Weekly Wire

APRIL 11, 2022

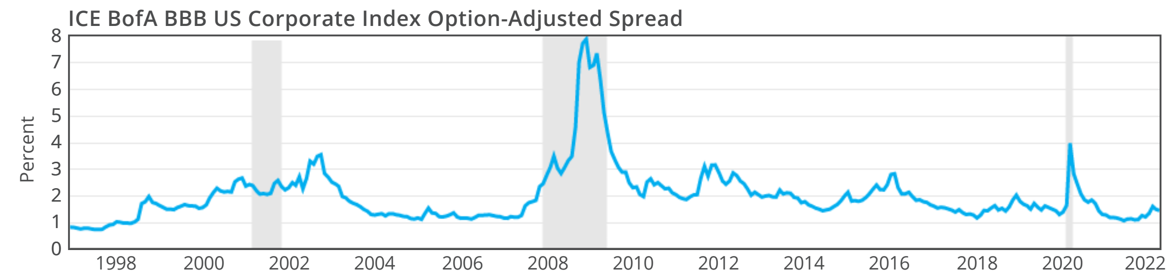
BRINKER CAPITAL INVESTMENTS

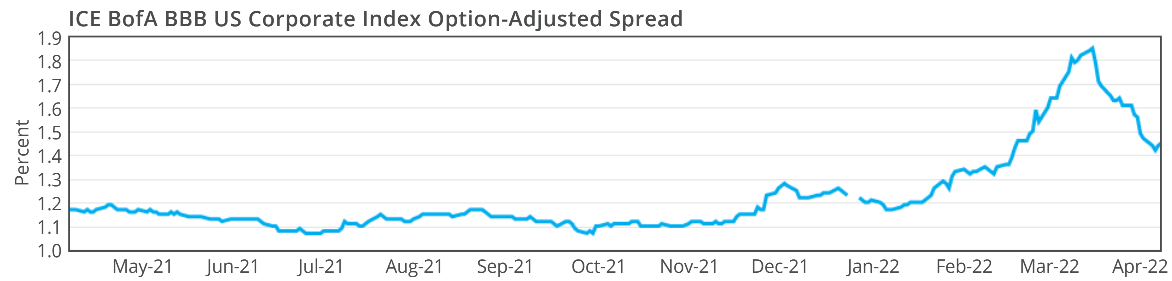
The Fed vs. The Economy

The ongoing tragedy in Ukraine is rightly commanding the world's attention. That written, at the risk of sounding hardhearted, we think the defining issue for the markets this year – and likely next – will be the budding confrontation between the US Federal Reserve and the US economy.

Since late 2021, when the Fed abandoned the idea that inflation would prove transitory, our central bank has been pivoting to a more restrictive view of monetary policy. That view has gained credence of late at the Fed as inflation has run at historically high levels and the Fed responded to that inflation dynamic by raising the Fed Funds Rate by 25 bps at its March meeting. Last week, we heard from several members of the Fed's rate-setting body, the Federal Open Market Committee or FOMC, that the Fed should raise rates faster and higher than the bank had hinted at previously - a message amplified in the March Fed meeting minutes that indicated several FOMC members thought 50 bps rate increases could be warranted at future meetings; and those same minutes laid out the Fed's plans to begin shrinking it balance sheet by $95 billion a month, a faster pace than when the Fed unwound its post-Great Recession balance sheet from 2017 to 2019.

While the Fed moves to a more hawkish view of inflation and rates, we have a US economy marked by a 3.6% unemployment rate, unemployment claims at an all-time low, and 431,000 new jobs created in March, the 11th straight month of gains above 400,000 - the longest such stretch of growth in records dating back to 1939. It is also worth pointing out that despite the more strident tone from The Fed, financial conditions have eased of late (which should mean companies and consumers can more easily access capital), as reflected in a meaningful drop in credit spreads (see charts), while the US Yield Curve has steepened, an historic harbinger of better economic times to come. Many on Wall Street think the Fed will go too far, too fast on raising rates, and put the economy into recession, which could happen. For now, we remind ourselves that monetary policy remains accommodative, the US economy remains strong, and the Fed has engineered "soft landings" in the past. We are hopeful the Fed can do so again.





Stocks, bonds, and commodities (4/8/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4488.23	-0.93%	-5.83%	8.71%
MSCI AC World ex USA	318.22	-1.66%	-7.58%	-7.21%
MSCI EAFE	2139.56	-1.93%	-8.41%	-5.43%
MSCI EM	1127.93	-1.21%	-8.45%	-15.22%
Bloomberg Barclays US Agg	95.69	-2.17%	-8.63%	-9.45%
Crude Oil WTI	97.90	-2.37%	30.17%	65.04%
Natural Gas	6.32	12.07%	77.76%	150.32%

Treasury rates (4/8/2022)

	Price		Yield
2Y	99.15 /	99.1	2.520
3Y	97.09 /	97.0	2.717
5Y	98.26 /	98.2	2.756
7Y	97.14 /	97.1	2.778
10Y	92.26 /	92.2	2.708
30Y	90.12 /	90.1	2.721

Weekly reports

This week (4/11/2022)

- NFIB Small Business Index Mar
- PPI NSA Y/Y Mar

Week of 4/1/2022

- ISM Non-Manufacturing SA Mar 58.3
- Initial Claims SA 166.0K

Brinker Capital Market Barometer

APRIL 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 and breadth have notably improved
Trend	→		●		Major indices have moved back above their moving averages to varying degrees
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	←		●		Rates remain historically low, however, parts of the yield curve have inverted
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	←	●			Consumer sentiment and spending are deteriorating as inflation persists
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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