Weekly Wire

SEPTEMBER 7, 2021

BRINKER CAPITAL INVESTMENTS

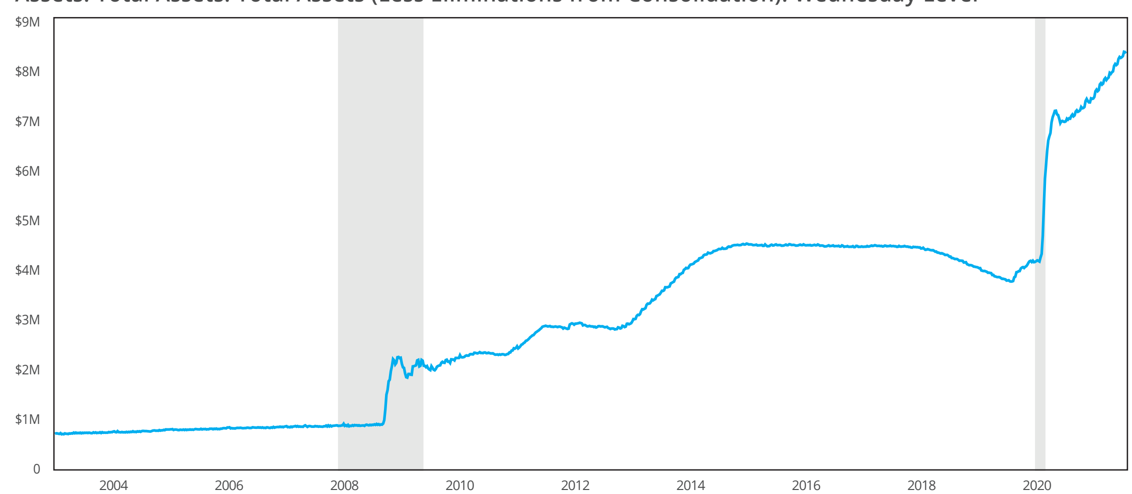
If The Fed Steps Back, Do Yields Step Up?

We think three questions are top of mind among investors when it comes to the Federal Reserve's securities purchase program (for more than a year, the Fed has been buying $80 billion of Treasuries and $40 billion of mortgage-backed securities each month with an eye toward keeping rates low and stimulating the economy, an undertaking that has helped leave it with more than $8 trillion in assets on its balance sheet) and those are:

- When will the tapering, or the unwinding of the program, commence?
- When tapering commences, how much will the program be reduced and how will that play out (e.g., will the Fed buy less Treasuries or mortgage-backed securities, or both)?
- How will tapering impact the bond market and yields?

We feel comfortable taking a shot at the first two questions, believing that, barring a dramatic slowdown in the economy, the Fed will begin tapering this year and will incrementally reduce its purchases of Treasuries and mortgage-backed securities. When it comes to the third question, we are a bit less comfortable offering an answer; most folks seem to believe that once the Fed begins tapering, bond prices will move lower and yields higher – which makes sense as a massive buyer of Treasuries and mortgage-backed securities will begin stepping back from the market. But one might ask, if the start of tapering means monetary policy is tightening, could bonds catch a bid and yields move lower as investors price in slower economic growth and lower inflation as a result of the Fed taking away – albeit gradually – the proverbial punch bowl? We think a good argument can be made for either outcome, and we will be monitoring Fed policy and the bond market closely into year-end.

Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level



Stocks, bonds, and commodities (9/3/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4535.43	5.54%	20.75%	32.35%
MSCI AC World ex USA	355.73	1.05%	8.97%	25.66%
MSCI EAFE	2389.45	3.67%	11.27%	27.76%
MSCI EM	1315.91	-4.27%	1.91%	19.68%
Bloomberg Barclays US Agg	106.69	0.43%	-2.89%	-3.42%
Crude Oil WTI	69.10	-5.95%	42.42%	73.75%
Natural Gas	4.70	28.68%	85.95%	81.49%

Treasury rates (9/3/2021)

	Price	Yield
2Y	99.26 / 0.00	0.204
3Y	99.29 / 0.00	0.402
5Y	99.26 / 0.00	0.784
7Y	100.0 / 0.00	1.099
10Y	99.09 / 0.00	1.324
30Y	101.0 / 0.00	1.942

Weekly reports

This week
- Initial Claims
- PPI NSA Y/Y Aug

Last week
- Chicago PMI SA Aug 66.8
- Nonfarm Payrolls SA Aug 235K

Brinker Capital Market Barometer

AUGUST 2021

The US economy is on track to experience strong growth in the second half of the year despite recent concern regarding COVID-19 variants. 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 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 August, 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		●			Currently in the weakest point of the calendar 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				●	Federal Reserve and global central banks remain very supportive
Inflation			●		Inflation has picked up; Fed expects it to be transitory but watching closely
Interest rate environment				●	Treasury yields have continued to fall
Macroeconomic				●	Expect continued solid economic growth in the second half of 2021
Business sentiment				●	CEO confidence increased again in 2Q to a record high level
Consumer sentiment				●	Consumer confidence rose further in July for the sixth consecutive month
Corporate earnings				●	Continued strength in earnings growth
Credit environment				●	Credit spreads remain tight; high yield spreads at levels last seen in 2007

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

2422-BCI-9/8/2021