Weekly Wire

MAY 23, 2022

BRINKER CAPITAL INVESTMENTS

Don't Count Out the US Consumer Just Yet

The awful conflict in the Ukraine drags on, inflation remains at historically high levels, the Fed reiterates its intention to bring inflation under control (even if it means weakening the economy), bellwether retailer Target sees its share price have its worst day since Black Monday in 1987, and the S&P 500 and Dow Jones Industrial Average have their worst down days since June of 2020, as the former flirts with a Bear Market (defined as a pullback peak to trough of 20%).

We revisit the issues that weighed on risk assets last week – and have fed into increasing talk of a looming recession – not because we want to kick off this week in a particularly pessimistic mood but because, as investors, we know we must deal with events and developments as they are, not as we want them to be. And last week – along with most of 2022 – was a very challenging stretch for US equities.

That written, as we have cataloged what has weighed on markets of late, we think it is appropriate to spend a minute looking at one thing that continues to go right for the US economy (and which we are hopeful will prove to be a catalyst for a more constructive mood on Wall Street) and that is the consumer, as last week we learned April Retail Sales were up a robust 0.9% month to month (and it is also worth noting that March retail sales were revised sharply higher, from an initial reading of up 0.5% to an updated reading of up 1.4%; see chart). As we have noted before, the US consumer, aided by a tight labor market, an elevated housing market, and rising wages, remains in solid financial condition. Even the extremely disappointing results out of Target – and other retailers last week – seem to have had less to do with end consumer demand and more to do with the mix of goods sold and cost inflation (headwinds for retailers to be sure, but nothing that rises to the level of importance as does the health of the US consumer). It has become difficult to maintain an optimistic view of things of late; but if the consumer is hanging in there, we think we should too.

Advance Monthly Sales

April 2022	$677.7 billion	0.9%
March 2022	$671.6 billion	1.4%

Next release: June 15, 2022

The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero. Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes.

Stocks, bonds, and commodities (5/20/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3901.36	-13.89%	-18.14%	-6.12%
MSCI AC World ex USA	292.38	-9.65%	-15.09%	-16.29%
MSCI EAFE	1969.24	-9.74%	-15.70%	-14.92%
MSCI EM	1035.31	-9.33%	-15.97%	-22.16%
Bloomberg Barclays US Agg	94.09	-3.82%	-10.16%	-10.85%
Crude Oil WTI	110.35	10.04%	46.72%	73.56%
Natural Gas	8.15	44.43%	129.10%	180.42%

Treasury rates (5/20/2022)

	Price	Yield
2Y	99.276 / 99.28	2.566
3Y	100.02 / 100.0	2.720
5Y	99.238 / 99.24	2.804
7Y	100.11 / 100.1	2.815
10Y	100.25 / 100.2	2.783
30Y	97.240 / 97.26	2.988

Weekly reports

This week (5/23/2022)

- New Home Sales SAAR Apr
- PCE SA M/M Apr

Week of 5/16/2022

- Empire State Index SA May (-11.6)
- Housing Starts SAAR Apr 1,724K

Brinker Capital Market Barometer

MAY 2022

A strong labor market, wage growth, and healthy consumer balance sheets are boosting the US economy, although geopolitics, inflation, and Federal Reserve policy are taking center stage. Global markets have fallen back to year-to-date lows as interest rates continue their upward ascent. Expectations are high for the Federal Reserve to raise interest rates more than 0.25% during the May FOMC meeting. The conflict in Ukraine rages on, with related headlines contributing to price volatility across asset classes. The second quarter earnings season is in full swing, and early results are favorable. Company commentary around controlling costs and maintaining margins will be important to monitor throughout the season. A strong consumer bodes well for economic cycle durability, but we are watching to see if the persistence of inflation and geopolitical worries may curtail spending.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	←	●			Market has returned to year-to-date lows, giving back the recent recovery
Trend	←	●			Index levels have dropped back below moving averages
Investor sentiment				●	Surveys show significantly more bears than bulls, a contrarian indicator
Seasonality	←←	●			Markets are entering a period of seasonal weakness, particularly in a midterm election year

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				●	Markets have tightened ahead of the Fed, but financial conditions are still accomodative
Inflation		●			Persistently high inflation may cause Fed to adjust timeline; weighing on sentiment
Interest rate environment			●		Rates remain historically low, but the effects of future rate hikes remain to be seen
Macroeconomic				●	Consumer balance sheets remain strong and the labor market remains healthy
Business sentiment				●	Business confidence measures declined from recent highs, but remain elevated
Consumer sentiment		●			Consumer sentiment is deteriorating as inflation persists
Corporate earnings				●	Broad-based strength in earnings, closely watching margin pressures and basing effects
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

0899-BCI-5/23/2022