

SEPTEMBER 11, 2023

# Weekly Wire

## Two Leaders Step Back

By Rusty Vanneman, CMT, CFA, BFA™

Last week the stock and bond markets took a step back on renewed concerns about rising interest rates. Tech stocks [dragged down the stock market](#) with Apple and NVIDIA leading the losses. Those two names have been strong leaders all year, of course, even providing ~30% of the overall S&P's gains through the end of August. In theory, tech stocks should indeed be more vulnerable to higher interest rates, as valuations typically compress when rates rise, though that hasn't necessarily been the case yet this year as [Treasury Yield 10 Year](#) yields are nearly 50 bpts higher than where they started the year. Nonetheless, there is vulnerability, especially with valuations above-average suggesting prices are rich.

According to the investment firm [Research Affiliates](#), who recently wrote that technology stocks trade at 26x next twelve months expected earnings (NTM), which is well above where they started this year at 20x. For an additional frame of reference, their 10-year average NTM P/E is 18.5. High valuations do not necessarily mean negative returns, but they do historically suggest below average performance moving forward. Also given that stock and bond prices are [now moving in sync](#) and the expectation that [inflation volatility may not be over](#), global multi-asset portfolios with exposure to diversifying asset classes such as global fixed income, alternatives and real assets seems to be a reasonable way to build more resiliency into investment portfolios in this environment, especially if interest rates continue to rise.

As for potential market-moving events this coming week, the economic calendar is loaded with inflation data. Both the Consumer Price Index and Producer Price Index will be released mid-week. Expectations are for little movement from prior readings of both indices and could reinforce the idea that rates will need to remain at their current higher levels (if not higher) to continue pushing inflation down toward target levels.

Add it all up...

**Stay invested. Stay diversified. Stay disciplined.**

If you have any questions or comments, please let me know: [Rusty@Orion.com](mailto:Rusty@Orion.com). Have a great week!

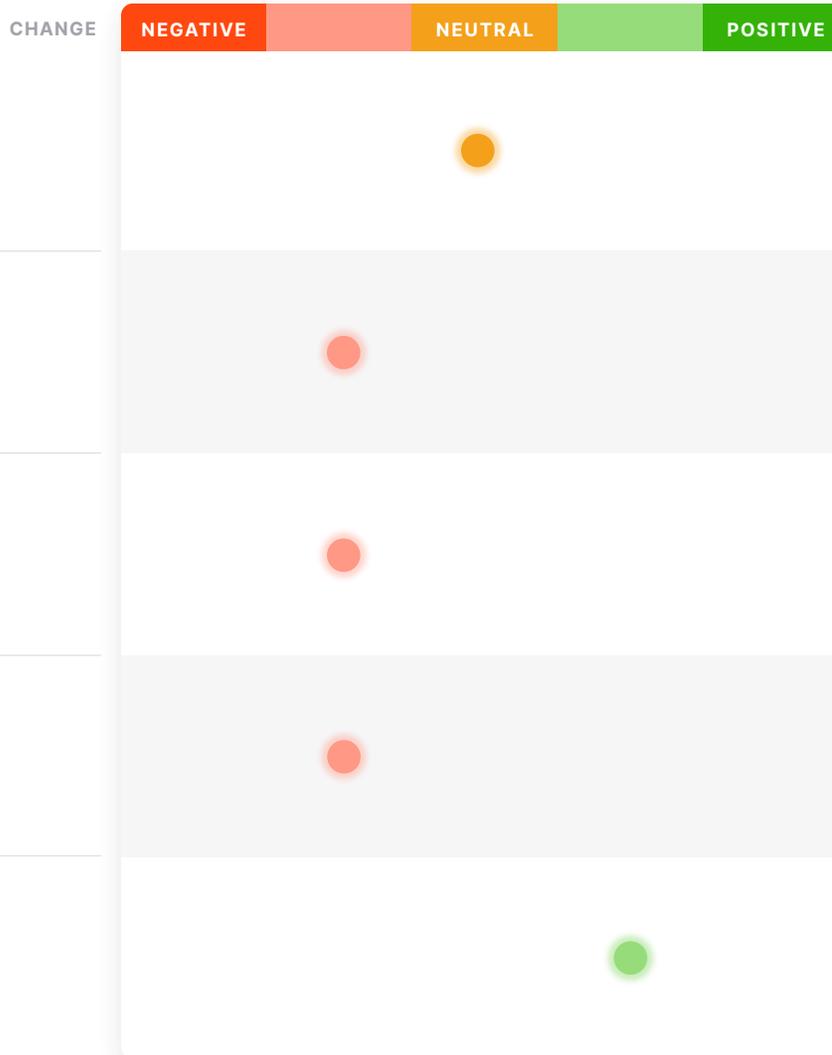
Interest Rates as of September 08, 2023		
Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.29%	0.02%
10-Yr Treasury Yield	4.26%	0.09%
Bloomberg US Agg Yield	5.23%	0.07%
Avg Money Mkt Yield	5.16%	0.00%
Avg 30-Yr Mortgage Rate	7.62%	0.10%

Key Economic Data This Week		
Data Point	Expectation	Release Date
Consumer Price Index (CPI) YoY	3.6%	9/13/2023
Core CPI YoY	4.3%	9/13/2023
Producer Price Index (PPI) YoY	-	9/14/2023
Core PPI YoY	-	9/14/2023
US Retail Sales	0.1%	9/14/2023
Industrial Production	0.2%	9/15/2023

Key Economic Data Last Week		
Data Point	Expectation	Actual
ISM Services	52.5%	54.5%
Six Fed President Speeches	-	-
Wholesale Inventories	-0.1%	-0.2%
Consumer Credit	\$19.5B	\$16B

Stocks, Bonds, Alternatives, & Real Assets as of September 08, 2023							
Security Name	Risk Score*	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	-1.36%	-1.33%	-0.28%	13.35%	13.07%	8.82%
S&P 500 Total Return	110	-1.26%	-0.74%	0.47%	17.45%	13.18%	11.93%
Morningstar US Large Cap	110	-1.01%	-0.05%	1.25%	20.75%	15.45%	11.37%
Morningstar US Mid Cap	122	-2.06%	-2.67%	-1.61%	6.77%	3.96%	10.41%
Morningstar US Small Cap	128	-3.42%	-3.52%	-1.15%	9.50%	5.99%	10.54%
Morningstar US Value	98	-1.31%	-2.45%	0.53%	4.60%	8.26%	14.39%
Morningstar US Growth	146	-2.14%	-0.25%	-1.12%	26.71%	12.42%	5.22%
MSCI ACWI Ex USA	88	-1.41%	-2.32%	-1.92%	7.75%	13.62%	4.59%
MSCI EAFE	94	-1.38%	-2.24%	-2.30%	9.55%	19.06%	6.57%
MSCI EM	86	-1.17%	-2.77%	-0.85%	4.21%	4.90%	-0.80%
Bloomberg US Agg Bond Index	35	-0.30%	-0.90%	-1.47%	0.59%	-1.11%	-4.68%
Bloomberg Commodity Index	94	-0.50%	0.82%	5.62%	-2.60%	-4.27%	16.27%
Wilshire Liquid Alternative Index	23	-0.16%	0.09%	0.50%	3.12%	2.19%	2.10%
US Dollar**	42	1.39%	2.95%	2.09%	1.48%	-4.35%	4.25%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.46%	1.02%	3.37%	4.44%	1.65%

# Brinker Capital Five Factor Stock Market Barometer



## Fundamentals

We invest to participate in company success. Over time, stock prices follow earnings.

## Valuation

How much do we pay for those fundamentals? Starting points matter.

## Interest Rates

Both the level and trend of interest rates impact earnings and valuations.

## Policy

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

## Behavioral

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

**Fundamental indicators include factors such as corporate earnings, profitability, and the credit environment.**

- As Q2 earnings wind down, a third consecutive quarter of YoY earnings declines is likely
- Profit margins weaker on YoY basis despite slight moderation in input costs
- Domestic return on equity ratios are trending lower but remain above historic averages
- More companies have issued negative Q3 forward guidance than 5-year average

**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, foreign developed, and emerging markets are relatively attractively valued
- Multiples above long-term averages, presenting a headwind as they ultimately contract
- Fed Funds rate now exceeds the forward earnings yield of the S&P 500

**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
- Elevated CMBS and MBS spreads signal heightened stress in real estate market
- Short-term real interest rates remain elevated; US rates among highest levels globally
- Markets are pricing near-term end to Fed rate hiking cycle; yields are drifting higher but the front end of the curve could begin feeling some relief

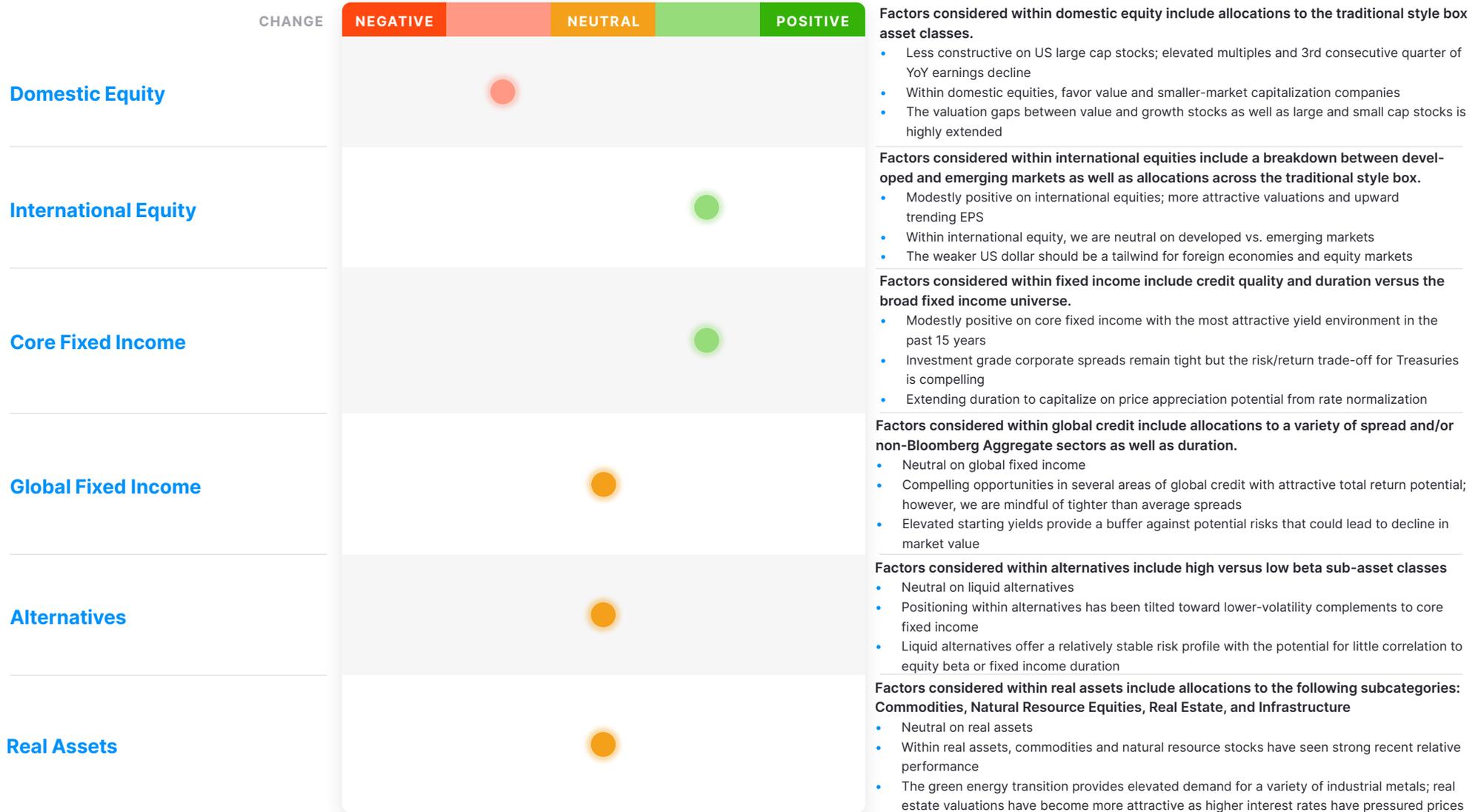
**Policy indicators include factors such as monetary and fiscal policy.**

- Third year of presidential election cycle bodes well for accommodative policy
- Market currently pricing just one additional 25 bps Fed rate hike; future policy uncertain
- Market consensus has fully shifted to no expectations for Fed rate cuts this year
- Political issues surrounding government funding are not resolved and potential for government shutdown may cause market stress in coming months

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

- Despite August pullback in risk assets, equity markets remain in uptrend
- Market breadth remains tepid; broader participation could be needed to sustain trends
- Sentiment readings over the past month have moderated to more average levels
- Seasonality bearish over next two months with negative 3M forward returns on average

# Brinker Capital Asset Class Barometer



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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