JUNE 5, 2023

Weekly Wire

BRINKER CAPITAL INVESTMENTS
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New Bull Market?

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As of last Friday's close, the S&P 500 closed nearly 20% higher from its bear market lows (i.e, a price decline of 20% or more from prior price highs) from last fall. Both the S&P 500 and another prominent TV benchmark, the NASDAQ, also hit new price highs for the year. In addition, a measure of expected volatility in the market called the VIX, fell below 15 for the first time since February 2020 according to BeSpoke Investments. The VIX indicator, when levels are high like they were, is often considered a measure of investor fear. The streak of VIX readings above 15 was the 3rd longest in 30+ years, with the only times longer were after the dot.com bust and after the Great Financial Crisis. I would not be surprised to see another negative sentiment streak end this week: the AAII investor sentiment survey has been negative for 15 consecutive weeks. That's remarkably the 4th longest bearish streak since 1987.

Some good things are indeed happening in the economy and markets. As mentioned in past commentaries, the economy remains more resilient than most expected. Last week was another case in point as the non-farm payrolls data was once again much stronger than expected – for the 14th consecutive month! The unemployment rate did tick up, but still essentially remains near 70+ years lows.

Another positive remains the buzz over artificial intelligence. Recently, tech funds attracted a record $8.5 billion in the week through May 31. A poster child of AI/tech enthusiasm is NVIDIA (NVDA), which recently became one of the top 10 largest stocks in the stock market. Could AI/tech stocks still move higher? Of course they could, but it's useful to note the historical data showing how well stocks performed in the year(s) before they became part of the top 10 (i.e, they significantly outperformed) and how they performed in the year(s) that followed (i.e, they significantly underperformed).

Stay invested. Stay diversified. Stay disciplined.

Interest Rates as of June 02, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.22%	0.10%
10-Yr Treasury Yield	3.69%	-0.12%
Bloomberg US Agg Yield	4.78%	-0.13%
Avg Money Mkt Yield	4.91%	0.04%
Avg 30-Yr Mortgage Rate	7.08%	-0.04%

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
ISM Services	52.3%	6/5/2023
Consumer Credit	$21.6B	6/7/2023
Wholesale Inventories	-0.2%	6/8/2023

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
Job Openings	9.5M	10.1M
ISM Manufacturing	47.0%	46.9%
Nonfarm Payrolls	190,000	339,000
US Unemployment Rate	3.5%	3.7%

Stocks, Bonds, Alternatives, & Real Assets as of June 02, 2023						
Security Name	**Risk Score***	**1 Wk Δ%**	**1 Mo Δ%**	**QTD Δ%**	**YTD Δ%**	**12 Mo Δ%**
Global Equities (60% US, 40% Intl)	100	1.71%	2.63%	2.96%	10.26%	3.29%
S&P 500 Total Return	110	1.88%	4.17%	4.53%	12.37%	4.32%
Morningstar US Large Cap	110	1.93%	5.02%	5.74%	14.89%	5.84%
Morningstar US Mid Cap	122	2.25%	2.24%	-0.20%	3.47%	-2.78%
Morningstar US Small Cap	128	3.05%	3.90%	0.90%	5.84%	-1.20%
Morningstar US Value	98	1.90%	0.11%	0.20%	0.38%	-1.35%
Morningstar US Growth	146	2.71%	8.71%	6.83%	22.63%	5.13%
MSCI ACWI Ex USA	88	1.08%	0.00%	0.97%	8.04%	2.35%
MSCI EAFE	94	0.90%	-0.51%	1.43%	10.18%	6.72%
MSCI EM	86	1.26%	1.34%	-0.10%	3.92%	-4.16%
Bloomberg US Agg Bond Index**	35	1.44%	0.10%	-0.27%	2.69%	-1.58%
Bloomberg Commodity Index	94	-0.15%	-2.01%	-4.54%	-9.66%	-22.46%
Wilshire Liquid Alternative Index	23	0.50%	0.19%	0.59%	1.79%	-1.23%
US Dollar**	42	-0.66%	1.38%	1.03%	0.04%	1.04%
Bloomberg US Treasury Bill 1-3mo	1	0.09%	0.43%	0.81%	1.91%	3.36%

*The Orion Risk Score represents risk relative to the global equity market. **As of 06/01/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

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Brinker Capital Market Barometer

The balancing act for markets continued in April as participants continue to weigh the probability of an economic slowdown versus a recession. Despite the variety of headlines and risks, both equity and fixed income markets eked out small gains during the month. Inflation continues to moderate, and the consensus expectation is that the Federal Reserve will pause rate hikes after the additional 25 bp increase at the beginning of May. Despite the additional hike, the market is calling a bluff on the Fed's hawkish rhetoric as the 2-Year Treasury has continued to rally leading to a widening gap between the fed funds rate and two-year yield. The banking sector continues to be in focus as First Republic Bank was taken into receivership by the FDIC and ultimately purchased by JPMorgan. The big banks continue to get bigger, but for now additional financial stress on the regional banks appears to have subsided. The labor market remains robust as payrolls continue to come in above expectations. Actual payroll growth has now outpaced forecasts for 13 consecutive months, an unprecedented streak for a historically mean reverting dataset. The consumer continues to prop up an otherwise slowing economy which was highlighted by the Q1 GDP report released during the month. Earnings season got off to a solid start with over half the companies reporting and earnings declines less negative than analysts expected. This resiliency removes a headwind for the bullish trending market as we move into the summer months amid a cloudy macro environment.

Short-term Factors *(< 6 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Market momentum continued in April; 12-month US returns are flat but foreign markets faring better
Trend				●	Most global equity markets are above upward-sloping moving averages (small cap notable exception)
Investor sentiment				●	Sentiment remains subdued despite strong market YTD; tepid equity flows amid competition for capital
Seasonality	←		●		Sell in May heuristic is overstated but forward 3-month returns in this period only about average

Intermmediate-term Factors *(6-36 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Yellen has stated a June 1st X-date; increasing pressure for a deal to suspend or raise debt ceiling
Monetary policy			●		Fed hiked rates by an additional 25 bps but messaging opens the door for a pause moving forward
Inflation		●			Inflation continues its moderating trajectory but remains well above Fed's long term target
Interest rate environment		●			Deep yield curve inversion signals growth warning; elevated rate volatility affecting cost of capital
Macroeconomic			●		Global PMIs show contraction; labor market strength continues despite slowdown/recession fears
Business sentiment		●			Business confidence measures remain subdued as a growth slowdown is expected
Consumer sentiment		●			Consumer sentiment is off its lows but remains at depressed levels
Corporate earnings		●			Q1 earnings growth negative but decline not as bad as feared; margin compression stabilized for now
Credit environment				●	Spreads widened modestly on banking stress but overall environment remains relatively tame

Long-term Factors *(36+ months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		U.S. equity valuations near long-term averages; overseas markets below average valuations
Business cycle			●		Q1 GDP growth positive but well below expectations; consumer spending sustaining economic activity
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

1532-BCI-6/5/23