Beacon Trust
INNOVATING WEALTH STRATEGY

June 5, 2023

Beacon Weekly Investment Insights

The S&P 500 increased 1.8% in the shortened trading week that followed Memorial Day Weekend. Of course, the main economic headline of the week was Congress' passage of an extension of the federal debt ceiling. Rumblings about the chance of a default on U.S. Treasury securities dominated the financial news for the past month or so. If you think that you have seen this movie before, perhaps too many times, you are not mistaken. In fact, the debt ceiling has been extended almost 80 times since 1960. The current debt ceiling extension will last roughly two years, enough to get us beyond the 2024 Presidential and Congressional elections.

Last Friday's unemployment report offered a bit of a surprise. The headline number for May of 3.7% was a noticeable increase of 0.3% from the prior month's reading of 3.4%. The surprise was not so much in the increase in the unemployment rate, but rather the number of new jobs created. The U.S. economy added 335,000 jobs in May, versus a consensus estimate of 190,000. The apparent paradox of a higher unemployment rate *and* more jobs created than expected may be explained by the increase in the labor force participation rate. In short, more jobs were created, but even more people were looking for work.

The fact that more people are employed gives the Fed further ammunition to keep raising rates, in an effort to control inflation. The futures markets are suggesting that the Fed will pause with respect to raising rates for its June 14th meeting, but the odds remain skewed towards the Fed raising rates after its July 26th meeting. A lot may happen between now and late July, but we can confidently say it may be several months, at the earliest, for the Fed to begin cutting rates, an action which is generally positive for asset prices.

Speaking of asset prices, the 2023Q1 earnings season is largely in the books, but some retail firms continue to report results. A pocket of strength was displayed by high-end athleisure wear maker, Lululemon, which surged more than 10% on Friday. Lululemon's report provides yet another piece of evidence that affluent consumers are weathering the ongoing economic sluggishness relatively better than the mainstream consumer. Artificial intelligence star and chipmaker, NVIDIA, announced a roadmap to slew of new products last week, further propelling its stock to near an all-time high.

OPEC+ met on Sunday with the goal of bringing some more stability to the oil market. West Texas Intermediate (WTI) Crude prices, a common benchmark for the price of oil in the U.S., is down roughly 11% year to date. OPEC+ agreed to extend previously announced production cuts through the end of 2024. In addition, Saudi Arabia agreed to a further production cut of 1 million barrels of oil starting in July. In parallel to the beginning of the summer driving season, the near-term direction for oil is likely higher.

The economic calendar is fairly light this week. The Institute for Supply Chain Management (ISM) will release their forward-looking outlook for the services part of the economy on Monday. Last week ISM released their Manufacturing Survey, which continues to project contraction in the industrial sector of the economy.

The Consumer Credit Report will be released on Tuesday, providing a window into both the tightness of credit as well as the willingness of consumers to borrow and ultimately spend. The U.S. Trade Deficit Report will also be released on Tuesday. It provides insight into the effect of the U.S. Dollar on trade as well as global trade flows. For example, the report may provide some insight on the strength of the Chinese economy given its role as "factory to the world" and as a consumer of many commodities and consumer-oriented products. Anecdotal recent evidence has the Chinese economy weakening after a surge that followed the end of the COVID induced lockdowns.

The weekly Initial Jobless Claims Report will be released on Thursday, which feeds into the monthly Unemployment Report. The Wholesale Inventories Report will also be released on Thursday. If wholesale inventories are at or above normal levels, it likely indicates that inflation will continue to trend in the right direction.

Market Scorecard:	**6/2/2023**	**YTD Price Change**
Dow Jones Industrial Average	33,762.76	1.86%
S&P 500 Index	4,282.37	11.53%
NASDAQ Composite	13,240.77	26.51%
Russell 1000 Growth Index	2,659.29	23.22%
Russell 1000 Value Index	1,500.35	0.22%
Russell 2000 Small Cap Index	1,830.91	3.96%
MSCI EAFE Index	2,097.69	7.91%
US 10 Year Treasury Yield	3.691%	-19 basis points
WTI Crude Oil	$71.87	-10.73%
Gold $/Oz.	$1,964.30	7.33%

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