SEPTEMBER 18, 2023

Weekly Wire

The Four S's and the Fed

By Rusty Vanneman, CMT, CFA, BFA™

Global equities posted a small gain last week despite interest rates knocking at the door of their highest levels in nearly two decades. That's the case for the US 10-year Treasury which is close to its highest yield since November 2007. Meanwhile, 30-year mortgage rates are near their highest levels since June 2001. Indeed, higher interest rates remain a concern for investors, and rightfully so, as do the current stew of the 4 S's: the potential government Shutdown, Student loans getting repaid, various labor Strikes, and poor stock market Seasonals. The 4 S's are shorter-term concerns, but it could be said these are already priced into the markets to some extent. In a few weeks, the seasonals greatly improve.

As for potential market-moving events this coming week, we do get housing data (expected to remain stable), the composite of leading indicators (expected to still show future economic weakness), and the Fed interest rate decision (the <u>CME FedWatch Tool</u> suggests no change this month). The latter is arguably the most important and the Fed may provide insights on how long the Fed might pause. It's not likely to change the current narrative, however, as inflation and labor data will still need to provide more evidence for the Fed to do so. Inflation is clearly off its peak, of course, but with rising energy prices and low year ago inflation numbers soon scrolling off the year-over-year numbers, it's more likely than not we'll have upticks in inflation going into year-end. The labor market meanwhile is indeed softening off its multi-decade unemployment lows but remains strong enough to not warrant Fed cuts anytime soon — at least not yet.

Note that we added a new benchmark to the performance table this week: the TV Benchmark. It's an equal-weighted index of the benchmarks we see on TV: S&P 500, NASDAQ and the Dow Jones. It's unofficially a number many investors measure performance against, but it's flawed. There are several reasons why it's flawed, but the biggest reason is that it's truly not representative of investors' true opportunity set. For more, check out their August Monthly Market Commentary.

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

If you have any questions or comments, please let me know: <u>Rusty@Orion.com</u>. Have a great week!



Interest Rates as of September 15, 2023						
Rate	This Week	1 Wk Δ%				
13-Wk Treasury Yield	5.30%	0.01%				
10-Yr Treasury Yield	4.32%	0.06%				
Bloomberg US Agg Yield	5.29%	0.06%				
Avg Money Mkt Yield	5.16%	0.00%				
Avg 30-Yr Mortgage Rate	7.49%	-0.13%				

Key Economic Data This Week						
Data Point	Expectation	Release Date				
Housing Starts	1.43M	9/19/2023				
Fed Interest Rate Decision	Pause	9/20/2023				
US Leading Economic Indicators	-0.5%	9/21/2023				
Existing Home Sales	4.10M	9/21/2023				
Flash Services PMI	50.8	9/22/2023				
Flash Manufacturing PMI	48.3	9/22/2023				

Key Economic Data Last Week						
Data Point	Expectation	Actual				
Consumer Price Index (CPI) YoY	3.6%	3.7%				
Core CPI YoY	4.3%	4.3%				
Producer Price Index (PPI) YoY	1121	1.6%				
Core PPI YoY	-	2.2%				
US Retail Sales	0.1%	0.6%				
Industrial Production	0.2%	0.4%				

Stocks, Bonds, Alternatives, & Real Assets as of September 15, 2023							
Security Name	Risk Score*	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	0.56%	0.57%	0.28%	13.98%	15.21%	8.21%
S&P 500 Total Return	102	-0.12%	0.46%	0.35%	17.30%	16.02%	11.11%
Dow Jones Total Return	97	0.14%	-0.58%	1.15%	6.14%	14.24%	9.52%
NASDAQ 100 Total Return	121	-0.49%	1.20%	0.33%	39.82%	28.58%	10.82%
TV Benchmark Average	106	-0.16%	0.36%	0.61%	21.09%	19.61%	10.48%
Morningstar US Large Cap	102	-0.11%	1.04%	1.14%	20.62%	18.31%	10.42%
Morningstar US Mid Cap	113	-0.38%	-1.10%	-1.99%	6.36%	5.90%	9.36%
Morningstar US Small Cap	124	-0.34%	-1.87%	-1.48%	9.13%	6.88%	9.69%
Morningstar US Value	98	0.72%	0.04%	1.25%	5.35%	10.87%	14.22%
Morningstar US Growth	124	-1.03%	-0.16%	-2.14%	25.40%	14.39%	3.72%
MSCI ACWI Ex USA	97	1.71%	0.69%	-0.24%	9.60%	15.22%	4.48%
MSCIEAFE	100	1.67%	0.38%	-0.67%	11.38%	20.66%	6.47%
MSCIEM	97	1.27%	0.57%	0.41%	5.53%	5.97%	-1.15%
Bloomberg US Agg Bond Index	26	-0.33%	-0.04%	-1.79%	0.26%	-0.53%	-4.80%
Bloomberg Commodity Index	70	1.41%	4.01%	7.11%	-1.23%	-4.28%	16.60%
Wilshire Liquid Alternative Index	26	0.21%	0.64%	0.72%	3.34%	2.92%	1.94%
US Dollar**	10	0.33%	2.15%	2.42%	1.82%	-3.88%	4.24%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.46%	1.12%	3.48%	4.50%	1.68%

SEPTEMBER 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. As Q2 earnings wind down, a third consecutive quarter of YoY earnings declines is likely Profit margins weaker on YoY basis despite slight moderation in input costs Domestic return on equity ratios are trending lower but remain above historic averages More companies have issued negative Q3 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, foreign developed, and emerging markets are relatively attractively valued Multiples above long-term averages, presenting a headwind as they ultimately contract Fed Funds rate now exceeds the forward 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 Elevated CMBS and MBS spreads signal heightened stress in real estate market Short-term real interest rates remain elevated; US rates among highest levels globally Markets are pricing near-term end to Fed rate hiking cycle; yields are drifting higher but the front end of the curve could 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 Market currently pricing just one additional 25 bps Fed rate hike; future policy uncertain Market consensus has fully shifted to no expectations for Fed rate cuts this year Political issues surrounding government funding are not resolved and potential for government shutdown may cause market stress in coming months
Behavioral Over the short term, the market is like a voting machine					Behavioral indicators include factors such as sentiment, momentum, trend, and breadt Despite August pullback in risk assets, equity markets remain in uptrend Market breadth remains tepid; broader participation could be needed to sustain trends Sentiment readings over the past month have moderated to more average levels



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 bearish over next two months with negative 3M forward returns on average

Brinker Capital Asset Class Barometer



Domestic Equity	ANGE NEGATIVE	NEUTRAL	POSITIVE	Factors considered within domestic equity include allocations to the traditional style box asset classes. Less constructive on US large cap stocks; elevated multiples and 3rd consecutive quarter of YoY earnings decline Within domestic equities, favor value and smaller-market capitalization companies The valuation gaps between value and growth stocks as well as large and small cap stocks is highly extended
International Equity			•	Factors considered within international equities include a breakdown between developed and emerging markets as well as allocations across the traditional style box. Modestly positive on international equities; more attractive valuations and upward trending EPS Within international equity, we are neutral on developed vs. emerging markets The weaker US dollar should be a tailwind for foreign economies and equity markets
Core Fixed Income				Factors considered within fixed income include credit quality and duration versus the broad fixed income universe. Modestly positive on core fixed income with the most attractive yield environment in the past 15 years Investment grade corporate spreads remain tight but the risk/return trade-off for Treasuries is compelling Extending duration to capitalize on price appreciation potential from rate normalization
Global Fixed Income				Factors considered within global credit include allocations to a variety of spread and/or non-Bloomberg Aggregate sectors as well as duration. Neutral on global fixed income Compelling opportunities in several areas of global credit with attractive total return potential; however, we are mindful of tighter than average spreads Elevated starting yields provide a buffer against potential risks that could lead to decline in market value
Alternatives			:	Factors considered within alternatives include high versus low beta sub-asset classes Neutral on liquid alternatives Positioning within alternatives has been tilted toward lower-volatility complements to core fixed income Liquid alternatives offer a relatively stable risk profile with the potential for little correlation to equity beta or fixed income duration
Real Assets				Factors considered within real assets include allocations to the following subcategories: Commodities, Natural Resource Equities, Real Estate, and Infrastructure Neutral on real assets Within real assets, commodities and natural resource stocks have seen strong recent relative performance The green energy transition provides elevated demand for a variety of industrial metals; real estate valuations have become more attractive as higher interest rates have pressured prices

ASSET CLASS BAROMETER →

The Brinker Asset Class Barometer serves as the team's outlook on the six major asset classes that comprise the multi-asset class portfolios. It is updated each month by the Orion Asset Allocation Committee. Standard inputs include proprietary reports produced by the Brinker Discretionary Investment Team as well as industry-leading external research providers.

Disclosures



The views expressed herein are exclusively those of Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor, and are not meant as investment advice and are subject to change.

The CFA® is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals. To learn more about the CFA charter, visit www.cfainstitute.org.

The CMT Program demonstrates mastery of a core body of knowledge of investment risk in portfolio management. The Chartered Market Technician® (CMT) designation marks the highest education within the discipline and is the preeminent designation for practitioners of technical analysis worldwide. To learn more about the CMT, visit https://cmtassociation.org/.

Think2perform's Behavioral Financial Advice program integrates traditional finance practices with psychology and neuroscience to improve emotional competency and decision-making behavior that increases effective usage of the financial plan with clients. To obtain the Behavioral Financial Advisor (BFA) designation, participants must complete a self-directed course, which takes 20-30 hours to complete, and includes a mix of interactive exercises, videos and case studies. To learn more about the BFA, visit https://www.think2perform.com.

Wealth Management services offered through Orion Portfolio Solutions, LLC d/b/a Brinker Capital Investments a registered investment advisor.

Source: Brinker Capital. Information is accurate as of September 1, 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.