

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 [GDPNow](#) 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 troubling, 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 [CME FedWatch Tool](#), 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, [Gundlach said Goldilocks talk makes him nervous and likely sees a recession](#). Still, others such as Research Affiliates' [Rob Arnott warned of the 'big market delusion' in AI stocks](#). Arnott believes that the economic impact from AI is real, but the stock prices have likely far outpaced what AI 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 Manufacturing	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%
MSCI EAFE	101	0.02%	0.36%	-0.53%	-0.53%	7.64%	4.19%
MSCI EM	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.

Brinker Capital Five Factor Stock Market Barometer



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. have likely troughed, leading to a more constructive forward-looking outlook.
- GDP growth continues to surprise to upside. 4Q23 real GDP growth was 3.3%. GDP grew well above expectations in 2023 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.

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.
- Markets are aggressively pricing the end of the Fed’s rate hike cycle with deep cuts currently expected in 2024. If that’s the case, that will be a plus for risk assets.

Policy

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

Policy indicators include factors such as monetary and fiscal policy.

- Domestic liquidity backdrop remains market-friendly.
- Fiscal policy is expected to be accommodative with current election cycle.
- 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.

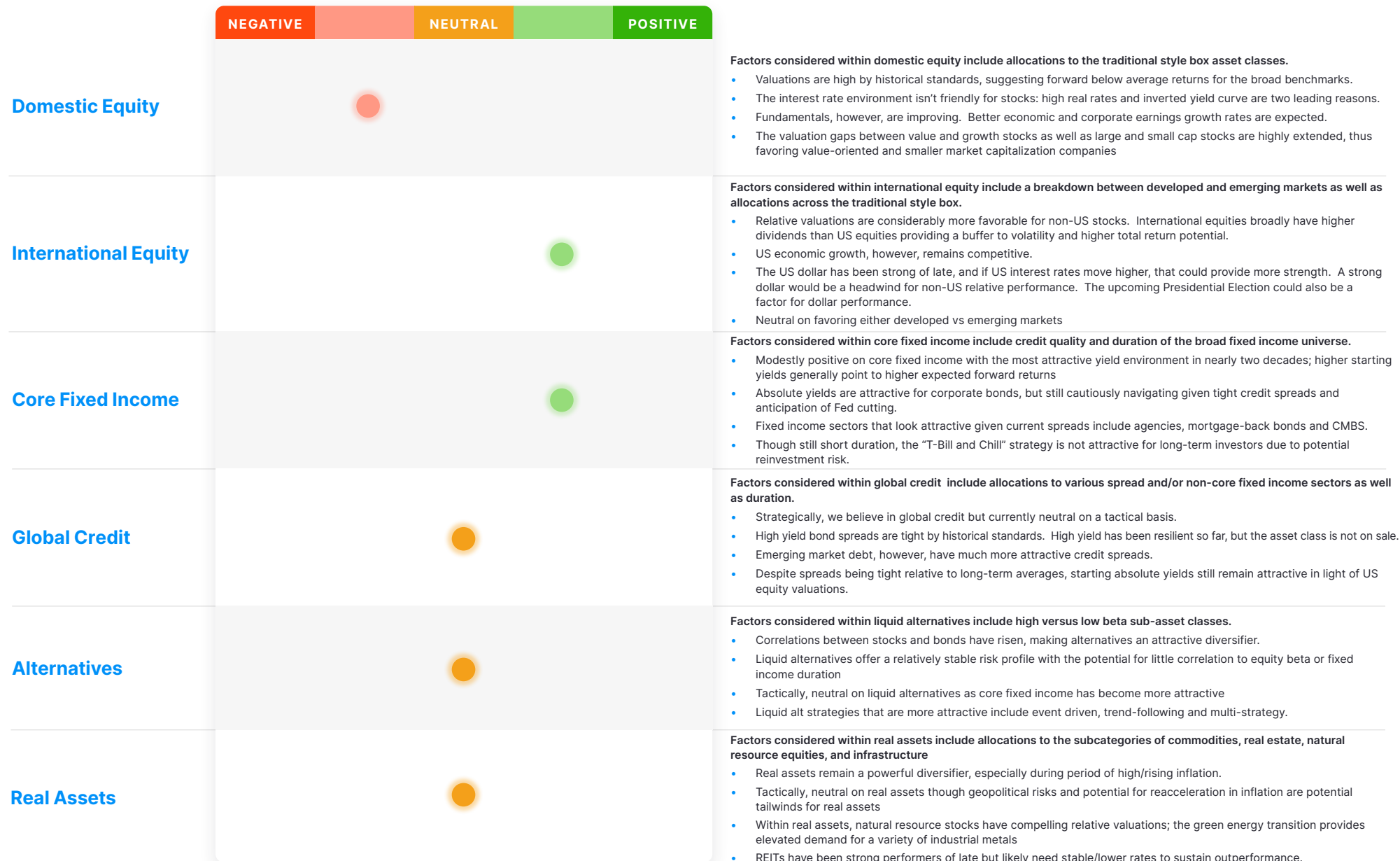
Behavioral

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

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

- Price trends were positive at year-end and into the new year.
- 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 at 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



Disclosures



The views expressed herein are exclusively those of Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor, and are not meant as investment advice and are subject to change.

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.

The CFA® is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals. To learn more about the CFA charter, visit www.cfainstitute.org.

The CMT Program demonstrates mastery of a core body of knowledge of investment risk in portfolio management. The Chartered Market Technician® (CMT) designation marks the highest education within the discipline and is the preeminent designation for practitioners of technical analysis worldwide. To learn more about the CMT, visit <https://cmtassociation.org/>.

Think2perform's Behavioral Financial Advice program integrates traditional finance practices with psychology and neuroscience to improve emotional competency and decision-making behavior that increases effective usage of the financial plan with clients. To obtain the Behavioral Financial Advisor (BFA) designation, participants must complete a self-directed course, which takes 20-30 hours to complete, and includes a mix of interactive exercises, videos and case studies. To learn more about the BFA, visit <https://www.think2perform.com>.

Wealth Management services offered through Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor.

Source: Brinker Capital. Information is accurate as of January 31, 2024. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor.