

Beacon Weekly Investment Insights

U.S. stocks continued to hit all-time highs on the heels of strong earnings and a somewhat dovish statement by the Federal Reserve in the wake of their Federal Open Market Committee meeting last week. Tesla may be the poster child of the recent surge in stock prices. Its stock has increased in value from \$780 per share to \$1,222 per share in a single *month*, essentially gaining the equivalent of the entire market cap of Berkshire Hathaway, one of the most profitable companies in the world.

The Fed finally went ahead with their long-discussed tapering plan. They plan to reduce their asset purchases starting at \$15 billion per month, relative to the current pace of \$120 billion per month. At this rate of tapering, the Fed is tentatively estimated to end their asset purchases during the summer of 2022. Only then will they consider raising short-term interest rates. The financial markets cheered the news since their favorite acronym, TINA, is likely still the theme of the day. That is, There Is No Alternative to stocks in a world with interest rates still close to 0%. Seasonally, the November and December time period is usually a positive one for stocks, rising at least 78% of the time for each month over the past 30+ years.

Pfizer continued to gain on positive COVID-19 related news. Two weeks ago, the FDA approved Pfizer's vaccine in children, ages 5 and above. However, last week its stock surged on its antiviral pill to treat COVID-19, cutting hospitalization and death risk by 90%, greater efficacy than a similar product from Merck. These and other developments led former FDA Commissioner, Scott Gottlieb, to state that the U.S. should be moving from a COVID-19 pandemic to an endemic within a couple of months. That is, mutated forms of COVID-19 will likely have some localized hot spots, akin to the flu, rather than being the national scourge we have dealt with for nearly two years.

Another reason for the ebullient stock market was the signing of the long awaited bipartisan \$1.2 trillion "physical infrastructure" bill. This bill focuses on bridges, roads, tunnels, airports, and other public transit, as well as clean water and broadband. The \$1.75 trillion "social infrastructure" bill is still in the throes of vigorous debate, with much of the rancor focused on the taxes that must be raised to pay for it and its impact on long-term debt.

The earnings calendar is still fairly active this week. Berkshire Hathaway reported over the weekend and PayPal and Coinbase will report later this week. Berkshire, still run by the nonagenarian Warren Buffett, is one of the few successful conglomerates left in the world. Hence, it provides a window into the broader U.S. economy. Berkshire cited supply chain constraints, storm damage impacting insurance profitability, and the spread of the delta variant of COVID-19 as factors that crimped its profitability. Yet, the firm ended the quarter with a record \$149.2 billion in cash.

PayPal and Coinbase will provide a window into the more narrowly focused, but fast-growing, Fintech economy. Regarding the traditional economic calendar, much of the focus will be on the Consumer Price Index (CPI) report released on Wednesday. We still expect inflation readings well above the 2% long-term Fed target, but some details of the report will provide a glimpse into the transitory or more permanent nature of inflation. A survey on consumer sentiment will be released on Friday. We expect rising sentiment based on improving employment trends, progress on the war against COVID-19, and ebullient asset prices. However, sentiment levels are still well below those reached prior to the onset of the COVID-19 pandemic.

Market Scorecard:	11/5/2021	YTD Price Change
Dow Jones Industrial Average	36,327.95	18.69%
S&P 500 Index	4,697.53	25.07%
NASDAQ Composite	15,971.59	23.92%
Russell 1000 Growth Index	3,069.88	26.45%
Russell 1000 Value Index	1,642.50	21.70%
Russell 2000 Small Cap Index	2,437.08	23.41%
MSCI EAFE Index	2,373.27	8.75%
US 10 Year Treasury Yield	1.453	54 basis points
WTI Crude Oil	\$81.17	67.64%
Gold \$/Oz.	\$1,820.00	(4.29%)

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