

Beacon Weekly Investment Insights

Covid cases continue to surge across all 50 states due to the highly contagious delta variant, which accounts for 83% of all current cases. The 7-day average of new infections increased by 65% last week, averaging roughly 44,000 new cases per day. Unvaccinated people in states with low vaccination rates, such as Florida, Texas, and Missouri account for most of the new Covid cases.

Although last week started with a sharp selloff in the U.S. equity markets on Monday due to the resurgence of the virus and fears of new social restrictions, S&P 500 ultimately finished the week 2% higher, surging to another record high. Small cap stocks also rallied by 2% during the week. Energy prices followed a similar trend after OPEC decided to gradually increase production; a sharp selloff on Monday with the crude oil dropping 8%, followed by a steady recovery during the remainder of the week. Oil settled the week at \$72 per barrel, up 0.4% from the prior week.

Speaking of surges in Covid cases and stock prices, the market for private space tourism heated up last week and Jeff Bezos became the second billionaire in nine days to blast into space after Richard Branson.

Initial unemployment claims inched higher to 419,000, surprising economists who were expecting 350,000 of new claims. This number was also higher than the prior week's claims, which stood at 368,000. Despite a downward trend in *continuing* claims, higher than expected *initial* claims could provide the Federal Reserve with more reason to stay dovish for longer, as the shape of the labor market recovery has been a concern of the Fed.

After 4 straight months of declines, mostly due to limited inventory, sales of existing homes rose in June as the inventory of homes for sale increased slightly. The annualized pace of previously owned home sales stands at 5.9 million units. Relatively low inventory continues to put upward pressure on sale prices, despite some early signs of demand slowing down.

Second quarter earnings season kicked into a higher gear last week and the reports were mostly positive, meeting and exceeding expectations. With 1 out of 4 companies in the S&P 500 index having reported, corporate earnings are expected to grow 78% year over year due to easy comps from last year when the economy was shut down, the largest gain since 2009 following the global financial crisis. Profit margins are also holding up nicely, despite the high input costs.

FAAAM stocks (**F**acebook, **A**lphabet, **A**mazo**n**, **A**pple, **M**icrosoft) will all report their second quarter results this week, along with 160 other companies in S&P 500, including some of the bellwether companies such as Procter & Gamble, Boeing, and Caterpillar. Any future guidance they provide will be no less important than how much they earned last quarter. While we don't expect the earnings growth numbers in the third and fourth quarter of this year to continue at the same rate as the second quarter, the strong economic recovery following the deep recession in 2020 will still produce above average earnings growth numbers in the second half of the year no matter how the data is sliced.

The Federal Reserve will meet this week on Tuesday and Wednesday. We do not expect any changes to their dovish monetary policy, but we will be watching for clues on when they may consider tapering down their bond purchase program, which would be a precursor to an interest rate hike. Fed's preferred inflation measure, the personal consumption expenditure index, will also be released this week.

First estimate of the second quarter GDP growth will be published on Thursday, which is expected to show 9.7% acceleration in April-June of this year, according to consensus estimates, compared to the same 3-month stretch in 2020. That would make it the fastest level of growth in 38 years! Similar to corporate earnings growth, the rate of

GDP change will drop in coming quarters from what probably will be the peak growth rate in the second quarter. Other economic data that we will be watching closely in this busy week includes new home sales on Monday, Case-Shiller home prices on Tuesday, and University of Michigan's consumer sentiment index on Friday.

Market Scorecard:	7/23/2021	YTD Price Change
Dow Jones Industrial Average	35,061.55	14.65%
S&P 500 Index	4,411.79	17.46%
NASDAQ Composite	14,836.99	15.12%
Russell 1000 Growth Index	2,858.31	17.73%
Russell 1000 Value Index	1,565.39	15.99%
Russell 2000 Small Cap Index	2,209.65	11.89%
MSCI EAFE Index	2,307.08	7.43%
US 10 Year Treasury Yield	1.28%	36 basis points
WTI Crude Oil	\$72.07	48.54%
Gold \$/Oz.	\$1,801.80	(4.82%)

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