Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Equity markets continued their downward trajectory last week with the S&P 500 down -2.5%, officially entering correction territory (a drop of more than 10% from the July peak). Likewise, the Dow Jones Industrial Average was down -2.3% for the week, with the tech-heavy Nasdaq down -2.7%. Markets continue to grapple with uncertainty on many fronts including the trajectory of rates and the broader economy, geopolitical concerns, on-going strikes, as well as a looming government shutdown, to name a few. For their part, interest rates as measured by the 10-yr U.S. treasury took a bit of a breather last week after significant increases in prior weeks closing the week at 4.84%, down from 4.92%. Oil prices as measured by WTI crude were also more benign, closing the week down -3.6% after recent increases in the midst of the on-going conflict in the Middle East.

Last week saw a few key releases on the economic data front which were consequential for markets. 3rd quarter U.S. GDP growth came in meaningfully hotter than expected, up 4.9% on a year-over-year basis. This figure was up from 2.1% growth in the prior quarter and exceeded expectations for 4.7% growth, lessening concerns over a recession for the time-being. Consumer spending came in strong, increasing 4% for the 3rd quarter. A rebound in the production of inventories and higher government spending, also helped to fuel the upside surprise. Stronger than expected GDP/economic data has generally served to give the Fed more cover to hike interest rates. However, the hotter than expected GDP report is unlikely to sway the Fed's current thinking, with the market currently pricing in a 98% chance that the Fed will hold interest rates steady at their upcoming meeting on Wednesday.

Core PCE (personal consumption expenditures index), the Fed's preferred measure of inflation, was also released last week. The Core PCE index (does not include food and energy prices) increased 0.3% in September, in-line with expectations, and up from the 0.1% increase in the prior month. Likewise, the year-over-year figure came in at 3.7%, in line with expectations, and down slightly from the 3.8% figure in the prior month. Headline PCE which includes food and energy prices did increase at a higher clip, up 0.4% for the month, reflecting higher oil prices as of late. In line with the strength in the consumer seen within the hotter than expected GDP report, personal spending increased by more than the expected 0.5% increase, rising 0.7% in September.

Congressman Mike Johnson from Louisiana was elected Speaker of the House last week, after failed attempts from the likes of House Majority Leader Steve Scalise and Congressman Jim Jordan. As noted above, a potential government shutdown looms as the November 17th deadline to pass a spending bill rapidly approaches. Some have focused in on the idea that there may be less of a chance of a shutdown given the election of a House Speaker, and that geopolitical tensions such as the conflict in the Middle East and recent U.S. air strikes in Syria, could make Congress less likely to allow a shutdown. The uncertainty around this has the potential to continue to drive volatility in markets as the deadline approaches. Although uncertainty leading up to a potential government shutdown can drive meaningful volatility, the S&P 500 was historically positive about half the time during prior government shutdowns, with average returns that were actually slightly positive. Further to the point, the S&P 500 was actually 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 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 in our view.

Roughly half of the companies in the S&P 500 have reported earnings as of the end of last week. Although mixed, the earnings picture has by and large come in better than expected. The aggregate earnings growth rate for the S&P 500 for the third quarter stands at 2.7% as of the end of last week, meaningfully better than what was expected to be a decline of -0.3% heading into the quarter. A higher than average 78% of companies have beaten earnings expectations to this point. Positive earnings surprises reported by companies in several sectors including Consumer Discretionary, Information Technology, and Communication Services, have helped contribute to the better than expected earnings picture thus far. However, a below average 62% of companies have beaten revenue expectations to this point, with the revenue growth rate coming in at 2.1% for the third quarter thus far. This week will see the release of earnings reports from several high profile companies, including the likes of Apple, McDonald's, and Starbucks.

As mentioned above, the Fed meeting/announcement on interest rates is taking place on Wednesday and will be a key focus for markets. The U.S. employment report is due out on Friday, and will also be a focal point. In addition, the ADP Employment and ISM Manufacturing reports are due out on Wednesday, with the ISM Services report set to be released on Friday.

Market Scorecard:	**10/27/2023**	**YTD Price Change**
Dow Jones Industrial Average	32,417.59	-2.20%
S&P 500 Index	4,117.37	7.24%
NASDAQ Composite	12,643.01	20.80%
Russell 1000 Growth Index	2,592.40	20.12%
Russell 1000 Value Index	1,415.59	-5.45%
Russell 2000 Small Cap Index	1,636.94	-7.06%
MSCI EAFE Index	1,945.35	0.07%
US 10 Year Treasury Yield	4.84%	96 basis points
WTI Crude Oil	$85.54	6.58%
Gold $/Oz.	$1,998.50	9.43%

Beacon Trust 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com