source: MarketWatch*

**Key Economic Data Last Week**

| Data Point | Expectation | Actual |
|---|---|---|
| Consumer Credit | $15.0B | $1.5B |
| Wholesale Inventories | 0.4% | 0.3% |

*Source: MarketWatch, First Trust*

**Stocks, Bonds, Alternatives, & Real Assets as of February 09, 2024**

| Security Name | Risk Score | 1 Wk | 1 Mo | QTD | YTD | 1 Yr | 3 Yr Ann. |
|---|---|---|---|---|---|---|---|
| Global Equities (60% US, 40% Intl) | 100 | 0.99% | 3.59% | 2.58% | 2.58% | 16.87% | 5.28% |
| S&P 500 Total Return | 102 | 1.40% | 5.77% | 5.52% | 5.52% | 25.18% | 10.43% |
| Dow Jones Industrial Average | 97 | 0.09% | 3.14% | 2.74% | 2.74% | 17.24% | 9.41% |
| NASDAQ 100 Total Return | 122 | 1.84% | 7.74% | 6.83% | 6.83% | 46.32% | 10.37% |
| TV Benchmark | 107 | 1.11% | 5.55% | 5.03% | 5.03% | 29.58% | 10.07% |
| Morningstar US Large Cap | 102 | 1.62% | 6.96% | 6.86% | 6.86% | 30.33% | 10.42% |
| Morningstar US Mid Cap | 113 | 1.01% | 2.18% | 1.16% | 1.16% | 9.06% | 4.65% |
| Morningstar US Small Cap | 125 | 1.71% | 1.70% | -0.56% | -0.56% | 8.90% | 0.33% |
| Morningstar US Value | 98 | -0.14% | 0.31% | 0.31% | 0.31% | 8.75% | 9.76% |
| Morningstar US Growth | 126 | 3.01% | 7.15% | 5.21% | 5.21% | 29.37% | 2.34% |
| MSCI ACWI Ex USA | 98 | 0.27% | 0.75% | -1.12% | -1.12% | 6.16% | -0.02% |
| MSCI EAFE | 101 | 0.12% | 1.03% | -0.41% | -0.41% | 8.84% | 3.36% |
| MSCI EM | 98 | 0.76% | 0.29% | -2.69% | -2.69% | 0.10% | -8.32% |
| Bloomberg US Agg Bond Index | 27 | -0.82% | -0.63% | -1.47% | -1.47% | 1.95% | -3.47% |
| Bloomberg Commodity Index | 70 | 0.39% | -0.90% | -1.11% | -1.11% | -5.29% | 7.78% |
| Wilshire Liquid Alternative Index | 25 | 0.22% | 1.37% | 1.20% | 1.20% | 5.57% | 1.42% |
| US Dollar | 10 | 1.08% | 1.91% | 2.79% | 2.79% | 0.73% | 4.63% |
| Bloomberg US Treasury Bill 1-3mo | 1 | 0.10% | 0.48% | 0.60% | 0.60% | 5.29% | 2.41% |

*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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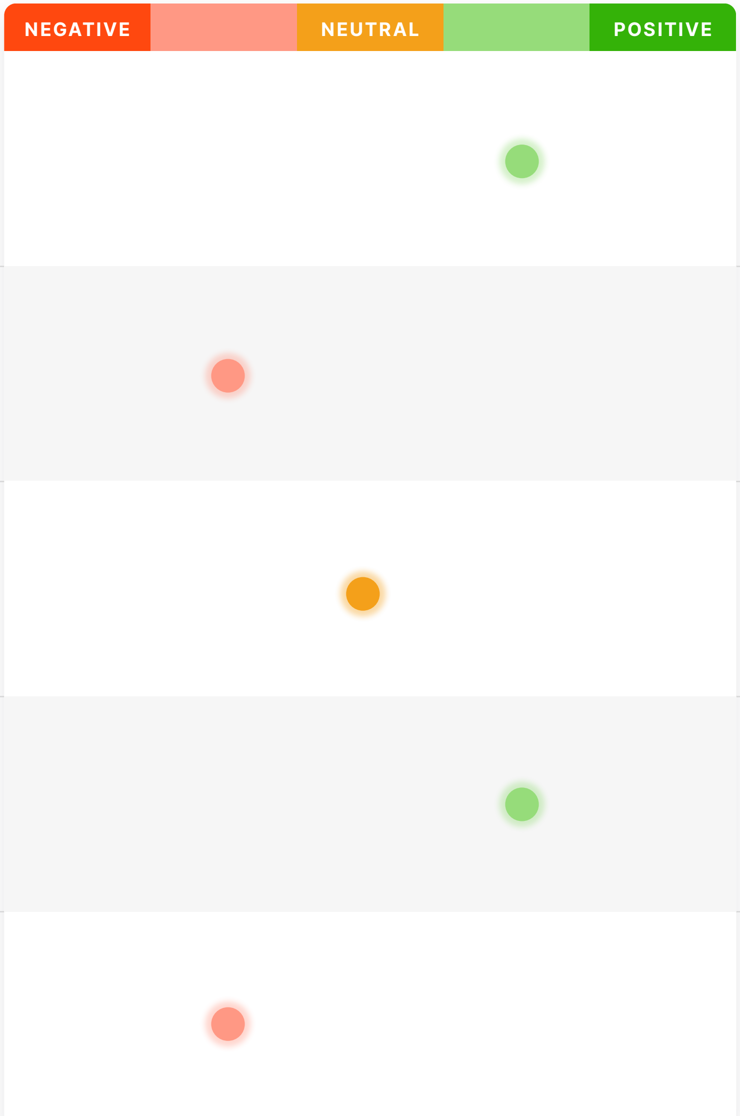


## Fundamentals

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 growth is expected to continue improving into 2024 and 2025. At year-end, earnings growth expectations are for double-digit growth in 2024 and 2025. have likely troughed, leading to a more constructive forward-looking outlook.
- GDP growth continues to surprise to upside. 4Q23 real GDP growth was 3.3%. GDP grew well above expectations in 2023 at +2.5%.
- Several leading indicators, however, such as an inverted yield curve, still suggest some potential weakness in 2024.

## 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 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 recessions.
- Inflation-adjusted interest rates remain high which is typically a headwind for risk assets.
- 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.
- Markets are aggressively pricing the end of the Fed’s rate hike cycle with deep cuts currently expected in 2024. If that’s the case, that will be a plus for risk assets.

## Policy

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

**Policy indicators include factors such as monetary and fiscal policy.**

- Domestic liquidity backdrop remains market-friendly.
- Fiscal policy is expected to be accommodative with current election cycle.
- Year-over-year change in M2 money supply remains negative, but is still above long-term trend. Year-over-year money supply, however, may have bottomed.
- 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.**

- Price trends were positive at year-end and into the new year.
- New highs typically mean above-average returns moving forward.
- Seasonality is also bullish in the fourth year of the presidential election cycle, though not necessarily at the beginning of the fourth year.
- Investor (and consumer) optimism, however, is at higher levels, suggesting below average (albeit positive) returns in the months and quarters to follow.

**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 high by historical standards, suggesting forward below average returns for the broad benchmarks.
- The interest rate environment isn't friendly for stocks: high real rates and inverted yield curve are two leading reasons.
- Fundamentals, however, are improving. Better economic and corporate earnings growth rates are expected.
- 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

## 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 considerably more favorable for non-US stocks. International equities broadly have higher dividends than US equities providing a buffer to volatility and higher total return potential.
- US economic growth, however, remains competitive.
- The US dollar has been strong of late, and if US interest rates move higher, that could provide more strength. A strong dollar would be a headwind for non-US relative performance. The upcoming Presidential Election could also be a factor for dollar performance.
- Neutral on favoring either developed vs emerging markets

## 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
- Absolute yields are attractive for corporate bonds, but still cautiously navigating given tight credit spreads and anticipation of Fed cutting.
- Fixed income sectors that look attractive given current spreads include agencies, mortgage-back bonds and CMBS.
- Though still short duration, the "T-Bill and Chill" strategy is not attractive for long-term investors due to potential reinvestment risk.

## 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 in global credit but currently neutral on a tactical basis.
- High yield bond spreads are tight by historical standards. High yield has been resilient so far, but the asset class is not on sale.
- Emerging market debt, however, have much more attractive credit spreads.
- Despite spreads being tight relative to long-term averages, starting absolute yields still remain attractive in light of US equity valuations.

## Alternatives

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

- Correlations between stocks and bonds have risen, making alternatives an attractive diversifier.
- Liquid alternatives offer a relatively stable risk profile with the potential for little correlation to equity beta or fixed income duration
- Tactically, neutral on liquid alternatives as core fixed income has become more attractive
- Liquid alt strategies that are more attractive include event driven, trend-following and multi-strategy.

## Real Assets

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

- Real assets remain a powerful diversifier, especially during period of high/rising inflation.
- Tactically, neutral on real assets though geopolitical risks and potential for reacceleration in inflation are potential tailwinds for real assets
- Within real assets, natural resource stocks have compelling relative valuations; the green energy transition provides elevated demand for a variety of industrial metals
- REITs have been strong performers of late but likely need stable/lower rates to sustain outperformance.

**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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