Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Equity markets finished last week in positive territory with the S&P 500 closing up 0.70% to snap a 3-week losing streak, and the Nasdaq finishing the week up 1.5%. However, the Dow Jones Industrial Average was the exception, closing down roughly -0.5% for the week. Amidst an economy that continues to be more resilient than anticipated, concern over the possibility of inflationary pressures starting to build again, and focus on the possibility of higher rates for longer, the 10-year treasury yield has increased significantly in a short period of time. The 10-year yield started the month of August at 3.9% and moved up to what was a 16-year high of 4.34% last week, before closing the week at 4.23%. The equity market has been resilient in the face of rapidly rising rates thus far, with earnings by and large having come in better than expected for the 2nd quarter. However the significant move up in yields is something to continue to be mindful of in terms of potentially putting pressure on equity markets, particularly longer duration equities such as tech stocks that have driven the market thus far, and have stretched valuations. This dynamic was on display in equity markets last Thursday. Strong earnings from Nvidia, which we talk about in more detail below, initially served to help boost tech stocks and broader equity markets last Thursday. Markets eventually reversed course after hawkish comments from Fed officials, including the likes of Boston Fed President Susan Collins who said it was "extremely likely" that the Fed will need to hold interests rates higher for longer, and may need to hike rates a little further.

Markets were also focused on Chair Powell's comments last Friday morning from The Jackson Hole Economic Symposium. As expected, the speech was largely neutral and did not provide too much in the way of new information. Importantly, Chair Powell reiterated that the Fed remains committed to its 2% inflation target and will continue to assess economic data and the path of inflation in determining how long policy needs to remain restrictive/if further tightening is necessary, and that the Fed will "proceed carefully." Last week also saw the release of both existing and new home sales data. The reports continued to bear out the trend we have been seeing with a decline in existing home sales, driven by a lack of inventory as a result of homeowners not wanting to move and have to swap a 3% or 4% mortgage for current 30-year mortgage rates, which topped 7.3% last week amidst the rapid increases in the 10-year treasury yield. The lack of existing home supply has driven a consistent increase in demand for new homes thus far. However, weekly mortgage application volume recently dropped off meaningfully, in a sign that challenges around affordability as a result of the dual effect of higher prices and higher interest rates may be starting to more meaningfully weigh on demand.

The overwhelming majority of the companies in the S&P 500 have reported 2nd quarter earnings, with an above average number of companies having beaten earnings expectations, but a below average number beating revenue expectations. This in part reflects the disinflationary trend which has in turn brought down nominal revenues for companies. However, lower costs/input prices for corporations that have concomitantly maintained pricing power with customers, have served to allow many companies to maintain or improve profit margins.

Nvidia's earnings report last week was far and away the largest focus for markets. Nvidia has been the prime example of companies that are benefiting from/are expected to benefit from the growth in AI computing. Expectations were very high going into the earnings report, with the stock having tripled year-to-date heading into the print, and with its status as a barometer for the broader AI driven rally in equity markets. Nvidia met and exceeded those high expectations, with revenue more than doubling, earnings having increased five-fold on a year over year basis, and revenue guidance that was substantially above consensus estimates. Nvidia's CEO, Jensen Huang, detailed that there is roughly $1 trillion in data center infrastructure that is in the early stages of upgrading/migrating from general purpose computing to accelerated computing and infrastructure that can support generative AI. The report served to reassure investors that the AI growth opportunities are in fact tangible and substantial.

A variety of retail earnings reports were also released last week, detailing a mixed picture. One theme that emerged from several retailers including the likes of Dick's Sporting Goods, Foot Locker, and Dollar Tree which traded down after reporting, was the impact on earnings from theft, which has become more of a concern recently. On the other hand, some retailers have been faring relatively well in the current environment. Walmart reported better than expected numbers and raised their full year revenue and earnings guidance. In addition, some retailers in the off-price channel, such as TJ Maxx, also reported strong numbers, and that they are benefiting from a more cost conscious consumer.

This week will be an eventful one from an economic data standpoint, and one that the Fed will be paying close attention to. S&P Case-Shiller home price index and consumer confidence data are set to be released on Tuesday. Wednesday will see the release of the ADP Employment report, which again has tended to diverge substantially from the more closely watched U.S. nonfarm payrolls report. Revised Q2 GDP numbers, as well as pending home sales data will also be released on Wednesday. Personal income and spending numbers, and importantly Core PCE, which is the Fed's preferred measure of inflation, will be released on Friday. Finally, the U.S. nonfarm payrolls report is also due out on Friday, along with ISM Manufacturing data.

Market Scorecard:	**8/25/2023**	**YTD Price Change**
Dow Jones Industrial Average	34,346.90	3.62%
S&P 500 Index	4,405.71	14.75%
NASDAQ Composite	13,590.65	29.85%
Russell 1000 Growth Index	2,741.41	27.02%
Russell 1000 Value Index	1,539.42	2.83%
Russell 2000 Small Cap Index	1,853.63	5.25%
MSCI EAFE Index	2,053.48	5.64%
US 10 Year Treasury Yield	4.23%	35 basis points
WTI Crude Oil	$79.83	-0.54%
Gold $/Oz.	$1,939.90	6.23%

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