Weekly Wire



At Least Three Reasons Interest Rates Are Higher

By Rusty Vanneman, CMT, CFA, BFA™

The August swoon in stock prices continued last week. The S&P 500 index, for example, lost over 2% again, extending its losing streak to a third consecutive week. A leading reason for recent losses is that interest rates continue to rise, with two leading examples being the 10-Year US Treasury at its highest levels in over 15 years and mortgage rates moving to their highest level in over two decades. Why are bond yields moving higher? One contributing factor is that China, whose economy continues to disappoint, is selling US Treasuries. Another factor is that many are now expecting inflation to move higher later again this year. Yet another reason is that the U.S. economy is increasingly stronger than most have expected — even among the econo-bulls!

Here's a number that might surprise most people — the Atlanta Fed's <u>GDPNow</u> is now estimating Q3 2023 real (i.e. after inflation) GDP at 5.8%. Wow. Before getting too excited about the economy though, do note that the Conference Board's <u>US Leading Indicators</u> "fell for the sixteenth consecutive month in July, signaling the outlook remains highly uncertain." This outlook does make sense. Just consider the rising interest rates. They do impact the economy, but with a lag. The higher rates are still working their way through the system.

As for potential market-moving events this coming week, beyond watching the interest rate markets, there are quarterly earnings from key Al stock Nvidia on Wednesday. Also, on Friday morning Federal Reserve Chair Jerome Powell is speaking in Jackson Hole, Wyoming.

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

Interest Rates as of August 18, 2023				
Rate	This Week	1 Wk Δ%		
13-Wk Treasury Yield	5.28%	0.03%		
10-Yr Treasury Yield	4.25%	0.19%		
Bloomberg US Agg Yield	5.24%	0.19%		
Avg Money Mkt Yield	5.15%	0.02%		
Avg 30-Yr Mortgage Rate	7.58%	0.26%		

Key Economic Data This Week					
Data Point	Expectation	Release Date			
Existing Home Sales	-	8/22/2023			
Durable Goods	-	8/24/2023			
Powell Speech at Jackson Hole	(12)	8/25/2023			

Key Economic Data Last Week				
Data Point	Expectation	Actual		
US Retail Sales	0.4%	0.7%		
Housing Starts	1.45M	1.45M		
US Leading Economic Indicators	-0.4%	-0.4%		

Stocks, Bonds, Alternatives, & Real Assets as of August 18, 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	-2.59%	-4.69%	-1.99%	11.39%	4.04%
S&P 500 Total Return	110	-2.05%	-3.92%	-1.60%	15.02%	3.76%
Morningstar US Large Cap	110	-1.87%	-3.73%	-1.39%	17.60%	4.99%
Morningstar US Mid Cap	122	-2.79%	-5.48%	-2.43%	5.88%	-2.43%
Morningstar US Small Cap	128	-3.17%	-5.58%	-1.56%	9.04%	-1.85%
Morningstar US Value	98	-2.33%	-0.77%	0.51%	4.58%	3.52%
Morningstar US Growth	146	-2.38%	-7.82%	-4.21%	22.76%	-0.79%
MSCI ACWI Ex USA	88	-3.34%	-5.62%	-2.88%	6.69%	5.15%
MSCIEAFE	94	-3.30%	-5.77%	-3.21%	8.52%	9.32%
MSCIEM	86	-3.28%	-5.41%	-1.90%	3.09%	-1.49%
Bloomberg US Agg Bond Index	35	-0.50%	-2.31%	-1.92%	0.13%	-4.13%
Bloomberg Commodity Index	94	-1.17%	-0.18%	3.47%	-4.59%	-10.17%
Wilshire Liquid Alternative Index	23	-0.59%	-0.88%	-0.24%	2.35%	-0.07%
US Dollar**	42	1.02%	3.74%	0.64%	0.05%	-2.82%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.45%	0.70%	3.05%	4.26%

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 headwind 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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