Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

Although concerns continued to build in markets throughout last week with no debt deal having been struck as of last Friday, the S&P 500 was able to close the week with a slight gain of 0.32%. The Nasdaq continued to outpace, closing the week up 2.5%, with significant advances from the likes of Nvidia and other large-cap tech companies and enthusiasm over AI continuing to be a key force driving equity markets. Further evidencing the narrow leadership that Tech has provided to markets, the Dow Jones Industrial Average closed down roughly 1% for the week, and is slightly negative year-to-date vs. the tech-heavy Nasdaq which is up roughly 23% for the year. The concerns over the debt ceiling were perhaps most acutely felt in shorter-dated treasury securities coming due around what was expected to be the so-called ex-date of June 1st, or the date after which Treasury Secretary Janet Yellen had said the government would no longer have sufficient funds to meet all of its obligations (this was subsequently extended to June 5th by Secretary Yellen). By mid-week, yields on T-Bills coming due on 6/1 moved up significantly to 7%, with T-Bills set to mature on 6/6 topping 7.2%.

News broke over the weekend that a debt ceiling deal between President Biden and Speaker McCarthy had been reached. The debt ceiling deal would suspend the $31.4 trillion debt ceiling until Jan 1. 2025, notably not needing to be addressed again until after the November 2024 presidential election. Non-defense discretionary spending would be roughly flat at current year levels in 2024 under the deal, at $637 billion for fiscal year 2024 vs. $638 billion this year, with the total increasing by 1% in 2025. The deal would increase total defense spending to $886 billion, a roughly 3% increase from the $858 billion in the current budget. The deal would also roll back $10 billion of the $80 billion in funding that had been secured for the IRS, in both 2024 and 2025. The deal would also impose new work requirements on some low-income people who receive food assistance under the SNAP program up to age 54 vs. age 50, requires follow through on a plan to end the current pause on student loan repayments by late August, and would make it easier to secure energy permits, including for fossil-fuel based projects. With a tentative agreement reached, attention now turns to getting the deal through a divided Congress in a matter of days. We do expect that headline risk could continue to drive volatility as the deal makes its way through both chambers of Congress, but ultimately expect the legislation to be passed and signed into law ahead of the June 5th ex-date.

The market also continues to grapple with the future path of Fed rate hikes, with Fed officials split on whether more rate hikes are needed. Several Fed officials were on the speaker's circuit last week, with St. Louis Fed President James Bullard starting the week off with a hawkish tone, calling for two more rate hikes this year. The Fed minutes released last Wednesday detailed a divided Fed, with several officials leading towards a pause as being appropriate, and several in the camp that either more rate hikes will be needed or stressing the need for optionality given the uncertain outlook. The Fed also reiterated the expectation for a "mild recession starting later this year, followed by a moderately paced recovery." The Core PCE report, the Fed's preferred measure of inflation, was also released last week, and came in hotter than expected. The Core PCE index increased by 0.4% for the month of April vs. expectations for a 0.3% increase, and rose 4.7% year-over-year, vs. expectations for a 4.6% increase. The hotter than expected inflation report gives the Fed some cover to hike rates again. Fed funds futures are now pricing in one or two more 0.25% interest rate increases for the June and July Fed meetings, but are projecting the Fed funds rate to end the year at the current 5.0%-5.25% target rate.

Markets also continue to focus on a slowdown in the economy and the likelihood of recession, with several economic data points continuing to point towards sluggishness going forward. Recent earnings reports from major retailers such as Target point to a more downbeat outlook, with the company calling out a more cautious consumer amidst persistently high inflation and a more sluggish economy.

With the overwhelming majority of companies in the S&P 500 having reported earnings, the broader corporate earnings picture for Q1 can best be characterized as slowing, but better than expected. Roughly 78% of companies beat earnings expectations, with roughly 76% beating revenue expectations, both above long-term averages. Earnings did decline by roughly 2.1%, but were meaningfully better than expectations for a 6.7% decline heading into the quarter. We continue to focus on businesses that have well above average profitability and free cash flow generation profiles, strong balance sheets, and significant catalysts for growth over the long-term. As recently evidenced by the significant run-up in shares of Nvidia and other high-profile companies that are expected to be able to benefit significantly from the opportunity in AI, it is these attributes that we believe will ultimately dictate the success of the company and the trajectory of the stock price, despite broader macro concerns and episodic volatility in markets.

Economic data on tap for the shortened week includes S&P Case-Shiller Home Price Index and Consumer confidence data due out on Tuesday, the ADP and job openings reports due out on Wednesday, ISM Manufacturing Index data due out on Thursday, and the U.S. employment report due out on Friday.

Market Scorecard:	**5/26/2023**	**YTD Price Change**
Dow Jones Industrial Average	33,093.34	-0.16%
S&P 500 Index	4,205.45	9.53%
NASDAQ Composite	12,975.69	23.97%
Russell 1000 Growth Index	2,605.95	20.75%
Russell 1000 Value Index	1,472.59	-1.64%
Russell 2000 Small Cap Index	1,773.02	0.67%
MSCI EAFE Index	2,086.02	7.31%
US 10 Year Treasury Yield	3.81%	-7 basis points
WTI Crude Oil	$72.67	-9.46%
Gold $/Oz.	$1,944.30	6.47%

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