Beacon Trust
INNOVATING WEALTH STRATEGY

July 3, 2023

Beacon Weekly Investment Insights

Last week, the second quarter ended with equity indices posting some of the best performance in decades. The NASDAQ Composite index has led the way for the entire year as companies within the technology and communication services sectors have rebounded from last year's performance. At Friday's close, the index has returned a stunning 31.7%. The S&P 500 index, which also has a heavy weighting in these sectors has returned 15.91% for the year. In contrast, the Dow Jones Industrials, has a much less concentration in these sectors and has returned 3.8%.

The S&P 500 Index performance is calculated on a market cap weighted basis meaning that the largest companies have a disproportionate effect on the index performance. The new group labeled the "Magnificent 7" includes the seven largest companies, Apple, Microsoft, Amazon, Nvidia, Alphabet, Tesla, and Meta, have carried the largest amount of this year's performance. On Friday, Apple crossed the $3 trillion market cap level! If the index returns were publicized on an equally weighted basis, the return drops to just about 6% on a year-to-date basis. This dispersion of performance usually leads to investor questions regarding the sustainability the rally. Our thoughts, as long-term investors, is to maintain investment discipline, focus on company fundamentals, and always have a diversified portfolio. It is nearly impossible to predict which group of companies, or which sector, cap size, or geographical region will provide the impetus for a short-term powerful equity rally, but if you have exposure, you will ultimately benefit.

The economic data released this week was favorable for the economy, both in terms of growth and inflation. Housing data released was generally friendly with new home sales increasing and pricing declining. New home sales are a smaller segment of the overall market and we have seen a cooling in existing home sales with the rise in mortgage rates. The final reading of first quarter US GDP was revised higher from 1.3% to 2.0%. Stronger consumer spending was the primary driver of the upside revision as spending grew at a 4.2% annual pace. Spending on longer term durable goods, like autos, increased at a 16% annual rate, while service spending grew 3.2%. The labor market also remains resilient as jobless claims fell the week prior to 239,000 and continuing claims, which reflects people actively seeking ongoing benefits also declined.

On the inflation front, the Personal Consumption Index released Friday rose at a 3.8% annual rate, representing the lowest level in two years. The core rate, which excludes volatile prices for food and energy, rose at a 4.6% rate, down slightly from the 4.7% increase in April. Within the release, consumer spending was about flat when adjusted for inflation in a potential sign of a slowing consumer. Fed Chairman Jay Powell, speaking on a panel with other global central bankers during the week commented that he did not see core inflation getting to their 2.0% target until 2025. This is the strongest signal yet, that their interest rate cycle is not over. We expect a 25-basis point hike at the July meeting and potentially one more at future meetings. Certainly, it would be hard to make the case, as many were doing early in the year, that the FOMC would quickly need to pivot and decrease rates as the year went on.

This week is a holiday shortened week with all financial markets being closed on Tuesday for the July 4th holiday. Despite that, the economic calendar looks quite robust. On Monday and Thursday ISM will release their Manufacturing PMI and Services PMI respectively. Wednesday is factory orders and durable goods, so we will look for some confirmation that orders are at least stabilizing after the revision to Q1 GDP. Thursday will be the employment day with the JOLTS survey (job openings and turnover) along with weekly claims. Friday we will closely watch the non-farm payroll data and unemployment rate.

Market Scorecard:	6/30/2023	YTD Price Change
Dow Jones Industrial Average	34,407.60	3.80%
S&P 500 Index	4,450.38	15.91%
NASDAQ Composite	13,787.92	31.73%
Russell 1000 Growth Index	2,770.24	28.36%
Russell 1000 Value Index	1,555.60	3.91%
Russell 2000 Small Cap Index	1,888.73	6.48%
MSCI EAFE Index	2,113.59	8.73%
US 10 Year Treasury Yield	3.83%	-6 basis points
WTI Crude Oil	$70.45	-12.22%
Gold $/Oz.	$1,918.53	5.18%

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