Brinker Capital

WEEKLY WIRE | NOVEMBER 25, 2019

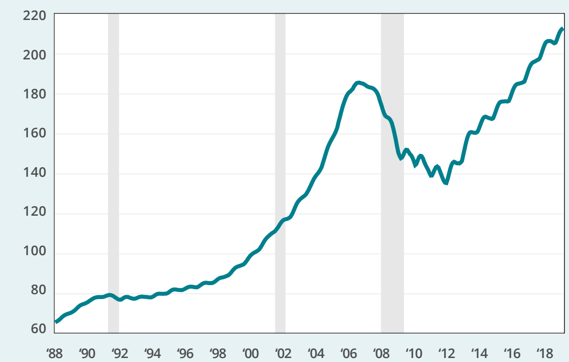
"Fixer Upper" may have gone away, but housing has come back!

America's favorite home improvement program, "Fixer Upper" starring Chip and Joanna Gaines, may have gone away, but housing has come back, and that's a big deal for the US economy.

Most folks understand housing was at the epicenter of the Great Recession, but many may not understand why the bursting of the housing bubble made the Great Recession so great (in the worst possible way). To better grasp that dynamic, remember real estate is our country's most levered asset class, which simply means most Americans take on a significant amount of debt (in the form of a mortgage) to buy a house. Now, that debt typically doesn't present a problem as long as the associated asset (the house) is increasing in value; when the asset drops in value, tremendous financial pain ensues. To add insult to injury, real estate led recessions are largely immune to the Federal Reserve's (Fed) preferred cure for a downturn – lower interest rates. Consider the following, we buy a house for $250K, putting 20% down and borrowing 80%, or $200K, in the form of a 30 year 6% mortgage. If the value of the house drops 30% to $175K we are now "upside/down" on the home by $25K, meaning we owe $200K on a house worth $175K (to say nothing of the $50K in equity from our down payment that has evaporated). Our house was – as for most Americans – our most important and valuable asset. We are beyond despondent.

But wait, the Fed has cut rates to 0% and our bank is offering a 30 year 3% mortgage; we can refinance our mortgage, save hundreds a month in interest, and begin spending again – we and the economy are saved! Right? Unfortunately, wrong. We can't refinance – we have no equity in the house and no cash for another "down payment." We are stuck. We have to wait and hope housing and the economy heal. That dynamic, as much as any, made the Great Recession, great. Well, the very good news is that housing has come back, and then some. The S&P/Case Schiller US National Home Price Index, after dropping about 30% through the Great Recession, sits 15% higher than its pre-Great Recession peak. Unlike the late 2000s, we see no signs of excess in the housing market today, with starts and inventory both low. The cherries on top of the housing sundae are that while they stopped airing new episodes of Fixer Upper in early 2018, reruns are easily come by on HGTV and, more importantly, Chip and Joanna should be back soon with a new show on their own network. We are a long way away from the Great Recession.

S&P/Case-Shiller US National Home Price Index



Stocks, bonds, and commodities (11/25/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3110.29	4.49%	24.07%	18.15%
MSCI AC World ex USA	289.16	4.02%	13.22%	9.40%
MSCI EAFE	1964.84	4.00%	14.24%	9.61%
MSCI EM	1048.55	4.75%	8.57%	8.19%
Bloomberg Barclays US Agg	105.88	-0.34%	5.78%	7.57%
Crude Oil WTI	57.93	7.14%	27.57%	14.89%
Natural Gas	2.70	15.79%	-5.37%	-37.37%

Treasury rates (11/25/19)

	Price	Yield
2Y	99.250 / 99.25	1.611
3Y	100.016 / 100.0	1.603
5Y	99.122 / 99.12	1.629
7Y	99.150 / 99.15	1.705
10Y	99.234 / 99.25	1.776
30Y	103.034 / 103.0	2.231

Weekly reports

This week

- New Home Sales
- Chicago PMI

Last week

- Philadelphia Fed Index 10.4
- Markit PMI Manufacturing 52.2

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-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.