Weekly Wire

FEBRUARY 22, 2021

BRINKER CAPITAL INVESTMENTS

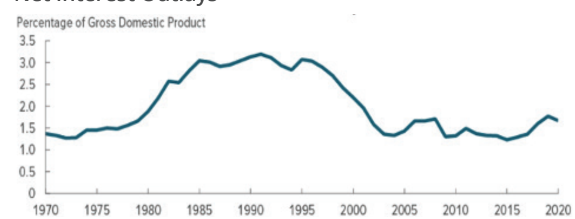
When It Comes To US Debt, What Matters Most? The Amount? The Cost? Both?

We are not breaking any news when we write that US debt outstanding and the federal deficit are historically large numbers – on both an absolute and a relative basis – with the former now north of 100% of gross domestic product, or GDP. And as it concerns the debt, we are asked frequently when it might prove to be a headwind for the economy. Often cited concerns are government borrowing crowding out private sector borrowing, debt-financed government spending fueling inflation, and annual borrowing costs (i.e., net interest expense) preventing federal outlays on more productive and needed areas of investment, say infrastructure and national security.

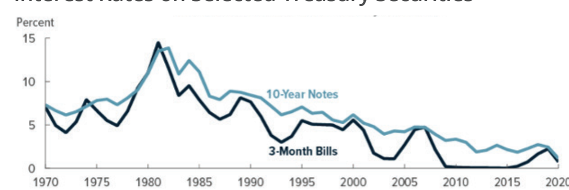
Our answer remains the same – we don't know. We do know markets have had no problem funding government and corporate borrowing through the pandemic; inflation is muted, and the US government's annual borrowing costs remain near a multi-decade low of 1.6% of GDP. So, even though debt outstanding has skyrocketed, the cost of servicing that debt has remained reasonable, with the primary driver of that pleasant development being still historically low interest rates on US government bills, notes and bonds.

Our debt and the cost of servicing that debt should have a meaningful impact on the economy, someday; but that day has not yet come. And to circle back to the questions asked in this week's Weekly Wire headline – from our perspective, near-term, the cost to service the debt matters the most to the economy. With US borrowing costs near historic lows, the Biden Administration has a very powerful argument in favor of additional deficit spending to pay for its proposed $1.9 trillion economic rescue package. We expect most, if not all, of the proposed $1.9 trillion package to pass, providing a meaningful boost to the economy into the back half of 2021.

Net Interest Outlays



Interest Rates on Selected Treasury Securities



Stocks, bonds, and commodities (2/19/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3906.71	4.01%	4.01%	15.82%
MSCI AC World ex USA	346.75	6.22%	6.22%	16.53%
MSCI EAFE	2232.56	3.96%	3.96%	11.42%
MSCI EM	1430.03	10.75%	10.75%	30.56%
Bloomberg Barclays US Agg	107.40	-2.25%	-2.25%	-0.12%
Crude Oil WTI	59.04	21.68%	21.68%	9.58%
Natural Gas	3.08	22.01%	22.01%	60.52%

Treasury rates (2/19/2021)

	Price		Yield
2Y	100.0 /	0.00	0.109
3Y	99.22 /	0.00	0.220
5Y	98.30 /	0.00	0.589
7Y	98.13 /	0.00	0.982
10Y	97.31 /	0.00	1.340
30Y	94.04 /	0.00	2.140

Weekly reports

This week
- New Home Sales SAAR
- Chicago PMI

Last week
- Empire State Index: 12.1
- Existing Home Sales SAAR: 6,690K

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

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