FEBRUARY 5, 2024

Weekly Wire

Positive Momentum

By Rusty Vanneman, CMT, CFA, BFA™

Last week was loaded with notable economic and earnings news, and even included the worst one-day sell-off in the stock market in months, but the S&P still closed last Friday at new all-time highs. The economy and stock market continue to display positive momentum.

Regarding the economy, last Friday's Bureau of Labor Statistics (BLS) headline payroll numbers were strong as job growth surged +353k, with upward revisions to prior months. The unemployment rate held at 3.7%. Wage growth also surprised to the upside at +4.5% year-over-year. While some economists have nitpicked the numbers a bit, it was unquestionably a positive report. In turn, the Atlanta Fed's <u>GDPNow</u> is now predicting 1Q24 inflation-adjusted GDP at 4.2% (up a whopping 1.2% over the last week).

Last week was also the latest Federal Reserve meeting. As expected, there were no cuts to short-term rates. The Fed once again held rates steady and indicated that they were willing to hold rates higher until inflation was closer to their 2% target. Fed Chair Jerome Powell was also interviewed Sunday night and fortified that view. With some short-term inflation data appearing to be troughing, and the economy stronger than most have expected, it is not a surprise that many buy- and sell-side analysts are starting to say that the Fed will "likely" cut short-term rates instead of "will" cut short-term rates soon.

Nonetheless, according to the <u>CME FedWatch Tool</u>, the market is currently pricing a near 40% chance that the Fed cuts rates at their next Fed meeting on March 20th. The market is still pricing nearly a 70% chance that short-term rates drop by 1% or more by November 7th. Despite the strong economic numbers last week, and the shift in Fed expectations, interest rates did surprisingly drop last week. The 10-year Treasury yield ended the week at 4.03% (down 13 bpts from the week before).

As for the economic calendar this week. This week is also another big one for corporate earnings, including important reports in health care and consumer stocks. Last week, by the way, was a doozy for earnings reports. Microsoft, Alphabet (i.e, Google) and Apple disappointed, but Meta (Facebook) and Amazon had blow-out earnings.

Despite all the positive momentum, there are experienced voices still raising caution. One is a keynote speaker at Orion's upcoming Ascent conference, Jeffrey Gundlach. Last week, <u>Gundlach said Goldilocks talk makes him nervous and likely sees a recession</u>. Still, others such as Research Affiliates' <u>Rob Arnott warned of the 'big market delusion' in Al stocks</u>. Arnott believes that the economic impact from Al is real, but the stock prices have likely far outpaced what Al can deliver. Arnott uses the internet enthusiasm in the late nineties as a frame of reference. 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 02, 2024				
Rate	This Week	1 Wk Δ%		
13-Wk Treasury Yield	5.21%	0.01%		
10-Yr Treasury Yield	4.03%	-0.13%		
Bloomberg US Agg Yield	4.82%	-0.06%		
Avg Money Mkt Yield	5.17%	0.01%		
Avg 30-Yr Mortgage Rate	6.96%	-0.07%		

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

Key Economic Data This Week					
Data Point	Expectation	Release Date			
Consumer Credit	\$62.1B	2/7/2024			
Wholesale Inventories	0.00	2/8/2024			

Source: MarketWatch

Key Economic Data Last Week				
Data Point	Expectation	Actual		
ADP Employment	150,000	107,000		
Fed Interest Rate Decision	Pause	Pause		
Initial Jobless Claims	214,000	224,000		
ISM Manuracturing	47.2%	49.1%		
Nonfarm Payrolls	+185,000	+353,000		
US Unemployment Rate	3.8%	3.7%		

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of February 02, 2024							
Security Name	Risk Score	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	0.86%	2.32%	1.58%	1.58%	13.36%	5.83%
S&P 500 Total Return	102	1.41%	4.65%	4.06%	4.06%	20.59%	10.74%
Dow Jones Industrial Average	97	1.43%	2.58%	2.65%	2.65%	15.98%	10.21%
NASDAQ 100 Total Return	122	1.29%	6.68%	4.90%	4.90%	38.98%	10.34%
TV Benchmark	107	1.37%	4.64%	3.87%	3.87%	25.18%	10.43%
Morningstar US Large Cap	102	1.58%	5.90%	5.15%	5.15%	25.44%	10.59%
Morningstar US Mid Cap	113	0.91%	0.57%	0.14%	0.14%	4.47%	5.53%
Morningstar US Small Cap	125	-0.47%	-1.62%	-2.23%	-2.23%	2.70%	1.61%
Morningstar US Value	98	-0.04%	-0.21%	0.46%	0.46%	6.24%	11.03%
Morningstar US Growth	126	1.61%	3.86%	2.14%	2.14%	21.49%	2.10%
MSCI ACWI Ex USA	98	0.09%	-0.52%	-1.39%	-1.39%	4.50%	0.71%
MSCIEAFE	101	0.02%	0.36%	-0.53%	-0.53%	7.64%	4.19%
MSCIEM	98	0.32%	-2.73%	-3.42%	-3.42%	-2.64%	-7.94%
Bloomberg US Agg Bond Index	27	0.65%	-0.15%	-0.66%	-0.66%	0.95%	-3.26%
Bloomberg Commodity Index	70	-2.04%	-1.01%	-1.50%	-1.50%	-6.88%	8.73%
Wilshire Liquid Alternative Index	25	0.38%	1.17%	0.99%	0.99%	4.57%	1.69%
US Dollar	10	0.47%	1.68%	2.55%	2.55%	2.13%	4.45%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.48%	0.49%	0.49%	5.27%	2.38%

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



	NEGATIVE	NEUTRAL	POSITIVE	
				Fundamental indicators include factors such as corporate earnings, profitability, and the credit environment
Fundamentals				 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.
We invest to participate in company success. Over time,	· · · · · · · · · · · · · · · · · · ·		• GDP growth continues to surprise to upside. 4Q23 real GDP growth was 3.3%. GDP grew well above expectations in 2023 at +2.5%.	
stock prices follow earnings.				 Several leading indicators, however, such as an inverted yield curve, still suggest some potential weakness in 2024.
Valuation				Valuation indicators include factors such as price multiples, the CAPE ratio, and earnings yield vs. other asset classes.
How much do we pay				Valuation measures point to an expensive domestic equity market.
for those fundamentals?				Current CAPE ratio is well above historical average which is consistent with below-average returns.
Starting points matter.				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 rate indicators include factors such as the interest rate environment, credit spreads, and inflation
nterest Rates				 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.
Both the level and trend				Inflation-adjusted interest rates remain high which is typically a headwind for risk assets.
of interest rates impact earnings and valuations.		•		 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.
ournings and valuations.				 Markets are aggressively pricing the end of the Fed's rate hike cycle with deep cuts currently expecte in 2024. If that's the case, that will be a plus for risk assets.
				Policy indicators include factors such as monetary and fiscal policy.
Policy				Domestic liquidity backdrop remains market-friendly.
Monetary and fiscal policy				 Fiscal policy is expected to be accommodative with current election cycle.
impact interest rates, valuations, and earnings.			 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 threa to government funding and potential for robust fiscal policy response.
				Behavioral indicators include factors such as sentiment, momentum, trend, and breadth.
Behavioral				Price trends were positive at year-end and into the new year.
Over the short term, the market is like a voting machine.			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 a 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.

Brinker Capital Asset Class Barometer



	NEGATIVE	NEUTRAL		POSITIVE	
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 we 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 sa 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.

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