Weekly Wire

MAY 24, 2021

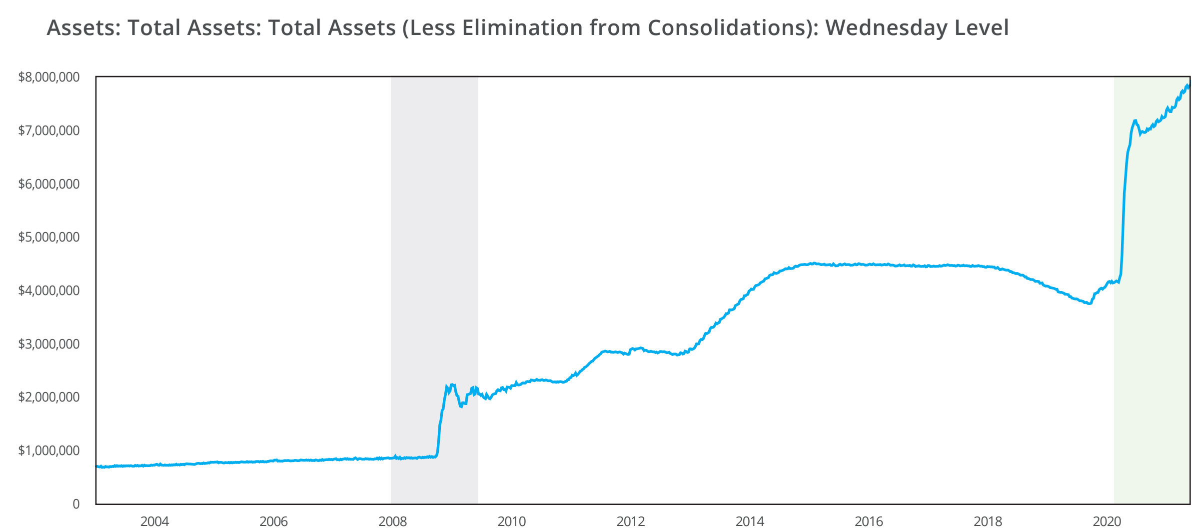
BRINKER CAPITAL INVESTMENTS

Are We Talking About, Talking About Tapering?

We think one of the more iconic phrases ever spoken by a central banker is “We’re not even thinking about thinking about raising interest rates,” by Fed Chair Jerome Powell at a June 2020 Fed press conference. As we sit here nearly a year later, it doesn’t seem much has changed as the Fed continues to affirm its policy of zero interest rates, despite a rapidly improving economy and growing inflationary pressures.

That said, zero interest rates are not the only tool the Fed has deployed to help see the economy through the pandemic driven crisis of the past year and a half. The Fed has also been purchasing $120 billion worth of Treasury and mortgage-backed securities each month, all with an eye toward keeping the cost of capital low for consumers and corporations and ensuring fully functioning credit markets. And on that front, last week we learned from the release of the April 2021 Federal Open Market Committee meeting minutes that some Fed members think it is time to at least begin talking about a plan for adjusting (e.g., slowing) the pace of asset purchases (what Wall Street refers to as “tapering”).

That slight shift in Fed sentiment was enough to roil risk assets midweek as investors contemplated the possibility that the Fed’s very accommodative monetary policy might be ending sooner than expected. We don’t expect a meaningful change in Fed policy over the coming months; that said, we believe uncertainty around the direction for monetary policy longer-term will persist and that uncertainty will continue to be additive to market volatility.



Stocks, bonds, and commodities (5/21/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4155.86	4.61%	10.64%	40.621%
MSCI AC World ex USA	349.28	3.93%	6.99%	43.38%
MSCI EAFE	2314.63	4.81%	7.78%	41.00%
MSCI EM	1330.04	1.03%	3.00%	46.92%
Bloomberg Barclays US Agg	105.53	0.35%	-3.95%	-3.99%
Crude Oil WTI	63.88	7.98%	31.66%	92.12%
Natural Gas	2.90	11.27%	14.89%	54.28%

Treasury rates (5/21/2021)

	Price		Yield
2Y	99.30 /	99.3	0.149
3Y	99.24 /	99.2	0.332
5Y	99.21 /	99.2	0.820
7Y	99.26 /	99.2	1.277
10Y	100.0 /	100.	1.617
30Y	101.0 /	101.	2.320

Weekly reports

This week

- Richmond Fed Index May
- UofM Inflation Expectations May

Last week

- NAHB Housing Market Index May: 83.0
- Housing Starts SAAR April: 1569K

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

1728-BCI-5/25/2021