

JUNE 20, 2023

Weekly Wire

Let the Good Times Roll

By Rusty Vanneman, CMT, CFA, BFA™

This past weekend I attended my high school reunion. It's remarkable how so many years can go by so quickly. One of the songs from back in the day that was played was ["Let The Good Times Roll,"](#) which not only captured the spirit back in its original day and the past weekend's reunion festivities, but also the sentiment of many investors these days. A week ago we had noted in the Weekly Wire that [investor sentiment](#) turned bullish for the first time in 16 weeks (snapping the 4th longest bearish streak since 1987), hit its highest bullish sentiment reading since November 2021, and also had its biggest one-week jump since November 2020. Well, last week [sentiment became even more optimistic](#). There are good reasons to be optimistic though, including the economy being more resilient than many investors expected, corporate earnings bottoming and now moving higher, inflation falling, the Federal Reserve pausing last week in raising short-term interest rates, and the fact we're in the third year of the Presidential Election Cycle (that usually means a good stock market given favorable monetary/fiscal policy). Also, the market is now up 15% for the year. What's troubling me, however, about the "letting the good times roll" theme, is a few things. First, valuations for the U.S. market remain elevated. That suggests below-average gains. Second, when sentiment gets very bullish, that also suggests below average returns moving forward. Third, how has the song ["Let The Good Times Roll"](#) not made the Spotify [Walk-Up Song Playlist](#) yet for our weekly podcast [The Weighing Machine](#)? If you have any questions or comments, please let me know: Rusty@Orion.com.

Stay invested. Stay diversified. Stay disciplined.

Interest Rates as of June 16, 2023		
Rate	This Week	1 Wk Δ%
13-Wk Treasury Yield	5.07%	-0.03%
10-Yr Treasury Yield	3.77%	0.02%
Bloomberg US Agg Yield	4.85%	0.02%
Avg Money Mkt Yield	4.92%	0.01%
Avg 30-Yr Mortgage Rate	7.08%	0.02%

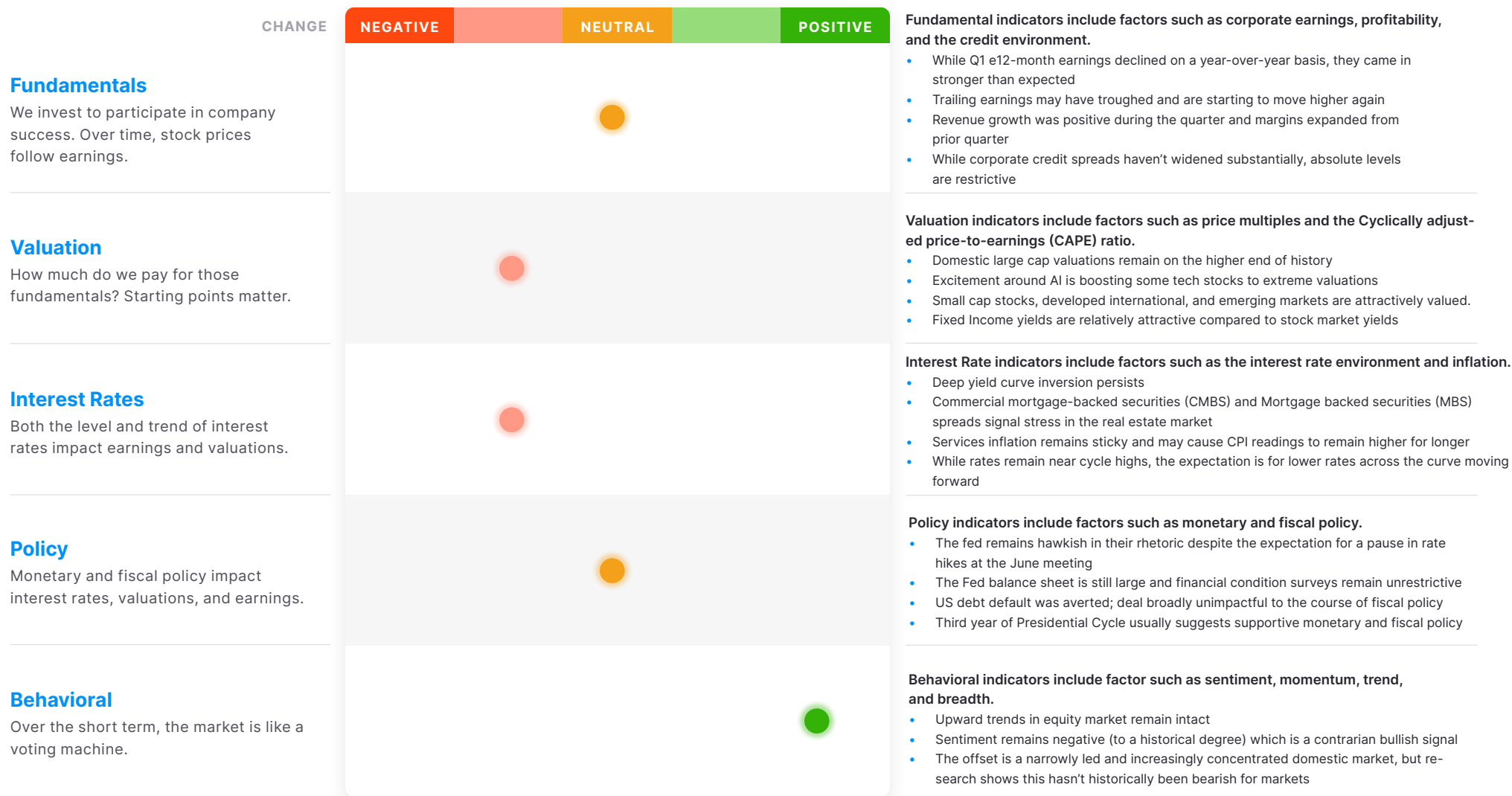
Key Economic Data This Week		
Data Point	Expectation	Release Date
Existing Home Sales	4.0%	6/22/2023
US Leading Economic Indicators	5.3%	6/22/2023

Key Economic Data Last Week		
Data Point	Expectation	Actual
Consumer Price Index (CPI) YoY	4.0%	4.0%
Core CPI YoY	5.3%	5.3%
Producer Price Index (PPI)	-	1.1%
Core PPI YoY	-	2.8%
Fed Interest Rate Decision	No Hike	No Hike
US Retail Sales	-0.1%	0.30%
Industrial Production	0.1%	-0.2%
Capacity Utilization	79.6%	79.6%

Stocks, Bonds, Alternatives, & Real Assets as of June 16, 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	2.03%	4.53%	6.39%	13.94%	19.83%
S&P 500 Total Return	110	2.62%	7.49%	7.71%	15.78%	22.35%
Morningstar US Large Cap	110	2.70%	7.89%	8.86%	18.28%	23.98%
Morningstar US Mid Cap	122	2.61%	7.07%	3.30%	7.10%	16.53%
Morningstar US Small Cap	128	1.36%	7.90%	4.04%	9.13%	17.75%
Morningstar US Value	98	2.29%	6.13%	3.77%	3.96%	14.18%
Morningstar US Growth	146	2.75%	9.80%	10.02%	26.29%	27.00%
MSCI ACWI Ex USA	88	1.93%	2.27%	4.06%	11.34%	15.95%
MSCI EAFE	94	1.86%	1.27%	4.17%	13.15%	22.12%
MSCI EM	86	2.18%	5.11%	4.12%	8.31%	5.38%
Bloomberg US Agg Bond Index	35	0.20%	-0.58%	-0.73%	2.22%	0.47%
Bloomberg Commodity Index	94	4.25%	4.40%	0.75%	-4.65%	-16.00%
Wilshire Liquid Alternative Index	23	0.52%	1.19%	1.32%	2.53%	2.55%
US Dollar**	42	-1.27%	-0.31%	-0.26%	-1.24%	-1.34%
Bloomberg US Treasury Bill 1-3mo	1	0.11%	0.45%	1.03%	2.14%	3.58%

*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.

Brinker Capital Five Factor Market Barometer



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.

- While Q1 e12-month earnings declined on a year-over-year basis, they came in stronger than expected
- Trailing earnings may have troughed and are starting to move higher again
- Revenue growth was positive during the quarter and margins expanded from prior quarter
- While corporate credit spreads haven't widened substantially, absolute levels are restrictive

Valuation

How much do we pay for those fundamentals? Starting points matter.

Valuation indicators include factors such as price multiples and the Cyclically adjusted price-to-earnings (CAPE) ratio.

- Domestic large cap valuations remain on the higher end of history
- Excitement around AI is boosting some tech stocks to extreme valuations
- Small cap stocks, developed international, and emerging markets are attractively valued.
- Fixed Income yields are relatively attractive compared to stock market yields

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 and inflation.

- Deep yield curve inversion persists
- Commercial mortgage-backed securities (CMBS) and Mortgage backed securities (MBS) spreads signal stress in the real estate market
- Services inflation remains sticky and may cause CPI readings to remain higher for longer
- While rates remain near cycle highs, the expectation is for lower rates across the curve moving forward

Policy

Monetary and fiscal policy impact interest rates, valuations, and earnings.

Policy indicators include factors such as monetary and fiscal policy.

- The fed remains hawkish in their rhetoric despite the expectation for a pause in rate hikes at the June meeting
- The Fed balance sheet is still large and financial condition surveys remain unrestrictive
- US debt default was averted; deal broadly unimpactful to the course of fiscal policy
- Third year of Presidential Cycle usually suggests supportive monetary and fiscal policy

Behavioral

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

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

- Upward trends in equity market remain intact
- Sentiment remains negative (to a historical degree) which is a contrarian bullish signal
- The offset is a narrowly led and increasingly concentrated domestic market, but re-search shows this hasn't historically been bearish for markets