Brinker Capital

APRIL 2020

Brinker Capital Market Barometer

The COVID-19 pandemic remains a weight on the economy, financial markets, and confidence. We continue to view this crisis as more of a temporary disruption to the economy, where a coordinated healthcare response and a powerful policy response—both fiscal and monetary—is needed to bridge the gap. The Federal Reserve (Fed) has swiftly gone all-in on promoting liquidity and market functioning, and we can expect easy monetary policy for the foreseeable future. Congress followed through last week with a $2 trillion fiscal package that provides support to individuals and businesses until we can reopen the economy again.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Markets have bounced off bottom but momentum still weak
Trend		●			Trend remains weak despite recent bounce; likely retest of lows
Investor sentiment				●	Extreme pessimism levels with bears outnumbering bulls; equity fund outflows
Seasonality			●		Seasonality neutral in second quarter

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	→			●	Strong response but unclear on speed of implementation and if more is needed
Monetary policy				●	Fed all-in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment	→		●		Treasury yields remain at low levels; yield curve has normalized
Macroeconomic		●			Significant growth decline in 2Q due to measures taken to prevent the spread
Business sentiment		●			CEO confidence likely to remain weak due to virus and election uncertainty
Consumer sentiment			●		Virus has started to have a negative impact on consumer confidence
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment			●		Credit environment challenging but Fed has implemented support measures

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation				●	Equity valuations attractive relative to long-term averages
Business cycle		●			US recession now the base case given disruptions caused by COVID-19
Demographics			●		Mixed - US and emerging markets positive but developed international negative

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SUMMARY

There are no changes to our evaluation of the **short-term factors.** Both market momentum and trend have remained weak despite the bounce off of the market bottom. We believe it's likely the market will retest its March 23 low as it digests the increases in COVID-19 cases and weaker economic data. Investor sentiment, a contrarian indicator, is positive, with survey readings in extreme pessimism territory and equity fund flows decidedly negative.

Within the **intermediate-term factors**, we shifted the interest rate environment from a negative to a neutral. Interest rates remain at low levels and the yield curve has normalized. Fiscal policy has moved from a neutral to a positive. While fiscal policy has become very supportive with the passing of the CARES Act, it remains to be seen how quickly some of the measures can be implemented, and if additional fiscal support is needed, which will depend on how long the economy is effectively shut down. We continue to view credit markets as neutral. Credit markets were deteriorating, but the Fed has stepped in with several emergency support programs, including the purchase of municipal bonds, investment-grade corporate bonds, and ETFs.

There are no changes within the **long-term factors**. Equity valuations are now below long-term average levels.

BrinkerCapital.com
800.333.4573

1055 Westlakes Drive, Suite 250
Berwyn, PA 19312
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