SEPTEMBER 5, 2023

Weekly Wire

The Fed's Next Move(s)

By Rusty Vanneman, CMT, CFA, BFA™

It was another nice gain in the stock market last week, which in turn trimmed losses over the last month and put the quarter-to-date returns back into the green. For the quarter, gains have been broad-based, with small caps leading the way. There was indeed some market-friendly economic data last week, though those gains were mostly before the data was released. This included two key reports that could impact future moves by the Federal Reserve.

After those reports, expectations for the Fed raising short-term rates later were notably reduced. The first report was the PCE (Personal Consumption Expenditures) Inflation data. The good? The number continues to fall and there were no negative surprises. The not-so-good? Core PCE was still 4.2%, Super Core (i.e, services only) was 4.7%, both of which are above the Fed's preferred 2%, and there is an expectation for another upward move in the months ahead given the recent spike in oil prices.

The second number last week was the employment data from last Friday. While the job growth confirmed continued improvement in the labor market, the unemployment rate did rise to 3.8%, which in turn provides some cover for the Federal Reserve to skip a rate hike in September. That said, there was a lot to unpack from in the unemployment report. Some might say "cracks" are appearing, though others might say the data continues to "normalize" after the pandemic shock and that the economy continues to show more resiliency than many had expected. Either way, I would say the Fed remains "data-dependent" and it's no sure thing that they won't still raise rates later this year (and next).

As for potential market-moving events this coming week, this week is lighter on the economic and earnings front, but we have plenty of Federal Reserve officials speaking.

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

If you have any questions or comments, please let me know: Rusty@Orion.com. Hope you had a great Labor Day holiday!



Interest Rates as of September 01, 2023					
Rate	This Week	1 Wk Δ%			
13-Wk Treasury Yield	5.27%	-0.05%			
10-Yr Treasury Yield	4.17%	-0.07%			
Bloomberg US Agg Yield	5.16%	-0.10%			
Avg Money Mkt Yield	5.16%	0.01%			
Avg 30-Yr Mortgage Rate	7.52%	-0.01%			

Key Economic Data This Week						
Data Point	Expectation	Release Date				
ISM Services	52.7%	9/6/23				
Six Fed President Speeches	-	9/7/2023				
Wholesale Inventories	-0.1%	9/8/2023				
Consumer Credit	\$19.5B	9/8/2023				

Key Economic Data Last Week						
Data Point	Expectation	Actual				
ADP Employment	170,000	177,000				
GDP (revision)	2.4%	2.1%				
Personal Consumption Expenditures (PCE)	-	3.3%				
Core PCE	-	4.2%				
Nonfarm Payrolls	170,000	187,000				
US Unemployment Rate	3.5%	3.8%				

Stocks, Bonds, Alternatives, & Real Assets as of September 01, 2023							
Security Name	Risk Score*	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	2.63%	-2.10%	1.09%	14.91%	15.48%	7.77%
S&P 500 Total Return	110	2.55%	-1.15%	1.76%	18.95%	15.79%	10.31%
Morningstar US Large Cap	110	2.67%	-0.74%	2.29%	21.98%	17.61%	9.35%
Morningstar US Mid Cap	122	2.82%	-2.68%	0.46%	9.01%	8.58%	9.46%
Morningstar US Small Cap	128	3.91%	-2.41%	2.35%	13.37%	11.79%	10.17%
Morningstar US Value	98	1.82%	-1.97%	1.87%	5.99%	10.77%	14.21%
Morningstar US Growth	146	3.79%	-1.36%	1.03%	29.47%	16.19%	2.58%
MSCI ACWI Ex USA	88	2.38%	-3.62%	-0.51%	9.30%	15.21%	4.41%
MSCIEAFE	94	2.54%	-3.08%	-0.93%	11.08%	21.48%	6.62%
MSCIEM	86	1.52%	-5.28%	0.32%	5.44%	4.12%	-1.38%
Bloomberg US Agg Bond Index	35	0.48%	-0.54%	-1.17%	0.89%	-1.07%	-4.62%
Bloomberg Commodity Index	94	1.29%	0.52%	6.15%	-2.12%	-6.39%	15.34%
Wilshire Liquid Alternative Index	23	0.68%	-0.04%	0.66%	3.28%	2.52%	1.82%
US Dollar**	42	-0.35%	1.73%	0.69%	0.09%	-4.67%	3.99%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.46%	0.91%	3.26%	4.39%	1.61%

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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 th 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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