# **Weekly Wire**

### AN ORION COMPANY

### **Some New Headwinds**

By Rusty Vanneman, CMT, CFA, BFA™

It may have been a holiday shortened trading week last week in the markets, but a few notable things happened. First, the yield on the 10-year Treasury moved back above 4% for the first time since the beginning of March. It wouldn't take much for these yields to move back to last autumn's highs (which was also when the stock market bottomed). If yields get above 4.27%, it will be the highest yield for the 10-year Treasury since 2007. This could become a headwind for the stock market. Another potential headwind, at least for the market leaders this year, is that ChatGPT traffic dropped 10% in traffic last month, it's first month of declining growth. It wasn't just ChatGPT, but other Al chatbots also saw declines last month according to Similarweb. Al is here to stay, of course, but might this declining growth impact the enthusiasm for AI stocks? This is all happening when individual investor sentiment, at least according to the weekly survey of individual investors from AAII, jumped up to its highest level of bullish sentiment since November 2021.

This week meanwhile, has some important numbers being released. First, on the economic calendar we have key inflation data on Wednesday and Thursday. While the headline inflation numbers should be the best they've been in some time, the core (ex-food and energy) numbers are expected to remain stubbornly high. In turn, the market still expects a 90% chance that the Federal Reserve will raise rates at their next meeting on July 26th. Next week also begins the 2Q23 earnings season in earnest, including some major financial names. While the current expectation is that we'll see a third consecutive year-over-year negative reported earnings growth number, it is expected that operating earnings growth will turn positive. Now that's a plus. Stock prices follow earnings.

If you have any questions or comments, please let me know: Rusty@Orion.com. Enjoy the week!

Stay invested. Stay diversified. Stay disciplined.

| Rate                    | ThisWeek | 1Wk Δ% |  |
|-------------------------|----------|--------|--|
| 13-Wk Treasury Yield    | 5.21%    | 0.06%  |  |
| 10-Yr Treasury Yield    | 4.05%    | 0.23%  |  |
| Bloomberg US Agg Yield  | 5.09%    | 0.15%  |  |
| Avg Money Mkt Yield     | 4.94%    | 0.00%  |  |
| Avg 30-Yr Mortgage Rate | 7.21%    | 0.11%  |  |

| Key Economic Data This Week    |             |              |  |  |
|--------------------------------|-------------|--------------|--|--|
| Data Point                     | Expectation | Release Date |  |  |
| Consumer Credit                | \$21.5B     | 7/10/2023    |  |  |
| Consumer Price Index (CPI) YoY | 3.1%        | 7/12/2023    |  |  |
| Core CPI YoY                   | 5.0%        | 7/12/2023    |  |  |
| Producer Price Index (PPI) YoY | -           | 7/13/2023    |  |  |
| Core PPI YoY                   | -           | 7/13/2023    |  |  |

| Key Economic Data Last Week |             |         |  |  |
|-----------------------------|-------------|---------|--|--|
| Data Point                  | Expectation | Actual  |  |  |
| ISM Manufacturing           | 47.3%       | 46.0%   |  |  |
| ADP Employment              | 220,000     | 497,000 |  |  |
| ISM Services                | 51.3%       | 53.9%   |  |  |
| US Jobs Added               | 240,000     | 209,000 |  |  |
| US Unemployment Rate        | 3.6%        | 3,6%    |  |  |

| Stocks, Bonds, Alternatives, & Real Assets as of July 07, 2023 |             |        |         |        |        |          |
|--|-------------|--------|---------|--------|--------|----------|
| Security Name  | Risk Score* | 1Wk∆%  | 1 Mo Δ% | QTD Δ% | YTD ∆% | 12 Mo Δ% |
| Global Equities (60% US, 40% Intl)                             | 100         | -1.26% | 1.71%   | -1.26% | 12.23% | 13.48%   |
| S&P 500 Total Return   | 110         | -1.11% | 3.22%   | -1.11% | 15.59% | 14.67%   |
| Morningstar US Large Cap                                       | 110         | -1.24% | 3.24%   | -1.24% | 17.78% | 15.56%   |
| Morningstar US Mid Cap   | 122         | -0.66% | 2.97%   | -0.66% | 7.79%  | 10.12%   |
| Morningstar US Small Cap                                       | 128         | -0.88% | 1.04%   | -0.88% | 9.79%  | 10.31%   |
| Morningstar US Value   | 98          | -0.98% | 1.39%   | -0.98% | 3.03%  | 9.09%    |
| Morningstar US Growth  | 146         | -1.35% | 3.54%   | -1.35% | 26.42% | 14.64%   |
| MSCI ACWI Ex USA   | 88          | -1.64% | -0.37%  | -1.64% | 8.05%  | 11.72%   |
| MSCI EAFE  | 94          | -2.04% | -0.34%  | -2.04% | 9.84%  | 17.28%   |
| MSCI EM  | 86          | -0.60% | -0.61%  | -0.60% | 4.47%  | 1.95%    |
| Bloomberg US Agg Bond Index                                    | 35          | -1.30% | -0.98%  | -1.30% | 0.77%  | -2.30%   |
| Bloomberg Commodity Index                                      | 94          | 0.53%  | 1.67%   | 0.53%  | -7.30% | -7.66%   |
| Wilshire Liquid Alternative Index                              | 23          | -0.42% | 0.31%   | -0.42% | 2.17%  | 1.86%    |
| US Dollar**  | 42          | -0.17% | -0.92%  | 0.25%  | -0.34% | -3.67%   |
| Bloomberg US Treasury Bill 1-3mo                               | 1           | 0.10%  | 0.42%   | 0.10%  | 2.43%  | 3.82%    |

#### **JULY 2023**

### **Brinker Capital Five Factor Market Barometer**



| CHANGE   | NEGATIVE | NEUTRAL | POSITIVE |   |
|--|----------|---------|----------|---|
| Fundamentals We invest to participate in company success. Over time, stock prices follow earnings. |          | •       |          | <ul> <li>Fundamental indicators include factors such as corporate earnings, profitability, and the credit environment.</li> <li>While Q2 earnings are expected to decline YoY, trailing 12-month earnings have troughed which is often a leading indicator for stronger market returns</li> <li>Profit margins continue to be under pressure despite slight moderation in input costs</li> <li>Domestic Return on Equity ratios are trending lower but remain well above historic averages</li> <li>Credit spreads remain well behaved; absolute yields put debt servicing stress on companies</li> </ul> |
| 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 have pushed higher YTD and remain elevated vs. history Excitement around Al is boosting valuations of some tech stocks to extreme levels 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.  • Yield curve inversion deepened further in June; approaching levels from the early '80s  • CMBS and MBS spreads signal heightened stress in real estate market  • Real rates continue to move higher with US rates at some of the highest levels globally  • 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.  Third year of presidential election cycle bodes well for accommodative policy  Following the Fed's pause at the June meeting, 1-2 additional rate hikes are expected  The market is no longer pricing Fed rate cuts occurring in 2023  Headlines may paint the Inflation Reduction Act as an economic boost; in reality, spending yet to begin and isn't most impactful until 2026   |
| <b>Behavioral</b> 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 markets remain robust  Market breadth improving with recent high in number of stocks above moving averages  After a historic period of bearish (market bullish) sentiment, surveys reversed and are at the most bullish (market bearish) levels in several years   |

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.

Seasonality turning bearish through Q3 with negative 3M forward returns on average

## **Disclosures**



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Source: Brinker Capital. Information is accurate as of April 12, 2023. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor.