Weekly Wire

APRIL 24, 2023

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

A Superpower in More Ways Than One

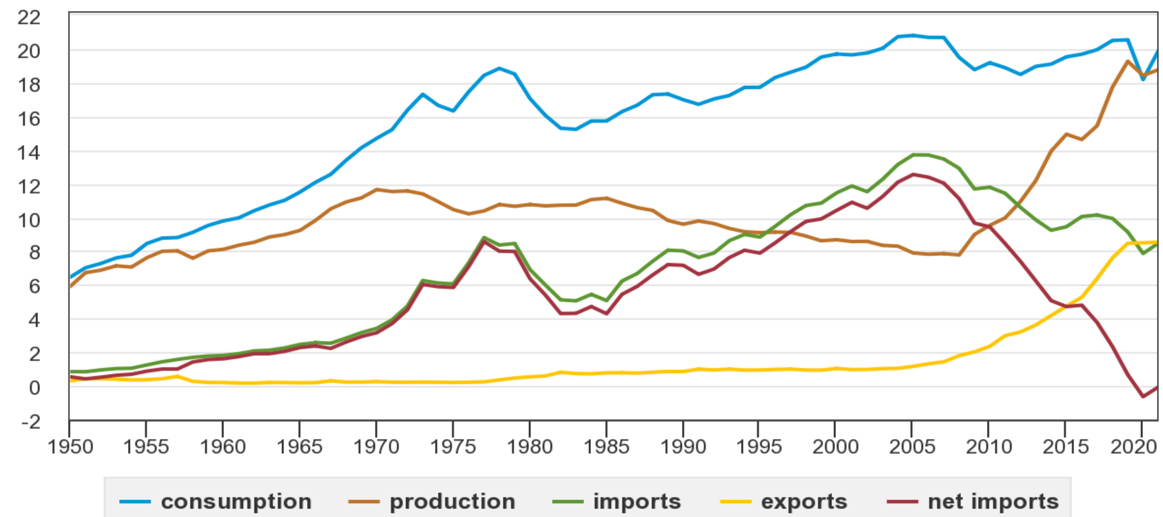
By Tim Holland, CFA

These remain unsettling times for the US. We are living in and through an exceptionally divided social, political and cultural construct; Congress and the Biden Administration seem nowhere near a debt ceiling deal that will enable the US to avoid the financially unthinkable – defaulting on our debt; the 2024 Presidential campaign cycle – and all the vitriol that will accompany it – is kicking off, and Russia and China are making clear their desire to see the world move away from the US Dollar.

Well, after digging into the US Dollar in last week's Weekly Wire – specifically, why we don't think the US Dollar will lose its status as the world's reserve currency anytime soon – we wanted to spend this week focusing on another meaningful advantage our country enjoys relative to other nations (in addition to the exorbitant privilege of printing the world's reserve currency) and that's its energy profile. Consider that in 2005, US petroleum production averaged 7.9 million barrels a day and US petroleum imports averaged 13.7 million barrels a day. But then, as hydraulic fracturing or "fracking" took off, US petroleum production jumped to 14.9 million barrels a day and US petroleum imports fell to 9.5 million barrels a day in 2015. And in 2021, US petroleum production jumped again to 18.8 million barrels a day and US petroleum imports fell again to 8.5 million barrels per day (see chart). What is maybe most compelling about our changed energy profile is that the US became a total net petroleum exporter in 2020 (see chart).

The US remains a superpower, and in more ways than one – we are home to the world's largest economy (current GDP is estimated at $26.1 trillion); the world's most powerful military (we outspend China on defense outlays by an estimated 2.8 to 1 in dollar terms) and we are the world's top producer of oil and natural gas (we surpassed Saudi Arabia in oil production in 2018). We appreciate that the US faces any number of challenges today, but we are and will continue to be, we think, the best house in the global neighborhood.

U.S. Petroleum Consumption, Production, Imports, Exports and Net Imports, 1950-2021 (million barrels per day)



Stocks, bonds, and commodities (4/21/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4133.52	0.59%	7.66%	-3.24%
MSCI AC World ex USA	303.55	1.63%	7.91%	-1.29%
MSCI EAFE	2146.26	2.56%	10.41%	3.09%
MSCI EM	980.74	-0.96%	2.55%	-8.82%
Bloomberg Barclays US Agg	90.77	-0.35%	2.12%	-3.37%
Crude Oil WTI	77.95	3.01%	-2.88%	-23.63%
Natural Gas	2.22	0.18%	-45.91%	-66.02%

Treasury rates (4/21/2023)

	Price	Yield
2Y	99.14 / 99.1	4.171
3Y	99.18 / 99.1	3.896
5Y	99.26 / 99.2	3.663
7Y	99.31 / 100	3.625
10Y	99.11 / 99.1	3.575
30Y	97.06 / 97.0	3.780

Weekly reports

This week (4/24/2023)

- Q1 GDP SAAR Q/Q
- Apr Chicago PMI SA

Week of 4/17/2023

- Apr NAHB Housing Market Index SA 45.0
- Mar Existing Home Sales SAAR 4,440K

Source: U.S. Energy Information Administration

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By Rusty Vanneman, CMT, CFA, BFA™

To build wealth, one needs to invest and stay invested. That is often easier said than done though. Just consider this year for example. Given the bevy of negative factors we already knew entering the year, combined with the new negatives that have appeared such as stress in the banking sector, the U.S. stock market (as defined by the S&P 500) was still up by over 8% as of the end of the last Friday. It's only April, but that return is basically a typical year in the stock market already. As for what has led the market higher, U.S. large-cap growth stocks have gained over 14%. Lower interest rates and the increasingly bright outlook for artificial intelligence are two leading factors for those gains. However, the average stock in the overall U.S. stock market is down on the year so far. That would regretfully qualify as discouraging market breadth as strong markets usually have participation from more stocks than not. Related to this point, it should be noted that the stocks known as FAANG+MNT (Microsoft, NVIDIA, and Tesla) are now over 25% of the S&P 500's market cap, and have contributed over 80% of this year's stock market gains as of April 17th. In fact, Apple's current 7%+ weighting in the S&P 500 would be the largest for any single company in the index with data going back to 1980. Given the history that top companies typically don't stay on top over time, it would also be wise counsel to suggest that investors remain invested not only due to the market's powerful tendency to produce positive long-term returns over time, investors also need to diversify to maintain wealth.

Key Economic Data Last Week

Data Point	Expectation	Result
Existing Home Sales	4.48M	4.44M
US Leading Economic Indicators	-0.7%	-1.2%

Source: MarketWatch, First Trust

Interest Rates as of April 21, 2023

Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	4.95%	0.05%
10-Yr Treasury Yield	3.57%	0.05%
Bloomberg US Agg Yield	4.57%	0.05%
Avg Money Mkt Yield	4.64%	0.02%
Avg 30-Yr Mortgage Rate	6.94%	0.13%

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

Key Economic Data This Week

Data Point	Expectation	Release Date
New Home Sales	630,000	4/25/2023
Durable goods orders	0.5%	4/26/2023
Q1 GDP	1.8%	4/26/2023
Personal Income	0.2%	4/28/2023
PCE YoY	-	4/28/2023
Core PCE YoY	4.50%	4/28/2023

Source: MarketWatch

Stocks, Bonds, Alternatives, & Real Assets as of April 21, 2023

Security Name	Risk Score*	1 Wk Δ%	1 Mo Δ%	QTD Δ%	YTD Δ%	12 Mo Δ%
S&P 500	104	-0.09%	3.38%	0.67%	8.21%	-4.28%
Morningstar US Large Cap	104	-0.18%	3.53%	0.77%	9.49%	-4.29%
Morningstar US Mid Cap	112	0.19%	2.07%	-0.54%	3.12%	-7.64%
Morningstar US Small Cap	122	0.70%	1.75%	-0.29%	4.59%	-6.56%
Morningstar US Value	94	-0.18%	3.56%	1.25%	1.44%	-2.94%
Morningstar US Growth	127	0.15%	2.29%	-0.58%	14.12%	-9.11%
MSCI ACWI Ex USA	91	-0.55%	5.82%	1.80%	8.92%	0.01%
MSCI EAFE	94	0.05%	6.76%	2.76%	11.62%	4.24%
MSCI EM	88	-1.95%	3.24%	-0.85%	3.13%	-6.73%
Bloomberg US Agg Bond Index	22	-0.23%	0.65%	-0.22%	2.73%	-1.45%
Bloomberg Commodity Index	58	-1.99%	3.22%	0.35%	-5.03%	-16.82%
Wilshire Liquid Alternative Index*	26	-0.16%	1.20%	0.40%	1.60%	-2.01%
US Dollar**	10	0.82%	-1.40%	-0.65%	-1.62%	1.44%
Bloomberg US Treasury Bill 1-3mo	1	0.11%	0.39%	0.31%	1.40%	2.91%

*The Orion Risk Score represents risk relative to the global equity market. **As of 4/20/2023. Source: Morningstar.

Brinker Capital Market Barometer

APRIL 2023

Despite the high-profile banking troubles, both equity and fixed income markets saw positive returns during March. While the stress on the banking system and fear of further contagion led to discussions of a potential pause in rate hikes, the Fed delivered their second consecutive 25 bp hike at the March meeting. Chairman Powell alluded to the inherent tightening that the failures of SVB and Signature Bank would have on financial markets and how that could take the place of additional rate hikes. Inflation prints were in line with analyst estimates and while peak inflation seems to be behind us, 6% inflation continues to subdue consumer and business sentiment. Manufacturing PMIs have continued their deterioration further into contraction territory and while the services side of the economy remains robust, inflation data is proving stickier there as well. A dispersion in market expectations and the dot plot has developed as the market is expecting Fed cuts in 2023, while the dots and rhetoric remain stern on a higher for longer stance. While risks abound and the lagged effects of rate hikes remain unknown, markets are proving resilient and exhibit attractive trends moving forward.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Market bounced strongly in the back half of March, but breadth remains underwhelming
Trend	→			●	Most global equity markets are above upward-sloping moving averages (small cap notable exception)
Investor sentiment				●	Banking scare evident in very bearish sentiment throughout the month; fund flows remain tepid
Seasonality				●	Q2 has historically delivered above-avg equity market returns; April strongest month over past 20 yrs

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Debt ceiling debate likely to drive fiscal changes; higher debt service cost is longer-term consideration
Monetary policy	→		●		Banking failures led to temporary liquidity injection; market is pricing limited additional rate hikes
Inflation		●			While inflation is off its peak, data remains choppy and well above Fed target
Interest rate environment		●			Deep curve inversion signals growth warning; rate volatility remains elevated affecting cost of capital
Macroeconomic			●		Global PMIs show contraction; labor market strength continues despite slowdown/recession fears
Business sentiment		●			Business confidence measures remain subdued as a growth slowdown is expected
Consumer sentiment		●			Consumer sentiment is off its lows, but remains at depressed levels
Corporate earnings	←	●			Expectations for negative YoY earnings growth in Q1/Q2; full year estimates continue to decline
Credit environment				●	While spreads widened on banking stress, overall environment remains relatively tame

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		U.S. equity valuations near long-term averages; overseas markets below average valuations
Business cycle			●		Despite recession fears, Q4 US GDP was stronger than expected and Q1 forecasts are positive as well
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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