#### **SEPTEMBER 25, 2023**

# **Weekly Wire**

### **Higher for Longer**

#### By Rusty Vanneman, CMT, CFA, BFA™

Interest rates remaining at higher levels for longer than expected is increasingly becoming the primary concern for many investors. Depending on the maturity, we're witnessing the highest yield levels in over 20 years for shorter maturities and over a dozen years for longer-term bonds. Mortgage rates are also at their highest levels in over 20 years. The Federal Reserve's September 20th meeting witnessed revisions to the "dot plots," suggesting that the Fed is thinking rates will be higher for longer. The Fed indicated it's likely there will be one more rate hike this year, though interestingly the market doesn't necessarily agree with that notion yet. The market even believes there will be multiple rate cuts next year.

Given that current inflation and employment data supports the Fed's current views and actions, it's interesting the market is apparently fading what the Fed is saying. Many investors are adding longer maturity bonds back into their portfolios. That might be the right call, but given that stock market prices are higher this year and credit spreads are tighter I would argue there is still a good possibility of a "pain trade" toward higher rates. As I learned early in my career, the market tends to move in the direction that causes the most pain for investors.

As for potential market-moving events this coming week, beyond watching interest rates we will see more key inflation data as the Fed's preferred inflation indicator, the Personal Consumption Expenditures, is released Friday. It is also the last week of the quarter, and given recent losses the only positive asset classes on the quarter are currently diversifying assets, such as real assets/commodities and alternatives/liquid alts.

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

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



Interest Rates as of September 22, 2023					
Rate	This Week	1 Wk Δ%			
13-Wk Treasury Yield	5.30%	0.00%			
10-Yr Treasury Yield	4.44%	0.12%			
Bloomberg US Agg Yield	5.38%	0.09%			
Avg Money Mkt Yield	5.17%	0.01%			
Avg 30-Yr Mortgage Rate	7.59%	0.10%			

Key Economic Data	Key Economic Data This Week						
Data Point	Expectation	Release Date					
New Home Sales	698,000	9/26/2023					
Durable Goods Orders	-0.5%	9/27/2023					
Personal Income	0.5%	9/29/2023					
Personal Spending	0.5%	9/29/2023					
Personal Consumption Expenditures (PCE)	-	9/29/2023					
Core PCE	-	9/29/2023					

Key Economic Data Last Week						
Data Point	Expectation	Actual				
Housing Starts	1.43M	1.28M				
Fed Interest Rate Decision	Pause	Pause				
US Leading Economic Indicators	-0.5%	-0.4%				
Existing Home Sales	4.10M	4.04M				
Flash Services PMI	50.7	50.2				
Flash Manufacturing PMI	48.3	48.9				

Stocks, Bonds, Alternatives, & Real Assets as of September 22, 2023							
Security Name	Risk Score*	1 Wk	1 Mo	QTD	YTD	1 Yr	3 Yr Ann.
Global Equities (60% US, 40% Intl)	100	-2.66%	-0.76%	-2.38%	10.96%	16.83%	8.18%
S&P 500 Total Return	102	-2.91%	-1.40%	-2.58%	13.88%	16.91%	10.95%
Dow Jones Total Return	97	-1.89%	-0.71%	-0.77%	4.13%	15.38%	9.76%
NASDAQ 100 Total Return	121	-3.28%	-1.32%	-2.96%	35.23%	28.95%	10.41%
TV Benchmark Average	106	-2.70%	-1.14%	-2.10%	17.75%	20.41%	10.37%
Morningstar US Large Cap	102	-2.97%	-1.07%	-1.86%	17.04%	18.96%	10.25%
Morningstar US Mid Cap	113	-2.86%	-2.14%	-4.79%	3.32%	8.90%	8.95%
Morningstar US Small Cap	124	-3.64%	-3.27%	-5.06%	5.16%	9.42%	9.24%
Morningstar US Value	98	-2.22%	-0.74%	-0.99%	3.02%	12.33%	14.44%
Morningstar US Growth	124	-3.95%	-2.98%	-6.01%	20.45%	16.56%	2.98%
MSCI ACWI Ex USA	97	-2.17%	0.16%	-2.40%	7.23%	17.37%	4.80%
MSCIEAFE	100	-2.03%	0.06%	-2.69%	9.11%	23.07%	6.94%
MSCIEM	97	-2.08%	-0.04%	-1.68%	3.33%	7.77%	-0.98%
Bloomberg US Agg Bond Index	26	-0.50%	0.00%	-2.29%	-0.24%	0.37%	-4.96%
Bloomberg Commodity Index	70	-1.06%	2.67%	5.98%	-2.27%	-3.93%	16.62%
Wilshire Liquid Alternative Index	26	-0.58%	0.36%	0.14%	2.74%	3.10%	1.99%
US Dollar**	10	-0.04%	2.00%	2.38%	1.78%	-4.77%	4.00%
Bloomberg US Treasury Bill 1-3mo	1	0.10%	0.46%	1.23%	3.58%	4.56%	1.71%

#### **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**



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