

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



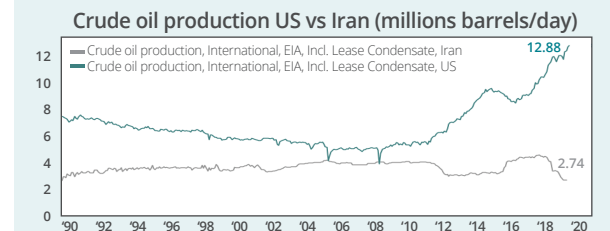
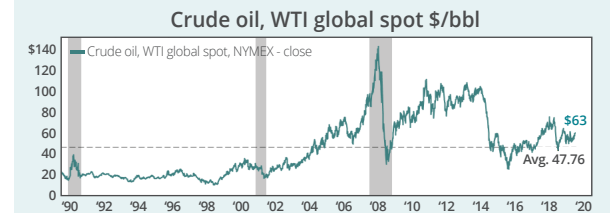
We have been asked often what we think of US/Iranian hostilities, including how that dynamic might develop and

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.



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
<ul style="list-style-type: none"> Empire State Index Housing Starts SAAR
Last week
<ul style="list-style-type: none"> 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)

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-weighted 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.