How to spot a bubble

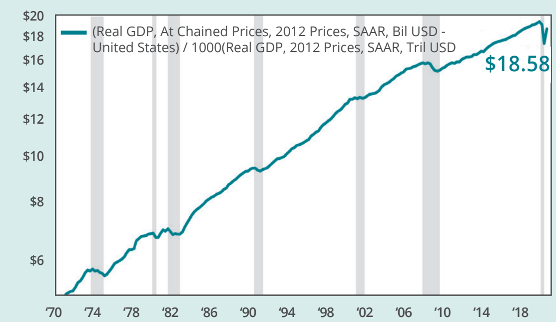
(Hint – keep an eye out for Tom Hanks)

Several financial publications have recently argued that US equities are in a bubble. A bubble being a point in time when the price of an item runs far above its real value, driven in large part by irrational investor enthusiasm for the asset. The catalyst for this recent handwringing seems to be the spectacular performance of several IPOs (initial public offerings) of internet-driven businesses, including Airbnb (which gained 113% its first day of trading), which harkens back to the dotcom mania of the late 1990s. Also cited as evidence of a bubble is the record $149 billion raised in IPOs this year and investor surveys that now point to a high degree of optimism about stocks. While we acknowledge investors have become much more bullish lately, and that bullishness could be a catalyst for a near-term pullback, we don't think equities are in a bubble, and we don't think the current environment lines up all that well with the late 1990s.

At the company level, the businesses coming public today are typically more established and more financially sound than those of the late 1990s. At the macro level, today the Fed is keeping interest rates low, we are early in a new economic expansion and bull market, and investors have been net sellers of stocks for years. In the late 1990s, the Fed was raising rates, we were late in an economic expansion and bull market, investors were net buyers of equities, and enthusiasm for stocks transcended Wall Street. This brings us to how one might spot a bubble - lookout for Tom Hanks. More specifically, when the popularity of any asset transcends its market and bleeds into the wider culture, that's a sign of a bubble. As it relates to the great Mr. Hanks, think the late 1990s movie "You've got mail" (and the unstoppable stock at the time of America Online) and his 1980 role on The Love Boat (yes, Tom Hanks was on The Love Boat) where he played a character who had gotten rich investing in gold (which hit an all-time, inflation-adjusted high that year; we are going off memory when it comes to Mr. Hanks' role on The Love Boat, but we are pretty sure we've got it right). Markets don't go straight up, and we could see some volatility into the new year, but we think equities are biased higher in 2021.

Bull Markets and Economic Expansions tend to run for years

Real GDP (Trillions) 1/1/1970-9/30/2020



Stocks, bonds, and commodities (12/18/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3709.41	10.30%	14.81%	15.72%
MSCI AC World ex USA	323.22	15.52%	7.14%	7.90%
MSCI EAFE	2131.59	14.89%	4.65%	5.34%
MSCI EM	1268.36	17.22%	13.79%	14.61%
Bloomberg Barclays US Agg	109.71	-0.35%	3.88%	3.88%
Crude Oil WTI	49.25	22.45%	-19.34%	-19.50%
Natural Gas	2.71	7.12%	23.66%	19.09%

Treasury rates (12/18/2020)

	Price	Yield
2Y	100.0 / 0.00	0.105
3Y	99.27 / 0.00	0.175
5Y	99.30 / 0.00	0.385
7Y	99.21 / 0.00	0.671
10Y	99.07 / 0.00	0.955
30Y	98.05 / 0.00	1.702

Weekly reports

This week
- Consumer Confidence
- Richmond Fed Index

Last week
- Capacity Utilization 73.3%
- Philadelphia Fed Index 11.1

Brinker Capital Market Barometer

DECEMBER 2020

With the presidential election behind us, the focus has shifted back to the ongoing COVID-19 pandemic and its impact on economic growth. The Federal Reserve remains extremely supportive from a monetary policy perspective, and we expect additional fiscal support from Washington, D.C. in the coming months. We continue to monitor the runoff elections in Georgia as an outcome of a divided government is likely priced into markets, and any deviation from that may result in near-term volatility. Overall, the barometer tilts positive, in-line with our modest overweight to risk across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains solid and has improved recently
Trend				●	Market trend positive; US markets above 50-day and 200-day moving averages
Investor sentiment	←	●			Surveys and other sentiment measures pointing toward excess optimism
Seasonality				●	Seasonality stronger in months following a Presidential Election

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional fiscal support required to offset effects of new COVID-19 restrictions
Monetary policy				●	Fed all-in to support markets and economy; Global central banks also supportive
Inflation				●	Global inflation low and showing few signs of moving higher in the near term
Interest rate environment				●	Treasury yields remain in a trading range; yield curve positively shaped
Macroeconomic			●		Macroeconomic data has improved, but recovery will likely be uneven
Business sentiment			●		Both CEO confidence and small business confidence surveys have improved
Consumer sentiment		●			Improvement has stalled and remains below pre-pandemic levels
Corporate earnings			●		Significant improvement in earnings growth in 2Q and 3Q; y/y growth still negative
Credit environment				●	Credit environment is stable; spreads continue to tighten

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 uneven in short term
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of December 14, 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.