Beacon Trust
INNOVATING WEALTH STRATEGY

March 18, 2024

Beacon Weekly Investment Insights

The Fed received additional data this week, ahead of their March 20th meeting, confirming that the economy continues to chug along without any significant signs of weakening or inflation abating. Most certainly, Chair Powell and the other FOMC members will elect to keep the Fed Funds rate unchanged acknowledging that more evidence of inflation slowing is necessary before a pivot towards easing. Currently, fed funds futures are showing a 58% probability of the first cut coming in June followed by 3 additional cuts during the remainder of 2024 which is consistent with our forecast. However, it would not be surprising for the Fed to continue their pause beyond June until the data consistently meets their mandate of maximum employment and price stability. The reality of an unexpected postponement led the markets to retreat slightly during the week. The S&P 500 was down 0.13%, the DJIA declining 0.2% and the NASDAQ down 0.7%. The 10 year rose 22 basis points. Despite this slight pullback the S&P 500 has made 17 record highs this year led by Technology but, the good news is, the market is broadening beyond IT as cyclicals are showing signs of strength. We have been anticipating this rotation as compelling valuations and growth characteristics exist beyond a select few companies. Confirmation of this view is reflected in a stronger M&A environment and investors incorporating smaller caps in their allocations.

On Tuesday, the Consumer Price Index (CPI) for February, which is highly influenced by real estate prices, remained elevated rising 0.4% m/m in line with expectations and 3.2% y/y slightly higher than the 3.1% estimate. More importantly, core CPI (ex-food & energy) rose 0.4% m/m and 3.8% y/y which was slightly above the 0.3% and 3.7% consensus estimates. Recall that the Fed's preferred gauge of inflation is the Personal Consumption Expenditures Price Index (PCE) but the trend in CPI should not be ignored. On the same day, the National Federation of Independent Business (NFIB) Small Business Optimism Survey showed a modest decline to 89.4 in February from 89.9 but the indicator remains strong.

On Wednesday, MBA mortgage applications rose 7.1%, with refinance applications jumping 12% and purchase applications rising 5%. These results can be volatile given their correlation to the movement in interest rates but, on the surface, homeowners and buyers are active in the housing market despite the headwinds of supply and level of mortgage rates.

More releases came on Thursday as the February Producer Price Index (PPI) which measures the cost for raw, intermediate, and finished goods, came in at 0.6%. Economist's anticipated PPI grew at 0.3% and 0.2% excluding food and energy prices. Year over year, PPI rose 1.6%, the largest move since September 2023. A significant portion of the increase was a 1.2% surge in goods prices mostly attributable to a 4.4% jump in energy prices. Also, on Thursday retail sales came in lower than expected at 0.6% while weekly jobless claims nudged lower to 209,000.

Friday was the culmination of fresh data that the Fed will have available to discuss at their upcoming meeting including Import Prices which came in as expected at 0.3% down significantly from 0.8% in January; ex energy prices rose 0.2% down from 0.7% the prior month; Export Prices rose 0.8% in February following a revised 0.8% increase m/m; and last but not least, University Of Michigan March Consumer Sentiment ticked down to 76.5 from 76.9 as Americans grew somewhat more cautious. This may be partly explained by the normalization of interest costs weighing on individual's budgets. The level of higher rates is not generally captured in many economic reports but is proving impactful on day-to-day life for many.

With the 1Q earnings season largely behind us all eyes will be on the upcoming Fed meeting. Clearly, Powell & Co. will have a plethora of current information to consider but, as indicated earlier, it would appear unlikely that they will alter their course soon and "higher for longer" should be anticipated in the near term.

One alternative they could consider and is being floated about is: do they cut then pause again allowing them to buy time before proceeding with more cuts? The benefit would be to allow the short end of the curve to move lower reducing the inversion. This would directly benefit lending institutions who rely on net interest margins. This is a plausible option that surely will be seriously considered placating those members with opposing views on when and how much to lower rates.

Market Scorecard:	**3/15/2024**	**YTD Price Change**
Dow Jones Industrial Average	38,714.77	2.72%
S&P 500 Index	5,117.09	7.28%
NASDAQ Composite	15,973.17	6.14%
Russell 1000 Growth Index	3,319.93	8.79%
Russell 1000 Value Index	1,707.13	4.77%
Russell 2000 Small Cap Index	2,039.32	2.65%
MSCI EAFE Index	2,338.60	5.57%
US 10 Year Treasury Yield	4.30%	22 basis points
WTI Crude Oil	$81.04	14.12%
Gold $/Oz.	$2,163.45	5.51%

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