AUGUST 14, 2023

Weekly Wire

Something Important Has Changed

By Rusty Vanneman, CMT, CFA, BFA™

Last week we had mixed inflation data, credit downgrades, and the Nasdaq Composite had its first two-week losing streak of the year. Despite some of these recent negatives, there are reasons to be optimistic. On a recent podcast, the well-known asset allocator Bill Bernstein mentioned how he is now more optimistic than he has been in years, particularly how retirees could raise their withdrawal rates ("burn rates"). I agree. One key to that view was that interest rates are normalizing, and the bond market is providing higher yields. Consider it was just three years ago that 10-Year US Treasuries were yielding 0.5%. Now they are yielding above 4%. Another key, however, was that since the overall US market is expensive, global diversification is critical. This point was also stressed recently by another well-known asset allocator Larry Swedroe.

Diversification is always important, but in my opinion is even more important in this environment given current concentration risk in major indices, historically high valuations, and higher inflation volatility. Each of these suggests more diversification. To fortify the argument even more, investment research firm Strategas recently cited how the 5-year rolling correlation between stocks and bonds has turned positive for the first time in over 20 years. Though positive correlations between stocks and bonds were normal in the 70s, 80s, 90s, that has not been the case in recent decades. In other words, fixed income is not diversifying equity risk as well as it has. This is a major change in the markets, and again suggests broader diversification not only in international equities, but in diversifying asset classes such as global fixed income, alternatives and real assets.

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

Interest Rates as of August 11, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.27%	0.02%
10-Yr Treasury Yield	4.17%	0.11%
Bloomberg US Agg Yield	5.16%	0.11%
Avg Money Mkt Yield	5.14%	0.01%
Avg 30-Yr Mortgage Rate	7.40%	0.08%

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
US Retail Sales	0.4%	8/15/2023
Housing Starts	1.45M	8/14/2023
US Leading Economic Indicators	-0.4%	8/17/2023

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
Consumer Credit	$11.0B	$17.8B
Consumer Price Index (CPI)	3.3%	3.2%
Core CPI	4.7%	4.7%
Producer Price Index (PPI)	--	0.8%
Core PPI	--	2.4%

Stocks, Bonds, Alternatives, & Real Assets as of August 11, 2023						
Security Name	**Risk Score***	**1 Wk Δ%**	**1 Mo Δ%**	**QTD Δ%**	**YTD Δ%**	**12 Mo Δ%**
Global Equities (60% US, 40% Intl)	100	-0.59%	0.77%	0.61%	14.36%	7.59%
S&P 500 Total Return	110	-0.27%	0.67%	0.46%	17.43%	7.92%
Morningstar US Large Cap	110	-0.31%	1.06%	0.49%	19.84%	9.03%
Morningstar US Mid Cap	122	-0.62%	-1.29%	0.37%	8.92%	1.57%
Morningstar US Small Cap	128	-1.17%	-0.19%	1.66%	12.60%	2.58%
Morningstar US Value	98	0.39%	2.36%	2.92%	7.08%	7.74%
Morningstar US Growth	146	-1.33%	-2.12%	-1.88%	25.74%	3.27%
MSCI ACWI Ex USA	88	-0.86%	1.07%	0.47%	10.37%	7.97%
MSCI EAFE	94	-0.56%	1.20%	0.09%	12.22%	11.80%
MSCI EM	86	-1.92%	0.54%	1.42%	6.59%	1.63%
Bloomberg US Agg Bond Index	35	-0.64%	-0.63%	-1.42%	0.64%	-3.56%
Bloomberg Commodity Index	94	-0.22%	2.88%	4.69%	-3.46%	-10.65%
Wilshire Liquid Alternative Index	23	0.07%	0.41%	0.35%	2.96%	0.88%
US Dollar**	42	-0.02%	0.54%	-0.38%	-0.96%	-2.54%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.45%	0.60%	2.94%	4.19%

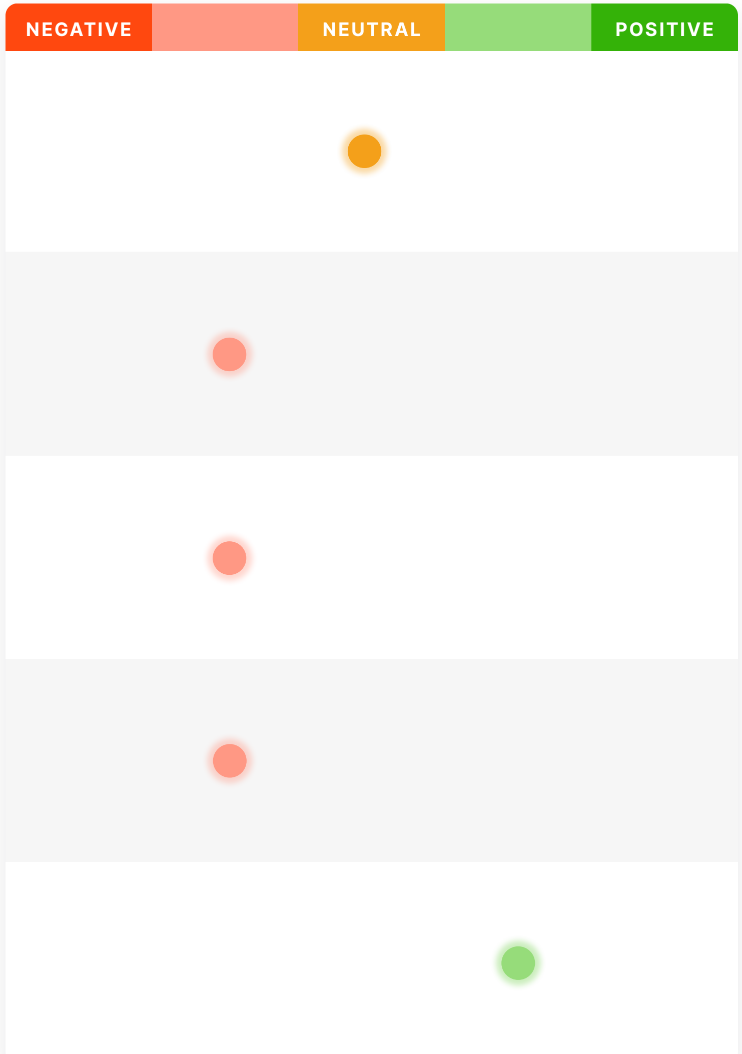
*The Orion Risk Score represents risk relative to the global equity market. **As of 08/10/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

AUGUST 2023

Brinker Capital Five Factor Stock Market Barometer

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

CHANGE



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.

- Halfway through Q2 earnings season, the YoY decline has been larger than expected
- Profit margins remain under pressure despite slight moderation in input costs
- Domestic return on equity ratios are trending lower but remain well above historic averages
- More companies have issued positive forward guidance than 5 year average

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.

- Nearly all valuation measures point to an expensive domestic equity market
- Small cap stocks, developed international, and emerging markets are attractively valued
- Multiples continue to expand, supporting market gains but eventually will present a head-wind as they ultimately contract toward long-term averages
- Fed Funds rate now exceeds the earnings yield of the S&P 500

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 is deeply inverted although off deepest levels; inversion has been bearish market signal and fairly accurate indicator of future recession
- CMBS and MBS spreads signal heightened stress in real estate market
- Short-term real interest rates remain elevated; US rates near the highest levels globally
- Markets are pricing an end to Fed rate hiking cycle; although yields are trending higher, the front end of the curve should begin feeling some relief

Policy

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

Policy indicators include factors such as monetary and fiscal policy.

- Third year of presidential election cycle bodes well for accommodative policy
- Currently no additional rate hikes are expected but Fed now highly data dependent
- Market consensus has fully shifted to no expectations for Fed rate cuts this year
- Issues surrounding the debt ceiling are not resolved and may cause market stress as we enter the Fall

Behavioral

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

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

- Upward trends in equity markets remain robust
- Market breadth improving with recent high in number of stocks above moving averages
- After a historic period of bearish sentiment, surveys reversed and are at the most bullish levels in several years; as a contrarian indicator, this dampens our future return outlook
- Seasonality turning bearish through Q3 with negative 3M forward returns on average

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.

Disclosures

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Source: Brinker Capital. Information is accurate as of August 1, 2023. 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.

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