Weekly Wire



Navigating By the Stars Under Cloudy Skies

By Rusty Vanneman, CMT, CFA, BFA™

Last week, the Federal Reserve Bank of Kansas City hosted their annual Economic Policy Symposium which has taken place in <u>Jackson Hole every year since 1982</u>. This year's theme for the event was Structural Shifts in the Global Economy:

"While the immediate disruption of the pandemic is fading, there likely will be long-lasting aftereffects for how economies are structured, both domestically and globally, as trade networks shift, and global financial flows react."

Key takeaways from the meeting included the acknowledgment that in the bigger picture the global economy is changing due to deglobalization and central banks moving away from years of low rates and quantitative easing. In turn, for investors this most likely means more volatility in economic and market data, but also greater diversification benefits from broader asset class allocations as correlations between economies and market decrease. In the shorter term though, as concluded by the Fed Chair Jerome Powell in his speech on the economic outlook, is that the Fed is not likely to cut short-term rates anytime soon. The economic data remains mixed, however, and Powell acknowledged that the Fed is "navigating by the stars under cloudy skies."

Another highlight from last week was that The <u>GDPNow</u> <u>from the Federal Reserve Bank of Atlanta</u> rose again last week and is now predicting Q3 2023 GDP at 5.9%. This is <u>after</u> inflation. Outside of the post COVID economic bounce, this could be the best guarter since 2017.

As for potential market-moving events this coming week, there is some key economic data toward the end of the week, including inflation data Thursday and employment data Friday. Add it all up...

Stay invested. Stay diversified. Stay disciplined.

Rate	This Week	1 Wk Δ%	
13-Wk Treasury Yield	5.32%	0.04%	
10-Yr Treasury Yield	4.24%	-0.01%	
Bloomberg US Agg Yield	5.26%	0.02%	
Avg Money Mkt Yield	5.15%	0.00%	
Avg 30-Yr Mortgage Rate	7.53%	-0.05%	

Key Economic Data This Week					
Data Point	Expectation	Release Date			
ADP Employment	170,000	8/30/2023			
GDP (revision)	2.4%	8/30/2023			
Personal Consumption Expenditures (PCE)	-	8/31/2023			
Core PCE	0.2%	8/31/2023			
Nonfarm Payrolls	165,000	9/1/2023			
US Unemployment Rate	3.5%	9/1/2023			

Key Economic Data Last Week						
Data Point	Expectation	Actual				
Existing Home Sales	4.15M	4.07M				
New Home Sales	704,000	714,000				
Durable Goods Orders	-4.1%	-5.2%				

Stocks, Bonds, Alternatives, & Real Assets as of August 25, 2023							
Security Name	Risk Score*	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	0.51%	-4.39%	-1.50%	11.96%	6.56%	7.42%
S&P 500 Total Return	110	0.84%	-3.39%	-0.77%	15.99%	6.73%	10.28%
Morningstar US Large Cap	110	1.03%	-2.93%	-0.38%	18.81%	8.22%	9.45%
Morningstar US Mid Cap	122	0.14%	-5.52%	-2.29%	6.03%	-0.66%	9.05%
Morningstar US Small Cap	128	0.06%	-5.15%	-1.50%	9.10%	0.12%	9.00%
Morningstar US Value	98	-0.47%	-3.33%	0.05%	4.10%	4.14%	13.54%
Morningstar US Growth	146	1.62%	-4.84%	-2.65%	24.75%	3.68%	2.96%
MSCI ACWI Ex USA	88	0.06%	-5.78%	-2.83%	6.75%	7.08%	3.66%
MSCIEAFE	94	-0.18%	-5.73%	-3.38%	8.33%	11.86%	5.70%
MSCIEM	86	0.74%	-5.68%	-1.18%	3.86%	-0.20%	-1.71%
Bloomberg US Agg Bond Index	35	0.28%	-1.63%	-1.64%	0.41%	-2.98%	-4.74%
Bloomberg Commodity Index	94	1.29%	-2.11%	4.80%	-3.36%	-11.02%	15.63%
Wilshire Liquid Alternative Index	23	0.23%	-0.61%	-0.01%	2.59%	0.55%	1.74%
US Dollar**	42	0.40%	2.60%	1.04%	0.44%	-4.32%	3.68%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.45%	0.81%	3.16%	4.32%	1.58%

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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