

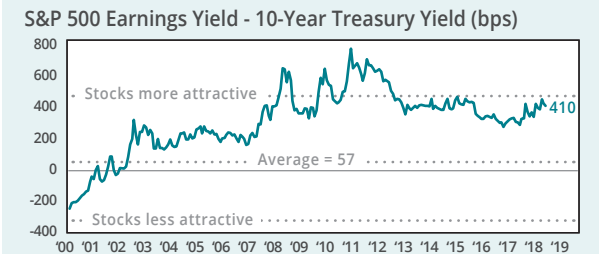
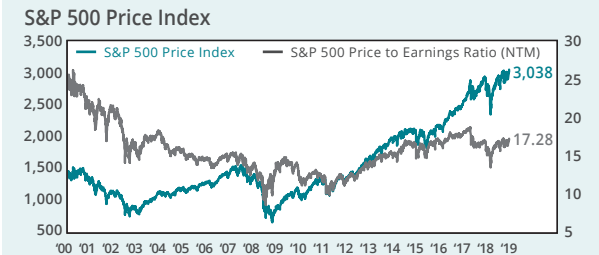
Earnings yield - What it is and what it says about stocks today

We would argue the most popular way to value individual stocks and the stock market is using earnings, with investors taking what a company or the market has earned (“reported earnings”) or what a company or the companies that make up the market are expected to earn (“estimated earnings”) and applying a multiple (“Price to Earnings” or “P/E Ratio”) to that number and arriving at how a company or the market is valued or how they think a company or the market should be valued, typically using the S&P 500 as a proxy for the broad market. Investors often disagree about what constitutes a “fair” multiple for a company or the market, but most agree a low interest rate environment supports a higher multiple, which is one of the reasons we feel the S&P 500 isn’t overvalued at 17x its next twelve month (“NTM”) earnings. While using earnings is the most popular way of valuing a stock or the stock market, it is also an absolute approach to valuation, meaning it doesn’t really help us consider the valuation of the stock market relative to other asset classes, which brings us to the point of this week’s Weekly Wire, which is Earnings Yield, which is simply the inverse of the market’s P/E Ratio and a great tool for comparing stocks and bonds and a number easily arrived at... for example, if the S&P 500 is at 3,037 and Wall Street expects the index to produce \$176 in EPS

over the NTM it has a NTM P/E of 17x (3,037/\$176) and an earnings yield of 5.8% (\$176/3,037).

Since the two asset classes of greatest importance to most US investors are US stocks and US bonds – one has historically been a hedge against the other and US investors are most impacted by how our markets are doing – it makes sense to think about the valuation of US stocks and US bonds on both an absolute basis and relative to each other, which brings us back to the earnings yield of the S&P 500 and how it compares to the yield of the US 10-year note. At the end of October, the 5.8% earnings yield of the S&P 500 was more than 400 basis points – or 4% -- higher than the yield of the US 10-year note (5.8% - 1.70%), and historically such a positive spread has indicated US stocks are attractively valued relative to bonds. To put the spread between the earnings yield of the S&P 500 and the yield of the US 10-year note in greater historical context, just before the stock market bubble of the late 1990s burst the yield of the US 10-year note EXCEEDED the earnings yield of the S&P 500 by more than 200 basis points.

We continue to believe that US stocks are reasonably valued on an absolute basis, and attractively valued relative to traditional fixed income.



Stocks, bonds, and commodities (11/16/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3120.46	4.83%	24.48%	14.04%
MSCI AC World ex USA	290.55	4.52%	13.76%	8.48%
MSCI EAFE	1976.69	4.62%	14.93%	9.04%
MSCI EM	1048.79	4.77%	8.60%	6.34%
Bloomberg Barclays US Agg	105.68	-0.53%	5.58%	7.34%
Crude Oil WTI	57.93	7.14%	27.57%	2.21%
Natural Gas	2.68	14.85%	-6.14%	-37.36%

Treasury rates (11/16/19)

	Price	Yield
2Y	99.246 / 0.000	1.614
3Y	100.010 / 0.000	1.612
5Y	99.092 / 0.000	1.648
7Y	99.056 / 0.000	1.750
10Y	99.066 / 0.000	1.835
30Y	101.096 / 0.000	2.313

Weekly reports

This week
• Philadelphia Fed Index
• Markit PMI Mfg.
Last week
• NFIB Small Business Index 102.4
• Capacity Utilization 76.7

Brinker Capital Market Barometer

NOVEMBER 2019

The weight of the evidence leans positive, in line with our modest overweight to risk across portfolios.

SHORT-TERM FACTORS (< 6 months)					
	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	→			●	Market momentum continues to improve
Trend	→			●	S&P 500 Index hit new high; trend is solid
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 offset by tariffs in 2020
Monetary policy				●	The Fed has cut three times and remains accommodative
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment			●		US yield curve has largely “un-inverted” but more progress is needed
Macroeconomic			●		Global growth slowdown but still positive; US/China trade war concerns
Business sentiment	←	●			CEO confidence has fallen sharply; small business confidence still elevated
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 tightened; little sign of stress in financial conditions
LONG-TERM FACTORS (36+ months)					
	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US equity valuations at long-term averages; more attractive ex-US
Business cycle	←		●		Longest expansion on record but also the slowest
Demographics			●		Mixed (US and emerging markets positive; developed int'l negative)

Source: Brinker Capital. Information is accurate as of November 5, 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.