Beacon Weekly Investment Insights

The shortened holiday week last week saw equity markets take a pause from a 9-week winning streak. It is of course quite normal for markets to take a step back and consolidate after a long period of positive returns. It is also not uncommon to see some selling pressure at the turn of a new calendar year as investors who had been delaying taking profits in positions to avoid a taxable gain at the end of the year, begin to take some profits after the calendar turns. The S&P 500 finished the week down -1.5%, while the Dow Jones Industrial Average was down -0.59%, and the Nasdaq was down -3.2%. The disparity in returns and larger drop for the tech heavy Nasdaq relative to the Dow Jones Industrial average and broader S&P 500 continue to underscore the broadening in the market that we noted last week. Also driving volatility last week was a stronger than expected U.S. employment report, which led to some moderation in rate cut expectations for this year. The 10-year treasury yield registered further increases, moving up 10 bps from 3.94% to 4.04% to end the week. The 10-year treasury yield had troughed at 3.7% on December 27th, after the substantial drops that occurred in November and December, from a roughly 5% yield in late October. Suffice to say that recent volatility has not been reserved for equity markets.

As mentioned, the U.S. employment report released last Friday came in hotter than expected, with 216,000 jobs added vs. expectations for 170,000 jobs added. The unemployment rate stayed level at 3.7%, while expectations were for an increase to 3.8%. The labor force participation rate did move down by 0.3% to 62.5% as roughly 845,000 people left the workforce in December. In addition, and a key focus for markets and the Fed, wage gains came in higher than expected increasing to 4.1% year over year from 3.9%, and with a monthly increase of 0.4% vs. expectations for a 0.3% increase. The combination of the strong jobs numbers and higher wages which are viewed as inflationary, led to lower odds of a rate cut for March. The Fed minutes from the December 12-13 meeting were also released. The Fed is currently penciling in 3 rate cuts of the 0.25% variety for 2024 in their "dot plot" which outlines the expectations for the path of interest rates amongst Fed committee members, and the comments from Chair Powell were viewed by the market as overwhelmingly dovish. With that said, the minutes portrayed more of a cautious Fed, and noted the possibility for the economy to evolve in a manner that could make further rate hikes more appropriate.

The ISM Manufacturing and Services reports were also released on Wednesday and Friday of last week, respectively. The Manufacturing report did rise slightly more than forecast to 47.4 relative to expectations for a reading of 47.2. However, any reading below 50 signals contraction, and the latest report showed the manufacturing sector shrinking for the 14th straight month. As we have written about in the past and has been widely publicized, the services sector which represents a significantly larger portion of the economy, has been more resilient. However, the latest ISM Services report released showed a meaningful decrease in the services sector, narrowly holding on to expansion with a reading of 50.6%. This was down from the prior reading of 52.7%, and represents a seven month low.

House and Senate leaders announced on Sunday that Congress has reached a deal on government spending, aiming to stave off a partial government shutdown. The $1.59 trillion dollar deal would include $886 billion for military spending and $704 billion for non-defense spending, with the details still needing to be negotiated. This follows the temporary funding package that Congress agreed to in mid-November of last year. The temporary package put two deadlines in place to avoid a shutdown, being January 19th for some federal agencies, and February 2nd for others. The progress is of course encouraging, however we do want to reiterate generally that although uncertainty leading up to a potential government shutdown has the potential to drive volatility, the S&P 500 has historically been positive about half the time during prior government shutdowns with average returns that were actually slightly positive. Further to that point, the S&P 500 was positive during the last 5 government shutdowns, and returns 1-year later were in the low double digits on average. With all of this said, and as we have

counseled in the past relative to these types of events, we do not recommend attempting to time market reactions or meaningfully altering client portfolios as a result of short-term volatility. Investing in a well-diversified portfolio that is designed to meet client needs over the long-term, as well as maintaining sufficient liquidity to meet needs in the shorter-term, continues to be the best way to navigate these types of events.

The 4th quarter earnings season will be kicking off this week, with large money-center banks such as JP Morgan Chase, Citigroup, Bank of America, and Wells Fargo all set to report on Friday, along with healthcare giant UnitedHealth Group. Looking forward, consensus expectations are for a meaningful improvement in aggregate S&P 500 earnings growth, with current earnings growth expectations for 2024 at roughly 11%. Analysts are typically slow to revise estimates downward which is certainly a possibility given what seem to be somewhat lofty expectations, and as we gain more insight from the 4th quarter earnings season. However, even with potential downward revisions to earnings growth, it looks to be a more robust outlook on the earnings front for this year.

The focus from an economic data standpoint this week will be on upcoming inflation readings. The CPI (consumer price index) is set to be released on Thursday, while the PPI (producer price index) which measures wholesale prices, is set to be released on Friday.

Market Scorecard:	**1/5/2023**	**YTD Price Change**
Dow Jones Industrial Average	37,466.11	-0.59%
S&P 500 Index	4,697.24	-1.52%
NASDAQ Composite	14,524.07	-3.25%
Russell 1000 Growth Index	2,968.79	-2.72%
Russell 1000 Value Index	1,623.18	-0.38%
Russell 2000 Small Cap Index	1,951.14	-3.75%
MSCI EAFE Index	2,207.74	-1.27%
US 10 Year Treasury Yield	4.04%	16 basis points
WTI Crude Oil	$73.81	3.01%
Gold $/Oz.	$2,049.80	-1.06%

Important Information: Beacon Investment Advisory Services, Inc. ("BIAS") is an SEC registered investment adviser, under the name Beacon Trust, and is wholly owned by Beacon Trust Company ("BTC"), which is a subsidiary of Provident Bank. Provident Bank is a subsidiary of Provident Financial Services, Inc., a holding company whose common stock is traded on the New York Stock Exchange. Beacon Trust may only transact business in those states where they are notice filed or qualify for a corresponding exemption from notice filing requirements. Additional information is contained in the respective Form ADV disclosure documents, the most recent versions of which are available on the SEC's Investment Adviser Public Disclosure website at http://www.adviserinfo.sec.gov.

SECURITIES AND INVESTMENT PRODUCTS: Not FDIC Insured | May Lose Value | No Bank Guarantee

This publication is limited to the dissemination of general information pertaining to the wealth management products and services offered by Beacon to U.S. residents of those states where not prohibited by applicable law. No portion is to be construed as a solicitation to effect transactions in securities or the provision of personalized investment, tax, or legal advice. Investing involves risks which may lead to losses, including loss of principal. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will be profitable. Any reference to a market index is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged vehicles that serve as market indicators and do not account for the deduction of management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the performance of an actual investment portfolio. Calculation methodologies are available from BIAS upon request.

Past performance is not a predictor of future results. It should not be assumed that any information discussed herein will prove to be profitable or that decisions in the future will be profitable or provide specific performance results. Any discussion of tax matters contained within this communication should not be used for the purpose of avoiding U.S. tax related penalties or promoting, marketing, or recommending to another party any transaction or matter addressed herein. Beacon Trust does not provide legal advice. 00217041