# Weekly Wire

FEBRUARY 16, 2021

BRINKER CAPITAL INVESTMENTS

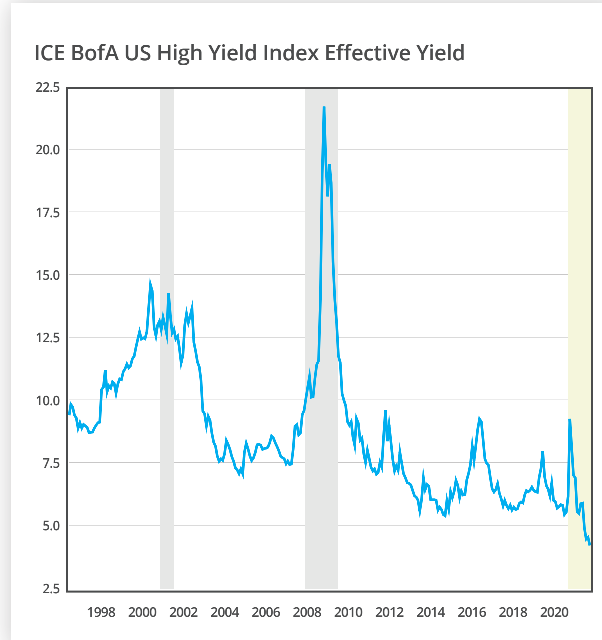
# “No Jules, It’s High-Yield Bonds”

There are two ways one can hope to understand the 1980s – you lived through that momentous decade, or you’ve seen the 1998 Adam Sandler classic “The Wedding Singer.” Trust us, Mr. Sandler got the decade more right than wrong: the clothes, the hair, the junk bonds – or as Glenn Guglia explains to Julia Sullivan, “No, Jules, it’s high-yield bonds.”

If you think back on Wall Street in the ‘80s, a few things come to mind: the ‘87 Crash (the S&P 500 was up that year), a secular bull market, interest rates in the teens, the movie Wall Street, corporate raiders and junk bonds. Though the high-yield market predates the 1980s, the asset class came into its own during the decade as the Michael Milkens of the world raised billions of dollars for companies that had, on balance, less than pristine balance sheets and challenged operating histories (which is why they were non-investment grade or, to adopt the more popular and pejorative descriptor – “junk”).

To compensate investors for the risks associated with owning non-investment grade bonds, those bonds had to offer a higher yield than investment grade corporate bonds and government bonds. This remains true to this day; but it is the absolute level of the yield on offer from high-yield bonds that is the focus of this week’s Weekly Wire (sorry it took us so long to get there!). Studying the ICE BofA US High-Yield Index Effective Yield we learn high-yield bonds yield 4%, the lowest yield ever.

A few things have brought us to a 4% yield on high-yield bonds, including an accommodative Federal Reserve, low interest rates around the world, and expectations of a dramatic rebound in economic growth – all of which should make the timely payment of principal and interest on outstanding corporate bonds, both investment and non-investment grade, more likely. And if we had to pick a favorite scene from The Wedding Singer, it’s got to be Robbie Hart’s rendition of the J. Geils Band classic, “Love Stinks.”




**Stocks, bonds, and commodities** (2/12/2021)

| Security name | Last | QTD chg | YTD chg | 12mo chg |
|---|---|---|---|---|
| S&P 500 | 3934.83 | 4.76% | 4.76% | 16.62% |
| MSCI AC World ex USA | 346.11 | 6.02% | 6.02% | 14.94% |
| MSCI EAFE | 2227.70 | 3.73% | 3.73% | 9.54% |
| MSCI EM | 1428.87 | 10.66% | 10.66% | 29.18% |
| Bloomberg Barclays US Agg | 108.15 | -1.56% | -1.56% | 0.98% |
| Crude Oil WTI | 59.73 | 23.10% | 23.10% | 16.16% |
| Natural Gas | 2.90 | 14.69% | 14.69% | 58.65% |

**Treasury rates** (2/12/2021)

| | Price | Yield |
|---|---|---|
| 2Y | 100.0 / 0.00 | 0.101 |
| 3Y | 99.25 / 0.00 | 0.190 |
| 5Y | 99.15 / 0.00 | 0.480 |
| 7Y | 99.11 / 0.00 | 0.844 |
| 10Y | 99.09 / 0.00 | 1.200 |
| 30Y | 97.02 / 0.00 | 2.004 |

**Weekly reports**

This week

- NY Empire State Index
- Existing Home Sales SAAR

Last week

- NFIB Small Business Index: 95.0
- University of Michigan Consumer Sentiment Index: 76.2

Graph source: Federal Reserve Economic Data, as of 2/12/21. Charts source: FacSet, as of 2/12/2021. The views expressed are those of Brinker Capital and are not intended as investment advice or recommendation. For informational purposes only.

# Brinker Capital Market Barometer

FEBRUARY 2021

Our focus continues to be on the COVID-19 pandemic and its impact on the economy. The vaccine rollout, while challenging at first, has improved, and is key to addressing the health problem. Accommodative monetary and fiscal policy continue to provide a bridge for the economy in the near term until we can fully reopen, and this support will be further bolstered by an additional fiscal stimulus bill from Washington, D.C. in the coming months. 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 | | | ● | | Entering relatively weaker seasonal period post election |

## INTERMEDIATE-TERM FACTORS (6-36 months)

| | CHANGE | NEGATIVE | NEUTRAL | POSITIVE | |
|---|---|---|---|---|---|
| Fiscal policy | | | | ● | Additional fiscal stimulus likely by end of 1Q |
| Monetary policy | | | | ● | Fed and global central banks remain supportive |
| Inflation | | | | ● | Inflation at low levels but watch for increasing inflation expectations |
| Interest rate environment | | | | ● | Treasury yields remain low but biased higher; yield curve to steepen |
| Macroeconomic | | | ● | | Macroeconomic data has improved; recovery will be driven by vaccine/reopening |
| Business sentiment | | | ● | | Both CEO confidence and small business confidence surveys have improved |
| Consumer sentiment | | ● | | | Slight improvement in consumer confidence measures in January |
| Corporate earnings | | | ● | | Expect improvement in earnings growth to continue in 4Q |
| Credit environment | | | | ● | Credit environment is stable; little volatility in spreads |

## LONG-TERM FACTORS (36+ months)

| | CHANGE | NEGATIVE | NEUTRAL | POSITIVE | |
|---|---|---|---|---|---|
| Valuation | | ● | | | Equity valuations above long-term averages but not a near-term driver |
| Business cycle | → | | | ● | We've entered a new expansion period with positive GDP growth since 3Q2020 |
| Demographics | | | ● | | Mixed - US and emerging markets positive but developed international negative |

Source: Brinker Capital. Information is accurate as of February 3, 2021. 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.

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