Beacon Trust
INNOVATING WEALTH STRATEGY

July 5, 2022

Beacon Weekly Investment Insights

Last week marked a large shift in the macroeconomic narrative from one that focused on the high levels of persistent inflation, to one that focused more on slowing economic growth. To that end, the flight to safety trade, where traditionally funds flow from equities to fixed income pushed yields on US Treasury bonds down dramatically. The yield on the 2 year Treasury dropped 22 basis points during the week to 2.83%, which is also 60 basis points lower than the mid-June high of 3.43%. The benchmark 10 year also declined 24 basis points to end the week at 2.88%, also down 60 basis points from its mid-June high of 3.48%. Note the differential between the yield on 2 year and 10 year Treasuries is very narrow at 5 basis points. This will be well noted in the financial press if this spread were to invert, meaning the 2 year yield would exceed the 10 year yield. We will also keep you abreast of our thinking if this were to occur.

Why the shift in narrative? As supply chain issues and high inflation have lingered a lot longer than expected, the economic data has started to reflect a slowdown. On Friday last week, the Atlanta Federal Reserve GDPNow estimate of second quarter inflation adjusted GDP declined into negative territory. If this translates to the national report issued by the National Bureau of Economic Research to be released later this month, it would mark the second consecutive quarter of negative US GDP.

The Institute for Supply Management's Manufacturing Index for June slowed from the previous month to a reading of 53.0 from 56.1. While readings over 50 still signal expansion, the index is slowing. Within the report, new orders fell 10.7% and the employment outlook fell 4.6%. Reflective of the manufacturing economy, prices of industrial use commodities such as copper, silver, and aluminum are down 17%, 16% and 13% respectively year to date.

Consumer confidence was reported from two sources last week with the same directional result. The Conference Board's index fell to 98.7 from May's reading of 103.2, while the University of Michigan's index fell to 50 from 58.4 in May, an all-time low since the index began in 1978. Sentiment has a good historical correlation to spending and consumer spending data did fall by 0.4% in May.

On the inflation front, the Federal Reserve's preferred measure, the core personal consumption expenditures price index (PCE) increased slightly in May by 0.3% for an annualized rate of 4.7%. This core measure strips out food and energy prices and was down from 4.9% in April providing a slight glimmer of hope that inflationary pressures could be abating. However, we all realize that as long as gasoline prices remain around $5.00 nationally, the slight easing of other inflationary pressures will remain in the background.

Last week we wrapped up the first half of the year and for equity indices, performance was the lowest since 1970. We like to remind our clients that almost every year in the history of equity markets, we do have a drawdown of some magnitude. From 1998 through 2021, the average S&P 500 drawdown has been 15.7%, with the average annual return of 8.4%. While we cannot predict what types of returns will come in the second half of 2022, we do know that investing successfully requires patience along with conviction; two qualities the investment team at Beacon Trust possess.

For this holiday shortened week, we have a full slate of economic data beginning on Tuesday with factory orders and durable goods orders. Wednesday we will have the ISM Services index, the JOLT's job openings data, along with the release of the minutes from last month's Federal Reserve FOMC meeting. Thursday we will see weekly jobless claims data and Friday the Labor Department's June Unemployment report.

Market Scorecard:	7/1/2022	YTD Price Change
Dow Jones Industrial Average	31,097.26	(14.42)%
S&P 500 Index	3,825.33	(19.74)%
NASDAQ Composite	11,127.84	(28.87)%
Russell 1000 Growth Index	2,224.05	(27.67)%
Russell 1000 Value Index	1,445.63	(12.69)%
Russell 2000 Small Cap Index	1,727.76	(23.05)%
MSCI EAFE Index	1,861.40	(20.32)%
US 10 Year Treasury Yield	2.88%	137 basis points
WTI Crude Oil	$108.43	44.17%
Gold $/Oz.	1,811.43	0.94%

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