Weekly Wire

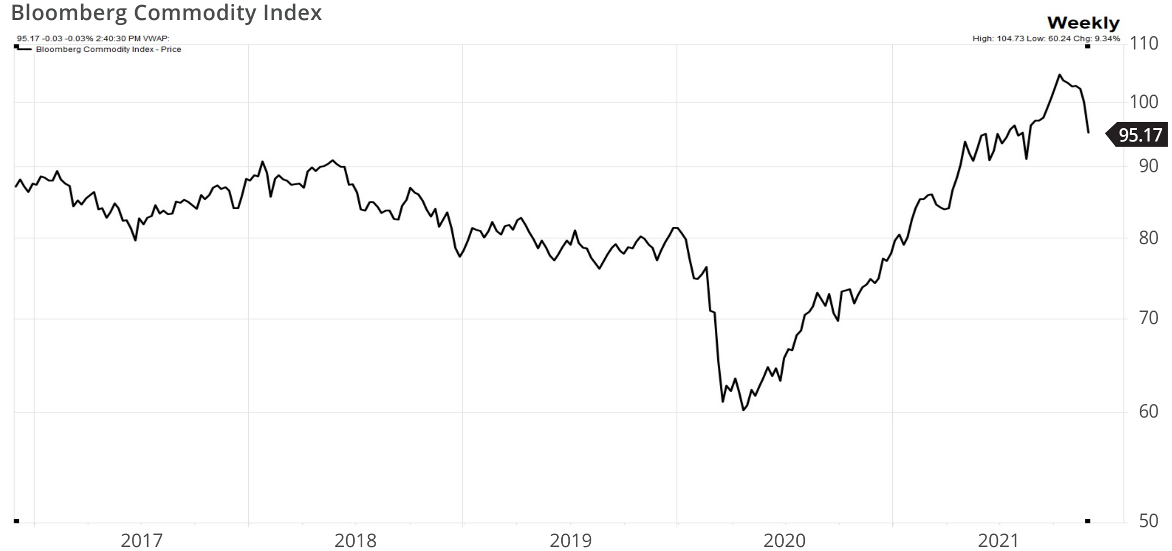
DECEMBER 6, 2021

BRINKER CAPITAL INVESTMENTS

Omicron & The Fed Upend The Markets

After a week away for the Thanksgiving holiday, we are happy to be taking pen to paper to share our thoughts on the economy and markets. While our Thanksgiving was great–and we hope yours was too–the post-Thanksgiving period has been anything but for investors. The Omicron variant of the coronavirus and talk of sped-up tapering and sooner than expected rate hikes by the Federal Reserve have conspired to push volatility higher and risk assets lower. As always, our first concern is for everyone's health and safety, and we hope the Omicron variant will not drive a spike in Covid hospitalizations or deaths (and considering the Delta variant proved more manageable than expected, that could prove to be the case). Then there is the Federal Reserve and the hawkish tone emanating from our central bank, as Chairman Powell and his colleagues contend with inflation that has proven more persistent than they expected. In fact, while testifying before Congress last week, Mr. Powell said it was time to retire the word "transitory" when it came to describing inflation, and that meaningful shift in tone was a catalyst for recent market weakness as investors worried how risk assets would fare under a less accommodative Fed. We think the Fed is right to assume a more hawkish stance, but we also find it interesting that, as the institution most associated with the concept of transitory inflation abandons the concept, the Bloomberg Commodity Index, which is comprised of any number of cyclically sensitive commodities, has dropped about 10% from its all-time high (see chart). Maybe, just maybe, we are near peak inflation. If so, the Fed should be able to gradually shift from an accommodative to neutral monetary policy stance, a dynamic that would be welcomed on Wall Street and should be supportive of risk assets for some time to come.

Bloomberg Commodity Index



Stocks, bonds, and commodities (12/3/2021)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4538.43	5.36%	20.83%	22.69%
MSCI AC World ex USA	333.26	-1.78%	2.08%	4.51%
MSCI EAFE	2235.12	-2.02%	4.08%	6.38%
MSCI EM	1224.64	-2.27%	-5.16%	-2.11%
Bloomberg Barclays US Agg	105.62	0.11%	-3.87%	-3.58%
Crude Oil WTI	66.22	-11.74%	36.48%	43.15%
Natural Gas	4.09	-30.22%	62.07%	58.99%

Treasury rates (12/3/2021)

	Price		Yield
2Y	99.26 /	0.00	0.583
3Y	99.23 /	0.00	0.835
5Y	100.1 /	0.00	1.124
7Y	101.1 /	0.00	1.290
10Y	100.1 /	0.00	1.340
30Y	104.2 /	0.00	1.669

Weekly reports

This week (12/6/2021)

- CPI Nov NSA Y/Y
- UofM Dec Consumer Sentiment NSA

Last week (11/22/2021)

- Markit PMI Manufacturing SA Nov 59.1
- New Home Sales SAAR Oct 745.0K

Brinker Capital Market Barometer

NOVEMBER 2021

Growth is likely to pick up again in the fourth quarter. We are seeing strength in the economy on many fronts, including the labor market which showed meaningful improvement in October. Monetary policy remains accommodative, and the Fed has been transparent in its plan to begin tapering, followed by rate hikes in 2022, assuming desired economic conditions have been met. Fiscal policy is currently supportive; however, uncertainty still exists near term as Congress works through several fiscal initiatives, including addressing the debt ceiling. The pickup in inflation appears 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 November, 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 back above 50-day moving average; hit record-high level
Investor sentiment			●		Sentiment not at extreme levels; modest equity inflows
Seasonality	→→			●	Seasonality a strong tailwind through year-end

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Remains supportive; tax impact of BBB looks relatively benign
Monetary policy				●	Fed has clearly communicated plan; watching for speeding up of timeline
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	←		●		Consumer sentiment weakened in October but spending remains strong
Corporate earnings				●	Earnings picture remains strong although pace of growth should decelerate
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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