BRINKER CAPITAL INVESTMENTS

Getting Back to Zero – Well, Sort of

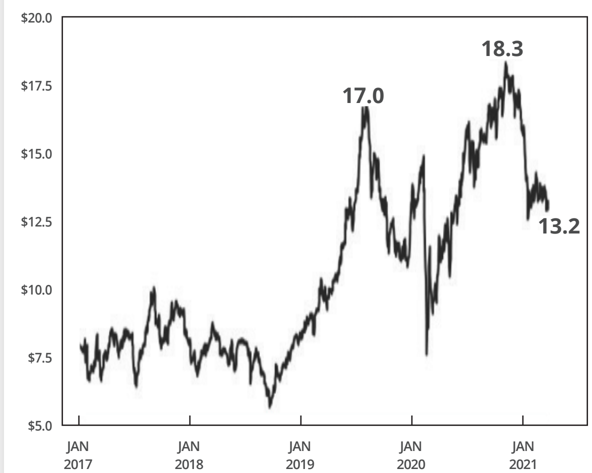
One of the more fascinating financial developments of the post Great Recession period was the advent of negative yielding bonds. This is a condition present when the premium paid for a bond is so great relative to its par value, it exceeds any income the investor receives while holding the bond to maturity. Put differently, let's say I loan a friend $103 in return for $100 in two years time and annual payments of $1. The premium I paid is $3, and the interest earned is $2, leaving me with a negative yield. Now, up until the last decade, negative yielding bonds weren't really a thing – I mean why would there be any demand for an investment guaranteed to lose money?

There are several theories as to how we ended up with more than $18 trillion in negative yielding bonds in late 2020. Of course, there was the flight to safety during the pandemic – but even pre-pandemic we hit $17 trillion in negative yielding bonds globally, with the suspected culprits in 2019 being low rates of economic growth, easy monetary policies and demographics (an aging world paying up for safety). Then, as economic growth accelerated, the value of negative yielding bonds fell to $7.5 trillion before the COVID-19 induced spike to $18 trillion.

Today, we are down to $13 trillion in negative yielding bonds. What should we make of this march towards zero (which is still, admittedly, a long ways off)? A few thoughts: rising bond yields reflect rapid global economic growth and fears of inflation; much of the move from negative to positive yields has taken place in Europe (10-year yields in France and Ireland have turned positive). This should point to better economic times to come on the continent, and it is a reminder one can lose money in bonds (though they remain the only true hedge for equity exposure).

In our discretionary portfolios we have a neutral position between U.S. and non-U.S. equities and are conservatively positioned within fixed income. We think yields are biased higher, a dynamic that should weigh on traditional fixed income and prove additive to market volatility.

Global Aggregate Negative Yielding Debt (Market Value, $Trillion)



Stocks, bonds, and commodities (5/14/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4173.85	5.06%	11.12%	45.75%
MSCI AC World ex USA	345.09	2.68%	5.71%	44.74%
MSCI EAFE	2292.17	3.80%	6.74%	43.73%
MSCI EM	1307.53	-0.68%	1.26%	45.09%
Bloomberg Barclays US Agg		0.37%	-3.93%	-3.74%
Crude Oil WTI	65.51	10.73%	35.02%	121.92%
Natural Gas	2.97	14.03%	17.74%	80.68%

Treasury rates (5/14/2021)

	Price		Yield
2Y	99.30 /	99.3	0.149
3Y	99.25 /	99.2	0.321
5Y	99.22 /	99.2	0.813
7Y	99.25 /	99.2	1.281
10Y	99.31 /	100.	1.624
30Y	100.1 /	100.	2.346

Weekly reports

This week
• NAHB Housing Market Index May
• Housing Starts SAAR April
Last week
• CPI Ex Food & Energy April: 3.0%
• Capacity Utilization April: 74.9%

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.

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