#### **AUGUST 7, 2023**

# **Weekly Wire**

# BRINKER CAPITAL INVESTMENTS AN ORION COMPANY

### **Saying Something Different**

By Rusty Vanneman, CMT, CFA, BFA™

Last week was the <u>worst week</u> for the S&P 500 since March. That said, the stock market needed a breather. Given recent gains, and the year-to-date gain, it's natural to expect that market prices would take a step (or two) back before moving forward again. Match that expectation with the <u>seasonal tendency</u> for stocks to languish in August (and September), coupled with below average volume due to summer holidays, it shouldn't be a surprise prices faltered last week.

Reasonable enough, but a lot did happen last week! U.S. government debt was downgraded by Fitch. Long-term bond yields moved to their highest levels on the daily charts since last fall (when stocks bottomed). Last Friday's labor data, while still showing growth, was weaker than expected. The Bank of Japan will now let interest rates rise more freely, something they haven't allowed in years. In turn, the yen rose by 1.5% against the dollar from valley to peak in just two days. That's a big move. Apple, the largest stock in the stock market, and larger than all stocks in the Russell 2000 combined, reported another year-over-year revenue decline. Gas prices moved higher (as are many commodities), and are now back at their highest levels since late last year. Gas prices are now up over 20% since their 2022 lows. Those price increases won't help the year-over-year inflation numbers later this year.

As for this coming week, this week's <u>U.S. Economic Calendar</u> includes Thursday's Consumer Price Index (CPI). While the headline number is currently expected to rise a bit again, the important core (ex-food and energy) CPI is expected to drop to 4.7%. We will also get more earnings reports, as 2Q23 earnings season is drawing near its end. That said, it will be interesting to see what happens in the bond, commodity and currency markets this coming week (and beyond). Each of these markets are saying something different than they were earlier this year. Has the tide shifted again in market leadership given the clues these markets are providing?

Stay invested. Stay diversified. Stay disciplined.

Interest Rates as of August 04, 2023					
Rate	This Week	1 Wk Δ%			
13-Wk Treasury Yield	5.25%	0.00%			
10-Yr Treasury Yield	4.06%	0.22%			
Bloomberg US Agg Yield	5.05%	0.13%			
Avg Money Mkt Yield	5.13%	0.18%			
Avg 30-Yr Mortgage Rate	7.32%	0.12%			

Key Economic Data This Week					
Data Point	Expectation	Release Date			
Consumer Credit	\$11.0B	8/7/2023			
Consumer Price Index (CPI)	3.3%	8/10/2023			
Core CPI	4.7%	8/10/2023			
Producer Price Index (PPI)		8/11/2023			
Core PPI		8/11/2023			

Key Economic Data Last Week					
Data Point	Expectation	Actual			
Job Openings	9.6M	9.6M			
ISM Manufacturing	46.8%	46.4%			
ADP Employment	175,000	324,000			
US Nonfarm Payrolls	187,000	200,000			
US Unemployment Rate	3.6%	3.5%			

Stocks, Bonds, Alternatives, & Real Assets as of August 04, 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	-2.21%	0.81%	1.21%	15.03%	10.11%
S&P 500 Total Return	110	-2.26%	0.61%	0.73%	17.75%	9.71%
Morningstar US Large Cap	110	-2.30%	0.72%	0.80%	20.21%	10.54%
Morningstar US Mid Cap	122	-2.06%	0.67%	1.00%	9.59%	5.43%
Morningstar US Small Cap	128	-1.48%	2.47%	2.86%	13.94%	7.22%
Morningstar US Value	98	-1.53%	1.98%	2.52%	6.67%	10.27%
Morningstar US Growth	146	-2.83%	-0.43%	-0.55%	27.44%	4.96%
MSCI ACWI Ex USA	88	-2.38%	0.61%	1.34%	11.33%	10.86%
MSCI EAFE	94	-2.37%	0.42%	0.65%	12.86%	14.17%
MSCI EM	86	-2.36%	1.43%	3.41%	8.68%	5.74%
Bloomberg US Agg Bond Index**	35	-1.06%	-1.39%	-1.60%	0.46%	The -4.66%
Bloomberg Commodity Index	94	-1.11%	5.11%	4.93%	-3.24%	-6.16%
Wilshire Liquid Alternative Index	23	-0.46%	0.20%	0.28%	2.88%	1.20%
US Dollar**	42	0.76%	-0.43%	-0.36%	-0.95%	-3.72%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.46%	0.50%	2.84%	4.13%

#### **AUGUST 2023**

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



	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
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.  Halfway through Q2 earnings season, the YoY decline has been larger than expected Profit margins remain under pressure despite slight moderation in input costs Domestic return on equity ratios are trending lower but remain well above historic averages More companies have issued positive forward guidance than 5 year average
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  Small cap stocks, developed international, and emerging markets are attractively valued  Multiples continue to expand, supporting market gains but eventually will present a head-wind as they ultimately contract toward long-term averages  Fed Funds rate now exceeds the earnings yield of the S&P 500
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 is deeply inverted although off deepest levels; inversion has been bearish market signal and fairly accurate indicator of future recession  CMBS and MBS spreads signal heightened stress in real estate market  Short-term real interest rates remain elevated; US rates near the highest levels globally  Markets are pricing an end to Fed rate hiking cycle; although yields are trending higher, the front end of the curve should begin feeling some relief
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  Currently no additional rate hikes are expected but Fed now highly data dependent  Market consensus has fully shifted to no expectations for Fed rate cuts this year  Issues surrounding the debt ceiling are not resolved and may cause market stress as we enter the Fall
Behavioral Over the short term, the market is like a voting machine.					Behavioral indicators include factors 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 sentiment, surveys reversed and are at the most bullish levels in several years; as a contrarian indicator, this dampens our future return outlook  Seasonality turning bearish through Q3 with negative 3M forward returns on average



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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