Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Last week, more talk that the economy could potentially experience a "soft landing" scenario helped most equity markets continue to build on their positive momentum. This scenario would have the US economy escape recession and continue to grow positively while inflation continues to moderate. Also, enthusiasm around the beginning part of second quarter earnings release season stoked investor enthusiasm in sectors outside of mega cap technology such as financials, energy, healthcare, and industrials. Thus far, only about 18% of the S&P constituents have reported earnings, but earnings are up 5%, on revenue gains of about 9% compared with estimates for a decline of about 6% on a year over year basis.

For the week, the Dow Jones Industrial Average gained 2.1%, the S&P 500 gained 0.7%, while the NASDAQ Composite fell 0.6%. The NASDAQ was affected most late in the week by negative reactions to earnings results from Tesla, Netflix, and some semiconductor stocks.

Economic releases during the week continue to be slightly softer than anticipated. The Conference Board's Index of Leading Economic Indicators fell by 0.7% in June marking the 15th consecutive month of declines. Of the 10 data points within the index, 6 had negative readings lead by ISM new orders, jobless claims, and interest rate spreads. Remember, the US Treasury yield curve has been in an inverted position for almost a full year, usually a key indicator of an economic recession.

Retail sales data also released last week did indicate a slightly moderating environment with sales only increasing 0.2% versus expectations for a 0.5% rise. On a year over year basis, sales rose 1.5% versus May's pace of 2.0%. Importantly, retail sales are not adjusted for inflation so price differences can affect the overall figures within more volatile categories such as food and fuel. On the horizon, which also may affect future consumer spending numbers is the resumption of student loan payments scheduled for October.

Manufacturing activity also slowed in June for the second consecutive month potentially reflecting the higher interest rate environment for larger ticket items such as automobiles, appliances, and housing. Consistent with this, existing home sales declined over 3% in June on a month over month basis, but almost 19% on a year over year basis. Higher mortgage rates are being cited as many homeowners have mortgages with interest rates below 4% from previous purchases or re-financing. The current 30-year mortgage rate now exceeds 7%.

This week we have a more active economic and earnings calendar. The Federal Reserve Open Market Committee will begin their 2-day meeting on Tuesday and release their interest rate decision mid-day on Wednesday. Expectations, which we agree with, is for a 25-basis point increase in the Fed Funds rate to a range of 5.25 – 5.50%. The Committee's statement and Chairman Powell's press conference that follows will be widely dissected for clues to future policy decisions. The European Central Bank and the Bank of Japan also meet this week and will announce their own interest rate decisions.

On Thursday, along with weekly jobless claims, we will see the initial estimate for second quarter GDP, expected to be about 1.4%. Friday the Fed's preferred inflation gauge, the personal consumption expenditures (PCE) price index will be released with expectations for a 0.4% decline to 4.2% year over year.

The corporate earnings calendar will also be robust as 165 S&P 500 constituents are scheduled to report. Microsoft and Alphabet (Google) are set for Tuesday evening while Meta reports on Wednesday. Other companies of note include Chevron, General Motors, Coca Cola, Boeing, McDonalds, Ford, Proctor & Gamble, and Intel.

Market Scorecard:	7/21/2023	YTD Price Change
Dow Jones Industrial Average	35,227.69	6.28%
S&P 500 Index	4,536.34	18.15%
NASDAQ Composite	14,032.81	34.07%
Russell 1000 Growth Index	2,812.27	30.31%
Russell 1000 Value Index	1,599.43	6.83%
Russell 2000 Small Cap Index	1,960.26	11.30%
MSCI EAFE Index	2,176.58	11.97%
US 10 Year Treasury Yield	3.84%	-5 basis points
WTI Crude Oil	$77.07	-3.97%
Gold $/Oz.	$1,961.94	7.56%

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