Beacon Trust
INNOVATING WEALTH STRATEGY

November 20, 2023

Beacon Weekly Investment Insights

Last week saw the release of the closely watched CPI (consumer price index) report which moved both equity and fixed income markets meaningfully. The more benign than expected inflation report pushed equity markets into firmly positive territory on Tuesday, with the S&P 500 closing the day up 1.91%, the Dow Jones Industrial Average up 1.43% on the day, and the Tech heavy Nasdaq closing up 2.37%. Fixed income markets also rallied on the day, with the 10-year yield closing down 19 bps to 4.44%. Markets ended up finishing the week in firmly positive territory with the S&P 500 up 2.2% for the week, the Dow Jones Industrial Average up 1.9%, and the Nasdaq up 2.4%, with all three indices on a three-week winning streak.

The markets cheered the lower than expected inflation readings, with headline CPI coming in flat for the month of October, vs. expectations for a 0.1% increase and down from the prior month's reading of 0.4%, with gas prices falling 5% for the month. The year-over-year headline number came in at 3.2% vs. expectations for a 3.3% increase and the prior reading of 3.7%. Likewise Core CPI (excludes food and energy prices) came in flat for the month, relative to expectations for a 0.3% increase and September's reading of 0.3%. Year-over-year, Core CPI increased 4.0% vs. expectations of 4.1%, which was also the prior month's reading.

The producer price index (PPI) which is a measure of wholesale inflation, was released on Wednesday, and also showed a downside surprise. Producer prices were down by -0.5% for the month of October vs. expectations for a 0.1% increase and relative to the prior month's 0.4% increase. The reading was down by the largest amount since April of 2020, and added to the soft landing narrative for the economy. The year-over-year increase for PPI also moderated to 1.3% from the prior reading of 2.2%. Core PPI was up just 0.1% in October down from 0.3% in the prior month, and ticked down to 2.9% year-over-over from the prior reading of 3.0%. The retail sales report was also released on Wednesday and came in slightly better than expectations, down -0.1% in October vs. estimates for a -0.2% decrease and the prior reading of 0.9%. This was the first decline logged in 7 months, and underscored a more cautious tone for the upcoming holiday season, in line with what we have been hearing from management teams in the earnings reports for major retailers. Housing starts were released on Friday, rising by a better than expected 1.37 million relative to expectations and the prior figure of 1.35 million, amidst an on-going shortage of inventory in the resale market.

Congress agreed on a temporary funding package to avert a government shutdown last week, pushing further negotiations over the federal budget into next year. The spending package will keep government funding at current levels for about two more months. There will essentially be two deadlines by which a long-term spending package will have to be negotiated, which will be January 19th for some federal agencies, and February 2nd for others.

Almost all of the companies in the S&P 500 have reported earnings for the 3rd quarter to this point, with earnings largely coming in better than expected. The aggregate earnings growth rate for the S&P 500 for the 3rd quarter is 4.3% as of the time of this writing, which compares to expectations for earnings to be slightly negative heading into the quarter. In addition, 82% of companies that reported have beaten earnings expectations, well above the 5-year average of 77%. However, the picture was different on the revenue side as disinflation has taken hold, with the revenue growth rate for the 3rd quarter currently at 2.4%, and a below average 62% of companies reporting revenues above expectations (5-year average is 68%). As we look ahead to the 4th quarter we have seen downward revisions to earnings estimates, with earnings growth expectations for the quarter currently at 2.9%, down from expectations for mid-high single digit earnings growth for the quarter. Revenues, however, are expected to improve somewhat, with current expectations for revenue growth in the 4th quarter at 3.2%.

It will be a relatively quiet week with earnings winding down, and less in the way of significant economic data releases for the shortened holiday week. The leading economic index report is set to be released on Monday, which has been pointing to recession for some time, having moved down 18 months in a row headed into the report. Existing home sales and the Fed minutes from the most recent meeting will be released on Tuesday, with the Consumer Sentiment report and Durable-goods orders due out on Wednesday. Both the S&P Flash U.S. Services and Manufacturing PMI reports are due out on Friday.

Market Scorecard:	**11/17/2023**	**YTD Price Change**
Dow Jones Industrial Average	34,947.28	5.43%
S&P 500 Index	4,514.02	17.57%
NASDAQ Composite	14,125.48	34.96%
Russell 1000 Growth Index	2,895.03	34.14%
Russell 1000 Value Index	1,520.39	1.55%
Russell 2000 Small Cap Index	1,797.77	2.07%
MSCI EAFE Index	2,100.88	8.07%
US 10 Year Treasury Yield	4.44%	56 basis points
WTI Crude Oil	$75.89	-5.44%
Gold $/Oz.	$1,984.70	8.68%

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