Weekly Wire

MARCH 14, 2022

BRINKER CAPITAL INVESTMENTS

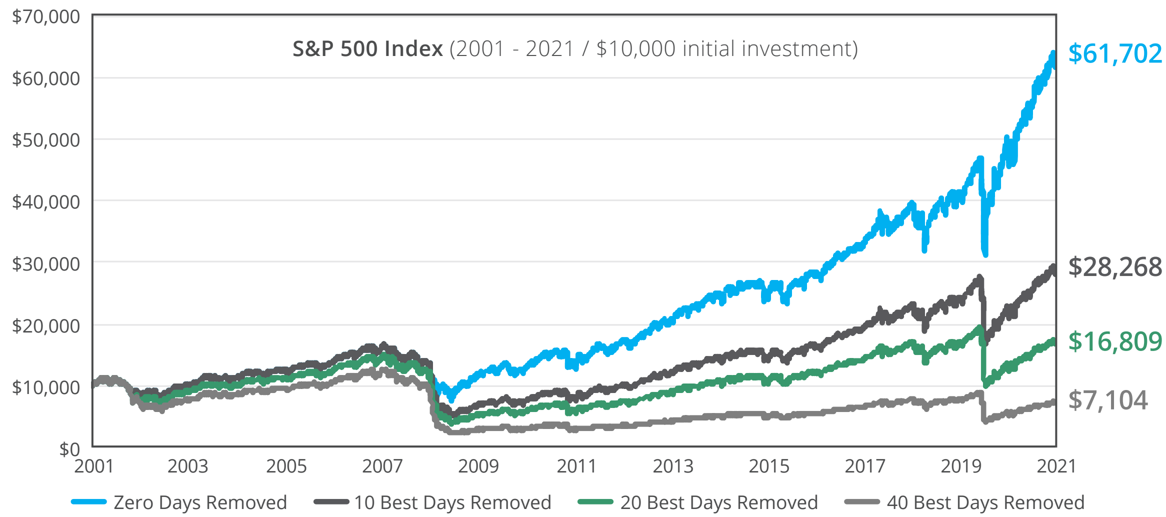
The Difference A Day Makes

As investors, we understand and accept – even if we don't like it – that volatility and risk are part and parcel of investing, that markets often go down, and sometimes sharply, and that the potential loss of capital is the financial and emotional cost we pay to participate in what is arguably the greatest wealth building machine in the history of humankind—the US stock market.

Consider, as Warren Buffett has pointed out, that during the 20th Century, the Dow Jones Industrial Average—in the face of two world wars, a depression, a dozen or so recessions, financial panics and oil shocks, a flu pandemic, and the resignation of a US President—rose from 66 to 11,497, a gain of 16,807%. And that long-term perspective is important to keep in mind as markets are buffeted by the crisis in Ukraine, a spike in commodity prices, and the pivot in monetary policy underway at the Federal Reserve. To take a shorter-term view of things, consider that from 2001 through 2021 the S&P 500, through three recessions, the Iraq War, a housing bubble, a pandemic, and the impeachment of a US President, rose from 1,148 to 4,766—a gain of 315%. Said differently, over those 20 years, the S&P 500 turned $10,000 into $62,000.

Yet, if an investor had been frightened out of the market – an understandable outcome considering the challenges the economy confronted – and missed the 40 best days for the S&P 500 over those 20 years, that $10,000, instead of growing to $62,000, would have shrunk to $7,100 (see chart). And to take an even shorter-term view of things, consider that last week the S&P 500 saw its worst and best trading day since 2020. The underpinnings that have made the US economy the envy of the world – including, a best-in-class university system; large and deep capital markets; respect for private property; reasonable rates of taxation, and abundant natural resources – remain in place, as do the underpinnings of the ongoing economic expansion – a robust housing market, strong jobs growth, a financially flush consumer and a well capitalized private sector.

Staying Invested in Times of Stress



Stocks, bonds, and commodities (3/11/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4204.31	-11.79%	-11.79%	6.62%
MSCI AC World ex USA	305.16	-11.37%	-11.37%	-10.21%
MSCI EAFE	2043.94	-12.51%	-12.51%	-7.90%
MSCI EM	1085.66	-11.88%	-11.88%	-19.47%
Bloomberg Barclays US Agg	99.13	-5.34%	-5.34%	-6.00%
Crude Oil WTI	109.09	45.05%	45.05%	66.27%
Natural Gas	4.81	35.20%	35.20%	82.44%

Treasury rates (3/11/2022)

	Price		Yield
2Y	99.16 /	0.00	1.752
3Y	99.16 /	0.00	1.911
5Y	99.19 /	0.00	1.955
7Y	99.04 /	0.00	2.007
10Y	98.27 /	0.00	2.002
30Y	97.19 /	0.00	2.361

Weekly reports

This week (3/14/2022)

- Producer Price Index NSA Y/Y Feb
- Existing Home Sales SAAR Feb

Week of 3/7/2022

- JOLTS Job Openings Jan 11,263K
- UofM Sentiment NSA Mar 59.7

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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