

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

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-weighted 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.