Brinker Capital

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It feels like Groundhog Day... Bill Murray, trade, tariffs, and the markets

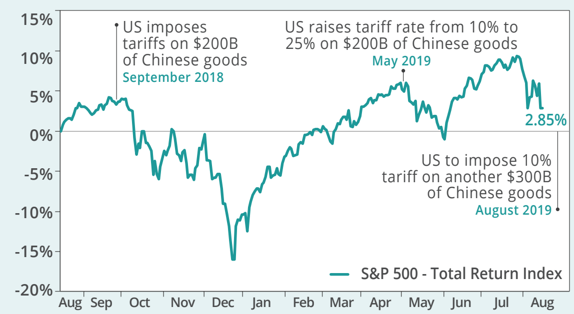
In the film Groundhog Day, Bill Murray plays tv weatherman Phil Connors who, against his wishes, is sent to report on the annual Groundhog Day event in Punxsutawney, Pennsylvania and, while there, relives Groundhog Day again, and again and again with an eye toward his having the perspective and the time to become a better person, which he eventually does.

While it might seem a stretch to link the movie Groundhog Day to the economy and markets – and in no way are we diminishing the angst recent market volatility has caused or implying the US is solely responsible for the very challenged US/China trade discourse – we think investors can be forgiven if they feel they've been reliving the same day over and over and over again when it comes to trade, tariffs, and the markets. Indeed, we have been here before.

Over the past 12 months, there have been several points where the US/China trade relationship took a turn for the worse, including September 2018, May 2019, and this August. All three periods were marked by the same dynamics: tougher US trade rhetoric and policy (including new tariffs or increases in existing tariff rates), followed by a defiant response from an unmoved China, and a meaningful drop in US markets. There are two specific points worth making about these three flare-ups: 1) the US assumed a tougher negotiating posture after our markets and economy had performed well (i.e. we had the proverbial wind at our back) 2) after risk assets moved meaningfully lower, the US and China both assumed a more accommodative posture and promised to continue negotiations, actions that helped put a floor under stocks before helping them move sharply higher. Last week, the US announced it was postponing until December new tariffs on any number of goods imported from China. Hopefully, that was the first step back toward a more constructive US/China dialogue.

The US and China operate within different economic and political constructs, so reaching a meaningful agreement on trade won't be easy. However, it remains in the best interests of both countries to do so. And while the process has been unpleasant and unsettling, a pattern seems to have developed. As always, perspective is important.

S&P 500 - Total Return



Stocks, bonds, and commodities (8/16/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2888.68	-1.80%	15.23%	1.35%
MSCI AC World ex USA	267.37	-6.22%	4.68%	-5.67%
MSCI EAFE	1811.86	-5.75%	5.35%	-6.01%
MSCI EM	970.27	-8.02%	0.47%	-5.15%
Bloomberg Barclays US Agg	106.97	2.17%	6.87%	6.93%
Crude Oil WTI	54.93	-6.05%	20.96%	-16.66%
Natural Gas	2.20	-4.59%	-22.76%	-25.25%

Treasury rates (8/16/19)

	Price	Yield
2Y	100.160 / 100.1	1.485
3Y	100.062 / 100.0	1.430
5Y	101.180 / 101.1	1.420
7Y	102.164 / 102.1	1.491
10Y	100.192 / 100.2	1.558
30Y	104.246 / 104.2	2.036

Weekly reports

This week

- Existing Home Sales SAAR
- Initial Claims

Last week

- NFIB Small Business Index 104.7
- Phila. Fed Index 16.8

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)

Source: Brinker Capital. Information is accurate as of August 6, 2019. 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. Brinker Capital Inc., a registered investment advisor. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. Barclays US Aggregate Index: A market capitalization-weighed index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries.