BRINKER CAPITAL INVESTMENTS

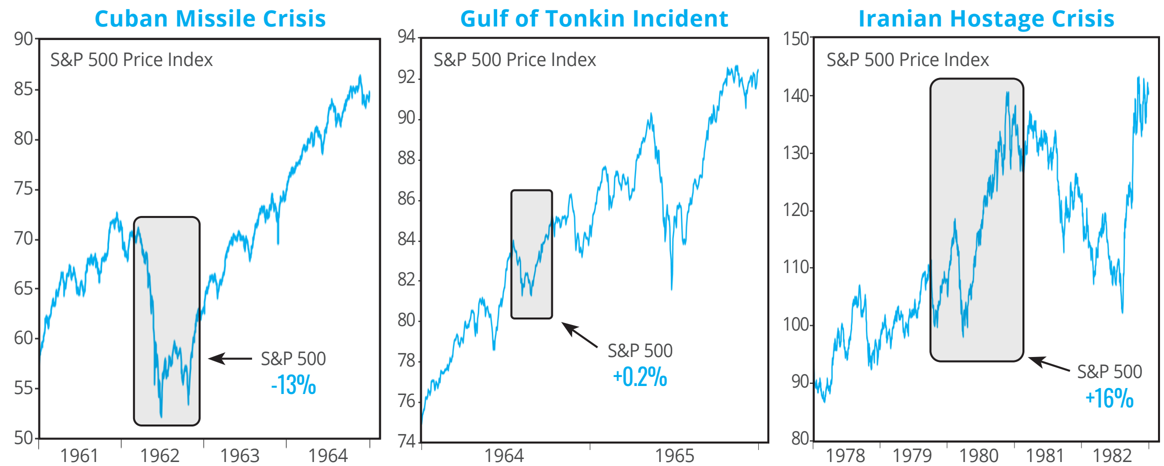
Some Thoughts on Russia & Ukraine

Investors have understandably been transfixed by the unfolding invasion of Ukraine by Russia and the humanitarian crisis it has created. While not seeking in any way to downplay or diminish the tragic developments in Eastern Europe, we would note last week saw several positive points of news on the US economy, including continuing unemployment claims hitting a 52-year low, Q4 GDP growth being revised higher to 7%, and housing prices up 19% year-on-year in December.

That said, our focus this week is on Russia / Ukraine and while no one knows how the conflict will develop and what its long-term geopolitical impact will prove to be, we have a few thoughts we wanted to share. The first would be overt Russian military action likely starts and stops with Ukraine as other countries in the region are either under Russian influence or NATO members. A Russian attack on those states would trigger Article 5 of the NATO treaty, compelling the alliance to come to their defense and beginning what could prove to be the deadliest conflict since WW II. The second would be that while geopolitical events can drive market volatility near-term, they historically have had little lasting impact on markets, as investors pivot back to what ultimately drives stock prices, earnings, and interest rates (see graphs). The third is the most likely economic impact of the conflict is additional inflationary pressure, as supply chains are disrupted and commodities are pushed higher in price, something we have seen with oil trading above $90 a barrel.

That said, the US, having become a leading producer of oil, is in a much more advantageous position today than during prior oil price shocks, a dynamic that should mitigate the economic damage from higher petroleum prices. And finally, we see the economic uncertainty and market volatility caused by Russia's invasion of Ukraine as providing the Federal Reserve with a very credible reason for moving cautiously as it concerns the tightening of monetary policy, a process likely to commence at its March meeting.

Geopolitical History and Market Reaction



Stocks, bonds, and commodities (2/25/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4384.65	-8.00%	-8.00%	15.05%
MSCI AC World ex USA	324.25	-5.83%	-5.83%	-2.66%
MSCI EAFE	2177.75	-6.78%	-6.78%	0.41%
MSCI EM	1171.99	-4.87%	-4.87%	-12.49%
Bloomberg Barclays US Agg	100.08	-4.44%	-4.44%	-6.33%
Crude Oil WTI	91.94	22.24%	22.24%	49.50%
Natural Gas	4.50	26.48%	26.48%	60.16%

Treasury rates (2/25/2022)

	Price	Yield
2Y	99.26 / 0.00	1.588
3Y	99.06 / 0.00	1.773
5Y	99.30 / 0.00	1.887
7Y	99.11 / 0.00	1.975
10Y	99.00 / 0.00	1.982
30Y	98.31 / 0.00	2.295

Weekly reports

This week (2/28/2022)

- Chicago PMI SA Feb
- Nonfarm Payrolls SA Feb

Week of 2/21/2022

- Conf. Board Consumer Confidence Feb 110.5
- New Home Sales SAAR Jan 801K

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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