Beacon Trust
INNOVATING WEALTH STRATEGY

November 7, 2022

Beacon Weekly Investment Insights

More than a few talking points from last week dominated the financial market action which concluded with negative performance for equity indices and higher interest rates. The S&P 500 ended the week down 3.35%, the Nasdaq Composite fell 5.65%, and the Dow Jones Industrials fell 1.40%. Fixed income markets also fell on the week, with the Benchmark 10-Year US Treasury yielding 4.17%.

On Wednesday, the Federal Reserve Open Market Committee conclude their two day policy meeting with an increase of 75 basis points to the Fed Funds target rate, which now has a range of 3.75% - 4.00%. Even though this increase was widely telegraphed, financial markets still had a rather large negative reaction. The reason is many market participants were looking for Chairman Powell's press conference to strongly signal a moderation of future rate hikes. While he did hint to a slight moderation of magnitude, his tone was still quite hawkish regarding fighting inflation. Markets are now anticipating a terminal (or peak) Fed Funds rate range of 5.00% - 5.25%, 25 basis points higher than prior expectations.

Pivoting to the second part of the Fed's mandate, employment, the labor market remains stubbornly tight. Friday, the October jobs report showed a stronger than expected gain of 261,000 non-farm payroll jobs. Also, the previous two monthly reports were slightly updated by a combined 29,000 job additions. The unemployment rate did however rise from 3.5% to 3.7% which may signal a gradual easing. From an inflation perspective, wage pressures did moderate in the report showing only a 4.7% year over year increase, versus 5.0% in September.

In the coming months, when considering future monetary policy decisions, the committee members will be focusing on both mandates. Economic data, especially in interest rate sensitive parts of the economy such as housing and construction, have slowed considerably, however, inflation has been persistently elevated and the labor market tight. As of this writing, there is about a 50/50 split between a 50 and 75 basis point rise at the December meeting.

Third quarter S&P corporate earnings season is about 80% complete and so far the overall data has been positive. Earnings per share growth thus far has been about 4.3%, which is slightly below expectations prior to reporting season. Sales growth has been a robust 11.0% which is slightly above expectations from the beginning of the reporting season. The strength of the US Dollar has been cited by many multi-nationals as a driver of higher sales, but lower earnings. The two leading sectors thus far in the third quarter have been Energy and Industrials, while the two laggards are Communications and Financials.

This week, there are two main events the financial markets will focus on. Tuesday is Election Day and the Congressional mid-terms are in full focus. Many indications are for the Republican party to retake a majority in the House of Representatives, and there is a chance for a change in the Senate as well. Financial markets historically view a divided party government with a level of optimism, so we will report back with our thoughts on the outcome. The second focus comes on Thursday with the release of the October consumer price index (CPI), a key inflation gauge. Many expect a slight moderation from September's 8.2% year over year increase.

Market Scorecard:	11/4/2022	YTD Price Change
Dow Jones Industrial Average	32,403.22	(10.83)%
S&P 500 Index	3,770.55	(20.89)%
NASDAQ Composite	10,475.25	(33.04)%
Russell 1000 Growth Index	2,133.42	(30.62)%
Russell 1000 Value Index	1,464.25	(11.56)%
Russell 2000 Small Cap Index	1,799.87	(19.84)%
MSCI EAFE Index	1,770.32	(24.22)%
US 10 Year Treasury Yield	4.17%	266 basis points
WTI Crude Oil	$92.61	23.14%
Gold $/Oz.	$1,674.40	(8.43)%

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