Beacon Trust
INNOVATING WEALTH STRATEGY

September 25, 2023

Beacon Weekly Investment Insights

Stocks continued their summertime blues as the sunny season formally came to an end last week. The S&P 500 fell nearly 3% last week and is now hovering near its June levels. Growth stocks, especially “The Magnificent 7” group of technology-oriented stocks, continue to sport robust year-to-date performance despite some recent struggles. However, the Dow Jones Industrial Average, Russell 1000 Value Index, and Russell 2000 Index of Small Cap stocks are barely hovering above their breakeven points for 2023. The surge in long-term interest rates, with the benchmark 10 Year U.S. Treasury Note ending the week at a 4.44% yield, has also erased the year-to-date gains for the Bloomberg Barclays Aggregate Bond Index.

Last week’s dour returns were driven by a number of factors, starting with central bank monetary policy. The Federal Reserve did pause (again) in its nearly two-year rate hike campaign last week, but signaled they were prepared to keep raising short-term rates if inflation remains above its 2% target. Futures markets are pricing in an almost 50% chance of another rate hike by year end. Financial markets are also starting to price in a “higher for longer” interest rate path. That is, *meaningful* short-term interest rate cuts may not occur until 2025. Meanwhile, the Fed continues its quantitative tightening (QT) program in the background, draining U.S. dollars from the global financial system.

Now that the summer “revenge spending” period is over, GDP projections for Q4 appear more subdued than those of Q2 and Q3. The “R word”, that is recession, is creeping up again in financial circles and media coverage. Oil prices continued their surge to over $90 a barrel, with prices at the pump crimping consumers’ budgets. Labor strikes continue to add to the financial market angst. The United Auto Workers (UAW) union seems far away from a deal in their negotiations with the “Big 3” automakers. Entertainment aficionados may be craving for new content by now as writers and actors continue their respective longstanding strikes. Breaking news over the weekend suggests the writers strike, at least, may be nearing an end.

Last week’s economic data was similarly downbeat. Reports on homebuilder confidence, housing starts, and building permits all suggested that higher mortgage rates, which now average well over 7%, are taking their toll on the housing market. The Conference Board’s Leading Economic Index (LEI) showed a decline for the 17th consecutive month, signifying that an upcoming recession cannot be ruled out. LEI typically declines about a year before a recession officially starts, but its longest span on record from dip to recession commencement is 20 months. S&P’s Purchase Manager Index (PMI) suggests a very modest expansion in the month ahead, once again putting the U.S economy one “black swan” away from entering a recession.

Looking ahead to this week’s economic calendar, a number of Federal Reserve Governors will be on the speaker circuit, as they often are after a recent Federal Open Market Committee (FOMC) meeting. Perhaps the most closely watched speech will be delivered by Fed Chair, Jay Powell, on Thursday in a “town hall” meeting with a group of educators. On Tuesday the S&P Case Shiller report will provide another measure of the strength, or lack thereof, in the U.S. housing market. Home prices are holding up despite high mortgage rates due to the dearth of inventory. Many homeowners feel “locked in” to their current residences for fear of losing their mortgage rates in the 2%-3% range. The Durable Goods report will also be released on Tuesday and will provide a reading of the appetite for businesses and individuals to buy “big ticket” items.

The Personal Consumption Expenditure (PCE) Index will be released on Friday. PCE is said to be the Fed’s preferred measure of inflation, ahead of the better-known Consumer Price Index (CPI). Persistently high PCE levels may further fuel the Fed’s higher for longer mantra. The Consumer Sentiment report will also be released on Friday. With falling asset prices, stubborn inflation, and gasoline prices now averaging almost $4.00 a gallon for regular at the national level, it is hard to fathom consumers suddenly turning cheerful. We are mindful of the historically volatile

September and October period for stocks, which we often navigate via intelligent diversification, and wish you a wonderful fall season.

Market Scorecard:	9/22/2023	YTD Price Change
Dow Jones Industrial Average	33,963.84	2.46%
S&P 500 Index	4,320.06	12.52%
NASDAQ Composite	13,211.81	26.23%
Russell 1000 Growth Index	2,685.91	24.45%
Russell 1000 Value Index	1,512.31	1.01%
Russell 2000 Small Cap Index	1,776.50	0.87%
MSCI EAFE Index	2,064.71	6.21%
US 10 Year Treasury Yield	4.438%	56 basis points
WTI Crude Oil	$90.33	12.20%
Gold $/Oz.	$1,944.90	6.27%

163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com

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