Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The S&P 500 reached the 5,000 level for the first time ever, closing last week at 5,021.61. This historic milestone bears a moment of reflection. At Beacon, we eschew the notion of market timing and favor a long-term, diversified approach to investing. Over the past two decades we have experienced two very significant recessions, a global pandemic, several bear markets, and a world that is in the midst of at least two serious wars. Yet, the stock and real estate markets are essentially at all-time highs, the unemployment rate is near a 50 year low, and inflation is approaching more normalized levels. In short, time-tested investment principles work for those investors that are willing and able to stay the course.

The recent star of the S&P 500's run to 5,000 has clearly been NVIDIA, the leading maker of computer chips driving the artificial intelligence (AI) renaissance. Casual market observers have no doubt heard of NVIDIA's stellar performance over the past year. However, what may surprise some market watchers is that NVIDIA's market value is now essentially the same as that of Amazon and Alphabet (Google). All three tech titans are valued at roughly $1.8 trillion dollars. Only Apple and Microsoft are more highly valued in the U.S. stock market, with these tech giants valued at approximately $3 trillion each.

Last week a number of Federal Reserve Governors were on the road giving economic speeches in the wake of their January 31st Federal Open Market Committee meeting. In aggregate, they continued to downplay the notion of an imminent rate cut at the Fed's March meeting. Futures markets seem to agree, since they are currently pricing in roughly a 15% chance of a rate cut. Other data continue to point to strength in the U.S. economy. Last week the Institute for Supply Chain Management (ISM) released its ISM Services Report. The report showed an uptick in service activity, which has been the linchpin of recent economic strength. The Atlanta Fed's first quarter GDP estimate is a surprisingly robust 3.4%.

The bulk of S&P 500 companies have reported earnings and, as usual, they have come in better than expected, with approximately 75% of companies beating expectations thus far. Last week, chip maker Arm Holdings surged more than 60% on enthusiasm for, what else, its AI oriented computer chips. This week, key companies reporting will include Airbnb, Coca Cola, Hasbro, Zillow, Cisco, Coinbase, and DraftKings.

The economic calendar is fairly active this week. The latest figure for the U.S. Federal Budget Deficit will be released on Monday. The federal government has run a deficit for decades, so the report will simply reveal the magnitude of the deficit. Eventually, Congress will be compelled to address the deficit but, in the short-run, the "bond vigilantes" may push interest rates higher if the number surprises to the upside.

Although inflation has dropped sharply over the past year and a half, it still remains on the minds of consumers. The Consumer Price Index (CPI) report will be released on Tuesday. Last month's reading showed inflation increasing at a 3.4% annualized rate, still well above the Federal Reserve's 2% target. If the CPI falls it may give the Fed a reason to consider a March rate cut, although the odds are currently against it.

On Thursday, the Retail Sales report will be released. Consumer spending has remained surprisingly robust, driven in part by increased credit card spending. Since the consumer spending constitutes roughly 70% of U.S. GDP, the Retail Sales report will provide further insight on the strength of the economy. In contrast, the industrial part of the economy has been weak and at recessionary levels in some sectors. The Industrial Production report will also be released on Thursday. If there are signs that the industrial sector has turned the corner, the recent above trend growth path of the economy may have some legs.

On Friday, two reports related to the housing market will be released, Housing Starts and Building Permits. Long-term interest rates have edged up this year and they have the biggest impact on mortgage rates, so it will be interesting to see if the housing reports point to continued strength as real estate prices at the national level remain near all-time highs. The Producer Price Index (PPI) report, a measure of wholesale inflation and often a leading indicator for the CPI, will be released on Friday. Recent readings have been subdued, but the rise in oil prices (up 7.4% YTD) may signal an uptick in inflationary pressures. Lastly, congratulations to all Kansas City Chiefs fans for their victory on Super Bowl Sunday!

Market Scorecard:	**2/9/2023**	**YTD Price Change**
Dow Jones Industrial Average	38,671.69	2.61%
S&P 500 Index	5,026.61	5.38%
NASDAQ Composite	15,990.66	6.52%
Russell 1000 Growth Index	3,317.52	8.71%
Russell 1000 Value Index	1,644.08	0.90%
Russell 2000 Small Cap Index	2,009.99	-0.84%
MSCI EAFE Index	2,225.20	-0.49%
US 10 Year Treasury Yield	4.187%	+32 basis points
WTI Crude Oil	$76.60	7.39%
Gold $/Oz.	$2,038.70	-1.60%

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