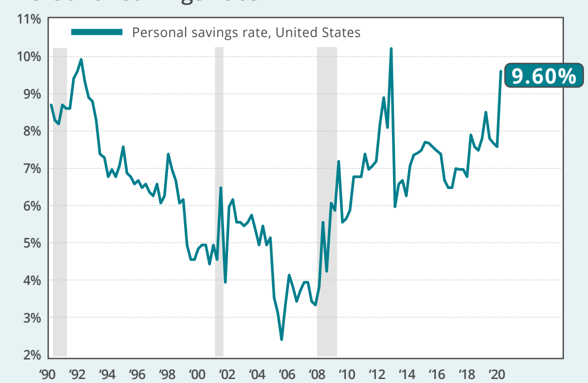
Brinker Capital

WEEKLY WIRE | MAY 4, 2020

Pick a letter, any letter

We got our first look at Q1 Gross Domestic Product last week, and as expected, it wasn't pretty. While the Q1 GDP number is subject to revision, it showed the economy contracted (4.8%) Q to Q. If one considers that the coronavirus didn't hit the US economy hard until mid-March, and that our economy has been shut down since, a recession is a foregone conclusion, with Q2 GDP expected to contract about 30% Q to Q (a recession is defined as two consecutive quarters of negative GDP growth). As we have written before, the economic downturn caused by COVID-19 will be terribly sharp, but need not be terribly long, which will primarily be determined by the efficacy of the policy response from the Federal Reserve and the Federal Government, as well as consumer behavior post lockdown. We will all be hearing much over the coming weeks about the "shape" of the current economic downturn and coming economic recovery, which brings us to the title of this week's Weekly Wire, "Pick a letter, any letter." Strategists and economists will wonder if the economic cycle will be "V" shaped (a very deep drop off, followed by a very sharp bounce higher); "U" shaped (a very sharp drop off followed by a period of little growth and then a robust recovery); or maybe "L" shaped (a very sharp drop off followed by a very long period of little to modest growth), while others will speculate this cycle will more resemble a J or a W. Truth be told, we don't know what the economic cycle will ultimately look like—we first need to understand the impact of the policy response and consumer behavior as the economy reopens. That said, we are confident the unprecedented policy response will mitigate the economic damage from COVID-19 and that we will continue to make meaningful progress in the containment and treatment of the virus, two dynamics that will set the stage for a reacceleration in economic growth. The other point worth remembering is that coming into this downturn the US consumer—the engine of US economic growth—was in good financial health, bolstered by a very healthy housing market and an elevated savings rate.

Personal savings rate



Stocks, bonds, and commodities (5/1/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	2830.71	9.52%	-12.38%	-3.90%
MSCI AC World ex USA	243.57	6.05%	-19.26%	-14.93%
MSCI EAFE	1635.82	4.89%	-19.69%	-14.75%
MSCI EM	916.77	8.04%	-17.75%	-15.33%
Bloomberg Barclays US Agg	109.91	1.58%	4.07%	7.73%
Crude Oil WTI	19.69	-3.86%	-67.75%	-68.21%
Natural Gas	1.88	14.76%	-14.02%	-26.68%

Treasury rates (5/1/2020)

	Price	Yield
2Y	99.272 / 99.27	0.196
3Y	100.004 / 100.0	0.242
5Y	100.042 / 100.0	0.347
7Y	99.300 / 99.30	0.508
10Y	108.122 / 108.1	0.614
30Y	118.190 / 118.2	1.249

Weekly reports

This week
- Initial Claims
- Hourly Earnings Y/Y

Last week
- GDP Q1 (-4.8%)
- Chicago PMI 35.4

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