Brinker Capital

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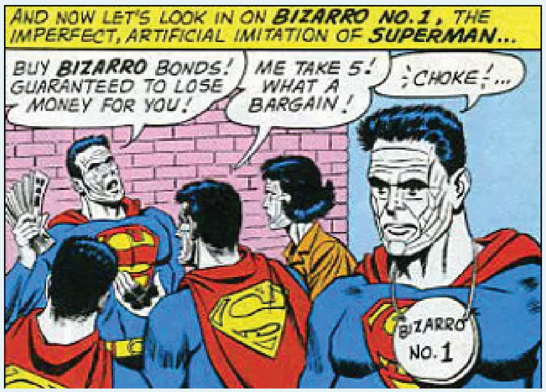
Bizarro bonds - guaranteed to lose you money, and not just in a comic strip



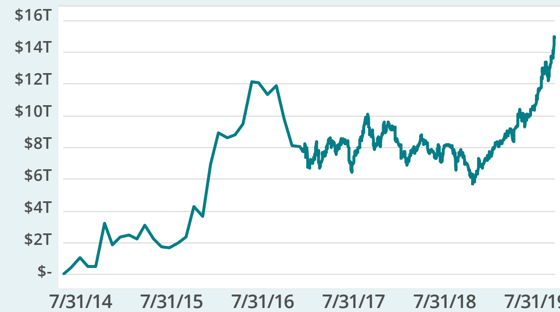
Fans of Superman – or Seinfeld – may be familiar with Bizarro World, a cubed planet far out in space that is inhabited by imperfect duplicates of Superman, Lois Lane, and their friends. In a nutshell, on Bizarro – relative to earth – up is down, hot is cold, good is bad, and beautiful is ugly. Introduced in the early 1960s, Bizarro World has become engrained in popular culture and come to represent or mean a weirdly mutated version of just about anything. Which brings us to the bond market.

At a high level, governments and corporations issue bonds to raise funds to pay for things, which could include a new highway in Arizona or a new factory for Ford. While bonds come in all shapes and sizes, most offer the bondholder an annual or semi-annual coupon payment (think yield) and a return of principal when the bond matures. Bondholders buy bonds for all sorts of reasons, including income and portfolio diversification. History shows highly-rated sovereign bonds (both US and ex-US) are one of the few ways to mitigate downside equity market exposure. Historically though, investors didn't purchase bonds with an eye toward losing money, but that is the Bizarro world we're living in today.

Approximately $15 trillion of ex-US sovereign bonds carry a negative yield, which means the holders of those bonds are essentially paying those governments for the right to borrow from them and anyone buying one of those bonds on the open market today and holding it until maturity is guaranteed to lose money. For those wondering how we got here, short-term factors weighing on yields include concerns over global growth driven by the US/China trade dust up and expectations the Federal Reserve will cut rates several times this year, while long-term factors include an aging global population willing to pay up for the certainty of a guaranteed return, even a negative return.

While yields could continue to move lower, we think it wouldn't take much good news on trade or global growth to push them meaningfully higher. Indiscriminately reaching for yield today strikes us as a risky proposition.

Global supply of bonds with negative yields hits $15 trillion



Stocks, bonds, and commodities (8/12/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2918.65	-0.79%	16.43%	3.01%
MSCI AC World ex USA	271.31	-4.84%	6.23%	-5.93%
MSCI EAFE	1840.48	-4.26%	7.01%	-5.66%
MSCI EM	981.19	-6.98%	1.60%	-7.64%
Bloomberg Barclays US Agg	106.01	1.25%	5.91%	5.88%
Crude Oil WTI	54.21	-7.29%	19.38%	-19.84%
Natural Gas	2.11	-8.62%	-26.03%	-28.36%

Treasury rates (8/12/19)

	Price	Yield
2Y	100.094 / 100.1	1.592
3Y	99.286 / 99.29	1.532
5Y	101.024 / 101.0	1.522
7Y	101.254 / 101.2	1.600
10Y	99.122 / 99.13	1.691
30Y	101.002 / 101.0	2.203

Weekly reports

This week
- NFIB Small Business Index
- Phila. Fed Index

Last week
- PMI Composite 52.6
- Producer Price Index 1.7%

Brinker Capital Market Barometer

AUGUST 2019

The weight of the evidence still leans positive; however, a number of factors have added to global uncertainty in the near term, increasing the potential for additional volatility. Given this outlook, portfolios will maintain a relatively neutral overall risk positioning.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	←		●		Market momentum has weakened with recent sell-off
Trend	←	●			Still support at 200-day moving average for S&P 500 Index
Investor sentiment	→			●	Investor sentiment moved to pessimism with recent sell-off
Seasonality		●			Seasonality remains a headwind until mid-October

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Fiscal stimulus expected to increase leading up to 2020 election
Monetary policy				●	Fed beginning insurance cuts; 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			●		Global growth slowdown but still positive; US/China trade war concerns
Business sentiment			●		Small biz confidence off record high; CEO confidence little improved
Consumer sentiment				●	Remains at elevated levels; still supportive
Corporate earnings				●	US earnings growth rates declining but still positive; still soft ex-US
Credit environment				●	Credit spreads have remained in check

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)