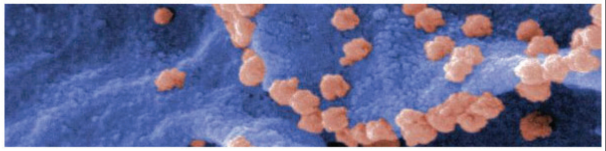
Brinker Capital

WEEKLY WIRE | JANUARY 27, 2020

The Coronavirus

History may not repeat, but it does rhyme

CDC SARS Response Timeline



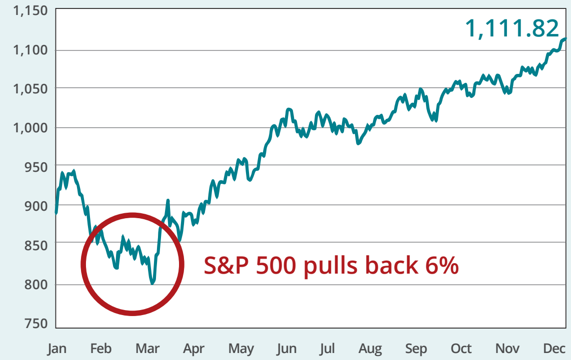
SARS: Key Events

Severe Acute Respiratory Syndrome (SARS) was first discovered in Asia in February 2003.

By their nature, exogenous shocks are impossible to model for – we simply don't know when to expect the unexpected. As exogenous shocks occur, investors will understandably seek to discern their ultimate impact on the economy and the stock market. Looking back through history its probably the most effective way of putting unfolding geopolitical events in context. As they say, if history doesn't repeat, it does rhyme. And so it goes with the coronavirus.

While we do not want to look past the human toll the coronavirus has taken, clearly, it is top of mind for many investors who are concerned it will derail our record-long economic expansion and bull market. While our crystal ball is as foggy as the next, we are optimistic the virus will be contained and, beyond weighing on investor sentiment and markets near term, will have no lasting impact on the markets and the economy. The reference point for that prognostication is our experience with the 2003 outbreak of Severe Acute Respiratory Syndrome – better known as SARS – which also originated in China and was also a coronavirus (so named for the crown-like spikes on their surfaces). From its identification in February 2003 until it was stopped in July 2003, SARS sickened 8,100 people in 29 countries and caused 774 deaths. By comparison, the coronavirus has sickened approximately 2,700 people in more than a dozen countries and caused 80 deaths. While the discovery of SARS was a catalyst for a 6% market pullback in early 2003, the S&P 500 Index was up 27% that year, as the virus was contained and investors pivoted back to a US economy that continued on a slow but steady recovery from the recession of 2001. This point is worth emphasizing – fortunately, our worst fears are rarely realized, with most geopolitical risks flaring up and fading away. With that said, we are also reminded of the importance of keeping our focus on what ultimately drives risk assets: fiscal policy, monetary policy, and economic fundamentals. On that front, we see more good news than bad, and as such, we remain both optimistic and overweight risk.

S&P 500 Index - 2003



Stocks, bonds, and commodities (1/27/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3295.47	2.00%	2.00%	23.67%
MSCI AC World ex USA	303.12	0.48%	0.48%	11.79%
MSCI EAFE	2044.92	0.39%	0.39%	12.75%
MSCI EM	1119.39	0.42%	0.42%	8.43%
Bloomberg Barclays US Agg	106.75	1.08%	1.08%	6.53%
Crude Oil WTI	52.80	-13.53%	-13.53%	-1.66%
Natural Gas	1.95	-11.15%	-11.15%	-36.69%

Treasury rates (1/27/2020)

	Price	Yield
2Y	100.082 / 100.0	1.484
3Y	100.022 / 100.0	1.473
5Y	101.052 / 101.0	1.502
7Y	100.302 / 100.3	1.603
10Y	100.180 / 100.1	1.686
30Y	105.096 / 105.1	2.132

Weekly reports

This week

- Richmond Fed Index
- Chicago PMI

Last week

- Initial Claims 211K
- PMI Composite 53.1

Brinker Capital Market Barometer

JANUARY 2020

The weight of the evidence shifted even further into positive territory. The strong market rally following our November reallocation led portfolios to drift further overweight to risk, which is aligned with this view.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum has strengthened
Trend				●	Trend remains supportive
Investor sentiment	←	●			Sentiment has reached excessive optimism levels
Seasonality				●	Seasonality not as constructive as in 4Q, but still positive

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	→			●	Fiscal policy supportive in 2020
Monetary policy				●	Fed on pause but remains accommodative; global central banks easing
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment			●		US yield curve has un-inverted but remains flat through 5 years
Macroeconomic	→			●	Continued strength in US labor market; improvement on trade
Business sentiment		●			CEO confidence remains a concern; small biz confidence more positive
Consumer sentiment				●	Consumer confidence solid
Corporate earnings			●		Expect improvement in global earnings in 2020
Credit environment				●	Credit spreads tight; little signs of credit market stress

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US valuations > LT avgs but supported by low rates; more attractive ex-US
Business cycle			●		Longest expansion on record but also the slowest
Demographics			●		Mixed with US and emerging markets positive; developed intl negative

Source: Brinker Capital. Information is accurate as of January 24, 2020. 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.