Beacon Trust
INNOVATING WEALTH STRATEGY

August 22, 2022

Beacon Weekly Investment Insights

Markets took somewhat of a breather last week after a 4-week winning streak. The S&P 500 closed the week down -1.20%, with the Nasdaq down -2.3%. Treasury yields increased meaningfully during the week with the 10-year treasury moving up from 2.84% to 2.98% to close the week. Oil prices declined by 2.2%, although recovered substantially from a low of $85/barrel to close the week at $90/barrel.

President Biden officially signed the Inflation Reduction Act into law last week, as expected. Taxes being implemented include a 15% corporate minimum tax rate, and a 1% excise tax on stock buybacks. Roughly $350 billion is dedicated to climate change and energy efficiency, with the legislation also extending healthcare subsidies, and implementing prescription drug price controls. Clean energy stocks are a clear winner out of the legislation and we've been seeing that play out recently in the price action of several stocks in this cohort, and biotech/pharma companies could face headwinds with drug price controls (not set to take effect for some time). The impacts will be felt differently across various companies in the biotech/pharma space, which is one of many factors we continue to assess with our holdings in this cohort. Overall, although significantly less than what would have been expected under prior proposals, the legislation is still expected to amount to about a 1.5%-2% headwind to S&P 500 earnings next year. This considered, current estimates for S&P 500 earnings growth next year are in the high single-digits.

The Fed minutes were released last week, and we heard from a number of members of the Fed including Fed Governor Michelle Bowman, Kansas City Fed President Esther George, and Minneapolis and Richmond Fed Presidents Neel Kashkari and Tom Barkin. The minutes showed the Fed reaffirming that a restrictive stance in terms of monetary policy continues to be appropriate given "unacceptably high" levels of inflation. However, the minutes were interpreted as being slightly more dovish than expected, also noting the risk of over-tightening monetary policy given challenges in the economic environment and the lagging effect of monetary policy, and that it may be appropriate to slow the pace of rate hikes in the context of a data dependent approach. Ultimately, comments from the Fed presidents that spoke last week continued to reiterate a hawkish tone and caution market participants against becoming overly optimistic around moderating inflation and a slowing pace of interest rate hikes.

One of the key economic data releases last week was the retail sales report, which was flat for the month of July at the headline level, vs. expectations for a slight increase. Despite the flat headline number, there was underlying strength in the report as retail sales ex autos and gas showed a 0.70% increase for the month, with decreases in gas prices playing a big role in bringing down the overall headline figure. Ultimately, the last two retail sales reports show that consumers continue to spend at a healthy clip across several key categories. In addition, housing data including July's housing starts and existing home sales reports were released, with both showing slowing activity. U.S. existing home sales fell for the sixth straight month, as higher mortgage rates and a shortage of homes for sale continue to act as headwinds.

The Leading Economic Index (LEI) data that we closely follow was also released last week, which continues to portend slowing economic activity, decreasing by -0.4% in July. Although declining, the reading was slightly better than the expected decrease of -0.5% and the prior decline of -0.7% in June. Ultimately, the LEI has declined for a fifth consecutive month, which suggests that recession risks continue to rise.

2nd quarter earnings season is winding down, with roughly 95% of companies in the S&P 500 having reported. Broadly speaking, earnings have been better than expected, with the earnings growth rate for the 2nd quarter at 8.8% as of the time of this writing vs. original estimates for 5.6% growth. Investors have been very much focused on margins and how companies are able to navigate inflationary pressures and supply-chain disruptions, and that will continue to be a dominant theme in the coming quarters as well as next year. As we look forward, expectations are broadly for profit margins to contract as companies continue to navigate higher input and labor costs. With that said, we have seen many companies adeptly navigate the environment and successfully maintain or even improve their profit margin outlook, which underscores the importance of stock selection in client portfolios.

Amidst market volatility, we assess recent economic data and company earnings reports, as well as the broader economic and market environment and on an on-going basis. With all of these elements contemplated, we continue to believe that our clients benefit from having a diversified portfolio that is tailored to their specific needs and goals, that serves to mitigate volatility and address specific liquidity needs, and that is managed with a long-term constructive view of the markets. We continue to approach the management of client portfolios through this lens, as well as with an opportunistic mindset in our active strategies. In addition to these weekly insights pieces, we continue to publish reports on a quarterly basis for all of the investment strategies we manage at Beacon, which provide commentary around what is driving the results for the strategies, what security specific trades we have made and our rationale as to why, and our outlook and where we see opportunities going forward. If you are not receiving these quarterly commentaries and would like to, please feel free to reach out to your team at Beacon to ensure you receive them going forward. Your team stands ready to assist you during these volatile times, and to address any questions you may have about your portfolio and your overall financial picture.

Looking ahead for the week, the S&P U.S. manufacturing and services PMI reports are on tap for Tuesday, along with durable goods orders data on Wednesday. The revised figures for 2nd quarter real GDP will be released on Thursday, and PCE (personal consumption expenditures) index data will give us another reading on inflation on Friday. Investors will also be focused on Fed Chair Powell's remarks from Jackson Hole on Friday.

Market Scorecard:	**8/19/2022**	**YTD Price Change**
Dow Jones Industrial Average	33,707.74	(7.24)%
S&P 500 Index	4,228.48	(11.28)%
NASDAQ Composite	12,705.22	(18.79)%
Russell 1000 Growth Index	2,530.44	(17.71)%
Russell 1000 Value Index	1,555.09	(6.08)%
Russell 2000 Small Cap Index	1,957.34	(12.83)%
MSCI EAFE Index	1,946.51	(16.68)%
US 10 Year Treasury Yield	2.97%	146 basis points
WTI Crude Oil	$90.09	19.78%
Gold $/Oz.	$1,760.50	(3.72)%

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