NOVEMBER 13, 2023

Weekly Wire

BRINKER CAPITAL INVESTMENTS
AN ORION COMPANY

Focus Still on Interest Rates

By Rusty Vanneman, CMT, CFA, BFA™

Late last week Moody's lowered its credit rating outlook on US federal debt from "stable" to "negative". Driving this concern was "very large" fiscal deficits and Washington gridlock. It is important to note that this was not an actual rating downgrade by Moody's, but just a change in outlook. Moody's credit rating for US debt remains as high as it can get: AAA. This comes, however, three months after another rating agency Fitch did lower its credit rating on US debt from AAA to AA+ due to the same concerns. All else being equal, this should keep some pressure on bond market prices (i.e, interest rates moving higher) as it's not likely these concerns will get seriously get addressed anytime soon (it would require raising taxes or cutting spending in an election year). As for the topic of Washington gridlock, we do have the threat of another government shutdown this coming Friday. Again though, given the upcoming election positioning, expect this issue to again be temporarily resolved and the bigger issues to be postponed until later.

It's likely that longer-term interest rates will also remain the key driver of stock market price action, as they have in recent months. Short-term interest rates (such as what the Federal Reserve determines) are important, but arguably longer-term rates (which the markets have more influence over) are just as important. Interest rates impact stock prices in a variety of ways. First, all else being equal, higher interest rates typically translate into lower valuations. Stocks with higher valuations, such as growth stocks, typically suffer more. Interest rates also impact earnings. For higher quality companies, which have higher profitability and lower debt (like the Magnificent Seven), higher rates can enhance earnings as they earn more on their cash holdings. Lower quality companies, or companies with more debt, especially variable-rate debt (like small caps stocks), will have their earnings negatively impacted.

As for this week, we do get some key inflation data, with the Consumer Price Index (CPI) on Tuesday and Producer Price Index (PPI) on Wednesday. Current expectations are that the year-on-year number will not decline. If that turns out to be true, it would be the first time in a year that core CPI hasn't fallen, to a level that remains too high for the Federal Reserve's comfort. Retail Sales are also on Wednesday. Regarding the health of the consumer, we also get earnings reports this week from some leading retail names including Walmart, Target and Home Depot. This could provide particularly useful clues on the US consumer, especially heading into year-end. Nonetheless, expect the bond market (including Federal Reserve expectations) to keep leading the stock market.

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 10, 2023		
Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.25%	0.00%
10-Yr Treasury Yield	4.63%	0.07%
Bloomberg US Agg Yield	5.52%	0.10%
Avg Money Mkt Yield	5.19%	0.00%
Avg 30-Yr Mortgage Rate	7.83%	-0.19%

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

Key Economic Data Last Week		
Data Point	Expectation	Actual
Consumer Credit	4.7%	4.9%
Wholesale Inventories MoM	2.0%	4.7%

Source: MarketWatch, First Trust

Key Economic Data This Week		
Data Point	Expectation	Release Date
Consumer Price Index (CPI) YoY	3.3%	11/14/2023
Core CPI YoY	4.1%	11/14/2023
Producer Price Index (PPI) YoY	-	11/15/2023
Core PPI YoY	-	11/15/2023
US Retail Sales	-0.1%	11/15/2023
Housing Starts	1.35M	11/17/2023

Source: MarketWatch

Stocks, Bonds, Alternatives, & Real Assets as of November 10, 2023							
Security Name	Risk Score	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	0.40%	0.33%	1.20%	11.33%	11.26%	5.61%
S&P 500 Total Return	102	1.35%	1.42%	3.12%	16.60%	13.47%	9.28%
Dow Jones Industrial Average	97	0.72%	1.73%	2.49%	5.29%	3.88%	7.38%
NASDAQ 100 Total Return	122	2.88%	2.68%	5.62%	42.98%	34.95%	11.01%
TV Benchmark	107	1.65%	1.94%	3.74%	21.62%	17.44%	9.23%
Morningstar US Large Cap	102	1.74%	1.95%	3.90%	20.76%	17.25%	9.25%
Morningstar US Mid Cap	113	-0.35%	-1.42%	-0.64%	2.35%	-0.48%	5.02%
Morningstar US Small Cap	125	-2.11%	-2.68%	-2.90%	2.65%	-1.67%	3.23%
Morningstar US Value	98	-1.23%	-0.58%	-0.75%	1.29%	0.49%	9.98%
Morningstar US Growth	126	1.43%	0.02%	2.08%	23.06%	16.75%	2.07%
MSCI ACWI Ex USA	98	-0.70%	-0.64%	-0.72%	5.06%	9.77%	1.41%
MSCI EAFE	101	-0.90%	-1.16%	-0.84%	6.69%	11.07%	3.49%
MSCI EM	98	0.03%	0.50%	-0.36%	1.80%	9.93%	-4.30%
Bloomberg US Agg Bond Index	27	-0.29%	0.69%	0.39%	-0.82%	0.44%	-4.92%
Bloomberg Commodity Index	70	-3.34%	-1.47%	-2.47%	-5.83%	-7.88%	13.62%
Wilshire Liquid Alternative Index	25	0.16%	0.35%	0.24%	2.72%	2.62%	1.42%
US Dollar**	10	-0.20%	-0.16%	-0.30%	2.31%	-4.20%	4.53%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.50%	0.64%	4.37%	4.95%	1.97%

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 11/9/2023*

*The Orion Risk Score represents risk relative to the global equity market. **As of 11/9/2023. 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

BRINKER CAPITAL INVESTMENTS
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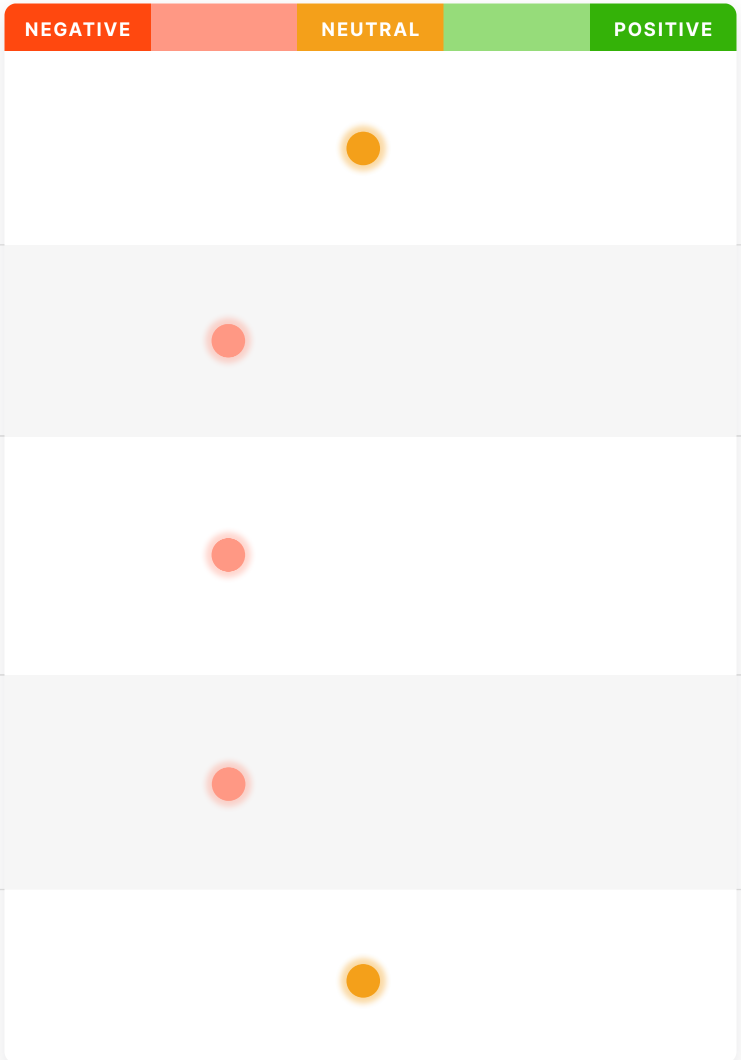
CHANGE



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.

- 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

CHANGE

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.

Disclosures

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