MARCH 18, 2024

Weekly Wire

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Two Markets on the Move Since December

By Rusty Vanneman, CMT, CFA, BFA™

Last week the stock and bond markets moved lower. The only asset class with gains was commodities. A few markets continued their moves higher from last December, though — more on both in a bit.

Economic data last week was disappointing, and the markets responded accordingly. Both the February Consumer Price Index and February Producer Price Index inflation measures rose more than expected, and in turn longer-term interest rates moved higher by nearly ¼ of 1% last week. Ten-year Treasuries yields are now back to the 2024 highs over 4.3%. It is also notable that 10-year yields have shown a steady progression higher since their lows last December. So far, this has not negatively impacted the overall stock market.

Another disappointing report last week was February Retail Sales. While the headline growth did come in slightly below expectations, there were revisions lower in prior data. For example, sales excluding autos, building materials, and gas rose 0.1% but were down 0.5% including revisions to prior months. This data is a key input in GDP. Moving forward, if this data is unchanged in March, these sales will be down at a 0.7% annual rate in Q1 versus the Q4 average. That would be the first quarterly decline since the COVID lockdowns.

Given the data last week, the term stagflation appeared in the financial media a few times. Though last week's economic data might have leaned in that direction, the current economic conditions do not even come close to qualifying as a stagflationary environment. At least not yet. First, unemployment is low. In fact, if we get a several more months of the unemployment rate below 4%, that would be the longest stretch of unemployment below 4% since the early 1950s. Second, inflation, as least defined by the Consumer Price Index, remains below the CPI long-term average (since 1947) (3.2% vs 3.5%).

This week the Federal Reserve meets on Wednesday. Do not expect any rate changes. Coming into the week, Fed Funds are pricing in a 99% likelihood of the central bank keeping interest rates unchanged, according to the CME FedWatch Tool. That said, the Fed's latest Summary of Economic Projections could shift market expectations. The market currently expects the Fed to cut the rate three times this year. The inflation data is not helping that expectation. Nor are gasoline prices, which have steadily moved nearly 40% higher since their lows last December. So far, this also has not negatively impacted the overall stock market.

Other items of note this week include an IPO of Reddit Thursday. The IPO market has been quiet of late, but given bullish investor sentiment this year, will the IPO be successful? This does have the potential to be market moving. In other tech news to start the week, Apple is in talks to license Google's Gemini for generative AI. This has given Alphabet (i.e. Google) a big start to the week. Also, Nvidia is having its annual GTC Conference early in the week. Some call this conference the "AI Woodstock." Given investor expectations for NVDA and AI in general, news flow from this conference could also impact the market.

Bottom line:

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 March 15, 2024

Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.24%	0.01%
10-Yr Treasury Yield	4.30%	0.21%
Bloomberg US Agg Yield	5.06%	0.21%
Avg Money Mkt Yield	5.14%	0.00%
Avg 30-Yr Mortgage Rate	7.01%	-0.14%

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

Key Economic Data This Week

Data Point	Expectation	Release Date
FOMC Interest Rate Decision	No Hike	3/20/2024
US Leading Economic Indicators	-0.1%	3/21/2024
Existing Home Sales	3.92M	3/21/2024

Source: MarketWatch

Key Economic Data Last Week

Data Point	Expectation	Actual
Consumer Price Index (CPI) YoY	3.1%	3.2%
Core CPI YoY	3.7%	3.8%
US Retail Sales	0.7%	0.6%
Producer Price Index (PPI) YoY	--	1.6%
Core PPI YoY	--	2.8%

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of March 15, 2024

Security Name	Risk Score	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	-0.52%	2.44%	5.58%	5.58%	27.44%	6.12%
S&P 500 Total Return	102	-0.09%	1.88%	7.63%	7.63%	33.59%	10.55%
Dow Jones Industrial Average	97	0.01%	0.10%	3.22%	3.22%	24.07%	7.69%
NASDAQ 100 Total Return	122	-1.15%	-0.13%	6.03%	6.03%	46.57%	11.73%
TV Benchmark	107	-0.41%	0.62%	5.63%	5.63%	34.74%	9.99%
Morningstar US Large Cap	102	0.06%	1.56%	8.39%	8.39%	37.10%	10.87%
Morningstar US Mid Cap	113	-0.94%	2.52%	5.04%	5.04%	23.64%	4.80%
Morningstar US Small Cap	125	-1.33%	0.18%	1.13%	1.13%	21.45%	-0.35%
Morningstar US Value	98	0.01%	2.87%	4.46%	4.46%	21.80%	8.31%
Morningstar US Growth	126	-1.23%	-0.03%	5.56%	5.56%	35.70%	4.31%
MSCI ACWI Ex USA	98	-0.87%	3.79%	3.46%	3.46%	19.26%	1.75%
MSCI EAFE	101	-1.30%	4.22%	4.44%	4.44%	21.96%	4.75%
MSCI EM	98	-0.12%	2.94%	1.42%	1.42%	12.69%	-5.52%
Bloomberg US Agg Bond Index	27	-1.23%	-0.02%	-1.72%	-1.72%	1.15%	-2.81%
Bloomberg Commodity Index	70	1.31%	4.17%	1.69%	1.69%	2.42%	7.85%
Wilshire Liquid Alternative Index	25	-0.02%	0.93%	2.23%	2.23%	8.64%	1.59%
US Dollar	10	0.52%	-1.30%	2.00%	2.00%	-0.23%	4.08%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.45%	1.11%	1.11%	5.34%	2.58%

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
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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. Earnings likely troughed in 2023, leading to a more constructive forward-looking outlook.
- Profit margins are hovering near 5-year averages, and upward revisions from Q3 have provided additional support to earnings growth figures.
- GDP growth continues to surprise to upside. 4Q23 real GDP growth was 3.3%. 2023 GDP grew well above expectations and prior year 2022 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; pockets of opportunity exist in the US equity market as valuations and concentration levels are near all-time-highs.

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.
- Expectations for rate cuts have been pushed later into 2024, delaying potential tailwinds for risk assets.

Policy

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

Policy indicators include factors such as monetary and fiscal policy.

- Fiscal policy is expected to be accommodative with current election cycle.
- Expectations on the Fed Funds rate between the Fed and market participants have started to converge.
- 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.

- Investor (and consumer) optimism is at higher levels, suggesting below average (albeit positive) returns in the months and quarters to follow.
- Price trends were positive at year-end and have continued into 2024, although market breadth remains poor.
- New highs typically mean above-average returns moving forward.
- Seasonality is bullish in the fourth year of the presidential election cycle, though not necessarily at the beginning of the fourth year.

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.

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.
- 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.
- Europe and Japan have recently reached all-time highs; slight favor given to developed over emerging.
- Neutral on China; concerned about growth, but valuations are attractive.

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.
- Based on historical spreads mortgage-back securities look relatively attractive; CMBS spreads remain wide due to concerns around commercial real estate.
- "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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