The market as a leading indicator...for the market

We frequently write about the stock market as a leading indicator of the real economy. The idea being the market will anticipate the economic environment to come, rallying in the face of awful economic news and selling off in the face of constructive economic news. We have come back to that dynamic often the past few months as we've been asked to reconcile the strong rebound in risk assets relative to the very dispiriting economic data of late. Consider that off its March 23 low of 2,192, the S&P 500 Index (S&P 500) is up 30%+ while the US unemployment rate sits at 14.7% and we lost 20.5 million jobs in April. The market is looking forward to a much more benign economic environment, and pricing in the unprecedented policy response to the coronavirus from the Federal Reserve and the Federal Government. We also think the economy bottomed out in April. Said differently, we see the move higher in the market as justified, and we continue to see the March 23 low in the S&P 500 as the low for the current market cycle, an opinion we have spoken to via our Brinker Capital Bear Market Bottom Checklist. If history is any guide, there are two other points worth noting about the market's move higher over the 40 trading days ending May 19, both of which come courtesy of our friends at Strategas. First, big moves higher like the one we have seen of late have typically taken place at bear market bottoms. Second, big moves higher like the one we have seen of late are typically followed by further gains for the market 125+ and 250+ trading days out. Think of it as the market being a leading indicator, for the market.

S&P Forward Performance Following Best 40 Day % Changes

Date	40 Day % Change	+20 Days	+65 Days	+125 Days	+250 Days
5/5/2009	33.6%	3.1%	10.3%	14.6%	33.0%
5/19/2020	**30.6%**	**?**	**?**	**?**	**?**
10/11/1982	29.5%	4.4%	9.1%	13.7%	24.7%
2/20/1975	24.6%	1.7%	10.2%	3.3%	20.5%
12/4/1998	22.6%	5.8%	10.3%	13.4%	19.7%
3/7/1991	20.7%	**-0.1%**	0.7%	3.7%	9.8%
2/22/2019	18.8%	0.3%	0.3%	4.7%	20.8%
11/16/2001	17.9%	**-0.4%**	**-4.3%**	**-4.1%**	**-20.6%**
6/17/1997	17.6%	4.7%	5.9%	6.6%	20.4%
12/20/1962	17.4%	3.9%	5.7%	11.4%	18.4%
	Average	2.6%	5.4%	7.5%	16.3%
	% Positive	77.8%	88.9%	88.9%	88.9%
	Historical Average	0.7%	2.2%	4.3%	8.8%
	Historical % Positive	61.1%	66.0%	70.2%	73.8%

Stocks, bonds, and commodities (5/22/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2955.45	14.35%	-8.52%	4.58%
MSCI AC World ex USA	246.97	7.53%	-18.13%	-9.42%
MSCI EAFE	1656.36	6.20%	-18.68%	-10.62%
MSCI EM	930.01	9.60%	-16.57%	-5.74%
Bloomberg Barclays US Agg	109.91	1.58%	4.07%	6.97%
Crude Oil WTI	33.56	63.87%	-45.04%	-42.76%
Natural Gas	1.89	15.43%	-13.52%	-27.50%

Treasury rates (5/22/2020)

	Price	Yield
2Y	99.290 / 99.29	0.170
3Y	99.242 / 99.24	0.204
5Y	100.056 / 100.0	0.337
7Y	99.304 / 99.31	0.506
10Y	99.210 / 99.22	0.659
30Y	96.304 / 97.00	1.373

Weekly reports

This week
- MBA 30-Year Mortgage Rate
- Chicago PMI

Last week
- Housing Starts SAAR 891.0K
- Existing Home Sales SAAR 4,330K

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.