Weekly Wire

DECEMBER 20, 2021

BRINKER CAPITAL INVESTMENTS

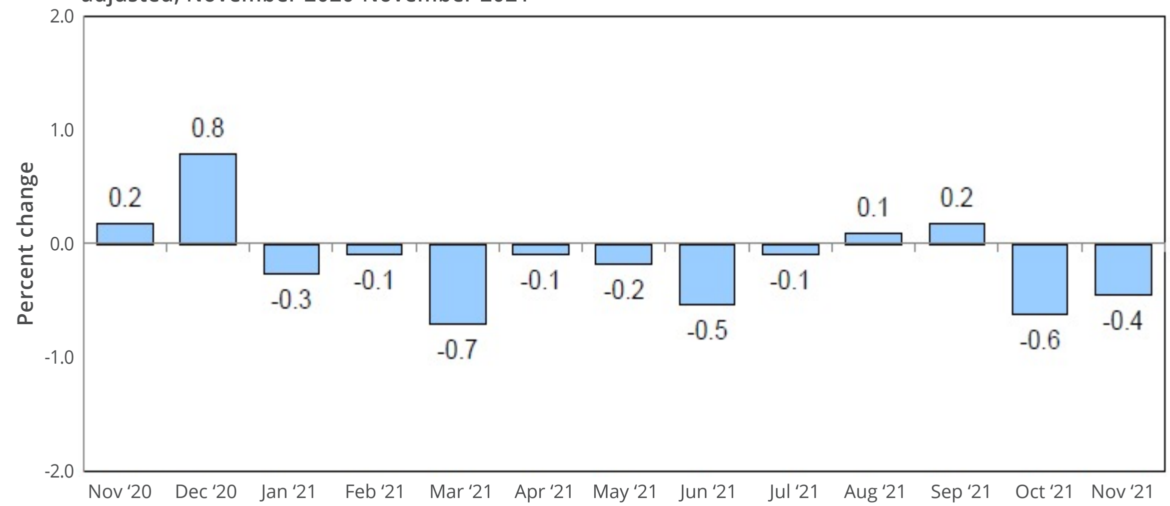
Negative Real Rates Help. Negative Real Wage Gains? Not So Much.

We have written often of late about real interest rates – which are typically arrived at by adjusting a benchmark rate such as the Fed Funds Rate for the rate of inflation, measured, for example, by the Consumer Price Index. Specifically, real rates are positive when the benchmark rate is above the rate of inflation and negative when the benchmark rate is below the rate of inflation. Economic history tells us that positive real interest rates act as a brake on borrowing, spending, and growth while negative real rates act as an accelerator for borrowing, spending, and growth.

Today, real rates are deeply negative – and supportive of growth – with the Fed Funds Rate at 0% and the CPI running above 6%. It isn't just interest rates that can be adjusted for inflation, but wages, or at least wage gains, which are arrived at by comparing month-on-month or year-on-year changes in wages to changes in the rate of inflation. If wage gains are outpacing inflation, real wage gains are positive and if wage gains are trailing inflation, they are negative. While negative real rates are widely considered a positive for the economy, negative real wage gains are not, as income growth is not keeping up with the increase in the cost of living (if your wages go up by 2% and inflation goes up by 3%, you are, all things being equal, losing ground financially).

For most of the past year, wage gains have trailed inflation (see graph), which is likely why consumer sentiment surveys have turned lower of late. For the wage dynamic to improve, one of two things must happen: wages need to increase even faster than they have of late, or inflation must come in. The tricky thing about the former fix is that meaningful and ongoing wage increases can feed an inflationary spiral that could prove very harmful to the economy and very hard to arrest. Hopefully, the Fed will be successful in slowing the rate of inflation in 2022, allowing the American worker to "keep" more of what they are making.

Over-the-month percent change in real average hourly earnings for all employees, seasonally adjusted, November 2020-November 2021



Stocks, bonds, and commodities (12/17/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4620.64	7.27%	23.02%	24.57%
MSCI AC World ex USA	336.76	-0.75%	3.16%	4.19%
MSCI EAFE	2278.88	-0.11%	6.12%	6.91%
MSCI EM	1216.30	-2.94%	-5.81%	-4.10%
Bloomberg Barclays US Agg	105.12	-0.36%	-4.32%	-4.18%
Crude Oil WTI	70.14	-6.52%	44.56%	42.45%
Natural Gas	3.67	-37.46%	45.25%	35.89%

Treasury rates (12/17/2021)

	Price	Yield
2Y	99.23 / 0.00	0.638
3Y	100.0 / 0.00	0.919
5Y	100.1 / 0.00	1.172
7Y	101.0 / 0.00	1.333
10Y	99.23 / 0.00	1.404
30Y	101.0 / 0.00	1.818

Weekly reports

This week (12/20/2021)
- Existing Home Sales SAAR Nov
- New Home Sales SAAR Nov

Last week (12/13/2021)
- NFIB Small Business Index Nov 98.4
- NAHB Housing Market Index SA Dec 84.0

Brinker Capital Market Barometer

DECEMBER 2021

The US economy is still on track for very strong growth in the fourth quarter despite any headwinds from the new COVID-19 variant. The labor market continues to improve, as the unemployment rate has fallen to 4.2% and wages have meaningfully increased. Monetary policy remains accommodative, however, the more persistent inflation we are experiencing may cause the Fed to accelerate its timeline for tapering, followed by rate increases, in 2022. Fiscal policy is currently supportive, and we avoided a government shutdown for now, but the debt ceiling and President Biden's Build Back Better plan must be addressed. With broad-based economic growth, we expect another strong quarter of growth in corporate profits, which is supportive of equities. Longer-term Treasury yields have fallen recently, and the yield curve has steepened, but credit conditions remain favorable. While the weight of the evidence still leans largely positive, which is aligned with our modest overweight risk positioning across portfolios, the few changes to the barometer in December were negative.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	←		●		Overall market momentum still positive but breadth has deteriorated
Trend				●	US large cap above LT moving average, but international and small cap weaker
Investor sentiment			●		Bullish sentiment has come down recently but not in extreme territory
Seasonality				●	Seasonality a tailwind through year-end

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Fiscal support remains; tax impact of BBB looks relatively benign
Monetary policy				●	Fed has clearly communicated plan; watching for speeding up of timeline
Inflation	←	●			Persistent inflation causing Fed to adjust timeline; weighing on sentiment
Interest rate environment				●	Longer-term Treasury yields have fallen in recent weeks; yield curve has flattened
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			●		Survey data negative but not in sync with consumer behavior
Corporate earnings				●	Broad-based strength in earnings although pace of growth should decelerate
Credit environment				●	Modest widening of corporate credit spreads; 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			●		Emerging markets with more favorable trends overall than developed markets

3140-BCI-12/20/21