Beacon Trust
INNOVATING WEALTH STRATEGY

September 19, 2022

Beacon Weekly Investment Insights

Inflation continues to be the most persistent issue on investor's minds, and last Tuesday's Consumer Price Index report did nothing to change the narrative. On a year over year basis, prices rose 8.3% in August and rose 0.1% on a month over month basis. Even though the headline number was a decline from 8.5% in July and 9.1% in June, expectations were for a larger decline. Additionally, core inflation, which excludes food and energy prices, rose 0.6% from July, twice the estimate. Year over year, Core CPI rose 6.3% up from 5.9% in both June and July. The overall take-away from this report in our view is that the stickier parts of inflation such as housing and rental costs, food costs, and service costs will most likely stay elevated above the Federal Reserve's 2% target for quite some time.

In response to the CPI release on Tuesday, equity markets experienced their worst performance day since June 2020 with the NASDAQ Composite dropping by 5%. For the week, the Dow Jones Industrial Average, the S&P 500, and the NASDAQ Composite fell by 4.1%, 4.8%, and 5.5% respectively. Interest rates along the US Treasury yield curve also increased sharply on the week mostly on the front end with the 2-year yield rising by 29 basis points from the week prior to 3.85%, the highest since October 2007.

The rise in yields is clearly in anticipation of another 0.75% interest rate hike by the Federal Reserve Open Market Committee this Wednesday in an effort to cool the economy and tamp down inflation. To be expected, futures markets also actually began to reflect about a 20% chance that the rise would be a full 100 basis points after the CPI data. A rise of 0.75% would bring the Fed Funds target range to 3.0% - 3.25%. Many analysts have updated their forecast for the Fed's terminal funds rate to be around 4.25%.

All of this being said, there are data points within the figures that we would expect would point to inflation moderating in the coming months. First, energy prices have declined by 5% from July to August. Other commodities such as corn, beef, and poultry have been declining alongside industrial metals such as copper, aluminum, and steel. This data was substantiated in Wednesday's Producer Price Index report which fell 0.1% on a month over month basis. These declining costs will eventually bleed their way into moderating consumer prices, but today's issue is that it is simply not fast enough.

As the Federal Reserve and other global central banks continue their interest rate hiking cycle, concerns continue to mount over whether 75 basis point hikes are too aggressive and may create an environment where the economy slows without prices moderating meaningfully. Federal Express, (FDX), before the open of Friday's equity markets, released disappointing results, withdrew financial guidance for the balance of the year and announced the closing of offices around the country citing a quick decline in its global shipments. This statement alone added credence to the slowing economic growth scenario.

At this particular point in the economic cycle with equity markets lower and fixed income yields higher (equating to negative total return for fixed income), we tend to encourage patience and diversity. With adequate liquidity on the sidelines, investors can live through this current period and actually take advantage of opportunities. Well managed companies have been through various economic cycles throughout history and have mostly emerged in better financial shape. Higher fixed income yields and current coupons are offering higher cash flow now than in the past ten years. We see other potential catalysts for markets in the coming quarters such as an end to the conflict in Ukraine, continued advances to a fully reopened global economy as the COVID pandemic recedes, and the conclusion of the US mid-term elections in November.

We will keep our eyes on the anecdotal inflation data for further signs of moderation over the coming months and keep you informed as to our thoughts. For this week however, all focus is on Wednesday's Federal Reserve interest rate decision along with Chair Powell's press conference. Additional economic data will be provided on the important housing sector with NAHB Builders sentiment index on Monday and national housing starts and building permits on Tuesday. The Bank of England will announce their interest rate decision on Thursday and on Friday S&P Global will release their September global purchasing manager's survey, which measures global business activity.

Market Scorecard:	**9/16/2022**	**YTD Price Change**
Dow Jones Industrial Average	30,822.42	(15.18)%
S&P 500 Index	3,873.33	(18.73)%
NASDAQ Composite	11,448.40	(26.82)%
Russell 1000 Growth Index	2,284.42	(25.71)%
Russell 1000 Value Index	1,451.43	(12.34)%
Russell 2000 Small Cap Index	1,798.19	(19.91)%
MSCI EAFE Index	1,806.03	(22.69)%
US 10 Year Treasury Yield	3.45%	194 basis points
WTI Crude Oil	$85.33	13.46%
Gold $/Oz.	$1,675.06	(8.40)%

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