Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

China and the Federal Reserve dominated the financial headlines last week, with the S&P 500 inching up 0.5% over the course of a volatile week for stocks. China's Evergrande, the second largest property developer in the country, warned of an imminent default on its massive $300 billion in debt. The Federal Reserve provided further clarity on its massive bond purchase program after its Federal Open Market Committee meeting on Tuesday and Wednesday, resulting in the benchmark 10 Year U.S. Treasury increasing 15 basis points for the week. China capped the week by banning cryptocurrencies, sending Bitcoin tumbling roughly 5% on Friday. Each of these stories has important investment implications that we explore further in this note.

Most equity markets around the world plunged on Monday, largely in response to the turmoil at Evergrande. Some analysts questioned if Evergrande's immense financial difficulties may result in a "Lehman moment" with the risk of taking down the global financial system. The $300 billion in debt figure cited above is among the largest of any private company in the world. The company directly employs about 200,000 employees and indirectly creates 3.8 million jobs a year. In our view, there is a nontrivial risk of contagion beyond China's borders, but that the bulk of the impact will be felt within its home country. The Chinese government is aiming to "ringfence" Evergrande's problems but has warned local government leaders to get ready for a possible "storm." It is a situation we are watching closely given China's status as the second biggest economy in the world and the biggest growth engine for many global stocks.

The Fed inched closer to begin the taper of its bond buying program of $120 billion a month, which was kicked off during the early days of the COVID-19 pandemic. Reading the tea leaves from last week's meeting, we expect the Fed to begin the taper in November or December of this year and end it near the middle of 2022. At that point Fed officials may consider raising short-term interest rates, which have been stuck at approximately 0% since the pandemic shocked the world. Financial markets seemed to like the Fed message, with the stock market recovering its losses from the Evergrande tumult, and then some. The "Greenspan put" was converted to the "Bernanke put" and now the baton has seemed to pass to the "Powell put." That is, the Fed seems to come to the rescue of the financial markets during any liquidity crises, supporting a buy on the dip mentality.

Cryptocurrencies, such as Bitcoin, have been in the crosshairs of government regulators for a couple of years now, but China dropped the hammer on crypto with its formal ban. Its actions undoubtedly negatively affected crypto prices on Friday. However, crypto, by design, is beyond the purveyance of any government or central bank. So, it may be regulated, taxed, and banned in some jurisdictions, but it can't be stopped, unless demand completely disappears. Recent developments confirm Bitcoin's volatility and "risk on" status, placing its reputation as "gold for Millennials" in doubt.

The quarter formally ends this week, which will soon kick off earnings season anew. A few bellwethers announced "off cycle" earnings providing information that may act as a "canary in the coal mine." FedEx warned of significant inflation due to rising energy prices and transportation costs. They will attempt to pass most of these costs on to their customers. Supply chain issues have been known for the past several months for industries, such as automobiles, that rely on computer chips. However, footwear and apparel giant, Nike, warned last week of supply chain problems as well. Last we checked, there were no computer chips in their sneakers, so the investment implication is almost all firms may be facing supply chain constraints. In our view, these constraints will largely be fixed sometime next year, but that doesn't preclude the financial markets from overreacting in the short-term.

The economic calendar will feature a reading on the still hot real estate market when the S&P/Case-Shiller U.S. National Home Price Index is released on Tuesday. The Institute for Supply Chain Management (ISM) will release their forward-looking Manufacturing Index on Friday. The ISM Index is expected to show continued growth, although it may be at a lesser rate than recent months due to the aforementioned supply chain issues and continued concerns about the delta variant of the COVID-19 virus. The Core Inflation report, which excludes volatile food and energy prices, will be released on Friday. We will have to wait until October 13th for the formal Consumer Price Index report. Inflation continues to remain at the forefront of investors' minds, so we will be watching each of these reports closely.

Market Scorecard:	**9/24/2021**	**YTD Price Change**
Dow Jones Industrial Average	34,789.00	13.69%
S&P 500 Index	4,555.48	18.60%
NASDAQ Composite	15,047.70	16.75%
Russell 1000 Growth Index	2,888.53	18.98%
Russell 1000 Value Index	1,577.16	16.86%
Russell 2000 Small Cap Index	2,248.07	13.83%
MSCI EAFE Index	2,341.69	9.04%
US 10 Year Treasury Yield	1.460%	54 basis points
WTI Crude Oil	$73.95	52.73%
Gold $/Oz.	$1,750.60	(7.94%)

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