BRENTON POINT
WEALTH ADVISORS

September 22, 2023

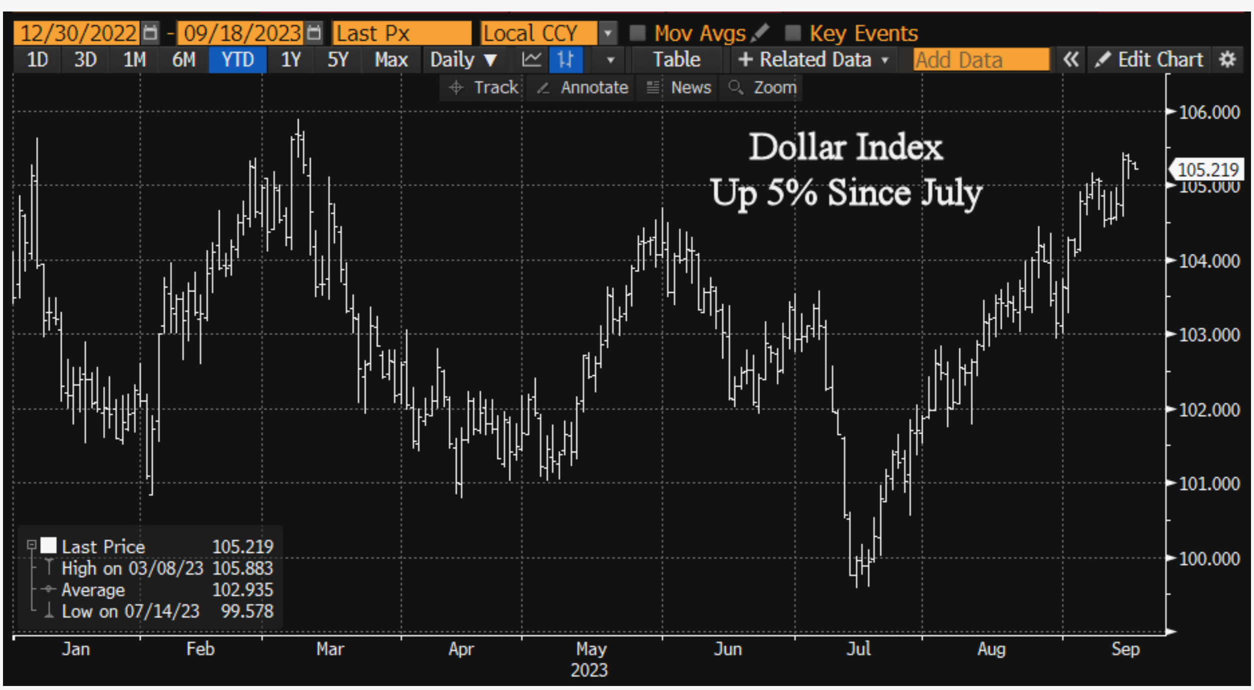
Investing Environment Review and Outlook – Volume 75

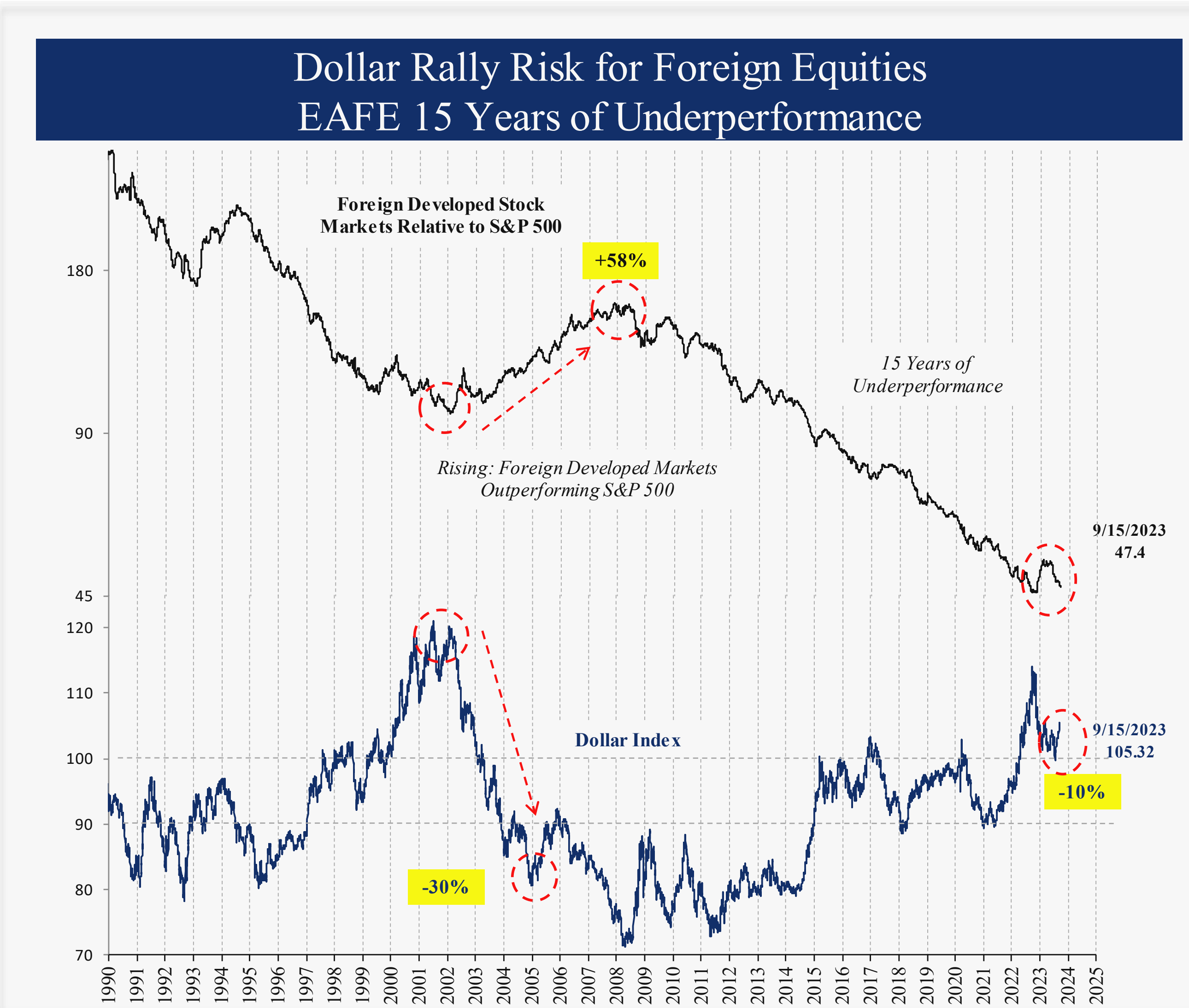
Dollar, Crude Oil and Inflation Up

Last month we discussed the positive implications of the high real Fed Funds rate and the strong first half of the year. Today our economic outlook and inflation outlook indicators are neutral, so we are keeping an open mind to the next move in the economy and inflation. This month we discuss the investment implications of recent moves higher in the dollar, crude oil and inflation. U.S. equities remain a neutral 3 rating. Foreign-developed and emerging markets equities remain bullish 5 ratings. Long-term bonds remain a neutral 3 rating. Gold and industrial commodities remain bullish 5 ratings.

Dollar Up 5% Since July: Risk for Foreign Equities and Commodities

Since July the Dollar Index is up 5%, adding risk to foreign equities and commodity positions. In June, crude was $68, with supportive commodity conditions including a stronger economic outlook and weak dollar. The same conditions also supported foreign equities like EAFE and Emerging Markets. If these trends continue, commodities and foreign equities will be at risk, and we will shift allocations accordingly.

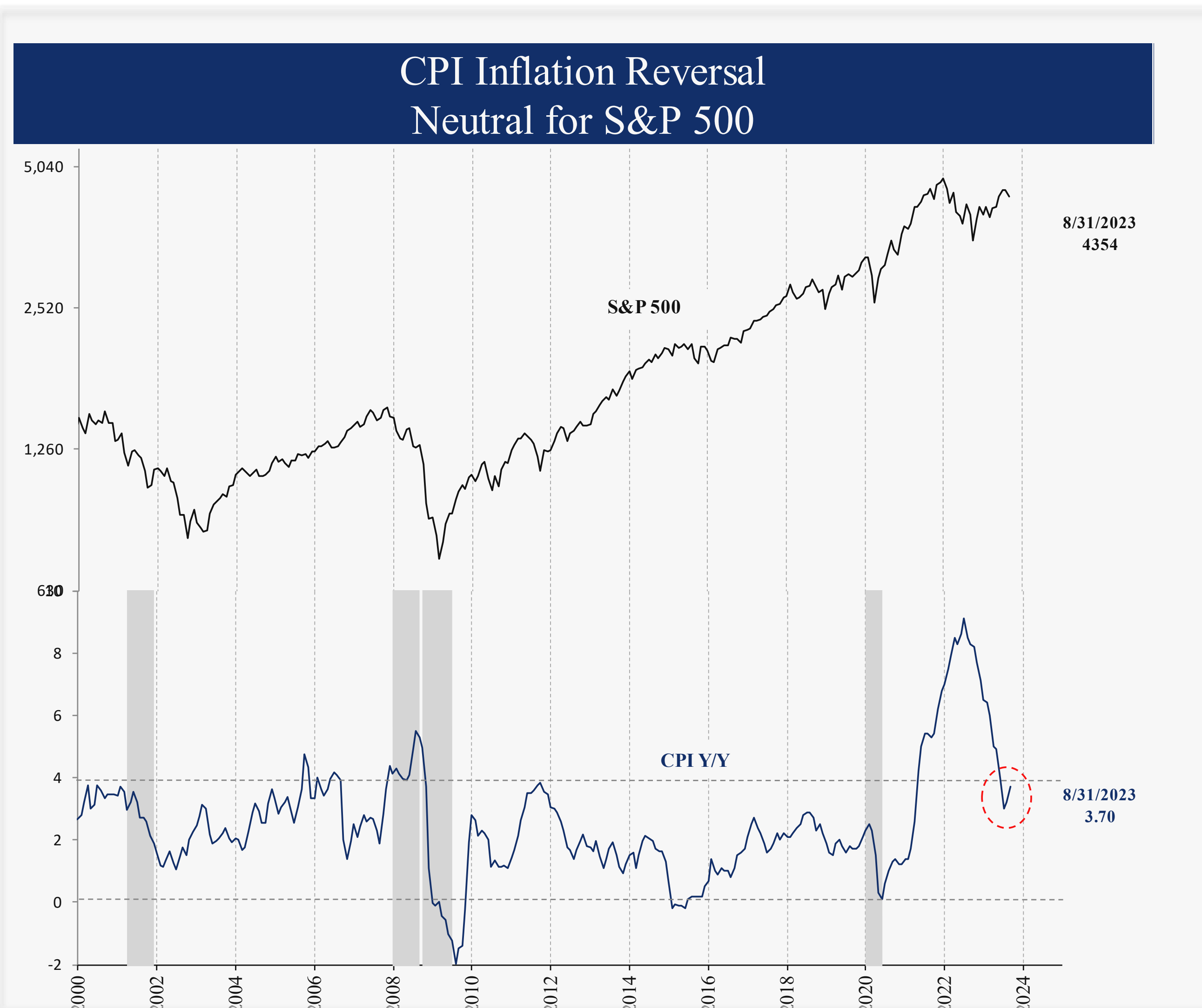



Dollar Rally Risk for Foreign Equities
EAFE 15 Years of Underperformance
Foreign Developed Stock Markets Relative to S&P 500
+58%
15 Years of Underperformance
Rising: Foreign Developed Markets Outperforming S&P 500
9/15/2023
47.4
Dollar Index
9/15/2023
105.32
-30%
-10%
180
90
45
120
110
100
90
80
70
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025

September 22, 2023

CPI Inflation Reversal: Downtick for Equities

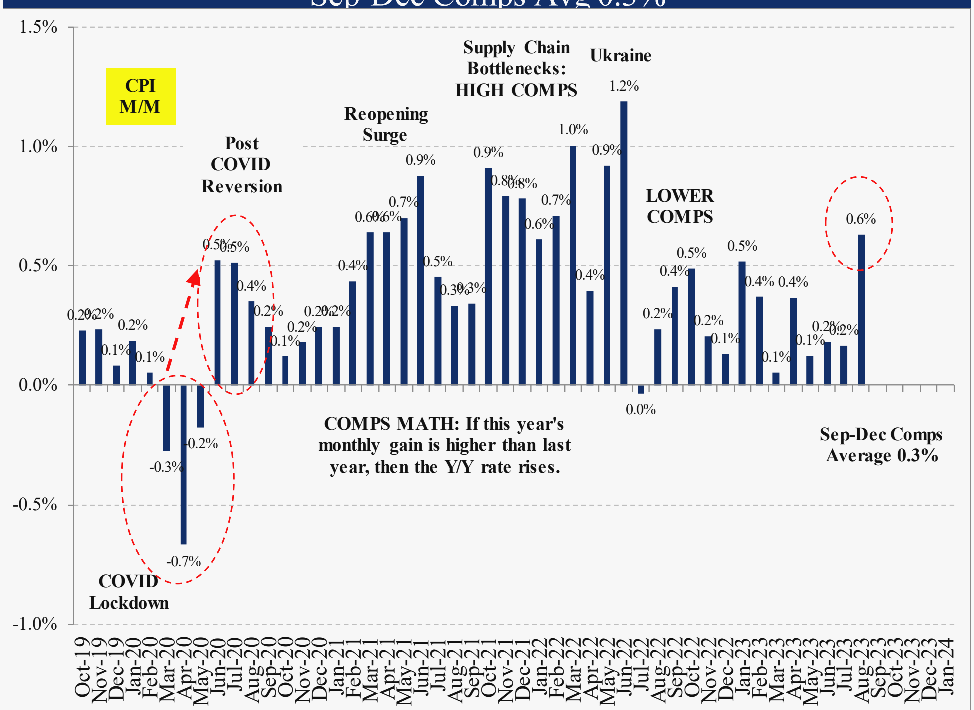
One of our core bullish indicators for equities since June 2022, when CPI inflation peaked at 9.1%, was falling inflation. While the media focused on how slow inflation was falling, we pointed out that high, but falling inflation by itself was quite bullish historically. That changed this month when headline CPI was released at 3.7% Y/Y for August, now up 0.7% from the June low of 3.0%. This move is mostly due to energy costs accelerating, so the core inflation rate was down. We have found the headline number is more predictive of equity returns. Expected equity returns are lower when CPI is rising as it is today, but historical returns remain positive. Our inflation outlook indicators are neutral for now, so we are not seeing strong pressure in either direction.



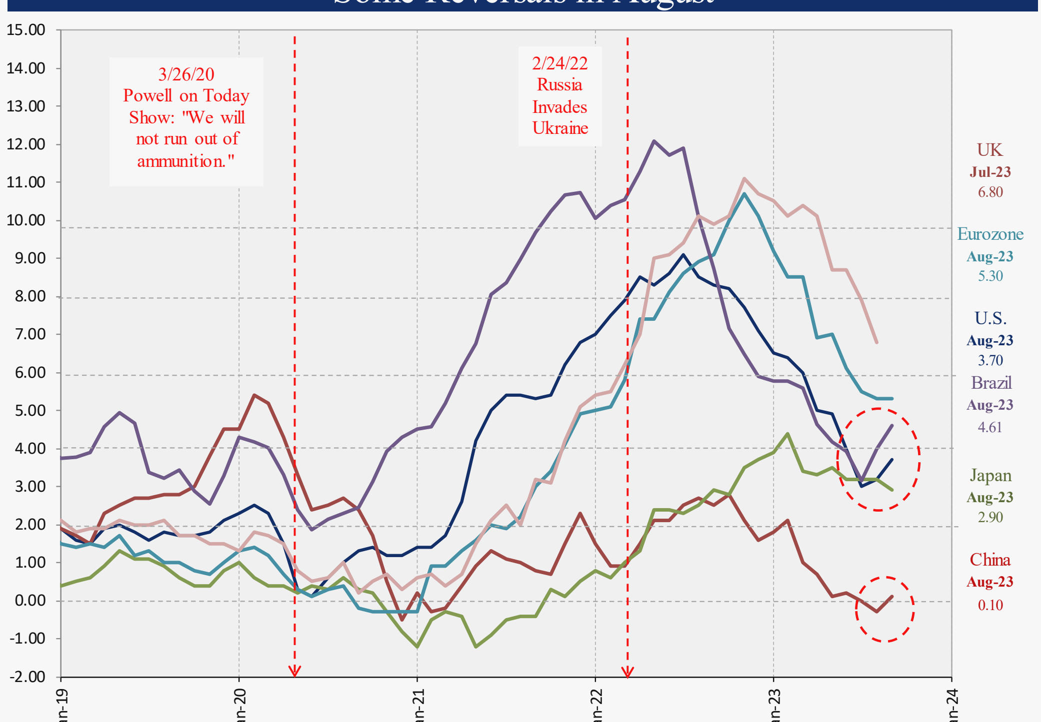
BRENTON POINT
WEALTH ADVISORS

September 22, 2023

CPI M/M 0.6% Highest since June 2022
Sep-Dec Comps Avg 0.3%



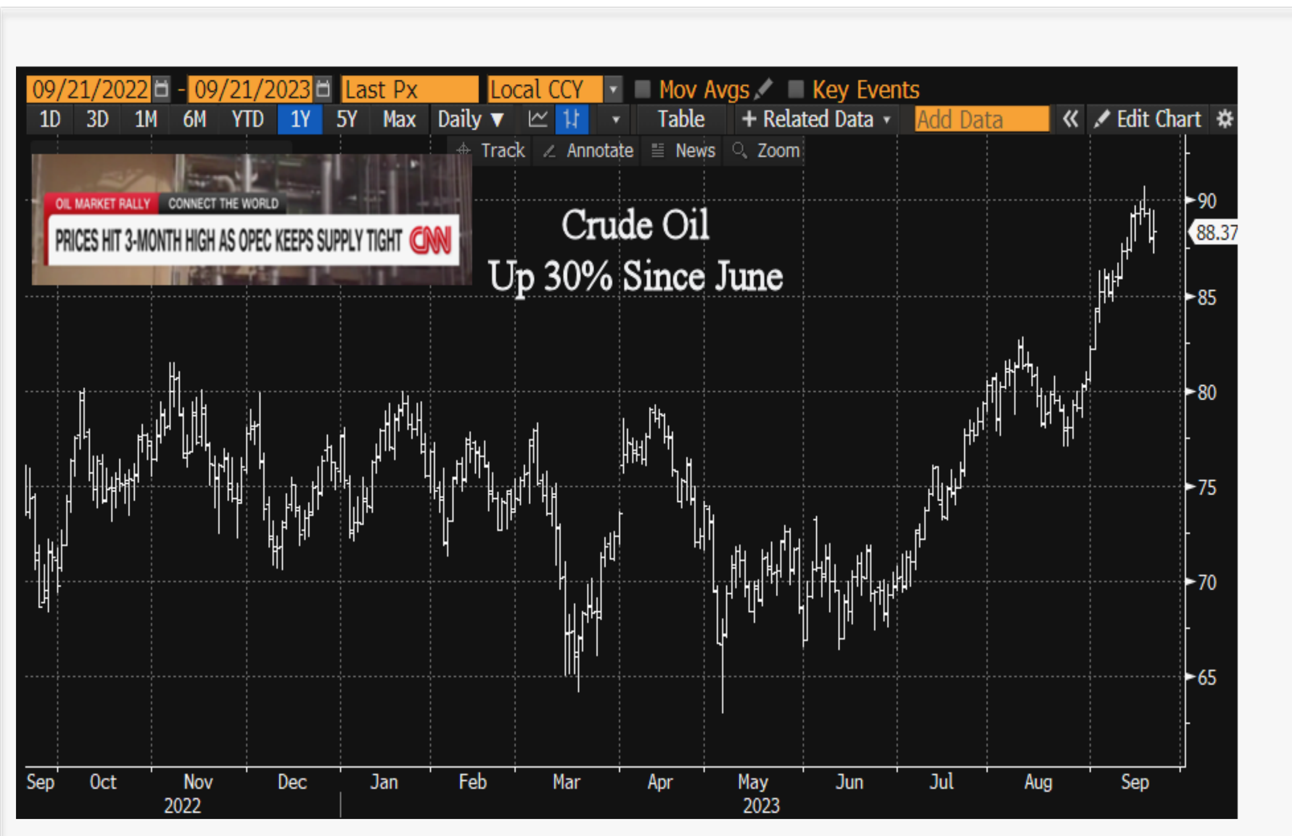
Global Inflation Decline
Some Reversals in August



September 22, 2023

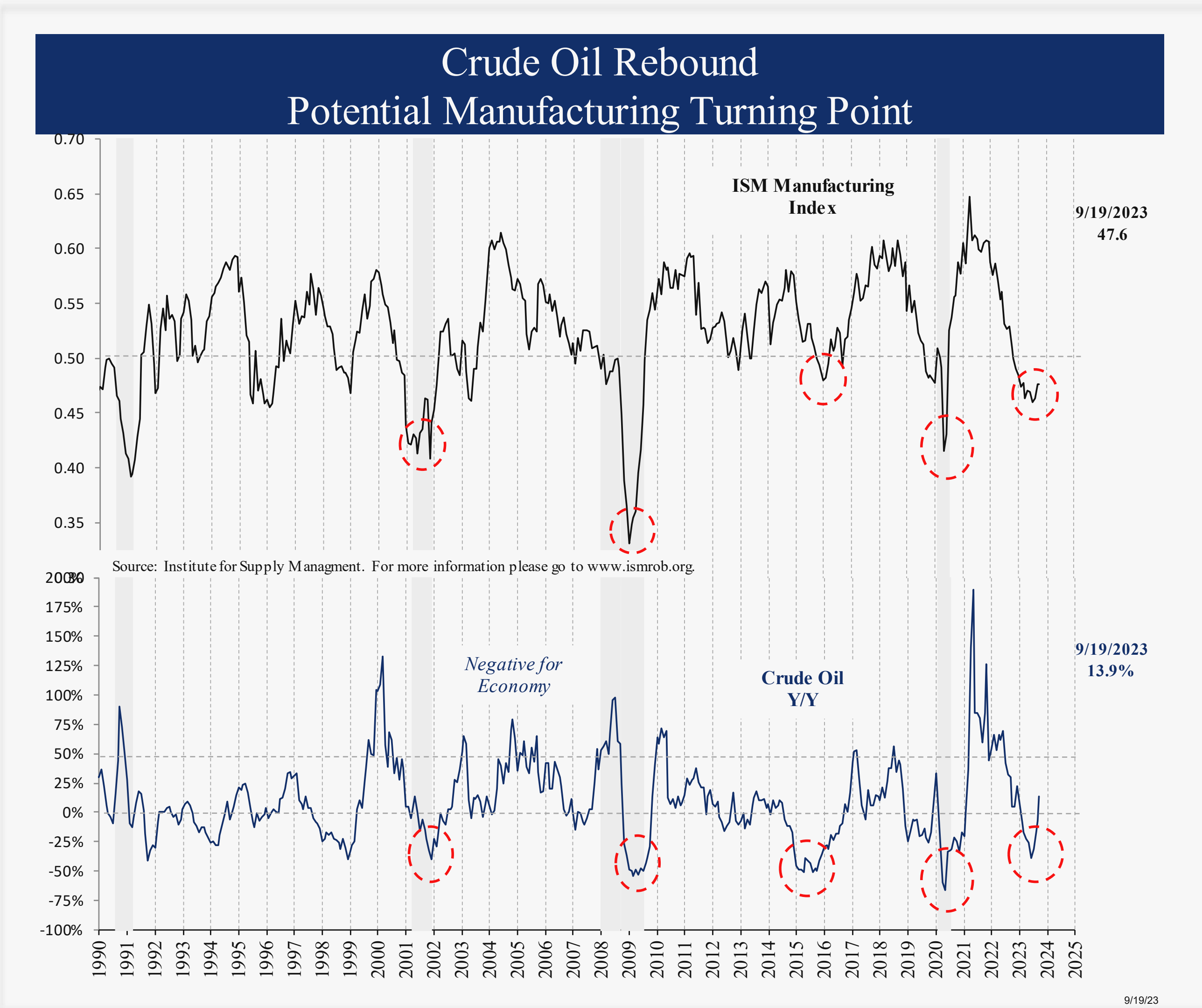
Crude Oil up 30% since June: Potential Manufacturing Turning Point

Crude oil is making headlines up 30% since June to $90 a barrel, with gasoline prices close to $4 a gallon again. While some are worried about an oil spike slowing the economy, the rebound from the 50% Y/Y decline in June may mark a turn in manufacturing to the upside like it did in 2020, 2015 and 2009. Prior oil spikes that slowed the economy were more significant, only after crude was up over 50% Y/Y, which in this case would be a lot higher at $120 a barrel. For now, economic outlook indicators remain neutral since other industrial commodities like base metals are flat year to date.



BRENTON POINT
WEALTH ADVISORS

September 22, 2023



Summary

This month we discussed the recent dollar, crude oil and inflation moves to the upside. The dollar rally is a downside risk for commodities and emerging markets. For now, inflation outlook indicators are neutral. Finally, the crude oil rebound is similar to prior turns in manufacturing activity, despite the narrative that this move was caused by supply issues like OPEC. We will continue to watch our indicators on a daily basis and shift exposures as needed. Thank you for your support and please contact your advisor with any questions.

Michael Schaus
Director of Market Research