Beacon Trust
INNOVATING WEALTH STRATEGY

March 4, 2024

Beacon Weekly Investment Insights

Last week saw equity indices by and large continue to build on strong gains to start the year. The S&P 500 finished the week up 0.95%, with the tech-heavy Nasdaq up 1.74%. Both indices were up for the seventh week in the past eight. However, the Dow Jones Industrial Average did finish the week down slightly by -0.11%. The week closed out what was another strong month, with the S&P 500 up 5.17% in February, the Nasdaq up 6.12%, and the Dow Jones Industrial average up 2.22%. Although AI and large-cap tech companies such as Nvidia continue to dominate headlines and perform well, we are continuing to see signs of broadening out in the markets. By way of example, Consumer Discretionary was the top performing sector in the S&P 500 in February up 8.60%, followed by the Industrials sector which was up 6.98% for the month, and Materials up 6.27%. We have also seen recent strength from small-cap stocks as the economy remains resilient and the most recent inflation reading via Core PCE was in line with expectations. The Russell 2000 Index was up 2.96% last week, also outpacing the S&P 500 in February with a return of 5.52% for the month. Overseas stocks, particularly equity markets in Japan, have also shown strength with the Nikkei 225 Index finishing the month of February up 7.9%, reaching multi-decade highs. The 10-year treasury yield moved down from 4.26% to 4.18% to close the week, with the PCE report being in line with expectations as noted above.

As we touched on in our prior weekly insights piece, corporate earnings season has produced better than expected results. With 97% of companies having reported earnings for Q4 2023 to this point, aggregate S&P 500 earnings growth for the quarter stands at 4.0%, well ahead of expectations heading into the quarter for earnings growth of 1.3%. A lower than average 73% of S&P 500 companies have reported earnings above expectations, while 64% of companies have reported revenues above expectations, also below longer-term averages. The fact that aggregate earnings growth has come in meaningfully better than expected despite the percentage of companies beating estimates for earnings being below longer-term averages, underscores the strength of the earnings profile for large-cap tech companies and their disproportionate impact on the broader earnings picture for the quarter.

In addition to the stronger than expected earnings results helping to drive markets, the in-line Core PCE (the Fed's preferred measure of inflation) report that was released last week removed an overhang around concerns for the report to come in hotter than expected, subsequent to upside surprises for both the CPI and PPI reports earlier on in the month. Core PCE increased by 0.4% for the month, and 2.8% year-over-year, both directly in line with consensus estimates.

In addition to Core PCE, a variety of housing data, the first revision to Q4 GDP, and ISM Manufacturing data were released last week. New home sales came in at 661,000, up from 651,000 in the prior month, but below expectations for 680,000, with numbers dragged down by some weakness in the South. This is alongside the dynamic of weaker pending home sales which dropped -4.9% in January relative to expectations for a 1.5% increase, as high mortgage rates continue to depress activity. The S&P Case Shiller Home Price Index showed home prices increasing by 6.1% in December, with home prices hitting a new all-time high. The figure came in above expectations for a 6.0% increase, and relative to a 5.4% increase in the prior reading. The ISM Manufacturing Index came in below expectations with a reading of 47.8% relative to expectations for 49.5%, and down from the prior reading of 49.1%. Although the Manufacturing sector remains in contraction with this reading, expectations are for expansion later on in the year. Q4 GDP was revised down slightly from 3.3% to 3.2%, still pointing to a resilient economy.

Amidst an economy that continues to prove more resilient than anticipated, and a broader disinflationary trend, albeit with some recent inflation reports coming in hotter than expected, the market continues to game out expectations for Fed rate cuts. As we noted last week, some economists have begun to discuss the idea of a potential rate hike if the economy and inflation begin to reaccelerate more meaningfully. With these dynamics being contemplated, market expectations for rate cuts have come in from the expectations for 6-7 cuts at the beginning of the year, to 3 rate cuts for 2024, which is in line with what the Fed is currently guiding for. A number of Fed governors spoke last week and reiterated the need to be patient in assessing inflation, in line with expectations for 3 rate cuts this year.

Congress agreed to a stopgap bill which President Biden signed last week, averting a shutdown. The first partial government shutdown date was delayed by just one week, with March 8th and March 22nd now the dates by which a longer-term agreement will need to be reached.

This week will be a busy one from an economic data standpoint with ISM Services Index data due out on Tuesday, and the ADP Employment report, job openings, and Chair Powell's House Financial Services Committee testimony on tap for Wednesday. Thursday will bring Chair Powell's testimony to the Senate Banking Committee as well as the State of the Union, with the release of the closely watched nonfarm payrolls report set for Friday.

Market Scorecard:	**3/1/2024**	**YTD Price Change**
Dow Jones Industrial Average	39,087.38	3.71%
S&P 500 Index	5,137.08	7.70%
NASDAQ Composite	16,274.94	8.42%
Russell 1000 Growth Index	3,371.63	10.48%
Russell 1000 Value Index	1,691.97	3.84%
Russell 2000 Small Cap Index	2,076.40	2.43%
MSCI EAFE Index	2,303.90	3.03%
US 10 Year Treasury Yield	4.18%	30 basis points
WTI Crude Oil	$79.97	11.61%
Gold $/Oz.	$2,095.70	1.15%

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