Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The MLK holiday shortened week coincided with the commencement of the World Economic Forum in Davos, Switzerland. This event brings together several global corporate titans, heads of prominent financial institutions, central bankers, academics and world leaders to discuss topical items from AI to global climate initiatives. Comments coming out of these meetings are highly scrutinized by investors for any signs that may impact world economies and markets.

One of the major topics that the financial community has been discussing for months prior to this gathering was the number and timing of interest rate cuts being considered by Chair Jerome Powell. Coming into 2024 there was a 79% probability of a March cut and six overall; this has now dropped to 52% and fewer cuts*. The drastic change comes on the heels of comments from Fed members Chris Waller, Jerome Bostic and ECB President Christine Lagarde calling for patience as the 2% inflation target, though clearly in sight, has yet to be reached. The economic data last week seemed to support this cautious approach. Retail sales rose 0.6% in December, the largest increase since September last year; jobless claims fell 18,000 to 187,000, the lowest in 16 months and the University of Michigan Consumer Sentiment survey for January jumped 9.1 points to 78.8, the biggest improvement since 2005. Given that the US economy is 70% consumer driven these results indicate that the consumer is strong and resilient, and the probability of an imminent easing seems optimistic. This apparent strength could indicate a market shift towards more economic growth requiring fewer rate cuts.

All of this, plus the postponement of a government shutdown pushed out until March, resulted in the 10-year yield backing up to 4.13% or 27 basis points YTD. Despite the rise, equities that began the week sluggishly ended with both the DJIA and S&P500 closing at record levels. On the week the DJIA rose 0.72%, the S&P 500 1.17% and the NASDAQ 2.26%. In the short-term investors are reverting to the early 2023 playbook emphasizing Technology and Communication Services sectors increasing 4.1% and 1.4% respectively. Semiconductors, as a subgroup, was the clear winner rising 7.87% led by Nvidia, Advanced Micro Devises and Tiawan Semiconductors. The laggards, not surprisingly, were Utilities down 3.66% and Real Estate falling 2.1% both vulnerable to higher rates then Energy declining 3.16%.

For the moment the messaging from the Equity and Fixed Income markets seems at odds with one another. The former is signaling that a Fed pivot is imminent, and a soft landing is the worst case, while the latter is heeding the Fed's more likely approach of "higher for longer". In any event, short of any surprises the rate tightening cycle appears to be over.

Corporate earnings led off the week in earnest with more banks and financials services reporting. The sector broadly has been mixed; the likes of JPMorgan and Goldman Sachs beating on better-than-expected capital markets results but all announcing large charge -offs to replenish the FDIC post SVB as well as higher provisioning for loan losses. The super-regionals that are less diversified, acknowledged net interest margin pressures persist, and Discover Financial reported higher than expected credit card delinquencies. Visa, Mastercard and AMEX have yet to report but the expectation is their comments on delinquencies will be more muted as the average FICO score is higher for their cardholders. Overall, with most financials announcing unspectacular results and rates moving marginally higher the broad bank index is down 2.6%.

Earnings reports broaden out beyond financials next week with JNJ, Netflix, P&G, Abbott Labs, Tesla, Intel, T-Mobile and Visa on deck. We also get the first read on 4Q GDP expected to increase a seasonally adjusted rate of 2% considerably lower than the 3Q 4.9% growth rate. For the year 2023 US GDP is expected at 2.4% YOY. On Friday, the release of the December PCE, the Fed's preferred measure of inflation, is forecasted to be 2.6%.

*Barron's

Core, ex food and energy, is seen rising 3% a bit lower than November and the YOY change running at 1.9% trailing 6 months.

With market's price/earnings multiple at 20x, companies need to deliver on earnings that are expected to grow approximately 11% in 2024. For the market to broaden as it did in 4Q'23 investors will need the Fed to follow through on easing; the timing and magnitude of which are uncertain.

Market Scorecard:	**1/19/2023**	**YTD Price Change**
Dow Jones Industrial Average	37,863.80	0.46%
S&P 500 Index	4,839.81	1.47%
NASDAQ Composite	15,310.97	2.00%
Russell 1000 Growth Index	3,144.55	3.04%
Russell 1000 Value Index	1,614.26	-0.93%
Russell 2000 Small Cap Index	1,944.39	-4.08%
MSCI EAFE Index	2,196.78	-0.50%
US 10 Year Treasury Yield	4.13%	27 basis points
WTI Crude Oil	$73.98	1.00%
Gold $/Oz.	$2,028.55	-1.00%

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