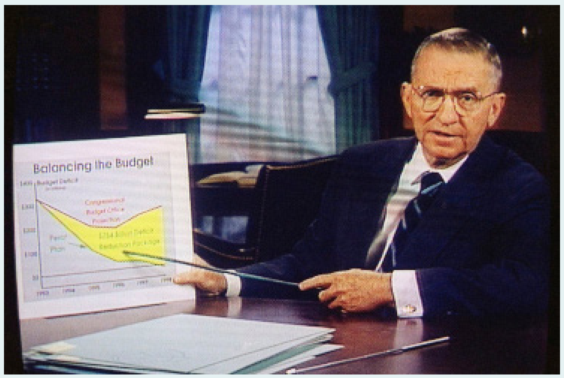
Brinker Capital

WEEKLY WIRE | JULY 22, 2019

Why we're not worried about the deficit and debt!



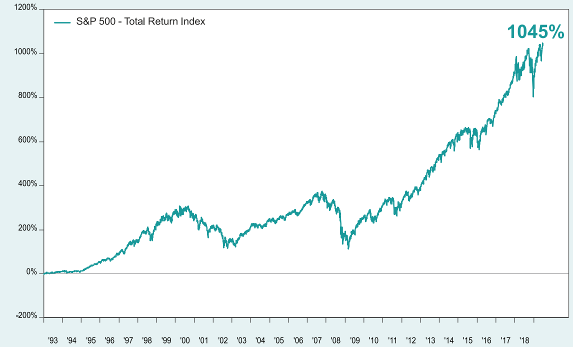
It's coincidental Ross Perot passed away at a time when many members of our political and economic classes are increasingly concerned about our nation's deficit and debt, and how both could be meaningful headwinds for the economy and risk assets going forward. While not dismissive of those concerns, we simply don't see the deficit or debt weighing on growth and risk assets today. We would note that history proves neither to be credible reasons for shunning US stocks.

When Mr. Perot first sought the Presidency in 1992, he made our growing deficit and debt central to his campaign and argued convincingly that our country and economy would suffer irreparable harm if both weren't reduced immediately. At the time, our annual deficit was roughly $300 million and our debt totaled $4 trillion.

Fast forward to today, and our annual deficit is approaching $1 trillion and total debt is about $21 trillion. Those numbers might be shockingly large on an absolute basis, but as always perspective and context are key. Our deficit today is about 4% of GDP, a level comparable to the early 1990s and early 2000s, and total debt is about 100% of GDP, a debt to GDP ratio below many other developed nations. Also, as interest rates are low our borrowing costs are quite manageable, with interest expense totaling 1.6% of GDP compared to 3% in 1989. The US is having no difficulty borrowing today, particularly in a world where $13 trillion of sovereign bonds outside our country offer investors a negative yield.

Finally, at the time of the 1992 Presidential election, the S&P 500 Index (S&P 500) traded at 431, while today it trades at 3,020. If concerns over our deficit and debt caused you to sell stocks in 1992, you missed out on a total return of more than 1,000% for the S&P 500, through June 2019. Someday our deficit and debt may pose a risk to our economy and markets. But not yet.

S&P 500 - Total Return



Stocks, bonds, and commodities (7/19/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2976.61	1.18%	18.74%	6.24%
MSCI AC World ex USA	285.02	-0.03%	11.59%	-2.55%
MSCI EAFE	1918.88	-0.18%	11.57%	-3.34%
MSCI EM	1057.49	0.25%	9.50%	-1.18%
Bloomberg Barclays US Agg	104.56	-0.13%	4.47%	4.69%
Crude Oil WTI	55.86	-4.46%	23.01%	-18.17%
Natural Gas	2.25	-2.38%	-20.98%	-18.28%

Treasury rates (7/19/19)

	Price	Yield
2Y	99.196 / 99.20	1.822
3Y	99.282 / 99.28	1.788
5Y	99.220 / 99.22	1.815
7Y	99.206 / 99.21	1.928
10Y	102.260 / 102.2	2.056
30Y	106.026 / 106.0	2.581

Weekly reports

This week

- Markit PMI Manufacturing
- Q2 GDP Growth SAAR

Last week

- Capacity utilization
- Housing starts SAAR

Brinker Capital Market Barometer

JULY 2019

The weight of the evidence shifted even further into positive territory. Our modest overweight to risk drifted higher in June, aligning portfolios with this view.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	→			●	Market momentum strengthened
Trend	→		●		Global equity indices moved above ST and LT moving averages
Investor sentiment			●		Investor sentiment surveys more optimistic but fund flows muted
Seasonality	←←	●			Third quarter historically weakest for equities

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Fiscal stimulus expected to increase leading up to 2020 election
Monetary policy				●	Expectations for a Fed rate cut; global central banks more accommodative
Inflation	→			●	Global inflation low and slowing; inflation expectations muted
Interest rate environment			●		Longer-term rates range-bound; yield curve inversion at short end
Macroeconomic			●		US growth solid but ex-US growth weaker; global trade war concerns
Business sentiment			●		Small business confidence off record high; CEO confidence little improved
Consumer sentiment				●	Remains at elevated levels; still supportive
Corporate earnings				●	US earnings growth still solid; softer outside US
Credit environment				●	Credit spreads have tightened

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US equity valuations at long-term averages; more attractive ex-US
Business cycle				●	Long recovery but has been muted; few signs point to recession
Demographics			●		Mixed (US and emerging markets positive; developed intl negative)