Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Stocks ended the week down a bit less than 1%, saved by a sharp rally on Friday, when the S&P 500 rose 1.9%. Although all investors hate losing money, most would be thrilled to end the week down less than 1% on the heels of the highest rate of inflation (+9.1%) since November 1981. In fact, stocks began the week at one point down about 4% before staging the aforementioned recovery. Is inflation close to peaking? Perhaps, but we have heard that line before. What we can state with confidence is that inflation will remain at heightened levels for far longer than the Federal Reserve would like. In fact, financial markets are suggesting that a 1% increase in the Federal Funds Rate after the Fed's July meeting is within the realm of possibility, something that has not occurred since 1981. However, the odds still favor a 0.75% rate hike.

We look closely at the headline CPI number since it is most directly tied to the consumer experience. For example, excluding volatile food and energy prices, as the Fed often does in their internal analyses, makes little sense to us since consumers eat every day and, those not driving electric vehicles, fill up their vehicles at the fuel pump every week or two. These are salient benchmarks for consumers that often tie directly to consumer confidence numbers.

Even if one puts aside the volatile food and energy components of the CPI, the other numbers are not trending in the right direction. The Atlanta Fed produces what they call a "sticky inflation" index, which hit a fresh 31 year high at a 5.4% annual rate. The sticky price index places a greater emphasis on goods and services, where price reductions are less common. Consider college tuition as one example. It is quite rare for colleges to cut tuition rates, outside of a once in a century COVID type disruption. Roughly 70% of the consumer price index is made up of "sticky price" categories, while 30% is considered to be made up of "flexible" price categories, such as energy prices. In short, the data show that rates of inflation will likely be elevated for periods of time far longer than the Fed wishes.

Partially in an attempt to reduce unacceptably high energy prices, President Biden made a trip to Saudi Arabia last week. Saudi's role as one of the largest energy producers in the world, and as an integral member of OPEC, gives it the power to influence oil prices. However, there is only so much that the Saudi government can do, given the persistent shortage of oil refining capacity in the U.S. Nevertheless, oil prices did fall 7% last week, to less than $100 per barrel, on recessionary fears as well as the prospect of additional oil supplies.

2022Q2 earnings season kicked off last week with airlines and financial firms leading the charge. Specifically, industry bellwethers, Delta and JP Morgan, announced somewhat disappointing earnings. Delta cited high fuel costs as well as service/staffing problems as the reasons for its earnings miss. JP Morgan increased its provisions for bad loans and temporarily halted its stock repurchase plan. The earnings calendar increases noticeably in volume this week with Goldman Sachs, Bank of America, and IBM reporting on Monday. Other highly anticipated earnings reports this week will be released by Johnson & Johnson and Netflix on Tuesday, followed by AT&T, Verizon, and Domino's on Thursday. However, the financial media and investing public will devote close attention to Twitter's earnings report on Friday. The microblogging firm, of course, is locked in a heated takeover battle with Elon Musk. The uber billionaire is aiming to scuttle the transaction, but Twitter is taking him to court in Delaware in order to consummate the merger in a "shotgun wedding."

The economic calendar is fairly light this week, with most of the reports tied to the housing markets. Housing Starts will be released on Tuesday and the Existing Home Sales report will be released on Wednesday. The housing market is closely tied to interest rates so investors will carefully scrutinize the extent to which the housing market may be slowing down. It may serve as the "canary in the coal mine" for other interest rate sensitive industries. The Conference Board's Leading Economic Index (LEI) will be released on Thursday and is expected to show a 4th consecutive negative reading, heightening recession concerns. S&P Markit has their own forward-looking Purchasing Managers Indexes (PMI), distinct from those produced by the Institute for Supply Chain Management (ISM), which will be released on Friday. In general, we expect most of these gauges to signal a slowing, if not contractionary, economy.

Market Scorecard:	7/15/2022	YTD Price Change
Dow Jones Industrial Average	31,288.26	(13.90)%
S&P 500 Index	3,863.16	(18.95)%
NASDAQ Composite	11,452.42	(26.80)%
Russell 1000 Growth Index	2,277.04	(25.95)%
Russell 1000 Value Index	1,437.49	(13.18)%
Russell 2000 Small Cap Index	1,744.37	(22.31)%
MSCI EAFE Index	1,817.05	(22.22)%
US 10 Year Treasury Yield	2.930%	142 basis points
WTI Crude Oil	$97.57	29.32%
Gold $/Oz.	1,706.50	(6.77)%

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