MARCH 4, 2024

# Weekly Wire

BRINKER CAPITAL INVESTMENTS

AN ORION COMPANY

## The Value of Caution

**By Rusty Vanneman, CMT, CFA, BFA™**

Last week was another solid week for investors. The stock market moved higher again, including more new all-time highs in a couple major indices, and the economic data did not disappoint.

Let's first talk about the new highs. The tech-heavy Nasdaq Composite finally joined the new all-time high (ATH) club with the other TV benchmarks (the S&P 500 and Dow Jones Industrials) by hitting new all-time price highs last Thursday. This was the first ATH for the index since November 2021. That ended the fourth longest streak on record without closing at an ATH. Also hitting new highs last week was the Russell 2000, which is a benchmark for small cap stocks. It snapped its second longest stretch of not hitting a new ATH.

Economic data was also supportive last week. First, the inflation data came in as expected and did not negatively surprise as some other inflation data did in the weeks prior. "Core" prices, which exclude the ever-volatile food and energy categories, are now up 2.8% versus a year ago. This result, coming in below 3% and at expectations was well received by investors. Also notable, however, is that the Fed also follows the "Super Core" index, which is services only (no goods), excluding food, energy, and housing. That measure did rise 0.6% in January and is now up 3.5% versus a year ago. This is well above the Fed's preferred 2% target. Second, 4Q23 GDP was revised lower last week (to 3.2%), but upon closer inspection, the drop was due to net exports and lower inventories. Other measures, such as personal consumption and business investment, revealed more growth than originally estimated.

As for this coming week, it's a big week for employment data with fresh prints of ADP employment, job openings, nonfarm payrolls and the US unemployment rate being released. The unemployment rate is expected to be 3.7%.

Given all the news all-time price highs, The weekly AAII Sentiment Survey is now on its longest streak of above-average bulls since February of 2011 (16 straight weeks). Historically, when investor sentiment is extremely bullish, the overall stock market has produced below average returns moving forward. Contrarians will also note that the Magazine Cover Indicator might be triggered given the recent Economist magazine cover asking "How High Can The Markets Go?" Other contrarians will note that Amazon will now be joining the Dow Jones Industrial Index.

Last week colleague and Orion Chief Behavioral Officer Daniel Crosby tweeted on X a quote from Seneca: "*If you would not have a man flinch when the crisis comes, train him before it comes.*" As Dr. Crosby states, "*this is good wisdom for how we help inoculate our clients against the inevitability of bad markets.*" Given the valuations of the overall market, including among the largest names that are dominating the indices of late, this seems like wise counsel.

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 29, 2024**

| Rate | This Week | 1 Wk Δ% |
|---|---|---|
| 13-Wk Treasury Yield | 5.22% | -0.02% |
| 10-Yr Treasury Yield | 4.18% | -0.08% |
| Bloomberg US Agg Yield | 4.95% | -0.10% |
| Avg Money Mkt Yield | 5.14% | 0.00% |
| Avg 30-Yr Mortgage Rate | 7.31% | 0.03% |

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

**Key Economic Data This Week**

| Data Point | Expectation | Release Date |
|---|---|---|
| ISM Services | 53.1% | 3/5/2024 |
| ADP Employment | 150,000 | 3/6/2024 |
| Consumer Credit | $10B | 3/7/2024 |
| US Nonfarm Payrolls | 210,000 | 3/8/2024 |
| US Unemployment Rate | 3.7% | 3/8/2024 |

*Source: MarketWatch*

**Key Economic Data Last Week**

| Data Point | Expectation | Actual |
|---|---|---|
| New Home Sales | 680,000 | 661,000 |
| Consumer Confidence | 115.0 | 106.7 |
| GDP (First Revision) | 3.3% | 3.2% |
| Personal Income | 0.3% | 0.3% |
| Personal Consumption Expenditures (PCE) | 2.4% | 2.4% |
| Core PCE | 2.8% | 2.8% |

*Source: MarketWatch, First Trust*

**Stocks, Bonds, Alternatives, & Real Assets as of February 29, 2024**

| Security Name | Risk Score | 1 Wk | 1 Mo | QTD | YTD | 1 Yr | 3 Yr Ann. |
|---|---|---|---|---|---|---|---|
| Global Equities (60% US, 40% Intl) | 100 | 0.84% | 4.36% | 5.42% | 5.42% | 23.61% | 6.49% |
| S&P 500 Total Return | 102 | 0.99% | 4.87% | 7.97% | 7.97% | 32.12% | 11.33% |
| Dow Jones Industrial Average | 97 | 0.00% | 1.76% | 4.09% | 4.09% | 22.24% | 9.62% |
| NASDAQ 100 Total Return | 122 | 2.07% | 5.64% | 8.94% | 8.94% | 54.60% | 12.19% |
| TV Benchmark | 107 | 1.02% | 4.09% | 7.00% | 7.00% | 36.32% | 11.05% |
| Morningstar US Large Cap | 102 | 0.88% | 5.06% | 8.99% | 8.99% | 37.18% | 11.50% |
| Morningstar US Mid Cap | 113 | 1.72% | 4.88% | 4.93% | 4.93% | 15.91% | 5.58% |
| Morningstar US Small Cap | 125 | 1.94% | 4.03% | 1.97% | 1.97% | 12.94% | 1.09% |
| Morningstar US Value | 98 | 0.39% | 2.43% | 3.17% | 3.17% | 14.41% | 9.69% |
| Morningstar US Growth | 126 | 2.43% | 6.48% | 7.70% | 7.70% | 36.32% | 4.35% |
| MSCI ACWI Ex USA | 98 | 0.42% | 3.60% | 2.24% | 2.24% | 13.13% | 1.54% |
| MSCI EAFE | 101 | 0.72% | 3.45% | 3.25% | 3.25% | 15.82% | 4.76% |
| MSCI EM | 98 | -0.29% | 4.49% | 0.29% | 0.29% | 7.34% | -6.36% |
| Bloomberg US Agg Bond Index | 27 | 0.47% | -1.58% | -1.30% | -1.30% | 4.34% | -2.98% |
| Bloomberg Commodity Index | 70 | 2.00% | 0.04% | -0.54% | -0.54% | -4.45% | 7.56% |
| Wilshire Liquid Alternative Index | 25 | 0.28% | 0.95% | 1.97% | 1.97% | 7.10% | 1.70% |
| US Dollar | 10 | 0.19% | 0.85% | 2.79% | 2.79% | -0.68% | 4.65% |
| Bloomberg US Treasury Bill 1-3mo | 1 | 0.10% | 0.45% | 0.90% | 0.90% | 5.35% | 2.51% |

*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

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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


## 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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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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