Weekly Wire

MARCH 1, 2021

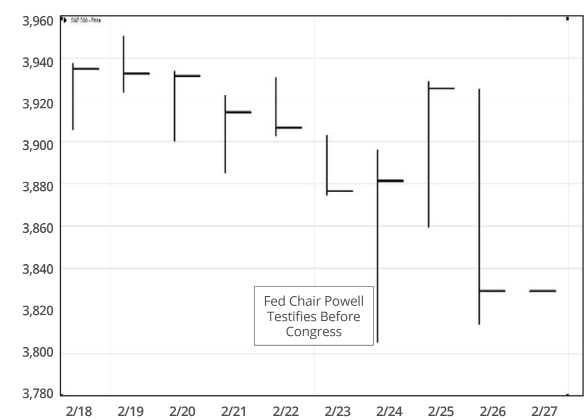
The Big Battle Of 2021: Godzilla Vs Kong, Or The Market Vs The Fed?

We hope to return soon to activities that were untenable the past year, like going to the movies. While streaming services are great, nothing compares to watching a movie on the big screen, especially a larger-than-life Hollywood blockbuster like Godzilla vs. Kong, which is premiering soon. And as big of a battle as Godzilla vs. Kong will surely prove, it might pale in comparison to the battle that seems to be shaping up between the Market and the Fed. More specifically, bond yields have risen as investors price in faster growth and higher inflation; That move higher in yields has weighed on risk assets and caused some to doubt the Fed's ability to keep interest rates near zero and purchase debt securities in support of the economy.

Last week, as the stock market came under pressure, Federal Reserve Chairman Powell testified to Congress that the Fed could, and would, remain exceptionally accommodative on the monetary policy front. Powell also said the Fed was not concerned about a move higher in yields or inflation, testimony which helped push stocks sharply higher for two days – before the yield on the US 10 Year Note hit 1.55% and the Nasdaq suffered its worst one day sell off since October.

So, what should we long-term investors make of this brewing battle? We think the Fed can and should remain accommodative. The recovery is far from complete, with 10 million fewer jobs today than pre-pandemic. Yields are up, but remain very low on an historical basis, and while inflation expectations have moved higher, inflation today is below the Fed's 2% target. We remain optimistic on the economy and think stocks are biased higher in 2021. That said, rising yields should be additive to stock market volatility (which we have seen) and pressure traditional fixed income (which we have seen). Thoughtfully diversified portfolios could resonate strongly this year.

S&P 500 (High - Low - Close)



Stocks, bonds, and commodities (2/26/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3811.15	1.47%	1.47%	27.94%
MSCI AC World ex USA	333.11	2.04%	2.04%	19.88%
MSCI EAFE	2168.87	0.99%	0.99%	16.13%
MSCI EM	1339.26	3.72%	3.72%	29.94%
Bloomberg Barclays US Agg	106.85	-2.75%	-2.75%	-1.35%
Crude Oil WTI	61.66	27.08%	27.08%	37.76%
Natural Gas	2.81	11.28%	11.28%	66.92%

Treasury rates (2/26/2021)

	Price		Yield
2Y	99.30 /	0.00	0.145
3Y	99.14 /	0.00	0.311
5Y	98.20 /	0.00	0.776
7Y	99.20 /	0.00	1.178
10Y	96.27 /	0.00	1.462
30Y	93.01 /	0.00	2.191

Weekly reports

This week

- ISM Non-Manufacturing February
- Hourly Earnings Y/Y February

Last week

- New Home Sales January SAAR: 923K
- Chicago PMI February: 59.5

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.

0713-BCI-03/01/2021