

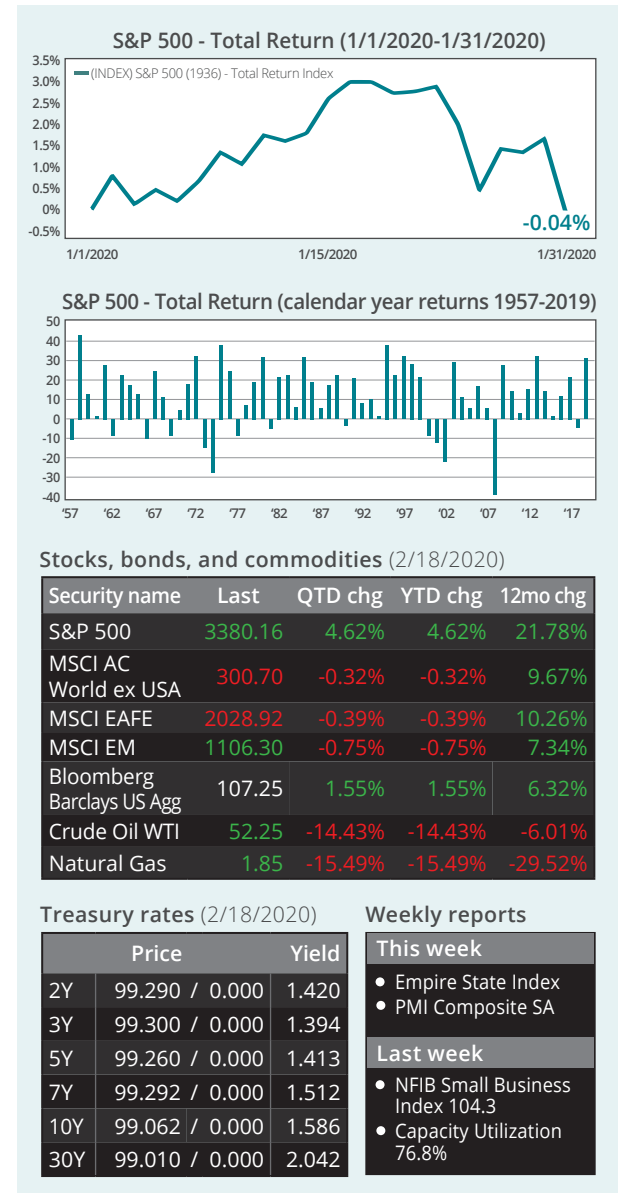
As goes January, so goes the year. Not so fast.

The stock market is a fascinating place. It's where capital meets ideas and risk says hello to reward. It's also where millions of investors decide the value of thousands of publicly traded companies, and in so doing not only set the price for individual securities and the overall market but offer us a window into the outlook for the real economy. Of all leading indicators, the market is probably the most closely followed as risk assets tend to lead the real economy – consider the market bottomed in March '09 while the economy didn't exit the recession until June '09. However, our focus in this weekly wire isn't on the market as a leading indicator for the economy, but on the market as a leading indicator for the market. Which brings us to one of Wall Street's most popular adages, "As goes January, so goes the year."

With "As goes January" the idea is how the market performs in January is how the market will perform for the year (e.g. if the market is up in January, it will be up for the year). As to why January returns might prove predictive (if at all) of full-year returns, the most accepted theory seems to do with momentum – if investors see the market get off to a strong start, they are more likely to invest incremental capital in the market, pushing prices still higher. The inverse holds true for a weak January – selling begets selling and lower equity prices. Since 1970, using the S&P

500 Index (S&P 500) to gauge January and full-year performance, the adage has a hit rate of about 70%. However, things get a bit muddled as you parse the data. Since 1970, a down January has been followed by a down year only 38% of the time, which makes sense in that markets tend to rise more than fall on an annual basis. Then we have January 2020, when things get really muddled as the market finished the month flat with the conundrum being the market pretty much never finishes a year flat. The S&P 500 was off 0.04% for January, but from where we sit that move qualifies as no move at all. The closest we have come to an unchanged S&P 500 since 1957 was in 1960, when the index returned 0.47%.

So, what to make of "As goes January" this year? The same thing we make of most, or all, Wall Street adages every year – they can be fun, even fascinating windows into Wall Street, but should never be the basis for allocating capital. On that front, we always come back to economic fundamentals, fiscal policy, and monetary policy. That written, there is one bit of market history we are willing to hang our hat on and that is over the long-term markets are biased higher. Consider that the S&P 500 was positive 49 of the 62 years between 1957 and 2019, and over that timeframe provided investors an average annual return of 11.6%.



Brinker Capital Market Barometer

FEBRUARY 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-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.