Beacon Trust
INNOVATING WEALTH STRATEGY

July 31, 2023

# Beacon Weekly Investment Insights

Equity markets continued their positive momentum last week, as readings continue to show inflation moderating alongside an economy that remains more resilient than expected, which is serving to further the "soft landing" narrative. In addition, and as we discuss in more detail below, 2nd quarter earnings have generally come in better than expected, including several high profile companies such as Alphabet, which saw a strong positive stock price reaction after reporting earnings last week. The S&P 500 finished last week up 1.0%, while the Nasdaq and Dow Jones Industrial averages were up 2.0% and 0.65%, respectively.

There was a variety of data released last week, including the Fed meeting and press conference, in which the Fed announced a 0.25% increase in interest rates as was widely expected. Although Chair Powell communicated that the Fed is very much leaving the door open to further rate hikes/tightening and will continue to be data dependent, the idea that the Fed is nearing the end of the rate hike cycle is also driving enthusiasm in markets. In addition, 2nd quarter GDP growth came in well above expectations at 2.4%, relative to expectations and the prior reading of 2.0%, serving to push out the widespread expectations for a recession heading into this year. The S&P "flash" U.S. Manufacturing and Services PMI Index data was released last week as well, which saw the Manufacturing PMI come in better than expected at 49.0 vs. expectations for 46.7, and the Services PMI coming in at 52.4 vs. expectations for a reading of 54. Any reading over 50 signifies expansion in the economy, while a reading below 50 signifies contraction.

Several reports on the housing front were also released last week. The S&P Case Shiller home price index showed that U.S. home prices rose for a fourth straight month, increasing by 0.7% in May, although moderating somewhat year-over-year with a decline of -1.7%. We continue to see the dynamic around strong demand and a lack of supply pushing housing prices up. New home sales have been increasing meaningfully as a percentage of broader home sales, as current homeowners have largely been hesitant to move with mortgage rates currently in the 7% range. With that said, new home sales did lose some momentum in the most recent month, coming in at 697,000 in June vs. expectations for 725,000, and pending home sales increased by 0.3% vs. expectations for a -0.5% decline.

Just over half of companies in the S&P 500 have reported thus far, and an above average 80% of companies have beaten earnings expectations (the 5-year average is 77%). However, beating expectations on the top line has proved to be more of a challenge thus far, with 64% of companies beating revenue expectations, vs. the 5-year average of 69%. As noted above, Alphabet is one example in which we have seen high profile companies beat expectations, resulting in a strong positive stock reaction. Other names in the digital advertising space such as Meta and Roku, with the latter closing up more than 30% after reporting earnings last Friday, also had strong results and provided better than expected outlooks in term of digital advertising, which is broadly in line with the idea of a more resilient economy than expected. This week will also see a significant amount of earnings releases, with the market focused on reports from the likes of Apple and Amazon.

From an economic data standpoint, the focus this week will be on jobs data, with the ADP employment report and U.S. nonfarm payrolls reports due out on Wednesday and Friday, respectively. Other key economic data include the release of the ISM Manufacturing and Services indices, due out on Tuesday and Thursday, respectively.

| Market Scorecard: | 7/28/2023 | YTD Price Change |
|---|---|---|
| Dow Jones Industrial Average | 35,459.29 | 6.98% |
| S&P 500 Index | 4,582.23 | 19.34% |
| NASDAQ Composite | 14,316.66 | 36.79% |
| Russell 1000 Growth Index | 2,858.32 | 32.44% |
| Russell 1000 Value Index | 1,603.10 | 7.08% |
| Russell 2000 Small Cap Index | 1,981.54 | 12.51% |
| MSCI EAFE Index | 2,196.24 | 12.98% |
| US 10 Year Treasury Yield | 3.95% | 7 basis points |
| WTI Crude Oil | $80.58 | 0.40% |
| Gold $/Oz. | $1,960.40 | 7.35% |

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