Brinker Capital

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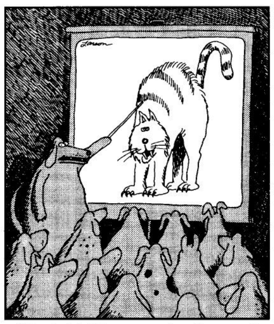
Was that big market drop really so big? Why context is key.

Dow tanks 800 points in worst day of 2019 after bond market sends recession warning



"Now, in this slide we can see how the cornered cat has seemed to suddenly grow bigger....

Trickery!

Trickery!

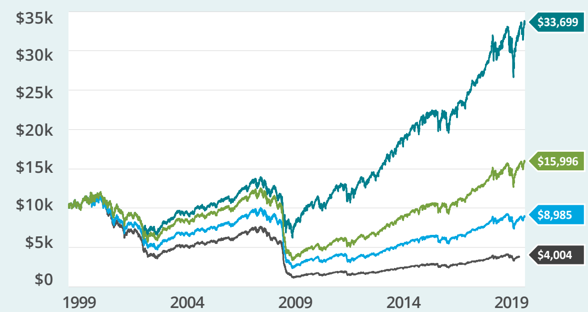
Trickery!"

Context is key to analyzing and understanding the economy and markets and making informed decisions that lead to successful investment outcomes. Nowhere is context more important than near-term stock market moves, particularly when it comes to the Dow Jones Industrial Average (the Dow).

To that point, on August 14, the Dow tumbled 800 points on concerns the US/China trade dust up was hurting the global economy. Set aside the fact that the Dow is a 30 stock, price-weighted index that doesn't represent the broad market, 800 points is a big, scary number which the financial media was more than happy to focus on (nothing attracts viewers and readers like fear). Relative to the price of the index, the 800 point drop wasn't all that meaningful, equal to about a 3% pullback. While a 3% move lower isn't fun, it doesn't get us anywhere near the worst one day return in the history of the Dow. In fact, it takes a pullback of 7% just to crack the index's top 20 worst days. Given the high, absolute level of the Dow today (it trades just shy of 27,000), and the fact that since 1896 it has fallen by at least 2% in a single day about 1,000 times, we should be prepared for big point drops in the Dow and we should be prepared to put those point drops in context.

Putting market moves in context is key because it should help us better manage how we respond to market volatility. That should help us better maintain a long-term view and that should help us remain invested. Consider if you invested $10,000 in the S&P 500 Index 20 years ago, your initial investment would be worth about $33,000 today. However, miss just the best 40 days for the market over those 20 years and your initial investment would be worth about $4,000 today. Wealth can't be created if capital isn't invested, and remain invested.

S&P 500 (1999 – 2019 / $10,000 initial investment)



Stocks, bonds, and commodities (9/6/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2978.71	1.26%	18.82%	3.73%
MSCI AC World ex USA	277.71	-2.60%	8.73%	-1.07%
MSCI EAFE	1882.43	-2.07%	9.45%	-1.21%
MSCI EM	1007.96	-4.45%	4.37%	-1.47%
Bloomberg Barclays US Agg	106.95	2.15%	6.85%	7.40%
Crude Oil WTI	56.73	-2.98%	24.93%	-16.27%
Natural Gas	2.49	7.84%	-12.70%	-10.34%

Treasury rates (9/6/19)

	Price	Yield
2Y	99.290 / 99.29	1.544
3Y	100.012 / 100.0	1.484
5Y	99.036 / 99.04	1.433
7Y	99.036 / 99.04	1.508
10Y	100.176 / 100.1	1.564
30Y	104.282 / 104.2	2.031

Weekly reports

This week

- NFIB Small Business Index
- Initial Claims

Last week

- IMS Manufacturing 49.1
- Hourly Earnings Y/Y 3.2%

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.