JANUARY 2, 2024

Weekly Wire

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Cherry on Top

By Rusty Vanneman, CMT, CFA, BFA™

What a great year for the stock market in 2023 and last week was just a cherry on top as the Santa Rally continued and the S&P 500 finished higher last week for the ninth week in a row. This is its best win streak for consecutive weekly gains since 2004. With the gains last week, the S&P finished the year higher with a total return of over 26%.

Who would have guessed that market performance 12 months ago? Not many. Let's consider some of the events from last year. At the beginning of 2023, nearly all economists were predicting a recession. We did have consecutive quarters of negative year-over-year earnings growth at the beginning of the year. Inflation was stubbornly higher than many investors wanted early in the year and the Fed maintained a rate hike program to fight higher consumer prices. Investors also faced a regional banking crisis as well as wars in Ukraine and the Middle East. In addition, the Treasury's decision on August 1st to issue more long-term debt for the first time in three years tightened financial conditions. That decision in August was a market mover. From July 31st until October 31st, the S&P lost nearly 9%, small-cap stocks lost 17%, and 10-year Treasury bond yields moved higher by nearly 1%.

On November 1st, however, the Treasury reversed this decision. Match that with Federal Reserve chair Jerome Powell acknowledging on the same day that the Fed Funds rate increase campaign was over, financial conditions then loosened. From November 1st until the end of the year, the S&P gained nearly 14%, small-cap stocks gained nearly 22%, and 10-year bond yields moved lower by nearly 1%. It was indeed an incredible end to the year.

The coming holiday-shortened week will likely start the week on the quiet side but look for potential notable market action with Friday's unemployment report. The current expectation is for a 3.8% unemployment rate (last month was 3.7%).

Needless to say, investor optimism is running high entering the new year. It's useful to remember, however, that the market often moves counter to the dominant narrative and expectations. Currently, we do have a Goldilocks Economy, and many investors expect that to continue.

With that in mind, let's consider the year-end consensus views from the last four years. At the end of 2022, a recession was coming. The end of 2021 was how IPOs/SPACs/technology would continue racing higher. At the end of 2020, it was that the pandemic winners were here to stay. At the end of 2019, most investors were underestimating COVID.

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. We wish you a happy and prosperous New Year.

Interest Rates as of December 29, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.18%	-0.03%
10-Yr Treasury Yield	3.87%	-0.03%
Bloomberg US Agg Yield	4.70%	-0.04%
Avg Money Mkt Yield	5.19%	0.00%
Avg 30-Yr Mortgage Rate	6.93%	-0.16%

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

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
US Job Openings	8.8M	1/3/2023
ISM Manufacturing	47.3%	1/3/2023
ADP Employment	--	1/4/2023
Nonfarm Payrolls	170,000	1/5/2023
US Unemployment Rate	3.8%	1/5/2023
ISM Services	52.5%	1/5/2023

Source: MarketWatch

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
NA	--	--

Stocks, Bonds, Alternatives, & Real Assets as of December 29, 2023							
Security Name	**Risk Score**	**1 Wk**	**1 Mo**	**QTD**	**YTD**	**1 Yr**	**3 Yr Ann.**
Global Equities (60% US, 40% Intl)	100	0.88%	5.11%	11.17%	22.30%	22.30%	6.19%
S&P 500 Total Return	102	0.34%	4.54%	11.69%	26.29%	26.29%	10.03%
Dow Jones Industrial Average	97	0.81%	4.93%	13.09%	16.18%	16.18%	9.41%
NASDAQ 100 Total Return	122	0.30%	5.56%	14.60%	55.13%	55.13%	10.20%
TV Benchmark	107	0.48%	5.01%	13.13%	32.53%	32.53%	9.88%
Morningstar US Large Cap	102	0.29%	4.03%	11.69%	29.81%	29.81%	9.55%
Morningstar US Mid Cap	113	0.43%	7.35%	12.84%	16.24%	16.24%	6.48%
Morningstar US Small Cap	125	-0.06%	10.78%	14.07%	20.59%	20.59%	4.57%
Morningstar US Value	98	0.52%	5.51%	9.71%	11.98%	11.98%	11.32%
Morningstar US Growth	126	0.12%	6.92%	14.87%	38.48%	38.48%	3.05%
MSCI ACWI Ex USA	98	1.75%	5.05%	9.82%	16.21%	16.21%	2.05%
MSCI EAFE	101	1.17%	5.33%	10.47%	18.85%	18.85%	4.55%
MSCI EM	98	3.25%	3.95%	7.93%	10.27%	10.27%	-4.72%
Bloomberg US Agg Bond Index**	27	0.48%	3.83%	6.82%	5.53%	5.53%	-3.32%
Bloomberg Commodity Index	70	-0.61%	-2.69%	-4.63%	-7.91%	-7.91%	10.79%
Wilshire Liquid Alternative Index	25	-0.24%	0.40%	1.89%	4.42%	4.42%	1.06%
US Dollar	10	-0.36%	-2.09%	-4.60%	-2.11%	-2.11%	4.07%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.47%	1.38%	5.14%	5.14%	2.22%

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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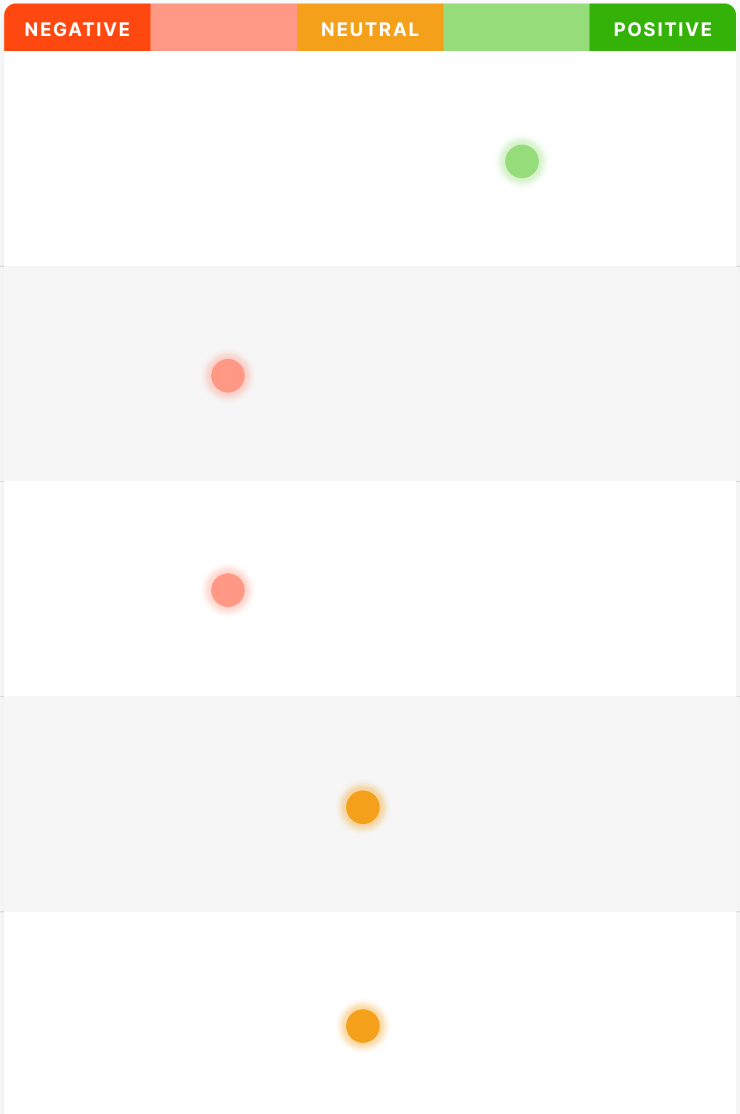

Fundamentals

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 have likely troughed, leading to a more constructive forward-looking outlook
- At the end of Q3 earnings season, unofficial year-over-year earnings growth was positive for the first time in the last four quarters and analyst guidance is strong for 2024
- Several leading indicators, however, still suggest some potential weakness in 2024.
- Domestic return on equity ratios have potentially troughed as their downtrend has flattened leading to a more constructive forward-looking outlook

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 nearly 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 bear-ish market signal and fairly accurate indicator of future recession
- Markets are pricing the end of the Fed's rate hike cycle with four cuts currently expected in 2024; though short-term US interest rates remain among highest levels globally
- Investment grade and high yield spreads have remained tight and well-behaved
- Elevated CMBS and MBS spreads signal heightened stress in real estate market

Policy

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

Policy indicators include factors such as monetary and fiscal policy.

- Monetary and fiscal policy are expected to be accommodative with current election cycle
- 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
- Year-over-year change in M2 money supply remains negative, but is still above long-term trend
- With short-term government shutdown fears abated, markets are experiencing a broad boost in liquidity

Behavioral

Over the short term, the market is like a voting machine.

Behavioral indicators include factors such as sentiment, momentum, trend, and breadth.

- Markets have remained in an uptrend through the end of 2023, consistent with seasonal patterns
- Market breadth has improved; broader participation will need to be sustained to maintain market uptrend
- Extreme optimism among investor surveys has returned to multi-year highs, pronouncing a contrarian signal headwind to forward returns
- Seasonality is bullish in fourth year of presidential election cycle

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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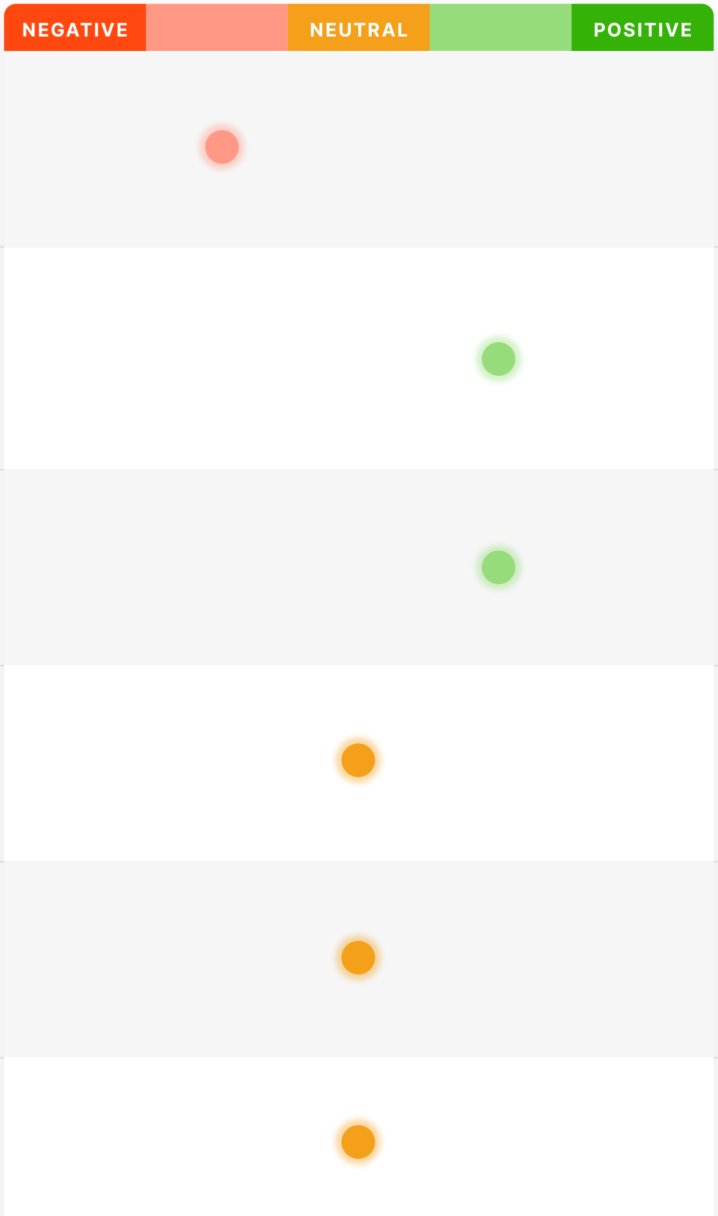

Domestic Equity

Factors considered within domestic equity include allocations to the traditional style box asset classes.

- Less constructive on US large cap stocks; although fundamental outlook could begin justifying elevated multiples
- Monetary policy environment is a headwind for broader market appreciation as economy tightens and cost of capital rises
- 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
- Recent domestic equity rally could be overblown when considering looming economic headwinds in US

International Equity

Factors considered within international equity include a breakdown between developed and emerging markets as well as allocations across the traditional style box.

- Remain cautiously positive on international equities with consideration given to geopolitical risks; more attractive valuations versus domestic equities with roughly similar fundamental outlook
- On a relative basis, international equities broadly have stronger cash flows and higher dividends than US equities providing a buffer to volatility and higher total return potential
- Within international equity, we are neutral on developed vs. emerging markets
- The strength of the US Dollar is facing vulnerability going into next year, this could prove a tailwind for international equities relative to domestic

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
- Cautiously navigating tight credit spreads combined with higher forward inflation expectations; risk/ return trade-off for Treasuries is compelling
- While net neutral on duration, capital appreciation has likely been mostly realized from recent rate retraction in anticipation of Fed cutting

Global Credit

Factors considered within global credit include allocations to various spread and/or non-core fixed income sectors as well as duration.

- Modestly positive on global credit; while high yield securities have remained resilient, tight spreads leading to a less attractive risk/return tradeoff
- Compelling opportunities in several areas of global credit with attractive total return potential
- Despite spreads being tight relative to long-term averages, starting yields provide a buffer against potential risks that could lead to declining market values

Alternatives

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

- Neutral on liquid alternatives as core fixed income has become more attractive
- Correlations between stocks and bonds have risen, making alternatives an attractive diversifier
- Positioning within alternatives has been tilted toward lower-volatility complements to core fixed income
- Liquid alternatives offer a relatively stable risk profile with the potential for little correlation to equity
- beta or fixed income duration

Real Assets

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

- Neutral on real assets; geopolitical risk and potential for reacceleration in inflation are tailwinds for real assets
- Within real assets, REITs and natural resource stocks have seen strong recent relative performance
- The green energy transition provides elevated demand for a variety of industrial metals
- REITs are attractive as rates have fallen, forward expectations for a slow down in these rate reductions

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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