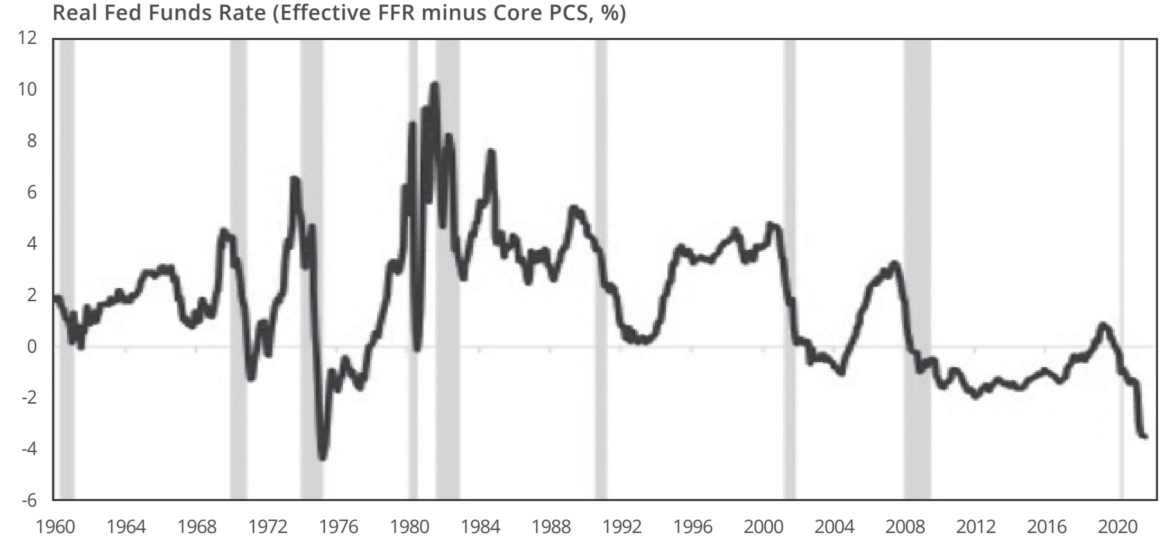
Weekly Wire

NOVEMBER 1, 2021

BRINKER CAPITAL INVESTMENTS

When Deeply Negative is Highly Positive

At the risk of going to the inflation well one too many times, we are writing about inflation once again this week as we believe it remains – outside of the coronavirus – the topic of greatest concern among investors. It is also an incredibly important point of consideration for both the Federal Reserve, as our central bank looks to begin normalizing monetary policy, and for the political class in Washington, DC, as our nation's leaders debate how much fiscal support is appropriate for an economy that is confronting meaningfully higher prices today, as supply chains remain snarled and millions of jobs go unfilled. This week we look at inflation in relation to interest rates, specifically, the Fed Funds Rate, which we think is the Fed's primary tool for trying to stimulate the economy (by cutting rates / keeping rates low) or slow the economy (by raising rates / keeping rates high). There is the absolute level of the Fed Funds Rate – which is 0% to 0.25% today, an incredibly stimulative level – and the Real Fed Funds Rate, which is the rate relative to the rate of inflation (if the Fed Funds Rate is less than the rate of inflation, the Real Fed Funds Rate is negative, and if it is above the rate of inflation the Real Fed Funds Rate is positive). Most students of economics believe the more negative the Real Fed Funds Rate, the better for economic growth. Consider, if the cost of capital is meaningfully below the rate of inflation, one is highly incented to borrow and purchase productive assets or invest in financial assets as it is likely either endeavor will prove profitable. Well, today, the Real Fed Funds Rate is the most negative it has been in 40+ years (see chart), while prior to the pandemic-driven downturn, it had taken a Real Fed Funds Rate of positive 3%+ before the economy was at risk of recession (see chart). Even as the Fed looks to begin tapering its securities purchase program this month, and the odds that the Fed raises rates several times next year continue to increase, monetary policy is, and should remain, very supportive of economic growth and risk assets.



Stocks, bonds, and commodities (10/29/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4605.38	6.91%	22.61%	40.84%
MSCI AC World ex USA	347.12	2.31%	6.33%	26.88%
MSCI EAFE	2335.53	2.36%	8.75%	31.20%
MSCI EM	1264.75	0.93%	-2.05%	14.62%
Bloomberg Barclays US Agg	105.19	-0.29%	-4.25%	-3.71%
Crude Oil WTI	83.22	10.92%	71.52%	132.52%
Natural Gas	5.66	-3.46%	124.23%	63.27%

Treasury rates (10/29/2021)

	Price		Yield
2Y	99.24 /	99.2	0.497
3Y	99.20 /	99.2	0.750
5Y	99.22 /	99.2	1.185
7Y	99.15 /	99.1	1.453
10Y	97.06 /	97.0	1.558
30Y	101.1 /	101	1.933

Weekly reports

This week
- Private Nonfarm Payrolls Oct
- Unemployment Rate Oct

Last week
- Richmond Fed Index Oct 12.0
- GDP Q3 SAAR Q/Q 2.0%

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

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