Beacon Trust
INNOVATING WEALTH STRATEGY

June 3, 2024

Beacon Weekly Investment Insights

Now that earnings are largely behind us, investors will turn their focus to the June FOMC meeting to determine the approximate timing on a pivot to lower rates. On Friday, the Personal Consumption Expenditure Price Index, the primary measurement of consumer spending on goods and services as well as the preferred inflation index for the Fed, as it excludes housing, rose 0.3% in April; in line with consensus and lower than March @ 0.5%. Core PCE was 0.2% month over month and 2.8% year over year; both consistent with consensus. Personal Spending was up 0.2% for the month lower than the estimate of 0.3%. This follows a revised 0.7% increase in the prior month. 2.8% is still well above their target and would indicate that any near-term move is unlikely. In fact, September or later and no more than two cuts in 2024 seem to be the base case.

Though sticky inflation continues to moderate; employment remains strong emboldening the consumer and economic growth continues at an acceptable pace. The second read on 1Q GDP was 1.3% in line with consensus; the preliminary expectation was 1.6%. The deflator, the measurement of changes in the prices of goods and services produced in the US including those exported to other countries, was 3.0% v expected 3.1%. The preliminary was 3.1%. Earlier in the week Consumer Confidence came in stronger then expected at 102 v 96 estimate and initial jobless claims came in at 219,000 v 218,000 expected. We will get a better read next week when non-farm payrolls are announced on June 7th. MBA mortgage applications declined 5.7%, refinance applications were down 14% and purchase applications were virtually flat down 1%. Pending home sales declined 7.7% in April with weakness across all regions of the country. This is reflective of the continuation of little supply keeping prices elevated and the 30-year fixed rate mortgage rising 9 basis points to 7.03%.

Clearly this Federal Reserve, led by Jay Powell, has a history and reputation for miscalculation. Ignoring the stresses of a large segment of the country struggling to make ends meet to achieve the dual mandate appears to be myopic; not to mention risky. The inflation rate for necessities, a category that includes food, gasoline, rent, auto insurance and repairs, health care along with other expenses, was just under +3% in the first four months of this year, compared to +3.2% for all of 2023 indicating slow movement. Clearly these expenses are considered volatile and, therefore, largely dismissed but they are real for most. Rent and insurance, both the auto and homeowners', have been impactful on individual's budgets. Many expect the increases to abate in time but relief in the short term seems unrealistic. Interest payments aren't part of the inflation equation, but they've also weighed on both spending and sentiment. Non-mortgage debt now equates to nearly 3% of consumer outlays. Credit card delinquency rates, as noted in many bank's earnings reports, have spiked to the highest level in more than a decade. The delinquencies are concentrated in Gen-Zers (11-26) and Millennials (27-42), demographics that now account for about 40% of all card balances and are in the accumulation phase of their lives. Those age groups are also most affected by apparent weakening at the low-end of the labor market. Given the economy's dependence on consumption our monetary policy makers need to consider that the stress felt by many younger and lower income individuals is real and factor that into their timing; though this seems unlikely based on recent fed officials' comments. In reality, strong employment, reasonable wage growth, a decent economy and consumer resiliency is allowing fed policy makers to remain vigilant and steadfast. Upcoming on Thursday, the European Central Bank (ECB) will meet to discuss pivoting to a less restrictive policy. Christine Lagarde is expected to announce a 25bpt reduction to 3.75% and possibly indicate further rate cuts quarterly allowing them time to consider data prior to the next move. If this occurs it will be considered unprecedented for a major central bank, other then the US, to lead changes in monetary policy.

During the first week of June, we have the aforementioned non-farm payrolls forecasted to be 180,000 and the unemployment rate to be unchanged at 3.9%. The ISM releases both manufacturing and services for May. Both are expected to be around a neutral 50. A few companies, of note, expect to announce this week are Crowdstrike, Dollar Tree, Docusign, Smucker's and Vail Resort.

Market Scorecard:	5/31/2024	YTD Price Change
Dow Jones Industrial Average	38,686.32	2.64%
S&P 500 Index	5,277.51	10.64%
NASDAQ Composite	16,735.02	11.48%
Russell 1000 Growth Index	3,440.26	12.73%
Russell 1000 Value Index	1,737.86	6.66%
Russell 2000 Small Cap Index	2,070.13	2.12%
MSCI EAFE Index	2,358.87	5.49%
US 10 Year Treasury Yield	4.50%	62 basis points
WTI Crude Oil	$76.99	8.45%
Gold $/Oz.	$2,350.65	13.51%

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