Weekly Wire

MARCH 29, 2021

BRINKER CAPITAL INVESTMENTS

Revisiting Our Bear Market Bottom Checklist

After dropping 35% from its February 19, 2020 peak of 3,393, the S&P 500 bottomed out on March 23, 2020 at 2,192, ending a selloff that included the quickest bear market in the history of the index and beginning the current bull market, which has seen the S&P 500 rally 81% through March 26, 2021. As fate, or luck, would have it, we published our Bear Market Bottom Checklist on March 23, 2020. We made the case that many of the signs that had historically presented themselves at the end of a bear market – including indiscriminate selling of equities and a steepening of the yield curve – were visible, and that it was time to become more optimistic on the markets.

As we mark the one-year anniversary of the end of the bear market and the introduction of our checklist, we thought now was a good time to consider what lessons were learned from that very difficult period in early 2020. For me, there are three big ones, all of which are interrelated: 1) policy – monetary and fiscal policy – trumps all, including a global pandemic; 2) The system held – in the face of a pandemic, the worse economic downturn since the Great Depression and an extremely difficult political and cultural discourse, the system held; 3) There is always a solution to any problem or challenge, always.

As we think about our current bull market and economic expansion, we are reminded both are quite young, and should have years to run. Also, those factors that tend to be present at the end of an economic expansion are not visible today.


A bear market bottom checklist

A bear market bottom has historically been marked by several economic and market signposts, including depressed investor sentiment, widening credit spreads and a policy response to the systemic shock facing the country. More importantly, as we try to identify when we might hit a bottom in the ongoing bear market we see several signs that we are very close, with a key caveat being the uncertainty caused by COVID-19 might overwhelm the meaningful fiscal policy response we think is imminent. With that written, below is the Brinker Capital Bear Market Bottom Checklist. History may not repeat, but we do believe it rhymes, and right now there is so much bad news priced into the market we think we can all begin feeling just a bit optimistic.

Investor sentiment, not there yet: investor sentiment has almost reached an extreme bearish point, with the number of bears nearly outnumbering the number of bulls in one investor survey

Volatility, yes: market volatility has reached an extreme level, with the VIX (also known as Wall Street's "Fear Index") hitting an all-time high of 85

Credit spreads, not there yet: high-yield spreads have widened meaningfully, but not yet reached levels seen in 2008/2009; the widening of spreads represents a level of fear commensurate with a bear market bottom

Yield curve, yes: the US Yield Curve has steepened dramatically over the past few weeks; the steepening of the curve has historically taken place at a bear market bottom

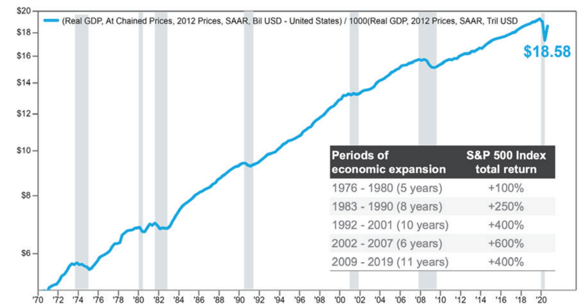
Peak to trough correction, yes: the S&P 500 Index is off 32%, a correction that is a bit greater than the average drawdown during the 11 bear markets since 1946

Fund flow data, yes: over the past four weeks $17 billion ($204 billion annualized) has come out of US equity mutual funds; indiscriminate selling has taken place at prior bear market bottoms

Market structure, not there yet: Near a bottom, we see a contraction in the number of stocks making new lows, even while the market continues to make new lows. We see some progress on that front but need to see the dynamic persist (Strategas).

Policy response, not there yet: Historically, it has taken a significant policy response to put a floor under investor sentiment and risk assets. To date, we have seen a massive monetary policy response to the market selloff and economic uncertainty created by COVID-19; what we are waiting on is a meaningful US fiscal policy response to the economic crisis facing the country.

Real GDP ($Trillioons) 1/1/1970 - 9/30/2020



Stocks, bonds, and commodities (3/26/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3974.54	5.82%	5.82%	56.39%
MSCI AC World ex USA	336.31	3.02%	3.02%	47.78%
MSCI EAFE	2217.82	3.27%	3.27%	43.13%
MSCI EM	1307.48	1.26%	1.26%	55.18%
Bloomberg Barclays US Agg	105.31	-4.15%	-4.15%	-2.22%
Crude Oil WTI	60.72	25.14%	25.14%	182.29%
Natural Gas	2.62	3.88%	3.88%	57.03%

Treasury rates (3/26/2021)

	Price		Yield
2Y	99.30 /	99.3	0.141
3Y	99.26 /	99.2	0.303
5Y	99.14 /	99.1	0.864
7Y	99.13 /	99.1	1.338
10Y	94.29 /	94.3	1.683
30Y	89.03 /	89.0	2.385

Weekly reports

This week
- Chicago PMI
- Unemployment Rate

Last week
- Richmond Fed Index March: 17
- Markit PMI Manufacturing March: 59

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

Source: Brinker Capital. Information is accurate as of March 2, 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.

1058-BCI-03/29/2021