Weekly Wire

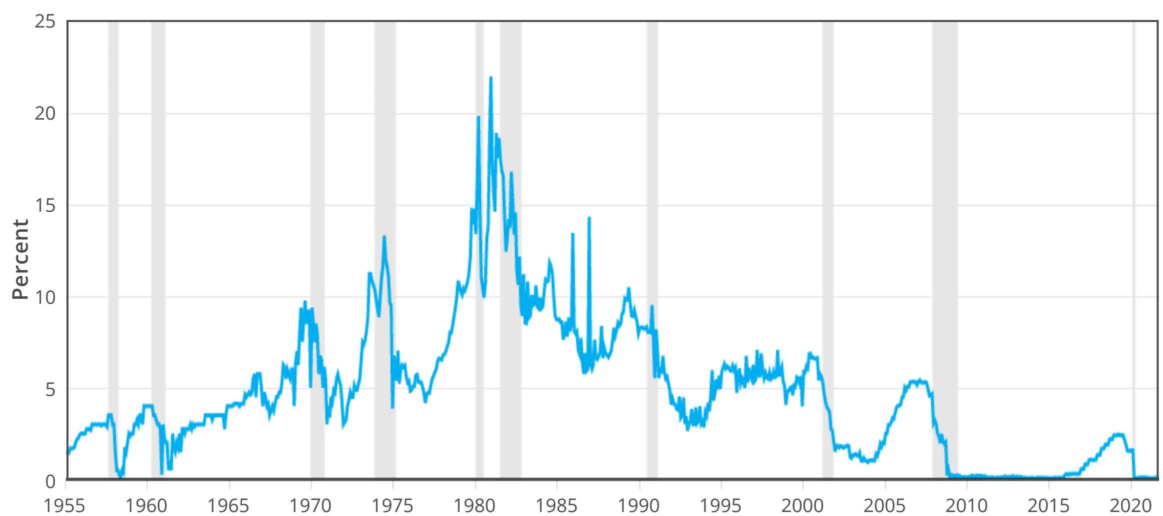
JANUARY 10, 2022

BRINKER CAPITAL INVESTMENTS

If We Could Only Keep One Thing in Mind in 2022...

Happy New Year! We hope you all had a wonderful holiday season and we wish you and your loved ones a happy, healthy, and prosperous 2022. As we kick off a new year, the world is – as expected and maybe even more so this year – offering up more than a few things for investors to be concerned about. Consider the dramatic spike in the Covid case count, driven by the highly transmissible Omicron variant; the elevated level and persistency of inflation; the still "missing" millions of Americans from the labor force; uncertainty around fiscal policy as the Democrats look to revive the Build Back Better Act; the mid-term elections (November will be here before we know it!); an expected step down in earnings and economic growth (relative to 2021); a backing up in bond yields and perhaps, most importantly – outside of the pandemic – the hawkish tilt by the Federal Reserve, as our central bank winds down its securities purchase program and looks to begin raising interest rates and shrinking its balance sheet. It's enough to make one's head spin and make one more than a bit pessimistic on the markets. Our head might be spinning, but we remain optimistic on stocks in the new year, thinking that still strong economic and corporate profit growth, ample and attractively priced capital for companies and consumers, and still-low rates – among other factors – will help push the market up and to the right. And for those times in 2022 when our head is really spinning – and we expect that will happen more than once – we will keep in mind what we think is the most important dynamic for the economy and markets this year – that we are very early in the Fed rate hiking cycle, and that if history is any guide, it takes multiple interest rate hikes before monetary policy puts the US economy at risk of recession (see graph) and US stocks at risk of a bear market.

Federal Funds Effective Rate



Stocks, bonds, and commodities (1/7/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4677.03	-1.87%	-1.87%	22.29%
MSCI AC World ex USA	343.00	-0.39%	-0.39%	1.30%
MSCI EAFE	2328.99	-0.30%	-0.30%	5.14%
MSCI EM	1226.10	-0.48%	-0.48%	-9.41%
Bloomberg Barclays US Agg	103.10	-1.56%	-1.56%	-5.28%
Crude Oil WTI	78.94	4.96%	4.96%	51.11%
Natural Gas	3.74	5.14%	5.14%	40.81%

Treasury rates (1/7/2022)

	Price		Yield
2Y	99.24 /	0.00	0.870
3Y	99.17 /	0.00	1.153
5Y	98.25 /	0.00	1.504
7Y	97.27 /	0.00	1.699
10Y	96.14 /	0.00	1.769
30Y	94.22 /	0.00	2.113

Weekly reports

This week (1/10/2022)

- Consumer Price Index NSA Y/Y Dec
- Producer Price Index NSA Y/Y Dec

Week of 12/20/2021

- Existing Home Sales SAAR Nov 6,460K
- New Home Sales SAAR Nov 744K

Chart source: The Federal Reserve Bank of St. Louis, January 2022. The views expressed are those of Brinker Capital and are not intended as investment advice or recommendation. For informational purposes only.

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

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