Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Nearly all investors are happy to put 2022 behind them with most stock and bond indexes down double-digits for the calendar year. Stocks ended the week down a shade with the S&P 500 falling only 0.14%. However, this mild drop pales in comparison to the 19.4% loss that the S&P 500 experienced over the full calendar year, its worst performance since the Great Recession of 2008.

Bonds, usually a safe haven, didn't perform much better. The widely followed Bloomberg Barclay's Aggregate Index lost 13% in 2022, its biggest loss on record. Although a 13% loss is certainly better than a 19% loss, a drop of that magnitude is particularly painful when it is supposed to be the "low risk" segment of a diversified portfolio. Investors who extended themselves out on the yield curve early in 2022, likely faced even larger fixed income losses. The 30 Year U.S. Treasury Note lost more than 30% over the calendar year.

The reasons for the stock and bond losses are plentiful, but surging inflation and, in parallel, an especially hawkish Federal Reserve (Fed) were among the main culprits. The Federal Reserve increased interest rates 4.5% over the full calendar year, its most aggressive rate tightening cycle since the early 1980s. Russia's invasion of Ukraine exacerbated inflation pressures, especially in the commodity sector.

Speaking of commodities, Energy stocks were among the biggest winners in 2022, up roughly 50% on average. Healthcare, Defense and Consumer Staples were among the few other segments that ended the year in the green. The biggest losers for the year mostly came from the Technology sector. Once market darlings, Tesla, Amazon, Meta, and Netflix each lost approximately half of their value or more in 2022. In less shocking market events, the SPAC and cryptocurrency bubbles popped as well.

With 2022 in the books, investors will eagerly await the earnings outlooks of firms for 2023. Earnings reports will begin to trickle out in mid-January and swell near the end of the month and into early February. On balance, we think earnings outlooks may be cautious and may be a source of additional market volatility. However, the beginning of the month may bring a small reprieve, known as the "January Effect." Historically, investors sell losing investments, via tax loss harvesting, near the end of the year artificially depressing prices. These oversold stocks often rebound to some extent near the beginning of the year, helping to create the January Effect.

Despite the partial week, due to the (observed) January 1st holiday, a few important economic reports will be released this work week. The Institute for Supply Chain Management (ISM) will release its manufacturing survey of purchasing managers. Last month's reading indicated economic contraction, so if this month's reading is also below 50, it may provide further evidence of an upcoming recession. ISM will also release it Non-Manufacturing or Services Index on Friday. Last month's ISM Services reading suggested expansion, so investors will watch closely for signs of weakness is the service sector, which constitutes the biggest slice of the economy.

The Unemployment Report will be released on Friday. Last month's reading was 3.7% and the median forecast is also for the same figure this month. As we have discussed in prior writings, the unemployment rate usually must increase for a recession to be "official." Anecdotally, there have been some layoffs announced among several high-profile Technology and Financial firms (e.g., Amazon, Meta, and Goldman Sachs), but they have been counterbalanced by strong demand in the Travel, Restaurant, and Healthcare industries. A resilient labor market, especially one bolstered by sizeable pay raises, makes the Fed's job of taming inflation all the more difficult. Regardless of market events and economic reports, all of us at Beacon wish you and your family a happy and healthy 2023.

Market Scorecard:	12/30/2022	YTD Price Change
Dow Jones Industrial Average	33,147.25	(8.78)%
S&P 500 Index	3,839.50	(19.44)%
NASDAQ Composite	10,466.48	(33.10)%
Russell 1000 Growth Index	2,158.19	(29.81)%
Russell 1000 Value Index	1,497.12	(9.58)%
Russell 2000 Small Cap Index	1,761.25	(21.56)%
MSCI EAFE Index	1,943.93	(16.71)%
US 10 Year Treasury Yield	3.897%	239 basis points
WTI Crude Oil	$80.49	(6.71)%
Gold $/Oz.	$1,830.70	(0.02)%

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