October 31, 2022

Beacon Weekly Investment Insights

The S&P 500 increased 4% last week, capping off a stellar month and trimming its year-to-date losses to roughly 18%. The year-to-date numbers are more impressive for Value stocks and the venerable Dow Jones Industrial Average. Each of these indexes is down less than 10% in 2022, a loss within the risk tolerance of most equity investors. Of course, the difference between the S&P 500 and these other indexes is the large weight that Technology stocks comprise in the S&P. Last week, both Meta Platforms, formerly known as Facebook, and Amazon.com plunged double digits in a single day, after reporting disappointing earnings outlooks. Microsoft and Alphabet, formerly known as Google, also fell more than 5% each after announcing uninspiring earnings. Apple came to the rescue with an earnings report, which upon further reflection, was pretty good, especially given the ongoing weakness in China. Apple fell 7% after-hours on Thursday, but somewhat remarkably closed up 7% by the close of Friday.

Although dramatic stock market movements may provide some investors with whiplash and stress, some patterns appear to be emerging. Firms reliant on advertising, such as Meta and Google, remain under some pressure. Firms with an international clientele, such as Microsoft, are being negatively impacted by the strong dollar. Earnings reports from Visa and American Express suggest that the affluent customer is holding up reasonably well, but firms catering to a broad cross-section of buyers are negatively impacted by consumers who are cutting discretionary spending in a bid to battle high levels of inflation. Of course, there are exceptions to the analysis noted above, with international titan, Caterpillar, reporting strong earnings, and fast-food giant McDonald’s hitting an all-time high in its stock price.

Another reason for the recent stock market rally was due to the modest decline in long-term interest rates. Over the past two weeks, the yield on the benchmark 10-Year U.S. Treasury note has dropped from 4.3% to 4.0%, suggesting that the Federal Reserve may take a more measured pace to its rate hike path after its Federal Open Market Committee meeting this week. It is a near lock that the Fed will raise its short-term Federal Funds Rate 0.75% on Wednesday. However, the rate hike for its December meeting is a coin flip, according to futures prices, between 0.5% and 0.75%. The consensus opinion is that the Fed will pause after its December meeting to assess the impact on its rate campaign over the past 6+ months on the economy.

The preliminary GDP growth estimate for Q3 came in at a surprisingly robust +2.6%, surpassing the 2.3% consensus estimate. Q3, of course, included the bulk of the summer season, which benefited from much pent-up demand from the COVID pandemic that engulfed our lives for a substantial period of time. The positive GDP growth print for Q3, snapped a two-quarter losing streak and ended the “unofficial” or rule-of-thumb definition of a recession. We are not yet in the camp that the economy is off to the races and are leaning towards the view of a mild recession commencing within the next few months. Nevertheless, we welcome any period of economic growth, regardless of its duration.

In addition to the important Fed meeting discussed above, a number of other relevant economic reports will be released this week. The Unemployment Report will be released on Friday, with the prior month’s report showing an unemployment rate of 3.5%, a reading near a 50 year low. Why this number is of particular importance is that most economists believe the unemployment rate must rise in order to get inflation to approach the Fed’s 2% target rate. If the unemployment rate stays at 3.5%, or even drops, the Fed may take a more hawkish stance in its subsequent comments, roiling asset prices.

The Institute for Supply Chain Management (ISM) conducts a monthly survey of buyers or purchasing managers. The ISM Manufacturing Report will be released on Tuesday and the ISM Non-Manufacturing Report (aka ISM Services) will be released on Thursday. The prior readings of each of these reports painted a picture of a decelerating economy. If the numbers are stronger than expected, it may once again result in a rise in intermediate to longer-term interest rates and pour cold water on the 10% rally off the recent market lows a few weeks ago.

Market Scorecard:	**10/28/2022**	**YTD Price Change**
Dow Jones Industrial Average	32,861.80	(9.57)%
S&P 500 Index	3,901.06	(18.15)%
NASDAQ Composite	11,102.45	(29.04)%
Russell 1000 Growth Index	2,260.73	(26.48)%
Russell 1000 Value Index	1,482.62	(10.46)%
Russell 2000 Small Cap Index	1,846.92	(17.74)%
MSCI EAFE Index	1,748.92	(25.13)%
US 10 Year Treasury Yield	4.010%	250 basis points
WTI Crude Oil	$88.38	17.12%
Gold $/Oz.	$1,648.30	(9.95)%

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