

SEPTEMBER 18, 2023



Weekly Wire

The Four S's and the Fed

By Rusty Vanneman, CMT, CFA, BFA™

Global equities posted a small gain last week despite interest rates knocking at the door of their highest levels in nearly two decades. That's the case for the US 10-year Treasury which is close to its highest yield since November 2007. Meanwhile, 30-year mortgage rates are near their highest levels since June 2001. Indeed, higher interest rates remain a concern for investors, and rightfully so, as do the current stew of the 4 S's: the potential government Shutdown, Student loans getting repaid, various labor Strikes, and poor stock market Seasonals. The 4 S's are shorter-term concerns, but it could be said these are already [priced into the markets](#) to some extent. In a few weeks, the seasonals greatly improve.

As for potential market-moving events this coming week, we do get housing data (expected to remain stable), the composite of leading indicators (expected to still show future economic weakness), and the Fed interest rate decision (the [CME FedWatch Tool](#) suggests no change this month). The latter is arguably the most important and the Fed may provide insights on how long the Fed might pause. It's not likely to change the current narrative, however, as inflation and labor data will still need to provide more evidence for the Fed to do so. Inflation is clearly off its peak, of course, but with rising energy prices and low year ago inflation numbers soon scrolling off the year-over-year numbers, it's more likely than not we'll have upticks in inflation going into year-end. The labor market meanwhile is indeed softening off its multi-decade unemployment lows but remains strong enough to not warrant Fed cuts anytime soon — at least not yet.

Note that we added a new benchmark to the performance table this week: the TV Benchmark. It's an equal-weighted index of the benchmarks we see on TV: S&P 500, NASDAQ and the Dow Jones. It's unofficially a number many investors measure performance against, but it's flawed. There are several reasons why it's flawed, but the biggest reason is that it's truly not representative of investors' true opportunity set. For more, check out their [August Monthly Market Commentary](#).

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

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

Interest Rates as of September 15, 2023		
Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.30%	0.01%
10-Yr Treasury Yield	4.32%	0.06%
Bloomberg US Agg Yield	5.29%	0.06%
Avg Money Mkt Yield	5.16%	0.00%
Avg 30-Yr Mortgage Rate	7.49%	-0.13%

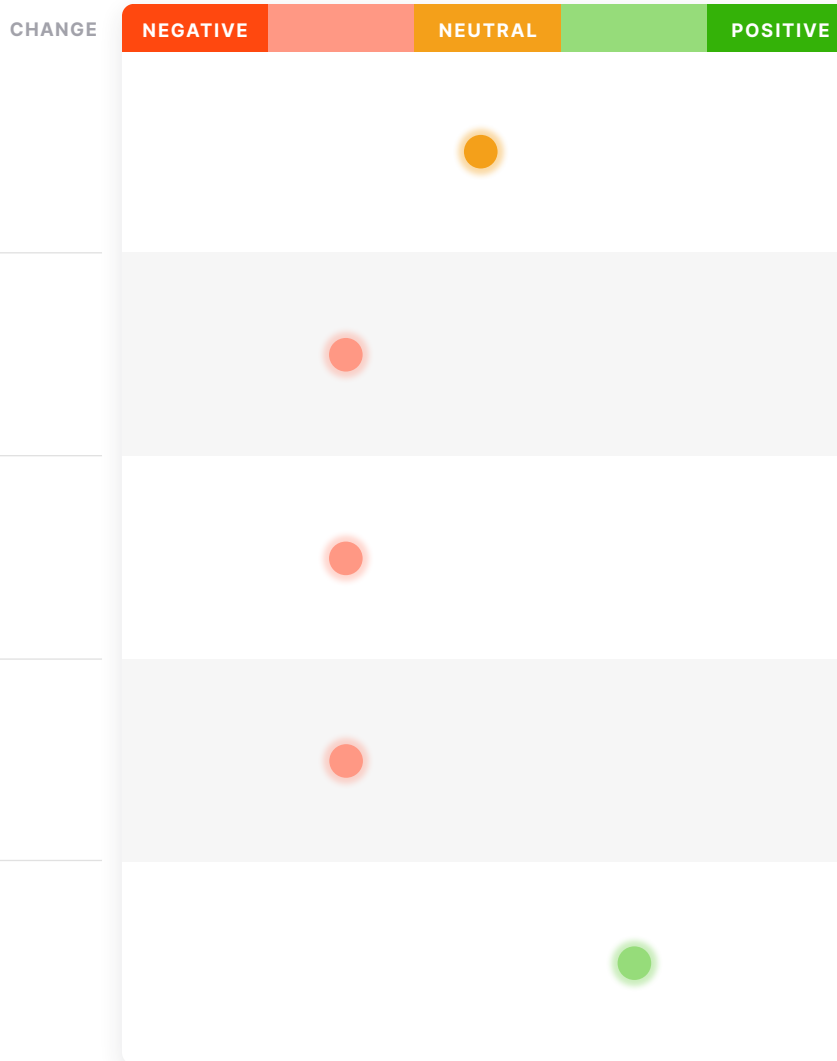
Key Economic Data This Week		
Data Point	Expectation	Release Date
Housing Starts	1.43M	9/19/2023
Fed Interest Rate Decision	Pause	9/20/2023
US Leading Economic Indicators	-0.5%	9/21/2023
Existing Home Sales	4.10M	9/21/2023
Flash Services PMI	50.8	9/22/2023
Flash Manufacturing PMI	48.3	9/22/2023

Key Economic Data Last Week		
Data Point	Expectation	Actual
Consumer Price Index (CPI) YoY	3.6%	3.7%
Core CPI YoY	4.3%	4.3%
Producer Price Index (PPI) YoY	-	1.6%
Core PPI YoY	-	2.2%
US Retail Sales	0.1%	0.6%
Industrial Production	0.2%	0.4%

Stocks, Bonds, Alternatives, & Real Assets as of September 15, 2023							
Security Name	Risk Score*	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	0.56%	0.57%	0.28%	13.98%	15.21%	8.21%
S&P 500 Total Return	102	-0.12%	0.46%	0.35%	17.30%	16.02%	11.11%
Dow Jones Total Return	97	0.14%	-0.58%	1.15%	6.14%	14.24%	9.52%
NASDAQ 100 Total Return	121	-0.49%	1.20%	0.33%	39.82%	28.58%	10.82%
TV Benchmark Average	106	-0.16%	0.36%	0.61%	21.09%	19.61%	10.48%
Morningstar US Large Cap	102	-0.11%	1.04%	1.14%	20.62%	18.31%	10.42%
Morningstar US Mid Cap	113	-0.38%	-1.10%	-1.99%	6.36%	5.90%	9.36%
Morningstar US Small Cap	124	-0.34%	-1.87%	-1.48%	9.13%	6.88%	9.69%
Morningstar US Value	98	0.72%	0.04%	1.25%	5.35%	10.87%	14.22%
Morningstar US Growth	124	-1.03%	-0.16%	-2.14%	25.40%	14.39%	3.72%
MSCI ACWI Ex USA	97	1.71%	0.69%	-0.24%	9.60%	15.22%	4.48%
MSCI EAFE	100	1.67%	0.38%	-0.67%	11.38%	20.66%	6.47%
MSCI EM	97	1.27%	0.57%	0.41%	5.53%	5.97%	-1.15%
Bloomberg US Agg Bond Index	26	-0.33%	-0.04%	-1.79%	0.26%	-0.53%	-4.80%
Bloomberg Commodity Index	70	1.41%	4.01%	7.11%	-1.23%	-4.28%	16.60%
Wilshire Liquid Alternative Index	26	0.21%	0.64%	0.72%	3.34%	2.92%	1.94%
US Dollar**	10	0.33%	2.15%	2.42%	1.82%	-3.88%	4.24%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.46%	1.12%	3.48%	4.50%	1.68%

*The Orion Risk Score represents risk relative to the global equity market. **As of 09/14/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

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

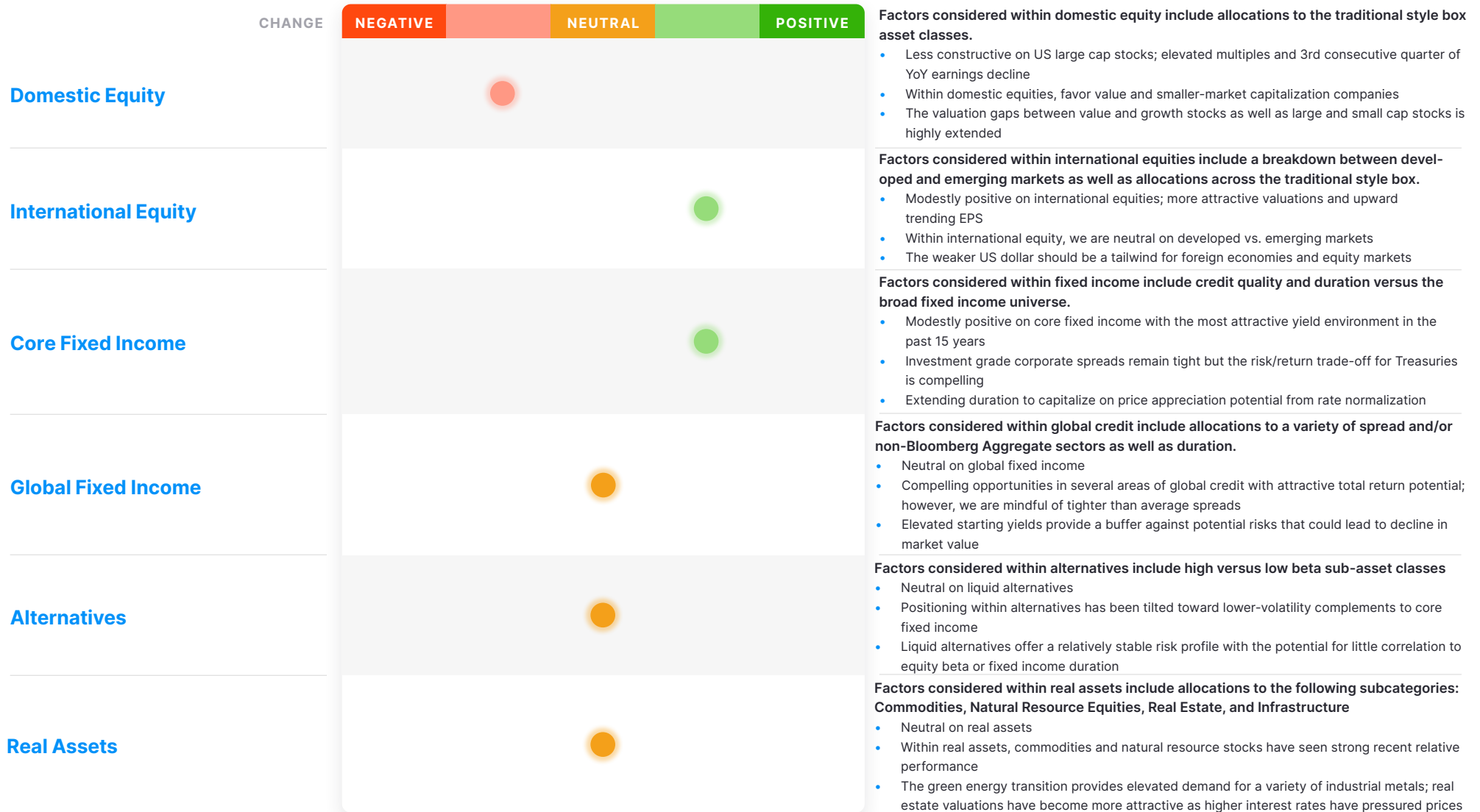
Policy indicators include factors such as monetary and fiscal policy.

- 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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