Weekly Wire

FEBRUARY 7, 2022

BRINKER CAPITAL INVESTMENTS

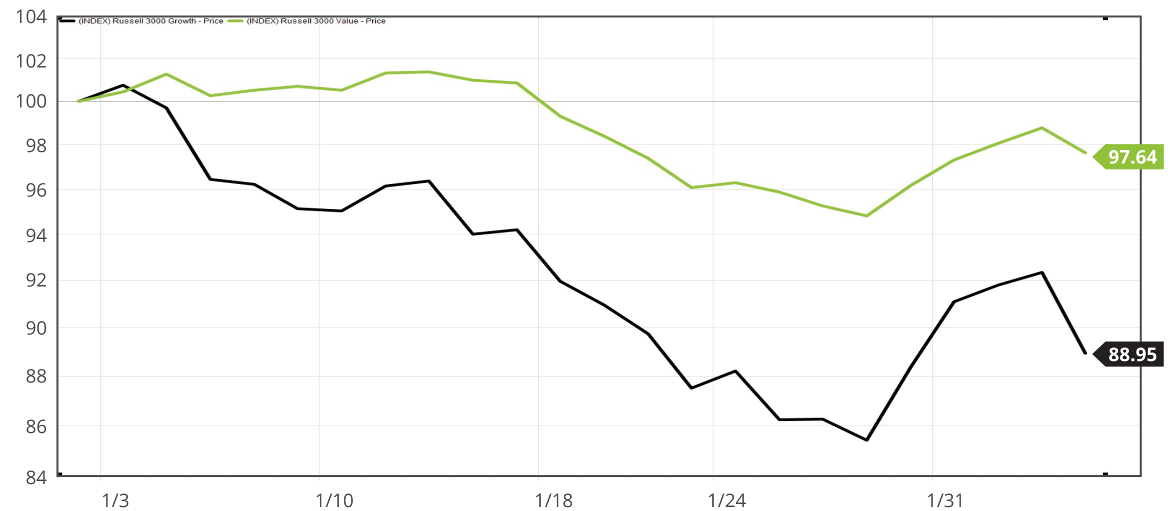
Growth & Value...Neck & Neck In 2021; Not So Much In 2022

In August 2021, we looked at the year-to-date performance of growth and value stocks (see the Weekly Wire above), noting the Russell 3000 Growth Index and Russell 3000 Value Index were setting up for a 2021 photo finish, with the former up 15.4% and the latter up 16.9%, respectively, through July 31. While the Growth Index pulled ahead of the Value Index into year-end, the spread between the indices was modest, with the Growth Index up 25% and the Value Index up 23% in 2021.

At the time, we thought it was the uncertainty around key economic variables that was responsible for the jockeying between the indices. Specifically, we thought the durability of the recovery, the persistency of inflation and the direction of bond yields, and how those variables played out would have a meaningful impact on the performance of the two primary styles of investing. Well, we are only five weeks into the new year but, as of now, Growth and Value are no longer neck and neck. With the Russell 3000 Growth Index (black line) off 10% and the Russell 3000 Value Index (green line) off 2% year to date (see chart), those key economic variables have all landed, we think, in Value's favor.

Consider the economy, while slowed of late due to Omicron, grew nearly 7% in the fourth quarter and appears to be accelerating as the COVID-19 case count drops; inflation has proven higher and more persistent than expected and the yield on the US 10-Year Note is at a 2+ year high. Said differently, value investing tends to do well during periods of broad economic growth and rising inflation and yields (several recent disappointing earnings reports from leading growth stocks have also weighed on the Growth Index). While growth has outperformed value over the past 10 years, value is having its day in the sun, which is a powerful reminder of the benefits of having broad equity exposure in one's portfolio.

Growth vs. Value YTD - Through 2/3/2022



Stocks, bonds, and commodities (2/4/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4500.53	-5.57%	-5.57%	15.79%
MSCI AC World ex USA	335.02	-2.70%	-2.70%	-1.06%
MSCI EAFE	2247.73	-3.78%	-3.78%	3.00%
MSCI EM	1221.10	-0.89%	-0.89%	-12.49%
Bloomberg Barclays US Agg	101.25	-3.33%	-3.33%	-6.56%
Crude Oil WTI	91.93	22.23%	22.23%	61.71%
Natural Gas	4.56	28.06%	28.06%	59.10%

Treasury rates (2/4/2022)

	Price	Yield
2Y	99.04 / 0.00	1.316
3Y	98.25 / 0.00	1.545
5Y	98.20 / 0.00	1.783
7Y	99.00 / 0.00	1.900
10Y	95.04 / 0.00	1.922
30Y	92.09 / 0.00	2.229

Weekly reports

This week (2/7/2022)

- NFIB Small Business Index Jan
- CPI NSA Y/Y Jan

Week of 1/31/2022

- Nonfarm Payrolls SA Jan 467K
- Unemployment Rate Jan 4.0%

Brinker Capital Market Barometer

MID-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			●		Market breadth has deteriorated
Trend	←		●		Major indexes below 200-day moving averages but looking oversold
Investor sentiment	→			●	Put/call ratios moved to extreme; survey data show decline in % bullish
Seasonality			●		Seasonality relatively weaker to start mid-term election year

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

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