APRIL 15, 2024

Weekly Wire

Another Big Week

By Rusty Vanneman, CMT, CFA, BFA™

What a week last week. Then again, aren't they all? Last week was notable for various reasons, but for investors the list begins with the weekend geopolitical stress from Iran attacking Israel. This is a fluid situation, of course, with the potential to get worse. As of this writing, however, efforts by the U.S. to encourage Israel not to retaliate has calmed the markets. The attack was well telegraphed which allowed damage to be contained.

For investors, the most important rule to heed in response to a geopolitical crisis is not to panic. That said, it does bear monitoring for multiple reasons.

Geopolitical stress was one key factor for the markets last week, but there were other notable factors. Leading the way was the renewed concern about inflation given last week's Consumer Price Index surprising again to the upside. Then again, month-over-month Core CPI inflation reads have been moving higher since last summer. Last week's Producer Price Index was initially more encouraging, though it should be noted that through the first three months of 2024, producer prices rose at a 4.4% annualized pace and year-ago comparisons are back on the rise and back above 2.0% for the first time since April of last year.

In response, market expectations for the Fed cutting short-term rates dropped sharply again last week, with the market now expecting an approximate 10% chance of no cuts in 2024. Don't be surprised to start seeing the market start to price in some potential hikes if the data doesn't improve soon. Another key driver in market performance last week, especially at week's end, were earnings reports, particularly from some of the large financial firms. While they generally beat 1Q24 expectations, they also guided lower moving forward. While this earnings season behavior is somewhat typical, the stock market didn't like it.

In the end, stocks lost ground last week, though at one point the NASDAQ hit a new record high last week. Amazon also finally hit a new all-time high. Bonds did lose ground, as 10-year Treasuries rose from 4.4% to nearly 4.6% last week. Last Wednesday witnessed the biggest one-day jump in 10-year yields since September 2022. Commodities did gain ground last week, as did the U.S. dollar. The latter is now up 3% year-over-year.

This coming week is light on the economic calendar, with the only major report being Retail Sales on Monday. There will also be notable earnings reports this week, including from more major financial firms. Jay Powell will be speaking on Wednesday alongside the release of the Beige Book. Otherwise, expect key drivers this week to be updates on the Middle East, and the movement of interest rates and commodity prices.

Bottom line, stay invested, stay diversified, and 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.

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
Consumer Price Index (CPI) YoY	3.4%	3.5%
Core CPI YoY	3.7%	3.8%
Producer Price Index (PPI) YoY	--	2.1%
Core PPI YoY	--	2.8%

Source: MarketWatch, First Trust

Interest Rates as of April 12, 2024		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.23%	0.01%
10-Yr Treasury Yield	4.50%	0.12%
Bloomberg US Agg Yield	5.37%	0.28%
Avg Money Mkt Yield	5.13%	0.00%
Avg 30-Yr Mortgage Rate	6.95%	0.04%

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

Economic data last week, according to First Trust:

- Consumer Price Index: The Consumer Price Index (CPI) rose 0.4% in March, above the consensus expected +0.3%. The CPI is up 3.5% from a year ago. At this point it looks clear that the progress against inflation made from mid-2022 to mid-2023 has stalled. March CPI Report Comes in Hot: What the Experts Are Saying About Inflation | Kiplinger
- Producer Price Index: The Producer Price Index (PPI) rose 0.2% in March, coming in below the consensus expected +0.3%. Producer prices are up 2.1% versus a year ago.
- Monthly core CPI has failed to deliver a <0.2 month over month (needed to get to 2% Fed target) for some time now: Inflation Guy's CPI Summary (Mar 2024) | E-piphany

Stocks, Bonds, Alternatives, & Real Assets as of April 12, 2024							
Security Name	**Risk Score**	**1 Wk**	**1 Mo**	**QTD**	**YTD**	**1 Yr**	**3 Yr Ann.**
Global Equities (60% US, 40% Intl)	100	-1.35%	-1.00%	-2.23%	5.55%	20.28%	5.28%
S&P 500 Total Return	102	-1.52%	-0.88%	-2.44%	7.86%	27.19%	9.16%
Dow Jones Industrial Average	97	-2.36%	-2.54%	-4.54%	1.32%	15.28%	6.16%
NASDAQ 100 Total Return	122	-0.58%	-1.12%	-1.35%	7.25%	41.29%	10.11%
TV Benchmark	107	-1.49%	-1.52%	-2.78%	5.48%	27.92%	8.48%
Morningstar US Large Cap	102	-1.25%	-0.58%	-1.94%	8.92%	30.65%	9.36%
Morningstar US Mid Cap	113	-2.57%	-1.86%	-4.08%	4.43%	18.18%	4.26%
Morningstar US Small Cap	125	-2.81%	-2.27%	-5.46%	-0.08%	16.54%	0.14%
Morningstar US Value	98	-2.97%	-1.25%	-4.32%	3.73%	15.14%	7.75%
Morningstar US Growth	126	-1.38%	-2.33%	-3.10%	4.96%	29.20%	2.35%
MSCI ACWI Ex USA	98	-1.01%	-1.26%	-1.80%	2.92%	10.23%	1.24%
MSCI EAFE	101	-1.10%	-1.62%	-2.43%	3.35%	11.20%	3.69%
MSCI EM	98	-0.34%	-0.35%	-0.05%	2.38%	8.09%	-4.85%
Bloomberg US Agg Bond Index	27	-0.70%	-1.64%	-1.75%	-2.52%	-0.70%	-3.18%
Bloomberg Commodity Index	70	0.13%	5.30%	3.68%	5.95%	0.91%	10.37%
Wilshire Liquid Alternative Index	25	-0.49%	0.08%	-0.63%	2.51%	7.14%	1.44%
US Dollar	10	1.12%	2.35%	0.70%	3.90%	3.01%	4.54%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.48%	0.20%	1.52%	5.41%	2.72%

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

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 throughout 2024 and into 2025. Most recent analyst expectations are for 10.9% earnings growth for CY 2024. 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 Q4 have provided additional support to earnings growth figures.
- GDP growth continues to surprise to upside. 4Q23 real GDP growth was 3.2%. 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 oppor- tunity 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

BRINKER CAPITAL INVESTMENTS
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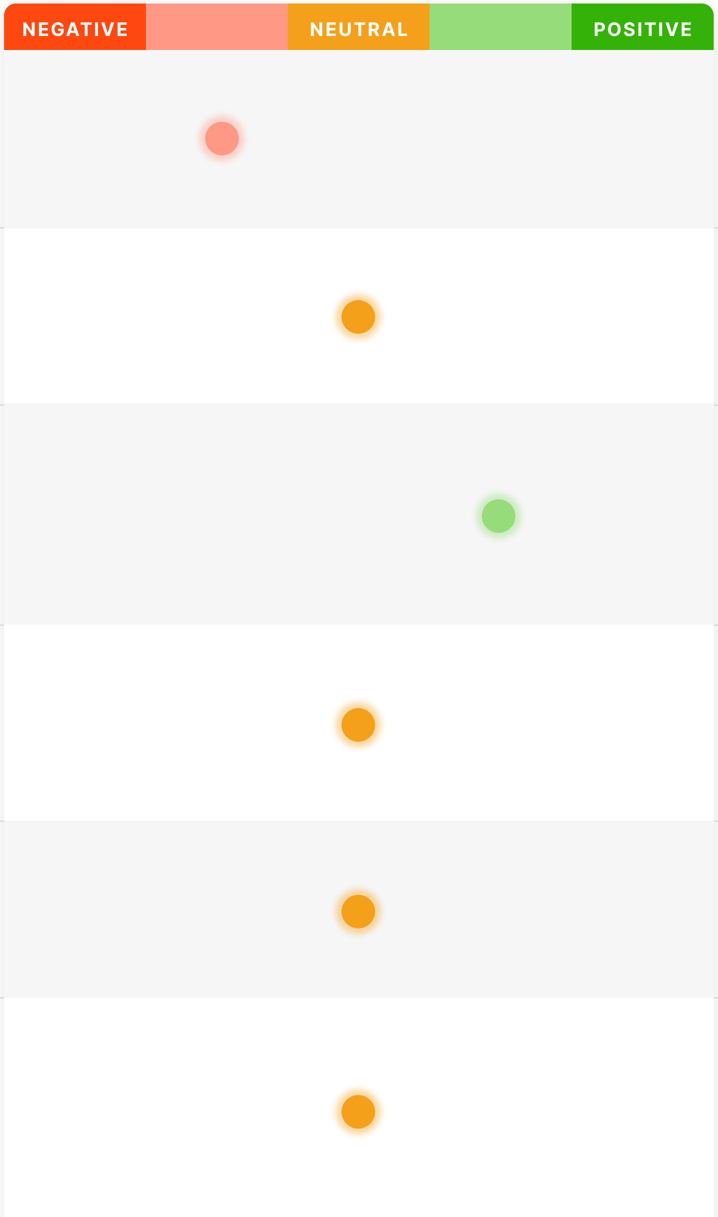

Domestic Equity

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 which point to pockets of opportunity.

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.
- Currently neutral on developed versus 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. This leads to an outlook that leans toward higher quality and neutral duration positioning.
- 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 relatively attractive credit spreads and potential dollar weakness could be a tailwind.
- 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. Higher base interest rates provide a solid foundation for liquid alternative outperformance outlook.
- 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 periods 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. Gold hit all-time highs despite high real interest rates on the back of central bank demand, geopolitical concerns, and inflation.
- Historically, real estate is one of the best performing asset classes when real yields are increasing, as well as when rates are falling, both in rising and falling inflationary environments.

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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