Brinker Capital

WEEKLY WIRE | JULY 29, 2019

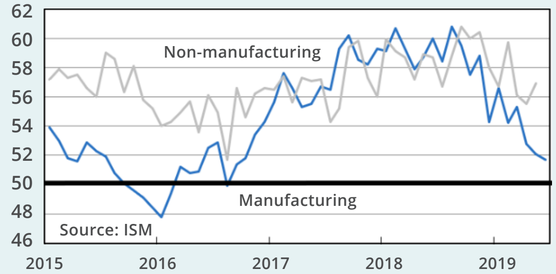
"And it's too late, baby now, it's too late" (Or is it?)

Carole King may have been lamenting the inevitable end of a long-lived relationship in her classic ballad "It's too late," but for worried investors she could have easily been singing about how US monetary and trade policy have conspired to bring an end to the longest-lived economic expansion and bull market in history. Said more specifically, it won't matter if the Federal Reserve (Fed) cuts rates and the US and China solve for trade this year – too many interest rate hikes and too much trade uncertainty have put us on an inevitable path to a recession and a bear market. It's simply too late. In support of that argument, the pessimistic market participant cites the flattening to a partially inverted US yield curve and significant weakening in manufacturing, most recently revealed in the June ISM Purchasing Manager Index which registered a barely expansionary 51.7 (50 is the dividing line between contraction and expansion).

Well, we aren't ready to give up on the economy and the market. We see our more optimistic outlook supported by the S&P 500 Index's 20% return year-to-date, solid Q2 GDP growth of 2.1%, and the US adding a healthy 244,000 new jobs in June. While manufacturing conditions have weakened, the sector is still expanding at home and the larger, more meaningful services sector is doing quite well. As the Fed lowers interest rates and the US/China solve for trade – both of which should happen this year – we would expect corporate and consumer sentiment and spending to get a boost, and for the economy and risk assets to be biased higher into year end.

Manufacturing losing momentum

ISM-MF and ISM Non-MF Indexes



Stocks, bonds, and commodities (7/26/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3025.86	2.86%	20.70%	7.34%
MSCI AC World ex USA	283.85	-0.44%	11.14%	-4.33%
MSCI EAFE	1914.68	-0.40%	11.33%	-4.81%
MSCI EM	1048.66	-0.59%	8.58%	-4.00%
Bloomberg Barclays US Agg	104.45	-0.24%	4.36%	4.82%
Crude Oil WTI	56.16	-3.95%	23.67%	-18.24%
Natural Gas	2.15	-6.80%	-24.55%	-22.68%

Treasury rates (7/26/19)

	Price	Yield
2Y	99.254 / 99.26	1.850
3Y	99.256 / 99.26	1.815
5Y	99.170 / 99.17	1.847
7Y	99.172 / 99.17	1.945
10Y	102.224 / 102.2	2.068
30Y	105.254 / 105.2	2.594

Weekly reports

This week

- Chicago PMI
- Private Nonfarm Payrolls

Last week

- Markit PMI Manufacturing 50
- Q2 GDP Growth SAAR 2.1%

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)