Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

It has been a rough month for equity investors. As the month of April came to a close, S&P 500 declined by 9%, while the tech-heavy Nasdaq lost 13%, its worst month since 2008. Rising interest rates, persistently high inflation, concerns about economic growth, and some earnings misses all weighed on stocks and created concerns about a possible recession ahead.

We learned last week that U.S. economic growth declined unexpectedly by 1.4% in the first quarter in a sharp reversal from the 6.9% growth rate in the fourth quarter. Lower exports, pullback in defense spending, decline in government spending, and a deceleration in private inventory investment all weighed in on the Gross Domestic Product (GDP) during the first three months of the year. On a bright note, consumer spending, which comprises 70% of U.S. GDP, held up fairly well during the quarter, rising 2.7%. Business spending, a much smaller part of the economy at 15%, grew at a strong 9.2% rate as well. Despite the slowdown in the first quarter, we assign a low probability to a recession in 2022, although a shallow and short-lived recession cannot be ruled out.

The war in Ukraine saw no signs of easing up as it continues into a third month. In fact, Russia stepped up pressure by escalating the attacks in southern and eastern Ukraine. In a move that surprised Western allies, Russia said it would cut its gas supplies to Poland and Bulgaria after those two countries refused to pay for gas supplies in rubles, as Russia demanded. The decision puts pressure on the European Union to find alternative suppliers of natural gas, as more countries could see cuts to their gas supplies. Currently, Europe imports roughly 40% of its natural gas from Russia, and the continent could be pushed into recession if Russia shuts off the gas supplies to Europe completely.

Home prices increased by 19.8% in February from a year ago, according to the Case-Shiller national home price index. Phoenix, Tampa, and Miami saw the fastest price gains with 30-33% appreciation. These data points are tied to contracts of purchase that took place 3-4 months ago, hence they do not reflect the significant slowdown in sales over the past few months as a result of the sharp increase in mortgage rates. Home prices typically lag sales by about 6 months and we expect the housing market to cool off as we look ahead.

The week was full of earnings reports from corporate America, especially Big Tech, and the results were mixed. Alphabet, the parent company of Google and YouTube, reported weaker than expected revenue and earnings compared to a year ago. Their ad revenue came in lower than expectations, as users spent less time at home using Google services, and TikTok captured a growing share of the social media market. Microsoft beat expectations on both the top and bottom lines with Cloud services, Office software, and Windows products all surpassing expectations. Meta, the parent company of Facebook and WhatsApp, reported better than expected profit in Q1, following a disappointing quarter in their 4th quarter report. Its daily active users rose slightly from 1.93 billion to 1.96 billion. Amazon recorded an $8b loss on its Rivian investment, an electric vehicle company, and issued a revenue forecast that trailed analysts' estimates. Apple beat revenue and earnings estimates with the company's products and services seemingly insulated from the macroeconomic concerns. The company did warn investors however that supply constraints in the current quarter could hurt sales by up to $8 billion. Boeing, not part of the Big-Tech space, also announced earnings last week. It reported a wider loss and lower revenue than analysts expected due to higher production costs and one-time charges related to the war in Ukraine.

In a continuing saga over who controls Twitter, one of the biggest social media outlets, the company's board accepted Elon Musk's offer to buy the company and take it private in a $44 billion deal that is collateralized by Musk's Tesla and SpaceX shares. This came only a week after the board initially adopted a so-called "poison pill" to fend off a hostile takeover and allow other shareholders to buy the Twitter stock at a discount should Musk acquire more than 15% of the outstanding shares. The deal is still subject to the approval of the Twitter shareholders and regulators, so it's hard to say that it's a "done deal".

The U.S. Senate finally confirmed Lael Brainard last week to be the Federal Reserve's next vice chair, a powerful position as a key deputy to the Chairman Jerome Powell. Despite her views against rolling back certain financial regulations, Brainard's promotion is unlikely to change the Fed's plans to raise interest rates to stamp out inflation.

The Fed's preferred measure of inflation, the personal consumption expenditures index (PCE), was released on Friday. The core PCE, which excludes the volatile food and energy prices, jumped 5.2% in March, slightly below the 5.3% reading in February, which was the highest reading since 1983. The overall PCE index, including food and energy prices, accelerated by 6.6%, the fastest pace since 1982. Inflation running at a much higher rate than the Fed's comfort level, makes it almost a certainty that they will increase short-term borrowing costs by 50bps when they meet this week.

The highlight of the week will indeed be the Federal Reserve meeting, which will conclude with a policy statement on Wednesday afternoon. Manufacturing and services PMI numbers will also be released this week, giving us another peek at the underlying strength of the U.S. economy. The week will end with the nonfarm payrolls report for April on Friday. It is also noteworthy that we are entering the "Sell in May and go away" period of historically weak stock market returns lasting until October. However, the "April showers" may have brought forward some of those challenging times.

Market Scorecard:	**4/29/2022**	**YTD Price Change**
Dow Jones Industrial Average	32,977.21	(9.25)%
S&P 500 Index	4,131.93	(13.31)%
NASDAQ Composite	12,334.64	(21.16)%
Russell 1000 Growth Index	2,453.23	(20.22)%
Russell 1000 Value Index	1,541.02	(6.93)%
Russell 2000 Small Cap Index	1,864.10	(16.98)%
MSCI EAFE Index	2,033.70	(12.94)%
US 10 Year Treasury Yield	2.93%	142 basis points
WTI Crude Oil	$104.69	39.20%
Gold $/Oz.	1,911.70	4.54%

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