Brinker Capital

WEEKLY WIRE | JANUARY 13, 2020

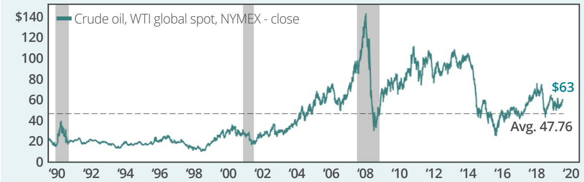
The US, Iran, oil, and the economy... Where do we go from here?

We have been asked often what we think of US/Iranian hostilities, including how that dynamic might develop and how it might impact the economy. Truth be told, an investment professional should be reluctant to opine on any budding global conflict since discerning the direction it will take is notoriously difficult and it is a bit unseemly to speak of economic growth and financial assets while our troops are in harm's way.

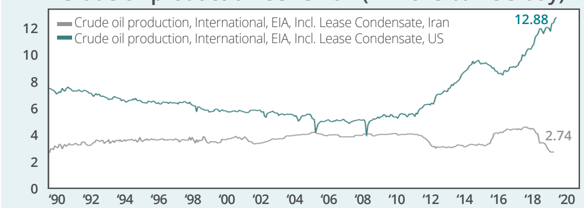
With that said, we are in the business of assessing potential risk and return and allocating our client's capital accordingly, and developments in the Middle East have markets on edge. As of this writing, the US has targeted Iranian Major General Qassem Soleimani and Iran has launched missiles at military bases in Iraq housing US military personnel; fortunately, there have been no reported casualties. It appears both countries are seeking a de-escalation of hostilities, and while we do expect a cooling off, we still see two primary risks tied to the conflict. The first being China – which has a robust trading relationship with Iran – responding to recent US activity by abandoning the Phase 1 trade agreement. The second being a spike in the price of oil, a development that could come about should Iran seek to disrupt oil shipments through the Strait of Hormuz (about 30% of the world's seaborne-traded oil products travel through the Strait). It bears noting that every US recession of the past 30 years was preceded by a jump in the price of oil. Fortunately, for now, neither scenario is likely; as a delegation from China remains scheduled to visit the US on January 15th for an expected signing of the Phase 1 agreement, while Iran has not directed its military assets at the Strait.

Beyond those developments, massive gains in US oil production in the past 10 years has radically altered our country's economic relationship with the commodity; consider that the US is the world's largest producer – and also a net exporter – of petroleum. Whereas in the past, a jump in the price of oil would be an unmitigated negative for our economy, the dynamic is much more nuanced today, with price inflation accruing to the benefit of our now substantial domestic oil and gas industry. While we are more indifferent to the price of oil today, any meaningful appreciation is unlikely as world markets remain well supplied, largely due to US production. A final point about the global energy industry: the US produces about 12.9 million barrels of oil a day, nearly five times Iran's daily production. Despite the heightened geopolitical risk, we remain optimistic on the economy and markets as we move into 2020.

Crude oil, WTI global spot $/bbl



Crude oil production US vs Iran (millions barrels/day)



Stocks, bonds, and commodities (1/13/20)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3265.35	1.07%	1.07%	25.77%
MSCI AC World ex USA	303.52	0.61%	0.61%	14.23%
MSCI EAFE	2040.49	0.17%	0.17%	14.24%
MSCI EM	1133.63	1.70%	1.70%	13.24%
Bloomberg Barclays US Agg	106.04	0.41%	0.41%	5.82%
Crude Oil WTI	59.12	-3.18%	-3.18%	14.60%
Natural Gas	2.21	0.82%	0.82%	-25.06%

Treasury rates (1/13/20)

	Price	Yield
2Y	100.030 / 100.0	1.572
3Y	99.236 / 99.24	1.586
5Y	100.174 / 100.1	1.633
7Y	100.022 / 100.0	1.737
10Y	99.112 / 99.12	1.821
30Y	102.022 / 102.0	2.278

Weekly reports

This week

- Empire State Index
- Housing Starts SAAR

Last week

- ADP Employment Survey 202K
- Hourly Earnings Y/Y 2.9%

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)