Beacon Trust
INNOVATING WEALTH STRATEGY

August 16, 2021

Beacon Weekly Investment Insights

Although much of the weekend headlines showed the Taliban's dramatic capture of all Afghan cities and U.S. evacuation of Kabul, financial markets rarely have a permanent loss from such non-economic events. Nonetheless, we monitor geopolitical developments closely, as they impact the short-term market volatility and the risk premium attached to risk assets. We hope there is no loss of human life as a result of the change of power in Afghanistan and the U.S. evacuation efforts.

The release of several inflation reports dominated the economic news of last week. Consumer price index (CPI) increased by 5.4% year-over-year in July, matching the June figures, although the month-over-month numbers showed a slowdown. Core inflation, which strips out the volatile food and energy prices, went up by 4.3% over the past year, slightly lower than the 4.5% posted in the prior month. There is some moderation in inflation in areas such as used car prices, which had increased sharply as the economy re-opened. After climbing by 10% in June, used car prices ticked up by only 0.2% in July. Nonetheless, consumer inflation is still elevated.

Producer price index (PPI) jumped 7.8% year-over-year, higher than the 7.3% rate expected by economists. Without the volatile food and energy prices, PPI increased by 6.2%, still higher than the 5.6% consensus.

One component that has yet to factor into the inflation numbers is the rent category. The Labor Department estimates rents based on new leases as well as a measure called "owners' equivalent rent", which estimates how much homeowners would pay to rent their homes. While home prices have increased by 15% on average across the nation over the past year, rent prices, which make up one-third of the official consumer price index (CPI), increased by only 2%, according to the CPI. This significant gap between housing prices and rent prices is one of the largest historical differences ever, and makes us question whether the inflation pressures will ease up in coming months if the housing markets remain strong.

All eyes now turn to the Federal Reserve for signals on when and how much they might begin to taper their bond purchasing program as the first step in monetary tightening. While some of the price increases we have seen in the inflation reports may be permanent, other increases are due to a combination of pent-up demand for travel, restaurants, etc. and supply shortages, which are expected to ease in coming months. We expect the Fed to announce their bond taper in a month and start taking their foot off the gas pedal soon thereafter.

Another important development of the week was the passage of the U.S. physical infrastructure bill in the Senate. The roughly $1 trillion package was negotiated and agreed upon by a bipartisan group of senators, and passed by a final vote of 69-30 in the Senate. The bill includes about $550 billion of new spending on roads, bridges, sea ports, airports, power grid, water, broadband, and electric vehicle chargers over the next 5 years. The legislation now goes to the House where it could be subject to further tweaks.

University of Michigan's consumer sentiment index showed a steep drop on Friday as the index declined by 13% from 81.2 in July to 70.2 in August, reflecting diminished hopes that the pandemic may end soon.

Covid cases continued to surge as the highly contagious Delta variant continued to spread around the nation, especially in areas with low vaccination rates. This could possibly delay the return to normal for most Americans. The Covid variant and breakthrough infections also necessitated the CDC to recommend booster shots to people with weak immune systems to strengthen their antibody response as the vaccine efficacy diminishes over time.

Financial markets were not deterred by the weak sentiment as the S&P 500 index finished the week at 4,468, hitting a new high. The Dow Jones Industrial Average also finished the week at an all-time high level of 35,515.

Looking ahead to this week, we will focus on the important retail sales number that will be released Tuesday morning, as consumer spending makes up 70% of the U.S. GDP. We will also hear from many retailers including Walmart, Target, Home Depot, Lowe's, Macy's, Kohl's, TJX, and Ross Stores. We will watch not only their past earnings, but also their future guidance, how they deal with rising input prices, and any changes in consumer behavior. Industrial production for July, which measures manufacturing output, will also be released during the week. The consensus view is an increase of 7.2% from the prior year.

Market Scorecard:	**8/13/2021**	**YTD Price Change**
Dow Jones Industrial Average	35,515.38	16.04%
S&P 500 Index	4,468.00	18.95%
NASDAQ Composite	14,822.90	15.01%
Russell 1000 Growth Index	2,852.54	17.50%
Russell 1000 Value Index	1,604.54	18.89%
Russell 2000 Small Cap Index	2,223.11	12.57%
MSCI EAFE Index	2,379.00	10.78%
US 10 Year Treasury Yield	1.29%	37 basis points
WTI Crude Oil	$68.44	41.06%
Gold $/Oz.	$1,778.20	(6.07%)

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