Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The focus this week seemed to be on the FOMC meeting but not so much for what the announcement would be, but the tone that the Fed Chair would have at the subsequent press conference. Investors and markets were anticipating “hawkish” commentary and the fear that cuts would be off the table for 2024; not to mention the possibility of a pivot from pause to cuts to hikes. Fortunately, Chair Powell, clearly stated when announcing that rates would remain unchanged @ 5.25-5.50% that the economy was expanding at a solid pace; progress is being made on inflation but remains stalled and labor markets are strong. He stressed that the dual mandate to promote full employment & stable prices remains elusive and not to expect rate cuts until it “has gained greater confidence that inflation is moving sustainably towards 2%”. The key comment, however, was that an increase in rates was unlikely; a relief to the markets as they reversed course rising into the close on Wednesday.

Some of dovish tone came as a bit of a surprise given some of the strength in employment data prior to the meeting. The Employment Cost Index (a measure of where wages are headed) rose 1.2% in 1Q, with consensus being 1%, up from 0.9% in the 4Q2023.This was the fastest quarterly pace since late 2022. This was followed by ADP Private Payrolls, rising 192,000 v 175,000 estimate and the March revision of 208,000 up from 184,000. One positive in the announcement was that the wage component remained steady. Subsequently, the US Bureau of Labor Statistics reported 8.5mil job openings v an expected 8.7 mil indicating a softening despite the high number of openings overall. Continuing claims for unemployment benefits held steady at lower levels, signaling that the labor market remains tight. Initial claims were unchanged at a seasonally adjusted 208,000 for the week ending April 27th. Polled economists had forecasted 212,000. Claims have been bouncing around 194-225,000 throughout the year. Though demand for labor appears to be softening; layoffs remain very low as employers want to hold onto their staff following the post-Covid challenges of finding qualified workers. This was confirmed by a separate report from outplacement firm Challenger, Gray & Christmas showing US-based companies announced 64,789 job cuts in April, a 28% drop from March. Planned layoffs were 3.3% lower compared to a year ago. So far this year, employers have announced 322,043 job cuts down 4.6% from the same period last year. The finale for the week was Friday’s April non-farm payrolls report which came in better then expected at 175,000 vs the 240,000 estimate and 303,000 for the prior month. The average run rate is approximately 240,000/month. The unemployment rate was 3.9% v 3.8% and this is the 27th consecutive month under 4%. Private sector payrolls were 167,000, the labor force participation rate was 62.7% and average hourly earnings ticked up 0.2% m/m v 0.3% est. and up YoY 3.9% v 4.0% est. Surprisingly, wage gains were less than anticipated as nobody expected this which is a positive for inflation. Over the last 3 months AHE’s is 2.8%; this is the weakest pace since March 2021. Over the last year it is just below 4%. Given labor productivity, wage inflation figures are consistent with the Fed’s long-run inflation objectives. Healthcare, Transportation and Warehousing saw the strongest gains and lower wage jobs were the big winners. Overall, this was a sign that labor demand is softening but jobs are being created at a decent pace. Net/Net cuts are still in play in 2024 though the number and timing remain a mystery.

Other non-employment related announcements during the week were Consumer Confidence being weaker than expected at 97 v 103.5 est, Manufacturing & Services PMI both hovering around 50 evidencing little in the way of growth or contraction and Factory Orders rising 1.6% v 1.7% expected. Finally, mortgage applications declined 2.3% following 2.7% decline a week ago. Clearly, a direct reflection of stubbornly high borrowing cost and lack of supply.

Turning to the markets, it was a volatile week for both equities and fixed income but, happily, both ended on a strong note especially coming off a difficult April where both the S&P and Nasdaq declined 4+% and the 10- year treasury yield increased 35bpts from 4.33% to 4.68%. For the week just ended the DJIA was up 1.14%, the S&P up 0.5% and the Nasdaq rising 1.4%. The markets responded favorably to the Fed commentary and corporate earnings that

continue to be strong. To date, 77% are beating on the bottom line and 61% on revenues. Some companies are witnessing pushback on price increases that will probably be reflected in margins going forward.

The most anticipated announcement came after the close on Thursday. Apple saw revenues decline 4% YoY or the fifth decline in the past 6 quarters. The stock was already down 10% as investors braced for disappointment. Product sales(hardware) declined 10% QoQ led by iPads, iPhones, and wearables each down double digit. Offsetting this was a 14% growth in Services which are 22% of revenues. The silver lining was China was better than expected, that AI will be a major focus at the upcoming Worldwide Developers Conference in June, and Apple's $110 billion stock repurchase and 4% dividend increase (12 consecutive years of increases) which drove the stock up 7%.

In the coming week there will be a lot of Fed speak and this can sometimes be market moving as committee members will attempt to clarify Powell's remarks to better manage investors expectations. Earnings will be out on Disney, Uber, Airbnb, Emerson Electric, & Trade Desk to name a few.

Market Scorecard:	**5/3/2024**	**YTD Price Change**
Dow Jones Industrial Average	38,675.68	2.62%
S&P 500 Index	5,127.79	7.50%
NASDAQ Composite	16,156.33	7.63%
Russell 1000 Growth Index	3,335.35	9.30%
Russell 1000 Value Index	1,704.07	4.58%
Russell 2000 Small Cap Index	2,035.72	0.43%
MSCI EAFE Index	2,309.49	3.25%
US 10 Year Treasury Yield	4.58%	66 basis points
WTI Crude Oil	$78.11	15.97%
Gold $/Oz.	$2,294.45	14.66%

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