# Weekly Wire

JUNE 28, 2021

BRINKER CAPITAL INVESTMENTS

## Inflation Expectations Are Up Greatly, But Aren't So Great

There are lots of ways to think about and measure inflation. We come back to inflation again this week as we continue to believe inflation – and its potential impact on monetary policy – remain the greatest points of concern for investors today. Among the better known and better followed inflation gauges are the Consumer Price Index (CPI), the Producer Price Index (PPI) and the Personal Consumption Expenditures Index (PCE). PCE is the Fed's preferred inflation indicator and was up 3.4% year over year in May, which marked the biggest year on year jump since 1992 and follows on recent multi-year jumps in the CPI and the PPI.

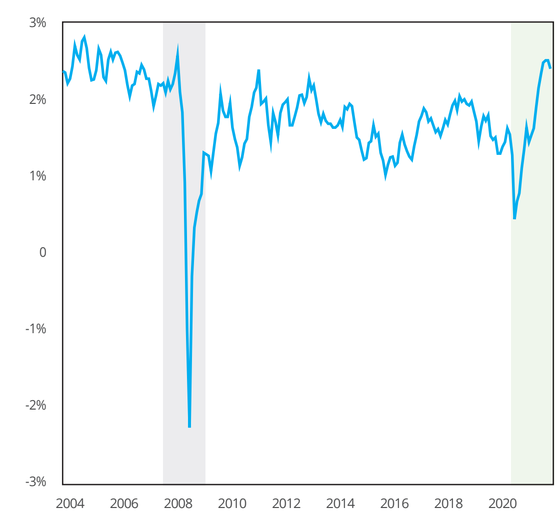
But despite these dramatic jumps in inflation, the Federal Reserve, and Federal Reserve Chairman Jerome Powell, remain convinced that the ongoing spike in inflation will prove to be transitory – a point Mr. Powell made again two weeks ago during his testimony before the U.S. House of Representatives. And if another important but much less followed inflation indicator is correct, then Chairman Powell and his colleagues at the Federal Reserve are correct in their outlook for inflation – that is the 5-Year Breakeven Inflation Rate. This rate measures what market participants expect inflation to be in the next five years, on average.

While that number, which plunged during the worst of the pandemic-driven economic downturn, has shot meaningfully higher of late, it sits only at 2.45%. This is not too far north of the Fed's long-term inflation target of 2%+ and no higher than where it sat for most of the 2000s. We continue to think the market is giving the Fed the benefit of the doubt when it comes to the outlook for inflation, and we think the market is correct to do so.

*"Inflation has increased notably in recent months. This reflects, in part, the very low readings from early in the pandemic falling out of the calculation; the pass-through of past increases in oil prices to consumer energy precise; the rebound in spending as the economy continues to reopen; and the exacerbating factor of supply bottlenecks, which have limited how quickly production in some sectors can respond in the near term. As these transitory supply effects abate, inflation is expected to drop back toward our longer-run goal."*

- Fed Chairman Jerome Powell, June 22, 2021

5-Year Breakeven Inflation Rate




**Stocks, bonds, and commodities** (6/25/2021)

| Security name | Last | QTD chg | YTD chg | 12mo chg |
|---|---|---|---|---|
| S&P 500 | 4280.70 | 7.75% | 13.97% | 42.26% |
| MSCI AC World ex USA | 356.26 | 6.01% | 9.13% | 34.57% |
| MSCI EAFE | 2342.43 | 6.07% | 9.08% | 31.62% |
| MSCI EM | 1379.59 | 4.80% | 6.84% | 38.11% |
| Bloomberg Barclays US Agg | 105.85 | 0.65% | -3.66% | -4.19% |
| Crude Oil WTI | 74.00 | 25.08% | 52.51% | 92.26% |
| Natural Gas | 3.54 | 35.66% | 40.06% | 129.15% |

**Treasury rates** (6/25/2021)

| | Price | Yield |
|---|---|---|
| 2Y | 99.22 / 99.2 | 0.274 |
| 3Y | 99.10 / 99.1 | 0.473 |
| 5Y | 99.24 / 99.2 | 0.925 |
| 7Y | 99.25 / 99.2 | 1.282 |
| 10Y | 100.2 / 100. | 1.526 |
| 30Y | 104.2 / 104. | 2.149 |

**Weekly reports**

**This week**

- Avg Hourly Earnings Y/Y June
- Nonfarm Payrolls June

**Last week**

- Existing Home Sales May: 5,800K
- Markit PMI Manufacturing June: 62.6

Chart source: Federal Reserve Economic Data, 06/28/21. 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

JUNE 2021

With the US economy reopened, growth is picking up. Fiscal policy remains supportive and while there is a good chance of another fiscal spending package later this year, 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. Inflation measures have picked up, but we expect the increase to be more transitory in nature as it is primarily driven by temporary supply and demand mismatches. Overall, the barometer remains tilted positively in June, aligned with our overweight risk positioning across portfolios.

## SHORT-TERM FACTORS (< 6 months)

| | CHANGE | NEGATIVE | NEUTRAL | POSITIVE | |
|---|---|---|---|---|---|
| Momentum | | | | ● | Market momentum remains strong |
| Trend | | | | ● | US markets remain above 50-day and 200-day moving averages |
| Investor sentiment | | ● | | | Excessive optimism and strong equity flows, 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; expect to be transitory but watching closely |
| 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 |



191-BCI-6/28/2021