Weekly Wire

MAY 1, 2023

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Avoid the Behavior Gap

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.

Interest Rates as of April 28, 2023

Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	4.92%	-0.03%
10-Yr Treasury Yield	3.45%	-0.12%
Bloomberg US Agg Yield	4.48%	-0.09%
Avg Money Mkt Yield	4.65%	0.01%
Avg 30-Yr Mortgage Rate	6.87%	-0.07%

Key Economic Data Last Week

Data Point	Expectation	Result
New Home Sales	634,000	683,000
Durable goods orders	0.5%	3.2%
Q1 GDP	2.0%	1.1%
Personal Income	0.2%	0.3%
PCE YoY	-	4.20%
Core PCE YoY	4.60%	4.50%

Key Economic Data This Week

Data Point	Expectation	Release Date
ISM Manufacturing	46.7%	5/1/2023
US Job Openings	9.6M	5/2/2023
ISM Services	52.0%	5/3/2023
Fed Interest Rate Decision	+25 bps	5/3/2023
US Unemployment	3.6%	5/5/2023
Consumer Credit	$16.8B	5/5/2023

Stocks, Bonds, Alternatives, & Real Assets as of April 28, 2023

Security Name	Risk Score*	1 Wk Δ%	1 Mo Δ%	QTD Δ%	YTD Δ%	12 Mo Δ%
S&P 500	104	0.89%	1.56%	1.56%	9.17%	2.66%
Morningstar US Large Cap	104	1.04%	1.82%	1.82%	10.63%	2.78%
Morningstar US Mid Cap	112	-0.27%	-0.81%	-0.81%	2.84%	-1.94%
Morningstar US Small Cap	122	-0.86%	-1.14%	-1.14%	3.70%	-1.38%
Morningstar US Value	94	0.37%	1.62%	1.62%	1.81%	3.22%
Morningstar US Growth	127	0.19%	-0.40%	-0.40%	14.33%	-2.33%
MSCI ACWI Ex USA	91	0.02%	1.81%	1.81%	8.94%	3.61%
MSCI EAFE	94	0.17%	2.93%	2.93%	11.80%	9.00%
MSCI EM	88	-0.27%	-1.11%	-1.11%	2.86%	-6.09%
Bloomberg US Agg Bond Index	22	0.11%	0.55%	0.05%	3.01%	-1.60%
Bloomberg Commodity Index	58	-1.10%	-0.75%	-0.75%	-6.07%	-16.60%
Wilshire Liquid Alternative Index*	26	0.27%	0.67%	0.67%	1.88%	-1.06%
US Dollar**	10	-0.33%	-1.32%	-0.98%	-1.95%	-1.41%
Bloomberg US Treasury Bill 1-3mo	1	0.08%	0.39%	0.39%	1.48%	2.97%

*The Orion Risk Score represents risk relative to the global equity market. **As of 4/20/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

Just About Six Months On

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By Tim Holland, CFA

As we know, individual stocks and the stock market overall – over the long term – are driven by fundamentals, the most important of those being, we think, earnings and interest rates. Concerning earnings, the greater the earnings growth and the more consistent the earnings growth, the more investors should be willing to pay for a specific stock or for the market overall. As it concerns interest rates, the lower interest rates are the more valuable future earnings become – for an individual company or for the market overall – and the more attractive equities are relative to their traditional competition for capital, fixed income. That said, over the short term, there are non-fundamental factors that can drive market returns and non-fundamental lenses through which to view the market. Sentiment would be an example of a factor that can drive returns near-term, where excessive bearishness is historically bullish for stocks and excessive bullishness is historically bearish for stocks, while the political calendar would be an example of a non-fundamental lens through which to view the market, which is also the subject of this week's note.

Going back to the mid-term election of 1962 through the mid-term election of 2020, the S&P 500 has always been higher six months on from election day, posting an average gain of 15.1% (see chart). And as we sit here today, a week out from the six-month anniversary of the 2022 mid-term election, and at the risk of jinxing it, the S&P 500 is up 9.5% from its close on November 7th (election day was November 8th). For those looking to establish a relationship or a cause and effect between the political calendar and market returns, one could put it down to getting through the uncertainty of the mid-term election and the belief that the party that holds the White House will do all in its power to ensure it continues to hold the White House come the next Presidential election (which should mean pursuing market-friendly policies into the third year of the Presidential cycle). And as it concerns market fundamentals today, we do expect earnings growth to be challenged this year but interest rates to be biased lower, creating, on balance, a supportive backdrop for stock prices through 2023.

Year	President	Party	12-Months Before Election	3-Months After	6-Months After	12-Months After
1962	John F. Kennedy	D	-18%	17%	24%	31%
1966	Lyndon Johnson	D	-13%	8%	17%	17%
1970	Richard Nixon	R	-14%	15%	25%	13%
1974	Gerald Ford (Nixon)	R	-32%	4%	18%	21%
1978	Jimmy Carter	D	1%	7%	9%	9%
1982	Ronald Reagan	R	10%	9%	23%	22%
1986	Ronald Reagan	R	29%	12%	18%	3%
1990	George Bush	R	-11%	13%	24%	29%
1994	Bill Clinton	D	1%	0%	9%	23%
1998	Bill Clinton	D	20%	17%	22%	24%
2002	George W. Bush	R	-16%	-3%	4%	19%
2006	George W. Bush	R	14%	4%	8%	12%
2010	Barack Obama	D	14%	9%	15%	6%
2014	Barack Obama	D	15%	-1%	3%	3%
2018	Donald Trump	R	5%	0%	9%	12%
		Average	**0.3%**	**7.3%**	**15.1%**	**16.3%**

Stocks, bonds, and commodities (4/28/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4169.48	1.46%	8.59%	0.91%
MSCI AC World ex USA	302.93	1.42%	7.69%	0.17%
MSCI EAFE	2143.85	2.45%	10.28%	5.42%
MSCI EM	977.05	-1.34%	2.16%	-9.21%
Bloomberg Barclays US Agg	91.47	0.42%	2.91%	-2.55%
Crude Oil WTI	76.63	1.27%	-4.52%	-26.80%
Natural Gas	2.57	15.97%	-37.38%	-65.06%

Treasury rates (4/28/2023)

	Price		Yield
2Y	99.24 /	99.2	4.002
3Y	100.0 /	100.	3.727
5Y	100.0 /	100.	3.491
7Y	100.0 /	100.	3.462
10Y	100.2 /	100.	3.420
30Y	99.01 /	99.0	3.676

Weekly reports

This week (4/24/2023)

- Apr Nonfarm Payrolls SA
- Apr Unemployment Rate

Week of 4/17/2023

- Q1 GDP SAAR Q/Q 1.1%
- Apr Chicago PMI SA 48.6

Source: FactSet

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

1215-BCI-5/1/23