Brinker Capital

WEEKLY WIRE | JULY 20, 2020

The market's wall of worry is daunting, but it's got nothing on El Capitan


HEALTH AND SCIENCE

U.S. reports record 67,400 single-day spike of new coronavirus cases

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Outrage Over China's Treatment of Hong Kong Galvanizes the West

As we tried these past few months to put a very unusual – and very stressful – market and economic environment in perspective, we leaned on a few bits of timeless Wall Street wisdom, including "Don't Fight The Fed" and "Don't Try To Time The Market," which are ways of reminding ourselves monetary policy is an exceptionally powerful tool for spurring or slowing the economy, and drawdowns and volatility are part and parcel of investing.

In this Weekly Wire, we pivot to a third popular, and often discussed as of late, nugget of investing wisdom - "The Market Climbs A Wall Of Worry," which is a way of reminding ourselves the market can, and does, move higher in the face of challenging news (remember, the market is forward-looking) and, somewhat ironically, we should more often be concerned about the outlook for risk assets when all the news is positive and everyone is bullish (the late 90s and the subsequent bursting of the tech stock bubble come to mind!). Today's bricks of bad news construct the wall of worry that Wall Street continues to climb, including a spike in new COVID-19 cases, an inconsistent reopening of the US economy, souring US/China relations, and the uncertainty surrounding the 2020 election. Those are some bricks and that is some wall!

There is much offsetting good news: the recovery continues; monetary and fiscal policy remain extremely supportive of economic growth and risk assets; and Q2 earnings season – so far – is off to a solid start. While we expect more of a rangebound market near term, we are optimistic equities will continue to climb a wall of worry into 2021. In the meantime, if you want to look at another daunting wall, you can check out Free Solo, the documentary chronicling the first (and only) free solo ascent of Yosemite's famed El Capitan by Alex Honnold. It's an incredible – and incredibly inspiring – athletic achievement.

Stocks, bonds, and commodities (7/17/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3224.73	4.01%	-0.19%	7.67%
MSCI AC World ex USA	277.21	4.61%	-8.11%	-2.17%
MSCI EAFE	1852.43	4.04%	-9.06%	-2.83%
MSCI EM	1055.06	6.03%	-5.35%	0.32%
Bloomberg Barclays US Agg	111.21	0.70%	5.30%	6.27%
Crude Oil WTI	40.77	3.82%	-33.23%	-26.27%
Natural Gas	1.71	-2.51%	-22.02%	-25.36%

Treasury rates (7/17/2020)

	Price	Yield
2Y	99.30 / 99.3	0.141
3Y	99.28 / 99.2	0.159
5Y	99.28 / 99.2	0.274
7Y	100.0 / 100.0	0.460
10Y	99.29 / 99.3	0.632
30Y	98.01 / 98.0	1.329

Weekly reports

This week
- MBA 30-Year Mortgage Rate
- Markit PMI Manufacturing

Last week
- Capacity Utilization 68.6%
- Retail Sales SA M/M 7.5%

Brinker Capital Market Barometer

JULY 2020

The COVID-19 pandemic remains the key driver for the economy, financial markets, and confidence over the near term. Fiscal and monetary policy continue to be supportive, and the economic data has improved off the bottom as we continue the slow process of reopening. We expect the equity market to remain range-bound in the near term as we await measured improvement in the COVID-19 data, and we expect a slow, uneven economic recovery.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains strong
Trend			●		Expect continued trading range until more clarity on economy reopening
Investor sentiment			●		Sentiment still bearish but not extreme; equity outflows continue
Seasonality	←	●			Seasonality a headwind but not the key driver

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Very strong fiscal response; more debate expected on next round
Monetary policy				●	Fed all in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations continue to fall
Interest rate environment				●	Treasury yields remain at low levels but stable; yield curve has normalized
Macroeconomic	→		●		Macroeconomic data has bottomed; slow improvement following reopenings
Business sentiment		●			CEO confidence still weak but expectations for the economy have improved
Consumer sentiment	→		●		Consumer confidence increased in June, but remains below pre-pandemic levels
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment				●	Credit environment continues to improve and Fed remains supportive

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle	→		●		US exited recession that began in February; recovery will be uneven
Demographics			●		Mixed - US and emerging markets positive but developed international negative