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Weekly Wire

BRINKER CAPITAL INVESTMENTS
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The Bond Market Doesn't Think Inflation is a Problem

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Though the stock market is now 7 months away from the bear market lows from last October, investor sentiment remains stubbornly negative. In fact, using the AAII Sentiment Survey weekly data, there have only been 2 weeks over the last year and only 3 weeks since the beginning of 2022 (71 weeks of data) that there were more bulls than bears. Extraordinary. This data series goes back to 1987 and there has never been a stretch like this. Granted, there are plenty of things to worry about (as there always are), including the current fears of economic weakness and high inflation. Is the excessive negative sentiment warranted though? Let's consider the view of what many consider the best economist around — the bond market. Not only do bonds take a larger share of the global markets, the bond market's various interest rates reflect and influence economic fundamentals. So, what is the bond market saying now about U.S. economic conditions?

Let's consider 5-year Treasury bonds. The current yield is about 3.5% (yields have been falling for 7 months now), which compares to the long term average of 3.75% since 1990. There are two primary factors that compose Treasury yields. The first is inflation expectations. The second is the "real" interest rate (the nominal rate minus inflation), which reflects uncertainty about the future path of interest rates and economic outlook. The current 5-year inflation expectation is 2.2%. This compares to last week's CPI of 4.9% and the long-term average back to 1990 of 2.7%. In short, the bond market doesn't think inflation is a problem. How about economic growth concerns? Now let's look at credit spreads, or the difference between corporate bond yields and Treasury bonds'. If that spread is wide by historical standards, or getting wider, or both, then the bond market is concerned about economic growth. Currently, that is not happening either, especially when you look at the long-term history of credit spreads. Bottom line, the bond market does not appear to be as concerned as stock market investors are.

Stay invested. Stay diversified. Stay disciplined.

Interest Rates as of May 12, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.03%	-0.05%
10-Yr Treasury Yield	3.46%	0.01%
Bloomberg US Agg Yield	4.49%	0.04%
Avg Money Mkt Yield	4.83%	0.18%
Avg 30-Yr Mortgage Rate	6.89%	0.10%

Key Economic Data Last Week		
Data Point	**Expectation**	**Result**
Consumer Price Index (CPI)	5.0%	4.9%
Core CPI	5.5%	5.5%
Producer Price Index (PPI)	-	2.7%
Core PPI	-	3.7%

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
US Retail Sales	0.8%	5/16/2023
Industrial Production	0.1%	5/16/2023
Business Inventories	0.0%	5/16/2023
Existing Home Sales	4.26M	5/18/2023
US Leading Economic Indicators	-0.6%	5/18/2023

Stocks, Bonds, Alternatives, & Real Assets as of May 12, 2023						
Security Name	**Risk Score***	**1 Wk Δ%**	**1 Mo Δ%**	**QTD Δ%**	**YTD Δ%**	**12 Mo Δ%**
S&P 500	104	-0.24%	0.91%	0.53%	8.07%	6.76%
Morningstar US Large Cap	104	-0.05%	1.51%	1.11%	9.86%	7.83%
Morningstar US Mid Cap	112	-0.78%	-1.76%	-2.68%	0.90%	1.65%
Morningstar US Small Cap	122	-1.20%	-1.84%	-3.24%	1.50%	3.13%
Morningstar US Value	94	-1.28%	-2.25%	-1.57%	-1.39%	1.10%
Morningstar US Growth	127	0.29%	2.09%	0.06%	14.86%	8.79%
MSCI ACWI Ex USA	91	-0.74%	-0.04%	1.37%	8.47%	10.33%
MSCI EAFE	94	-0.63%	0.77%	2.48%	11.32%	15.18%
MSCI EM	88	-0.85%	-1.85%	-1.45%	2.51%	1.91%
Bloomberg US Agg Bond Index	22	-0.23%	-0.29%	0.33%	3.30%	-0.87%
Bloomberg Commodity Index	58	-1.62%	-5.58%	-3.53%	-8.71%	-17.48%
Wilshire Liquid Alternative Index	26	-0.08%	-0.08%	0.31%	1.52%	-0.24%
US Dollar**	10	0.65%	-0.14%	-0.44%	-1.41%	-1.72%
Bloomberg US Treasury Bill 1-3mo	1	0.11%	0.36%	0.53%	1.63%	3.10%

*The Orion Risk Score represents risk relative to the global equity market. **As of 5/4/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

MAY 2023

Brinker Capital Market Barometer

The balancing act for markets continued in April as participants continue to weigh the probability of an economic slowdown versus a recession. Despite the variety of headlines and risks, both equity and fixed income markets eked out small gains during the month. Inflation continues to moderate, and the consensus expectation is that the Federal Reserve will pause rate hikes after the additional 25 bp increase at the beginning of May. Despite the additional hike, the market is calling a bluff on the Fed's hawkish rhetoric as the 2-Year Treasury has continued to rally leading to a widening gap between the fed funds rate and two-year yield. The banking sector continues to be in focus as First Republic Bank was taken into receivership by the FDIC and ultimately purchased by JPMorgan. The big banks continue to get bigger, but for now additional financial stress on the regional banks appears to have subsided. The labor market remains robust as payrolls continue to come in above expectations. Actual payroll growth has now outpaced forecasts for 13 consecutive months, an unprecedented streak for a historically mean reverting dataset. The consumer continues to prop up an otherwise slowing economy which was highlighted by the Q1 GDP report released during the month. Earnings season got off to a solid start with over half the companies reporting and earnings declines less negative than analysts expected. This resiliency removes a headwind for the bullish trending market as we move into the summer months amid a cloudy macro environment.

Short-term Factors *(< 6 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Market momentum continued in April; 12-month US returns are flat but foreign markets faring better
Trend				●	Most global equity markets are above upward-sloping moving averages (small cap notable exception)
Investor sentiment				●	Sentiment remains subdued despite strong market YTD; tepid equity flows amid competition for capital
Seasonality	←		●		Sell in May heuristic is overstated but forward 3-month returns in this period only about average

Intermmediate-term Factors *(6-36 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Yellen has stated a June 1st X-date; increasing pressure for a deal to suspend or raise debt ceiling
Monetary policy			●		Fed hiked rates by an additional 25 bps but messaging opens the door for a pause moving forward
Inflation		●			Inflation continues its moderating trajectory but remains well above Fed's long term target
Interest rate environment		●			Deep yield curve inversion signals growth warning; elevated rate volatility 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		●			Q1 earnings growth negative but decline not as bad as feared; margin compression stabilized for now
Credit environment				●	Spreads widened modestly on banking stress but 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			●		Q1 GDP growth positive but well below expectations; consumer spending sustaining economic activity
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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