MARCH 11, 2024

Weekly Wire

Not Since the 1960s

By Rusty Vanneman, CMT, CFA, BFA™

Last week the S&P 500 took a bit of a breather. Let's call it a pause to refresh given the stock market's recent strength. The S&P's step back last week was led by losses in tech stocks. Notably, Nvidia (NVDA) was down over 5% Friday, though it still gained over 4% for the week. Investor enthusiasm for artificial intelligence, especially captured in the explosive move higher by NVDA, remains high. In fact, NVDA's gain in market cap for 2024 is now over $1 trillion. This gain over the last 10 weeks is more than the entire current market value of Berkshire Hathaway!

It has indeed been an impressive run for the stock market in recent months. Did you know that S&P prices have moved higher 17 of the last 19 weeks? The last time that happened was in 1964. Stocks are not the only thing moving higher, though. Bitcoin continues to move sharply higher, and even gold broke out to new highs. Some of these price movements have been parabolic of late. When it comes to price movement like this, it is helpful to remember the counsel of market legend Bob Farrell, who said: *"Parabolic advances usually carry further than you think, but they do not correct by going sideways."*

Last week's key economic report was the Nonfarm Payrolls for February. In the final analysis it was a mixed bag, but it basically confirmed the slow growth environment. Given the uptick in the unemployment rate to 3.9%, the net numbers probably helped more than hurt the expectations that the Fed will still cut short-term rates later this year. It's remarkable that the economy is currently experiencing its longest stretch of unemployment below 4% since 1969.

This week is a big inflation week, with both the Consumer and Producer Price indexes being released. Expectations for the year-over-year change in CPI is 3.1%, with core CPI (ex-food and energy) at 3.7%. As always, this data has the potential to be market moving and expectation-shifting regarding Fed policy. Though inflation has been dropping in the big picture, some of the internal inflation measures are suggesting a tide shift higher. Could the moves in gold and bitcoin be related to a potential move higher in inflation again? That could be a factor. That said, though inflation is typically a short-term headwind for stocks, I believe it is still more likely that stocks will continue to move higher this year even if we do get another inflationary impulse. As Strategas's Jason Trennert has said: *"To the extent to which nearly 40% of the world's population will face national elections of some sort this year, fiscal and monetary policy makers will have a strong incentive to seek policies to avoid recessions regardless of cost. The cost to avoiding a recession at all costs — inflation."*

Bottom line:

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 March 08, 2024		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.23%	0.01%
10-Yr Treasury Yield	4.09%	-0.09%
Bloomberg US Agg Yield	4.85%	-0.10%
Avg Money Mkt Yield	5.14%	0.00%
Avg 30-Yr Mortgage Rate	7.15%	-0.16%

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

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
Consumer Price Index (CPI) YoY	3.1%	3/12/2024
Core CPI YoY	3.7%	3/12/2024
US Retail Sales	0.7%	3/14/2024
Producer Price Index (PPI) YoY	--	3/14/2024
Core PPI YoY	--	3/14/2024

Source: MarketWatch

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
ISM Services	53.0%	52.6%
ADP Employment	150,000	140,000
Consumer Credit	$10B	$19.5B
US Nonfarm Payrolls	198,000	275,000
US Unemployment Rate	3.7%	3.9%

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of 3/8/24/2024							
Security Name	**Risk Score**	**1 Wk**	**1 Mo**	**QTD**	**YTD**	**1 Yr**	**3 Yr Ann.**
Global Equities (60% US, 40% Intl)	100	0.69%	3.88%	6.14%	6.14%	23.84%	7.59%
S&P 500 Total Return	102	-0.23%	2.69%	7.73%	7.73%	30.43%	12.01%
Dow Jones Industrial Average	97	-0.85%	0.32%	3.21%	3.21%	20.64%	9.00%
NASDAQ 100 Total Return	122	-1.54%	1.44%	7.27%	7.27%	48.75%	14.51%
TV Benchmark	107	-0.87%	1.48%	6.07%	6.07%	33.27%	11.84%
Morningstar US Large Cap	102	-0.61%	2.08%	8.32%	8.32%	34.71%	12.37%
Morningstar US Mid Cap	113	1.05%	5.11%	6.04%	6.04%	16.73%	6.87%
Morningstar US Small Cap	125	0.51%	4.07%	2.49%	2.49%	14.48%	2.07%
Morningstar US Value	98	1.24%	4.23%	4.45%	4.45%	16.38%	9.28%
Morningstar US Growth	126	-0.76%	2.80%	6.88%	6.88%	33.28%	7.06%
MSCI ACWI Ex USA	98	2.08%	5.63%	4.37%	4.37%	15.61%	2.87%
MSCI EAFE	101	2.49%	6.41%	5.82%	5.82%	18.48%	5.99%
MSCI EM	98	1.24%	4.14%	1.54%	1.54%	9.32%	-4.70%
Bloomberg US Agg Bond Index	27	0.81%	0.90%	-0.50%	-0.50%	5.11%	-2.42%
Bloomberg Commodity Index	70	0.91%	1.47%	0.37%	0.37%	-1.61%	7.63%
Wilshire Liquid Alternative Index	25	0.28%	1.17%	2.26%	2.26%	7.27%	1.93%
US Dollar	10	-1.28%	-1.19%	1.47%	1.47%	-2.64%	3.79%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.45%	1.01%	1.01%	5.37%	2.55%

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
AN ORION COMPANY

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.

MARCH 2024

Brinker Capital Asset Class Barometer

BRINKER CAPITAL INVESTMENTS
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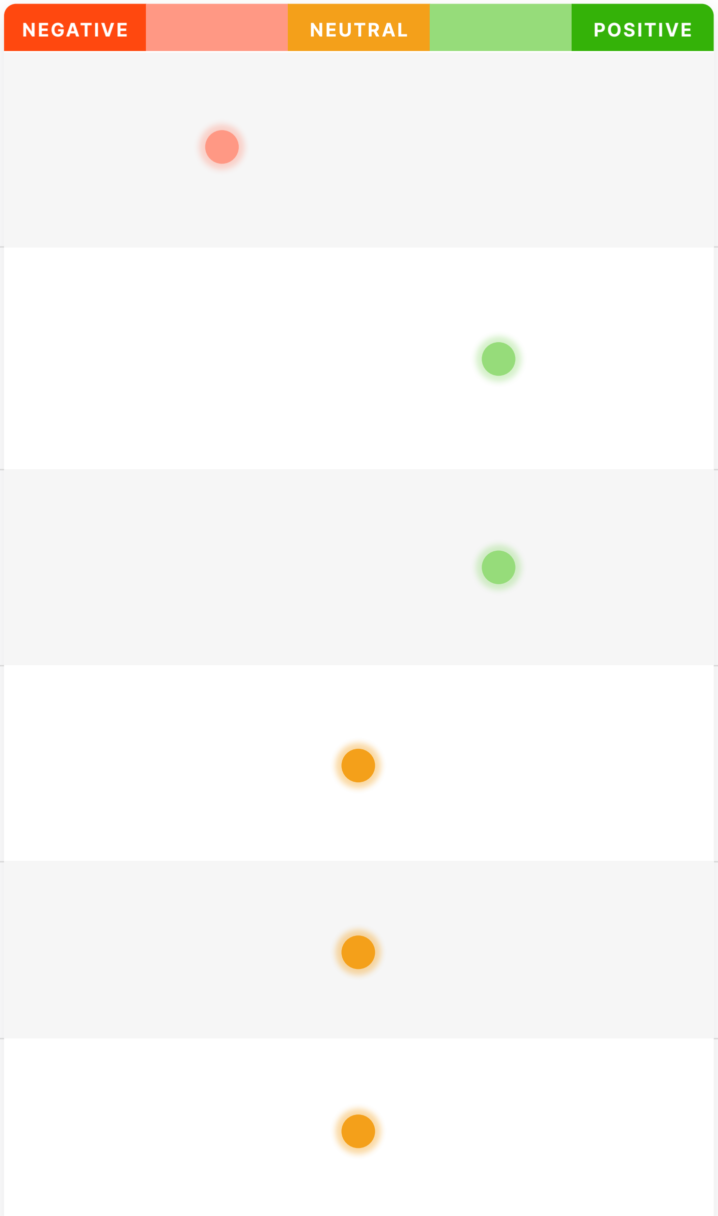

Domestic Equity

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.

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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