Beacon Trust
INNOVATING WEALTH STRATEGY

July 10, 2023

Beacon Weekly Investment Insights

After a strong first half of the year which saw the S&P 500 up 15.9%, the Nasdaq up 31.7%, and the Dow gaining 3.8%, equity markets retreated back somewhat to start the 2nd half of the year. The S&P 500 finished last week down -1.1%, while the Nasdaq and Dow Jones Industrial averages were down -0.90% and -1.9%, respectively. Last week saw the release of several key economic reports, including the ISM Manufacturing and Services PMI reports, the ADP employment and U.S. nonfarm payrolls reports, as well as the minutes from the Fed's June meeting. The ISM Manufacturing index report came in lower than expected with a reading of 46% vs. expectations for 47.3%, and down from the prior month's reading of 46.9%. Any reading below 50% signals contraction, with the index now signaling broad weakness in the industrial side of the economy for the eight months in a row. However, the services sector, which is much larger and accounts for more than two-thirds of the broader economy, has been strengthening for 6 months now. The latest reading came in at 53.9% vs. expectations for 51.3% and the prior reading of 50.3%, helped by strength in new orders, and continuing to signal broader expansion in the services sector. At the same time, a measure of prices paid by businesses for inputs fell to a three year low, suggesting that services inflation will continue to cool.

The Fed's hawkish tone in the minutes from the June meeting in which Fed officials continued to stress the need to maintain a "restrictive stance" and guided for further rate hikes, as well as significantly higher than expected payrolls growth in the ADP employment report that was released Wednesday, had served to increase the odds of a 0.25% rate hike in the next Fed meeting to roughly 95%. The odds also increased for a second 0.25% rate hike at some point this year. The ADP employment report showed the U.S. private sector adding 497,000 jobs in June, more than double the forecast for 220,000. However, in another resounding reminder that the ADP employment report is often not indicative of the U.S. nonfarm payrolls report, the latter came in lower than expected last Friday. The U.S. nonfarm payrolls report showed 209,000 jobs added in June, vs. expectations for 240,000 jobs, and down significantly from the prior reading of 339,000. Weaker than expected jobs numbers generally carry the perception in markets of making it less likely, on the margin, that the Fed will be able to hike interest rates as much as they have communicated. With that said, the weaker than expected payrolls number of Friday did not serve to alter the odds of 0.25% rate hike in the upcoming July meeting which continued to stand at roughly 95%, likely also a function of the fact that wages rose 4.4% from a year ago, which was slightly higher than expectations. The unemployment rate ticked down by 0.1% to 3.6% as expected.

The 2nd quarter earnings season will begin in earnest this week, with large banks such as J.P. Morgan and Citigroup set to report at the end of the week. Expectations for broader S&P 500 earnings heading into Q2 are for a -6.8% decline, essentially on par with the decline in earnings that was expected heading into Q1 earnings. It is important to note that although Q1 earnings for the S&P 500 did end up in negative territory, the decline of roughly -2% was significantly less than expected. As we look towards the 2nd half of the year, earnings expectations begin to improve with Q3 earnings expected to be slightly positive, and Q4 earnings expected to grow by close to 8%. Earnings expectations for calendar year 2024 also look more favorable, with current expectations calling for low double digit earnings growth (these estimates will of course vary/be adjusted over time). Ultimately, the economy has proved more resilient than expected, and the expected improvement in the earnings picture is interesting to note relative to the broad-based expectations for an economic slowdown. We will continue to provide updates throughout the earnings season. With that said, it's important to note that a significant amount of the expected earnings growth is concentrated within the large-cap tech names that have been performing well and are expected to benefit from AI and other growth drivers in the coming quarters. With all of the cross currents and uncertainties that remain, we continue to believe that our clients are best served by investing in a diversified portfolio that is structured to meet their specific needs, maintaining a long-term focus, and ensuring that appropriate levels of liquidity are maintained.

The focus this week will be on inflation data, with the CPI and PPI reports scheduled to be released on Wednesday and Thursday, respectively. Consumer sentiment data is due out on Friday, and there will be several Fed speakers on the circuit throughout the week.

Market Scorecard:	**7/7/2023**	**YTD Price Change**
Dow Jones Industrial Average	33,734.88	1.77%
S&P 500 Index	4,398.95	14.57%
NASDAQ Composite	13,660.72	30.52%
Russell 1000 Growth Index	2,739.74	26.95%
Russell 1000 Value Index	1,537.97	2.73%
Russell 2000 Small Cap Index	1,864.66	5.87%
MSCI EAFE Index	2,087.72	7.40%
US 10 Year Treasury Yield	4.07%	19 basis points
WTI Crude Oil	$73.86	-7.97%
Gold $/Oz.	$1,932.50	5.82%

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