

Beacon Weekly Investment Insights

Last week saw equity markets rally meaningfully, with the S&P 500 closing the week up 4.7%, and the Nasdaq outpacing and closing the week up 5.2%. The 10-year treasury saw a meaningful move up during the week, closing up roughly 20 bps to 4.21%. Oil prices moved down slightly for the week, ultimately closing at \$85.05/barrel.

Economic data released for the week included manufacturing data, with the Empire State manufacturing and Philadelphia Fed manufacturing indices both coming in lower than expectations and continuing to portend a slowdown in the broader manufacturing sector. There was also a variety of data released on the housing front, including the NAHB homebuilder's index, which showed sentiment on the housing market continuing to deteriorate, coming in lower than expectations and falling for the 10th straight month. Housing starts also declined in September, coming in at 1.44 million, below expectations for 1.47 million and down 8.2% from the prior reading of 1.57 million. Likewise, existing home sales also slowed coming in at 4.71 million, down from the prior reading of 4.78 million. Building permits did tick up from 1.54 million to 1.56 million in September, coming in ahead of expectations. Overall, we expect the housing market to continue to cool, and meaningfully higher mortgage rates (the average 30-year mortgage has pushed above 7%) continue to be a headwind. We also saw further slowing in the leading economic index which dropped by -0.4% in September, and continues to signal a further slowdown in the U.S. economy.

The debate continues to rage over the path of Fed rate hikes, and was further stoked by comments from San Francisco Fed President Mary Daly last Friday suggesting that the Fed may be nearing a point where it should slow rate hikes. In addition, a Wall Street Journal article was released last Friday which suggested the Fed may be likely to signal plans for a smaller interest rate increase than anticipated in December, subsequent to raising rates by a consensus 75 bps in November. The terminal Fed Funds rate (where the fed funds rates will ultimately end up after rate hikes have stopped) repriced somewhat lower on Friday, which helped to drive a rally in equity markets. It is worth noting that Mary Daly is generally considered to be more dovish, and that Philadelphia Fed President Patrick Harker's comments the day before had a much more hawkish tone, citing the lack of progress on combating inflation and that his expectation is for continued aggressive rate hikes. Ultimately, there is more dissention amongst Fed members as of late, and markets will react positively to any signs that rate hikes may not be as aggressive as expected, with the converse being true if expectations move towards higher rates. Economic data releases in the coming weeks relative to inflation and the labor market will continue to be closely watched by investors to provide clues as to the potential path for rate hikes, with lower than expected inflation data and weaker than expected labor market data portending less in the way of rate hikes, and vice-versa. On that front, an important report due out this week is the Core PCE (personal consumption expenditures) index, which is the Fed's preferred measure of inflation, and is set to be released on Friday.

This week also brings the busiest week of the 3rd quarter earnings season, with a significant number of companies in the S&P 500 reporting. Amongst them, will be large-cap tech companies including the likes of Apple, Microsoft, Meta, Alphabet (Google), and Amazon. Alongside generally positive tailwinds from a seasonality perspective, the earnings reports of large-cap tech companies will be important as far as determining the tone for markets in the near-term. Investors will be paying close attention to comments as to what level of slowdown in demand these companies are seeing, with the level of impact that a strong US dollar is having on earnings also likely to figure prominently in management commentary given the significant percentage of overseas revenues these companies have.

Uncertainty continues in the U.K. with Prime Minister Liz Truss resigning after just 6 weeks, subsequent to introducing a tax plan that resulted in significant market turmoil. As far as a replacement, former Chancellor Rishi Sunak looks to be the front-runner, with cabinet minister Penny Mordaunt also reportedly being considered. In

addition to on-going turmoil in the U.K., we also continue to monitor more reports as of late in terms of concerns over potential liquidity issues in both the treasury and high-yield markets. Amidst the on-going cross currents in the economy and markets, we continue to espouse investing in a diversified portfolio with a long-term focus, ensuring that there is sufficient liquidity on hand to meet client needs in the short-term, and to invest in great companies that have the ability to navigate the challenging market environment and thrive over the long-term.

It will be a busy week from an economic data perspective as well. Aside from the Core PCE report mentioned earlier, we will also get more in the way of manufacturing and services data with the S&P U.S. Manufacturing and Services PMI indices due out on Monday. We will also get more in the way of housing data, with the S&P Case-Shiller Home price index due out Tuesday, new home sales data set to be released on Wednesday, and pending home sales due out Friday. In addition, the first estimate for real GDP for Q3 as well as Durable goods orders data are due out on Thursday, and the University of Michigan Consumer Sentiment Index data will be released on Friday.

Market Scorecard:	10/21/2022	YTD Price Change
Dow Jones Industrial Average	31,082.56	(14.46)%
S&P 500 Index	3,752.75	(21.26)%
NASDAQ Composite	10,859.72	(30.59)%
Russell 1000 Growth Index	2,194.87	(28.62)%
Russell 1000 Value Index	1,411.78	(14.73)%
Russell 2000 Small Cap Index	1,742.24	(22.41)%
MSCI EAFE Index	1,679.67	(28.10)%
US 10 Year Treasury Yield	4.23%	271 basis points
WTI Crude Oil	\$85.05	13.83%
Gold \$/Oz.	\$1,656.30	(9.42)%



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