Weekly Wire

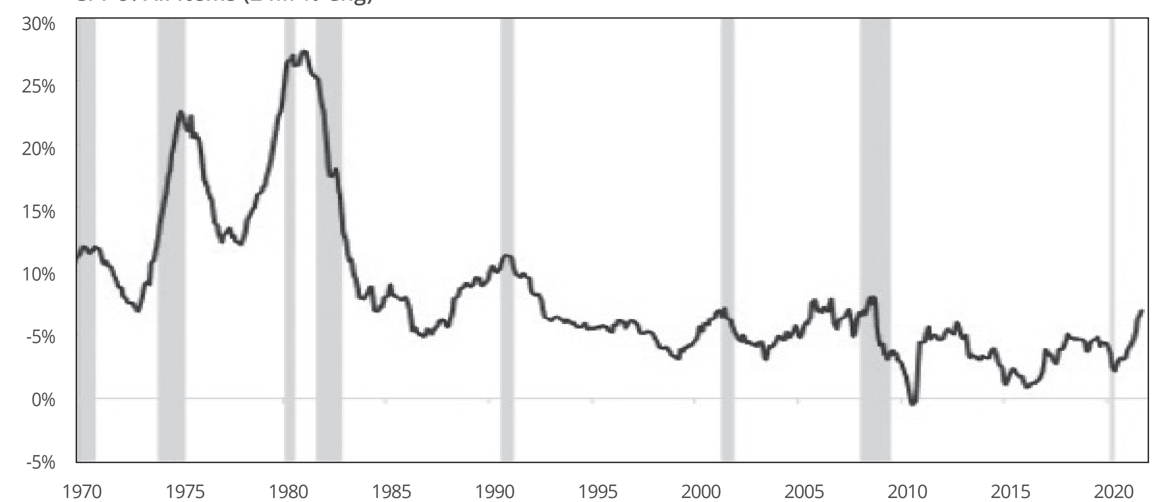
OCTOBER 25, 2021

BRINKER CAPITAL INVESTMENTS

Thinking About Inflation and Rob Base (Effect)

"It takes two to make a thing go right, it takes two to make it outta sight." Some of us will remember dancing to "It Takes Two," the massive '80s hit by Rob Base and DJ EZ Rock. And we are taking a stroll down music memory lane with the great Rob Base because we are looking at inflation (once again) this week, specifically the base effect. The base effect relates to inflation in the corresponding period of the previous year—if the rate was too low in the previous year, even a small rise in the associated inflation index (say the Consumer Price Index, or CPI) will arithmetically show a high rate of inflation today. And if the rate was too high in the corresponding period of the previous year, a similar absolute increase in the index will register a low rate of inflation today. Inflation plunged as the economy shut down in 2020; and we knew when the economy reopened and we lapped those very low CPI readings of 2020, we would get a spike in inflation, which we sure did. Now, as we move into year-end and inflation remains well above the Fed's long-term target of 2%+, many on Wall Street are worrying we are on the cusp of a period akin to the 1970s, when inflation ran into the double digits. One way to put the current inflationary spike in perspective is to measure changes in the CPI over a 24-month time period (to essentially account for or smooth out a big spike in inflation on a year-over-year basis), and to look at that dataset over a long period of time. Doing so, we see that inflation is running north of 5% (see chart below), but that we are nowhere near the inflation of the 1970s; in fact, on this metric, inflation was even higher in 1988, when "It Takes Two" was released. Inflation remains a headwind and a risk for the economy and the markets, and a real point of hardship for millions of Americans, but it does not pose the type of challenge to the US it did in the mid to late 1970s.

CPI-U: All Items (24M % Chg)



Stocks, bonds, and commodities (10/22/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4544.90	5.51%	21.00%	31.15%
MSCI AC World ex USA	350.00	3.15%	7.21%	21.86%
MSCI EAFE	2338.59	2.51%	8.90%	24.11%
MSCI EM	1293.14	3.20%	0.15%	13.79%
Bloomberg Barclays US Agg	104.75	-0.71%	-4.66%	-4.21%
Crude Oil WTI	83.98	11.93%	73.08%	110.74%
Natural Gas	5.31	-9.56%	110.06%	78.59%

Treasury rates (10/22/2021)

	Price		Yield
2Y	99.19 /	99.1	0.453
3Y	99.18 /	99.1	0.770
5Y	98.14 /	98.1	1.197
7Y	98.16 /	98.1	1.474
10Y	96.16 /	96.1	1.634
30Y	98.12 /	98.1	2.071

Weekly reports

This week

- Richmond Fed Index Oct
- GDP Q3 SAAR Q/Q

Last week

- Housing Starts SAAR Sep 1,555K
- Philadelphia Fed Index SA Oct 23.8

Brinker Capital Market Barometer

OCTOBER 2021

Growth is likely to pick up again as concerns over the Delta variant fade. We are seeing economic strengths on many fronts, including corporate earnings, capital expenditures, housing, and employment. Monetary policy remains a tailwind, and the Fed has been transparent in its plan, assuming desired economic conditions have been met. Fiscal policy is currently supportive; however, uncertainty exists near term as Congress works through several fiscal initiatives, including addressing the debt ceiling. Depending on where the legislation ends up, it could result in higher taxes, causing the fiscal backdrop to shift. The increase in inflation measures look more persistent than transitory, but we are still working through supply chain issues. Treasury yields have moved slightly higher, but credit conditions remain favorable. Overall, the barometer remains tilted positively in October, aligned with our overweight risk positioning across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains positive although the rate of change is slowing
Trend				●	S&P 500 index dropped below 50-day moving average, but still in an uptrend
Investor sentiment	→		●		Bearish sentiment has increased; outflows from equity funds/ETFs
Seasonality		●			Seasonally weak period until end of October

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Remains supportive but watching for level of tax increases in final bill
Monetary policy				●	Fed has clearly communicated plan for tapering ('21) and potential rate hikes ('22)
Inflation			●		Inflation appears more persistent than transitory; supply chain issues remain
Interest rate environment				●	Treasury yields have risen modestly since August but remain at low levels
Macroeconomic				●	Economic strength on many fronts - employment, capex, personal income, housing
Business sentiment				●	Small business confidence remains at elevated level; labor shortage a concern
Consumer sentiment				●	Improved slightly in September; higher inflation weighing on purchases
Corporate earnings				●	Earnings picture remains strong; pace of growth may decelerate in 2H21
Credit environment				●	High yield spreads have remained relatively stable; credit conditions constructive

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle				●	In an economic expansion period with positive GDP growth since 3Q20
Demographics			●		Mixed - US and emerging markets positive but developed international negative

2722-BCI-10/25/21