Beacon Trust
INNOVATING WEALTH STRATEGY

June 6, 2022

Beacon Weekly Investment Insights

Although stocks closed down last week, with the S&P 500 down -1.2% for the short week, they did so with a bit less volatility (although it may not feel that way) than we have become accustomed to over the course of this year. To that end, the VIX which is an index that measures volatility, decreased by roughly 3.5% for the week. The VIX now stands at 24.79, which is above historical averages, but has come in quite a bit from levels as high as 36 within the last month. Also in contrast to what we have seen for much of this year, the tech heavy Nasdaq performed better on a relative basis, declining by -0.97% for the week.

The most recent projections for GDP growth for the second quarter are in the 1.0%-1.5% range, after the negative GDP print we saw for the first quarter. If these projections prove to be accurate (or if we see any level of GDP growth for Q2), this would not indicate a recession, which is generally defined as two successive quarters of declines in GDP. Although recession risk has increased, we do not believe it bears fruit to attempt to predict the timing of a recession, or the depth and duration of market declines. Furthermore, a point that is often missed is that the difference between major declines for the S&P 500 that have occurred since 1950 either with or without a recession, is not as significant as one might think. Data from Strategas, one of our research firms, details that for major S&P 500 declines that have occurred since 1950 that were not accompanied by a recession, the average decline was -23.1%. The average for the major declines that occurred that were accompanied by a recession was -27.3%. Although every decline is different as are the circumstances that precipitate it, and no one can consistently and accurately predict market declines, this underscores an important point in that there is only about a 4% difference on average between major declines that have occurred with a recessions vs. those without a recession over the long-term. This is important to bear in mind in the context of the 20% decline that the S&P 500 already saw on an intra-day basis on May 20th, from the all-time high in January.

A significant amount of economic data was released last week. The S&P Case-Shiller Home price index showed home prices surging 20.6% higher nationally in March on a year-over-year basis, which was the highest price change in over 35 years. The report also showed the average rate on the 30-year fixed mortgage increasing from 3.29% at the start of January to 4.67% at the end of March (now in excess of 5%). Although the increase in mortgage rates clearly did not adversely impact home prices in the latest report, we expect that the surge we have seen in home prices will likely not be sustainable going forward in the face of significantly higher mortgage rates. The U.S. consumer confidence index decreased in May to 106.4 from April's reading of 108.6, as higher inflation continues to impact consumer's views on their current and future prospects. On that front, and as consumers continue to combat higher prices at the pump, grocery stores, and elsewhere, President Biden has more squarely turned his focus to inflation.

Biden laid out his plan for fighting inflation last week by first acknowledging that this is primarily the job of the Fed. He also cited releases from the global oil reserves, the importance of clean energy tax credits and investments, as well as a focus on reducing the federal deficit as important aspects of combatting inflation. Last Thursday, OPEC Plus agreed to raise planned oil production increases by 50%, representing an increase in production of 648,000 barrels per day in July and August. Although this represents a significant increase from what was originally planned, this level of additional production is not likely to cause a meaningful decrease in gas prices. The hope is that OPEC Plus's willingness to increase production could lead to more cooperation from Saudi Arabia, the United Arab Emirates, and other countries going forward as sanctions reduce oil output from Russia.

ISM Manufacturing and Services data were also released, with the manufacturing index showing an uptick in activity, increasing to 56.1% from 55.4% in the prior month and vs. expectations of a decrease to 54.5%. On the flip side, the ISM Services report showed a decline to 55.9%, vs. 57.1% in the prior month, and expectations of 56.5%. Overall, both reports continue to indicate growth, as any reading over 50% signifies expansion.

On the jobs front, the ADP employment report showed an increase in private payrolls that was significantly less than expected in May, suggesting that the demand for labor may be starting to slow amidst tightening financial conditions, although job openings remain quite high. Private payrolls rose by 128,000 in May vs. expectations for an increase of 300,000 jobs, and vs. the revised figure of 202,000 (revised down from the initially reported figure of 247,000) jobs added in April. In contrast, the non-farm payrolls report showed job creation coming in above expectations for May with the payrolls number showing 390,000 jobs added in May vs. the consensus for 325,000.

With the overwhelming majority of companies having reported earnings, the blended revenue growth rate for S&P 500 companies in the first quarter is 13.6%, with the blended earnings growth rate for the first quarter being 9.2%. Although representing a slowdown from elevated levels, current estimates for earnings growth for the S&P 500 for the full year 2022 are a healthy 10.1%.

Economic data on the docket for this week will focus on inflation and consumer sentiment, with both the CPI (consumer price index) and the University of Michigan Consumer Sentiment Index reports on tap to be released on Friday.

Market Scorecard:	**6/3/2022**	**YTD Price Change**
Dow Jones Industrial Average	32,899.70	(9.46)%
S&P 500 Index	4,108.54	(13.80)%
NASDAQ Composite	12,012.73	(23.22)%
Russell 1000 Growth Index	2,384.81	(22.44)%
Russell 1000 Value Index	1,558.64	(5.86)%
Russell 2000 Small Cap Index	1,883.05	(16.13)%
MSCI EAFE Index	2,029.06	(13.14)%
US 10 Year Treasury Yield	2.94%	143 basis points
WTI Crude Oil	$118.87	58.05%
Gold $/Oz.	1,850.20	1.18%

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