Weekly Wire

MARCH 22, 2021

BRINKER
CAPITAL INVESTMENTS

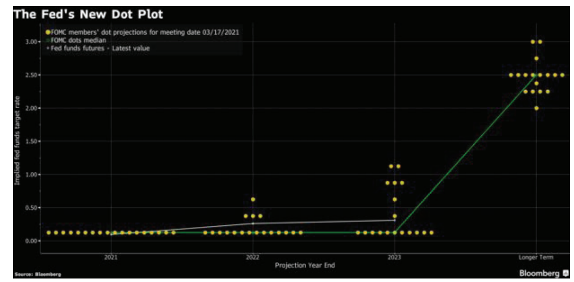
Forget The Fox…What Do The Dots Say?

I don't know if it still gets played, but not so long ago there wasn't a kid's birthday party, or it seemed any other social function one attended, where you didn't hear the song "What does the fox say?" (that, and "Gangnam Style"). While my kids have moved onto more mature music (which isn't necessarily a good thing), "What does the fox say?" got me thinking about last week's Federal Reserve meeting and "What do the dots say?"

More specifically, the Federal Open Market Committee, which sets interest rate policy, asks its members at every meeting where they see interest rates over the next few years and then plots out those expectations on something known as "The Fed's Dot Plot." Wall Street pays close attention to The Dot Plot as interest rates can have a huge impact on the performance of the economy and risk assets. And amid a backing up in bond yields and increased market volatility, last week's Fed meeting garnered more interest than usual.

While the Fed announced that interest rates would stay near zero and that it would continue to purchase $120 billion a month in fixed income securities, there was some movement in The Dot Plot; four Fed members now see rate hikes in 2022 and seven Fed members see rate hikes in 2023 (as compared to one and five, respectively, at the FOMC's December meeting). Said differently, the Fed remains exceptionally accommodative, but there seems to be a growing belief among the FOMC's members that rates are going higher.

The other point worth noting from last week's meeting is the Fed upped its expectations for the economy in 2021, now expecting GDP growth of 6.5% this year – up from 4.2% in December – and a year end unemployment rate of 4.5% – down from 5% in December. The Fed also expects higher inflation this year but expects it to be transitory in nature. The question Wall Street is wrestling with is this: *with the economy gaining steam, how long can the Fed remain so accommodative?*



Stocks, bonds, and commodities (3/19/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3913.10	4.18%	4.18%	69.77%
MSCI AC World ex USA	340.13	4.19%	4.19%	63.28%
MSCI EAFE	2231.43	3.91%	3.91%	60.08%
MSCI EM	1336.84	3.53%	3.53%	66.43%
Bloomberg Barclays US Agg	105.05	-4.39%	-4.39%	0.16%
Crude Oil WTI	61.51	26.77%	26.77%	171.81%
Natural Gas	2.58	2.06%	2.06%	60.72%

Treasury rates (3/19/2021)

	Price		Yield
2Y	99.29 /	99.3	0.157
3Y	99.25 /	99.2	0.321
5Y	98.04 /	98.0	0.884
7Y	98.13 /	98.1	1.364
10Y	94.17 /	94.1	1.725
30Y	88.03 /	88.0	2.436

Weekly reports

This week

- Richmond Fed Index March
- Markit PMI Manufacturing March

Last week

- Capacity Utilization: 73.8%
- Philadelphia Fed Index March: 51.8

Brinker Capital Market Barometer

MARCH 2021

We expect a broadening of economic growth as the vaccine rollout ramps up further which will lead to a more robust reopening of the US economy. Another large fiscal package should be passed in the coming weeks, leading to stimulus checks in the hands of consumers in April. The Fed is committed to an accommodative monetary policy until we see full employment and sustained higher inflation, neither of which we are close to achieving yet. We view the recent sharp move higher in Treasury yields as more of a normalization process given the improved economic outlook rather than expectations for a less dovish Fed; however, the pace of the increase has resulted in a pickup in volatility which could continue in the near term. The barometer has shifted even further into positive territory in March, still aligned with our modest overweight risk positioning across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains solid
Trend				●	US markets remain above 50-day and 200-day moving averages
Investor sentiment	→		●		Investor sentiment survey data has retreated from recent highs
Seasonality			●		Relatively weaker seasonal period post election

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional $1.9 trillion fiscal stimulus headed for passage in March
Monetary policy				●	Fed and global central banks remain very supportive
Inflation				●	Inflation at low levels but short-term inflation expectations have moved higher
Interest rate environment	←		●		Treasury yields still at low absolute levels but pace of normalization is of concern
Macroeconomic	→			●	Expect strong economic growth in 2021 driven by the vaccine/reopening
Business sentiment	→			●	CEO confidence increased sharply in 1Q21 to a 17-year high
Consumer sentiment		●			Consumer confidence measures remain relatively weak
Corporate earnings	→			●	Year-over-year earnings growth turned positive in 4Q20
Credit environment				●	Credit environment remains 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 3Q20
Demographics			●		Mixed - US and emerging markets positive but developed international negative

0965-BCI-03/22/2021