

Beacon Weekly Investment Insights

As we head into the final FOMC meeting on December 18th we received the final inflation data for the year by which they will make their decision. Despite inflation not falling as fast as hoped the market is pricing in a 98% chance of a quarter point cut for a total of one full percentage point for all of 2024. In essence, the Fed will cut despite the data, not because of it.

On Wednesday, the November Consumer Price Index (CPI) and Core both came in line at 0.3%. Year over year CPI and Core was 2.7% and 3.3% respectively. This was the third month in a row above 3% and well above target, though the FOMC's preferred gauge is the PCE. On Thursday, the Producer Price Index (PPI) confirmed the strong pricing environment is persistent at both the producer and consumer levels. PPI rose 0.4% vs. 0.2% estimate with Core coming in at 0.2%. Year over year, PPI and Core rose 3% and 3.4% respectively; much hotter than expected. Inflation appears to be stubborn and unless the trend reverses it seems likely that a definitive path to lower rates may be more uncertain next year. This uncertainty caused the 10-year Treasury to back up to 4.40% or 25 bpts in the week. We, at Beacon Trust, are expecting no more than 75 bpts based on pro-growth initiatives outlined by the incoming administration that if enacted could keep inflation elevated, limiting the Fed's flexibility. Things will become clearer as the new year unfolds.

The market seems to be hopeful and pricing in many of the pro-growth initiatives happening at the turn of the year or simultaneously on Inauguration Day which is unlikely. There is a legislative process that will dictate the implementation timing, and the impact on the federal deficit will surely come into play. The equity markets for the year have been strong but of late more muted. In the week just ended, the Dow and S&P500 returned -1.82% and -0.64% respectively. The NASDAQ rose above 20,000 (interday) rising 0.34% with all but two sectors declining between 1.47-2.96%. Only consumer goods and technology rose on the week.

The winning formula for the market this year has been solid economic growth, rising corporate profits, moderating inflation and the start of global central bank easing. The outlook remains positive, but the improvement in inflation is stalling creating some uncertainty about the future of rate cuts. There was good news on housing as shelter inflation, one of the most persistent categories of price pressures and the bulk of the CPI strength this year, rose 0.2% or the smallest monthly increase since January, 2021. Given housing is a 35% weight in the CPI, a housing cooldown could go a long way in helping overall services inflation going forward.

Heading into 2025, wages are rising faster than inflation, the economy continues to add jobs at a healthy clip, corporate profit growth is accelerating, and enthusiasm around innovation and AI remain alive and well. However, it would seem unlikely we will see much in the way of multiple expansion and the third year of a bull market tends to be choppy. Therefore, we intend to stay the course but take advantage of any opportunities on pullbacks.

Market Scorecard:	12/132024	YTD Price Change
Dow Jones Industrial Average	43,828.06	16.29%
S&P 500 Index	6,051.09	26.86%
NASDAQ Composite	19,926.72	32.74%
Russell 1000 Growth Index	4,154.42	36.49%
Russell 1000 Value Index	1,924.17	15.64%
Russell 2000 Small Cap Index	2,409.00	18.84%
MSCI EAFE Index	2,319.05	3.71%
US 10 Year Treasury Yield	4.397%	52 basis points
WTI Crude Oil	\$71.12	-6.21
Gold \$/Oz.	\$2,659.05	30.84%

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