OCTOBER 2, 2023

Weekly Wire

BRINKER CAPITAL INVESTMENTS
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Thank Goodness That's Over

By Rusty Vanneman, CMT, CFA, BFA™

As we enter a new week, month, and quarter, there are some positives for stock market investors to consider.

- First, the historically bad month of September is now behind us. On average, September tends to be the worst month of the year for the stock market. So far this year, that was the case. Now that September is behind us, it's reassuring to know that the fourth quarter is typically the best three months of the year for the stock market.
- Second, the government avoided a shutdown over the weekend, at least for now.
- Third, the Federal Reserve's preferred inflation measure, the PCE, now shows a 3% handle for both headline and core after last week's release. The month-over-month number and the 3-month number were also encouraging.

Nonetheless, longer-term interest rates did rise last week — and for the month. The rising rates did impact stocks, as the global stock market lost about 4% last month. U.S. growth stocks led the losses lower. The only asset class higher for the month was the U.S. dollar. Interestingly, international stocks lost less than U.S. stocks, which is typically not the case when the U.S. dollar is stronger. For international to continue to outperform, though, the most likely short-term catalyst is that U.S. large-cap growth, like the Magnificent Seven, continues to underperform (which is plausible given the toxic combination of high valuations and rising interest rates).

There are still plenty of negatives to chew on, too: (1) the national debt hitting $33 trillion, (2) oil pushing north of $100 per barrel, (3) UAW strikes hitting the U.S. auto industry, (4) roughly 44 million in student loan debt starting their repayments, and (5) mortgage rates pushing 8% and a possible housing freeze.

As for potential market-moving events this coming week, beyond still watching interest rates we will get the latest monthly unemployment data on Friday. Expectations are for 170K in job growth and a 3.7% unemployment rate. Counterintuitively, it will take labor market deterioration for the bond market to start acting better, as investors will anticipate the fed will wait to cut short-term rates until that happens. The stock market will surely like that, too.

Add it all up…

Stay invested. Stay diversified. Stay disciplined.

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

Interest Rates as of September 29, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.30%	0.00%
10-Yr Treasury Yield	4.57%	0.13%
Bloomberg US Agg Yield	5.50%	0.12%
Avg Money Mkt Yield	5.17%	0.00%
Avg 30-Yr Mortgage Rate	7.83%	0.24%

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
ISM Manufacturing	48.0	10/2/2023
Job Openings	8.8M	10/3/2023
ADP Employment	150,000	10/4/2023
US Nonfarm Payrolls	170,000	10/6/2023
US Unemployment Rate	3.7%	10/6/2023
Cnosumer Credit	$11.7B	10/6/2023

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
New Home Sales	695,000	675,000
Durable Goods Orders	-0.5%	0.2%
Personal Income	0.4%	0.4%
Personal Spending	0.4%	0.4%
Personal Consumption Expenditures (PCE)	-	3.5%
Core PCE	-	3.9%

Stocks, Bonds, Alternatives, & Real Assets as of September 29, 2023							
Security Name	**Risk Score***	**1 Wk**	**1 Mo**	**QTD**	**YTD**	**1 Yr**	**3 Yr Ann.**
Global Equities (60% US, 40% Intl)	100	-0.85%	-3.78%	-3.21%	10.01%	20.30%	7.68%
S&P 500 Total Return	102	-0.71%	-4.77%	-3.27%	13.07%	21.62%	10.15%
Dow Jones Total Return	97	-1.34%	-3.42%	-2.10%	2.73%	19.18%	8.62%
NASDAQ 100 Total Return	121	0.10%	-5.02%	-2.86%	35.37%	35.31%	9.69%
TV Benchmark Average	*106*	*-0.65%*	*-4.40%*	*-2.74%*	*17.06%*	*25.37%*	*9.49%*
Morningstar US Large Cap	102	-0.70%	-4.59%	-2.55%	16.22%	23.86%	9.43%
Morningstar US Mid Cap	113	-0.30%	-4.96%	-5.07%	3.01%	12.79%	8.38%
Morningstar US Small Cap	124	0.53%	-5.73%	-4.56%	5.71%	14.22%	9.01%
Morningstar US Value	98	-0.93%	-3.20%	-1.91%	2.06%	17.04%	13.79%
Morningstar US Growth	124	0.09%	-6.52%	-5.92%	20.56%	20.73%	2.38%
MSCI ACWI Ex USA	97	-1.31%	-3.11%	-3.68%	5.82%	21.02%	4.24%
MSCI EAFE	100	-1.40%	-3.37%	-4.05%	7.59%	26.31%	6.28%
MSCI EM	97	-1.13%	-2.57%	-2.79%	2.16%	12.17%	-1.34%
Bloomberg US Agg Bond Index	26	-0.96%	-2.54%	-3.23%	-1.21%	0.64%	-5.21%
Bloomberg Commodity Index	70	-1.20%	-0.69%	4.71%	-3.44%	-1.30%	16.23%
Wilshire Liquid Alternative Index	26	-0.34%	-0.74%	-0.20%	2.39%	4.21%	1.85%
US Dollar**	10	0.82%	2.08%	3.22%	2.61%	-5.67%	4.06%
Bloomberg US Treasury Bill 1-3mo	1	0.12%	0.44%	1.34%	3.71%	4.63%	1.75%

*The Orion Risk Score represents risk relative to the global equity market. **As of 09/28/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

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Brinker Capital Five Factor Stock Market Barometer

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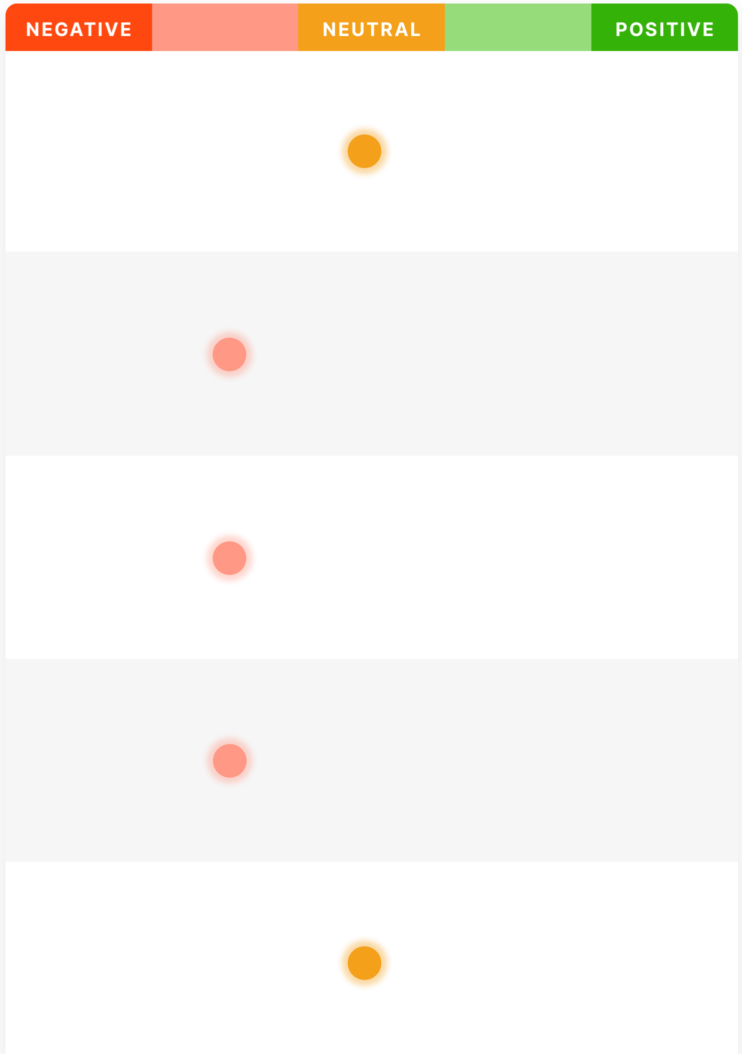

Fundamentals

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.

- Q2 earnings resulted in a third consecutive quarter of negative YoY earnings
- 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
- Earnings have likely troughed, leading to a more constructive forward-looking outlook

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
- 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
- Small cap, foreign developed, and emerging markets are relatively attractively valued

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 has been inverted for the longest consecutive span since 1980; inversion has been a 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 continued softening of economic data could bring some stability

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 fiscal policy
- Market currently pricing roughly even odds of another rate hike through year-end
- 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 is causing market stress

Behavioral

Over the short term, the market is like a voting machine.

Behavioral indicators include factors such as sentiment, momentum, trend, and breadth.

- Despite September pullback in risk assets, equity markets remain in uptrend
- Market breadth remains tepid; broader participation could be needed to sustain trends
- Sentiment headwinds less pronounced; extreme optimism has abated over past month
- Seasonality is bearish over next month with negative 3M forward returns on average

THE MARKET BAROMETER

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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Brinker Capital Asset Class Barometer

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Domestic Equity

Factors considered within domestic equity include allocations to the traditional style box asset classes.

- Less constructive on US large cap stocks; elevated multiples and third consecutive quarter of YoY earnings decline
- Monetary policy environment is a headwind for broader market appreciation as economy tightens and cost of capital rises
- The valuation gaps between value and growth stocks as well as large and small cap stocks are highly extended, thus favoring value-oriented and smaller market capitalization companies

International Equity

Factors considered within international equity 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
- More recent bout of dollar strength has pressured international equity returns but can serve as an economic tailwind for export-oriented countries and companies

Core Fixed Income

Factors considered within core fixed income include credit quality and duration of the broad fixed income universe.

- Modestly positive on core fixed income with the most attractive yield environment in nearly two decades
- Investment grade corporate and securitized spreads remain tight; risk/return trade-off for Treasuries is compelling
- While net neutral on duration, duration risk looks relatively attractive to capitalize on price appreciation potential from rate normalization

Global Fixed Income

Factors considered within global fixed income include allocations to various spread and/or non-core fixed income sectors as well as duration.

- Modestly positive on global fixed income with spreads on high yield securities proving resilient in the face of equity selloff
- Compelling opportunities in several areas of global fixed income with attractive total return potential
- Despite spreads being tight relative to long-term averages, starting yields provide a buffer against potential risks that could lead to declining market values

Alternatives

Factors considered within liquid 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 subcategories of commodities, real estate, natural resource equities, 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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Source: Brinker Capital. Information is accurate as of October 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.

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