Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

The S&P 500 broke its brief winning streak in 2023, declining 0.7% for the week. The main U.S. equity benchmark is still up 3.5% in the nascent new year, perhaps benefitting from the well-known January Effect. International equities continue to perform strongly, with MSCI EAFE up 7% YTD. The results are even stronger for some emerging market equity indexes, spurred by China's newfound resolve to put COVID behind it and expand its economy. The benchmark 10 Year U.S. Treasury Note continued its mild descent in 2023, falling only 3 basis points (bps) for the week, but a more substantial 40 bps for the calendar year. The drop in long-term rates is welcome news for the housing market, with the average 30-year mortgage clocking in at 6.4%, resulting in a sigh of relief for consumers who faced 7% mortgage rates a short-time ago.

Despite the most recent (December) unemployment rate figure declining to 3.5%, a number of high-profile companies continue to announce substantial layoffs. Alphabet, formerly known as Google, last week announced plans to cut 12,000 jobs, a figure that amounts to roughly 6.5% of its staff. Alphabet follows other high profile tech firms, which have announced sizeable layoffs, including Amazon (18,000 layoffs), Microsoft (10,000 layoffs), and Meta/Facebook (11,000 layoffs). Now that the holiday hiring season has ended, in conjunction with the aforementioned workforce reductions, we expect the unemployment rate will reverse its recent decline in the coming months.

The layoffs are not isolated to the Technology sector. Goldman Sachs reported earnings below expectations and recently announced its own layoffs of 3,200 workers. To make matters worse for the blue-chip investment firm, The Federal Reserve announced an investigation of Goldman's consumer unit, branded as Marcus. Goldman is a member of the venerable Dow Jones Industrial Average and its 8.6% drop for the week helps explain why the Dow is up only 0.7% YTD.

The earnings news hasn't been all bad. Goldman's competitor, Morgan Stanley, announced better than expected earnings, due in part to its more diversified business model, and its stock increased 5% for the week. Netflix also surprised Wall Street with a stronger than expected outlook. The media streaming pioneer had a disastrous 2022, with its stock falling at one point almost 65% last year. Nevertheless, the company has pivoted to a multi-tier pricing model, including one supported by ads. Its stock is among the biggest gainers in the S&P 500 YTD, up 16% in 2023 thus far and 110% from its lows of 2022. It will be a busy earnings calendar this week. Among the notable companies expected to report earnings in the week ahead include Microsoft, MMM, GE, J&J, Tesla, AT&T, IBM, Visa, Mastercard, Intel, Comcast, Chevron, and American Express.

Although it is the last full week of the month, several important economic releases will occur this week. The Conference Board's Leading Economic Index (LEI) will be released on Monday. LEI is a forward looking indicator that is sometimes used as a tool to forecast recessions. It is expected to decline for the ninth consecutive month. Historically, a recession occurs within a year of when LEI turns negative, so our base case for the economy is still one of weakness. S&P Markit also has their own forward-looking indicator, the Purchasing Manager Index (PMI). S&P's Manufacturing and Service Indexes will both be released on Tuesday. Each is expected to show that the economy is likely in a contractionary mode.

The preliminary 2022Q4 GDP estimate will be released on Thursday. The GDP growth rate for Q4 is expected to be positive, likely pushing back the start date of any "official" recession. The GDP report, of course, has many different components, including government spending, investment, consumption, and net exports, so analysts will carefully analyze what factors may have been driving recent growth.

Inflation has been in the headlines for the past couple of years. The Fed's preferred inflation gauge, the Personal Consumption Expenditure (PCE) Index will be released on Friday. It tracks actual consumer purchases rather than the somewhat theoretical basket of its rival, the Consumer Price Index (CPI). The PCE report is arguably the most important economic release of the week and may have an impact on the Fed's upcoming February 1st meeting.

Market Scorecard:	**1/20/2023**	**YTD Price Change**
Dow Jones Industrial Average	33,375.49	0.69%
S&P 500 Index	3,972.61	3.47%
NASDAQ Composite	11,140.43	6.44%
Russell 1000 Growth Index	2,260.16	4.72%
Russell 1000 Value Index	1,539.58	2.84%
Russell 2000 Small Cap Index	1,867.34	6.02%
MSCI EAFE Index	2,080.41	7.02%
US 10 Year Treasury Yield	3.484%	-40 basis points
WTI Crude Oil	$81.40	(1.11)%
Gold $/Oz.	$1,929.90	5.33%

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