Weekly Wire

MARCH 7, 2022

BRINKER CAPITAL INVESTMENTS

# Russia/Ukraine Pushes Yields Lower & Oil Higher, While The Economy Powers On

It feels beyond inappropriate to consider the Russia / Ukraine conflict from the perspective of the economy and capital markets given the horrific events taking place in Ukraine and the escalating humanitarian crisis that Russia's invasion has unleased. But we are investors, and we must do our best to understand the implications of this geopolitical crisis on the economy and equities and how those developments should – if at all – impact our investment decisions.

The crisis has pushed investors toward risk-free assets, as the yield on the US 10 Year note has fallen 20bps+ since February 24th. All things being equal, that move lower in yields should prove supportive of US stocks. And the move higher in oil prices has accelerated, with WTI now trading north of $110 a barrel, a dynamic that foretells higher prices for gasoline and should prove to be a weight on consumer sentiment and possibly consumer spending (though spending has proven quite robust even as sentiment has soured of late). What is most encouraging, from a macro perspective, is the ongoing strength in the US economy, with initial jobless claims last week both beating expectations and coming in at their lowest level this year, the February jobs report easily topping expectations (678K jobs added vs 400K expected), and the unemployment rate dropping to 3.8% (see chart). That said, we recognize labor market data is lagging and the uncertainty caused by the conflict could impede hiring going forward; still, based on the state of the labor market and housing market and corporate profits, the US economy has great momentum as we move towards the end of Q1.

Finally, despite being more volatile of late, US equities – based on the S&P 500 – are essentially unchanged since Russia invaded Ukraine, while developed international markets have moved lower after outperforming the US for much of 2022. The relative performance is not surprising given the importance of European markets within the developed international markets universe, and the deeper economic ties those nations have with Russia, particularly around energy. As we all try and make sense of and navigate these exceptionally troubling times, we believe remaining well-diversified with a bias to US equities is prudent.

**Stocks, bonds, and commodities** (3/4/2022)

| Security name | Last | QTD chg | YTD chg | 12mo chg |
|---|---|---|---|---|
| S&P 500 | 4328.87 | -9.18% | -9.18% | 12.67% |
| MSCI AC World ex USA | 309.01 | -10.26% | -10.26% | -6.98% |
| MSCI EAFE | 2035.47 | -12.87% | -12.87% | -5.57% |
| MSCI EM | 1144.91 | -7.07% | -7.07% | -14.52% |
| Bloomberg Barclays US Agg | 101.00 | -3.56% | -3.56% | -4.73% |
| Crude Oil WTI | 115.00 | 52.91% | 52.91% | 74.01% |
| Natural Gas | 4.93 | 38.66% | 38.66% | 80.07% |

**Treasury rates** (3/4/2022)

| | Price | | Yield |
|---|---|---|---|
| 2Y | 100.0 / | 0.00 | 1.492 |
| 3Y | 99.22 / | 0.00 | 1.602 |
| 5Y | 101.0 / | 0.00 | 1.629 |
| 7Y | 101.0 / | 0.00 | 1.694 |
| 10Y | 101.1 / | 0.00 | 1.727 |
| 30Y | 102.0 / | 0.00 | 2.145 |

**Weekly reports**

This week (3/7/2022)

- JOLTS Job Openings Jan
- UofM Sentiment NSA Mar

Week of 2/28/2022

- Chicago PMI SA Feb 56.3
- Nonfarm Payrolls SA Feb 678K

Chart source: US Bureau of Labor Statistics, 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

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 |

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of February 11, 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-weighed 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.

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