Weekly Wire

MAY 2, 2022

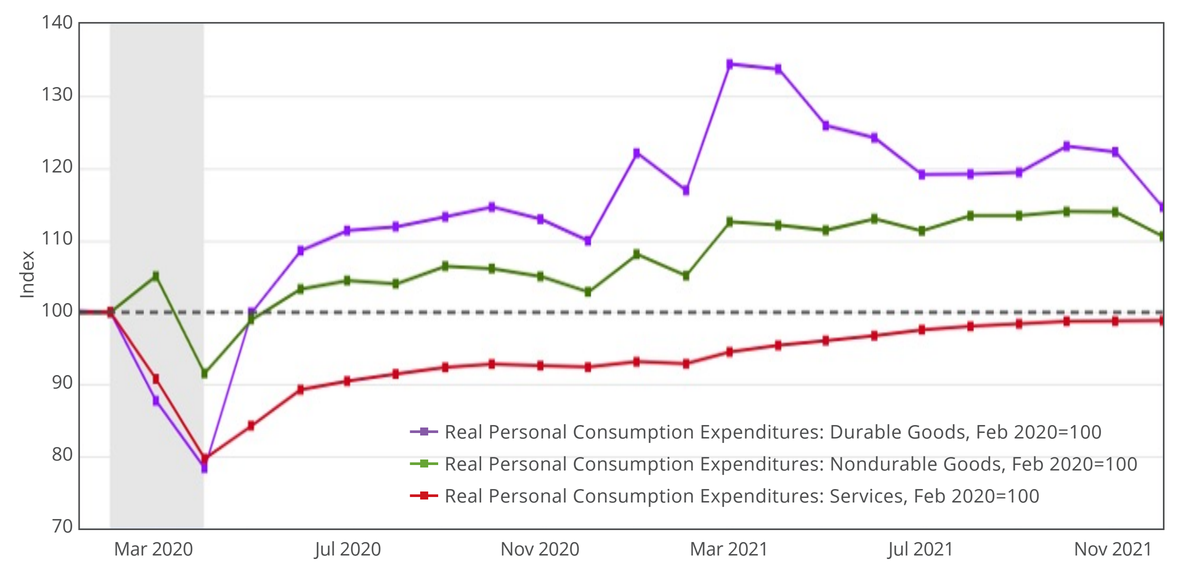
BRINKER CAPITAL INVESTMENTS

As The US Economy Stepped Back, The US Consumer Stepped Up

One of the more widely discussed data points last week will likely be one of the more widely discussed data points this week. That is, per the Bureau of Economic Analysis, the US GDP shrank by 1.4% on a real or inflation-adjusted basis in the first quarter—the first time the economy has contracted since early in the pandemic.

While we are disappointed in the performance of the US economy in the first quarter, we are not that concerned that the negative GDP print portends greater economic weakness to come. Our sanguine view of things is driven by what got us, for lack of a better term, to that negative 1.4% GDP print. Specifically, trade knocked more than three points off the GDP in the quarter as real imports surged 17% quarter to quarter. By way of background, a trade deficit detracts from the GDP, and a trade surplus adds to the GDP as the basic formula for calculating GDP is Consumption + Government Spending + Investment + Net Exports. As our economy has bounced back faster and stronger than most – and we typically run a trade deficit anyway – it isn't surprising to see trade knock the GDP by such a meaningful amount. It is also worth noting that imports should normalize, and trade should be less of a headwind going forward. The other number worth calling out is that consumer spending rose 2.7% in the quarter—a very strong showing and a very important data point considering the US consumer (or Consumption) accounts for about 70% of GDP.

Finally, within consumer spending, we saw spending on services jump by more than 4%, while spending on goods fell by 0.1%. When the economy shut down in early 2020, spending across the board plunged, then spending on durable goods spiked and spending on services remained below trend as everyone bought a Peloton but no one could get a haircut (see chart). Now, as the economy reopens, we are seeing spending on services accelerate. And considering that household purchases of services represent the majority of personal consumption expenditures, that should be good news for the economy through 2022.



Stocks, bonds, and commodities (4/29/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4131.93	-8.80%	-13.31%	-1.18%
MSCI AC World ex USA	302.42	-6.54%	-12.17%	-12.39%
MSCI EAFE	2033.70	-6.78%	-12.94%	-10.35%
MSCI EM	1076.19	-5.75%	-12.65%	-20.14%
Bloomberg Barclays US Agg	93.86	-4.04%	-10.38%	-11.19%
Crude Oil WTI	104.13	3.84%	38.45%	63.78%
Natural Gas	7.37	30.54%	107.06%	151.28%

Treasury rates (4/29/2022)

	Price	Yield
2Y	99.18 / 99.1	2.715
3Y	99.07 / 99.0	2.900
5Y	99.01 / 99.0	2.957
7Y	99.10 / 99.1	2.980
10Y	91.01 / 91.0	2.932
30Y	85.07 / 85.0	3.001

Weekly reports

This week (5/2/2022)

- ISM Manufacturing SA Apr
- Nonfarm Payrolls SA Apr

Week of 4/25/2022

- Pending Home Sales M/M Mar (1.2%)
- GDP Q1 SAAR Q/Q (1.4%)

Chart source: U.S. Bureau of Economic Analysis, 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

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