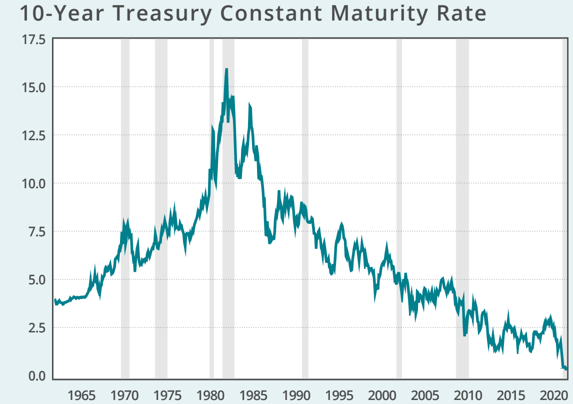
Brinker Capital

WEEKLY WIRE | AUGUST 10, 2020

The US 10-Year Note yield - the good, the bad, and the (possibly) ugly

The US 10-Year Note is the most important fixed income instrument in the world. Its yield determines the borrowing costs for countries, companies, and consumers while the Note itself acts as a haven asset during periods of market and economic stress. It might be impossible to overstate the importance of the US 10-Year Note to the functioning of the global economy and global capital markets. It might also be impossible to overstate how closely investors follow its pricing and what it might mean for other asset classes and the state of the economy. With that said, what should we make of a US 10-Year Note yield of 0.52%, essentially the lowest in its history? One way to answer is via three buckets: the good, the bad, and the (possibly) ugly. The good is low yields "flatter" many major asset classes, including stocks and housing. The bad is investors are hard pressed to find safe sources of adequate income, and any entity with long-term liabilities – think insurance companies or pension plans – must raise more capital or take on more risk to meet those liabilities. The (possibly) ugly is a historically low yield on the US 10-Year Note is indicative of tougher economic times ahead. We are very confident the good and bad buckets are unchallengeable. For example, low interest rates make future cashflows worth more, which supports a higher price to earnings ratio for stocks, but low interest rates also make future liabilities more expensive, which requires a higher rate of return and/or more capital to meet those liabilities. However, we are not willing to concede the point that low yields reflect a global economy failing to find its footing, which is why we labeled our third bucket the (possibly) ugly. Instead, we think the interest rate environment reflects the extraordinary – and successful – efforts by the Federal Reserve and other central banks to lower borrowing costs for countries, companies, and consumers with an eye toward mitigating the severity of the COVID-19 driven downturn, little to no inflationary pressure, and an aging global population increasingly interested in capital preservation over capital appreciation.



Stocks, bonds, and commodities (8/7/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3351.28	8.10%	3.73%	14.06%
MSCI AC World ex USA	280.82	5.97%	-6.91%	3.19%
MSCI EAFE	1855.11	4.19%	-8.93%	0.47%
MSCI EM	1089.32	9.47%	-2.27%	10.67%
Bloomberg Barclays US Agg	111.92	1.35%	5.98%	5.49%
Crude Oil WTI	41.60	5.93%	-31.87%	-20.82%
Natural Gas	2.26	28.78%	3.02%	5.97%

Treasury rates (8/7/2020)

	Price	Yield
2Y	99.31 / 99.3	0.133
3Y	99.30 / 99.3	0.141
5Y	100.0 / 100.0	0.226
7Y	99.25 / 99.2	0.406
10Y	100.1 / 100.1	0.567
30Y	100.1 / 100.1	1.235

Weekly reports

This week
- Hourly Earnings Y/Y
- Capacity Utilization

Last week
- ISM Manufacturing 54.2
- July Nonfarm Payrolls 1,763K

Brinker Capital Market Barometer

AUGUST 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 economy has started to rebound. We expect the equity market to remain range-bound in the near term as we anticipate measured improvement in the COVID-19 data, the November election, and a slow, uneven economic recovery. Overall, the barometer leans neutral to slightly positive, in-line with our modest overweight to risk across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains solid
Trend	→			●	US markets above 50-day and 200-day moving averages
Investor sentiment			●		Sentiment still bearish but not extreme; equity outflows continue
Seasonality		●			Seasonality weaker through October

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Very strong fiscal response; more debate on fourth package but will get done
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; uneven improvement following reopenings
Business sentiment		●			CEO confidence improved in 2Q but still weak; small biz optimism improving
Consumer sentiment	←	●			Consumer confidence declined in June, led by the expectations component
Corporate earnings		●			Looking for improvement after negative impact of COVID-19 on 1H results
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