Weekly Wire

FEBRUARY 22, 2022

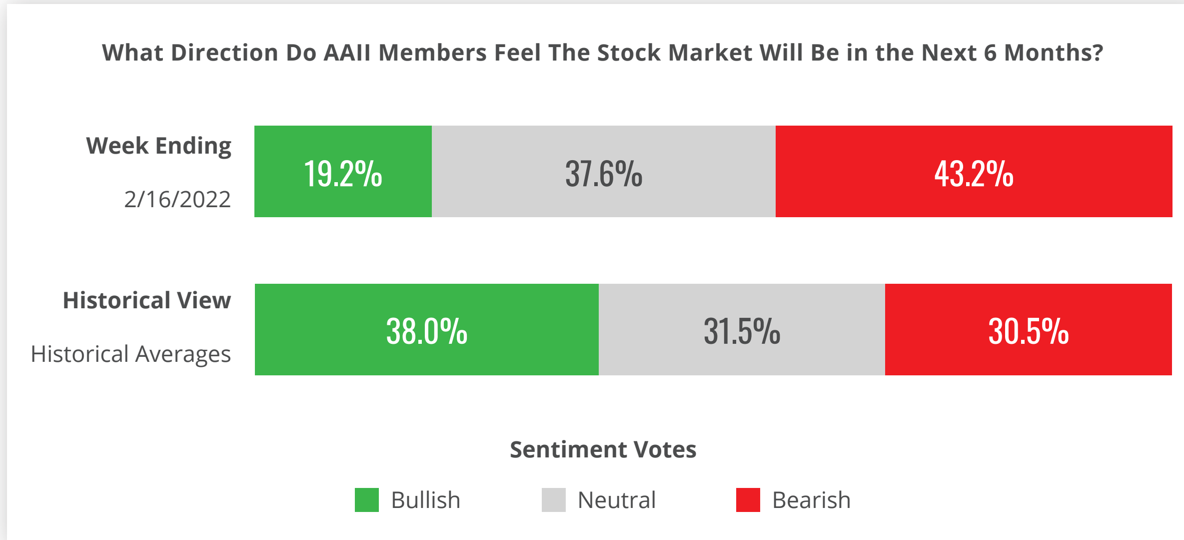
BRINKER CAPITAL INVESTMENTS

The Upside of a Drawdown

Market volatility is often a catalyst for ill-timed trading decisions by investors who seek to take a long-term view of things but find their good intentions and thoughtful plans overwhelmed by angst and anxiety. So, as we continue to navigate a very bumpy 2022, we continue to try and understand the reasons for the recent market weakness, put said weakness in perspective, determine if we should reconsider our optimistic outlook on the economy and the markets, and finally, keep in mind the upside of a drawdown.

Taking that task list in order, we see the Fed's hawkish pivot and the recent Omicron-driven spike in the COVID-19 case count as the primary causes for the market sell-off, with the Russia / Ukraine situation weighing on risk assets of late. We remind ourselves that the S&P 500 is off less than 10% both year-to-date and from its all-time high, while in any given year the market pulls back 15% peak to trough. We are still optimistic on the US economy and market, noting that the COVID-19 case count has dropped dramatically, corporate revenues and earnings both continue to grow meaningfully and the US consumer – the bulwark of the US economy – is benefitting from rising wages, ample savings, and home price appreciation.

As it concerns the upside of a drawdown, market pullbacks tend to serve two positive purposes – they help reset valuation at a lower and more supportive level for stocks and they tend to push investor sentiment towards pessimism, a contrarian indicator for stocks (or as Warren Buffett has famously put it, you want to be fearful when others are greedy and greedy when others are fearful). On that final point, we would note that the most recent investor sentiment survey from the American Association of Individual Investors shows just 19% of respondents as being optimistic on the market, half the historical average.



Stocks, bonds, and commodities (2/18/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4348.87	-8.76%	-8.76%	11.32%
MSCI AC World ex USA	334.44	-2.87%	-2.87%	-3.55%
MSCI EAFE	2235.92	-4.29%	-4.29%	0.15%
MSCI EM	1231.77	-0.02%	-0.02%	-13.86%
Bloomberg Barclays US Agg	100.49	-4.05%	-4.05%	-6.43%
Crude Oil WTI	90.55	20.40%	20.40%	52.80%
Natural Gas	4.45	25.05%	25.05%	44.93%

Treasury rates (2/18/2022)

	Price		Yield
2Y	98.27 /	0.00	1.478
3Y	99.14 /	0.00	1.685
5Y	98.15 /	0.00	1.824
7Y	98.29 /	0.00	1.914
10Y	99.15 /	0.00	1.931
30Y	100.0 /	0.00	2.247

Weekly reports

This week (2/22/2022)

- Conf. Board Consumer Confidence Feb
- New Home Sales SAAR Jan

Week of 2/14/2022

- PPI NSA Y/Y Jan 9.7%
- NAHB Housing Market Index SA Feb 82

Chart source: American Association of Individual Investors, 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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