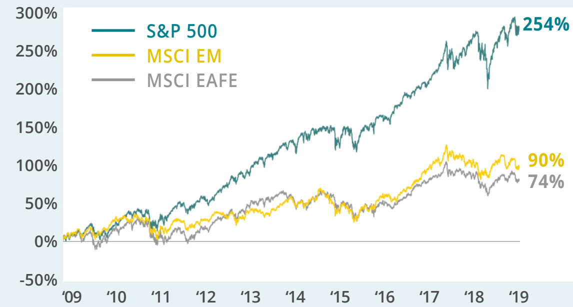
The US continues to lead the global equity market race

When it comes to the global equity market race, well, it hasn't been much of a race. With US equities – as measured by the S&P 500 Index (S&P 500) – up 254% over the past 10 years and 18% in 2019 vs. developed international equities – as measured by the MSCI EAFE Index – up 74% and 10% and emerging international equities – as measured by the MSCI EM Index – up 90% and 7%, respectively, through the end of August. As Brinker Capital has a bias toward US equities, the return differential isn't an unwelcome phenomenon, though the severity of the performance gap begs two questions: 1) Why the dramatic difference in US – EAFE – EM return streams? 2) When might EAFE and EM equities gain on US equities?

We would argue the seeds of US outperformance were planted during and immediately following The Great Recession, as Washington, D.C. and Wall Street took dramatic steps to confront the economic fallout of the burst housing bubble, including the rapid recapitalization of the US banking system, while the Federal Reserve (Fed) pursued unconventional measures to both push liquidity into our economy and risk assets higher (think Quantitative Easing), and a new crop of world-beating US companies began to emerge, including Facebook, Google, and Netflix. More recently, strong year-to-date US equity market returns reflect strong US economic performance, as the US consumer – which accounts for about 70% of US GDP – is benefiting from low unemployment, rising wages, and a strong housing market, while other countries, which are much more dependent on global growth, struggle as the US and China trade dust-up continues. Now, the upside to the meaningful underperformance of ex-US equities is that many markets around the world are very attractively valued. However, until we solve for trade in a meaningful way and Europe manages through some of its structural challenges, including Brexit, we think US equities will continue to outdistance their foreign rivals and we expect to remain overweight the asset class.

US/EAFE/EM: 10-year performance



Stocks, bonds, and commodities (9/16/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3007.39	2.23%	19.97%	3.53%
MSCI AC World ex USA	282.85	-0.79%	10.74%	-0.60%
MSCI EAFE	1919.61	-0.14%	11.61%	-1.00%
MSCI EM	1026.61	-2.68%	6.30%	-0.19%
Bloomberg Barclays US Agg	105.06	0.34%	4.97%	5.68%
Crude Oil WTI	54.82	-6.24%	20.72%	-20.54%
Natural Gas	2.62	13.56%	-8.07%	-5.28%

Treasury rates (9/16/19)

	Price	Yield
2Y	99.136 / 99.14	1.794
3Y	99.080 / 99.08	1.755
5Y	97.202 / 97.20	1.749
7Y	97.006 / 97.01	1.832
10Y	97.172 / 97.17	1.898
30Y	97.120 / 97.13	2.372

Weekly reports

This week

- Capacity Utilization
- Philadelphia Fed Index

Last week

- NFIB Small Business Index 103.1
- Initial Claims 204K

Brinker Capital Market Barometer

SEPTEMBER 2019

The weight of the evidence remains moderately positive, in line with our neutral to slight overweight overall risk positioning in portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Improvement in new highs
Trend	→		●		S&P 500 Index breakout from recent range
Investor sentiment				●	Sentiment surveys show pessimism; equity fund flows negative
Seasonality		●			Seasonality remains a headwind until mid-October

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	←		●		Fiscal stimulus potentially dwarfed by tariffs in 2020
Monetary policy				●	Expect additional Fed rate cuts; global central banks accommodative
Inflation				●	Global inflation low; US wage growth has increased
Interest rate environment			●		Significant amounts of debt trading at negative rates; curve inversion
Macroeconomic			●		Global growth slowdown but still positive; US/China trade war concerns
Business sentiment			●		Small biz confidence improved; CEO confidence moderately pessimistic
Consumer sentiment				●	Measures have ticked down but remain at elevated levels
Corporate earnings	←		●		US earnings growth slow but positive; weaker ex-US
Credit environment				●	Credit spreads have remained in check despite equity market volatility

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; increasing fears of US recession
Demographics			●		Mixed (US and emerging markets positive; developed int'l negative)