Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The Fed's short-term rate hike and continued hawkish comments on inflation resulted in a further rise in interest rates across the maturity spectrum and pushed stocks back into bear market territory. The S&P 500 fell 4.7% last week and approached its June lows. The S&P 500 has fallen a painful 22.5% year to date, putting it past the 20% loss threshold often considered to be in bear market territory. The Dow Jones Industrial Average, which is often reported on the evening news to the public at large, fell below the psychologically important 30,000 level.

The Federal Open Market Committee (FOMC) on Wednesday raised its Fed Funds Rate 0.75% to 3.25%. Many short-term interest rates use the Fed Funds as a benchmark. The 10-year Treasury Note, which is often used as a benchmark for corporate borrowings and mortgages, closed the week at 3.70%, an 11 year high. Perhaps most importantly, Fed Chair, Jay Powell, reiterated his stance that the Fed will keep raising interest rates in a bid to tame inflation "until the job is done." Financial markets viewed those comments as the Fed signaling that more rate hikes are on the horizon. Futures markets are currently projecting that short-term interest rates will be 4.50% by year end, a far cry from the roughly 0% yields that have dominated the landscape since the Great Recession. In parallel, the Fed continues to shrink its balance sheet through the quantitative tightening (QT) program, a process that essentially withdraws money from the global financial system.

The odds of an impending recession are increasing with each day and is one of the reasons for the losses across most financial assets. The GDP growth rate for Q3 is precariously close to being negative again, although this metric alone does not act as the official barometer for recessions. U.S. multinationals, such as FedEx and Ford, have already preannounced disappointing earnings as the third quarter comes to a close at the end of this week. The sharp rise in the U.S. Dollar impacts many groups, ranging from U.S. exporters to those importing U.S. products to various emerging markets tied to the U.S. greenback. Sharp currency movements are all relative, meaning when one currency is surging, the other is plunging. Historically, precipitous moves in exchange rates have set off foreign currency crises. If the gyrations in the financial markets aren't scary enough for most investors, Vladimir Putin added to geopolitical tensions by threatening again the use of nuclear weapons as his invasion of Ukraine continues to experience setbacks. Russia has called up 300,000 reservists, its first conscription since World War II.

Given the market turbulence, it is not surprising that Fed Governors will be speaking every day this week. The highlights will likely be from the talks of Jay Powell on Wednesday and Vice-Chair, Lael Brainard, on Friday. The latest Case Shiller Home Index data will be released on Thursday. It is likely that the housing market has cooled further given the rise in interest rates, although the reported index usually uses lags real-time data by 2 to 3 months. Jobless Claims will also be related on Thursday, which feeds into the monthly unemployment report. On Friday the Personal Consumption Expenditure (PCE) Index will be released. The PCE is the Fed's preferred measure of inflation and tracks a broader range of consumer purchases than the more widely reported Consumer Price Index (CPI). Also on Friday, the University of Michigan's Consumer Confidence Index will be released. Its numbers have modestly increased in recent months as gasoline prices have fallen, but it is still expected to remain at depressed levels with the continued rise in interest rates and drop in asset prices. We expect asset prices to remain highly volatile through the remainder of this month and next, so continue to recommend a highly diversified portfolio with an appropriate cash cushion.

Market Scorecard:	9/23/2022	YTD Price Change
Dow Jones Industrial Average	29,590.41	(18.57)%
S&P 500 Index	3,693.23	(22.51)%
NASDAQ Composite	10,867.93	(30.53)%
Russell 1000 Growth Index	2,179.89	(29.11)%
Russell 1000 Value Index	1,375.67	(16.91)%
Russell 2000 Small Cap Index	1,679.59	(25.20)%
MSCI EAFE Index	1,688.02	(27.74)%
US 10 Year Treasury Yield	3.697%	219 basis points
WTI Crude Oil	$79.43	5.28%
Gold $/Oz.	$1,651.70	(9.77)%

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