

Beacon Weekly Investment Insights

Last week was active on many fronts, with some of the largest US companies reporting quarterly earnings, economic data releases, progress reported on President Biden's proposed infrastructure plans, and FDA approvals. The three major equity indices, The Dow Jones Industrial Average, the S&P 500, and the NASDAQ Composite all finished the week (and the month) in record territory. We will try to condense some of the highlights in the following paragraphs.

Corporate third quarter earnings season is just over half way complete and we see the 56% of S&P 500 constituents posting nearly 39% earnings growth from the previous year and revenue growth of almost 18%. This is not to say all companies are experiencing the same environment. Materials and Industrials firms are leading the way, which is reflecting the business demand as the global economy continues to reopen. At the end of the week we had a different picture on earnings as two of the largest global companies, Apple and Amazon both missed estimates for earnings and revenues as higher input cost, supply chain issues, and labor shortages were mentioned as negative factors.

Economic data released during the week continued in mixed fashion. The first reading of US 3Q GDP only revealed a 2% growth rate, below the 2.6% consensus forecast, and down from the 6% rate of Q2. The personal consumption component within the report was 1.6%, which is also down from Q1 and Q2. Most analysts point to the spread of the Delta variant during the late summer months which influenced travel plans and other service related spending. However, since then, we have seen infection rates decline throughout the month of October so we may expect a pickup in consumer spending for Q4.

Friday, the employment cost index rose 3.7% year over year with private wages increasing 4.6%. This wage pressure has been reflected, as stated earlier, in corporate earnings reports and will most likely be one component of inflation that is "stickier" than most. Jobless claims also declined in Thursday's release. Additionally, two reports of Consumer Sentiment were released during the week with conflicting results. University of Michigan Sentiment fell 1.5% while the Conference Board Confidence Index rose 3.6%. All of these releases seem to be consistent with the fits and starts experienced globally with the reopening of economies.

From Washington DC, a framework for ways to pay for President Biden's social infrastructure plan was introduced on Thursday. While the bills original price tag of \$3.5 trillion has been pared back to slightly more than \$1.75 trillion, tax increase proposals are still the lead way to pay for the programs. The current proposal includes the following:

- Surtax on adjusted gross income in excess of \$10 million of 5%.
- Corporate minimum tax of 15% on companies that earn over \$1 billion in annual profit.
- Corporate tax of 15% on foreign profits.
- Corporate tax on 1% on stock buybacks.
- Medicare tax of 3.8% on active pass-through entities such as S Corporations and partnerships.

There are additional proposals within this framework and we will be sure to keep you updated on the progress and associated implications.

Finally, on the healthcare front, Pfizer received FDA approval of its COVID 19 vaccine for children ages 5-11 on Friday evening. The CDC will meet in the coming weeks to grant its approval as well so that this particular age group can begin receiving the vaccine in the coming weeks. Cases globally, as we mentioned before, have been on the decline through October.

The coming week will be quite eventful. We will begin the week with the Institute for Supply Managements Manufacturing PMI index for October released on Monday. The Service PMI will be released on Wednesday. The much anticipated Federal Reserve Open Market Committee meeting begins on Tuesday and concludes with Chairman Powell's press conference on Wednesday afternoon. It is widely anticipated that the Fed will lay out the plan for winding down its monthly asset purchase plan.

We have already seen a few central banks such as the Bank of England, Bank of Canada, and Bank of Australia implement this tapering, citing inflationary pressures. Friday we will see the Bureau of Labor Statistics (BLS) Employment report. Corporate earnings are also continuing this week at a rapid clip.

Market Scorecard:	10/29/2021	YTD Price Change
Dow Jones Industrial Average	35,819.56	17.03%
S&P 500 Index	4,605.38	22.61%
NASDAQ Composite	15,498.39	20.25%
Russell 1000 Growth Index	2,997.01	24.20%
Russell 1000 Value Index	1,620.41	22.03%
Russell 2000 Small Cap Index	2,297.19	17.19%
MSCI EAFE Index	2,269.79	8.75%
US 10 Year Treasury Yield	1.56%	65 basis points
WTI Crude Oil	\$83.57	73.85%
Gold \$/Oz.	\$1,783.00	(5.74%)

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