Beacon Trust
INNOVATING WEALTH STRATEGY

November 14, 2022

Beacon Weekly Investment Insights

There were a few key events driving markets last week, with the midterm elections being the key focus heading into the week. The S&P 500 advanced 1.5% over the course of Monday and Tuesday, with the markets keying in on the idea that Republicans would take the House with the Democrats retaining the Senate. With victories in key Senate races in Arizona and Nevada, Democrats are set to maintain a narrow majority in the Senate, with a runoff election for Georgia slated for December 6th. Control of the House remains undecided; however, it does appear that the Republicans will end up with a majority, resulting in a divided government as expected. Simply moving past the uncertainty created by the midterm elections tends to be a positive catalyst for the market, with a divided government typically being well received as it lessens the chances of any significant policy changes occurring.

After moving down a few percent on Wednesday, the market's attention shifted to the October CPI (consumer price index) report which was released last Thursday, and showed inflation easing more than expected. The headline CPI number rose by 7.7% year-over-year, moderating from 8.2% in the prior month and coming in lower than expectations of 7.9%. The monthly increase was 0.4%, the same reading as in the prior month and lower than expectations for a 0.6% increase. Core CPI also came in lower than expected, increasing 6.3% year-over-year, down from the prior reading of 6.6% and less than the expected increase of 6.5%. The monthly figure for Core CPI came in with an increase of 0.3%, down from the prior reading of 0.6% and less than the 0.5% increase that was anticipated. The meaningfully lower than expected inflation figures drove a downward repricing as far as expectations as to where the Fed funds rate will ultimately end up, driving a significant rally in equity markets and a move down in yields. The S&P 500 closed up 5.54% on Thursday, with stocks that have been disproportionately impacted by higher inflation and interest rates, such as technology stocks, outpacing the broader market as evidenced by the 7.35% increase for the Nasdaq on the day. The 10-year treasury yield saw a significant move down, closing the day at 3.83%, down from the prior day's close of 4.15%. The market followed through with the rally on Friday, with the S&P 500 up 0.92% on the day, and the Nasdaq again outpacing, closing up 1.88% on the day. The S&P 500 ultimately closed the week up 5.8%, with the Nasdaq up 8.7% for the week. Although a market rally off of lower than expected inflation figures stands to reason, the magnitude of the move up was undoubtedly magnified by short-covering (investors having to unwind overly bearish bets) and algorithmic trading.

The lower-than-expected inflation reading is welcome news to the Fed, however they have made it clear that no single data point will be sufficient for them to meaningfully shift their stance of continuing to tighten monetary policy, and that they will want to see several data points confirming a downward trend in inflation before they will more meaningfully consider doing so. Although now less than anticipated heading into the CPI report, the markets are still pricing in several more interest rate increases including a 0.50% increase in December, with the Fed funds rate now expected to end up in the 4.75%-5.00% range (currently 3.75%-4.0%). Labor market data releases, which have generally continued to underscore a strong jobs market, will also continue to serve as critical data points in terms of the Fed's monetary policy going forward.

Although we do not invest in cryptocurrency for our clients, we continue to monitor the on-going volatility in crypto markets amidst the fallout from the bankruptcy of crypto exchange FTX, in terms of the broader regulatory environment and any potential spillover effects to mainstream markets. In the face of on-going volatility and policy uncertainty, we continue to focus on crafting and managing well diversified portfolios and maintaining sufficient liquidity for our clients, with a continued focus on the long-term.

Roughly 91% of companies in the S&P 500 have reported earnings, with 69% of companies exceeding earnings expectations (lower than longer-term averages), and 71% exceeding revenue expectations. The blended earnings growth rate for the S&P 500 thus far is 2.2%, significantly lower than the 8%-9% earnings growth expectations that were put forward at the end of the 2nd quarter, and the lowest since Q3 of '20. We have discussed in prior write-ups that earnings expectations looked to be elevated/likely needed to come down for the quarter. We also believe this to be true with respect to next year's earnings for the S&P 500.

It will be a busy week for economic data releases, including the Empire state and Philadelphia Fed manufacturing indices, the PPI (producer price index), retails sales data, housing starts and existing home sales, and the LEI (leading economic index) all on tap.

Market Scorecard:	**11/11/2022**	**YTD Price Change**
Dow Jones Industrial Average	33,747.86	(7.13)%
S&P 500 Index	3,992.93	(16.22)%
NASDAQ Composite	11,323.33	(27.62)%
Russell 1000 Growth Index	2,296.49	(25.32)%
Russell 1000 Value Index	1,531.21	(7.52)%
Russell 2000 Small Cap Index	1,882.74	(16.15)%
MSCI EAFE Index	1,918.41	(17.88)%
US 10 Year Treasury Yield	3.82%	231 basis points
WTI Crude Oil	$88.96	18.28%
Gold $/Oz.	$1,769.40	(3.24)%

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