Beacon Trust
INNOVATING WEALTH STRATEGY

September 5, 2023

Beacon Weekly Investment Insights

Stocks barreled into the Labor Day weekend in a good mood, with the S&P 500 up 2.5% last week. After modest losses in August, investors were cheered to see most broad stock market indexes in positive territory for the second consecutive week. Small Caps and Growth stocks led the charge, as evidenced by the 3.7% gain for the Russell 2000 and 3.4% gain for the Russell 1000 Growth indexes last week. Bond yields took a welcome respite, with the yield on the benchmark 10 Year U.S. Treasury Note falling about 7 basis points over the course of the week to 4.17%. Oil prices continued to surge last week, with prices now at approximately $85 per barrel. The gains may be further fueled my Saudi Arabia's recent decision to maintain its production cuts of roughly 1 million barrels per day.

Earnings season for Q2 is largely in the books, but a few "off cycle" firms continue to report. Dollar General saw a double-digit percentage drop in its shares on Thursday as its core consumers tighten their belts. The end of some SNAP (also known as food stamp) benefits, that were instituted during the onset of the pandemic, and increased reports of theft negatively impacted their results. In contrast, high-end athleisure maker, Lululemon Athletica, reported strong results, with revenue rising 18% an impressive in Q2. Hence, we see a tale of two companies, with firms catering to affluent consumers doing relatively better than those whose core consumers are greatly impacted by inflation.

The economic calendar was somewhat active last week. Home prices fell 1.2% year-over-year, as represented by the S&P/Case-Shiller U.S. National Home Price Index. Mortgage rates, which now average over 7%, are starting to take a bite out of home prices with fewer people able to afford a home. The sharp rise in home prices over the past decade, almost doubling at the national level, further strains affordability for many first-time home buyers.

The Bureau of Economic Analysis revised its July Q2 GDP estimate downward on Wednesday from 2.4% to 2.1%. Despite the dip, Q3 GDP is expected to be robust, with early estimates expecting growth to exceed 3% on an annualized basis. Once the summer "revenge spending" season is over, we expect economic growth to revert to more meager gains as we close out the year and move into 2024.

The Personal Consumption Expenditure (PCE) report was released on Thursday, showing a 3.3% annualized gain. The PCE is reportedly the Federal Reserve's preferred measure of inflation, in contrast to the better-known Consumer Price Index (CPI). Overall, investors cheered the report, since it suggested inflation is being reigned in, despite being over the Fed's desired 2% threshold. The Institute for Supply Chain Management (ISM) released its forward-looking survey of buyers in the manufacturing sector on Friday. The report suggested continued contraction, albeit at lesser rates than over the past five months. The Bureau of Labor Statistics also released their latest unemployment report on Friday. The widely followed gauge showed an unemployment rate of 3.8%, up noticeably from the prior month's level of 3.5%. The report showed wage growth cooling as well as a higher labor force participation rate, giving the Fed valid reason to pause raising rates at its upcoming Federal Open Market Committee Meeting later this month.

Looking ahead to this week's shortened calendar due to the Labor Day holiday, at least 7 Federal Reserve Governors will be on the road speaking this week. Futures markets are expecting to remain on hold during its September 20th meeting with a probability of 93%. If we look out to the end of the calendar year, it is almost a coin flip that the Fed will hike rates one more time. ISM will release its Services report on Wednesday. Since services constitute a greater proportion of the U.S. economy than manufacturing, the report is arguably more important in determining the chance of a future recession. Recent readings of the ISM Services index have suggested continued expansion. The Consumer Credit Report will be released on Friday. With credit card debt recently touching $1 trillion for the first time, the report may provide further evidence that consumers are financing their recent spending binges with borrowed money, an unsustainable proposition.

Market Scorecard:	9/1/2023	YTD Price Change
Dow Jones Industrial Average	34,837.71	5.10%
S&P 500 Index	4,515.77	17.61%
NASDAQ Composite	14,031.81	34.05%
Russell 1000 Growth Index	2,834.49	31.34%
Russell 1000 Value Index	1,554.86	4.75%
Russell 2000 Small Cap Index	1,920.83	9.06%
MSCI EAFE Index	2,104.02	8.24%
US 10 Year Treasury Yield	4.173%	29 basis points
WTI Crude Oil	$85.55	6.59%
Gold $/Oz.	$1,939.80	7.72%

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