OCTOBER 23, 2023

Weekly Wire

BRINKER CAPITAL INVESTMENTS
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There Is Another Alternative

By Rusty Vanneman, CMT, CFA, BFA™

This quarter has been tough on stocks and bonds so far, and last week was no exception. Tough talk from the US Federal Reserve Chairman and even tougher headlines from the Middle East have not been supportive of investor optimism nor market gains. As for the former, Fed Chair Jerome Powell stressed last week that the economy remains strong, and inflation is too high. In turn, longer-term interest rates moved sharply higher last week, with 10-year Treasuries coming within a bip of a 5% interest rate and hit their highest levels in over 16 years.

For investors in balanced multi-asset portfolios, the good news is that higher interest rates means that core fixed income now has its best expected returns in over 16 years (as the best predictor of a bond's future return is its starting yield if the bond is held to maturity; adjusted for credit risk). The bad news, however, is that higher rates also put more stress on the stock market in a few ways, including pressuring valuations lower, negatively impacting earnings, and creating higher discount rates which make other investments look more attractive. On that last point, as the saying now goes, TINA (There Is No Alternative) is Dead, replaced by TIAA (There Is An Alternative). Indeed, in this environment, core fixed income and global credit look more attractive.

As for this week, the Middle East and interest rates will again be key drivers of headlines and global financial markets. In addition, we will get some important earnings reports, including from notably names such as Meta (Facebook), Alphabet (Google), Amazon and Microsoft. In total 30% of the S&P is scheduled to report this week. It's also a busy week on the economic calendar, with Q3 GDP being released and the Fed's preferred gauge of inflation, Personal Consumption Expenditures (PCE). Regarding GDP, the 3Q23 should have been a strong one. The GDPNow-Federal Reserve Bank of Atlanta (atlantafed.org) is predicting Q3 2023 GDP at 5.4%, as of October 18th, 2023. This is after inflation.

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

If you have any questions or comments, please let us know at strategists@brinkercapital.com or at Rusty@Orion.com. Have a great week!

Interest Rates as of October 20, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.30%	-0.03%
10-Yr Treasury Yield	4.92%	0.29%
Bloomberg US Agg Yield	5.77%	0.22%
Avg Money Mkt Yield	5.18%	0.01%
Avg 30-Yr Mortgage Rate	8.00%	0.20%

Sources: Yahoo Finance, S&P Global, Crane Data, BankRate

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
Q3 GDP	4.5%	10/26/2023
Durable Goods Orders	2.0%	10/26/2023
Personal Income	0.4%	10/27/2023
Personal Spending	0.5%	10/27/2023
PCE YoY	-	10/27/2023
Core PCE YoY	3.7%	10/27/2023

Source: MarketWatch

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
US Retail Sales	0.3%	0.7%
Housing Starts	1.37M	1.36M
Existing Home Sales	3.9M	3.96M
US leading Economic Indicators	-0.5%	-0.7%

Source: MarketWatch, First Trust

Stocks, Bonds, Alternatives, & Real Assets as of October 20, 2023							
Security Name	**Risk Score***	**1 Wk**	**1 Mo**	**QTD**	**YTD**	**1 Yr**	**3 Yr Ann.**
Global Equities (60% US, 40% Intl)	100	-2.47%	-4.97%	-2.42%	7.35%	16.13%	5.64%
S&P 500 Total Return	102	-2.38%	-3.94%	-1.42%	11.47%	17.18%	8.74%
Dow Jones Industrial Average	97	-1.57%	-3.72%	-1.04%	1.67%	11.61%	7.54%
NASDAQ 100 Total Return	122	-2.90%	-2.70%	-1.02%	33.99%	32.97%	8.49%
TV Benchmark	107	-2.28%	-3.45%	-1.16%	15.71%	20.59%	8.26%
Morningstar US Large Cap	102	-2.33%	-3.54%	-1.03%	15.02%	19.56%	8.36%
Morningstar US Mid Cap	113	-2.75%	-5.74%	-3.49%	-0.58%	7.93%	5.32%
Morningstar US Small Cap	125	-2.17%	-6.38%	-4.91%	0.52%	6.12%	4.64%
Morningstar US Value	98	-1.39%	-4.99%	-2.43%	-0.42%	9.18%	11.65%
Morningstar US Growth	126	-2.92%	-5.05%	-2.89%	17.08%	17.96%	0.29%
MSCI ACWI Ex USA	98	-2.57%	-6.08%	-3.25%	2.38%	15.73%	2.16%
MSCI EAFE	101	-2.59%	-6.66%	-3.46%	3.87%	19.27%	4.40%
MSCI EM	98	-2.69%	-4.56%	-2.81%	-0.71%	10.35%	-3.81%
Bloomberg US Agg Bond Index	27	-1.73%	-3.19%	-1.95%	-3.13%	1.25%	-5.74%
Bloomberg Commodity Index	70	0.61%	-0.89%	1.25%	-2.24%	-0.23%	15.06%
Wilshire Liquid Alternative Index	25	-0.51%	-1.36%	-0.71%	1.76%	3.19%	1.39%
US Dollar**	10	-0.32%	1.00%	0.03%	2.64%	-5.96%	4.38%
Bloomberg US Treasury Bill 1-3mo	1	0.11%	0.47%	0.33%	4.04%	4.83%	1.86%

Source: Morningstar

**The Orion Risk Score represents risk relative to the global equity market.*

***As of 10/19/2023*

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Brinker Capital Five Factor Stock Market Barometer

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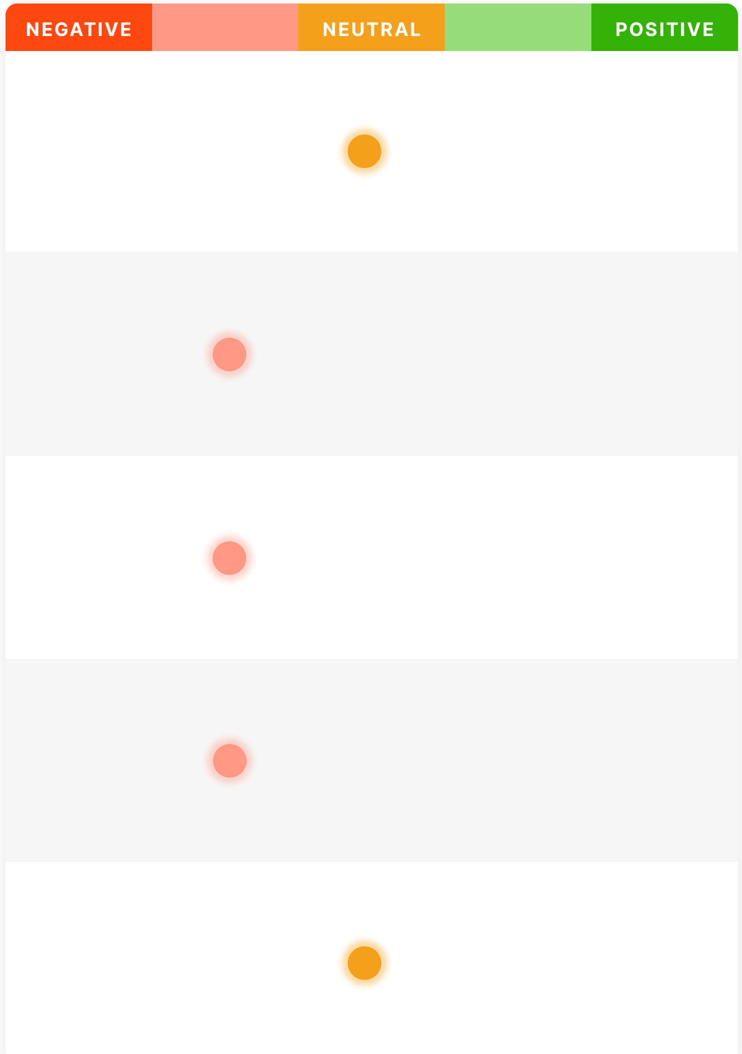

Fundamentals

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.

- Q2 earnings resulted in a third consecutive quarter of negative YoY earnings
- 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
- Earnings have likely troughed, leading to a more constructive forward-looking outlook

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
- 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
- Small cap, foreign developed, and emerging markets are relatively attractively valued

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 has been inverted for the longest consecutive span since 1980; inversion has been a 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 continued softening of economic data could bring some stability

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 fiscal policy
- Market currently pricing roughly even odds of another rate hike through year-end
- 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 is causing market stress

Behavioral

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

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

- Despite September pullback in risk assets, equity markets remain in uptrend
- Market breadth remains tepid; broader participation could be needed to sustain trends
- Sentiment headwinds less pronounced; extreme optimism has abated over past month
- Seasonality is bearish over next month 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.

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Brinker Capital Asset Class Barometer

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Domestic Equity

Factors considered within domestic equity include allocations to the traditional style box asset classes.

- Less constructive on US large cap stocks; elevated multiples and third consecutive quarter of YoY earnings decline
- Monetary policy environment is a headwind for broader market appreciation as economy tightens and cost of capital rises
- The valuation gaps between value and growth stocks as well as large and small cap stocks are highly extended, thus favoring value-oriented and smaller market capitalization companies

International Equity

Factors considered within international equity include a breakdown between developed and emerging markets as well as allocations across the traditional style box.

- Modestly positive on international equities; more attractive valuations and upward trending EPS
- Within international equity, we are neutral on developed vs. emerging markets
- More recent bout of dollar strength has pressured international equity returns but can serve as an economic tailwind for export-oriented countries and companies

Core Fixed Income

Factors considered within core fixed income include credit quality and duration of the broad fixed income universe.

- Modestly positive on core fixed income with the most attractive yield environment in nearly two decades
- Investment grade corporate and securitized spreads remain tight; risk/return trade-off for Treasuries is compelling
- While net neutral on duration, duration risk looks relatively attractive to capitalize on price appreciation potential from rate normalization

Global Fixed Income

Factors considered within global fixed income include allocations to various spread and/or non-core fixed income sectors as well as duration.

- Modestly positive on global fixed income with spreads on high yield securities proving resilient in the face of equity selloff
- Compelling opportunities in several areas of global fixed income with attractive total return potential
- Despite spreads being tight relative to long-term averages, starting yields provide a buffer against potential risks that could lead to declining market values

Alternatives

Factors considered within liquid alternatives include high versus low beta sub-asset classes.

- Neutral on liquid alternatives
- Positioning within alternatives has been tilted toward lower-volatility complements to core fixed income
- Liquid alternatives offer a relatively stable risk profile with the potential for little correlation to equity beta or fixed income duration

Real Assets

Factors considered within real assets include allocations to the subcategories of commodities, real estate, natural resource equities, and infrastructure

- Neutral on real assets
- Within real assets, commodities and natural resource stocks have seen strong recent relative performance
- The green energy transition provides elevated demand for a variety of industrial metals; real estate valuations have become more attractive as higher interest rates have pressured prices

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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