Beacon Trust
INNOVATING WEALTH STRATEGY

February 5, 2024

Beacon Weekly Investment Insights

In a week that included a variety of consequential economic data and earnings reports, equity markets continued to build on recent gains last week. The S&P 500 finished the week up 1.3%, as did the Dow Jones Industrial Average, with the Nasdaq up 1.1%. After remaining relatively stable in the prior week, the 10-yr. treasury yield moved down from 4.16% to 4.02% last week, having dipped below the 4.0% level earlier on in the week. The 2-year treasury yield, however, remained relatively stable closing the week at 4.37%. As such and as we noted in our prior weekly insights piece, we remain in an inverted yield curve environment in which short-term rates continue to be higher than longer-term rates. Although the magnitude of the yield curve inversion has lessened substantially since last year in which the level of inversion between the 2-year and 10-year yields was the highest in decades, last week's moves in rates did increase the inversion somewhat from the prior week as stronger than expected economic data and a more hawkish tone from the Fed served to push out expectations on the timing for rate cuts.

Last Wednesday, the Fed announced that they would be holding interest rates steady, as expected. Chair Powell pushed back on expectations that the Fed may begin to cut rates as early as March, saying that although the risks between their two mandates of full employment and price stability have become more balanced, the Fed remains focused on and has not declared victory relative to getting inflation sustainably back to their 2% target. Chair Powell commented that the Fed believes we are on the path to 2% inflation in line with recent inflation reports, however still needs to see more data confirming that inflation is sustainably moving toward the 2% target before they would feel comfortable cutting rates.

In addition to the Fed announcement from their January meeting, last week also saw the release of a variety of economic data including the S&P Case Shiller Home Price Index which showed home prices increasing for a 10th straight month to the tune of 5.4% for the 12 months ending in November, amidst a continued shortage of inventory. The Consumer confidence and sentiment indices both jumped to 2-year highs, reflecting an optimistic consumer amidst slower inflation, improved growth in the economy, a record stock market, and continued strength in labor markets. To the latter point, the U.S. non-farm payrolls report released last Friday came in substantially higher than expectations, with payrolls increasing by 353,000 relative to expectations for 185,000 jobs added, and up from the prior 333,000. The unemployment rate remained level at 3.7%, relative to expectations for a tick up to 3.8%. Wage gains came in well above expectations with average hourly earnings for January up 0.6% relative to expectations for a 0.3% increase, and average hourly earnings were up 4.5% year over year relative to expectations for a 4.1% gain. The labor force participation rate stayed the same at 62.5%.

As mentioned above, the commentary from Chair Powell alongside the much stronger than expected jobs report, pushed out the timeline as far as expectations for the first rate cut. The odds of a rate cut in March now stand at only 16% as per target rate probabilities provided by the CME FedWatch Tool, with the first rate cut now being priced in for May. With this said, we do not tend to focus too heavily on trying to pinpoint when the first rate cut will occur, but rather remain focused on the broader picture in which the expectation is for policy easing going forward alongside an economy that continues to display resiliency.

With just shy of half of companies in the S&P 500 having reported earnings, 72% of companies have reported earnings above expectations with 65% of companies reporting revenues that were ahead of expectations, according to data provided by FactSet (both are somewhat below longer-term averages). With that said, aggregate earnings growth for the S&P 500 stands at 1.6%, slightly ahead of expectations for earnings growth heading into the quarter. As expected, mega-cap Tech companies have by far been the biggest contributors from an earnings perspective, as was on full display last week with strong earnings reports and positive stock reactions from the likes of Meta and Amazon. Apple also reported earnings last week, and although the report was not met with the same level of enthusiasm as a result of weakness in demand out of China and the resurgence of Huawei, the company released their mixed-reality headset Vision Pro with 600 apps available. Although it comes with a hefty price tag of $3,500 and it is of course very early innings, the product has seen stronger than expected appeal and has the potential to be a transformative product in the coming years, particularly as future versions with lower price tags are released. Also as expected, the Financials sector has been one of the largest detractors from an earnings standpoint. We will continue to provide updates as earnings season progresses.

This week will also bring earnings reports from several high profile companies including the likes of McDonald's, healthcare giant Eli Lilly, and Disney. It will be a lighter week in terms of economic data releases. ISM Services data is due out, and there will be several Fed presidents speaking throughout the week.

Market Scorecard:	**2/2/2023**	**YTD Price Change**
Dow Jones Industrial Average	38,654.42	2.56%
S&P 500 Index	4,958.61	3.96%
NASDAQ Composite	15,366.78	2.37%
Russell 1000 Growth Index	3,234.77	6.00%
Russell 1000 Value Index	1,642.30	0.79%
Russell 2000 Small Cap Index	1,962.73	-3.17%
MSCI EAFE Index	2,223.18	-0.58%
US 10 Year Treasury Yield	4.02%	14 basis points
WTI Crude Oil	$72.28	0.88%
Gold $/Oz.	$2,053.70	-0.87%

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