

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 |

Source: Brinker Capital. Information is accurate as of July 8, 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-weighted 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.