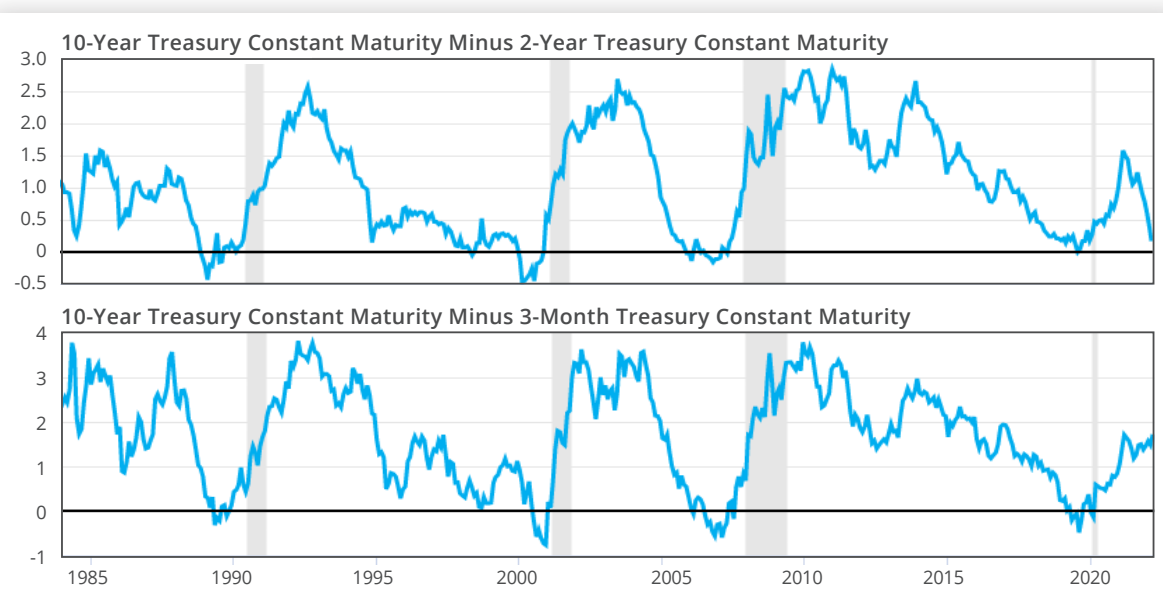


Has the Yield Curve Flattened or Steepened? Yes. Wait, What?

With Russia's invasion of Ukraine pushing commodity prices higher, snarling already strained global supply chains and weighing on sentiment – all while inflation sits at historically high levels and the Federal Reserve has begun to tighten monetary policy (see last week's FOMC meeting where the Fed Funds Rate was raised 25 basis points and six more rate hikes were penciled in for 2022), many market observers are increasingly concerned that the US is on the precipice of a recession (typically defined as two consecutive quarters of economic contraction), with any and all of the headwinds noted above as potential catalysts for an end to our two-year-old expansion.

If there is one data point these prognosticators cite most from a point of concern, it is the very flat yield curve, or the spread between the yield on the US 10 Year Note and the yield on the US 2 Year Note, which has tightened to just 21bps (2.15% – 1.94%; see chart). The yield curve commands such attention as it has flattened and inverted (meaning, the yield on the 2 Year is higher than the yield on the 10 Year) prior to every recession of the past 30 years. Now, many economists don't think the curve can actually "predict" a recession, but that it can – and does – reflect economic conditions, and a flat to inverted curve has historically meant a weaker economy that is more prone to recession.

As to "how" the curve reflects these conditions, many would point to the banking system; more specifically, banks borrow short and lend long, and if there is little spread between short- and long-term rates there is little incentive for banks to lend (and likely little demand for their capital). While we agree with these points, we would also note the 10- and 2-Year is but one part of the curve, and another – and we think very important – part of the curve has not only not flattened, but has steepened, and that is the 10 Year Note – 3 Month Bill, where the spread between the two is near a five year high of 175bps (2.15% – 0.40%; see chart). If the past 30 years are any guide, both parts of the curve need to flatten and invert before we are at risk of recession. We are living in very challenging times; that said, we think the US economy can and will continue to power ahead.



Stocks, bonds, and commodities (3/18/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4463.12	-6.36%	-6.36%	14.06%
MSCI AC World ex USA	319.38	-7.25%	-7.25%	-6.10%
MSCI EAFE	2156.76	-7.68%	-7.68%	-3.35%
MSCI EM	1122.98	-8.85%	-8.85%	-16.00%
Bloomberg Barclays US Agg	98.70	-5.76%	-5.76%	-6.04%
Crude Oil WTI	103.28	37.32%	37.32%	68.10%
Natural Gas	4.94	38.85%	38.85%	92.48%

Treasury rates (3/18/2022)

	Price	Yield
2Y	99.05 / 99.0	1.940
3Y	98.27 / 98.2	2.149
5Y	98.23 / 98.2	2.143
7Y	98.00 / 98.0	2.183
10Y	97.17 / 97.1	2.151
30Y	96.07 / 96.0	2.426

Weekly reports

This week (3/21/2022)
• Richmond Fed Index Mar
• New Home Sales SAAR Feb
Week of 3/14/2022
• Producer Price Index NSA Y/Y Feb 10.0%
• Existing Home Sales SAAR Feb 6,020K

Brinker Capital Market Barometer

MARCH 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 the geopolitical events in eastern Europe are cause for concern and are currently weighing on global equity markets, historically, these types of events are not a significant issue for capital markets unless a recession develops. While growth in the US is accelerating, events may have a larger impact on economies in Europe. Inflation continues to move higher, now helped by higher commodity prices. The Federal Reserve is expected to raise short-term rates only a quarter of a point at the March meeting, but their path to normalization may need to accelerate if we continue to see persistently high inflation. Higher inflation continues to weigh on consumer confidence, but spending levels are strong. Fiscal policy is more of a headwind this year and the likelihood of sizeable new fiscal spending is slim. Treasury yields continue to edge higher, and while we have not yet reached levels that would impact the economy, the yield curve has flattened. We expect continued market volatility as we experience a normalization of liquidity and policy and heightened geopolitical concerns, a backdrop that is favorable for our active approach.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	←	●			Market momentum has weakened and breadth is generally poor
Trend	←	●			Trend has deteriorated; major indices below 200 day moving average
Investor sentiment				●	Surveys show significantly more bears than bulls, a contrarian indicator
Seasonality				●	In a mid-term election year, more seasonal support 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 will decelerate
Credit environment				●	Corporate credit spreads are widening but still at tight levels relative to history

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation	→		●		Equity valuations have moved closer to long-term averages
Business cycle				●	In an economic expansion period with positive GDP growth since 3Q20
Demographics			●		Emerging markets with more favorable trends overall than developed markets

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of March 15, 2022. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. Barclays US Aggregate Index: A market capitalization-weighted index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries. Brinker Capital Investments, LLC a registered investment advisor.