Brinker Capital

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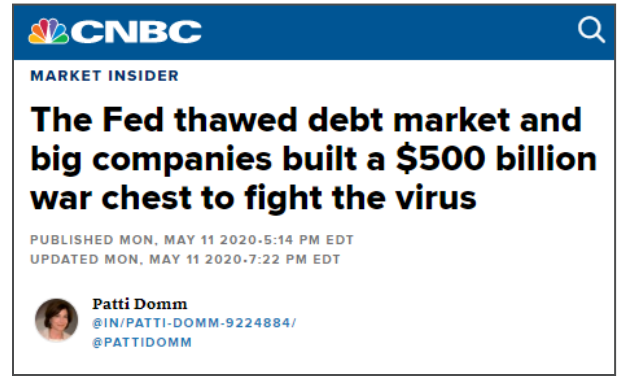
How the Federal Reserve is like Spike from Happy Days

As a child of the 70s, I have come to embrace a few, eternal truths: disco should have never died; big collars were a good idea, and the Fonz was the coolest guy who ever lived. Speaking of the Fonz, I am reminded of a Happy Days episode featuring Spike, the Fonz's nephew, and how that episode and Spike can help us all better understand monetary policy today. Seriously.

The particular episode had Richie and his pals running an overnight camp for kids in the Cunningham house, and boy did those kids cause a ruckus. They didn't even care they were disturbing the Fonz, who was entertaining an acquaintance in his apartment above the Cunningham's garage. So, since the kids weren't afraid of, and wouldn't listen to, the Fonz (THE FONZ!), he went and got someone they would be afraid of and would listen to, Spike! Now, Spike never laid a finger on the kids, he didn't need to – his presence was the catalyst for those kids to settle down and behave themselves, which brings us to the Federal Reserve (Fed) and its efforts to aid the economy by improving market liquidity and borrowing conditions for US companies.

Think back to late-February through late-March, when fixed income markets dislocated, with bid/ask spreads unusually wide and most companies unable to issue bonds. Then, on March 23 the Fed announced it would purchase a wide range of debt instruments, including corporate bonds, beginning in early May. Well, even though the Fed was weeks away from putting capital to work, bond market behavior began to improve immediately, with spreads tightening and demand skyrocketing, enabling investment-grade companies to issue approximately $600 billion worth of bonds over the past seven weeks. Said differently, just the presence of the Fed and its threat – well, I guess we should say promise – of action was enough for fixed income markets to open up again, putting companies in a much better financial position to weather this unprecedented economic downturn. On a final note, binge-watching reruns of Happy Days, Welcome Back Kotter, The Mary Tyler Moore Show, and any number of awesome 1970's sitcoms might not be the worst way for us to get through this coronavirus driven lockdown.



CNBC

MARKET INSIDER

The Fed thawed debt market and big companies built a $500 billion war chest to fight the virus

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Stocks, bonds, and commodities (5/18/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2863.70	10.80%	-11.36%	-0.44%
MSCI AC World ex USA	238.42	3.80%	-20.97%	-13.68%
MSCI EAFE	1594.72	2.25%	-21.71%	-14.66%
MSCI EM	901.16	6.20%	-19.15%	-10.88%
Bloomberg Barclays US Agg	109.65	1.34%	3.83%	6.98%
Crude Oil WTI	29.78	45.41%	-51.23%	-52.63%
Natural Gas	1.64	-0.24%	-25.26%	-38.01%

Treasury rates (5/18/2020)

	Price	Yield
2Y	99.304 / 99.31	0.145
3Y	99.254 / 99.26	0.191
5Y	100.102 / 100.1	0.308
7Y	100.016 / 100.0	0.491
10Y	99.254 / 99.26	0.644
30Y	98.012 / 98.03	1.328

Weekly reports

This week
- Housing Starts SAAR
- Existing Home Sales SAAR

Last week
- NFIB Small Business Index 90.9
- Capacity Utilization 64.9%

Image source: https://www.pinterest.com/pin/633389135082851364/

Brinker Capital Market Barometer

MAY 2020

The COVID-19 pandemic remains the key driver for the economy, financial markets, and confidence. We continue to view this health crisis as more of a temporary disruption to the economy, where a powerful policy response—both fiscal and monetary—has been put in place to bridge the gap. We expect the equity market to remain range-bound in the near term as we wait for continued improvement in the COVID-19 data and assess the gradual reopening of the economy.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	→		●		Signs recovery is beginning to become more broad-based, but more is needed
Trend	→		●		Expect trading range until more clarity on therapeutics and economy reopening
Investor sentiment	←		●		Sentiment still leans bearish but not extreme; equity outflows moderated
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 is low and inflation expectations are muted
Interest rate environment	→			●	Treasury yields remain at low levels but stable; yield curve has normalized
Macroeconomic		●			Singificant growth decline in 2Q due to lockdowns to contain COVID-19
Business sentiment		●			CEO confidence likely to remain weak due to virus and election uncertainty
Consumer sentiment	←	●			Consumer confidence dropped to levels last seen in 2011
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 back at long-term averages after April's move higher in prices
Business cycle		●			US recession expected given disruptions caused by COVID-19
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of April 30, 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.