Weekly Wire

APRIL 25, 2022

BRINKER CAPITAL INVESTMENTS

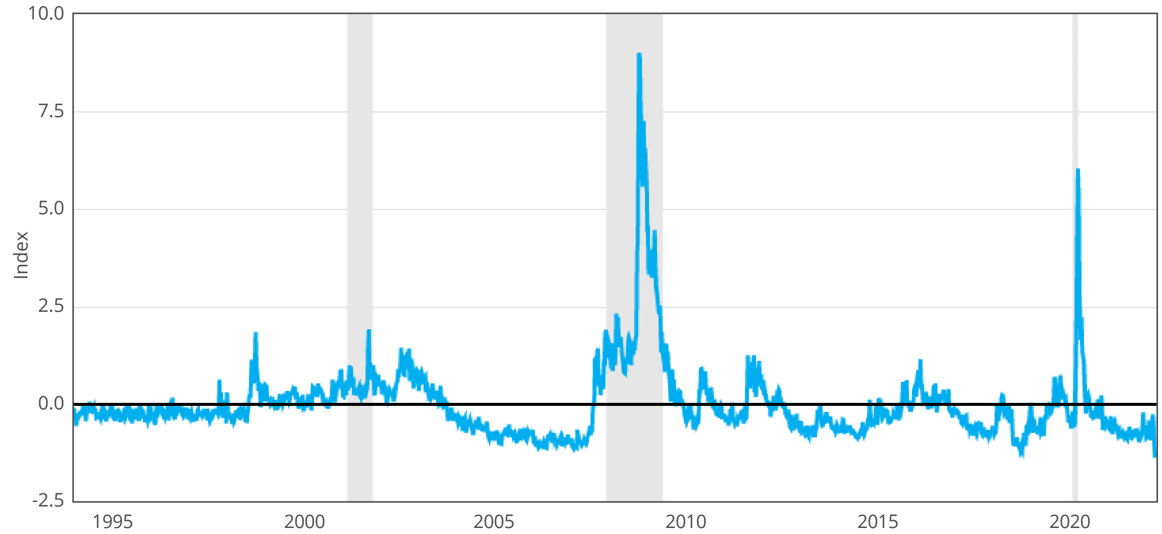
As The Fed Stresses, Financial Conditions Relax

We come back again this week to inflation and monetary policy, with the former still running at historically high levels and the latter – at least here at home and across most of the Western World – becoming tighter (and likely to become tighter still as we move through 2022). As we know, the Federal Reserve is tightening monetary policy with an eye toward making the cost of capital more expensive for companies and consumers in the hopes of slowing economic growth and bringing down inflation, without going so far as to put the US economy into recession. Our central bank first raised rates by 25bps at its March meeting and has indicated it will raise rates by 50bps at its May meeting, as well as begin running down its $9 trillion asset portfolio.

That rate increase in March, and increasingly hawkish talk by the Fed, has been felt across the fixed income world as the yield on the US 10 Year Note moved up by 80 bps since mid-March to a multi-year high of 2.92%. While the pain felt by investors in traditional fixed income and by anyone borrowing money based on a rate tied to the US 10 Year Note – think mortgages – is not to be dismissed or minimized, we would point out that as borrowing costs have moved higher the economy has continued to perform well, particularly those parts most levered to the ongoing reopening.

Measures of market stress, including high yield bond spreads and the broader, St. Louis Fed Financial Stress Index, have eased since the Fed raised rates in March. In fact, the Financial Stress Index, which is designed to measure the degree of financial stress in the markets and is constructed from 18 weekly data series, including several interest rate series and yield spreads, hit an all-time low of negative 1.36% in late March (see chart; zero is viewed as representing normal financial market conditions; values above zero suggest above-average financial market stress and values below zero suggest below-average financial market stress). While the stock market has struggled year to date, we do think US equities will find their footing as investors become comfortable with a new monetary policy paradigm, and confident that the US economy remains on firm footing.

St. Louis Fed Financial Stress Index



Stocks, bonds, and commodities (4/22/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4271.78	-5.71%	-10.37%	2.19%
MSCI AC World ex USA	307.52	-4.97%	-10.69%	-11.39%
MSCI EAFE	2081.96	-4.57%	-10.88%	-9.00%
MSCI EM	1075.60	-5.80%	-12.70%	-20.50%
Bloomberg Barclays US Agg	93.93	-3.97%	-10.31%	-11.34%
Crude Oil WTI	101.75	1.47%	35.29%	63.74%
Natural Gas	6.47	14.59%	81.75%	136.81%

Treasury rates (4/22/2022)

	Price	Yield
2Y	99.06 / 99.0	2.667
3Y	99.10 / 99.1	2.865
5Y	98.01 / 98.0	2.925
7Y	96.14 / 96.1	2.946
10Y	91.10 / 91.1	2.894
30Y	86.06 / 86.0	2.947

Weekly reports

This week (4/22/2022)

- Pending Home Sales M/M Mar
- GDP Q1 SAAR Q/Q

Week of 4/18/2022

- NAHB Housing Market Index SA Apr 77.0
- Housing Starts SAAR Mar 1,793K

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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