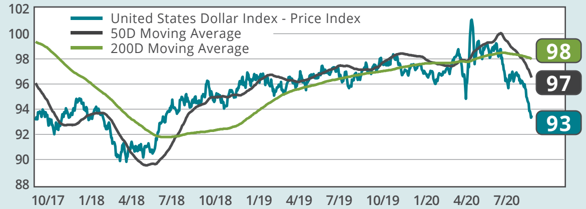
What ails "King Dollar"

We live in a world where the US dollar dominates – meaning more trade and financial transactions use it and more are held by global central and commercial banks than any other currency. Simply put, the US dollar is the world's reserve currency and our country's ability to print it is – as former French Finance Minister Valery Giscard d'Estaing put it – an "exorbitant privilege."

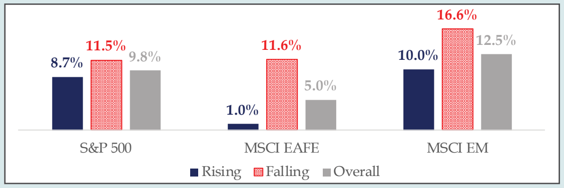
While no other currency is likely to knock "King Dollar" off its throne anytime soon, the greenback can and does move down in value relative to other currencies. The US Dollar Index/DXY compares the value of the US dollar to a weighted basket of six currencies used by US trading partners, and it has recently traded to a two plus year low. Historically, the long-term factors impacting the value of one currency versus another include interest rates, inflation, economic growth, government debt and deficits, and political stability.

If we were to point to catalysts for the near-term weakness in the dollar, they would include unprecedented US deficit spending, more encouraging (on balance) COVID-19 data outside the US, a dramatic bounce back in China's economy, the strong EU fiscal response to COVID-19, US social unrest, and the upcoming US Presidential election (and the associated uncertainty it brings to US fiscal policy). Maybe more important than the causes of currency weakness are the investment implications of a declining dollar, which has historically been a headwind for traditional fixed income and a tailwind for commodities, as most are priced in US dollars – so as it moves lower, they move higher in price. Equities too experience this tailwind, particularly developed international and emerging market equities, as well as those US companies with meaningful ex-US revenue streams, as those sales are worth more once converted into a depreciating US dollar.

US Dollar Index (DXY)



Avg. Annual Performance: When DXY is Rising & Falling (Since 1988)



Stocks, bonds, and commodities (7/31/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3271.12	5.51%	1.25%	11.56%
MSCI AC World ex USA	276.21	4.23%	-8.44%	0.38%
MSCI EAFE	1820.21	2.23%	-10.64%	-2.34%
MSCI EM	1078.92	8.42%	-3.21%	7.49%
Bloomberg Barclays US Agg	111.79	1.22%	5.85%	5.98%
Crude Oil WTI	40.43	2.95%	-33.79%	-27.36%
Natural Gas	1.82	3.71%	-17.04%	-14.38%

Treasury rates (7/31/2020)

	Price	Yield
2Y	100.0 / 0.00	0.097
3Y	100.0 / 0.00	0.112
5Y	100.0 / 0.00	0.207
7Y	99.28 / 0.00	0.391
10Y	100.2 / 0.00	0.538
30Y	101.0 / 0.00	1.200

Weekly reports

This week
- ISM Manufacturing
- July Nonfarm Payrolls

Last week
- Consumer Confidence 92.6
- Q2 GDP SAAR Q/Q (-32.9%)

Chart sources: Top - FactSet, as of 7/30/2020. Bottom - Strategas, as of 7/30/2020.

Brinker Capital Market Barometer

JULY 2020

The COVID-19 pandemic remains the key driver for the economy, financial markets, and confidence over the near term. Fiscal and monetary policy continue to be supportive, and the economic data has improved off the bottom as we continue the slow process of reopening. We expect the equity market to remain range-bound in the near term as we await measured improvement in the COVID-19 data, and we expect a slow, uneven economic recovery.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains strong
Trend			●		Expect continued trading range until more clarity on economy reopening
Investor sentiment			●		Sentiment still bearish but not extreme; equity outflows continue
Seasonality	←	●			Seasonality a headwind but not the key driver

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Very strong fiscal response; more debate expected on next round
Monetary policy				●	Fed all in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations continue to fall
Interest rate environment				●	Treasury yields remain at low levels but stable; yield curve has normalized
Macroeconomic	→		●		Macroeconomic data has bottomed; slow improvement following reopenings
Business sentiment		●			CEO confidence still weak but expectations for the economy have improved
Consumer sentiment	→		●		Consumer confidence increased in June, but remains below pre-pandemic levels
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment				●	Credit environment continues to improve and Fed remains supportive

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle	→		●		US exited recession that began in February; recovery will be uneven
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of July 8, 2020. 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. Brinker Capital Inc., a registered investment advisor. 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.