Weekly Wire

AUGUST 2, 2021

BRINKER CAPITAL INVESTMENTS

Growth vs Value – Are We Setting Up For A Photo Finish?

A few questions have dominated our client conversations in 2021:

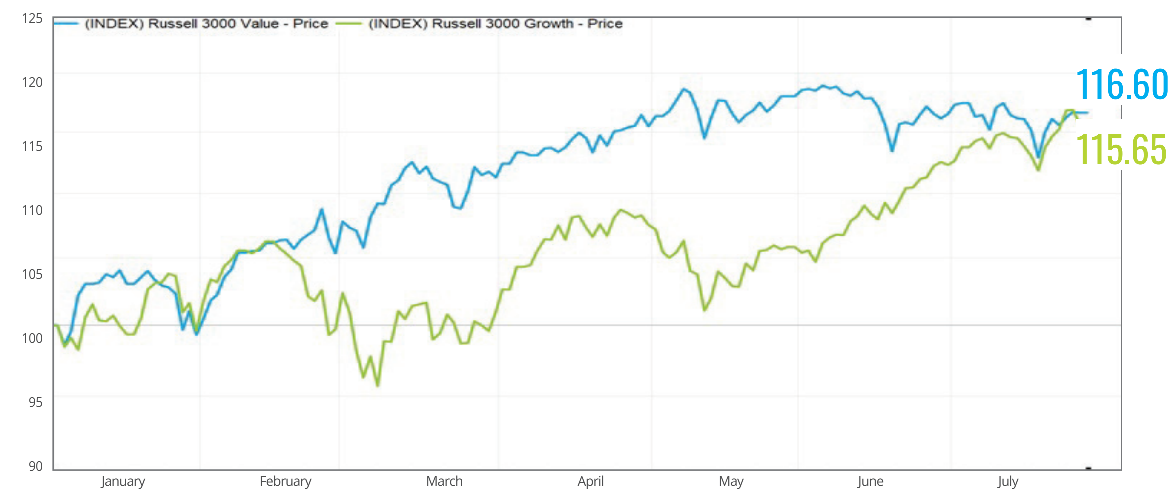
- Will inflation prove transitory or persistent?
- How might changes to the tax code impact the markets?
- When will The Fed taper and tighten?
- What investment style wins out this year: growth or value?

And that final question is the focus of this week's Weekly Wire. As we head into the last five months of 2021 the growth vs. value race is setting up for a photo finish. Consider that through July 30th, the Russell 3000 Growth Index is up 15.4% YTD, and the Russell 3000 Value Index is up 16.9%.

What makes the closeness of those return streams even more interesting is that in early May the Value Index was outperforming the Growth Index by nearly 17%. At that time, many on Wall Street thought the global recovery would run hotter for longer and bond yields would continue to move higher - both dynamics that favor economically sensitive value stocks. Then, as we moved further through Q2, growth stocks came roaring back as bonds caught a bid and investors grew concerned about the durability of the expansion - with the Delta variant of the Covid-19 only adding to those worries as of late.

We continue to maintain a neutral position between growth and value in our discretionary portfolios, leaning on the portfolio managers of the actively managed strategies we use to navigate that style dynamic and find the most compelling opportunities at the stock level. And ultimately, those factors that have and will continue to influence the trajectory of growth and value stocks – the pace and durability of the economic recovery, the persistency of the inflationary spike, the direction of bond yields – will also heavily influence the direction of monetary and fiscal policy into year-end.

Russell 3000 Value vs Russell 3000 Growth YTD



Stocks, bonds, and commodities (7/30/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4395.26	2.27%	17.02%	34.37%
MSCI AC World ex USA	345.72	-1.79%	5.90%	25.17%
MSCI EAFE	2321.09	0.70%	8.08%	27.52%
MSCI EM	1277.80	-7.04%	-1.04%	18.43%
Bloomberg Barclays US Agg	107.20	0.90%	-2.43%	-4.11%
Crude Oil WTI	73.81	0.46%	52.12%	83.29%
Natural Gas	3.91	7.21%	54.91%	117.51%

Treasury rates (7/30/2021)

	Price		Yield
2Y	99.28 /	0.00	0.184
3Y	100.0 /	0.00	0.346
5Y	99.21 /	99.2	0.703
7Y	99.29 /	0.00	1.009
10Y	103.1 /	0.00	1.234
30Y	111.0 /	0.00	1.889

Weekly reports

This week

- Hourly Earnings Y/Y Jul
- Nonfarm Payrolls Jul

Last week

- Richmond Fed Index 27
- Q2 GDP SAAR Q/Q 6.5%

Brinker Capital Market Barometer

JULY 2021

The US economy is on track to experience strong growth in the second half of the year as COVID-19 vaccination rates climb and restrictions are eliminated. Fiscal policy is currently supportive; however, the additional spending package expected later this year will require tax increases as an offset. The Fed has reaffirmed its commitment to support the economy; however, recent higher inflation readings have caused concern for an earlier than expected unwinding of stimulus. Our base case is that the increase in inflation is more transitory in nature, driven by base effects and temporary supply and demand mismatches, but we continue to watch closely for signs it could become structural. Intermediate and long-term Treasury yields have declined from levels seen in April. Consumer and business sentiment continue to improve, and earnings growth is expected to reflect the strength in nominal GDP. Overall, the barometer remains tilted positively in July, aligned with our overweight risk positioning across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains solid
Trend				●	US markets remain above 50-day and 200-day moving averages
Investor sentiment		●			Bullish sentiment has retreated in recent weeks but remains above its LT average
Seasonality	←	●			Entering more seasonally weak period historically

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 fell throughout the second quarter
Macroeconomic				●	Expect strong economic growth in 2021 driven by the vaccine/reopening
Business sentiment				●	CEO confidence increased again in 2Q to a record high level
Consumer sentiment				●	Consumer confidence surveys improved further in June
Corporate earnings				●	Expect continued strong earnings growth in 2Q
Credit environment				●	Credit spreads continue to tighten

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

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