Weekly Wire

JANUARY 24, 2022

BRINKER CAPITAL INVESTMENTS

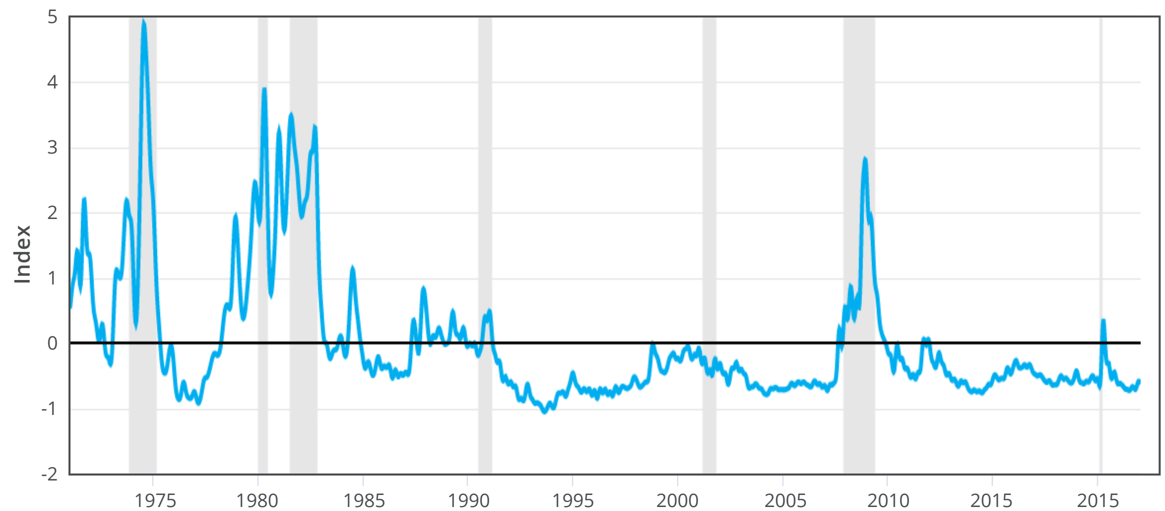
While Stocks Stumble, Financial Conditions Remain on Firm Footing

It has been a rough start to the year for risk assets with the S&P 500 off 7%+ and US small cap stocks and US growth stocks down even more. Most investors continue to cite the hawkish pivot by the Fed and the backing up in bond yields as the primary catalysts for the pullback. Away from the stock market, the Omicron variant has weighed on growth as supply chains remain stressed, particularly coming out of China, while inflation is causing most companies to expect higher expenses in 2022, especially wages. Finally, geopolitical tensions are elevated as the West tries to discern Russia's intentions toward Ukraine.

As we think about the markets and the economy, we are reminded that—while distinct—they are linked, with economic conditions ultimately reflected in share prices, helped higher by growing revenues and earnings, or helped lower by declining revenues and earnings. Of course, there is the historic phenomenon of the market as a leading indicator, inflecting higher while the economy is still struggling and inflecting lower while growth is still robust.

That said, while a high single digit pullback in equity prices is never enjoyable, we don't believe recent market weakness is indicative of a coming recession; in fact, given the health of the US consumer, growth should accelerate as the Covid case count comes down—as we hope and expect. And while stocks have stumbled, broader indicators of financial health remain on firm footing, including the Chicago Federal Reserve's National Financial Conditions Index, a comprehensive look at financial conditions in money markets, debt and equity markets, and traditional and "shadow" banking systems (see chart). Positive values of the NFCI indicate financial conditions that are tighter than average, while negative values indicate conditions that are looser than average. Historically, the index has moved above zero and into positive territory as the US economy slides into recession, as companies and consumers find it more difficult and more expensive to access capital. Today, the index is well below zero, indicating financial conditions remain broadly supportive of the economy, a dynamic that should help drive ongoing growth in corporate revenues and earnings, and higher prices for US stocks.

Chicago Fed National Financial Conditions Index



Stocks, bonds, and commodities (1/21/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4397.94	-7.73%	-7.73%	14.49%
MSCI AC World ex USA	340.01	-1.25%	-1.25%	0.03%
MSCI EAFE	2284.35	-2.21%	-2.21%	3.84%
MSCI EM	1244.31	1.00%	1.00%	-10.66%
Bloomberg Barclays US Agg	102.71	-1.93%	-1.93%	-5.63%
Crude Oil WTI	84.83	12.79%	12.79%	62.29%
Natural Gas	3.75	5.45%	5.45%	52.73%

Treasury rates (1/21/2022)

	Price		Yield
2Y	99.17 /	0.00	0.991
3Y	99.18 /	0.00	1.267
5Y	98.19 /	0.00	1.542
7Y	97.27 /	0.00	1.702
10Y	96.19 /	0.00	1.752
30Y	95.26 /	0.00	2.062

Weekly reports

This week (1/24/2022)

- Consumer Confidence Jan
- Q4 GDP SAAR Q/Q

Week of 1/17/2022

- Empire State Index SA Jan -0.70
- Existing Home Sales SAAR Dec 6,180K

Brinker Capital Market Barometer

JANUARY 2022

The US economy is on track for solid growth to start the year as we expect the impact from the Omicron variant to be more transitory. The labor market continues to improve, with the unemployment rate falling to 3.9% and wage growth increasing meaningfully. The housing market is very strong and helped by favorable supply and demand dynamics. Monetary policy remains accommodative; however, we are watching for persistent higher inflation that could force the Fed to adopt a more hawkish stance on rate hikes, and possibly quantitative tightening, in 2022. Fiscal policy is less of a tailwind this year, and we do not see a high likelihood of either a large-scale stimulus package or sweeping tax increases. With economic growth more broad-based, we expect another strong quarter of growth in corporate profits, which is supportive of equities. Longer-term Treasury yields edged higher recently; however, we are far from levels that would impact the economy and equity markets. Although a couple of factors slid into neutral territory in January, the weight of the evidence still leans largely positive, aligned with our modest overweight risk positioning across portfolios. We expect elevated market volatility as we experience normalization of liquidity and policy, a backdrop that is favorable for our active approach.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Overall market momentum is still positive but breadth has deteriorated
Trend				●	US large caps are in an uptrend; above 50-day and 200-day moving averages
Investor sentiment			●		Not at an extreme; average level of bullish sentiment; equity flows strong
Seasonality	←		●		Seasonality relatively weaker entering 1Q

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy	←		●		Fiscal drag a headwind in 2022; major stimulus unlikely but pressure on Democrats to act
Monetary policy				●	Fed has pivoted to rate hikes in 2022, but balance sheet still supportive
Inflation		●			Persistent high inflation may cause Fed to adjust timeline; weighing on sentiment
Interest rate environment				●	Treasury yields have edged higher but still far from impacting economy or markets
Macroeconomic				●	Economy strong (e.g. housing, consumer spending); Omicron impact is transitory
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				●	Corporate credit spreads remain well behaved; credit conditions supportive

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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of January 12, 2022. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. Brinker Capital Inc., a registered investment advisor. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. Barclays US Aggregate Index: A market capitalization-weighed index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries. Brinker Capital Investments, LLC a registered investment advisor.

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