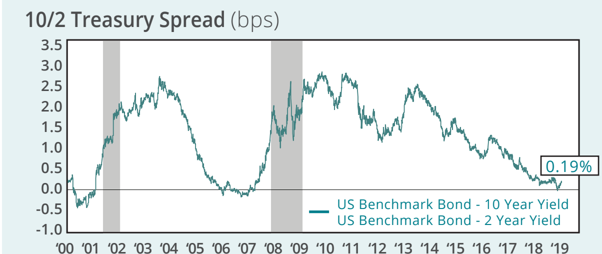
Uninvert – to restore from an inverted state; to turn the right way round again

Truth be told, we are not certain "uninvert" is even a word. A Google search for uninvert led us to the website Wiktionary and the definition in our headline above, while a search on the Merriam-Webster website informed us uninvert was not to be found in the world's most famous dictionary. Either way, we are embracing "to restore from an inverted state; to turn the right way round again" and focusing on how uninvert relates to the recent behavior of the US yield curve and, on that front, we've gotten the word and it's good!

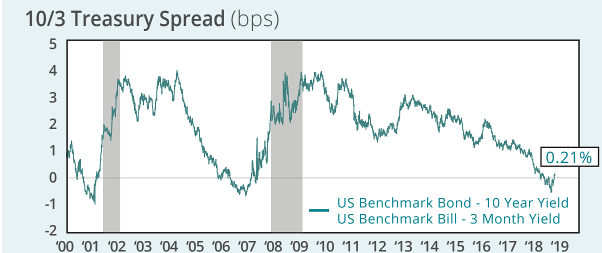
If there is one issue – other than US/China relations – that has preoccupied Wall Street this year it is the US yield curve; more specifically, whether the shape of the curve was signaling that a recession was imminent. To back up, the curve is the plotting of yields on offer from US bills, notes, and bonds. Most of the time, the curve is positively sloped, meaning yields on shorter-term debt instruments (such as bills) are below yields on longer-term debt instruments (such as notes and bonds). However, every once in a while, yields on shorter-term instruments equal yields on longer-term instruments (when that happens the curve is said to be flat) or exceed yields on longer-term instruments (when that happens the curve is said to be inverted).

Wall Street obsesses over the shape of the curve as it has inverted prior to every US recession of the past 50+ years, and the two most watched parts of the curve inverted earlier this year (the 10- year/3-month part of the curve beginning in May and the 10-year/2-year part of the curve briefly in August). We always believed that the inversion of the 10-year/3-month curve was driven by too tight US monetary conditions and that the inversion of the 10-year/2-year curve was driven by concern the US/China trade dust up would cause a global recession. We also believed if the Federal Reserve (Fed) became more accommodative and we saw progress on the trade front, we could avoid recession and the stock market would be biased higher. Well, the Fed has cut rates three times and the US/China discourse has improved meaningfully, and we have gotten both a steepening of the curve (the 10-year/3-month curve and 10-year/2-year curve have "uninverted," with the 10-year yield about 20 basis points higher than the 3-month yield and 2-year yield, respectively) and the stock market hitting an all-time high. We believe the steepening US yield curve is reflecting investor optimism about increasing global growth into 2020 and, for now, we believe that optimism is well placed.

10/2 Treasury Spread (bps)



10/3 Treasury Spread (bps)



Stocks, bonds, and commodities (11/4/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3066.91	3.03%	22.34%	12.63%
MSCI AC World ex USA	289.17	4.02%	13.22%	6.71%
MSCI EAFE	1966.70	4.09%	14.35%	7.06%
MSCI EM	1049.19	4.81%	8.64%	5.26%
Bloomberg Barclays US Agg	106.21	-0.03%	6.11%	8.54%
Crude Oil WTI	55.95	3.48%	23.21%	-11.39%
Natural Gas	2.80	19.96%	-1.96%	-14.89%

Treasury rates (11/4/19)

	Price	Yield
2Y	99.282 / 99.28	1.556
3Y	99.156 / 99.16	1.549
5Y	99.254 / 99.26	1.541
7Y	99.310 / 99.31	1.629
10Y	99.060 / 99.07	1.714
30Y	101.072 / 101.0	2.192

Weekly reports

This week

- JOLTS Job Openings
- Initial Claims

Last week

- Chicago PMI 43.2
- Hourly Earnings Y/Y 3.0

Chart source: Factset, as of 10/29/2019. 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)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
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)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
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)

Factor	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	Comment
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.