Brinker Capital

WEEKLY WIRE | DECEMBER 16, 2019

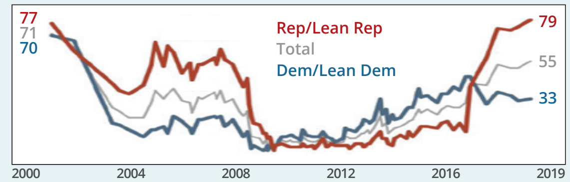
Is there a bull market in feeling bad?

As 2019 draws to a close, US investors have much to celebrate: a YTD gain of 27% for the S&P 500 Index (S&P 500), its best annual showing since 2013; an economy expanding for the 10th consecutive full calendar year; inflation well anchored, with the Consumer Price Index near 2%; and a robust labor market, with the US unemployment rate at 3.5%, a 50-year low. Yet, despite what strikes us as much more good news than bad news when it comes to the market and economy, it doesn't seem too many of us are in a celebratory mood. Consider this one data point, investors have pulled $136 billion from US equity-focused mutual funds and ETFs so far this year, the biggest withdrawal on record. If the way a person allocates capital is the ultimate reflection of their feelings about the world, how do we square good news on the markets and the economy with investor behavior, and what might that dynamic mean for the markets going forward?

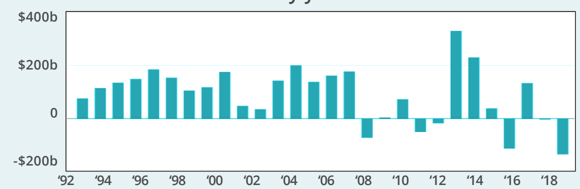
We concede that demographics and prudent financial planning are playing a role in investors' tepid embrace of stocks – as we age, we are often more interested in income than capital appreciation and put an emphasis on certainty of return – but we suspect "muscle memory" from The Great Recession and our strained political and cultural discourse are more meaningful factors influencing investor behavior. Said differently, the 2008/2009 downturn was such a blow to investor psyche and assumptions many of us simply walked away from risk assets, while our current political and cultural dynamic is so troubling that many investors are likely missing or dismissing data points that reflect a very healthy US economy and support an optimistic outlook for US equities.

While we lament that any number of US investors have missed out on or not fully participated in our nation's current – and longest-running – bull market, there is an upside to that dispiriting development. If investors have not fully embraced US equities as an asset class – and we believe they haven't – it should mean we are far from a market top and that there is ample capital available to come into the market, capital that could drive our historically long-lived bull market much further for much longer.

% who rate ntl. economic conditions as excellent or good



Flows into U.S. stock funds by year



Stocks, bonds, and commodities (12/16/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3168.80	6.45%	26.41%	21.88%
MSCI AC World ex USA	297.16	6.89%	16.35%	14.36%
MSCI EAFE	2015.62	6.68%	17.20%	15.00%
MSCI EM	1086.91	8.58%	12.54%	11.83%
Bloomberg Barclays US Agg	105.97	-0.25%	5.87%	6.72%
Crude Oil WTI	59.78	10.56%	31.65%	16.76%
Natural Gas	2.31	-0.99%	-19.08%	-39.72%

Treasury rates (12/16/19)

	Price	Yield
2Y	99.252 / 0.000	1.606
3Y	100.002 / 0.000	1.620
5Y	99.084 / 0.000	1.653
7Y	99.040 / 0.000	1.758
10Y	99.116 / 0.000	1.818
30Y	102.196 / 0.000	2.253

Weekly reports

This week

- Capacity Utilization
- Philadelphia Fed Index

Last week

- NFIB Small Business Index 104.7
- Initial Claims 252K

Brinker Capital Market Barometer

DECEMBER 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 still solid
Trend				●	Trend remains supportive
Investor sentiment			●		Survey data more optimistic but significant equity fund outflows
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				●	Fed likely to pause in December, but remain 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			●		Continued strength in US labor market; US/China trade war concerns
Business sentiment		●			CEO confidence has fallen sharply; small biz confidence ticked higher
Consumer sentiment				●	Measures have declined slightly 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 intl negative)

Source: Brinker Capital. Information is accurate as of December 11, 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.