Beacon Trust
INNOVATING WEALTH STRATEGY

January 24, 2022

Beacon Weekly Investment Insights

Last week's holiday shortened trading schedule led to a relatively light week of economic data. However, the data we did receive was generally positive. Housing statistics like existing home sales rose 8.5% year over year to 6.12 million, a 15 year high. Building permits, which gauges future activity also was strong rising 9.1%. The number of new homes currently under construction is at multi-year highs which should help to ease the supply shortage as demand, fueled by strong consumers and accommodative mortgage rates. Regional business activity surveys also continued to point to solid economic activity. It is for this reason, the underlying economy continues to expand, which gives us comfort in maintaining our positive outlook for financial markets.

However, equity markets last week did not share our sentiment. Four main issues remain weighing on investor sentiment in the short run; Inflation, Federal Reserve Monetary Policy, corporate earnings, and Russia/Ukraine tensions. These concerns, which I will address below, caused major indices to post their worst performance week since March of 2020. The Dow Jones Industrial Average slid 4.6%, the S&P 500 Index slid 5.7%, and the NASDAQ Composite declined by 7.5% on the week. The NASDAQ now sits in correction territory for the year and is down close to 12%.

As we know, inflation has been running high with some analysts writing about the 1970's. Our outlook continues to remain that inflation pressures will be moderating throughout the year as the "base effect" of comparisons falls off after March and global supply chain issues begin to clear as we work through COVID related shutdowns and slowdowns. Additionally, the Federal Reserve will raise interest rates in an effort to cool inflationary effects throughout the economy.

The Federal Reserve Open Market Committee will conduct a two day meeting as scheduled this week, concluding with Chairman Jay Powell's press conference on Wednesday. Investor angst around Fed actions accelerated last week and speculation surfaced that the Committee may abruptly announce the end of their bond buying program immediately, instead of the previously announced March end. There was also talk of a more aggressive 50 basis point hike to the Federal Funds rate. We do not believe either will come, but we do believe the Fed's language and tone will be hawkish to inflation than in the past.

Corporate earnings season did get off to a start with some higher profile Financials like Goldman Sachs, JP Morgan, Morgan Stanley, and Wells Fargo reporting. In each case, earnings were viewed as being "as expected" with no major surprises on either side. Some in the group were weaker after reports, but that is off the back of strong performance starts to the year. Other reports from the likes of Procter and Gamble set the stage for good relative performance in the defensive Consumer Staple sector for companies with pricing power. At the end of the week, we had a disappointing release from Netflix which was met with a steep 24% selloff in its shares, based upon a forecast of lower than expected subscriber growth. This week, we will have a flurry of corporate earnings across a variety of business sectors with companies such as IBM, Intel, Johnson & Johnson, Abbott Labs, Raytheon, Lockheed Martin, Norfolk Southern, Visa, Capital One, and McDonalds. Overall, expectations are for corporate profits to increase by roughly 24% for the fourth quarter 2021 reporting season.

The fourth concern we have has to do with the geopolitical environment, namely the tensions between Russia & Ukraine, which also involves NATO. While this is playing out to be a serious political issue, we would hope it does not deteriorate into a physical confrontation. We view the policy talks as being favorable and hopefully a de-escalation will take place in the coming weeks. Certainly a market impact is being felt in the commodity space, mostly escalating natural gas prices in the European Zone.

This week will be a very important week for all of the concerns markets are experiencing. Economic data will be plentiful with Markit Manufacturing and Services PMI on Monday, Conference Board consumer confidence on Tuesday, new home sales on Wednesday, US Durable Goods orders and jobless claims on Thursday, personal income and spending data and University of Michigan consumer confidence on Friday. Earnings releases as mentioned above will also be plentiful. All this however will be mostly secondary to the FOMC meeting and press conference on Wednesday.

We will be conducting a client webinar tomorrow, January 25th, to discuss our outlook for the economy and financial markets, at 4:00 p.m. We hope you can join us as we look forward from the tumultuous start to the year.

Market Scorecard:	**1/21/2022**	**YTD Price Change**
Dow Jones Industrial Average	34,265.37	(5.70)%
S&P 500 Index	4,397.94	(7.73)%
NASDAQ Composite	13,768.92	(11.99)%
Russell 1000 Growth Index	2,697.58	(12.27)%
Russell 1000 Value Index	1,593.91	(3.73)%
Russell 2000 Small Cap Index	1,987.92	(11.46)%
MSCI EAFE Index	2,318.85	(0.74)%
US 10 Year Treasury Yield	1.77%	26 basis points
WTI Crude Oil	84.80	13.66%
Gold $/Oz.	1,831.21	(0.55%)

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