# Weekly Wire

FEBRUARY 14, 2022

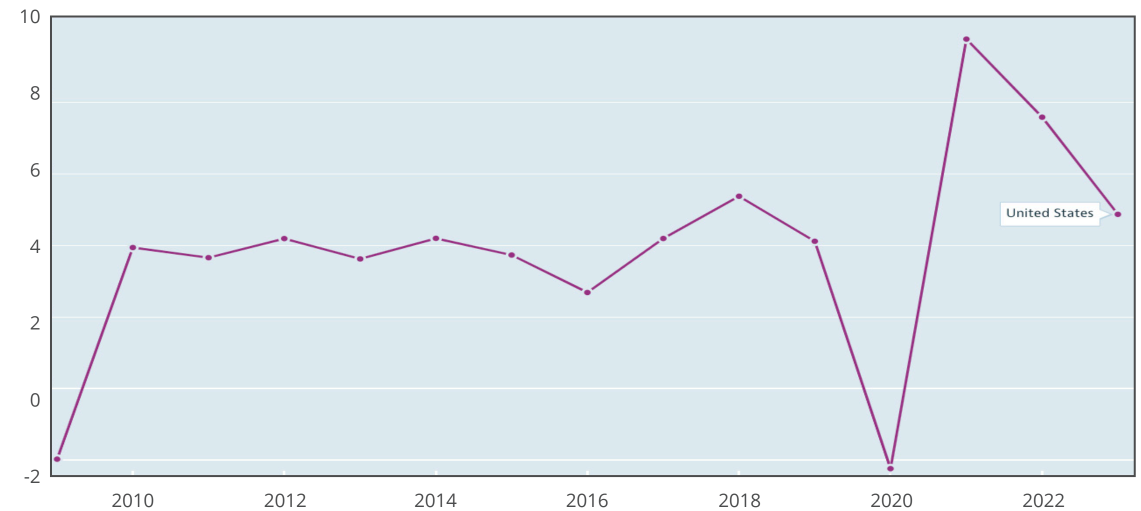
BRINKER CAPITAL INVESTMENTS

## Apologies to Madonna…We are Living in a Nominal World

I have come to appreciate that the older I get, the less my pop culture references resonate. With that written, I am working off the assumption that everyone reading this knows who Madonna is (and, truth be told, if you don't, I prefer not knowing). Madonna, as one of the most prolific and successful pop singers of the past forty years, has had a number of huge hits, including 1984's Material Girl, in which she sang of living in a material world. Well, we may or may not be living in a material world, but when it comes to the economy and the markets, we think we are living in a nominal world.

Nominal Gross Domestic Product is a measure of the value of all final goods and services produced within our country at current market prices during a particular period (usually a calendar quarter or year). Nominal GDP doesn't distinguish between the volume of goods and services produced and the price of those goods and services, which means when prices are moving sharply higher, nominal GDP is likely moving sharply higher. That dynamic, with inflation in the mid-to-high single digits, is certainly in play today as Q4 nominal GDP increased an estimated 14%. While one can credibly argue that real GDP – which does account and solve for price when measuring output – is a more accurate reflection of an economy's performance, companies' financial results are ultimately driven by and reflect price and volume. On that front, we are coming to the end of a Q4 earnings season that has seen S&P 500 revenues increase 15% and EPS increase 31%, on average, year on year. And as we look further out, the Organization for Economic Cooperation and Development expects US nominal GDP to increase 7.6% in 2022 and 4.9% in 2023 (see chart). Our economy – especially on a nominal basis – continues to power ahead.

Nominal GDP Forecast (Total Annul Growth Rate (%), 2009-2023




**Stocks, bonds, and commodities** (2/11/2022)

| Security name | Last | QTD chg | YTD chg | 12mo chg |
|---|---|---|---|---|
| S&P 500 | 4418.64 | -7.29% | -7.29% | 12.30% |
| MSCI AC World ex USA | 340.04 | -1.24% | -1.24% | -1.75% |
| MSCI EAFE | 2279.33 | -2.43% | -2.43% | 2.32% |
| MSCI EM | 1240.51 | 0.69% | 0.69% | -13.18% |
| Bloomberg Barclays US Agg | 100.78 | -3.77% | -3.77% | -6.81% |
| Crude Oil WTI | 93.90 | 24.85% | 24.85% | 57.89% |
| Natural Gas | 4.00 | 12.45% | 12.45% | 37.36% |

**Treasury rates** (2/11/2022)

| | Price | Yield |
|---|---|---|
| 2Y | 98.24 / 0.00 | 1.516 |
| 3Y | 99.09 / 0.00 | 1.739 |
| 5Y | 98.08 / 0.00 | 1.866 |
| 7Y | 98.22 / 0.00 | 1.954 |
| 10Y | 99.10 / 0.00 | 1.947 |
| 30Y | 99.29 / 0.00 | 2.252 |

**Weekly reports**

**This week** (2/14/2022)

- PPI NSA Y/Y Jan
- NAHB Housing Market Index SA Feb

**Week of 2/7/2022**

- NFIB Small Business Index Jan 97.1
- CPI NSA Y/Y Jan 7.5%

Chart source: The Organization for Economic Cooperation and Development, February 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

FEBRUARY 2022

The US economy is experiencing solid growth to start the year, as evidenced by strength in the labor market, the housing market, and consumer spending. While monetary policy currently remains accommodative, persistently high levels of inflation could force the Federal Reserve to take a more aggressive stance on rate hikes, and possibly quantitative tightening. Fiscal policy is more of a headwind this year and the likelihood of sizeable new fiscal spending is slim. With economic growth more broad-based, we expect another strong quarter of growth in corporate profits, which is supportive of equities. Treasury yields continue to edge higher, and while we have not yet reached levels that would impact the economy and equity market, the yield curve has flattened. The pull-back in equity markets has caused investor sentiment to recede, and given our still favorable outlook over the near term, we maintain an overweight risk positioning across portfolios. We expect continued market volatility as we experience a normalization of liquidity and policy, a backdrop that is favorable for our active approach.

## SHORT-TERM FACTORS (< 6 months)

| | CHANGE | NEGATIVE | NEUTRAL | POSITIVE | |
|---|---|---|---|---|---|
| Momentum | | | ● | | Market momentum weakened but still positive |
| Trend | | | ● | | US large caps above 200-day moving average and remain in uptrend |
| Investor sentiment | | | | ● | Surveys show significantly more bears than bulls, a contrarian indicator |
| Seasonality | → | | | ● | In a mid-term election year, more seasonal suport through April |

## INTERMEDIATE-TERM FACTORS (6-36 months)

| | CHANGE | NEGATIVE | NEUTRAL | POSITIVE | |
|---|---|---|---|---|---|
| Fiscal policy | | | ● | | Fiscal drag a headwind in 2022; unlikely to see any major new fiscal spending |
| Monetary policy | | | | ● | Fed may have to more aggressively hike, but balance sheet still supportive for now |
| Inflation | | ● | | | Persistently high inflation may cause Fed to adjust timeline; weighing on sentiment |
| Interest rate environment | | | | ● | Yields have moved higher but not yet at concerning levels; curve has flattened |
| Macroeconomic | | | | ● | Economic growth continues to be solid (e.g. employment, housing, spending) |
| Business sentiment | | | | ● | Business confidence measures declined from recent highs, but remain elevated |
| Consumer sentiment | | | ● | | Survey data show negative sentiment, 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 still 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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