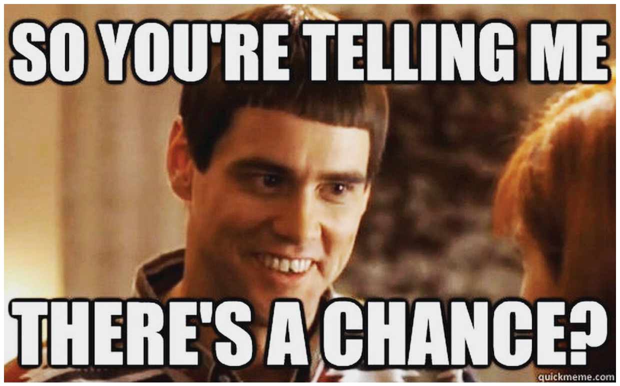
The upside of being rejected

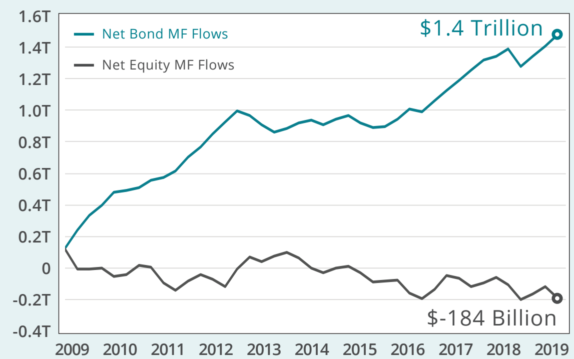


Dealing with rejection is never easy. Well, unless you're Lloyd in *Dumb & Dumber* and you're so delusional you can't appreciate you are being rejected, which, when one considers it, might not be such a bad way to go through life. That said, let's pivot from one of the great comedies of all time and toward the stock market, where rejection is actually a good thing.

When the masses fall in love with stocks – or any asset class – it's time to worry. Think of the stock market in the late '90s, when equities became a can't lose proposition and we were all going to quit our jobs and become rich by day trading Internet stocks. Or, consider housing 12 years ago, when most Americans were certain home prices could only go up, and any number of TV shows encouraged us to jump into the home-flipping game. As we know, the late '90s were a terrible time to buy US stocks and the mid-'00s were a terrible time to buy a house and that's because during those two periods everyone was in love with, respectively, stocks and real estate. When everyone is in love with a particular asset class they already own the asset class and, as a result, there is no one left to buy the asset class but there are plenty of folks to sell the asset class, so the path of least resistance for prices is lower.

We would argue – despite the duration and durability of the ongoing bull market – US equities have been rejected by most investors. Consider that since the US market bottomed in March 2009, about $1.4 trillion has gone into US bond funds and about $184 billion has come out of US stock funds (those trends are directionally consistent when ETFs are factored in). Now, some of the buy and sell decisions of the past 10 years were undoubtedly driven by financial planning and demographics, but we see the pain of the Great Recession as the more significant factor pushing people away from equities. Whatever the cause, most Americans have not participated in a meaningful manner in the longest-running bull market in our country's history. While we feel awful for those who have missed out on our 10+ year bull market run, that rejection of US stocks means that there are still a lot of people and a lot of capital that can come into the market, and that is a very bullish dynamic.

Cumulative Net Mutual Fund Flows (2009-2019)



Stocks, bonds, and commodities (10/28/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3022.55	1.54%	20.57%	13.69%
MSCI AC World ex USA	285.89	2.84%	11.94%	9.63%
MSCI EAFE	1944.22	2.90%	13.04%	9.36%
MSCI EM	1035.84	3.48%	7.25%	10.25%
Bloomberg Barclays US Agg	105.66	-0.55%	5.56%	7.11%
Crude Oil WTI	56.63	4.73%	24.71%	-16.22%
Natural Gas	2.46	5.58%	-13.71%	-23.72%

Treasury rates (10/28/19)

	Price	Yield
2Y	99.234 / 99.24	1.631
3Y	99.086 / 99.09	1.624
5Y	99.124 / 99.13	1.626
7Y	99.152 / 99.15	1.703
10Y	98.150 / 98.16	1.794
30Y	99.052 / 99.07	2.287

Weekly reports

This week

- Chicago PMI
- Hourly Earnings Y/Y

Last week

- Existing Home Sales SAAR 5,380K
- Markit PMI Manufacturing 51.5

Brinker Capital Market Barometer

OCTOBER 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			●		Momentum has continued to improve
Trend			●		S&P 500 Index remains in an uptrend
Investor sentiment	←		●		Sentiment survey data shifted more neutral; equity flows still negative
Seasonality	→ →			●	4Q tends to be the most constructive for equities

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 easing cycle continues
Inflation				●	Global inflation low; US wage growth has increased modestly
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 business confidence still elevated; CEO confidence more pessimistic
Consumer sentiment				●	Measures have ticked down but remain at elevated levels
Corporate earnings			●		US earnings growth slowing but positive; weaker ex-US
Credit environment				●	Credit spreads have remained in check; Fed aware of repo market issues

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)

Source: Brinker Capital. Information is accurate as of October 4, 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.