Brinker Capital

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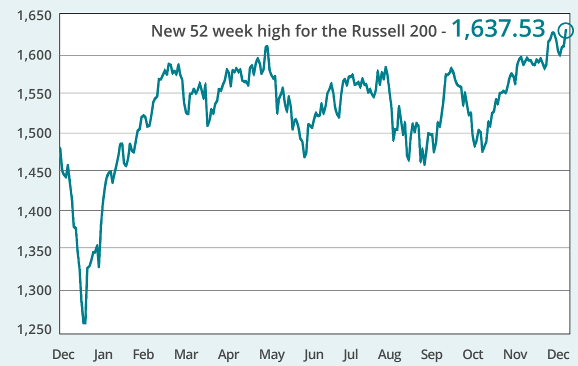
Small Caps have been packing a punch, and that could be big for the market

One needn't be a fan of Ant-Man and The Wasp to appreciate small things can pack a powerful punch. As it is with superheroes, so it is with stocks. With that convoluted opening out of the way, let's turn our focus to small cap stocks and what their recent strong performance might be telling us about the economy and the market. But first, a word on large cap companies.

Large cap US companies command the attention of the media, investors, and general public; consider the Dow Jones Industrial Average (a price-weighted index of 30 US companies) and the S&P 500 Index (a capitalization-weighted index of 500 US companies) are both the most reported on and followed of indices, and home to the largest US stocks, including Microsoft, JP Morgan, and Johnson & Johnson. Now, we have no quarrel with a focus on big companies given their importance to the market and the global economy. But there is more to investing than the largest of large cap stocks, and lately small cap stocks – as represented by the Russell 2000 Index (a capitalization-weighted index of 2000 US companies) – have been performing exceptionally well. We see that performance as a bullish sign for the market and the economy – as small caps tend to do better when investors are more optimistic about the economy and risk assets, which makes sense since small companies tend to be more susceptible to economic crosswinds and more volatile than large companies. To put a finer point on small vs big returns, the Russell just made a 52-week high and is outperforming both the Dow and the S&P 500 in the fourth quarter.

Finally, beyond getting a pretty good read on how investors are feeling about the economy and risk assets, there are other reasons for paying attention to small caps, including the fact that they have historically outperformed large caps and are where one can find the great large cap companies of tomorrow. Consider Netflix which came public in 2002 with a market cap of $310 million and since its IPO has given investors a total return of 28,600% and today boasts a market cap of $135 billion. Our economy and our markets are far from perfect, but they seem to nurture and encourage innovation in a way that no other country's economy or markets can.

Russel 200 YTD 2019



Stocks, bonds, and commodities (12/9/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3145.91	5.68%	25.49%	19.48%
MSCI AC World ex USA	290.88	4.64%	13.89%	10.87%
MSCI EAFE	1981.63	4.88%	15.22%	12.05%
MSCI EM	1048.96	4.79%	8.61%	6.89%
Bloomberg Barclays US Agg	105.73	-0.48%	5.63%	6.48%
Crude Oil WTI	59.07	9.25%	30.08%	12.28%
Natural Gas	2.35	0.82%	-17.61%	-47.66%

Treasury rates (12/9/19)

	Price	Yield
2Y	99.236 / 0.000	1.629
3Y	99.300 / 0.000	1.644
5Y	99.066 / 0.000	1.664
7Y	99.014 / 0.000	1.770
10Y	99.064 / 0.000	1.836
30Y	101.304 / 0.000	2.283

Weekly reports

This week
- NFIB Small Business Index
- Initial Claims

Last week
- ISM Manufacturing 48.1
- Hourly Earnings Y/Y 3.1%

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.