NOVEMBER 6, 2023

Weekly Wire

BRINKER CAPITAL INVESTMENTS
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Best Week of The Year

By Rusty Vanneman, CMT, CFA, BFA™

Last week was the best week in a year for the stock market. This naturally followed the stock market completing its first three month losing streak since 2020 the week before and investor sentiment now showing the highest percentage of bearish investors since late last year.

What helped the market was interest rates falling a lot. The 10-year US Treasury, for instance, which briefly pierced 5% a few weeks ago, traded just below 4.5% last Friday (it opens the week at ~4.6%). There are a few reasons why yields are falling, including the view that the economy is expected to slow in the 4th quarter. For example, the GDPNow from the Federal Reserve Bank of Atlanta is now predicting Q423 GDP at 1.2%. The labor data from last Friday also helped the storyline that the economy is slowing, and it also helps the view that the Federal Reserve might be done raising short-term interest rates as they are looking for a softening of the labor market. Check. So far, so good.

Wanting a softening labor market is a difficult tightrope to walk though. Let's introduce a term that is starting to creep into the financial headlines – the Sahm Rule. This rule states that an imminent recession is signaled "*when the three-month moving average of the national unemployment rate (U3) rises by 0.5 percentage points or more relative to its low during the previous 12 months.*" Technically, we are not there yet. We're very close though. The unemployment low was 3.4% last April, and last Friday's unemployment rate was 3.9% (after the prior two months' readings of 3.8%). Still, it is interesting to note that historically when the unemployment rate starts to move higher, it slowly moves higher off its significant lows – then tends to rapidly and sharply move higher. That's a scary thought – and something that bears watching.

As mentioned last week though, there are some short-term positives for the stock market. Historical seasonals show that the stock market tends to produce above-average returns the last two months of the year. Also, with investor sentiment at its most negative levels in months, that also typically sets the stage for above-average returns in the months ahead.

As for this week, it's a light schedule for economic data. We do get some Federal Reserve officials speaking. Earnings reporting season is winding down. Over 80% of companies have reported earnings and while we should see the first positive year-over-year earnings growth in a year, the current growth rate is still below 4%. Expect interest rate movement to remain a key factor. Though mortgage rates didn't quite fall as much as Treasuries, we would expect them to follow this coming week. Falling interest rates and lower gas prices will be welcomed by consumers.

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 November 03, 2023

Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.25%	-0.05%
10-Yr Treasury Yield	4.56%	-0.29%
Bloomberg US Agg Yield	5.42%	-0.26%
Avg Money Mkt Yield	5.19%	0.00%
Avg 30-Yr Mortgage Rate	8.02%	-0.07%

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

Key Economic Data Last Week

Data Point	Expectation	Actual
JOLTs Job Openings	9.25M	9.55M
Fed Interest Rate Decsision	No Hike	No Hike
ISM Manufacturing PMI	0.49	0.46
Non Farm Payrolls	180K	150K
Unemployement Rate	3.8%	3.9%
ISM Services PMI	53.0	51.8

Source: MarketWatch, First Trust

Key Economic Data This Week

	Expectation	Release Date
Consumer Credit	10 B	11/7/2023
Wholesale Inventories MoM	0.0%	11/8/2023

Source: MarketWatch

Stocks, Bonds, Alternatives, & Real Assets as of November 03, 2023

Security Name	Risk Score	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	5.27%	2.76%	0.80%	10.88%	18.02%	7.46%
S&P 500 Total Return	102	5.88%	3.15%	1.75%	15.05%	19.14%	10.68%
Dow Jones Industrial Average	97	5.07%	3.30%	1.75%	4.53%	8.75%	9.61%
NASDAQ 100 Total Return	122	6.50%	3.69%	2.66%	38.97%	42.49%	11.09%
TV Benchmark	107	5.82%	3.38%	2.05%	19.52%	23.46%	10.46%
Morningstar US Large Cap	102	5.91%	3.31%	2.12%	18.69%	22.60%	10.45%
Morningstar US Mid Cap	113	5.98%	2.37%	-0.30%	2.70%	6.42%	6.83%
Morningstar US Small Cap	125	7.30%	2.45%	-0.81%	4.85%	6.17%	6.24%
Morningstar US Value	98	5.77%	2.53%	0.48%	2.55%	6.24%	13.07%
Morningstar US Growth	126	6.39%	2.63%	0.64%	21.33%	23.40%	2.54%
MSCI ACWI Ex USA	98	4.27%	2.52%	-0.02%	5.80%	17.98%	3.90%
MSCI EAFE	101	4.43%	2.91%	0.06%	7.66%	21.26%	6.40%
MSCI EM	98	3.13%	1.06%	-0.38%	1.77%	13.58%	-2.65%
Bloomberg US Agg Bond Index	27	1.31%	0.68%	-0.01%	-1.21%	1.85%	-5.09%
Bloomberg Commodity Index	70	-0.28%	2.18%	0.90%	-2.58%	-2.61%	15.81%
Wilshire Liquid Alternative Index	25	1.12%	0.58%	0.08%	2.56%	3.62%	1.83%
US Dollar**	10	-0.45%	-0.73%	-0.09%	2.51%	-4.69%	4.08%
Bloomberg US Treasury Bill 1-3mo	1	0.11%	0.50%	0.54%	4.26%	4.91%	1.93%

Source: Morningstar
The TV Benchmark represents an average of the S&P 500, Dow Jones IA, and NASDAQ 100 return indexes
The Orion Risk Score represents risk relative to the global equity market.
***As of 11/2/2023*

*The Orion Risk Score represents risk relative to the global equity market. **As of 11/2/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

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Brinker Capital Five Factor Stock Market Barometer

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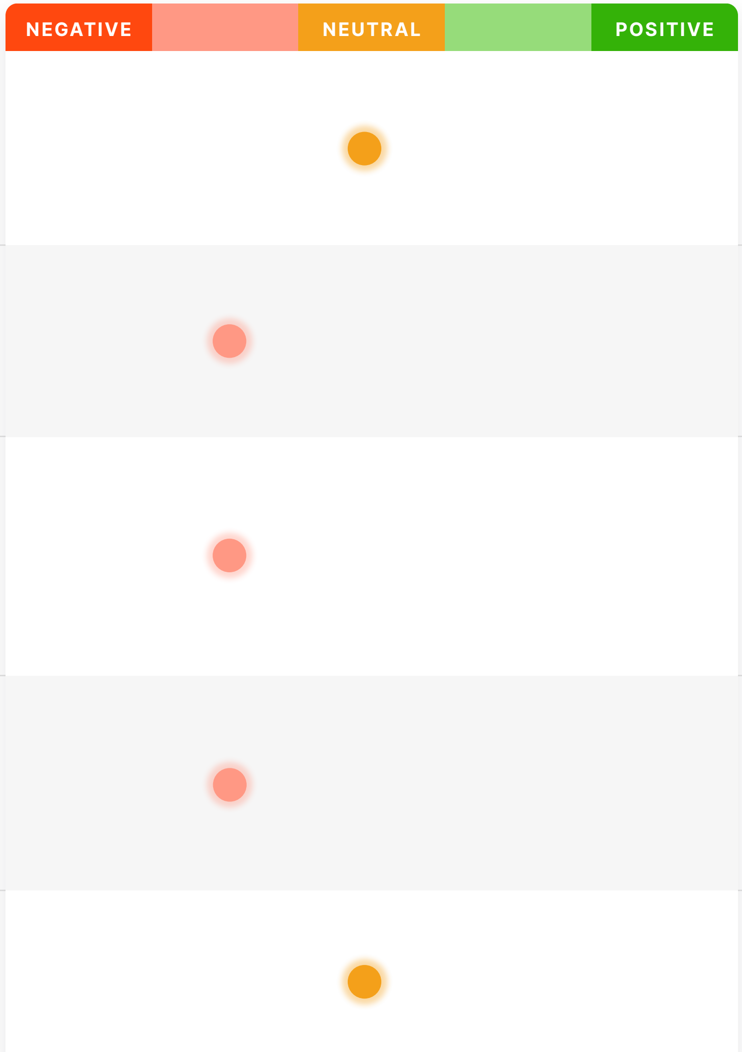

Fundamentals

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.

- Earnings have likely troughed, leading to a more constructive forward-looking outlook
- At the halfway point of Q3 earnings season, estimates are pointing to the first positive year-over-year growth rate in earnings since Q3 2022.
- 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

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; this positive seasonal trend also extends through the first half of fourth year.
- Market currently pricing a 70% chance of no further rate hikes in 2023.
- Market consensus has fully shifted to no expectations for Fed rate cuts this year.
- Government funding issues are not resolved, and government shutdown potential is causing market stress, especially in the face of increased spending tied to geopolitical tensions

Behavioral

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

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

- Despite October 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 bullish for the fourth quarter of the year.

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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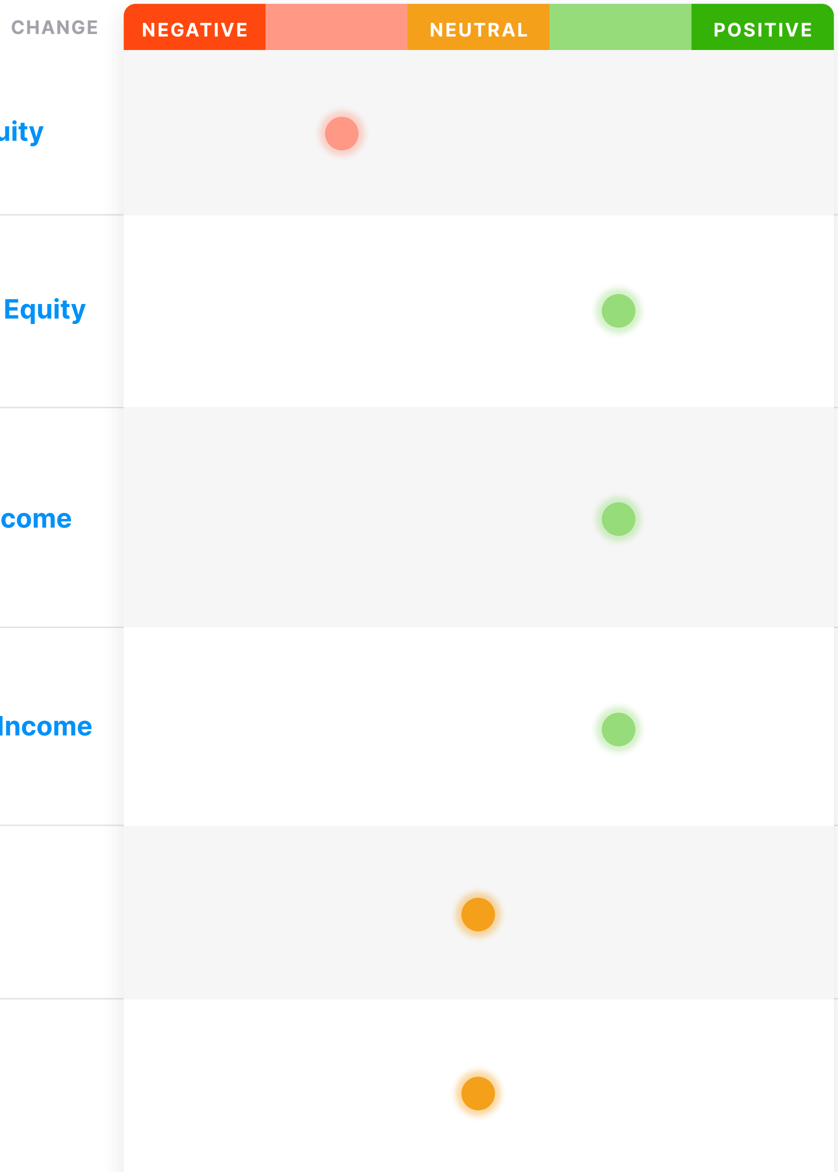

Domestic Equity

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

- Less constructive on US large cap stocks; despite likely trough in YoY earnings growth, multiples remain elevated
- 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.

- Remain cautiously positive on international equities with consideration given to geopolitical risks; more attractive valuations versus domestic equities with roughly similar fundamental outlook
- 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; higher starting yields generally point to higher expected forward returns
- 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; correlations between stocks and bonds have risen, making alternatives attractive
- 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; geopolitical risk and potential for reacceleration in inflation are tailwinds for 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.

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