Beacon Trust
INNOVATING WEALTH STRATEGY

October 3, 2022

Beacon Weekly Investment Insights

Last week was no exception to the volatility we have been experiencing in financial markets. After trending down to start the week, the S&P 500 had a meaningful relief rally on Wednesday, before resuming a downward trend towards the end of the week. The S&P 500 closed the week down 2.8%, with the NASDAQ down -2.9%. The 10-year treasury closed the week at 3.80%, up from 3.69% at the start of the week. Volatility in oil prices also continued, ultimately closing the week up just shy of 1% to $79.49/barrel.

It was a busy week in terms of economic data that also saw upwards of 20 speeches from Fed officials, which continued to reiterate a hawkish tone and the Fed's commitment to fighting inflation. There was mixed data on the housing front, with the S&P Case Shiller Home Price Index showing that housing prices cooled at the fastest pace in the history of the index for the month of July. Although the index still showed national home prices rising at a rate of 15.8% y/y for July, the figure represents substantial deceleration from the 18.1% increase in the prior month. New home sales data came in meaningfully stronger than expected for August at 685,000, against expectations for 500,000, whereas the pending home sales index showed a -2.0% decline for August, vs. expectations for a -1.4% decline. Jobless claims data continued to underscore a tight labor market, with new unemployment claims dropping to a 5-month low of 193,000, well below expectations of 215,000. One of the key focal points for the markets were the inflation readings from the release of the PCE (personal consumption expenditures) index data (Core PCE is the preferred measure of inflation for the Fed) last Friday. The inflation readings came in hotter than expected, with the Core PCE index up 4.9% y/y vs. expectations for a 4.7% increase, and the Core PCE index increasing by 0.6% for August vs. expectations for a 0.5% increase. Despite higher than expected inflation readings and clear messaging from the Fed relative to their focus on fighting inflation through aggressive tightening of monetary policy, investors continue to weigh whether or not the Fed will be able to maintain their aggressive stance for as long as initially expected as economic data continues to deteriorate, and market stresses continue to build.

We've started to see some earnings reports filter out, before the 3rd quarter earnings season kicks off in earnest in mid-October with large banks beginning to report earnings. We expect to hear more discussion from company management teams about headwinds from the impacts of higher inflation on margins, inventory builds, and softening demand. One example of this was Nike, which saw downward pressure on their stock price after reporting earnings last week. Despite having exceeded expectations for revenue and earnings for the quarter and reaffirming their sales outlook for the full fiscal year, the stock was under pressure due to concerns over gross margin pressures and a significant inventory build. From a broader earnings perspective, 3rd quarter earnings estimates have come down meaningfully. At the end of the 2nd quarter, expectations were for 9+% earnings growth for S&P 500 companies in the 3rd quarter. Those estimates have now come down to 3% earnings growth for the quarter.

With this said, as it relates to both the individual companies that we invest in, as well as the broader market, we maintain a longer-term and opportunistic view, vs. a focus on whether or not companies meet expectations in quarterly earnings reports. We continue to assess the opportunity for each of the businesses we invest in from that long-term perspective, as well as the opportunity for broader markets looking forward. We maintain this long-term view in the context of constructing well-diversified portfolios that are appropriate based on each of our client's needs and objectives, and a focus on maintaining sufficient liquidity. It can be difficult and a meaningful test of one's resolve to continue to maintain a long-term perspective in the midst of persistent volatility in markets, however we believe this is critical for our client's success. The chart below elucidates the importance of maintaining a long-term view in the face of significant drops in the market.

S&P 500 returns after falling -20% from record high (since 1950)	6-months later	1-year later	2-years later	3-years later
10/21/57	9%	31%	46%	40%
5/28/62	11%	26%	45%	59%
8/29/66	18%	25%	36%	24%
1/29/70	-9%	11%	20%	38%
11/27/73	-9%	-27%	-6%	7%
2/22/82	1%	32%	40%	62%
10/19/87	15%	23%	48%	31%
3/12/01	-7%	-1%	-27%	-6%
7/9/08	-27%	-29%	-17%	6%
3/12/20	35%	59%	72%	
Average	**4%**	**15%**	**26%**	**29%**
% positive	**60%**	**70%**	**70%**	**89%**

(Source: Truist Advisory Services)

As the chart shows, the S&P 500 has seen healthy forward average returns over the next 6 months, 1-year, 2-year, and 3-year periods after a -20% drop from record highs. Importantly, the S&P 500 has been positive 89% of the time 3 years after a -20% drop from record highs, with an average return of 29%. Patience, discipline, and a long-term perspective remain invaluable attributes in driving successful investing outcomes.

It will be another busy week for economic data releases, with the ISM Manufacturing and Services Index data due out, and more housing data on tap with the release of the Pending Home Sales Index. Importantly, there is a variety of jobs data on the docket, with job openings and quits, the ADP employment report, and the Department of Labor's payrolls report, which will include the unemployment rate figure for September, all set to be released.

Market Scorecard:	**9/30/2022**	**YTD Price Change**
Dow Jones Industrial Average	28,725.51	(20.95)%
S&P 500 Index	3,585.62	(24.77)%
NASDAQ Composite	10,575.62	(32.40)%
Russell 1000 Growth Index	2,117.70	(31.13)%
Russell 1000 Value Index	1,339.62	(19.09)%
Russell 2000 Small Cap Index	1,664.72	(25.86)%
MSCI EAFE Index	1,661.48	(28.88)%
US 10 Year Treasury Yield	3.82%	232 basis points
WTI Crude Oil	$79.49	5.69%
Gold $/Oz.	$1,672.00	(8.56)%

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