



Nobody Likes To Pay More For Stuff. So Why Does The Fed?

Most folks on Wall Street agree prices for all sorts of things are moving higher, both at the goods level (think corn, oil, copper, houses, used cars) and at the broad basket level (think the Consumer Price Index). Now, given the shutting down of the economy last year, and the subsequent collapse in demand and prices, the year-on-year comparisons into 2021 pretty much guaranteed a dramatic jump in prices as the economy reopened; stressed supply chains are adding to inflationary pressures.

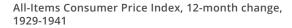
The more consequential conversation on Wall Street is around whether the jump in prices is transitory – as the Fed believes, which would justify an accommodative monetary policy – or structural, which would compel the Fed to taper bond purchases and raise rates sooner rather than later. And truth be told, we don't yet know. In the meantime, two other questions worth considering are 1) Why the Fed wants to see prices move higher? And 2) Why the Fed wants to hit its 2%+ inflation target? I mean, who wants to pay more for stuff?

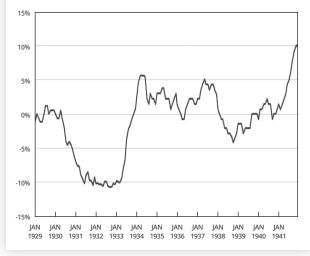
On that front, we think any economy works best with a bit of consistent inflation and is at great risk when prices for goods and services decline persistently year-on-year. Consider, if you know that the price of a house will decline a few percentage points year-on-year, you will wait to purchase that home (if you ever purchase it at all – who wants to buy an asset that goes down in value?). And as a society becomes accustomed to prices declining year-on-year, economic growth can be hard to come by. We saw persistent deflation (the opposite of inflation) during the Great Depression and for most of the past 30 years in Japan.

A bit of inflation spurs investment and economic activity and makes any debt taken on to purchase an asset more manageable. The Fed is right to want a bit of inflation; the risk today is that they end up getting more than they bargained for.



Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4232.60	6.54%	12.69%	44.47%
MSCI AC World ex USA	351.34	4.54%	7.62%	43.44%
MSCI EAFE	2324.42	5.26%	8.24%	41.01%
MSCI EM	1348.57	2.44%	4.44%	47.93%
Bloomberg Barclays US Agg	106.01	0.81%		
Crude Oil WTI		9.57%	33.59%	162.00%
Natural Gas	2.97	13.88%	17.58%	62.92%





Treasury rates (5/7/2021)

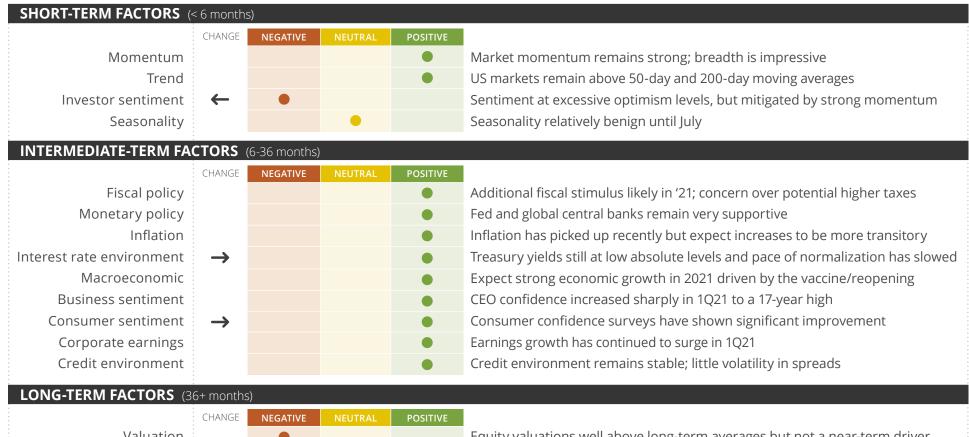
Price Yield 2Y 99.30 / 99.3 0.145 3Y 100.0 / 100. 0.287 5Y 99.28 / 99.2 0.774 7Y 100.0 / 100. 1.235	Treasury rates (37772021)			weekiy reports	
2Y 99.30 99.3 0.145 Energy April 3Y 100.0 100. 0.287 • Capacity Utilization April 5Y 99.28 99.2 0.774 Last week		Price		Yield	This week
SY 99.28 / 99.2 0.774 Last week Ty 100.0 / 100.1 1235 Last week	2Y	99.30 /	99.3	0.145	
5Y 99.28 / 99.2 0.774 Last week 7Y 100.0 / 100 1.235 Last week	ЗY	100.0 /	100.	0.287	
7V 1000/1025	5Y	99.28 /	99.2	0.774	<u> </u>
	7∨	100.0 /	100	1 225	Last week
• ADP Employment	71	100.07	100.	1.235	 ADP Employment
10Y 95.29 / 95.3 1.575 Survey April: 742K	10Y	95.29 /	95.3	1.575	
30Y 91.07 91.0 2.281 • Hourly Earnings Y/Y April: 0.30%	30Y	91.07 /	91.0	2.281	• Hourly Earnings Y/Y April: 0.30%

Weekly reports

Chart source: U.S. Bureau of Labor Statistics. 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

Growth has picked up as the economy continues to reopen. Fiscal policy remains supportive and there is a good chance of another fiscal spending package later this year; however, it will require tax increases as an offset. The Fed is committed to accommodative monetary policy until we see full employment and sustained higher inflation, neither of which we are close to achieving yet. Earnings growth has been very strong, reflecting the strength in nominal GDP. Treasury yields have normalized in response to the improved economic outlook, but we will continue to watch the pace of further increases. The barometer has shifted even further into positive territory in May, still aligned with our overweight risk positioning across portfolios.



	CHINNOL
Valuation	
Business cycle	
Demographics	

NEUTRAL	POSITIVE
•	
	NEUTRAL

Equity valuations well above long-term averages but not a near-term driver We've entered a new expansion period with positive GDP growth since 3Q20 Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of May 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 Set Index of the respense of represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization-weighed index, maintained by Barclays Gapital, 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