

Beacon Weekly Investment Insights

If there was any doubt about the top priority at the Federal Reserve these days, Chairman Jay Powell reminded us during his 10 minute speech at their Jackson Hole, Wyoming annual symposium that it is indeed inflation. The Chairman clearly and succinctly stated that the Federal Reserve Open Market Committee (FOMC) will continue to raise interest rates at the expense of economic growth in an effort to bring down inflation closer to their longer term target of 2%. In his words, “without price stability, the economy does not work for anyone”.

In reaction, equity indices fell sharply Friday to cap off an overall negative return week. The Dow fell 4.2% for the week, the S&P declined 4.0%, while the NASDAQ Composite fell close to 4.5%. On the fixed income side, most of the yield rise occurred on the shorter end of the curve with the two year Treasury yield rising to 3.37% versus 3.25% for the previous week. The benchmark 10-Year Treasury rose 6 basis points to yield 3.04%.

Over the past two FOMC meetings, the committee has raised the target Fed Funds rate by 0.75 % at each meeting to the current target of 2.25% - 2.50%. Their next meeting scheduled for September 21, at which point current consensus is for another hike of 0.75%. Recent reports have been pointing to inflation moderating somewhat. The personal consumption index (PCE) was released last Friday, and showed price growth slowing to a 6.3% pace versus the June figure of 6.8%. Core prices which exclude food and energy also showed some moderation, rising 4.3% vs. 4.6% in June. While this is encouraging, it is clear that Chairman Powell and the rest of the FOMC welcome reports like these, but believe that the moderation is not enough.

While the Jackson Hole summit was the key highlight (lowlight) of the week, we had other important data releases and events to mention. Wrapping up some late season earnings, technology companies Salesforce.com and Dell Technologies both cautioned on enterprise spending in the second half of the year causing added pressure on their own shares, but also the technology sector as a whole. National retailers like Macy's, Nordstrom, and Dollar General each reported relatively good second quarter numbers, but both Macy's and Nordstrom slashed second half guidance citing an evident change in consumer spending habits. We also saw similar results from big box diversified retailers earlier in the season, with Walmart and Target citing consumer spending shifts toward essentials like groceries and away from more discretionary purchases such as clothing and electronics. This is consistent with overall retail sales data released by the Commerce Department which was flat in July relative to June. Durable goods orders were also flat on a month over month basis. Overall, with 95% of S&P companies having reported, earnings growth currently stands at 6.2%.

Friday's equity index decline capped the end of a turbulent week. If you have been following our writings, volatility is to be expected as we progress through this latest chapter in the business cycle. We are confident that interest rates will head higher, inflation over time, will moderate allowing the Federal Reserve to assess their dual mandate of price stability and full employment. Thus far, the employment situation remains robust. We will see the latest Bureau of Labor Statistics report on August employment this coming Friday, with expectations for an increase of 270,000 non-farm jobs and an unemployment rate of 3.5%.

Along with this key labor report to be released on Friday, the BLS will release the Job Opening and Labor Turnover Survey (JOLTS) on Tuesday that is forecast to show 10.3 million job openings nationally, slightly lower than June. On Wednesday, ADP will release their National Employment Report and Thursday we will see the weekly survey of jobless claims. Away from employment data, the Case Shiller Home Price Index for June will release on Tuesday along with the Conference Board's Consumer Confidence Index.

Market Scorecard:	8/26/2022	YTD Price Change
Dow Jones Industrial Average	32,283.40	(11.16)%
S&P 500 Index	4,057.66	(14.87)%
NASDAQ Composite	12,141.71	(22.39)%
Russell 1000 Growth Index	2,415.26	(21.45)%
Russell 1000 Value Index	1,505.46	(9.08)%
Russell 2000 Small Cap Index	1,899.83	(15.39)%
MSCI EAFE Index	1,898.45	(18.73)%
US 10 Year Treasury Yield	3.04%	153 basis points
WTI Crude Oil	\$92.95	23.59%
Gold \$/Oz.	\$1,738.68	(4.92)%

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