Weekly Wire

MAY 10, 2021

BRINKER CAPITAL INVESTMENTS

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.

Stocks, bonds, and commodities (5/7/2021)

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%	-3.51%	-3.08%
Crude Oil WTI	64.82	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
10Y	95.29 /	95.3	1.575
30Y	91.07 /	91.0	2.281

Weekly reports

This week

- CPI Ex Food & Energy April
- Capacity Utilization April

Last week

- ADP Employment Survey April: 742K
- Hourly Earnings Y/Y April: 0.30%

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

MAY 2021

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.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains strong; breadth is impressive
Trend				●	US markets remain above 50-day and 200-day moving averages
Investor sentiment	←	●			Sentiment at excessive optimism levels, but mitigated by strong momentum
Seasonality			●		Seasonality relatively benign until July

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional fiscal stimulus likely in '21; concern over potential higher taxes
Monetary policy				●	Fed and global central banks remain very supportive
Inflation				●	Inflation has picked up recently but expect increases to be more transitory
Interest rate environment	→			●	Treasury yields still at low absolute levels and pace of normalization has slowed
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 surveys have shown significant improvement
Corporate earnings				●	Earnings growth has continued to surge in 1Q21
Credit environment				●	Credit environment remains stable; little volatility in spreads

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations well 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 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 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.

1590-BCI-5/11/2021