FEBRUARY 20, 2024

Weekly Wire

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Starting Points Matter

By Rusty Vanneman, CMT, CFA, BFA™

Last week stocks broke their 5-week winning streak as the latest round of economic data disappointed. Both the Consumer Price Index (CPI) and Producer Price Index (PPI) were higher than expected. Retail sales came in lower than expected. Nonetheless, stock and bond market losses were less than 1% (except the Nasdaq lost a bit more). Despite a slightly higher dollar, international stocks were higher on the week.

Stock market weakness, or at least price consolidation, should currently not be unexpected for a variety of reasons. First, this time of year tends to be a time of seasonally weaker price returns. Second, stock market prices also tend to generate below average returns in the first part of a presidential election year. Third, the US stock market just generated 20%+ returns over the last three months. This qualifies for the expression "overbought", which would mean the market could use a pause to refresh. A step back in prices would be normal and healthy for the market before taking its next two steps forward. In my opinion, a pause in the market's ascent would be healthier than prices moving parabolically higher. Given various sentiment readings, the kindling seems to be there for a parabolic move higher. Such a move would likely be destabilizing to investing behavior and potentially plant the seeds for a deeper correction.

It should be noted that Japan also finally hit new all-time highs recently, but unlike the U.S. which recently hit new highs for the first time in only two years, it took Japan 34 years to get back to its 1989 highs. Starting points matter and valuations in Japan in the late '80s were sky-high. This is not unlike the enthusiasm for tech stocks in the late '90s. One example is Cisco, which was arguably the leading choice back then for a "safe" play on the internet economy. In March 2000, Cisco had a trailing P/E ratio of 381. While Cisco as a company has done well since, it hasn't been a great stock investment over that time frame. In less than 3 years from its price high, it dropped over 85%. Even today, it is still about 40% below its highs from 2000. How long will it take to get back to those highs, if at all? Starting points indeed do matter, and these historical precedents may be handy to recall given the current investor enthusiasm for artificial intelligence. On that point, AI darling Nvidia reports earnings this week.

This coming week is lighter in terms of economic calendar releases, but we will get minutes from the Fed's January meeting as well as more corporate earnings as 4Q23 starts to wind down. Earnings season so far has been better than expected. Approximately 75% of companies have beat expectations (normally that number is closer to 67%) and the year-over-year growth rate is over 3%.

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 16, 2024		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.22%	0.00%
10-Yr Treasury Yield	4.30%	0.11%
Bloomberg US Agg Yield	5.06%	0.11%
Avg Money Mkt Yield	5.15%	0.00%
Avg 30-Yr Mortgage Rate	7.29%	0.19%

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

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
US Leading Economic Indicators	-0.3%	2/20/2024
Existing Home Sales	3.97M	2/22/2024

Source: MarketWatch

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
Consumer Price Index (CPI) YoY	2.9%	3.1%
Core CPI YoY	3.7%	3.9%
US Retail Sales	-0.2%	-0.8%
Industrial Production	0.2%	-0.1%
Housing Starts	1.47M	1.33M
Producer Price Index (PPI) YoY	--	0.9%
Core PPI YoY	--	2.6%

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of February 16, 2024							
Security Name	**Risk Score**	**1 Wk**	**1 Mo**	**QTD**	**YTD**	**1 Yr**	**3 Yr Ann.**
Global Equities (60% US, 40% Intl)	100	0.49%	4.32%	3.08%	3.08%	17.48%	5.03%
S&P 500 Total Return	102	-0.35%	5.18%	5.15%	5.15%	24.37%	10.09%
Dow Jones Industrial Average	97	0.02%	3.61%	2.76%	2.76%	17.12%	9.21%
NASDAQ 100 Total Return	122	-1.50%	5.16%	5.22%	5.22%	43.32%	9.58%
TV Benchmark	107	-0.61%	4.65%	4.37%	4.37%	28.27%	9.63%
Morningstar US Large Cap	102	-0.58%	5.74%	6.23%	6.23%	29.24%	10.03%
Morningstar US Mid Cap	113	0.72%	3.99%	1.89%	1.89%	8.65%	4.50%
Morningstar US Small Cap	125	0.66%	3.83%	0.09%	0.09%	8.23%	0.64%
Morningstar US Value	98	1.08%	2.92%	1.40%	1.40%	9.28%	9.76%
Morningstar US Growth	126	-0.40%	6.54%	4.79%	4.79%	27.83%	1.99%
MSCI ACWI Ex USA	98	1.62%	3.15%	0.48%	0.48%	8.80%	-0.18%
MSCI EAFE	101	1.48%	3.01%	1.06%	1.06%	11.26%	3.15%
MSCI EM	98	2.11%	3.79%	-0.64%	-0.64%	3.53%	-8.39%
Bloomberg US Agg Bond Index	27	-0.55%	-1.09%	-2.01%	-2.01%	2.53%	-3.44%
Bloomberg Commodity Index	70	-0.62%	-0.76%	-1.72%	-1.72%	-5.56%	7.01%
Wilshire Liquid Alternative Index	25	-0.05%	1.17%	1.15%	1.15%	5.62%	1.27%
US Dollar	10	0.13%	1.85%	2.92%	2.92%	0.36%	4.85%
Bloomberg US Treasury Bill 1-3mo	1	0.12%	0.50%	0.71%	0.71%	5.32%	2.45%

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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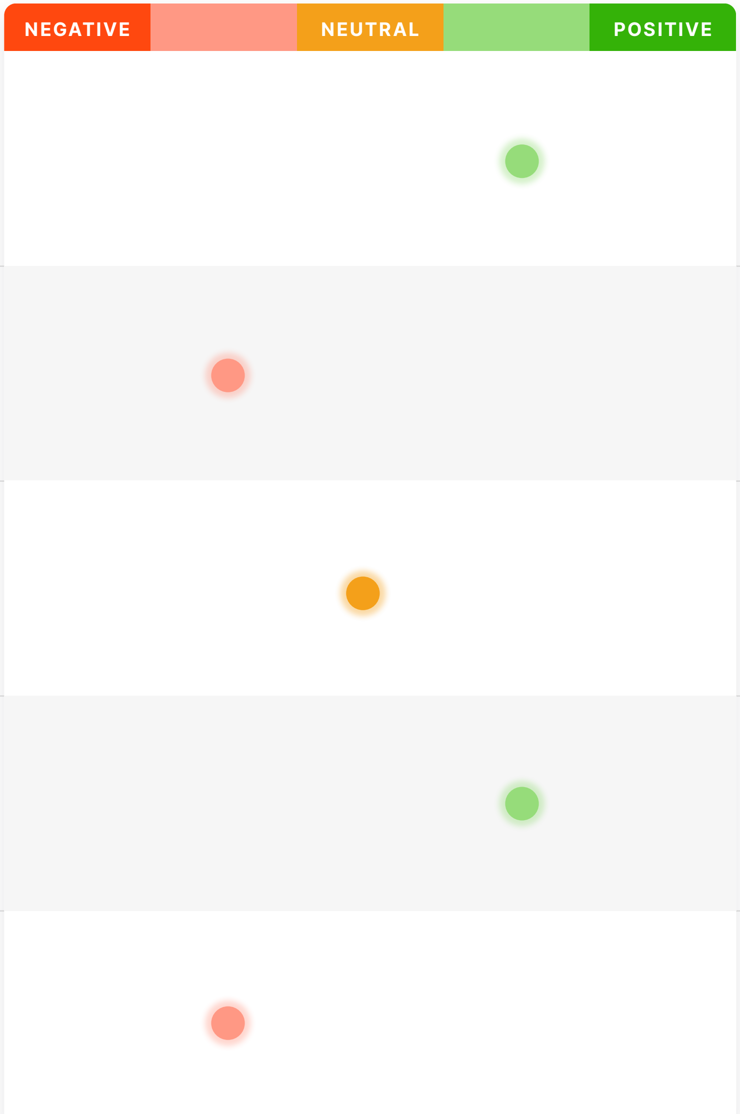

Fundamentals

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

	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.

- 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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0378-BCI-2/20/2024