Brinker Capital

WEEKLY WIRE | OCTOBER 7, 2019

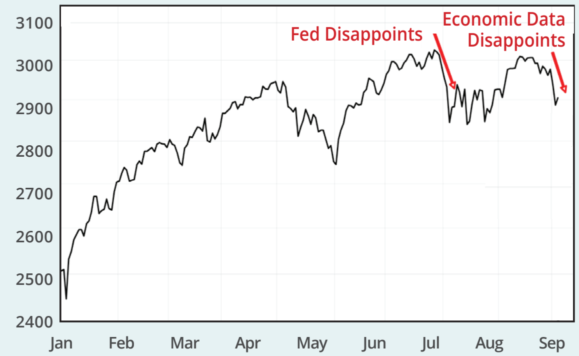
Halloween is coming and the market is getting spooky (again)

How fitting. It's October and just like Michael Myers in the Halloween movie, market volatility has returned to give us all a fright, with the S&P 500 Index (S&P 500) off nearly 4% at one point for the month.

We see recent volatility, beginning with the broad swings in August, as the result of an elevated market and elevated investor sentiment bumping up against evolving US monetary policy, US politics, trade uncertainty, and signs of an economic slowdown. Recall the S&P 500 made an all-time high on July 26 when it traded at 3,027 and came close to matching that high when it hit 3,022 on September 19. As risk assets move higher, investor optimism often does too, and investor sentiment is a contrarian indicator – meaning when investors become too optimistic, that is typically bearish for the market near-term and when investors become too pessimistic that is typically bullish for the market near-term. The market was poised for volatility into August and October. When the Federal Reserve (Fed) disappointed Wall Street by cutting interest rates just 25 basis points on July 31, the S&P 500 fell 200 points in early August. That disappointment helped invert the US 2-year/US 10-year section of the yield curve on August 14, and that recession signal knocked 100 points off the index. In late August, China announced tariffs on $75 billion of US goods and President Trump responded by ordering US companies to leave China and the market fell again. But as we entered September, the US/China trade discourse improved, the Fed cut rates again, the US 2-year/US 10-year section of the curve turned positive, and the market rallied. As the market hovered near an all-time high and September gave way to October, we were confronted with a contraction in US manufacturing, a slowing in US services, an impeachment inquiry, and news the US would put tariffs on $7.5 billion of European Union imports. As a result, the market tumbled. History may not repeat, but it certainly seems to rhyme!

Now that we understand what is driving volatility, how concerned should we be? Not very, at least not yet. While the US economy has slowed, we don't believe a recession is imminent; housing continues to strengthen and the US consumer is on firm footing. While an impeachment inquiry may prove additive to volatility, we are a long way away from any pivot in fiscal policy. Finally, another rate cut or two from the Fed in 2019 will shore up the US economy, while the most important trade dynamic remains between the US and China, and that continues to improve. Unless the Fed steps away or the US/China relationship falters meaningfully, our outlook remains one of modest growth and a gradual move higher for US equities.

S&P 500 Index: as of October 3 2019



Stocks, bonds, and commodities (10/7/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2952.01	-0.83%	17.76%	2.30%
MSCI AC World ex USA	273.82	-1.50%	7.21%	-2.76%
MSCI EAFE	1854.43	-1.85%	7.82%	-3.77%
MSCI EM	996.58	-0.44%	3.19%	-0.42%
Bloomberg Barclays US Agg	107.10	0.81%	7.00%	9.06%
Crude Oil WTI	52.65	-2.63%	15.94%	-29.18%
Natural Gas	2.31	-0.82%	-18.94%	-26.47%

Treasury rates (10/7/19)

	Price	Yield
2Y	100.070 / 100.0	1.383
3Y	100.146 / 100.1	1.337
5Y	100.270 / 100.2	1.323
7Y	101.110 / 101.1	1.421
10Y	101.016 / 101.0	1.508
30Y	105.174 / 105.1	2.002

Weekly reports

This week

- NFIB Small Business Index
- UofM Consumer Sentiment

Last week

- Chicago PMI 47.1
- Nonfarm Payrolls 136K

Chart source: FactSet, as of 10/3/2019. Image source: https://i.kinja-img.com. The views expressed are those of Brinker Capital and are not intended as investment advice or recommendation. For informational purposes only.

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)