Weekly Wire

APRIL 18, 2022

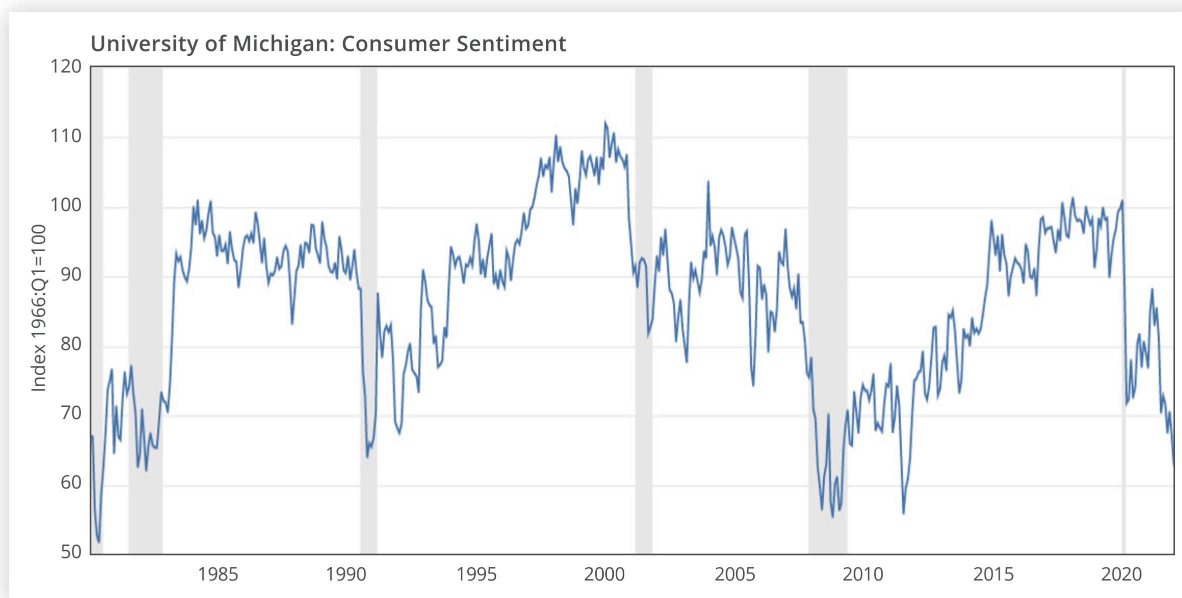
BRINKER CAPITAL INVESTMENTS

Opposites

Our children, when they were little, were big fans of Sandra Boynton's books including The Going To Bed Book, Moo, Baa, La La La!, and Opposites, which was the first book our son learned to read. Their parents were big fans too, as one of my fondest memories of my son's early years is his reading Opposites to my wife and me again and again at bedtime (and it is a memory I come back to often now that he's 12 going on 25 and wants very little to do with us most of the time!).

And in the spirit of Opposites – which opens "Big and small, short and tall," we focus this week on a small number that we think is a big deal, and that is the net charge off ratio reported by JPMorgan Chase as part of its Q1 2022 earnings announcement last week. A net charge off ratio represents the percentage of loans outstanding during a particular period that a lender has determined won't be paid back and should be written down to zero or charged off. The percentage is translatable into a dollar amount, and as you might expect, a low ratio or dollar amount is a lot better than a high ratio or dollar amount. And as you might also expect, during periods of economic expansion, the charge off ratio for most lenders drops, and during periods of economic contraction the charge off ratio for most lenders rises.

Well, the ratio for JP Morgan Chase's credit card business during Q1 was 1.37%, the third consecutive quarter it came in sub 1.5%, a dynamic that speaks to a US consumer that seems quite capable of paying their bills. To put the 1.37% ratio in perspective, The Wall Street Journal reported the bank's CEO Jamie Dimon said he wouldn't have expected charge offs to ever fall below 2.5%. And we think that 1.37% is a big deal as calls for a coming US recession grow louder on Wall Street, with weaker consumer sentiment (see chart) cited as a harbinger of weaker consumer activity to come. We are not disputing the drop in sentiment. That said, sentiment has been moving lower for a year. We still see the consumer as a meaningful pillar of support for the economy as we move through 2022.



Stocks, bonds, and commodities (4/14/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4392.59	-3.04%	-7.84%	4.95%
MSCI AC World ex USA	314.73	-2.74%	-8.60%	-9.60%
MSCI EAFE	2115.99	-3.01%	-9.42%	-7.97%
MSCI EM	1112.90	-2.53%	-9.67%	-17.48%
Bloomberg Barclays US Agg	94.95	-2.93%	-9.34%	-10.39%
Crude Oil WTI	106.95	6.65%	42.20%	69.25%
Natural Gas	7.30	29.39%	105.23%	172.39%

Treasury rates (4/14/2022)

	Price		Yield
2Y	99.19 /	99.2	2.447
3Y	99.26 /	99.2	2.680
5Y	98.21 /	98.2	2.789
7Y	97.02 /	97.0	2.838
10Y	91.27 /	91.2	2.828
30Y	86.23 /	86.2	2.918

Weekly reports

This week (4/18/2022)

- NAHB Housing Market Index SA Apr
- Housing Starts SAAR Mar

Week of 4/8/2022

- NFIB Small Business Index Mar 93.2
- PPI NSA Y/Y Mar 11.2%

Chart source: University of Michigan, April 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

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

For informational purposes only. Indices are unmanaged, and an investor cannot invest directly in an index. Source: Brinker Capital. Information is accurate as of April 1, 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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