

Beacon Weekly Investment Insights

It was an eventful week last week that saw equity markets post mixed results. The S&P 500 was up 1.58% and the Nasdaq was also in positive territory to the tune of 3.40%, while the Dow Jones Industrial Average was down -0.64%, during a week that included the Fed interest rate decision, closely watched inflation data, and some high profile large-cap tech companies with better than expected earnings reports and well received updates. Small-cap stocks, as measured by the Russell 2000 index were down -1.04% for the week. These results, as well as the fact that the cap-weighted S&P 500 has outperformed the equal-weighted S&P 500 index for four out of the last five weeks, point to the narrow leadership we have again seen more recently.

Large-cap tech companies led the way as AI enthusiasm continues. Apple was up close to 8% for the week after the market viewed the company's updates at their Worldwide Developers Conference around the integration of AI into their products and services favorably. Broadcom closed the week up over 24% after reporting better than expected earnings, raising their revenue guidance off of strong demand for AI chips, and announcing a 10-for-1 stock split following on Nvidia's recent stock split announcement. Nvidia notched further gains as well, up 9% in the first full week of trading after affecting their 10-for-1 stock split. In addition, Adobe closed up over 14% last Friday which was its largest gain in over four years, after announcing better than expected earnings and raising revenue guidance, helping to allay concerns over the adoption of and the growth opportunity for their new AI based tools.

Last Wednesday saw the release of both the CPI (consumer price index) report in the morning, as well as the announcement of the Fed's interest rate decision later in the afternoon. Markets responded positively to what were better than expected inflation numbers, with the headline CPI reading flat for the month of May, relative to expectations for a 0.1% increase, and down from the prior month's 0.3% increase. Headline CPI also came in better than expected on a year-over-year basis, up 3.3% relative to expectations and the prior figure of 3.4%. Core CPI which strips out food and energy prices, increased 0.2% in May vs. expectations and the prior figure of 0.3%, and increased 3.4% year-over-year relative to expectations for a 3.5% increase. The lower than expected inflation figures helped to allay some concerns over reaccelerating inflation, and increase the odds that the Fed will begin to cut interest rates as early as September.

Although markets still closed on Wednesday in firmly positive territory, the enthusiasm around better than expected inflation readings was somewhat counterbalanced by a more hawkish tone from Chair Powell than was expected. The Fed kept the benchmark rate at 5.25%-5.50% as expected. However, median forecasts in the Fed's Dot plot were updated to show only one projected interest rate cut in 2024, which is two less than had been projected in March, amounting to a hawkish surprise for the market. It is important to note that the projections also moved one interest rate cut into 2025, increasing the total anticipated rate cuts in 2025 to four 0.25% cuts vs. the three cuts that had been projected.

As noted, PPI was released on Thursday and also showed lower than expected inflation readings. The headline PPI report showed a -0.2% decrease for May, significantly lower than the prior figure of 0.5% and less than expectations for a 0.1% increase. Year-over-year, PPI increased by 2.2%, also lower than expectations for 2.5% growth, and decelerating from the prior reading of 2.3%. Core PPI was flat for the month relative to expectations for 0.3% growth, and was up 2.3% year-over-year, also better than expectations for 2.4% growth. The lower than expected inflation readings, coupled with better than expected earnings for the most recent quarter, as well as expectations for accelerating earnings growth for the S&P 500 in the coming quarters, have continued to support the advance in equity markets.

This week's economic data (in what will be a shortened week for the Juneteenth holiday on Wednesday) includes the release of the closely watched U.S. retail sales report, housing starts, existing home sales, the S&P Flash U.S. Services and Manufacturing PMI reports, as well as the U.S. leading economic indicators report which is due out Friday. There will also be no shortage of Fed speak following the interest rate announcement last week.

Market Scorecard:	6/14/2024	YTD Price Change
Dow Jones Industrial Average	38,589.16	2.39%
S&P 500 Index	5,431.60	13.87%
NASDAQ Composite	17,688.88	17.84%
Russell 1000 Growth Index	3,655.00	19.77%
Russell 1000 Value Index	1,702.62	4.49%
Russell 2000 Small Cap Index	2,006.16	-1.03%
MSCI EAFE Index	2,306.41	3.14%
US 10 Year Treasury Yield	4.23%	35 basis points
WTI Crude Oil	\$78.45	9.49%
Gold \$/Oz.	\$2,349.10	13.38%



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