Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Volatility in equity markets continued last week, with markets focused on the interest rate announcement from the Fed, and with on-going concerns about the banking industry continuing to make headlines. Reports that PacWest Bancorp was exploring strategic options including a possible sale sent shares plunging 50% last Thursday, as short-sellers that aim to profit from a decline in share prices exacerbated the sell-off. Other regional banks such as Western Alliance Bancorp which sold off 38%, and First Horizon, which had their planned merger with TD Bank called off amidst the turmoil, also got caught up in renewed concerns. However, these banks saw significant rallies the next day, with PacWest trading up 80+% on Friday and Western Alliance up 50+%, subsequent to J.P. Morgan issuing a note upgrading Western Alliance as well as a few other regional banks and following the release of a much stronger than expected jobs report. The rally in bank stocks was also magnified by short-sellers needing to buy back stock to close their positions. The substantial day to day volatility continues to highlight the role that short-sellers can play in the significant movements of these stocks, which can very easily and rapidly become disconnected from fundamentals. This also continues to highlight the importance of not trying to time the market, but rather focusing on owning high quality investments for the long-term, within the framework of investing in accordance with an appropriate asset allocation based on one's needs and objectives.

Amidst the volatility, the S&P 500 ultimately finished the week down -0.79%. The Dow Jones was also down last week, to the tune of -1.20%, with the Nasdaq closing up slightly by 0.07%. Oil prices were down 7% for the week, with WTI Crude closing at $71.36/barrel. The 10-year treasury yield closed the week down slightly to 3.44%.

The Fed interest rate announcement last week was as expected, with the Fed unanimously voting to hike interest rates another 0.25%. There was also some change in the language the Fed had been using relative to additional policy firming going forward, omitting prior language saying that "some additional policy firming may be warranted," to saying they will take into account various factors "in determining the extent to which additional policy firming may be appropriate." The Fed noted their continued focus on and commitment to combating still elevated levels of inflation. The Fed's comments suggest that although a pause in interest rate hikes may be likely at the next meeting, rate cuts do not look to be on the table. With that said, there continues to be a meaningful disconnect between what the Fed is saying and what the market believes. Despite the Fed's commentary, Fed Funds futures are pricing in three successive rate cuts for the September, November, and December meetings, which would bring the Fed funds rate down to the 4.25%-4.50% level from the current 5.0%-5.25% level if these projections were to matriculate.

Furthermore, there is a fairly meaningful negative spread between the 1-year treasury note and the Fed funds rate at this point with the current yield on the 1-year treasury at 4.72% vs. the Fed funds rate now at the 5.0-5.25% level. The spread between the 1-year treasury and the fed funds rate is generally a relatively reliable indicator of the fed funds rate one year out, and a negative spread generally signals rate cuts. The current 1-year treasury yield at 4.72% also implies rate cuts, albeit 1-2 cuts vs. the three being priced in by fed funds futures, but this provides another example of the disconnect between what the Fed is saying and what the market believes, due in part to concerns over the recent turmoil in the banking sector and a potential recession.

With that said, the most recent employment report released by the Bureau of Labor Statistics certainly did not substantiate the idea that a recession in imminent. The report showed that the U.S. Economy created 253,000 jobs in April, which was a substantial upside surprise relative to estimates for 185,000 jobs. The unemployment rate dropped down to historic lows at 3.4%, ticking down from the prior 3.5% figure, and average hourly earnings were up by 0.5% vs. expectations for a 0.3% increase for the month. The significantly higher than expected job creation and move down in the unemployment rate alongside still elevated inflation, served to reignite the discussion around whether or not an additional interest rate hike may be in play for the Fed's June meeting.

From an earnings perspective, although S&P earnings have declined so far for the first quarter, results can best be characterized as better than expected. With 85% of companies in the S&P 500 having reported as of last Friday, 79% of companies have beaten earnings expectations and 75% have beaten revenues expectations, both above long-term averages. The blended earnings decline currently sits at -2.2%, which is better than the expected -6.7% decline heading into earnings season. Apple reported results last Thursday, and the 4+% increase in shares on Friday helped lift the

S&P 500 alongside the rally in banks stocks (Apple currently carries a 7+% weighting in the S&P 500). The positive reaction to the report was no exception to the theme of better than expected. Although revenues were down 3%, the market reacted positively to better than expected iPhone sales, which increased 1.5% despite a 13% drop in global smartphone shipments during the quarter. Apple also announced an additional $90 billion stock buy-back authorization. Apple is owned in Beacon's equity strategies, and is a great example of our focus on highly profitable businesses with strong balance sheets. With a return on invested capital of 58%, a free cash flow margin of 25%, and roughly $165 billion in cash and cash equivalents on the balance sheet, the company has tremendous optionality as far as their ability to reinvest in the business, pursue acquisitions, and return capital to shareholders through stock buybacks and dividends, without the need to take on significant levels of debt.

Berkshire Hathaway held their much anticipated annual shareholder's meeting over the weekend. Warren Buffett commented on turmoil in the banking system, noting that commercial real estate could struggle amidst higher borrowing rates and that banks could continue to face some more pressure. However, he also noted that he believes that deposits are safe, and remains comfortable with Berkshire's significant holding in Bank of America. Buffett also commented that he expects economic activity to slow down, but continues to reiterate that he is constructive on the prospects for the U.S. over the long-term.

This will be somewhat of a quieter week from an economic standpoint. However, the market will be focused in on additional inflation data, with the CPI (consumer price index) and PPI (producer price index) reports due out on Wednesday and Thursday, respectively. Consumer sentiment data is out also due out on Friday.

Market Scorecard:	**4/28/2023**	**YTD Price Change**
Dow Jones Industrial Average	34,098.16	2.87%
S&P 500 Index	4,169.48	8.59%
NASDAQ Composite	12,226.58	16.82%
Russell 1000 Growth Index	2,484.67	15.13%
Russell 1000 Value Index	1,523.90	1.79%
Russell 2000 Small Cap Index	1,768.99	0.44%
MSCI EAFE Index	2,143.85	10.28%
US 10 Year Treasury Yield	3.452%	-43 basis points
WTI Crude Oil	$76.63	-4.82%
Gold $/Oz.	$1,999.40	9.24%

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