

Beacon Weekly Investment Insights

The markets had plenty of economic data to parse through last week, including the interest rate decision from the Fed and subsequent press conferences held with Chair Powell last Wednesday. Equity markets ultimately took the data and more hawkish than expected tone from the Fed in stride, closing the week in positive territory. The S&P 500 finished the week up by roughly 2.5%, with the Dow Jones increasing by about 1.2%. With mega-cap tech stocks continuing to lead the charge, the tech heavy Nasdaq outpaced for the week, closing up by 3.2%. The 10-year treasury yield ticked up from 3.74% to 3.76% to close the week. Crude oil moved up by 2.2%, ending the week at \$71.78/barrel.

The Fed announced their decision to hold rates steady at the 5.00%-5.25% level, but surprised markets with a more hawkish tone than expected, signaling additional rate hikes this year. The Fed guided for the Fed Funds rate to reach 5.60% at the end of this year, which would assume two more 0.25% interest rate hikes before year-end. Leading up to the meeting, the market was expecting that the Fed might actually cut rates before year-end. The Fed said they decided to pause interest rate hikes for this meeting to “assess additional information and its implications for monetary policy,” but signaled further tightening with language saying they will determine the “extent of additional policy firming that may be appropriate.” Forecasts for economic growth were increased, and expectations for core inflation for 2023 rose somewhat. In addition, projections for unemployment fell, as the economy remains more resilient than expected. Both stocks and bonds initially sold off after the announcement on Wednesday given the more hawkish tone, however volatility subsided somewhat as the press conference was being held. Stocks finished the day on Thursday firmly in positive territory, with markets pricing in just one more 0.25% interest rate hike in July despite the Fed having signaled for two more rate hikes.

Inflation data was also released last week, with both the CPI (consumer price index) and PPI (producer price index) continuing to point to moderating yet overall sticky inflation on a year-over-year basis. Headline CPI for May was up 4.0% on a year-over-year basis, down from the prior reading of 4.9%. The reading reflected decreases in the costs of energy and services, with rents remaining sticky and prices of used cars increasing. Core CPI, which strips out food and energy costs, came in at a rate of 5.3% y/y which was in line with expectations, and down from the previous reading of 5.5%. Likewise, Core PPI came in at a rate of 2.8% year-over-year, down from the prior 3.3% reading.

In addition, retail sales data was released, with U.S. retail sales increasing by 0.3%. The reading was down slightly from the prior month's 0.4% reading, but underscored a resilient consumer, and came in significantly above expectations for a decline of -0.2%. Consumer spending has shifted more towards services, with hotel stays, flights, and restaurant reservations having returned to or exceeded pre-pandemic levels.

With the Q1 earnings season essentially in the books, S&P 500 earnings declined, but generally came in better than expected. S&P 500 earnings were down roughly -2% for the first quarter, versus expectations for a decline of over -6%. Likewise, current estimates for Q2 earnings are for a decline of -6.4%. However, earnings growth is expected to rebound in the 2nd half of the year. Current estimates are for 0.8% earnings growth in Q3, and 8.2% earnings growth in Q4.

After a busy week last week, a lighter slate of economic data is on tap for this week. Housing starts will be released on Tuesday, with existing home sales and the U.S. leading economic indicators index set to be released on Thursday. Fed Chair Powell will also be testifying in front of the House and Senate panels on Wednesday and Thursday, respectively. In addition, the S&P flash U.S. services and manufacturing PMI data will be released on Friday.

Market Scorecard:	6/16/2023	YTD Price Change
Dow Jones Industrial Average	34,299.12	3.48%
S&P 500 Index	4,409.59	14.85%
NASDAQ Composite	13,689.57	30.79%
Russell 1000 Growth Index	2,740.68	26.99%
Russell 1000 Value Index	1,544.29	3.15%
Russell 2000 Small Cap Index	1,875.47	6.49%
MSCI EAFE Index	2,170.84	11.67%
US 10 Year Treasury Yield	3.77%	-11 basis points
WTI Crude Oil	\$71.78	-10.57%
Gold \$/Oz.	\$1,971.20	7.94%



163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | BeaconTrust.com

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