Weekly Wire

MARCH 28, 2022

BRINKER CAPITAL INVESTMENTS

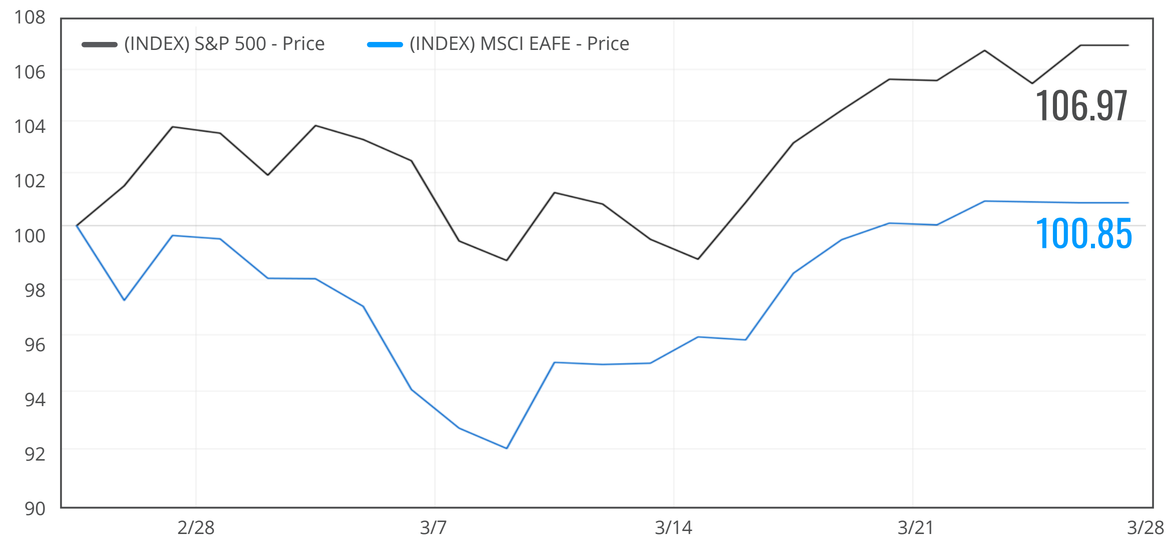
Markets and Geo-Politics

Coming into 2022, many investors felt global markets were poised to deliver strong relative returns compared to the US market. At the risk of oversimplifying the narrative in support of non-US equities, we think this line of argument rested on three primary pillars: 1) US stocks had easily outdistanced most developed and emerging markets for years, and we were due for a change in leadership (e.g. reversion to the mean); 2) US equities traded at historically high multiples compared to developed and emerging markets, and that gap was poised to close (e.g. valuation support) and 3) many ex-US indices were heavy with companies in financial services and commodities - the types of enterprises that would benefit as global growth accelerated and interest rates moved higher (e.g. a post-Covid economic reopening and high inflation were relative tailwinds for ex-US markets). And while markets struggled broadly for the first two months of the year, non-US markets did outperform the US market.

Then, Russia invaded Ukraine and our existing geopolitical construct was turned on its head, as was the return stream from US and non–US stocks. Said differently, since February 23rd, the S&P 500 Index is up about 7% while the EAFE Index is up about 1% (see chart – we don't want to paint with too broad a brush; some non-US markets continue to lead the US, but there has been a noticeable shift in performance and investor sentiment toward US / non-US markets since the invasion).

Ultimately, markets look past geopolitical crises and come back to what drives returns – earnings, interest rates, and economic fundamentals. As Europe tries to reset its political and economic relationship with Russia, recession risk has risen in that part of the world (there is not only the challenge of managing the humanitarian crisis that Russia's invasion has unleashed but the fact that 40% of the natural gas consumed by the EU comes from Russia). Meanwhile, the US economy – outside of the impact of higher commodity prices – remains much more insulated from the events in Eastern Europe and remains on firm footing as we move into the spring (consider that initial US jobless claims fell to a 52-year low last week). We think the US is the best house in an increasingly unsettled global neighborhood, and that US equities merit an overweight relative to non-US equities.

S&P 500 vs. EAFE Since Feb. 23



Stocks, bonds, and commodities (3/25/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4543.06	-4.68%	-4.68%	14.30%
MSCI AC World ex USA	320.29	-6.98%	-6.98%	-4.76%
MSCI EAFE	2159.53	-7.56%	-7.56%	-2.63%
MSCI EM	1125.01	-8.68%	-8.68%	-13.96%
Bloomberg Barclays US Agg	96.84	-7.54%	-7.54%	-8.04%
Crude Oil WTI	112.62	49.74%	49.74%	84.71%
Natural Gas	5.58	56.79%	56.79%	112.94%

Treasury rates (3/25/2022)

	Price		Yield
2Y	98.16 /	0.00	2.297
3Y	97.24 /	0.00	2.531
5Y	96.29 /	96.3	2.570
7Y	95.19 /	0.00	2.553
10Y	94.23 /	94.2	2.477
30Y	92.24 /	0.00	2.599

Weekly reports

This week (3/28/2022)

- Chicago PMI SA Mar
- Nonfarm Payrolls SA Mar

Week of 3/21/2022

- Richmond Fed Index Mar 13.0
- New Home Sales SAAR Feb 772.0K

Chart source: Factset, March 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

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 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 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

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